NY home prices could fall 10% if House GOP's mortgage plans pass: Moody's economist

Mark Zandi warns of risks in shadow banking system

By: Konrad Putzier, The Real Deal, November 08, 2017

Congressional Republicans want to limit the mortgage interest deduction, and that could be very bad news for the housing market in greater New York. Home prices could fall by 3 to 5 percent countrywide, but by more than 10 percent in suburban counties close to the Big Apple, Moody's Analytics chief economist Mark Zandi said Wednesday.

Last week, the House **GOP unveiled a tax reform plan** that would, among other things, limit the mortgage interest deduction to debt of $500,000 or less, down from a current cap of $1 million. The change would raise tax bills for many homebuyers and cut into demand for housing, particularly in pricier zip codes, analysts say.

Still, Zandi said he doesn't think it's likely the House GOP's mortgage reform plans will actually come to fruition amid fierce opposition from trade groups.

Speaking at an event hosted by the Urban Land Institute New York, he also offered a bleak outlook on the retail market, which is struggling even as the economy and consumer spending appear healthy. "What would the world look like for these brick and mortar retailers if the American consumers weren't out there spending as strongly as they were," he said, adding that pessimism over retail real estate valuations is "well founded."

Zandi expects the U.S. economy to continue for the rest of the decade, but predicts a recession in 2020, fearing that financial markets underestimate the looming rise in interest rates.

He pointed to the shadow banking system, which has grown rapidly over the past decade, as a potential trigger of the next recession. Non-bank lenders such as private debt funds depend on short term financing and repurchase facilities from banks for their survival, and that's where he thinks the risks are. "Those markets are going to shut down immediately once there's a problem," he said.

On Monday, *The Real Deal* reported that non-bank lenders in commercial real estate **increasingly borrow from banks** to fund the mortgages they issue and that this often exposes banks to risky loans.