7th. PACIFIC RIM REAL SOCIETY CONFERENCE
JANUARY 21-24TH, UNIVERSITY OF SOUTH AUSTRALIA, ADELAIDE, AUSTRALIA

THE EFFECT OF RESTRICTIONS IN INTEREST ON INDIGENOUS LAND MARKET IN KUALA LUMPUR - AN INSTITUTIONAL ECONOMICS PERSPECTIVE

ISMAIL OMAR, PhD
Centre for Land Administration Studies (CLAS), Faculty of Engineering and Geoinformation Sciences, Universiti Teknologi Malaysia,
81310, Johor Bahru, Malaysia.
Ph: 006 07 550 2805
Fax: 006 07 5566 163
E-mail: ismail@fksg.utm.my

Synopsis

The economic growth of about 8.0 per cent from 1990 up till 1997 had witnessed the increasing trends in property market in Malaysia. Unexpectedly, the Asian region had undergone a financial turmoil since mid-1997. As a result, the financial crisis had adversely affected the property market in Kuala Lumpur. Beside the economic recession and property market slump since mid-1997 to 1999 due to financial crisis, the general market of development land is restricted by land supply constraints in Kuala Lumpur. This is due to certain customary lands with restrictions in interest which limit the market among indigenous people only. The implication of formal restrictions in interest affect the trends in its property market. Therefore, the indigenous property market scenario may be explained by looking at institutions and their changes affecting them. The paper seeks to examine the implications of formal restriction in interests on the supply of indigenous land beside the pressure for more land for housing development in Kuala Lumpur. In the study, the paper reveals that the restrictions in interest limit the demand for and restrict the supply of land for development purposes. The way is through formal and informal landowners' behaviour which restrict the supply of land for development purposes in the case study areas. However, the geographical factors play important role in verifying the impact of institutions where property located along prime roads with commercial land uses are less affected compared to residential land at the inferior locations.

Keywords – institutions, institutional economics analysis, indigenous property market, land supply constraints.

1.0 Property market analysis - an institutional perspective

In its broadest context, institutions are defined as 'the rule of the games' (North, 1996). A sets of rules or institutions range from formal rules within social, economic and political system to informal custom and traditions which govern human social interaction (Healey, 1992; North, 1996). This means that institutional economics is concerned with collective behaviour of people so that their decisions and actions could be modified collectively (Graaskamp, 1992). As institutions are conceived as rules which facilitate and/or constrain human behaviour in the market process, institutionalists dealt with institutional changes of various organisations, individual behaviour within broader social, political and economic forces.

Institutional economics analysis emphasis the importance of formal and informal institutions in property market analysis (Keogh and D'Arcy, 1998). These institutions were neglected by the mainstream economics in explaining the dynamics of property market (Krabben, 1995; Ismail, 1999).

Institutional economics analysis, in particular, the new institutional economics analysis, therefore, pays a much richer insight into the theorisation of the land supply constraints within the context of property market process. North (1996) for example, has generally categorised the institutional constraints within the formal and informal rules affecting human agents' performances. On the one hand, the formal constraints are to include written rules such as land policy and regulations which may constrain and/or initiate human decisions in the supply of land for development. The unwritten or informal rules, on the other hand, is to include culture, values, tradition and perception which may restrict the land from being available in the market for development purposes (Healey, 1992; Ismail, 1999; Ismail, 2000a; Krabben, 1995).

The theoretical framework of the institutional economics analysis models is, therefore, able to address the whole range of constraints in relation to the potential significant influences by various actors in the market process such as policy and organisations of agents and their intermediaries, the flows and forms of finance capital and other external factors. As such, the new institutional economics analysis is generally, and indirectly covers the whole range of formal and informal rules affecting the dynamics of the market. In this context, formal rules of policy and regulations and informal of agents' collective behaviour may be leading to institutional constraints which are able to adequately explain the nature of land supply in the market.

Since institutionalists consider rules and agents' behaviour in analysing the property market (Keogh and D'Arcy, 1998; Krabben, 1995), the notion of institutions is used to examine the indigenous land supply constraints within the residential property market in Kuala Lumpur. Even though, institutionalism is too descriptive and too difficult to evaluate in a conventional scientific way (Mair and Miller, 1992), it has adequate capability to analyse and evaluate the implication of formal and informal institutions affecting the dynamics of land supply in the market (Ismail, 1999, 2000a, 2000b).

2.0 Overview of the economic development and property sector in Kuala Lumpur

The property market in Kuala Lumpur is dependent on the economic development of the country. The economic cycles have established phases of property market in Kuala Lumpur showing the way supply and demand for property responded to changes in the economy and land policy since independence in 1957 (Property Market Report 1996; Rahim & Co Research, 1992).

After independence in 1957, the Malaysian economy had grown substantially. However, political instability and weak performance of the world economy during the 1960s affected the economic sustainability of the country which resulted in a decline in general of the property market. The introduction of the New Economic Policy (NEP) in the 1970s, had a positive effect of improving the property markets when residential sector showed signs of recovery. As a result, there was a boom in the property market in 1973. Unfortunately, the oil crisis and the world recession in mid-1970s affected the Malaysian economy and property market.

The early 1980s showed a recovery and an active participation by both overseas and local corporate investors in the property sectors. Developers, for example, undertook land development activities in an active way, fuelled by the financial capital inflow. As a result, many land development activities took place during 1980 and up to 1983. Even though there was a sign of over supply in 1984, developers continued to build for the attractive prices in the long term. Then, in late 1984, a sign of recession emerged with tight liquidity, high interest rates, a slow commodity market and rising vacancies. From 1985 to 1987, as the recession continued, market and rental prices fell, and over supply rose further in all property sectors. However, towards the end of 1988, a massive foreign investment was encouraged into the country. As a result, there was a turn around in 1989 which marked the beginning of another boom in the property market. This continued until mid-1997 with a steady economic growth of more than 8.0 per cent per annum. In the late 1997, however, the economic growth had a slower pace of 7.4 per cent due to the financial crisis in the far eastern region (Property Market Report, 1998). In 1998, the gross domestic product (GDP) indicated a negative rate of growth between 2.8 to 6.8 per cent (Malaysian Property Price Index, 1999). However, the economic grew at about 1.0 per cent since the third quarter of 1999 and it was expected to grow at about 5.0 per cent by the year 2000.

The economic measures such as fiscal and legal exemptions, incentives and restrictions affect land development and property investment decisions. In early 1984, a restriction on foreign landownership was imposed to amend the National Land Code (1965) due to an influx of overseas purchasers in certain urban areas. The restriction was on certain types of property and it imposed a levy for certain residential property. However, the restrictions were repealed in 1987 during the recession and, then were amended again in 1991 when the economy recovered (Usilappan, 1997). As a result of the financial crisis since mid-1997, the levy for certain residential properties were lifted again to improve the confidence of foreign and local investors in the property market (Property Market Report, 1998).

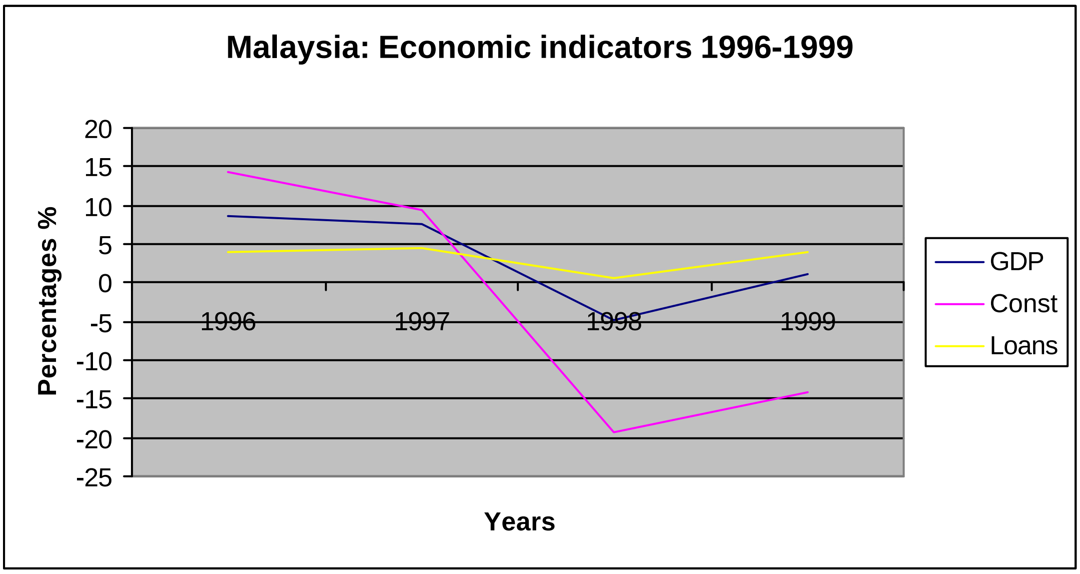

Figure 1: Malaysia – economic indicators 1996-1999
Source: Adapted from Property Market Report 1998-1999

Figure 1 above shows some indicators of economic performances of Malaysia. Among others, the figure shows the scenario before and aftermath of mid-1997 financial crisis. The gross domestic growth decreased from 8.6% in 1996 to 7.7% in 1997 and further decreased to negative growth of 6.8% in the third quarter of 1998. However, it is improved to about 1% positive growth by the end of 1999. Similar trends happened in the growth in construction industry. In 1996 the growth in construction was at 14.2% and decreased to 9.5% in 1997 and the financial crisis was responsible for the worst situation of construction sector with negative 19.2 growth in 1998. However, trends in loans provided to real estate sector was about parallel to those GDP where in 1996 the growth was at about 4% before decreased to 0.6% in 1997 then, with promotion and liquidity in real estate sector, loans percentage grown to about 4% in 1999.

Since the mid-1997 financial crisis affecting Asian region, there were measures to alleviate the effect s of the regional financial crisis. Among the measures were in the form of monetary and fiscal policies by lowering interest rates to increase liquidity. Then new rules relating to currency and stock markets were introduced. An asset management company, Danaharta, was established to take over bank's non-performing loans, which led to the amendment of the National Land Code 1965 to expedite property loan recovery by Danaharta. At the same time, Danamodal, a special-purposes vehicle, was set up to undertake bank recapitalisation (Property Market Report, 1998). These measures were undertaken to restructure the banking sector and to maintain tight monetary policies i.e to keep the ringgit stable. At the same time, the measures on short term speculators ensures that control on short terms capital flows invested in the country.

In the first quarter of 1997, about 31.3 % out of total loan was to the property sector. It was increased to 35.1% in the third quarter of 1998. Loans to real estate sector dropped by 3.8% in 1998 compared to 4.3% in 1997. However, loan for purchase of residential property increased from 7.9% in 1997 to 9% in 1998. Loans to higher medium increased from 1.7% to 2.7% from 1997 to 1998. In 1997 and 1998, levies on foreign landownership have been removed for houses priced at RM250,000. It is, however, too early to gauge the overall impact of the new measures on the nation's property market. The foreign investors' should be made confidence to restore longer term investment in the country. However, the trends in the overall property market sectors were already suffering from an extensive oversupply (Property Market Report, 1998).

Therefore, trends in the property market are dependent on the economic situation in the country. This can be seen in terms of demand and supply interaction which resulted in the property transactions in the property market. The trends in property transactions in Kuala Lumpur from 1990 up to 1999 are also similarly influenced.

Trends in the property market in Kuala Lumpur

Trends in the property market in Kuala Lumpur are dependent on the economic situation of the country. It can be seen in terms of demand and supply interaction which resulted in the property transactions in the market. The trends in property transactions in Kuala Lumpur from 1990 up to 1999 are also similarly influenced.

(i) Property transactions in Kuala Lumpur (1990 to 1999)

The volume of property transacted indicates the level of effective demand for property in the market. The increasing trend in property transactions coincides with the upturn in the property cycles for Kuala Lumpur. Therefore, this section considers the values and volumes of property transactions in Kuala Lumpur to reflect the demand for property at a given period of time.

Alongside the economic recovery in 1990, there was RM16.6 billion total value of property transacted with the total volume of 165,000 units. In 1996, however, the value of property transacted in Malaysia was almost triple at RM49.0 billion with total units transacted of 271,000 (Property Market Report, 1997). In terms of value transacted, this shows a huge average increase of almost 195.0 per cent per annum over seven years. In contrast, the average increase in total unit transacted was about 65.0 per cent per annum within the same period. It was reported that in 1997, the total number of transactions was increased by 1.8 per cent and the total values transacted was 8.4 per cent higher than 1996 (Property Market Report, 1998). The increasing trends in residential property transaction had continued to grow by about 20.2 per cent from 1998 to 1999 (Property Market Report, 1999).

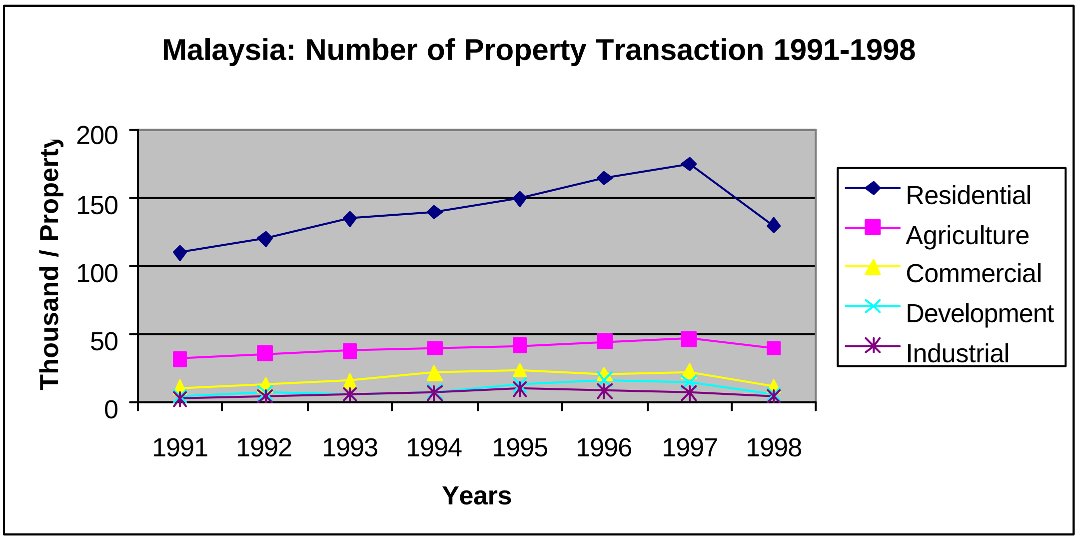

Figure 2: Property Market Scenario in Kuala Lumpur 1991-1998
Source: Property Market Report 1990-1998.

In Kuala Lumpur, the total number of property transactions from 1995 to 1996 showed a marginal overall increase of 1.9 percent and from 1996 to 1997, the total number of property transacted increased by 6.5 per cent and 6.1 per cent increases in the total value (Property Market Report, 1998). The value of property transacted in all sectors except industrial, rose steadily by 15.0 per cent from RM5.51 billion in 1995 to RM6.34 billion in 1996 (Property Market Report, 1997). In the early 1997, the property sector continued to grow and benefit from the low inflation and capital appreciation. It was reported that during the first seven months of 1997, a total of 156,213 real estate transactions valued at RM27.8 billion were registered which showed an increase of 10.7 per cent compared to 31.6 per cent during the same period in 1996 in Kuala Lumpur (The Star, 20 October 1997). This indicates a moderate growth rate for property sector. Since mid-1997, the financial crisis hits the property sector which resulted in the downwards trend in the Kuala Lumpur property transaction. Despite recession, it was reported that residential property sales had been added up to RM316.2 million during the first half of 1999 (Property Market Report, 1999).

The residential sectors dominated the property market with increases in the volume and value of transactions, while the commercial sector recorded a slight decline from 1995 to 1997. In 1996 the number of residential property transactions in Kuala Lumpur increased by 5.8 per cent from 1995. In 1997, the increase in the number of residential property transaction was 7.8 per cent which was dominated by demand in terraced houses (Property Market Report, 1998). In the first of 1999, residential prices in Kuala Lumpur were mixed with terraced units enjoyed price increases of about 30.0 per cent and drops of up to 16 per cent dependent on location and types (Property Market Report, 1999). In the commercial sector, the number of transactions decreased by 5.1 per cent between 1995 to 1996. In contrast, the office market in Kuala Lumpur sustained its performance with the increasing demand at suburban locations. In 1997, the retail property market remained stable with a slight price increase of shophouses in suburban areas. While in the industrial property sector, a sharp increase of 16.7 per cent was recorded in the number of transactions from 1995 to 1996. However, the industrial sector was not active from 1996 to 1997 due to the scarcity of suitable land. From 1996 to 1997, the volume of transactions in industrial property dropped by 9.0 per cent (Property Market Report, 1998). In contrast, the number of transaction in the development land increased by 18.8 per cent during 1996 to 1997 and mainly dominated by transactions in the urban fringe areas. Generally, prices of development land increases by 38.0 per cent reflecting the trends in redeveloping shophouses and old buildings due to the shortage of vacant sites (Property Market Report, 1998).

Despite the increasing trend in the demand for property in Kuala Lumpur during 1990s, the trend in supply of land for development indicates a slightly different scenario, especially in residential and development lands which remained inadequate in the market. The following section discusses the supply of land for development during the 1990s in Kuala Lumpur.

(ii) Planning approvals for development in Kuala Lumpur (1991-1996)

Trends in planning applications to develop land have been encouraged by incentives provided by the government. For example, during the 1990 to 1994 period, the Kuala Lumpur City Hall had encouraged quality land developments in Kuala Lumpur. However, at the same time, measures were imposed to control the supply of office buildings, and high rise office developments in Kuala Lumpur have been frozen since 1990. In contrast, hotel and condominium developments were given incentives for the preparation of the Visit Malaysia years in 1994. There are also development gain exemptions, flexibility in density and reduced property taxation. A massive land acquisition of Kampong Baru indigenous land areas for redevelopment was proposed in early 1991 but this was cancelled in 1992 due to land supply constraints. In 1992, the policy on the restriction of office development was reviewed. However, the restrictive policy was re-introduced in 1995 and 1996. In addition, more stringent controls and restrictions on land conversion and building heights were imposed from 1996 onwards. These resulted in a moderate and steady progress of planning application and development activities from 1992 to 1996 as shown in Figure 3.

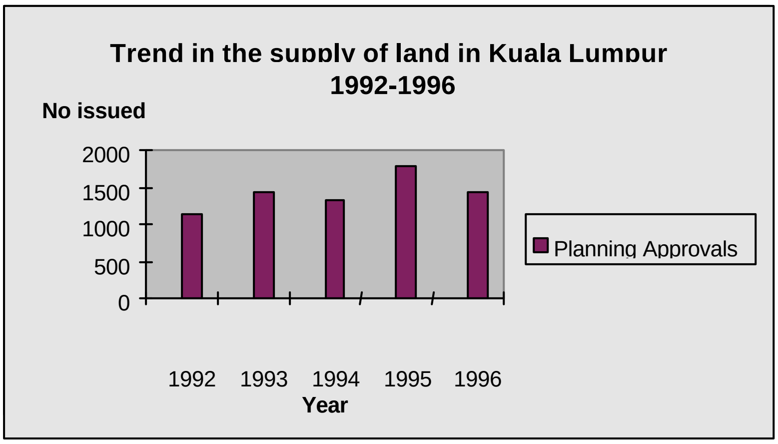

Figure3:
Number of planning approvals and development orders issued by Kuala Lumpur City Hall 1992-1996
Source: Kuala Lumpur City Hall, 1993-1997.

Figure 3 shows that the largest number of planning applications were approved during 1993 and 1995. The flexible procedures and fiscal exemptions had increased about 15.3 per cent of the number of planning applications for construction of new building from 1992 to 1996. However, a more stringent policy on land use conversion in 1993, resulted in a decrease in planning approvals to convert land use for development purposes of 45.0 per cent from 1992 to 1993. As a result of the enforcement of planning and land development policies, the aggregate trends in planning approvals from 1992 to 1996 shows a decline about 25.7 per cent during the five years period. By the same reasons, the numbers of development orders issued by Kuala Lumpur City Hall decreased by 16.3 per cent from 1992 to 1996.

The approvals of the planning applications for development indicates the level of effective supply of land to be developed in various types of development in Kuala Lumpur from 1992 to 1996. As shown, the rising trends in construction industry coincides with the economic growth of the country from early 1992 to 1996. However, during the same period, the planning approvals for development in Kuala Lumpur showed a downward trend. Therefore, judging from the economic growth and a stable construction industry during the period, decreasing trends in planning approvals for development indicated insufficient aggregate supplies of land to meet the increasing demand for development in Kuala Lumpur.

The supply of development lands may be improved by finding new sites within the surrounding areas of Kuala Lumpur or removal the constraints, which in turn may, help sustain the economy. Among the solutions are that the constrained and unproductive lands have to be considered for alternative use rather than left vacant. One of the solutions is to identify land supply constraints and find solutions to remove the difficulties and, hence, make the land ready for construction (Hanif, 1994; Ismail, 1999).

(iii) Trends in demand for and supply of development lands in Kuala Lumpur

Despite the increasing trend in prices, the development property market has also been affected by the economic recession in the mid-1980s. In 1984, Jalan Raja Abdullah in Kampong Baru witnessed a transaction of RM915 per square metre of vacant development lands. Lands with detached houses in secondary locations have been purchased at a range of RM323 to RM377 per square metre. In 1985, many development lands were transacted within the range of RM1,977 to RM2,240 per square metre in the central area of Kuala Lumpur. Land suitable for residential development of blocks of flats was transacted within the range of RM826 to RM882 per square metre in 1985 when a piece of land for commercial development was sold at RM2,540 per square metre. In 1986, only one transaction was recorded in the central area of Kuala Lumpur at RM1,614 per square metre (Property Market Report, 1987). This indicated a very depressed and difficult market in the central areas of Kuala Lumpur during the recession in the 1980s. From 1988 to 1992, however, development land prices in Kuala Lumpur land escalated. Lands in central areas were sold at RM2,152 in 1985 and peaked at RM6,456 per square metre in 1991. In 1992, prices for lands in central areas ranged between RM4,304 and RM6,241 per square metre (Property Market Report, 1993).

In 1996, there were only 48 transactions of vacant lands in Kuala Lumpur. Prices range from RM2,992 to RM6,394 per square metre in the central commercial areas and the price was lower in the urban fringe of Kuala Lumpur. Most of the transactions involved the pre-war shophouses purchased for redevelopment into either budget hotels or commercial buildings. There were transactions of vacant sites in Kampong Segambut Malay Reservation which showed prices of RM129 to RM219 per square metre and downtown Kuala Lumpur showed price ranges from RM377 to RM699 per square metres in 1996. In general, the increase in price of development land in Kuala Lumpur rose by about 38.0 per cent in 1997, particularly in the Central Kuala Lumpur areas (Property Market Report, 1998). In the prime areas, most of the transactions involving prewar shophouses for redevelopment purposes at the price between RM7,212 to RM18,300 per square metre in 1997 while the transacted prices range from RM1,940 to RM2,770 per square metre at the secondary location of the Mukim of Kuala Lumpur (Property Market Report, 1998).

In 1996, about RM800 million worth of development lands were transacted for redevelopment purposes in the central area of Kuala Lumpur. The value of development land transacted dropped by half to about RM400 million only in 1997 due to the financial crisis, tighter financial measures and stringent financial control. Interestingly, the value of development lands transacted in the Mukim of Kuala Lumpur was increased by 147.8 per cent from 1996 to 1997. According to the Property Market Report (1998), the dispersal of businesses to secondary locations was responsible for the increase in demand for development land in the suburb of Kuala Lumpur.

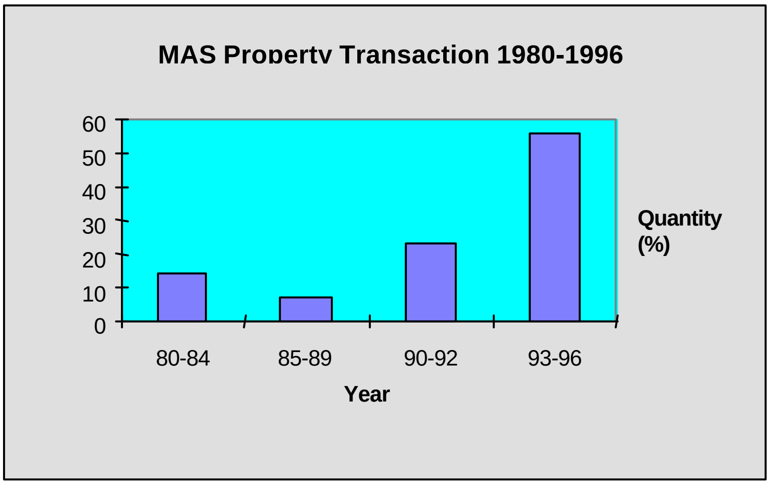

Figure 4: MAS property transactions 1980-1996
Source: Valuation and Property Services Department, Malaysia, 1997.

Figure 4 shows the number of property transactions in Kampong Baru, involving mostly sites located along major roads, from 1980 to 1996. It shows that during the early recession, from 1980 to 1984, the transaction of MAS lands was 10.0 or 14.0 per cent only. Soon after, economic circumstances became worse and from 1985 to 1989, only five or seven per cent transactions occurred in the MAS areas. However, after the economic recovery in early 1990, there were 16 transactions or 23.0 per cent from 1990 to 1992. This was, partly due to the government's decision to undertake redevelopment schemes in the MAS area. From 1992 to 1996, after the postponement of the redevelopment (certain portion of commercial uses at prime location within the MAS areas) proposal, the property market in the MAS area was dominated by transactions from single and multiple owners to Malays corporates. This shows 39 transactions or 56.0 per cent of total transactions. However, the transactions above only show the registered transactions as recorded by the Valuation and Property Services Department for valuation purposes from 1980 to 1996.

In the MAS areas in Kampong Baru, it was reported that in the early 1990s, the value of the land in this area was at around RM1,076 to RM2,152 per square metre. With the massive redevelopment proposal of Kampong Baru through land acquisition in 1991 and 1992, the government was willing to pay between RM1,883 to RM2,152 per square metre (Property Market Report, 1993). However, the compensation depended on factors such as location, ownership, physical conditions and other related factors which may affect land values.

The above discussion indicates the dynamics of price movements for development land in Kuala Lumpur and Kampong Baru areas from the early 1990s up to 1997. The rise in land prices in the indigenous MAS areas in Kampong Baru has attracted more speculators to purchase the lands for their land banks and development activities (Mahmood, 1996). Among the speculators were Malay corporates, Malay entrepreneurs and wealthy individuals who had purchased lots in the MAS areas for their own use, land banks and at the same time land development was undertaken. As observed, most of the property transactions took place along prime roads such as Jalan Raja Abdullah, Jalan Raja Alang and Jalan Raja Muda Abdul Aziz. In contrast, the lands in inferior locations are mainly suitable for residential use and are less attractive for commercial development, therefore, they are less valuable. This scenario is indicated by the lack of transaction in the inferior location of the MAS area. In other words, this indicated an interesting existence of sub-market for land within the MAS area.

A piece of underutilized land of a traditional house located along a prime road has been sold for RM750,000 in 1991 and it was then resold three years later for RM1.5 million. This shows a price analysis of about RM1,068.15 per square metre within the three year period. Another property, located along the main road Jalan Raja Abdullah was sold for RM0.5 million in 1985 and then resold in 1995 for RM1.2 million. This indicates a price increase from RM2,690 per square metre in 1985 to RM6,468.91 per square metre in 1995. Another interesting price movement was shown by a transaction of a property along Jalan Raja Alang, a prime road in the MAS area. This property was sold in 1980 for RM150,000 or RM754.17 per square metre. It was resold in 1981, for RM180,000 or RM905.02 per square metre. Despite economic recession, in 1984 this property was then sold for RM480,000 or RM2,413.47 per square metre. Interestingly, the same property was resold in 1995 for RM600,000 which indicates the price of RM3,016.78 per square metre when the economy recovered in 1995 (Property Market Report, 1997). Figure 5 shows a comparison of price movements of selected development properties in MAS and other areas in Kuala Lumpur from 1990 to 1998.

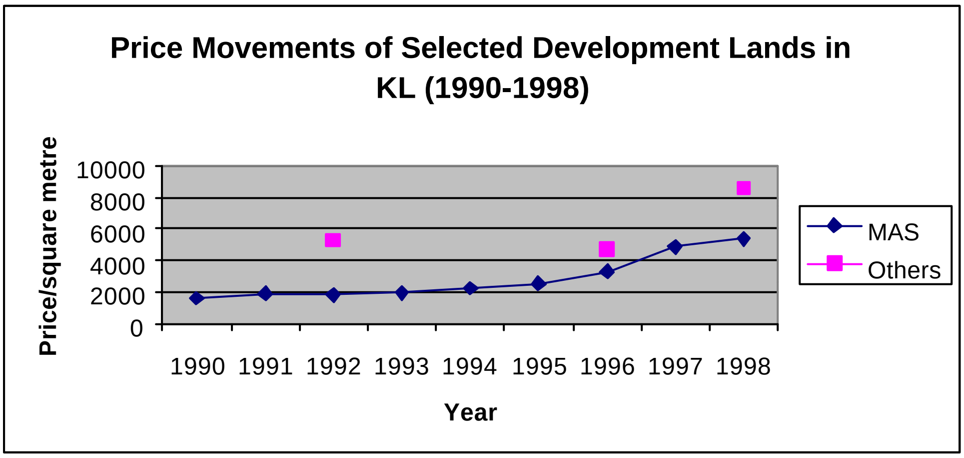

Figure 5: Price movements of selected development lands in Kuala Lumpur (1990 – 1998)
Source: Own analysis

Although there are development lands and properties being sold and exchanged hands in the market, most of the transactions involved properties located along prime roads and with commercial uses only within the MAS areas. In contrast, there are very few development land and residential sites located at inferior location of the MAS area being transacted for development purposes (Ismail, 1999). According to Abdul Razak (1992), about 80.0 per cent out of 957 lots within the MAS areas were under-utilised, derelicted or undeveloped sites. As a comparison, it was estimated that the total area of the under-utilised and vacant lands within Kuala Lumpur forms about 20.0 per cent of the existing Kuala Lumpur land area (Hanif, 1994).

3.0 The restrictions in interest and the indigenous land market in Kuala Lumpur

It has been shown the trend in development land market in Kuala Lumpur and the extend to which land is needed for housing development. Beside the pressure for more land for development, there are potential land located within the Kuala Lumpur central areas but restricted by various land supply constraints from being available in the market for urban housing development. In this paper, the causes and effects of these land supply constraints will be examined as a selected case study. The case study areas chosen is an indigenous Malay Agricultural Settlement in Kampong Baru, Kuala Lumpur.

The indigenous MAS land rights - economic consequences

The Malay Agriculture Settlement (MAS) Reserve in Kampong Baru, Kuala Lumpur is chosen as a case study to examine the explanotary power of institutional economics analysis on the implications of indigenous land rights on its property market. The MAS area was gazetted on 12 January 1900 under Section 6, Land Enactments 1897 (Abdul Razak, 1992). The main aim of MAS was to alienate land to the landless Malays in Kuala Lumpur with restriction to protect their landownership from being transferred to or occupied by non-Malays (Abdul Razak, 1992; Mahmood, 1996). A typical restriction in interest on the indigenous MAS land is *'The land hereby alienated shall not be transferred to or occupied by a non-Malay'* (Mohd Syed, 1997). Therefore, the main feature of the MAS land rights is the restriction of the lands from being transferred to or occupied by non-Malays. This restriction in interest is considered as a formal rule which may restrict the supply of MAS land for development purposes.

Since the MAS areas in Kampong Baru are the only indigenous land within the Kuala Lumpur Central region, there is a need to preserve the indigenous land rights to represent Malay urbanisation and urban land holding (Mahmood, 1996; Mohamed, 1995). As a result, this continued establishment and preservation of the MAS areas have its economic consequences. As evidenced during the 1991-1992 redevelopment failure the land development difficulties were identified as stemming from the status of the indigenous MAS land rights which restricted interests therein (Mohamed, 1995). Such policies stem from the restrictions in interest that did not allow such land to be transferred to or occupied by non-Malays and, hence, restrict the supply of land and limit the market of such land. The implications of the restrictions in interest contribute to the following difficulties:

a. Market limitations

The restrictions in interest limit the market of the indigenous MAS lands among the Malays only, therefore, the indigenous MAS lands have a limited demand among Malays in the market. This resulted in lower value of the MAS lands compared to the open market of adjacent non indigenous lands. However, Abdullah (1997) argued that a restriction in interests was not a single factor in limiting the market and lowering the value of such land. As a result of a limited demand, narrow markets and lower values make these indigenous lands unattractive to the land developers and private investors (Ishak, 1997). In general, there is limited demand for the completed development from the Malays, since there are few Malays who could afford to buy property in urban areas of Kuala Lumpur. In addition, most of the Malay corporates and public authorities have their own establishments within Kuala Lumpur. As a consequence, market factors contributed to the under-utilisation of these MAS lands (Wan Hamzah, 1993).

b. Limitation on the financial assistance for development

In general, a limited market for landed properties also contributed to the problems of financial development of the MAS lands. This resulted in the problem of limited financial ability to undertake development in the MAS areas when Malay related banks were less attracted to finance the development of MAS lands. Malay landowners have relatively limited capability to undertake development on their own. There are, however, Malay individuals and corporates with financial means and expertise who have undertaken development of MAS lands (Arshad, 1997; Tengku Marwan, 1997). Unfortunately, the land development undertaken by these agents is confined to certain prime sites along major roads within the MAS areas.

In addition, only a limited number of Malay related organisations and financial institutions are allowed to enter into land dealings and transfers of the indigenous MAS land (Aman, 1993).

This indicates a limited number of organisations and agencies to initiate, manage, and develop the MAS lands. As a result, there seems to be a lack of co-ordination among various agents in the redevelopment of indigenous areas (Abdullah, 1997; Hanafiah, 1997; Salleh, 1997).

c. Valuation rules of compensation

There are valuation rules of compensation in determining the compensation for indigenous MAS land which contributed to high valuation for land taken in the compulsory acquisition. The First Schedule of the Land Acquisition Act (1960) provides the levels of compensation which must be similar between an indigenous MAS lands and an open market of non-indigenous land transactions. Since MAS lands are located within the Kuala Lumpur Central Planning Area, land in this area provides comparables in valuation for compensation purposes, even though the land rights were different between MAS and non-indigenous lands. These rules of valuation for compensation purposes contributed to the high amount of compensation to be paid to the affected landowners of the MAS areas during the 1991-1992 redevelopment proposal. As a result, high compensation paid to the landowners resulted in high acquisition and development costs which affected the agents' decisions to redevelop the MAS lands. In this case, if the developer still insisted on acquiring the land for development, the project had to be undertaken with a higher density or a high rise development to be a feasible one. Yet, the final product of the development would have been limited to the Malays and, hence, adversely affected their land development decisions to purchase and undertake to develop MAS lands. Generally, the Malay buyers (except some Malay corporates) are unable to pay a high price for the indigenous land although it is offered at the market price. This risk makes the potential developer reluctant to go ahead in developing the MAS lands (Ismail, 1999, 2000a).

In short, even though the valuation for compensation were high, these figures were not high enough for the affected landowners to sell or to release their lands for development purposes. However, such rules of valuation for compensation in the Land Acquisition Act (1960) were amended by the government in mid-1997 to offer an alternative fair valuation for compensation of indigenous MAS land. Wherever the indigenous land is to be acquired for the benefit of the Malays at large, the valuation should take in consideration the restrictions in interest. In contrast, when the purpose of acquisition is for the benefit of the community as a whole, the compensation should consider the market value of the land (Fernandez, 1997; Usilappan, 1997; Vanajam, 1997). As the amendment was undertaken in mid-1997 only, the implications of this amendment is yet to be seen (Ismail, 1999, 2000b).

d. Planning, physical and infrastructure difficulties

In connection with land holdings, there are also problems of a physical nature and the infrastructure of the MAS areas. Although the MAS areas are located within the Golden Triangle of Kuala Lumpur, a certain portion is considered inferior compared to the first and second layer sites along main roads such as Jalan Raja Abdullah and Jalan Raja Muda Abdul Aziz (Nang, 1997; Salleh, 1997). These inferior location sites are also subject to physical difficulties concerning condition and topography of the properties such as being subject to flooding due to a high water table.

The indigenous MAS lands have not been designated in the proper zoning plan. Although the Kampong Baru Local Plan was designated in 1984 and the Proposed Development Plan was envisaged during 1991-1992 land development initiatives, the land development difficulties resulted in the MAS areas remaining as an open planning system for development. This open planning has resulted in development uncertainties to various interested agents to develop the MAS areas (Mohd Syed, 1997; Tamin, 1997). Although in contrast with the conceptual approach of physical land plannings and uncertainties within future developments, the open planning provides flexibility in future development over the MAS areas (Hanafiah, 1997). In general, without proper access and planning, the potential of MAS lands for redevelopment is limited.

At present, the development of the MAS areas is concentrated on residential low cost housing such as blocks of flats and low density dwellings with a few commercial and office buildings along major roads. Most of these specific developments were undertaken by individual landowners and corporate sectors to fulfil their particular requirements. As such, the sites at inferior locations and the MAS areas as a whole, tend to remain under-utilised, despite the fact that the MAS areas are located within the capital city of Kuala Lumpur.

The other view of the problem with landownership is the small and uneconomic size for individual developments in the MAS areas. A viable commercial development project requires the amalgamation of these small and contiguous lots. Almost 90.0 per cent of the lots in Kampong Baru are small in size with less than 808.26 square metre or the equivalent to 0.08 hectare with the width of the road frontage about 12.19 metre or less (Hanif, 1994; Ismail, 1999). This will affect the proposed comprehensive, efficient and economical development. Moreover, the developer requires to surrender a portion for public access, set off requirements that the building is about 6.10 metre away from the main road and there is provision for parking spaces (Hanafiah, 1997). As a result, the developable size becomes smaller.

Uneconomic land size for development creates some other problems. It is difficult to amalgamate two contiguous small lots due to landownership difficulties including the owners' refusal to participate or to dispose of their lands in view of the hope for a higher price in the future or to preserve their inheritance (Tengku Marwan, 1997). There are also difficulties to trace the registered landowners. Some of them are dead or holding land as absentee landlords. Therefore, these small sizes make the land development initiatives difficult and costly. After all, the final product has to be within a limited market. There are, however, potential sites which have been developed through the amalgamation of several small contiguous lots in the MAS areas for specific purposes and by particular Malay corporates (Tengku Marwan, 1997). However, most of these amalgamated sites for commercial development are only located along major roads in the MAS areas, and sites located in inferior locations tend to remain under-utilised. Although MAS land rights provided security of land tenure, it had also created legal restrictions and limits the access to the mortgage facilities for the owners (Nik Abdul Rashid, 1993; Nik Zain, 1992; Md Ariffin, 1997). Therefore, the MAS land rights can be viewed as a form of formal rules which constrain human interactions in the supply of land for development in the MAS area.

As shown in Figure 6, the selection of the sample sites in the Kampong Baru's MAS area is reflected by a variety of landownerships, sites' and landowners' characteristics. The figure shows the nature of physical characteristics of the fourty sample sites which are small in size and difficult to develop. Many sites are lower than the road level, located in the inferior location, existed as old, obsolete, under-used, semi-permanent structures and/or abandoned traditional residential buildings. In contrast, there are newly-developed office buildings (for example, Lot 33 and 34) and sites already applied planning permissions (Lots 19, 20, 21, 24, 25, 27 and 29) located along prime roads within the MAS areas.

Landownership and landowners	Developed / Applied to develop/ sites (Lots no)	Undeveloped Sites / underused / underutilised (Lots no)
Present uses of sites:		
-owner occupy/trading	5*(34, 35, 37, 38, 39)*	10*(1, 7, 9, 11, 13, 16, 17, 18, 26, 30)*
- renting whole		
- vacant	3*(10, 32, 36)*	2*(22, 23)*
- partly occupied and rented	7*(19, 20, 21, 24, 25, 27, 29)* 2*(33, 40)*	1*(31)* 11*(2, 3, 4, 5, 6, 8, 12, 14, 15, 16, 28)*
Owners' personality:		
- single owner		
- multiple owners	1*(38)* 2*(10, 40)*	1*(7)* 17*(1, 2, 3, 4, 5, 6, 8, 9, 11, 12, 13, 14, 15, 16, 26, 28, 30)*
- Private corporate	13*(19, 20, 21, 24, 25, 27, 29, 32, 33, 34, 35, 37, 39)*	4*(17, 18, 22, 23)*
- Public corporate	1*(36)*	1*(31)*

Figure 6 : Landownership of the sites and landowners' characteristics
Source: Ismail (1999,2000a)

There are three developed sites and fifteen undeveloped sites which were inherited (or bought and inherited) by single, multiple or corporate landowners from their ancestors to whom the lands have been alienated by the government in 1897. The majority of these single and multiple landowners intend to leave their land for inheritance. In contrast, there are seven newly developed sites and seven sites with planning permission have been applied for which were purchased by corporate landowners. The purchases were done through negotiation over the price with former multiple landowners and had been developed during the 1990s.

Five developed sites in the sample were owned by private corporate landowners for their own use and twenty-one under-utilised sites were occupied or partly rented to tenants by landowners of undeveloped sites. The multiple landowners of ten undeveloped sites occupying their own traditional houses built during 1960s and 1970s as owners-occupiers and eleven sites were partly occupied and partly rented their buildings.

There are eleven landowners of undeveloped sites who refuse to sell and nine landowners of undeveloped sites who are reluctant to develop their under-utilised sites. There are eight landowners of undeveloped sites who are reluctant to develop their land unless certain conditions, such as suitable type of development is fulfilled. In addition, their reasons were to preserve inheritance and financial difficulties associated with the development of their land on their own.

There are landowners who are seeking higher prices for their lands or asking high compensation from the government (Lots 3,4 5, 6, 7, 8, 12, 13, 14, 15, 26, 28, 30 and 38). As a result, there exist valuation constraints which restrict the supply of indigenous land in the case study areas. Discussion on the land market follows.

The land supply constraints

The attitudes of landowners of undeveloped sites' toward selling or developing their land are summarised in Figure 3. It shows that with reference to the landowners' strategies, most landowners of undeveloped sites are reluctant to sell or to undertake the land development on their own. There are eight landowners of undeveloped sites who are willing to sell or to undertake land development with some conditions such as if high prices are being offered to them. However, there are five landowners of developed sites who tend to be willing to sell their land if the price is right.

Landowners of undeveloped sites	**Sites (Lots)**	**Main reasons for refusal to sell or to participate in land development**
Unwilling to sell	11 (1, 3, 4, 6, 7, 9, 11, 12, 14, 15, 16)	Own occupation, inheritance, to preserve traditional house, defective or without title of documents, asking high compensation
Willing to sell with conditions	8(2, 5, 8, 17, 18, 26, 28, 30)	Asking high compensation or high prices, type of development
Unwilling to develop	9(1, 3, 4, 6, 9, 14, 15, 16, 26)	Less enthusiasm due to old ages or illnesses, uneducated, lack of financial assistance and avoiding interests, fear of being cheated again, fear of losing income
Willing to develop with conditions	10 (2, 7, 8, 11, 13, 17, 18, 23, 30, 31)	No urgency, financial difficulties, lack of planning information, asking for high compensation

Figure7: Landowners of undeveloped sites' attitudes
Source: Ismail (1999,2000)

There are thirteen landowners of developed and undeveloped sites who are reluctant to sell their lands unless high prices are being offered. Higher land prices are the result of institutional valuation principles of compensation which contributed to the high value expectation and, hence, affect their decisions to release lands for development (Lots 7, 26, 28, 30, 38 and 40). Passive landowners were refused to sell their land, therefore, restricted the land from being available in the market for development purposes. Figure 7 shows that there are eleven passive landowners of undeveloped sites who have reasons including price, financial and planning constraints. But some landowners who refused to sell or to develop their land may be active since they investigated development but decided to hold out for a better price or waiting for a suitable time to undertake development. Figure 7 shows that five landowners of undeveloped sites who are holding the sites for better prices (Landowners of Lots 7, 18, 22, 23 and 31).

Besides higher compensation expected from the acquiring authority, landowners are also asking for high prices from the corporate buyers (Owners of Lots 2, 3, 4, 5, 6, 7, 8, 12, 13, 28 and 40). According to the owners of Lot 28, the reason for refusal to sell or to participate is the lower prices offered by the potential buyers. Even though, there are corporate bodies who are able to offer high prices to the landowners, they are responsible for their shareholdings and are not willing to offer high prices which may in the end push the general level of prices higher (Tengku Marwan, 1997). This means that the issue is the economic feasibility of a project based on the land price which may affect the decision to buy high priced land for development purposes.

Landowners of developed sites	**Sites (Lots)**	**Main reasons for purchasing, developing or refusal to sell**
Unwilling to sell	5(34, 35, 36, 37, 39)	Own occupation, use, trading, capital appreciation, enhance and preserve values
Willing to sell with conditions	5(10, 32, 33, 38, 40)	Asking high compensation or high price, suitable type of land development
Applied for planning permission	7(19, 20, 21, 24, 25, 27, 29)	Add value, supply to meet demand, capital appreciation and rental growth

Figure 8: Landowners of developed sites' attitudes
Source: Ismail (1999,2000)

In contrast, the attitudes of landowners of developed sites' toward selling or development are shown in Figure 8. Most of the landowners of developed sites are the corporate owners and have purchased the land for development or for their own use. In contrast, five landowners of developed sites are willing to sell their land if the price offered is at certain expected levels.

6.0 Conclusion

Since institutions affect agents' decisions and their economic performances (Krabben, 1995; North, 1996), the review and evaluation of these influential rules need to be carried out from time to time. In the case of restrictions in interest which influence the supply of indigenous land for development purposes, it has been shown the way in which landowners' refusal to sell or to participate in transferring the land to land developer was largely dependent on formal restrictions in interest which limits the market among certain group of people only. Additionally, the formal restrictions in interest affect landowners' unwillingness to sell and land developers' to purchase the land. In other words, formal institutions influence agents' behaviour to decide upon the transfer of land for development purposes.

Therefore, solution to the implication of formal and informal institutions affecting indigenous land market in the case study areas need to consider agents' responses towards the enforcement and implementation of such formal institutions. For example, amendment on the valuation rules for compensation needs to be undertaken by considering landowners' responses to the rules. As mentioned by Ratcliffe 1999 (in Berry *et. al.,* 1999), the cultural values and the nature of city transformation play big role in the movement of property market in developing countries. As such, formal and informal constraints need to be considered in the study on indigenous land market affected by restrictions in interest.

References

Abdullah Y (1997), Development of Malay Reservation Lands: Challenges and Opportunities, *Seminar on Land Law – Administration and Development (Land '97),* 19-20th. August, Grand Continental Hotel, Johor Bahru.

Abdul Razak N (1992), Kampong Baru – A new face, *4th. National Real Estate Convention*, 21-22th. April, Hyatt Saujana Hotel, Kuala Lumpur.

Arshad (1997), Land manager, Naza Properties Sdn Bhd, Personal Interview.

Aman H (1993), Development and investment in Malay Reservation – a financier's view, *Seminar on Malay Reservation Lands – a development perspective,* September 28th. Pan Pacific Hotel, Kuala Lumpur.

Berry J and McGreal S (1999), Cities in the Pacific Rim Planning Systems and Property Markets, E & FN Spon, London and New York.

Fernandez E (1997), Implication of the 1997 land acquisition amendments – Towards property development and ownership, *Seminar on Land Law Administration and Development, (Land '97)*, 19-20th.August, Grand Continental Hotel, Johor Bahru.

Graaskamp J A (1992), The institutional valuation constraints, *Journal of Property Valuation and Investment*, Volume 10**,** Number 3, pp 598 - 603.

Hanafiah (1997), Planner at Kuala Lumpur City Hall, Personal Interview, 16th. July.

Hanif N R (1994), The development of MRL in the city of Kuala Lumpur: Is it a worthwhile investment, Unpublished MLE Thesis, Department of Land Economy, University of Aberdeen.

Healey P (1992) An institutional model of the development process, *Journal of Property Research*, 9,pp 33-44.

Hodgson G M (1993) Institutional economics: surveying the 'old' and the 'new', *Metroeconomica*,44:1 (193), Basil Blackwell,Oxford.

Hodgson G M (1998), The approach of institutional economics, *Journal of Economic Literature*, Vol XXXVI (March 1998), pp166-192.

Ismail Omar (1999), The supply constraints of indigenous land in Kuala Lumpur, Unpublished PhD Thesis, Department of Land Economy, University of Aberdeen.

Ismail Omar (2000a), The valuation constraints of indigenous land supply in Kuala Lumpur, *Paper presented at the Pacific Rim Real Estate Conference, Sydney, Australia, 24 – 27 January.*

Ismail Omar (2000b), The supply constraints of indigenous land in Kuala Lumpur, *Paper Presented at The American Real Estate Society Conference, Santa Barbara, California, 27 March – 2 April.*

Kuala Lumpur City Hall (1993, 1994, 1995, 1996), Annual Report.

Keogh G and D'Arcy E (1998), Property market efficiency: an institutional perspective, *Discussion Paper 98-02*, Aberdeen Papers in Land Economy.

Krabben,Erwin van der (1995), *Urban dynamics: a real estate perspective: an institutional analysis of the production of the built environment,* Center for Economic Research, Tilburg University.

Law of Malaysia, Land Acquisition Act 1960, Act 486, International Law Book Services, Kuala Lumpur.

Mahmood F (1996), Pembangunan Semula Kampong Baru MAS Melayu, *Konvensyen Perbandaran Melayu Titiwangsa 1*, 20th. April, Kuala Lumpur.

Mair,D and Miller,G (1992) Eds. *A modern guide to economic thought: An introduction to comparative schools of thought in economics*, Edward Elgar.

Malaysian Property price Index (1998),http://www.property-online.net/prop_idx.html.

Mohamed S (1995), *Transformasi Kampong Baru: Permasalahan Urbanisasi Orang melayu – Satu Himpunan Makalah,* Jabatan Persuratan Melayu, Universiti Kebangsaan Malaysia.

Md Ariffin S (1997), Leasing Malay Reservation Land for development – compromising on economic fundamentals and Malay sentiments, *The Surveyor*, 4th. Quarter, Institute of Surveyors Malaysia, Kuala Lumpur.

Mohd Syed (1997), Secretary General to the MAS Board of Management, Personal Interview.

Nang R (1997), Valuer, Kuala Lumpur Federal Territory Valuation and Property Services Department, Personal Interview.

Nik Abdul Rashid N A M (1993), Malay Reservation Land: Concepts, *Seminar Tanah Rezab Melayu - Perspektif Pembangunan*, 28 September, Hotel Pan Pacific, Kuala Lumpur.

Nik Zain N M Y (1997), Personal Interview.

Nik Zain N M Y (1993), Tanah Rezab Melayu Dari Perspektif Dasar dan Perundangan, *Seminar Tanah Rizab Melayu - Perspektif Pembangunan*, 28 September, Hotel Pan Pacific, Kuala Lumpur.

Nik Zain N M Y (1992), Pembangunan Tanah Rezab Melayu dari Perspektif Sejarah, Perundangan dan Pembangunan Masa Depan, *Persidangan Pembangunan Tanah Rezab Melayu,* 9 November, PWTC, Kuala Lumpur.

North DC (1996) *Institution, institutional change and economic performance*, Cambridge University Press. Reprinted.

Property Market Report (1985-1998), Valuation and Property Services Department, Ministry of Finance, Malaysia.

Property Market Report (1999), http://www.property-online.net/prop-mkt_rep.html.

Rahim and Co (1992), Property market 1992 to 2000, Kuala Lumpur.

Salleh K (1997), Valuer, Kuala Lumpur City Hall, Valuation and Property Management Department, Personal Interview.

Tamin (1997), Head of Kampong and MAS Committee member, Personal Interview.

Tengku Marwan (1997), Land Manager, Land and General Sdn Bhd, Personal Interview.

Usilappan M (1997), Land Acquisition Act 1960: The 1997 Amendments, *The Surveyor*, 2nd Quarter, Kuala Lumpur pp 3-6.

Vanajam K (1997), The Land Acquisition (Amendment) Act 1997 - Comment, *The Surveyor*, 2nd Quarter, Kuala Lumpur pp7-9.

Wan Hamzah W A (1993), Keynote Address in *Seminar on Malay Reservation Lands - A development Perspective,* September 28th, Pan Pacific Hotel, Kuala Lumpur.

PRRESD
11/12/2000