

Real Estate

As of May, mortgage loans have advanced 20%

Fernando Balbuena / Samuel Vázquez

Introduction

As of May 2015, the number of mortgages had risen by 19.7% with respect to the same period in 2014, while the sum financed climbed by 21.4% in real terms. Although both the banks and the public housing agencies are growing apace, the latter advanced by over 20% in terms of both number and amount. Most notably, there was an acceleration by the agencies in terms of the average mortgage, which rose by 5.6%, whereas banks only showed an average mortgage 1.2% higher than in May last year.

Infonavit has beaten its annual operating programme as of May as regards all of its components, although it did so with greater emphasis on granting financing for new homes, which resulted from the mix of financial incentives that have encouraged construction, though also from demand at all wage levels. The stimulus has come from the change in loan denomination to pesos, which in turn entails a lower interest rate, as well as an increase in the credit limit. Fovissste is keeping up growth within the middle-income and residential segments. As of May, the number of loans had increased by 19.3%, with a sum financed some 23.3% higher than over the same time in 2014. The fund has authorised individual loans to values of over MXN4mn and expects to make a start on offering second loans at the end of this year, as well as its new product, *Fovissste-Infonavit Individual*.

Table 1

Mortgage activity: number and amount of loans, as of May

Mortgage Origination	Number of loans (thousands)			Amount of credit (billions Ps)			Average mortgage (thousands Ps)		
	May-14	May-15	y/y, % change	May-14	May-15	Real y/y, % change	May-14	May-15	Real y/y, % change
Public Institutions	151.4	182.8	20.7	49.6	63.2	27.5	328	346	5.6
Infonavit	127.6	154.4	21.0	35.7	46.1	29.1	280	299	6.7
Fovissste	23.8	28.4	19.3	13.9	17.1	23.3	582	602	3.3
Private Sector	35.3	39.7	12.6	40.0	45.6	13.9	1,134	1,147	1.2
Banks ^{1/}	35.3	39.7	12.6	40.0	45.6	13.9	1,134	1,147	1.2
Otros									
Subtotal	186.7	222.5	19.2	89.6	108.8	21.4	480	489	1.9
Co-financing ^{2/} (-)	9.7	10.6	9.1						
Total	177.0	211.9	19.7	89.6	108.8	21.4	506	513	1.4
Information figures									
Total co-financing (-)	37.9	16.6	-56.3	17.3	11.7	-32.1	456	708	55.2
<i>Infonavit Total</i>	28.2	6.0	-78.7	9.3	2.5	-73.6	329	408	24.1
<i>Other</i>	9.7	10.6	9.1	8.0	9.3	15.9	827	878	6.2

1/ The "banks" item includes loans granted to employees by the financial institutions.

2/ Omitting *Infonavit total* and *Apoyo Infonavit* (New and existing homes). Does not include products for renovations.

Source: BBVA Research with Infonavit, Fovissste ABM, Banco de México and CNBV data.

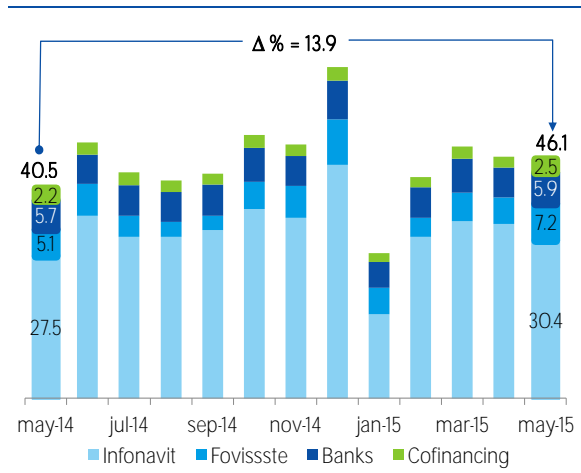
The housing agencies are surpassing their financing programmes

In May 2015, the housing agencies have kept up a double-digit growth rate. The raising of the upper limit on financing, which is now done in terms of pesos rather than multiples of the minimum wage, as well as a fall in the interest rate, has encouraged workers to boost demand by choosing one or other of the housing solutions on offer. Infonavit has surpassed its Annual Operating Programme this month, in terms of both the number of transactions and the sum financed for purchase and improvement loans. Within this process, the demand for new housing spiked and has regained a share of the origination at this juncture, as demand of

this kind has grown in those states where there is a greater chance for the urban sprawl to extend further. Nonetheless, the fact that (in 20 of the country's 32 states) 34% or more of the loans granted by Infonavit as of May was for existing homes illustrates consumer preference for this market, perhaps because a large amount of new housing, with certain exceptions, is still being built in zones away from urban population clusters, which would mean high costs for inhabitants.

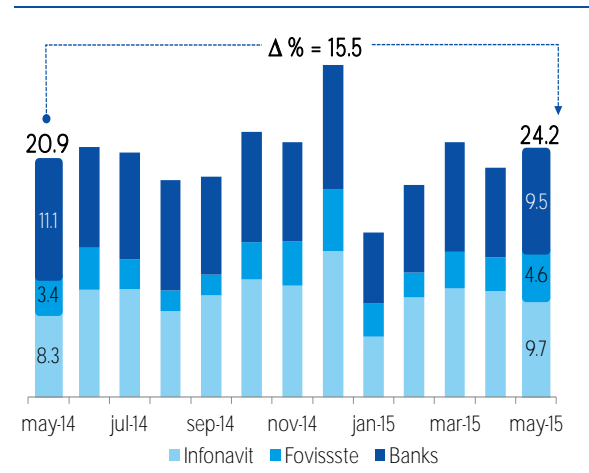
In the case of Fovissste, the sum financed is still very dynamic, although it exhibits a lower rate than does Infonavit, due to the fact that Fovissste began to grant larger loan amounts for the state workers. In the month reviewed, the average Fovissste mortgage climbed to over MXN600,000, which means that this now stands firmly within the middle-income segment.

Figure 1
Monthly mortgage origination by organisation
Thousand loans and YoY % change



Source: BBVA Research with Infonavit, Fovissste and ABM data

Figure 2
Monthly mortgage origination by organisation
Real MXN bn and YoY % change

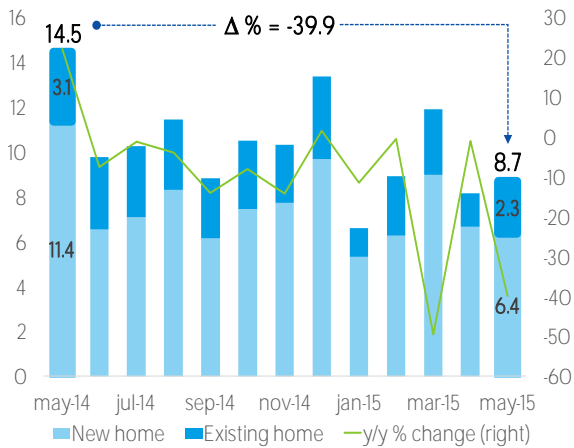


Source: BBVA Research with Infonavit, Fovissste and ABM data

The banks are also growing rapidly owing to greater diversification

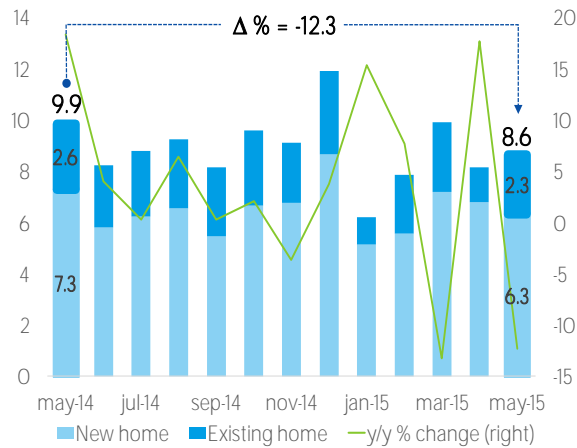
Origination by the commercial banks continued to rise in terms of the amount involved as of May 2015, although it did so more slowly compared to the first four months of the year. On this occasion, the number of loans rose by 19.2% and the sum financed did so by 21.4% in real terms. This was reflected in a rise in the average amount of only a real 1.2%. It is also important to point out here that a large part of this growth is attributable to greater competition as regards interest rate and loan period, which gave rise to a greater number of financings within the loan-switching category which, as of May, represented a little over 10% of total funds granted, and where this does not involve loans for buying. According to figures from the CNBV, the amount of financing that goes towards buying housing (new and existing) dropped 12.3%, which ought to confirm that demand stabilised in May.

Figure 3
Purchase loans from the banks
Thousand loans and YoY % change



Source: BBVA Research with CNBV data

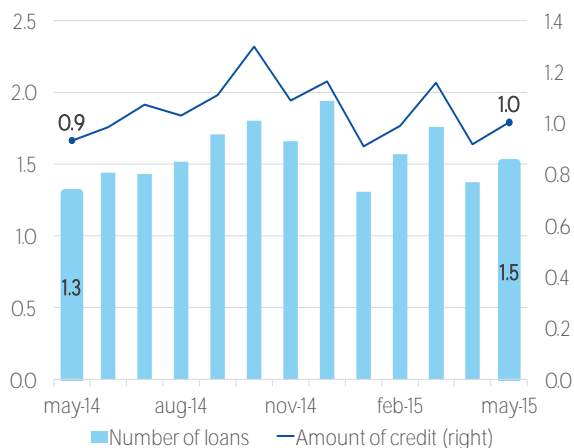
Figure 4
Purchase loans from the banks
Real MXN bn and YoY % change



Source: BBVA Research with CNBV data

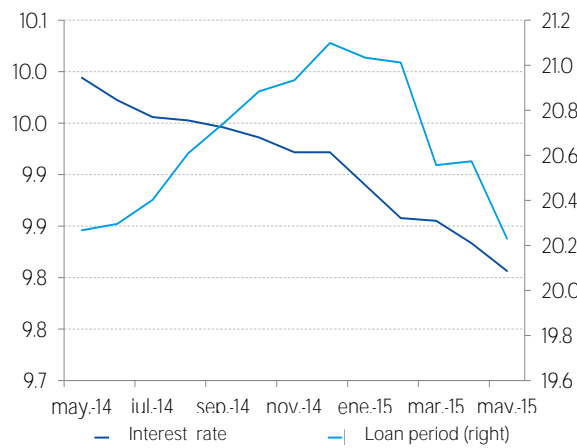
Growth by the banks is due to the broad range of products they offer since, in the specific case of purchase loans, variation is on a downward path. Both the number and the amount involved in home-buying loans, for either new or existing housing, was lower in May compared to the same month the previous year. In contrast, mortgage loan origination for loan-switching and cash purposes continues to rise, together with credits for building work and renovations. Among the banks, loan terms are still improving on account of a lower interest rate, although average loan periods are coming back to 20 years.

Figure 5
Origination for loan-switching and cash purposes
Annual % change



Source: BBVA Research with CNBV data

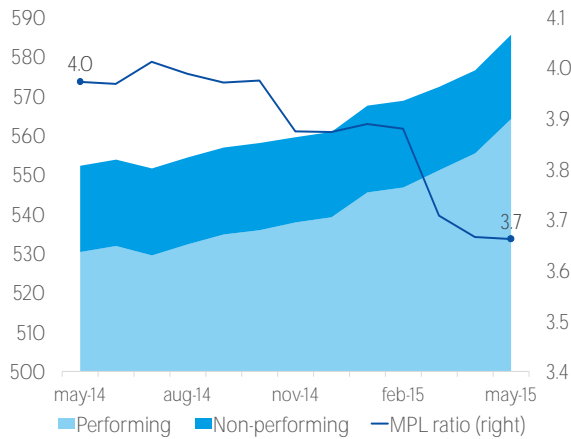
Figure 6
Bank mortgage loan terms
Annual interest rate and loan period in years



Source: BBVA Research with CNBV data

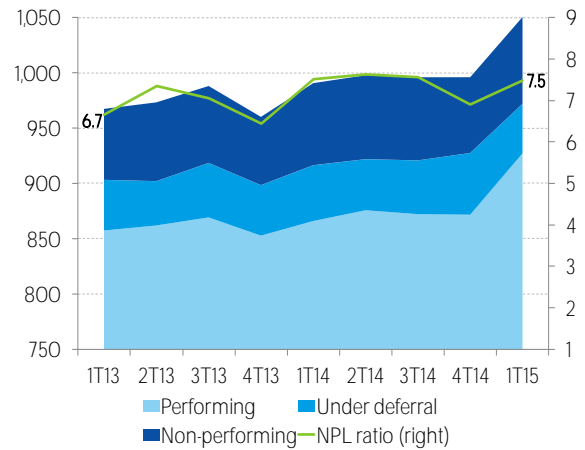
The result of the greater origination that we note in May is that the portfolio balances for the banks and Infonavit are rising significantly. The commercial banks have already exceeded MXN580bn, while Infonavit already has a portfolio in excess of MXN1trn. If we include Fovissste, which has a portfolio of over MXN150bn, and other players the total value of the mortgage portfolio in Mexico is c.MXN2trn.

Figure 7
Balance of bank mortgage loans
 MXN bn and default rate



Source: BBVA Research with CNBV data

Figure 8
Balance of Infonavit mortgage loans
 MXN bn and default rate



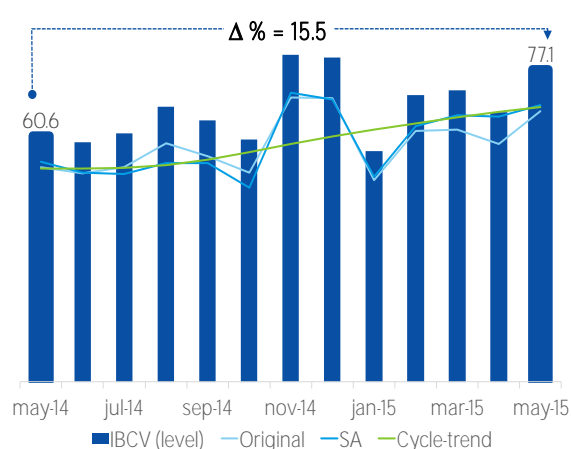
Source: BBVA Research with infonavit data

The result of higher demand for the first five months of the year, in combination with a reduction in the past-due portfolio balance, brought the default rate down from 3.7% in January to 3.5% in May. As regards Infonavit, real growth of 5.7% in the past-due portfolio at the close of Q1 pushed the default rate up from 6.9% in December 2014 to 7.5% in March 2015.

Looking to the future, demand shows positive signs

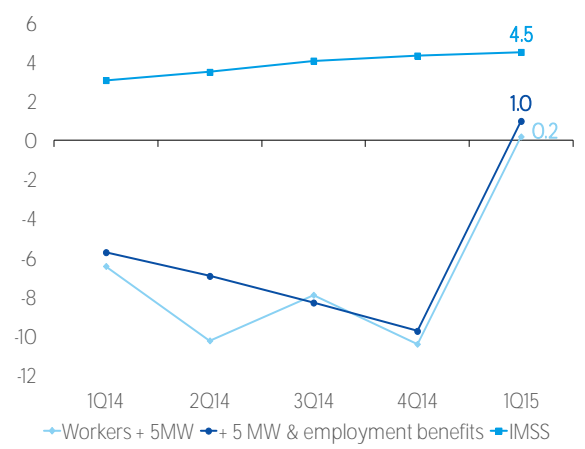
Based on the information offered by Inegi with respect to consumer expectations regarding the housing market, as at May we can observe that there is a recovery in the trend among families in favour of buying, building or renovating homes. The three indicators from Inegi show a rise in such expectations from levels slightly above 50 points to over 60. For the index which we propose, which is adjusted for the volume of people who respond positively, the advance is even more significant.

Figure 9
Housing Confidence Index
 Base: 2003=100



Source: BBVA Research with Inegi data

Figure 10
People in work by contract type
 Annual % change



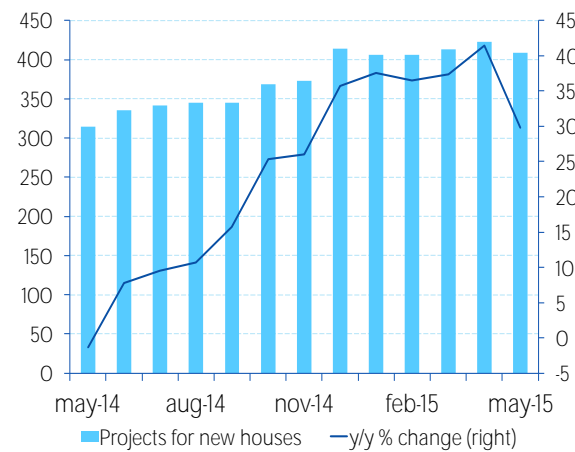
Source: BBVA Research with Inegi data

Together with consumer confidence regarding the housing market, we have already also seen a recovery in employment among people with earnings of over five times the minimum wage in Q1, as well as among those with social security cover. After several quarters where the variation had been negative, we are now seeing a positive annual rate. We expect these figures to be reflected positively in the market over the next 12 months.

New project registrations are stabilising with the lower level of price rises

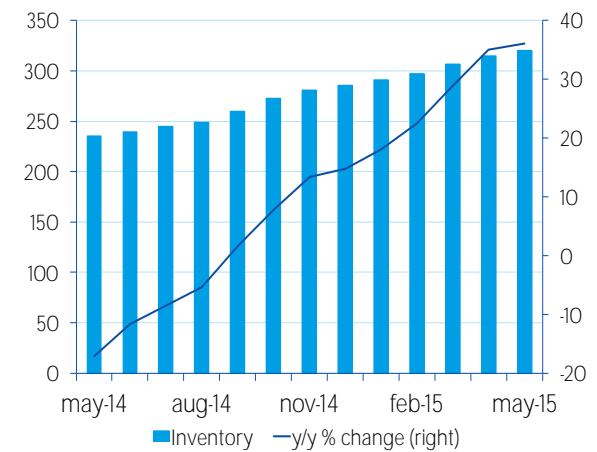
New project registration for housing construction appears to be stabilising. In spite of this, inventories could be rising rapidly, which is happening in combination with slower appreciation rates in certain regions. As of May 2015, the number of registrations for housing construction filed with the National Housing Register (RUV) climbed by 29.8% in annualised figures. Even though, as we have mentioned before, around one-third of registrations have entered the construction process, inventories, which is an item that does take completed housing into account, also rose considerably. As of May 2015, the number of inventory units stood at 320,000, while in May 2014 this was at a level approaching 235,000. This 36% increase over the period, which equates to almost 85,000 additional homes, could explain the lower rate of appreciation of real estate prices in certain regions. For example, in the states of Nuevo León and Jalisco, which account for almost 30% of housing construction registrations nationwide, an inventory level was reached which had not been seen since 2011. Other states which fall into the same group are: Quintana Roo, Baja California Sur, Chihuahua, Coahuila and Colima. In 1Q15, housing prices in these states rose by 0.1% YoY at the most.

Figure 11
New project registration with the RUV
 Thousands of new projects and YoY % change



Source: BBVA Research with RUV data

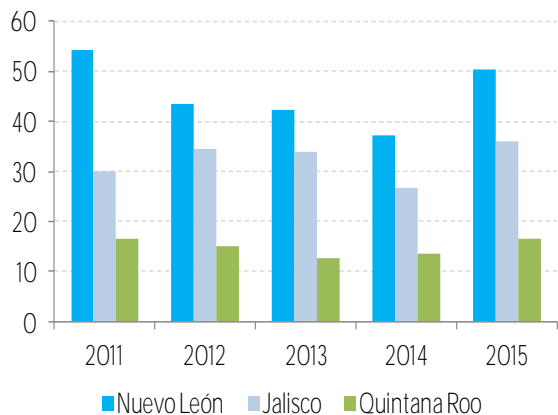
Figure 12
Housing inventory filed with the RUV
 Thousand completed homes and YoY % change



Source: BBVA Research with RUV data

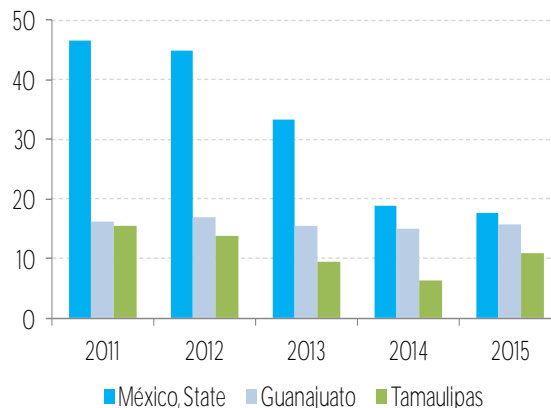
On the other hand, in the State of Mexico, Guanajuato and Tamaulipas, where inventories have held more stable, the rate of appreciation has also been on the high side. In other states, such as Aguascalientes, Zacatecas and Tabasco, where appreciation showed levels of between 2.5% and 4.2% YoY, inventories have also recovered, but at stable rates. In conclusion, a lower general appreciation rate could be partly explained by the pick-up in the pace of construction, i.e. supply has grown more relative to demand in the short term, mainly in the new housing market.

Figure 13
New housing inventory
Thousands of units in annualised figures



Source: BBVA Research with RUV data

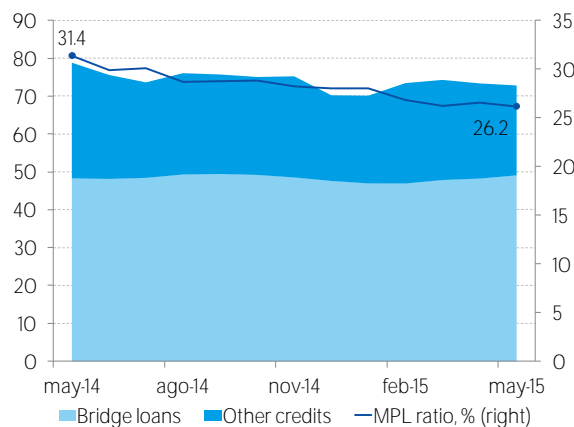
Figure 14
New housing inventory
Thousands of units in annualised figures



Source: BBVA Research with RUV data

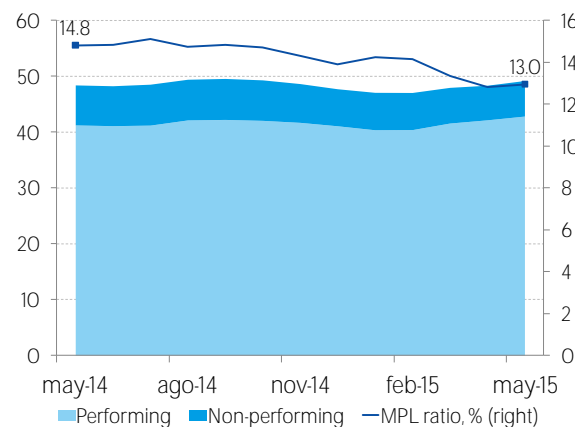
The reactivation of large-scale construction in certain regions is also reflected in a drop in the default rate within the developer construction loan portfolio, which grew by 5.3% on average between February and May, mainly due to growth in the performing loan portfolio and a 10% reduction in the past-due component over the same period.

Figure 15
Balance of residential construction loans
MXN bn and default rate



Source: BBVA Research with CNBV data

Figure 16
Developer construction loan balance
MXN bn and default rate



Source: BBVA Research with CNBV data

Housing market dynamics are reflected in a smaller backlog

The Sociedad Hipotecaria Federal (SHF) today released the results for the 2014 housing deficit. The number of households facing deficient conditions fell from 9.7 million in 2012 to 8.9 million in 2014, which represents a reduction of 7.5%. It should also be noted that in this same space of time the number of households increased from 31.4 million to 31.7 million, for which reason the deficit in relation to total households was narrowed by 2.6 percentage points.

The location of households in deficient housing conditions is practically the same as in 2012, and it was those households located in urban and developing areas that experienced a proportionally greater

improvement. Likewise, the share of total households in inadequate living conditions represented by those classified as low-income (0 to 2 times the minimum wage) and not registered with the social security also fell. Overcrowded households¹ were down by 7.2% compared to 2012, while those in conditions considered deficient owing to impairment of the building² and sub-standard building materials³ came down by 6.3% and 7.7% respectively.

Housing will continue growth in the next few months

The results observed for the first five months of 2015 will not be a one-off. We estimate that the progress will be kept up over the whole year, although this could be at a more sedate pace. Infonavit continues to drive the market with all the changes which we have already described, although it recently announced that it is lowering the interest rate on second loans from Infonavit from 11.7% to 10.8%, which it hopes will benefit around 370,000 eligible borrowers. In this respect too, the higher budget for Conavi subsidies will have a positive effect on the social housing segment. And just to round off this scenario, jobs which stand a greater chance of accessing loans are already on the rise.

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¹ When two or more households share housing.

² When the building material used in the walls contains: waste material, cardboard, reed, bamboo, palm, mud or wattle and daub. In roofs: waste material, cardboard, palm or straw.

³ The material in the walls consists of: metal or asbestos sheeting, wood or adobe. In roofs: metal or asbestos sheeting, wood, shingle or tiling.