

# Malaysia Property

## Light at the end of the tunnel

**Industry Focus**
**21 September 2023**

- Healthy demand for residential properties despite interest rate normalisation
- Improving supply-demand dynamics point to sustained sector recovery on a gradual basis
- Robust labour market to uplift property market recovery

**Solid recovery.** Malaysia’s property market maintained its healthy trajectory in 2Q23 as residential property transaction grew 5% y-o-y and 13.5% q-o-q while residential property loans grew healthily by 6.8% (vs 6.9% in 2Q22). This is despite the sharp increase in the Overnight Policy Rate (OPR) from 2% to 3%, reflecting resilient domestic demand. Meanwhile, 2Q23 house price index moderated to 2.2% (vs 4.8% in 1Q23, 2.6% in 2Q22), a moderation which is largely expected after the strong recovery over the past one year.

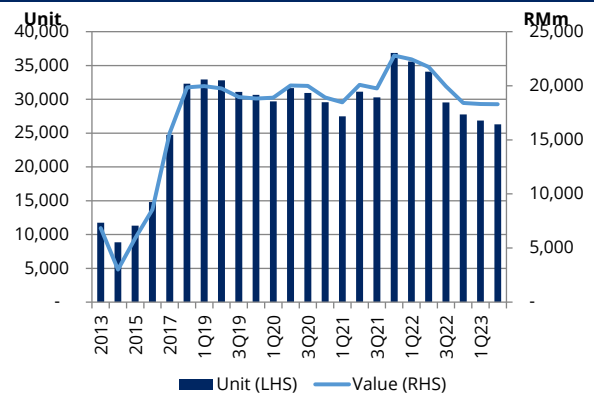
**Inflection point for supply overhang.** Residential overhang has improved considerably over the past one year (-23% y-o-y, -2% q-o-q) to reach 26,286 units in 2Q23 which is the lowest since 2018. More importantly, the improvement in overhang has also been witnessed in the high-rise segment, though it remains elevated by historical standards. This could mark an inflection point for high-rise properties which have been plagued with oversupply for the past few years. We are optimistic that the reduction in supply overhang is set to pave the way for better growth prospects for developers going forward.

**Encouraging sales performance from developers.** Bursa-listed large developers generally recorded commendable sales performance in 2Q23, especially in the landed properties segment where booking pipeline remained strong. Given the expectations of peak interest rate and strong economic growth as projected under the 12<sup>th</sup> Malaysia Plan Mid-Term Review, Malaysia’s property sector is likely to maintain its gradual recovery momentum.

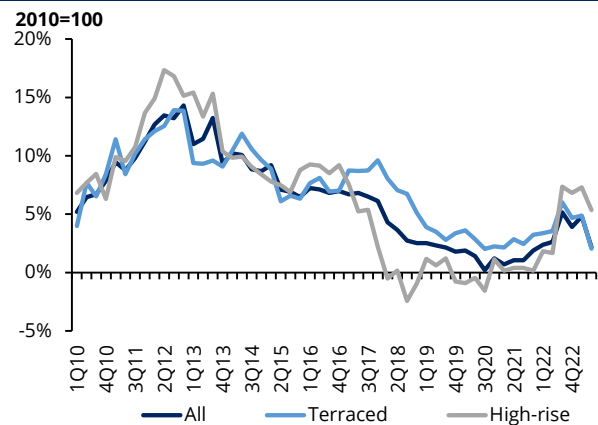
**Tailwinds from strong labour market.** We are hopeful the robust employment market with record high labour participation will remain supportive of the property market. We are confident that landed properties remain the bright spot in Malaysia’s property market due to a balanced supply-demand dynamics. We believe township developers such as Eco World, Sime Darby Property and IOI Properties could be the largest beneficiaries of the sustained recovery for landed properties.

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**Completed but unsold residential units**


Source: AllianceDBS, NAPIC

**Stable Malaysian House Price Index (MHPI)**


Source: AllianceDBS, NAPIC

**Solid recovery momentum**

With the conclusion of the six state elections in Aug 2023, the federal government will now focus on delivering its socioeconomic goals set under the Madani Economy Framework. The 12<sup>th</sup> Malaysia Plan Mid-Term Review has been tabled recently in the Parliament, where Malaysia’s targeted GDP growth over 2021-2025 has been revised upwards to 5%-6% from 4.5%-5.5% as 2021-2022 GDP growth outperformed due to the low base in 2020 caused by the COVID-19 pandemic. In addition, the government is committed to spend more than RM90bn development expenditure each year for 2023-2025 to boost the economy and achieve high-income nation status by 2025.

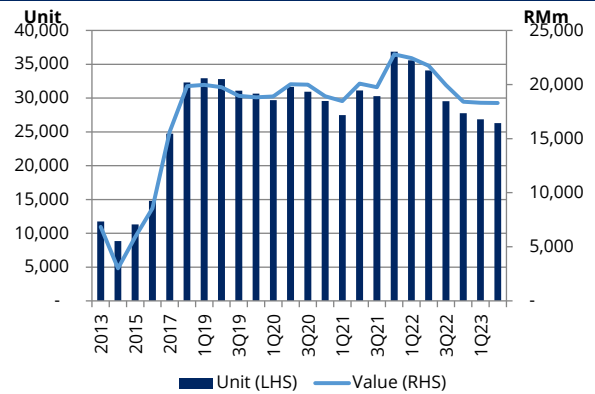
Budget 2024 is expected to be tabled on 13 Oct 2023 where concrete details of various economic reform initiatives such as targeted subsidies and progressive tax policies could be spelt out. Should the federal government continue to implement the economic structural reforms for long-term fiscal sustainability, Malaysia’s economic prosperity could be further enhanced. This will certainly be a major boost for Malaysia’s property sector.

In 2Q23, Malaysia’s property market remained steady as property transactions stayed healthy despite the impact of interest rate normalisation. Residential property transaction grew 5% y-o-y and 13.5% q-o-q while residential property loans grew healthily by 6.8% (vs 6.9% in 2Q22). This has clearly illustrated the resilience of the property market, underpinned by firm demand.

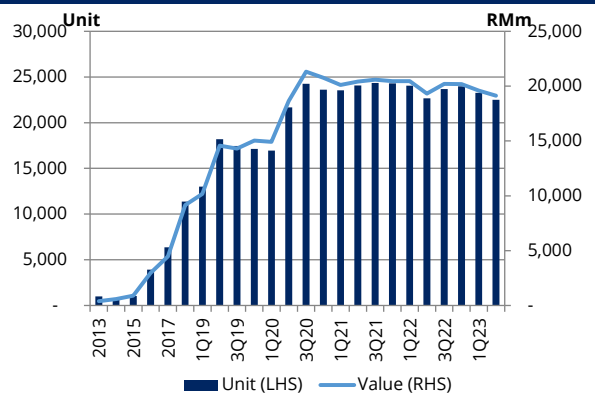
Taking a look at the perennial concern of supply glut, it continues to show sequential improvement. As at end-2Q23, residential overhang dipped by 2% q-o-q and 23% y-o-y due to the better monetisation of condominiums. It is noteworthy that residential overhang has been declining for six quarters consecutively, reaching the lowest since 2018. This illustrates the successful monetisation of unsold inventory that has been going on over the past few years.

For high-rise overhang, unsold completed units (inclusive of SOHO and serviced apartments) have recovered to pre-pandemic levels. It has been showing a declining trend as the strong post-pandemic reopening helps to absorb the unsold units. While high-rise units still account for a whopping 79% of total overhang, we believe the overhang will reduce further should the economic growth remain strong as projected by the government.

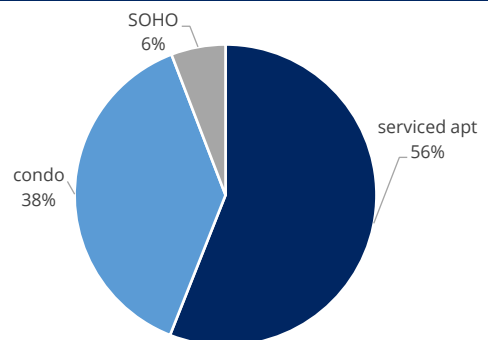
**Completed but unsold residential units**



**Completed but unsold serviced apartments**



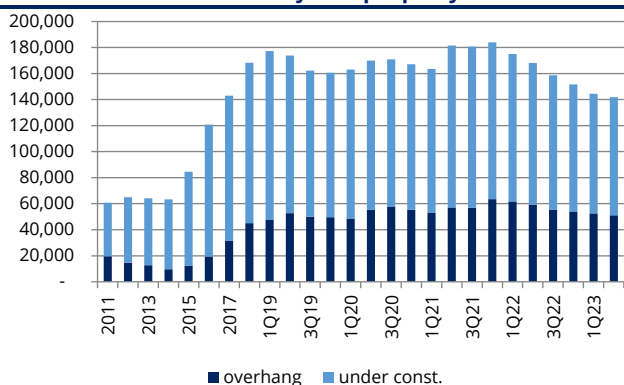
**Overhang of high-rise properties**



Source: AllianceDBS, NAPIC

On an aggregate basis, total unsold units (completed and under construction) are slowly reducing in the system as Malaysia's economy remains on a growth momentum. Nevertheless, improvement in the overall supply-demand dynamics will take place on a gradual basis as total supply remains relatively high by historical standards.

**Total unsold units in Malaysia's property market**



Source: AllianceDBS, NAPIC

We believe that Malaysia's property market could mark an inflection point in 2023 after weathering a long downturn since 2015 where supply overhang and low affordability plague the market for years. We believe that Malaysia's property market is heading towards a sustained recovery given strong economic growth momentum, peaking interest rates and healthy growth in labour force, notwithstanding the external uncertainties.

Property prices grew at a more measured pace of 2.2% in 2Q23 after achieving 4.8% in 1Q23 and 3.9% in 4Q22. This deceleration does not come as a surprise as 2023 has been expected to see a normalisation after the stellar performance 2022 due to the economy reopening. Nevertheless, price growth is likely to remain on a healthy trend given the improvement in supply overhang, sustained growth trend in the overall economy and cost-push inflation for building materials.

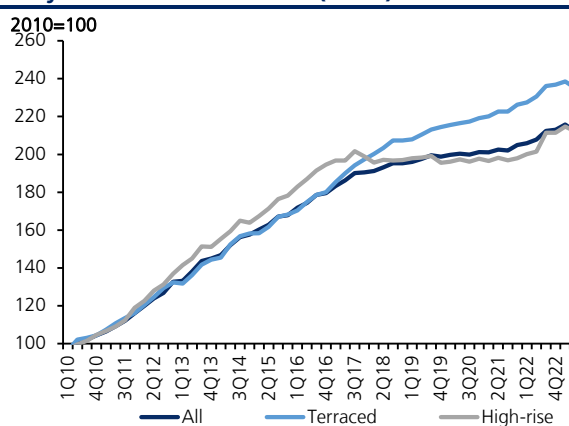
Similar to the global monetary tightening, Bank Negara Malaysia (BNM) has raised the benchmark interest rate by five times with 25 bps hike each since May 2022, bringing the Overnight Policy Rate (OPR) to 3.0% which is similar to pre-pandemic level. We believe that BNM will stand pat on the OPR for the remaining of 2023 amid normalising inflation and steady growth trajectory in our economy.

In the near term, property developers may be more cautious with their launches given the rising building material prices and concerns on lower purchasing power from potential buyers after the latest rate hike and high living cost. However, critical labour shortage issue has largely been resolved, enabling smooth construction progress for most property developments. As affordability remains a key issue amid a high living cost environment, future launches in cities would see larger volume of small high-rise units in a single project to help generate strong sales.

Therefore, we believe the worst is over for Malaysia's property market after weathering a subdued property market over the past few years. More importantly, Malaysia's employment market has been growing steadily, and has far exceeded the pre-pandemic employment level, thanks to the growing economy.

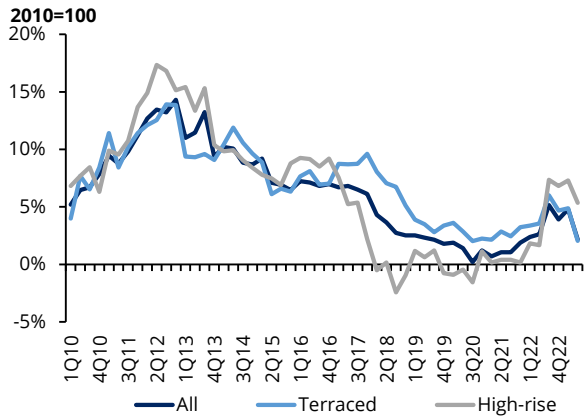
It is even more encouraging that labour participation has hit a record high of 70.1% in Jul 2023 which could partly explain the steady and resilient domestic demand. This positive development is expected to continue given our favourable demography which will further underpin the resilience of Malaysia's domestic demand.

**Malaysian House Price Index (MHPI)**



Source: AllianceDBS, NAPIC

**Malaysian House Price Index growth trend**

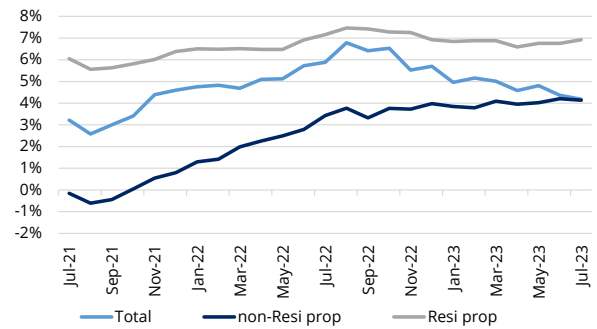


Source: AllianceDBS, NAPIC

We believe that the landed property segment will continue to outperform given its more balanced supply-demand dynamics, though the overhang in the serviced apartments segment is a cause for concern. Overall, the rental market has not shown much improvement over the past 12 months as tenants have plenty of rental options due to high supply. Nevertheless, we believe this may improve gradually as Malaysia’s economy continues to maintain its recovery momentum, underpinned by robust labour market and strong economic and social activities, especially the tourism-related activities.

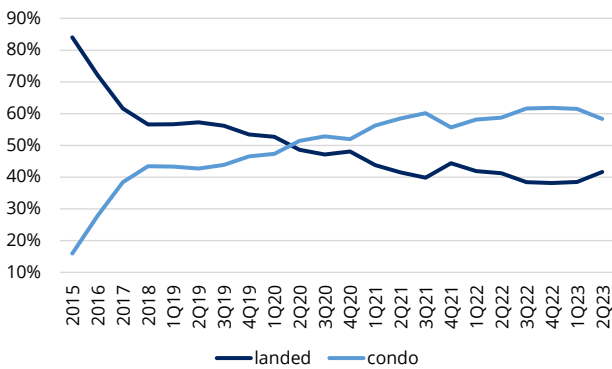
We note that the composition of landed properties in the supply overhang has been declining over the years, as demand remains resilient and Malaysians typically favour landed housing. Expensive land prices have also limited the supply of landed properties which made supply less speculative in nature, compared to high-rise housing. Therefore, we are confident that landed properties are now on a sustained recovery going forward given the more balanced supply-demand dynamics.

**Resilient residential loans growth**



Source: AllianceDBS, BNM, CEIC

**Composition of residential overhang**



Source: AllianceDBS, NAPIC

**Commonly used abbreviations**

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Adex = advertising expenditure  
bn = billion  
BV = book value  
CF = cash flow  
CAGR = compounded annual growth rate  
Capex = capital expenditure  
CY = calendar year  
Div yld = dividend yield  
DCF = discounted cash flow  
DDM = dividend discount model  
DPS = dividend per share  
EBIT = earnings before interest & tax  
EBITDA = EBIT before depreciation and amortisation

EPS = earnings per share  
EV = enterprise value  
FCF = free cash flow  
FV = fair value  
FY = financial year  
m = million  
M-o-m = month-on-month  
NAV = net assets value  
NM = not meaningful  
NTA = net tangible assets  
NR = not rated  
p.a. = per annum  
PAT = profit after tax

PBT = profit before tax  
P/B = price / book ratio  
P/E = price / earnings ratio  
PEG = P/E ratio to growth ratio  
q-o-q = quarter-on-quarter  
RM = Ringgit  
ROA = return on assets  
ROE = return on equity  
TP = target price  
trn = trillion  
WACC = weighted average cost of capital  
y-o-y = year-on-year  
YTD = year-to-date

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