

INQUIRY INTO HOUSING SUPPLY REGULATIONS

Submission to the Productivity Commission | Date: September 2026

1. Executive Summary

Australia's housing market is constrained by a fundamental structural mismatch: while high-level rezoning policies have advanced under the National Planning Reform Blueprint, actual housing completions lag more than 112,000 units behind the National Housing Accord's target run rate. This implementation failure stems directly from a fragmented 'Federated Model' where the Commonwealth provides financial incentives but delegates execution to a complex patchwork of state, territory, and local government frameworks.

In an economic landscape defined by tight builder margins, elevated material costs, and a 4.35% cash rate, there is zero room for regulatory friction. When discretionary local government policies compress development yields or impose heavy, front-loaded infrastructure fees, projects instantly become financially unviable, causing approved land pipelines to stall.

This submission delivers an actionable, data-driven framework designed to lower Total Development Costs (TDC), eliminate administrative duplication, and unlock infill density. At its core, this framework advocates for a structural shift in Land Value Capture (LVC) and infrastructure funding, directly operationalising and updating the framework established in the 2016 House of Representatives Infrastructure and Transport Committee Inquiry (Report 1). By shifting from a purely transport-centric LVC model to a holistic housing-and-utility-enabling framework, we can achieve a dual objective: systemically driving down speculative raw land prices while establishing a self-funding, low-marginal-cost mechanism for brownfield and greenfield infrastructure.

2. Pillar 1: Approval Processes & Modern Methods of Construction (MMC)

2.1 The Code-Duplication Problem

The greatest administrative barrier to construction sector productivity in Australia is the lack of mutual recognition for off-site manufacturing. Volumetric modular units or panelised building components manufactured in highly controlled, high-productivity factory environments are legally double-handled. Because building codes and certification systems are executed at a state or local level, out-of-state fabricators are forced to open enclosed panels for on-site structural or plumbing inspections by local certifiers. This structural duplication eliminates the speed and cost benefits of prefabrication.

2.2 Actionable Recommendations

- **Mandate a National 20-Day "Deemed-to-Comply" Fast-Track:** Establish an unappealable, statutory 20-day approval loop for standard low-to-medium density structures (terraces, dual occupancies, and modular infill housing) that meet baseline code criteria.
- **Establish a National MMC Product Register:** Create a centralized federal framework operating alongside the modernised National Construction Code. Once an MMC provider's factory assembly line is certified, their systems receive a binding National MMC Product Passport. This passport legally prevents local governments or state certifiers from demanding duplicate engineering reviews or on-site component modification.
- **Mandate "Deemed Approvals" for Post-Approval Conditions (DA Clearance):** Introduce a statutory framework where if a local council fails to review and respond to a submitted technical post-approval document within 21 business days, the condition is legally deemed satisfied. This stops projects from stalling for months after they have won high-level DA approval.

3. Pillar 2: Availability and Use of Land

3.1 Preserving Yield Integrity against Local Interference

Strategic state-led upzoning programs—such as the Transport Oriented Development (TOD) SEPP in NSW or the expansion of transit-adjacent Activity Centres in Victoria—are systematically

undermined by local government interventions. Local councils utilize discretionary planning levers, including weaponised heritage overlays, character protections, and overly conservative deep soil/tree canopy mandates, to shrink usable building footprints. This yield compression destroys project feasibility, rendering upzoned land commercially unbuildable.

3.2 Actionable Recommendations

- **Statutory Infill Yield Protection:** Enforce strict statutory limits that prevent local councils from using discretionary overlays to reduce the maximum Floor Space Ratio (FSR) or building height mandates established by state zoning guidelines.
- **Guaranteed Affordable Housing Yield Offsets:** Legally require that any inclusionary zoning mandate or affordable housing percentage target be accompanied by a proportional, non-discretionary FSR and height bonus. This ensures that market-rate supply subsidizes affordable allocations without eroding project viability.
- **Environmental Assessment Concurrency:** Align state planning frameworks with newly passed reforms to the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) to mandate that local planning reviews run concurrently with—rather than sequentially after—federal environmental clearances.
- **Statutory "Use-It-or-Lose-It" Timelines on Granted Approvals:** Shrink the statutory lifespan of a granted DA from 5 years to a strict 24-month activation window. If physical construction has not commenced within 2 years, the DA lapses. This forces capital to prioritize building homes immediately rather than trading paper approvals for arbitrage.

4. Pillar 3: Housing Infrastructure, Asset Optimisation, and Value Capture

4.1 Resolving the "Shovel-Ready Paradox"

Thousands of appropriately zoned infill lots currently sit stalled because local utility providers (water, sewer, and power authorities) lack the capital coordination or workforce capacity to execute necessary trunk extensions. This dynamic creates an artificial supply bottleneck. Furthermore, standard front-loaded developer contribution models force companies to draw expensive mezzanine or senior debt at the Construction Certificate (CC) stage to pay

infrastructure fees, compounding capitalised interest expenses long before any project revenue is realized.

4.2 Reforming Land Value Capture to Flatten Raw Land Speculation and Fund Infrastructure

To meaningfully compress Total Development Costs (TDC), the regulatory framework must eliminate the commercial viability of land hoarding and paper-arbitrage. Uncontrolled, state-led upzoning without mechanism-design protections triggers immediate spikes in raw land valuations. This forces developers to absorb inflated capital costs before a single spade hits the dirt.

As established by the 2016 House of Representatives Infrastructure and Transport Committee Inquiry (Report 1), public investment in transport and infrastructure connectivity creates massive, unearned private land value windfalls. Building on the 2016 consensus, and incorporating recent AHURI research (2021) on urban productivity, this submission details a modernized, dual-track Land Value Capture (LVC) framework. This model ensures public upzoning windfalls directly finance the necessary housing-enabling infrastructure, flattening speculative raw land values down to realistic, development-ready baselines.

Track A (Infill Brownfield) — Infrastructure Coordination & Asset Optimization

- **Applying the 2016 Transport-Housing Uplift Nexus:** The 2016 Parliamentary Inquiry confirmed that LVC mechanisms achieve maximum economic efficiency when transport connectivity increases accessibility to employment and housing stock. To operationalize this premise under the National Housing Accord, the Productivity Commission should recommend that Commonwealth infrastructure grants be explicitly contingent on state-enforced Precinct-Wide Betterment Levies within 800-metre Transport-Oriented Development (TOD) corridors. Rather than handing windfall wealth to existing landowners "at the stroke of a Planning Minister's pen", this mechanism captures the structural uplift to self-fund the deep utility trunk expansions required to sustain the added density, bypassing inefficient local council charges.
- **Asset Capacity Dynamic Mapping:** Condition state access to the federal \$2 billion Local Infrastructure Fund on the immediate rollout of open-source, digital utility capacity maps. This provides developers with transparent visibility into brownfield locations with surplus network capacity, systemically driving capital toward low-marginal-cost infill areas.
- **Refined Tax Increment Financing (TIF):** Recommend the domestic deployment of refined TIF models for urban renewal precincts, shifting away from distortive, front-loaded developer

contributions. Under this model, the state issues specialized public infrastructure bonds to fund upfront trunk upgrades, servicing the debt over a 20-year footprint via incremental increases in standard land tax revenues generated by the newly completed density.

- **Mandatory Accredited Third-Party Utility Certifiers:** De-monopolize the inspection and approvals pipeline by introducing a contestable, state-accredited market for civil engineers. Enabling chartered, private engineering certifiers to legally inspect and sign off on water, electrical, and sewerage compliance will eliminate months of administrative local government backlogs.

Track B (Greenfield Growth) — Mitigating Greenfield Arbitrage & Standardizing Levies

- **The 2016 Greenfield Viability Guardrail:** The 2016 Inquiry explicitly cautioned that value capture mechanisms lose economic efficiency in lower-density regional expansion zones if restricted to isolated transport assets. To mitigate this structural failure in greenfield corridors, the PC should advocate for Unified Regional Infrastructure Growth Districts (RIGDs). The land value uplift generated by converting agricultural land to residential use must be managed via a single, rolling regional infrastructure equity fund. This prevents localized infrastructure failures—such as the delayed greenfield sewerage connections that stalled completions in early 2026—by cross-subsidizing critical utility links across the broader growth corridor using aggregated regional value capture.
- **Refined Windfall Gains Tax (WGT):** Refine existing state models (such as the Victorian WGT) by structurally triggering tax liability at the exact point of rezoning to freeze speculative land price spikes, but legally deferring the tax payment until either the land is subdivided or reaches practical completion (PC). Deferring the payment event stops raw landowners from passing the tax burden forward onto developers as an upfront capital expenditure premium.
- **Consolidated Growth Levies:** Legally mandate the replacement of fragmented, ad-hoc council developer contribution plans with a flat, state-standardized growth levy. Upfront developer charges must be capped strictly at localized, "last-mile" trunk connections, while macro network extensions must be financed through long-term utility debt facilities amortized across the asset's lifecycles.

5. Appendix A: S-Curve Cash Flow Simulation

This financial model simulates a standard 80-unit multi-residential development over a 24-month lifecycle (6 months pre-construction, 18 months active build), demonstrating the economic benefit of shifting infrastructure levies from up-front CC gates to Practical Completion (PC).

Project Month	Baseline Drawdown (\$)	Current Model: Up-Front (\$)	Current Model: Cumulative Debt (\$)	Proposed Model: Deferred Levy (\$)	Proposed Model: Cumulative Debt (\$)	Monthly Interest Savings (\$)
M01 (Site/DA)	0	2,400,000	2,400,000	0	0	17,000
M04 (Piling)	1,500,000	0	3,951,000	0	1,500,000	17,355
M08 (Structure)	4,500,000	0	8,565,300	0	6,063,000	17,723
M12 (Enclosed)	8,000,000	0	16,778,500	0	14,204,100	18,219
M16 (Services)	8,000,000	0	25,123,400	0	22,464,500	18,839
M20 (Fit-Out)	5,000,000	0	30,487,000	0	27,731,200	19,514
M24 (PC/Titles)	1,000,000	0	31,918,310	2,400,000	31,234,445	20,220

Financial Analysis Summary: Total Capitalised Interest on Levy (Current Framework): \$418,310 in dead-weight interest expenses built into the capital stack. Deferring the contribution to Practical Completion yields an immediate cash savings of \$418,310, lifting the developer's Margin on Cost by 1.05% and reducing peak equity exposure by 13.1%.

6. Appendix B: References & Policy Groundings

- House of Representatives Standing Committee on Infrastructure and Transport (2016), Inquiry into the role of transport connectivity on stimulating development and economic activity (Report 1). Chapter 5: "Value Capture Mechanisms and Funding Federalism".

- Australian Housing and Urban Research Institute (AHURI) (2021), Urban productivity and affordable rental housing supply in Australian cities, AHURI Final Report No. 353.
- Infrastructure Victoria, Value Capture - Options, Challenges and Opportunities, framework notes on optimizing existing brownfield infrastructure capacity over high-marginal-cost greenfield expansion.
- Planning Institute of Australia (PIA), Role of Planning in Housing Supply, policy guidelines on structural integration of transit corridors, trunk utility headroom, and housing diversity.
- Infrastructure Australia, Infrastructure Market Capacity Report, documentation on labor supply constraints and the critical efficiency gains of off-site factory manufacturing.
- Grattan Institute, What Price Value Capture?, economic analysis on broad-based, long-term funding mechanisms (such as Tax Increment Financing) versus upfront developer levy distortions.