

Future Development of Social Interest Housing Market in Mexico: Homex, Developer of Housing

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Abstract

Before the 2009 crisis, the change in the economic environment in policies support housing sector and regulations implemented by the federal government in the years following, significantly changed the environment in which construction companies were operating housing, which directly affected the business model adopted by public developers, so having to restructure their construction processes, and adapt to new trends that are expected to improve the quality of life of consumers. It is important to perform an analysis of the business situation, the structure of this market with industry and to future decision-making strategies.

1. INTRODUCTION

This paper studies the company Desarrolladora Homex, S. A. B. de C. V., which belongs to the homebuilding industry in Mexico, in a practical case. It will focus on the market for social housing market making an approach from an industrial,

institutional and microeconomic to determine the behavior of the market due to the policies implemented by the federal government and the origin of the decrease in demand for it.

1.1 Background of the problem

In Mexico, the construction industry, specifically the housing subsector has an uneven geographical segmentation. This result in inefficient market mechanism is

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reflected by the shortage in the same. Industry structure determines the conduct of firms, whose collective realization in turn, determines the collective performance of companies in the market. Performance is defined broadly encompassing dimensions such as allocative efficiency (profitability), technical efficiency (cost minimization) and innovation capability (Porter, 1981).

Housing is one of the cornerstones of social policy. It constitutes a fundamental element of family welfare by providing security and sense of belonging and identity. The sub-sector housing is a very important activity in the development of the country, providing basic elements of well-being in a society, to build spaces where Mexican families can develop. Besides using inputs from other industries such as steel, iron, cement, sand, lime, wood, aluminum, among others (INEGI, 2009). The national housing market in Mexico is influenced by various social, economic, political and industry factors, including demographics, housing supply, market segmentation, government policies and the availability of financing.

In the 1970s and 1980s in Mexico, emerged a series of business dedicated to making housing complexes that were characterized mainly by being on the periphery of urban areas, to provide housing for a segment of the population and to be equal to each other companies. The so called social interest housing arose in response to the working class of the country that approached the urban areas in search of employment and better opportunities. However, this proposed

housing, mostly made by one to two levels, covering large areas of land with a very low density of houses and inhabitants per hectare (Sanchez, 2012).

This type of accommodation and housing has minimum dimensions livable and people use much of their income for transportation to the workplace. Most of these housing complexes are lacking trade, education, culture and recreation areas, so they become isolated bedrooms of large city, increasing living costs, thus decreasing the quality of it. The business model adopted by public developers, based in large volumes at a low price, was successful in the early years of implementation, when the low-income population gained access to mortgage financing. The change in the economic environment after the 2009 crisis in the policies to support the sector and regulations in the following years significantly changed in the environment under which these companies were operating; meanwhile, their adjustment capacity was limited by its own structure.

Changing federal rules affect the cash flows of the company, which had much capital invested in land reserves that were in bad location with poor or out of service development plans. The foreclosure crisis hit the funding that came to Mexico housing sector and revolving credit lines and financial resources stopped flowing.

1.2. Defining the problem

The housing industry is currently undergoing a process of major adjustment. It

has been reduced the volume of construction, although the type of housing built also has been changing, as well as companies involved in the industry. These changes reflect the need to restore the balance between the type of housing required by the market and the government promotes. Through changes in the rules of operation of the grant program, the government has managed to significantly influence the type of housing to be built. A detail view of the Single Housing Register (Registro Único de Vivienda, UVR) reveals that the new sets are more compact and vertical, and even show a slight increase in

floor space, plus their prices have remained stable and / or down.

The homebuilding industry in Mexico is highly competitive. The main competitors of Developer Homex are some public companies such as GEO, Consorcio ARA, URBI and Urban Development SARE. The capacity to maintain existing levels of home sales company depend to some extent on the conditions of competition, including in respect of prices, obtaining mortgage financing and the availability of land acquisition.



Figure 1: Top homebuilders in Mexico

Source: The "social" housing in Mexico by Maestro. Architect Javier Sánchez Corral

How to face the company Homex, new trends in building affordable housing tend to verticality, and implement strategies to maintain a competitive advantage?

1.3 Conceptual theoretical background

Within the behavioral theory of the firm, said that a firm is more than an administrative unit, it is also a collection of productive resources, where the choice of the different uses of these resources over time is determined by administrative decision.

The physical resources of a company consist of tangible things; plant, equipment, land and natural resources, raw materials, intermediate products, waste products and byproducts, and even unsold existent finished goods, in the case of homebuilders, land territorial reserved products is the most important resource owned as part of inventories on which it can build in the coming years. There are also human resources in a company; labor unskilled and skilled, clerical, administrative, financial, legal, technical, and management, specifically in the housing sub-sector; it represents an essential element

(Penrose, 1959). While based on the theory of institutions, it is said that, they together with the technology employed determine the transaction costs. Resources are required to transform inputs of land, labor and capital in the production of goods and services. The transformation is a function not only of the technology, but of institutions, which play a key role in production costs (North, 1990).

Also, within the theory based on industry, the markets where the competitive landscape is changing, dynamic capabilities in which corporate managers are integrated, build and reconfigure internal and external competencies to address rapidly changing environments, become the source of sustained competitive advantage. Dynamic capabilities are understood for the strategic processes and specific organization of integrated firms (Eisenhardt & Martin, 2002).

1.4 Contextual framework

1.4.1 Developer Homex, SA de C. V.

Directed by Eustaquio de Nicolás, the firm Desarrolladora HOMEX, S.A. de C.V. is a developer of housing in Mexico, focused on social housing and middle income in Mexico and Brazil. It is one of homebuilders fastest growing in Mexico, based on the annual percentage increase in the number of households sold, revenues and operating profit. Strongly linked to the financing programs of the federal government, it is through INFONAVIT and FOVISSSTE.

Homex is one of the most geographically diversified developers in the country. Founded in Culiacan, Sinaloa, in 1989, Homex continues expanding its operations in Mexico, anchored in its people and its effective use of technology. Its main activities are the promotion, design, development, construction and sale of homes of low and middle class in Mexico. It has a land bank of 79.2 million square meters, including the land with deeds and those whose titles are pending. A company can only outperform its rivals if he can make a difference it can keep. Among the companies there are some differences of operating efficiency.

Some companies employ more advanced technology, motivate employees better or know better how to bring some activities or a set of them, as in the case of Homex (Porter, 1996). The company Desarrolladora Homex, like its competition in the same sector had a sharp decline in demand for its flagship product, in this case the social housing and homes, since these, adopted the model as their main source of income in the previous years, building in large volume, and disregarding the needs of quality that the consumer needs. These needs are best location of housing, access to urban services, workplaces and greater relationships in their business activities increased.

2. METHOD

The method used in this work is the quantitative on the basis of a microeconomic approach, which helps to get the kind of

industry structure, which determines the behavior of firms. The main elements of the structure that it is intended to identify as important to the performance of industrial organization are barriers to entry; the number and size distribution of firms, product differentiation and the overall elasticity of demand (Porter, 1981).

By Bain / Mason paradigm, the industrial organization is a useful contribution to the development of strategies in an industry. It provides a systemic model for assessing the nature of competition in an industry. The model allows an analysis of performance by a company that could hope to achieve in an industry. The important point that not all industries are equal in terms of their profit potential is reinforced.

3. ANALYSIS RESULTS

3.1 A market structure

3.1.1 Segment index concentration

Doing the calculation of IHH and ID indices include the following measures, which can only be calculated at the level of farm size:

$$IHH = 352 \quad ID = 4859$$

Thus it is clear that there is an oligopoly consisting mainly of large companies. An important branch of research in industrial organization was called oligopoly theory (Varian, 2010).

Table 1: Herfindahl-Hirschman Index (HHI) and dominance index or Pascual (id) construction of detached house

Estrata	Company size	Economic units	Total growth (thousands of pesos)	Share market Qi (%)	Qi^2	Contribution Hi = Qi^2/IHH	(Hi^2)
Total		2616	\$95,072,040.00	100%	35%	100%	48.59%
From 0 to 10	SMES	698	\$4,537,595.00	4.77%	22.78	0.65%	0.42
11 – 50		1,306	\$15,290,626.00	16.08%	258.67	7.33%	53.80
51 – 250		494	\$30,463,544.00	32.04%	1,026.73	29.11%	847.56
251 and up		118	\$44,780,275.00	47.10%	2,218.54	62.91%	3957.25
				IHH	3527	ID	4859

Source: Own elaboration with data from INEGI (2009)

It is observed from the above calculation that large companies with a layer and stratum of 251 and forward, accumulate 63% of market concentration, while medium-sized companies accumulate 29% of the

concentration of production, so it has a great power by big business.

3.2 Barriers to entry

It is understood by entry barriers those obstacles that stand in the way of a firm that wants to enter a new market, where the difficulties of entry in an industry dependent

on the strategic position that the company seeks to adopt. Through INEGI data, it is calculated the HHI and ID compared to total business investment.

Table 2: Herfindahl-Hirschman Index (HHI) and dominance index or Pascual (id) construction of detached house

Stratum	Size of company	Economic units	Total investment (Thousand pesos)	Share market Qi (%)	Qi ²	Contribution Hi = Qi ² /IHH	(Hi ²)
Total		2616	\$2,114,590.00	100%	39.75%	100%	54.86%
from 0 to 10	Micro	698	\$4,841.00	0.23%	0.05	0.00%	0.00
11 – 50	Small	1,306	\$360,368.00	17.04%	290.43	7.31%	53.39
51 – 250	Medium	494	\$632,477.00	29.91%	894.62	22.51%	506.54
251 and forward	Large	118	\$1,116,904.00	52.82%	2789.84	70.19%	4926.04
				IHH	3975	ID	5486

Source: Own elaboration with data from INEGI (2009)

From the above table, it can be concluded that there is a high concentration of investment since the IHH and ID are 3975 and 5486 respectively, which indicates a monopoly on investment levels. Being a bit deeper, it could be pointed with the contribution to the IHH that most investment is concentrated in large companies of 251 employees and forward with 52.82% of the investment. The main elements of the structure identified as important for performance in early research of OI were barriers to entry; the number and size distribution of firms, product differentiation and the overall elasticity of demand.

4. CONCLUSIONS

Most companies developing social housing are passing through financial crisis. The model in which it has been working in the

companies within this industry has been promoting the restructuring of the model that had been working in the companies within this industry. What encourages that these companies promote the orderly and sustainable urban development, to improve the benefit of consumers. It is likely that the new government policy favors the vertical housing on the traditional horizontal housing, which will benefit the developers as Homex that have the infrastructure and technology needed to adapt to new trends and meet the changing preferences consumer operators.

The growing demand for housing currently presented is very likely to cause the incentive the strategic alliance between companies in the same sector, the implementation of new productive and operational processes, innovation and use of new technologies. It is observed a constant demographic downward

trend in the number of occupants per dwelling, which incentives the preference of acquiring small and functional homes which are located in urban areas. The sustained growth of a relatively young population and a high rate of formation of new families determine the course of the potential demand for housing, and a restructuring of business models of developer companies.

Based on indices of market concentration, said that the company in question had a oligopolistic market structure, representing some pros and cons between pros representing, it is noted that has a barrier to entry with very high within investment, i.e.,

not just anyone can enter the market. These barriers provide advantages over other stable companies. These barriers also explain yields of companies in the same industry and provide a conceptual basis for the positioning of it within the industry.

It is also important to note that although the company is in trouble, it has large tracts of the territorial country, which probably cause to receive support from the government. While inside the main threats is the fact of being directly affected by the constant changes in government regulations, caused every six years by political parties.

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