Ground Level Economics:
Why Real Estate Drives California's Fiscal Health

By Karl Otto Meng, *Portfolio Strategist*
Chandler Asset Management

It has been stated time and again: *Buying a home is the single largest investment most people make; home ownership is a key path to building wealth. For many, it is the American dream. But beyond the individual, what is real estate's broader impact on the economy, communities, and society?*

Economy
The real estate market has a significant impact on the general economy because it constitutes a large portion of the country's economic activity. Real estate, rental, and leasing in California contribute approximately $539 billion (around 14%) to the state's GDP per year, which is also the highest among all states in the U.S.[1] Real estate transactions create economic activity across more than 20 related industries, including banking and lending, title and escrow services, home improvement retail sales, construction, legal services, insurance, and moving companies[2]. Real estate-related activity fuels job creation and income growth for the broader economy.

Furthermore, housing demand and high property values command significant economic influence. Changes in home prices, sales volumes, and housing affordability influence consumer spending and financial markets. Home ownership indeed represents a major portion of household wealth.

Local Community
The impact real estate has on a household's financial situation is clear, and those fortunate enough to own a home are all too familiar with property taxes. What is less understood is where those tax dollars go. In California, property tax revenue funds local services—they do not go toward the state's general budget.

> *"Our new Constitution is now established, and has an appearance that promises permanency; but in this world nothing can be said to be certain, except death and taxes."*
>
> *- Benjamin Franklin*

[1,2] Gov.ca.gov, www.gov.ca.gov/2025/04/05/icymi-bloomberg-news-california-keeps-making-the-u-s-great-again/

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Public schools (K-12 and community colleges) receive the largest share. Next, counties and cities use the revenue to pay for government services including sheriff and police, jails, court support, public health, social services, libraries, and local roads. Special districts—such as your local fire protection district—are highly dependent on property tax revenue to fund operations. As an example, Chandler works with a special district that cited property taxes as 88% of the district's total revenue in FY 2024-25.

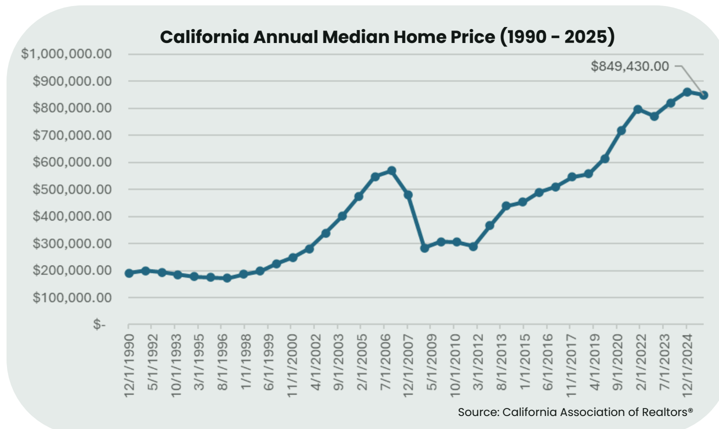
Property tax revenues are impacted by home sales volumes and prices. Municipalities in rising real estate markets may see stable or rising revenues, while those in vulnerable markets may face stagnation or decline, which may consequently affect budgets and services provided. The median amount of property tax paid per home across all 58 counties in California is $4,045 per year[3].

Society

Real estate has been an asset class as long as sovereign government systems have been enforcing property ownership rights. When the U.S. enacted the Homestead Act of 1862, land grants changed the landscape of the west. Then, 158 years later, a pandemic struck the globe, and the second order consequences reshaped the real estate market and the way people live and work.

Working from home and hybrid schedules yield benefits like more time with friends and family, but also bring challenges such as declining commercial real estate demand. In response to the Covid-19 pandemic, the U.S. Federal Reserve cut interest rates to zero and expanded balance sheet assets to over $9 trillion. What followed was a combination of the lowest mortgage rates on record, along with widespread post-pandemic adoption of the new work-from-home regime.

Together, those two factors drove the post-pandemic real estate market boom. 63 months after the pandemic, in June 2025, the S&P Cotality Case-Shiller U.S. National Home Price Index was up over 53%! In California, the annual median home price was $849,430 as of December 2025.[4]



A Harbinger for Recession?

Recently, concerns have been mounting as to whether the real estate market boom has peaked. With the significant impact the real estate market has on the economy, a pull-back in the market could be a telltale leading indicator of a recession. A high-level assessment of seven key recession signals for the real estate market may help gauge the current state of the economy.

First, the bad news:

- Home sales and transactions have been slowing across the new and existing home market.[5]
- The inventory of unsold homes has been rising in terms of amount of months' supply.[6]
- Construction spending has been slowing, renovations have been falling, and home improvement retail sales have shown signs of slowing.[7,8]

[3] worldpopulationreview.com/states/california/property-tax
[4] California Association of Realtors®
[5] National Association of Realtors (US NAR Total Existing Homes Sales SAAR)
[6] fred.stlouisfed.org/series/NHFSEPTS
[7] U.S. Census Bureau, Census Bureau US Construction Spending Total SAAR Yr Percent Change
[8] www.jchs.harvard.edu/press-releases/remodeling-growth-set-downshift-late-2026

Now for the good news:

- Home prices have not dropped more than 5%, and consecutive declines have not exceeded 6 months.[9]
- Foreclosure rates have not risen above average levels, nor have delinquencies been rapidly rising.[10]
- Mortgage rates trended lower throughout 2025.[11]
- And finally, the labor market related to construction and real estate was not slowing as of this writing.[12]

The post-pandemic boom has waned, yet a significant real estate market correction would not appear to be imminent.

Outlook

The supply constrained U.S. existing home sales market has provided a firm counterbalance to pressure from elevated home prices, higher mortgage rates, and affordability issues. New home inventory is high, and home builders have been offering incentives to sway prospective buyers into the market. Mortgage rates could edge lower if the Federal Reserve continues to ease monetary policy. However, fiscal policy measures focused on supporting the real estate market may provide more relief to the supply and demand imbalance.

On February 9th, 2026, the U.S. House of Congress passed The Housing for the 21st Century Act (H.R. 6644) with the mission statement "To increase the supply of housing in America."[13] The bill followed the Senate's passing of the ROAD to Housing Act in October 2025. Both bills incentivize local governments to ease zoning restrictions while including provisions to cut red tape, streamline environmental reviews, and expand modular housing availability.

Negotiations between the House and Senate could result in a blended bill with White House support in 2026. The administration is also advancing policies to ban or restrict institutional investors from buying single-family homes, aiming to free up inventory for first-time home buyers and owner-occupiers. Tackling the underlying supply–demand imbalance would likely create a more sustainable path to homeownership and provide stronger support for the broader real estate market.

The Chandler team will continue to monitor economic developments in the real estate market and reflect our capital market expectations in our clients' portfolios.

*If you'd like to speak with a Chandler representative for more economic insights, or to schedule a consultation about your agency's portfolio, please contact us at **info@chandlerasset.com***

[9] S&P Cotality Case-Shiller 20-City Composite City Home Price SA Index MOM%
[10] Mortgage Bankers Association, Foreclosures As % of Total Loans NSA and Delinquencies As % Of Total Loans SA
[11] Freddie Mac Commitment Rates: Freddie Mac Enhanced PMMS US 30 Year Fixed Mortgage Rate
[12] Bureau of Labor Statistics: US NFP Residential Building Construction SA MOM and US NFP Activities Related to Real Estate SA MOM
[13] H.R.6644 - 119th Congress (2025-2026): Housing for the 21st Century Act | Congress.gov | Library of Congress

Disclosures

The S&P Cotality Case-Shiller home price index tracks monthly changes in the value of residential real estate in 20 metropolitan regions across the nation.