EMBARGOED UNTIL 00:01 FRIDAY 22 MAY 2020

# Market monitor

Equity release performance in the UK

## Quarter 1 2020

# Welcome

WILL HALE
*CEO of Key*

**Key's Market Monitor provides a quarterly, half yearly and annual review of the UK's equity release market.**

"There can be no denying that 2020 has seen an unprecedented start to the year. Following a year of political and economic uncertainty in 2019, many businesses had high hopes for 2020 which started off well. However the Coronavirus pandemic has undoubtedly had an effect on not only on business but also our customers, their families and how they view their finances.

"Against this backdrop, equity release market remains strong and in Q1 2020 there was a marginal growth in the size of the market from £1.19 billion in 2019 to £1.2 billion in 2020 showing the underlying strength of the market. Although the impact of the pandemic was not seen until the end of Q1,we are acutely aware that it will be seen across the rest of the year and is likely to shape demand going forward.

"In Q1 2020 there has been a 6% increase in the number of new plans year on year to 11,881. However there has been a slight decrease in the value of new equity released (-4%) from £840 million to £805 million. The market remains stable but customers continue to be cautious when releasing funds.

"Drawdown remains the most popular product choice and plans taken out in Q1 2020 provide potential further borrowing of £390 million in addition to £805 million in initial advances. This puts the market in Q1 2020 at £1.2 billion, compared to £1.19 billion at the end of Q1 2019, further highlighting the stability of the market.

"Using our unique digital advice delivery platform, we are now able to provide more in-depth analysis of how customers use equity release. We can now say that while 63% of people use equity release to improve their home or their garden, only 17% of the proceeds of equity release are used for this reason – suggesting that while it is popular, it is not typically the driving force behind these decisions. This gives us a clearer picture of how our customers are using their funds and how we can support them."



# Contents



## Methodology

Key is the leading over 55s specialist adviser and the UK's number one equity release specialist. It comprises of Key Equity Release and The Equity Release Experts.

Our Market Monitor uses the company's detailed data to reflect the market as a whole and provides the most detailed analysis of equity release in the UK, alongside historical comparisons.

In addition, we focus on a particular area and also a specific usage driver for releasing equity. This quarter it will be Scotland and debts respectively.

## Contact

For further details contact:

Lee Blackwell
**Director of Public Relations and Public Affairs at Key Group**
Email: lee.blackwell@krgroup.co.uk
Telephone: 07384 511140

Rachel Mann
**Key Group Press Office**
Email: rachel.mann@krgroup.co.uk
Telephone: 07384 511269

# Overview

**Following a year of political and economic uncertainty in 2019, the beginning of Quarter 1 2020 started off well. However the impact of coronavirus has been felt across all markets including equity release and the later life lending sector.**

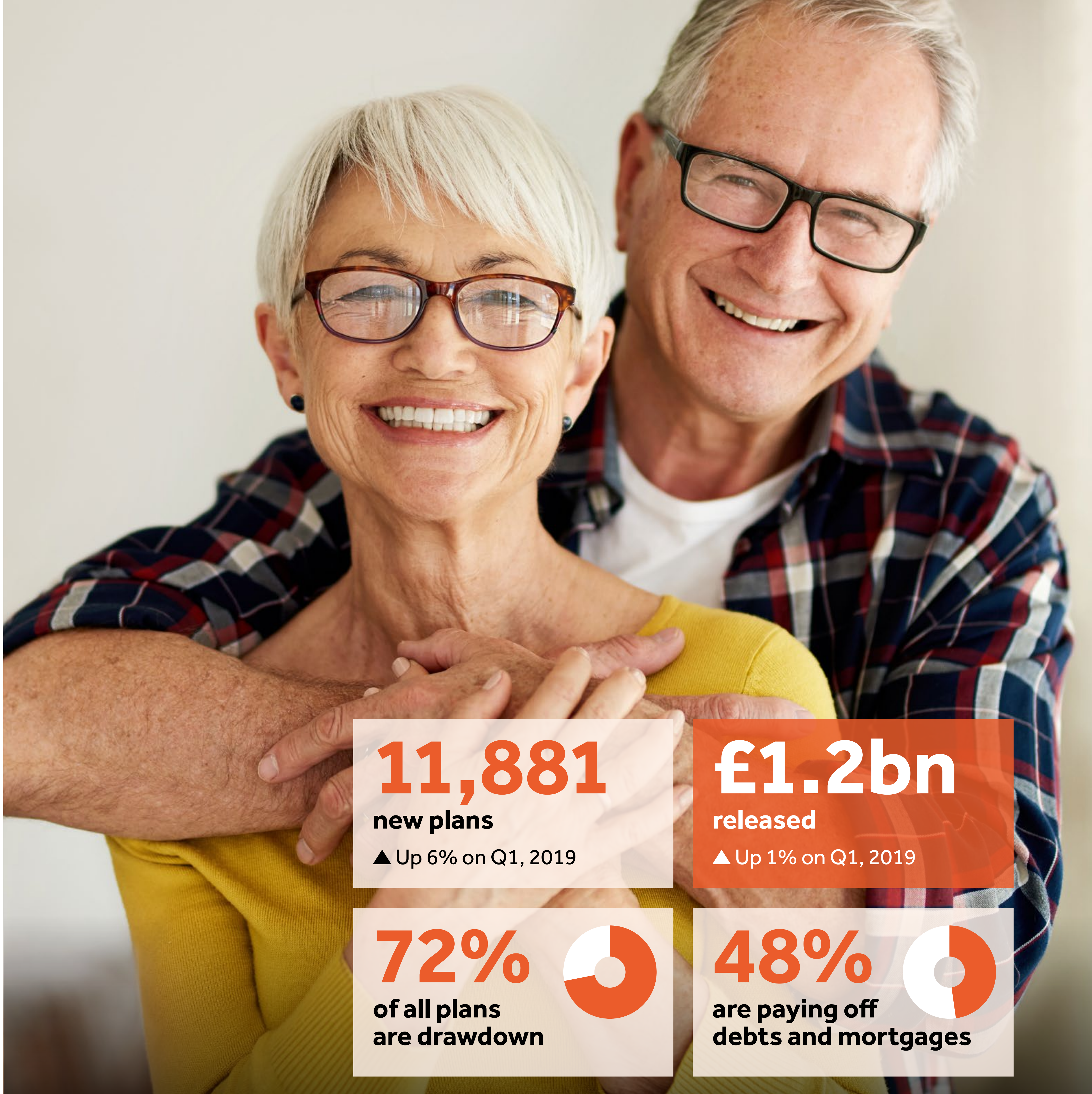
In Q1 2019 the total market size including available drawdown facility was £1.19 billion, in Q1 2020 the total market size is £1.2 billion showing a marginal increase, highlighting the overall stability of the market across the first quarter of 2020.

There was a small increase in the number of plans taken out (6%) from 11,190 in Q1 2019 to 11,881 in Q1 2020. That said, the value of new plans saw a reduction of -4% from £840 million in Q1 2019 to £805 million in 2020. Interestingly, there was a 12% increase in the value of drawdown reserved – £349 million in Q1 2019 to £390 million in Q1 2020 – showing the impact drawdown can have on the market.

Given the unprecedented circumstances the UK and world finds itself in due to Coronavirus, the equity release market has been remarkable resilient – especially given the political and economic uncertainty we saw in 2019. Drawdown plans account for 72% of new business, up from 66% in 2019, with these plans offering borrowers flexibility as well as attractive rates.

Customers are remaining cautious when choosing the amount they wish to release and there was a –9% dip in the average loan amount to £67,769 (Q1 2020) from £75,031 (Q1 2019). Interestingly, the average property values of those who have taken out equity release have increased by 2.4% YOY from £316,216 to £326,486.

In Q1 2020, the focus is on financial management with 8% of customers 'rebroking' existing plans to take advantage of low rates (+4% since Q1 2019) and repaying debt – either unsecured (25%) or mortgage (23%) debt. ▶



Gifting remains popular with 29% of customers using equity release to gift to friends and/or family. However, home and/or garden improvements – often intended to age proof homes or prepare people for retirement living – continues to be the most common use for equity release at 63%. The average age for those releasing equity in 2019 also remains stable YOY at 71 years old.

When we look at the UK in terms of the number of plans taken out London and the South East remain on top – reflecting population density and property value. Almost a third of equity release plans (30%) are taken out in the South East and nearly a fifth are taken out in London (18%). The lowest percentage is Northern Ireland which is not surprising due to lower population figures.

**Lending Mix**

| Area | % |
|---|---|
| East Anglia | 7% |
| East Midlands | 6% |
| London | 18% |
| North East | 2% |
| North West | 7% |
| Northern Ireland | 1% |
| **Scotland** | **4%** |
| South East | 30% |
| South West | 11% |
| Wales | 3% |
| West Midlands | 8% |
| Yorkshire & Humberside | 4% |
| **Total** | **100%** |

## Value of plans

HIGHEST
**£239.4m**
**South East**
▼ Down 2.1% on Q1, 2019

LOWEST
**£5.8m**
**Northern Ireland**
▲ Up 68% on Q1, 2019

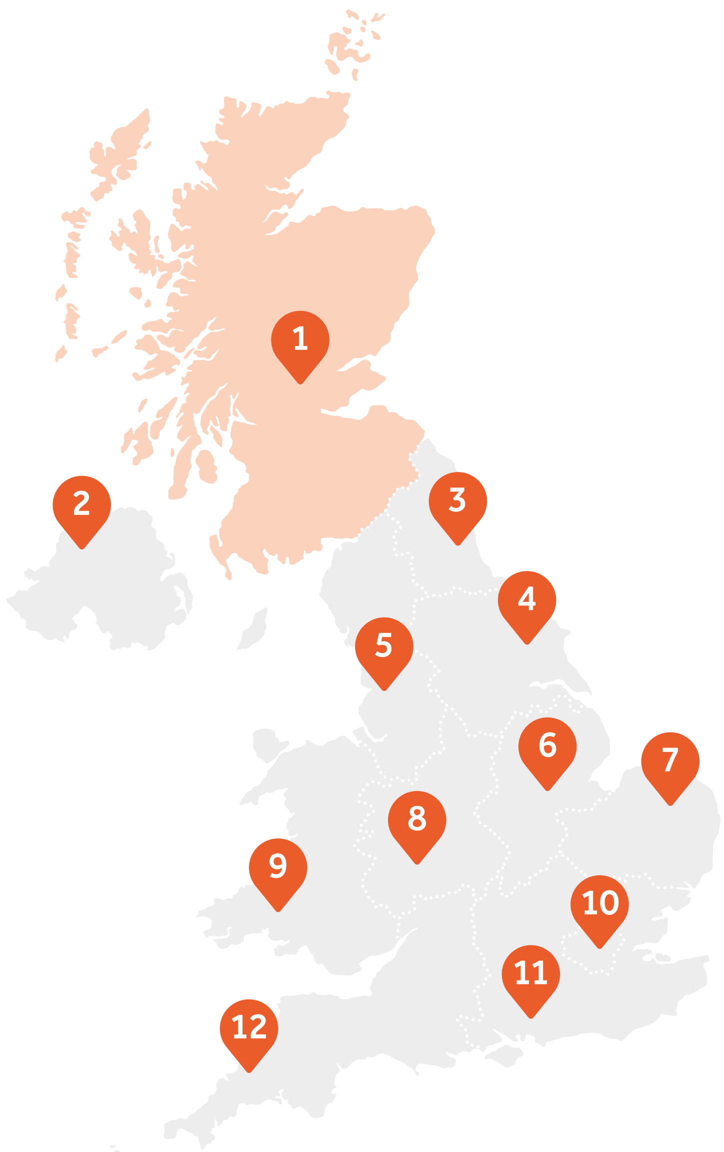
## Number of plans

HIGHEST
**2,964**
**South East**
▲ Up 8.1% on Q1, 2019

LOWEST
**117**
**Northern Ireland**
▲ Up 47.5% on Q1, 2019

## UK areas

1. **Scotland**
2. Northern Ireland
3. North East
4. Yorkshire & Humberside
5. North West
6. East Midlands
7. East Anglia
8. West Midlands
9. Wales
10. London
11. South East
12. South West



# Uses of equity release

**At the end of 2019, Key launched its new market leading advice delivery platform to its advisers which allows them to capture more in-depth data on how customers are using the proceeds of equity release.**

We can now say that while 63% of people use equity release to improve their home or their garden, only 17% of the proceeds of equity release are used for this reason – suggesting that while it is popular, it is not typically the driving force behind these decisions. The same is true with holidays – 32% of people spend money on holidays but only 8% of the value of the equity released.

Instead debt – with 25% of people using equity release to repay unsecured borrowing and 23% using it to repay an outstanding mortgage – is a big driver with 37% of the proceeds being used to reduce payments [see following page for spotlight on debt]. It is interesting to note that the proportion of people repaying unsecured debt has fallen 10% year on year (35% in Q1 2019) and mortgages by 5% year on year (28% in Q1 2019).

While this may reflect some people being more prudent with their borrowing, we believe it also shows the impact of the growth of the wider later life sector and lenders appetite to allow borrowing to continue into older age. Indeed, UK Finance's Annual Lending League Statistics suggest that the number of new mortgages taken out by over-55s rose 27% from 61,715 (2016) to 78,514 (2018). That said, it will be interesting to see if this trend continues over the long term or if the expanding additional later life lending options mean that people simply delay taking out equity release until affordability becomes an issue in older age.

Almost a third of people (29%) use equity release to gift with 21% of the proceeds of being used to support family or friends. Of those who gifted to their families, help with house deposits (44%), pre-inheritance (24%) and debt repayment (10%) were popular uses.

It is clear that equity release is a multi-use product with over-55s typically releasing £67,769 in equity to fulfil a primary need such as debt repayment or gifting, before using a smaller proportion of the amount released to age proof their homes. Indeed, spending on bathrooms (3%), decorating (2%) and home furnishings (2%) are more popular than kitchens (1%).

This is the first report launched using this data and going forward, it will allow for greater interrogation of trends around customer usage.

## Value of equity release by usage

**17%**
**improve their home and/ or garden**

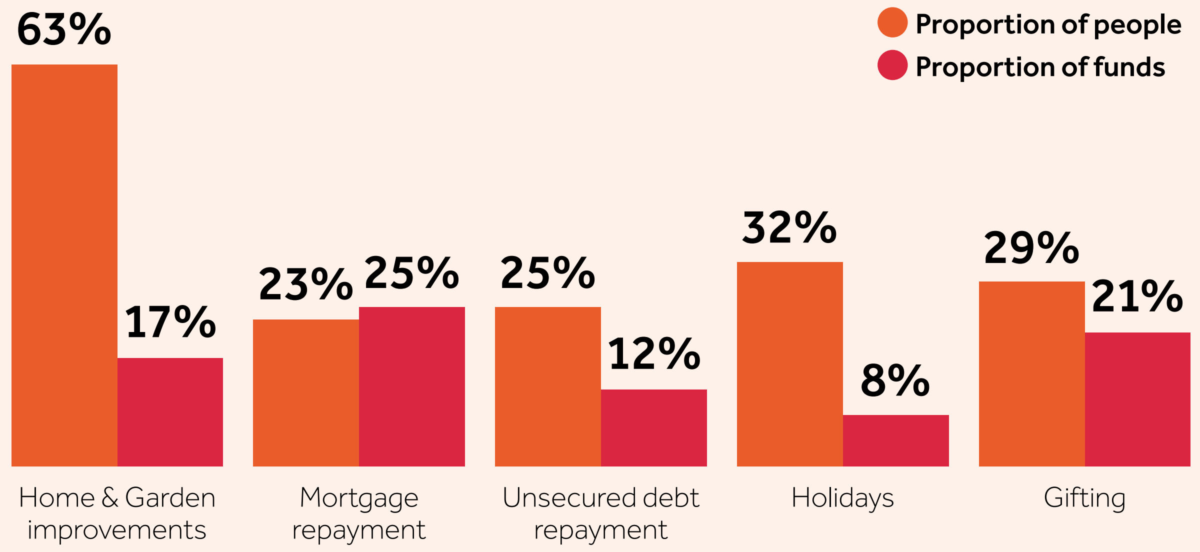
**12%**
**paying off debts**
(e.g. loans, credit cards)

**8%**
**go on holiday**

**25%**
**clear their outstanding mortgage**

**21%**
**gift money to their family or friends**

## Value of equity released vs. proportion of people using equity release



# Spotlight on mortgage debt

While today's over-55s have a more relaxed approach to debt than their parents, there is still a feeling that you need to repay your mortgage and clear any outstanding unsecured borrowing prior to retirement. In an ideal world this would happen but in reality, many people find that they are either unable to retire or struggle financially as they seek to manage this.

| Debt breakdown | | |
|---|---|---|
| **Debts** | **Value of equity release** | **Average amounts** |
| Loans | 11% | £11,856 |
| Car finance | 1% | £10,420 |
| **Mortgage** | **65%** | **£51,409** |
| Overdraft | 1% | £5,134 |
| Credit cards | 16% | £12,186 |

Up to 48% of people use equity release to repay unsecured borrowing (25%) or a mortgage (23%) with 37% of the proceeds being used for this purpose. This is far higher than the amount spent on holidays (8%), gifting (21%) and home or garden improvements (17%). Of those who repay borrowing, the most common use is mortgage (65%) followed by credit card debts (16%) and personal loans (11%).

While the average amount of debt repaid depends on the type of debt – with mortgage debt being the most substantial (£51,409) and overdrafts (£5,134) the least – younger age groups typically have more debt to repay. Indeed, the average amount of debt repaid by 55-64s (£14,310) is more than triple the amount repaid by over-75s (£4,536) as people work to ready their finances for eventual retirement.

A quarter (25%) of people use equity release to repay debt and with the average customer releasing in the region of £67,700, those who make this choice commit 76% of the proceeds to clearing this borrowing. ▶

## Average debt amount based on age

£55,933 is the average mortgage debt for over 65s, which is greater than people aged 55 to 64 and 75+

| | Age range | | |
|---|---|---|---|
| **Debts** | **55–64** | **65–74** | **75+** |
| Loans | £11,210 | £12,773 | £10,549 |
| Car finance | £8,206 | £9,111 | £15,757 |
| **Mortgage** | **£43,883** | **£55,933** | **£47,032** |
| Overdraft | £5,550 | £4,432 | £5,400 |
| Credit cards | £11,566 | £13,087 | £10,439 |

Of those who used equity release to manage their debts, it is interesting to note that the 'mix' of borrowing by age reflects availability of credit. So, for example, older age groups (over-75's – £10,439) are less likely to have credit card debt than those who have just finished work (65 to 75 – £13,087) or still working (55 to 64 – £11,566). With 5.3 million over-70s with full driving licences in Britain, according to the Driving and Vehicle Licensing Agency, the fact that equity release is used to repay car finance makes sense. Indeed, for those who live outside major cities, maintaining their independence and remaining part of the community can depend on them having reliable transport.

## Average debt amount based on status

£54,844 is the average mortgage debt for couples, which is greater than people who are single

| | Status | | |
|---|---|---|---|
| **Debts** | **Couple** | **Single female** | **Single male** |
| Loans | £12,624 | £10,164 | £10,331 |
| Car finance | £10,847 | £6,733 | £10,623 |
| **Mortgage** | **£54,844** | **£39,520** | **£49,031** |
| Overdraft | £5,826 | £2,236 | £6,625 |
| Credit cards | £14,201 | £8,280 | £10,015 |

Married couples who use equity release typically have more debt than single men or women. While some of this may be attributed to simply the increased spending requirements of two people, they are also likely to have access to two incomes so it is interesting to consider whether they feel more comfortable with debt than single people or are more prone to building it up.

Of those using equity release to pay off mortgages, single men and single females are carrying circa £50,000 and £40,000 of mortgage debt into later life. While it is entirely possible deliberate decisions and financial planning choices led them to this situation, it is also likely that finding themselves divorced, separated or widowed may explain some of this debt.

# Demographic analysis

With a significant proportion of over-55s married or in long-term relationships, 61% of plans are taken out by this demographic. Interesting, almost twice as many single women (26%) take out equity release compared to single men (13%). This is likely to be due to a combination of factors including less generous pension pots and at the older ages, the death of a spouse with the resulting impact on household income.

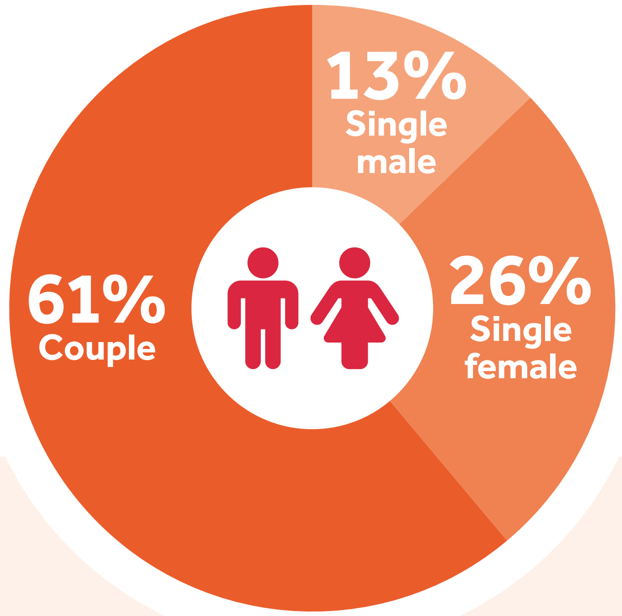
The average age of an equity release customer has remained the same year on year at 71. Almost half of those who have released equity in Q1 2020 have been aged between 65–75 (48%) – a trend we have seen for a few years. By comparison those in the younger demographic 55–64 (25%) may still be working and therefore may be able to access savings and possibly the traditional mortgage market before looking into their property wealth. The older age group (75 plus) accounts for 27% of all plans taken out but this is likely to grow as more people look to their home to pay for care.

Drawdown products continue to be the most common product taken out by customers with 72% of plans having a drawdown feature (simple drawdown – 52% + enhanced drawdown – 20%) this is a 4% increase YOY.

While taking out an enhanced product continues to be a good option for those with medical conditions, we have seen 5% increase in standard drawdown products and a -1% decrease in enhanced drawdown. The total number of enhanced plans has also seen a 3% reduction from 32% to 29% – inclusive of enhanced drawdown and enhanced lump sum – as with current low rates, fewer people are choosing this option.

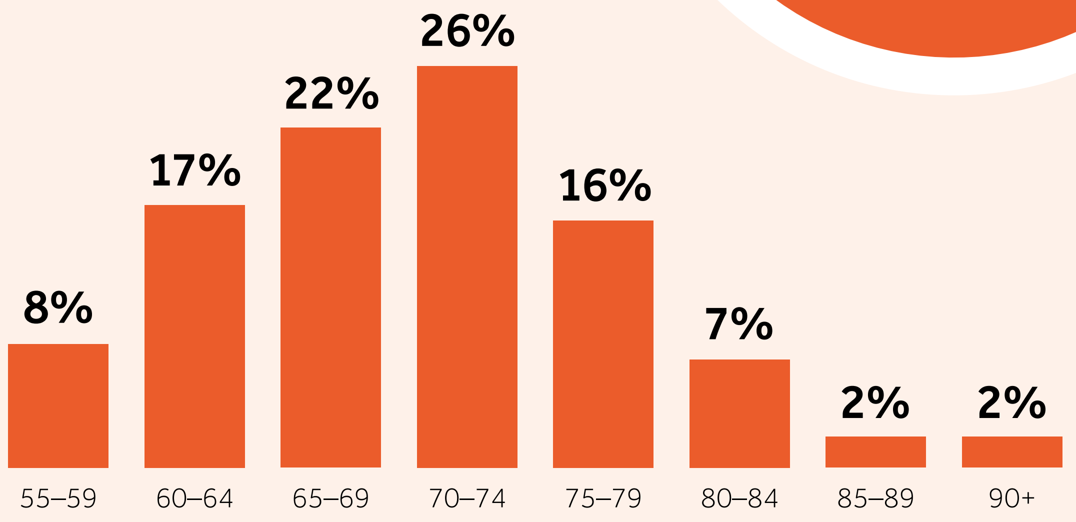
## Customers by status

61% of those releasing equity are couples, up 1% compared to Q1 2019



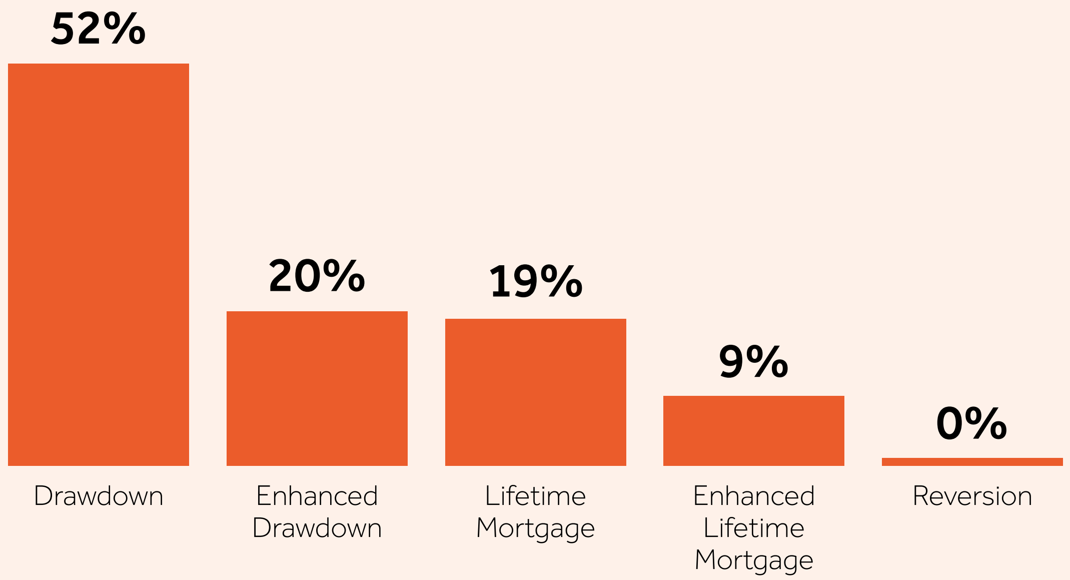

## Customers by age

The average age has remained the same compared to Q1 2019 at 71




## Product mix

Drawdown, increased by 5% compared to Q1 2019



# Across the UK

More than half (7) of the 12 locations across the UK experienced an increase in the number of new plans taken out in Q1 2020 – with Northern Ireland (48%), the North West (31%) and the North East (28%) experiencing the largest increases. However, only three areas saw an increase in value – Northern Ireland (68%), London (3%) and Scotland (2%).

The South East and London continue to lead the way in terms of valued released with £145 million in London (3% YOY) and £239 million in the South East (-2% YOY). Interestingly the South East continues to lead the pack by the number of plans taken out with 2,964 plans taken out in Q1 2020 – 8.1% increase YOY.

London for the first time in three years has been surpassed by not just one region but two regions in terms of number of plans taken out. In London 1,071 plans were released in Q1 2020 a -7.9% reduction. However the North West saw a 31% growth in number of plans taken out YOY with 1,245 plans and the South West saw a 15% growth with 1,320 plans taken out. This could be due to the perception that the property market in the capital is less buoyant and therefore people are being increasingly cautious.

Although Northern Ireland has high percentage increases in both value and number of plans in real numbers this equates to just an increase of 37 plans as the market is relatively small in this part of the UK. Indeed, one of the challenges they face is the more modest number of products available in Northern Ireland when compared to the rest of the UK.

**£67,770**
**Average release amount for the UK**
▼ Down 9.7% on Q1, 2019

## Quarter 1 results

| | Plans | | | | Value released | | Property value | | Age |
|---|---|---|---|---|---|---|---|---|---|
| **Location** | **Value** | **% change on Q1, 2019** | **Number** | **% change on Q1, 2019** | **Average amount** | **Average LTV %** | **Average value** | **% change on Q1, 2019** | **Average customer age** |
| East Anglia | £55,136,909 | -6% | 860 | 1% | £64,131 | 22% | £287,067 | -2% | 69 |
| East Midlands | £47,294,539 | -20% | 888 | -7% | £53,263 | 21% | £254,577 | 1% | 71 |
| London | £145,495,647 | 3% | 1,071 | -8% | £135,830 | 20% | £664,770 | 17% | 72 |
| North East | £15,370,712 | -5% | 395 | 28% | £38,949 | 22% | £178,934 | -10% | 70 |
| North West | £54,796,961 | -2% | 1,245 | 31% | £44,014 | 19% | £227,996 | 3% | 70 |
| Northern Ireland | £5,848,645 | 68% | 117 | 48% | £49,796 | 25% | £195,600 | 20% | 66 |
| **Scotland** | **£34,813,836** | **2%** | **686** | **12%** | **£50,755** | **23%** | **£218,080** | **15%** | **69** |
| South East | £239,366,237 | -2% | 2,964 | 8% | £80,745 | 20% | £404,143 | 5% | 71 |
| South West | £87,573,566 | -2% | 1,320 | 15% | £66,336 | 20% | £331,676 | -2% | 71 |
| Wales | £22,581,556 | -24% | 489 | -9% | £46,217 | 22% | £213,573 | 6% | 70 |
| West Midlands | £61,055,012 | -1% | 1,066 | 8% | £57,250 | 23% | £243,818 | 1% | 71 |
| Yorkshire & Humberside | £35,866,167 | -23% | 780 | -7% | £45,989 | 21% | £213,942 | -7% | 71 |
| **Total** | **£805,199,788** | **-4%** | **11,881** | **6%** | **£67,770** | **21%** | **£326,486** | **3%** | **71** |

# Focus location: Scotland

The average value released in Scotland is £50,755 which is relatively modest by comparison to some other areas in the UK and more than £17,000 below the UK average. Also the average age for those releasing equity is 69, two years younger than the Q1 national average of 71.

The average property value for those who release equity in Scotland is £218,080, more than £100,000 lower than the UK average of £326,486 which is likely to be the reason that Scots release more modest amounts. However, the region's appetite for equity release has grown year on year with a 12% increase in the number plans and a 2% increase in the value of the lending.

Over the past five years plan numbers and lending has been fairly stable with increases in both number of plans and value of lending each year. 2018 was a strong year for Scotland in terms of equity release plans with an 18% increase in the number of plans and a 46% increase in value – potentially due to the slight downturn in the property market in 2015 and the resulting knock on effects being felt of the three following years. Q1 2020 has been a good start to the year for Scotland with a 12% in the number of plans YOY and a 2% increase in the amount of lending which has been taken out.

| | Plans | | Lending | |
|---|---|---|---|---|
| Period | Number | Change Y/Y | Amount | Change Y/Y |
| Q1 2016 | 365 | 3% | £21,298,844 | 20% |
| Q1 2017 | 510 | 40% | £21,598,786 | 1% |
| Q1 2018 | 599 | 18% | £31,558,197 | 46% |
| Q1 2019 | 615 | 3% | £34,123,606 | 18% |
| **Q1 2020** | **686** | **12%** | **£34,813,836** | **2%** |

*A view of Edinburgh from the Dugald Stewart monument*

**686** new plans
▲ Up 12% on Q1, 2019

**£34.8m** released in equity
▲ Up 2% on Q1, 2019

**£50,755** average release
▼ Down 9% on Q1, 2019

**£218,080** average property value
▲ Up 15% on Q1, 2019

keyadvice.co.uk/about/market-monitor