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Florida's Population Boom Helps Fuel Demand for Dirt Bonds.

- **Sunshine State may gain 6 million more residents by 2040**
- **Land-backed debt returned 8% in 2017, most in three years**

Florida's population boom and a shortage of housing are fueling demand for local municipal debt sold for neighborhood developments.

Community development district bonds, or CDDs, are sold in Florida to help finance home building projects. The debt, called dirt bonds, tends to offer higher yields as investors take on the risk that demand for housing may wane. That threat may be decreasing in Florida as its population is expected to swell nearly 30 percent by 2040 following a 9 percent increase since 2010.

"The housing construction has been really ratcheted down post 2008 so now you have a situation where household formation exceeds home construction, which means the demand profile is good for what they're building," said John Miller, co-head of fixed income at Nuveen Asset Management, which hold \$1.5 billion of Florida CDD bonds sold for 220 different communities, with \$1.7 million of that debt in default.

Jobs are luring people to Florida. The state's 3.6 percent unemployment rate is the lowest in a decade and below the 4.1 percent national average. Homes in the state are selling at the fastest pace in three years. The median time it took to sell a house in the third quarter of last year was 82 days, the lowest for any three months since at least 2014, according to FloridaRealtors, a trade association that collects housing data.

"We are seeing recoveries across numerous areas of Florida that were previously under a lot of financial pressure," Miller said.

Such land-backed debt is repaid with assessment fees that homeowners pay. Many of the developments fell into default during the housing crisis that began in 2008 and have been refinanced. Dirt bonds overall have gained in value, returning nearly 8 percent in 2017, the most since 2014, according to S&P Dow Jones Indices.

"They have done quite well in terms of the recoveries and the resuscitation of the project," said Richard Lehmann, publisher of the Distressed Debt Securities newsletter in Miami Lakes, Florida.

Corkscrew Farms, a district in Fort Myers, Florida, sold \$28 million of CDD bonds last month to help finance the construction of 696 single-family homes, part of a larger plan to build 1,325 houses on nearly 1,000 acres, according to the deal's offering documents. The debt doesn't carry credit ratings. Bonds maturing in 2050 sold at par with a yield of 5.124 percent and last traded Jan. 9 with a 4.924 percent yield, according to data compiled by Bloomberg.

While the bonds are benefiting from a stronger housing market, land-backed debt accounts for 25 percent of payment failures in the \$3.8 trillion municipal market. Of the \$9.3 billion of municipal

debt in default — excluding Puerto Rico — \$2.3 billion, the largest portion, are dirt bonds, according to Municipal Market Analytics.

Florida's population is expected to reach 26.4 million by 2040, up from an estimated 20.5 million in 2017, for a gain of 5.9 million new residents, according to the Bureau of Economic and Business Research at the University of Florida.

Bloomberg Markets

By Michelle Kaske

January 11, 2018, 12:11 PM PST

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