Equity Release Council

Spring 2023
Market Report

Raising later life living standards

Key findings

1. Despite house prices cooling, property wealth grew 8% year-on-year to reach £5.6 trillion by the end of 2022, equivalent to £228,300 per household.

2. Record mortgage debt of £1.6 trillion – £66,029 per household – leaves many people facing the likelihood of needing to access later life lending products as they grow older.

3. The average single pensioner could raise their standard of living to support a moderate lifestyle for 12 years or five years of a comfortable lifestyle by using equity release.

4. By topping up their income with the average equity release plan, the average pensioner couple could similarly achieve 18 years of moderate living or five years of living in comfort.

5. Product supply and pricing continues to improve after the Autumn 2022 'mini-Budget', with average rates having fallen for five successive months after peaking in November.

6. By making over 190,000 penalty-free part repayments last year, more than 90,000 equity release customers reduced their debt by a combined £102m and saved £116m in future interest costs.

7. New customers took out a lower percentage of their property wealth in H2 2022 as economic uncertainty took hold, with drawdown customers reducing their upfront borrowing.

8. The number of returning drawdowns tapered off in H2 as interest rates rose, but further advance activity continued to grow, supported by a larger customer base and long-term house price gains.

David Burrowes, chair of the Equity Release Council, said:

"The economic uncertainty gripping the UK makes it even more likely that people will need to call on later life lending products for financial support and security in future. A nation where so many pensioners struggle to afford a moderate standard of living simply cannot ignore the potential for property wealth to bridge the gap.

The actions we took last year to ensure all new equity release customers can make penalty-free partial repayments are visibly paying off. The fact that equity release customers have made more than £100m in savings is a testament to how today's products combine modern flexibilities with traditional protections against negative equity, rate rises and repossession.

We are looking at a market that is still on the road to recovery after a rocky end to 2022, but its importance to customers and to our ageing society has never been greater. We need to take every opportunity this year to join the dots between different areas of later life financial planning so consumers aren't making decisions without considering their home."

Spotlight

UK property wealth climbs year-on-year despite cooling house prices

With house prices cooling, the total value of UK property dipped in the final months of 2022 but still ended the year 8% higher than in December 2022. Mortgage holders made £23.3bn of 'lump sum' overpayments during the year, including a record £6.7bn in Q4 2022.

This could not prevent overall mortgage debt from climbing to £1.6 trillion. Even so, 78% of the average UK home is owned outright with the remainder mortgaged, leaving net property wealth totalling £5.6 trillion or £228,300 per household.

	Total value of private property	Total mortgage debt	Net property wealth	Average equity per household
Dec 2022	£7.3 trillion	£1.6 trillion	£5.6 trillion	£228,300
Annual change	+7% ⇧	+4% ⇧	+8% ⇧	+8% ⇧

Source: Equity Release Council analysis of data from the Bank of England, HM Land Registry and Office for National Statistics

Raising retirement living standards

According to research by the Pensions and Lifetime Savings Association (PLSA), the cost of living crisis has added almost 20% to the "minimum" cost of retirement.

The PLSA's minimum retirement living standard is the same as the Joseph Rowntree Foundation's. Both reflect what members of the public think is required to cover a retiree's needs to not just survive but live with dignity, including some limited social and cultural participation.

For a single pensioner, it includes £54 for a week for food shopping, a week and a long weekend holidaying in the UK every year but no car and only DIY home maintenance.

	Single pensioners	Pensioner couples
Median income**	£12,428	£26,780
Minimum living standard cost*	£12,800	£19,900
Moderate living standard cost*	£23,300	£34,000
Comfortable living standard cost*	£37,300	£54,500

Source: PLSA retirement living standards* and Department for Work and Pensions' pensioner income data** using net annual income figures after housing costs.

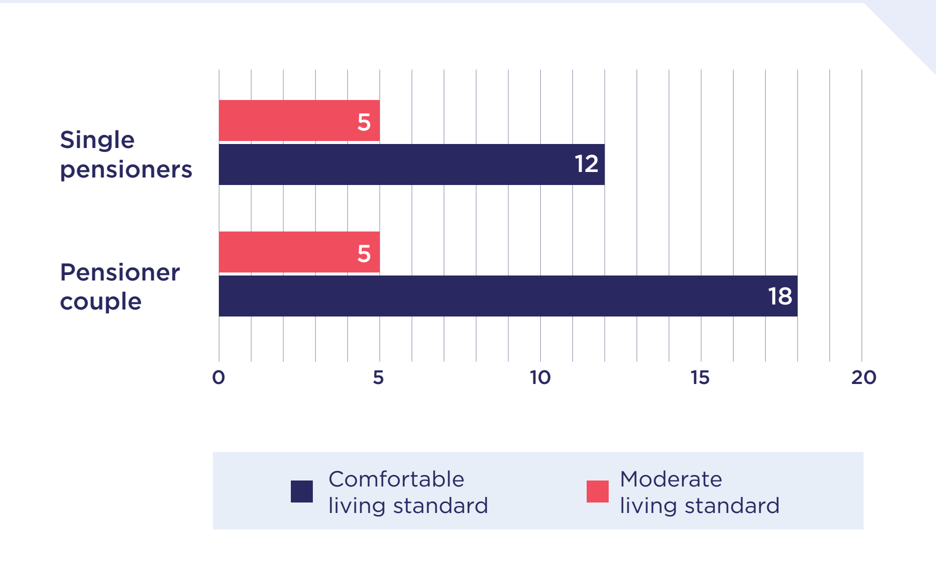
How many years of greater comfort can equity release support?

Property wealth has the potential to top up many people's retirement incomes and fund years of greater comfort in later life.

Last year the average equity release plan was £133,216 which would enable the average single pensioner to top up their income to sustain 12 years of moderate living or five years of living on comfort.

Moderate living includes £74 for a week for food shopping, two weeks in Europe and a long weekend holidaying in the UK every year, a used car and help with home maintenance.

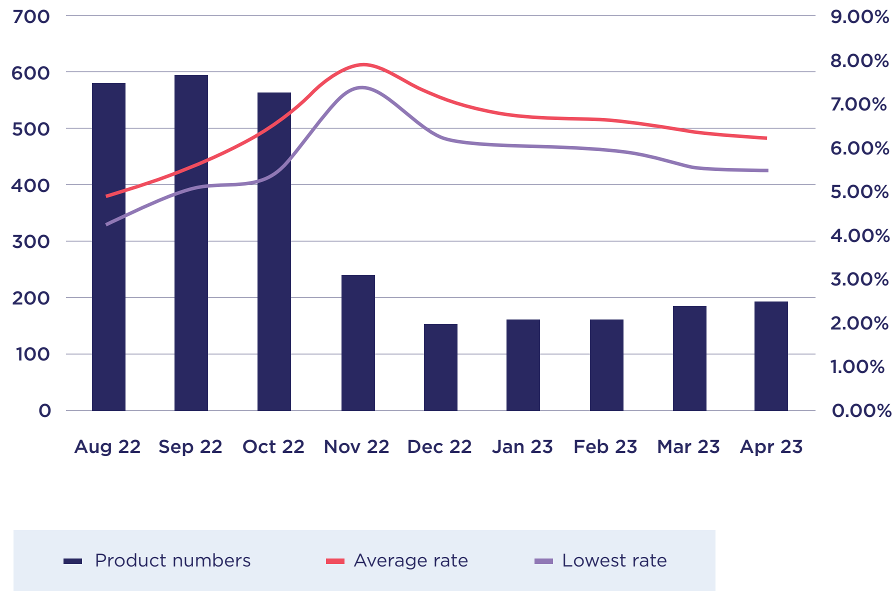
Similarly, pensioner couples' median income of £26,780 can support a minimum standard of living but falls short of what is needed for a moderate or comfortable lifestyle. The average equity release plan could close the gap to support 18 years of a moderate lifestyle or five years of comfortable living.



Supply trends

Product availability and pricing

The equity release product range has begun to recover after prices rose and product availability fell in the wake of the Autumn 2022 mini-Budget. Average rates peaked in November and have since fallen for five successive months to 6.21% in April, with advertised rates as low as 5.52%.. However, product availability remains low at around a third of where it was six months ago, while maximum loan to values (LTVs) have been tightened from 47.0% in August 2022 to 38.7% in April 2023.



Source: product and rates data supplied by Moneyfacts Group Plc

Flexible product features

Since 28 March 2022, the freedom to make voluntary penalty-free partial repayments has been mandatory for all new plans which meet Council standards. Over the course of 2022, more than 91,000 customers made 190,374 such payments, up by 48% from 128,733 the previous year.

The total amount repaid via this method amounted to £102m from loans with an average interest rate of 3.87%. As well as reducing their debt, these customers will also save over £116m in future interest costs over the next 20 years.

91,073 customers → **190,374 penalty-free part repayments** → **£102m of debt paid off** → **£116m saved in future interest costs**

Flexible equity release product features

96%
Almost all products come with fixed early repayment charges (ERCs) which typically decrease to 0% over time on a sliding scale

72%
Nearly three in four products provide downsizing protection, so customers can repay their plan with no ERC when moving to a smaller property

57%
Nearly three in five products provide drawdown facilities, so customers can make withdrawals in stages over time to reduce their overall interest costs

35%
More than one in three products are potentially available on sheltered or age-restricted accommodation, subject to lending criteria

32%
One in three products provide inheritance protection, so customers can ringfence a guaranteed minimum amount of property wealth to leave behind

Source: product data supplied by Key, April 2023

Demand trends

New customer activity

While new customer numbers were virtually unchanged between H1 and H2 2022 as economic uncertainty gripped the UK towards the end of the year, borrowing habits remained relatively stable. New customers taking both lump sum and drawdown lifetime mortgages took out slightly smaller percentages of their property wealth. With interest rates having risen in H2, drawdown customers in particular limited the amount of money they took upfront as an initial sum.

Average new lump sum lifetime mortgage

	H2 2021	H1 2022	H2 2022
Customer age	68 years 7 months	68 years 4 months	68 years 4 months
Property value	£403,650	£423,556	£428,482
Rate	3.65%	4%	5.14%
Loan	£123,688	£132,085	£131,299
Loan-to-value	30.6%	31.2%	30.6%

Source: Equity Release Council

Average new drawdown lifetime mortgage

	H2 2021	H1 2022	H2 2022
Customer age	68 years 0 months	68 years 8 months	68 years 8 months
Property value	£426,439	£441,270	£454,931
Rate	3.19%	3.43%	4.82%
Loan	£126,487 with £91,518 upfront	£134,692 with £92,580 upfront	£135,047 with £85,785 upfront
Loan-to-value	29.7%	30.5%	29.7%

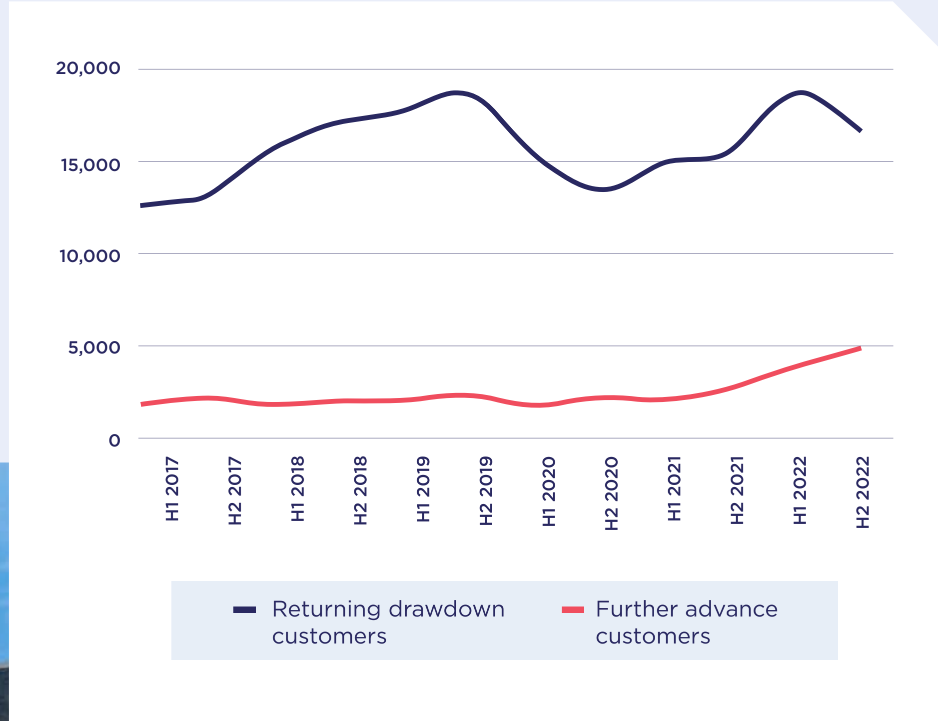
Source: Equity Release Council

Returning customer activity

Returning customer activity has fluctuated before, during and after the height of the Covid-19 pandemic. Active drawdown customer numbers dipped in the second half of 2022, when uncertain economic conditions and rising interest rates gave customers reason to pause before withdrawing extra funds.

In contrast, further advances continued to grow as they have done since early 2021. This is likely to be influenced by there being a larger pool of existing equity release customers, many of whom may find rising house prices have increased the equity at their disposal and balanced the effect of compound interest, enabling them to increase their loans.

Trends in returning customer activity



Outlook for equity release and later life lending

Against a challenging backdrop of the ongoing cost-of-living crisis, 2023 presents significant opportunities in the ongoing effort to embed property wealth and later life lending as a key part of retirement planning conversations.

The equity release market's 2022 performance shows more people are making use of their property to help fund later life. Yet the £6.2bn of equity unlocked is a tiny fraction of the nation's overall £5.6tn property wealth. This demonstrates that many people's financial wellbeing challenges are within their power to address.

Implementing the Consumer Duty

The arrival of the FCA's Consumer Duty, which comes into force for new and existing financial services products on 31 July, adds to more than thirty years of voluntary regulation and almost 20 years of formal regulation for the equity release sector.

So far this year, the Council has published new guidance to help consumers better understand and compare fees and charges across different products, along with extensive guidance on fair value assessments, which are one of the most important areas of the new Duty for the mortgage industry.

Looking ahead, the Council is finalising additional guidance for members on post-completion communications, which supports the Duty's 'consumer understanding' outcome.

Joining up retirement planning

The Council will continue its work with regulators and consumer bodies, in particular around the FCA's lifetime mortgages work and its thematic review of retirement income advice. The review will provide an opportunity to build bridges between different areas of advice and ensure consumers are prompted to consider all of their assets when making financial decisions for retirement.

Further initiatives will follow on from the publication of **Great Expectations**, by Jon Dunckley, Director of About Consulting Group. This independent report was commissioned by the Council and sets out a roadmap for all major participants in the later life lending market – including government, regulators and industry – to better support the UK's ageing population.

Promoting the value of industry standards

The Council surveyed a representative sample of 100 MPs, reflecting the composition of the current House of Commons.

Four in five (79%) of MPs across parties agree it is important for the later life lending sector to set standards and protections which go beyond formal regulation.

About the Equity Release Council

The Council is the representative trade body for the UK equity release sector with more than 750 member firms and 1,800 individuals registered, including providers, funders, regulated financial advisers, solicitors, surveyors and other professionals.

It leads a consumer-focused UK based equity release market by setting authoritative standards and safeguards for the trusted provision of advice and products. Since 1991, over 640,000 homeowners have accessed £45bn of property wealth via Council members to support their finances.

The Council also works with government, voluntary and public sectors, and regulatory, consumer and professional bodies to inform and influence debate about the use of housing wealth in later life and retirement planning.

Read the Council's 2022 annual report here.

Contact us

Find out more about the Equity Release Council, its members and the products and services they provide by visiting **www.equityreleasecouncil.com** or emailing **info@equityreleasecouncil.com**

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Methodology

The Spring Market Report is designed and produced by Instinctif Partners on behalf of the Council. It uses aggregated data supplied by all active Council provider members to create the most comprehensive view of consumer trends and product uptake across the market.

The latest edition was produced in Spring 2023 using data from new plans taken out in the second half of 2022, alongside historic data and external sources as indicated. All figures quoted are aggregated for the whole market and do not represent the business of individual member firms.

For a comprehensive list of members, please visit the Council's online member directory.

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