

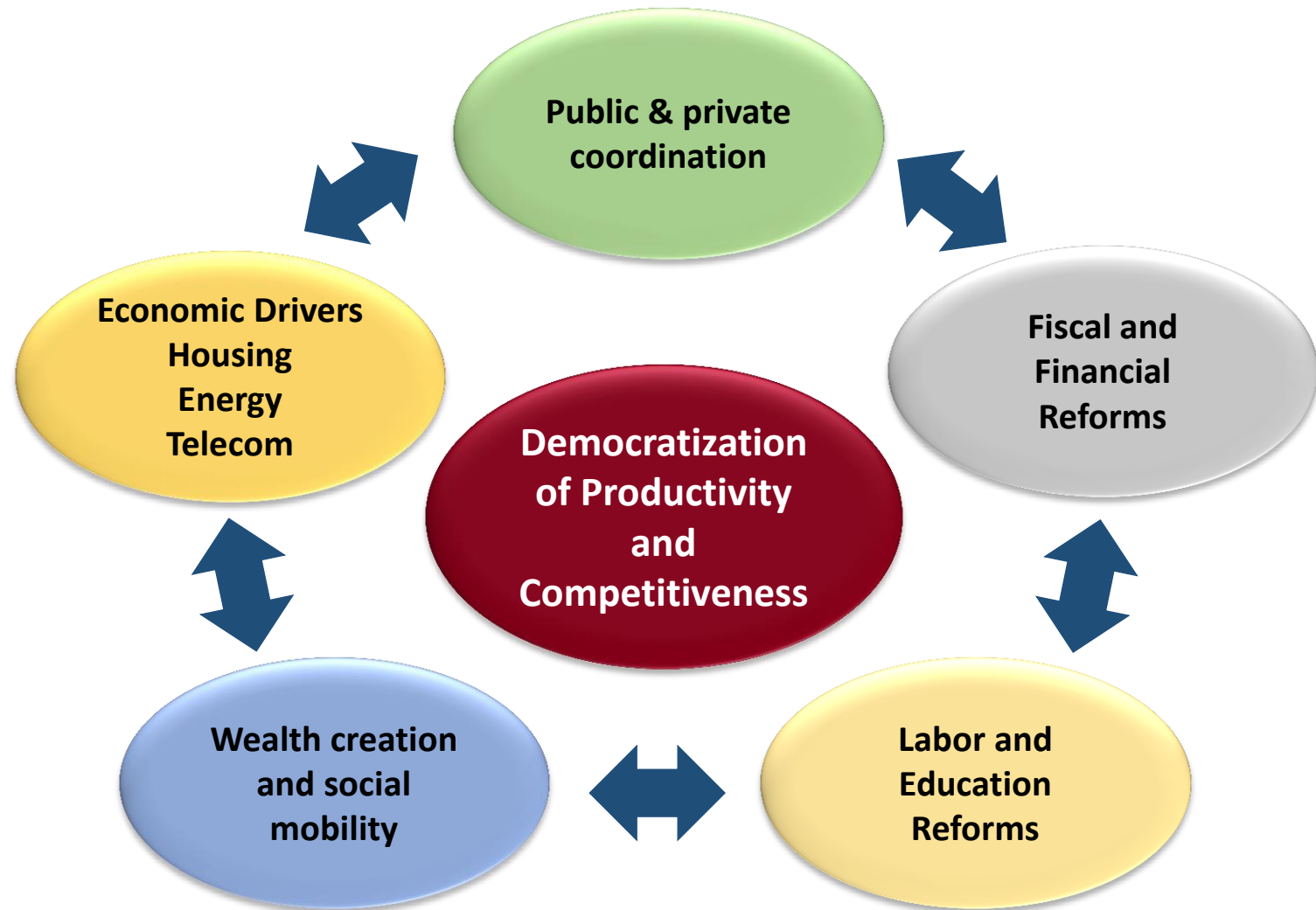
“An economic approach to Mexico’s Housing Market”



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September 12, 2014

Mexico's Public Policy Structural Changes



Main strategic public policies

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



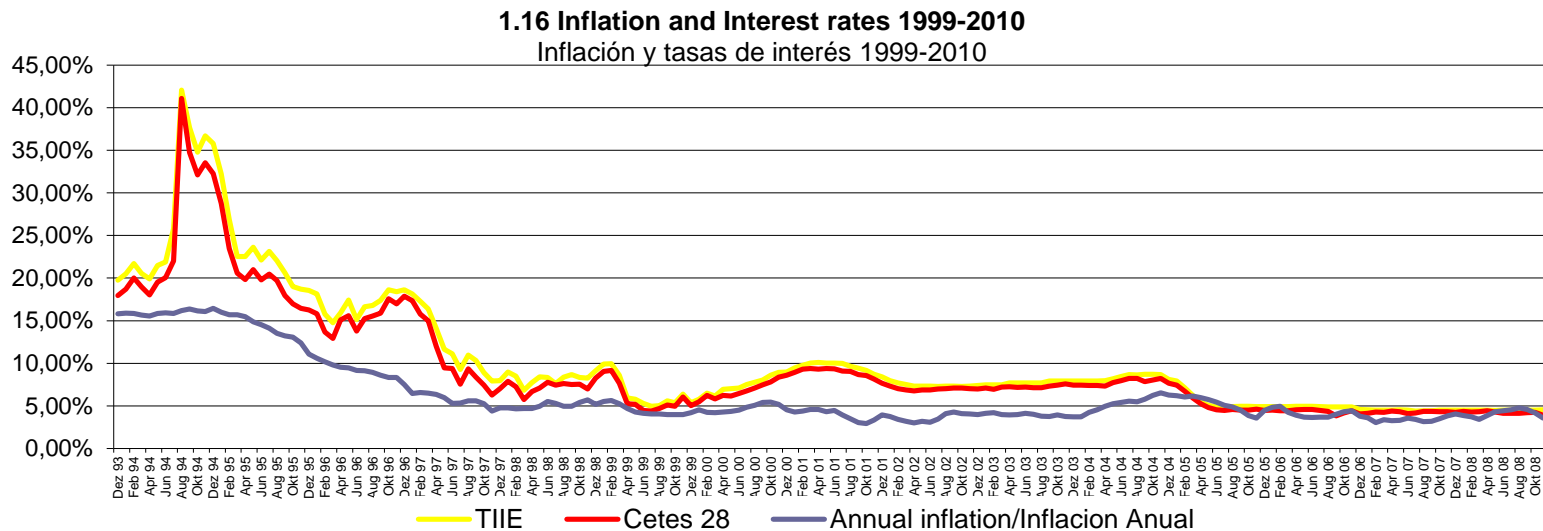
I. Economic conditions

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

Inflation and interest rates

- 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

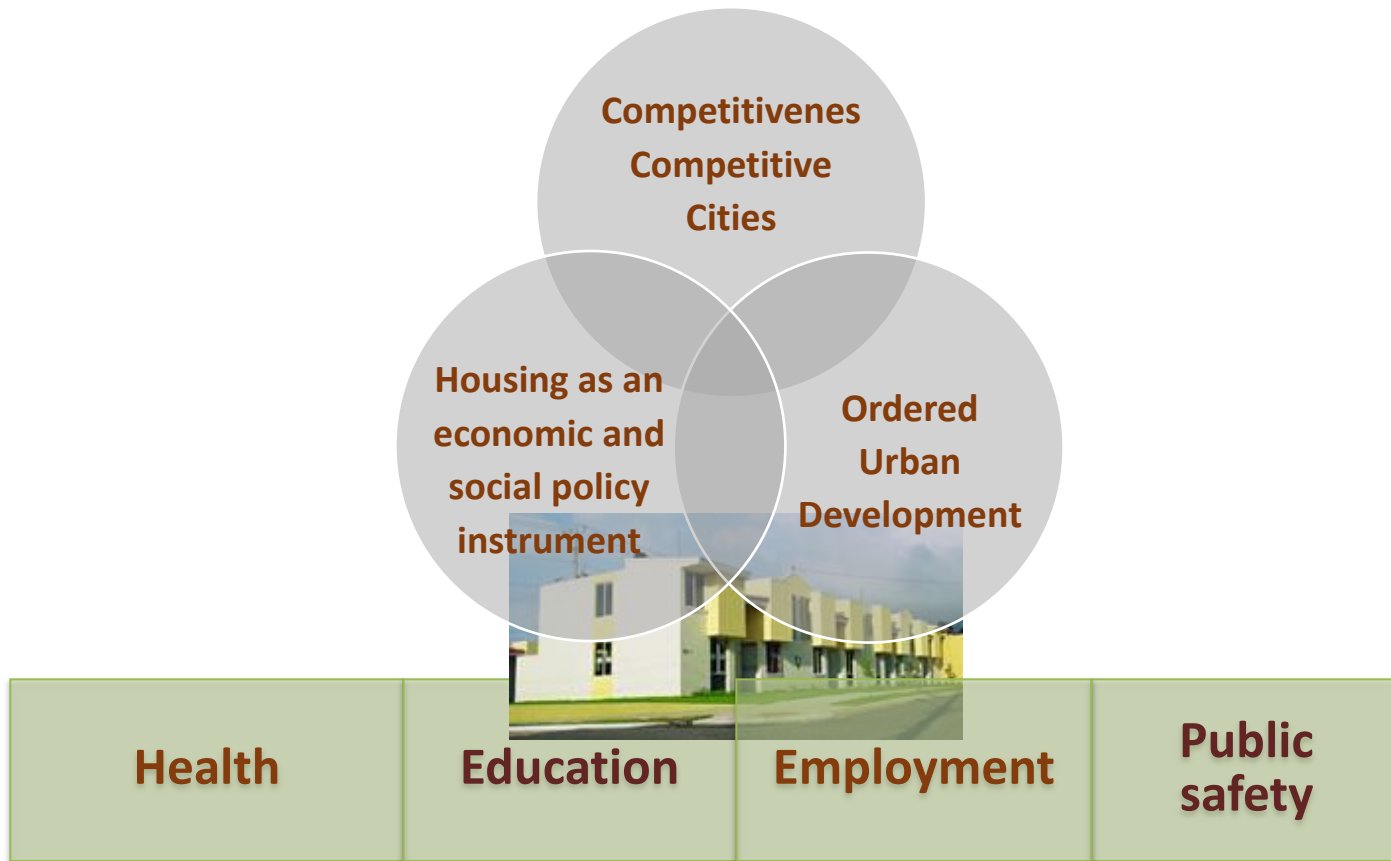
The current government has succeeded in passing several structural reforms that will attract investment and increase productivity.

- 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.



SEDATU



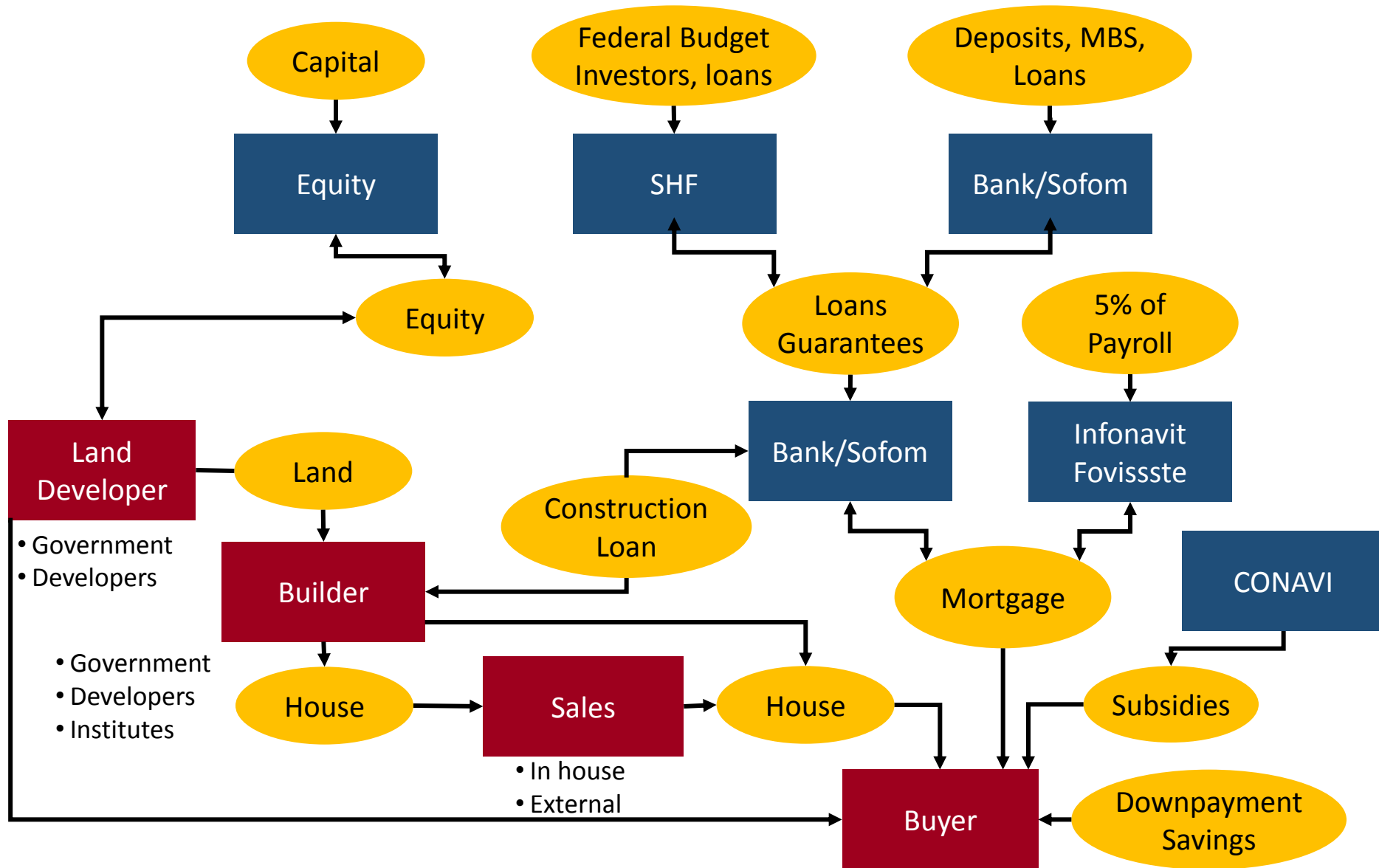
BANBRAS



National Housing Council

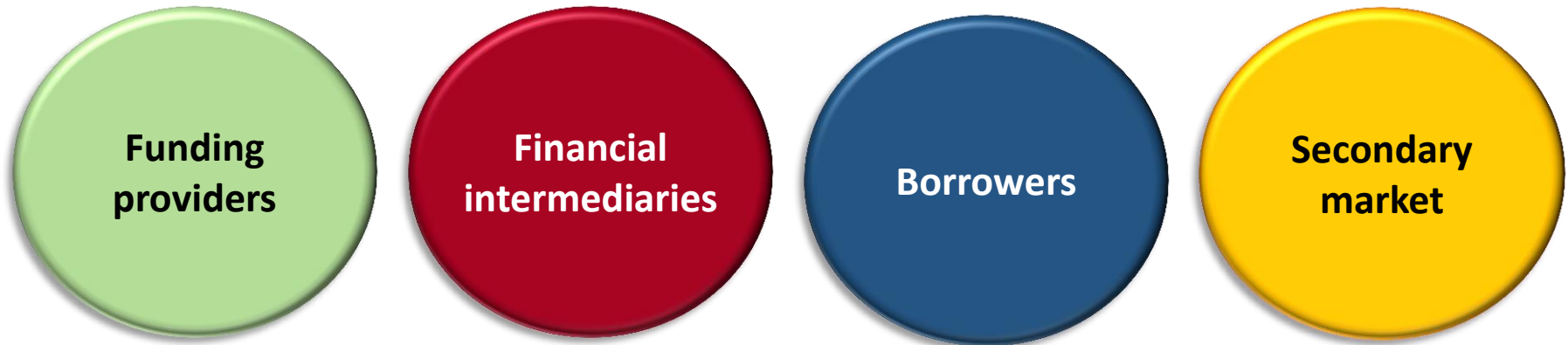


III. Mexican Housing Market Structure



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:

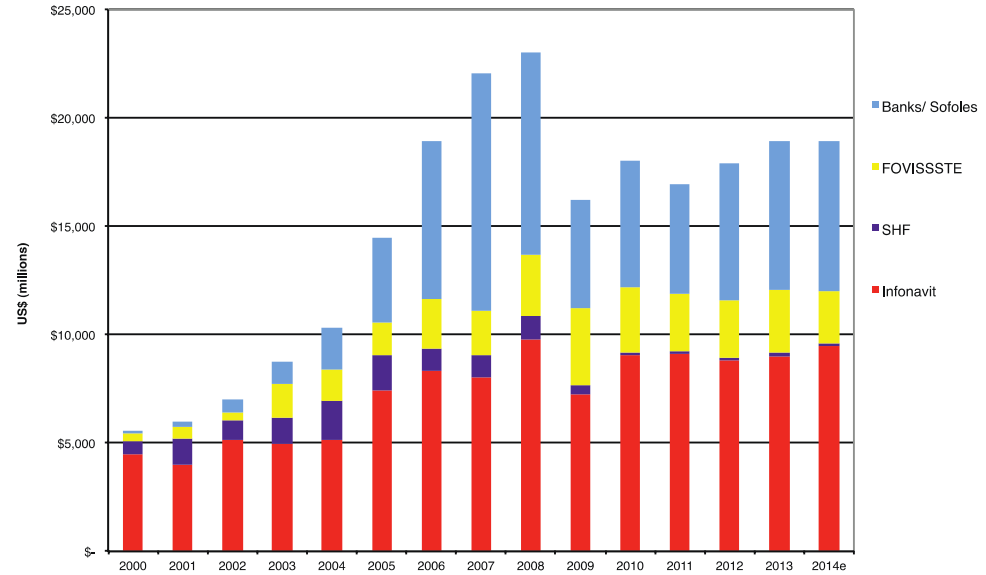


Mortgage Market

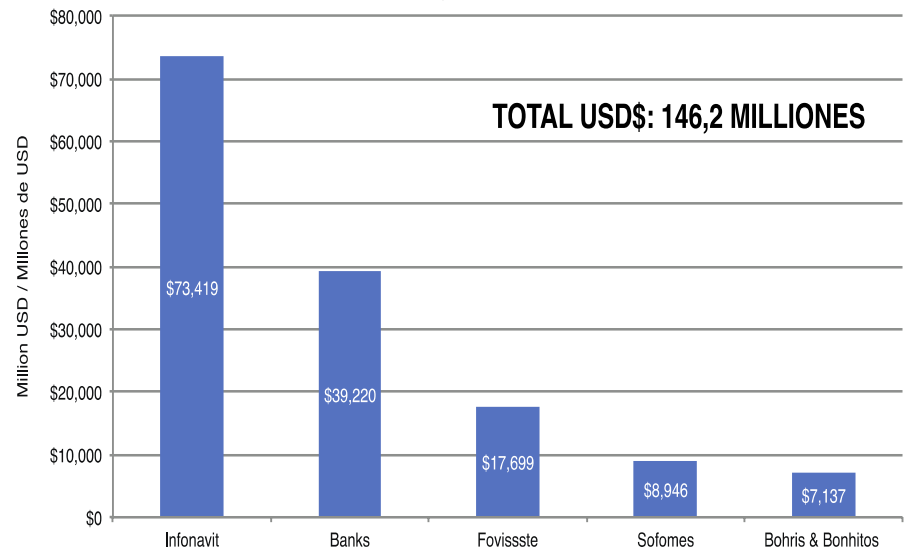
MEXICO'S mortgage market

- ...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

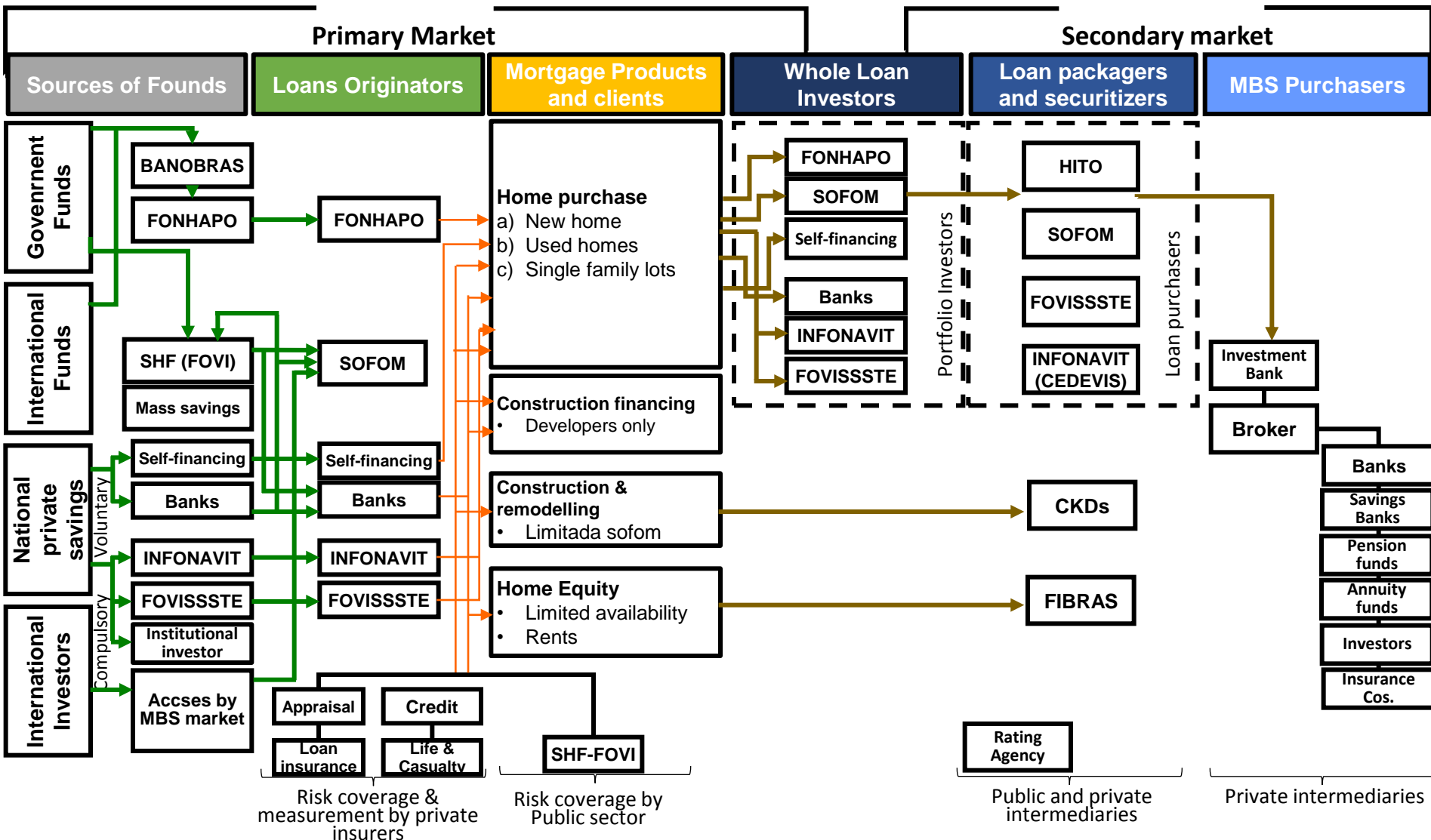
10.7 Mortgage Program Evolution (US\$million)
Programas hipotecarios (US\$ millones)



6.8 Mortgage portfolio 2013
Carteras hipotecarias 2013

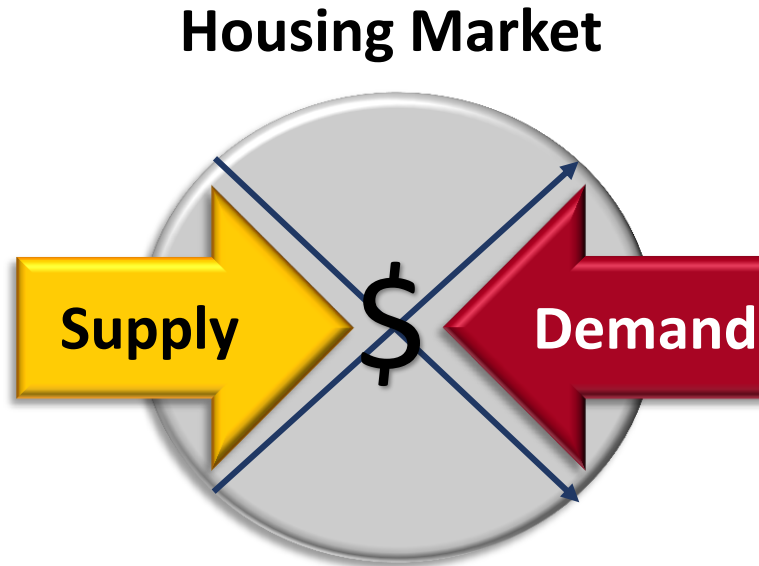


Housing Finance in Mexico



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

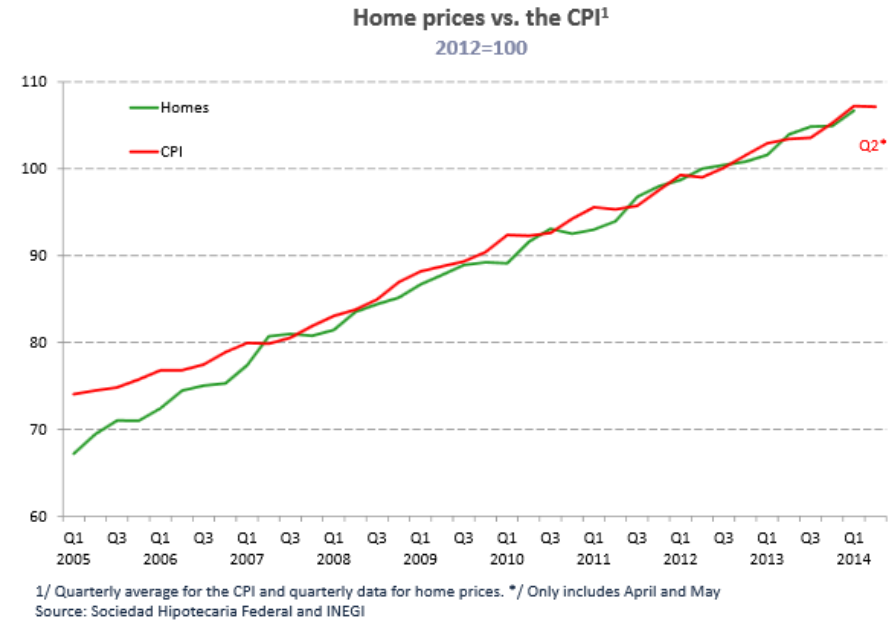


- i. Demography
- ii. Household formation
- iii. Family income
- iv. Housing deficit
- v. Housing prices
- vi. Improvement in living condition
 - Dwelling characteristics
 - Characteristics of the neighborhood
 - Accessibility
- vii. Access to mortgage finance and Government down payment subsidies

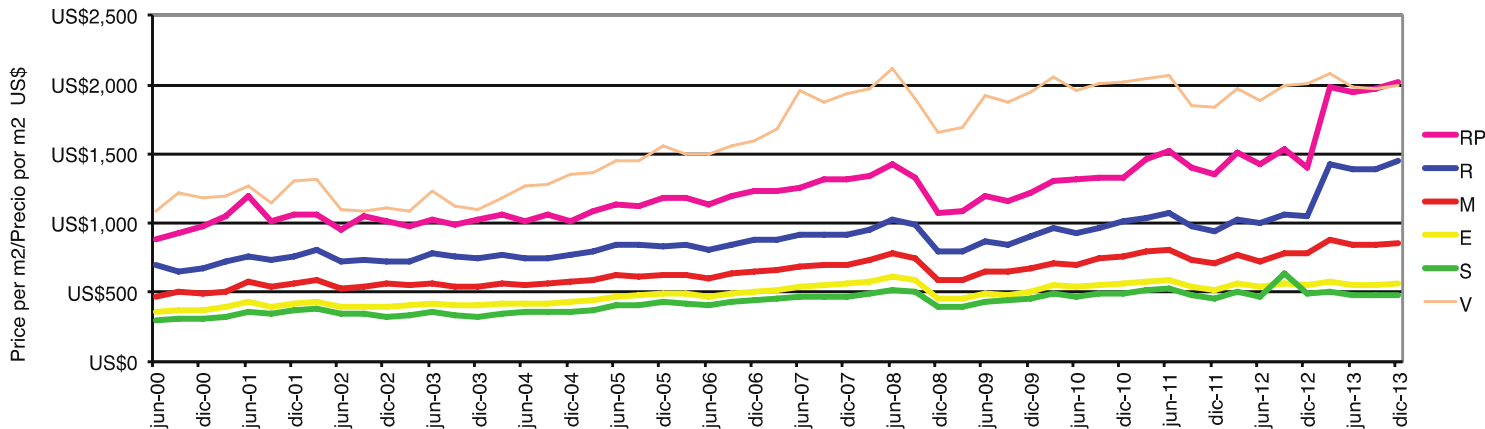
- Mexico is going through deep and quick demographic changes which can be seen in:
 - Demographic transition and
 - Demographic dividend (DD)
- Both represent housing market opportunities and challenges.
- The most outstanding aspects of the transition are the reduction of the population growth rate 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.

House Price Index

- 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.

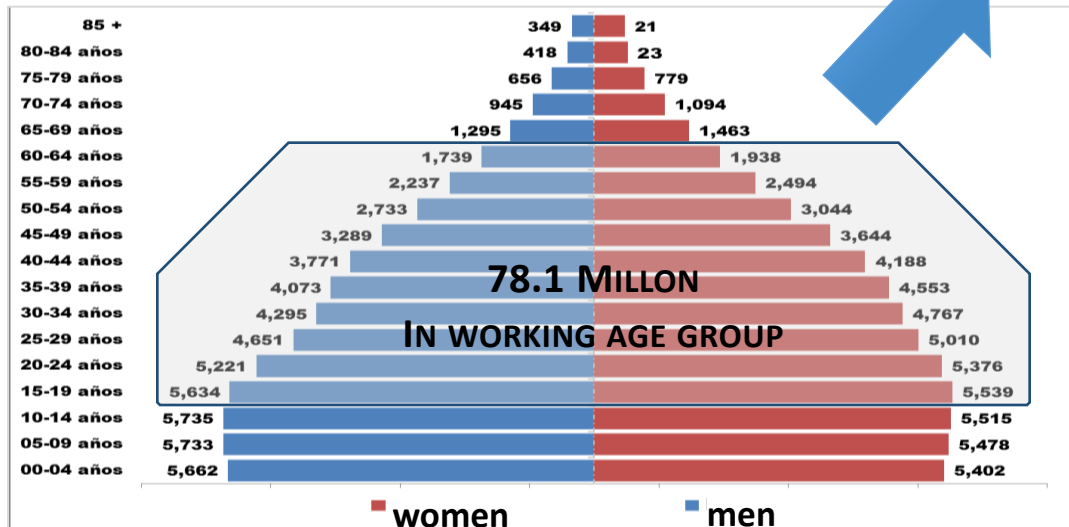
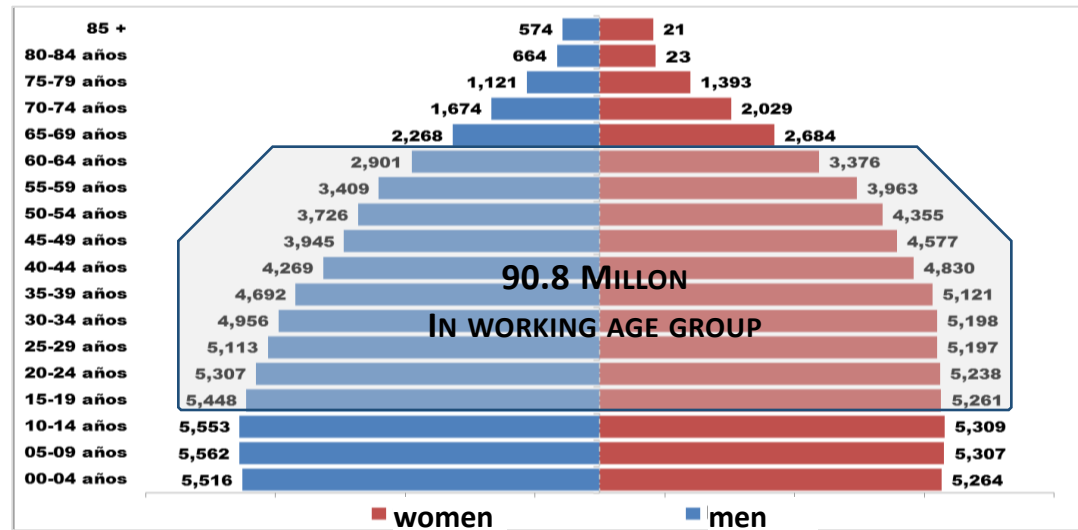


8.10 Home prices per m² in US\$ Precio por m² en US\$ (miles)



...Demography - Population 2014 -2030

- 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.

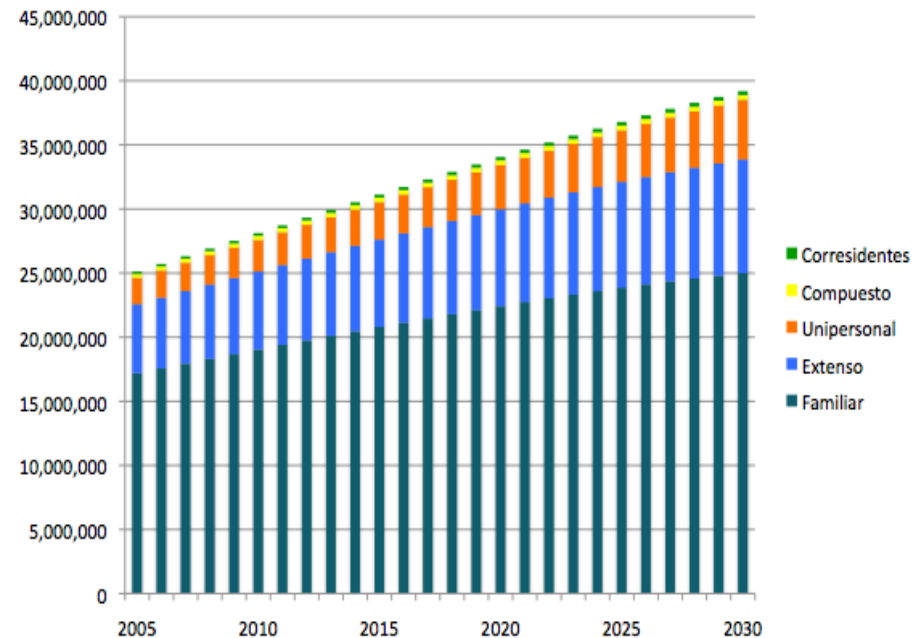


The challenge for real estate and mortgage markets in the next few years (2014-2030), will be to promote mobility and increasingly provide segmented and flexible housing products.

Household Formation 2005-2030

- 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

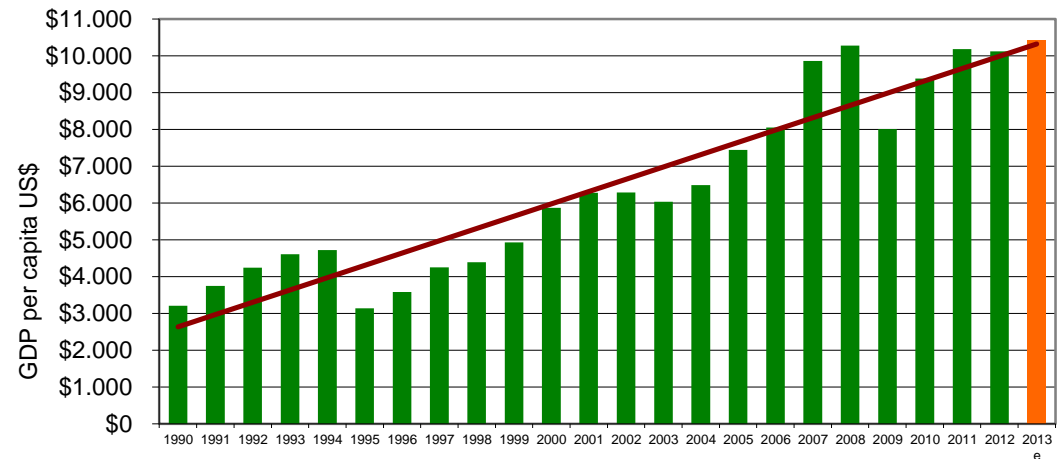
Co resident: partners

Composite: two or more families

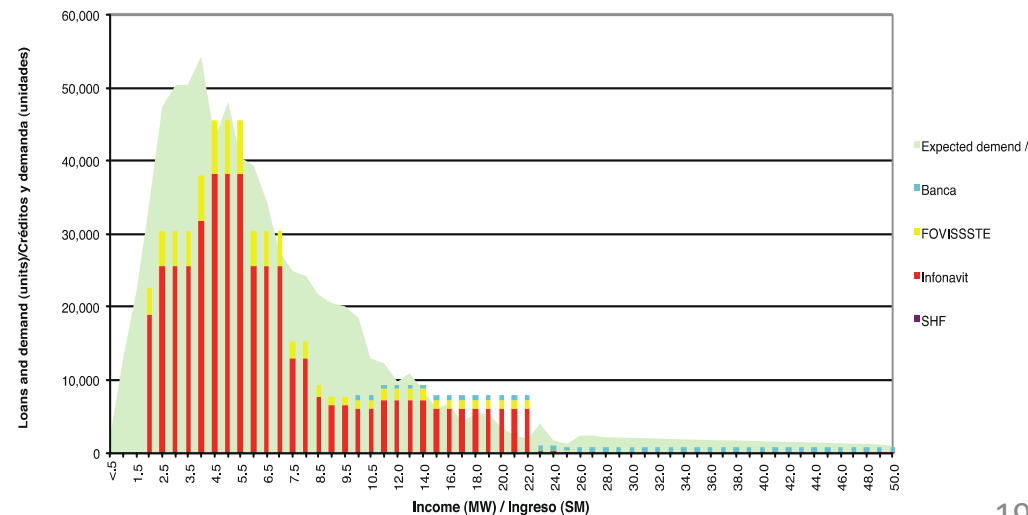
Growing Family Income

- 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

Mexico GDP per capita 1990-2013e



6.3 SHF, FOVISSSTE and INFONAVIT loan programs and expected demand for 2013
Programas de financiamiento SHF, FOVISSSTE e INFONAVIT y demanda esperada 2013



Workers and their characteristics



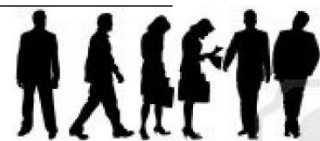
Economically Active Population (PEA)

52.67 millio



Unemployed Persons

2.43 million



Employed Persons

50.24 million

- 31 million people don't have access to social security.



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

¿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.



Middle, residential and residential plus



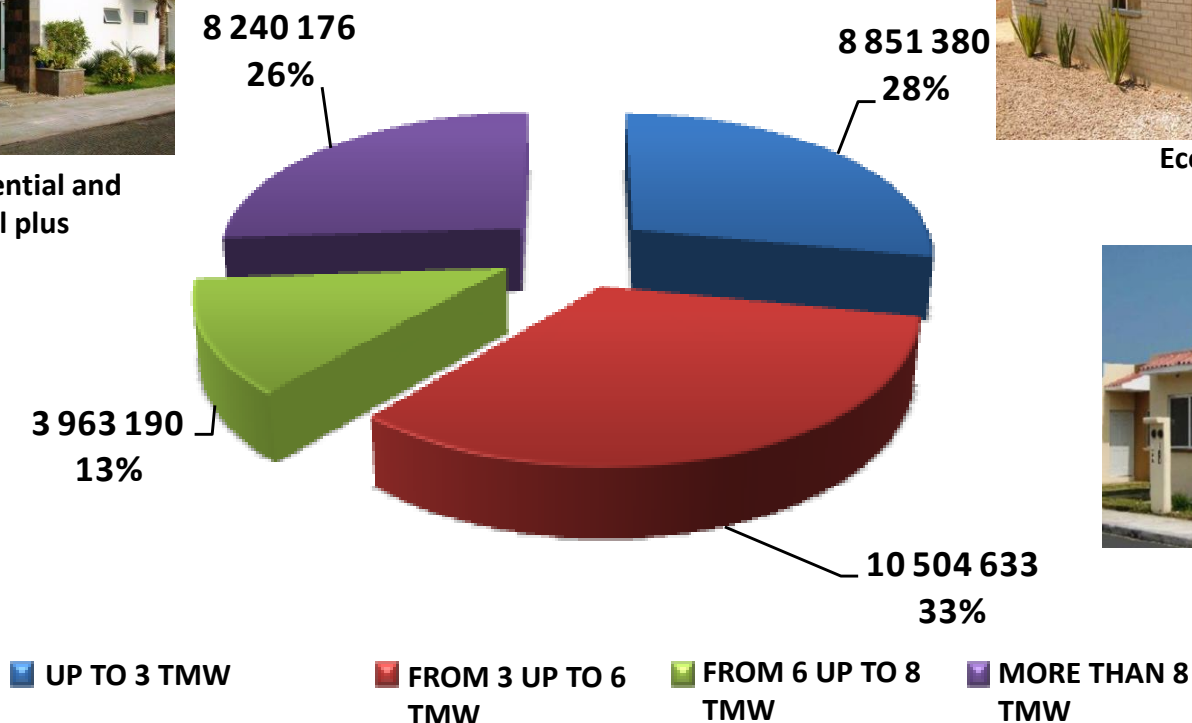
Traditional



Economic

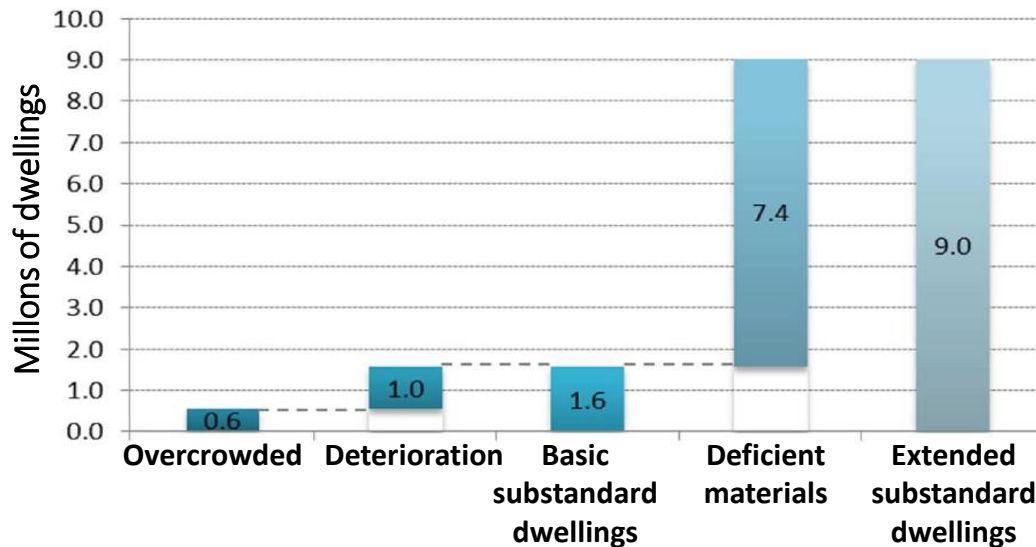


Popular



Housing Deficiencies

- Three components: overcrowding, deterioration and deficient materials.



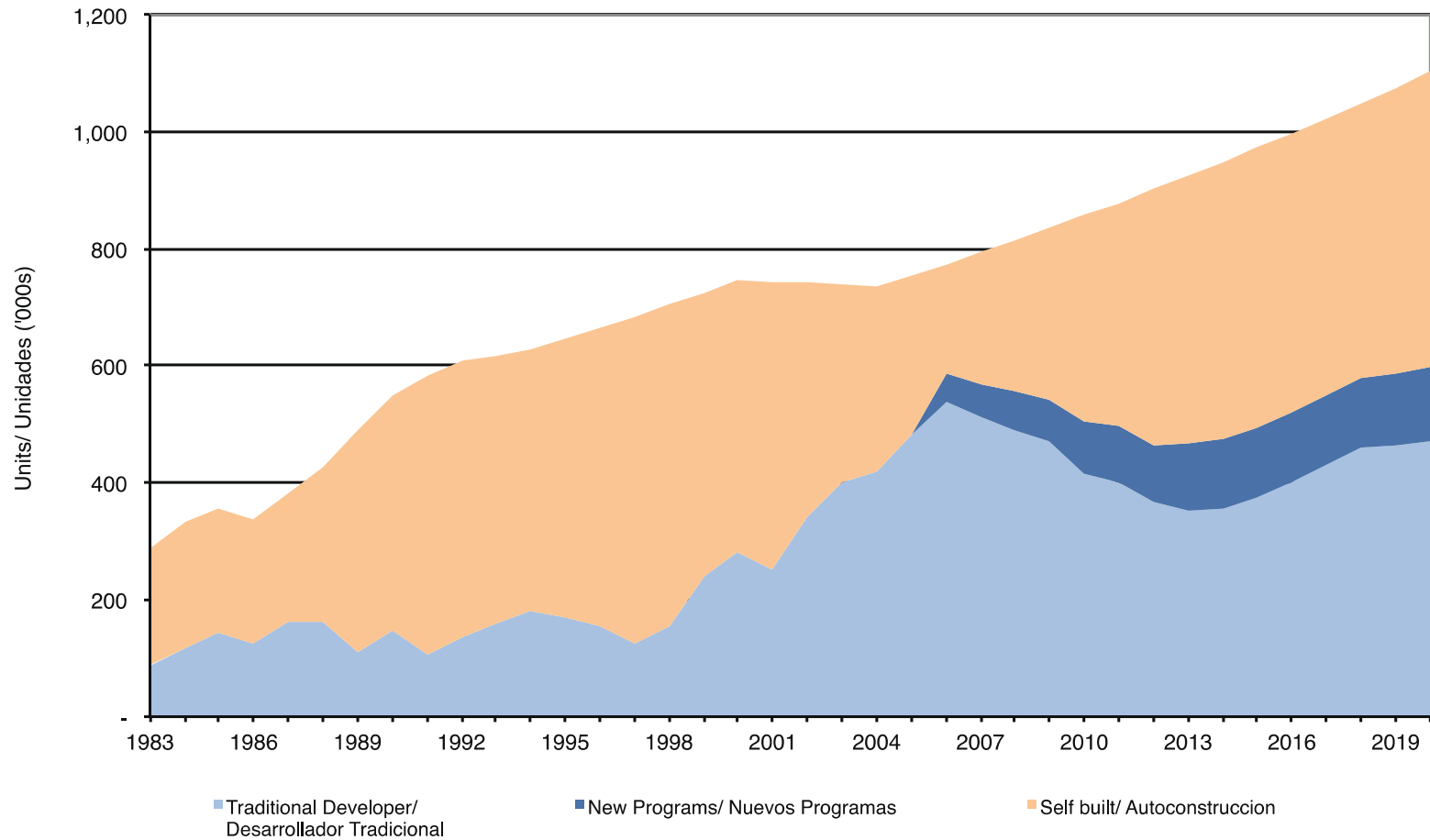
- Housing deficiencies affect 28% of total housing stock
- Rural housing deficit represents 40.9% of total. The rest are urban or transition areas.
- All of these dwellings are inhabited and are now subject to home improvement programs.

Demographic and economic scenarios

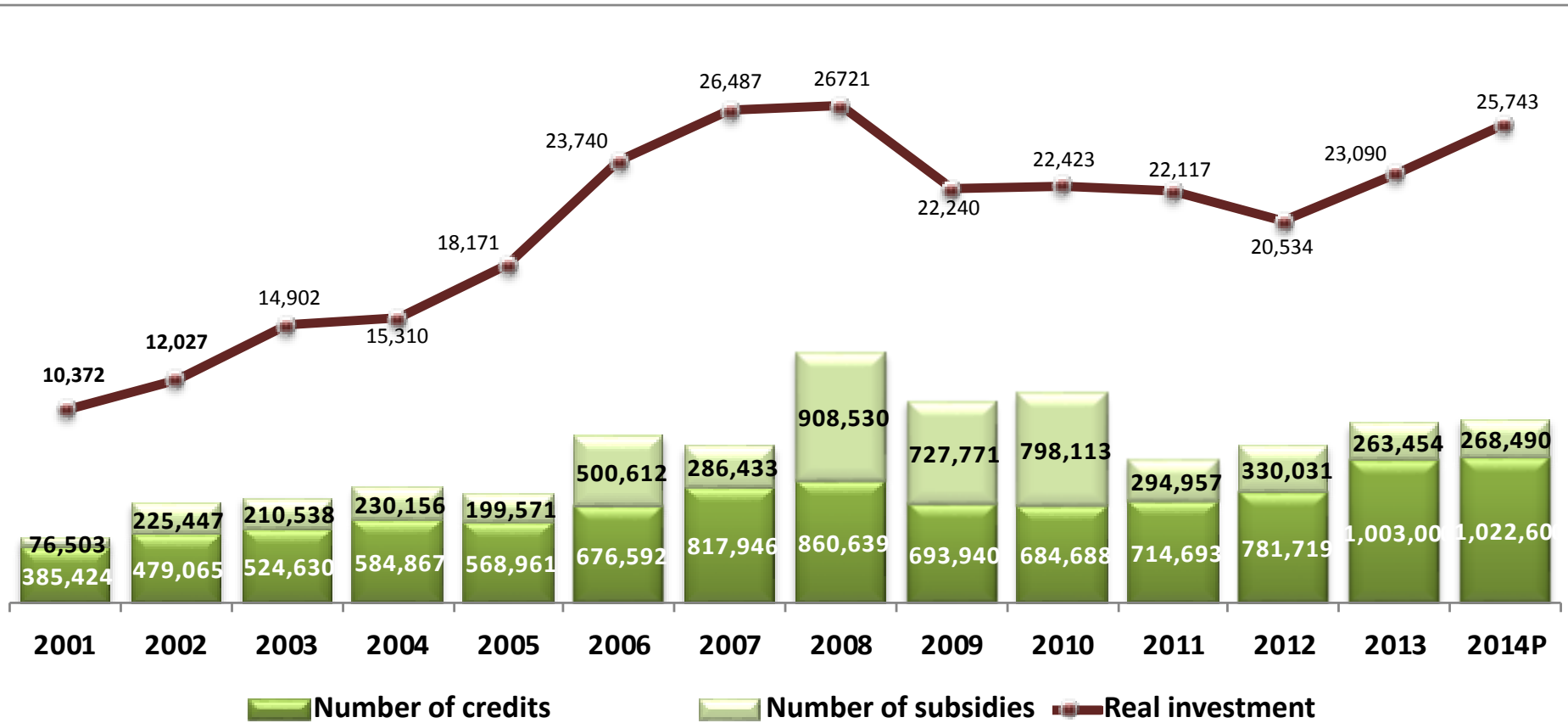
- 44 million housing stock units
- 20 million houses in Mexico's 30 largest cities
- 9 million new housing units need to be built
- Reduction in the number of houses with deficiencies
- Families' Income growth between 30 to 40%
- Middle class mobility
- Increased formal employment
- Real estate development (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



Evolution of Housing Financing



Investment in millions of USD dollars* at 2014 prices.

*\$ 13.149 Mexican pesos per US dollar.

P. Programmed.

Housing Sector Investment

2014-2018

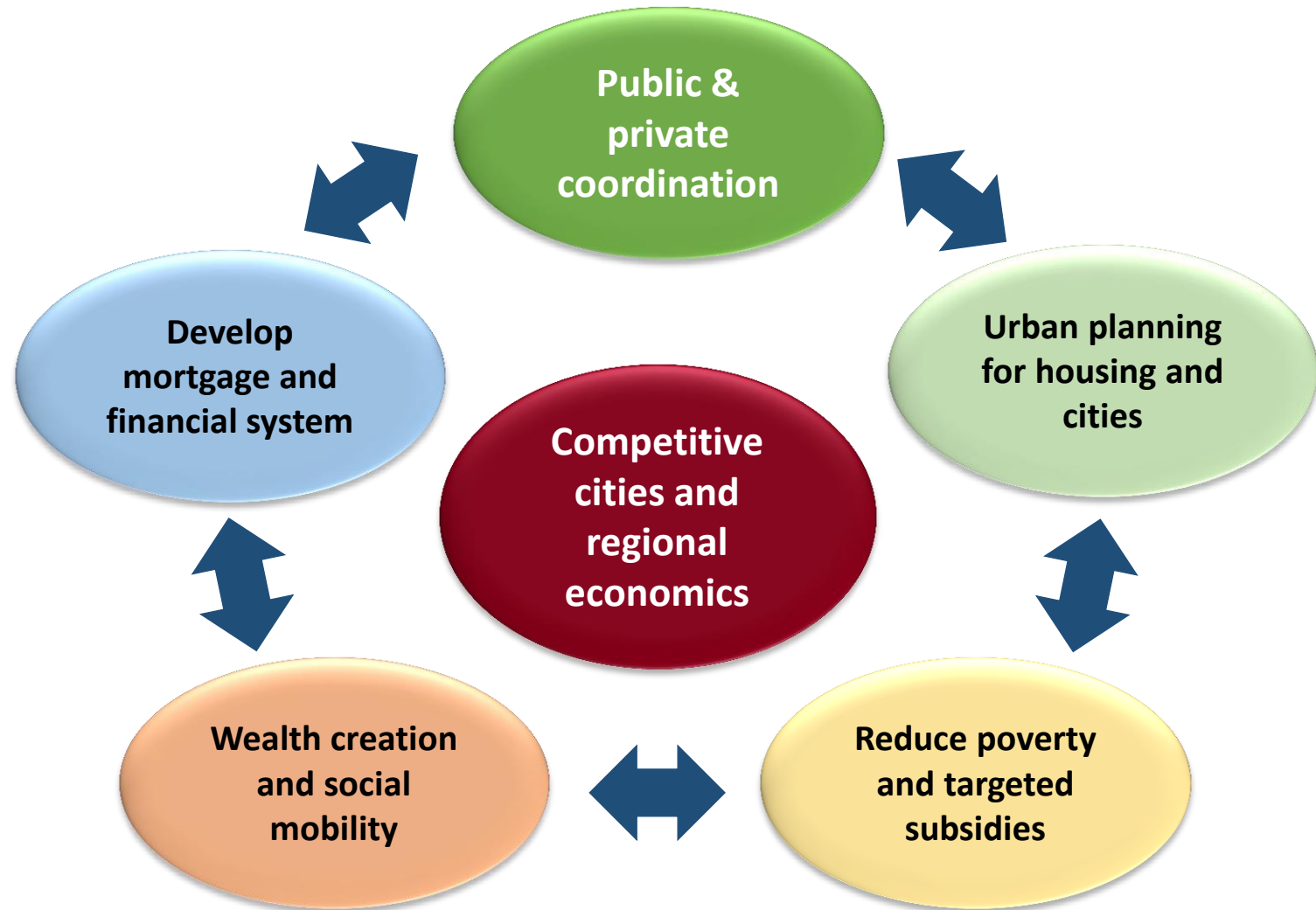
(billions of USD dollars*)

Strategy	Total Investment	"Public investment"		Private investment
		Non subsidies	Subsidies	
1. Improve housing conditions and services under sustainable and smart urban development.	8.59	2.96	5.63	
2. Reduce housing deficit by improving existing housing stock and by promoting the acquisition of new housing.	1.07		1.07	
3. Direct funding for decent and sustainable housing with territorial criteria that promote densification.	129.83	64.92		64.92
4. Promote participation of real estate developments in the national infrastructure.	1.93			1,930.5
5. Plan, achieve consensus and implement an integrated land national policy.				
TOTAL	141.42	67.88	6.69	66.8

*\$ 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

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.



BUILDING THE FUTURE

1914 100th Anniversary 2014

Munich 11-12 September 2014

Vielen Dank!



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September 12th, 2014