

## San Luis Obispo County Market Update

Most Recent Trends At A Glance Reported: **Aug. 2024**

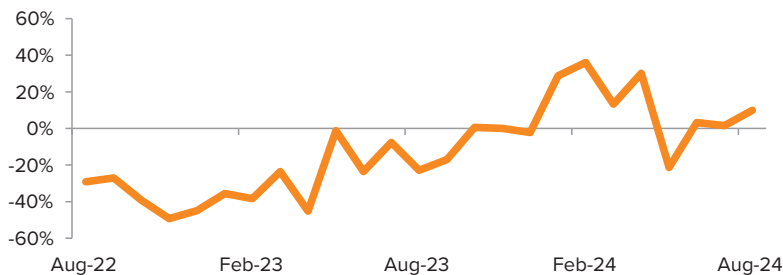
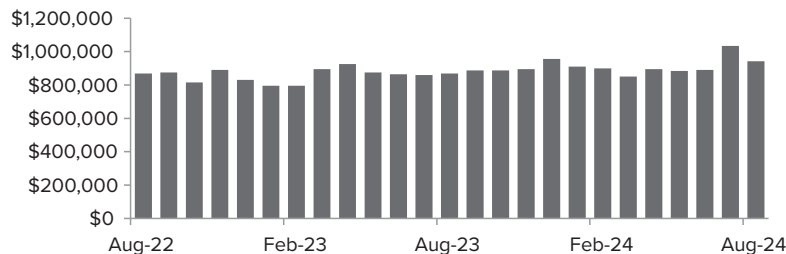
### MEDIAN PRICE

For SF Detached Homes

**\$942,000**

-8.9% MTM

8.5% YTY



### HOME SALES

For SF Detached Homes

**+9.9% YTY**

-2.9% MTM

8.2% YTD



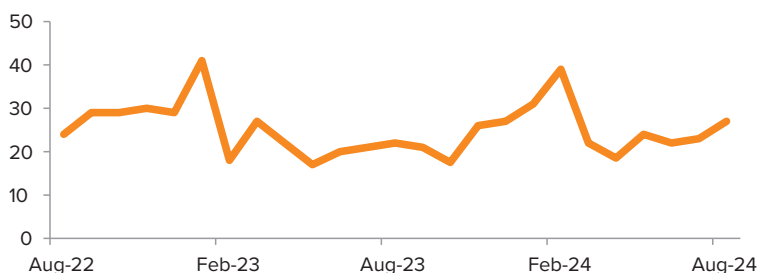
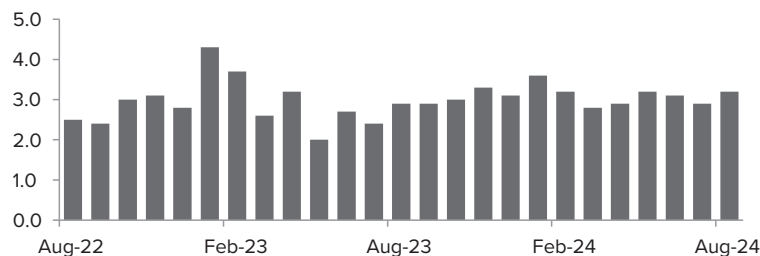
### UNSOLD INVENTORY

For SF Detached Homes

**3.2 Months**

10.3% MTM

10.3% YTY



### MEDIAN TIME ON MARKET

For SF Detached Homes

**27 Days**

17.4% MTM / 22.7% YTY



### INTERESTING FACT

In 1845, Congress decided Election Day would always be held the first Tuesday after the first Monday in November. This date was after harvest, farmers could attend church Sunday, travel to their polling site Monday, vote and be back home in time for market on Wednesday.

### MOST EXPENSIVE HOME SOLD IN SLO COUNTY THIS PAST MONTH



2425 Battering Rock Rd.  
Templeton, 93465

**Selling Price:**  
**\$2,400,000**

4 BED / 4.5 BATH  
3,588 square feet

PRICE PER SQ-FT:  
\$668.90

## PROPERTY VALUES & HOUSING COSTS

Last month, home prices in California were up 4.2% compared to last year, selling for a median price of \$818,300. For reference, the median price nationwide was \$428,096. With a limited supply of homes and ever-present demand, prices in the state are expected to increase another 4.6% in 2025 reaching \$909,400. Here we look at the factors driving prices upward and what these high prices mean.

### SUPPLY SHORTAGE

California doesn't have nearly enough homes to keep up with demand. Governor Newsom's administration has set a statewide production goal of roughly 2.5 million new units by the end of the decade (roughly 315,000 per year). The state has never built homes that quickly though. In 2023, California issued 111,221 new housing permits, which was a 6% decrease from 2022. Housing building permits per capita are among the lowest in the nation.

### PROP 13 AND PROPERTY TAXES

**Proposition 13, adopted by California voters in 1978**, mandates a property tax rate of one percent, requires that properties be assessed at market value at the time of sale, and allows assessments to rise by no more than 2% per year until the next sale. This means that as long as property values increase by more than 2% per year, homeowners are incentivized to remain in the same house because their taxes are lower than they would be on a different home of the same value. Prop 13 gives rise to a lock-in effect for owner-occupiers that strengthens over time. This affects the rental market, both directly because it applies to landlords and indirectly because it reduces the turnover of owner-occupied homes. Empty nesters with large homes face less financial pressure to downsize and make room for new buyers.

### DEVELOPMENT COSTS & RED TAPE

Another consequence of capped property taxes is that local governments have to scramble for other sources of cash. One of those sources lies with housing developers. On average, California levies the highest developer fees in the country, making it that much more difficult to build new housing.

The cost of building multifamily housing in California spiked by about 25% between 2010 and 2020, according to a report by the Turner Center for Housing Innovation at UC Berkeley. Rising material costs, a shortage of labor, permitting delays, borrowing costs, local fees, environmental restrictions and local pushback all combine to hinder construction projects, especially those intended to increase affordable housing.

### INSURANCE COSTS

The higher property values go up, the higher insurance costs become. Insurers generally require homeowners to hold enough insurance to cover 80% of the replacement cost of their homes. In a state where insurers are already pulling back because of increased wildfire risk, rising property values aren't necessarily a good thing.

### WAGES

Across the nation, housing costs have grown much faster than wages, making it more and more unaffordable to buy a home. The median annual household income in the U.S. increased by 77.6% between 2000 and 2022, while the median home price nearly tripled. Nationwide, home prices are about five times the median household income. In California, they're eleven times higher than the median household income.

### RENTALS

The spike in home costs has left millions of people stuck renting, driving up competition and prices in that market too. For a record half of U.S. renters, their housing is now unaffordable. Since 2001, inflation-adjusted rents have gone up 10 times faster than renters' income. In California, where it's difficult to buy a home, wealthier people stuck in the rental market have also driven up rents.

### INTEREST RATES

With such a low supply, interest rates can't do much to improve housing prices. During the pandemic rates were slashed below 3%, giving buyers much better terms for entering the real estate market. However, these low rates drove up demand which, in turn, raised prices. In 2022, the Fed started driving rates back up in order to combat inflation. (They hit 7.79% in October of 2023). This turned buyers away as well as potential sellers who preferred to stick with their low rate, further depleting supply and, you guessed it, raising prices.

The central bank is predicting two more rate cuts in 2024 and another four rate cuts in 2025. California has always been a desirable place to live. As long as inventory is tight, sellers will benefit from their investments and buyers will have to remain competitive.