Institutions and the provision of the Malaysian industrial property market

Norhaya Kamarudin, PhD

Department of Property Management
University Technology Malaysia

Abstract

This paper examines the role of institutions in determining the industrial property provision in Malaysia. It focuses on the changing broad social, political, legal and economic structure, which has affected the formation and the organization of the industrial property market. Industrial policy has considerable influence in shaping the industrial property market growth through the changes in the institutional structure of the property market. The changes are assessed through the types of property provision for industrial activities, the types of agents that operates and the changing activities of the industrial property market. The property provision has changed considerably from the traditional factory buildings to modern and flexible factory buildings following changes in the industrial sector. The variations to the industrial property market are the outcome of the process of interaction of property market agents operating in the market with the institutional provisions of the property market.

Keywords: institutions, property market structure, industrial policy, property provision

1. Introduction

This paper describes the importance of institutions in determining the provision of industrial properties in Malaysia. It identifies the function of institutions, which provide the structure for property market operation. Ball (1996; 1998) identifies institutions as the ‘structure’ providing for a network of relationships associated with the provision of particular type of building embodied within that organisation. Similarly, North (1990) describes institutions as ‘rules or norms’ necessary for the provision of property market. They act as a ‘network of relationship’ for property market to operate. As institutions are created to cater for the need of specific markets, the institutional structure of the property market therefore tends to vary between location, sector and time. An important aspect that requires attention is the role of these institutions in forming the system for property market operations. Institutional changes and the changing forms of organisational structure are important aspects in determining evolutionary changes of the property market pattern.

The creation and formation the property market structure are examined and illustrated through the changing pattern of the industrial property market provision. This encompasses the institutional property market framework, agents’ interaction within the market and the outcome of the process of the interaction as illustrated through the provision of the property market. Through this interactive activity, the market is seen, as an organised entity where changes in this organised structure will lead to changes in market outcome.

The focus of the following discussion will be made in the context of the industrial property market. The industrial sector in Malaysia has experience different phases of change and this has contributed much to the nation’s development (Jomo et al., 1997). The changes in the industrial sector can be traced from the colonial rule to the rise of modern industrial development. Throughout the changes, policies have played an important part in shaping the industrial sector. Institutions have an important role here since the force of the power structure (Mair and Miller, 1991) arise from government policies have much affected the industrial sector and properties that are necessary for such activities (Fothergill at el., 1987).
The next section identifies the framework for understanding institutional analysis of the Malaysian industrial property market. It relates to the creation of various institutions, which determines the structure for property market to operate. Section 3 describes the components of the property market structure in which the industrial property market exist. Section 4 examines the influence of institutions in shaping the evolutionary provision of the industrial property market. Section 5 summarises the achievement of the paper.

2. Framework and structure for institutional analysis

The framework for analysing institutions governing the organisation of the industrial property market adopts the view that institutions create the property market. Adopting North's definition of institutions as 'rules of the game in a society' (North, 1990), the property market tends to differ across society and this could be the basis to explain the variation in the property market across time, place and sector. A review of the literature suggests that the approach is suitable to explain the variations in the property market (Ball et. al 1998; D'Arcy and Keogh, 1997; 1998; Keogh and D'Arcy, 1994; 1996; 1998; Krabben 1996; Norhaya, 2004). The institutional approach recognizes the imperfect characteristics of the property market such as the high transaction cost.

The framework in this paper is adapted from Keogh and D’Arcy (1998) property market institutions, which suggests that the property market institutional structure comprises of a three level hierarchy and these levels interact with each other and in the process determine the outcome of the property market. The first level of the hierarchy is the external influence to the property market. These are the broad social, economic, political and legal environments in which the property market operates. The broad environment will shape the structure of the property market in various ways. The changes in external environment have affected the role of institutions, which determined the property market provisions. These institutions are created so as to enable the industrial property market to be formed and to facilitate use, trade and development of industrial properties. The roles of agents that interact with the property market structures formed by institutions forms the lowest institutional level. The outcome of the property market process is seen, as processes of reaction of agents, which exist from the formation of the property market.

3. The institutional organisational structure of the Malaysian property market

The institutional context of institutions in the Malaysian industrial property market is to identify the different institutional levels, which form the industrial property market. There is need to examine the institutional environment represents the wider forces of social, economic, legal and political influence on the property market. Then there is a need to relate the formation of the society with the institutions created for the property market to function. Finally at the last level are the agents that are responsible in shaping the property market. Agents may seek opportunity from the property market institutions that were formed and hence interact within themselves in attaining collective or individual objectives. Collective actions of agents determine the outcome of the property market process (Keogh and D’Arcy, 1998), which can be illustrated by property market trends and patterns.

3.1 The institutional structure of the society

In the Malaysian context the political structure have affected the type of property market structure that exists as reflected by the type of communities that live in the country. Ongkili, (1985) observed that it was this multiracial background, which dictates the nature and course of the political development. The economic development agenda has affected the main land and property market through the imposition of various policies. Although these policies have no direct impact on the property market, they formed the wider framework of the property market organisational structure. As far as industrial properties are concerned, the changes in policies have affected economic changes (Yasuda 1991).

The move towards industrialization from agriculture base started in the early 1960s. The increasing importance of industries to the economy can be traced by its contribution to the economy. In the 1970s the industrial sector contributes 13 per cent to the economy and by 1990 it has become the main contributor to the domestic economy. The growth of the economy has encouraged development, which encourage interest for property asset and management services. This could be seen in the growth of the property professional service described in later sections.

The legal system defines the broad legal framework of the country. It defines the mechanism of how rights to property can be interpreted through various legislations. The extent of these rights will be reflected in the property market structure. The Malaysian Constitution acknowledges property rights of the people. Although the constitution acknowledges individual property rights, the state was also given the right to compulsorily acquire private lands for public purposes or for the economic development. The state rights to acquire private property were documented in the Land Acquisition Act 1960. The statute provides the procedures of how land can be compulsorily acquired and how adequate compensation
are determined. In the broad sense the Malaysian legal system can be described as stable and just. This is because the law making procedures are clear and systematic where changes to the law will have to consider the rights of the people.

The social legal and economic structure forms the broad environment in which the Malaysian property market is structured and operated. The stable social and political structure provides a base for determining policies for property market growth. The legal system, which is built on democratic system, is accommodative towards property and has recognised the rights of individuals towards property ownership. It is observed that the government played a major role in developing the industrial sectors and hence also shaped the property market. In attaining their aims for economic development the government has made use of specific instruments such as the economic and industrial policy. These legal and economic mechanisms have in many ways affected the formation and structure of the industrial property market.

3.2 The Malaysian property market institutions

Institutions as defined earlier are ‘rules’ for market to operate (North, 1990) whereby they form a structure of provision for agent’s relations (Ball et al, 1990). The provision for property market operation would encompass all rules, which would enable use, trade, investment and development of properties. An important aspect on property trade and development is on the flow of information, as it will have on the market efficiency through the transaction cost that has to be considered. Keogh and D’Arcy (1994) suggested that in a mature market, there are extensive information flows and research activities. This will enable the accommodation of a full range of use and investment objectives, which are required by property investors and asset holders. This will lead to the creation of a sophisticated property profession, with associated institutions and network to facilitate property advisory role. Thus an assessment on how property market information system are organized will give some evidence as to the type of market that exists and the transaction cost involved.

The property market information system in Malaysia is decentralized and informal. Mohd Nasir (1999) described that information on property is poor in terms of quality efficiency and quantitative sufficiency. Both market and non-market information are held by different organizations and are only accessible to certain individuals and organizations following specified procedures (Dass1989). These prove to be time consuming and expensive to those who require property market information. This has forced for the existence of property professionals to guide in property decision-making where they assembled and analyse property information for advising purposes.

The Valuers, Appraiser and Estate Agents’ Act 1981 regulate the property professionals. This is to ensure that only those who are qualified are allowed to give property advisory services to the public so to safe guard public interest. This norm influences the property market system and the development of the property profession. Thus the Act determines the manner in which property decision on use, investment and development are undertaken. Thus through the institutional structure of the property market, there is a need for organisation to exist so as to enable professional property service to be given out of the imperfect characteristics of the property market.

Apart from information system, owners and investors need to be assured of the regulations, which affect the use, trade and development of properties as a whole. The most important is the National Land Code 1960(NLC) and this regulation is applicable to all landed properties in all states in West Malaysia. The NLC describes administrative procedures and conditions for use and ownership of properties. The procedures of how, when and to whom properties may be dealt with are also documented in the NLC. This rule provides the network for all property market agents to operate in seeking their objectives from the property markets. Through these regulations, there is a need for the creation of government and private organisations to deal with the transfer of property rights and development of properties in Malaysia. In this way the regulations has distinguish the property market in Malaysia from properties in other countries.

The laws relating to property taxation are important institutions as it may encourage or discourage property investors or owners. The Stamp Ordinance 1949 is provides authority to a tax or duty levied on property transfer and it imposes the tax on property purchasers. The Capital Gains Tax Act 1976 is devised to curb speculation on properties. Under the provision of this act, profits made from properties are imposed accordingly based on length properties are held and the profits obtained from transactions. Properties held for more that seven years are exempted from tax. The rate charge varies from time to time. The Local Government Act states the law for local authority tax on property holdings for the services that were provided by the local authority.

The Town and Country Planning Act 1976 details out the procedures of land can be development. The Act also state when planning permission is required in development. It also imposes the role of the local
authority in arranging, controlling and planning the development and redevelopment of land and properties located in their administrative area. According to Azman et al., (1996) the development planning system is in accordance with the spirit of the New Development Policy (NDP). The NDP, which superseded the NEP, gives explicit emphasis to attaining higher economic growth. Azman et al., (1996) also suggested that the lack of efficiency and effectiveness in the total system require immediate attention from decision makers. The regularisation of the structure to the planning system will enable the people to cope for the needs of future development. The imposition of the planning regulations can have a direct impact on the property market and its organisation since the rules relating to town and country planning affect building, development and the stock of the properties available in the market. The rule determines how owners, developers, investors and property adviser interpret future development on the property market.

Financial ability will affect trade and development of properties. Since it represents one of the elements for the market to function, the financial regulation (institutions) and procedures concerning property finance need to be examined. The effect of controlling loans to the property sector will affect the performance of the industrial property market. The Central Bank or the Bank Negara issues the rules and guidelines concerning loans to the property sectors. The amount of loans that were released to the broad property sector was also reported in the annual Bank Negara and economic report. Thus banks and financial institutions will adapt to these regulations in providing loans to the property sector.

### 3.3 The role of agents and organisations of the industrial property market

An important element that drives changes to the property markets is the role of agents or organisations that take advantage of the formation of the property market. Organisations are created to take advantage of institutions, and as the organizations evolve, they alter the institutions (North, 1990). Although there are a number of institutions that are relevant in the formation of the property markets, some institutions may have a direct impact on specific market sectors as can be seen in the evolutionary changes in the industrial property market.

Table below summarises the organization or agents created for the functioning of the property market. The Table shows that the structure of the property market is determined by the relevant organisations created from the needs of relevant institutions. The process of interaction among these agents may result in the outcome of the property market process and it may also explain the consequences of regulated market and the influence of government policies. As property market institutions evolved it will lead to the changing role of property market agents.

<table>
<thead>
<tr>
<th>Malaysian property market structure</th>
<th>Organizations and agents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi developed information system</td>
<td>Property service providers</td>
</tr>
<tr>
<td>Highly regulated market</td>
<td>Property developers /landowners</td>
</tr>
<tr>
<td>Well develop property profession</td>
<td>Property users</td>
</tr>
<tr>
<td>Clearly defined market institutions</td>
<td>Property investors</td>
</tr>
<tr>
<td>Policy oriented market</td>
<td>Planning officers</td>
</tr>
<tr>
<td></td>
<td>Banks</td>
</tr>
<tr>
<td></td>
<td>Other government organisation</td>
</tr>
</tbody>
</table>

As illustrated above, the semi-developed Malaysian property information system has created a need for the service of property professionals to assist investors and developers in property decision-making. As the economy grows, property development became the main agenda and this forces for a well-developed property profession with its related institutions. The rules governing the property profession have shaped the emergence of a well-developed property profession to cater for the need on property advice services.

The highly regulated market is created from the influence of government policies. The economic relations developed between the relevant property market agents’ shapes the organisation of the property market. As in the case of the Malaysian Property market, although it
is in a developed state (Armitage and Keogh, 1995), but the rapid development in the property sector has caused it to become an important asset for investment which in turn creates demand for property professional services. This has important influence on the growth of the property market. Hence the development within the property profession has affected the structure of the overall property market. The changing structure of the Malaysian property market can be assessed through the changing role of the property profession.

3.3.1 Property profession and property market activities

The difficulties in interpreting property market information suggest that property decision-making should be handled professionally both in public and private sectors. In Malaysia the economic prosperity that the country experienced in the last two decades has encourage large-scale property development especially in urban centres. The passing of the Valuers, Appraisers and Estate Agents Act in 1980 is to confine that only authorized person can offer their services relating to properties and to curb the involvement of unprofessional dealing with property particularly in matters relating to management and valuation. The regulation requires that those who wish to offer their services in these areas are required to fulfil specific professional requirements such as to pass relevant examination and relevant practical experience. The purpose of controlling the real estate service providers is to ensure only qualified property professionals engaged in the property professional business in order to protect the public. The ‘institutional changes’ in the property professional services have lead to changing organisation of the property market.

The growth of the property profession is in line with the physical development that takes place in the country. Physical developments were undertaken following economic growth of the country. The recovery from the economic recession in late 1980s has encouraged massive infrastructure development. This situation has also encouraged the growth of the property service providers in the country where a number of local property professional firms were affiliated with international companies. The developments that accrued within the property profession have also encouraged research to be carried out in the property field. Although it is less extensive as compared to other developed market, it has moved a step further where there is a growing concern for proper research to be carried out before making decision on matters related to properties. Both the private and public sectors have taken relevant steps in addressing the need for property research.

In the public sector, the setting up of the National Institute of Valuation was to undertake research on matters related to properties. The institute was established in the 1980s and it was under the administration of the Department of Valuation and Property Services. In the private sectors demand for research have lead to some established property professional firms to create a research department. The complexity of the property markets and the requirement of financiers to undertake property research before committing to finance development have created an awareness for property research to be carried out professionally by qualified professionals.

Changes in the property market formation are shaped by the relationship of agents operating within the property market system. The changing form of the property

### Organisations and trends of industrial property development in Malaysia

<table>
<thead>
<tr>
<th>Period</th>
<th>Development of industrial estates</th>
<th>Agents involved</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-1980</td>
<td>• Provision of industrial land to interested manufacturers</td>
<td>• State authority</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• SEDC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Government agencies</td>
</tr>
<tr>
<td>1980-1990</td>
<td>• Provision of industrial land</td>
<td>• SEDC</td>
</tr>
<tr>
<td></td>
<td>• Development of standard factory buildings</td>
<td>• Private developers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Government agencies</td>
</tr>
<tr>
<td>1990 onwards</td>
<td>• Development of standard factory buildings</td>
<td>• Private developers</td>
</tr>
<tr>
<td></td>
<td>• High tech industrial parks</td>
<td>• SEDC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Government agencies</td>
</tr>
</tbody>
</table>
market system, the regulations and policies underlying the property market process have created specific agents to operate the market. As the market progresses, there will be changing forms of relationship that will be created.

4. The evolution of the Malaysian industrial property market

Institutions affect property market through the evolutionary changes that takes place through time. The evolution of the industrial property market in Malaysia can be traced from changes in the economic and political structures of the country. Table below summarises the evolutionary changes that takes place in the industrial property market. The emergence of a planned industrial estate in Malaysia started in the early sixties shortly after attaining independence. The processes towards industrialisation were driven by government policies (Rasiah, 1996; Jomo et al., 1997). During the early period of industrialisation the respective state government were responsible to provide lands for manufacturing firms. Most states offered land with basic infrastructures to industrial firms. As a result all manufacturing firms constructed purpose built factories to suit their production activities.

Table above illustrates the changing trend of the provision of industrial property, which arises from the institutionary process where agent’s reaction to the changing institutions and environment forced for the pattern of property provisions that have emerged. These evolutionary changes can be analysed through three main periods.

4.1 The changing pattern of the industrial property provision

During the early period of the industrialisation program, the government focused on the import substituting activities, which deals with the assembling and packaging of import products to be sold at the local market (Jomo et al., 1997). The main operators carried were mainly foreign firms. Hence, the industrial property market was characterised by individual building developed by operating firms.

In early 1970s, the State Economic Development Council (SEDC) was established to act as an agency responsible for the development and promotion of industrial development. Thus the formation of the SEDC in late 1960’s (Malaysia, 1991) saw the emerging role of the SEDC in developing industrial estates. This coincides with the implementation of the New Economic Policy (NEP). The export-oriented industries have encouraged all SEDC to develop free trade zones These FTZ are developed to ensure that industrial area have better security, co-ordination and control. The export-oriented industries through its incentives have attracted a number of Multi National Companies (MNC) to start their operation in the country (Jomo et al., 1997). Most of the industrial sites developed by SEDC were taken up by these MNC and other large corporation. Thus the properties occupied by the MNC represent the main characteristic of industrial properties in Malaysia.

Apart from attracting the MNC the export-oriented industries have also lead to the growth of the electronics and other related industries. The electronic industry represents one of the main contributors to the sector’s economy. The growths of the electronic industries have not only caused an impact to the economy as a whole but also to the pattern of industrial properties that existed. The demand for space of electric or electronic companies is more flexible compared to the production of other goods. Their non-polluting activities enable them to be placed away from other polluting industries. Another feature of these firms is that they can contract out some of the jobs to other firms. These create the linkage between small and medium manufacturing firms lead to the requirement of ready built factory buildings.

Ready made or speculatively built factories entered the market in early 1980’s to cater for small and medium scale manufacturing operations. Demands for these types of buildings were slow at first. The global recession that hit the country in mid 1980’s had badly affected all sectors of the economy. There were poor demand for ready-made factory buildings and there were no new schemes introduced. The industrial sector was also badly affected. The GDP for 1985 dropped to –1.3 per cent from 6.6 per cent in 1984. In 1986, following a sharp decline in Malaysia’s real effective exchange rate, the government relaxed the guide lines imposed on foreign investors such as requirements for local share holdings. The government introduced the IMP to revive the industrial sector (Malaysia, 1991). The main effect of the IMP to the industrial property sector is the rise of small and medium scale industries. The aim of this is to encourage linkages between large and medium and scale industries.

The implementation of the IMP coincides with the growth of the economy in North East Asian countries. These incentives together with the favourable international economic conditions resulted in a resurgence of export oriented manufacturing largely under auspices of foreign capital (Jomo et. al 1997). Manufacturers from North East Asia especially Japan, Taiwan and South Korea were attracted to the enhanced incentives, relatively good infrastructure and loose environment restrictions together
with the comparatively low production costs. The impact is the influx of foreign manufacturing companies to the country.

The reviving of the economy in late 1980s has encouraged development of industrial properties by both public and private developers. There were many industrial developments throughout the countries. The public developer continued developing industrial lands with its target directed to the foreign manufacturing firms. The private developers on the other hand developed small to medium scale industrial properties to meet the requirement of newly formed production companies. They developed standard factory, which normally comprise of terrace, semi detach and detach buildings.

In the early 1990’s, the emphasis of the industrial sector was directed towards technological innovations, research and development. This emphasis has lead to the development of high tech parks. Accordingly the feature of industrial park was to ease the drab and often unsightliness of industrial areas (Rahim, 1995). The parks were meant for non-polluting industries and for light and general industries. Incorporated into such parks were also buildings used for research and development. Most of these parks were developed by government agencies although there are very few parks that were developed by private developers.

The growth of industrial parks resulted from the labour intensive problems faced then. Thus the move towards capital intensive and advanced manufacturing was one way of resolving the problems of labour shortages. The emphasis towards advanced manufacturing was also stressed in the IMP. The effect of this change in pattern of trends on the property market is the existence of high tech and business parks. The provisions of industrial estates in Malaysia are linked with the effects of the economy on the industrial sector and the role of government policies in defining the industrial structure (Kerk, 1991). The role of government agencies such as the SEDC determined the general pattern of the use and development of industrial sites.

5. Conclusion

The paper has examined the role of policies in the changing pattern of industrial property provision. The various institutions that operate the industrial property market determined how markets are organized. The institutional structure of the market is being influenced by the society within which the market operates. The social, economic, legal and political environment determines the type of society, which operates the property market. The paper revealed that government intervention in a growing economy has a significant influence in the economy and property market structure. The political influence through various policies and regulation has caused the industrial property market to be a highly regulated. The legal structure has enabled the development of property professionals, which shape the development and trade of properties. This was specified through regulations such as the planning law, the National Land Code and other land policies.

The institutions define the rules for agents operating in the industrial property market by providing the structure for agents to interact. The property service providers have an influential role in determining property market outcome. They interpret property market information and they advise on use, investment and development decisions. Their relations with other property market agents such as developers, users, investors and banks will determine the property market process. In a highly regulated market such as the industrial property market, the role of government agencies in developing industrial estates has an important impact on the evolutionary changes of the industrial property market.

As the economy was the main agenda in government intervention, it has affected the industrial property market in various ways. The favourable economic environment in the 1990s has encouraged property development and activates the industrial property market. The evolutionary changes in the industrial property market are evidenced by the changing pattern of industrial property provision. Hence, the evolutionary changes in industrial property provision arise from the institutional changes in the industrial sector and the property market as a whole.

References:


Ball, M., (1996). “Housing research: time for theoretical refocus “, Housing Studies, 147-165


