“THE RULE OF 50 PERCENT”
and how it addresses climate change

Just because you don’t see it, doesn’t mean it’s not happening. Remember when that was the argument around the now-growing impacts of climate change? The reality is, those days are gone, and water routinely rises out of the sewers on hot, sunny days during high tide in Miami Beach. In fact, Miami Beach recognizes climate change as a real threat and is taking steps to raise roads, install storm water pumps and upgrade sewer connections, all of which is estimated to cost around $500 million. So, not only are we seeing the impacts now, we’re feeling them too.¹

Previously, some said that the home is your safest investment. That may not be true anymore if you live in South Florida. Coastal real estate prices may flatten or fall due to the fear of climate change and the rise of sea levels. That looming threat has only amplified what we advise our clients to do, and that is to diversify assets. Think of it as “The Rule of 50 Percent,” meaning you should consider having no more than 50 percent of your total assets in vulnerable real estate.

For example, if you have $2 million in total assets tied to your name, you may want to reconsider a $1.5 million home in Miami Beach because homes in vulnerable areas like Normandy Shores may not rise in value. That is, of course, unless sea levels cease to rise, which is unlikely according to 97 percent of the world’s scientists, who all agree that climate change is real and that the planet is warming.²

We believe the implications go well beyond property values, and all it will take is another severe hurricane or flooding event to influence not only how people view the issue at hand, but how our governments react. Several changes have been made in the past year related to insurance costs and the impact of climate change. In just a few years, Congress could choose to change the way it sets rates for FEMA’s National Flood Insurance Program. The purpose of that may be to reflect more realistic assessments of risk and, for the first time, rising sea levels may be factored into the program’s insurance. That could mean a significant rise in the cost of flood insurance, which could, in return, impact the overall cost of living along or near the coast.

Even more immediate is the likely change in flood mapping by FEMA throughout the region.³ Mapping is currently underway with initial data expected

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from the agency soon. The maps are intended to guide flood insurance requirements and control development standards in high-risk areas.

So, what does this all mean? It’s possible an increasing number of homeowners will find themselves in a flood zone. This could mean their homes sell for less, given the fact that the additional cost of flood insurance could lead to higher carrying costs.

Like the general housing market, the impact of climate change on the commercial market could be both real and substantial. If you own commercial property such as a rental building, you may consider reducing your exposure to vulnerable assets over time, especially in South Florida, which could be considered ground zero for climate change.

Just to be clear, we aren’t advising against investing in Miami or other coastal cities, but we do suggest doing so in a way that safeguards your portfolio and limits exposure to vulnerable real estate assets. Explore how opportunities outside the region, where you’re less likely to deal with problems associated with rising sea levels, could benefit your bottom line.

You have years to lower your risks, but start the process of protecting your assets now by considering a move away from the water. At the end of the day, isn’t the purpose of developing or owning commercial real estate to establish steady income growth and value increases over time? Given this fact, it makes sense for owners to assess the environmental resilience of an investment location, especially one where hurricane risk, flooding and climate change are all so evident. By following our “Rule of 50,” you aren’t simply creating more wiggle room or cushion when you need it most, but taking preventative measures to safeguard your family’s portfolio.

2  https://climate.nasa.gov/scientific-consensus/

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