

Real Estate Flash Mexico

Mortgage activity re-focuses on new loan products but takes the supply side by surprise

The evolution of the mortgage lending sector during the first half of the year gives us a clear indication of some changes on the consumer demand side. This pronounced upturn could also constitute a good signal for housing developers, who could reverse the negative trend in new constructions, and also bring about a gradual recovery of the offer.

- **Strong evolution of demand during the first half of the year**

In June, the number of mortgage loans issued grew 6.3% on the same period in 2011. In turn, the volume granted was up 12.4% in real terms. For the sixth consecutive month, the banking sector has experienced double-digit increases in both amount and number of credits.

Both the economic cycle and financial stability have been key in this development. In the period from January to May, the growth of employment has been commensurate to the recovery of economic activity, as shown per IGAE data (4.4% and 4.6% respectively). On the other hand, the lending rate has remained stable at 4.5% (its lowest historic level) since 2008, and the 10-year bond has varied between 6% and 7% between 2011 and 2012.

- **The new mortgage products are making the difference**

Current mortgage market conditions are very different to those before the crisis. The fact that the objectives of public institutions have remained stable during the last two years is not due to the fact that housing needs have been satisfied. Rather, it stems from a change in consumer needs, the latter having chosen products other than the full home due to three factors.

First, as we mentioned in our last flash, the fact that public institutions have retained their objectives is because growth has occurred as a result of the greater diversity of products. For instance, this year, the Infonavit set an objective of 50,000 financing operations for remodeling; although as of June 60,000 had been carried out, raising the yearly forecast to 100,000. With respect to the full home, the objectives of the Institute will remain stable until 2017, when its experts estimate that housing demand will begin to drop.

Secondly, with the turmoil in 2009, banks began to adjust their strategies along two fronts. On one hand, they credits granted with bank capital were promoted. In annualized figures, for June 2012, they were already almost at the same level as in 2008. On the other hand, the average amount of mortgages in co-financing credit has increased and, in June 2012, is almost double what was offered in 2008 (135% more than in June 2008).

Third, while in 2007 used dwellings represented 17% of the credits awarded by Infonavit, this figure is currently 35%. For Fovissste, these are around 22%.¹ This reflects an adjustment process, in which consumers prefer to buy used dwellings. It also explains that the existing dwellings will be more relevant in more expensive segments, which have been maintained over 40% since 2010.

- **The offer will have to adapt to consumer requirements**

Although the market will keep growing, it won't do so at rates seen before the turmoil. Looking only at the new Infonavit policies (fewer credits for complete homes and applicant credit history reviews) it can be expected that the market could become more moderate, although more stable. Construction loans and housing starts appear to have fallen to their low and could start to increase again progressively. Above all paying more heed to market signals at the local level, which would balance out necessities by providing better defined products, and also help to maintain a liquid portfolio.

¹ For Fovissste, the distinction between new or existing (used) condition has been made since 2010. Since then and up to the first quarter of 2012 (last available period), the proportion has been maintained at 22%.

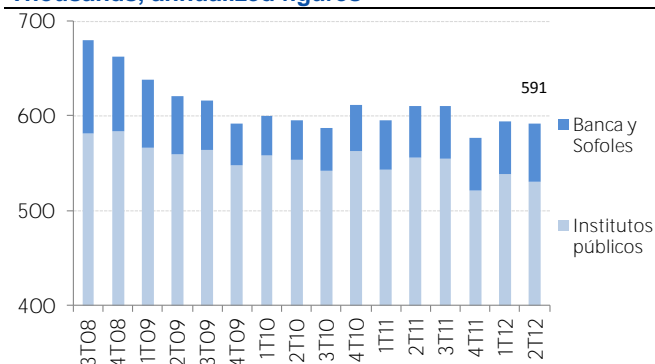
Table 1

Mortgage lending: Number and amount of loans, annual aggregate

	Number of loans (thousands)			Amount of lending (billion pesos)		
	jun-11	jun-12	Annual % change	jun-11	jun-12	Annual % change
Public	242.7	254.6	4.9	67.6	77.1	9.3
Infonavit	215.2	219.6	2.0	55.6	59.7	3.0
Fovissste	27.5	35.0	27.2	12.0	17.4	38.4
Private	36.5	46.9	28.6	30.2	37.7	19.4
Banks	35.8	46.4	29.5	29.9	37.5	20.0
Sofoles	0.7	0.5	-23.0	0.3	0.2	-35.8
Subtotal	279.2	301.5	8.0	97.9	114.8	12.4
Cofin. (-)	9.2	14.5	57.1	---	---	---
Total	270.0	287.1	6.3	97.9	114.8	12.4

Source: BBVA Research with ABM, Infonavit, Fovissste and CNBV data

Chart 1

**Number of loans by institution
Thousands, annualized figures**

Note: The private sector only includes bank capital
Source: BBVA Research with data from ABM, Infonavit, Fovissste and CNBV

Chart 2

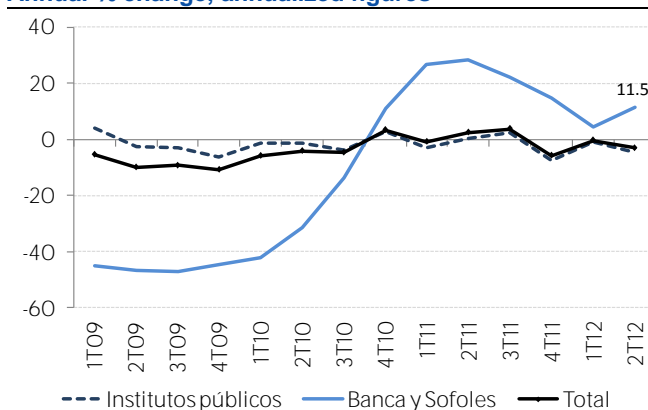
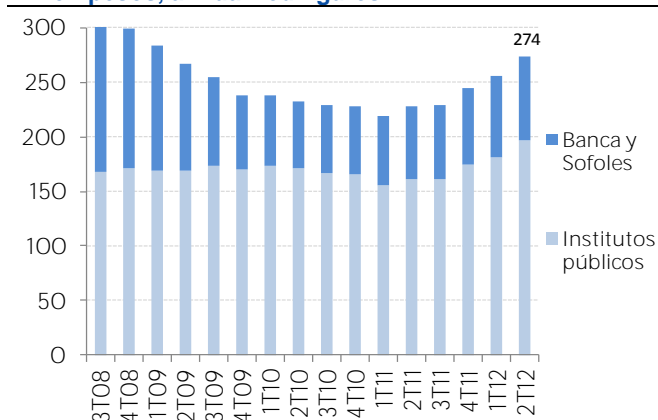
**Number of loans by institution
Annual % change, annualized figures**

Chart 3

**Volume of lending by institution
Billion pesos, annualized figures**

Note: The private sector only includes bank capital
Source: BBVA Research with data from ABM, Infonavit, Fovissste and CNBV

Chart 4

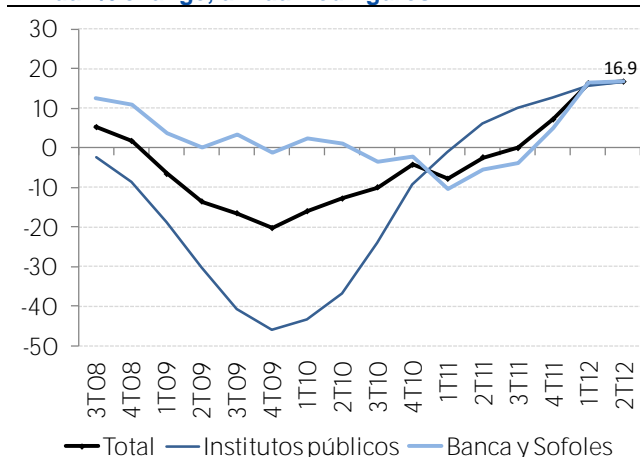
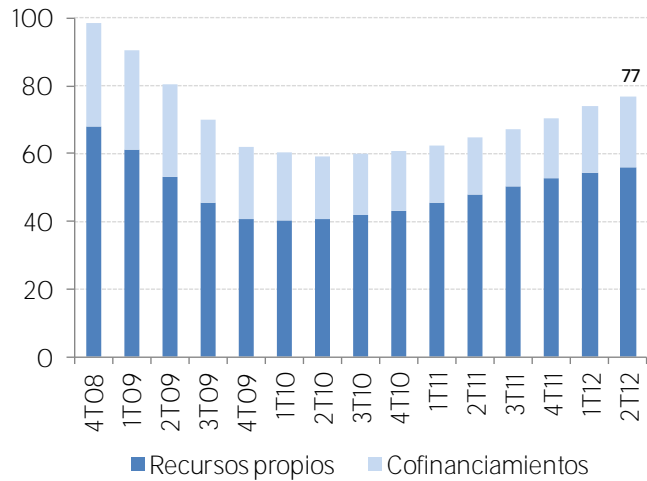
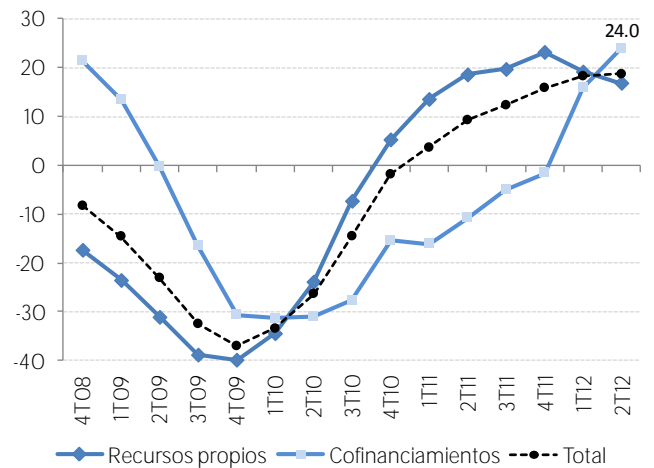
**Volume of lending by institution
Annual % change, annualized figures**

Chart 5
Volume of lending granted by commercial banks. Billion pesos, 2012 prices, annualized figures



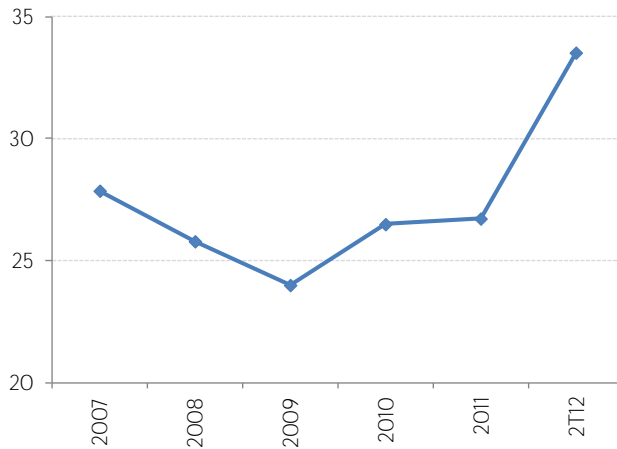
Source: BBVA Research with AMB data

Chart 6
Volume of lending granted by commercial banks. Billion pesos, annualized figures, annual % change



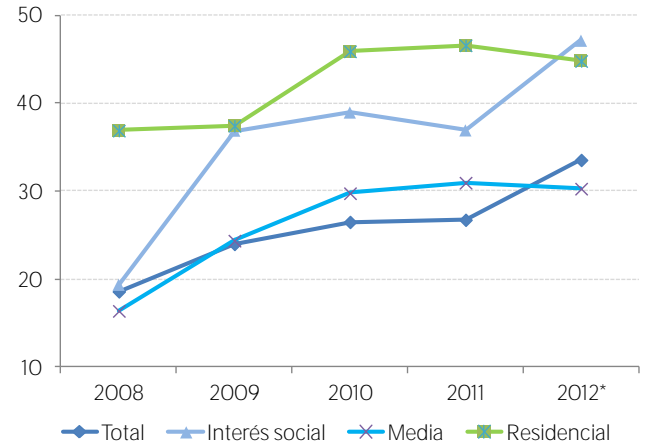
Source: BBVA Research with AMB data

Chart 7
Used dwellings: Market participation % in mortgage loans from Infonavit



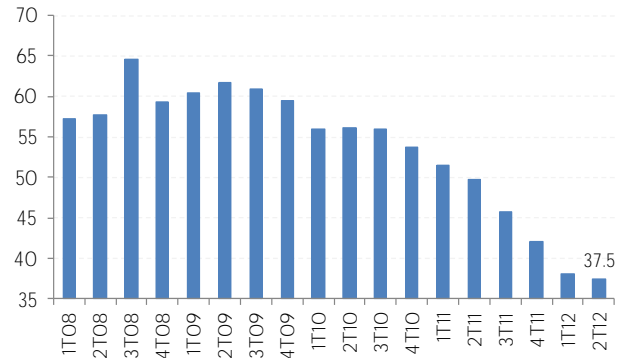
Source: BBVA Research with Infonavit data

Chart 8
Used dwellings: Market participation % in mortgage loans from Infonavit by segment



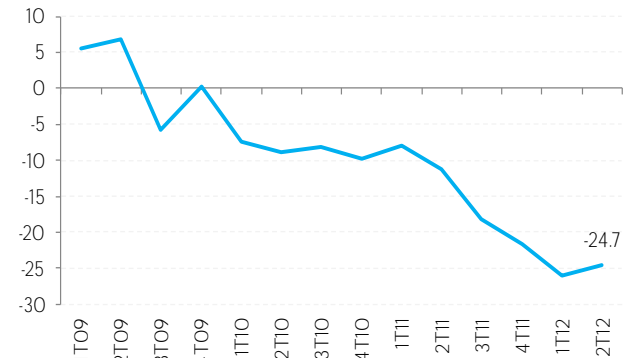
Source: BBVA Research with Infonavit data
*As of June

Chart 9
Construction loans, current portfolio balance. Billion pesos, 2012 prices



Source: BBVA Research, with Banxico data

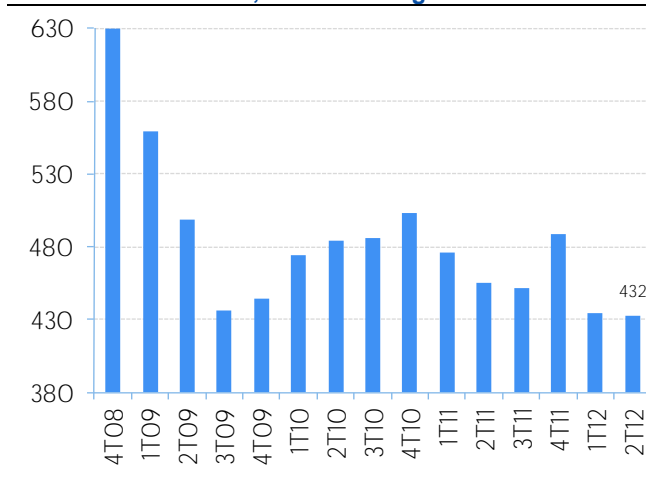
Chart 10
Construction loans, current portfolio balance. Real annual % change



Source: BBVA Research, with Banxico data

Chart 11

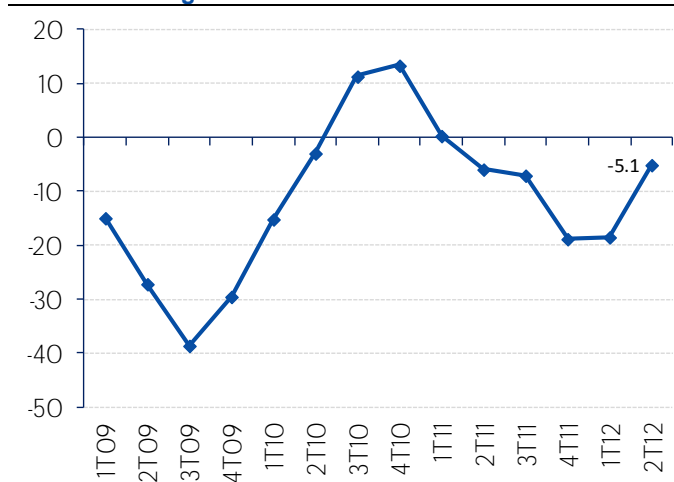
Housing starts: RUV Thousands of homes, annualized figures



Source: BBVA Research, with RUV data

Chart 12

Housing starts: RUV register Annual % change



Source: BBVA Research, with RUV data

Table 2

Number of mortgage loans by state

	Infonavit			Fovissste			Bancos			Sofoles			Total		
			annual % change			annual % change			annual % change			annual % change			annual % change
	jun-11	jun-12		jun-11	jun-12		jun-11	jun-12		jun-11	jun-12		jun-11	jun-12	
Ags	3,782	4,375	15.7	567	766	35.1	709	659	-7.1	25	ND	---	5,083	5,800	14.1
BC	12,139	11,243	-7.4	461	749	62.5	1,110	1,370	23.4	68	ND	---	13,778	13,362	-3.0
BCS	1,868	1,642	-12.1	472	632	33.9	393	320	-18.5	0	ND	---	2,733	2,594	-5.1
Cam	1,384	1,156	-16.5	85	152	78.8	199	250	25.7	4	ND	---	1,672	1,558	-6.8
Coah	8,966	10,329	15.2	514	664	29.2	1,034	1,108	7.2	1	ND	---	10,515	12,101	15.1
Col	1,833	1,764	-3.8	289	359	24.2	284	340	19.6	3	ND	---	2,409	2,463	2.2
Chis	2,580	2,045	-20.8	545	590	8.3	394	376	-4.5	0	ND	---	3,519	3,011	-14.4
Chih	8,861	8,667	-2.2	552	850	54.0	1,377	1,548	12.4	9	ND	---	10,799	11,065	2.5
DF	8,211	16,673	103.1	1,276	2,409	88.8	5,247	13,263	152.8	37	ND	---	14,771	32,346	119.0
Dgo	2,584	2,898	12.1	502	588	17.1	311	405	30.1	0	ND	---	3,397	3,890	14.5
Gto	10,547	10,275	-2.6	810	958	18.3	1,765	1,990	12.7	51	ND	---	13,173	13,222	0.4
Gro	1,793	1,357	-24.3	826	1,148	39.0	371	514	38.5	0	ND	---	2,990	3,019	1.0
Hgo	4,779	4,350	-9.0	1,453	1,632	12.3	412	567	37.7	15	ND	---	6,659	6,549	-1.7
Jal	18,837	20,182	7.1	1,196	1,537	28.5	3,780	3,910	3.4	83	ND	---	23,896	25,629	7.3
Méx	21,411	19,543	-8.7	5,480	6,416	17.1	2,111	2,863	35.6	236	ND	---	29,238	28,822	-1.4
Mich	5,072	4,346	-14.3	777	830	6.8	1,191	1,122	-5.8	12	ND	---	7,052	6,298	-10.7
Mor	3,317	2,614	-21.2	1,879	2,338	24.4	480	467	-2.8	1	ND	---	5,677	5,419	-4.6
Nay	2,151	1,594	-25.9	470	514	9.4	262	247	-5.6	19	ND	---	2,902	2,356	-18.8
NL	24,187	25,259	4.4	893	957	7.2	3,772	3,270	-13.3	217	ND	---	29,069	29,485	1.4
Oax	784	699	-10.9	299	362	21.1	252	299	18.6	3	ND	---	1,338	1,360	1.6
Pue	7,008	6,704	-4.3	856	1,216	42.1	1,225	1,244	1.6	25	ND	---	9,114	9,164	0.6
Qro	6,030	6,348	5.3	828	1,206	45.7	1,149	1,423	23.9	36	ND	---	8,043	8,977	11.6
QR	7,061	7,203	2.0	1,028	1,292	25.7	990	967	-2.3	84	ND	---	9,163	9,462	3.3
SLP	4,507	4,856	7.7	432	645	49.3	980	1,189	21.3	10	ND	---	5,929	6,690	12.8
Sin	5,466	5,555	1.6	738	879	19.1	1,129	1,325	17.4	3	ND	---	7,336	7,760	5.8
Son	9,590	8,645	-9.9	690	787	14.1	796	991	24.5	34	ND	---	11,110	10,423	-6.2
Tab	2,426	2,434	0.3	170	278	63.5	479	517	7.9	3	ND	---	3,078	3,229	4.9
Tam	10,308	9,315	-9.6	648	732	13.0	1,038	992	-4.4	20	ND	---	12,014	11,038	-8.1
Tlax	1,035	1,520	46.8	130	196	50.8	58	77	33.3	1	ND	---	1,224	1,793	46.5
Ver	9,574	8,986	-6.1	1,671	2,042	22.2	1,629	1,703	4.5	51	ND	---	12,925	12,731	-1.5
Yuc	5,487	5,230	-4.7	805	1,000	24.2	687	886	29.0	2	ND	---	6,981	7,117	1.9
Zac	1,614	1,773	9.9	175	291	66.3	203	220	8.4	0	ND	---	1,992	2,284	14.7
ND	0	0	---	0	0	---	0	0	---	0	ND	---	0	0	---
Total	215,192	219,580	2.0	27,517	35,015	27.2	35,816	46,422	29.6	1,053	ND	---	279,578	301,017	8.0

Source: BBVA Research with Infonavit, Fovissste and ABM data
Note: Sofoles figures may not fully coincide with other sources

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