

Mexico Real Estate Flash

A helping hand for the housing industry

In recent months, the government has sent various signals of support for the housing industry: the guarantee that it will establish clear rules for the sector; case-by case flexibility and analysis on the question of the territorial zoning program; the program of guarantees to boost construction; and, most recently, more flexible conditions for obtaining a mortgage loan from Infonavit.

- **The new government shows its support for the industry**

In the swearing-in ceremony of the new governing council of the National Housing Board (Canadevi), President Peña Nieto repeated the main lines of the current administration's housing policy and talked about the proposals that were being promoted to increase bank finance for the sector, both on the housing construction side and through mortgage lending. The presence of the President at this event sent a message of support to housing construction companies. At the same time, his message showed him to be sensitive and knowledgeable about the problems currently being faced by the industry, such as financing and the value land in the territorial zoning program. As an initial announcement, he anticipated that the rules for operating the subsidy program for 2014 would be ready at the end of May. Also, that the transition period companies in the sector had to adapt to the policy that the new government will have to push through would last until the first quarter of 2015.

- **The first measures are focused on finance for both supply and demand**

The President announced the measures that are being developed to boost housing supply and demand. On the supply side, this is through the Federal Mortgage Company's program of guarantees, which was made public early in March. According to the federal government the program has been very successful, as applications for guarantees were ten times the amount that had been budgeted for (52 billion pesos vs. 5 billion). In fact, only one month following the announcement, the first loans under this program had already begun to be issued. This is undoubtedly a good sign, although we repeat our view that it is the viability of the project that actually determines the finance; and in this respect, it will be the small and medium-sized constructors who in the end will benefit most by it. In the end this may benefit the industry, by helping to develop a specialized and flexible supply that can adapt swiftly to changing conditions.

To boost finance on the demand side, the requirements for Infonavit loans will be eased. In other words, there will be easier conditions with respect to amount of savings in the applicant's housing sub-account and/or minimum length of time in the current job, which until now has been a minimum of one year (and may now even be with different employers). Neither of these requirements is particularly restrictive under the current rules. The measure may provide a boost for the large housing constructors, who are closely linked to the Infonavit loans. However, care must be taken to maintain the risk in the portfolio under control.

- **Boosting measures to free up the potential of demand, which is key for growth**

There are other measures that can be taken to boost demand for mortgage loans. For example: increasing the amount of money lent, which would make the loan more attractive as it would open up the possibility of acquiring homes of greater value (although, in the short term, this would not necessarily benefit the large constructors); meeting the demand of segments that until now were under-attended, such as state and municipal employees (the potential market here is around 2.5 million workers); boosting the secondary mortgage market by making it easier for people who already have a loan to change home and buy one that is more expensive or in another geographical area (this in the end requires a reduction of the transaction costs involved, such as notary fees, taxes on the acquisition of real estate and the cost of appraisals); generating greater incentives for formal employment in order to extend the contributor base; and boosting the rental market, which could be a more economic and less risky way of providing access to housing for large segments of the population, who by age, income or job mobility may satisfy their housing needs under this scheme. In the medium term, the best support would be provided by allowing the market to progress normally in developing these products. They have a high potential and will probably be the basis for growth in the mortgage market over the coming years.

Table 1:

Infonavit: Calculation tables for credit ratings

| Age | Salary as number of times minimum wage (VSM) | | | | | |
|------------|--|------------|------------|------------|-------------|--------------|
| | 1.0 to 2.6 | 2.7 to 3.6 | 3.7 to 5.2 | 5.3 to 6.7 | 6.8 to 11.0 | 11.1 or more |
| Up to 17 | 30 | 31 | 32 | 34 | 39 | 40 |
| 18 to 20 | 56 | 57 | 58 | 60 | 65 | 66 |
| 21 to 34 | 60 | 61 | 62 | 64 | 69 | 70 |
| 35 to 42 | 63 | 64 | 65 | 67 | 72 | 73 |
| 43 to 49 | 66 | 67 | 68 | 70 | 75 | 76 |
| 50 or over | 51 | 52 | 53 | 55 | 60 | 61 |

Source: BBVA Research

Table 2:

Savings in the Housing sub-account

| From | To | Points |
|----------------|-----|--------|
| 0 | 1.7 | 24 |
| 1.71 | 2.2 | 27 |
| 2.21 | 2.6 | 31 |
| 2.61 | 3.1 | 33 |
| 3.11 | 3.7 | 35 |
| 3.71 | 4.5 | 37 |
| 4.51 and above | | 39 |

Source: BBVA Research

Table 3:

Continuous contributions*

| Two-monthly contribution periods | Points |
|----------------------------------|--------|
| Up to 5 | 0 |
| 6 to 12 | 16 |
| 13 to 15 | 23 |
| 16 or more | 38 |

* Takes into account the accumulated total of the most recent continuous two-month periods with contributions to Infonavit, with the same or different employers
Source: BBVA Research

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