Knight Frank Finance

Later Life Finance

ROOM FOR IMPROVEMENT? Q2 2021

Room for Improvement.

A national desire for home improvements is driving a surge of activity in the equity release market, as wealthy homeowners look to release funds to upgrade their properties.

Market update

Rates on the up

Economic growth is consistently surpassing forecasts, and the easing of government restrictions saw GDP grow by 2.3% in April, the fastest monthly expansion since July 2020. Growth in consumer prices is already running above the Bank of England's 2% target.

This momentum is being felt in the equity release market. Unlike standard mortgages, equity release products including lifetime mortgages are fixed for life and rates move in line with long-term gilt yields, which, reflecting the future health of the economy, are also inching up.

As a result, rates for market leading lifetime mortgage products have risen to 2.7%, from 2.2% in October. It is looking increasingly likely that the best available rates will hit 3.5% before Christmas, as we predicted in the Q1 report.

Though rising, rates are still close to historic lows. Borrowers interested in equity release, but unsure whether to act, would be minded to speak to a qualified expert to explore the current competitive options sooner rather than later.

Bucking the trend

Latest figures show take up within the equity release market has been somewhat subdued, with Q1 proving the quietest start to a year since Q2 2017, according to the Equity Release Council.

Its Chairman, David Burrowes described the market as "following a steady course, albeit at a lower level than was the pre-Covid norm", something which the council has put down to seasonal trends amplified by renewed Covid-19 restrictions.

Bucking this stagnant trend, however, were high-net-worth individuals. Knight Frank Finance has seen a 50% uplift in new enquiries from high-net-worth clients compared to last year. Meanwhile, the choice of lifetime mortgages is at an all-time high. There are now 500 deals available for the first time on record as lenders work hard to cater for demand, according to Moneyfacts.

Nearly 40% of UK homeowners want to improve their home offices in 2021, while 47% said they were planning improvements to their gardens.

Driving forces

A variety of sources continue to drive the equity release market, whether it be unlocking money for inheritance tax planning, paying school fees or topping up retirement income. Research from LV=, which surveyed more than 4,000 UK consumers in April, found that 11% (5.8 million) of adults plan to use the value of their home to help fund retirement.

By far the largest driver for the market at present, however, is the desire to release funds to upgrade existing properties, which has boomed during the pandemic.

Kingfisher, the owner of B&Q and Screwfix, said home improvements during the third lockdown led to a 42% jump in like-for-like sales compared with the same period in 2019. Total sales were up 22.5% to £3.4bn.

The race for space that is fuelling housing market activity is also driving home improvements, with homeowners eager to build extensions or create more open plan and multi-functional space, according to Rated People's Home Improvements Trends report.

Home offices and garden upgrades were two other popular drivers. The report said nearly 40% of UK homeowners want to improve their home offices in 2021, while 47% said they were planning improvements to their gardens.

House prices rise

At the same time, average UK house prices continue to rise – and quickly – reinforcing the view presented by Burrowes that for many older homeowners, property continues to be the most significant asset at their disposal.

Annual house price growth hit double digits in May (10.9%) – the highest level seen in nearly seven years, according to Nationwide. Canada Life, meanwhile, said there was more than £650bn of equity available for release in UK homes in Q1 – an increase of £50bn on the previous quarter.

Property, then, offers a viable route to boosting income from pensions and savings – particularly for the wealthy, says Burrowes, who adds that it is within this group that the council is seeing the most significant growth.

Need to know

Unlocking a property's potential, with equity

David Forsdyke, Head of Later Life Finance

Older homeowners are often very attached to their homes. A focal point for family gatherings over the years, their homes are places where fond memories are made.

It's easy to see why more and more homeowners are keen to make changes.

Sadly, property ages with us. Decoration goes out of date, furniture becomes old fashioned, and the latest technology changes the way we use our living spaces. Hand in hand with this, is a shift in attitudes among homeowners who are now looking for more open plan living, with many of us seeking to remove walls and create more contemporary spaces at home.

If our health begins to decline, that can provide further impetus to modernise and adapt our living arrangements, so our houses remain functional as well as comfortable as our needs change. Add to this the growing desire to be more eco-friendly and it's easy to see why more and more homeowners are keen to make changes.

For those over 55, a lifetime mortgage or a retirement interest-only mortgage are popular choices. Interest rates on these types of borrowing have fallen dramatically in the last few years.

Knight Frank Finance has helped a large number of clients raise the funds they need for home improvements, without depleting savings or impacting on their current income. For those over 55, a lifetime mortgage or a retirement interest-only mortgage are popular choices. Interest rates on these types of borrowing have fallen dramatically in the last few years.

How it works in practice: a simple scenario

A couple in their 70s approached Knight Frank Finance, seeking a way to clear their existing £300,000 mortgage on their £2 million property, and raise an additional £130,000 for some major renovations. They had been winding down their careers over the last few years and were ready to fully retire, which meant their income was about to decrease. So at the same time as remortgaging, they had a desire to reduce their outgoings.

The couple were concerned about accessibility at home and wanted to make adaptations to open up the layout and improve functionality of their living space, to better suit their changing needs. They had also planned a range of other enhancements to improve their home in readiness for retirement, from bathroom upgrades to landscaping the garden.

The solution

Knight Frank Finance arranged a lifetime mortgage for a lump sum of £430,000 at the outset, with a further £70,000 available through a drawdown facility should they need further funds in the future or require contingency on top of their initial budget for the improvements.

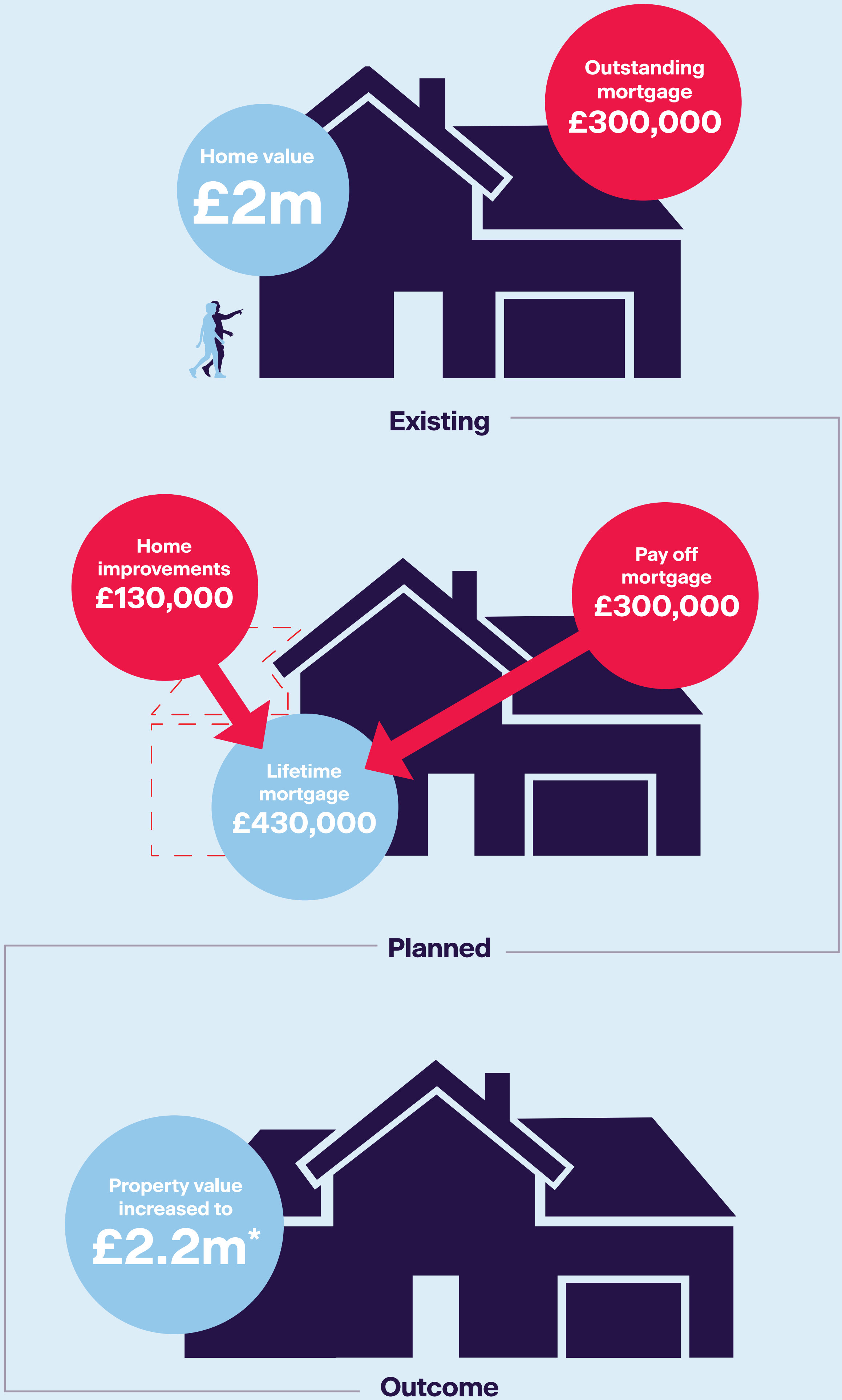
With the initial £430,000 they were able to repay their existing mortgage (£300,000) and unlock funds for the works (£130,000). They chose to allow the interest on their lifetime mortgage to roll-up, so they no longer had monthly payments to worry about. Not only were they able to repay the original mortgage and raise the funds they needed, this also reduced their regular outgoings.

Borrowing and investing to improve your home using a lifetime mortgage can be a financially-sound decision.

The advantages go further. We estimate the improvements they are making to their property will add around 10%, or £200,000, to the value of their home. Taking a lifetime mortgage was therefore a strategic move, as the interest won't roll up to the level of £200,000 for around 14 years (with interest compounding, the mortgage balance will reach approximately £623,000 by the 14th year). As such, borrowing and investing to improve your home using a lifetime mortgage can be a financially-sound decision.

There are of course risks associated with this type of borrowing, and all clients considering equity release should take advice from a fully qualified advisor who will help them understand the pros and cons.

How it works in practice



*We estimate the improvements made to the property in this scenario will add around 10%, or £200,000, to the property's value.

Want to know more?

Contact the Knight Frank Finance Later Life Team
01483 947 764
later.life@knightfrankfinance.com

Knight Frank Finance is a whole-of-market mortgage broker, able to support clients at all levels of the market. Our Later Life Finance team are all qualified in the field of equity release and provide market-leading advice specifically for clients over the age of 55. The team also specialise in high net worth equity release lending, regularly securing and managing loans of over £1,000,000. We have extensive experience of advising clients with complex financial circumstances, involving inheritance tax and estate planning.

Proud to be a Member of the Equity Release Council