Admiral House, Cardiff
(Newport Road Maintenance Ltd)

20.12.2021

All leaseholders

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

Dear Member,

Below is the latest of our regular communications on the property. This continues to be a challenging time for the property and there are a number of activities currently being undertaken and so we have split this update up into the following sections:

- Building Work
  - Render Project
  - Fire Safety Compliance Work
- Service Charge
- Planned Maintenance
- Governance
- Next Steps…

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

For several years, we have been planning for a significant patch and repair of the building's existing render. Planning for this project has been complicated by two new issues:

1. The company selected to undertake the work in summer 2022 recently withdrew their tender advising the contract was no longer viable for them.

   Our consulting engineers for the render project, Curtins, have now re-tendered for the work to assess the next best option. To date, we have received tenders from 3 companies. These indicate that the work will now cost in excess of £1 million to undertake (previously tendered at £650,000).

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.

2. The South Wales Fire Authority has placed an 'Enforcement Order' on Admiral House, requiring a significant number of new fire safety improvements to be made to the building. This work is mandatory and must be actioned immediately to avoid fines and further sanctions on the property.

   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.

   Accredited fire safety specialists have already been engaged to assess these issues and provide quotes to resolve them. From quotations received to date costs for the work are expected to be around £250,000. For your reference, NRML has made an application to the Welsh Government's Building Safety Fund to provide financial support. However, it is unclear if any funding will ever be approved. Given the importance of this issue and the mandatory enforcement order, the board is already commencing this work.

Given these two issues, which both create further financial burdens on leaseholders, we recently held an open consultation with leaseholders via Zoom to discuss the issue in detail.

We also noted the following relevant points for the consultation:

- The fire safety work is non-negotiable and requires urgent attention, so the question here is only how to fund the works in the short term.
- The render project is necessary work, but there is an option to delay this work into 2023 given that no contract has been signed yet. However, note that delay of this work, is likely to increase the overall cost of the project as companies will add larger contingencies to their tenders.
- Most of the funds requested for the original price of the render project have already been collected from leaseholders.
- NRML maintains a small reserve fund to help to cover unexpected costs. Whilst this will not cover the total costs, it may be used to minimise the short-term burden on leaseholders but will require replenishment over the next few years via a larger ongoing annual service charge.

We proposed 3 options:

1. Delay Render Project (RECOMMENDED)
   - Pay for the fire safety work through a combination of existing reserve fund and render project funds already collected.
   - Continue to collect already invoiced outstanding render project funds from leaseholders so that all leaseholders have contributed as per the terms of their lease.
   - Delay the render project until summer 2023.
   - Collect all additional required funds in summer / autumn 2022.

Benefits:

Spreads the work & cost across two years.

No further short-term financial burden on leaseholders.

Least administrative work required.

Drawbacks:

Delays render project another year which may lead to further increased costs.

2. Continue Both Projects Together
   - Pay for the fire safety work through a combination of existing reserve fund & render project funds already collected.
   - Continue to collect already invoiced outstanding render project funds from leaseholders so that all leaseholders have contributed as per the terms of their lease.
   - Progress render project, continuing to target summer 2022 (if possible).
   - Collect all additional required funds in winter 2021.

Benefits:

Resolves both issues in the shortest possible time.

Likely to be the cheapest overall option in total.

Drawbacks:

High short-term financial burden on leaseholders.

Works will run concurrently with associated disruption on the building.

3. Separate, New Fire Safety Project
   - Pay for the fire safety work through a new Section 20 Consultation process and new invoicing to be collected winter 2021.
   - Refund all already collected render project funds back to leaseholders in winter 2021.
   - Delay render project until summer 2023.
   - Collect all render project funds in summer / autumn 2022.

Benefits:

Lowest short-term financial burden on leaseholders.

Spreads the work & cost across two years.

Drawbacks:

Likely to be most expensive overall option in total.

Delays render project another year which may lead to further increased costs.

Most administrative work incurring further cost.

WPP collected votes for the 3 options from leaseholders. The result of this voting was:

1. Delay render project: 36 votes
2. Continue both projects together: 10 votes
3. Separate, new fire safety project: 1 vote

This confirmed the Board's recommendation and so we will now progress with option 1.

Service Charge

2021

We currently expect to overspend the service charge budget that we set for 2021 by £21k, a 5% overspend (Budget: £395k. Current forecast: £416k). This is mainly due to the following reasons:

- Building Insurance (£13k over budget): Building Insurance is obtained by the freeholder and then charged to leaseholders per requirements of the 'Landlords and Tenants Act 1985.' Building insurance premiums have increased dramatically across the UK in the last year. Given the increase, to ensure value for money, we undertook a market assessment and found the price to be reasonable and in line with the current market.
- Car Lift Repairs (£11k over budget): Due to their age, a number of maintenance related actions were required to maintain their operation. They were redecorated too.

'Balancing charge' invoices for each leaseholder's share of this overspend will be included as part of the billing for the second half of 2022 as in prior years.

2022

Included with this update are the service charge invoices for the first 6 months of 2022. This should be paid as normal and is in addition to any section 20 render or fire safety compliance work invoices.

We have set a budget of £436k for 2022. This represents a 5% increase on the amount that we expect to pay for 2021. This increase is mainly due to an increase in national minimum wage that has raised our expected staff wages budget.

Future Planned Maintenance

We continue to work with WPP to plan the ongoing maintenance of the property. This year we have noted that the fire warning system and door entry intercom system have both required repairs. Both of these systems are obsolete and replacement parts are no longer made by the original suppliers, causing additional delays and cost. Both of these systems will be candidates for future replacement / upgrade once the current render and fire safety priorities are resolved.

Governance of Newport Road Maintenance Limited ("NRML")

During the consultation on the render/fire safety work, a small number of leaseholders raised concerns regarding the amount of communication and interaction that they receive from the Board. We are keen to address these issues and so will take the following actions:

1. Minutes of board meetings will be made available on the Admiral House website sooner after each meeting http://admiralhousecardiff.com/ . This will require the minutes to be draft, having not been ratified as accurate by the board at the next meeting, but will provide information to leaseholders sooner than it is currently shared.

2. The board will continue to write these 6 monthly updates to leaseholders, alongside the service charge process, as we have done over the last few years.

3. The board will organise semi-regular general meetings to update leaseholders and provide a forum to discuss current issues. The Board intend to hold the first of these via Zoom in May/June 2022 when we have progressed the building works projects but before we send the invoices to collect all additional required funds in summer / autumn 2022.

4. The board will also use the coming months to review its current composition and consider the best way to give members the opportunity to join the board over the coming years without disrupting the projects currently being managed. If you are interested in joining the board, please contact WPP to register your interest by 31st March 2022.

With this information, we will then be able to propose a plan to rotate membership during the above May/June general meeting.

During the consultation meeting, a small number of leaseholders requested reinstatement of Annual General Meetings ("AGMs"). These were removed several years ago on the basis that they were costly (both in price and administrative time for all involved), poorly attended and provided little value as they were mainly compliance related. For these same reasons, we do not believe AGMs to be a good solution to the issues raised.

5. The Board of Directors for Admiral House are all leaseholders themselves and serve on a voluntary and unpaid basis with a duty to manage the property in the best interests of all leaseholders as equitably as possible.

Next Steps…

Leaseholders should now expect:

- The fire safety works to progress immediately. We expect this to cause some disruption in the communal areas as the work progresses floor by floor throughout the coming months.
- To pay the first half of 2022 service charge invoices included with this letter as normal.
- The render project to be delayed until summer 2023.
- Any render invoice amounts still unpaid by 31st January 2022 will be referred to solicitors to begin legal proceedings to collect the funds. These invoices were issued in May 2021 and were meant to be paid by September 2021. The majority of leaseholders have paid and it is unfair not to collect this from all parties as was agreed through voting for option 1 above.
- A general meeting to be scheduled for May/June 2022 to provide a further update on the building works progress and discuss any issues.
- Further render/fire safety works invoices to be issued to leaseholders in June 2022 for the additional funds that will now be required to complete both projects. These should be paid by 30 September 2022. These timelines have been set because per Landlords & Tenants Act 2002, NRML cannot sign a contract with the selected company to complete the work unless it already has the cash to pay the contractual obligation in its bank account.
- The render project to commence in summer 2023. This will involve scaffolding around all four sides of the building and will cause disruption for tenants for the duration of the work (expected to last 30 weeks).
- Further communication on board elections ahead of the above planned general meeting. Please contact WPP by 31st March 2022 to register your interest if you would like to join the board in future.

The Board of NRML wishes you Season's greetings and the very best for 2022.

Kind regards
The Board of Directors of NRML