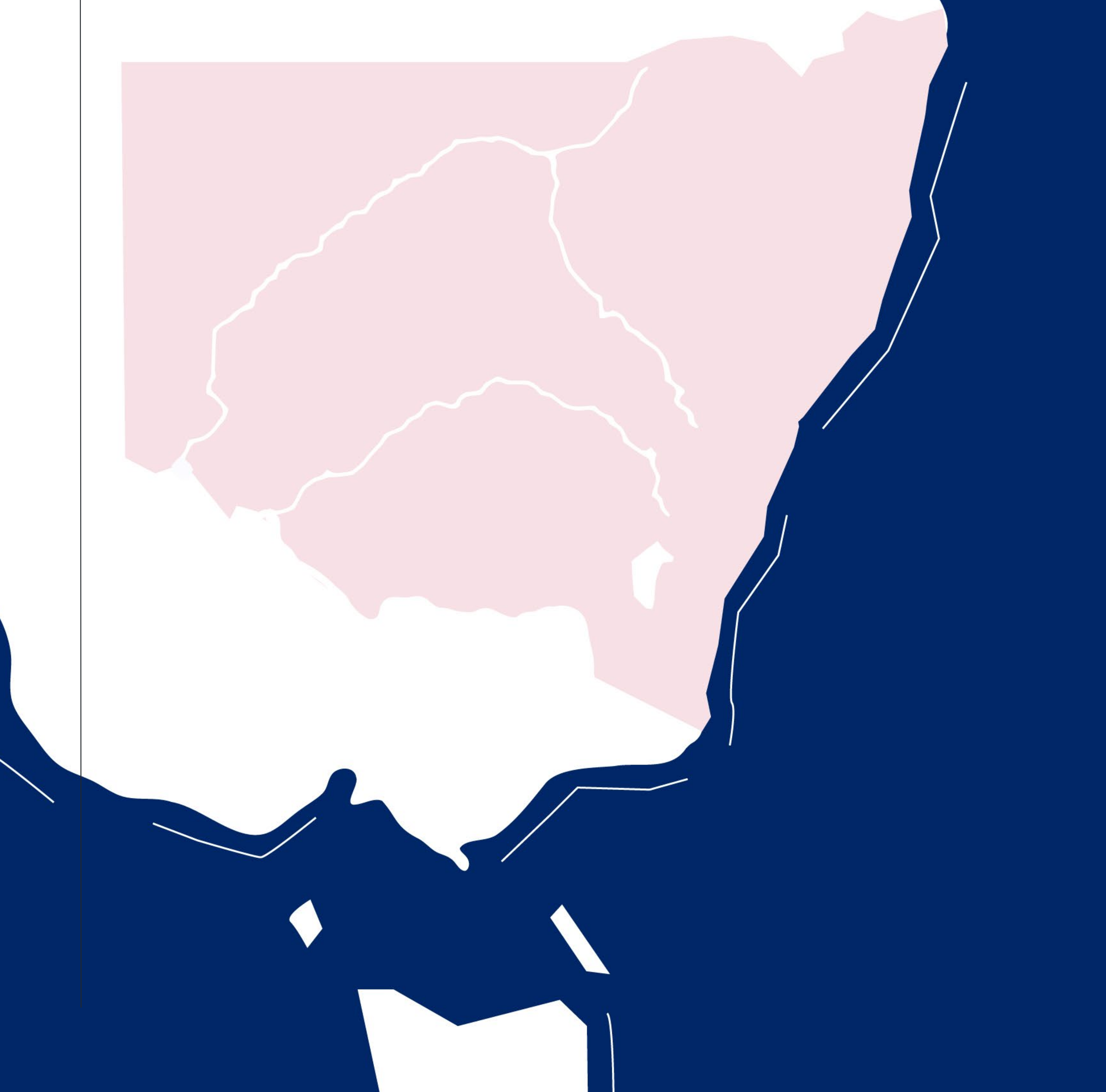
Department of Planning,
Housing and Infrastructure

Appendix C: Feasible Housing Capacity Policy

State Plan

August 2026



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Context

NSW does not have enough housing to meet the needs of our growing and ageing population. Demand for housing has consistently outpaced supply for many years. The result is a chronically unaffordable housing system defined by rising home prices and rents, low rental vacancy rates and increasing financial pressure on households.

The strategic planning system plays a central role in supporting the delivery of new housing. Through the creation of housing capacity, the NSW Government and councils identify where and under what planning controls housing can be built.

Historically this process has been focused on creating just enough theoretical housing capacity to meet demand or respond to housing targets. Housing targets have been determined based on static population projections which have ultimately been outstripped by the actual levels of growth.

Only a small portion of the theoretical capacity created has been delivered as the remaining capacity did not provide the level of commercial return required to make it viable to develop. The result is a chronic undersupply of housing driven by static strategic planning that is unable to adapt to dynamic changes in population growth and market factors.

The approach to creating housing capacity in NSW needs to change.

The focus of the system needs to shift from providing **just enough** theoretical housing capacity to establishing **a high-volume of feasible housing capacity**.

Housing supply is primarily delivered by the private sector. A range of development factors and market conditions influence when and where industry can develop. Feasible development opportunities need to be plentiful so that the housing system can respond to future housing demand and changing market conditions.

The Feasible Housing Capacity Policy (the policy) is the first step to do this. It commences a two-year process to reset local and state strategic planning processes to deliver sustained housing capacity that is responsive to demand and meeting the needs of the community.

In developing the policy, the Department of Planning, Housing and Infrastructure (DPHI) has worked in partnership with the NSW Productivity and Equality Commission (PEC). The policy has been informed by the PEC's report, *Building more homes where the numbers stack up: How to improve development feasibility and build more homes in NSW.*

This policy has been designed with expert assistance from the Centre for International Economics and GYDE, who have provided advice on feasibility modelling, methodologies and the establishment of this policy using best practice international approaches.

What the policy includes

The policy is the NSW Government's response to the chronic undersupply of new homes over the last 20 years. It proposes to reset the current approach of setting housing targets and planning controls for 'just enough' housing capacity to a future where there is always an abundance of housing capacity that can realistically be delivered.

The policy establishes how the NSW Government and local councils will establish, maintain and measure the level of feasible housing capacity required to meet NSW's housing need now and into the future. The policy covers four core areas:

1. It provides a consistent common definition for feasible housing capacity and other supporting concepts;
2. It establishes two benchmarks, 30 years of feasible housing capacity and 5 years of realisable housing capacity, that will be used to identify how much housing capacity local governments areas will be required to establish and maintain over time;
3. It provides an overview of the methodology and inputs that will be used to measure feasible housing capacity; and
4. It outlines the timing and process for the implementation of the policy into the statutory planning system.

Objectives of the policy

The policy is underpinned by five key objectives:

1. **Embed consideration of commercial feasibility into all strategic planning** processes which identify future housing capacity.
2. **Establish an abundant level of feasible housing capacity** to address the historic undersupply of housing in NSW and create a strong base from which to address future demand.
3. **Reset NSW and local government processes from providing just enough theoretical capacity to continually replenishing feasible capacity** in line with market take-up.
4. **Shape how housing targets are set** to better align housing locations and planning controls with housing demand and market conditions.
5. **Align the creation of feasible housing capacity with other key planning principles** like accessibility to jobs and services, connection to infrastructure and protection against hazards and land use conflicts.

Roles and responsibilities

The creation and take up of housing capacity to deliver housing is a shared responsibility of the NSW Government, local councils, and the private sector. This means that all these stakeholders will have a critical role to play in the implementation of the policy.

Through the delivery of Region Plans and the identification of housing targets, DPHI is responsible for setting the strategic direction regarding where and how much housing is required across NSW. DPHI also plays a role in creating housing capacity through State-led rezoning processes and planning reforms like the Transport Oriented Development and Low and Mid-Rise policy programs. Programs like the Uban Development Program have a critical role in prioritising and planning infrastructure sequencing.

Local councils respond to this direction by planning housing capacity through updates to Local Strategic Planning Statements (LSPSs) then creating capacity through Local Environmental Plans (LEPs) and Development Control Plans (DCPs).

Landowners and developers are responsible for taking up and delivering the majority of NSW’s housing. Like any business, developers need to make a reasonable profit on development. Likewise, landowners need an incentive to sell their properties for redevelopment to create more homes for people to live in.

Definition of key concepts

Key definitions

The policy is underpinned by the following concepts:

- **Theoretical housing capacity:** The total additional number of dwellings that is allowed to be developed under the identified planning controls.
- **Feasible housing capacity**: The portion of theoretical capacity that is commercially feasible for the private sector to develop. The capacity is feasible because the costs of land, finance, labour, materials, taxes and other key inputs is less than what the new home will sell for and provides the developer with a reasonable return on investment.
- **Serviceable housing capacity:** The proportion of the feasible housing capacity that has essential infrastructure or where this infrastructure has funding committed, enabling development to occur.
- **Realisable housing capacity:** The portion of feasible and serviceable capacity that is likely to be delivered within an expected timeframe because it is feasible under expected market conditions and not impacted by other constraints.

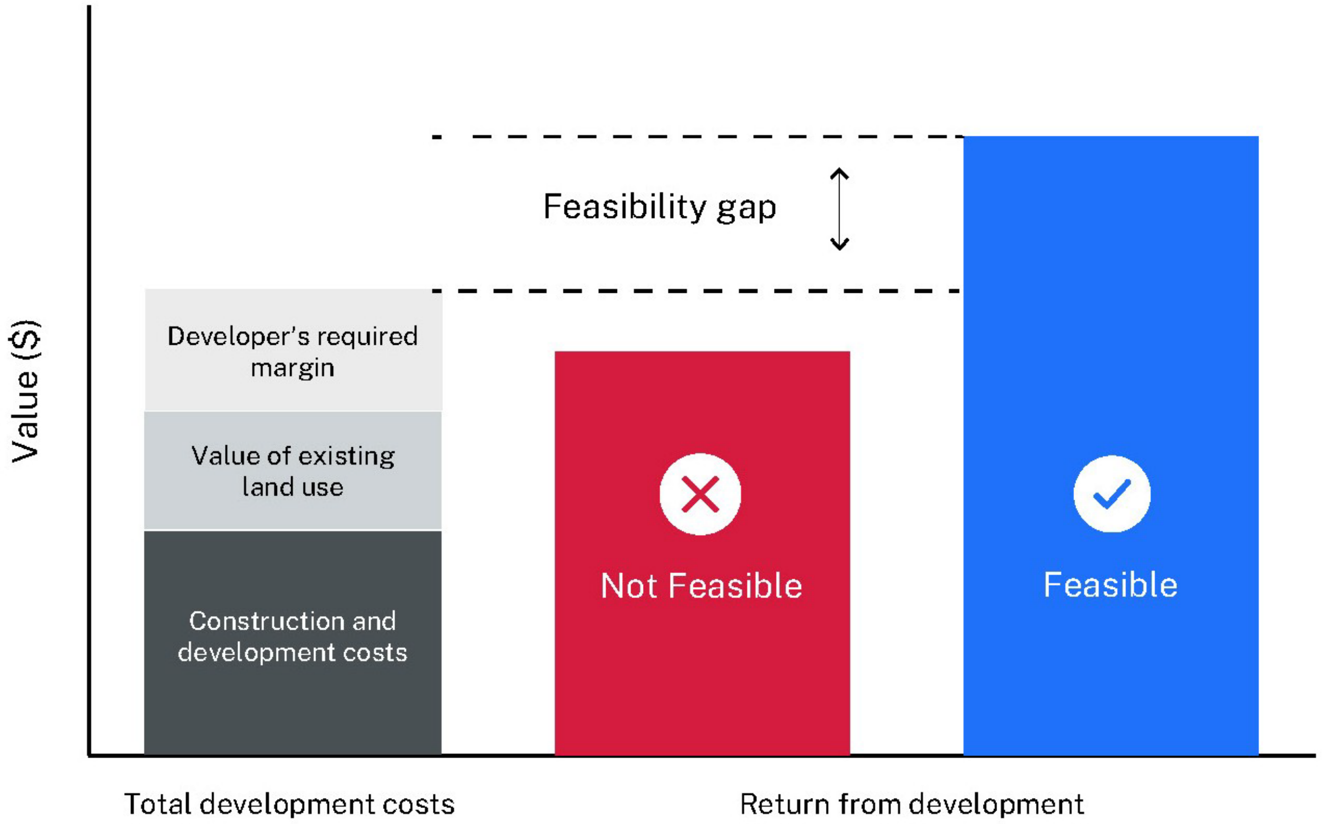
Understanding feasibility

Housing development is feasible when the developer can earn sufficient revenue to cover the value of purchasing the property in its current state, pay for the costs of development, and provide a reasonable profit.

Feasibility assessments of potential housing estimate the feasibility gap, which measures the revenue from the new development compared to the total cost of development and the value of the site in its current use (see Figure 1). A positive gap means the new housing generates enough extra value to justify replacing the current use. A negative gap means the extra revenue isn't high enough to overcome the costs and make a reasonable return, meaning it is financially better to keep the property in its existing use.

The value of the current use is not necessarily the same as the sale price paid by a developer to purchase the site. In practice, if a site is profitable to develop, the original landowner and developer will share the feasibility gap through a higher land sale price than the value of the current use.

Figure 1: Calculating feasibility



Source: The Centre for International Economics and GYDE 2026, *Proposed policy and measurement options for feasible housing capacity*.

The planning system is one factor of many which influences feasibility. While it has significant influence over planning controls, it has limited to no control over existing site characteristics, locational factors, market conditions and other factors like tax settings (see Figure 2). However, the planning system can more effectively respond to market conditions by unlocking capacity in the right locations with the right planning controls that are more feasible in the short-term.

The feasible capacity policy puts the right long-term settings in place to use the planning levers available to deliver a more responsive system to support housing supply.

Figure 2: Planning system influence on feasibility

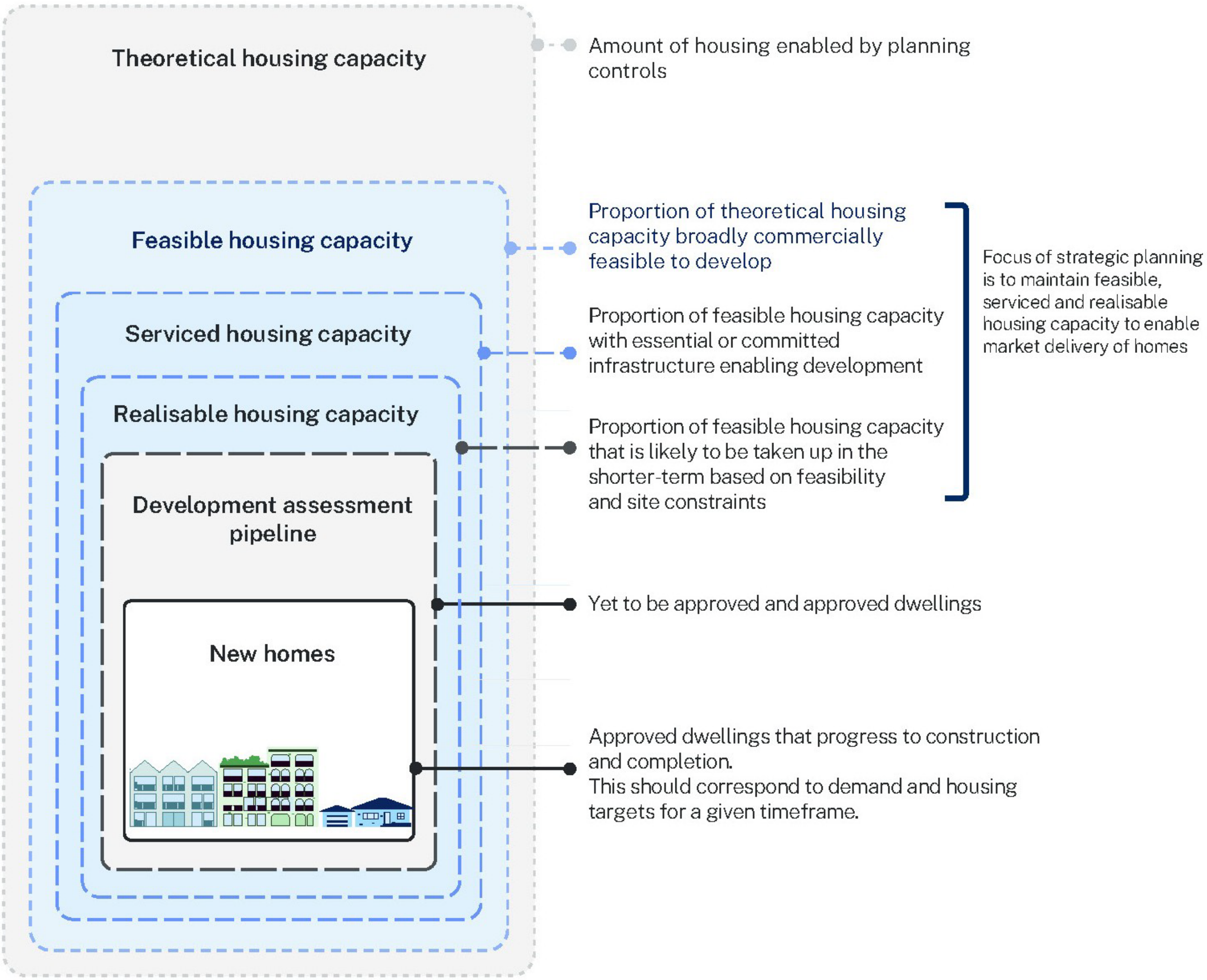
Positioning feasibility within the housing delivery pipeline

Traditionally the concept of feasibility has been used on a project-by-project basis to determine the viability of an individual site for development at a given point of time and considering sensitivity to market conditions. To understand the role of feasibility in the context of strategic planning and housing capacity, it needs to be positioned within the housing delivery pipeline.

The housing pipeline is a multi-staged process by which housing capacity is progressively validated, approved, funded and ultimately built (see Figure 3).

This process should be understood as a funnel rather than a linear sequence. The high volume of theoretical capacity created at the start of the pipeline narrows because of issues such as the feasibility of the development or connectivity to infrastructure, means that only a component of total theoretical capacity ever becomes a completed dwelling.

Figure 3: NSW Housing Pipeline



Feasible housing capacity benchmarks

Two tier approach to establishing and maintaining the required level feasible housing capacity

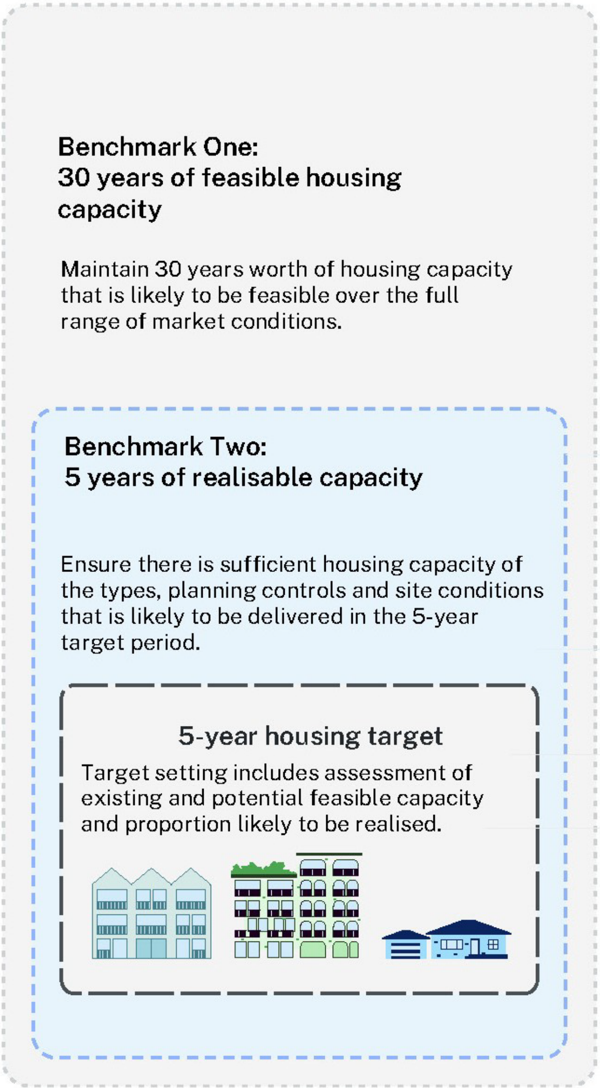
The policy sets two benchmarks for feasible housing capacity requirements to meet current and future housing demand. The two benchmarks will be applied at the local government area where the NSW Government sets a housing target.

1. **Benchmark One:** A local government area must maintain 30 years worth of feasible housing capacity based on the per annum rate of its 5-year housing target.
2. **Benchmark Two:** A local government area must have a level of realisable housing capacity above its 5-year housing target.

The benchmarks represent a starting point and provide a signal about the level of capacity required to reset the housing system. Implementation of the benchmarks at the local level can be adapted to respond to the local conditions of housing delivery and market demand.

Figure 4 provides a summary of the two benchmarks and how they will be applied.

Figure 4: Relationship between feasible housing capacity and 5-year housing targets



30 years of feasible housing capacity

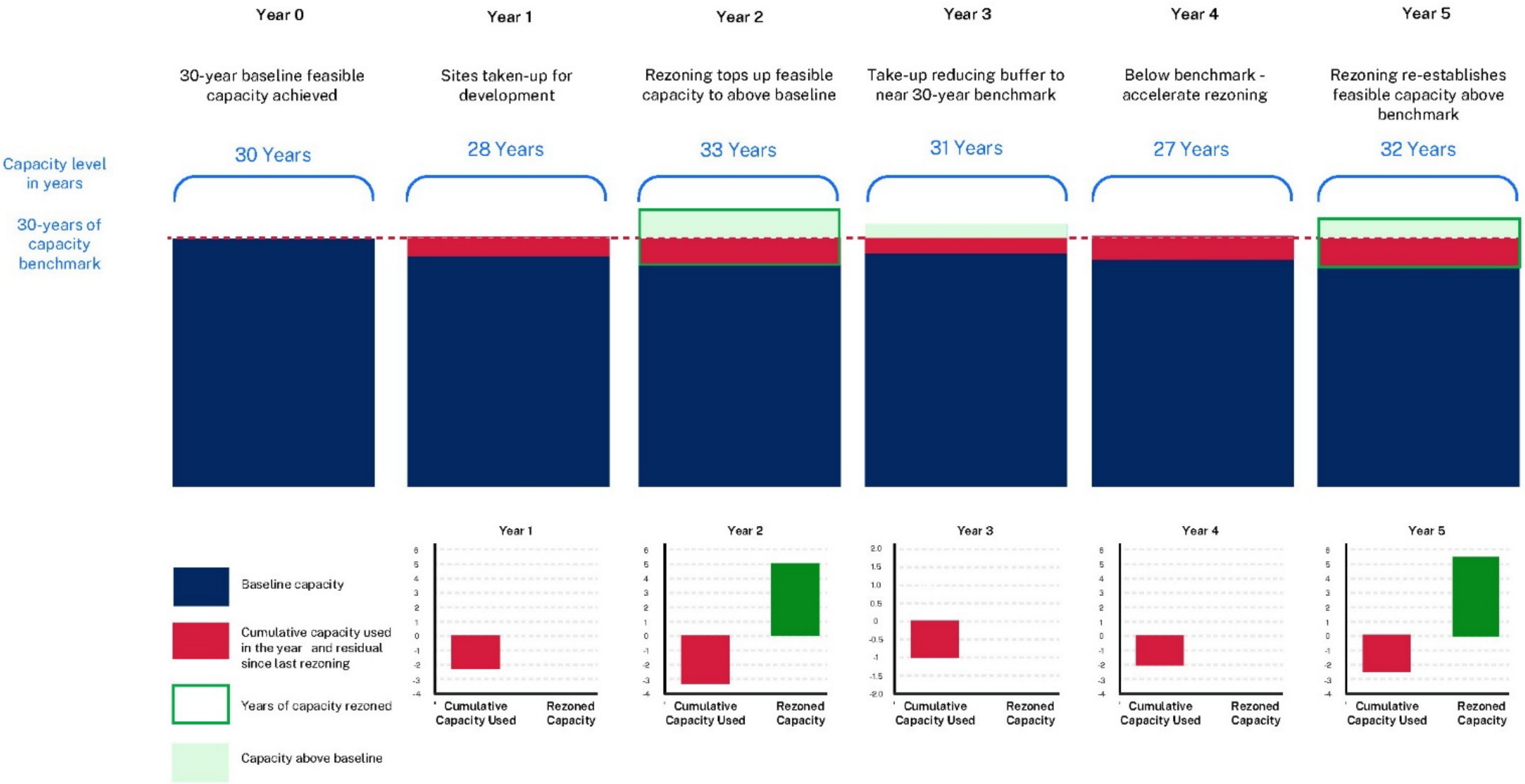
> Among Australia’s peer countries, New Zealand has moved furthest towards a system of abundant feasible capacity. This is equivalent to 30 years of expected housing demand, consistent with a 30-year planning horizon. In NSW, a sensible approach would be to set requirements similar to New Zealand's 30-year feasible housing capacity target, but tailor them to NSW using historical take-up rates and the state's own planning horizons.
>
> NSW Productivity and Equality Commission– *Building more homes where the numbers stack up, July 2026*

To establish a solid foundation from which NSW can address its historic levels of housing undersupply and respond to shifting levels of demand into the future, each local government area will be required to establish and maintain 30 years of feasible housing capacity within their LEP or State-led rezonings.

Maintaining ample feasible housing capacity ensures a healthy level of market development opportunity is available at all times.

The level of feasible capacity in the under planning controls will be measured by applying strategic assumptions of cost and prices, site by site, to an LGA’s zoned theoretical capacity and will be monitored annually by DPHI. Where there is a significant gap, LGAs will be required to replenish the level of feasible housing capacity to ensure that the 30-year benchmark of is maintained (see Figure 5).

Figure 5: Process of establishing and maintaining feasible housing capacity in line with market take up



What's the evidence for 30 years of feasible housing capacity

- Historic analysis from Sydney shows that housing delivery has averaged about 4% of estimated feasible capacity. That is, for every 100 dwellings of feasible capacity, 4 dwellings have been delivered each year. This varies depending on the type of sites and level of feasibility and includes some delivery on sites not estimated as feasible.
- A 4% average take up rate implies feasible capacity of around 25 times the targeted annual delivery is required.
- Allowing a buffer to ensure there is an abundance of feasible sites gives a benchmark of 30 years.
- A similar approach has been taken in New Zealand, and British Columbia and California have implemented policies focused on increasing their feasible housing capacity pipeline.
- Under the New Zealand National Policy Statement on Urban Development councils are required to have enough plan-enabled, infrastructure ready, feasible and reasonably expected to be realised housing capacity to meet short, medium and long term (30 years) of housing demand plus a 20% competitiveness margin.

Five years of realisable housing capacity

Alongside a pipeline of 30 years of broadly feasible housing capacity, the 5 years of realisable capacity benchmark is designed to make sure the planning system is more responsive to shorter-term market conditions.

Ahead of new 5-year housing targets commencing, local government areas will be required to provide 5 years of realisable housing capacity that could be reasonably expected to be delivered within the timeframe of the target. This includes accounting for feasible capacity where essential infrastructure has been delivered or committed during the relevant 5-year period.

This will be achieved by assessing the probability of development being realised measured using take up rates calculated for housing development types, contexts and level of feasibility.

Not all feasible housing capacity will be taken up by the market and delivered. The extent to which site potential will be realised will vary considerably. For example, the following factors make it much more likely that a site will be developed:

- Where feasibility is higher, reflecting higher sales prices and/or less existing development on the site — on sites that are highly feasible, around 20 per cent have a development application within 5 years. This is much higher than moderately feasible sites (8 per cent) or marginally feasible sites (4 per cent).
- Where sites do not need amalgamation and are not impacted by other constraints — sites that do not require amalgamation are as much as five times more likely to be developed, other factors equal.

To respond to expected market conditions, opportunities to accelerate more feasible development sites, infrastructure or other measures, can then assist maintain better levels of housing supply.

Housing targets will be set using the same parameters. Targets will be calculated using an understanding of development potential and relative feasibility under shorter-term market conditions among other factors. This will mean that housing targets and the requirement to fill any short-term feasible housing capacity are aligned and that targets will need to be set in advance of the target period commencing.

Approach to measurement

DPHI will provide councils and its own staff with clear guidance and supporting data and tools on a consistent approach and method for measuring both feasible and realisable housing capacity. Table 1 below provides a summary of the approach that will be rolled out.

Table 1: A consistent methodology for measuring feasible and realisable capacity

Item	Approach
Overall approach	Measure feasibility using strategic assumptions of cost and prices, applied to each site based on its planning controls and existing use. The assessment of feasible capacity for the local government area is then based on adding up feasible dwellings across feasible sites.
Measurement of planning capacity	Based on key planning controls of zoning, floor-space ratios, heights, minimum lot size/frontage, set-backs, parking rates, site coverage caps.
Measurement of serviced or committed infrastructure	Based on key inputs from state government agencies, local government and service providers.
Key parameters for feasibility assessment	DPHI to provide default estimates of prices, costs, composition, timeframe and margins for use in feasibility assessments.
Cost of a site	Based on value in its existing use.
Probabilities of development	Use DPHI provided likelihoods of development to estimate realisable capacity.
Expected market conditions	The central case is based on current costs and prices. Sensitivity and scenario analysis should be undertaken using higher and lower cost and price assumptions, reflecting both current market conditions and short-term outlook, to assess possible feasible housing outcomes.

Source: The Centre for International Economics and GYDE 2026, *Proposed policy and measurement options for feasible housing capacity.*

Alignment of benchmarks to key planning principles

The application of these two benchmarks will be done alongside the implementation of other key planning principles and the directions set in regional strategic plans.

For example, an area facing significant hazard risk and evacuation limitations may have a permanent ceiling on future housing capacity growth in that part of the council area.

An LGA that has maximised feasible housing capacity within walkable distances to transport hubs may not be required to increase short-term additional capacity. With future transport improvements, further feasible housing capacity may be required.

This might occur in reverse where future higher density housing opportunity may be desired at a high-capacity Metro transport hub, but only lower density is currently feasible. The approach would not expect planning controls to be modified to achieve a sub-optimal long-term housing outcome.

Implementation

A five staged approach to establishing the policy

The purpose of this document is to introduce the policy and approach for establishing and maintaining the required level of feasible housing capacity. The implementation of the policy by DPHI and councils will occur across five forthcoming stages of work, with work to commence from Q3 2026:

1. **Detailed guidance, data and tools**. In 2027 DPHI will provide councils with detailed guidance on the methods and systems to measure and monitor feasible and realisable housing capacity. This will form part of broader guidance regarding the review and update of Local Strategic Planning Statements.
2. **Establishing current capacity levels and setting 5-year housing targets.** Commencing in 2027 DPHI will conduct an audit of all in scope LGA's baseline and potential feasible capacity, which will inform work to set the next round of 5-year housing targets.
3. **Local planning review and updates**. In 2027, Councils will work with DPHI to identify opportunities to bridge capacity gaps, testing scenarios, to inform updates to their Local Strategic Planning Statements and Local Environmental Plans all of which are due in 2029.
4. **DPHI systems and practice change:** Also, in 2027 DPHI will undertake systems and practice change to implement the policy.
5. **Monitoring and reporting:** By 2028, DPHI will establish an annual monitoring framework of local government areas to identify where top up capacity is required to align with take up.

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