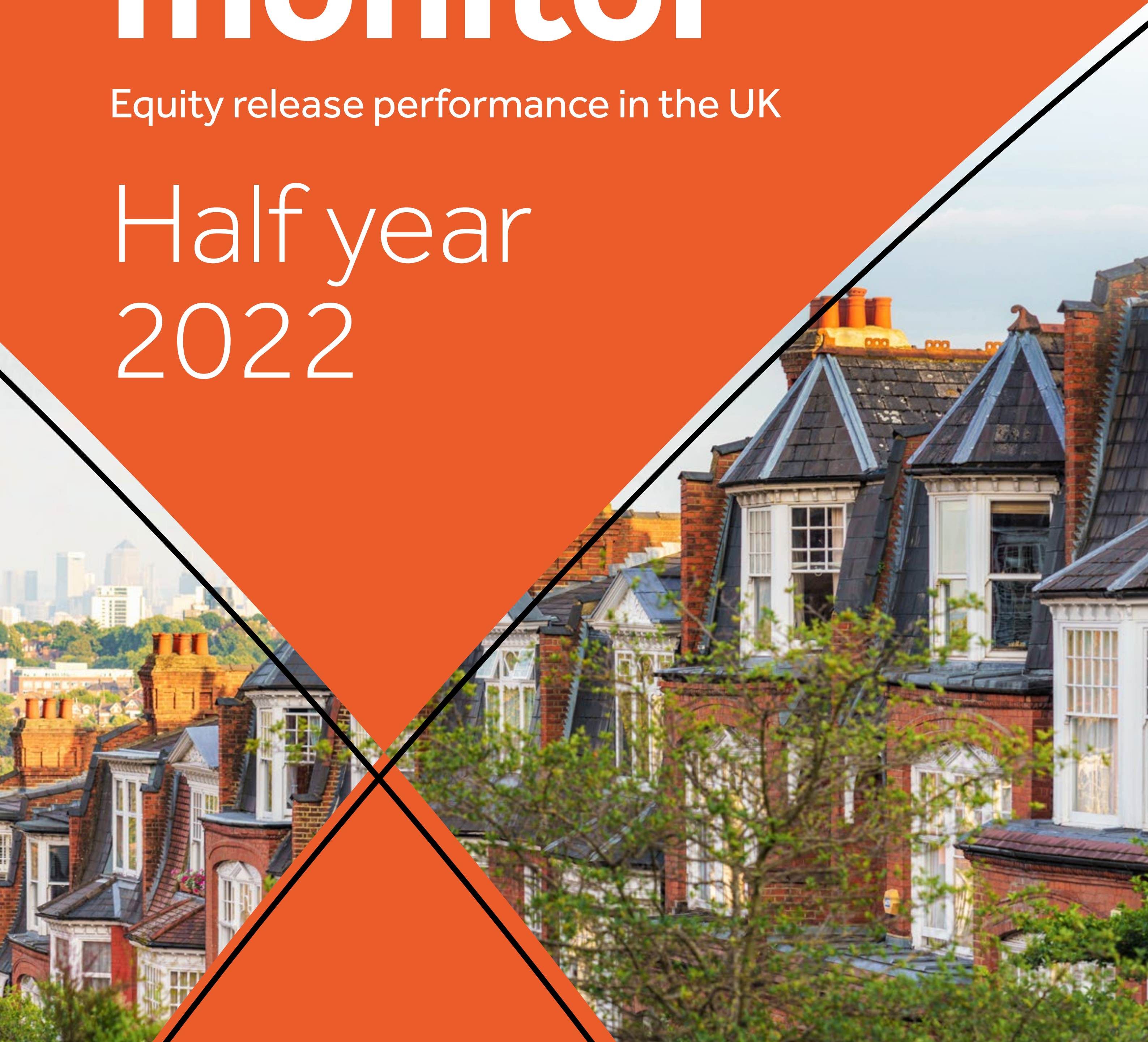
Market monitor

Equity release performance in the UK

Half year 2022



Welcome

While it's fair to say that as a nation we have overcome the worst the pandemic had to offer, there are now new challenges we are facing with the cost-of-living crisis and rising interest rates which have been impacted by the economy. In the face of this, the equity release market remains robust and we have served more than 25,000 customers with a total release of more than £3billion in the first half of the year.

With mortgages often people's largest outgoing, it is not surprising that we continue to see people using equity release to repay both secure and unsecure debt. That said, we have also seen an increase in customers releasing equity from their properties for more aspirational spending. While nowhere near pre-pandemic levels, the number of customers using equity release for holidays has increased to 12% and as more people are working from home than ever before 37% of customers spending on home and garden renovations.

Flexible products remain a priority for both customers and lenders and we have never seen such product within the later life lending market. With the fifth Equity Release Council Product Standard, we now see 100% of new plans allowing ad-hoc repayments within lenders limits and when this is combined with the fact that 62% of products now allow you to repay interest on an ongoing basis, it becomes easier to manage your borrowing.

Inheritance protection has also surged 13 percentage points from 28% to 41%, as has downsizing protection which has also grown from 50% (H1 2021) to 70% (H1 2022). While demographics as well as societal challenges have no doubt driven the growth of the market, it is this type of innovation that allows us to meet the needs of a wide range of different customers.

Although products continue to improve the flexibilities on the market, the Bank of England increased its interest rates which has had an impact on all financial products across the board. At the end of H1 2022 the average equity release interest rate was 3.65% which is still lower than rates prior to the pandemic.

While product innovation is vital, a focus on good customer outcomes remains paramount for Key as well as other specialist firms. The pandemic as well as the cost of living crisis has impacted all age groups and it is critical that not only do we understand our customers' needs and recognise their vulnerabilities but use this to find them the right option for their individual circumstances – how and in the future.

As an industry the first half of the year has been the most successful in the last three years and I am looking forward to the latter half of the year as this growing market continues to develop.

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 West Midlands and discretional spending respectively.

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Overview

H1 2022 saw £3.43 billion worth of borrowing – of which £2.56 billion was new lending which is the largest half year on record. With new lending increasing by 32%, we also saw 24% more plans being taken out to finish on 25,448 completions by the end of June.

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. Existing customer using equity release to manage their finances took an additional £876 million in further advances and an extra £200 million in drawdown (an 32% increase) compared to last year.

In H1 2022, customers took out an average of £100,468 which is 6% higher than the £94,982 taken in H1 2021. Although we anticipate that in 2022 we are 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.

Indeed, the number of customers who have used equity release to repay debts has continued to increase from 53% (H1 2021) to 57% (H1 2022) while at the same time home and garden improvements has also increase by 5% year on year to 37% (H1 2022) and people choosing to release equity to go on holiday has seen a 6% increase to 12% in H1 2022. Still buoyed by the Stamp Duty Holiday which finished at the end of September 2021, 21% of equity release customers used housing equity to support families (23% – H1 2021).

Interestingly, the proportion of people using housing equity used to repay mortgages is 27% but this makes up 40% of the total amount of equity released. As inflation starts to bite, those on fixed income or nearing retirement are considering how they can manage their largest expenditure – while still allowing for potential repayments in the future. In H1 2021, we have seen an increase in existing equity release customers remortgaging their equity release plan to take advantage of lower interest rates this has increased to 3,817 in H1 2022 from 2,130 in H1 2021.

When taking a view across the UK at the number of equity release plans taken out, the South East retains its top spot with 6,006 plans followed by the South West (3,030), the North West (2,534) and London (2,227). Double digit YOY increases were seen in across the board with Yorkshire and the Humber seeing the highest percentage change (35.6%) with a total of 1,949 plans. ▶

£2.56bn
new lending
▲ Up 32% on H1, 2021

25,448
new plans
▲ Up 24% on H1, 2021

£100,468
average amount released
▲ Up 6% on H1, 2021

Across the UK there were also double digital increases to the size of the market across all areas with Wales (73.3%), Scotland (67.2%) and Yorkshire and the Humber (50.2%) leading the pack. Northern Ireland saw a 209.5% increase in the size of the market and a 136.5% 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	**19%**
North East	**2%**
North West	**7%**
Northern Ireland	**1%**
Scotland	**4%**
South East	**28%**
South West	**12%**
Wales	**4%**
West Midlands	**6%**
Yorkshire & Humberside	**5%**

Value of plans

HIGHEST
£716m
South East
▲ Up 27% on H1, 2021

LOWEST
£14.3m
Northern Ireland
▲ Up 209% on H1, 2021

Number of plans

HIGHEST
6,006
South East
▲ Up 24% on H1, 2021

LOWEST
248
Northern Ireland
▲ Up 137% on H1, 2021

UK areas

Remortgaging

While the concept of remortgaging has been popular for residential mortgages for at least twenty years, it was less common in the equity release market.

While specialist advice firms like Key have been actively monitoring whether clients are able to switch, the proliferation of gilt-linked ERC's and the movements in this market have not always made this possible.

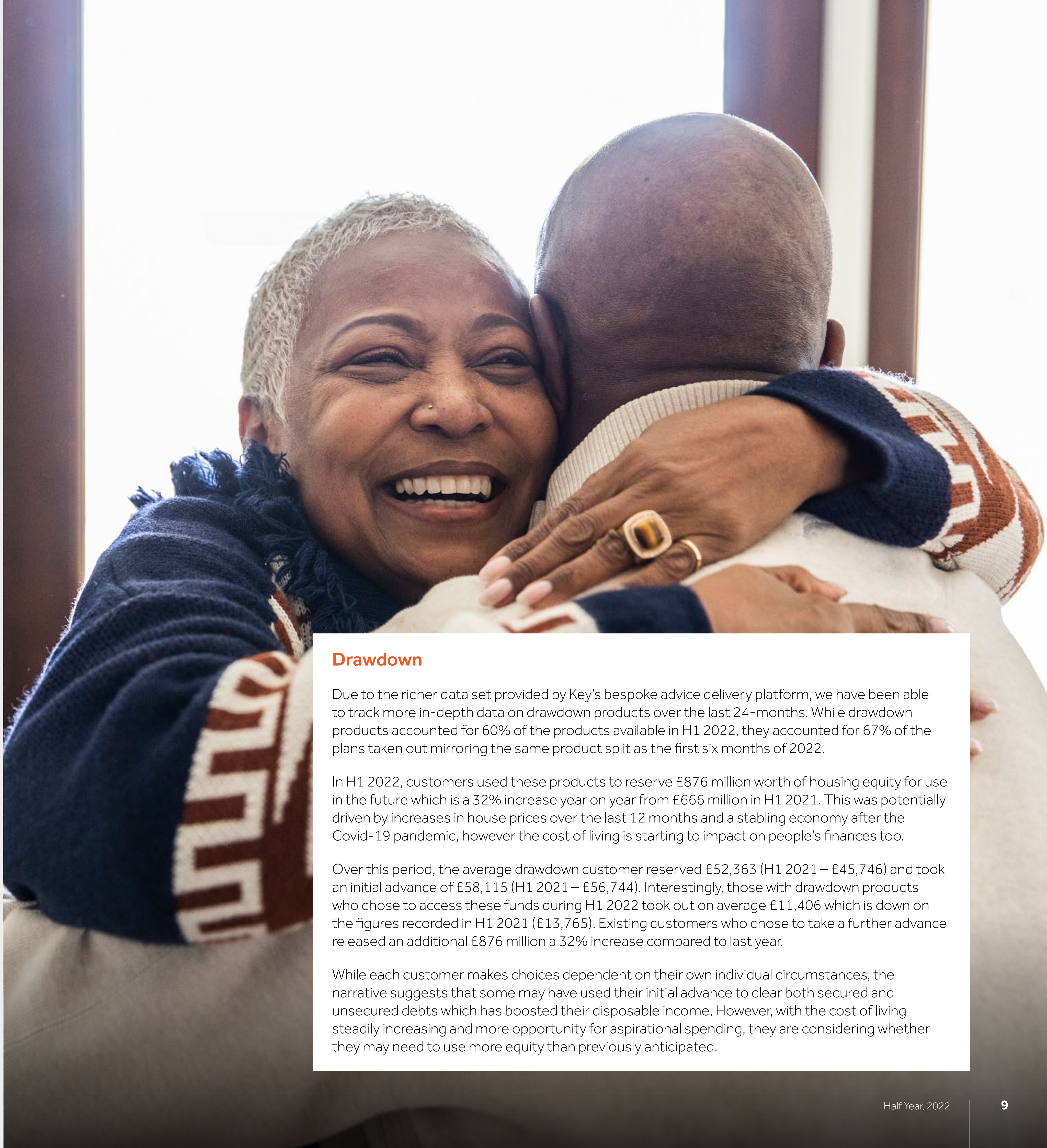
Customers interested in remortgaging their existing equity release plan will receive advise from a qualified adviser who will only recommend the product change if there is a financial benefit for the customer. They would take into account any early repayment charges, interest rates and the likely duration of the new loan.

In H1 2021, we estimate the market transacted 2,130 remortgage cases but this has leapt to 3,817 in H1 2022 as the option to rebroke become far more common knowledge. In H1 2022, the average customer moved a balance of £130,808 from an interest rate of 5% (initial) to 4.2% (new). This provided a saving of £1,091 in the first year, £6,558 after 5 years, £16,503 after 10 years and £31,153 after 20 years. With the new rate the value would double in just over 16 years compared to just over 13 years on the higher rate.

Nearly a fifth (19%) of all funds released were via a later life remortgage which clearly shows the market evolving. Given recent low interest rates, the typical age of borrowers and the proliferation of fixed early repayment charges, it is perhaps not unsurprising to see that it is the older age groups who are remortgaging with 23% of those aged 75 plus using it for this purpose.

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.

3,817
rebroke cases
▲ Up 79% on H1, 2021



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 60% of the products available in H1 2022, they accounted for 67% of the plans taken out mirroring the same product split as the first six months of 2022.

In H1 2022, customers used these products to reserve £876 million worth of housing equity for use in the future which is a 32% increase year on year from £666 million in H1 2021. This was potentially driven by increases in house prices over the last 12 months and a stabling economy after the Covid-19 pandemic, however the cost of living is starting to impact on people's finances too.

Over this period, the average drawdown customer reserved £52,363 (H1 2021 – £45,746) and took an initial advance of £58,115 (H1 2021 – £56,744). Interestingly, those with drawdown products who chose to access these funds during H1 2022 took out on average £11,406 which is down on the figures recorded in H1 2021 (£13,765). Existing customers who chose to take a further advance released an additional £876 million a 32% increase compared to last year.

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. However, with the cost of living steadily increasing and more opportunity for aspirational spending, they are considering whether they may need to use more equity than previously anticipated.

Product features

100% of all products allow repayments

In H1 2022, customers had 676 products to choose from within the equity release market – as lenders review their product offerings. 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, 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- now accounting for only 12% of plans available in H1 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 has seen rates increase. At the end of H1 2022, the average interest rate for equity release plans taken out was 3.65% which is higher than we've seen over the Covid period but still compares favourably to Q1 2019 (4.33%).

In practice, for someone who took out £100,468 at an interest rate of 3.65%, they would need to make repayments of £305 to stop the interest rolling up. This rises to £363 if the interest rate is 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%	**3.65%**	–	–

Flexibility a focus

Flexible features continue to grow in popularity with Downsizing Protection available on 70% of products, this was only available on 50% in H1 2021. Inheritance protection is now available across 41% of products compared to just 28% last year.

In April 2022, the Equity Release Council unveiled its fifth standard which guarantees new customers the ability to make ERC-free repayments within lenders criteria. In Q1 2022, 84% of lenders supported this and by the end of H1 2022, this had risen to 100%.

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 an LTV of 25% but this rises to over 42% for the oldest borrowers (85 years plus). Naturally, while people can access this amount, it does not mean that they do or indeed based on their individual circumstances should. Between H1 2021 and H1 2022, the average LTV (26%) and customer age (70 years old) remained consistent.

	Lump sum		Drawdown	
Age	H1 2021	H1 2022	H1 2021	H1 2022
55–59	69.01%	**68.18%**	30.99%	**31.82%**
60–64	57.78%	**55.88%**	42.22%	**44.12%**
65–69	47.83%	**33.33%**	52.17%	**66.67%**
70–74	36.26%	**23.08%**	63.74%	**76.92%**
75–79	35.09%	**40.00%**	64.91%	**60.00%**
80–84	28.57%	**20.00%**	71.43%	**80.00%**
85+	36.36%	**33.33%**	63.64%	**66.67%**

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 Key bespoke advice platform introduced in 2019.

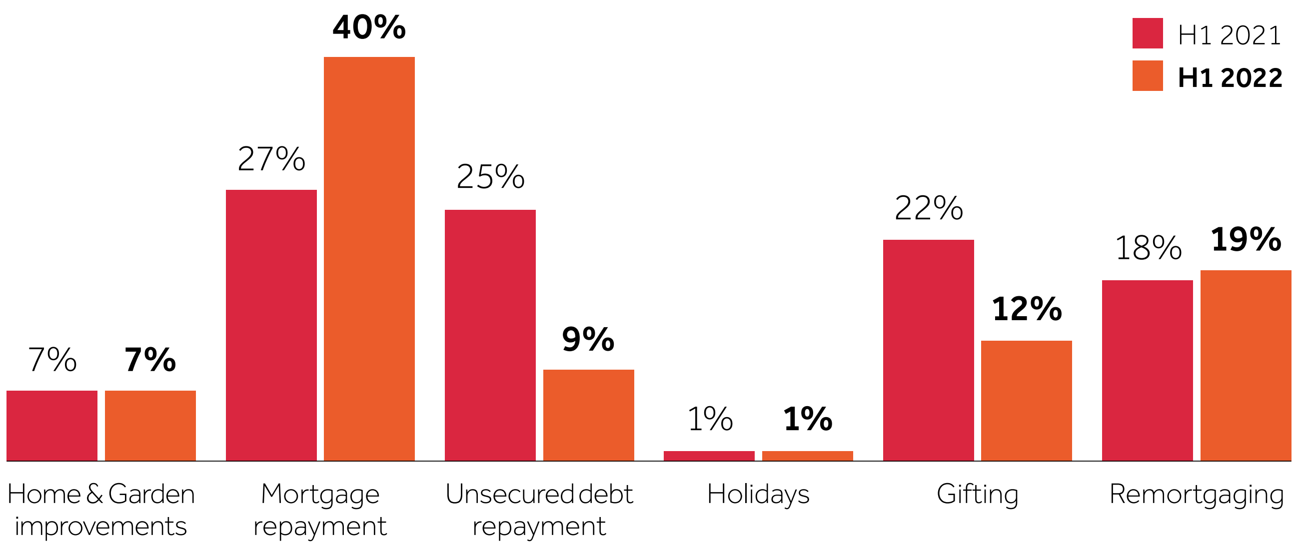
Against the back drop of what has been dubbed the 'cost of living' crisis, customers have taken the time to consider their largest outgoings and used equity release to manage their borrowing. More than half of customers (57%) have used it for this purpose which equates to 49% of the value released being spent on debt.

For the first time, we are also able to track those who have remortgaged their equity release plans which has shown a 4% point increase from 11% (H1 2021) to 15% (H1 2022) as more people look for better rates as well as more flexibility.

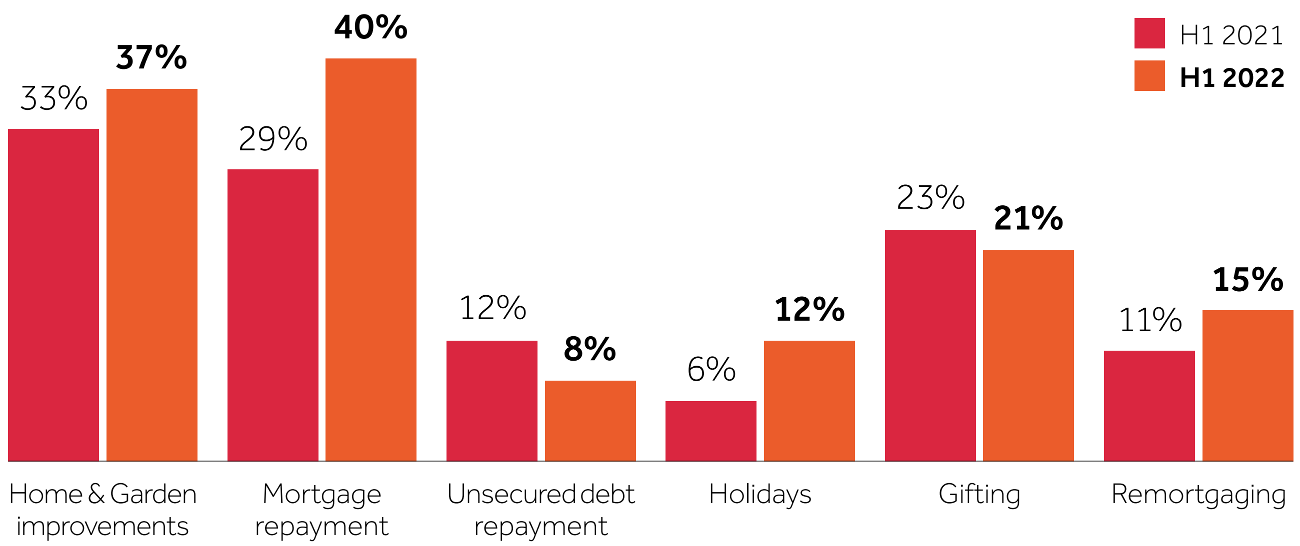
Driven by the Stamp Duty Holiday which eventually finished in September 2021, increasing numbers of over-55s were using their housing equity to help loved ones onto the property ladder. While the number of customers using equity release for gifting has fallen slightly from 23% (H1 2021) to 21% (H1 2022), this still accounts for 12% of the value released.

While the proportion of housing equity used to finance holidays has maintained position at 1%, it is interesting to note that 12% of customers are now using it for this purpose – a significant jump from 6% in H1 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:

Discretionary Spending

Typically, the expenses that equity release cover divide into two categories – discretionary (i.e. holidays) vs. need-driven (i.e. debt management). While historically this market was associated with cruises and conservatories, we find that people typically look to fulfil a need (i.e. repay a credit card) and when that is satisfied then feel comfortable financing an ambition (i.e. a two week holiday).

Over the pandemic period, with over-55s having little opportunity to travel, more opportunity to save or repay debt and more time at home, we saw the proportion of people using equity for more discretionary spending fall.

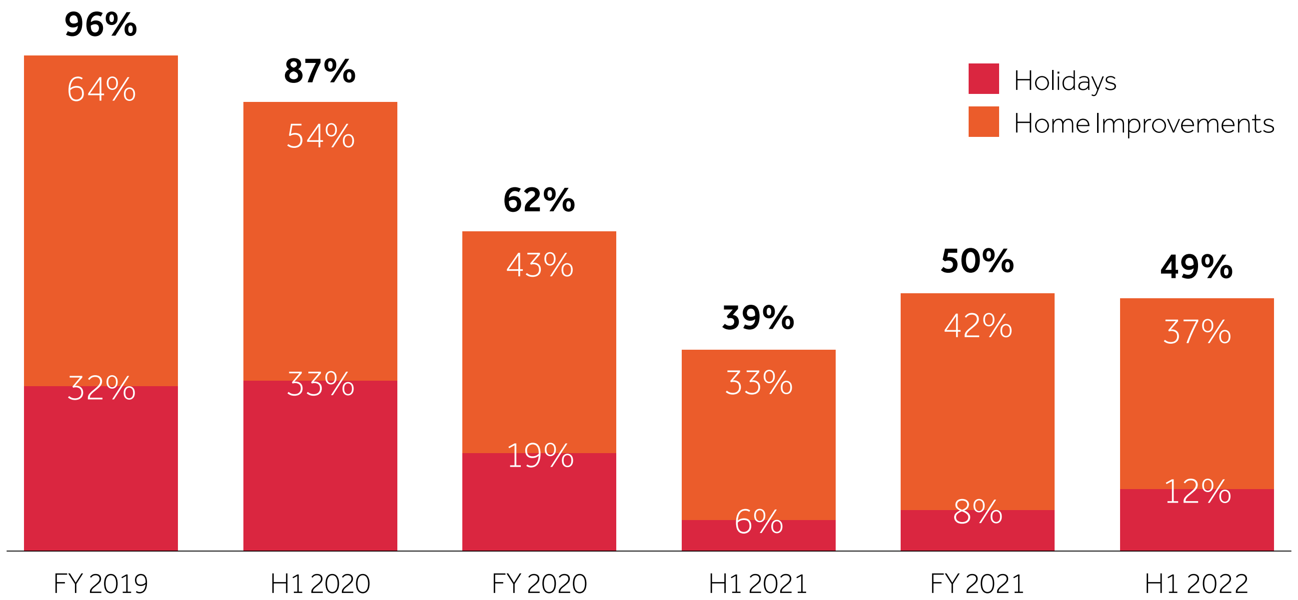
Prior to the pandemic, up to 96% of customers When you analyse this further – over the covid period – you find that spending on home improvements almost halved from 64% (FY 2019) to 33% (H1 2021) while spending on holidays fell by almost four-fifths or 27%.

As things start to return to normal, spending on home improvements has bounced back – increasing to 42% in FY 2021 before falling to 37% as inflationary concerns started to bite.

This may be explained by the fact that not only were people spending more time at home over this period and therefore more likely to want to improve their environment but not all home improvements are actually discretionary spending. While 8% may have financed a conservatory, others rewired their homes (2%) or sorted out the central heating (12%) or making their bathroom more functional (31%) – H1 2022.

While home improvements remained on the agenda, the number spending on holidays plummeted from 32% (FY 2019) to 6% (H1 2021). The impact of lockdowns, the confusion around countries on the red, amber and green lists and the caution caused by the pandemic saw far fewer over-55s prepared to travel.

Discretionary spending person (i.e. holidays and home improvements)



However, for the first time since the pandemic, we've seen an increase in people spending housing equity on holidays with the proportion increasing from 8% (FY 2021) to 12% (H1 2022). That said, the actual proportion spent on holidays remained at 1% of the total equity released.

The amount of people (49% - H1 2022) using equity release for discretionary spending is still significantly below pre-pandemic levels (96% – FY 2019) but this increase in over-55s taking holidays is a reason to be cautiously optimistic. Indeed, it signals that for some who've had to put their retirement plans on hold, they may well be in a position to reconsider their options.

When you look at what is driving each demographic, you find that needs drive each age group. Indeed, younger borrowers (55-64) use equity release primarily for debt repayment (67%), home improvements (36%) and estate planning (22%) as they focus on preparing their finances for retirement.

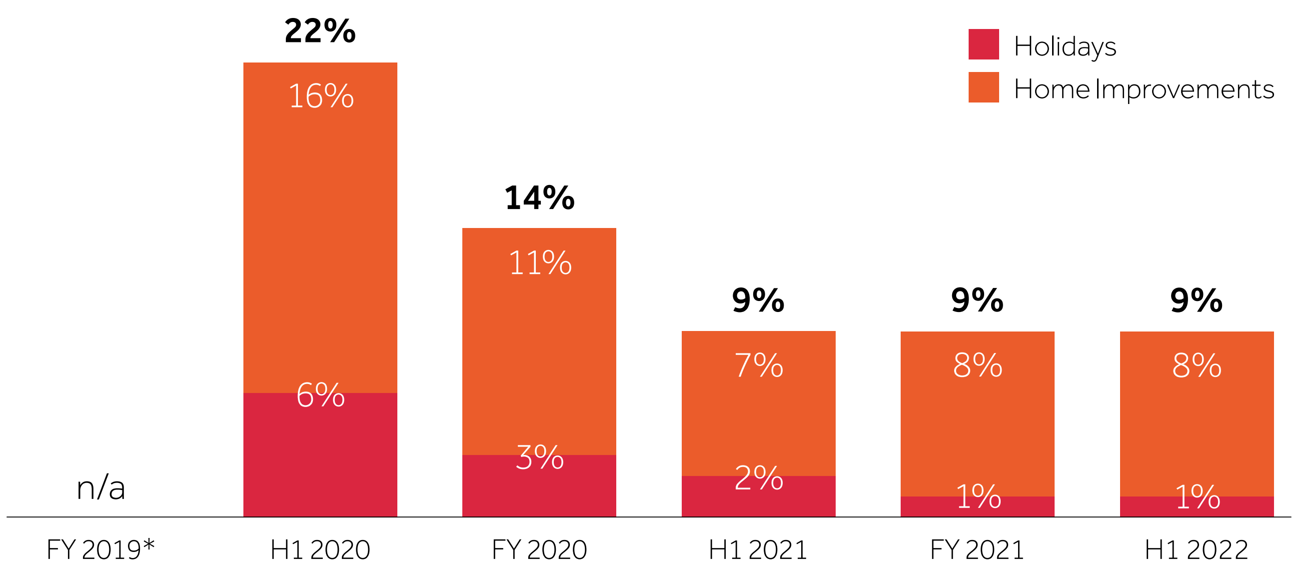
Those aged 64-74 use their funds for debt repayment (55%) home improvements (38%) and gifting (21%). Older borrowers spending mirrors this with a focus on debt repayment (50%), home improvements (36%) and gifting (27%).

While we've seen more people using equity release for discretionary spending, the amount they are spending has fallen from 22% of all equity released (H1 2020) and remained steady at 9% since H1 2021. It would appear that while people are more prepared to treat themselves, they are carefully managing the costs.

Indeed – despite inflation – the amount spent on holidays only rose marginally over the three-year period from £10,074 in (H1 2020) to £10,335 (H1 2022). While this clearly remains a healthy sum, anecdotal feedback from advisers suggests this is often used to subsidise numerous trips or a larger holiday for extended family.

While managing debt and supporting the wider family with gifting looks set to remain driving forces behind the equity release market, these figures suggest that as the world returns to normal, we may see a wider range of uses for equity release.

Discretionary spending value (i.e. holidays and home improvements)



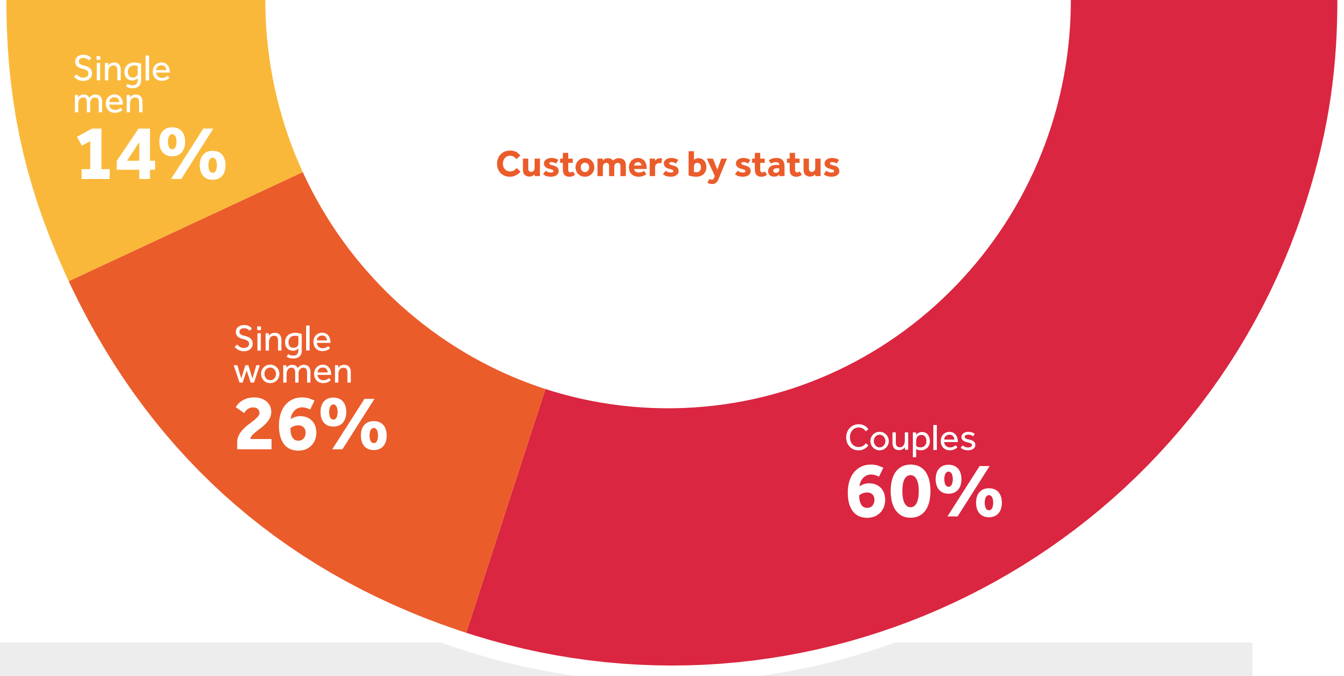
*The values for 2019 are not available as this was prior to Key's new enriched data capabilities.

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% are single men. It is interesting to note that while the number of single women and men using these products has gradually increased since 2016, we saw a 3% increase in the number of married couples in H1 2022.

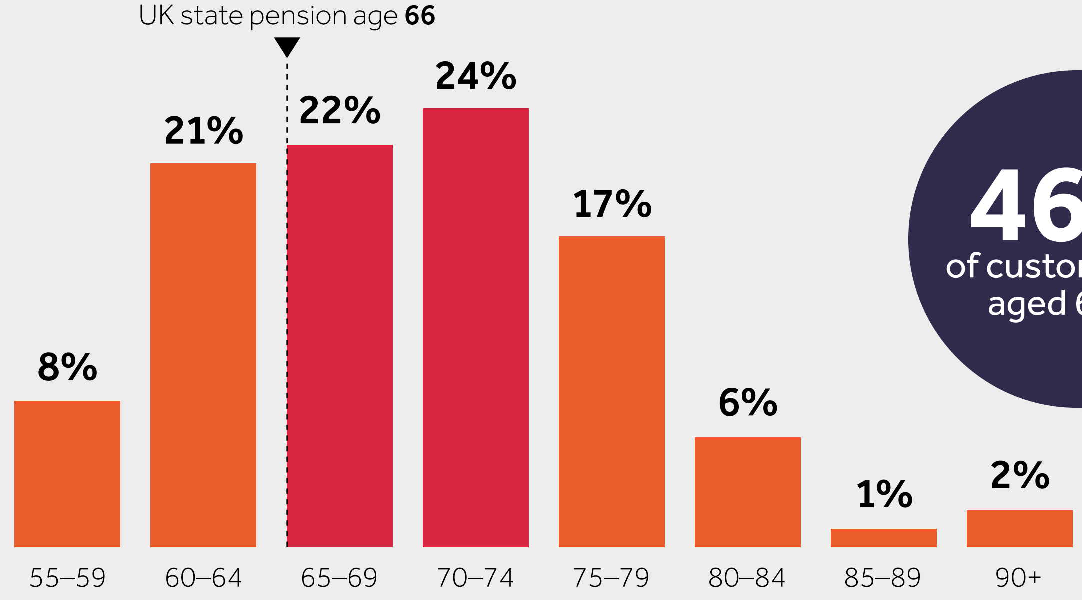
The average customer who took out equity release was 70 year's old, which is in line with the figures recorded in H1 in both 2021 and 2020. Just 8% are younger than 60 years old while almost three quarters (72%) are over-65.

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



Customers by age

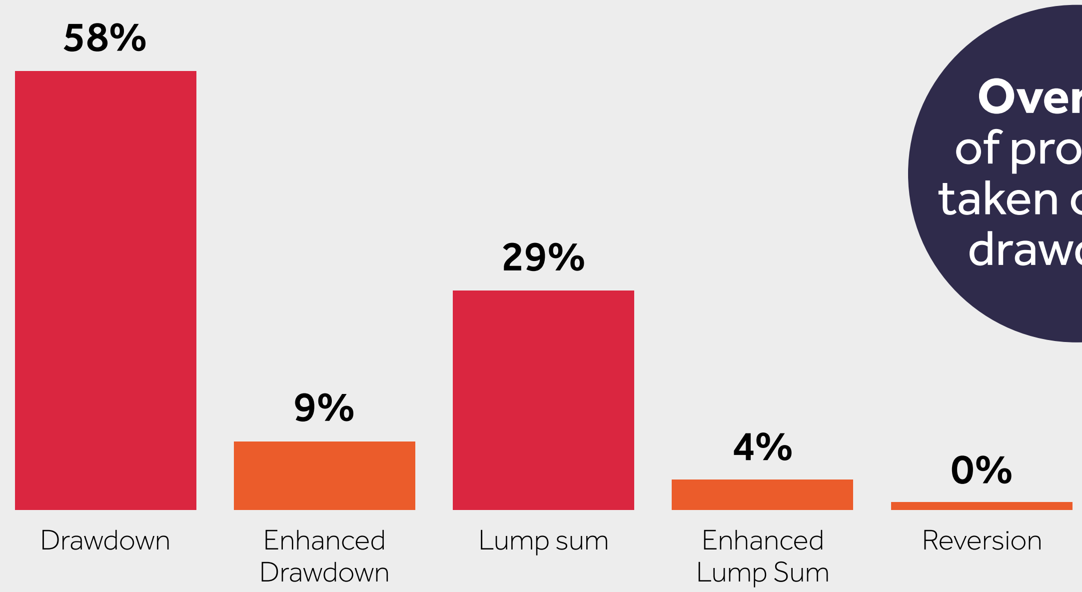
Average age has remained steady year on year



46% of customers are aged 65–74

Product mix

Drawdown continues to dominate the market despite rise in amount released



Over half of products taken out are drawdown

Across the UK

In H1 2022, the South East retains its top spot with 6,006 plans taken out followed by the South West (3,030) and the North West (2,534). While London had previously been a familiar sight in the top three, it fell to fourth place in Q1 2021 and after dropping down a few positions in Q1 2022 it is now back in 4th place in H1 2022.

Northern Ireland which is traditionally a choppy market due to its relatively small size saw the number of plans taken out increase by 136.5% to and the amount released increase by 209.5% to £14,348,905. 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.

Average homes in London (£788,333) and the South East (£469,076) are the most expensive in the country so 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 also perhaps not surprising that parents and grandparents were keen to dip into their own housing equity to help loved ones onto the property ladder.

£100,468
Average release amount for the UK
▲ Up 6% on H1, 2021

Half year results (in alphabetical order)

	Plans				Value released		Property value		Age
Location	**Value** (% change on H1, 2021)		**Number** (% change on H1, 2021)		**Average release amount**	**Average LTV**	**Average value** (% change on H1, 2021)		**Average customer age**
East Anglia	**£136,445,362**	(46%)	**1,524**	(29%)	**£89,548**	**25%**	**£356,979**	(15%)	**70**
East Midlands	**£146,890,983**	(26%)	**2,055**	(23%)	**£71,471**	**26%**	**£279,520**	(-1%)	**70**
London	**£492,375,911**	(12%)	**2,227**	(3%)	**£221,142**	**27%**	**£807,559**	(9%)	**71**
North East	**£54,863,274**	(24%)	**874**	(22%)	**£62,768**	**28%**	**£220,704**	(-7%)	**69**
North West	**£176,490,440**	(30%)	**2,534**	(21%)	**£69,659**	**27%**	**£262,592**	(5%)	**70**
Northern Ireland	**£14,348,905**	(209%)	**248**	(137%)	**£57,847**	**25%**	**£229,341**	(31%)	**70**
Scotland	**£107,869,491**	(67%)	**1,465**	(34%)	**£73,648**	**29%**	**£254,584**	(13%)	**68**
South East	**£716,419,849**	(27%)	**6,006**	(24%)	**£119,278**	**25%**	**£472,540**	(3%)	**70**
South West	**£313,034,529**	(40%)	**3,030**	(26%)	**£103,321**	**26%**	**£399,647**	(11%)	**70**
Wales	**£107,290,289**	(73%)	**1,429**	(33%)	**£75,069**	**27%**	**£275,821**	(16%)	**69**
West Midlands	**£166,113,006**	(46%)	**2,108**	(28%)	**£78,786**	**27%**	**£296,076**	(7%)	**70**
Yorkshire & Humberside	**£124,614,196**	(50%)	**1,949**	(36%)	**£63,939**	**27%**	**£240,075**	(3%)	**70**
Total	**£2,556,756,237**	(32%)	**25,448**	(24%)	**£100,468**	**26%**	**£382,728**	(4%)	**70**

Focus location:
West Midlands

The West Midlands which is home to three million people incorporates parts of Staffordshire, Worcestershire and Warwickshire and includes the cities of Birmingham, Coventry and Wolverhampton.

In H1 2022, 2,108 equity release plans helped over-55s access £166 million worth of housing equity in the West Midlands. This is a 29% increase in number of plans and a 46% rise in the amount of equity taken out compared to the previous twelve months.

When considered against the national picture, the West Midlands boasts the fifth largest market for both volume and value. Over-55s in this region released on average £78,786 in H1 2022, this is an increase of £14,389 since H1 2018 and well below the national increase of £22,534 over that period.

This growth has been driven in part by customers choosing to take equity release on properties valued on average at £296,076, almost £100,000 less than the UK average property value at £382,728. In just 5-years, the average property used for equity release has increased by 30% from £226,805 (H1 2018) to £296,076 (H1 2022).

As to be expected 2020 and 2021 were the most challenging years for the West Midlands over the last five years but with recent house price increases, we've seen a robust recovery.

	Plans		Lending	
Period	Number	Change Y/Y	Amount	Change Y/Y
H1 2018	1,624	37%	£104.5m	55%
H1 2019	1,953	20%	£123.9m	18.6%
H1 2020	1,772	-9%	£106.0m	-14.4%
H1 2021	1,641	-7%	£113.5m	7%
H1 2022	**2,108**	**29%**	**£166.1m**	**46%**

	Product Details			
Period	Average LTV	Average Released	Average Age	House Prices
H1 2018	26%	£64,357	70	£226,805
H1 2019	26%	£63,447	70	£240,951
H1 2020	25%	£59,849	70	£241,073
H1 2021	25%	£69,188	70	£277,928
H1 2022	**27%**	**£78,786**	**70**	**£296,076**

Gas Street Basin, Birmingham

£166.1m
released in equity
▲ Up 46.3% on H1, 2021

2,108
new plans
▲ Up 28.5% on H1, 2021

£78,786
average release
▲ Up 13.9% on H1, 2021

£296,076
average property value
▲ Up 6.5% on H1, 2021

Case Study

Ellen a former receptionist (68) and Martin a retired accountant (74) from Telford, both started working full time in their late teens. After spending decades working hard and being cautious with their money, they decided to release just under £100,000 to repay their outstanding interest-only mortgage, renovate their home and also to enjoy their retirement.

Martin said: *"We would class ourselves as cautious with our money and when we took out our interest-only mortgage, it was the right thing for us to do. However, the investment we intended to use to repay the capital didn't perform and we've had a few knocks to our savings over the last few years as well. I knew it was coming but it was till a bit of a shock and we had to take a good look at our finances.*

"We bought our home over 30 years ago so we knew we would have benefited from the rise in property prices over the years. We looked at all options carefully and when the estate agency came round to provide an estimation, we were actually quite shocked. Ultimately, we decided we didn't want to move as we don't have children and the people on the street we live on has been almost like a family to us. One of them had released equity from their home and he was pleased with the outcome so we decided to look into it."

Ellen said: *"Our neighbour used Key, so we got in touch with them as well as another equity release adviser to compare. We really like the friendly approach of the adviser from Key so decided to progress out plans through her. She talked us through all our options and really helped us to consider what we actually wanted.*

"During the pandemic we had to isolate due to pre-existing health conditions and ended up watching lots of travel programs which really made us want to see more of the world. Our kitchen is also a bit tired and so is our bathroom, we have no intention of ever moving again so we decided to pay off our mortgage, renovate our home – including some later life preparations such as a wet room and treat ourselves to a holiday of a lifetime!"

Martin explained: *"We celebrated our 40th wedding anniversary during the pandemic and we have always dreamed of exploring the Greek Islands. Walking isn't my strong suit anymore so we decided to go on a two-week cruise where we can experience the Greek Islands at a slower pace.*

"We agreed to release just under £100k, spending £60,000 on repaying our mortgage, £20,000 towards home renovations – Ellen's dream kitchen and a more practical bathroom for me and £7,000 to pay for our Greek getaway. I really can't wait to see some of the Greek ruins and I am pleased that we've got a little extra available via drawdown so if we do need or want to do something in future, we have more options."

* 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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