

# Mexico's unique housing model

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While housing price bubbles have been bursting throughout the world, following the subprime crisis, Mexico has enjoyed constant housing starts with a yearly mortgage market well above half a million transactions. It's only fair to ask why.

Mexico had developed, since the last century, a housing model unlike any other country in the world. The model – referred to as the “Mexican mortgage” has become a powerful driver for the country's economic, social and sustainable development. The model has been a key public policy instrument for the support of countercyclical measure when the economy has turned sour. These benefits became most evident in the midst of the most recent global crisis, precisely because its origins were linked to the mortgage market in developed countries, in particular the US. In Mexico, the real estate sector was not only not part of the crisis, but in fact became an element to fuel the domestic market – internal demand – to counter the global economic downturn; thus maintaining macroeconomic and financial stability in the country.

Macroeconomic stability has certainly contributed to housing market stability. Mexico has achieved significant progress in macroeconomic stability over the last decade, with relatively low inflation rates of 3 per cent (+/-1) and low interest rates, healthy public finances and a solid banking system that stimulate business investment and support consumer sentiment and spending. It should come as no surprise that this year's expected GDP growth will most likely surpass 4.0 per cent. The strength of the Mexican financial system, explained by recent years' efforts to improve financial regulation and supervision, has been recognised by experts from international financial institutions and major world economies under the Financial Stability Board Programme (FSB). Among G20 countries Mexico is one of the best placed by the IMF regarding economic overheating indicators, showing no internal, external nor financial risk factors.

The remarkable performance of the Mexican housing market has not been a product of chance. An in-depth analysis of its foundations exposes the careful design of a model with unique and innovative features that fall within a strong institutional framework, and a housing finance system that:

1. Offers long-term growth scenarios, solidity and security;

2. Supports real market demand under a high housing deficit and a remarkable demographic bonus;

3. Promotes sustainability and improved quality-of-life; and

4. Enables stronger companies as homebuilders.

The housing market faces a significant challenge: to meet growing housing and tend to a nine million housing deficit. Government estimated housing needs for household formation by 2030 will amount to 16.8 million. Housing expenditures are expected to grow, since the working age population will continue to increase until mid-century. The sum of these components explains why Mexico will need to provide 26 million housing solutions by 2030. This is an annual average demand close to 1.3 million housing solutions.

Real housing demand supported by mortgages is unique to Mexico. The country has developed a better-than-world-class mortgage industry, holding best practices in credit risk management. There are two main permanent mortgage engines that provide half a million mortgages per year: Infonavit and Fovissste. The former is oriented towards private sector employees, while the latter provides credit to government for home acquisition. Both institutions do not rely on market funding since they are funded by a 5 per cent employer's contribution. This is why it is said that during an economic crisis these institutions “can only provide” half a million mortgages per year!

Of course, the private banking and bank-non-banking system, as in any other country, provide home related financing. To address entry-level home development, Mexico has a development bank (Sociedad Hipotecaria Federal -SHF) that induces the private sector into the low-income sector, provides guarantees for construction loans and encourages the development of a secondary mortgage market. Its credit programmes are aimed mainly at the “non-affiliated” low-income population.

The success of public housing policy observed in recent years has been heavily supported by a strategy of providing up-front subsidies that facilitate access to mortgages, in addition to encouraging new housing supply in the country under specific criteria of sustainability, quality of living and competitiveness.

In Mexico, the housing sector has positioned itself as a catalyst towards environmental sustainability since the launch of its “green mortgage” in 2007.

This mortgage has proliferated as a new standard for new dwellings that is here to stay. “Green mortgages” require a minimum of eco-technologies in social housing to save electricity, water and gas. To date, it has originated more than 793,000 mortgages for the same number of “green house” purchases. Should this trend continue, all mortgages will soon hold a green component. This year, at least 90 per cent of new home mortgages will be green.

Another innovation was instrumented in 2009: Integrated Sustainable Urban Developments (known as DUIS in Spanish), as a new housing development model in the country. DUIS are integrally planned development areas that contribute to land management by States and municipalities to promote orderly, fair and sustainable urban development. DUIS are development drivers where infrastructure, equipment, services and housing contribute as a central axis for regional development. For its execution, Federal, State and Municipal governments participate in conjunction with homebuilders to achieve integrated and sustainable urban development. DUIS consider, among other things:

- The use of alternative energies, eco-technology, bioclimatic architecture, management and reuse of water, management and harvesting of solid waste.
- Public spaces with more and better green areas, cultural areas, sports and recreational activities which promote neighbourhood integration.
- Connectivity to services and the workplace, light rail, subway, bike paths and public transportation.
- Consolidation of new development poles with vocations and equipment to generate new jobs, trade and services.
- Strengthening the social fabric by mixing different types of housing as economic, affordable, middle-


income and residential, predominantly vertical, close to the work place and services.

DUIS are supported with a basket of incentives from the Federal Government that include: technical assistance in the fields of transport, solid waste, urban development, environmental sustainability, business and industry attraction, subsidies for homebuyers, financing and/or guarantees for infrastructure and public services, financial schemes for housing production and mortgages, among others. In addition DUIS promote and reward higher-density projects.

In this context, the Mexican housing industry is currently entering a whole new era of sustainable growth, based mainly on the institutionalisation of public policies and the strengthening of national housing entities, as well as ongoing government support, plus the implementation of new programmes and incentives, which have increased industry capacity to meet an increasingly sophisticated demand.

In addition to a robust institutional framework and a solid financial system that ensures funding for housing production and mortgage credit, the country has a unique and highly competitive homebuilding industry, well supported by efficient and flexible supply chains that are fuelling regional development.

The Mexican housing model has become an international reference point, for its ability to generate economic, social and environmental development. A model drafted by public policies and instruments to meet the housing needs of different segments of the population, under high standards of sustainability, welfare and financial quality. Mexico is on the path to build communities and competitive cities to promote regional and national development.

Housing is – and will continue to be – the strategic driving force of Mexico’s development policy. 

**The Mexican model has been a key public policy instrument for the support of counter-cyclical measures when the economy has turned sour**

Mexico’s National Housing Programme					
	2008	2009	2010	2011	2012P
<b>Housing actions</b>	<b>1,405,537</b>	<b>1,136,711</b>	<b>1,142,035</b>	<b>1,009,650</b>	<b>1,056,212</b>
Credits	969,666	796,242	784,924	714,693	776,885
Subsides	435,871	340,469	357,111	294,957	279,327
<b>Investment</b>	<b>280,601</b>	<b>236,508</b>	<b>243,032</b>	<b>259,790</b>	<b>258,922</b>
Credit	274,208	229,271	234,708	251,446	248,516
Subsidies	6,394	7,237	8,324	8,344	10,406

P= Mexico’s Housing Commission’s programmed likely scenario. Figures in millions of pesos.