

Mexico Real Estate Flash

The hand that rocks the cradle in the mortgage market

When the mortgage and housing sector in Mexico is mentioned, people often think first of the activity carried out by the official housing institutions, Infonavit and Fovissste. These two institutions certainly provide the highest volume of mortgages. However, in terms of total financing, market dynamics have largely been shaped in recent years by bank activity. The mid and high income segments covered by banks should receive a greater amount of attention from the agents taking part in the sector.

- **The banking sector, an increasingly important player**

Measured through their participation in mortgage financing, banks have become significantly more important over the last few years. In late 2009, banks accounted for 29.6% of total finance granted through the financial system; by the end of 2012, the percentage had grown to 37%.

During this period, there were also a number of factors which contributed to this growth. On the one hand, lower participation by the Sofoles, which in 2008 channeled 24.3 billion pesos to the sector, a figure which in 2012 fell to 0.6 billion pesos, in real terms. The number of mortgage loans placed by official housing institutions also fell during the period, from 547,000 in 2009 to 486,000 in 2012; consequently, total finance by these institutions went from 151 bn pesos to 142 bn pesos, at constant prices. Neither of these two factors, however, dampened the increase in bank activity in recent years: from the second half of 2010 until February 2013, average annual growth in financing has been 12.8% in real terms, from 57 billion pesos to 83 bn pesos, in constant prices.

This growth is evidently not due to banks' occupying the space left by the Sofoles, as the latter covered the medium low income segments. Banking activity has increased not only in the number of loans granted but particularly in the average sum of each mortgage, which went from 726,000 in 2009, to 996,000 in 2013 (to February). In other words, banks have increasingly focused on the medium and high income segments. The medium and residential segment housing went from accounting for 63% of bank financing in 2011 to 86% in early 2013.

- **Financial stability and economic growth, key factors for mortgage lending**

One reason for the growth in banks' mortgage lending is the financing available, in other words, the supply of credit. The competition between banks gives rise to lending with increasingly low interest rates, which are currently at their lowest levels. However, the demand for credit is the most important factor. This demand has remained strong not only due to the improved lending conditions, but also to increased employment. Between 2011 and 2012, demand for credit grew 4.5%, when the Mexican economy overall did so by 3.9%. Over these two years, an average of 670,000 jobs were created in the private sector, when in the previous decade the annual average had been 210,000 (380,000 not including the years in which employment fell).

Furthermore, the outlook for the mortgage market remains optimistic. First, because interest rates remain stable, with a downward tendency (given the outlook for an improvement in the sovereign debt rating by the rating agencies). Second, economic activity continues to rise, underpinned both by the stronger domestic market and greater industrial integration between Mexico and the United States; in fact, it is interesting to note that Mexican exports to the USA rose by an average of 16% between 2010 and 2012. Lastly, the quality of the mortgage portfolio remains under control, with the NPL ratio below 3.5%.

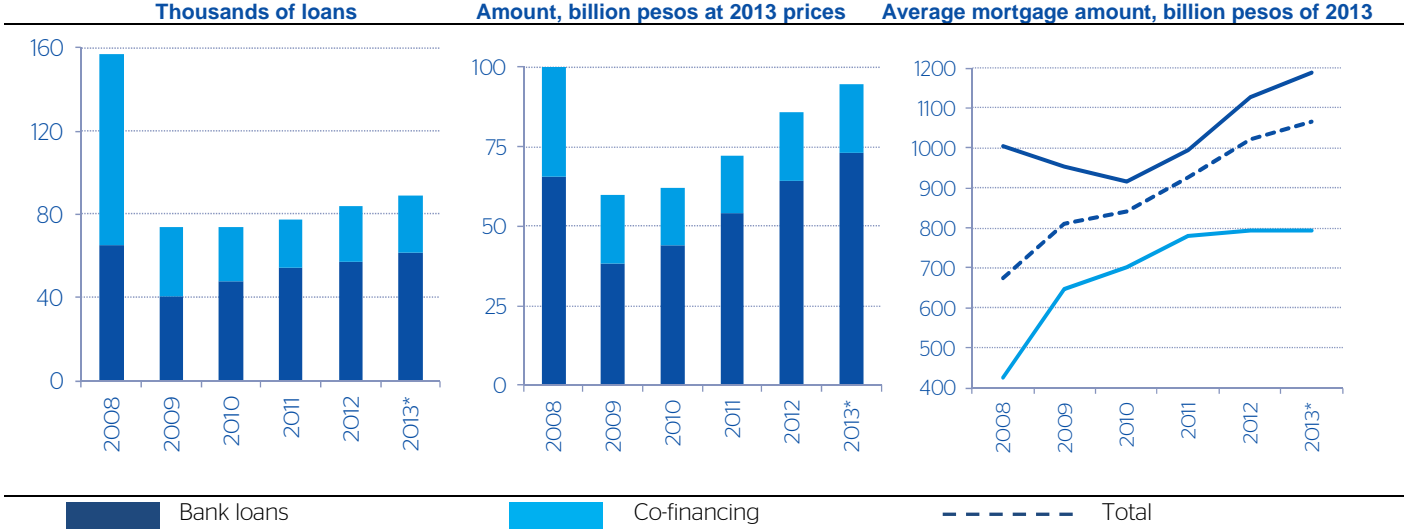
- **Small and medium sized construction companies, in the best position to grow**

Growth in mortgage activity in recent years has been focused on segments which are not directly linked to support programs by the government, nor do they represent the core market for the most important construction companies.

It is small and medium-sized construction companies which take part in the medium and high segments market. In fact, the guarantees program promoted by the federal government, through the SHF, could further strengthen the position of these latter construction companies, which perhaps have a relatively short track record with banks, and which can improve their credit profile through this program. Ultimately, this could prove very beneficial for the market in general, by creating a stronger specialized offer with greater capacity to appropriately cover the requirements and trends of demand.

Chart 1 - 3

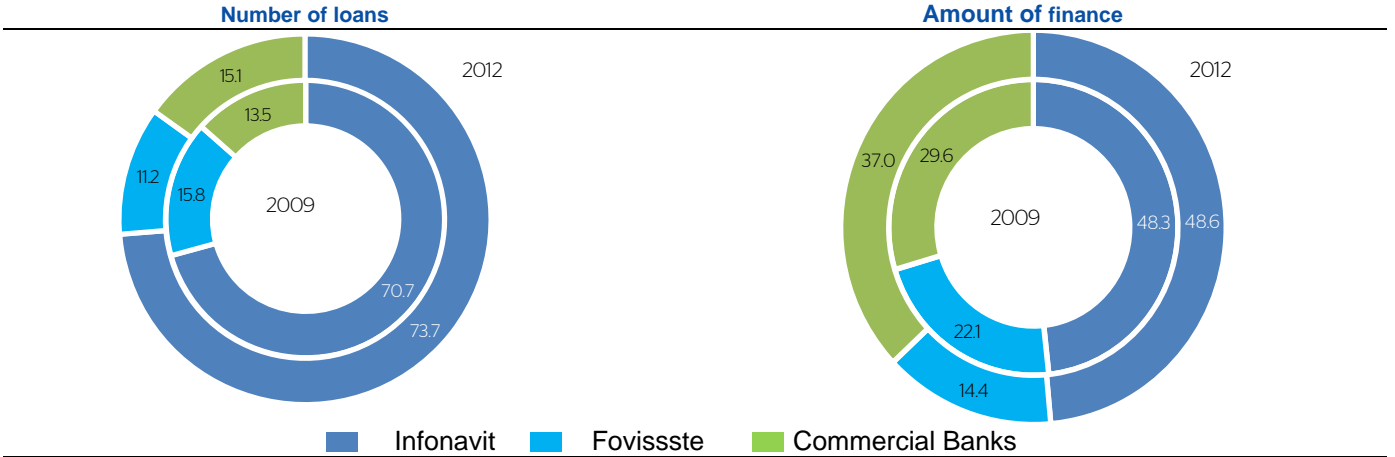
Mortgage loans granted by commercial banks, annualized figures



* To January
Source: BBVA Research with Federal Mortgage Society (ABM) data

Chart 4 and 5

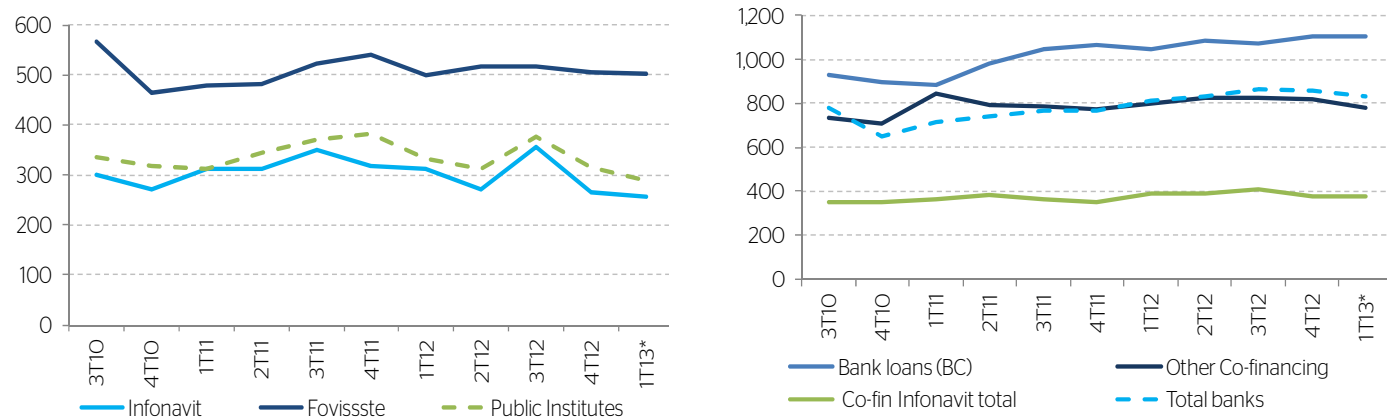
Mortgage financing, participation % by institution



* To January
Source: BBVA Research with ABM, Infonavit and Fovissste data

Chart 6 and 7

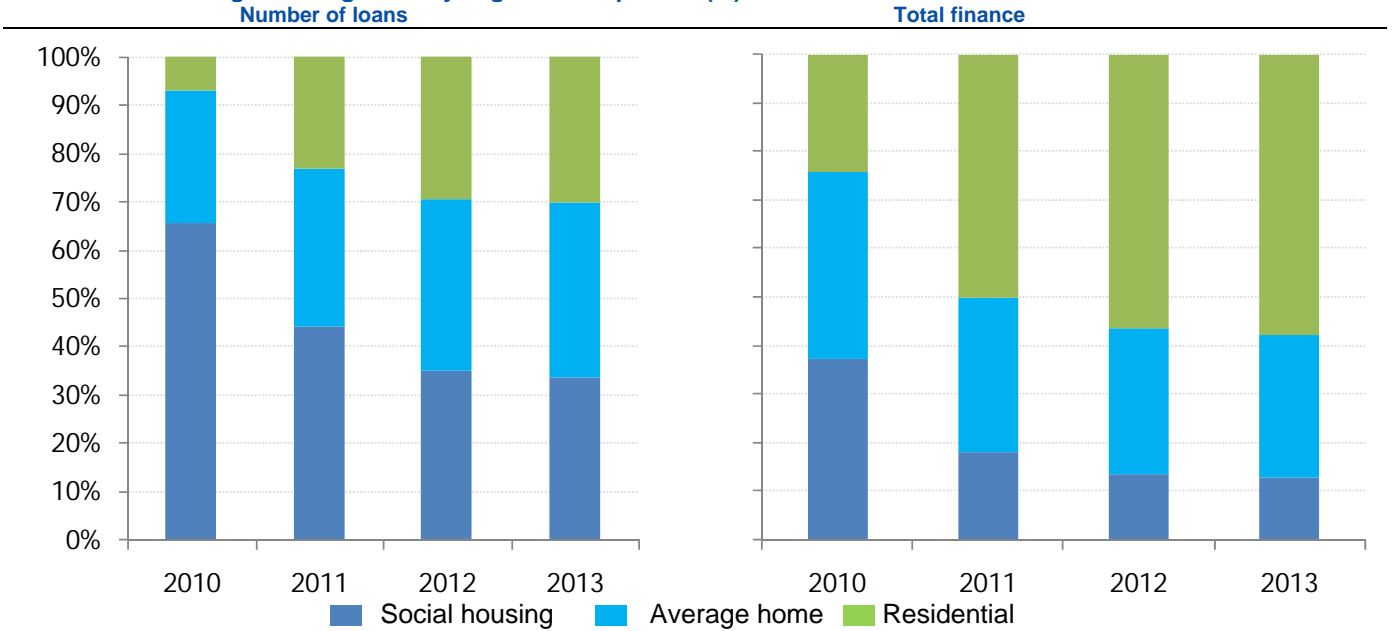
Average mortgage amount. Thousand pesos, 2013 prices



* To January
(BC) Bank capital. (Co-fin) Co-financing
Source: BBVA Research with Infonavit, Fovissste and ABM data

Chart 8 and 9

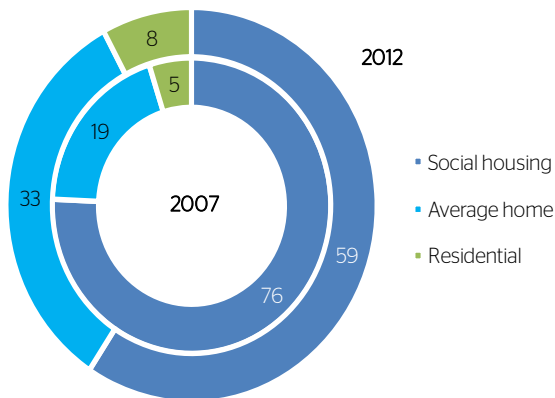
Commercial banking: Housing sales by segment. Proportion (%)



*January. "Public Housing" includes inexpensive, popular and traditional housing
 Note: Price ranges expressed in multiples of min. monthly salary (VSMM). Inexpensive to 118 VSMM (232 thousand pesos); Popular to 200 VSMM (394 thousand pesos); Traditional to 350 VSMM (689 thousand pesos); Medium-income to 750 VSMM (1.477 mn); Residential to 1,500 VSMM (2.954 mn); Residential plus over 1,500 VSMM (Over 2.954 mn). This takes into account the minimum salary in force starting from January 2013 corresponding to geographical area A.
 Source: BBVA Research with ABM and Conasami data

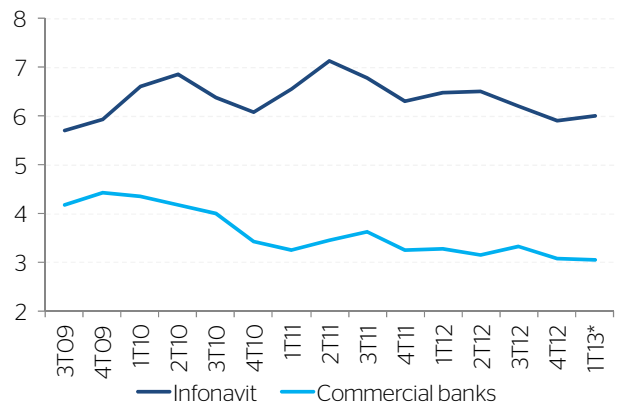
Chart 10

Housing suppliers by segment
 Distribution %, Records in RUV



Charts 11

Mortgage lending, portfolio balance
 NPL ratio (%)



* To January includes inexpensive, popular and traditional
 Source: BBVA Research with Infonavit and Banxico data

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