Productivity Commission, Housing supply regulation: Interim report

Committee for Sydney submission

September 2026

Thank you for the opportunity to provide feedback on this interim report.

There are a number of recommendations in this report that we support. However, there is a fundamental flaw in the scope and approach to this report. In focussing exclusively on delivering as many houses as possible, the report proposes numerous reforms that have substantial social and economic costs that are not adequately costed. In doing so, without adjustment, the final report has the material risk of negatively impacting productivity.

Our fundamental thesis: We don't have to choose between quality and quantity. We can build more homes and build them well so the people who live in them have good lives.

Issue 1: Focussing on housing supply alone is myopic. Solving for this problem risks creating other problems.

The interim report proposes to make lower quality housing easier to build, in more places.

1a: The recommendation to blanket allow residential in commercial zones will hurt Australia's economic productivity

One recommendation proposes allowing residential in commercial zones in many circumstances. There is a 'fallacy of composition' issue with this. Commercial property rarely stacks up against residential, but we all benefit from there being offices for us to work in. The PC's own interim report identifies the productivity benefits of agglomeration for employment[1]. Removing centrally located commercial space displaces economic activity to elsewhere, resulting in longer commutes, poorer labour-employment matching, smaller labour markets for employers and reduced agglomeration effects for innovation.

This could be partly alleviated if there were easy ways for high density residential to be converted back into commercial in the future – but because of Strata laws, this becomes materially impossible – meaning once these areas have converted to residential, they are locked up forever.

At a time when productivity growth is anaemic, converting commercial capacity in our highest productivity locations buys housing supply now by spending productive capacity we cannot rebuild.

This recommendation is not supported by the Committee for Sydney, and we strongly encourage the PC to conduct careful economic assessment and a rethinking of the consequences of the change for the shape of cities in Australia should they proceed.

1b: The recommendation to lower quality standards for housing will negatively social license, limiting growth in the long run

Similarly, lowering quality standards for buildings risk removing the social licence to build housing. We are in an unusual moment of public support for densification, growth and change. This is not normal – indeed the status quo over the past 20-30 years of resistance to change is what has got us into the current situation. To deliver the scale of housing required is not a short-term goal, it will require 20

[1] Productivity Commission (2026). *Housing supply regulation: Interim report*, box 1.1, pg. 24 to 25.

years of sustained action, meaning ~5 terms of State governments and ~8 terms of Federal Government.

This support for housing growth is fragile – and detailed polling suggests it can collapse to as low as 15% support when housing is delivered poorly and without associated infrastructure, but as high as 70% when tied to 'density done well' – density increases associated with increased amenity and infrastructure.

To protect the social licence to continue to deliver the housing we desperately need, over the sustained timeframe it will take to solve this problem, requires careful management of public support.

We appreciate this is a hard issue for the Productivity Commission to measure, but it is a material issue that risks delivering a higher rate of housing in the short-term, but grinding development to a halt over the medium term.

Issue 2: Planning is only a small part of the problem today. Much of the report focusses on planning reform, but building regulations that aren't fit-for-purpose at the low-mid rise scale, lack of productivity in the construction sector and cost escalation is a much larger issue.

The proposal to rezone everywhere to three-stories to fix housing supply is extremely flawed. Assuming the objective is to boost the supply of more three-storey apartments, rather than three-storey single dwellings, building regulations have effectively prevented this building typology from being feasible to build. Even if you did rezone all of Sydney, it is highly unlikely low-rise apartments would be built.

This is illustrated by the recent planning reforms in NSW. Despite having undertaken the largest rezoning process in recent history, rezoning through the Low-Mid Rise and Transport-Oriented Development process for 100,000s of new homes at heights of six-storeys, there has been slow uptake.

Layers of building regulation at the Federal and State level targeted at issues that have emerged from poor building practices that are targeted at larger buildings have put regulatory handbrakes on this scale. There is need for a building class that sits between Class 1 and Class 2 buildings that is more suited to this scale of building form.

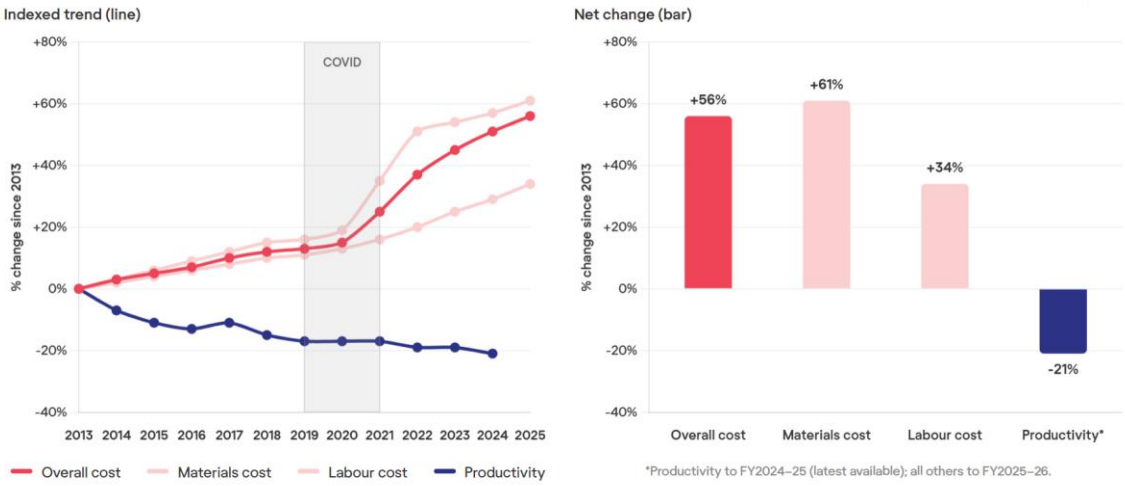
Award-winning architect Philip Thalis recently illustrated this point with two of his own buildings, both five to six storeys, designed less than 10 years apart. The 2016 building, which won several awards in its day, needed five consultants. The 2026 building, substantially the same, needed 25. This is where the real productivity and planning problem lies, not at the rezoning stage. Even if everywhere was rezoned to three storeys, the economics to build this stock simply doesn't stack.

Additionally, as the Productivity Commission has already explored, the construction sector is less productive than ever, and more exposed than ever.[2] An accretion of interest rate rises, materials cost escalation from supply chain shocks (COVID, Ukraine and the Straits of Hormuz), labour cost escalation from a tight labour market (and, ironically, through wage inflation fuelled by high house

[2] Productivity Commission (2025). *Housing construction productivity: Can we fix it? - Commission research paper*. [online] Pc.gov.au. Available at: https://www.pc.gov.au/inquiries-and-research/housing-construction/.

prices) and a system design to reduce risk rather than support getting homes built.

Between 2013 and 2025, the overall building cost in Australia rose by 56%. Over the same period, construction productivity fell 21%, meaning every unit of output is more expensive to deliver. Breaking down overall cost – wages rose a substantial 34% over the period, but materials costs climbed further still, up 61%. Most of this gap opened between 2021 and 2023, driven by the global supply chain crisis.



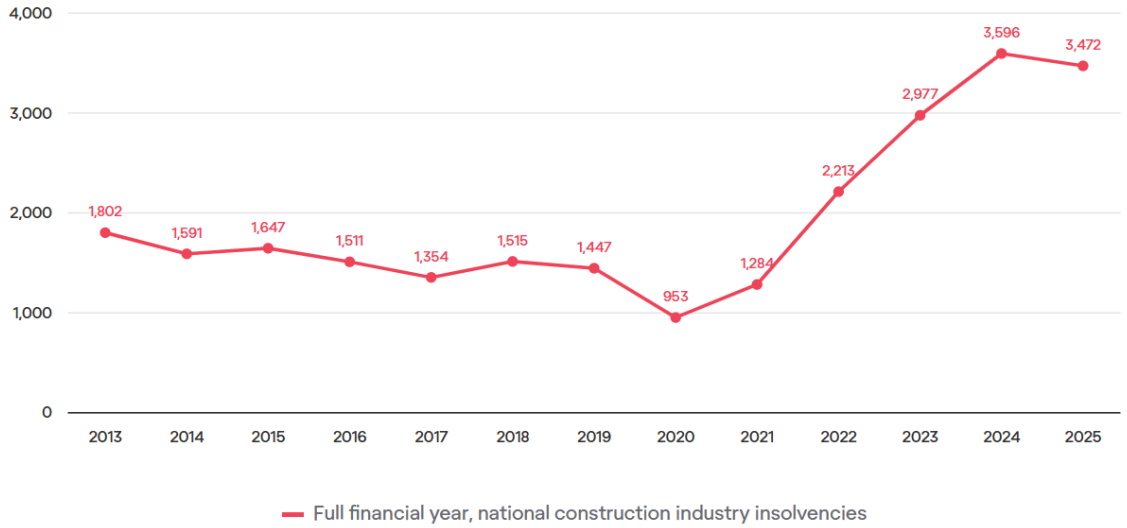
Source: Australian Bureau of Statistics (2026) Producer Price Indexes,[3] Wage Price Index,[4] Estimates of Industry Multifactor Productivity.[5]

Construction industry insolvencies have risen sharply over the past decade, nearly doubling between 2013 and 2025 by 93%. The increase has been particularly steep since 2020, when pandemic support measures ended, causing insolvencies to triple in just five years. If we are serious about improving housing supply, these issues need to be meaningfully addressed.

[3] Australian Bureau of Statistics (2026) Producer Price Indexes, Australia. Available at: abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia

[4] Australian Bureau of Statistics (2026) Wage Price Index, Australia. Available at: abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia

[5] Australian Bureau of Statistics (2026) Estimates of Industry Multifactor Productivity. Available at: abs.gov.au/methodologies/estimates-industry-multifactor-productivity-methodology



Source: Australian Securities and Investments Commission (ASIC) (2026)[6,7]

Issue 3: Good design and planning has benefits. Removing them has impacts that haven't been costed that will negatively impact wellbeing and productivity

Lower quality apartments have higher operating costs. These costs are borne by residents. Removing passive heating and cooling means higher energy costs. Removing open space requirements means poorer health outcomes.

Costs don't disappear when you remove a standard, they move elsewhere. A dark, airless, poorly designed apartment surfaces costs in worse health, higher energy bills, children with nowhere to do homework, and adults with nowhere to recover from work.

Those costs land on the household, our hospitals and the community, leading to significant unaccounted productivity costs. Yet the report suggests clearing the standards away without accounting for the costs of not having them, or their benefits. For a body whose whole purpose is rigorous cost-benefit analysis, it's odd this analysis is absent.

Issue 4: The Housing market isn't a traditional single supply and demand market. Treating them like this will not deliver the homes we need.

Sydney's median house price sits above $1.7 million, and we tell that as a story of undersupply. It is also a story about demand, with median apartments prices sitting around $850,000.

Part of the reason people stretch to the limit of their borrowing for a house is they don't believe an apartment will meet their needs. Widening the gap between houses and apartments by cutting standards for apartments doesn't solve this

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[6] Australian Securities and Investments Commission (ASIC) (2022) *Insolvency statistics – Series 1A: Companies entering external administration and controller appointments by industry, July 2013–July 2022*. Available at: https://www.asic.gov.au/regulatory-resources/find-a-document/statistics/insolvency-statistics-up-to-31-july-2022/insolvency-statistics-series-1a-companies-entering-external-administration-and-controller-appointments-by-industry/

[7] Australian Securities and Investments Commission (ASIC) (2026) *Insolvency statistics (current) – Series 1: Companies entering external administration and controller appointments*. Available at: https://asic.gov.au/regulatory-resources/find-a-document/statistics/insolvency-statistics/insolvency-statistics-current

problem, it entrenches it. If we want families raising kids in apartments, and we should, they need room for the pram, the cot and the third bedroom. Strip that out and we push them towards a $1.7 million house.

There is a consistent theme in the interim report that information asymmetries are limited between property sellers and buyers.

When inspecting apartments to buy or rent, you don't get a lot of time for inspection – maybe slightly more if buying, but it's still a relatively small amount of time before signing away a significant slice of your income. The basic tenet of consumer protections is you regulate where one party knows far more than the buyer.

In 15 minutes, you can't always tell whether a standard bed will fit, what it will cost to warm the place in winter and cool it in summer, or whether it turns mouldy in June. This is even more acute when buying off the plan. Design standards serve as fundamental protections. They should guarantee not just that your building is structurally sound, but that it's going to be a healthy place to live in.

Specific reform directions feedback

2.1	Allow up to three-storey development across most residential land, with limited exceptions.	**Do not support.** New South Wales has already moved further than most jurisdictions on this question. The Low- and Mid-Rise Housing Policy and the Transport Oriented Development program have broadly enabled low-rise housing up to six storeys across well-located parts of Greater Sydney, and both are worth holding up in the final report as the national reference point for what broad enablement looks like in practice. We would qualify the uniformity of the direction. Three storeys is not suitable everywhere, and permission is rarely the only thing standing in the way. Where water, sewer, transport and social infrastructure lack the capacity to absorb growth, blanket upzoning adds capacity that will not be taken up, and it costs governments the social licence they need to keep going. Housing should be prioritised into areas of higher existing or readily expandable infrastructure capacity, with broader enablement following the infrastructure rather than running ahead of it. Additionally, three-storeys is not feasible to build because of layers of building regulation that is poorly suited to this typology. If three-storey apartments require full Class 2 compliance, including a lift, sprinklers and a Design and Building Practitioners Act declaration, this will not be taken up however fast the approval pathway attached to it, or the scale of site where it is zoned. We suggest investigating the possibility of creating a 'building class 1.5' that includes necessary regulation for this scale of building, but not every requirement that comes with Class 2 buildings. Given 80% of builders in NSW are Class 1 builders, upskilling a section of this sector to be able to build '1.5' will also help with cost escalation in the construction sector. Until this is addressed, rezoning land to three-storeys will only escalate land values prematurely.

2.2	Allow mid-rise and high-rise apartments in high-demand areas with existing or expandable transport infrastructure.	**Support.** This is the right direction and New South Wales is already pursuing it through the Transport Oriented Development program and the mid-rise components of the Low- and Mid-Rise Housing Policy. What is constraining delivery in these locations is not permission but feasibility. The report's own modelling makes the point: of around 650,000 dwellings added to zoned capacity, around 240,000 would be commercially feasible. Further land-use change in transport-rich locations will yield comparatively little unless it is accompanied by the building regulation, infrastructure funding and finance reforms set out in our submission.
2.3	Remove or reduce minimum lot size requirements where they reduce commercially feasible capacity, with permissive subdivision.	**Support in part.** We support removing or reducing minimum lot size requirements where they are constraining feasible capacity, and we agree subdivision requirements need to be permissive for the reform to have full effect. However, at the same time we should investigate site coverage controls to ensure there is still space for trees/gardens and other greening that helps ameliorate urban heat island effects. Ideally site coverage controls will also promote more efficient urban typologies like attached terrace town houses, over detached houses with 90mm setbacks between.

2.4	Review commercial zones that restrict residential development and restrict residential use only where there is a clear rationale and net benefit.	**Do not support.** Conversion of employment and commercial land to residential is effectively irreversible. Once a site converts it does not return, and surrounding land values reset so that the remaining employment uses become progressively harder to retain. The direction would accelerate a process that cannot be undone. A net benefit test applied at a single point in time will almost always favour residential conversion, because residential land values are higher in most of Sydney. What that test does not price is the loss of the city's capacity to provide jobs, logistics and urban services close to where people live. Sydney's industrial and urban services land is already under acute pressure, and a polycentric Greater Sydney depends on employment capacity being retained in Western Sydney and the south-west rather than concentrated in the central city. The question is not whether an individual site would be worth more as housing. It is whether a city that has converted its employment land can still function. At a time when productivity growth is anaemic, reducing the amount of commercial capacity in our highest productivity locations is an unsophisticated sugar hit.
2.5	Review, reduce and remove land-use controls that reduce commercial feasibility: parking minimums, blanket heritage areas, neighbourhood character overlays.	**Support.** We support the direction, and parking in particular. The cost case the report sets out is strong: the NSW Productivity and Equity Commission estimates minimum parking requirements add around $93,000, or roughly one fifth of construction costs, to a new mid-rise apartment in Sydney, with our own research finding a similar figure. We encourage the use of parking maximums to help counter the impacts of too much parking being provided causing traffic externalities.

2.6	Relax or remove built-form controls limiting dwelling types: (a) site coverage, setbacks, heights; (b) maximum floor space ratios; (c) restrictions on housing types; (d) minimum dwelling, balcony and storage sizes.	**Support in part (c).** On (d) we would separate the elements. Minimum apartment sizes can be reduced. Floor area is the one attribute every buyer and renter can see, compare and price, so the information asymmetry the report's own test turns on does not arise, and the minimum currently rules out compact homes that would suit singles and young people leaving home in well-located areas. We note that if apartments are to get smaller, more sophisticated design solutions are needed to maintain amenity – i.e. larger windows, purpose-built joinery etc. We also note that the biggest barrier to smaller apartment sizes in bank lending practices. It is not possible to get a loan for an apartment less than 50m2. Apartment storage requirements should stay, as it is what makes a smaller dwelling liveable over time.
3.2	Improve fast-track assessment pathways: deemed-to-comply assessment, pattern books, hybrid assessment, faster approval with council incentives.	**Support.** We support all four elements. Deemed-to-comply assessment against codified rules, hybrid assessment for developments that narrowly fail, and incentives for councils to determine quickly would together remove a substantial amount of avoidable delay from low-complexity housing. On pattern books, we would add one condition. A pattern book only delivers homes if the buildings in it are buildable. A pre-approved three-storey walk-up that carries full apartment-class compliance, a lift, sprinklers and a Design and Building Practitioners Act declaration will not be taken up however fast the approval pathway attached to it. Pattern books at the medium-density scale need to move together with the building code reform set out in our submission.

3.4	Improve housing approval assessments: coordination bodies, technology including AI, stronger end-to-end performance reporting.	**Support.** We support this direction and would identify it as addressing a critical barrier. Referral friction is one of the most consistent sources of delay reported to us, and the element that matters most is giving coordination bodies the power to decide where agency or third-party advice conflicts. Without that power a coordination body sequences a problem it cannot resolve. This is something already underway in NSW with the Development Coordination Authority.
4.1	Improve infrastructure planning: document how it supports housing objectives, keep plans current, report funding and costs, ensure consistency across local government.	**Support.** We support this direction and would emphasise how rarely it currently happens. Infrastructure planning in New South Wales is not routinely documented against housing objectives, plans are not consistently kept current, and the interdependencies with service providers are often discovered rather than planned for. The specific gap we would ask the final report to name is the absence of alignment between land-use strategies and infrastructure strategies. These need to be paired instruments pointing in the same direction. We suggest the development of 'local infrastructure plans' alongside 'local housing strategies' so infrastructure and housing growth are addressed together, upfront.
4.2	Improve how infrastructure is sequenced with housing: align rezoning and infrastructure lead times, coincide upgrades with upzoning, establish an accountability framework.	**Support.** We support this direction, and as with 4.1 the problem is that it does not happen. New South Wales zones land years, and sometimes decades, before servicing it, so most zoned land is not development-ready and Sydney now produces fewer new lots each year than any other major capital.

4.3	Ensure developer contributions reflect the accurate cost of providing infrastructure, with a close nexus, apportionment where beneficiaries are dispersed, and removal where no nexus is demonstrable.	**Query.** The principles here are sound in isolation. Our concern is that they are proposed without any account of where infrastructure funding would come from instead. In New South Wales, contributions are in practice the only source available at the local level. Councils are rate-capped, value capture is applied case by case rather than as standard practice, and land tax is narrow. Tightening the nexus test and removing contributions where nexus is not demonstrable reduces what councils can collect without identifying what replaces it, and the shortfall it would widen is one councils already carry from the outset. If the Commission intends to shift infrastructure funding away from developer contributions, the reform directions should say where it goes. The three obvious levers are: - removing or reforming Local Government rate caps, - expanding value capture, and - broadening land tax. None of them appears in the reform directions. Until they do, this direction operates as a reduction in infrastructure funding rather than a reallocation of it, and the consequence lands on the infrastructure that makes density work. We would also note the New South Wales problem can run the other way. The general section 7.11 contribution threshold has remained at $20,000 per dwelling since 2012 and the Schedule 2 threshold at $30,000, so what councils may collect has been fixed below the cost of the infrastructure for roughly 14 years while land costs have climbed.

4.4	Enhance the design of developer contribution frameworks: upfront estimates and estimation tools, staged or deferred payment, consistency, bundling, transparent centralised reporting.	**Support.** We support each element of this direction. Upfront estimates provided before land release or acquisition are the single most useful change, because an obligation known and fixed before land transacts is priced into land value rather than falling on the developer's margin. Allowing payments to be staged or fall due later in the development process addresses the financing cost that currently sits with the developer for no corresponding benefit. The State and Federal Government could assist in developing a 'pass through' fund that enables funding to flow to infrastructure providers when construction commences, and then is repaid by developers at completion.