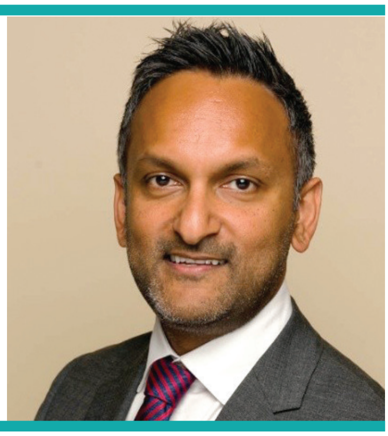
PROPERTY INVESTING Q&A

With **Azid Gungah**

I recently wrote a mini-series in YPN magazine on the complex but wonderful strategy that is title splitting freehold blocks of flats. I shared with readers how to find, acquire, finance, renovate, rent and refinance/recycle all their capital out of each block to scale their property businesses. I hope you read the series, but don't worry if you missed it – as a subscriber you can catch all the articles on the YPNMag app!

In this bi-monthly series, I hope to add value to readers by sharing, Q&A style, responses to the most topical property questions I get asked across my social media platforms. (If you have any burning property questions, ask them on social media or send me email. I will be sure to respond to all of them!)

So let this be the year where we invest with knowledge and start to take more action!



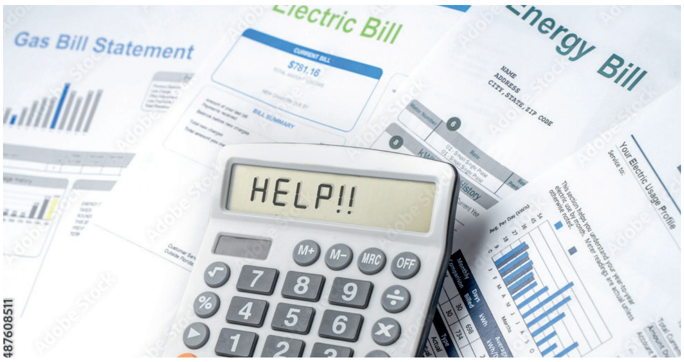
Q1: Given the current market turbulence, should landlords take out rent insurance?

This has been a very popular topic this month. In the current business environment, we are seeing:

- The highest rate of inflation since the 1980s
- A significant increase in the UK bank base rate (BBR), which has risen from 0.1% to 4.5% (March 2023) – that's a huge increase in a very short space of time
- Employment challenges where wages have stagnated over the past decade and now with inflation in double digits, people's finances are being squeezed

The economy is set to contract and, as a company, we are now systematically taking out rent insurances across all our single let properties. We are focussing mainly on **our single-family units**, not so much the HMOs as the cost of insuring hundreds of rooms will be prohibitively expensive. And as tenant churn in HMOs tends to be higher, it doesn't make economic sense.

As landlords, we anticipate headwinds in people's economic circumstances through 2023-25. We see the increase in the cost of living drastically squeezing people's disposable incomes, which will have an impact on how much they can spend. In turn, this will significantly impact a tenant's ability to pay their rents, transport costs, heat their homes and buy food.



MACRO MARKET CONDITIONS

It has been said that this is the biggest hit on living standards since the second world war.

Surging Prices:

- With energy prices tripling, food and building materials doubling as well as the cost of borrowing significantly increasing due to the rise in interest rates (reaching almost 6% from an average of 2.5%), it means that as a nation we are now much poorer than we were pre-Brexit and pre-pandemic, as our disposable income is severely squeezed.
- Energy prices have risen from an average of £1,200 per annum (2020) to £3,600 per annum (2023) and are expected to rise even higher to £4,800 (2023-24). For now, the government has stepped in to limit the impact for the average household to £2,500, but this is not permanent support and could be stopped at any time, which would have a huge impact.

Wages:

- UK wages have not kept pace with the rise in inflation, which in March 2023 stood at a whopping 10%, meaning the price of goods and services have all been rising at that rate. Wages however have risen by a mere 4%, a little higher in the private sector but not as high as the rate of inflation.
- Therefore, most public sector workers have been striking for better pay conditions. The issue, the government argues, is that if everyone gets their desired pay rise, it will lead to the high inflation being embedded in the economy, which ends up making our economy less competitive as the cost of labour rises.

The impact of the rising cost of credit:

- Given that as a nation we live on credit cards, hire purchases (HP) and car leasing agreements, all of which have become significantly more expensive in 2023, it means that our tenants are also feeling this significant squeeze.

THE CASE FOR RENT INSURANCE

The compound effect of the above factors will make life a lot harder for our tenants. As such we are implementing rent insurances for all new tenants within single unit properties, like flats and houses.

Taking out rent insurance on a property rented at £1,500 per month (£18,000 per annum) at an average cost of £250 per tenancy is a no-brainer these days.

There are many good rent insurance policies available, but be sure to read the fine print to find out the exclusion criteria, maximum pay-out periods and differing excess amounts on the policies.

Here is an example from one of our suppliers, based on a three-bed house at a value of £300,000 and a rebuild value of £225,000.

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Prices quoted below are per annum:

- *£225 for a policy with no excess*
- *£200 for a policy with one month's excess*
- *£175 for a policy with two months' excess*

Key features:

- Cover provided for residential tenancies
- A 12-month policy, covering up to 12 months' rent arrears
- Rent arrears covered up to £2,500 per month
- Legal expenses for the recovery of your property
- All tenant types accepted

Q2: Should you pay for a mortgage broker?

We would all like something for free! Knowledge, however, is worth paying for. In my experience, there is value to be gained by using and **paying for** the right calibre of professionals.

Over the past ten years, I have focussed my investment on acquiring multiple blocks of flats, then creating value out of them by refurbishing and splitting the blocks into multiple individual leaseholds. This title splitting strategy has helped me add at least 25% of value to these deals, which in effect allowed me to recycle all my capital out to re-use on more purchases.

Title splitting is an advanced, yet very lucrative, property strategy, which would not be possible without my extended team of lawyers, tax advisors, mortgage brokers, accountants, floor plan designers and builders. This curated team of professionals all charge a relatively high fee for their services, just like a mortgage broker, but these days I honestly would not use other suppliers who may be 'free' at the start, then may lack the specialist skills or efficiency I look for as an active investor.

As the adage goes: you pay peanuts, you get monkeys!

Typically, most mortgage brokers will charge between £300-£400 per mortgage application.

Q3: Is there a financing issue at present following the collapse of Credit Suisse and SVB?

Over the past two weeks (March 2023), we have seen the collapse of two major banks, namely Credit Suisse (Switzerland) and Silicon Valley Bank (SVB) in the USA.

Whilst this may be unrelated, we have started to notice certain jitters here in the UK with some of the smaller buy-to-let banks refusing to proceed to mortgage offers, even after surveys have come back without any issues. We have had two of these happen to us in March, with both small lenders citing that, as per their terms and conditions, they don't have to give us a reason for their withdrawal. They did however refund our survey and arrangement fees.

I personally think there is a certain angst within the banking sector (especially within those smaller banks) at present. I think they are being cautious / fearful to not over-expose themselves to further lending and potentially run out of money, thus halting their lending.

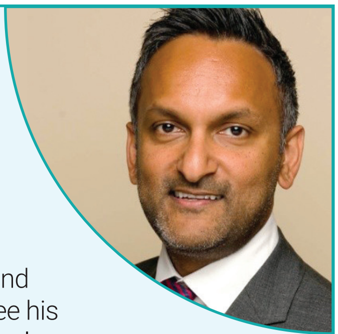
What are we doing in reaction to this issue? We have instructed our mortgage brokers to temporarily move all our refinances to the larger banks, such as Kent Reliance – One Savings Bank amongst others, as these banks take in savers' deposits and as such may have more liquidity.

Q4: What should you do if you have a property that you let out, but it's still on a residential mortgage (not a BTL mortgage)?

This is not as surprising a question as you would think!

If, like this person, you too find yourself in a position where you have retained a property, perhaps after you left to move to another property, and have been renting it on a residential mortgage, you really need to look at changing this onto a BTL mortgage.

In effect, this is mortgage fraud as you are breaching the terms of your mortgage.



ABOUT AZID
Azid has built a multi-million pound property portfolio and remains an active investor after 24 years, continuing to acquire even more properties and multi-unit freehold blocks of flats. For more information and details of upcoming courses, see his website and social media channels.

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Grow your Property Wealth with Title Splitting
Scale your wealth through Properties

Many may not have made the change given that interest rates on a residential mortgage are much lower than a BTL mortgage. People do not have the incentive to change, as they are making more profit each month.

However, be aware that you may find yourself in deep waters if you are found out by the lenders. As an example, this can occur when the local authority implements a landlord licensing scheme and you have to apply, which then alerts the mortgage lender.

In addition, if you need to evict a tenant, you may also find it much harder as the tenant can claim that you have not been compliant as a landlord.

It also not a stretch to say that if someone doesn't have a BTL mortgage on their rental investment, they may also not be conducting all the regulatory required checks a responsible landlord should, such as amongst other things:
- annual gas certification
- applying for landlord licence
- having a valid EICR certificate
- checking the immigration status of their tenants

What should you do if you find yourself in this position?

1. **Act** this year – don't let this drag on and become a headache. You **can** fix this issue if you are proactive.

2. **Contact a mortgage broker** and have an honest conversation with them to help you navigate and apply for a compliant BTL mortgage product, either in your personal name or a limited company.

3. **Speak to a property tax advisor** and accountant to help you with your personal circumstances.