"BREXIT means BREXIT" …but what does BREXIT mean?

On the 23rd June something that many believed to be unthinkable happened. In the referendum that had preoccupied the UK and much of the financially literate world for months, the electorate voted to sever the country's 43-year membership of the EU. The vote represents a major reversal of popular sentiment. In the 1975 referendum on membership 67% of voters chose to remain in the EEC. In 2016, 52% voted to leave on a significantly higher turnout. While the vote has shocked many in Europe and across the world, with hindsight one can see it as the culmination of a change in sentiment that has developed over decades. In 1975, UK Home Secretary Roy Jenkins (later to be an EU Commissioner) commented on the result:

> *"It puts the uncertainty behind us. It commits Britain to Europe; it commits us to playing an active, constructive and enthusiastic role in it."*

The notion of Britain "playing an active and constructive role" in Europe will probably raise a bitter laugh amongst EU politicians and officials but that is precisely the point. Over time, support for membership has eroded to the point where the "remain" campaign in 2016 chose to focus largely on what its opponents characterised as "project fear": a message that essentially stated that the EU was gravely flawed but that the consequences of leaving would be even worse (much worse) than those of staying in and gritting our teeth. This was hardly a message to inspire and it didn't.

Those who regret the vote and are tempted to suggest that it can simply be set aside should reflect. At 72%, the turnout in the referendum was significantly higher than in the 2015 general election that elected David Cameron as Prime Minister. Further, while the vote was close, the leave side received a higher percentage of the popular vote than any UK government has received since 1945. The referendum result can be regretted but it cannot be ignored.

What is particularly disturbing about the current post-referendum position is that there is real dissension and uncertainty about what BREXIT means in practice amongst senior UK politicians and officials. Following recent announcements it appears that the Government will trade access to the single market for stronger control over EU inward migration thus making "hard BREXIT" a reality, but broader questions about the future shape of UK trade, the economy and relationships with Europe, the US, China and the rest of the world remain unanswered. Reports of cabinet discussions suggest that ministers are divided. We now know that Theresa May intends to trigger Article 50 to start the exit process by March 2017 but beyond that the future remains opaque.

If the UK Government doesn't know what BREXIT means one can hardly expect commentators across the globe to have more clarity. Given the UK's status as the world's fifth largest economy and therefore its capacity to influence global growth and stability, that is not reassuring. The Bank of England has identified a range of economic risk factors that BREXIT could exacerbate, including a deteriorating current account deficit, an overheating commercial property market, high levels of household indebtedness, a risk that buy-to-let investors will exit a falling housing market, subdued global growth and financial market fragilities.

In terms of housing finance, the picture is uncertain also. However, there are concerns centred on the risks posed by a weaker and more volatile pound, and slower growth. In spite of a cut in interest rates by the Bank of England it is not clear how long low interest rates can prevail in this changed environment. Although the London Stock Exchange has seen share prices rise, shares in residential developers have fallen significantly and it is likely that they will be cautious in terms of building new homes at a time when some are suggesting that UK house prices may have peaked. Privately, mortgage lenders indicate that BREXIT is likely to make them more cautious about the future. Affordable housing providers are suggesting that the Government's plans to expand development within this sub-sector may be unrealistic. BREXIT raises other uncertainties also. How quickly will the construction industry be able to train new workers if reduced migration cuts the supply of skilled workers from eastern Europe? Will reduced inward migration affect demand for homes and even the balance of housing tenures? Recent migrants tend to rent rather than buy.

So what does BREXIT mean? One suspects that this question is not going to go away any time soon.

Ironically, this issue of HFI has a strong focus on the Asia-Pacific region, where governments are working to tackle private housing market pressures and where uncertainty about the future is at least tempered by some consensus about the issues and by a degree of optimism. In addition to an excellent roundup of recent developments across the region compiled as always by Zaigham Rizvi, we have three new country-specific articles.

The New Zealand housing market has been overheating and the government has adopted a number of measures to tackle the problem. We are pleased to welcome back Shamubeel Eaqub to provide a robust analysis of the measures taken and their effectiveness. Mr Eaqub concludes that overall, the Government has failed to grapple effectively with the challenges identified, including rapidly rising house prices, high levels of investor activity and a long-term failure to build sufficient affordable housing.

South Korea is rarely featured in HFI and we are therefore pleased to present an article by Seung Dong You, a very experienced adviser and commentator on housing finance from that country. His valuable article provides a clear overview of recent developments in the South Korean housing and mortgage markets and an insightful analysis of risks to the housing finance market from both a macroeconomic and microeconomic perspectives.

In a fascinating article, Shi Ming Yu and Tien Foo Sing, examine the housing market in Singapore, focussing primarily on the public housing developed over many years by the Housing Development board [HDB]. HDB homes have helped keep housing affordable in Singapore and currently house over 80% of all households.

Returning to Europe, Steffen Wetzstein turns his attention to the private rented sector in an important article which examines the role and performance of private renting in the Anglophone countries with a strong focus on the UK. Wetzstein then goes on to analyse what needs to happen if the private rented sector is to adequately meet the needs of an increasing proportion of households in the future.

Our final article by Andreas Luckow, highlights some interesting and valuable work undertaken on comparative security rights over real property across Europe. The work was undertaken by an expert committee under the auspices of the Association of German Pfandbrief Banks [vdp] and the full results are available from them.

All in all, in these uncertain times one could do worse than spend a few hours studying this latest issue of HFI.