

## The Picture Works, Nottingham | Fire safety situation report

Update 5 April 2019

**Today, we have announced that trading in Picture Works will resume at 11am Wednesday, 10 April. The below update contains essential information for shareholders of Picture Works and investors potentially interested in buying shares.**

At the time of our last report on 20 December 2018, the potential claim to cover the cost of the work required to the cladding system under the building warranty was still being investigated. Since then, we have heard that the surveyor believes there are areas on the upper floors of the building where there are no fire breaks behind the cladding.

The warranty providers undertook their inspections in January 2019, and have advised they would have an update no earlier than May. If the warranty provider accepts the claim, they will undertake all required works at their own cost. This means the three quotes for the works we were expecting by the end of March, together with commencement of the works, have now been put on hold while the warranty claim is being pursued.

The cost of upgrading the fire alarm system, which removed the need for the waking watch and the additional security, has been shared by the leaseholders via increases in the service charge. It is not anticipated that there will be any further fire safety costs until the managing agent has heard from the warranty provider.

As the SPV is the leaseholder of eight units in the building, the SPV would be responsible for 6.94% of the total cost of the works. If the warranty provider refuses to accept responsibility for the required works, we have been advised the cost of the works is likely to be in excess of £1.5 million. Based on the service charge proportion that the SPV is responsible for, this would amount to a sum in excess of £104,000.

**The independent surveyor's valuation at 31 March 2019 shows a decrease of 15.3% and reflects the possible risks, uncertainty and sentiment if we were to sell the property today - importantly, Property Partner has no plans to sell the property. Should an opportunity or need arise to sell the property, Property Partner would put that decision to a vote of the property's shareholders. Given that the property is likely to be held for the medium to long-term, it is relevant that the potential cost of the cladding work is approximately 9% of the value of the property prior to the fire safety issues arising.**

The property (all units as a whole) is currently yielding monthly rent of £6,500. Operating costs include property management £680, service charge £1,500, ground rent £150, mortgage interest £1,750 and tax £450. This is therefore producing a monthly surplus of approximately £2,000.

There is currently approximately £12,000 in the SPV's bank account. Given the small monthly surplus relative to the potential cost of replacing the cladding, the dividend suspension will remain in place for the foreseeable future.

The best estimate that we have been given for how long the cladding works may take is 1-2 years and this is likely to commence following the resolution of the warranty claim described above.

The next update will be given on 5 July, unless there is significant development.