Convention Centers Face Risks as Delta Ramps Up Threat to Crowds.

- **S&P warns of slow recovery, trouble reaching pre-Covid levels**
- **Texas borrowers have convention center deals on calendar**

The Delta strain is dealing a setback to the convention industry's fragile recovery.

Some big gatherings are being shut down as the number of coronavirus cases surges again, dealing a fresh hit to a business that was already struggling to revive from the era of social distancing and working from home. The New York International Automobile Show was canceled this month for the second year in a row because of concerns over the pandemic. In Florida, the epicenter of the U.S. outbreak, the North American Association of Food Equipment Manufacturers and the Global Surgical Conference called off their events, with organizers of the later, citing the "dramatic surge" in the state's cases.

"It is very hard to pull a group of people and make sure that they are all comfortable in meeting together," S&P Global Ratings credit analyst Safina Ali said in an interview. "To an extent, they might not even get back to pre-Covid" levels, she said, referring to convention centers.

Bond-financed convention centers have seen their businesses dry up since the pandemic struck the U.S. in early 2020. The Center for Exhibition and Industry Research reported that the industry has shriveled to $24 billion, down $77 billion from 2019.

"There is not going to be a light switch and everybody is able to go back and go to events," said Brad Mayne, president and chief executive officer of the International Association of Venue Managers.

Still there isn't much distress right now for convention center debt, said Eric Kazatsky, senior U.S. municipals strategist at Bloomberg Intelligence. Many of these had pretty solid cash on hand going into the pandemic and decent credit quality.

"They had some cash to burn," Kazatsky said. "Things aren't at a total zero. They've just declined. There are still conventions being held."

Plus the muni market is searching for supply amid ongoing investor demand, and there is appetite for new projects, he said.

About $1.5 billion of municipal bonds for convention centers have been sold so far this year, down from $2.4 billion in the same period in 2020, according to data compiled by Bloomberg. There are some upcoming municipal bond deals that may offer a look at how investors view the risk.

The city of Abilene, Texas, through the Abilene Convention Center Hotel Development Corp., is looking to finance the construction for a full-service, upscale 200-room hotel and conference center 150 miles (241 kilometers) west of the Dallas-Fort Worth area. S&P considers the $19.5 million first-lien bonds BBB-, one step above junk. Additionally, the corporation is also selling $24.7 million of second-lien bonds for the project.

Also in Texas, the Baytown Municipal Development District outside of Houston plans to sell about $61 million in bonds to finance the development of the Baytown Convention Center Hotel with about 208 rooms, according to bond documents.

Yet such deals may belie the risks posed the industry's slowdown. Earlier this week, S&P said it expects Overland Park Development Corp. in Overland Park, Kansas to draw on $530,000 debt service reserves to cover a portion of its Sept. 1 interest payment.

"If revenue fails to meaningfully improve over the remainder of 2021, particularly given the additional uncertainty imposed by the Delta variant, credit quality could deteriorate," S&P said in the report on Tuesday on the Overland debt.

Cooper Howard, director of fixed-income strategy at the Schwab Center for Financial Research, said the impact of the pandemic on convention centers is about "looking at the liquidity and health of the region that they are located in. "Right now the delta variant doesn't appear to be posing a major risk to this sector, longer term it is something that yes, we will be watching," Howard said.

Bloomberg Business

By Skylar Woodhouse

August 19, 2021, 12:30 PM MDT

— With assistance by Natalia Lenkiewicz