

**RELATIONSHIP BETWEEN NEIGHBORHOOD
PHYSICAL DESIGN AND INSTITUTIONAL CHANGES:
PATTERNS AND THEIR EFFECT
ON HOUSING PRICE IN MALAYSIA**

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**Relationship between Neighborhood
Physical Design and Institutional Changes:
Patterns and Their Effect on Housing Price in Malaysia**

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requirements for the degree of Doctor of Philosophy**

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To my beloved husband Khairul Anuar, who gives me enduring support and love,

To my little girl Damia Zahra, who was born during this fantastic journey,

To my late father Allahyarham Misnan bin Jurimi, who left me with courage,

To my beloved mother, parents-in-law and families who are always proud of us

ABSTRACT

Housing neighborhoods, in the context of urban economics can be viewed as a nexus of contracts that assign property rights over private and shared resources, and over various neighborhood attributes. However, previous studies have indicated that the fragile assignment of property rights in the conventional open neighborhood can contribute to the neighborhood instability over time. As a result, through the process of institutional change, new and more efficient institutional forms will gradually emerge. While, a vast amount of studies suggested neighborhood privatization as a possible solution to the problem of instability with assignment of property rights, it appears that not all neighborhoods are able to transform under the existing neighborhood conventions and laws. Thus, there is a crucial need to study and consider other forms of institutional innovation that can resolve those problems. Therefore, this research proposes a theoretical foundation based on property rights and new institutional economics to initiate the analysis of the transformation of physical design and institutional arrangement in urban neighborhood development in Malaysia.

This research takes advantage of the institutional transformation in Malaysia over the year 1960-2010. It is noticed that some conventional open neighborhood can be reinforced into guarded neighborhood and enjoy the benefits similar to that of gated community, while the others cannot. Therefore, this research aims to identify the dynamic interrelationship patterns between neighborhood physical design and institutional arrangement that contribute to maximize housing price benefits and strengthen the conventional open neighborhood institution in Malaysia. The research begins by examining the unique features of the causes, process and outcome of institutional change through extensive literature reviews, interviews, and field observations. Secondly, a conceptual framework has been developed based on the identified unique features of institutional and physical design characteristics. Third, the framework is used to evaluate the effect of institutional change on housing price and appraise those relationships through critical comparisons of two neighborhoods. This research found a unique anomaly when one developer has developed two identical neighborhoods in the same township, but under different land titles. The

gated community is developed under the strata title, while the guarded neighborhood developed under the individual title. These differences generated an exogenous allocation of property rights across the neighborhood, enabling researchers to measure their effect on housing price.

This research identified the dynamic interrelationship that has taken place in two dimensions. First, in order to avoid further neighborhood conflicts, both physical and institutional designs of conventional open neighborhood (CON) ‘reinforce’ into guarded neighborhood (GN) and ‘accompanied’ each other during the transformation process. Second, learning from the previous obstacles, the physical and institutional designs of the emerging new guarded neighborhood (GN) ‘adopted’ the same physical and institutional designs similar to that of gated community (GC). Finally, this research recommends a conceptual framework that demonstrate the relationship between the neighborhood physical design and institutional arrangement of CON, GN and GC, and provides urban policy-makers with an objective reference to strengthen the conventional open neighborhood institution. The conceptual framework may also be a strategic tool in understanding the local institutional change in other cities and a foundation to provide research directions for future studies in this area.

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CHAPTER 1

INTRODUCTION

This chapter provides a general introduction to the research work on understanding the relationship between neighborhood physical design and institutional changes. It comprises of the research background, research questions, research aim and objectives, significance of the research and the research approach taken. The chapter ends with a list of thesis structures.

1.1 Research Background

This research seeks to understand better how the local institutional change in Malaysia operates to strengthen the conventional open neighborhood institution in response to the prevailing physical and institutional constraints. Neighborhoods in spatial term cover most of the urban space, consisting of public and private spaces that shared, used and misused by the community. When the economy of a nation develops and urbanizes, cities will grow and, as a result, existing shared spaces in conventional open neighborhoods becoming congested. In response, more efficient forms of neighborhood governance will emerge, either by processes of trial and error, policies or market experimentations. According to Webster (2003), long-term urban neighborhood evolutionary change has been anticipated, involving the emergence of community conventions or government regulations that better define

rights and responsibilities. In addition, its will either result in the formation of formally constituted collective consumption organizations or to a fragmentation of public spaces into smaller title units of private property rights. In relation to this research, the conventional open neighborhood (CON) predicted to gradually changed into club neighborhood or gated community (GC).

Economists have suggested neighborhood privatization as a possible solution to urban problems. Theoretically, neighborhood will undergo a process of institutional change, which are inclined to enclose and limit the access to secure the property rights and solve common problems (Lai and Yu, 1995; Webster, 2003). Extensive studies on the emergence of gated communities and resident perceptions already done by many scholars. For example, gated community addresses the human nature of seeking for privacy and exclusivity, the flight from fear and defenses from any internal and external threats (Dillon, 1994; Hubert and Delsohn, 1996; Low, 2003; Marcuse, 1997; Wilson-Doenges, 2000; Webster, 2002; and Grant and Mittelsteadt, 2004) and to meet the demand of various niche markets and to attract consumers searching for a sense of community, identity and security (Webster, 2002; Grant and Mittelsteadt, 2004). In some cities, older neighborhoods are closing off streets to enhance local security and reduce traffic (Blakely and Snyder, 1997; Grant and Mittelsteadt, 2004). Hence, fortified and enclaved developments have become an increasingly common feature of contemporary suburban building patterns (Blakely and Snyder, 1997; Blakely, 1999).

However, these phenomena may challenge the spatial, organizational, and institutional orders that have shaped modern cities (Webster, 2002b). Although gated

community may give a sense of security and prestige, it may segregate and create localized urban spaces, rendering the urban space inaccessible for those living outside the gates. The challenges of gated development includes the issues of how to let the market supply of a gated community without critically fragmenting cities; how the market can allocate rights over shared neighborhood spaces without physical exclusion; and how the government can maximize the benefits while minimizing the effects of social fragmentation.

To facilitate this research, the combination of the economic theory of property rights and new institutional economics (NIE) is probably the most suitable approach to be taken to examine the emergence of new institutions and the process of institutional change. The most commonly accepted definition of new institutional economics (NIE) is that institutions are the “rules of the game” in a society, together with their enforcement arrangements (North, 1990). Institutions play a significant role in society to reduce uncertainties by establishing a stable structure for human interactions. Institutions will continually change, which will alter the choices that are available to society. If existing institution are no longer efficient in responding to exogenous parameters, then newer, more efficient institutional forms will gradually emerge (Kingston and Caballero, 2006). Most scholars have proposed various theories and scenarios that will give significant impact to institutional change including evolutionary theory, bounded rationality, the role of history, path-dependence and equilibrium that will across individuals, firms and countries. Kingston and Caballero (2006) compared several recent theoretical approaches to conceptualizing institutional change, in an effort to clarify areas of consensus and disagreement regarding the causes, process, and outcomes of institutional change.

Thus, it might be more comprehensible to illustrate the process of change by describing the role of institutions history, causes and conflict happening in the institution, process of institutional change, and the outcome of these changes.

Webster (2003) stated that extensive studies have been done on the economic models of the neighborhood that broadly rest on the consumption sharing neighborhood concepts such as geographical theory of market areas (Christaller, 1966; Losch, 1939/1954); urban bid-rent theory (Alonso, 1964); hedonic price theory (Rosen, 1974); local public goods theory (Tiebout, 1956); club theory (Buchanan, 1965); and hybrid theories (Hochman et al., 1995). Furthermore, Webster (2003) have also highlighted three particular limitations of neo-classical urban partitioning models which is the failure to model adequately the transactions that create and sustain a neighborhood, the assumption that the costs incurred in making such transactions are zero, and the assumption that property rights are fully assigned. He further explained that the existing urban theory is for this reason closely related to Olson's (1965) self-interested explanation of group formation or collective actions. This research has also identified several relevant studies, including group formation and optimal size (North, 1990; Williamson, 1998), theory of club (Tiebout, 1956; Buchanan, 1965), government interventions (Tullock, 1989;1993) co-operative organizes (Barzel, 1997), transaction costs theory (Williamson, 1985), property rights theory (Grossman and Hart, 1986) and The Nature of the Firm (Coase, 1937).

In relation to studies on urban neighborhood, Webster and Lai (2003) developed the urban theory on property rights propositions by looking at neighborhood definition, organization, the process of change and neighborhood efficiency. Therefore,

according to Webster and Lai (2003), neighborhoods define as a nexus of contracts that assign rights over private and shared resources and over their various attributes. The organizations that govern those contracts and the contracts themselves evolve over time in response to changes in the value of resources and adjustments in the costs of exchanging and combining property rights. If existing neighborhood institutions are no longer efficient in adapting to changes, it will evolve, and more efficient forms of neighborhood will emerge. Neighborhood efficiency plays a significant role in determining neighborhood stability. An efficient neighborhood has been defined as one in which all those having an influence on the total value of a neighborhood will have a residual claim on the benefits created by the resources that they influence (Webster, 2003). However, not all neighborhoods are able to change under existing neighborhood conventions and laws. Therefore, there is the crucial need to develop and propose other forms of solution. For this reason, this research supports the idea that the hierarchy of shared spaces in a city should correspond to a hierarchy of governing institutions (Webster, 2007). Physical and institutional designs are both important in creating sustainable public realms and avoiding the tragedy of the urban commons.

This research argues that past studies have often focused on the research of the emergence of gated communities and their implications. However, previous scholar has yet to address the actual problems facing by the existing urban neighborhoods, especially the conventional open neighborhood (CON), and have failed to connect the advantages of the gated development (GC) in reinforcing existing neighborhood institutions (see Figure 1.0). Past literatures have also focused on the physical and topological designs of gated communities, without further addressed the

requirements of better institutional arrangements. By examining the emergence of gated community from different perspectives, this research will focus on how to strengthen the conventional open neighborhood institution in response to the prevailing physical and institutional constraints.

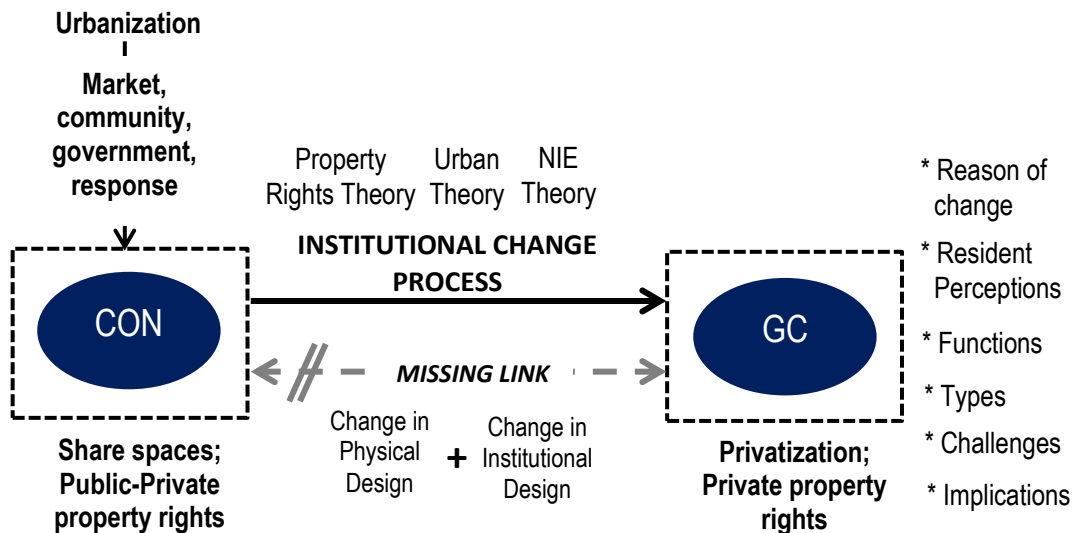


Figure 1.0 Missing link between gated community developments and conventional open neighborhood

In line with the aim of this study, this research examines the institutional transformation in Malaysian housing neighborhood over the year 1960-2010. Since the 1990s, Malaysian cities have undergone drastic urban expansion, exposing existing urban neighborhoods to various undesirable urban problems. Markets and communities spontaneously respond to stabilize and strengthen the existing neighborhoods in order to correct these imbalances. For example, property developers have introduced new development known as gated community (GC), to address the concern about rising crime rates and also to offer a sense of luxury living. In addition, existing middle-class community who lived in conventional open neighborhood (CON) begins to restrict access and to transform their neighborhood

into guarded neighborhood (GN). However, both practices are considered unlawful due to limited rules. In 2007, amendments were made to the Strata Titles Act 1985 by the Malaysian government to permit the emergence of gated community and guarded neighborhood with subject to certain restrictions. Although the guidelines are relatively strict, it is notice that some conventional open neighborhood (CON) can reinforce into guarded neighborhood (GN) while the other not. It is more interesting to note that a unique anomaly identified when one developer has developed two identical neighborhoods in the same township, but under different land titles. Guarded neighborhood developed with individual title while gated community with strata title. These differences generated an exogenous allocation of property rights across the neighborhood, enabling the researchers to measure their effect on housing price.

1.2 Research Questions

By responding to the theoretical foundation on property rights and new institutional economics (NIE), this research attempts to answer the overall question of *how the dynamic interrelationship patterns between neighborhood physical design and institutional arrangement contribute to maximize housing price benefits and strengthen the conventional open neighborhood institution in Malaysia*. Specifically, this research examines the following sub-questions:

***Q1:** What are the unique features identified during the transformation process of Malaysian housing neighborhood?*

It is important first to understand the historical background on how housing neighborhood in Malaysia changes from the property rights and new institutional economics perspectives especially the connection between change of neighborhood forms with the change of formal and informal rules. It will then followed by identification of the causes, processes, and outcomes of change. Identifying the unique features of local institutional change and comparing the finding against those of other countries will give more understanding of the existing urban neighborhood institution and its relationship with the process of institutional change.

***Q2:** How does the characteristic of neighborhood physical and institutional designs interrelate between different neighborhoods form to strengthen the neighborhood institution?*

This research supports the idea that problems in conventional open neighborhood could be resolved by restricting property rights assignment over neighborhood spaces by incorporating physical design with institutional design. To develop a conceptual framework, it is important to understand firstly how neighborhood physical design relates to neighborhood institutional design and why those interrelationships needed. Therefore, the identification of the patterns and characteristics of neighborhood physical and institutional design will provide the basis upon which the effects on housing price can be realistically measured and used to access the neighborhood stability at the neighborhood level.

Q3: *How can the dynamic interrelationship between neighborhood physical and institutional design be addressed to maximize housing price benefits and strengthen the conventional open neighborhood institution?*

The identification of physical and institutional designs evaluated with references to the existing conventional open neighborhood. This research has identified a unique case study in Malaysia which may provide an exogenous allocation of property rights when a developer develops two identical neighborhoods patterns in the same township, but under two different land titles. The solution to the dynamic interrelationship may provide urban players with objective measures in their efforts to strengthen the conventional open neighborhood institution. The framework can also be regarded as a strategic tool in understanding the local institutional change and provides research direction for similar studies in the future.

1.3 Research Aim and Objectives

The primary aim of this research is *to identify the dynamic interrelationship patterns between neighborhood physical design and institutional arrangement that contribute to maximize housing price benefits and strengthen the conventional open neighborhood institution in Malaysia, in response to the prevailing physical and institutional constraints, particularly by responding to the theoretical foundation of property rights and new institutional economics (NIE)*. To achieve the aim, the following are the specific objective of this research:

1. To identify the emphasis on neighborhood physical and institutional design by reviewing the extensive empirical and theoretical studies of the urban neighborhood and institutional change;
2. To examine the unique features of the causes, process and outcome of the neighborhood institutional change in Malaysia;
3. To develop a conceptual framework for examining the relationship between neighborhood physical design and neighborhood institutional design, and their effect on housing price;
4. To illustrate the effect on housing price and generalize the relationship patterns through critical comparisons of two neighborhood through a case study;
5. To recommend the conceptual framework as a strategic tool in understanding the dynamic interrelationship patterns between neighborhood physical design and institutional changes that contribute to maximize housing price benefits and strengthen the conventional open neighborhood institution in Malaysia.

1.4 Significance of the Research

This research proposes a theoretical foundation based on property rights and new institutional economics to initiate the analysis of the transformation of physical design and institutional arrangement in urban neighborhood development in Malaysia. This field of study is important for researchers in urban design, housing neighborhood, community development, property rights over public space and new

institutional economics. There is several arguments support the significant of this research. For example, although economists have suggested neighborhood privatization or gated community as a possible solution to urban problems, it may challenge the spatial, organizational, and institutional orders that have shaped the modern cities (Webster, 2002b). In addition, past study fail to connect the advantages of gated community in reinforcing CON institution, and focus mainly on physical and typological design without addressing it from the property rights and the new institutional economics (NIE) perspectives. Furthermore, not all neighborhoods are able to change or transform into gated community under existing neighborhood conventions and laws (Webster, 2007). Moreover, the existing economic models of the neighborhood fail to model adequately the transactions that create and sustain a neighborhood, the assumption that the costs incurred in making such transactions are zero, and the assumption that property rights are fully assigned (Webster, 2003).

To fulfill the research aim, the neighborhood chosen for the case study should be representative of a successful Malaysian neighborhood development, comparative in nature, able to eliminate the selection bias and have an endogenous assignment of property rights. This research has not been examined in Malaysia through the property rights and new institutional economics (NIE) perspective. Therefore, this research will add to the existing body of knowledge with respect to:

- 1) Propose a theoretical foundation based on property rights and new institutional economics to initiate the analysis of the transformation of physical design and institutional arrangement in urban neighborhood development, specifically in Malaysia.

- 2) Support the idea of urban design should be accompanied with institutional arrangement through appropriate relationship between neighborhood physical and institutional designs derive from a unique case study in Malaysia,
- 3) Recommend a conceptual framework that can be used to study, reduce or solve similar neighborhood problem in other cities by considering the differences over legal and political environment, or can perhaps to be apply to other types of urban development such as commercial or infrastructure development in order to test either it can help to increase property price benefit or strengthen the development stability;
- 4) Improving the understanding among various urban players to strengthen the CON institutions and provide the dynamic interrelationship and detail physical and institutional design characteristics that may help facilitate collaboration and communication of all urban policy-makers of similar problem.

The expected outcome of this research is the conceptual framework. The framework forms as a strategic tool in understanding the dynamic interrelationship patterns between neighborhood physical design and institutional changes that contribute to maximize housing price benefits and strengthen the conventional open neighborhood institution in Malaysia. It anticipated that the framework will facilitate in measuring the effect on housing price from the relationship. It will benefit other urban policy-makers to consider the interrelationship with similar problems in order to strengthen the conventional open neighborhood institution.

1.5 Research Approach

The preliminary step in this research will involve the collection of relevant information associated with urban neighborhood instability issues, in particular, the conventional open neighborhood. A triangulation strategy will utilize which combines qualitative and quantitative methods, using primary and secondary data. Qualitative techniques are primarily used to identify the characteristics of the neighborhood institution and physical design and then to examine its dynamic interrelationship. Subsequently, unique features of local institutional change in Malaysia through causes, process and outcome of change will be reviewed. On the other hand, quantitative techniques will be used to identify the effects on housing price and to generalize the neighborhood patterns through a critical comparison of two neighborhoods through a case study.

This research will utilize a combination of data collection methods including interviews, observation, and examination of relevant official documents and extensive literature reviews. All possible methods and strategies were carefully considered, and the appropriate methods are chosen. The data collections are divided into three stages. In the first stage, data will be collected for the purpose of the general investigation. In the second stage, data collection is made to verify the previous data and to develop the framework. The third stage of data collection will be used to examine and validate the framework.

The choice of location for the case study is important. This research agrees with Galiani and Schargrotsky (2010) that formal property rights are endogenous. To

fulfill the research objectives of evaluating the scenario in Malaysia, the neighborhood chosen for the case study should be representative of a successful Malaysian neighborhood development, comparative in nature, able eliminates the selection bias and endogenous assignment of property rights. Data collected will be analyzed accordingly by utilizing several computer softwares.

1.6 Structure of the Thesis

This thesis consists of seven (7) chapters. A brief summary of each chapter is outlined in the following sections. The framework of the thesis is illustrated in Figure 1.1. *Chapter 1 Introduction* comprises of the introductory section that develops the reason and the direction of this research. It introduces the research background and research question on the issue of this research, identifies the research aim and objectives, explains the significance of the research, presents a brief discussion on research approach, and finally outlines the overall structure of the thesis.

Chapter 2 Review of the Literature summarizes the current state of knowledge by addressing relevant background literatures. Topics included in this chapter are the theoretical and empirical studies on the institution and institutional change in an urban neighborhood, emphasizing on the characteristics of the neighborhood institutional and physical design. Related indicators for measuring the economic effects, will be identified, and a review of the transformation process of urban neighborhoods in Malaysia will be made. The research gap, which justifies the need for this study, will be established after an extensive evaluation of existing literature.

Chapter 3 Research Methodology and Procedures describes the triangulation process used as the primary research methodology, explaining qualitative and quantitative research methods and specifying the reasons for selecting unique case study along with data collection, data analysis and explanation of the methods of research.

Chapter 4 Transformation of the Housing Neighborhood in Malaysia highlights the first stage of the survey results on the unique features of the causes, process and outcome of change during the transformation process of the housing neighborhood in Malaysia. The outcome of change are divided into three neighborhood forms, namely, the conventional open neighborhood (CON), guarded neighborhood (GN) and gated community (GC).

Chapter 5 The Pattern of Neighborhood Institutional and Physical Designs continue to describe in detail representations of results according to the data derived from observation, personal interviews and relevant official documents of the second stage survey. It evaluated the transformation of the conventional open neighborhood (CON) into guarded neighborhood (GN) and the interrelationship between GN and gated community (GC). The institutional and physical design patterns and related characteristics will be elaborated further. A conceptual framework will be developed to investigate the process of institutional change and their effect on housing price by considering the unique identifying patterns between guarded neighborhood (GN) and gated community (GC).

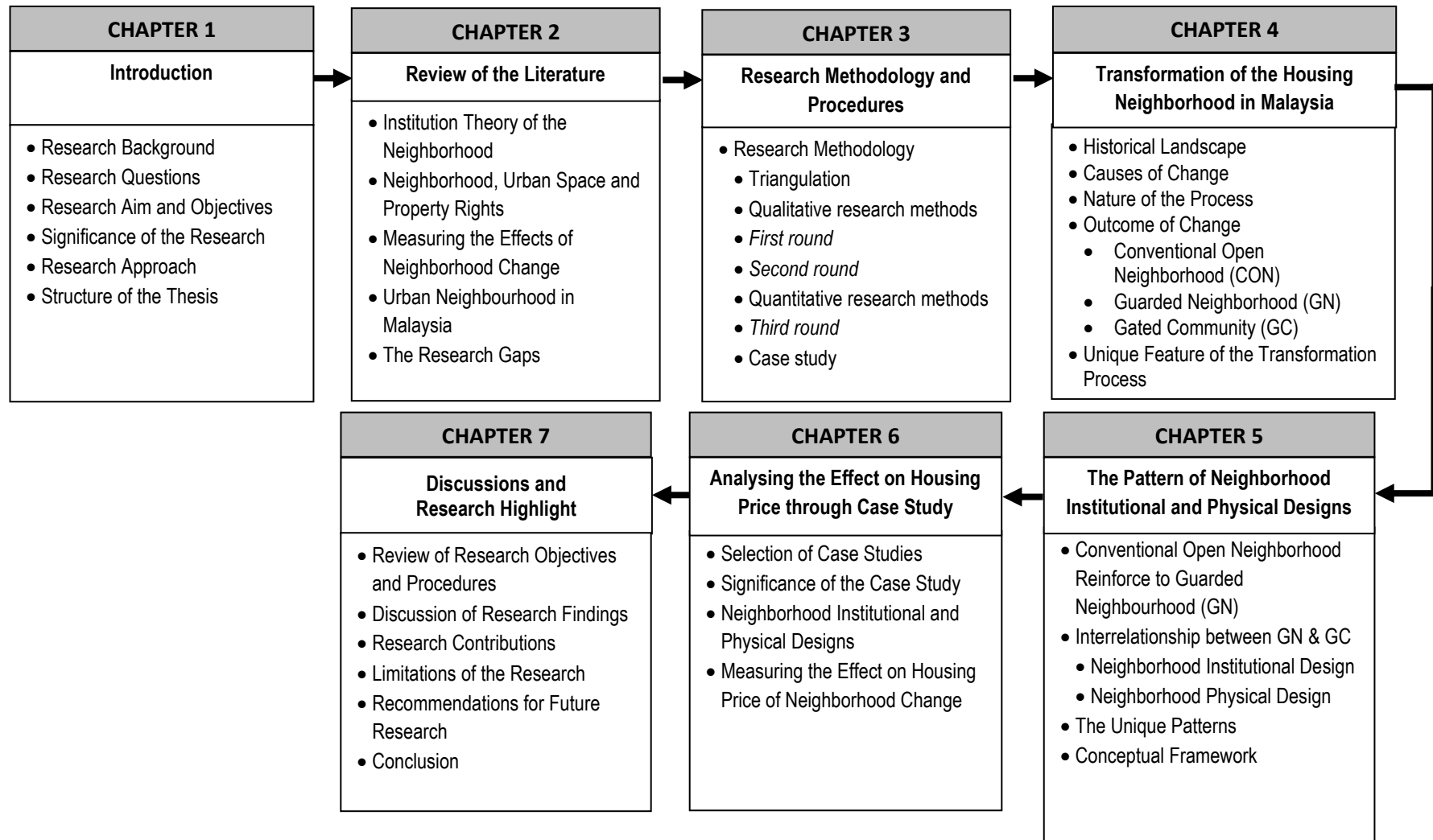


Figure 1.1 Thesis Framework

Chapter 6 Analyzing the Effects on Housing Price through Case Study highlights the third round of data collection on the case study procedure and results. This quantitative research section begins with the selection of case studies, their significance to the research and highlights the research interrelationship between two (2) neighborhoods. By comparing these two neighborhoods, the related effect on housing price will then be evaluated.

Chapter 7 Discussions and Research Highlight reviews the research objectives and research procedure. The significant research findings are discussed, and the implications and contributions of the findings are presented. The chapter concludes with a note on the limitations of the research and the recommendations for future research endeavors.

1.7 Summary

This chapter lays the foundation for this research work. It first introduces the research background, highlighting several crucial obstacles over conventional open neighborhood. The questions on institutional change are presented together with the research aim and objectives. Subsequently, the significance of the research is identified, and the research approaches are briefly discussed. Finally, the structure of the thesis is outlined, showing the overall framework of this research. On this background, the research proceeds with a detailed review of the literature in the next chapter.

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