

Appendix A

Agent's justification for MiP Clause - Daniels Close, Willingham

The Registered Provider of Social Housing for this scheme is the Cambridge Housing Society ("CHS"), who require a MIP clause for the reasons set out below.

In common with all Registered Providers, CHS rely heavily on borrowing from the private finance market to finance the delivery of new affordable housing; this situation will continue for the foreseeable future in view of pressures on public sector finance.

In order to raise money to provide new affordable housing, CHS must provide adequate security using its housing stock. The reliance on the private finance market coincides with a precautionary approach by lenders in the light of new rules that apply following the financial crisis of a few years ago. Thus, in assessing security on a loan-to-value basis, (1) it is necessary show the highest realistic value of the asset offered as security (as to which, see further below), and (2) in the (almost unthinkable) event of foreclosure, the lender would ordinarily require the ability to be able to sell on the open market, subject to existing tenancies where appropriate (albeit a relatively short "window" – say, two months - to find another Registered Provider would normally be acceptable).

On the question of *loan-to-value*, security covenants by Registered Providers to secured lenders are based on either **Existing Use Value – Social Housing** (EUV–SH) or **Market Value – Subject to Tenancy** (MV–ST); per unit, EUV-SH is generally about £25k less than MV-ST. The ability of CHS to borrow is therefore significantly reduced if EUV-ST is used instead of MV-ST. If South Cambridgeshire DC is unwilling to accept the standard form MIP, the result would be either a reduced number of affordable homes provided in the district or a decision to develop in other areas where a MIP is accepted, making the development more viable.

On the separate but analogous issue of affordable housing provided by way of **shared ownership homes for sale**, these also help subsidise the provision of social rented homes. Mortgage providers to the individual buyers of these homes also require a MIP clause.

In this case, the Council's locum solicitor agreed to the insertion of a MIP clause on 26 August; as indicated above, such clauses remain the norm and are used throughout England, including cases involving Rural Exceptions sites.

For the avoidance of doubt, my instructions are clear; the absence of a MIP clause in the section 106 agreement for Daniels Close, Willingham will render the scheme unviable, and the failure to agree such clauses means that CHS will cease to develop affordable housing in South Cambridgeshire.

Please let me know if anything requires clarification.

Kind regards,

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