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The Slow Housing Market Can Hurt Government Revenues, But Doesn't Have To.

How much home sales impacts a place depends a lot on its property tax policies.

Home sales have been ticking down for months. It's been particularly bad in the West, where 15 percent fewer homes were sold in December compared to the previous December. The slowdown is widely expected to continue, but how it affects local governments will differ.

That's largely thanks to a government's property tax policies. According to a new analysis from Fitch Ratings, the places least vulnerable to a slow housing market have strong caps on property tax rates and have assessed property values that lag far behind market values.

That bodes well for places out West, such as California, which has one of the nation's toughest restrictions on property taxes. Thanks to Proposition 13, which caps property tax rates, counties in California were spared from severe drops in property tax revenue when the housing market collapsed in 2007 because that revenue was already artificially depressed, according to Fitch's analysis.

"You have a huge way to go for the market decline to affect the assessed value," says analyst Amy Laskey, who co-authored the report. "That's why in Los Angeles, you saw big home price declines, but there was no corresponding decline in assessed value."

By contrast, places without caps on property tax revenue have assessed values that trend closer to actual home values. That creates more volatility.

So while Los Angeles and Chicago had similar declines in home values — about 40 percent between 2006 and 2012 — assessed values in L.A. only dipped by 2 percent. In Chicago, they fell by a whooping 28 percent.

Reasons for the Slow Housing Market

Rising mortgage rates and home prices are largely being blamed for the current slowdown.

According to new data from the National Association of Realtors, the market is slowest in the West, which along with the Midwest, has shown minimal or zero gains in prices from a year ago. Nationally, prices are up nearly 3 percent from last December, but that's roughly half the average growth rate in 2017.

Some believe that the 2017 federal tax overhaul's new limits on mortgage interest and property tax deductions will create more downward pressure on home prices in certain places across the country. That will affect localities differently, too.

Cumberland Advisors CEO John Mousseau is watching places where wealth is concentrated and where taxes are high, including Boston, New York City and its suburbs in Northern New Jersey and

Fairfield County, Conn. Homeowners in these places are no longer getting the tax breaks they used to on their properties. “As long as there’s no recession,” he says, “I think home prices in places like these will stagnate or maybe even decline a little.” That could further hurt the local government’s property tax revenues.

But declining home prices aren’t necessarily a bad thing, Mousseau says. According to Fitch’s data, several major markets — including many out West — are currently overvalued. “I think what you’ll see is a realignment of house prices,” he says. “The idea that house prices can go up 6 or 7 percent a year — I think that’s going to go away.”

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