

# CORPORACIÓN GEO

**MEXICAN HOUSING  
INDUSTRY**

**PRIMER PRESENTATION**

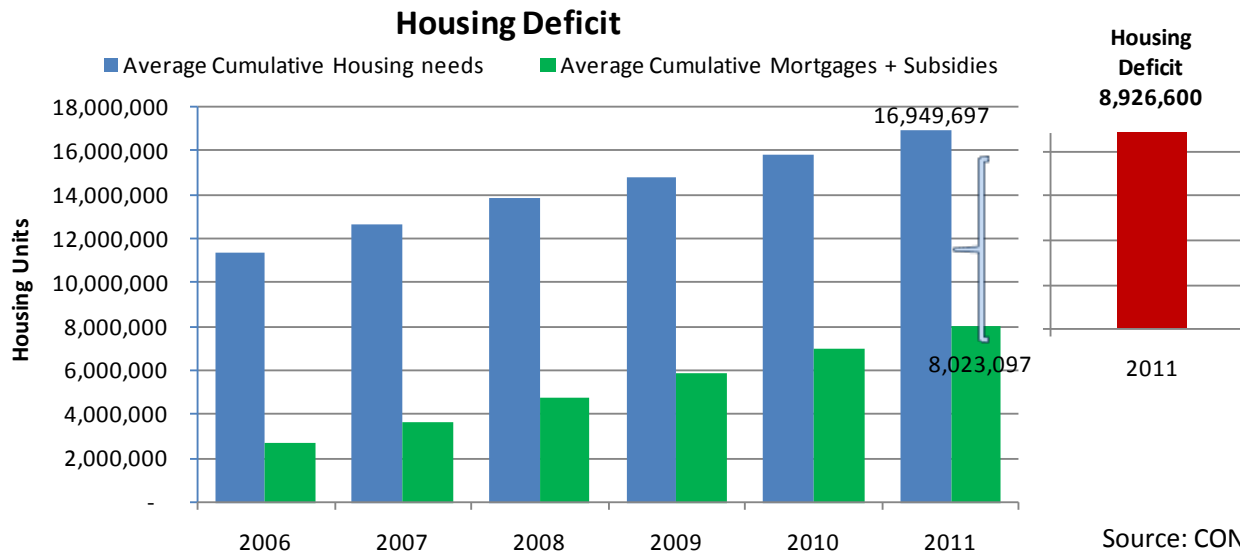


- Mexican Housing Fundamentals: Demand
- Mexican Housing Fundamentals: Supply
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- What is INFONAVIT?
- What is FOVISSSTE?
- How the titling of houses work
- Sociedad Hipotecaria Federal (SHF)
- Comisión Nacional de Vivienda (CONAVI)
- Commercial Banks and SOFOLs
- Mexican VS. The World

# Mexican Housing Fundamentals: Demand

Housing deficit + Demographics for the next 20 years will represent a market of 20 mn more homes  
An opportunity for long-term growth

- Demand for houses as of 2011 is 16.9 million houses
- In 2011, there is a housing deficit of approximately 9.0 million houses + 600k incremental per year
- More than 50% of the population that is contemplated in the deficit earns no more than 5.5 times the monthly minimum wage ( $5.5 \times \$147 = \text{USD } 808$ )<sup>2</sup>

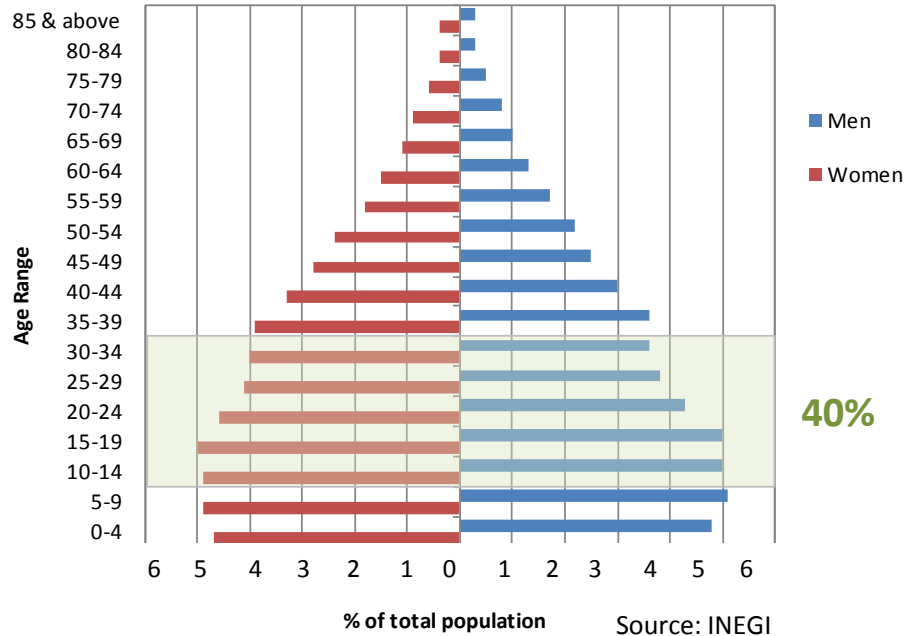


The increasing housing deficit ensures there will be enough market for the Mexican housing industry in the years to come

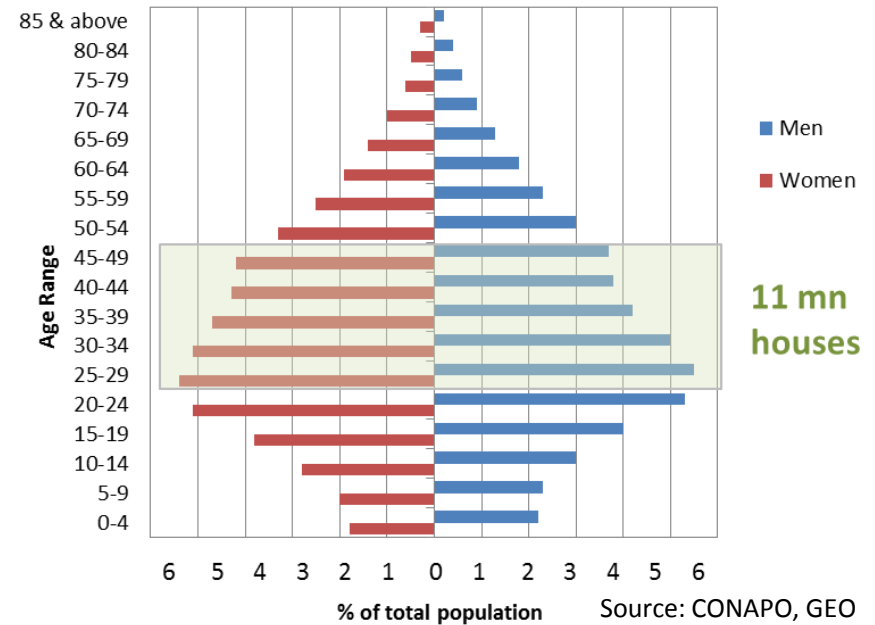
In the last population census there was 112 million people, of which 40% was between 10-34 years. This gives way to a considerable demand of housing for the next 20 years

Source: INEGI

Demographic Pyramid 2010



Demographic Pyramid 2030



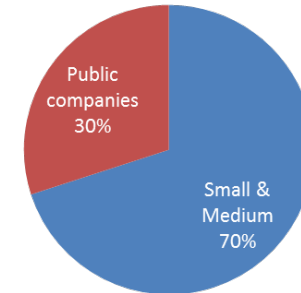
Assuming that homebuyers are generally between 25 and 50 years old and that, on average, there are 4.5 people per house, by the year 2030 the domestic need for a house would amount to about 11 million homes

Source: GEO, SOFTEC

The housing industry is highly fragmented due to geographically scattered developments in Mexico

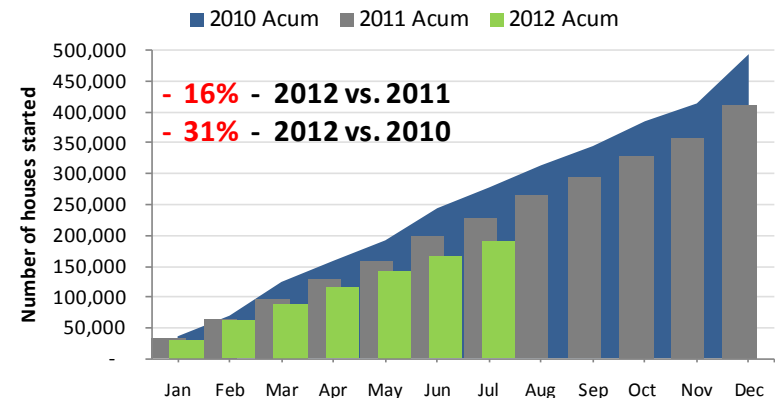
- As of 2012, there is an estimate of 28 million houses in Mexico
- Highly fragmented industry: more than 70% of the market share among small and medium homebuilders
- Homebuilders can be divided into two groups:
  - Large: Those who build more than 500 houses in a year
    1. Have access to market funding
    2. Strong brand recognition
    3. Geographical diversification
    4. Economies of scale
  - Small & Medium (S&Med): Those who build no more than 500 houses
    1. Limited access to funding
    2. Small marketing campaign, if any
    3. Lack of technological advantages
    4. No economies of scale
- Housing starts in 2012 have decreased significantly compared to 2010 and 2009. See graph on the right

Market Share by Homebuilders



Source: CONAVI

Housing Starts 2012 vs. 2011 vs. 2010



Source: INFONAVIT

An opportunity for large homebuilders to gain market share given the decreasing supply of houses



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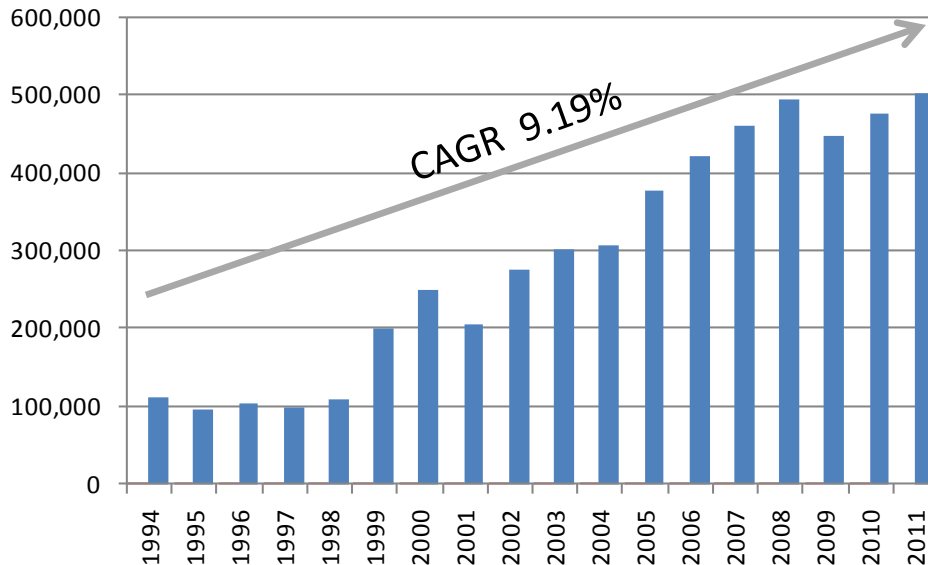
# What is INFONAVIT?



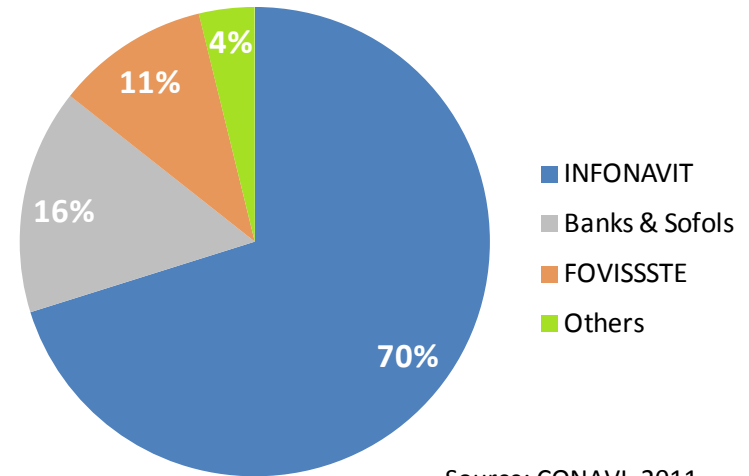
## The National Housing Mortgage Institute for Private Workers

- Autonomous, efficient institution where the Federal Government, the employers and the private workers are equally represented. It focuses on providing affordable entry level mortgages to low-income families
- Among the largest mortgage institutions in the Americas (in terms of number of loans originated) ➔ In 2011, it granted 70% of the 786k mortgages given in Mexico
- Eligible mortgage applicants are determined by a scoring system (116 points) and have the opportunity to choose the house they want to buy according to their purchasing power and personal preference

**No. of INFONAVIT Mortgages 1994 - 2011**



**Mexican Mortgage Market-share in 2011**



Source: CONAVI, 2011

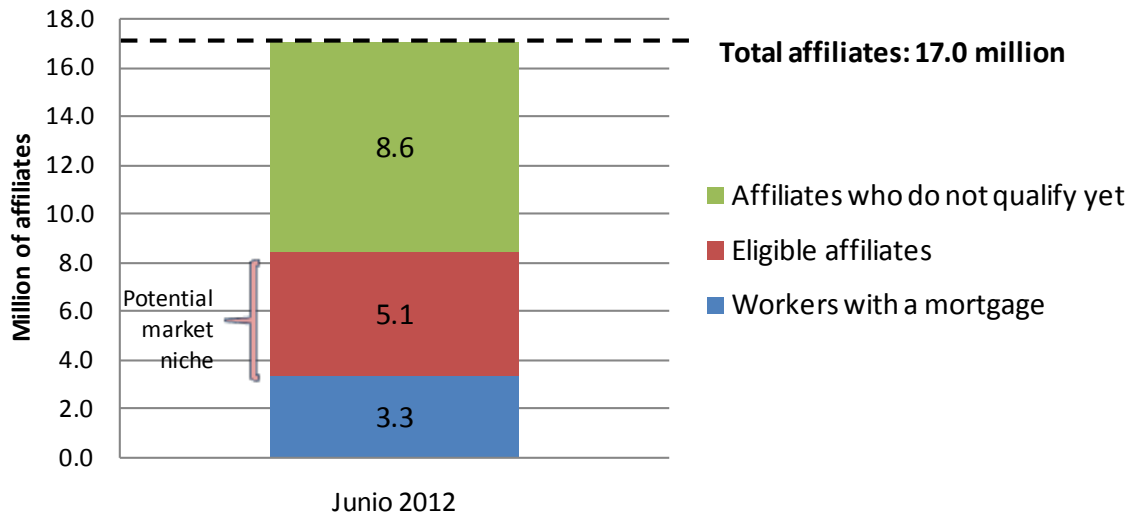
**Institution with USD 51 billion Assets Under Management <sup>3</sup>**



<sup>3</sup> As of June 30, 2012 using the exchange rate FIX of the same date, 13.4084

INFONAVIT's clients are affiliated to the institution and must fulfill a sum of 116 points to be able to qualify for a mortgage. These points add up based on age and salary, amount in each workers' individual account at INFONAVIT and time of continuous quotation as a private worker

## Affiliates INFONAVIT



- As of June 2012, it has a total of 17.0 million affiliates and are composed in the following manner:
  - Only 3.3 million have made use of their loan
  - 5.1 million have not used their loan but are eligible to acquire one
  - 8.6 million private workers do not currently qualify for a loan with INFONAVIT
  - INFONAVIT's 2012 goal is to provide 490,000 mortgages (without MBS). The ratio of eligible affiliates to mortgages offered is 5.1 mn / 0.480 mn  $\approx$  11 affiliates

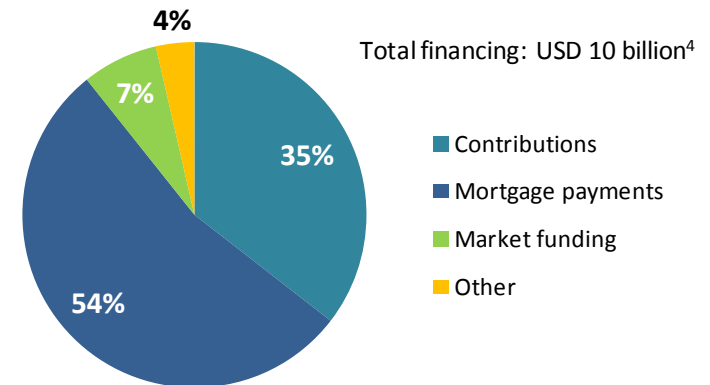
In 2011, for every mortgage INFONAVIT grants there are 11 affiliates who are waiting in line to acquire a loan but remain unattended

# ...its sources of funding and its execution

The sources of funding are unique to the Mexican housing industry:

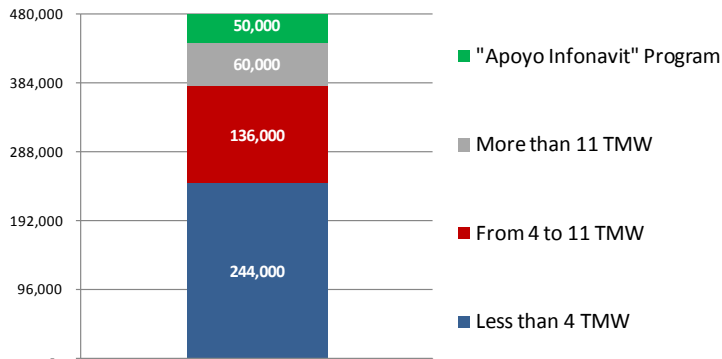
- 1. Contributions:** Employers have the legal obligation to pay and deposit 5% of the monthly salary of private workers in the worker's individual account at INFONAVIT
- 2. Mortgage payments:** Collection done by monthly payroll discounts meaning minimum default risk
- 3. Market financing:** Mortgage-Backed Securities (MBS)
  1. Total issued since 2004-2011: USD 6.2 billion according to INFONAVIT<sup>4</sup>
  2. As of June 2012 INFONAVIT has issued USD 746 million<sup>4</sup>
  3. Rated mxAAA/AAA(mex)/Aaa.mx by Standard and Poor's, Fitch and Moody's

## Sources of Funding 2012E



Source: INFONAVIT, 2012

## INFONAVIT 2012E Mortgage Granting per Segment



Source: INFONAVIT, 2012

Segments in times minimum wage

2012 Goal: Provide 490,000 mortgages<sup>5</sup>

As of July 2012, it has achieved 67.9% of its goal

Source: CONAVI, 2012

- Inflation-adjusted mortgages targeted for low-income private workers ➡ Rates between 4% - 9% depending on the mortgage type
- Non performing loans (NPLs): 5.4% of the total portfolio as of June 2012 according to INFONAVIT

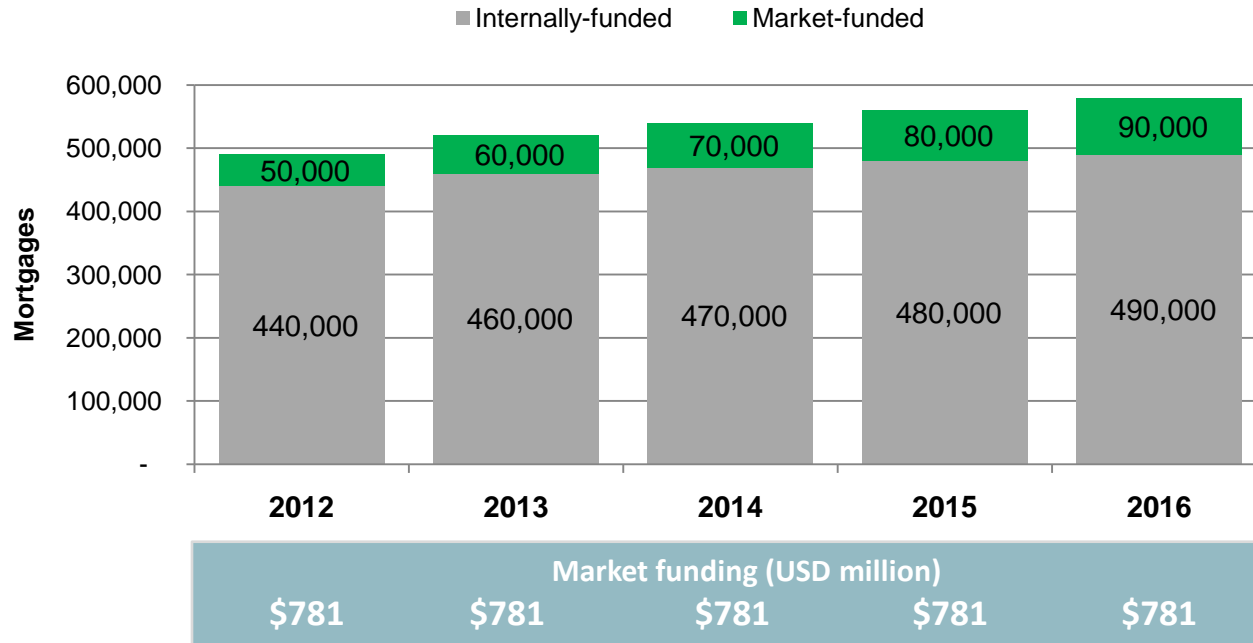
Reliable, low-risk institution with solid fundamentals



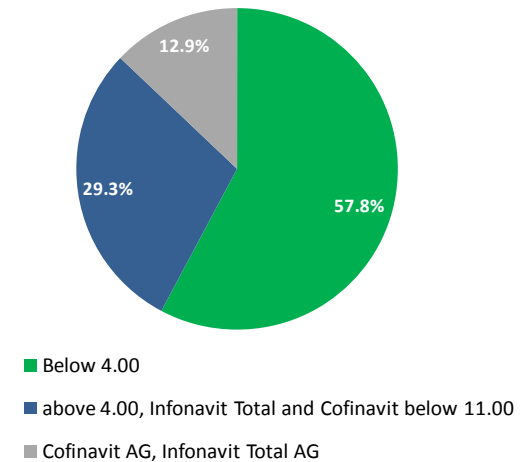
# What about INFONAVIT's long term plans?

Goal 2012-2016: Grant approximately 2.7 million mortgages in the following 5 years

## 2012-2016 Supply of Loans



## 2012-2016 Goal by Segment



This shows the potential growth of mortgages granted by INFONAVIT in the lower income segment of the population in the following 5 years, backed up by internal (contributions and mortgage payments) and external funding (market)

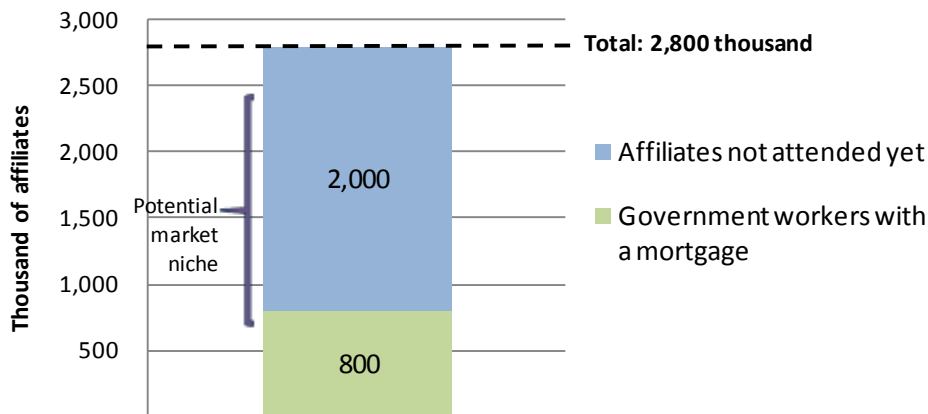
Source: INFONAVIT, 2012



# What is FOVISSSTE?

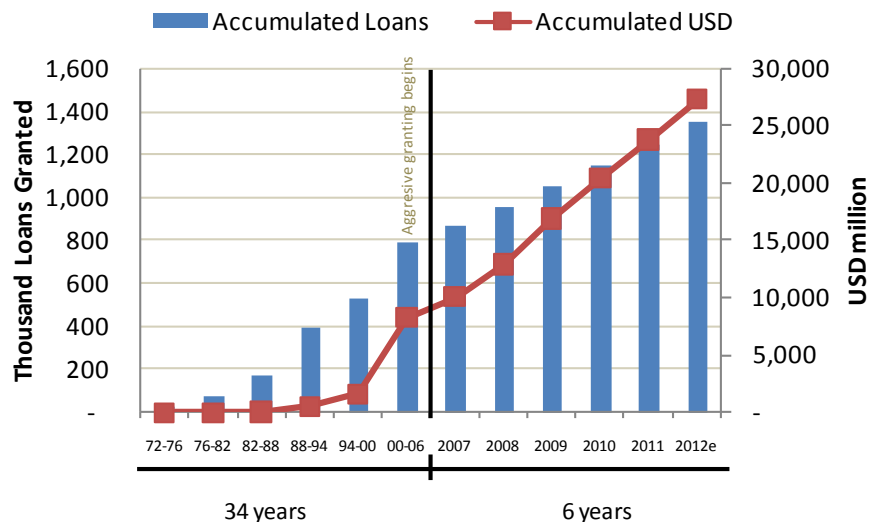
- Born in 1972, it is a government-controlled fund that provides accessible housing credits to the workers employed by the government
- Only in the period 2006-2012, FOVISSSTE will provide the equivalent of 70% the number of loans granted during the last 34 years.

### Affiliates FOVISSSTE



Source: FOVISSSTE

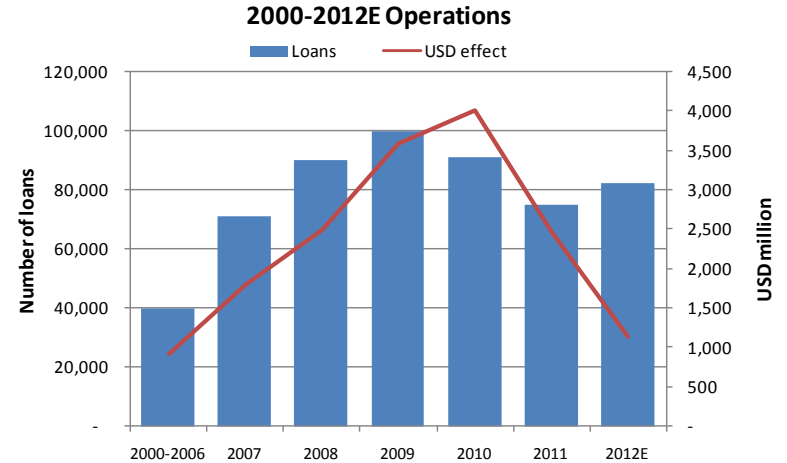
### Loans Granted and their Amount



**In 2011, for every mortgage FOVISSSTE grants there are 15 affiliates who are waiting in line to acquire a loan but remain unattended**

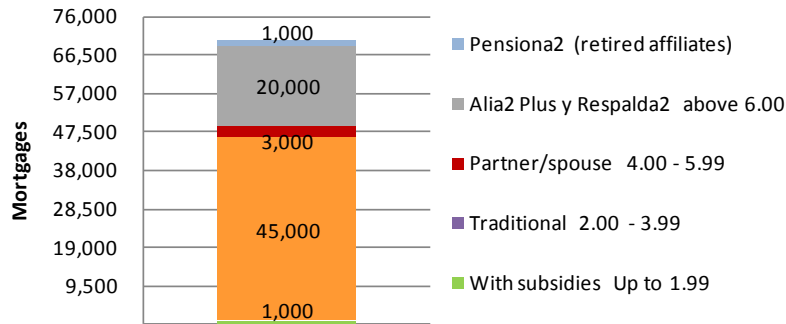
The mechanisms used to collect contributions and mortgage payments are similar to those of INFONAVIT's :

1. FOVISSSTE receives the contributions paid by the Government employer ➔ 5% of workers' base salary
2. Collects mortgage payments by retaining a fixed 30% of the worker's base salary directly from payroll
3. Additional funding through Mortgage-Backed Securities (MBS)



Source: FOVISSSTE, 2012

## FOVISSSTE 2012E Mortgage Granting per Segment



Source: FOVISSSTE, 2012

Segments in times min. wage

## 2012 Goal: Provide 70,000 mortgages

As of July 2012, it has achieved 53.9% of its goal

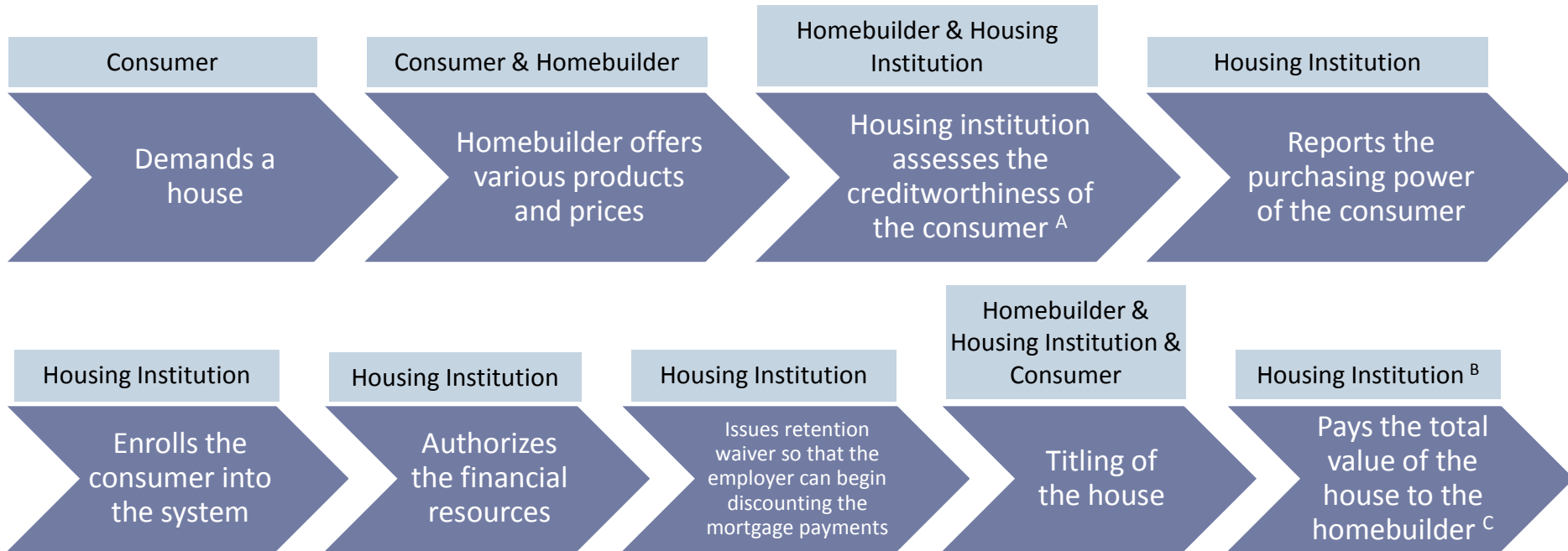
Source: CONAVI, 2012

FOVISSSTE's main goals for 2012:

- Consolidate and improve each and every operational process with a clear strategic plan that links regional demand and supply
- Tap the financial markets through MBS to enhance the supply of mortgages to the Mexican public workers
- Improve the business relationships with additional participants of the financial markets

**FOVISSSTE specializes in granting mortgages to the affordable segments**

# General overview of how the process works



At the same time, the process detailed below takes place:



**Sensitive to:**

1. Inflation
2. Employment
3. Government support

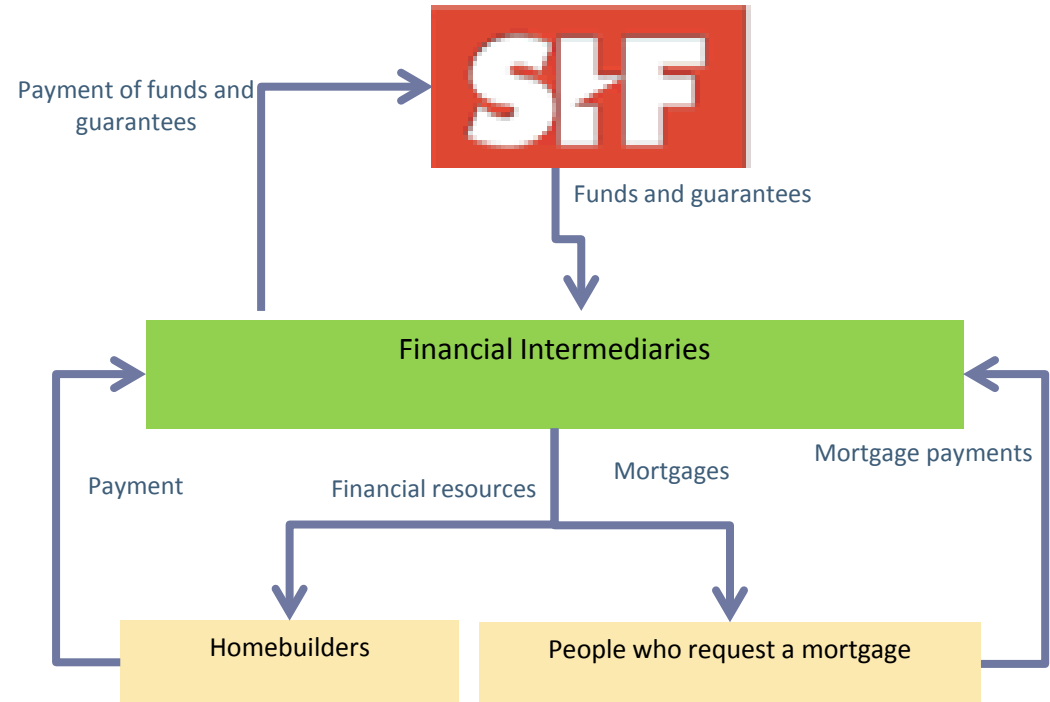
**Resilient to:**

1. Interest rates
2. Bank competition

<sup>A</sup> INFONAVIT: Client must accumulate 116 points  
FOVISSSTE: Determined by a raffle  
<sup>B</sup> Housing institutions are cash-neutral  
<sup>C</sup> Homebuilders are paid on a first-come first-serve basis

## Sociedad Hipotecaria Federal (SHF), Mexico's Federal Housing Bank

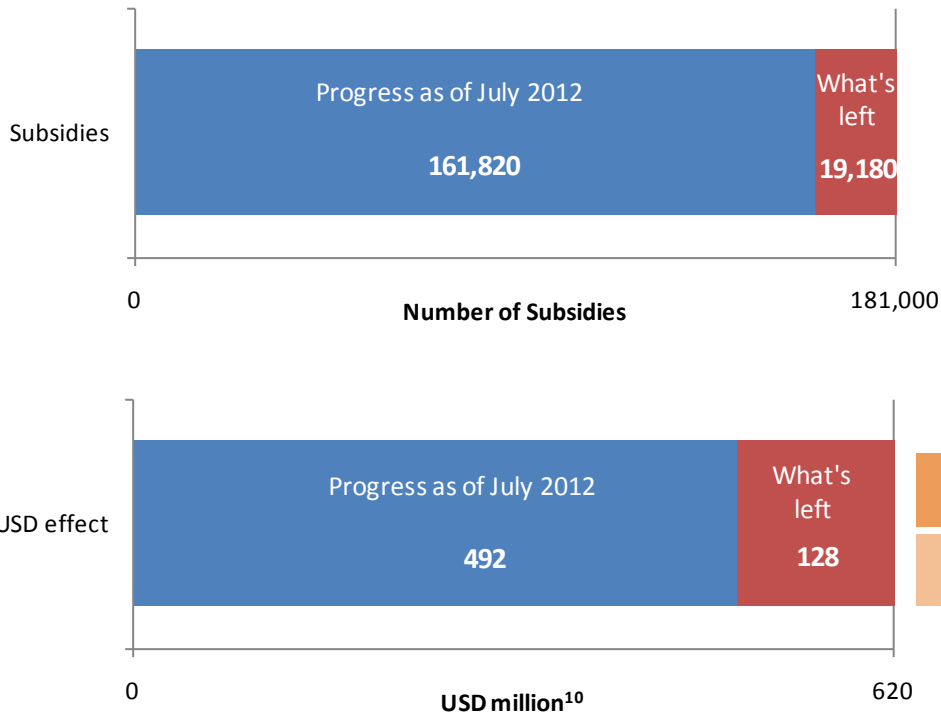
- Second-tier bank that provides funds and guarantees to financial intermediaries (i.e. SOFOL's)
- In pursuit of its goal to develop the primary and secondary housing markets SHF, 1) Focuses on the bottom of the pyramid, by funding low-income housing production, 2) supports the MBS market, by acting as the market maker and taking positions in the primary issues and 3) Provides liquidity to the market, particularly to SOFOL's and SOFOM's, when needed
- Recently, SHF created "Crediferente", new scheme to provide a housing solution to those families unaffiliated to INFONAVIT or FOVISSSTE. The 2012 estimated demand for Crediferente is 20k loans.



**SHF is clearly focused on attending the lower-segments' housing needs through accessible funding**

## Comisión Nacional de Vivienda (CONAVI), the National Housing Commission

### 2012 Goals



- Created in 2001, it **supervises** the correct and effective **implementation** of Mexico's housing goals in pursuit of sustainable developments
- Intermediary** between the public, social and private sectors of the economy regarding housing and funding mechanisms
- Provide subsidies** through "Esta es tu Casa" (this is your house) program to the **lower income families** (2.6 times the minimum wage)

2012 Goal: Provide 181,000 subsidies

As of July 2012, it has achieved 89.4% of its goal

Source: CONAVI, 2012

Through the granting of subsidies and the active role as institutional intermediary, CONAVI is a vital player in the Mexican housing industry

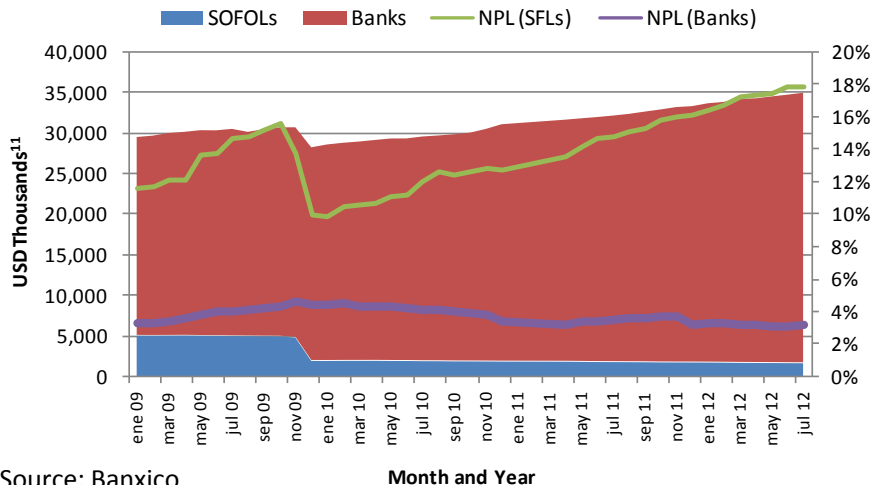
# Commercial Banks and Non-Bank Lenders (SOFOL's) are Facing Tough Times

- Non-Bank Lenders or SOFOL's are commonly used in Mexico to provide consumer, housing and automotive loans to consumers. They also fund mostly Small & Medium homebuilders for the construction of houses through bridge loans
- The main attributes that characterize these financial institutions regarding mortgage lending are:
  - Average interest rate on mortgage: 12-18% fixed rates
  - Target middle and high-income segments
  - Banks and SOFOLs account for 14% of the mortgage market share as of December 2011 according to CONAVI

## What happened with these institutions?

Consumers are not acquiring mortgages

SOFOLs have retracted in providing bridge loans to the Small & Medium homebuilders



2012 Goal for Banks & SOFOL's:  
Provide 138,235 mortgages

As of July 2012, it has achieved 42.7% of its goal

Source: Banxico

Month and Year

Source: CONAVI, 2012

The aftermath of the credit crisis has produced more cautious consumers. Likewise, Banks and SOFOL's have lowered their exposure to the market by providing less funds to the S & Med homebuilders

# The Mexican Housing Industry is the Safest Place to Invest

**The Housing Industry in Mexico benefits from unique fundamentals, solid housing institutions and prudent government policies that differentiate it from the rest of the world**

		Mexico	Countries with housing crises (i.e. USA, UK, Spain)
Interest rates		Fixed	Variable
Loan to Value Ratio (%)	Pre-crisis	90%	USA (90-100%)
	Post-crisis	70%	USA (80%)
Secondary market for mortgages		No	Yes
Housing prices		Subject to inflation (no bubbles)	Subject to interest rates and speculation
Mortgage origination standards		Strict	Lenient
Mortgage penetration (% of GDP)		6%	USA (60%)
Potential risks		High unemployment	Low interest rates
Down payment		20%	USA (5-20%)
Average NPL's		6%	USA (10%)
Mortgages		Non toxic	Sub-prime

Source: GEO, 2012

**Mexico offers a safer environment for the development of the housing market as well as attractive fundamentals that will enhance the participation of the industry in the overall progress of the country**





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# MEXICAN HOUSING INDUSTRY PRIMER PRESENTATION



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