URBAN DEVELOPMENT AND HOUSING POLICY 2013-2018

Agenda

I. Federal Urban Development and Housing Policy

On February 11th, President Peña Nieto announced the new government's Urban Development and Housing Policy guiding principles:

> Main goal: To make decent and **dignified housing available for all**.
> Housing policy will be a fundamental piece of urban development policy, in the pursuit of, not only housing, but also greater quality of life.

- In order to achieve this goal, four strategies were defined:

    1. Advance **enhanced coordination** of urban planning and housing institutions

    2. Evolve towards a **sound and sustainable urban development** model

    3. Reduce **housing deficit**

    4. Procure **high-quality, competitive and sustainable housing** solutions

II. Importance of the housing sector for the Federal Government

- The government acknowledges that the housing industry is one of the main economic activities in Mexico

- The construction industry is driven by two main forces: infrastructure and housing construction, which together represent 6.23% of total GDP

- Housing is one of the main sources of job creation, with an impact in over 28 industrial sectors

- It is a very well developed industry, with approximately 1,200 large, medium and small firms located all over the country

- The government is committed to support the industry, maintaining a constant flow of loans and subsidies, and defining a clear set of rules to provide certainty over the medium and long term
- The new housing policy guarantees that the industry continues to play a leading role in the economy through housing production

III. Political stability and governance

Legitimacy

- Democratically elected government

- Smooth and coordinated transition

Governance

The historic *Pacto por México,* signed by three major parties, makes it feasible to approve and execute structural reforms, such as:

- Telecommunications

- Tax reform

- Energy

- Transparency

Efficiency

During its first 100 days this Administration has achieved substantial change:

- **Labor reform** (setting new paradigms for the first time since 1970)

- **Education** (guarantees quality and proper oversight of teachers)

- Reform to the **Federal Legislation on Public Administration** (brings together land, urban development and housing policy)

IV. Economic stability

- Stable macroeconomic markers

- Higher GDP growth rates are expected

- Steady foreign investment flows

- Job growth derived from recent reforms to the Federal Labor Act

- Control over inflation rates that shields workers' purchasing power

"By the end of this decade Mexico will probably be among the world's ten biggest economies"
The Economist, Nov 24th, 2012

"Which country will become the more dominant economic power in the 21st century? I now have the answer: Mexico"
New York Times, Feb 23rd, 2013

	3-year Average	2013 (estimated)	2014 (estimated)
Inflation	3.93 *	3.67**	3.66**
GDP annual growth	4.36***	3.55**	4.03**
Unemployment rate	5.03***	4.51**	4.17**

Source: *Banco de México; **Banco de México, *Encuesta sobre las expectativas de los especialistas en la economía del sector privado*, January 2013; ***INEGI.

V. Sound institutional framework

- A different institutional design was proposed by this Administration to benefit the sector. This design brings housing agencies under one single leadership allowing for greater coordination
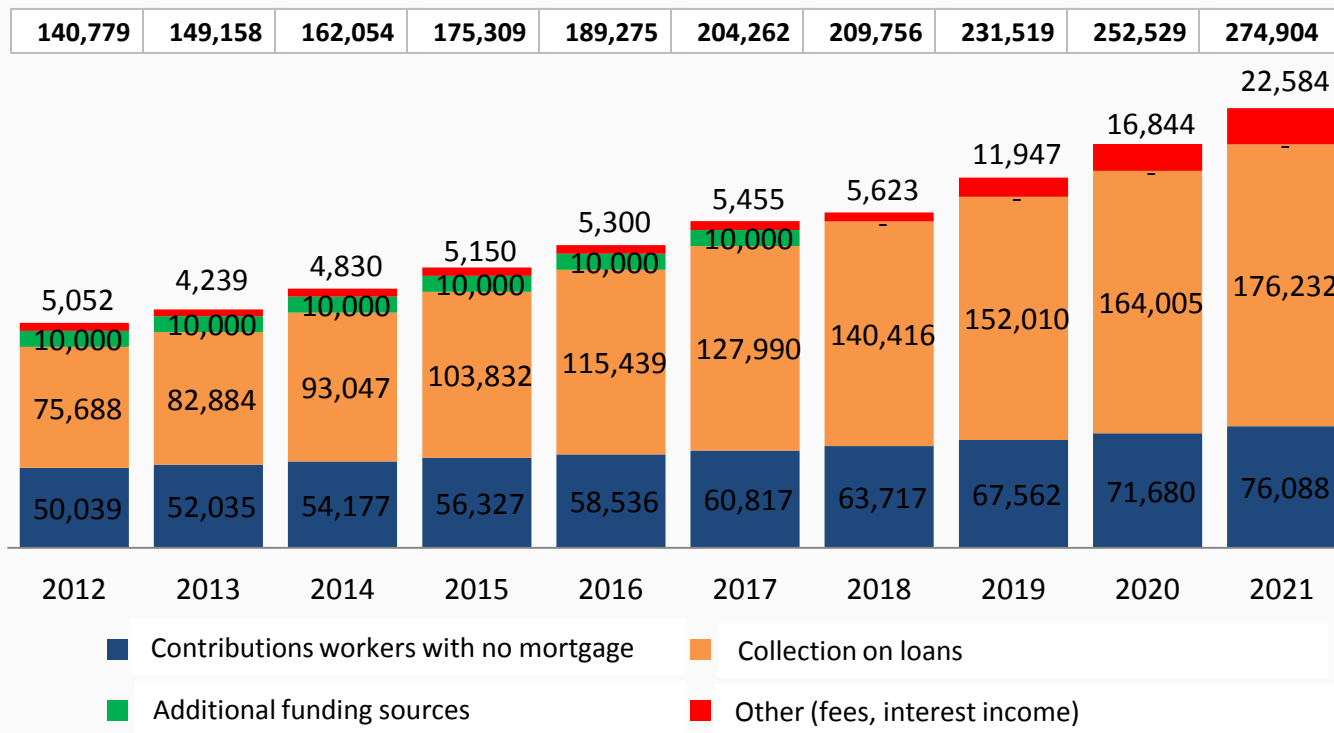

- Each Housing agency's nature and legal mandate is maintained They will continue to address housing needs as before, simultaneously seeking stronger funding solutions.

V. Sound institutional framework

- Housing agencies maintain financial health and pay close attention to income streams.

Estimated Income INFONAVIT 2012 - 2021

140,779	149,158	162,054	175,309	189,275	204,262	209,756	231,519	252,529	274,904

Chart data (stacked bars):

Year	Contributions workers with no mortgage	Collection on loans	Additional funding sources	Other (fees, interest income)
2012	50,039	75,688	10,000	5,052
2013	52,035	82,884	10,000	4,239
2014	54,177	93,047	10,000	4,830
2015	56,327	103,832	10,000	5,150
2016	58,536	115,439	10,000	5,300
2017	60,817	127,990	10,000	5,455
2018	63,717	140,416	-	5,623
2019	67,562	152,010	-	11,947
2020	71,680	164,005	-	16,844
2021	76,088	176,232	-	22,584

Source: Infonavit, Financial Plan 2012-2016

V. Sound institutional framework

- Housing agency loan recovery strategies continue to show positive results

Non-performing loan ratio for mortgage lending
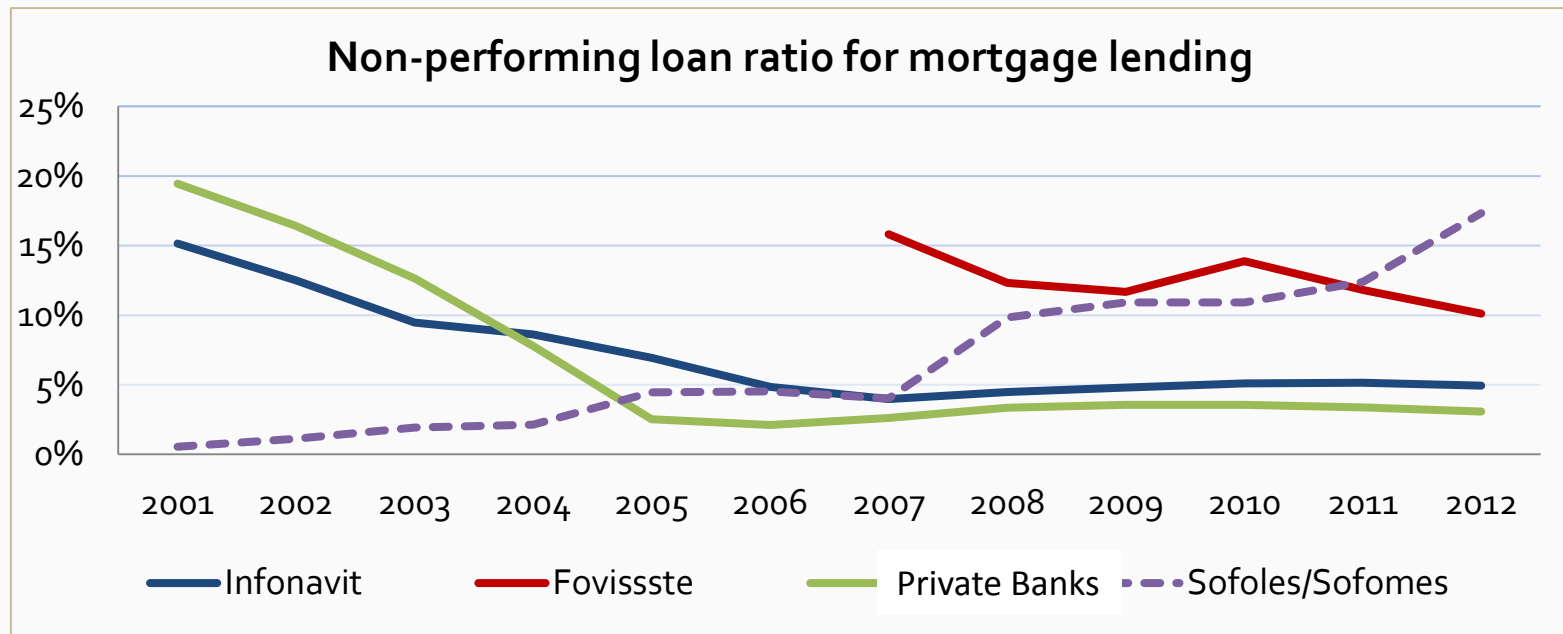
Source: CONAVI with data from housing institutions. Banks and Sofoles obtained from Central Bank.
 FOVISSSTE registers non-performing loans as of 2007. NPLs do not include off-balance portfolio.

VI. Housing demand

The government has identified underserved segments of the population that can be incorporated into mainstream financial products.

- **Sate and municipal workers**, including members of police forces **(1.8 million)**

- **Small taxpayers**: Independent professionals, small businesses and self-employed workers

- More affiliated workers for housing agencies due to **growth in formal employment given structural reforms** foreseen in the *Pacto por México* → energy, labor and telecommunications

Expected growth in formal employment *(number of jobs)*	
2013 (expected)	**2014 (expected)**
649,000	705,000

"The Central Bank's board has decided to increase the 2014 job creation forecast to a range of 700 to 800 thousand new jobs"
Agustín Carstens, february 14th, 2013

Source: Banco de México, *Encuesta sobre las expectativas de los especialistas en economía del sector privado*, january2013
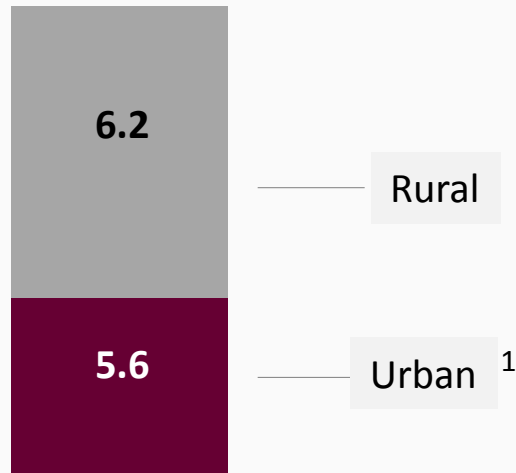
VI. Housing demand

- **There are three main sources that contribute to housing demand**

Millions of housing units in need of improvement or expansion

6.2 — Rural

5.6 — Urban [1]

↓ some of these to be replaced by new homes

a — **Housing units in need of improvement or extension**

- 5.6 million units in urban areas require improvement or expansion
- Some of these can be replaced by new units
- Assuming that 20% of deteriorated units are replaced with new units:

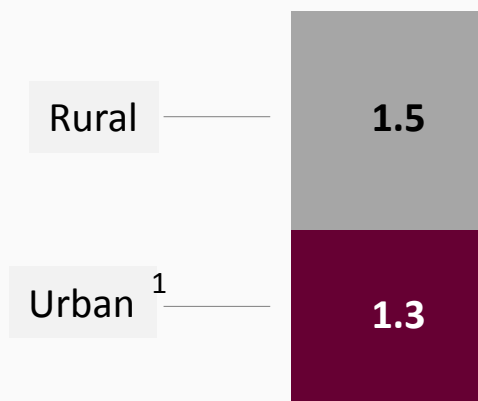| Potential demand **a**:	**1.12 million new units in urban areas**

Source: CONAVI based on INEGI National Housing and Population Census 2010.
1. Locations with population over 15 thousand

VI. Housing demand

b Housing units that need to be replaced

Millions of housing units that need to be replaced

Rural — **1.5**

Urban [1] — **1.3**

- 1.3 million units in urban areas are extremely damaged or suffer from overcrowding
- These units need to be replaced with new units

Potential demand **a**: **1.3 million new units in urban areas**

Source: CONAVI based on INEGI National Housing and Population Census 2010.
1. Locations with population over 15 thousand
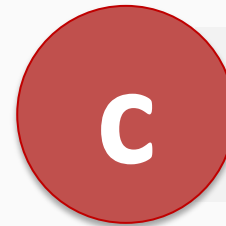
VI. Housing demand

C Housing demand due to population growth

Period	Annual average incremental housing demand
2011 - 2015	583,621
2016 - 2020	569,692
2021 - 2025	531,601
2026 - 2030	466,775
	Source: CONAPO

- Over the next 20 years, 10.7 million units will be required to cope with population growth
- 557 thousand units will be needed every year during the course of this Administration, of which 369 thousand are located in urban areas

Potential demand **c**: (2013 – 2018)	**2.21 million new units in urban areas**

VI. Housing demand (new units in urban areas)

- Over the next 6 years, cities with population over 15 thousand will demand 4.63 million new units (3)

- Of these, around 60% of potential consumers currently have access to formal financing channels to obtain a mortgage(1)

- As we make progress , improving labor conditions for informal jobs (2), the housing consumer base with access to mortgages will be expanded
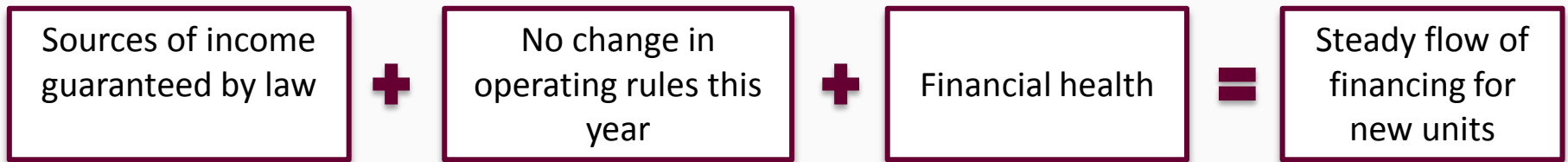
	Households with access to financing (million housing units) (1)	Households without access to financing (million housing units) (2)	Total (million) (3)
a Units in need of improvement or expansion	0.67	0.45	1.12
b Units that need replacement	0.78	0.52	1.3
c Units to cope with population growth 2013-2018	1.33	0.88	2.21
TOTAL	**2.78**	**1.85**	**4.63**

463 thousand / year

Housing policy goal

Source: CONAVI based on INEGI National Housing and Population Census 2010.

VII. Availability of loans and subsidies

- Housing agencies will maintain their loan origination pace

Sources of income guaranteed by law	**+**	No change in operating rules this year	**+**	Financial health	**=**	Steady flow of financing for new units

- Loan origination programs are operating as usual and are guaranteed to continue to do so for years to come

- **In fact, INFONAVIT and FOVISSSTE started 2013 with better-than-expected results and performed better compared to 2012 on a year-over-year basis**

- During government transition, the housing industry requested support from the new administration to reinforce financial liquidity. Hence, a special program was announced, which generated a spillover of 6,000 million pesos from December to February. (5,000 million through INFONAVIT loans and 1,000 million through CONAVI subsidies)

Source: CONAVI based on INEGI National Housing and Population Census 2010.
1. Locations with population over 15 thousand

VII. Availability of loans and subsidies

- President Peña Nieto announced a 2013 goal of over one million housing initiatives, including **500 thousand** targeted to **new housing units**

Institution	GOALS 2013					
	Housing acquisition		**Improvements and expansion**	**Autoproduction**	**Total**	
	New units Loans / Subsidies (thousand)	**Used units** Loans / Subsidies (thousand)	Loans / Subsidies (thousand)	Loans / Subsidies (thousand)	Loans / Subsidies (thousand)	Investment (Million pesos)
INFONAVIT	310	145	90	NA	**545**	**123,471**
FOVISSSTE	57	18	0.1	NA	**75**	**38,021**
FONHAPO	19	NA	65	NA	**84**	**2,132**
CONAVI	70	10	68	17	**165**	**5,788**
SHF	3	1	120	40	**164**	**5,000**
Banca*	98	ND	ND	NA	**98**	**88,000**
Sofoles*	3	ND	ND	NA	**3**	**1,260**
Total	**560**	**174**	**343**	**57**	**1,134**	**263,672**

Source: CONAVI based on figures from each institution .* The "Renueva Tu Hogar" or Improve your Home Program is 100% bank funding ** CONAVI self-construction includes self construction, land with services, and Renovation. Note: FONHAPO does not break down housing programs in acquisition.*** Financial entities do not break their housing acquisition figures in new and used housing units

VII. Availability of loans and subsidies

- 5,787 million pesos authorized by Congress to fund low-income household subsidies

- 67% of this budget will be applied towards new home acquisition (3,873 million pesos)

- This will allow for the construction of 69,790 new units

- Each federal subsidy (around 55 thousand pesos) stimulates an investment of 190 thousand pesos for a loan and 10 thousand in savings (down payment)

- Vertical construction will be a priority, taking 50% of available funds, the remaining can be applied to horizontal construction

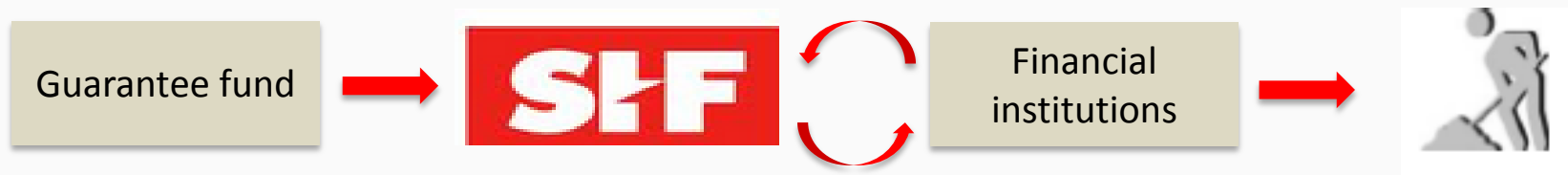- Subsidies are flowing according to plan in 2013

VII. Availability of loans and subsidies

- The Federal Government has already started creating the implementation tools to meet Housing Policy goals

- To promote greater participation by private bank in mortgage lending, on March 6th the Ministry of Finance, Ministry of Agrarian, Territorial and Urban Development and SHF made a joint announcement to launch new financial products to serve industry needs

- One of these is a first-loss guarantee program aimed to cover:

  - **Mortgages** for individuals unaffiliated to Housing Funds

| Guarantee fund | → | SHF | ↻ | Financial institutions | → |
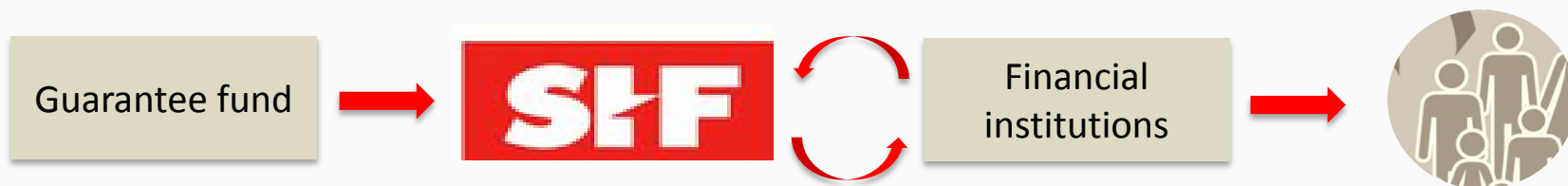
  - **Construction loans** for new housing projects

| Guarantee fund | → | SHF | ↻ | Financial institutions | → |

VIII. Housing supply

- A **new urban growth model** aimed to contain sprawl and consolidate inner-cities. This model allows for an **optimum use of existing infrastructure, services and land exploitation**.

- Housing units should **avoid overcrowding** and guarantee access to basic infrastructure. Houses should have at least **two rooms** and decent surroundings.

- **Verticality** will be prioritized in order to increase density in urban centers.

- Mexico is already recognized as a world leader in the incorporation of **sustainability criteria for low-income housing** increasing property value.

- Transitioning from horizontal to vertical housing has certain **technological, financial and profitability** implications over the current business model.

IX. Urban sprawl containment and land reserves

New Housing policy aims to:

- Take advantage of installed infrastructure and urban equipment in the cities

- Exploit vacant properties and urban empty land

- Optimize land use increasing density and developing better recreational spaces

- Improve inner-city neighborhoods by reusing deteriorated urban space

- Dignified and sustainable housing

- Competitive cities

IX. Urban sprawl containment and land reserves

The current Administration intends to maintain criteria on urban perimeters

- **U1** Defined based on employment indicators (CONAPO) and demarcations by the Ministry (SEDATU before SEDESOL)

- **U2** Defined based on availability of services and infrastructure (source INEGI 2010)

- **U3** City perimeter growth based on population

In order to consolidate cities, in 2013 an interinstitutional group will evaluate viability of land reserve inventory in order to deterines a new U3 perimeter in July.

Land reserves will be registered between March and April 15th 2013

DUIS -> DC

U3

U2

U1
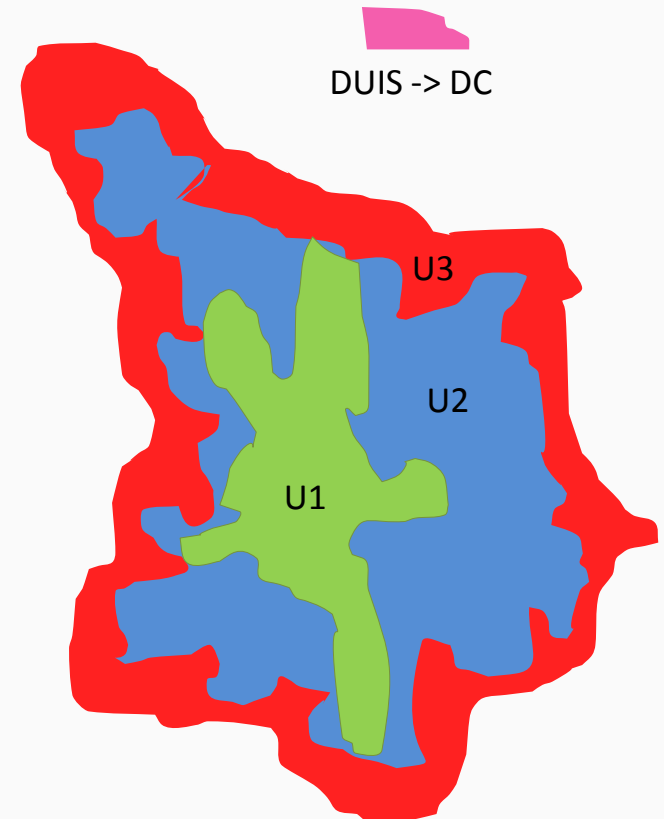
SEDATU will design initiatives to promote and support Certified Developments (before DUIS)

IX. Urban sprawl containment and land reserves

Purpose.- « Transform urban development into a sustainable and intelligent development model

Step 1

Based on voluntary registration of land reserves by homebuilders, there will be a National Housing Registry processed by RUV (called RENARET)

Reserves will be classified according to their current status:

R1. Non residential reserves with no infrastructure

R2. Residential reserves with no infrastructure

R3. Residential reserves with infrastructure

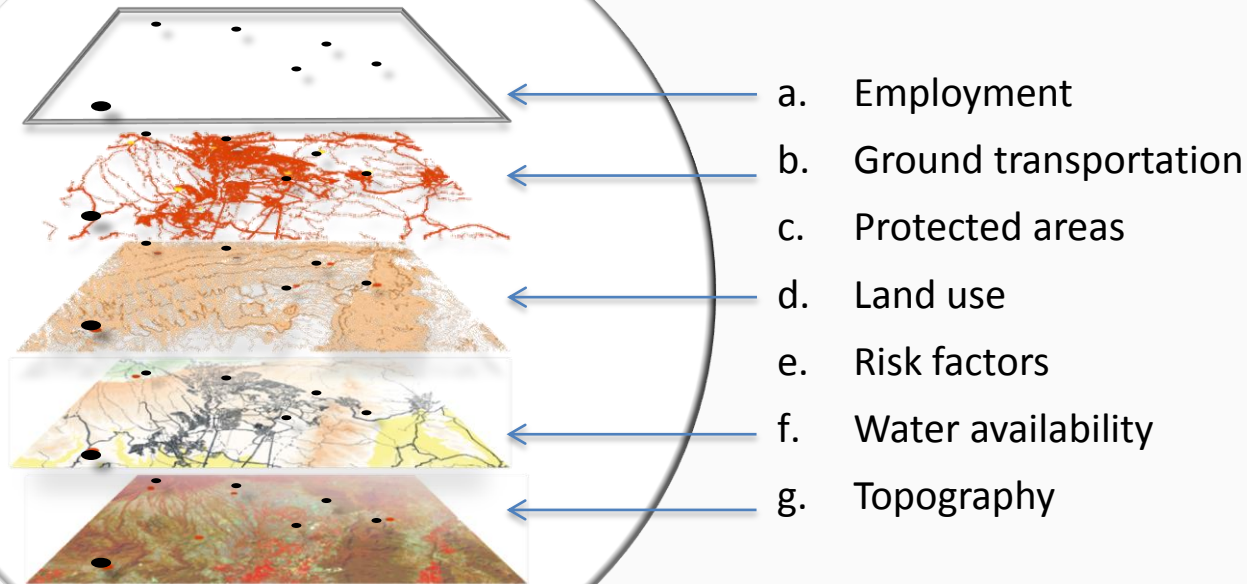**R4.** Residential reserves with I infrastructure and housing production

	Land	Residential	Infrastructure	Housing
R1	✓			
R2	✓	✓		
R3	✓	✓	✓	
R4	✓	✓	✓	✓

Based on currently available information, approximately 80% of land reserves are geared to urban housing
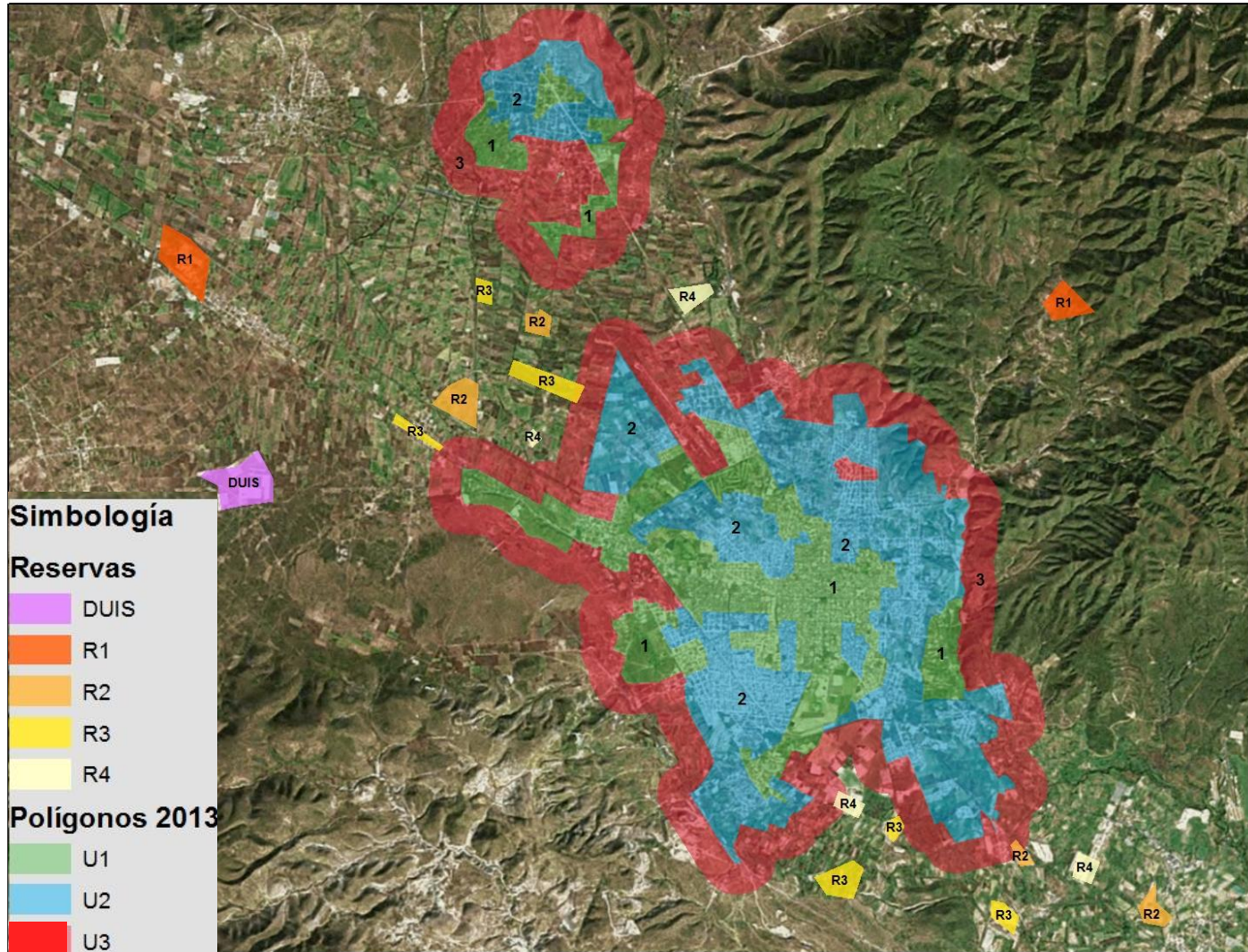
IX. Urban sprawl containment and land reserves

Step 2

SEDATU and CONAVI will analyze layers of information in order to determine viability of land reserves

a. Employment

b. Ground transportation

c. Protected areas

d. Land use

e. Risk factors

f. Water availability

g. Topography

Additionall layers of information will be used to define areas targeted for expansion based on expected population growth
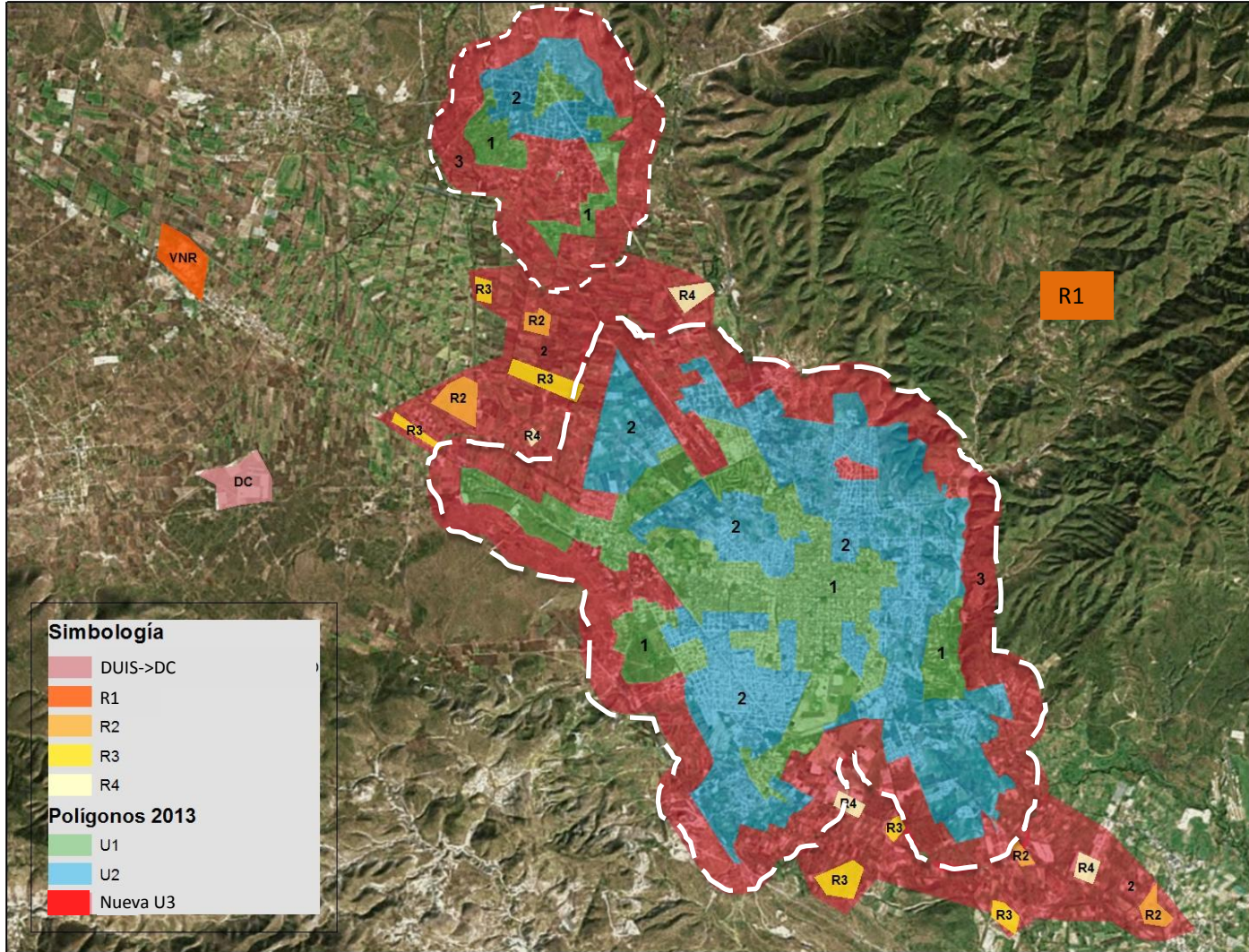
RUV
Registro Único de Vivienda

IX. Urban sprawl containment and land reserves

Example based on land reserve registry

Example based on land reserve registry

X. New institutional framework and coordination with state and local authorities

The new Ministry for Agarian, Territorial and Urban Development (SEDATU) will now lead urban and housing policies and agencies

■ **Coherent programs and actions regarding:**

- Land
- Funding
- Hounsing
- Infrastructure
- Environment

- Standardized criteria and procedures
- Synergies

■ **Closer coordination with state and local governments to**

- Standardize legal frameworks
- Improve management capabilities
- Red-tape reduction
- Modernization of property registries
- Sign cooperation agreements to alling federal and local urban and housing policy

FINAL REMARKS

- The Federal Government acknowledges the **housing industry's fundamental role** in the domestic economy and for the achievement of national goals

- The new urban development model will be adopted in a context of certainty. President Peña Nieto has repeatedly stated that "*the housing train will keep forward*"

  - Housing agencies **will not change operating rules** for the remainder of 2013

  - A new set of rules for 2014 will be announced **six months in advance**

    - Existing urban perimeters used by CONAVI will be maintained; there will be no harming retroactive initiaties

    - The new **National Private Land Reserves Registry** in under construction. It will allow the government to analyze suitability of new perimeters for urban growth

  - A two-year transition period has been established so the industry can adapt to the new urban development and housing model

  - The National Development Plan 2013-2018 and Urban Developent and Housing programs will be released during the second semester of this year, from which strategies will be designed to materialize the National Policy's main goals