

Mexico Real Estate Flash

Strong mortgage activity in early 2013

The change of government has not curbed the buoyant credit market in 2013; in January, the number of loans increased by 44% year-on-year, while the amount of financing rose 28% in real terms. Although some activity from 2012 is included, the figures are a clear sign of the degree of operational modernization achieved by the official housing institutions. The figures also show that the economic setting continues to favor the expansion in mortgage lending.

- **Housing institutions display adroitness to adapt to new policies**

One of the most successful initiatives in the previous administration's housing policy was the operational and financial modernization of the official housing institutions. This modernization is evident in the solid start to the year seen in the two institutions, given that there was no halt in activity due to the change of government. For Infonavit, in January the number of loans rose 51% y/y, and in Fovissste, 60.2%. These very positive figures are partly due to the loans which had still to be formalized from 2012. Not taking into account this effect, over the next few months it will be possible to have a clearer idea of the evolution in the credit origination process, though it will demand on the strength of demand and not on the institutions. On the banking side, credit continues with the upward trend begun in mid 2010. The number of loans rose 9.5% y/y in January, but the total amount financed increased by 10.4% in real terms. The NPL ratio remains within check, at levels of around 3.5%, meaning that the increase in lending has not implied an easing of credit granting policies.

- **Attractive financing conditions will be favorable to increase housing demand**

The economy has shown a gradual slowdown since the second half of 2012, with average growth of 3.2% y/y vs. 4.4% in the four previous quarters, suggesting some slowdown in the pace of growth in lending. Until now, however, this effect has been offset by an aggressive placement strategy by banks. This is apparent in mortgage interest rates, which are currently at minimum levels (10.5%). Furthermore, the recent cutting of the lending rate by the Bank of Mexico (from 4.5% to 4%) and the outlook of a possible improvement in Mexico's sovereign debt rating by the rating agencies (subject to progress in fiscal reform), are expected to continue offering favorable conditions for growth in mortgage lending.

- **The supply might increase, but must do so in tandem with demand**

The guarantees program to support home construction recently announced by the SHF (Federal Mortgage Society) will provide a boost to home building. Reports indicate that if all the budget used for this program is put into action (5 bn pesos), there could be a 15 billion peso increase in lending. Putting this into context, it would represent around 45% of the bridging loan balance which commercial banking had in January 2013 of 34 billion pesos. This is good news for the sector, though it is important to note that 1), not all home construction financing corresponds to bridge loans, and 2), factors such as the accumulation of stocks, and lower volume of mortgage loans by housing institutions, have had a significant impact on the evolution of home construction.

In any event, it is important not to overlook the fact that the market must continue to be shaped by demand. For the housing sector, better knowledge of the buyer is required, because in recent years the homes built have not always been in keeping with the buyer's needs and/or tastes. In this regard, the increase in home construction with this program should not overlook critical aspects such as location and transport connections. If these factors are taken into account, then the program can be beneficial above all to small and medium-sized construction companies, which have greater flexibility to be able to build small sets of homes in central locations.

In short, on the demand side, the mortgage market is in a solid position, and financing conditions suggest that it will remain buoyant throughout 2013. However, a close eye will have to be kept on the economic cycle, given that home acquisitions are dependent upon earnings. Supply, meanwhile, will be reinforced by the guarantees program and also trends in demand per se. However, the supply of homes will have to be gradually adjusted, with a product which is suitable for the buyer's needs and in accordance with the pace of sales.

Table 1

Mortgage lending: Number and amount of loans, January aggregate

Body	Number of loans (thousands)			Amount of lending (Bn p)		
	2012	2013	% change y/y	2012	2013	Real % change y/y
Public institutions	23.1	35.2	52.2	7.0	10.2	40.5
Infonavit	20.2	30.5	51.0	5.7	7.8	34.1
Fovissste	2.9	4.7	60.2	1.4	2.3	67.4
Private intermediaries	5.4	5.9	9.9	4.8	5.4	10.5
Banks	5.3	5.8	9.5	4.7	5.4	10.4
Sofoles	0.0	0.1	58.7	0.0	0.0	31.9
Subtotal	28.5	41.1	44.2	11.8	15.6	28.4
Co-financing* (-)	1.9	2.2	17.8	-	-	-
Total	26.6	38.9	46.1	11.8	15.6	28.4

Information figures

Total co-financing (-)	3.9	3.5	-9.5	-	-	-
Other co-financing (-)	1.9	2.2	17.8	-	-	-
Infonavit total (-)	2.0	1.3	-35.1	-	-	-

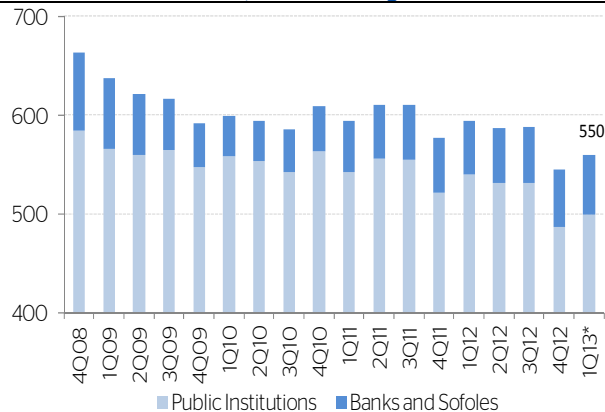
*Total excluding Infonavit

Source: BBVA Research with Infonavit, Fovissste, ABM and CNBV data

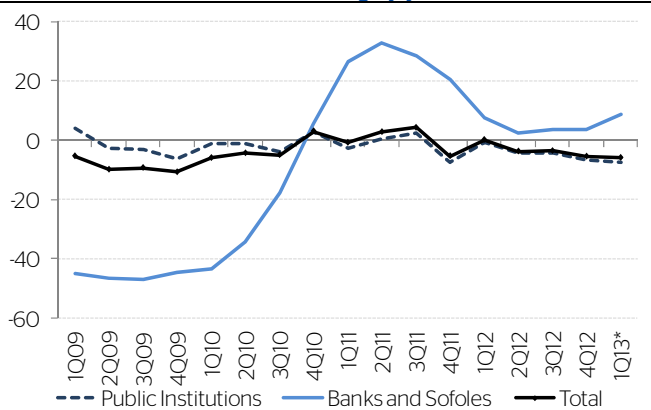
Chart 1 and 2

Number of loans by institution

Thousands, annualized figures



% change y/y



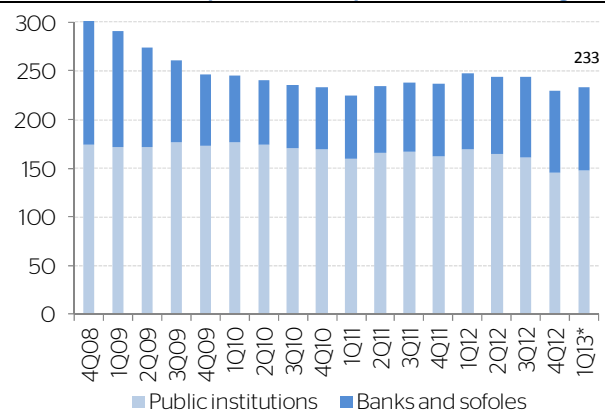
* To January

Source: BBVA Research with ABM, Infonavit and Fovissste data

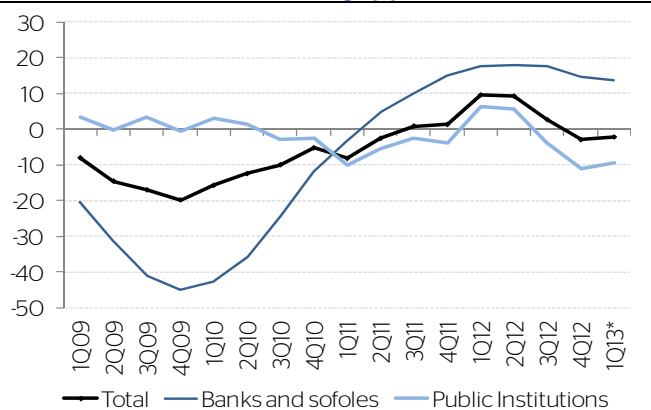
Chart 3 and 4

Amount of lending by institution

Billion pesos at 2013 prices, annualized figures



% change y/y



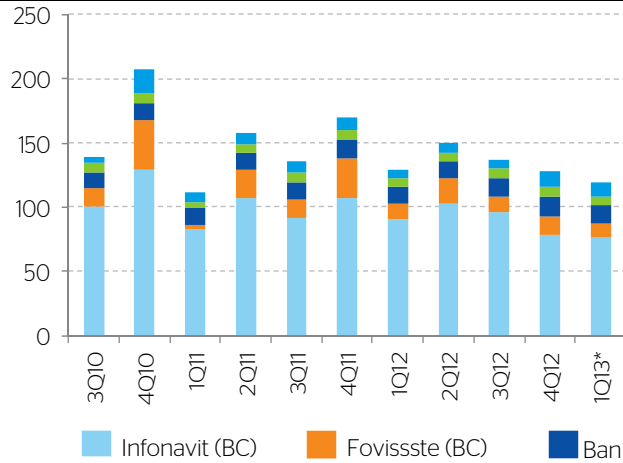
* To January

Source: BBVA Research with ABM, Infonavit and Fovissste data

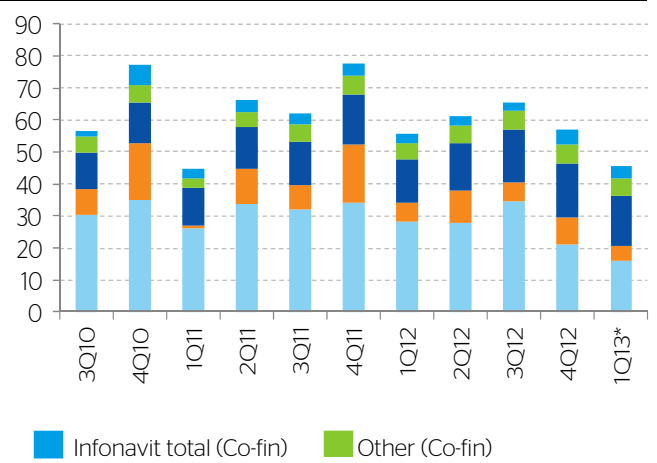
Chart 5 and 6

Mortgage loans by institution

Thousands of loans



Billion pesos, at 2013 prices

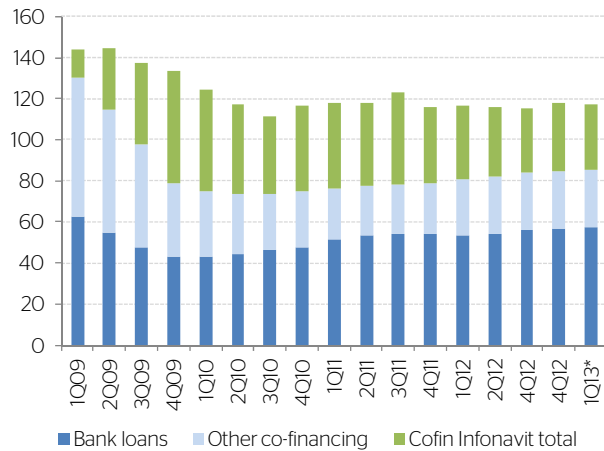


(BC) Bank capital. (Co-fin) Co-financing
 * To January
 Source: BBVA Research with Infonavit, Fovissste and ABM data

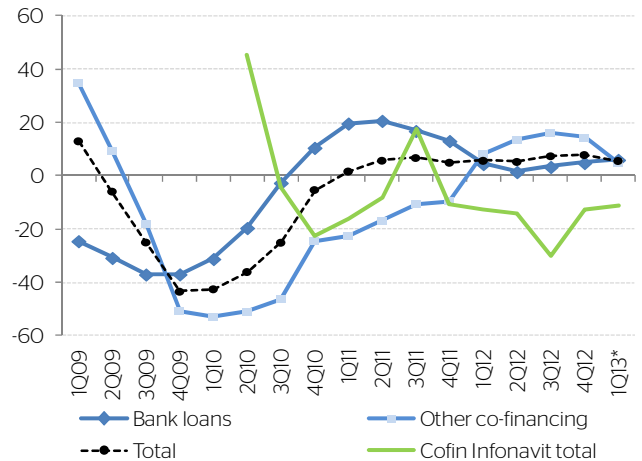
Chart 7 and 8

Number of loans granted by commercial banks

Thousands, annualized figures



% change y/y

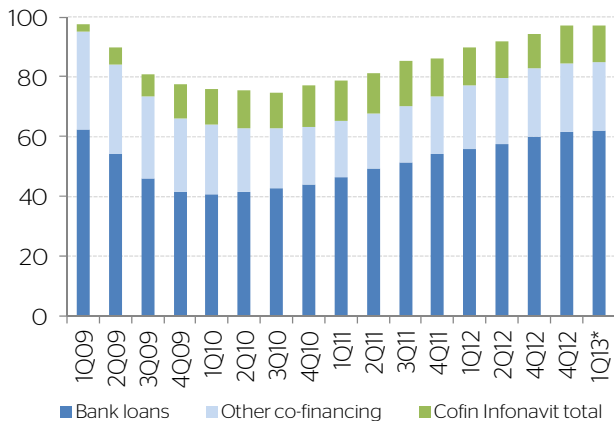


Note: From this issue we include the Infonavit Total product in banking products, meaning the figures do not match previous ones.
 * To January
 Source: BBVA Research with ABM, Infonavit and Fovissste data

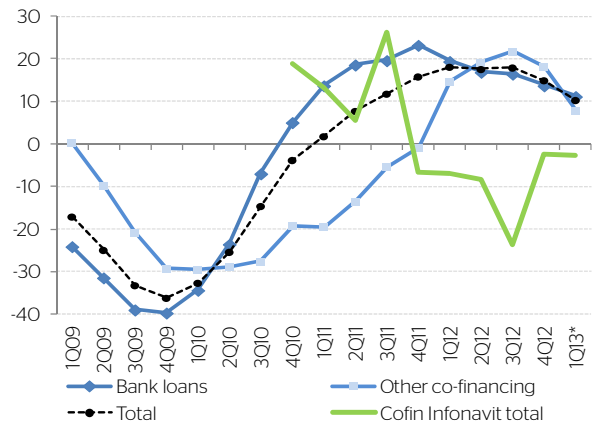
Chart 9 and 10

Amount of finance granted by commercial banks

Billion pesos, 2013 prices, annualized figure



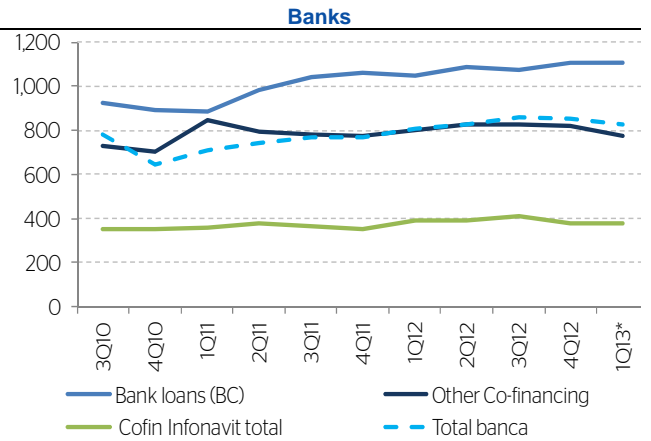
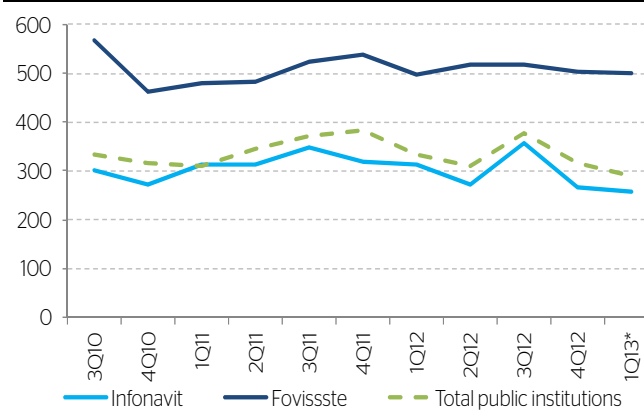
% change y/y



NB: From this issue we include the Infonavit Total product in banking products, meaning the figures do not match previous ones.
 * To January
 Source: BBVA Research with ABM, Infonavit and Fovissste data

Chart 11 and 12

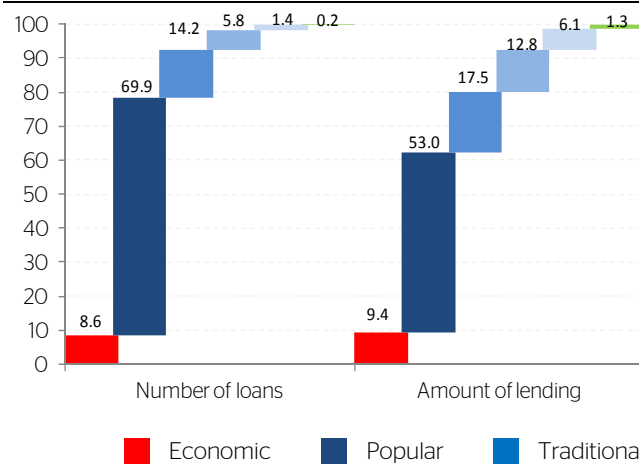
Average mortgage value. Thousand pesos, 2013 prices
Public institutions



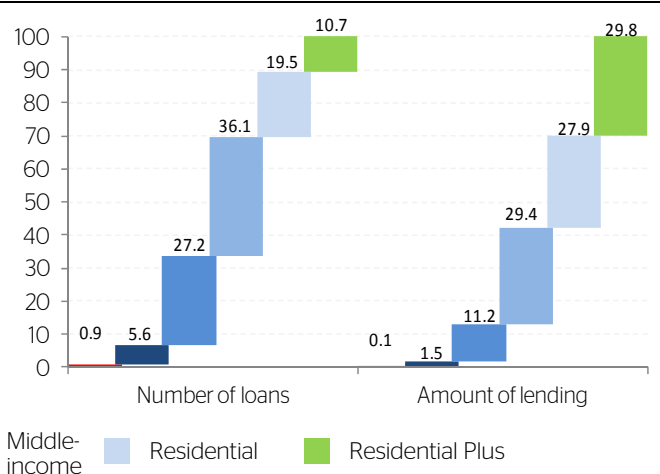
* To January
(BC) Bank capital. (Co-fin) Co-financing
Source: BBVA Research with Infonavit, Fovissste and ABM data

Chart 13 and 14

Housing sales, by segment. % share, 2013*
Infonavit



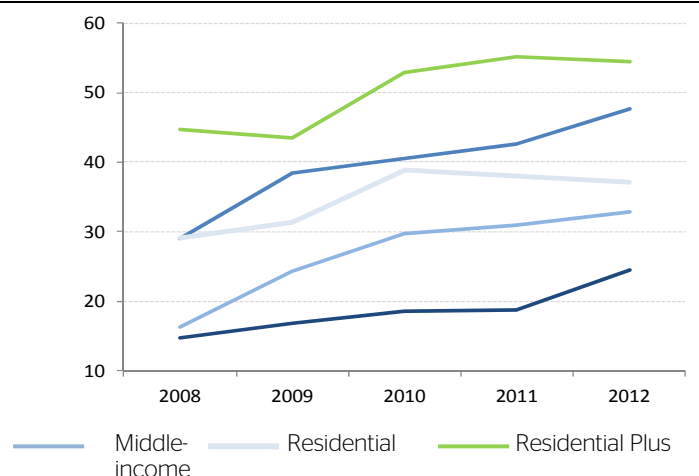
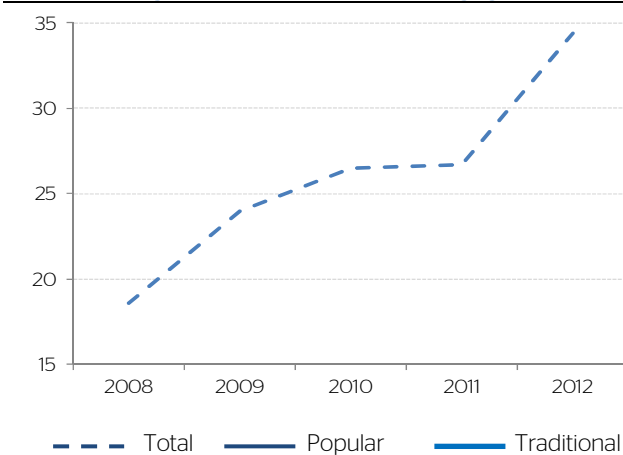
Commercial banks



*January
Note: Price ranges expressed in multiples of min. monthly salary (VSMM). Economic 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 Infonavit, ABM and Conasami
Source: BBVA Research with Infonavit and ABM data

Chart 15 and 16

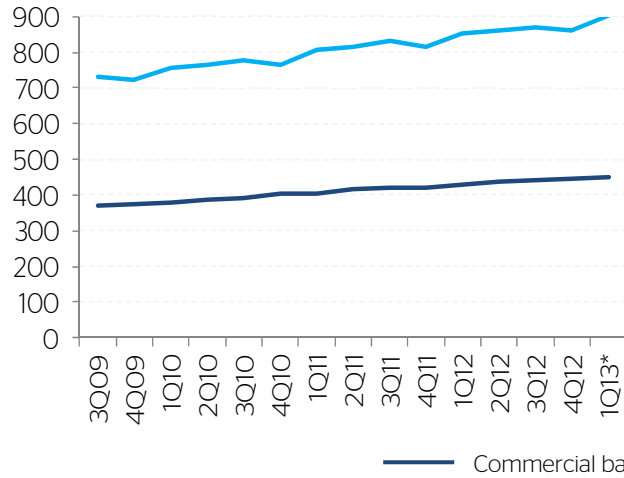
Used dwellings: Market share % in mortgage loans from Infonavit



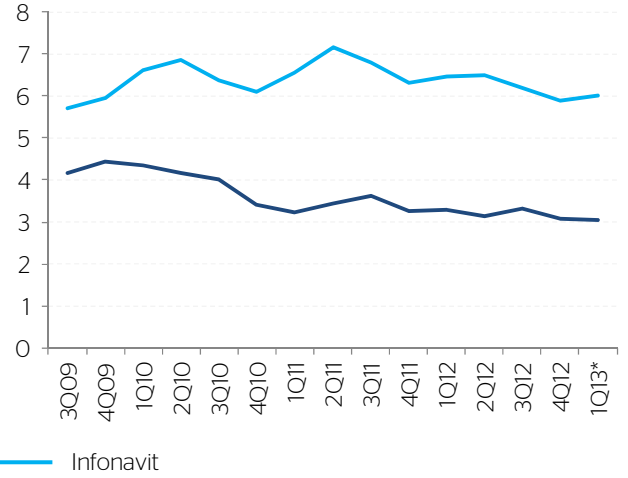
*January-December
Source: BBVA Research with Infonavit data

Chart 17 and 18

Mortgage lending, current portfolio balance
Current, billion pesos, 2013 prices



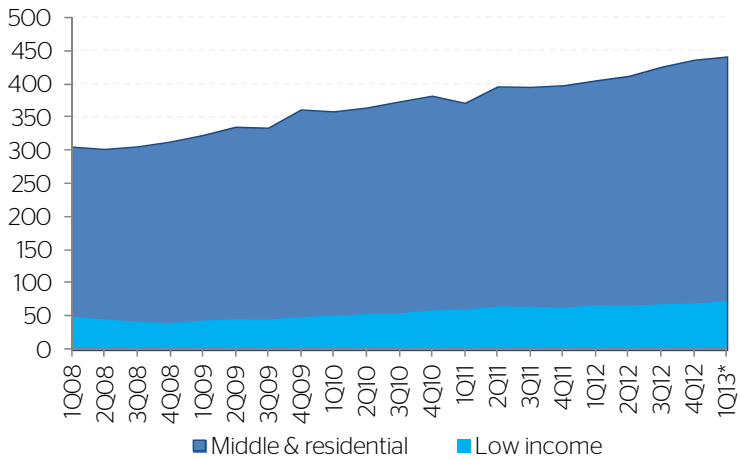
NPL ratio (%)



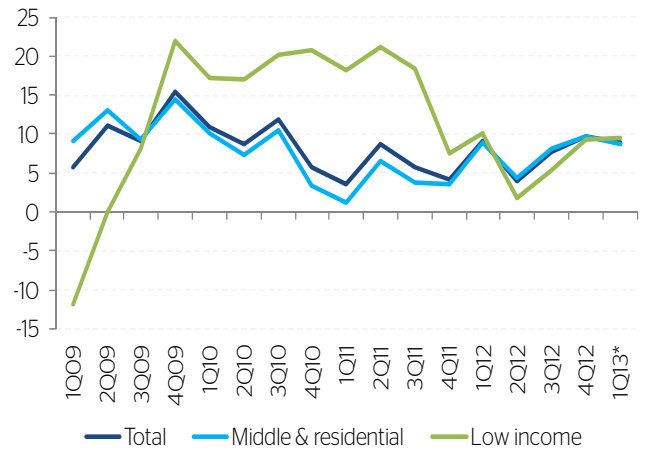
* To January
Sources: BBVA Research with Banxico data

Chart 19 and 20

Balance of the commercial bank portfolio by segment
Current, billion pesos, 2013 prices



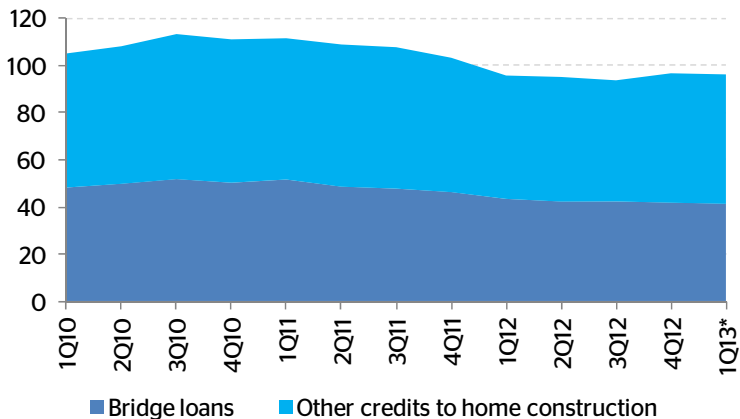
NPL ratio (%)



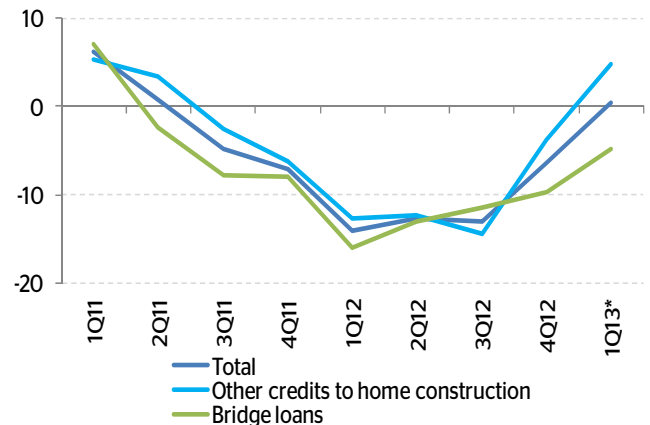
* To January
Note: "Low income" includes economic, popular and traditional
Source: BBVA Research with Federal Mortgage Society (CNBV) data

Chart 21 and 22

Total balance of bank lending for housing construction
Billion pesos, 2013 prices



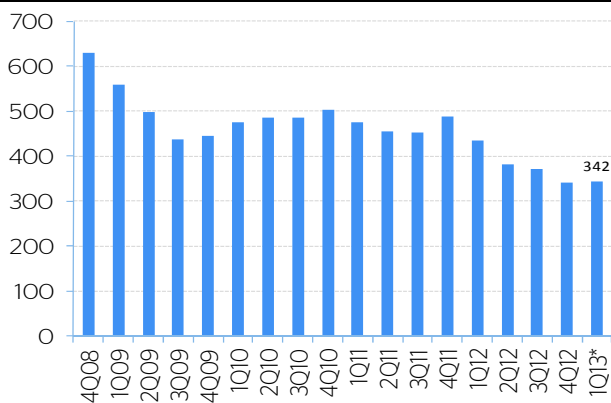
real y/y % change



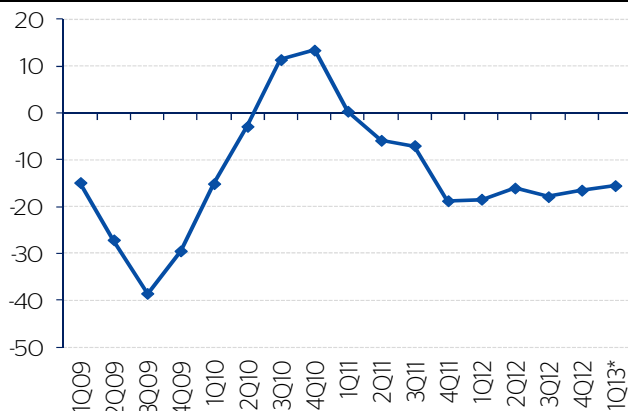
* To January
Source: BBVA Research with Federal Mortgage Society (CNBV) data

Housing starts: RUV

Thousands of homes, annualized figures



% change y/y



*To January
Source: BBVA Research, with RUV data

Table 2

Infonavit: Number of mortgage loans by institutions and percentage of existing homes January 2013

	Total								Usada (% del total)						
	Total	Economic	Popular	Traditional	Middle	Residential	Plus		Total	Economic	Popular	Traditional	Middle	Residential	Plus
Ags	598	97	368	91	38	4	0	Ags	23	23	21	35	21		
BC	1526	127	1080	212	91	16	0	BC	33	68	21	62	45	88	
BCS	163	8	81	63	11	0	0	BCS	52	100	41	62	45		
Cam	68	3	34	19	12	0	0	Cam	82	100	82	89	67		
Coah	1440	171	973	206	74	14	2	Coah	33	34	26	66	27	29	
Col	205	14	164	18	9	0	0	Col	20	100	11	39	33		
Chis	563	20	459	60	14	10	0	Chis	14	15	6	73	50		
Chih	796	105	437	141	72	33	8	Chih	51	74	46	76	29	6	13
DF	462	18	67	152	168	47	10	DF	76	100	100	86	48	96	100
Dgo	342	18	277	28	12	7	0	Dgo	27	39	25	54	25		
Gto	1409	27	1075	193	109	4	1	Gto	18	89	14	38	12	25	100
Gro	141	0	43	85	11	2	0	Gro	36		58	25	45		
Hgo	1072	150	775	94	24	28	1	Hgo	7	1	3	43	17	7	
Jal	3505	206	2677	378	192	46	6	Jal	9	10	4	39	16	22	33
Mex	2012	6	1443	437	115	10	1	Mex	12	100	6	25	32	70	100
Mich	827	62	680	55	24	6	0	Mich	10	10	6	44	38	17	
Mor	495	3	306	141	38	7	0	Mor	18	100	11	26	26	57	
Nay	479	11	300	46	11	100	11	Nay	13	64	11	39	36		
NL	4157	749	2566	514	305	17	6	NL	11	10	7	25	17	88	100
Oax	306	5	272	18	6	5	0	Oax	11	60	5	94	17		
Pue	1002	49	785	106	41	20	1	Pue	12	18	8	34	22	15	
Qro	1024	5	712	207	92	8	0	Qro	7	100	2	16	16	50	
QR	1467	123	1140	152	41	11	0	QR	5	7	3	19	12	9	
SLP	646	24	449	110	57	6	0	SLP	36	67	30	55	25	83	
Sin	740	37	571	101	28	2	1	Sin	31	97	25	42	32		
Son	888	72	651	126	36	3	0	Son	34	89	22	62	42	33	
Tab	339	41	234	42	15	5	2	Tab	23	10	12	90	40		100
Tamps	1318	95	1069	112	40	2	0	Tamps	28	61	19	75	48	100	
Tlax	154	34	79	28	5	8	0	Tlax	44	44	34	79	40	13	
Ver	1694	271	1114	259	41	9	0	Ver	23	19	16	53	54	33	
Yuc	511	73	320	101	16	1	0	Yuc	35	73	27	33	50	100	
Zac	157	4	110	35	8	0	0	Zac	25	75	20	37	13		
Total	30506	2628	21311	4330	1756	431	50	Nac	19.8	29	13	43	28	29	46

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).

Source: BBVA Research with Infonavit data

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