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Connecticut Waterfront Project Cleared in 2007 to Sell Munis.

- **Bridgeport's Steelpointe Harbor to issue almost \$50 million**
- **Developer envisions adding three apartment buildings, hotel**

A district set up to transform part of Bridgeport, Connecticut's waterfront plans to sell about \$50 million of unrated municipal debt as soon as this week, in what amounts to a bond-market bet on future development for which financing has yet to be secured.

A subsidiary of RCI Group has built a 220-slip marina, a 150,000-square-foot store for outdoor retailer Bass Pro Shops and a mixed-use lighthouse building since the project was approved in 2007. But the developers of the largely vacant Steelpointe Harbor on Long Island Sound are still betting they can create a neighborhood of apartments, shops and offices about 60 miles (97 kilometers) from New York City, on the site of a former steel works.

A limited group of as many as 35 sophisticated investors can join the wager by purchasing tax-exempt bonds backed by an increase in property taxes generated by new development in the district, according to the offering statement for the debt.

More than \$30 million of bond proceeds will reimburse Bridgeport Landing Development LLC for the construction of a bulkhead and \$5 million will go to the city for street work. The RCI subsidiary has spent an additional \$18.2 million in public infrastructure and \$51.5 million in private improvements, the offering document says.

Homework Required

"Projects like these can change the entire character of a city's waterfront," said Adam Weigold, head of municipal strategies at Manulife Investment Management, which toured the site last week. "These deals are not without risk, and I think you really need to do your homework if you are going to get involved."

He said he plans to buy the debt.

"We've been involved in waterfront development project financings in the past, and it's great to see previously underutilized spaces turned into an attraction," he said.

Tax-increment-financing bonds were among the riskiest types of securities in the \$4 trillion municipal market even before the pandemic, which only added to the financial strains on districts relying on sales- and hotel-tax revenue. This month, bonds sold for a conference center in North Kansas City, Missouri, and secured by hotel-related taxes, defaulted.

High-yield munis have returned 6.6% this year, beating the 4.5% earned by their U.S. corporate counterparts, according to Bloomberg Indices. The riskiest munis have benefited from a reopening economy, federal stimulus and demand for junk offerings amid near-record low yields.

Apartments, Hotel

Bridgeport Landing Development plans three apartment buildings with a total of 370 units and a 120-room hotel at an estimated cost of \$135 million, but it hasn't obtained financing, according to the bond-offering document. Hotels, in particular, face a long recovery from the pandemic, which devastated business and leisure travel.

And while some New Yorkers have sought out homes in suburban Connecticut because of the pandemic, it's unclear whether there's enough demand for apartments in Bridgeport, a former manufacturing center where 22% of residents live in poverty.

However, location is also among one of Steelpointe's strengths. The planned neighborhood is an 8-minute walk to the Metro-North and Amtrak rail station and is bounded by Interstate 95. The commuter train to Manhattan on weekday mornings can take as little as 90 minutes.

Bridgeport, a city of about 145,000, is in Fairfield County, one of the wealthiest in the U.S. As the county's western part becomes pricier and denser, more people may move to cities such as Bridgeport, according to the offering statement.

Given the lack of available housing and changing location preferences amid the pandemic, the development has a strong possibility to tap into demand for larger apartments with easy access to major urban employment centers, said Jay Lybik, national director of multifamily analytics for Apartments.com.

Buyers leaving New York have boosted house prices across Connecticut, putting ownership out of reach for many households, he said. The Bridgeport submarket apartment vacancy rate is 2.2%, showing there's solid demand for renting in the area. There's also been limited development over the past decade, with only 850 new units delivered and less than 100 under construction.

Risk Outlined

The tax-increment payments depend on the project's timely completion by April 2025. If there's a revenue shortfall, property owners in the district will have to make assessment payments. The developer is currently the district's only property owner.

"This limited diversity in the obligation to pay real property taxes, including the tax-increment payments, and special assessments presents a significant risk to holders of the bonds," according to the offering document. "Failure of the master developer to pay real property taxes and special assessments when due could result in the rapid, total depletion of the debt-service reserve funds."

RCI, which is based in Miami Beach, didn't respond to an interview request about the bond sale.

Tax-increment-financing bonds that depend on economically sensitive taxes and those that rely on developing an area tend to be riskier, said Lisa Washburn, a managing director at Municipal Market Analytics.

The sector has a default rate of 1.34%, similar to the aggregate default rates for riskier market sectors, she said. However, default rates among those sectors vary: It's 0.8% for local housing and as high as 9.13% for retirement communities, Washburn said.

Bloomberg Markets

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September 29, 2021, 4:00 AM PDT Updated on September 29, 2021, 11:10 AM PDT

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