

## Transaction cost analysis in redeveloping indigenous lands in Malaysia

*Analiza costurilor de tranzacție în reamenajarea terenurilor indigene în Malaezia*

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### Abstract

*Land supply constraints restrict the flow of land supply onto the land market for development purposes. It disturbs the effectiveness of the land market. As a result, the underutilized area may become derelict and needs regeneration as part of urban renewal programs. The study begins with discussion on transaction costs within institutional economics analysis. In particular, the review on literature concentrates on the elements of land supply constraints with the purpose to feed the empirical analysis in the case study areas. Empirically, the study investigates sources of land supply constraints in the case study area of MAS Kampong Baru, Kuala Lumpur. Data were gathered using interviews with landowners of undeveloped and developed sites to examine why they had taken effort to develop or simply abandoned their lands undeveloped. Analysis had been undertaken using qualitative techniques on respondents using coding, either direct or indirect quotations. Landowner respondents were taken randomly to represent predetermined zones within the case study areas. Data analysed were presented in the forms of charts, histograms, diagrams and illustrations to ease discussion. One of the main findings is that landowners were unwilling to undertake redevelopment due to land supply constraints as revealed by transaction cost embedded within their status of landownership, attitudes, physical, planning and valuation or market constraints. In the end, the findings enable various interested parties to realize their roles and responsibilities in their future directions to redevelop Kampong Baru in Kuala Lumpur.*

**Keywords:** *transaction cost, land supply constraints, indigenous land, MAS areas*

### Rezumat

*Restricțiile asupra ofertei de terenuri restrâng fluxul ofertei de terenuri de pe piața funciară în scopuri de dezvoltare. Ele perturbă eficiența pieței funciare. Ca rezultat, o zonă sub-utilizată poate fi lăsată în paragină și va avea nevoie de regenerare, ca parte a programelor de reînnoire urbană. Studiul începe cu discuția cu privire la costurile de tranzacție în cadrul analizei economice instituționale. Revizuirea literaturii se*

concentrează în special pe elemente ale restricțiilor asupra ofertei de terenuri cu scopul de a fundamenta analiza empirică a zonelor din studiul de caz. Din punct de vedere empiric, studiul investighează sursele restricțiilor asupra ofertei de terenuri în zona MAS Kampong Baru, Kuala Lumpur a studiului de caz. Datele au fost culese folosind interviuri cu proprietarii unor terenuri slab dezvoltate și dezvoltate pentru a analiza de ce au făcut efortul de a dezvolta sau de ce pur și simplu au abandonat terenurile lor nedezvoltate. Analiza a fost realizată folosind tehnici calitative asupra respondenților, codificarea, cotarea directă sau indirectă. Respondenții proprietari de terenuri au fost aleși în mod aleatoriu pentru a reprezenta zonele predeterminate în studiul de caz. Datele analizate au fost prezentate în forme de grafice, histograme, diagrame și ilustrații pentru a ușura discuția. Una din principalele concluzii este că proprietarii de teren s-au ferit să întreprindă reamenajarea terenului din cauza restricțiilor asupra ofertei de terenuri, relevante prin costul de tranzacție implicat de statutul lor de proprietari de terenuri, atitudini, condiții fizice, planificare, evaluare și restricțiile de piață. În final, concluziile permit diverselor părți interesate să-și realizeze rolurile și responsabilitățile lor în viitor pentru reamenajarea Kampong Baru în Kuala Lumpur.

**Cuvinte-cheie:** cost de tranzacție, restricții asupra ofertei de terenuri, terenuri indigene, zone MAS

**JEL Classification:** H43, R11, R12, R14

## Introduction

There are various factors causing land supply constraints. Among others are government role in the form of planning (Popetan in Hui, 2004), complex regulations, the quality of titling registration and tenure security (Dowall, 2003), passive land owner (Adams, 1994), multiple ownership of urban land (Adams *et al.*, 2000), macro economic variables as well as physical condition of the lands (Knaap and Terry Moore, 2000). Therefore, land supply constraint is a complex phenomenon whereby the flow of land into the market is restricted and hence, limits agents' interactions therein. As a result, the price of land tends to increase due to higher demand compared to the level of land supply in the market. As such, to understand the nature of land supply constraint, the analysis should address the knowledge about the characteristics of the land market process including the behavior of the agents involved in it (Keogh and D Arcy, 1998).

When actors control certain resources, there are two type of elements drive the manner in which actors make decisions, externally and internally. The former are determined by institutional environment surrounding the actors. Whilst, the latter is more related to the actors themselves which is influenced by cost and benefit consideration. According to North (1996), institutions provide incentive and restriction which affect human decision. Transaction costs which are associated with the internal element simultaneously with institutions affect human decision whatsoever.

The way institutions affect transaction costs would subsequently influence landowners' decision to participate in the supply of land for development. As such indirect approach was selected by assessing activities that embedded transaction costs. Therefore, there are three circumstances proposed about the possible sources of transaction cost namely related to the institutions, related to the existing property and contract rights and related to the transfer of existing property rights (Furubotn and Richter in Benham and Benham, 2001) This is used as the guidance to the discussion. In addition, there are three characteristics of transaction as proposed by Williamson in Petersen (1995) namely uncertainty, frequency and asset specificity that were selected to identify the presence of transaction costs. In relation to land rights, two types of land rights are attached on land including fixed and legal rights as well as variable economic rights (Lai, 2001). In term of cost, the former usually incur the fixed cost, the latter is vary depending on the presence of land attributes.

Transfer of lands is one of the initial steps in the land development activities (Cadman and Topping, 1995). Transfer of lands means not to transfer the physical land but rather a bundle of rights upon the lands (Alchian & Demsetz, 1973). During exchange process, North (1996) says that measuring the valuable attributes of what is being exchanged, protecting rights, policing and enforcing agreements are among activities that may produce transaction costs. Cost here is not only related to the money but also in the form of time, opportunity and effort (Buitelaar, 2004). According to North (1996) institutions reduce uncertainty and so reduce costs. However according to Furubotn and Richter in Benham and Benham (2001), related to institution there are transaction costs that include the costs of resources utilized for the creation, maintenance, use and change of institutions.

This study aims at understanding the land supply constraint of indigenous lands in Kampong Baru, Kuala Lumpur. The study uses transaction cost within institutional economics analysis to explain the way in which transaction cost influences the decision made by actors in defining, maintaining, utilizing and transferring the land rights for exchange in the market (Benham and Benham, 1998).

### **Land supply constraints**

There are various factors forming land supply constraints. First, government role in the form of planning systems is an ultimate factor influencing the flow of land supply in the land market. Land use planning, for example, has functions to allocate a certain amount of lands for a particular development, to control the location of development and to justify the types of development in different areas (Popetan in Hui, 2002). It means that the total amount of lands to be developed has been restricted by the planning, so the supply of land in the market is not easily adjustable.

Related to the planning systems which often hinder the supply of land is regulatory complexity. It is due to the complex regulations cause cumbersome and

lengthy processes to get planning permission (Dowall, 2003). As a result of planning, the supply of land for development becomes relatively slow; in fact to meet dynamics change in demand is somewhat difficult.

Second, the quality of titling registration and tenure security are also considered as additional factors affecting land supply. Good registration and tenure records produce clear title, high tenure security and subsequently avoid the long delays in registration (Dowall, 2003). Thus, it quickens the availability of the lands in the land market.

Social factor is the third one which influences the supply of lands. Passive land owner those who take no particular steps to develop land is the major issues affecting land development process. Some land owners are willing to participate but only on the restricted terms and conditions, such as by offering leasehold not freehold. In addition, they may expect a higher land price or certainty in the future land prices (Adams, 1994). Multiple ownership of urban land, as the outcome of the second and the third factor, is also recognized as constraint of the land supply through some difficulty to rapidly acquire the ownership rights (Adams et al., 2000).

Macro economic stabilization, as an external factor, such as in the form of interest rate is also an aspect that may influences land supply. High interest rates cause the amount of capital circulates in the land and property market decrease. Given that, the total amount of capital spent to buy lands is also decreased and thus it disturbs the supply of lands. Finally, physical condition of the lands becomes a burden of the land supply since the lands have no possibility to be developed. The land is considered not build able if it is located in a floodplain, sloped more than certain degree, as well as subject to natural hazard such as mud slide and earthquakes (Knaap and Moore, 2000).

At the urban periphery, planning constraints appear to be more prevalent. In inner urban areas, the land supply constraints generally come from combination of four factors namely critical physical, ownership, valuation constraints as well as planning constraint (Adams, 1994). Derelict areas, contaminated areas and lack of infrastructure commonly are caused by the first constraint. The second constraint comes from the land owners who reluctant to respond to market mechanism, who keep the lands because they want better price in the future as well as who keep the lands because of emotional reasons toward the lands. In Kenya, land owners still reluctance to sell their lands because of several considerations. Among others are (1) land is perceived as a crucial asset for the present and/or future subsistence of the family (2) it is a secure form of holding wealth and a good hedge against inflation (Green, 1987). For the low income households, the willingness to put the lands in the market area is also affected by the degree of uncertainty of their future after they release the lands (Howe in Adams, 1994).

The third constraints emerge because of the land value disputes. In this case landowner and buyer/developer have different estimation prices of the land. Commonly the land owner price is higher than proposed land developer/buyer

price. Sometimes the third constraints are as the effects of the second constraints. The last constraint emerges because local authorities provide not-comprehensive planning, so that it creates uncertainty for the developers and landowners.

With regards to indigenous land, restriction of interests to transfer land to protect the remaining land in certain tribe ownership have raised the cost of changing the use or user of land and reduced the profitability of any investment attached to the land. In addition, the restrictions also cause a smaller market, lower value as well as limited usefulness as collateral. The difficulty of locating owners and the cost of establishing trusts strictly affected the ability of owners to develop land and subsequently hindering economic development and finally produce land supply constraint (Guerin, 2003). Green (1987) gives examples where government policy restricts the supply of land. In Kenya, in order to protect the member of family to be landless and destitute, the government policy run by District Land Control Boards do not permit any transaction which will affect the families in those situation. This typical policy also happened in Zimbabwe where individual only has the rights to own the land, not the right to buy and to sell the land. It means every transaction should be approved by the traditional village council (the *sabuku*).

The inability to sell the land gradually may cause the fragmentation of title among successor such as what happen to Native American land tenure (Anderson and Lueck in Guerin, 2003). Multiple ownership, in turn increases the costs of obtaining agreement among owners; reduce the willingness of individual owners to put effort into development. Although the benefit of the uses of the land quite valuable, multiple ownership discourage uses since it is more difficult to monitor the inputs and outputs by owners (Guerin, 2003).

Land supply constraint provides direct impacts in the land and property market in term of increasing land price which subsequently cause the amount of saleable lands for development. On one hand, land supply constraints will be a burden of the development process and finally prevent the maximization of economic value of the lands. On the other hand, land supply constraints, apart from factors affecting them, cause underutilized lands and to a certain extent produce deterioration of surrounding properties leading to an overall decline in neighborhood property values (Ambrose, 2005).

With regards to the approach in explaining the effect of land supply constraints, Ismail (1999) argued that institutional economics analysis has an explanatory power to understand the land supply constraint in the land development. Institutional economics models provide facilities to deeply understand about the linkage between formal and informal rules or institutions through the exercise of agency relations by agents in the land development process (North, 1996; van der Krabben, 1995). In this relationship, the formal and informal rules may become constraints which influence actors' decisions and the way they interact and, hence, restrict the supply of land for development.

However, less attention is given to the role of transaction cost in influencing landowners' decision to participate in the land development and particularly land market. In general, transaction cost plays important roles since it has relationship with institutions and actors' decision to participate in the land market and land development.

Adams (1994) argued that the best way to understand about land markets and development processes is to examine the processes of land supply, land exchange and land development including the interaction among them. In doing so, consideration about institutions and cost will enrich the understanding of the land supply phenomenon. It is due to the actors' decisions to bring the lands into the land market and land development process is also influenced by transaction cost. In addition, indigenous lands have more complex attributes attached therein that are not easily separated from actors' decisions.

### **Research methodology**

Since this research analyzes the processes within the complex interrelationships among agents, qualitative research method will be used preferably to approach the problems (Deddy, 2001). In addition, qualitative method also has the advantage of being open to the possibility of detecting important issues that might not have been predicted before (Kim, 2002). The last reason is based on the assumption that social phenomenon is very complex, and to make a framework that encompasses all variables is not a trivial work.

Empirical works then will be conducted to assess the frameworks that have been developed. In doing so, two types of data namely primary data and secondary data will be collected. For the primary data, open-ended questionnaires are used as an instrument to collect empirical data. The questionnaires were distributed to the landowners in the case study area. Purposive sampling technique is used to select the respondents. In this case the selection is on the current condition of the lots such as the developed-undeveloped lots and lots which have been transferred. Whilst the interview will be directed to the land and property professional such as valuers and estate agents/land broker and also other related land and property market agents such as planners, land administrators, developers. The secondary data were collected from various sources such as libraries, related governments agencies such as Dewan Bandaraya Kuala Lumpur, MAS Board, Kuala Lumpur City Hall Valuation and Property Services Department, including maps covering the study area, land and property data, formal rules and macro economics data.

The objective of getting respondents from undeveloped lots is to identify the institutions and variable of transaction cost that influence landowners attitude towards land market and landowners decision to bring or not to bring the land into land markets. Importantly, the interview tries to identify the cost they have to

spend to maintain the lands restriction as identified by the reluctant to transfer the lands. In addition, information related to the way they overcome the problem caused by institution and transaction cost were also considered. Whilst, from landowners who have developed their lands, the interview tries to find information about their motivation to develop the land, the rules and institution providing incentive or constrain during the development processes. Data and information about institution and variable of transaction cost were collected from landowners who have experience to trade their lands.

### **The case study area**

The study case area is located in Kampong Baru adjacent to the Central Business District of Kuala Lumpur. Kampong Baru is one of the biggest indigenous land areas in Kuala Lumpur.

The total area of study is 101.02 hectares which under Section 6, Land Enactment 1897 was established as Malay Agricultural Settlement (MAS) with the main purpose of alienating land to landless Malay in Kuala Lumpur. Kampong Baru is selected as study case area as the city is fast growing in term of social, political and economic development. The current condition of Kampong Baru provides interesting case due to the fact that Kampong Baru has complete attributes such as the restriction in interests, slow land market, slow development, located in central of Kuala Lumpur area as shown in Appendix A. The location of the case study area is shown in Figure 1. About 88.0 per cent of dwellings in Kampong Baru (out of the 56.0 per cent of land in this area categorised as residential) are considered as under-utilised and derelict and 11.0 per cent is vacant or unimproved residential land.

The total number of lots in the case study is 957 lots. A group of 51 undeveloped, developed and traded lots with the distribution of 41,9 and 1 lots subsequently. Among 51 lots, 47 are occupied by individual landowners, the rest are occupied by corporate land owners.

The common respondents' background is dominated by old people (more than 67 per cent), medium education (87 percent) and low household income families (85.8 percent income less than RM 2,000 per month). Whilst, for the lots' characteristics, most of lots were occupied from their ancestor (inheritance lands), owned by more than one owner (81 per cent), used as residence (95.2 per cent) as well as the purpose of occupying the lot was for own use (88.1 per cent).

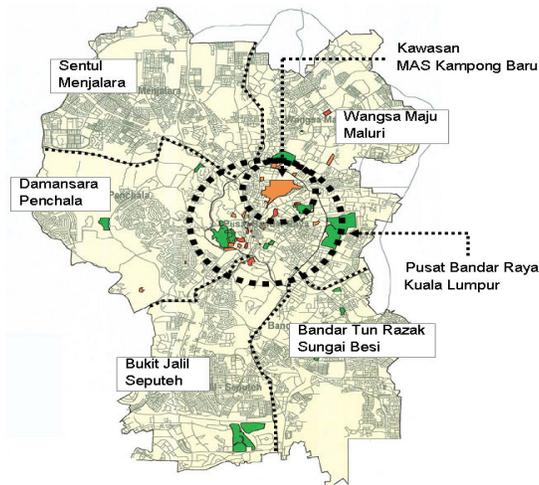
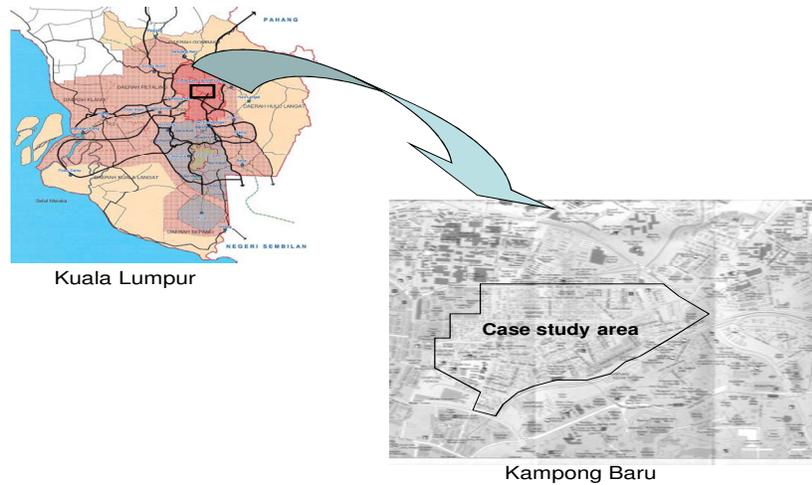


Figure 1. Location of the case study area

### Discussion and result: Transaction costs affecting land supply

Whenever actors performed land transaction a fixed cost should be spent as a consequence of transferring fixed and legal rights. Including fixed costs are legal fee and legal tax. For respondents who have experienced in buying the land, these type of cost have been considered before the land transaction occurred. In other

words, market have internalized externality so that transaction cost is already attenuated (Guerin, 2003). Another cost which can be known before transaction is lawyer's fee which is about 1.0 per cent of the transacted value. Table 1 summarizes the institutions, activities that produce transaction costs as well as type of costs.

**Institutions, activities, type of costs that affect landowners to release the land**

**Table 1**

<b>Institutions</b>	<b>Activities that produce transaction cost</b>	<b>Type of cost (lot number)</b>
Restrictions in interests	Decision to release land	Lose opportunity to have dignity and amenities (7,12,18,25)
Multiple ownership	To bring into market and development	Effort and time to get agreement among owners (11,36)
	To make transaction	Lose opportunity to get buyer and better value. (78 per cent of landowners)

*a) Transaction costs and the process of land transfer*

During the period 1996-2006, only certain buyers were actively participating in the market. It was recorded that among 43 transactions, only 26 buyers were actively participating in the land transactions. Three corporate owners had purchased more than one lot during 1996-2006 such as Naza Properties Sdn Bhd, Rah Properties Sdn Bhd who purchased 6 and 5 lots respectively, and two individual owners who purchased more than one lot. The second case is the difficulty to get buyer as the case of landowner of lot 31. Land owner of lot 31 intended to sell the land through a land broker, however after a couple of months the land was still unsold. The third case is the seller should be active in order to get the possible buyer. It was often that landowners had to approach an active buyer either to buy or to jointly develop their lands. Therefore, landownership restriction brings about the condition that the seller has to spend additional cost in term of efforts to get the best buyers due to limited buyers in Kampong Baru area.

In the case that landownership restriction is considered unsatisfactory to the current condition, the institutional change can be taken into account. By changing the contents of landownership restriction, the opportunity of the Malays to occupy the rights on the land will be attenuated. At a certain extent, the Malays have to lose their dignity because they have to release Kampong Baru to the non-Malay. In the long run, the identity of Malays in the urban area is no longer available. In addition, for the current government which has the power to change

the restriction, changing this institution provides various effects which could be costly, it isn't only as a matter of economic reason but also as a political reason due to its relation to the survival of the Malays in the urban areas (Nik A Majid, 1993).

When a question about the future of MAS area was asked to the respondents, for the undeveloped lots, 26 landowners or around 60 per cent disagreed on removing MAS status for Kampong Baru. The main reason is that Kampong Baru as the Malays inhabitant in the urban area and as the inheritance lands should be maintained. Only landowners of lots number 22, 24 and 42 who agreed that the restriction of interest should be removed, so that it will omit the limited demand that finally increase the land value. For the landowners of developed land, 100 percent disagreed to the removal of the MAS status from Kampong Baru area. Their common reason is that Kampong Baru symbolizes the dignity of urban Malay. Table 2 summarizes the institutions, the activities that produce transaction and also the type of cost that may happen.

#### Institutions, activities and type of cost which affects land transaction

Table 2

Institutions	Activities that produce transaction cost	Type of cost (Lot number)
Restrictions in interests	To obtain buyers	Opportunity to get the best buyers (assets specificity). (22,24,31,42)
	To change institution	Opportunity to have dignity (60 per cent of landowners) Political cost (for government)

#### *b) Institutions, transaction costs and the development planning*

The landowners' perception about development is shown by the argument that development responsibility is owned by the government. Landowners of lots 1, 3, 4, 6, 7, 19, 10, 11, 12, 14, 20, 23, 25 are those who agreed with this argument. Though, only landowners of lots 3, 7, 10, 11, 12 who supported this argument by deciding not to do anything and, in fact, intend not to develop the land. This perception can be understood by tracing back the history of the establishment of MAS area and how this land has been developed. The role of government since the establishment of this area and the development process is quite dominant (Suleiman, 2000), therefore the landowners did believe that the future of Kampong Baru is also in the government's hand. This perception will hinder the landowners' intention to develop their lands. This phenomenon is called bounded rationality, in which the decision they made based on the information and knowledge they have.

The second factor that may hinder the intention to develop the land is multiple ownership. As previously mentioned, landowner of lot 36 did nothing because no consensus can be made among landowners although meetings were

held many times. In addition, a similar case happened to lots number 24 and 30, although they still intend to develop the land, they are still doubtful about the possibility to develop their lands. In fact, landowner of lot number 30 intended to release the land. Both landowners have had experience because they have tried to develop the land but dispute among landowners caused the development process to fail.

Uncertainty is a condition that produces transaction cost and subsequently affects landowner decision (North, 1996). The first case that may belong to this characteristic which can be identified is uncertain situation about the availability of grant because of unexpected experience in the past. Landowner of lot 35 mentioned that he wanted to develop the land but he can do nothing since the grant is not in his possession. He realized that he and his family have the ability to develop a rental house since his sons are already employed well. In this case uncertainty situation has brought a deadlock condition so that the development is difficult to be materialized.

In preparing the planning proposal, the physical attributes of the land become the main factors such as the infrastructure and the land size. As previously mentioned, the lot size in Kampong Baru is 90 per cent less than 808.3 square meters (Ismail, 1999). To achieve economic land size for development, amalgamation of more than one contiguous small lot has to be taken. To amalgamate two or more lots is uneasy due to landownership difficulties, including different landowners' attitude such as refusal to participate or to further bequeath their inheritance. Although most of owners of adjacent lands agreed, but any rejection to participate will result in a failure due to difficulties to get consensus from all landowners.

A corporate owner, who have bought a number of lots in Kampong Baru but distributed at several sites mentioned about the additional cost that he has to pay:

“Holding cost. Due to nature of land-small and narrow, you have to buy a few lots around before the land can be properly developed. Must wait for surrounding owners to sell”  
(Corporate landowner of lot 51, 2006).

This statement indicates that because of the size of land, to bring the land into the development process becomes more difficult. In addition time and effort are needed in order to get agreement from owners of adjacent land to release the land. The problem will be more difficult if the adjacent land is also attached by multiple ownership case such as what Syamsul family has encountered. Since it has nothing to do with the land and at least land tax should be paid every year, an additional cost called holding cost will emerge.

Besides the physical attribute discussed above, landownership restriction also produced asset specificity characteristic, in more specific term it is called dedicated assets. The product of land development can only be occupied by

particular buyers, Malays. Therefore, the affordability of those certain buyer absolutely influences the investment that the owners will put in the development process such as what landowner of lot 51 mentioned:

“If too high a value (of the land), development cost is high. Selling price (will be) higher. So middle income Malays can't afford. Defeat the original intention –to allow Malay retain their ownership of Kampong Baru”

(Corporate landowner of lot 51, 2006; in the bracket is added by author)

This argument is also supported by the owner of Plaza Rah, who explained that limited market of developed property and the high price of the land in Kampong Baru dictated the owner/developer to develop building such that the Malays can achieve, for example high rise building. In addition, he also proposes a solution to the government to relax the restriction by giving temporary right to non-Malays, so that dedicated assets will be a little bit loose. Table 3 summarizes the variables that cause transaction cost and the type of cost.

#### Institutions, activities, type of cost in the planning of development

Table 3

Institutions/ Land attributes	Activities that may produce transaction cost	Type of cost (Lot number or case)
Ownership	To prepare planning proposal	Time and effort to get consensus (24,27,28,30,31,32, Syamsul case) Uncertainty (grant not in hand) (34,35,37)
Physical attribute	To prepare planning proposal	Time and effort to get economic land size (51)
		Time and effort to amalgamate lands (51)
Planning regulation	To prepare planning proposal	Opportunities to maximize the use of the whole surface of land (51)

#### c) Landowners' attitude and transaction costs approach

As shown in Table 4, combination of 4 attitudes and the current condition of the lands provided 6 possible decisions that landowners have selected. In the table, there are 8 landowners who have 2 basic intentions, which actually little bit contradictive, namely intention to sell and intention to develop. Table 4 illustrates these 6 decisions in the flow chart form. To illustrates the connection between intention to develop and sold, a dash line is used, particularly to indicate an ambiguous decision.

**Landowners' attitude and the current condition of the land**

**Table 4**

No	Attitudes	Final/current condition	Lots number
1	Not intend to sell Not intend to develop	undeveloped	4, 5, 7, 8, 10, 11, 12, 18, 25, 29
2	Intend to sell (Has not been sold) Not intend to develop	undeveloped	3, 21, 24
3	Intend to sell (Has not been sold) Intend to develop	undeveloped	1, 14, 31,35,39, 40, 41, 42
4	Not intend to sell Intend to develop (Has not proposed proposal)	undeveloped	2, 9, 13, 15, 16, 17, 19, 20, 22, 23, 25, 26, 27, 28, 30, 31, 32, 33, 35, 36, 37, 38, 41, 51, 6, 34,39
5	Not intend to sell Intend to develop (Has obtained approval and/or have developed)	developed	43, 44, 45, 46,47, 48, 49, 50
6	Intend to sell (Has been sold)	Sold	52

In relation to the transaction costs, there are various type of transaction costs that emerge during the processes to supply the lands for development purpose such as opportunity costs (to enjoy dignity, to enjoy amenity, to obtain good buyer, to achieve better land value, to maximize the use of the land), time (to have consensus among landowners, to achieve acceptable amount of compensation, to amalgamate lands, to achieve economic land size), effort (to have consensus among landowners, to achieve acceptable amount of compensation, to amalgamate lands, to achieve economic land size). For the government, the most related cost is political cost particularly when the government changes the current status of MAS area. Table 5 shows the relationship of the landowners' decision, the landowners' attitudes, and the type of transaction cost and the sources of costs that affect landowners' decision.

From Tables 5 and 6, it can be recognized that in the supply of lands for development, there are 4 units of transactions namely achieving a unity intention to sell, achieving a unity intention to develop, transferring the rights and obtaining approval for development. By adding the actors involved, the activities in the transaction as well as the manner landowners may supply land for development, the transaction costs approach in the supply of land is shown in Table 6.

**The relation of decision, landowners' attitude, sources of costs,  
type of cost and land owners**

Table 5

Decision	Landowners' attitude	Sources of costs	Type of cost	Land owners
1	Not intend to sell Not intend to develop	<ul style="list-style-type: none"> <li>▪ restriction in interest</li> <li>▪ multiple ownership</li> <li>▪ bounded rationality</li> </ul>	<ul style="list-style-type: none"> <li>• opportunity cost</li> <li>• effort</li> <li>• time</li> </ul>	4, 5, 7, 8, 10, 11, 12, 18, 25, 29
2	Intend to sell (Has not been sold) Not intend to develop	<ul style="list-style-type: none"> <li>▪ multiple ownership</li> <li>▪ physical characteristic</li> <li>▪ bounded rationality</li> </ul>	<ul style="list-style-type: none"> <li>• effort</li> <li>• time</li> </ul>	3, 21, 24
3	Intend to sell (Has not been sold) Intend to develop	<ul style="list-style-type: none"> <li>▪ restriction in interest</li> <li>▪ multiple ownership</li> </ul>	<ul style="list-style-type: none"> <li>• opportunity cost</li> <li>• effort</li> <li>• time</li> </ul>	1, 14, 31, 35, 39, 40, 41, 42
4	Not intend to sell Intend to develop (Has not proposed proposal)	<ul style="list-style-type: none"> <li>▪ restriction in interests</li> <li>▪ multiple ownership</li> <li>▪ physical characteristics</li> <li>▪ uncertainty</li> <li>▪ asset specificity</li> <li>▪ bounded rationality</li> <li>▪ planning regulation</li> </ul>	<ul style="list-style-type: none"> <li>• opportunity cost</li> <li>• effort</li> <li>• time</li> </ul>	2, 6, 9, 13, 15, 16, 17, 19, 20, 22, 23, 25, 26, 27, 28, 30, 31, 32, 33, 34, 35, 36, 37, 38, 41, 51, 39
5	Not intend to sell Intend to develop (Has obtained approval and/or have developed)	<ul style="list-style-type: none"> <li>▪ restriction in interests</li> </ul>	<ul style="list-style-type: none"> <li>• opportunity cost</li> </ul>	43, 44, 45, 46, 47, 48, 49, 50
6	Intend to sell (Has been sold)			52

**Transaction costs in the supply of land for redevelopment of MAS areas**

Table 6

Stage	Seller	Buyer	Activity	Transaction
<b>A. Supply land through land transfer</b>				
(1) Intention maturation	Individual owner	Owners as a unity	To have consensus of interest	Initiation
(2) Land transfer	Previous landowner	New landowner	To make a contract; negotiation	Transfer ownership

Stage	Seller	Buyer	Activity	Transaction
<b>B. Supply land through planning proposal</b>				
(1) Intention maturation	Individual owner	Owners as a unity	To have consensus of interest	Initiation
(2) Planning approval	Landowner/ developer	Local authority	To make planning proposal and to get approval from local authority	Procurement

Intention maturation means to assure that the intention to sell or to develop is the result of comprehensive consideration to the existing internal and external factors. In other words, the intention to sell and to develop the lands is influenced by the existing institutions such as restrictions in interests and land development regulation and also the cost benefit consideration for example countable values and uncountable values. Initiation as the transaction in the intention maturation stage consists of any (initial) steps to ignite and to mature the intention to either sell or develop the land. For example, landowners don't intend to release the land because they don't want to lose the opportunity to enjoy amenity and dignity currently they obtain (landowners lots 7, 12, 18 and 25). Landowners don't want to sell their land since they don't want to spend the cost in the form of time and effort to achieve consensus among them (landowner lots 11, 36). In the intention maturity stage, individual landowner who has personal interest is the seller, whilst landowners as a unity are considered as the buyer.

In the supply of land through land transfer, previous owner is the seller and the new owner is the buyer. Activities involved in this stage are including getting information on the land price and buyers, to negotiate as well as to make a contract. Ownership is the object to be transferred. From the empirical study, landowner of lot 31 failed to transfer the land because restrictions in interests have produced asset specificity so that only limited buyer can be found.

Procurement is the transaction in the supply of land through planning proposal. Procurement means the seller expect something, for example approval, from buyer by obeying any requirements established by the buyer. In this case, the seller is the developer or landowner, the buyer is the local authority. Any cost spent to fulfill requirements and to get approval is considered transaction costs. For example corporate landowner lot 51 until now have not proposed the planning proposal since the size of the land don't fulfill the economic size for development. Syamsul' family failed to apply planning approval since the requirement to get approval from all the landowners.

From land attributes point of view, there are a number of attribute that have caused transaction costs. In the transfer of rights, the establishment of Kampong Baru as indigenous land and also restrictions in interests have provided dignity and amenities for Malays, specifically landowners, and hindered landowners to release the land. It is due to transferring the rights, at the same time loosing the opportunity to enjoy dignity and amenities. In addition, ownership restriction has caused assets

specificity since only certain buyers can buy the lands, so that sellers lost opportunities to get the best buyer and the best price. Multiple ownership also produced transaction cost particularly time and efforts to get landowners' consensus. Uncertainty about valuation system was also identified as the source of transaction cost particularly in the process of obtaining acceptable compensation.

In the land development process, ownership restriction was identified as the source of assets specificity particularly any developed property located in Kampong Baru area. This characteristic influenced landowners or developers decision to put investment in the development of MAS lands. While during preparing planning proposal, physical attributes of the lands particularly lots' size dictated to the various costs such as time and effort to amalgamate the lands and to achieve economic size of the land.

Institutions, land attributes, transaction costs and land development create a circular linkage. The existing institutions and the existing attributes of the lands will affect the amount of transaction costs. By measuring the transaction costs, actors make decision such as to sell or to develop the lands. At a certain extent, actors may change the institutions if these institutions are no longer capable either to accommodate their interests or to solve their problems efficiently. Positive decisions will stimulate development, so that development can be materialized. The output of the development then changes the current attributes of the land.

### **Conclusion**

This research has identified institutions, including property rights, and land attributes that affect actors' decision to supply land in the development process. Two formal institutions have important roles in providing transaction costs namely ownership restriction and valuation in practice. Ownership restriction produces asset specificity in the land transfer and also limited buyer since only Malays can occupy the lands. This asset specificity further more causes the value of land and property attached on the land become lower than those that don't have restrictions. It means asset specificity will reduce the opportunity to get the maximum value of the land. Valuation in practice so far produces uncertainty since, according to empirical data; no standardized output was given to the lands that have typical characteristics. This uncertainty produces additional cost to negotiate and to end up at the acceptable value.

The prominent land attributes that yield transaction cost are the small land size and fragmented rights or multiple ownership. The former hinders the land development since additional costs (could be money, time and effort) are needed to have economic land size by amalgamating two or more adjacent lots. The latter produces transaction costs to get consensus among landowners about the future of the land. Location of MAS area surrounded by developed lots and in the urban area indirectly provides transaction costs. Currently MAS residents or landowners can benefit from the existing public facilities located a distance to MAS area. This

amenity and the dignity because the indigenous land become attributes that are hard to be valued, which subsequently affect landowners to release the lands.

Institutions and land attributes will dictate the characteristics of transactions such as uncertainty and assets specificity which then produced transaction costs which may be in various types of costs such money, time, effort and opportunities. This transaction costs then influenced landowners' decision based on the cost consideration to bring the land either in the market or in the land development process. In the case that the transaction costs are quite big and the actors can't effort it, to change existing institutions is an alternative way to overcome the obstacle of the development. The actors' decision, to actively or passively participate in the land market and land development as well as to modify the institutions, will influence the output of development, subsequently affect the existing institutions or the current land attributes.

This research has identified institutions and the way existing institutions including property rights together with land attributes produce transaction costs which subsequently affects actors' decision to supply the land for redevelopment in the case study area. Basically, the establishment of MAS area as indigenous lands and ownership restriction attached on the lands are the important formal institutions that affect land supply constraint in the MAS area. Ownership restriction produces asset specificity which subsequently causes limited market since only Malays may occupy the lands. As a result developers and investors are not interested in putting their investment in the MAS area. So the development in MAS area is relatively slower than the development in its vicinity area.

This condition, on one hand, limits the possibility to optimize the potential of the land in the MAS area and subsequently reduce the opportunity for the owner to get optimum return from the lands. Finally, it affects the prosperity of the landowners. On the other hand, residents or landowners in MAS area receive a betterment condition, since they can get benefit from the development of facilities at the surrounding areas. Limited affordability and better condition affect landowners' attitude in managing their lands.

At the same time, the establishment of Kampong Baru as indigenous land has created close relations between landowners and their land. Land is considered as the source of dignity and asset that should be preserved. As a result, instead of releasing the land to other people, they bequeathed the land to their offspring. So, the physical size of the land will be getting smaller and smaller, or the rights on the land are distributed to more and more number of people. This multiple ownership or fragmented rights is one of the physical attributes that produce transaction costs and subsequently affect landowners' decision to bring the land to the market and the development process.

For the future of Kampong Baru area, a comprehensive redevelopment planning that considers the benefit of all societies should be established particularly the Malay settlement in the urban area. In doing so, a powerful body responsible for the redevelopment of MAS area should be founded. This body consists of at

least three departments that are responsible to handle financial aspect, land status and land planning aspect as well as legal aspect. Prior to the redevelopment, some formal institutions have to be reviewed such as ownership restrictions and valuation in practice so that asset specificity and uncertainty can be reduced. In relation to the actors' attitude and the affordability of Malay empowerment programs for landowners and private Malays companies should be taken into account.

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## Appendix A

## The Location of Study Area

