

AN ANALYSIS ON RURAL AGRICULTURAL AND
URBAN LAND MARKETS

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ABSTRACT

Sri Lanka is committed to an open market economy, which implies development through perfectly competitive markets. Land which is a scarce natural resources plays a key role in development. Optimum allocation of land is important to ensure human welfare. A perfect competitive land market system ensures the allocation of land to the most efficient use. Due to imperfections in the land markets, land prices are distorted, misallocating land, and other resources. Hence, the overall objective of this study was to examine the rural agricultural and urban residential land markets to propose possibilities to minimize market imperfections.

Some market imperfections are due to lack of clearly specified property rights, market information and imperfection of knowledge among buyers and sellers. The specific objectives of the study were to, (i) examine the impact of security of land tenure on marketability of land, (ii) examine the impact of factors affecting productivity and land value in agricultural and urban land markets respectively.

Using scoring method, data with respect to public auctions of urban residential lands sold in the city of Colombo were examined to identify the factors contributing to land tenure security. Based on these identified criteria offering land tenure security, scoring method was used to assess the degree of land tenure security on marketability of agricultural lands. Three case studies were done to assess the degree of land tenure security on marketability of urban lands. Multiple linear regression analysis technique

was used, to investigate the factors affecting the productivity of agricultural land and to ascertain the existing relationship between urban land values and selected seven independent variables.

A random sample of 333 respondents from different areas of the rural sector and a random sample of 111 households from interdevelopment segment of Colombo City were interviewed with the help of a structured questionnaire to achieve the broad objective of this study. Secondary data collected from a random sample of 69 farmers from Hambantota District with respect to irrigated paddy lands and data collected from 135 public auction sales from the City of Colombo were used to achieve the specific objectives of the study.

The study shows, 82% of the land parcels in the rural sector of Sri Lanka have insecure land tenure obstructing the emergence of a perfectly competitive land market. The transfer of ownership of municipal landed properties to sitting tenants have improved the land tenure security and thereby marketability of these landed properties significantly. The degree of marketability of 29% of these landed properties have improved, from low level to very high level and balance 71% from low level to high level. Therefore, land tenure security affects marketability of both agricultural and urban lands. A land parcel with clear property rights, a duly registered deed, recent survey plan, well demarcated boundaries, legal means of access (preferably motorable) and good quality physical characters has a high degree of land tenure security and thereby marketability at high values. Since the sole owner of a land is entitled to the

entire production of the land, required amount of inputs likely to give a higher production is used by the owner cultivators. Non farmers own most agricultural lands. In the case of statutory tenant cultivators, the nature of sharing arrangement for cost of production and returns influence the level of inputs. Fertilizer is regarded by farmers as the most important input in paddy production. The average per acre fertilizer quantity applied by owner cultivators is 8.2 kgs to 39.8 kgs greater than that by statutory tenant cultivators. Hence, the per acre yield for owner cultivator is 7.9 bushels to 23.1 bushels higher than that of statutory tenant cultivators. Therefore, in the short run higher tenure security of agricultural land leads to higher productivity. In the long run this leads to higher degree of marketability at higher land values. The ease of access to the bus routes was the most important variable explaining land values and the equation $Y = 384380 - 108 (X_7)$ was finally obtained to ascertain market value of a residential site with 0.87R² value. Further, the study shows urban residential land values vary considerably due to environmental quality. Scenic view was one such environmental quality identified in this study. Therefore hedonic method of valuation was used to estimate the value of Scenic View. This study provides information to incorporate value of environmental quality in to future property valuations.

Policy makers may take action to, implement registration of title to provide safe, simple and economic system of land transfer. Title registration is being implemented since March 1998 by the Government. This study acknowledge and further strengthened this activity and suggest to, remove restrictions with respect to transfer of the statutory farmer use rights, convert statutory farmer use rights of paddy land in extent of less

than two acres to freehold rights, make the prevailing statutory variable land rent in force in Hambantota District a fixed amount of the yield, regularize land tenure of urban unauthorised settlements, improve the institutions that generate land market information to eliminate restrictions on marketability and to prepare land value contour maps for the inter development segment of Colombo City. Above findings will help to minimize imperfections in land markets and will be useful to the policy makers in promoting and implementing development plans.