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NYC Preps Inaugural 'Social' Bonds as Part of \$1.4 Billion Debt Sale.

- **Deal includes \$400 million of taxable debt for housing**
- **Investors bought \$50 billion in new muni ESG debt last year**

New York City plans to sell about \$1.4 billion of debt next month, in part to address its deepening housing crisis. The deal includes \$400 million of taxable debt that will be the city's first-ever issuance of bonds explicitly earmarked to tackle social issues.

Proceeds from these social bonds are expected to finance more than 3,000 units of affordable housing, according to a press release Tuesday from Mayor Eric Adams's office. The remaining \$950 million will be sold as tax-exempt debt, and will be used for general capital purposes.

The city, like many other issuers in the \$4 trillion municipal-bond market, hopes to seize on growing investor appetite for environmental, social and governance — or ESG — bonds. Investors snapped up \$50 billion in new-issue municipal ESG debt in 2021, up 79% from the previous year, the release said. Driven by sales of affordable housing bonds, the sector is already ahead of the pace last year, when it set a record.

"This groundbreaking sale of the city's first social bonds will ensure we are tapping a rising source of investor demand to promote a stronger, more resilient city," said Mayor Adams.

The proposed bond sale comes at a precarious time for the city as it grapples with the consequences of insufficient homebuilding. Between 2011 and 2020, New York City produced only 27 new housing units for every 1,000 residents, below the national average of 34. And the New York City Housing Authority currently faces a \$40 billion backlog in capital needs, according to Adams's housing blueprint.

Proceeds from the social bonds will finance a slew of projects currently under development through programs run by a different agency, the New York City Department of Housing Preservation and Development. More than 80% of the money are for projects in the Extremely Low- and Low-Income Affordability program, which finances the construction of low-income multifamily rentals.

Additionally, about 70% of the units will be designated for residents earning below a certain income threshold: 60% or less than the median area income, which is about \$72,000 for a family of three, the release said. More than 900 of the units will be for individuals and families who formerly experienced homelessness.

The taxable portion of the deal is slated to price on Oct. 4, via negotiated sale led by Citigroup Inc. and Morgan Stanley as joint lead managers. The tax-exempt portion is led by Citi, and is expected to price the same day, according to roadshow documents.

Other cities have also made similar moves. In August, Chicago Chief Financial Officer Jennie Bennett said the city plans to sell its first ever ESG-labeled municipal bonds in the fall. The city will sell

between \$100 million and \$150 million of debt, with proceeds slated for environmentally and socially beneficial projects as part of the Chicago Recovery Plan, a \$1.2 billion economic development initiative that uses federal aid alongside municipal borrowing.

While selling social bonds, or any ESG bonds, helps issuers tap a broader base of potential investors, the muni market still hasn't seen evidence of a pricing advantage for such debt, said Ruth Ducret, senior research analyst at Breckinridge Capital Advisors.

Still, "it's pretty low-hanging fruit to do it," she said.

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By Nic Querolo and Marvis Gutierrez

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