

Strata overhang to ease if prudence continues

Developers taking proactive steps to conduct due diligence prior to launches



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PROPERTY

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KUALA LUMPUR: The property overhang situation could ease further if more developers adopt a cautious approach and be more discerning in their launches.

A growing number of property developers have taken more proactive steps in recent times to conduct more due diligence prior to more launches, property consultancy Henry Butcher Malaysia said.

In Johor, for example, where this overhang is most pronounced among stratified properties, Henry Butcher Malaysia's chief operating officer Tang Chee Meng said he expects developers to be extra cautious now based on what happened in the past.

"Based on the statistics for the past three years, residential overhang in Johor is quite high. Last year it was not as bad as things are beginning to improve due to what is happening here.

"Earlier on we had a lot of those projects which were carried out by China developers and this had resulted in many vacant units which affected investor confidence.

"But the Johor state government has been taking proactive steps to ensure the economy and property market does well – it will begin to recover," Tang said at the Henry Butcher Perspective 2026 – Property Market Outlook yesterday.

"The special financial zone in Forest City may see more companies setting up offices there due to special tax incentives – this will spur demand not only for offices but bring in people to stay there. While we understand that some manufacturers have used Forest City as workers quarters, this will help to absorb the empty units," he added.

He noted many local developers have

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Tang Chee Meng

now "learnt their lesson" unlike their China counterparts and they are not expected to suddenly flood the market with many units at one go.

Apart from Johor, the property overhang situation among stratified properties is also still prevalent in the key economic centres of the country: Kuala Lumpur, Selangor and Penang.

"The Real Estate and Housing Developers' Association Malaysia has indicated that based on its survey for the first half of 2025, many of its members are becoming cautious and plan to reduce the number of launches, pending an improved demand outlook.

"I'm sure this is the same for Johor developers, as I don't think they will simply rush in to launch projects until the market fully recovers," Tang said.

"We believe that we will not be seeing so many new launches here anymore, and as such, this will not further add to the overhang burden," he added.

In relation to this, Henry Butcher Malaysia's director Fahariah Abdul Wahab said the focus now among developers seems to be projects located around the city centre due to the improving transportation network such as highway extensions and; Mass Rapid Transit 3 plus the Light Rail Transit 3.

"My concern here is the oversupply situation and Johor Baru tops in terms of strata residential concentrated in Forest City and Danga Bay – these locations were out of the city centre and there was too much supply coming in the earlier years so this had culminated in the oversupply.

"Developers are becoming more cautious in terms of new projects and are doing their due diligence now," she said.

Tang explained the new areas that will see improved infrastructure connectivity will see more developers rushing in to build more projects and is anticipated to be where property investors will likely focus their interest on.

"This is because the long-term benefit from the improvement in accessibility will help to raise house prices and may improve rental yields as people will be more attracted to lease here," he said.

Meanwhile, Tang believes that any build-then-sell (BTS) implementation for the residential market will see bigger and more established developers being able to undertake projects of such nature.

"All this while the housing market has been relying on BTS, whereby developers have depended on sales to fund the construction.

"If this changes, then developers will have to find alternative financing methods – and getting money from the banks is not really easy whereby developers are finding it difficult to get end-financing and the banks put a lot of conditions to meet a certain sales target, for example, before they can draw down a loan," Tang said.

"Only the strong ones will be able to undertake BTS. The smaller developers without financial resources won't be able to do it – even then if it's done – the project will be on a smaller scale.

"So, landed projects will do well since they can phase up the construction, whereas for high-rises, the foundation works and car-park support the whole project and it cannot be phased-up.

"And this part of it, one cannot actually collect payments until it is completed and this will impact strata housing supply in the country," he added.

Tang said there is a bit of concern of oversupply in the office segment and its outlook is not as good as retail, which is being boosted by Visit Malaysia Year 2026 and the industrial segment.

"Those office buildings which have already started construction – their promoters have already arranged the necessary financing so they would likely be able to take it to completion – these are due for completion within this year to 2030.

"At the same time there are a few other projects whereby promoters have indicated plans to build more offices but if they look and study and sense an oversupply may happen, they may think twice about embarking on such projects," he said.

"The banks may require them to show proof that these buildings will be occupied and it is not easy for them to show that – and this may result in deferments or not going ahead at all until things really improve," Tang noted.