Q1 2021

Bricklane Investor Report

AS WITH ALL INVESTING, YOUR CAPITAL IS AT RISK. YOU MAY NOT BE ABLE TO SELL YOUR INVESTMENT WITHIN A REASONABLE TIME FRAME, YOU SHOULD NOTE THAT TAX TREATMENT DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF EACH CLIENT AND MAY BE SUBJECT TO CHANGES IN THE FUTURE. INVESTMENTS ARE MADE THROUGH SHARES IN REITS. PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE RETURNS.

Introduction

As a result of the covid pandemic, rental and sales demand for city-centre properties remained relatively subdued in Q1 2021 with the 'search for space' ongoing.

As we have been updating investors, the impact of fire safety remediation costs will likely now remain on the Regional Capitals fund following recent guidance received from the Government, while the London fund currently remains unaffected.

Details on both funds' Q1 2021 performance, as well as the latest developments related to the ongoing fire safety issues and our decision to extend the most recent trading cycle, are included below.

Investors can access all Investment Updates and Quarterly Investor Reports here.

London fund

In Q1 2021, the London fund's share price rose 1.33%, with occupancy at 83%. The portfolio valuation increased by 0.2% from £4.06m on 31 December 2020 to £4.07m on 31 March 2021.

Measures announced in the Budget - including the stamp duty holiday extension and 95% mortgage guarantees - are helping to support activity in the wider market. However, much of the momentum and price growth continues to be driven by demand for larger properties in commuter towns and villages, rather than the types of properties in which the London fund invests i.e. 1-3 bed city-centre flats. It remains too early to say whether this trend will reverse as the vaccine rollout accelerates and the UK begins to emerge from lockdown.

While the London fund's properties are not currently impacted by fire safety issues, recent share trading has been affected by the uncertainty around the Regional Capitals fund.

Regional Capitals fund

In Q1 2021, the Regional Capitals fund's share price fell 0.8%, with occupancy at 92%. The portfolio valuation decreased by 0.6% from £22.0m on 31 December 2020 to £21.9m on 31 March 2021. This was mainly due to an increase in the estimated cost of fire safety remediation work which rose by ~£400k over this period.

The most significant factor influencing performance continues to be the ongoing fire safety issues in affected properties - bringing costs of remediation works that must be met by the fund. Additional factors include the impact of investors looking to exit sooner by discounting their shares in order to attract a buyer. The average discount achieved by these buyers looking to exit is reflected in the share price of the fund, in addition to movements in property values/rents.

Fire Safety Issues

In Q1 2021, there were a number of significant developments relating to the ongoing fire safety issues.

Fire Safety Bill amendment

Last November, the Lords added an amendment to the Fire Safety Bill which sought to ban leaseholders (such as the Regional Capitals fund) from bearing any of the costs of fire safety remediation work.

The amended bill returned to the House of Commons in late February but the amendment was ultimately voted down. After a subsequent attempt to include the amendment was also defeated, the government’s bill was passed into law in late April.

The State Aid cap

In early February, the Government announced additional funding to help leaseholders cover the costs of remediation works, bringing the total funding available to £5bn.

However, for much of the quarter, uncertainty remained about how much of this funding the Regional Capitals fund would be able to access due to the state aid cap, a legacy EU rule which limits the amount of support that corporate entities can receive from the Government to €200,000.

Throughout this period, we sought clarity on this issue from the Government, and received positive indications that the cap would either be removed, or replaced by a more favourable cap. Additionally, in February, the Government publicly announced that "all leaseholders" in buildings over 18m would be covered by the government funding, and that it would pay "for the removal of all unsafe cladding on high-rise residential buildings".

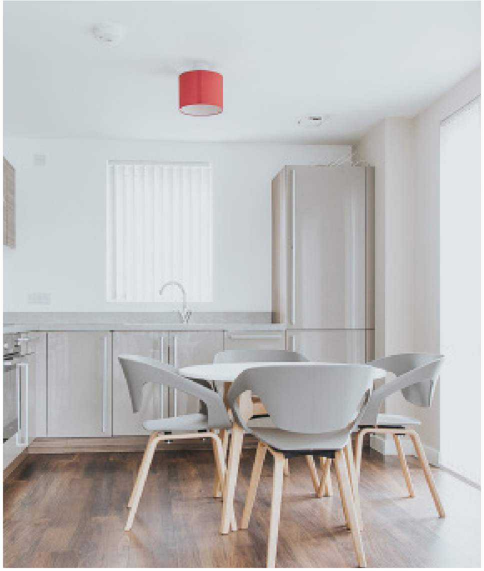
As part of this announcement, the Government indicated that further detail about the additional funding would be revealed in the Budget and the trading cycle was extended for two weeks to accommodate this temporary uncertainty. However, no mention of the fire safety funding or the state aid cap was featured in the Budget and we therefore resumed our efforts to press the Government for urgent clarity on the state aid issue.

Finally, in late March, we received guidance from the Government that, despite prior announcements in Parliament and online, it would not be covering the cost of fire safety remediation work for the Regional Capitals fund and that a state aid cap would remain in place.

This was a very frustrating development which meant that the cost provision held on the Regional Capitals fund would remain, and the work will need to be paid for from the fund's available cash. Additionally, sky-rocketing insurance costs in affected buildings have also resulted in a debt covenant breach which we are working with our lender, Barclays, to resolve.

After careful consideration, on 25 March, we extended the trading cycle on both funds for four to six weeks in order to evaluate the options available for the funds and agree the best route forward to protect investors' interests. We will update investors on the outcome of this review in the coming days.

Recent updates



Since our most recent investment update, we have been working to sell selected unaffected properties to pay for the required remediation works and to resolve the debt covenant breach with Barclays. Currently, we have offers accepted on several properties to a combined value of £2.44m.

Although the Government has made no further public announcements with regard to the detail of the funding, we have received private confirmation that the state aid cap will remain and is set to be increased to £335,000. While this is higher than the previous cap of €200,000, it is still only a small portion of the estimated overall cost provision faced by the Regional Capitals fund. Now that the state aid cap has been confirmed, our estimate of the cost provision as at 31 March is £1.8m.

We have also learned that the building in which we own 28 flats has been formally approved for the Building Safety Fund by Homes England. Now that the building has been formally approved, all costs for eligible leaseholders in the building will be covered in full and as such, the Regional Capitals fund will use the full allowance of £335k to partially offset the cost of the works.

We continue to review options to determine the best possible solution for shareholders and will be in touch shortly to update you further.