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Glimmer of hope for property sector

Total value of housing loans applied for rise for third consecutive month in March

by Ng Wai Mun

LOAN applications for the purchase of residential property rose in value terms, year on year, for the third consecutive month in March, according to the latest Bank Negara Malaysia (BNM) data.

This may be a nascent sign that demand for property is growing stronger and could potentially spell good news for beleaguered developers. Adding to this optimism is the fact that the last time residential loan applications rose for three consecutive months was at the end of 2013.

In March, residential loans rose by 20.8% yoy to RM23.2 bil. Collectively, for the first quarter, residential loan applications rose by 18.6% to RM55 bil.

Not only are loan applications increasing, the total residential loans approved, value wise, also grew for the third consecutive month. However, the dampener is that this is also the fourth consecutive month in which the residential loan approval rate declined. For March, the rate was 39.8%.

Despite the growth in residential loan applications and total loans approved, investors question if the growth is sustainable and whether it cuts across the board for the various types of residential property.

The apprehension stems from a few reports, including one by the National Property Information Centre (Napic) which reveals a glut in the property market, especially in the luxury segment. The excess has caused some owners to reduce the asking price by as much as 30% to ensure that the sale or rental goes through.

Some suggest that demand for residential loans will remain high only as long as such huge discounts are offered. Once owners cease to sell at substantially below market price, loan demand is expected to falter.

Turnaround in demand

A regional property analyst tells ***FocusM*** the sustained residential loan application growth is the "initial sign of better days to come" for the sector. "It has nothing to do with the lower prices offered. The latest BNM figures indicate that the demand (for loans) only started to turn around early this year," he adds.

The analyst says BNM data did not reveal sustained spikes in loan applications in the past two years which would have supported claims that the attractive discounts offered are the main reasons behind loan application growth.

"If huge discounts offered were not reciprocated by loan application growth then, I don't see why the (residential loans) growth for the first three months this year is caused by attractive prices offered," he says.

"At that time, demand for houses was still sluggish. Thirty per cent lower may be cheap but if the perception is that prices will be lower, most will still wait."

Alexander Woo, CEO of investment consultancy firm Absocap Holdings Sdn Bhd, is cautious as to whether the three-month growth is sustainable. "I think it would be too soon to draw conclusions as one or two consecutive months is still a bit short (a period) to consider it an uptrend.

"The four consecutive months of decline in approval ratio might be of more significance, indicating that banks are still stringent."

Woo reckons the growth in total value of residential loans was possibly due to more applications coming in. He points out there was a slowdown in loan applications and approvals in December due to the year-end holidays.

"Perhaps this is reflected in the slight dip in that month. January's increase could have been a result of the spillover from December, (for) cases that were 'delayed' due to the holidays."

While the analyst believes the increase in residential loan applications in Q1 is a sign of better days to come for the property sector, he reckons the data indicate that the main, if not sole, beneficiary may be those buying houses above RM250,000. This is on the back of the declining residential loan approval rate despite the total value of loans approved and loans sought having increased.

He says loans for houses costing above RM250,000 account for a higher portion of residential loans. As of Q4 2014, BNM data reveal loans for the purchase of residential property valued at above RM250,000 accounted for 68% of the total residential loans. This ratio increased to 72.6% as of end-2015 before reaching 75.7% of total residential loans at the end of last year.

Growth not across the board

"(Residential loan application) approval rate is still declining. The approval rate (for residential loans for March) is one of the lowest in the last 10 years."

Based on the BNM data, the residential loan approval rate in March was 39.8%, falling from 40-44% in the previous three months. The lowest rate over the last 10 years was 38.3%.

"The declining approval rate implies that loans are not approved across the board for the various house categories," says the analyst. He believes the approval rate is dragged down by the lower approval rates for homes costing below RM250,000.

He also says on top of loan application growth in March, the value of residential loans approved rose by 20% to RM9.2 bil. Rather than looking at the growth from the percentage view point, the analyst feels industry players would prefer to view the growth as an additional RM1.5 bil boost for the sector.

Absocap's Woo says: "It would be difficult to conclusively attribute the growth to a specific loan size based on the (limited) information. But it would be reasonable to expect the number of loans above RM250,000 is on the rise due to affordable housing being sold at around RM300,000.

"These projects have a relatively high take-up rate and would have increased the number of loan applications and approvals for the said segment."

Up until the end of last year, things still looked bleak for the property sector. For homes priced above RM250,000, the Napic report reveals the number of transactions declined by 7% to 21,222 in Q3 2016 while the value of total transactions fell by 9% to RM12.4 bil.

For residential properties above RM500,000, the number of transactions declined by 11% to 7,392 in Q3 2016 while the value of total transactions fell by 11% to RM7.5 bil.

Has consumer spending turned around?

While the property analyst believes increase in spending is confined to only the property sector, Centre for Research, Advisory and Technology (Create) CEO Ng Yeen Seen appears to be more optimistic.

She says housing loan figures were somewhat lower last year but picked up in February this year. She reckons this could be due to the rising confidence in the economy.

She says: "Amidst stagnant wages for the middle class and (while) most people struggle with the rising cost of living, the wealthy remain wealthy. Those who have been holding back their investments earlier may just be watching the market. They could be observing where it is going. Also, the global markets especially after Brexit, China's movements and (developments after) the US election."

Ng says most people see certainty in the government, the market stabilising on many fronts and slightly more certainties globally and this could be why people are beginning to invest again. "After all, the value of the ringgit is low, so it is better to put your money in various investments rather than as savings in the bank," she concludes. FocusM

SHARIL AMIN ABDUL RAHIM/FocusM

Woo believes it is premature to draw conclusions whether the growth is sustainable

DDHOE/FocusM

Ng says people are beginning to invest again

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– Ng

Applications and approvals

	Residential loans approved (as % of residential loans applied)	Year-on-year growth (%)	
		Residential loan applications	Residential loans approved
Aug 2016	41.8%	12.7%	(3.0%)
Sept 2016	43.8%	2.2%	(6.3%)
Oct 2016	44.3%	(0.1%)	(9.6%)
Nov 2016	44.5%	11.5%	0.2%
Dec 2016	43.9%	(2.7%)	(13.5%)
Jan 2017	41.7%	3.4%	12.5%
Feb 2017	40.1%	34.5%	27.3%
Mar 2017	39.8%	20.8%	20.1%

Source: Bank Negara Malaysia

% of residential loans (by category)

	> RM100,000	RM100,000-250,000	> RM250,000
2014	6.2%	25.7%	68.0%
2015	4.9%	22.5%	72.6%
2016	4.3%	20.0%	75.7%

Source: Bank Negara Malaysia

Q3 2016: Change in average value of transaction, yoy (%)

Residential properties < RM100,000	(8.9%)
> RM250,000	(2.3%)
> RM500,000	(0.6%)
> RM1 mil	3.9%

Source: NAPIC