Is this the perfect retirement BTL portfolio?

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Most professional landlords become increasingly interested in what their property portfolio should look like as they approach 'traditional' retirement age (say, 60+), in terms of number of properties, income earned, management effort, mortgage debt, etc.

This article looks at what could be argued is a 'perfect' mix of all the above factors, balancing profit, tax, mortgage debt and management effort.

That headline is a teaser … so why could the above property portfolio be considered the 'perfect' retirement BTL portfolio?

1 Ownership structure

The portfolio is owned via a limited company, which means that:

- **All mortgage interest is fully tax-deductible as an expense against rental income, as Section 24 mortgage interest restrictions don't apply to companies.**
- **The company's pre-tax profit is taxable at the corporation tax rate of 19% (January 2022) and profits are extracted as a £12,500 salary and the remainder as dividends, with each of the two owners receiving just below the Higher Rate tax threshold as income, thereby paying a very modest personal income bill (£2,300 each).**
- **The above is arguably the tax 'sweet spot' for corporate landlords – total company and personal tax payable £20,000 on company profit of £107,000 = 18.9% (using typical small salary + Basic Rate top-up dividend approach to extract company profit), ie keep the portfolio size and profits at a level where the extracted income leaves personal incomes below the £50,000 Higher Rate tax threshold, whilst still producing a £7,500 per month after-tax personal income.**

Portfolio details (2-owners)

Number of properties	**15**
Number of mortgages	**12**
LTV of mortgaged properties	**50%**
Property value @£150k per property	**£2,250,000**
Mortgage debt @50%	**£900,000**
Portfolio overall LTV	**40%**
Gross rents @7%	**£157,500**
Mortgage interest @3% pay-rate	**£27,000**
Repairs budget @10% of gross rents	**£15,750**
"Management" support @5% of gross rents	**£7,875**
Profit	**£106,875**
Profit %	**68%**

Company income / tax bill

Salary @£12,570 per person	**£25,140**
Company taxable profit after salaries	**£81,735**
Corporation tax @19%	**£15,530**
After-tax profit	**£66,205**
Dividends paid per person	**£33,103**

Personal income / tax bill per person

Salary	**£12,570**
Dividends	**£33,103**
Personal tax due per person	**£2,333**
Company + personal total tax paid	**£20,195**
Total tax rate paid %	**19%**

2 Type and number of properties

The portfolio consists of 15 single-let properties. Most semi and professional BTL landlords are used to managing many more properties than 15 during their property career, so having a modest number to manage in retirement should be manageable – especially for experienced landlords with existing systems, financial tools, professional contacts (solicitor, tax accountants, mortgage broker etc) and tradesmen (plumbers, electricians, handyman, builder etc).

Single-let BTL properties are arguably the simplest type of properties to manage (compared to HMOs, holiday lets etc) – indeed many landlords cut their teeth on single-let properties before branching out into other property types.

Another consideration is the quality of the 15 properties – ideally these would be properties in already decent condition that don't require major refurbs, and so a 10%-of-rent repairs budget should be sufficient for the usual between-tenancies refreshing of a property (painting, carpets, refresh kitchen / bathroom etc). EPC ratings of C or D would again reduce the possible future cost of dealing with repairs needed to meet a future EPC rating of C.

3 Optimal retirement mortgage debt

Most landlords dream of having a fully unencumbered portfolio by retirement age, but for most this isn't a realistic prospect if a decent income is to be maintained into retirement. This is because most semi and professional landlords use their property profits to support themselves, so there isn't sufficient cash flow beyond that to pay down the debt on an entire portfolio from spare rental income.

Therefore, a common landlord approach to this issue is to sell off a chunk of properties and use the net sale proceeds to pay down the mortgage debt on the retained properties. While this does achieve the unencumbered position that for many is a target, it comes at a heavy price … in many cases it would halve the landlord's income.

The above portfolio structure strikes a balance between getting the benefit of leverage to own more properties and so earn more profit, but without being excessively geared:

- **Three of the 15 properties are mortgage-free – this allows for the quick sale of up to three properties if a cash crisis requires it, and the option to put a short-term bridging loan on an unencumbered property (if preferred to a sale).**
- **12 of the 15 properties are mortgaged, but at 50% LTV. This approach means that the best mortgage rates will be paid, as most lenders reserve their best rates for 60-65% LTV. However, as this is a retirement scenario, the LTV of the mortgaged properties is only 50% to allow for any future house price fluctuations, and ensure there is no re-finance risk, or any risk that a LTV won't fit a future mortgage lender's criteria.**
- **There is a vast range of mortgage options for single-let properties compared to other property types, so it's unlikely that a landlord would ever have a problem finding a competitive mortgage**

4 Management support

Many portfolio landlords self-manage their properties, partly as they feel agents won't do a good enough job and partly to save agent fees. But, in retirement, most landlords prefer to have more time and less hassle.

Arguably, a 'sweet spot' is as follows:

- **Letting agent support on a tenant-find only basis, ie advertising, interviewing, check-in service, with a handover to the landlord for ongoing self-management (costing typically two weeks' gross rent).**
- **British Gas 'Landlord Cover' – can include heating, plumbing and electrics cover. The big benefit of this cover is reducing tenant calls (which as most landlords know, are mostly about heating and plumbing issues). The cost is modest (c.£20/property/month) but this is a targeted piece of spending, ie spending money specifically on what causes much of the hassle factor of property management. Tenants interact directly with British Gas (call to report issues, arrange an appointment, receive service and sign-off satisfactory repair), and the works are carried out on a 24/7 basis with a reliable supplier. Of course, full boiler replacement and similar can still be carried out by local plumbers who may be cheaper!**

The above is a half-way house between the traditional '% of rent' cost of a full management service from a letting agent (arguably, expensive), and full self-management (free, but costs your time and energy).

5 Downsizing in very old age

Realistically, few landlords will be willing or able to manage a 15-unit property portfolio as they reach very old age (say, age 70+), and so downsizing the portfolio comes into play (assuming the portfolio isn't to be passed to an heir – to be covered in a future article).

The age at which properties are sold off is a very personal decision, related to health and mental wellbeing, and willingness to deal with the day to day routine tasks that all landlords have to deal with even if their properties are fully-managed.

Selling off one property per tax year allows the use of two CGT exemptions, and an extra lump of cash each year alongside the rental profits. Admittedly, over time the rental income will reduce as the portfolio size reduces, but this is countered by the annual capital raised with each sale, which can be invested to produce an income. Sell off the mortgaged properties first, to preserve the financial cushion of the three mortgage-free properties.

Obviously the end of life tax-planning options are varied, but this gradual portfolio downsizing approach allows for a decent income to be maintained well into old age, alongside sale proceeds as extra funds, but with an end point that most properties will have been sold off prior to death, and the property portfolio equity converted into more liquid cash and investments, which many heirs would prefer.

Summary

Is this the perfect retirement BTL portfolio? Many landlords and would-be landlords certainly aspire to own a similar portfolio, which provides a healthy income without being excessively mortgaged, and without requiring too much management from the owners, but which allows them to stay in the game to earn an income and benefit from capital gains.

Property will never be passive in the way that shares and bonds (and similar) arguably are, so a decision needs to be made as to how much time and energy a landlord wants to spend on managing property in later life, which in turn depends on the number of properties owned, type of properties, and level of property management support employed (if any).

For many landlords the goal as old age looms is to slim down their property portfolio to a manageable level, spend some of their profit on extra management help, and then gradually sell off properties to benefit during their own lifetime from their property capital appreciation.

For some landlords the goal in retirement is to sell up completely and invest all their property equity into shares and bonds etc (ie completely passive income), while for others it is to hand-over their portfolio to their loved ones … both of these scenarios will be covered in future articles.

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