

HOUSING BUYERS

KML ENGINEERED HOMES

KML Engineered Homes is a manufacturer of buildings based on steel components. The company's products are pre-engineered at its Toronto plant for assembly at the buyer's site. Customers are located in several countries around the world, and KML has developed a product which meets the wide range of building codes and technical requirements involved. Some features, such as full thermal insulation, are standard. But other characteristics of the buildings can be customized to satisfy local tastes.

KLM executive Eli Shvili says that the company's interest in Mexico was heightened by the implementation of the North American Free Trade Agreement (NAFTA). It soon became clear that Mexicans have strong preferences for buildings that look and feel solid, and that are capable of withstanding hurricanes and earthquakes. KML homes meet these requirements both because of their design and their steel construction. On the other hand, Mr. Shvili points out that these homes are designed and constructed for the higher end of the market where quality is more important than price. So the company realized that it would have to focus on Mexico's growing middle class.

From their experience in other countries, KML executives knew that establishing a local partner is an effective way of entering a new market. "They know the rules", Mr Shvili says, "and they also know the market conditions." A detailed understanding of the local market is critical, he adds. In Mexico, price sensitivity varies widely across regional markets. "What may be price competitive within a ten kilometre radius of Mexico City would not be in Chiapas." Selecting an appropriate partner and developing a trusting relationship consumes a lot of senior management's time as well as other resources. In spite of the costs, officials of KML are convinced that partnering is the most effective approach.

To date, the sales expectations of KML and its Mexican partner have not been achieved. The December 1994 devaluation of the peso had a devastating effect on middle-class customers who had been the primary target for the company's products. It is not yet clear whether this target group will fully recover as Mexico's economy is gradually re-stabilized.

Only the most affluent Mexicans qualify for bank mortgages. Middle-income workers have access to loans from pension funds, while low-wage earners are dependent on government programs.

Buyers of new homes can be divided into two groups: those who have access to mortgage financing and those who do not. For the most part, the available bank financing has been allocated to middle- and upper-class home owners, because strong demand at these levels allows the banks to reject lower-income borrowers. Those with access to conventional financing include the very wealthy who can pay cash for a new home, as well as those with sufficient income to obtain a conventional mortgage and make the relatively large downpayments required.

Middle-income buyers often have access to home loans from Mexico's system of mandatory pension plans, or they may get government-backed mortgages from the commercial banks. Lower-income purchasers depend mainly on government housing programs. Some of these programs will support the purchase of serviced lots and progressive construction. The total credit granted by these lending institutions increased by 8 percent in 1994 to reach US \$11 billion.

New housing projects are initiated mostly by private home builders who construct and sell houses at their own risk. Commercial banks provide construction loans to builders, and mortgages to individual home buyers when the unit is completed. Government funds are usually channelled through the banks, which are responsible for approving the loans. The planning, construction and selling cycle normally takes about one-and-a-half years.

Buyers at the high end of the market look for homes that are similar in scale and cost to Canadian homes. This is a relatively small segment of the market. Prior to the devaluation of the peso in December 1994, one Mexican analyst estimated that there were as few as 15,000 families in Mexico City that could afford a new US \$200,000 home. This compares with an estimated 600,000 buyers looking for lower-priced homes.

The vast majority of buyers are looking for homes that are very inexpensive by Canadian standards. Almost half of the market is for units costing US \$15,000 or less. Another quarter is in the US \$15,000 to \$25,000 range. Buyers in the lower end of the market have two options. They can obtain government-backed financing through one of the public agencies. Or, they can build the house themselves, perhaps with help from friends or small contractors, paying for the materials as they go. By some estimates, self-built homes and those constructed by the informal sector account for half of the total market.