



**UNSW**  
SYDNEY



## **Submission to the Parliamentary Inquiry: Housing Affordability and Supply in Australia**

City Futures Research Centre, Faculty of Arts, Design & Architecture, UNSW

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*'Let's tear down the myth that supply is the determinant of housing affordability. Planning plays an important and significant role in getting new housing to market but let's not pretend [mainly federally governed] tax rules and interest rates don't also push up prices'*

Rob Stokes, NSW Planning Minister (cited in Thompson and Duke 2021).

This Submission has been prepared by the City Futures Research Centre, UNSW. The submission has been drafted by:

Bill Randolph

Ryan Harris

Vivienne Milligan

Hal Pawson

Reg Wade

Contact: Bill Randolph ( [REDACTED] ) and Hal Pawson

( [REDACTED] )

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## Executive Summary

- The causes of housing unaffordability lie well beyond the specific issue of land use planning or supply constraints.
- While recognising the importance of adequate dwelling supply, we believe the lack of demand side considerations in the Inquiry's terms of reference is highly problematic. An understanding of excessive costs demands consideration of factors impacting on housing demand, as well as supply.
- A crucial housing system reality is that the price of new dwellings is set by the broader housing market and not by the cumulative cost of the associated inputs. Therefore, builders and developers are price takers not price makers. This is explicit in the standard Residual Land Valuation model used to estimate scheme feasibility.
- Research evidence strongly suggests that it would be very difficult to expand housing construction sufficiently to significantly reduce the rate of housing cost inflation, let alone to deflate property prices. That is partly because housing prices are largely determined by factors beyond the new home sector, but also because business logic dictates that housing developers would not continue to expand output in a flat or falling market
- The actions of landowners and developers and financiers are highly influential in how land is released and developed, even after development approval is granted.

### Key Findings from City Futures Research

#### 1. Opinions of expert economists and housing policy commentators (2021)

When asked if *local government planning* decision making was a major cause of poor housing outcomes, the majority disagreed, although economists were less likely to disagree than non-economists. Planning was only one of a number of factors, and possible only a minor one, impacting the supply and price of housing

There was much greater agreement that poor quality *strategic planning* had led to spatial mismatches between housing and employment, especially in the major cities. Tensions between the goals of spatial planners who developed strategic city plans on the one hand, and the state agencies who determined major economic and infrastructure decision making, on the other, were seen to lead to poor policy integration at the city scale. This was attributed to ineffective metropolitan scale governance.

The collective responses suggested that in seeking to address the role that planning system plays in housing supply, care must be taken to explore both the complexity and multi-scaled characteristics of the processes involved, the varying influence the three levels of government play in the process with all levels having hands on various levers that impact supply outcomes, and the active involvement of the development industry and landowners in managing the process.

#### 2. How much time does the planning system take?

Preliminary analysis of 881 multi-unit (Class 2) residential apartments developments completed between 2010 and 2020 in Sydney shows that, on average, the planning determination process

(from lodgement to approval) accounted for 13% of the total time taken to bring a typical multi-unit development to completion from initial land acquisition. This averages 33 weeks out of a total typical development time of 4.7 years.

Average scheme delivery time increases substantially with increasing size of scheme, from 1,599 days (4.3 years) for small (6-10 lot) schemes to 3,093 days (8.5 years) for schemes over 100 lots.

The planning assessment period averaged 12% of total development process duration for the smallest schemes, but only 8% for the largest schemes.

Halving the time taken between lodgement to determination, if that were possible, would only reduce the overall delivery time by an average of 7%. For the largest schemes, halving the determination period would reduce the overall development period by just 4%.

It is difficult to conclude from these findings that the time taken to undertake a development determination represents a major constraint on scheme delivery.

### **3. How much are multi-unit developments taxed?**

Preliminary detailed analysis of a typical range of 30 multi-unit residential developments sampled from the main apartment database in six Sydney local government areas shows that government taxes and charges accounted for 11.3% total scheme costs, excluding profit, in the smaller example and 10.1% in the larger.

GST accounts for a significant tax share of 4.1% of total costs for smaller schemes and 4.3% for larger schemes. Next most significant are infrastructure charges at 4.7% for smaller schemes and 3% for larger schemes, with land tax (1.6% and 1.5%) and transfer duty on land purchase (0.9% and 1.2%). Lodgement fees account for a marginal 0.1% of the total.

Given the Residual Land Valuation approach taken by developers to determine their bid price for land, a reduction in these charges, and therefore overall development costs, would likely flow through to increased residual land values of future site purchases (benefiting the landowner) or increased profitability for the developer (if the site is already owned), rather than to lower dwelling prices.

### **4. International evidence of effective planning deregulation**

A targeted literature search of scholarly and policy reports on planning deregulation found that there are no readily apparent examples where planning deregulation—as opposed to pre-existing settings—has achieved both an increase in housing supply and an improvement in affordability.

The broader debate over planning's impact on supply and affordability appears intractable but points of consensus include the exclusionary nature of zoning and a need for other subsidies to support affordability to an extent sufficient to meet the needs of low income households.

Accordingly, advocates of planning reform and housing affordability appear to be on the same page: rezone land to increase housing supply but ramp up subsidies to improve affordability.

## 1. Introduction

The City Futures Research Centre welcomes the House of Representatives Standing Committee on Tax and Revenue's recognition that housing supply and affordability represents a serious and growing problem in Australia. As one of Australia's leading urban research groups, we are well qualified to input to the Committee's Inquiry on this topic. Our contribution draws on the Centre's extensive body of work that straddles the interface between planning and housing policy where the Inquiry's attention is focussed.

The Inquiry has been asked to review three questions:

- Examine the impact of current taxes, charges and regulatory settings at a Federal, State and Local Government level on housing supply;
- Identify and assess the factors that promote or impede responsive housing supply at the Federal, State and Local Government level; and
- Examine the effectiveness of initiatives to improve housing supply in other jurisdictions and their appropriateness in an Australian context.

Our response, drawing on both our own research findings and those of others, addresses all three. In the remainder of this introductory section, we challenge the terms of reference for the Inquiry: in particular the focus on supply side issues and policies to the apparent exclusion of demand side drivers of housing supply and unaffordability. Within the supply side debate, we also critically reflect on the viewpoint that housing supply shortage is a core contributor to house price pressure and, within that context, that local and statutory planning policies are major causal factors.

Sections 2, 3 and 4 then present new evidence from ongoing City Futures research. Section 2 features opinions garnered from Australian experts on the impacts of local and strategic planning on housing supply. Section 3 presents empirical evidence on the contribution of planning approval timelines to the time taken to develop a sample of recently completed multi-unit residential developments in Sydney. Section 4 examines the cost components of those same developments with a focus on the impact of government taxes and charges. In the final section (5), we present a literature review of worldwide studies that have examined the impact of planning policy reforms on housing supply and affordability.

### 1.1 The importance of housing affordability

As made plain in the official Inquiry launch announcement, the Committee's main concern is the rising cost of housing, understood as the prime reason for Australia's falling national home ownership rate. We share these concerns. We concur that home ownership offers important benefits, both in relation to security and control of the living environment, and also the scope for household wealth accumulation. For these reasons there is a valid case that, as part of a balanced approach that also gives due weight to other important housing objectives, policy should aim to optimise the level of home ownership in the interests of population welfare.

In our view, however, a concern about housing supply impairing population welfare should motivate equal – or arguably greater – attention to housing affordability as this affects stressed low income renters, a cohort larger than that of aspiring marginal first home buyers. We refer here to the 34% of low income private tenants (900,000 of the 2.65 million private renters in the lowest two income quintiles) whose rent payment leaves them with insufficient resources for food, clothing and other basic essentials, even after allowing for the impact of Rent Assistance, let alone saving enough to



afford the deposit and other costs for a home of their own (Productivity Commission 2019; Ong Viforj et al. 2020).

As argued above, anxieties about Australia's increasingly unaffordable housing are most obviously conceptualised as problems of population welfare, that is, the negative impacts that result for those individuals and households directly affected. These include being denied access to home ownership or pushed into poverty – possibly even made homeless – by an excessive rent burden.

Importantly, however, the issue has broader dimensions that should be of particular concern to the Commonwealth, as well as to state and territory governments. Issues of interest to the Commonwealth also take in:

- Economic productivity implications: e.g. excessive housing costs borne by households crowding out consumer spending; housing debt displacing investment in more economically productive activities (Maclennan et al. 2021a)
- National financial stability: internationally high rates of mortgage-inflated household debt compounding financial system vulnerability – e.g. major banks heavily reliant on mortgage business exposed to systemic risk (Bullock and Orsmond 2019)
- Cost to government: e.g. future age pension expenditure potentially inflated by falling home ownership for older age cohorts (Eslake 2017).

This implies that the analysis of the causes and consequences of the issue the Inquiry is setting out to understand lie well beyond the specific issue of land use planning or supply constraints.

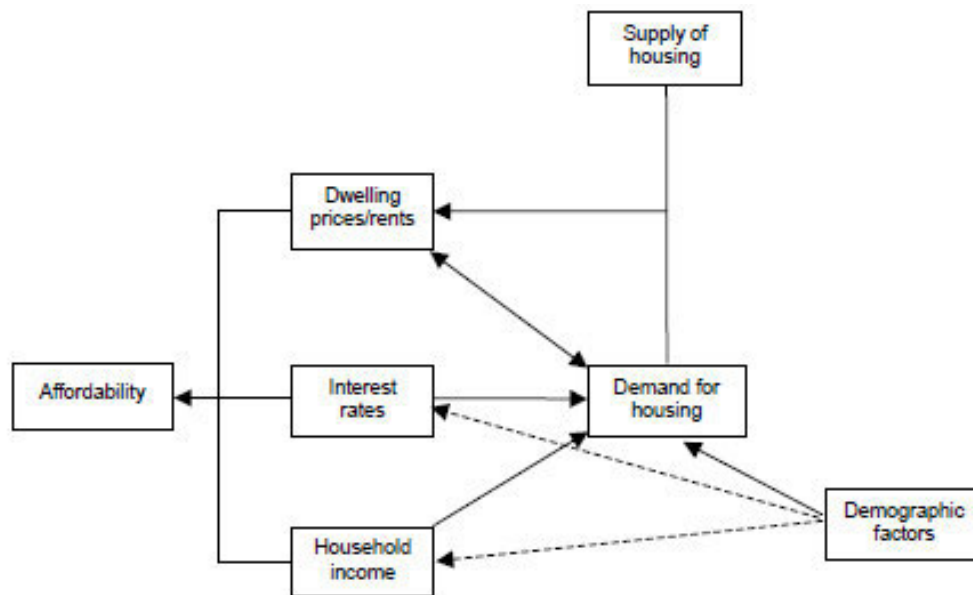
## 1.2 Is the Inquiry asking the right question?

Housing unaffordability is a demand as well as a supply issue

While a high-level review on housing supply and affordability is wholly justified, the framing of this Inquiry reflects, we believe, an unnecessarily one-sided interpretation of the problem. It does not take an economist to recognise that the price of any commodity reflects the interaction of demand *and* supply together. Moreover, as indicated in a highly summarised way in Figure 1.1, demand for housing is far from a simple and invariant function of population size or growth rate. It is in fact influenced by a wealth of factors, including more specific demographic trends, as well as broader economic conditions - including changing household income levels, wealth transfers and the cost and availability of mortgage finance, all of these mediated by policy settings that reflect political choices by both main levels of government.

An understanding of housing costs and unaffordability as a problem involving both demand and supply considerations is anything but a fringe perspective. This is explicitly recognised by many leading Australian economists (e.g. Eslake 2013; Phillips and Joseph 2017; Daley et al. 2018) and economic commentators (e.g. Janda 2015; Irvine 2021). Moreover, as shown by our own research, the balance of opinion among Australia's leading economists rejects any explanation of unaffordability that fails to account for property taxation settings, a key demand-side factor. Thus, by a margin of two to one, economists responding in our recent survey disagreed with the proposition that '*Explanations for Australia's poor record on housing affordability that emphasize tax treatment of housing are often overstated*' (Maclennan et al. 2021, p48). Further evidence from this research is reported in Section 2 below.

**Figure 1.1:** Determinants of housing affordability



Source: Yates and Milligan (2007)

The lack of emphasis on demand side considerations in the Inquiry’s terms of reference is therefore highly problematic. It is also difficult to resist the conclusion that, in line with recent assertions by the Federal Housing Minister (Thompson and Duke 2021), this may reflect a desire to cast housing unaffordability as the sole responsibility of state/territory governments rather than as a national concern that calls for Commonwealth Government leadership.

#### Is housing unaffordability really about shortage rather than distribution?

Framing housing unaffordability largely in terms of dwelling supply indicates a mistaken diagnosis of the problem as resulting entirely from housing shortage. Again, without denying the importance of adequate dwelling provision, this is a one-sided view that ignores the inefficient and inequitable distribution of housing in Australia. For example, more than one million homes (11.2% of the national housing stock) were empty on census night 2016 (Owen 2017). It is true that many such vacancies involve only temporary resident absence (e.g. away on holiday), with others empty in the process of being traded. Nevertheless, detailed analysis based on water usage data suggested that in 2014 around 4.8% of Melbourne dwellings (82,000 units) were intentionally vacant (Cashmore 2015), a figure that could imply 300,000 nationally (Murray 2017). This may, to some extent, reflect the growing scale of second home ownership in Australia.

More importantly, in addition to dwellings intentionally empty, ABS survey data shows that nearly 1.1 million owner occupied homes are grossly underoccupied – that is, containing three or more bedrooms in excess of the required number for the resident household (ABS 2019). Comparison with earlier ABS data showed that this cohort grew by 333,000 dwellings (45%) in the decade to 2017-18. This suggests that more effort is needed to promote suitable downsizer housing supply, including housing typologies that are more suited to this kind of demand – e.g. so-called ‘missing middle’ dwellings such as townhouses and spacious 2-3 bedroom apartments. In addition, targeted investment to expand the insufficient supply of smaller affordable rental homes could crucially enable more efficient use of under-occupied public and community housing stock – a substantial body of dwellings.



Another important dimension of the ‘problematic distribution’ perspective that has been highlighted by authoritative research is the way that a large proportion of relatively low cost private rental housing is occupied by moderate and higher income households. This allocative problem only goes to compound the gross shortfall in provision of private rental homes priced at a level affordable to low income tenants. Nationally, this deficit grew from 48,000 dwellings in 1996 to 212,000 dwellings in 2016 (Hulse et al. 2019 – Figure A4).

### Can we build our way out of the problem?

Leaving the lack of a demand side perspective in the Inquiry to one side, if we focus on the supply side issue, it is appropriate to ask how much *additional* supply would be required to materially affect house prices and improve the affordability of housing. While no such analysis has been published in Australia, findings from UK modelling on this topic are instructive. A major UK Government review found that expanding private housebuilding by 70,000 dwellings per year (i.e. a 50% increase) would reduce real annual house price inflation from 2.4% to 1.8%. ‘[M]ore ambitiously, to reduce the trend in **real** house prices to 1.1 per cent, an additional 120,000 private sector homes per annum would be required’ (Barker 2004 p5). Moreover, it is well established that developers build out rates reflect the rate at which new homes can be absorbed by the market (Letwin 2018). More recently, a leading UK economic commentator has reflected that:

*‘On typical assumptions about price sensitivity, and [official] projections of household growth, hitting the government’s target of 300,000 houses per year [approximately double current rates] might cut prices by around 10%, in today’s money, by the mid-2030s’ (Mulheirn 2021).*

While these comments refer to the UK, not Australia, they indicate the limited impact even significant increases in new housing supply would have on property prices overall. This is because the price of new dwellings is influenced by the wider market for existing housing, which constitutes the vast majority of housing transactions. In this context, developers are price takers, not price makers. It also follows that a substantial increase in new supply, even if the house building industry had the capacity to achieve this, would be needed to impact overall price levels in the secondary property market where prices are determined.

None of this is to argue that housing supply is irrelevant to housing affordability, or to deny the need for governments to use powers at their disposal to enable housebuilding at rates sufficient to accommodate household growth. All we are seeking to demonstrate here is that just as you cannot build your way out of traffic congestion through never-ending road construction, it would be likewise very difficult to expand housing construction sufficiently to reduce the rate of housing cost inflation, let alone to deflate property prices. House prices are largely determined by factors beyond the new home sector.

## 1.3 Mistaken assumptions on land-use planning

### Critiques of local and strategic planning

Beyond the implication that housing affordability is a problem for which state/territory governments bear responsibility, the framing of this Inquiry is clearly informed by the view that the problem results from undue interference with market forces – specifically, over-restrictive land-use planning. This viewpoint reflects a sustained critique aimed at the inefficiencies allegedly generated by the planning system and the negative impacts these have on housing supply and in restraining market activity. There is an extensive body of literature, often from an orthodox economics position and strongly supported by the development industry, that argues that planning essentially acts as a brake on supply, thereby creating a scarcity factor that pushes up prices beyond that which the market would ‘naturally’ support. Criticisms aimed at local government planning from this

perspective focus on the time taken to resolve development applications, inconsistencies between jurisdictions and the susceptibility of local decision making to local influences that militate against development activity – the so-called NIMBY problem. Corruption stemming from land dealing and development approvals has also been a recurring issue.

As with local planning, the role of strategic planning in achieving population welfare and economic efficiency has also been subject to considerable debate. Critics cite an official failure to designate sufficient residential land supply, either in greenfield locations or rezoning to allow higher densities in already built-up areas. Further criticism has been levelled at the failure to integrate the various levels of government decision making effectively, as well as disjointed land use planning and infrastructure delivery.

However, such claims overlook what we would argue to be fundamentally necessary and beneficial roles of planning. Importantly, these include fostering sufficient land supply for housing and for other social and economic activities. More generally, a basic justification for planning is the common good served by the appropriate juxtaposition of ‘harmonious land uses’. Thus, land use planning is understood to generate a net community benefit by comparison with the assumed disorderly outcome of a purely *laissez faire* approach to urban development.

Moreover, it is important to observe that the Australian planning system operates within a democratic context in which it plays a critical role in reconciling wider public and community interests with those of private land owners and developers. As such, it operates in a politically contestable arena in which all the various stakeholders have a reasonable expectation that their interests will be assessed and balanced. As a major review of the planning system in the UK has recently put it, planning ‘is in every way a people-centred activity which involves the messy job of mediating change in complex environments’ (Town and Country Planning Association 2018 p13). This ‘messiness’ has become more prominent as urban growth has shifted decisively into renewal and infill redevelopment in recent years, a much more complex task than traditional greenfield development. As the Mayor of the City of Ryde recently commented on the pressure for more density in his authority: ‘Whacking 20 storeys on top [of a building] is a developer’s utopia but not a citizen’s utopia. It is more than just what is in the best interests of developers – *you have to foster community*’ (quoted in O’Sullivan 2020, our emphasis).

Australian development industry players often loosely assert that the cost of compliance with planning obligations, taxes and fees directly adds to house prices, thereby impacting affordability. However, as reported by Gurran et al. (2009 p13), most individual developers recognise that “a direct transfer of costs or charges [is] unworkable due to market dynamics”. In other words, it is acknowledged (albeit often silently) that the price of new housing is set by the broader housing market, as noted above, and not by the cumulative cost of the associated inputs. This is not to deny that costs of provision are relevant. Developers are going to build for sale only if their business plans show that estimated (market-set) prices are sufficient to justify development risk, factoring in profit margins of an acceptable level and all other scheme costs.

A short explanation of the Residual Land Valuation method used by developers to assess scheme feasibility, and hence the price they are willing to pay for the land, is presented in Box1. This is relevant to both the position we take with regard to the logic of residential development process here, but also to an understanding of the impact of government taxes and charges presented in Section 4.

### Box 1: The Residual Land Valuation method explained

#### A Short Introduction to Residual Land Valuation

To assess the impacts of taxes and government charges on the supply of housing, it is necessary to understand how the financial feasibility of a proposed development is typically determined using the Residual Land Value method. The key point here is that it is a misconception that new dwelling prices are determined by the sum of their construction and land costs. Instead, as new dwellings are competing with a significantly larger number of existing dwellings, they take their price from the broader housing market. Consequently, it is the value of land which is determined by the market price of the dwellings expected to be built on it – the potential gross realisation value (GRV) – less the costs of development.

The costs of development can be broken down into seven basic categories: Land Value; Design and Construction; Fees and Charges (Including professional fees), Marketing, Finance, Profit and GST. Within these costs, the margin for developer profit reflects the assessed risk of the project. Once these costs have been taken away, the residual amount is the maximum amount a developer could pay for the land in order to make their target profit margin. If the residual land value is greater than the market value of the existing use of the land, the project is considered to be financially feasible.

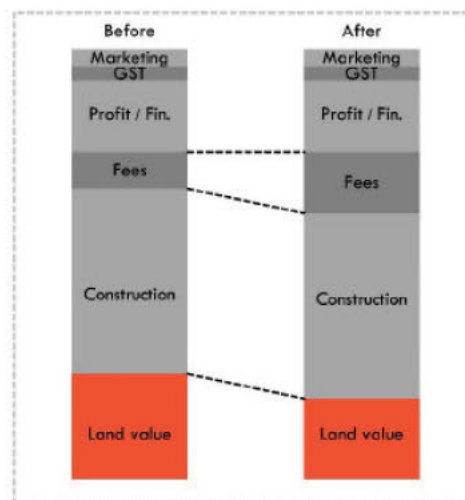
In this context, the planning process is a permissive system that activates the GRV on a land parcel once planning permission has been granted. A more formal way of putting this is to say that “the value of regulated development rights (allowable land-uses) is capitalised into the price of land” (Spiller et al. 2018 p.3).

The Residual Land Value method determines a project’s viability is assessed ahead of time – i.e. before a land purchase has been made. Once land has been purchased, changes to the market price of dwellings or project costs are no longer able to be transferred into the land value and instead result in the profit margin increasing or decreasing or construction costs being squeezed. However, any increase in property sales prices subsequent to the land purchase stand to be captured by the developer by an increased profit margin, all other things being

equal. This is why developers are keen to supply into a rising market.

But what happens when government taxes and charges are increased? Figure B shows the resulting impact on the equation from an increase in these fees leads to a reduced land valuation (unless the developer is willing to reduce their profit margin). In a situation where any level of government would seek to increase the taxes and charges on development projects after land has been purchased, it would be important to consider the impact on the viability of projects which are currently underway.

Figure B: How an increase in fees impact residual land value (Murray 2020, p. 5)



Is it likely that a developer would voluntarily seek to sell newly developed houses at a lower than market rate to provide a more affordable product? This is perfectly possible, but to achieve this it would be necessary to reduce one of the cost elements in the project. As construction costs, professional fees, government charges and taxes are input costs set by the market, this would likely result in a reduction in the profit margin or a residual land value. Consequently, taking this course of action would result in a competitive disadvantage, as other developers are able to provide higher bids for land or receive higher profits.

Specific concerns on ‘the planning system’ as a limiting factor for new housing supply  
Crucially in this argument, the contended key limiting factor for new housing supply is land use planning. To the extent that such arguments are expounded in more detail, there is rather a disparate range of targets. These include:

- i) Insufficient housing land allocation (see Section 2)
- ii) Minimum design/environmental standards (see Section 2)
- iii) Laggard development approval processes (see Section 3)
- iv) Taxes and infrastructure levies (see Section 4)
- v) Restrictive zoning that limits density in inner and middle ring capital city suburbs.

Item (i) in the above list partly reflects the logical case that, all other things being equal, restrictions on the supply of developable land will inflate its price. However, while planning may well aggravate such pressures, it needs to be recognised that land is an unusual commodity in that its supply and subsequent development often lags demand, especially in periods of rapid growth. Beyond this, as noted above, it has been established that in practice, land and housing supply is carefully managed through the development industry’s traditional ‘drip feed’ behaviour (Leishman 2017). This supports price maintenance as well as managing capacity constraints, essentially to best accommodate risk while maximising potential yield. Land banking is a specific and long-established developer practice, in the expectation of building out gradually so as not to depress local prices and to benefit from any increase in dwelling prices during the land release period (Murray 2019). Indeed, developers may be compelled to release building lots slowly to take maximum advantage of rising property markets in order to compensate for the high prices they have had to pay to secure sites in highly competitive land markets (Adams et al. 2009).

The common practice of ‘flipping’ sites with planning approval; for example, as advertised on the Trovit.com property site<sup>1</sup>, attests to the role of speculative land dealing in the land supply process. If there are real constraints on land supply, then the development industry has a major role to play in this situation. Moreover, developer behaviours vary considerably, imparting a substantial heterogeneity into land and dwelling supply responses (Leishman 2015). As a recent AHURI report concluded:

*While the planning system can create opportunities for development by zoning land and ensuring that zoning and development controls allow for a range of housing types, decisions about whether and when to develop are ultimately made by the development industry and reflect market factors. (Rowley et al. 2020 p2).*

The point here is that the actions of landowners and developers are highly influential in how land is released and developed, even after development approval is granted. As Kaiser & Weiss (1970) noted over 50 years ago:

*...if public policy was to be effective in guiding patterns of new urban growth, it must be based on a realistic understanding of the development process (p. 30).*

Issues (i)-(iv) in the above list are further discussed in the report as indicated. At this point, however, it is appropriate to highlight that item (iv) raises a wider policy question on the funding of

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<sup>1</sup> <https://australia.trovit.com/property/da-approved-development-site-sydney>



infrastructure essential to the establishment or densification of a suburb. Historically, such costs were borne by the community as a whole (i.e. via general taxation), but under now long-established policy choices, they are assumed as legitimately borne by new development, at least in part. While it is well within scope to reconsider these policy choices as part of the current debate, it is irresponsible to call for the abolition of such charges without advocating alternative funding models.

As to issue (v), we accept that this may be quite valid as a criticism of policy settings that impede urban productivity, although the political feasibility of relaxing such controls seems highly questionable. The problem might be cast much more as 'local democracy' than 'planning' in action.

For all of the reasons discussed above, a sole focus on one component of the development process – the planning system – will miss the other major factors that influence housing supply, and by implication price and affordability. Research at City Futures is progressing on this complex issue on a number of fronts. In the following, some initial results from currently ongoing studies is presented to offer some important insight to inform the Inquiry's deliberations.

## 2. Exploring experts' views on planning and housing supply

### 2.1 Sampling experts' views – recently completed City Futures research

In late 2020 and early 2021, we undertook research involving 87 leading Australian professional economists and housing specialists to assess their views on the relationship between housing markets and the wider economy, including affordability and supply (Pawson *et al* 2021). An online survey was followed up by in-depth interviews with 20 of this group (all but one, an economist), chosen to reflect a variety of views as expressed through the survey responses.

This body of work is therefore pertinent to the focus of this Inquiry. It reveals that leading commentators hold diverse opinions on the role of planning in influencing housing supply, and thereby affordability. There is by no means a consensus on this issue.

A wide range of propositions pertaining to the housing system and the wider economy were canvassed in the survey and follow-up interviews. These included two statements focusing on prevailing critiques of the planning system<sup>2</sup>. The first of these, related to local planning, we take to encompass the responsibilities of local authorities tasked with establishing local development control plans that regulate and permit development within their boundaries. Decision making vested at that level is usually undertaken by council members, planning staff or advisory expert Panels, while sometimes decisions are passed to the relevant state/territory Minister.

The second proposition concerned the role of strategic planning in promoting regional development, including the need to align both land use and economic development policies to support broader economic development goals. In Australia strategic land use planning remains a responsibility of state and territory governments, albeit often implemented by local councils. A key function of metropolitan and regional strategic plans is to better coordinate the future location of both housing and economic activity. In this way, strategic planning has a significant influence on the future housing supply process.

Importantly, this aspect of planning also encompasses a major integrative function linking land use outcomes with major investment decisions made by governments on infrastructure provision, both hard (rail, road, etc) and soft (schools, health facilities, etc). Although often not directly linked to housing supply, these major infrastructure investments themselves have a significant impact on housing supply going forward and are often branded as 'city shaping' interventions aimed at guiding future development activity.

Although local and state/territory governments play the dominant role in the planning system itself, including infrastructure decisions, the Federal government is also very influential, both at the level of larger scale infrastructure investment decisions, such as City Deals and other major infrastructure decisions, but also in the many other policy areas that play out in both housing and labour markets across the country.

Planning is therefore a multi-scalar and multi-agency process, encompassing local land use controls, strategic regional level decision making, infrastructure coordination and national investment priorities. This adds significant complexity to developing an accurate understanding of the role the planning system plays in housing supply outcomes across Australia.

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<sup>2</sup> Land use planning is broadly defined here as both planning for determining longer term strategic land uses across a region and more local development control planning regulating development.



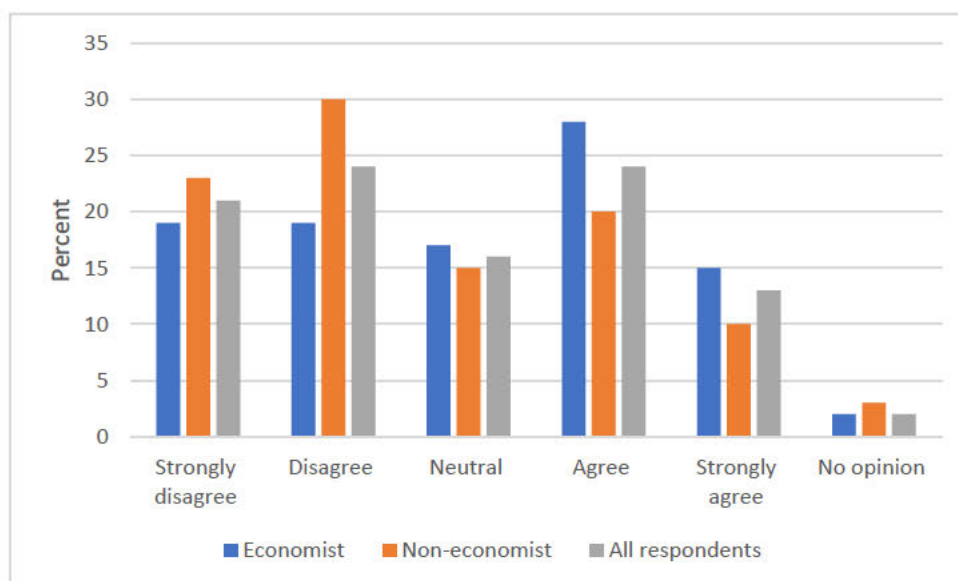
Not surprisingly, given such a multi-scalar governance context, interviewees did not necessarily always differentiate between these levels of government, and this is reflected in the discussion below. This latter point highlights that in practice spatial planning is a constitutionally devolved responsibility. Consequently, there are a wide variety of planning frameworks as each state and territory is responsible for determining its own planning system. This adds significant complexity to developing a full understanding of the role the planning system plays in housing supply outcomes across Australia.

## 2.2 So what did the experts say?

The survey of experts posed two questions as stated above. The responses are discussed below, amplified by a qualitative responses drawn from the interviews.

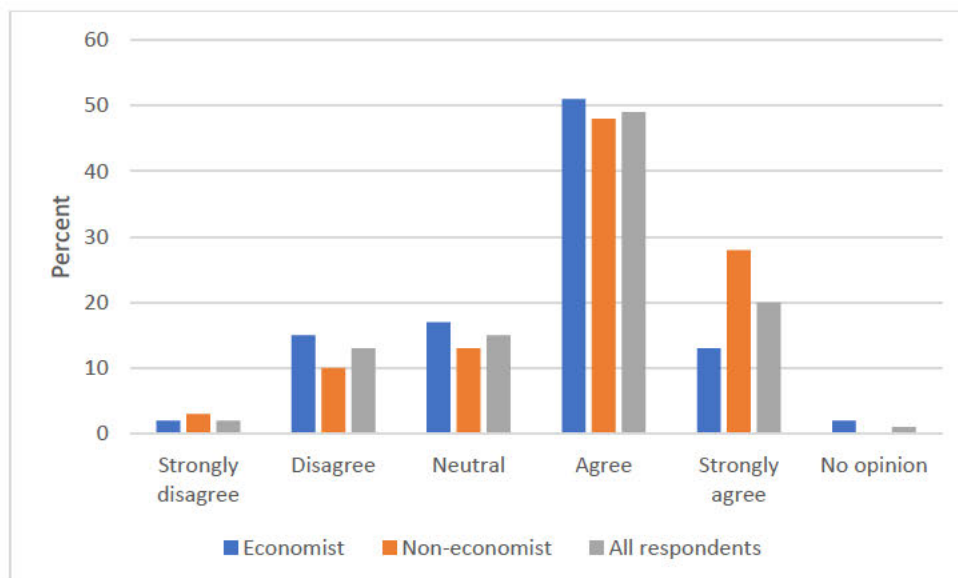
Expert views on the culpability of slow and restrictive local planning decisions for housing unaffordability were somewhat polarised (Figure 2.1). While just over a third (37%) agreed, rather more (45%) disagreed. Non-economists were more inclined to reject the statement than economists. This difference may partly reflect the contrasting level of engagement with, and understanding of, the planning process between the two groups.

**Figure 2.1:** Proposition: *'The slow processes and restrictive quality of local government planning decisions are the major cause of poor rates of housing affordability in Australia'*



Source: City Futures research (Maclennan et al. 2021b) Experts' views on strategic planning were much less equivocal. By a large margin (70% 'for' and 15% 'against') they agreed with the proposition that poor strategic land use planning has led to mismatches between new housing construction and the location of employment opportunities (Figure 2.2).

**Figure 2.2:** Proposition: *Poor quality strategic metropolitan planning has led to a geographical mismatch between jobs and homes and under-supplied new places to live and work without long commutes*



Source: City Futures research (MacLennan et al. 2021b)

In sum, the 87 experts may have mixed views about the impact of local planning on housing supply, but they were much more united about strategic planning that failed to deliver coordination of infrastructure and housing development at the regional level. If there is a problem with the ‘planning system’ overall, this was more clearly related to poor strategic planning than to local planning restrictions.

### 2.3 Experts’ reasoning on the impact of local planning on housing supply

Expert interview responses on this topic revealed the complexities of the issue. On the one hand, there was a strong view amongst some, especially economists, that planning indeed obstructed efficient land use outcomes, especially in rapidly growing areas:

*The way that planning is inefficient and where the processes are particularly are inefficient then you will exacerbate supply constraints. .... But the experience there are also highlights that when local governments aren't really on top of the strategic needs or they lack the resources and a number of other considerations, you'll get bottlenecks. (Government G1)*

But there was a recognition that variations in the range of local government responses to development needed to be factored into any argument on supply constraints:

*I mean, there's no silver bullet here, but some jurisdictions do it better than others ..... I think the ones that tend to do it very efficiently sort of understood that the population and the business growth was actually really important to the local government, and that the planning system and its efficiency was a result. (Government G1)*

A further view was that local government was prone to NIMBYism, especially in higher value locations with a vocal population. So it wasn't the statutory planning process *per se* that got in the way, but local voter backlashes.

*NIMBYism is a very powerful force ... particularly ... New South Wales (Consultancy C7)*

Another point was that the real impact of planning restrictions was not in the time it took to determine a planning proposal, but in the development controls that constrained flexibility in supply:

*There is no doubt that planning processes [has an effect] .... but it's a relatively small portion of the total cost. It's more the fact that we get the height restrictions or floor space restrictions, that that's the thing that is that is probably restricting the supply. (Consultancy C4)*

Picking up on this distinction, in a perceptive comment, one respondent differentiated between two separate issues regarding the impact of the local planning system on supply. This was the difference between the *efficiency of the system* itself – the time taken to make a decision – and the *outcomes of that decision*, which is often the main source of contestation:

*The difficulty of this is that I think economists that see the decision making as being really important are actually conflating two dimensions. One is the efficiency of the decision-making process and clearly these are going to be made [quicker] from more efficient processes..... And the second thing that I think people on that side of the fence are saying is actually that the nature of the decisions should be different. And I think the debate around the second is far more important than the debate around the first. (Government G3)*

More generally, there was a wide recognition from respondents that planning was only one of a range of factors, and possibly a relatively minor one, that impacted on housing supply and affordability:

*There are bigger macro-issues that are more important. LGAs are getting quicker at turning around DAs, but it's a bigger issue than that. Federal and State government has the main levers on house prices. (Consultancy C3)*

*I do think planning plays a role .... both positive and negative. But I just don't think it's credible to argue – as do, say, the Grattan Institute – that the planning system is primarily at fault. I think there are a range of factors, you know, monetary policy, for example, which has helped inflate housing prices. Strong population growth ... growing inequality. So there's a myriad range of factors. (Academic A3)*

One reason for planning delays is that developments, especially involving urban renewal infill sites, have become much larger and more complex in the last decade or so, and this will inevitably have an impact on the time taken to review and adjudicate on proposals. We present empirical evidence on this issue in Section 4 below.

Moreover, the role of local planning in constraining supply was unequivocally dismissed by one urban economist, placing the emphasis on land owners who carefully manage land release:

*There are no serious supply constraints through the planning system in our country ..... In central Melbourne there's 40 years supply. 40 years supply! It is not ... that planning constrains the production of multi-unit housing; the constraint rests with the holders of those developable sites. And therein lies a major challenge. How do you get them to release this land? But it's not it's not as if the planning system is rationing. It's not the limiting factor. It definitely is not. There are incentives for landholders to hang on to their land ... windfalls to be gained from that process. And so we need to look outside of the planning system to address that and, in particular, you know, asserting public ownership of development rights and taxing [them]. (Consultancy C2)*

This was echoed by a housing economist:

*We have had very healthy levels of supply in Australia compared to other countries. Perhaps they're not being built in the right places or perhaps they're not being built in areas where people really need them. But they're being built and I have more concerns about the demand side factors. (Academic A8)*

The important role the development industry plays in determining supply was also a key factor which impaired the competitiveness in the market:

*We have a system now where basically only really big companies with deep pockets can participate. So the development process was a lot more competitive in the past, lots of small players could be in it. But you know the time it takes to .... acquire land, get it through the system, get it developed takes a long time and deep pockets? And so it's not very competitive ... particularly with move to pretty much everything being master planned and we obviously pay a price for that. (Academic A7)*

Finally, some saw the issue of housing supply as linked to the efficient system of taxing land value increments, rather than planning, which led to perverse incentives to game value uplift outcomes by landowners and developers through land banking:

*An appropriate tax on the increase in land values ... [which] could completely change the incentives of the developers and the landholders (Consultancy C6).*

## 2.4 Experts' reasoning on the impact of strategic planning on housing supply

While the panel of experts broadly supported the indictment of strategic planning voiced in the survey proposition, their testimony also revealed a nuanced understanding of the issue. For example, for one interviewee, it was less a case of strategic planning being inefficient in itself, and more a matter of constraints on appropriate implementation:

*I think it's probably that I'm more concerned about the execution or implementation of those plans ... And the dishonouring of those plans by the Parliaments (Academic A1).*

Inevitably, the tension between the longer-term objectives of strategic planning and the short-term goals of the market came up. The move to more compact development was recognised, but the market often has other objectives. In discussing the impact of planning in shifting towards more compact city development one interviewee noted:

*Strategic planning ... has actually created the change in density in cities that wouldn't have happened had you had not that strategic planning and as much as there may be problems with it, it has actually created a bit of diversity. (Academic A6).*

The tensions between government departments themselves were identified as a critical issue, as well as a lack of *integrated* strategic planning at the city level leading to a governance gap in the planning and implementation process.

*There is a disconnect between the way we plan for the spatial economy and the way we plan for housing production. [State governments are] prone to silos and they have different drivers ... . And institutionally we're not capable of reconciling that tension ... because we don't have metropolitan governance (Consultancy C2).*



At the same time, however, other respondents felt that strategic planning had only a minor role in housing supply and the spatial outcomes it generates, or indeed, if strategic planning was much of a real problem:

*Urban development's got very little to do with planning. It's got a lot to do with investment. The quality of planning bears little relationship to urban development in Australia, or elsewhere. The incentives are so strong for the private sector to try to make [large profits from land development] (Academic A2).*

*Because there's so many macro policies that drive the [market] .... Certainly, when I talk about this to other economists, I rarely get the notion that the problem is [mainly] obstacles to supply (Academic A5).*

*Strategic planning is just one of many issues (Consultant C8).*

As with local planning, it would seem from the responses to this question, therefore, that while our panel of experts saw strategic planning as part of an issue, they understood that it might only play a contributory role in generating sub-optimal economic outcomes in our cities.

## 2.5 Summary

Survey respondents had diverse views about the role of the planning system on housing affordability and urban economic productivity. When asked if local government planning decision making was a major cause of poor housing outcomes, most disagreed, although economists were less likely to disagree than non-economists. Nevertheless, local councils were criticised for failing to deliver clear and consistent decisions on development, especially in areas of rapid growth. Local politics – NIMBY-ism – could also be a problem in higher value locations. Others, however, saw planning as only one of a number of factors, and possibly only a minor one, impacting the supply and price of housing. The role of the development industry itself in determining rates and locations of housing supply was also highlighted.

There was much greater agreement that poor quality strategic planning had led to spatial mismatches between housing and employment, especially in the major cities. However, even this level of agreement revealed a more complex range of views. Rather than blame strategic planning *per se*, several respondents recognised the challenges inherent in developing spatial plans that could encompass the complex forces driving development in a large city region. There was also recognition of the difficulties in implementing a strategic plan once developed – in the face of the challenging dynamics of both the market economy naturally seeking to maximise profitable development outcomes and the risks and tensions inherent in the political system.

Tensions between the goals of land use planners who developed strategic city plans on the one hand, and the state agencies who determined major economic and infrastructure decision making, on the other, were also seen to lead to poor policy integration at the city scale. This was put down to a lack of effective metropolitan scale governance .

The point is that in seeking to address the role that planning system plays in housing supply, care must be taken to explore both the complexity and multi-scaled characteristics of the processes involved, the varying influence the three levels of government play in the process with all levels having hands on various levers that impact supply outcomes, and the active involvement of the development industry and landowners in managing the process.

### 3. How much time does the planning process take?

#### 3.1 Original research on the multi-unit residential development process

The City Futures Research Centre is currently conducting a multi-year research project on development processes and timelines for multi-unit residential (Class 2) buildings in metropolitan Sydney built in the 2010s. Preliminary (and unpublished) results from the research project are instructive in relation to two aspects of the Inquiry's concerns. The first relates to the typical timeline of an apartment building development project from land purchase to final scheme registration, including the planning approval stage. Initial findings on this aspect of the research are presented in this section. The second aspect of the research directly relevant to this Inquiry analyses the cost components of multi-unit development, including taxes, charges and estimated outturn profit margins. Emerging findings from this dimension of the study are presented in Section 4.

Data on four key datasets have been matched to cadastral records to conduct the analysis:

- Sales of land which would be used as development sites
- Applications for planning permission to develop sites into multi-unit residential buildings, including the time taken to assess these applications,
- The sale of residential units, including off-the-plan sales, and
- The registration of strata plans, used as an indicator of building completion.

These data sets have been obtained from the relevant NSW Government agencies, including the NSW Department Planning, Infrastructure and Environment (development approvals) and the NSW Valuer Generals Department (strata registrations) and NSW Land and Property Information (land and property sales). These have been combined to obtain information on the characteristics of the multi-unit residential schemes over the study decade, such as the project's size and its progression through various stages of development. At the time of writing, we have completed this analysis for 1,989 multi-unit schemes across greater Sydney for our specific time period.

#### 3.2 Development timelines for multi-unit apartment development in Sydney

Our evidence for this section is based on preliminary analysis of 1,989 multi-unit residential development sites across metropolitan Sydney for which a planning application for multi-unit residential development was approved between January 2010 and March 2020. The dataset was limited to schemes with a minimum size of five strata lots. The size distribution of these schemes reflected the overall profile of schemes across Sydney, ranging from five units to 1,485 units in the largest scheme.

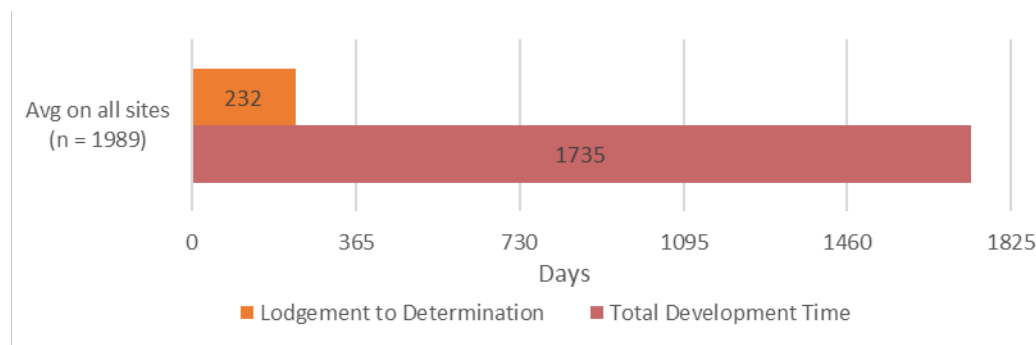
To examine the timelines of each development, we have taken five key dates to distinguish between different stages of a development, derived from a range of data sources linked at the cadastre (land parcel) level:

- i) The first purchase of land for the development site
- ii) The lodgement of the first successful application for planning permission for the development
- iii) The approval of the same application
- iv) The first sale of a strata unit
- v) The registration date of the last strata plan associated with the project.



From the dates above we can identify the duration of planning application assessment (from the date of lodgement to the date of approval) and the total duration of the development process (from the first land acquisition to the registration of the strata scheme). Across the 1,989 developments examined so far, the average amount of time spent assessing the planning applications for each of these sites was 232 days (a little over seven and a half months<sup>3</sup>), within an average total time for a development of 1,735 days (57 months, or 4.75 years) from land acquisition to strata registration. In other words, the data indicate that the planning determination process itself accounts for 13% of the total time taken to bring a typical multi-unit development to completion. This is shown in Figure 3.1.

**Figure 3.1:** Time taken for planning determination and total development period, Sydney multi-unit schemes 2010-2020 (n=1,989) (days)



Source: City Futures Research Centre – Developing the Compact City (unpublished)

It was clear from the data that multi-unit development is a complex process with a range of approaches to delivering a scheme. For example, while the most common sequence of events followed the timeline outlined above (land acquisition, lodgement, approval, first lot sale and strata registration), this series of processes accounted for just 44% of the all the schemes in the sample. Other common staging strategies included

- completion of land acquisition following lodgement or after development approval
- on-selling of the site with development approval.

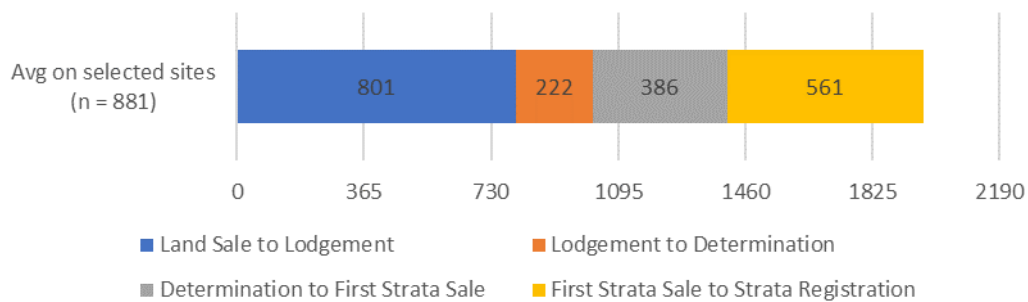
For the 44% (881) schemes with the most common sequencing, the breakdown of staging is shown in Figure 3.2. In this sequence of steps, the first stage (shown in blue) reflects site acquisition (potentially involving multiple parcel purchases), design processes and preparation of a planning application. This averaged 2.2 years. It may also reflect a degree of ‘land banking’, with the site held until development is more propitious or all component lots are purchased. This stage also includes those cases where the development was not initially compliant with applicable planning controls (either because of a rezoning proposal or the submission of non-compliant planning applications) which may have caused the proposal to be initially rejected.

The second stage (shown in orange) represents the time taken for the planning application to be assessed and approved by the relevant planning authority (typically a local council or planning

<sup>3</sup> This very close the average time (7 months) assessed as ‘reasonable’ for a infill (multi-unit) development in Sydney by The Centre for International Economics for the HIA in 2019 (<https://hia.com.au/-/media/HIA-Website/Files/IndustryBusiness/Economic/research/cie-taxation-of-the-housing-sector.ashx?a=en&hash=7FB11328518224A1D60EB14EEEB4CB79D139B29C> ).

panel). This averaged just under eight months in the sample, very close to the time recorded in the entire 1,989 schemes for which we have data.

**Figure 3.2:** Total development timeline, Sydney multi-unit schemes 2010 – 2020 (n=881) (days)



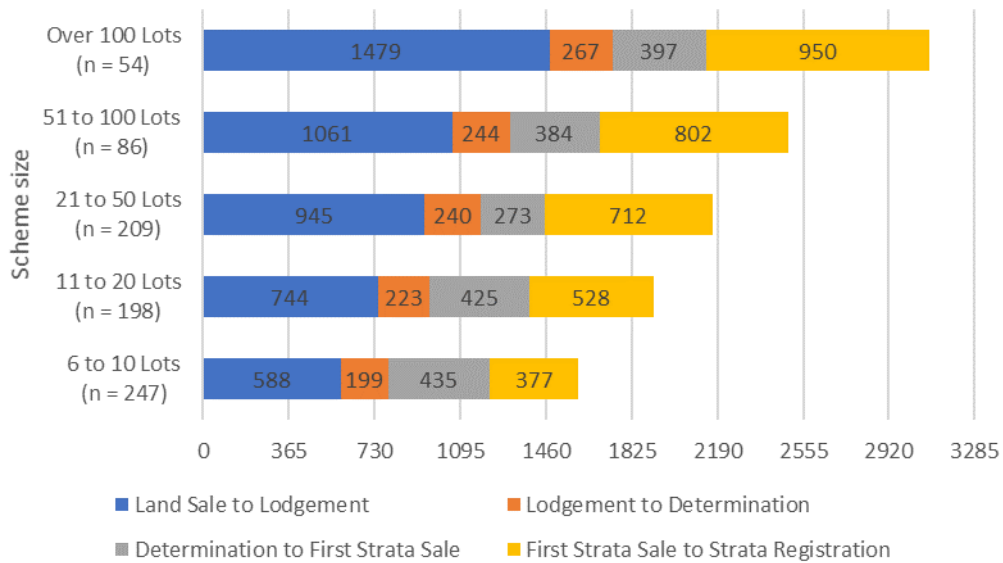
Source: City Futures Research Centre – Developing the Compact City (unpublished)

The third stage (shown in grey) represents the time taken between determination and the first ‘off-the-plan’ sale, typically just over a year. In this period, the developer is typically finalising the design, appointing builders and securing finance. The final stage (shown in yellow) essentially represents the construction and marketing period which might include modification to the original planning approval. The end of the process is marked when the completed strata scheme is registered with the Valuer General, essentially on practical completion. Overall, the average length of time following on from planning approval until completion (the grey and yellow colour bands) extends for an average of two and a half years.

What is noticeable in the above analysis is that the time taken to actually determine a planning outcome for these developments constitutes the smallest component of the process. It should be recognised, however, that the pre-submission period may well entail pre-lodgement negotiations with Council as well as preparation of the required supporting documentation. As such, these might be considered as part of the planning process, but there is no recorded data to allow this to be assessed.

The variation in average time taken by the size of the development scheme is presented in Figure 3.3. This shows that the average scheme delivery times increases substantially with increasing size of scheme, from 1,599 days (4.3 years) for small (6 -10 lot) schemes to 3,093 days (8.5 years) for schemes over 100 lots. That larger schemes take significantly more time to deliver is no surprise. However, the main difference appears to be the pre-lodgement periods which rise significantly as scheme size (and by implication, complexity) increases. These large schemes are often delivered in several stages, each with separate planning determinations, marketing campaigns and strata registrations. It is noticeable that the planning assessment period averages 12% of total development process duration for the smallest schemes, but only 8% for the largest schemes.

**Figure 3.3:** Total development timelines by size of scheme, Sydney multi-unit schemes 2010 – 2020 (n=881) (days)



Source: City Futures Research Centre – Developing the Compact City (unpublished)

### 3.3 Summary

Albeit recognising its preliminary status, a number of conclusions can be drawn from the above analysis. Crucially, the process of gaining a planning determination represents only a modest proportion of the total time taken to bring a multi-unit development to completion. In our total sample, this averages 33 weeks out of a total development time of 4.7 years. Clearly, while important – after all, planning approval determines whether or not the scheme proceeds – it is just one component of what is a time consuming, complex and multi-risked activity. Halving the time taken between lodgement to determination, if that were possible, would only reduce the overall delivery time by an average of 7%: important, of course, but not critical. For the largest schemes, halving the determination period would reduce the overall development period by just 4%. It is difficult to conclude from these data that the time taken to undertake a development determination represents a major constraint on scheme delivery.

## 4. How much are multi-unit schemes taxed?

### 4.1 Overview

In this section, to quantify the levels of taxes and government charges on the total costs of a development, we present a preliminary analysis of 30 multi-unit developments in six local government areas across Sydney<sup>4</sup>. The LGAs were selected to represent a range of land values within metropolitan Sydney and, within these LGAs, the 30 schemes were selected to represent different scales of development, ranging from small scale developments with just 11 units through to large multi-staged projects delivering up to 1,763 strata lots. All these developments were completed in the period 2010-2020.

Drawing on this analysis we comment on the impact of these charges on the costs of development and, importantly, reflect on the apartment affordability impact that would result from these being reduced.

This analysis drew on scheme data drawn from the datasets specified in Section 3.1. Taking account of land acquisition price, construction costs and total sales revenues, the individual cost components of each scheme were totalled. Costings were based on nominal values. Following accepted developer practice, costs of marketing, development financing, professional fees, taxes and charges were estimated for each scheme and a profit margin calculated from the balance between total scheme costs and total scheme revenues. While some of the thirty projects were estimated to have achieved profit margins considerably lower than the industry standard hurdle rate (20%), none of the developments were identified as making a loss.

The analysis assessed the following fees and charges associated with each development project:

- *Transfer duty* on the original land purchase, payable to the NSW Government;
- *Net GST liabilities*, payable to the Australian Government<sup>5</sup>;
- *Land tax*, payable to the NSW Government<sup>6</sup>;
- *Development application fees*, payable to the relevant local government; and
- *Local infrastructure contributions*, payable to the relevant local government<sup>7</sup>.

The assessment *did not* include the following government charges:

- Transfer duty paid on the sale of new housing. This is paid by the buyer direct to the NSW Government
- Taxes not specifically related to a development project, such as tax on company profits.
- Other uncommon charges which are not widely employed across Greater Sydney (e.g. contributions for affordable housing).

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<sup>4</sup> These were City of Sydney, Ryde, Ku-ring-gai, Canterbury-Bankstown, Parramatta and Penrith.

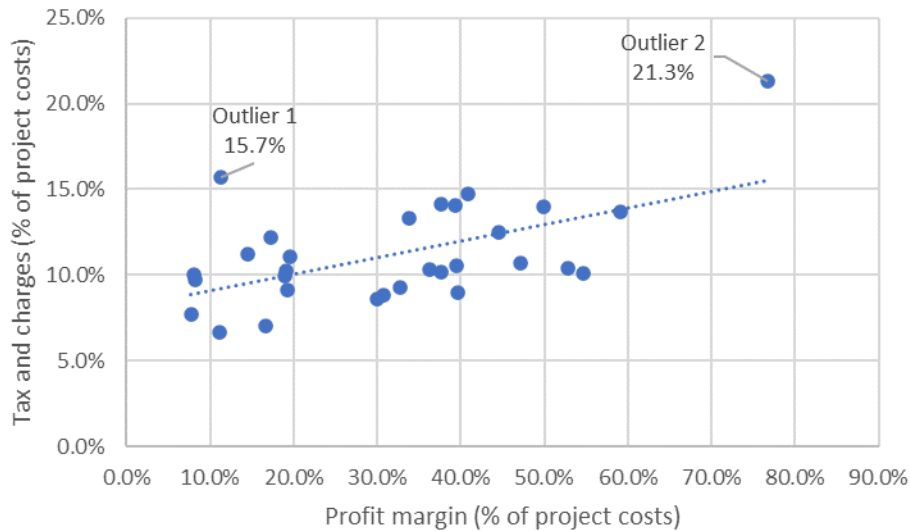
<sup>5</sup> This incorporates the use of the GST margin scheme (where applicable) and input tax credits to determine the net GST liability of each project.

<sup>6</sup> Data on the land values used to calculate a land tax liability was not available prior to 2012, so our approach may overestimate land tax liabilities for land purchased prior to this point

<sup>7</sup> Data was not collected on the actual rate of local infrastructure contributions paid on each site. Instead, a standard rate of \$20k per dwelling was used. This is likely to result in an overestimate in most cases.

Overall, profit margins are positively correlated with the proportion of costs accounted for by government charges. Figure 4.1 shows this for the 30 schemes<sup>8</sup>.

**Figure 4.1:** The relationship between government taxes and charges as a proportion of total development costs and profit margin (30 sample multi-unit schemes), Sydney



Source: City Futures Research Centre – Developing the Compact City (unpublished)

#### 4.2 What proportion of scheme revenues do taxes and charges take?

To simplify the presentation, the 30 detailed scheme cost breakdowns have been split into two ‘exemplars’, one representing schemes with between 1 and 100 strata lots built (n = 19) and one for schemes with greater than 100 strata lots (n = 11). Figure 4.2 shows the average proportion of total costs of the identified cost components across each of the two size exemplars. The data indicate that government taxes and charges accounted for 11.3% total scheme costs, excluding profit, in the smaller example and 10.1% in the larger.

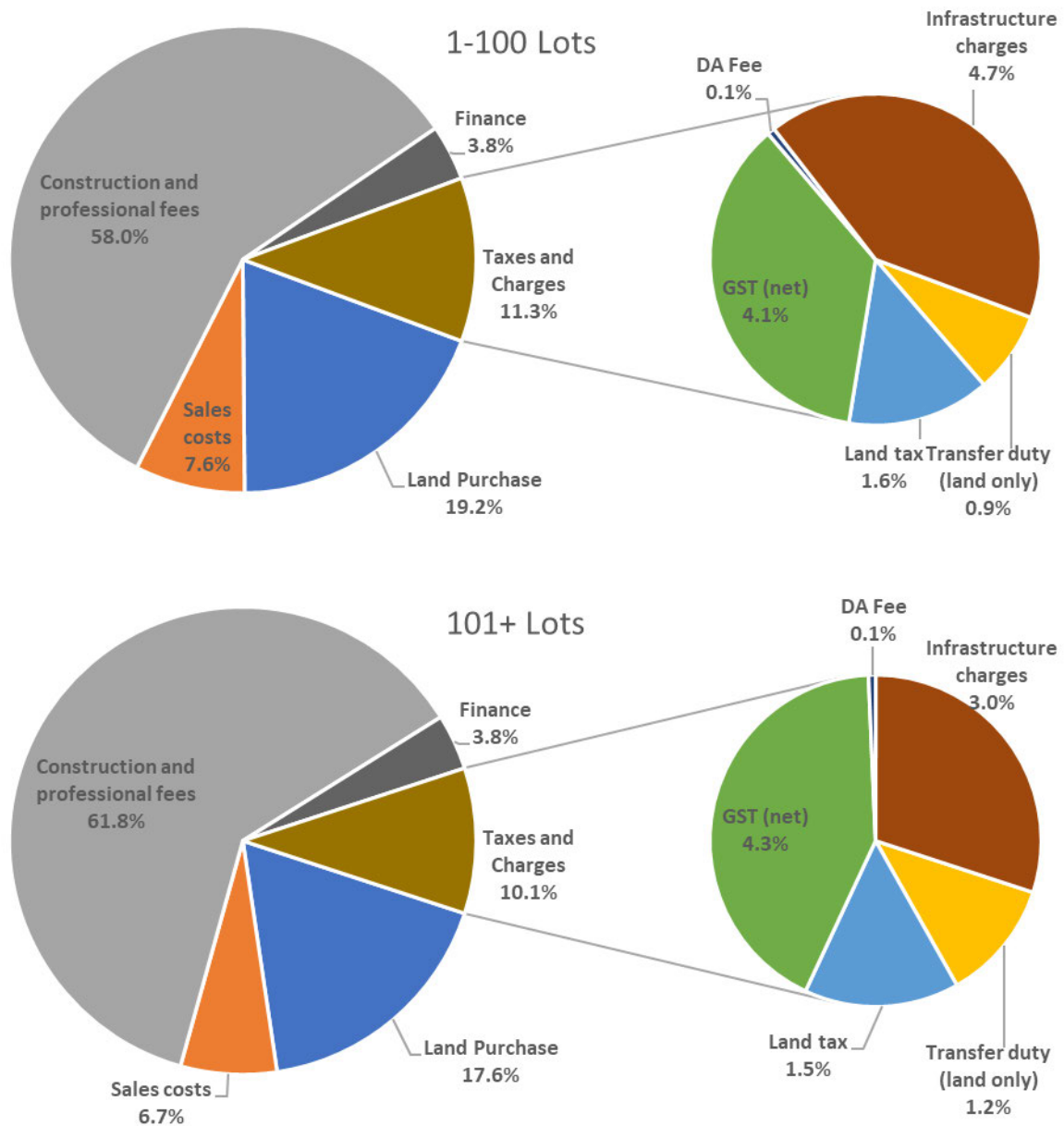
Perhaps surprisingly, government charges make up a smaller proportion of total costs in larger projects. The larger projects had a higher average per-dwelling construction cost, so local infrastructure contributions (assumed to be fixed at \$20,000 per dwelling) reduces as a proportion of total costs. The detailed breakdown of government taxes and charges shows that GST accounts for a significant tax share of 4.1% of total costs for smaller schemes and 4.3% for larger schemes. Next most significant are infrastructure charges at 4.7% for smaller schemes and 3% for larger schemes, with land tax (1.6% and 1.5%) and transfer duty on land purchase (0.9% and 1.2%). Lodgement fees account for a marginal 0.1% of the total.

As noted above, the transfer duty paid on sales of newly built units is paid directly to the NSW Government by the buyer and is not a cost borne by a developer. Indirectly, of course, this forms part of the cost of purchasing. Its removal, in favour of an expanded land tax, as proposed by the NSW Government, is likely to increase the market price of housing at least in the short term, as the

<sup>8</sup> There are two notable outliers in our sample which were assessed to have attracted considerably higher taxes than expected. The first outlier has (according to our assumptions) an abnormally large land tax liability; however, this is likely a significant overestimate due to our lack of land value data prior to 2012. The second outlier paid the highest proportion of scheme costs in tax (21.3%). In this instance, the revenue per unit sold was dramatically in excess of what would be expected for their per-dwelling construction costs, resulting in windfall profit of 77% and consequently a substantially higher than average GST liability.

amount previously spent on transfer duty will be capitalised into purchase price itself. This benefit will be appropriated into either the profit margin (in cases where a developer has already purchased the land), or into the residual land value paid to an existing landholder for future development.

**Figure 4.2:** Government taxes and charges as a proportion of total development costs, excluding profit (30 sample multi-unit schemes), Sydney.



Source: City Futures Research Centre – Developing the Compact City (unpublished)

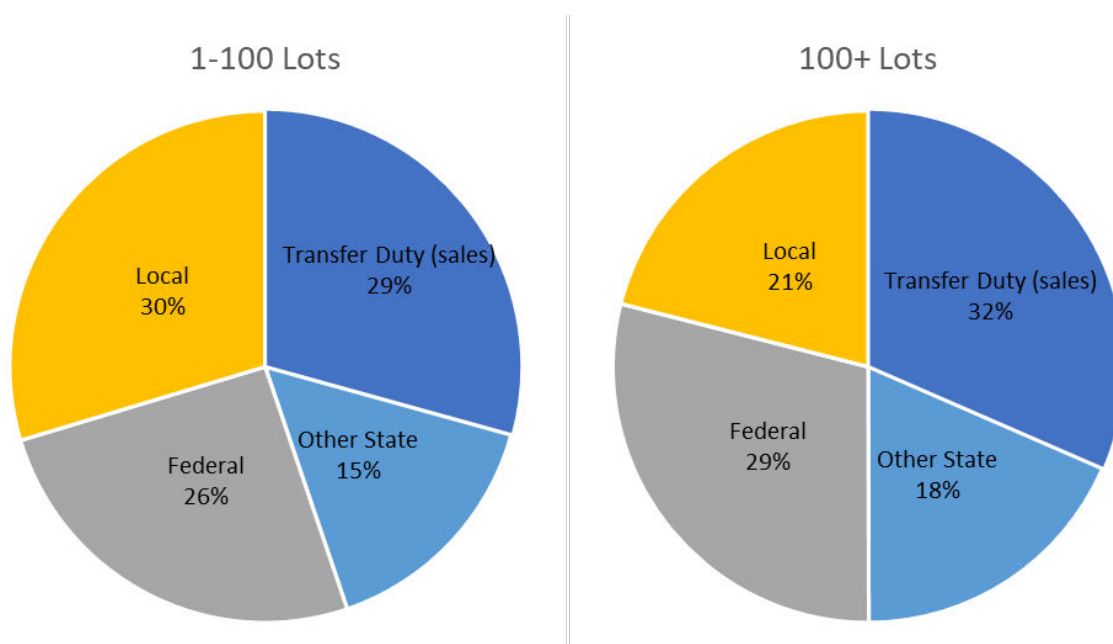
### 4.3 Mix of all government taxes and charges

If the total transfer duty charged to incoming buyers is added to the ‘stack’ of taxes and development charges borne by the development, the percentage mix of all government taxes and charges for our two sizes of scheme are shown in Figure 4.3. This figure also identifies the level of government collecting the charge.



Out of the various government charges identified, the local infrastructure contributions are directly hypothecated on the increase in demand for infrastructure associated with new development, in effect representing a ‘user-pays’ approach to taxation of development – although it should be noted that this often falls short of covering the costs of infrastructure demand generated by new development. While the other charges flow into general government revenue, they may (at least in part) be used to fund further provision of infrastructure.

**Figure 4.3:** The breakdown of total government taxes and charges for exemplar multi-unit schemes (including purchaser transfer duty), Sydney



Source: City Futures Research Centre – Developing the Compact City (unpublished)

#### 4.4 Summary

This analysis shows that in our sample of typical recent multi-unit residential in fill developments in Sydney, government taxes and charges accounted for a modest proportion of total scheme costs, averaging around 10% to 11%, depending on scheme size. Of these costs, GST (approx. 4%), which is paid to the Commonwealth Government, and infrastructure charges, (in the range 3-5%), paid to local government, accounted for the greater part of such costs. Land tax (1.5%) paid to State government accounted for the bulk of the rest.

Should government taxes and charges on residential development be reduced? This is of course at the discretion of the various levels of government concerned, although our preceding discussion of the determinants of house prices suggests that a reduction in these charges, and therefore overall development costs, would likely flow through to increased residual land values of future site purchases (benefiting the landowner) or increased profitability for the developer (if the site is already owned), rather than to lower dwelling prices. Importantly, the infrastructure costs associated with increased development would remain the same, with alternative approaches to funding being required.

## 5. International examples of effective planning deregulation

### 5.1 Section scope

This final section responds to the last of the Inquiry's terms of reference which is to:

*Examine the effectiveness of initiatives to improve housing supply in other jurisdictions and their appropriateness in the Australian context.*

We note that in the context of the Inquiry such policy initiatives concern development regulation and tax settings. As such, we repeat the observation expressed in our introduction that debates concerning housing supply and affordability frequently focus on land use planning as a primary cause of housing supply and affordability problems. Underlying this position is the simple assumption that rezoning land and increasing permitted building heights—either to allow greater density or expand urban areas—would rectify this issue. We believe this focus is misconceived and this section will address the question: where else in the world has such action worked?

To be clear, we are talking here about *planning reforms* to improve housing supply and affordability and not *pre-existing settings*. Many cities around the world may have allowed urban development with relatively few limits on land supply. Indeed, Australian urban growth in the early post-World War II period is one such example where high rates of housing supply and affordability coexisted with few constraints on urban expansion, which was usually led by state Housing Commissions (Daley *et al* 2018).

However, it is a different matter to reform a planning system with the aim of increasing housing supply, especially within an existing urban area, in the context of high and rising property prices (Rowley *et al* 2020). As noted above, the argument that increased supply will lead to lower prices and more affordable housing is conceptually flawed.

We have therefore asked the following question of the evidence on *planning reform* and housing supply:

*What jurisdictions have relaxed their land use planning controls to allow more development and achieved both an increase in housing supply and an improvement affordability as a result?*

To begin answering this question, we conducted a targeted search of academic and policy literature with an aim to find studies on successful policy interventions. Using key search terms in academic databases and Google, we compiled a shortlist of over 50 peer-reviewed journal articles in economics and planning, 10 research reports from respected research institutes and think tanks, and a handful of blog posts and articles from expert commentators. We also identified five scholarly books on the subject of the Inquiry.

The literature we collected was self-evidently the tip of an iceberg. The duration of the Inquiry's submission period means that it is not possible to review each of these texts or comment with confidence on the efficacy of specific initiatives. We therefore limited our analysis to a purposeful reading of the abstract or summary of these papers and reports, and in some cases a skim read of the full text, to identify potential examples.

We found that:

- There are no readily apparent examples where planning deregulation—as opposed to pre-existing settings—has achieved both an increase in housing supply and an improvement in affordability.

- The broader debate over planning's impact on supply and affordability appears intractable but points of consensus include the exclusionary nature of zoning and a need for other subsidies to support greater affordability.
- Accordingly, advocates of planning reform and housing affordability appear to be on the same page: rezone land to increase housing supply but ramp up subsidies to improve affordability.

What follows is a brief overview of select studies addressing these points.

## 5.2 The literature on specific examples of effective planning reform

One way to group the literature on examples of effective planning reforms is into those studies which compare outcomes of planning systems between and within countries, those studies which report both positive and negative outcomes of specific planning reforms, and other studies which contemplate the likely outcome of future reforms.

### On comparing planning systems

Starting with international comparative studies, the UK's former National Housing and Planning Advice unit commissioned Oxley *et al* (2009) to compare the impacts on housing supply of planning systems in France, Germany, Ireland, the Netherlands, and Spain. They observed that Ireland's and Spain's were arguably the most responsive to market demand and the Netherlands the least. For Spain, they noted that the relaxation of planning controls became associated with increased land and housing prices due to speculation, while in Ireland a liberal planning system facilitated an oversupply of housing that was otherwise driven by economic growth and liberal access to credit. In the Netherlands, they observed that restrictive planning contributed to low price elasticity. Ultimately, though, they concluded that it was not possible to separate the influence of planning regimes from other factors and the report's summary is silent on affordability in these countries.

Again, in the context of slated reforms of England's planning system, Breech (2021) examined the successes and failures of zoning systems in other countries. For the United States, he cites Minneapolis and Oregon as examples of progress where those jurisdictions have recently abolished single-family zoning. However, Breech does not specify upfront what the results of such policies have been. A study by Kuhlman (2021) on the initial impact of these policies in Minneapolis found that it was associated with a 3-5 percent increase in the price of single-family homes based on the increased development option it offered affected property owners. As for Oregon, Andersen (2021) analysed the city of Portland's policy to allow a range of medium density dwellings in low-density zones, finding many would remain financially unfeasible to build. In all cases, there does not yet appear to be definitive evidence of outcomes on supply and affordability.

Breech's (2021) strongest advocacy is for the federally controlled zoning system in Japan which he claims has been 'extremely successful' in achieving high rates of housing supply and affordability. The Japanese system would indeed appear to be relatively relaxed, with a study by Parker and Amati (2019) analysing its institutional history and finding that the impact of post-WWII reforms has made it difficult for governments to intervene in development, contributing to unspecified 'unsustainable outcomes'. Breech also notes that Japan's urban fabric is otherwise more 'jumbled' and there is little historic preservation. Measures of affordability are not given upfront but, in any case, the example is one of historical institutional settings, not specific reform outcomes.

Other comparative studies similarly struggle to separate out the effects of housing policies from land-use planning. Hansson (2019) offers case studies of four cities in Sweden and Germany, finding

that a combination of governance, planning, land allocation and subsidy levers were more effective at increasing housing supply that was affordable than if only planning was relied upon. Wetzstein (2021) compared strategies in Berlin, Vienna, Singapore, Sydney, and Auckland, claiming non-market-based housing supply, demand-side measures and urban land market interventions were more likely to have positive impacts than market-based housing supply, rent controls, and construction cost reductions.

Hilber and Oliver (2016) analysed the interaction of housing policies across three countries, attributing the UK's unresponsive housing supply and housing shortages to 'an extraordinarily rigid planning system' compared to Switzerland where lax zoning and 'extraordinarily low homeownership' focused policy efforts on containing urban sprawl and stabilising rents. They otherwise found that US planning systems were highly diverse, but that the federal mortgage-interest rate deduction pushed up prices in cities with tight controls on land use. Meanwhile, Paccoud *et al* (2021) investigated why Luxembourg's facilitative planning system was not producing high rates of housing supply despite demand, ultimately attributing the problem to concentrated land ownership.

Comparing jurisdictions within the United States, Chakraborty (2009) analysed the effects of high-density zoning on multifamily housing construction from 1990 to 2000 in Boston, Miami, Florida, Minneapolis, Portland, and Sacramento. They found that zoning limited construction below market-determined levels but, again, the study does not appear to relate to specific planning reforms and does not focus on affordability outcomes upfront. Other studies attempt to measure the relative stringency or permissiveness of land use regulations in every state (e.g. Gyourko *et al* 2008).

#### On specific reforms

Studies on the effects of specific planning reforms on supply and affordability are uncommon but those that we found report both positive and negative outcomes. Research on whether other planning reforms have increased supply include a case examined by Ferm *et al* (2020) whereby the conversion of office buildings to residential units was made 'permitted development'. The authors found that while the deregulation was effective in increasing supply, the housing that resulted was of low quality and in unsustainable locations. Dong (2021) investigated the more traditional approach of upzoning large areas of land for housing development in Portland from 2000 to 2017, finding a 'significantly greater' rate of housing construction in those affected areas but remaining silent on affordability.

Other studies have observed negative supply and affordability outcomes of such upzoning. Immergluck (2009) examined the effects on property values of Atlanta's Beltline project, a transit-orientated development renewal area, finding its announcement triggered price increases for existing housing due to speculation. Similarly, Zhang (*et al* 2018) found that housing values in Atlanta were more 'resilient' to price falls if they were in such areas. And we have previously mentioned Kulhmann's (2021) study on how eliminating single-family zoning in Minneapolis led to *increased* house prices due to the increased development potential.

None of these studies evaluates future supply and affordability outcomes. However, they raise the issue of transitioning areas to higher-density development patterns without enriching existing owners by conferring increased development rights through rezoning and infrastructure investments.

Other studies confirm that the outcomes of specific planning initiatives vary by jurisdiction. Mathur (2014) found that the urban growth boundaries in King County Washington increased land prices by

230 percent but decreased house prices by 1.3 percent because policy makers offset the effects through planning policies allowing denser development. Elsewhere, Freemark (2019) evaluated housing construction and property value outcomes of upzoning in Chicago, finding that they increased the value of development sites and housing units but did not result in additional construction.

#### Other studies

Other studies on specific planning reforms either contemplate their future impacts or do not seek to quantify their impacts. For example, Gallent *et al.* (2019) conducted qualitative research on the ‘probable impact’ of ‘permission in principle’ reforms in England, while Tustin (2017) speculates on the outcomes of ‘proposed’ planning interventions in New Zealand. Murphy’s (2015) study on an agreement between federal and local government to rezone land to increase housing supply offers an insightful overview of the issues but unfortunately does not report the outcomes of the policy. Similarly, Gabbe (2019) investigated the impact of zoning reforms in Los Angeles that were specifically designed to address housing affordability but oddly, specifically does not report their effects on supply or affordability.

In summary, the identified studies offer no clear examples where deregulating a planning system to allow more development has resulted in *both* an increase in supply and improved affordability.

### 5.3 The literature on the broader planning-supply-affordability debate

As other submissions to the Inquiry may attest, there are divergent views on the impacts of land use planning on housing supply and affordability. This protracted debate plays out in the literature in increasingly combative ways with both sides presenting evidence to support their views that planning is variously an unjustified constraint or one factor among the many factors that influence supply and demand. However, there do appear to be points of consensus to the extent that restrictive zoning can have exclusionary effects, but that market supply of housing compliant with acceptable standards is unlikely to be affordable to lower-income households without additional subsidies. Put simply, deregulating planning *may* lead to increased supply, but it does little to improve affordability. This literature is too voluminous to succinctly summarise, so we instead point out a few noteworthy studies to support these points.

A good starting place for this literature is a measured and balanced article by Been *et al* (2019). In it, the authors systematically challenge arguments that supply fails to impact price by drawing on both theoretically and empirical evidence which shows new homes *moderate*—but critically, not *reduce*—price increases. An example of a more bruising debate can be found between Rodriguez-Pose and Stroper (2019) and Manville *et al* (2020a). Where Rodriguez-Pose and Stroper make sweeping claims on the lack of evidence that planning negatively impacts house prices, Manville methodically deconstructs their arguments by pointing out the various irrelevance of the evidence they cite and their frequent misrepresentations of it.

In a separate article, Manville (*et al* 2020b) go onto to call for an end to single-family zoning, arguing that aside from its contribution to worsening affordability, it has exacerbated inequality and is rooted in classist and racist motivations. This exclusionary character of low-density zoning is a point similarly emphasised by Been *et al* (2019) in that such controls prevent workers from moving to areas with opportunities. Notably, though, neither present evidence that the relaxation of planning controls—regardless of their original culpability—would improve affordability outcomes were additional supply to eventuate. Indeed, Been *et al* emphasise that new market-rate housing is unlikely to be affordable to lower-income earners without further government intervention.

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