**Admiral House, Cardiff**
**(Newport Road Maintenance Ltd)**

29.10.2022

All leaseholders

**Admiral House (Newport Road Maintenance Limited - "NRML")**

Dear Leaseholder,

Below is the latest of our regular communications on the property. This deals with the ongoing building work (fire safety work and render project) under section 20.

Please take the time to read this information carefully. If you have any questions on any of the information provided, please contact WPP who will be able to assist you.

Kind regards

Emrys, Matt, Nasir, Susan, Phil

The Board of Directors of NRML

Building Work (section 20)

As you will be aware from our last communication earlier in the year, over the last few years we have been planning for a significant patch and repair of the building's existing render.

As a reminder, this work is necessary as the current render is old and was not initially well maintained. As a result of this, the property suffers from new leaks each year that continue to damage the internal fabric of the building as well as individual leaseholder apartments. Whilst the render issues are not currently dangerous structurally, the longer that the work is left, the more it will continue to damage the building, the more it will cost to eventually repair, and the more it will make the building unappealing to future renters and buyers, reducing ongoing rents and apartment values when selling.

Planning for this project was complicated by two issues:

1. The company selected to undertake the work in summer 2022 withdrew their tender advising the contract was no longer viable for them. This meant that the tender process had to be re-opened and higher bids considered.

2. The South Wales Fire Authority placed an enforcement order on Admiral House, requiring a significant number of new fire safety improvements to be made to the building immediately.

This enforcement order relates to ever increasing regulation and new requirements on apartment blocks since the Grenfell Tower fire, which has impacted many hundreds, if not thousands, of properties across the UK. Admiral House has passed all annual fire safety risk assessments to date but does not meet a number of the new requirements due to the way that it was originally converted from an office building into apartments. The enforcement order requires resolution of issues relating to smoke seals, fire door distancing, compartmentalisation issues between floors, ducts for smoke to pass through and more.

Due to the significant cost and unfortunate timings involved, these issues were discussed with leaseholders during the special meeting that was held in November 2021. It was decided by majority vote to delay the render project to summer 2023 to allow time to re-tender the project, find a new contractor and collect the further funds that are likely to be required. It was also agreed that the fire safety work would be paid for from the render project section 20 funds that had already been collected.

To date:

- The fire safety work has progressed well, is currently on budget and is almost complete.
- All section 20 funds have now been collected from all leaseholders (except a small minority in the hands of solicitors for nonpayment or those in probate).

Our consulting engineers for the render project, Curtins, have now completed the re-tendering for the render work and evaluated the next best option. 3 tenders were received. This indicates that the work will now cost approximately £1.2 million to undertake (previous winning tender was c.£900,000 on a like for like basis). This is due to rising prices in the economy, the ongoing worsening state of the render and ensuring that all requirements of the schedule of work were adequately and consistently covered by all tenders to be like for like.

The directors have discussed our available options at length and have given significant consideration to the following relevant issues:

- The Residents Management Company's (NRML) obligations to maintain the structure of the building for the overall landlord per the headlease.
- Our responsibility to all leaseholders to maintain the building to protect the individual properties within from deterioration so that they maintain their value and remain a great place to live in.

- Delivering the best overall, long-term value for money from the service charge and any section 20 exceptional charges that are required.

- The requirement to collect a further section 20 exceptional charge to undertake the render project because (i) the project costs have increased & (ii) a portion of the funds were used to pay for the unforeseen fire safety works.

- The current financial pressures that we are all facing with significant cost of living increases and price inflation on items such as fuel, utility bills, food, mortgage payments and other goods and services.

- The ever-increasing cost of undertaking the patch and repair work in the future as the render continues to deteriorate if the work continues to get delayed indefinitely.

- The time and effort that is has taken to date to collect the first section 20 exceptional charge from all leaseholders, with significant delays encountered for a variety of reasons including initial refusal to contribute and also leaseholder financial difficulties leading to the slow collection of funds under payment plans.

- The future time and effort to collect future charges from leaseholders and the necessary admin involved.

- The extent and cost of the mandated fire safety works that were required to be undertaken immediately on the building after the South Wales Fire Authority issued a legal enforcement order. Given the immediate, mandatory and importance of this work, it was funded from the render section 20 exceptional charge that has already been collected from leaseholders (with the prior agreement of leaseholders). This has reduced the overall amount now available for the render project and will increase the future financial burdens placed on leaseholders to pay for all of the works that are required.

- The possibility of some amount of reimbursement for the fire safety work from the Welsh Government. This claim is being regularly followed up with the Welsh Government, who have not currently provided any indication whether the claim will be accepted or not.

- The possibility of further future fire safety work being required as the Welsh Government is due to undertake its own investigations on all high-rise buildings in Wales regarding fire safety standards. If further work is required, this will come with further future financial burden for leaseholders.

- The Landlord & Tenants Act 1985 requirement for Residents Management Companies to have the means to pay for any work before it is committed, together with this type of company's inability to obtain any of sources of financing such as loans. This means that contracts for the work cannot be signed until all required funds have been collected directly from leaseholders.

- The delays already experienced due to the COVID-19 pandemic and the withdrawal of the winning contractor from the first tendering exercise on the basis that the contract was no longer viable for them.

- The preference to undertake the work during the drier and less windy months of the year (i.e. the summer) to minimize risk to contractors working at height and minimize water ingress during the work.

- The disruption that the work will cause, including scaffolding of all 4 sides of the building to make the patch and repair possible. Rope access or use of the maintenance platform are not considered possible for this work given the scale of the work and the requirement to remove and replace sections of render.

- Leaseholders' requests to receive interest on their funds. This is not possible for the simple reason that NRML is a Residents Management Company; it generates all of its revenue via leaseholder service charge and spends all of this money maintaining and managing the property. As such, any interest paid to leaseholders would have to be collected from leaseholders via the service charge and so the process would be circular. We do recognize the frustration of leaseholders who contributed their funds when originally asked and have had to wait for all funds to be fully collected from others. We ask that all leaseholders plan accordingly to make the future payments required on time to avoid further delays and frustrations.

- Leaseholder requests to receive a refund until nearer the commencement of the project. Given the difficulty in obtaining this first tranche of funds from all leaseholders, we do not wish to risk further delays by creating an even larger financial burden on leaseholders who would have to provide the full project funding in one installment during 2023.

<u>Next Steps</u>

After careful consideration of the options available to us and with reference to the above factors, we have agreed on the following course of action:

1. Delay the patch and repair work until summer 2024

   This will provide time to finalise the tender process, draw up and sign contracts and give leaseholders time to gather the additional funds required.

2. Continue to hold the funds already collected from leaseholders.

   This will demonstrate to contractors that NRML is committed to undertaking the project. It will also minimize the future financial burden on leaseholders and provide buffer should further fire safety works become necessary.

3. Issue the second section 20 exceptional charge for the remainder of the funds required as soon as possible and set the final payment date to receive these funds at 30th September 2023. This will maximise the time available for leaseholders to gather the additional funds. We expect the second exceptional charge to be approximately the same amount as the first charge (see financial analysis below).

4. Sign the contract as soon after this as possible, to commit the work to commence in Spring 2024.

Financial Analysis

To provide as much transparency as possible, we have included a summary of the current relevant monetary amounts below:

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|---|---|---|
| Funds already collected from leaseholders | A | £900,000 |
| Estimated total cost of fire safety works | B | £250,000 |
| New expected total render project cost (including 20% contingency & 20% VAT) | C | £1,200,000 |
| Remaining funds to be collected: | D<br><br>(Difference of A minus B to result in figure C) | £550,000 |

Governance

During the November 2021 meeting with all leaseholders, we agreed to organize a further meeting for all leaseholders in 2022 to discuss progress and updates. However, given the content of the update we believe scheduling a meeting in 2023 (date to be determined in due course) would be the optimum approach.

During the November 2021 meeting, the issue of board composition was also raised. To try to minimize disruption during the two major projects being undertaken, we asked that anyone interested in joining the board of directors indicated their interest to WPP and completed a brief biography/resume to help us consider individuals' experience and how best to rotate existing directors off of the board. To date, we have not received any expressions of interest to join the board.

As a reminder, the Board of Directors for Admiral House are all leaseholders themselves, serve on a voluntary and unpaid basis and are charged with the duty to manage the property in the best interests of all leaseholders as equitably as possible under company law.

Kind regards

The Board of Directors of NRML