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Housing loans applications jump but not enough to mop overhang

The Malaysian Reserve, Malaysia



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The surge in loan applications is due to lower interest rates and the nationwide HOC

by NG MIN SHEN

APPLICATIONS for mortgages had reached a total of RM25.6 billion in May, almost a six-year high and a 36.6% increase from RM18.74 billion recorded a year before, but the new recent high will still not clear the property overhang.

Industry experts said the sudden surge, which was attributed to lower interest rates and the nationwide Home Ownership Campaign (HOC), might not be an indication that the country's RM19.96 billion property overhang could be cleared up.

Analysts said it is also unlikely that the overhang would disappear anytime soon, especially when the latest figures from Bank Negara Malaysia (BNM) indicate that loan figures are falling again.

"I doubt the property overhang will be cleared very soon. It's a buyers' market now, and buyers have other options such as sub-sales and auction markets, especially those who are financially savvy," Bank Islam Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid told *The Malaysian Reserve* (TMR).

He said the unsold properties would only be cleared gradually as household income rises over time, thus prudent consumers with savings and good repayment track records would stand a better chance of buying a house at some point in the future.

The total of RM25.6 billion in housing loan applications was the highest since October and November 2013, when the figure reached RM26.43 billion and RM25.97 billion respectively, as per statistics from BNM.

Loans approved for the same purpose also registered a similar year-on-year (YoY) increase in May 2019, climbing 32.3% to RM10.76 billion from RM8.13 billion a year ago. The figure was 6.3% higher than the RM10.12 billion reported in April 2019.

On paper, the surge in applied housing loans should bode well for the



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property sector, which has been facing an oversupply situation since what seems like forever.

According to the National Property Information Centre, total unsold completed residential units — also known as an overhang — amounted to 32,936 units worth RM19.96 billion in the first quarter of 2019 (1Q19).

This marks a 30.7% increase from an overhang of 25,193 units valued at RM15.68 billion recorded in 1Q18.

"We could expect a slight improvement (in the glut situation) due to HOC 2019 but it will be very marginal," Dr Mohd Afzanizam said, adding that share prices of property developers have been lukewarm for some time.

Since the start of the year, the Bursa Malaysia Property Index has declined 1.13%. Bloomberg data shows the index is 1.8% lower so far this week, heading

for the biggest decline since the week ended May 24.

The benchmark FTSE Bursa Malaysia KLCI is down 3.26% for the year to date.

Last month, the government said the HOC 2019 — initially slated to run from January to June this year, as an initiative to clear the overhang — would be extended to end-2019, owing to the demand from house buyers and developers.

However, a more likely reason for the extension would be that the first-half of the campaign, which included various incentives such as minimum 10% discounts and stamp duty exemptions, only sold 1,144 units valued at RM650.87 million.

A senior analyst with a bank-backed brokerage was also cautious against the rise in applications for mortgages,

noting that the large numbers were likely due to a low base effect.

"Remember when the 14th General Election took place in May last year, where activity froze up for a while in the run-up to it, and for a bit after that," he told TMR.

The 25 basis point-cut in the Overnight Policy Rate (OPR) in May this year may have helped somewhat in the immediate aftermath. The Ministry of Finance said banks' loan approval rates grew 13% in May from a month prior, compared to April's 1% increase.

However, the meteoric rise in May numbers quickly moderated, as loans applied for purchase of residential property fell 17.8% MoM to RM21.05 billion in June this year, although this was still up 8.4% YoY from RM19.42 billion last year.

Similarly, loans approved for

purchase of residential property fell 10.4% MoM RM9.64 billion in June this year but were 13.7% higher than the RM8.48 billion in June 2018.

According to an analyst, one of the country's largest lenders says it hasn't seen significant new money flows due to the OPR cut, likely due to external uncertainties such as the US-China trade war outweighing lower interest rates.

"The overhang is still high, and concentrated at the upper house price ranges of above RM500,000 which may take a while to clear — until and unless there is significant improvement in affordability. Banks' loans growths are likely skewed towards the sub-RM500,000 range," the analyst said.

In addition to existing stock of 5.61 million residential units, the country also has 466,335 units of incoming residential supply, as well as 447,636 units of planned residential supply.

On a month-on-month (MoM) basis, loans applied for purchase of residential property reached RM21.72 billion in March this year (up 52.7% MoM from RM14.22 billion in February), RM23.66 billion in April (up 8.9% MoM) and RM25.6 billion in May (up 8.2% MoM).

Meanwhile, loans approved for purchase of residential property amounted to RM8.64 billion in March (up 44.2% from RM5.99 billion in February), RM10.12 billion in April (up 17.2% MoM) and RM10.76 billion in May (up 6.3% MoM).

"After showing a nice rebound last month, loan applications dipped again as both credit demand for household and business sagged; this could be due to a high base effect from last year given the three-month tax holiday between June and August 2018 (abolishment of the Goods and Services Tax)," Hong Leong Investment Bank Bhd said in a note yesterday.

Separately, MIDF Amanah Investment Bank Bhd said the property market will remain a buyers' market in the near term, as the swelling property inventory would push developers to continue offering discounts and other marketing efforts.



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SUMMARIES

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