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From investment appetite to operational readiness

The Edge, Malaysia

COVER STORY

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IVPS GROUP

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The Malaysian industrial property market is transitioning from investment hype to a phase of normalisation, characterised by stable resilient growth rather than speculative volatility, according to real estate consultants.

While the overall industrial sector remains the strongest-performing real estate segment in Malaysia for now, the market is becoming increasingly value-led. Data from National Property Information Centre indicates that in 2025, transaction values for industrial properties surged by 21.3% despite relatively flat volumes growth of 1.4%, reflecting that buyers are prioritising larger, high-value and high-quality assets.

Warehouse-oriented properties continued to dominate the transaction activity across terraced, semi-detached and detached factory segments. This was followed by industrial land transactions, largely driven by the expansion of data centre developments.

While the number of unsold completed units remained stable, construction activity moderated likely due to existing oversupply. Nevertheless, planned incoming supply has nearly doubled, signalling continued developer confidence in this sector.

The strong segment momentum continued into the first quarter this year (1Q2026), supported by several notable transactions such as IOI Properties Group's (KL:IOIPG) deal with Bridge Data Centres at IOI Industrial Park in Banting, Selangor as well as the disposal of Quantum Edge Industrial Park in Kulai, Johor by Eco World Development Group Bhd (KL:ECOWLD) to a hyperscale data centre operator.

Overall, the segment outlook in 2026 remains positive among market players and consultants, underpinned by structural drivers like supply chain diversification under the China+1 strategy, as well as the rapid expansion of digital infrastructure.

Market experts also foresee that demand will be concentrated on modern, ESG-ready, Grade A facilities — particularly within the electrical and electronic (E&E), logistics and data centre sectors — while older, non-compliant estates face slower liquidity and pricing pressure.

Although challenges such as utility bottlenecks and talent shortages persist, the market's evolution towards operational delivery and high-specification (high-spec) infrastructure signals a maturing ecosystem built on real demand.

However, IVPS Group of Companies country manager Tiffany Goh highlights that the segment performance is becoming bifurcated while market demand remains robust.

"The sector is expected to remain the top-performing real estate segment, supported by ongoing demand from logistics, semiconductors and data centres, although transaction volumes may stay relatively subdued as investors become more selective amid tighter financing conditions and a stabilising macro environment," she says.

Looking ahead, Goh thinks the market will enter a phase of strategic consolidation, as investors pivot from speculative growth towards disciplined, infrastructure-led developments that meet stringent ESG standards.

"Capital values are likely to stay stable to slightly firm, but performance is becoming increasingly bifurcated between prime, high-spec assets, which will continue to outperform, while secondary stock may face slower absorption and pricing pressure. The outlook is for continued growth but at a more moderate and sustainable pace rather than another sharp jump," she notes.

Continued strong demand momentum

Zooming in on the prime industrial yields in Malaysia's five economic corridors — Iskandar Malaysia, Northern Corridor Economic Region (NCER), East Coast Economic Region (ECER), Sabah Development Corridor (SDC) and Sarawak Corridor of Renewable Energy (SCORE) — Goh shares that these have generally expanded to a range of 5.5% to 7.5% in 2025, compared with the 4.5% to 5.5% range in previous years, mainly due to higher interest rates and a broader repricing of assets, although underlying occupier demand remains strong.

"Core markets such as Greater Kuala Lumpur, Penang and Johor — especially the Johor-Singapore Special Economic Zone cluster — continue to see tighter yields at the lower end, while emerging corridors like ECER and Sabah and Sarawak offer higher yields reflecting increased risk and lower liquidity," she elaborates.

> Capital values are likely to stay stable to slightly firm, but performance is becoming increasingly bifurcated between prime, high-spec assets, which will continue to outperform ..."
> — Goh, IVPS Group

Concurring with this, Henry Butcher Malaysia director of corporate real estate Long Shi Chuen points out that generally, the prime industrial yields in 2026 are, on average, 5% to 6%. However, he is convinced that this is mainly due to the limited quality stock available for prime industrial properties in the key economic zones.

"We see the sharpest yield in the Iskandar region and the Klang Valley, while Penang remains supported by the semiconductor supply chain. Interestingly, ECER, and Sabah and Sarawak have offered higher yields growth recently, reflecting the impact of the earlier-stage infrastructure improvements and its potential," he says.

Recent notable industrial development trends across Malaysia include the expansion of modern logistics hubs and multi-storey warehouses, as well as the rapid growth of industrial and data centre parks in Greater KL, particularly in Cyberjaya, KL and Puncak Alam; continued semiconductor-led industrial growth in the southern region such as Sedenak, Nusa Cemerlang Industrial and Nusajaya Tech Parks; electric vehicle (EV) and automotive expansion within Selangor and Negeri Sembilan; and resource- and energy-driven projects in Sarawak and Sabah. All of these highlight a market that is yielding higher returns supported by stronger structural demand.

Empowering data centres

While Johor is seen as the star of the data centre industry compared to other states, PA International Property Consultants Sdn Bhd group managing director Subramaniam Arumugam highlights some pitfalls as the market is transitioning from investment hype to operational delivery.

"In Johor, early signs of constraint have already been identified by the government, prompting a tightening of approval requirements, which now focus only on Tier 3 and Tier 4 data centres. This policy shift is largely driven by concerns over high water consumption, highlighting the potential challenges in supporting rapidly growing demand," he says.

Cyberjaya, on the other hand, is one of Malaysia's earliest and most established digital innovation hubs and its ecosystem was designed to support advanced technology infrastructure. As such, Subramaniam does not foresee power grid bottlenecks or water scarcity to be immediate. However, challenges may arise in the future as the availability of land, power and other resources become increasingly limited.

He explains that Tenaga Nasional Bhd (KL:TENAGA) has been continuously upgrading its grid capacity to support rising demand from data centres. Key initiatives such as the Green Lane Pathway aim to streamline and reduce electricity connection timelines for data centres while the expansion of renewable energy adoption is becoming an important part of supporting sustainable data centre growth.

The Green Lane Pathway is a strategic initiative launched by Tenaga in August 2023 to position Malaysia as a regional data centre hub. Its primary purpose is to simplify and accelerate the process of supplying power to data centre operators. By 2026, this pathway has become the standard for large-scale digital infrastructure investments in the country.

Subramaniam stresses that with demand

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for data centres projected to hit 5,000MW by 2035, the Green Lane Pathway is the mechanism that will prevent physical bottlenecks in the power grid. It will ensure that Malaysia can attract massive capital from players like Microsoft, Google and Amazon while maintaining a healthy power reserve margin.

Adding to that, Henry Butcher Malaysia's Long says sustainability and stability of power and water supply are the biggest challenges for any data centre company looking to set up or expand their business, particularly in Cyberjaya and Johor.

"These are popular areas for data centre companies due to their infrastructure and the government incentives offered to data centres in the past few years. In the event that these areas are unable to sustain the required infrastructure demand for the data centre companies, operators will need to look for other areas in Malaysia to support their business needs," he notes.

Nonetheless, IVPS' Goh shares that as Malaysia's data centre boom shifts from approval to actual delivery in 2026, key execution risks for both Johor and Greater KL lie in the ability to secure approvals from relevant government agencies, such as the Data Centre Task Force (DCTF) and PLANMalaysia Johor, for construction as well as execution of power agreements.

"New electricity tariffs for the data centre category, which were introduced in July 2025, do have an impact on the overall profitability of the data centre players. In terms of water, the majority of the data centres have modified and adopted air-cooled or liquid cooling technology in the data centre construction, which saved on the water usage. This is required as part of the initiative to ensure that mass water is not used for cooling purposes," she explains.

Goh adds that data centre operators today have to ensure the design of the facility is for artificial intelligence (AI) and is sustainable in order to meet the requirements set by the Malaysian government.

Power and water aside, Subramaniam points out that one of the biggest concerns is actually talent availability.

"The rapid expansion of the data centre sector has outpaced the development of a sufficiently skilled workforce. Gaps exist across design, construction and operations, as well as technical personnel supporting grid and utility infrastructure. This talent bottleneck could become a key limiting factor in sustaining the sector's long-term growth," he says.

Additional execution risks raised by Goh include stricter ESG compliance requirements, and broader infrastructure readiness, such as land servicing and environmental approvals, all of which are now being actively used to evaluate the data centre projects.

"In short, while capital and demand remain strong, the main risk to 2026's delivery is the ability to synchronise utilities, especially power and water, with construction timelines, making infrastructure readiness the primary bottleneck rather than investment appetite," she reckons.

International competition edge

While recognising that hyperscale digital investments are a cyclical rising star, the government is actively leveraging this momentum to cross-pollinate other high-growth sectors.

By maintaining a diversified foreign direct investment (FDI) intake, the government seeks to mitigate the volatility of any single industry, ensuring that the infrastructure upgrades currently being fast-tracked for data centres eventually serve as a robust foundation for a much broader industrial renaissance.

With this, Goh is confident that by focusing on higher-value, sector-driven clusters and a diversified FDI base, coupled with the strong support by agencies such as the Malaysian Investment Development Authority (Mida) and policies under the New Industrial Master Plan (NIMP) 2030, Malaysia has well positioned its industrial parks to capture supply chain diversification, particularly for industries like E&E, semiconductors, EV supply chains and data centres from the US, Europe, Japan, South Korea and China.

"Compared to regional peers, Malaysia's strengths lie in its mature industrial ecosystem, skilled workforce, strong infrastructure and regulatory transparency," she says. "But it faces challenges from lower-cost competitors such as Vietnam and Indonesia, as well as scaleability constraints in land and utilities, while also competing with Singapore for high-end investments."

"Talent bottleneck could become a key limiting factor in sustaining the [data centre] sector's long-term growth."
— Subramaniam, PA International

Building on this sentiment, Long emphasises that Malaysia's value proposition is increasingly shifting from a low-cost destination to a high-reliability partner. While peers like Vietnam and Thailand continue to attract labour-intensive assembly due to lower wage overheads (Vietnam's economy is projected to grow by over 8% in 2026), Malaysia is carving out a niche in complex manufacturing where its deep E&E ecosystem and widespread English proficiency are non-negotiable assets for global firms.

"The country is competing on quality, stability and ecosystem depth rather than cost, which supports diversified inflows but requires continued improvements in infrastructure delivery and policy execution," he shares.

To maintain its edge, Long suggests that the "Fast Lane" initiatives that were successful in Johor and Kedah become the national standard, ensuring that bureaucratic speed matches the country's ambitious policy targets under the NIMP 2030.

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"Investors should be wary of industrial parks without anchor demand ... overly optimistic rent assumptions, financially stretched developers ..."
— Long, Henry Butcher Malaysia

Local fears

While there is strong demand for facilities to house data centres and related activities, the same cannot be said for all industrial property types. Long points out that there is a growing risk of oversupply in standard terraced factory units in some secondary locations as there is insufficient demand for either end users or the rental market to absorb.

"Investors should be wary of industrial parks without anchor demand, weak pre-commitments, overly optimistic rent assumptions, financially stretched developers and sites where utilities, access and drainage are not fully secured," he shares.

Meanwhile, older, non-ESG-compliant industrial estates also face challenges when it comes to increasing their value, especially if building owners are using the property for refinancing purposes as financing terms become less favourable and when investors price in obsolescence when it comes to acquisition. Still, there is a silver lining.

"Interestingly, a niche but growing retrofit market has emerged, where funds and private investors acquire older assets at a discount and upgrade them. This is often supported by green financing schemes if the location fundamentals of the building or asset are still strong," Long says.

Subramaniam highlights that when supply in newer areas tightens and pricing escalates, occupiers and investors tend to shift their attention back to well-located but ageing industrial estates.

"At that point, retrofitting becomes a more viable strategy [than investing in new facilities in decentralised areas]. Although it requires additional capital expenditure, it is often still more cost-effective than acquiring new assets in high-demand locations, especially for local SMEs (small and medium enterprises)," he shares

SMEs that need to comply with ESG requirements will have little choice but to move into newer, ESG-ready environments, including managed industrial parks, to save on the hefty retrofitting cost. However, he says, the majority of SMEs in Malaysia still tend to delay ESG adoption due to the higher operating costs involved.

"As a result, the trend of many SMEs opting out of managed industrial parks and moving to older, well-located industrial areas with strong connectivity, or

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NOTABLE DEVELOPMENTS IN MALAYSIA'S ECONOMIC ZONES

1. CENTRAL REGION

This zone has shifted towards high-density, ESG-compliant infrastructure to overcome land scarcity and meet the needs of global e-commerce

KEY PROJECTS AND DEVELOPMENTS:

E-Metro Logistics Park in Bukit Raja
A flagship RM1 billion joint venture between Sime Darby Property Bhd (KL:SIMEPROP) and LOGOS Property. As of 2026, Metrohub 1 and 2 are major operational nodes for third-party logistics providers like J&T, featuring multi-storey designs and LEED Gold sustainability.

NCT Smart Industrial Park (NSIP)
Located in Sepang, this is Malaysia's first certified managed industrial park, with Phase 1 reaching vacant possession in late 2025/early 2026

Negeri Sembilan
Hosting the RM1 billion Auto City and new manufacturing plants like Otafuku Sauce and Exis Tech (opened in December 2025).

Selangor
Acting as the primary site for local electric vehicle (EV) assembly (for example, Chery) and localised production of EV chargers (for example, Swift Bridge Technologies' RM11 million facility).

4. SARAWAK + 5. SABAH

Both states have pivoted from raw commodity exports to becoming the "Battery of Asean" through green energy

KEY PROJECTS AND DEVELOPMENTS:

Bintulu
The H2biscus and H2ornbill green hydrogen projects are in advanced stages, positioning Sarawak as a global supplier of clean fuel to North Asia.

Samalaju Industrial Park
Focusing on green steel and energy-intensive manufacturing powered by Sarawak's vast hydroelectric resources. TotalEnergies and InvestSarawak recently deepened cooperation on carbon capture, utilisation and storage as well as sustainable aviation fuel.

3. NORTHERN REGION

Spanning Penang and Kedah, this region is evolving from backend assembly to frontend design and cross-border trade

KEY PROJECTS AND DEVELOPMENTS:

Batu Kawan Industrial Park (BKIP)
With BKIP 1 saturated, BKIP 2 and BKIP 3 are the new frontiers. Despite some requests for proposal revisions in early 2026, the area continues to attract silicon carbide and gallium nitride semiconductor players.

NCT InnoSphere
Launched in September 2025, this RM1.1 billion project in the Delapan Special Border Economic Zone (SBEZ) is a critical cross-border land gateway. It serves as a consolidation and light-assembly hub for the RM70 billion annual border trade with Thailand.

Kulim Hi-Tech Park (KHTP)
The country's first high-tech industrial park is seeing massive reinvestment from Infineon and Ferrotec in power semiconductors.

2. SOUTHERN REGION

Johor is currently the primary beneficiary of the "Singapore Plus One" strategy, particularly within the Johor-Singapore Special Economic Zone

KEY PROJECTS AND DEVELOPMENTS:

Sedenak Tech Park (STeP)
The largest data centre hub in Malaysia (745 acres). In March 2026, it was confirmed as the nation's premier digital cluster with power capacity reaching 600MW.

YTL Data Centre campus
A unique 275-acre park integrated with a 500MW solar farm in Kulai. The 2024/25 partnership with Nvidia has successfully established this as an AI-ready sovereign cloud hub in 2026.

Nusa Cemerlang and Nusajaya Tech Park
Continued expansion in Nusa Cemerlang and Nusajaya Tech Park by UEM Sunrise Bhd (KL:UEMS), it now hosts a high concentration of advanced precision engineering and electronics firms.

Local SMEs increasingly priced out of newer developments

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choosing stratified industrial units that are more affordable and better suited to smaller-scale operations, is growing in the local SME market," he shares.

As for the prospect of managed industrial parks, which have mushroomed in recent years, but with the market cautious on the supply-demand mismatch, Subramaniam is unperturbed as one of the key elements of such a product is building a comprehensive ecosystem, not solely on the industrial product itself.

"Managed industrial parks typically comprise a range of components, which include industrial plots, terraced, semidee and detached factories, CLQ (centralised labour quarters), as well as supporting commercial units such as shopoffices. Some even come with a small number of residential components. They are designed to be a self-sustaining ecosystem.

"These remain largely concentrated in Selangor due to popular demand, with recent spillover into Negeri Sembilan, supported by Malaysia Vision Valley 2.0. Also, developers typically launch these parks in phases, allowing them to respond to actual market demand and adjust product offerings over time," he shares.

Rather than worrying about the oversupply and influx of incoming supply, Subramaniam is more interested in how the industrial park will be managed after vacant possession, specifically, who the property manager is and how effective they will be in maintaining the park's standards over time to ensure long-term competitiveness.

"This is important because managed industrial parks typically involve ongoing maintenance fees, which represent an additional cost compared to traditional industrial estates. Another red flag is the unclear value proposition of managed industrial parks ... the concept is still relatively new and not fully understood by the market at large," he notes.

The first certified Managed Industrial Parks (MIP) in Malaysia is the NCT Smart Industrial Park (NSIP) undertaken by NCT Alliance Bhd (KL:NCT). It is located in the Integrated Development Region in South Selangor (IDRISS) and the first phase, which consists of 270 detached, semidee and link factories, alongside 10 industrial plots, is said to be completed and in the midst of gradually handing over vacant possession.

Sharing Subramaniam's sentiments, Goh is concerned about the quality of management and maintenance of the newer higher-maintenance-cost managed industrial parks, with some SMEs currently adopting a wait-and-see approach even though they can afford the upgrade.

However, in reality, a substantial number of SMEs are being priced out of these products.

"Amid the surge of large-scale, high-spec managed industrial parks, many local SMEs are increasingly being priced out of newer developments, as land and building costs, service charges and compliance requirements push occupancy costs beyond what smaller operators can sustain. This is especially evident in prime corridors such as the Klang Valley and Johor, where managed industrial parks are geared towards multinational tenants and high-growth sectors.

"As a result, SMEs are gravitating towards older industrial estates, secondary locations or fringe areas where entry costs are lower, including parts of Selangor outside core logistics hubs, Negeri Sembilan, and northern Johor, while some are opting for sub-leasing, smaller strata units or refurbishing existing premises instead of relocating to new parks," she says.

This shift is creating two tiers in the local market, Goh adds, where modern parks cater to capital-intensive users and foreign investors, while SMEs remain active in more affordable, less-specification-driven spaces, although Goh believes this may gradually widen the gap in productivity and competitiveness if smaller firms are unable to access upgraded infrastructure and facilities.

While more industrial property developers are launching new parks to capture the overall strong demand for such product, she also highlights that many new projects still lack the specifications required by modern occupiers — such as high power capacity, large floor plates, higher ceiling heights and ESG compliance — which is making demand more selective and leaving conventional formats more exposed to slower take-up and pricing pressures.

Some of the biggest red flags investors should watch for, Goh says, are rising vacancy or slower absorption in new schemes, especially in secondary locations; speculative developments without pre-commitments; uncertain utility readiness such as power and water; overly aggressive pricing assumptions; and clusters of similar, undifferentiated projects within the same area. In her view, all of these could signal future supply-demand imbalance despite an overall positive market outlook.

Conclusion

The industrial property market in Malaysia is still active and growing. However, gaps in the market are evident, whether these are in managed industrial parks or older industrial estates. Potential investors need to weigh all considerations to ensure a positive outcome in this sector. ■