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[San Francisco Boom Spurs Record Debt Sale for Airport Expansion.]

In San Francisco, almost everything is flying high: real estate, start-ups and now, the airport.

Serving a region whose economy is fueled by the technology industry, San Francisco International Airport is embarking on a $5.7 billion expansion as it grapples with traffic that has nearly doubled in nine years. The city's sale next week of $881 million in airport bonds, its biggest ever, is the first in a series that will draw demand from municipal investors who've snapped up airline-related debt, leaving the securities on pace to outperform the overall municipal market for a sixth straight year.

Overall, airports have benefited from lower fuel costs and the recovering U.S. economy, as higher numbers of passengers boost collections from parking fees and bar tabs. San Francisco's airport is seeing even more travelers, thanks in part to Silicon Valley.

"Traffic has been booming," said Kevin Kone, the airport's managing director for finance. "Here in the Bay area, the economy is strong. We're responding to the needs of the traveling public."

At San Francisco International, tourists, budding tech executives and professionals browse high-end boutiques and stretch in yoga rooms as they pass through the region or head to the Pacific Rim. Arrivals and departures total 51.4 million in the 2016 fiscal year, up from 33.9 million nine years ago, documents circulated among investors show. Moody's Investors Service ranks the debt A1, the fifth-highest investment grade, pointing to the hub's strong market position and ability to scale back expansion plans if needed.

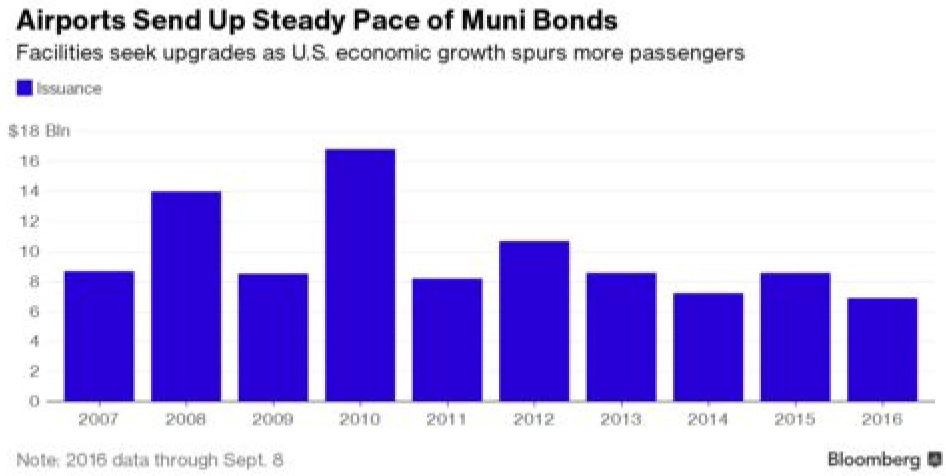
The sale comes amid a streak in airport bonds. In 2015, the securities gained 4 percent, beating the market's 3.6 percent advance, marking the fifth straight year of outperformance, Bank of America Merrill Lynch data show. So far this year, the debt has continued to have an edge, albeit a smaller one: a 4.6 percent return to the market's 4.5 percent through Sept. 7.

"The lower hanging fruit has been picked within the sector," said Gabe Diederich, a Menomonee Falls, Wisconsin-based portfolio manager at Wells Fargo Asset Management, which manages about $40 billion of municipals. He may buy the San Francisco deal if the yields are high enough. "If you have a change that's due to a slowing economy or yields moving up more broadly and that causes outflows from mutual funds, that could certainly change the performance."

For now, airports are still reporting growth in passenger traffic. Moody's has a positive outlook on the sector as it expects volume to grow as much as 4 percent this year.

"Although it's notably a cyclical sector in general, the economic expansion seems to be hanging in there," said John Miller, co-head of fixed income in Chicago at Nuveen Asset Management, which oversees $124 billion of munis. He's looking to add more airport debt and will consider San Francisco's. "It's prolonged and extended."

San Francisco International may sell bonds once or twice a year for the next five years – which will help keep the pace of such debt steady, as has been the case over the past few years. Similar issues have been easily placed: In May, a consortium sold $2.4 billion in bonds to finance a new terminal at New York's LaGuardia Airport.



The San Francisco area is "at the vanguard of the national expansion," with personal incomes growing by 21 percent since the first quarter of 2012 compared with the national 15 percent advance, according to Chris Lafakis, economist at Moody's Analytics. That, coupled with demand from California residents for tax-free income, should make the deal "very successful," Miller said.

The city through its airport commission is embarking on the five-year construction project to add six gates, renovate others to alleviate congestion and connect two terminals. The deal is almost twice as big as its second-largest sale of $500 million in 1998, said Kone, the airport finance official.

"There are more airplanes that want to come in than we have gates during peak periods. That would sometimes cause delays," Kone said. "We're really building to meet today's demands."

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