Australian housing: can we build it?

Property Council of Australia
VIC Residential Outlook

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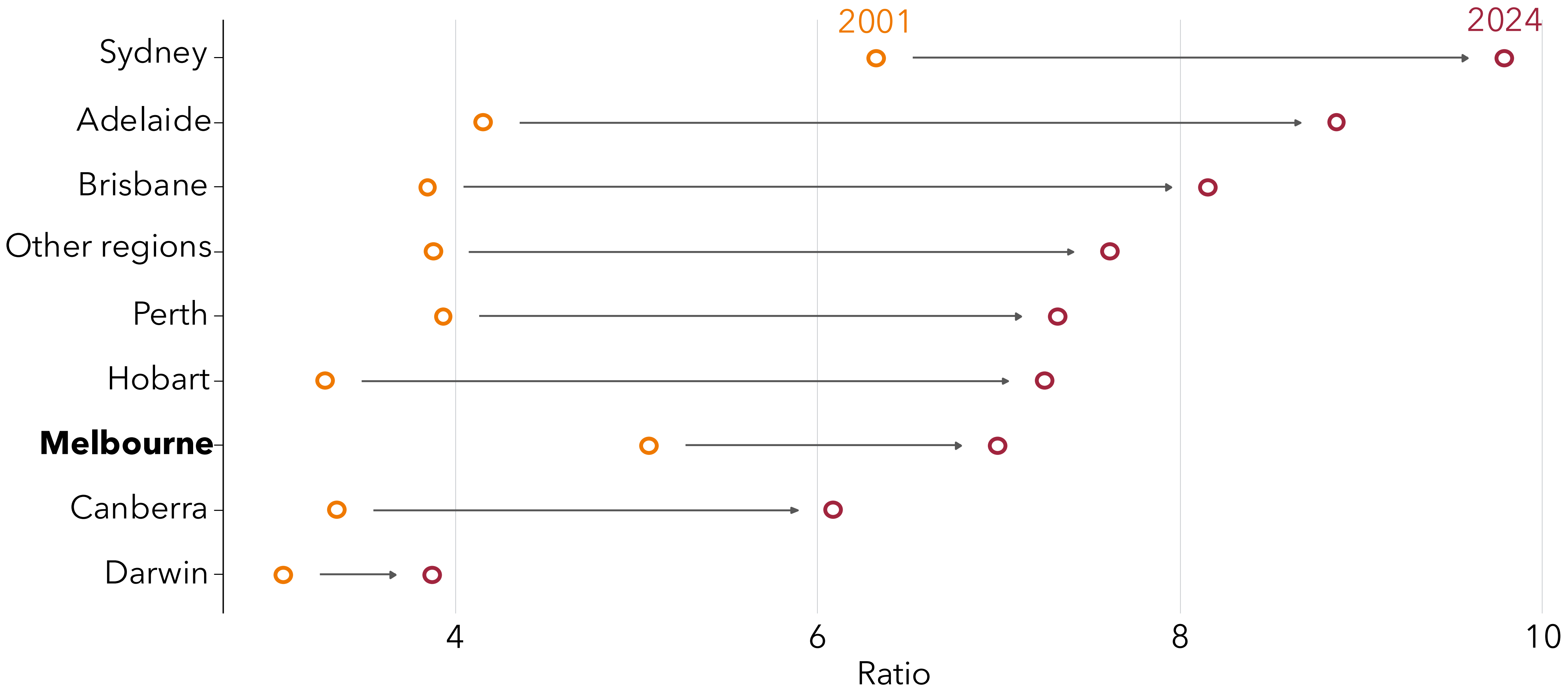
Australia has built too few homes where Australians most want to live
- Australian housing has become much more expensive: Victoria has fared better than most
- Australia's housing stock per adult has gone backwards
- Australia's capital cities are among some of the least dense of their size in the world

State governments are acting on planning: what impacts will these reforms have?
- Restrictive state planning systems prevent many more homes from being built
- Victoria's planning reforms are globally significant, especially via the Townhouse Code
- But feasibility remains an enormous challenge in Victoria, especially in the Activity Centres

What more is needed?
- **Further planning reforms**: would make even more housing feasible to build today
- **Improve commercially feasibility of new housing:** car parking requirements; infrastructure contributions and tax settings; financing constraints
- **Boost construction sector capacity and productivity:** review building regulations; trim the infrastructure pipeline; migration workforce reforms; domestic training

Australia's housing crisis has gone national: Melbourne is now among our cheapest cities

Ratio of median house price to median household income, by region



Notes: Based on modelled median household income from the ANU Centre for Social Policy Research.

Source: Cotality and ANZ (2024) Housing Affordability Report

Australia's housing crisis has gone national: prices have accelerated in most states since COVID

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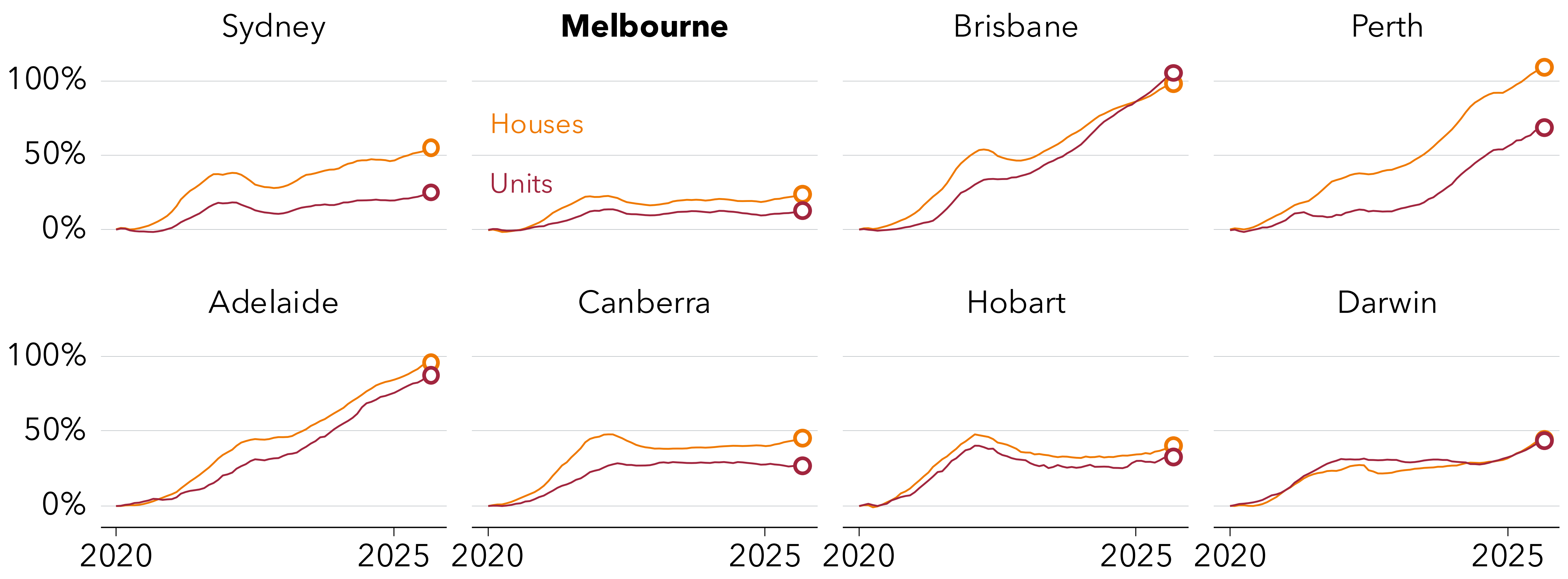
Median dwelling prices, per cent change since Dec 2019



Notes: Median sale prices are calculated from settled sales data.

Sources: Grattan analysis of PropTrack (August 2025).

Australia's housing crisis has gone national: housing costs rose most where demand outstripped supply

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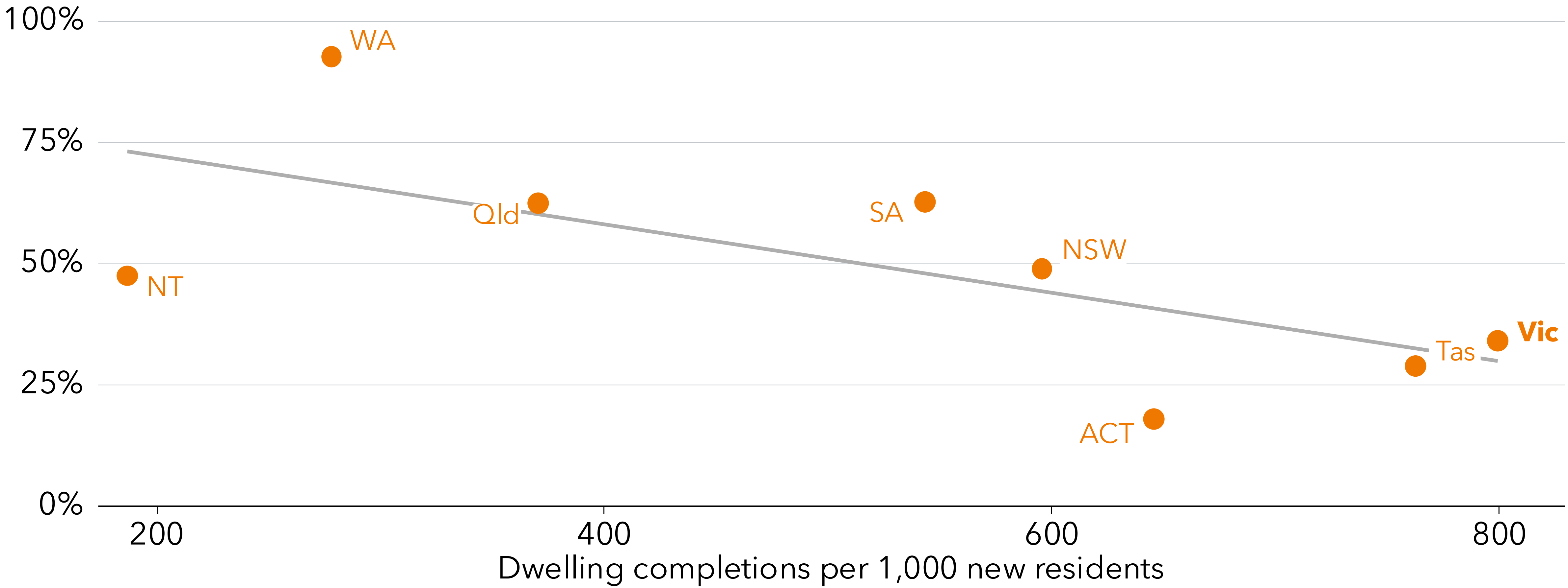
Growth in asking rents, Dec 2019 to Mar 2025



Note: Rents measure is those of newly advertised properties on realestate.com.au.

Source: ABS Building Activity; National, state and territory population. Proptrack data provided upon request.

Australia's dwelling stock used to grow much faster than the adult population, but not anymore

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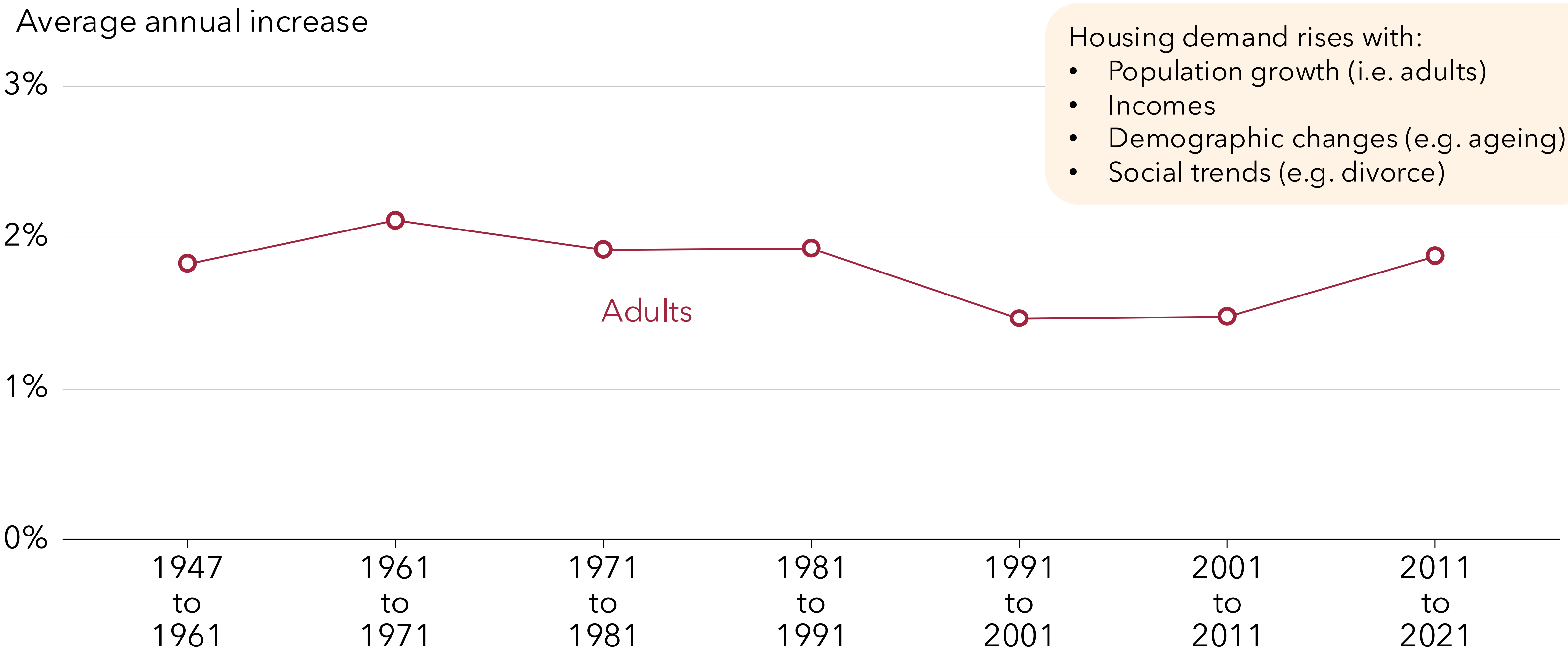

Housing demand rises with:

- Population growth (i.e. adults)
- Incomes
- Demographic changes (e.g. ageing)
- Social trends (e.g. divorce)

Notes: Dwellings are measured as private, occupied dwellings. Includes vistor-only dwelling. Adult population measured as those aged 18 years and over. Pre-1971 censuses largely excluded Indigenous Australians. Source: Grattan analysis of ABS Censuses (1947 to 2021).Data sourced from Community Packs and Time Series Profiles for 1996 to 2021 and general summary products beforehand.

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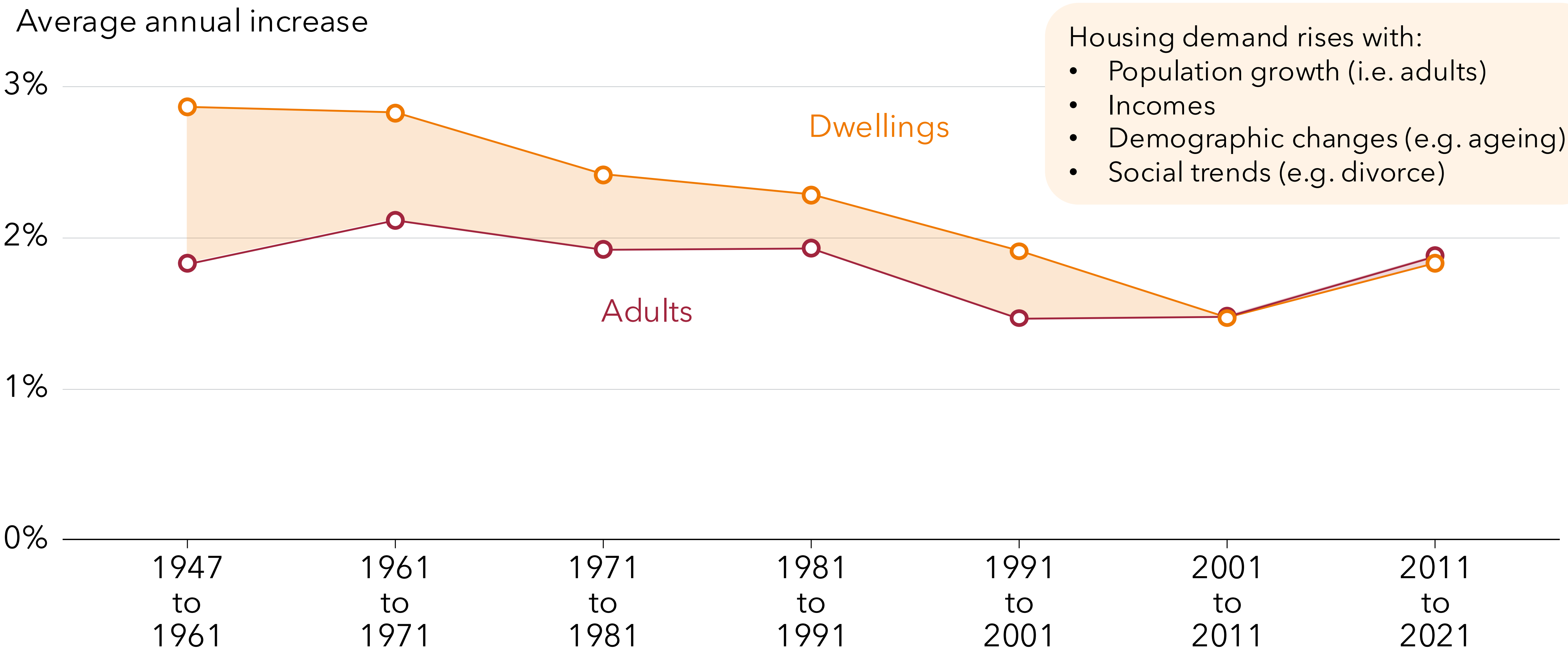

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Australian cities are less dense than comparable ones overseas

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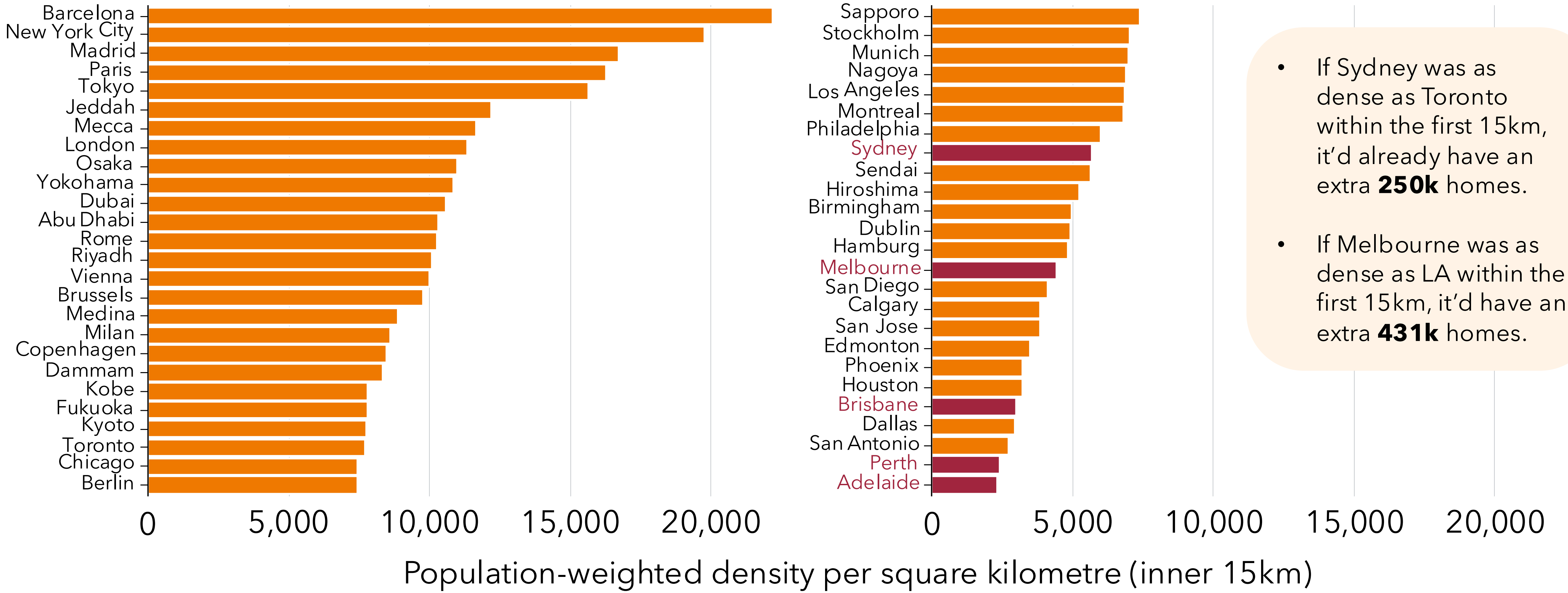
Cities of at least 1 million people in developed countries



- If Sydney was as dense as Toronto within the first 15km, it'd already have an extra **250k** homes.
- If Melbourne was as dense as LA within the first 15km, it'd have an extra **431k** homes.

Notes: Population-weighted means each square kilometer is weighted according to how many people live there (this neutralises the impact of mountains, bodies of water etc). It's the best measure of how dense a city `feels' for someone there. Data filtered for countries with at least 60 per cent of Australia's GDP per capita. Outliers Hong Kong (density of ~53k) and Singapore (~30k) removed. See source for more detail on density data.

Source: Grattan analysis of citydensity.com, World Bank.

Most of our major cities have allowed fewer new homes in inner- and middle-suburbs

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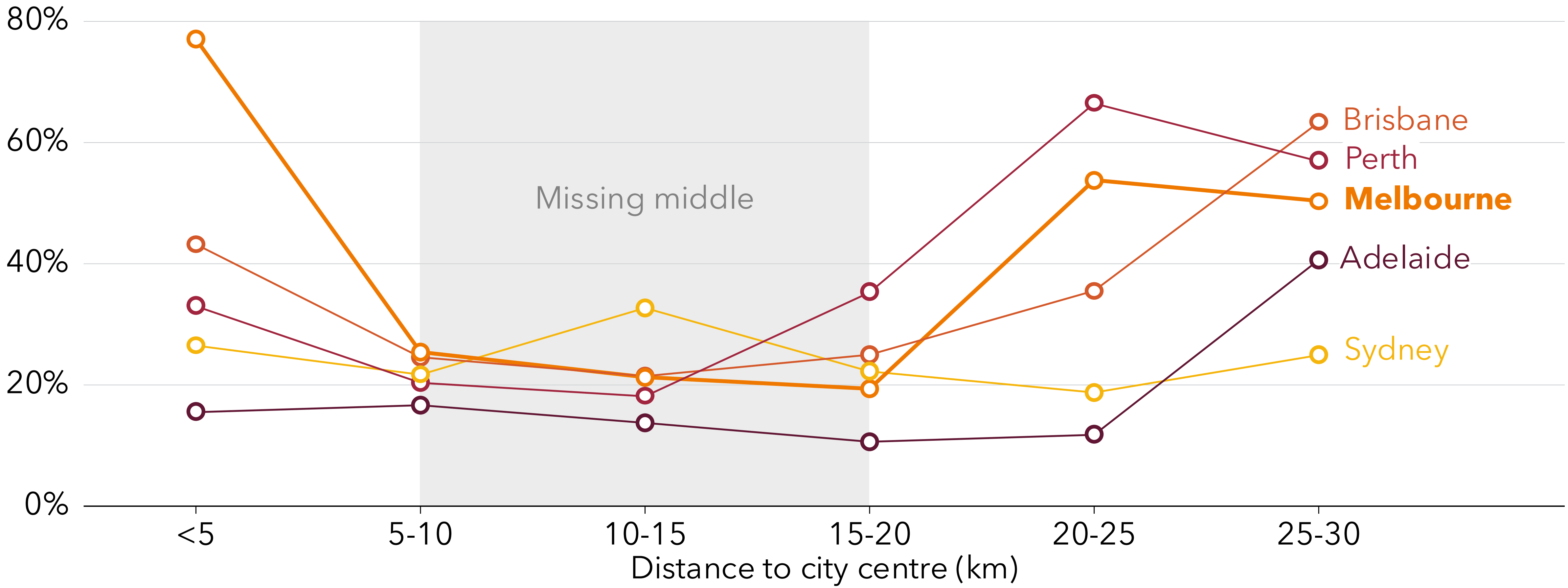
Increase in the number of homes by distance to CBD, 2006 to 2021, per cent



Notes: Uses dwelling counts by Census' Collection Districts (2006) and SA1s (2021), which are then mapped to each CBD. Records dwellings occupied on Census night.

Source: Grattan analysis of ABS 2006 and 2021 Census' (sourced via TableBuilder) and ABS Geographic Shape Files.

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Problem #1: Most of inner Sydney and Melbourne is zoned for low-density

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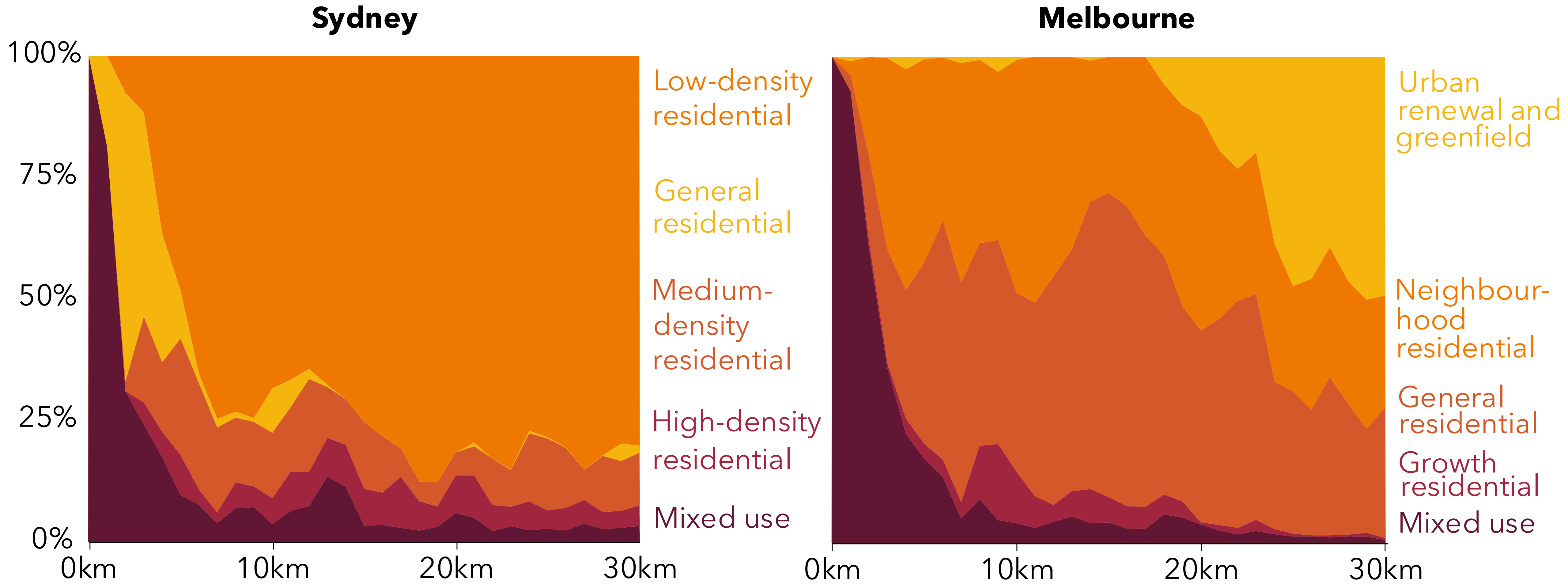
Share of residential land area by zone type and distance to CBD



Notes: 'Mixed-use growth' combines metropolitan centre and mixed-use commercial zones. Sydney: 'Low-density residential' combines R2, R5, C4, and RU5 zones. Melbourne: 'Residential growth' combines residential growth and housing choice and transport zones. Only includes land within the GGCSA where zoning permits housing. Sources: Grattan analysis of NSW Government (2025) Department of Planning, Housing, and Infrastructure property and planning data; Victorian Government (2025) Department of Transport and Planning property and planning data.

Unmet demand for housing is particularly high in Sydney's beachside councils and inner-Melbourne

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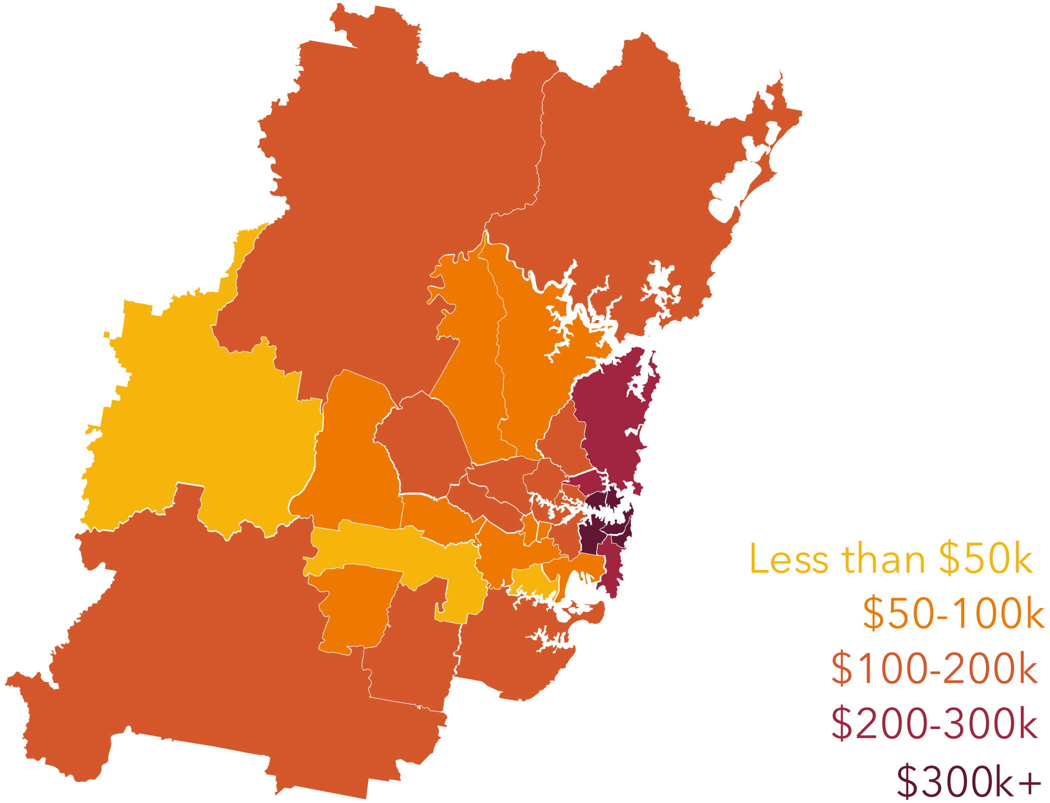
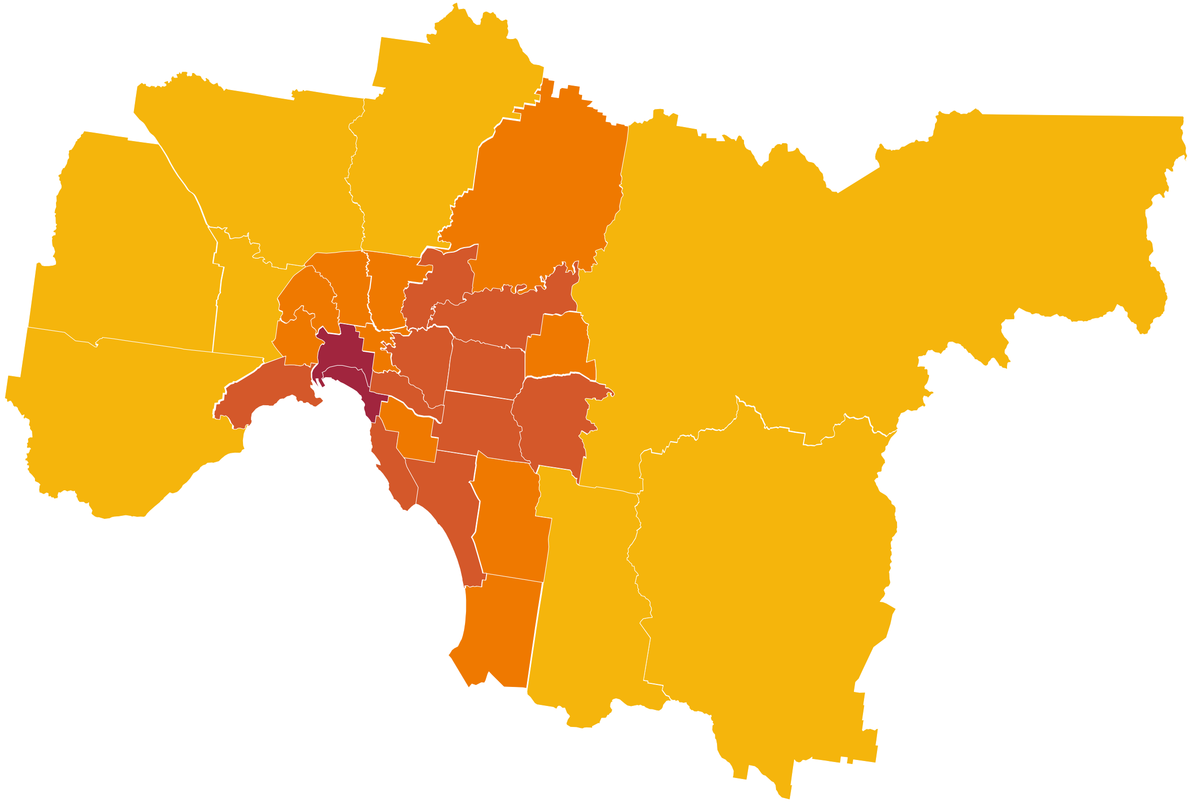
Average excess profits per home among commercially-feasible projects of up to 12 storeys, if permitted

Sydney



Melbourne



Notes: Figures represent an average of lot-level estimates for profit margins in excess of 18 per cent on projects up to 12-storeys in Sydney. As profit margins are assessed on a site-by-site basis, the most profitable development on some sites may be less than 12 storeys. Sale prices of apartments are estimated at the SA2 level, while property acquisition costs are based upon lot-level property sales and automated valuation data. Other development costs reflect prevailing input prices.

Sources: Grattan analysis of Cotality (2025) and NSW Government (2025) Department of Planning, Housing, and Infrastructure data.

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Sources: Grattan analysis of Cotality (2025) and Victorian Government (2025) Department of Transport and Planning.

Problem #2: Planning permit wait times are long (and processes are often uncertain)

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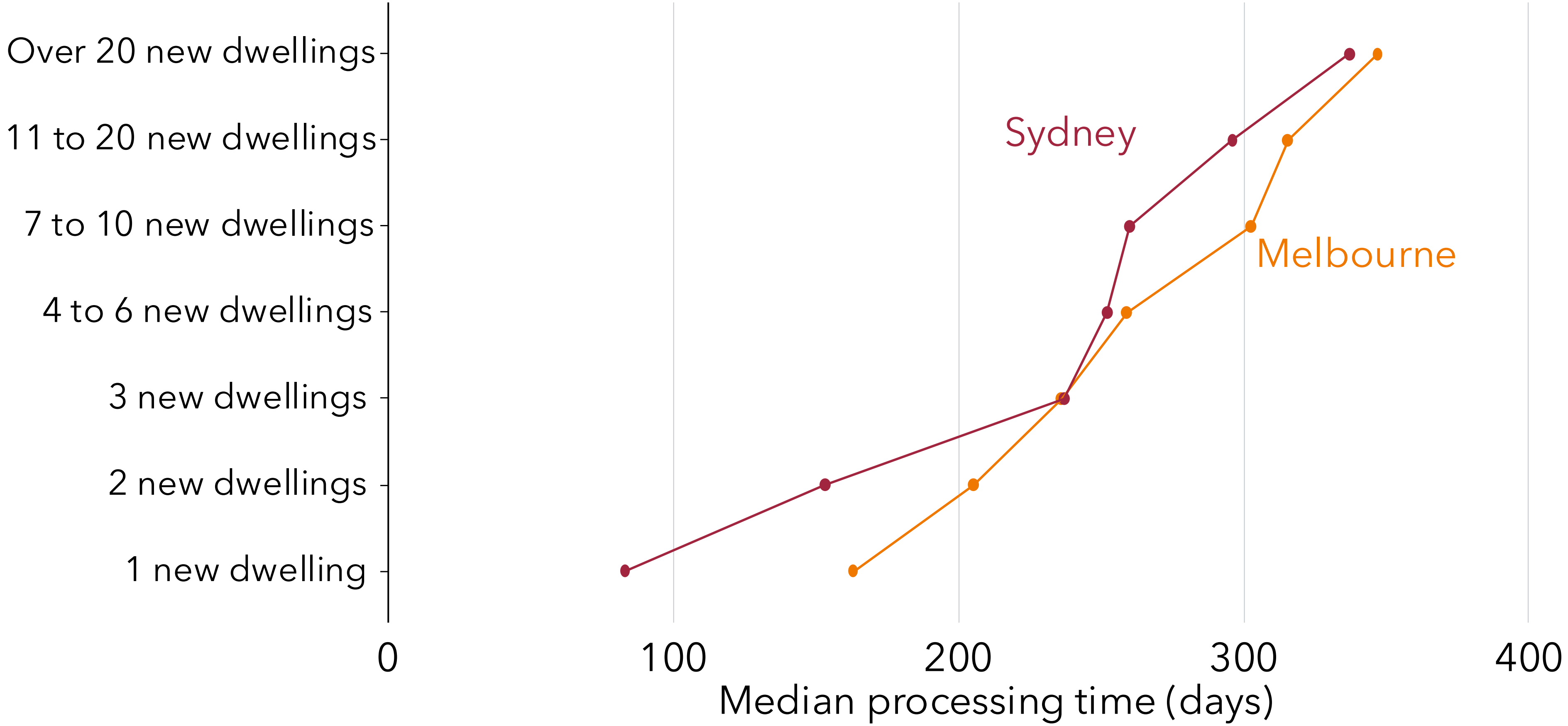
Average residential planning permit processing times, by city and net dwelling yield of proposal



Waiting adds cost:

- For a typical townhouse development, an extra six-month wait can add about **$18,700** per home

Appeals often reverse council decisions:

- VCAT overturns council rejections nearly **50%** of the time
- Applicants wait an average of **193 days** for a VCAT decision

Notes: Data from 2019 to 2025. Only includes new applications that are finalised (exludes lapsed, withdrawn, in progress etc.), that include a positive expected net dwelling yield, and are directly reported as new residential development (i.e. excludes associated permits for vegetation removal, change of use etc.). Processing time measured as days between application received and a final outcome (regardless of approved or rejected).

Source: Grattan analysis of the Victorian Planning Permit Activity Reporting microdata and the NSW DA microdata.

It takes a lot of zoned capacity to produce enough housing to meet future demand (and past shortfalls)

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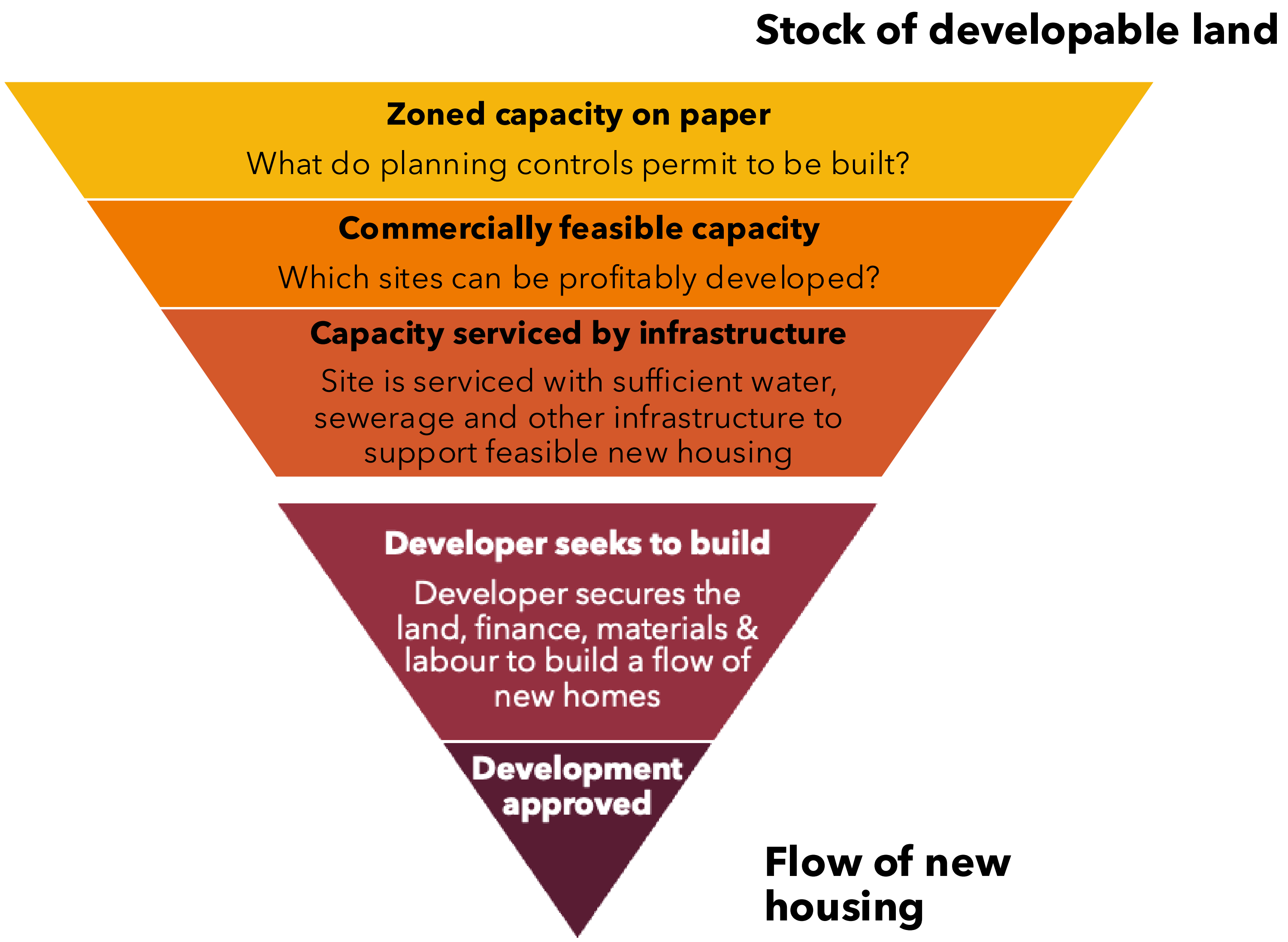

Source: Adapted from Committee for Sydney, *Planning for Growth*, December 2022.

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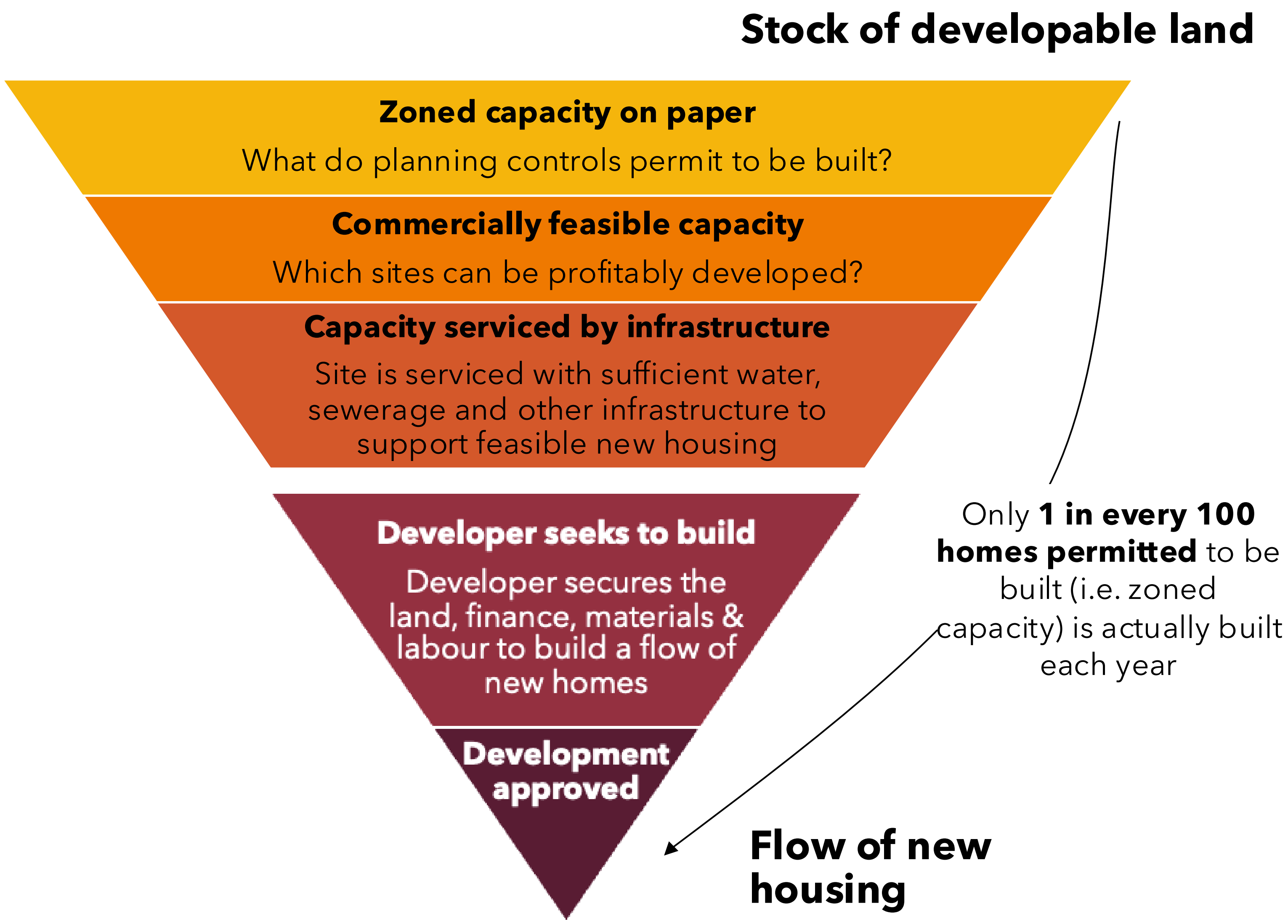

Source: Adapted from Committee for Sydney, *Planning for Growth*, December 2022.

Upzoning has delivered more housing in Auckland, and elsewhere

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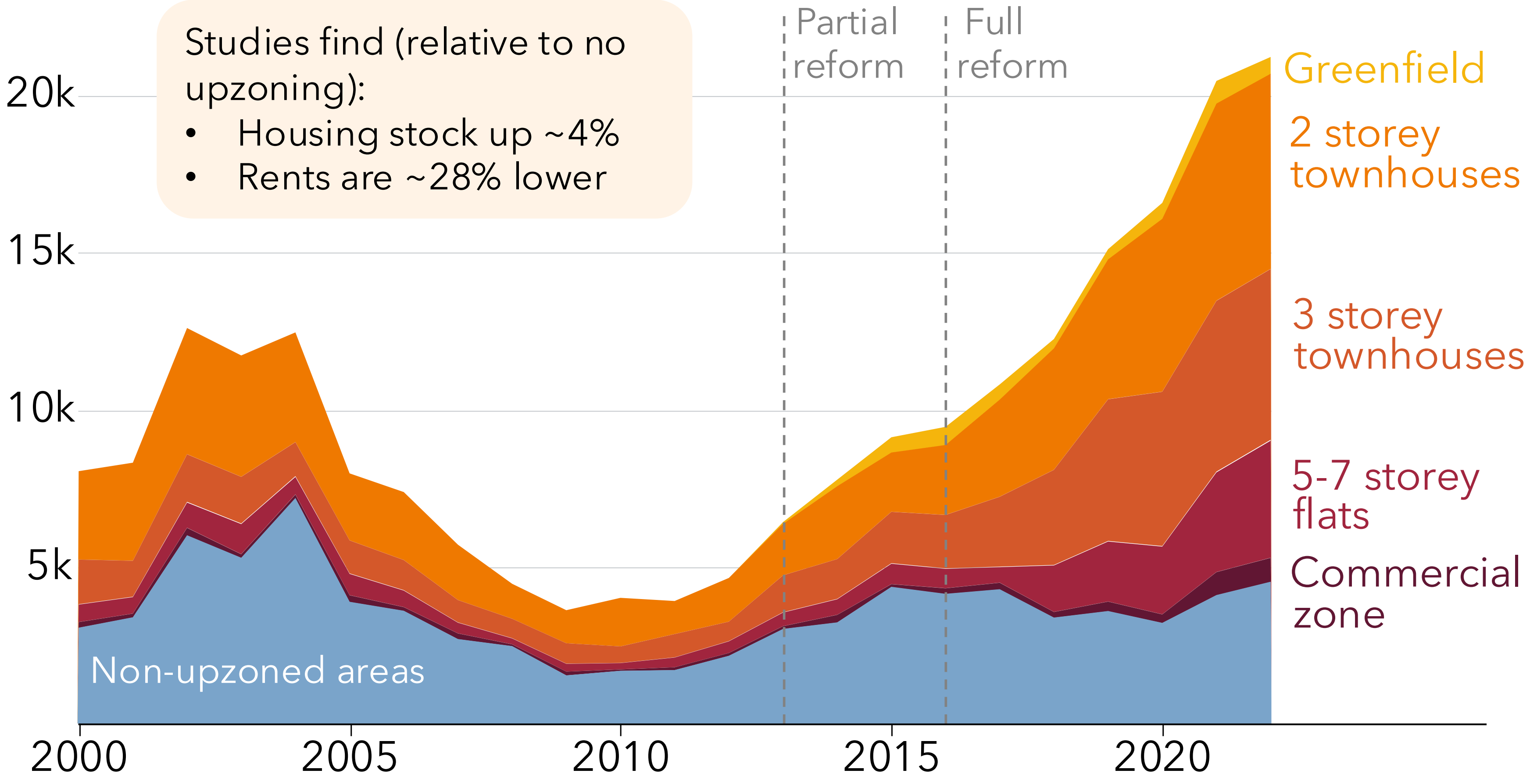
Annual dwelling approvals in Auckland by zone type

Studies find (relative to no upzoning):

- Housing stock up ~4%
- Rents are ~28% lower



Auckland undertook a substantial upzoning in 2016

- The Auckland Unitary Plan was implemented in 2016.
- Allowed for medium density housing (2-7 stories) on 75% of Auckland's residential land.
- The reforms boosted zoned capacity in Auckland by 100% of the existing housing stock
- About 0.7% of the boost to zoned capacity was built as extra new housing each year.

Notes: 'Partial reform' refers to the Special Housing Areas and Auckland Housing Accord, launched in September 2013. 'Full reform' refers to the final Auckland Unitary Plan, which became operational in November 2016.

Source: Ryan Greenaway-McGrevy and James Allan Jones (2023), Can zoning reform change urban development patterns? Evidence from Auckland, Figure 3; Greenaway-McGrevy, Ryan, Pacheco, Gail, and Sorenson, Kade. 2021. "The Effect of Upzoning on House Prices and Redevelopment Premiums in Auckland, New Zealand," Urban Studies 58 (5): 959–976..

Victoria's Townhouse Code is the most ambitious of the recent reforms across both NSW and Victoria

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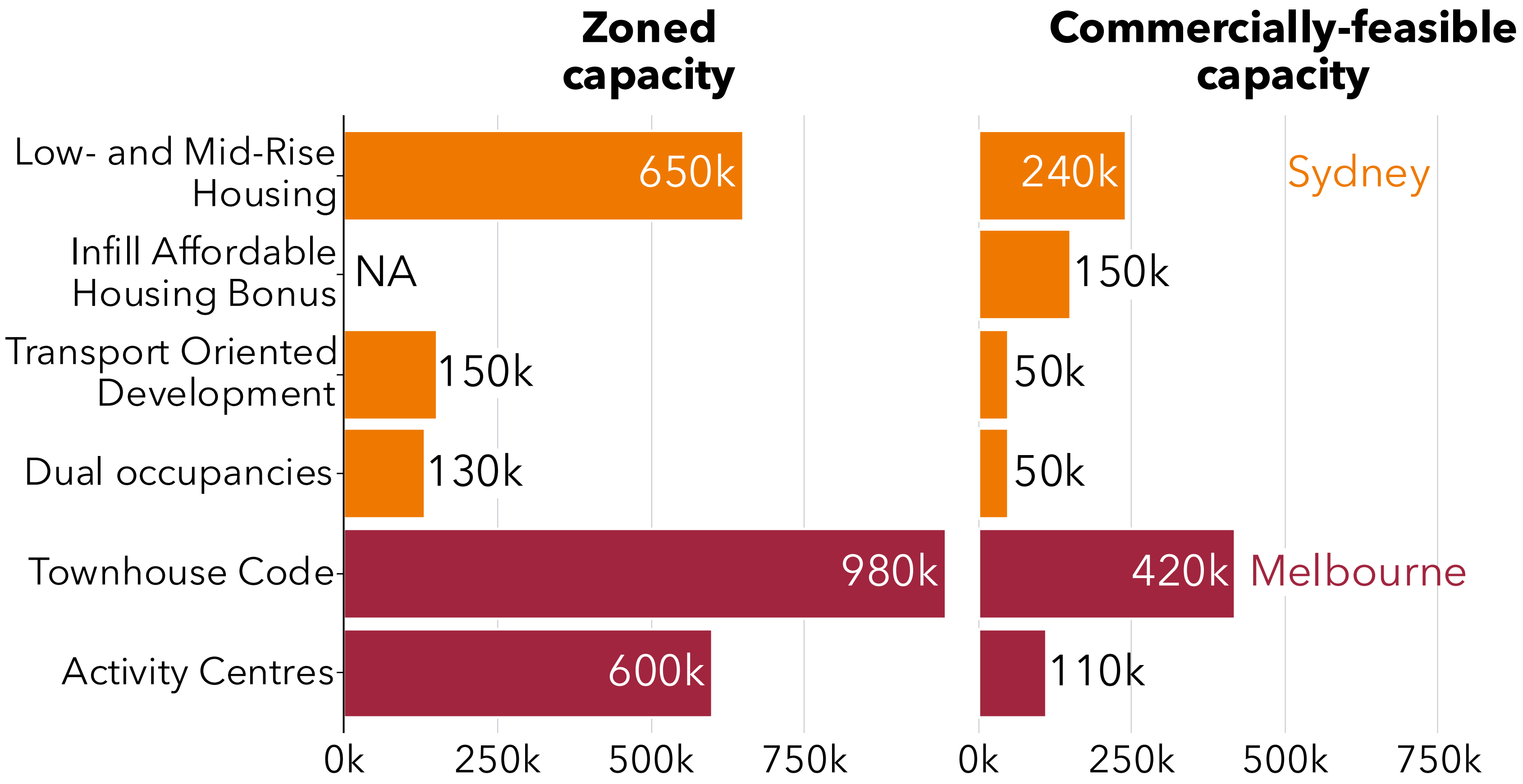
Increase in housing capacity, by planning policy and commercial feasibility



Melbourne & Sydney's reforms fall short of Auckland

- **Melbourne:** boost to zoned capacity equivalent to **70%** of existing housing stock.
- **Sydney:** boost to zoned capacity equivalent to **40%** of existing housing stock.
- **Auckland:** boosted zoned capacity by **100%** of existing housing stock.

Note: Figures indicate the increase in capacity for homes given prevailing planning controls. Commercial feasibility assessed by comparing estimated sale prices for new homes with total cost of development, including developer margins. Figures for Infill Affordable Housing Bonus are estimates of the marginal additional commercially feasible capacity created by the policy, including in LMRH and TOD areas. Data covers 1.9m properties across 31 LGAs in Greater Melbourne and 0.6m properties across 34 LGAs in Greater Sydney.

Source: Grattan analysis of Cotality, Propcode, NSW Department of Planning, Housing, and Infrastructure, and Victorian Department of Transport and Planning data.

Victoria's Townhouse Code permits gentle density across all residential zones

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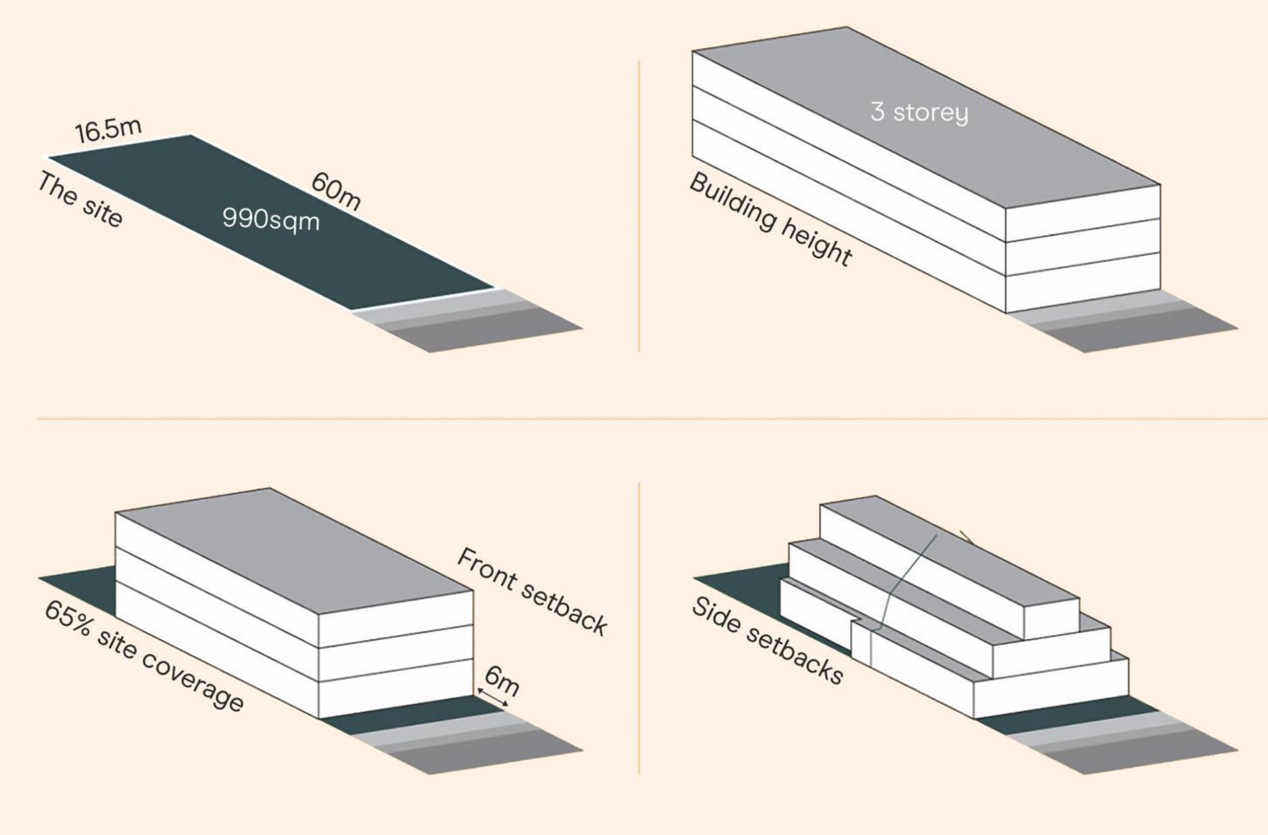
Built-form controls for the Victorian Townhouse Code in the **General Residential Zone**



Sources: Adapted from https://ratio.com.au/low-rise-townhouse-code/.

Key built-form controls for Townhouse Code

- **Height limits:** two storeys in NRZ; three storeys in GRZ; RGZ and other zones.
- **Site coverage:** 60% (NRZ); 65% (GRZ); 70% (RGZ and other zones).
- **Front setback:** lesser of 6m, or average of adjoining properties.

We estimate 90k sites where commercially feasible to build townhouses.

That translates to 6-9k commercially feasible sites that turnover each year.

Deemed to comply assessment still has risks

- Council cannot deny permit on basis of built-form controls.

Source: https://www.planning.vic.gov.au/guides-and-resources/guides/all-guides/residential-development/townhouse-and-low-rise-code.

The success of the Victorian Activity Centre and NSW TOD programs depends on land amalgamation

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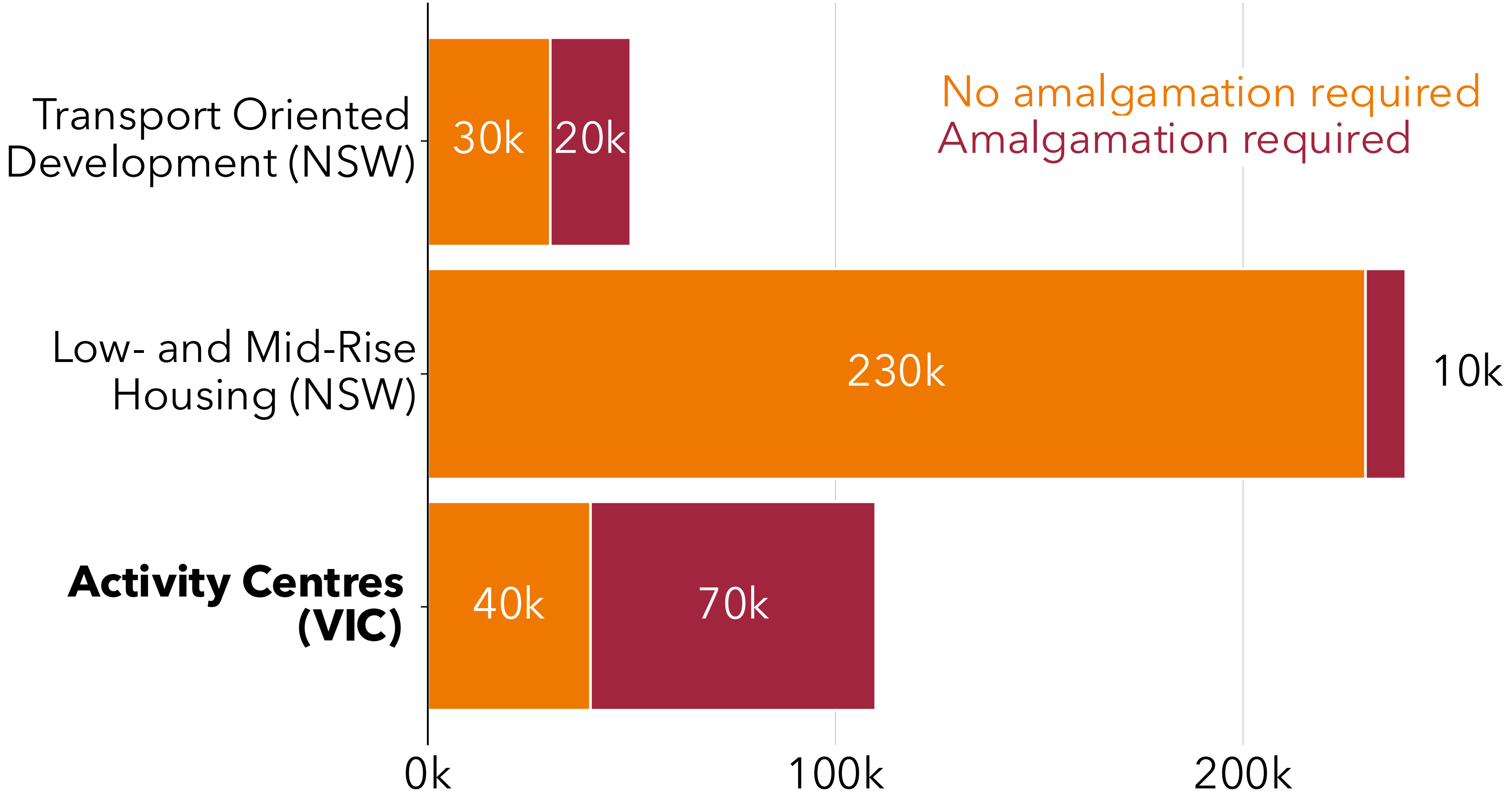
Uplift in commercially feasible capacity



Restrictive rules limit commercially-feasible capacity in the HCTZs

- The `large lot' requirement is 1000sqm with a 20m+ frontage.
- Only 5% of sites zoned to HCTZ 1 or 2 meet these requirements

Relaxing these rules would accelerate uptake & make more of that capacity commercially feasible

Notes: Feasible capacity uplift in LMRH and TOD areas excludes uplift associated with the Infill Affordable Housing Bonus. Estimates are based upon amalgamations required to meet planning controls relating to lot size or street frontage, and do not account for the need to amalgamate land to achieve yields given other planning constraints.

Source: Grattan analysis of NSW Department of Planning, Housing, and Infrastructure, Victorian Department of Transport and Planning, Cotality (2025), and Propcode (2025) data.

Construction costs have risen sharply everywhere, but slightly more so in Melbourne

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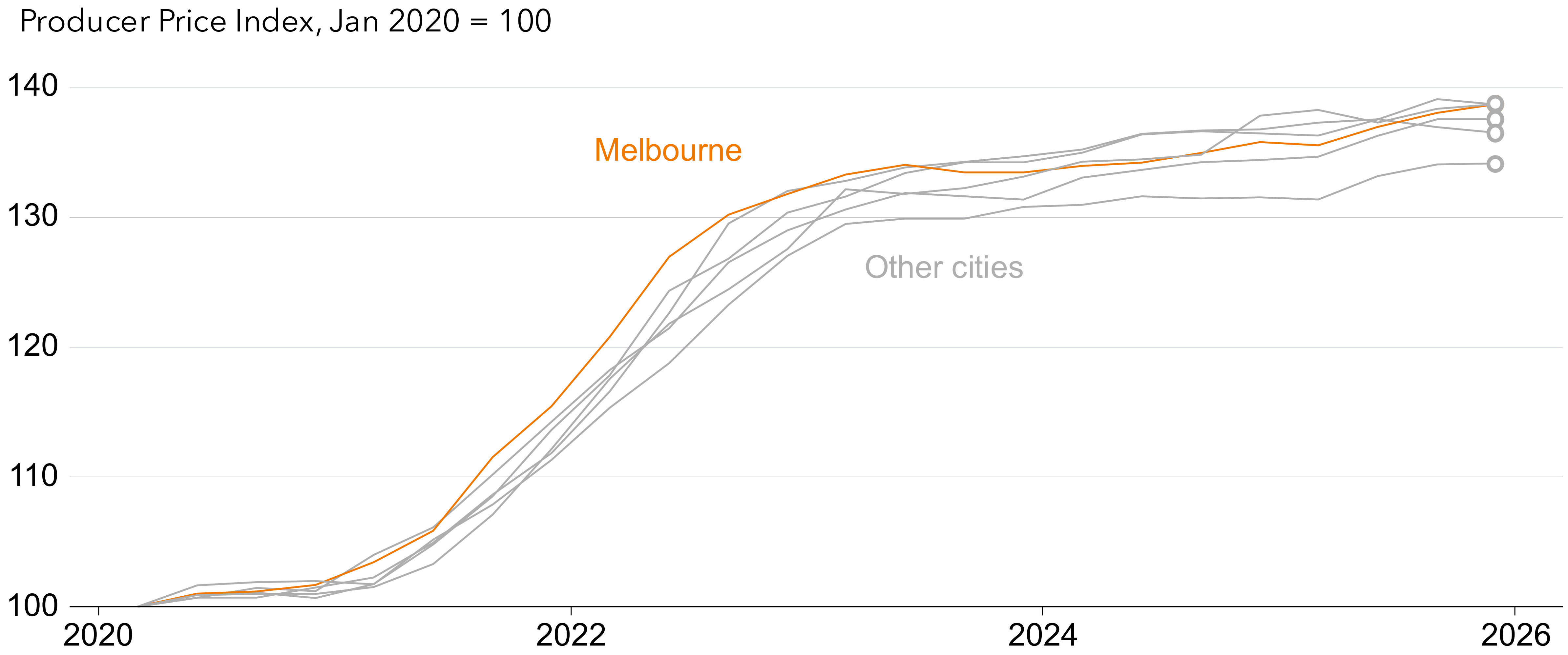

Source: ABS Producer Price Index, December 2025

Housing approvals are flat: in Victoria, and nationally

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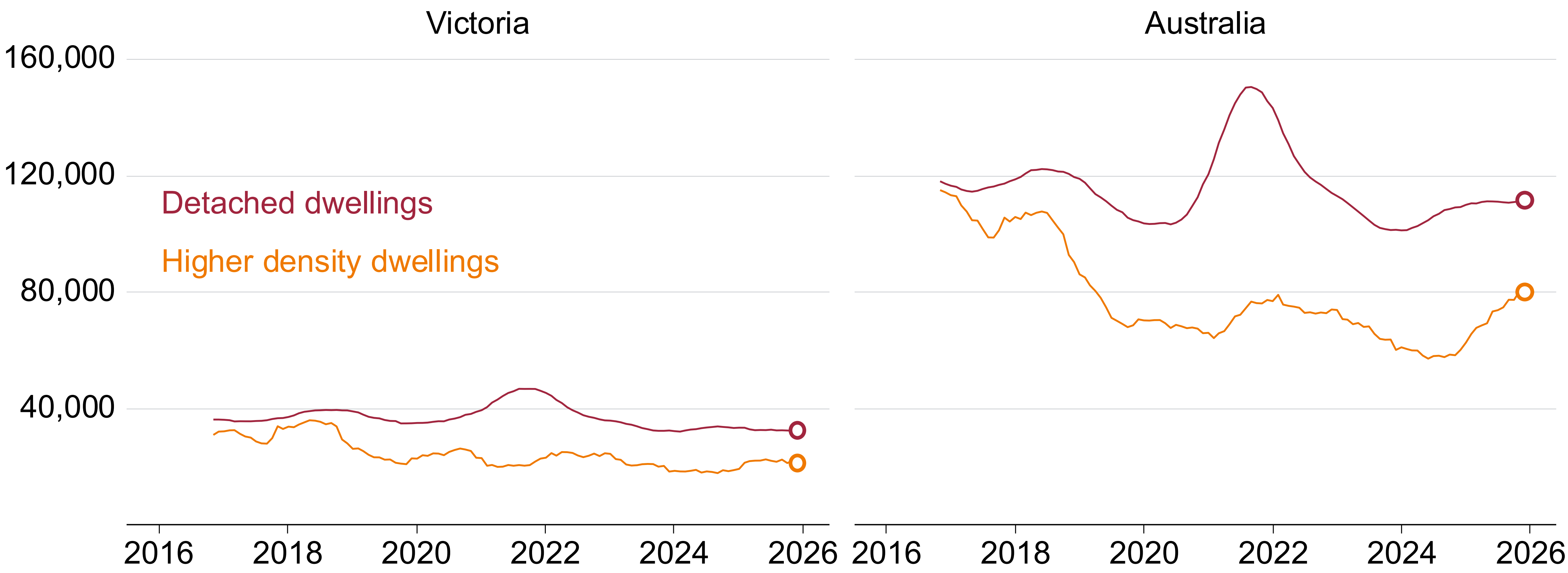
Rolling annual private sector dwelling approvals



Note: Seasonally adjusted.

Source: ABS Building Approvals, December 2025, Tables 2 and 6.

Apartment sales prices are much higher in Sydney than in Melbourne

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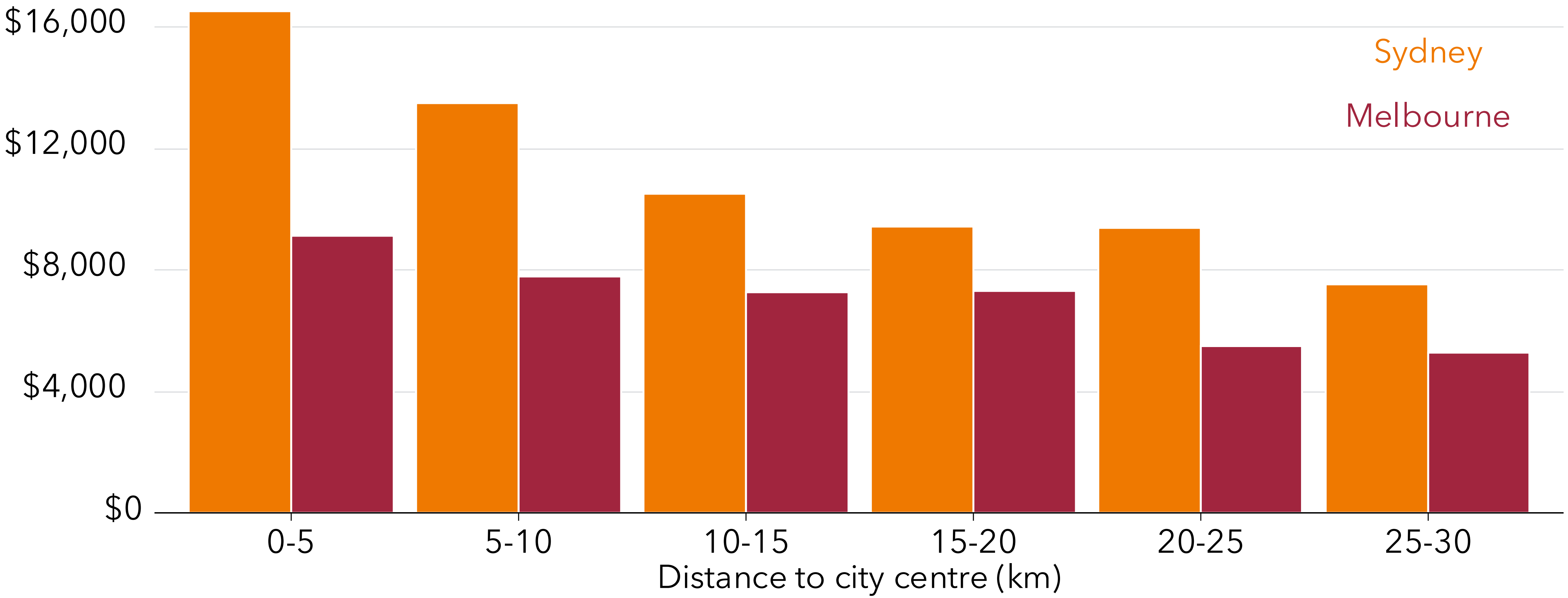
Price per sqm, recently-built units



Note: Filtered to units built in the last five years.

Source: Grattan analysis of Cotality data received upon request.

Lower construction costs (or higher home prices) would increase the impact of recent reforms

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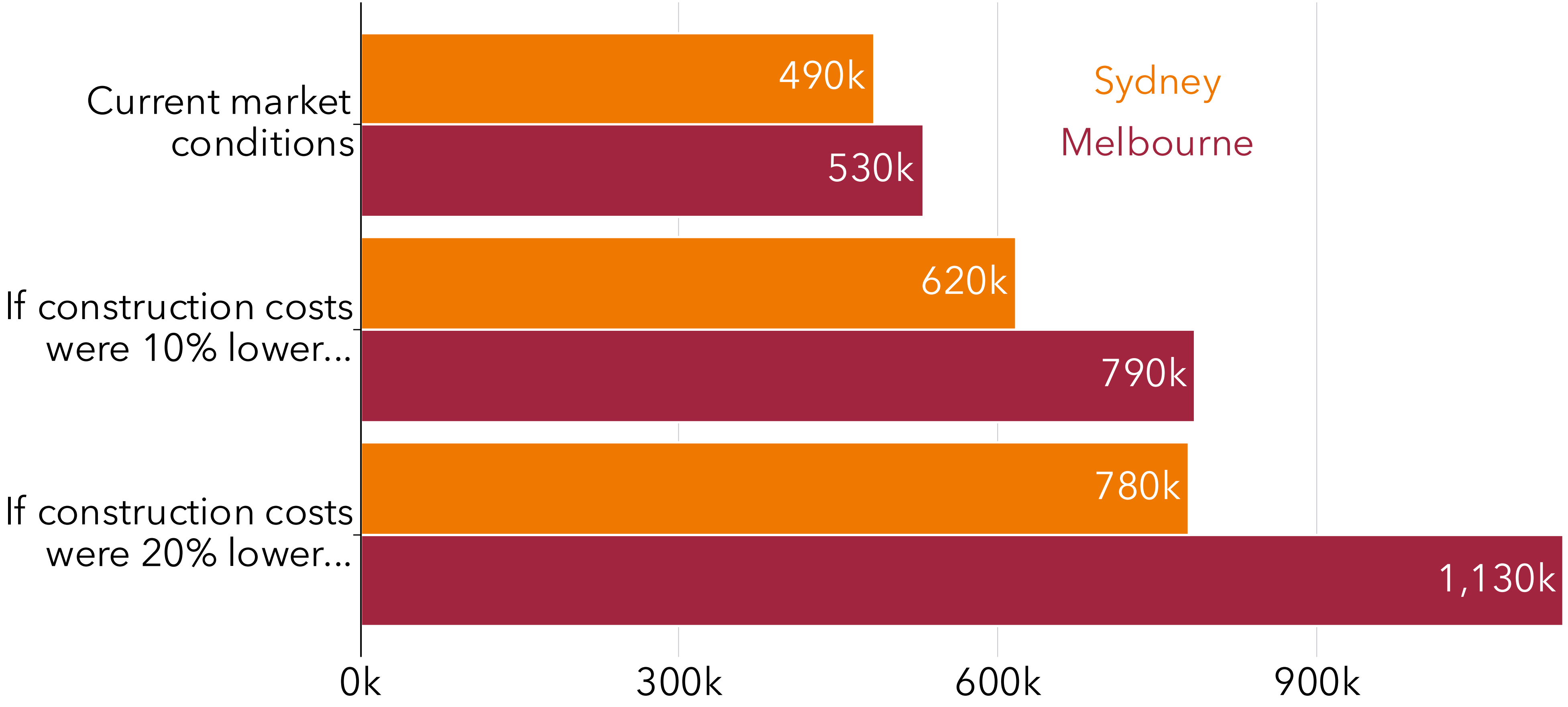
Increase in commercially-feasible capacity from recent planning reforms



If constructions costs were **10% lower…**

- An **extra 100k homes in Activity Centre catchments** become commercially feasible
- An **extra 160k homes in areas covered by the Townhouse Code** become commercially feasible.

Source: Grattan Institute analysis of Cotality (2025), Propcode (2025), NSW Department of Planning, Housing, and Infrastructure (2025), and Victorian Department of Transport and Planning (2025) data.

Construction sector capacity remains a challenge

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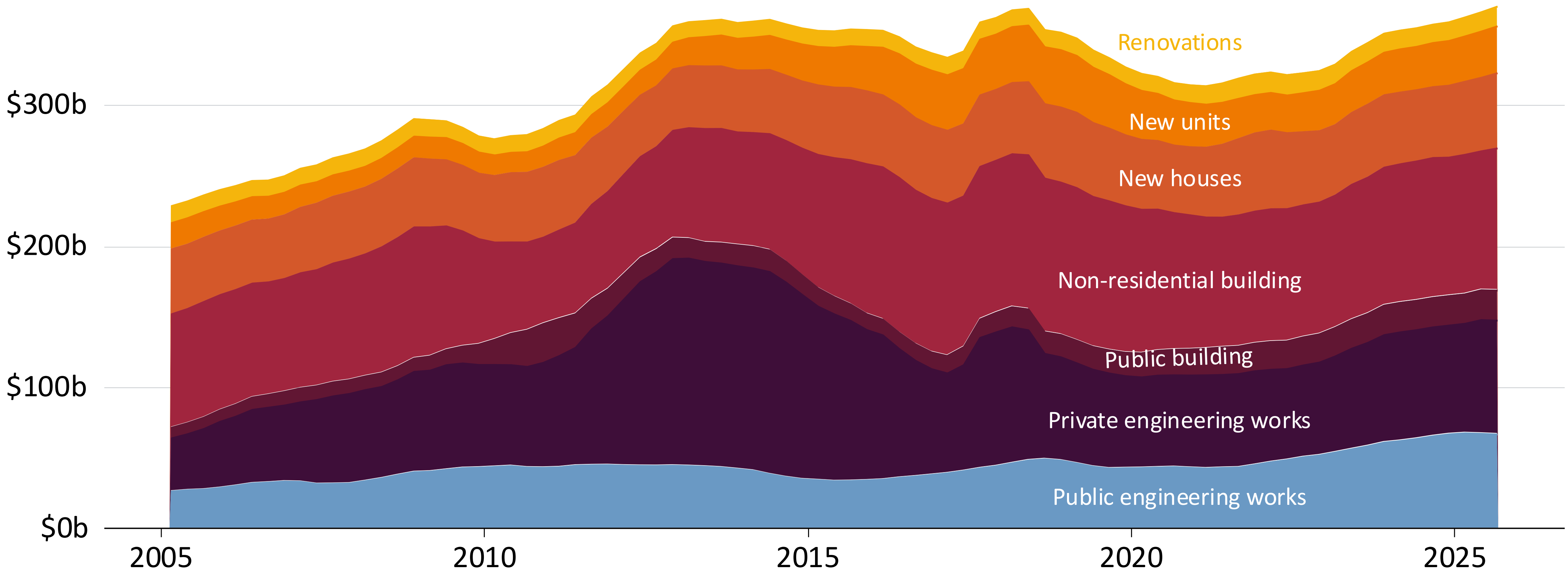
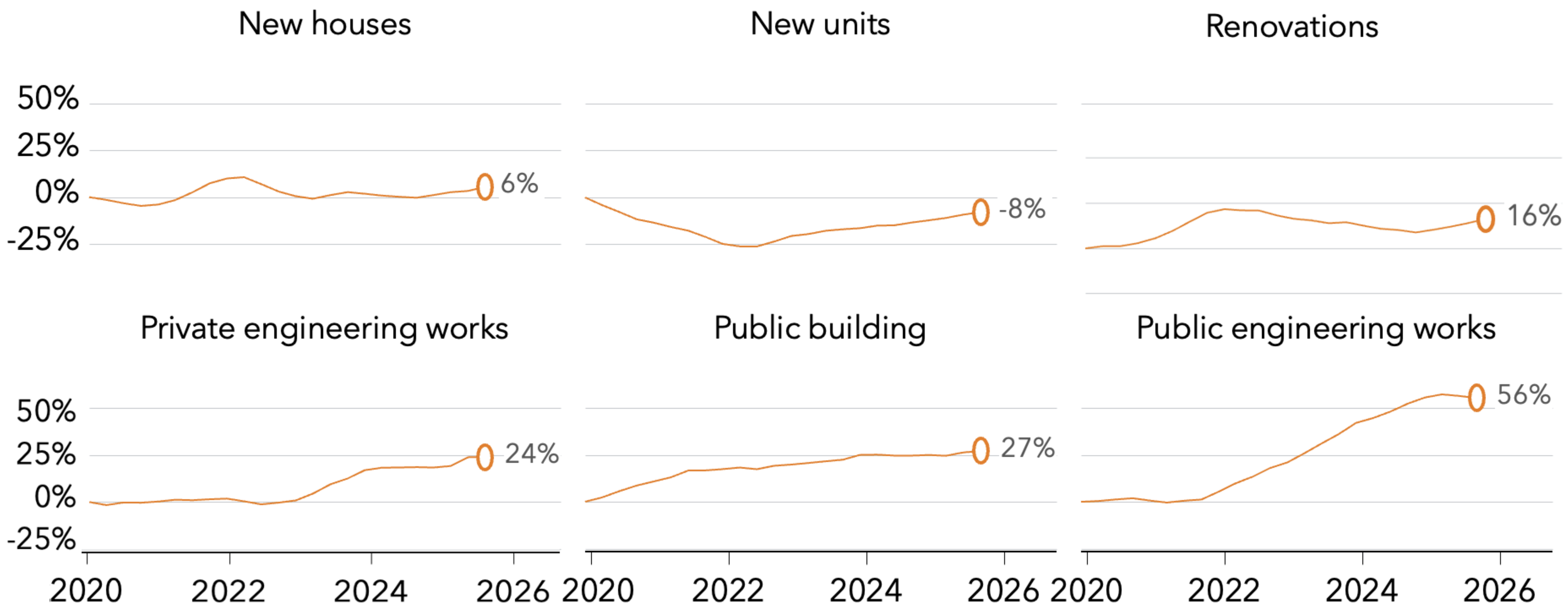
Real value of construction work done by sector, chain volume measures, $2023-24



Source: ABS Building Activity and Construction Work Done

Public infrastructure construction has risen fast, whereas apartments still lag 2019 levels

Value of work done by sector, December 2019 = 100



Source: ABS Building Activity and Construction Work Done.

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Where should Victoria go now on planning reform?

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1. **Abolish the Neighbourhood Residential Zone**
   - Replace NRZ with GRZ to allow 3-storey low-rise across Melbourne
2. **Establish a Deemed-to-Comply pathway for projects up to 3 storeys**
   - Modest density should not need planning approval
3. **Improve the Activity Centre Program**
   - Increase height limits in Activity Centre cores, e.g. to at least 12 storeys
   - Replace HCTZ2 with HCTZ1 in all areas covered by Activity Centre catchments
   - Remove 'large lot' lot size and frontage requirements
   - Add extra Activity Centres in high-demand locations
4. **Review systems of heritage controls**
   - Review heritage rules and processes, with a view to reforms that allow for more well-located homes
5. **Review and streamline post approval conditions**
   - Post approval conditions relating to building design or infrastructure providers add uncertainty and cost

Beyond planning, the focus should shift to making more housing commercially feasible to build

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Review parking minimums

- Abolish / relax minimum car parking requirements where the costs of construction exceeds the value to purchasers and renters

Apartment Design Guides

- Relax apartment design guides, such as by reforming: minimum apartment sizes; private open space requirements etc.

Streamline building regulations where the costs exceed the benefits

- Review state building codes and implementation of the NCC: seven-star energy ratings etc.

Address financing constraints for apartment developments

- Should Victoria follow NSW in creating a pre-sale finance guarantee for new apartment buildings?
- Are foreign investor surcharges slowing apartment pre-sales and raising financing costs?
- Is there a greater role for a public developer?

Workforce challenges

- Reprioritise the public infrastructure pipeline
- Industrial relations

Infrastructure pricing and provision

- Should we reform infrastructure contributions?
- Can we support better financing of infrastructure, especially in greenfields?


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