Industry Focus:
CONSTRUCTION

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Bersama Hentikan Wabak COVID-19

KEMENTERIAN PEMBANGUNAN USAHAWAN DAN KOPERASI
MINISTRY OF ENTREPRENEUR DEVELOPMENT AND COOPERATIVES

DKN 2030
Dasar Keusahawanan Nasional

Industry Focus: Construction (1/6)

Stable Outlook

As economy recovers, the construction sector has been **gradually improving** but **yet to recover to its pre-pandemic levels**. We have **upgraded the outlook** for **construction of buildings** sub-sector from **negative to stable** in line with **the easing of labour market,** supported by **government's campaigns/ initiatives** to boost the housing market. Meanwhile, we **downgraded** the outlook for **civil engineering from positive to stable** on the back of **emerging downside factors** particularly on Government's fiscal consolidation.

Sub-Sector (Description)	Outlook
Construction of buildings	Stable
Civil Engineering	Stable

Construction of buildings

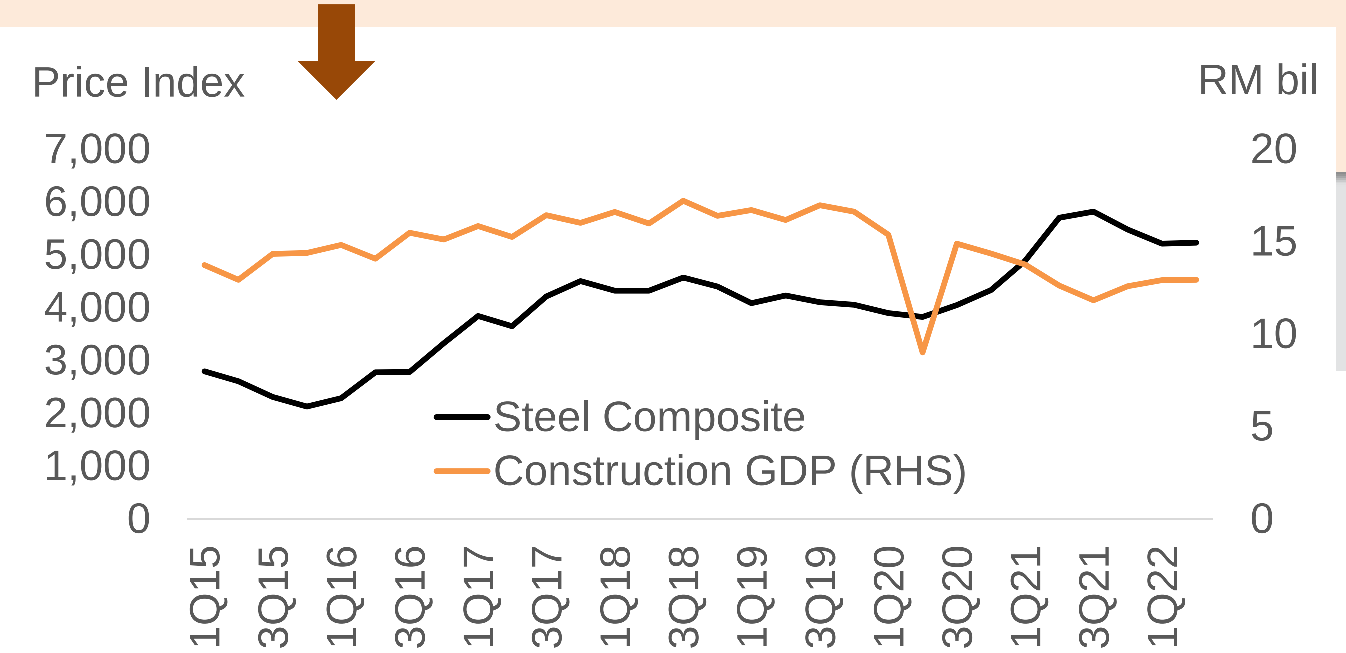
+ Demand for residential buildings to be skewed towards affordable and basic segments
+ Logistics and warehousing segments to remain attractive in line with booming e-commerce
+ Government's continuous DE allocation in housing (2021: 2.1% of total), schools and hospitals

- Supply and demand mismatch – 34k units of unsold completed houses in 2Q 2022
- Office segment remains quite challenging - private office occupancy rate has been on a declining trend at 70.8% in 2Q 2022 (1Q 2016: 78.5%).

Civil Engineering

+ Transport subsector has the largest share of total DE (20% in 2021) where civil engineering works are more prevalent.
+ Ongoing government projects (e.g. ECRL, Pan Borneo Highway) – suggest a steady demand for civil engineering activities.

- Government fiscal consolidation commitment - fiscal deficit of 3.0% - 3.5% of GDP by 2025 (2Q 2022: deficit of 5.3% of GDP).
- Political instability – risk of scrapping/ postponing projects (eg: HSR, MRT3).
- High price of building materials & severe labor shortages.



Sources: EMIS, CEIC, Bloomberg, Various, SME Bank Economic Research

Construction - Construction of Buildings (2/6)

Negative Outlook → Stable Outlook

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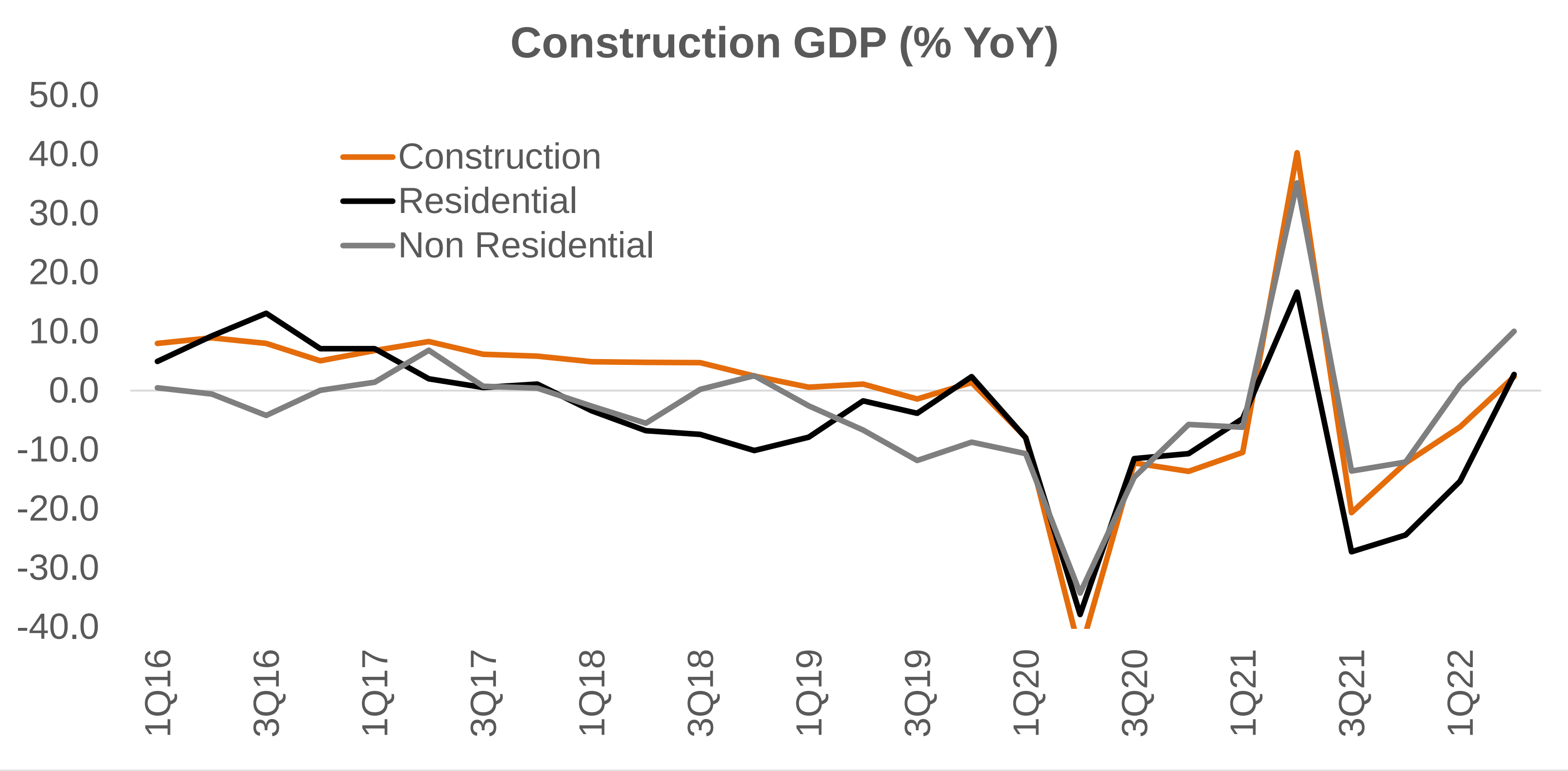
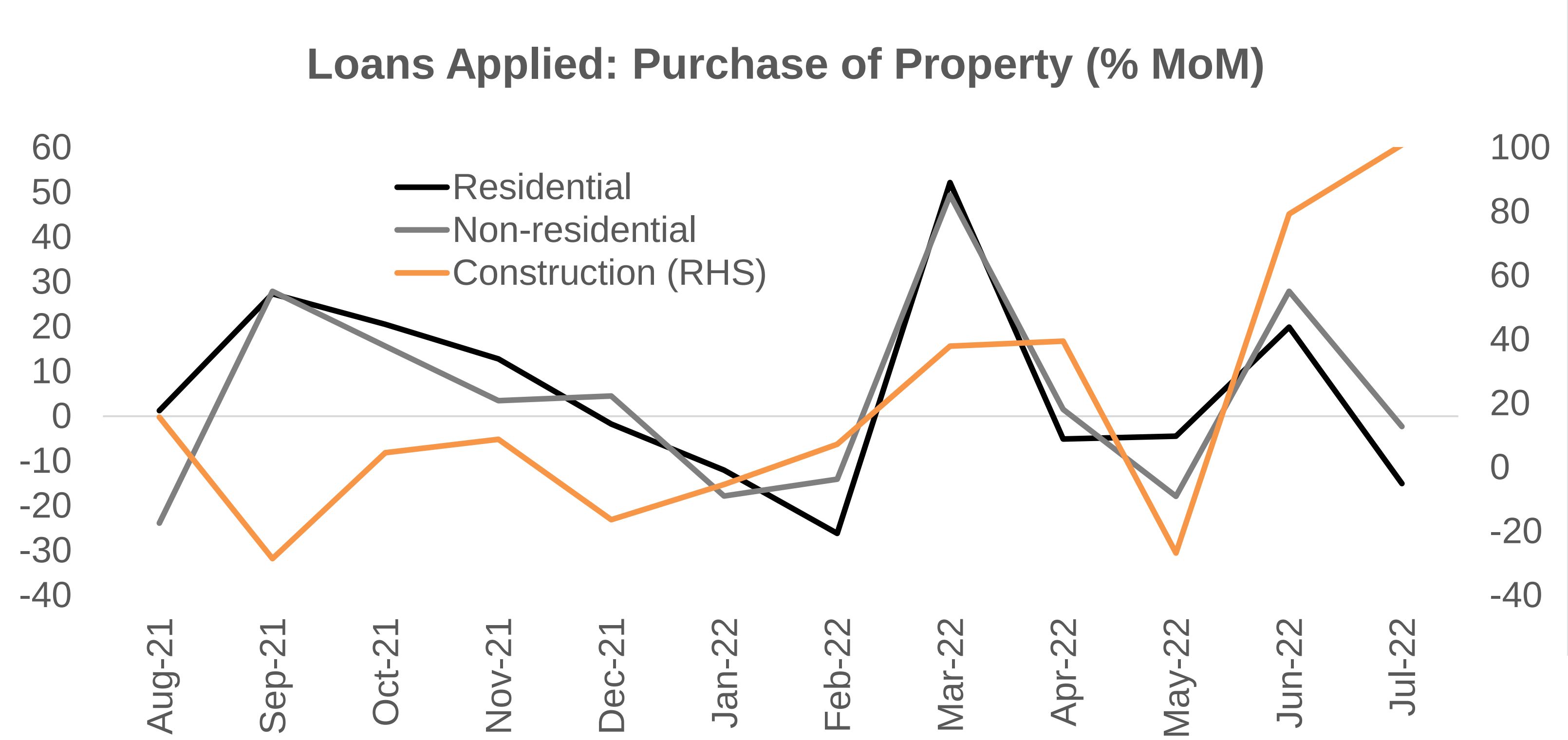




- Construction GDP rebounded by +2.4% YoY in 2Q 2022 after three consecutive quarters of contractions, **propelled by both residential (2.7% YoY)** and **non-residential (10% YoY)** subsectors.

- Nonetheless, construction GDP in terms of absolute value was RM12.9 bil in 2Q 2022, **still below pre-pandemic levels** (2019 average: RM16.6 bil), **suggesting room for further improvement.**

- **OPR normalisation** by BNM is **less likely to dampen public interest** in purchasing homes as they capitalise on the ongoing economic recovery, better income prospects and buyer's market situation.

- Since the OPR normalisation exercise (YTD: +75 bps), **demand for loans/ financing has been quite mixed.** On MoM, loan application to purchase both residential and non-residential declined in May (-4.5% & -17.9%) but grew in June (19.9% & 27.9%) before went down again in July (-15% & -2.3%). However, **loan application for the construction sector has been accelerating since June** (79.2%; July: 100.8%).

- **Improving employment prospects** on top of **government's initiatives/campaign** such as **stamp duty exemption for first-time homeowners** (from Jun 2022 till Dec 2023), **Malaysia My Second Home programme (MM2H) and Premium Visa Programme (PVIP)** will support housing demand.

Sources: EMIS, CEIC, Various, SME Bank Economic Research

Industry Focus:
Construction - Construction of Buildings (3/6)

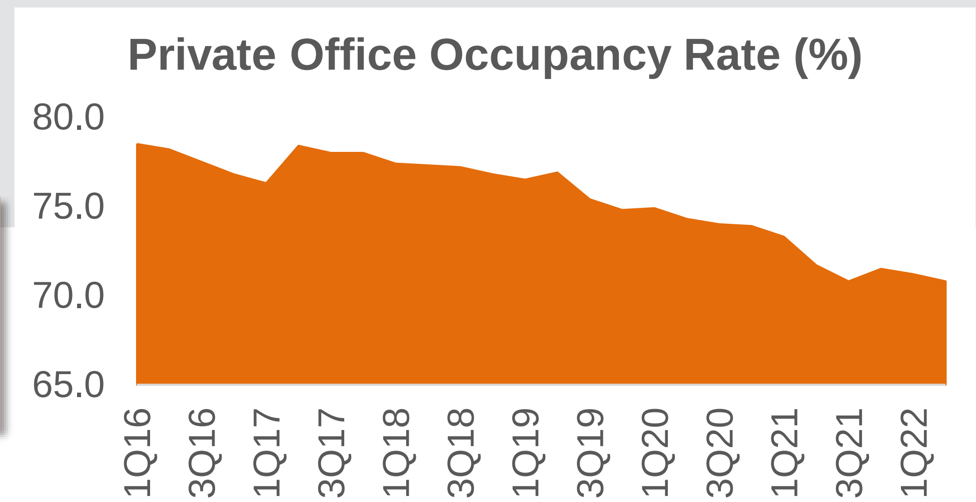
Negative Outlook → **Stable** Outlook

RESIDENTIAL

- Demand for housing will be higher in the **affordable and basic segments** especially during this **post-pandemic era** where consumers/ buyers are more **price-conscious**.
- Using Demographia International's Median Multiple Method, a house is considered affordable if it is 3 times or less a household's median annual income. With Malaysia's median monthly household income at RM5.2k in 2020 (2019: RM5.8k), **houses would only be considered "affordable" at up to RM187.5k** (2019: RM211.4k). Nonetheless, the **affordability varies across states** (*Refer next slide*).
- Based on EdgeProp, housing projects need to avoid overleveraging advanced design features that can have "pass-on" effect on buyers that only lead to property prices rising beyond the mass housing buyers' affordability. Increasingly, **homeowners' preferences are shifting** towards **greenery concept and more spacious layouts** which can be convertible into **home offices** as working from home become the new normal.
- In fact, **71.7% of total unsold** completed houses as at 2Q 2022 are mainly priced **above RM300k**. **Serviced apartments** in particular (usually offering hotel-like services with advanced features) made up **36.5% of the total unsold** houses.

NON - RESIDENTIAL

- Demand for **industrial properties** have been relatively **more stable** during the pandemic, thanks to the **logistics, warehousing and healthcare segments.**
- This segment is expected **to remain attractive** moving forward especially with **booming e-commerce**.
- For the **retail sector**, despite some closures of retail brands induced by the pandemic, new openings/ business ventures and expansions are also happening. New guidelines **liberalising foreign investment rules** in the convenience store business on top of freeing up restrictions on the retailing industry by allowing **hypermarkets** to venture into **smaller store formats** should **support demand for commercial properties**.
- Nonetheless, **office segment remain quite challenging** even before pandemic and is anticipated to worsen with the **influx of co-working spaces**, new norm of flexible working arrangements and new supply flooding the market. The **private office occupancy rate** has been on **a declining trend** at **70.8% in 2Q 2022 (1Q 2016: 78.5%)**.



RISK

1. Severe **labour shortages**
2. **High price of building materials**
3. **Oversupply** – high unsold properties
4. **Inflationary pressure** – reduce purchasing power

Sources: EMIS, CEIC, BNM's Financial Stability Review 2H 2021, EdgeProp.com, Various, SME Bank Economic Research

Negative Outlook → Stable Outlook

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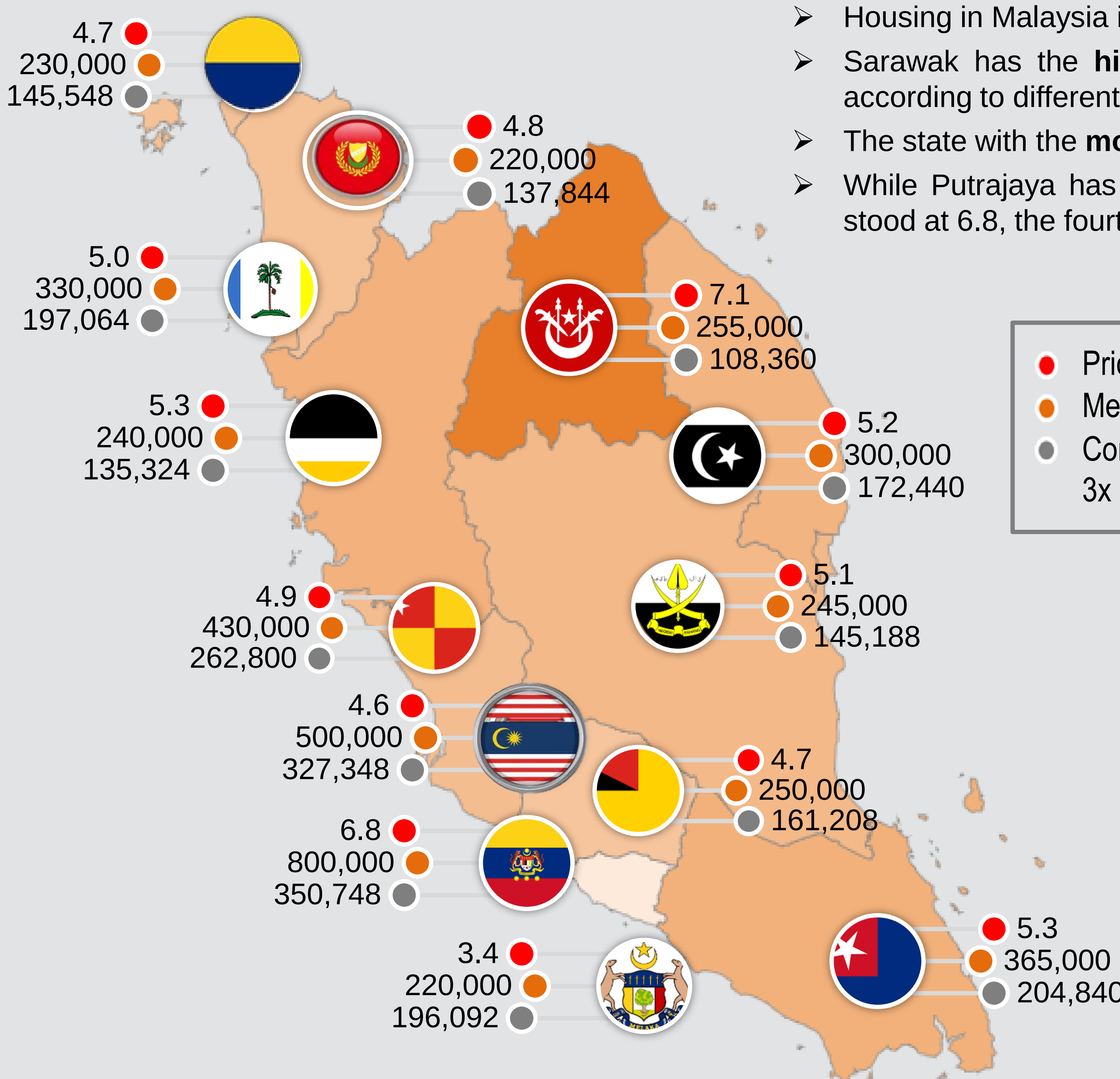
- Housing in Malaysia is relatively **unaffordable** as all price to income ratio (PIR) is above 3.0.
- Sarawak has the **highest** PIR in Malaysia at **7.7, the most severally unaffordable housing market.** It might vary according to different districts as the house prices and household income across districts in Sarawak differs widely.
- The state with the **most affordable houses** i.e. lowest PIR is **Melaka (3.4)** followed by **Labuan (3.8) and KL (4.6).**
- While Putrajaya has the highest median house price (RM800,000) and annual household income (RM116,916), its PIR stood at 6.8, the fourth highest in the country after Sarawak (7.7), Sabah (7.1) and Kelantan (7.1).



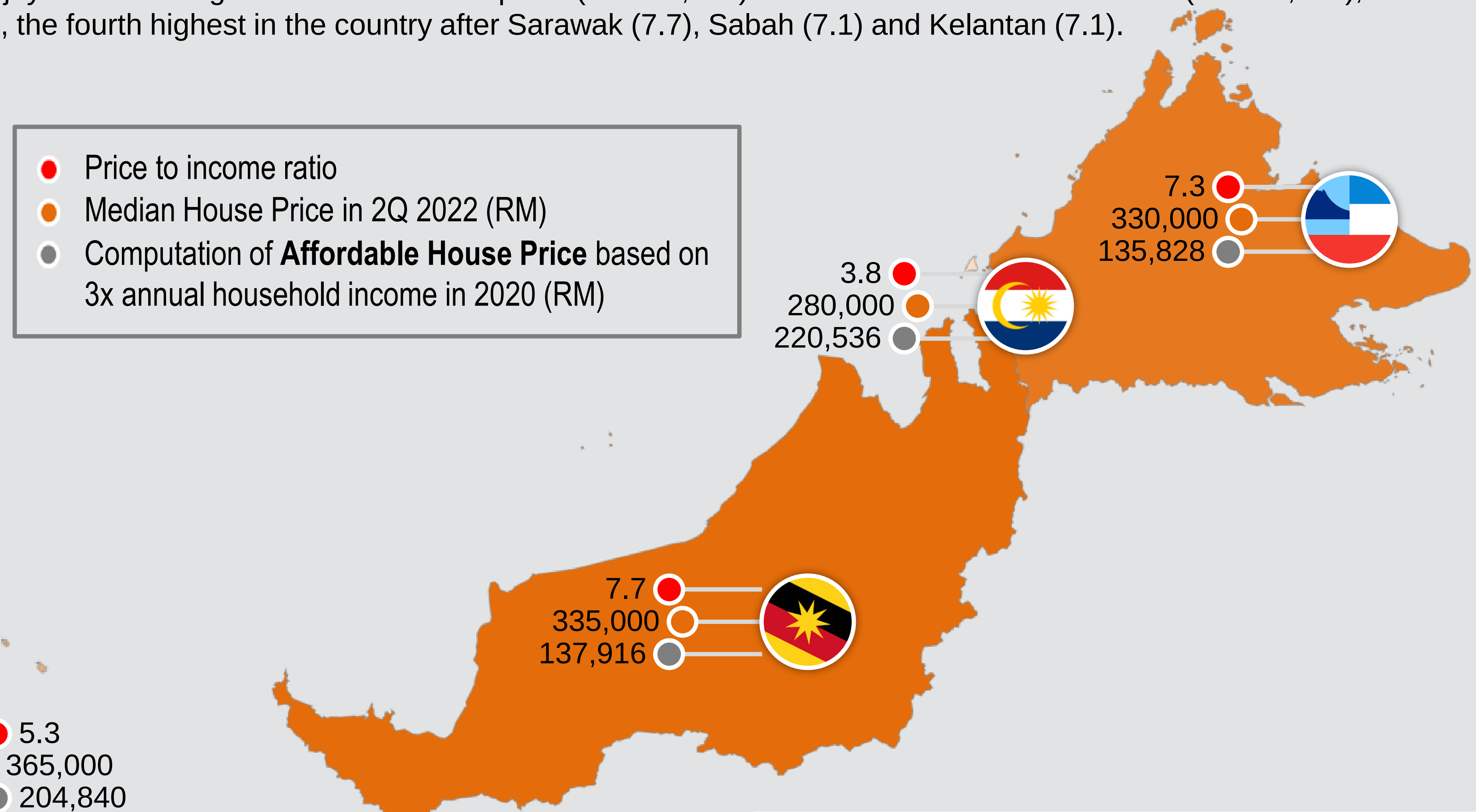


Table ES-1
DEMOGRAPHIA HOUSING AFFORDABILITY RATINGS

Housing Affordability Rating	Median Multiple
Affordable	3.0 & Under
Moderately Unaffordable	3.1 to 4.0
Seriously Unaffordable	4.1 to 5.0
Severely Unaffordable	5.1 & Over

Median multiple: Median house price divided by median household income

Sources: CEIC, DOSM, KPDNHEP, Statista and SME Bank Economic Research

Industry Focus:
Construction - Civil Engineering (5/6)

Positive Outlook → Stable Outlook

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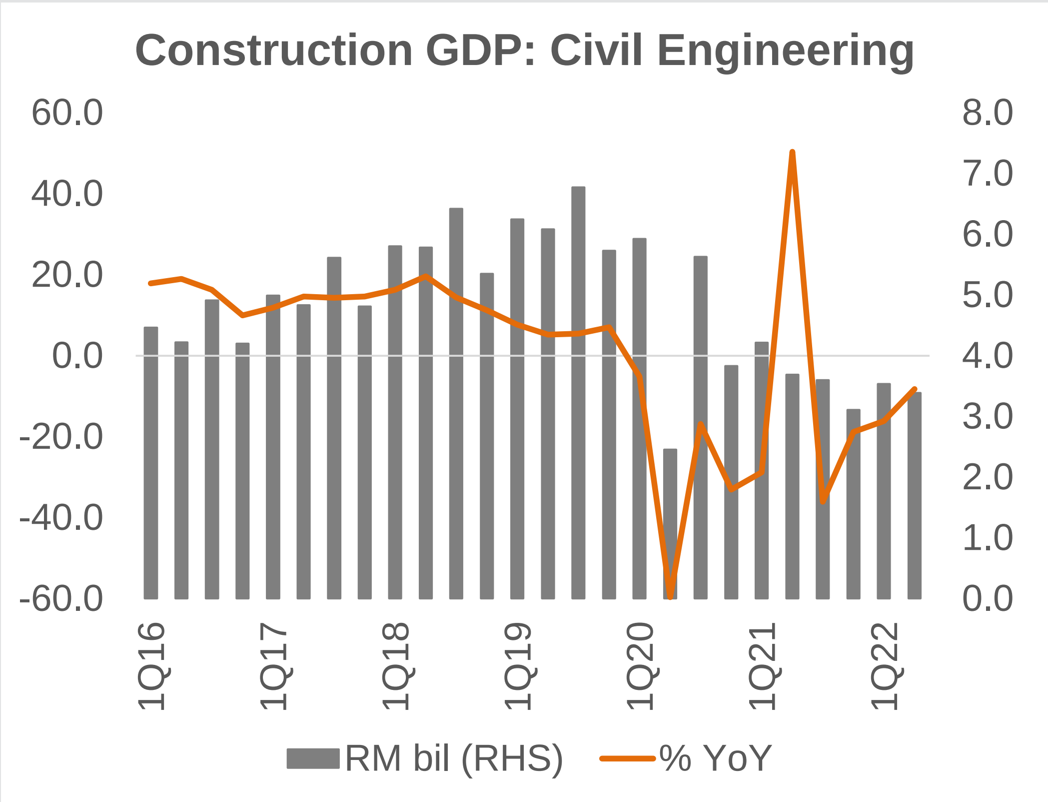
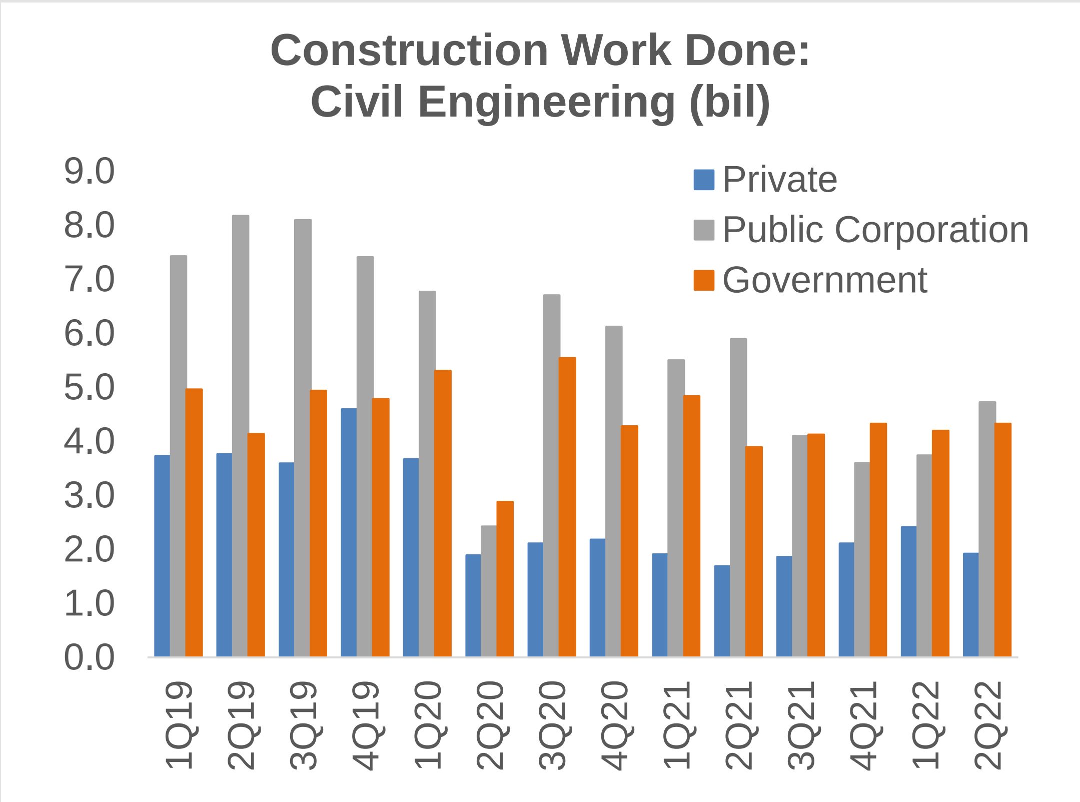
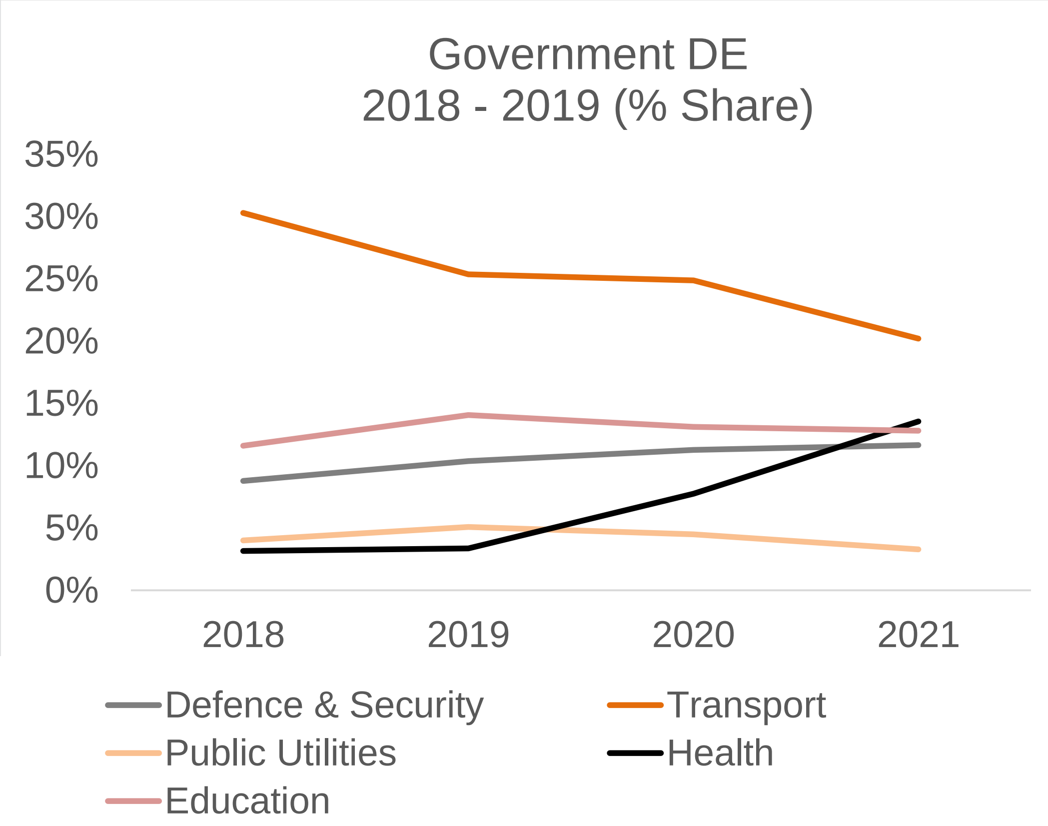
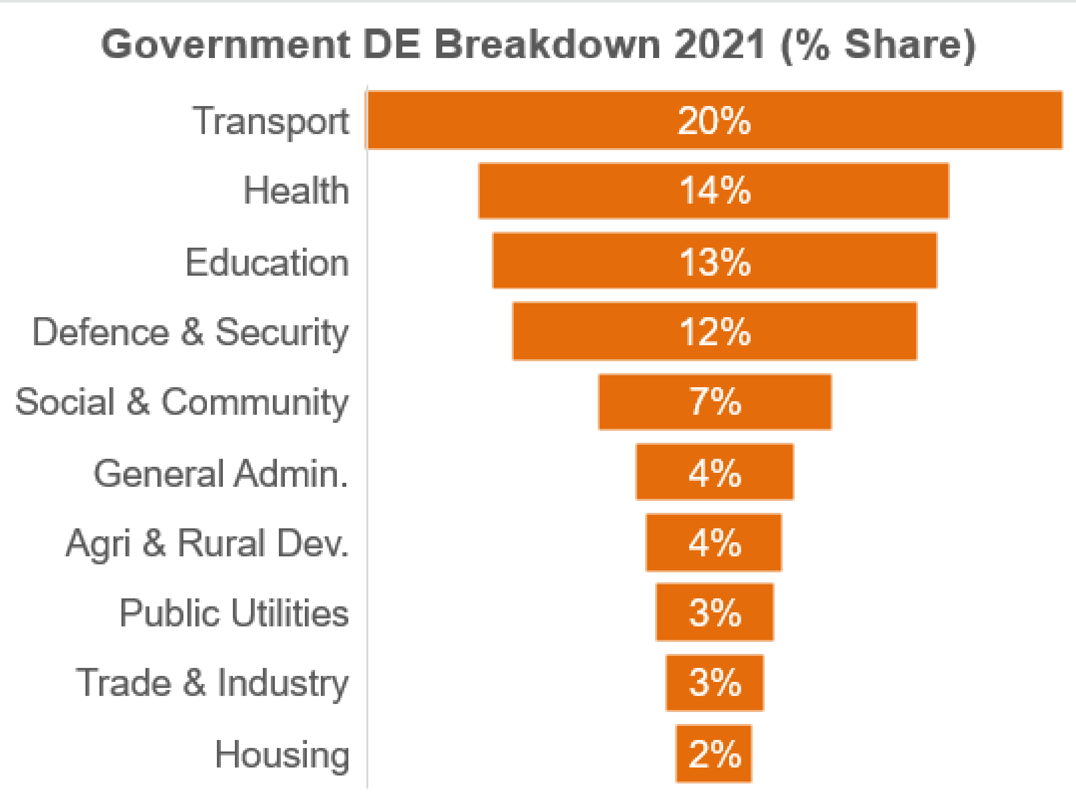




- The GDP for civil engineering remains in **negative territory** and has been **contracting for 4 consecutive quarters** (2Q 2022: -8.2% YoY) albeit some **improvements** (1Q 2022: -16.1%; 4Q 2021: -18.8% YoY; 3Q 2021: -36%). Nonetheless, recovery has **yet to return to pre-pandemic level** (2Q 2022: RM3.4 bil vs 2019 average: RM6.2 bil)
- **Civil engineering has a significant contribution** to total construction work done as it accounted for a larger share at **37% in 2Q 2022** (pre-pandemic in 2019: 45%) compared to residential (23%) and non-residential building (31%). Within civil engineering activities, the **government and public corporation dominates (82%).**





- **Transport sub-sector** where **civil engineering works are more prevalent** usually make up the **largest share of total government DE** (20% in 2021). Nonetheless, it has started to trend downward since 2019, making way for expenses in Defence & Security and Health.
- Expenses under transport segment is to construct, refurbish and maintain key infrastructures, such as highways, roads, railways, bridges, ports, and airports including both existing and new projects.

Sources: EMIS, CEIC, Various, SME Bank Economic Research

Industry Focus:
Construction - Civil Engineering (6/6)

Positive Outlook → Stable Outlook

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List of ongoing projects underlined in 12MP

	Project	Expected Completion Year
1	Upgrading Sandakan & Kota Kinabalu Airport	2023
2	Electrified Double Track Gemas-Johor Bharu (GJB) (Padang Besar – Johor Bharu)	2023
3	Pan Borneo Highway (Sindumin to Tawau, Sabah)	2024
4	West Coast Expressway (Selangor-Perak)	2024
5	Expansion Sepanggar Bay Container Port	2024
6	Central Spine Road (Bentong, Pahang – Kuala Krai, Kelantan)	2025
7	Kota Bharu – Kuala Krai Highway (KBKK)	2025
8	Baleh hydroelectric, Kapit, Sarawak	2025
9	East Coast Rail Link ECRL	2026
10	Rapid Transit System Link (RTS) Johor – Singapore	2026
11	KVDT Phase 2 (Salak Selatan to Seremban; Simpang Pelabuhan Klang to Pelabuhan Klang)	2026
12	Phase 2 of Sarawak Pan Borneo Highway (Limbang to Lawas)	2028

Projects under talk/finalisation

1	Mass Rapid Transit 3 (MRT3)
2	Sarawak-Sabah Link Road(SSLR) Phase 2
4	Expansion Penang International Airport

All these **ongoing projects** and the ones still under finalisation suggest that there will be a **steady demand for civil engineering activities.**

- Notwithstanding recovery, some **emerging factors** below may **influence the outlook** of this sub-sector which led to a **downgrade to stable** from positive previously.

Main Factor

Government **fiscal consolidation** commitment

- Introduce **Fiscal Responsibility Act** by year-end - to further enhance governance, accountability and transparency in fiscal management.
- Set target to reach **fiscal deficit of 3.0% - 3.5%** of GDP by end of 12MP period (2Q 2022: deficit 5.3% of GDP).
- While this target is achievable with continuous economic recovery and GDP expansion, Government is committed to **reduce its national debt level and the temporary ceiling of statutory debt at 65% of GDP** (2020: 60% of GDP).
- Government has started to **prioritised critical projects** for this year while **postponing/ cancelling the not-so critical and new ones** on the back of ballooning subsidies.
- Besides that, Government had also announced that there **will no longer be any financial assistance** from the government for all **new highways including for land acquisition.**
- Going forward, there might be **limited government capacity for a new round of mega projects due to fiscal constraints**.

Other Factors

- Political instability – risk of scrapping/ postponing projects (eg: HSR, MRT3)
- Severe labour shortages
- High price of building materials

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