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Little impact on property sector

However OPR cut expected to spur property demand

PETALING JAYA: The latest overnight policy rate (OPR) cut is expected to have a negligible impact on the local property sector, in light of muted gross development product (GDP) growth.

CGSCIMB said in a report yesterday that the OPR cut would spur property demand to some extent.

"Homebuyers' purchasing power would likely increase in tandem, but we expect the upside to be limited, especially for properties in the affordable range of RM300,000 to RM500,000.

"Our sensitivity analysis shows that every 25-basis-point (bps) cut in the borrowing rate would reduce the monthly housing loan instalment by only RM32 to RM69, or raise a buyer's eligible loan amount by RM3,000 to RM15,000," it said.

The research house added that while the sentiment to purchase properties would likely improve due to lower loan instalments, this could be offset by Malaysia's muted gross GDP growth and slowing household income trend.

"For instance, the previous interest rate cut of 25bps in July 2016 did not translate into higher property transaction volumes, as we witnessed negative volume growth in 2016 to 2017."

Bank Negara lowered the OPR by 25bps to 3% on Tuesday. Based on historical trends, CGSCIMB said this is likely to result in banks lowering their indicative lending rates.

"We estimate that every 25bps reduction in borrowing rates would reduce the monthly instalment for mortgage loans by 1% to 3%, depending on the loan tenure."

The research house is maintaining a neutral outlook on the property sector, as it deems the majority of developers under its coverage have set lower new sales targets for 2019, signalling a challenging year.

"We do not see much room for housing loan growth, given the existing low interest rate environment, limited affordability and higher property prices (3% year-on-year in 2018). We expect the housing market to remain challenging in the near term, unless there is a meaningful surge in household income or a decline in house prices."

CGSCIMB said Sime Darby Property Bhd remains its top pick, as the company has shown continuous improvement in its property development division and new property sales since its demerger in November 2017.

"We believe the group's healthy balance sheet and massive land bank are advantages in addressing any change in future product demand," said the research house.

Last week, the Valuation and Property Services Department revealed that the local property sector recorded 313,710 transactions worth RM140.33bil in 2018, which was an increase of 0.6% in volume and 0.3% in value compared with 2017. It said property market activity in 2019 is expected to stabilise, judging from the increase in volume and value of total transactions in 2018.