Knight Frank Finance

Equity Release Survey.

2020-21

Our first Equity Release Survey reveals a growing awareness of the sector's products and perceptions are improving through younger generations. However, common misconceptions persist and there is still more to do to effectively share information at scale.

Homeowners took out more than 45,000 equity release plans during the year to Q1 2020, up 16% on the same period two years earlier, according to Equity Release Council data.

Factors driving that growth vary, spanning from pension shortfalls and a growing desire to help relatives unable to get a foot on the housing ladder, to a rapidly improving choice of products and increasingly diverse use of equity in later life.

Greater scrutiny has understandably accompanied that growth, and scepticism lingers following the limited advice and poor product choice that prevailed two decades ago. Much progress has been made since. Product providers and advisers have been regulated by the FCA since 2004, and the majority of the industry has signed up to Equity Release Council standards.

A June review by the Financial Conduct Authority found that lifetime mortgages were in many cases working well, unlocking equity for consumers who would not have been able to afford traditional mortgages or other sources of borrowing. It also highlighted that there is more to be done to improve the information given to customers, both to be more personal and to challenge prevailing assumptions.

This survey of more than 200 people spanning ages 20 to 79 is part of that process – to better understand how the public perceive equity release, both positive and negative. We constantly strive to improve the information and advice we give to homeowners, and here we lay bare where the most work needs to be done, and which misconceptions still need to be addressed.

The pandemic has brought with it new challenges. Some 7,341 new equity release plans were taken out between April and June, the lowest seen in any quarter in the last four years since Q2 2016, as surveyors were unable to carry out physical inspections and providers struggled to process applications as they grappled with the effects of the crisis.

The data suggests the dip is likely to be temporary, because the systemic hurdles that have underpinned the growth of equity release to date remain unchanged. New plans completed began to recover in June, the latest month available. We expect new business to mimic the strong recovery we're seeing in the wider housing market during the months ahead, when we will be incorporating the results of this survey into the advice we offer.

Key findings

Nine in ten consumers have heard of equity release, but one in three say they know little about it. This illustrates the need to improve consumer knowledge and effectively share information about equity release at scale.

One fifth of respondents are willing to take a pro-active approach to accessing their property wealth in the future, should they need it, as we increasingly see homeowners incorporate property wealth into their financial planning.

More than half of respondents aged 40-49 believe equity release is a useful tool for financial planning, compared to less than a third of those aged 60-69, adding to evidence that perceptions of equity release improves through younger generations.

50% of respondents aged 40-49 know somebody that has used equity release products, compared to less than 20% of those aged 60-69, suggesting perceptions improve with exposure.

Almost 70% of respondents say they get their information about equity release from either friends and family, newspapers, the internet or TV and radio.

The Results

The survey responses illustrate the scope of the task to effectively share knowledge and information at scale. **Nine in ten consumers have heard of equity release, but one in three say they don't really know much about it.** Widespread familiarity with the term 'equity release' is encouraging, but the answers reveal the extent to which more work is needed to educate and inform consumers.

The survey also reveals that use of the right sources of information is likely to hold significant sway over the manner in which perceptions develop. **Almost 70% of respondents say they get their information about equity release from either friends and family, newspapers, the internet or TV and radio.** With less than a fifth using service providers, financial advisers or mortgage brokers as a source of information, there's clearly more to be done to market the products effectively.

The survey suggests perceptions improve through younger generations. **More than half of respondents aged 40-49, for example, believe equity release is a useful tool for financial planning,** compared to less than a third of those aged 60-69.

This may be at least in part due to exposure to the products. **More than half of respondents aged 40-49 know somebody that has used equity release products, compared to less than 20% of those aged 60-69.**

More than a third of participants would go to a financial adviser to discuss equity release compared to a fifth that would see a mortgage adviser, suggesting consumers often view equity release as a broader financial advice product than as a simple home finance product. In fact, 61% of respondents aged 60-69 would speak to their financial adviser or solicitor first.

The older cohort are also more likely to discuss equity release with family first (60%), as we increasingly see consumers from this age group seek to redistribute property wealth to the younger generations.

Despite an increasing willingness to communicate digitally, face-to-face meetings with advisers are likely to remain a priority as the economy opens up. **The majority (59%) of consumers still prefer to meet their adviser face-to-face,** though almost one in five would be comfortable receiving advice by video meeting.

One fifth of respondents are willing to take a pro-active approach to accessing their property wealth in the future, should they need it, as we increasingly see homeowners incorporate property wealth into financial planning. That climbs to almost a third among those aged 50-60, illustrating the potential size of the market.

Respondents cited the fact they can continue to own their property as the largest advantage of equity release, followed by the ability to use it to top up income and to draw down money when they need it. Fears equity release is poor value for money was cited as the biggest concern, even with interest rates at all-time lows, further illustrating the work that remains necessary to challenge perceptions.

Myth busting

Respondents to the survey were asked to express any concerns they have about equity release, many of which are common misconceptions that we asked David Forsdyke, head of our Later Life Finance team, to address here. If you have any concerns that aren't covered here, please get in touch.

"I could end up outliving the equity and be required to give up my property"

David Forsdyke: This is a common concern and thankfully it's unfounded. Under the Equity Release Council's product standards you have the right to remain in your property for the rest of your life, or until you need to move out into long term care. With a Lifetime Mortgage - the most common form of equity release - you still own your home and the property title is still in your name.

"There's nothing left to leave family after you pass away"

David Forsdyke: It's highly unlikely that your equity would be completely eroded, given the average age and interest rate at which many borrowers use equity release. By way of example, a 75 year-old borrowing at 25% loan-to-value now could even see their equity increase if property prices grow at just 1% a year. Knight Frank forecasts UK house prices will climb 14% over the coming five years.

More than half of respondents aged 40-49, for example, believe equity release is a useful tool for financial planning, compared to less than a third of those aged 60-69.

"I know it can be a tool used to raise funds however I'm concerned that it is very expensive and if the value of your home goes up a lot your family lose out"

David Forsdyke: Actually, the opposite is true. With a Lifetime Mortgage, if the value of your home goes up there will be more equity going to your family. Plus, at the time of writing, rates for Lifetime Mortgages started as low as 2.28%, and most lenders had products available below 2.5%. This means if you allow the interest to roll up the Lifetime Mortgage debt is increasing very slowly. For example, if you borrow 25% of the value of your home at 2.5% your property only needs to increase in value by 0.75% each year for the equity to remain roughly the same over the next 25 years.

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Behind the numbers: what are some of the factors driving the growth of equity release?

The pensions shortfall

40%

of pension pots accessed in 2018/19 had a value of less than £10,000. Changes to pension rules have allowed consumers to spend their pension, and many are doing so quickly. As a result, consumers are increasingly having to fall back on property wealth.

The build-up of property wealth

£3.1tn

Knight Frank Finance estimates homeowners aged 55+ have accrued £3.1 trillion in housing equity following decades of robust growth in house prices. Increasingly homeowners are looking to access that wealth, whether it be to help younger generations get a foot on the housing ladder, or to top up their income.

Longer lives

4.75m

We are living healthier, longer lives. As a result, the UK's over 60 population will climb 29% between 2020 and 2040 to more than 21 million people – that's an extra 4.75 million people in just 20 years. That has implications for everything from paying for care, to the accumulation of housing equity and the passing on of inheritance.

Low rates

2.28%

Less than a year ago the market heralded a new era with Lifetime Mortgage rates dropping below 3%. We are now seeing rates starting as low as 2.28%, as of the time of writing, and most lenders have products available below 2.5%. Lifetime Mortgage rates are typically fixed for life.

Greater flexibility

64%

Modern Lifetime Mortgages allow borrowers flexibility should needs and circumstances change. Moving home is possible and the mortgage can be repaid or transferred, plus many products now allow the interest to be paid either monthly or on an adhoc basis. There has been a 64% increase in products offering downsizing repayment options over the last 12 months and an 80% increase in products that allow flexibility in making interest payments.

Inheritance tax

£5.2bn

IHT receipts have increased as a share of GDP since 2009-10, mainly due to rises in asset prices, particularly the price of homes. Receipts hit £5.2 billion in 2017/18, the latest year available, and are set to climb to £6.3 billion in 2023/24. Among high-net-worth property owners, having too much wealth tied up in a main residence is creating IHT implications for their beneficiaries and we are seeing many turn to equity release as a result.

Sources: FCA, Knight Frank Finance, ONS, HMRC, Equity Release Council

If you have any questions about the survey results or would like advice relating to any of the matters covered please do get in touch.

Methodology
During July 2020 we asked more than 200 consumers to answer a series of questions in order to determine their knowledge, understanding and perception of equity release. The survey captured the views of those in their twenties up to aged 69. Some 78% of participants were home owners, and 29% owned more than one property.

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