

ROYAL BUILDING SYSTEMS (CDN.) LIMITED

Royal Building Systems of Toronto has developed a home construction system based on PVC plastic components. The company was already established in several foreign countries, including Argentina and Colombia, before it decided to move into Mexico. Royal executives knew from experience that the best way to introduce such an innovative and unfamiliar technology is to construct demonstration projects. Accordingly, the company built an exhibition center in Cuernavaca, which includes a model home. It also constructed a prototype school building in Mexico City.

Royal has set up a chain of distributors throughout Mexico, and the construction of additional model homes is a key part of that strategy. Each distributor is expected to build a demonstration project in its own market. Company executive Angelo Bitondo says that in addition to demonstrating the system's technical advantages, the models establish a critical physical presence. This reassures both buyers and government authorities that the company has a long-term commitment to the Mexican market.

Royal has successfully overcome the obstacles posed by building codes, insurance rules and mortgage regulations. Potential buyers have quickly recognized the advantages of the very short assembly time that is a feature of the Royal building system. This is especially important given Mexico's very high interest rates, because it reduces the need for bridge financing. In one demonstration, it took six Mexican workers who had received training from Royal only ten days to erect a 3,000 square foot school in Cuernavaca.

Other obstacles have been addressed with the help of a Mexican affiliate, and close contacts with local architects and builders. The Royal system is readily adapted to traditional designs. And since the polyvinyl chloride (PVC) components are combined with conventional materials, including concrete, the Mexican preference for substantial-looking, solid buildings has been satisfied.

The peso devaluation of December 1994 cut building activity in Mexico to a standstill. Mr. Bitondo says that Royal is using the slow period to lay the groundwork for expanding opportunities when the market recovers. While all of the components of a Royal structure are imported, the cost is still attractive to many middle-income buyers. To lower costs and widen the target market, Royal is presently considering the production of some components in Mexico.

According to industry experts, some foreign companies, especially distributors, have closed their Mexican operations as a result of the devaluation of the peso. The companies that have succeeded in Mexico are mainly those which have focussed on niche markets, and which have been able to provide their own financing.

Hebel International GmbH is associated with *Contec Mexicana* in a joint venture to promote cellular concrete. This product has been well-received, despite the devaluation, but it will take time to gain widespread acceptance.

PROTEXA has entered into a joint venture with the macro-urban developer, RTKL from Dallas, Texas. Reportedly, RTKL has successfully adapted to Mexican building customs and achieved moderate success.

Kaufman & Brand (K&B) is one of the few foreign companies which has been able to establish a sound niche in Mexico. This Los Angeles-based company concentrates on middle-class projects in Mexico City. The company originally imported a line of products from the United States, but it now uses more local products in order to comply with Mexican tastes.

K&B found that the low-income market was difficult to penetrate because of the importance of political connections; as well, difficulties with unions and red tape designed to favour Mexican companies. It also found it hard to find reasonably-priced land with access to water. The company therefore concentrated on the US \$200,000 to \$400,000 housing market in Mexico City. It is building 189 of these single-family homes in an area where homes typically cost US \$700,000 or more.

K&B has its own mortgage division which provides 20- to 30-year terms at American interest rates. It occasionally also finances through *Banca Serfin*, although since the devaluation, the bank has been unable to provide any credit. K&B homes cater to local preferences. According to company executives, the satellite region of Mexico City prefers heavy-block construction, while the central-western area tends to be partial to post-modern styles.

According to industry observers, European and Asian construction firms are now beginning to enter Mexico. They are offering special financing, more flexible arrangements and longer payback periods, than their American counterparts.