

Housing Supply Regulation  
Productivity Commission  
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[www.pc.gov.au/inquiries-and-research/housing-supply](http://www.pc.gov.au/inquiries-and-research/housing-supply)  
15 June 2026

**Re Housing Supply Regulation Inquiry**

To whom it may concern

Please find attach my submission to the Productivity Commission's Inquiry into Housing Supply Regulation.

Yours sincerely

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# Executive Summary

## Submission Overview

This submission responds to the Productivity Commission's inquiry into opportunities to improve housing supply and housing affordability in Australia through housing supply regulation.

The submission supports continued efforts to increase housing supply, improve planning system performance, enhance infrastructure coordination and lift housing construction productivity. It accepts that inadequate housing supply contributes to affordability pressures and that planning reform has an important role in facilitating additional housing delivery.

However, the submission argues that housing supply and housing affordability have become increasingly conflated in contemporary policy debates.

Increasing housing supply is necessary. It is not sufficient.

Australia's housing challenge is ultimately an affordability challenge rather than simply a dwelling production challenge.

The central proposition advanced in this submission is that housing policy should be judged not solely by the number of dwellings produced, but by whether Australians can access secure, appropriate and affordable housing.

## Housing Delivery Is Influenced by More Than Planning Regulation

Much contemporary housing policy focuses on planning reform as the primary mechanism for improving housing affordability.

Planning reform remains important and should continue. However, the evidence suggests that housing delivery is influenced by a broader range of factors including:

- interest rates;
- development finance;
- construction costs;
- labour availability;
- infrastructure provision;
- taxation settings;
- market expectations;
- investor behaviour; and
- housing construction productivity.

Planning systems create development opportunities. They do not themselves construct dwellings.

The distinction is important because housing shortages are often attributed primarily to planning regulation when the evidence suggests that economic and financial factors frequently play an equally important role.

The submission argues that housing policy should recognise the distinction between:

- housing capacity;
- housing approvals;
- housing commencements; and
- housing completions.

These are different measures that capture different stages of the housing delivery process.

The existence of substantial approved-but-unbuilt housing demonstrates that planning approval alone is not sufficient to guarantee housing delivery.

### **Lessons from the NSW Experience**

The NSW experience provides a useful case study.

Over recent years, NSW has implemented one of the most ambitious housing reform programs undertaken in Australia.

These reforms have included:

- Transport Oriented Development reforms;
- Low and Mid-Rise Housing reforms;
- Housing Delivery Authority pathways;
- accelerated assessment mechanisms;
- affordable housing bonus provisions; and
- broader planning system reforms.

These initiatives have significantly increased theoretical housing capacity. However, housing completions have continued to fall below levels required to achieve housing targets.

This suggests that while planning reform remains necessary, it is unlikely to be sufficient on its own.

Housing delivery continues to be constrained by:

- development feasibility;
- financing availability;
- labour shortages;
- infrastructure constraints; and
- market conditions.

The Productivity Commission's inquiry should therefore avoid the temptation to treat planning reform as a complete explanation for housing shortages or as a sufficiently complete solution to housing affordability challenges.

### **Housing Affordability Is the Real Policy Objective**

The submission argues that housing affordability should be regarded as the principal objective of housing policy. Housing supply is important because it contributes to affordability.

However, housing supply itself is not the ultimate objective. The ultimate objective is ensuring that households can access housing that is:

- secure;
- appropriate;
- well located; and
- affordable.

Recent evidence demonstrates the scale of the affordability challenge. The National Housing Supply and Affordability Council (NHSAC) has reported that housing affordability has deteriorated substantially across both ownership and rental markets.

Recent NHSAC reporting indicates that:

- mortgage servicing costs for new purchasers remain at historically elevated levels;
- newly leased rental dwellings require approximately one-third of median household income;
- deposit saving periods exceed a decade in many markets; and
- affordability outcomes have continued to worsen despite ongoing housing construction activity.

Similarly, PropTrack’s Housing Affordability Report demonstrates that many households can afford only a relatively small proportion of homes sold in their local markets. The evidence suggests that affordability challenges are increasingly being driven by the gap between housing costs and household incomes.

### **Why Untargeted Market Supply Will Not Fully Solve Affordability**

The submission supports continued housing supply growth.

However, it argues that untargeted market supply is unlikely to fully resolve affordability challenges for lower and moderate income households.

New housing is expensive to produce. Land costs, construction costs, financing costs, infrastructure contributions and development feasibility requirements mean that much newly constructed housing enters the market at price points affordable primarily to higher-income households or households with existing housing equity.

This does not mean that new housing lacks value. Additional supply contributes to market functioning and remains essential.

However, the households most affected by housing stress are often the least able to access newly constructed market housing.

The submission therefore argues that housing policy (and controls) should focus not only on the quantity of housing produced but also on:

- who can afford it;
- where it is located;
- when affordability benefits emerge; and
- whether affordability outcomes are achieved.

### **Housing Affordability and Essential Workers**

The affordability challenge is particularly evident for essential workers.

Many:

- nurses;
- teachers;
- childcare workers;
- aged care workers;
- emergency service personnel; and
- other moderate-income workers

increasingly struggle to access housing in high-cost metropolitan locations. This issue extends beyond housing policy.

It affects:

- labour mobility;
- workforce participation;
- recruitment and retention;
- service delivery; and
- economic productivity.

Housing affordability should therefore be recognised as an economic productivity issue as well as a social policy issue.

### **The Limits of the Filtering Proposition**

The submission accepts that filtering is a real and important mechanism through which housing supply contributes to affordability over time. Much of Australia's existing affordable private housing stock exists because housing has filtered through the market over extended periods.

However, filtering is not an immediate process. Australia's affordability challenges are occurring now.

The submission argues that filtering is affected by:

- population growth;
- smaller household sizes;
- investor demand;
- redevelopment pressures;
- locational preferences; and
- the loss of existing affordable housing.

### **Time matters**

The economic, productivity and social costs associated with delayed affordability improvements are experienced immediately. The submission also highlights the displacement impacts associated with redevelopment.

In many established urban areas, redevelopment may increase dwelling numbers while simultaneously removing older, lower-cost housing and displacing lower-income households.

Governments should therefore consider net affordability outcomes rather than gross dwelling production alone.

## **Government Has a Complementary Role**

Private housing markets should remain the primary mechanism through which housing is delivered. However, private housing delivery is inherently cyclical.

Housing need is not.

The submission therefore supports a complementary role for government through:

- government-led housing delivery;
- countercyclical housing investment;
- affordable housing programs;
- Community Housing Providers;
- key worker housing initiatives; and
- strategic use of public land.

These interventions should complement rather than replace market housing delivery.

### **Commonwealth Infrastructure Funding as an Affordability Lever**

The Commonwealth Government possesses limited direct control over planning systems. However, it exerts substantial influence through infrastructure funding and intergovernmental agreements.

The submission argues that Commonwealth infrastructure funding should increasingly support both:

- housing supply outcomes; and
- housing affordability outcomes.

Funding programs should encourage:

- affordable rental housing;
- key worker housing;
- Community Housing Provider partnerships; and
- affordable housing retained in perpetuity.

Infrastructure funding represents one of the most significant housing affordability levers available to the Commonwealth Government.

### **Summary of Recommendations**

The submission makes fifteen recommendations. These include:

- Distinguishing between housing capacity, approvals, commencements and completions.
- Establishing national housing affordability indicators alongside housing supply targets.
- Adopting a Net Affordability Assessment Framework.
- Expanding affordable housing delivered in perpetuity.
- Strengthening the role of Community Housing Providers.
- Linking Commonwealth infrastructure funding to affordability outcomes.
- Supporting key worker housing programs.
- Expanding government-led and countercyclical housing delivery.

Investigating approved-but-unbuilt housing.  
Expanding affordable housing monitoring and reporting.  
Encouraging stronger state affordable housing programs.  
Recognising housing affordability as a productivity objective.  
Measuring policy success using housing outcomes rather than housing inputs.

## **Conclusion**

Australia requires more housing. Australia requires planning reform. Australia requires improved housing construction productivity.

However, the evidence suggests that housing affordability challenges cannot be resolved through supply-side measures alone.

Housing supply is necessary. Planning reform is necessary. Construction productivity improvements are necessary.

Yet none of these measures are likely to be sufficient unless they translate into improved affordability outcomes for the households most affected by Australia's housing crisis.

The ultimate test of housing policy is not how many dwellings are approved or constructed.

It is whether Australians are better able to access secure, appropriate and affordable housing in locations that support economic participation, social inclusion and community wellbeing.

Efficiency is only valuable if it achieves the intended outcome; an ineffective policy delivered efficiently merely produces the wrong result faster, whereas effectiveness ensures that resources actually solve the problem they were intended to address.

This submission argues that targeted housing supply policies should be viewed as a legitimate form of regulatory reform. Just as planning reforms seek to improve the efficiency of housing delivery, policies that shape housing outcomes towards entry-level, affordable and non-market housing seek to improve the economic effectiveness of housing supply by ensuring that new housing better aligns with workforce, productivity and affordability objectives.

## 2. Introduction

### **Purpose of this Submission**

Australia is confronting one of the most significant housing affordability challenges in its modern history.

Across much of the country, housing costs have increased substantially faster than household incomes over an extended period. Home ownership has become increasingly difficult to attain for many younger households. Rental affordability has deteriorated. Essential workers are finding it more difficult to live close to employment opportunities. Social housing waiting lists remain substantial and homelessness has increased in many locations.

These challenges have generated renewed policy attention at all levels of government and have elevated housing affordability to one of Australia's most important economic and social policy issues.

The Productivity Commission's inquiry provides an important opportunity to examine the underlying causes of these challenges and to consider reforms capable of improving housing outcomes over the medium and long term.

This submission supports that objective.

The submission also supports continued efforts to increase housing supply, improve planning system performance, expand housing diversity, improve infrastructure coordination and lift housing construction productivity.

However, the submission argues that housing affordability and housing supply have increasingly become conflated within public policy debates.

Housing supply matters. Planning reform matters. Construction productivity matters. Yet housing affordability remains the ultimate objective.

The central proposition advanced throughout this submission is that Australia's housing challenge should be understood primarily as an affordability challenge rather than solely as a housing production challenge.

This distinction is important because it influences both how housing problems are diagnosed and how policy success is measured.

### **Housing Supply and Housing Affordability Are Related but Distinct**

A significant body of economic literature demonstrates that housing supply influences housing affordability.

Markets characterised by persistent housing shortages generally experience higher prices and rents than markets where housing supply is more responsive to demand. For this reason, increasing housing supply must remain a central component of any long-term housing affordability strategy.

This submission accepts that proposition.

However, the relationship between housing supply and housing affordability is neither immediate nor uniform.

The affordability outcomes generated by housing supply depend upon a range of factors including:

- the type of housing produced;
- the price point at which it enters the market;
- the location of housing supply;
- the income distribution of households;
- the availability of development finance;
- interest rates and borrowing costs;
- construction costs;
- labour market conditions;
- infrastructure provision; and
- broader economic conditions.

Consequently, not all housing contributes equally to affordability outcomes.

A dwelling delivered at a price point that remains inaccessible to lower and moderate income households may increase overall supply while having only limited direct affordability impacts for households experiencing housing stress.

This does not diminish the value of additional housing supply. Rather, it highlights the importance of considering housing affordability outcomes alongside housing production outcomes.

Throughout this submission, housing supply is treated as a means to an end rather than as an end in itself. The end objective is improved housing affordability and housing accessibility.

### **The Contemporary Policy Debate**

Recent housing policy discussions have increasingly focused on planning systems as a primary explanation for Australia's housing affordability challenges.

This focus has resulted in a broad range of planning reforms across Australian jurisdictions, including reforms intended to:

- increase housing density;
- facilitate housing around transport infrastructure;
- accelerate assessment pathways;
- reduce approval timeframes;
- increase development capacity; and
- expand housing choice.

Many of these reforms are sensible and deserve support. This submission does not oppose planning reform.

Nor does it dispute the proposition that planning systems can constrain housing delivery when poorly designed or excessively restrictive.

However, housing delivery is influenced by a broader range of factors than planning regulation alone. Recent housing market experience demonstrates that development activity can decline even where substantial development opportunities exist.

Similarly, significant quantities of approved housing may remain unconstructed despite planning approval.

These observations suggest that planning reform should be viewed as one component of a broader housing delivery system rather than as a complete solution to housing affordability challenges.

A recurring theme throughout this submission is that housing delivery depends on both planning capacity and economic feasibility.

Planning systems can create development opportunities. They cannot ensure that development proceeds.

### **The Importance of Distinguishing Capacity from Delivery**

One of the most important distinctions in contemporary housing policy is the distinction between housing capacity and housing delivery. Housing policy discussions frequently move between:

- theoretical development capacity;
- planning approvals;
- construction commencements; and
- completed dwellings

without clearly distinguishing between them.

These measures are not interchangeable. Each represents a different stage within the housing production process.

*Planning reforms may significantly increase theoretical housing capacity.*

*Development approvals may convert some of that capacity into approved projects.*

*Construction commencements indicate projects that have progressed into delivery.*

*Completed dwellings represent housing that is actually available for occupation.*

Understanding these distinctions is critical.

The existence of substantial approved-but-unbuilt housing demonstrates that increasing planning capacity does not automatically result in increased housing delivery.

The Productivity Commission's inquiry therefore presents an opportunity to examine not only how planning systems operate, but also consider how broader economic conditions influence housing production outcomes and interactions with regulations.

## **Housing Affordability as an Economic and Productivity Issue**

Housing affordability is often discussed primarily as a social policy issue. While the social consequences of housing unaffordability are significant, housing affordability is increasingly also an economic and productivity issue.

Housing affordability influences:

- labour mobility;
- workforce participation;
- business competitiveness;
- recruitment and retention;
- commuting patterns;
- economic resilience; and
- regional development.

The impacts are particularly evident in relation to essential workers.

Many nurses, teachers, childcare workers, aged care workers and emergency service personnel face increasing difficulty securing housing in locations close to employment opportunities. This has implications not only for individual households but also for service delivery and economic performance.

As a result, housing affordability should be viewed as an important component of Australia's productivity agenda.

This perspective is highly relevant to the Productivity Commission's inquiry and informs many of the recommendations advanced throughout this submission.

### **Scope and Structure of the Submission**

The submission is structured around three broad themes.

#### **Part One: Understanding Housing Delivery**

The first part examines the factors influencing housing production and delivery and their interrelationships.

It considers:

- interest rates and development finance;
- regulatory instability and the NSW experience;
- approved-but-unbuilt housing;
- housing market dynamics; and
- the role of incentives, expectations and feasibility.

The objective is to demonstrate that housing delivery is influenced by a broader range of factors than planning regulation alone. However, they are interconnected and the interconnections need to be examined.

## **Part Two: Understanding Housing Affordability**

The second part examines affordability outcomes.

It considers:

- housing affordability as the primary policy objective;
- the affordability gap between housing costs and household incomes;
- the limits of untargeted market supply;
- essential worker housing challenges; and
- the role and limitations of filtering.

This section argues that affordability outcomes should occupy a more central place within housing policy discussions and the design of policy controls and planning regulations.

## **Part Three: Policy Responses**

The final part considers policy responses.

It examines:

- government-led and countercyclical housing delivery;
- areas of common ground with the Planning Institute of Australia and the Productivity Commission;
- Commonwealth infrastructure funding;
- policy recommendations; and
- broader housing affordability objectives.

The purpose is to identify a balanced policy framework that combines increased housing supply with targeted affordability measures.

The central thesis of this submission is straightforward.

*Australia requires more housing.*

*Australia requires planning reform.*

*Australia requires improved housing construction productivity.*

*However, these measures should be viewed as means rather than ends.*

*The ultimate objective is improving housing affordability and housing accessibility.*

*Housing policy should therefore be evaluated not only according to the number of dwellings produced but also according to whether households are better able to access secure, appropriate and affordable housing.*

*The Productivity Commission's inquiry provides an opportunity to place affordability outcomes at the centre of housing policy discussions.*

This submission seeks to contribute to that objective.

# 3. Interest Rates, Finance and Housing Supply

## Introduction

Contemporary housing policy debates often focus heavily on planning systems, zoning controls and development assessment processes as the principal determinants of housing supply.

While planning systems undoubtedly influence housing delivery, they are only one component of a much broader housing production system.

Housing delivery is ultimately an economic activity undertaken within financial markets.

Developers, financiers, investors and homebuyers make decisions based on expected risks, returns and financing conditions. Consequently, housing supply is strongly influenced by factors that sit outside the planning system, including:

- interest rates;
- access to development finance;
- construction costs;
- investor confidence;
- purchaser demand;
- lending standards; and
- broader macroeconomic conditions.

Understanding these relationships is critical to the Productivity Commission's inquiry because they help explain why significant increases in planning capacity do not always translate into corresponding increases in housing delivery.

The central argument of this chapter is that housing supply is highly sensitive to financing conditions and economic cycles. As a result, planning reform alone is unlikely to achieve housing delivery objectives unless broader financial and economic conditions are also supportive.

## Housing Delivery as an Investment Activity

Housing is often discussed primarily as a planning issue. In practice, housing production is fundamentally an investment activity.

Before a dwelling can be constructed, a series of financial decisions must occur.

Land must be acquired.

Development finance must be secured.

Equity must be committed.

Construction contracts must be entered into.

Pre-sales may need to be achieved.

Financiers must be satisfied that projects are commercially viable.

These decisions are heavily influenced by financial conditions.

Planning approval may create the opportunity for development. However, development generally proceeds only when participants are satisfied that projects can be delivered profitably and with acceptable levels of risk.

This distinction is important.

A planning system may permit housing development. It cannot guarantee that housing will be delivered.

The Productivity Commission should therefore view housing supply as the outcome of both planning decisions and investment decisions.

### **The Importance of Interest Rates**

Interest rates represent one of the most important influences on housing supply. Interest rates affect housing markets through multiple channels simultaneously.

They influence:

- borrowing costs for homebuyers;
- borrowing costs for investors;
- borrowing costs for developers;
- project feasibility;
- purchaser demand; and
- asset values.

When interest rates rise, housing supply often slows even if planning settings remain unchanged. This occurs because higher interest rates increase costs throughout the housing production process.

### **Development Finance Costs**

Development projects are typically financed through a combination of equity and debt.

Higher interest rates increase the cost of debt financing. For many projects, finance costs represent a significant component of overall development costs.

As interest rates increase:

- project feasibility deteriorates;
- development margins narrow;
- project risk increases; and
- fewer projects proceed.

This effect is particularly pronounced in apartment developments where projects may take several years to complete and where financing costs accumulate over extended periods.

### **Homebuyer Borrowing Capacity**

Interest rates also influence demand. Higher interest rates reduce household borrowing capacity.

A household capable of borrowing \$900,000 under one interest rate environment may only be able to borrow substantially less following a series of rate increases.

This reduces the pool of potential purchasers. Developers consequently face increased uncertainty regarding sales outcomes.

Projects that may have been commercially viable under lower interest rate settings can become financially marginal under higher borrowing costs.

### **Investor Demand**

Housing investors are similarly affected. Higher borrowing costs reduce investment returns and may weaken demand for new housing products.

This can influence both project feasibility and the willingness of financiers to support development activity. The combined effect is that higher interest rates often suppress both housing demand and housing supply simultaneously.

### **The Recent Australian Experience**

Australia's recent housing market experience provides a clear illustration of these dynamics.

The period following the COVID-19 pandemic was characterised by rapidly rising inflation and subsequent increases in official interest rates. These increases had significant implications for housing markets.

Development feasibility deteriorated. Construction costs increased substantially. Finance became more expensive. Purchaser borrowing capacity declined.

Many projects that had previously appeared viable became more difficult to deliver.

Importantly, these impacts occurred despite widespread government efforts to encourage housing supply. This experience demonstrates that housing delivery outcomes are strongly influenced by macroeconomic conditions and not solely by planning settings.

The Productivity Commission should therefore exercise caution when attributing housing delivery outcomes exclusively to planning regulation.

### **Construction Costs and Feasibility**

Interest rates interact closely with construction costs. The Australian construction sector has experienced significant cost escalation in recent years.

Factors contributing to rising costs include:

- labour shortages;
- material shortages;

- supply chain disruptions;
- energy costs;
- insurance costs; and
- broader inflationary pressures.

These increases have materially affected development feasibility. Projects approved under one cost environment may no longer be financially viable when construction commences.

As a result, some approved projects are delayed, redesigned or abandoned.

The existence of approved-but-unbuilt housing across many jurisdictions reflects these realities. It is often not a planning issue. It is a feasibility issue.

### **Development Finance and Lending Conditions**

Access to development finance is another critical determinant of housing supply. Most housing developments require external finance.

Financiers assess projects according to:

- project feasibility;
- market conditions;
- borrower capability;
- pre-sales performance;
- construction risk; and
- broader economic conditions.

Lending standards may tighten during periods of uncertainty. This can reduce the availability of development finance even where planning approvals have been secured.

Developers frequently report that obtaining finance is one of the most significant constraints affecting project delivery. This observation is particularly important because finance availability receives considerably less policy attention than planning reform despite having a direct influence on housing supply outcomes.

### **Housing Supply and Economic Cycles**

Housing supply is inherently cyclical. Periods of strong economic growth are generally associated with:

- rising housing demand;
- strong purchaser confidence;
- easier access to finance;
- stronger development activity.

Conversely, economic downturns often result in:

- reduced purchaser confidence;
- weaker sales activity;
- tighter financing conditions;
- lower construction activity.

This cyclical behaviour means that housing delivery does not always occur when housing need is greatest. Indeed, housing shortages often emerge during periods when market conditions discourage new development.

This represents one of the fundamental limitations of relying exclusively on market housing delivery. Housing need and housing production do not necessarily move together.

This issue is explored further in a later Chapter which considers the role of government-led and countercyclical housing delivery.

### **The Housing Accord Challenge**

The National Housing Accord target of 1.2 million homes has provided an important focus for housing policy. The target recognises the need for substantial increases in housing supply.

However, achieving such targets requires more than planning reform. The scale of housing delivery required under the Accord will depend upon:

- financing availability;
- development feasibility;
- construction sector capacity;
- labour availability;
- infrastructure provision; and
- broader economic conditions.

Planning reform can increase development opportunities. It cannot by itself guarantee that housing targets will be achieved.

This distinction is important because it suggests that housing policy should adopt a more holistic understanding of housing delivery constraints.

### **Implications for the Productivity Commission**

The analysis above suggests several implications for the Productivity Commission.

First, housing supply should be understood as both a planning challenge and an economic challenge.

Second, interest rates and financing conditions exert significant influence over housing delivery outcomes.

Third, housing policy should recognise the distinction between development capacity and actual housing production.

Fourth, governments should be cautious about assuming that planning reform alone will deliver housing targets.

Finally, improving housing supply requires attention to the broader housing production system, including finance, construction costs, productivity and infrastructure.

## **Conclusion**

Housing delivery is fundamentally influenced by far more than planning regulation.

Interest rates, financing conditions, construction costs and broader economic cycles play critical roles in determining whether housing projects proceed to construction.

The recent Australian experience demonstrates that housing supply can remain constrained even where governments pursue ambitious planning reform agendas.

Planning systems create opportunities for housing development.

However, housing is ultimately delivered when projects are financially viable, finance is available and market conditions support investment.

The Productivity Commission should therefore adopt a broad understanding of housing supply that recognises the interaction between planning systems, financial markets and economic conditions.

This perspective provides an important foundation for the following chapters, which examine the NSW experience and the growing distinction between housing capacity and actual housing delivery.

## 4. Regulatory Instability and the NSW Experience

### Introduction

Planning systems play an important role in facilitating housing delivery.

Well-designed planning frameworks can increase housing opportunities, improve certainty, encourage investment and support the efficient delivery of housing and infrastructure.

For this reason, planning reform has become a central feature of housing policy across Australia.

In recent years, no jurisdiction has pursued housing planning reform more aggressively than New South Wales. NSW has implemented a broad range of reforms intended to increase housing supply, accelerate approvals and facilitate housing growth in well-located areas.

These reforms have included:

- Transport Oriented Development (TOD) reforms;
- Low and Mid-Rise Housing reforms;
- Housing Delivery Authority pathways;
- accelerated assessment processes;
- affordable housing bonus mechanisms;
- State Significant Development pathways;
- strategic rezoning initiatives; and
- broader planning system amendments.

Collectively, these reforms represent one of the most significant housing reform agendas undertaken in Australia. The NSW experience therefore provides an important case study for the Productivity Commission.

The central question is straightforward:

If planning reform is the primary constraint on housing supply, should a jurisdiction implementing extensive planning reform experience a substantial increase in housing delivery?

The evidence suggests that the answer is more complex. While planning reform has increased development opportunities and housing capacity, housing delivery outcomes have remained heavily influenced by broader economic and financial conditions.

This chapter argues that the NSW experience demonstrates both the importance of planning reform and the limitations of relying upon planning reform alone.

### The Scale of Recent NSW Housing Reforms

The NSW Government has implemented an extensive suite of housing initiatives aimed at increasing housing supply.

The most prominent reforms include:

- Transport Oriented Development Reforms

- The TOD program introduced significant increases in housing capacity around nominated railway stations and transport hubs.
- Low and Mid-Rise Housing reforms;
- Housing Delivery Authority pathways;

The reforms sought to:

- increase residential density;
- support public transport usage;
- improve housing supply;
- reduce infrastructure costs per dwelling; and
- promote compact urban development.

The program represented one of the largest planning interventions undertaken in NSW in recent decades.

### **Low and Mid-Rise Housing Reforms**

The Low and Mid-Rise Housing reforms expanded opportunities for:

- dual occupancies;
- terraces;
- townhouses;
- manor houses; and
- small apartment buildings

across substantial parts of metropolitan Sydney and other urban areas. The reforms sought to increase housing diversity and broaden housing choice beyond detached housing and high-rise apartments.

### **Housing Delivery Authority Pathways**

The Housing Delivery Authority was established to facilitate major housing projects and accelerate approvals. The intent was to reduce delays and increase certainty for significant housing developments.

### **Affordable Housing Bonus Schemes**

The NSW Government also introduced mechanisms allowing additional development capacity where affordable housing outcomes were delivered. These initiatives sought to increase affordable housing supply through market development activity.

### **Accelerated Assessment Pathways**

Additional reforms focused on reducing assessment timeframes and increasing approval efficiency.

Collectively, these initiatives reflected a strong policy commitment to increasing housing supply. Few jurisdictions in Australia have undertaken planning reforms at comparable scale.

## **Increased Capacity Does Not Necessarily Mean Increased Delivery**

The reforms described above have undoubtedly increased theoretical housing capacity. Many sites that previously accommodated lower-density development are now capable of supporting significantly greater housing yields.

From a planning perspective, this represents a substantial expansion of development opportunity.

However, a critical distinction must be recognised. Housing capacity is not the same as housing delivery.

The existence of additional development opportunities does not guarantee that housing will be constructed. This distinction lies at the centre of the Productivity Commission's inquiry.

A planning system can permit housing. Developers must still determine whether projects are financially viable. Financiers must still provide capital. Builders must still construct dwellings. Purchasers must still be willing and able to buy them.

Consequently, planning reform represents only one component of the housing delivery system.

## **The Impact of Economic Conditions**

The period during which many NSW housing reforms were introduced coincided with some of the most challenging economic conditions faced by the housing sector in recent decades.

The industry experienced:

- rapidly rising interest rates;
- escalating construction costs;
- labour shortages;
- material shortages;
- builder insolvencies;
- tighter lending conditions; and
- declining project feasibility.

These conditions significantly affected housing delivery. Many projects became more expensive to construct. Finance became more difficult to obtain. Purchaser borrowing capacity declined. Development margins narrowed.

As a result, numerous projects were delayed or deferred despite possessing planning approval.

This outcome is important because it demonstrates that planning reform alone cannot overcome broader economic constraints. Housing delivery remains dependent upon market feasibility.

## **The Risk of Regulatory Instability**

While planning reform is often necessary, continual regulatory change can also create unintended consequences.

Housing development typically involves long investment horizons.

Projects may require:

- site acquisition;
- design development;
- financing arrangements;
- infrastructure planning;
- approvals processes; and
- construction periods extending over many years.

Investors therefore place considerable value on certainty.

Frequent changes to planning controls may create uncertainty regarding:

- future development standards;
- density allowances;
- infrastructure contributions;
- affordable housing requirements; and
- approval pathways.

In some circumstances, continual policy change may encourage market participants to delay projects while awaiting potentially more favourable settings.

This does not mean reform should be avoided. Rather, it highlights the importance of balancing reform with policy certainty. The most effective planning systems are often those that combine flexibility with stability. A rolling program of reform of ever more generous incentives reveals can be counter-productive and lead to delays.

### **Expectations and Development Timing**

Housing markets are strongly influenced by expectations. Developers and investors routinely make decisions based on anticipated future conditions rather than current conditions alone.

Expectations regarding:

- future rezoning opportunities;
- future density increases;
- future infrastructure investments;
- future housing incentives; and
- future market conditions

can influence development timing.

Where market participants believe more favourable development opportunities may emerge, projects may be deferred.

The result can be a temporary reduction in development activity despite reforms intended to increase supply. The Productivity Commission should recognise that policy reforms can influence behaviour in complex ways that are not always captured in conventional housing supply models.

## **Lessons from Approved-but-Unbuilt Housing**

One of the clearest indicators of the limits of planning reform is the existence of substantial approved-but-unbuilt housing.

Across Australia, and particularly within NSW, significant numbers of dwellings have received planning approval but have not proceeded to construction.

The reasons vary. Common explanations include:

- financing constraints;
- construction costs;
- labour shortages;
- infrastructure requirements;
- market conditions; and
- feasibility concerns.

The existence of these projects demonstrates that planning approval is often not the final constraint on housing delivery. This observation does not diminish the importance of planning reform.

However, it suggests that policymakers should place equal attention on the factors affecting project feasibility and delivery.

These issues are examined further in the following chapter.

## **Areas of Common Ground**

The NSW experience should not be interpreted as evidence that planning reform is ineffective. On the contrary, planning reform remains necessary.

Without planning reform, housing supply opportunities would be further constrained. The lesson from NSW is more nuanced.

Planning reform is necessary.

Planning reform is beneficial.

Planning reform can increase housing capacity.

However, planning reform alone is unlikely to deliver housing affordability objectives unless broader economic and financial conditions are also supportive.

This distinction is critical. It moves the discussion away from simplistic debates regarding whether planning matters and towards a more comprehensive understanding of housing delivery.

## **Implications for the Productivity Commission**

Several implications emerge from the NSW experience.

First, planning reform should continue.

Second, governments should distinguish between housing capacity and housing delivery.

Third, housing policy should recognise the importance of financing conditions, construction costs and market feasibility.

Fourth, policy certainty should be regarded as an important component of housing delivery.

Finally, housing targets should be accompanied by realistic assessments of the broader economic conditions required to achieve them.

## **Conclusion**

The NSW experience provides important lessons for housing policy across Australia.

The state has implemented one of the most ambitious housing reform agendas in the country. These reforms have substantially increased housing capacity and expanded development opportunities.

Yet housing delivery outcomes continue to be shaped by factors extending beyond planning systems. Interest rates, financing conditions, construction costs, labour availability and market feasibility remain critical determinants of whether housing is ultimately delivered.

The key lesson is therefore not that planning reform is unimportant. The key lesson is that planning reform should be viewed as one component of a much broader housing delivery system.

Understanding this distinction is essential if policymakers are to develop realistic and effective responses to Australia's housing affordability and housing supply challenges.

The next chapter examines one of the clearest manifestations of this issue: the growing stock of approved-but-unbuilt housing and what it reveals about the relationship between planning approvals and housing delivery.

# 5. Approved-but-Unbuilt Housing

## Introduction

One of the most revealing features of contemporary housing markets is the growing gap between housing approvals and housing completions.

Across Australia, governments have devoted considerable effort to increasing development capacity and accelerating planning approvals. Much of the public debate surrounding housing supply focuses on planning constraints, zoning controls and approval timeframes.

However, the existence of substantial quantities of approved-but-unbuilt housing raises an important question.

If planning approval is the principal barrier to housing supply, why do large numbers of approved dwellings fail to proceed to construction? This question is highly relevant to the Productivity Commission's inquiry because it highlights the distinction between planning capacity and housing delivery.

The evidence suggests that planning approval is often only one step within a much broader housing production process. Projects may receive approval but remain undelivered for a range of economic, financial and operational reasons.

Understanding these barriers is critical to improving housing supply outcomes.

The central argument advanced in this chapter is that approved-but-unbuilt housing demonstrates the limitations of viewing housing supply primarily through a planning lens. Housing delivery depends not only on planning approvals but also on project feasibility, financing conditions, construction costs, labour availability, infrastructure provision and market demand.

## Understanding the Housing Pipeline

Housing delivery occurs through a series of stages. These stages are often discussed collectively, but they represent distinct parts of the housing production process.

Broadly, the housing pipeline consists of:

*Housing Capacity*

*Land that is capable of accommodating housing under existing planning controls.*

*Development Applications and Planning Approvals*

*Projects that have received planning consent or equivalent approval.*

*Construction Commencements*

*Projects that have progressed beyond approval and entered construction.*

*Completions*

*Housing that has been constructed and is available for occupation.*

Each stage involves different risks, constraints and decision-makers.

The existence of development approval does not guarantee progression to construction. Similarly, construction commencement does not guarantee completion.

For this reason, governments should avoid treating these measures as interchangeable indicators of housing performance.

A planning system may generate substantial development capacity while housing completions remain relatively weak.

The Productivity Commission should encourage greater clarity regarding these distinctions.

### **The Scale of Approved-but-Unbuilt Housing**

Over recent years, concerns regarding approved-but-unbuilt housing have become increasingly prominent. Various industry analyses, government reports and housing market studies have identified substantial numbers of approved dwellings that have not proceeded to construction.

The precise scale varies over time and between jurisdictions. However, the existence of a significant approved pipeline is not disputed.

This observation is important because it challenges simplistic explanations of housing shortages.

If planning approval alone were sufficient to generate housing supply, approved dwellings would be expected to proceed relatively quickly to construction.

The fact that many do not suggests that other constraints are often more significant. The issue is particularly relevant in major metropolitan markets where governments have substantially increased planning capacity but where housing delivery remains below policy aspirations.

### **Why Approved Housing Is Not Built**

A common misconception within housing policy debates is that approved housing represents housing that is ready to be delivered immediately.

In reality, approval is only one component of project delivery.

Developers must still satisfy a range of financial and operational requirements before construction can commence. Several factors commonly contribute to delays.

### **Development Feasibility**

The most significant factor is often project feasibility. Projects proceed when anticipated revenues exceed anticipated costs by a sufficient margin to justify investment risk.

Where costs increase or expected revenues decline, projects may become unviable despite possessing approval.

This issue has become increasingly important in recent years as construction costs have risen substantially.

### **Construction Cost Escalation**

Australia has experienced significant increases in construction costs. Labour shortages, material shortages, energy costs, supply chain disruptions and inflation have all contributed to cost escalation.

Projects approved under earlier cost assumptions may no longer achieve acceptable returns.

In such circumstances, developers may:

- delay construction;
- redesign projects;
- seek amended approvals; or
- defer development indefinitely.

### **Financing Constraints**

Development finance represents another significant constraint. Most major housing projects rely on external financing.

Financiers assess:

- project feasibility;
- pre-sales performance;
- borrower capability;
- market conditions; and
- construction risk.

Changes in lending conditions can significantly affect project viability. Even approved projects may struggle to secure finance if market conditions deteriorate.

### **Interest Rates**

Higher interest rates increase financing costs and reduce purchaser borrowing capacity. Both effects weaken project feasibility.

The rapid increase in interest rates following the pandemic provides a clear example of how housing delivery can be affected despite unchanged planning settings.

### **Labour Availability**

Housing delivery also depends upon workforce capacity. Construction labour shortages have become increasingly significant across Australia.

Projects may be delayed simply because builders, subcontractors or specialist trades cannot be secured.

## **Infrastructure Requirements**

Some projects cannot proceed until supporting infrastructure is delivered. Roads, utilities, water infrastructure, public transport improvements and community facilities may all influence project timing.

Infrastructure constraints can therefore contribute to approved-but-unbuilt housing.

## **Market Cycles and Rational Delay**

The existence of approved-but-unbuilt housing is often interpreted as evidence of deliberate land banking.

While speculative behaviour may occur in some circumstances, the reality is frequently more complex.

Housing development is inherently cyclical. Developers operate within uncertain markets and must manage risk.

Delaying a project may be a rational response to:

- weak market conditions;
- elevated construction costs;
- financing difficulties;
- insufficient pre-sales; or
- broader economic uncertainty.

From a commercial perspective, immediate construction is not always the optimal decision. This does not necessarily imply anti-competitive behaviour.

Rather, it reflects the investment characteristics of housing development. The Productivity Commission should therefore approach approved-but-unbuilt housing with nuance.

Understanding the causes of delay is likely to be more productive than assuming a single explanation.

## **What Approved-but-Unbuilt Housing Reveals About Housing Policy**

The existence of approved-but-unbuilt housing highlights several important policy lessons.

### *Planning Reform Is Not the Only Constraint*

The first lesson is that planning approval is often not the final constraint on housing delivery. Projects can remain stalled despite possessing approval.

Consequently, increasing planning capacity alone may not produce proportional increases in housing supply. Economic Conditions Matter

The second lesson is that housing delivery is highly sensitive to economic conditions.

Interest rates, construction costs and financing availability may influence delivery outcomes as much as planning controls.

### Housing Supply Is a System

The third lesson is that housing supply should be viewed as a system rather than a single process. Housing delivery depends upon the interaction of:

- planning;
- finance;
- construction;
- infrastructure; and
- market demand.

Weakness in any part of the system can affect overall housing production.

### Implications for Housing Targets

The National Housing Accord target of 1.2 million homes has focused attention on housing delivery. However, achieving this target requires more than increasing planning approvals.

Governments should consider:

- financing conditions;
- labour availability;
- construction productivity;
- infrastructure delivery; and
- development feasibility.

Targets based solely on planning capacity may overestimate likely housing outcomes. A more realistic approach would distinguish between:

- theoretical capacity;
- approved capacity;
- commenced housing; and
- completed housing.

This distinction would improve policy evaluation and strengthen accountability.

### Recommendations arising from this Chapter

The Productivity Commission should consider recommending that governments:

- publish regular reporting on approved-but-unbuilt housing;
- distinguish between capacity, approvals, commencements and completions;
- investigate barriers preventing approved projects from proceeding;
- improve data collection regarding development feasibility;
- examine financing constraints affecting housing delivery.

These measures would improve understanding of the housing production process and support more effective policy responses.

## **Conclusion**

Approved-but-unbuilt housing represents one of the clearest demonstrations that housing supply cannot be understood solely through the lens of planning regulation.

Planning approval is an important milestone. It is not the final step.

Housing is delivered only when projects remain financially viable, finance is available, construction resources can be secured and market conditions support investment.

The existence of substantial approved-but-unbuilt housing suggests that policymakers should pay greater attention to the broader housing delivery system rather than focusing exclusively on planning approvals.

The key lesson is that housing capacity and housing delivery are not the same thing. Recognising this distinction is essential if Australia is to develop effective and realistic housing policy.

The next chapter explores this issue further by examining housing market behaviour, investment incentives and the contribution of economists [REDACTED] to understanding housing delivery dynamics.

## 6. Housing Market Dynamics [REDACTED]

### Introduction

Housing policy discussions frequently assume a relatively direct relationship between planning regulation and housing supply.

Under this framework, planning restrictions limit development opportunities, housing shortages emerge, prices rise and affordability deteriorates. The logical policy response is therefore to remove regulatory barriers and increase development capacity.

This perspective contains important truths and has informed many recent housing reforms across Australia.

However, it risks oversimplifying the way housing markets actually operate.

Housing markets are not merely production systems. They are also investment systems.

Housing delivery is influenced not only by planning permissions but also by financial incentives, investor expectations, development feasibility and broader economic conditions.

The distinction is important because it helps explain why housing supply often responds differently to policy reforms than theoretical models might predict.

This chapter examines housing market dynamics through that lens.

[REDACTED] it is to highlight an important proposition that is highly relevant to the Productivity Commission's inquiry: housing delivery is influenced by incentives, expectations and market conditions as well as planning regulation.

Understanding this relationship is essential if policymakers are to accurately diagnose housing supply challenges and design effective policy responses.

### Housing Is Both Shelter and an Asset

Housing occupies a unique position within the Australian economy.

For households, housing provides:

- shelter;
- security;
- community connection;
- access to employment;
- access to services; and
- opportunities for wealth accumulation.

For investors, housing is also an asset class capable of generating:

- rental income;
- capital gains;

- portfolio diversification; and
- long-term wealth accumulation.

This dual role distinguishes housing from many other products.

The housing market is therefore influenced by both consumption decisions and investment decisions.

Individuals purchase housing because they need somewhere to live. Investors purchase housing because they expect financial returns.

Developers construct housing because they anticipate profits. Financiers provide capital because they expect acceptable risk-adjusted returns.

Consequently, housing delivery depends not only upon housing need but also upon investment incentives.

This observation is central to understanding the dynamics of housing supply.

### **The Conventional Supply Narrative**

The conventional housing supply narrative can be summarised relatively simply.

It suggests that:

1. Planning systems restrict housing development.
2. Restricted supply contributes to rising housing costs.
3. Additional development capacity increases housing supply.
4. Increased supply improves affordability.

There is considerable evidence supporting aspects of this argument. Planning systems can constrain housing supply. Excessive regulation can increase costs and delays. Additional housing supply generally improves market outcomes compared with situations in which supply remains constrained.

This submission accepts these propositions.

However, they do not fully explain housing delivery outcomes.

If planning capacity alone determined housing supply, substantial increases in development opportunity would be expected to produce corresponding increases in housing construction.

The evidence suggests that this relationship is often weaker than assumed.

**[REDACTED]** housing production cannot be understood solely by examining planning controls or theoretical development capacity.

Instead, housing delivery should be viewed as the outcome of investment decisions made by market participants operating within particular economic conditions.

Under this framework:

- planning approval is necessary;
- planning approval creates opportunity;
- planning approval does not guarantee delivery.

Developers respond to expected returns. Investors respond to expected returns. Financiers respond to expected returns.

As a result, development timing becomes an important consideration.

Projects may be delayed or deferred even where planning approval exists.

This perspective helps explain the existence of substantial approved-but-unbuilt housing across Australia.

It also provides a useful complement to more conventional planning-based explanations of housing supply.

### **Development Timing Matters**

Traditional housing policy discussions often focus on whether development can occur. A more important question may be:

- When will development occur?

A site may be:

- appropriately zoned;
- supported by planning controls;
- capable of accommodating housing; and
- approved for development.

Yet construction may still be delayed.

This outcome is not necessarily irrational.

Developers must consider:

- financing costs;
- construction costs;
- purchaser demand;
- market competition;
- sales risk; and
- expected profitability.

The timing of development therefore becomes a commercial decision.

In some circumstances, delaying development may represent a rational investment response to market conditions.

The Productivity Commission should therefore recognise that increasing planning capacity does not necessarily determine the timing of housing delivery.

### **The Land Banking Debate**

The issue of development timing is frequently discussed through the concept of land banking.

The term is often used to describe situations in which landowners or developers hold land without proceeding immediately to development.

Land banking is frequently presented as evidence of anti-competitive behaviour or deliberate supply restriction. The reality is often more complicated.

Some sites may indeed be held in anticipation of future value increases. However, many undeveloped sites reflect broader market conditions.

Projects may be delayed because:

- finance is unavailable;
- infrastructure is incomplete;
- construction costs are excessive;
- market demand is weak;
- pre-sales targets cannot be achieved; or
- project feasibility has deteriorated.

Distinguishing between speculative behaviour and rational investment decisions is often difficult.

For policy purposes, the more important observation is that undeveloped land and approved-but-unbuilt housing demonstrate that planning permission alone does not guarantee housing delivery.

### **Market Expectations and Housing Supply**

Housing markets are heavily influenced by expectations regarding future conditions. Developers routinely make decisions based on anticipated outcomes rather than current circumstances alone.

Relevant expectations may include:

- future house prices;
- future rents;
- future interest rates;
- future planning reforms;
- future infrastructure investments; and
- future taxation settings.

These expectations influence development behaviour.

For example, a developer may defer a project if there is a reasonable expectation that future planning reforms will permit greater density. Similarly, uncertainty regarding future costs or market conditions may influence investment decisions.

The result is that policy reforms can influence housing markets in ways that are not always immediately visible.

The Productivity Commission should therefore recognise that housing supply is affected not only by existing regulations but also by expectations regarding future regulations.

### **Housing Taxation and Demand**

A complete understanding of housing markets must also acknowledge the role of housing taxation.

Economists [REDACTED] have argued that taxation settings influence housing demand and housing affordability outcomes.

Particular attention has focused on:

- negative gearing;
- capital gains tax concessions;
- investor demand; and
- housing as a wealth accumulation vehicle.

The purpose of this submission is not to advocate for specific taxation reforms (noting that they are out of scope of the terms of reference). However, it is important to recognise that housing affordability outcomes are shaped by both supply-side and demand-side influences.

Housing markets cannot be fully understood through planning systems alone.

Taxation settings, lending practices and investment behaviour all influence housing demand and housing prices. Consequently, housing affordability outcomes reflect the interaction of multiple policy settings rather than any single factor. This complexity makes the design of effective planning reforms more challenging

### **Housing Supply and Investor Behaviour**

The investment characteristics of housing have important implications for supply. Historically, expectations of rising property values have supported development activity.

Developers have often been willing to accept planning complexity and delivery risks because expected capital gains compensated for uncertainty.

If expectations regarding future capital growth moderate, development behaviour may also change.

Projects that were previously feasible may become marginal. Investment decisions may become more cautious.

This does not imply that housing planning reforms should be avoided.

Rather, it illustrates the complex relationship between investment incentives and housing supply.

The Productivity Commission should recognise that housing markets are dynamic systems in which policy changes can influence both demand and supply responses.

## **Housing Supply Is a System**

As noted previously, one of the most important lessons emerging from recent housing policy debates is that housing supply should be understood as a system.

Housing delivery depends upon the interaction of:

- planning regulation;
- financing conditions;
- construction costs;
- labour availability;
- infrastructure provision;
- market demand;
- investor expectations; and
- taxation settings.

Weakness in any component of the system can affect overall housing delivery outcomes.

This perspective helps explain why planning reform alone often fails to generate the housing outcomes anticipated by policymakers.

The challenge is not merely increasing development opportunity. The challenge is ensuring that the broader housing delivery system functions effectively.

## **Implications for the Productivity Commission**

Several implications arise from this analysis.

First, strategic planning reform remains important and should continue.

Second, housing delivery should be understood as both a planning challenge and an investment challenge.

Third, policymakers should recognise the distinction between development opportunity and actual housing production.

Fourth, market expectations can influence development behaviour in ways that are not always captured by conventional housing models.

Finally, housing affordability outcomes are shaped by the interaction of multiple policy settings rather than by planning regulation alone.

## **Conclusion**

Housing markets are more complex than simple supply-and-demand models sometimes imply. Planning regulation matters. Housing supply matters.

However, housing delivery ultimately depends upon investment decisions made within broader economic and financial contexts.

[REDACTED] housing economists highlight the importance of understanding incentives, expectations and development feasibility when assessing housing supply performance.

The key lesson is that planning reform alone is unlikely to resolve housing delivery challenges.

A broader understanding of housing market dynamics is required.

This insight provides an important bridge to the next part of the submission, which shifts from housing delivery to housing affordability and considers the extent to which increased housing supply translates into improved affordability outcomes for Australian households.

# 7. Housing Affordability as the Real Policy Objective

## Introduction

Housing policy debates frequently focus on the number of dwellings approved, commenced or completed.

Governments announce housing targets. Planning reforms are assessed according to projected dwelling yields. Success is often measured by the quantity of housing capable of being delivered under planning controls.

These measures are important.

Housing supply remains a critical component of a well-functioning housing system. However, housing supply is not an end in itself.

The ultimate objective of housing policy is not simply to maximise dwelling production.

The ultimate objective is to ensure that households can access secure, appropriate and affordable housing. This distinction is central to the argument advanced throughout this submission.

The Productivity Commission's inquiry provides an opportunity to refocus housing policy discussions on outcomes rather than inputs and on affordability rather than dwelling numbers alone.

## Why Housing Supply Matters

There is substantial evidence that housing supply influences affordability outcomes.

Where housing supply persistently fails to keep pace with population growth and household formation:

- prices tend to increase;
- rents tend to increase;
- housing stress rises; and
- affordability deteriorates.

This relationship is well established in economic literature.

The submission accepts that additional housing supply is necessary. Indeed, one of the principal reasons affordability has deteriorated in many Australian cities is that housing production has struggled to keep pace with demand over extended periods.

Consequently, policies that support additional housing supply should remain an important component of housing strategy.

The argument advanced in this submission is therefore not an argument against housing supply. It is an argument about what housing supply is intended to achieve.

## **Housing Supply Is a Means rather than an End**

A recurring theme in contemporary housing policy is the tendency to treat dwelling production as a proxy for housing success. The problem with this approach is that housing supply and housing affordability, while related, are not identical.

A jurisdiction may achieve ambitious housing targets while affordability remains poor.

Similarly, a housing reform may increase theoretical development capacity without materially improving affordability outcomes.

The distinction can be illustrated through a simple example.

Suppose a city delivers:

- 10,000 additional dwellings;
- predominantly high-value apartments;
- largely targeted towards higher-income households.

Housing supply has increased.

However, affordability outcomes for lower and moderate income households may remain largely unchanged.

Conversely, a smaller number of affordable dwellings delivered through targeted programs may generate substantial affordability benefits for households experiencing housing stress.

This example demonstrates why housing outcomes should not be assessed solely through dwelling numbers.

The key question is not simply: How many dwellings were delivered?

The key question is: Did housing affordability improve?

## **Defining Housing Affordability**

Housing affordability is often discussed without a clear definition.

For the purposes of this submission, housing affordability refers to the capacity of households to access housing without experiencing unreasonable financial stress.

Affordability can be considered in several ways:

### *Home Ownership Affordability*

The ability of households to:

- save deposits;
- obtain finance;
- purchase housing; and

- service mortgage commitments.

### *Rental Affordability*

The ability of households to rent housing without experiencing rental stress (over 30% of household income).

### *Housing Accessibility*

The ability of households to access housing in locations that support:

- employment participation;
- education;
- services;
- community connections.

### *Housing Security*

The ability of households to maintain stable housing arrangements over time.

These dimensions are interconnected and together provide a more comprehensive understanding of housing outcomes than dwelling production alone.

## **Housing Affordability Has Become Increasingly Challenging**

Over recent decades, housing affordability has deteriorated across much of Australia.

Indicators commonly used to assess affordability include:

- dwelling price-to-income ratios;
- rental stress rates;
- mortgage servicing burdens;
- deposit saving periods;
- homelessness levels; and
- housing waiting lists.

Many of these indicators have worsened.

Recent reporting by the National Housing Supply and Affordability Council demonstrates the scale of the challenge.

Mortgage servicing costs remain elevated.

Rental affordability has deteriorated.

Deposit saving periods have increased.

Many households now face significant barriers to home ownership.

These trends suggest that housing affordability should remain at the centre of housing policy discussions.

## **Affordability and Household Incomes**

A critical insight often overlooked in housing policy debates is that affordability is determined by both housing costs and household incomes.

Housing may become less affordable because:

- housing costs rise;
- household incomes stagnate; or
- both occur simultaneously.

Consequently, affordability cannot be understood solely through housing supply. Affordability outcomes depend upon the relationship between housing costs and incomes.

This observation becomes particularly important when considering lower-income and moderate-income households. Even where housing supply increases, newly constructed housing may remain inaccessible if prices continue to exceed household purchasing capacity.

This issue is explored in detail in the following chapters.

## **Housing Affordability and Economic Productivity**

Housing affordability is increasingly recognised as an economic issue. Historically, affordability was often framed primarily as a social policy concern.

While the social dimensions remain important, affordability also affects economic performance.

Housing affordability influences:

- labour mobility;
- workforce participation;
- business competitiveness;
- recruitment and retention;
- commuting patterns; and
- productivity.

Workers who cannot access housing near employment opportunities may:

- commute longer distances;
- decline employment opportunities;
- leave particular regions; or
- withdraw from labour markets altogether.

These outcomes have economic consequences.

As a result, housing affordability should be considered part of Australia's broader productivity agenda. This observation is particularly relevant to the Productivity Commission's inquiry.

## **Measuring Success Differently**

If affordability is the primary objective, governments may need to reconsider how housing policy success is measured.

Current reporting frequently emphasises:

- dwelling targets;
- approvals;
- rezonings;
- development capacity.

These measures remain useful. However, they are primarily input measures. They do not necessarily reveal whether housing outcomes have improved.

Governments should also monitor:

- housing stress for home purchasers;
- rental stress;
- home ownership accessibility;
- affordable housing supply;
- key worker housing outcomes;
- homelessness trends.

Such measures provide a clearer understanding of whether housing policy is achieving its intended objectives.

## **The Importance of Outcome-Based Policy**

The distinction between outputs and outcomes is important. Housing policy often focuses on outputs:

- dwellings approved;
- dwellings commenced;
- dwellings completed.

Yet households experience outcomes.

They experience:

- affordability;
- accessibility;
- housing security;
- housing stress.

A policy framework focused exclusively on housing production risks overlooking these broader outcomes.

This submission therefore advocates a more balanced framework in which housing supply remains important but affordability outcomes remain paramount.

## **Implications for the Productivity Commission**

Several implications emerge.

First, housing supply should continue to be encouraged.

Second, affordability should be recognised as the principal objective of housing policy.

Third, governments should measure both housing production and housing outcomes.

Fourth, housing affordability should be considered an economic productivity issue as well as a social policy issue.

Finally, future housing reforms should be assessed according to their capacity to improve affordability outcomes rather than solely their capacity to increase dwelling numbers.

## **Conclusion**

Housing supply is essential. Without adequate housing production, affordability challenges are likely to worsen.

However, housing supply is not the ultimate objective of housing policy. The ultimate objective is ensuring that Australians can access secure, appropriate and affordable housing.

This distinction is important because it influences how housing challenges are understood and how policy success is measured.

The following chapter examines the scale of the affordability challenge in greater detail and explores the growing gap between housing costs and household incomes that sits at the centre of Australia's housing affordability crisis.

# 8. The Affordability Gap

## Introduction

The previous chapters examined the factors influencing housing delivery and argued that housing production is shaped by a combination of planning, financial, economic and market forces.

This chapter turns to the central issue underpinning the Productivity Commission's inquiry:

- housing affordability.

While housing supply remains important, the ultimate purpose of housing policy is not simply to maximise dwelling production. The objective is to ensure that households can access secure, appropriate and affordable housing.

Recent evidence suggests that this objective is becoming increasingly difficult to achieve for many Australian households.

Housing costs have risen significantly faster than household incomes over an extended period. Home ownership has become less accessible. Rental stress has increased. Deposit saving periods have lengthened. The affordability challenge now affects not only lower-income households but increasingly moderate-income households and many essential workers.

The evidence presented in this chapter suggests that Australia is experiencing a growing affordability gap between housing costs and household incomes.

Understanding the scale of this gap is essential because it provides the foundation for assessing whether current housing policies are likely to improve affordability outcomes.

## Understanding the Affordability Gap

Housing affordability is fundamentally a relationship between housing costs and household incomes. A dwelling may be considered affordable if households can access it without experiencing unreasonable financial stress.

Affordability therefore depends upon two variables:

- housing costs; and
- household incomes.

Affordability deteriorates when housing costs increase faster than incomes. This has been a persistent feature of Australian housing markets over recent decades.

The affordability challenge is not solely a consequence of rising housing prices. It is also a consequence of the growing divergence between housing costs and income growth. For many households, incomes have simply not kept pace with increases in:

- dwelling prices;
- rents;
- mortgage costs; and

- deposit requirements.

The result is a widening affordability gap.

### **National Housing Supply and Affordability Council Findings**

The National Housing Supply and Affordability Council (NHSAC) provides some of the most comprehensive assessments of housing affordability available in Australia.

Recent NHSAC reporting highlights the severity of current affordability pressures. The Council has reported that affordability has deteriorated across both ownership and rental markets despite ongoing housing construction activity.

Key findings include:

- newly leased rental dwellings requiring approximately one-third of median household income;
- mortgage servicing costs for newly purchased homes requiring approximately 46 per cent of median household income;
- average deposit saving periods exceeding eleven years in many markets; and
- worsening affordability outcomes across multiple housing indicators.

These findings are significant. They suggest that affordability pressures are not confined to particular housing sectors or household groups.

Rather, they reflect broader structural challenges affecting the housing system. Importantly, the findings also demonstrate that housing affordability has continued to deteriorate despite substantial housing construction activity over recent years.

This observation is central to the arguments developed later in the submission.

### **Home Ownership Affordability**

Home ownership remains an important aspiration for many Australian households. However, access to ownership has become increasingly difficult.

Several factors contribute to this challenge.

#### **Dwelling Prices**

Dwelling prices have increased significantly over time. While growth rates vary across markets and economic cycles, housing values in many Australian cities remain substantially above historical norms relative to household incomes.

The challenge is particularly evident in Sydney. CoreLogic (now Cotality) data consistently show Sydney dwelling values among the highest in Australia. Median dwelling values commonly exceed one million dollars and are substantially higher in many established metropolitan areas.

#### **Deposit Requirements**

Higher dwelling values increase deposit requirements. Even where mortgage servicing remains manageable, many households struggle to accumulate deposits.

NHSAC has estimated that average deposit saving periods now exceed a decade in many markets. For younger households, this creates a substantial barrier to ownership.

### **Mortgage Servicing Costs**

Higher interest rates have further reduced affordability. Recent NHSAC reporting indicates that mortgage servicing costs for newly purchased homes remain close to half of median household income.

Such levels significantly constrain access to home ownership and increase financial vulnerability.

### **Rental Affordability**

Rental affordability has also deteriorated. Historically, renting often provided a relatively affordable alternative to home ownership. Increasingly, this is no longer the case.

Rental markets across many Australian cities have experienced:

- low vacancy rates;
- rapid rental growth;
- heightened competition; and
- increasing rental stress.

NHSAC has reported that newly leased properties require approximately one-third of median household income. For lower-income households the burden is often substantially greater.

The consequences are significant.

Households may:

- reduce spending on essential goods and services;
- accept overcrowded housing;
- relocate to more distant locations;
- experience housing insecurity; or
- face elevated risks of homelessness.

Rental affordability therefore represents a critical component of Australia's broader housing challenge.

### **Affordability Across Income Groups**

Housing affordability challenges are not distributed evenly across the population. The impact varies according to income.

#### **Lower-Income Households**

Lower-income households experience the most severe affordability pressures.

Many households in this group face limited access to both home ownership and private rental markets. Housing stress rates are particularly high.

### **Moderate-Income Households**

Increasingly, affordability challenges are extending beyond traditionally disadvantaged groups. Moderate-income households are finding it more difficult to:

- enter home ownership;
- rent in well-located areas; and
- maintain housing security.

This trend is particularly evident in major metropolitan areas.

### **Higher-Income Households**

Higher-income households generally retain greater access to housing opportunities. However, even these households have experienced declining affordability relative to historical norms.

The result is that housing affordability concerns now affect a much broader segment of the population than in previous decades.

### **Evidence from PropTrack**

PropTrack's Housing Affordability Report provides additional evidence regarding affordability challenges.

Recent analysis suggests that median-income households can afford only a relatively small proportion of homes sold across many Australian markets. New South Wales performs particularly poorly.

The findings indicate that:

- affordability constraints extend well beyond lower-income households;
- median-income households face increasing barriers to ownership;
- housing costs continue to outpace income growth.

The significance of these findings is that they highlight a growing mismatch between housing market prices and household purchasing power. This mismatch sits at the centre of Australia's affordability challenge.

### **The Sydney Experience**

Sydney provides perhaps the clearest example of the affordability gap. Sydney combines:

- high dwelling values;
- high rents;
- strong population growth;
- significant employment opportunities; and
- substantial demand pressures.

While Sydney also records high household incomes, income growth has not kept pace with housing cost growth over the long term. The result is that many households experience increasing difficulty accessing housing close to employment opportunities.

This issue is particularly relevant to essential workers and moderate-income households. The consequences extend beyond housing and increasingly affect labour markets, productivity and economic performance.

### **Worked Examples: Essential Workers**

The affordability challenge becomes more tangible when viewed through the lens of individual occupations.

Consider three representative occupations:

#### *Registered Nurse*

A registered nurse earning approximately \$95,000 to \$110,000 per year may have borrowing capacity significantly below the price of many Sydney dwellings. Even many apartments remain difficult to purchase without substantial savings or dual incomes.

#### *School Teacher*

Teachers earning approximately \$100,000 to \$120,000 per year face similar challenges. While ownership may be possible in some locations, access to housing close to employment centres is increasingly difficult.

#### *Aged Care Worker*

Aged care workers typically face even greater affordability constraints. Home ownership may be unattainable in many metropolitan locations without external assistance.

These examples illustrate an important point.

The affordability challenge increasingly affects workers whose occupations are essential to the functioning of Australian communities.

### **Housing Affordability as a Productivity Issue**

The affordability gap is not solely a housing issue. It increasingly affects economic performance.

Where housing costs prevent workers from living near employment opportunities:

- commuting times increase;
- labour mobility declines;
- recruitment becomes more difficult;
- workforce participation may be affected.

The resulting productivity impacts are explored further in later chapters.

For present purposes, it is sufficient to observe that affordability outcomes increasingly have implications extending beyond the housing sector.

### **What the Evidence Reveals**

Several conclusions emerge from the evidence presented above.

First, housing affordability has deteriorated across both ownership and rental markets.

Second, affordability challenges increasingly affect moderate-income households as well as lower-income households.

Third, the affordability gap reflects the growing divergence between housing costs and household incomes.

Fourth, affordability challenges increasingly have implications for labour markets and economic productivity.

Finally, the evidence suggests that increasing housing supply alone does not automatically guarantee improved affordability outcomes.

This observation leads directly to the next chapter.

### **Conclusion**

The evidence presented in this chapter demonstrates that Australia faces a substantial and growing housing affordability challenge. Housing costs have increased significantly faster than household incomes over an extended period.

Home ownership has become less accessible. Rental stress has increased. Deposit saving periods have lengthened.

The affordability challenge now affects a broad range of households, including many moderate-income households and essential workers.

The key issue is the growing gap between housing costs and household incomes. This gap raises an important question.

If housing affordability is increasingly constrained by the relationship between prices and incomes, to what extent can untargeted market housing supply alone resolve the problem?

The next chapter examines that question and considers the extent to which increased housing supply is likely to improve affordability outcomes for households experiencing housing stress.

# 9 Why Untargeted Market Supply Will Not Fully Solve Affordability

## Introduction

The previous chapter demonstrated that Australia faces a substantial and growing housing affordability challenge. Housing costs have increased significantly faster than household incomes over an extended period.

Home ownership has become less accessible. Rental affordability has deteriorated. Many households now face significant barriers to accessing secure and affordable housing.

These observations raise an important policy question.

If housing affordability has deteriorated because housing supply has not kept pace with demand, will increasing housing supply alone solve the problem? A substantial body of economic literature suggests that increasing housing supply improves affordability over time.

This submission accepts that proposition.

Additional housing supply remains an essential component of any successful housing affordability strategy. However, the key question is not whether supply matters.

The key question is whether untargeted market supply alone can deliver affordability outcomes for the households currently experiencing the greatest housing stress.

*The evidence suggests that it cannot.*

The reason is not that housing supply is unimportant. Rather, it is that affordability outcomes depend upon more than dwelling numbers alone.

They also depend upon:

- household incomes;
- housing price points;
- housing location;
- housing tenure;
- the timing of affordability benefits; and
- the distribution of those benefits across different household groups.

These factors mean that not all housing contributes equally to affordability outcomes.

## The Economics of New Housing Production

One of the most important realities often overlooked in housing policy debates is that newly constructed housing is expensive to produce.

The cost of delivering housing reflects multiple inputs including:

- land acquisition costs;
- construction costs;
- development finance;
- infrastructure contributions;
- professional fees;
- compliance costs; and
- developer profit requirements.

These costs create a practical floor beneath which housing generally cannot be delivered without subsidy or cross-subsidisation. This is particularly evident in high-cost metropolitan markets such as Sydney.

In many locations, land costs alone represent a substantial proportion of total development costs. Construction costs have also increased significantly over recent years.

The consequence is that much newly delivered housing enters the market at price points affordable primarily to:

- higher-income households;
- dual-income households;
- households with existing housing equity; or
- households receiving family assistance.

This outcome should not necessarily be viewed as a market failure. It is largely a consequence of the economics of housing production.

However, it has important implications for housing affordability policy.

### **Who Benefits from New Housing Supply?**

The affordability benefits of additional housing supply are not distributed evenly. Some households are better positioned than others to access newly constructed housing.

Households most likely to benefit directly include:

- higher-income households;
- existing homeowners upgrading their housing;
- investors; and
- households with significant accumulated wealth.

The position is often more challenging for:

- lower-income households;
- moderate-income households;
- single-income households;
- essential workers; and
- households experiencing rental stress.

The evidence presented in Chapter 8 demonstrated that many households already struggle to access existing housing markets.

The affordability challenge is therefore not simply a matter of increasing housing quantity. It is also a matter of who can afford the housing being produced.

### **The Affordability Challenge in Practice**

Recent affordability evidence illustrates this issue.

NHSAC reporting indicates that:

- newly leased dwellings require approximately one-third of median household income;
- mortgage servicing costs for newly purchased dwellings remain close to half of median household income; and
- deposit saving periods exceed a decade in many markets.

Similarly, PropTrack's affordability analysis indicates that median-income households can afford only a relatively small proportion of homes sold in many Australian markets. These findings suggest that affordability challenges persist even when housing construction continues.

The issue is therefore not solely the volume of housing being delivered. It is also whether that housing is affordable to households experiencing housing stress.

### **Indicative Affordability Outcomes**

The relationship between housing supply and affordability can be illustrated conceptually.

A reasonable interpretation of available evidence suggests the following pattern in high-cost metropolitan markets such as Sydney. The precise proportions will vary across markets and over time. However, the overall pattern remains clear.

The households experiencing the greatest affordability pressures are often the least able to access newly delivered market housing.

### **Why Housing Supply Still Matters**

The limitations of untargeted supply should not be interpreted as an argument against housing supply. Additional supply remains essential.

A housing system that persistently under-produces housing is likely to experience worsening affordability outcomes.

Supply contributes to:

- increased competition;
- improved housing choice;
- lower price pressures;
- lower rental pressures; and
- long-term affordability improvements.

The argument advanced in this submission is therefore not: Supply does not matter.

Rather, it is: Supply matters, but supply alone is unlikely to fully resolve affordability challenges for lower and moderate income households.

This distinction is important.

It moves the policy discussion away from a false choice between supply and affordability. The challenge is determining how supply policies and affordability policies can best work together.

### **The Limits of Aggregate Supply Targets**

Recent housing policy has focused strongly on aggregate dwelling targets. The National Housing Accord target of 1.2 million homes is the most prominent example.

Such targets provide a useful focus for policy. However, they also have limitations.

Aggregate dwelling targets measure quantity. They do not measure affordability.

A target does not distinguish between:

- luxury apartments;
- investor-owned housing;
- affordable rental housing;
- social housing;
- key worker housing; or
- affordable home ownership housing.

Each contributes equally to dwelling targets. Each contributes differently to affordability outcomes.

This suggests that governments should complement dwelling targets with affordability measures.

The issue is not simply how much housing is produced. The issue is what housing outcomes are achieved.

### **Housing and Household Incomes**

The affordability challenge cannot be understood solely through housing supply. Affordability ultimately reflects the relationship between housing costs and household incomes.

A dwelling priced at \$1 million may be affordable for one household and entirely unattainable for another.

Consequently, affordability outcomes depend upon:

- housing prices;
- rents;
- borrowing capacity;
- wages; and
- household incomes.

Increasing supply may moderate housing costs. However, it does not automatically eliminate affordability gaps where incomes remain substantially below housing costs.

This issue becomes particularly important for essential workers and moderate-income households.

### **Why Targeted Supply Matters**

The evidence suggests that a broader housing policy framework is required. Additional market housing should continue to be encouraged.

However, it should be complemented by housing initiatives specifically targeted towards households least likely to benefit directly from newly constructed market housing.

Examples include:

- affordable rental housing;
- key worker housing;
- shared equity programs;
- affordable home ownership schemes;
- inclusionary zoning (affordable housing contribution schemes); and
- Community Housing Provider delivery.

These initiatives recognise that different households experience different housing challenges and that a single policy instrument is unlikely to meet all needs.

### **Affordable Housing in Perpetuity**

The submission places particular emphasis on affordable housing retained in perpetuity.

Temporary affordability initiatives can provide important benefits. However, their effects may diminish over time.

Affordable housing delivered through registered Community Housing Providers offers a different model. Such housing can remain affordable over the long term and create a permanent community asset. This approach provides enduring affordability benefits and increases the stock of housing available to lower and moderate income households to rent.

The Productivity Commission should therefore recognise the value of expanding affordable housing held in perpetuity.

### **Implications for the Productivity Commission**

Several implications emerge from the analysis above.

First, housing supply remains necessary and should continue to be encouraged.

Second, housing affordability and housing supply should be recognised as related but distinct policy reform objectives.

Third, governments should consider who benefits from newly delivered housing.

Fourth, affordability indicators should complement dwelling targets.

Finally, targeted affordability measures should accompany broader supply-side reforms.

## **Conclusion**

Increasing housing supply remains one of the foundations of any successful housing affordability strategy. However, the evidence suggests that much newly constructed housing enters the market at price points beyond the reach of many households experiencing housing stress.

As a result, untargeted market supply is unlikely to fully resolve affordability challenges for:

- lower-income households;
- moderate-income households;
- essential workers; and
- households experiencing rental stress.

The issue is not whether housing supply matters. The issue is whether housing supply alone is sufficient.

The evidence suggests that it is not.

A comprehensive housing affordability strategy should therefore combine increased housing supply with targeted affordability measures capable of improving housing outcomes for the households most affected by Australia's housing affordability crisis.

The next chapter examines one group particularly affected by these challenges: essential workers whose ability to access housing increasingly influences labour markets, workforce participation and economic productivity.

# 10. Housing Supply, Affordability and Essential Workers

## Introduction

The affordability challenges have implications extending well beyond housing markets.

Housing affordability is increasingly influencing labour markets, workforce participation, public service delivery and economic productivity. These impacts are particularly evident among essential workers.

Many workers who provide critical community services increasingly face difficulty accessing housing in the communities they serve.

This includes:

- nurses;
- teachers;
- police officers;
- paramedics;
- firefighters;
- childcare workers;
- disability support workers;
- cleaners;
- aged care workers; and
- other low and moderate-income occupations.

Historically, many of these occupations supported home ownership and stable housing outcomes.

Increasingly, this is no longer the case in many metropolitan housing markets. The consequences extend beyond individual households.

They affect businesses, government agencies, community services and economic performance.

The central argument advanced in this chapter is that housing affordability should be recognised not only as a social policy issue but also as an economic productivity issue.

## Defining Essential Workers

There is no universally accepted definition of essential workers. However, the term generally refers to workers whose services are critical to the functioning of communities and economies.

Examples include:

### *Health Workers*

- nurses;
- midwives;
- allied health professionals;

- aged care workers.

#### *Education Workers*

- teachers;
- early childhood educators;
- support staff.

#### *Emergency Services*

- police officers;
- firefighters;
- paramedics.

#### *Community Services*

- disability support workers;
- community care workers;
- social service workers.

#### *Other Critical Occupations*

- transport workers;
- utility workers;
- public sector employees.

These occupations often provide services that cannot be relocated or delivered remotely. Consequently, the location of housing becomes particularly important.

### **The Emerging Affordability Challenge**

Many essential workers earn incomes above the national median wage (though perhaps not at entry level). Historically, this often enabled access to home ownership and secure housing.

However, housing costs in many metropolitan markets have increased much faster than wages. As a result, many essential workers now experience housing challenges previously associated primarily with lower-income households.

The issue is particularly evident in Sydney. While wages for occupations such as nursing and teaching have increased over time, housing costs have increased more rapidly.

The result is a growing mismatch between earnings and housing prices. The challenge is not necessarily absolute poverty.

The challenge is access to housing within reasonable proximity to employment opportunities.

#### *Illustrative Examples*

The affordability challenge can be illustrated through several representative occupations.

#### *Registered Nurse*

A registered nurse earning approximately \$100,000 per annum may possess borrowing capacity significantly below the price of many Sydney dwellings.

Ownership may remain possible in some locations. However, access to housing close to major employment centres is increasingly difficult.

#### *School Teacher*

A teacher earning approximately \$110,000 per annum faces similar constraints. While home ownership may remain achievable in some suburban or regional locations, affordability pressures are substantial within many metropolitan areas.

#### *Aged Care Worker*

An aged care worker typically faces more significant affordability challenges. Home ownership may be unattainable in many parts of metropolitan Sydney without dual incomes, family assistance or substantial existing savings.

These examples highlight an important issue.

Workers who perform essential community functions increasingly struggle to access housing near the communities they serve.

### **Housing Affordability and Labour Mobility**

Housing affordability directly influences labour mobility. Labour mobility refers to the ability of workers to move between locations and employment opportunities.

Affordable housing supports labour mobility because workers can relocate to areas where employment opportunities exist. Unaffordable housing constrains mobility.

Workers may:

- decline employment opportunities;
- relocate to more affordable regions;
- accept longer commutes;
- leave particular industries altogether.

The result is reduced labour market efficiency. Housing affordability therefore influences economic performance in ways that extend well beyond the housing sector.

### **Recruitment and Retention Challenges**

Many public sector and community service employers increasingly report difficulties recruiting and retaining staff in high-cost housing markets.

Housing affordability can influence employment decisions through:

- commuting costs;
- commuting times;

- housing stress;
- family circumstances; and
- overall quality of life.

In some locations, housing affordability has become a material workforce planning issue.

Recruitment challenges are particularly significant where:

- wages are relatively fixed;
- services must be delivered locally;
- competition for workers is strong.

These conditions characterise many essential service occupations. The result is that housing affordability increasingly affects service delivery outcomes.

### **The Cost of Long Commutes**

One common response to unaffordable housing is relocation to more distant locations. While this may improve housing affordability, it often imposes other costs.

Longer commutes may result in:

- reduced family time;
- higher transport costs;
- reduced workforce participation;
- increased congestion;
- increased environmental impacts.

Long commuting distances can also reduce workforce resilience. Workers may be less willing to remain in particular occupations or locations over the long term.

Consequently, housing affordability and transport outcomes are closely linked.

### **Economic Productivity Implications**

The Productivity Commission has long emphasised the importance of policies that improve productivity and economic efficiency. Housing affordability increasingly falls within this category.

Where workers cannot access housing close to employment opportunities:

- labour markets function less efficiently;
- recruitment becomes more difficult;
- businesses face increased costs;
- service delivery may deteriorate.

The resulting productivity impacts can be substantial.

Housing affordability should therefore be viewed as productive economic infrastructure rather than solely as a private consumption issue. Just as inadequate transport infrastructure can constrain economic activity, inadequate housing affordability can constrain labour market performance.

## **International and Historical Experience**

Many high-cost global cities have experienced similar challenges.

Cities such as:

- London;
- San Francisco;
- Vancouver; and
- Auckland

have all grappled with the consequences of essential workers being priced out of housing markets.

Common responses have included:

- key worker housing programs;
- affordable rental housing;
- shared equity schemes;
- employer-assisted housing programs.

These experiences demonstrate that housing affordability challenges affecting essential workers are not unique to Australia. However, they also demonstrate that targeted interventions can play an important role in supporting workforce participation.

## **Why Market Supply Alone May Not Resolve the Issue**

The previous chapter argued that untargeted market supply is unlikely to fully resolve affordability challenges for many lower and moderate income households.

Essential workers provide a practical illustration of this argument. Even if housing supply increases substantially, much newly delivered housing may remain beyond the reach of many essential workers.

This reflects:

- housing production costs;
- land values;
- financing costs;
- market pricing.

Consequently, increasing supply remains necessary but may not be sufficient. Additional policy responses may well be required if governments wish to ensure that essential workers can continue to access housing in high-cost locations.

## **Potential Policy Responses**

A range of policy responses may assist.

These include:

### *Affordable Rental Housing*

Housing delivered at below-market rents for eligible households.

### *Key Worker Housing*

Housing specifically targeted towards essential workers.

### *Shared Equity Programs*

Programs that reduce deposit requirements and improve ownership accessibility.

### *Community Housing Provider Partnerships*

Affordable housing delivered through registered Community Housing Providers.

### *Government-Led Housing Initiatives*

Programs utilising public land or public investment to support affordability outcomes.

The purpose of this chapter is not to advocate a single solution. Rather, it is to demonstrate that housing affordability challenges affecting essential workers increasingly justify policy attention.

## **Housing Affordability as Community Infrastructure**

A useful way to understand this issue is to view housing affordability as community infrastructure.

Communities require:

- schools;
- hospitals;
- emergency services;
- childcare services.

These services depend upon workers. Workers require housing. Where workers cannot access housing, community services become more difficult to sustain.

Housing affordability therefore influences the long-term viability of communities. This observation reinforces the broader argument that housing affordability is not simply a housing issue.

It is also a workforce, productivity and community resilience issue.

## **Implications for the Productivity Commission**

Several implications emerge.

First, housing affordability should be recognised as an economic productivity issue.

Second, workforce impacts should form part of housing policy evaluation.

Third, governments should consider affordability outcomes for essential workers alongside broader housing supply objectives.

Fourth, targeted housing interventions for essential workers through the planning system are justified where labour market outcomes are being affected.

Finally, housing affordability indicators should include measures relating to workforce accessibility and key worker housing outcomes.

## **Conclusion**

The housing affordability challenges affecting essential workers illustrate the broader consequences of Australia's housing affordability crisis. Many workers performing critical community functions increasingly struggle to access housing near employment opportunities.

The consequences extend beyond individual households and increasingly affect labour mobility, workforce participation, service delivery and economic productivity.

Housing affordability should therefore be viewed not solely as a social policy issue but also as an economic productivity issue.

# 11 Housing Affordability: A means to Productivity and Prosperity for our Cities and the Nation

A housing system that produces substantial quantities of dwellings that remain unaffordable to most working households cannot be regarded as fully successful from an economic or productivity perspective.

While increasing housing supply is important, the ultimate objective should not simply be the production of additional dwellings. Rather, it should be the provision of housing that is affordable to all households especially those who cannot currently secure suitable accommodation through the market.

A key policy question is therefore not only how many dwellings are delivered, but whether the housing system is producing sufficient housing at price points that are accessible to households on low, moderate and increasingly middle incomes.

Housing affordability is an economic issue, not merely a housing issue. The inquiry must therefore be concerned with how Australia's housing system and planning regulations affect our economic performance, productivity and living standards.

The evidence is strong that widespread housing unaffordability can reduce a city's economic performance, but it usually shows up first as slower growth, labour shortages, lost agglomeration benefits, longer commutes, displacement and inequality, rather than immediate "decline".

The core economic mechanism is simple: productive cities attract workers, but if housing costs absorb the wage premium, workers either leave, do not move in, commute longer, or demand higher wages. [REDACTED] housing constraints in high-productivity US metropolitan cities such as New York and San Francisco reduced aggregate US growth by 36% from 1964 to 2009 by preventing workers from accessing high-productivity places.

[REDACTED] constrained housing supply in productive places weakened labour mobility and regional income convergence.

Urban geography adds a sharper point: unaffordable cities can keep booming at the top while hollowing out their lower- and middle-income workforce. "Superstar city" research finds that places such as London, Paris, New York and San Francisco can remain highly productive while becoming exclusionary, crowding out lower-income households. That is not a clean counterexample; it is more a warning that headline GDP can rise while the city becomes less socially and economically resilient.

There are also counterfactuals.

Vienna and Singapore show that large non-market or below-market housing systems can partly protect productivity and social mix. OECD data show social rental housing averages only about 7% of total housing stock across the OECD, but exceeds 20% in Austria, Denmark and the Netherlands. Vienna is often cited because more than half of residents live in municipal or subsidised/co-

operative housing. Singapore's government states that more than 1 million HDB flats house close to 80% of the resident population.

Evidence from economics, demography, urban geography and land economics suggests that a persistent shortage of affordable housing imposes significant economic costs on cities, regions and national economies. These costs accumulate over time and may ultimately reduce productivity, labour market efficiency, economic dynamism and long-term prosperity.

### **Housing Affordability Supports Labour Market Efficiency**

One of the primary economic functions of housing is to enable workers to live within reasonable proximity of employment opportunities.

When housing costs become detached from local incomes, many workers are either forced to:

- relocate to more affordable regions;
- accept lengthy commuting times;
- withdraw from certain labour markets; or
- seek higher wages simply to meet housing costs.

This reduces labour market flexibility and increases recruitment difficulties for many employers.

Across Sydney, Melbourne and other high-cost regions, businesses increasingly report difficulties attracting and retaining workers in occupations such as health care, education, aged care, hospitality, emergency services, retail and community services. Housing costs have become a material component of workforce shortages.

From an economic perspective, this represents a misallocation of labour. Productive cities function most effectively when workers can readily access employment opportunities. Excessive housing costs reduce this matching process and lower overall economic efficiency.

### **Loss of Young Households and Future Workers**

A recognised consequence of housing unaffordability is the gradual loss of younger households from high-cost cities.

Many young adults and young families increasingly relocate to outer metropolitan areas, regional centres or interstate locations where housing costs are lower. While population growth may continue through overseas migration, the age structure of the city can gradually change.

This has several long-term consequences:

- reduced numbers of young workers entering local labour markets;
- reduced household formation;
- lower levels of economic consumption associated with family formation;
- diminished school enrolments in some established areas; and
- an ageing population profile.

Over time, cities risk becoming places where housing wealth accumulates but where fewer young households can establish long-term roots.

## **Housing Costs and Declining Fertility**

Australia's declining fertility rate is influenced by many factors, but housing affordability is increasingly recognised as an important contributor.

Home ownership has traditionally provided households with confidence to form families and have children. As housing becomes less attainable, younger households often delay:

- leaving the parental home;
- forming partnerships;
- purchasing a dwelling; and
- having children.

The cumulative effect may be lower birth rates and a smaller future workforce.

From a national productivity perspective, this is significant. Future economic growth ultimately depends on the availability of workers, taxpayers and consumers. Housing systems that discourage family formation can therefore have broader demographic and fiscal consequences.

## **Reduced Agglomeration Benefits**

One of the principal advantages of cities is the productivity generated when businesses, workers, institutions and services are located close together. Economists describe these advantages as agglomeration economies.

Agglomeration benefits include:

- knowledge sharing;
- innovation;
- specialised labour markets;
- collaboration between firms;
- greater competition; and
- higher productivity.

However, these benefits depend on workers being able to access locations where economic activity is concentrated.

When housing costs prevent workers from living near employment centres, cities become less efficient. Longer commuting distances, labour shortages and workforce displacement reduce the productivity gains that urban concentration would otherwise generate.

International research increasingly suggests that housing constraints can significantly reduce economic output by limiting access to high-productivity locations.

## **Housing Affordability and Business Formation**

High housing costs may also reduce entrepreneurship and economic dynamism.

Historically, housing that is affordable has provided individuals with the financial capacity to:

- establish new businesses;

- pursue self-employment opportunities;
- undertake further education;
- relocate for employment opportunities; and
- accept entrepreneurial risk.

When a disproportionate share of household income is devoted to housing costs, households have less capacity to invest in new enterprises or absorb periods of uncertain income.

The result may be fewer start-up businesses, lower rates of innovation and reduced economic adaptability.

This issue is particularly relevant to younger households, who have historically contributed disproportionately to entrepreneurial activity but are increasingly excluded from home ownership and secure housing pathways.

### **Wage Pressures and Business Costs**

Housing affordability also affects business costs. Where housing costs rise significantly faster than wages, employees naturally seek higher remuneration to maintain living standards.

This creates upward pressure on:

- wages;
- recruitment costs;
- staff turnover costs; and
- business operating expenses.

While wage growth is desirable where supported by productivity improvements, housing-induced wage pressures do not necessarily reflect higher productivity. Instead, they may simply compensate workers for higher living costs.

In this sense, housing affordability can influence business competitiveness and investment decisions.

### **The Role of Non-Market Housing**

The evidence suggests that well-functioning housing systems do not rely solely on market housing.

Many high-performing international cities maintain substantial supplies of:

- social housing;
- community housing;
- affordable rental housing;
- co-operative housing; and
- cost-rental housing.

These forms of housing perform important economic functions by:

- stabilising labour markets;
- retaining key workers;
- supporting younger households;

- reducing displacement;
- improving workforce participation; and
- moderating housing market volatility.

Australia's non-market housing sector remains relatively small compared with many OECD jurisdictions.

As a consequence, the burden of providing housing that is affordable falls disproportionately on the private market, which has historically struggled to deliver housing at price points affordable to lower and moderate income households in high-demand metropolitan locations.

### **Implications for the Productivity Commission**

The Commission should therefore evaluate housing, planning and infrastructure policy not only through the lens of total dwelling supply but also through the lens of affordability outcomes.

A dwelling that is unaffordable to the households experiencing housing stress does little to improve labour market efficiency, economic participation or productivity.

Accordingly, housing policy should prioritise:

1. Increased supply of market housing at entry-level price points, particularly for first home buyers and moderate-income households.
2. A substantial expansion of non-market housing, including social housing, affordable rental housing and community housing held in perpetuity.
3. Housing outcomes that support workforce participation, labour mobility and economic productivity rather than simply increasing aggregate dwelling numbers.
4. Targeted supply measures that improve affordability for households currently excluded from secure housing, rather than relying solely on broad increases in market supply.

### **Summary**

A lack of affordable housing does not automatically make a city decline, but it creates a drag on productivity, labour mobility and inclusion. High-income global cities can mask the damage for years. Cities with a substantial non-market housing base are better placed to counteract the drag, especially if that housing is well-located and available to key workers and moderate-income households, not only the very poorest.

A housing system should not be judged solely by the number of dwellings it produces. It should also be judged by whether workers, families and businesses can access housing in a way that supports productivity, labour market efficiency, demographic sustainability and long-term economic prosperity.

The Productivity Commission should recognise housing affordability as an economic productivity issue as well as a housing issue.

Housing supply and planning policies should be assessed not only according to the number of dwellings delivered, but also according to their capacity to improve housing affordability for low, moderate and middle-income households.

Governments should support policies that increase the supply of both entry-level market housing and non-market housing held in perpetuity, particularly in locations that support workforce participation, labour mobility and economic opportunity.

Improving housing affordability is likely to generate broader economic benefits through stronger labour market efficiency, workforce participation, demographic sustainability and long-term productivity.

# 12. The Limits of the Filtering Proposition

## Introduction

One of the most influential concepts in housing economics is the filtering proposition. Filtering is frequently advanced as a key mechanism through which housing supply improves affordability over time. The basic argument is straightforward.

Newly constructed housing is typically occupied by higher-income households. As those households move into new dwellings, older housing becomes available to households on progressively lower incomes. Over time, the housing stock “filters” down the income distribution, creating a supply of relatively affordable housing without the need for direct government intervention.

Filtering is an important concept and should not be dismissed. Indeed, much of Australia’s existing affordable private housing stock emerged through this process. Older detached houses, post-war flats, walk-up apartments and ageing suburban housing often provide more affordable accommodation than newly constructed dwellings. This pattern is well documented internationally and forms an important part of how housing markets function.

This submission accepts that filtering occurs. However, the existence of filtering does not resolve the central question confronting Australian housing policy.

*If filtering operates continuously, why has housing affordability deteriorated so significantly over recent decades?*

*Why are home ownership rates among younger households declining?*

*Why has rental stress increased?*

*Why are essential workers increasingly unable to live close to employment opportunities?*

*Why are homelessness services experiencing growing demand?*

The answer is not that filtering has ceased to operate. Rather, filtering operates within a broader housing system influenced by population growth, household formation, investor demand, redevelopment pressures, locational preferences and rising land values. These forces can significantly slow, offset or overwhelm the affordability benefits generated through filtering.

The purpose of this chapter is therefore not to reject filtering. It is to place filtering within its proper context and to explain why filtering alone is unlikely to deliver affordability improvements at the scale and speed required to address Australia’s contemporary housing challenges.

## Understanding the Filtering Process

Filtering is fundamentally a consequence of housing durability. Unlike many consumer goods, housing remains in use for decades. Dwellings constructed today may still be occupied fifty, seventy or one hundred years from now. As housing ages:

- physical condition changes;
- building standards evolve;

- consumer preferences shift;
- newer alternatives emerge.

Consequently, older housing often becomes relatively cheaper than newer housing. Historically, this process has been an important source of affordable accommodation.

Many lower-cost rental properties are older dwellings that have filtered through the housing market over extended periods. The same is true of many entry-level ownership opportunities. In this sense, filtering is not merely a theoretical concept. It is a real and observable feature of housing markets.

Housing economists are therefore correct to observe that increasing housing supply contributes to affordability over time.

The key question is not whether filtering exists.

The key question is whether filtering can be relied upon as the primary mechanism for solving Australia's current affordability crisis.

### **Why Affordability Has Continued to Worsen**

The persistence of housing affordability challenges suggests that filtering is being offset by other powerful forces.

Over recent decades Australia has experienced:

- strong population growth;
- sustained migration;
- declining household sizes;
- rising land values;
- increasing investor participation;
- growing demand for well-located housing.

These factors have increased demand for housing at a pace that has frequently matched or exceeded the affordability gains generated through filtering.

As a result, many older dwellings have not become substantially cheaper in real terms. Instead, they have often remained expensive because demand for their locations remains strong.

This is particularly evident in Sydney, Melbourne and other major metropolitan areas where even ageing housing stock frequently commands high prices.

The lesson is important.

Filtering improves affordability only when affordability gains are not simultaneously offset by other market forces. In contemporary Australian housing markets, those offsetting forces have often been substantial.

### **Time Matters**

Perhaps the most important limitation of filtering is time.

Filtering is inherently gradual. Housing does not become significantly more affordable overnight. The process may take decades.

From a long-term historical perspective, this may be entirely acceptable. However, policymakers and housing consumers confront immediate housing challenges.

Young households seeking to enter home ownership cannot wait thirty years for affordability improvements. Essential workers facing long commutes cannot wait thirty years. Households experiencing rental stress cannot wait thirty years. Communities facing workforce shortages cannot wait decades.

The timing of affordability improvements therefore matters enormously.

### **Productivity Costs**

Delayed affordability improvements impose productivity costs. When workers cannot access affordable housing near employment opportunities:

- commuting times increase;
- labour mobility declines;
- recruitment becomes more difficult;
- workforce participation may be reduced.

These effects occur immediately. The economic costs are borne today, even if filtering may improve affordability in future decades.

### **Social Costs**

The social consequences are equally significant. Housing stress contributes to:

- financial hardship;
- overcrowding;
- housing insecurity;
- declining wellbeing;
- increased risk of homelessness.

Again, these effects occur now. The fact that filtering may eventually improve affordability does not eliminate contemporary hardship.

### **Community Costs**

Communities also bear costs.

Schools struggle to recruit teachers. Hospitals struggle to recruit nurses. Emergency services face workforce challenges. Community organisations experience staffing pressures.

These outcomes weaken social cohesion and reduce community resilience.

For these reasons, time must be regarded as a critical dimension of housing policy.

A housing supply strategy that improves affordability in several decades may still be inadequate if it fails to address current housing pressures.

### **Population Growth and Housing Demand**

Filtering models are often discussed as though demand conditions remain relatively stable. In practice, Australian housing markets have experienced substantial demand growth.

Population growth increases housing demand. Migration increases housing demand. Economic growth increases housing demand.

The result is that older housing often remains highly valued despite its age. Strong demand can absorb much of the additional supply entering the market and reduce the pace at which housing filters to lower-income households.

This does not invalidate filtering.

However, it means that filtering may operate more slowly and generate smaller affordability gains than simple theoretical models suggest.

### **The Shift to Smaller Households**

An additional challenge is changing household formation. Australia has experienced a long-term decline in average household size. More people now live:

- alone;
- as couples without children;
- in smaller family units.

This trend increases housing demand independently of population growth. Even if population growth were to moderate, the number of dwellings required could continue increasing because households are becoming smaller. The implication is that housing demand may remain strong even where population growth slows.

Filtering must therefore operate against a backdrop of continuing demand growth.

### **Investor Demand and Asset Values**

Housing is not simply a consumption good. It is also a financial asset. Investor demand influences housing outcomes in important ways.

Older housing that might once have become progressively cheaper may instead be:

- renovated;
- repositioned within higher-value market segments;
- retained as investment property;
- redeveloped.

As a consequence, some housing does not filter downward as rapidly as traditional models suggest.

Investor activity is not inherently problematic. Rental housing is an essential component of the housing system. However, the investment characteristics of housing mean that older dwellings do not necessarily become inexpensive merely because they age.

### **Location Matters**

Location is perhaps the most underappreciated limitation of the filtering proposition. Filtering theory often treats housing as relatively homogeneous. In reality, location strongly influences value.

Housing located near:

- employment centres;
- railway stations;
- schools;
- hospitals;
- retail centres;
- recreational facilities

typically remains highly desirable regardless of age.

An ageing apartment in inner Sydney may remain expensive because access to opportunity remains valuable. Similarly, older detached housing in established suburbs may retain high values despite its age.

This observation is critical because affordability is not simply about access to housing. It is also about access to jobs, education, services and social networks.

A dwelling may become affordable only after households are displaced to locations with fewer opportunities. Such an outcome may improve housing affordability statistics while simultaneously reducing social and economic wellbeing.

Location therefore matters.

### **Displacement and Redevelopment**

A further limitation of filtering concerns redevelopment. Many older dwellings eventually become redevelopment opportunities.

This is particularly common in areas experiencing strong growth, including:

- transport-oriented development precincts;
- town centres;
- urban renewal areas;
- station precincts.

Redevelopment often increases total dwelling numbers. This is generally positive. However, redevelopment can also remove older housing that previously provided relatively affordable accommodation.

Examples include:

- older walk-up flats;
- boarding houses;
- detached rental dwellings;
- ageing apartment blocks.

These dwellings are often occupied by lower-income households because they represent some of the most affordable housing available within established locations.

When redevelopment occurs, those households may be displaced. The new housing replacing older dwellings is frequently more expensive and targeted towards higher-income households.

The result can be a temporary or even long-term reduction in the supply of affordable housing within a locality.

### **The Loss of Lower-Cost Rental Housing**

This issue deserves particular attention. Policy discussions frequently celebrate gross increases in dwelling numbers. However, less attention is paid to the loss of lower-cost housing.

A redevelopment project may replace:

- ten ageing affordable flats

with:

- forty new apartments.

From a supply perspective, this represents a net increase of thirty dwellings. From an affordability perspective, the outcome is more complex.

Forty new apartments may be substantially less affordable than the ten dwellings they replaced. Consequently, lower-income households may be forced to relocate elsewhere.

This is one reason why affordability outcomes can diverge from housing supply outcomes.

### **Net Affordability Matters**

These observations suggest the need for a broader evaluation framework.

Housing policy often focuses on:

- housing capacity;
- approvals;
- commencements;
- completions.

These measures remain important. However, they do not always reveal affordability outcomes.

A more comprehensive approach would assess:

### *Affordable Housing Created*

Including:

- affordable rental housing;
- Community Housing Provider housing;
- key worker housing.

### *Affordable Housing Lost*

Including:

- older rental housing;
- boarding houses;
- lower-cost private dwellings.

### *Displacement Effects*

Including:

- relocation of lower-income households;
- increased commuting distances;
- reduced access to employment opportunities.

This approach may be described as a Net Affordability Framework.

The framework recognises that housing outcomes should be measured not simply by the number of dwellings created but by whether affordability has improved.

### **Implications for Social and Affordable Housing**

The limitations of filtering strengthen the case for complementary housing interventions. Filtering remains valuable. Additional supply remains essential.

However, the evidence suggests that filtering alone is unlikely to meet the needs of:

- lower-income households;
- households experiencing rental stress;
- essential workers;
- people at risk of homelessness.

These groups often require housing outcomes that emerge more quickly than filtering can deliver. Consequently, affordable housing, social housing and Community Housing Provider delivery continue to play important roles.

Such interventions should not be viewed as alternatives to housing supply. Rather, they should be viewed as complements to broader supply-side reforms.

### **Areas of Common Ground**

The arguments advanced in this chapter should not be interpreted as opposition to housing supply. On the contrary, increased housing supply remains necessary. Without additional supply, affordability outcomes are likely to deteriorate further.

The point is simply that filtering should be regarded as one affordability mechanism among several. Supply matters. Filtering matters.

But affordability outcomes depend on a wider range of factors than either concept alone can explain.

### **Conclusion**

Filtering is a legitimate and important feature of housing markets.

Much of Australia's housing stock that is affordable emerged through this process and additional housing supply will continue to support affordability over time.

However, filtering operates within a broader housing system shaped by population growth, household formation, investor demand, land values, redevelopment pressures and locational preferences. These forces can significantly reduce the pace and scale of affordability improvements.

Most importantly, filtering takes time.

Australia's affordability challenges are occurring now.

The productivity, workforce, social and community consequences of housing unaffordability are being experienced today.

For these reasons, filtering should be regarded as an important component of housing affordability policy but not as a complete solution. A comprehensive housing strategy requires both increased housing supply and complementary measures capable of delivering affordability outcomes within meaningful policy timeframes.

The next chapter considers one such response: government-led and countercyclical housing delivery.

# 13. Government-Led and Countercyclical Housing Delivery

## Introduction

The preceding chapters have argued that housing affordability challenges arise from the interaction of multiple factors including:

- housing supply;
- interest rates;
- development finance;
- construction costs;
- labour availability;
- population growth;
- investor behaviour; and
- broader economic conditions.

The submission has also argued that while additional market housing supply remains essential, untargeted market supply alone is unlikely to fully resolve affordability challenges for many households experiencing housing stress.

These observations raise an important policy question.

What role should governments play when market housing delivery falls below the level required to meet housing need or affordability objectives?

This chapter argues that government-led and countercyclical housing delivery should form an important component of Australia's housing system.

The purpose is not to replace private housing markets. It will also benefit from planning regulation reforms.

Private housing markets remain the principal mechanism through which housing is produced and should continue to perform that role.

Rather, the purpose is to complement market delivery by:

- supporting housing supply during market downturns;
- expanding affordable housing opportunities;
- addressing a spectrum of housing need where markets can no longer meet; and
- improving housing outcomes for households whose needs are not fully met by the market.

## Housing Need Does Not Follow Market Cycles

One of the fundamental characteristics of housing markets is that housing production and housing need often move in different directions.

Private housing delivery tends to increase when:

- interest rates are low;
- development finance is readily available;
- purchaser confidence is strong;
- construction costs are manageable; and
- project feasibility is attractive.

Conversely, housing delivery often declines when:

- interest rates rise;
- construction costs increase;
- finance becomes more difficult to obtain;
- purchaser demand weakens; or
- economic uncertainty increases.

These responses are economically rational. Developers and financiers respond to risk, returns and feasibility.

However, housing need does not decline simply because economic conditions deteriorate. Indeed, periods of economic stress often coincide with:

- increased rental stress;
- reduced home ownership accessibility;
- rising homelessness risk;
- greater demand for affordable housing.

The result is a structural mismatch between housing need and housing production. This mismatch provides one of the strongest arguments for a continuing government role in housing delivery.

### **The Case for Countercyclical Housing Delivery**

Governments have long used countercyclical investment to stabilise economic activity.

Infrastructure projects are often accelerated during economic downturns to support employment and maintain economic activity. A similar logic applies to housing.

Countercyclical housing delivery involves increasing public or publicly supported housing investment when private housing production weakens. Such an approach can provide several benefits.

### **Maintaining Housing Supply**

The most immediate benefit is that housing construction can continue during periods when private market activity declines. This helps avoid the boom-and-bust cycles that have historically characterised housing production.

Maintaining construction activity during downturns can reduce future housing shortages and improve long-term supply outcomes.

### **Supporting Employment**

Housing construction is a major source of employment. Periods of weak development activity can result in:

- job losses;
- reduced apprenticeship opportunities;
- business failures;
- loss of industry capacity.

Government-led housing projects can help maintain employment and industry capability during weaker market conditions.

### **Preserving Skills and Capacity**

Housing construction relies upon specialised skills developed over many years. Once skilled workers leave the industry they may not return.

The loss of capability can constrain future housing production. Countercyclical housing programs help retain skilled workers and preserve industry capacity.

### **Improving Affordability Outcomes**

Unlike market housing, government-supported housing can be targeted directly towards households experiencing affordability pressures.

This enables governments to pursue affordability objectives more directly than would be possible through market delivery alone.

### **Government's Comparative Advantages**

Governments possess several advantages that enable them to support housing delivery in ways that private markets may not always be able to achieve.

#### **Longer Investment Horizons**

Private housing projects are generally evaluated according to commercial returns. Governments can adopt longer investment horizons and consider broader social and economic benefits.

Projects may remain worthwhile even where financial returns are relatively modest.

#### **Access to Land**

Governments are often significant landowners. Public land holdings provide opportunities to deliver housing without many of the acquisition costs faced by private developers.

This can substantially improve project feasibility.

#### **Access to Capital**

Governments generally possess access to lower-cost financing than private developers.

This enables projects to proceed under circumstances where purely private developments may struggle.

### **Multiple Policy Objectives**

Governments can pursue broader objectives including:

- affordability;
- social inclusion;
- workforce housing;
- economic productivity;
- urban renewal; and
- community development.

These objectives may justify investments that are not solely driven by commercial returns.

### **NSW Examples of Government-Led Housing Delivery**

NSW provides several important examples of government-led housing initiatives that demonstrate the potential role of public intervention.

#### *Waterloo South*

The Waterloo Estate redevelopment represents one of the most significant urban renewal projects currently underway in Australia.

The project combines:

- replacement social housing;
- affordable housing;
- market housing;
- community facilities;
- public domain improvements; and
- enhanced transport accessibility.

Importantly, the project demonstrates how government-owned land can be used to pursue multiple housing objectives simultaneously.

The redevelopment also illustrates the value of retaining strategic public land ownership in locations with strong access to employment and public transport.

#### *Arncliffe*

The proposed redevelopment of government-owned land at Arncliffe provides another example of public sector leadership.

Government involvement creates opportunities to deliver:

- diverse housing types;
- affordable housing;
- public infrastructure;

- community facilities; and
- long-term place outcomes.

Such projects can be planned with affordability objectives in mind rather than relying solely upon market outcomes.

#### *LABC Redevelopment Program*

The broader redevelopment activities of the NSW Land and Housing Corporation (LABC) provide further examples.

Projects including:

- Waterloo;
- Telopea;
- Riverwood;
- Ivanhoe; and
- Arncliffe

demonstrate how public land assets can support housing growth while simultaneously increasing social and affordable housing supply.

These projects are not without complexity. However, they demonstrate that governments possess delivery mechanisms capable of achieving housing outcomes beyond those typically generated through market delivery alone.

### **The Role of Community Housing Providers**

Community Housing Providers (CHPs) have become increasingly important participants within Australia's housing system. They occupy a position between traditional public housing and purely market-based housing provision.

CHPs combine:

- professional housing management;
- independent governance;
- long-term affordability objectives; and
- capacity to leverage government investment with low interest finance from the Housing Australia Future Fund (HAFF).

One of the most important features of CHP-delivered housing is that affordability can be retained in perpetuity. Unlike many market affordability initiatives, affordability benefits do not necessarily diminish over time.

### **Leveraging Public Investment**

Community Housing Providers can often leverage government investment by:

- borrowing against assets;
- attracting institutional capital;
- partnering with developers; and

- delivering mixed-tenure projects.

This can increase the scale of housing outcomes achieved from public investment.

### **Supporting Housing Diversity**

CHPs are also well positioned to deliver housing targeted towards:

- essential workers;
- older persons;
- people with disability;
- lower-income households;
- households experiencing housing stress.

The Productivity Commission should recognise Community Housing Providers as a critical component of Australia's future housing system.

### **Housing Affordability and Essential Workers**

Previous chapter demonstrated that housing affordability increasingly affects essential workers.

Many nurses, teachers, childcare workers and aged care workers struggle to access housing close to employment opportunities.

This has implications for:

- workforce retention;
- labour mobility;
- service delivery; and
- economic productivity.

Market housing alone may not consistently provide affordable housing opportunities for these groups. Government-supported key worker housing programs therefore warrant consideration.

Potential approaches include:

- affordable rental housing;
- shared equity programs;
- mixed-tenure developments;
- CHP-delivered housing; and
- housing linked to major employment centres.

These initiatives can support both affordability objectives and productivity outcomes.

### **Housing as Economic Infrastructure**

Traditionally, housing and infrastructure have been treated as separate policy areas. Increasingly, this distinction is becoming less useful.

Housing performs many of the functions associated with economic infrastructure.

It supports:

- workforce participation;
- labour mobility;
- economic productivity;
- regional development;
- social stability.

A failure to provide adequate housing can constrain economic growth just as effectively as inadequate transport infrastructure. This suggests that housing should increasingly be viewed as productive economic infrastructure rather than solely as a private consumption good.

### **Implications for the Productivity Commission**

Several implications emerge from the analysis presented in this chapter.

First, private housing markets should remain the principal source of housing delivery.

Second, governments have a legitimate complementary role where market outcomes are insufficient.

Third, countercyclical housing delivery can help stabilise housing production and maintain industry capacity.

Fourth, Community Housing Providers should play a larger role in delivering affordable housing.

Fifth, public land assets should be utilised strategically to support affordability outcomes.

Finally, housing affordability should increasingly be recognised as an economic productivity issue as well as a social policy issue.

### **Conclusion**

Housing markets play a critical role in delivering housing supply and should continue to do so. However, private housing delivery is inherently cyclical and strongly influenced by economic conditions.

Housing need is not.

This creates a compelling rationale for government-led and countercyclical housing delivery.

Through strategic use of public land, Community Housing Providers, affordable housing programs and key worker housing initiatives, governments can help stabilise housing supply, improve affordability outcomes and support economic productivity.

The objective is not to replace market housing delivery.

Rather, it is to ensure that Australia's housing system remains capable of delivering housing outcomes during periods when market mechanisms alone are unlikely to be sufficient.

The next chapter considers areas of common ground between this submission, the Planning Institute of Australia and the Productivity Commission, demonstrating that the central argument advanced throughout this submission is not anti-supply, but rather pro-affordability and pro-outcomes.

# 14. Areas of Common Ground with the Productivity Commission

## Introduction

The purpose of this submission is not to argue against housing supply, planning reform or productivity-enhancing reforms.

On the contrary, a number of the findings and recommendations likely to emerge from the Productivity Commission's inquiry are likely to be supported by this submission.

Similarly, the Planning Institute of Australia (PIA) has consistently advocated for reforms that improve the efficiency, effectiveness and certainty of planning systems while supporting the delivery of additional housing.

There is therefore substantial common ground between the positions advanced by the Productivity Commission, the Planning Institute of Australia, many other advocates and this submission.

The principal difference is not whether housing supply matters. A principal difference with the Commission concerns whether housing supply alone is likely to achieve the affordability outcomes that governments and communities are seeking.

This submission argues that while supply-side reforms are necessary, they are unlikely to be sufficient on their own.

That distinction is important because it positions the discussion not as a debate between supply and affordability, but as a discussion about how housing supply policies can be combined with targeted affordability measures to achieve better outcomes.

## Housing Supply Matters

The most significant area of agreement concerns the importance of housing supply.

Economic theory and international evidence strongly suggest that housing markets characterised by chronic supply shortages are likely to experience worsening affordability outcomes.

Where housing supply fails to keep pace with demand:

- prices rise;
- rents increase;
- housing stress worsens; and
- housing opportunities become increasingly inaccessible to lower and moderate income households.

For this reason, increasing housing supply remains an essential component of any housing affordability strategy.

This submission supports continued efforts to:

- increase housing production;
- expand housing diversity;
- facilitate housing in appropriate locations;
- improve planning efficiency; and
- remove unnecessary barriers to development.

The question is not whether additional supply is required. The question is whether additional supply alone will be sufficient to address affordability challenges for all households.

### **Planning Reform Has an Important Role**

The Planning Institute of Australia has consistently advocated for planning systems that are:

- efficient;
- transparent;
- evidence based;
- strategically focused; and
- capable of accommodating growth.

This submission strongly supports these objectives. Planning systems should facilitate well-located housing.

Planning processes should be proportionate, predictable and timely. Excessive complexity, duplication and uncertainty impose costs on all participants in the housing system.

Similarly, strategic planning should identify appropriate locations for housing growth and infrastructure investment.

The submission therefore supports ongoing efforts to improve planning system performance. However, it also argues that planning reform should be viewed as one component of a broader housing affordability strategy rather than as a complete solution.

### **Construction Productivity Matters**

Another area of strong agreement concerns housing construction productivity.

Australia's housing construction sector faces significant challenges including:

- labour shortages;
- skills shortages;
- escalating construction costs;
- fragmented delivery systems; and
- declining productivity growth.

Improving productivity within the housing construction sector has the potential to reduce costs and increase housing delivery.

The Productivity Commission has a long history of examining productivity challenges across the Australian economy.

The Planning Institute of Australia has similarly highlighted the importance of improving housing delivery systems and reducing unnecessary inefficiencies.

This submission supports further work to:

- improve construction productivity;
- encourage innovation;
- modernise construction methods;
- expand workforce capability; and
- improve coordination across the housing delivery system.

Such reforms have the potential to complement planning reforms and improve housing outcomes.

### **Infrastructure Delivery Is Critical**

Housing supply and infrastructure delivery are closely connected. New housing requires:

- transport infrastructure;
- water and sewer services;
- schools;
- health facilities;
- open space; and
- community infrastructure.

Infrastructure constraints can significantly delay housing delivery. This submission therefore supports continued investment in infrastructure that enables housing growth. It also supports efforts to better coordinate infrastructure planning and housing planning.

The key point of departure from some supply-side approaches is that infrastructure investment should not simply maximise dwelling numbers.

It should also support affordability outcomes. This issue is explored further in the following chapter.

### **Housing Diversity Improves Choice**

The submission also agrees with efforts to increase housing diversity. Many Australian housing markets have historically been characterised by a relatively narrow range of housing products.

Greater diversity can improve housing choice and better accommodate changing household structures.

Examples include:

- townhouses;
- terraces;
- low-rise apartments;
- build-to-rent housing;
- co-operative housing;
- affordable rental housing; and
- specialist housing products.

A broader range of housing options can improve market responsiveness and better meet the needs of different household types. Housing diversity should therefore remain an important objective of housing policy.

### **The Importance of Certainty**

The Planning Institute of Australia has frequently emphasised the importance of certainty within planning systems. This submission strongly supports that position.

As discussed earlier, housing delivery is influenced by investment decisions. Developers, financiers and infrastructure providers all benefit from predictable policy settings.

While planning reform is often necessary, continual regulatory change can generate uncertainty and influence development timing. A planning system that balances flexibility with certainty is therefore likely to support stronger housing delivery outcomes than one characterised by continual policy adjustment.

While there is substantial common ground, this submission differs from some supply-focused approaches in several respects.

### **Affordability Rather Than Supply as the Primary Objective**

The first difference concerns the ultimate policy objective.

The submission argues that housing affordability should be regarded as the primary outcome measure. Housing supply is important because it contributes to affordability.

However, supply itself is not the end objective. The ultimate objective is ensuring that households can access secure, appropriate and affordable housing.

This distinction has important policy implications.

### **Capacity Is Not Delivery**

The submission also argues that housing capacity, approvals and completions should not be treated as interchangeable measures.

Planning reforms may increase development capacity. However, housing is only delivered when projects proceed to construction and occupation.

Understanding the distinction between:

- capacity;
- approvals;
- commencements; and
- completions

is therefore essential.

### **Not All Housing Contributes Equally to Affordability**

A further difference concerns the distribution of affordability benefits. The submission accepts that all housing contributes to market functioning.

However, it argues that not all housing contributes equally to affordability outcomes.

Housing delivered at price points beyond the reach of lower and moderate income households may have limited direct affordability impacts for those households.

This observation supports the case for targeted housing interventions alongside broader supply reforms.

### **Time Matters**

The submission also places greater emphasis on the timing of affordability outcomes.

Supply-side reforms may improve affordability over time through filtering and increased market competition.

However, many households are experiencing housing stress today.

The economic, productivity and social costs associated with delayed affordability improvements are therefore important considerations.

### **A Shared Interest in Better Housing Outcomes**

Despite these differences, the Productivity Commission, the Planning Institute of Australia and this submission share a common objective.

All seek:

- improved housing outcomes;
- greater housing opportunities;
- stronger economic productivity;
- better functioning cities and regions; and
- improved community wellbeing.

The principal debate concerns the mix of policy instruments required to achieve those outcomes. This submission suggests that supply-side reforms should be complemented by targeted affordability measures rather than viewed as substitutes for them.

### **Conclusion**

There is substantial common ground between the positions advanced by the Productivity Commission, the Planning Institute of Australia and this submission.

There is strong agreement about the importance of housing supply, planning reform, infrastructure delivery, housing diversity and productivity improvements.

A principal difference lies in the emphasis placed on affordability outcomes and the role of targeted housing interventions.

The submission argues that supply-side reforms remain necessary and should continue.

However, achieving meaningful improvements in housing affordability will also require affordable housing programs, Community Housing Provider delivery, key worker housing initiatives and government-led interventions where market outcomes alone are insufficient.

In this respect, the submission should be viewed not as a critique of supply-side reform but as an argument for a broader and more comprehensive housing affordability framework.

# 15. Commonwealth Infrastructure Funding as an Affordability Lever

## Introduction

The Productivity Commission's inquiry presents an opportunity to reconsider not only how housing supply is increased, but also how governments can better align housing growth with housing affordability outcomes.

Much of the national housing policy debate has focused on planning reform, development approvals and housing supply targets. While these issues are important, the Commonwealth Government possesses relatively limited direct powers over planning systems, which remain primarily the responsibility of state and territory governments.

The Commonwealth's greatest influence over housing outcomes may therefore lie elsewhere.

One of the most significant levers available to the Commonwealth is its capacity to influence state and local government behaviour through funding agreements, infrastructure investment programs and intergovernmental partnerships.

The recently announced \$2 billion Housing Support Program and related infrastructure funding initiatives provide an important example.

These programs recognise that infrastructure constraints can delay housing delivery and that targeted infrastructure investment can unlock additional housing opportunities.

This submission supports these initiatives.

However, it also argues that infrastructure funding should not be assessed solely by the number of dwellings it enables.

Infrastructure funding should also be used to improve housing affordability outcomes.

The key proposition advanced in this chapter is that Commonwealth infrastructure funding should increasingly be linked to measurable affordability outcomes alongside housing supply outcomes. This would better align housing investment with the ultimate objective of improving housing affordability for Australian households.

## Infrastructure and Housing Are Inseparable

Housing and infrastructure are frequently discussed as separate policy issues. In practice, they are deeply interconnected.

New housing requires supporting infrastructure including:

- transport networks;
- water and sewer services;
- schools;
- health facilities;

- open space;
- community facilities; and
- utility infrastructure.

Where infrastructure is absent or delayed, housing delivery often slows.

Infrastructure shortages can:

- reduce development feasibility;
- delay housing construction;
- increase development costs; and
- reduce housing supply.

For these reasons, infrastructure investment plays a critical role in housing delivery. The Productivity Commission has previously recognised the importance of infrastructure coordination in improving economic productivity and supporting urban growth.

The Planning Institute of Australia has similarly argued that housing and infrastructure planning should occur together. This submission strongly supports that position.

However, a further step is required. Infrastructure investment should not simply facilitate housing growth. It should also support housing affordability.

### **The Commonwealth's Unique Role**

Unlike state governments, the Commonwealth does not directly control local planning systems. Nor does it typically undertake major housing development itself.

Nevertheless, the Commonwealth exercises significant influence through:

- funding agreements;
- National Housing Accord arrangements;
- infrastructure programs;
- taxation settings;
- housing finance programs; and
- intergovernmental partnerships.

Historically, Commonwealth infrastructure funding has often focused on supporting population growth and economic development. Increasingly, however, housing affordability has emerged as a national economic issue.

Housing affordability affects:

- labour mobility;
- workforce participation;
- productivity;
- economic competitiveness; and
- social cohesion.

These are all matters of legitimate Commonwealth concern.

As a result, there is a strong case for infrastructure funding programs to explicitly incorporate affordability objectives.

### **Beyond Dwelling Numbers**

Much contemporary housing policy focuses on dwelling targets. The National Housing Accord target of 1.2 million homes is an important example.

Targets can provide clarity and accountability. However, they also have limitations. A dwelling target measures quantity. It does not necessarily measure affordability.

For example:

- 1,000 luxury apartments;
- 1,000 investor-owned apartments;
- 1,000 affordable rental dwellings; and
- 1,000 key worker dwellings

all contribute equally to a dwelling target.

Yet they contribute very differently to affordability outcomes.

Similarly, infrastructure projects that enable large volumes of housing supply may not necessarily improve affordability for lower and moderate income households. The Productivity Commission should therefore encourage governments to assess housing initiatives using both:

- housing supply measures; and
- housing affordability measures.

Infrastructure funding provides an ideal opportunity to support this broader approach.

### **Linking Infrastructure Funding to Affordability Outcomes**

A logical evolution of Commonwealth housing policy would be to require affordability outcomes to form part of infrastructure funding agreements. This does not require abandoning supply targets.

Rather, it involves supplementing them.

States seeking Commonwealth infrastructure funding could be encouraged to demonstrate how proposed projects will contribute to:

- affordable rental housing;
- affordable home ownership opportunities;
- key worker housing;
- Community Housing Provider projects; and
- long-term affordability outcomes.

Such an approach would better align public investment with the broader objectives of housing policy.

The principle is straightforward. If public funds are being used to support housing growth, governments should seek to maximise both housing supply and housing affordability.

### **Supporting Affordable Housing in Perpetuity**

Infrastructure funding could also be used to encourage affordable housing that remains affordable over the long term. One of the challenges associated with many affordability initiatives is that affordability benefits are often temporary.

Housing that is affordable today may become unaffordable in future years. By contrast, affordable housing delivered through registered Community Housing Providers can remain affordable in perpetuity. This creates a lasting public benefit.

The Commonwealth could therefore provide funding incentives for projects that:

- include affordable housing contributions;
- partner with Community Housing Providers;
- retain affordability in perpetuity; or
- deliver key worker housing.

Such incentives would help expand Australia's affordable housing stock while leveraging broader housing development activity.

### **Encouraging State and Territory Reform**

Infrastructure funding can also be used to encourage policy innovation and reform. Historically, Commonwealth funding agreements have frequently been used to encourage changes in areas that remain formally within state jurisdiction. Housing provides a similar opportunity.

Rather than prescribing particular planning outcomes, the Commonwealth could encourage states and territories to adopt measures that improve affordability outcomes.

Examples might include:

- affordable housing contribution schemes;
- inclusionary zoning mechanisms;
- affordable housing targets;
- Community Housing Provider partnerships;
- key worker housing programs; and
- affordable housing monitoring systems.

Importantly, this approach respects state planning responsibilities while providing incentives for reforms that support national housing objectives.

### **Supporting Essential Workers**

The preceding chapters highlighted the growing housing challenges facing essential workers. Many nurses, teachers, childcare workers, aged care workers and emergency service personnel struggle to access housing close to employment centres.

This has implications for:

- labour market efficiency;
- workforce retention;
- service delivery; and
- productivity.

Infrastructure funding could be used to support housing initiatives targeted towards these groups.

Examples include:

- key worker housing developments;
- affordable rental housing near major employment centres;
- mixed tenure developments;
- partnerships with Community Housing Providers; and
- transit-oriented affordable housing projects.

Such initiatives would support both housing affordability and economic productivity.

### **Infrastructure Funding and Productivity**

The Productivity Commission has consistently emphasised the importance of productivity-enhancing reforms. Housing affordability increasingly falls within this category.

When workers cannot access housing near employment opportunities:

- commuting times increase;
- labour mobility declines;
- recruitment becomes more difficult;
- workforce participation falls; and
- productivity suffers.

Housing affordability is therefore no longer merely a social policy issue. It is increasingly an economic productivity issue.

Infrastructure funding that improves housing affordability may therefore generate productivity benefits that extend beyond the housing sector. This provides an additional rationale for integrating affordability considerations into infrastructure funding frameworks.

### **Measuring Success**

If infrastructure funding is to support affordability outcomes, governments will require improved measures of success.

Current metrics often focus on:

- dwelling numbers;
- approvals;
- rezonings; and
- infrastructure delivery.

While these measures remain important, they should be complemented by indicators such as:

- affordable housing delivered;
- affordable rental housing delivered;
- key worker housing delivered;
- housing stress outcomes;
- rental stress outcomes;
- accessibility to employment; and
- affordability relative to household incomes.

Such indicators would provide a more comprehensive understanding of whether public investment is improving housing outcomes.

### **Implications for the Productivity Commission**

The Commonwealth's ability to directly influence housing supply may be limited compared with state governments. Its ability to influence incentives is not.

Infrastructure funding represents one of the most powerful policy tools available to the Commonwealth.

The Productivity Commission should therefore consider whether future funding arrangements should move beyond a sole focus on dwelling numbers and incorporate affordability objectives alongside supply objectives.

This would help ensure that public investment supports not only housing growth but also improved housing outcomes for Australian households.

### **Conclusion**

Infrastructure investment is one of the most effective levers available to the Commonwealth Government for influencing housing outcomes. The recently announced infrastructure funding initiatives provide an opportunity to strengthen the connection between housing growth and housing affordability.

This submission supports continued Commonwealth investment in infrastructure that enables housing supply.

However, it also argues that infrastructure funding should increasingly be linked to measurable affordability outcomes.

Public investment should support:

- housing supply;
- affordable housing;
- key worker housing;
- Community Housing Provider delivery; and
- long-term affordability outcomes.

In doing so, the Commonwealth can help ensure that housing policy is judged not only by the number of dwellings produced, but also by whether Australians are able to access secure, appropriate and affordable housing.

Such an approach would better align infrastructure investment with the broader objectives of economic productivity, workforce participation and community wellbeing that underpin the Productivity Commission's inquiry.

# Chapter 16 – Recommendations

## Introduction

This submission supports continued efforts to increase housing supply, improve planning system efficiency and reduce unnecessary barriers to housing delivery.

However, the evidence reviewed throughout this submission suggests that Australia’s housing challenges cannot be fully understood as a housing production problem alone.

Australia faces an affordability challenge.

Housing supply remains a critical component of the solution.

Nevertheless, affordability outcomes depend upon a broader set of factors including:

- interest rates and development finance;
- construction costs and industry capacity;
- infrastructure provision;
- household incomes;
- housing location;
- housing tenure;
- workforce accessibility; and
- the availability of social and affordable housing.

Accordingly, the Productivity Commission should recommend a balanced policy reform framework that supports both increased housing supply and improved housing affordability outcomes.

The recommendations below are organised around four themes:

- Improving housing delivery;
- Improving affordability outcomes;
- Supporting workforce participation and productivity; and
- Strengthening policy measurement and accountability.

## Recommendation 1

### ***Maintain a strong focus on Housing Supply while recognising Housing Affordability as the primary policy objective***

Governments should continue to pursue policies that increase housing supply.

This includes:

- planning reform;
- infrastructure coordination;
- improved assessment systems;
- increased housing diversity; and
- construction productivity improvements.

However, housing supply should be recognised as a means rather than an end. The principal objective of housing policy should be improving housing affordability and housing accessibility. Policy success should therefore be assessed according to affordability outcomes as well as dwelling production outcomes.

## **Recommendation 2**

### ***Distinguish Between Capacity, Approvals, Commencements and Completions***

Governments should adopt consistent national reporting that distinguishes between:

- theoretical housing capacity;
- approved dwellings;
- construction commencements; and
- completed dwellings.

These measures represent different stages of the housing production process and should not be treated as interchangeable. Improved reporting would provide a clearer understanding of where housing delivery constraints arise.

## **Recommendation 3**

### ***Establish National Reporting on Approved-but-Unbuilt Housing***

The Productivity Commission should recommend the establishment of a nationally consistent approved-but-unbuilt housing reporting framework.

Reporting should identify:

- approved dwellings not yet commenced;
- duration since approval;
- key barriers to delivery;
- infrastructure constraints;
- financing constraints; and
- feasibility issues.

This would improve policy understanding and help focus reform efforts on the most significant barriers to delivery.

## **Recommendation 4**

### ***Improve Housing Development Feasibility Monitoring***

Governments should recognise that planning approvals alone do not guarantee housing delivery. A national housing feasibility monitoring framework should be established to track:

- development finance availability;
- construction costs;
- labour shortages;
- pre-sales conditions;
- infrastructure costs; and

- project viability trends.

This information would provide policymakers with a more complete understanding of housing delivery constraints.

## **Recommendation 5**

### ***Complement Housing Supply Targets with Affordability Targets***

Housing targets should continue. However, dwelling targets alone are insufficient. Governments should also establish and monitor affordability indicators including:

- rental affordability;
- home ownership accessibility;
- housing stress rates;
- affordable housing supply;
- essential worker housing accessibility; and
- homelessness trends.

This would encourage a stronger focus on housing outcomes rather than housing outputs alone. Priority should be given to expanding affordable rental housing in locations with strong access to employment, education and public transport.

## **Recommendation 6**

### ***Expand Affordable Housing Delivered in Perpetuity***

Governments should increase support for affordable housing retained in perpetuity. Affordable housing should increasingly be delivered through registered Community Housing Providers or equivalent not-for-profit models that preserve affordability over the long term. Permanent affordability creates enduring public value and reduces the need for repeated subsidy.

## **Recommendation 7**

### ***Strengthen Inclusionary Affordable Housing Mechanisms***

Governments should expand the use of:

- affordable housing contribution schemes;
- inclusionary zoning mechanisms;
- value capture approaches; and
- density bonus programs linked to affordable housing outcomes.

These mechanisms should be designed to:

- provide certainty;
- capture a fair share of planning uplift;
- support housing feasibility; and
- increase affordable housing supply over time.

## **Recommendation 8**

### ***Expand the Role of Community Housing Providers***

Community Housing Providers (CHPs) should play a larger role within Australia's housing system. Governments should support:

- CHP access to land;
- CHP access to finance;
- mixed-tenure developments;
- affordable rental housing delivery; and
- key worker housing programs.

CHPs offer an effective mechanism for leveraging public investment and preserving affordability over the long term.

## **Recommendation 9**

### ***Develop a National Essential Worker Housing Strategy***

The Productivity Commission should recommend a national approach to essential worker housing. The strategy should focus on:

- nurses;
- teachers;
- childcare workers;
- aged care workers;
- emergency service personnel; and
- other critical workforce groups.

Potential delivery mechanisms include:

- affordable rental housing;
- shared equity programs;
- key worker housing;
- mixed-tenure developments; and
- CHP-delivered housing.

The objective should be to improve workforce accessibility in high-cost housing markets.

## **Recommendation 10**

### ***Recognise Housing Affordability as a Productivity Issue***

Governments should formally recognise housing affordability as a productivity issue as well as a social policy issue. Housing affordability affects:

- labour mobility;
- workforce participation;
- recruitment and retention;
- commuting patterns;
- economic efficiency.

Future housing policy evaluations should include assessment of workforce and productivity impacts.

## **Recommendation 11**

### ***Support Government-Led and Countercyclical Housing Delivery***

Governments should maintain the capacity to deliver housing during periods when private housing production weakens. Countercyclical housing delivery can:

- maintain construction activity;
- preserve industry capability;
- support employment;
- increase affordable housing supply.

Government-led delivery should complement rather than replace private market housing production.

## **Recommendation 12**

### ***Utilise Public Land Strategically for Affordability and Housing Diversity Outcomes***

Public land holdings should be regarded as strategic housing assets. Governments should use suitable public land to support:

- affordable housing;
- social housing;
- key worker housing;
- mixed-tenure communities; and
- urban renewal outcomes.

Projects should seek to maximise both housing supply and long-term affordability outcomes.

## **Recommendation 13**

### ***Link Commonwealth Infrastructure Funding to Affordability Outcomes***

Commonwealth housing and infrastructure funding programs should increasingly reward both housing supply and affordability outcomes. Funding agreements should encourage:

- affordable housing delivery;
- key worker housing outcomes;
- transit-oriented development;
- infrastructure coordination.

This would strengthen the relationship between public investment and affordability outcomes.

## **Recommendation 14**

### ***Adopt a Net Affordability Assessment Framework***

Governments should supplement dwelling targets with net affordability assessments. These assessments should consider:

#### Affordable Housing Created

- affordable rental housing;
- key worker housing;
- social housing.

#### Affordable Housing Lost

- boarding houses;
- lower-cost rental housing;
- older affordable housing stock.

#### Displacement Impacts

- relocation of lower-income households;
- increased commuting distances;
- loss of access to employment opportunities.

This framework would provide a more comprehensive understanding of housing outcomes.

### **Recommendation 15**

#### ***Undertake Regular Independent Review of Housing Policy Outcomes***

The Productivity Commission, NHSAC or another independent body should undertake periodic reviews of:

- housing affordability outcomes;
- housing supply outcomes;
- workforce accessibility outcomes;
- affordable housing delivery outcomes.

A five-year review cycle would help ensure policy settings remain responsive to changing market conditions.

### **Conclusion**

The recommendations advanced in this submission are intended to complement rather than replace current housing reform efforts.

- Planning reform remains important.
- Housing supply remains important.
- Construction productivity remains important.

However, housing affordability should remain the central objective of housing policy and regulatory planning reforms.

The most successful housing strategy is unlikely to be one that simply delivers the largest number of dwellings. Rather, it will be one that delivers the greatest improvement in housing affordability, housing accessibility and housing security for Australian households.

It should provide a balanced framework that combines increased housing supply, improved affordability outcomes, workforce accessibility and long-term affordable housing provision offers the best prospect of achieving that objective.

## 17. Conclusion

Australia's housing challenges have emerged as one of the most significant economic and social issues confronting the nation.

The consequences are increasingly visible across the housing system. Home ownership has become less accessible for many households. Rental stress has increased. Essential workers are finding it more difficult to live close to employment opportunities. Social housing waiting lists remain substantial. Homelessness has increased in many parts of the country.

These outcomes have prompted renewed attention to housing supply and the role of planning systems in facilitating housing growth. This focus is both understandable and necessary.

A housing system that fails to produce sufficient housing will inevitably experience affordability pressures. Increasing housing supply must therefore remain a central component of Australia's housing policy framework.

This submission supports continued efforts to:

- increase housing supply;
- improve planning system efficiency;
- reduce unnecessary regulatory barriers;
- encourage housing diversity;
- improve infrastructure coordination; and
- enhance housing construction productivity.

These reforms are important.

Indeed, many of the initiatives currently being pursued by Australian governments are likely to make positive contributions to housing delivery over time.

However, the evidence reviewed throughout this submission suggests that housing affordability challenges cannot be understood solely as a consequence of insufficient housing supply.

Nor can they be resolved solely through planning reform.

Housing delivery is influenced by a broader set of economic factors including:

- interest rates;
- development finance;
- construction costs;
- labour availability;
- market expectations;
- investor behaviour; and
- broader macroeconomic conditions.

The NSW experience demonstrates this clearly. Over recent years, NSW has implemented one of the most extensive housing reform agendas undertaken in Australia. These reforms have substantially increased theoretical housing capacity and created new opportunities for housing development.

Yet housing completions have continued to fall short of levels required to achieve housing targets and improve affordability at the scale desired.

The existence of substantial approved-but-unbuilt housing further highlights the distinction between development capacity and actual housing delivery.

Planning systems can create opportunities for housing. They cannot compel housing construction where projects remain commercially unviable.

This observation is not intended as a criticism of planning reform. Rather, it highlights the importance of understanding housing delivery as both a planning challenge and an economic challenge.

The submission has also argued that affordability should remain the central objective of housing policy. Housing supply is important because it contributes to affordability.

However, housing supply is not an end in itself.

The ultimate measure of success is whether households are able to access secure, appropriate and affordable housing. This distinction is important because not all housing contributes equally to affordability outcomes.

Much newly constructed housing enters the market at price points that remain inaccessible to lower and moderate income households. This reflects the economic realities of housing production rather than any failure on the part of developers.

Land costs, construction costs, financing costs and infrastructure requirements all influence the price of new housing. As a consequence, the affordability benefits generated by increased housing supply are often unevenly distributed.

The submission therefore argues that untargeted market supply, while necessary, is unlikely to be sufficient on its own to resolve Australia's affordability challenges.

Additional measures are required if affordability outcomes are to improve for:

- lower-income households;
- moderate-income households;
- essential workers; and
- households experiencing rental stress.

The discussion of filtering further reinforces this conclusion. Filtering remains an important mechanism through which housing supply contributes to affordability over time. The submission accepts that filtering occurs and that expanding housing supply can support this process.

However, filtering operates gradually.

Australia's housing affordability challenges are occurring now.

For households experiencing housing stress today, for employers facing workforce shortages and for governments seeking to improve productivity outcomes, the timing of affordability improvements matters.

The submission has therefore argued that housing policy and related planning reforms should place greater emphasis on both the scale and timing of affordability outcomes.

The housing challenges facing essential workers provide a practical illustration of this issue. Many nurses, teachers, childcare workers, aged care workers and emergency service personnel increasingly struggle to access housing in the communities they serve.

This is not simply a housing issue. It is also a labour market issue, a productivity issue and an economic development issue. A housing system that cannot accommodate key workers in proximity to employment centres risks undermining workforce participation, labour mobility and service delivery.

For this reason, housing affordability should be regarded as an important component of Australia's productivity agenda.

The submission also argues that governments have a legitimate role in complementing market housing delivery. Private housing markets remain the principal mechanism through which housing is produced and should continue to play that role.

However, private housing delivery is inherently cyclical.

Housing need is not.

Government-led and countercyclical housing delivery can therefore play an important role in stabilising supply, maintaining industry capability and expanding affordable housing opportunities during periods when market conditions weaken.

Community Housing Providers, affordable housing programs and key worker housing initiatives all have important roles to play within this broader framework.

The Commonwealth Government also possesses opportunities to influence housing outcomes through infrastructure funding and intergovernmental partnerships. The recently announced infrastructure initiatives provide an opportunity to strengthen the connection between housing growth and housing affordability.

Infrastructure funding should continue to support housing supply. However, it should also support affordable housing, key worker housing and long-term affordability outcomes.

The submission therefore recommends a broader approach to housing policy evaluation.

Governments should continue monitoring housing supply indicators such as:

- rezonings;
- approvals;
- commencements; and
- completions.

However, these measures should be complemented by affordability indicators including:

- housing stress;
- rental stress;
- affordable housing delivery;
- key worker housing delivery;
- affordability relative to household incomes; and
- reductions in homelessness.

Ultimately, the success of housing policy should not be judged solely by the number of dwellings produced. It should be judged by whether Australians are better able to access secure, appropriate and affordable housing.

The central conclusion of this submission is therefore straightforward.

Australia requires more housing.

Australia requires some strategic planning reform.

Australia requires improved housing construction productivity.

But Australia also requires a stronger focus on affordability outcomes.

Housing supply is necessary.

Planning reform is necessary.

Construction productivity improvements are necessary.

Yet none of these measures, individually or collectively, are likely to be sufficient unless they translate into improved housing affordability for the households most affected by Australia's housing crisis.

The challenge facing policymakers is therefore not simply to increase housing supply. It is to ensure that the housing system produces housing that Australians can realistically afford.

That objective should remain at the centre of the Productivity Commission's inquiry and at the centre of Australia's future housing policy framework.

# References

The following core references were used throughout the submission:

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