

Commentary on Productivity Commission Housing Supply Regulation Interim Report (July)

Fine Words Butter No Parsnips

Quote Interim Report: The PC is the Australian Government's **independent** research and advisory body on a **range of economic, social and environmental issues affecting the welfare of Australians**. Its role, expressed most simply, is to help governments make better policies, in the **long-term interest of the Australian community**. The PC's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are **driven by concern for the wellbeing of the community as a whole**.

Comment: the PCs ideals are hollow when it accepts terms of reference that are too narrow to provide any true basis for research or advice concerning the current state of a housing market that has changed so dramatically over the last quarter century

Scope of the inquiry

Quote Interim Report: The Commission will conduct an inquiry to assess, identify best practice and recommend reforms to get more homes built quickly across the following matters:

1. Approval processes (e.g., development, building, and post-approvals, including any barriers to the uptake of more productive methods of construction)
2. Availability and use of land for housing (e.g., land release, land use controls)
3. Processes and frameworks to deliver new and utilise existing housing infrastructure (e.g., growth infrastructure planning, developer contributions model)

Comment: In December 2025 the Government made the major step of changing the rules and regulations concerning negative gearing and capital gains tax specifically to impact the housing market. How can this be ignored by the PC?

Quote 2026/7 Budget Papers, Fact Sheets: The Government is reforming negative gearing and capital gains tax (CGT) arrangements. These reforms will limit the benefits of negative gearing to new residential properties, re-introduce capital gains tax cost base indexation, and introduce a 30 per cent minimum tax on capital gains. Since 1999, housing prices have risen more than twice as fast as average full time earnings and, since 2001 to 2021, the home ownership rate for households 25 to 34 years old has declined by seven percentage points. **These changes will help level the playing field for first home buyers, preserve the gains investors have made, and support investment in new housing supply.**

Overview - Key Points

Quote Interim Report: Australia doesn't build enough homes in the areas where people want to live. This has made housing unaffordable in many parts of the country. Increasing housing supply would help put downward pressure on prices and support more people to live in housing that meets their needs.

Comment: There is no recognition whatsoever in this summary section of the report that the actual nature of the housing market has changed. Fiscal policy and bank deregulation created a speculative investment sub-market. As a result, Australia's financial system is one of the most heavily exposed to housing debt in the developed world (65% of Australian banks' total loan books). This wave of investment increased residential prices, caused mortgage stress and locked potential occupier/buyers out of the market. The Interim Report notes that in other jurisdictions there was little if any evidence that increasing the number of residential permits had any impact on affordability or construction rates. Where is consideration given to the current volume of vacant housing units and unimplemented permits?

Quote Interim Report: Regulation limits housing development, and improving it is a key lever for governments. While some regulation is necessary to ensure the safety, quality and liveability of new housing stock, **too much or unnecessary regulation constrains housing supply. Regulation can stop certain housing development occurring altogether.** It can also deter development due to slow, cumbersome and **expensive processes and uncertainty.** The number and interaction of different regulatory requirements can also limit housing construction. We set out 4 principles of a best practice regulatory system for housing: adopt a 'build' mindset; only regulate when necessary; coordinate with infrastructure; and keep the process simple.

Comment: All development has an impact both positive and negative. The desire of land owners to maximise the value of a property is natural but needs to be tempered by a consideration of such impacts. The western world has adopted a range of policies and regulation to protect the public interest for the common good. If the planning system isn't working as well as it might then there are various matters to be considered, for instance is it adequately funded and operated by trained staff? The wholesale dismantling of Victoria's planning system which was the product of well-meaning, successive governments, is no answer to the problem we are facing and will create a legacy that may haunt generations.

Quote Interim Report: Land-use controls prevent housing being built, or limit the form it can take. Relaxing these controls would have the **greatest effect on housing supply of all our reform directions.** Governments should commit to **broad-based upzoning** in cities, including by allowing 3-storey development on most residential land, reducing minimum lot sizes, using more mixed commercial and residential zones, and allowing more mid- and/or high-rise development in high-demand areas. This **upzoning should be supported by reducing restrictive land-use and built-form controls** that lower development feasibility, limit choice or impose costs that outweigh their benefits, such as maximum floor-space ratios or minimum car parking requirements.

Comment: There is an inexplicable misunderstanding of the economics of planning development or a cunning plan to mislead voters. The investment market has pushed house prices to levels that are generally unaffordable. Occupiers cannot compete with investors. The situation will not change until the investors relinquish some control of the market. The Government has started to address this through the Budget process. However, developers will not build what they cannot sell. Banks will not provide construction funds without substantial pre-sales. Only premium developments (in the unaffordable sector) are progressing. Banket rezoning has fuelled speculation by land owners and in the absence of construction finance and off-the-plan buyers and a willing developer, a trend of flipping or attempting to flip "raw" permitted sites is emerging. Deregulation is the most expensive and least effective way of increasing the supply of affordable housing. It is not working.

Quote The Australia Institute evidence to Govt December 2025: Federal, and State governments failed to recognise that "building more houses will require extensive resources and considerable time. **Increasing supply is the slowest, most expensive way to make housing more affordable**".

Quote Interim report Box1 p4: Economic theory would suggest that an increase in housing supply, for a given level of demand, should reduce housing prices across the relevant market, usually a city. Empirical research confirms this. Many studies using robust causal methods find that, over the long term, increased housing supply leads to lower city-wide dwelling prices and rents relative to what they otherwise would have been. ... **In most cases, this appears as lower price growth, rather than an absolute decline in prices.**

Comment: Too little too late.