

Malaysia Commercial Real Estate Investment Sentiment Survey

Jan 2025

The Malaysia Commercial Real Estate Investment Sentiment Survey covers the prediction of key trends and insights in the commercial real estate market.

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- The year 2024 witnessed improved real estate market activities amid economic growth. We expect to enter the coming year with a cautiously optimistic outlook despite rising construction and labour costs.

2024 Property Market in a Nutshell

Malaysia's property market continued its uptrend, registering a total of 311,211 transactions with collective value of RM163.0 billion in the first nine months of 2024 (9M2023: 293,073 transactions worth RM142.5 billion). On a yearly comparison, the sales volume and corresponding sales value increased by 6.2% and 14.4% respectively.

In the commercial sub-sector, a total of 33,820 properties valued at RM36.2 billion changed hands during the review period, depicting annual double-digit growth rates of 16.6% in transacted volume and 32.7% in value.

Did market performance meet expectations?

The performance of the investment real estate market met the initial expectations of more than half of the respondents in 2024 while for 22% of them, it exceeded expectations. An equal 22% of respondents opined that market underperformed while the remaining 3% of respondents felt that the overall market significantly underperformed. Among the primary challenges highlighted were rising construction costs, building vacancy rates and rising interest rates environment. For retailers, brand boycotts posed another major challenge.

Current and Future Challenges

Despite the central bank maintaining the overnight policy rate (OPR) at 3.00% throughout 2024, following the 25 basis points hike in March 2023, the survey respondents highlighted key challenges during the year. These include rising interest rates, growing inflationary pressure as well as financing difficulties. Multiple risks are anticipated in 2025, including rising costs, tenant demand shift and government regulations among others. These factors will collectively raise concerns in the commercial real estate investment landscape.

The Age of ESG

ESG has become the talk of town, evident by the increasing adoption of ESG practices in long-term planning of operations / businesses. According to the survey, energy efficiency tops the priority list of green elements, followed by green building certifications. Although time is required to establish proper regulatory framework, owners / occupiers also consider their financial strength in crafting strategic approaches to proactively enhance the value and long-term sustainability of their assets.



“ The overall property market in Malaysia continued to strengthen in the first nine months of 2024, registering a total of 311,211 transactions worth RM163.0 billion. ”

Moving into 2025

The respondents were positive on the prospects of the data centre and industrial / logistics sectors moving into 2025. The rapid expansion of these sectors bodes well for the country's vast land bank. Meanwhile, other property sub-sectors such as office, hospitality and retail are expected to remain stable in terms of capital value, rental, yield and occupancy. Additionally, the respondents anticipated an upward trajectory for the rental and occupancy levels of the retail sub-sector as well as the capital values for hospitality sub-sector.

The respondents are somewhat optimistic of the outlook in the commercial real estate market, predicting data centres as the most resilient sub-sector amid changing market dynamics, tenant-driven demand and shifts in regulatory environment.

Future-proof sustainable developments will have the competitive edge when compared to conventional developments although the former require higher initial capital outlay.



GROUP MD'S FOREWORD

KEITH OOI

Group Managing Director,
Knight Frank Malaysia

During the year...

The commercial property market was more active in 9M2024, recording double-digit yearly growth in transacted volumes and values, underpinned by improved broad-based positive sentiment across all sub-sectors.

The performance of the data centre segment exceeded the initial forecasts of the respondents while the remaining eight sub-sectors met their initial expectations.

According to half of the respondents (53%), the overall real estate investment market performance met expectations. About 22% of them opined that it exceeded expectations while to an equal share of respondents (22%), it underperformed due to various factors such as economic conditions, fluctuating currency and a subdued market.



Data centre ranked first as the sector with most growth in 2024, driven by increasing demand for cloud computing and big data as well as higher e-commerce penetration / activities. The sector's expansion is in line with the growing industrial / logistics sector, which comes in at second spot. Global trade recovery has also sparked more industrial activities, hence, increasing demand for industrial real estate.

Next are the retail and hospitality sub-sectors, both of which have positively benefitted from the gradual recovery in the tourism and leisure segments.

The country welcomed 18.4 million tourists in 9M2024, generating tourist expenditure of RM73.3 billion (9M2023: 14.5 million tourist arrivals with tourists receipts of RM49.3 billion). Year-on-year (y-o-y), the number of international arrivals and corresponding tourist spend were significantly higher by 27.0% and 48.8% respectively. The number of tourist arrivals continued to grow by circa 26.4% y-o-y to record at 22.5 million as of November 2024 (January to November 2023: 17.8 million tourist arrivals).

Ranking of real estate investment sectors based on growth in 2024:

1 Data Centre	2 Industrial / Logistics	
3 Retail	6 Office	7 Mixed-use Development
4 Hospitality	8 Transit-Orientated Development	
5 Healthcare		
	9 Institutional	

One of the primary challenges highlighted in 2024 was rising construction costs, which persisted from the previous year. Growing geopolitical tension and supply chain disruption have led to the rise of raw material costs, and this has in turn inflated construction costs.

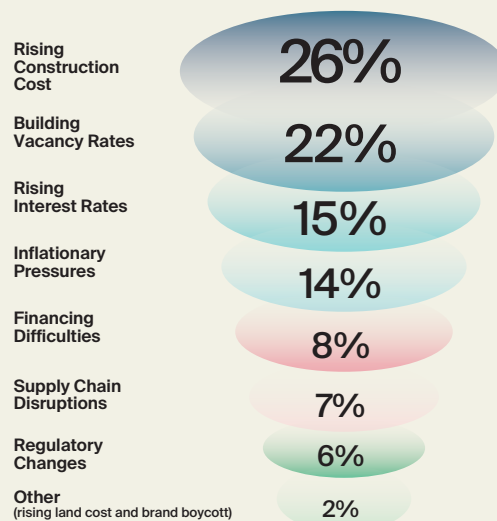
With hybrid work arrangements continuing to develop post-pandemic, coupled with the widening gap between supply and demand, challenges due to rising building vacancy rates is ranked second by the respondents.

Meanwhile, challenges on the fiscal front include rising interest rates, growing inflationary pressures and difficulties in obtaining financing.

In the retail segment, brand boycotts is a key challenge that has led to declining sales, lower rents, and in some severe instances, store closures.

“
Rising building vacancies due to the growing popularity of hybrid work arrangements continue to be a challenge for respondents.
”

Primary challenges faced by industry players in 2024:



WHAT WERE THE ADJUSTMENTS MADE TO YOUR PORTFOLIO IN 2024?

It is worth noting that majority of the respondents (48%) expanded their portfolio in the industrial / logistics sector in 2024, likely due to the concerted efforts of the government in unveiling multiple policies such as New Industrial Master Plan 2030 (NIMP 2030) and National Energy Transition Roadmap (NETR), while 39% of them maintained their industrial portfolio during the year.

The expansion of rail infrastructure such as MRT and LRT lines augurs well for transit-oriented developments (TOD) along the routes, thus, leading to the respondents' growing portfolios (44% of respondents).

In light of the market performance and challenges faced in 2024, 77% and 57% of respondents maintained the size of their portfolios in the hospitality and office sub-sectors respectively. However, in the office sub-sector, more than a quarter (27%) of respondents have downsized their portfolios while 3% have exited the market.

In the retail sub-sector, 46% of respondents have maintained the size of their portfolios, 36% have expanded, while 11% have downsized and 7% have exited the market.

For the entire year of 2024, retail sales is projected to grow by 3.9% (2023: 2.2%) buoyed by the resilience in the national economy, favourable labour market conditions and higher household spending.



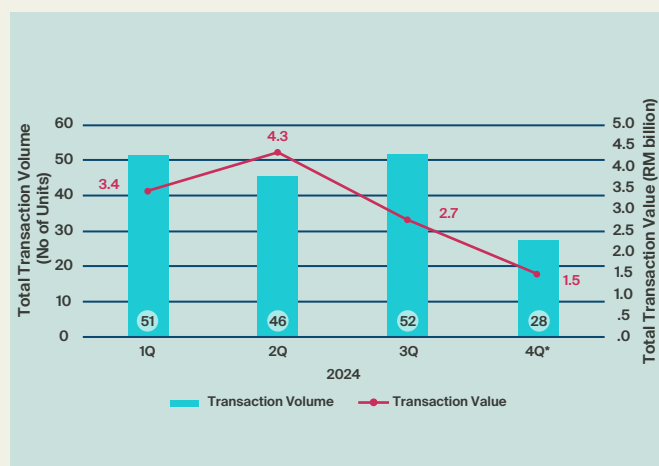
Adjustments on commercial real estate portfolio in 2024:

Sub-sector	Expanded	Maintained	Downsized	Exited Market
Industrial / Logistics	48%	39%	13%	-
Transit-oriented Development (TOD)	44%	33%	23%	-
Healthcare	12%	82%	6%	-
Hospitality	9%	77%	14%	-
Institutional	23%	59%	18%	-
Office	13%	57%	27%	3%
Data Centre	39%	56%	5%	-
Retail	36%	46%	11%	7%
Mixed-use Development	41%	45%	14%	-

NOTABLE CAPITAL MARKET TRANSACTIONS IN 2024

From January to November 2024, the country's capital market was active, registering a total of 177 transactions with collective worth of RM12.0 billion, analysed to about 14 to 15 transactions monthly with average value of circa RM67.8 million each. The market was active in the first few quarters of the year but slowed down towards the end of the year. It was also observed that despite a similar number of properties being transacted in the first three quarters, the total value of transactions in the third quarter was lower than the two previous quarters, indicating more lower-valued properties being transacted during the period.

Notable capital market transaction volumes and values in Malaysia, January to November 2024



Sources: Real Capital Analytics (RCA) / Bursa Malaysia / Knight Frank Malaysia Research
 Note: *4Q2024 captures transactions from October to November 2024 only.

January 2024 saw the acquisition of 163 Retail Park by Sunway REIT Management Sdn Bhd, the manager of Sunway REIT, for a purchase consideration of RM215 million. Following the acquisition, the mall has been rebranded to "Sunway 163 Mall".

Axis REIT continued to be active in the industrial market, particularly in the Klang region of Selangor. The REIT acquired a total of eight industrial assets with combined value of circa RM684.4 million from February to August.

Meanwhile, AME REIT's acquisitions worth RM119.5 million in total, are focused on industrial lands in Iskandar Puteri and Senai, Johor.

KIP REIT is diversifying its portfolio to include a processing plant in Sarawak, East Malaysia besides acquisitions of factories, warehouses and retail properties in Perak, Johor and Selangor.

As a major player for data centre development in Malaysia, Johor has attracted a significant number of investments from multinational corporations (MNCs), positioning it as the data centre market leader within the country. This is primarily driven by its proximity to Singapore, the spillover effects of the US-China trade war and the competitive set-up cost of data centre development - land prices, operational costs and electricity tariffs.

“ The country's capital market was active from January to November 2024, registering a total of 177 transactions with combined value of RM12.0 billion. ”

Selected notable capital market transactions (>RM200 million), January to November 2024

Date	Sub-Sector	Type of Property	Location	Land Area (acres) ⁽¹⁾	Consideration (RM)	Buyer
Jan-24	Retail	163 Retail Park	Mont Kiara, Kuala Lumpur	56.1	215,000,000	Sunway REIT
Apr-24	Industrial	Industrial Complex	Klang, Selangor	60.0	313,000,000	Axis REIT
May-24	Retail	D'Pulze Shopping Centre	Cyberjaya, Selangor	311,499 sq ft ⁽¹⁾	320,000,000	KIP REIT
May-24	Industrial	Vacant Land	Ulu Tiram, Johor	47.9	238,300,000	Bridge Data Centres Malaysia IV Sdn Bhd
May-24	Industrial	Vacant Land	i-TechValley, SiLC, Johor	34.9	209,800,000	Digital Hyperspace Malaysia Sdn Bhd
Jun-24	Industrial	Vacant Land	Kulai, Johor	123.1	402,300,000	Microsoft Payments (Malaysia) Sdn Bhd
Jul-24	Retail	Tropicana Gardens Mall	Petaling Jaya, Selangor	24.1	680,000,000	IOI Properties Group Bhd
Aug-24	Building	Vacant Land Proposed for Data Centre	Johor Bahru, Johor	922.2	383,131,544	NTT Data Group
Oct-24	Commercial	Commercial Data Center Land	Johor Bahru, Johor	38.5	239,987,765	Computility Technology (Malaysia) Sdn Bhd

Sources: Real Capital Analytics (RCA) / Bursa Malaysia / Knight Frank Malaysia Research

Note: (1) D'Pulze Shopping Centre is held under strata titles, as such estimated net lettable area (sq ft) is recorded. For the other transactions, land area (acres) are recorded.

PREDICTIONS FOR 2025

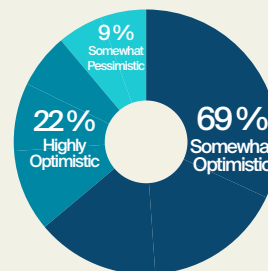
“The industry players expressed an optimistic outlook on the real estate investment market in 2025, underpinned by favourable Foreign Direct Investment (FDI) flows into the country and the resilient economic landscape.”



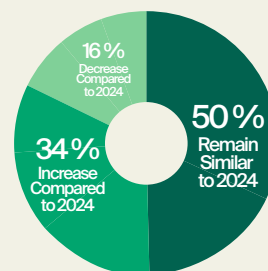
Almost all (91%) the respondents were optimistic on the prospects of the investment real estate market in 2025. As such, the survey findings revealed the respondents' interests to either explore or expand their investments in selected asset classes. The exceptions include office, retail mall, branded serviced residence and hotel / boutique hotel, likely due to challenges and subdued market conditions. Other non-favourable asset classes include theme park, MICE and sports facility / stadium.

About a third (34%) of the respondents indicated that their organisations have set higher allocations for investment into the commercial real estate sector in 2025, signalling improved optimism. Half of the organisations will maintain the size of their investments while the remaining respondents (16%) have smaller allocations.

How do you feel for the property market sentiment in 2025?



Allocation size for commercial real estate investments in 2025:



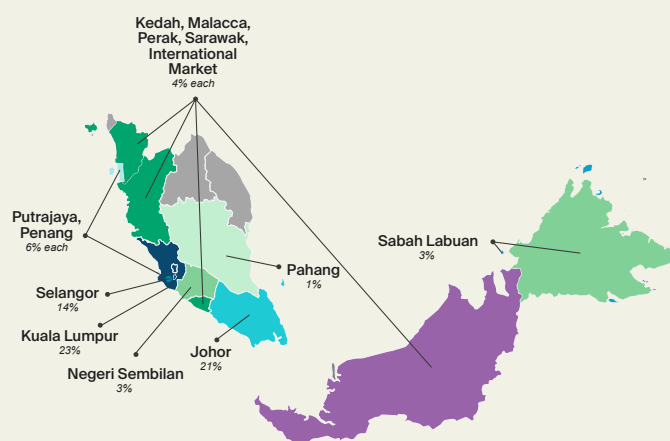
Sub-sectors that industry players are likely to expand / explore next year:

Expand / Explore	Exception
Retail Outlet	Office
Data Centre	
Industrial / Logistics	Retail Mall
Serviced Suites	
Hotel / Boutique Hotel (50%)	Branded Serviced Residence
Mixed-use Development	
Transit-oriented Development	Hotel / Boutique Hotel (50%)
Healthcare / Medical Centre	
Senior Living	Sports Facility / Stadium
Workers' Accommodation	
Students' Accommodation	Theme Park
School / University Campus	
	MICE

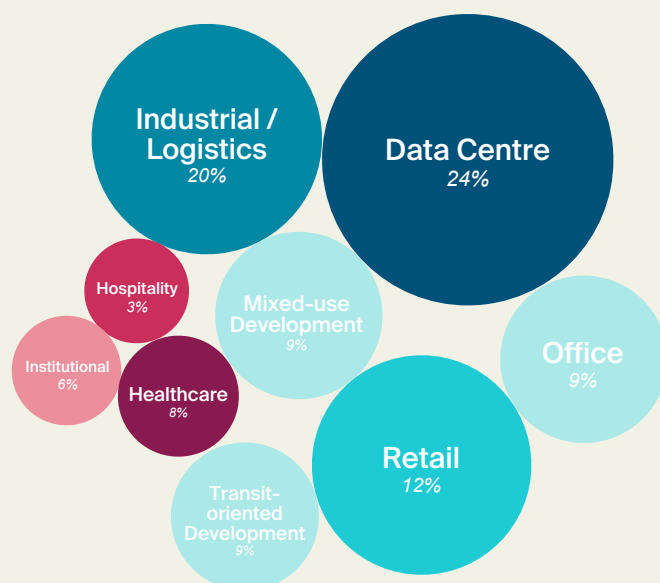
Similar to our findings from the previous survey, the preferred regions for investments / developments / provision of financial services remained in Klang Valley - Kuala Lumpur & Selangor (37% of respondents) and Johor (21% of respondents). Klang Valley continued to be the leading preference given its status and role as the national CBD and key economic hub. For Johor, the Johor-Singapore Special Economic Zone (JSSEZ) and data centre developments are expected to be the key areas of focus evident by the proliferation of land acquisition activities for data centre developments observed in the state in 2024.

Majority of the respondents opined that the most resilient sub-sector next year will be data centre (24% of respondents), followed by industrial / logistics (20% of respondents) and retail sub-sectors (12% of respondents).

Preferred focus region for investment / development / provision of financial services in 2025:



The most resilient commercial real estate sub-sectors next year:

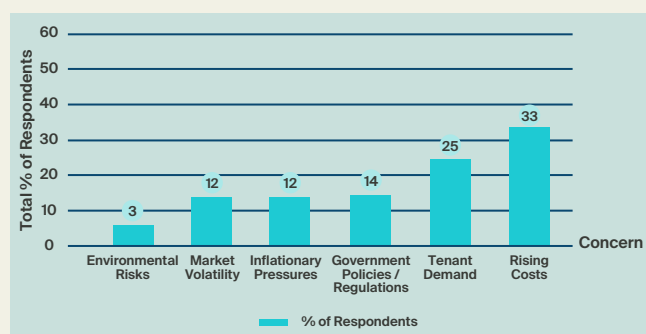


Moving forward, the issue of rising costs in construction remains a primary concern for a third (33%) of the respondents. The increase in prices of construction materials coupled with the new minimum wage as announced in Budget 2025 (higher labour cost) further elevate the concern.

Additionally, the abundant supply of commercial space heightens competition. The tenant-led market amid widening gap in supply and demand is another main concern of the respondents (25%).

Government policies and regulations (14% of respondents) took the third spot on the factors of concern by industry players, while inflationary pressures and market volatility (12% of respondents each) appeared as an equal concern moving into 2025.

Primary concerns regarding commercial real estate investments in 2025:



Nevertheless, 75% of respondents opined that the FDI outlook for the country remains favourable to the commercial real estate in 2025. During 9M2024, the overall approved private (domestic and foreign) investments totalled RM254.7 billion, an increase of 10.7% from a year ago (9M2023: RM230.2 billion).

Malaysia's economic landscape is expected to be on the upward trajectory, supported by robust growth in GDP (9M2024: 5.2% y-o-y growth) and strengthening of the labour market (unemployment rate in 9M2024: 3.3%)

What are the factors likely to influence the commercial real estate market performance in 2025?

Factors	Favourable	Neutral	Unfavourable
FDI in Malaysia	75%	25%	--
Malaysia Economic Landscape	69%	28%	3%
Business Condition Index (BCI)	22%	75%	3%
Yield & Return	31%	66%	3%
Availability of Good Stock / Investment Opportunities	38%	62%	-
Budget 2025	22%	62%	16%
Consumer Sentiment Index (CSI)	22%	62%	16%
Digital Frontier	44%	56%	-
Improved Labour Market	31%	56%	13%
Government Policies	47%	50%	3%

MARKET PERFORMANCE FORECAST IN 2025

Capital values by sub-sector

About 60% and 57% of respondents believed that the industrial / logistics and hospitality sub-sectors will experience capital appreciation in 2025, respectively. Correspondingly, 71% and 52% of the respondents expect capital values in the office and retail sub-sectors to remain stable, respectively.

Sub-sector	Decrease	Stagnant	Increase
Office	8%	71%	21%
Retail	-	52%	48%
Data Centre	-	50%	50%
Industrial / Logistics	-	40%	60%
Hospitality	14%	29%	57%

Transaction cap rates / yields

More than half (> 50%) of the respondents expected cap rates and yields to remain stable across all the selected sub-sectors in 2025. However, concerning the office sub-sector, 17% of them opined that there may be yield compression as the substantial supply of existing and incoming spaces impact performances of these assets.

Sub-sector	Decrease	Stagnant	Increase
Office	17%	62%	21%
Retail	-	57%	43%
Data Centre	-	50%	50%
Industrial / Logistics	-	50%	50%
Hospitality	-	57%	43%

Rental / Average daily rates

80% of respondents were confident that rental rates in industrial / logistics sub-sector will experience further growth in 2025, fuelled by the active market activities and increasing demand for modern industrial spaces. Similarly, 57% of respondents foresee a rise in retail rental rates, lifted by improved consumer spending and tourism activities. On the other hand, rental rates for office and data centre sub-sectors as well as the average daily rates for the hospitality sub-sector were predicted to remain stable.

Sub-sector	Decrease	Stagnant	Increase
Office	17%	58%	25%
Retail	5%	38%	57%
Data Centre	-	100%	-
Industrial / Logistics	-	20%	80%
Hospitality	14%	57%	29%

Occupancy rates

The positive outlook for both the industrial / logistics and retail sub-sectors is reflected in the prediction of occupancy rates, where 70% and 57% of the respondents respectively, believed in potential upsides in occupancy rates.

Conversely, the occupancies for offices (58% of respondents) and data centres (100% of respondents) are expected to remain stable despite high existing supply and influx of new supply respectively.

A mixed view was observed in the prediction for the hospitality segment. While the rise in tourism activities is expected to positively impact the asset class, the variety of supply options may limit its upward growth, thus keeping occupancy rates at bay.

Sub-sector	Decrease	Stagnant	Increase
Office	13%	58%	29%
Retail	19%	24%	57%
Data Centre	-	100%	-
Industrial / Logistics	-	30%	70%
Hospitality	14%	43%	43%

PREDICTIONS ON MARKET SENTIMENT IN 2025

Sub-sector	Overall Sentiment	Contributing Factor	Challenging Factor	Mixed Views
Office	↔	1. Malaysian economic condition 2. Preferred location for regional hub 3. Rental rates 4. Public transportation / accessibility 5. ESG awareness & compliances	1. Workforce / labour force 2. Supply of new office towers 3. Availability of existing space 4. Availability of co-working space 5. Occupancy rates 6. Hybrid working arrangement	1. Change in workspace preferences 2. Cost-saving strategies / right-sizing office space
Retail	↑	1. Malaysian economic condition 2. Subsidies, cash assistance and incentives 3. Employment rates 4. Household income / consumer spending trend 5. Rental rates 6. Public transportation / accessibility 7. Tourism activities 8. Retailers' activities 9. New-to-market retailers and concept 10. Consumers' shopping preferences	1. Consumer Sentiment Index (CSI) 2. Supply of new retail mall / outlet 3. Availability of existing shopping malls 4. Occupancy rates 5. ESG awareness & initiatives	-
Data Centre	↔	1. Malaysian economic condition 2. Government policies 3. Manpower / labour 4. Availability of fund 5. Growth in e-commerce	1. Infrastructure readiness	1. Availability of land 2. Growth in digital services 3. ESG awareness and compliances
Industrial / Logistics	↑	1. Malaysian economic condition 2. Global commodities prices 3. Government policies 4. Manpower / labour 5. Availability of industrial land / properties 6. Foreign direct investment 7. Import and export 8. Growth of e-commerce 9. Growth of Electrical and Electronics (E&E) sector 10. Growth of Electric Vehicle (EV) industry 11. Growth of healthcare / medical technology industry 12. Expansion of warehouses and distribution facilities 13. Global supply chain 14. China Plus One strategy	1. Tariff barrier	1. Availability of fund 2. Industrial Production Index (IPI) 3. ESG awareness and compliances
Hospitality	↑	1. Malaysian economic condition 2. Government incentives / stimulus 3. Travel fairs / exhibitions 4. Supply of new hotels 5. Occupancy rates 6. Average daily rates 7. Average length of stay 8. International tourists' activities 9. Domestic tourism activities 10. Business travel activities	1. Availability of existing hotel 2. Operating expenses 3. Competition from AirBnB and other shared services	-

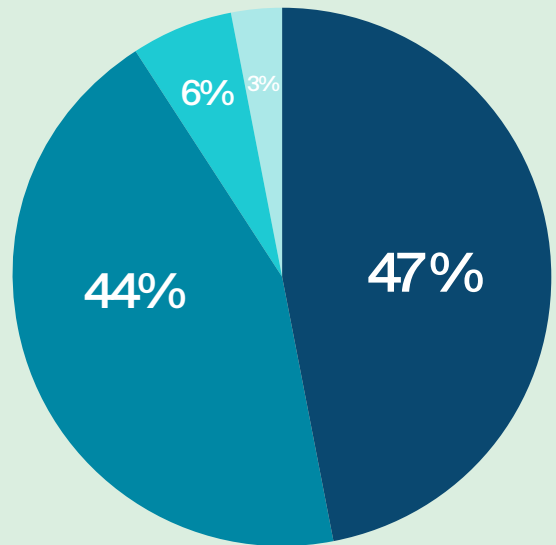
PRIORITISING ESG IN FUTURE ADVANCEMENT

There is growing interest in the ESG agenda across all business activities globally with 91% of respondents indicating its importance. About a third (34%) of the respondents shared that their organisations have fully integrated ESG principles into their businesses. Meanwhile, the organisations of the remaining two-third (66%) of respondents have partially integrated ESG principles where selective material topics are incorporated in their business decision-making and reporting.

The top 3 prioritised green elements are attributed to the Environment aspect of the ESG. This aligns with the net zero carbon goal set during Paris Agreement in 2015 which highlighted that carbon emissions need to be reduced by 45% by 2030 and reach net zero by 2050. In 2019, the UK government became the first major economy to pass a net zero emissions law, which requires the country to reach net zero by 2050. Carbon tax was introduced to generally de-incentive carbon emission activities and incentivise low-carbon activities. The European Union (EU) also introduced Carbon Border Adjustment Mechanism (CBAM), a regulation (tariff) that aims to reduce carbon emissions and encourage cleaner industrial production.

In line with global trends, Malaysia will soon adopt similar regulations as highlighted in Budget 2025, with the introduction of a carbon tax. This will be implemented by 2026, on iron and steel as well as the energy industry to encourage the use of low carbon technology. Revenue from the tax would be used to fund green research and technology programmes. This manifests the country's commitment and effort in reaching the net zero carbon goal.

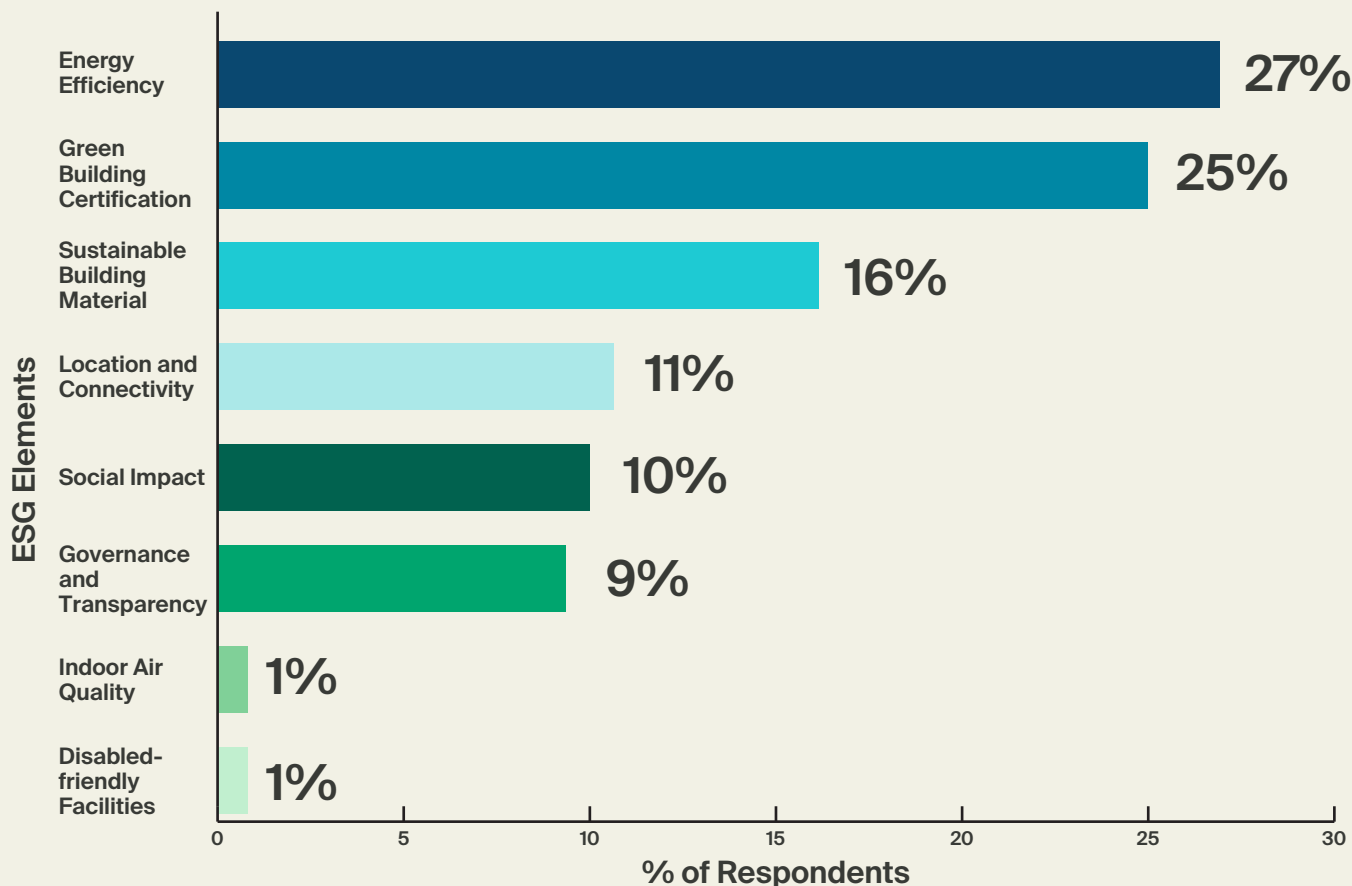
The importance of ESG in your investment decisions making



● Extremely important ● Somewhat not important
● Somewhat important ● Extremely not important

“ About a third of the respondents shared that their organisations have fully integrated ESG principles into their businesses. ”

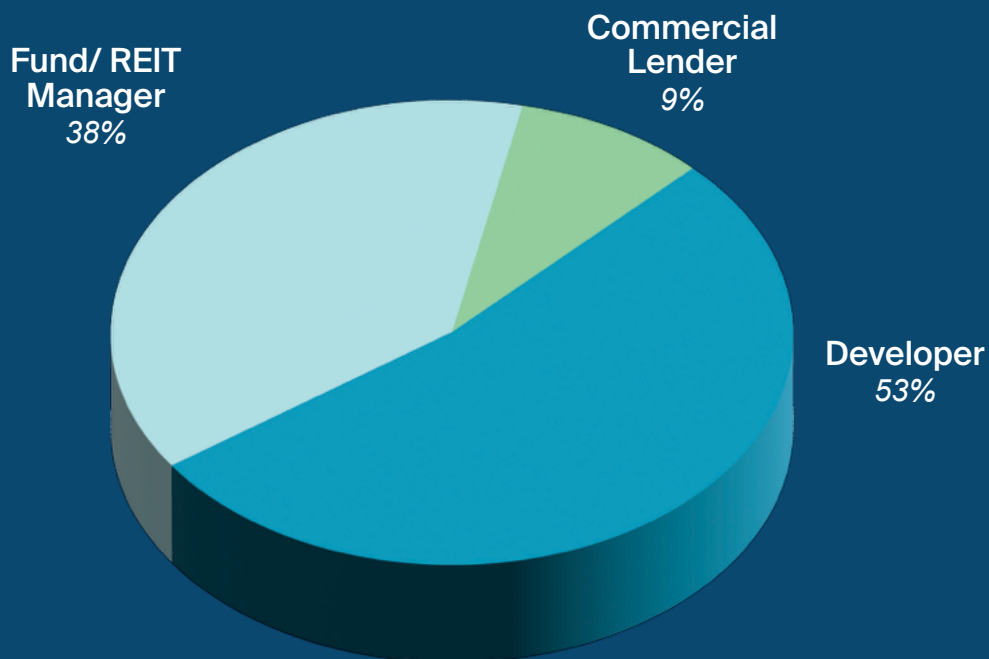
Key ESG Priorities in 2025: Ranked by Importance



PROFILE OF RESPONDENTS

The respondents for this annual survey comprise of representatives in senior management level across the Malaysian commercial property industry. Developers made up more than half of the respondents (53%), followed by Fund / REIT Managers (38%) and Commercial Lenders (9%).

Respondents' Primary Businesses



Circa half of the respondents' commercial real estate projects are located in Klang Valley (51%), with the remaining top 3 states being Johor (12%), Penang (10%) and Malacca (9%).

Real Estate Assets / Land Bank by Location



Note: *Others include Federal Territory of Putrajaya, Kelantan, Negeri Sembilan, Pahang and Sabah.

We like questions.
If you've got one about our research,
or would like some property advice,
we would love to hear from you.

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Real Estate Highlights



The Age of ESG



Data Centre Research
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