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Market monitor

Equity release performance in the UK

Quarter 1 2020



Welcome



Will Hale

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 £1.3 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 2.7% increase in the number of new plans year on year to 11,495. However, there was a slight increase in the value of new equity release (13%) from £840million in Q1 2019 to £950million in Q1 2020. 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 £377 million in addition to £950 million in initial advances. This puts the market in Q1 2020 at £1.3 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."

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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 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.

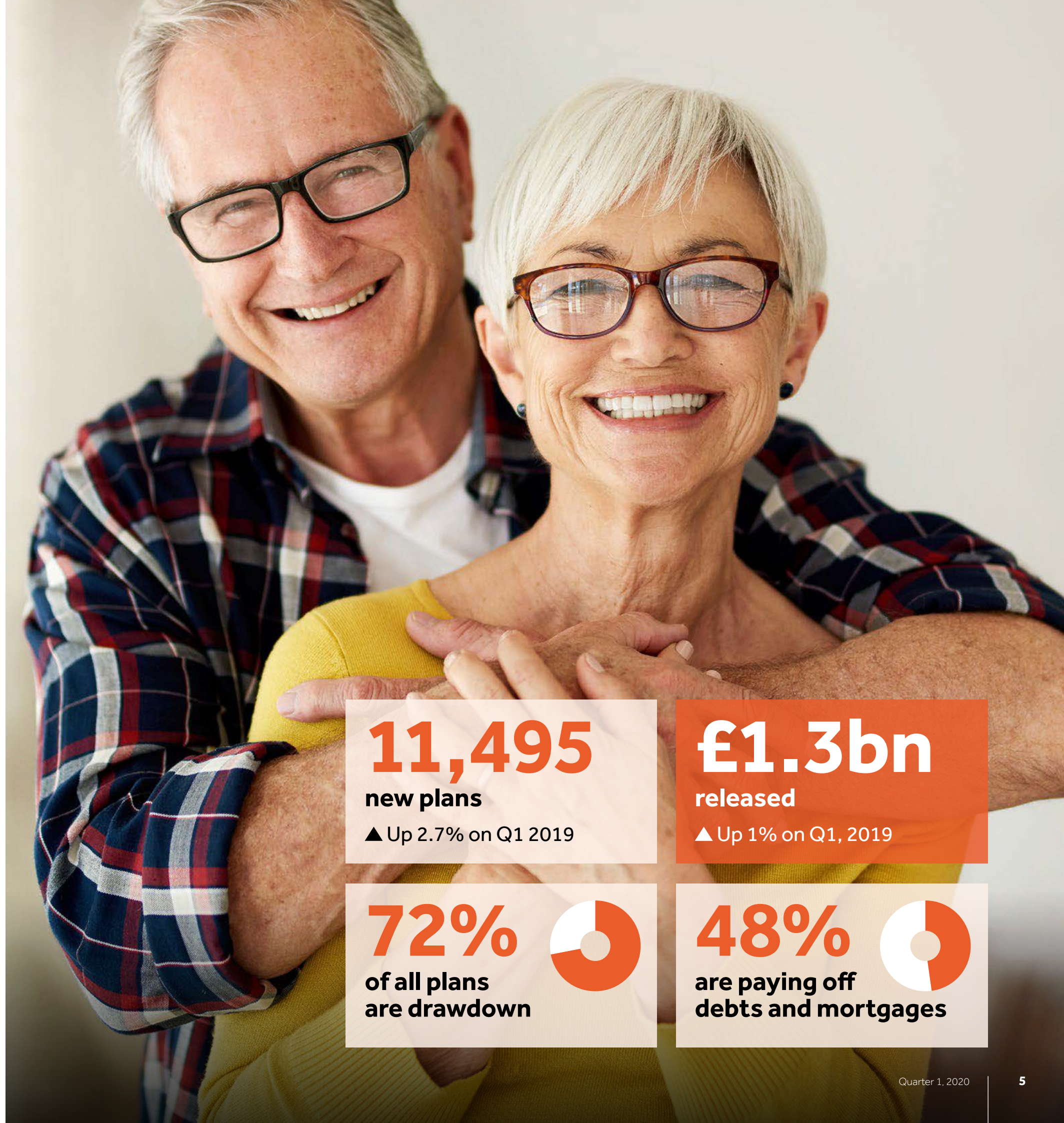
In Q1 2019 the total market size including available drawdown facility was £1.19 billion, in Q1 2020 the total market size is £1.3 billion showing a marginal increase, highlighting the overall stability of the market across the first quarter of 2020.

There was a small increase in the number of plans taken out (2.7%) from 11,190 in Q1 2019 to 11,1495 in Q1 2020. That said there was a 13% in the value of new plans taken out from £840 million in Q1 2019 to £950million in Q1 2020. Interestingly, there was a 8% increase in the value of drawdown reserved - £349million in Q1 0219 to £377 million in Q1 2020.

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. However there was a slight increase of 10% from Q1 2019 - £75,031 to £82,629 Q1 2020 in the average amount released. Interestingly the average property values of those who have taken out equity release has 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. ▶



11,495

new plans

▲ Up 2.7% on Q1 2019

£1.3bn

released

▲ Up 1% on Q1, 2019

72%

**of all plans
are drawdown**



48%

**are paying off
debts and mortgages**

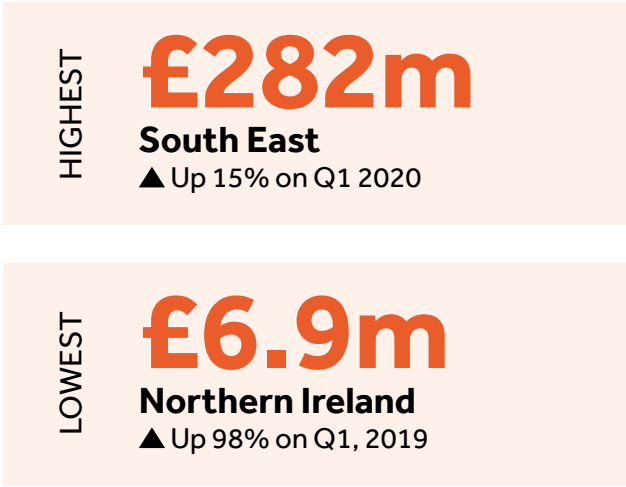


Gifting remains popular with 29% of customers using equity release to gift to friends and/or family. However, home and/or garden improvements – often intended to age proof homes or prepare people for retirement living – continues to be the most common use for equity release at 63%. The average age for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

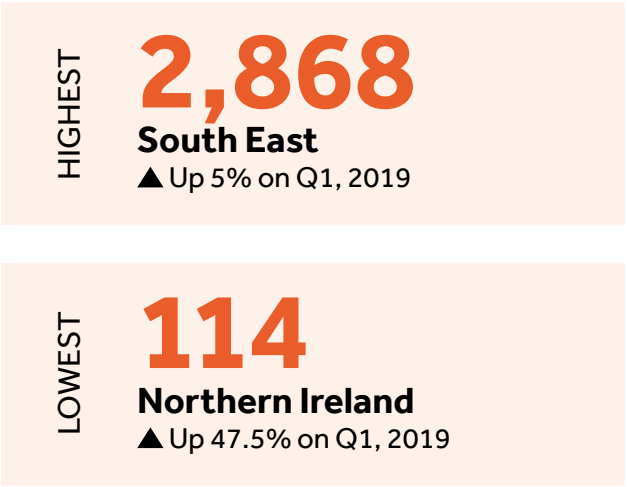
When we look at the UK in terms of the number of plans taken out London and the South East remain on top – reflecting population density and property value. Almost a third of equity release plans (30%) are taken out in the South East and nearly a fifth are taken out in London (18%). The lowest percentage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

	Lending Mix	
Area	%	
East Anglia	<div></div>	7%
East Midlands	<div></div>	6%
London	<div></div>	18%
North East	<div></div>	2%
North West	<div></div>	7%
Northern Ireland	<div></div>	1%
Scotland	<div></div>	4%
South East	<div></div>	30%
South West	<div></div>	11%
Wales	<div></div>	3%
West Midlands	<div></div>	8%
Yorkshire & Humberside	<div></div>	4%
Total		100%

Value of plans

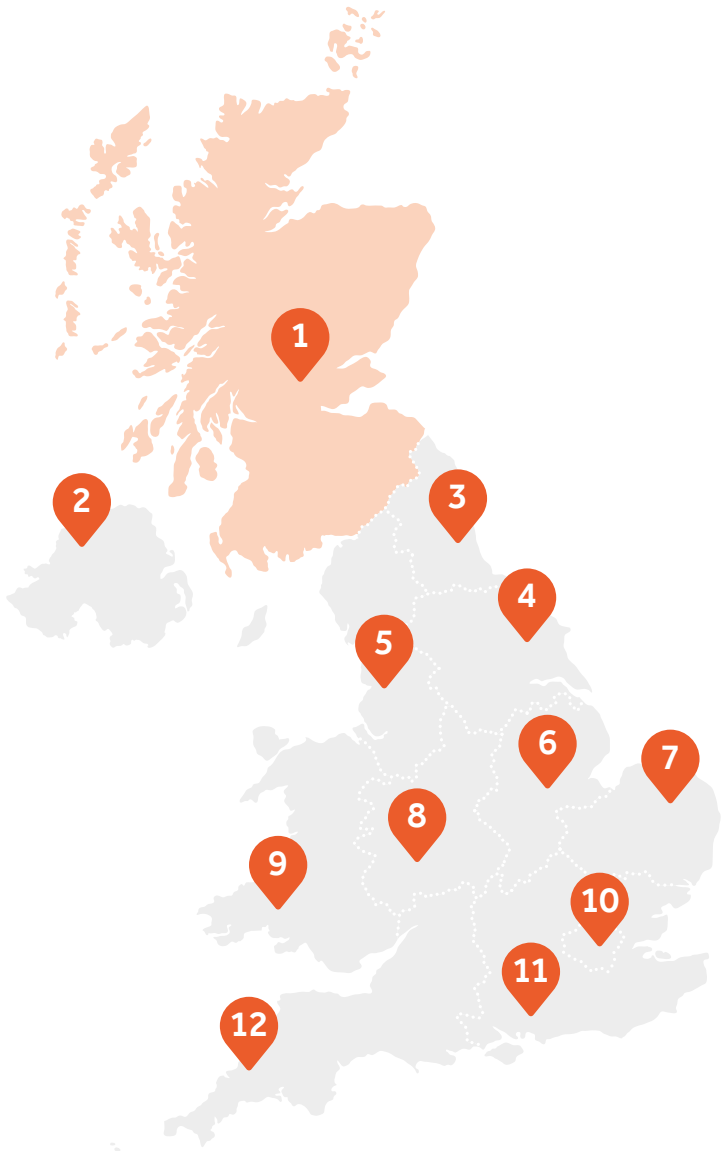


Number of plans



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

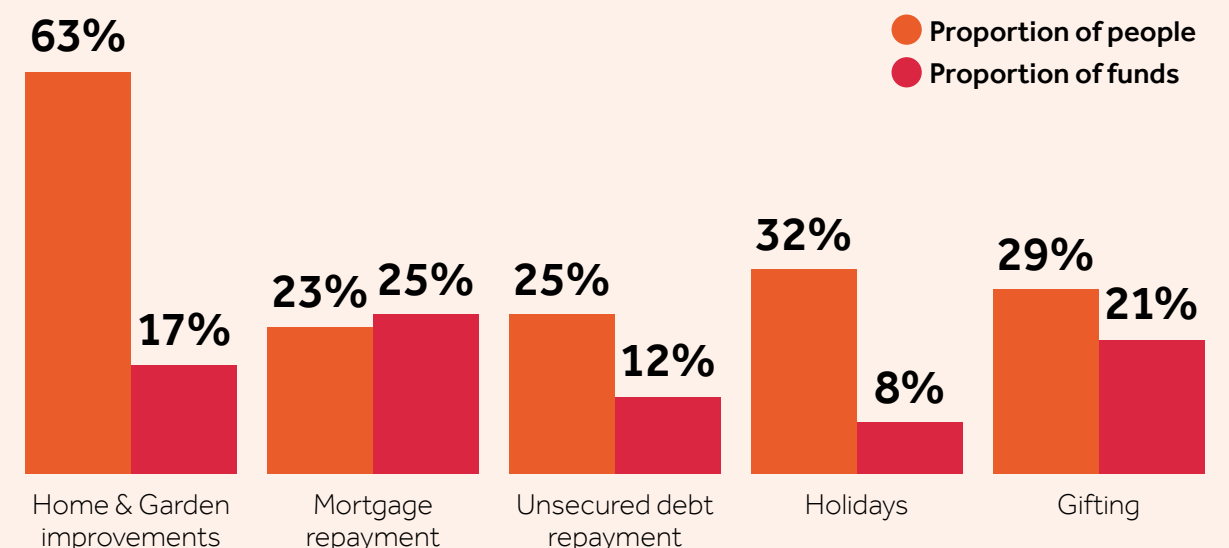


25%
clear their outstanding
mortgage



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.

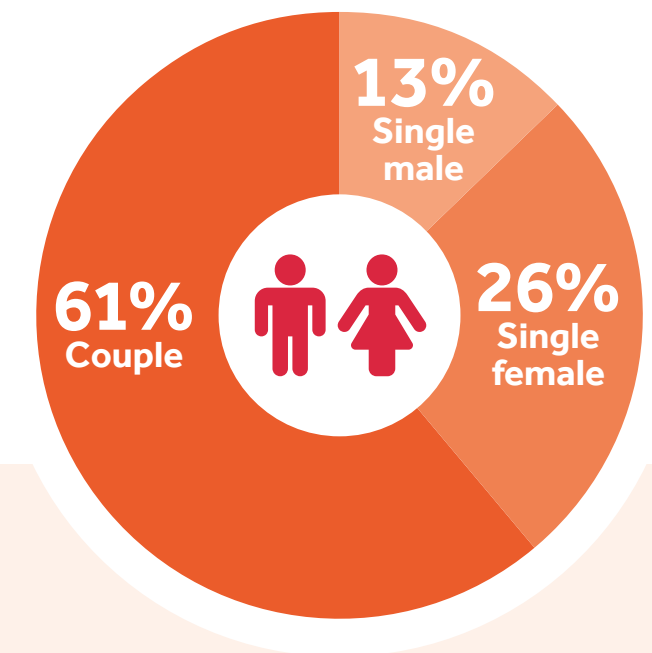
The average age of an equity release customer has remained the same year on year at 71. Almost half of those who have released equity in Q1 2020 have been aged between 65–75 (48%) – a trend we have seen for a few years. By comparison those in the younger demographic 55–64 (25%) may still be working and 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.

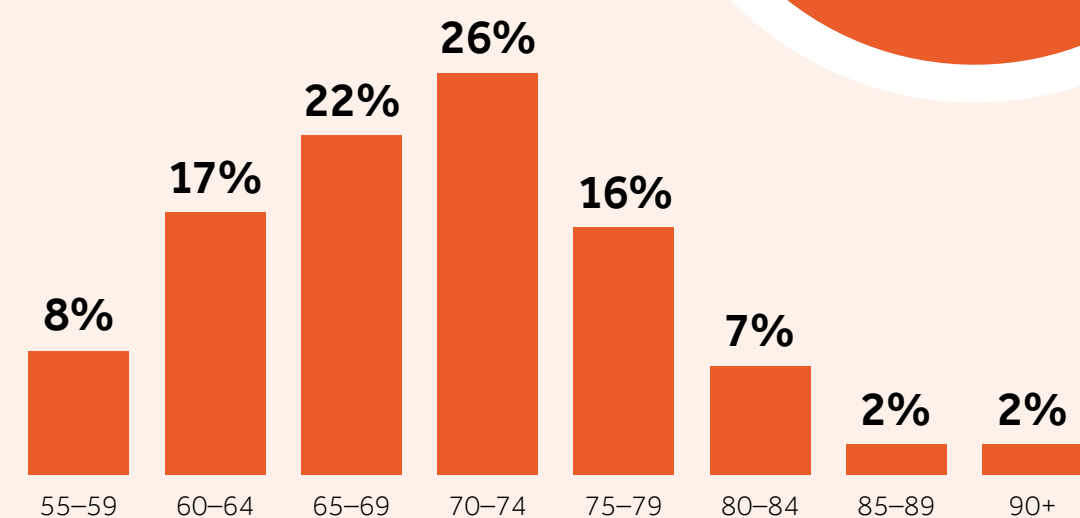
Customers by status

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



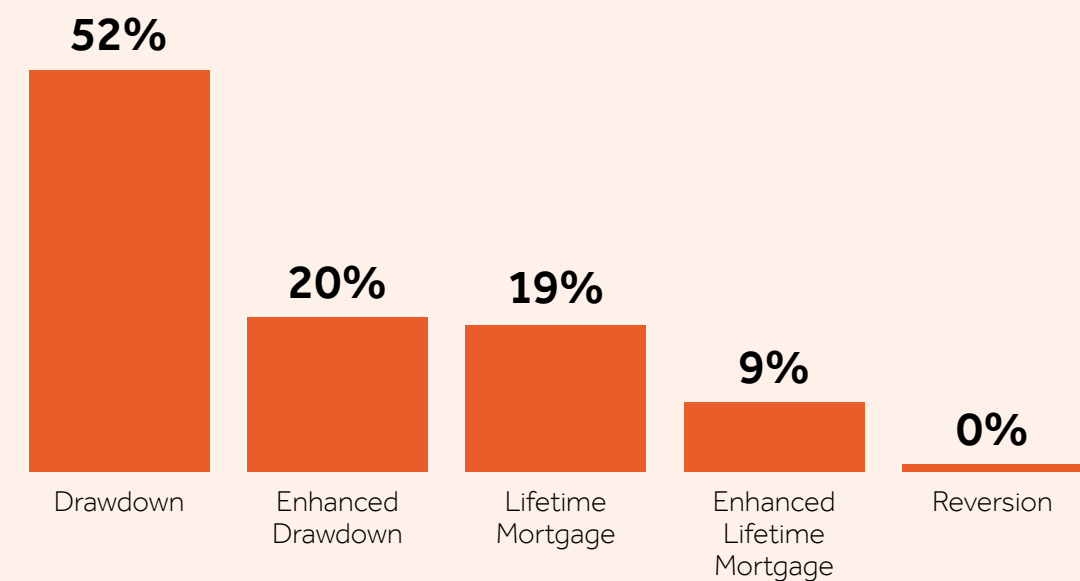
Customers by age

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 – Northern Ireland (43%), the North West (27%) and North East (23%) experiencing the largest increases. Interestingly, 9 out of the 12 locations saw an increase in the value released, the three highest are Northern Ireland (98%), London (22%) and Scotland (20%).


The South East and London continue to lead the way in terms of valued released with £171million in London (up 22% YOY) and £282million in

the South East (up 16% YOY). The South East continues to lead the pack by the number of plans taken out with 2,868 plans taken out in Q1 2020 – 10% 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 1,036 plans were released in Q1 2020 – a 11% reduction YOY. However, the South West saw 1,277 plans taken out a 11% increase YOY and the North West saw 1,205 plans taken out

a 27% increase YOY. 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 34 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



£82,629

Average release amount for the UK

▼ Up 10% from Q1 2019

available in Northern Ireland when compared to the rest of the UK.

Quarter 1 results

Location	Plans				Value released		Property value		Age
	Value	YOY Var	Number of plans	YOY Var	Average value released	Average LTV %	Average customer age	Average property value	YOY Var
East Anglia	£65,043,234	11%	832	-3%	£78,194	27	69	£287,067	-2%
East Midlands	£55,791,844	-5%	859	-10%	£64,943	26	71	£254,577	1%
London	£171,636,526	22%	1,036	-11%	£165,614	25	72	£664,770	17%
North East	£18,132,333	12%	382	23%	£47,489	27	70	£178,934	-10%
North West	£64,642,208	15%	1,205	27%	£53,665	24	70	£227,996	3%
Northern Ireland	£6,899,458	98%	114	43%	£60,715	31	66	£195,600	20%
✦ Scotland	£41,068,760	20%	664	8%	£61,884	28	69	£218,080	15%
South East	£282,372,635	15%	2,868	5%	£98,450	24	71	£404,143	5%
South West	£103,307,714	16%	1,277	11%	£80,881	24	71	£331,676	-2%
Wales	£26,638,734	-10%	473	-12%	£56,351	26	70	£213,573	6%
West Midlands	£72,024,630	17%	1,032	4%	£69,804	29	71	£243,818	1%
Yorkshire & Humberside	£42,310,161	-9%	755	-10%	£56,074	26	71	£213,942	-7%
Total	£949,868,240	13%	11,495	3%	£82,630	25	71	£326,486	3%

Focus location: 📍 Scotland

The average value released in Scotland is £61,884 which is relatively modest by comparison to some other areas in the UK and more than £20,000 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 8% increase in the number plans and a 20% 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 8% in the number of plans YOY and a 20% increase in the amount of lending which has been taken out.

Period	Plans		Lending	
	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	664	8%	£41,068,760	20%

664 new plans

▲ Up 8% on Q1, 2019

£41m released in equity

▲ Up 20% on Q1, 2019

£61,884 average release

▼ Down 9% on Q1, 2019

£218,080 average property value

▲ Up 15% on Q1, 2019



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