

# Bond Case Briefs

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## San Francisco Seeks Rent Break Through Bonds.

With tech workers flooding San Francisco, one-bedroom apartment rents have climbed to \$3,500 a month, more than in any other U.S. city. Residents are being priced out. Evictions routinely spark political rallies.

Mayor Ed Lee, under pressure to deal with the soaring cost of living as he runs for re-election, is backing a partial fix: a \$310 million debt sale to build affordable housing that will go before voters in November.

It's the largest housing bond in the city's history.

San Francisco's push bucks the national decline in the sale of municipal debt for housing, which was slashed in half to \$10.7 billion in 2014 from \$20.8 billion a decade earlier. It may revive interest in the bonds as mayors from New York to Seattle seek to add homes for lower-income residents as real-estate prices climb.

"You're seeing cities looking at a variety of ways to try to accommodate poor people," said Howard Cure, director of municipal credit research in New York for Evercore Wealth Management LLC, which manages \$6 billion. "It's a big issue in certain areas where places have gentrified or the rental market is such that it's becoming more unaffordable for working-class people."

In California, cities and counties need to sell housing debt directly after Gov. Jerry Brown dismantled their redevelopment agencies. Those bonds were repaid with taxes from new projects.

### **Below AAA**

That shift may benefit San Francisco, whose fast-growing economy has left investors willing to accept yields on some securities that are lower than top-rated municipals.

When San Francisco sold \$67 million of general obligations on June 23, 10-year securities were priced to yield 2.34 percent. That was less than the 2.37 percent rate on benchmark municipal debt with the same maturity, according to data compiled by Bloomberg. The 20-year bonds yielded 3.62 percent, about half a percentage point more than top-rated debt.

"It's viewed as a very safe credit to the point where you're not going to get much yield above the AAA scale," Cure said. "It's a high-tax state so there's a lot of demand for the bonds to begin with, and the city is doing pretty well."

If approved by two-third of voters, the bonds would be used to advance Lee's effort to build and renovate 30,000 homes over the next five years. The proceeds would fund the construction of rental units and create a program to help residents, including teachers, buy their first homes.

### **'Housing crisis'**

A boom among tech startups seeking to become the next Uber Technologies Inc., Facebook Inc. or

Spotify Ltd. has drawn thousands of well-paid workers to California's fourth-largest city, reducing the unemployment rate to 3.5 percent. The influx is fueling higher rents and sparking protests over evictions and affluent condominium developments in working-class neighborhoods.

The median asking price for a San Francisco one-bedroom apartment is \$3,500, \$400 more than in New York, the second most-expensive city, according to a report this month by Zumper, an online listing service. In June, the median price of a home was \$1.14 million.

"San Francisco's housing crisis demands aggressive action," Lee, who's seeking re-election in November, said in a statement. "Housing that is affordable to low- and middle- income families promotes diversity and equity."

A separate measure on the November ballot would develop affordable housing from little used city properties.

### **Swaying voters**

The bond issue, approved for the ballot by the county Board of Supervisors in July, won't increase property taxes. San Francisco voters rejected a \$250 million affordable-housing plan in 2002 — and another \$200 million bond two years later — that included property-tax increases.

If voters approve the latest proposal, the city plans to sell the first of the debt in 2016, said Nadia Sesay, San Francisco's public-finance director. Revenues from property taxes will be used to repay the 20-year debt, which may include some taxable bonds depending on use, she said.

"The bond will trade great," said Craig Brothers, a Los Angeles-based money manager at Bel Air Investment Advisors, which oversees \$3 billion. "It will trade like any other San Francisco general-obligation bond."

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