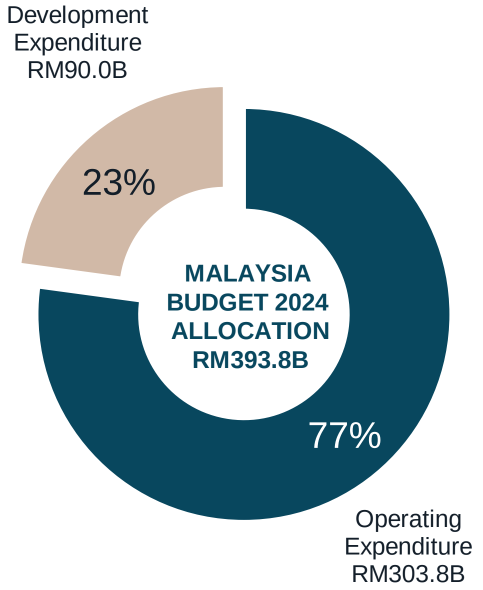
Malaysia Budget 2024

Real Estate Key Highlights

Budget 2024 was tabled in the Parliament on Friday, 13th October 2023 by Prime Minister and Minister of Finance, YAB Dato' Seri Anwar bin Ibrahim. Based on the theme of "Reformasi Ekonomi, Memperkasakan Rakyat (Economic Reform, Empowering People)", it will be the largest budget to-date, with an allocation of RM393.8B (approx. US$83.3B), surpassing Budget 2022's allocation of RM388.1B.

The 2024 budget is based on the MADANI Economic framework which is the main focus of the Unity Government in ensuring that the interests and needs of the people are taken into account in addition to driving the country's economic growth.

Here at JLL, we highlight several Budget 2024 proposals from the real estate point of view.



ECONOMIC OUTLOOK

- The Government projects **economic growth of around 4% - 5%** in 2024 based on the confidence that the MADANI economic reforms that will be implemented will spur economic growth closer to 5%.
- Growth forecasts for all sectors are expected to exceed last year's rates across the board. The economy is expected to be **supported by construction and tourism-related activities**.
- **Domestic demand** will continue to drive economic growth.
- **Unemployment rate** to return to pre-pandemic levels at **3.4%**.

KEY HIGHLIGHTS AND IMPLICATIONS FOR REAL ESTATE SECTOR

- The main objective of Budget 2024 is to optimize subsidies, enabling the country to allocate more funds towards development expenditure. This will facilitate the construction of high-quality infrastructure and support the country's journey towards becoming a developed nation.
- Substantial funds are allocated on infrastructure projects. This is an opportunity for developers to participate in large scale projects with lower risk profile.
- Proposed tax changes such as the increased Sales and Service Tax (SST) rate may have impact on retail sector.

MEASURES AIMED TO IMPROVE INVESTMENT CLIMATE	
PROPOSALS	**IMPACTS**
Malaysia as an Investment Destination • To build a wider ecosystem for the E&E cluster in the northern region, the Government will open a high-tech industrial area in Kerian, North Perak. • The responsibilities of MITI and MIDA are no longer limited to only the approval of investment incentives but are expanded to facilitate issues related to investment beginning from the application until the investment is realised.	This initiative is aimed at bringing more multinational corporations (MNCs) into the country. It is likely to have strong positive impact in the medium term for the office, industrial and logistics markets. After the government adopts new policies and mechanisms, it would require sometime for newcomers to make the decision to enter the country. The ongoing supply chain disruptions and uncertainties surrounding China may accelerate decision making as many MNCs in manufacturing segment are considering South-East Asia for implementation of China + One hub concept. Malaysia is ranked highly by these companies. Additional support from the government will foster decision making.
Restructuring the Economy to Boost Growth • To achieve this goal, the economic structure needs to be restructured and reorganised so that existing potentials can be harnessed. The New Industrial Master Plan (NIMP) 2030 targets a total investment of up to RM 95 billion while involving 3.3 million job opportunities with median salaries of up to RM 4,510 per month by 2030.	This may benefit the manufacturing sector greatly. Considering that the contribution of the manufacturing industry has remained below 25% of GDP, to curb this problem, future investment priorities are focused on High Growth High Value (HGHV) industries. This may spur the industrial and logistics market in Malaysia considering that such industries typically have some component of high-tech manufacturing involved. As such, we see this proposal greatly benefitting the industrial and logistics market in the Northern region where most HGHV industries are currently situated.
Internationalisation of Startups • GLCs and Government-Linked Investment Companies (GLICs) will provide funds of up to RM1.5 billion to encourage startups including Bumiputera SME entrepreneurs to venture into HGHV fields such as the digital economy, space technology and electronics and electrical (E&E).	In order for the country to adapt and transform its economy, startups are essential. With Malaysia's aim to making Kuala Lumpur as the hub for digital industry and startups for the Southeast Asian region, it is essential to accelerate the emergence of startups which will spur innovation within the economy. For real estate, this could mean the emergence of more HGHV industries that will likely result in further transformation of the industrial and logistics market. Further, the emergence of startups may also ease the office market glut that the market has been facing for a while now.
Supporting Primary Sectors - Logistics • RM50 million is provided as a matching grant with the Port Klang Authority to maintain Jalan Port Klang while enforcing the overload limit on heavy vehicles. • RM20 million is provided as a matching grant with the Port Authorities to upgrade the Malaysia Maritime Single Window (MMSW) system to unite trading communities at the port through an integrated digital port with various other Government Agencies. • The proposed development of a Port in Carey Island will be realised through Request for Proposal (RFP) in further strengthening the role of Port Klang.	This may invite additional high value investments into Malaysia's industrial and logistics sector. This also opens doors for a wider group of less risk averse investors to invest in high value infrastructure projects with minimized risks. In addition, this should enable Port Klang to maintain and strengthen its position as a major seaport. We note that Port Klang is ranked the 28th largest in the world. Its further expansion should enable the port to grow in size and its global positioning

TAX AND TARIFFS SYSTEM ADJUSTMENTS IMPACTING REAL ESTATE	
PROPOSALS	**IMPACTS**
To Increase Service Tax • The Government plans to increase the Service Tax rate to 8 percent instead of 6 percent. However, in order not to burden the Rakyat, this increase does not include services such as food and beverage as well as telecommunications. The Government will also expand the scope of taxable services comprising of logistics, brokerage, underwriting and karaoke services.	The main objective of this measure is to expand the nation's revenue base in order for the government to improve the quality of services and assistance to Malaysia and its residents while not burdening the majority of the population. The increase in service taxes typically leads to some level of inflation. Producers and service providers may try to squeeze their profits a little bit to not overlay the tax increase fully on end users.
To Implement High-Value Goods Tax • The Government will enact new legislation to implement the High Value Goods Tax at a rate of 5 to 10 percent on certain high value items such as jewellery and watches based on the threshold value of the goods price.	No mechanism and tax rates have been announced yet. According to Statista, Malaysia's luxury goods market in 2023 is estimated at US$605M (RM2.8B). If the newly introduced tax rate mitigates price benefits for tourists, the portion of the sales attributed to tourists may squeeze. As a result, shopping centres with higher share of luxury goods retail shops may witness lower turnover rent from this group of tenants. Thus, with this new tax imposed, the Government should offer Tourist Refund Scheme (TRS) to allow tourists to claim a refund as was done during the previous Goods and Services Tax (GST) era.
Implementation of Targeted Subsidies - Electricity • The Government will continue to improve the approach of targeted electricity subsidy according to the level of electricity consumption. The Government hopes that this decision will send the right signal to consumers to practise energy efficiency and thrifty practices in the daily use of electricity.	As of this year, the Government has introduced a strategy of targeted subsidies. This involves reducing subsidies for the top 10% of electricity consumers, while keeping subsidies unchanged for the remaining 90%. This focused approach has resulted in savings of RM4.6 billion from the projected RM20 billion electricity subsidy. However, the Government is still shouldering a subsidy burden of RM16 billion in 2023, particularly for consumers in households and micro, small, and medium enterprises (MSMEs). That said, the top 10% consumers of electricity may include investors and operators of real estate. For these groups, this implies an increase in outgoings.

PROPOSED INFRASTRUCTURE PROJECTS	
PROPOSALS	**IMPACTS**
Development of Sabah and Sarawak • Next year, the Federal allocation for the development of Sarawak will increase to RM5.8 billion from RM5.6 billion. Meanwhile, for Sabah, the allocation will increase to RM6.6 billion compared to RM6.5 billion. To increase the effectiveness of the allocation, the Federal Government has also delegated the authority to implement development projects valued under RM50 million to technical agencies in Sabah and Sarawak.	This may entice investors to start considering Sabah and Sarawak as potential expansion locations in light of the China + One strategy. Current flows of capital typically end up in Johor, Kuala Lumpur, Selangor and Penang. There is a lot of potential within Sabah and Sarawak that hasn't been explored yet. With this mandate, the hope is that more investors may become more willing to explore opportunities within those states.

PROPOSED INFRASTRUCTURE PROJECTS (Cont.)

PROPOSALS	IMPACTS
Road Infrastructure Projects to be Intensified • The Sarawak Pan Borneo Highway will be fully completed next year. Meanwhile, the tender process for the 19 packages of work for Phase 1b of the Pan Borneo Sabah project, spanning 366 kilometres with a cost of RM15.7 billion, will be completed by the November of this year. • The Sarawak-Sabah Link Road (SSLR) Phase 2 project, spanning over 320 kilometres, involving a cost of nearly RM7.4 billion, will also commence at the end of this year. • Taking into account the increased number of vehicles, the expansion project of the North-South Expressway (PLUS) from four to six lanes is extended from Sedenak to Simpang Renggam at a cost of RM931 million.	A robust road network facilitates efficient population movement, streamlines trade activities, and boosts the local economy. It enhances mobility by providing convenient access to various areas, reducing travel time, and improving productivity. Additionally, it enables traders and businesses to transport goods and services promptly, expand markets, and meet consumer demands effectively. The well-connected road infrastructure also attracts investments, stimulates economic growth, and promotes regional development by bridging connectivity gaps, opening new market opportunities, and fostering tourism. This, in turn, generates employment, enhances communities, and drives overall socio-economic progress. Overall, a comprehensive road network acts as a vital catalyst for societal advancement, enhancing mobility, trade, and economic prosperity.
LRT3 Stations That Were Previously Cancelled to be Resumed • The Government has agreed to resume the previous proposal to construct five LRT3 stations that were previously cancelled. These stations are Tropicana, Raja Muda, Temasya, Bukit Raja, and Bandar Botanik. The retention of these stations is expected to complement and enhance the public transportation network in the Klang Valley, benefiting around 2 million residents, with a cost of RM4.7 billion.	The LRT benefits the country by providing efficient mobility, reducing environmental impact, increasing accessibility, driving economic growth, ensuring safety and reliability, and reducing dependency on cars. Further, this could also spark new township developments located close to each station.
Implementation of Public Housing Projects • A special guarantee fund of RM1 billion has been allocated to encourage reputable developers to revive identified stalled projects. • A total of RM546 million is allocated for continuing the implementation of 36 Program Perumahan Rakyat (PPR), including a new project in Kluang, Johor. 14 Program Rumah Mesra Rakyat continued to be constructed with 3,500 housing units with an allocation of RM358 million. • The Government has allocated RM460 million to aid approximately 65,000 impoverished rural residents for the construction of new homes or the renovation of their existing dilapidated houses. • A sum of RM100 million is allocated for the maintenance of low- and medium-cost public and private strata housing projects throughout the country.	The Government has taken steps to fulfill every citizen's aspiration of owning an affordable and comfortable home. This year, a dedicated team under the Ministry of Local Government Development (KPKT) has been established to tackle the problems associated with delayed, sick, and abandoned private housing projects, which have placed a burden on homebuyers. As of August 2023, 256 dilapidated projects, comprising more than 28,000 housing units with a Gross Development Value of RM23.37 billion, have been successfully revitalized and restored.