

# Oxfordshire Strategic Housing Market Assessment

## Note on 'Local needs' 2011-2031

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### 1. Purpose and approach

This report seeks to estimate the future housing requirements for Oxfordshire and component Districts that could legitimately be described as 'meeting local needs'. The requirements projected in the Strategic Housing Market Assessment (SHMA)<sup>1</sup> have been reviewed, taking into account the following factors:

- a. The more recent official household projections (DCLG 2012-based) that remove the need for some of the demographic adjustments made in the SHMA;
- b. Excluding requirements arising from policies aimed at achieving faster economic growth than in the past; and
- c. Excluding double counting involved in the SHMA proposal for provision of housing over and above demographic needs so as to generate payments towards 'affordable housing'.

This approach is considered more defensible than limiting 'local needs' to natural increase (the excess of births over deaths), as is sometimes done. People move in and out of Oxfordshire all the time for all kinds of reasons, so even if the numbers going each way are in balance, there are effects on communities and labour markets which are important to understand. 'Nil net migration' is not the same as 'no migration'.

### 2. Key criticisms of SHMA at HMA level

The SHMA treats past trends in net migration as desirable (or if undesirable, immutable), without evidence or discussion. These trends are then the baseline to which are added the effects of implementing different economic or housing policies from those followed in the past. In broad terms this procedure follows official Planning Policy Guidance (PPG), but this does not necessarily produce robust estimates of future housing needs, especially in the economic and social volatility following the global financial crisis of 2008.

The most significant of my reservations concerning SHMA methodology were explained and evidenced in my previous report to CPRE<sup>2</sup>, and are summarised below for the Housing Market Area as whole (Oxfordshire County). The corresponding figures for Oxfordshire Districts are given in Table 1 that follows, to which the row references also refer.

1. **The final SHMA requirement** (Row 5) increases housing needs from 1,900 dwellings per annum (dpa) over 10 years to 5,003 dpa over 20 years<sup>3</sup>. This is a replacement rather than an adjustment (as permitted by PPG) of the official household projections.
2. **The SHMA demographic baseline** (PROJ2, Row 2) added almost a further 1,000 dpa through adjustments that depended upon an arbitrary assignment of unattributed population changes (UPCs), and on a putative recovery of household formation rates following the end of the recession. A subsequent study by ONS<sup>4</sup> concluded that because the 2012-based Subnational Population Projections (SNPPs) are fresh forecasts, with reference period Mid-Year Estimates (MYEs) adjusted for the 2011 Census, they should *not* be adjusted for UPCs. Together with more recent household formation figures, these

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<sup>1</sup> G L Hearn (April 2014) 'Oxfordshire Strategic Housing Market Assessment – Final Report'

<sup>2</sup> Urban & Regional Policy (May 2014) 'Unsound & unsustainable – why the SHMA will increase greenfield use but not meet housing needs'

<sup>3</sup> in terms of land to be identified across the County, implying an overall increase from 19,000 to 100,060 sites.

<sup>4</sup> Office of National Statistics (2014) *Report on Unattributable Population Change*

adjustments have been superseded by the 2012-based official projections. Differences of this kind are less likely in future projections.

3. **Baseline economic growth** (PROJ3, Row 3) estimated housing needs arising from a trend employment projection. This used a Local Economic Forecasting Model (LEFM) representing interactions between all economic sectors – both those that drive growth and those that service the local population. The housing requirement arising was capable of accommodation by PROJ2, making a separate adjustment unnecessary.
4. **‘Planned economic growth’** (PROJ4, Row 4) accounted for the largest element of increase (over 1,200 dpa – nearly half the total). This added to the baseline (trend) element (PROJ3) a policy component that depended on a range of ‘above trend’ development proposals. Adding together these components was strongly criticised in my previous report as failing properly to consider the dynamics of economic change or the impact of declining sectors in the global economy. Both components also depended on a rather rosy view of the global economy<sup>5</sup>.
5. **The final SHMA requirement** (Row 5) proposed the addition of over 700 dpa to the overall requirement to enable provision of affordable housing. Since the projection already includes provision for overall demographic and economic needs (including needs for affordable housing) this is not logically valid. Neither is it feasible, since such additional housing could only be sold if it was itself meeting these needs.

**Table 1: Components of the SHMA housing requirement**

Projection	Housing requirement dpa <sup>1</sup>					
	Oxon County	Cherwell	Oxford City	South Oxon	VWH	West Oxon
1. <b>DCLG 2011-based housing need<sup>1</sup></b> (SHMA Table 83, p172)	1900	716	-144	376	400	555
2. <b>SHMA PROJ 2:</b> Updated demographic baseline (SHMA Table 84, p173)	2,887	641	755	482	468	541
3. <b>SHMA PROJ 3:</b> Economic Baseline (SHMA Table 87, p 175)	2,340	743	289	655	623	590
4. <b>SHMA PROJ 4:</b> Committed Growth (SHMA Table 89, p179)	4,280	1,142	700	749	1,028	661
5. <b>Final SHMA requirement:</b> inc additional for affordable housing (SHMA Table 90, p181)	5,003	1,140	1,400	775	1,028	660
6. <b>Increase above DCLG 2011-based need</b> (Row 5-Row 1)	3,103	424	1,544	399	628	105
1. Household projections increased to allow for vacancy and second homes (Cherwell 4%, Oxford 4%, S Oxon 4.5%, VWH 3.2%, W Oxon 5.2%, Oxfordshire 4.2% (SHMA Table 26, p93))						
2. DCLG 2012-based household forecast (Tables 406, 425), plus allowance as note 1: 20 years 2011-2031						

### 3. An alternative ‘local needs’ housing requirement

The current DCLG 2012-based household projection is presented in Table 2. This incorporates continuing net inward migration at past rates (the reference period is the trends

<sup>5</sup> Cambridge Economics (2014), Personal communication “*In the medium term global growth is expected to recover, with strong growth in China, India and the oil-producing countries making a greater contribution, while GDP growth in Europe will increase more slowly. Over the long term, world GDP growth is expected to accelerate to 4½% pa, with emerging Asia, the EU12 and the economies of some other developing countries leading the way. The US will be just behind, growing at 2-2¼% pa, with the EU15 and Japan much further behind*”

between 2007 and 2012), and also allows for some recovery in new household formation from the levels incorporated in the 2011-based set. It thus renders redundant the adjustments represented by PROJ2 (Table 1, Row 2).

The baseline economic growth scenario represented by PROJ3 would lead to a population increase 2011-31 of 110,000<sup>6</sup>, which is higher than the increase of 71,000 2012-32 in the DCLG 2012-based projections. At the projected average household size of 2.3 and with allowances for vacancy and second homes as before that would equate to an extra 17,000 houses over 20 years (848 dpa). However, as noted in my earlier report<sup>2</sup>, there are some important reservations about the validity of this economic ‘baseline’:

- a. The 15-year trends used in the local employment forecasting model (LEFM) gave relatively little weight to the major economic discontinuity in 2008, and incorporated rather rosy view of the future<sup>5</sup>.
- b. On top of this, employment in Higher Education in Oxfordshire was increased by 11,000 from the model predictions, representing the view that Oxford University will suffer less from public expenditure cuts and gain more from private investment than the HE sector nationally. This may or may not be true, but no evidence was offered.
- c. A large proportion of employment in Oxfordshire is ‘population-related’ (such as retail, leisure, education, personal services and health). The population increases in PROJ2 and PROJ3 are 107,000 and 110,000 respectively, compared with the increase of some 70,000 in the 2012-based series. The 20-year periods covered are slightly different (2011-31 and 2012-32 respectively), but this should make little difference. However the higher projected population increase in SHMA PROJ2 would feed through into increased employment in SHMA PROJ3. Without access to the LEFM it is unclear how significant this might be.
- d. In addition, the recovery in household formation rates in the 2012-based series (reflected in lower average household size) is an assumption rather than evidence based. Given that new household formation is concentrated in younger age-groups this may represent an optimistic view of how trends in income and indebtedness will affect household formation rates in the 25-34 age group.

The modest differences between SHMA PROJ3 and the DCLG 2012-based housing (about 100 pa at County level) are not significant (compare Row 3 in Table 1 with Row 1 in Table 2) and support my conclusion that SHMA PROJ2 and PROJ3 should be discounted.

As indicated earlier, and fully explained in my previous report, I do not consider the ‘planned growth’ element of the SHMA estimate (PROJ4) to be well-founded. In addition to severe criticisms of the methodology, the principle of the case is faulty. It is based almost entirely on the proposition that Oxford represents a nationally significant opportunity for expansion of high tech businesses, and much has been made of the success of Cambridge in attracting Astra-Zeneca HQ with 2,500 jobs<sup>7</sup>.

There are, however, good reasons for believing that neither Oxford nor Cambridge is a big enough place to support a nationally-significant scale of high tech industry, and that attempting to force them into such a role risks undermining their function as a seed-beds of innovation. Relevant points which should be considered include the following:

- a. While the constraint of city size is relaxed to the extent that labour supply can be drawn from a wider area, longer-distance commuting is more car-dependent, placing greater stress on road capacity and having greater impacts on both individual quality of life and the environment.

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<sup>6</sup> a total of 764,386 for the County SHMA Table 27, p94

<sup>7</sup> Though it should be noted that the Oxford and Cambridge HMAs have had almost identical rates of housebuilding over the past 10 years, at around 1800 dpa

- b. House prices are extremely insensitive to the rate of new building because new houses only form about 10% of the market<sup>8</sup>.
- c. More labour demand will lead to higher house prices throughout the wider labour market area, forcing firms to pay higher wages to attract middle range technical staff, thus limiting their potential growth.
- d. This boost to house prices will also affect the ability of Universities to employ the academic and support staff they need to maintain themselves as centres of research excellence – the reason why commercial firms are so keen to co-locate.

I think it is quite doubtful whether either the Cambridge ‘achievement’ or the Oxford potential is so significant at a national level as to justify over-riding all other considerations. At a national level it might make a great deal more sense to build up the institutional base for technology transfer between places like Oxford and Cambridge and larger centres of population (such as Birmingham, Manchester and Leeds) where the labour market, infrastructure and services exist. Passively falling in behind the market demands for Oxbridge locations risks being drawn into public spending on the infrastructure, services and housing they do not have, while at the same time risking what makes them special.

On all these grounds the ‘planned growth’ scenario is not compatible with an estimate based on ‘local needs’. Further, the allowance in Table 1 for additional housing over and above demographic needs fails on grounds both of logic and practicality. Bringing these points together, a generous estimate of a ‘local needs’-based housing requirement is provided by the DCLG 2012-based projection (Table 2, Row 1). It can be seen that while the annual housing requirement is somewhat higher than the DCLG 2011-based projection (Row 2), it is very much lower than the SHMA estimate in every District, and less than half at County level (Row 3).

**Table 2: A local needs based housing requirement**

Projection	Housing requirement pa <sup>1</sup>					
	Oxon County	Cherwell	Oxford City	South Oxon	VWH	West Oxon
1. A ‘local needs’ based housing requirement <sup>1</sup>	2,237	565	400	422	401	449
2. Difference from DCLG 2011-based need pa 2011-31 <sup>2</sup>	337	-151	544	46	1	-106
3. Difference from SHMA	-2,766	-575	-1,000	-353	-627	-211
1. DCLG 2012-based household projections increased to allow for vacancy and second homes (Cherwell 4%, Oxford 4%, S Oxon 4.5%, VWH 3.2%, W Oxon 5.2%, Oxfordshire 4.2% (SHMA Table 26, p93)) and expressed as an annual rate. 2. Table 2 Row 1 minus Table1 Row 1 3. Table 2 Row 1 minus Table 1 Row 5						

The allocation of total need to Districts does not at this point make any redistribution to take account of land availability.

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<sup>8</sup> HM Treasury(2004) *Delivering stability: securing our future housing needs*’ (the Barker Report) estimated that an additional 70,000 dpa for England, while reducing the long-term trend of price rises, would only ‘price into the market’ an additional 5,000 households pa, and then only after 10 years at this rate (Table 1.1).