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Office Exodus: Can US Cities Survive?

Flagging office occupancy rates have municipal bond investors concerned. But US cities have more than one card to play in the revenue game.

From the Bay Area to Boston, shrinking office footprints have been generating gloomy headlines. With talk of downtown death spirals, some municipal bond investors fear that declining office occupancy—a side effect of increased workplace flexibility—could deplete large cities' coffers. But while office vacancies remain a concern, most US cities have mechanisms to protect their finances—and those of municipal bondholders.

Cities Have a Wide Range of Funding Sources

First off, we need to address a misconception: US cities aren't nearly as dependent on commercial and office taxes as many believe. It's true that property taxes are typically the largest source of tax revenue for large cities, but they account for just 30% of total revenue, on average, according to the Urban Institute—with office contributing just a portion of that. In fact, of the largest US cities by debt outstanding, commercial or office property taxes account for just 6.8% of total revenues, on average.

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