Promoting Sustainable Growth in the Residential Sector
Mexico initiates finance programs to support eco-homes

Mexico’s green building programs are thriving, the result of a range of policies implemented to promote energy efficiency and align growth in residential housing with sustainable development goals. These policies focus on financing and energy efficiency in the low- to medium-income housing sub-sector, which will account for the majority of greenfield developments in the coming decades.

A new law enacted in 2012 prompted the most recent actions. In its General Law on Climate Change, Mexico defined a goal for reducing its greenhouse gas emissions to 30 percent below a business as usual scenario by 2030 and 50 percent below 2000 levels by 2050.¹ To achieve these goals, the Law expanded the use of economic, regulatory and administrative tools and instruments, including: economic and fiscal incentives, a climate change fund, a national climate change program, and an emissions trading system, among others. As housing currently accounts for 16.5 percent of all energy consumed in the country, Mexico’s energy efficiency initiatives for residential buildings are integral to these goals.²

Mexico’s population is growing. Based on current demographic trends, Mexico will need to construct 800,000 to 1 million new homes per year over the next decade to meet the rising demand. Over 7 million new homes are projected to be constructed by 2020, which will result in an additional 33 million tons of CO₂ per year if no actions are taken to improve building efficiency.³

In the last decade, Mexico built support for financing ecologically-friendly “eco-homes.” Mexico initiated two finance programs to support eco-homes for working class citizens during the 2000s that are still in use today. The Green Mortgage program encourages residential property developers to build homes that employ certain energy-saving features such as solar heating, thermal isolation, high-efficiency air conditioning, and other sustainable technologies. The second is a federal subsidy program called This is Your House, which provides assistance to low-income buyers of sustainable new and used homes, as well as for retrofits to existing properties. Together, these programs contribute to Mexico’s national plan to promote sustainable housing development.
FINANCING GREEN

Mexico’s Green Mortgage program is administered by the Mexican National Fund for Workers’ Dwelling (INFONAVIT), a public-private partnership institution which supports Mexico’s private sector workers. Employees of the private firms registered with the Fund contribute 5 percent of their salaries. In return, they have access to affordable mortgages. In this capacity, it originates about 70 percent of the value of all mortgages in the country. Through the Green Mortgage program, the Fund provides an extension of credit, up to USD 1,250 on top of the original mortgage, for workers to purchase new homes valued at less than USD 40,000 that incorporate energy-saving technologies into their designs. The program assumes that cost savings from lower utility bills can support the larger mortgages. Furthermore, by offering attractive mortgages to buyers of these homes, the program increases the demand for eco-homes, encouraging their further construction.

Mexico has also created a program to subsidize the purchase of eco-homes for citizens who earn less than five times the minimum wage. Through partnerships with private lending institutions, the This is Your House program enhances the buying power of citizens by subsidizing costs including down payments for new and used homes, construction costs, and sustainable improvements on existing properties. Borrowers who obtain financing from participating private sector lenders may be eligible for subsidies that cover up to 70 percent of the investment costs, depending on the type of investment. Funds are disbursed to housing developers, who then lower the mortgage debt incurred by home buyers. To be eligible, borrowers must possess a savings account with at least 4 percent of the project value. This requirement is beneficial in two ways. First, it encourages private savings and may increase reserves in local banks, leading to reduced borrowing costs. Second, it reduces credit risk to private lenders and increases their openness to lending.

STRIVING FOR SUSTAINABLE HOUSING NATIONWIDE

Through August 2012, the Green Mortgage program resulted in more than 900,000 credit extensions. These credit extensions have led to an average savings of USD 17 per month on utility bills, and an average net savings of USD 11 per month after accounting for higher mortgage payments. The reduced energy use due to the Green Mortgage program translates to about 700,000 tons of CO₂ emissions avoided per year. In August 2012, the program won the UN-HABITAT World Habitat Award, which is given each year to the world’s best projects that promote sustainable living and improved quality of life for residents. Likewise, This is Your House has achieved remarkable success in developing the eco-home market throughout Mexico. In 2011, the government delivered nearly 166,000 subsidies through This is Your House with a total value of about USD 420 million.

Over the next decade, Mexico plans to scale up the Green Mortgage and This is Your House programs significantly as part of its special program on climate change and broader environmental goals. These programs will expand to cover a wider range of mortgage seekers and will have more ambitious energy efficiency targets. Already, INFONAVIT has required all new mortgages to comply with the standards for its Green Mortgage program since 2011. Additionally, the National Housing Commission has launched a sustainability housing working group to coordinate public initiatives among federal institutions and find synergies in topics including monitoring and evaluation, training and capacity building, and sustainable pilot projects.

The ultimate goal of these efforts is the establishment of a nation-wide sustainability plan that can be classified as a Nationally Appropriate Mitigation Action (NAMA). As such, energy performance benchmarks for all new houses in the country are core
Mexico plans to establish three labels of energy efficiency—Ecocasa 1, Ecocasa 2, and Passive House—with increasingly strict emissions requirements. New houses that meet these labels of energy efficiency will be solicited for NAMA support from international donors. For the most cost-effective improvements, the benchmarks will be based on a “whole-house” model rather than on specific individual eco-technologies, which occurred in previous programs. Additionally, the program will take into account variables such as local climatic variations and building type to ensure the benchmarks are applied fairly across the nation. According to the government of Mexico, a 40 m² house certified as a passive house can reduce CO₂ emissions by over 70 tons over the lifetime of the house. Officials estimate that the program could result in an additional 2 million tons CO₂ avoided per year, and up to 27 million tons of CO₂ by 2020 under an optimistic scenario. (Figure 1.)

In August 2012, the Clean Technology Fund and Inter-American Development Bank awarded USD 99 million in loans to Mexico to implement the Eco-casa program, a plan to significantly scale up low-carbon housing in Mexico. The plan aims to facilitate the development of eco-homes through two avenues. First, it will provide financial support to developers through the federal mortgage society in Mexico. Second, the program will increase the supply of mortgages by providing financial and technical assistance to local financial institutions. Other donors have decided to leverage their resources in the effort as well. For example, the German Development Bank KfW is anticipated to commit an additional EUR 80 million in concessional loans for the development of low-carbon housing projects in Mexico. Overall, the program will likely support the development of as many as 27,000 low-carbon homes and 800 passive homes over a seven year implementation period.


**ENDNOTES**

1. SEMARNAT, Mexico. Official Magazine, June 12, 2012


7. Ibid.


9. Ibid.

10. Ibid.


12. Ibid.


14. SEMERNAT, Mexico, op cit. (note 3)

15. SEMERNAT, Mexico, op cit. (note 13)


18. Inter-American Development Bank, op cit.

19. Ibid.


**Figure References**

**Figure 1: Emissions from Newly Built Houses in Select Mitigation Scenarios**