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Supply of Affordable Housing Increases During Fox Administration

by LADB Staff
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One of President Vicente Fox's tangible accomplishments during five years in office is an increase in the supply of affordable housing in Mexico. The president has attained this goal through a series of initiatives that allow more lower- and middle-income Mexicans to obtain mortgages. Because of government-backed programs, more than 2 million Mexicans have obtained home loans during the past five years, twice the number achieved by Fox's predecessor Ernesto Zedillo (1994-2000). Furthermore, some housing experts predict that 600,000 mortgages will be issued in 2005, twice as many as in 1999.

Housing deficit still large

Even with these accomplishments, the success attained under the Fox administration is very modest when compared with the overwhelming needs in Mexico. In a country where nearly half the population lives in poverty, the housing deficit is still close to 5 million, according to government estimates. Some private analysts believe the deficit could be closer to 7 million homes.

A recent report from the Secretaria de Desarrollo Social (SEDESOL) said millions of Mexicans live in fragile dwellings made of sheet metal, boards and planks, and even cardboard. In many cases, these homes are in landfills or on the sides of hills and lack basic services such as water and electricity. Most of these dwellings have been erected illegally, either on public municipal or federal lands or on private property. "Mexico is facing a very painful reality," said SEDESOL. "A little more than 13 million people live in substandard dwellings, in areas that have little or no infrastructure and basic services.

SEDESOL said the migration from rural areas to the metropolitan areas is putting a significant strain on resources and creating overcrowded conditions in the cities. "What is most worrisome for our country is that an increasing percentage of the poor population is concentrating in the cities and adjacent areas," said SEDESOL.

More government, private loans available

Still, even critics agree that Fox's achievements in promoting home ownership are encouraging, especially since a new generation of low- and middle-income people is now able to own a home. "Five years since this so-called government of change took office, the one area where we can point to concrete progress is in housing," columnist Javier Rodriguez of the Mexico daily business newspaper El Financiero said on the eve of Fox's annual state address in early September.

Many detractors used the short 2005 address to criticize Fox for the lack of achievements during his five-year tenure (see SourceMex, 2005-09-07). "The administration seeks to make good on its campaign promises to create 750,000 new housing units per year by 2006," said Rodriguez. "This promise, compared with other campaign promises, is one that can be attained."
Rodriguez said Fox increased and diversified the number of loans offered through the Instituto Nacional del Fondo de la Vivienda para los Trabajadores (INFONAVIT), boosted home construction, created conditions for commercial banks to increase home loans to lower-income clients, and shored up other sources of credit such as the Sociedades Financieras de Objeto Limitado (SOFOLES). SOFOLES are non-bank financial institutions licensed to lend to particular sectors or for specific activities such as housing, consumer, or small-business lending. They were created through the North American Free Trade Agreement (NAFTA) as a means for US non-bank institutions and Canadian investment societies to operate in Mexico.

The majority of SOFOLES are licensed to lend for housing or real estate development. The government's financial-services consumer-protection agency, the Comision Nacional para la Proteccion y Defensa de los Usuarios Financiero (CONDUSEF), lists 20 SOFOLES that have been certified as viable lenders. "The SOFOLES have instituted innovative loan origination and servicing policies and have spurred greater competition and specialization in the financial sector," said Natalie Pickering of Goldman Sachs, who wrote an article on SOFOLES for the Joint Center for Housing Studies at Harvard University.

The government is also attempting to create a program that uses remittances sent by Mexicans working in the US and other countries to finance home construction. This program is managed through the Comision Nacional de Fomento a la Vivienda (CONAFOVI), which offers loans primarily to low-income customers, allowing them to build more permanent and solid dwellings rather than fragile temporary housing. "Our first objective is to offer 20,000 loans per year," said agency director Carlos Gutierrez. "We believe we can reach that goal in 2007."

The combination of affordable loans and construction incentives has helped boost home construction, with more than 414,000 new homes built in Mexico in 2004. This represents a 66% increase from 2001, according to government estimates. A large share of these new homes is in new subdivisions on the outskirts of metropolitan areas.

In most cases, these homes are very small and cramped, but the monthly mortgage payment is only about 800 pesos (US$75). "Proponents hail the developments with their uniform facades and paved streets as a welcome alternative to the gritty shantytowns ringing many urban centers in Mexico," said the Los Angeles Times. "The boom has generated construction jobs and fueled sales of appliances and furniture. The stock prices of publicly traded home builders have soared."

**Critics question quality of new homes**

Critics are questioning the quality of the homes being built, with some housing units already showing signs of wear just months after the new owners have taken possession. Many builders are constructing thousands of bare-bones units, most of which have shared walls, compact floor plans, and yards as small as 1 sq meter. For some, the poor quality of the homes raises the question of whether the homes will have much value once 30-year mortgages are paid off. "We're building the slums of tomorrow," said sociology professor Maria Teresa Esquivel of the Universidad Autonoma Metropolitana (UAM). "The Fox administration likes to point to the large numbers of homes being built. But what about quality of life?"
The housing committee (Comision de Vivienda) in the Chamber of Deputies is pushing for the Fox administration to allocate almost 23.5 billion pesos (US$2.1 billion) in the 2006 budget for low-income housing. The allocation would cover both purchases of new homes and repair of dwellings that are in urgent need of upgrade. Deputy Roberto Pedraza Martinez, who chairs the housing committee, said many of the low-income homes being constructed are not only lacking in quality but are far from the center of cities, where most jobs are.

Many homes that are constructed near the center of cities are too costly for most low-income buyers. "Unfortunately, many of these dwellings, perhaps as many 500,000, cannot be sold because the loans offered by the financial institutions are insufficient," said Pedraza, a member of the former governing Partido Revolucionario Institucional (PRI). [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 18, reported at 10.83 pesos per US$1.00]. (Sources: "The Sofoles: Niche Lending or New Leaders in the Housing Market," Joint Center for Housing Studies, Harvard University, May 2000; CONDUSEF, www.condusef.gob.mx; El Financiero, 09/01/05; El Universal, 10/03/05; La Cronica de Hoy, 09/12/05, 10/04/05; Notimex, 10/04/05, 10/06/05, 10/07/05; Los Angeles Times, 10/07/05)

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