



**MASTER BUILDERS**  
A U S T R A L I A

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Select Committee on Intergenerational  
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## Re: Select Committee on Intergenerational Housing Inequity

Master Builders Australia (Master Builders) welcomes this opportunity to offer our views to the inquiry on Intergenerational Housing Inequity.

### Who we are

Master Builders is the nation's peak building and construction industry association, which was federated on a national basis in 1890. Master Builders' members are the Master Builder State and Territory Associations. Over 130 years, the Master Builders network has grown to more than 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association representing all three sectors: residential, commercial, and civil construction.

Membership with Master Builders is a stamp of quality, demonstrating that a builder values high standards of skill, integrity, and responsibility to their clients.

Master Builders' vision is for a profitable and sustainable building and construction industry.

### General Comments

Across all age groups, housing costs eat up a substantial chunk of people's incomes. In general, home ownership rates rise with age. This means that renting is much more common amongst younger Australians. Some renters may go on to buy their own home – others may not be in a position to do so. For those aged between 35 and 54, owning a home with a mortgage is the most typical arrangement. In the 55 plus age bracket, outright home ownership with no mortgage is the most prevalent situation.

There is clearly an imbalance in the housing outcomes of different age groups. We believe the best way to redress this lies in making housing less expensive for everybody. This means that both renting and buying a home should be made more affordable, so that a smaller portion of family income gets



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absorbed by housing costs. This ultimately relies on delivering more new homes to both the owner occupier and rental market. For those in younger age groups, the savings reaped from lower housing costs can help strengthen their financial position over the long term.

## Key positions

### Building Costs

The more expensive it is to build new homes, the less affordable it is for both renters and homebuyers. New home building costs are very high right now as a result of excessive land prices, labour shortages, a growing regulatory burden and enormous upfront taxes in the form of infrastructure contributions and developer contributions.

Cost conditions in the higher density part of the market are hurt by the restrictive terms of Enterprise Bargaining Agreements (EBAs) involving construction unions.

Home building delays have also worsened over recent years, a dynamic which has magnified the cost of doing work.

Many prospective new home building projects lack enough financial viability. As a result, they do not proceed. In other cases, they go ahead – but at a smaller scale and slower pace. This deprives us of homes that we need, resulting in more expensive home prices and higher rents.

New home building costs have been amplified even further by the conflict which broke out in the Middle East at the end of February.

For homebuilders, the cost of moving materials, workers and waste around has jumped due to diesel price escalations. Gas and crude oil are key sources of raw materials for building product manufacturers, and the prices paid by builders have risen as a result. Interest rate resulting from the crisis have also made it more expensive to carry out home building work.

### Tax settings

Housing outcomes are made even worse by the imposition of transaction taxes like stamp duty. For a new home priced at \$1m, First Home Buyers in Sydney are required to pay about \$39,700 in stamp duty while a similar transaction in Melbourne attracts a \$57,500 stamp duty bill.

Stamp duty drains the financial resources of those transitioning from renting to home ownership. Stamp duty bills erode the home purchase deposits of homebuyers, forcing them to take on mortgages that are both larger and heavier in terms of their Loan-to-Value ratio (LVR). Mortgages with bigger LVRs come with higher interest rates.

A \$40,000 stamp duty bill increases mortgage repayments by about \$90,000 over a 30-year loan term. \$50,000 in stamp duty permanently reduces a homebuyer's lifetime financial resources by \$111,800 by forcing them to borrow more deeply.

### Rental costs

Rental prices are determined by the interaction of demand and supply on the rental market. Current taxation settings relating to Negative Gearing and the Capital Gains Tax discount help guide additional housing stock onto the rental market through inducing investor participation in the market.

Without Negative Gearing and the CGT discount, rents across Australia would be higher than they are now.

It is important that our stock of rental housing expands in tandem with a growing population and a bigger workforce. New home building on the higher density side of the market is particularly important in this regard.

## Possible solutions

Better policy settings in our industry can make it less expensive to buy a home and help dilute rental market pressures. We believe this to be the best contribution our industry can make to harmonising intergenerational housing disparities.

Immediate action is required to mitigate the pressures caused by the Middle East crisis.

The building and construction industry largely operates on fixed price contracts and as one of our industry's biggest customers, government must act as a model client. This should involve patience, accommodation and understanding when it comes to delays and cost escalations suffered by building and construction companies due to factors beyond their control. Government must take a flexible approach with respect to cost escalation, completion timeframes and liquidated damages.

The ACCC needs to monitor building materials costs increases with a view to taking action whenever unwarranted price escalations are imposed on builders.

Outside of the Middle East crisis, consideration should also be given to these measures:

- Minimising the stamp duty burden for First Home Buyers.
- Abolishing the foreign buyer stamp duty surcharge for transactions which result in the creation of new housing stock.
- Retaining current Negative Gearing and CGT discount arrangements, which both result in lower prices on the rental market.
- Using the Skilled Migration system more effectively in order to unblock labour shortages in the construction industry, particularly for trades.
- Impose penalties and rewards on utilities companies depending on how quickly and effectively they deliver the infrastructure on which new homes rely.
- Extend the remit of Competition Law to cover EBAs in the construction industry as well as the behaviour of construction unions.