Malaysia Property

Cautiously optimistic

Industry Focus | **25 September 2025**

- **Resilient domestic demand underpins stable property demand**
- **Robust labour market and accommodative monetary policy to lift sentiment**
- **Tailwinds from Malaysia's sustained investment upcycle**

Steady growth. Malaysia's 2Q25 property sector demonstrated healthy growth momentum (+1% q-o-q, +4% y-o-y) despite elevated tariff-induced economic slowdown concerns during the quarter. This is in line with 2Q25 GDP growth of 4.4%, thanks to the robust domestic demand. Notably, the industrial properties segment was the standout performer, registering a robust 18% y-o-y increase in 2Q25 transactions as the record-high approved investments in 2021-2024 continue to be implemented. We believe the overall property market will continue to exhibit resilient underlying strength in 2H25, in tandem with stable household spending and investment activities.

Overhang concerns. 2Q25 residential overhang came in at 26,911 units (+14% q-o-q, +19% y-o-y), marking the third successive quarterly increase since the lows in 3Q24. This largely reflects the aggressive project launches over the past three years to capture the long-overdue sector recovery since 2022. We believe this nascent uptick is not a major risk at this juncture, considering the sustained expansion in the labour market as unemployment rate dipped to a 10-year low of 3.0% in Jul 2025 with record high labour force participation.

Better 2H25 with easing uncertainties. The 19% US tariff on Malaysian exports puts the country on par with the rates imposed on other competing ASEAN peers which may help preserve Malaysia's competitive advantages in the US trade. Meanwhile, the first BNM interest rate cut of 25 bps in Jul 2025 to 2.75% in five years will serve as a catalyst to boost the property market sentiment, coupled with government's concerted efforts to alleviate cost of living for the people. In addition, Budget 2026, to be unveiled on 10 Oct 2025, is expected to promote housing affordability with financial/tax incentives which will in turn help sustain resilient property demand.

Tailwinds 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 sustained uptrend has continued unabated in 2025 as approved investments rose 19% y-o-y to RM190bn in 1H25, spurring strong industrial land price appreciation especially in strategic locations within Johor and Selangor.

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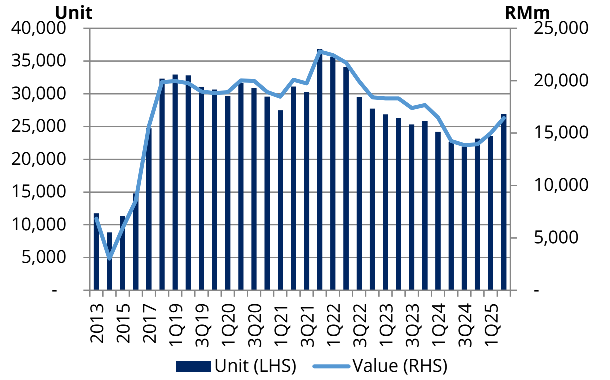
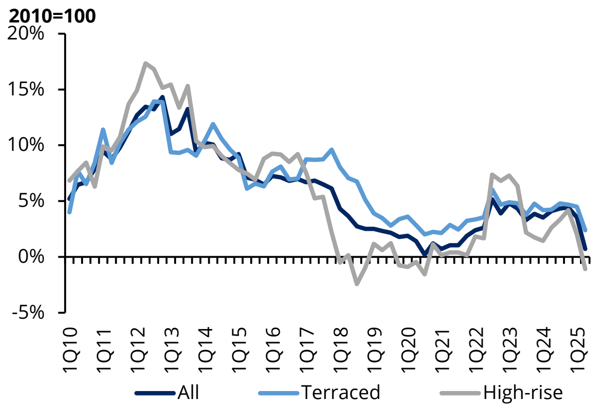
Completed but unsold residential units



Source: AllianceDBS, NAPIC

Malaysian House Price Index (MHPI)



Source: AllianceDBS, NAPIC

Steady growth momentum

Malaysia's economy grew 4.4% y-o-y and 2.1% q-o-q on a seasonally adjusted (SA) basis in 2Q25 (1Q25: +4.4% y-o-y; +0.7% SA q-o-q), which was slightly below the advance estimate of 4.5%. This takes 1H25 GDP growth to 4.4%, in line with the government's recently revised GDP growth target of 4.0%-4.8%. The steady 2Q25 GDP performance was largely attributed to the strong growth in domestic demand (+7.0%), partially offset by weak external trade (-72.6%) which contributed to a 2.6% growth drag.

Thanks to the concerted efforts by the federal government to boost economic growth under the Madani Economy Framework, 2Q25 capital expenditure continued to sustain its growth momentum at 12.1% (1Q25: +9.7%), 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

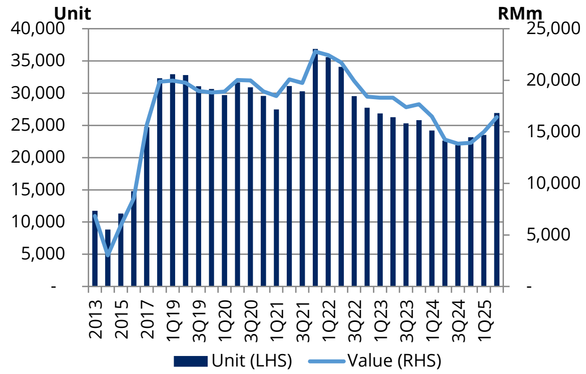
In 2Q25, Malaysia's property market witnessed a positive trend as total property transactions grew by 4% y-o-y and 1% q-o-q to 98,493 units, recovering from a relatively weaker 1Q25 (-6% y-o-y, -11% q-o-q). For 1H25, total property transactions slipped by 1% y-o-y, suggesting a healthy consolidation as Malaysia's property market has been experiencing consistent growth over the past three years.

Meanwhile, Malaysia's 2Q25 house price index grew at 0.7% y-o-y, following the strong growth of 4.1% in both 2024 and 2023. We believe price growth is likely to remain on a healthy trend given the 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 healthy sector dynamic, driven by robust domestic demand.

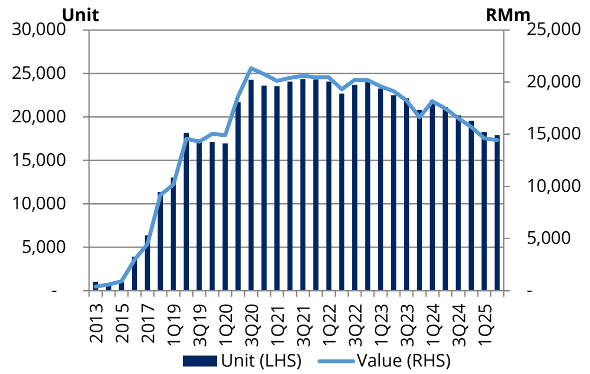
2Q25 residential overhang came in at 26,911 units (+14% q-o-q, +19% y-o-y), marking the third successive quarterly increase since the lows in 3Q24. This largely reflects the aggressive project launches over the past three years to capture the long-overdue sector recovery since 2022. We believe this nascent uptick is not a major risk at this juncture, considering the sustained expansion in the labour market and positive wages growth.

For high-rise overhang, unsold completed units (inclusive of SOHO and serviced apartments) have remained at low levels as the firm domestic economy helps to absorb the unsold units. While high-rise units still account for ~75% of the total overhang, we believe this should continue to improve given the stable economic outlook.

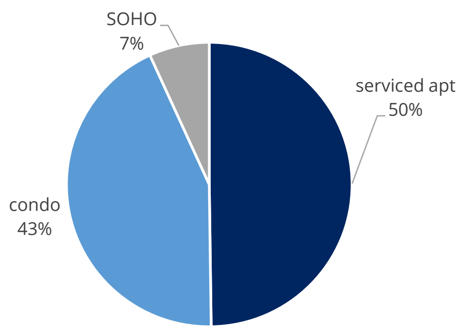
Completed but unsold residential units



Completed but unsold serviced apartments

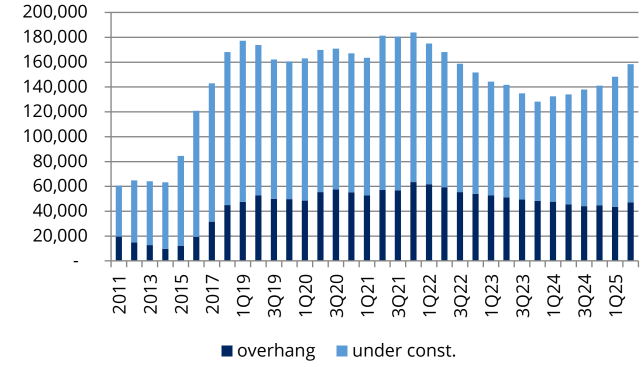


Overhang of high-rise properties in 2Q25

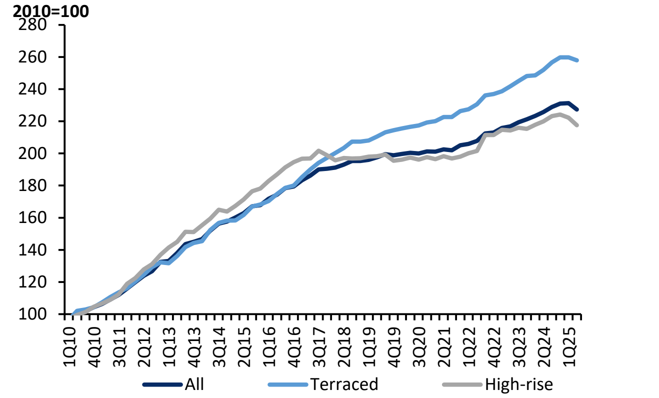


Source: AllianceDBS, NAPIC

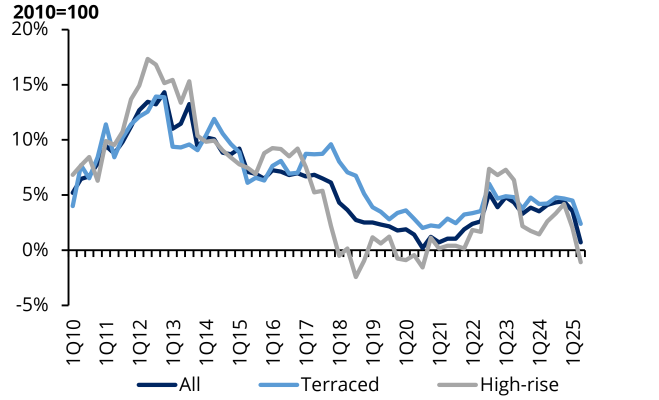
Total unsold housing units in Malaysia



Malaysian House Price Index (MHPI)



Malaysian House Price Index growth trend



Source: AllianceDBS, NAPIC

On an aggregate basis, total unsold units have been rising over the past few quarters but we believe this is not really a major concern at this juncture. 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 Jul 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 enhance the value of agricultural land that may otherwise remain idle. Therefore, it is no surprise that certain large plantation companies have also looked at venturing into the renewable energy sector.

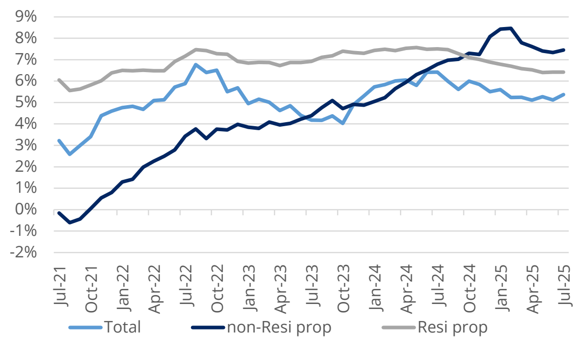
Furthermore, Malaysia's property sector could be boosted by the major rail infrastructure projects that are in the pipeline. Several projects such as MRT3, Penang LRT, Johor LRT and KL-SG HSR are expected to see more progress in 2025-2026 which bode well for transit-oriented developments. Taking cue 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 RM7k/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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