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2020

Market monitor

Equity release performance in the UK

Quarter 3 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.

I think we are all in a position to admit this year has been extraordinary in many different ways with the personal and business challenges far beyond what most of us could have imagined. That said, some good may come out of this as we've seen many businesses reinvent their models to be more efficient while safeguarding customers and colleagues livelihoods.

In Q3 2020, we saw 10,671 equity release plans taken out – releasing £884 million worth of new borrowing. This is 9% fewer plans taken out than in Q3 2019 (11,772) with a marginal decrease in value of -0.3%. Given the challenges of 2020, this highlights the strength of the market.

As the market changed, so did the habits of those it serves – potentially driven by the choices that some advisers such as Key made around focusing their support on clients who had pressing needs rather than unfulfilled aspirations. Indeed, fewer people used equity release to pay for holidays (-16% YOY to 18% in Q3 2020) while more people sought to clear their mortgages (+8% YOY to 27% in Q3 2020).

While it is hard to predict what the market might look like at the end of 2020, what we can say is that demand remains strong and now more than ever there is a focus on providing the right type of advice for customers. Far from shoehorning people into unsuitable products, less than 15% of those who enquire about equity release end up taking a plan. Instead, they move house, find support from family or decide that this is an option that isn't right for them at the moment but might be something to discuss in future.

It is easy to focus on the negatives but the pandemic has forced us to revaluation our approach and embrace technology. Video conferencing, digital signatures and faster processing will all benefit our current and future customers.

Although I believe there will continue to be tough times ahead the market remains strong and has the potential to become stronger than ever.

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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 the East Midlands and gifting respectively.

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Q3 2020 Overview

So far 2020 has certainly been a year no one could predict with the impact of Covid-19 being felt across all markets including the later life lending sector. That said, the equity release market has been relatively robust and only recorded a -4.6% year on year fall in the total market size including available drawdown between Q3 2019 (£1.26 billion) and Q3 2020 (£1.20 billion).

This was driven by a 9% YOY decrease in the number of plans taken out from 11,772 (Q3 2019) to 10,671 (Q3 2020) and a 0.3% fall in the value of new plans from £887 million (Q3 2019) to £884 million (Q3 2020). The amount of reserved drawdown also fell from £370 million (Q3 2019) to £313 million in Q3 2020.

Given the unprecedented circumstances the UK and world finds itself in the equity release market has been remarkably resilient – especially following on from the political and economic uncertainty we saw in 2019. Far from being a market driven by discretionary spending, the continued success of the sector has been focused on helping people to meet real needs in and at retirement.

While customers are being cautious with the amount they wish to release, there was a 10% increase in the average loan amount from

£75,313 (Q3 2019) to £82,827 (Q3 2020) – potentially driven by an increase in customers using equity release to clear their mortgage. The average property values of those who have taken out equity release have also seen an increase by 5.2% YOY from £312,192 to £328,490.

With rates remaining relatively low but many older customers being cautious about engaging at this uncertain time, we saw a 1% decrease YOY in the number of customers choosing to rebroke to either manage or increase their borrowing.

Gifts (25%) and debt repayment (47%) accounted for almost three quarters of the value of equity released in Q3 2020 followed by home improvements (11%). When you look at the volume (i.e. number of people taking out plans), 62% used the proceeds of equity release to 'age proof' their homes in Q3 2020 which is slightly down from 2019 (67%). The number of people using equity release on holidays has also fallen from 34% (Q3 2019) to 18% (Q3 2020) as lockdown kept people at home during the summer.

When taking a view across the UK at the number of equity release plans taken out the South East retains its top spot with 2,538 plans ▶

taken out (-10% YOY). London – which typically sees the second highest number of equity release customers in the UK – slipped to fourth place as it experienced an 11% drop in the number of people using these products (1,078). Instead, the North West saw 1,173 new plans taken out, and

the South West saw 1,150 new plans. Despite the drop in plans, the South East (£260 million) and London (£177 million) still saw the highest value of equity release in the UK due to the high property prices in the Capital and commuter belt.

	2020 Thus Far		
	Q1 2020	Q2 2020	Q3 2020
Number of customers	11,495	8,374	10,671
Value of new plans taken out	£949 million	£521 million	£884 million
Total value of plans	£1.32 billion	£767 million	£1.2 billion

Area	Lending Mix	
	%	
East Anglia		4%
East Midlands		7%
London		20%
North East		2%
North West		7%
Northern Ireland		0%
Scotland		5%
South East		29%
South West		11%
Wales		3%
West Midlands		8%
Yorkshire & Humberside		4%
Total		100%

Overview of 2020 - the impact of Covid

Value of plans

HIGHEST

£260,5m

South East

▲ Down 5,5% on Q3, 2019

LOWEST

£2,5m

Northern Ireland

▼ Down 48.6% on Q3, 2019

Number of plans

HIGHEST

2,538

South East

▼ Down 9.9% on Q3, 2019

LOWEST

67

Northern Ireland

▼ Down 42.9% on Q3, 2019

While most of us were aware of Covid-19 at the start of the year, very few could have predicted how it has played out on both a local and international level. In Q1 2020, we saw £949 million worth of equity withdrawn via 11,495 plans which when added to drawdown and additional borrowing suggested a total market size of £1.3 billion.

With lockdown being introduced on 23 March 2020, Q2 2020 got off to an extremely challenging start. Typical equity release customers were self-isolating due to their age, lenders were working to introduce new systems and brokers such as Key were moving from face-to-face advice to telephone and video offerings.

As part of these changes, Key made the choice to focus on supporting customers who had pressing needs – such as debt repayment – rather than unmet desires for holidays.

Using its advanced advice delivery platform Key was also able to quickly imbed additional checks around vulnerability into the process and ensure that its advisers – all of whom kept working during the pandemic – focused on helping customers make choices which were sustainable both in the long and short term.

In Q2 2020, we saw £520.7 million worth of equity withdrawn via 8,374 plans which when added to drawdown and additional borrowing suggests a total in market size of £767 million. The market bounced back in Q3 2020 and we saw 10,671 plans worth £884 million taken out which suggests a market size of £1.2 billion. This compares far more favourably with Q3 2019 (11,772 plans worth £886 million for a total market size of £1.3 billion) and suggests a return to more normal trading conditions.

As with other areas of the mortgage market, the later life lending market has been hit by the impact of Covid-19. However, with increasing numbers of homeowners looking to repay debt and mortgages as well as support their wider families, we expect Q4 2020 to be more in line with Q4 2019 and market expectations.

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



Product Features

Not only are we seeing more equity release products on the market (397 products) but we are seeing more flexible lending features and options for customers to find the right product for their individual circumstances.

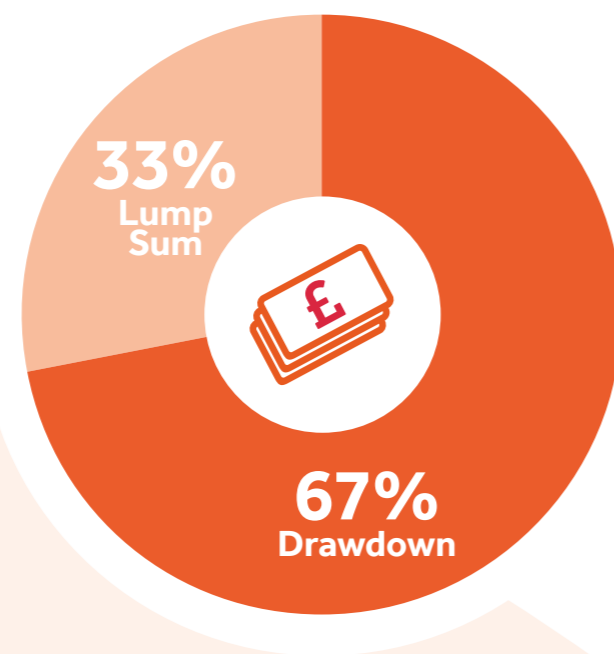
These include the ability to make monthly interest repayments, penalty free capital repayments and include downsizing or inheritance protection. In Q3 2020, 56% of all products offered downsizing protection and 25% of products offered inheritance protection.

Additionally, 43% of all products on the market had an interest payment option and 59% allowed penalty free capital repayments within certain lender agree parameters (e.g. up to 10% of the capital can be repaid per year).

Drawdown vs. Lump Sum

Across all plans taken out in Q3 2020, 67% were drawdown products and 33% were lump sum. With drawdown plans allowing a customer to reserve a set amount which they can then draw on over the life of the loan, some customers used this flexibility to help manage their borrowing. However, drawdown products can boast more competitive interest rates, and as such some chose to take out a drawdown product but take the majority of the funds released as a lump sum with a very small amount left as a drawdown to suit their individual circumstances and benefit from a better rate.

Across all plans taken out in Q3 2020, 67% were drawdown products and 33% were lump sum.



The effect of interest rates

In Q3 2020, interest rates started from 2.47% with the average customer taking out a product with a rate of 3.45%. With 26% of people gifting an average of £57,000 to loved ones as a housing deposit, it is interesting to note that the lowest equity release rate is below the average interest rate for a first time buyer mortgage is – 3.05% - 5 year fixed (Moneyfacts).

The median interest rate that an equity release customer has been failing gradually over the last year. Q3 2020 has the lowest average equity release interest rates for two years.

Average Equity Release Interest Rate						
2019				2020		
Q1	Q2	Q3	Q4	Q1	Q2	Q3
4.33%	3.92%	3.72%	3.15%	3.10%	3.19%	3.05%

The effect of LTV's

As a general rule, the older the customer the higher the LTV they can borrow. However, most customers are not looking to borrow the maximum amount. Indeed, the average LTV is 25% and we have actually seen borrowing fall between Q2 2020 and Q3 2020 as lenders tighten criteria and borrowers were more cautious. The average LTV on new plans taken out in Q3 2020 was 29%.

Age	The effect of LTV's		
	2020 Q1	2020 Q2	2020 Q3
55-59	23.87	24.21	22.96
60-64	27.5	25.93	26.59
65-69	30.54	32.17	28.49
70-74	33.82	33.25	32.05
75-79	33.98	37.41	33.32
80-84	38.29	38.77	36.09
85+	38.13	34.78	37.06



The impact of age

Analysis suggests that younger borrowers (i.e. those under 65) take out equity release to fulfil a specific pressing need – often the repayment of debts (57%) – while older borrowers look to support their families through gifting (46%). Due to the fact that younger borrowers usually release equity for a specific reasons they are also more like to take a lump sum.

Quarter of Issued Date	Product breakdown based on age		
	Age	Drawdown	Lump Sum
2020 Q2	55-59	30.43%	69.57%
2020 Q2	60-64	38.14%	61.86%
2020 Q2	65-69	41.51%	58.49%
2020 Q2	70-74	54.30%	45.70%
2020 Q2	75-79	51.22%	48.78%
2020 Q2	80-84	62.96%	37.04%
2020 Q2	85+	40.00%	60.00%
2020 Q3	55-59	24.49%	75.51%
2020 Q3	60-64	40.26%	59.74%
2020 Q3	65-69	46.82%	53.18%
2020 Q3	70-74	55.02%	44.98%
2020 Q3	75-79	67.92%	32.08%
2020 Q3	80-84	52.73%	47.27%
2020 Q3	85+	31.58%	68.42%

Equity Release Uses

At the end of 2019, Key launched its new market leading advice delivery platform which allows its advisers to capture more in-depth data on customer needs, preferences and reasons for using equity release than ever before

This is the third report launched using this data and it allows for more in-depth interrogation of the figures as we can now look at the volume (i.e. number of people) vs. the value (i.e. the amount of equity release) used for each purpose. This is extremely valuable as it highlights that these products are primarily used to meet pressing needs but there is also some discretionary spending.

For example in Q3 2020, while 62% of people do spend some of the proceeds of equity release on home renovations, this accounts for only 11% of the total released. Instead, people are using the proceeds of equity release to repay debts (17%), pay off mortgages (30%) and support their family and friends via gifting (25%).

Given the schemes in place to support mortgage borrowers during the pandemic, the fact that one in four equity release customers are using these plans to repay this borrowing may seem

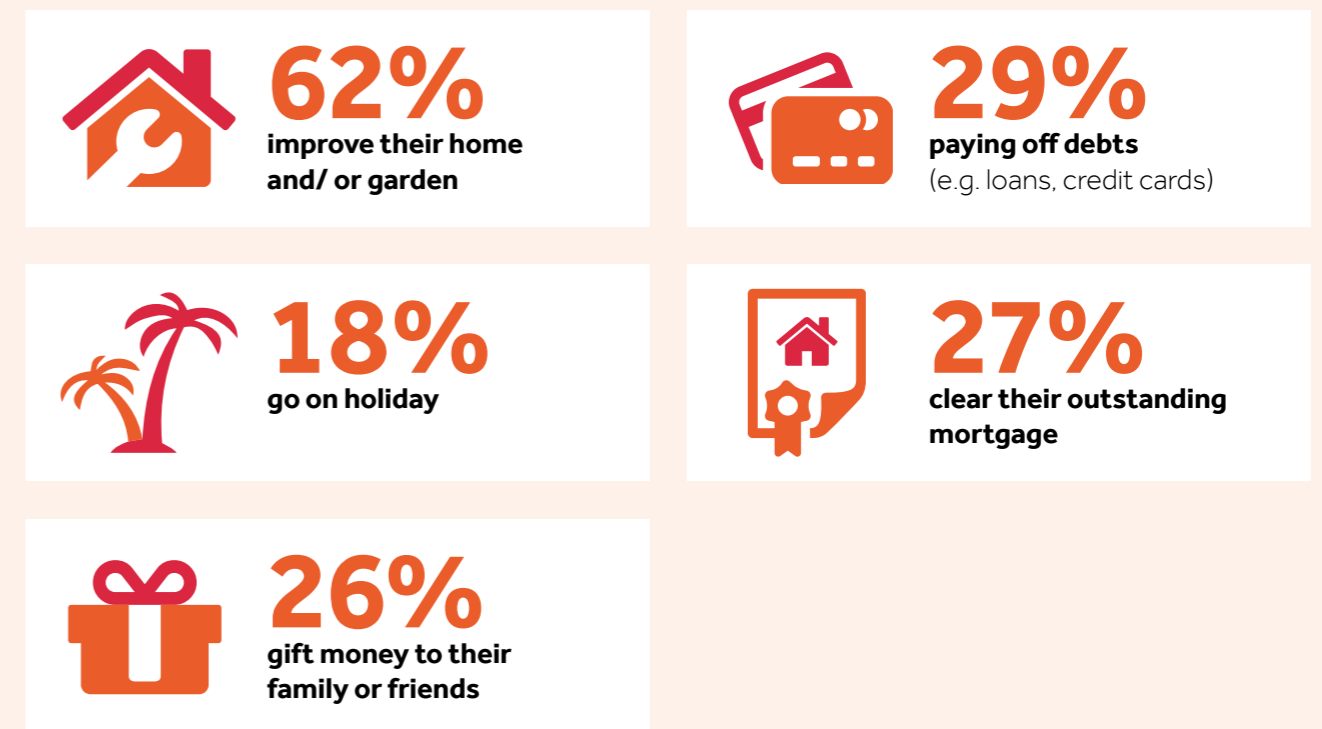
surprising. However, for those older customers facing redundancy with little prospect of a return to the work place and those struggling to meet repayments before they retire, will have made this move to make their finances more secure. A choice they can make safe in the knowledge that if they do wish to make ongoing or lump sum payments in the future, modern equity release plans will support this and average rates are currently at historic lows of 3.05%.

The fact that 25% of the equity released in Q3 – or £221 million – has been used for gifting is perhaps less surprising as the Stamp Duty Holiday is being used by many as an opportunity to climb onto the property ladder. Indeed, 45% of that £221 million has been pumped into the housing market with recipient's receiving an average of £57,549 to support their dream of owning a home.

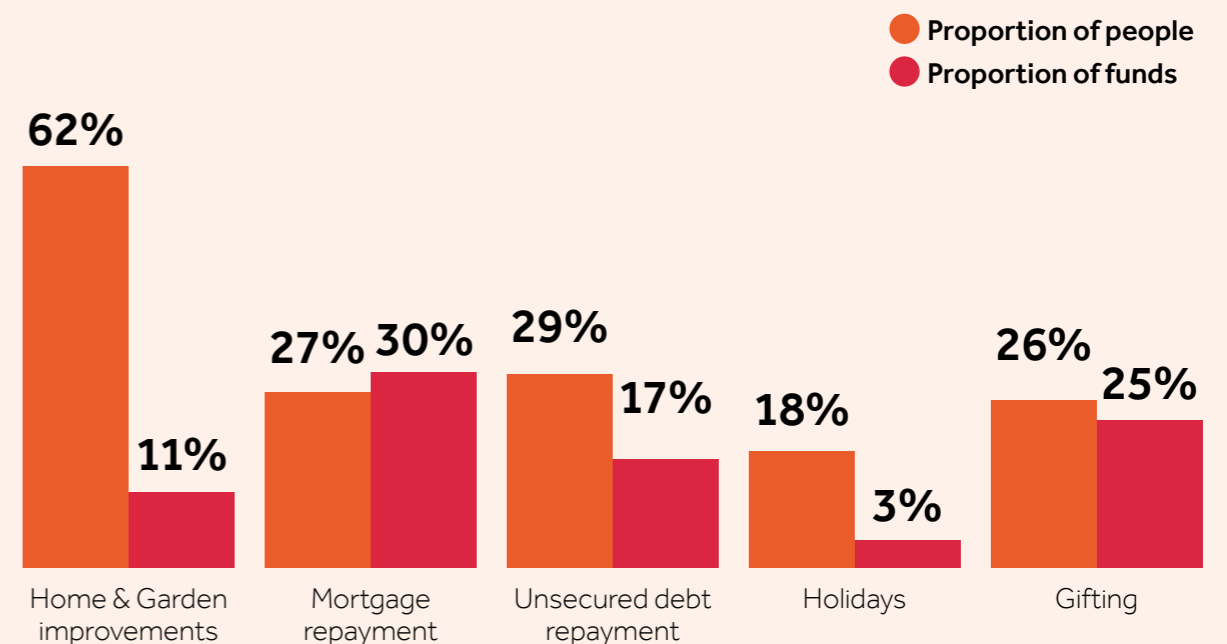
The Uses of Equity Release

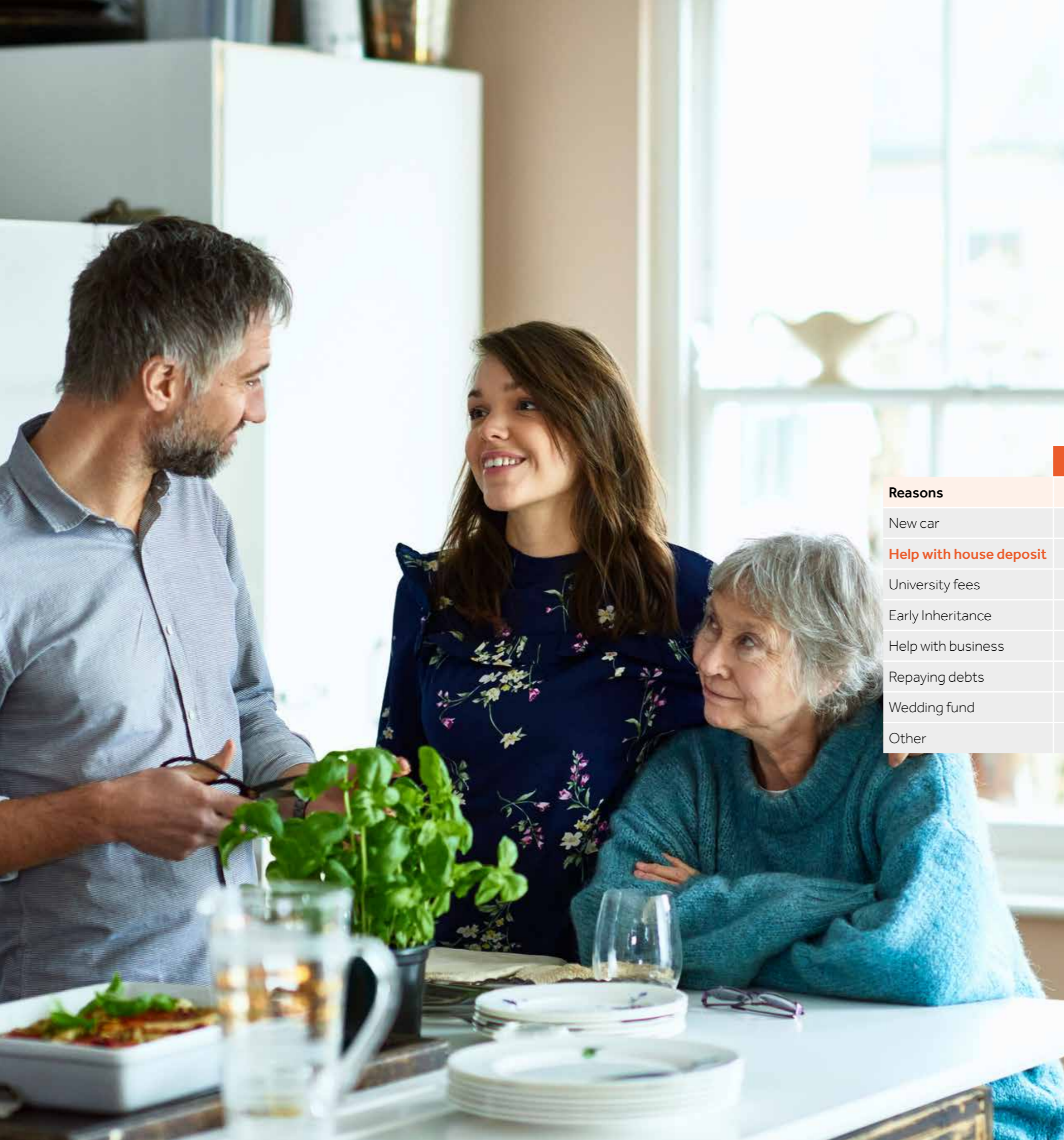
Proportion of funds	Q1 2020	Q2 2020	Q3 2020
Home/Garden Renovations	17%	14%	11%
Repay mortgages	25%	31%	30%
Repay debt	12%	13%	17%
Holidays	8%	4%	3%
Gifting	21%	21%	25%

Proportion of customers and their uses in Q3 2020



Value of equity released vs. proportion of people using equity release in Q3 2020





Spotlight on gifting

Over the last 10 years or so, the bank of mum and dad (and bank of grandma and grandad) has become a significant financial institution for many young people. With opportunity to build up the substantial deposit needed for a first home hampered by the high cost of living including rent, many parents and grandparents are choosing to gift their relatives a sum of money to give them a helping hand.

Gifting breakdown		
Reasons	Value of equity release	Average amounts
New car	1%	£14,552
Help with house deposit	45%	£57,549
University fees	1%	£15,150
Early Inheritance	26%	£35,392
Help with business	2%	£52,341
Repaying debts	6%	£32,913
Wedding fund	1%	£9,878
Other	19%	£31,862

However, most people do not have tens of thousands of pounds in easily accessible savings so equity release has provided them with the opportunity to use the value built up in their homes to support their families and improve their standard of living.

One in four use equity to gift funds to their friends and family with 25% of the proceeds being used for this purpose. The most common reason for the financial gift is for a house deposit (45%) followed by early inheritance (26%) and other (19%). ▶

Average gift amount based on age

£99,004 is the average gift amount to help with a housing deposit from the 75+ cohort. This is almost double the 65-74 age range and almost three times that of the 55-64 age range

Reasons	Age range		
	55-64	65-74	75+
New car	£10,000	£12,208	£21,517
Help with house deposit	£32,943	£53,596	£99,004
University fees	£20,000	£12,857	£14,125
Early Inheritance	£14,100	£27,569	£52,712
Help with business	£35,000	£35,571	£103,032
Repaying debts	£17,571	£27,624	£49,436
Wedding fund	£6,699	£12,880	£6,000
Other	£10,447	£21,753	£51,170

While only 2% of the equity released in Q3 2020 was used to help family or friends with supporting or launching a business, it required the highest average release across all age groups. Help with a house deposit was the next most costly but far more common with 45% of the proceeds of equity release supporting peoples ambitions to get onto the housing ladder.

With Halifax suggesting that the average first time buyer home costs in the region of £241,000, the average amount gifted for this purpose (£57,549) provides a 24% deposit and allows the new owner to access more favourable interest rates.

The over-75s were most generous – potentially due to the LTV's available and their desire to provide an early inheritance – except when it came to funding weddings. This may well be due to the fact that they had already provided their own children with support in the past and expect to contribute less to their grandchildren's nuptials. Finally, it is interesting to note that 6% of borrowers use an average of £32,913 to help family and friends repay debts – potentially helping those already on the property ladder with their mortgages or clearing unsecured borrowing.

Average gift amount based on status

Average gift amount based on status, married couples on average gift £49,946 whereas single females gift £69,343 and single males on average gift £72,739 for a housing deposit

Debts	Status		
	Couple	Single female	Single male
New car	£15,329	£12,200	£15,000
Help with house deposit	£49,946	£69,343	£72,739
University fees	£15,357	£15,600	£10,000
Early Inheritance	£37,509	£26,672	£49,665
Help with business	£73,419	£45,000	£36,000
Repaying debts	£24,559	£44,679	£41,550
Wedding fund	£9,335	£2,333	£25,000
Other	£25,270	£48,928	£28,159

Interestingly single males seem to be more likely to gift funds to friends and family. This could be due to higher earnings or better pensions pots compared to single females. The only exception to this is when the funds are relating to a business venture, single males have gifted on average £36,000 compared to single females £45,000 and couples £73,419. When it comes to gifting housing deposits couples on average gift almost £50,000 (£46,946) single females almost £70,000 (£69,343) and single males just over £70,000 (£72,739).

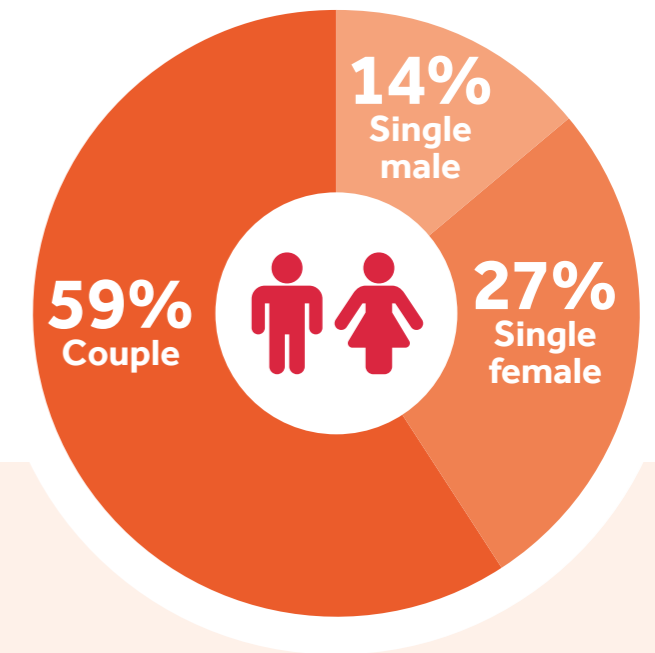
Demographic analysis

With a significant proportion of over-55s married or in long-term relationships, 59% of plans are taken out by this demographic. Interestingly, almost twice as many single women (27%) take out equity release compared to single men (14%). 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.

While 89% of customers are over 60 years old and 66% are over 65 years old, we have seen the average age of borrowers fall from 71 years old (Q3 2019) to 69 years old (Q3 2020). This change is in keeping with the fluctuations that we have seen since the Market Monitor started tracking customer data in the early 2000s and may reflect the use by younger ages to repay interest-only mortgages.

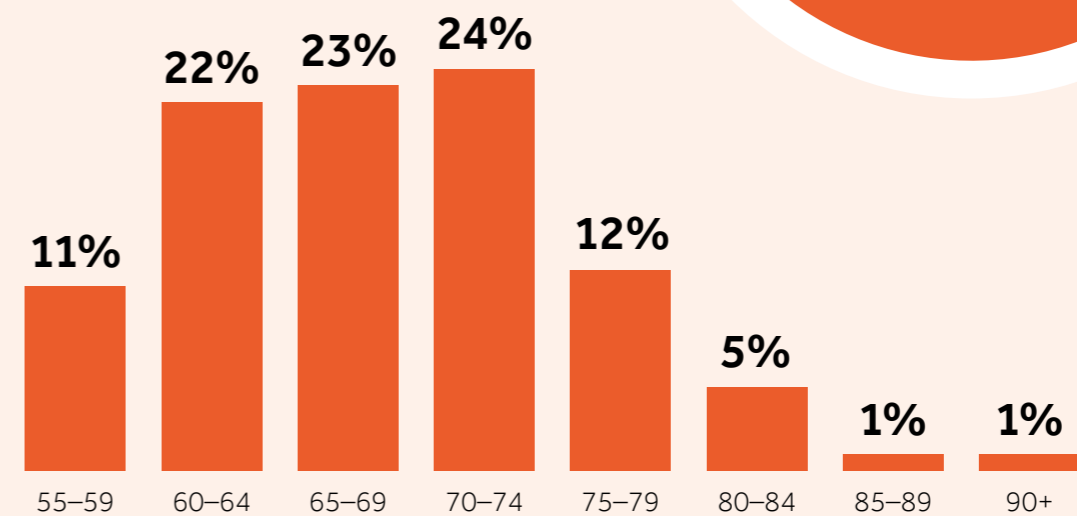
Customers by status

59% of those releasing equity are couples, down 1% compared to Q3 2019



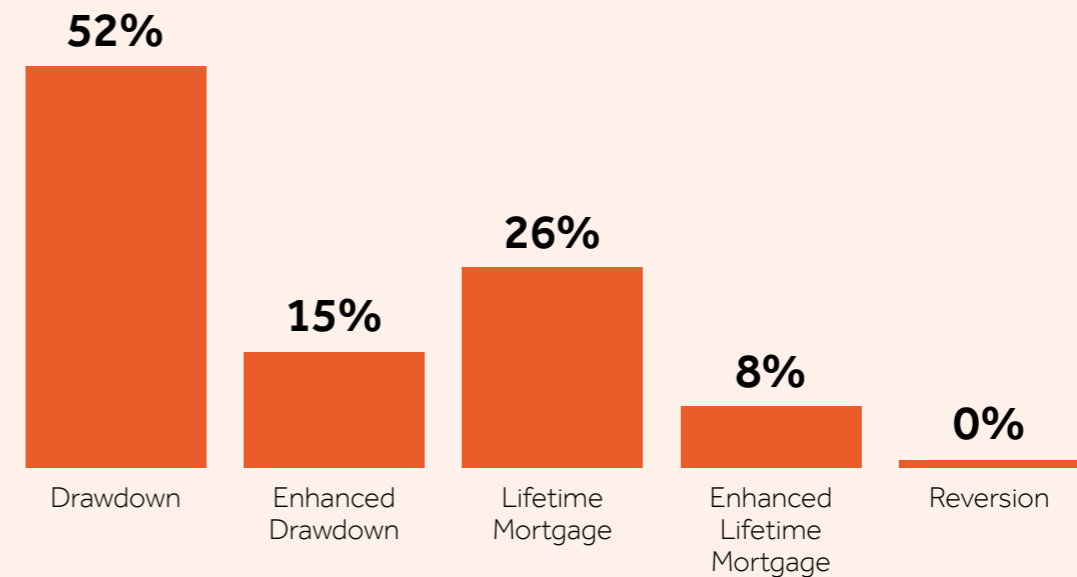
Customers by age

The average age has fallen to 69 compared to Q3 2019 at 71



Product mix

Lifetime mortgages, increased by 10% compared to Q3 2019




Across the UK

As the full impact of the Covid-19 pandemic hits the later life lending market, it has been reflected, in the number of plans and the amount released across all regions. Scotland has fared the best with a 7.4% increase in the amount released and an 8% increase in the number of plans released. At the other end of the scale is Yorkshire and Humberside which has seen a -27% reduction in the amount released and a -27% in the number of plans taken out. However, Yorkshire and Humberside had particularly strong


Q1 and Q2 figures which could have resulted in a natural decrease in Q3 which has affected the figures alongside the uncertainty in the UK at the moment.

The South East and London continue to lead the way in terms of the value released with £260 million in the South East and £177 million in London. The South East also continues to lead the way in terms of the number of plans taken out with 2,538 plans taken out in Q3 2020.

A continuing trend from Q1 and Q2 2020 is that London has been surpassed in terms of number of plans taken out. In London 1,762 plans were released in H1 2020 and 1,078 in Q3 2020. However the South East saw 4,879 plans released in H1 2020 and 2,538 in Q3 2020. In H1 2020 the South West took out 2,266 plans and 1,150 in Q3 2020. This could be due to the perception that the property market in the capital is less buoyant and therefore people are being increasingly cautious.

 **£82,827**
Average release amount for the UK
▲ Up 10% on Q3, 2019

Quarter 3 results

Location	Plans				Value released		Property value		Age
	Value	% change on Q3, 2019	Number	% change on Q3, 2019	Average amount	Average LTV %	Average value	% change on Q3, 2019	Average customer age
East Anglia	£35,967,637	-25%	596	-25%	£60,319	24	£254,824	2%	70
 East Midlands	£60,217,871	14%	921	-1%	£65,407	26	£247,730	7%	68
London	£177,319,651	1%	1,078	-11%	£164,476	24	£699,631	17%	71
North East	£17,053,435	-14%	315	-1%	£54,166	29	£186,465	-16%	69
North West	£64,040,749	-5%	1,173	3%	£54,573	25	£216,997	-1%	69
Northern Ireland	£2,547,327	-49%	67	-43%	£38,143	22	£174,893	-4%	68
Scotland	£40,205,398	7%	749	8%	£53,683	27	£200,259	3%	67
South East	£260,473,105	5%	2,538	-10%	£102,638	25	£412,867	6%	70
South West	£96,657,962	9%	1,150	-10%	£84,077	26	£326,534	3%	70
Wales	£26,689,189	-23%	429	-26%	£62,165	27	£229,583	0%	70
West Midlands	£68,502,952	8%	997	0%	£68,710	27	£251,793	3%	69
Yorkshire & Humberside	£34,179,870	-27%	658	-27%	£51,921	28	£187,293	-10%	68
Total	£883,855,146	0%	10,671	-9%	£82,827	25%	£328,490	5%	69

Focus location: 📍 East Midlands

The average value released in the East Midlands is £60,319 which is significantly lower than the UK average of £82,827. However, the average property prices in the East Midlands is £247,730 compared to the national average of £328,490 which can account for lower average amount release as there is less equity available to be released in this location. Interestingly, the average age to release equity in the East Midlands is 68, one year younger of the national average for the quarter which stands at 69.

This quarter all the areas in the UK experienced decreases in the number of plans taken out and the number of equity released, which is not surprising due to the current pandemic. However, the East Midlands seen a 14% increase in the value released and a -1% decrease in the number of plans released.

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 except in 2019 and 2020. 2016 was a strong year for the East Midlands with a 54% increase in the number of plans and a 50% 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.

Despite the impacts of Covid-19 the East Midlands did see a strong start to the year however, the full effect of Covid-19 might be hitting the region in Quarter 3, both Quarter 1 and Quarter 2 were fairly stable months for the East Midlands.

Period	Plans		Lending	
	Number	Change Y/Y	Amount	Change Y/Y
Q3 2016	679	54%	£37,930,322	50%
Q3 2017	870	28%	£46,239,000	22%
Q3 2018	1,034	19%	£62,116,291	34%
Q3 2019	927	-10%	£52,989,386	-14%
Q3 2020	921	-0.7%	£60,217,871	14%

921 new plans

▼ Down 0.7% on Q3, 2019

£60,2m released in equity

▲ Up 14% on Q3, 2019

£72,775 average release

▲ Up 20% on Q3, 2019

£328,490 average property value

▲ Up 18% on Q3, 2019

Case Study



Sandra Hodson, 70 – Nottinghamshire, released £78,960 to help her son with his business and her two grandchildren to get onto the property ladder.

Having retired in her early 60s with a substantial civil service pension after a 40 year career as a teacher, Sandra realised her son, Paul and her two grandchildren – both their late twenties – were not as financially secure as she hoped.

Paul set up his dream restaurant eight years ago, but following a difficult trading year in 2020 and a divorce, he was struggling to keep the business afloat.

Both of Sandra's grandchildren have stable jobs and were looking to purchase a house with their respective partners but found it difficult to save for the required deposit.

Sandra's husband Keith died two years ago and for the first time in her adult life, she had to get used to managing the finances alone. Sandra was pleasantly surprised when she realised the value of her home which was own outright without a mortgage.

"After my husband died I had to learn more about the state of our finances and I realised they were healthier than I thought. However, I saw the financial circumstances my son and grandchildren and I wanted to help.

"I considered downsizing as I didn't need a home of this size, however, it was my marital home and the home I raised my son. There are lots of great memories and

to be honest, I really didn't want to move house in my 70s but I did want to help improve the quality of life for my family.

"A friend asked me whether I had considered equity release, which I hadn't. They mentioned they had used Key a couple of years ago to release equity and they were very pleased with the result and service provided by Key.

"I decided to get in touch with Key and they arranged a ZOOM video appointment with myself and son so we could both understand more about equity release and the options it could provide. My son and I discussed it further and I also asked the opinions of my grandchildren and close friends. In the end I decided to go ahead and release some of the equity in my home.

"I gifted my grandchildren £20,000 each to put towards a house deposit and gave my son £15,000 towards keeping his business going in this difficult year. I am also planning to update my kitchen, and convert my bathroom into a wet room to ensure I can stay in my home for years to come. I will even have enough to treat my son and grandchildren to a family holiday, when we can, to make up the time we have lost due to Covid-19. I think I am looking forward to that the most!"



keyadvice.co.uk/about/market-monitor

* = 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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