

Submission to the Productivity Commission Inquiry into Housing Supply Regulation (Interim Report)

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Executive summary

This submission draws on findings from AHURI Final Report No. 461, *Overcoming Construction Constraints for the Supply of New Detached and High-Rise Housing* and associated reports.

The Productivity Commission's Interim Report identifies land-use regulation, approval processes and infrastructure planning as key determinants of housing supply. While these factors are important, the AHURI Inquiry found that Australia faces a deeper challenge: the housing construction system itself lacks the capacity, stability and productivity necessary to deliver sustained increases in housing supply.

The Inquiry found that housing output is constrained not principally by planning regulations but by systemic problems within housing production, including market volatility, fragmented industry structures, workforce instability, supply-chain disruption, poor quality management and cyclical losses of productive capacity.

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Importantly, the AHURI Inquiry challenges a central assumption that appears throughout the PC's Interim Report: namely, that planning regulation functions as a constraint on housing supply, as does building regulation. AHURI's findings suggest that this assumption is often incorrect.

In many instances, weak regulation or poor enforcement creates inefficiencies that reduce productivity and housing supply. Poor quality construction, defects and rework represent significant forms of production waste. These costs arise not from excessive regulation but from insufficient compliance, weak enforcement and industry structures that incentivise cost minimisation over quality improvement.

The AHURI Inquiry therefore suggests that some forms of regulation, particularly building regulation, should be viewed as productivity-enhancing rather than productivity-reducing.

This is particularly relevant given concurrent discussions about streamlining and modernising the National Construction Code (NCC). The evidence gathered through the AHURI Inquiry suggests that reducing regulatory standards may undermine productivity if it results in increased defects, remediation and market failure. A more productive approach would focus on regulatory consistency, effective enforcement and industry capability-building.

The AHURI Inquiry's principal findings are:

- That the combination of volatility and capacity constraint is the most significant issue for housing construction productivity and supply responsiveness.
- Increasing development opportunities does not automatically increase housing completions where construction systems remain capacity constrained.
- Builder insolvencies, labour shortages, supply-chain disruptions and quality failures are largely symptoms of a highly volatile production environment.
- Defects and rework constitute substantial but often overlooked productivity losses.
- The fragmented structure of the industry limits investment in innovation, training, supervision and quality assurance.
- Effective building regulation can improve productivity by reducing defects and encouraging greater investment in workforce capability and construction management systems.
- Achieving the National Housing Accord target requires policy settings that support stable, continuous housing production rather than recurring boom-bust cycles.

Accordingly, the Commission's final report should broaden its conception of housing supply regulation.

A best-practice housing regulatory system should not be judged solely on how quickly it permits development. It should also be assessed according to whether it supports a housing construction system capable of delivering high-quality housing efficiently, at scale and over the long term.

This submission therefore proposes a fifth principle be added to the Commission's best-practice framework: **Build long-term construction system capability.**

Regulatory and policy settings should support stable production, workforce retention, innovation, quality assurance and productivity growth across the housing construction sector. Without addressing construction system performance, planning reforms alone are unlikely to deliver the scale of housing supply uplift contemplated by the National Housing Accord.

1. Introduction

This submission draws on the findings of AHURI Final Report No. 461, *Overcoming Construction Constraints for the Supply of New Detached and High-Rise Housing*, an associated technical reports which examined the performance of Australia's residential construction sector through analysis of workflows, markets, regulation, workforce dynamics, technology and supply chains. The Inquiry involved interviews with industry participants, policy workshops, and systems modelling of both detached and high-rise residential construction.

The Productivity Commission's Interim Report correctly recognises that Australia faces a profound housing supply challenge and that planning systems, approval processes and infrastructure coordination influence housing delivery. However, the Inquiry findings suggest the Interim Report adopts an overly narrow conception of housing supply regulation and, consequently, risks misidentifying the principal constraints on housing production.

Throughout the Interim Report, regulation is predominantly treated as either a restriction on development or a source of additional costs and delays. The underlying reform logic is therefore that housing supply can be increased by reducing regulatory burdens, accelerating approvals and expanding development opportunities. The AHURI research warns that reducing regulation may not necessary and may even have detrimental effects on productivity.

The AHURI Inquiry found that housing supply is shaped not only by planning systems but also by the performance of the housing construction system itself. Market volatility, fragmented industry structures, labour instability, supply-chain disruption, poor design resolution, defects and rework all constrain the industry's capacity to convert development opportunities into completed dwellings. **Indeed, the AHURI Inquiry concluded that the combination of market volatility and capacity constraint is the single most significant factor constraining housing construction productivity and supply responsiveness.**

Importantly, the AHURI Inquiry also challenges the assumption that regulation is inherently a drag on housing supply. In many instances, poor-quality housing outcomes, defects and costly rework are not the result of excessive regulation but of inadequate compliance and weak enforcement which fails to counter incentives for inappropriate cost cutting which, in turn, is driven by industry structure, low margins and cashflow vulnerability. Defects represent a substantial source of production waste, increasing project duration, diverting scarce labour and reducing effective industry capacity. From this perspective, effective building regulation should be understood not merely as a consumer protection mechanism but as an important contributor to productivity and industry capability.

This issue is particularly significant given concurrent policy discussions concerning the streamlining and modernisation of the National Construction Code (NCC). Although the NCC falls outside the formal scope of this inquiry, the Commission's analysis repeatedly raises broader questions about regulatory burden. The Inquiry findings suggest that regulatory simplification and regulatory dilution are not equivalent policy objectives. Greater consistency, stronger enforcement and clearer compliance pathways may improve productivity, whereas reducing performance requirements may undermine housing quality, increase defects and ultimately weaken supply outcomes.

The central proposition of this submission is therefore that a best-practice housing regulatory system should not be assessed solely according to how quickly it enables development approvals. It should also be assessed according to whether it supports a housing construction sector capable of delivering high-quality housing efficiently, consistently and at scale. Planning reform may be necessary, but it will not achieve the objectives of the National Housing Accord unless it is accompanied by reforms that strengthen the productive capacity, stability and resilience of the housing construction system itself.

Accordingly, this submission argues that the Commission should broaden its analytical framework and explicitly consider how regulatory and policy settings affect construction system performance, industry capability, quality assurance and long-term productivity growth. These issues are fundamental to whether additional zoning capacity and faster approvals ultimately translate into additional completed homes.

2. Housing supply cannot be understood separately from housing construction

The Interim Report treats the housing production problem predominantly as one of land-use controls, approvals and infrastructure. The AHURI Inquiry reached a different conclusion.

The most significant factor shaping housing output is the combination of market volatility and capacity constraint (see section 5). In the detached housebuilding sector housing completions have been flat for 45 years, during which time population doubled and planning systems have variously been permissive/restrictive. That is, historically output has not reflected shifts in planning controls. Indeed, today there are thousands of approved developments that are yet to proceed. It is a market issue rather than planning approval issue.

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Market volatility limits the industry's ability to respond to additional supply requirements. Consequently, increasing development opportunities alone does not ensure increased housing completions. The Commission should therefore explicitly recognise that:

Housing supply is jointly determined by planning systems and construction system capacity.

Caution regarding NCC streamlining and deregulation

While the National Construction Code (NCC) is formally outside the terms of reference of this inquiry, the Productivity Commission's Interim Report repeatedly references the need to reduce regulatory burden and notes the Government's intention to streamline the NCC.

The AHURI Inquiry suggests caution in framing NCC requirements principally as a cost burden.

Throughout the research, participants consistently identified poor quality construction, defects and rework as significant sources of inefficiency within both detached and high-rise housing construction. These outcomes were not primarily attributed to excessive regulation. Rather, they were associated with:

- insufficient supervision
- extensive subcontracting arrangements
- inadequate quality assurance systems
- weak enforcement of existing building regulations
- financial pressures that incentivise corner cutting.

The AHURI Inquiry found that builders typically operate with very low margins and limited capital reserves. In such an environment, compliance activities are often viewed as a cost rather than an integral part of production. Where enforcement is weak, firms may prioritise construction speed and cost reduction over quality outcomes. The result is an industry characterised by substantial levels of defects, remediation and rework.

The research also found that due to extensive subcontracting building firm size is frequently sub-optimal, and many firms lack requisite business skills – to the point that many firms are unable to accurately price their work. In the context of market volatility insolvency is an ever-present risk. This is the context for industry arguments that regulatory burden is excessive. We suggest that the issue is less that there is too much regulation but rather that firms are too small. In effect, claims that the NCC should be reduced and/or simplified are suggesting that regulation should be designed for the least capable actors in the system. This argument would find no traction in other industries where competency is critical for safety and performance (think of surgeons and airline pilots).

Paradoxically, reducing regulatory obligations may therefore worsen productivity outcomes.

Defects are a productivity problem, not merely a consumer protection problem

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Policy discussions often treat building defects as a consumer protection issue. While consumer harms are significant, defects also have major productivity implications.

Defective work:

- generates costly rework
- increases project duration
- creates workflow disruption
- exacerbates labour shortages by requiring trades to revisit completed projects
- contributes to higher insurance costs
- undermines consumer confidence.

The AHURI Inquiry found that quality failures frequently emerge only after project completion, meaning official productivity statistics may not fully capture the volume of labour consumed by remediation activities. From a systems perspective, defects are not an externality. They represent a form of production waste. Measures that reduce defects should therefore be regarded as productivity-enhancing reforms.

Stronger enforcement may improve industry productivity

A key finding of the AHURI Inquiry is that rigorous enforcement of building regulation may drive positive structural change within the industry.

If compliance requirements are actively enforced:

- builders must invest more heavily in supervision
- firms become more likely to employ and train workers directly
- quality assurance processes become more valuable
- larger and better-capitalised firms gain competitive advantages
- incentives to rely on marginal operators diminish.

The AHURI Inquiry concluded that one reason Australia's construction sector remains highly fragmented is that poor quality work often escapes meaningful consequences. Stronger enforcement would change the economics of construction. Importantly, this does not imply increasing regulatory complexity. Rather, it suggests that governments should focus on ensuring existing requirements are consistently enforced.

The NCC should be viewed as an innovation platform

The Interim Report risks presenting regulation and innovation as competing objectives. The Inquiry reached the opposite conclusion.

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The NCC performs multiple functions beyond minimum safety standards. It is also a mechanism through which industry transformation can occur, including improvements in:

- energy performance
- climate resilience
- durability
- accessibility
- digital construction practices
- modern construction methods.

International experience suggests that industry innovation frequently occurs in response to regulatory requirements rather than in their absence. Weakening standards may reduce short-term compliance costs, but it can also reduce incentives for firms to invest in improved production systems and technologies.

Accordingly, policy should distinguish between:

- simplifying compliance pathways and administrative processes; and
- lowering performance requirements.

The former may improve productivity. The latter may undermine it.

Regulatory consistency is more important than regulatory dilution

Interviewees repeatedly emphasised that frequent regulatory change creates adjustment costs. The problem is often not the existence of standards but uncertainty about future standards. A genuinely national construction code, accompanied by predictable implementation periods and consistent enforcement across jurisdictions, would provide greater benefits to industry than periodic reductions in standards.

For housing producers, certainty supports:

- workforce training
- investment decisions
- technology adoption
- product standardisation
- offsite manufacturing.

The Commission should therefore place greater emphasis on regulatory stability and consistency than on deregulation.

Recommendation

The Productivity Commission should recognise that:

Well-designed and effectively enforced building regulation can improve, rather than reduce, housing construction productivity by reducing defects, supporting workforce development, encouraging quality assurance systems, facilitating innovation and promoting industry capability.

The Commission's final report should therefore avoid treating reductions in NCC requirements as a proxy for improved housing supply outcomes. The more important question is whether regulatory arrangements contribute to a housing construction system that can deliver high-quality housing efficiently, at scale, and over the long term.

3. Planning Approval reform alone will not achieve National Housing Accord targets

The Interim Report suggests that planning approvals represent a major barrier to housing supply. While approval delays matter, the AHURI Inquiry found that a significant proportion of delays occur **after approval has been granted**.

In both detached and apartment construction:

- work progresses through highly interdependent stages
- bottlenecks generate queues throughout the production process
- increased starts frequently increase work-in-progress rather than completions
- adding labour to constrained systems does not necessarily increase output.

The AHURI Inquiry's modelling demonstrated that increasing resources or accelerating project commencements produces little productivity gain if bottlenecks remain unresolved. Particularly important is the finding that many detached builders carry sizeable backlogs from one boom cycle into the next, limiting their ability to sustainably increase output.

This suggests caution regarding policy approaches that focus primarily on:

- faster approvals
- increased zoning capacity
- housing targets.

Without reforms addressing construction workflows and market stability, these measures may increase commencements without materially improving completions.

The Commission's treatment of regulation is incomplete

The Interim Report adopts a framework in which regulations are primarily viewed as either:

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- restrictions on development, or
- administrative burdens.

This framing overlooks the role of regulation in shaping industry behaviour.

The AHURI Inquiry research found that:

- inadequate enforcement of building regulations contributes to widespread defects
- defects generate rework and delays
- poor quality outcomes undermine productivity
- low levels of enforcement incentivise cost-cutting rather than innovation.

In this context, the problem is not excessive regulation but inadequate implementation of regulation. Indeed, stronger regulatory enforcement may increase productivity by:

- reducing defects
- reducing rework
- improving workforce skills
- encouraging greater supervision
- supporting industry consolidation.

The Commission should therefore distinguish between:

- unnecessary regulatory burden; and
- effective regulation that supports productivity and quality.

4. Industry fragmentation is a major productivity constraint

The AHURI Inquiry found that both detached and apartment construction sectors are highly fragmented. Consequences include:

- low margins
- weak capitalisation
- limited investment in innovation
- poor workforce development
- inadequate quality assurance systems.

Many firms lack the scale needed to:

- undertake research and development

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- implement more advanced production systems
- directly employ key trades
- invest in workforce retention.

The Productivity Commission appropriately focuses on removing barriers to construction. However, the Commission should also consider whether regulatory settings encourage an industry structure that undermines productivity.

Future reform should encourage:

- greater capacity among builders
- stronger balance sheets and cashflow
- investment in quality systems
- increased workforce stability.

5. Market volatility is the largest overlooked supply constraint

The AHURI Inquiry's most significant finding concerns market volatility. The Commission's Interim Report acknowledges that construction costs and broader economic conditions affect housing supply but treats them as outside scope. This exclusion omits what may be the single largest determinant of housing production.

Housing production repeatedly experiences shocks created by:

- buyer stimulus schemes
- interest-rate cycles
- tax settings that encourage speculation
- migration surges
- investor activity.

These demand fluctuations create major efficiency losses.

The AHURI Inquiry found that the most effective mechanism for increasing housing output would be policies that stabilise demand and enable more continuous production.

The Commission should therefore recommend governments explore:

- Increasing the proportion of social and non-profit housing to reduce the overall impact of market volatility and the potential for social housing programs to act as a counter-cyclical measure to retain labour and support firm capacity building
- Build-then-sell and standardised delivery models. Alternative financing would allow delivery models that involve:

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- better design resolution
- reduced construction risk
- greater standardisation
- improved productivity.

6. Offsite manufacturing is not a standalone solution

The Interim Report references more productive construction methods.

The AHURI Inquiry found that volumetric off-site manufacturing (OSM) has potential benefits but faces significant barriers. Most importantly OSM investment depends on stable production volumes. Consequently, widespread adoption of OSM is unlikely without broader reforms addressing market stability. Governments should therefore avoid viewing offsite manufacturing as a substitute for systemic reform.

7. Best-practice housing regulation should include construction system performance

The Commission proposes four principles for best-practice regulation:

1. Adopt a build mindset.
2. Only regulate where necessary.
3. Coordinate with infrastructure.
4. Keep processes simple.

The Commission's principles are useful but incomplete.

The AHURI Inquiry supports the Commission's principle of adopting a 'build mindset' within planning systems. However, a build mindset should extend beyond planning approval and encompass the entire housing production system. The relevant policy question is not simply whether additional housing can be approved, but whether it can be delivered efficiently, at scale and to an acceptable standard of quality. A planning system that facilitates development opportunities without addressing construction system constraints may increase approvals without materially increasing housing completions.

The AHURI findings suggest a fifth principle should be added: **Build long-term construction system capability**

Housing regulation should support:

- stable production
- workforce retention
- quality assurance

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- innovation
- industry productivity.

Policies that increase approvals but destabilise construction capacity should not be regarded as best practice. Without the fifth principle there is a risk that reforms increase development opportunities without increasing completed housing supply.

8. Other matters

The Commission's Interim report cites evidence from Sharam and Bryant (2025) regarding apartment development approval times. The evidence provided is selectively presented. The key finding of that work is that many small apartment projects take as long as the largest projects. The authors suggest that the issue is not planning approvals but the capacity of the developers and their builders. Larger developers are more capitalised, have more professional staff, hire the best design and planning consultants and have a very good knowledge of the processes they are working in. In contrast, many small developers have far less capacity and consequently cannot navigate approval systems as well which often means approvals and conditions delay projects unnecessarily.

9. Conclusion

The Productivity Commission has appropriately identified significant opportunities to improve planning systems, infrastructure coordination and approvals. However, the Interim Report largely assumes that housing supply is constrained by planning regulation. The AHURI Inquiry demonstrates that the construction system itself serves as a critical bottleneck. Market volatility, fragmented industry structure, weak quality assurance systems and workforce instability all constrain housing output. A planning system that enables more development opportunities may be necessary but is not sufficient to achieve a sustained increase in housing production.

To achieve the National Housing Accord target and sustainably improve affordability, housing policy must move beyond planning reform and recognise housing construction as a complex "system of systems" whose performance depends on market stability, workforce capability, quality regulation and productivity-enhancing industry structures.

The Commission's final report should therefore broaden its conception of housing supply regulation to include the institutional and regulatory settings that shape the performance of Australia's housing construction system.