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## Business development

### THE RESIDENTIAL SECTOR IS HEALTHIER IN MEXICO THAN IN THE US.

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[DTZ Rockwood Research](#)

The recent downturn in the US housing market was largely the result of lax lending standards that eventually caused many mortgage-holders to default on their loans. Mortgages with features such as variable interest rates, interest-only payments, or no income verification permitted many people to purchase homes that were more expensive than they could reasonably afford. Speculators also had a role in the housing crisis by generating artificial demand, which inflated home prices and led builders to create an oversupply of housing in several markets.

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In Mexico, the housing situation is much different. Almost two-thirds of all mortgages are issued by Infonavit, a government agency. These mortgages are mostly fixed rate or have a floating rate tied to inflation, so mortgage payments only tend to rise at about the same rate as wages. Proof of income is also a requirement for a mortgage, eliminating the problems with “no-documentation” loans. Fees and down payments associated with most mortgage loans are also high enough in Mexico that it discourages speculators who would forfeit those funds if they had to back out of a deal. Infonavit primarily provides mortgages to low-income, first-home buyers who have payments deducted automatically from their paychecks, minimizing the possibility of delinquent payments. Other lenders in Mexico also generally loan to first-home buyers, while other key segments of the country’s residential market are wealthy residents and second-home buyers from the US, who generally have little need for a mortgage loan. Mortgage defaults in Mexico therefore tend to be for much smaller loan amounts than the average size of the loans that caused the demise of several major US mortgage companies.

One indirect, negative impact on Mexico from the US housing crisis is a reduced flow of remittances from residential construction workers in the US to their families in Mexico. If this situation continues and the volume of remittances drops substantially, there may be fewer families in Mexico who will be able to afford a new home. This one negative factor is not strong enough, however, to substantially affect the housing market in Mexico.

#### Demand for Housing

Besides the differences in how homes in Mexico are financed, another positive aspect of the country’s residential market is that demand for housing in Mexico is strong. This demand is generally driven by four basic trends:

- **Growing Population Base:** Mexico’s population increased by an average of 1.6% per year between 1990 and 2005, adding 22 million residents in that period.
- **Decreasing Household Sizes:** Even more relevant to change in demand in the housing market is the growth in the number of households, since every new household requires an additional housing unit. Household totals in Mexico have been increasing at an annual average rate of 2.9% per year since 1990, considerably faster than population growth, reflecting a decrease in average household size. Household sizes are declining as large, extended families living in one housing unit split into more than one household when incomes rise and family members are able to afford new housing. Also adding to the household total and decreasing household sizes are young, educated workers who leave the family home for a new job and new living quarters.
- **Rising incomes:** Mexico has a growing population of middle-class families and young professionals who are eager to purchase a new home, or to upgrade to a better home.

Votar: ☆☆☆☆☆  
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- Replacement housing: A significant share of existing homes in Mexico are substandard in quality, and most occupants are anxious to find replacement housing that meets higher standards. The federal government's goal is to have as many as one million new homes built each year to meet this growing demand, and to have
- lenders provide 750,000 new loans to finance new home purchases as well as existing home re-sales.

In 2006, about 750,000 new housing units were created, a substantial increase over the 200,000 homes built in 2000. In 2005, there were 577,000 new loans issued, a 54 percent jump over 2000's total. By these measures, the country's homebuilders are well on their way to meeting the government's goals.

#### Foreign Investment

It is estimated that there are about 60 homebuilders in Mexico that each produce more than 1,000 new homes per year, but fewer than a dozen of these build more than 5,000 units per year. The solid demand for new housing in Mexico has now also begun to attract the attention of housing developers from outside the country.

Mexico is seen as a positive alternative for investment by foreign firms that may not be able to find suitable opportunities or returns in their home countries. Several US firms, for example, have created joint ventures for residential development projects, or purchased a share of Mexican homebuilding companies.

- O'Connor Capital Partners (New York-based) owns part of Desarrolladora Metropolitana Demet, a builder of large-scale, entry-level home developments.
- The Chicago-based Equity International Properties is part-owner of Desarrolladora Homex S.A.B. de C.V., a major builder of homes in three pricing sectors (entry-level, middle-income, residential).
- Hines, the Houston-based developer, and the California Public Employees' Retirement System (CalPERS) together have raised about \$200 million in two funds to finance projects such as Punto Central in Monterrey, a 13-story condo/retail/office building.
- Loreto Bay Co. of Scottsdale, Arizona has teamed with Mexico's tourism agency, FONATUR, to develop a 6,000-unit seaside town on an 8,000-acre site in Baja California. Not all US companies have prospered in
- Mexico, however. KB Homes had a brief experience in Mexico in the 1990s, and Pulte Homes left the country in 2005 after 10 years. Regulations concerning land ownership by foreign owners, plus competition with established

Mexican home builders, are a couple of reasons that most foreign companies prefer to team with local firms rather than to develop projects independently in Mexico.

In the reverse direction, some Mexico-based companies have tapped into the US capital markets to generate funds for development. For example, the homebuilder Desarrolladora Homex S.A.B. de C.V. is now listed on the New York Stock Exchange.

#### Summary

The problems in the US housing market have not had much direct effect on Mexico's residential sector because of significant differences in the dynamics of the two markets. In Mexico, most mortgages are held by a government agency, and are either fixed-rate or tied to inflation. Demand is strong, particularly at the low end of the market, as first-time home buyers enter the market. Speculative investment is minimal, so supply and prices are not artificially inflated.

These positive attributes of Mexico's housing sector have begun to attract the attention of foreign investors who recognize the potential for solid growth and higher returns than can be found in the US or other countries. The major differences in the mortgage lending markets and favorable demographic trends in Mexico should help the country avoid the same type of downturn as the US.

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