Equity release: changing landscape fuels impressive growth

The equity release market is currently enjoying a period of record growth – and it shows no signs of slowing just yet.

In 2016, after a fifth year of consecutive growth, the market hit £2.1bn, double the value it was in 2011. This year sales of equity plans have rocketed, with the value of lending in Q1 at £697m, a 62% increase on the same period last year and the highest recorded year on year increase in total lending to date.

Although this is a UK wide trend, the largest growth in equity release sales was here in the South East, up 88%, whilst the East Midlands claimed the largest slice of total lending with an 89% increase on the previous year.

The interest only time bomb

Interest only mortgage holders are the major contributors to this growth. About 10,000 borrowers a year will come to the end of their interest only term over the next three years and equity release will be the solution to their capital repayment deadline. One in five equity release customers use the cash to clear mortgage debt, meaning they can stay in their property without having to sell up, or worse still, face the prospect of losing their home altogether.

However, the equity release boom is not all about interest only and it is worth looking at some of the other reasons behind this impressive growth which in terms of customer numbers puts equity release as the fastest growing mortgage market in the UK.

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Impact of regulatory changes

We have seen some key social, economic and regulatory changes in recent years including the new pension freedoms; changes to social care funding; the impact of low interest rates on savings; the Mortgage Market Review; the affordability rules (with respect to borrowing) and these have all had an impact on traditional retirement and inheritance planning.

The rise in property wealth

Perhaps the most significant factor though is the rise in property wealth amongst the over 65s. The long term success of property investment through a period of historically low interest rates and high volatility in the investment markets has enabled pensioners to benefit from a tax free return on their homes regardless of the day to day ups and downs. Over 65s who have paid off their mortgages are therefore generally sitting pretty to the extent that total homeowner equity in England topped £2.6 trn in 2016 with this figure expected to rise to £3.6 trn by 2036 for the over 55s.

Pensioners are able to access significant amounts of money at reasonable rates which can help address all sorts of everyday financial and lifestyle issues. The average amount of money released is £73k, with 62% of customers spending some of the cash on home improvements, a third splashing out on holidays with the remainder using part of the funds to clear credit card debt and loans. A significant number of retirees also use some of the funds to support other family members, for example, by paying off student debts or providing a deposit for a house purchase.

Equity release and divorce

Using equity release in later life can also be prompted by basic capital or income needs, or to fund domiciliary care. Nearly 1 in 10 people over the age of 60 taking out equity release plans are divorced, or separated, with couples releasing money from their property to fund a divorce or to re-house a spouse. Crucially it is an option that allows one party to remain in the home whilst still being able to fund a possible financial settlement.

Flexible options for consumers

The potential of the market has attracted a lot of interest from specialist equity release lenders and consequently we are seeing several innovative new products coming on to the market that provide flexible solutions for the consumer.

There are various types of equity release schemes on offer and these include lifetime mortgages which feature lump sum plans, draw down plans, interest only and voluntary repayment schemes; plus retirement mortgages and home reversion schemes which all have specific qualifying criteria. It's not a case of one size fits all so the key thing is to obtain expert advice in order to find a product that is right for the customer whilst making the most tax efficient use of the funds available.

For example, we recently advised a retired couple to consider using an equity release plan to fund their retirement whilst leaving their pension pot intact and tax free for their children as a measure to reduce inheritance tax liability.

As a nation we are living longer and enjoying more active lifestyles. These days, reaching retirement age can be the beginning of a whole new chapter of our lives. Whether we want to enjoy the everyday or complete the bucket list, a well-considered equity release plan could just make sound financial sense.

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