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Huge Block of Distressed Homes Goes Back on The Market in Mexico

Los Angeles-based Lucent Capital will manage the sale of 2,000 single-family homes that have been divided into seven asset pools.

By:
John Caulfield

One of Mexico's largest banks has retained a U.S.-based equity and debt-placement firm to manage the sale of 2,000 entry-level homes in Mexico that are either bank-owned or in various stages of foreclosure.

This is being billed as the largest distressed residential asset sale in Mexico since the economic downturn hit North America. Los Angeles-based Lucent Capital is managing the disposition of this portfolio, valued at around US$70 million, which represents the lender's unpaid principal balance, says Farzin Emrani, a managing director with Lucent.

Emrani says a confidentiality agreement prohibits him from disclosing the name of the bank involved.

In a phone interview with BUILDER on Tuesday, Emrani and Santiago Gil, who directs Lucent Capital's Mexico operations, explained that "entry level" in his country generally applies to homes that are between 50 to 100 square meters (538 to 1,076 square feet), and are priced between US$20,000 to US$40,000.

(*The Wall Street Journal*reported last month how the influx of government and private equity has spurred "record housing development" in Mexico over the past decade. Of the 500,000-plus housing units completed annually by developers in Mexico, about half are for low-income buyers, according to Infonavit, Mexico's federal housing fund. However, Mexico needs around 750,000 new homes per year just to keep pace with its population, which exceeds 111 million, according to Central Intelligence Agency estimates, and is growing by 2 million people per year.)

About half of the assets that Lucent Capital is marketing for sale are in advanced stages of foreclosure. Mexico does not have a robust secondary mortgage market, and the foreclosure process, says Gil, usually takes longer than in the United States, up to 24 months.

Lucent Capital is accepting bids for this asset on Sept. 22 and Sept. 29. Emrani says his company has had interest from investors for all 2,000 homes, and he expects bidders to include U.S.-based private equity firms with Mexican partners.

However, the Lucent and the bank have divided the homes into seven asset pools, each valued at $10 million. The REO properties are grouped by geographic location, and the non-performing loans by how far along in the foreclosure process they are. Emrani says that Lucent and the bank have also created sub-pools to encourage bids from local and regional builders and developers that might not be as well capitalized as large companies.

The sales of these assets should be completed by Oct. 8.

Gil and Emrani think it could be awhile before another residential asset portfolio of this size comes back on the market, partly because non-depository mortgage banks known as *SOFOLES (Sociedades Financieras de Objeto Limitado)*, which have provided financing for a sizable amount of Mexico's home-buying activity, "don't have a disposition strategy yet," says Emrani.

John Caulfield is senior editor for BUILDER magazine.

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