Submission to Productivity Commission Inquiry into Housing Supply Regulation

percapita

FIGHTING INEQUALITY IN AUSTRALIA

June 2026

PER CAPITA SUBMISSION TO PRODUCTIVITY COMMISSION INQUIRY INTO HOUSING SUPPLY REGULATION

Per Capita, June 2026

Per Capita is an independent think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia, based on fairness, shared prosperity, and social justice.

We welcome the opportunity to make a submission to the Productivity Commission's inquiry into housing supply regulation.

The impact of housing regulations on supply is contested, but probably significant

The intuitive case that housing regulations reduce supply is clear. When building new homes in a particular geographic area is restricted, whether due to height limits, floor-space ratios, or car parking requirements, it makes it impossible to increase supply beyond a certain point in that area. When those restrictions are commonplace across many suburbs, particularly those with established infrastructure, this could artificially restrict housing supply across a large geographic area. Many analysts have argued that this phenomenon is driving up rental prices in cities across Australia.[1]

However, there are a few assumptions underlying this logic, which need to be examined more closely. First, it assumes that development would not shift to alternative suburbs when supply is restricted in some suburbs. Yet some development is likely to shift because landowners would continue to supply housing until market demand is met, as long as supply is unrestricted in alternative locations.[2] In a market where construction resources (workers, materials, and financing) are scarce, supply restrictions may not be a binding constraint. On the other hand, development may still be suppressed if supply is restricted in the most expensive suburbs, where development is most profitable.

Second, it assumes that landowners would choose to develop immediately if they had the option. However, a landowner might delay development to engage in land banking. If a landowner suspects their land may increase in value in future, whether due to upzoning or infrastructure development, there may be a financial reward for waiting and developing later. This is because developing today would remove the opportunity to develop later, or at least significantly increase the cost of doing so. Similarly, if construction costs are particularly high today, the benefit of delaying development may outweigh the cost of foregoing rental income or an earlier sale. Note that land banking may occur even if it would be profitable for a landowner to develop on a site today. This is a unique characteristic of land because most other goods and services do not have the potential to dramatically increase in value as a result of external factors. Appendix A notes that empirical evidence of land banking is limited.

The prime empirical example of removing housing restrictions is Auckland, which upzoned three-quarters of residential land in 2016. There has been significant debate about the true effect of those reforms on housing

[1] See, eg, Brendan Coates, Joey Moloney and Matthew Bowes, *More Homes, Better Cities: Letting More People Live Where They Want* (Grattan Institute, November 2025); Peter Tulip, *Housing Affordability and Supply Restrictions* (Centre for Independent Studies Policy Paper No 55, February 2024); Productivity Commission, *In Need of Repair: The National Housing and Homelessness Agreement* (Study Report, 2022).

[2] Cameron Murray, 'Filtering Across Space and Time: A Scale Synthesis of Housing Supply', Fresh Economic Thinking (Blog Post, 19 October 2025).

productivity, supply, and rental prices.[3] In Appendix B, we examine the impact of the reforms on the most important variable of interest – rental prices. There is little doubt that Auckland's rental prices have increased far slower compared to the rest of New Zealand and compared to other major cities in New Zealand. While it is possible this could be explained by other policy changes or economic factors, the simplest explanation is that it was driven by the upzoning reforms. This empirical evidence suggests there is a strong case for planning reforms on housing affordability grounds, even if the theoretical case is contested.

Finally, even if it were true that housing restrictions do not affect net supply, they do affect *where* homes are built. If housing is less restricted in established suburbs with strong access to jobs and public transport, housing will shift to those areas, and more people will have better job opportunities and shorter commutes. This also reduces the reliance on infrastructure development in greenfield areas, which costs significantly more than infrastructure in established suburbs.[4] There might also be other societal benefits. Population growth pushes out low-income families to the urban fringe, often with poor access to GPs, schools, jobs, and playgrounds. This leads to socio-economic segregation in schools and less upward mobility.[5] Evidence from Los Angeles and San Francisco suggests that, in some cases, new housing mitigates the displacement of low-income families from growing suburbs.[6]

Deregulation should be combined with value capture

Removing some types of planning restrictions, such as zoning constraints, would lead to enormous gains in wealth for existing landowners. Without any value capture mechanism, this would be a giveaway for wealthy landowners and highly inequitable. In a recent report, *Pricing Development Rights*, Prosper Australia recommended that state governments implement a value capture charge on 75% of the land value uplift when additional development rights are handed over to a landowner.[7] This could raise $8 billion in additional revenue for state governments.

Contrary to common concerns, a value capture charge would actually incentivise development. As noted above, there may be a financial reward to land banking. But if a developer knows that any future increase in value will be taxed at 75% of the windfall gain, there is much more incentive to develop and earn a return immediately via rental income. Additionally, if the charge is phased in gradually, it would encourage developers to commence projects faster to avoid the charge.

Moreover, any revenue earned from the charge could be hypothecated to a housing fund, such as a social housing fund, which would also directly contribute to supply. Alternatively, some of the revenue could be given to local councils where the revenue is raised, to reward them for permitting denser housing.

International research suggests that communities are more accepting of densification when combined with rent control or inclusionary zoning, while they are less accepting of projects with for-profit investors.[8] This suggests that

[3] Stuart Donovan and Matthew Maltman, 'Dispelling Myths: Reviewing the Evidence on Zoning Reforms in Auckland' (2025) 151 *Land Use Policy 107498.*

[4] John Daley, Brendan Coates and Trent Wiltshire, *Housing Affordability: Re-imagining the Australian Dream* (Grattan Institute Report No 2018-04, March 2018).

[5] Katie Roberts-Hull, 'The Price Children Pay for Exclusive Suburbs', Inflection Points (Blog Post, 29 July 2025).

[6] Karen Chapple and Taesoo Song, 'Can New Housing Supply Mitigate Displacement and Exclusion? Evidence from Los Angeles and San Francisco' 91(1) *Journal of the American Planning Association*.

[7] Tim Helm and Henry Williams, *Pricing Development Rights: A Game Changer for Housing Affordability* (Prosper Australia, May 2026).

[8] Michael Wicki, Katrin Hofer and David Kaufmann, 'Planning Instruments Enhance the Acceptance of Urban Densification' (2022) 119(38) *Proceedings of the National Academy of Sciences* e2201780119.

communities perceive densification as a way for wealthy developers to profit, at the cost of the community. A value capture charge, with revenue tied to a social housing fund, would therefore be expected to increase support for densification.

Deregulation should be combined with better community amenity and rental standards

The original intent of zoning was to preserve community amenity and protect residents' health and wellbeing, such as preventing 10-storey apartments being built next to a single-storey townhouse, or a polluting factory built next to a quiet neighbourhood. These remain important constraints, but to a significant extent, zoning now serves to benefit existing residents in high socio-economic suburbs, at the expense of prospective residents.

We need to strike the right balance between promoting residents' health and wellbeing, without hindering supply. The 2012 Fishermans Bend rezoning in Victoria, which resulted in significant high-rise development, failed to allow for schools or community spaces.[9] If a value capture mechanism had been in place, the Victorian Government could have used the revenue to fund schools, community spaces, and other local services.

Additionally, rental standards are still too weak in many jurisdictions across Australia. There is an inherent power imbalance between landlords and renters, because the cost of moving makes it difficult for renters to demand better living conditions.[10] There is also asymmetric information, as landlords have more information about the property that may not be observed during a viewing. State governments should continue to work towards improving the security and habitability of the rental market, building on recent reforms such as abolishing no-grounds evictions.[11] Stronger minimum rental standards might slightly reduce supply, but this could still be welfare enhancing if renters value the improvement, since asymmetric information might prevent the market from delivering that option. Vulnerable renters with little opportunity to 'shop around' for better housing options are most likely to benefit, such as people at risk of homelessness or family violence.

[9] 'Fishermans Bend Development Approval Lacked Infrastructure Plans, Andrews Government Report Finds', *ABC News* (online, 20 October 2015).

[10] Productivity Commission (n 1).

[11] Brendan Coates and Joey Moloney, *How to Tackle the Rental Crisis: Submission to the Senate Standing Committees on Community Affairs* (Grattan Institute, 2023).

Appendix A

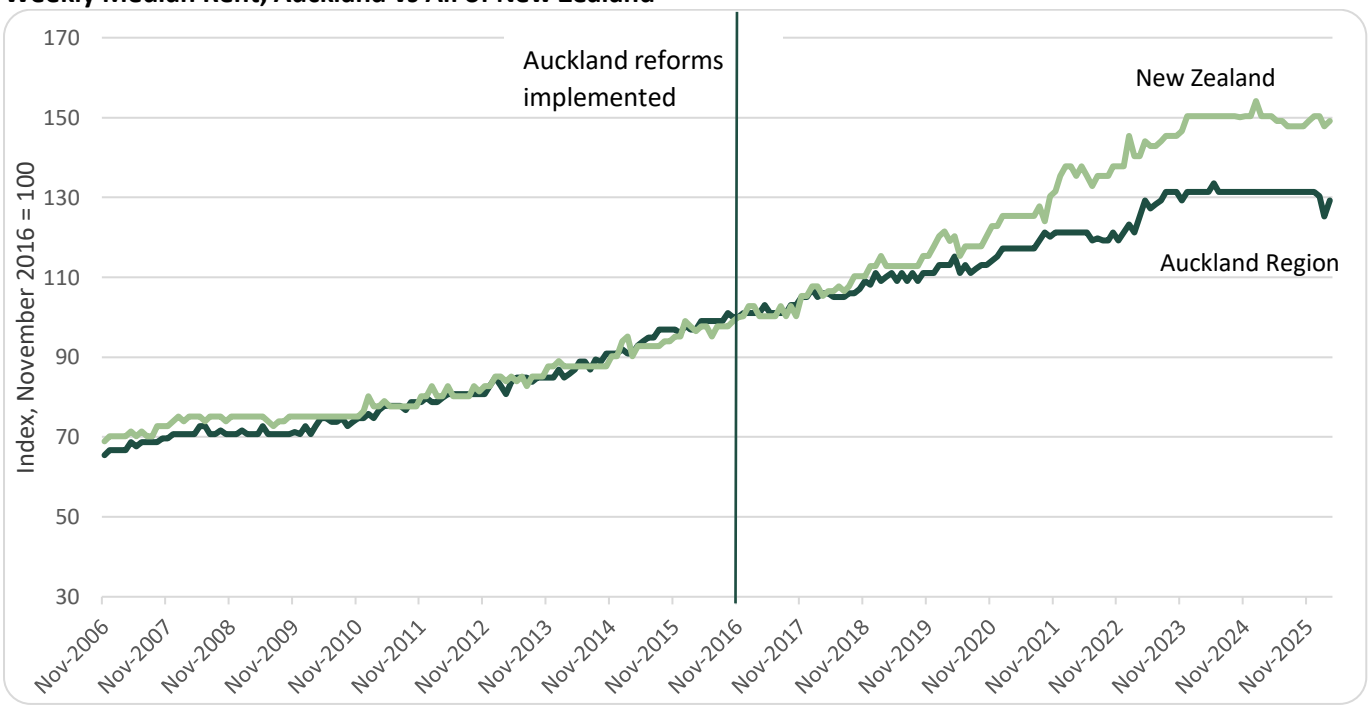
Empirical evidence of land banking is limited because it is difficult to disentangle land banking from other explanations of delayed construction.

In any given year, much of an area's zoned capacity (space where building is permitted) is not used. For example, when Auckland's 2016 planning reforms significantly boosted zoned capacity across the city, only 0.7% of the additional capacity was converted into new housing each year.[12] Similarly, a study of 25,775 sites across 19 repeatedly upzoned 'densification areas' in Brisbane found that, although zoned capacity doubled over the 20-year period, only about 2% of that capacity was used in any five-year interval, and 78% of sites that had unused zoned capacity at the start remained undeveloped.[13]

This pattern could be explained by land banking - landowners may be waiting for further upzoning, particularly in repeatedly upzoned areas. However, there are alternative explanations. Many of those sites would have current use value, and redevelopment may not outweigh the cost of demolition and construction. Other sites may have poor development prospects or lack infrastructure. In any case, this empirical evidence does not undermine the case for upzoning, but it shows there are limits on the size and speed of its impact.

Appendix B

Weekly Median Rent, Auckland vs All of New Zealand



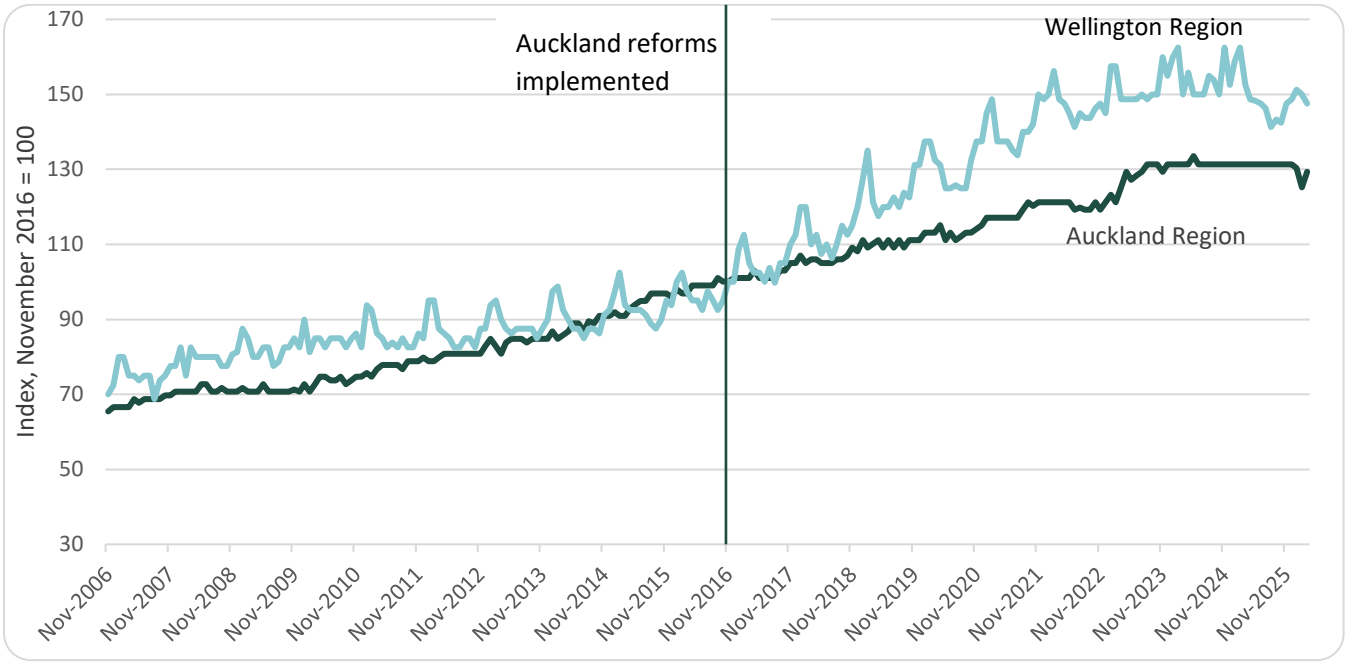
Source: Monthly rental bond data, by region[14]

[12] Coates, Moloney and Bowes (n 1).

[13] Cameron Murray and Mark Limb, 'We Zoned for Density and Got Higher House Prices: Supply and Price Effects of Upzoning over 20 Years' (2023) 41(2) *Urban Policy and Research* 129.

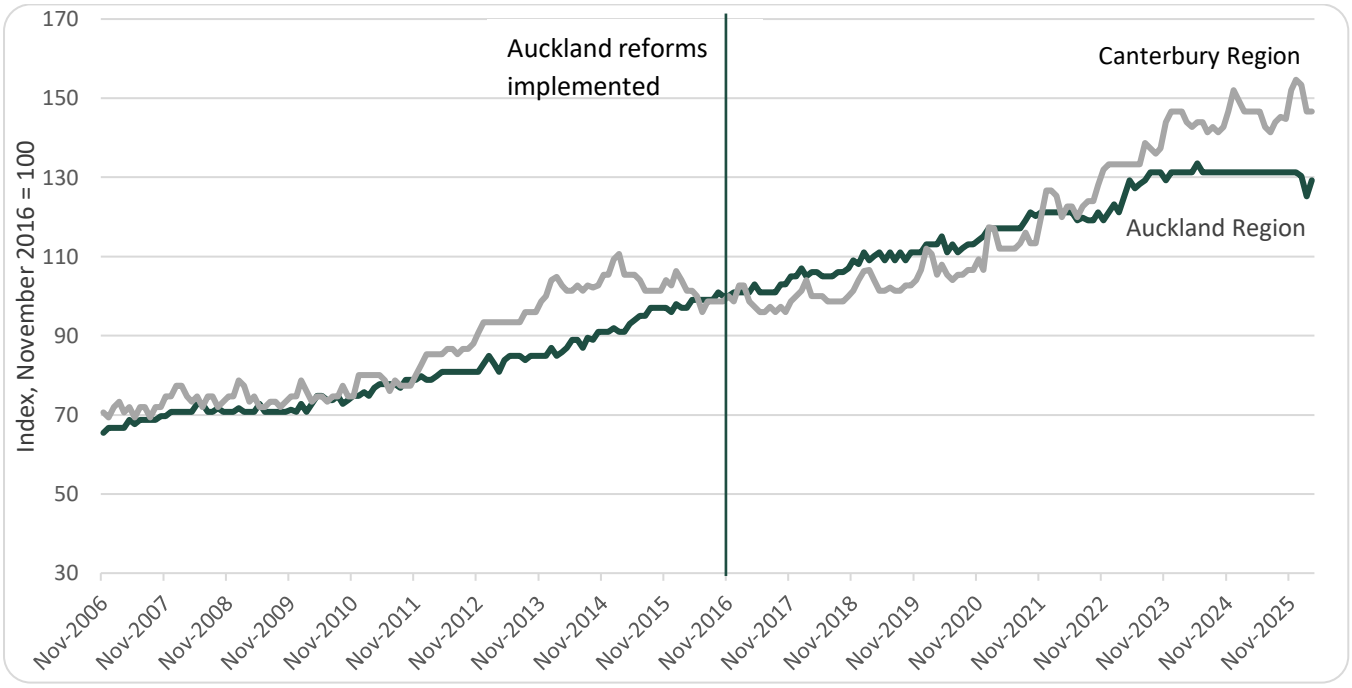
[14] Tenancy Services, 'Rental Bond Data' (Web Page).

Weekly Median Rent, Auckland vs Wellington



Source: Monthly rental bond data, by region[15]

Weekly Median Rent, Auckland vs Canterbury



Source: Monthly rental bond data, by region[16]

Note that Canterbury also fast-tracked planning approvals to rebuild its capital city Christchurch after it was hit by a major earthquake in 2011.[17] This may have contributed to lower rental price growth between 2014 and 2021. However, in recent years, Auckland, which implemented broader and more comprehensive upzoning, has still had slower price growth than Canterbury.

[15] Ibid.
[16] Ibid.
[17] Eleanor West and Marko Garlick, 'Upzoning New Zealand', *Works in Progress* (online, October 2023).