Will Brexit Affect the Housing Market in the United States?

By Rita Williams

In late June, British voters decided, by a narrow margin, to leave the European Union (EU).

If that sounds like a decision unlikely to affect homebuyers in the United States, it isn't. The vote, known as "Brexit" for ***Br***itish ***exit***, may end up having a significant impact on the U.S. housing market.

Why? Capital flows and world markets are interconnected. Events in one nation have broad consequences outside it.

The consequences on world markets were illustrated shortly after Brexit, when stock markets throughout the world plummeted. The United Kingdom's financial establishment campaigned against Brexit, concerned that leaving the EU could dampen the economy and cause a rise in unemployment. An economically weak United Kingdom could exert a negative pull on its international trading partners, including the United States.

Brexit will cause the United Kingdom to lose economic benefits connected with EU membership, including pan-EU trade agreements, wider markets, and free movement for travel and labor. All these have been net favorable factors for the British economy over the 40 years of its EU membership.

While the referendum was driven by anxieties about the perceived economic impact of *staying* in the EU — required payments to the EU and the effect of immigration on British wages — leading economic institutions like the International Monetary Fund and the Organisation for Economic Cooperation and Development (OECD) consistently observed that EU membership was in fact an economic benefit for Britain. The OECD forecasts that Brexit will result in a loss to each British household of £3,200 by 2030.

A Positive Effect for U.S. Mortgage Rates

But the effects are not limited to households in the United Kingdom. Brexit will also affect U.S. homebuyers.

The first one is positive. The yield on U.S. Treasury notes fell in the wake of Brexit. It is likely to continue low or even decline further. Mortgage rates follow the direction that Treasury notes set. Last week, the Treasury yield hit a record 3.40% low compared with 3.49% the week before, significantly lower than the year-prior rate of 4.02%.

Lower interest rates have 3 potential benefits for U.S. homebuyers: 1) they increase the size of the mortgage consumers can get approved for; 2) they can make mortgages more affordable for prospective homebuyers previously priced out of the market; and 3) they make it possible for existing homeowners to refinance their mortgage.

The Potential for Rising Prices

As significant as mortgage rates are, they are not the only positive real estate news as a result of Brexit. U.S. real estate prices in certain areas may rise.

Why? London has been a site of second homes for the well-heeled for a long time. Asian and Middle Eastern buyers have historically been attracted by the United Kingdom's stability, both financial and political.

But real estate prices may decline in the United Kingdom as a result of Brexit. Forecasters cite potential decreases of 15% to 20%.

As a result, those in the market for second homes in a country with financial and political stability may well turn to the United States, especially the major cities.

The resultant demand may propel U.S. real estate prices higher in some areas.

The Potential for Slackening Demand

But Brexit may also cause a negative impact on demand in other markets.

Why? British citizens are large buyers of second homes in certain areas of the United States. In Florida, for example, buyers from the United Kingdom account for over $1.5 billion in residential real estate annually.

But if the British economy stagnates or declines, or real estate prices in the United Kingdom drop, that portion of the U.S. market may see a corresponding decline.