Real estate sector on track for healthy year

Outlook backed by solid sales and in-line earnings

PROPERTY

By EUGENE MAHALINGAM
eugenicz@thestar.com.my

PETALING JAYA: With most property developers delivering earnings broadly in line with expectations in the recently concluded results season, the sector is on track for a reasonably healthy year, underpinned by solid sales.

An analyst with a local bank-backed brokerage said most established developers with well-located projects and appropriately priced products are expected to continue meeting their sales targets in 2026.

"However, performance is likely to vary more significantly across projects. The market appears to be shifting towards a 'right product, right location, right price' dynamic, rather than benefitting from a broad-based rising tide.

"Developers with exposure to affordable and mid-market housing, mature townships and well-connected locations are likely to have a more dependable pool of buyers," he told *StarBiz*.

One industry observer said earnings could be more mixed than sales numbers suggest.

"This is probably the most important issue coming out of the results season. A developer can maintain relatively healthy property sales while still experiencing pressure on margins because of (higher) construction, labour, material and financing costs.

"Some analysts have highlighted margin compression as one of the concerns, with higher fuel and construction costs potentially difficult to pass on to buyers."

Former investment banker and full-time investor Ian Yoong said one of the key positives of the first half of 2026 (1H26) was that the impact of higher construction costs was lower than expected, and remained manageable.

"The bulk of the construction cost has been locked in contractually at the outset of the projects and should have little impact in 2H26.

"Higher construction costs will be a major concern in 2027 and beyond if the price of oil does not decline."

Yoong added that diesel prices have risen substantially in 2026.

"Heavy off-road equipment does not qualify for fleet card subsidies. Building material costs have surged 20% to 30% year-to-date.

"Moreover, there are major reservations about growth in data centres (DCs) going forward, given the constraints of power and water, as well as growing opposition by residents in the vicinity of DC projects."

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Another analyst, meanwhile, believes that industrial and DC-related property should remain an important bright spot, going forward.

"The industrial segment is driven by a somewhat different demand dynamic from conventional residential development, particularly in areas supported by manufacturing investment, logistics, DCs and infrastructure development," he said.

Malaysia's manufacturing sector expanded 7.3% year-on-year (y-o-y) in June (May 2026: 6.6%), followed by electricity, which grew 6.7% y-o-y compared with 4.8% y-o-y in the prior month.

Against this backdrop, industry observers believe that developers with meaningful exposure to industrial parks, logistics, DC ecosystems and strategically located commercial land are likely to continue attracting investor attention.

Yoong concurred that the industrial segment remained a standout, with Malaysia continuing to benefit from the ongoing China+1 diversification strategy.

"The Johor-Singapore Special Economic Zone, Selangor and Penang are the crown jewels of the Malaysian property sector.

"Another project that holds tremendous potential is the Malaysia Vision Valley corridor in Negri Sembilan.

"The excellent track record of Matrix Concepts Holdings Bhd in township development should ensure that this development will be successful," he said.

Meanwhile, RHB Investment Bank analyst Loong Kok Wen expects fundamental demand for property to remain healthy for the remainder of 2026, despite the sector now undergoing a mini downcycle.

"We think that as soon as the Middle East conflict and local political landscape stabilise, the overall demand for property will recover, especially in the mid-range segment.

"All developers under our coverage are keeping their sales targets unchanged. Major corporate exercises – for example real estate investment trust or REIT listings, as well as property asset and landbank acquisitions, are the key drivers for the sector," she said in a recent research report.

Separately, BIMB Securities Research expects the property market to remain supported by sizeable unbilled sales, active launch pipelines and steady owner-occupier demand.

"Near-term earnings should improve as projects progress into more advanced stages of construction, particularly for Lagenda Properties Bhd, Mah Sing Group Bhd and Sime Darby Property Bhd.

"IOI Properties Group Bhd should continue to benefit from its growing property investment income and selective land monetisation."

Margin delivery, however, remains the key differentiator, the brokerage noted.

"Developers with disciplined cost management, healthy sales conversion and more mature projects should be better positioned to defend earnings.

"Conversely, exposure to lower-margin projects, early-stage construction, higher financing costs and elevated tax expenses could delay the earnings recovery."

For the rest of 2026, BIMB Research said key indicators to monitor include construction progress, booking-to-sale and purchase agreement conversions, loan approval rates, launch take-ups, margin sustainability and financing-cost discipline.

"We expect sector earnings visibility to remain intact, but stock selection should favour companies with stronger margin resilience and greater balance-sheet flexibility."