



ARMA update on Government Advice Note 14

AN14 was issued by the Ministry of Housing, Communities and Local Government (MHCLG) in December 2018 and concerned buildings over 18m with wall covering systems based on non-Aluminium Composite Material (ACM), i.e. high-pressure laminate (such as Trespa), good old-fashioned wood and so forth.

AN14 sat around relatively benignly for about eight months until it suddenly reared its ugly head.

The problem with the note was, as always, the unintended consequences, in that it opened the Pandora's Box of retrospective compliance with current building regulation, was binary with no scope for the level of risk, didn't take into account mitigating factors such as the amount of material, the presence of waking watch or sprinklers, and the test required (BS8414) costs around £45k and can take from 6 – 19 months to complete. So not something that can quickly be done to help a leaseholder with their sale.

The second factor coming into play was the Professional Liability insurance market. Ordinarily a building surveyor or fire engineer could look at a building, investigate and state that in their professional opinion the building was safe. This was good enough for lenders and a mortgage would go through the normal channels. But under the current climate those professionals are being told that they will not be covered under their insurance if it subsequently turns out that the building cladding will need to be replaced. And without that protection those professionals are, quite understandably, unable to give their go-ahead.

AN14 first manifested itself in the sales process, as valuers were starting to return zero valuations on flats.

Let me first explain that a zero valuation doesn't (necessarily) mean that a flat is worthless. It is usually an administrative mechanism to stop the processing of a mortgage until more information, and hence an accurate valuation, becomes available. But needless to say, a leaseholder who is suddenly told that their flat has been valued at £0 gets rather a shock – as do all their neighbours when they find out. And the managing agent is the first in the firing line with some agents already receiving demands for compensation for lost sales.

We are also hearing reports of the testing requirement being asked for in the case of buildings below 18m, or in some cases that any form of cladding at all, whether tested or not, cannot be loaned against. Clearly the market is getting into a jumpy situation and we are facing the potential lock-down of the high-rise flat sales market, which is in no-one's interest.

So, what is being done? RICS is hosting a rapid series of industry working groups, of which ARMA is a member. After much discussion, a form that is acceptable to lenders has been developed. This form (EWS1) needs to be signed by members of various professional bodies and will be taken by lenders to mean that the building has aspects that make it safe. The hurdle at the moment is the insurance cover for those professionals and that is being worked on. Engagement is being made at all levels of Government, including MHCLG. Once the form is agreed as a workable solution, we will send it out to all our members.

The unfortunate and unintended consequence of Advice Note 14 has meant that people trying to sell or re-mortgage their flats are finding that it is impossible to do so. This obviously causes a great

deal of heartache and anguish to people. As the first point of contact with leaseholders managing agents are finding themselves blamed for matters that are not their fault, dating back, as they do, to when the building was first constructed.

There is a huge cross-industry effort in collaboration with the Government to unblock the valuations process. The 13th December 2019 release of the External Wall System (EWS1) form will serve to help unblock the sales process.

It may be some small comfort for people to realise that the valuer putting a £0 value on a home doesn't necessarily mean that a property is considered worthless - it is simply a technique used by valuers to place a hold on a valuation pending further information. Not all valuers and lenders are taking this approach and people trying to sell or re-mortgage would be advised to shop around.

Rest assured that we are all doing everything we can to get the sales market moving again.

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