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Greater Klang Valley emerges as next major data centre hotspot

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Greater Klang Valley emerges as next major data centre hotspot

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KUALA LUMPUR: Greater Klang Valley is emerging as Malaysia's next major data centre investment hotspot as operators expand their search beyond Johor amid tightening planning restrictions and growing competition for sites with ready power infrastructure.

The shift comes as the government pivots from attracting standalone data centres to prioritising higher-value artificial intelligence (AI) ecosystems that deliver broader economic spillovers.

Property consultancy JLL Malaysia said the country's data centre industry has entered a new phase, with the focus shifting from attracting investments to ensuring projects generate broader economic value and are backed by adequate power, water and digital infrastructure.

Managing director Jamie Tan said yesterday demand from hyperscale operators remains robust, but developers are no longer simply searching for industrial land.

Instead, they are prioritising powered sites with sufficient electricity capacity to support large-scale AI and cloud computing operations.

"They are still looking for land. Especially land with power supply. That's the most important aspect of that," Tan told a media conference.

He said Johor, which has attracted the bulk of Malaysia's data centre investments over the past several years, has become increasingly mature, prompting operators to widen their search.

"It used to be that data centres were looking at Johor, but the market over at Johor, as you probably know, is a little bit more saturated and there are a lot of planning restrictions in place there as well. So they are also looking towards other areas up north, especially in the Greater KL area."

He said Johor remains an attractive investment destination, but increasing competition for development-ready sites, tighter planning controls and infrastructure constraints are encouraging operators to evaluate alternative locations.

JLL senior director of capital markets & data centres Keith Eng said the country is not facing a shortage of land, but of infrastructure capable of supporting next generation digital developments.

"Land, we still have an abundance of land. But in terms of infrastructure yes, there is limited infrastructure currently available."

Eng said operators are increasingly prioritising powered sites over land alone, with electricity availability becoming a key determinant of investment decisions.

"The market in Johor has already matured and is a bit more saturated. Now the data centre operators are looking towards Greater Klang Valley where land with ready power is what they are looking for, which is not so easy to find currently."

Eng said addressing infrastructure constraints has become a key priority, with the government and Tenaga Nasional Bhd (TNB) investing to expand electricity capacity and upgrade supporting infrastructure needed to accommodate the next wave of data centre developments.

"The government and TNB are aggressively looking into investing to upgrade all the facilities."

He said infrastructure availability will increasingly determine where operators invest, but stressed that Malaysia continues to compare favourably with regional peers despite growing competition for AI-related investments.

While data centre operators are also evaluating markets such as Indonesia and Thailand, Eng said those countries face many of the same challenges, particularly in securing adequate power and water resources.

"We do also see that data centre operators are looking to Indonesia, looking to Thailand, but we believe those markets also have their own challenges and their own constraints concerning power and water. Malaysia still remains very, very attractive for these data centre operators."

Chief growth officer Christophe Vicic said Malaysia's data centre strategy is also evolving, with the government increasingly favouring projects that support AI-led economic development over standalone server facilities.

"The government has also slightly refocused the business approval for new data centres from a technology point of view. They want a high-end technology data centre."

Vicic said the objective is no longer to approve projects based solely on investment value, but to encourage developments that catalyse wider economic activity.

"In layman's terms, they don't want only the box. They want the ecosystem. They want the ecosystem to also come and contribute to the economic growth of the country."

He said the ecosystem extends beyond the data centre itself to include AI companies, cloud service providers, digital technology firms, educational institutions, logistics facilities, hotels, residential developments and supporting industries that create higher-skilled jobs and longer-term economic benefits.

As an example, Vicic pointed to the Sedenak development in Johor, where data centres are planned as anchor investments for a broader digital ecosystem incorporating hotels, residential and retail developments, logistics and industrial facilities, and schools and universities that support businesses and talent linked to the digital economy.

"They wanted the data centre with the ecosystem. This is a big difference."

He added that new projects must now obtain formal confirmation of electricity and water availability before government approval can be granted.