Kuala Lumpur City Spotlight 2020

Kuala Lumpur is Asia’s fourth cheapest city to build in, according to this year’s International Construction Costs Comparison. The position is remaining at the tail-end of the ranking amongst a regional cluster with Indian cities.

Construction Activities

Malaysia’s GDP was 4.3% in 2019, slightly down from 4.7% in 2018. The forecast for 2020 is -0.1% against the backdrop of growing uncertainty over the duration and overall impact of the Covid-19 outbreak. Household spending, private investment and tourism are the major factors driving the Malaysian economy. Construction activity was flat in 2019, with only marginal growth of 0.1%. Political change and subsequent delays to major public infrastructure spending played a role in the lacklustre growth. Materials costs could be affected by a disruption of imports from China. Prices fell by 3% in 2019 and are forecast to recover by 0% to 1%, in 2020.

The Malaysian government has made considerable progress to expand and modernize its infrastructure throughout the country. This effort is evident by the five-year centralized economic development plan known as the Malaysia Plan, whereby public sector infrastructure development consistently holds the largest funding portion. Strategic public and private sector collaborations in implementation and financing will also further facilitate the Malaysia’s capital-intensive construction industry.

Market Challenges

Malaysia’s 2019 home ownership campaign did little to boost demand. Political stability could usher in growth in both private and public investment over 2020, with a shift towards affordable housing and an effort to restart stalled infrastructure projects. The retail and commercial sub-sectors will contract in 2020. Labor costs are expected to be the main driver of inflation, with earnings growth underpinned by a statutory minimum wage. The COVID-19 outbreak is hitting the country economy. The tourism, transportation and aviation sectors as well as small and medium enterprises will be most affected by the outbreak. As an oil producing country, the collapse in the oil price will also mean reduced resources to spend on the development activities.

Digital Technology

The use of digital technology is at the early stages of adoption in Malaysia with the government working together with professional bodies and private companies to promote the use of digital technology in the industry. Therefore, the government would also introduce the 5G Ecosystem Development Grant worth RM50 million to accelerate technological development by companies in the wake of the 5G technological advancement globally.
Multiple factors influence a city's position in the index. The main factor is the level of specification and quality, which can vary over time. For example, the costs of high-end hotels and residential buildings have increased significantly in cities such as London, reflecting a global market for luxury developments that only affects a small sub-set of the cities.

Comparing costs across countries such as the United States and the UK highlights that even when specifications are relatively similar, there is still plenty of scope for variation. Explanatory factors include the cost of labor, materials and other construction resources. Some countries with a fragmented construction supply chain will have many more levels of sub-contractors – each adding extra allowances for 'on-costs', including management, risk and profit. These additional layers of on-cost contribute to premiums in some locations.

Productivity is also an important consideration. Continental Europe has a very productive construction sector, which benefits from a focus on high levels of mechanization and the use of simple, effective construction techniques. Lower-cost, US markets also achieve relatively high levels of productivity compared to some higher-cost locations.

Finally, currency fluctuation and annual inflation will always play a role in determining the relative position of cities. Given recent dramatic changes in the value of global currencies, clients are advised to review currency movement before applying the published factors.
Methodology

Arcadis developed its comparative cost comparison index for 100 cities, covering 20 building functions, based on a survey of construction costs, review of market conditions and the professional judgement from its global team of experts. Ranges of indicative prices for each building function are collected for each city. Low and high range costs are converted into US Dollars (USD), normalized and indexed against the price range for each building type for Amsterdam, where Amsterdam = 100. Average low and high index ranges are calculated for each city based on the 20 building types.

The data was collected between December 2019 and February 2020.

Costs used to calculate the index are based on buildings delivered to local specification standards, meeting both functional requirements and quality expectations. As a result, while the index compares the relative costs of delivering the same building functions in a city, it also reflects the different levels of quality expectation reflected in a specification.

The index does not take into account purchasing power parity. The construction cost data used in this index is current as of Q1 2020. The exchange rates used to calculate the index were current on 13th February 2020.

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