LANDLORDS: FIGHT BACK WITH TITLE SPLITTING AGAINST CHANGING LEGISLATION DRIVEN BY SUCCESSIVE GOVERNMENTS

By **Rachel Knight, TitleSplit.Com**

As I sit here in October 2024, writing this article for YPN's November issue, the aftermath of the Labour Budget on 30th October is likely weighing heavily on landlords across the UK. Many of you may be feeling frustrated, disheartened, or even defeated by yet another wave of government policies that seem to target landlords and property developers.

It's baffling, especially with the ongoing national rental crisis. Since 2019, rental stock across the UK has dropped by 25%, creating a severe supply shortage. The Twenty CI property and homeowner report revealed that by Q2 2024, most of the UK had less than a month's worth of rental stock. In fact, Property118 reported a drop from 369,000 homes in 2019 to just 276,000 in 2024. Zoopla's Home Track data confirms this dire shortage. Despite the persistent 'Landlord Bashing' from governments, there is a huge opportunity for newer investors to grow their portfolios by providing quality private rental homes in a market with such a significant undersupply.

Now is exactly the right time to enter the market for Title Splitting If you've been following the latest property news, you'll know that both the Conservative and Labour governments have created a perfect storm for traditional BTL landlords. Even some newer landlords are looking to divest their BTL rental stock and here's why:

- **The Renters Reform Bill**, which includes the abolition of Section 21 no-fault evictions, has had its first hearing in parliament. Labour is moving quickly on this despite the overwhelmed court system, pushing for changes to protect tenants' rights. The bill also limits landlords to raising rents once per year, prohibits rejecting tenants on benefits and grants tenants the legal right to request pets—something landlords will have limited ability to refuse. These changes are significant for those of us with businesses built around renting properties.

- **The forced implementation of a minimum EPC rating of C for all rental properties by 2030** is on the horizon. While exact details are still being finalised, with a Labour government in power until at least 2028/9, compliance is likely. Upgrading older housing stock can be difficult, and many landlords, particularly those with older terraced homes, may opt to sell. Properties failing to meet the C rating by 2030 will be banned from being rented out. According to the Greener Homes Report, 2.9 million homes in the private rental sector will need upgrades. While the average cost to reach a C rating is estimated to be under £10,000, the actual cost may be far higher, especially for homes requiring internal wall insulation, kitchen replacements, or where external cladding is not viable.

- **Increased capital gains tax on property sales:** This change will likely have two main effects on landlords. Some may choose to hold onto their stock for longer, while others may decide to sell quickly and cut their losses before taxes rise.

- **Rent caps:** Rent caps are becoming a real possibility. They may have already been introduced in the October 30th budget, but the idea of rent caps—such as limiting increases to a maximum of 5% per year—is gaining traction. Many traditional landlords have kept rents lower for tenants, which means tens of thousands of properties are "under-rented". If rent caps are implemented, it will make it nearly impossible to raise rents to market levels on these properties.

- **Interest rates on mortgages:** One of the biggest issues to hit landlords in the buy to let sector during recent times, was the interest rate hikes. The Bank of England base rate was 0.1% in December 2021 and is currently 5% in October 2024. This may have peaked for now, but many landlords are really suffering a loss of cashflow. Mortgage rates have increased, with some portfolio landlords on rates of over 8%.

- **The Leasehold Reform Act:** As discussed in my August 2024 YPN article, the Leasehold Reform Act brings important changes for landlords. All new leases and lease extensions will now be for a minimum of 990 years, and any new leases will be capped at a peppercorn ground rent. This law is likely to extend to all residential leases over time, which is great news for traditional BTL investors, particularly those with leasehold properties.

The more problems governments create, the more opportunities property investors seize!

Whether you're new to property or a seasoned landlord or developer, the issues raised by government legislation present huge opportunities for trained, professional property investors. Title Splitting, in particular, opens up a massive opportunity for both cashflow and equity uplift. We cannot stop legislation, but we can decide whether to adapt to these changes, by purchasing the right type of stock and ensuring we have sufficient capital within our portfolios to take advantage of these opportunities.

Why Title Splits could be the answer to your problems

As landlord costs rise, it's crucial to get creative with adding equity to your portfolio. Multi-unit freehold blocks (MUFBs) are the perfect way to do this. These creative, complex strategies help ensure you achieve the required cashflow and absorb some of the costs from new regulations.

Paragon's Next Generation Landlord Survey (July 2024) found that 14% of landlords are investing in MUFBs, with that number expected to rise to 26% in the coming years. This shift reflects the growing trend of younger investors entering the buy-to-let market, with the average age of new landlords dropping from 46.4 years in 2014 to 42.9 years in 2023.

As regulations tighten, creative strategies like **Title Splitting** are exactly what you need to insulate your property business and ensure you stay ahead of the curve.

Methods to insulate Your BTL business against the financial impact of increased regulation. *(use Title Splitting to mitigate costs)*

Rest assured that government will always regulate, and those who have had enough will decide to leave the rental markets once and for all. But for those who want to acquire new stock, this presents a golden opportunity. If you're a long-term landlord, you're faced with a simple choice: sell up or adopt a strategy of 'if you can't beat them, join them.' Now, I'll share some creative solutions you can adopt, regardless of your planned course of action. But please note, while I'm not a financial or tax advisor, everything I share here comes from my experience in adding value through Title Splitting for years and training others to do the same

IDEA 1: LOWER YOUR INTEREST RATES AND LTVS ON YOUR MORTGAGES BY TITLE SPLITTING ON PURCHASE.

Buying unsplit blocks is great, however if you do not Title Split them immediately, then you risk missing out on the growing capital uplift of individually valued apartments. Unsplit blocks do not grow in line with UK capital growth. Most importantly, you also forgo the valuable interest rate savings available with individual buy-to-let (BTL) apartments, potentially costing you tens of thousands of pounds in extra interest. See the below example of exit finance options (onto term mortgages) with a 5-year fixed rate.

- The Title Split above gives £187,500 capital uplift on day one.
- The Title Split above will save the landlord £56,250 in interest over a 5-year fixed rate period. This will translate directly to bottom line profit.
- Buy to let finance is typically cheaper than MUFB finance.

Mortgage Comparison	Valuation	LTV	Amount Borrowed	Interest Rate 5-year fix	Interest paid 1 year	Interest paid 5 years
MUFB (Block Mortgage) -**Block Value**. Semi commercial mortgage	£750,000	75%	£562,500	7.50%	£42,187.50	£210,937.50
BTL Valuation - **Split Value 25% higher** (Bricks and Mortar Valuations)	£937,500	60%	£562,500	5.50%	£30,937.50	£154,687.50
Difference	£187,500	**(£0)**	£0	**(£0)**	**(£11,250)**	**(£56,250)**

IDEA 2: BUY UNSPLIT BLOCKS -THEY ARE ALREADY APARTMENTS AND CAN BE SPLIT AS YOU BUY.

Now is the perfect time to adopt the Title Split strategy and buy unsplit blocks…

Landlords are selling their blocks. In October 2024 there were 53,672 unsplit blocks in London with the user class ‘C3 dwelling house’. These are in many instances ready to Title Split. This opportunity is ripe for new investors and will mean that you build a substantial single let or mixed-use portfolio fast.

It’s hard to believe that in 2024, some property investors are still being advised to keep their blocks on a single title until they sell. The truth is, splitting early and decisively is the future. At TitleSplit.com, we’ve been training property investors, solicitors, mortgage brokers, and other key team members since 2020 on how to split blocks, land, and commercial properties.

One of the most exciting—and cost-effective—ways to split properties is on the day you buy them. This approach minimises costs and maximises your returns. However, it’s crucial to note that this strategy is complex, and investors cannot afford to get this wrong, or it will affect your financing options and the onward sale capabilities.

IDEA 3: EXITING BLOCK LANDLORDS- UNDERSTAND HOW BLOCKS ARE VALUED

Many block landlords have an inflated view of their blocks' worth. Property sales portals show that many blocks are overpriced, leading to sales falling through. Why? When lenders send surveyors to value these properties, the valuations rarely meet sellers' inflated expectations.

Unsplit blocks (C3 residential) are typically valued using a rent multiplier and market yield. If rents are low, properties need repairs, or EPCs range between E and D, the valuation will be lower. New investors will often need to upgrade the EPCs to a C for each apartment to make the block more marketable.

Sales are falling through all the time because landlords expect to sell MUFBs at the Title Split value, but this is unrealistic. MUFBs are valued as a block, not by individual flats. Commercial banks value MUFBs based on the block's overall value. Having realistic expectations about block valuations is essential for finding new investors.

For split blocks, where individual apartments can be sold separately, the highest valuations come from properties with high-quality refurbishments, EPC ratings of C or higher, and compliance with space, fire safety, soundproofing, and building regulations. These blocks must be Title Split to achieve capital valuations and grow in line with future capital growth.

Alongside being creative in how you achieve the split, it's crucial to be creative in funding your Title Splits. Bridging loans can be costly, and alternative funding options, like lease options, may be more suitable for the initial stages of your deal. Here are some common myths:

- You don’t need a bridging loan to buy a property for Title Splitting. Bridging finance can be risky if your exit strategy isn’t clear from the start.
- You can’t get split value finance (exit finance) from a term lender at the uplifted value on day one.
- When requesting split value finance, lenders want to know what value has been added, such as refurbishments or upgrades.
- Lease options are a great way to secure MUFBs for Title Splitting

IDEA 4: YOU MUST HAVE A TOTALLY JOINED UP POWER TEAM OF TITLE SPLIT PROFESSIONALS TO GET THINGS DONE.

I personally work with, and train Partner Solicitors, Brokers and Title Split Experts help our clients do this all the time. It also really helps to get deals over the line faster and more profitably. The later you leave a Title Split, the more it will cost you and the more difficult it is to navigate the processes to make the split happen. If anything is incorrectly done in the Title Split, then this will impact your ability to sell your apartments later.

One of the biggest benefits of Title Splitting blocks on purchase is that you can sell individual units at any time. You can sell some and keep others, allowing you to get your money out of every deal (MIMO).

IDEA 5: UTILISE YOUR SSAS FOR COMMERCIAL TITLE SPLITS.

Mixed use property can be split into your property business (residential) upon purchase and your SSAS (commercial) upon purchase. Commercial property can be purchased by your SSAS pension and Title Split on purchase.

IDEA 6: ALWAYS TITLE SPLIT COMMERCIAL TO RESIDENTIAL CONVERSIONS DURING OWNERSHIP (UNLESS YOU ARE SELLING IMMEDIATELY OFF PLAN).

It is completely crazy that developers create buy and hold blocks (MUFB’s) from commercial conversions and do not Title Split them. You may have been told to split when you sell. This means you could be leaving tens or hundreds of thousands of pounds of profit in the building!

My only question here is: Why on earth would you not want to access 25% capital uplift on day one of the split. Then you will enjoy capital growth on your block over the next 10, 15, 20 years and around 2% lower interest rates on your mortgages. Please do not buy into the myth that there is no profit in title splitting. There is and you can access it whilst running your block as a buy to let asset.

Whatever you do, title splitting is gaining momentum in the UK market. Blocks are offering opportunities for capital uplift in the more regulated and higher cost BTL sector. Early adopters are utilising this strategy to offset the cost of legislation changes, uplift their equity, increase their cashflow and access both short term capital uplift and long-term capital growth.

Contact Rachel

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Specialising in training developers and landlords in the art of splitting land and apartment blocks.