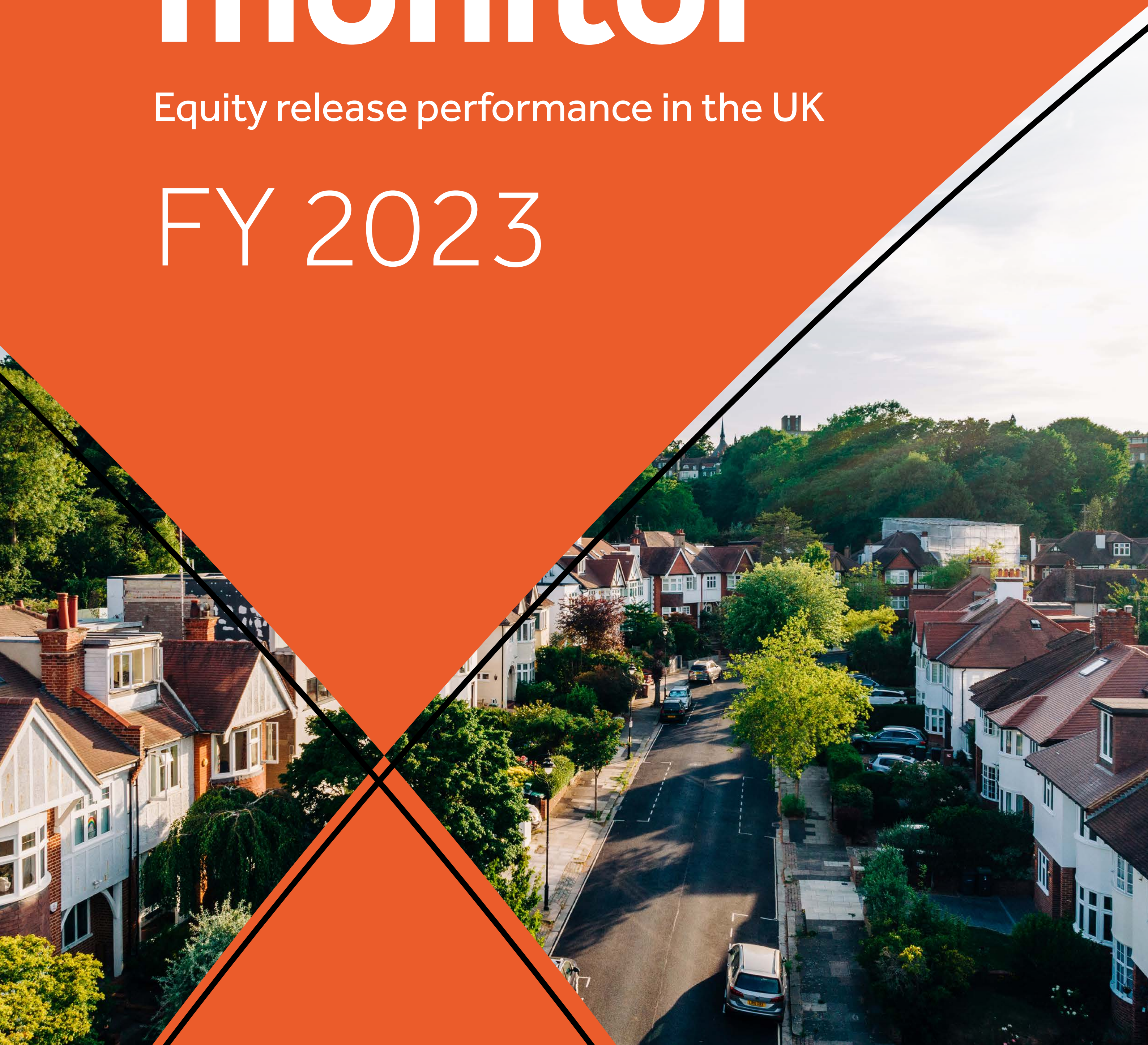
Market monitor

Equity release performance in the UK

FY 2023



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Methodology

Key is the UK's number one Later Life lending adviser for the over 55s. It is compromised of Key Later Life Finance and The Equity Release Experts

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> We have already seen a good boost in consumer demand as the new year gets into full swing.

Will Hale, Chief Executive

Chief Executive's statement

At the beginning of 2022, we were celebrating a record- breaking year for the equity release market. 2023 however has been a turbulent time for the industry. With the now infamous 'mini-budget' and subsequent base rate changes to combat inflation, it changed the tide of success into rough waters for many to navigate. Albeit with the industry moving towards a slightly more optimistic outlook by year end.

With higher average rates, lower available LTVs and over-55s taking a cautious approach to major financial decisions, the market has fallen year on year in terms of the number of plans by -45% and in value terms for both FA and drawdown plans by -57%.

The insight we can gain from the more granular nature of Key's figures helps us to better understand the trends behind these movements. There is no doubt the older generation has felt the sharp end of the cost-of-living crisis this year which has led many to take a more careful approach to financial management.

Across 2022 to 2023 the average LTV has fallen from 28% to 25% - whilst on the surface that doesn't look like a large drop, it is important to note that earlier in the year this would have been felt far more steeply, with average LTVs in Q1 2023 dropping to 22%. Naturally, this has affected the average release amount across the year, dropping by 30% from £106k in 2022 to £74k in 2023.

This change has directly translated into customers recognising how vital prioritisation has become and they've shown it in their actions – across the year the proportion of people who are using equity release to pay off unsecured debts has risen to 38%, accounting for well over a third of where released equity is being spent. When combined with mortgage repayments at 34% and remortgaging existing equity release plans at 12%, shows that clearing existing structural debt represents where the vast majority of equity released is being spent.

While debt relief is a primary driving factor, it's important to consider where the personal interests of customers are changing in terms of the money left over once immediate problems are solved.

In particular, we've seen interests shift towards a more "at-home" mentality with (44%) of customers using some of the money released to make home improvements, whether that be in refurbishing, making quality of life additions to the home or even ensuring more pleasant surroundings with garden improvements. This is followed by a need to help others with gifting to family or friends sitting at 20% of people - the same as in 2022. Finally 18% of people used the money for holidaying - a slight increase of 4% from 2022.

This points directly at customers looking to take care of their immediate financial situations and personal quality of life first, before spending on others or indeed seeking time away in the sun. However, while this may seem dour, the stability of securing the finances for later life and readying the home for later life living have been sensible choices for customers in 2023.

As the door closes on 2023, with many involved in the industry breathing a large sigh of relief, the later life lending sector does have some real reasons to be cheerful in 2024. We have already seen a good boost in consumer demand as the new year gets into full swing.

Any downturn in market fortunes is often a catalyst for change and innovation, and the later life sector is no different. We have seen the first shoots of some interesting product innovations that can provide a real boost for market growth, whilst meeting unmet customer needs. The advent of payment-term lifetime mortgages for access to larger sums to combat lower LTVs, coupled with increasing numbers of interest-payment lifetime mortgages to help reduce overall cost of borrowing, is very encouraging.

The implementation of Consumer Duty and the challenges put by the regulator to the sector is forcing firms to change their advice approach and consider more options for customers to ensure they are receiving the best possible outcome. Innovation towards products that are offering mandatory monthly repayments, optional scheduled repayments and/or ad hoc repayments is particularly important given the percentage of customers that are using lifetime mortgages to repay existing debt. Helping to mitigate the impact of compound interest and greatly reduce overall cost of borrowing, will be essential in bolstering market sentiment and opening new avenues of opportunity for lenders and customers alike.

In addition, towards the end of 2023 we saw GILT rates drop to below 4%, and as base rates drop in 2024, I am confident this will breathe new life into the core equity release market. Coupled with the new opportunities for customers identified earlier we should feel confident the later life lending market is set for a return to growth in 2024.

Gilt rates –
https://www.sharingpensions.co.uk/gilt-yields-chart-latest.htm

Equity release highlights

Customer demographic

Total lending in FY 2023 was...

£2.1bn
New lending
(£5.6bn – FY 2022)

£411m
Drawdown
(£513m – FY 2022)

£162m
Further advance
(£203m – FY 2022)

New plans
28,752
(52,295 – FY 2022)

Average age
72
(71 – FY 2022)

Avg. amount released
£74,148
(£106,806 – FY 2022)

Product demographic

Product features

74% have downsizing protection

86% have fixed early repayment charges

35% have inheritance protection

Product plans

48% Lump sum

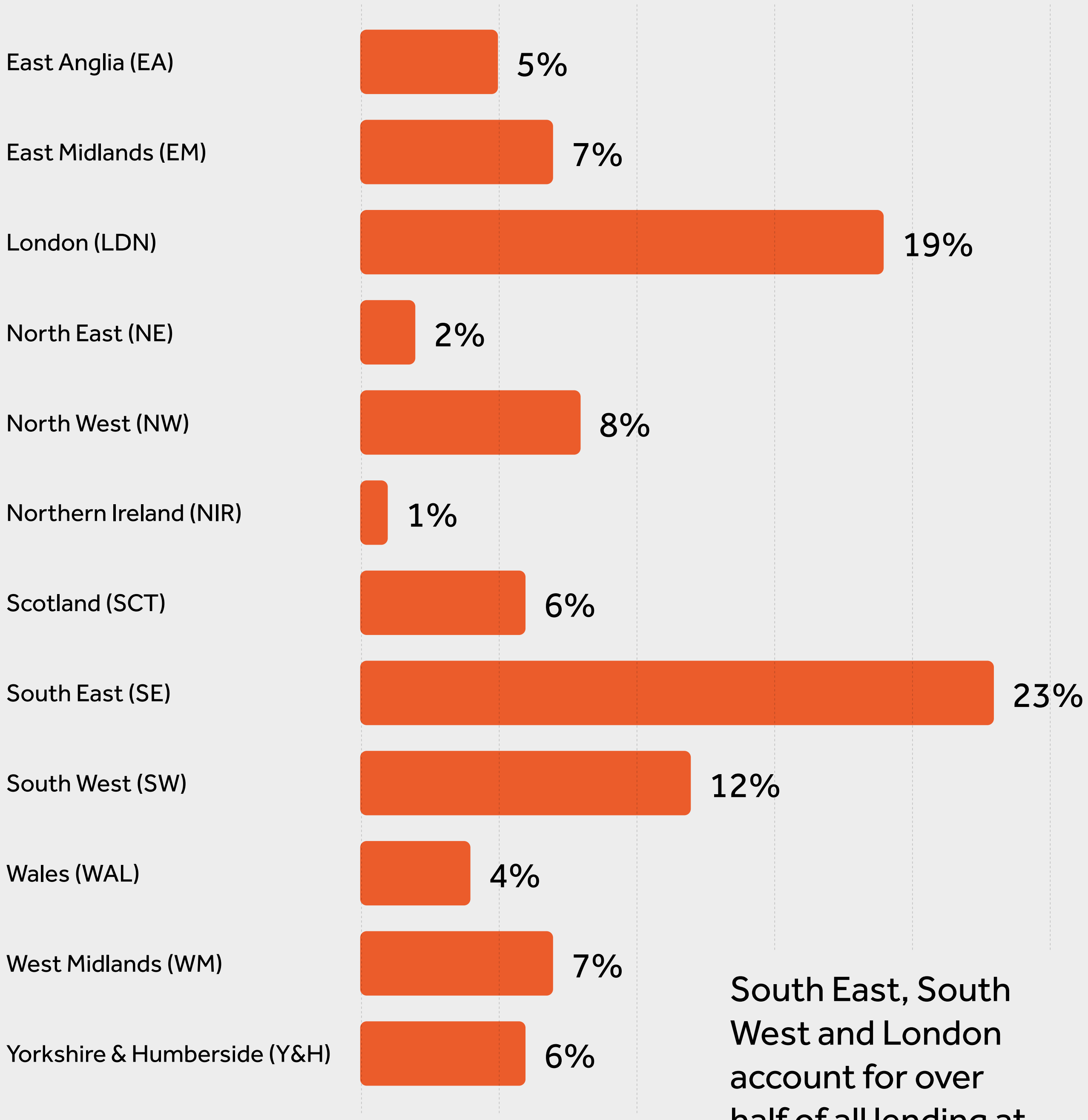
51% Drawdown

Avg. interest rate
6.63%
(5.7% – FY 2022)

Average LTV
25%
(28% – FY 2022)

Regional highlights

Lending mix



South East, South West and London account for over half of all lending at

54%

Highest and lowest performing regions

Value of plans

£500m

South East (highest)

£15m

Northern Ireland (lowest)

Number of plans

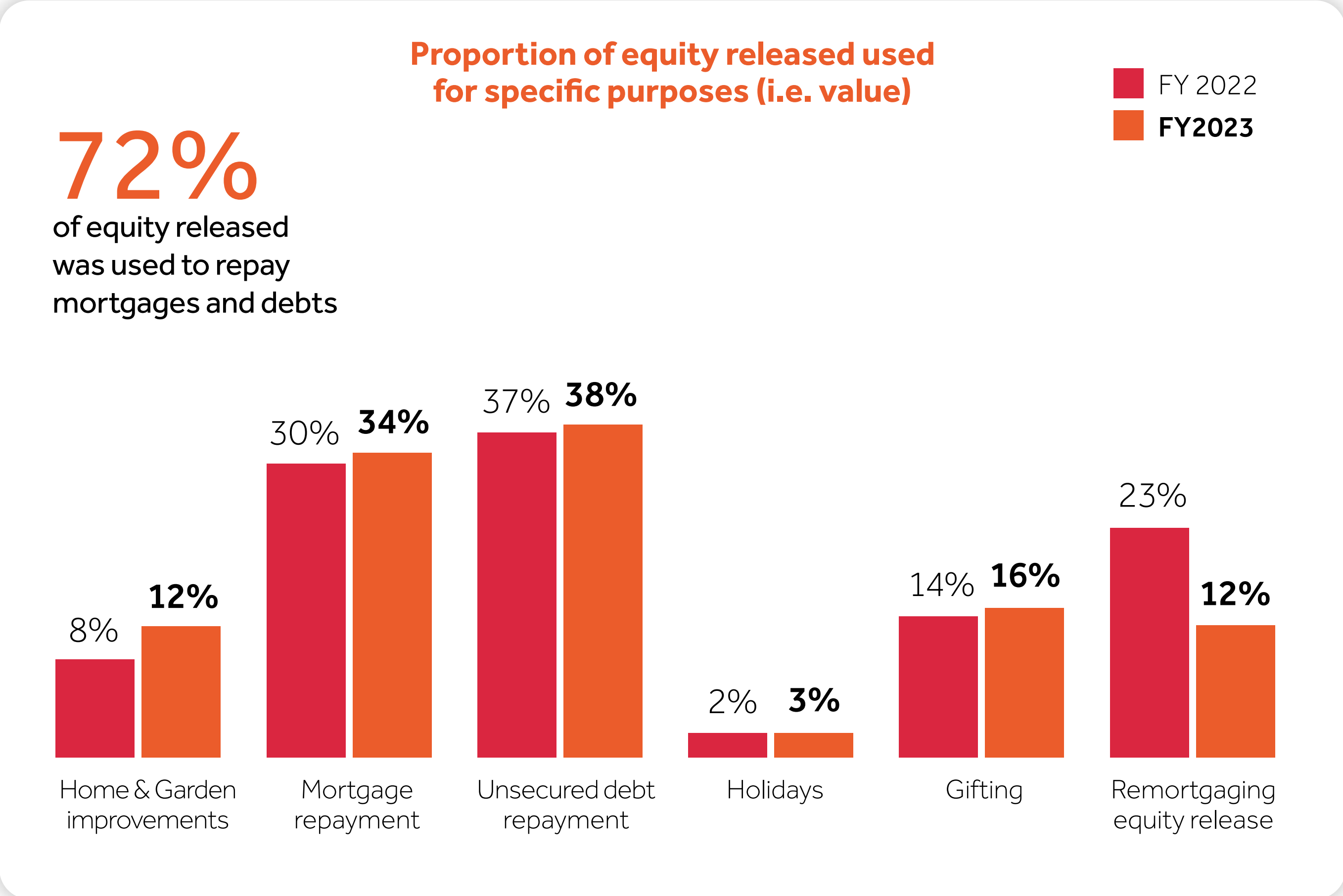
6,103

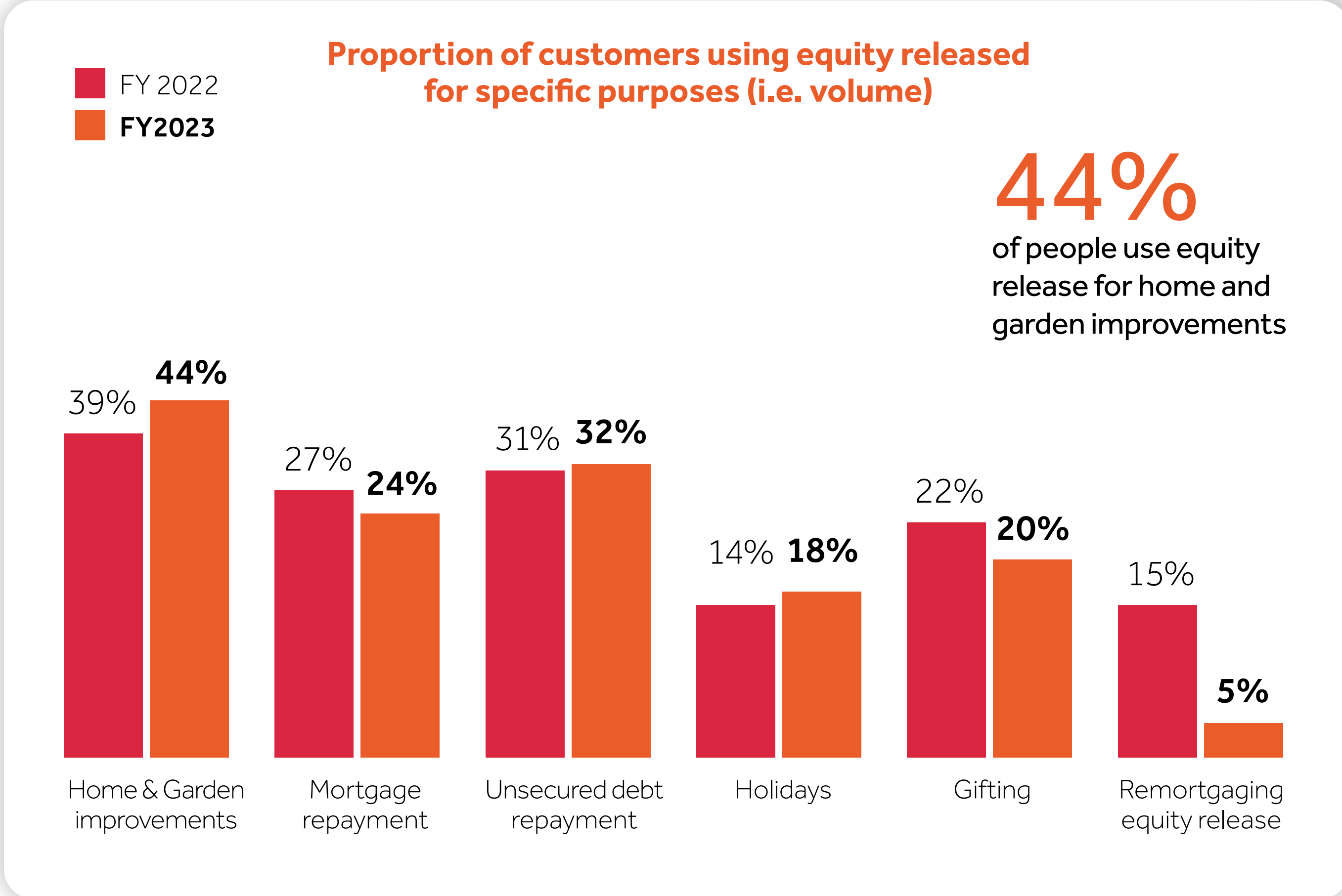
South East (highest)

310

Northern Ireland (lowest)

Equity release uses





Having produced the market monitor since 2006, Key has the largest data set within the later life lending market on how the proceeds of equity release are actually used. Typically, customers choose to take out equity release for a specific need and then may use remaining funds to cover something more discretionary like home improvements or travel.

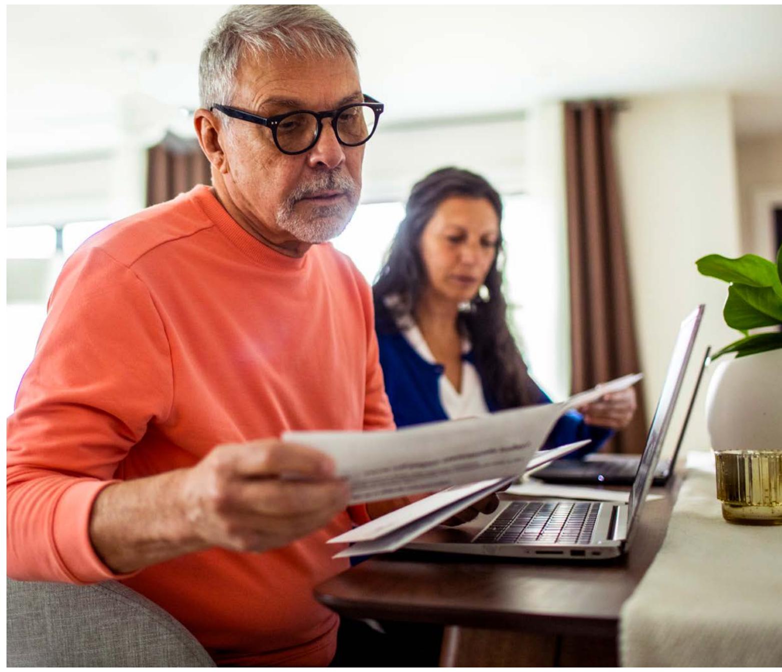
Paying off an existing mortgage or other unsecured debts was by far the biggest need driver of customers taking out equity release, with over 72% of funds being used for this. This rises to 84% when you also include remortgaging an existing equity release plan. Repaying an existing mortgage rose from 30% of funds released in 2022 to 34% in 2023, likely driven by the significant increase in monthly mortgage repayment costs for many older borrowers. Equity release, with the ability to move to optional or indeed no monthly payments, represents a lifeline for many homeowners who would not be able to afford to remain in their home otherwise.

However, with aftershocks still being felt from 2022's September mini-budget, we've seen customers take a more cautious approach to how they're making use of equity release.

In particular, 44% of people are committing funds towards home or garden improvements, which accounts for 12% of the money released. When interrogating this data further it is revealed that the majority are focusing on essential areas such as overall redecorations (11%), bathrooms (15%), and kitchens (19%) – looking to secure a better quality of home life in their later ages.

Whilst paying off debts has become the core focus, money spent on gifting to relatives has also increased by 2% from 2022, up to 16% this year, as parents and grandparents may be asked to help out family members who themselves may be struggling with the cost of living.

Interestingly, an area that has barely shifted across 2022 to 2023 has been the value allocated for holidays up from 2% in 2022 to 3% in 2023 – suggesting that the core focus across the board for many customers is securing the essentials rather than engaging in more ambitious retirement goals.

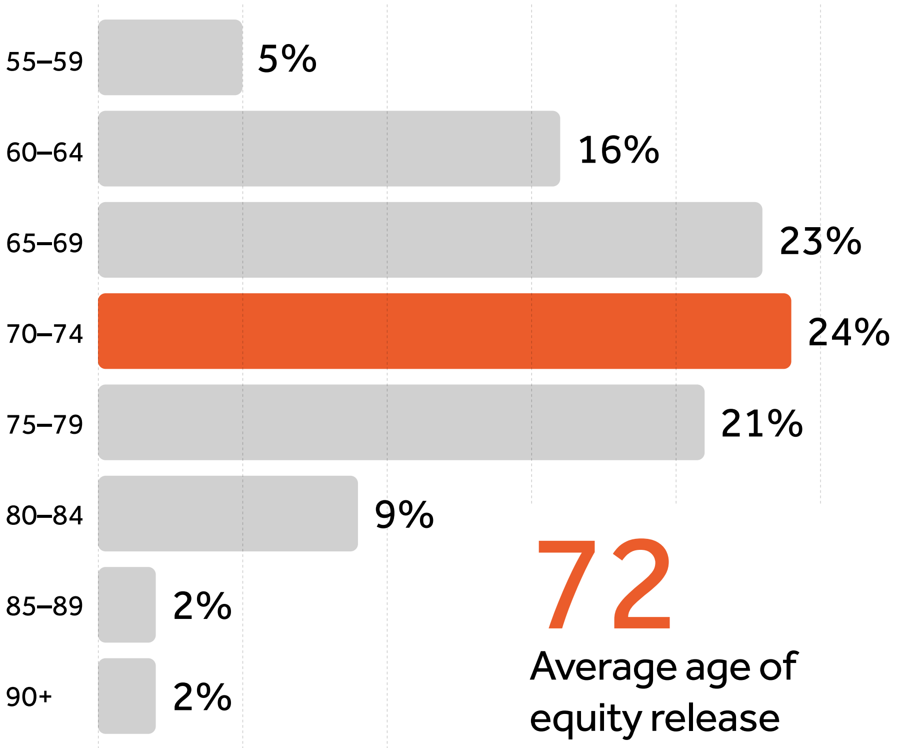


Demographic analysis

Average age has increased by one year from 71 in 2022 to 72 in 2023. Younger customers may have been disappointed with the available LTVs in 2023 which may not have not been sufficient to meet their needs. Some may have pursued other financial strategies whilst others may be playing a waiting game for rates and LTVs to improve. This behaviour trend has driven the slight increase in average age.

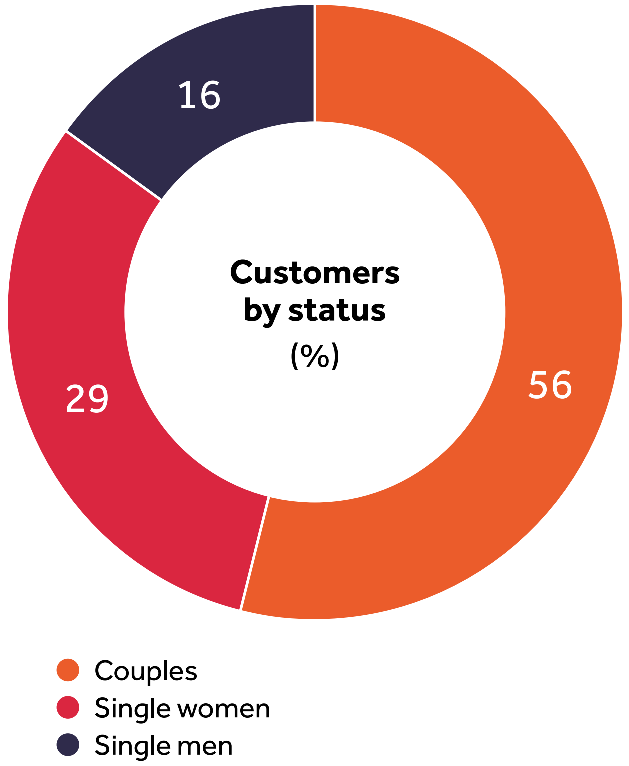
Across 2023 we have seen increases to the number of single men (13% FY 2022 to 16% FY 2023) and single women (26% FY 2022 to 29% FY 2023). Single, in this context includes those who are divorced or who's partner has passed away. Couples taking out equity release has decreased from 60% (FY 2022) to 56%. These figures could highlight that market changes have provoked more motivation for single individuals looking to make their financial position more secure through equity release.

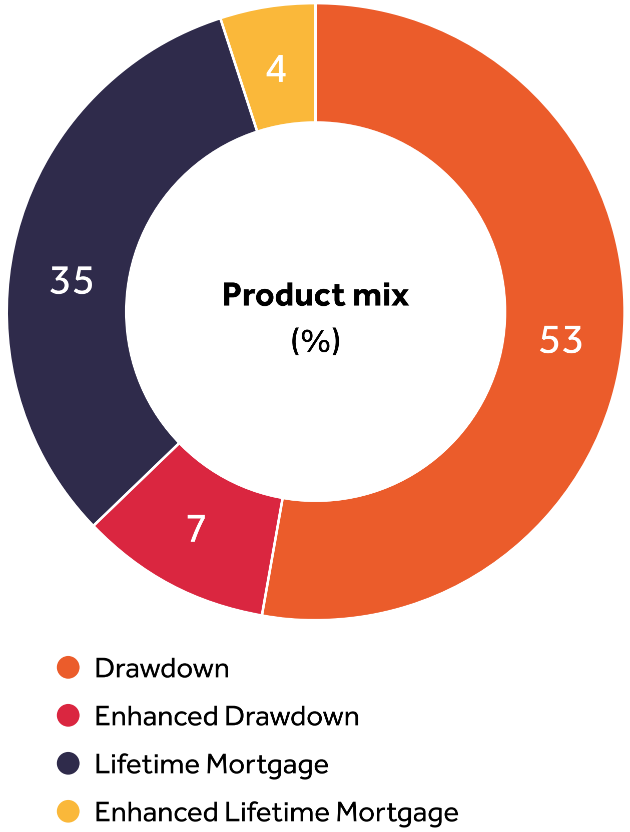
Customers by age (%)



72

Average age of equity release customer





Regional analysis

While the overall property market across the UK was down year on year as successive base rate increases were causing challenges, not all regions were equal.

Where many have seen a reduction in the value of their homes, for some regions the outlook has remained more positive. The East Midlands has stood above others, seeing an average equity release value increase by 5% across the year. Elsewhere across the UK however, things have been less than positive.

The average amount released fell from £106,816 (FY 2022) to £78,865 as borrowers were more conservative about their needs due to the LTVs available and the advice provided by their advisers. Over this period, average LTV fell from 28% (FY 2022) to 25%.

3%
decrease in the average UK property value

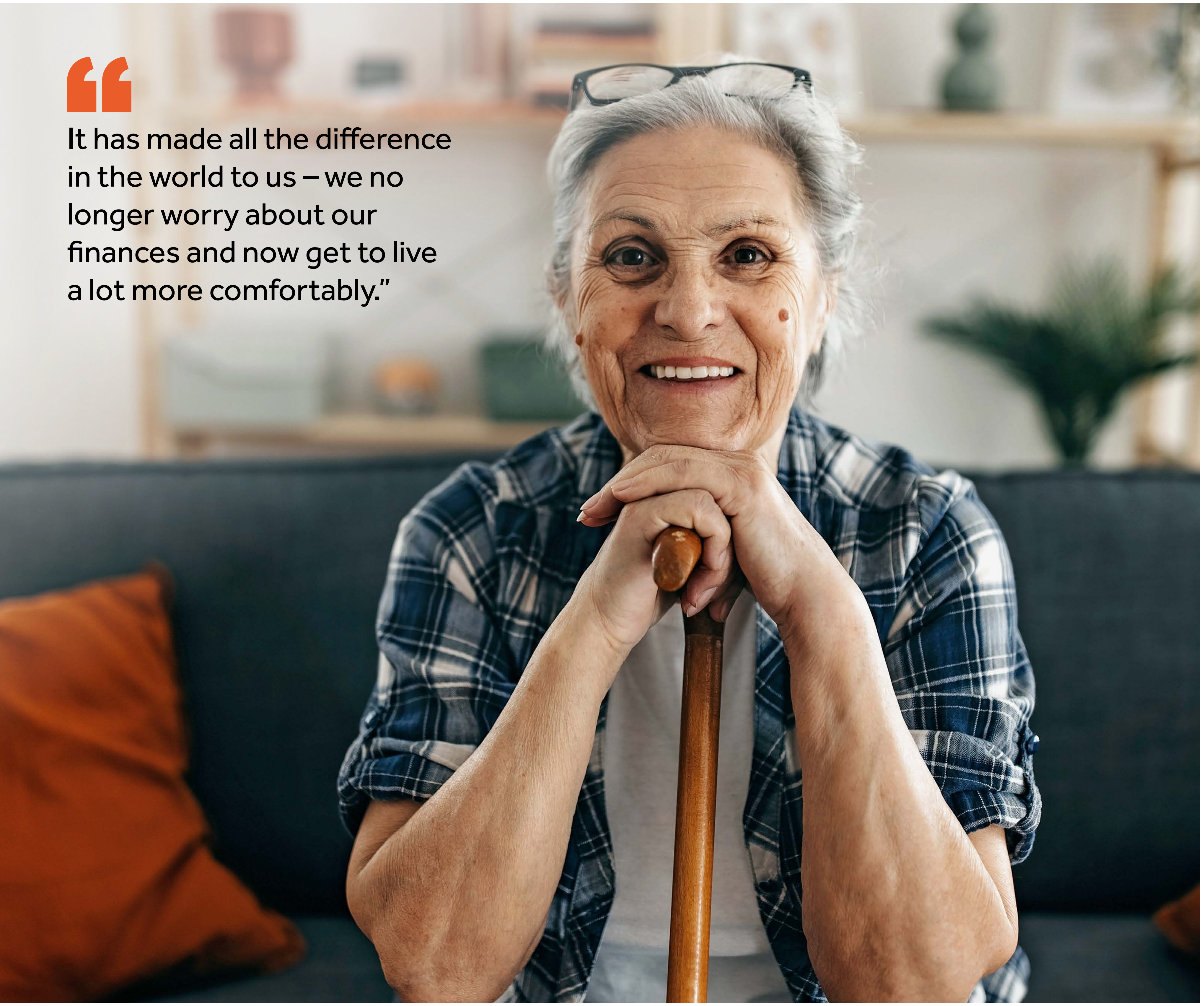
5%
increase in the average property value for East Midlands

Stratford-Upon-Avon, Warwickhire

Region	Value of plans (% change on new lending FY, 2022)		Number of plans (% change on FY, 2022)	
East Anglia (EA)	£99,183,604	(-65%)	1,705	(-45%)
East Midlands (EM)	£148,561,833	(-57%)	2,462	(-44%)
London (LDN)	£404,614,631	(-60%)	2,652	(-39%)
North East (NE)	£44,811,745	(-66%)	918	(-52%)
North West (NW)	£175,098,632	(-58%)	3,099	(-46%)
Northern Ireland (NIR)	£15,223,045	(-56%)	310	(-46%)
Scotland (SCT)	£122,357,602	(-43%)	2,074	(-29%)
South East (SE)	£500,661,570	(-68%)	6,103	(-49%)
South West (SW)	£249,968,732	(-64%)	3,213	(-48%)
Wales (WAL)	£89,639,703	(-59%)	1,579	(-43%)
West Midlands (WM)	£155,366,575	(-61%)	2,426	(-46%)
Yorkshire & Humberside (Y&H)	£126,422,372	(-54%)	2,211	(-43%)
Total	**£2,131,910,045**	**(-62%)**	**28,752**	**(-45%)**

Region	Average release amount	Average loan-to-value	Average property value (% change on FY, 2022)		Average customer age
EA	£58,185	19%	£309,491	(-8%)	72
EM	£60,352	20%	£297,014	(+5%)	72
LDN	£152,552	21%	£716,799	(-10%)	73
NE	£48,821	22%	£219,081	(+1%)	71
NW	£56,496	22%	£262,559	(0%)	72
NIR	£49,117	23%	£216,201	(-2%)	67
SCT	£58,991	24%	£243,988	(+3%)	71
SE	£82,031	18%	£450,706	(-4%)	72
SW	£77,809	19%	£403,576	(-1%)	73
WAL	£56,753	21%	£271,381	(-1%)	71
WM	£64,047	22%	£291,364	(-2%)	71
Y&H	£57,172	23%	£249,687	(+1%)	72
UK average	**£74,148**	**20%**	**£364,586**	**(-3%)**	**72**

Case study



> It has made all the difference in the world to us – we no longer worry about our finances and now get to live a lot more comfortably."

Alice

Alice is a retired Personal Assistant, after years of working to keep others schedules in check, she and her partner were looking to spend more quality time at home and were looking for ways to boost their finances and start living more comfortably.

Alice struggles with her mobility and wanted to make a few improvements around the house to make life easier but did not have the money to carry them out.

She explains: "It had begun to feel like a fact of life, we had retired and were looking forward to spending more of our retirement together, but our pension just wasn't enough to cover our day-to-day, so we had begun dipping into our savings, slowly watching our hard work chip away, bit by bit.

"Talking with some of our friends, we were hearing more and more about equity release and how it could help people to live more comfortably. So, we decided to speak with one of Key's advisers about our options.

"From there, things couldn't have felt simpler. At first the number of options felt a little daunting, but our adviser visited us in our home and talked us through our options, suggesting which could bring us the most benefit to us given our circumstances.

"Since we released the cash, things have gotten so much better for us, we've been able to pay off existing debts, like some credit card bills that were always in the backs of our minds and make some major home improvements that have made all the difference to our quality of life.

"We've had a stair lift installed, which helps me immensely, bought ourselves a far more reliable car, paid for the conversion of our bathroom into a wet-room and even managed to get ourselves two rising chairs to help with our mobility issues, things feel so much brighter now.

"I really can't believe how easy and straightforward the process was, our adviser kept everything as simple as possible and when we did have questions, took the time to clarify any outstanding concerns – the best part is we know we still have some equity in our home.

"It has made all the difference in the world to us – we no longer worry about our finances and now get to live a lot more comfortably.

"Next on the list for us, is going on the holiday of a lifetime next year, visiting family in Cyprus, before shipping off on a cruise around the Mediterranean and Greek islands – we're very excited!

This case study is fictional and while based on issues faced by people every day, bears no resemblance to a specific person or set of personal circumstances.

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