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Consorcioara case analysis to the problem of housing sector in Mexico

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ABSTRACT

The article talks about the strategies that led Consorcio Ara to maintain growth, although the outlook for housing in Mexico is going through a difficult situation. The strategies are evaluated through the landscape of the industry, where they take into social implications of the problem as well as economic aspects that affected most of the companies in the industry. Strategies for success in this business versus strategies that took most of the companies engaged in housing construction are analyzed through quantitative method with reference data from public institutions, for give to the situation solid arguments for the final conclusion.

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Introduction

This article analyzes the strategies of Consorcio Ara with an overview of the real estate industry in Mexico, which affect both private and public institutions. An analysis based on the quantitative method is conducted to analyze the strategies adopted by other companies competing in the housing industry and thus, the strategies of Consorcio Ara. This analysis includes both qualitative data affecting the housing industry as the location of the same, the qualities of the houses that were within government strategies to subsidize the industry.

Furthermore, the quantitative analysis performed is based on data collected by Consorcio Ara. With these data was performed microeconomic industry analysis with reference to some examples of Varian (2010) to allow appropriate screening of the company strategies. Another important aspect which is based on this analysis is game theory, in which the company strategies are analyzed together with others, to see if they are working properly for their own benefit and for the benefit of the government.

Background of the problem

The housing market is currently facing a crisis that represents more than 36 million of Mexicans do not have a decent place to live. This means that they lack basic services such as potable water, electricity, good quality materials, so as a sufficient living space. There is also one deficit of 9 million homes in the country, contrasting with 5 million homes currently found abandoned, representing 14% of the housing stock. This is due to various causes. First, there are supports from the previous government grants for construction of low cost housing, wherein was not restricted the location of these houses in order that private initiative supported the government to urbanization in some areas. This caused the supply of social housing to increase in remote areas of the country's urban areas.

Because of this, many construction firms gambled to adopt models which existed support after the market crisis of the housing bubble in 2009. However in 2012, the government announced that this support would change, which suggested to most of the construction firms that were going to increase the supports granted to such type of housing. With this many construction enterprises requested bridge-credits to the banks, and this continued to build another large amount of social

housing in remote areas from urban areas.

Even with this deficit of housing and less affordable rates, a lot of these homes were not bought and many others were abandoned. Because large distances to urban areas were coming accompanied by high costs of transportation to basic services, as well as the employment of people who had the financial ability to purchase these homes, the problem of housing is not easy to solve. Added to this and in contrast to the predictions of several constructions, in 2013 the government announced the new housing policy of Mexico, which is focused on providing rural communities with basic services and promote development orderly urban areas through three basic actions are:

- A. Orientation of building vertical properties where developers can bid more square meters.
- B. Development within urban areas, in order to reduce travel times for people.
- C. Position to build sustainable housing.

Besides what has been said in previous paragraphs, other reasons that caused the demand for social housing to decrease are:

- A. One, in the wake of the workers now they have the ability to access co-financing, the amount consumed by these households has increased.
- B. Two, the supply of social housing is generally outside the cities, and not satisfying consumer preferences right now that are primarily focused on accessibility to urban services as well as workspaces.
- C. Three, related to the previous reason, is that the location of such housing has no relation with the activity of people who typically demand such homes.

Because of the landscape that has faced in the last years of construction, most of these companies having no liquidity fell in defaults of payments from bridge credits. Now this type of credits is restricted to a minimum amount of construction companies. In addition, many construction companies have been presenting losses, including companies listed on the Mexican Stock Exchange as seen in the graph below, which shows the historical returns of the index in habits.

This can be seen reflected even in the credits offered by private industry, as the demand for the secured its in their

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Majority is aiming for average households and residential. As shown in the following table the demand for these credits has increased in the last years. Similarly, changes in the demand for housing also can be reflected in INFONAVIT loans, since loans for social housing types as well as loans for residential housing have declined. However, the decline of loans for residential wellings decreased by only 1.31%, but loans for such housing in the private sector increased by 10.55%. As well as lending for middle income housing to average households, granted by this institution were the only ones with a positive variation of 2.08%.



Figure 1. Graphic habitat in real time
Source: Investing (21 May 2014).

Table 1. Loans for the acquisition of whole housing. Infonavit

Type of housing	2012	2013	Percentage of variation	Number of variation
Social interest	300204	248321	-17.28%	-51883
Medium	20293	5588	2.08%	422
Residential and residential plus	5662	5588	-1.31	-74
Total	326159	274624	-15.80%	-51535

Source: Own elaboration with data from INFONAVIT. Consultation in June 2014.

This does not mean that the need for new social housing has declined, but that people prefer homes who are located in urban areas rather than homes outside the cities. These results show an increase in demand for credits for used housing, credit for the construction or remodeling of credits for housing. In short, homes located within urban areas are preferred, being most of these homes of vertical type, in addition to housing developments of residential and medium, people who are able to purchase this type of housing is now preferring to pay a little more to have the convenience of being able to move from one place to another by sacrificing on one hand the cost of living in urban areas. However, this type of development is insufficient.

Delimitation of the problem

As the outlook for housing in Mexico industry already mentioned, it has been difficult in recent years, despite the government's efforts to support the sector, not yet been reflected in positive results in most of the companies working in this field. Torres (2013) said that although the outlook for the housing industry has not been very attractive for most of the construction enterprises, some companies have reported earnings, as Ruba and Cadu reported growth in revenue of 34.88% and 5.7% respectively.

As for the 6 companies listed on the BMV (ARA, GEO, Hogar, Homex, SARE and URBI), Consorcio Ara is currently the only company that pays dividends, despite the housing market crisis that currently exists. In the following lines it is analyzed the strategies implemented by this company not to be affected by the crisis that currently lives and continue to pay dividends despite the difficult situation of the real estate market.

The research question is as follows: What strategies carried out by Consorcio Ara created development for this business in the middle of the housing market crisis in Mexico?

Justification rationale

The lack of proper analysis of the market, and as a result of this the lack of implementation strategies aimed at diversification, are the reasons why sales declined on the major part of companies in the housing industry. In contrast to the above, some construction companies implemented proper analysis of the industry and as a consequence of this, implemented strategies without market focus. Among this group of companies, is Consorcio Ara, that even when it was the one who reported a higher level of growth and greater profit margin within the larger group of competition companies in Mexico, which is reported greater profit margins.

The importance of an analysis of success stories in the real state sector is that this sector generates various production chains; also in 2010 this sector generated 3.5% of national GDP, besides that created employment for 350,974 people.

Assumption

The market focus of Consorcio Ara as a strategy kept the company with positive results in sales in the middle of the housing market crisis situation in Mexico.

Conceptual theoretical framework

The theory based on industry provides the tools for proper management of the company entirely by market contexts that determine the profitability of a company within an industry, as well as the key actions that companies can implement to stay solid in situations not planned to develop or survive. The success of Consorcio Ara to the realtor market crisis results from a proper analysis of its position within the real estate industry. In this article the company is analyzed through five forces model of Porter (1980) and as the implementation of a generic strategy focusing on different market niches which were key to the development of the company in a difficult situation in this industry.

Based on the foregoing, Peng (2010) sustains that the goal of the economics of an industrial organization is not so much to support companies to compete with each other, but support to policy makers better to understand how companies compete for to regulate them properly. This applies to the case of the housing industry, since it is known that most demanded type of housing in the country, is the social interest housing type, also known to be considered an elastic good because demand increases when prices are lower.

However, the strategic variable in the housing industry is distance. So, when in the past six years the government launched the "National Housing Pact" what was sought was that builders build more social housing. So, subsidies are granted to encourage the purchase of such housing, with unchecked location restrictions. Thanks to these subsidies most builders began building homes outside urban areas in large numbers, but forgot that the strategic variable is the location of industry. This caused that most of these houses did not were sold, and there are currently 5 million empty houses by this situation.

Returning to the five forces model of Porter (1980), this model states that the performance of a firm in an industry depends on the degree of competition between the five forces are:

- A. Intensity of rivalry among competitors.
- B. Threat of potential inputs.
- C. Bargaining power of suppliers.
- D. Bargaining power of buyers.

E. The threat of substitutes.

Reviewing the housing industry through the five forces, it can find the reason that some companies were successful and others not to face the housing market crisis in Mexico. The first one sustains that the number of competitors is crucial. The more competitors there will be in the market, the larger the degree of dependence between them and therefore the degree of rivalry between them will be less. In the case of the housing industry, according to the latest economic census conducted by the INEGI (2009), accounts that today in the housing industry there are 3,216 companies engaged in residential construction, what makes to think that because there are a large number of companies there is not great rivalry between them.

However, although a large number of companies, few companies have the economic capacity to build a lot of houses, but this does not change the degree of rivalry between them. It is a good that consumers do not buy regularly, compared with the goods for basic necessities. But not being a good that the consumer purchases regularly, the consumer tends to analyze the characteristics of the goods before making a purchase, and, like a car, if the customer is not satisfied with the first purchase, it is safer not to buy again.

The second of the forces of Porter (1980) states that the easier is the entrance to the industry for the companies, the greater is the degree of competition between them. In the case of the housing industry, market entry is easy, because anyone who has enough capital to build houses can do so without any restriction. However, not everyone has the capital to launch large numbers of homes on the market. In addition, companies throwing large quantities to market leverage economies of scale so the price of houses can result cheaper than small builders. Although this makes the entry into the industry to be relatively easy, there is not a high degree of rivalry among firms.

The third Porter's forces speak of bargaining power with providers. In the case of the housing industry, the providers do not exercise great power over big business and some of them have their own cement plant, as in the case of Consorcio Ara. Other companies have established some partnerships, in the case of large companies as mentioned above; they tend to take advantage of economies of scale as they generate cost savings compared to small builders.

The fourth Porter's force, which is the bargaining power with buyers, is important in the housing industry with the fifth force. As the fourth force an industry is not very attractive to buyers if the products are not very differentiated or are of less cost to the customer, but mainly states that if customers are more organized among themselves, they tend to be organized so that the costs are lower. Furthermore, fifth force states that an industry is not attractive if there are many substitutes.

In the case of the housing industry the last two forces are important, because when a customer decides to buy a house is because he has already analyzed several options. Customers usually buy the house according to the price of this and the characteristics of the same. An important factor when purchasing a home is the credit, because buying a home is usually done on the credit. If institutions provide facilities to access higher amounts of credit, the customer prefers to buy more expensive houses, and in terms of features such as the strategic variable is the location previously commented. Thus, the best located housing, the more likely that can be purchased quickly.

Substitutes in the case of the housing industry products may be influenced by the types of credit, i.e., at the moment when a person wants to buy a home, his options are to buy a new home,

buying a used house, rent a home, remodel a home or build a home. According to the model of the five forces of Porter (1980), the housing industry appears to be a market in which there is a great rivalry among competitors and where the price war is not something that occurs frequently at least for developers of housing, especially for those who have the capital to build large amounts of housing.

Contextual framework

Consorcio Ara is a company dedicated to the construction and sale of housing developments and leasing of shopping centers in Mexico. It began operating in the BMV (Mexican Stock Exchange) in 1996, and since its founding in 1977 currently has presence in 16 states of the country, which have sold over 36 years of experience, 296,000 households, besides currently lease plus 8 commercial centers. Its main market is focused on residential and medium residential class, especially the vertical type, which makes this company stand apart from most of its competitors, which mainly focus on affordable housing because of the subsidies that the government provides for the sale of such housing.

Consorcio Ara is searching mainly to focus on a niche market (middle to upper class) through differentiation of its homes, as seen in their mission and vision as a company. Mission: To develop homes and communities to the lifestyles of Mexico where it is proud to live. Vision: To be the most reliable, cost effective and innovative real estate developer in Latin America. Even after the housing market crisis, it can be said that Consorcio Ara has a solid financial structure as it is currently the only builder of BMV that is paying dividends. It has the best credit rating in the housing industry in Mexico: Standard & Poors "mxA" and Moody "A2.mx". In addition, the company has its own cement plant, which works and manufactures cement only for the residential building company, and which is able to reduce its costs to provide housing to a lower price than if the cement is bought.

Review of literature

Carrión (2008) comments that in the housing market crisis there are other factors besides location plans of houses or rather plan for controlled urban development. What he comments are that is useless that government grants subsidies for the acquisition of homes, even when they are found in urban areas. If there is not looking for ways to encourage job creation, because in many cases, many mortgage credits are granted and for the lack of employment generation, these are not paid, then it falls back into a bigger problem. Trill (2001) comments that the quality and accessibility, as well as the availability of housing are increasingly an important issue in most countries. This has increased in the last twenty years due to the coincidence of the role of housing in the business cycle and partner, so its integration into public policy should be a topic most studied each time.

The opinion of Szalachman (2000) is very important because it emphasizes that the design of an adequate housing policy depends on accurate estimates of the amount of existing homes and the entire population. But without neglecting the existing homes that meet the minimum quality standards that will enable families to have a decent quality of life. These two aspects of defined as the quantitative deficit and qualitative deficit. Villa (1999) through an analysis of subsidies for housing in Colombia, where the government demanded builders ascertain quality in the same, which made that these could not maintain accessible prices to the low income population.

In conclusion, Villa sustains that there is a difficulty in producing a significant impact on housing for the poor population.

Thus, here recommended making some increases in the size of the improvements for families who are in extreme poverty. Perez (2009) said that one of the causes of prolonged housing market crisis are because both private companies and governments have been mainly directed to finance operations more oriented to have capital gain than to produce goods and services associated with a better quality of life of the population.

Method

The method chosen for the analysis of the situation of Consortia Are in the housing industry in Mexico to the market crisis situation that currently exists is the quantitative method, with the most recent data of public institutions with support of some microeconomic analysis. The reason why this method is chosen is because through this, it can occur judgments about the market, as there are multiple factors involved in strategies that take into account a company to compete in the market.

Data analysis

Consortio Ara is a national company, which competes in a competitive market structure, as there are a large number of competitors, which at the end of 2013 totaled approximately 2,500 developers, according to the Single Housing Register (Registro Único de Viviendas). However, in Mexico the most construction companies and developers working on projects of 50 to 500 households, and only a small part involved in projects of over 10,000 homes. In 2013 according to data from Single Housing Register (Registro Único de Viviendas), out of 2,500 developers that enrolled households in the Single Housing Register (RUV), which operate nationally have the highest participation 47.26% in terms of revenue and number of homes sold.

This was analyzed with information from the last economic census conducted by the INEGI (2009), which shows that the number of companies engaged in the construction of houses in that year was 3216 (2009), of which 63% of all production belongs to large companies totaling 368 companies. With these data it was estimated the IHH, in which the result was 5368, which confirms that the structure is an oligopolistic market structure, even when a large number of participants, since, as commented above most of the total production is made by the largest firms.

According to the latest economic census conducted by the INEGI (2009), 3,216 companies are engaged in the construction of houses, and of these, 368 companies are classified as large. Of these 368 large, 6 companies are listed on the Mexican Stock Exchange (Bolsa Mexicana de Valores) and housing construction. These companies are ARA, GEO, HOME, Homex, SARE and URB. As for social housing and Prosa, Ara's main competitors are Corporación GEO, URB, Homex, JAVER and SEDASI. The latter, SEDASI is not listed on the BMV. As for medium type and residential households, the key competitors of Consortio ARA, are mostly small developers, which change according to the region, as they usually offer more personalized dwellings, together with JAVER and SARE.

As for small developers, they are mostly a great number of companies. Although they are large considering the number of employees, do not release large quantities to the market and therefore they are not considered the main competitors of Consortio Ara, unless compared each company per State, where maybe it can locate different company names as regional competitors of Consortio Ara. Some of these companies are registered in the Mexican business Information System.

The potential market Consortio Ara is located within the population that meets the characteristics to acquire a mortgage credit. Thus, most of the homes are purchased entirely by mortgage credits. The main features to acquire a mortgage

credit in Mexico are:

A. Population between 20 and 64 years.

B. According to the last population and housing census, which was conducted in 2009, the population between 20 and 64 is 60,458,311 inhabitants, which corresponds to 53% of the total population.

C. Population that receives a fixed income: According to the latest National Survey of Occupation and Employment, the number of inhabitants occupied by the first quarter of 2014 is 49,305,839 people, equivalent to 35.87% of the total population. Table 1 shows the number of persons employed according to the level of revenue (number of minimum wages earned per month).

D. Population affiliated to INFONAVIT, FOVISSSTE, or other institutions as PEMEX, CFE, etc. From the economically active population (PEA), 19.3% affiliated to any institution as INFONAVIT, FOVISSSTE, PEMEX, CFE, etc.

As the focus of Consortio Ara previously commented are medium and residential housing. So to define the target market of Consortio Ara the number of economic active population (PEA) that perceives higher income of five minimum wages, which is 3,635,001 multiplied by 19.3% which is the population that is affiliated with some kind of institution, the result is 654,564 inhabitants.

Although the number of inhabitants as target market of Consortio Ara looks like a small number, it is important to analyze the patterns of mortgage credits that can be joint and together, and besides, people now have access to co-financing, which extends the amount of the credits awarded. In addition, according to the OECD (Organization for Economic Cooperation and Development), the middle and upper classes in Mexico, are stepping to occupy 36.2% of the population in 2000, to fill 40.9% of the total population.

But do not forget that although the main focus of Consortio Ara is the construction of media type and residential housing also covers the market for social housing. To calculate the objective of social housing in the market multiplied number of PEA with incomes of more than 3 to 5 minimum wages, which is 18,451,043, of 19.3% population is affiliated with some sort of institution, the result is 3561051.

According to the report of the company for the third quarter of 2013, Consortio Ara has 39.9 million m² for construction, with which your goal for 2014 is to build 165,696 units in the republic, in addition to taking 2.9 million m² for the construction of tourism projects and shopping centers. Likewise according to company data during 2013 most of its production units was for social interest housing, followed by medium type average households, progressive and lastly residential. But on the contrary, the highest percentage of revenue was average of medium type households, followed by social, residential and progressive interest.

With this situation it can be said that the number of units is not the determining factor in income level, as most of Consortio Ara revenue during 2013 came from housing of medium type average. The new housing policy introduces a new model focused on promoting the orderly and sustainable development of the housing sector in the improvement and regulation of urban housing, and the creation and development of rural housing development.

Of 165,696; 27,762 are medium type average households; 95,843 are social housing; 11,718 are residential dwellings and 31,373 homes are of progressive type. Likewise, 53,657 units following may located in the State of Mexico and is equivalent to 32.4% of total units to be built; and 38,463 in Quintana Roo

is equivalent to 23.2% of all units that are going to be built; the rest will be distributed throughout the republic.

Conclusion

The housing market crisis in Mexico affects not only the construction, housing or real estate, but also it affects to public and private institutions. That is why the importance of both government and private companies conduct comprehensive analysis taking into account all aspects affecting the industry conditions. Consorcio Ara's success is due to its implementation of strategies based on the behavior of the industry with a future focus, but mostly to the diversification in the construction of housing, taking into account market niches that most of the construction companies not were taken into account.

Aspects such as the location of housing within urban areas as well as the quality of them, some sacrifice in price, were instrumental in the development of Consorcio Ara with an overview of housing in all companies engaged BMV and dedicated to housing, do not pay dividends. It is interesting to continue studying the case of the company, as the new housing policy announcement by the government in 2013, has as main objective to develop urban areas in an orderly manner, and while other companies are just beginning to make adjustments to their strategies, Consorcio Ara, have an edge, thanks to its vision.

Another important aspect of this situation is that, for the restrictions as well as subsidies approved by institutions in this sector must consider not only the present conditions, if not the future conditions that may affect the sector, in the case of Mexico the government awarded subsidies to promote the sale of homes, without any restriction, so the construction companies dedicated to build houses disorderly outside urban areas.

The majority of companies in Mexico did not take into account the conditions under which people would live to acquire these homes, representing excessive costs in relocation expenses for lack of basic services near these homes, as well as lack of resources for transportation, and in some cases appropriate routes of transportation. This entire caused people

prefer to buy more expensive in urban areas used to acquire homes, request credits for purchase of land or remodeling; and in the case of people who bought these homes, many of them having no liquidity because of the costs that generated them to live far away from urban areas, because they could not pay credits.

Beyond government regulations, it is important that companies in the housing industry and other industries type take into account all the conditions affecting the competitiveness of the industry, to develop strategies to grow, and survive in crisis situations.

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