Market monitor

Equity release performance in the UK

Full Year 2021

Welcome

While Covid-19 has – despite the advent of the vaccine and the subsequent booster – still very much been a feature of 2021, it did not dampen the growth of the equity release market. Indeed, we saw the value of equity released breaking the £4 billion barrier for the first time to end on £4.4 billion worth of new lending via 41.991 plans.

This is fantastic news for the sector and the customers it serves, as it suggests that it is finally starting to live up to the potential that we have been highlighting for so long. We've seen a subtle shift away from discretionary spending with more customers focusing on using their housing equity to improve their financial resilience by repaying or remortgaging borrowing, while others have concentrated on supporting family.

Over 2021, one in five plans taken out was used to support the wider family with older borrowers gifting an average of £58,734 to help loved ones onto the property ladder. While this was certainly boosted by the Stamp Duty Holiday, it has continued to be a factor even after this finished in September 2021 and the idea of 'recycling' housing equity within the family now appears to be embedded feature of the market.

The concept of rebroking or remortgaging equity release plans to improve interest rates, access new features and potentially even boost borrowing also came to the fore in 2021 when we saw a 174% year-on-year increase in the number of cases across the market. With an average case size of £125,369, this has certainly played a role in the growth of the market over the last twelve months.

Looking to the future and what 2022 will bring, I think there is much to be optimistic about. With customers focusing on meeting pressing needs over the last 24-months, we anticipate that there will be pent up demand for discretionary spending amongst some over-55s who have found that their retirement is currently very different from what they anticipated.

While this will not replace those who use equity release to meet ongoing needs, it will bring more balance to the market. Something that is sure to be supported by the increased flexibility of existing products and those which are no doubt on the horizon.

Writing market predictions in January as we start to recover from the impact of a pandemic is optimistic but with a fair wind, I see no reason that 2022 should not outperform the figures recorded in 2021 as we support more customers with borrowing, remortgaging and discretionary spending needs.

WILL HALE
CEO of Key

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Methodology

Key is the leading over 55s specialist adviser and the UK's number one equity release specialist. It is comprised of Key Equity Release and The Equity Release Experts.

Our Market Monitor uses the company's detailed data to reflect the market as a whole and provides the most detailed analysis of equity release in the UK, alongside historical comparisons.

In addition, we focus on a particular area and also a specific usage driver for releasing equity. This quarter it will be North West and debt respectively.

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Overview

For the first time since the market was formed, the amount of equity released broke the £4 billion barrier to end on £4.4 billion worth of new equity released by 41,991 customers. This is 28% higher than the figures recorded in FY 2020 (£3.43 billion) and FY 2019 (£3.49 billion), which suggests that as the pandemic restrictions gradually lessen, the market is bouncing back stronger than before.

In 2021, existing customers took an additional £494 million in drawdown and further advances to take the total amount released to £4.89 billion (FY 2020 – £3.88 billion). Interestingly, while the market hit new heights in FY 2021, this was driven by the size of the average amount released rather than the number of customers. This peaked in FY 2018 when 47,081 plans were taken out.

In FY 2021, customers took out an average of £104,792 which is substantially higher than the £84,919 (FY 2020) and £76,359 (FY 2019) taken in previous years. While after a challenging 2020, many had high hopes for 2021 returning to more normal market conditions. This was impacted by the ongoing threat of Covid which saw customers continue to focus on meeting pressing needs such as debt repayment or supporting wider families via gifting rather than discretionary spending on holidays or home improvements.

Indeed, the number of customers who have used equity release to repay their mortgages has almost doubled in 12 months from 20% (FY 2020) to 38% (FY 2021) while at the same time spending on holidays has fallen from 23% (FY 2020) to 7% (FY 2021). Still buoyed by the Stamp Duty Holiday which finished at the end of September, 22% of equity release customers used housing equity to support families (27% – FY 2020).

Interestingly, with the proportion of people using equity release for unsecured debt repayment remaining relatively steady at 27% (FY 2020 – 28%), the actual amount used fell from 18% (FY 2020) to 6% (FY 2021). It would appear that the lack of spending opportunities during the pandemic may have helped some older people focus on increasing their financial resilience by repaying their unsecured borrowing from their income. ▶

£4.4bn
released
▲ Up 28% on FY, 2020

41,991
new plans
▲ Up 4% on FY, 2020

£104,792
average amount released
▲ Up 23% on FY, 2020

When taking a view across the UK at the number of equity release plans taken out, the South East retains its top spot with 9,652 plans followed by the South West (4,919), London (4,243) and the North West (4,227). Double digit YOY increases were seen in Wales (+24%), Yorkshire (+12%) and the South West (11%) with other regions recording more modest increases or in some cases falls.

All areas, except for Northern Ireland (-11%) which is traditionally choppy due to the relatively small size of the market, saw YOY growth in the amount released with Wales (+59%), London (+48%) and the South East (+36%) leading the pack. Given the relative size of the markets in the South East and London, these increases are impressive and the Stamp Duty Holiday is likely to have played a key role in this growth.

	Lending Mix
Area	**%**
East Anglia	5%
East Midlands	6%
London	21%
North East	2%
North West	**7%**
Northern Ireland	0%
Scotland	3%
South East	28%
South West	12%
Wales	4%
West Midlands	6%
Yorkshire & Humberside	4%

Value of plans

HIGHEST
£1.2bn
South East
▲ Up 20% on FY, 2020

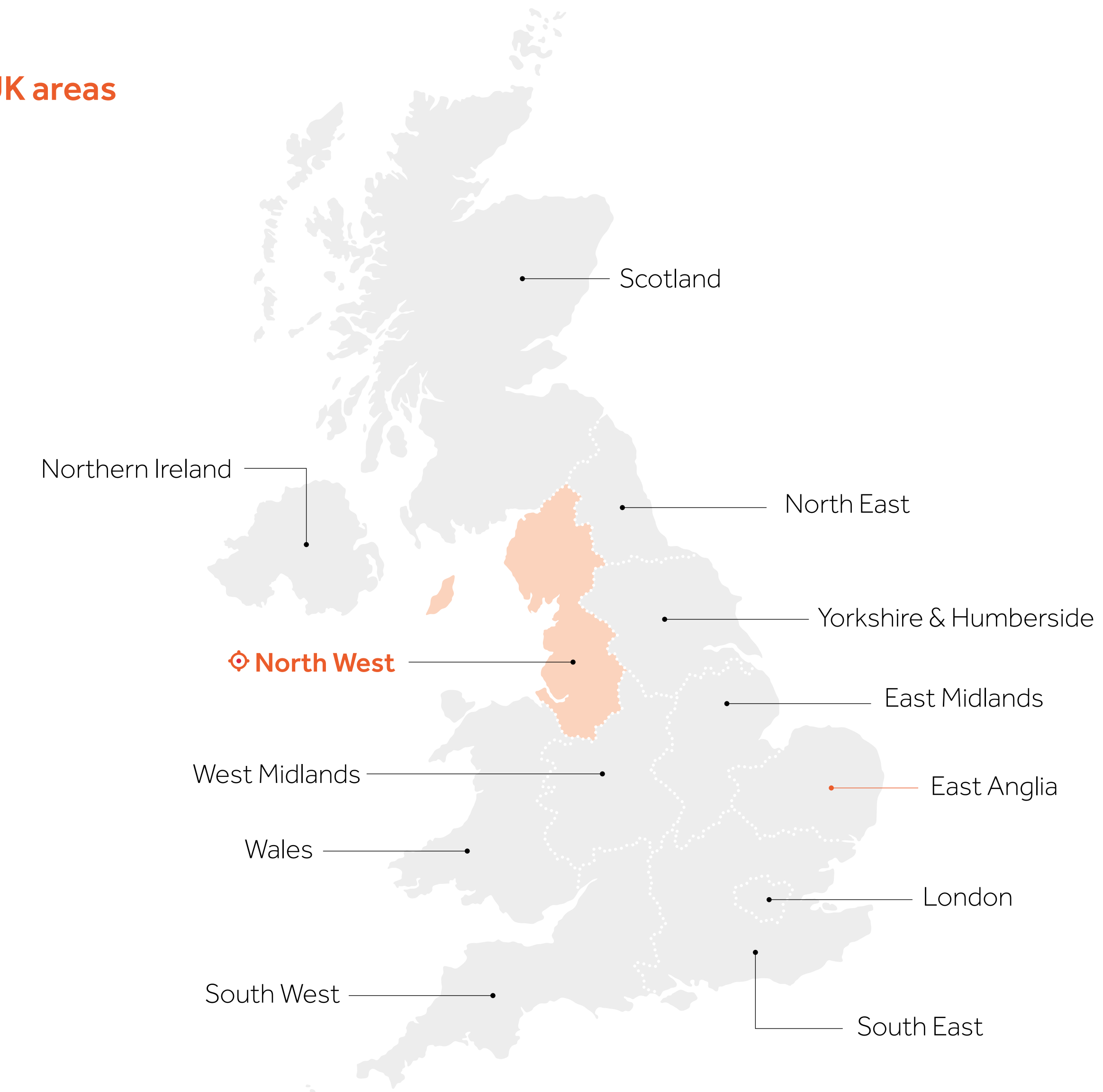
LOWEST
£19.9m
Northern Ireland
▼ Down 12% on FY, 2020

Number of plans

HIGHEST
9,652
South East
▼ Down 1% on FY, 2020

LOWEST
341
Northern Ireland
▼ Down 17% on FY, 2020

UK areas



Remortgaging

While the concept of remortgaging has been popular for residential mortgages for at least twenty years, it is a relatively new idea in the equity release world, spurred on by historically low rates and products which are increasingly flexible. In FY 2020, we estimate the market transacted 1,930 remortgage cases, but this has leapt to 5,295 in FY 2021 as the potential offered by this option become far more common knowledge.

In FY 2021, the average customer moved a balance of £135,529 from an interest rate of 5.1% (initial) to 3.6% (new). Such was the volume of cases that it accounted for 22% of all equity released for the purposes of debt management.

While arguably remortgaging may slow down as rates rise, the increasingly flexible nature of equity release products mean that this trend is likely to continue well into the future and become a feature of this market.

Drawdown

Due to the richer data set provided by Key's bespoke advice delivery platform, we have been able to track more in-depth data on drawdown products over the last 24-months. While drawdown products accounted for 62% of the products available at the end of 2021, they accounted for 74% of the plans taken out which is an increase from 2020 (70%).

In FY 2021, customers used these products to reserve £1.32 billion worth of housing equity for use in the future which against the backdrop of a growing market is a relatively modest uplift from 2020 (£1.23 billion). This was potentially driven by the fact that we saw the average initial advance taken rise from 50% (FY 2020) to 56% (FY 2021).

Over this period, the average drawdown customer reserved £98,383 (FY 2020 – £87,683) and took an initial advance of £57,461 (FY 2020 – £46,633). Interestingly, those with drawdown products who chose to access these funds during 2021 took out £11,695 which is down on the figures recorded in 2020 (£12,420).

While each customer makes choices dependent on their own individual circumstances, the narrative suggests that some may have used their initial advance to clear both secured and unsecured debts which has boosted their disposable income and – with the pandemic limiting spending opportunities – found they needed less of a financial boost than previously.

5,295

rebroke cases

▲ Up 174% on FY, 2020

3.6%

average new interest rates

▼ Down 5.1% on FY, 2020

Product features

By the end of 2021, customers had 701 products to choose from within the equity release market – a marked change from even just twelve months ago (FY 2020 – 453). Flexibility also increased as the market looked to support the increasingly varied needs of the customers it serves.

The proportion of products with variable or gilt linked early repayment charges (ERCs) fell dramatically from 54% (FY 2020) to 13% (FY 2021) as the sector continued to come into criticism over the opaque nature of these charges. Products which offer customers the choice between variable and fixed grew from 1% (FY 2020) to 22% (FY 2021) while those with fixed ERC's increased by 20% to 65% (FY 2021).

Interest rates remain low

While interest rates remained at historically low levels, the threat of a base rate increase which eventually materialised in December 2021 saw rates end on 3.07%. This is above the figure recorded in Q4 2020 (2.8%) but still compares favourably to 2019 (3.15%).

Average interest rate for equity release plans taken out

2019		2020		2021	
Q1	4.33%	Q1	3.10%	**Q1**	**2.84%**
Q2	3.92%	Q2	3.18%	**Q2**	**3.02%**
Q3	3.72%	Q3	3.05%	**Q3**	**3.16%**
Q4	3.15%	Q4	2.80%	**Q4**	**3.07%**

3.07%
Average interest rate for Q4, 2021
▼ Up 0.27% on Q4, 2020

Flexibility a focus

That said, while rates remain low, there has been an increased interest in facilitating customers' ability to make ongoing or ad hoc payments. Three quarters (85%) of plans now allow fee free ad hoc payments to be made within lenders guidelines (e.g. up to 10% of the loan amount over a twelve-month period) – a jump from 59% in 2020. We have also seen a small increase in the number of products that allow you to repay interest on an ongoing basis from 57% (FY 2020) to 64% (FY 2021).

The proportion of products offering inheritance protection (+10% to 35%) and downsizing protection (+13% to 64%) also grew as customers increasingly looked beyond simple rate comparisons.

The impact of aging

With equity release typically being a 'lifetime' or long-term product, the age at which you take it out governs how long you will hold it and therefore the loan to value (LTV) as well as interest rate available. This is to manage the risk of house prices increasing or falling substantially over that period.

The youngest borrowers (55 to 59 years old) can typically access a LTV of 25% but this rises to 40% for the oldest borrowers (over-85 years). In 2021, the average LTV taken was 29% which is a slight increase from 2020 (26%) and likely to reflect the larger sums needed to meet pressing needs such as mortgage repayment.

Interestingly, the age group most likely to take a lump sum product is the 55-59s (58%) with the proportion then steadily falling until customers reach 80 years old when we again see these products becoming more popular. While the younger cohort no doubt needs the LTV offered by the lump sum product to maximise their borrowing, the oldest cohort is likely to see less benefit in reserving funds to drawdown further tranches.

	Drawdown		Lump sum	
Age	FY 2020	FY 2021	FY 2020	FY 2021
55–59	37.09%	**42.27%**	62.91%	**57.73%**
60–64	37.14%	**51.46%**	62.86%	**48.54%**
65–69	52.87%	**54.31%**	47.13%	**45.69%**
70–74	61.29%	**61.43%**	38.71%	**38.57%**
75–79	54.90%	**64.84%**	45.10%	**35.16%**
80–84	54.17%	**56.41%**	45.83%	**43.59%**
85+	33.33%	**45.45%**	66.67%	**54.55%**

Equity release uses

Key has produced the market monitor since 2006 but at the end of 2019, it launched its new market-leading advice delivery platform. This allows its advisers to capture more in-depth data on customer needs, preferences and reasons for using equity release than ever before.

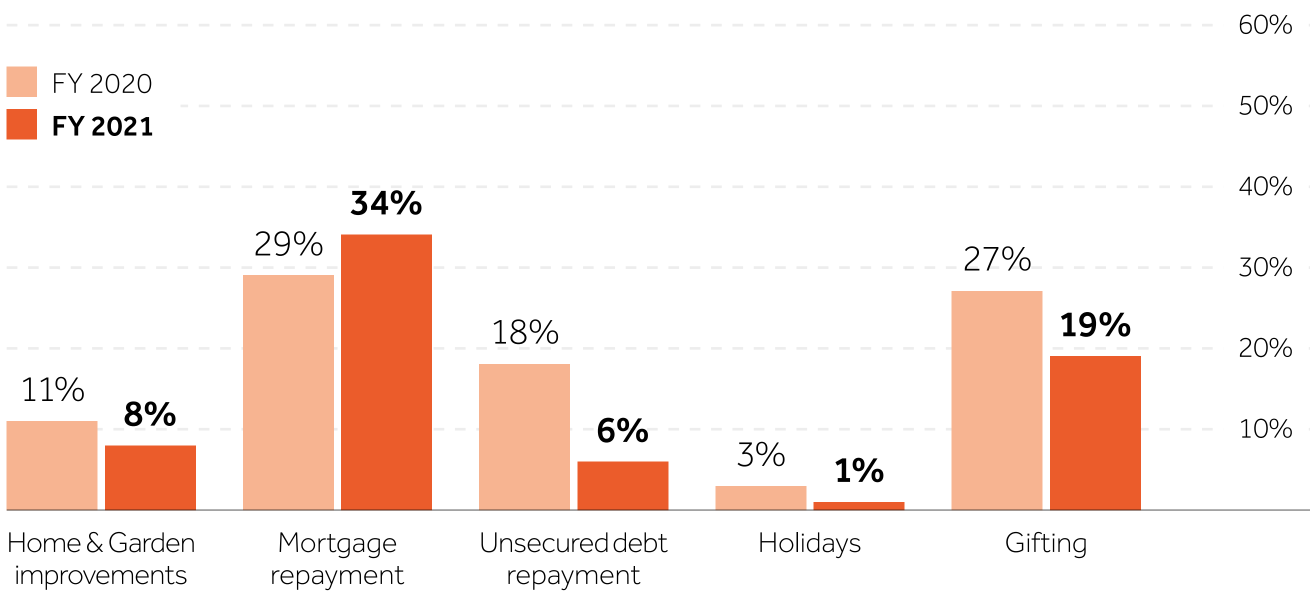
As the pandemic entered its second year, FY 2021 saw the trend continue towards customers using equity release to meet needs rather than for discretionary spending. Over a third (38%) of people used equity release to repay their mortgage borrowing while 27% used it to clear unsecured debts.

Interestingly, the proportion of equity release used to repay unsecured debts has fallen by two-thirds from 18% (FY 2020) to 6% (FY 2021). It would appear that while 27% of customers continue to use equity release for this purpose, they may have cleared much of their outstanding borrowing before taking out a plan or are confident that by repaying their mortgage their income will increase sufficiently to meet these costs.

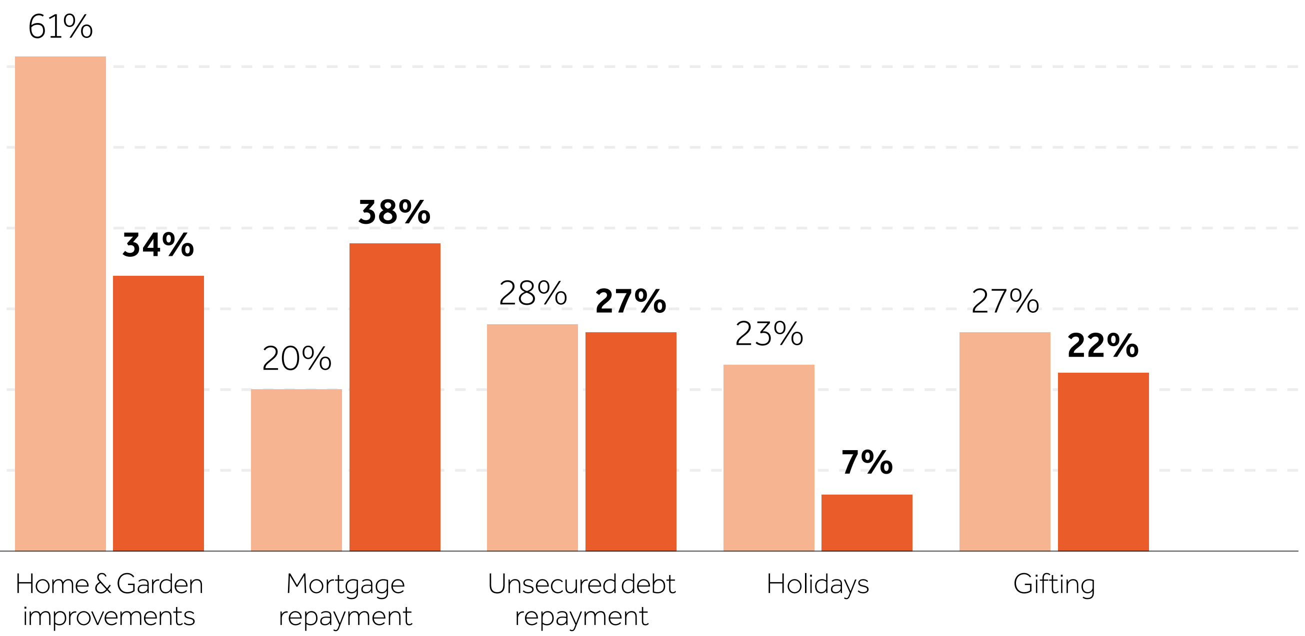
While home improvements were once considered ubiquitous to equity release, the proportion of customers using housing equity for this purpose fell by almost half between 2020 (61%) and 2021 (34%). Finally, gifting – often driven by the opportunity presented by the Stamp Duty Holiday – remained fairly robust with 22% of customers choosing to use all or some of their equity to meet this need.

The market has changed significantly over the two years of the pandemic and while we do anticipate that pent up discretionary spending is likely to feature in 2022, the idea that equity release can be used to make people more financially robust appears to be imbedded in the UK's collective psyche.

Proportion of the equity released used for specific purposes



Proportion of customers using equity release for specific purposes



Spotlight on:

Equity release for debt management

It is hard to imagine that anyone in the UK – irrespective of age – has not been impacted by the pandemic. Whether it is emotionally, physically or financially, most people will admit that it has changed how they approach their everyday lives.

For some – including many older people – this has manifested itself in a focus on improving and building financial resilience by repaying debt. A belief which is backed by analysis from the latest Bank of England Consumer Credit Data which suggests that the 0.4% increase that we saw in November 2021 was the first rise in unsecured borrowing we have seen since March 2020.

Over the last twelve-months, 54% of people who took out equity release used some or all of it to repay borrowing. This is a slight increase on 2020 (53%) and clearly highlights that for some reducing their liabilities to increase their disposable income and peace of mind is a priority.

54%
of people with debt
▲ Up 1% on FY, 2020

54%
of home equity used to pay off debt
▲ Up 6% on FY, 2020

When you dig further into amount of housing equity used to repay debt, the picture becomes increasingly interesting. While in 2020, 18% of the proceeds of equity release were used to repay unsecured debt, this has dropped to 6% in 2021 while the converse can be seen with the repayment of mortgage borrowing which rose from 29% (2020) to 48% (2021).

Older homeowners with a mortgage owe on average £79,851 (FY 2021) which over 15-years on even a modest interest rate of 1.99% is likely to cost C. £500 per month or £6,000 per year which is likely to be a large proportion of a retiree's income. Therefore, with equity release offering the opportunity to make ad hoc capital repayments, ongoing interest repayments and promising security of tenure, it is perhaps unsurprising to see why increasing numbers of people are choosing this option.

However, it is not just the desire to repay 'traditional' residential mortgage borrowing which is leading to the increase but also the phenomenon of remortgaging equity release plans. In 2020, 9% of customers using these plans for debt management were rebroking an existing equity release plan, this has more than doubled to 22% in 2021.

The same applies to the value of equity released which saw the proportion of funds used for mortgage repayment rising from 29% (FY 2020) to 48% (FY 2021). No doubt buoyed by the fact that equity rebroke cases (FY 2021 – £125,369) which are worth 57% more than traditional mortgage cases have doubled in 12 months from 18% (FY 2020) to 36% (FY 2021).

	% of people with debt	
Type of debt	Full year 2020	Full year 2021
Mortgage debt	20%	**38%**
Unsecured debt	28%	**27%**
Lifetime mortgage	9%	**22%**
Mortgage	51%	**49%**
Loans	30%	**22%**
Car finance	5%	**4%**
Overdraft	5%	**4%**
Credit cards	41%	**29%**

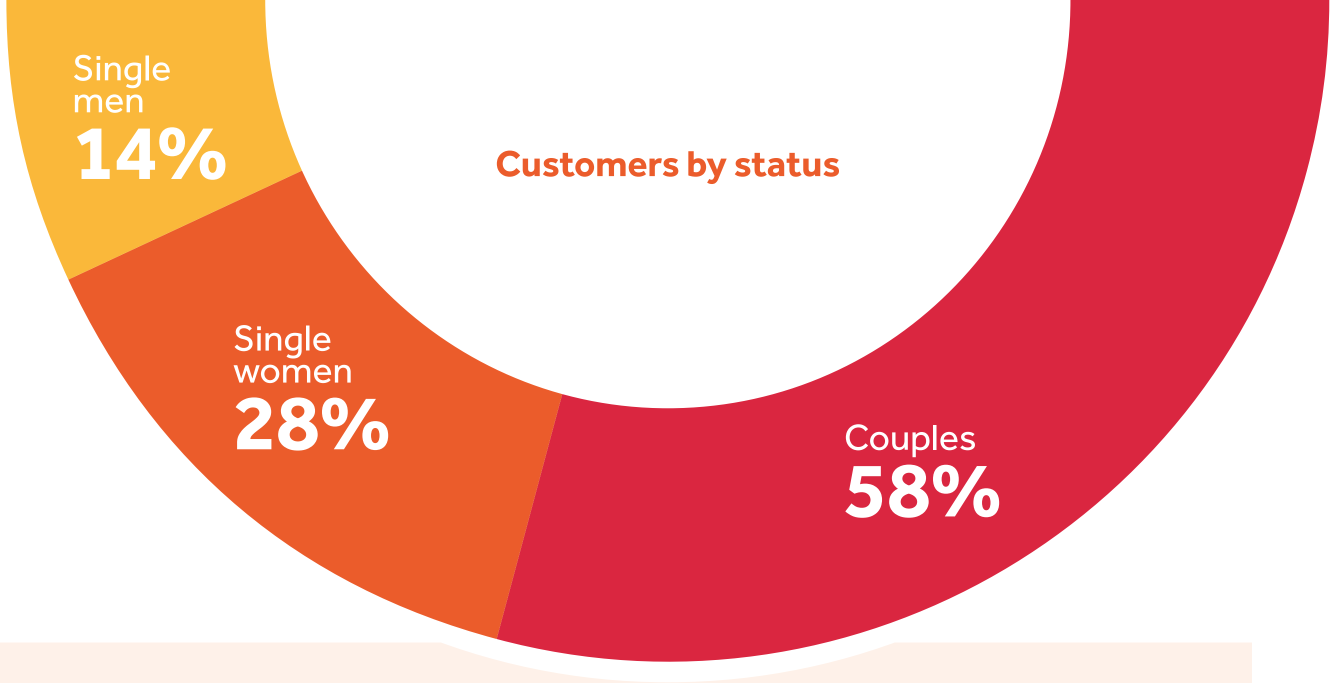
	% of home equity used to pay off debt	
Type of debt	Full year 2020	Full year 2021
Mortgage debt	29%	**48%**
Unsecured debt	18%	**6%**
Lifetime mortgage	18%	**36%**
Mortgage	59%	**51%**
Loans	8%	**4%**
Car finance	1%	**1%**
Overdraft	<0%	**<0%**
Credit cards	9%	**4%**

While repayment of secured debt has increased, the proportion of equity release funds used to manage unsecured debt had fallen by two thirds to 6% (FY 2021) from 18% (FY 2020) – although the number of customers using it for this purpose has only dipped slightly from 28% (FY 2020) to 27% (FY 2021).

This would appear to back up the Bank of England's figures and suggest that while for the most part people are happy to manage this debt themselves, they may use equity release to clear their final outstanding balances as part of their wider borrowing strategy.

With 2022 already showing positive signs that the Covid-19 pandemic may have less of an impact on our lives, it will be interesting to see whether we see a return to more people looking to housing equity for discretionary spending rather than debt management.

However, irrespective of how things play out, it is hard to imagine that having seen the benefits of using equity release to repay unsustainable secure borrowing this will not become a normal part of life for those who can benefit from the support.



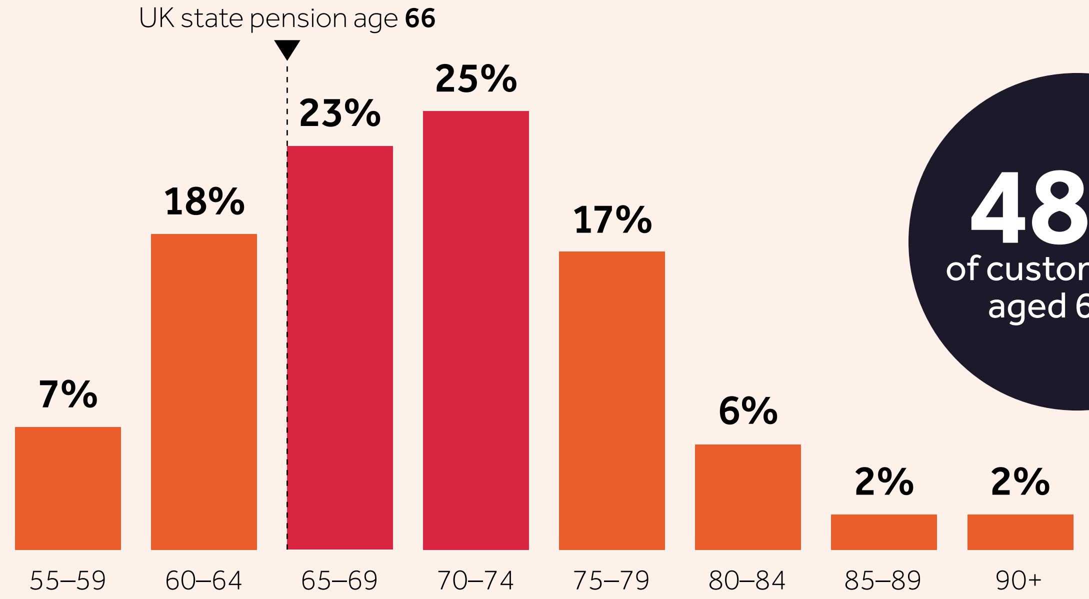
Demographic analysis

Over half (58%) of those who take out equity release are married or in a long-term relationship while 28% are single women and 14% of single men. While only a gradual trend, we have seen the number of married couples taking out equity release slowly falling since 2016 (65%) while the number of single women (24% – 2016) and single men (11% – 2016) have increased.

The average customer who took out equity release was 71 years' old, which is in line with the figures recorded in 2020 but below those recorded in 2019 (72 years old). Just 7% are younger than 60 years old while three quarters (75%) are over-65. While the older generation typically uses equity release for aspirational spending – something that the pandemic has dampened – the Stamp Duty Holiday and desire to support via gifting has kept this cohort engaged with the market.

Customers by age

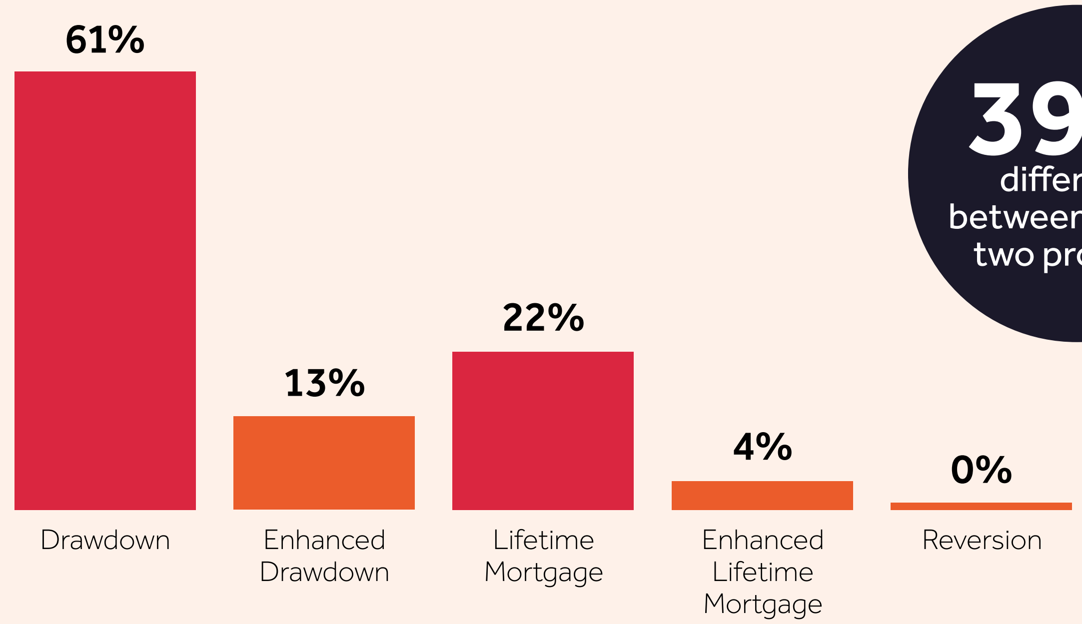
Average age has remained steady year on year



48% of customers are aged 65–74

Product mix

Drawdown continues to dominate the market despite rise in amount released



39% difference between the top two products

Across the UK

In FY 2021, the South East retains its top spot with 9,652 plans taken out followed by the South West (4,919), London (4,243) and the North West (4,227). Double digit YOY increases were also seen in Wales (+24%), Yorkshire (+12%) and the South West (11%) with other regions recording more modest increases or in some cases falls.

Northern Ireland which is traditionally a choppy market due to its relatively small size saw the number of plans taken out fall 17% to 341 and the amount released drop 10% to £20 million. All other areas saw YOY growth in the amount released with Wales (+59%), London (+48%) and the South East (+36%) leading the pack. In terms of the actual amount released, the South East (£1.23 billion) and London (£942 million) saw the largest amounts released – account for almost half of the market.

With homes in London (£721,547) and the South East (£448,089) far and away the most expensive in the country, this split is to be expected – especially when you consider the Stamp Duty Holiday which we saw over much of 2021. With the ONS suggesting that by the end of the year, the average first-time buyer home in London was worth £449,000, it is perhaps not surprising that parents and grandparents were keen to dip into their own housing equity to help loved ones onto the property ladder.

£104,792
Average release amount for the UK
▲ Up 24% on FY, 2020

Full year results

Location	Plans: Value (% change on FY, 2020)		Plans: Number (% change on FY, 2020)		Value released: Average release amount	Value released: Average LTV %	Property value: Average value (% change on FY, 2020)		Age: Average customer age
East Anglia	£216,072,444	(14%)	2,481	(-6%)	£87,091	28%	£310,005	(12%)	71
East Midlands	£281,845,210	(26%)	3,652	(9%)	£77,169	28%	£272,877	(8%)	71
London	£942,199,702	(48%)	4,243	(9%)	£222,046	31%	£721,547	(11%)	72
North East	£94,949,250	(28%)	1,443	(6%)	£65,808	30%	£222,191	(14%)	70
North West	£315,736,632	(33%)	4,227	(6%)	£74,690	30%	£245,899	(7%)	69
Northern Ireland	£19,993,172	(-12%)	341	(-17%)	£58,676	31%	£186,804	(-3%)	66
Scotland	£151,979,812	(6%)	2,305	(-5%)	£65,926	30%	£219,613	(3%)	69
South East	£1,228,678,237	(20%)	9,652	(-1%)	£127,291	28%	£448,089	(8%)	71
South West	£516,298,759	(36%)	4,919	(11%)	£104,951	29%	£365,397	(8%)	71
Wales	£161,733,607	(59%)	2,231	(24%)	£72,501	30%	£242,924	(13%)	71
West Midlands	£277,468,833	(12%)	3,493	(-4%)	£79,445	29%	£270,839	(9%)	71
Yorkshire & Humberside	£193,325,491	(25%)	3,003	(12%)	£64,383	29%	£222,067	(5%)	70
Total	£4,400,281,150	(28%)	41,991	(4%)	£104,792	29%	£358,051	(9%)	71

Focus location:
North West

Comprising of Cheshire, Greater Manchester, Cumbria, Lancashire and Merseyside, the North West is the UK's most populous region after London and the South East – and also home to Key's head office in Preston.

In FY 2021, 4,227 equity release plans helped over-55s access £316 million worth of housing equity in the North West. This is a 5.6% increase in number of products and a 33.2% rise in the amount of equity taken out compared to the previous twelve months.

Against the national picture, the North West has both the 4th largest equity release market for value and number of customers – just missing out on beating the figures recorded in London for the number of plans taken out (4,243).

This growth has been driven in part by customers choosing to take higher LTVs (31%) than previously on more valuable properties (£245,899). In just 5-years, the average property used for equity release has leapt by more than £40,000 from £205,484 (FY 2017) to £245,899 (FY 2021).

While the North West bucked the national trend and recorded a decrease in borrowers' age, this is likely to be due to the higher number of borrowers repaying mortgages (56% vs 51% across the UK).

How this might work in practice is outlined in the case study on page 24.

	Plans		Lending	
Period	**Number**	**Change Y/Y**	**Amount (million)**	**Change Y/Y**
FY 2017	3,245	39.7%	£183,760,657	42.7%
FY 2018	4,223	30.1%	£242,186,099	31.8%
FY 2019	4,329	2.5%	£254,154,198	4.9%
FY 2020	4,003	-7.5%	£236,961,445	-6.8%
FY 2021	**4,227**	**5.6%**	**£323,197,611**	**36.4%**

	Product details			
Period	**Average released**	**Average LTV**	**Average Age**	**House Prices**
FY 2017	£56,638	28%	72	£205,484
FY 2018	£57,348	27%	71	£213,299
FY 2019	£57,115	26%	72	£217,290
FY 2020	£59,190	26%	71	£228,995
FY 2021	**£74,690**	**31%**	**69**	**£245,899**

A view of Albert Dock in Liverpool

4,227
new plans
▲ Up 5.6% on FY, 2020

£323.2m
released in equity
▲ Up 36.4% on FY, 2020

£74,690
average release
▲ Up 26% on FY, 2020

£245,899
average property value
▲ Up 7% on FY, 2020

Case Study

Having worked hard for most of her life, Sarah has not given a huge amount of thought to retirement although she had dutifully paid into her employer's pension and made sure that she quietly built up a nest egg in case she needed it.

After a short-lived and fairly disastrous marriage, she found herself paying the mortgage on a gorgeous flat in Altrincham that she loved. It wasn't cheap but it was close to the tram and had a little bit of a garden that was lovely in summer.

She had moved onto an interest-only mortgage when she split up with her husband and although she knew she had to repay what she owed, other priorities always intruded.

Sarah explains:

"My parents were together for 50 years before they passed away and I always assumed I would find someone and settle down but after my marriage fell apart, I realised that I needed to be more proactive about my finances. Moving to an interest-only mortgage was the only way I could keep my home and pay off my ex-husband but it left me owning a lump sum of £60,000.

"I probably should have moved to a repayment mortgage before I reached 60, but I went freelance and while I was able to pay the mortgage, I was always slightly worried that I would not be able to remortgage so stayed on the standard variable rate (4.49%). I knew that interest rates were likely to increase so I had to do something about it and I also wanted to think about what I really wanted for the next few years.

"I want to keep working as long as I can and I know that the pension I've paid into will be really helpful when I do stop work but couldn't help but worry about repaying the lump sum. It isn't a huge sum of money but it is very big when you don't have it and I finally decided I needed to get this sorted out.

"My neighbour Ingrid is the same age as me and in summer, we would have a socially distanced glass of wine when possible and chat. She suggested I speak to a financial adviser who was a friend of hers and they referred me to The Equity Release Experts. I hadn't really considered equity release as I didn't know much about it but the adviser explained all the ins and outs.

"By taking out a drawdown plan, I could reserve a pot of money and use some of it to repay my mortgage and take the rest out in future. I was still working so I could afford to make interest or ad hoc capital repayments to help the roll up interest (3% fixed for life) but if I wanted or needed to stop later on I could.

"In hindsight, I would have made some very different financial decisions but this is the situation I find myself in and equity release has given me the peace of mind that I need. I know that I can stay in my home for as long as I want, I will never owe more than the value of my home and I can make choices around retirement and employment without dreading a call from my lender."

* = This case study is fictional and while based on issues faced by people every day, bears no resemblance to a specific person or set of personal circumstances.

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