

# Malaysia Property

## Cautiously optimistic

Industry Focus

23 September 2024

- On sustainable uptrend, despite slightly weaker momentum in 1H24 vs 2H23
- Improved supply-demand dynamics to underpin healthy property sector growth momentum
- Realisation of approved investments to accelerate property sector revival

**Taking a breather after a strong recovery.** Malaysia's property sector remains on a steady growth trajectory with 1H24 total property transactions rising by 8% y-o-y, although the momentum has weakened slightly given the 7% volume contraction compared to 2H23. We believe this is a healthy consolidation after a strong recovery since 2022 as the current transaction level remains markedly higher than the pre-pandemic level. In addition, this is further corroborated by firm property loans demand as loans for residential property and non-residential property grew 7.5% and 6.8% respectively in Jul 2024, outperforming the pre-pandemic levels.

**Supply overhang concern is largely resolved.** 2Q24 residential overhang came in at 22,642 units (-6% q-o-q, -14% y-o-y), the lowest since 2017. Improvements are also seen in the overhang for serviced apartment which dipped 3% q-o-q and 6% y-o-y in 2Q24. Meanwhile, 1H24 property prices rose by 2.2%, compared to 4.6% in 1H23 and 2.5% in 1H22. We believe that the solid labour market conditions with record labour force participation and low unemployment will continue to sustain the property sector recovery.

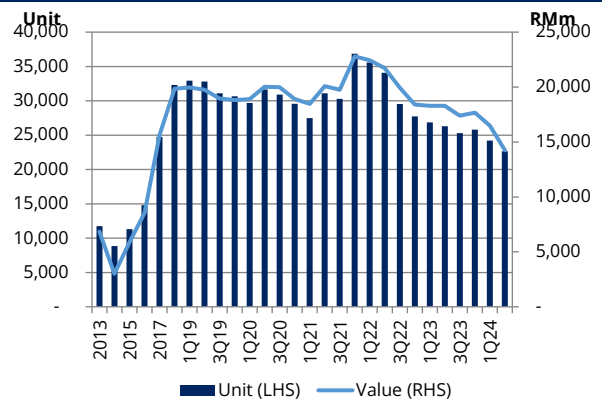
**Positive sales performance from developers.** 1H24 property sales for large Bursa-listed developers generally met expectations amid robust economic prospects. Landed properties continue to receive robust demand while affordably-priced high-rise properties benefit from keen interest from first-time home buyers. Developers with exposure in industrial developments enjoy strong property sales, thanks to the strategic moves by the government to push for high value-added industrialisation under various national policy blueprints.

**Burgeoning investment activities.** The massive data centre investments committed by world-class tech players such as Microsoft, Google and ByteDance have helped spur strong land price appreciation in Johor and Selangor, benefitting industrial landowners in strategic locations. In addition, major rail infrastructure projects such as MRT3, Penang LRT, Johor LRT and KL-SG HSR are expected to serve as a strong catalyst for Malaysia's property sector in the longer term.

**Analyst**

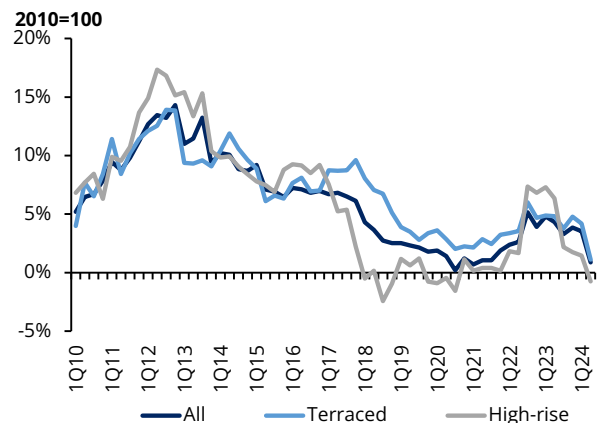
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**Completed but unsold residential units**



Source: AllianceDBS, NAPIC

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



Source: AllianceDBS, NAPIC

### Sustainable uptrend

Malaysia’s economy grew 5.9% y-o-y and 2.9% q-o-q on a seasonally adjusted (SA) basis in 2Q24 (1Q24: +4.2% y-o-y; 1.5% SA q-o-q), which was slightly above the advance estimate of 5.8%. The higher-than-expected 2Q24 GDP was largely driven by strong growth trajectory that further accelerated during the quarter, especially in the Services, Manufacturing and Construction sectors. This takes 1H24 GDP growth to 5.1%, thanks to the sustained domestic demand and a turnaround in external trade.

Thanks to the concreted efforts by the federal government to boost economic growth under the Madani Economy Framework, 2Q24 capital expenditure sustained its stellar growth at 11.5% from a multi-year high growth of 9.6% in 1Q24, signifying the positive impact arising from record-high approved investments in 2021-2023. The implementation of the strategic developments and flagship projects under the 12th Malaysia Plan Mid-Term Review (12MP MTR), New Energy Transition Roadmap (NETR) and New Industrial Master Plan (NIMP) 2030 will accelerate the economic take-off envisaged by the government to be a paradigm shift for Malaysia.

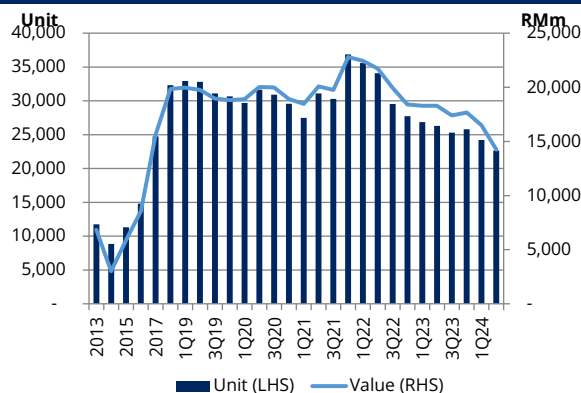
In 2Q24, Malaysia’s property market was slightly weaker as total property transaction volume fell 6% q-o-q (but flat y-o-y) to 94.7k after exceeding 100k for three successive quarters. The moderation is largely anticipated as the property market has been fuelled by strong optimism since the reopening of the economy in 2022. We are further encouraged that 2Q24 transaction volume was still 25% higher than the pre-pandemic level, reflecting the strong fundamentals of Malaysia’s economy. Meanwhile, Malaysia’s 2Q24 house price index grew at 0.9% y-o-y, following the strong growth of 4.1% in 2023 and 3.5% in 2022.

We believe that Malaysia’s property sector is experiencing a sustainable uptrend given the healthy supply-demand dynamics as supply overhang is no longer a major concern for the sector. In fact, supply overhang has continued to show sequential improvement. It is noteworthy that residential overhang has reached the lowest since 2017. This illustrates the successful monetisation of unsold inventory that has been going on over the past few years as well as the pick-up in property buying demand since 2022.

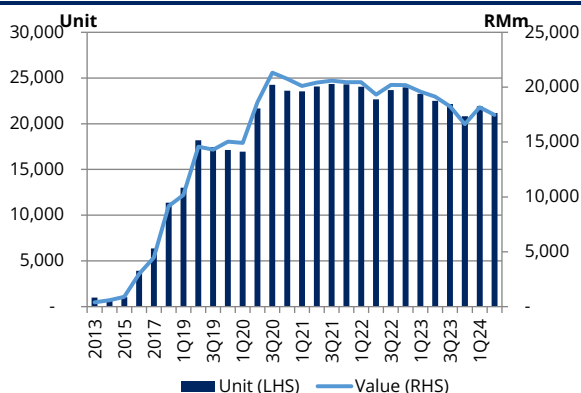
For high-rise overhang, unsold completed units (inclusive of SOHO and serviced apartments) have been showing a declining trend as the robust domestic economy helps to absorb the unsold units. While high-rise units still account for 80% of the

total overhang, we believe this should continue to improve given the favourable economic outlook.

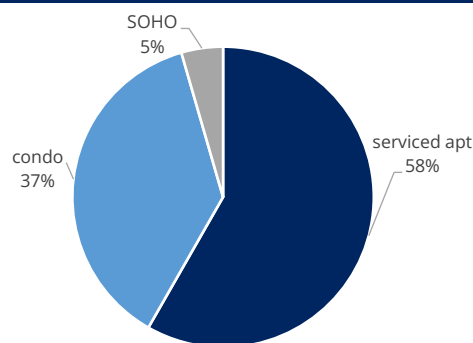
### Completed but unsold residential units



### Completed but unsold serviced apartments



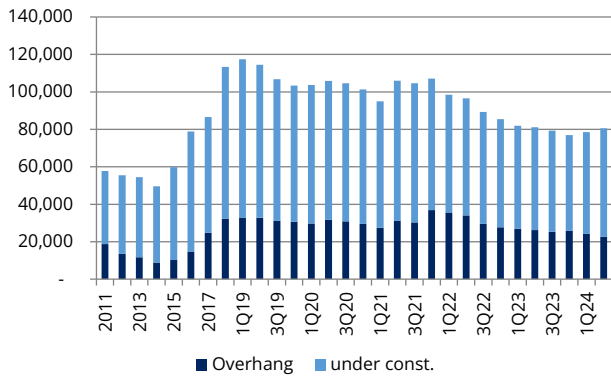
### Overhang of high-rise properties



Source: AllianceDBS, NAPIC

On an aggregate basis, total unsold units (completed and under construction) are slowly reducing in the system to the lowest since 2016 as Malaysia’s economy remains on a healthy growth momentum. We believe the overall supply-demand dynamics will continue to improve on a gradual basis, in tandem with the growth trajectory of Malaysia’s economy.

**Total unsold housing units in Malaysia**



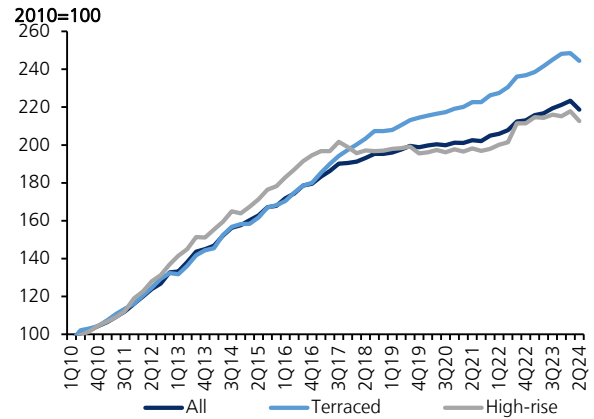
Source: AllianceDBS, NAPIC

Malaysia’s property market is expected to improve further in 2024 given notable improvements in the supply overhang. While it is true that low affordability could be a concern for homebuyers, 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.

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 70.4% in Jul 2024 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.

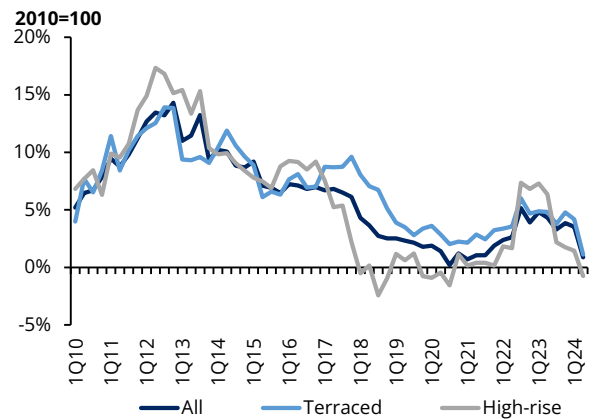
Property price growth in 2Q24 was relatively moderate at 0.9%, but this is after strong price appreciation over the past two years. We believe price growth is likely to remain on a healthy trend given the improvement in supply overhang, sustained growth trend in the overall economy and cost-push inflation for developers.

**Malaysian House Price Index (MHPI)**



Source: AllianceDBS, NAPIC

**Malaysian House Price Index growth trend**



Source: AllianceDBS, NAPIC

In terms of monetary policy, 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 in 2024 amid normalising inflation and steady growth trajectory in our economy.

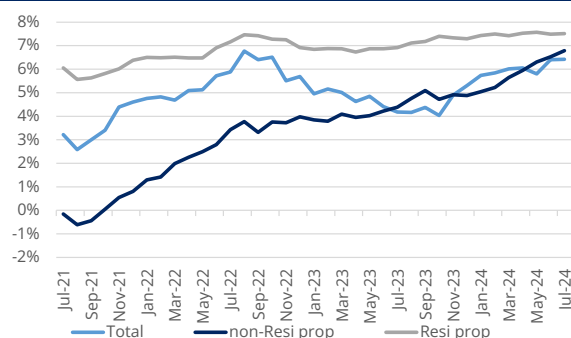
## Industry Focus

### Malaysia Property

Malaysia has become a hotspot for data centres, thanks to its proximity to Singapore, spillover effects of the US-China trade war as well as comparatively cheaper land, water and power. The Johor state has been the largest beneficiary of this data centres boom, with several large industrial parks such as Nusajaya Tech Park, Sedenak Tech Park and YTL Green Data Centre Park capturing billions of investments from global leading players including the likes of Microsoft, Google, ByteDance and GDS Holdings. Malaysia's industrial land has experienced a strong wave of price appreciation over the past few years, thanks to this data centre boom. In addition, the burgeoning data centre ecosystem will in turn create more demand for residential properties as more high-value employment opportunities are created.

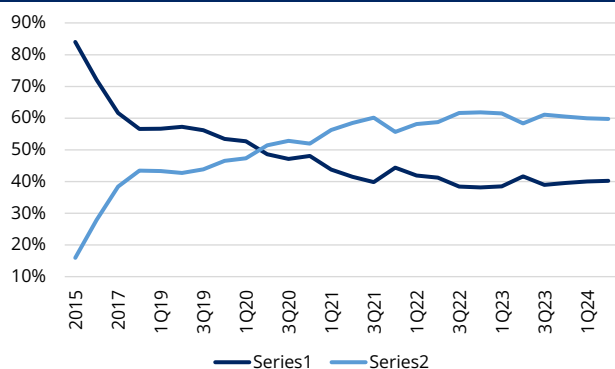
In addition, Malaysia's property sector could be boosted by the major rail infrastructure projects that are in the pipeline. Several projects such as MRT3, Penang LRT, Johor LRT and KL-SG HSR are expected to see more progress in 2024 which bode well for transit-oriented developments. Taking cue from the spillover effects of the on-going JB-SG RTS, we believe Malaysia's property sector will continue to do well in the near-to-medium term as those mega rail infrastructures are developed progressively.

#### Strong residential loans growth



Source: AllianceDBS, BNM, CEIC

#### Composition of residential overhang



Source: AllianceDBS, NAPIC

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 on a sustained recovery going forward given the more balanced supply-demand dynamics.

#### 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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