

15 June
Housing supply regulation
Productivity Commission
GPO Box 1428
Canberra City ACT 2601, Australia



Dear Productivity Commission,

SGS submission to Productivity Commission – Housing Supply regulation

Introduction: The benefits of adequate housing

In a report published in 2022 by private sector housing advocates – Housing All Australians – SGS estimated that a range of benefits to the wider community would arise from lifting households out of housing poverty or serious rental stress.

These benefits were disaggregated by household type, namely, homeless, very low income households and low income households.

The enumerated and monetised benefits included:

Health cost savings: Flatau et al. (2020) found that homeless youth experience a range of health issues to a much greater extent than the general population or other disadvantaged young people who are unemployed but not homeless. The total cost to the Australian economy of health services associated with young people experiencing homelessness is on average \$8,505 (then current prices).

Work commissioned by the Community Housing Federation of Australia and undertaken by Net Balance (2010) found a reduction in the average annual spend on health services after low-income households entered community housing of \$1,872 per household per year.

Reduced domestic violence: Equity Economics (2021) estimated the costs that would be avoided if, rather than returning to perpetrators of domestic violence, women were housed. This modelling indicated that the annual health and economic gains per survivor from avoiding domestic violence equates to \$18,241.

Reduced crime costs: Flatau et al. (2020) found that homeless youth experience a rate of exposure to the justice system to a much greater extent than the general population or other disadvantaged young people who are unemployed but not homeless. The total cost to the Australian economy of justice services associated with young people experiencing homelessness is on average \$9,363 per person per year more than for the long-term unemployed youth.

Enhanced human capital: A key benefit of providing secure and appropriate housing for homeless people and low income households is that they will be better able to engage in training and the labour market. SGS estimated the value of this benefit by applying assumptions around the propensity of newly housed people to participate in the labour market, the number of years of gainful employment these people would enjoy compared to a

situation where their housing requirements remained unresolved, and pay rates in sectors which typically employ these individuals.

Data sources included Ravi, A., & Reinhardt, C. (2011). The Social Value of Community Housing in Australia, Community Housing Federation of Australia, and Leigh (2008). Returns to Education in Australia.

Key worker retention: The value of worker retention was estimated by assuming that each tenancy turnover results in training and recruitment expenses for an employer. SGS applied a reduction in tenancy turnover as a result of finding secure housing based on the difference between the average tenancy turnover for households in rental stress the the average turnover for the general population. For calculation purposes, SGS assumed that recruitment and training costs amount to 25 per cent of annual salary of \$60,000. This is in line with the recruitment bounty typically charged by employment agencies.

Education benefits: Better child education outcomes arise from avoidance of multiple school changes owing to insecure housing.

With adjustments for inflation and the incidence of various conditions, for example, domestic violence or presence of school aged children, within each household category, SGS estimated external benefits of up to \$18,500 per household from providing secure affordable housing for homeless and lower income households suffering rental stress. These estimates are reproduced below.

TABLE 3: EXTERNAL BENEFIT OF SOCIAL AND AFFORDABLE HOUSING PROVISION PER HOUSEHOLD PER ANNUM (2020) - ROUNDED

	Health cost savings	Reduced violence	Reduced crime costs	Enhanced human capital	Key worker retention	Education benefits	Total benefits
Homeless household	\$8,800	\$2,850	\$6,400	\$450	NA	NA	\$18,500
Very-low income household	\$1,550	\$1,900	NA	NA	NA	NA	\$3,400
Low-income household	\$2,250	\$2,850	NA	\$3,870	\$8,200	\$360	\$17,550

Source. [Housing All Australians \(2022\) Give Me Shelter](#)

The SGS analysis further showed that provision of social and affordable housing – either directly or by subsidising the rents of low income households in the private sector – would deliver a benefit cost ratio of 2 to 1. To put this in perspective failure to act on shelter needs across these groups of households will be costing the Australian community \$25 billion per year by 2051. This is clearly a productivity drag on the Australian economy.

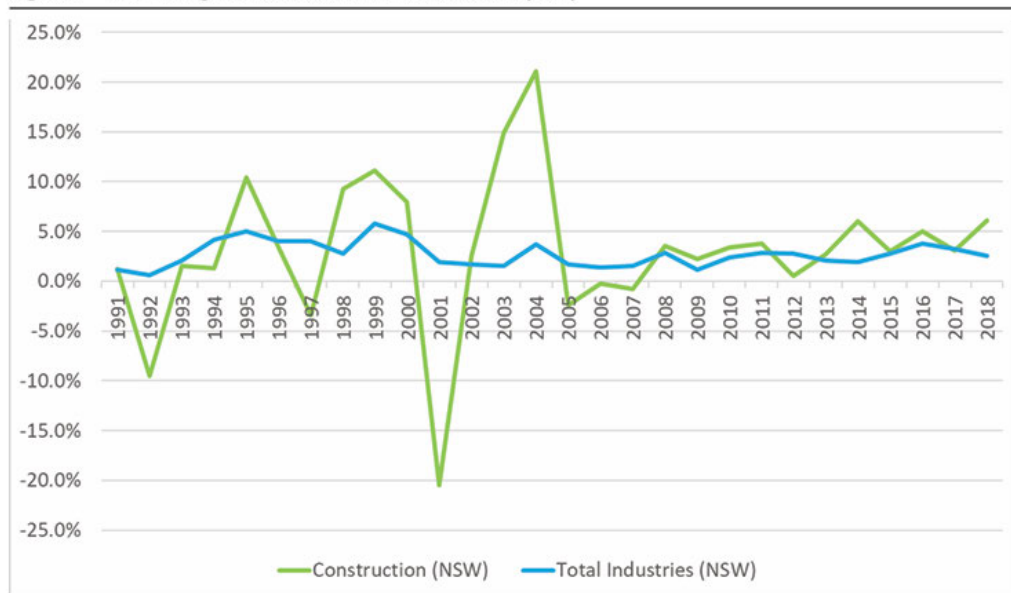
A subsequent HAA report specifically focussed on youth homelessness – also prepared by SGS – found a benefit cost ratio of 2.6 to 1. This reflects the expanded potential for human capital development in this cohort, and the longer time period over which benefits accrue.

Given the resource savings and human capital enhancement associated with social and affordable housing, it is appropriately characterised as essential infrastructure for a productive Australia, rather than a welfare safety net. It should command commensurate infrastructure investment. Indeed, overall returns from investment in social and affordable housing are likely to be superior to those on offer in many major transport projects, as evidence in the Give Me Shelter report.

Housing delivery needs a system-wide consideration

The very recent AHURI-publication “Overcoming construction constraints for the supply of new detached and high-rise housing” involved a holistic review of this dwelling type segment of the housing system. As quoted by the report lead the “... *ultimate conclusion was market volatility presented the most significant risk for builders, and biggest constraint on construction output and quality.*”¹

Figure 1 GVA change construction vs. all industries in Sydney



Source: SGS Economics and Planning, 2018

While it is understood and acknowledged that markets go through periods of growth and stagnation, the volatility in the construction sector is profound. Excessive volatility results in inefficient use of resources and importantly erodes the industry’s capacity to build, train (including apprenticeships) and invest in a sustainable and capable workforce. The effects of this are long lasting and drives up the cost of construction in both boom and bust stages.

¹ AHURI (9 June 2026), News release ‘Inquiry into housing reveals the barriers holding back construction productivity’ <https://www.ahuri.edu.au/analysis/news/inquiry-housing-reveals-barriers-holding-back-construction-productivity>

There is a strong case to address volatility in the system, and regulatory reform is part of that. Specific opportunities include:

- Regulatory mechanisms to enable **anti-cyclical investment** in housing. Support or the delivery of social housing, especially in periods of market downturns, provide certainty to the industry and a pipeline on the basis of which the industry can invest in innovation, training and apprenticeships. As stated in the SGS co-authored UNSW report 'Strengthening Economic Cases for Housing Policies' *"Anti-cyclical managed investment in housing can facilitate structural productivity improvements in the construction industry, as downswings destroy the complex networks of labour and firms involved in construction, and upswings may quickly inflate input costs."*²
- A successful example of a measure that was enabled through regulation is the NSW "Pre-Sale Finance Guarantee" which addresses uncertainty and volatility by offering greater certainty of finance (the cost of finance and the ability to secure finance) thereby enabling and reducing the delivery timeframe of housing developments. A co-benefit of the scheme it enables the development of more key worker and affordable housing.

The Pre-Sale Finance Guarantee (PFG) aims to fast-track the delivery of thousands of new homes over the next 5 years, support the creation of thousands of direct and indirect jobs, and help attract talent and develop skills for the ongoing success of the residential construction sector in NSW.

PFG is a supply side policy response that leverages NSW Government's high credit rating to underwrite the potential sales risk for developers. The PFG forms part of NSW Government's holistic approach to addressing the current housing shortage and is designed to accelerate the commencement of construction-ready housing projects. The PFG is structured as a renounceable commitment by NSW Government to purchase up to 50% of dwellings in eligible residential projects at a prior agreed discount to market value. This provides lenders with the market certainty that is needed to progress construction finance.

- As identified in the AHURI-publication, **nationally coordinated planning and investment in workforce development** may be another area or regulatory intervention.

Improved planning regulation can improve housing delivery, but not a panacea for housing supply issues

Judicious planning reform provides an opportunity to improve the delivery of housing supply. Any reform of the planning system should have a tripartite approach:

- **Efficiency:** offering a streamlined process and quick decision-making and that avoids cost escalations for developments in the planning and approvals process.

² City Futures Research Centre UNSW Built Environment, UNSW Sydney (2019) Strengthening Economic Cases for Housing Policies, Page 14

- **Effectiveness:** ensuring the planning system delivers the optimal housing capacity while ensuring adequate infrastructure provisioning and minimal externalities (travel times and costs, environmental impacts, exposure to natural hazards, safety and equity).
- **Transparency and integrity:** ensuring the planning system works fairly and equitable for all stakeholders involved.

In the endeavor to maximise housing supply, there is a real risk of a focus on efficiency alone which may result in planning outcomes that generate long term social, environmental and social costs as a result of externalities and/or planning outcomes that are not fair or equitable to some stakeholders involved.

Good planning adds value.

On that note, opportunities for planning system reform exist and priorities for consideration include:

- **Consistently regulate and fund strategic planning to ensure development is targeted and enable the delivery of infrastructure and servicing of growth in areas across Australia.** Consistent strategic planning is needed to plan strong centres, housing diversity and affordability and sustainable neighbourhoods. Both urban and regional areas require consistent support in the form of regulated requirements for strategic planning with earmarked funding to enable planning authorities to do so. Strategic planning is required not just for metropolitan areas and should consider major infrastructure investment, including prioritising fast connections to metro areas, and investment in regional economic development, major regional centres, peri-urban areas and amenity rich smaller towns could accommodate additional population and jobs growth.
 - Improve consistent guidance for planning outcomes. As part of a review for the Municipal Association of Victoria (2023)³, it was concluded there is a need for consistent and state-wide (and territory-wide) policy guidance for residential development to drive the delivery of housing choice, affordability and sustainable communities. Some specific directions:
 - Nominate aspirational housing capacity targets by municipality to guide local planning, to demonstrate achievement of the settlement vision
 - Identify major residential growth precincts and provide clear principles for growth planning.
 - Prepare regionally relevant policy guidance for sustainable neighbourhood planning and development
 - Align State Infrastructure Strategies with the regional and metro land use strategies. Accommodating growth and creating new housing requires investment in both physical development and local community infrastructure, delivered at the right time, to support resilient communities.
- **Address issues in the planning system.**
 - There are opportunities to improve the governance of planning. In many jurisdictions, there continue to be fragmented responsibilities (between local and state government) exacerbated by stunted communication and which is characterised by a poor system of stewardship. At least in Victoria, this situation has contributed to system neglect, and issues with planning

³ SGS (2023), Shaping regional and rural Victoria: A discussion paper, for the Municipal Association of Victoria

SGS (2023), Shaping metropolitan Melbourne: A discussion paper, for the Municipal Association of Victoria

system design. Sometimes, attempts to improve the situation create new problems. For instance, increased concentration of power in an individual decision-maker with reduced scope for appeals (particularly by third parties) increases the integrity risks in the planning system (note the mentioned need for transparency and integrity).

- Reinvigorate the role of government-owned land development entities is essential for orderly and innovative development in greenfield and infill areas, with a mandate to generate net community benefits (social, environmental and economic outcomes) over commercial returns. These entities need to play an active role in land purchase and development in regional and metro redevelopment areas, including a focus on land assembly, demonstration projects, and partnering with developers to prepare land for development. They play a role in delivery and development to achieve the aims of the regional plans and projects of state or regional significance. This means it would prioritise net community benefit (social, environmental and economic outcomes) over narrow commercial returns.
- Commit to measurement of plan effectiveness. The planning pillars, and the aims and objectives that are established for them, need to provide the basis for identifying measurable targets. Establishing a realistic set of targets represents a commitment to implementation of metro and regional plans.

Stepping on down from governance issues that need to be addressed in the planning system, to the regulatory level, opportunities to improve housing supply. Review of planning regulation has been undertaken in many jurisdictions to varying levels of success to address:

- Lack of policy certainty and clarity
- Insufficient progress in achieving key policy objectives – notably with regards to responses to housing affordability and climate change; and
- System inefficiency and delay.

Some key issues in the planning system (at least in Victoria, but probably more widely applicable) are around:

- Flaws in the regulatory paradigm, with approvals processes that allow for the extensive use of discretionary, principle based decision-making which is *“optimised for making decisions about matters that require fully bespoke first-principles assessment. However, it is much less suited to dealing with common application types efficiently”* (footnote 3, page 34).
- The proliferation of “workarounds”. Special streams and assessment clauses designed to facilitate certain categories of development often involve Ministerial / Departmental assessment of qualifying proposals, further complicating the allocation of planning responsibilities between state and local government.

Opportunities for planning system and regulatory reform have been identified for Victoria (footnote 3, page 35) and likely apply to other jurisdictions as well:

- A regulatory audit of the provisions for plan delivery and planning system efficiency – better alignment of the planning system (see Box 2)

- Councils as co-stewards of the planning system, including through structured stakeholder engagement and feedback in system reforms
- More structure and rigour to the way variations to discretionary provisions are considered and assessed through planning reform and guidance documents
- A full suite of fit for purpose development contributions to support and fund growth. Development contributions should be well-designed and purposeful to a) enable a ‘user pays’ system, b) mitigate impact (making good of impacts), c) value sharing of development rights, and d) inclusionary requirements.

In addition to planning reform, there is a need to improve and align infrastructure funding and appropriately resource local government to effectively fulfill the roles and responsibilities in the planning system.

Box 2: Framework for realigned planning system

There is a need for a realignment of the planning system to provide more clarity in the management of the system and to ensure that responsibilities are vested with the most appropriate body at all levels of the system.

Alongside this, the provisions themselves need comprehensive review to ensure that planning schemes are providing clear guidance and proportionate assessment pathways.

The following diagram illustrates how some of these regulatory design principles can be aligned with appropriate governance arrangements in the development assessment system.⁴

This framework conceives of applications within a spectrum of increasing impact and risk, and associated assessment complexity. This can approximately be divided into three categories: low impact applications that raise few if any genuine planning issues; the common applications requiring assessment, but which raise known or foreseeable issues; and more strategically complex or novel applications. This seeks to embed the following principles of system design.

The system should be targeted to where it adds value

At the level of policy and scheme design, the system should aim to remove the simple applications from the system wherever possible, by better targeting the system to define acceptable outcomes and remove permit requirement.

The system should give clear answers to common dilemmas

Common applications are less likely to be removed from the system, but schemes should aim to give as much clarity about intended outcomes as possible, for example through detailed descriptive policy or form-based codes (a density measure such as Floor Area Ratio, a core element in all planning controls in NSW, could be considered).

The system should provide a principles-based framework for novel matters

⁴ This framework builds on recent work by the Planning Institute of Australia’s Victorian Division (<https://www.planning.org.au/documents/item/12618>) as well as Rowley, Stephen, *The Victorian Planning System: Practice, Problems, and Prospects* Second Edition, Federation Press, 2023).

For complex applications, there is less likely to be clear policy guidance and the principles-based guidance of the Planning Policy Framework becomes more important to guide first-principles strategically driven decisions. (The Victorian system is currently well-attuned to this kind of application.)

Assessment pathways should align with risk, importance, and complexity

Assessment pathways should follow from the above scheme settings. Simple applications ideally will not require assessment. Planning judgement will be required for the common applications, although this should primarily involve assessment against codes and guidance formalised in the scheme. The complex and novel applications require more first-principles policy judgement and strategic decision-making.

FIGURE 1: ALIGNMENT OF RESPONSIBILITIES AND SYSTEM RESPONSES IN THE PLANNING SYSTEM

Complexity	Simple	Moderate – foreseeable but hard to codify	Strategically important and consequential, novel, complex
Policy design	Codify and remove from the system	Clear descriptions of intended outcomes (e.g. use, density and height).	Principle-based controls
Assessment type		Primarily technical assessment	Policy interpretation and judgement required – may raise significant policy questions
Notification and review		Limited to directly impacted parties	Available to third parties (unless compelling case otherwise)
Assessment / recommendation		Council officers	Council officers / independent panel
Decision-maker		Council officers / independent panel	Metropolitan or regional authority / Minister

Notice and review rights are an important part of the system

Notice and review rights have long been embedded in the Victorian system and play an important role in maintaining the system’s democratic accountability and integrity. These rights should not be removed or traded as part of fast-tracking exercises. Instead, the extent of third-party involvement should flow from the importance of the matter.

The decision-maker should align with the importance and impact of decisions

The choice of decision-maker should follow in a logical manner from this framework. Councils should remain central to processing of the applications, with the bulk of common applications processed at officer level. More significant applications can then be elevated to councillor decision-making. It is appropriate for the Minister to make decisions on matters of genuine state significance, with a genuine role for input and support from councils.

Elected decision-makers should always respond to independent and publicly available reasons

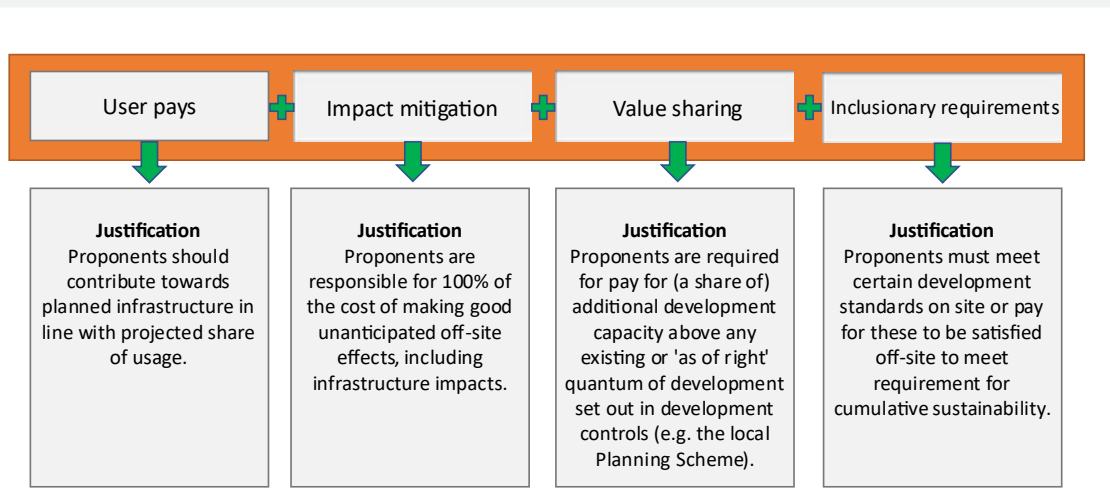
The IBAC Operation Sandon report advocated for independent planning panels to make decisions in response to concerns about councillor conduct. The Victorian Auditor-General has previously expressed concern about governance of Ministerial decision-making, particularly with regards to the reasons provided for decisions (as the Minister does not typically provide or respond to a publicly available assessment. This model responds to these findings by adding a role for a metropolitan and regional authority – which would include council representation – to prepare reports with publicly available recommendations to underpin council and Ministerial decision-making. There may also be scope for some decisions to be made by the authority itself.

Box 3: Framework development contributions

A fit for purpose infrastructure funding system is vital, particularly for local councils who are at the front line of supporting growth.

SGS has long advocated that development contributions generally fall into one of four mutually exclusive and additive categories, as shown in Figure 2

FIGURE 2: FOUR FRAMES OF DEVELOPMENT CONTRIBUTIONS



These 'frames' are helpful in understanding existing development contributions in the Victorian system, and identifying issues and gaps.

User pays charges are the basis of Development Contribution Plans, where future infrastructure costs are apportioned to future development. These are widely used in the metropolitan area (but are more limited in regional areas) and establish an appropriate discipline for councils to undertake forward planning for local infrastructure. In theory they also provide 'price signals' to direct development to 'least cost' locations in the first instance (because new development will pay a lower cost where existing infrastructure is available or has capacity).

Some councils have not prepared DCPs in regional areas or have not kept them up to date. In these cases, vital funding for infrastructure is being foregone. Support for the preparation and management of DCPs needs to be improved with more assistance and tools. In some infill and regional areas it may be onerous to prepare full and detailed DCPs.

Impact mitigation contributions would typically be imposed as permit conditions or established through a section 173 agreement (negotiated in-kind infrastructure contributions provided by developers). Greater clarity on this development contribution category, examples of infrastructure it could cover, and how it can be quantified and applied would support councils.

Value sharing, or ‘value capture’ contributions are premised on the state reservation or ‘ownership’ of development rights⁵. They are imposed in two principal ways in Victoria; via the Growth Areas Infrastructure Charge (GAIC) which applies to ‘greenfield’ development with the Urban Growth Boundary, and the Windfall Gains Tax (WGT) introduced to capture gains associated with land value uplift from planning decisions. The WGT doesn’t apply to GAIC affected land within the UGB, and the de-facto value capture charge represented by the GAIC in these areas has fallen behind in effectively capturing value uplift. A dual system of state levied charges and taxes associated with development has emerged.

Furthermore, the WGT presents the prospect of competing and contested valuations for the post and pre rezoning values, upon the difference of which the WGT will be based. This raises the prospect of undesirable and increased uncertainty in the development process. A foundational principle is that a developer of land should be able to reasonably estimate the costs associated with future development – alongside revenue estimates – recognising prospects for changes at the margins, so that bids for land can reflect this knowledge. The WGT regime may not be sufficiently transparent about the prospective WGT to enable this.

The call for a mechanism to capture windfall gains in the Operation Sandon report presents the opportunity to establish a unified state level value capture mechanism, to apply in both greenfield and non-greenfield contexts.

Inclusionary requirements are established via, for example, mandatory car parking provision rates in Planning Schemes and open space contributions in the subdivision legislation. These examples, and other expectations of development in the planning system, illustrate how inclusionary requirements are a means of providing ‘essential infrastructure’ which we take for granted in creating liveable communities. This perspective highlights how social and affordable housing might also be an inclusionary requirement, considered as critical or essential infrastructure at a local level.

In 2022, the Victorian Government announced a 1.75 per cent Social and Affordable Housing Contribution (SAHC) on all new developments of three or more dwellings in metropolitan Melbourne, and the Greater Geelong, Greater Bendigo and Ballarat local government areas. This was to provide funding for approximately 1,700 new social housing units annually.⁶ It was in effect a widely applied inclusionary levy. This landmark reform was abandoned a week later.⁷

⁵ Australian Government (July 2023) Barriers to Institutional Investment, Finance and Innovation in Housing, Interim National Housing Supply and Affordability Council, https://nhsac.gov.au/_assets/downloads/barriers-to-institutional-investment-report.pdf

⁶ Building a Secure Housing Future for Victoria, <https://www.premier.vic.gov.au/building-secure-future-social-housing-victoria>

⁷ Premier of Victoria, Statement on Planning Reform Package, 01 March 2022. As at <https://www.premier.vic.gov.au/statement-planning-reform-package>

Short term rental accommodation has absorbed a substantial portion of the private rental stock, thereby exacerbating supply shortages and the housing affordability crisis.

Renters are the more vulnerable group in the housing market, and the levels of rental stress experienced by low to moderate income households continues to increase. The SGS/National Shelter Rental Affordability Index has been tracking rental stress over the last 15 or so years.

Recent research by AHURI casts a light on the firm impact that short-term rental accommodation (STRA) has on housing supply, most specifically the private rental market⁸.

This research shows:

- The STRA sector has absorbed a significant stock of housing supply and diverted it to non-permanent residential uses. As of Dec 2024, there were 174,558 STRA listing in the country, the majority of them entire dwellings. The research shows (for jurisdictions with available data) that the majority (around two thirds) of this STRA stock were repurposed from long term rental stock.
- In key economic centres, the sector has taken away housing from key workers and renting households, exacerbating supply shortages (see figure below).

TABLE 1 STRA AS SHARE OF TOTAL RENTAL STOCK

	Kiama	Eurobodalla	Shoalhaven	City of Sydney	Blue Mountains	Hobart
Whole properties %	95.7	96.3	97	75.1	96	86
Frequently available %	75.9	79.9	83.1	30.7	74	56.3
STRA as % of rental stock	53.5	57.8	62.6	12.7	29.8	30.5

Source: AHURI (2026)

While a lot of the damage to the housing sector has already been done, there is a need for national level regulation to catch up, and:

- Establish a mandatory national register of STRA providers with a responsibility on the platforms to list / register all the STRA on their books. This is the case in the EU.
- This then also enables appropriate taxation of STRA as commercial undertakings.
- Dwelling used for STRA should no longer be recognised in the planning system as residential uses, but as commercial uses, and only be allowed in areas with appropriate zoning and use regulations.

⁸ Gurrán, N., Buckle, C., Troy, L., Nasreen, Z., Crommelin, L., Phibbs, P., Shrestha, P., Redmond, D., Harrison, J. (2026) Short-term rental accommodation: models, impacts and policy responses, AHURI Final Report No. 460, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/finalreports/460>, doi: 10.18408/ahuri7333501.

Kind regards,

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