



Headline	Improvement to property affordability insignificant
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Improvement to property affordability 'insignificant'

PETALING JAYA: Analysts expect the 25-basis point cut in the Overnight Policy Rate (OPR) to be positive for the current weak property market, but the improvement to affordability is still not significant.

Based on Hong Leong Investment Bank (HLIB) Research's analysis, the interest rate cut will reduce mortgage financing cost from an average 4.60% to 4.35%, which is a minor impact on monthly installments.

"For every RM3,000 of fixed monthly instalment, a 25-basis point cut will raise the amount of loan eligibility from RM585,000 to RM603,000 or a 3% increase," it said in a research note yesterday.

Hence, HLIB Research opined that the interest rate cut will not impact the underlying demand significantly given the muted impact on affordability.

"However, we view the rate cut positively on near term sentiment given the low expectation on the property sector," it said.

With the current weak demand for properties still a concern, PublicInvest Research noted that sales recovery, which is expected in H2, could provide a stronger re-rating catalyst for the sector. With more launches expected in the next few months, it expects property developers to register better sales as compared with H1.

The research house estimates the rate cut will reduce mortgage amount by about 3.2%, hence boosting the affordability.

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"That said, the overall impact depends on banks' pricing of the risks that affects credit spreads and margin of financing (especially for new loans)," said PublicInvest Research, which is maintaining an "overweight" call on the property sector.

It believes that the sector is already excessively punished as price corrections, if any, will not be excessive.

"Also, most of the property developers' earnings in the near term are also underpinned by healthy unbilled sales both locally and from overseas," it said.

MIDF Research also believes that the lower interest rate will eventually translate into slightly better sales by property developers, but the magnitude of the improvement to sales is likely to be small as banks remain stringent on lending coupled with weak consumer sentiment.