“An economic approach to Mexico’s Housing Market”

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Mexico’s Public Policy Structural Changes

Main strategic public policies

Public & private coordination

Democratization of Productivity and Competitiveness

Economic Drivers
Housing
Energy
Telecom

Fiscal and Financial Reforms

Wealth creation and social mobility

Labor and Education Reforms
Housing in Mexico

- Housing policy is regarded as an economic public policy instrument for social development and economic growth.

I. Economic conditions
II. Public policies
III. Housing Market Structure
IV. Demand & Supply
V. Expected Future Conditions
VI. Final Remarks
I. Economic conditions

MEXICO...

- ...is the fifteenth largest economy in the world (World Bank).
- ...has enjoyed government commitment to preserve macroeconomic stability for over 3 decades.
- ...maintains low levels of gross financing needs, a relatively low level of debt with extended average maturity.
- ...has experienced declining interest rates on its foreign debt that now stand at historical minim levels.
- ...has a moderate current account deficit and historical high levels of international reserves (USD 190+ billion)
- Macroeconomic fundamentals
  - Reduced inflation
  - Manageable public debt
  - Low current account deficit (well financed by FDI)
  - Solid banking sector
Mexico now enjoys its lowest inflation and interest rates of the last two decades.

Lower rates have allowed greater accessibility and purchasing power for homebuyers.
I. Economic conditions

The current government has succeeded in passing several structural reforms that will attract investment and increase productivity.

• The opening of the energy sector last month is historical.
  - Contracts in exploration and extraction for oil and hydrocarbons
  - Permits in gas processing and oil refining, transportation, storage, distribution, and commercialization
  - Participation in electricity generation and sales
• Telecommunication reform is significant
  - Players can now offer all types of services (provided market non-concentration requirements are met).
  - Limits on FDI were reduced.
II. The National Housing Policy

• Housing and urban development have been policy priorities since the beginning of the century.

• The Ministry of Agrarian, Land and Urban Development (SEDATU) now oversees land management, urban and regional development, urban infrastructure and housing and policies.

• The current Administration´s Housing Policy is based on four strategies:
  1. Achieve greater and better interinstitutional coordination.
  2. Move towards a sustainable and intelligent urban development model.
  3. Diminish the housing deficit.
  4. Provide better quality housing
Regional Development’s Strategic Importance for National Development

Housing policy is the ideal economic, environmental and social driver that impacts health, educations and public safety conditions.
National Housing Council
III. Mexican Housing Market Structure

Capital

Equity

Federal Budget Investors, loans

SHF

Loans Guarantees

Bank/Sofom

5% of Payroll

Bank/Sofom

Land

Land Developer

• Government
• Developers

Builder

• Government
• Developers
• Institutes

House

Construction Loan

• Government
• Developers
• Institutes

Sales

• In house
• External

House

Mortgage

Buyer

Downpayment Savings

Subsidies

CONAVI

Land Developer

Institutes

Land

Savings

Equity

House

Equity

Institutes

Bank/Sofom

Loans

Infonavit Fovissste

5% of Payroll

Loans

Guarantees

CONAVI

Source: SOFTEC SC. Mexican Housing Overview 2013.
Housing Finance System

- Housing finance is the most critical part of real estate development in Mexico.
- Often, more than market and demand variables, financing availability has defined the size and purchasing power of the market.
- While mortgages have become easier to find, the challenge is to increase funding, accessibility, and coverage.
- Four participants are necessary for a sophisticated mortgage market:
MEXICO’S mortgage market

• ...has important saving and loan schemes like Infonavit and Fovissste
• ...has enjoyed government commitment to preserve institutions for over 40 years.
• ...has experienced increased funding levels for new and used formal houses
• ...has a moderate delinquency rate below
• ...has solid banking sector
• ...portfolio assets account for 10% of GDP
IV. Housing Market Demand and Supply

i. Prices of new housing
ii. Land availability
iii. Cost of land and other related inputs
iv. Availability of infrastructure and public services
v. Local, State and Federal policy and regulatory provisions for housing production

Housing Market

Supply

Demand

i. Demography
ii. Household formation
iii. Family income
iv. Housing deficit
v. Housing prices
vi. Improvement in living condition
   ▪ Dwelling characteristics
   ▪ Characteristics of the neighborhood
   ▪ Accessibility
vii. Access to mortgage finance and Government down payment subsidies
Demography

- Mexico is going through deep and quick demographic changes which can be seen in:
  - Demographic transition and
  - Demographic dividend (DD)
- Both represent housing market opportunities and challenges.
- The most outstanding aspects of the transition are the reduction of the population growth rate and the changes in the dynamics by age group.
- The proportion of children and elderly people over the labor force will diminish progressively, producing the demographic dividend, which will allow for greater family income and will enable them to acquire or improve their home.
- Mexican population will reach 137.4 million by 2030 and 150.8 million by 2050.
- The number of potential buyers will significantly increase in the coming years.

Source: INEGI and CONAPO.
• Real estate average prices have just kept up with consumer prices. There is not a price bubble.
• Different market behaviour expressed in USD/m2, show an increase in residencial and plus segments.
• Prices, in cities like Mexico, have increased above inflation.

Source: Banco de México.
Mexico has a population of 119 million, of which 78 million fall under the working age group (15-64 years).

By 2030, the number of people within the working age group will increase by 16%, totaling 90.8 million, representing 66% of the total population.

The challenge for real estate and mortgage markets in the next few years (2014-2030), will be to promote mobility and increasingly provide segmented and flexible housing products.
• Mexican households will grow from 28.6 million in 2010 to 39.2 million in 2030.
• The profile of Mexican families is changing, now there are different family structures that include: nuclear, extended, one person, composite and co resident.
• Needs and housing solutions for each type of family structure are different and so are their housing finance requirements.

Growth of Mexican households

- **Nuclear**: Mother, father and children.
- **Extended**: Nuclear + relatives
- **One person**: Living alone
- **Co resident**: partners
- **Composite**: two or more families

Source: INEGI and CONAPO.
• Mexico has increasing per capita income.
• There is an increasing share of households with more income.
• A socioeconomic upward mobility is observed.
• Growing access to housing finance
Workers and their characteristics

Economically Active Population (PEA)  
52.67 million

- Unemployed Persons  
  2.43 million

- Employed Persons  
  50.24 million

- No Affiliated  
  31.9 million

- Affiliated  
  18.06 million

- Independent  
  17.46 million

- Subordinates  
  15.42 million

- Independent  
  11.01 million

- Subordinates  
  18.04 million

Source: INEGI. ENOE fourth quarter 2013.

- 31 million people don’t have access to social security.
What can Mexican families afford?

- The total housing stock in Mexico is 37 million.
- The main determinant of access to housing is income.
- 28% of families earn up to 3 times the minimum wage (TMW), 33% earn between 3 and 6 TMW, 13% between 6 and 8 TMW. Only 26% earn more than 8 TMW.

Source: INEGI. Encuesta Nacional de Ingresos y Gastos de los Hogares 2012 (ENIGH)
Housing Deficiencies

- Three components: overcrowding, deterioration and deficient materials.

- Housing deficiencies affect 28% of total housing stock
- Rural housing deficit represents 40.9% of total. The rest are urban or transition areas.
- All of these dwellings are inhabited and are now subject to home improvement programs.

Source: SHF, Mexican Housing Day 2013.
V. Future Expected Conditions - 2024

Demographic and economic scenarios

• 44 million housing stock units
• 20 million houses in Mexico’s 30 largest cities
• 9 million new housing units need to be built
• Reduction in the number of houses with deficiencies
• Families’ Income growth between 30 to 40%
• Middle class mobility
• Increased formal employment
• Real estate development (housing, business, offices, industrial plants and warehouses)
10.1 Estimated market structure for new homes to 2020
Estructura estimada del mercado de vivienda nueva al 2020

Source: SOFTEC SC. Mexican Housing Overview 2013.
Evolution of Housing Financing

Investment in millions of USD dollars* at 2014 prices.
*$13.149 Mexican pesos per US dollar.
P. Programmed.

Source: Romero Hicks y Galindo, S.C. with CONAVI data.
### Housing Sector Investment 2014-2018

(billions of USD dollars*)

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Total Investment</th>
<th>“Public investment”</th>
<th>Private investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Improve housing conditions and services under sustainable and smart urban development.</td>
<td>8.59</td>
<td>2.96</td>
<td>5.63</td>
</tr>
<tr>
<td>2. Reduce housing deficit by improving existing housing stock and by promoting the acquisition of new housing.</td>
<td>1.07</td>
<td>1.07</td>
<td></td>
</tr>
<tr>
<td>3. Direct funding for decent and sustainable housing with territorial criteria that promote densification.</td>
<td>129.83</td>
<td>64.92</td>
<td>64.92</td>
</tr>
<tr>
<td>4. Promote participation of real estate developments in the national infrastructure.</td>
<td>1.93</td>
<td></td>
<td>1,930.5</td>
</tr>
<tr>
<td>5. Plan, achieve consensus and implement an integrated land national policy.</td>
<td></td>
<td></td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>141.42</strong></td>
<td><strong>67.88</strong></td>
<td><strong>6.69</strong></td>
</tr>
</tbody>
</table>

* $13.149 Mexican pesos per US dollar
Public investment includes Infonavit and Fovissste worker’s funds

VI. Final Remarks

There are five strategic lines that need to be pursued to develop Competitive Cities:

1. Public & private coordination
2. Urban planning for housing and cities
3. Competitive cities and regional economics
4. Wealth creation and social mobility
5. Reduce poverty and targeted subsidies

Develop mortgage and financial system
Housing is a strategic driving force of Mexico

- Currently the share of housing as part of GDP is, roughly, 2.4%
- Housing and Construction are growth drivers for another 37 economic activities.
- Housing and construction economically have both an engine (multiplier effect) “push” and a “drag” effects over investment and production. Studies show that each construction monetary unit invested increases investment 3.44 times in the economy and each monetary unit spent in construction increases by 2.56 times total production expenditure of the whole economy*
- In Mexico it is estimated that for every peso spent in a subsidy there is a return through taxes of $ 1.36 pesos.
- Housing is the “social factory” of middle class citizens.

Vielen Dank!

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