“Perspectives on the need for innovative financing approaches and potential ERSO opportunities in Latin America”

Mexican Housing Overview 2008

Stockholm, April 2008

National Housing Commission (CONAVI)

Article 18.- “The Commission has been created as a decentralized agency, engaged in activities of public convenience and necessity, and as a social benefit, not aimed to any particular sector, with a legal capacity and a patrimony of its own”.

Housing Law
The National Housing System stems from the Act of Housing (Article 14) as a coordinating mechanism, that helps follow-up the national housing policy, under the responsibility of the National Housing Commission.

Integrated by:

I. National Housing Council;
II. Intersecretariat Commission (Group composed by 12 Ministries);
III. National Housing Council
IV. Instance that coordinates and,
V. The government of the states and municipalities, social and private sector, in terms of the agreements that will be reached.

National Housing Council

Article 28.- “The Council shall be the authority that provides and gives advisory services to the Federal Executive Branch,... proposing the measures to plan, prepare, implement, execute and supervise the National Housing Policy".
The Challenge ... 

The groups who are old enough to buy a house, will increase...

...in the next 25 years, we will have the largest group prone to buy a house....

The Challenge ...

The number of households in the country will double in the next 25 years

Growth 23.3 millions
Annual Rate: 2.4%

Growth 12.5 millions
Annual Rate: 2.8%

Growth 5 millions
Annual Rate: 1.8%

Growth in Housing 2000 – 2005: 2.1%
Population Growth 2000 – 2005: 1.0%
NATIONAL HOUSING PROGRAM 2007-2012:
Towards Sustainable Housing Development

FOUR CHALLENGES IN HOUSING DEVELOPMENT

- COVERAGE
- QUALITY AND SUSTAINABILITY
- INTEGRAL SECTOR
- GOVERNMENT SUPPORT
1. Financing Coverage

Strategies:
- Increase financing resources
- Family Savings
- Self Construction
- Legal Certainty and secondary market

Goal 2012
6 MILLION CREDITS

MEXICAN HOUSING MARKET SEGMENTATION

New homes and credits granted in 2005 per minimum wage level, type of community and employment situation

Opportunity areas are mainly located in the rural and low-income urban sectors

Total new homes: 660,000
Scale: 1 square equals 11,000 homes

* A home is deemed to have benefits if at least one family member is recorded with the Social Security Agencies, IMSS or ISSSTE.
**15 thousand credits deemed to be second purchases were not included.
**FINANCING SOURCES 2007**

Number Credits and Subsidies

**SECONDARY MORTGAGE MARKET**

<table>
<thead>
<tr>
<th>Year and number of issues</th>
<th>Million Dollars 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003 / 1</td>
<td>66</td>
</tr>
<tr>
<td>2004 / 5</td>
<td>488</td>
</tr>
<tr>
<td>2005 / 8</td>
<td>603</td>
</tr>
<tr>
<td>2006 / 17</td>
<td>1,611</td>
</tr>
<tr>
<td>2007 / 21</td>
<td>2,920</td>
</tr>
<tr>
<td><strong>Total</strong> 52</td>
<td><strong>5,688</strong></td>
</tr>
</tbody>
</table>

2.9 billions accumulated in 2007, are equivalent to 13.32% of nationwide resources devoted to housing financing.
ECONOMIC STABILITY INDICATORS

MEXICO International Reserves
(Million Dollars)
FEDERAL GOVERNMENT BUDGET
INCOME AND EXPENSES
Accumulated Flows December
(Million Dollars)

CONSUMER PRICE INDEX

2004  2005  2006  2007

México  Estados Unidos
COUNTRY RISK MEXICO AND PESO/US DOLLAR EXCHANGE RATE

AVERAGE COMERCIAL MORTGAGE INTEREST RATE
2. Sustainable Housing Development

GOAL (1) 2012
EMBLEMATIC MODELS OF SUSTAINABLE HOUSING DEVELOPMENT

GOAL (2) 2012
1.7 MILLION IMPROVEMENTS

Strategies:
- House and environment quality
- Land availability
- Standard regulations
- House improvements
For the construction of an average of 1 million housing units each year, it is required:

- Considering a net density of 50 houses per hectare, it is required 20,000 hectares

- Waste water treatment
- Water infrastructure
- Sewage infrastructure
- Electric energy supply infrastructure
- Electric infrastructure

The National Infrastructure Program 2007 – 2012 foresees investment resources in three scenarios:

a. 154.5 b. 227.3 c. 309.1 (billion dollars)
3: National Housing System

Strategies:
- Government faculties
- Sector Integrality
- Inter institutional action
- National housing indicators System
- Improvements to public administration

GOAL 2012
REFORM INICIATIVE TO STRENGTHEN GOVERNMENT FACULTIES

3: National Housing System

Housing Construction Code

Technical, legal and administrative specifications to standardize local regulations, in order to impel a sustainable housing development

It includes:
- Groups formation.
- International Code Council advise
- Local authorities training
- Pilot programs
- Specialized agencies.
- Public, private and social sectors participation.
GOAL 2012 BILLION DOLLARS FOR SUBSIDIES

Strategies:
- Subsidies Program
- Zones stroke by natural phenomena

HOUSING SUPPLY AND DEMAND
PER INCOME LEVEL

DEMAND ≤ 3 sm.
SUPPLY > 3 sm.
The Program has three financing sources:

1. The beneficiary’s own prior savings.
2. Federal Subsidy.
3. Financing from the Financing Actors.

- The purpose of the first two components is to strengthen the people’s commitment and purchasing capacity.
- The third one provides people with access to financing and increases their choices.
FINANCING ACTORS

1. **Financial Actors**: Sofoles, Sofomes, Popular Financing Societies, Savings and Loans Cooperatives, Banks, etc.

2. **Infonavit, Fovissste, Issfam** or similar entities

3. **SHF and Insuring Institutions**.

4. **Individuals, NGO’s, and other** institutions from the social and private sectors that contribute to housing financing programs

5. **Agencies or entities** that belong to the federal, state, or municipal public administration sector, and that are authorized to grant and manage credits and financial support for housing

PERSPECTIVES

The Program has been able to diversify the financing sources towards private and non-for-profit entities.

However, it is essential to increase the number of financing actors, mainly by the accreditation of the municipalities.
• What does accrediting a municipality as a financing actor mean?

• It means to recognize its capacity to provide financing for people to purchase, improve, or self-construct a house, or to purchase a plot with services.

FINAL REMARKS

• This Program, developed by the Federal Government, intends to help families get a house.

• As a matter of fact, the resources for this and other subsidy programs are the only budgetary investment for housing.

• The rest of the investments come from the workers funds or from the financial sector.

• By themselves, the Program resources would not suffice to meet the housing needs of the population.
Federal subsidies have generated over 1.4 billion Dollars

### 2008 FINANCING PROGRAM

<table>
<thead>
<tr>
<th>GOAL</th>
<th>INVESTMENT (Million Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>540,000</td>
<td>10,003.9</td>
</tr>
<tr>
<td>113,700</td>
<td>2,889.8</td>
</tr>
<tr>
<td>134,000</td>
<td>364.8</td>
</tr>
<tr>
<td>217,760</td>
<td>166.9</td>
</tr>
<tr>
<td>Financial Entities</td>
<td>263,000</td>
</tr>
<tr>
<td>Other Entities</td>
<td>56,000</td>
</tr>
<tr>
<td>Financing</td>
<td>1,324,460</td>
</tr>
<tr>
<td>Estimated Homes</td>
<td>800,000</td>
</tr>
</tbody>
</table>
# Mortgage Debt vs. GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Mortgage Indebtedness / GDP (Average %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>67.4</td>
</tr>
<tr>
<td>England</td>
<td>61.5</td>
</tr>
<tr>
<td>Canada</td>
<td>42.9</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>41.5</td>
</tr>
<tr>
<td>Chile</td>
<td>14.8</td>
</tr>
<tr>
<td>China</td>
<td>10.0</td>
</tr>
<tr>
<td>Colombia</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td><strong>9.8</strong></td>
</tr>
</tbody>
</table>

Source: Prepared for the World Bank by Veronica Cacdac Warnock, Francis E. Warnock, NATIONAL BUREAU OF ECONOMIC RESEARCH, 1050 Massachusetts Avenue, Cambridge, MA 02138, May 2007

## ERSO Potential Supports

- **Municipalities**
- **OREVIS**
- **NGO’s**
- **Non Banks (SOFOMES)**
- **ERSO**
- **CONAVI**
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April 2008