THE BRICKS AND MORTAR STRATEGY

WHY TITLE SPLITTING IS SUCH A MASSIVE OPPORTUNITY IN 2025

How title splitting small blocks is taking over from HMOs and single lets

By **Rachel Maria Knight**

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I am so excited to share with you, in this 200th edition of YPN magazine, how title splitting blocks (and mixed-use property) is the strategy that is going to make you wealthy. Buying unsplit blocks of apartments in 2025 will mean that you buy one property and, by title splitting on purchase, create multiple streams of income and multiple pots of capital to grow. The exciting opportunity for you is that these streams of income can still come from buy-to-let (single lets), HMOs, social housing, commercial conversions and serviced accommodation. Title splitting is about accessing the lowest mortgage interest rates, the highest valuations and the best tenant types. On top of that, you can grow your portfolio faster.

Let's quickly recap the basics of this strategy. An unsplit block is an apartment building which is on one freehold; we call this a Multi-Unit Freehold Block (MUFB). Title splitting is about either breaking up the units to sell individually for substantial profit; or breaking up the units to create a single let portfolio, which can be refinanced as individual units or as a block (whichever gives you the highest ROI).

Often, the aggregated value of the title-split single let units will be worth 25%-35% more than the unsplit MUFB. This uplift is useful when you run a BTL portfolio, as it enables you to pull more of your profit out at initial refinance. If, on the other hand, you decide to leave title splitting until you sell, it is very likely that circumstances will stop the split happening. For example, what will the tax landscape be? Will your bank allow you to sell one unit at a time? We recommend to our clients that they title split as they buy, in order to minimise the risks later. When you start to understand the advantages of this strategy, you will grow your property portfolio much faster.

The top 10 reasons investors are graduating to splitting apartment blocks in 2025

1. In November 2024 there were 314,486 blocks of apartments (two or more addresses) that had not been title split, owned by private landlords and limited companies in England and Wales. This is what we call low-hanging fruit.
2. Over 53,000 of these are in London.
3. The UK government is crippling landlords, many of whom now want to exit the private rental sector, so more landlords are looking to sell their portfolios.
4. Interest rates on portfolios can be as high as 8.5%, commercial loans 7.5% and BTL around 5.5%. You can only access the lower interest rates when you title split apartments. MUFBs and portfolios are financed using the higher interest rates. To put this into perspective, on a £500,000 mortgage over five years, you would save £50,000 in interest by having access to individual BTL versus MUFB commercial mortgages.
5. Investors can keep some units and sell some units, which gives them cashflow and ensures they can recycle all of their investment out of the deal at refinance. We call this a MIMO (money in money out).
6. Title split blocks are better for lenders. Individual apartments are a lower security risk as they are worth more and can be sold to retail buyers.
7. Single lets are easier to manage than HMOs.
8. New SDLT rules mean that property investors can title split on purchase to save tens of thousands of pounds.
9. Commercial conversions can be split after refurbishment, often allowing higher valuations and more money to be pulled out during the refinance.
10. Landlords are realising that large HMO and block valuations can go backwards over time. If the labour government introduce rent controls, this will massively impact commercially valued residential units.

I hear landlords and property investors shouting about down valuations when refinancing after their five-year fixed rate has ended. MUFBs and HMOs are far more susceptible to down valuations, because they are current valuations based on the annual rent, minus costs. The chartered surveyor uses the average yield for the area to calculate a rent multiplier to come up with your valuation. In fact, if you are selling an MUFB, that is also how the property is valued (not upon the individual saleable value of each apartment).

Title split investors are thus giving themselves the opportunity to choose between investment valuations (commercial) and comparable valuations (Bricks and Mortar). This is at each refinance – to suit you, your profit goals and portfolio structure. In addition to higher valuations, once you have achieved the title split values, you will increase the value of each unit in line with the capital growth for your area over time. According to Zoopla's December 2024 house price index, London house prices have grown by 83% since 2010 and the Midlands has enjoyed capital growth of 66% in the same 14-year period. It makes sense that the more individually saleable apartments you own, the more capital you have in your portfolio, so the bigger your long-term capital growth pot will be.

With UK capital growth set to continue on residential property (although slower), it is definitely an exciting time to start understanding title splits, finding blocks to split and recycling funds.

The title split strategy for commercial, mixed-use and residential property is really gaining momentum due to the number of unsplit blocks available, and the realisation from seasoned landlords and developers that buy-to-let tenants are easier to manage. HMO tenants and serviced accommodation are good for cashflow in the early days, but costs can make this prohibitive, particularly if the areas where they operate are saturated by competitors. When you create single units of commercial or residential property, you can sell or finance them individually. You open up a range of options around tenant types, and most importantly you can change strategy quickly if you need to. (My serviced apartments became buy-to-let apartments when Covid hit, for example). The best thing is that you can sell any apartment at any time, without impacting any of the other apartments in the block, giving a great deal of flexibility within your portfolio.

To understand why title splitting blocks – including mixed-use property and commercial-to-residential conversions – is gaining such momentum, you need to understand how the UK banks currently value property. I am sorry to be controversial, but properties valued as large HMOs and unsplit apartment blocks do not grow in line with capital growth. Read on for more information on this…

Individual title split units are valued by banks based on locally sold comparable units. This type of valuation is very different to the way an unsplit block is valued. An unsplit block is valued in the same way as a sui generis (large) HMO. Large HMOs are valued after refurbishment, when fully rented and in many instances at the highest rents and best standard in the market. The commercial (hybrid) valuation is based upon a multiplier of the local area yield percentage, multiplied by the annual rental income of the property, minus costs of bills etc. In the case of most HMOs, if bills are included, this means that this amount will be taken off the rental income to calculate the value of the property.

- The higher the yield in the area (i.e. Midlands yield of 12%), the lower the valuation.
- The lower the yield in the area (i.e. Southeast Yield of 6.5%), the higher the valuation.

Valuation example for unsplit blocks and large HMOs

The properties pictured below are both unsplit blocks with no bills included (the tenants pay their own bills and council tax). Our example shows two different areas and how rent and yield impacts valuations in different areas:

- Rent: £36,000 per annum.
- Midlands – Three apartments in one MUFB
- Southwest – Two apartments in one MUFB

Block Values Only	Midlands 3 apartment MUFB	Southwest 2 apartment MUFB
Annual rental income	£36,000	£36,000
Monthly rental income	£3,000	£3,000
Rental income per apartment	£1,000	£1,500
Average commercial/ hybrid yield in the area	12%	6.5%
Multiplier of rent	8.33	15.38
Estimated Valuation of Apartment block based on rental multiplier	**£300,000**	**£553,846**

Please note this is for illustration purposes only and you will need to appoint a RICS valuer to undertake a valuation of your block.

As a professional landlord, it is imperative that you understand how these valuations work, as this will help you calculate a true GDV on your new projects, but also understand how only having access to commercial valuations can impact your long-term portfolio value downwards. HMO and block landlords can see five-year values fall on their unsplit blocks and sui generis HMOs for the following reasons:

- Aging property (the property is no longer the newest and highest renting stock in the market)
- Under rented stock – rents are lower than the market
- Too much stock in the market leaving voids in your property
- Voids (this will impact your valuation)
- Bills included will be deducted
- Individual council tax per room

This can leave investors over-leveraged and over-exposed, particularly when values drop over the five-year fixed rate period. The way to mitigate this is to ensure that units can be sold or refinanced individually. Even in the case of HMOs, there is no reason at all not to create four two-bed apartments versus an eight-bed HMO. They can then be rented by room, but are also individually saleable and mortgageable.

Midlands 3 apartment MUFB

Southwest 2 apartment MUFB

How can you achieve the top valuation for your apartments long term?

The biggest opportunity for investors to achieve the maximum profit is to mitigate this risk, and title split as early as possible, usually upon purchase of the property. When you title split upon purchase, you can save a fortune in costs. In addition, you can still achieve block mortgage valuations (all the flats on one mortgage) or alternatively buy-to-let valuations (all the flats on single let mortgages). So, you can now choose which one will give you the best return on investment and profit at initial refinance, and when you next refinance after five years.

Block values versus split values

Block Value Vs Split Value	Midlands 3 apartment MUFB	Southwest 2 apartment MUFB
Split Value estimate for the block	£405,000	£747,692
Split Value estimate per apartment	£135,000	£373,846.15
Block value estimate per apartment	£100,000	£276,923.08
Capital uplift from Title Split	35.00%	35.00%

Once you have achieved split values, you will increase the value of each unit in line with the capital growth for the area. On average, my own title split apartments have grown by around 25%-30% over five years.

How can you get started in title splitting in 2025

The best news about title splitting blocks is that you can do this if you are quite new to property or like to operate in a lower risk environment. Starting, for example, with splitting a house into two flats or by buying a small MUFB (two or three units). If you are a more experienced investor then larger blocks, commercial conversions or more complicated splits might be for you. The great news is that the processes are similar for larger and smaller deals, and you can build your title split portfolio at a pace to suit you.

Whatever your title split deal size preference, budget or experience, this strategy works everywhere in the UK. In fact, in most instances you will be able to find on-market and off-market opportunities within one hour of where you live. The main thing is to start looking for the opportunity, and then start earning cashflow and equity from splitting blocks and renting apartments to multiple tenants.

Contact Rachel

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