

Housing supply regulation

Inquiry by the Productivity Commission

Submission on the Interim Report

SUBMISSION FROM

Australian Housing and Urban Research Institute Limited (AHURI)

30 September 2026



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Introduction

About AHURI

The Australian Housing and Urban Research Institute (AHURI) is the independent national research institute dedicated to housing, homelessness and urban policy. We work with governments, universities and industry to inform better policy and practice. We deliver high-quality, peer reviewed primary research across housing, homelessness and urban policy arenas, disseminating findings to government, industry and the community and creating engagement opportunities with the AHURI evidence-base.

Our core activities are:

- Research – through the [National Housing Research Program](#)
- [Advisory services](#) – undertaking projects and delivering solutions for governments, not-for-profits, and peak bodies
- Policy engagement – including the delivery of the [National Housing Conference](#) and [Australian Homelessness Conference](#)

AHURI research on housing

With our University partners, AHURI has undertaken extensive research on housing policy, practice, and outcomes. A list of the most relevant AHURI research is provided towards the end of this submission.

We have also provided independent evaluations and assessment of housing policy, projects, and programs through our Advisory team, giving us deep practical insight into the frontline implications of policy settings.

Our submission draws on this research and practice knowledge to respond to the Productivity Commission's Inquiry (the Inquiry) and Interim Report (the Report).

Submission

Access to and affordability of housing

AHURI agrees with the report's statement that people need stable housing to flourish. Housing is one of the key social determinants of health. Stable housing enables improved health and wellbeing, better educational outcomes, greater capacity for social and economic participation, and greater community cohesion¹.

AHURI's Investigative Panel into poverty and Australian housing found that housing plays a substantive role in experiences of poverty. Housing costs can increase the effects of poverty and make it more difficult to address its causes².

For a growing number of people housing is unaffordable. In 2024–25, an estimated 1.26 million low-income households were in financial housing stress, spending more than 30% of their nett income on housing. One in five (20.5%) households in the rental market were low-income households in financial stress, compared with homeowners with a mortgage (14.7%).³

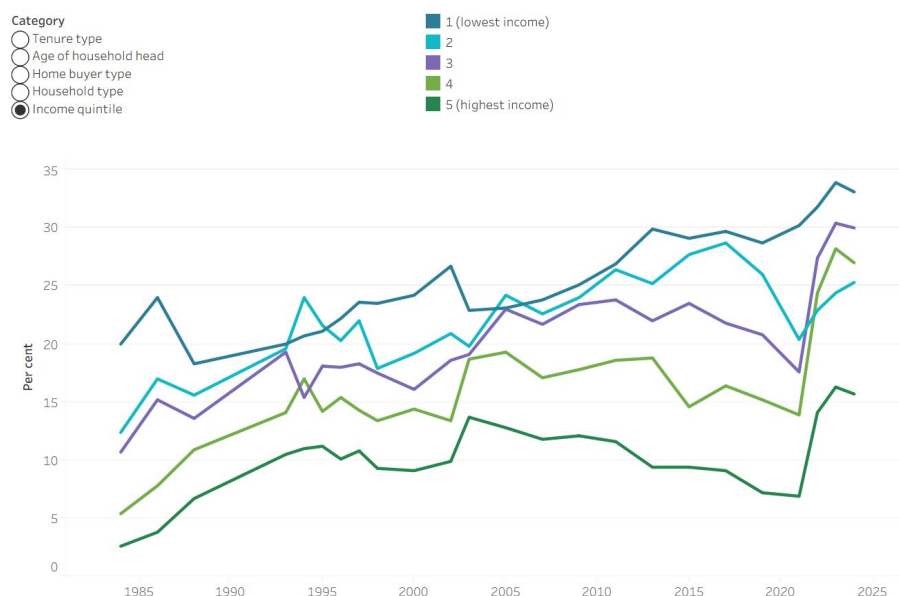


Figure 1 Proportion of households spending more than 30% of household income on housing, by income quintile, 1984 to 2024–25.

A broad range of policy settings, including many that are outside the scope of the Inquiry, are required to address the issue of housing affordability and availability.

¹ <https://www.ahuri.edu.au/research/final-reports/309>

² <https://www.ahuri.edu.au/research/final-reports/410>

³ <https://www.aihw.gov.au/reports/australias-welfare/housing-affordability>

Production is just one part of supply

The terms of reference for the Inquiry are clear that the focus of the Inquiry should be on “reforms to get more homes built more quickly” (page iv)⁴. However, throughout the Report, including into the title of the Report and in Box 1 (page 4), this focus on new builds has been translated to the term “supply”. We consider it important to distinguish between *housing supply* (the vast majority of which is provided through existing dwellings changing hands or changing tenure) and *housing production* (the construction of new housing).

The term housing production better reflects the terms of reference of the Inquiry and recognises that an Inquiry into housing supply regulation would need to consider regulatory factors which affect the exchange and use of housing, including the interactions between different markets (e.g. homeownership, investment, rental, short-term rental, etc.)

Moreover, as the National Construction Code, policies that may affect construction costs, and labour supply in the construction industry are also out of scope for the Inquiry and the Report is focused primarily on land use planning regulation, a clearer name for the Inquiry and Report would be *Land use planning regulation and housing production*.

The delivery of new housing is facilitated and/or constrained by much more than just planning regulation. AHURI research published this year showed that in Australia, the most significant risk for builders and developers of housing, and for construction output and quality, is market volatility⁵.

In both detached and high-rise construction, housing construction booms result in supply chain pressures, cost inflation, labour shortages, and project timeframe increases. Competition for labour and materials means task ‘queues’ are prone to disruption; bottlenecks emerge and tend to cascade. Booms also result in the entry of marginal operators and under-skilled workers, and pressure to cut corners—all negatively impacting on quality. Downturns also present challenges including some permanent loss of labour, wage suppression, loss of knowledge and innovation, and builders and contractors leaving the sector.⁶

To put construction sector volatility into perspective, the most recent boom and bust cycle saw the number of detached homes under construction increase by 50,000 and shortly after decrease by 20,000. The swings in apartment construction are even larger, recently falling by 30% after rising nearly 300% during the last boom.

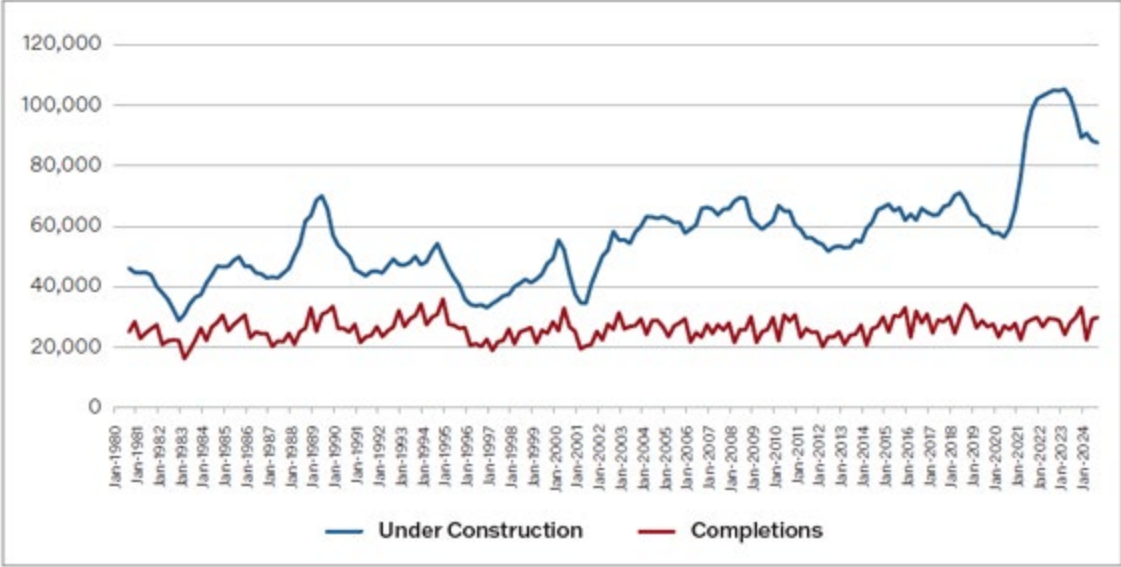
These booms and busts – that have occurred independent of any changes to land use planning regulation – highlight that the construction industry has to be conceptualised as a ‘system of systems’. Behaviours emerge from dynamic interactions within, and between, subsystems. Clients, builders, developers and suppliers – as distinct subsystems – work together to deliver housing. Any regulatory reform, therefore, needs to focus on the system level – or risk conceiving of problems too narrowly.

⁴ <https://www.pc.gov.au/inquiries-and-research/housing-supply/interim/>

⁵ <https://www.ahuri.edu.au/research/final-reports/461>

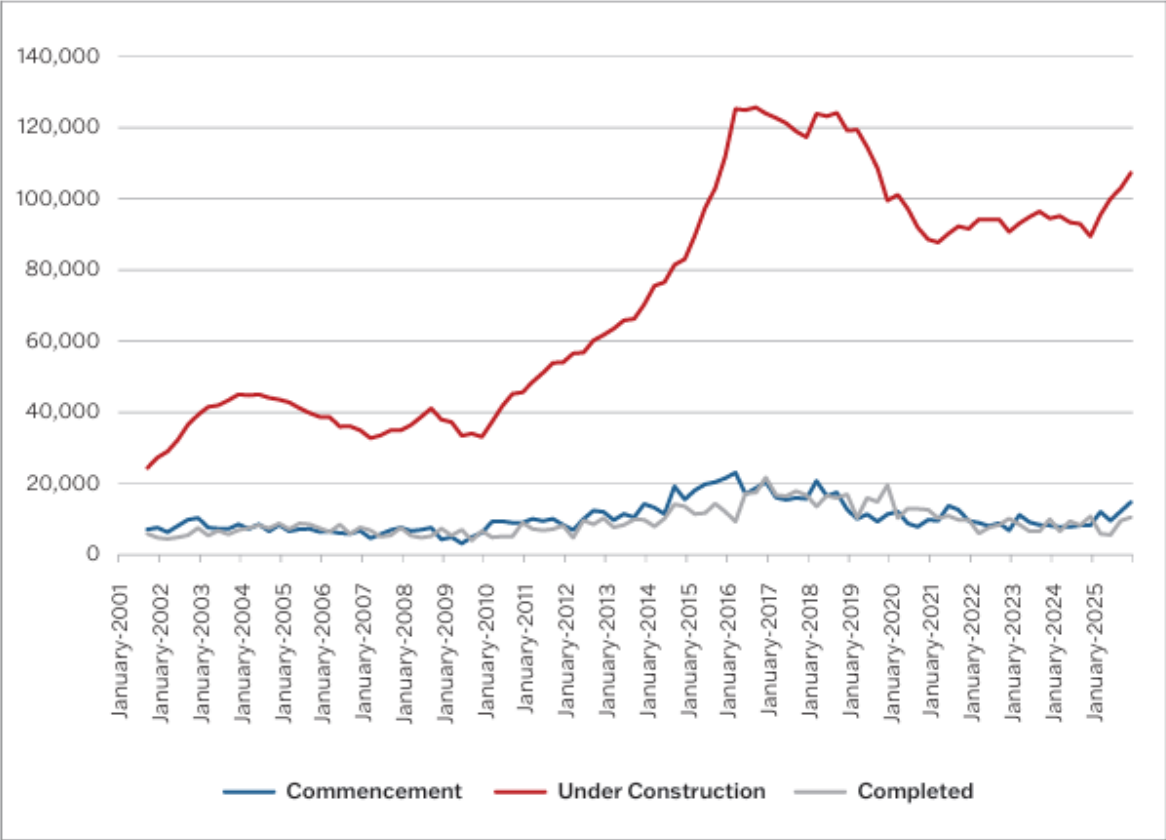
⁶ <https://www.ahuri.edu.au/research/final-reports/461>

Figure 2 – Detached homes under construction and completed 1980 – 2024, Australia.



Source: Gharaie et al. 2026

Figure 3 – Apartments under construction and completed 2001 – 2025, Australia.



Source: Sharam et al. 2026

Box 1 – Addressing housing construction constraints across Australia

The recent AHURI Inquiry on *Overcoming construction constraints for the supply of new detached and high rise housing* identified eight policy responses that would – in the words of this Inquiry – “get more homes built more quickly”. They are:

1. Develop a national strategy for efficient housing construction
2. Address market volatility
3. Modernise the regulatory framework
4. Attract and retain skilled employees
5. Include cost escalation provisions in contracts
6. Provide greater support for research and development
7. Consider onshoring to reduce supply chain risks
8. Reduce market fragmentation.

The AHURI Inquiry was supported by a Panel of experts drawn from the research, policy and practice communities. Panel members provide guidance on ways to maximise the policy and practice relevance of the research and draw together the research findings.

Panel members were:

- Christopher Kefford, QBuild
- Darren Mew, BlueCHP
- Daniel Cooper, BCG Constructions
- Claire Krelle, Government Architect NSW, and
- Steven Baxas, Victorian Building Authority.

We would be happy to facilitate an opportunity for the Commissioners to discuss the findings of the AHURI Inquiry in more detail with the report authors and/or panel members.

The full report, a research summary, plus the three technical papers are available on the AHURI website: <https://www.ahuri.edu.au/research/final-reports/461> . A copy of the research summary is at Attachment 1 to this submission.

Land use regulation

AHURI research has illustrated the cost and complexity of planning requirements. Planning requirements and costs for residential development vary greatly across states, territories and at the local level. While planning related costs can be high, the research found developers are more concerned about non-financial barriers such as planning system complexity, uncertain time frames and changing requirements.⁷

A lack of approval process transparency, inconsistent planning requirements across local government areas (where local government is the development consent authority) and a lack of trust between developers and local councils also emerged as significant non-financial barriers to negotiating the planning system and had the potential to significantly impact development project costs.⁸

Zoning and land-use controls: primary and secondary barriers

In 2020, AHURI convened investigative panels comprising 50 housing and built-environment experts across Sydney, Melbourne and Perth. The objective was to identify the barriers and challenges within the housing system to delivering more diverse housing supply — in terms of size, built form, tenure, development model, and affordability (i.e., price point).⁹

The panels noted that local land-use zoning can have a significant impact on whether diverse housing types are permitted in residential areas, as well as whether medium-density housing is financially viable. Panel members argued that medium-density and higher-density housing forms are often not permitted in established residential areas.

Lack of clarity as to the permissibility of unconventional housing or development types within land-use zones also created issues. While some specific housing types, such as boarding or rooming houses and secondary or ancillary dwellings (granny flats) are now specified as permissible uses in some land-use zones, many other types of residential development are not specifically named — meaning their permissibility is unclear.

Lack of flexibility in development controls within planning systems to allow for design innovations such as reduced car parking, and uncertainty around the timeframe and outcome of development assessment decisions add additional barriers.

Diversifying the built form of housing in response to changing demographics and declining affordability has become a significant policy aspiration in Australia's major cities. Yet, despite this aspiration, most housing continues to be delivered as detached dwellings in greenfield locations or, to a lesser extent, high-rise apartments — both typically sold at market rates to owner-occupiers and small-scale buy-to-let investors respectively.

⁷ <https://www.ahuri.edu.au/research/final-reports/424>

⁸ <https://www.ahuri.edu.au/research/final-reports/140>

⁹ <https://www.ahuri.edu.au/research/final-reports/349>

The panel noted that State and local governments can facilitate additional housing through regulatory reforms that ensure land-use zoning allows for medium-density and higher-density land uses in a range of locations.¹⁰

AHURI supports reforms that would facilitate well located, well designed and constructed, diverse housing forms and that contribute positively to community and individual wellbeing and outcomes.

The importance of consistent land supply

The greatest impediments to new housing supply outside the major metropolitan regions are shortages of land for development and workforce shortages.¹¹

For the development industry to operate efficiently and deliver new housing where it is most needed, a steady supply of financially viable sites is required.¹² This requires long term strategic thinking by all levels of government and a mechanism where investment in infrastructure is coordinated and shared between government, landowners and developers. Improvements to strategic planning — including the setting and delivery of housing targets at the local level are essential.

Strategic planning policies require system-wide approaches to target infrastructure development and more specific planning policies to facilitate land supply to designated areas, activity centres and public transport nodes. AHURI research points to a need for urban renewal authorities, strategic transport and land development mechanisms, and incentives such as planning bonuses, inclusionary zoning and fast-tracked approvals.¹³

AHURI supports reforms that facilitate the delivery of land (particularly in well-located established areas) to enable the delivery of additional housing.

Regulation shapes housing type more than price

Research examining changes to land use planning policy and the type of housing built over two significant policy regime shifts from 1990 to 2010 noted that regulation does affect housing price, but usually only modestly.¹⁴ Planning interventions were found to work to deliver specific types of houses when:

- they were enforced
- they had credibility with those affected
- if all agencies affected were working in concert

¹⁰ <https://www.ahuri.edu.au/research/final-reports/349>

¹¹ <https://www.ahuri.edu.au/research/final-reports/424>

¹² <https://www.ahuri.edu.au/research/final-reports/384>

¹³ <http://www.ahuri.edu.au/research/final-reports/297>

¹⁴ <https://www.ahuri.edu.au/research/final-reports/157>

Researchers found housing affordability was undermined by growing house sizes and limited housing diversity in growth areas.

AHURI supports reforms that support housing affordability and deliver well located, well designed and constructed housing. We note that reforms to planning regulations alone and in isolation from other factors driving (or delaying) construction will not achieve this.

Proposed reform directions

In the table over the page we have responded to each of the reform directions set out in the Interim Report.

Reform direction	AHURI response
Principle 1 – Adopt a ‘build’ mindset	AHURI supports the delivery of well designed and constructed dwellings in well located areas. We caution that a ‘build’ housing mindset should not mean circumventing effective strategic planning and the evidence that supports those strategic land use (and sometimes built form) decisions.
Principle 2 – Only regulate where necessary	AHURI notes that, particularly in the current housing crisis, assuming that households will simply pay for features they want (or need) underestimates the potential for people accepting poor outcomes simply because they can afford nothing else. While we agree with the principle of regulating only to address market failure, it is important then to define where those failures occur. In many markets, delivering housing of acceptable quality and amenity, sufficient diversity or environmental performance, and the provision of affordable housing, will not necessarily happen without regulation.
Principle 3 – Coordinate with infrastructure	AHURI supports the coordinated funding and delivery of infrastructure to facilitate housing production and ensure housing, and the communities that live in it, have appropriate access to transport, education, health, and other services.
Principle 4 – Keep the process simple	AHURI supports an efficient and effective planning system that provides clarity and certainty for communities and businesses.

Reform direction	AHURI response
2.1 Allow up to 3-storey developments across most residential land	AHURI supports the delivery of well designed and constructed dwellings in well-located areas. The Report (page 27) notes that adopting a “build mindset” means “zoning based on infrastructure capacity, estimates of demand and externalities (congestion, agglomeration benefits etc.).” A reform to zone most residential land for up to 3 storeys may not adequately account for capacity, demand, and/or externalities. A more effective approach would be to develop targets and facilitate strategic planning, urban design, and infrastructure delivery to make land available for development – including in established areas. ‘As of right’ zoning can sometimes have the perverse effect of reducing housing density and land use intensity. This happened with the introduction of dual occupancy policies in Melbourne in the 1980s. Some landowners and developers had been obtaining development approval and building three or more villas on a lot. With the change in policy to as of right dual occupancy, they shifted to building two dwellings on a lot. This resulted in fewer new homes being delivered than was occurring previously.
2.2 Allow mid-rise or high-rise apartments in high demand areas	AHURI supports well designed and constructed mid-rise and high-rise apartments in well-located areas.
2.3 Reduce or remove minimum lot size requirements	AHURI supports innovative design solutions that deliver good quality housing in well-located areas. Over time, minimum lot sizes for detached dwellings have been reduced and dwelling assessment for small lots is increasingly codified. We would encourage the move towards medium and high-density development rather than continuing to provide detached homes on increasingly inadequately sized lots.
2.4 Allow residential development in commercial zones, unless there is a clear rationale for excluding it	Mixed use precincts can successfully deliver a mix of housing and employment land uses. We note that having well located employment land is as important as having well-located housing. AHURI supports mixed use zoning where it does not undermine the long-term viability of employment land. Strategic planning processes should consider both the delivery of housing and the provision of employment land.

Reform direction	AHURI response
2.5 Review, reduce and remove land use controls that reduce commercial feasibility and do not adhere to best practice principles	AHURI cautions against a reform that places commercial feasibility as the basis for planning regulation, even with the proposed best practice principles. As noted in the Report, a key role for regulation is to account for externalities and ‘information asymmetries’. Care should be taken that commercial feasibility is not placed ahead of the purpose of regulation.
2.6 Relax or remove built form controls that limit flexibility and choice for households	AHURI supports regulation and a housing system that provides flexibility and choice for households. However, we do have concerns that the focus of this proposed reform (“impacts that negatively affect the wider community”) will not adequately account for impacts on the people living in the dwellings. For instance, minimum dwelling size, balcony size and storage requirements are essential components of dwelling amenity and need to be protected. The report indicates that elements like access to outdoor space should not be regulated as it is not essential, but does not provide any evidence on the effect on a person’s wellbeing of having no access to outdoor space. It does not adequately take into account the health impacts of housing.¹⁵ We strongly support the use of floor space ratios (i.e. site density controls) as an effective tool to encourage apartments and medium density development and deliver good outcomes. Other primary development controls, such as height and built form controls, can be used in conjunction with floor space ratios. We are supportive of increasing floor space ratios in instances where this will help deliver more medium and high-density housing on sites where this would be appropriate. The absence of site density controls typically produces poor apartment design outcomes and reduces flexibility and choice for households. Floor space ratios and built form controls can support the ambition of “removing restrictions on housing types” rather than restrict them, as implied.

¹⁵ <https://www.ahuri.edu.au/research/final-reports/173>

Reform direction	AHURI response
3.1 Consider infrastructure requirements and trade-offs associated with development early through strategic planning	AHURI supports this proposed reform. We note that rather than relying on councils to fund the technical studies (flood risk, bushfire risk, heritage, community infrastructure demand) needed to consider the impacts of the expected uplift in housing in locations (currently often funded by proponents of rezoning) Federal or State government funding could help expedite these studies.
3.2 Expand the use of fast-track pathways to assess simple developments	AHURI supports this proposed reform but notes the need for more extensive strategic planning, urban design masterplanning, and upfront engagement with communities to underpin this.
3.3 Use state-significant pathways to approve developments with a clear need for state-led assessment	AHURI supports the use of state-significant pathways where there is a clear requirement and net benefit to do so. Decisions should have regard to local context and the strategic work that underpins local planning schemes.
3.4 Improve housing approval assessments with better coordination of referrals, use of technology including AI, and transparent reporting	AHURI supports in principle this proposed reform.
4.1 Coordinate strategic planning for infrastructure with housing objectives	AHURI supports this proposed reform.
4.2 Improve infrastructure sequencing with housing development	AHURI supports this proposed reform.
4.3 Ensure developer contributions reflect the accurate cost of providing infrastructure	AHURI supports this proposed reform.
4.4 Enhance design of developer contribution frameworks towards best practice	AHURI supports this proposed reform. We note that allowing contribution payments to be staged or due later in the development process may conflict with infrastructure being provided in advance of (to facilitate) or in-step with the development of housing. Providing councils with an easy process for no-cost Federal or State loans may help address this sequencing issue.

Select research

Below is a selection of relevant AHURI research on housing production and the issues covered in the Interim Report. AHURI has a very large database of research relevant to this Inquiry, spanning more than 20 years, which can be accessed via the AHURI website.

Construction constraints
<i>Overcoming construction constraints for the supply of new detached and high-rise housing</i> https://www.ahuri.edu.au/research/final-reports/461 This Inquiry provides the first significant examination of the Australian construction sector's ability to deliver both detached and high-rise housing. It analyses construction workflows, markets, regulation, workforce, technologies and supply chains.
<i>Counting the costs: planning requirements, infrastructure contributions, and residential development in Australia</i> https://www.ahuri.edu.au/research/final-reports/140 This research across 15 local jurisdictions in Australia assesses the financial impact of planning regulations on the cost and affordability of housing in Australia. The direct planning costs (fees and charges) as well as indirect costs resultant from particular policies such as those relating to land supply, have the potential to influence decisions about the location, quantity and type of housing that is developed as well as the purchase price.
Land use planning
<i>Inquiry into projecting Australia's urban and regional futures: population dynamics, regional mobility and planning responses</i> https://www.ahuri.edu.au/research/final-reports/438 Understanding how people move between cities and regions in Australia is crucial for good planning. Policy makers especially need accurate data for fast-growing areas in order to support population increases with transport, health and education infrastructure as well as new homes. This research Inquiry investigated different ways to predict local population growth and change. It looked at what drives people to move between urban and regional Australia and what this migration means for planning infrastructure and housing to support population growth and change. The Inquiry included four separate research projects.

Governance and administrative arrangements

Administering Australian housing policy: practitioner perspectives

<https://www.ahuri.edu.au/research/final-reports/453>

This research aims to deepen our understanding of the design and impact of the ‘machinery of government’ – the administrative, bureaucratic or institutional arrangements that deliver public policy – with respect to housing policy in Australia. Drawing on the insights of current and former senior housing policy officials, the study identifies a set of principles to guide the best feasible governance and policy outcomes.

Fine-tuning the machine: Evaluating machinery of government for housing policy administration

<https://www.ahuri.edu.au/research/final-reports/441>

This research explores how changes to government administrative structures and processes affect housing policy in Australia. It outlines what can be done to reduce some of the negative impacts of these changes.

Rental housing

Planning for a two-tenure future

<https://www.ahuri.edu.au/research/final-reports/431>

Three out of five Australian renters say they expect they will never own their own home — a significant shift that requires rethinking of tax and housing systems so that governments’ support all Australians in a two-tier housing market (of owners and renters) into retirement. The policy challenge is to make renting a good, long-term housing outcome for renters, particularly lower-income, older renters with limited superannuation. The research highlights that in the Australian Housing Aspirations (AHA) survey a large majority (78%) of private rental tenants aspired to own their own home, while the research survey found three out of five (59%) private renters don’t think they will ever be able to afford to buy a home of their own.

Incentivising small-scale investors to supply affordable private rental housing

<https://www.ahuri.edu.au/research/final-reports/432>

This AHURI research examines how governments can encourage small-scale private investors to provide affordable rental housing. It finds that landlords who follow the positively geared, long-term hold investment (LTHI) model are most likely to be part of affordable housing schemes. The landlords will participate in affordable housing schemes that maximise the potential for a positive cashflow, and not those based on financial schemes such as negative gearing and capital gains tax concessions. It is important to index rental increases to market rates so that investors who lock-in to long-term schemes are not disincentivised.

Select projects and case studies

In addition to research delivered through the National Housing Research Program, AHURI undertakes projects for government, not-for-profit, and sector peak bodies. Below is a selection of projects relevant to the terms of reference for this inquiry.

Housing economics analysis

Delivered for Infrastructure South Australia

<https://www.ahuri.edu.au/services/projects/housing-economics-analysis>

AHURI analysed the impacts of providing equitable access to secure, affordable, and appropriate housing at a population-wide scale. This analysis was then used to develop an effective impact assessment framework based on evidence of the benefits to inform housing policy and investment decisions.

Literature review on the impact of demand-side housing subsidies on the housing market

Delivered for The Ministry of Social Development, New Zealand

<https://www.ahuri.edu.au/services/projects/literature-review-on-the-impact-of-demand-side-housing-subsidies-on-the-housing-market>

A systematic review of the literature for The Ministry of Social Development, New Zealand on the impact of demand-side housing subsidies on the housing market and the extent to which housing allowances are 'captured' by landlords through rising rents versus improving the material living standards of subsidy recipients.

Return on investment for social housing in the ACT

Delivered for ACT Shelter

<https://www.ahuri.edu.au/services/projects/return-on-investment-for-social-housing-in-the-act>

AHURI investigated whether providing direct access to planned, sustainable, long-term housing options for the homeless population, and those at risk of homelessness, in the ACT is a more cost-effective strategy for the government than relying on crisis responses. The project found that providing more long-term social housing in the ACT has the potential to result in significant cost savings to government. While the costs of developing new social housing are substantial, this report shows that the net costs of investing in more social housing would be substantially defrayed by the avoided costs in health, justice and welfare costs that would occur through these investments.

Overcrowding and severe overcrowding: an analysis of literature, data, policies and programs

Delivered for NSW Department of Communities and Justice

<https://www.ahuri.edu.au/research/research-papers/overcrowding-and-severe-overcrowding-an-analysis-of-literature,-data,-policies-and-programs>

This research examines overcrowding and severe overcrowding in private and social housing, with a focus on New South Wales. The purpose of the research is to understand the scale and scope of overcrowding and severe overcrowding, including trends, causes, impacts and what can be done to reduce its impact. It is relevant for this Inquiry in relation to whether and how and whether people can simply “choose and pay for features they value”.

How can Aboriginal housing in NSW and the Aboriginal Housing Office provide the best opportunity for Aboriginal people?

Delivered for NSW Aboriginal Housing Office

<https://www.ahuri.edu.au/services/projects/how-can-aboriginal-housing-in-nsw-and-the-aboriginal-housing-office-provide-the-best-opportunity-for-aboriginal-people>

The development of this Issues Paper supported the NSW Aboriginal Housing Office (AHO) in developing a new 10-year strategic plan and in outlining a vision for the Aboriginal Community Housing Sector (ACHS). It provides policy opportunities arising from research into current practices in Aboriginal housing and from consultation with the Aboriginal housing sector. It represents an important first step towards developing a sound evidence base for the design of the AHO’s strategic directions. The central research question was: How can housing in NSW provide the best opportunity for Aboriginal people?

Citations

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Attachment 1 – Research Summary

Overcoming constraints on Australia’s housing construction

Overcoming constraints on Australia's housing construction

FINAL INQUIRY REPORT



What this research is about

This Inquiry provides the first significant examination of the Australian construction sector's ability to deliver both detached and high-rise housing. It analyses construction workflows, markets, regulation, workforce, technologies and supply chains.

Why this research is important

The housing construction industry in Australia is at crisis point. The rate of Australia's detached housing output has been largely static since at least 1980. Apartment construction can lift in response to demand, but output is volatile. There is no overarching strategy aimed at addressing housing construction constraints. This Inquiry provides eight interconnected options for policymakers and industry.

Based on

Final Report No. 461: *Overcoming construction constraints for the supply of new detached and high-rise housing*

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Publication date

June 2026

View the report

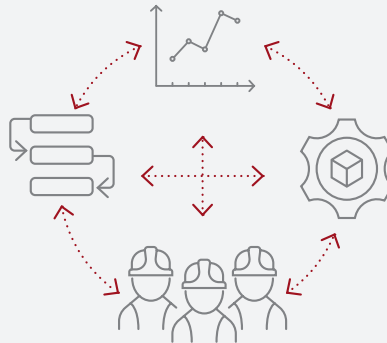


At a glance

The biggest factor driving construction industry constraints is market volatility.



Booms and busts disrupt workflows, markets, supply chains and workforces.



These systems are all interconnected – and isolated policy changes are not increasing construction output.

Significant changes are needed, including restructuring the industry and rigorously enforcing building codes.



Key findings:

Market volatility the biggest construction constraint

The most significant risk for builders, and for construction output and quality, is market volatility.

In both detached and high-rise construction, booms result in supply chain pressures, cost inflation, labour shortages, and project timeframe increases. Competition for labour and materials means task ‘queues’ are prone to disruption; bottlenecks emerge and tend to cascade. Booms also result in the entry of marginal operators and under-skilled workers, and pressure to cut corners.

Downturns present challenges including some permanent loss of labour, wage suppression, loss of knowledge and innovation, and builders and contractors leaving the sector.

Market volatility also undermines the viability of volumetric offsite manufacturing, which requires steady, rate-driven production.

‘Downturns present challenges including some permanent loss of labour, wage suppression, loss of knowledge and innovation, and builders and contractors leaving the sector.’

Small and medium enterprises dominate the sector

Australia's housing construction industry is dominated by small and medium enterprises, reflecting extensive use of subcontracting arrangements. Consequently, housing is constructed by temporary teams that disperse after each project, resulting in knowledge loss and disruption of skills transfer.

While subcontracting allows head contractors to cut costs during downturns, it leaves workers exposed to under- and unemployment. The resulting loss of labour and skills constrains capacity once the market recovers.

Impacts of low margins and capitalisation

Builders' margins and capitalisation are typically low. This creates cashflow risk and reduces investment in training and innovation. It also contributes to poor quality work and unacceptable levels of defects.

Construction defects add to costs and can increase the time taken to complete projects. Defects are symptomatic of subcontracting, company size, time and cost pressures, and a lack of robust building code enforcement.

Builders need to have greater capacity, be less vulnerable to cashflow crises, and obtain higher margins. This will require the structure of the industry to change.

Regulation inadequately enforced

Industry structure would likely change if building codes were rigorously enforced. Building quality also requires responsibility for compliance to be widened.

Housing construction as a 'system of systems'

Housing construction can be conceptualised as a 'system of systems', in which behaviours emerge from dynamic interactions within, and between, subsystems. This shift in thinking enables powerful insights into industry practices and behaviours.

It suggests that reform needs to focus on the system level and has implications for policymaking that may conceive of problems too narrowly.

'Industry structure would likely change if building codes were rigorously enforced. Building quality also requires responsibility for compliance to be widened.'

Policy actions:

This Inquiry provides eight interconnected policy development options. Refining and delivering on these policy directions will be challenging. There is a need for a policymaking and industry engagement process aimed at developing an in-depth understanding of housing construction as a system of systems.

1. Develop a national strategy for efficient housing construction

Transforming the housing construction system of systems to improve productivity requires a focus on the system level, rather than isolated parts of individual subsystems.

Incremental improvements applied system-wide are likely to have more substantial impacts on performance than enhancements confined to subsystems.

Australia needs to develop national coordinated strategies that integrate construction, housing, manufacturing, and technology and innovation policy to enable the residential construction sector to meet demand for new housing.

2. Address market volatility

Market volatility is the key barrier to putting housing construction on the path to efficiency. Stimulating demand should be avoided, as it creates a subsequent trough in demand. Recent stimulus measures assume capacity in the detached housing construction sector that does not exist. Counter cyclical social housing investment can help smooth demand; however, it is preferable to have stability across the supply of all housing types.

3. Modernise the regulatory framework

Inadequate building code enforcement supports inefficiency and risk shifting. Policy makers should harmonise the National Construction Code (NCC) across jurisdictions and ensure compliance.

‘Transforming the housing construction system of systems to improve productivity requires a focus on the system level, rather than isolated parts of individual subsystems.’

4. Attract and retain skilled employees

Extensive subcontracting shifts risks down the supply chain. There is a need to grow labour capacity in line with economic growth. A national construction training board should be established comprising TAFE, universities and industry representatives focused on workforce development. The apprenticeship system needs to reflect regulated and sustained pathways into the industry.

5. Include cost escalation provisions in contracts

Adversarial relationships and unfair contracting arrangements undermine best practice. Embedding fair and transparent cost escalation provisions within Design and Construct contracts – the dominant procurement method in the high-rise sector – would enable better risk sharing, sustainable procurement and more stable and collaborative practices.

6. Provide greater support for research and development (R&D)

Australia lacks a well-developed construction R&D system. Government and industry need to provide financial support for R&D to drive productivity and facilitate a transition to net zero.

The industry will be able to afford this to a greater extent if restructuring reduces pressures on margins and increases company size. Digitalisation should be a priority.

7. Consider onshoring to reduce supply chain risks

The global supply chain is vulnerable to significant disruptions. Onshoring can reduce sovereign risk and supply chain risk. This issue requires strategic review.

8. Reduce market fragmentation

There is a need to reduce industry fragmentation and grow the size of firms, taking care to avoid excessive market concentration.

‘There is a need to grow labour capacity in line with economic growth. A national construction training board should be established comprising TAFE, universities and industry representatives focused on workforce development.’

Research design:

The Inquiry consists of this final report and three supporting projects. Across this Inquiry, 68 interviews were conducted with sector participants in Australia and internationally and thematic analysis of transcripts undertaken. Policy testing workshops with industry stakeholders were held, and a comprehensive literature review conducted. Construction simulation modelling and scenario modelling was undertaken. Findings were presented to an expert panel, which provided guidance on ways to maximise the policy relevance.

To cite the AHURI research, please refer to:

Sharam, A., Zolghadr, A., Dorignon, L., Wakefield, R., Gharaie, E., Arashpour, M., Fairbrother, P., Sawhney, A., Mojtahedi, M., Lee, C. L. (2026) *Overcoming construction constraints for the supply of new detached and high-rise housing*, AHURI Final Report No. 461, Australian Housing and Urban Research Institute Limited, Melbourne.

Available from the AHURI website at ahuri.edu.au/research/final-reports/461



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