

Reform for more homes and better cities

Submission to the Productivity Commission inquiry into housing supply regulation

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We welcome the opportunity to make a submission to the Productivity Commission's inquiry into the rules and regulations that affect new housing supply.

Restrictive planning controls add hundreds of thousands of dollars to the cost of new housing in our capital cities and contribute to Australia's failure to build enough homes in the places that people most want to live.

State governments in NSW and Victoria – along with smaller jurisdictions such as the ACT – are relaxing planning controls to unlock substantially more housing. But all state and territory governments need to go much further if we are to enable all Australians to live where they want.

We refer the Commission to two Grattan Institute reports: our 2025 report *More homes, better cities: Letting more people live where they want*, and our 2026 report *Wasted space: Axe car-parking rules to ease the housing crisis*.

Our research outlines three key issues with the way land use planning has evolved in Australian cities:

- **Restrictive zoning:** Zoning and built form controls prevent greater density on the large majority of urban land.
- **Costly approval processes:** Development approval processes are costly, slow, and uncertain.
- **Poor governance:** The governance of planning systems favours existing residents and is biased against changes that would unlock housing capacity.

All three of these barriers act to reduce the supply of new homes, but our research suggests that restrictive zoning rules are the largest impediment to housing supply. While a burdensome approval process

makes homes slower and more expensive to build, a blanket prohibition stops them being built at all. In most instances, zoning in Australian cities says 'no' to new housing by default, and 'yes' only by exception. We encourage the commission to focus its inquiry on the impacts of these restrictive controls.

Our research further outlines how governments can reform land-use planning and new housing development regulations to make housing cheaper and create wealthier, healthier, and more vibrant cities. Taken together, these reports propose reforms across five key areas.

First, three-storey townhouses and apartments should be permitted on all residential land in capital cities. This would unlock capacity for more than 1 million homes in Sydney alone that could be profitably built today. Land around transit hubs and in other high-demand locations should be upzoned to allow for densities of at least six storeys. And heritage protections that cover much inner-city land should be reviewed to allow more housing.

Second, planning application processes should be simplified to offer home builders certainty and reduce costs. Developments of up to three storeys that meet clear standards should not need a planning permit. Larger developments that meet pre-set criteria should be assessed via 'deemed-to-comply' pathways.

Third, the governance of planning systems should be improved, so that restrictive rules that prevent more housing face greater scrutiny. Building upon the analysis produced for the current inquiry, the Productivity Commission should regularly assess the capacity of state planning systems to meet expected housing demand.

Fourth, the federal government should reward states that introduce reforms to allow more townhouses and apartments to be built in our cities.

Finally, state and local governments should remove car-parking requirements for new housing developments. They should adopt tools to manage demand for on-street parking in high-demand areas, and facilitate the unbundling of car-parking rights from new housing, so that parking spaces can be purchased or leased independently of the home, giving residents greater choice over the parking they pay for.

These reforms could substantially lift housing construction, cut rents, and shave off a decent part of the cost of the median-priced home. Less restrictive planning could boost Australia's GDP by tens of billions of dollars a year in the long term, and assist the transition to net zero.

International experience supports this. In Auckland, upzoning around three-quarters of the city doubled the rate of homes approved within 5 years, lifted the dwelling stock by 4 per cent, and cut rents for two- and three-bedroom homes by 14-to-35 per cent. In Minneapolis, abolishing single-family-only zoning – previously covering 70 per cent of the city – slowed mid-tier house-price growth by 15-to-23 per cent. Upzoning in Seattle delivered a sustained increase in the housing stock of about 2.5 per cent a year, and comparable supply responses have been documented in Sao Paulo, Zurich, and Boston.¹

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1. Coates, Moloney, and Bowes (2025, p. 45)