



Later Life Finance

A RECORD YEAR FOR EQUITY RELEASE | Q4 2021

The wealthy drive the equity release market to a record year. ♦

Double-digit house price growth and the adoption of equity release by wealthy homeowners made 2021 a record year for the sector.

Market update

Homeowners withdrew £4.8 billion in property wealth in 2021, beating the previous record of £3.94 billion set back in 2018, according to figures from the Equity Release Council.

The number of plans increased 4% to 76,154 from a year earlier, though that was below the peak of 85,497 in 2019. The record value reflects the surge in house prices and the influx of wealthy customers that are increasingly factoring equity release into their long-term financial planning.

Knight Frank Finance data reveals similar themes. The average lifetime mortgage amount agreed by Knight Frank Finance clients during the last

quarter of 2021 was £552,575, about 4.5 times larger than the industry average. The team worked with clients on a wide variety of needs during the year, with loan sizes spanning from a little under £12,000 up to more than £3.2 million.

The larger average loan size, coupled with generally low loan-to-value loans, enabled Knight Frank Finance clients to secure some of the most competitive rates on the market. While the industry average was north of 4.2%, Knight Frank Finance clients averaged a rate of 3.17% with some headline rates as low as 2.52%.

The market has undoubtedly been buttressed during the pandemic by the widespread adoption of technology by those over the age of 65, which has

far-reaching implications for the way in which information is likely to be disseminated as the industry emerges from the worst of the crisis. In a survey of 1,000 older homeowners by Hodge Bank, almost half said they feel much more confident in their IT skills than they did before the pandemic.

♦ **Homeowners withdrew £4.8 billion in property wealth in 2021, beating the previous record of £3.94 billion set back in 2018.**

At a glance

£4.8bn

Of property wealth accessed by equity release customers in 2021, beating the previous record set in 2018

76k

The number of equity release plans taken out by customers in 2021, an increase of 4% from a year earlier

9.8%

The amount by which house prices climbed during the year to November, fuelling demand for equity release

£552k

The average lifetime mortgage agreed by Knight Frank Finance clients during the last quarter of 2021

3.17%

The average interest rate for Knight Frank Finance clients, while the industry average was north of 4.2%

90%

The proportion of people of all ages with Defined Contribution pensions may be at risk of falling short on their expected retirement income

Over 65s are now confidently using the likes of Zoom and MS Teams to communicate, enabling them to manage their affairs, including home finance, in a much more flexible way.

House prices climbed 9.8% during the year to November, capping growth of 25% during the most recent five-year period. Older homeowners are seeking ways to put that wealth to work, whether to gift money to relatives, invest in home improvements or take the trip of a lifetime.



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Anecdotally, wealthy clients that are living longer increasingly wish to hand money down to younger generations while they are alive so they can see them enjoy the benefits. Wealth is normally passed on as an inheritance. The average age of individuals when their last-surviving parent passes away is expected to rise from 58 for those born in the 1960s, to 64 for those born in the 1980s, according to the Institute for Fiscal Studies (IFS). For about a third of people born in the 1980s, this won't happen until they are in their 70s at the earliest.

For clients in their 70s, gifting property wealth to family members while they are still alive allows them to enjoy the tangible benefits they are providing to the important people in their lives. As an added bonus this is reducing the value of their estate, which can, in turn, reduce the potential Inheritance Tax liability their beneficiaries will face.

The widening pension shortfall is driving growth in the Later Life Finance market.

Approximately a quarter of people approaching retirement, the equivalent to 5 million people, are at risk of missing the income they need, according to a new report by the Pensions Policy Institute and sponsored by the Centre for Ageing Better. Some 90% of people of all ages with Defined Contribution pensions may be at risk of falling short on their expected retirement income.

The industry faces some headwinds, particularly rising prices. The UK economy is forecast to expand 4.9% in 2022, faster than any other G7 economy, according to the Organisation for Economic Co-operation and Development (OECD). That's pushing long term Gilt yields higher – 15-year Gilts have moved from about 0.82% in late August to highs of 1.4% in January.

Lifetime mortgage rates and Gilts are closely linked and headline rates moved from close to 2.5% to just under 2.7% during the final quarter.

Need to know

Equity release and the desire to make lifestyle changes

For many homeowners, the pandemic prompted a shift in priorities around where they want to live – whether it was a desire to leave the city behind in search for a more rural setting or simply the need for more space as they spent an increasing amount of time at home.

Last year, the high end of the market saw the most £5m+ sales of country houses in 15 years, beating the previous record set in 2020. Country sales for the period in Knight Frank's Country Business were up 21% on 2020 and 76% higher than 2019.

At Knight Frank Finance, we're seeing this shift within the later life market too. With older homeowners typically having more illiquid wealth, many of our clients have been reflecting on their current living situation and questioning whether now's the right time for a change.

In this scenario, equity release allows our clients to unlock capital tied up in their existing property to make those exciting life changing decisions such as funding a new dream home purchase.

It can also be a powerful tool during more difficult times of separation or divorce, enabling couples to raise enough capital to purchase an onward property and take some of the stress away from what can be a challenging time.

How it works in practice: a simple scenario

A recently retired couple aged 68 owned a property in Twickenham. It had been their dream for many years to retire in a house or cottage in Hampshire, so they could enjoy a more rural lifestyle.

Their existing property was worth £1,600,000, with an outstanding mortgage of £600,000, leaving them with £1,000,000 of equity to spend.

Their retirement meant a drop in income, so they didn't want to have to pay monthly mortgage costs. This meant they hoped to be able to

buy without any new borrowing. However, when they found the perfect home, an historic farmhouse, it was for sale at £1,250,000.

The solution

We arranged a £250,000 lifetime mortgage, with no fixed term, at a very low interest rate – well below 3% – which they used to top up their own funds and purchase the farmhouse.

In addition, with a lifetime mortgage the couple were able to let the interest roll up on top of the loan, rather than make regular payments – meeting another one of their requests. The loan will be repaid when the house is eventually sold, either when they both pass way or have moved out permanently.

They have since been in touch with the Knight Frank Finance team to say how delighted they were that equity release helped them realise their dream. They've got involved in the local community and are very happy there.

Want to know more?

Contact the Knight Frank Finance Later Life Team

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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.



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