

Malaysia Property

Clear skies ahead

Industry Focus
21 March 2024

- **Madani Economy to underpin healthy growth for Malaysia's property market in 2024**
- **Sustained sector recovery is expected given the improved supply-demand dynamics**
- **New infrastructure projects to uplift property market recovery**

Full steam ahead. Overall property transactions in Malaysia grew 2.5% in 2023 after a whopping 30% rebound in 2022 due to post-pandemic recovery. Importantly, healthy growth was recorded across the key property subsectors, namely residential, commercial and industrial. This marks the best performance for the property market since 2012 when Malaysia experienced a property bubble. The strong recovery has also been reflected in the steady increase in property prices which rose 3.2% in 2023, compared to 3.5% in 2022.

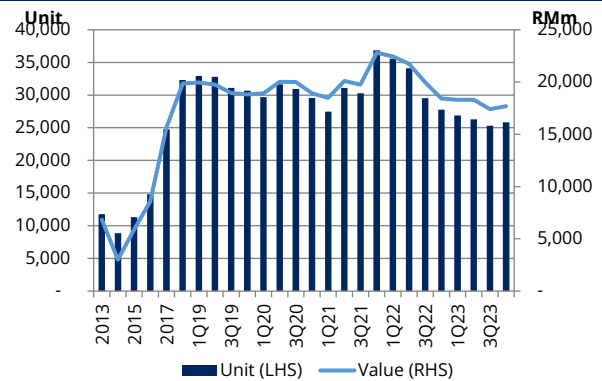
Supply overhang is firmly behind us. 4Q23 residential overhang came in at 25,816 units (+2% q-o-q, -7% y-o-y), the lowest since 2017. In addition, marked improvement was seen in serviced apartment overhang (classified under commercial) which dipped 6% q-o-q and 13% y-o-y in 4Q23. We believe that the much-improved supply-demand dynamics and the favourable economic outlook under the Madani Economy Framework will continue to sustain the property sector recovery.

Solid sales performance from developers. Bursa-listed large developers generally achieved strong property sales performance in 2023 with some recorded guidance-beating performance. Landed properties continue to receive robust demand while affordably-priced high-rise properties benefit from keen interest from first-time home buyers. Given the robust employment market with record high labour participation and better income growth prospects in 2024, we believe the positive growth trajectory will continue in 2024.

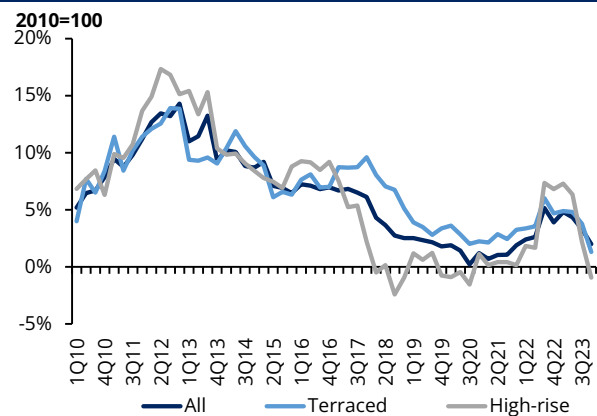
Rail infrastructure projects as catalysts. Several planned major rail infrastructure projects such as MRT3, Penang LRT, Johor LRT and KL-SG HSR are expected to serve as a strong catalyst for Malaysia's property sector. Taking cue from the spillover effects of the on-going JB-SG RTS, we believe Malaysia's property sector will continue to do well in the near-to-medium term.

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Completed but unsold residential units


Source: AllianceDBS, NAPIC

Stable Malaysian House Price Index (MHPI)


Source: AllianceDBS, NAPIC

Recovery momentum remains intact

We expect Malaysia to register a stronger GDP growth of 4.3% in 2024 after a relatively weaker growth of 3.7% in 2023. This is also in line with the government’s 2024 GDP growth projection of 4.0%-5.0%. Private consumption, accounting for 60% of our economy, will continue to deliver satisfactory performance for Malaysia’s economy, underpinned by robust labour market and strong economic and social activities, especially the tourism-related activities.

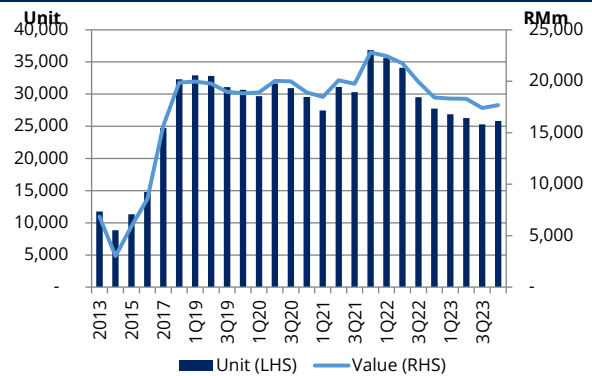
Thanks to the concreted efforts by the federal government to boost economic growth under the Madani Economy Framework, investment-driven spending is set to be a new growth driver for Malaysia in 2024. The implementation of the strategic developments and flagship projects under the 12th Malaysia Plan 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 addition, the realisation of record-high approved investments from foreign investors in 2021-2022 will ensure the manufacturing sector remains on a healthy growth trajectory in 2024.

In 2023, Malaysia’s property market remained strong as property transaction volume hit the highest in 11 years. The earlier concerns of normalized interest rate leading to waning demand have not materialised. In fact, healthy growth was observed across the key property sub-sectors, reflecting the strong fundamentals of Malaysia’s economy. Meanwhile, Malaysia’s house price index maintained its decent growth of 3.2% in 2023, compared to 3.5% in 2022.

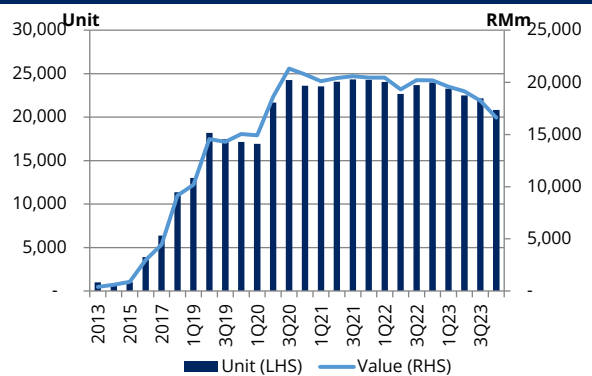
The solid property sector performance is also attributable to the much better supply-demand dynamics as supply overhang is no longer a major concern for the sector. In fact, supply overhang has continued to show sequential improvement. It is noteworthy that residential overhang has reached the lowest since 2017. This illustrates the successful monetisation of unsold inventory that has been going on over the past few years.

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 robust domestic economy helps to absorb the unsold units. While high-rise units still account for 79% of total overhang, we believe this should continue to improve given the favourable economic outlook.

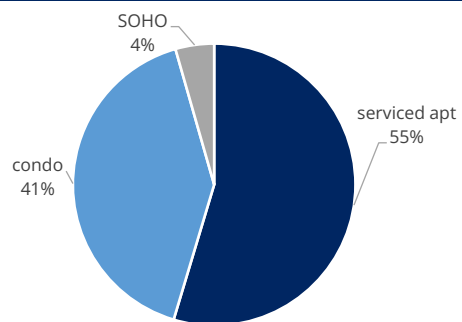
Completed but unsold residential units



Completed but unsold serviced apartments



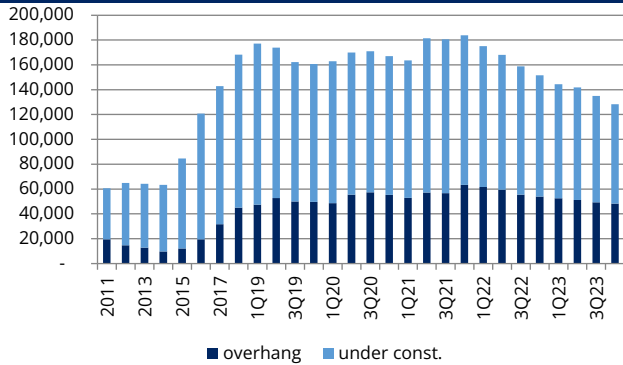
Overhang of high-rise properties



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



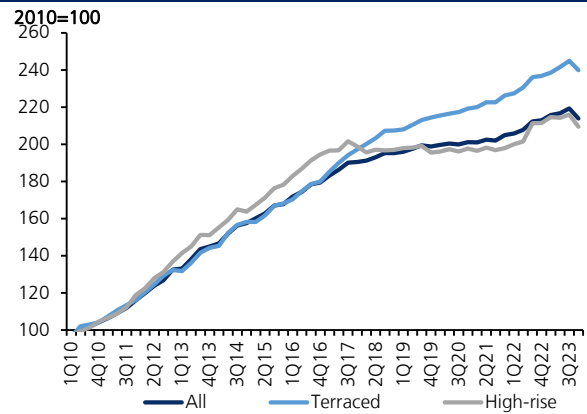
Source: AllianceDBS, NAPIC

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 70.2% in Jan 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.

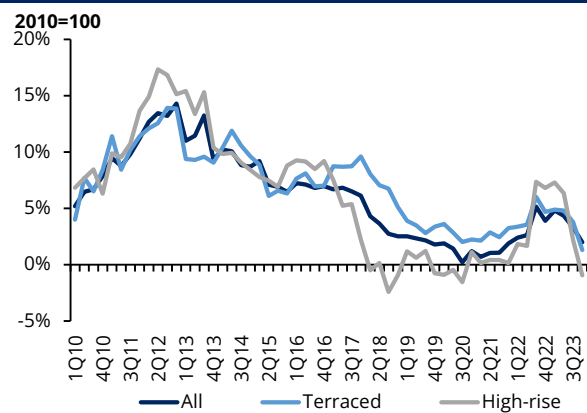
Property price growth in 4Q23 was steady at 2% after strong price appreciation over the past two years. Price growth is likely to remain on a healthy trend given the improvement in supply overhang, sustained growth trend in the overall economy and cost-push inflation for developers.

Malaysian House Price Index (MHPI)



Source: AllianceDBS, NAPIC

Malaysian House Price Index growth trend

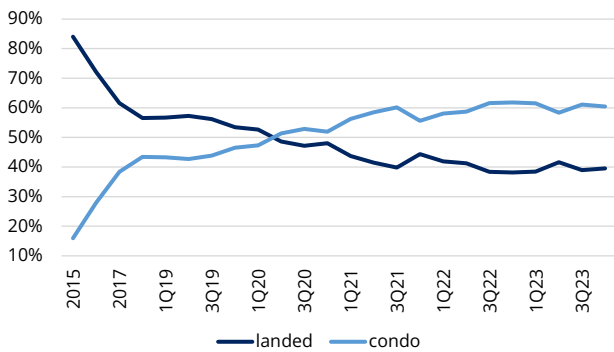


Source: AllianceDBS, NAPIC

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.

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.

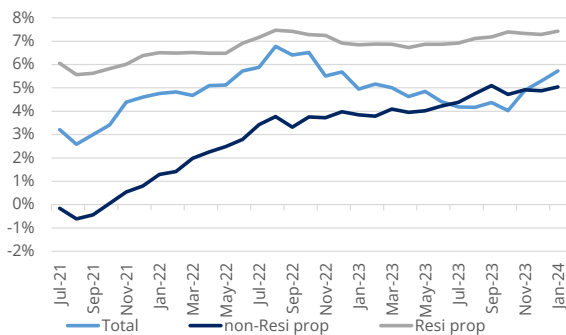
Composition of residential overhang



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.

Resilient 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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