

Premier House, Edgware | Fire safety situation report

Update 5 April 2019

As outlined in previous updates, the freeholder has instigated a claim with the Leasehold Valuation Tribunal, requesting their approval to pass on the cost of the remedial works required to the building (which includes new cladding, upgrades to the fire alarm system and the 24/7 presence of fire marshals) to leaseholders.

The leaseholder's group, which we were a part of, is opposing the freeholder's claim on the basis that

- the freeholder did not obtain reasonable quotes for the works, and
- the freeholder is claiming costs for works from leaseholders by increasing the service charge, rather than by following the required Section 20 three-stage consultation process.

The Tribunal has scheduled the hearing to commence in April 2019.

Experts have been appointed by the leaseholders' group with instructions to produce reports on whether the existing cladding was compliant with the guidance and regulations that applied prior to the recent revisions to the regulations as a result of the Grenfell Tower fire, and whether the amount spent by the freeholder on the remedial measures and related actions were reasonable and not excessive.

The above actions are only possible because a 'fighting fund' was created and funded by leaseholders for the purpose of fighting this case. A number of leaseholders have confirmed they will not be contributing further, as the likelihood of success, judging by other recent cases, seems to be decreasing. Property Partner, acting on behalf of the leaseholder (the SPV), has also decided not to contribute further, as progress is slow and we agree the likelihood of success is limited. Accordingly we are no longer receiving updates from the leaseholders' group. As a leaseholder, the SPV would still benefit if there is any success.

In the time since our last report on 20 December 2018, there has been a second claim instigated. Two leaseholders, who collectively own 21 flats in the building, approached other leaseholders to join them in their claim against CRL (who are the building warranty providers for Premier House), the developer of Premier House and any related parties. We have decided to join this action, at no additional cost to the SPV, and have received confirmation that the majority of the other leaseholders have also joined this action. The group is now in conversation with the freeholder and other relevant parties about the possibility of a negotiated settlement.

If successful, we anticipate that this action against CRL will cover the cost of the replacement cladding and associated redecoration works, but not necessarily the cost of the fire marshals or the upgrade to the fire alarm system.

It is difficult to know when these two matters will be concluded. The freeholder's claim to the Leasehold Valuation Tribunal may be resolved at the April hearing, however, we anticipate there will be further delays or further evidence sought which could extend the timeframe.

With regards to the claim of the leaseholders against CRL, since settlement is being sought out of court, there is no indication as to when it may be resolved, as timings can be dependent on how quickly the two parties respond to each other and whether a claim will need to be issued in the courts if a satisfactory out of court settlement seems unlikely.

The cost of upgrading the fire alarm system and of the 24/7 fire marshal presence at the property has been shared by the leaseholders via the increased service charge. The SPV has paid approximately £20,000 in increased service charges to date.

If the aforementioned claims prove to be unsuccessful, the total cost of the works to replace the cladding is estimated to be £1.9m-£2.6m. The SPV, as the leaseholder of three units, would be responsible for 2.35% of this total amount - between £44,000 and £62,000. Please note this is an estimation based on indicative costs and could increase if additional costs become payable.

The independent surveyor's valuation at 31 March 2019 shows a decrease of 24.6% 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 5-6% of the value of the property prior to the fire safety issues arising.

The property is currently yielding monthly rent of £3,100. Operating costs include property management £300, service charge £750, ground rent £150, mortgage interest £1,400 and tax £100. This is producing a monthly surplus of approximately £400. The service charge is now £500 higher per month for all flats in total than it was originally, on account of the waking watch which is required until the cladding has been dealt with, together with the general service charge budget having increased over the years due to increased operational costs.

There is currently approximately £4,000 in the SPV's bank account, however Property Partner loaned the SPV £20,000 to cover the additional costs for the fire safety measures already incurred, therefore the SPV currently has a net deficit. Given that deficit and 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 various freeholders actions described above.

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