

State and Local Credit is Incredibly Resilient, and We Expect Only a Very Limited Credit Impact from Commercial Real Estate Weakness

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- U.S. state and local government credit quality is incredibly resilient.
- Overall, we believe state and local government credits are only minimally exposed to potential commercial real estate weakness.
- This is largely because state and local government revenue streams are typically well diversified and largely resistant to volatility.
- Exposure to tax revenues generally and property taxes specifically as well as exposure to commercial property valuations is likely not high enough to cause widespread and/ or deep credit deterioration for most state and local governments.
- Commercial real estate weakness in some larger cities is developing and expected to worsen.
- The five-day office week is dead, according to Stanford's Nick Bloom. Kastle Systems Back-to-Work Barometer Average is still only 50% of pre-pandemic levels. The Philadelphia Center City District published data showing non-resident worker downtown activity is still only about 65% of where it was pre-pandemic as well.

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