ALLIANCEDBS RESEARCH

Malaysia Property

Banking on resilient domestic demand

Industry Focus **24 June 2025**

- **Stable outlook to be underpinned by resilient demand despite external uncertainties**
- **SST expansion unlikely to dent healthy sector dynamics**
- **Positive spillover effects from Malaysia's investment upcycle**

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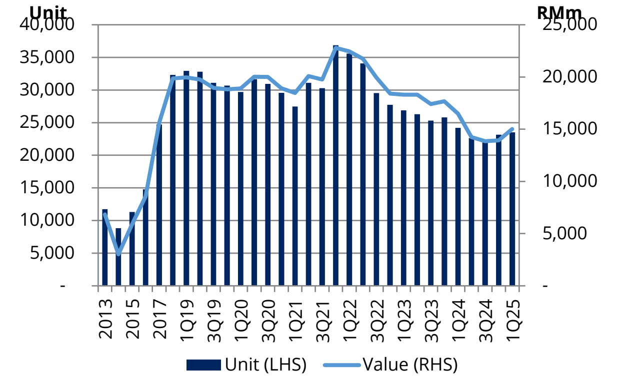
Sustainable trajectory. Malaysia's property sector growth momentum eased in 1Q25 with total property transactions falling 6% y-o-y after the record year in 2024. This was also reflected in normalizing loans growth for residential and non-residential properties which grew by 6.5% y-o-y and 7.6% y-o-y respectively in Apr 2025 (vs 6.9%/8.1% in Dec 2024). Nevertheless, Apr 2025 loan application for residential and non-residential properties grew 3.1% y-o-y and 14.8% y-o-y respectively, indicating resilient demand. We believe the overall property market continues to exhibit resilient underlying strength in tandem with stable household spending and investment activities.

Favourable supply-demand dynamics. 1Q25 residential overhang came in at 23,515 units (+2% q-o-q, -3% y-o-y), a level that was last seen in 2017. Meanwhile, improvement was also seen in the overhang for serviced apartments which dipped 7% q-o-q and 17% y-o-y in 1Q25, recovering to the pre-pandemic level. All these positive results were achieved despite the aggressive property launches in 2023-2024 (+34%/+4% y-o-y), signalling improved property demand.

Minimal impact from expanded SST. The expansion of the sales and service tax (SST) effective July 2025 includes a 6% service tax on construction services for commercial and industrial properties but residential properties are exempted. Meanwhile, sales tax for basic construction materials such as cement, aggregates and sand remains at 0%, suggesting limited price impact on the overall property market. In addition, the solid labour market conditions with record labour force participation and 10-year low unemployment will continue to sustain the property sector recovery.

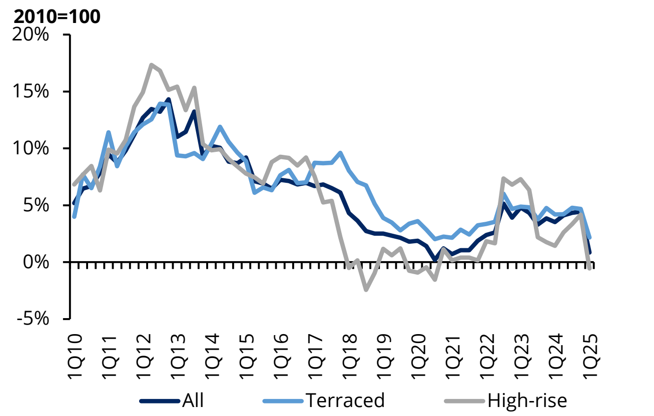
Benefitting from burgeoning investment activities. Malaysia's progressive national policies for digital economy and renewable energy have led to record high investments, as the country has emerged as a fast-rising hub for regional cloud infrastructure. This has spurred strong land price appreciation in Johor and Selangor, benefitting industrial landowners in strategic locations. This structural trend is likely to remain supportive of Malaysia's overall property sector in 2025.

Completed but unsold residential units



Source: AllianceDBS, NAPIC

Malaysian House Price Index (MHPI)



Source: AllianceDBS, NAPIC

Slow and steady

Malaysia's economy grew 4.4% y-o-y and 0.7% q-o-q on a seasonally adjusted (SA) basis in 1Q25 (revised 4Q24: +4.9% y-o-y; -0.2% SA q-o-q), which was in line with the advance estimate. The steady 1Q25 GDP performance was largely attributed to the sustained growth in domestic demand (+6.0%) and external trade (+19.6%). It is noteworthy that 1Q25 was not affected by US baseline tariffs of 10% which only took place in Apr 2025, and front-loading of export activities contributed to continued growth in external trade during the quarter.

Thanks to the concreted efforts by the federal government to boost economic growth under the Madani Economy Framework, 1Q25 capital expenditure continued to sustain its growth momentum at 9.7% (4Q24: +11.8%), signifying the positive impact arising from record-high approved investments in 2021-2024 and various government-led strategic developments under national blueprints. We believe the bright prospects of investment upcycle in Malaysia will continue to provide further tailwinds in the near term

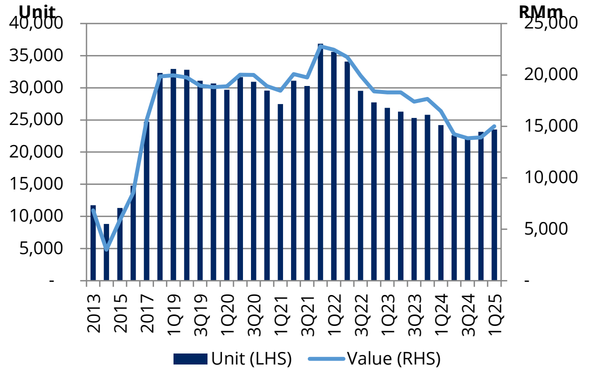
In 1Q25, Malaysia's property market witnessed a moderating trend as total property transactions normalised from the record year in 2024 by falling 6% y-o-y to 97,772 units. We believe this is a healthy consolidation as Malaysia's property market has been experiencing consistent growth over the past four years.

Meanwhile, Malaysia's 1Q25 house price index grew 0.9% y-o-y, following the strong growth of 4.1% in 2024 and 2023. 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.

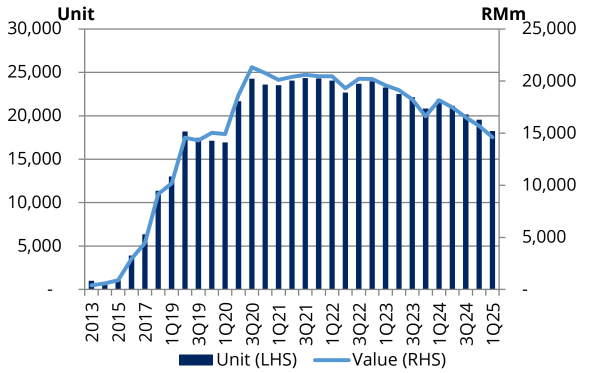
We believe that Malaysia's property sector is experiencing a sustainable uptrend given the healthy supply-demand dynamics as supply overhang is no longer a major concern for the sector. In fact, supply overhang has continued to show sequential improvement. It is noteworthy that residential overhang has reached the lowest since 2016. 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 firm domestic economy helps to absorb the unsold units. While high-rise units still account for ~77% of the total overhang, we believe this should continue to improve given the stable economic outlook.

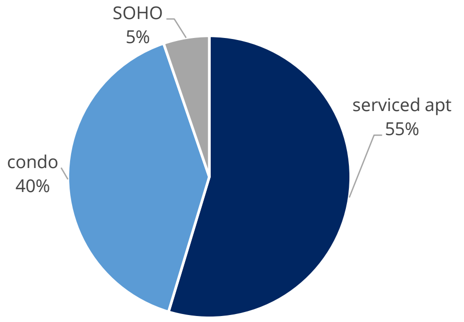
Completed but unsold residential units



Completed but unsold serviced apartments

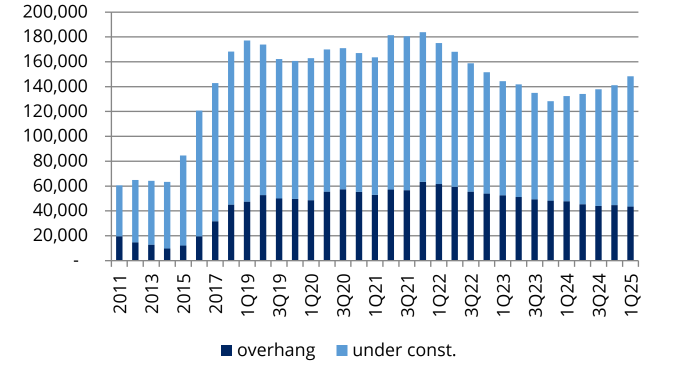


Overhang of high-rise properties in 1Q25

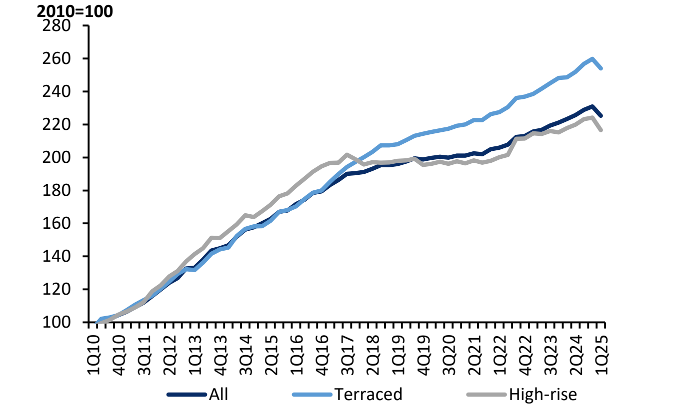


Source: AllianceDBS, NAPIC

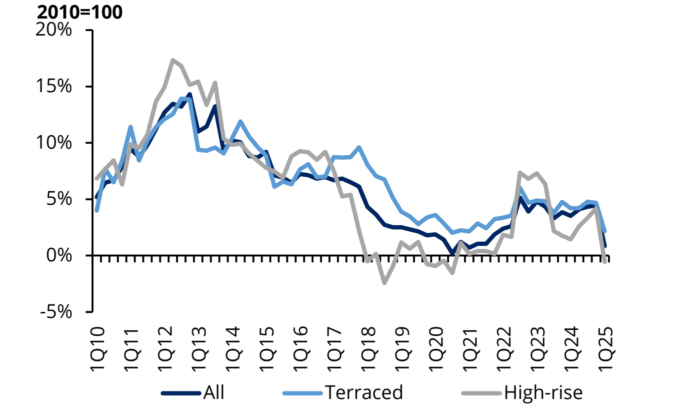
Total unsold housing units in Malaysia



Malaysian House Price Index (MHPI)



Malaysian House Price Index growth trend



Source: AllianceDBS, NAPIC

On an aggregate basis, total unsold units remain healthy despite the increasing number of unsold units under construction. Property launches have accelerated over the past three years in tandem with the strong take-up among property buyers, resulting in higher supply in the market. Given the steady growth momentum of Malaysia's economy, we believe the overall supply-demand dynamics will continue to improve on a gradual basis.

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 70.8% in Apr 2025 while unemployment has dipped to a 10-year low of 3% 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.

Developers with large exposure in industrial developments are likely to benefit the most from the government's strategic pivot to push for high value-added industrialisation under various national policy blueprints. This has also helped Malaysia to position itself as an attractive investment destination to tap on the massive opportunity arising from global supply chain diversification. For instance, 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, the emphasis by the government to push for the green economy agenda with its progressive policies such as the Net Energy Metering and Large-Scale Solar for renewable energy has also indirectly contributed to Malaysia's property sector. The rising adoption of solar energy in Malaysia, driven by its high irradiance levels, has significantly enhanced the value of agricultural land. Therefore, it is no surprise that certain large plantation companies have also looked at venturing into the renewable energy sector.

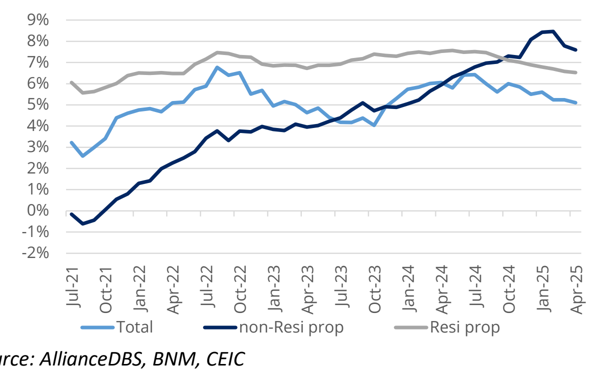
Furthermore, Malaysia's property sector could be boosted by the major rail infrastructure projects that are in the pipeline. Several projects such as MRT3, Penang LRT, Johor LRT and KL-SG HSR are expected to see more progress in 2025 which bode well for transit-oriented developments. Taking cue from 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.

For 2025, the government has introduced income tax relief of up to 7k/year for three consecutive years for first home purchase priced up to RM750k. We believe this could be a strong impetus to encourage homeownership among young Malaysians and first-time buyers considering that the incentive was last introduced in 2010 when Malaysia's economy was recovering from the 2009 global financial crisis.

On the other hand, the expansion of the sales and service tax (SST) effective July 2025 includes a 6% service tax on construction services for commercial and industrial properties while residential properties are exempted. In addition, sales tax for basic construction materials such as cement, aggregates and sand remains at 0%. Therefore, we believe there is limited price impact on the overall property market.

Malaysia's property market is expected to improve gradually in 2025 given the favourable supply-demand dynamics. 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 healthy economic growth momentum, peaking interest rates and strong growth in labour force, notwithstanding the external uncertainties.

Strong non-residential loans growth



Source: AllianceDBS, BNM, CEIC

Commonly used abbreviations

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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