

Picture Works, Nottingham | Report



Trading and dividend payments suspended from 28 June 2018

Picture Works Nottingham is a 10 storey residential block completed in 2009, containing 128 leasehold flats. Property Partner acquired 8 flats on behalf of investors on 7 January 2017. At the time of this purchase the relevant building regulation sign offs were received, which was confirmed by Property Partner as part of our due diligence prior to acquiring the flats. However, we have recently learned of a number of issues which mean that the building does not meet the latest fire safety regulations.

Following the Grenfell Tower fire tragedy in June 2017, the Government issued guidance that high rise buildings should be assessed to identify if ACMs (Aluminium Composite Materials) are present in the cladding. The resulting inspection at the Picture Works confirmed that ACMs were not present in the cladding, which covers 20% of the exterior facade of the building.

However, a series of additional, less urgent, fire safety requirements for high rise buildings were also introduced, requiring further assessment to take place. On 25 June, we received notification from Wildheart, the managing agent, acting on behalf of the freeholder, informing us that investigations have identified that where cladding is in place, neither the frame it is attached to, nor the insulation in place are fire rated and there are no requisite cavity barriers.

The freeholder and Wildheart are preparing a plan of action to remedy the situation and ensure compliance with the latest fire safety regulations. Options include replacing the cladding for a new system or changing to a fully rendered system throughout the building. The managing agent is not able to provide specific details of timings or what the cost of the work will be at this early stage, but estimate that the costs will be substantial. The process of obtaining quotes and planning the work will begin with the issue of a section 20 notice of intent in the coming fortnight.

It is standard practice 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, particularly where such works are to ensure the building remains compliant in terms of fire risk / Government regulations.

The managing agent is assessing the feasibility of a claim to cover the cost under the building warranty, which we will follow with interest and provide updates on, but we can provide no assurance at this time as to whether the claim would succeed as the building passed the relevant regulations in place at the time of its completion.

For the time being, a new fire alarm system is being installed to ensure building safety which will cost in the region of £25,000. This, along with a small amount of costs incurred receiving professional advice from surveyors, will be passed onto leaseholders via extraordinary charges in the service charge bill.

Our holding of 8 flats account for approximately 7% of the overall cost of maintaining the building. We believe that our share of the cost involved in replacing/renovating the cladding system is likely to be substantive relative to the annual dividend of £25,800 generated by the properties. Given these costs and the potential impact on an investor's assessment of the current value of the property, we have taken the decision to suspend dividend payments and resale market trading until we have certainty over the cost of remedial works.

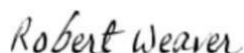
We understand that this is serious and disappointing news with many questions remaining unanswered.

Ultimately, the best planned and managed property investments are not risk free. Picture Works represents less than 1% of the value of properties on our platform and is one of only two properties to experience problems of this nature.

A comprehensive and professional due diligence process is at the heart of every property acquisition we make, and we are confident that required fire safety standards are being met across our portfolio. We will continue to monitor the situation at Picture Works closely and provide you with an update by 31 July 2018.

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

Robert Weaver



Director of Property