Submission to the Productivity Commission

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1. Introduction

Sending a submission to the Productivity Commission about the planning system has traditionally been a waste of time but encouraged by the change of management I am submitting some observations that I hope will be helpful. Unfortunately like many topics in public discourse the debate about planning and housing supply has developed religious overtones with positions adopted based on disciplinary beliefs rather than much evidence. Even organisations such as the Grattan Institute which have a tradition of using evidence in public debates have fallen under the spell of "what ever it takes" (see below).

I bring to this debate my training as an economist as well as a long career working in higher education urban planning programs in Australia. I have published a series of papers that are related to this issue, many with my colleague Professor Nicole Gurran from the University of Sydney. Most of my experience is based on the NSW case so this will feature highly in my comments. Given the short deadline my comments will be reasonably brief, but I am happy to share with Commission staff data or literature they might be interested in reviewing. I have structured my submission by way of some suggestions about some things the Commission might find helpful in the analysis on this vexed topic.

2. Suggestions for the PC

Hire a planner

Previous reports by the PC demonstrate that they are confused by many elements of the planning system. For example, Figure 1 shows an extract from a recent PC report on Productivity in the Construction sector. It talks about Local Government rules and quotes an example from a planning document called a Development Control Plan (DCPs) from Canada Bay Council. The NSW Planning Act clearly states that DCPs are advisory only and "rules" need to be in their main planning document, called an LEP. This is a very important distinction because LEPs only become legal documents after the agreement of the NSW State Government. What this means is that planning is not made by Local Councils but rather by a collaboration between the NSW and Local Government. Therefore, if an LEP isn't delivering housing supply that is an issue for two levels of Government.

Just as you wouldn't get a bricklayer to design a house (unless you really like bricks), you shouldn't just use economists to write about planning.

Local governments may 'override' the National Construction Code

Local government regulations can also overlap with the remit of the NCC, leading to builders having to alter specifications and designs between local government areas, undermining the intent of the NCC (Senate Economics References Committee 2015, pp. 114–115). Complying with local regulations creates additional costs and delays and has been identified as an area for action by the Building Ministers' Forum (Building Ministers' Forum 2015).

Local government regulations may be framed as recommendations. For example, the City of Glen Eira's Quality Design Guidelines 'do not seek to vary any policy, standard or guideline implemented by the Victorian Government' (Glen Eira City Council 2018, p. 5). Nonetheless, builders require permits. This means satisfying local governments by complying with regulations, regardless of how they are framed.

Some examples of local government rules that appear to effectively vary the NCC are:

- The City of Canada Bay (NSW) requires an articulated front façade and has specifications for roof pitch and form, external materials and where windows can be placed (City of Canada Bay 2022).
- The City of Glen Eira (VIC) includes specifications for 'preferred' built forms, facades, textures and accessibility features (Glen Eira City Council 2018).

Figure 1. The PC misunderstanding planning

Some suggested reading

The zoning effect

Your report, like previous reports, will invariably quote the work done by RBA economists on the zoning effect. Only central bank economists could come up with the absurd proposition that forms the basis of their work: The difference between the marginal and average cost of urban land is because of planning. Scholars have written about this difference for over 40 years and attributed it to factors other than planning but let's not let scholarship get in the way of a good newspaper headline (see for example Colwell and Sirmans ,1980). In the millions of urban lots that the authors examined, developers did not step in to take up this opportunity provided by the cost gap, not because of the frictions of planning but because to do so they would need to consolidate a range of properties to realise this opportunity (and in many cases also deliver additional infrastructure at their own expense). The costs of site amalgamation are extensively covered in any introductory book about property. The silliness of the argument is reflected in the fact that work, which was a working paper, has never been published in a peer reviewed journal. However, at least two papers have been published in peer reviewed journals questioning its logic (Phibbs and Gurran 2021 and Murray, 2021).

The impact of upzoning

There is also a good literature on the impact of upzoning. I would suggest the best paper to start with is the work of Freemark (2023) which reviews the literature on the topic. Whilst many proponents of large-scale upzoning never read past the Auckland literature, there are many international studies on the topic. Sometimes the upzonings seem to have very little impact on new housing supply whilst in other cases they have significant impacts. Freemark suggests two important issues are whether the current zonings are providing binding constraints on new housing and the passage of time. He also notes that upzoning can increase land prices.

One of the features of the work on Auckland which has been a well examined source of literature in recent years has been the impact of upzoning on land prices. Ryan-McGreevy and Phillips (2023) reveal in an appendix:

> *The model with controls indicates that land prices in upzoned areas increased by between 20 and 25% relative to non-upzoned areas, holding all else constant. (p19)*

And note that the Auckland Unitary Plan was promoting only modest uplift compared to some Australian schemes.

In a conclusion of an earlier Auckland paper, it was suggested that (Greenaway-McGrevy et al, 2021):

> *First, policy evaluation should primarily be based on prices of targeted intensive housing forms (apartments and terraced housing), not those of underdeveloped, single house properties that are likely to appreciate from upzoning. (*p973)

This does seem like a bizarre suggestion - it doesn't matter what the impact on the most popular housing type if some other housing types are cheaper.

What does seem weird (which perhaps is part of the religious tone to the debate) that this pricing issue has not been picked up by economists in the debate. See for example a screenshot from the Grattan Institute website which I think was from an earlier report, shown in Figure 3.

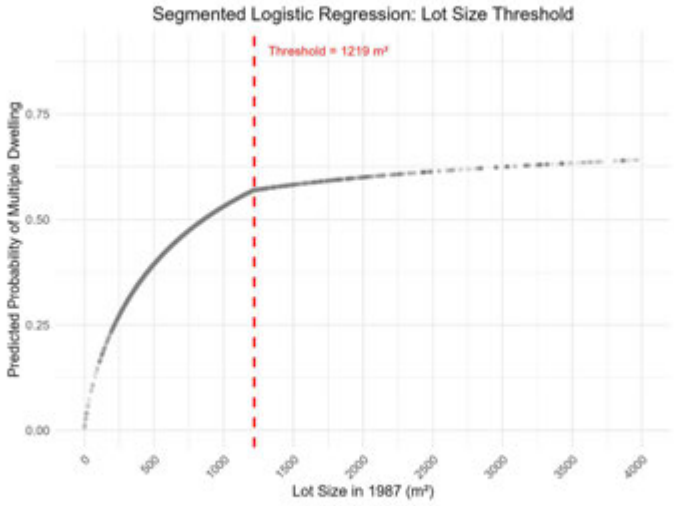

Figure 3. Relationship between 1987 lot size and predicted probability of multiple dwelling development in Brisbane.

Figure 2. A figure from Gallagher (2026) showing the impact of historical lot sizes on housing supply

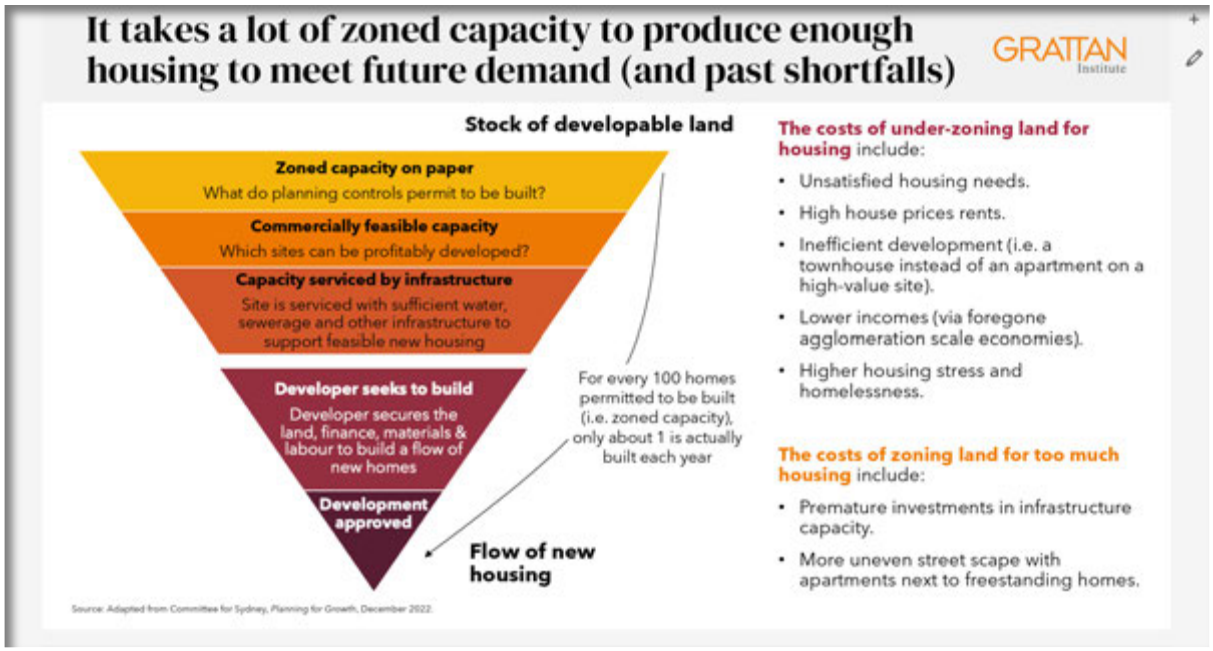

Figure 3. Screenshot from the Grattan website with no mention of land price inflation

Notice there is no mention of this price issue in the lists of costs. Upzoning of residential uses has an obvious impact on the prices of the upzoned land. This is the reason why planning systems prefer developing new housing, especially high-density housing, by rezoning non-residential uses. You can get a real sense of the pricing impact by just looking at sale prices in neighbourhoods where some residential stock was upzoned and some was not upzoned. In a recent AFR article an apartment developer was quoted as follows (Karp, 2026):

> *Mark Bainey, the chief executive of Capio Property Group, said the premium owners could expect varied by density and zoning, but a rule of thumb was that single dwellings usually sold for 1.5 to three times their initial value when part of amalgamation."*

The impact of lot geometry on new supply

An emerging area of research on the impact of upzoning is lot geometry. This has long been an almost an invisible issue in Australian planning and economics until recently but is being tackled by some emerging Australian scholars, especially Rachel Gallagher from Griffith University. I have included below a figure from her recent paper in the Journal of American Planners (see my Figure 2 above). The paper highlights how the historical lot sizes have a significant issue on whether multiple dwelling development occurs even when it is enabled by planning rules. Whilst many architects of upzoning have assumed this issue will be overcome by amalgamations of lots, in practice, amalgamation is very difficult. Some recent work in Melbourne has highlighted the difficulties of lot amalgamations (McFarlane, Hurley and Sun, 2023)

> *Those involved directly with acquisitions emphasised their low rates of achievement; one quoted a failure rate of 80% , while another suggested that one in twenty amalgamation projects that were negotiated would eventuate with an acquisition." (p106904)*

The problem in lot amalgamation is the person who holds out for a windfall price. A developer describes the process in the paper:

> *The hardest thing with acquisition… is that if the landowners realise that you are, as a developer, undertaking a series of acquisitions and they pick up on it, and you are needing the four and you acquire the first one, then you get the third one, then you get the fourth one, and then you go back and try to get the second one, they will realise that you need that one and they will literally pump the price up and it just gets ridiculous. (P 106904)*

The difficulties of amalgamation mean that areas where you have smaller lots, especially ones with narrow frontages will be very difficult to develop. Upzoning those

lots is likely to generate an expectation from the owner of an increase in value for their property but with a low probability of generating an offer from a developer if the upzoning is for middle missing housing and not denser development. Developers find the negotiations difficult and if they need to buy two or even three houses to develop 6 townhouses, you end up with land prices that make townhouses difficult to develop. In cases of apartment blocks in expensive areas, the amalgamations are more straightforward because developers are able to acquire sites by offering very large prices (easily observable by looking at what is going on in Rose Bay recently where owners are often getting double the previous value of their expensive homes after the Low and Mid Rise upzonings).

Check the Data

In the religious war about planning and housing supply you really need to check the data. I know I might seem like I am picking on the Grattan Institute, but they are on the respectable end of the problem. I suspect you will have many submissions highlighting how rents went down in Auckland after the upzoning. Anyway, please refer to Figure 4 below where the Grattan Institute website says that the Auckland reforms "reduced rents by 28%"

Figure 4. Extract from the Grattan Institute website pushing the Auckland magic.

Figure 5 below is a graph of Auckland rents I generated from the government agency that manages rental bonds[1]. Looking at the graph, I can't see either any decrease in rents or any major changes in long term trends for rental supply. What the Grattan website should show, is that the 28% is an estimate based on the counterfactual in a research paper. I acknowledge that the paper is peer reviewed but as someone with knowledge of planning systems, I struggle with the nature of the counterfactual. Anyone who has ever worked in planning knows what happens during a construction boom. In the years from 2015-2017 Auckland was experiencing growth rates of over 2.5% which is extraordinary for a New Zealand while interest rates were coming down. In this sort of climate, it would be very unlikely for the pattern of permits suggested by the counterfactual to be sustained, which is why I would not be confident about the 28% estimate particularly in the light of Figure 5. Nevertheless, the additional supply generated by the upzoning would have put downward pressure on rents.

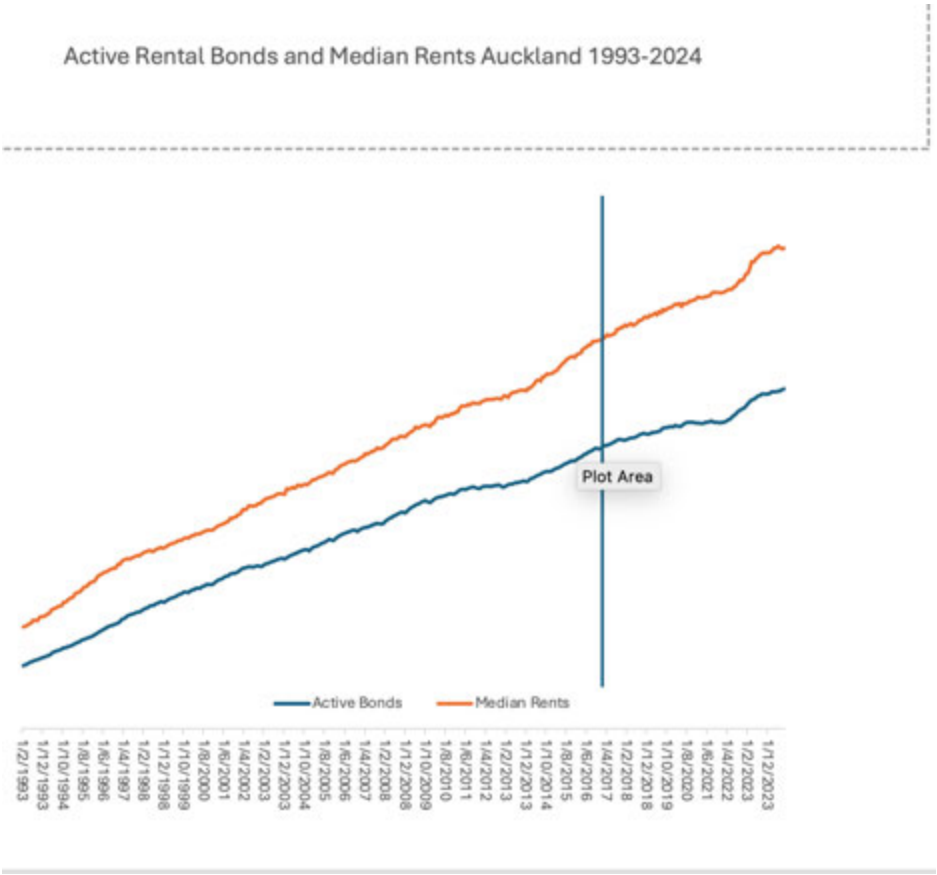

Figure 5. Active Bonds and Median Rents

[1] https://www.tenancy.govt.nz/about-tenancy-services/data-and-statistics/rental-bond-data (**MBIE Tenancy Services Rental Bond Database**)

Feasibility Analysis

A lot of commentators have suggested that feasibility modelling shows that upzoning in Sydney could yield hundreds of thousands of townhouses (possibly inspired by Auckland, see below). However, I think this is unlikely for three reasons:

1. Gentle density has difficulty in competing with detached houses. Whilst townhouses might appear feasible, it is simpler, faster and more profitable for builder/developers to renovate a detached house than to build townhouses or similar, especially when lot amalgamations are required;
2. The feasibility of townhouses are stretched because of the need to amalgamate several lots to generate a suitable townhouse site. This is a function of Sydney's lot topography, especially in inner parts of Sydney.
3. The early evidence of the LMR scheme in Sydney.

The Low and Mid-Rise Housing Policy modifies planning controls to encourage both low-rise housing (one- to two-storey dual occupancies, terraces and townhouses) and mid-rise housing (generally three- to six-storey apartment buildings). The first phase of the policy, introduced in July 2024, permitted dual occupancies in all residential zones across New South Wales. The second phase, introduced in February 2025, focused on encouraging low- and mid-rise housing within 800 metres of urban centres in Greater Sydney and selected surrounding regions. The analysis presented here focuses on Greater Sydney.

Using a database of lots in Greater Sydney (Propcode, 2025), it is evident that the revised controls affected a large number of sites, largely because a substantial proportion of lots fall within 800 metres of an urban centre. Propcode estimates that the policy resulted in:

- 41,970 additional lots becoming eligible for dual occupancies
- 51,642 additional lots becoming eligible for terraces and townhouses
- 114,883 lots becoming eligible for residential flat buildings

To assess early development outcomes, data from the NSW Planning Portal were used to construct a database of all determined development applications (DAs) and Complying Development Certificates (CDCs) between 1 April 2025 and 31 March 2026. The data is still being analysed but in general the scheme has generated a significant number of small apartment DAs in wealthier parts of the city (focussed on Mosman and Woollahra DAs) but reasonably modest numbers of multiple dwelling DAs across the city. The main DA in LMR zones were for renovating and existing house, sometimes with a granny flat, followed by dual occupancies.

What happened in Auckland?

I suspect you will receive many submissions talking about Auckland, so I won't say very much in general comments. The main feature of the reform was to significantly increase the number of townhouses and smaller dwellings in two Urban Zones in Auckland. This was a clear benefit in terms of providing additional housing choice and providing a cheaper to alternative to the traditional detached house. The main engine for this growth in townhouses appears to be the subdivision of existing lots rather than the amalgamation of lots (Garlick, 2026). Given the cost and risks of lot amalgamation for lower density housing discussed above this outcome appears unremarkable.

The Auckland experience highlights the problem with minimum lot size rules in many Australian planning systems and relaxing them would be an opportunity to increase density in residential areas especially on large lots. But Auckland is not Sydney or Melbourne. It is a much smaller city. Moreover, a key difference, especially in comparison to Sydney are the nature of its lots.

I examined Auckland's lot geometry by extracting data from the national land information service (LINZ). I extracted data on 690,837 lots. I then examined which lots had been subdivided after the start of the Auckland Unitary Plan (from January 1, 2017). I counted 106,811 child lots. I was able to identify the parent of these child subdivisions (41,305 lots). So I ended up with parent lots, child lots and surviving lots who had no children. The median size of the parent lots was 836.3 sq metres. I then analysed the percentiles for the Auckland parent lots and compared this data with the equivalent data for the 161,000 LMR lots that have been identified for low and mid-rise upzoning in Sydney. These data are shown in Table 1.

Table 1. Analysis of Sydney and Auckland lots available for the missing middle

Statistical Metric	Auckland Infill Pipeline *(Pure Single-Lot Splits)*	Sydney Upzoned Pipeline *(LMR Master Dataset)*
Sample Size (N)	41,305 active developments	161,142 upzoned lots
25th Percentile	696.6 m²	290.8 m²
Median (50th)	836.7 m²	515.7 m²
75th Percentile	1,025.5 m²	695.7 m²

Source: Author's analysis of LINZ data and the Propcode LMR dataset.

The differences are striking. Auckland has much bigger lots that have been able to yield significant numbers of townhouses. This has been the platform for the substantial increase in townhouses in Auckland. In a city like Sydney with many smaller sized lots, a significant upzoning like the LMR poses substantial risks. It will generate land prices increases like Auckland has but you won't get the supply side response because of the

nature of the lots. An even bigger “Auckland style” upzoning could generate larger risks. Part of the reason of the success of Auckland was the nature of their lots. In cities without this advantage the Auckland results will not be repeated.

Another lesson from New Zealand is that it might be better to separate apartment buildings and missing middle houses in zoning schemes (there was a separate zone in Auckland for apartments). This will help keep land owners price expectations in check. Once owners see that apartments are an allowable land use on their lot they think their dwelling is extremely valuable and are unlikely to release it to a townhouse developer.

3. Conclusion

My conclusion is a simple one. Upzoning large parts of cities without regard to site characteristics, lot geometry and development feasibility is unlikely to be an efficient planning or economic strategy. If you upzone parts of the city that are unlikely to generate a supply response you increase land prices without generating any significant supply benefits. You also risk undermining public confidence in planning and governments (who built that tower next to my house?).

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