Georgia Bets $440 Million That Conventions Won’t Be Gone Forever.

- **Virtual conventions could crimp the industry even after Covid**
- **Bond yields of as much as 4.22% show buyers see some risk**

Atlanta’s convention center sold $440 million of municipal bonds to build a 975-room hotel next to its sprawling exhibit hall, wagering on a comeback for a business that’s been effectively shut down by the pandemic.

Investors demanded a steep premium to compensate for the risk. The securities were sold Thursday for yields of as much as 4.22% on those due 2054, more than twice the rate for the most risk-free municipal bonds, according to data compiled by Bloomberg.

The convention industry has been among the hardest hit by the pandemic, which shut down mass gatherings and caused work-related travel to grind to a halt. That forced at about a dozen government agencies that sold bonds for convention centers or hotels to draw on reserve funds or take other steps signaling financial distress, according to data compiled by Municipal Market Analytics.

Yet all of them continued to cover interest payments, in part because of large reserve funds or backing of local tax revenue.

“On the surface convention centers sound like a negative story — because who’s going to a convention anytime soon?,” said Cooper Howard, director of fixed-income strategy at the Schwab Center for Financial Research. “But many of them have some other type of support.”

The rollout of the vaccine and the prospect that American life may soon return to normal has helped some convention center bonds rebound. A Las Vegas convention center bond due in 2043, for example, traded for about 101 cents on the dollar in April for a yield of 4.9%. It’s now trading for about 118 cents, cutting the yield to 2.3%.

The Georgia World Congress Center is the nation’s fourth largest convention center. Since the pandemic struck, it has lost 104 events, with 57 re-scheduled through the next three years, the authority that oversees the center said in bond documents.

The new Hilton-brand hotel is expected to open in January 2024, when the lodging industry is slated to return to normal, according to a study contained in bond documents.

Part of bond funds were set aside to cover debt payments until after the hotel opens, reducing the near-term risk to bondholders. “Investors love capitalized interest,” said Lisa Washburn, a managing director at Municipal Market Analytics. “It gives you some buffer space. You have years before you have to worry whether or not the hotel industry is going to be back to normal.”

About $227 million of the debt with a first claim on the project’s revenue was rated BBB- by S&P

Global Ratings, one step above junk. The rest were unrated.

Frank Poe, the executive director of the Georgia World Congress Center Authority, said that while it's too early to speculate on when the center will return to normal operations, he is "seeing positive signs" and that the center's "book of business for the next 10 years is strong."

Yet it remains an open question about whether the convention business will fully bounce back.

Attendance at major convention center events was already on the decline before the pandemic, said Heywood Sanders, a professor of public administration at the University of Texas at San Antonio. Based on his research, attendance at events at the U.S.'s four largest exhibit centers totaled 3.84 million in 2019, down from a pre-recession peak of 4.74 million in 2006.

He's skeptical attendance can rebound in a post-pandemic world after would-be attendees adjusted to a year of virtual sessions.

"Many of those virtual meetings will continue, either fully virtual or in parallel with in person events," he said. "Those will have the effect of reducing attendance at regular annual events. It's inevitable."

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