The Equity Economy

Exploring how equity release can create a brighter financial future for our society

Produced in association with the
Centre for Economics and Business Research

#EquityEconomy

Setting the scene

With recent global and domestic events causing economic upheaval the likes of which the UK population hasn't seen for more than 60 years, owning your home has taken on ever greater significance. It's not just about how much it's worth, but how homeowners can take advantage of its financial potential.

This economic study by Legal & General and the Centre for Economics and Business Research (Cebr) examines the role equity release plays in funding retirement (both now and in the future), in supporting the economy and in helping homeowners fulfil their needs and aspirations.

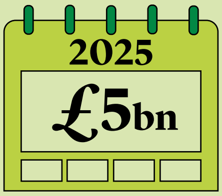
The report incorporates desk-based research, alongside economic modelling and forecasting. To supplement this, additional research was carried out with a survey of 2,000 homeowners, including more than 300 equity release customers.

The report's key findings include:

£4.8bn

In 2021, a record £4.8 billion was released by both new and existing customers, marking a 24% annual increase. Of this, £4.3 billion was released in new equity.

Equity release is estimated to have funded approximately £3.1 billion of retiree spending within the UK in 2021, accounting for one in every £90 spent by retired people

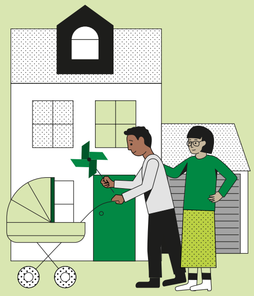


Total retirement spending financed by equity release is set to top £5 billion in 2025

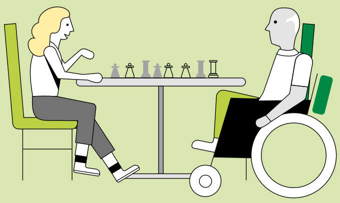
Spending funded directly by equity release generates more than 45,000 jobs. Taking into account the indirect supply chain effects, and induced effects of this spending, an additional 35,000 jobs are supported as a result of equity release's impact on the economy

Equity release customer spending is directly adding nearly £1.8 billion in GVA across the UK economy

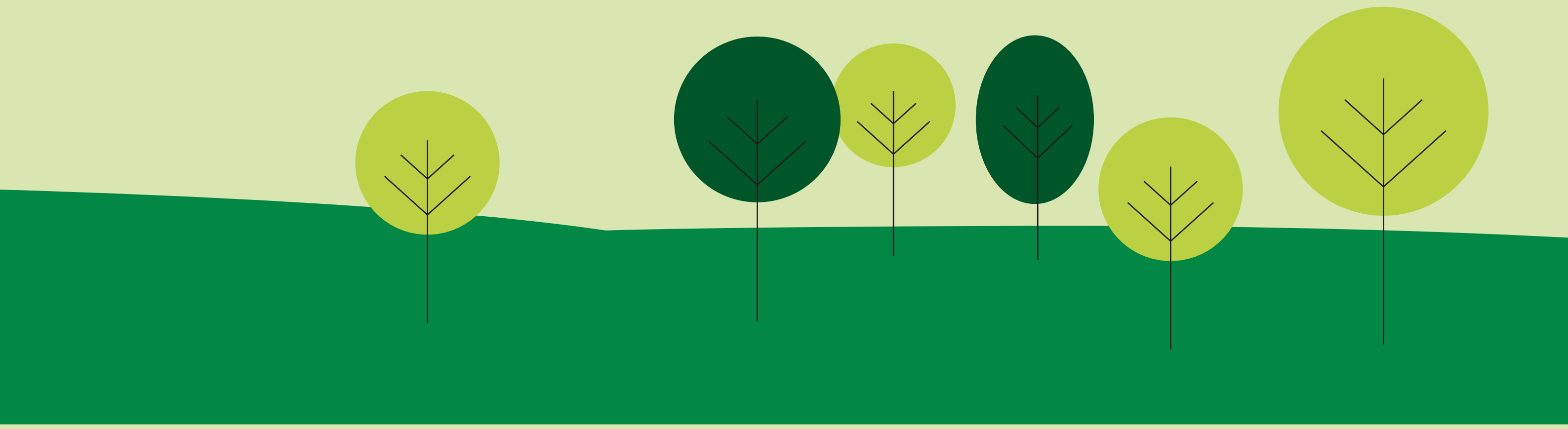
Homeowners aged under 40 are more than twice as likely to consider using equity release to finance retirement spending (17%) than over 40s (8%)



Spending funded by equity release is further estimated to support over £1.1 billion in 'indirect' effects on GVA, as well as nearly £900 million in 'induced' effects on GVA, bringing the total impacts on UK economic activity to £3.8 billion



Equity release is expected to play an increasingly important role in financing care-related expenses in the future



Every pound of equity boosts the economy

Equity release provides a massive boost to the UK economy, supporting nearly £9 billion in business turnover. The impact on the country's gross value added (i.e. the difference between the value of output, such as a car, and the costs of all inputs and raw materials used in that car's production), is a healthy £3.8bn, with every £1 spent from equity release supporting a total of £2.12 in GVA.

The sectors benefiting from this are as wide-ranging as homeowners' reasons for releasing equity which, according to the study, range from financing home improvements to medical expenses or even starting a business.

For example:

- Approximately £325m of GVA in the health and social care sector is directly supported by equity release, which equates to around 15,300 jobs, including doctors, nurses and care workers
- The construction sector gets an estimated £153m boost from equity release spending
- And, there's approximately £149m for the wholesale and retail trade sector, including day-to-day necessities like food and clothes, along with furniture shops and car dealerships.

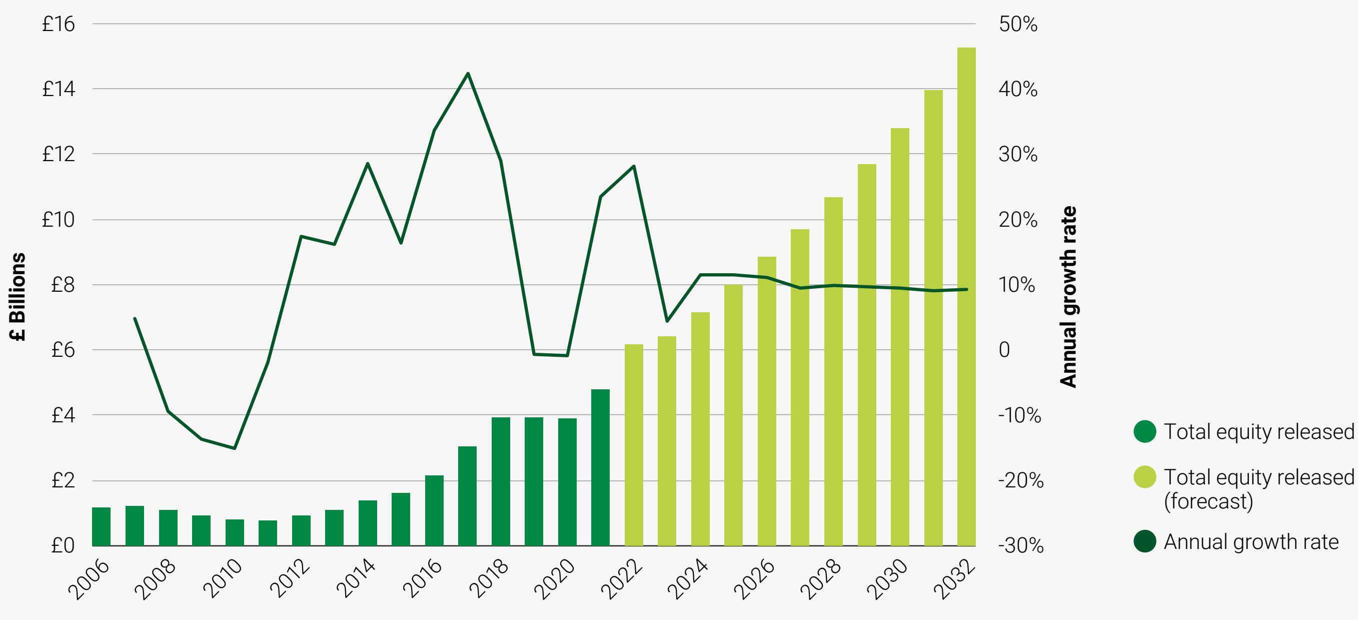
All in all, it's estimated that 81,000 jobs across the UK are supported by equity release spending.

Meanwhile, the nation's property wealth has continued to rise. Even in 2020, when COVID-19 brought stringent restrictions across the whole of the economy, the number of lifetime mortgage customers never fell below 2017 levels. Following 2% growth in 2021, when 41,000 new customers entered the market, and an expected significant uptick to 17% growth in 2022, growth of the lifetime mortgage market is expected to stabilise around the 3% mark over the next 10 years.

In times of economic uncertainty, owning your home is a comfortingly tangible indication of financial stability. Moreover, there's a growing appreciation of the potential for property to fund retirement. It's perhaps unsurprising, then, that the average amount of equity released grew by 10% in 2020 and 22% in 2021. This brought the average release to a level above £100,000 for the first time. Over the same period, house prices saw impressive growth, rising from 2.8% in 2020 to 9.5% in 2021.

> "The average amount of equity released grew by 10% in 2020 and 22% in 2021

Fig 1. Total equity released (new and existing customers, £ billions), with annual growth rate and forecast



Source: Equity Release Council, Council of Mortgage Lenders, Cebr analysis

Subsequently, growth in the average amount of equity released is expected to stabilise at around 6% per year. The average amount is set to grow by over a third (38%) by 2026, reaching above £160,000. Moreover, total equity released by new and existing customers is expected to surpass £6bn in 2022 and £12bn in 2030.

Equity release has funded an estimated £3.1 billion in domestic retirement spending. This is predicted to top £5 billion by 2025, as homeowners increasingly look to their home as a way to fund a financially comfortable retirement.

Incidentally, the gender divide in equity release customers is changing too. Whereas homeowners who have previously taken equity release are divided 28% female vs 72% male, those who would consider taking it in the future are divided 60% female vs 40% male. Perhaps reflecting the growing number of women who are sole owner-occupiers and manage their own finances.

A similar change appears to be occurring in the regional divide. Whereas two thirds (63%) of existing equity release customers sampled live in London, the share of those who would consider taking equity release in the future was almost double outside London (40%) than in the capital (23%). While London and the South East continue to have some of the highest average property values, this may reflect the relatively stronger house price growth in other areas during the pandemic.

The equity release industry is clearly a genuine positive force in the UK economy, as this report shows. And, as the amount of released equity grows, its importance to our economy will grow apace.

Fig 2. Gender and regional distribution of equity release customers

Source: Opinium survey, Cebr analysis

By 2025, total retirement spending financed by equity release is set to top

£5 billion

Why release equity?

There are various reasons for homeowners to release equity. Just over a quarter (26%) of respondents cited home improvements and renovations, perhaps unsurprising when staying at home has become the norm for so many following pandemic restrictions and lockdowns.

Of those who specified energy efficiency improvements, the majority of respondents planned to install better insulating doors and windows. Installing a different heating system and improving insulation followed behind. Meanwhile, 17% wanted to cover medical expenses. Maintaining living standards in retirement, adapting one's home for mobility needs, and paying off personal debt followed, at 16% each.

26%

of respondents cited home improvements as a reason to release equity

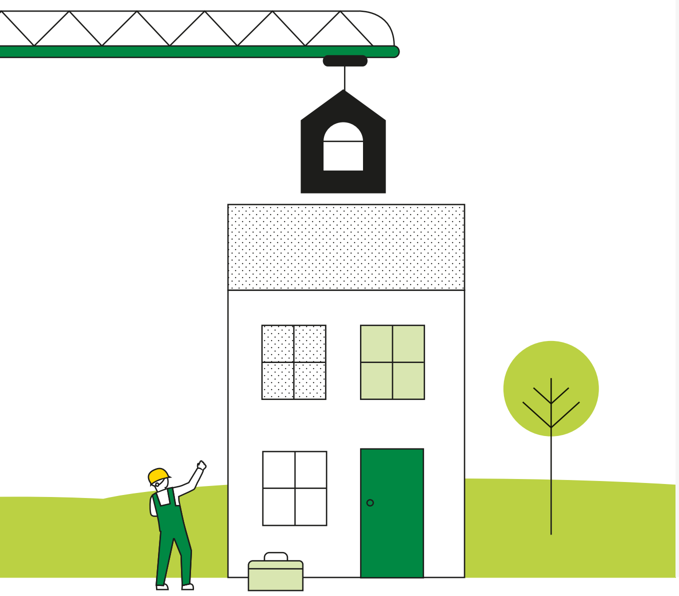
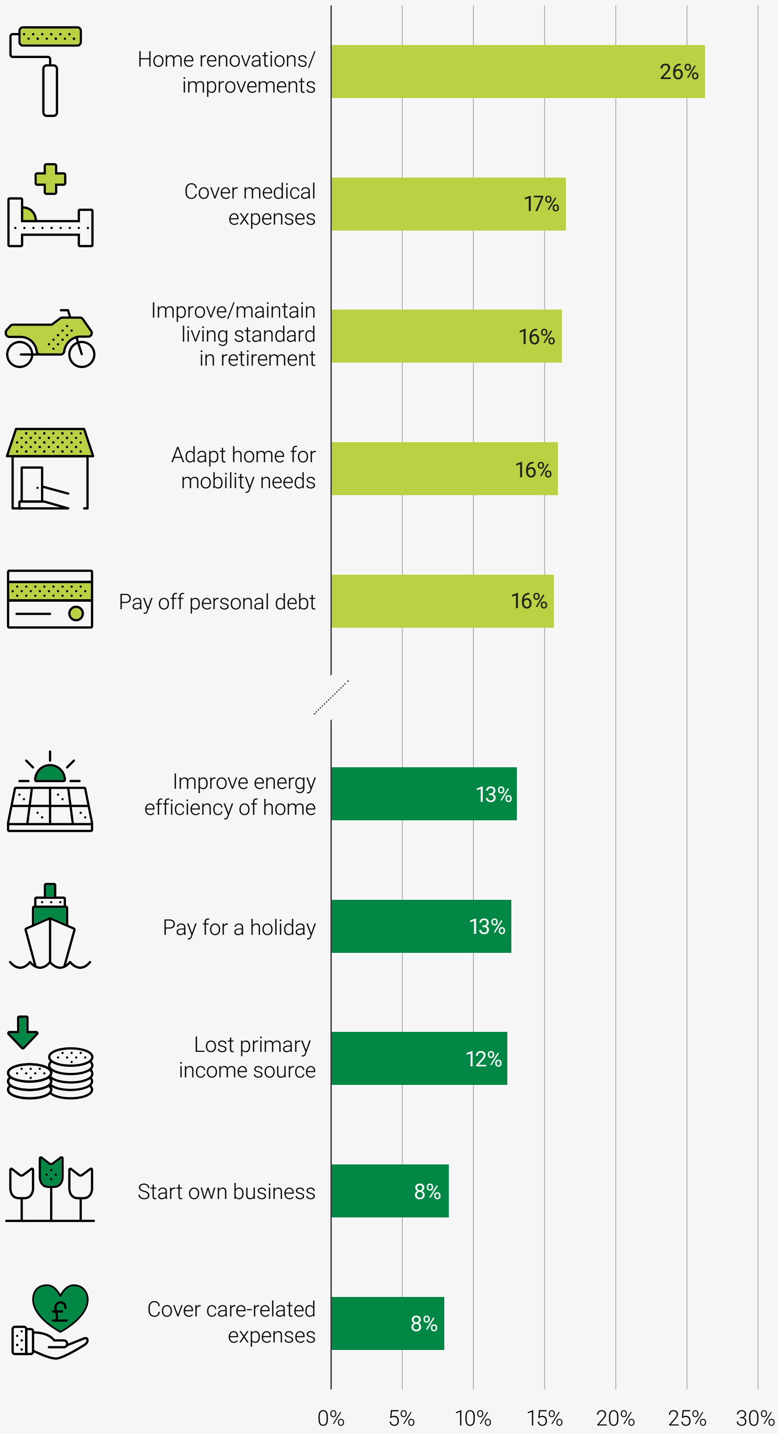


Fig 3. Percentage of homeowners that have released equity citing various reasons for doing so (top 5 and bottom 5)



Source: Opinium survey, Cebr analysis

While there is, predictably, a divergence from the initial reasons for releasing equity and the reality of how the funds are actually spent, paying for home improvements is still the winner, cited by 35% of existing equity release customers. The average customer spent 20% of their released funds on this category. Next up is food, drink and clothes, on which 29% mentioned spending some of their released funds. The next three most popular expenditure areas were electronics, healthcare and domestic holidays.

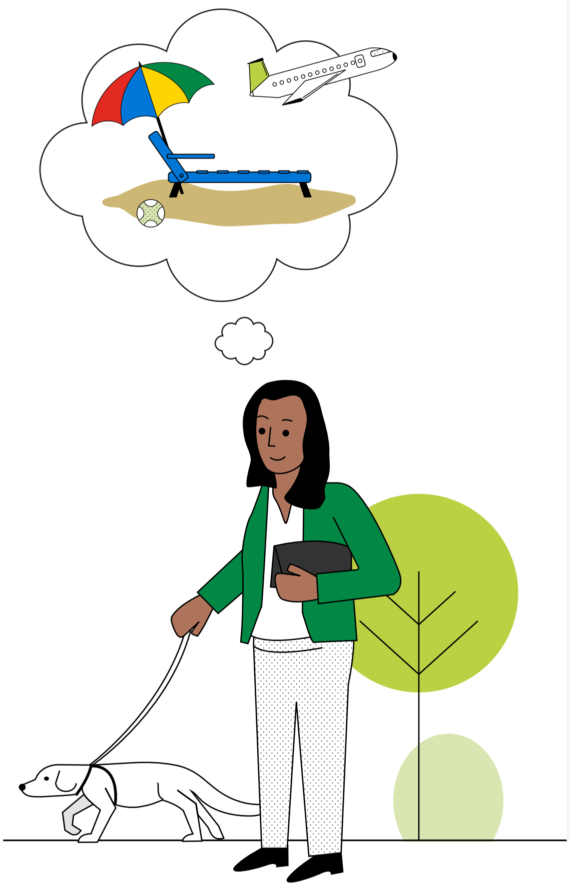
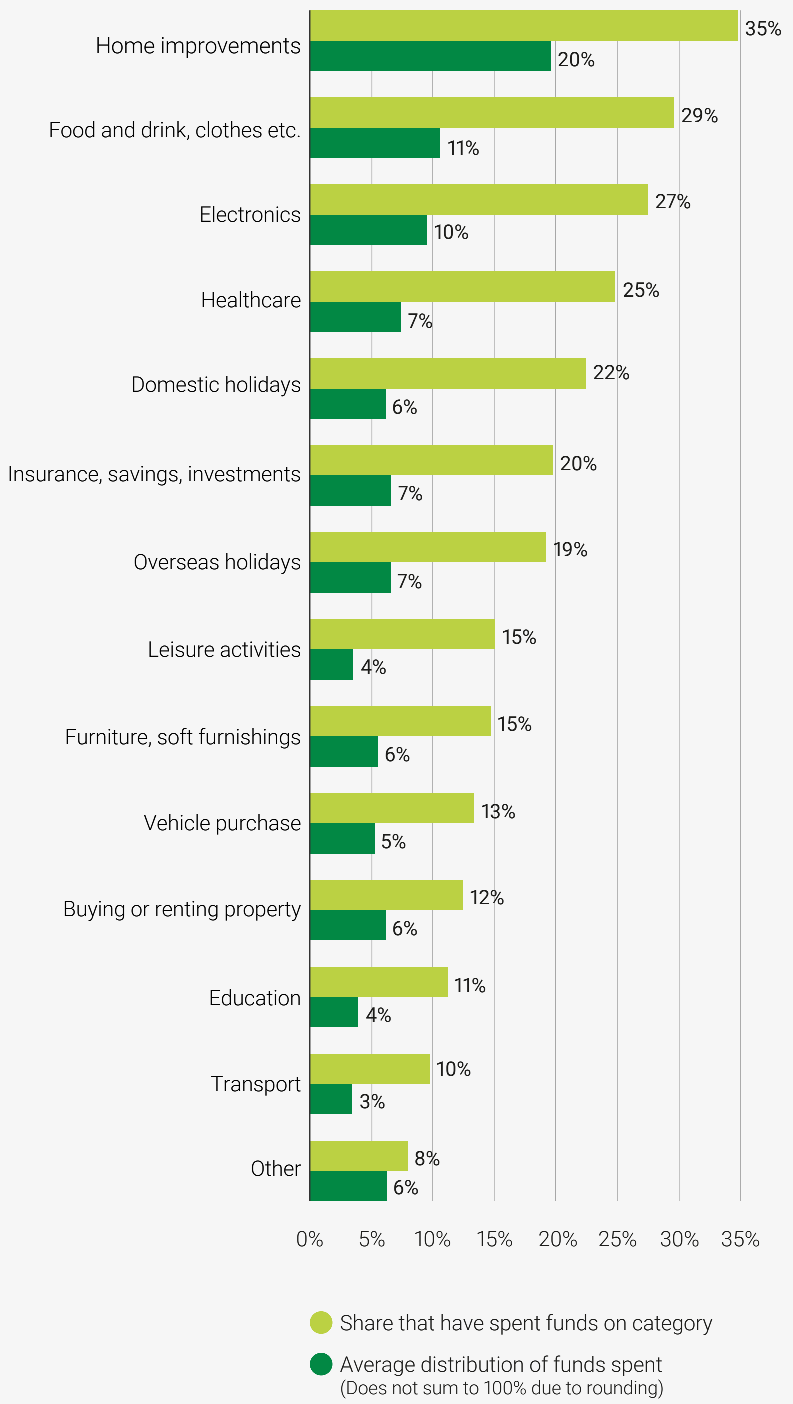


Fig 4. Percentage of existing equity release customers using the released funds to spend on various categories, and the average distribution of spend across categories



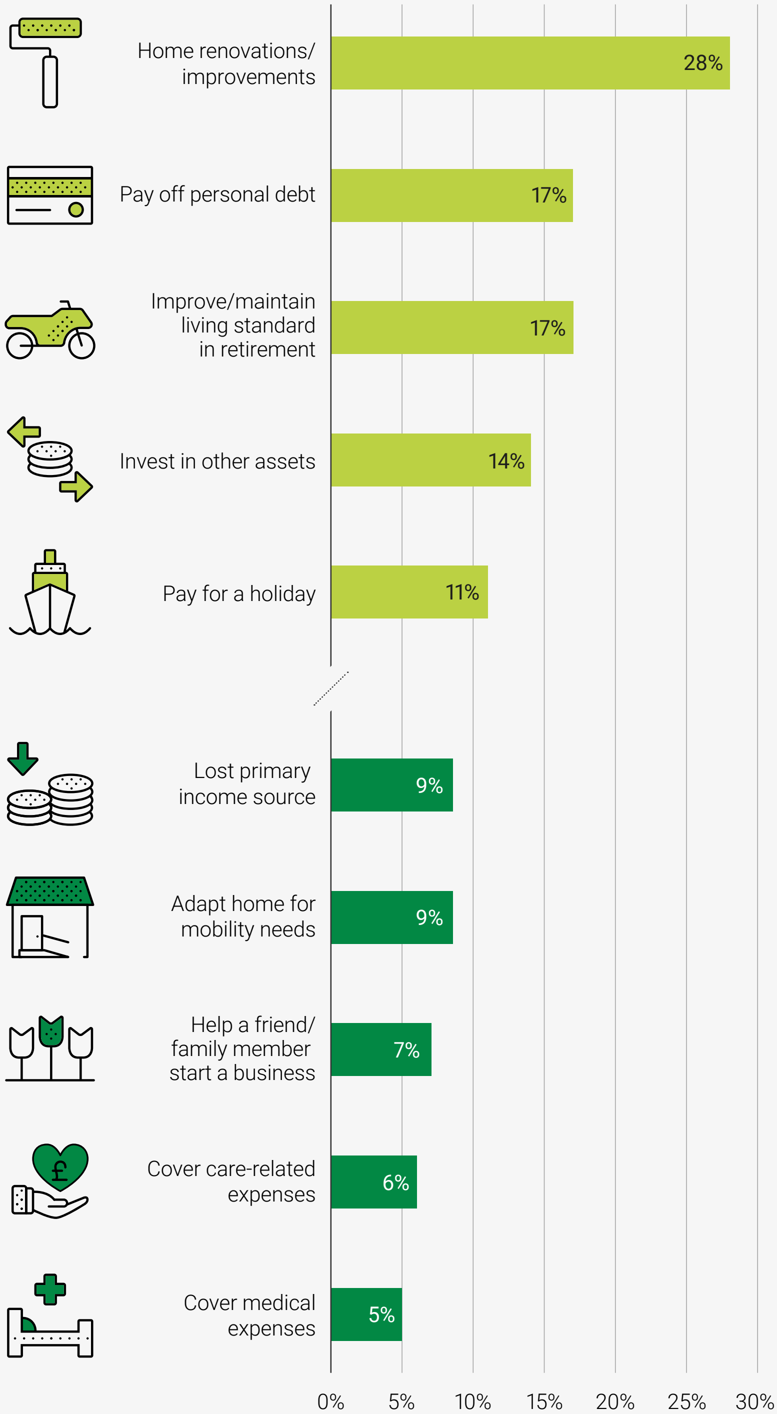
Source: Opinium survey, Cebr analysis

The study showed 28% of homeowners surveyed accessed their property wealth through means other than equity release (remortgaging, downsizing, selling and moving into rented property, etc), with the most popular impetus being, again, home improvements. Next most commonly cited reasons were paying off personal debt, followed by improving or maintaining living standards in retirement.

And, it's this final reason that was most popular for those considering equity release in the future. More than a third (36%) are motivated by the desire for a comfortable retirement. Financing home improvements is still up there, though, at 26% – the same percentage as existing equity-release customers – making it the second most cited reason. Next came care-related expenses, which is notably higher among prospective customers – 19% as compared to only 8% of existing customers.

It's perhaps no coincidence that all three of these most-cited reasons speak to the implications of an ageing population, suggesting that equity release will play an increasingly important role in supporting people as they age.

Fig 5. Percentage of homeowners that have previously accessed property wealth, other than through an equity release product, citing various reasons for doing so (top 5 and bottom 5)



Source: Opinium survey, Cebr analysis

36%

of those considering equity release in the future are motivated by the desire for a comfortable retirement

Property wealth vs. pension

The study highlighted that homeowners – both retired and not – cite state and workplace pensions as their key (foreseen) source of retirement funding. However, while 5% of retired homeowners surveyed used equity release to fund their retirement, homeowners more broadly are more than twice as likely (11%) to view this as a future retirement funding source.

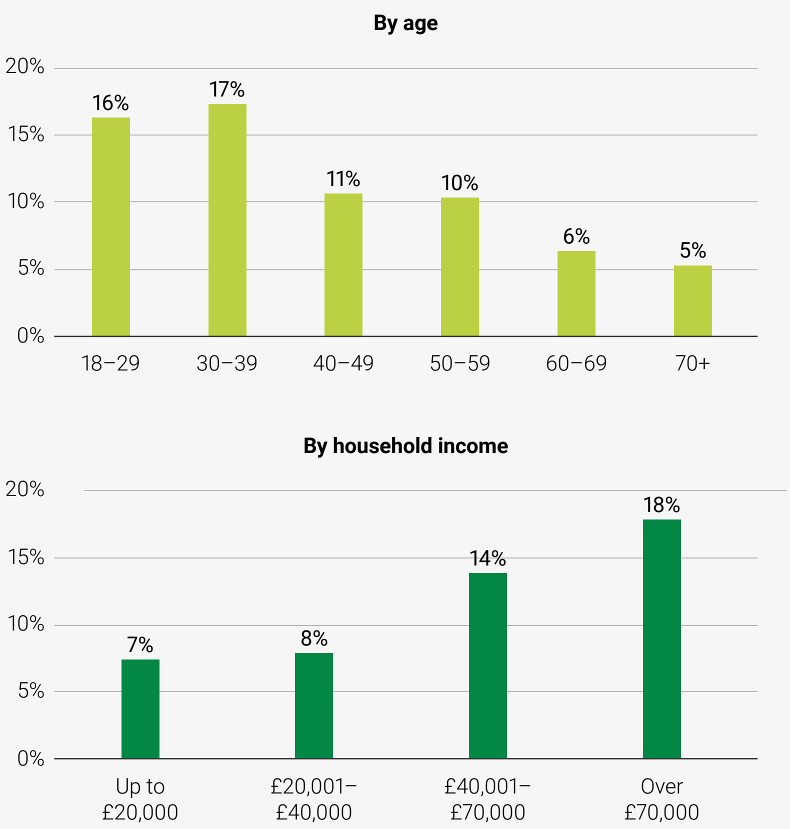
Perhaps unsurprisingly, there's also a correlation between household income and plans to use equity release to fund retirement spending. This leaps from 7% of those with a household income below £20,000, to 18% of homeowners with income in excess of £70,000. In a nutshell, those with higher incomes generally have greater property wealth, and those with greater property wealth are more likely to use equity release.

So how much equity have retirees released, and what do they spend it on? Of the total £4.3bn of new equity released in 2021, £3.6 billion is estimated to be accounted for by retired homeowners. The majority of this – £1.9 billion – went on irregular domestic spending (home improvements, buying or renting property, furniture, vehicles, electronics, etc).

Meanwhile, an estimated £1.3 billion of retirees' released equity was spent on day-to-day expenses, like food, clothes, alcohol, transport and entertainment. The remaining £0.5 billion is estimated to be split evenly between overseas holidays, and insurance, savings and investments.

Modelling by Cebr suggests that this figure will rise above £4 billion in 2022 and surpass £5 billion by 2025.

Fig 6. Share of homeowners who say they are likely to use equity release to fund their retirement in the future



Source: Opinium survey, Cebr analysis

£3.6 billion

of the total £4.3bn of new equity released in 2021 is accounted for by retired homeowners

Equity release and the economy

Just 7% (£330m) of the £4.3bn of new equity released in 2021 is estimated to have left the UK economy in the form of overseas holiday spending. Of the remaining nearly £4bn, £757m (18% of overall spend) went to the wholesale and retail sector, followed by £517m (12%) to the health and social work sector. Information & communication; construction; arts, entertainment & recreation and real estate activities also enjoyed high amounts of equity release spending.

Add the less direct impacts of equity release spending into the mix, and the £4.0bn remaining in the domestic economy increases to £8.6bn. This additional £2.7bn comes from:

- £2.7bn in indirect income (funds from equity release spent on, for example, solar panels, in turn adds to the revenue of installers, raw material suppliers, etc.)
- £1.9bn in induced effects (the increased revenue of the solar panels company, their installers and suppliers leads to job creation and increased wage spend.)

In other words, every £1 spent from equity release supports £1.16 of wider spending in the UK economy. Look at GVA and that figure rises to £2.12.

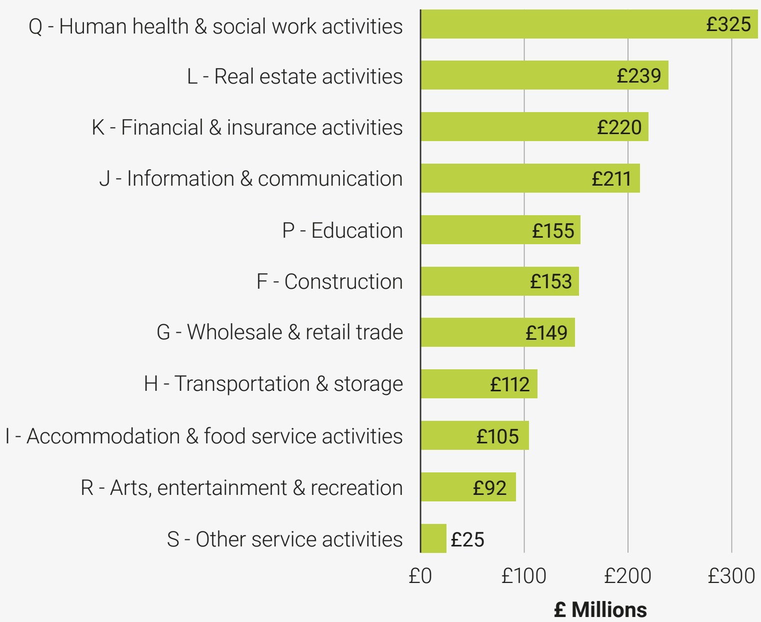
Break this down by sector and we see that by far the largest component of the total direct GVA contribution of equity release spending is, at £325m, accounted for by the health & social work industry. This is a result of both the high reported tendency to spend equity release funds on healthcare costs, including care, and the sector's relatively high ratio of GVA to turnover. Following this are real estate at £239m, finance and insurance at £220m, and IT at £211m. Together these four sectors account for over half (55%) of the GVA directly supported by equity release spending.

And what about the employment impact? As businesses receive funds and expand their operations, jobs are created. Modelling suggests that spending funded by equity release directly supports 45,600 in UK employment.

A third of this total – 15,300 jobs – are in the human health and social work industry, followed by 6,700 jobs in education, 4,500 jobs in accommodation and food services, and 4,200 in wholesale and retail.

Apply indirect and induced effects to this (respectively supply chain effects of such spending and jobs created as a result of employee spending power), and the number of UK jobs supported by equity release spending leaps to 81,000.

Fig 7. Estimated GVA directly supported by spending from new equity release (£ million), by sector, excluding drawdowns from existing customers



Source: Opinium survey, ONS, Cebr analysis

> The equity release market's impact on both UK retirees and the wider economy will only get stronger.

With the equity release market predicted to surpass £6bn in 2022, its impact on both UK retirees and the wider economy will only get stronger.

Releasing equity has a butterfly effect. Spending money on home improvements in turn supports jobs in construction, manufacturing, retail, etc.

Funding energy efficiency improvements has a positive effect not just on the home environment. In an uncertain economic climate, the wealth we hold in our property is becoming an ever more vital resource.

Get in touch

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