Market monitor

Equity release performance in the UK

Q1 2023

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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.

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Will Hale, Chief Executive

Chief Executive's statement

Typically, Q1 is one of the strongest quarters as people look to take a more proactive approach to their finances at the start of a new year. However, with the impact of the September 2022 mini budget continuing to reverberate within the UK property market even as inflation continues to bite, we've seen a far more subdued start to 2023 than normal.

With higher average rates, lower available LTVs and over-55s taking a cautious approach, the market has fallen year-on- year in terms of the number of plans (-44%) and value of sales (59%). A figure that is reconfirmed by analysis of the Equity Release Council Q1 data.

The insight we can gain from the more granular nature of Key's figures helps us to better understand the trends behind these movements. Due to their spending patterns, the older generation has felt the sharp end of the cost-of-living crisis but there is little evidence of unrestrained spending, instead careful financial management has come to the fore.

Indeed, the average LTV taken has falling from 30% (Q1 2022) to 22% (Q1 2023) and the average release has fallen to £81,703 (£111,511 – Q1 2022). Prioritisation has been vital, and customers have focused on pressing needs which has seen the proportion of people repaying mortgages increase by 2% to 34% of the total amount released.

Availability of LTV's also plays a role and while we are currently seeing LTVs return to 85% of what was available pre-budget, the sudden contraction to under 40% in the aftermath of the statement is likely to have stopped some from using equity release to manage mortgage debt.

Interestingly, fewer customers used their housing equity to manage unsecured debt (-9% to 20%) as lower LTVs and higher rates as well as discussions with their advisers encouraged people to consider whether they might be able to find alternative payment methods.

While some of this is driven by product availability, the slight fall in the amount gifting (-2% of total released to 13%) suggests that some more affluent borrowers who want to use this for intergenerational wealth transfer are also adopting a more cautious wait-and-see attitude.

The proportion of people using equity release for home renovations increased from 39% (Q1 2022) to 45% (Q1 2023). While this might have initially been a surprise, when you dig into the figures, you again find that this spending is typically focused on essential repairs rather than aspirational spending.

Currently, just over one in ten people who contact Key about their later life lending options go on to take out equity release. Others having spoken to an adviser choose to delay the decision (which has seen the average customer age rise to 71), access pension assets, boost their benefit income or downsize – all of which support their long as well as short-term ambitions.

As rates fall, confidence returns and the product flexibilities which include the ability to service interest and make ad hoc repayments are increasingly appreciated, green shoots are returning to the market. Given the strong underlying market drivers which include insufficient pension provision, intergenerational support ambitions and the real desire to enjoy a reasonable standard of living in retirement as well as pent up demand, we do anticipate that we will see a return to a healthier market.

However, with Consumer Duty on the horizon and lenders as well as advisers considering the impact of political moves such as the mini-budget, I would be entirely unsurprised if we saw innovation accelerate in this market as we seek to serve more a diverse range of customers.

This – to my mind when coupled with any pent up demand – is what will help to ensure that the remaining quarters of 2023 are more akin to those seen in previous years and we are able to help those customers who may need a later life lending option but have a more diverse set of requirements than we can currently cater for.

Equity release highlights

Customer demographic

Total lending in Q1 2023 was...

£570m
New lending
(£1.399bn – Q1 2022)

£107m
Drawdown
(£410m – Q1 2022)

£45m
Further advance
(£46m – Q1 2022)

New plans
6,975
(12,551 – Q1 2022)

Average age
71
(70 – Q1 2022)

Avg. amount released
£81,703
(£111,511 – Q1 2022)

Product demographic

Product features

81% have downsizing protection

74% have fixed early repayment charges

44% have inheritance protection

Product plans

37% Lump sum

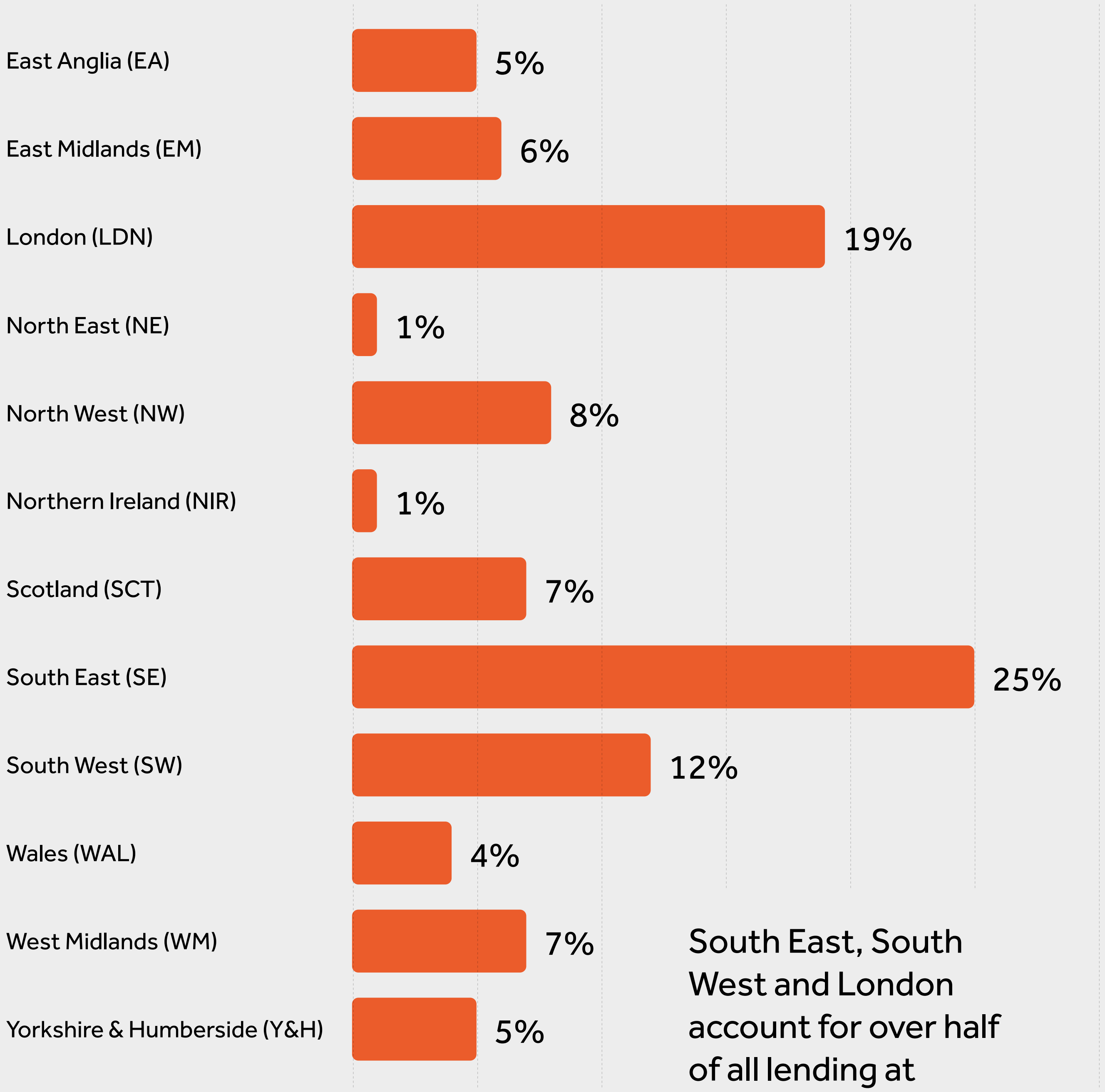
63% Drawdown

Avg. interest rate
6.74%
(3.35% – Q1 2022)

Average LTV
22%
(30% – Q1 2022)

Regional highlights

Lending mix



South East, South West and London account for over half of all lending at

56%

Highest and lowest performing regions

Value of plans

£142.7m

South East (highest)

£4.2m

Northern Ireland (lowest)

Number of plans

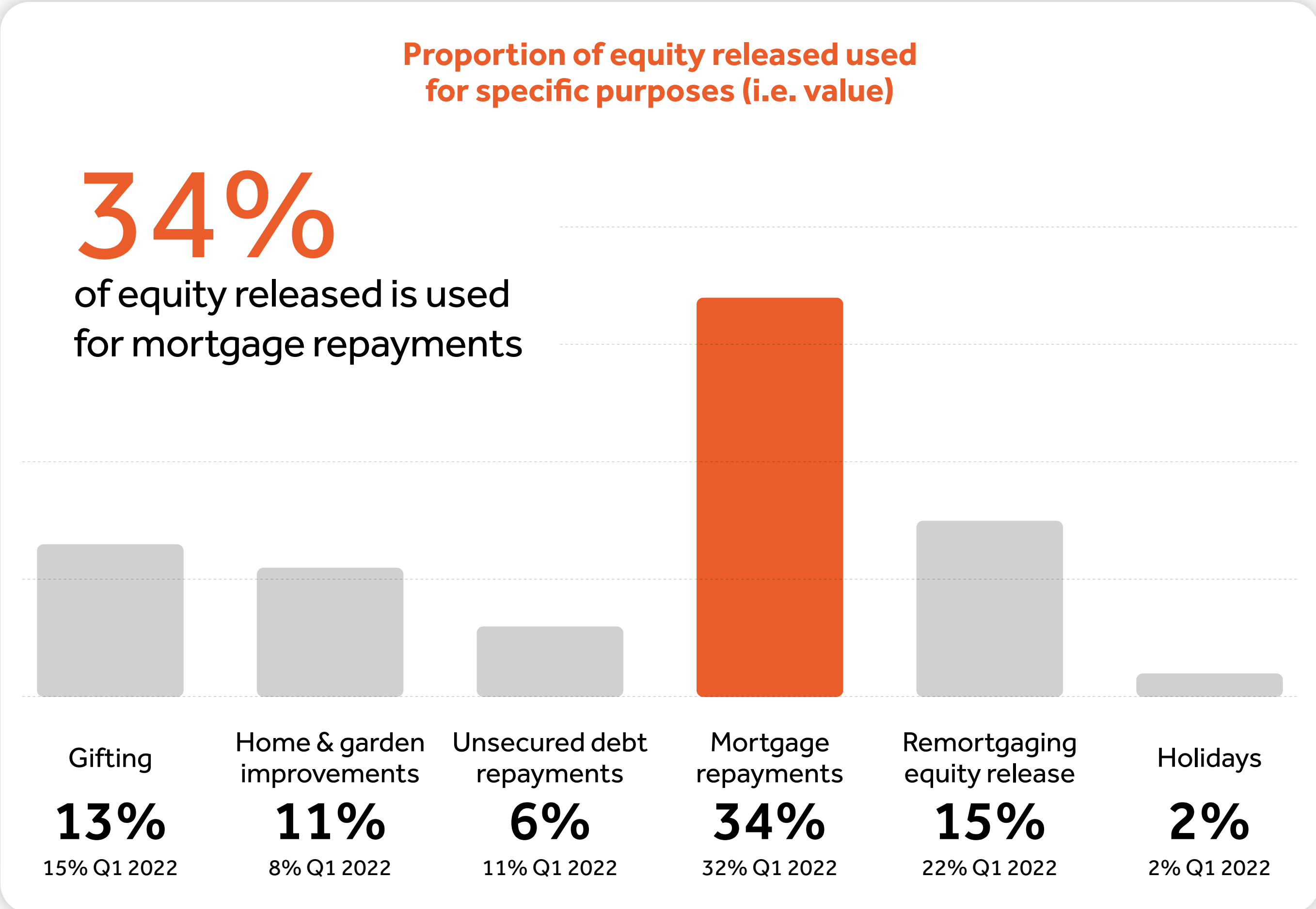
1,526

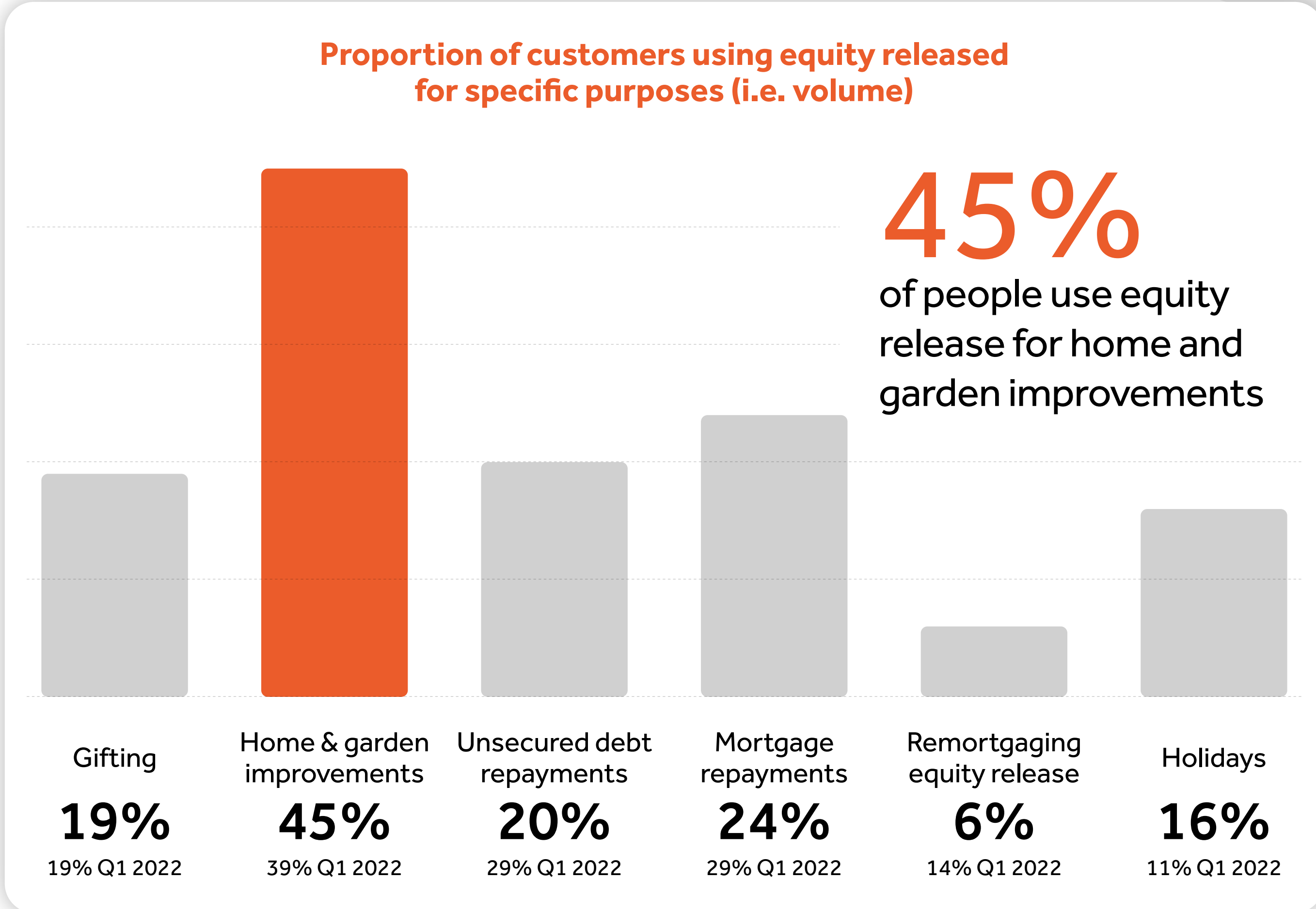
South East (highest)

67

Northern Ireland (lowest)

Equity release uses





Having produced the market monitor since 2006, Key has the largest data set within the later life lending market on how the proceeds of equity release are actually used. Typically, customers choose to take out equity release for a specific need and then may use remaining funds to cover something more discretionary like home improvements or travel.

Debt management to boost income and reduce outgoings is often a key driver and over half (54%) of the total amount released was used for this purpose – whether it was repaying a mortgage (34%), a lifetime mortgage (15%) or unsecured borrowing (6%). That said, with the September mini budget reshaping the equity release market to a certain extent due to the higher rates, lower LTVs and reduced product choice, this was not a possibility for all customers.

Indeed, we've seen fewer people remortgage an existing plan (-8% to 6%), fewer people able to repay mortgages (-5% to 24%) and fewer people repaying unsecured debt (-9% to 20%). Interestingly, it has been suggested that this drop in unsecured borrowing is due to other costs being prioritized when equity is released and the fact that unsecured debt such as credit cards offers more flexibility on repayment terms compared to some other types of borrowing.

Gifting to family or friends (13% of total released) was also a key reason people chose to access the value tied up in their homes with almost one in five (19%) using some or all of the proceeds for this purposed. While 45% of people chose to pay for home improvements from the funds they received, this accounted for only a modest 11% of the total amount released which suggests that it is not a key driver behind peoples decisions.

When these figures are examined in more depth, you find that essential repairs and maintenance such as rewiring and sorting out central heating has increased while there are fewer new kitchens and conservatories.

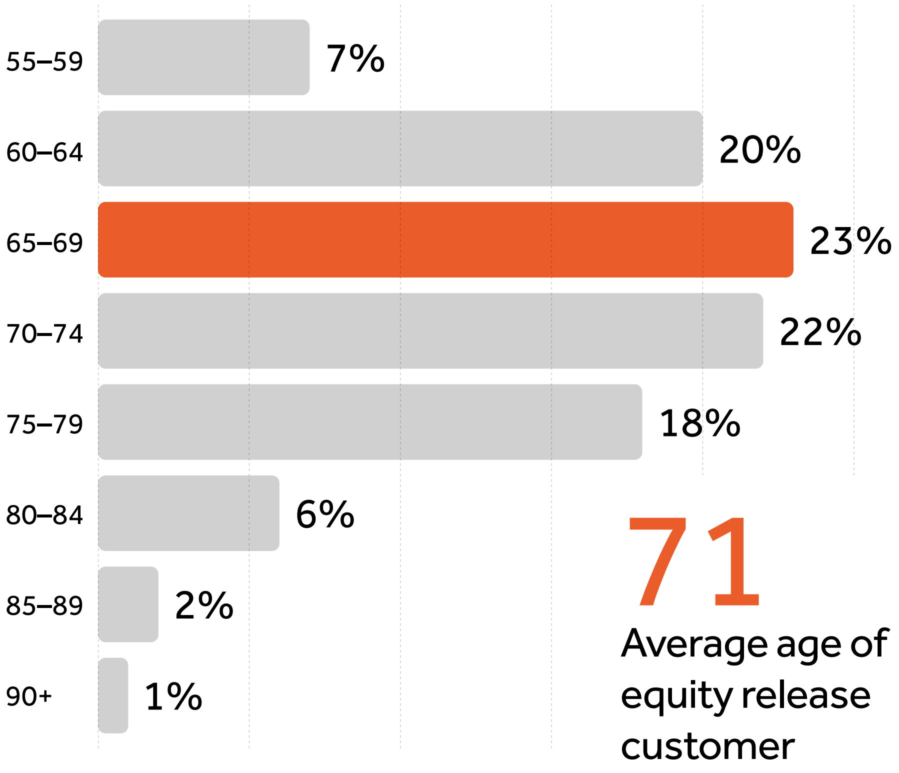
In addition, while the number of people using equity release for holidays has increased from 11% (Q1 2022) to 16% (Q1 2023), the total value of equity used has remained steady at 2%. This would suggest that while we see the expected post-covid bounce, people are remaining modest in their travel aspirations and luxury cruises are not on the agenda for most.

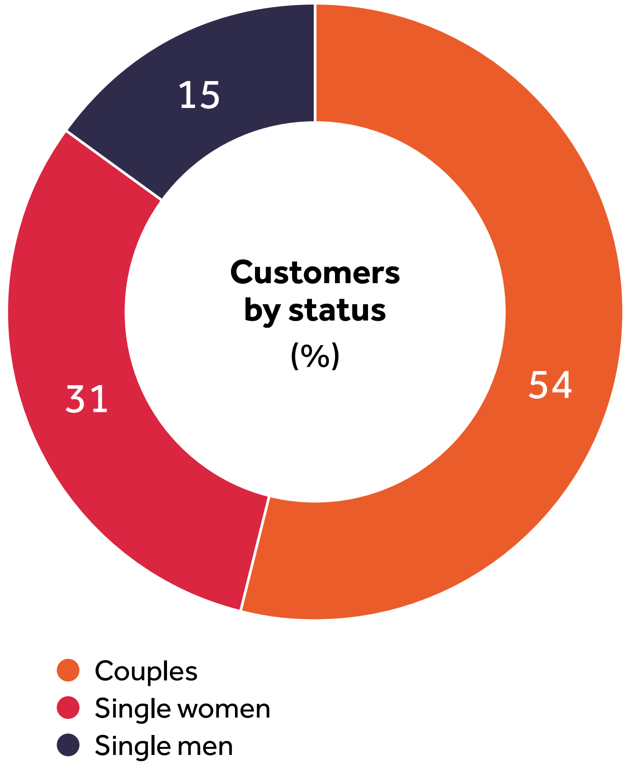
Demographic analysis

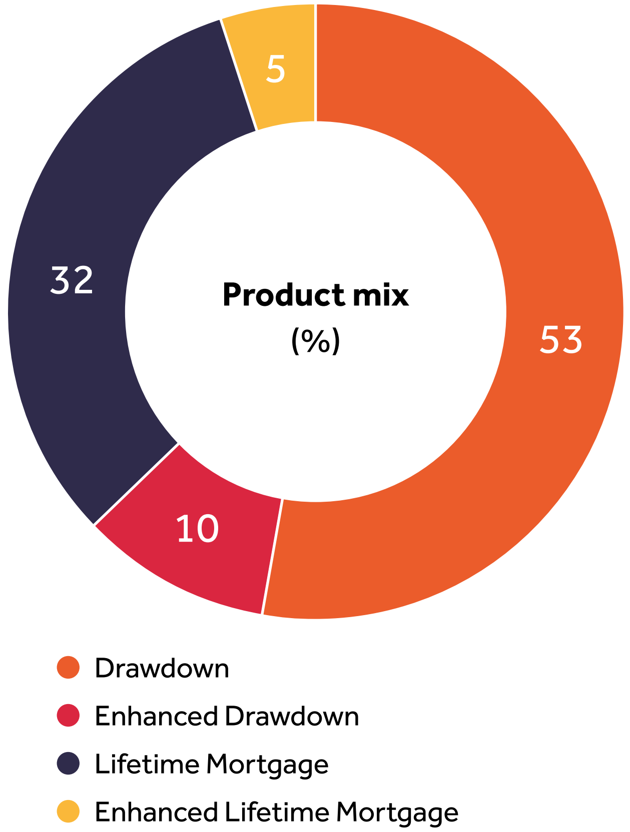
While the split across the ages remains fairly stable, we have seen the average age rise to one year to 71 as LTV challenges encouraged more younger customers to consider other options.

In Q1 2023 there was a 5% increase in the number of single women taking out equity release. Compared to in recent years this is a fairly substantial increase. Single women in this context also includes divorced and widowed women. There has been a 7% increase in customers choosing a lump sum plan rather than drawdown, this could be linked to the current market conditions with lump sum plans looking more favourable.

Customers by age (%)







Regional analysis

While the overall property market across the UK was down year on year as successive rate increases are causing challenges, not all regions were equal.

We saw an 11% increase in the value of homes used for equity release in the East Midlands as well as Northern Ireland while we saw a 14% fall in homes in East Anglia.

The average amount released fell from £111,511 (Q1 2022) to £81,703 as borrowers were more conservative about their needs to due the LTVs available and the advice provided by their advisers. Over this period, the average LTV fell from 30% (Q1 2022) to 22% (Q1 2023).

3%
decrease in the average UK property value

11%
increase in the average property value for East Midlands and Northern Ireland

Belfast, Northern Ireland

Region	Value of plans (% change on Q1, 2022)		Number of plans (% change on Q1, 2022)	
East Anglia (EA)	£28,715,310	(-63%)	469	(-38%)
East Midlands (EM)	£35,925,143	(-58%)	584	(-47%)
London (LDN)	£109,242,575	(-53%)	651	(-35%)
North East (NE)	£7,985,261	(-69%)	187	(-57%)
North West (NW)	£46,347,820	(-52%)	756	(-38%)
Northern Ireland (NIR)	£4,205,534	(-44%)	67	(-36%)
Scotland (SCT)	£38,477,660	(-40%)	526	(-36%)
South East (SE)	£142,725,826	(-64%)	1,526	(-47%)
South West (SW)	£66,110,188	(-64%)	799	(-46%)
Wales (WAL)	£21,747,790	(-64%)	368	(-48%)
West Midlands (WM)	£41,014,866	(-59%)	550	(-47%)
Yorkshire & Humberside (Y&H)	£27,404,061	(-62%)	493	(-51%)
Total	**£569,902,033**	**(-59%)**	**6,975**	**(-44%)**

Region	Average release amount	Average loan-to-value	Average property value (% change on Q1, 2022)		Average customer age
EA	£61,247	20%	£301,791	(-14%)	70
EM	£61,551	21%	£296,004	(+11%)	69
LDN	£167,900	23%	£734,015	(-7%)	72
NE	£42,798	21%	£199,167	(+3%)	69
NW	£61,315	24%	£258,588	(-4%)	72
NIR	£62,790	26%	£237,855	(+11%)	67
SCT	£73,116	28%	£261,117	(+5%)	71
SE	£93,521	21%	£445,616	(-5%)	71
SW	£82,746	21%	£387,718	(-3%)	71
WAL	£59,037	23%	£253,915	(-8%)	69
WM	£74,549	25%	£298,473	(-4%)	70
Y&H	£55,613	25%	£220,893	(-7%)	71
UK average	**£81,703**	**22%**	**£363,319**	**(-3%)**	**71**

Case study

"when all of the renovations were complete, my debt was cleared and my new car had arrived I had a sense of peace and excitement

Linda

Linda, 72-year-old women from Worcester, recently retired from her job in the civil service and after reviewing her finances released her finances weren't has healthy as she thought. Despite working for the local Council for 40 years and having a good pension, she expected to receive her late husband's pension into retirement as well but unfortunately this wasn't the case.

Richard sadly passed away a couple of years ago, following a spate of long term ill-health. Richard's pension ended with his life and didn't continue on to his living spouse. Once retired, Linda reviewed her finances and her new retired life and found that she needed to do some updates to the home she shared with her husband for 30 years, her car was nearly ten years old and not sufficient for future use and she had some niggling credit card debts which has been hanging around for a few years which she would like to get rid of.

"I didn't expect to be in this position at this time of my life. When I looked at retirement with my husband by my side and two pension incomes following two long careers in the civil service and engineering. Unfortunately, this isn't the case due to Richard ill health and the type of pension policy he had.

"My finances did look as healthy as I thought, and I had a few expensive costs which needed to be rectified for me to enjoy my retirement to the full. A friend had recently released equity from their home, and they said it completely changed their view of retirement finances for the better. They referred me to Key and a couple of weeks later I had an appointment in my own home with a lovely lady who explained what equity release is and how it could benefit me.

"I don't have any children to leave our house to, so I chatted through my options with my sister Carol, given the current mortgage market at the moment I did have some concerns, but I decided equity release was the right thing for me.

"I released £65,000, I love our family home we spent all our married life there and I have some many great memories in our home, but it was in dyer need of an update, I put in my dream kitchen, replaced the ageing boiler, and splashed out on a wet room fit for years to come. My car was also on the older side, and I was in need of a newer, more reliable car removing the cost of unexpected car expenses and I cleared credit card debts I had accumulated over the years.

"Twice I had a feeling of relief, once when the funds hit my bank account and I could start planning my updates but then also one day, when all of the renovations were complete, my debt was cleared and my new car had arrived I had a sense of peace and excitement. I was ready and prepared to start this new chapter in my life. I'd like to thank Key and Julie my adviser in particular for guiding me on this journey."

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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