

# UNLOCKING LANDLORD EQUITY AND CASH FLOW WITH TITLE SPLITS

By Rachel Maria Knight of TitleSplit.Com

In this month's update, we aim to address two commonly asked questions from landlords, particularly those who own apartment blocks and astute investors who recognise the potential in this burgeoning property investment opportunity:

## 1. The Significance of Title Splitting

## 2. The Evolution of Freehold/Leasehold Practices in England

### The significance of title splitting

For years, property educators and solicitors have advised property investors to postpone title splitting until they sell. However, this advice may stem from a lack of understanding regarding the substantial benefits for landlords. When you initiate title splitting at the earliest stage possible, you can extract 25%-35% of your capital from the deal. So, let's reframe the question:



## "Why do you need to Title Split freehold blocks?"

This question can be addressed through the following three straightforward points:

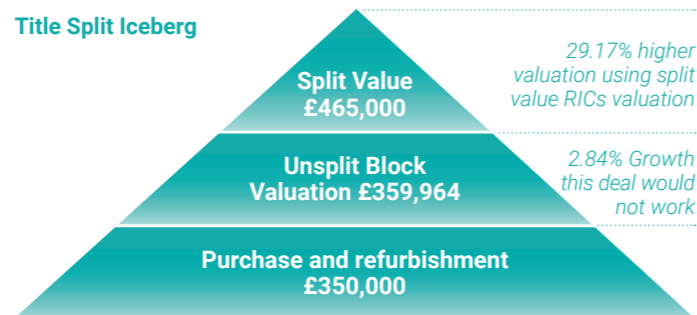
1. Title splitting an apartment block, essentially creating individual leases, can result in a 25%-35% increase in capital value in most UK regions, including the South East. This is the "SPLIT VALUE."
2. Splitting the title of an apartment block opens doors to growing capital in line with market trends over time because you can now sell your properties to individual retail buyers.
3. Title splitting grants you flexibility in financing. Whether you prefer financing like an unsplit block (HMO style), retaining some units while selling others, or accessing buy-to-let mortgages in many cases, you have the freedom to choose the financing method that best suits your block in your area.

Let's illustrate this concept with an example:

The depicted block was appraised by a RICS surveyor in October 2022, considering the rental income and yield in the Nottingham area:

- Investment valuation/Block valuation (unsplit): £359,964
- SPLIT VALUE: Individual apartment valuation (comparable) £155,000 X 3 apartments = £465,000.
- Capital uplift: 29.17% higher with buy-to-let (comparable) valuation.

We refer to this phenomenon as the "Title Split Iceberg." Demonstrating this value increase is crucial to extracting profits or reducing Loan-to-Value (LTV) percentages on mortgages.



Source www.titlesplit.com October 2023

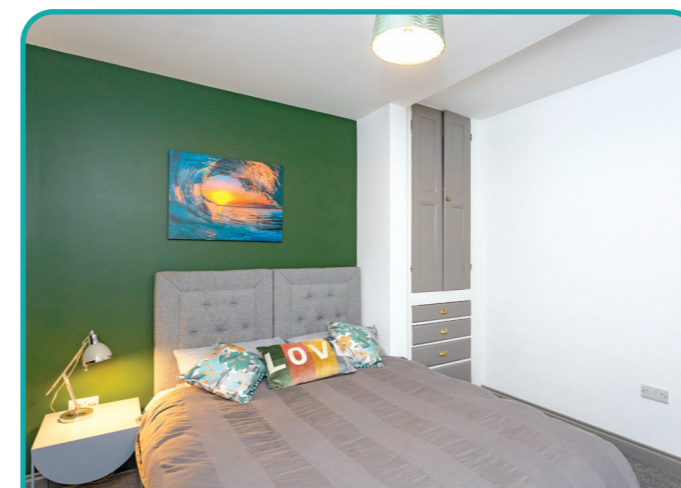


The great news is that by initiating title splits early, you can tap into capital growth as your property portfolio appreciates over the years.

The evolution of freehold/leasehold practices in England

The practice of splitting blocks into freehold and leasehold arrangements has a history of over a century. In the past, affluent landowners created short-term leasehold units, ensuring that charges could be imposed for lease extensions after 99 or 125 years, even after a unit was sold. As you may be aware, when a lease has between 70-80 years left, a property becomes unmortgageable, requiring leaseholders to extend their leases, often at substantial costs. Recent developments have seen developers selling properties with escalating ground rents, rendering some leaseholders unable to finance their properties due to unreasonable ground rents.

The government has taken steps to address this issue, including the Leasehold Reform (Ground Rent) Act 2022, which abolished ground rents for most new long residential leasehold properties in England and Wales. This act aims to make homeownership fairer and more transparent for future leaseholders by preventing onerous and escalating ground rents.



It's worth noting that a potential shift toward "Commonhold" as the future system is on the horizon. Rest assured that at TitleSplit.com, we have been proactively guiding our clients in creating favourable leases for the past three years.

In any case, when splitting blocks, the shared ownership of the freehold (land and communal areas) will remain intact. The real value lies in the ownership of individual leasehold apartments.

While developers have split blocks when selling units for decades, buy-and-hold landlords have often overlooked the benefits of title splitting during ownership. The opportunity to title split blocks of apartments has been somewhat obscured, partly due to the attractiveness of commercial mortgages for investors building portfolios of "sui generis" HMOs.

### Key takeaways

For landlords and developers moving forward, the key lies in initiating title splits early to access capital growth. The profit resides in the ownership of individual leasehold apartments rather than the freehold.

Create friendly leases for the future of 'commonhold' in the UK.



Rachel Knight is the CEO of TitleSplit.com, the only Continual Professional Development (CPD) and Property Educators Accreditation Scheme (PEAS) rated training provider of the title splitting strategy. For more information, contact us on...

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