



Commercial Sector: Building Materials and Services

A Top Export Prospect for Mexico

September 2014

Market Estimates

Table 1. Building Materials and Services Market Overview

<i>(in US\$ billions)</i>	2012	2013 ^{est}	2014 ^{est}
Total Market Size	86.22	87.94	90.40
Total Local Production	82.88	85.47	87.86
Total Exports	36.76	36.72	37.74
Total Imports	38.14	40.29	41.42
Imports from the U.S.	28.19	30.90	31.82
Exchange Rate: 1 USD	4.40	5.47	6.50

Total Market Size = (Total Local Production + Total Imports) - (Total Exports)

Sources: .

Overview

The Mexican construction industry experienced minimal growth in 2013 due to several internal and external factors, including the global economic slowdown, the transition to a new presidential administration, the delay or postponement of some major infrastructure projects initiated during the previous presidential administration, and little investment on new major projects. Some major projects were also delayed due to the increase of the final costs compared to original estimates. According to industry sources, another factor that affected the sector was that only 40 percent of the federal infrastructure projects were offered on public tenders. About 60 percent of tenders were said to have been issued by invitation or directly assigned to local firms during 2013.

According to official figures, the Mexican construction industry grew by only 2 percent in 2013. As during other periods of government transition, Mexican private industry carried the sector. During 2013, the private sector invested in mix-use buildings (commercial, offices and housing), logistics and distribution centers, industrial hubs around the country and housing developments (in all income levels) near new industrial and commercial centers.

The building and construction sector in Mexico is highly affected by federal government infrastructure and development programs. The President recently announced a new National Infrastructure Program (NIP) for 2014-2018 with a planned investment of \$586 billion (see Infrastructure section). Few of these projects have yet been put out for bid.

As this plan is implemented, the majority of the new government infrastructure projects will be carried under public-private partnerships. A 2012 modification to the Public-Private Partnership Law allows the government to enter into infrastructure and service provision contracts with private companies for up to 40 years. The Public-Private Partnership Law provides more legal certainty to private investors through an equal distribution of risk, facilitates access to bank loans, and harmonizes existing state public-partnership models into one federal law. All investors are to be allowed to participate in bidding processes, except for some restricted sectors outlined in the existing Foreign Direct Investment Law.

The total value of federal government construction projects during 2013 is estimated at \$110 billion, of which 43 percent was allocated to PEMEX (government owned oil company); 18 percent to highway construction; and another 18 percent to housing developments and multi-purpose buildings. The Mexican states that received the most funds were Veracruz, 8.3 percent; Mexico City, 7.6 percent; State of Mexico, 7.3 percent; Nuevo Leon, 6.9 percent and Jalisco, 6.8 percent.

During 2014, the best opportunities will be related to key infrastructure projects sponsored by the federal government - primarily low, mid and high income housing and government buildings. Large private projects, developed and executed by local and foreign investors, will also offer opportunities related to the construction of shopping malls, retail stores, industrial and manufacturing facilities, distribution centers, and mixed-use buildings.

Construction techniques in Mexico differ from those in the U.S. Most of the houses, commercial and public buildings, industrial facilities (industrial manufacturing plants, logistical and distribution centers) and mix-use buildings in Mexico are built with bricks and concrete, the traditional building materials in Mexico. Demand for cement, steel bars and glass is also growing and not always met by local suppliers. This presents a market opportunity for U.S. firms, especially in industrial areas along the Mexican-U.S. border where the majority of facilities are currently being built with raw materials from both countries.

There is also a high demand for plywood, another important raw material for the construction industry. Potential niche markets exist in the furniture manufacturing sector, the construction sector (which consumes large quantities of wood for concrete forming purposes), and the interior decoration sector, with its large number of manufacturers and traders of flooring, paneling and molding.

Housing

Mexico's housing sector is dominated and funded by large independent government and parastatal agencies such as: CONAVI (National Housing Commission), INFONAVIT (the largest housing fund for private workers in Mexico), FOVISSSTE (the largest housing fund for state workers in Mexico), PEMEX (government owned oil and gas company), CFE (government utility owned company), some state government housing agencies, private banks and other financial institutions. Government institutions provide almost 68 percent of the funds for the Mexican housing sector. The other 32 percent is covered by private banks and other financial institutions.

The new housing initiatives announced in the NIP by President Peña Nieto are intended to address a shortfall of an estimated seven million housing units; to promote growth in the housing industry in the short and medium-term; as well as to increase vertical housing developments in major cities across the country. These initiatives will offer opportunities to the largest Mexican housing developers focused on the low-income market (i.e. Sare, Urbi, ICA, Ara, Geo, and Homex).

Some of these initiatives are: a) support for six million workers not affiliated with the two Mexican housing funds - Infonavit and Fovissste; b) a major subsidy (an eight percent increase compared to 2013) for houses valued between \$12,000 - \$25,000; and c) more subsidies for green housing projects (up to 20 percent of the mortgage). Based on these initiatives, industry sources estimate that the housing market will increase five percent from 2014 to 2018.

Although the construction industry has suffered over the past several years, the largest housing developers experienced an average of two percent growth in 2013. Assuming increased federal government spending, housing industry sources expect the largest growth to be in the construction of houses valued at \$26,000 - \$50,000.

There are no major barriers to the importation of housing building materials if they comply with the Certificate of Origin to receive the benefits of NAFTA.

For U.S. firms interested in entering Mexico's housing industry, one of the best options is to partner with a Mexican housing developer or construction firm that is active in the housing industry. Mexican companies' knowledge of the market, the labor and legal aspects involved in this industry is invaluable to U.S. firms. The primary business opportunities available are in providing housing for the mid and high-income segment of the housing industry.

Companies, which have successfully entered the Mexican market typically, have a representative to sell to the major distributors and construction companies in the country. In addition, it is important that manufacturers register as building materials suppliers with INFONAVIT, FOVISSSTE, FONHAPO, PEMEX, CEF, and State housing institutes.

Green Building

Similar to other emerging economies, Mexico is moving towards green, or environmentally-friendly, activities. The construction industry has embraced the green building movement. Mexico joined the World Green Building Council (WGBC) and is learning best practices from Europe, Canada and the United States, in order to lower the costs and increase health benefits of green buildings. The Mexican construction industry also aims to demonstrate to other countries how to use simple, moderate-cost strategies acquired through its own longstanding building practices to achieve green building advantages.

Mexico has a tradition of architecture that favors environmentally-sensitive, small-footprint building practices and designs. Nonetheless, policy efforts to promote green buildings are relatively new and generally focused on the housing sector. The country's National Housing Commission (CONAVI), the National Workers Housing Fund Institute (Infonavit), the Mexican Chamber for the Construction Industry (CMIC), the National Chamber for Consulting Firms (CNEC), the National College for Architects, the Mexican Council for Sustainable Edification, and the Association of Firms for the Saving of Energy on Construction and Buildings are documenting green practices and working to define criteria for green buildings and homes.

Additionally, Infonavit, the largest housing fund for workers in Mexico, has created a “green mortgage” program, supported by mandatory employer and employee contributions.

Although green construction growth in Mexico continues on a positive trend, the numbers for sustainable construction remain small. Mexico currently has only twelve buildings with LEED certification. During 2013, over 190 construction projects with an investment of \$33 million subscribed to the certification process. Projects include tourism real estate branches, marine projects, thematic and recreational parks, residential, industrial and commercial.

Like many other countries, Mexico will continue supporting green initiatives for construction and sustainable development. Given that end-users are seeking these projects, the investors and developers are moving towards the construction of green buildings, some buildings in Mexico will be LEED-certified and others will only be eco-friendly.

Sub-Sector Best Prospects

Table 2. Best Products for Manufacturers of Building Materials in the U.S.
(% of Market Share of the Construction Industry in the U.S.)

Description	HS Code	U.S. Market Share
AC systems	841582	83%
Air filters for AC systems	842139	67%
Aluminum doors, windows and frames	761010	70%
Bulbs for incandescent lamps	701110	47%
Clear glass with UV protection and thickness over 6mm	700490	90%
Kitchen cabinets and fixtures	940340	28%
Prefab construction systems	940600	33%
Solar panels for lighting	854140	20%
Solar water heaters	841919	19%
Steel doors, windows and frames	730830	65%
Toilet articles of porcelain or china	691090	30%
Tubes and pipes – copper	741110	85%

Source: Secretariat of Treasury and Public Finance (SHCP), National Institute for Statistics and Geography (INEGI), Central Bank of Mexico (Banco de Mexico), Secretariat of Economy, Mexican Chamber for the Construction Industry (CMIC), National Housing Commission (CONAVI), & National Chamber for Housing Development (CANADEVI)

Opportunities

U.S. building and construction products have always been well-received in Mexico by local construction companies seeking to improve and offer houses with better equipment and quality to their clients. Mexican buyers are searching for quality homes with more green products, yet that are affordable. Housing developers and construction companies located in border-states have greater access to the latest trends in design, products, and accessories, which they can incorporate to their projects. Nonetheless, developers and construction companies in Central

Mexico are also interested in U.S. products that can improve the quality of the final product they offer their clients.

Opportunities for U.S. suppliers include: wooden windows, doors, flooring, and frames from sustainable woods; ecological paints, coverings and coatings; ecological concrete pipes for potable water and sewage; energy saving light bulbs; ecological pipes and fixtures for electrical applications; sky lights; green-certified electrical devices and home appliances; permeable concrete; green roof systems and equipment; high-efficiency air conditioning systems and equipment; high-efficiency HVAC equipment for commercial buildings and hospitals; ecological water purification systems and devices; ecological indoor and outdoor furniture; natural insulation materials; ecological blocks and bricks; and insulation, acoustics, and thermal protection materials that are also fire-retardant. There are also other great business opportunities in engineering, design, architectural, electrical, plumbing, foundation, landscape, and other green services and technologies.

Web Resources

National Chamber for Housing Development	http://www.canadevi.org.mx
National Housing Council	http://www.conavi.org.mx/
Mexican Chamber for the Construction Industry	http://www.cmic.org
National Chamber for Consulting Firms	http://www.cnecon.org.mx
Construction and Housing Development Center	http://www.cihac.com.mx
National Institute for Statistics and Geography	http://www.inegi.gob.mx
Institute of National Housing Fund for Workers	http://infonavit.gob.mx
Secretary of Communications and Transportation (SCT)	http://sct.gob.mx

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