Submission to the Productivity Commission Inquiry into Housing Supply Regulation

June 2026

Productivity Commission
GPO Box 1428
Canberra City ACT 2601

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The Centre for Independent Studies (CIS) welcomes the Productivity Commission's Inquiry into Housing Supply Regulation and the opportunity to provide a submission.

The CIS is a leading independent public policy think tank in Australia. It has been a strong advocate for free markets, personal choice and limited government for 50 years. The CIS is independent and non-partisan in both its funding and research, does no commissioned research nor takes any government money to support its public policy work.

We would be happy to expand on the points in the attached submission, or to provide further information if this would assist the Commission.

Yours sincerely,

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Contents

Conclusions and Recommendations

1) The Grants Commission should make GST distributions depend on housing completions.
2) AHURI and NHSAC — our taxpayer-funded housing research bodies — need to be overhauled, so as to contribute more constructively to policy discussions, especially through economic modelling.
3) Federal grants for policy reforms would improve public education, but paying for outcomes may be more effective.
4) State governments should set and enforce high housing targets for local councils.
5) Affordable housing requirements are counter-productive. They are a tax on development that worsens overall affordability
6) Complexity and delay in the planning system are unnecessary costs that should be reduced. But the much greater problem is simple prohibition on increased density.
7) The externalities of housing density are positive not negative. Instead of discouraging density, we should encourage it.

1 Context

Many of the issues raised in the Inquiry's terms of reference are directly discussed in the CIS Policy Paper *Housing Affordability and Supply Restrictions* by Peter Tulip (2024), which is an attachment to this submission. In the two years since that paper was released, a substantial flow of research and evidence has only strengthened its conclusions.

The paper argues that a wide variety of evidence points to planning restrictions substantially increasing the cost of housing. That conclusion is now very widely accepted, including by the Commonwealth, NSW and Queensland Productivity Commissions, Treasury, the Grattan Institute, CEDA and many others. This submission does not retread that ground.

There are dissenters from the mainstream view, including members of the National Housing Supply and Affordability Council (NHSAC) and the Australian Housing and Urban Research Institute (AHURI). However, it is difficult to find their objections being taken seriously in the research literature. Tulip (2021) argues they reflect simple misunderstandings. Some of these misunderstandings are discussed in Section 6 of the Attachment.

The main policy recommendation of the mainstream view is that state governments should over-ride local councils' planning restrictions to allow greater housing density, especially near transport centres in the inner suburbs of our major cities. This is happening in NSW and Victoria, where housing policy is substantially in line with the available research. The Queensland Productivity Commission (2025) has made similar arguments for reform, which have been rejected by the Queensland government (Dennien, 2026).

Given these state developments, the clearest scope for improvements in policy is at a federal level, which we discuss first.

2 What should the federal government do?

Land use regulation is the responsibility of state and local governments. Detailed federal involvement, creating a third level of planning bureaucracy, would not be sensible or consistent with the constitution. Nevertheless, the federal government should provide assistance, education and encouragement.

2.1 Incentive payments

The New Homes Bonus is a simple and direct method of encouraging and assisting states to build more homes. Essentially the Commonwealth provides each state $15,000 per dwelling within given thresholds. However, those thresholds are so high that very few bonuses ($700 million of a potential $3 billion) are expected to be paid. Even at the maximum threshold, transfer payments of only $3 billion do not seem commensurate with what opinion polls say is our top social problem. Moreover, it will not be paid till 2029, which is too late to improve incentives or provide financial assistance. Those making the hard decisions to increase supply now will be gone when the money is paid.

Instead, the bonus should be paid as housing is built (as measured by the ABS building approvals and completion data). It would be more effective if thresholds were lower.

Whether states meet their targets and become eligible for the New Homes Bonus partly defends on forces outside their control, like interest rates. The Grattan Institute (2025 p54) has suggested this is unfair and has argued for relaxing payment thresholds when states fail to meet their targets. That

amounts to moving the target to reward failure. Grattan suggests paying for reforms instead, discussed in Section 3.2. Whether payment for inputs or outcomes is more effective varies with circumstances. It partly depends on whether the quality of inputs or outputs are easier to ensure. Paying for effort often seems fair and overcomes risk-aversion. Paying for results creates stronger incentives and is usually more effective.

A more important difficulty with expanding the new homes bonus is that it increases federal expenditure. Judging from past experience, most submissions to this inquiry will ignore fiscal constraints. That greatly reduces their relevance.

A fiscally neutral approach would be for the Grants Commission to treat housing completions as a disability. So states that build more housing would receive a higher GST distribution while those that do not build enough would have grants withheld.

The Grants Commission does something similar with transport expenditure. In recognition of its greater transport spending requirements, NSW receives $1.24 billion more than an equal per capita distribution, while Queensland receives $762 million less. (Commonwealth Grants Commission 2020, Volume 2 Part B, Table 21-17).

Treating housing as a disability recognises that states with rapidly-growing housing stocks have greater need for capital expenditure on roads, schools, utilities etc. Whereas the benchmark for operational spending is an equal per capita distribution, the benchmark for capital expenses should be growth. In principle, growth in population might be considered more relevant. However, growth in housing is highly correlated but more relevant to incentives. States do not control their population, but they have a lot of influence over housing supply.

2.2 Infrastructure grants

A similar approach is to tie federal infrastructure spending to new housing. The recently announced $2 billion Local Infrastructure Fund or the Coalition's proposal to spend $5 billion for 500,000 homes are examples. The Local Infrastructure Fund is expected to unlock 65,000 new homes, at an average budgetary cost of only $31,000 per dwelling. By removing obstacles to market housing these policies substantially increase housing supply at a low cost to the budget.

These proposals are often discussed as being targeted at greenfields. However, the scope for urban infill may be greater. The NSW and Victorian governments are upzoning near transport centres, the number of which has been limited by infrastructure capacity constraints. Relaxing those political and economic constraints would unlock more housing in high demand locations.

And federal funding for urban rail needs to be made contingent on high density at train stations. Housing density and public transport are complements; each increases the return to the other.

2.3 Education and research

Although experts agree that extra supply would improve affordability, the public does not understand the issues well. Only a third of respondents to opinion polls say an increase in the supply of housing would improve affordability (Mckinnon, 2023). One of the most common objections to new housing is that it is expensive, so will not improve affordability, ignoring the effect that extra supply has on other properties. Discussions of housing policy at public forums or on talk back radio are a parade of misunderstanding and narrow vision. Opponents of new housing developments do not recognise the harm they do.

Of course, this makes housing policy reforms difficult to implement and sustain.

This situation, where expert opinion is persuaded of the need for change, while the public is not, resembles trade policy debates in the 1970s and 80s. Government-funded research and public education through the Industries Assistance Commission helped turn that around and deliver sustained reform.

Something similar is required now for housing.

Moreover, there is serious need for quantitative modelling and other empirical research. For this review, the Productivity Commission has posed a long list of policy-relevant questions. Many answers require serious research and data with limited availability. However, these questions are not new. They should have been asked, answered and publicly discussed long ago. We have not had a process equipped for that.

For example, policy priorities should be informed by estimates of feasibility and where housing is most needed. In their absence, we waste scarce political bandwidth on policies that will not actually achieve much (Section 3.1 has examples). There are many estimates of feasibility, varying in detail, scope and quality. Prominent examples include the Grattan Institute's (2025) GMAPS model and the CIE (2024) report for the NSW Productivity Commission. Many councils have commissioned local studies. Differences between these studies need to be resolved, with a view to providing robust detailed estimates.

Policy priorities should also be guided by research on how housing can most effectively be delivered. Attempts to boost housing supply have met with varying degrees of success. Data and research are needed on what has worked and why, both domestically and overseas.

To give an easy example, the NSW government has enacted several housing reforms, including Transport-Oriented Development, Low- and Mid-Rise Housing, the Housing Delivery Authory, targets for local councils and more. To assess what is working and whether further action is needed It would be useful to know how many Development Applications have been a) lodged and b) approved as a result of each policy (recognising that is easier for some policies than for others). Some of this information is occasionally provided in Ministerial speeches (e.g. Scully, 2026) but is not regularly published or collated.

The Australian government funds two research bodies that should provide public education and information but fail.

- the National Housing Supply and Affordability Council (NHSAC) costs about $4 million a year.
- The Australian Housing and Urban Research Institute (AHURI) has an annual budget of about $8 million. $2.1 million (2026 BP2; p139) is from the Commonwealth, with the rest from state governments and universities.

AHURI and NHSAC were conceived in the past when housing policy was seen as welfare policy. Since then, housing has become a top economic policy issue. That shift can be seen in housing policy moving to Treasury, this inquiry, opinion polls and the broader public discussion. However, neither NHSAC nor AHURI have adjusted. Both remain focused on welfare issues and ignore economics. There has been a flood of recent economic research that has changed how many economists and policy advisers see housing policy. But the new research is not cited or discussed by AHURI or NHSAC.

Reflecting their origins in welfare-delivery, AHURI and NHSAC have a culture that is hostile to markets or consideration of trade-offs. They attack or (more often) ignore relevant economic research. Insofar as they discuss land use regulation (which is rarely), they defend planning

restrictions. They give fringe dissents as much coverage as they give the academic consensus. AHURI-funded researchers regularly publish critiques of mainstream economics; for example here, here or here.

This not partisan. Both Liberal and Labor politicians agree on the need for greater housing supply and looser zoning. But that bipartisan message is undermined by NHSAC and AHURI.

Public discussions of housing policy regularly rely on expert modelling (indicating strong demand), but AHURI or NHSAC research is infrequently cited. The work of the Grattan Institute, the RBA, the Productivity Commissions, and even the unpaid volunteers at YIMBY Melbourne has each made a greater contribution to public discussion than the bodies funded to do precisely that. Commissioning the Productivity Commission to conduct this inquiry was a welcome vote of no confidence in AHURI and NHSAC.

The Commonwealth government should stop funding AHURI and NHSAC and reallocate their funding to a housing research centre with a significant modelling capacity committed to public education. It should be led by mainstream evidence-based economists, familiar with at least some of the recent research.

2.4 The rationale for federal involvement

Justifying federal government support for housing is a somewhat academic question, given that voters and all political parties regard it as a top priority. Nevertheless, the Constitution gives the states responsibility for land use regulations, so this is a constraint. However, that does not apply to policies to encourage, assist and educate, where focussed federal involvement is appropriate.

There are clear externalities across states due to population mobility. NSW is exporting its housing shortage to other states and Victoria is absorbing much of the brunt. Construction in one state benefits others.

Moreover, immigration policy (a federal responsibility) needs to be co-ordinated with land release and infrastructure (State responsibilities). Divided responsibilities, inconsistent incentives and lack of co-ordination have contributed to Australia not building enough housing to accommodate our rapidly growing population. National Cabinet's housing targets are an attempt to more closely align these policies. However, to be effective, they need to be backed with substantial incentives and assistance, as discussed in Section 2.1.

Research, information and advice are public goods, so are appropriately funded and conducted at a federal level. Moreover, most of our policy discussions, like the current inquiry, are conducted at a national level. Hence, this is a federal responsibility.

To be clear, National Competition Policy payments (discussed in Section 3.2) are often justified on the grounds that the Commonwealth gets the benefits of economic growth through tax receipts whereas the states bear the costs. However, this argument is less applicable to housing reforms as most of the benefits accrue as capital gains to owner-occupied housing and increased consumer surplus, which are lightly taxed.

3 Alternative Federal policies

3.1 Current policy priorities

Table 1 shows new federal government spending programs on housing

Table 1: New federal government housing programs

Area	Initiative	$b
Buy	Help to Buy	6.30
Rent	Commonwealth Rent Assistance (CRA) increases	4.60
Build	100,000 Homes for First Home Buyers	10.00
	New Homes Bonus	3.00
	Housing Support Program – Local Infrastructure Fund	2.00
	Housing Support Program – Existing Streams	1.50
	Housing Australia Future Fund – Social and Affordable (capital)	10.00
	Housing Australia Future Fund – Social and Affordable (loans)	4.85
	Housing Australia Future Fund – Crisis and Transitional	1.00
	Social Housing Accelerator	2.00
	Northern Territory Remote Housing and Homelands	1.05
	Supporting young people into community housing	0.06
	National Agreement on Social Housing and Homelessness (additional)	0.43
	Other (e.g., skills, prefab, Build to Rent, Reconnect, Deposit Guarantee)	0.77
Total		**47.6**

Source: various budget papers

Three observations:

First, the $10b for 100,000 Homes for first home buyers was not emphasised in the Budget papers and has received little media coverage. However, it may be the most consequential item in Table 1. Agreements have so far been reached to deliver 51,000 homes in Queensland, 34,000 homes in Western Australia, 17,000 homes in South Australia, 4,900 home in the ACT and 4,000 homes in Tasmania; for a total so far of around 112,000 new homes (Homes for Australia, p26).

Second, in the past, many federal government policies --- such as First Home Buyer Assistance, Help to Buy and increases in CRA --- boosted demand. At the last federal election, both parties proposed large demand stimulus. These policies are costly, distortionary and ineffective. The lucky recipients bid up prices and rents, worsening affordability for everyone else. There has since been a change in direction. More recent policies, in particular the Local Infrastructure Fund and 100,000 Homes for First Home Buyers are intended to boost supply. This will help rather than hurt affordability.

Third, most of the housing supply programs provide subsidised housing for low-income renters. Notable examples include the Social Housing Accelerator and Housing Australia Future Fund. It is doubtful whether these policies are the lowest cost means of achieving their objectives. For example, the $2 billion cost of the Social Housing Accelerator is expected to deliver 4,251 homes at

an average cost of $470,500. The ongoing average rental subsidy is about $24,000 a year (Troy and Nouwelant, 2023, p. 15).

In contrast, as noted earlier, the $2 billion Local Infrastructure Fund is expected to unlock 65,000 new homes, at an average budgetary cost of only $31,000 per dwelling. Standard rules of thumb suggest this extra supply would reduce rents throughout the whole rental market by an average 1½%. That is a saving of about $400 a year for each of Australia's 4 million renting households, or about $1.6 billion a year off the national rental bill.[1] Low income renters disproportionately benefit, judging from results in Auckland (see Chart 5 in the attachment) and New York (Rollet, 2025, Figure G.16). Moreover, increased housing supply reduces the rate of homelessness more effectively than popular alternatives. See *Homelessness Is a Housing Problem* by Colburn and Aldern (2022) or Glynn, Byrne & Culhane (2021).

Policies to increase market supply would help those at the lowest rungs of the housing market at low cost to the budget. They would also improve affordability for the 96% of households who live in market housing. Social housing subsidies should be reallocated to more cost-effective policies.

3.2 Competition payments

The Grattan Institute (2025 p67) and Productivity Commission Chair Danielle Wood (2026) have advocated incentive payments for favoured policy reforms. This has recently been agreed by state and federal treasurers (Chalmers, 2025), with the top item on the list of reforms being "liberalising and standardising commercial zoning rules and planning requirements".

However, the payments are relatively small. The National Productivity Fund, from which payments are currently made, is $900 million. Payments from the National Competition Policy (NCP) from 1997–98 to 2005–06, were on a similar scale.

The Commonwealth's endorsement of good policy provides education and encouragement. However, their potential is limited.

The main problem is the fiscal cost. Payments on a large scale would be expensive. As noted above, Grants Commission distributions are fiscally neutral.

Another problem is that councils have an incentive to take payments for ostensible reforms while blocking housing in other ways. Process-related incentive payments in the United States and Canada have been riddled with anomalies, administrative costs and gaming. For example, Los Angeles, a poster child for restrictive zoning, is designated "pro-housing" and receives large incentive payments as a result. This media story has examples of sham plans designed to satisfy process requirements. Furth and Hamilton, 2018 argue for payments based on measurable housing outcomes rather than paperwork, planning processes, or procedural compliance.

If you pay for plans, you get plans. If you pay for completions, people get somewhere to live.

4 State policies

As noted above, the policies of the NSW and Victorian governments have been in the right direction. There is room for disagreement about priorities and details; though often these reflect different assessments of what is politically feasible. Moreover, data to guide detailed policy decisions is lacking, as discussed in Section 2.3.

[1] 65,000 homes is about 0.5% of the national housing stock. A 1% increase in the housing stock is estimated to lower rents by 2.5%. Average rent is about $30,000 a year.

This section discusses: two areas where state policies could be improved, the setting of targets and affordable housing requirements; and two issues that are often misunderstood, the importance of administrative costs and the benefits of extra density.

4.1 Targets

State governments have two approaches to relaxing zoning restrictions. They can directly say this building x is permitted at this site y. Or they can give a local council a numerical target and let it choose the precise location and form of new buildings. The two approaches are complementary. The threat of direct controls in the event of non-compliance helps to enforce targets.

There are substantial advantages in having targets. As discussed in Section 2.4, central governments have a strong interest in setting the quantity of new housing, however the precise location and form can be decided locally so as to minimise local externalities. Politically, 'local control' and objections to 'one-size fits all' have strong appeal. These may be smokescreens for underlying objections; nevertheless, these concerns can be readily allayed.

The NSW government has announced several direct controls, which it has allowed local councils to vary as long as quantitative targets were met. Councils in Burwood, the Inner West and Ku-ring-gai designed their own alternatives to the Transport-Oriented Development controls. Mosman is replacing the Low- and Mid-Rise Housing controls with its alternative. The councils' alternatives typically involve more concentrated high-rise development with a smaller footprint than the state proposals. Even in council areas where state proposals are not being implemented, those proposals played a critical role. Their threat was essential to getting councils to suggest constructive alternatives.

The NSW government has set overall numerical targets for most local councils in metropolitan areas, consistent with the national target. Other states should follow this approach (perhaps an appropriate policy for NCP payments). However, they appear not to have the information needed. For example, infill targets should reflect council-level estimates of the zoning premium, which are available for some states but not others. Tulip (2023, Chart 1 or Table 2) shows estimates for NSW. Infrastructure capacity is also important but harder to gauge. Again, we need to overhaul our national housing research infrastructure.

Targets mean little if they are not enforced. The NSW government needs to start applying graduated remedies to laggard councils. This should start with a request to explain, escalating to an override of zoning restrictions. Discretionary intervention is unreliable — it gives councils an incentive to provoke a fight, and it puts the onus on state politicians who may be averse to conflict. So remedies should be specified in advance and automatically applied.

The main trigger for remedial action should be building approvals, with some weight also given to Development Approvals. Table 2 shows the 20 worst performing councils, in terms of meeting their target, in NSW.

Table 2: Worst Performing NSW Councils
Ratio of Building Approvals to Target
July 2024 to April 2026

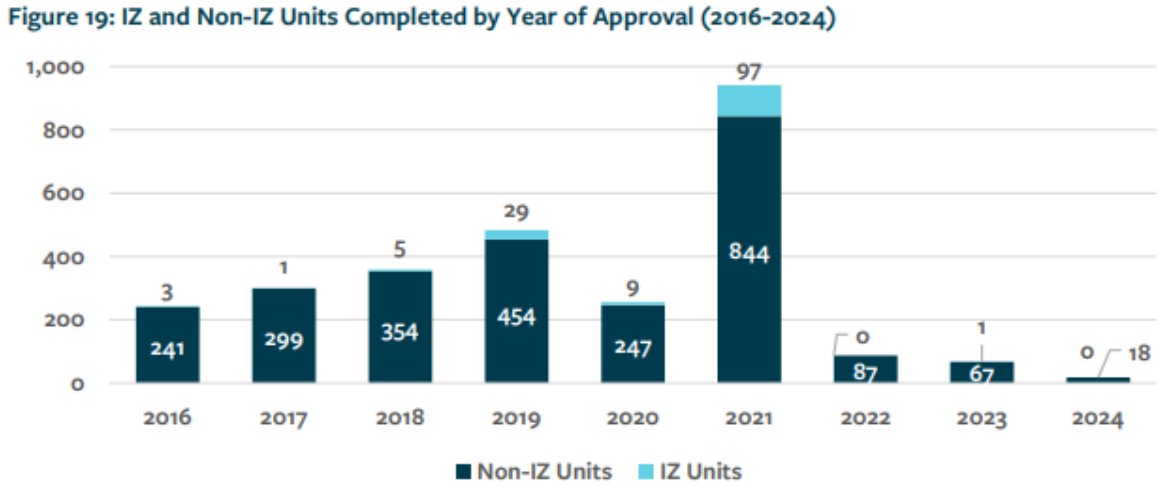
Council	Target (to April 2026)	Approvals (July 2024 to April 2026)	Ratio Approvals/Target	Rank (out of 43)
Strathfield	1,283	293	23%	43
Willoughby	1,247	380	30%	42
Waverley	880	286	33%	41
North Sydney	2,163	724	33%	40
Ku-ring-gai	2,787	978	35%	39
Hornsby	2,017	759	38%	38
Hunters Hill	147	57	39%	37
Newcastle	4,070	1,614	40%	36
Sydney	6,930	3,008	43%	35
Lane Cove	1,247	548	44%	34
Randwick	1,467	656	45%	33
Northern Beaches	2,163	994	46%	32
Woollahra	697	324	47%	31
Cumberland	4,473	2,226	50%	30
Canterbury-Bankstown	5,317	2,831	53%	29
Georges River	2,310	1,239	54%	28
Inner West	2,860	1,604	56%	27
Bayside	3,703	2,117	57%	26
Blacktown	7,847	4,522	58%	25
Kiama	330	193	58%	24

4.2 Affordable housing requirements

Arguably the greatest weakness in recent state government endeavours to increase housing supply is the requirement that new housing include a substantial 'affordable' component. This reflects widespread misunderstanding, regularly amplified in the media.

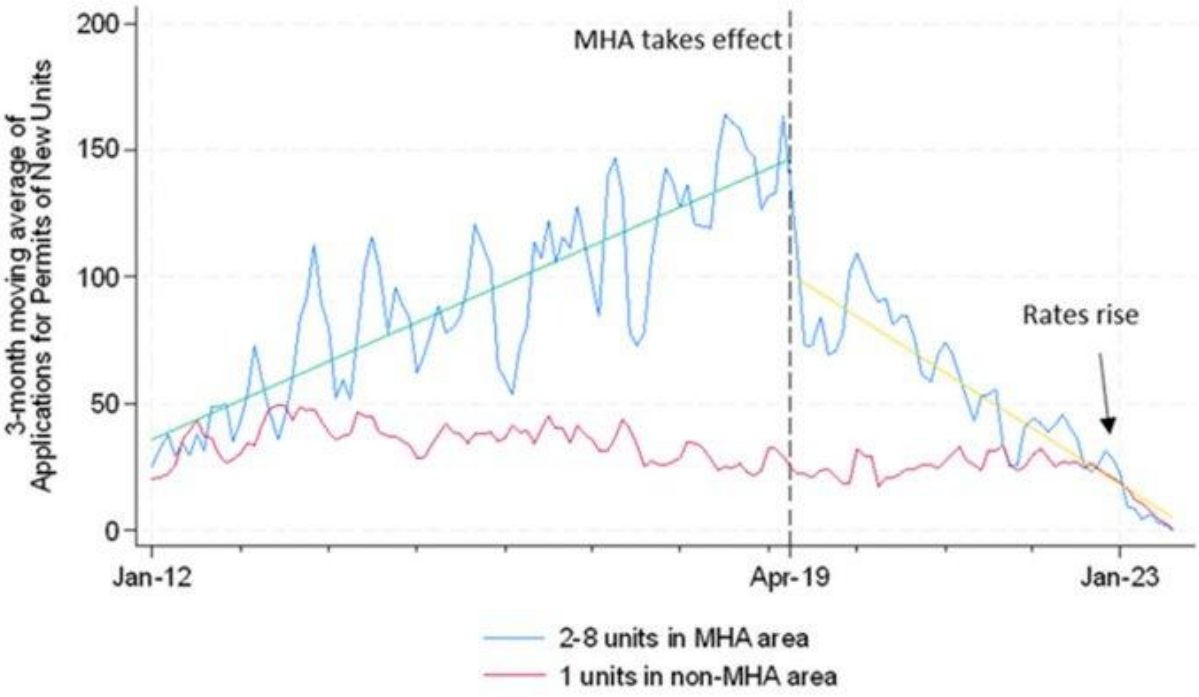
Affordable housing requirements are counterproductive. They are a tax on development that impairs feasibility, reduces supply and hence worsens overall affordability. Some examples:

In 2021, Portland, Maine's 'inclusionary zoning' (IZ) required that 25% of new housing be affordable. Construction collapsed.



Source: 2024 Housing Report, City of Portland p18

In 2019, Seattle's 'mandatory housing affordability' (MHA) required builders to include subsidised components in medium density projects. Construction also collapsed.



Source: https://sightline.org/2024/04/18/seattle-deserves-a-better-comp-plan/

In 2019, Lawrenceville, Pennsylvania required 10% of units in large buildings to be 'affordable'. Construction fell 30% while increasing 36% and 18% in nearby neighbourhoods. (Billings and Vatz, 2025).

Connor (2026) provides more examples. Phillips (2024) estimates that every below-market unit produced by Inclusionary Zoning in Los Angeles reduces market-rate production by more than 4 units, worsening affordability for everyone except the lucky lottery winners. An earlier research

survey (preceding the examples above) by Hamilton (2021) found that inclusionary zoning hurts more than it helps.

The mistake made by advocates of affordable housing requirements is to focus exclusively on the rent paid at the new site, ignoring the effect that extra supply has on rents elsewhere. A simple numerical comparison shows that the latter is far more important.

- Suppose 1% of an unchanged housing stock is given an "affordable housing" discount of 25%. If other rents are unchanged, the average rent falls by 0.25% (=1-[0.99x1 + .01x.75]). This is the direct effect.
- Alternatively, suppose that 1% is *additional* to the stock. Central estimates suggest the 1% increase in supply would reduce *other* rents and hence rents in general by an average 2.5%. This indirect effect is ten times as large as the direct effect. It is the quantity of new supply that drives affordability, not its price.
- As a corollary, when affordable housing requirements reduce overall supply, as in the examples above, average rents go up.

Proponents of affordable housing requirements, such as the Committee for Sydney or the Community Housing Industry Association (CHIA), have been asked for evidence that benefits exceed costs and have not produced any.

4.3 Red tape

Past reports by the Productivity Commission, such as *Shifting the Dial* (2017, Section 4.6) and *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments* (2011) have emphasised the complexity of the planning system and the excessive administrative burden it places upon developers. The CIS Submission (2022) to the Productivity Commission's Inquiry into Australia's Productivity Performance argued this was unbalanced and misleading. The cost of zoning restrictions comes mainly from the restriction on supply, sometimes called the 'zoning premium', rather than the regulatory thicket. In economics terms, red tape raises the supply curve, when the far bigger cost is the wedge between supply and demand caused by quantity restrictions. Matthew Maltman (2025) of the e61 Institute elaborates.

The past mistakes of the Productivity Commission may reflect an over-emphasis on salient examples relative to quantitative analysis, especially if that analysis is technically challenging. It leads to poor policy recommendations. Faster rejections don't help.

We are pleased to see a more empirically based emphasis in recent Productivity Commission reports:

> *For houses, we estimate that by far the largest component (50-80%) of the regulatory cost comes from distortionary costs from restrictive zoning laws. Substantive compliance costs represent 5-20% of the regulatory cost, while delay and paperwork costs, while significant, make up a smaller proportion.*
>
> *For units, as the price of land per unit is significantly lower than for houses, zoning costs are less significant, at 13-42% of the total regulatory costs. Paperwork (administrative and assessment) costs make up around 33-36% of the total regulatory cost for unit construction.*
>
> *-- Productivity Commission, 2025 Creating a more dynamic and resilient economy, page 177*

Research commissioned by the Queensland Productivity Commission is more thorough. The Centre for International Economics (2025) estimates that zoning restrictions and their associated margins add:

- $105,000 to the cost of a townhouse in a character zone in Brisbane — equivalent to 71 per cent of total regulatory costs
- $78,000 to the cost of an inner-city apartment in Brisbane — equivalent to 64 per cent of total regulatory costs
- $149,000 to the cost of a detached house on the urban fringe in Brisbane — equivalent to 80 per cent of the total regulatory costs.

These results are not well understood, so public discussion and policy are misdirected. For example, the NSW government's council league table provides detailed, timely estimates of how quickly local councils are assessing development applications. However, the league table does not report the far more important estimates of whether councils are meeting their housing targets (as presented in Table 2).

Estimates like those above need to be emphasised. However, they also need more work. Policy priorities vary by region, requiring disaggregated estimates. Zoning costs are a higher proportion of total regulatory costs where affordability is worst, as in the inner suburbs of Sydney. The estimates reflect detailed investigation into housing in major cities. However, our knowledge of regulatory costs in regional areas is poor.

These estimates matter, in part because they influence housing targets and other policy priorities. To reiterate, this is research that AHURI and NHSAC should have been doing. However, they lack the technical capacity or the interest in economic policy.

4.4 Benefits of extra density

The Productivity Commission's Creating a more dynamic and resilient economy (2025, Appendix C.6) provides estimates of the costs of land use regulations. That is useful for setting research priorities. But policy decisions need to compare these with benefits, which is rarely done. We need to require that costs of regulations be compared with benefits.

Some estimates of benefits are relatively straightforward. For example, the benefit of heritage restrictions can be gauged by surveys of willingness to pay. SGS Economics and Planning (2018) and Fifer (forthcoming) are examples. These surveys find substantial willingness to pay for heritage items of national or state significance but not for items of local significance, the overwhelming majority of heritage preserved items. Those estimates of benefits can easily be compared with the cost of preservation, which is primarily the change in market value from an alternative use. Tulip (2026) argues that the costs of preserving items of local significance often exceed the benefits by large margins.

As noted in Section 4.1, the most important supply restrictions are those limiting housing density. Substantial research exists on the benefits of these regulations. The Queensland Productivity Commission (2025, Appendix D) provides simple estimates, building on earlier Australian studies. However, this issue is at the heart of housing policy debates and is misunderstood by policy advisers, so worth a further discussion.

The strongest argument in support of planning restrictions (e.g. Stokes, 2020; Spiller, 2024) is that, while they make housing expensive, this is worthwhile if they improve neighbourhood amenity.

Nearby residents often object to new apartment buildings on the grounds that they are ugly, they bring traffic and crowds, they cast shadows and so on.

These arguments are legitimate and the residents are entitled to their preferences. However, theirs are not the only views to be taken into account. Central governments should also weigh the preferences of those who like high-density living. Many potential residents like proximity to shops, transport and entertainment. These potential residents are mobile and do not have a stake in any particular construction project. Indeed, they typically cannot be identified beforehand. Accordingly, their views are under-represented in public discussion. Local governments represent the aggrieved neighbours, not the outsiders who would benefit from more density.

We can weigh these conflicting preferences by looking at nearby house prices, which reflect willingness to pay to live nearby. If apartment towers did harm neighbourhood amenity, as the opponents of density argue, then local house prices should fall.

Tulip and Lanigan (2021) find that this does not happen. They look at five prominent examples of high-density construction in Sydney: Chatswood, Forest Lodge, Green Square, Liverpool and Turrella and three in Melbourne: Box Hill, South Yarra and Footscray. They find that nearby detached house prices are essentially unaffected by new development. (Looking at house prices helps avoid compositional and substitution effects.) It seems that for every recalcitrant neighbour who dislikes the new apartments, there are other home buyers who want a walkable, lively community.

There is a large international literature on broader effects of urban density. Ahlfeldt and Pietrostefani (2019) standardise and quantify this research and conclude that, on balance, the external benefits of urban density are positive. Productivity spillovers, more patent applications, less energy use and other benefits of density are found to more than offset traffic congestion, shadows, noise and other costs. Glaeser, Gyourko and Saks (2005) specifically examine height restrictions and estimate their external costs to be small.

Technical research is not needed to make this point. Most of us choose to live in cities — because proximity to other people generates jobs, high wages, entertainment options and other social and cultural opportunities. We willingly pay high costs for housing because these positive externalities from density are large.

A large positive externality not covered by these comparisons is that urban density promotes productivity and technological progress, an issue of special concern to the Productivity Commission.

Large dense cities increase interactions, specialisation, thick labour markets, spillovers, copying, competition and incentives for experimentation. These externalities boost the level and growth of productivity.

Glaeser and Maré (2001) write:

> Workers in cities earn 33% more than their non-urban counterparts. A large amount of evidence suggests that this premium is not just the result of higher ability workers living in cities, which means that cities make workers more productive. Evidence on migrants and the cross effect between urban status and experience implies that a significant fraction of the urban wage premium accrues to workers over time and stays with them when they leave cities. Therefore, a portion of the urban wage premium is a wage growth, not a wage level, effect. This evidence suggests that cities speed the accumulation of human capital.

De la Roca and Puga (2012) examine why this premium exists, using rich longitudinal data for Spain. They find one half of the urban wage premiums is received upon arriving in a city, while the other half accumulates with the dynamic benefits from learning. Other prominent studies with similar results include Baum-Snow and Pavan (2013) and Wang (2016). Wage premiums are found to increase with urban density.

Large dense cities also boost patenting. Carlino and Kerr (2014, p10) note that, during the 1990s, 92% of U.S. patents were granted to residents of metropolitan areas, though these areas only contained three-quarters of the U.S. population. Carlino, Chatterjee and Hunt (2007) find that the rate of patenting per capita is about 20% higher in a metropolitan area with twice the employment density (jobs per square mile) of another metro area.

For surveys on these issues, see Glaeser (2012), Carlino and Kerr (2014), Combes and Gobillon (2014) and Ahlfeldt and Pietrostefani (2019). Glaeser says the key lesson is that 'Ideas spread more easily in denser places'.

To be precise, most of this literature focusses on the density of workers rather than the density of housing. However, the two typically go together. Moreover, many policies (for example, building height limits) affect both in similar ways.

The NHSAC has claimed that zoning restrictions are justified by negative externalities:

> At least part of this regulatory cost is inescapable: rationing of development rights gives rise to a premium that is necessary to mitigate the negative impacts of urbanisation.
> — State of the Housing System, 2024, p34

In fact, the evidence is the exact opposite. The net externalities of urban density are positive, not negative. Instead of restricting density, we should be encouraging it.

Many negative externalities — such as aesthetics, parking, shadows, congestion, or noise — are highly localised. However, positive externalities — such as on productivity, technological progress and housing affordability — are disbursed. Similarly, quantity restrictions create local monopoly power at the expense of outside consumers. Many opponents of housing developments want the benefits of living and working in a big city without the local side-effects. "I support housing, but not here". When local governments are given the power to enact this approach, nothing gets built. Accordingly, central governments should over-ride local restrictions.