

Mexico Real Estate Flash

Which forces dominate among those driving forward and dragging back the housing market?

2013 has been a year of big surprises in the housing market. Within barely five months there has been a combination of factors generating forces that have driven forward and dragged back the market, starting with the new institutional arrangement and policy focus on the sector, the financial deterioration of the main construction companies in the industry, legal reforms to promote the development of new financial products and greater competition between banks for participation in the mortgage market. The April figures show these contrasting forces, with a significant rise in bank lending, but a fall in the activity of public institutions, largely due to adjustments on the supply side.

- **Banks continue committed to the mortgage market**

The April results in the mortgage market continue to show the strong contrast between activity by banks and the public housing institutions. Total bank lending in the first four months of the year increased in real terms by 14%, while Infonavit and Fovissste recorded a fall of 7.7%.

The rise in bank lending, which with this new increase has accumulated three years at this rate of growth, is despite the economic slowdown (which began in the second half of 2012, but became more marked in the first quarter of 2013). It can largely be explained by the environment of financial stability, which has led to more favorable financial conditions due to increasingly aggressive competition.

The results for housing institutions are influenced by their greater emphasis on refurbishment (particularly in the case of Infonavit, which has tried to ease a significant part of demand through this channel, at 25% of all its loans in 2012), and also by the deterioration of public housing companies. Compared with last year, the number of homes financed by Infonavit have fallen, above all in the housing segment known as "popular", where homes are worth up to 200 times the minimum monthly wage. This is where most subsidies are focused and where the public housing companies do most of their construction. This segment explains nearly half the fall in Infonavit activity through April (down an annual 8.9%).

- **The impact of the adjustment of supply on lending will ease**

The business model of public housing companies (low-value housing construction in the periphery of cities, adapted to questions of policy rather than buyers' needs) appears to have run out of steam some time ago, and the policy changes have generated major doubts about the value (and size) of reserved land. Nevertheless the liquidity problems that have severely impacted the operational capacity of these companies (made worse by the embargo implemented by Infonavit and the withholding of payment on homes that they have been placing on the market recently) took market participants by surprise (investors, creditors, government and promotional institutions). Although the reasons for this sudden deterioration is worth detailed analysis, the question is what impact they will have on the housing market.

In the short term, the fall in the level of activity by public companies can be expected to affect mainly the housing institutions, but only partially and temporarily. Existing housing and housing already awarded may cover the gap; at the same time, other constructors may take up a position in this market. In addition, the program of SHF construction guarantees will help increase supply in the different housing segments.

- **The changing environment will encourage the development of the market in the medium term**

The upcoming months will be important for the development of the housing market. First, the definition of policies to support the sector will clarify the new government's priorities and the mechanisms it will use to boost the new model of urban development. It will also give some clarity to the use that may be given to the land reserved for the developers. The same can be said about the financial reform and the impact it could have on the development of some of the financial products. Banks continue to make introduce new products, and to the extent that the economic cycle reactivates and risks remain in check, they may maintain their positive performance so far, as the market still has a great potential for growth.

To sum up, although in the short term the housing market will continue to be unstable, there now appear to be foundations for a more stable and lasting growth of the market in the medium term.

Table 1

Mortgage lending: number and amount of loans, April (cumulative total)

Body	Number of loans (thousands)			Amount of lending (Bn pesos)		
	2012	2013	% change y/y	2012	2013	Real % change y/y
Public institutions	150.7	137.3	-8.9	44.4	41.0	-7.7
Infonavit	130.7	119.3	-8.7	34.1	32.1	-5.9
Fovissste	20.0	18.0	-10.1	10.2	8.8	-13.6
Private intermediaries	25.3	26.5	4.8	24.5	27.9	13.6
Banks	24.9	26.3	5.4	24.4	27.8	14.0
Sofoles	0.4	0.3	-30.0	0.2	0.1	-30.4
Subtotal	176.1	163.9	-6.9	68.9	68.8	-0.1
Co-financing* (-)	7.9	7.6	-4.1	---	---	---
Total	168.1	156.2	-7.1	68.9	68.8	-0.1

Informative figures

Total co-financing (-)	17.4	16.5	-5.0	-	-	-
Infonavit total (-)	9.4	8.9	-5.7	-	-	-
Other co-financing (-)	7.9	7.6	-4.1	-	-	-

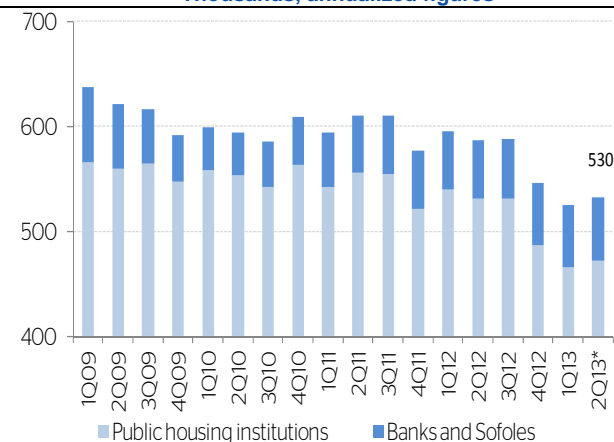
*Total excluding Infonavit

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

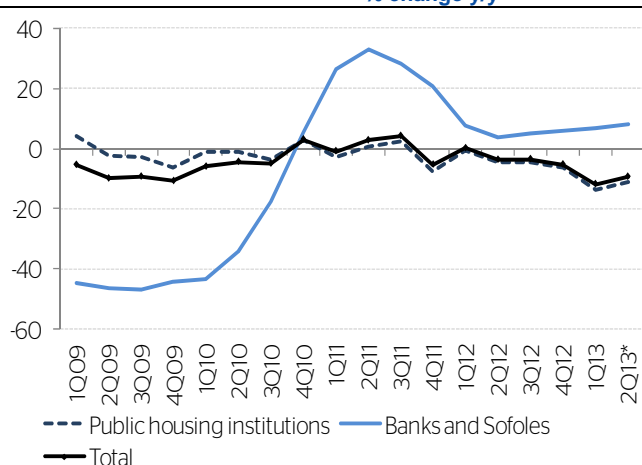
Charts 1 and 2

Number of loans by institution

Thousands, annualized figures



% change y/y



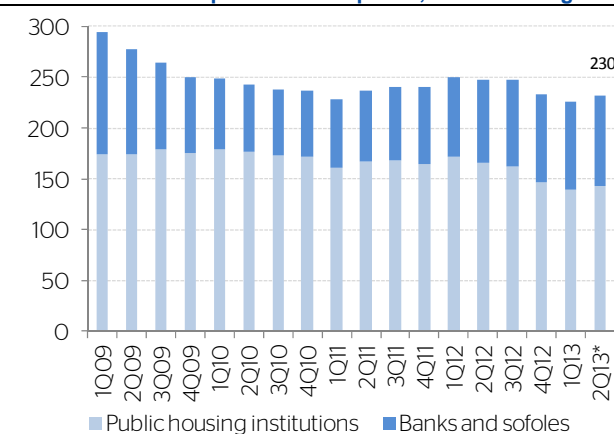
* to April

Source: BBVA Research with ABM, Infonavit and Fovissste data

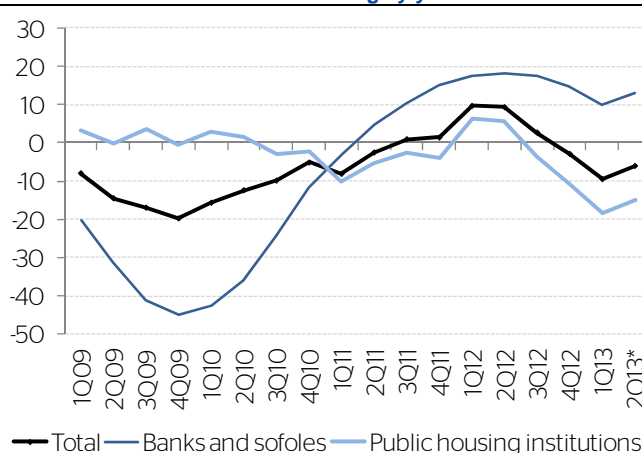
Charts 3 and 4

Amount of lending by institution

Billion pesos at 2013 prices, annualized figures



% change y/y



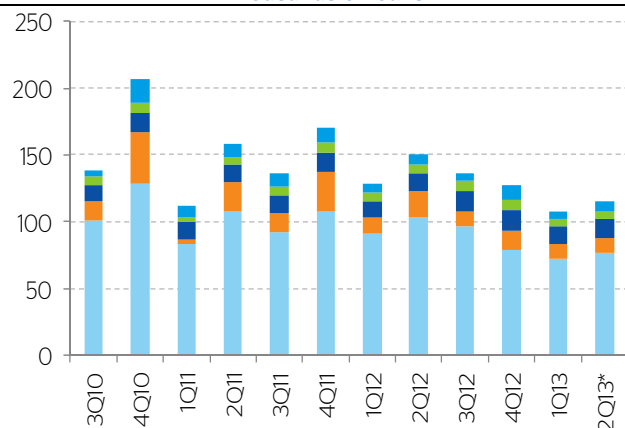
* to April

Source: BBVA Research with ABM, Infonavit and Fovissste data

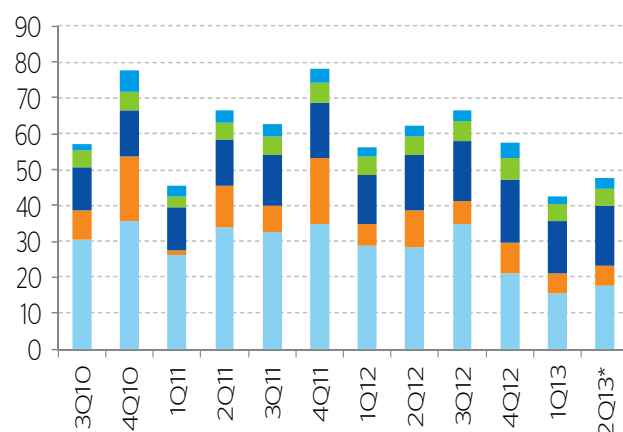
Charts 5 and 6

Mortgage loans by institution

Thousands of loans



Billion pesos, at 2013 prices



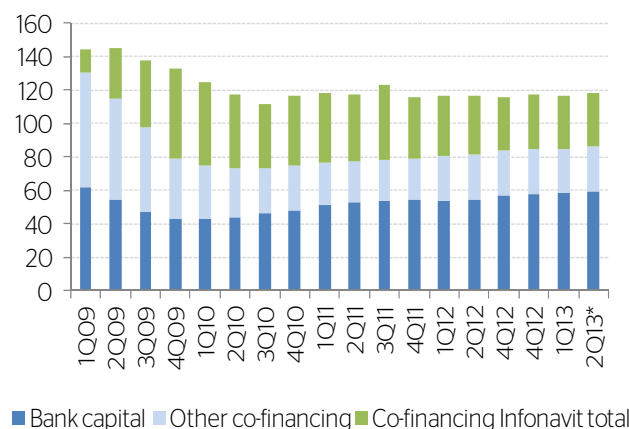
* to April
(BC) Bank capital.

Source: BBVA Research with Infonavit, Fovissste and ABM data

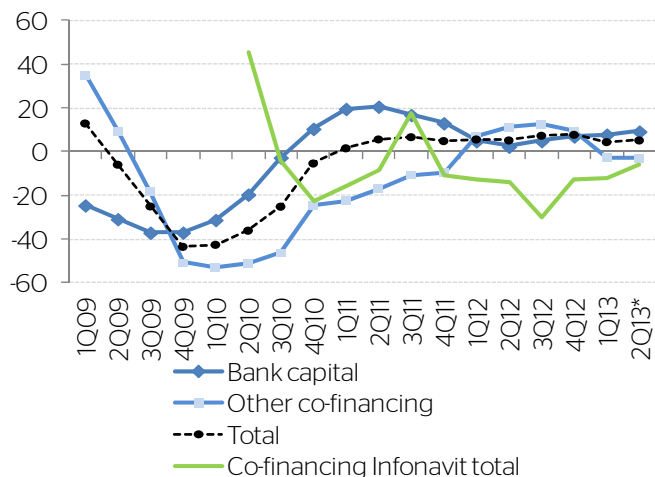
Charts 7 and 8

Number of loans granted by commercial banks

Thousands, annualized figures



% change y/y



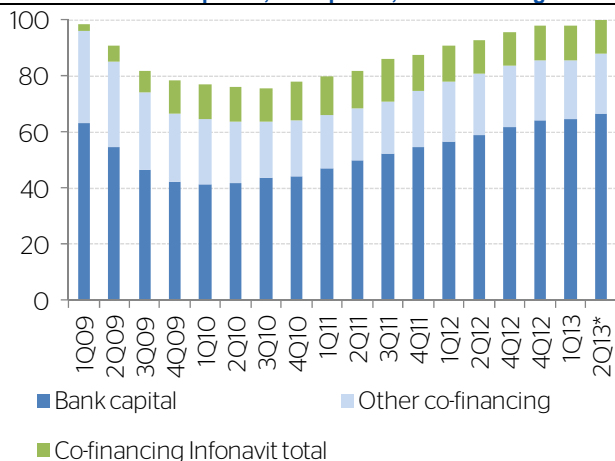
* to April

Source: BBVA Research with ABM, Infonavit and Fovissste data

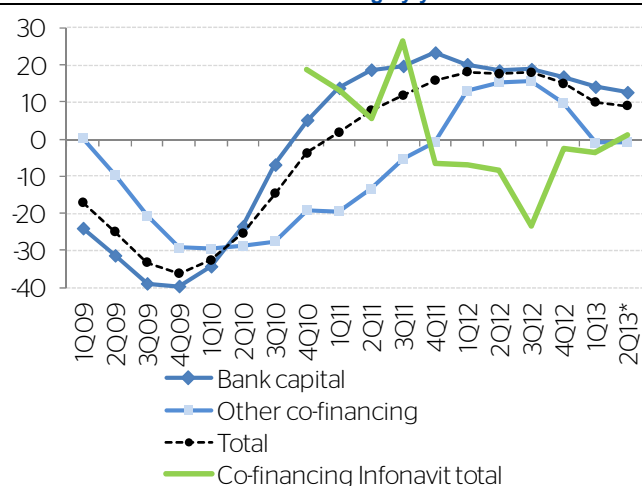
Charts 9 and 10

Amount of financing granted by commercial banks

Billion pesos, 2013 prices, annualized figure



% change y/y

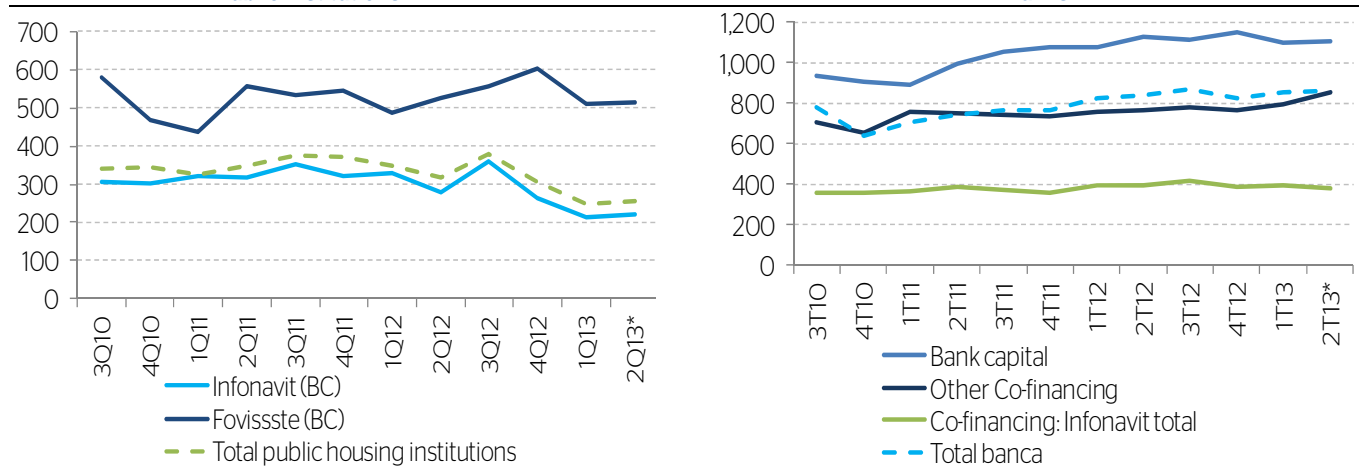


* to April

Source: BBVA Research with ABM, Infonavit and Fovissste data

Charts 11 and 12

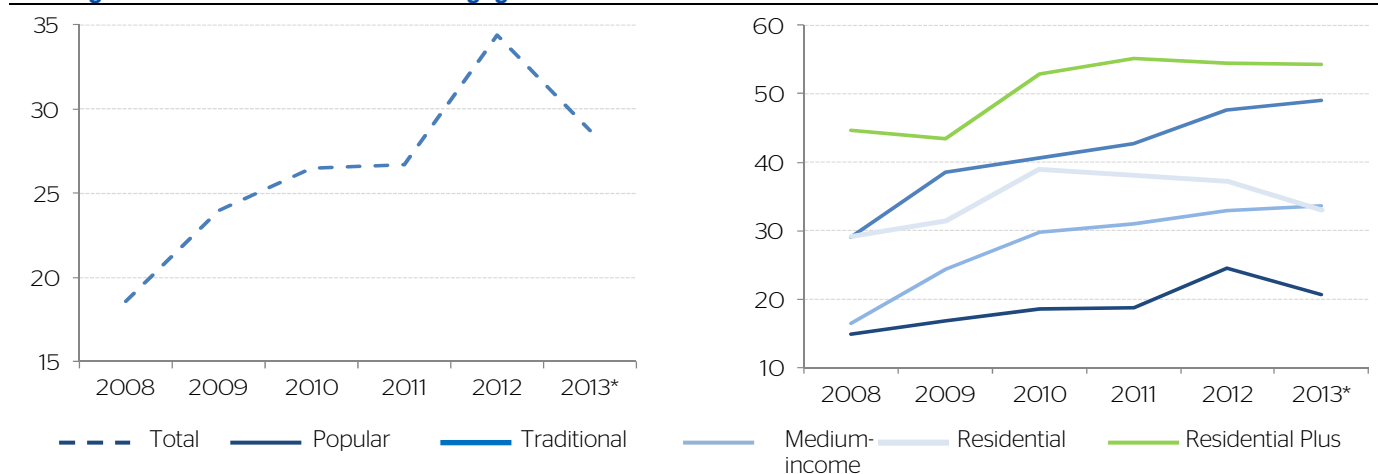
Average mortgage value. Thousand pesos, 2013 prices



* to April
(BC) Bank capital.
Source: BBVA Research with Infonavit, Fovissste and ABM data

Charts 13 and 14

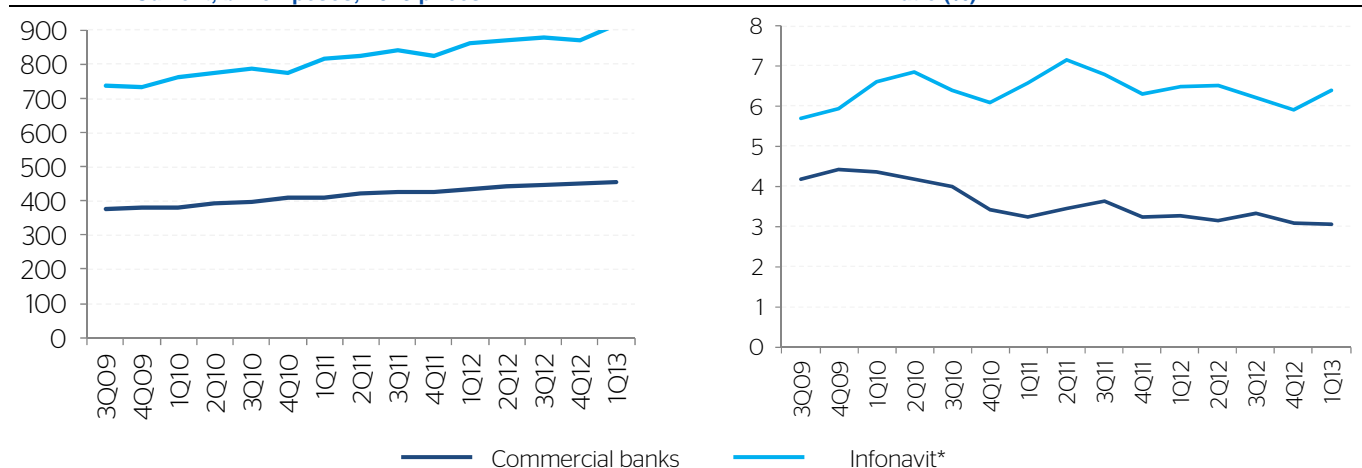
Existing homes: Market share % in mortgage loans from Infonavit



* to April
Note: Price ranges expressed in multiples of minimum wage (VSMM). Inexpensive, to 118 min. wage (232,000 pesos); Popular, to 200 min. wage (394,000 pesos); Traditional, to 350 min. wage (689,000 pesos); Medium-income, to 750 min. wage (1,477,000 pesos); Residential, to 1,500 min. wage (2,954,000 pesos); Residential Plus, over 1,500 min. wage (Over 2,954,000 pesos). Source: BBVA Research with Infonavit data

Charts 15 and 16

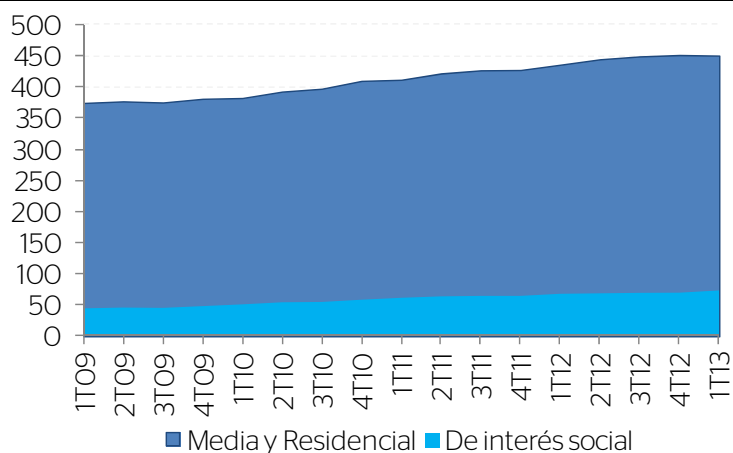
Mortgage lending, current portfolio balance



* Corresponds to the portfolio based on the number of loans
Sources: BBVA Research with Banxico data

Charts 17 and 18

Balance of the commercial bank portfolio by segment
Current, billion pesos, 2013 prices



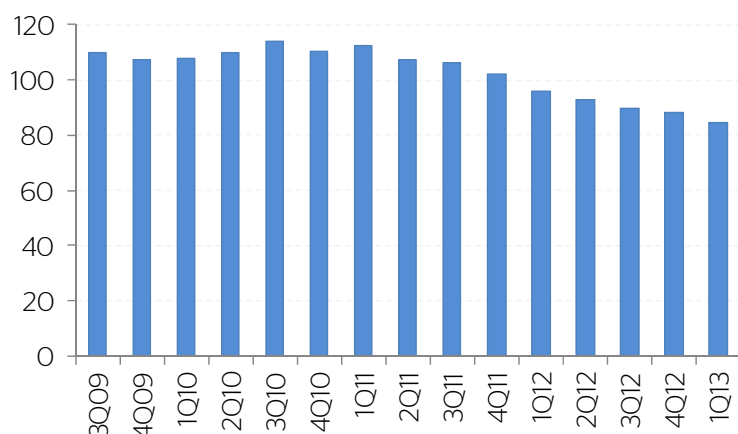
NPL ratio (%)



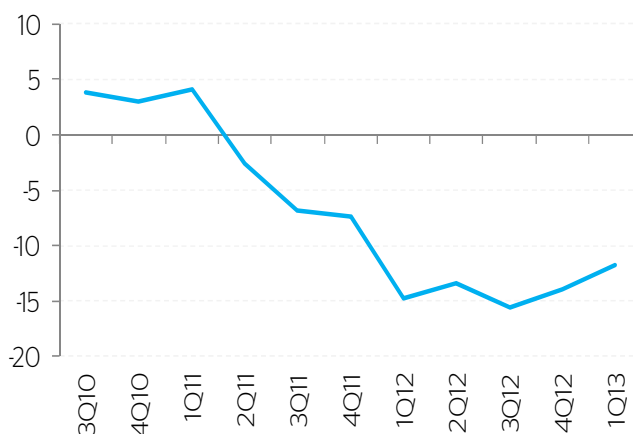
"Public Housing" includes inexpensive, popular, and traditional housing
Source: BBVA Research with Federal Mortgage Society (CNBV) data

Charts 19 and 20

Loans for residential building, total portfolio balance
Billion pesos, 2013 prices



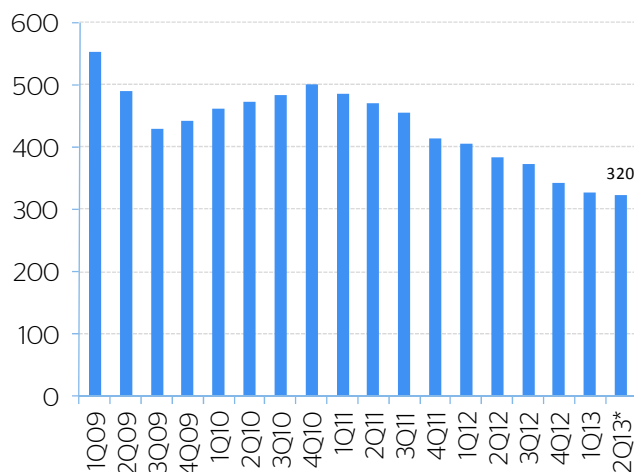
real y/y %change



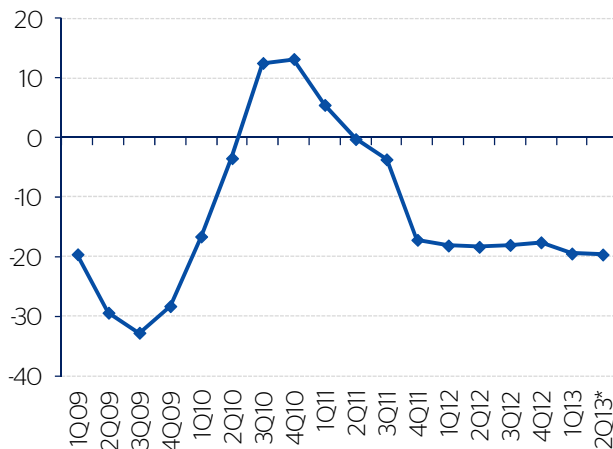
Note: The classification criteria for the Bank of Mexico bridging loan have been harmonized with those of the National Banking and Securities Commission (CNBV); these figures may therefore not correspond to those published in Flash reports before February.
Includes: Bridging loan and other sources of finance
Source: BBVA Research with Federal Mortgage Society (CNBV) data

Charts 21 and 22

Housing starts: RUV
Thousands of homes, annualized figures



% change y/y



* to April
Note: Period from the registration of the home to its sale on the market.
Source: BBVA Research, with RUV data


Table 2

Infonavit: Number of mortgage loans by institutions and percentage of existing homes
To April, 2013

	Total								Used (% del total)						
	Total	Economic	Popular	Traditional	Medium	Residencial	Residencial Plus		Total	Economic	Popular	Traditional	Medium	Residencial	Residencial Plus
Ags	2478	357	1582	383	141	14	1	Ags	33	31	32	48	24		
BC	5571	523	3615	1023	340	69	1	BC	46	80	34	68	46	55	
BCS	823	23	395	346	53	6	0	BCS	51	100	39	60	55		
Cam	317	23	128	116	49	0	1	Cam	70	43	78	72	57		
Coah	6206	688	4025	1075	353	56	9	Coah	45	52	39	67	34	18	
Col	1027	85	685	197	56	4		Col	34	98	23	42	36		
Chis	1716	82	1288	257	75	13	1	Chis	24	17	10	84	60		
Chih	5132	643	3204	875	337	70	3	Chih	49	72	40	74	36	30	100
DF	3407	90	475	1204	999	476	163	DF	73	100	100	87	53	51	66
Dgo	1409	81	1080	208	37	3	0	Dgo	39	64	34	50	57		
Gto	6040	150	4352	1139	356	39	4	Gto	28	93	22	41	23	31	25
Gro	761	10	282	381	78	9	1	Gro	44		61	31	36		
Hgo	2824	329	1859	526	98	12	0	Hgo	14	8	9	33	29	67	
Jal	12216	851	8587	1901	748	123	6	Jal	14	14	7	39	24	30	67
Mex	8912	49	5448	2463	688	236	28	Mex	21	100	12	36	32	18	32
Mich	2898	128	2228	407	120	14	1	Mich	19	34	12	50	41	21	
Mor	1474	12	691	579	163	28	1	Mor	29	100	19	36	31	61	
Nay	1358	31	985	281	53	8	0	Nay	24	84	18	37	45		
NL	15980	2256	10006	2324	1020	318	56	NL	14	11	9	32	21	22	36
Oax	689	29	554	78	24	4	0	Oax	27	90	16	79	42		
Pue	3476	135	2497	547	249	46	2	Pue	21	25	15	43	26	17	
Qro	3771	172	2112	920	465	94	8	Qro	14	18	7	27	19	14	
QR	4627	324	3576	552	163	12	0	QR	8	9	5	23	17	42	
SLP	2734	149	1763	547	228	45	2	SLP	41	84	35	54	24	40	
Sin	3243	213	2351	551	119	9		Sin	41	90	37	46	34		
Son	4559	363	3217	779	172	26	2	Son	42	87	32	63	45	31	
Tab	1349	82	899	274	75	15	4	Tab	34	22	20	80	52		75
Tamps	5177	439	3894	631	196	17	0	Tamps	38	77	27	69	52	47	
Tlax	487	84	282	103	17	1		Tlax	52	62	41	75	47	100	
Ver	5387	667	3425	1015	245	33	2	Ver	33	30	25	60	49	30	
Yuc	2535	359	1617	434	105	18	2	Yuc	33	59	26	39	29	33	
Zac	759	19	478	195	67	0	0	Zac	29	89	24	41	21		
Nac	119342	9446	77580	22311	7889	1818	298	Nac	28.7	41	21	49	34	33	54

Source: BBVA Research with Infonavit data

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