

Bond Case Briefs

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McKinsey: Will Mortgages and Markets Stay Afloat in Florida?

Flood risk is rising in Florida due to climate change. How exposed is residential real estate—both directly and indirectly—and what can be done to manage the risks?

Located in a tropical cyclone zone with low elevation and an expansive coastline, Florida faces numerous climate hazards, including exposure to storm surge and tidal flooding that are worsened by sea level rise, and heat stress due to rising temperatures and changes in humidity. Other unique features include the state's porous limestone foundation which can exacerbate flooding as water seeps into properties from the ground below and also causes saltwater intrusion into water aquifers, and makes adaptation challenging.

Much of Florida's physical and human capital is located along its vulnerable coast. Two-thirds of the state's population lives near the coastline, exposing many of them to tidal flooding, and almost 10 percent is less than 1.5 meters within sea level. At the same time, Florida's economy depends heavily on real estate. In 2018, real estate accounted for 22 percent of state GDP. Real estate also represents an important part of household wealth for the 65 percent of Floridians who are home owners: primary residences represent 42 percent of median home owner wealth in the United States.

In this case study, we focus on residential property in Florida exposed to flooding from storm surges and to tidal flooding and assess the likely impact both in terms of direct and knock-on effects, for example through housing price adjustments (See sidebar: An overview of the case study analysis).

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