

**Unsound & unsustainable – why the SHMA will increase greenfield use but not meet housing needs**

**A critique of GL Hearn's April 2014 Oxfordshire Strategic Housing Market Assessment (SHMA)**

**Final Report**

**To CPRE Oxfordshire**

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*Urban & Regional Policy*

48 St Agnes Road  
Birmingham  
B13 9PN

Tel 07977 859411  
e-mail [alanwenbansmith@pobox.com](mailto:alanwenbansmith@pobox.com)

# Unsound and unsustainable – why the SHMA will increase greenfield use but not meet housing needs

## Critique of Oxfordshire Strategic Housing Market Assessment

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# Unsound and unsustainable

## Why the SHMA will increase greenfield use but not meet housing needs Critique of Oxfordshire SHMA: Report to CPRE Oxfordshire

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### Executive Summary

I have examined the Oxfordshire Strategic Housing Market Assessment (SHMA) prepared by GL Hearn Associates, related reports and relevant Government policy and guidance. My analysis, evidence and findings are contained in the following pages. Key conclusions I would particularly draw to readers' attention are summarised below, with links to the more detailed content of this report.

#### **Methodology (Chapter 2)**

1. National policy allows for adjustment of official household projections for local data and market signals, but the SHMA is effectively a wholesale replacement. Housing needs are increased in five steps from 1,900 pa over 10 years to 5,003 pa over 20 years (2.7).
2. Each step is subject to serious criticism
  - a. *The 'Oxford adjustment'* accounts for about 20% of the increase. Trends in migration are derived from past differences between population change and natural change and build in the error ranges and assumptions of both. Allocation to local and international components is almost entirely arbitrary; (2.13 - 2.16)
  - b. *Adjustments for household formation and past delivery shortfall* amount to a further 16% of the difference. Both depend on an economic recovery that makes up lost ground without continuing the past decade's increasing inequality of income. (2.20 - 2.21)
  - c. The *economic baseline projection* is based on very optimistic views about global and national growth, and does not allow for the large part of the Oxfordshire economy that depends upon public sector expenditure; (2.25 - 2.27)
  - d. The *adjustment for planned jobs growth* accounts for 44% of the overall change. It relies on cases made by promoters for a catalogue of development projects, pays no attention to underlying economic dynamics, and lacks all credibility; (2.29 - 2.30)
  - e. The *'affordability' adjustment* (20%) is the largest overall number, and thus dictates provision of land. However, it is not valid (or feasible) to attempt to build additional houses over and above *overall* demographic or economic needs simply to secure provision of affordable housing. If such additional housing could be sold, it would be because it was meeting such needs itself. The treatment of the affordable housing figure of 5,003 pa as the overall target for housing provision in the SHMA, and so the benchmark for local planning, is therefore invalid. (2.36 - 2.40)
3. In my opinion, for the reasons set out above, the adjustments are not compliant with NPPF policy, which requires such adjustments to be 'reasonable'. (2.2)

#### **Strategic implications (Chapter 3)**

4. The level of completions implied at national level is completely outside the range of post WW2 experience. This casts considerable doubts on the reliability of the economic modelling and/or the relationship between the model and projected household formation (3.13);
5. Few new households can afford to buy or rent new houses at market prices. New build may help to free-up existing homes, but the impact on the quality and price of existing 'entry level' housing depends greatly on the planning context (3.163.19);
6. National research suggests that even if outputs of new housing more than double recent levels were achieved, housing would still become less affordable, not more. 'Help to Buy' does not address the cause and runs the risk of inflating another housing bubble (3.19, 3.21);
7. Because of the way the housing industry acquires land it has become dependent on rising house prices, and cannot viably build for sale except on the basis that price rises continue (3.31, 3.32);
8. Major new housing areas such as New Towns and urban expansions may have a place in spatial strategy but are not a panacea for increasing housing output – costs are high and lead times long (3.33, 3.34);

***Risk analysis and implications for sustainable development (Chapter 4)***

9. The SHMA contains no analysis of the risks associated with its proposed housing need targets and the risk analysis in the CE/SQW report on economic forecasting is trivial (4.16);
10. The strategic risks of acceptance of the SHMA are very high: allocation of housing land in Local Plans is essentially irrevocable and immediate, and acceptance would therefore pre-empt the local planning process (4.25);
11. NPPF requires that development planning promotes sustainable development, and specifies that this entails the pursuit of economic, social and environmental gains ‘jointly and simultaneously’. By pre-empting such joint consideration the SHMA contravenes NPPF, and makes trade-offs between economic, social and environmental aims that should receive democratic consideration in the local planning process (4.26);
12. The risk of serious harm from over-allocation is very great. Builders’ preference for greenfield land would lead to a more dispersed pattern of development and diversion of interest and investment in towns. This would be damaging to Oxfordshire as an attractive business location and as a place to live. It would particularly degrade the housing choices available to new households at market entry levels (4.29, 4.30);
13. An approach built on the NPPF references to maintaining a 5-year supply could provide a more robust strategic framework if operated within a ‘plan, monitor and manage’ approach (4.33).

## 1 Introduction

### ***This commission***

- 1.1 G L Hearn (GLH) was commissioned by a consortium of the local authorities in Oxfordshire to carry out a Strategic Housing Market Assessment (SHMA) for the county. I have been commissioned by CPRE Oxfordshire to critically examine the basis of the SHMA, because of the major implications for housing land across all districts. The SHMA (dated 14 April 2014) is already being used by a number of District Councils to update Local Plans that are in the course of preparation, so this critique has been required as a matter of urgency.

### ***Materials considered***

- 1.2 The scope of this critique has been constrained to some extent by the timescale noted above. However, in addition to the SHMA itself (full and summary versions), I have taken into account the following closely related documents and reports:
- Cambridge Econometrics and SQW (Feb 2014), *'Economic forecasting to inform the Oxfordshire Strategic Economic Plan and SHMA'*, report to Vale of White Horse District Council and partners;
  - SQW (Oct 2013), *'Oxfordshire Innovation Engine'*, report to University of Oxford and Science Oxford, supported by Oxfordshire local Economic Partnership (LEP);
  - Oxfordshire LEP (March 2014) *'Oxfordshire Strategic Economic Plan'* submission.
- 1.3 The most significant of the many relevant Government publications considered are:
- Department for Communities & Local Government (DCLG, 2012), *'The National Planning Policy Framework'* (NPPF), and related Planning Policy Guidance<sup>1</sup> on assessment of housing needs;
  - Office for National Statistics (ONS, Sept 2012), *'Methodology: interim 2011-based subnational population projections for England'*;
  - DCLG (April 2013), *'Interim 2011-based household projections for England'*, and related notes and definitions.

### ***National policy context***

- 1.4 The role of SHMAs in the local planning process is set out in the NPPF and related Planning Policy Guidance. The relevant NPPF policies are:
- Local Plans are required to make provision for *'full, objectively assessed needs for market and affordable housing in the housing market area'* (as far as is consistent with NPPF as a whole, particularly respecting the overarching importance of the principles of sustainable development – see 1.7 below);
  - Identify and annually update a supply of *'specific deliverable sites'* sufficient for 5-years' worth of housing at the required annual rate, and a supply of *'specific, deliverable locations'* for years 6-10 and (where possible) years 11-15;
  - Set out an *'implementation strategy for the delivery of land for the full range of housing'*, and *'a housing trajectory for the plan period'* illustrating the expected rate of delivery.
- 1.5 The Planning Policy Guidance sets out a methodology for SHMAs comprising, in essence, the following steps:

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<sup>1</sup> DCLG (2014) [www.planningguidance.planningportal.gov.uk](http://www.planningguidance.planningportal.gov.uk) 'Methodology: assessing housing need' (revised 6 March 2014)

- a) The starting point is specified as the official household projections produced by the Department of Communities & Local Government (DCLG). Sensitivity testing against alternative assumptions about underlying demographics may be considered, but any local changes would need to be clearly explained and justified;
  - b) Employment trends for the housing market area should be assessed, and implications for cross-boundary migration and commuting considered under the duty to cooperate;
  - c) Housing needs suggested by the household projections may be adjusted to reflect a range of 'market signals', including land prices, house prices, rents, affordability, past over- or under-delivery against plans, and overcrowding.
- 1.6 Adjustments for market signals indicating worsening affordability trends will require upward revision relative to the official projection (and the larger the problem, the larger the adjustment). However, plan makers should *'set this adjustment at a level that is reasonable'*. Plan makers *'should not attempt to estimate the precise impact of an increase in housing supply'*, but rather should *'increase planned supply by an amount that, on reasonable assumptions and consistent with the principles of sustainable development could be expected to improve affordability, and monitor the response of the market over the plan period'*.
- 1.7 NPPF headlines the five 'guiding principles' of sustainable development from The UK Sustainable Development Strategy as: living within the planet's environmental limits; ensuring a strong, healthy and just society; achieving a sustainable economy; promoting good governance; and using sound science responsibly. The NPPF makes clear that the SHMA (and consequent housing provision in Local Plans) must be read in this context. It stresses (para. 8) that because of the mutual dependence of the economic, social and environmental roles of planning, *'to achieve sustainable development, economic, social and environmental gains should be sought jointly and simultaneously through the planning system'* which *'should play an active role in guiding development to sustainable solutions'*.

### **Structure of this report**

- 1.8 Chapter 2 examines in detail the evidence for each of the major adjustments the SHMA proposes to the official household projections:
- a) The revised demographic baseline for 2011 and its effect on the 2021 and 2031 projections;
  - b) The adjustment for shortfall against SE Plan delivery targets 2006-2011;
  - c) The adjustment for planned economic growth;
  - d) The adjustment for affordable housing.
- 1.9 Chapter 3 considers the implications of the SHMA on the following strategic questions:
- a) The implications of the scale of projected housing needs in Oxfordshire as a whole and the wider South East;
  - b) The deliverability of the projections of housing need in terms of the characteristics of the building and call on public resources;
  - c) Whether adoption of the SHMA projections help or hinder new households and those in housing need to secure decent housing;
  - d) The implications of the scale and deliverability issues for achieving sustainable development through the local planning process.
- 1.10 Chapter 4 considers the risks involved in accepting the SHMA projections, and summarises the analytical conclusions of the report as a whole.

## 2 Critical examination of SHMA methodology

### Summary

- 2.1 National policy allows for adjustment of official household projections for local data and market signals, while the SHMA proposes a wholesale replacement. The effect is to increase the need for housing from 1,900 to 5,003 pa over the 20 years 2011-31. The critique in this chapter of the ‘adjustment’ process draws attention to several serious methodological problems and deficiencies:
- a) **The ‘Oxford adjustment’** accounts for about 20% of the increase in needs. It abandons official migration statistics in favour of a higher local estimate. Most of the increase is arbitrarily allocated to net international in-migration, thus increasing the population of Oxfordshire as a whole. Net migration is not a robust statistic (however estimated) and projection forward to 2031 multiplies the uncertainties. The allocation of the net migration figure between local and international components is almost entirely arbitrary. Since it is such a large component of the adjustment to the official projections it casts doubt on all subsequent figures that rely upon it, not just for Oxford, but for the whole Oxfordshire market area;
  - b) The **adjustments for household formation and past delivery shortfall** amount to a further 16% of the difference. Both depend on an economic recovery that makes up lost ground without increasing inequalities. They also discount effects of economic pressures on household formation, which would not be considered an acceptable approach in any other field of policy analysis;
  - c) The **economic baseline projection** has a similar housing requirement to the demographic adjustment, and is treated as confirming them. It is based on very optimistic views about global and national growth, and does not allow for the large part of the Oxfordshire economy that depends upon public sector expenditure;
  - d) The **adjustment for planned jobs growth** accounts for 44% of the overall change. It relies on on cases made by promoters for a catalogue of development projects, pays no attention to underlying economic change, and lacks all credibility;
  - e) The **‘affordability’ adjustment** (20%) is not a valid addition to overall housing needs at the very high levels proposed. Pressure to deliver additional housing land through the planning process is not the answer to the real social problems that the affordability problem represents.

### Introduction

- 2.2 National policy requires the SHMA to be carried out within the framework set by NPPF and related Practice Guidance. In this Chapter we consider the technical underpinning of the projections, particularly whether the adjustments proposed to official household projections are *‘reasonable...consistent with the principles of sustainable development and could be expected to improve affordability’*, as required by the Practice Guidance.
- 2.3 The household projections by DCLG that provide the baseline for adjustments are in turn based on population projections for local authorities by the Office for National Statistics (ONS). When considering adjustments we need to be aware of what assumptions and trends are already incorporated, so these are summarised below.

#### Current DCLG projections

- 2.4 ONS and DCLG projections are ‘policy neutral’; they take past trends and project them forward on the assumption that the same policies and processes are in place in both the past ‘reference’ period and the future ‘projection’ period. The DCLG projection therefore takes account of the reduction in new household formation following the global economic events of 2007/8 (as shown by the 2011 Census), mitigated by the 20 year reference

period it uses. The net effect is that the household projection reflects the population projection more than the past pattern of decreasing average household sizes.

### **ONS subnational (local) population projections (SNPPs)**

- 2.5 SNPPs are produced every 2 years, based on mid-year estimates of population by local authority, and going forward incorporate trends in fertility, mortality and migration over the previous 5 years. These local estimates are added up and adjusted pro rata ('controlled') to the estimated totals at national level. Crucial points for the present purpose are:
- a) The major 'surprise' of the 2011 Census was that population was significantly higher than expected, but the number of households was significantly lower. This was also true at subnational levels;
  - b) The migration trends used in SNPPs are based on international travel statistics, Higher Education student statistics and NHS registrations over the reference period (2006-2011);
  - c) The national population projected for 2021 is some 1.24m higher than the 2008-based series because of the 2011 Census results;
  - d) The smaller the area, the more significant local migration becomes as a proportion of population change. NHS and Higher Education statistics are used to study local migration, but it is recognised as the most difficult component of change to estimate;
  - e) Provision of housing is a particularly important driver of local migration, meaning there is a danger of circularity; a projection of households based on past population trends will tend to embody past housing provision.

### **DCLG local household projections**

- 2.6 DCLG's current subnational household projection takes the corresponding population projection (2011-based SNPP) as its base and applies local 'headship rates' to each 10-year age cohort. Trends in headship rates for each age, sex and marital status group are projected forward from 1991, 2001 and 2011 Censuses and Labour Force Survey data, and applied to the SNPP projected local population. Key points are:
- a) The headship rates in the household projections rely on much longer-term trends than the corresponding population projection (20 years compared with 5 years);
  - b) The 2011 Census marked a significant turning point in household formation; the long-term decline in average household size appeared to have ended (at least temporarily). The projection predicts only a slight further decline, from 2.36 in 2011 to 2.33 in 2021, compared with 2.23 in the 2008-based series.

### **SHMA adjustments to DCLG projections**

- 2.7 **Where national policy speaks of using the official household projections as a base, considering 'sensitivity testing' for alternative assumptions, and 'adjustment' for market signals, the SHMA proposes a wholesale replacement.**
- 2.8 **Figure 1 below identifies a series of major 'adjustments', leading to a 'midpoint' projection of annual housing needs 2.7 times the DCLG projection that is supposed to be the base.**
- 2.9 The four main adjustments proposed by SHMA are:
1. Revision of the demographic baseline for 2011, and the effect of carrying this through to 2021 and 2031 (there are two distinct components: a change to net migration from Oxford, and an adjustment for suppression of headship rates in 2011);
  2. Adjustment for a shortfall in housing in 2006-11 against the SE Plan delivery targets;
  3. Adjustment for housing to support planned economic growth above trends;
  4. Adjustment to secure the supply of affordable housing.



Figure 1: GLH adjustments to DCLG projections of housing need

Steps in the adjustment	Housing needs pa <sup>1</sup>
<b>Starting point: DCLG household projections (2011-21)</b>	<b>1,900</b>
1. Adjustment for reduced net migration from Oxford (GLH Tables 20, 21), and for suppression of headship rates in 2011 (GLH 5.64, Table 30)	+987
2. Adjustment for shortfall 2006-2011 against SE Plan targets (GLH Table 86)	+177
3. Adjustment for planned economic growth (GLH Table 88)	+1,216
4. Adjustment for affordable housing ('midpoint' – GLH Table 90)	+723 <sup>2</sup>
<b>End point: overall housing needs projection (2011-31)</b>	<b>5,003</b>
<b>Notes:</b>	
1. The Housing Need figures add 4.2% to household projections to allow for vacancy and second homes (SHMA Table 26).	
2. This is derived from the figure of 5,003 in the final row, which itself is the midpoint of a range of affordable housing needs from 4,678-5,328 pa, commented on later in this chapter.	

### Adjustments to the demographic baseline

- 2.10 Almost 30% of the increase from 1,900 homes pa (DCLG) to 5,003 pa (GLH) is accounted for by adjustments to the demographic baseline and making up past shortfall against the SE Plan. These adjustments comprise the following distinct elements:
- Adjustment of net future migration into Oxford City to correct the apparent anomaly of a decline in households in the DCLG 2011-21 projection, extended for a further 10 years to 2031, and across Oxfordshire (+600pa);
  - Correction for suppression of household formation between the 2007 credit crunch and the 2011 Census (+387pa);
  - Provision to make up for the shortfall in past delivery compared with 2006-2011 South East Plan targets (+177pa).

The effect of these three adjustments is a projected need of 3,064 pa for 20 years, compared with 1,900 pa for 10 years based on DCLG's projection, amounting to 61,280 additional homes between 2011 and 2031 (SHMA Table 86).

### Oxford City migration and revised household projection

- 2.11 The population of Oxford City increased by 14,736 net between the 2001 and 2011 Censuses, while (as nationally) household changes in Oxford were much lower. The SHMA suggests that the low 2011 number of households is anomalous, and that the DCLG trend household projection of a decline in households in the City 2011-21 must be mistaken.
- 2.12 SHMA proposes (paras. 5.13-21) a very significant change to the 'baseline' demographic projection. The argument is very convoluted, depending essentially on replacing the *future migration trends* used by DCLG/ONS (based on the national statistical series listed at 2.5b) with a local estimate. Although based on a discussion of migration in and out of Oxford City it adds significantly to the projections of housing need for Oxfordshire as a whole. The steps in the argument are:
- ONS figures for migration flows in and out of Oxford over the period 2001-2021 (SHMA Figure 43 and 44) show a discontinuity between the past estimates and future projections – a past net *inflow* of 300 pa turning into a future net *outflow* of 1000 pa:
    - 2001-11 net inflow of 300pa (about +1900 international; -1600 within UK);
    - 2011-21 net outflow about 1000 pa (about +1000 international; -2000 within UK).
  - An alternative projection is proposed which is based upon net migration 2001-11 calculated as the difference between overall population change between the Censuses

(+14,736) and estimated births and deaths (+8,469 – Table 19). The difference of 6,267 (+630 people pa) is attributed to net migration and carried forward (SHMA 5.21):

- International net migration going forward is adjusted from the ONS estimate of about +1,000 to +2,200 pa, a gain of 1,200 pa compared with ONS;
- Migration loss within the UK is adjusted from -2,000 pa to -1,600 pa, a gain of 400 pa compared with ONS;
- The overall difference between SHMA and ONS is thus some 1,600 people (650 households) pa, or an additional 32,000 (about 13,000 households) 2011-31;
- Because the argument depends so heavily on international migration, the whole of the difference is assigned to Oxford, but boosts the County total by a similar amount.

### Critique of the Oxford adjustment

- 2.13 In introducing the topic the SHMA (5.10) refers to the Oxford household projection as ‘not realistic’ given the level of demand shown by rising prices and rents. Since these factors would tend to depress household formation, the realism of the projections might be thought validated rather than undermined. In reality, the population of Oxford increased more in the decade 2001-11 than in any preceding decade since records began, and at around 5 times the rate from 1971-2001.<sup>2</sup> Interpreting this as evidence of housing shortage highlights the highly theoretical nature of the GLH interpretation of an ‘*objective assessment of need*’. Detachment from most real-world considerations appears the hallmark. This is the first of many such examples.
- 2.14 It is important to recognise that *net* figures for population, migration and natural change are the differences between much larger *gross* flows. For example, the net internal migration of -1,600 pa 2001-2011 is the difference between two numbers about ten times their size; an inflow of about 15,000 pa and an outflow around 16,500 pa. These are independently arrived at estimates (mainly NHS registrations), each subject to error. Only small differences in either (5-10%) would be sufficient to wipe out the difference, and variations and errors of this size are well within the normal range for these data.
- 2.15 The lack of robustness necessarily attaching to net change in the past (and still more to projected net changes into the future), needs to be borne in mind since the SHMA relies heavily on such techniques, and this is particularly the case for Oxford. The alternative projection derives past net migration from the difference between natural change (net excess of births over deaths) and overall change (net difference between Census counts). Each of these factors is the net effect of much larger flows. For example:
- a) Oxford has an exceptionally high level of population turnover – around 25% pa,<sup>3</sup> implying a high level of volatility in population-related statistics. While the totals may be precise, very slight changes in the make-up of in-flows and out-flows would have a major effects on resident population characteristics (including housing needs);
  - b) The balance between components of natural change affects housing needs; a net increase due to fewer deaths will have a different effect from the same increase due to higher births.
- 2.16 The SHMA attributes the whole of the difference between its net migration estimate (+600 pa) and the ONS equivalent (+300 pa) to additional international migration (which would go up from +1,900 pa to 2,200 pa). No rationale is given for this allocation, other than casting doubt on ONS data by reference to a balancing category for ‘Unattributable Population Change’ (5.19-20). The allocation of this new net migration figure to local and international components is thus almost entirely arbitrary. Since it is such a large

<sup>2</sup> Oxford City Council (Feb 2004) ‘*Oxford’s population is growing at its fastest ever*’

<sup>3</sup> [http://www.oxford.gov.uk/PageRender/decC/Population\\_statistics\\_occw.htm](http://www.oxford.gov.uk/PageRender/decC/Population_statistics_occw.htm)

component of the adjustment to the official projections it casts doubt on all subsequent figures that rely upon it, not just for Oxford, but for the whole Oxfordshire market area.

- 2.17 The DCLG household projection excludes institutional population (such as those in student accommodation – about 18,000). This is obviously significant in Oxford (with 45,000 students, around 32,000 full-time), and for 10 years academic expansion has been conditional on commensurate student provision. Students account for about half the population increase 2001-11, but for this reason only exceptionally add to housing needs.

#### **Suppression of household formation and making up past shortfall**

- 2.18 GLH have adjusted the projected average household size for Oxfordshire from the CLG trend (declining from 2.52 in 2011 to 2.47 in 2031) to a 2008-based (pre-crunch) trend to 2.41 in 2031 (SHMA Figure 51, Table 29, and para. 5.64). By itself, this adjustment would add about 380 pa to housing needs. Added to the +650 pa ‘Oxford adjustment’ already discussed this would give a total ‘demographic adjustment’ of 1,030pa (though the overall adjustment given in SHMA Table 30 is 987).
- 2.19 In addition it is assumed that a deficiency in delivery of some 3,500 homes in 2006-2011 will also be made good (SHMA Table 10). This contains the fairly heroic assumption that the economic impact of the global economic crisis will be fully corrected, and ‘business as usual’ will be resumed for the whole of the 2011-31 projection period. The effect of this adjustment is to add 177 pa to housing needs over the 20 years.

#### **Critique of assumptions on household formation and past shortfall**

- 2.20 As remarked above (para. 2.9) *‘full, objectively assessed needs’* is interpreted by GLH as discounting any reduction in household formation arising from economic pressures. However, it is likely that households that might have formed in more prosperous times will not be able to achieve their housing aspirations, and will continue to be suppressed or concealed. In the past the influence of such factors on household formation has been explicitly recognised, and is far from trivial. On Government figures given in relation to an earlier set of national household projections<sup>4</sup>, an increase in interest rates of 1% would reduce growth in household formation by 6% and lower growth by 0.25% would reduce it by 5%. These are factors to bear in mind when considering SHMA’s economic growth adjustments, dealt with below.
- 2.21 The suppression of household formation as a result of economic hardship is a real, serious and increasing social problem, but the provision of housing land is not an answer to this problem. Indeed, as discussed later (4.30), over-provision of housing land could actually make matters worse for poorer households. Action on widening income disparities, urban regeneration, and direct provision of social housing are more important than planning policies for housing land.

#### **Adjustments for economic growth**

- 2.22 Moving on from demographic adjustments, the SHMA next considers the implications of economic growth for housing. The underlying rationale is that if housing does not keep up with the demand for labour from the local economy, growth will be inhibited. London and the South East form an economic agglomeration, much of the strength of which derives from a high degree of inter-connectedness and labour mobility. Oxfordshire is a only a small part of the whole, and any conclusions regarding economic impacts of housing shortages would need to bear this in mind. It is equally likely that increases in housing provision would attract more people to live there from elsewhere in the Greater South East.
- 2.23 The SHMA considers two economic scenarios:

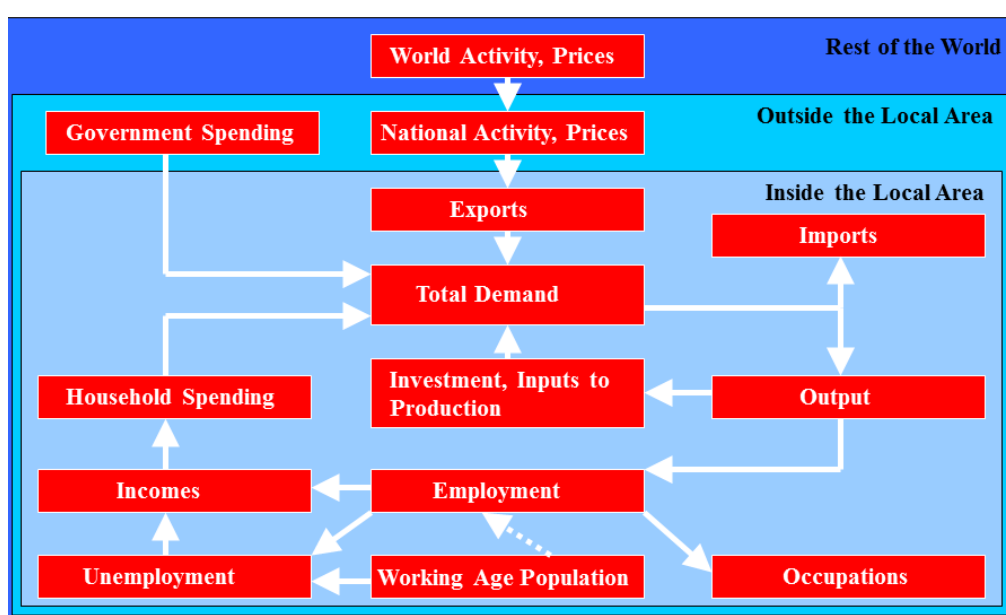
<sup>4</sup> : DETR (2000) Evidence to Commons Select Committee

- a) ‘Baseline growth’, based upon an economic model which incorporates observed economic relationships over the last 15 years. This gives similar housing needs to the adjusted demographic base already criticised (ie around 3,100 pa); and
- b) ‘Above trend’ adds to the baseline growth assumed to be the consequence of currently committed initiatives. This gives a much higher requirement i.e., 4,280 pa.

**Economic modelling**

2.24 The SHMA draws on the Cambridge Econometrics/SQW (CE/SQW) report for an examination of the relationship between population and housing growth and jobs growth. This uses CE’s Local Economic Forecasting Model (LEFM – described in CE/SQW, Appendix A), to produce a ‘Baseline’ forecast of jobs on the basis of trends embedded in inter-sector relationships over the preceding 15 years. The structure of the LEFM model is illustrated in Figure 2.

**Figure 2: Structure of LEFM**



2.25 As with the population and household projections, we must note that a major discontinuity took place towards the end of the 15 year reference period. There must be serious concerns about how well a model which is based upon continuation of relationships over this period can represent the future, particularly as the repercussions are still being played out. The assumptions built into the LEFM are:<sup>5</sup>

- a) In the medium term, global growth is expected to accelerate slowly from the historically low levels of 2012 and 2013, with strong growth in China, India and the oil-producing countries making a greater contribution to the global economy. GDP growth in Europe will accelerate very slowly, with the EU15 economies expected to a return to modest growth (¼%) in 2015;
- b) 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;
- c) Within the UK employment is expected to fall until 2016 as a consequence of public spending cuts;

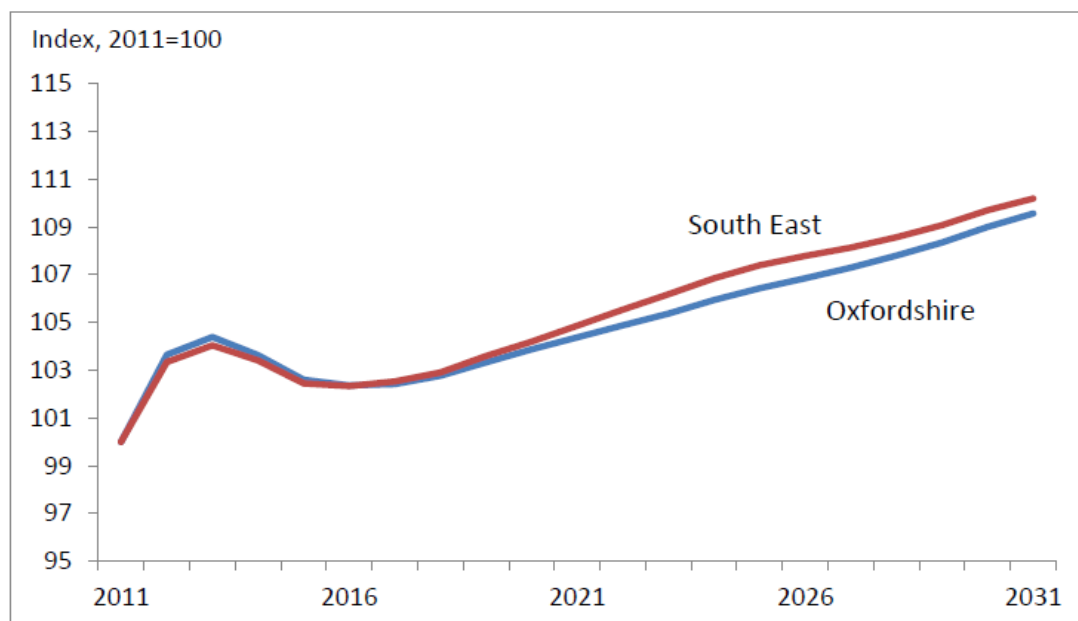
<sup>5</sup> information received from Cambridge Economics on 19 May 2014

- d) Productivity (output per head, and so indirectly, wages) are expected to grow in line with historic trends.

### Baseline growth

- 2.26 There are some further important points to note about the LEFM:
- 'Employment' is measured in terms of 'jobs', whether full-time or part-time and includes self-employment. It is not clear what the implications would be of recent trends towards more part-time jobs and more self-employment (and more of both involuntary);
  - The LEFM assumes no constraints on labour supply; it assumes that if additional labour is needed, housing and transport links would allow this;
  - Employment in Higher Education in Oxfordshire was increased by 11,000 from the model predictions. Most of this represents 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 is offered;
  - A large proportion of employment in Oxfordshire is 'population-related' (such as retail, leisure, education, personal services and health) so the adjustments made to the baseline population projections feed through into increased employment.
- 2.27 The results of the 'baseline' LEFM for Oxfordshire (Figure 3) have some surprising features:
- The fall in 2014-16 has been explained as being the result of continuing public spending cuts, but the sharp rise from 2011 to 2014 remains unexplained;
  - The continuing steady rise in local jobs from 2016 to 2031 reflects the optimistic view about world growth embedded in the model, and insulation from the relatively poor European prospects (2.25a), 2.25b)). In addition most of 20 year rise (46,798, +14% (SHMA Table 28)) takes place over the last 15 years.

**Figure 3: Baseline job projections 2011-31 (Oxfordshire and South East, 2011=100)**



### Planned growth

- 2.28 The CE/SQW report examines the prospects for growth above the economic baseline, arising from planned growth such as the Science Vale proposal and the Oxfordshire City Deal. It seeks to avoid double-counting with the growth already incorporated within the

baseline – which obviously includes the effect of policies applied during the 15 year reference period (1996-2011).

- 2.29 The ‘planned growth’ scenario (also described as ‘committed growth’ in the SHMA) is essentially a catalogue of development proposals in the pipeline. Gross job generation is estimated (essentially the capacity of the site or building at an assumed job density), part of which is then labelled as net growth (i.e., above baseline). There are a number of significant criticisms to be made of this procedure:
- a) The focus on individual projects confuses economic development with property development. As with housing, the turnover of existing firms within existing premises is hugely more significant in overall employment terms than the relatively small number of new buildings and new companies. The trends observed during the reference period would of course include both, and (subject to the observations in the preceding section) that baseline is inherently more robust;
  - b) A specific example is 2,200 additional jobs ascribed to various retail developments. Though CE/SQW accept that High Streets are in decline, no reference is made to the losses to internet trading, or to the fact that retail development does not of itself increase trade, merely redistributes it (usually with more efficient – i.e., less labour);
  - c) In addition to the general observation about the validity of a project focus, the process of arriving at a net figure for above trend job creation (CE/SQW, section 4.1) is far from transparent, and rests heavily on the involvement of developers, local authorities and consultants whose interests are served by a generous interpretation of the value of their activities;
  - d) An example is the Science Vale EZ: the figures of 8,400 gross, 5,400 net are taken from the bid for funding by the Oxfordshire LEP. This (and many other such claims) ignore the findings of research into previous rounds of EZs,<sup>6</sup> which show modest additionality, high cost per job, and a large proportion of the benefit going to landlords not occupiers;
  - e) Where job losses are known to be in the pipeline they are given little weight. For example at Culham ‘The Joint European Torus (JET) facility will be moving to France within the next few years, but employment growth on the site seems assured due to its strong and distinctive science base’ and a net growth of 500 jobs is assigned;
  - f) Even the NHS, which enjoyed significant growth in the reference period, is assigned an additional 2,500 above trend jobs, in spite of the current and prospective cuts to the sector (N.B. this does not include the additional 2,500 bioscience jobs);
  - g) The final Annual Report of the South East Development Agency (SEEDA)<sup>7</sup> identified 86 inward investment projects in 2010-11, while it was closing down and at a time of great economic uncertainty. Within Oxfordshire, SEEDA led the establishment of the International Space Innovation Centre, and over the years invested some £15m in space technologies. Jobs growth in these industries is therefore part of the reference period trend, and they should not be claimed as ‘above trend’ wins;
  - h) Finally, the period 1996-2011 cannot be thought of as a neutral ‘policy-off’ background in regional development terms. Only about a quarter of the resources applied by RDAs have been transferred to LEPs, and local authorities were also more active than they can now be. It seems highly unlikely that much better results will be achieved in future with such reduced resources.
- 2.30 The employment growth forecast on this basis is an increase of 87,049 jobs (+26% 2011-31 (SHMA Table 28)) – some 40,000 above the economic baseline projection, giving rise to a housing requirement of 85,593 between 2011 and 2031 (SHMA Table 30). Even

<sup>6</sup> ODPM (1995) ‘*Urban Research Summary No 4 1995: Final evaluation of Enterprise Zones*’ (archived)

<sup>7</sup> SEEDA (2011), ‘*Annual Report and Accounts, 2010-11*’, HC 1365, HMSO

more than the baseline projection, the forecast presented as ‘planned’ or ‘committed’ growth is highly aspirational, and does not provide a sound basis for housing provision.

### **Adjustments for provision of affordable housing**

#### **Process**

- 2.31 The housing need figures projected so far are for all sectors, and pay no attention to the question of affordability. While housing land policy has for several decades been predicated upon private sector housing for sale as the main provider, this has become less and less supportable as house prices have increased faster than incomes (as discussed in Chapter 2). Lord Best, an authoritative commentator on housing and social matters, has commented recently: “*Leaving housing provision to the market will deliver only half what is needed*”.<sup>8</sup>
- 2.32 Since the ending of large scale social housing in 1979, provision of new housing for those who cannot afford open market prices and rents has become the responsibility of Housing Associations, and other ‘registered providers’. Their contributions to new stock is relatively small (see Figure 2), and with the sale of much local authority stock since 1979 the private rented sector has recently overtaken social renting as the last resort.
- 2.33 Since the early- to mid-2000s central Government has increasingly attempted to use Planning Obligations to secure ‘affordable housing’ as a component of private housing developments of more than a few houses. For this purpose ‘affordable housing’ is defined as a rent less than 80% of open market for similar property. The process of assessment of needs for affordable housing specified in Planning Practice Guidance involves:
- a) The current and future distribution of local house prices and incomes;
  - b) Any backlog of unmet need (waiting lists, unsatisfactory housing, etc);
  - c) Existing households falling into need;
  - d) The flow of new households generated by demographic and economic change;
  - e) The proportion of new households that would not be able to afford market prices.
- 2.34 These need factors are compared with the flow of re-lets from existing social housing stocks, and the difference is the requirement for additional affordable housing. This may be supplied by Registered Providers such as Housing Associations, or by builders under a Planning Obligation.<sup>9</sup>
- 2.35 The procedure adopted in the SHMA mainly follows this guidance, but with a significant variation; the level at which housing is considered unaffordable by a particular household is set at 35% of household income, rather than the 25% in previous guidance (SHMA paras. 6.16-19). This is justified as ‘realistic’ given the relatively high incomes and housing costs in Oxfordshire – but it is unclear whether the realism is on behalf of developers or occupiers.<sup>10</sup> The difference would be substantial – an additional 1,000 pa affordable housing, more than doubling the allowance made in the SHMA.

#### **Comments on affordable housing results**

- 2.36 The net need for affordable housing in Oxfordshire (after allowing for re-lets) is 2,370 pa (3,346 pa at the 25% threshold – SHMA Table 57). Local authorities have not been

<sup>8</sup> Richard Best is President of the Local Government Association, chairs the Hannover Housing Association and the All-party Parliamentary Group on Housing and Care for Elderly people, and is a former Chief Executive of the Joseph Rowntree Foundation. He was speaking at a Lunar Society meeting in Birmingham on 15 April 2014.

<sup>9</sup> Between 80 and 100% is ‘intermediate’ housing typically targeted by shared equity schemes; this does not qualify as affordable housing for planning purposes.

<sup>10</sup> Possibly reflects nervousness by GLH at the sheer scale of need for non-market housing – as a potential call on developer clients.

significant builders for 30 or more years, and while Housing Associations have provided about 25% of completions over the last 5 years, their ability to expand their programmes is severely constrained by the shift of subsidy from capital grants to revenue. The SHMA does not attempt to resolve this problem, merely referring to the private rented sector as the balancing force.

- 2.37 The SHMA (9.39-47) estimates that total provision of 5,624 pa market housing would be needed to meet the total affordable housing requirement by way of Planning Obligations<sup>11</sup> (SHMA Table 89), compared with 4,280 to support 'committed growth'. While pointing to even higher levels of need this is regarded as likely to be an over-estimate, and the adopted target of 5,003 pa is the midpoint of a range between 4,678 and 5,624 pa. The derivation of this range is set out in SHMA 9.48-52 and Table 90, and is a complex mix of District by District estimates based on a range of premises about affordability, need and economic growth.
- 2.38 However, it is important to remember that affordable housing need is not an *additional category of need* to add to those previously considered. Rather it is an indication of the *proportion of these additional needs* that might have to be supplied by other means than building for sale on the open market. To the extent that market prices are unaffordable, other means of provision will be needed. The numbers delivered by way of Planning Obligations applied to market-priced housing depend on how much such housing is built, and what proportion of affordable housing they provide. At the 'planned growth' level of housing provision (4,280 pa), the application of existing policy percentages by District would deliver 1,702 affordable homes pa. The rest will depend on public providers.
- 2.39 It is clearly not valid (or feasible) to attempt to build additional houses over and above demographic or economic needs already set at the extremes of probability, simply to secure provision of affordable housing. If such additional housing could be sold, it would be because it was meeting such needs itself. In reality two factors combine to make this last adjustment academic:
- a) The increasing resistance of house-builders to providing affordable housing at the percentages suggested (2.37), even at the low overall levels of output currently achieved; and
  - b) House prices must continue to increase if builders are to increase their output at all, and this is likely to suppress both effective demand and new household formation.
- 2.40 The treatment of the affordable housing figure of 5,003 pa as the overall target for housing provision in the SHMA, and so the benchmark for local planning, is therefore invalid.

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<sup>11</sup> Assuming current affordable housing policies (50% in Oxford, 33% in Cherwell and 40% elsewhere).



### 3 SHMA content: strategic implications

#### Summary

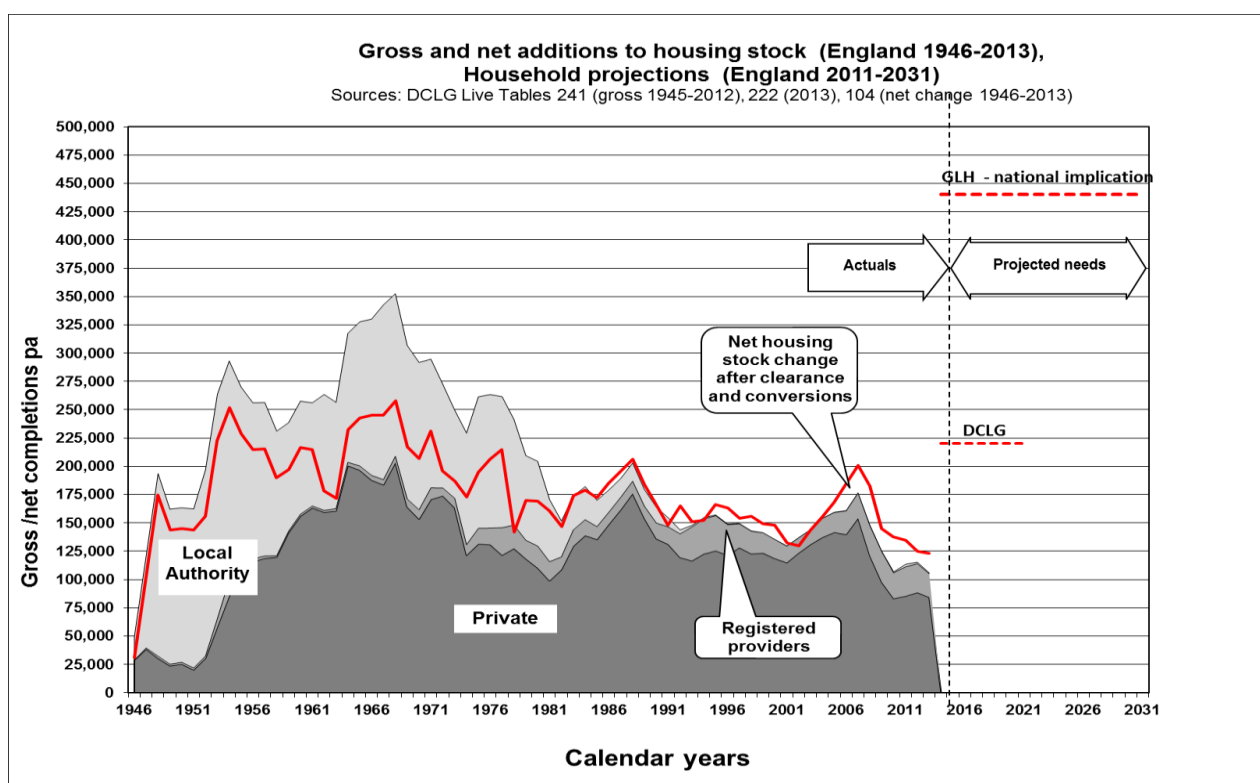
- 3.1 The level of completions implied at national level is completely outside the range of post WW2 experience. This casts considerable doubts on the reliability of the economic modelling and/or the relationship between the model and projected household formation.
- 3.2 New households are overwhelmingly formed by younger age groups, most of whom will not have the resources to buy or rent new houses in the market. New build may help by freeing up existing homes through 'churn', but the impact on the quality and price of existing 'entry level' housing of such 'trickle-down' depends greatly on the planning context.
- 3.3 At national level the research suggests that housing would still become less affordable, even if outputs of new housing more than double past levels were achieved, .
- 3.4 Because of the way the housing industry acquires land it has become dependent on rising house prices, and cannot viably build for sale except on the basis that price rises continue. In any case, volume builders have no reason to raise their output to levels which would adversely affect the prices they could get.
- 3.5 Expectations of rising house prices are built into the prices builders have paid for land, and they cannot afford to crystallise their losses by building and selling at lower prices, regardless of how much land is allocated through the local planning process.
- 3.6 To the extent that it is fuelled by increased private debt, 'Help to Buy' runs the risk of inflating another housing bubble. Such mortgages are (almost by definition) 'subprime', and if Government guarantees are called in, public as well as private indebtedness will rise. When mortgage rates eventually rise (as they must) 'Help to Buy' could easily lead to rising repossessions.
- 3.7 Major new housing areas such as New Towns and urban expansions may have a place in spatial strategy but are not a panacea for increasing housing output. On average, New Towns delivered about 5% of national output, and only occasionally exceeded 10%. Lead times are long and in major new development areas the costs of servicing and infrastructure are of the same order as the cost of building the houses.
- 3.8 Allocation of housing land in Local Plans is essentially irrevocable, and the risk of serious harm from over-allocation is very great. Builders' preference for greenfield land would lead to a more dispersed pattern of development and diversion of interest and investment in towns. This would be damaging to Oxfordshire as an attractive business location and as a place to live. It would particularly degrade the housing choices available to new households at market entry levels.
- 3.9 The financial, social and environmental costs of running a large housing land surplus might be an acceptable trade-off if it could be shown to be essential for growth. This has not been demonstrated.

#### ***Wider implications of the scale of the SHMA projections***

- 3.10 It could perhaps be argued that the very large adjustments proposed by the SHMA are the consequence of an exceptional level of housing needs in Oxfordshire. Though not stated in such terms, the subtext of much of the SHMA is that the unique attractions of Oxfordshire, arising from the catalytic properties of Oxford University and the array of advanced scientific establishments in the County, such as Harwell and Culham will increase the demand for labour and housing and justify the satisfaction of this demand in the national economic interest.

- 3.11 A critique of the projections was given in Chapter 2. The wider strategic issue to note here is that the employment projections for Oxfordshire are not exceptional: the growth projected for Oxfordshire is 0.8% pa, only slightly above the projections (on the same basis) for the UK and the South East (0.7% pa – CE-SQW Table 3.1). Therefore the Oxfordshire results must be seen in the context of applying the same conclusions at the national level.
- 3.12 The DCLG national household projection for 2011-2 gives a net increase of 220,000 pa, on the same basis as Oxfordshire’s 1,825 pa. Applying the adjustments from the Oxfordshire SHMA that are equally relevant at national level<sup>12</sup> would imply a multiplier of 2.0, or provision of 440,000 additional dwellings per annum. Figure 4 puts this figure into the context of past housing provision at national level, both gross output and net change taking account of clearance and conversions.

**Figure 4: Housing provision (England, 1947-2013, 000s pa) and projected needs 2011-21**



- 3.13 It can be seen that the level of completions implied at national level is completely outside the range of post WW2 experience. This casts considerable doubts on the reliability of the economic modelling and/or the relationship between the model and projected household formation. Note that this is before any special case for planned growth (in Oxfordshire or elsewhere) is taken into account. The methodological criticisms of the Oxfordshire SHMA have been dealt with in Chapter 2, but there are also strategic implications arising from deliverability, from the role of existing housing in meeting housing needs, and for securing sustainable development through the local planning process, as required by NPPF.

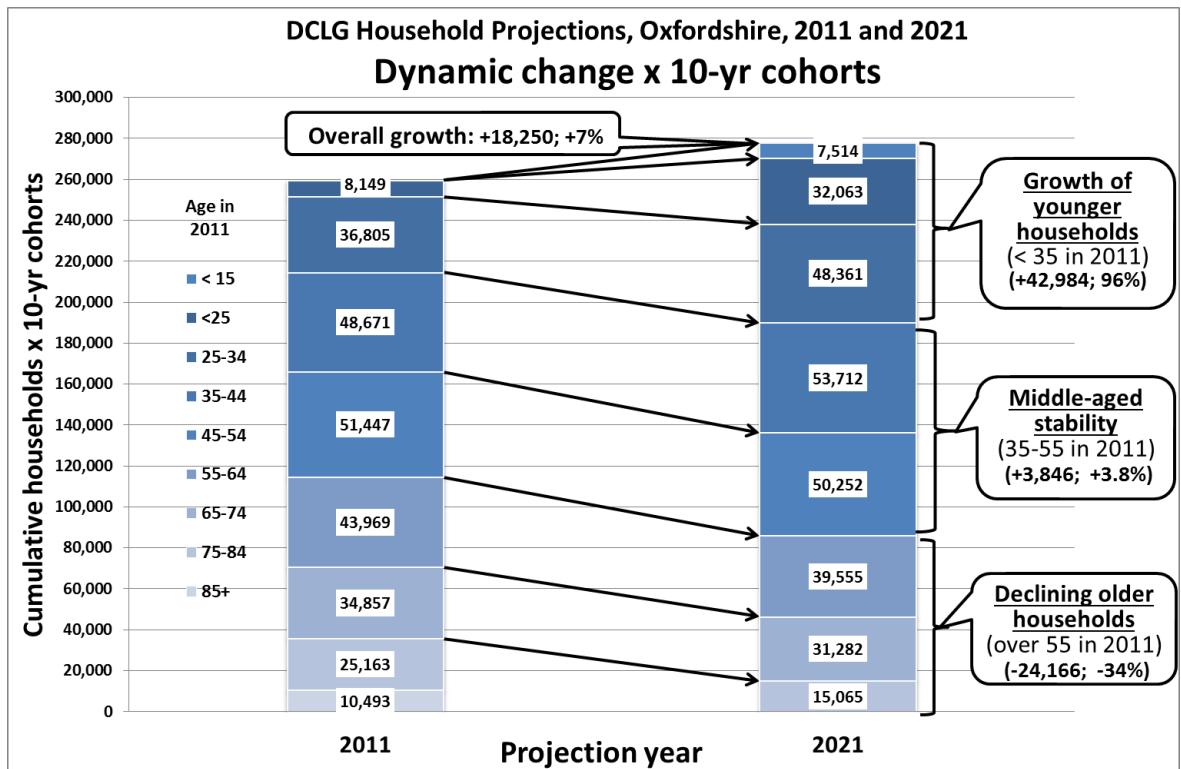
<sup>12</sup> The ‘affordable housing’ requirement is not a consequence of the projected additional ‘planned growth’, but the SHMA only provides an adjustment after that is allowed for. Given that the population and catch-up components (Notes 1 and 2) add up to 1,176 jobs, compared with 1,200 ‘planned growth’ it seems reasonable to allow for half the combined affordability adjustment ( $1344/2 = 672$ ) – an additional 1848 pa in all.

**SHMA projections and affordability**

**New houses and new households**

- 3.14 The crisis in affordability has become intense since 2007/8 as a result of the very rapid rise in house prices since the mid-1990s, combined with static or declining real incomes for most people since. But what is the evidence that increased output of new houses will help meet the needs of the newly-forming households projected by SHMA? This is crucial to the argument that previous environmental constraints on development of greenfield and Green Belt land must be abandoned to meet the social objective of affordable housing for all.
- 3.15 New households in Oxfordshire will come mainly from younger age groups, The DCLG projections for 2011-21 (Figure 5) show an overall growth in households of 18,250. Nearly 43,000 new households are expected to be formed by those under 35 in 2011 (<45 in 2021), an increase of nearly 100%. By contrast households over 55 in 2011 (>65 in 2021) decline by some 24,000. It should be noted here that the higher projections proposed in the SHMA will be even more heavily weighted towards younger age groups.

**Figure 5 Household projections for Oxfordshire (DCLG, 2011-21)**

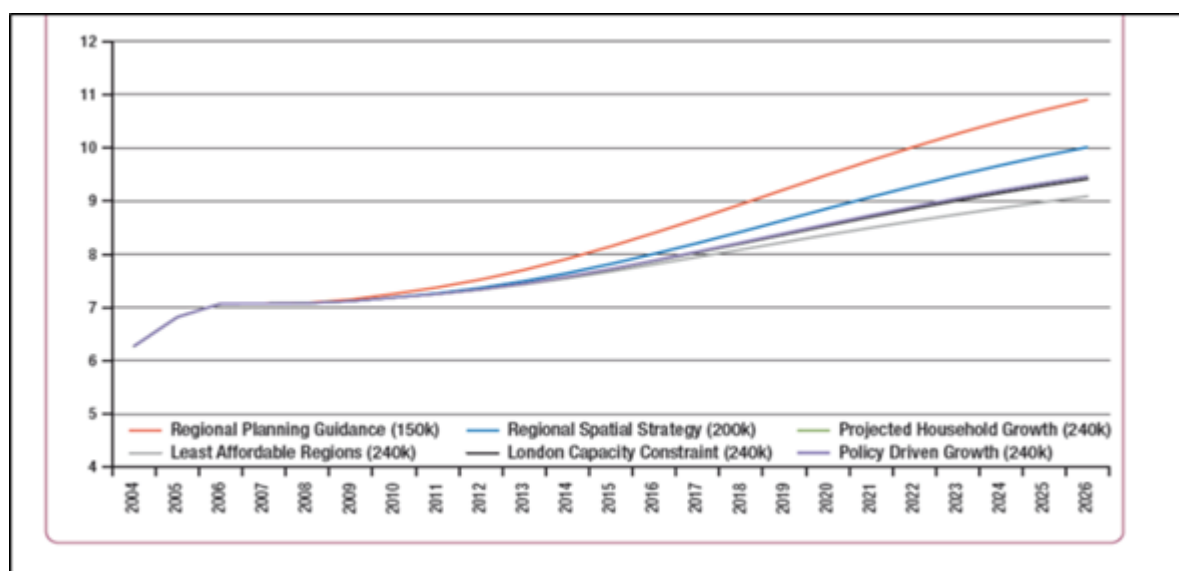


- 3.16 The details of the SHMA household projections were considered in Chapter 2; we are concerned here with the relationship between the projected new households and new houses that are built. 90% of the housing demand arising each year is met by churn within the existing housing stock. Very few of these young households will have the resources to buy or rent new houses in the market. New build may help new households by stimulating movement in other parts of the housing market, freeing up existing homes through churn. The impact on the quality and price of existing ‘entry level’ housing of such ‘trickle-down’ depends greatly on the planning, services and infrastructure context in both existing settlements and new areas of development, and is an important test of policies to stimulate new build (as discussed in the next section).

### New housing output and affordability

- 3.17 The 2004 Barker Report proposed a major increase in new housing in order to improve affordability. However, it estimated that a 50% increase in building for sale (+70,000 for England at that time) would only 'price into the market' an additional 5,000 households pa – and then only after 10 years at that rate.<sup>13</sup>
- 3.18 The National Housing & Planning Advisory Unit (NHPAU) set up under Labour reported on the relationship of house prices to levels of new house building at national level.<sup>14</sup> Figure 6, taken from that report, shows that (even if delivered) the volume of new building has only a very weak influence on housing 'affordability'. It is striking that none of the levels of house-building discussed (150-240,000 pa for England, across all tenures) were expected to bring affordability levels down from the 2007 starting level, already considered unacceptably high. DCLG nevertheless used this as evidence to promote more greenfield land releases in Regional Spatial Strategies (RSSs).

**Figure 6: Effects of new housing on affordability (ratio of lower quartile prices to lower quartile earnings, England, 2007-2026)**



- 3.19 This graph was intended to encourage local authorities to release much more land, permitting higher levels of output, and thus allow more households to buy their own homes. What it in fact shows is something quite different; that *housing would still become less affordable, even if outputs of new housing more than double past levels were achieved*. Indeed, it is difficult to see why the volume builders would raise their output to levels which would adversely affect the prices they could get. In the next section of this chapter we discuss why they could not do so, even if they wanted to.

### Fiscal measures to improve affordability

- 3.20 Incentives to house buyers have been a large component of current Government policy. Initially in the form of support to mortgages for new housing (thus benefiting builders), over the last year the scope has extended to all housing transactions up to £600,000. The Government's 'Help to buy' guarantee on the difference between loan and value reduces the deposit buyers need to find – and the total amount of lending with low deposits that could be supported in this way is some £130bn.

<sup>13</sup> ODPM (2004) 'Barker Review, Final Report', para 1.37, Table 1.1

<sup>14</sup> NHPAU (2007), 'Developing a target range for the supply of new homes across England'

- 3.21 While there may be an initial boost to house-building, the figures so far are modest, and recent history suggests that such a boom may be short-lived. To the extent that it is fuelled by increased private debt ‘Help to Buy’ is a hostage to fortune; there is an obvious danger of inflating another housing bubble. Such mortgages are (almost by definition) ‘subprime’, and if Government guarantees are called in, public as well as private indebtedness will rise. When mortgage rates eventually rise (as they must) ‘Help to Buy’ could easily lead to rising repossessions.
- 3.22 The Government has sought to persuade communities to withdraw their objections to new housing development by promoting direct ‘planning gain’ payments towards local projects by builders. Local authorities also now benefit from payments related to housing output in their area in the preceding year; since 2011 some £2bn has been paid to local authorities through the ‘New homes bonus’.
- 3.23 New Homes Bonus is essentially a re-badging of part of declining central support. The Community Infrastructure Levy, Planning Obligations and other ‘community’ payments are small in relation to the actual costs of additional service and infrastructure requirements (see below (3.35)). They are also under increasing pressure for downward renegotiation on grounds of viability.

### **Deliverability of SHMA projections**

#### **Past approaches**

- 3.24 The aim of increasing output of new homes has been a constant theme of Government policy since at least 1945, with added emphasis in the post-WW2 reconstruction period, during the Thatcher administration, and following the 2004 Barker Report. It can be seen from Figure 5 that from the 1970s to 2007 private sector provision has mainly remained in the range 120-150,000 with only brief peaks above this level. The significantly higher overall output between 1950 and 1970 was the result of large scale local authority programmes, which is not amongst the policies currently under consideration.
- 3.25 A wide range of approaches to delivery of housing through the planning system have been tried. Most relevant in the current context are:
- a) Actively using the planning system to make more land available (including setting targets for development planning and promoting new large-scale areas of housing);
  - b) Passively providing more land by general removal of planning constraints;
  - c) Stimulating the market (incentives to house buyers, local authorities and builders);
  - d) Promoting new building and urban regeneration within major urban areas.
- 3.26 Current policies give most emphasis to (a), (b) and (c), while the previous administration favoured (a) and (d). Both sets of policies have in common the underlying assumptions that:
- a) the supply of land through the planning system is the main constraint on the output of new housing; and
  - b) that building more new houses for sale will in itself make housing more affordable through market processes of supply and demand.

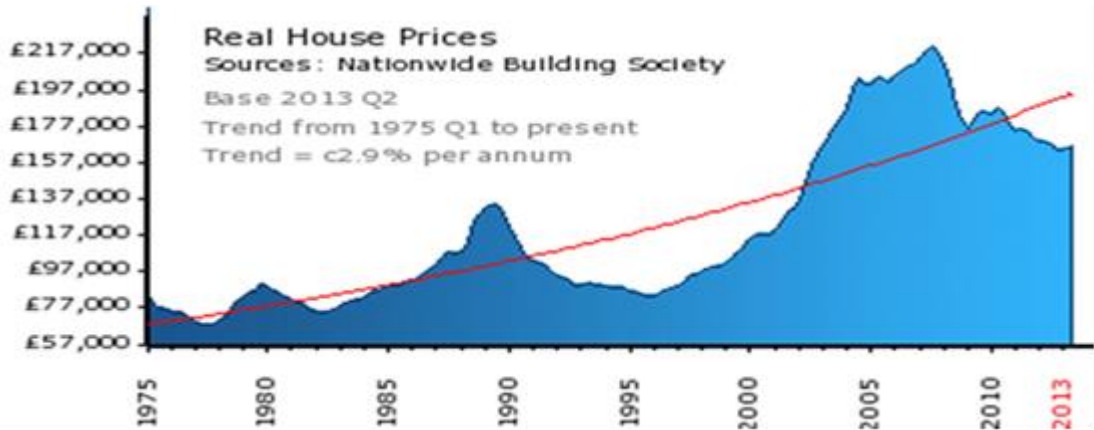
#### **Why large allocations of housing land do not lead to large increases in housing**

- 3.27 Target-setting for housing land by Government has been a constant since the 1970s (from 2000 via centrally-approved Regional Spatial Strategies (RSSs)). However, it is apparent from inspection of Figure 5 that these measures have not had a significant and sustained impact on delivery. The underlying reasons are essential to an understanding of why making large allocations of housing land through the local planning process does not

secure delivery of large increase in housing,<sup>15</sup> and how this affects the housing needs of everybody – not just the would-be occupiers of new houses.

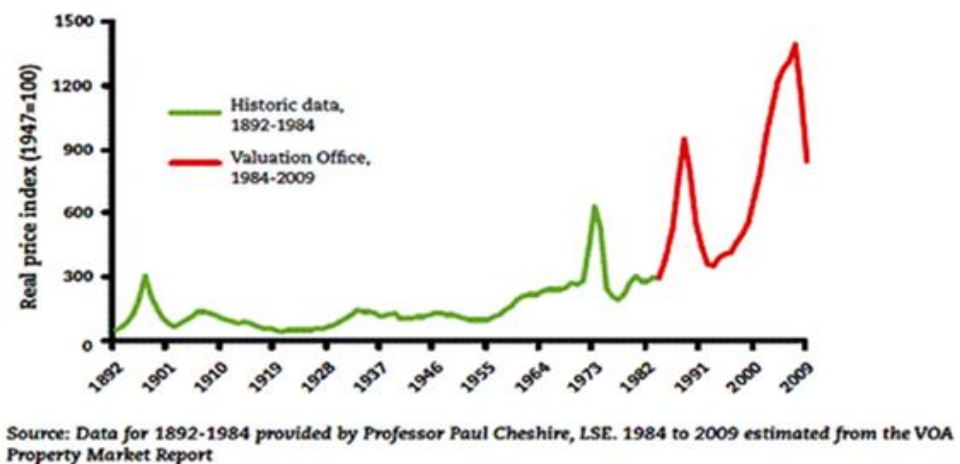
- 3.28 House prices in a market area are generally set by the turnover of existing housing ('churn'), which comprises around 90% of the annual supply. The prices house buyers have been prepared to pay depends on their expectations of future growth in value, and ability to access loan finance. This has led to a series of 'booms' and 'busts' in recent years, but the underlying trend is upwards (Figure 7).

Figure 7: Real house prices (England, 1975-2013)



- 3.29 The price builders are willing to pay for land depends on their expectations for house prices when they come to sell. The value of land to them is thus a residual after construction costs and profit. In housing price booms (eg: 1997-2007) landowners are able to demand extremely high prices from developers, and because landowners seldom need to sell in slacker times, prices are ratcheted upwards. It can be seen that land prices (Figure 7) reflect closely the trends in house prices (Figure 8), but the fluctuations in recent years have been more extreme, reflecting the huge expansion of credit in the early 2000s, and the subsequent credit crunch.

Figure 8: Real price of housing land (England, 1892-2009, indexed to 1947=100)



<sup>15</sup> Eg: IPPR (2011) 'We must fix it: Delivering reform of the building sector to meet the UK's housing and economic challenges'.

- 3.30 The dysfunctional character of the housing land market is made worse by three further features:
- a) Much of the land market takes the form of option agreements between landowners and builders. These agreements to buy at a future date incorporate a house price expectation which tends to drive land prices still higher in an unstable positive feedback loop;
  - b) Mergers motivated by acquisition of land-banks (and options) have led to the domination of the sector by a handful of major volume builders.<sup>16</sup> This has created a major barrier to market entry by the medium and smaller builders that used to provide most new housing;
  - c) This is compounded by the planning system as gatekeeper; the complexities of continually shifting legislation and local policies require builders to have and maintain analytical expertise and knowledge of local and national planning issues. Smaller builders seldom have the resources for this. The continual shifting of the goalposts by Whitehall in its efforts to get more land allocated has had a serious unintended side-effect on land allocation.
- 3.31 The effect of these features of the house building industry is that continually rising prices are built in to the development process, regardless of how much land is allocated through the local planning process. Expectations of rising house prices have been built into the high prices builders have paid for land, and they cannot afford to crystallise the losses that would be entailed by building and selling at lower prices.
- 3.32 This has crucial implications for the deliverability of large increases in housing output, such as proposed by the SHMA. Unless they are confident that house prices will continue to rise, builders have little incentive (or ability) to build, however much land they have under option (and no incentive whatsoever to build in sufficient numbers to cause prices to stabilise or fall). In this respect their motivation mirrors that of existing and prospective home owners; they all want a housing price escalator – provided they are on it.

#### **New Towns and Garden Cities**

- 3.33 Some have called for a revived New Towns programme as a means of breaking out of the difficulties described above, with the public sector taking the risks of providing housing land. In the 50 years following the 1946 New Towns Act, English New Towns housed an additional 1.4 million people in their designated areas. At an average household size (then) of 2.8 this equates to 10,000 houses pa, or less than 5% of the total output for England over that period (11.3 million). Even at its peak, the New Towns programme rarely accounted for more than 10% of output. New Towns may have a place in a wider national or regional spatial strategy, but not as a means of radically increasing national or local housing output.
- 3.34 Moreover the lead times are very long and the service and infrastructure costs considerable. The South East Growth Areas proposal (2003) provides an indication of some of the public sector costs of additional greenfield housing; for 13,300 houses pa these costs amounted to some £5.4bn over three years, or about £135,000 per additional dwelling – similar to the costs at the time of the housing itself, even though this sum excluded health and education.<sup>17</sup>

#### **Infrastructure and services**

- 3.35 To the extent that new housing is not situated within or next to existing centres of population (or is located within settlements where current capacity thresholds have been

<sup>16</sup> Barratt, Taylor-Wimpey, Persimmon, Bellway, Redrow, Bovis, and Berkeley (the first 3 accounted for over a third of national output in 2007, and the process of concentration has continued since).

<sup>17</sup> Source: ODPM (2003) *'Sustainable Communities Plan'*, Annex A.

reached), there will be additional costs. Much of these costs fall on the public purse, though there has been increasing interest in securing contributions by developers as part of a Planning Obligation agreement and the Community Infrastructure Levy.<sup>18</sup> However, such measures have seldom been sufficient to cover more than a small part of such costs, and those made in the boom years are increasingly being subjected to renegotiation downwards to secure viability. Cost issues are obviously only part of a range of planning considerations affecting spatial policy choices.

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<sup>18</sup> The rate and application of CIL has to be set out in an adopted Local Plan, so upheavals in the planning process have slowed implementation



## 4 Risk analysis and conclusions for sustainable development

### Summary

#### Process

- 4.1 **The scale of housing provision in Oxfordshire applies equally across the country. This is completely outside the range of post WW2 experience, casting doubts on the reliability of the economic modelling and its relationship to household formation.**
- 4.2 The SHMA is not in conformity with the National Planning Policy Framework in the following respects:
- a) The household projections are a wholesale replacement rather than an adjustment to the official base, as required by Practice Guidance; and
  - b) NPPF requires Local Plans to seek sustainable development through joint and simultaneous pursuit of economic, social and environmental gains. The scale and immediate effect of SHMA housing need projections has pre-empted an integrated local planning process.
- 4.3 While the projections cover a 20 year period, their effect is immediate. The NPPF delivery mechanism requires a 5-year supply at the projected rate, and the doubling or tripling of this rate means that most Oxfordshire Districts will not meet this criterion.
- 4.4 If it were the necessary price of high economic growth, the citizens of the county might agree the costs of a large surplus of housing land as an acceptable trade-off. Indeed, if Oxfordshire were to offer economic opportunities of national significance, not achievable elsewhere, then the citizens of the county might need to suffer such costs in the national interest.

#### Policy objectives

- 4.5 **'Committed' economic growth seems beyond the ability of Oxfordshire to accommodate in terms of the consequent housing requirements, particularly for younger and poorer people. This calls into question the wisdom of promoting economic growth in the county in isolation from the social and environmental context – and in direct contravention of the NPPF.**
- 4.6 Even more than the baseline projection, the forecast presented as 'planned' or 'committed' growth is highly aspirational. While we might applaud if it came to pass, it would be unwise to make costly or irrevocable commitments on such a basis.
- 4.7 Large allocations of housing land give builders *carte blanche* in their choice of which sites to develop. While this might lead to some more housing output, the increases will be modest. The main effects will be on *where* housing is built and for *what market sector*.

#### Delivery

- 4.8 **The case for the level of housing provision depends upon the unique suitability of Oxfordshire to accommodate economic growth, but could not be delivered by the house building industry as currently structured, even if this growth was forthcoming.**
- 4.9 Unless they are confident that house prices will continue to rise, builders have little incentive (or ability) to build (regardless of how much land they have) because of the high prices they have paid for land (and options). But if prices do continue to rise, demand from new households will be choked off.
- 4.10 New Towns may have a place in subnational spatial strategy, but will not radically increase national housing output. The service and infrastructure costs of additional greenfield housing are similar to the direct costs of the housing itself, and lead times are long.

### Affordability

- 4.11 Even if outputs more than double recent levels were achieved, housing would still become less affordable, not more.
- 4.12 ‘Help to Buy’ may improve affordability in the short run, but risks inflating another housing bubble. When mortgage rates eventually rise ‘Help to Buy’ could lead to repossessions.
- 4.13 Households that might have formed in more prosperous times may not be able to achieve their housing aspirations, and will continue to be suppressed or concealed. This is a real and serious emerging social problem, to which the provision of housing land is not an answer.

### Risk analysis

- 4.14 At several points in the discussion it has been noted that the chosen projections of need are based upon optimistic views about economic growth and housing delivery. If the allocation of land on the scale implied by such views was necessary to securing such a future, and if the costs attaching to such provision were not too high, it might be seen as an acceptable risk. This is the issue addressed here.

### SHMA risk analysis

- 4.15 The SHMA itself contains no risk assessment, but the final chapter of the CE/SQW report (chapter 6, pp 36-41) is devoted to the subject. The risks to the forecast of an additional 88,200 jobs can be summarised as follows:
- a) **Market conditions:** recent indications of recovery are reckoned to presage above forecast growth over the next 5 years, after which booms and busts will even out;
  - b) **Labour market competition:** increasing competition from London could inhibit growth, but is compensated by access to the West Midlands and Thames Valley;
  - c) **Infrastructure delivery:** some firms might go elsewhere, but other areas will have similar problems, and the major investments are not highly infrastructure dependent;
  - d) **Housing requirements:** areas with comparably high past growth<sup>19</sup> did not seem to have been constrained by lower levels of housing;
  - e) **Site capacities:** there is adequate flexibility.
- 4.16 This seems less a risk assessment than a list of ‘reasons to be cheerful’. However, the only issue treated at any length is the link to housing. Housing delivery in Oxfordshire over the last 10 years (1,811 pa) was similar to Cambridgeshire, which had nevertheless enjoyed a significantly higher growth rate over the period. Since this figure is also similar to the DCLG-based need projection for Oxfordshire (1,900 pa), this evidence would suggest that the additional housing put forward in SHMA is not needed to support economic growth.

### Uncertainties surrounding SHMA housing need projections

- 4.17 The housing need projection presented in the SHMA rests on a number of dubious assumptions. Those concerning methodology were reviewed in Chapter 2, while the more strategic implications have been discussed in this Chapter. Together they add up to a formidable set of reasons for care in making irrevocable commitments on this basis:
- a) **Housing need projections do not have long-term stability and reliability** – official projections are revised every two years, and the large increase between the current set and its 2008 predecessor shows how volatile they can be;
  - b) **The assumption that land is the most critical constraint on housing output is false** – the experience of recent years has demonstrated that availability of finance is far more

<sup>19</sup> Oxfordshire itself, Cambridge, Huntingdon, Buckinghamshire, Aylesbury and Milton Keynes.

important, both in increasing effective demand when sub-prime credit is easily available, and reducing effective demand in a credit crunch;

- c) ***The related assumption that house builders will make timely use of all the land that is allocated through the development planning system is also false***; in reality they will only build when profitable to do so, and are heavily constrained in this regard by option agreements with land-owners that build in large increases in house prices;
- d) ***The ability to buy or rent is not directly related to the overall level of employment in the local economy*** – affordability depends critically on the distribution of income and the availability of family money to help with deposits – and both are rapidly changing in the direction of greater inequality;
- e) ***The output of new housing is not the most significant component of the price and affordability of housing*** – 90% of the market is supplied by the churn of existing stock, and this is the major determinant of the price at which new stock can be sold;
- f) ***Over-provision of land in the short- and medium-term is not a no cost option*** - in reality, the order in which land is developed is hugely significant for investment in infrastructure and services (public and private), and so for the evolution of towns, villages and neighbourhoods.

4.18 For all these reasons it must be regarded as highly likely that projections of housing need in Oxfordshire will vary widely during the period covered by the SHMA. Allocations of housing land made in response to the present very high projections will have the effect of giving builders *carte blanche* in their choice of which sites to develop. While this might lead to some more new housing output than with lower housing land allocations, past experience and research on the issue suggests strongly that the increases will be modest. The main effect is likely to be on *where* market housing is built and for *what market sector*.<sup>20</sup>

4.19 Ever since the policy guidance on Transport (PPG13, 1994) planners have relied on co-location of housing and employment land to reduce travel needs. However, there is no evidence that this has more than very limited influence on actual travel behaviour. Given the range and volume of locational choices of housing and business premises offered by existing stock, any constraint on labour availability in any likely employment growth location in the region is the result of house price inflation, and lack of affordable housing rather than total housing provision. As has been discussed these issues are not susceptible to influence through provision of land for new houses.

#### Risks of over-allocation of housing land

4.20 A greater risk to the economy arises from the potential for over-allocation of housing land relative to the building industry's ability to deliver and households' ability to pay. With an effectively unconstrained supply of land builders will not build much more, but will build preferentially in greenfield locations. The unintended side-effects were discussed in depth in Chapter 3 (3.31) and include:

- a) Diversion of resources for services, infrastructure and environmental improvements from existing towns, reducing their attractions as places to live; increasing difficulty in recruitment, especially in international markets for workers with scarce skills and a wide choice of places to live and work; and
- b) A more dispersed pattern of activity and locational choice (within existing as well as new stock), increasing car-dependency and congestion and undermining the economic advantages of agglomeration.

4.21 Allocation of land for housing is essentially a one-way process; once included in a development plan, there is no going back – only *under-provision* can be corrected later,

<sup>20</sup> David Ritchie (Bovis Chief Executive) stated on BBC 'Today' (24 Feb 2014) that they expect to increase output by 20% in 2014/5, but expect also to realise 15% higher prices.

by making further allocations if the projection turned out to be too low. If there was *over-provision*, either because the projection was too high, or because land came forward more quickly than expected, no corrective action is possible. As well as being more difficult to correct, the risks associated with over-provision of housing land are very much more serious than for under-provision, as summarised in Figure 10 below.

**Figure 10: Summary of risks of over- and under-provision of housing land<sup>21</sup>**

<b>Risks of over-allocation</b>	<b>Risks of under-allocation</b>
<ul style="list-style-type: none"> <li>• increased vacancy, concentrated in most marginal existing stock</li> <li>• accelerating decay and dereliction in the poorest neighbourhoods</li> <li>• removing decent entry point housing in all tenures by concentrating deprivation and low demand</li> <li>• unnecessary greenfield development, leading to increased travel demands and loss of countryside</li> <li>• inability to take corrective action</li> </ul>	<ul style="list-style-type: none"> <li>• reduction of land banks and less certainty about long-term pattern of development</li> <li>• higher land prices and increased pressure on marginal sites</li> <li>• possibility of ‘town cramming’</li> <li>• upward pressure on the price of new housing, especially in areas of high demand and high restraint</li> <li>• corrective action is possible</li> </ul>

- 4.22 However difficult it may be to identify a supply of housing land adequate for a period of 15-20 years, new land that has not been identified in advance is continually being brought forward in places consistent with development plans. Within urban areas, so-called ‘windfall’ sites are continually being identified, both through small-scale renewal of the urban fabric and large-scale shifts in the needs of industry, services and infrastructure. Thus even in a high-pressure area like Oxfordshire, a medium-term surplus can (and does) coexist with a projected longer-term shortage. Planned allocations of new land are in addition to processes that continually recycle ‘old’ land. It may be easier to over-allocate than is general appreciated.
- 4.23 It would be naïve not to recognise the political pressures. Since the 2004 Barker Report the central desire to drive land supply has taken precedence over responsiveness and flexibility. However, the impact of top down pressure to allocate more land through the planning system has been disappointing in terms of housing output. The 2007 Housing Green Paper led to large increases in housing land requirements in Regional Spatial Strategies,<sup>22</sup> but little of this has found its way into Local Plans because RSSs were abandoned by the present government, which also carried out a radical overhaul of the local planning system. In the meantime the credit crunch and recession have decimated effective demand.
- 4.24 Following the 2004 Barker report there was a Government panic about housing delivery; demands for more land from the planning system; a re-write of the planning system that prevented a timely response; the emergence of random pieces of land uncoordinated with infrastructure or services; and housing delivery below expectations and needs, and in the wrong places. We seem well on the way to repeating this history.

<sup>21</sup> A Wenban-Smith (2002) ‘A better future for development plans: making ‘plan, monitor and manage’ work’, Planning Theory and Practice Volume 3 No1, pp 33-51

<sup>22</sup> Examples are the West Midlands where the amount of land to be found was doubled, and Yorkshire & Humber where it was almost tripled from that in the existing regional strategy’. In each case the increase was almost equally from a combination of a longer plan period and a higher annual requirement.

## **Implications for sustainable development**

### **Pressures on local planning process**

- 4.25 While the projections cover a 20 year period, their effect is immediate. The housing land delivery mechanism set out in NPPF requires a 5-year supply at the rate implied by meeting '*full, objectively assessed needs*'. The doubling or tripling of the annual rate means that most Oxfordshire Districts are likely to be in the position of not meeting this criterion, and therefore faced with the choice of either:
- a) Accelerating adoption of Local Plans which include such provision (the government's aim); or
  - b) Losing appeals against refusal of planning permissions for housing.
- 4.26 Either way, they are not in a position to carry out the overriding directive of NPPF in favour of sustainable development. As noted earlier (para. 1.7) the mutual dependence of economic, social and environmental gains requires that they are sought jointly and simultaneously through the planning system. In effect the housing requirement has been allowed to pre-empt this central requirement of NPPF.

### **Risks of 'greenfield first'**

- 4.27 Unsurprisingly builders will choose the easiest and most profitable sites from those offered by the planning system. These are not necessarily those most conducive to the vision of 'sustainable development' set out in NPPF. 'Brownfield first' was an important element of national policy from 1998 to 2007, and crucial to urban regeneration across all sizes of settlement. It can be seen from Figure 4 that this was also a period of increasing overall housing output.
- 4.28 What is less well-known is that the proportion of housing on brownfield land soon exceeded the initial target of 60%, rising to 78% by 2008. In addition, the supply of brownfield land increased in spite of the higher rate of use – or perhaps because the policy emphasis encouraged sites to be brought forward.<sup>23</sup> Brownfield land is a flow of sites arising from urban change processes which are not necessarily predictable in detail and in advance. It follows that large increases in land immediately identifiable in the short-term *must* mostly be greenfield, not brownfield. Greenfield is preferred by builders, so a large increase in provision inevitably means changing the successful brownfield first policy to 'greenfield first'.
- 4.29 One consequence of 'greenfield first' is a more dispersed pattern of new development, likely to lead to more personal travel and increased car-dependency. There are also likely to be additional service and infrastructure costs once local capacity thresholds are exceeded. While planning obligations may make contributions to some such costs, there are many other calls (not least affordable housing) and developers have been seeking (and getting) reductions on viability grounds.
- 4.30 A connected consequence of 'greenfield first' is the diversion of resources and attention from renewal of infrastructure and services within existing settlements. Brownfield development is like cell replacement in the body; an essential part of the continuing health of towns. Conversely, the failure to make proper use of brownfield land is a leading cause of urban decline. This has crucial housing, social and economic impacts. As noted previously, 90% of the housing market is churn, so the continuing attractiveness of existing stock is the dominant factor in the quality of housing choice that Oxfordshire offers. The environment, services and infrastructure of existing communities need renewal and reinvestment to maintain their attractions, or they will suffer selective out-migration, leading to further deterioration. This is particularly crucial for newly forming households who depend overwhelmingly on existing entry-level homes.

<sup>23</sup> Bate, R. (2011) '*Building in a small island: why we still need the brownfield first approach*', report for CPRE.

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**‘Predict and provide’ versus managing uncertainty**

- 4.31 Strategic planning requires long-term forecasts for context, but should not depend upon them. Undue rigidity in the treatment of initial forecasts gives only the illusion of certainty, and can inhibit necessary adaptations to new problems and unforeseen opportunities. It is important that a strategic sense of policy direction can be maintained in the face of varying circumstances, unless departures from forecast are so large as to require a strategic re-think.
- 4.32 Central government has relied for the last 30+ years on ‘predict and provide’, with household projections built into development plans, requiring a review of the plan itself to vary. Ironically, the 5-year land supply now featured in NPPF started life as a way of ensuring that the release of housing land through the planning system was sensibly related to real-world pressures and uncertainties such as those reviewed in Chapter 3 – and was supported by CPRE in its response to the South East Plan.<sup>24</sup> This proposed rolling release of a 5-year forward supply from planned provision, in the light of annual monitoring of *both* land supply *and* housing needs.
- 4.33 ‘Plan, monitor and manage’ was briefly adopted by Government in the late 1990s, but in a form hamstrung by continued reliance on an initial set of household projections, to guide land release in 5-year blocks. The 5-year supply in NPPF is a remnant of this approach, as is the Practice Guidance requirement to monitor the response of the market to measures to improve affordability. Both aspects need to be revived and built on to create a more responsive and less risky approach to land allocation.
- 4.34 Rejection of the SHMA would be a good starting point.

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<sup>24</sup> Wenban-Smith, A. (1999), *‘Plan, monitor and manage: making it work’*, CPRE, London).