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America's Housing Crunch Is So Bad It May Hurt City Bond Ratings.

- **Moody's foresees long-term impact if problem keeps worsening**
- **San Francisco approves $600 million bond for affordable homes**

Not only is the shortage of affordable housing and the number of homeless on America's streets a social and public policy crisis, it's increasingly becoming a risk for municipal-bond buyers as residents of high-cost cities struggle to make ends meet.

Home prices are up 33% nationwide over the past five years and the homeless population increased in Los Angeles, New York City and the Seattle metro area between 2014 and 2018, according to a report from Moody's Investors Service. Failure to deal with these changes puts local governments's bond ratings at risk as residents move to cheaper jurisdictions, spend less and use more social services.

It's an issue that has a growing importance for investors in the $3.8 trillion municipal-bond market, especially those with long-term horizons like life-insurance companies. That's because bad economic development policies and housing stresses can factor into decisions to buy a bond or not, said James Lyman, director of research for the municipal fixed-income team at Neuberger Berman.

"This has been evolving more quickly as a credit factor in recent times," Lyman said. "It really depends on the type of client, the duration of the bond you're buying and the speed at which the problem is evolving."

The rising cost of living in America's major cities isn't posing much of an immediate risk for investors, with governments including San Francisco, Los Angeles County and New York City all winning bond-rating upgrades as the rising values increase property tax revenues that are one of their biggest sources of cash. But widening inequality could pose a challenge if it continues to run its course over the next decade, particularly in places like California where housing already eats up a large share of residents' incomes.

Related: America's Worst Housing Market Is Desperate to Find More Supply

The growing problem has pushed municipalities to try addressing these issues. San Francisco residents Tuesday approved selling $600 million of bonds to pay for public housing rehabilitation and the purchase of new affordable housing units, according to preliminary results, seeking to address the city's increasingly visible homelessness epidemic.

University campus housing expansion and hospital housing for the homeless have also emerged as options to stem the housing issues, according to Moody's.

Bloomberg Markets

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November 6, 2019, 10:35 AM PST

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