THE TITLE SPLITTING STRATEGY

SOURCING AND FUNDING THE BEST PROPERTIES

Article 2 of 4 by **Azid Gungah**

My name is Azid Gungah and I have been a property investor, developer, author and coach for the past 22 years, starting my journey with BTLs, HMOs and conversions, and for the past 10 years focussing on Multi-Unit Freehold Blocks (MUFBs).

Over 2022, I am writing a four-part mini-series for YPN, where I aim to demystify the advanced property strategy of 'title splitting' MUFBs.

This is the second article of the series. If you missed the first one, I highly recommend that you go back and read it in the May 2022 issue, to derive the context of this great specialist property strategy.

In the first article, I covered:

- **The fundamentals of Title Splitting**
- **Why should you engage in it?**
- **How to get started with this strategy**
- **How do you make money out if it?**
- **Pros and cons of a Title Splitting strategy**

In this second article I will discuss:

1. **What type of property best suits this strategy?**
2. **How and where to source these MUFBs**
3. **The different routes to funding these purchases**
4. **The type of company structure you will need for this strategy**

What type of property?

As already discussed, in the previous article in May, the key to a Title Splitting strategy is to find and **buy unbroken, freehold MUFBs**.

This means they could be a freehold block of residential flats or a mixed-use block with commercial below and residential units above. The key is for them to still be on **one** freehold.

The aim is to create value by refurbishing all the units and then disaggregating them – creating separate leases for each of them.

There are lots of these blocks across the UK and they are ripe for you to exploit their untapped value! For clarity, I discussed this untapped value in the first article. However, to aid your knowledge, here is a summary of what it means ...

By disaggregating these MUFBs onto separate leases, the individual flat values will add up to more than the combined price that we pay for them. The aim is to recycle all your capital out of each deal on refinance, leaving a stream of passive income generating assets behind. You can relatively quickly build a large portfolio of properties as you are buying multiple units at a time!

So how do we do this?

Sourcing the right properties

As always, the easiest ways to find them are online via the property portals. There are also some more nuanced techniques, which I will list below:

Rightmove

Tip: Search for six-bed or more properties, as Rightmove does not really have a feature for these blocks of apartments.

Zoopla

Tips:

a) You can use the 'Keyword' function to search for 'block of flats', for example.

b) Search for six-beds or more properties to find them.

OntheMarket.com

Tip: Here, there is even a dedicated search filter for 'Block of Apartments'

Property auctions

a) As a company, Quiddity Group Ltd buys a large proportion of our MUFBs for Title Splitting at the property auctions.

b) You should be able to quickly locate your local property auctions, as well as some of the national ones, such as Savills and Allsopp, by using Google.

c) I would advise anyone who wants to buy at property auctions to get comfortable with legal packs. Read at lea[illegible]n of them to build your learning. T[illegible]e packs are great as they contain a lot of information about the block that you will need to know.

Warning: Remember to look out for things that may be missing (such as planning permission for the flat conversions) or problems with block itself (very small studio flats, which will be hard to refinance) or low-grade EPC ratings, which will need to be fixed before you can get a mortgage.

Commercial agents

Commercial agents are also a great source for these types of deals, as they help landlords sell their property portfolios. Once again, you can find these commercial agents online. For example, Allsopp 'data rooms' is a good source for finding some of the MUFBs.

Direct to vendor

During our six-week Title Splitting coaching program, we teach trainees how to:

- Source property by going direct to vendors – this means having a clear and convincing value proposition that will help vendors / landlords, as well as being beneficial for yourself.

  Value proposition to sellers/landlords ...

  We typically offer to buy their properties very fast (with cash) and can complete within 20 working days. We also allow their tenants to stay on (if they have valid assured shorthold tenancies (ASTs) in place) as landlords don't want to empty these big blocks to sell as vacant possession and then find it takes months to sell.

Funding purchases

Just like when you are buying a buy-to-let property, you can use the following types of funding mechanisms. I have listed them in the order that I prefer to use them to buy MUFBs, given the complexity attached to these buildings and the potential for delays before you can refinance all your capital out.

1 Cash

This funding method is great as you can move on these types of properties quickly and without the hassle that comes with mortgage finance. However, these blocks tend to cost more than the average terraced house so this may not be a viable option for a lot of readers.

I prefer cash rather than bridging as it's cheaper, and if there is a delay in the paperwork, it doesn't end up costing you the deal or a large chunk of your profit.

2 Investor finance or joint ventures

You can seek investor finance and reward your investors with either a fixed return or a proportion of the profit of the overall deal.

This funding method also provides some safety against any delays in the title-splitting exit.

3 Traditional mortgages

When building a MUFB portfolio, you can buy the right blocks using a traditional mortgage (or a commercial loan) if they are viable collateral in their present condition and the bank surveyor agrees.

Mortgages with no Early Repayment Charges (ERC) are ideal, as when we come to refinance, after splitting the title in around six months' time, you will need to get out of this initial mortgage without paying high exit fees.

4 Commercial mortgages

You can buy using commercial mortgages (from Lloyds or NatWest Commercial banks for example), but these can have higher interest rates, take longer to secure (up to six months) and they will offer you lower loan to value (LTV) ratios than traditional residential mortgages. This means you will need a higher deposit amount.

This is certainly not an option I consider to be worthwhile, but for the sake of completeness, I have listed the option here.

5 Bridging finance

Bridging finance can work well with the Title Splitting strategy.

Bridging companies will allow you to buy some of these MUFBs even when they have some known issues, be that with the general condition or even a lack of planning. As long as you know what the issues are with the building, know how to solve them and what timelines are involved, you can buy the MUFB using bridging finance. Typically, they will lend up to 70% of the purchase price.

However, the challenge with bridging finance is that it is much more expensive than the other lending options, especially if you get stuck on it for longer than anticipated!

Group company structure

As part of this strategy, you must ensure that you have the correct group company structure to hold both (1) the Freehold and (2) the Leaseholds.

Lenders don't want the same entity to hold both interests (the Freehold and the Leaseholds), for fear that you may in future be able to alter the terms of the lease, jeopardising their interest over the assets. Therefore, you they will require you to have the correct company structure in place.

This means having two different, separate entities to hold the freehold and leases.

Additional benefits

The right structure also ensures you don't have to pay Stamp Duty Land Tax (SDLT) twice: once on purchase and again after the Title Splitting / refinance phase. It allows you to be able to move properties between the companies (known as intra-group company transfer).

Contact

If you would like to know more about the Title Splitting strategy, contact me to find out more ...

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