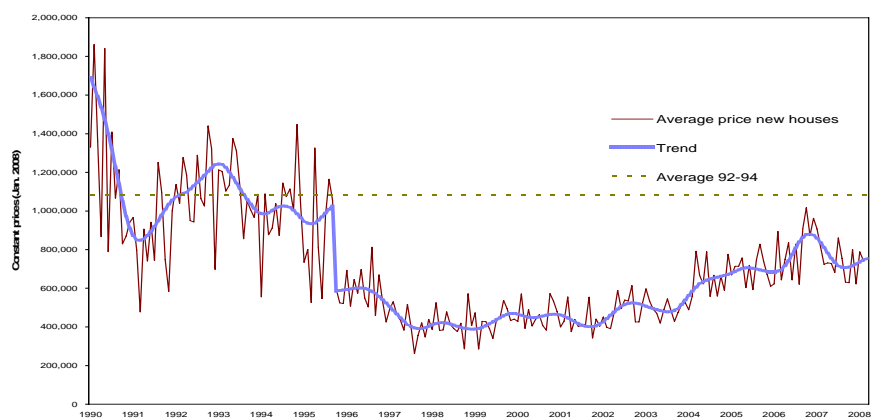


Housing Subsidies in Mexico

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Urban Forum
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Background: Housing prices and the Tequila crisis



Macro indicators

	2004	2005	2006	2007
Real GDP (% growth)	4.2	2.8	4.8	3.2
Private Investment (% growth)	8.8	9.7	11.5	5.2
Consumer Price Inflation (% year-end)	5.2	3.3	4.1	3.8
Exchange rate (peso/dollar, annual average)	11.29	10.90	10.91	10.95
Budget Deficit (% GDP)	-0.2	-0.1	0.1	0.0

Market segmentation: Employment

Formal Sector	23.8%	21.1%	9.7%	12.4%	67.0%
Informal sector	11.3%	10.8%	4.7%	6.2%	33.0%
Total	35.1%	31.9%	14.4%	18.6%	100%
Min Wage	0 - 3	3 - 6	6 - 9	> 9	Total



Unserved



Government Housing
Funds



Sofoles

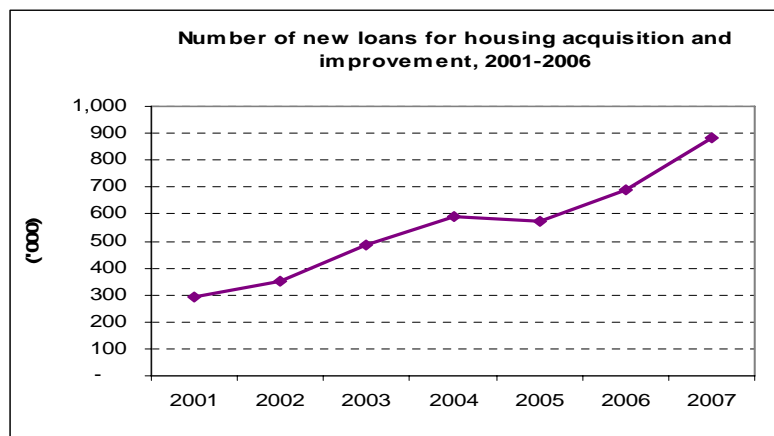


Banks

Government Reform Program

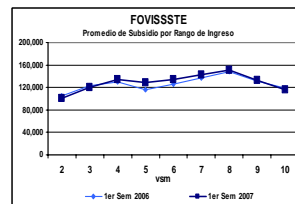
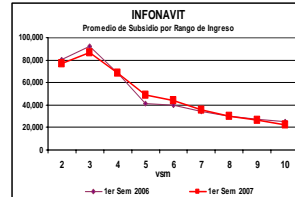
- Deliver 750,000 housing “ solutions” per year, increased to 1 million since 2006
- Operational efficiency and governance of national housing funds
- Initial reforms: Supply side
 - Civil code to expedite foreclosure
 - Increase and standarize credit history data
 - Appraisal norms

Housing loans



Existing subsidy programs

- Housing funds: implicit subsidies
 - 99% of total amount (97% by number)
 - Max level: 30% of average house price
 - Obscure allocation mechanisms



Existing subsidy programs

- Small up-front programs
- Non-credit linked required LG land and infrastructure subsidy
- Impact evaluation:
 - Improved physical conditions
 - lack of urban services
 - high vacancy rates

New Subsidy program: Design

- ❑ Launched 2007: USD 400 million
- ❑ Up-front grants linked to credit
- ❑ Can be used for new, existing and progressive housing but biased towards new
- ❑ Targeting formal (up to 2.6 MW) and informal employees (up to 4 MW)
- ❑ No regional differentiation, no local government responsibility or contribution

Some results:

		2004	2005	2006	2007
1	Total number of subsidies	302,122	445,952	612,617	820,827
2	Total amount (value) of subsidies in all programs (MXP million)	24,366	31,154	35,564	31,696
3	Total amount (value) of subsidies to pop <3MW (MXP million)/and non-formally employed	1,705	10,299	13,143	12,740
4	Total number of beneficiaries who receive more than one subsidy from ONAVIs	-	3,283	21,071	72,804
5	Ratio of total amount (value) of subsidies to pop <3MW to total amount (value) of subsidies	0.07	0.33	0.37	0.40
6	Ratio of number of subsidies to pop <3MW to total number of subsidies	0.07	0.37	0.49	0.61
7	Ratio of total amount (value) of up-front grants and interest-rate-buy-downs to total amount (value) of total implicit interest rate subsidies (MXP)	0.01	0.03	0.13	0.18
8	Ratio of number of up-front grants and interest-rate-buy-downs to total number of implicit subsidies*	0.03	0.09	0.28	0.61
9	Ratio of total number of beneficiaries who receive more than one subsidy to total number of subsidies*	-	0.01	0.03	0.09

Pending issues

- ❑ No comprehensive subsidy policy, only subsidy programs
- ❑ Bias towards finished housing
- ❑ Progressive housing: costly, interest rates too high (sometimes 100%)
- ❑ Targeting: Household vs individual income & monetary vs asset based poverty measurement
- ❑ Lack of comprehensive/systematic evaluation M&E
- ❑ Integration with local government: land & infrastructure
- ❑ Regional differentiation: cost of inputs
- ❑ Provision of urban services
- ❑ Too vulnerable to political pressures (i.e. climate change)

Rental: demand

- ❑ Represents 13 % of the total housing stock
 - Higher in tourist urban areas: Cancun (31%), Puerto Vallarta (26%)
- ❑ 40% of hh that rent in Mx city rent a single room without private bathroom
- ❑ Estimated 20% of rental units are in poor or very poor conditions
- ❑ Market structure is atomized: Around 72% of landlords rent between 1-10 units
- ❑ Estimated 70% of contracts are informal
- ❑ 45 % of households that rent in MX city Metropolitan area report that rent is their only affordable option (52% in Monterrey, 32 % in Guadalajara)
- ❑ HH earning below 2MW allocate 35% of income to rent in Mx city; 51% in Guadalajara and 42% in Monterrey

Rental (2)

- Taxation as a disincentive – income tax, property tax is higher in most cities

	Individual	Institutional
Taxation relative to gross income	14.0% a 18.7%	18.5% a 19.4%
Taxation relative to net income	22.0% a 29.0%	28.0% a 30.0%

- Limits to length of contracts, rent increases, heterogeneous legal framework

Ingreso corriente monetario promedio por hogar trimestral^{1/}, por deciles de hogares 2000-2006 (Precios constantes de 2006)

Decil	Año		Variación Porcentual 2000-2006
	2000	2006	
I	\$2,698	\$3,320	23.1%
II	\$5,826	\$7,174	23.1%
III	\$8,064	\$10,042	24.5%
IV	\$10,474	\$12,739	21.6%
V	\$13,263	\$15,845	19.5%
VI	\$16,752	\$19,506	16.4%
VII	\$20,936	\$24,246	15.8%
VIII	\$27,279	\$31,472	15.4%
IX	\$39,509	\$43,796	10.9%
X	\$96,131	\$99,215	3.2%
Total	\$24,093	\$26,736	11.0%

^{1/} Incluye los hogares que tienen cero ingresos.

Hogares según ingreso monetario, 2000 - 2006 (Distribución porcentual según rango de SMGM)

