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# The Rental Crisis

## Submission to the Senate Community Affairs Committee

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4 August 2023



**Committee Secretary  
Senate Standing Committee on Community Affairs  
PO Box 6100  
Parliament House  
Canberra ACT 2600**

**Submission to the Inquiry into the rental crisis**

The Centre for Independent Studies (CIS) appreciates the opportunity to provide a submission to the Committee on Community Affairs' Inquiry into the rental crisis.

The CIS is a leading independent public policy think tank in Australia. It has been a strong advocate for free markets and limited government for more than 40 years. The CIS is independent and non-partisan in both its funding and research, does no commissioned research nor takes any government money to support its public policy work.

Researchers at the CIS have done substantial work on many of the issues relevant to the current inquiry. However, this submission focusses on what we consider to be the most important issue, the effect of planning restrictions on rents.

We would be happy to provide further information if this would assist the Committee.

Yours sincerely,

Peter Tulip  
Chief Economist  
Centre for Independent Studies  
4 August 2023

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Submission by Centre for Independent Studies

August 2023

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There is no bibliography. References are provided by hyperlinks in the electronic version.

## 1. Summary and introduction

Rents are too high. This leads to homelessness, rental stress, long commutes, overcrowding, and a host of other social problems. The fundamental cause is that planning restrictions limit supply, driving up the cost of housing. It is important to be clear about this, and for it to be a focal point in public discussions. As yet, it is not well understood by the public. So opponents of housing developments do not realise the harm they do. Moreover, misguided policy proposals dominate public discussion.

These are major obstacles to better policy. Accordingly, this submission describes the evidence of large effects of planning restrictions on housing affordability. This includes large effects on renters with low incomes. The submission then discusses various objections to this research finding and concludes with a brief discussion of policy options.

## 2. Evidence that planning restrictions make housing expensive.

A mountain of academic research finds zoning restricts supply, and this increases prices and rents. More specifically, researchers find: less building in jurisdictions with tight planning restrictions; more building when restrictions are eased; lower prices and rents when restrictions are eased; prices exceed marginal costs for both detached houses and apartments; substantial economic harm from zoning restrictions; and so on.

The research uses a wide variety of data sets and empirical approaches. For surveys and summaries see Gyourko and Molloy ([2015](#)), Hamilton ([2021](#)), Been ([2018](#)), [Furman \(2015\)](#), Glaeser and Gyourko ([2018](#)), Schuetz ([2022](#)), Phillips ([2020](#)), Schleicher ([2021](#)), Gray ([2022](#)), Erdmann ([2019](#)), Beyer ([2022](#)) and, for a UK focus, Hilber and Vermeulen ([2015](#), Section 2). Tulip ([2020](#)) discusses Australian research. We present representative examples of this research in Section 3.

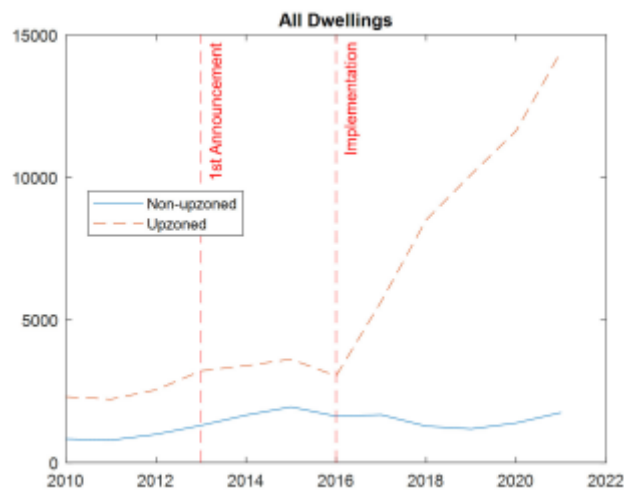
Most of these surveys are by eminent urban economists. The individual papers they cite typically contain shorter literature reviews with the same conclusions, as do numerous government reports from many different countries. In Australia, the most recent official reports are the Commonwealth Productivity Commission's [Report on housing](#), the [Falinski Inquiry](#), and the NSW Productivity Commission's '[Rebooting the economy](#)' and '[Building more homes where people want to live](#)'. *The Economist* magazine ([2021](#)) has complained that "no one needs any more papers showing that stringent zoning regulations raise housing costs. It is time for solutions."

The research could be described as 'mixed' or 'contested' if one gave a substantial weight to badly-designed uninformative studies. However, the surveys above place more weight on research that is robust to criticism. The simple misunderstandings one sees in social media (discussed in Section 6) are not taken seriously in the research literature.

This substantial research should be the basis of public policy. However, it is also useful to illustrate the point with some examples.

Auckland's planning reform of 2013 to 2016 removed many restrictions on medium density development. This was an unusually large-scale reform, conducted in a well delineated area, with less-affected regions forming a good comparison group. The reform was followed by a boom in construction in upzoned areas (about three-quarters of the city) relative to non-upzoned areas.

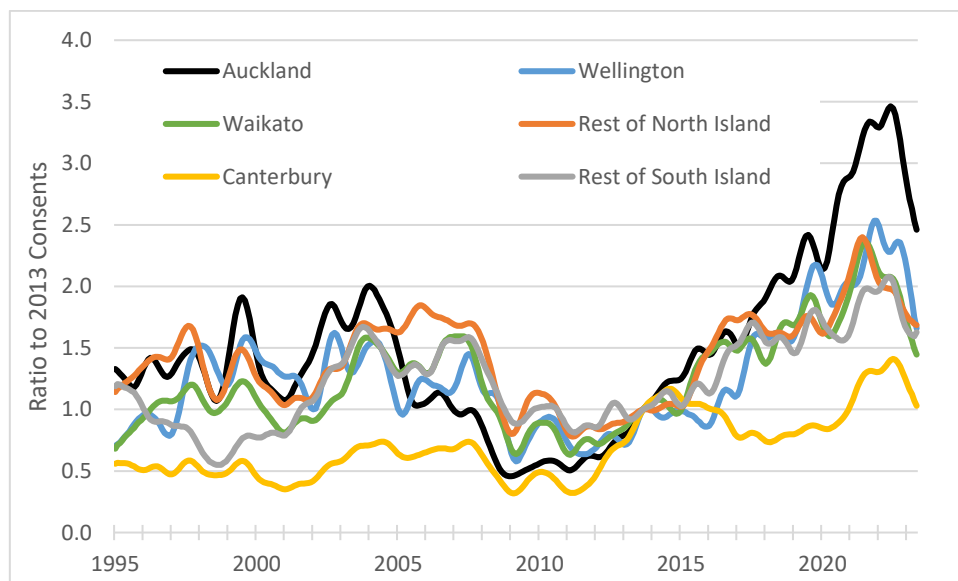
Chart 1: Dwelling consents in Auckland; 2010-2021



Source: [Greenaway-McGrevy and Phillips \(2023\)](#)

This boom cannot be attributed to favourable macroeconomic or financial factors, given that construction in Auckland boomed relative to history and other New Zealand cities. Chart 2 shows dwelling consents as a ratio to their trend level in September 2013, when Special Housing Areas began. (Canterbury is unusual because of earthquakes).

Chart 2: Dwelling Consents; New Zealand Regions  
Ratio to 2013



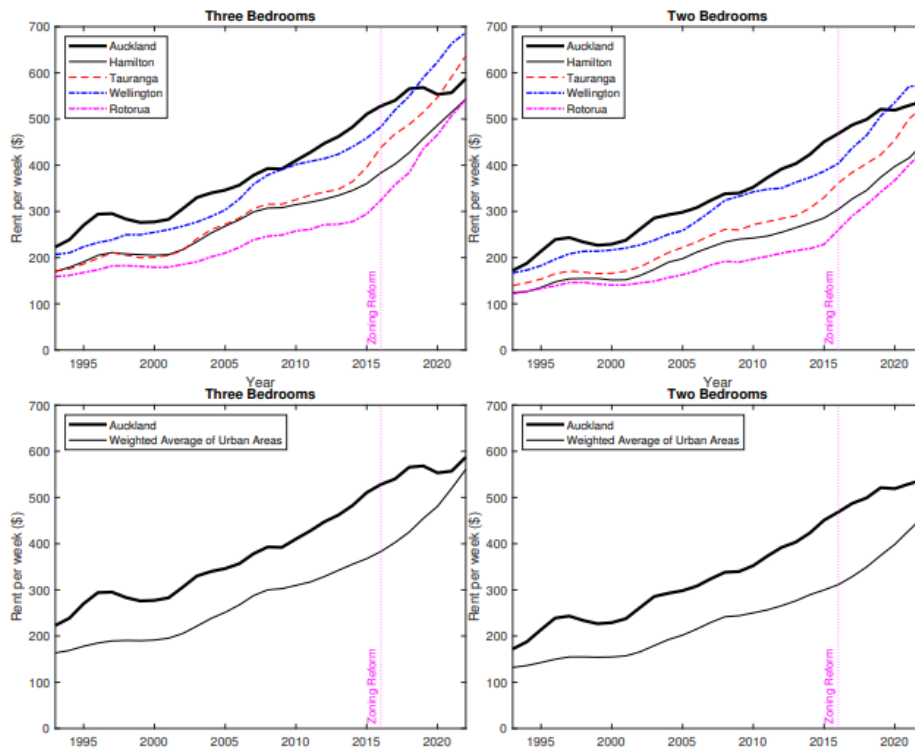
Source: <https://infoshare.stats.govt.nz/SelectVariables.aspx?pxID=c6b9b9b6-b0ef-474d-ad46-aa9be4ec24ae>

In a thorough econometric study, [Greenaway-McGrevy and Phillips \(2023\)](#) estimate that these reforms approximately doubled the rate of construction in Auckland, adding 5% to the dwelling stock (not allowing for demolitions) over 5 years.<sup>1</sup>

<sup>1</sup> Those estimates have been challenged by [Murray and Helm \(2023\)](#) but their concerns have been addressed in subsequent work by [Greenaway-McGrevy \(2023a\)](#), leading to stronger conclusions (see also [Maltman, 2023](#); [Phillips \(2023\)](#)).

The planning reforms reduced rent relative to other New Zealand cities, as shown in Chart 3. [Greenaway-McGrevy \(2023b\)](#) estimates that rents in Auckland fell by 14% to 35% relative to what they otherwise would have been.

Chart 3: Rent in New Zealand Metropolitan Areas; 1993-2022

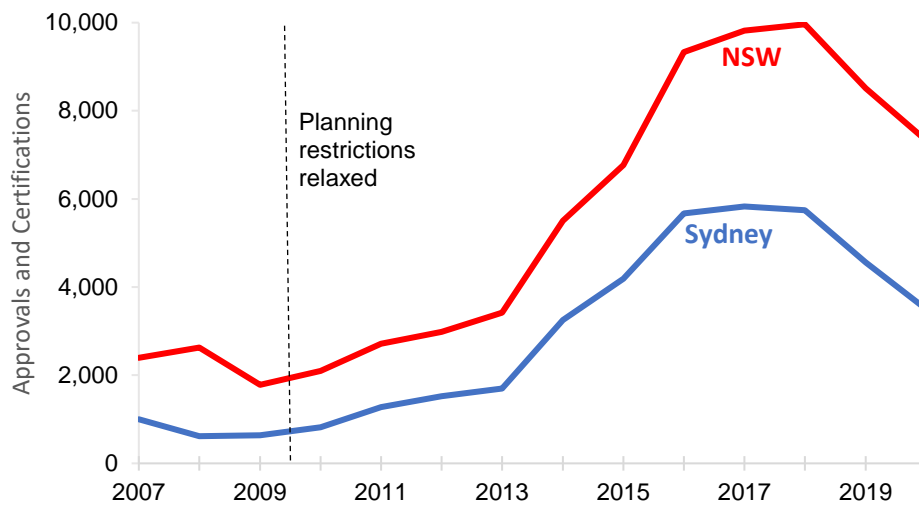


Notes: Geometric mean rents for selected urban areas. Weights based on 2018 census populations.

Source: [Greenaway-McGrevy \(2023b\)](#)

There are many other examples where lifting planning restrictions has been followed by huge increases in construction. One, closer to home, is New South Wales lifting restrictions on 'granny flats' in 2009. As shown in Chart 4, this led to a five-fold increase in construction, or about 49,000 extra dwellings by 2020. This large increase in supply required no direct expenditure by the government — it simply involved getting out of the way.

Chart 4: Granny Flats in NSW following 2009 liberalisation



Source: <https://pp.planningportal.nsw.gov.au/local-development-performance-monitoring-ldpm>

Large effects of planning restrictions can also be easily seen in the huge increases in land values that accompany upzonings. For example, a property zoned for 13 storeys at 661 Chapel St, South Yarra in Melbourne was sold for \$20 million in 2014. It was then rezoned for 31 storeys and sold later that year for \$56 million (Lucas 2017). Loosening restrictions added \$36 million in value. For similar examples see Millar, Vedelago and Schneiders (2015), Kendall and Tulip (2018, Appendix A) or the stream of corruption allegations that plague local politics. These examples are representative, as can be seen in Valuer-General valuations or the site values of apartment buildings, discussed in Section 3.

Large land revaluations are analogous to the high market value of quantity restrictions in other industries such as taxi licences, pharmacy licenses or import quotas. They show that legal permission to build is scarce and valuable. Developers will pay these large sums only if the new permission is expected to be profitably used and if building is not possible without it. That is, the absence of permission is a binding constraint on construction.

Simpler, more direct evidence is to ask people involved in new construction. For example, the Lord Mayor of Sydney explains the level of new housing in her jurisdiction is essentially determined by the State government’s planning controls: “The city’s housing targets are set by the state, and we are on track to achieve them” (Moore 2023). Mayors and councillors from many other municipalities, including the Hills, Woollahra, and Mosman, have made similar statements. Ask a builder, developer or architect why their apartment building wasn’t taller, and the most common answer is that they built as high as they were allowed. People in the industry want to build more, but their routine experience is that the planning system stops them. Our understanding is that submissions to the inquiry from industry participants will expand on this.

### 3. Estimates of the excess demand for housing

One common approach to estimating the ‘housing shortage’ is to project forward assumptions of household formation (labelled ‘demand’) and of construction (labelled ‘supply’) and to describe the gap between the series as a ‘shortage’.

While this approach helps to communicate simple ideas to the general public, it does not provide an adequate basis for policy. Among other problems, it requires an assumption about average

household size; for example, a recent value is often used. However, current household size is constrained and too large: because we have not built enough, prices rise to the point where people overcrowd into the available dwellings.

A more rigorous approach is to calculate the excess demand for housing as the gap between prices and the marginal cost of supply. This is the leading approach in the academic literature.

For example, the NSW Productivity Commission ([2023](#)) estimates that the average new Melbourne apartment sold for \$672,000 in 2022 but only cost \$544,000 to supply; implying a gap of \$128,000, or 19% of the price. This is odd. Normally, economists expect opportunities like this to be traded away. Why don't more of these highly profitable trades occur? The reason is that the planning system prohibits it. Restrictions on height, use, floor-area ratios, setbacks, heritage and many other aspects prevent builders supplying the housing that the market demands. So the wedge between price and cost persists. That wedge is a gauge of the severity of planning restrictions.

Estimates for detached houses and other Australian cities are in the first two columns of Table 1.

**Table 1: The Wedge Between Sale Prices and the Cost of Supply**

	Estimates of the Contribution of Planning Restrictions to Property Prices		Site Values
	Detached Houses, 2016	Apartments, 2022	Apartments, 2020
Sydney	\$489,000 (42%)	\$357,000 (37%)	\$180,000
Melbourne	\$324,000 (41%)	\$128,000 (19%)	\$130,000
Brisbane	\$159,000 (29%)	\$17,000 (3%)	\$40,000
Perth	\$206,000 (35%)		\$50,000
Adelaide			\$40,000
Gold Coast			\$80,000
Canberra			\$80,000
Hobart			\$100,000
Darwin			\$50,000
Source:	Kendall and Tulip ( <a href="#">2018</a> )	NSW Productivity Commission ( <a href="#">2023</a> )	Knight Frank ( <a href="#">2021</a> )

The sources in the last row of the table give details of how the estimates are constructed. The NSW Productivity Commission estimates for apartments are an update of Jenner and Tulip ([2020](#)) where the approach is documented. Tulip ([2020](#)) discusses the estimates in the first two columns and notes that similar effects have been estimated by many researchers overseas, using a wide variety of data sets and testing sensitivity to many other factors, so the estimates are qualitatively robust.

The 'site values' in column 3, sometimes called the 'residual land value' of apartment buildings, provide a cross-check. Site values, like the effect of planning, reflect the per-apartment difference between sales prices and costs. As such, they provide independent corroboration of the estimates, though there are differences in coverage, definitions, weighting and timing. The site values in Table 1 are compiled and updated by [Knight Frank](#), one of Australia's leading property consultancies.<sup>2</sup> Site values like these are commonly discussed within the industry on a 'per apartment' basis, consistent

<sup>2</sup> The estimates in column 3 and column 2 are conceptually similar except estimates in column 2 use marginal cost and apply after building approval is granted, whereas those in column 3 use average cost and apply at an earlier stage in planning (so incur a larger risk premium).



with land values being roughly proportional to the number of apartments that are allowed to be built on a site.

Estimates in table 1 are for sale prices of housing, as that is most directly comparable to the cost of supply. However, rents are approximately proportional to prices (given interest rates and other components of the user cost of housing; see [Fox and Tulip, 2014](#)). So, findings that prices of houses and apartments in Melbourne are 41% and 19% excessive due to planning implies that rents are similarly excessive.

Planning restrictions increase housing costs in two ways. First, they increase administrative costs and delays. For example, the Fresh Hope church group spent “more than \$1 million” to gain approval for 50 apartments for low income tenants in Marrickville, NSW. ([Perinotto, 2023](#)). The Centre for International Economics ([2013](#)) and Deloitte Access Economics ([2016](#), Section 3.1.1) estimate that easily quantified ‘red tape’ like this might increase supply costs by about \$2,000 to \$6,000 per dwelling.

Second, planning restrictions simply reduce the supply of housing. The estimates in Table 1, many of which are in hundreds of thousands of dollars, suggest that this by far the bigger effect. This has important policy implications. Speeding up and streamlining planning decisions is worthwhile but it is not the priority; the important challenge is to turn ‘no’ into ‘yes’.

#### 4. Housing for renters on lower incomes

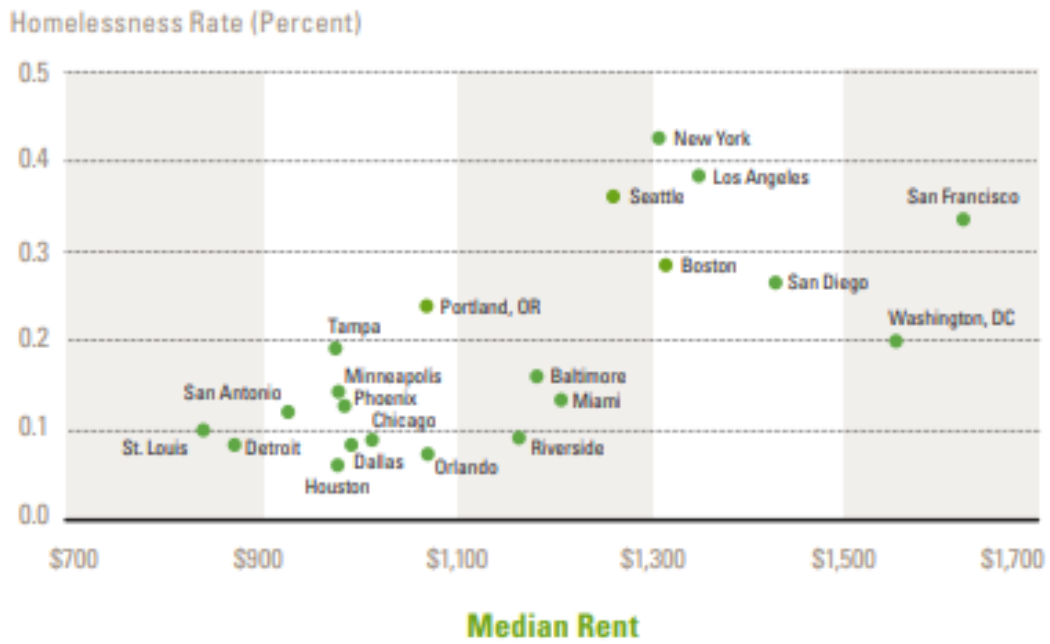
While the evidence that planning restrictions affect the average affordability of housing is overwhelming, affordability for renters on low incomes is a special concern.

Newly constructed housing is often more expensive than old housing, giving rise to concerns that extra ‘luxury’ construction will primarily benefit the wealthy. However, this concern is misplaced, because it does not take into account the indirect ‘filtering’ or ‘cascade’ effects of increased supply.

When wealthy residents occupy new housing, they vacate other housing, which falls in price. Those vacancies are filled by those on moderate incomes, who vacate other housing. That increases supply and lowers prices for those on lower incomes. And so on. Researchers in [Australia](#), the [United States](#) ([twice](#)), [Germany](#) and (most persuasively) [Finland](#) have all documented these ‘moving chains’, finding them to be fast and strong. As the [Commonwealth Productivity Commission](#) (2022, Section 12.5) concluded, based on its survey of the research, “More supply — in any segment of the market — can improve affordability for low-income households.”

A shortage of housing is like a game of musical chairs. Regardless of who is playing or the quality of the chairs, if there are not enough then the weakest will miss out. As shown in Chart 5, there is a strong relationship between rents (determined by overall supply) and homelessness. Indeed, average rents are the most important determinant of rates of homelessness — more so, for example than poverty rates, unemployment or drug abuse — as documented in the aptly named *Homelessness Is A Housing Problem* by [Colburn and Aldern, 2022](#).

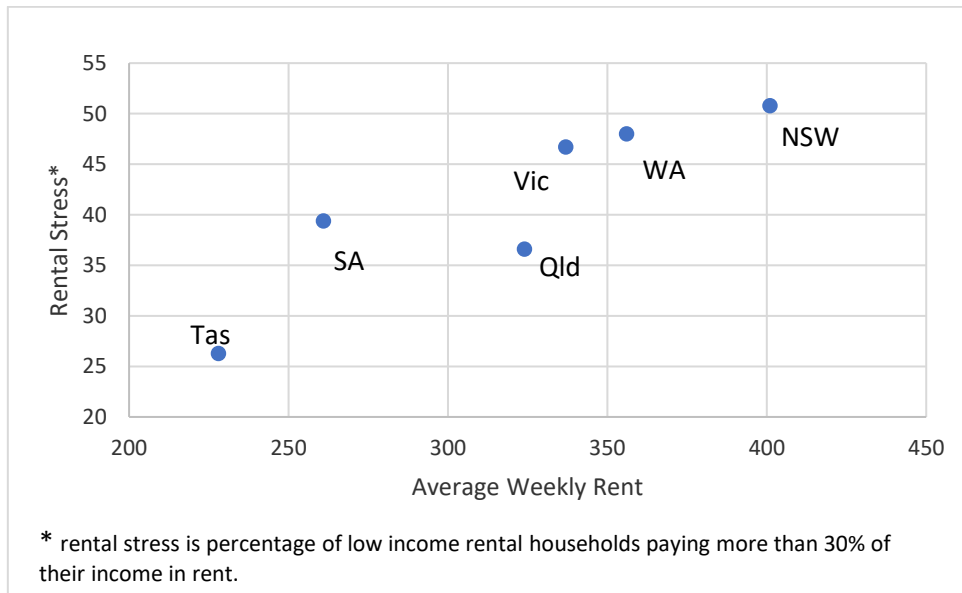
Chart 5: Homelessness and Rent; US cities



Source: [Harvard Joint Center for Housing Studies](#) (2017; Figure 35)

Similarly, average rent in a city is strongly correlated with measures of rental stress among low-income earners.

Chart 6: Rental Stress Increases with Average Rent



Source: ABS 41300, Housing Occupancy and Costs, 2015–16, Tables 13.1 and 22.1

[Nygaard and coauthors \(2022\)](#) find that filtering ‘on its own’ does not lower rents for those on lower incomes. However, contrary to what is suggested by [Pawson and coauthors \(2022\)](#), this is perfectly consistent with the other research on filtering. Filtering lowers rents for those on lower incomes when it is combined with increased supply. In contrast, properties ‘filter up’ (become more expensive) when supply is inadequate. In practice, the latter has often predominated. That is

consistent with the finding that a policy of boosting supply would make housing more affordable for those who need it the most.

## 5. Amenity

The strongest argument for zoning restrictions is that they preserve local amenity. Some people find tall buildings ugly, they dislike congestion on local roads, and they consider that increased density impairs the character of their neighbourhood. These are value judgements on which reasonable people should agree to disagree.

However, it is doubtful how widely or strongly held these views are. [Lanigan and Tulip \(2021\)](#) discuss eight examples of high-density developments in Sydney and Melbourne. Contrary to fears these would damage neighbourhood amenity, nearby house prices did not change relative to adjoining suburbs. As judged by willingness to pay, the relative attractiveness of living in the neighbourhood did not change. While some neighbours may dislike new buildings, that has been offset by other homebuyers who like a lively walkable neighbourhood and the new shops, restaurants and transport that accompany higher density. [Taylor Swift \(2023\)](#) describes her preference for high density.

Similarly, econometric studies of special character overlays (elsewhere called heritage protection) in Auckland find that they increase housing values by about 4% ([Greenaway-McGrevy and Jones, 2023](#); [Fernandez and Martin, 2020](#); [Bade, Castillo, Fernandez and Aguilar-Bohorquez, 2020](#)). In economic terms, this quantifies the value of the externality in a way that can be directly compared with a Pigouvian 'zoning tax', which [Lees \(2018\)](#) estimates to be 54% in Auckland.

If one did consider that opposition to new development was widespread, society would face a trade-off. Elected representatives would need to weigh the desire of wealthy neighbours for easy parking and aversion to shadows against potential residents' need for shelter.

Current institutional arrangements make this trade-off by giving those wealthy neighbours a say, via their local councils, while the views of potential residents from outside the area are ignored. State and Federal politicians representing wider electorates would place more weight on the latter group and make different trade-offs. Broader social welfare is advanced by taking the decision to restrict housing away from local representatives.

## 6. Misunderstandings

Whereas concerns about neighbourhood amenity reflect differing values, most other objections seem to reflect simple misunderstandings. These other objections are not taken seriously in the research literature. For example, they are barely mentioned in the summaries of the research cited in Section 2. Nevertheless, they may appear in other submissions.

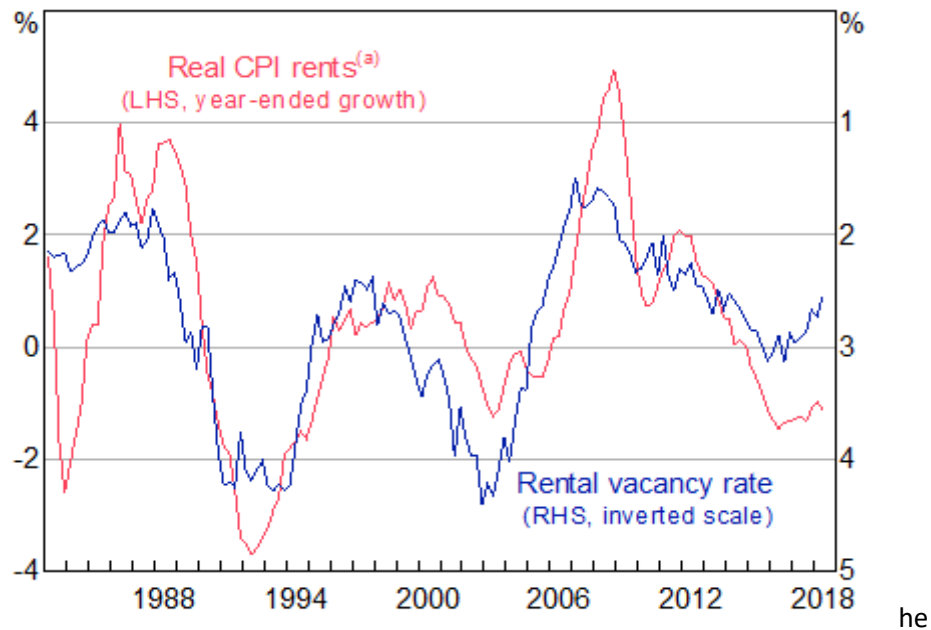
### The role of supply and demand

It is sometimes suggested that, in contrast to other markets, extra supply of housing does not reduce rents or prices. This argument is often based on observations where both supply and demand increase, but that is not relevant to a policy that increases supply for a given level of demand.

Part of the confusion occurs because a small, isolated increase in supply, for example by one builder or in one suburb, will not materially affect prices. That is because it is small relative to the overall market and it competes with nearby housing, to which its prices are tied. In the same way a farmer doubling his crop will not affect his price or his neighbour's price.

However, if all builders or suburbs increase supply — so the change is substantial relative to the level of demand — the cost of housing moves strongly and clearly. This can be seen in Chart 7, which shows that when the vacancy rate, a measure of the gap between supply and demand, is low, rents rise quickly. Conversely, when there is excess supply, rents fall. The same close relationship between the tightness of the housing market and rental growth is evident in [Canada](#) and the United States ([national](#), [by state](#)).

Chart 7: Vacancy Rate and Change in Real CPI Rents; Australia



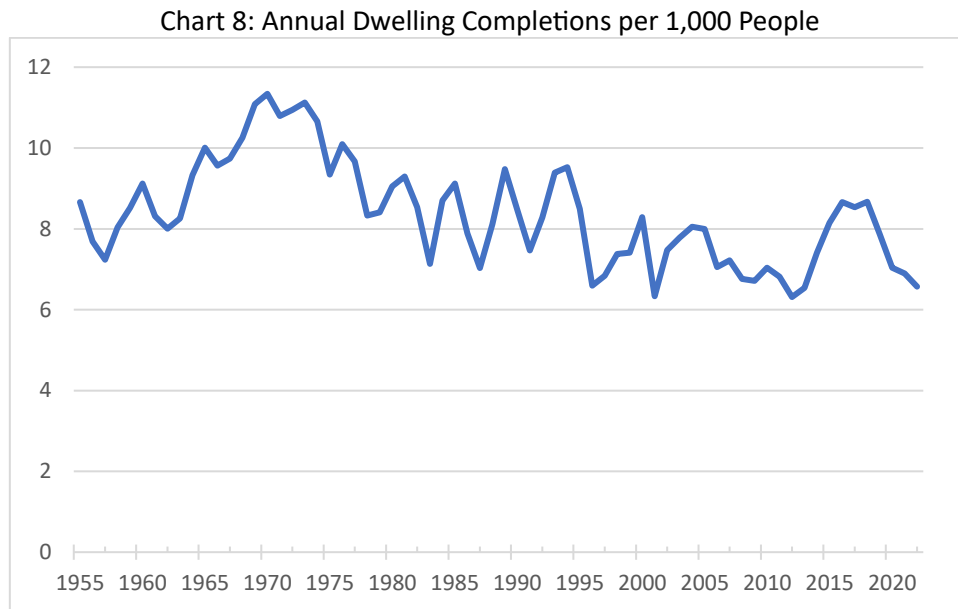
Source: [Saunders and Tulip \(2019\)](#)

This relationship explains, in a proximate sense, recent changes in rents. As measured by the Consumer Price Index, the 2.5% increase in capital city rents in the June 2023 quarter was the largest since 1988. This can be attributed to the very tight housing market, with vacancy rates for several capital cities near their lowest levels in decades ([RBA 2023, Figure 2.23](#)).

The effect of excess supply on the cost of housing is verified and quantified in econometric work. Studies at a local or city level ([Phillips, Manville and Lens, 2021](#); [Hanushek and Quigley, 1980](#); [Albouy, Ehrlich and Liu, 2016](#)) find extra supply has a small but clear effect, reducing the cost of similar housing nearby. Studies at a national level find that an extra 1% increase in the housing stock reduces the cost of housing by about 2-3% ([Abelson, Joyeux, Milunovich and Chung, 2005](#); [Girouad, Kennedy, van den Noord and André, 2006](#); [Oxford Economics, 2016](#)). The most recent study for Australia, by [Saunders and Tulip \(2019\)](#) estimates that a 1% increase in the housing stock reduces rents and prices by 2½%. We use this estimate below.

[Pawson and coauthors \(2022\)](#) dispute these well-established empirical regularities on theoretical grounds. They do not point to any flaws in the empirical methods but claim that it would be irrational for builders to increase supply, reducing prices. This argument might make sense if the housing market was a monopoly or cartel that controlled the price. In reality, the industry is competitive, with 24,641 builders and developers in 2018/19, according to the [ABS Counts of Australian Businesses](#). No individual firm has a material effect on price. Competitive firms rationally undercut their competitors all the time. To be clear, competitive firms have an incentive to *time* the market – selling when prices are unusually high. But that smooths prices, it does not increase them.

[Pawson and coauthors \(2022\)](#) also say that were supply to increase due to a relaxation of planning, then other supply would contract. Zero evidence is cited in support, nor is any plausible mechanism suggested. As noted in Section 2, Auckland doubled its construction industry after its planning restrictions were relaxed. Perhaps Pawson and coauthors think capacity constraints are important. However, given that dwelling completions per capita were over 30% higher a few years ago and over 60% higher 5 decades ago (Chart 8), it is difficult to see this as anything more than a temporary obstacle.



Sources: <https://www.abs.gov.au/statistics/people/population/historical-population/2016>  
<https://www.abs.gov.au/statistics/industry/building-and-construction/building-activity-australia/mar-2023/87520037.xlsx>

Or perhaps Pawson and coauthors assume (along with [Farrelly, 2023](#), for example), that housing supply is highly price-elastic. However, that assumption is clearly rejected by econometric studies such as [Saunders and Tulip](#), (2019, Section 4.1) or the RBA's MARTIN model ([Ballantyne et al](#), section 4.3.1) which find a modest and short-lived response to prices.

In economic terms, many residents are relatively indifferent between housing in nearby neighbourhoods, so demand at a local level is highly price-elastic. In contrast, moving to a different city typically requires all members of a household to change jobs, schools and social networks, so demand at a city or higher level is highly price-inelastic. That means local increases in supply have a small effect on prices whereas widespread increases have large effects. This has important policy implications. It means that one local council, by itself, can do little to overcome the housing affordability crisis. Were it to increase supply, residents would move from nearby. Co-ordinated city-wide increases in supply, organised by the State governments, are needed.

### Other misunderstandings

Several other misunderstandings can be simply addressed. Indented quotations are representative of arguments frequently made on social media.

*“Zoning is not an important determinant of housing prices because other factors, such as interest rates, immigration, taxes or location premiums, are more important.”*

These other factors are not alternative explanations but complements. It is the *interaction* between these factors and planning restrictions that inflates prices. In economic terms, zoning makes housing supply inelastic; that is, the supply curve is steep. In contrast, these other factors boost demand, shifting the demand curve to the right. A well-functioning housing market would respond to the higher demand by building more dwellings. Instead, because planning limits supply, we get higher rents and prices.

*“Planning restrictions cannot explain recent high prices because those restrictions have been eased.”*

Again, this ignores the interaction. It is true that restrictions barely change, despite demand increasing with increases in population, incomes or lower interest rates; in fact, that is the problem. With higher demand, the constraint becomes more binding.

*“Recent construction levels have been high.”*

Recent construction levels have not been high enough to clear the long-term accumulated backlog, nor to meet growing demand. Those who point to the flow of new housing are simply ignoring the research (discussed in Sections 2 and 3) finding that the *stock* of housing is inadequate. The relevant shortage is the level.

*“Some developers are allowed to build but they choose to withhold supply.”*

The importance of this is contested but the more important response is “So what? Why is that an argument for stopping the many builders and developers who do want to build?”

Tulip ([2021](#)) discusses further objections to estimates of a large zoning effect.

## 7. Public and Social Housing

Policy towards public housing has been thoroughly examined by the [Henry Review](#), the [McClure Review](#) and the [Productivity Commission](#). We endorse those reviews’ recommendations with respect to public housing and do not repeat their material here.

In summary, there are compassionate grounds for providing temporary shelter to refugees, victims of domestic violence and others with emergency needs. Furthermore, there are paternalistic reasons for providing longer term housing assistance for those suffering from mental illness or substance abuse. However, the large majority of public and social housing tenants and potential tenants would be better off if they were given the subsidy in cash and allowed to choose housing that best suited their changing individual circumstances.

If public and social housing takes the form of new construction, it increases housing supply and improves affordability. However, it comes at a prohibitive fiscal cost. For example, the Federal government’s HAFF costs \$10 billion to provide 30,000 new dwellings. That represents a 0.2% increase in the national dwelling stock. Using the estimates discussed in Section 6, it would reduce the average cost of housing by about 0.5%. Compared to the estimates in Table 1, that is tiny, if not trivial. It might also be compared with the liberalisation of granny flats in NSW shown in Chart 4, which led to 49,000 extra dwellings at zero cost to the taxpayer.

The [National Greens](#) have called for a million extra homes over the next 20 years, in addition to what would ordinarily be provided. In contrast to the Government's proposals, this would make a meaningful improvement in affordability. Assuming a 1% increase in the housing stock reduces the cost of housing by 2.5%, as above, the Greens' proposal would reduce prices and rents by about 25%. The problem is the fiscal cost. Assuming each dwelling receives an average subsidy of about \$9,000 a year ([Grattan Institute](#), 2018, p132), a million homes would cost \$9 billion a year. The associated increase in taxes is likely to be unacceptable to the Australian electorate (which may be why the Greens do not discuss the cost). Especially as an increase in the housing stock like this could be achieved at zero direct cost to the taxpayer, by just allowing the market to provide more housing.

## 8. Other policy

For a substantial and widespread improvement in housing affordability, we need to increase supply. This essentially means relaxing planning regulations, which are primarily the responsibility of state and local governments. The CIS's [submission](#) to the recent Victorian Inquiry into housing affordability discusses measures state governments should take. In particular, state governments could mandate that medium density housing is complying development ('as of right'), especially near transport nodes. Alternatively, state governments should set high housing targets for local councils.

The CIS has discussed federal policies in our 2021 [submission](#) to the House of Representatives Standing Committee on Tax and Revenue's Inquiry into Housing Affordability and Supply in Australia (the Falinski Inquiry). In brief, we recommended:

- The federal government has an important role in information and education. Especially given that federal immigration policies are increasing the demand for housing, the Federal government has a responsibility for explaining where and how the extra population will be housed.
- Incentives for better policies would be improved by directing more funds to States that build more housing. Specifically:
  - Grants Commission formulae should be revised to treat housing construction as a disability, in the same manner as transport spending. In principle, grants for capital expenditure should be based on population *growth* rather than population levels.
  - Railway assistance, such as for Melbourne's Suburban Rail Loop, Canberra's light rail, or Sydney's Metro should be conditional on high density at stations.
  - Other infrastructure assistance should be directed at removing construction bottlenecks, such as the tens of thousands of blocks of land in western Sydney awaiting water and sewerage connections.
  - Payments along the lines of National Competition Policy.
- In contrast, housing affordability would not be materially affected by repealing negative gearing or the capital gains discount. Several good research studies, using different approaches, agree that these concessions raise housing prices by only 1-4%, while reducing rents.

## 9. Conclusion

Planning restrictions mean that rents are too high. Solving this problem essentially involves getting state and local governments to stop saying 'no' and start saying 'yes'. Making federal grants and

expenditure on infrastructure conditional on housing reform would help to make housing more affordable.

More fundamentally, we need a change in social values. As a society, we need to be more accepting of higher density. We need to put more weight on the interests of renters and future home buyers and less weight on the interests of nearby residents. The current Senate inquiry provides a good opportunity to advance this public discussion.