Market monitor

Equity release performance in the UK

Quarter 1 2022

Welcome

While the pandemic still casts a shadow over many industries as well as people across the UK, the Q1 2022 figures highlights the renewed but cautious optimism that we are starting to see from many over-55s. Indeed, the number of new plans taken out over the three month period topped 12,551 for a total value of £1.399 billion which is a 30.5% year on year increase in the value of housing equity released.

Existing customers also benefitted from rising house prices and we saw £373 million released via further advances and existing drawdown arrangements as customers looked to boost their spending power. A not unsurprising move given inflationary increases and rising fuel prices have started to impact those of all ages but are particularly challenging for those on fixed incomes.

Over half (53%) of the equity release was used to repay outstanding mortgages while 6% was used to clear unsecured debt. While exchanging one form of debt for another may seem counter-intuitive, the simple fact is that equity release allows customers to make ad hoc payments on their borrowing to manage the interest without the fear that they might lose their homes if they choose to take a break or stop.

For the thousands of over-55s who may have taken out an interest-only mortgage, taken their first steps onto the property ladder later than ideal or found that a life event shakes their carefully planned finances, this is a huge relief. It allows them to boost their income by reducing repayments, takes away a barrier to retirement and provides them with the opportunity to plan with security of tenure.

One in five (25%) of those using equity release to repay secured borrowing are remortgaging existing equity release plans to either secure better rates, improved features or access additional funds. The rates on equity release plans are guaranteed for the life of the loan so the typical rebroke customer who moves £121,073 from an interest rate of 5% (initial) to 4.1% (new) benefits from surety as well as longer term savings.

While the proportion of customers gifting equity has fallen marginally from 21% (Q1 2021) to 19% (Q1 2022) – potentially due to the end of the Stamp Duty Holiday – older homeowners are still keen to use the gains they have seen to support their wider families. And as previously suggested, we are starting to see a return to more discretionary spending with 11% of people (1% - Q1 2021) using some of the proceeds of their release to enjoy a holiday.

While the past few years have highlighted that it never pays to be over optimistic, this increase highlights returning consumer optimism and the contribution discretionary spending it will make to the market going forward. Nothing is certain but following a hugely successful Q1, the market in 2022 looks to be in a position to grow and serve more customers than ever before.

WILL HALE
CEO of Key

Contents

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 Yorkshire & Humberside and debt respectively.

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Overview

Q1 2022 saw £1.8 billion worth of borrowing – of which £1.399 billion was new lending which is the largest first quarter on record. With new lending increasing by 30.5%, we also saw 21.4% more plans being taken out to finish on 12,551 completions by the end of March.

While the pandemic has dampened demand in this market in recent years as we return to more normal conditions, the market has bounced back stronger than before. Those existing customer using equity release to manage their finances took an additional £300 million in initial advances and an extra £73 million drawdown activity compared to last year.

In Q1 2022, customers took out an average of £111,511 which is 7.5% higher than the £103,710 taken in Q1 2021. Although 2022 is likely to see a return to equity release being used for more discretionary spending, customers continuing to focus on meeting pressing needs such as debt repayment or supporting wider families, especially with the rising cost of living in 2022 rather than discretionary spending on holidays or home improvements.

Indeed, the number of customers who have used equity release to repay their mortgages has continued to increase from 38% (Q1 2021) to 42% (Q1 2022) while at the same time home and garden improvements has also increase by 5% year on year to 36% (Q1 2022). Still buoyed by the Stamp Duty Holiday which finished at the end of September 2021, 19% of equity release customers used housing equity to support families (23% - Q1 2021).

Interestingly, the proportion of people using equity release for unsecured debt repayment remained stable at 29% or almost a third of all customers. While there is no doubt inflation has started to bite, the financial resilience built up over the pandemic due to lack of spending opportunities appears to have off-set the impact of this. However, as more people look to manage their borrowing and reduce monthly outgoings as inflation continues to take its toll, we anticipate that this proportion will increase over the coming months.

When taking a view across the UK at the number of equity release plans taken out, the South East retains its top spot with 2,872 plans followed by the South West (1,480), the North West (1,211) and the East Midlands (1,105). Double digit YOY increases were seen in across the board with only a very slight decrease in London (-0.6%) in terms of the number of plans. ▶

Across the UK there were increases to the size of the market with Yorkshire and the Humber (66.2%), Scotland (63.8%) and the West Midlands (55.1%) leading the pack. Northern Ireland saw a 249% increase in the size of the market and a 151.1% increase in number of plans however as the figures for those releasing equity in this area are small it can lead to more volatile figures which are not a true reflect of the market.

	Lending Mix
Area	**%**
East Anglia	5%
East Midlands	6%
London	17%
North East	2%
North West	7%
Northern Ireland	1%
Scotland	5%
South East	28%
South West	13%
Wales	4%
West Midlands	7%
Yorkshire & Humberside	**5%**

Value of plans

HIGHEST
£391m
South East
▲ Up 15% on Q1, 2021

LOWEST
£7.4m
Northern Ireland
▲ Up 249% on Q1, 2021

Number of plans

HIGHEST
2,872
South East
▲ Up 13% on Q1, 2021

LOWEST
105
Northern Ireland
▲ Up 151% on Q1, 2021

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 Q1 2021, we estimate the market transacted 1,005 remortgage cases but this has leapt to 1,789 in Q1 2022 as the option to rebroke become familiar.

In Q1 2022, the average customer moved a balance of £121,073 from an interest rate of 5% (initial) to 4.1% (new). Over a 15-year period, this simple switch would mean a saving of approximately £30,000 for the customer. Such was the volume of cases that it accounted for 25% 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.

Here at Key, we review our customer's plans regularly and if we think they would benefit from remortgaging their existing plan, we will get in touch. Much like a traditional mortgage, not everyone is in the position to remortgage, it is dependent on their individual set of circumstances.

Drawdown

While drawdown products accounted for 60% of the products available in Q1 2022, they accounted for 71% of the plans taken out mirroring same product split as the first three months of 2021.

In Q1 2022, customers used these products to reserve £410 million worth of housing equity for use in the future which is a 22% increase year on year from £336 million in Q1 2021. This was potentially driven by increases in house prices over the last 12 months.

That said, those with drawdown products who chose to access these funds during Q1 2022 took out £12,514 which is down on the figures recorded in Q1 2021 (£15,169). While there appear to be more customers taking advantage of the flexible nature of equity release, they are being conservative with the amount they withdraw.

We have also seen more people consider further advances, with the total amount taken out rising from £25.48m (Q1 2021) to £46.14m (Q1 2022). With house prices continuing to increase some customers are keen to take advantage of this opportunity by using the flexibilities provided by lifetime mortgages. To ensure that additional borrowing is right for their individual circumstances now and in the future, this can only be done with advice.

1,789

rebroke cases

▲ Up 78% on Q1, 2021

3.35%

average new interest rates

▲ Up 9% on Q1, 2021

Product features

In Q1 2022, customers had 1,557 products to choose from within the equity release market – three times as many as just twelve months ago (Q1 2021 – 518). While finding the right interest rate for a client is important so is finding the right mix of product features that fit their individual circumstances.

Early repayment charges (ERC) which are also a feature in the residential market can be the cause of complaints should a customer's circumstances change. While gilt-linked or variable ERC's can benefit people in certain rate environments as they track these indices, people do not know how much they may need to pay until they request a redemption statement which has seen them fall out of fashion (-41% to 13% in Q1 2022).

Indeed, products with fixed ERC's now make up 64% of the market (44%) – Q1 2021) while those which offer customers the choice between variable and fixed grew from 1% (Q1 2021) to 23% (Q1 2022).

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 which saw rates increase in Q1 2022 to 3.35%. This is above the figure recorded in Q1 2021 (2.8.4%) but still compares favourably to Q1 2019 (4.33%).

Average equity release interest rate				
Year	Q1	Q2	Q3	Q4
2019	4.33%	3.92%	3.72%	3.15%
2020	3.10%	3.18%	3.05%	2.80%
2021	2.84%	3.02%	3.16%	3.07%
2022	**3.35%**	–	–	–

3.35%
Average interest rate for Q1, 2022
▲ Up 0.51% on Q1, 2021

Flexibility a focus

Three quarters (84%) 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 64% in Q1 2021. This is due to increase to 100% from 19 April 2022 when the new Equity Release Council standard which guarantees customers the ability to make ERC-free repayments with lenders criteria comes into force.

We have also seen a small increase in the number of products that allow you to repay interest on an ongoing basis from 59% (Q1 2021) to 62% (Q1 2022). The proportion of products offering inheritance protection (+9% to 37%) and downsizing protection (+11% to 62%) 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 42% for the oldest borrowers (over-85 years). In Q1 2022, the average LTV taken was 32% which is a slight increase from Q1 2021 (31%) and likely to reflect the larger sums needed to meet pressing needs such as mortgage repayment.

As might be expected, the younger cohort (55–59 years old) is most likely to take out a lump sum product (71.30%) while those aged 75–79 years old are most likely to take out drawdown (65.38%) as they look to support retirement spending.

	Drawdown		Lump sum	
Age	Q1 2021	Q1 2022	Q1 2021	Q1 2022
55–59	28.90%	**28.70%**	71.10%	**71.30%**
60–64	37.54%	**42.58%**	62.46%	**57.42%**
65–69	48.93%	**49.33%**	51.07%	**50.67%**
70–74	58.98%	**57.59%**	41.02%	**42.41%**
75–79	57.43%	**65.38%**	42.57%	**34.62%**
80–84	65.22%	**41.67%**	34.78%	**58.33%**
85+	52.63%	**57.14%**	47.37%	**42.86%**

Equity release uses

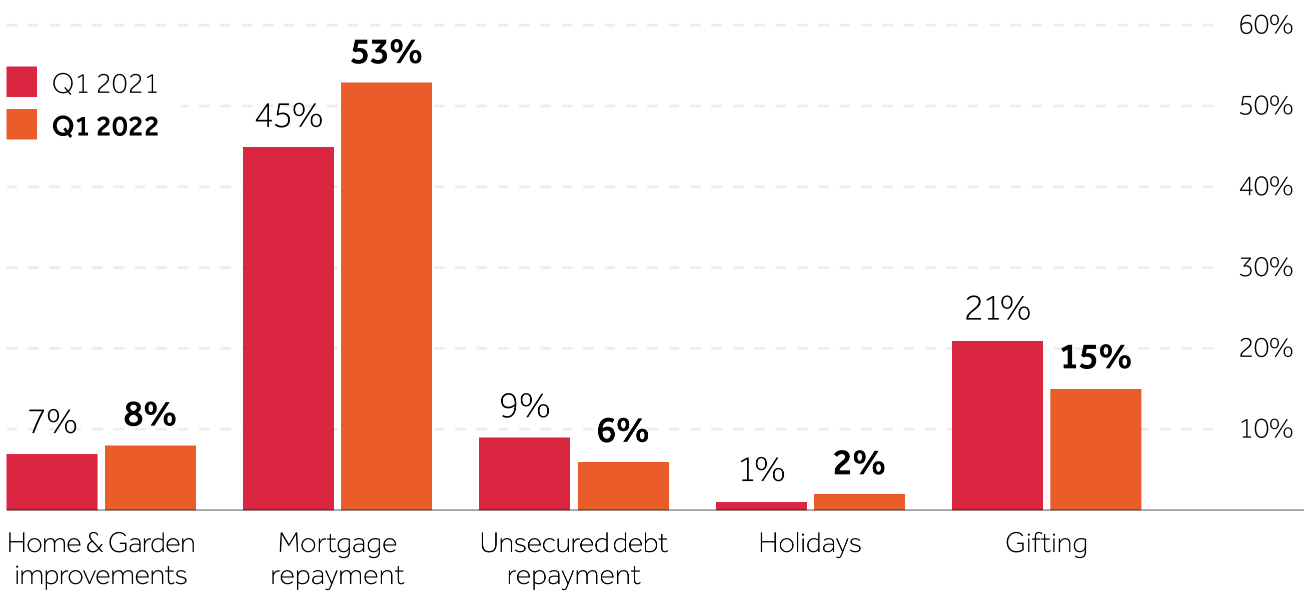
Having produced the market monitor since 2006, Key boasts the largest data set within the later life lending market on how the proceeds of equity are used. This is enhanced by the more granular detail provided by the bespoke advice platform introduced in 2019.

In early 2022, we have seen equity release customers remain cautious regarding their finances, with debt repayment remaining a priority to meet immediate needs rather than for discretionary spending. Almost half (42%) of people used equity release to repay their mortgage borrowing while 29% used it to clear unsecured debt, which perhaps following the first festive season that people could celebrate with their families since the pandemic is not surprising.

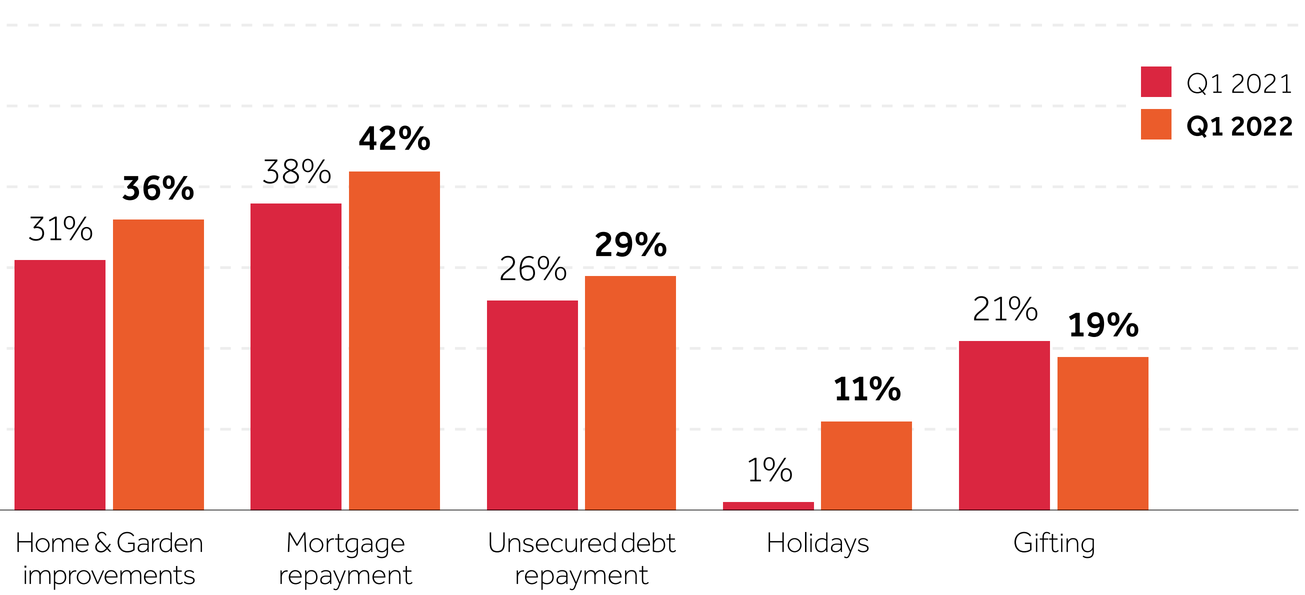
With the Stamp Duty Holiday which finished in September 2021 increasing numbers of over-55s were using their housing equity to boost loved ones onto the property ladder. While the number of customers using equity release for gifting has fallen from 21% (Q1 2021) to 15% (Q2 2022), this still accounts for almost a fifth (19%) of the value released. Highlighting the lasting impact the Stamp Duty Holiday has had not only on the residential mortgage market but also the later life lending market.

While the proportion of housing equity used to finance holidays has only risen from 1% (Q1 2021) to 2% (Q2 2022), it is interesting to note that 11% of customers are now using it for this purpose – a significant jump from 1% in Q1 2021. This supports our prediction that we will see increasing numbers of customers using equity release to support discretionary or aspirational spending as pent-up demand caused by the pandemic gradually eases.

Proportion of the equity released used for specific purposes (i.e. value)



Proportion of customers using equity released used for specific purposes (i.e. volume)



Spotlight on:
Debt management

As we gradually return to more normal market conditions, it is difficult to imagine that anyone of any age has been left unaffected by the pandemic and over-55s are no exception.

While for some, this has manifested itself in the desire to travel and spend time with family, others have focused on increasing their options by boosting their financial resilience through debt repayment.

Whether the focus is boosting disposable income, avoiding the devastating impacts of missed repayments or simply managing unsustainable bills, over-55s are using their housing equity to manage debt. Indeed, 57% of equity release customers use 60% of the equity released for this purpose in Q1 2022.

The proportion of equity release funds used to manage unsecured debt had fallen slightly from 9% (Q1 2021) to 6% (Q1 2022) – although the number of customers using it for this purpose has increased slightly from 26% (Q1 2021) to 29% (Q1 2022).

Analysis from the Bank of England Consumer Credit Report highlights that after a period of rising debt prior to the pandemic, the 0.4% increase in unsecured borrowing that we saw in November 2021 was the first increase since March 2020.

It would seem that while many had paid down debt during the pandemic, more equity release customers saw the financial benefits of clearing their borrowing than before potentially driven by concerns around rising inflation and climbing energy prices.

This argument is backed up further by the market monitor figures which highlight the year on year decrease in the forms of debt which are more easily repaid – namely credit cards (-1% to 3%) and personal loans (-1% to 4%).

Secured debt

For most people their mortgage is their largest debt – and one that they will have hoped to pay down over their working lives. However, due to the use of interest-only mortgages, delays getting onto the housing ladder and repeated remortgaging, some people find that retirement is on the horizon before the manage to settle this debt.

Equity release – which allows ongoing capital as well as interest repayments – can be the right option for someone facing this situation and 42% of people taking out these products use it for this purpose. This is up from 38% in Q1 2021 and is likely to be driven by fears around the impact of rising interest rates as well as the need to manage borrowing in an environment of rising inflation.

The average equity release customer repays an outstanding mortgage of £88,958 (Q1 2022) which is an £10,000 increase on Q1 2021 (£78,624). The number of people taking advantage of the relatively modest rates of interest on equity release products has also risen from 18% in Q1 2021 to 25% in Q1 2022.

57%
of people with debt
▲ Up 3% on Q1, 2021

60%
of home equity used to pay off debt
▲ Up 7% on Q1, 2021

	% of people who used equity release to pay off debt	
Type of debt	**Q1 2021**	**Q1 2022**
Debt	54%	**57%**
Mortgage debt	38%	**42%**
Unsecured debt	26%	**29%**
Lifetime mortgage	18%	**25%**
Mortgage	52%	**49%**
Loans	22%	**24%**
Car finance	4%	**4%**
Overdraft	4%	**3%**
Credit cards	32%	**28%**

	% of home equity used to pay off debt	
Type of debt	**Q1 2021**	**Q1 2022**
Debt	53%	**60%**
Mortgage debt	45%	**53%**
Unsecured debt	9%	**6%**
Lifetime mortgage	29%	**36%**
Mortgage	55%	**52%**
Loans	5%	**4%**
Car finance	1%	**<0%**
Overdraft	<0%	**<0%**
Credit cards	4%	**3%**

Age differences

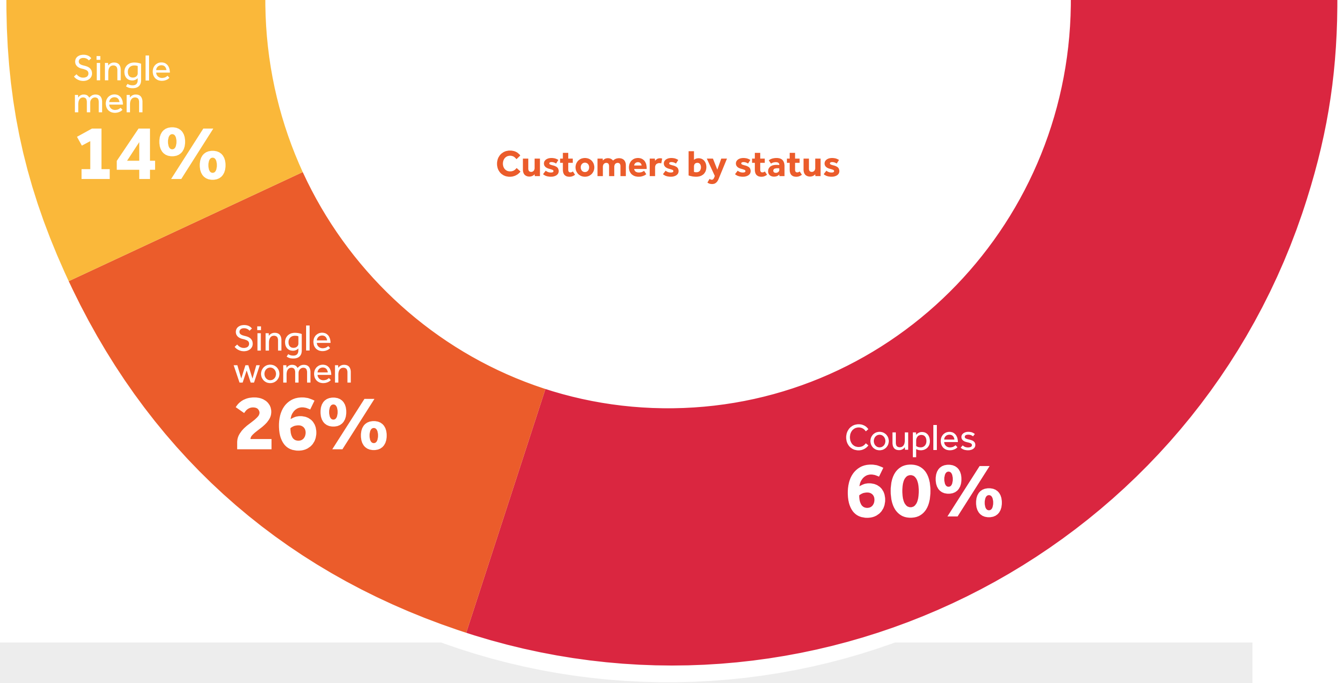
Digging further into the repayment of secured borrowing, it is interesting to note that while 45% of younger borrowers (55-64) use equity release to repay their mortgage, the actual amount is relatively modest (£63,267).

Those entering retirement (65-74) use equity release to repay almost double (£114,922) followed by the longer-term retired (£97,681). It would appear that while some people choose to repay a mortgage in order to retire, others continue to battle to meet repayments until they become unsustainable and they need to consider a wider range of later life lending options.

Average mortgage repayment		
55–64	65–74	75+
£63,267	£114,922	£97,681

Proportion of customers		
55–64	65–74	75+
45%	25%	14%

Demographic analysis



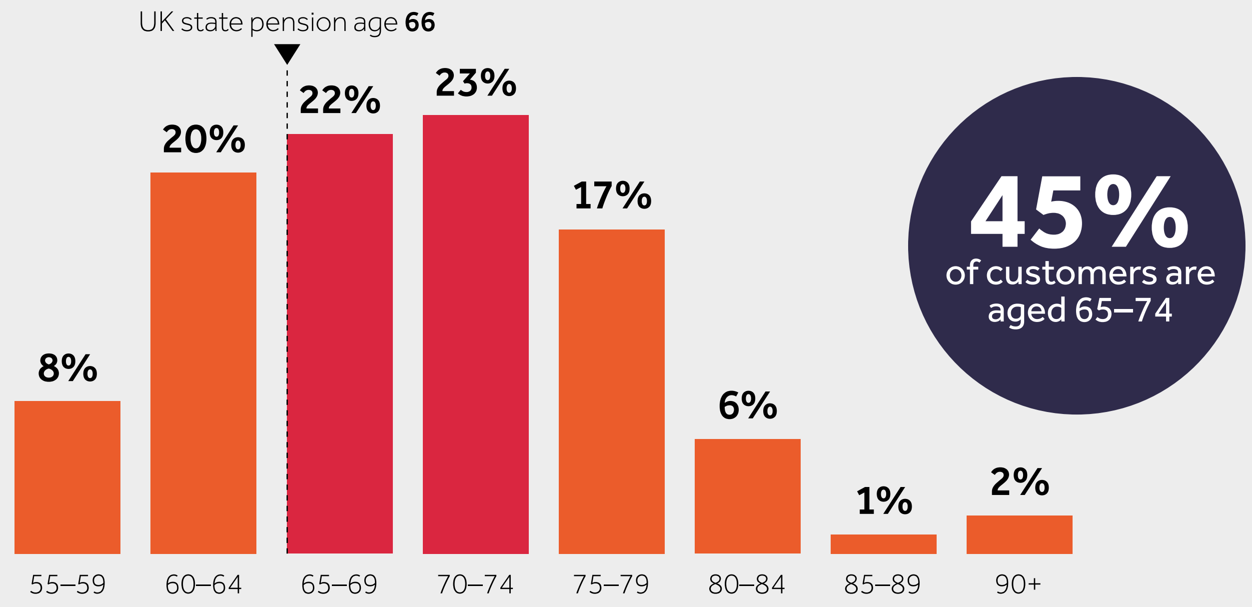
Over half (60%) of those who take out equity release are married or in a long-term relationship while 26% are single women and 14% of single men. While only a gradual trend, we have seen the number of married couples taking out equity release gradually falling since 2016 (65%) while the number of single women (24% – 2016) and single men (11% – 2016) have increased. Although there has been a 1% increase in married couples in Q1 2022 YOY.

The average customer who took out equity release was 70 year's old, which is in line with the figures recorded in 2020 but below those recorded in full year 2021 (71 years old). Just 8% are younger than 60 years old while almost three quarters (71%) are over-65.

While the older generation typically uses equity release for aspirational spending – something that the pandemic has dampened – the desire to support loved one with getting onto the property market and an increased cost of living has kept this demographic engaged with the market.

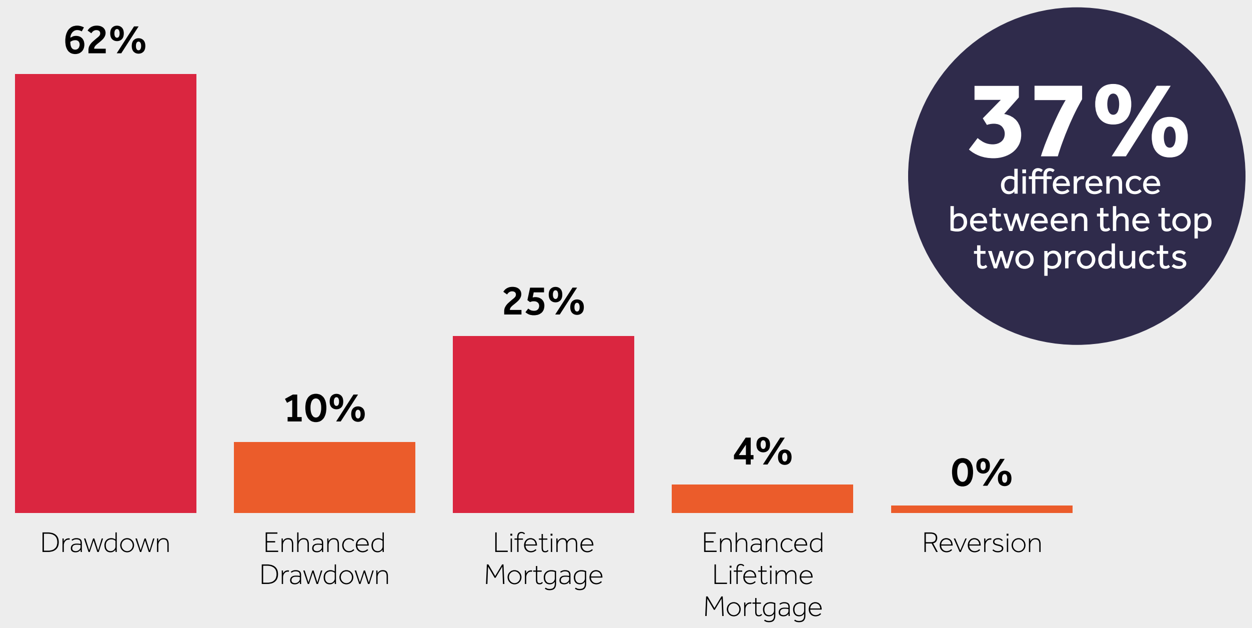
Customers by age

Average age has remained steady year on year



Product mix

Drawdown continues to dominate the market despite rise in amount released



Across the UK

In Q1 2022, the South East retains its top spot with 2,872 plans taken out followed by the South West (1,480) and the North West (1,211).

While London had previously been a familiar sight in the top three, it fell to fourth place in Q1 2021 and now 6th in Q1 2022 as rising house prices across the country wider demand. London was the only region to not see an increase in the number of plans taken out (-0.6%).

Northern Ireland which is traditionally a choppy market due to its relatively small size saw the number of plans taken out increase by 151.1% to and the amount released increase by 248.7% to £7,466,699. All areas saw YOY growth in the amount released with Yorkshire & Humber (+66.2%), Scotland (+63.8%) and the West Midlands (+55.1%) leading the pack. In terms of the actual amount released, the South East (£391 million), London (£234 million) and South West (£184 million) saw the largest amounts released – accounting for almost half of the market.

With homes in London (£788,333) and the South East (£469,076) the most expensive in the country, this split is to be expected. With the ONS suggesting at the end of 2021, 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.

£111,511
Average release amount for the UK
▲ Up 8% on Q1, 2021

Quarter 1 results

Location	Plans: Value (% change on Q1, 2021)		Plans: Number (% change on Q1, 2021)		Value released: Average release amount	Value released: Average LTV %	Property value: Average value (% change on Q1, 2021)		Age: Average customer age
East Anglia	£76,771,544	(37%)	754	(15%)	£101,760	29%	£350,310	(16%)	69
East Midlands	£86,516,963	(35%)	1,105	(37%)	£78,272	29%	£267,714	(-7%)	70
London	£234,476,314	(17%)	1,006	(-1%)	£233,098	30%	£788,333	(12%)	71
North East	£26,138,834	(15%)	439	(35%)	£59,593	31%	£193,243	(-18%)	68
North West	£96,372,283	(26%)	1,211	(16%)	£79,607	30%	£268,328	(1%)	69
Northern Ireland	£7,466,699	(249%)	105	(151%)	£70,929	33%	£214,164	(17%)	72
Scotland	£64,314,264	(64%)	819	(46%)	£78,550	32%	£248,728	(8%)	69
South East	£391,448,548	(15%)	2,872	(13%)	£136,321	29%	£469,076	(0%)	71
South West	£184,579,070	(52%)	1,480	(17%)	£124,747	31%	£401,338	(17%)	70
Wales	£59,722,694	(48%)	713	(17%)	£83,704	30%	£274,720	(13%)	69
West Midlands	£100,076,777	(55%)	1,047	(26%)	£95,598	31%	£310,029	(13%)	69
Yorkshire & Humberside	£71,635,814	(66%)	1,000	(51%)	£71,631	30%	£237,163	(1%)	70
Total	£1,399,519,806	(31%)	12,551	(21%)	£111,511	30%	£373,493	(2%)	70

Focus location:
Yorkshire & Humber

Comprising of North Yorkshire, South Yorkshire, West Yorkshire and East Riding of Yorkshire, Yorkshire and Humber is home to 5.5 million people.

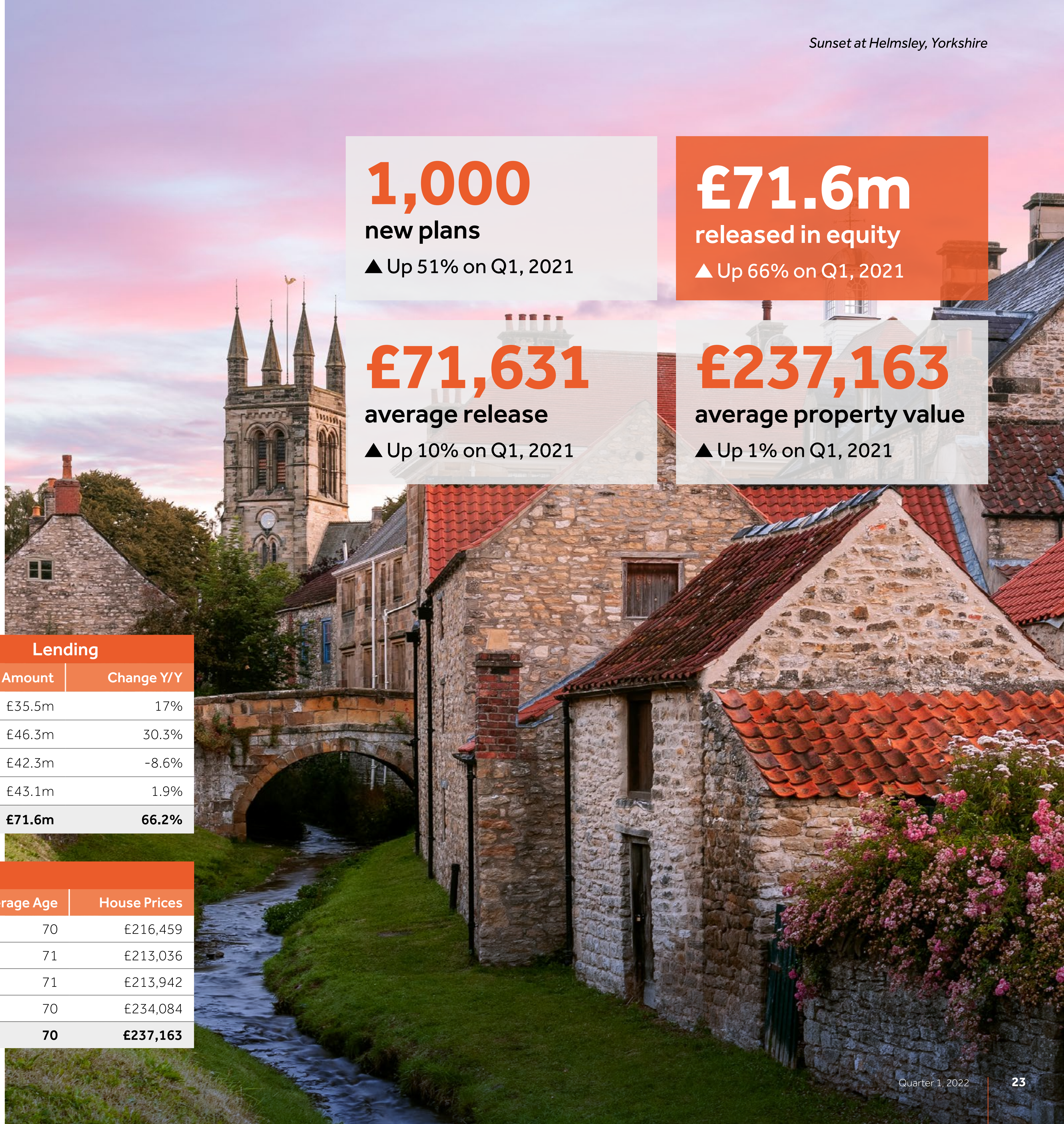
In Q1 2022, 1,000 equity release plans helped over-55s access £71 million worth of housing equity in Yorkshire & Humber. This is a 51.4% increase in number of products and a 66.2% rise in the amount of equity taken out compared to the previous twelve months.

Against the national picture, the Yorkshire has the 7th largest equity release market for number of customers and 8th largest in terms of value – however in Q1 2022 Yorkshire & Humber has seen the highest percentage increase in both value and number of plans.

This growth has been driven in part by customers choosing to take equity release on properties valued on average at £237,163, more than £100,000 less that the UK average property value at £373,493. In just 5-years, the average property used for equity release has increased by almost 10% from £216,459 (Q1 2018) to £237,163 (Q1 2022).

	Plans		Lending	
Period	Number	Change Y/Y	Amount	Change Y/Y
Q1 2018	664	18.6%	£35.5m	17%
Q1 2019	840	26.5%	£46.3m	30.3%
Q1 2020	755	-10.1%	£42.3m	-8.6%
Q1 2021	660	-12.6%	£43.1m	1.9%
Q1 2022	**1,000**	**51.4%**	**£71.6m**	**66.2%**

	Product Details			
Period	Average LTV	Average Released	Average Age	House Prices
Q1 2018	30	£53,522	70	£216,459
Q1 2019	30	£55,085	71	£213,036
Q1 2020	30	£56,255	71	£213,942
Q1 2021	28	£65,255	70	£234,084
Q1 2022	**32**	**£71,631**	**70**	**£237,163**



Sunset at Helmsley, Yorkshire

1,000
new plans
▲ Up 51% on Q1, 2021

£71.6m
released in equity
▲ Up 66% on Q1, 2021

£71,631
average release
▲ Up 10% on Q1, 2021

£237,163
average property value
▲ Up 1% on Q1, 2021

Case Study

Steve, a retired gas engineer (72) and Emma (68) a former teacher worked hard all their lives but found that their retirement planning wasn't quite as robust as they had thought – especially as this was the second marriage for both of them.

Before they both retired, they discussed their finances and ever increasing credit card debt seemed to be taking a large section of their income each month. That alongside monthly mortgage repayments meant that repaying debt in its different forms was a large chunk of their finances.

Emma, said; *"It was only when we took a moment to review our finances just before retiring that we actually realised how much our credit card bills and mortgage payments actually were each month.*

"When taking a look at our pensions, we realised our combined monthly income, minus our debt repayments, wasn't going to get us very far at all. We've got big plans for retirement which include travel, supporting our children and making those changes to our home that mean we can stay in it should we need care."

Steve, commented: *"When you are both working, with two incomes coming in, you don't notice the impact of payments such as the mortgage or credit cards, when you are then living of your pension it is a different matter.*

"We chose to release just under £100,000, to repay our existing mortgage, pay off a couple of credit cards and gift £20,000 to our daughters as a bit of early inheritance. The difference it has made to our lives is night and day. With no monthly mortgage or credit card repayments we have a few hundred pounds extra in the bank each month, we are looking at installing a wet room as I already have a bad back and knees due to 40 years manual work."

Emma, went on to say: *"It's fantastic to see our children enjoying some early inheritance and a real weight off my mind when I think about the future. Steve is keen to remodel the house but I think we might have a fortnight in Spain first."*

* = 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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