A step up for 2026

Navigating global headwinds and domestic resilience

Contributed by **DATUK PAUL KHONG**

The year 2025 proved to be exceptionally challenging, marked by widespread global disruption. Global platforms shifted dramatically following the implementation of previously predicted measures, such as the Trump administration's tariffs, causing widespread economic uncertainty. Regional conflicts continued to escalate, with geopolitical tensions rising and their impacts clearly evident in changing arms trade dynamics and soaring headwinds across nearly all sectors throughout the year.

Closer to home, external pressures were compounded by political unrest in neighbouring countries, such as Indonesia and Nepal and a startling rise in natural disasters—ranging from major floods, hurricanes and volcanic eruptions, to unexpected seismic events even reaching Segamat. The technology sector also experienced disruption, with the AI landscape facing a surprise technological earthquake in the first quarter of 2025, following moves by aggressive new players like Deepseek.

Despite Malaysia not being immune to these global pressures, the nation successfully navigated these turbulent times. This resilience was underpinned by stable domestic demands and supportive, counter-cyclical policy measures. The lowering of the Overnight Policy Rate (OPR) to 2.75% since July 2025, coupled with consistently managed petrol prices at RM2.05 per litre at the pumps, provided a vital, supportive backdrop for sustained domestic consumer spending, cushioning the impact of external shocks.

Industrial and data centres: The resilient growth engine

Analysing key property market sectors reveals a clear divergence in performance. While many segments continue to face challenges due to current market sentiment, the industrial and data centre segments have shown remarkable and sustained resilience. The Industrial sector, in particular, demonstrated significant value growth of approximately 11% year-on-year, according to the National Property Information Centre(Napic) figures.

This growth is fundamentally driven by the robust expansion of digital infrastructure. The rapid evolution of technologies, particularly Artificial Intelligence, acts as a powerful catalyst for the data centre segment. Consequently, more industrial lands are being purchased and completed specifically for data centre usage, evidenced by recent transactions in areas like Bandar SpringHill and SILC. Similarly, the broader industrial sector has seen a renewed focus in fringe areas of major economic hubs such as the Klang Valley, Johor and Penang. These locations are favoured because they offer larger land sizes, more competitive pricing and better overall cost efficiencies for industrial operations.

Residential market: The stable backbone

The residential market remains the main backbone of the property sector, with prices holding stable and experiencing a slow but gradual upward trend. This increase is primarily attributed to rising construction costs, particularly from cement and labour, as well as the effects of the Sales and Service Tax (SST) and stringent end-financing approvals.

The outlook in the first half of 2025 was relatively positive, based on reports from September. The sector showed a moderate value growth of 3% year-on-year. However, the issue of property overhang saw an increase of 19% year-on-year, totalling 26,911 units in the second quarter of 2025, according to Napic. As the availability of prime land continues to be scarce, major developers like Mah Sing and Avaland remain active in searching for good land banks in preparation for the next cyclical wave in the market. Residential developments in prime, highly sought-after locations are increasingly heading towards strata high-rise segments to maximise returns. Despite this trend, landed properties remain a top favourite among consumers and continue to command a premium, reflecting a willingness to accept a trade-off between higher pricing and distance from the major city centres.

Flight to quality and tourism surge

The office market has performed adequately well, characterised by a strong flight to quality trend that has emerged and intensified over the past two years. Many companies are actively relocating to newer, high-grade green buildings to align with their Environmental, Social and Governance (ESG) agendas and long-term net-zero carbon journeys. This shift has created a boon for higher-grade and newly completed office spaces while older buildings are forced to undergo major refurbishments to remain relevant and competitive.

Separately, the hospitality sector and well-managed retail malls have experienced a significant turnaround, showing strong performance results. This recovery is directly linked to the booming tourism sector. International arrivals jumped to approximately 28.24 million from January to August 2025, signifying a14.5% year-on-year growth.

This surge is led by visitors from Singapore (14 million) and followed by Indonesia (2.9 million) and China (3.3 million). Visitors from Thailand recorded about 1.6 million and India about 1.1 million. As we head into the final quarter of 2025 and the final holiday months, we anticipate a further increase in tourist arrivals, supported by Malaysia's reputation as a safe destination and its strategic visa-free policies for major countries. To date, Malaysia has the highest number of international tourist arrivals in Southeast Asia.

Policy drivers and the 2026 outlook

Looking ahead, several major policy catalysts are set to shape the market. The year 2026 is officially Visit Malaysia Year, which is expected to boost visitor numbers further. More significantly, the 13th Malaysia Plan (13MP), which allocated a significant development expenditure of RM430bil for 2026–2030, will fundamentally reshape the country's development landscape. This is set to be a key driver for the construction and infrastructure sectors, with accelerated rollouts beginning in 2026 for critical projects, including the JB-Singapore RTS, the Penang LRT and the Port Klang Link for the ECRL.Furthermore, the recent Urban Renewal Act (URA) is taking shape and awaiting approval from Parliament. While it has generated substantial public discussion regarding land rights, the proposed URA aims to provide a necessary legal framework for the long-overdue rejuvenation of blighted developments and obsolete buildings in older city areas. We hope the URA will be enacted in a fair and controlled manner that equally protects the interests of property owners and developers.

As the industry reflects on the recently tabled Budget 2026, the lack of specific property-based incentives has been noted with some disappointment. Nevertheless, the outlook for 2026 remains fundamentally positive. Barring any major unforeseen circumstances on the global front, the market's trajectory is now dictated by deep, foundational drivers rather than short-term stimulus. The combination of stable domestic policies, the continued recovery of the tourism sector (with Visit Malaysia Year in full swing) and the accelerated rollout of major infrastructure projects under the 13th Malaysia Plan—including the JB-Singapore RTS and the Penang LRT—creates a compelling case for sustained growth. We therefore foresee the market making a measured, steady advance in 2026, built on economic stability and structural investment, promising a genuinely better year ahead driven by inherent value rather than temporary tax breaks.

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