

The IMG Monthly Bulletin serves as a comprehensive review of developments in the real estate industry, bringing together insights, news, and updates on the property market. Each week, we publish focused snapshots on the month's main theme, offering timely perspectives on key trends shaping the sector. At the end of every month, these insights are consolidated into the IMG Monthly Bulletin, providing readers with an in-depth overview of industry movements, emerging opportunities, and strategic considerations for stakeholders across the property market.

The Direct and Indirect Impacts of Middle East Instability on Property Economics

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Part 1: The Immediate Ripple Effect (Current Landscape)

Property Economics and Market Sentiment

The macroeconomic landscape in Malaysia is rapidly adapting to external shocks. Disruptions to critical trade routes like the Strait of Hormuz and volatile energy markets are forcing local industries to adopt defensive economic strategies. This section highlights the core systemic shifts occurring as a direct response to these global pressures.



Supply Chain Disruption

Surging energy costs and logistical bottlenecks are directly impacting the broader domestic economy and development timelines.



WFH Mandates

The government has implemented Work-From-Home policies for GLCs and the public sector specifically to conserve energy amid the crisis.



Wage Reform Pressures

There is an urgent need for structural wage reforms to align local productivity levels with the mounting pressures of global inflation.

Commercial vs. Industrial Markets

The commercial and industrial property markets are experiencing highly divergent trajectories. While the general office sector faces headwinds due to WFH mandates, prime office spaces and the retail sector exhibit remarkable resilience. The industrial sector remains highly active but sensitive to global fiscal policies.

Commercial & Retail (Highly Vulnerable)

Energy-intensive industries, including hotels and retail complexes, are feeling the severe pinch of higher operating costs. Concurrently, multinational corporations are actively shelving office expansion plans amid the prevailing global "risk-off" sentiment.

Industrial (The Defensive Asset)

The silver lining lies in logistics. Because conflicts have disrupted global supply chains, companies are forced to localize their inventory to circumvent shipping delays. This aggressive "buffer stock" strategy is triggering a surge in demand for warehousing, cementing the industrial sector as a resilient anchor.

Prime Office Resilience

Despite softer leasing sentiment overall, premium buildings remain in demand. Shangri-La Hotels renewed its tenancy at UBN Tower at a rate 3% higher than previous terms.

Construction Costs: The Logistics Squeeze

Construction cost pressures are the most acute systemic issue stemming from the supply chain crisis. Escalating prices for steel, cement, and energy are severely straining contractor cash flows, leading to project delivery uncertainty. The Master Builders Association Malaysia (MBAM) has proposed urgent interventions.

01 Tax Relief

Temporary tax relief for construction-related services.

02 Diesel Subsidies

Targeted subsidies to help manage spiking energy and logistical costs.

03 Financial Aid

Provision of soft loans and robust financial guarantee schemes.

04 Mandatory VOP

Variation of Price mechanisms for critical materials (steel, cement, fuel).

05 No Retrospect

Assurances that new fiscal policies won't apply to existing contracts.

Retail Stability

The retail sector is highly resilient, supported by strong domestic consumption and stable occupancy rates, making it a preferred target for defensive capital.

REITs & Defensive Investment Postures

Market volatility has prompted investors to pivot heavily towards safer, stable assets. Real Estate Investment Trusts (REITs) are prioritizing balance sheet resilience. However, spiking global energy prices are increasing utility tariffs, which directly compresses Net Property Income (NPI) margins across the board.

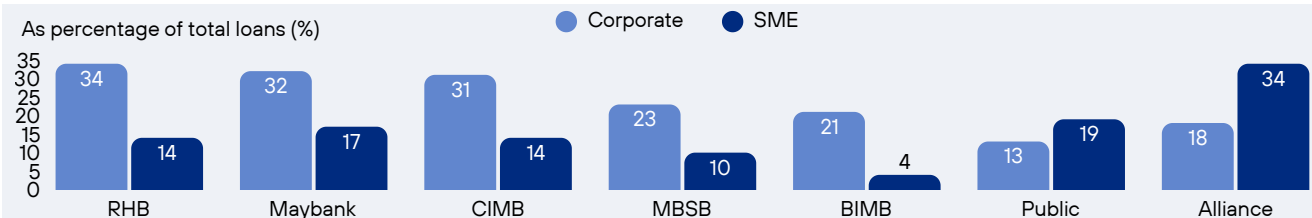
NPI Margin Compression

Elevated operating expenses from energy and utility tariffs are squeezing the net income of property assets.

Shift to Defensive Assets

Capital is fleeing uncertain growth sectors (general office) in favor of high-yield, resilient income streams (retail and domestic industrial).

Exposure to Corporate and SME Lending



AMBank RESEARCH, COMPANIES 2026

BNM & Overnight Policy Rate (OPR)

Bank Negara Malaysia (BNM) is currently maintaining a "Wait-and-See" monetary policy. While the OPR sits at a supportive 2.75%, internal stress tests reveal that severe economic downturns triggered by global commodity inflation could force aggressive rate hikes, fundamentally altering the cost of property financing.

The Implication:

An increase of 100-150 basis points would significantly increase property loan costs, leading to inherently tighter lending criteria across both retail and commercial banking sectors.

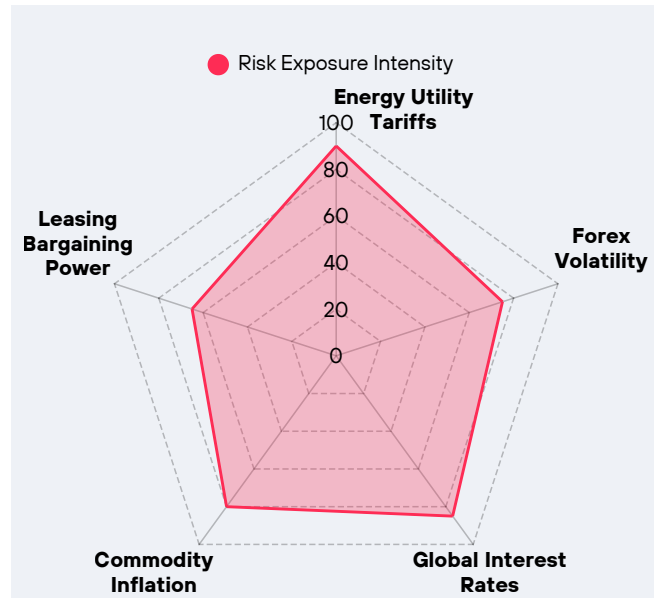
Bank Lending & Strategic Prudence

The Malaysian banking system remains robust and fully capitalized. However, institutions are adopting a stance of 'Strategic Prudence' rather than reluctance. Lending continues, but with heightened scrutiny, proactive restructuring for vulnerable borrowers, and massive capital buffers to protect against downside risks.

Heightened Scrutiny

- SMEs and vulnerable household segments face stricter evaluations to ensure serviceability amid rising costs.
- Banks are initiating early engagement to offer Restructuring & Rescheduling (R&R) options.
- Commercial office landlords are evaluated much more strictly compared to retail or industrial borrowers.

RM4.33 Billion Safety Buffer: Malaysian banks hold significant "management overlays" to shield balance sheets against potential impaired loans.



Unhedged Forex Risk

REITs with significant overseas portfolios face heightened exposure to losses resulting from unpredictable foreign exchange volatility.

Part 2: Historical Corollaries & The Cycle Crisis

Macroeconomic Baselines

The foundational economic environment dictates market resilience. Current macroeconomic data presents a fundamentally different baseline compared to historical shocks.

The 1990 Baseline

During the Gulf War, Malaysia was in an "Asian Tiger" expansion phase with massive FDI inflows and very low domestic household debt.

The 2026 Reality Check

Verified BNM data indicates the national household debt-to-GDP ratio currently hovers near 84%, defining a mature, highly leveraged market.

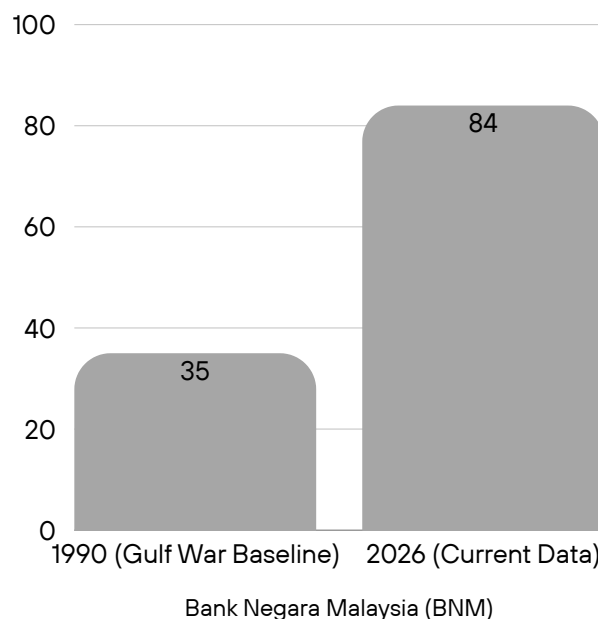
The "Sticky Price" Phenomenon The 6-12 Month Lag

Real estate pricing demonstrates documented inelasticity during sudden shocks. Historical NAPIC transaction data proves property values do not crash overnight.

Volume vs. Value Disconnect

What drops immediately is transaction volume. Sellers consistently refuse to realize capital losses, while buyers refuse to pay premiums.

Household Debt to GDP Ratio (%)



Liquidity & Domestic Buffers

The "Decoupling" Effect

During the 2003 Iraq War, the Malaysian property market successfully decoupled from global volatility. It was sustained almost entirely by robust domestic demand and government-led homeownership campaigns.

2003 Decoupling Effect

- ✓ Sustained by robust, un-leveraged domestic demand.
- ✓ Driven by aggressive government homeownership campaigns.
- ✓ Resulted in market decoupling from the Iraq War volatility.

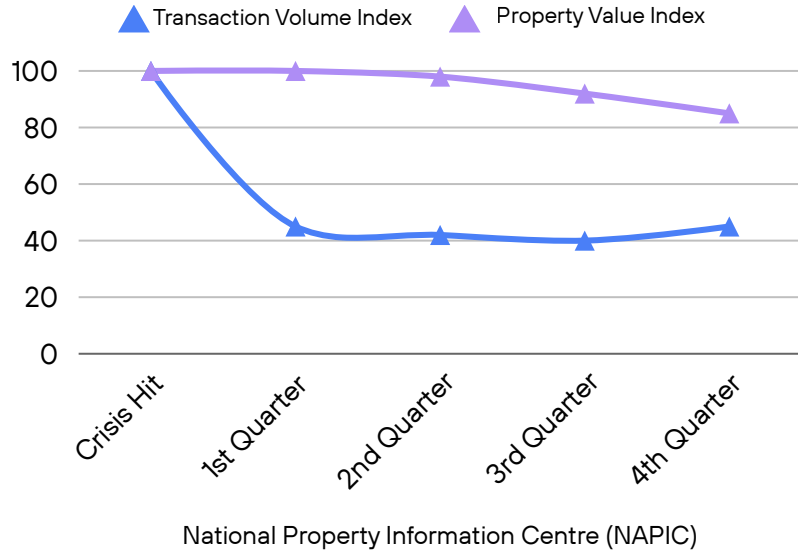
Current 2026 Liquidity

- ✓ Liquidity managed via Ministry of Finance interventions.
- ✓ High reliance on Sumbangan Tunai Rahmah (STR) injections.
- ✓ Structural reliance on EPF Akaun Fleksibel (Account 3) withdrawals.

Historical Data Fact

There is a documented 6 to 12-month lag between the onset of a crisis and visible downward price adjustments.

Historical Crisis Reaction Timeline



There is a proven 6 to 12-month lag between a Middle East crisis and visible downward price adjustments in the local secondary market. The immediate shocks we are documenting in April 2026 will likely manifest as actual valuation corrections only in Q4 2026 or Q1 2027.

FDI Flux

MENA Capital Allocation Shifts

While Middle East and North Africa (MENA) capital continues to flow into Malaysia, verified investment data shows a complete structural pivot in asset allocation compared to a decade ago.

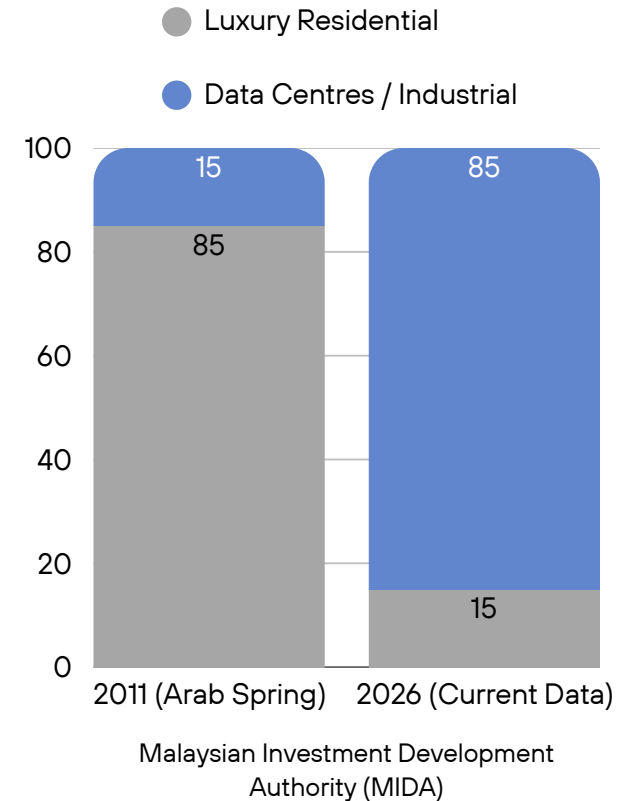
2011 Data (Arab Spring era)

Capital predominantly flowed into Malaysian luxury residential real estate, heavily inflating the KLCC enclave.

2026 Data (Current)

Sovereign wealth funds actively target the Johor-Singapore Special Economic Zone (JSSEZ), heavily concentrated in High-Tech Industrial Parks and Data Centres.

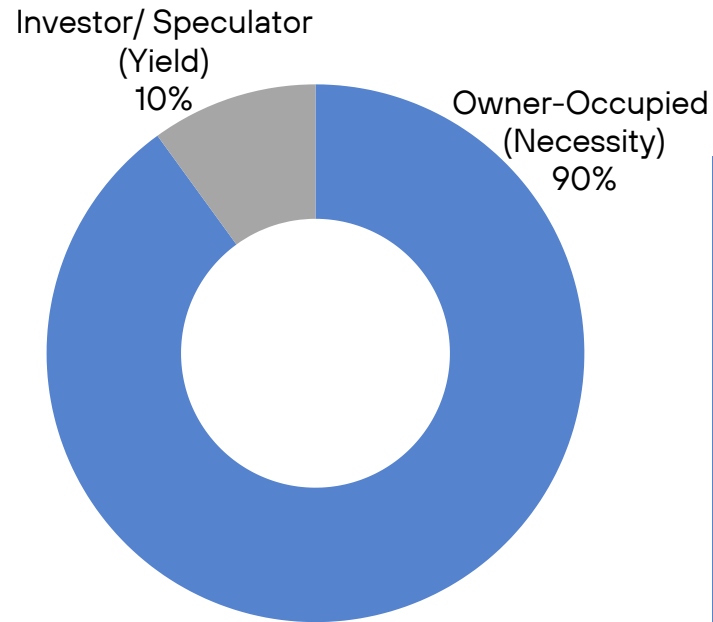
MENA Foreign Direct Investment Target



Backed by news surrounding the Johor-Singapore Special Economic Zone (JSSEZ) and state-level investment policies, Middle Eastern sovereign wealth funds are bypassing luxury condos. Instead, they are aggressively targeting Data Centres and high-tech industrial parks in Johor and Greater KL, seeking long-term yield generation over mere capital preservation.

Gold vs. Property

Historically, in times of war, investors pivot heavily toward liquid safe havens. Financial news across Q1 2026 has been dominated by Gold hitting continuous historical highs



The Marketing Pivot

Property saddled with high entry costs, stamp duties, RPGT, and severe illiquidity is currently losing the battle for investor capital. Developers must immediately pivot marketing strategies 100% toward genuine owner-occupiers purchasing out of necessity.

Developers can no longer rely on the "investor/speculator" demographic to clear their high-rise residential stock. Marketing strategies must immediately pivot 100% to genuine owner-occupiers who are purchasing out of necessity, rather than for capital yield.

Part 3: Strategic Resilience & Market Shifts

The "Data Center" Safe Haven

In times of geopolitical war, liquidity is king. Real estate is highly illiquid (taking months to liquidate via SPA processes). When global supply chains are threatened, inflation fears spike.

Consumers respond by holding cash or highly liquid assets like gold. For developers, this means marketing campaigns targeting "investors" will fail; they must pivot entirely to "necessity buyers" (owner-occupiers).

Safe-Haven Capital Flight

With global uncertainty peaking, we are seeing a distinct "risk-off" environment. Capital is pivoting away from illiquid assets (like real estate) toward safe havens. Notably, gold hit record highs in early 2026 driven by Asian investor demand.

The Wait-and-See Paralysis

Heightened fears of "imported inflation" (driven by energy prices) have caused a sharp drop in consumer sentiment. The M40 demographic, in particular, is deferring big-ticket property purchases to preserve cash liquidity.

Localization of the Supply Chain

Ongoing maritime disruptions a direct spillover from the Middle East conflict affecting the Red Sea have significantly elevated global freight indices and extended shipping lead times for heavy construction imports.



The Global Bottleneck

Ongoing maritime disruptions (spillover from the Middle East conflict affecting the Red Sea) have significantly elevated global freight indices and extended shipping lead times for heavy construction imports.



The Procurement Pivot

Developers are systematically moving away from imported architectural finishes (e.g., European tiles, Middle Eastern marble) and heavy M&E components. Active construction sites are substituting these with locally manufactured alternatives.

The 13MP Integration & Deficit

Geopolitical oil shocks mathematically force the Malaysian government to allocate massive, unplanned capital toward fuel subsidies.



Oil Shock Impact

Middle East crisis forces Brent crude higher, requiring MoF to increase subsidies to shield the rakyat.



Budget Deficit

Development Expenditure (DE) is drained by subsidies, forcing fiscal consolidation and reprioritization.



Developer Risk

13MP mega-projects (MRT3, HSR) are staggered. Landbanks acquired for TOD face severe feasibility risks.

Urban-to-Suburban Migration

What is happening

Capital is actively moving away from high-density urban strata titles (condos) toward established suburban corridors.

Why it matters

Inflation causes "Maintenance Fee Inflation" in the city (due to high electricity and service taxes). Buyers realize an RM600k budget is better spent on a 1,500 sqft landed home in Rawang or Semenyih to bypass strata management completely.

Rental Market Resilience

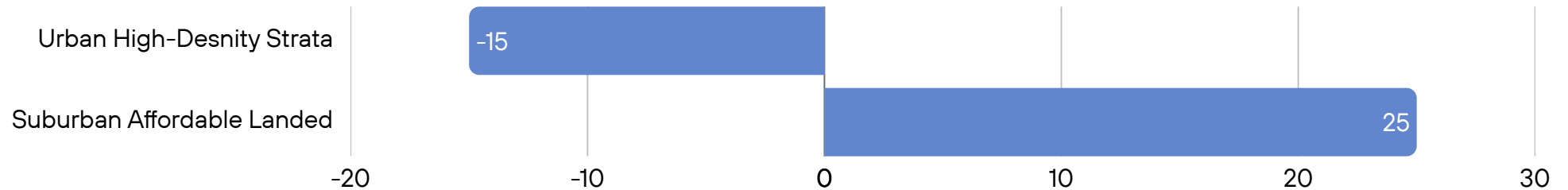
What is happening

The "Generation Rent" demographic is expanding rapidly, driving up rental yields in urban transit nodes.

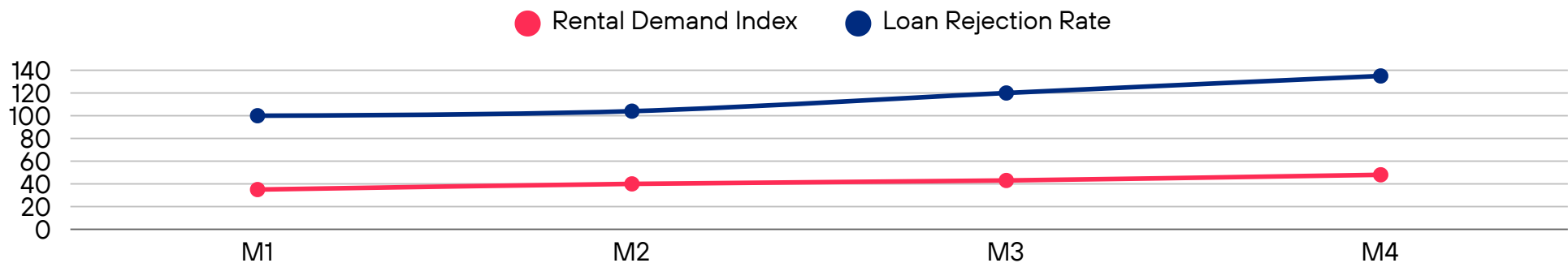
What is happening

It is simple banking math. Because CPI data shows the cost of living rising, banks increase their internal "Living Cost Buffer". This shrinks a buyer's calculated disposable income, causing massive loan rejections. Forced out of buying, they MUST rent.

Transaction Volume Growth (Proxy Trend)



Loan Rejection vs Rental Demand (Proxy)



Part 4: Insights from Real Estate Professionals

Key insights provided by **Sr Sulaiman Saheh**, Director of Research and Consultancy at Rahim & Co Chestertons

Impact of Geopolitical Tensions & Energy Costs

From Psychological to Material Risk:

While the Strait of Hormuz conflict initially began as a psychological shock, it has evolved into a material economic risk. This is primarily seen through the rise in fuel prices, specifically diesel, which creates inflationary pressure on logistics and the supply of goods and services.

Reduced Purchasing Power:

These rising costs, combined with the fact that wage growth in Malaysia lags behind property price growth, are compounding the cost-of-living issues for households, leading to a more cautious market sentiment.

Construction Costs & Developer Strategies

Absorption of Costs:

It is unsustainable to pass a 30% to 40% increase in construction costs directly to consumers. Instead, the market is seeing a mixture of margin compression for developers and cost absorption through the supply chain.

Value Engineering & Innovation:

To maintain viability, developers are turning to value engineering, creating smaller units to keep them affordable, and adopting new technologies and creative repositioning.

Focus on Affordability & Location:

There is a continued focus on the affordable segment. Developers are increasingly looking at outskirt areas and Transit-Oriented Developments (TODs) along rail lines to offset high land prices in central areas and provide transportation benefits to buyers.

The construction costs and the consumers

"The passing down of increased cost to consumers... if it were to be trickled down directly to the consumers for them to bear it will not be sustainable. It is not going to be absorbable by the market at all."

– Sr Sulaiman Saheh

Other significant quotes that highlight Sr Sulaiman Saheh insights on the market's current challenges include:

The need for systematic valuation

"Moving forward because of the occurrence of geopolitical risks that becomes ever more frequent and ever more apparent today... the calculation (of property value) needs to be done more systematically and more transparent."

– Sr Sulaiman Saheh

Property Valuation & The Shift to ESG

Systematic Risk Calculation:

While geopolitical risk has traditionally been embedded indirectly in valuations (via occupancy and rental rates), it now needs to be handled more systematically and transparently, particularly regarding capitalization rates and risk premiums.

ESG as a "Matter of Survival":

Energy volatility is accelerating the adoption of Environmental, Social, and Governance (ESG) principles. ESG is shifting from being a compliance-driven initiative to a matter of survival for product relevance and cost control.

Operational Cost Efficiency:

Green features are now key factors for investors because they directly impact the long-term operational costs of a building, such as electricity and water maintenance.

The developer strategies

"There will be a mixture between the absorbance by the supply chain, be it through value engineering, through making units becoming more smaller so that it is not as expensive as how it was before, or even the adoption of new technology."

Foreign Investment & Market Stability

Overall Ecosystem:

Foreign investors do not focus on a single geopolitical risk but look at the overall ecosystem. Malaysia remains attractive due to its systemic stability, demographic growth, and the current position of the Malaysian Ringgit, which continues to spur interest despite global uncertainty.

Policy Consistency:

The government must maintain stable and business-friendly policies to remain competitive within the ASEAN region.

Other significant quotes that highlight Sr Sulaiman Saheh insights on the market's current challenges include:

The current state of the Malaysian property market is his assessment of Environmental, Social, and Governance (ESG) standards:

"ESG... which has been in the past policy-driven or basically compliance-driven initiative but now it's becoming more and more a matter of survival. It is a matter of survival in terms of the product relevance as well as matter of survival in terms of the product positioning as well as cost control."

— Sr Sulaiman Saheh

Source: Astro Awani, Apr 16, 2026 - The Hormuz Crisis: Impact to The Malaysian Property Market

The IMG Monthly Bulletin serves as a comprehensive review of developments in the real estate industry, consolidating weekly snapshots into an in-depth overview of industry movements, emerging opportunities, and strategic considerations. Currently, the macroeconomic landscape in Malaysia is rapidly adapting to external shocks. Disruptions to critical trade routes, such as the Strait of Hormuz, alongside volatile energy markets, are forcing local industries to adopt defensive economic strategies. Surging energy costs and logistical bottlenecks are directly impacting the broader domestic economy and development timelines. In response to these crises, the government has implemented Work-From-Home mandates for government-linked companies and the public sector specifically to conserve energy, while mounting pressures from global inflation have created an urgent need for structural wage reforms to align local productivity levels with rising costs.

Within this challenging environment, commercial and industrial property markets are experiencing highly divergent trajectories. Energy-intensive industries, including hotels and retail complexes, are highly vulnerable to elevated operating costs, and multinational corporations are actively shelving office expansion plans amid a prevailing global "risk-off" sentiment.

However, prime office spaces demonstrate remarkable resilience, as evidenced by Shangri-La Hotels renewing its tenancy at UBN Tower at a 3% premium. Meanwhile, the industrial sector acts as a powerful defensive anchor; disrupted global supply chains have forced companies to localize inventory to circumvent shipping delays, triggering a massive surge in demand for warehousing. Compounding these sectoral shifts is an acute squeeze on construction costs. Escalating prices for steel, cement, and energy are severely straining contractor cash flows, leading to project delivery uncertainty. Consequently, the Master Builders Association Malaysia has proposed urgent interventions, including temporary tax relief, targeted diesel subsidies, financial aid, mandatory Variation of Price mechanisms for critical materials, and assurances against retrospective fiscal policies on existing contracts.

Market volatility has also prompted a flight to safety among investors, with Real Estate Investment Trusts heavily prioritizing balance sheet resilience. Capital is fleeing uncertain growth sectors in favor of stable, high-yield income streams like retail, which remains supported by strong domestic consumption, and domestic industrial assets. Nevertheless, REITs face net property income margin compression due to elevated utility tariffs and unhedged foreign exchange risks in their overseas portfolios.

In the banking sector, Bank Negara Malaysia is maintaining a wait-and-see monetary policy with the Overnight Policy Rate at a supportive 2.75%. However, internal stress tests suggest that severe economic downturns triggered by commodity inflation could force aggressive rate hikes, which would fundamentally alter property financing costs. Malaysian banks remain robust and fully capitalized with an RM4.33 billion safety buffer, but they are adopting a stance of strategic prudence. This means heightened scrutiny for SMEs and vulnerable households, stricter evaluations for commercial office landlords compared to retail or industrial borrowers, and proactive restructuring engagements for those facing financial strain.

Evaluating these current shocks against historical corollaries reveals a fundamentally different macroeconomic baseline today. Unlike the 1990 Gulf War era, which saw low household debt and massive foreign direct investment inflows, Malaysia is now a mature, highly leveraged market with a household debt-to-GDP ratio near 84%. Despite this leverage, real estate pricing demonstrates a documented inelasticity during sudden shocks.

Transaction volumes tend to drop immediately as sellers refuse to realize capital losses and buyers resist paying premiums, creating a six- to twelve-month lag before any visible downward price adjustments occur in the local secondary market. Current liquidity is heavily managed via government interventions like Sumbangan Tunai Rahmah injections and a structural reliance on EPF Account 3 withdrawals. Interestingly, while Middle Eastern capital continues to flow into Malaysia, its allocation has structurally pivoted. Moving away from the luxury residential real estate that dominated the 2011 Arab Spring era, sovereign wealth funds are now aggressively targeting the Johor-Singapore Special Economic Zone, concentrating 85% of their investments in high-tech industrial parks and data centers for long-term yield generation.

This pivot highlights a broader market trend where data centers and industrial spaces have become the new safe havens. As geopolitical tensions drive up inflation fears and push investors toward highly liquid assets like gold—which hit historic highs in early 2026—real estate developers are forced to adapt.

Developers can no longer rely on speculative investors seeking 10% yields; marketing strategies must pivot entirely toward genuine necessity buyers and owner-occupiers. Concurrently, heightened fears of imported inflation have caused the M40 demographic to defer large property purchases to preserve cash, exacerbating a "wait-and-see" paralysis. On a macroeconomic scale, oil shocks are forcing the government to allocate massive unplanned capital toward fuel subsidies, draining development expenditure and threatening the feasibility of 13MP mega-projects and transit-oriented landbanks. To survive supply chain bottlenecks and elevated freight costs, developers are systematically localizing their procurement, replacing imported architectural finishes with locally manufactured alternatives.

Meanwhile, capital is actively migrating away from high-density urban strata titles toward established suburban corridors, driven by buyers looking to escape rising maintenance fees. For those unable to afford homeownership due to banks tightening their internal living cost buffers, the rental market offers robust resilience, rapidly expanding the "Generation Rent" demographic in urban transit nodes.

Echoing these market realities, Sr Sulaiman Saheh, Director of Research and Consultancy at Rahim & Co Chestertons, emphasizes that geopolitical tensions have evolved from psychological shocks into material economic risks. The resulting inflationary pressure on logistics and construction cannot simply be passed down to consumers, as diminished purchasing power makes such cost absorption unsustainable. Instead, developers are compelled to absorb costs through value engineering, reducing unit sizes to maintain affordability, and adopting new technologies. Valuations are also changing, with systematic risk calculations and capitalization rates requiring greater transparency to reflect these frequent global disruptions.

Furthermore, the volatility in energy markets has transformed Environmental, Social, and Governance (ESG) principles from mere policy-driven compliance initiatives into matters of sheer survival. Green features are now critical for maintaining product relevance and ensuring operational cost efficiency over the long term. Ultimately, while Malaysia remains a highly attractive investment destination due to its systemic stability and demographic growth, the government must maintain consistent, business-friendly policies to preserve its competitive edge in the ASEAN region.

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