

Premier House, Edgware | Fire safety situation report



Trading and dividend payments suspended from 7 June 2018

Premier House Edgware is a 13 storey residential block, converted from offices in early 2016 and containing 121 leasehold flats. The building has been identified as having unsafe cladding by the London Fire Brigade, as a result of the review into fire safety at high rise buildings, following the Grenfell Tower fire in June 2017.

Property Partner acquired three first floor flats on behalf of investors on 30 March 2016. At the time of the conversion of the block to residential units, the exterior cladding material used was considered safe and the relevant building regulations sign offs were received, which was confirmed by Property Partner as part of our due diligence prior to acquiring the units.

The freehold was acquired by Betterpride LTD in December 2016, who have employed BLR Property Management Limited to manage the building. Due diligence in respect of building regulations being satisfied, was also undertaken by Betterpride LTD at the time of their purchase.

Following an inspection by the London Fire Brigade in August 2017, the freeholder was obliged to commission a number of specialist reports on the improvement works needed to comply with the new fire safety legislation and was consequently required to hire 4 fire marshals at any one time to conduct 24 hour patrols while essential upgrades to the internal fire safety system took place. The cladding has also been confirmed as unsafe and needs to be replaced.

The fire alarm system needed to be extended by installing an additional heat detector and smoke detector into every flat. Works also needed to be undertaken to improve the compartmentation of the building in order to improve fire safety which included sealing any voids in the floor slabs around pipework and other service media, sealing any gaps in the service riser cupboards and sealing any voids under the floors. The completion of this work in December 2017 removed the need for additional fire marshals, but a 24/7 concierge remains in place, which is still beyond the standard requirement of the freeholder to provide a concierge during business hours – Monday to Friday - and represents an ongoing un-budgeted increase to the service charge.

It is standard practise under leasehold property ownership for the freeholder to recoup the cost of managing and renovating the building, including internal common parts and the structure of a building, via the service charge. In this case the leaseholders, that is, the owners of the flats, are obliged to cover the cost of the emergency fire wardens and upgrades to the fire safety system, which were initially paid by the freeholder as an emergency measure to ensure the building remained habitable.

We recently received the 2017 service charge bill for the three flats, including an additional £11,154 in respect of their share of the extraordinary costs incurred by emergency fire safety patrols and building works.

The table below shows the total expected annual rental income and operating costs for the three flats, alongside their proportional share of the extraordinary fire safety costs incurred in 2017. This illustrates the significance of the extraordinary costs relative to the expected annual service charge of £2,830 and the dividend of £14,190.

Flats 5, 11 & 13 Premier House Edgware 2017 revenue and costs

Expected annual revenue and costs in 2017	Gross rent £	43,680
	Expected service charges £	-2,830
	Mortgage interest £	-14,721
	Letting and management £	-5,250
	Void allowance £	-1,680
	Maintenance allowance £	-1,680
	Corporation tax £	-3,329
	Dividend £	14,190
Extraordinary fire safety costs incurred in 2017	Share of fire safety patrols and improvement works £ (2017)	-11,154

The emergency fire safety upgrades already completed did not address the cladding, which still needs to be replaced, with the total cost estimated at between £2m and £2.7m based on two quotes received for the work by the freeholder. Responsibility for covering this cost would usually also be spread proportionately across the leaseholders, although recent government announcements indicate support for the principle that freeholders should cover the cost of replacing cladding on privately owned blocks in these specific cases.

For example, a recent article published by The Guardian on a government fund to cover the cost of cladding replacement across council owned high rise blocks, features the following statement from a spokesperson for the Prime Minister:

There is no funding for privately owned blocks, but May's spokeswoman said No 10 thought the cost should be met by the landlords: "This is money for social housing. We expect private building owners to take responsibility for removing and replacing and to not pass the cost on to leaseholders."

Read the full article [here](#).

A residents group has been formed at Premier House to challenge the freeholder's position that the cost of replacing the cladding should fall on the leaseholders. Property Partner is supporting the residents group and will do all we can to act in the best interests of our investors in this matter. This is likely to mean taking the freeholder to the First Tier Tribunal (Property Chamber) to legally determine responsibility for covering the cost of the cladding replacement. We would highlight, however, that this may not be successful and would bear its own legal costs which may be not be recoverable.

Once the repair work has taken place the property should be deemed safe. We will then evaluate the options for re-commencing trading on the property. We cannot say how long this process will take and it is difficult to assess the impact of this situation and the aspects of ongoing uncertainty on the current value of the property.

In addition, we are pursuing a claim against the CRL construction warranty which we have the benefit of (assigned to us upon purchase of the units). The claim is still at its early stages and as yet there have been no cases against any warranty providers which have been decided to enable us to get an indication as to whether such a claim may be a success.

We will, however, continue to pursue a claim against CRL which we envisage will take a number of months to progress.

In light of the extraordinary costs incurred, the ongoing increase to the service charge, the necessity to pay the mortgage and the uncertainty surrounding responsibility for bearing the cost of replacing the cladding, we have no choice but to suspend dividend payments for the foreseeable future. Trading in shares on the Resale Market will also be suspended until we have more information on the likely conclusion of the situation and the potential impact on the value of the flats.

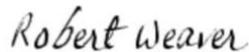
We understand that this is serious and disappointing news with many questions remaining unanswered.

Ultimately, the best planned and managed property investments are not risk free. Premier House represents less than 1% of the value of properties on our platform.

A comprehensive and professional due diligence process is at the heart of every property acquisition we make. We will continue to monitor the situation at Premier House closely, in addition to pursuing the claims mentioned and provide you with an update by 30 June 2018.

Please don't hesitate to [contact](#) our customer support team if you have any questions about the situation at Premier house or how this affects your investment with Property Partner.

Robert Weaver



Director of Property