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Bloomberg News

MEXICO CITY - Just as the U.S. emerges from the worst of its foreclosure crisis, Mexico's is getting worse.

Home reposessions more than doubled last year to a record 43,853 from 2011, according to Infonavit, the state-backed lender responsible for about 70 percent of home loans in Mexico, as the past decade's expansion in government-subsidized housing backfires and adds to a glut of empty homes weighing on the nation's beleaguered builders.

Efforts to build thousands of properties on low-cost land beyond city limits has led to unpaid mortgages as workers shun commuting costs and return to urban living, according to the government. With abandoned homes mounting, Infonavit has ramped up home seizures by acting on unpaid taxes instead of delinquent loans, reducing its transaction time to about four months from more than two years, the lender said.

"We have a serious problem with unoccupied homes," Eduardo Torres, an economist with the local unit of Banco Bilbao Vizcaya Argentaria, said in a telephone interview from Mexico City. "They were built under the false premise that the housing deficit

Infonavit has been financing home purchases since the 1970s in part to help curb a housing deficit caused by population growth and properties in disrepair. The policy created windfalls for homebuilders, sparking a wave of initial public offerings and foreign bond sales over the past 10 years, with investors rushing to finance a government-backed industry that seemed shielded from economic swings.

Now the policy is fueling a housing downturn even as Latin America's second-biggest economy enters its fourth straight year of expansion. Mexico probably will grow 3.5 percent this year, compared with a 3.1 percent rate in Brazil, the region's biggest economy, according to Bloomberg surveys of economists.

The U.S. economy is forecast to grow by 1.9 percent as its housing market rebounds from a six-year slump and the pace of foreclosure filings slows to the lowest level since 2007. Shares of U.S. homebuilders have risen 12 percent this year and more than doubled since the end of 2011.

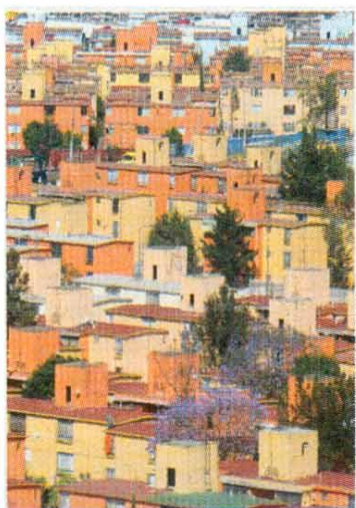
In contrast, Mexico's builders are getting squeezed by the added supply from foreclosed homes, with the Mexico Habita Index of six builders plunging 36 percent this year. Urbi Desarrollos Urbanos SAB, the country's third-largest builder, has dropped 61 percent, and yields on its bonds due



Government-funded loans helped spark a housing boom in Mexico as builders erected mass developments outside of cities.

Foreclosures homebuilders

Gov't looks to urban apartments to solve problem



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in 2022 reached a record 20.89 percent on March 25 from 10.61 percent at the end of last year.

The number of properties resold at auction rose 442 percent last year to 43,351, according to data provided upon request by Infonavit, while sales at Corp. Geo SAB, the nation's biggest builder by volume, fell 6.1 percent in the period to 55,485 homes.



Peña Nieto's administration is encouraging development closer to urban centers.

Volumes also contracted at Desarrolladora Homex SAB, the second biggest, and Urbi.

President Enrique Peña Nieto's four-month old government is trying to head off the next wave of abandoned homes by encouraging developments closer to cities. The government is also prioritizing subsidies for apartments over land-intensive,

single-family buildings, which dominated subsidized developments during the previous administration.

The policy shift is forcing builders to adapt.

While some companies will probably close down or lose business in the shakeup, competitors will fill the void and meet demand, said Alejandro Nieto Enríquez, head of the National

Housing Commission (Conevi). The industry has smaller, "lighter" companies — beyond the publicly traded builders — that may prove more capable of adapting to the new conditions, according to Nieto Enríquez.

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ALEJANDRO NIETO
The National Housing Commission

The capital requirements of apartments prompted builders, including Urbi and Geo, to post negative free-cash flow to equity in the fourth quarter. It also led Fitch Ratings to say in a Feb. 22 report that builders risk write-downs on their assets as they relocate land reserves to meet the housing scheme.

"The new model we're proposing is different, and companies are going to make their runs, they're going to adjust their organizational structures, they're going to change their technology," Nieto Enríquez said in

Moody's Investors Service cut credit ratings for Urbi and Geo last month and changed the outlook on Homex to negative from stable.

Homex says the government's ongoing support for new housing is a sign that previously owned properties are far from replacing builders in the marketplace. The company also says programs in development to provide housing for police and armed forces will fuel sales.

"The demand for housing continues to be significant, on top of the fact that the government is looking for mechanisms to address unattended segments of the population," the Culiacán, Mexico-based company said in an emailed response to questions. "The commitment of the current government to keeping up housing development is also reflected in the planned distribution of subsidies."

The National Housing Commission's Nieto Enríquez said 67 percent of subsidies will go to new homes this year, on par with last year's distribution.

The Habita index fell to a record low 0.4 times book value on March 22. Urbi trades at 3.14 pesos (\$0.26), 4.7 percent above the 3 pesos HS-BC Holdings Plc projects as the company's liquidation value, while Geo trades at 7.54 pesos, below its projected liquidation value of 8 pesos, according to a March 14 report from equity analysts led by Francisco Suárez.