

Fairchild House, Southampton | Fire safety situation report

Update 21 June 2019

Fairchild House is a student block that we purchased in August 2018. At the time of purchase our fire safety due diligence showed that the building was compliant, although our survey identified and costed certain minor defects for which we provisioned, which included, to a small degree, some fire stopping issues. The survey report commissioned by us at the time of purchase confirmed that further enquiries of the Seller needed to be made with regard to the fire stopping, as compartmentation issues cannot be ascertained without intrusive investigations which we could not do as we did not own the block.

Enquiries were raised of the Seller and the Seller had clearly confirmed that work had been completed, as the Fire Risk Assessment (FRA) report from September 2015 stated the building could not be occupied until compartmentation works had been undertaken. Again, the Seller had confirmed that tenants were only in occupation as works had been completed. Given the tighter regulations introduced post Grenfell, to ensure properties meet the highest fire safety standards, we conduct FRAs on all new purchases. Therefore, following the purchase of Fairchild House, and after we changed the management of the property, we commissioned an intrusive FRA that revealed more substantial issues, requiring necessary work to be undertaken.

Given the scale of the work required, we secured three quotes which we then assessed with our managing agent and selected a final contractor, resulting in a final quote of £229,681 (including VAT). We have instructed the works, which are expected to complete by the end of July 2019. This will not have any effect on the tenants in situ or the incoming tenants in September.

We have legal grounds to believe that the Seller deliberately concealed these issues and we have issued a Letter Before Action laying out our claims against him, including full recovery of the cost of these works. As with any litigation, we must prepare for a long process and an uncertain outcome.

Whilst we raised provisions at the point of funding in accordance with the advice received at that time, these are not sufficient to cover the cost of these works. Accordingly, we have increased the mortgage to pay for the works.

The property is currently suspended on the Resale Market and the financials have been updated to reflect the increased mortgage. The terms of the new component of the mortgage require us to repay that component over the remaining term (approximately 5 years), which in turn requires us to decrease the dividend to 4.27% to reflect the new monthly repayment.

Fairchild House will recommence trading on Wednesday, 10 July at 11am. We will continue to update all investors as we progress with legal proceedings against the Seller, and in any event, provide an update no later than 7 October 2019.