

Spotlight Oxfordshire Development

Spring 2015



SUMMARY

Analysing the options for meeting the county's housing needs

■ **Stretched affordability in Oxford:** House prices have grown by 12.1% in the past year and sit 23.8% above the 2007/08 peak. The pace of growth is starting to slow as affordability becomes more stretched. p2/3

■ **Road to recovery:** Elsewhere in the county, prices took longer to recover from the 2009 trough. Recent growth has been strong though, with Bicester and Witney both experiencing double-digit annual growth in 2014. In the 'county towns' values can be as much as 50% lower than Oxford. p2/3

■ **Planning policy:** The county has begun to take a joined-up approach to meeting its housing requirements through the 2014 Oxfordshire SHMA. Significant further co-operation and joint working is required to establish a planning strategy for future growth. p4/5

■ **Housing supply:** Oxford has seen little residential development in recent years, although delivery is anticipated to pick up over the next five years. However, it is very unlikely that housing completions in the city will reach the level required in the SHMA due to physical constraints,

the Green Belt, and the tightness of the authority boundary. It will therefore fall to locations outside of the City authority boundary to fulfil the unmet need from Oxford. p4/5

■ **Help to Buy:** The Help to Buy Equity Loan scheme has made up 35% of private new build sales in the county. 80% of these sales were to first time buyers, and the scheme has supported particularly strong sales rates at urban extension schemes in Bicester and Didcot. p6/7

Market overview

‘COUNTY TOWNS’ CATCHING UP

The popularity of Oxford is leading to stretched affordability and buyers looking outside the city for value

Oxfordshire has a strong housing market, but a closer look reveals a range of sub-markets of differing strength. Oxford has seen the highest price growth, as a result of a limited supply of new homes and a strong local economy.

Price growth around the rest of the county has been mixed. Values in Witney and Didcot have been boosted by regeneration of the town centre and expansion of the nearby science parks respectively. Wantage has lagged behind recently, perhaps due to poorer transport links and a perceived lack of amenities.

Successful new development is contingent on new or upgraded

infrastructure. Links to London and local employment centres are key to achieving the highest values. Young professional buyers priced out of Oxford are an important market to target; design and size can be tailored to attract them.

Economic centre

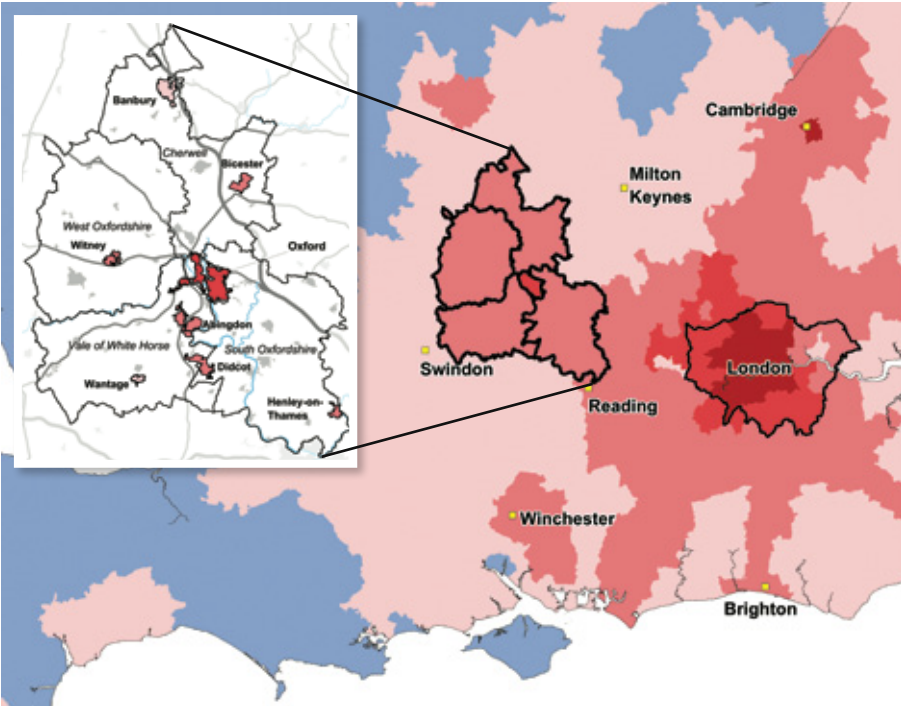
Oxford's economy is diverse, led by IT, high-tech manufacturing and publishing. The city's hospitals and two universities are also major employers both directly and in related education, science and technology companies. Demand from local buyers is ever present thanks to these factors.

Links with the capital are also good, attracting London commuters seeking more space and a balance between city and country life. These factors all contribute to one of the strongest housing markets in the country.

Affordability pressure

House prices in Oxford are currently 23.8% above the 2007/08 peak, and have increased 12.1% in the past 12 months, according to our indices based on Land Registry data. Outside London few places have seen comparable price growth: these

MAP 1
Average house prices
Average house prices vs 2007/8 peak: ■ Over 30% above ■ 20% to 30% above ■ 10% to 20% above ■ Up to 10% above ■ Below



District	Annual growth	Values vs peak
Oxford	+12.1%	+23.8%
Vale of White Horse	+9.3%	+11.3%
West Oxfordshire	+8.4%	+11.6%
Cherwell	+12.1%	+13.3%
South Oxfordshire	+10.6%	+15.0%
County towns	Annual growth	Values vs peak
Banbury	+10.8%	+9.3%
Bicester	+14.9%	+14.3%
Witney	+10.3%	+14.9%
Abingdon	+10.3%	+12.1%
Didcot	+9.2%	+11.2%
Wantage	+8.6%	+3.2%
Henley	+9.6%	+17.6%

Source: Savills Research using Land Registry (January 2015 data)

include Cambridge, Brighton and affluent areas of the Home Counties commuter belt.

This price growth has meant affordability is becoming increasingly stretched. The ratio of average house prices to average earnings was 16.1x in 2014, according to the Cities Outlook 2015 report, by Centre for Cities. This is the highest in their analysis of the 64 largest UK cities; for comparison London's ratio is 15.7x and Cambridge's 14.8x.

Local businesses report that high house prices cause issues attracting and retaining staff. The best young graduates are often drawn to London, where housing costs are also high relative to graduate salaries. If Oxford is to be an attractive alternative for businesses and employees, it must provide more new affordable housing across a range of tenures.

'County towns'

Many areas of the county outside Oxford are also very desirable places to live, with correspondingly high house prices. Historic towns like Burford and Henley-on-Thames are two of the better known examples, attracting wealth from London and

overseas. But values in the larger 'county towns' have not all behaved in line with the more 'prime' locations.

Younger buyers priced out of Oxford are attracted by the lower prices in these locations. Average values in Banbury are around half those in Oxford, and Witney is around 40% lower. For Oxford workers, transport links back into the city are crucial. This favours Didcot and Bicester, each a short train journey away and with values around 35% lower than Oxford.

Whereas Oxford's market recovered quickly following the recession, prices in the outlying towns have only started to pick up in the last 18 months. Bicester experienced strong price growth in the past year (14.9%), outperforming even Oxford and Henley. Most other locations saw annual growth in the 9-11% range, broadly in line with the South East average. Wantage has been the weakest performer, but prices there still grew by 8.6% annually; it was the last large town in the county to have prices recover to previous peak levels.

Lack of supply

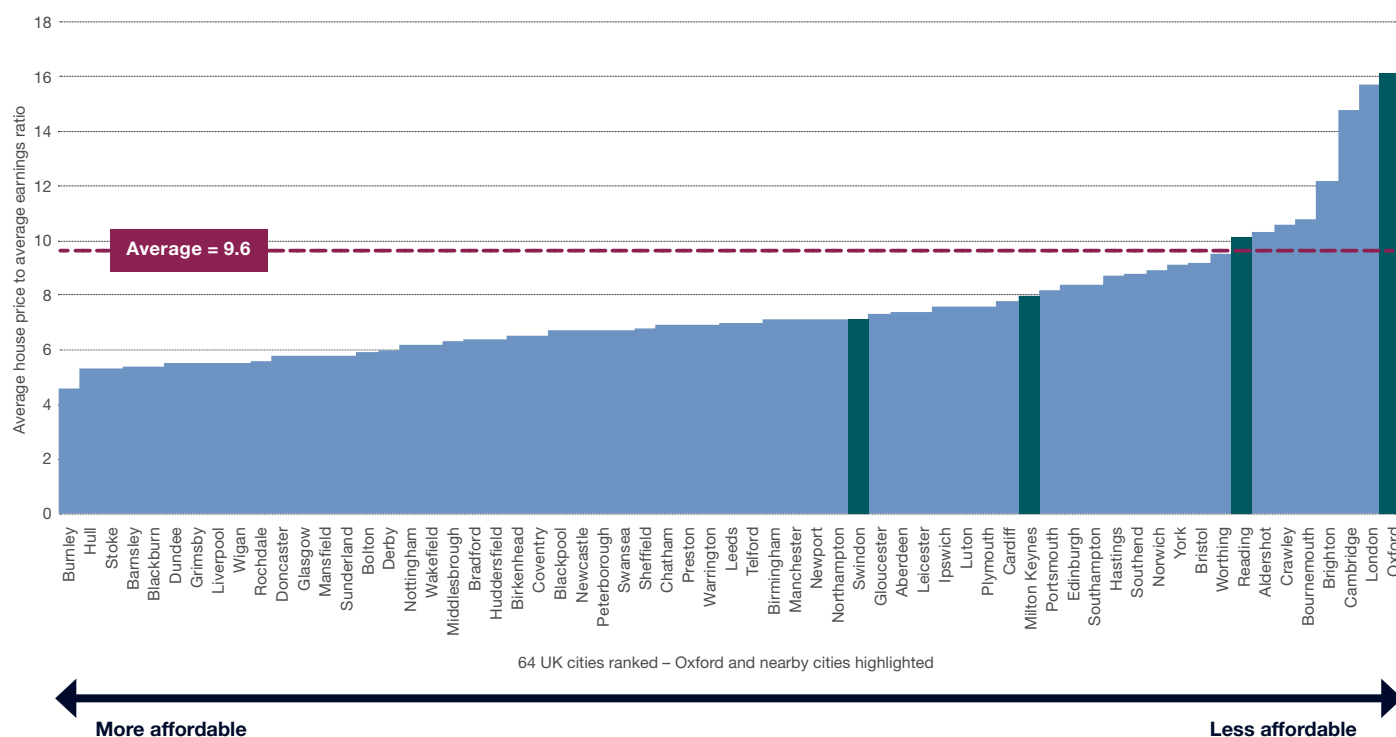
Against all the demand, new supply in Oxford is severely lacking. Only 70

new homes were built in the city in 2013/14, none of which were affordable. Although the historic centre, flood plain and Green Belt all constrain potential growth, this is a particularly low level of building. Looking ahead, two large edge of city sites are set to deliver homes in the next five years, Barton Park (900 units) and Northern Gateway (up to 500).

In addition to land in general being scarce, other uses also compete for it. The economic expansion of the city depends on new commercial space, so potential residential development sites are also in competition with office and laboratory space. Further sites may be allocated for student housing with the aim of freeing up family homes tenanted by student groups.

Most development in the past five years has leapfrogged the Green Belt to the county towns, particularly to the south of the city. A large urban extension at Didcot – Great Western Park – has delivered over 500 homes as of March 2014. A further 240 per annum are set to be completed there in the next ten years. ■

GRAPH 1
Affordability in the largest 64 UK cities, 2014



Source: Centre for Cities, Cities Outlook 2015

New homes

PLANNING, DEVELOPMENT & MEETING HOUSING NEED

Co-operation between local authorities is required to establish a strategy for meeting the high levels of housing need in Oxfordshire

Oxfordshire has suffered for many years from a shortfall in housing supply relative to demand. Businesses frequently cite a need for improved infrastructure and more housing in order to support growth. Increased co-operation between local authorities is required to establish a strategy for housing delivery given the constraints that restrict supply in Oxford.

The 2014 Oxfordshire Strategic Housing Market Assessment (SHMA) set a projected need figure across the county's five local authorities of 4,678 - 5,328 additional dwellings per annum in the period 2011 to 2031. The

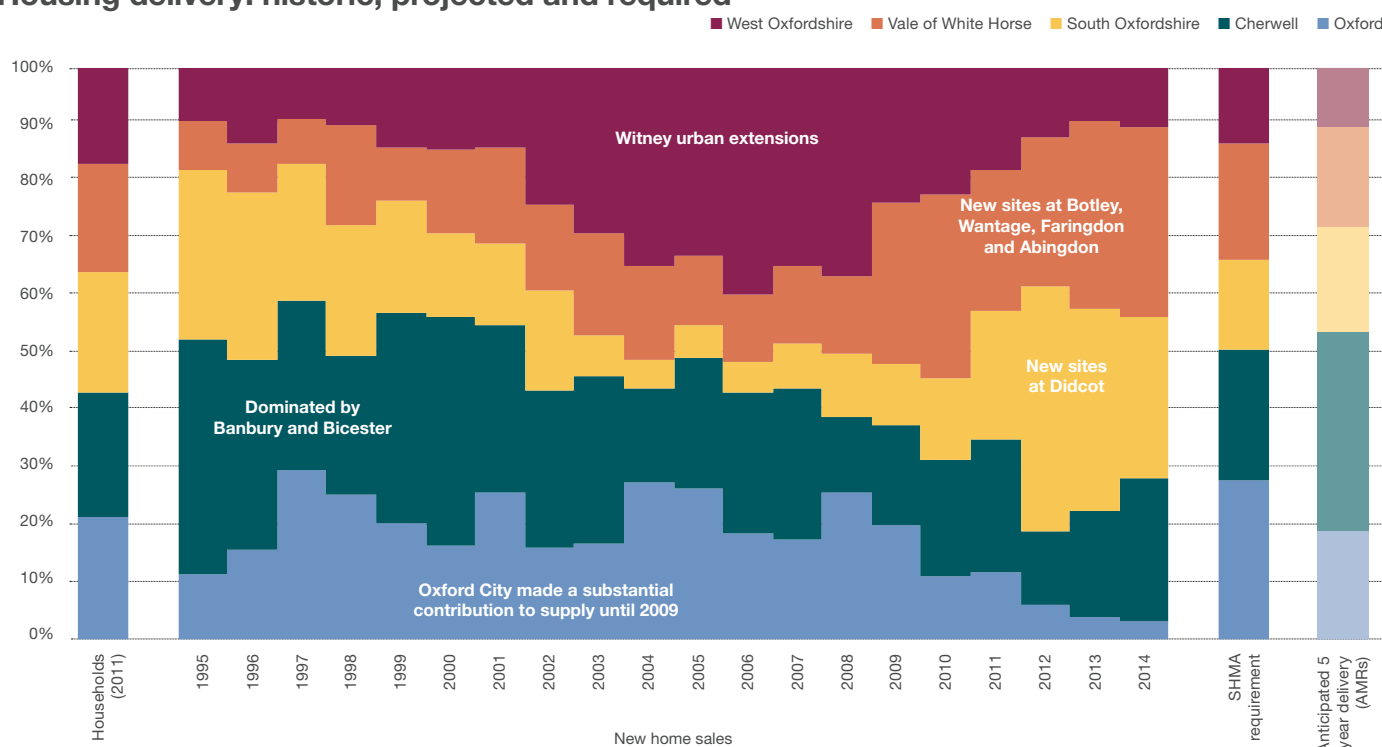
current rate of delivery is, however, far below this figure; only 1,730 new units were delivered in 2013/14. The biggest challenge facing the county is how to serve the demand generated by Oxford.

Supply in Oxford has been very limited in recent years. In 2013-14, only 70 new units were completed in the city. The rate of delivery should pick up, notably due to the commencement of the 900 unit Barton Park development on the north-eastern edge of Oxford.

There is, however, no clear solution to the question of how and where new housing should be delivered. Oxford City Council has a tight administrative boundary and the city is constrained from expanding by the Green Belt.

GRAPH 2

Housing delivery: historic, projected and required



Source: 2011 Census, Land Registry, Oxfordshire SHMA, Local Authority Annual Monitoring Reports (AMRs)

The most recent SHMA for the city suggests that a significant proportion of Oxford's Objectively Assessed Need (OAN) will have to be met outside the city boundary. This also poses a problem, as 30% of the non-urban land in the county is restricted by environmental or planning designations.

Expanding towns

There are three potential options for future development. The current approach is to leapfrog the Green Belt and build the majority of housing through urban extensions at the market towns of the county: Great Western Park at Didcot, Longford Park at Banbury and, in the longer term, the delivery of 15,000 units through the proposed Garden City at Bicester.

Five year land supply considerations have been a driver of new sites coming forward, particularly in Cherwell and Vale of White Horse.

Continuing along this path will require major upgrades to the county's transport infrastructure. 'Investing in Oxford's Future', a 2014 report by Oxford City Council, states that "around 50% of Oxford's workforce commutes by car into the City, which is unsustainable".

The County Council is currently consulting on the draft Local Transport Plan, which proposes to redevelop four of the existing Park & Ride facilities around the city and build an additional seven, some of which would be linked to the city via a Bus Rapid Transit system.

In addition, a new Oxford Parkway station to the north of the city will be fully operational from 2016. Services from the Parkway station will use the Oxford-Bicester rail link and will connect via the Chiltern main line to services into Marylebone, increasing capacity.

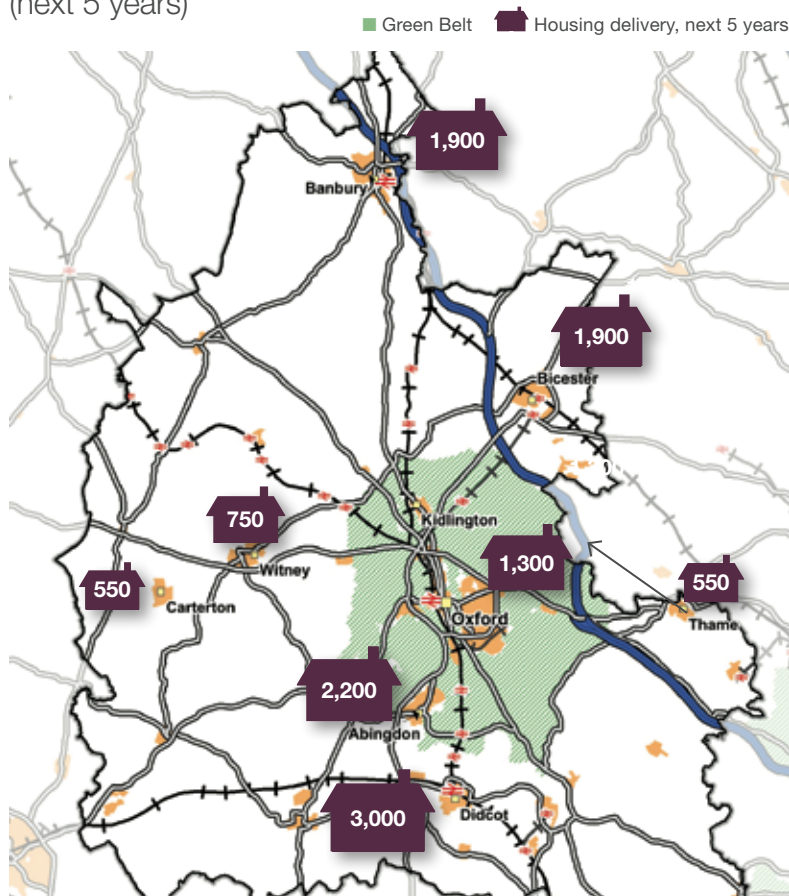
We anticipate delivery from major development sites (over 150 units) over the next five years to be largely at Didcot, Wantage, Bicester and Banbury.

Green Belt Review

The second option is to expand Oxford itself through a review of the Green Belt. This is the approach which has been taken in Cambridge, where various sites within the Green Belt have been released over the past decade.

MAP 2

Anticipated housing delivery from major sites (next 5 years)



Source: Savills Research

The local authorities in Cambridgeshire have managed this process through a memorandum of co-operation to ensure that the collective housing needs of the sub region are met. Cambridge and South Cambridgeshire work closely together through a combined housing trajectory and aligned Local Plans.

Sites on the edge of Oxford are available for development but this would similarly require a review of the Green Belt, with a particular focus to the north and south of the city. To deliver this will require co-operation between the county's local authorities.

Some positive steps were made to this end through the joint 2014 SHMA, and the local authorities are continuing to work together through the Oxfordshire Growth Board to identify the most appropriate strategy to accommodate future development.

Need for co-operation

The third option is a combination

of growth at the county towns and on the edge of Oxford in the Green Belt. Oxford City Council has determined through its latest Land Availability and Unmet Need Assessment that it has limited land to deliver residential development, and over the current Local Plan period there will be unmet need of around 20,000 homes to be met beyond the city boundaries. This remains to be accepted by the surrounding local authorities.

Given the historical undersupply in Oxfordshire, it is imperative that the local authorities agree a way forward, whether that results in a Green Belt review, plans for major infrastructure upgrades to join new developments to the city, or a combination of the two approaches.

If the process is overly protracted, it will only delay the delivery of major housing development, exacerbating the county's affordability problems and hindering economic growth. ■

Demand analysis

WHO, WHAT, WHY, WHERE?

Help to Buy is increasing the take up of new homes around the county, but not in Oxford

Buyers of new homes in Oxfordshire tend to be aged between 30 and 50, looking to owner occupy and drawn from the local area, according to Savills dealbook data. Demand is strongly linked to employment centres; locations with major employers or with links into Oxford and London are therefore most popular.

Investors made up a small proportion of new home buyers in 2014. In Oxford, where 28% of households rent privately and demand from tenants is very strong, this is simply due to a lack of suitable stock. The rest of the county is more of an owner occupier market, which has been boosted by widespread use of Help to Buy.

Help to Buy

Help to Buy (HTB) would appear tailor-made for a location like Oxford, with potential first-time buyers in good jobs but struggling to get on the property ladder due to high prices and deposit requirements. However, in almost two

years of the equity loan scheme no sales have taken place in the city. This has two main causes: prices are still unaffordable, even when using the scheme; and very few houses have been built in the city. Would-be buyers have instead looked to the county towns, particularly Bicester and Didcot where large development schemes are underway. Kingsmere in Bicester has seen over one sale per week via the equity loan scheme since it started in April 2013. At Great Western Park in Didcot there have been almost two per week over the same period. Other HTB-assisted sales have taken place in smaller numbers at Cholesey (nr. Wallingford) and Chilton. Developers have been reported to have adjusted their product mix to feed demand through Help to Buy for smaller two and three bedroom units.

Employment hotspots

Education and health are the two largest employment sectors in Oxford, with the former almost doubling in size over the past decade. But housebuilding in the city to support this expansion has not occurred. The situation means that some of the main road approaches to Oxford are at full capacity. Around half of Oxford's 100,000 employees commute in from elsewhere in the county. Traffic in and around the city often reaches standstill at rush hour. A lack of availability of land has meant that housing delivery hasn't kept pace with the economic expansion of Oxford. It is therefore important to optimise the use of space and ensure a balance between housing and employment land. Outside the city, this has been put into practice at Science Vale, an area stretching from Wantage to Didcot. Many of the county's major science and technology employers and facilities are based in the area, and it has seen a high volume of residential development to match. Harwell Science Campus is home to 5,000 people working in over 200 organisations. These include the European Space Agency's UK base, Rutherford Appleton Laboratory and Diamond Light Source. Further investment in the space industry will create 700 new jobs at the £40m International Space Innovation Centre. Across the A34 is Milton Park in Didcot, home to 6,500 employees in more than 160 companies and particularly strong in biotech and ICT. ■

TABLE 1
Help to Buy assisted sales

District	Equity Loans (new only)*	Mortgage Guarantees (all property)**
Cherwell	232	40
Oxford	0	8
South Oxfordshire	264	26
Vale of White Horse	176	20
West Oxfordshire	25	31

Source: DCLG, HM Treasury * April 2013 to Feb 2015 ** October 2013 to June 2014

TABLE 2

Employment by sector

	Employees in 2014		Change since 2004		Forecast to 2024	
	Oxford	Rest	Oxford	Rest	Oxford	Rest
Education	30,917	19,303	47.4%	40.5%	0.5%	-0.5%
Human health and social work	18,663	21,323	11.9%	43.4%	4.8%	4.7%
Wholesale and retail trade	10,014	39,995	-18.7%	1.1%	8.7%	7.1%
Professional, scientific and tech	9,323	29,630	23.8%	24.1%	15.3%	18.5%
Accommodation and food service	8,182	18,916	47.6%	35.0%	11.4%	11.3%
Information and communication	7,046	11,913	26.6%	11.7%	15.8%	17.3%
Administrative and support	4,322	16,618	-1.2%	-24.7%	16.0%	19.7%
Manufacturing	3,932	19,498	-34.1%	-27.6%	-10.3%	-8.5%
Public administration and defence	3,026	7,060	-23.4%	-30.9%	-13.4%	-14.5%
Arts and entertainment	1,697	6,490	39.9%	37.8%	20.8%	19.0%

Source: Oxford Economics

RENTAL DEMAND: LANDLORD AND TENANTS

Demand is very strong in Oxford's Private Rented Sector

The combination of high house prices, a thriving economy and thousands of postgraduate students means that demand from tenants is very strong in Oxford. Demand is mainly from UK tenants, who make up 81% of the total; Americans are the next largest group at only 4%, according to Savills dealbook data. The majority of renters work locally and are renting due to relocation, but a significant minority (35%) rent as their tenure of choice.

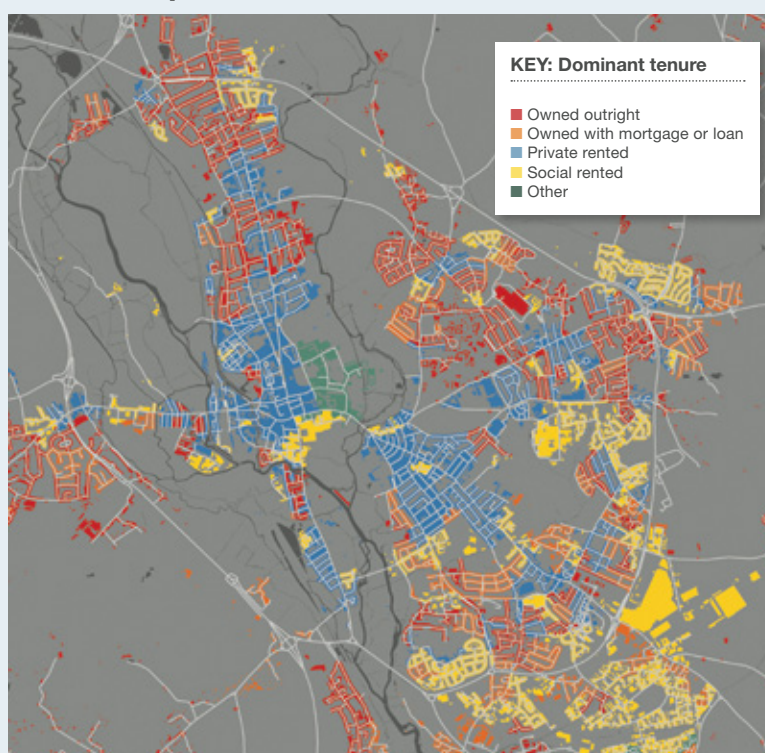
Although the majority of undergraduate students live in purpose-built student housing, postgraduates and junior academic staff tend to rent privately. Outside academia, other major tenant groups include young professionals and NHS workers.

The strength of demand means that investing in the private rented sector (PRS) is attractive to both institutions and individuals. New homes, particularly well-located apartment schemes, are a popular product with investor buyers. But new supply of any form has been sorely lacking in Oxford, so landlords instead buy traditional family homes.

Large investors need scale to make their business model add up, either when buying existing stock or developing a purpose-built PRS scheme. Properties or sites that fit the criteria are few and far between in Oxford, but the depth of demand from tenants and landlords remains very robust.

MAP 3

Tenure map of Oxford



Source: 2011 Census (output area data, building shapes for illustration only)

OUTLOOK

■ South East to outperform London:

Over the next five years, we are forecasting that the strongest performing region will be the South East, with average house price growth of 26.4%. This will be driven by an improving economy and buyers moving out of London in search of better value for money. However, the strong recent rise in values in Oxford means that buyers are becoming increasingly stretched. Affordability pressures coupled with mortgage constraints may limit future house price growth.

■ **High tech shift:** Education is the biggest employment sector in Oxfordshire. But
















expansion of student numbers is expected to be limited, with job growth in the sector forecast to be constrained over the next decade. IT and science and technology are set to be the major growth industries over the same period, building on the established strength of Science Vale. Providing housing that is affordable for young workers and linked to employment centres is a key challenge to be met.

■ **Building in the right places:** The location of future developments is the key issue affecting housing supply in Oxfordshire. Consensus on the capacity of Oxford to accommodate future development

must be agreed between the county's local authorities so that a strategy for growth can be produced and the required number of houses can be delivered, either through greenbelt review around Oxford or development in the rest of the county supported by infrastructure improvements.

■ **Demand for land:** The major housebuilders are focusing on building out their current sites, having replenished their land banks in 2013-14. There is still demand from regional housebuilders for small to medium sites of less than 100 units. In the longer term, there is always demand for well-located strategic sites.

TABLE 3
Mainstream markets: five-year value forecasts

	2015	2016	2017	2018	2019	5-year
UK	 2.0%	 5.0%	 5.0%	 3.0%	 3.0%	19.3%
London	 0.0%	 3.0%	 3.0%	 2.0%	 2.0%	10.4%
South East	 3.0%	 6.5%	 6.5%	 4.0%	 4.0%	26.4%

Source: Savills Research

Savills Research



Susan Emmett
UK Residential
020 3107 5460
semmett@savills.com
@saemmett



Chris Buckle
Development
020 7016 3881
cbuckle@savills.com



Nick Gregori
UK Residential
020 7409 5907
ngregori@savills.com



Emily Williams
Development
020 7016 3896
ewilliams@savills.com

Savills Oxford



Patrick Eve
Development
01865 269 071
peve@savills.com



Jason Hill
Strategic Land
01865 269 019
jhill@savills.com



Matt Davis
Development
01865 269 077
mdavis@savills.com



Roger Smith
Planning
01865 269 057
rasmith@savills.com



Karen Mole
New Homes
01865 339 720
kmole@savills.com



David Jackson
Planning
07967 555 796
djackson@savills.com