



# MEMORANDUM

AGENDA ITEM #VII.B

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DATE: JULY 31, 2023  
TO: COUNCIL MEMBERS  
FROM: STAFF  
SUBJECT: CORRESPONDENCE AND ARTICLES

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- State Farm Florida is now the state's second-largest home insurer. It vows to stay in Florida
- Thousands of Citizens policyholders may have to switch home insurance coverage
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- Message to Southwest Florida: 'Help is on the way' Nearly one-third of the state's population relies on septic tanks for wastewater disposal
- Regional Banks Scramble to Unload Commercial Real Estate Loans, Fearing New Crisis

\*\* SFRPC

Recommendation: Information only

## State Farm Florida is now the state's second-largest home insurer. It vows to stay in Florida.

BY RON HURTIBISE



*View of a pile of trash collected around South Florida, at the Miami-Dade Resources Recovery Facility in Doral, on Friday April, 14, 2022, less than a year before a fire shut down the facility in February 2023. PEDRO PORTAL pportal@miamiherald.com*

State Farm is becoming a good neighbor to Florida again.

The company regained its position as the state's largest private market insurer — and No. 2 insurer overall — during the first quarter of the year, supplanting longtime No. 2 Universal Property & Casualty Corp., according to an analysis of marketshare data produced by the state Office of Insurance Regulation.

It's a positive sign amid continued bad news about Florida's insurance market, and an early indication that recent reforms could inspire more companies to expand their presence in the state.

State Farm increased its number of personal residential policies from 558,604 in the third quarter of 2022 to 588,005 in the first quarter of 2023, the data shows. That's an increase of 29,401 — or 5.3%. Universal Property & Casualty, meanwhile, lost 44,775 policies — or 7.0% — during that time and reported 584,954 policies in the first quarter of 2023.

State Farm even responded last week to reports that Farmers Insurance would cut 100,000 company-branded policies in Florida and AAA would decline to renew a number of its policies here by releasing a statement declaring it plans to remain in the state.

"State Farm plans to continue our substantial presence in the Florida insurance marketplace," the company said in a written statement. "Our current plans include a commitment to responsible growth so that we can maintain the financial strength to deliver on our promises to our customers."

The statement said that State Farm is “encouraged by the recent insurance reforms and efforts to curb legal system abuse” in Florida “and we will continue to work constructively with the Florida Legislature and the Office of Insurance Regulation to improve the marketplace on behalf of our Florida customers.”

The state’s data shows the venerable insurance carrier — which also sells auto, life, medical, pet insurance — has been slowly adding customers, 30 years after Hurricane Andrew’s assault on South Florida prompted State Farm and other national carriers to reduce their exposure in the state.

When Hurricane Andrew caused \$25.5 billion in damages and 625,000 claims in 1992, State Farm was the state’s largest carrier. The storm’s devastation caused 20 companies to pull out of the state. Eight companies went out of business, according to published reports at the time.

And State Farm announced it would no longer write policies for new customers in Florida.

Lawmakers reacted by forming Citizens Property Insurance Corp. to serve as the insurer of last resort for Florida homeowners who could not otherwise find affordable coverage.

Growth of Citizens eventually led a number of homegrown private market insurers to start their own businesses by absorbing Citizens’ policies.

If that sounds familiar, it’s because a similar insurance crisis is unfolding in Florida today.

A confluence of events — several costly hurricanes, high litigation rates, inflation-triggered increases in inflation costs and rising reinsurance costs — has caused rates to skyrocket and Citizens to grow again.

After reaching 1.5 million policies in 2012, Citizens declined to 419,000 policies by 2019.

But now, as private-market insurers are failing again, Citizens has reached 1.3 million policies and continues to grow.

State Farm, meanwhile, remained Florida’s top insurer until it was overtaken by Citizens in the years after a succession of costly storms hit the state in 2004-2005.

In 2007, State Farm had just over 1 million policies.

By 2009, State Farm had fallen to second place, with about 700,000 policies, behind Citizens, which by that time was at 975,500 policies, according to state data.

By 2013, State Farm had fallen to 361,493 policies and was in third place behind Citizens (983,629) and Universal (499,040). And that was the last State Farm policy count available to the public for a decade.

The next year, State Farm started classifying data sent each quarter for the state’s Quarterly Supplemental Report as “trade secret,” meaning it could no longer be available to the public. The company successfully defended its decision in court against the Office of Insurance Regulation. It argued that releasing county-level policy totals publicly provided rivals with too much “proprietary” information.

While State Farm remained among the major carriers in Florida, insurance watchers in Florida suddenly lost the ability to know how many policies it had, and how the company compared to other insurers.

That changed during a special legislative session to enact insurance reforms in May 2022. Along with a number of measures to help stabilize the industry, the Legislature required insurers to submit policy and cost totals each quarter and eliminated the “trade secret” exemption for statewide data.

The first of those reports, with policy totals for the third quarter of 2022, was released around the beginning of the year. It showed State Farm in third place in Florida, behind Citizens and Universal Property & Casualty. The second report, covering the fourth quarter of 2022, showed that State Farm had increased from 558,604 personal residential policies to 576,847.

In the first quarter of this year, the company reported 588,005 personal residential policies, enough to move it into second place.

How many of those policies are in South Florida is not included in the data. But State Farm spokeswoman Roszell Gadson said in an email that the company “continues to insure a significant number of policies in South Florida” and suggested that consumers in “higher risk areas can speak to a State Farm agent about applying for a policy through the State Farm subsidiary company Dover Bay Insurance.”

Travis Miller, a spokesman for Universal, on Friday said the company in recent quarters has written “significantly fewer new policies” due to the “well-documented market concerns” in Florida. Meanwhile, the company’s overall policy number has declined as existing policyholders have sold their homes or gone to other companies, like Citizens, he said.

However, “in the last few weeks it has gradually and conservatively increased the amount of new business it is willing to write” as it assesses that “the market is showing early signs of improvement,” Miller said.

Locke Burt, a former state senator and current president and CEO of Security First Insurance, said he’s glad that State Farm is growing again.

“People who go to State Farm like getting their auto and home insurance from the same company,” Burt said. “My biggest competitor is Citizens. I can’t compete with the government.”

**Read more:** <https://www.sun-sentinel.com/2023/07/24/state-farm-florida-is-now-the-states-second-largest-home-insurer-it-vows-to-stay-in-florida/>

# Thousands of Citizens policyholders may have to switch home insurance coverage

BY SHELDON DUTES



ORLANDO, Fla. — As Farmers Insurance gets ready to leave the state and AAA announces plans not to renew some Florida home insurance policies, tens of thousands of Citizens policyholders may now lose their coverage.

Citizens, the state-backed insurer that's traditionally a last resort, has grown to more than a million policyholders over the past two years, but tens of thousands of Citizens policyholders like Mike McKee are bracing to find out if they'll be forced to get new pricier premiums with a private insurance company.

**Related:** [Florida homeowners left in limbo as insurance crisis worsens](#)

"I don't know what to do now. If the insurance goes up on this house, then it'll be a choice between do I insure at rate or do I not insure at all?" McKee asked aloud.

McKee's dilemma isn't unique. For more than three years now, homeowners across Central Florida have been dealing with home insurance premiums that keep going up.

WESH 2 first met McKee in 2021 when he was getting ready to put a metal roof on his house near downtown Orlando. Even with the new roof, however, Citizens was the only company he could get to affordably cover his home.

But now he's wondering what would happen if he gets dropped. "I'd lose my mind for about 30 seconds, and then I'll research and see what I can do," McKee said. "Again, that option would be if it's exceedingly expensive, I may just self-insure, and that might. I'll just have to wait and see what happens at that point."

Ten of thousands of Citizens policyholders may no longer be eligible for coverage if a private company offers to take over their policies. It's what Citizens calls "depopulation."

Here's how the depopulation process works: Citizens will let you know that a private company wants to take over your policy. If that private company's premium is within 20% of your Citizens premium, you would no longer be eligible for Citizens. You don't necessarily have to go with that private company, but you'd no longer be able to get coverage through Citizens.

For example, if the premium for your Citizens policy is \$3,000 and you get an offer from a private company for \$3,600 or less, you wouldn't be able to keep your Citizens policy. That means some Citizens policyholders could end up spending more, or less, money on their new policies.

When it comes to deciding what's best for your home, you may have to do a little legwork. "We suggest that they talk with their insurance agent," Citizens' spokesman Michael Peltier said.

**Related:** [Farmers Insurance Group stops writing new property policies in Florida](#)

Since 2009, Citizens reports 1.7 million of its policies have transferred to private companies under the depopulation process, which helps Citizens lower its risk by having fewer policies.

Policyholders used to have the option to stay with Citizens when that happened, but that changed during the state legislature's special session last December when lawmakers voted to change the requirements.

"So it's not an option anymore, if you're within that 20%," said Mark Friedlander of the Insurance Information Institute.

All of the private companies that take over Citizens policies have to be financially fit and approved by the Florida Office of Insurance Regulation. The state recently approved Tampa-based company Slide to take over up to 25,000 Citizens policies.

"Citizens doesn't have a say in which policies are chosen," Peltier said. Letters to impacted policyholders were supposed to go out on June 28, but Citizens didn't have the total number when WESH 2 Investigates asked multiple times how many policyholders received notices.

**Related:** [Florida insurance complaints rise in wake of Hurricane Ian](#)

Regardless, more and more private companies are taking over Citizens policies. So far this year, the Florida Office of Insurance Regulation reports seven different private companies were approved to takeover 91,000 Citizens policies, but that number could climb even higher because the office reports 184,000 Citizens policies have been requested for takeover.

It's all just a drop in the bucket, however, to help Citizens, and the overall home insurance market, stabilize. "Citizens needs to depopulate in total by at least a million policies to get it down to a manageable number, so there's a long way to go, but the fact that Citizens is still forecasting major growth this year that's very problematic," Friedlander said.

**Read more:** <https://www.wesh.com/article/citizens-insurance-policyholders-florida/44589763#>



# Miami-Dade County mayor proposes property tax reduction in \$11 billion budget

BY CADEN DELISA



*View of a pile of trash collected around South Florida, at the Miami-Dade Resources Recovery Facility in Doral, on Friday April, 14, 2022, less than a year before a fire shut down the facility in February 2023. PEDRO PORTAL pportal@miamiherald.com*

Miami-Dade County Mayor Daniella Levine Cava presented her proposed county budget for the upcoming fiscal year of 2023-2024 this week, which features a 1 percent property tax cut.

The levied tax cut, as part of the \$11.6 billion budget, would provide upwards of \$36 million in savings for county residents. If approved, the reduction would mark the second consecutive year of tax rate decreases.

“The proposed 1 percent property tax cut will provide immediate relief to residents, while also ensuring our county can continue to provide essential services,” said Levine Cava following the presentation of the proposal.

According to a county-provided [financial breakdown](#), property taxes will account for 37 percent of the operating budget, or \$2.7 billion. As a result of rising property values in South Florida, the projected contributions generated via property taxes will exceed that of the year prior, which brought in \$2.4 billion, equating to 36 percent of Miami-Dade’s budget.

The county currently collects \$462 for every \$100,000 of a property’s taxable value and has one of the highest median property taxes in the United States, ranked 210th of the 3143 counties nationwide.

Market data from Jacksonville-based [Black Knight](#), a real estate data analytics company, shows that Miami is one of the top cities in the nation in terms of annual growth of home prices at 20.1 percent over last year. The metro area was also deemed to be the 6th least affordable real estate market in the country, which is calculated by comparing monthly mortgage payments with monthly household income. On average, a home mortgage in Miami consumes approximately 51 percent of household income.

In total, the budget highlights several additional areas of focus, including investments in affordable housing, public safety programs, environmental protection, and local infrastructure. Adding to preexisting municipal efforts, the proposal grants allocated funding to improve the county's transit systems, including the Better Bus Network, completing the South Corridor of the SMART Plan, and making upgrades to the MetroRail and MetroMover systems.

Support for small businesses is also included in the budget, with funding given to Community Development Block grants to encourage economic development, minority-owned small business grants to support local entrepreneurs, and the completion of a procurement disparity study to promote equal opportunities for small and local businesses.

“With this year’s budget, we’re creating a more future-ready Miami-Dade – building for today and investing in tomorrow,” said Levine Cava. “As we continue offering much-needed relief to many residents, we’re also building the foundation for future prosperity and growth. We have proposed a budget that is smart, compassionate, and puts people first. It builds on last year’s historic tax cut while continuing to make key investments in our community’s core priorities.”

Read more: <https://thecapitolist.com/miami-dade-county-mayor-proposes-property-tax-reduction-in-11-billion-budget/>



## Miami-Dade's recycling program in jeopardy as commissioners punt on fee increase

BY DOUGLAS HANKS



*View of a pile of trash collected around South Florida, at the Miami-Dade Resources Recovery Facility in Doral, on Friday April, 14, 2022, less than a year before a fire shut down the facility in February 2023. PEDRO PORTAL pportal@miamiherald.com*

Miami-Dade County could drop its recycling service in an effort to dodge a \$36 yearly increase in trash fees in 2024.

Commissioner Kevin Cabrera asked fellow board members Tuesday to cancel the recycling contract immediately and save the county's Solid Waste department \$22 million rather than ask residents to pay more starting Oct. 1.

"If we were able to cancel the recycling contract today, we could not raise fees on our residents," Cabrera said. With recycling costs for Miami-Dade higher than in past years, he urged the county to join other local governments in deciding recycling "doesn't make sense" financially.

Commissioners opted to postpone the trash-fee and recycling decisions until September, when the board approves the 2024 budget.

Most commissioners who spoke said they weren't ready to approve a fee increase that Mayor Daniella Levine Cava said is needed to avoid cuts in garbage services for about 300,000 households that rely on county trucks to pick up trash and recycling.

In a memo, Levine Cava said keeping the current \$509 fee flat next year would leave a funding hole to be closed with service cuts. Those could include dropping one of two weekly garbage pickups and ending the county's recycling service as Cabrera proposed.

[READ MORE: Miami-Dade has its first \\$11 billion budget. Why a lower tax rate won't cut spending](#)

After the meeting, Levine Cava said she didn't think Miami-Dade would make that drastic move. "I think we're going to find a way to pay for collection services," she said. "There are different options that include recycling."

The impasse is the latest challenge for the county's underfunded trash system in 2023. [A February fire](#) shut down the county's Doral incinerator plant, idling a facility that burned about half of Miami-Dade's garbage.

That led to a temporary shift to landfills in and out of Miami-Dade, an arrangement that won't be enough for the county to keep up with the extra trash produced by a growing population. Mike Fernandez, Solid Waste director under the last two mayors, [quit earlier this month](#) and warned Miami-Dade would need to halt development next year if it didn't find a way to dispose of more trash with the Doral plant down.

The fee increase wasn't tied to the Doral fire, but a chronic issue in Miami-Dade of the garbage fees not covering expenses. Last year, Miami-Dade raised the fee by \$25 a year but still had a deficit, which commissioners and Levine Cava closed using \$40 million in federal COVID aid.

This year, there is another \$40 million gap. The proposed fee increase generates only about \$12 million, according to the Levine Cava memo. The remaining \$28 million would be borrowed from Solid Waste reserves and paid back with future fee increases.

Miami-Dade mailed out advisories about the trash-fee vote, and several residents appeared with their notices to ask for relief.

"I'm a senior. My husband is a senior," said Rose Ling, 67, a retiree who lives in West Kendall. With higher insurance costs, their Social Security payments can't absorb even small fee increases, she said. "This is very impactful for us."

Javier Balcells, 64, said the increase is double for him because of a garage apartment on his property that requires a second fee for trash service. "My son lives there," he said. "He's unemployed."

Oliver Gilbert, the commission chair, supported the fee increase and said it made no sense to deny more revenue is needed to maintain a basic service like picking up trash. Elected in 2020 after new term-limit rules forced veteran commissioners to leave office, Gilbert said the new board needed to do better.

"We're kicking the same can down the same road," he said. "Even though we all said we'd be different."

Read more at: <https://www.miamiherald.com/news/local/community/miami-dade/article277420653.html#storylink=cpy>

## Palm Beach County cuts millage rate by nearly 5%; largest percentage cut in 15 years

BY MIKE DIAMOND



*The millage rate of \$4,500 that was adopted Tuesday would result in the owner of a home assessed at \$500,000 paying about \$2,200 in county taxes. Allen Eyestone, The Palm Beach Post*

The reduction, passed Tuesday, will force County Administrator Verdenia Baker to do without more than \$50 million. She said she is not sure how she will do it but pledged to follow the directive of commissioners who unanimously adopted a millage rate of \$4.500. Baker had called on the commissioners to keep the rate at the current level of \$4.715.

Baker was concerned about the ability of the county to properly fund its reserve, a fund that is set aside to make sure that the county can respond to catastrophic events or unexpected downturns in the economy. She noted that the county already has the lowest reserve percentage among Triple-A-rated counties in Florida.

“The bond rating agencies look closely at what your peers are doing,” Baker said, adding that the Triple-A rating could be impacted.

**More:** [PBSO requests record budget increase as costs, tasks rise, but calls to service remain flat](#)

But Marino said even with the cut, the reserve is adequately funded, noting that 10 years ago the percentage in reserve was around 8%. Today, it is more than 20%. Marino and Commissioners Mack Bernard and Maria Sachs called on the administration to use technology to make the county more efficient.

The county millage rate is applied to a tax base to raise funds for the county government. The school district, county library and local government taxes will set their own rates.

How much would an owner of a \$500,000 Palm Beach County home pay in property taxes?

## History of Changes in Property Values and Millage Rates

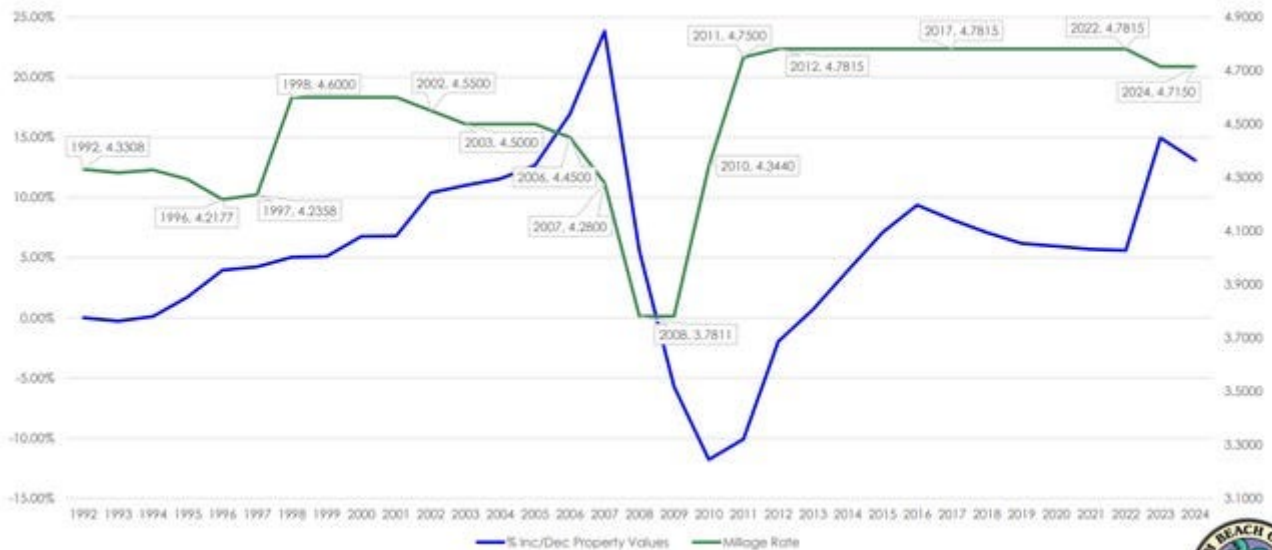


Chart shows changes in property values and millage rates since 1992. County commissioners have cut the millage rate by nearly 5%, the largest such cut since the great recession. Palm Beach County Office of Financial Management and Budget.

The millage rate of \$4.500 that was adopted Tuesday would result in the owner of a home assessed at \$500,000 paying about \$2,200 in county taxes.

Some takeaways from the current spending plan:

- The county expects to raise salaries by 6%, a hike that will cost \$17 million.
- Twenty-three new positions will be funded with property taxes; most of them in Palm Beach County Fire Rescue.
- The total expense budget for the sheriff's office is \$877 million, an increase of \$53.5 million from the current fiscal year. The figure represents another record increase.
- \$85 million has been set aside for capital projects, an increase of \$26 million.
- With the significant increase in property values, most homesteaded properties will see their values rise to the cap of 3%. That is a rare event, according to county officials.

County budget officials say they may ask constitutional officers to review their spending plans in light of the millage rate cut.

It is only fair, they said, that they share in whatever cuts have to be made to balance the budget. Even with the cut, non-homesteaded properties are still likely to incur much higher tax bills. The homestead caps do not apply to businesses, some of whom will see double-digit percentage increases in their tax bills as a result of much higher assessments. County commissioners will hold the first of two public hearings on the budget Sept. 7; the final hearing will be held Sept. 26.

Read more: <https://www.palmbeachpost.com/story/news/local/2023/07/17/palm-beach-county-rate-cut-should-keep-your-property-taxes-from-rising/70404356007/>



## **\*\* Regional MIRR report provides resiliency solutions to state's military bases and their communities**

BY SOPHIA HERNANDEZ



*Photo by: FL24*

In Florida, we aren't strangers to natural disasters. Across our state, local communities have been making strides to implement various resiliency efforts, like seawalls in Fort Lauderdale.

But what about South Florida's military bases and their surrounding communities?

There's a first-of-its-kind report that provides collaborative solutions to keep national security and resiliency at the forefront. It's what's known as a Military Installation Resilience Review.

Conducted by the South Florida Regional Planning Council, they have partnered with the South Florida Defense Alliance and Jacob's Engineering to focus on four military facilities in Key West, Doral, Homestead and Dania Beach.

The goal? To come up with a regional approach to become more resilient. And it's not just the sites themselves but the areas around them.

"What they realize is the base is not an island, and the community around the base is very important to the resilience of the base. So, this program is really designed to look at what are those investments that need to be made outside of the fence line that will bring resilience to the installation itself," explained Isabel Cosio Carballo, the executive director of the South Florida Regional Planning Council.

Through a federal grant, the team conducted community outreach to figure out the needs of the surrounding area, what was already being done and how they could come in and help.

Their report shows they looked at climate threats such as storm surges, lightning and extreme heat. But they also looked at issues like land management, housing and staff retention.

While each of the bases may share similar areas of improvement, like utilities and roadways, their plans for what needs to be done and could be done look very different.

Rick Miller, a retired U.S. Navy captain and executive director of South Florida Defense Alliance, gives an example of the wastewater treatment plant in Key West.

“It’s the city plant, but it sits on base property on the tip of one of the islands. It serves the city of Key West as well as the military team and the base. And so, potential risk of flooding there, they are looking at how they increase resilience of that facility to harden it to be a benefit to both the community and the base,” he said.

The council is currently working on another draft report and said their focus now is on gaining additional funding to help local municipalities get started.

“This was never meant to override any local government activities,” said Cosio Carballo. “This was meant to identify needs and supplement resilience investments that are already ongoing, and there are a lot of them here.”

This MIRR report is the first of its kind in the nation to be done regionally. Miller explained it’s due, in large part, to the fact that these four sites work in tandem.

“All four of these installations and the major commands that sit on them rely on at least one or more of the other four installations for mutual support for hosting subordinate command as a basing option, mission support in a variety of different ways, communications, linkages and other things,” Miller said.

Yet the work at each of the installations will happen independently, not only improving the site itself but also the community.

“National security economy in Southeastern Florida in our region represents annually about 16 billion dollars and over 150 thousand jobs into the region every year,” Miller said. “The fastest growing region from a defense economic region has been our Southeast Florida region.”

While there is no timeline for the rollout of these plans, the team is hoping once they get this next draft approved, starting the work should not be far behind.

**Read more:** <https://www.abcactionnews.com/news/state/regional-mirr-report-provides-resiliency-solutions-to-states-military-bases-and-their-communities>



## **\*\* Fla. Navy installation reveals challenges for military's climate resilience**

BY DANIEL CUSICK

The Navy's South Florida Ocean Measurement Facility may be one of the most mission-critical and climate-threatened defense installations on the Atlantic Coast.

The 8-acre facility is a proving ground for U.S. warships and submarines to practice detecting and evading hostile navies. It's also on a barrier island that is prone to hurricane storm surges and faces as much as 2 feet of sea rise by midcentury.

"This place is unique in the sense that it is [an] active warfare research site under the Naval [Sea] Systems Command. Most bases that do that kind of stuff don't make it public for a variety of reasons," said Rick Miller, a retired Navy captain and executive director of the nonprofit South Florida Defense Alliance, which works with DOD on base resilience and adaptation concerns.

The research center is included in a new draft assessment examining climate vulnerabilities around four South Florida military installations. The assessment is one piece of the Defense Department's expanding strategy to understand and respond to climate change threats both on bases — or "inside the fence" — and in the surrounding communities where tens of thousands of civilian employees and service members' families live.

Such Military Installation Resilience Reviews, or MIRRs, will eventually be done for all bases. But the South Florida report — prepared by the South Florida Regional Planning Council — is the first to examine one of DOD's most critical operational regions, where large and small bases and infrastructure are increasingly exposed to climate change impacts.

The ocean monitoring site is particularly vulnerable given its location on the north end of a barrier island and state park near Fort Lauderdale. The facility is surrounded on three sides by waters subject to storm surge and tidal inundation, including the primary ship channel to Port Everglades. And as seas continue to rise in the Atlantic, the facility and surrounding area should see more flooding and shoreline erosion, resulting in greater need for expensive adaptation measures like road elevations and more protective ocean barriers.

The \$1.1 million South Florida MIRR also examine three other base communities: the U.S. Southern Command headquarters outside Miami, Naval Air Station Key West and Homestead Air Reserve Base in southern Miami-Dade County. The effort was funded by the Defense Department under its Office of Local Defense Community Cooperation. Officials there were unavailable to answer questions about the program.

In a telephone interview, several co-authors of the South Florida assessment stressed the importance of examining off-base climate vulnerabilities given the close relationships between bases and surrounding communities.

"From a military perspective, we recognize there are a bunch of interdependencies and inter-linkages between the bases and their host communities," Miller said. "Neither can do it alone."

Susy Torriente, a report contributor and Orlando-based city resilience global technology leader with the consulting firm Jacobs, said the MIRR process provided “our first opportunity as a region and as individual communities to engage with DOD on climate resilience issues.” Such work was historically “siloes,” said Torriente, whose firm conducts environmental sustainability research.

Officials would not release the draft, saying it was undergoing final revisions before its handover to the Navy. A recent [PowerPoint presentation](#), however, provided a detailed overview of the report’s findings and recommendations.

They include sizable investments in shoreline protection and girding infrastructure like roads, wastewater plants and power transmission lines from wind, storm surge and floods. At larger installations, like SouthCom, the report found that climate concerns extend to housing as military families demand safe, affordable homes built to withstand hot temperatures and extreme storms.

Housing vulnerability also extends to affordability, notably in fast-developing Broward and Miami-Dade counties and in Key West, where the Navy fighter pilot training base has been identified as one of DOD’s most climate-threatened defense installations from sea-level rise, tidal flooding and hurricane exposure. And in April, Fort Lauderdale experienced a freakish “rain bomb” that dumped 10 inches of rain over the region and caused extensive localized flooding.

John Conger, director emeritus of the Center for Climate and Security in Washington, said that while all of the military branches are assessing climate change within the bounds of their base operations — including taking steps to reduce carbon emissions — the MIRR program “brings entire communities together to find ways to reduce their vulnerabilities.”

The Defense Department “has a lot of smaller sites in addition to its major bases” that are mission critical, he said, including the ocean monitoring site in Fort Lauderdale.

“But taking a holistic look across entire regions like Florida is very helpful,” he said. “To be blunt, the thing that it helps the most is getting communities to shore up their resilience in order to protect DOD missions.”

**Read more:** <https://sfregionalcouncil.org/wp-content/uploads/2023/07/Fla. Navy installation reveals challenges for military s climate resilience - EENEWS-1.pdf>

# Boston plans to offer 'up to 75%' tax breaks to office building owners that convert spaces into housing

BY ANDY CASTILLO



Like many other cities across the United States, Boston is facing a housing crisis. Meanwhile, because so many companies moved to remote or hybrid workforce norms when the COVID-19 pandemic forced people to stay at home, many offices have remained empty for years—a [Downtown Revitalization Report](#) published in October showed that about 20% of all commercial space in downtown Boston are vacant.

Boston Mayor Michelle Wu is addressing both at once through a new [“Downtown Office to Residential Conversion Pilot Program,”](#) which will incentivize commercial property owners to convert underutilized buildings to residential housing via hefty tax breaks.

“We must take every possible action to create more housing and more affordability so that Boston’s growth meets the needs of current and future residents,” said Wu in a statement published by the Boston Planning and Development Organization about the initiative, which was announced Monday. “This program will help us take advantage of the opportunity we have to rethink downtown as a space where people from all over come together to collaborate, create, live, and play.”

Starting in the fall when applications open, the program will offer owners of commercial office buildings in the downtown area a reduced property tax rate of up to 75% if they immediately convert their buildings to residential use. The discount is based on research included in the city’s [PLAN: Downtown](#) study, which found that discounting taxes at that rate for “up to 29 years could provide a strong incentive to encourage conversion,” the statement says.

The program, which is going to be overseen by the Boston Planning and Development Organization, the mayor’s office and the City of Boston Finance Cabinet, will be implemented through a public-private partnership that enables the city and the building owner to enter a payment in lieu of taxes (PILOT) agreement. Approved

projects will receive assistance from the planning organization to streamline departmental building requirements.

“By converting office space into residential homes, we can fulfill the housing needs of our thriving City, while revitalizing and stabilizing our downtown neighborhood,” said Chief of Housing Sheila Dillon in the statement. “New residents will enjoy the advantages of living in a neighborhood with many amenities, including shopping options, recreational spaces and multiple transportation hubs. This initiative aligns with this administration’s dedication to creating accessible and equitable housing in every neighborhood, strengthening our small businesses and commercial centers.”

According to the latest annual [2022 Greater Boston Housing Report Card](#) from the Boston Foundation, published in October, the region is facing a “crippling housing shortage.” And an analysis published last month by Portland Real Estate, which compared job growth to the number of building permits issued, ranked Boston as having the sixth worst housing shortage in the nation.

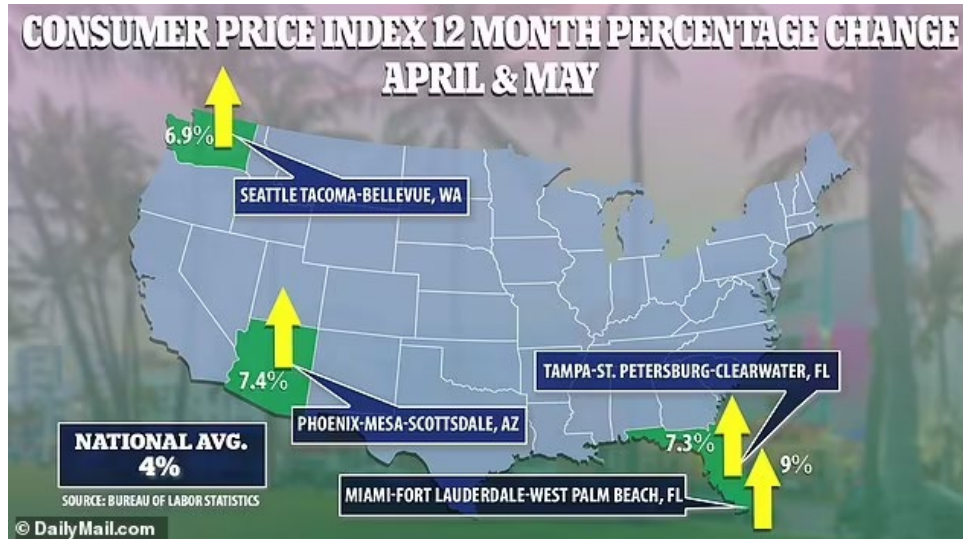
“Through this conversion program, we seek to incentivize lenders, property owners, downtown stakeholders, and the state to partner with the City to increase the production of much needed housing in our downtown core,” said Chief of Planning Arthur Jemison. “This public private partnership opportunity is the right tool to unlock new housing and shape a new, mixed-use neighborhood Downtown.”

Final parameters for the program will be published when applications open. The program is expected to be time-limited, and will only accept applications through June of 2024, the statement says. To be eligible, projects must comply with certain zoning standards and the city’s new energy efficiency standards. Applicants will be encouraged to maintain ground floor retail or other public uses. Projects will be required to start construction by October 2025, and will be subject to paying any forgone taxes if these commitments are not met. In order to recoup the forgone tax revenue over time, the city will also require a 2% payment on future sales of the property.

**Read more:** [https://www.americancityandcounty.com/2023/07/11/boston-plans-to-offer-up-to-75-tax-breaks-to-office-building-owners-that-convert-spaces-to-housing/? mc=NL DR EDT 20230712&cid=NL DR EDT 20230712&utm rid=CPEQW000044966539&utm\\_campaign=21818&utm\\_medium=email&utm\\_source=eloqua&elq2=8a548a8db865440ab5c0cb58eb1dff97&sp\\_eh=f544cf90af6760ffb75426f7aab3603e65ad5aa6320b781b5cf292b1c76d1e32](https://www.americancityandcounty.com/2023/07/11/boston-plans-to-offer-up-to-75-tax-breaks-to-office-building-owners-that-convert-spaces-to-housing/? mc=NL DR EDT 20230712&cid=NL DR EDT 20230712&utm rid=CPEQW000044966539&utm_campaign=21818&utm_medium=email&utm_source=eloqua&elq2=8a548a8db865440ab5c0cb58eb1dff97&sp_eh=f544cf90af6760ffb75426f7aab3603e65ad5aa6320b781b5cf292b1c76d1e32)

## Florida is America's new inflation hotspot with more than 2.5 million residents living with 9% rate - more than double the national average of 4% - as exodus from New York and California drives up housing

BY HARRIET ALEXANDER



*Florida is still seeing a surge in people moving to the state, which is contributing to two of their cities having the highest and third-highest Consumer Price Index increase in the country*

Florida is enduring the highest [inflation](#) in the nation, newly-released data shows, as persistently high housing costs continue to impact consumer prices across the region.

Two metropolitan areas - Miami and Tampa - were in the top three from a list of 23 regions analyzed in a report on inflation by the Bureau of Labor Statistics.

The Consumer Price Index [in the area encompassing Miami, Fort Lauderdale and West Palm Beach rose 9 percent, year on year.](#)

Phoenix was in second place, with the [CPI](#) at 7.4 percent. Third was the Tampa metropolitan area, with a CPI of 7.3 percent. The [Bureau of Labor Statistics](#) looked at a range of price increases for April and May to present their new conclusions. Nationwide, the CPI rose 4 percent, making Miami's rate more than double the national average. The lowest rate of inflation among the 23 metro areas was felt in Minneapolis-St Paul, at 1.8 percent, followed by Hawaii at 2 percent.

Florida's surge was largely due to housing costs, analysts said. 'A lot of people are still coming to Florida because the economy is really strong, and many like the fact that we don't have an income tax like in New York, for example,' said Amanda Phalin, an economist at the University of Florida.

'And in places like Miami, we're seeing a lot of real estate demand from non-Floridians or non-American investors — generally wealthy folks who want to have a nice home here.'



The population of Florida grew the most of any state from July 2021 to July 2022 because of domestic migration, according to the Census Bureau's latest estimates. Florida also had the fastest population growth by percentage over the same time frame - the first time it has notched that top spot since 1957.

The Sunshine State has seen a jump in population in recent years, [along with an increase in wealth](#), as people flee the Northeast and West Coast and their high-crime rates and invasive governments for Southern states.

Ron DeSantis, the governor of Florida and 2024 Republican presidential candidate, has used the draw of his state as a campaign tool, promising to bring his boom-town policies and business-friendly approach to the entire United States.

The increase in population has forced up the prices of transportation and services. Furthermore, rising mortgage rates, limited housing stock in cities such as Miami, and more expensive property insurance have contributed to the high inflation. Insurance premiums have also ballooned in the Sunshine State, as a series of devastating natural disasters alongside high fraud rates have seen home insurance bills hit \$6,000 on average - almost four times the U.S. average.

'Both the rental and purchasing markets are seeing upward pressures on prices from all these factors,' said Phalin, [speaking to CNN](#). She added: 'A lot of homes are converting themselves into Airbnbs and some homeowner associations prohibit people from renting out their homes.'

Economists pointed to Atlanta as an example of Miami and Tampa's possible trajectory. In August 2022, Atlanta was at the top of the list, with CPI of 11.7 percent. Atlanta's inflation soared as people moved away from expensive regions and flocked to the buzzy Georgia city. It has come down in part as more housing became available.

'If you look at the data, housing inventory in Atlanta has increased quite a bit from a year ago, so there's a lot more supply in the market, while the number of sales has been declining,' said Kaiji Chen, an economics professor at Emory University in Atlanta. He said that a reduction in transport costs has also helped.

Miami has held its spot as America's least affordable metro area, despite a slump in property prices in [Florida](#) - and billionaire Peter Thiel says the state is now too expensive to relocate his operations from Silicon Valley.

The average cost of a home in Miami was \$585,000 in May, according to RealtyHop, which ranked it first in a list of America's least-affordable housing markets.

A typical homeowner can expect to spend 79.92 percent of their monthly income on ownership, the study found, which placed [Los Angeles, California](#), in second and Newark, New Jersey, in third.

Investor and [Republican](#) donor Peter Thiel said recently that house prices in Miami made him reluctant to relocate his operations to Florida.

**Read more:** <https://www.dailymail.co.uk/news/article-12285403/Florida-Americas-new-inflation-hotspot-2-5-million-residents-living-9-rate.html>



## **\*\* County Commissioner Michelle Lincoln Elected First VP of Florida Association of Counties**



*Monroe County Commissioner Michelle Lincoln at the Florida Association of Counties' annual conference. Lincoln will serve as the association's second vice president. FAC/Contributed*

On June 30, Monroe County Commissioner Michelle Lincoln was elected as the first vice president of the Florida Association of Counties (FAC) at the association's annual conference in Orlando. Commissioners Holly Merrill Raschein and Jim Scholl were also at the conference.

Lincoln previously served as second vice president and sits on many policy committees, including Health, Safety, and Justice and Water and Environmental Sustainability. "Public service is something I truly enjoy," said Lincoln. "By continuing to serve on the association's executive committee, I have the opportunity to assist my community in a unique way by being their representation at a state and national level."

In addition to her leadership position at FAC, Lincoln holds an Advanced County Commissioner II designation, the highest level of commissioner education offered by the Institute for County Government.

"In recent years, I have seen Commissioner Lincoln step up to the plate for her community," said Ginger Delegal, FAC executive director. "Observing her determination to be a leader in the association has proven her as an asset to Florida's 67 counties." As first vice president, Lincoln plays a vital role in the association's advocacy and policy efforts along with representatives from Charlotte, Okeechobee, Pinellas and Seminole counties.

Founded in 1929, FAC has represented the diverse interests of Florida's counties and Floridians, emphasizing the importance of protecting home rule – the concept that communities and their local leaders should make the decisions that impact their community.

Read more: <https://keysweekly.com/42/county-commissioner-michelle-lincoln-elected-first-vp-of-florida-association-of-counties/>

# Miami-Dade's trash chief resigns after warning that a landfill crisis is coming

BY DOUGLAS HANKS



*A look at some of the damage from a February 2023 fire that ravaged Miami-Dade's trash incinerator plant in Doral. Months later, the county is at risk of not meeting minimum standards for trash disposal needed to approve new construction projects, the outgoing head of Miami-Dade's Solid Waste Department said in a July 3, 2023 resignation letter. Miami-Dade Fire*

Miami-Dade County's trash chief submitted his resignation this week with a warning: the county will need to declare a moratorium on construction next year if it can't find new places to put its garbage after a February fire shut down its incinerator plant in Doral.

Mike Fernandez, [Solid Waste director](#) under Mayor Daniella Levine Cava, said in a letter Monday that he's resigning his post "with a heavy heart." He then laid out a series of decisions that have stalled while the county risks running short of the five years of waste-disposal capacity needed to approve future housing projects across Miami-Dade.

"At this point, the County will have to issue a moratorium to stop all development in Miami-Dade County or initiate the plans that were suggested in the past, that would increase disposal capacity," Fernandez wrote to Levine Cava in a letter giving his two-week notice for a post he's held since 2019.

County laws require Miami-Dade have the landfill space and disposal facilities to absorb five years of projected growth in trash collection in order to approve land-use changes needed for new residential and commercial projects outside of city limits.

[READ MORE: Miami-Dade used COVID relief funds to rescue trash budget. Now fees are going up](#)

Fernandez's abrupt departure robs Levine Cava of a veteran of Miami-Dade's Solid Waste Department at a time of maximum stress for the agency.

The fire that shut down the privately run incinerator plant in Doral upended the county's disposal system. It had burned more than half of the trash county trucks pick up on a given day.

The calamity forced Miami-Dade to divert garbage to landfills in and out of the county, accelerating the timeline of when the department will run out of space for more trash.

While Fernandez said Solid Waste recommended replacing the current incinerator with a modern facility about two years before the fire. Levine Cava hasn't submitted a plan on what to do next. The mayor had planned to make a recommendation in June, but that's now delayed until September.

In a statement Tuesday, Levine Cava's deputy chief of staff, Rachel Johnson, said the administration is "working with all stakeholders" to tackle both the short-term issue of a disabled incinerator plant that was burning nearly a million tons of trash a year being inoperable, and the long-term needed for a modern, ecological strategy for solid waste in the long-term.

"We look forward to sharing more updates on these plans in the weeks and months ahead," the statement read. In a [June 21 memo](#), Levine Cava said a new and modern incinerator plant "is desperately needed" and would likely cost \$1.2 billion to build.

On Wednesday, Levine Cava sent a memo to commissioners naming an immediate replacement at Solid Waste and said Fernandez would be leaving immediately rather than on the July 14 departure date in his resignation letter. Olga Espinosa-Anderson, a deputy under Fernandez, will serve as interim director while the administration searches for a permanent replacement, Levine Cava said.

"I am confident in Olga's leadership and the ability to usher the department forward during this transitional period," Levine Cava wrote. "As we know, our solid waste system faces significant challenges that were exacerbated by the waste-to-energy plant fire earlier this year."

The first Solid Waste decision facing county leaders are trash collection rates for the budget year that begins Oct. 1.

**Read more at:** <https://www.miamiherald.com/news/local/community/miami-dade/article277002913.html#storylink=cpy>

## \*\* South Florida military bases draft plan for climate risk. It's a national security threat

BY ASHLEY MIZNAZI



*Hurricane Ian flooded Naval Air Station Key West last September. NAVY PETTY OFFICER 2ND CLASS NICHOLAS V. HUYNH Navy Petty Officer 2nd Class Nicholas V. Huynh*

From Key West to Port Everglades, the military facilities across South Florida face the same risks from hurricanes and extreme weather as homes and businesses. But when they're battered by winds, flooded out or lose power, it can also pose a national security risk.

Protecting them from the increasing threats of climate change will call for millions of dollars in projects and some key policy changes, according to a [draft report](#) released by the [South Florida Regional Planning Council](#).

"There's a national security imperative to ensure that our installations, our commands and our missions are resilient," said Rick Miller, a retired U.S. Navy captain and executive director of South Florida Defense Alliance. "And the great thing about this program is it does it in collaboration with the communities."

The report doesn't provide a timeline for upgrades at the four bases and sites but underlines the realities that all of South Florida faces heightened threats in the coming decades – particularly from flooding caused by sea rise, hurricane storm surge and extreme rainfall like the rain bomb that drowned Fort Lauderdale neighborhoods in April.

READ MORE: [Can hybrid super reefs defend the coasts? UM leading research for military project](#)

That's why what tops the list of priorities involves keeping things high and dry at four facilities: the sprawling Southcom base in Doral, a critical command center that oversees operations in Central and South America and the Caribbean; the Naval Air Station in Key West; Homestead Air Reserve Base; and an ocean monitoring and



communications facility at the mouth of Port Everglades – a vital link, via undersea cables, to the Guantanamo Bay detention center in Cuba.

The plan calls for that low-lying road to that ocean monitor site, located adjacent to Dr. Von D. Mizell-Eula Johnson State Park on a barrier island across from Port Everglades in Broward County, to be elevated. It also proposes raising ground transformers at each site and for beefing up satellite communications in case cellular and line options are damaged. Other ideas on the table include building a storm water pump station in Key West and a 36,000-sqft “resilience hub” in Miami Dade.

The planning council will also check that military facilities are prioritized by utility providers like Florida Power & Light so they, like hospitals and other key facilities, have power restored quickly after storms.

The plan, called the [South Florida Military Installation Resilience Review \(MIRR\)](#), echoes existing resilience plans from cities and organizations in South Florida – but also reflects that the nation’s military commanders take climate concerns seriously. Miller also hopes the military’s clout in Washington over national security concerns can help expedite funding for future work.

“As we did the study, we said all along, we don’t want to duplicate any work that’s been done. So a lot of the data was existing studies, existing resiliency work,” Miller said. The projects also were prioritized based on how they might benefit the economy and environment of surrounding communities.

For example, the plan to elevate the road to the ocean monitoring center near Port Everglades also calls for adding a bike lane that would serve state park visitors. Plans for Homestead Air Reserve Base roadway include a transit stop that would be for easier for base workers and civilians to use mass transit.

The Key West Naval Air Station is more vulnerable to sea rise than any other military base and by 2050 it could become unusable with [35 to 70% projected by the Union of Concerned Scientists of land loss](#). And the plan for Key West underlines solutions already presented by Monroe County, like adding stormwater pumps to reduce flooding at the air station, which had to be evacuated most recently during Hurricane Ian last year.

Miller, who spent several years running operations at the SouthCom military installation in Doral, said he saw first hand the consequences of significant storms in the region. “I saw property damage, people being displaced, disruption to civil society,” Miller said.

During high-wind storms South Florida’s military installations experience frequent outages in communications service and power lines and floods that impact local roads put intelligence centers, training grounds, airfields and research hubs at risk.

Miller hopes the resilience review will help give the military a seat at the table in addressing climate changes. Some coastal bases across the country are already planning projects to address sea-rise and surge risks.

MIRR represents a new and different approach, Miller said, with the military mission more integrated with the priorities in the surrounding community. He suspects the military has not been widely involved in climate conversations prior because of the general assumption that what lays behind the military fence line would be taken care of by the other branches of the federal government. But, he said, the days where the military installations functioned as their own independent islands with their own electric, water and sewer setup are long gone.

The South Florida Regional Planning Council contracted the South Florida Defense Alliance to engage with the military and Jacob's Engineering to do the technical assessment. A few years ago [Jacobs worked with](#) the Tyndall Air Force Base in Panama City Beach to use natural solutions, like nourishment for beaches, dunes and marshes, after the base suffered a direct hit from Hurricane Michael.

South Florida is the first in the country to combine the plans for multiple installations in the region. Miller said this made the most sense because the bases already relied on each other.

Beyond climate concerns, the plan also looked at potential solutions to other related "vulnerabilities" to base operations - like job security and affordable housing.

**Read more:** <https://www.miamiherald.com/news/local/environment/climate-change/article276838156.html>



## Message to Southwest Florida: 'Help is on the way' Nearly one-third of the state's population relies on septic tanks for wastewater disposal

BY PETER SCHORSCH

With new laws going into effect and significant financial resources invested by the Florida Legislature this year, help is on the way to residents in Southwest Florida and on the Treasure Coast who are looking for protection and restoration of their precious water resources.

One key piece of legislation signed with little fanfare was House Bill 1379, sponsored by Infrastructure Strategies Committee in the House and Sen. **Jason Brodeur** in the Senate.

This new law not only dedicates \$100 million to the new Indian River Lagoon Protection Program but also establishes pollution-remediation requirements and growth management caps. In addition, the legislation invests in conservation to protect precious landscapes and mitigate the increasing urban pressures on existing infrastructure.

"Protecting Florida's natural environment has been a priority since Day 1, which is why I was proud to sign legislation that will improve our water quality, preserve the Indian River Lagoon and expedite our land conservation efforts," [said Gov. Ron DeSantis on Twitter after signing House Bill 1379](#), which earned unanimous support from both chambers of the Florida Legislature.

The ecosystems around the Indian River Lagoon in recent years have been plagued by harmful algal blooms and dangerous diseases due to sewage pollution in the central and northern lagoon basins.

Specifically, the law implements a ban on new septic systems in the Basin Management Action Plan (BMAP) area and requires the Florida Department of Environmental Protection (DEP) to work with local governments and other key stakeholders to develop a remediation plan in places where septic tanks are contributing 20% or more of the pollution to the local water resources.

The proper treatment and disposal or reuse of domestic wastewater is an important part of protecting Florida's water resources, according to the [bill analysis](#). Floridians generate approximately 100 gallons of domestic wastewater per day, most of it managed and treated through sewage systems.

However, nearly one-third of the state's population relies on septic tanks for wastewater disposal. While sewage disposal facilities are required to provide advanced waste treatment approved by DEP, septic tanks generally filter waste through a drain field, after which gravity draws the water down through the soil layers. In most circumstances, the septic tank does not reduce nitrogen from the raw sewage, allowing nitrogen to potentially contaminate the groundwater. This all occurs with little to no oversight from DEP.

A recent study published in the upcoming [June 25 issue](#) of Science of the Total Environment underscores the role human waste pollution plays in plaguing Florida's precious water resources.

Scientists from Florida Atlantic University and the Lee County Department of Natural Resources collected and analyzed samples from 25 ditch, creek and canal sites across Lee County. They discovered “evidence of widespread human waste pollution throughout Lee County.” The study concluded “these findings should be applicable to urbanized regions globally that are experiencing declines in water quality and [harmful algal blooms](#) due to development with inadequate infrastructure.”

The new law is a significant step forward in strengthening infrastructure to better protect water resources, with an emphasis on converting septic to sewer. With grants or loans from DEP, local governmental agencies can help residents offset the cost of connecting septic-reliant homes to public sewer systems.

“We have made historic strides in environmental protection, water quality, and land conservation under the leadership of Gov. DeSantis and with the support of the Florida Legislature,” said Department of Environmental Protection Secretary **Shawn Hamilton** in a [statement issued by the Governor’s Office](#).

“This legislation will allow us to further expedite and advance these efforts.”

This is a wave of good news for residents from Martin to Palm Beach County and stretching over to Collier and Lee counties after a drumbeat of bad news in recent weeks.

Lake Okeechobee is [more than half covered with cyanobacteria](#), or blue-green algae. At least three spots in the Caloosahatchee River are flagged for algae toxins, including the Davis boat ramp in Fort Myers Shores.

The Florida Department of Health in Lee County issued an alert May 26: “The public should exercise caution in and around Caloosahatchee River-Fort Myers Shores.”

The emailed statement urged people not to drink, swim, wade, use personal watercraft, water ski or boat in waters where there is a visible bloom, and to keep pets and livestock away from the bloom.

“With the signing of House Bill 1379, Gov. DeSantis is both renewing and expanding upon his commitment to protecting and restoring our water quality statewide, with a much-needed focus on some of our most at-risk waters in the Everglades and the Indian River Lagoon,” [said Chief Science Officer Dr. Mark Rains](#). “This legislation directs strategic action to address nutrient sources and expedite restoration.”

In addition, the legislation is bolstered by an additional \$25 million in investment for Southwest Florida infrastructure upgrades in the Caloosahatchee River basin for septic-to-sewer conversion. Plus, \$50 million recurring will go toward storage North of Lake Okeechobee, an integral part of the Lake O Water Restoration Plan.

Since DeSantis took office, he has invested more than \$250 million to implement the Comprehensive Everglades Restoration Plan (CERP). For residents and businesses in the region that continue to struggle with the water crises, know that help is truly on the way.

Read more: <https://floridapolitics.com/archives/619549-message-to-southwest-florida-help-is-on-the-way/>

# Regional Banks Scramble to Unload Commercial Real Estate Loans, Fearing New Crisis

BY KEVIN STOCKLIN



*Sargassum seaweed has collected along the shoreline at Jensen Beach Park on Thursday, May, 25, 2023, on Hutchinson Island. The beach is 4191 N.E. Ocean Blvd. CRYSTAL VANDER WEIT/TCPALM*

The work-from-home trend has been taking its toll on office landlords and is now making its way through to banks' commercial loan portfolios, leading some analysts to predict that more trauma could be on the way for regional banks this year.

And in the current climate of bank failures, short sellers, and nervous depositors, banks with large exposures to commercial real estate (CRE) loans are racing to clean up and sell down their loan portfolios in hopes that they will not fall victim to another round of bank runs.

"There is an estimated \$1.5 trillion of commercial property debt that will be due for repayment in about 18 months," Peter Earle, an economist at the American Institute for Economic Research, told The Epoch Times. "It's not improbable that even if interest rates have fallen by that time, some of that real estate debt will nevertheless be impaired and have an adverse impact on regional banks."

In step with a recent trend in the CRE market, tech giant Google announced in May that it was attempting to sublease 1.4 million square feet of vacant office space in its Silicon Valley home base in order to "match the needs of our hybrid workforce." Despite more employees returning to their offices this year, average office occupancy rates across the United States are still [below 50 percent](#).

According to a report by Bank of America, 68 percent of CRE loans are held by regional banks. Approximately \$450 billion in CRE loans will mature in 2023. JPMorgan Chase estimated that CRE loans comprise, on average 28.7 percent of the assets of small and regional banks, and projected that 21 percent of CRE loans will ultimately default, costing banks about \$38 billion in losses.

## Double Hit

Commercial mortgages are getting hit on two fronts: first, by the lack of demand for office space, leading to credit concerns regarding landlords, and second, by interest rate hikes that make it significantly more expensive for borrowers to refinance.

According to a [June 12 report](#) by Trepp, a CRE analytics firm, CRE loans that were originated a decade ago, when average mortgage rates were 4.58 percent, are now coming due, and in today's market, fixed-rate CRE loan rates are averaging around 6.5 percent.

Banks that make CRE loans consider factors like debt service coverage ratios (DSCRs), which measure a property's income relative to cash payments due on loans. Simulating mortgage interest rates from 5.5 percent to 7.5 percent, Trepp projected that between 28 percent and 44 percent, respectively, of currently outstanding CRE loans would fail to meet the 1.25 DSCR ratio today, and thus be ineligible for refinancing.

These calculations were done assuming current cash flows from properties stay the same and that loans are interest-only, but with vacancies rising, many landlords may have substantially less cash flow available. In addition, whereas interest-only CRE loans were [88 percent](#) of the market in 2021, lenders are now switching to amortizing mortgages to reduce risk, which significantly increases debt service payments.

## Refinancing Issues

Fitch, a rating agency, [projected](#) that approximately one-third of commercial mortgages coming due between April and December of this year will be unable to refinance, given current interest rates and rental income.

"It's a very different world now from the one in which the majority of these loans were made," Earle said. "In a zero-interest-rate environment, before the COVID lockdowns saw many businesses shift to a remote work basis, many of these loan portfolios full of office properties looked great. Now, a substantial portion of them look quite vulnerable."

The Trepp report highlighted several regional markets, such as San Francisco, where office sublease offers jumped 140 percent since 2020, and Los Angeles, where office vacancies hit a historic high of 22 percent. Available office space in Washington D.C. increased to 21.7 percent in the first quarter of 2023.

New York has been hit hard, as well. Office occupancy rates in New York City plummeted from 90 percent to 10 percent in 2020 during the COVID pandemic, but only recovered to [48 percent](#) this year. Revenue from office leases fell by 18.5 percent between December 2019 and December 2022.

## Vacancy Rates at 30-Year High

Overall, according to a [report](#) by analysts at New York University and Columbia Business School, office vacancy rates are at a 30-year high in many American cities.

The report found that "remote work led to large drops in lease revenues, occupancy, lease renewal rates, and market rents in the commercial office sector."

The authors predict that, even if office occupancy returns to pre-pandemic levels, “we revalue New York City office buildings, taking into account both the cash flow and discount rate implications of these shocks, and find a 44% decline in long run value. For the U.S., we find a \$506.3 billion value destruction.”

As predicted, delinquencies in commercial mortgage loans are now [creeping up](#). Missed payments in commercial mortgage-backed securities (CMBS) increased half a percent in May over the prior month to 3.62 percent, Trepp reports. The worst component of the CMBS market, which includes multi-unit rental buildings, medical facilities, malls, warehouses, and hotels, was offices, where delinquencies increased 125 basis points to more than 4 percent.

To put this in perspective, however, CMBS delinquencies exceeded 10 percent in 2012 and 2020. And analysts say that lending criteria for CRE have been more conservative than they were before the mortgage crisis of 2008, leaving more cushion on ratios relative to a decade ago.

All the same, the credit crunch at regional banks has created a vicious circle, where banks race to pare down their CRE portfolios, and the dearth of financing leaves more landlords facing default as outstanding loans mature. To make matters worse, commercial property values, which provide collateral for the loans, appear to be taking a hit as well.

In an effort to rapidly clean up their CRE loan portfolios and avoid the fate of failed banks like Silicon Valley Bank, Signature Bank, and First Republic Bank, banks are now attempting to sell off the loans, often taking a loss in the process.

In May, PacWest, a regional bank, [sold \\$2.6 billion](#) of construction loans at a loss. Citizens Bank reportedly has put \$1.8 billion of its CRE loans up for sale during the first quarter of this year. Customers Bancorp reduced its CRE lending by \$25 million and put \$16 million of its existing portfolio up for sale.

Wells Fargo, one of the top four largest U.S. banks, is also downsizing its CRE portfolio, and in announcing the move CEO Charlie Scharf stated, “we will see losses, no question about it.”

“Between the Fed’s 500+ basis point hikes over the past 16 months and the failure of Silicon Valley Bank, and others, earlier this year, a credit tightening is already underway,” Earle said. “That has put a lot of pressure on regional lenders.”

A March academic study titled “Monetary Tightening and U.S. Bank Fragility in 2023” stated that the market value of assets held by U.S. banks is \$2.2 trillion lower than what is reported in terms of their book value. This represents an average 10 percent decline in the market value of assets across the U.S. banking industry, and much of this decline came from commercial real estate loans.

Consequently, the authors wrote, “even if only half of uninsured depositors decide to withdraw, almost 190 banks with assets of \$300 billion are at a potential risk of impairment, meaning that the mark-to-market value of their remaining assets after these withdrawals will be insufficient to repay all insured deposits.”

**Read more:** [https://www.theepochtimes.com/regional-banks-scramble-to-unload-commercial-real-estate-loans-fearing-new-crisis\\_5334716.html](https://www.theepochtimes.com/regional-banks-scramble-to-unload-commercial-real-estate-loans-fearing-new-crisis_5334716.html)