

THE REGULATORY FRAMEWORK

Deregulation policies are gradually removing obstacles to private housing development, including high taxes, transfer fees, rent controls and restrictions on foreign ownership.

TAXES AND FEES

Traditionally, the cost of government-imposed regulations, taxes and fees associated with the development, construction and transfer of a new home added as much as 25 percent to the cost of new housing.

In October 1992, the Government of Mexico entered into an agreement with the Mexican states, the National Notaries' Association, the public housing agencies, the financial sector, and representatives of the chambers of industry and commerce. The *Acuerdo de Desregularización para el Fomento a la Vivienda*, Agreement to Deregulate and Promote Housing, was designed to cut the regulatory burden, reduce transfer costs and boost the supply of building materials.

As a result of this program, average indirect costs dropped from 12.4 percent in 1992 to 8.6 percent in 1993, according to the *Secretaría de Desarrollo Social (SEDESOL)*, Secretariat for Social Development. Until recently, a 10 percent transfer tax based on assessed property value was imposed on all real estate transactions. But little attention was paid to the accuracy of assessments, and many properties were assessed at one-third or less of their market value. The government has reformed this system by increasing assessments and reducing the transfer tax. In early 1995, assessments were as high as 90 percent of the market value, and the transfer tax had been reduced to 2 percent. Local property taxes have been reduced accordingly.

Property transfers in Mexico must be certified by a public notary, which can add 1 to 1.5 percent to the price. The agreement proposes to reduce these fees by standardizing the process of researching and conveying property titles.

The national land register procedure fee for low-income housing has dropped from 2 to 1 percent. More than 125 "single offices" have been established in municipalities to review and approve housing projects, and simplify the process of obtaining construction permits and licenses. In addition, the 10 percent value-added tax on indirect costs of mortgage loans was eliminated.