

Submission on the Housing Supply Regulation Interim Report

Productivity Commission inquiry into housing supply regulation

[Redacted]

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About this submission

My name is [Redacted]. I am the mother of two sons in their twenties and a long-time resident of the City of Yarra, and my submission is focused on affordability.

Our young people, as my husband and I did, need to see a realistic chance of having their own home, so they have the confidence to start a family where they grew up. That will not happen without housing security.

I am an office bearer of Protect Fitzroy North, and I wholeheartedly support the PFN submission. This personal submission focuses on affordability.

This submission responds to the Productivity Commission's *Housing supply regulation – Interim report* (July 2026). It is made with the Commission's permission on 14 October 2026. Page numbers refer to the interim report's printed pages unless stated otherwise.

Summary

The Treasurer's terms of reference state the problem plainly: "Australia has a housing shortage. We do not have enough homes, where people need them, at prices they can afford" (p iv).

The crisis this inquiry was asked to address is one of affordability, across the wide range of incomes that can no longer afford to rent or buy in Australia's capital cities, especially Sydney, Brisbane and most of Melbourne. In this submission, housing is affordable when rent or mortgage repayments take less than 30 per cent of after-tax income.

The Treasurer asked for enough homes "where people need them, at prices they can afford" (p iv). The interim report mostly talks about building "where people want to live" instead (pp 2, 4, 7, 23 and elsewhere). They are not the same thing. Lots of people want to live in inner Sydney or Melbourne. What is short is homes that the people who work there can afford. If planning rules are opened up in an area, there needs to be at least a contribution to affordable, liveable housing for people who work in or near that area, not just upmarket homes.

There is no shortage of housing for people with substantial capital or high incomes. The shortage is of housing that low- and median-income households can afford. A median-earning worker renting alone would need about 70 per cent of after-tax pay for the median rent in Sydney, 62 per cent in Brisbane and 57 per cent in Melbourne.

I ask the Commission, in its final report, to:

1. describe the evidence it relies on accurately. Saunders and Tulip is a national simulation, not causal city-wide evidence;
2. test its reforms against what median and lower-quartile households can pay;
3. retain affordable housing requirements, delivered in the same municipality if not the same development;
4. measure supply evidence in homes completed and occupied, not approvals or zoned capacity.

Each point below follows the same format: the report's assertion, a question for the Commission, and the evidence that supports, undercuts or questions the assertion.

The evidence base for the reforms (Overview and chapter 1)

1. Saunders and Tulip is a national simulation, not causal city-wide evidence

Assertion. “There is a strong causal link between supply, location and affordability (box 1)” (p 4). Box 1 says: “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 (... Saunders and Tulip 2020, pp. 28–29)”. Footnote (a) says the Commission gives “more weight to studies that estimate the effect of new supply using causal methods and capture long-term city-wide effects” (p 4).

Response. Have you considered that Saunders and Tulip is neither causal nor city-wide, and so does not meet the Commission's own footnote test?

Evidence. Saunders and Tulip (RBA Research Discussion Paper 2019-01) is a national time-series model of Australia from 1987 to 2018. Its supply result is a simulation. The authors “assume that each component of building approvals increases by 10 per cent for one year”, about 21,400 extra approvals. That adds about 18,200 dwellings, or 0.16 per cent of the stock, and lowers rents and prices by about 0.4 per cent (p 28). The often-quoted rule of thumb, that “every 1 per cent increase in the number of dwellings ... lowers the cost of housing by 2½ per cent” (p 28), is the ratio of those two numbers.

The step that turns extra dwellings into more vacancies, and so lower rents, “is not estimated but constrained to a value that seems plausible”, and its “short-term fit ... is not good” (p 16). The authors conclude: “We are much less certain about the response of vacancies to completions and household formation ... we know more about the response of quantities to prices than we do about the response of prices to quantities” (p 31). The rule of thumb depends on exactly that link.

The model also assumes approvals are built at historical average rates, 95 per cent for detached houses and 85 per cent for higher density (p 13). So it offers no evidence that planning approvals or rezoning produce homes. “Cost of housing” means average rents and prices; the paper says nothing about housing for low- or median-income households. Its main finding is that falling interest rates explain most of the rise in real prices: a sustained one-point fall in

rates raises prices by about 17 to 28 per cent in the long run (pp 21, 23). Interest rates are outside this inquiry's scope (pp 14–15).

The paper is careful work by candid authors, and a reasonable estimate of what extra completed dwellings would do nationally if they were built. The authors themselves call for further studies to “corroborate or modify” their estimates (p 31). It should be described that way.

A minor point: the report cites the 2020 *Economic Record* article, listed as pp. 1–25 (p 135), but the pinpoint “pp. 28–29” matches Section 5.3 of the 2019 discussion paper.

2. Filtering is asserted on overseas evidence; the Australian study is missing

Assertion. “when new homes are built, the households that move into them usually vacate existing homes, creating a chain of moves ... This process, known as filtering, increases available housing across different price points and can lower prices and rents across the market, not only for higher-priced dwellings (Bratu et al. 2023; Mast 2019; Mense 2025)” (Box 1, p 4).

Response. Have you considered the Australian evidence on filtering in Sydney and Melbourne, which found it does not reliably supply housing to low-income households?

Evidence. The three studies cited are from Finland, the United States and Germany. No Australian filtering study is cited. AHURI Final Report 387 (Nygaard et al. 2022) studied filtering in Sydney and Melbourne and found current dynamics “incompatible with filtering as a reliable source of additional affordable housing for low-income households”. In Sydney, one-bedroom rents rose from 1.65 to 1.86 times the affordable rent between 1997 and 2019, even as the stock aged. Few dwellings reach the lowest rent band before they are demolished or refurbished. In Melbourne between 2006 and 2016, areas of older stock filtered up, not down. The report concludes that dedicated social and affordable housing “will likely remain necessary”.

Filtering is a real mechanism. But the report relies on it for the whole of its answer to low-income households, and it should weigh the Australian evidence before doing so.

3. “Affordability” is measured as slower average price growth, not homes people can afford

Assertion. The effect of supply “appears as lower price growth, rather than an absolute decline in prices” (p 4). The terms of reference ask the Commission to identify regulations with “the greatest impact on housing supply, housing affordability and construction productivity” (p iv). The report’s principles name “equity” (p 6) and “equitable access to housing” (p 24).

Response. Have you considered testing the reforms against what a median or below-median earner can pay, and not only against a counterfactual average price?

Evidence. Median weekly rents in March 2026 were \$824 in Sydney, \$720 in Brisbane and \$632 in Melbourne (Cotality Quarterly Rental Review, Q1 2026). Median weekly earnings in August 2025 were \$1,464 in New South Wales, \$1,439 in Queensland and \$1,380 in Victoria (ABS

Employee Earnings). After income tax and the Medicare levy, a median earner renting alone would need about 70 per cent of take-home pay for the median rent in Sydney, 62 per cent in Brisbane and 57 per cent in Melbourne. Even a full-time median earner would need 46 to 61 per cent. Thirty per cent of a median earner's take-home pay is \$335 to \$352 a week, roughly half the median rent in each city. (After-tax figures are my calculation using 2025–26 resident tax rates, no offsets.)

The report's own overview says "A middle-income household will typically pay a third of their income to secure a new rental home" and that people on JobSeeker can afford only "a handful" of rentals in Sydney (pp 3–4). Neither statement is carried into the analysis or the reform directions. The report sets no affordability benchmark for any income group and does no distributional analysis. The modelling promised for the final report is of the supply response and "economic benefits" (pp 15, 115), not of who is housed.

Slower price growth from an unaffordable starting point still leaves below-median households priced out, only less so than otherwise. That is the plain reading of the report's own sentence on p 4.

Area 1: Planning and land use (chapter 2)

4. Buyers have little confidence in building quality, particularly in Melbourne

Assertion. "Regulation can prevent this by setting minimum standards so that residents can trust that their building is safe" (p 29). The National Construction Code is out of scope (pp 14–15).

Response. Have you considered that faster approvals and denser housing will not translate into sales, or into homes people want to live in, if buyers do not trust the quality of what is built?

Evidence. The report accepts that buyers need to "be assured that it is safe and of appropriate quality" (p 22), but places building quality outside the inquiry. Lack of confidence in apartment and townhouse quality is understandable, particularly in Melbourne, and it bears directly on whether the medium- and high-density housing the reforms favour will be bought and occupied. Removing minimum apartment sizes and relaxing built-form controls (reform direction 2.6, p 58) without addressing quality and defect protection risks adding supply that buyers avoid.

Melbourne already shows the effect. About 8,000 of the roughly 45,000 apartments completed in metropolitan Melbourne in the four years to 2024 remain unsold, according to Richard Temlett of property research firm Charter Keck Cramer (*The Fifth Estate*, 31 July 2025, updated 10 November 2025). He names interest rates as the bigger factor, but says that "there are a lot of headlines saying that they're defective, they leak and so forth. So, buyers are apprehensive about buying in certain projects", and that "Any sort of objective rating tool that gives buyers more confidence about the quality of the product is essential", pointing to NSW's independent construction industry rating tool (iCIRT) as a model.

The same analysis bears on affordability. Temlett estimates that new Melbourne apartment projects now need \$12,500 to \$15,000 per square metre to be viable, against the \$8,000 to \$10,000 that earlier projects sold for. Thousands of completed homes sitting unsold, while new projects need still higher prices to proceed, is not a shortage of market-priced supply. It is a shortage of homes at prices people can pay.

I ask the Commission to recommend an independent building quality rating for new apartments and townhouses, and stronger defect protection for buyers, alongside any relaxation of built-form controls.

5. The one in-scope tool for below-market housing is flagged for winding back, with nothing to replace it

Assertion. “Governments should approach inclusionary zoning for affordable housing with caution” (Box 2.6, pp 56–57). The report proposes to “Review blanket mandatory requirements on developers to build affordable housing” (pp 55–56), on the basis that “increasing overall housing supply is likely to be one of the most effective ways to improve affordability across the housing market (box 1, overview)” (p 57). Information request 2.3 seeks evidence on inclusionary zoning (p 59).

Response. Have you considered that the report itself calls the undersupply of affordable housing a market failure, and that removing the main regulatory response without an in-scope replacement leaves that failure unaddressed?

Evidence. Box 2.6 says inclusionary zoning “seeks to correct a market failure (undersupply of affordable housing)” (p 56). The finding that it is “poorly targeted” rests on one source, Behrens and Gilbert (2026), an article on the *Inflection Points* website (p 123), not peer-reviewed research. The report suggests “more direct value-capture mechanisms” may be better (p 57) but does not say what they are or recommend one. Social housing is out of scope (Box 1.2, p 26) and rent assistance is named but not examined (p 57). So nothing in the report delivers below-market housing.

The market will not build below cost plus margin. Maltman and Gibbons treat a site as feasible only when sale revenue covers land, construction, finance and a 20 per cent margin (sub. 234, p 9), and accept that “as more housing is supplied, the marginal project becomes unprofitable” (p 26). Below-market homes will not come from deregulation alone.

Victoria has already legislated the tool the report wants reviewed. The Planning Amendment (Better Decisions Made Faster) Act 2026 (Royal Assent 17 February 2026) allows a council to require affordable housing contributions, as housing or as money in lieu, as a condition of a planning permit. It applies where the planning scheme identifies a need for affordable housing in the area and a development is over a size or value threshold set by regulation. But that provision is not yet in force, and the government has not yet made the regulations setting the thresholds. Unless it is brought in earlier, it does not apply until 29 October 2027 (Victorian Department of Transport and Planning, Updating the Planning and Environment Act). So this affordability mechanism is not operating, despite one-stop, fast-track approvals being granted now. I ask the Commission to ensure that an increase in affordable, liveable housing in the same area is an unavoidable outcome of any liberalisation of planning rules.

6. Heritage and character areas: require a net gain in homes

Assertion. Heritage overlays cover “21% of residential land within 10km of the central business district (CBD) in Sydney and 29%” in Melbourne, and “up to 58% in Yarra” (Box 2.2, p 41). Reform direction 2.5 proposes replacing broad heritage overlays with targeted, cost-benefit-tested listings and to “Review and reduce neighbourhood character restrictions” (pp 55–57).

Response. Have you considered requiring that development enabled by removing heritage &/or character controls can only be approved if it adds homes. A demolished house needs to be replaced by more than one dwelling under the new pathways for gentle density increase to occur ?

Evidence. Nothing in reform directions 2.1, 2.5 or 2.6 requires the replacement to contain more homes than the house it replaces. A one-for-one knock-down and rebuild uses builders, trades and materials that are already in short supply without adding a single dwelling, and the report places construction labour supply outside its scope (p 14).

Auckland shows why this matters: critics and authors of the supply studies argued over net additions after demolitions, not consents, and the answer (about 84 to 90 per cent of consents became net additional homes) had to come from valuation and Census data (Donovan and Maltman 2024).

The final report should count net additional dwellings, and fast-track or as-of-right pathways in heritage and character areas should apply only where homes are added.

Area 2: Infrastructure and developer contributions (chapter 4)

7. Infill assumes infrastructure and open space exist; in inner Melbourne they do not

Assertion. “infill sites might have good access to basic and social infrastructure” (p 111). Reform directions 4.3 and 4.4 make developer contributions cost-reflective and predictable (p 104). Reform direction 2.6 proposes removing minimum balcony sizes (p 58).

Response. Have you considered public open space per person as an infrastructure capacity test for high-density infill, and land-based open space contributions as the cost of making density liveable rather than a cost to supply?

Evidence. The *Yarra Open Space Strategy 2020* records public open space at 0.3 per cent of Collingwood (0.34 hectares) and 1.6 per cent of Fitzroy (2.27 hectares) (pp 18, 24). That is under half a square metre per Collingwood resident in 2016, against 30 square metres across Yarra (p 7). Eighty-five per cent of Yarra residents live in medium- or high-density housing and rely more on public open space (p 7). In Collingwood the community is concerned about “the more recent overshadowing of existing open space as a result of the increased height of built form” (p 18). The report counts overshadowing only of neighbouring homes (p 59). New parks depend on buying land at residential prices, and Yarra plans to raise its open space contribution from 4.5 per cent to about 10 per cent (p 30).

Local residents rank green space first. In the Project 3068 community survey of North Fitzroy (May to June 2025, 791 people completed at least the demographic questions), “green outdoor spaces” was the most common answer to “What is most important to you about Fitzroy North?”, chosen by 83 per cent, ahead of good public transport (73 per cent). That held across all age groups (81 per cent of those aged 10 to 29, 82 per cent aged 30 to 49, 84 per cent aged 50 to 69 and 83 per cent aged 70 and over), and for renters (77 per cent) as well as owners (86 per cent). Respondents also questioned the “capacity of Edinburgh Gardens, services, and infrastructure to handle 6,000+ new residents” (Project 3068 2026, pp 18, 30). I was part of this community project.

The report itself quotes a participant: where open space and community facilities are absent, “community concerns are legitimate and should not be dismissed as opposition to growth” (sub. 57, quoted at p 113), and says it will explore this in the final report. Removing minimum balcony sizes in the same suburbs would make the shortage worse.

Area 3: Implementation and the Australian Government’s role (chapter 5)

8. New affordable supply will not happen without government intervention

Assertion. “Social housing and other direct interventions like rent assistance should be provided for households that are unable to secure stable housing in the private rental market” (Box 2.6, p 57). Yet “reforms to social housing are outside the scope of this inquiry” (Box 1.2, p 26).

Response. Have you considered recommending, within this inquiry, the planning, land and infrastructure settings that would let governments deliver social, public and key worker housing at scale, as they did after the Second World War?

Evidence. Developers will not build housing that does not return a profit. Maltman and Gibbons treat a site as feasible only when sale revenue covers land, construction, finance and a 20 per cent margin (sub. 234, p 9). New Melbourne apartment projects now need \$12,500 to \$15,000 per square metre to be viable (Temlett, *The Fifth Estate*, 2025). At current build prices, a median-income earner cannot afford to buy a new home, and a median-earning renter already pays 57 to 70 per cent of take-home pay in Sydney, Brisbane and Melbourne (point 3). Deregulation lowers the cost of some market housing. It does not make building below cost profitable.

After the Second World War, the 1945 Commonwealth–State Housing Agreement funded state housing authorities to build rental housing at scale for working households, often close to the industrial jobs those workers held. That was government-led supply, enabled by planning and land decisions of exactly the kind this inquiry covers: land release, zoning, approvals and infrastructure sequencing.

The report already concedes the case for direct intervention (p 57) and that undersupply of affordable housing is a market failure (p 56). The final report should say how its planning, approvals and infrastructure reforms will support social, public and key worker housing, for

example: priority and fast-track approval pathways, use of surplus public land, and infrastructure sequenced to those projects. Without that, the reforms are likely to fast-track mainly upmarket townhouses and boutique apartments.

Even the best not-for-profit model cannot fill the gap on its own. Nightingale co-founder Jeremy McLeod said: “every great architect in the city working on this project, and we’ve delivered under 800 homes ... Nightingale only works with great architects, with concessional capital, and concessional land. So, we’ve got great architects, but sourcing the other two things? Nearly impossible” (The Age, 13 October 2026). Concessional land and capital are exactly what governments can provide, and the land and planning settings this inquiry covers decide whether they do.

9. Housing targets say how many homes, not who they are for

Assertion. The report measures progress against the National Housing Accord’s 1.2 million homes, and notes we are forecast to undershoot by 220,000 or more (p 5). It raises tying local government grant funding to housing targets, with “a proportional reduction in grant funding for local governments underperforming on housing targets” (Westpac, sub. 38, quoted at p 114).

Response. Have you considered requiring housing targets to say how many of the homes are to be social, public, affordable and market housing, so governments and councils are measured on homes people on median and lower incomes can live in, not just on total numbers?

Evidence. The Victorian Government has given the City of Yarra a target of 44,000 net new dwellings to 2051, counted from mid-2024, under Plan for Victoria. There is no breakdown into market, affordable, social and public housing. The state says the targets “will also enable the short-term imperative to deliver affordable housing in our growth areas”, but sets no number for it (Victorian Department of Transport and Planning, Housing targets). Yarra Council also notes it is “a theoretical dwelling capacity target” and “not an actual delivery target (i.e. does not mean homes to be built)” (City of Yarra, Housing targets – Yarra).

A target with no split is met just as well by 44,000 upmarket apartments as by homes for key workers and families on ordinary incomes. If federal funding is tied to targets like this, it rewards any housing built anywhere. If the Australian Government wants anything other than full market value housing to be built, it needs to set clear targets for each segment.

Requests for the final report

1. Describe Saunders and Tulip accurately as a national simulation, and do not rely on it as causal city-wide evidence under the footnote (a) test (Box 1, p 4) (point 1).
2. Cite and weigh the Australian evidence on filtering (AHURI Final Report 387) before relying on filtering to reach low-income households (point 2).
3. Test reforms against rent-to-income and price-to-income for median and lower-quartile households in each major city, not only against a counterfactual average (point 3).
4. Address the publishing of independent building quality ratings, as NSW has, to give buyers some confidence in build quality (point 4).

5. Do not recommend winding back inclusionary requirements for affordable housing without an in-scope replacement for below-market supply (information request 2.3) (point 5).
6. Require a net increase in dwellings on the site before approving any development enabled by removing heritage and/or character controls (point 6).
7. Treat public open space per person as an infrastructure capacity test in high-density infill areas, and count overshadowing of public open space as an externality (point 7).
8. Recommend the planning, land and infrastructure settings that would let governments deliver social, public and key worker housing at scale (point 8).
9. Recommend that housing targets, and any funding tied to them, set separate numbers for social, public, affordable and market housing, and count homes completed rather than capacity (point 9).

References

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