

REAL ESTATE

To November, mortgages grew by 5.8%

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Introduction

To November 2014, mortgage lending origination rose by 5.8% in real terms over 2013, that is, by MXN12.5bn. These resources meant that a further 3,000 mortgages were granted, a rise of 0.7% over the same period the previous year. This latest result is a consequence of Infonavit having raised the number of loans granted by 1.4%. Similarly, commercial banks granted 3.6% more mortgages than the year before. Over this period, Fovissste performed very differently, with its origination contracting by 6.5%. Nevertheless, each of these three players increased their total mortgage lending amounts. The amounts lent by public institutions are growing at the same rate, an annual 5.4%, very close to lending by banks, which is increasing by 6.3%. We associate this result with better performance in the higher value segments, since the average loan sum grew in both the public and the private sectors.

Existing housing, meanwhile, gained ground with consumer preferences. In November 2013, it made up 29.9% of the credits originated by Infonavit; a year later its share had jumped to 33.9%. This is accounted for in part by the higher demand in certain inner-city zones, where new housing is scarcer because there is less land available for building. However, note that there are differences between the regions, with some cities continuing to grow rapidly.

Table 1

Mortgage activity: number and amount of credits, to November

Mortgage Origination	Number of loans (thousands)			Amount of credit (billions Ps)			Average mortgage (thousands Ps)		
	Nov-13	Nov-14	y/y, % change	Nov-13	Nov-14	Real y/y, % change	Nov-13	Nov-14	Real y/y, % change
Public Institutions	392.8	393.7	0.2	122.9	129.6	5.4	313	329	5.2
Infonavit	335.2	339.9	1.4	91.9	97.0	5.5	274	285	4.0
Fovissste	57.6	53.8	-6.5	31.0	32.6	5.3	538	606	12.6
Private Sector	81.9	84.9	3.6	91.8	97.6	6.3	1,120	1,150	2.7
Banks ^{1/}	81.9	84.9	3.6	91.8	97.6	6.3	1,120	1,150	2.7
Otros									
Subtotal	474.8	478.6	0.8	214.7	227.2	5.8	452	475	5.0
Co-financing ^{2/} (-)	22.7	23.5	3.6						
Total	452.1	455.1	0.7	214.7	227.2	5.8	475	499	5.1
Information figures									
Total co-financing (-)	49.9	65.6	31.4	30.2	35.3	17.0	604	538	-10.9
Infonavit Total	27.2	42.1	54.5	11.2	15.4	37.6	410	365	-11.0
Other	22.7	23.5	3.6	19.0	19.9	5.0	837	849	1.4

Notes:

1/ Includes loans granted to employees.

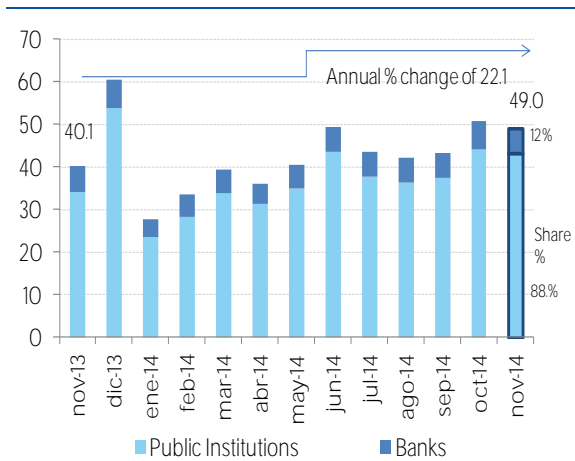
2/ Excluding "Infonavit total" and "Apoyo Infonavit" (new and existing housing). Does not include products for conversions.

Source: BBVA Research with data from Infonavit, Fovissste ABM, AHM, central bank and CNBV.

The bank continues to grow, but more slowly

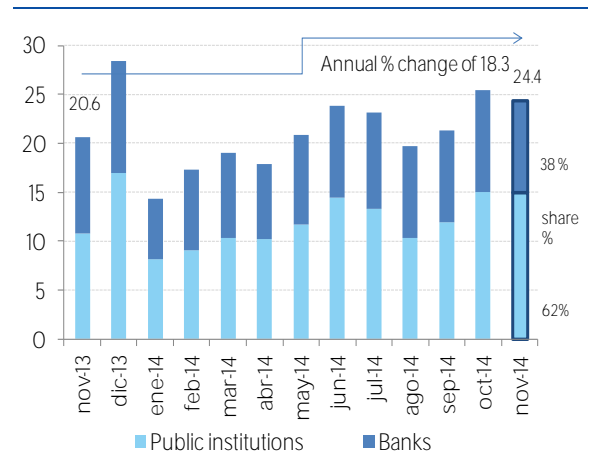
In aggregate figures to November 2014, the number of mortgages granted by private sector banks increased by 3.6%, while the amount being financed grew by 6.3% in real terms. However, in terms of the flow originated over the month there was a fall, whether it is measured by the number of loans or by the real sum originated. There are two reasons for this. First, there was a slower rate of job creation, principally those jobs paying five times the minimum wage.. Second, the base effect stimulated demand in the last quarter of 2013, when it was thought that from 2014 onwards taxes on property transactions would be hiked.

Figure 1
Number of mortgage loans per institution
'000s, % var. and share



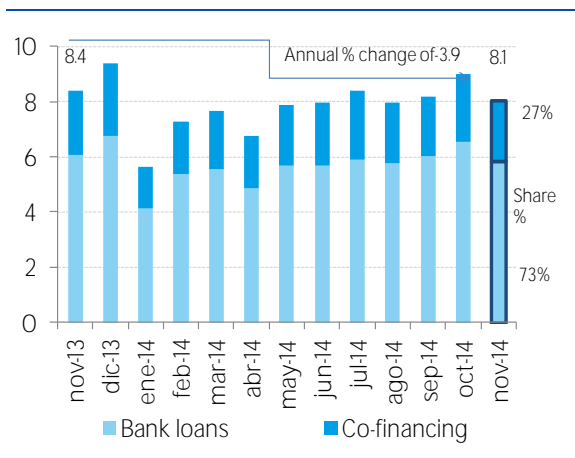
Source: BBVA Research with data from ABM, Infonavit, Fovissste

Figure 2
Total mortgage lending per institution
MXN bn at 2014 prices, var. and % share



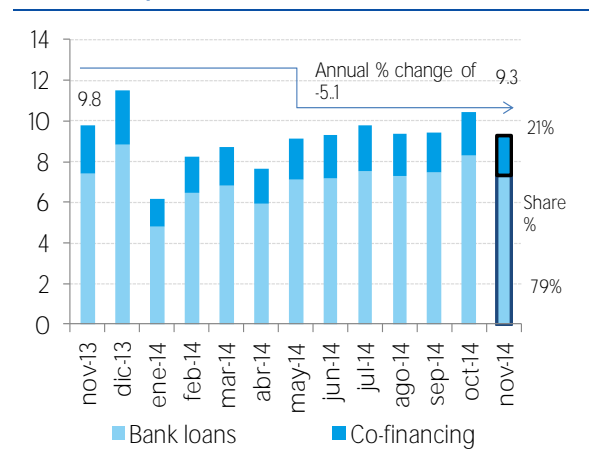
Source: BBVA Research with data from ABM, Infonavit, Fovissste

Figure 3
Commercial banking: number of mortgages by product
000s, % var. and share



Source: BBVA Research with data from la ABM

Figure 4
Commercial banking: total mortgage lending by product
MXN at 2014 prices, % var. and share



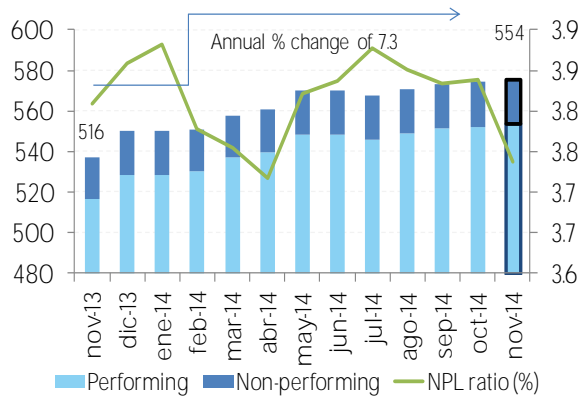
Source: BBVA Research with data from la ABM

However, we can expect to see a boost in public institutions' lending in December, a traditional response to seasonal, end-of-year effects. This may be seen principally in middle-income and residential housing, due to the increase in the credit limit granted by Infonavit. This interpretation is supported by the fact that the first segments for which the Institute has met its annual operating programme targets are the high-income ones, together with the greater share of existing housing compared with the year before. As a result, this segment of the market is appreciating if compared with new housing, according to data from *Sociedad Hipotecaria Federal*.

The balance of commercial banks' mortgage portfolios continues to grow at more than 7%, although in December the rate was slightly slower than previous months. As we mentioned above, the monthly flow of banking origination in November was actually negative, which can be verified by the lower amount of loans placed with own resources. Even when this might be influenced by the higher credit limit given to

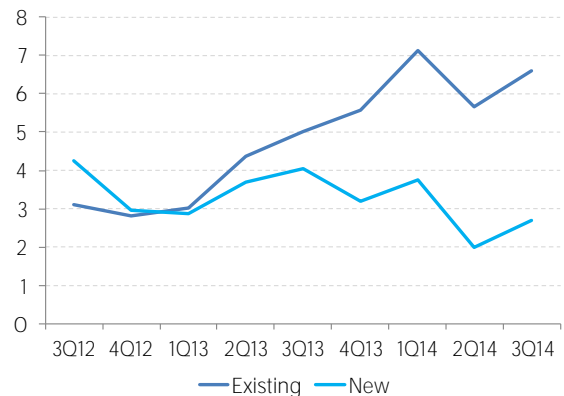
those affiliated to Infonavit, we estimate that it is having more impact because fewer jobs paying more than five times the minimum wage are being created.

Figure 5
Commercial banking: mortgage portfolio balance
MXN bn at 2014 prices and NPL (%)



Source: BBVA Research with data from Banxico

Figure 6
Housing prices by type,
% YoY var.



Source: BBVA Research with data from the Finance Ministry

Table 2
Infonavit: mortgage loans granted as of 30
November 2014 (by wage bracket, mortgages and home
improvements)

Segment	Target	Loans granted		Total	% of target
		Houses*	Refurbished		
Less than 2MW	139,284	88,978	35,394	124,372	89%
2 to 3.99 MW	197,995	122,003	62,429	184,432	93%
4 to 11.00 MW	140,449	86,797	41,875	128,672	92%
More than 11 MW	50,840	44,597	8,988	53,585	105%
Total	528,568	342,375	148,686	491,061	93%

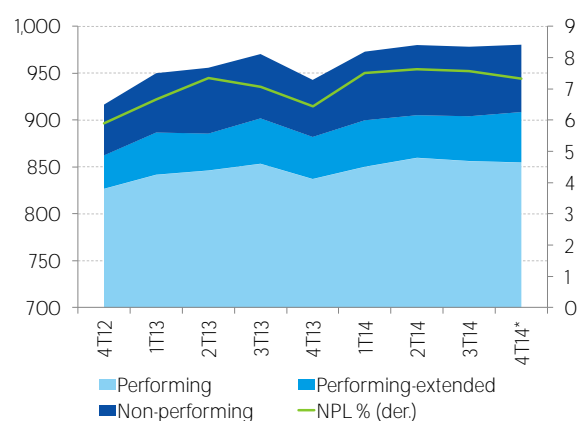
MW: Minimum wage

*Includes existing and new houses

Includes "Apoyo Infonavit". Figures do not necessarily match with those shown in chart 1

Source: BBVA Research with data from Infonavit

Figure 7
Infonavit: portfolio balances and NPL
MXN bn and %



*As of October

Source: BBVA Research with data from Infonavit

With figures to October, Infonavit's improved performance is also reflected in the growth of its portfolio balance. As a consequence of this, the non-performing loan rate has been kept below 8%.

More construction, supported by subsidies

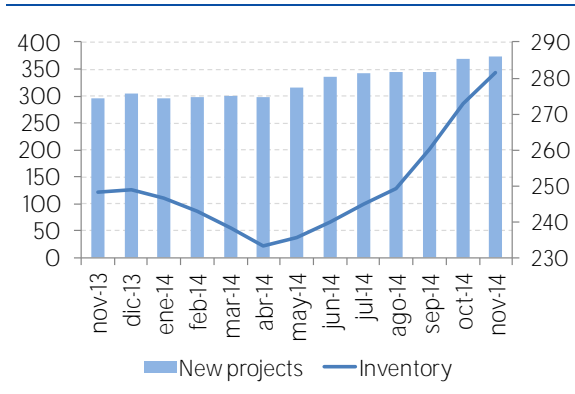
The recovery in housing construction was visible by the second half of 2014. However, most of the recovery has been in those states with the largest metropolitan areas, but also in those where there is less demand for existing housing, and where most subsidies have flowed in the last two years. For example, from 2013 to 2014, the states of Quintana Roo, Hidalgo, Jalisco, Nuevo León and Querétaro have had the lowest shares of existing housing demand in the country (around 15% on average). Of these states, Nuevo León, Jalisco and Quintana Roo accounted for 22% of the subsidies given in 2013 and nearly 30%

of the in 2014. This is consistent with the fact that 34% of the permits for new projects in the RUV register are assigned to these states.

On the contrary, in the central states, where less land is available and where the preference for existing housing is more than 34% (the national average as of November 2014), subsidies play a smaller role. This is the case in Guerrero, Morelos, Zacatecas, Tlaxcala and Campeche, the destinations for only 6% of subsidies in 2013 and less than 3% of the subsidies granted in the first eleven months of 2014.

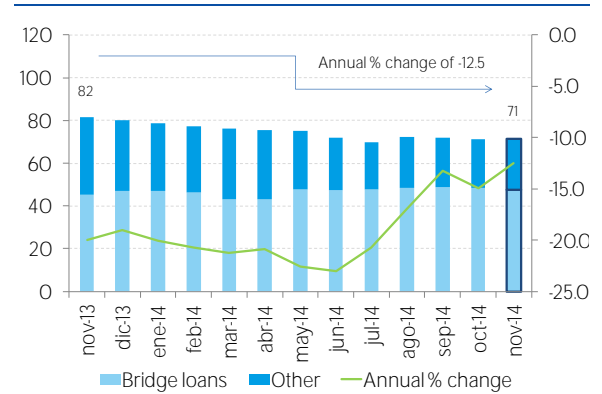
To November 2014, the inventory for finished housing contained 281,000 units, while the registers for new projects came to 373,000 homes, (both in annualised figures). This recovery in construction in the country's principal regions has increased the balance of bridging loans, which have been growing since May. Nevertheless, this is not enough to reverse the trend in the total balance of credit to construction, which fell by 12.5% in real terms.

Figure 8
New projects and inventory for new housing, '000s of units in annualised figures



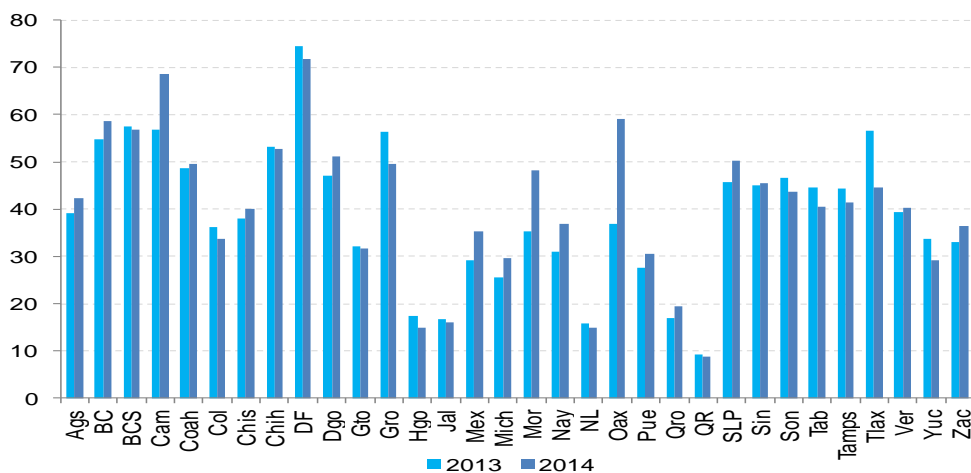
Source: BBVA Research with data from RUV

Figure 9
Credit for residential building: total portfolio MXN bn, at 2014 prices and % real YoY var.



Source: BBVA Research with data from the CNBV

Figure 10
Infonavit: mortgage loans originated for existing housing % share of total, accumulated, November



The 2015 National Housing Policy will help the sector

The National Housing Policy was presented on 21 January, and will be positive for both the demand- and supply-sides. For the latter, there are tax breaks so that construction firms can pay their taxes as their projects are put up for sale and thus avoid having to pay for the entire project upfront. This will be particularly beneficial for small construction companies, which will be able to reinvest their capital more efficiently; it also encourages the building of smaller developments, as well as allowing producers to switch between segments more nimbly. Demand will strengthen, because Infonavit will only be originating loans in Mexican pesos, thus eradicating the risk of negative amortisation and reducing the interest rate, meaning that it comes closer to the banking sector's offering. In the case of those signed up with Fovissste, they will not have to wait to win a lottery to get a mortgage. Together with the above, those who have accounts in both institutions will be able to pool their balance and exercise their right to take out a mortgage with whichever they choose. We believe that these measures will help to keep the housing market on track in 2015.

The National Housing Policy is important, because of its impact on both the economy and households' standard of living, inasmuch as it covers a basic necessity. There is evidence of its economic relevance in the Mexican Housing Satellite Account published this Thursday by INEGI. For example, housing contributes 5.9% to total GDP, more than activities such as agriculture and educational services. It also generates 3 million jobs throughout the economy. The publication of this Satellite Account will help to design better public policies and also enable private agents to plan and fund housing supply more effectively.

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