

COMPACT, CONNECTED, CLEAN AND INCLUSIVE CITIES IN MEXICO:

AN AGENDA FOR NATIONAL HOUSING AND TRANSPORT POLICY REFORM

**Summary for
policy makers**

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Urban areas are Mexico's economic growth engines, generating 90% of gross domestic product (GDP) and housing four-fifths of the population. In the COVID-19 crisis, they have also been the hardest hit. Crowded low-income neighbourhoods have the highest infection rates, and inadequate access to water and basic sanitation, cramped housing, restricted mobility options, high rates of informal and precarious employment, and limited social safety nets have deepened the suffering.

Yet, as difficult as these times are, they also offer an enormous opportunity. COVID-19 has heightened awareness of the need to make urban areas more equitable, inclusive and sustainable. The policy responses and recovery packages adopted in the coming months could shape Mexican cities' economies, social fabric and environmental impact for decades to come. Budgets may be tight, but there are practical solutions that can be adopted right now to put cities on a path to realise their potential as engines of broad-based prosperity and resilience. A key first step is to embrace an overarching national vision for sustainable cities to realign investments, focus key institutions on a shared agenda and move away from entrenched patterns.

Today, Mexico's cities are sprawling and disconnected. Between 1980 and 2010, as the urban population doubled, the urban footprint increased sevenfold. In 46 of the country's 59 metropolitan zones, more than 70% of homes have been built either in the suburbs or in the exurbs; in 2015, 42% of home-buyers using a government loan were unsatisfied with the location, as it was far away from schools, public transport and commercial areas.

At the same time, Mexico has struggled with a housing shortage. The current supply is more than 6 million units short of estimated need, and a large share of the housing that does exist – 67% of units in 2014 – is informal, often substandard and lacking crucial infrastructure. Many informal settlements are in marginal areas that are highly exposed to floods, landslides and other hazards. Across all Organisation for Economic Co-operation and Development (OECD) countries, Mexico has the biggest share of overburdened, low-income homeowners, with housing costs that make up more than 40% of their disposable income.

Sprawl has also made Mexicans very car-dependent. Between 1990 and 2015, the number of cars grew 3.5 times faster than the population; the motorisation rate has doubled over the past decade. The consequences – air pollution, congestion, traffic injuries, noise and greenhouse gas (GHG) emissions – cost an estimated 3–5% of the country's GDP. The transport sector accounts for 26% of the country's GHG emissions. And, despite recent efforts to invest in more sustainable urban mobility, the private vehicle fleet is expected to increase from 32 million cars in 2018 to as many as 70 million by 2030.

The costs of sprawling, car-centric urban development are disproportionately borne by the poor. On average, spending on transport accounts for 19.3% of household expenses in Mexico, the highest in the G20. Low densities in Mexico's suburbs make infrastructure such as metro lines or even bus rapid transit (BRT) prohibitively expensive to build and operate. Walking and biking can be outright dangerous in many cities, and are mostly avoided by anyone who has an alternative.

Mexico's urban development model is unsustainable and fails to promote economic growth. COVID-19 recovery efforts may provide a vital opportunity to start correcting those problems. By embracing a vision for compact, connected,

clean and inclusive cities, where residents at all income levels can readily access jobs, services, goods and other key resources, Mexico can revitalise urban economies, improve the quality of life and put its urban areas on a path to a more sustainable and inclusive future.

There are countervailing forces. In Mexico and around the world, the COVID-19 pandemic has triggered debates about the merits of urban living – including potential downsides of dense, compact development and of heavy reliance on public transport. Social distancing is certainly

more difficult, and sanitising shared spaces to protect public health has required significant effort. However, the COVID-19 crisis has also highlighted the benefits of accessibility; when people need to get to work, or to obtain food, basic supplies or health care, being within walking or cycling distance, or a quick bus or metro ride away, is a big advantage, especially for those who do not own a car.

In this context, Mexico needs to be proactive in adapting to COVID-19 without ignoring the challenges the country has faced since before the pandemic. National housing and transport policies demand particular attention, as they have an outsize impact on urban accessibility, the quality and cost of living, and economic and environmental outcomes. While many aspects of housing and transport are governed at the local level, national policies and funding play a key role in transport infrastructure and spatial planning, and also often in the density, location and financing of housing. A shared vision for urban development, backed by robust funding and close coordination between agencies in the two sectors, can help Mexico maximise the benefits of more accessible and liveable cities and avoid the pitfalls that have undermined progress for years.

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HOUSING IN MEXICO: QUANTITY OVER QUALITY – AT A STEEP COST

Mexico has long seen housing as a key priority for social welfare, and it has invested significant resources in housing development over the decades, but with poor results. Not only is there a large housing deficit, but also much of the housing that is available is in peripheral areas, disconnected from jobs and services. Those who can, drive; the rest have to rely on public transport – often privately run minibuses that are widely perceived as unsafe and expensive for low-income households.

Much of this housing is also inadequate, poorly built and cramped, and, combined with the poor location and, in some cases, high crime, this has led to a profusion of abandoned houses, an estimated 650,000 nationwide. Mexico has the highest rate of overcrowding in the OECD, particularly among low-income households. And, because much of the land being used is in ejidos – communal land reserved for agriculture – sprawl will likely have a negative impact on the environment.

Mexico's housing finance system played a key role in shaping today's housing stock and sprawling cities. For decades, Mexico focused almost entirely on financing single-family detached homes and homeownership, not multi-families or rentals, which reflects but also reinforces cultural preferences. It made payroll-based programmes the core of its housing finance system, which excluded the 56% of Mexican workers who work independently or are in the informal economy. And, for a long time, these programmes financed only new construction, not upgrades and expansions, forcing people to leave houses they could not afford to improve, and instead move to new houses ever farther into the exurbs.

For decades, and across successive administrations, Mexico let finance drive housing policy, instead of setting a clear vision for both housing and land use that could then shape finance. This has started to change in the past decade, most notably through the creation of the Secretariat for Agrarian, Territorial and Urban Development (SEDATU) in 2013. A 2019 amendment to the General Law on Human Settlements, Land Use Management and Urban Development gave SEDATU authority over infrastructure construction and urban services, aiming to provide stronger national leadership in urban development.

SEDATU was also given the leading role in housing policy and the responsibility for drafting and implementing the National Housing Programme (PNV), with the support of subnational governments and the private and social sectors. Several recent policies and changes to housing finance programmes have also begun to favour development in urban cores over the exurbs, and home improvements over new construction, and have recognised rental housing as a viable option, especially for low-income households.

SEDATU has become an essential institutional actor in Mexico's efforts to promote more equitable and sustainable urbanisation and plays a central role in supporting local governments in strengthening their urban planning capacity. Still, SEDATU's effectiveness has been limited by institutional fragmentation, excessive politicisation and lack of a comprehensive vision of urban development that integrates multiple sectors. A top priority is to

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clarify leadership roles and how other agencies fit in, and to develop a shared vision that all relevant federal agencies will work towards.

To transform its cities, Mexico needs to put urban accessibility at the centre of its housing and land use policies and realign finance flows and incentives – positive and negative – to foster development, including mixed-income housing and mixed land uses, in cities' cores, while discouraging development in peripheral areas. Prioritising accessibility is also compatible with efforts to build resilience in the context of COVID-19. This also needs to include explicit promotion of the redevelopment, improvement and densification of urban areas, such as old neighbourhoods and vacant or underused industrial areas, with sufficient funding to compensate for the generally higher cost. Mexico's challenge is to densify urban areas while considering that many households already live in crowded housing. This would require promoting mixed land uses, access to affordable housing through a diversity of tenancy options (i.e. homeownership and rentals), and reliable and safe public transport.

Another priority that aligns closely with the current administration's vision for social justice is to significantly step up efforts to improve housing for low-income families. This includes work to improve the cadastre and make it much easier for people to secure title to their land, but also finance reforms that provide robust funding for low-income families to self-build and upgrade their homes and for community groups to shape their own settlements, with technical support from the government. In this context, it is encouraging to see that Mexico has recently embraced the concept of social production of habitat, which recognises that communities know best what they need to live well and should be empowered to pursue it; there is enormous potential in expanding this much further.

TRANSPORT: THE CAR IS KING, EVEN IF MOST MEXICANS DON'T OWN ONE

Mexico's urban transport infrastructure is not meeting the needs of its people. As noted above, residents of sprawling cities must either drive everywhere – which leads to congestion and some of the world's most polluted urban air – or use public transport that is costly but also of poor quality. For many people, limited mobility means limited opportunities for employment or education. This hits women particularly hard, as they often need to make long, complex trips to meet their families' needs.

Mexican cities' predicament owes to decades of systemic failures and a longstanding bias in favour of cars, reinforced by fossil fuel subsidies. Public investment is skewed sharply in favour of cars and against public transit and non-motorised options, even though only about a quarter of trips are completed by private car; the rest involve collective transport, walking or, to a lesser extent, cycling.

Transforming urban mobility would greatly improve quality of life, reduce pollution and GHG emissions, and disproportionately benefit the poor by connecting them to jobs, education and services that enable them to advance socio-economically. It would directly support the current administration's commitment to lift up the most marginalised communities and make Mexican cities more equitable and inclusive.

Some cities – especially major metro areas such as Mexico City and Guadalajara – are already taking steps in the right direction, but a more coordinated effort between national and local governments is needed to achieve the large-scale changes that urban areas of all sizes urgently need. While bigger metro areas are facing many complex challenges and require ongoing support, it is also important to ensure that rapidly growing small and medium-sized cities that often have less capacity are not left behind.

This will require some fundamental changes to how Mexico governs and funds transport. For a long time, transport in Mexico has been doubly decentralised: The regulatory framework is complex and fragmented at the national level, with no one truly 'owning' urban transport, and states and cities tend to be responsible for planning and implementation but often lack capacity to do so – a more coordinated effort across all levels of government is needed.

Devolving power to subnational governments is not inherently a problem; indeed, it can be a very successful model. But most Mexican cities lack the technical and financial capacity to plan and execute the kinds of ambitious, multi-year strategies and projects that they need to reshape urban mobility. Cities also need support to establish metropolitan-scale coordination, which is crucial in urban areas that may include dozens of jurisdictions.

A key starting point for Mexico is to adopt a clear vision for sustainable mobility that is integrated with housing and land use and has a clear institutional “owner” – most naturally SEDATU – and clear roles for related agencies. It then has to realign funding with those new priorities, which will almost certainly entail major changes to transport budgets.

Mexico can make its federalist approach to transport more successful by supporting subnational governments to create and implement their own, location-appropriate, strategies while enabling them to increase collection of own-source revenues and reduce their dependence on national transfers. It is important to give local governments more power to shape their own agendas, but also to provide detailed standards and guidance as well as capacity-building, and to explicitly support metropolitan-scale work. Small cities will require more extensive support, as they are unlikely to have the staff, knowledge or resources needed.

Mexico can also draw on successful strategies implemented around the world. To identify important transport policy instruments for the Mexican context, LSE Cities and the OECD hosted a workshop in Mexico City in October 2019 in which experts were invited to assess the potential impact and viability of 21 promising urban transport policy interventions. The top two choices, with overwhelming support, were infrastructure budget reallocation (65%) and integrated national urban and transport plans (61%). The third-ranked option was national awareness campaigns (37%), which Mexican experts said were crucial to building support for sustainable mobility across the country. Land value capture, parking standards reform and metropolitan strategic transport were also highlighted.

One major challenge for the transport sector is that sustainable mobility is not sufficiently prioritised. While SEDATU’s Urban Improvement Programme (PMU) has laid the groundwork for better policy around non-motorised urban mobility, the National Development Plan 2019–2024 (PND) does not mention urban mobility except in the context of personal safety, and it says nothing about integrated urban planning, sustainable land use or investment in public transport. The PND is complemented by the National Infrastructure Plan as well as a set of sectoral programmes developed by the respective ministries, all of which are meant to align with the priorities set out in the PND. However, the broad language and limited details in the PND leave a lot of room for interpretation.

The administration recently unveiled an ambitious MXN1 trillion (US\$43 billion) National Infrastructure Programme, designed to provide a major boost to the struggling economy and create new jobs. However, although transport projects make up over a third of the budget, they are mostly high-carbon investments: a new airport for Mexico City; modernisation of freight infrastructure, and significant investment in new roads. The only flagship project involving public transport is the Tren Maya, a 1,500 km railway that would link cities and tourist sites across five southern states and that has faced strong opposition from experts and indigenous communities on environmental grounds and has also been criticised for not meeting actual local transport needs.

A VISION FOR INTEGRATING MEXICO'S HOUSING, LAND USE AND TRANSPORT POLICIES

It is clear that Mexico would benefit from a more cohesive vision for urban development that integrates housing, land use and transport, to facilitate collaboration and ensure that sectoral policies and investments work together to strengthen cities. Table ES1 summarises the policy recommendations presented at the end of this report for the consideration of the national government. Priorities for an integrated approach include:

- **Operationalise reforms to the General Law on Human Settlements, Land Use and Urban Development.** These provide a foundation for higher densities, establish the need to promote accessibility and empower SEDATU to oversee all aspects of urban development but the corresponding regulatory framework has still not been established.
- **Link urban development policies explicitly to climate and environmental policy.** Even though the pandemic led to a temporary dip in emissions in 2020, Mexico is on track to miss its emission reduction commitments under the Paris Agreement by 2030. Current energy policy seems to have a bias towards carbon-intensive projects. Aligning transport and housing policies with climate goals could save up to 25,000 lives and US\$5 billion in public health costs over the next 12 years. Environmental goals such as cleaner air should be a key part of the appraisal of new housing and transport projects.
- **Implement the recently published National Land Policy (PNS).** The PNS is a non-binding strategic document designed to guide decisions on land use, zoning, urban development, housing and social protection. Implementing it will require collaboration among national and subnational agencies. A key first step is to create a National Land Programme with a dedicated budget.
- **Align and integrate sectoral policies to jointly promote compact, connected, clean and inclusive cities, particularly at the metropolitan level.** Building on a shared vision, and brought together under SEDATU's leadership, agencies focused on housing, transport and land use planning could better prioritise their investments. Housing programmes might favour mixed-use and social housing development along major public transport lines, for instance, while public transport budgets might prioritise urban areas that are poorly connected to jobs or that are targeted for revitalisation. SEDATU and other secretariats could promote the creation of metropolitan planning bodies that coordinate infrastructure investments.

Reforms within individual sectors and support to subnational governments are also needed:

- **Support integrated metropolitan planning as an urgent national priority.** Cities have been growing most rapidly in their peri-urban areas, resulting in high levels of administrative fragmentation. Metropolitan governance facilitates a coordinated response to accessibility challenges and fosters economic efficiency, affordability and expanded opportunities for all.
- **Encourage mixed land uses by supporting cities in reforming their zoning policies.** The federal government can support cities in updating their land use regulations so that they require each neighbourhood to include green and open spaces, schools, health care and other services, as well as retail, and encourage mixed-use zoning to ensure a diversity of residential types, small-scale offices, light industrial spaces and community areas.
- **Provide incentives to make social housing attractive to private developers.** Mexico's government needs to find ways to finance further development through further engagement of the private sector. Policy options include tax incentives; tax exemptions for development on certain types of land or in designated areas; and government-guaranteed bonds to provide low-cost finance to community-based organisations to create and manage social housing.
- **Ensure that smaller cities have the tools they need for integrated planning and development.** Smaller municipalities have the fewest resources and are most at risk from land speculation, corruption and uncontrolled sprawl. Developing a toolkit of effective strategies to promote accessibility through integrated housing, land use and transport policies, paired with consistent financial, technical and capacity-building support, will make these cities more productive, improve quality of life and avoid lock-in to high-carbon, inequitable pathways.
- **Promote minimum density standards for urban land.** Municipal plans should seek to optimise land use to meet housing and other needs, and generally promote densification, while taking into account the relative accessibility of each neighbourhood, the availability of sustainable transport infrastructure and potential for development.
- **Prioritise urban regeneration over greenfield developments.** SEDATU should ensure that urban regeneration and redevelopment become key elements of national urban and affordable housing policies. Reusing existing urban land can help control urban sprawl, revitalise substandard and abandoned housing, improve the energy efficiency and sustainability of the built-environment, and repurpose abandoned or underutilised industrial land. Upgrading informal settlements should also be a priority.

Finally, Mexico needs to enhance its capacity for policy formulation and implementation:

- **Build capacity in municipalities and states to help improve housing, land use and mobility planning.** Municipalities, supported by state governments, have key roles to play in implementation of the PNV and other national urban development initiatives. SEDATU can support them through workshops, discussion forums, seminars and educational materials.
- **Improve data collection and statistical services to understand transport and housing needs and evaluate the success of new policy interventions.** The National Institute of Statistics and Geography (INEGI) should expand data collection to all major urban areas, and support housing and transport policy by gathering data to shine a light on existing urban accessibility levels, travel patterns, trip lengths and durations, traffic flows, etc. This can also help inform location choices for future development, to ensure quick access to key services.
- **Support the establishment of interdisciplinary urban planning education at public universities and other institutions.** Only a few Mexican institutions, mostly in Mexico City, now offer professional planning degrees. Along with making such programmes more widely available, Mexico could also leverage planning institutes to strengthen capacity for urban planning at municipal and metropolitan level.
- **Professionalise the public workforce at all levels of government to promote better urban policy-making.** Mexico struggles with an inadequate civil service system, plagued by low pay and status, limited opportunities for advancement or advanced training and a lack of job security, especially at the municipal level. Ways to address this problem include strategic workforce planning, a greater focus on merit, certifications of competencies, targeted training, municipal civil service careers and stronger ethics measures.

Table ES1. Summary of priority reforms on housing and transport policy

PRIORITY POLICY REFORMS FOR NATIONAL GOVERNMENT	FOCUS: HOUSING, TRANSPORT OR INTEGRATED POLICY	TIMEFRAME
Institutional and governance reforms		
Operationalise reforms to the General Law on Human Settlements, Land Use and Urban Development	Integrated	Short term
Link urban development policies explicitly to federal climate and environmental policy	Integrated	Short term
Implement the recently published National Land Policy (PNS)	Integrated	Short to medium term
Adopt a national urban policy with clearly defined roles and a mechanism to coordinate planning and collaboration across sectors and levels of government	Integrated	Long term
Expand and properly fund the Metropolitan Coordination Directorate within SEDATU so that it explicitly covers metropolitan transport planning	Transport	Short term
Clearly assign responsibility for inter- and intra-urban transport at the national level	Transport	Short term
Promote renting and multi-family homes as much as single-family homeownership, recognising their respective benefits	Housing	Short to medium term
Clarify the division of responsibilities among the different actors in the housing policy field	Housing	Short term
Funding and financing reforms		
Align federal transport spending with mode share so that the percentage of the budget allocated to walking, cycling and public transport corresponds to actual use	Transport	Medium term
Reform the rules of operation of existing federal funds to prioritise investment in sustainable mobility projects	Transport	Short term
Ensure that financing programmes make an array of housing tenure options affordable, with a particular focus on low-income households	Housing	Medium term
Provide incentives to make social housing attractive to private developers	Housing	Medium term
Reforms that support integrated policy-making across other levels of government		
Support integrated metropolitan planning as an urgent national priority	Integrated	Medium term
Encourage mixed land uses by supporting cities in reforming their zoning policies	Integrated	Medium to long term
Conduct capacity-building activities for municipalities and states to help them improve their housing, land use and mobility planning	Integrated	Short term

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