



**“Housing Industry Model in Mexico
Drives Sustainable Development”**

Conference Call Transcript

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“Housing Industry Model in Mexico Drives Sustainable Development”

Participants

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Q&A

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Good morning ladies and gentlemen, thank you for being here today and welcome to CONAVI's conference call "The Housing Industry Model in Mexico Driving Sustainable Development". My name is Yesenia and I'll be handling today's calls.

Right now, all participants are in a hearing mode only. At the end of the presentation you will have an opportunity to ask questions. If at any moment during the presentation you are in need of assistance, please press the star key and an operator will be there to help you.

I am now pleased to pass the floor to today's host, Mr. Ariel Cano, CONAVI's CEO.

Ariel Cano (AC): Well, good morning everyone. Before anything else I would like to thank you for taking part in this conference call where we would like to share with you our vision for the Mexican housing market and highlight its performance during the last decade, as well as the foundations we have set so far as a sector to leverage a second stage of sustainable growth.

As the operator has already mentioned, we will have a Q&A session at the end of the presentation. I estimate it will take us about 20 minutes to have our presentation, as this is just a small discussion on what CONAVI has evaluated so far based on the document titled: "The Housing Industry Model in Mexico Driving the Nation's Sustainable Development", a document presented by CANADEVI made available to you on CANADEVI's page and CONAVI's page as well.

As we go over this industry document, it is evident we have a housing model that is unique in the world, and that achieved great things as it evolved which have benefited the Mexican people.

During the past decade, the housing sector achieved an unprecedented nine million housing credits and subsidies, which represents an investment of 300 billion Mexican pesos thanks to the consolidation of an institutional framework which aside from fostering housing financing, fosters greater participation of financial intermediaries in the sector.

With the construction of 6.7 million new homes we benefited 26 million Mexicans, mainly from the lower-income sector, improving their quality of life through access to better housing and basic public services like water, sewage and electricity.

These significant advances have a definite effect on fighting poverty, as housing spaces have improved and overcrowding has been reduced by 41 percent during this period, and as determined by the most recent methodology prepared by Coneval, which is the National Board of Social Development Policy Evaluation, housing deficiencies have a direct impact on two key dimensions: housing quality



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and spaces and access to basic services.

Moreover, the sector has stood out as a gateway for environmental sustainability, laying the foundation with 460 thousand green mortgages to purchase homes that use eco technologies, which contribute to energy savings and sustainable water usage, generating significant savings for the population.

Federal incentives for these initiatives generate a cost, a positive benefit when gas, electricity and water consumption decreases.

We must acknowledge that the Federal government subsidizes gas, electricity and water through other mechanisms of public policy, so creating efficient homes helps make public subsidy policies more effective and further-reaching.

For the first time, Mexico is promoting a new way to build homes and support city growth, by taking care of land-use planning, urban planning and the construction of sustainable housing through an initiative spearheaded by the Federal Government to foster integral and sustainable urban developments (DUIS, by its acronym in Spanish), which, among other benefits, help redirect public and private resources for housing development to the lower-income population, as well as exclusive credits and subsidies to foster its development and multiply the effect of its social, economic and environmental benefits.

To date, our country has a few sustainable development clusters, three in the evaluation stage, which together represent more than a million new homes across 14 states. What I mean to say with this is that DUIS has already achieved significant presence and are present in 14 out of 32 federal entities nationwide, which makes this an in-progress process.

During the past 10 years the housing industry in Mexico has shown its strategic value for the social and economic development of our country, as it has helped consolidate our macroeconomic environment and develop a strong financial sector that can guarantee financing for homebuilding and mortgage credits.

This key value in the sector launches housing into a new stage of growth and consolidation thanks to Mexico's positioning as an attractive investment destination with healthy public finances, controlled inflationary levels, low interest rates and a solid currency.

Today more than ever, our country has a solid banking system that allows for an integral financial backup to face external risks through international reserves and flexible credit lines, a decreasing scale as a percentage of the GDP and unique debt management measures.

Another contribution from our financial system is the solid regulatory framework,



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which accumulates price stability and low levels of non-performing loan portfolios, making a definitive contribution to the steady growth of mortgage financing, which has practically doubled in volume every five years. This gives us the confidence to confirm we will be reaching the goal published by the Federal Government in the National Housing Program, to grant six million mortgages during President Calderon's term in office.

At June's closing, this goal was 83% completed, so the goal to reach one hundred million financing loans will be reached before the due date. I think this is clear evidence of the potential in our sector.

These historical housing achievements together with the maturity of our financial system are clear factors to promote a new stage of sustainable growth in the housing sector under the following premises:

First is demand. Our challenge is to make up for the existing 8.9 million home gap, but please note these are 2008 figures, and we are about to update with the figures from the 2010 Census, which will be ready toward the end of the year, but magnitude order will remain the same, of which 5.8 million are ma non-affiliated workers, that is to say, those without social security and with no Infonavit or Fovissste benefits. We are already directing all mortgage initiatives toward this segment, as well as exclusive incentives to encourage private financial intermediaries to offer them enough credit opportunities.

Moreover, the Infonavit program will widen its member base to strengthen demand by incorporating domestic, municipal and state employees, which will in turn push demand towards a potential member base of 3.1 million new members. And this is taking place already.

In terms of new families, there is a need to close the housing gap, which has not been addressed historically, and which represents those 8.9 million; and because of the demographic surplus, the dynamics, and the way demographics evolve, within the next 20 years we will have about 11.3 million new families who will need a home, and this is a long-term opportunity in our sector.

Additionally, a reform to the Infonavit law will allow former members to return with their previous status, and to facilitate financing to members that have already paid their loans in full.

Once the reforms are approved, financing will be offered 8.6 million people. Both the Infonavit and the Ministry of Finance are pushing these reform, particularly the items that will allow for an increase to the demand currently covered by the Institute.

The second argument is that we have consolidated a unique and strong mortgage industry that will contribute to a second phase of growth.



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The evolution of the mortgage industry in Mexico has shown its ability to implement best practices for credit risk management, which under the current conditions, favors the mortgage market with the potential to achieve double-digit growth in 2011 and use those resources to benefit for the most part the lower-income working population.

Historically, 2008 was a record year in our sector, closing at 250 billion pesos. Both in 2009 and 2010, post-crisis years, our figures were in the order of 240 billions, and despite the small setback, it wasn't significant, and we are expecting to close 2011 Later on with a double-digit annual growth, well above those 240 billion pesos. we will give you a few arguments on those figures.

Not only do we have strong financing institutions like Infonavit and Fovissste, whose shares could potentially reach up to 515 thousand for Infonavit and 90 thousand for Fovissste, but by permanently establishing the CONAVI ("Esta es tu casa") and Fonhapo ("Tu Casa") subsidies, we expect to give the lower-income population access to housing financing and incentivize supply and new homes to transition into new sustainability standards through green mortgages and vertical housing.

We are preparing a new massive program for the non-affiliated population. We believe it is strategically important to serve those workers who are not members of Infonavit or Fovissste, which is why we are developing an innovative financing scheme that will include upfront subsidies to complement their purchasing power, offer credit risk coverage through mortgage insurance and incorporate federally guaranteed funds to share losses with private financing intermediaries. We are working on this directly with the Development Bank through Sociedad Hipotecaria Federal and with the Ministry of Finance; CONAVI also has its share to complement the plan, and we also have a string credit offer from Infonavit and Fovissste for affiliated workers and expect to have the same for the non-affiliated population.

With this, we will be generating housing solutions for a population of 5.8 million who are currently without a home, and who are key to the industry's growth.

We are also transitioning into a new phase of sustainable development, and this may well be one of the most important topics for the Federal Government to position and explain.

It is important to remember that the housing industry is in transition to sustainability—and I'd like to highlight the word "transition"—and the goal is to promote an orderly expansion of cities to improve the quality of life of its residents.

This will be reflected in the actions of the housing developers in terms of vertical



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housing developments of up to three stories high, that allow for greater density and better space use, as well as in the promotion of Integral and Sustainable Housing Developments (DUIS, by its acronym in Spanish), which contribute to land-use planning and the creation of urban infrastructure and incentives to promote housing in the new century.

In terms of verticality, a topic we know has made analysts restless, public and housing policy consider urban growth as compact, in line with the construction, location and urban infrastructure of each housing development, which is why we are moving towards a scoring system that allows us to rate different housing attributes so we can refine them by location, urban infrastructure and identification level.

To achieve this, we are moving forward with two lines of action. First: define the instruments that will allow us to increase current housing density, which is in the hands of municipal authorities, and here I'd like to recognize the efforts of the Federal Government through CONAVI for working with local governments, particularly municipal governments, to modify construction regulations and density criteria to achieve city re-densification together with the industry.

And second: through incentives for vertical housing production to complement the plan and make it stronger in the coming years.

To date, we have six incentives in place for vertical housing: the first one is an increase to credit amounts for vertical housing through Infonavit, whether it is the same beneficiary or not, will receive a larger credit for vertical housing because it may be valued higher, particularly because of location.

Two: an exclusive subsidy package, which we have begun implementing already and which will ensure vertical housing production will receive an initial subsidy, and hopefully by 2012 the entire vertical housing production will be covered by CONAVI subsidies.

Three: give greater priority to credit applications linked to vertical housing. This already happens when we receive two different applications from the same type of beneficiaries, one for vertical housing and the other for horizontal housing, and we only have the resources to subsidize one of them, the subsidy goes to the vertical housing, and those are the current rules of operation in CONAVI when working with Infonavit.

Four: permanent registration in Infonavit for credit applications connected to vertical housing. For example: If budget limits have been reached in a city and there are no more subsidized credits, if the application is linked to vertical housing, applicants can register, and even cut in line and be given complete priority over others to receive a subsidy.



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Five: applicants will also have the right to lay away their vertical homes through Infonavit, and even if appraisal is still in process, they can still register, and this is only done with vertical housing.

And six: we are offering an additional subsidy scheme in co-participation with state governments through a CONAVI program. And let me remind you that CONAVI assigns a budget to each federal entity, an annual budget, but also into play with the state governments is a resource package: for each peso the state government gives, CONAVI assigns 50 additional cents.

In case the state government decides this will go towards vertical housing, the ratio increases to one for one.

With these incentives, public policy instruments from the Federal Government support the transition process to verticality, allowing it to compensate the need of greater working capital due to longer construction and sales cycles inherent to vertical housing.

It is also important to highlight that vertical housing will improve project profitability because of the following: first, a better use of land reserve as a result of higher construction density.

Second: fewer investment needs related to infrastructure and urbanization when compared against the development of horizontal units.

Third: a reduction in construction costs through the use of molds and prefab construction technology.

So, in the area of verticality there are already a series of incentives in place, six to be specific, and we must be fully aware that we need to support the industry in this transition, and this is something we are working towards and which will continue to be a priority in terms of incentives from the Federal Government.

And finally, I'd like to end this presentation with the Integral and Sustainable Urban Development methodology (DUIS, by its acronym in Spanish). Two and a half years ago, Sociedad Hipotecaria Federal launched this initiative and so far has added more than 11 entities from the Federal Government and has created an incentive package for DUIS projects.

This package considers, among other incentives, Federal Government investments for structure and infrastructure a, and additional exclusive subsidies, for DUIS projects. This year, the DUIS package includes 300 million from CONAVI, that is to say, the project is within the parameters of the DUIS initiative and is not competing with the rest of the subsidies from other entities like Infonavit, which gives it a



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significant advantage.

Priority mortgage allocation, consulting services and specialized technical support.

Initiative incentives look to offset the need of greater investment during the first stages of the developments to effectively achieve an integral transition to the sustainability of the Mexican housing sector.

In conclusion, the platform created in these past 10 years of success in the Mexican housing industry gives us the confidence to take on a new stage of solid sustainable growth.

What we believe is that in the past 10 years we have built a very solid operating and financial platform, which among other things, has allowed us to overcome a huge worldwide financial slowdown, and which I believe will launch us to a new stage in the sector where housing production will continue to grow significantly and public policy will continue to benefit the industry through private financial intermediaries, in particular housing developers.

In summary, the three biggest challenges we are facing in this new decade are, first, serving the non-affiliated population. Just as we have successfully created a mortgage financial platform for members, we are setting the foundation to explore a new area in mortgage and real estate for non-affiliated workers, who has not been served.

Second, we will continue to work to consolidate a sustainable public policy as it represents a transition to sustainability.

As Federal Government, we are well aware that these are not changes that can happen overnight, and that we have to align a series of things, like regulatory frameworks, production lines, incentives, etc., but this is already taking place since about two years ago, and we want to integrate them all within the next decade.

Urban planning outside risk areas is very important to the Federal Government, incorporating preventive technologies for an increasingly adverse climate.

Another function of the Federal Government in terms of housing is to serve natural disaster victims after earthquakes, hurricanes and flooding, and it is a fact that when it comes to Infonavit and Fovissste housing, damage is minimum because we are significantly careful with housing quality in terms of land-use planning; and when it comes to irregular land, which is mainly the non/affiliated population, that's when we have major housing damage, and even human losses.

We know we will overcome these challenges as we have a commitment to attain a free sector organized under a single vision and a joint housing program. This



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concludes my presentation. I'll be glad to take any questions you may have. Thank you very much.

Rafael Elorduy: Thank you, Yesenia. Please start the Q&A session by taking questions as they come.

Operator: The first question comes from the line of Esteban Polidura of Deutsche Bank.

Thank you very much, and good morning Ariel, thanks for the call. I have two questions, so here goes the first one. On page 19 of the CANADEVI report I see something about credits from the Federal Government through new strategies. Could you give us more information in terms of specific strategies, when these credits would be implemented, etc. Question number two is, page 27 talks a little bit about abandoned housing, 14 per cent in 2010, could you clarify for us if that 14 per cent encompasses all housing in the country, and also: where is the percentage at today? Thanks.

Ariel Cano: It will be my pleasure. What Sociedad Hipotecaria Federal is doing, and they are listening in our conversation, is an initiative that was born with Sociedad Hipotecaria Federal but that will be complemented by a subsidy scheme from CONAVI and the Ministry of Finance, and it is a product where we want to serve three inhibitors we are currently dealing with for non-affiliated workers.

One of them is how to give them access to financing, that is to say, what to do so private financial intermediaries extend credit to these segments, and in the beginning it is true that their lack of financial knowledge represents a higher risk, and for this particular case we are planning a guaranteed fund for first losses, which would be funds guaranteed by the federal government and operated by Sociedad Hipotecaria Federal for this type of financial intermediaries, aside from some coverage like mortgage insurance for credits extended under this scheme, and this is the first line that is linked to Sociedad Hipotecaria Federal.

Additionally, a CONAVI subsidy has been thrown on the table, and in this case, CONAVI, instead of requiring at least five minimum monthly wages to qualify as it does with affiliated workers, it would require less than five and CONAVI would be subsidizing to complement their purchasing power, as is currently done with affiliated salaried workers, but we would also be covering their insurance premium in case they don't have the purchasing, or we could even offer rewards on previous saving schemes. This would basically be the model, and we are planning on launching it this year, this second quarter, as it is in the last planning stages, and we know it will be very significant for the housing market, because something like this had never been done at an institutional level. We had a few false starts in 2006-2007, but I think it is safe to say we could start operations this year.



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As for the question on uninhabited housing, I'd like to clarify something, uninhabited housing is not synonymous with abandoned housing, and the only official data we have are INEGI's figures for uninhabited housing, with other recent numbers from the National Population and Housing Center. By 2010, out of the total housing available, uninhabited housing was 14 percent, and I'll give you a few historical figures from the INEGI. In 2005 the total was 14.1 percent, so it seems to me like we are maintaining the same levels of uninhabited housing. What is uninhabited housing and what does it encompass? It includes new housing inventory for sale, non-displaced homes, homes bought for resale that are in stand-by due to school cycles, moving, etc., and homes that are bought to be leased or as investment properties, so these figures have not changed dramatically in the last five years, and in 2005, INEGI figures registered 14.1 percent; in 2000, 14 percent, and we have compared this with other world economies, for instance, Italy comes to mind, which was around 20-22 percent, and Spain was between 13 and 14 percent, so I don't really think this is something to worry about.

We do have isolated cases of abandoned housing for which we have a community recovery program we are working on with Infonavit, but to answer your question, uninhabited housing is at 14 percent according to the latest census, but I'd like to reiterate that uninhabited and abandoned housing are two different things.

Esteban Polidura: Very clear answer, thank you very much.

Ariel Cano: Thank you.

Operator: The next question comes from the line of Vanessa Quiroga from Credit Suisse, go ahead.

Sofía Garrido: Hello and good morning, this is Sofia Garrido from Credit Suisse. I have a question for the developer regarding vertical housing: do you have a scheme in place to help developers stretch the working cycle?

Ariel Cano: I'm sorry, is your question for CONAVI?

Sofía Garrido: Yes.

Ariel Cano: Yes. Well, what we understand is that it can change its production line, and this is why we are offering these incentives, six in total, and this is one of them: to offer them the certainty that this housing will have an exit subsidy, so in a way what these six incentives I mentioned mean is that they will have no competition, as is the case with the developers of horizontal housing, and that is your first incentive; the second is that we can offer liquidity in advance because they can literally register the housing before appraisal. So those are the two main incentives, and different from horizontal housing, these helps offset costs or any negative financial implications. Let me tell you again about the six incentives already being



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implemented:

One:

An exclusive package of subsidies for Infonavit vertical housing credit applications.

Two: Priority service to credit applications for vertical housing, both when waiting in line and in quarterly reallocations.

Three: A permanent registration in Infonavit for those credit applications linked to vertical housing, even if the available resources in that particular entity have run out.

Four: The possibility to register in advance without an assessment, which in a way works as a layaway system.

Five: A co-participation scheme with federal entities, the two for one program is one for one with vertical housing and subsidy amounts are greater for vertical housing as well.

Sofía Garrido: Ok, thank you very much.

Ariel Cano: No, thank you.

Operator: Next question comes from Francisco Suarez, from HSBC, go ahead.

Francisco Suarez: Thank you very much, and good morning Ariel, thank you for the call and congratulations on your efforts. My question has to do with where we are now in terms of incentives for municipalities so we can have this change in land-use planning. What I mean is, the benefits you offer have to do mostly with the following types of land: interurban urban, suburban and non-urban, and I'd like to know if there are enough incentives in place to be modified at a master level, either through the participation scheme or at other levels.

And my other question is, on page 24 there's a table where you talk about how subsidies are being segmented, but one in particular drew my attention, one that is advertising vertical housing and ratios go down when they should be going up, don't they? Otherwise, I don't think this is an incentive for further vertical housing acquisitions.

Ariel Cano: Yes, on the first part of your question, that is a very new topic that we may have not addressed fully in the Canadevi document, but this July 19th we made a presentation on the World Competitiveness Index in terms of Housing, which we call Incomuv, and which was financed by Infonavit, Sociedad Hipotecaria Federal and CONAVI, these three organizations hired IMCO, which is the Mexican



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Institute for Competitivity, and commissioned the creation of this work index. This project lasted more than a year, 403 out of more than 2,400 municipalities were evaluated, and these entities account for 66 percent of the population, which is 92 percent of the national housing production, 80 percent of the total housing demand, 75 percent of housing financing and 74 of housing needs, so if we are successful in these 402 municipalities, there will be a significant housing overhaul.

This index classifies the 402 municipalities into 6 categories: high, adequate, medium high, medium low, low and very low competitiveness, and as of July 19th we started an initiative that consists of a series of incentives that go directly to the municipalities and are offered by the Ministry of Finance, Sociedad Hipotecaria Federal and CONAVI; the plan is that these 402 municipalities who do not have these urban development plans are able to adopt them and have the most current and up-to-date version available to them.

I believe the event for July 19th represents a watershed moment in terms of the relationship between the Federal Government and the municipalities, at least with these 402 entities, which paves the way for a more proactive integration. And let me tell you something in favor of the developers. I think it is not the job of the developers to negotiate and ask for changes to the regulations because it inevitably brings about conflicts of interest, so this is a job for the Federal Government through institutions like CONAVI, Infonavit, Sociedad Hipotecaria Federal, and state housing institutes, all of which will be offering their expertise, negotiating with the municipalities, changing regulations and density levels to achieve our target housing sustainability.

So the incentives are there, and in this development fund for municipal urban planning there are also incentive programs for training local personnel, including mayors, so they can attend certificate courses and receive training on housing resources through Infonavit.

In the near future we are also hoping to be able to channel a greater amount of resources (credits and subsidies) to those municipalities that have achieved the minimum competitiveness level, so we can start closing the gap we have there.

As for your second question, you are right, and I'll tell you something even though it's not yet a done deal. CONAVI is discussing new operating rules for 2012 to make or transition to sustainability more flexible. On page 24, the CANADEVI document talks about interurban, peripheral urban and non-urban area densities and equipment, about the rates at which we think this will take place, and I would say two things without going into too much detail, because this has to do with CONAVI's Government meeting, and will be published in the Official Journal, but what we are hoping for is that vertical housing with a better location not only get the incentives, but also larger nominal and relative amounts.



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And you are right, although here higher housing values are allowed on the table we see on page 24, in relative terms there is an even smaller ratio, so this would be corrected under the new rule proposal, particularly if we consider that vertical housing, with a better location can have a higher price, and we are willing to offer larger subsidies.

Thank you very much.

Ariel Cano: No, thank you.

Operator: Next question comes from Rafael Pinho from Morgan Stanley, go ahead.

Rafael Pinho: My questions have been answered. Thank you

Ariel Cano: Thank you.

Operator: Your next question comes from the line of Francisco Chavez, from Bancomer. Go ahead.

Francisco Chávez: Good morning.

Ariel Cano: Good morning.