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Fitch: California Property Taxes Buffered from Home Price Declines

Fitch Ratings-New York/San Francisco-29 September 2022: Slower home price growth or price declines in California will have a limited effect on local government property tax revenues, Fitch Ratings says in its report California Property Taxes Buffered from Residential and Commercial Valuation Swings.

California tax assessment calculations serve to smooth volatility in home values so that changes in tax revenues are not equal to home price swings. Home prices in California have been increasing for the past decade and jumped by nearly 43% since the pandemic began in 2020. However, rising interest rates are tempering home prices and sales.

Since 2000, TAVs have not fallen nearly as much as the largest home price decline for any county. The largest average one-year decline in home prices for all counties was 21%, while the largest average one-year TAV decline was only 3%.

According to our most recent U.S. RMBS Sustainable Home Price Report, California home prices are 10%-14% overvalued. We assessed a 14% home price decline across counties, which resulted in an average TAV decline of only 0.9%. Under this hypothetical scenario, tax revenue will be mildly affected for the vast majority of counties. Generally, governments anticipate lower assessed values and the resulting effects on property tax revenues and adjust budgets accordingly.

Pressures on commercial properties, such as lower occupancy at offices and urban retail spaces due to hybrid work, could also affect TAVs but to a lesser extent. Commercial property TAVs, while more variable than residential TAVs, are a smaller component, 17% on average, of counties' total TAVs. Counties with greater exposure to commercial properties or homes purchased at, or near, peak market value could see slower property tax growth in the next two years.

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