Sizing up planning reform

Analysing the impact of planning reforms on the commercial feasibility of new housing

Matthew Bowes

Senior Associate

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Australia builds too few homes in the places people want to live

- Australia's housing stock per adult has gone backwards for much of the past decade
- Australia's capital cities are among some of the least dense of their size in the world

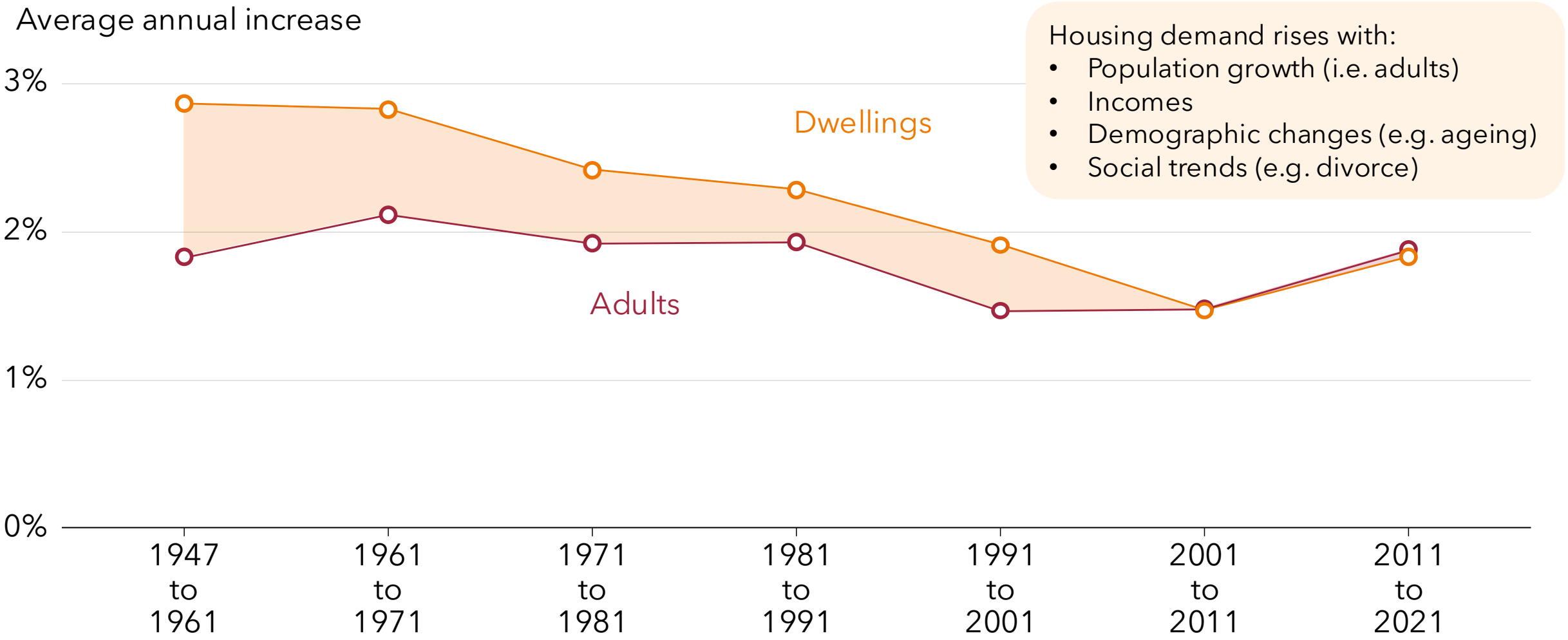
Reforming restrictive planning rules is key to improving housing supply

- Currently much inner-city land in Australia is subject to restrictive zoning & built form controls that prevent greater density
- Relaxing these controls can increase housing supply
- But existing methods of analysing planning controls often do not account for the impact of commercial feasibility on infill development

We develop a model of commercial feasibility to analyse recent planning reforms

- Using property-level planning data and valuation data, we estimate the commercial feasibility of infill development before and after recent planning reforms in Victoria and NSW
- Our results show that Victoria's planning reforms are more ambitious, especially for gentle density, but higher densities are generally more commercially feasible in NSW
- Early evidence from Melbourne suggests that our estimates are predictive of permit uptake

Australia's dwelling stock used to grow much faster than our adult population – but no longer



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.

Australian cities are less dense than comparable ones overseas

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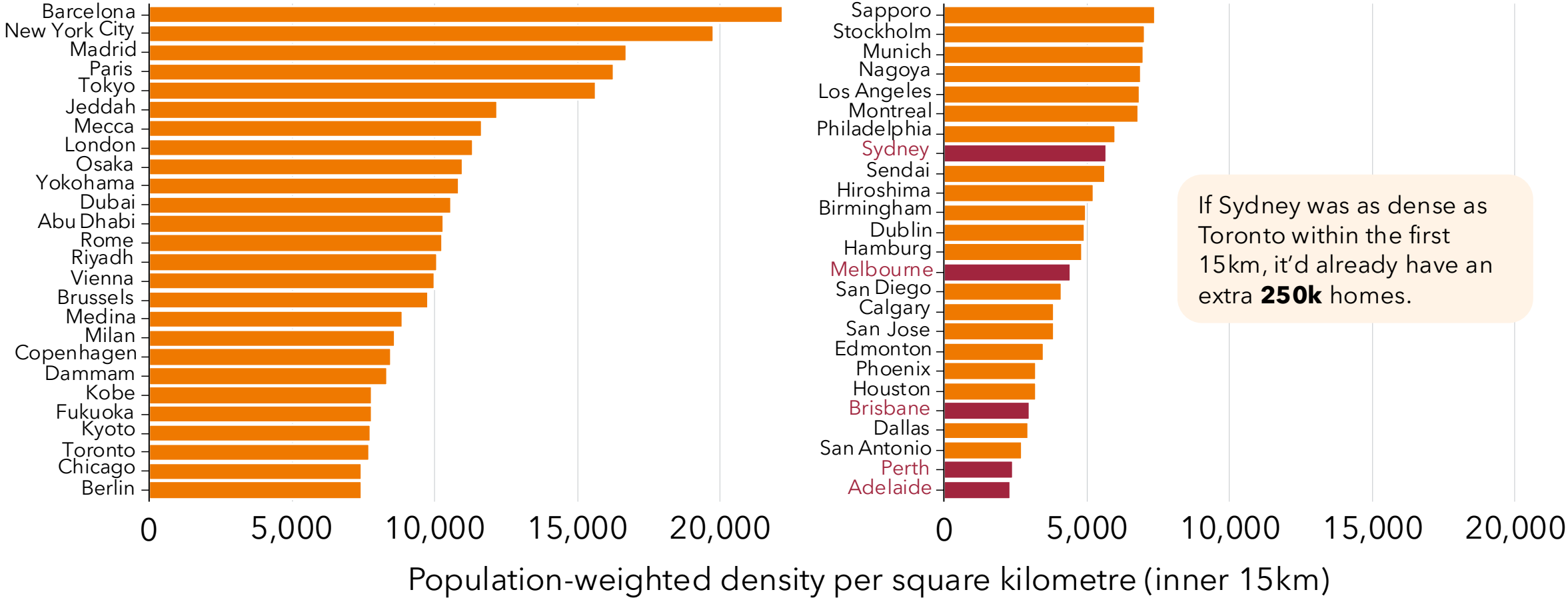
Cities of at least 1 million people in developed countries



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

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.

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Land use planning controls constrain housing supply on much of Australia's urban land

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Land use controls refer to an array of regulatory controls on what kinds of development can occur where.

Common controls within Australian cities include:

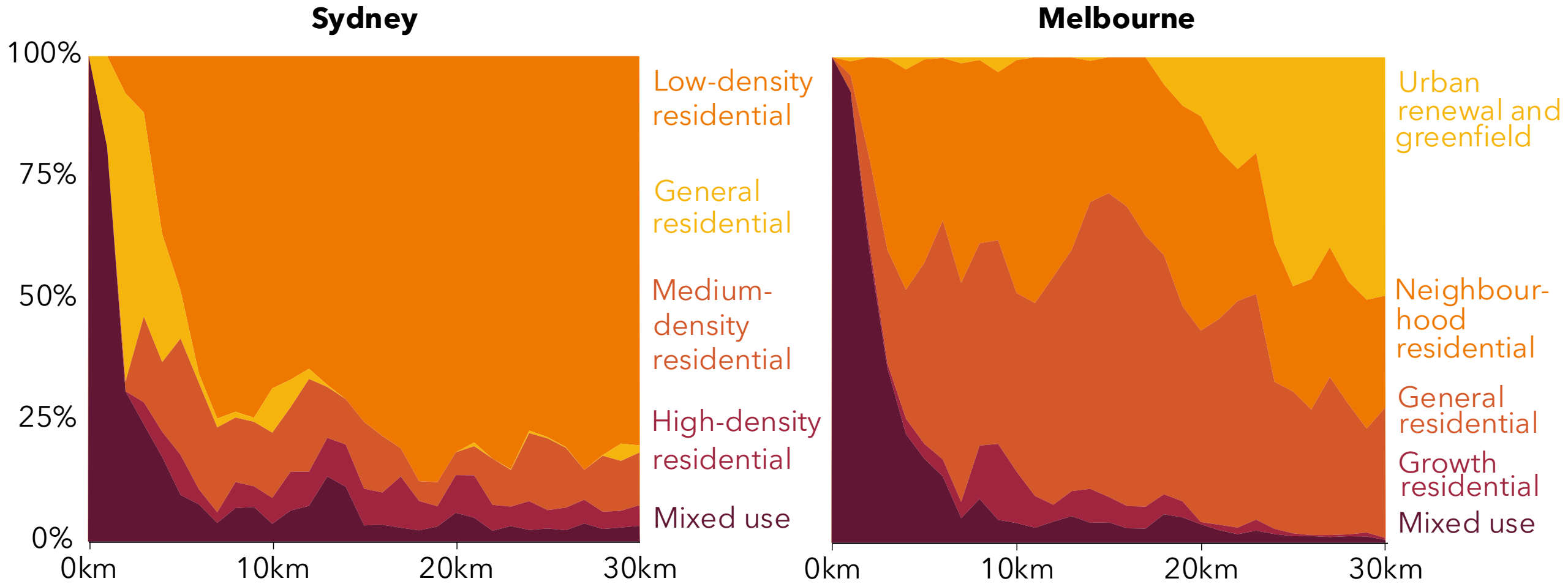
1. **Zoning** - Most residential-zoned land in our major cities is set aside for low density housing.

2. **Built form controls** - Height limits, setbacks, minimum lot sizes, site coverage ratios & floor-space ratios etc. limit what can be built.

3. **Heritage protection** - Extensive heritage protections further limit what new housing can be built.

Most of inner Sydney and Melbourne is zoned for low-density

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.

Floor space ratio and other built form controls further determine planning capacity

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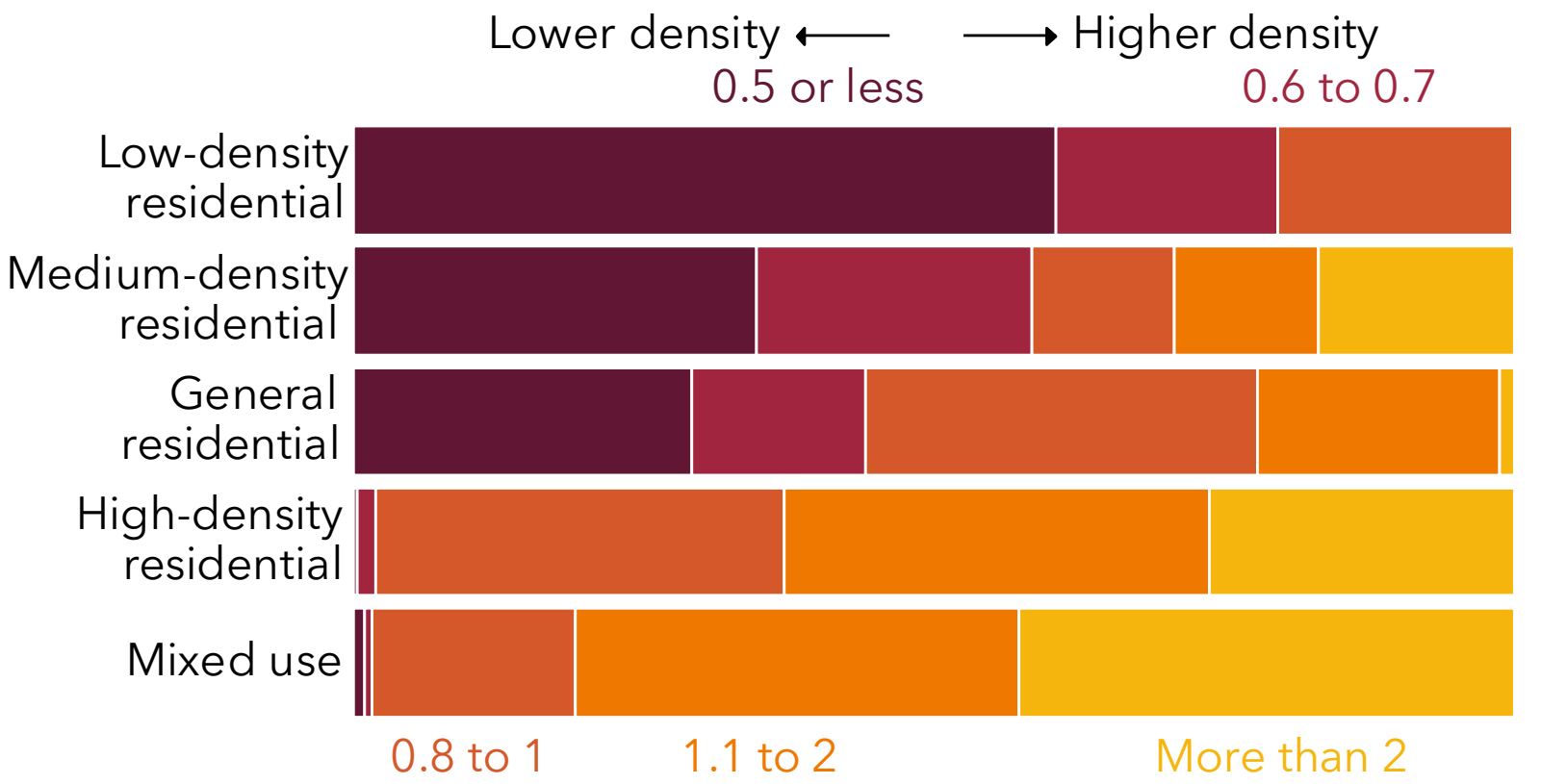
Share of properties by floor space ratio and zone

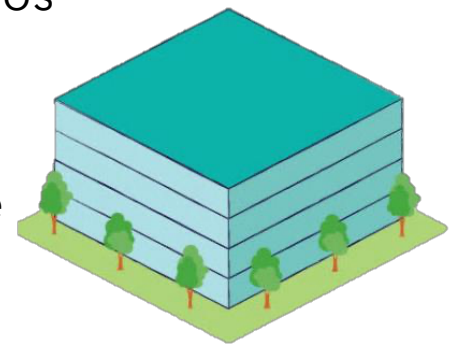


Floor space ratios

FSR 4.0

100% coverage

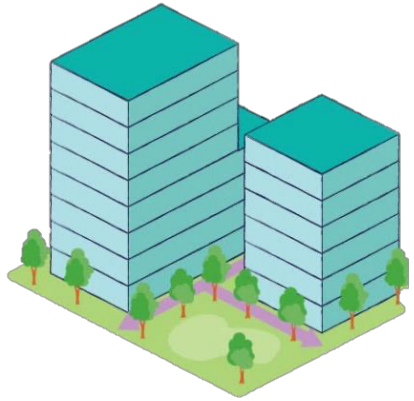
4 storeys



FSR 4.0

66% coverage

6 storeys



Most 'high density' residential areas have an FSR of less than two, and one-third have an FSR of less than 1.

Note: Limited to properties within the Sydney GCCSA where zoning generally permits housing. 'Mixed-use' combines metropolitan centre and mixed-use commercial zones. Mapped FSR values not available for around one quarter of all properties, mostly in low-density residential areas. Includes mapped height controls in Local Environment Plans, along with height controls that apply in Transport Oriented Development and Low- and Mid-rise Housing Areas.

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

Local and national zoning reforms massively increased ‘zoned capacity’ in NZ cities

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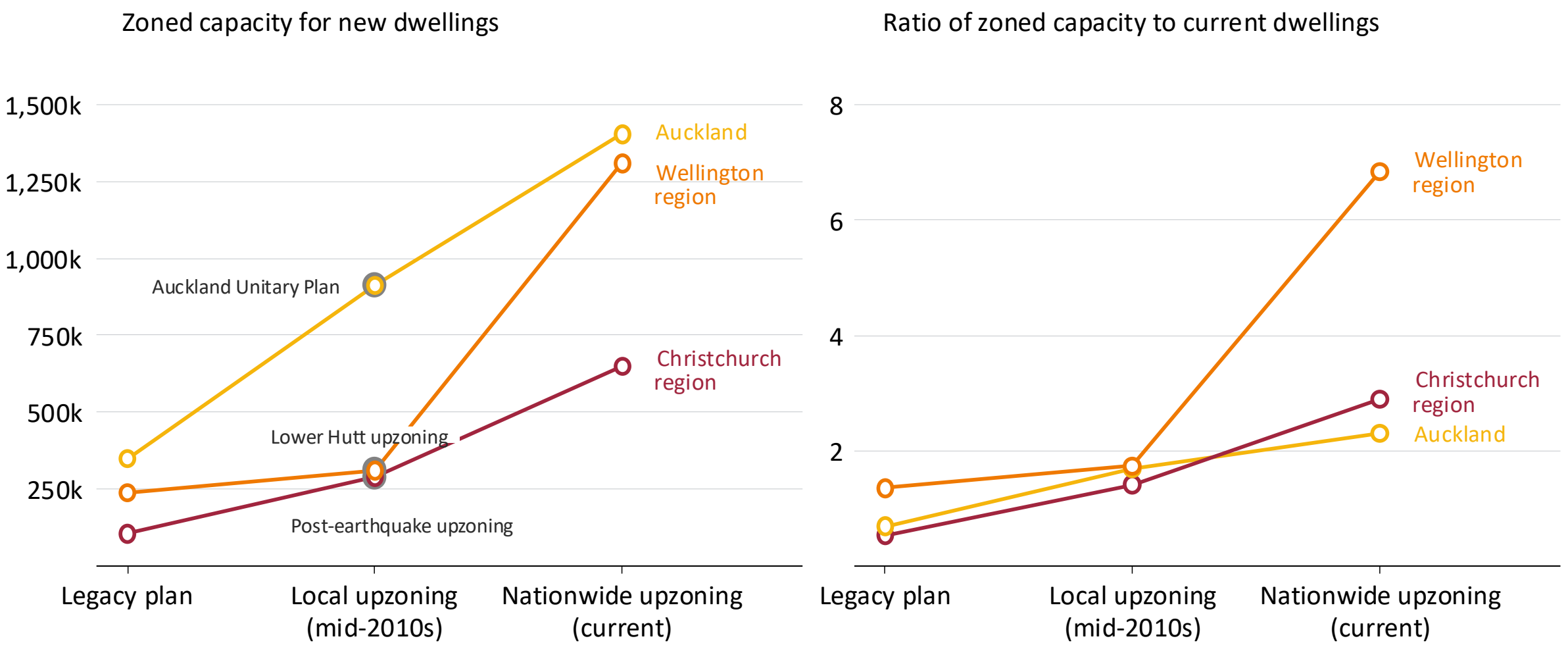

Notes: Christchurch region's legacy plan capacity was estimated by the author.

Source: Garlick (2026), *'The "Great Upzoning" of New Zealand's cities, in two charts'*.

And loosening land use controls delivered more housing in Auckland, and elsewhere

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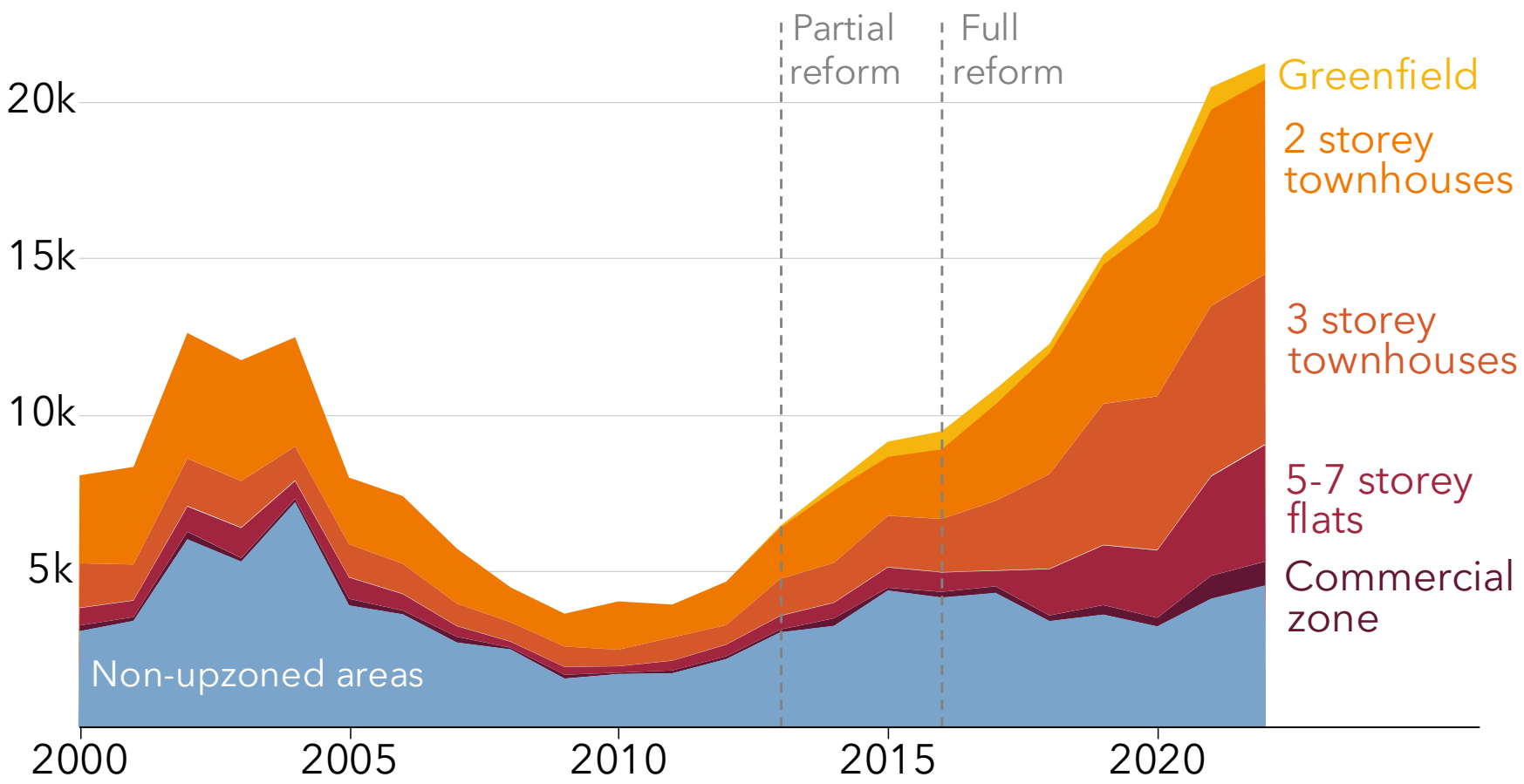
Annual dwelling approvals in Auckland by zone type



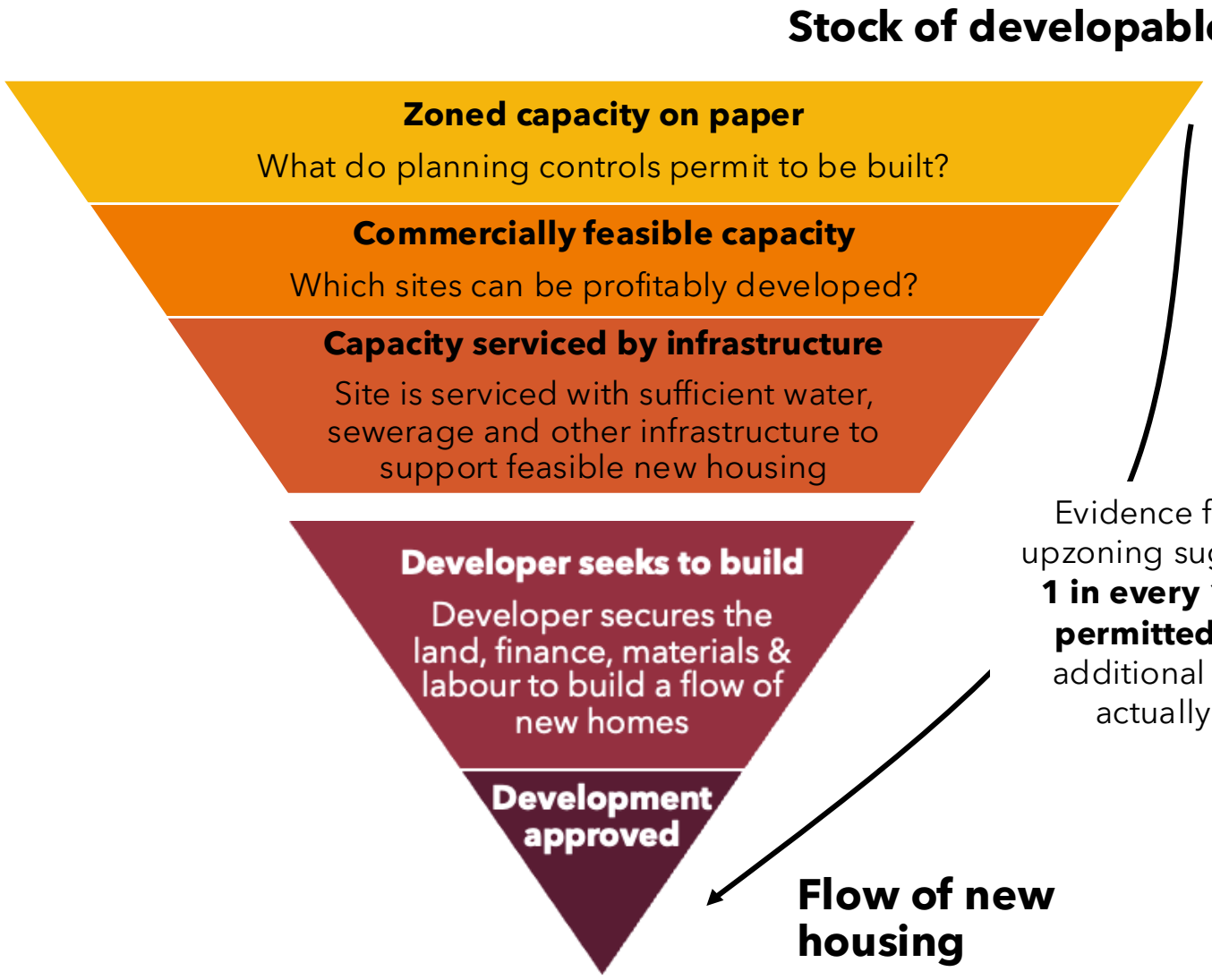
Auckland undertook a substantial upzoning in 2016

- 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
- Studies find (relative to no upzoning) housing stock increased by ~4%

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.

But in practice, commercial and practical determine the uptake of zoned capacity

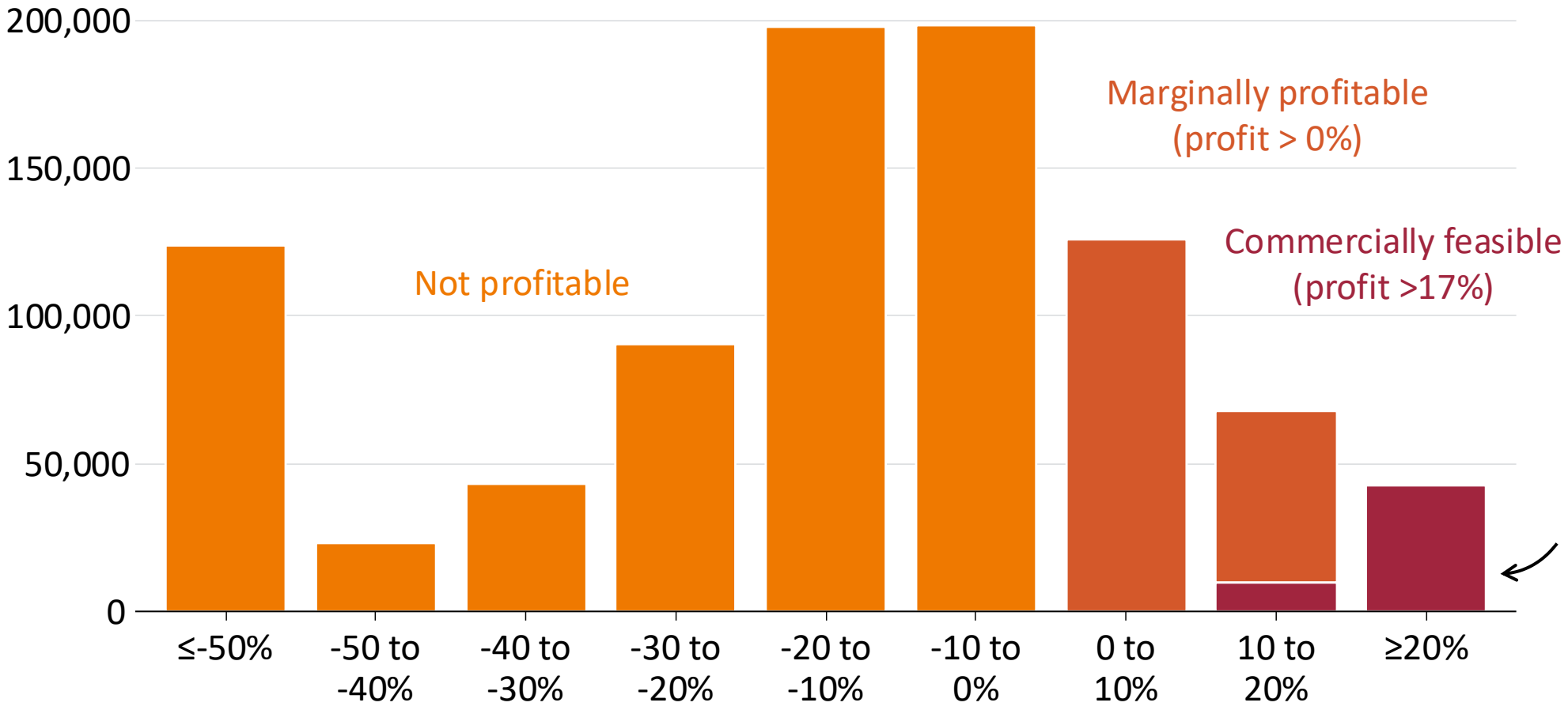


Evidence from NZ and other upzoning suggests that less than **1 in every 100 homes newly permitted** to be built (i.e. of additional zoned capacity) is actually built each year

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

Only a small share of zoned capacity is commercially feasible

Count of Melbourne GRZ-zoned sites, by estimated profit margin on highest-yield infill project



Prior to recent reforms, **infill development** was only commercially feasible on **6 per cent of sites**

Notes: Estimates show most profitable permitted multi-unit development on each site under pre-Townhouse Code planning rules. Excludes activity-centre program sites. Profit margin is on total development cost; commercially feasible refers to margin at or above an 18% hurdle rate.
Source: Grattan analysis of Victorian Government (2025) Department of Transport and Planning, Cotality (2025), and Propcode (2025) data.

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The Grattan Model of Australian Planning Systems aims to prospectively evaluate planning reforms

Zoned capacity

How many homes could be accommodated if each site was developed to the maximum extent permissible?

Zoned capacity is what developers might build if prices were infinitely high

- Infill development isn't profitable on every site
- Not every site is profitable to develop to the maximum extent permitted

Commercially feasible capacity

How many homes could be profitably developed in an area, accounting for both planning controls and development costs?

Our model combines a range of planning, valuation, and cost data to estimate development profits

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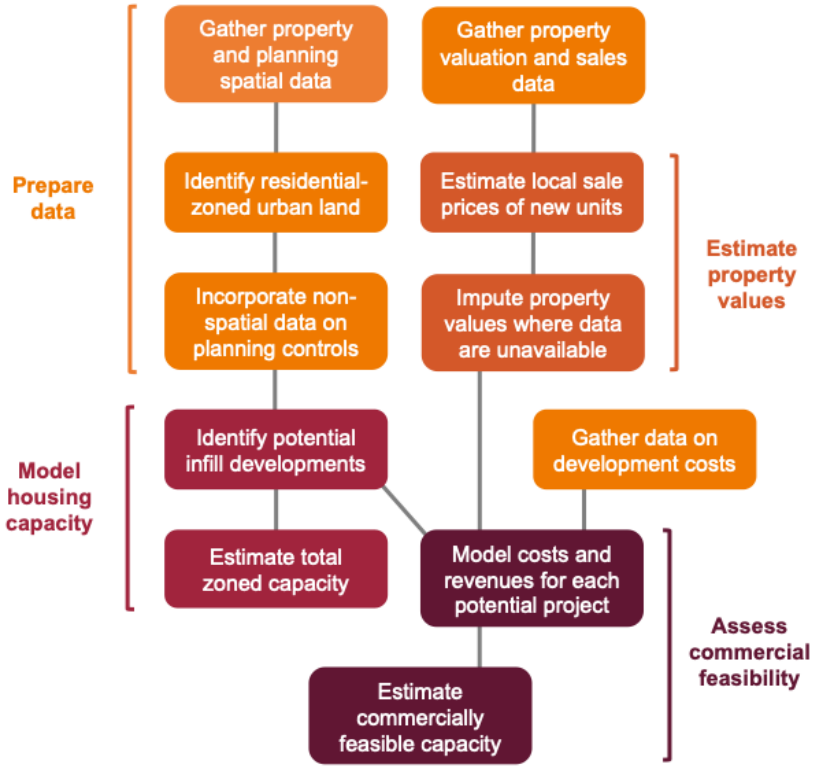
1. **Identify capacity for more housing floorspace** based upon built form controls and geospatial data for each property in Sydney and Melbourne.

2. **Estimate additional housing that could be built** on that floorspace, making assumptions about potential housing typologies and dwelling size.

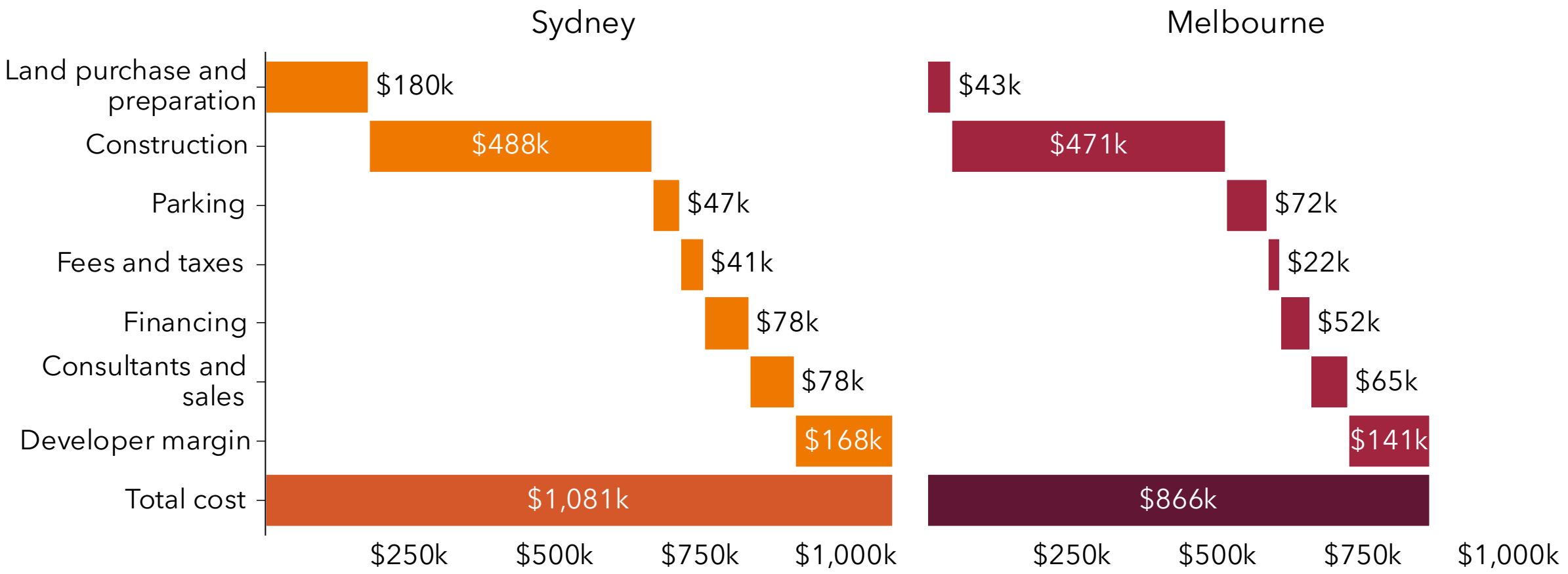
3. **Estimate the cost of developing that housing**, including the cost of acquiring sites, demolishing existing capital improvements, constructing new housing, financing costs and the developer's profit margin.

4. **Estimate the sale price of newly constructed housing** across LGAs in Melbourne and Sydney for different housing typologies.



Land, construction, and developer margins are the main costs for new infill projects

Average cost per unit for commercially feasible six-storey apartment buildings



Notes: Average costs per unit among top 5 per cent most profitable projects in upzoned areas of Sydney and Melbourne. Average unit size of around 80sqm. Higher land costs in Sydney reflect higher sale prices for new units, which increases the land value at which developments can be profitably pursued. Taxes and financing costs in Sydney reflect these higher land costs. Parking costs are lower in Sydney, reflecting lower minimum parking requirements.

Sources: Grattan analysis of Cotality (2025), Rawlinsons (2025), Napier & Blakeley (2025), Rider Levett Bucknall (2025), and Centre for International Economics (2024) data.

We use our model to analyse a set of ambitious NSW and Victorian planning reforms

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	NSW	Victoria
Duplex or townhouse policies	**Permitting dual occupancies** • Duplexes permitted in all low-density zoned areas	**Townhouse Code** • Creates deemed-to-comply standards for flats or townhouses up to 3 storeys in residential zones
Walkable catchment policies	**Low and mid-rise housing** • Up to 6 storey apartments in areas within 400m of select town centres and train stations, and up to 3-4 storeys in other areas	**Activity centre catchments** • 3-to-6 storey apartments within 800m of 60 activity centres
Higher-density core policies	**Transport-oriented development** • Up to 6 storey* apartments within 400m walking distance of 45 stations	**Activity centre cores** • High-rise apartments in 60 activity centres
Affordable housing	**In-fill Affordable Housing Bonus** • 20–30% floor-space & height bonuses*, where 10-15% of floor area is affordable housing	

Notes: * Higher height limits implemented in TOD accelerated precincts; other NSW policies include the State Significant Rezoning Policy; ** The height bonus only applies to residential flat building and shop-top housing.

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

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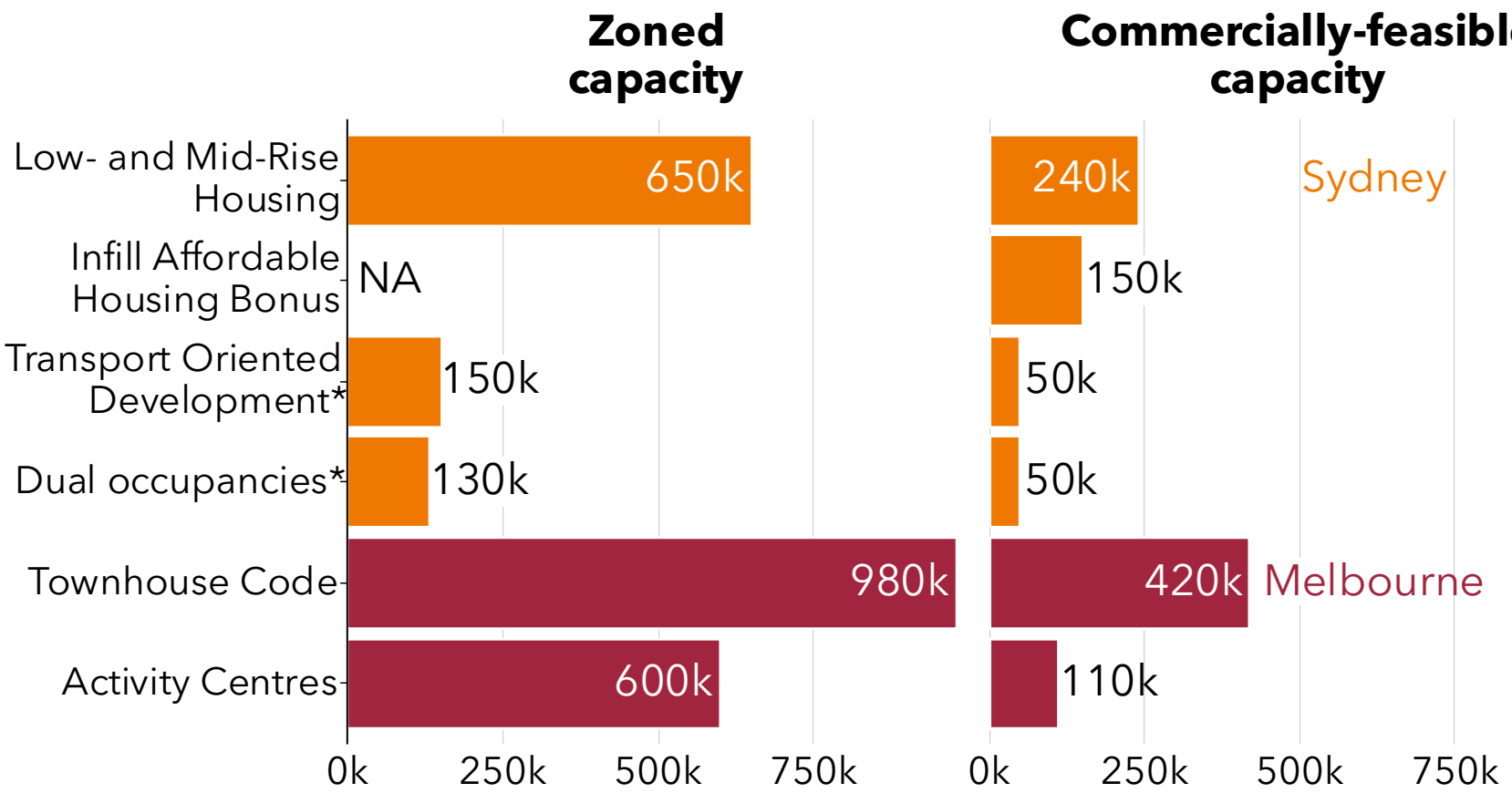
Increase in housing capacity, by planning policy and commercial feasibility



These reforms are impactful, but fall short of zoned capacity unlocked in NZ

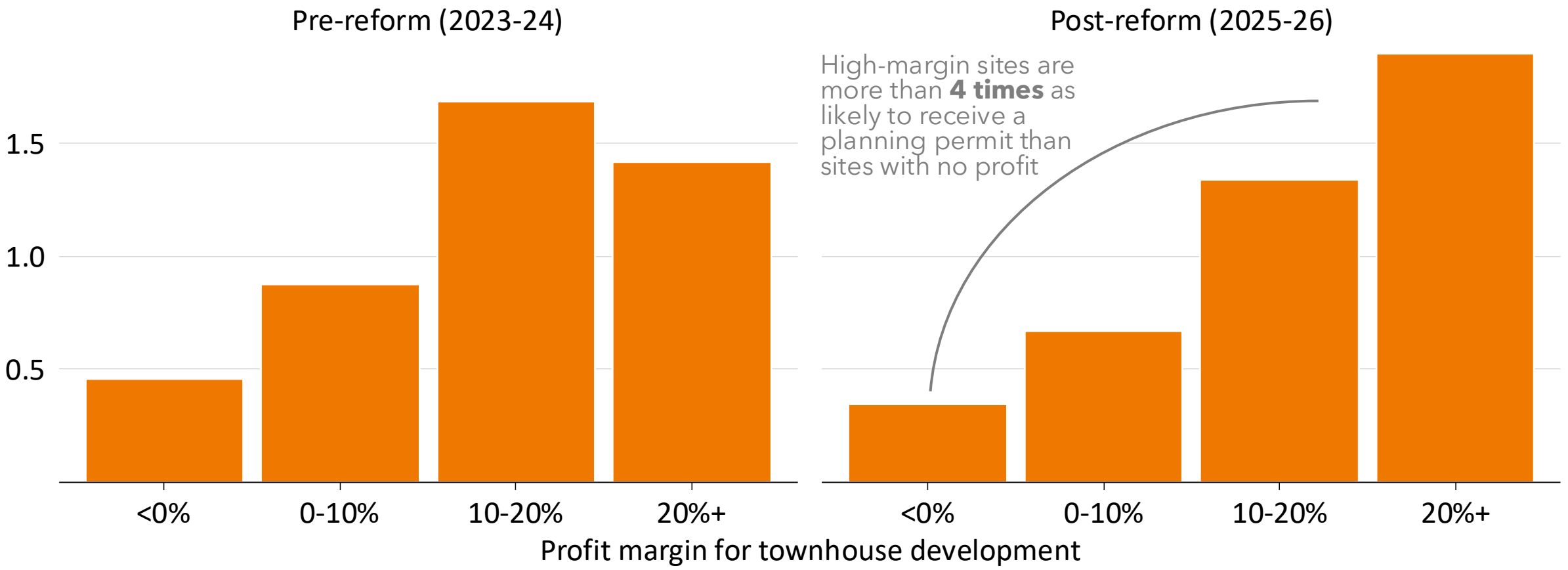
- **Sydney:** boost to zoned capacity equivalent to **40%** of existing housing stock.
- **Melbourne:** boost to zoned capacity equivalent to **70%** of existing housing stock.
- **NZ cities:** boosted capacity by **more than 100%** of existing housing stock.

Note: * Policies modelled here are different from those ultimately implemented. 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 NSW Government (2025) Department of Planning, Housing, and Infrastructure, Victorian Government (2025) Department of Transport and Planning, Cotality (2025), and Propcode (2025) data.

Early results from Melbourne suggest permits are more likely for sites with higher profit margins

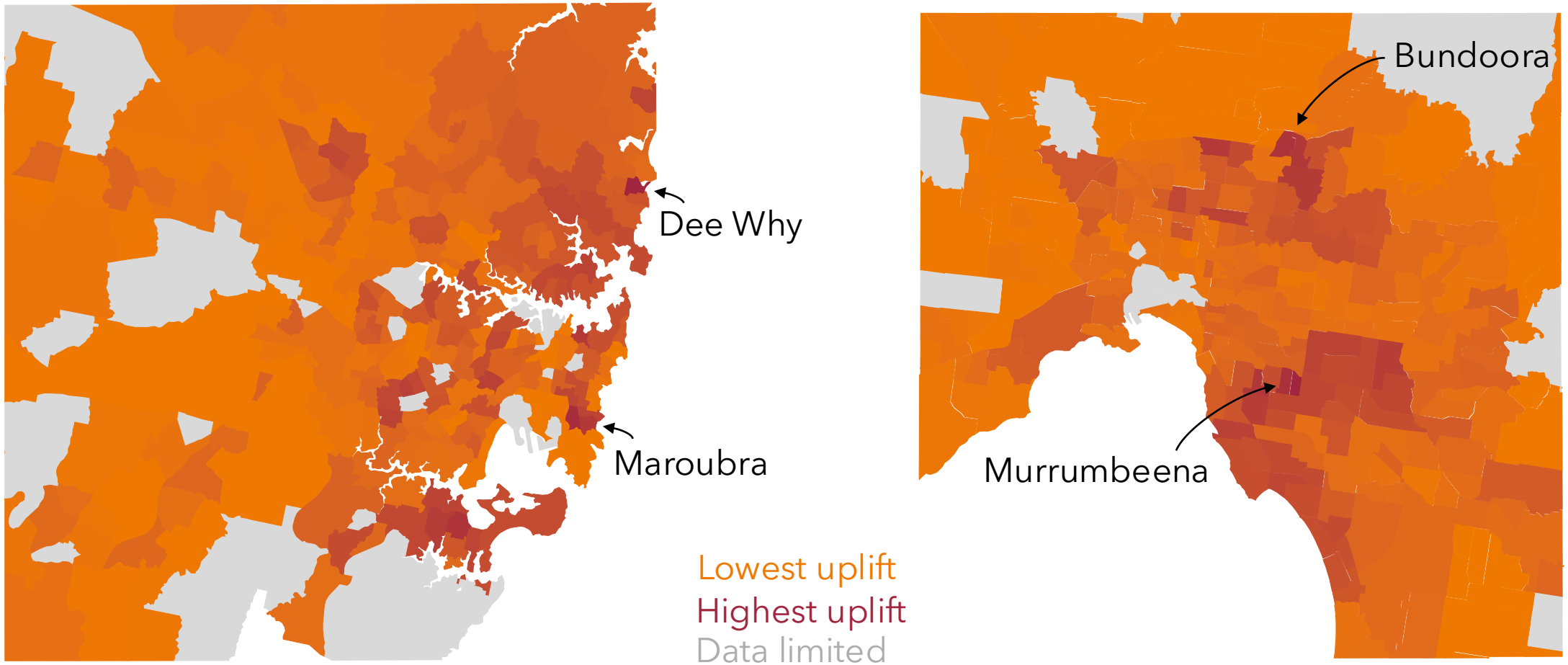
Planning applications for multi-dwelling development, rate per 1,000 sites per quarter



Notes: Profit margin estimated based upon planning controls in that period; all other data as at mid-2025. Planning-permit data covers Boroondara, Casey, Darebin, Frankston, Glen Eira, Greater Dandenong, Hume, Melbourne, Merri-bek, Moonee Valley, Nillumbik, Stonnington, Whitehorse and Yarra councils. It records permit applications only, and does not indicate whether the application was approved.
Source: Grattan analysis of Victorian Government (2025) Department of Transport and Planning, Cotality (2025), and Propcode (2025) data, and YIMBY Melbourne (2026) planning-permit data.

Capacity uplift from reforms is highest in Sydney's beachside suburbs, and Melbourne's middle-ring

Commercially feasible capacity uplift per hectare of residential land in **Sydney** and **Melbourne**



Notes: Darker-coloured areas are estimated to see a greater uplift in commercially feasible capacity following the introduction of the LMRH, TOD, and Infill Affordable Housing bonus programs in Sydney and the Townhouse Code and Activity Centre programs in Melbourne. Excludes areas with no modelled uplift or limited residential land.

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

Townhouses and high-rise apartments are most feasible in Sydney, mid-rise apartments often aren't

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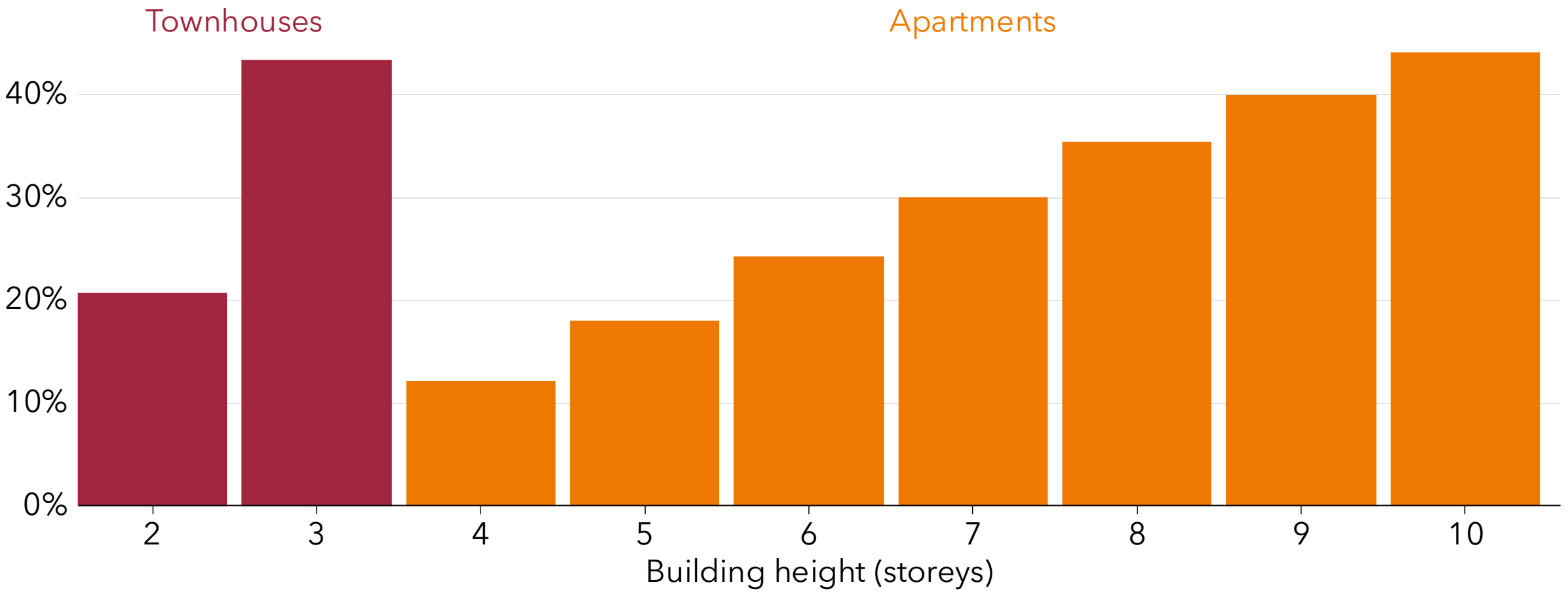
Share of LMRH sites where development is commercially feasible, by project height



Notes: Estimates show share of projects that would be commercially feasible if development at the specified intensity was permitted on each site. Analysis based upon properties in LMRH areas in Greater Sydney. Analysis assumes 50 per cent site coverage and 15 per cent reduction in site coverage above 3 storeys. Commercial feasibility at each height assessed by comparing estimated sale prices for new apartments with total cost of development, including developer margins of 18 per cent.

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

Allowing 3-storey townhouses across Sydney would unlock feasible capacity for more than 1m homes

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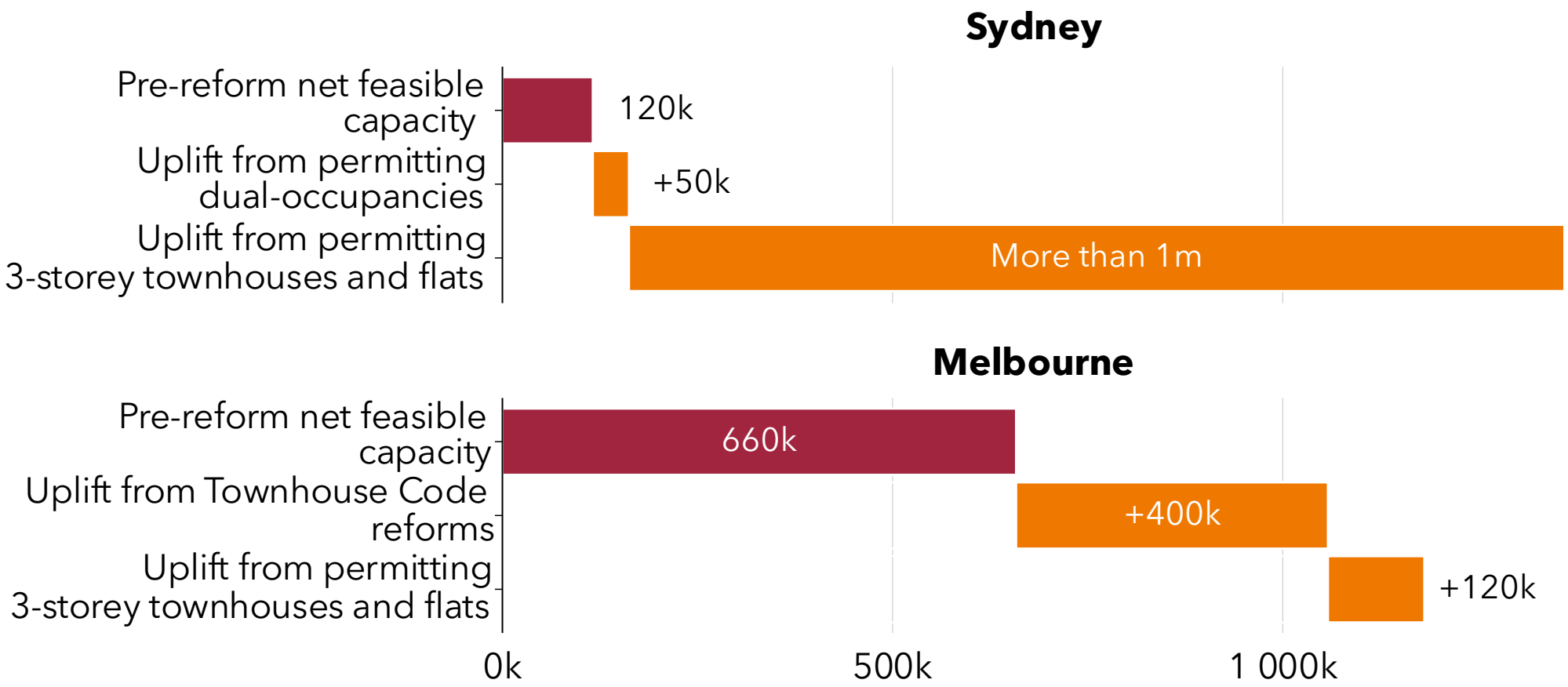
Estimated commercially feasible capacity in lower-density zoned areas, by city



In **low-density (R2) zoned areas in Sydney alone**, there are more than **400k sites that could be profitably developed** as three-storey townhouses, if those homes were legal to build

Notes: Low-density zones include the R1 and R2 zones in Sydney, and the NRZ and GRZ zones in Melbourne. Dwelling capacity estimated based upon prevailing planning controls, including floor-space-ratio and height. Commercial feasibility assessed by comparing estimated sale prices for new homes with total cost of development, including developer margins.

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

Higher requirements for the NSW affordable housing bonus could reduce affordable units

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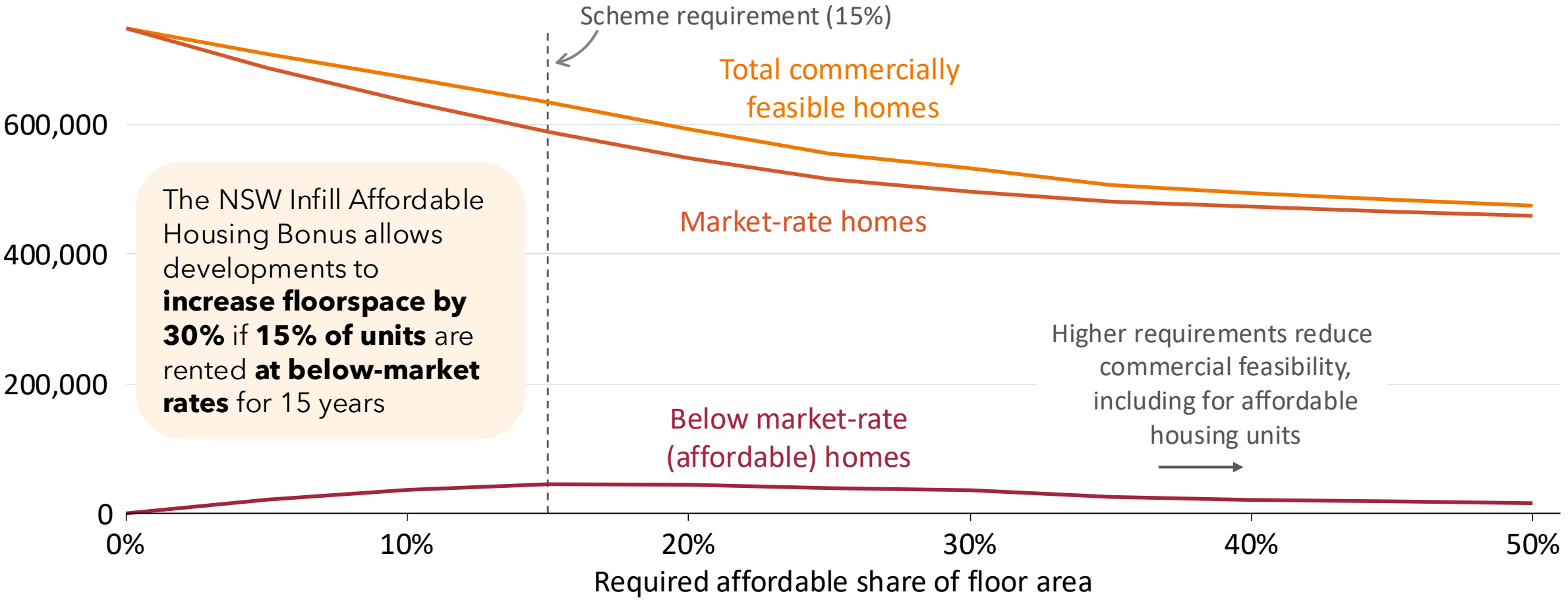
Feasible dwellings on Sydney infill-bonus sites, by required affordable share



Notes: Estimates only for sites estimated to be eligible for the infill affordable-housing bonus. At each affordable share, each site takes whichever is more profitable - the infill bonus (+30% floorspace, the required share affordable, sold at a 40% discount) or opting out to its most profitable base project (no bonus floorspace, no affordable units). A development is feasible when its profit margin is at or above the 18% hurdle rate.

Source: Grattan analysis of the GMAPS feasibility model.

More homes, better cities

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