Australian Government
Productivity Commission

How housing construction productivity affects intergenerational housing inequity

Productivity Commission submission

Introduction

The PC is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role is to help governments make better policies, in the long-term interest of the Australian community.

This submission to the Senate Select Committee on Intergenerational Housing Inequity draws on our recent work on both housing and inequality:

- *Fairly equal: economic mobility in Australia* (PC 2024)
- *Housing construction productivity: Can we fix it?* (PC 2025f)
- *Creating a dynamic and resilient economy* (PC 2025b).

It also draws on our recent work on productivity in our five pillars of productivity inquiries (PC 2025a, 2025b, 2025c, 2025d, 2025e, 2025g, 2025h), and *National Competition Policy analysis 2025* (PC 2025i).

Australia's intergenerational bargain is fraying

Australia has experienced an extraordinary expansion in living standards over time. Real GDP per capita has quadrupled in the post-war era, which has helped ensure each generation is healthier, better educated and has a higher overall quality of life than the one before (PC 2025d).

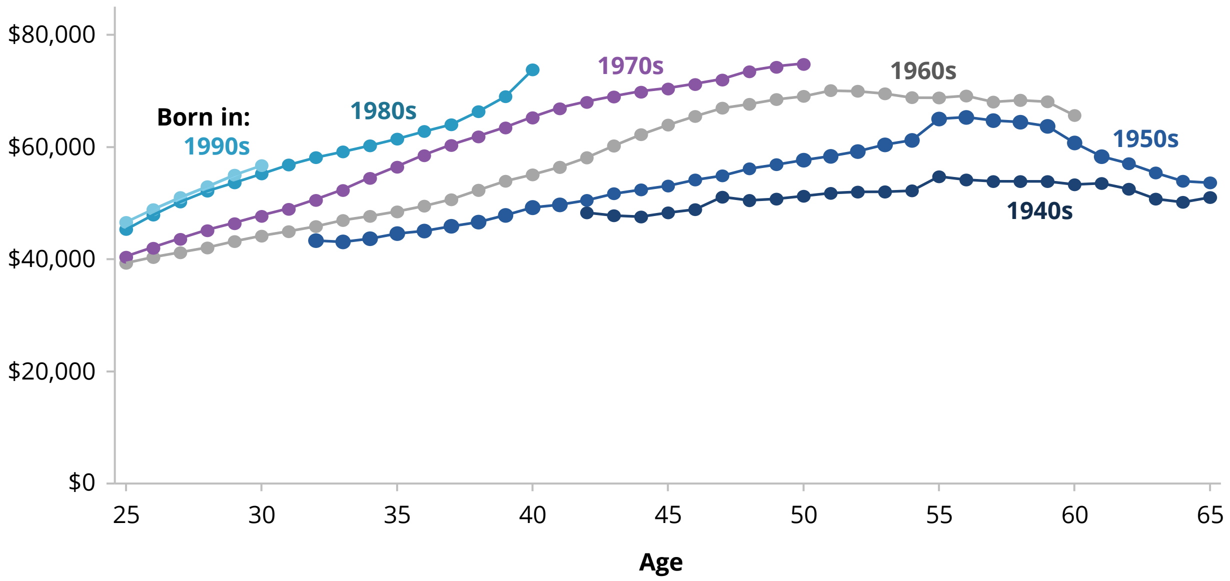
Australia's growing prosperity has been spread reasonably equally across society. PC research has shown that, for example, two-thirds of people born between 1976 and 1982 earn more than their parents did at the same age (PC 2024). For this same group, we found one of the highest levels of relative income mobility in the developed world – in other words, parents' income doesn't determine their children's.

This is Australia's intergenerational bargain – that each generation will be better off than the one before.

But this intergenerational bargain is fraying. Outcomes for today's younger people are not improving like they have in the past. A person in their thirties now is earning roughly the same amount as someone in their thirties ten years ago (adjusted for inflation). In other words, those born in the 1990s are the first cohort to have experienced almost no growth in incomes compared to those born a decade earlier at the same age (figure 1) (PC 2024).

Figure 1 – Generation-on-generation income growth has stalled

Average individual disposable income by age



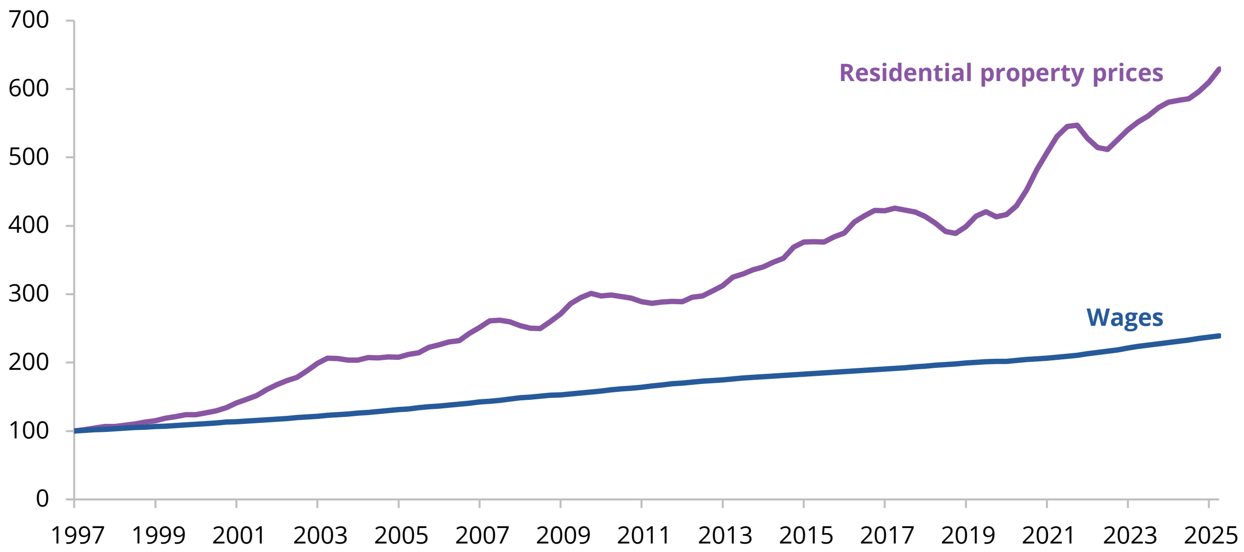
Source: PC estimates using ALife.

The generational housing and wealth divide

While wage growth has slowed, property prices have continued to climb. Between 1997 and 2025, property values grew roughly three times faster than wages (figure 2). The result is obvious: it has become harder to get on to the property ladder, and increasingly expensive to service a mortgage.

Figure 2 – Growing house prices relative to income created generational divide in wealth

Nominal index, 1997–2025, 1997=100



Wages estimated from the ABS Wage Price Index.

Source: PC estimates using ABS (2025) and BIS (2025).

This is most clearly being felt by young people, whose incomes have not kept pace with the growth in prices, and who have less capital than later generations already on the housing ladder. In the early 1980s, 70% of those in their early 30s owned their own home. In the 2020s, that share had slumped to 50% (Treasury 2023).

Twenty-five per cent of Australian households rent. This group is disproportionately younger and lower income, but due to the increasing difficulty in buying a home, more and more households in their 30s and early 40s, in the peak years for raising families, are also renting. The share of renters in these age cohorts has more than doubled over the past 40 years (PC 2022).

Rental growth has far out-paced broader income growth in the past three years. This particularly squeezes the poorest households. Even before COVID-19 when rents were generally lower, a typical low-income household was paying 43% of their income in rent (PC 2022).

So while income growth for young people has stalled, their wealth and their housing outcomes have gone backwards.

Declining housing construction productivity has added to costs and reduced housing affordability

Housing affordability is determined by the cost of housing and household incomes. Productivity growth is key to returning to the long-term trend of growth in real incomes. The PC recently outlined reforms to achieve just that in our five pillars of productivity inquiry reports – these are summarised in the appendix to this submission (PC 2025a, 2025b, 2025c, 2025e, 2025g, 2025h).

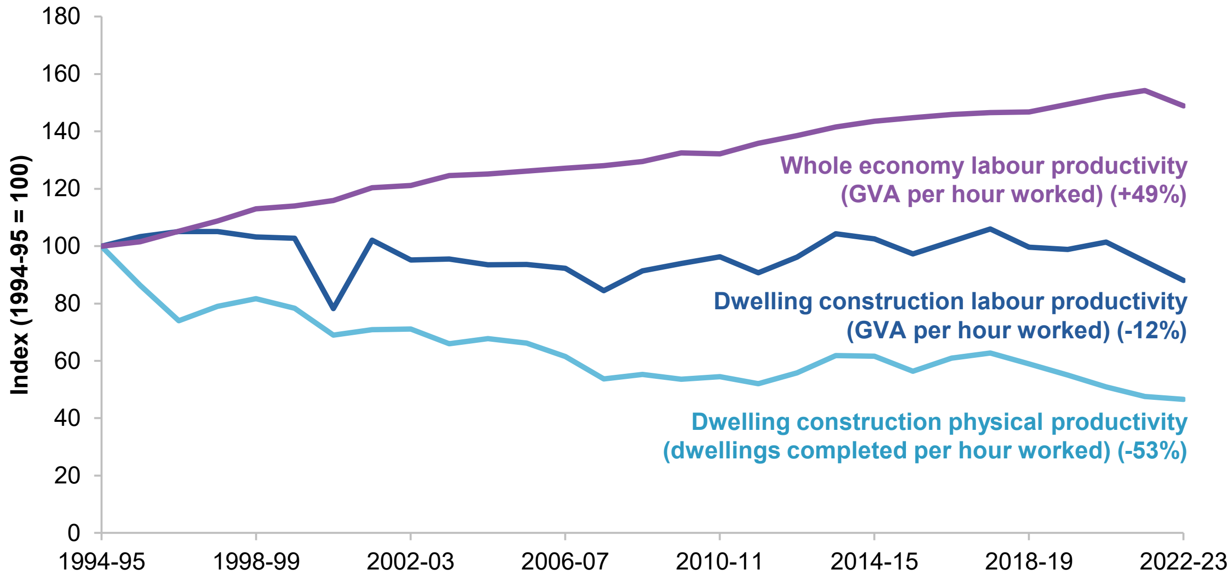
But costs have also risen due to decades of inadequate supply and high demand. Increasing the number of homes will put downward pressure on the cost of housing, improving affordability (Daley et al. 2018, p. 3; Saunders and Tulip 2020, p. 28).

Many factors influence housing supply, including: the availability and cost of land, workers and building materials; financing costs; land use planning and zoning; building regulations; housing-related infrastructure costs; and taxes, levies and charges (PC 2022, pp. 71, 73–74). But the speed and cost of new building is also a constraint on new housing supply.

The PC's *Housing construction productivity: Can we fix it?* report found that productivity in the housing construction industry has been declining over the last 30 years (PC 2025f, pp. 16–17). Over this period, the number of homes completed per hour worked by housing construction workers declined by 53%. And as measured by gross value added (GVA) (a more comprehensive measure that controls for improvements in the quality and size of housing), productivity declined by 12% over that time. This contrasts with the broader economy, where labour productivity increased by 49% over the same period (figure 3).

Figure 3 – Housing construction productivity is falling

Proxies for dwelling construction productivity between 1994-95 and 2022-23



Source: PC estimates using ABS data (2024a, 2024b, 2024c, 2024d).

Why has construction productivity fallen?

Increasing the productivity of the construction process would lower construction costs. This would make more projects viable and increase housing supply, even with no change in the size of the workforce, interest rates or the cost of materials.

We found several issues connected to the poor productivity performance of housing construction.

- **Complex, slow approvals** – working through the often-extensive development and construction approval process can stretch the timeline for major housing development projects, such as new housing estates and apartment complexes, to ten or more years. Often only a small part is time spent building. Even after approvals are granted, delays can continue as projects seek construction certificates and wait for essential infrastructure connections. Because construction is highly sequential, delays and disruptions can create ‘cascading failures’, which push up costs.
- **Lack of innovation** – innovation activity and spending in the construction sector is low compared to other sectors. Only 35% of all construction firms are ‘innovation-active’ and the sector has been slow to take advantage of digital technologies and new processes like prefabrication. Low levels of innovation arise because of fragmentation, industry culture, lack of direct benefits to firms from innovation and the ‘chilling effect’ of frequent regulatory changes.
- **Lack of scale** – the construction industry is one of the least concentrated in Australia. The combined market share of the largest four firms was just 12% in 2017, the lowest of any sector. The average residential building construction firm employs less than 2 people, much smaller than the average firm size in Australia. To some degree this appears to be a function of the development and building process and in particular the tendency to manage projects via subcontracting arrangements. But jurisdictional differences, in the way building standards are implemented, and planning is undertaken and regulated, may also reduce the capacity and appetite for successful firms to scale up.

- **Workforce issues** – the sector struggles to attract and retain some skilled workers. Reasons for this include stagnating apprenticeship commencements and completions, restrictive and inflexible training pathways for trades, and competition for labour from public infrastructure projects in recent years (at least for the higher-density housing sector). Shortages directly impact housing supply but can also impact productivity through not having the right skill mix. A range of regulatory settings contribute to low labour mobility, including inconsistent occupational licensing accreditation requirements across jurisdictions and limited pathways for migrants to join the construction workforce.

What governments can do

Governments can support productivity growth and housing supply in Australia through a number of reforms.

- **Improve coordination between decision makers in the development approval process.** Governments should consider setting up coordination bodies, similar to the State Assessment and Referral Agency in Queensland, to coordinate and speed up approvals. Governments also need to provide enough resourcing for local councils, regulators and service providers to allow timely approval decisions and ensure accountability (for example, by setting performance targets for approval decisions) (PC 2025f, p. 7).
- **Review problematic areas of regulation.** While regulation can improve the safety and quality of housing and housing construction, specific areas of regulation should be reviewed and streamlined where possible. The PC estimates that regulation adds between $135,000 to $320,000 to the cost of the average new house, and $40,000 to $175,000 to the cost of the average new unit. This equates to about $28.6 billion per year (or about 1% of Australia’s total GDP in 2025) in total regulatory burden across the industry (PC 2025b, p. 44).
  - Our housing construction productivity work found that the National Construction Code is one such area, with inconsistent application across states and territories, and significant volumes of requirements that builders must comply with. In December 2025, Treasury announced a review of the Code, which is intended to identify ways to streamline it and ensure it remains fit for purpose (Treasury 2025).
  - In our *Creating a more dynamic and resilient economy* inquiry report, we suggested that the Australian Government commission an independent review into housing regulation, based on feedback from participants that the complexity of regulations was significantly reducing housing affordability and supply (PC 2025b, pp. 44–45).
- **Remove barriers to innovation, and invest in it.** In *Housing construction productivity: Can we fix it?*, we recommended that governments address unnecessary regulatory barriers to the development and uptake of modern methods of construction (PC 2025f, pp. 56–57). The Australian Building Codes Board has since announced that it is working to develop nationally consistent definitions for modern methods of construction and a voluntary certification scheme, to support the uptake of modern construction methods that also aligns with the National Construction Code (ABCB 2025). Increased public research and development funding for housing construction may also boost innovation and productivity in the sector (PC 2025f, p. 8).
- **Improve workforce mobility and flexibility.** The construction industry is hampered by workforce shortages. Governments should make it easier for workers in the industry to move around, by working towards national consistency in occupational licensing and regularly reviewing licensing systems (PC 2025i, p. 18, 2025a, p. 97). Governments can also review barriers to migration and worker training to improve the skilled labour pool to contribute to housing supply (PC 2025a, pp. 93–94).

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Appendix

Boosting Australia's Productivity

Creating a more dynamic and resilient economy

Corporate tax reform to spur business investment

1.1 Pivot the corporate tax system to a more efficient mix of taxes

1.2 To implement a revenue-neutral package that promotes investment, the Australian Government should reduce company income tax for all companies and introduce a net cashflow tax

1.3 Alternative proposals such as a partial asset write off, an allowance for corporate equity, or a tax cut would boost investment but come at a cost to the budget

Regulating to promote business dynamism

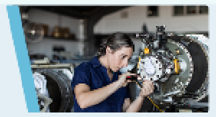
2.1 Set a clear agenda for regulatory reform and regulatory burden reduction

2.2 Set targets for regulatory burden reduction and institute a comprehensive reporting regime, to hold government to account for progress

2.3 Bolster high-level scrutiny of regulations

2.4 Enhance regulatory practice to deliver growth, competition and innovation

Building a skilled and adaptable workforce



The best resources to improve school student outcomes

1.1 Establish national frameworks to assess the quality of teaching resources

1.2 Improve student outcomes by providing equal access to high-quality instructional materials

1.3 Improve student outcomes by providing better access to educational technology

1.4 Provide professional development to support teachers to implement best practice

Enabling tertiary education pathways

2.1 Ensure students have credit transfer assessed before the deadline for accepting an offer

2.2 Increase transparency of credit transfer decisions in higher education

2.3 Improve the quality and integrity of recognition of prior learning to boost skills recognition and productivity

Boosting work-related training to build skills and adaptability

3.1 Improve the recognition of work-related training

3.2 Pilot co-funded training vouchers and advisory supports to encourage small and medium enterprises to increase work-related training

Fit-for-purpose occupational entry regulations

4.1 Replace excessive occupational entry regulations with less burdensome alternatives

4.2 Better target qualification requirements to risk

4.3 Expand entry pathways into trades

4.4 Incentivise occupational entry regulation reform through National Competition Policy

Harnessing data and digital technologies

Enable AI's productivity potential

1.1 Productivity growth from AI will be built on existing legal foundations. Gap analyses of current rules need to be expanded and completed

1.2 AI-specific regulation should be a last resort

Copyright in the age of AI: finding the right balance

2.1 A review of Australian copyright settings and the impact of AI

Rightsizing data access

3.1 Rightsize the consumer data right

Outcomes-based privacy regulation

4.1 Embed an outcomes-based privacy duty in the Privacy Act

Enhance reporting efficiency, transparency and accuracy through digital financial reporting

5.1 Make digital financial reporting the default

Delivering quality care more efficiently

Reform of quality and safety regulation to support a more cohesive care economy

1.1 Align quality and safety regulation of workers across the care economy

1.2 Align quality and safety regulation of providers and services and assess the case for a single regulator

1.3 Lead the implementation process and provide relevant agencies with direction

Embed collaborative commissioning to increase the integration of care services

2.1 Establish stronger joint governance arrangements

2.2 Enable more flexible funding

2.3 Provide dedicated funding based on outcomes

2.4 Take a strategic leadership role and ensure sufficient capability

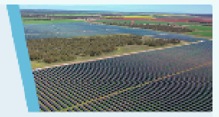
A national framework to support government investment in prevention and early intervention

3.1 Establish a National Prevention and Early Intervention Framework

3.2 Ensure better evaluation of prevention and early intervention

3.3 Enable collaboration between Australian, state and territory governments

Investing in cheaper, cleaner energy and the net zero transformation



Reducing the cost of meeting emissions targets

1.1 Introduce a policy to drive electricity sector decarbonisation

1.2 The Safeguard Mechanism should cover more industrial facilities and carbon leakage provisions should be improved

1.3 Phase out fuel tax credits for on-road heavy vehicle use; phase out EV subsidies

1.4 Assess and align policies against a benchmark and improve transparency

Speeding up approvals for new energy infrastructure

2.1 Set up a specialist 'strike team' for priority projects

2.2 Appoint a Coordinator-General for priority projects

2.3 Consider if the energy transition needs more weight in approval decisions at next EPBC Act review

Addressing the barriers to private investment in adaptation

3.1 Improve access to climate risk information through a national database

3.2 Develop a nationally consistent climate resilience rating system for housing

3.3 Improve resilience through a national coordinated strategy for housing resilience

3.4 Expand the Climate Change Authority's role in national climate change adaptation policy

Source: PC 2025h.