

## EXECUTIVE SUMMARY

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# Growing Australia's smaller cities to better manage population growth

**From the AHURI Inquiry:** Inquiry into population growth in Australia's smaller cities

**Authored by**

**Andrew Beer**, University of South Australia

**Laura Crommelin**, University of New South Wales

**Akshay Vij**, University of South Australia

**Jago Dodson**, RMIT University

**Stefanie Dühr**, University of South Australia

**Simon Pinnegar**, University of New South Wales

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**Authors**

Andrew Beer, University of South Australia  
Laura Crommelin, University of New South Wales  
Akshay Vij, University of South Australia  
Jago Dodson, RMIT University  
Stefanie Dühr, University of South Australia  
Simon Pinnegar, University of New South Wales

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**Related reports and documents**

Vij, A., Ardeshiri, A., Li, T., Beer, A. and Crommelin, L. (2022) *Understanding what attracts new residents to smaller cities*, AHURI Final Report No. 375, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/375>, doi: 10.18408/ahuri3226201.

Crommelin, L., Denham, T., Troy, L., Harrison, J., Gilbert, H., Dühr, S. and Pinnegar, S. (2022) *Understanding the lived experience and benefits of regional cities*, AHURI Final Report No. 377, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/377>, doi: 10.18408/ahuri7126301.

Li, T., Denham, T., Dodson, J. and Vij, A. (2022) *The economic dynamics and population change of Australia's regional cities*, AHURI Final Report No. 385, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/385>, doi: 10.18408/ahuri5326101.

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# Executive summary

## Key points

This report examines the capacity of Australia's smaller cities to accommodate a larger percentage of the nation's population growth. It finds that:

- In the absence of purposeful action, a growing percentage of Australians will live in our largest cities in 20 years.
- Most immigrants move to the largest metropolitan areas, and a fundamental reshaping of our immigration system is needed if this pattern is to be reversed. Change, however, is possible.
- Many moving to smaller cities come from other parts of non-metropolitan regions, although the processes of sea change and tree change have reshaped this pattern over the past 20 years.
- Young people commonly leave smaller cities and regional areas for education and employment opportunities.
- There is a weak link between employment growth in smaller cities and population growth and the direction of the relationship varies from place to place. Much of the employment growth in these places has been in low paid employment, and there is a need to reverse this trend and increase the mix of industries growing in these places.
- Policies to attract more Australians to smaller cities need to focus on the Aspirational Changers segment of the population (21 per cent of the total) and the Lifestyle Maximisers (54 per cent).
- There are viable policy options for governments seeking to promote the growth of smaller cities, including place-based policy frameworks that concentrate investment and quality of life gains in a defined set of centres, further development of these localities as retirement destinations and their growth as education and research hubs.

## Key findings

In broad terms the research found smaller cities experienced a range of processes shaping their populations over the period 2011–2016.

- Absolute population growth was highest amongst smaller cities located in coastal regions next to the two major cities in south-east Australia, indicating population concentration in regional Australian settlements.
  - By contrast, population decline was concentrated in inland and remote towns, particularly in centres associated with resource industries.
- The processes of population concentration in fewer and larger regional settlements evident in the 20th century appears continued (BITRE 2014). International migration was largely similar, with most relocating to larger regional urban centres.
- Smaller cities are the first destination of few international arrivals.
- Many internal migrants relocating to smaller cities come from other parts of non-metropolitan Australia.
- ‘Sunbelt’ cities have fared better than regional centres in southern Australia over recent decades, but this growth may be a product of population, rather than economic, processes.
  - There is a long standing pattern of accelerated growth amongst coastal cities on the eastern seaboard.
  - Growth is also more pronounced in smaller cities closer to a major metropolitan region.
  - In some regions, larger regional centres are growing as nearby smaller settlements decline.
- COVID-19 had a muted impact on the movement of population to smaller cities, with the greatest impact in Victoria. Importantly, fundamental change is possible but a definitive conclusion on likelihood cannot be reached at this stage.

The research categorised population change into three main groupings:

- **Larger regional cities** that are close to a major (state capital) cities grew more (by count) than other regional areas.
- **Coastal urban centres** gained more population than inland urban centres. Regional urban centres in northern coastal NSW and Queensland in particular continued to grow rapidly.
- Population losses tended to be concentrated in **inland, smaller, remote and often resource reliant towns**. These patterns may be associated with continuing weakness and employment declines in traditional regional industry sectors such as agriculture, or with transitions within resource extractive industries, following the mining infrastructure investment boom of the late-2000s and early-2010s.
- The patterns of Indigenous population change reflected overall population patterns but diverged also.
  - Indigenous population growth was greatest in some coastal localities, though these were not always the same places where the non-Indigenous population is increasing.
  - Some inland localities without large overall growth saw substantial growth in Indigenous residents.
- Economically smaller cities are a highly differentiated group, with the processes of growth and decline influenced by individual histories and geographies.
  - Broad patterns can be identified amongst groups of smaller cities.
  - The national economy and policy has had a significant impact on the growth of smaller cities. The liberalisation of the Australian economy post 1984 and the rise of service industries has not benefited smaller cities specialised in manufacturing and agriculture, but has assisted some mining centres.
  - National economic policy change has further reinforced the expansion of the major metropolitan centres.
- Australia's smaller cities commonly have highly specialised and trade-exposed economies, resulting in periods of ‘boom’ and ‘bust’ as industries cycle through swings in global markets.

- There is clear evidence that endogenous growth processes are very weak in many parts of regional Australia, including amongst the economies of smaller cities.
- Much of the aggregate economic growth across regional Australia trails population growth, that is growing populations lead an expansion of employment.
- The research found that programs to encourage relocation to smaller cities are likely to gain traction with Australian residents if the appropriate population groups are targetted.
- State preference analysis found four distinct segments, or classes, across the Australian population, differentiated by their willingness to live in large and mid-sized cities. Critically the four classes provide a guide to the targeting of policy measures:
- Classes 1 (the Urban Careerists) and 4 (the Small is Best), together comprising 25 per cent of the sample population, displayed distinct preferences for large and mid-sized cities, respectively, and were unlikely to change their preferences.
  - Individuals in Class 1 were young urban professionals who valued living in large cities.
  - Individuals belonging to Class 4 tended to be older individuals employed part-time or retired, valued quality-of-life benefits from living in smaller cities, and were equally reluctant to move to a large city.
- Classes 2 (Aspirational Changers) and 3 (Lifestyle Maximisers) comprised the remaining 75 per cent and were more open to moving to a mid-sized city.
  - Individuals belonging to Class 2 were more likely to be a mix of young individuals living in single or shared households, and the middle-aged in households with children. They tended to be university educated and employed full-time in high-wage managerial or professional jobs. They prioritised employment and education opportunities and were likely to move to mid-sized cities if they could offer comparable opportunities.
  - Individuals in Class 3 were older, and employed part-time in lower paying jobs or retired. They placed high importance on quality of life, local healthcare, housing and other living costs. They viewed mid-sized cities as excellent places to retire, and would be encouraged to move there if they could get support for post retirement living.
- A sense of community remains an important feature of life in smaller cities, helping retain population and building a sense of cohesion. This sense of community contributes to the pattern of movement between smaller cities and other regional centres as individuals seek comparable living environments.
- The natural and other amenity of smaller cities is much valued by residents and it too remains a factor in the retention of residents in smaller cities, as well as the attraction of migrants from the capitals.
- High quality, affordable housing remains an important attractant for smaller cities but it needs to be balanced out with significant employment opportunities in order to encourage the growth of these places.
- Residents in smaller cities were wary of growth for its own sake. While many see advantages, there are concerns these may be exceeded by the disadvantages.
  - Planning policies have had unequal outcomes across the Australian states. In NSW programs were developed that led to success, while the SA experience highlighted the limitations of approaching regional planning as an administrative exercise, distant from other programs of investment and development; and,
  - Evidence-informed approaches that concentrate resources in places with both a record of growth and the potential for further expansion will be more successful.



## Policy development options

This research examined the ways in which the policy landscape in Australia could be adjusted to promote the growth of smaller cities in order to deliver better outcomes for all Australians. Critically, one dimensional or simple policy measures are unlikely to deliver growth to smaller cities, instead a more holistic approach is required that draws together a number of actions. All, however, are eminently achievable, with either a track record of success in Australia or internationally. The research drew on the findings to consider five policy options:

- **Option 1:** Maintain existing policy settings and do not introduce new programs or initiatives
- **Option 2:** Further develop and activate land use planning to support the development of smaller cities
- **Option 3:** Develop a portfolio of place-based policies that seek to concentrate investment in a limited number of smaller cities
- **Option 4:** Implement policies that encourage the growth of further education in smaller cities
- **Option 5:** Expedite the growth of smaller cities as preferred places of residence for older Australians, including retirees.

The research concluded that Option 1 was unlikely to deliver additional growth for Australia's smaller cities because while current policy settings resulted in long term national economic growth, smaller cities largely lagged the very largest cities. Moreover, the population outcomes evident under contemporary policy settings are a product of deeply entrenched patterns and processes, and change in the external environment is essential if the nation is to achieve better outcomes.

Option 2 was assessed to have real potential for delivering growth for smaller cities. However, this policy domain remains firmly the remit of the Australian states, which makes the achievement of positive outcomes in all parts of the nation more challenging as each jurisdiction has their own frameworks and settings. In addition, statutory planning systems are based in legislation and are therefore not adjusted easily or quickly.

Option 2 also calls for a strong level of co-ordination and integration across the portfolios of governments, with planning, service delivery and infrastructure investment brought together to deliver growth locally. While this has been achieved in NSW, other states have either not prioritised the growth of smaller cities or have failed to develop integrating mechanisms. The further development of the planning system to deliver the growth of smaller cities can be assessed as having considerable potential, but would struggle to deliver uniform outcomes at the national scale.

Option 3 draws on both national and international experience and seeks to both empower local decision makers to encourage growth, and provide a select number of smaller cities with a pathway to expedited growth. To a degree, Option 3 builds on established policy frameworks such as the City and Regional Deals, but more fundamentally it represents an approach that tailors growth investment to the opportunities evident in each locality. It is an approach that calls for both investment by the senior tiers of government and buy-in locally, and is likely to require a long-term investment of policy attention and capital. The available international evidence suggests strong prospects for success, with the OECD as strong advocates of place-based policies.

Option 4 specifically addresses two of the evident weaknesses in the economic and demographic structures of smaller cities. First, most regional centres experience the loss of young people to the metropolitan regions as they seek employment and education opportunities. Second, many of these places have lower incomes and few well paid jobs, and the evidence within this research suggests much of their employment growth has been in low-paying employment. Option 4 seeks to redirect policy attention and resourcing in higher education and research to smaller cities in order to attract and retain young people in these places, and more closely integrate smaller cities into the global knowledge economy. This option would not require additional funding, but would require a redirection of resources.

Option 5 seeks to further enhance the attractiveness of smaller cities as places for retirement for older Australians. It acknowledges that these places are already attractive to a significant percentage of older Australians and that this could be further enhanced through additional investment in health care and other services targetted at this age group. Such investment would also generate employment for other age cohorts. This option has a strength in harnessing the growth potential embedded in already established patterns within the economy and the population, and would potentially come at modest cost to Australian governments. It may, however, further entrench the lower income structures evident in a number of smaller cities.

Finally, it is important to acknowledge the policy options discussed in this report are not mutually exclusive. Governments could potentially implement a portfolio of actions to maximise the prospects of smaller cities and associated regions. A portfolio approach would create opportunities for participation by all tiers of government and allow for a focus on the development of these places, rather than a simple focus on growth.

## The study

The overarching aims of the Inquiry were addressed through three associated projects. Each of the projects focussed on Australia's non-capital cities including the larger satellites, such as Newcastle, Wollongong, Geelong and the Gold Coast. The Inquiry examined all Australian jurisdictions, effectively establishing a nation-wide evidence base.

The analysis focussed on urban centres with a population of 50,000 or more and in states with fewer than three urban centres reaching this threshold, it considered the three largest non-metropolitan centres in that jurisdiction. In addition, for technical reasons, Project B examined all urban centres with a population of 5,000 or more. The projects examined the movement of three migrant categories—domestic migrants, international migrants, and those who have settled in Australia as humanitarian or refugee arrivals—and their potential to contribute to the growth of smaller cities.

**Project A** was developed to provide answers to RQ1:

How can we differentiate Australia's smaller cities according to economic profile, population trajectory, industry structure and geography?

It also provided insights into RQ2:

What are the current mobility and settlement patterns of migrants, including those arriving from other parts of Australia and from other nations, across these smaller cities?

It identified the functional economic regions (FERs) for each smaller city. A functional economic region (FER) can be considered the economic footprint of an urban centre, and is identified using data on commuting patterns and other comparable metrics. This stage was followed by the analysis of the social, economic and geographical characteristics of each city. The project explored the economic composition, demography and cultural characteristics of each city, as well as housing costs and affordability. This was followed by spatial econometric analysis with the goal of identifying a range of explanatory variables that influence local employment growth. Finally, the cities were analysed with respect to their residential mobility, providing statistical analyses of migration.

**Project B** addressed RQ4:

What are the key drivers of mobility in Australia (to/from both metro and regional areas)?

It also focussed on RQ5:

Which factors support or motivate moves to smaller cities in regional Australia—what is the role of employment opportunities, infrastructure, facilities and other factors in encouraging settlement outside metropolitan centres?

It comprised three stages employing different quantitative methods of visualisation and analysis of data from the 2006, 2011 and 2016 Censuses.

- Stage 1 developed a high-level visual understanding of how migration flows have varied historically within Australia across different sub-populations;
- Stage 2 established macroeconomic models of migration flows between cities, as a function of their local economy, infrastructure and natural environment; and,
- Stage 3 used Discrete Choice Experiments (DCEs) to develop microeconomic models of how individual households decide where to settle. It examined whether these decisions reflect demographic characteristics, such as income and household structure, or place attributes, such as education and employment opportunities, housing costs, the natural environment and cultural amenities.

**Project C** addressed RQ5:

What are the place-based experiences of residents in regional centres?

And RQ6:

To what degree do residents of smaller cities benefit in terms of housing and employment outcomes, as well as incomes? How are these benefits perceived, and do they assist in retaining residents and employers?

Project C was made up of three methodological elements: focus groups, in-depth resident interviews and stakeholder interviews with fieldwork. This took place across five regional cities in four states with diverse economic, demographic and geographical characteristics—Cairns, Whyalla, Mildura, Wollongong and Albury-Wodonga. The cities had different economic drivers (tourism, resources, agriculture, anchor institutions) and included a number of resident cohorts, such as refugees and international students.

Finally, the **Inquiry** examined RQ7:

Which policy instruments and programs are likely to have the greatest impact in supporting the attraction and retention of residents in smaller cities?

The Inquiry used the discussions with policy makers to develop a better understanding of 'what works' with respect to smaller cities, documenting their understanding of best practice and the drivers of change.





**Australian Housing and Urban Research Institute**

Level 12, 460 Bourke Street

Melbourne VIC 3000


Australia


+61 3 9660 2300

[information@ahuri.edu.au](mailto:information@ahuri.edu.au)

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