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Silver Spenders

Legal & General

Executive summary

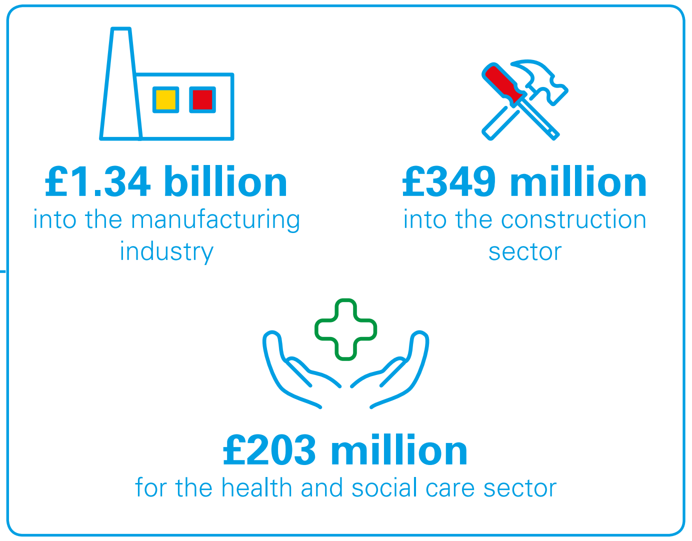
For much of the UK population, the family home is their biggest asset. But whilst the UK's homeowners might have enjoyed house price growth in recent decades, the rising popularity of equity release is showing a new potential for these assets to support economic growth.

Equity release already adds up to £7.1 billion to gross UK output when including both the direct and wider impacts, with every £1 released adding £2.34 of output. The impact on the country's gross value added meanwhile, is a substantial £2.4 billion a year.

That contribution is felt across a wide range of sectors, as individuals typically take money for a variety of reasons - from financing home refurbishments to funding holidays, purchasing cars, paying off debts or helping children and grandchildren buy homes of their own.

The sectors benefiting are wide ranging:

- £1.34 billion is added to the manufacturing sector as a result of equity release spending.
- £459 million and £349 million boost the financial services and construction sectors respectively.
- Health and social care spending to the tune of £203 million – enough to support 7,500 nurses or 9,600 community workers.



Overall 37,100 jobs are already supported as a result of equity release spending and, as this report makes clear, the industry is a genuine positive force in the UK economy. As the market matures and there is growing acceptance of the role these products play in wider retirement financing, their importance to our economy will only grow.

At present, the equity release market remains relatively small. A new survey for Legal & General shows that whilst only 3% of those eligible have released some of the value held in their homes, a number are concerned about the adequacy of their pensions - with almost two in five not confident of meeting their retirement goals. Unsurprisingly therefore, the survey also found that almost a quarter of the population (24%) have considered accessing their housing wealth at some point.

In the last four years the sector has doubled in value with 42% growth in 2017 alone, pushing the market past £3 billion of lending.[1]

With the Office for National Statistics' English Housing Survey[2] showing that almost two thirds (61%) of over-55s in the UK own their own home outright, there is evidence to suggest that the market could continue its growth trajectory, reaching more than £8 billion by 2021. The number of people taking lifetime mortgages - the most common type of equity release product - meanwhile, is estimated to rise above 75,000 new customers per annum by the same date, with the average customer arranging a facility to release £110,000 by 2021.

Given the power of equity release to stimulate wider economic activity, this should be widely welcomed. With many in the UK facing an uncertain financial future as they enter retirement, housing equity can provide a powerful source of growth that can deliver greater security for both individuals and the wider economy in the years ahead.

1. Equity Release Council Q4 2017 lending figures: http://www.equityreleasecouncil.com/news/equity-release-records-broken-as-unprecedented-q4-activity-sees/
2. English Housing Survey 2015 to 2016: headline report, ONS, March 2017 https://www.gov.uk/government/statistics/english-housing-survey-2015-to-2016-headline-report

Introduction:

For all the talk of increasing numbers of people renting, the UK is still a nation of homeowners.

On the one hand, the proportion of owner-occupiers is at a 30-year low, according to official figures. Of the estimated 22.8 million households in England in 2016, the proportion of homeowners is 63%, down from a peak of 71% in 2003.[3]

On the other, 63% is still a solid majority and, whilst the proportion of owner-occupiers has declined, the private rental sector has grown rapidly, doubling in size since 2002.

Moreover, many of today's homeowners really do own their home - 34% of households own outright, compared to 29% who are mortgagors.[4] High levels of outright ownership among older homeowners means a majority overall today don't have a mortgage, and the net result is that the UK public hold massive housing wealth. In fact, property accounts for more than a third (35%) of all privately held household wealth, trailing only pension savings (40%).[5] In contrast, financial wealth such as savings and shares, makes up just 14% of total wealth.[6]

How much good this accumulated property wealth is doing anyone is another question.

Intergenerational unfairness:

Property wealth – and wealth overall – lies disproportionately in the hands of older households. Levels of home ownership are well above average for the over-65s, with over three quarters owning their home (outright or with a mortgage), and significantly below average for younger generations: little more than a third for 25 to 34-year olds.[7]

In addition, not only are older people more likely to own, they're less likely to have a mortgage and more likely to own bigger and more expensive properties.

In part this simply reflects the fact that older householders have had time to pay off mortgages and accumulate wealth through a lifetime of work and property price inflation. However, the difficulties faced by younger home seekers to raise enough of a deposit to secure any rung on the housing ladder are well documented, and have made inter-generational fairness a key political issue for our time.[8]

What's interesting is that it's not clear if the accumulation of housing wealth is serving older generations that well either. This new research from Legal & General finds that many older homeowners are far from comfortable about their retirement, and doubtful of achieving their desired standard of living. Utilising pensions and savings, and potentially even postponing retirement may not be enough to meet their financial needs. As a result, an increasing number are likely to start accessing the equity in their home to supplement their lifestyle.

When they do, it will benefit not only themselves and their families, but the country as a whole – providing a massive and much-needed boost to the economy in the years to come.

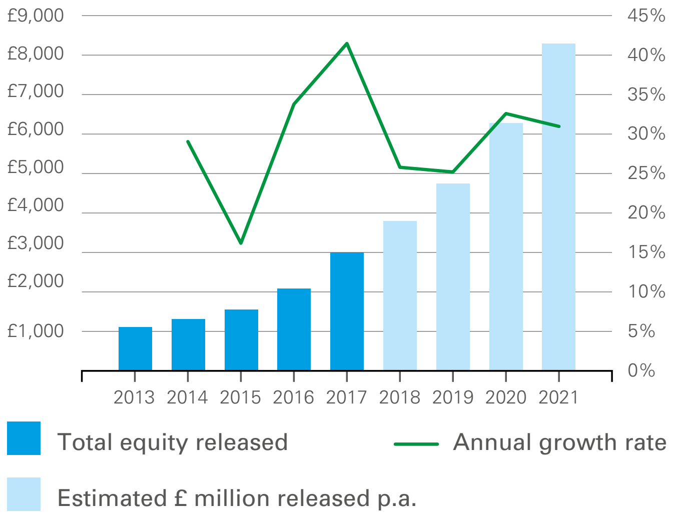
3. English Housing Survey 2015 to 2016: headline report, ONS, March 2017 https://www.gov.uk/government/statistics/english-housing-survey-2015-to-2016-headline-report
4. English Housing Survey (ibid)
5. "Article: Main results from the Wealth and Assets Survey: July 2012 to June 2014", ONS, December 2015 https://www.ons.gov.uk/ons/dcp171776_428683.pdf
6. Ibid
7. "UK Perspectives 2016: Housing and home ownership in the UK", ONS, May 2016 https://visual.ons.gov.uk/uk-perspectives-2016-housing-and-home-ownership-in-the-uk/
8. See, for instance, the work of the Work and Pensions Committee's Intergenerational fairness inquiry, which produced its final report in November 2017: https://www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/inquiries/parliament-2015/intergenerational-fairness-15-16/

A growing market

The equity release market is growing quickly.

The total value of equity released has more than doubled in the last four years, as the graph below illustrates.

TOTAL EQUITY RELEASED (£ MILLION) AND ANNUAL GROWTH RATE (%, RIGHT AXIS)



According to the Equity Release Council, the amount of property wealth accessed through equity release rose from just over £1 billion in 2013 to over £3 billion in 2017, with annual growth rising to its highest level since 2002 at 42%.[9]

The number of customers taking a lifetime mortgage has risen from 15,900 in 2011 to 35,300 in 2017. The average borrowed, meanwhile, has risen from £56,800 in 2013 to £86,300 in 2017.

Currently, however, it remains a relatively small market. Across the UK, only 3% of homeowners have actually used equity release to date, but the indications are that this will change.

9. Equity Release Council Q4 2017 figures : http://www.equityreleasecouncil.com/news/equity-release-records-broken-as-unprecedented-q4-activity-sees/

Open to the possibility

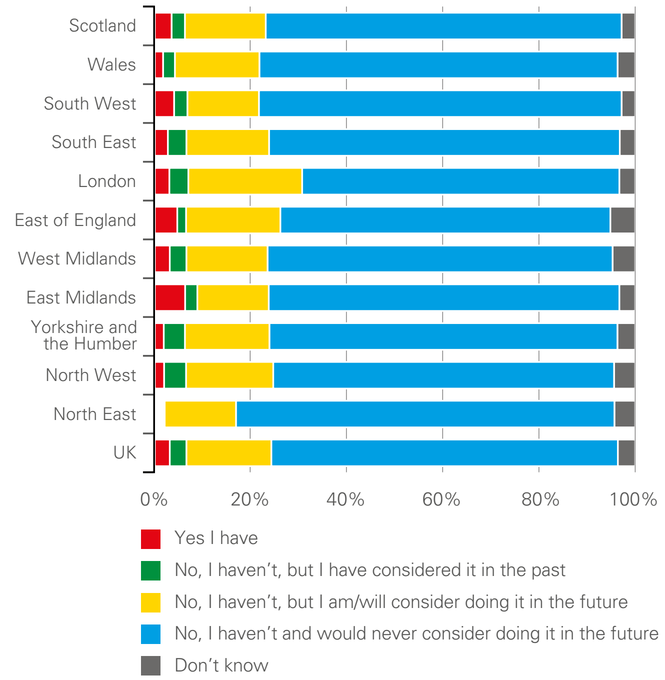
If everyone who is open to the idea of accessing their property wealth went ahead and released equity, the market would be seven times larger than it is currently.

Whilst 3% of those who took part in a YouGov survey for this report stated they had released equity on a property they owned, 18% stated they would consider doing so in the future. As the graph below illustrates, this rises to nearly a quarter in London (24%), suggesting higher property values (and therefore greater potential sums raised from equity release) encourage more to consider it.

In addition, 3% of respondents stated they have considered it in the past, so that overall, almost a quarter of the population (24%) have considered tapping into their property wealth at some point and are open to the idea.

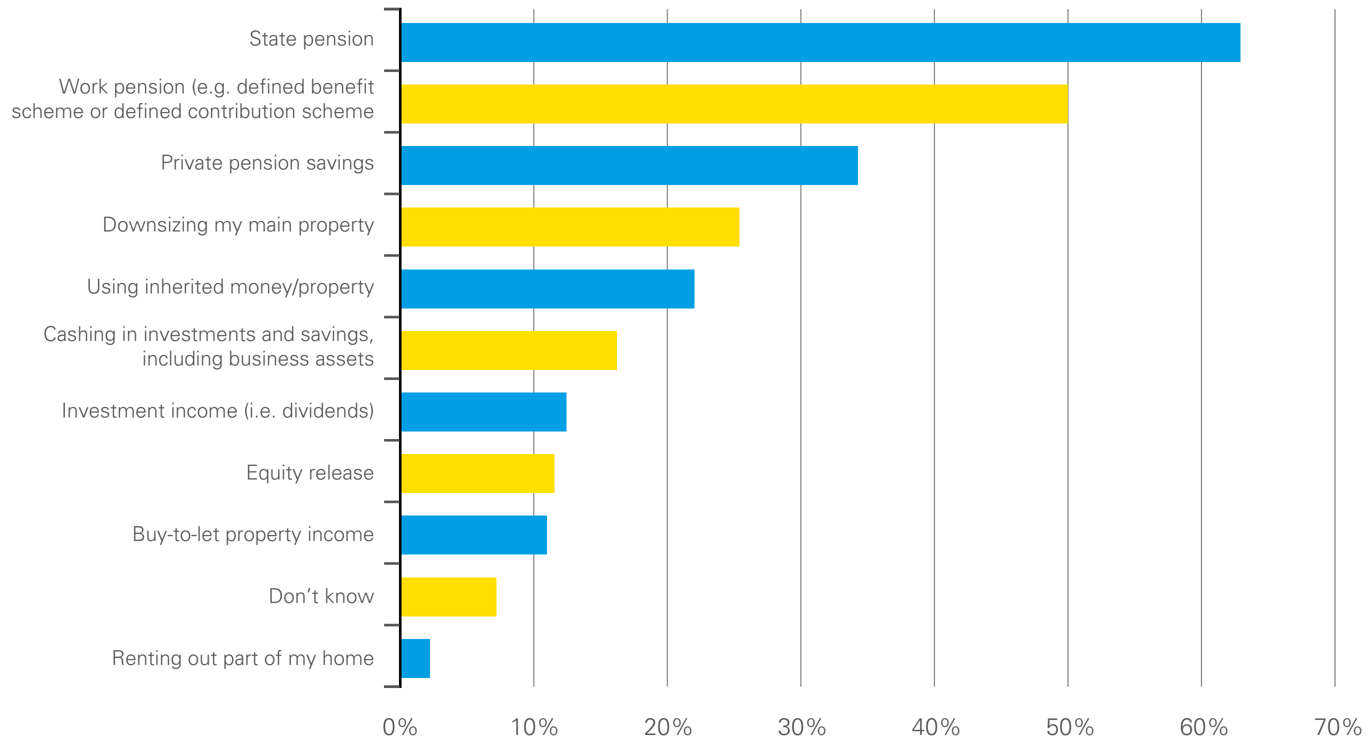
The most common motivation for releasing equity or considering it was to finance home refurbishments or repairs (36%). The next most common reason was managing day-to-day expenses (19%), followed by 17% who said they'd use the money to take a holiday.

HAVE YOU EVER RELEASED EQUITY ON A PROPERTY YOU OWN(ED)?



SOURCES OF RETIREMENT FUNDING

Based on those who have released equity or are open for it, multiple answers possible



An uncertain future

As time goes by, financing retirement looks likely to be an increasing driver for the equity release market.

Of those who have taken money from their home or would consider accessing housing equity, 61% say their priority at retirement will be to have enough to enjoy themselves. Covering day-to-day expenses, meanwhile, is a priority for 44%.

Many are doubtful of being able to do so, however. More than one in ten (12%) of those aged 45 and over say they don't plan to retire, whilst a third of those surveyed stated they are not very (22%) or not at all (11%) confident of achieving their financial goals and their desired lifestyle in retirement.

So far housing wealth remains largely untapped. Asked how they plan to finance their retirement, even those open to using their property wealth rarely consider it as a source of later-life income. As the graph above illustrates, most plan to fund their retirement through a combination of state and workplace pensions (63% and 60%, respectively) or through private pension savings (34%).

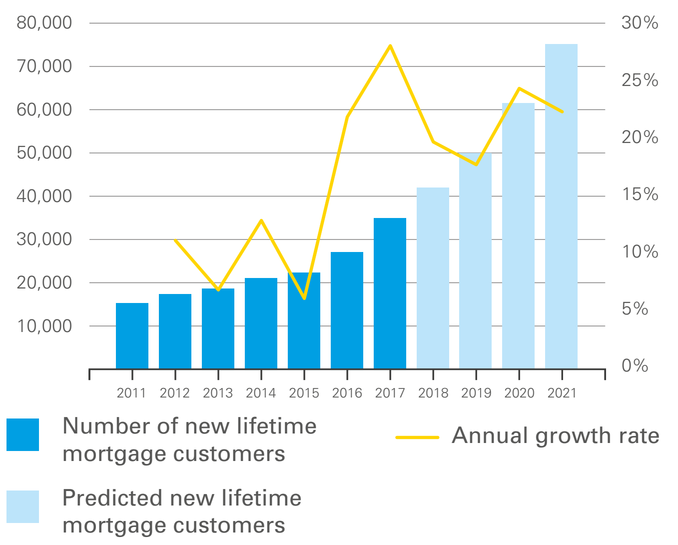
Whilst a quarter (26%) say they plan to downsize to help finance retirement, only 12% are planning to use equity release.

A dam waiting to burst

This leaves potentially massive growth potential.

According to the English Housing Survey, close to two thirds (61%) of over-65s in the UK own their own home outright and could therefore benefit significantly from using their property wealth.[10] For those reluctant to give up the family home, it offers a substantial boost to retirement without the need to move.

NUMBER OF NEW LIFETIME MORTGAGE CUSTOMERS AND ANNUAL GROWTH RATE (%, RIGHT AXIS)



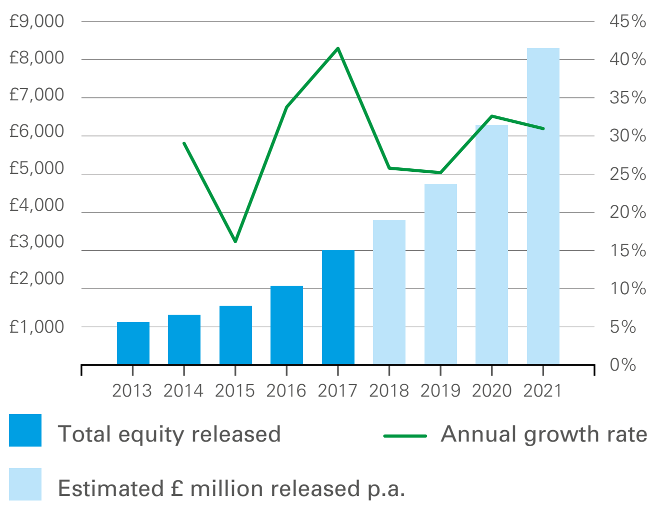
That this potential remains untapped so far is likely, at least partly, due to consumer perceptions of the product. These views are often based on views on the market of the past, when rates were higher and protections such as the No Negative Equity Guarantee hadn't yet been introduced. But things have changed, and are changing.

The development of strict standards by bodies such as the Equity Release Council as well as increasing involvement of mainstream lenders such as Legal & General, are building confidence. We are, perhaps, at a watershed moment.

Given the UK's ageing population and the numbers open to using a lifetime mortgage, we can expect the market to expand substantially in the coming years. In fact, taking these factors into account, analysis for this report forecasts that the number of new lifetime mortgage customers is likely to rise above 75,000 by 2021, as can be seen in the graph on the left.

Added to this, rising property values will fuel the growth in the amounts being borrowed. Even allowing for a slowdown in house prices, the average lifetime mortgage customer is expected to release over £110,000 by 2021, up from £78,000 in 2016 and just under £57,000 in 2013.

TOTAL EQUITY RELEASED (£MILLION) AND ANNUAL GROWTH RATE (%, RIGHT AXIS)



The net result is that the total equity released is forecast to reach over £8.4 billion by 2021, as the graph above illustrates.

10. English Housing Survey 2015 to 2016: headline report, ONS, March 2017 https://www.gov.uk/government/statistics/english-housing-survey-2015-to-2016-headline-report

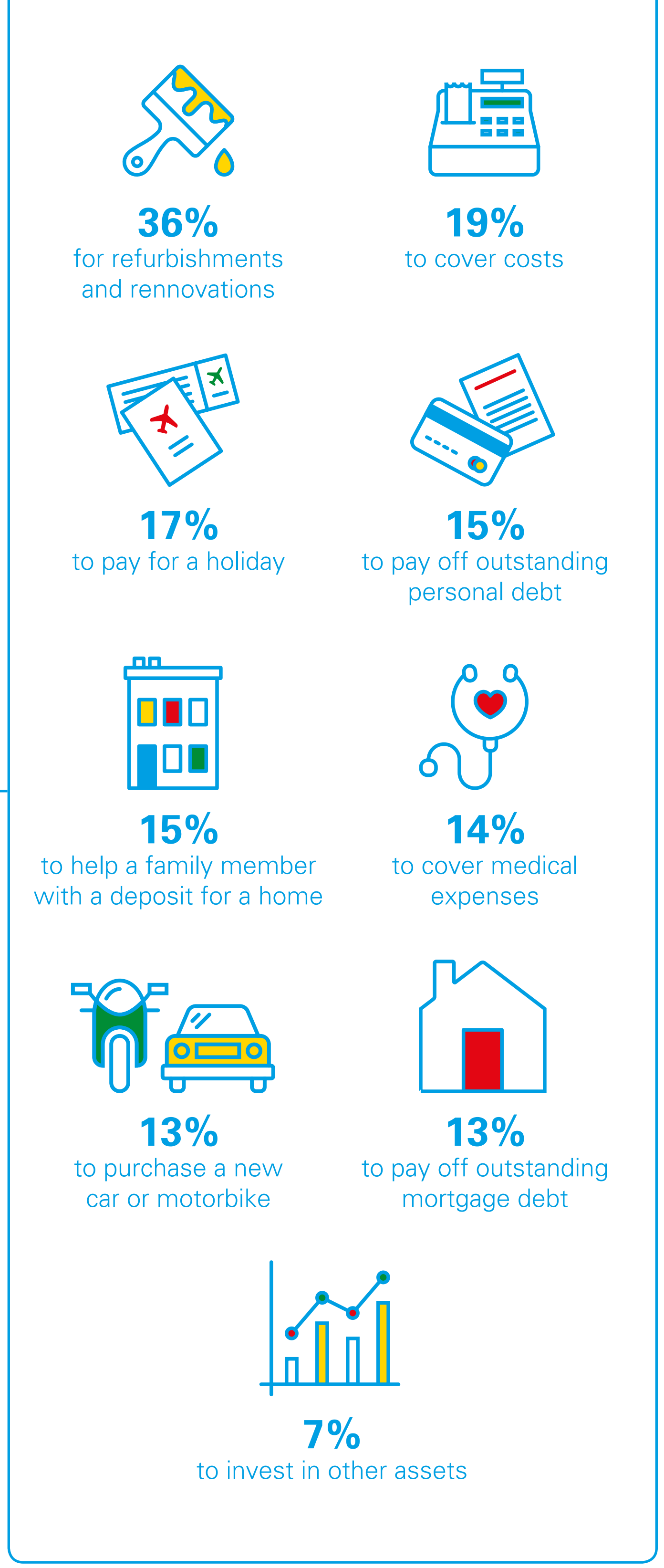
Building prosperity

As the equity release market grows, it will have a profound impact on the UK economy.

Already, the money released through equity release is put to a range of uses - not just refurbishments and renovations (36%), but holidays (17%), helping family members with financial support or a deposit for their own home (15% each), for medical expenses (14%), and for a new vehicle and investments (13% and 7% respectively).

Funds released also have a significant impact on the rest of the economy. Using input-output models such as those used to calculate the effect of infrastructure investment on output and employment, we can begin to quantify this. We can also see where the impact is likely to be most striking.

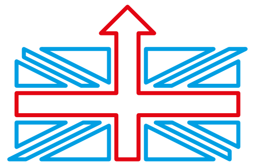
REASONS FOR RELEASING EQUITY



A boon to business – and the state

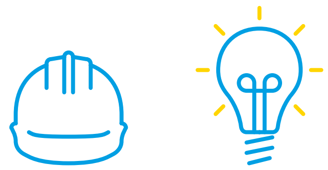
Analysis suggests that equity release boosts gross output in the UK economy by up to £7.1 billion. This includes direct, indirect and induced effects:

- **A direct impact** of the predicted £3 billion of released equity: the greatest share of which is spent on refurbishments and repairs, boosting the manufacturing (£1.34 billion) and construction (£349 million) sectors.
- **An indirect impact** from the increased demand for supplies (such as building products) from those fulfilling orders financed through lifetime mortgages, adds just under a further £2 billion.
- **An induced impact** resulting from the increased business in a number of sectors, should lead to greater employment and higher wages at the companies benefiting. That is felt through those employees spending more.



£7.1bn
boost to UK gross output

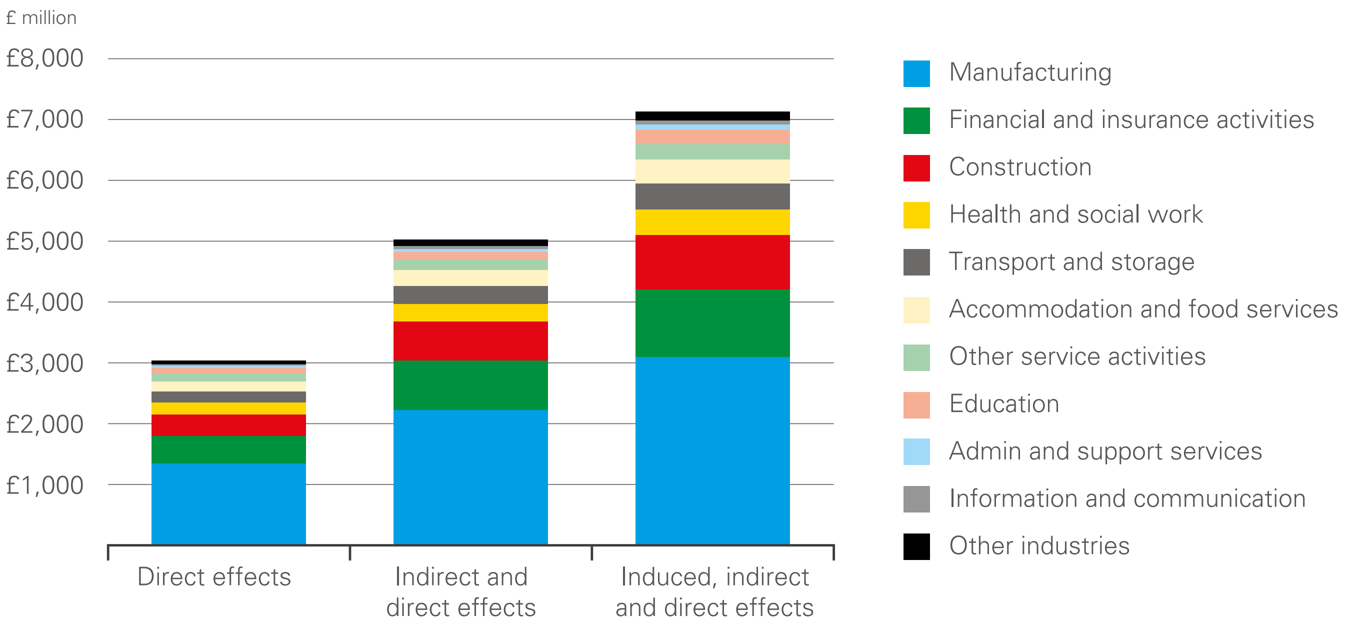
Industry by industry, that could support



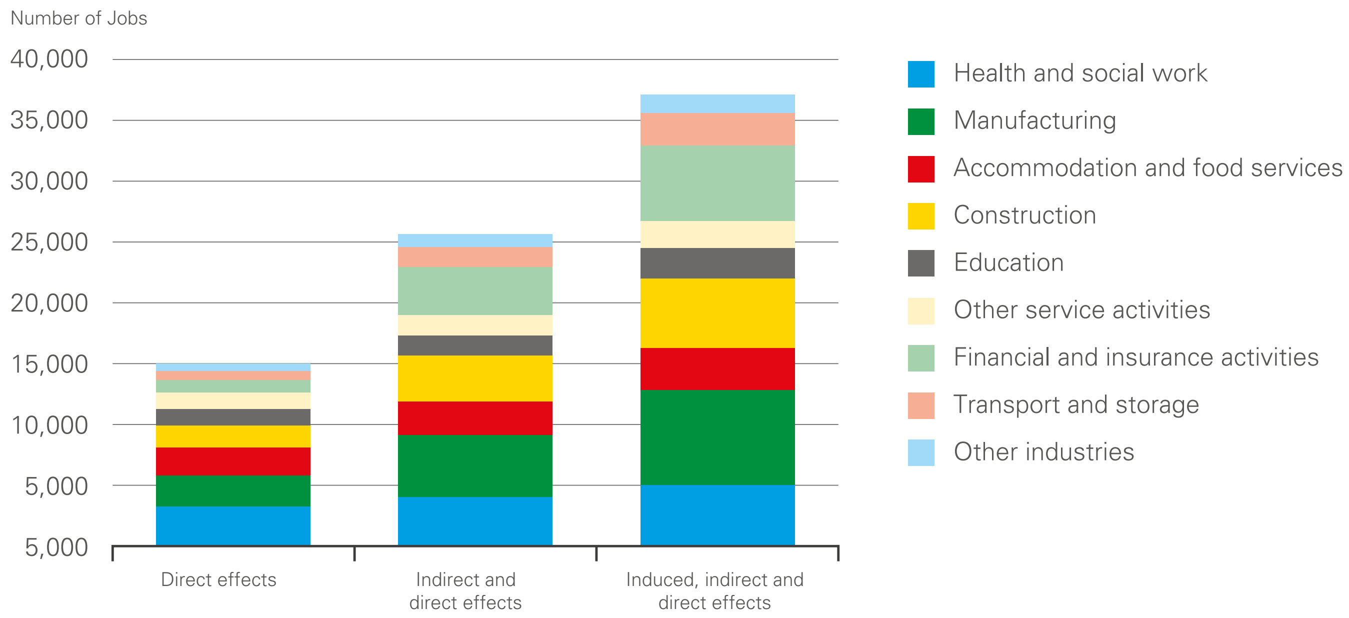
14,000 construction workers
or **11,400** electricians

7,500 nurses, **3,200** doctors
or **9,600** community workers

EFFECTS ON GROSS OUTPUT FROM EQUITY RELEASE SPENDING, IN £ MILLION



EFFECTS ON EMPLOYMENT FROM EQUITY RELEASE SPENDING,



The combined total takes the overall contribution to gross UK output from equity release to £7.1 billion. Every pound of housing wealth released is therefore worth an additional £2.34 in spending.

Whilst manufacturing stands to benefit the most from equity release spending, other industries, too, are experiencing a positive impact. The construction sector will benefit from £349 million in direct equity release spending. That's enough to support 14,000 construction workers or 11,400 electricians. In addition, the analysis shows £203 million in spending in the health and social care sector, which is enough to support 7,500 nurses, 3,200 doctors or 9,600 community workers.

Of course, the businesses benefiting from this spend will have increased costs to service increased demand. Yet even accounting for this, the boost to their bottom lines is substantial. In fact taking into account all impacts, the money released from housing wealth currently adds £2.4 billion to the country's gross value added (GVA) and supports a total of 37,100 jobs as shown in the graph above.

With the equity release market predicted to almost triple over the next four years, it is clear its impact on both UK retirees and the wider economy will only get stronger. The monies homeowners release act as a multiplier – helping people lead more comfortable retirements as well as supporting jobs in a number of sectors.

Property remains a deep well of wealth in the UK. It is one from which the country should now begin to draw from much more deeply.

CONTACT US

Deborah Goodier
PR & Communications Director
Legal & General Retirement
Legal & General Plc

020 3128 1299 Deborah.Goodier@landg.com