

Real Estate Flash Mexico

Mortgage lending continues to grow, but... is it also transforming?

Mortgage lending figures as of May confirm the strong growth observed in the real estate market throughout 2012. But a second analysis shows that this growth is accompanied by changes in the structure of the market, some of which were already expected and are taking effect now, that are obligating borrowers to adapt to new conditions.

- **The economic context reinforces credit growth**

At the close of May, the number of mortgage loans issued by commercial banks grew 13.2% on the same period in 2011. In turn, the volume granted was up 34.3% in real terms. This trend marks the fifth consecutive month the bank has attained double digit volume growth.

Some of the elements that help explain these figures include the rise in employment, with an average annual growth of 4.5% in the first six months of the year (versus 4.7% of the IGAE, in the January-April period); financial stability, with low risk premiums and interest rates and a stable medium-term outlook; consumer confidence at practically pre-crisis levels; and better access to lending, thanks to lower rates and greater time periods in the mortgage loans offered by commercial banking.

- **Nevertheless, there are signs of change in the market**

Despite the favorable results observed in 2012, a closer look reveals that the growth has not been indiscriminate. Taking the trend of the last 12 months as reference, the number of loans remains in the range of 600 thousand per year, similar to the level observed since 2012. Recovering the levels achieved in 2007 and 2008 of around 650 thousand loans is nowhere on the horizon. And this is not because of a lack of a push; in fact, when looking at the volume, we see it is around 270 billion pesos/year, quite close to the 300 billion recorded in 2008 (2012 prices). What we can see are significant changes in the market:

First, the volume of loans issued by the financial system is determined primarily by Infonavit. Here, the total housing loan targets have been adjusting downward, from an average of nearly 480 thousand between 2008 and 2010, to 450 thousand in 2011 and a target of 430 thousand in 2012. What has been gathering strength are home improvement loans, which were incorporated in 2011 as a pilot project, with a forecast of 30 thousand loans in the year, but that actually reached 50 thousand. For 2012, the proposed target of 50 thousand was reached in May; therefore, we now expect the year to close at close to 100 thousand (June figures stand at 60 thousand).

Second, the reduction in the new housing targets may be linked to the high level of foreclosures by the institute. As of June, there were an estimated 190 thousand homes in the foreclosure process. These homes will gradually be reincorporated into the market: 45 thousand are expected to be listed in 2012.

Third, existing homes are rapidly gaining ground. Considering Infonavit alone, its stake in total loans reaches 34%. It is not surprising that high levels (over 40%) are observed in the residential segment, but it is surprising that this is also occurring in public housing, where the stake in existing homes is nearly 50%. This could reflect the search for debtor changeover schemes that are more efficient and less costly than foreclosure processes.

Fourth, the growth of banking credit, which has been very significant in recent years, has been more attributable to the average loan volume than to a massive increase in the number of loans. In loans issued using the banks' own funds, the loan volume experienced double digit growth since the second quarter of 2011.

- **Future growth could be slower, but with a stronger base**

The changes in the mortgage market partly confirm what we have been expecting for some time now: that, first, a clear differentiation must be made between potential and effective demand, so that the income and not the right to the loan determine the volume of business; and, second, that market growth in coming years will come from market segments that are still in the development stages.

Taking these trends into consideration will be important for those participating in the sector, like builders, financial intermediaries and authorities, to be able to guarantee a more ordered growth between supply and demand for housing in the medium term.

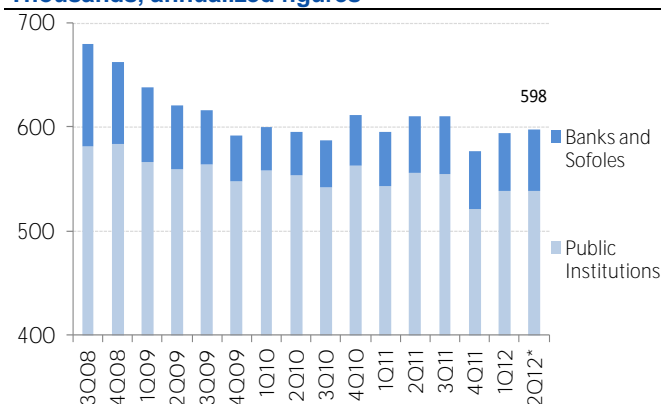
Table 1:

Mortgage lending: Number and amount of loans, annual aggregate

	Number of loans (thousands)			Amount of lending (billion pesos)		
	May 11	May 12	Annual % change	May 11	May 12	Annual real % change
Public	180.4	206.0	14.2	48.9	73.9	45.7
Infonavit	168.6	172.4	2.3	43.6	60.3	33.2
Fovissste	11.8	33.6	184.6	5.3	13.7	148.5
Private	29.9	35.1	17.6	28.9	34.5	15.0
Banks	28.7	35.1	22.3	28.6	34.5	16.1
Sofoles	1.2	---	---	0.3	---	---
Subtotal	210.3	241.2	14.7	77.8	108.5	34.3
Cofin. (-)	6.8	10.8	57.7	---	---	---
Total	203.5	230.4	13.2	77.8	108.5	34.3

Source: BBVA Research with ABM data, and CNBV

Chart 1

Number of loans by institution
Thousands, annualized figures

Note: The private sector only includes own funds
Source: BBVA Research with data from ABM, AHM and CNBV
*As of May

Chart 2

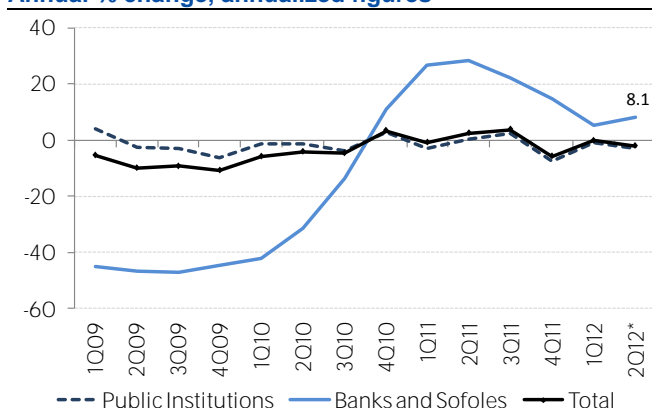
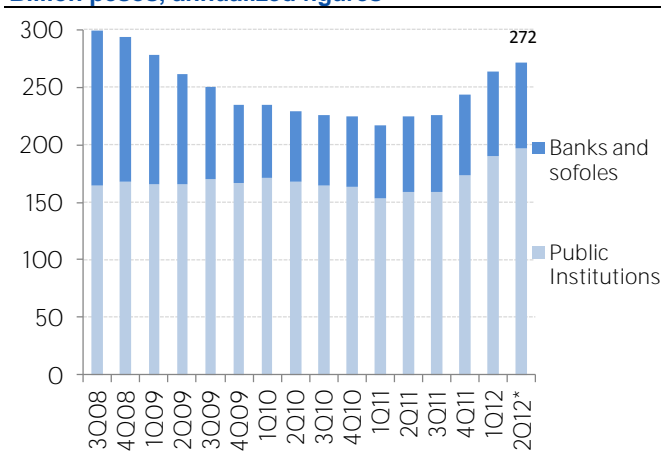
Number of loans by institution
Annual % change, annualized figures

Chart 3

Amount of loans by institution
Billion pesos, annualized figures

Source: BBVA Research with data from ABM, AHM and CNBV
*As of May

Chart 4

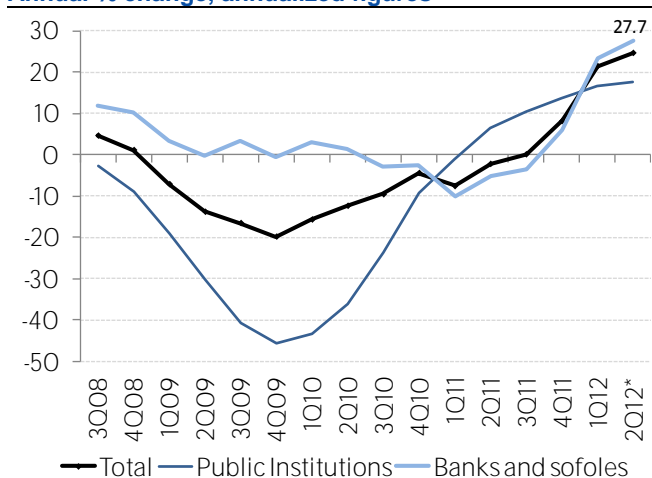
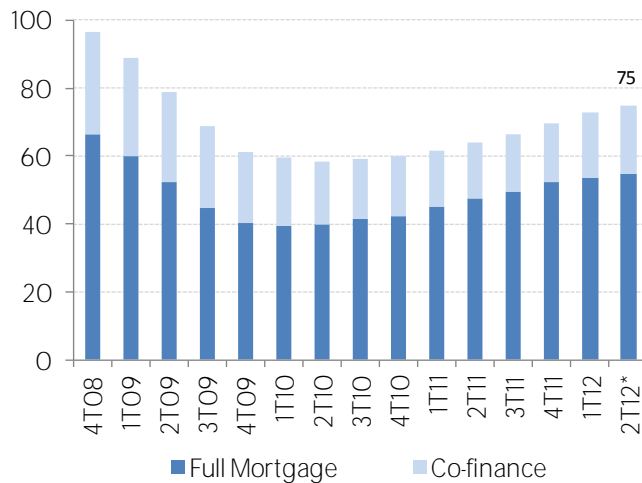
Volume of lending by institution
Annual % change, annualized figures

Chart 5

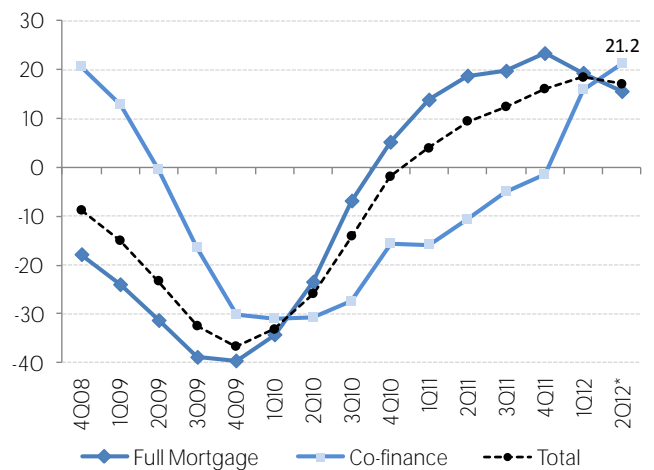
Amount of finance granted by commercial banks. Billion pesos, 2012 prices, annualized figures



Source: BBVA Research with Infonavit, Fovissste, and AMB data
*As of May

Chart 6

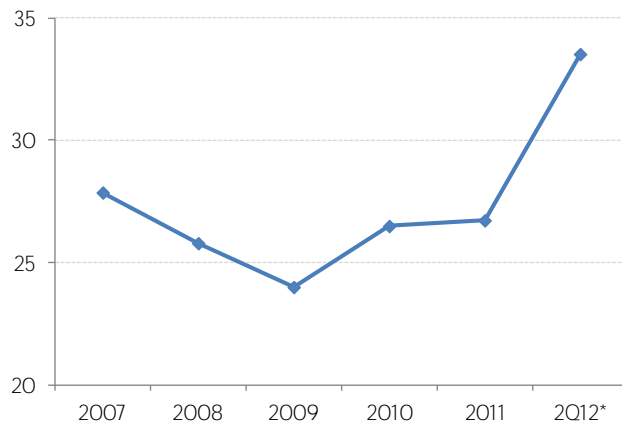
Amount of finance granted by commercial banks. Billion pesos, annualized figures, annual % change



Source: BBVA Research with Infonavit, Fovissste, and AMB data
*As of May

Chart 7

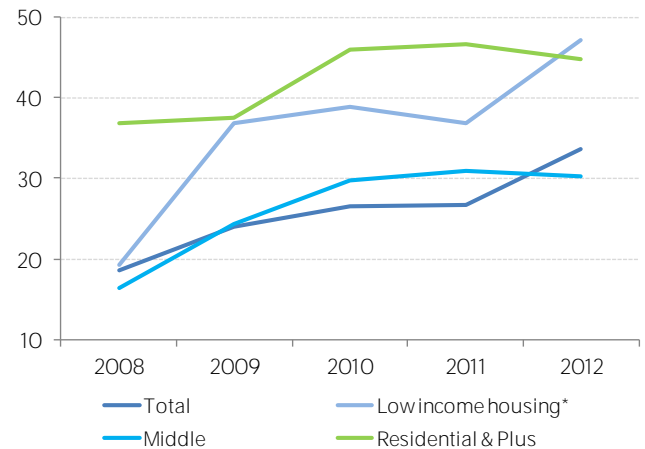
Used dwellings: Market participation % in mortgage loans.



Source: BBVA Research with Infonavit data
*As of May

Chart 8

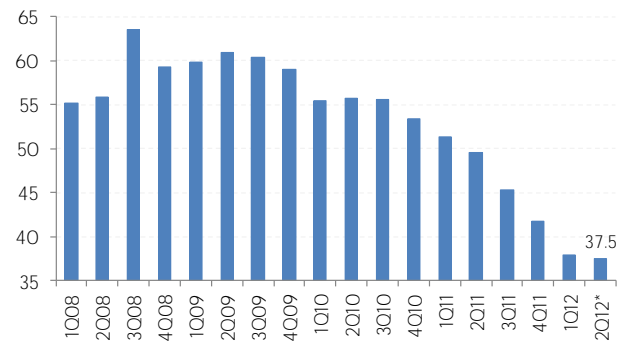
Used dwellings: Market participation % in mortgage loans by segment



Source: BBVA Research with Infonavit data
*As of May

Chart 9

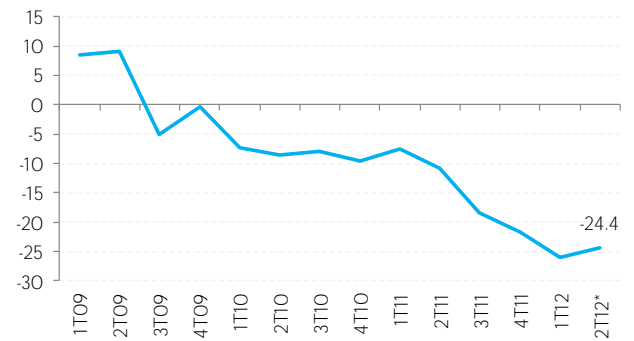
Construction loans, current portfolio balance Billion pesos, 2012 prices



Source: BBVA Research, with Banxico data
*As of May

Chart 10

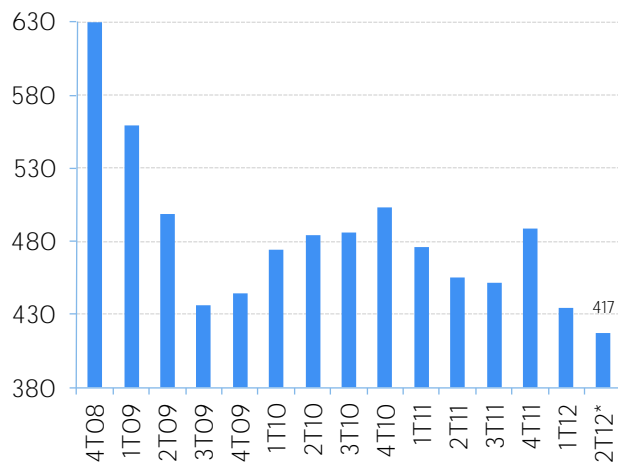
Construction loans, current portfolio balance Real annual % change



Source: BBVA Research, with Banxico data
*As of May

Chart 11

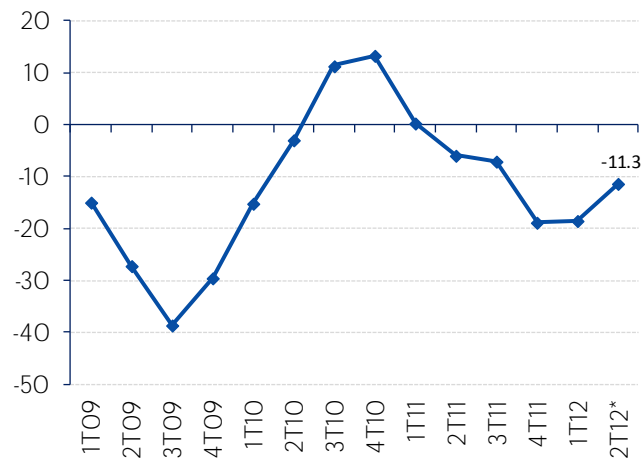
Housing starts: RUV register Thousands of homes, annualized figures



Source: BBVA Research, with RUV data
*As of May

Chart 12

Housing starts: RUV register Annual % change



Source: BBVA Research, with RUV data
*As of May

Table 2:

Number of mortgage loans by state

	Infonavit			Fovissste			Bancos			Sofoles			Total		
	may-11	may-12	Annual % Change	may-11	may-12	Annual % Change	may-11	may-12	Annual % Change	may-11	may-12	Annual % Change	may-11	may-12	Annual % Change
Ags	3,014	3,664	21.5	274	ND	---	581	528	-9.2	0	ND	---	3,870	4,192	8.3
BC	9,389	8,808	-6.2	173	ND	---	890	1,138	27.9	58	ND	---	10,509	9,946	-5.4
BCS	1,467	1,304	-11.1	231	ND	---	319	251	-21.2	0	ND	---	2,017	1,556	-22.9
Cam	1,092	979	-10.4	36	ND	---	164	210	28.0	4	ND	---	1,296	1,189	-8.3
Coah	7,379	8,488	15.0	170	ND	---	834	903	8.3	1	ND	---	8,383	9,391	12.0
Col	1,481	1,391	-6.1	88	ND	---	225	269	19.4	3	ND	---	1,797	1,660	-7.7
Chis	1,931	1,373	-28.9	247	ND	---	327	309	-5.5	0	ND	---	2,505	1,682	-32.9
Chih	6,834	6,983	2.2	157	ND	---	1,112	1,234	11.0	7	ND	---	8,110	8,217	1.3
DF	6,257	12,363	97.6	440	ND	---	4,152	8,047	93.8	35	ND	---	10,884	20,411	87.5
Dgo	2,130	2,442	14.6	243	ND	---	265	340	28.0	0	ND	---	2,638	2,781	5.4
Gto	8,250	8,063	-2.3	387	ND	---	1,404	1,641	16.9	42	ND	---	10,083	9,704	-3.8
Gro	1,411	1,085	-23.1	294	ND	---	300	424	41.1	0	ND	---	2,005	1,509	-24.8
Hgo	3,875	3,321	-14.3	587	ND	---	331	463	39.8	11	ND	---	4,805	3,785	-21.2
Jal	15,499	15,754	1.6	557	ND	---	3,017	3,082	2.1	77	ND	---	19,150	18,836	-1.6
Méx	15,773	14,276	-9.5	2,835	ND	---	1,640	2,378	45.0	215	ND	---	20,463	16,654	-18.6
Mich	3,986	3,548	-11.0	354	ND	---	945	932	-1.3	9	ND	---	5,294	4,480	-15.4
Mor	2,543	1,887	-25.8	930	ND	---	402	385	-4.4	1	ND	---	3,877	2,272	-41.4
Nay	1,635	1,104	-32.5	131	ND	---	202	201	-0.4	16	ND	---	1,984	1,306	-34.2
NL	19,149	20,410	6.6	359	ND	---	3,060	2,583	-15.6	176	ND	---	22,744	22,993	1.1
Oax	659	599	-9.1	79	ND	---	208	248	19.1	2	ND	---	948	847	-10.7
Pue	4,951	5,347	8.0	301	ND	---	1,000	1,046	4.6	20	ND	---	6,271	6,393	1.9
Qro	4,410	4,950	12.2	273	ND	---	915	1,187	29.6	32	ND	---	5,630	6,136	9.0
QR	5,641	5,464	-3.1	359	ND	---	791	827	4.6	82	ND	---	6,872	6,291	-8.5
SLP	3,694	3,851	4.2	188	ND	---	788	990	25.7	8	ND	---	4,678	4,841	3.5
Sin	4,104	4,502	9.7	299	ND	---	911	1,071	17.6	3	ND	---	5,317	5,574	4.8
Son	7,629	7,046	-7.6	231	ND	---	655	791	20.8	31	ND	---	8,545	7,837	-8.3
Tab	1,845	1,867	1.2	51	ND	---	395	445	12.6	3	ND	---	2,295	2,312	0.8
Tam	8,364	7,680	-8.2	271	ND	---	825	780	-5.4	18	ND	---	9,477	8,460	-10.7
Tlax	767	1,170	52.5	36	ND	---	39	61	57.1	1	ND	---	843	1,231	46.0
Ver	7,386	6,973	-5.6	975	ND	---	1,301	1,433	10.2	49	ND	---	9,711	8,406	-13.4
Yuc	4,706	4,385	-6.8	222	ND	---	547	738	34.9	2	ND	---	5,477	5,123	-6.5
Zac	1,377	1,363	-1.0	56	ND	---	164	184	12.1	0	ND	---	1,597	1,547	-3.2
ND	0	0	---	0	0	---	0	0	---	257	ND	---	257	0	---
Total	168,630	172,439	2.3	11,804	33,592	184.6	28,711	35,119	15.6	1,159	ND	---	210,304	241,150	14.7

Source: BBVA Research with Infonavit, Fovissste and ABM data

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