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Sacramento Sells New Housing Bonds to Profit Off San Francisco Exodus.

- **City is selling \$43 million of debt for new home development**
- **San Franciscans working remotely have migrated inland**

Municipal-bond buyers have a chance this week to profit from San Francisco workers fleeing to lower-cost Sacramento.

The state's capital on Wednesday is selling more than \$43 million of unrated special-tax bonds to help finance infrastructure improvements for an area that may encompass as many as 2,175 single-family homes, 331 multi-family units, 189 senior affordable apartments and commercial and retail space. It's the first such sale for a community known as Northlake that's being developed by a joint venture of Lennar Homes and Integral Communities 9 miles (14 kilometers) from downtown.

Development of the massive housing project near the Sacramento International Airport comes as people flee the pricey Bay Area in search of bigger and cheaper homes and companies such as Salesforce.com Inc., San Francisco's largest private employer, embrace remote work policies even after the pandemic ends.

"If you don't need to be in San Francisco or very near it, it's appealing for some homeowners or potential buyers to move out of an apartment or an expensive condo to a place like this, where you get a single-family home and maybe just more open space," said Terry Goode, a senior portfolio manager at Wells Capital Management. "That's clearly a factor that you want to look at when you're assessing the ultimate success of the development, and whether there'll be demand ultimately for the home."

The sale is the biggest unrated special-tax deal in the municipal market since September, according to data compiled by Bloomberg. Bond buyers are scrounging for returns as Federal Reserve policies help keep yields near record lows. Municipal-bond funds that invest in the riskiest securities — such as unrated debt — pulled in the second-highest amount of weekly cash on record last week.

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A 4% coupon bond maturing in 2050 was being offered at 2.83% Tuesday, or 150 basis points more than benchmark, according to a pricing wire seen by Bloomberg News. A bond maturing in 10 years with a 4% coupon was being offered at 2.33% yield, or 155 basis points more than benchmark.

Sacramento's sale Wednesday is for the first phase of the development, which entails 1,137 market-rate single-family homes to be built by the first quarter of 2026, according to bond offering documents. Lennar in January opened model homes ranging from 1,774 square feet (165 square meters) to 3,940 square feet.

The city will start collecting the special tax paid by the landowners this fiscal year at rates depending on the progress of development and the kind of residence, with enough revenue to cover

110% of the debt service every year, according to the document. The city isn't obligated to cover any shortfalls in bond payments.

Sacramento's allure to people chafing under the higher costs in the San Francisco region has intensified during the pandemic, as employees such as those in technology companies are allowed to work remotely instead of in downtown offices. It is California's sixth-biggest city, compared with No. 4 San Francisco.

Sacramento was the most popular search destination for San Francisco residents looking to leave in the fourth quarter, according to online real estate brokerage Redfin. Sacramento's median home price was \$457,000 in January, a 12% increase from the previous year but still about 60% less than the median price in San Francisco, Redfin figures show.

"It could be seen as a win-win from constituents that desire to relocate to our city, but also helps obviously from an economic point of view down the road for the city and the city's finances," said Brian Wong, Sacramento's debt manager.

Bloomberg Markets

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