

# State of the Regions

2025 Edition

Benchmarking Australia's Regions

Extract

HOUSING AND CONSTRUCTION



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## T.3 Housing and Construction in Australia's Regions

Australia's housing and construction sector is a vital element of its regional economies. The past five years have been marked by stark increases in housing demand, construction lags, skilled labour shortages, material supply disruptions, and dramatic price appreciation across most regions. While population growth and policy initiatives have shaped these patterns, external shocks, notably the COVID-19 pandemic, supply chain disruptions, and interest rate shifts, have exacerbated existing vulnerabilities.

The housing and construction sector represents one of the largest contributors to regional employment, investment, and gross state product (GSP) across Australia. Yet, the sector faces acute challenges that are unevenly distributed across the nation's states and territories, shaped by local economic, demographic, and geographic factors.

### *Key Trends and Issues in Australia's Housing and Construction Sector*

**Construction Lags:** Across Australia, building approvals and commencements reached record levels in 2021-2022, following the introduction of federal and state government stimulus measures, including the Home Builder grant. However, construction lags have emerged as a persistent challenge.

- **Labour Shortages:** The collapse of skilled international migration during the COVID pandemic, compounded by retirements and poor apprentice retention rates, have significantly delayed builds.
- **Material Shortages and Cost Inflation:** Global supply chain issues (notably shortages of timber, steel, and fixtures) saw building material costs rise by an average of 20-40 per cent.
- **Delayed Project Approvals:** Local government processing and increases in building regulation complexity have contributed to project backlogs, particularly in high-growth peri-urban and regional locales.

### *Housing Shortages*

The chronic undersupply of new dwellings has been evident nationally, but with marked regional disparities.

- **Urban Centres:** Sydney, Melbourne, and Brisbane have persistent shortages of affordable rental accommodation, reflected in rapidly rising rents and low vacancy rates (<1 per cent in many regions).
- **Regional and Remote Areas:** Population inflow during the pandemic sharply increased demand in regional areas, outpacing construction sector capacity, particularly in regional Queensland, Victoria and New South Wales. Northern jurisdictions of the Northern Territory, Queensland's Cape York and Torres Strait and northern Western Australia are among those regions facing unique challenges due to remoteness and higher construction costs.

### *House Prices*

Record low interest rates, population shifts, and investment demand fuelled house price increases.

- **ABS reports:** National dwelling values rose ~28 per cent between 2020 and 2022, with regional house prices in some areas, including regional New South Wales and Queensland, outpacing capitals.

Moving forward to the June Quarter 2025:

- The number of residential dwellings rose by 53,600 to 11,373,900 in the quarter, the total value of residential dwellings rose in all states and territories, with growth most evident in Queensland (+2.7%) and Western Australia (+2.7%). The estimates show that the mean price of residential dwellings in NSW (\$1,256,200) remains the highest in the country, followed by QLD (\$977,300) and the ACT (\$949,400). The Northern Territory maintains the lowest mean price at \$523,400.
- The mean price of residential dwellings rose by \$14,100 to \$1,016,700 this quarter.
- **Affordability Stress:** Homeownership is increasingly out of reach for first-home buyers in most jurisdictions, while rental affordability is similarly degrading.

## *State and Territory Analysis*

### **New South Wales**

- **Sydney and Urban Fringe:** Persistent shortages of affordable dwellings, compounded by infrastructure bottlenecks. Construction sector reported workforce availability, particularly in Western Sydney.
- **Regional New South Wales:** COVID-19 era “tree-change” trends increased population and demand, but supply constraints led to double-digit annual price growth in some regions and centres, including Wagga Wagga, Newcastle, and the North Coast.
- **Economic Impact:** Housing pressures have driven wage increases for construction and service jobs, but acute shortages have hampered local business expansion and public sector recruitment.

### **Victoria**

- **Melbourne:** Shortages of apartments in outer suburbs and key regional cities, including Geelong, Ballarat, Bendigo, where medium-density housing development lags.
- **Regional Victoria:** Similar patterns to New South Wales where regional migration drove house price appreciation of 25-40 per cent in mid-sized towns.
- **Construction Sector:** Skill shortages and company insolvencies, notably in residential construction, have stretched completion timelines and impacted housing security and governance.
- **Regional Economy:** Housing shortages are linked to labour market tightness, particularly in health, education, and agriculture.

### **Queensland**

- **SEQ and Coastal Regions:** Brisbane, Gold Coast, and Sunshine Coast experienced strong housing demand. Construction constraints led to delayed supply, and vacancy rates remained at around 1 per cent and pressures remain high. Recent data from July 2025 shows vacancy rates in Brisbane are around 0.7 per cent, while the Gold Coast's rate is around 1.08 per cent and the Sunshine Coast's is approximately 0.71 per cent.
- **Central and North Queensland:** Mining investment has contributed to transient demand, but longer-term shortages are pronounced, particularly in rental markets.
- **Economic Impact:** High rents and house prices hamper efforts to attract and retain essential workers, with ripple effects on local services and supply chain businesses.

## South Australia

- **Adelaide:** House prices have risen sharply, though they remain more affordable than Sydney or Melbourne. However, shortages are acute in key growth corridors like the northern and southern suburbs.
- **Regional South Australia:** Longstanding issues of housing quality and appropriate supply for key worker populations include the agricultural and mining sectors previously described in NIEIR's sector reports.
- **Construction Lags:** Smaller scale of builders and constrained migrant workforce have slowed delivery.

## Western Australia

- **Perth:** Market recovery post-mining boom has produced sharp price increases and construction bottlenecks.
- **Regional Western Australia:** Acute shortages in Pilbara, Kimberley, and Goldfields continue with building costs reported to be 50-100 per cent higher than Metro Perth.
- **Economic Impact:** Rental shortages limit major projects' ability to attract non-local workforce, restricting business growth, but with training, enabling the local workforce to improve skills and generate better outcomes for community and business potential and wealth at the local level.

## Tasmania

- **Statewide:** Demand for housing outpaces supply, particularly in Hobart and Launceston, which led the nation in price growth in the COVID period, particularly 2021 and 2022.
- **Unique Challenges:** Tasmanian builders face smaller industry capacity, with skills shortages and higher build costs on the island economy.
- **Regional Impact:** Housing unaffordability is a drag on tourism and agricultural worker attraction; increasing requirement for social housing.

## Northern Territory

- **Darwin:** Volatile market, but recent undersupply has produced rapid rent and price growth. NIEIR asks the question, is the volatility of the past fading as the Northern Territory economy matures and strategic thinking about the value of Darwin as an important centre in Australia's north, improves down south?
- **Remote Regions:** Severe housing shortages, overcrowding and very poor quality housing which is poorly maintained because of a significant set of reasons, many not attributable to Indigenous communities but poor standards of governance and confused regulation, which can be attributed to both the Northern Territory Government and the Australian Government that supports it. Indigenous communities affected by historical underinvestment and a bureaucracy that favours city-based construction companies while denying training and participations to a potentially skilled local Indigenous workforce. A new beginning is required.
- **Economic Effects:** The chronic housing issues that result from poor and entrenched government policies act as barrier to workforce participation and health outcomes.

## Australian Capital Territory

- **Canberra:** Among the nation's highest median house prices driven by demand from a highly paid workforce in a city where construction activity is constrained and subject to changes in government policy in relation to public servant employment levels.

- **Supply Constraints:** Stringent planning controls and land release limitations have slowed new construction.
- **Rental Stress:** Public sector expansion contributes to rental demand; vacancy rates typically below national averages.

### *Macroeconomic and Regional Impacts*

**Employment:** The construction sector is a major employer, employing around 10 to 12 per cent of workforce in a range of SOR regions, but shortages in materials and delays in approvals and the availability of infrastructure have led to:

- project cost blowouts and developer insolvencies;
- underutilisation of machinery and fixed capital; and
- lost regional GDP and secondary impacts on local trades and suppliers.

### *Population and Labour Mobility*

**Housing shortages** constrain intra-state migration.

- Essential workers (health, education, emergency services) unable to secure housing, limiting attraction capacity.
- Resulting in businesses being forced to increase wages or incentives, adding operational costs and squeezing small margins.

### *Social and Infrastructure Outcomes*

**Social Stress:** Homelessness, rental stress, and household crowding have risen, particularly in regional and remote areas.

- **Inequality:** Wealth effects from rising property values benefit existing owners but increase barriers for young and lower-income households.
- **Infrastructure Demand:** Required public spending to alleviate housing pressures, including the necessity of social and affordable housing, which places increasing pressure on state and LGA budgets, given private sector reluctance to invest in public housing.

### *State and Federal Government Responses*

- **Migrant Labour:** Policy changes to attract skilled construction workers are resisted.
- **Planning Reform and Land Release:** In many regions outside central metro regions, higher density and quality infrastructure connected communities remain unattractive to private sector financing.
- **Direct Investment:** Expansions in state-level social and affordable housing remain essential, but implementation is far too slow.
- **Industry Support:** Grants/training subsidies for apprentice and upskilling programs; more investment in VET sector pipelines and consistency in policy mechanism, particularly given the inconsistent approach to trades training and funding in most jurisdictions since 1990.

## ***Conclusion***

The Australian housing and construction sector faces interconnected barriers in every state and territory, with profound consequences for economic growth across all SOR region types.

The problem for the sustainability of Australia's successful growth regions arises because established dwelling prices tend to increase rapidly when real per capita income from work increase. Once a ratio of 6 to 9 times household income is reached, mortgage costs will not be affordable in relation to terms of income from work. Once this ratio is reached, apartments become the only affordable type of dwelling. As a result, the sustainability of Australia's leading high- technology knowledge-intensive regions, in terms of housing affordability, will depend on the willingness of households to adapt to high density living. This raises the further question as to whether the apartments currently being built are of suitable design and quality to encourage this transition? On this will depend as to whether or not the current growth potential of Sydney and Melbourne is achieved.

**Regional Indicators and Data – More Indicators and at LGA Level**

*The full online SOR report contains a two-page indicator set for each SOR region, selected metropolitan cities, Australia and Northern Australia. A wider set of indicator data is also available at LGA level from NIEIR ([www.nieir.com.au](http://www.nieir.com.au)). Enquiries for LGA level data should be directed to Ryan James at NIEIR.  
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