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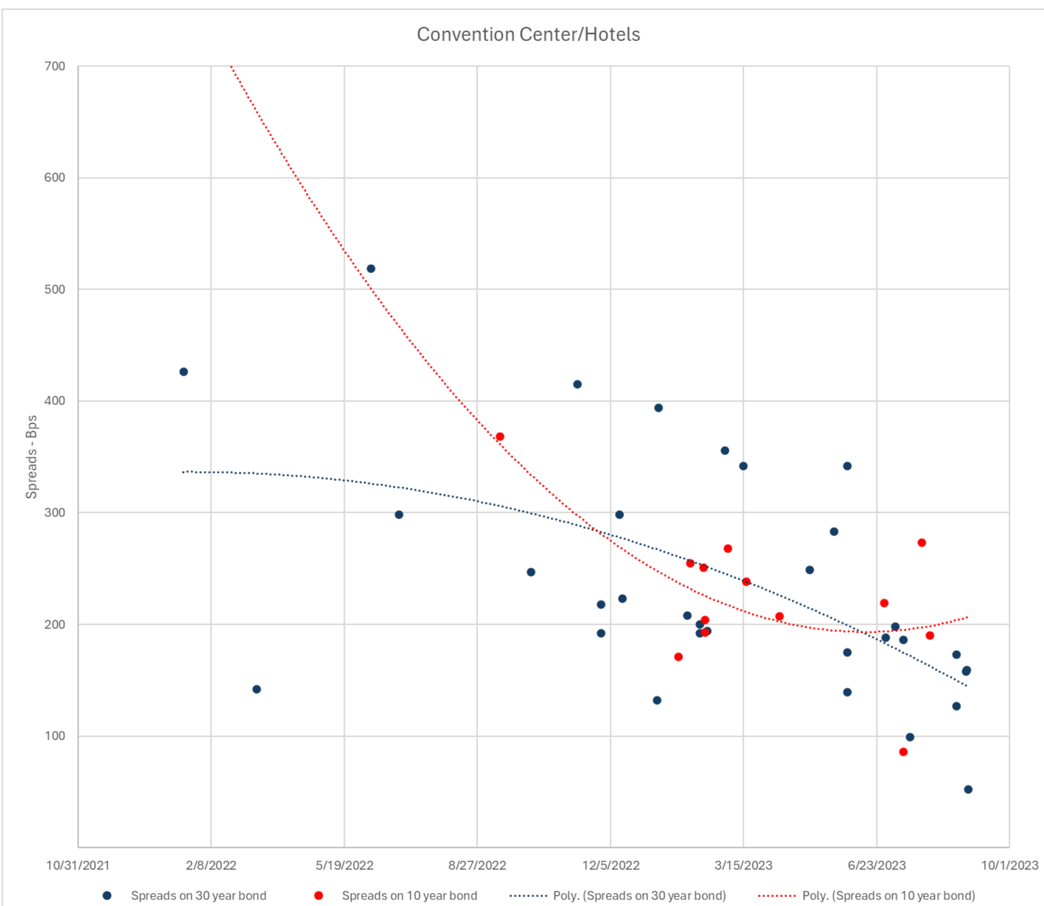
Convention Center Spreads Fall as Yields Rise; Sector Betting on Rebound as New Money, Liability Management Strategies Could Test Market

October 5, 2023

Secondary marketing pricing for convention centers shows a narrowing of spreads despite an overall rise in fixed-income yields, according to year-to-date data tracked by Reorg. The average credit spread for 10-year and 30-year maturities across a sample set of 24 obligors that have issued roughly $4.7 billion of convention center debt has fallen 45 bps to 184 bps at the start of September, from 229 bps in April. The average bond yield has fallen 12 bps to 5.19%, and the median yield was 5.25% in August, slightly tighter than 5.28% in April.

The yields were collected from EMMA and measured against publicly available information from the AAA MMD. Credit quality for the sector can vary depending on the collateral, and the yields contained here reference a diverse array of revenue streams, from hotel revenue to lodging taxes and tax increment financing. Below is a chart describing the recent trends in secondary spreads for the sample set:



The tightening of credit spreads could spur new borrowing and liability management as the fourth quarter of 2023 unfolds, according to market sources. For example, the Metropolitan and Economic Development Committee of the City-County Council for Indianapolis approved in May a $625 million issuance for new hotel revenue bonds to construct an 800-guest-room convention center hotel at Pan Am Plaza in Indianapolis. Meanwhile, the Heldrich Hotel and Convention Center in Middlesex County, New Jersey, hired Citigroup to run a tender offer of its capital stack that has required repeated draws on debt service reserve funds, according to EMMA.

"From what I've observed, the industry, generally, has undergone a strong recovery," said Raoul Nowitz, a senior managing director at SOLIC Capital Advisors. "But for the most part, it has not hit pre-Covid levels, and we are only about 80% to 85% recovered."

Similar to airports, the tightening of credit spreads for convention centers is caused by a mix of technical and credit fundamentals. Performance has rebounded for the sector and could have more room to improve. Amid the rising rate environment, year-to-date overall municipal issuance has decreased 13% year over year to $267 billion, while year-to-date inflows for high-yield municipal bond funds totaled $100 million, according to BofA Research dated Sept. 22. (Meanwhile, year-to-date outflows for investment-grade municipal bond funds totaled $10.9 billion, according to BofA).

The macro backdrop points to a lack of supply for high-yield paper despite market appetite, according to Nowitz. The convention sector had a significant pop in earnings performance as the broader U.S. economy rallied from lockdowns. Moving forward, growth should remain positive, but in the low to mid single digits, said Nowitz. As with many sectors, the rising cost of labor is impacting profitability, but market sentiment is still bullish.

For example, the Grand Hyatt San Antonio borrowed $380 million in senior and subordinate hotel revenue bonds in March 2022 to finance the acquisition of the convention center hotel. The deal was backed by hotel revenue. Since April, spreads have narrowed by 50 bps, according to data from EMMA compiled by Reorg. Nonetheless, when comparing the second-quarter 2023 results with the second quarter of 2022, revenue for the convention center declined to $19.8 million from $21.2 million, according to an EMMA disclosure. EBITDA also declined to $7 million in the second quarter of 2023, from $8.8 million in the second quarter of 2022. Revenue per available room, or revpar, was $125.35 per room, down from $142.11 year over year.

Washington State Convention Center, or WSCC, is another example of a top-line rebound and bullish sentiment despite multiple draws on a credit enhancement backing roughly $1.6 billion of municipal debt backed by a mix of hotel revenue and district lodging taxes. Since 2020, the convention center has needed to make yearly unscheduled draws of additional lodging taxes to pay off principal and interest on its debt. A new amendment to the financial obligation agreement as of Sept. 26 allows the center to use additional lodging tax revenue for its 2021 obligations, according to an EMMA notice.

Spreads for WSCC's Series 2021B first priority, subordinate lodging tax refunding bonds, rated Baa3 by Moody's, have narrowed by 65 bps since April, according to data compiled by Reorg. While the WSCC has not recovered in attendee count when compared with pre-pandemic numbers in 2018, revenue from the center did increase to $163 million in fiscal 2022, from $149 million in fiscal 2018. Monthly lodging tax revenue collections hit a five-year peak at $12 million for July 2023, according to an EMMA disclosure. A $1.9 million expansion of the convention center also recently opened in January 2023.

Still, the WSCC has made a total of four draws on a credit enhancement. It most recently drew $4.2 million in July 2023, $13.1 million in July 2022, $4.2 million in July 2021 and $14.2 million in July 2020. If the convention center draws on the enhancement and is unable to repay the state of Washington, it becomes a repayment deficiency loan.

The market already has an appetite for these kinds of deals. The Metropolitan Pier and Exposition District, or MetPier, in Chicago, priced nearly $58 million bonds on Wednesday, Oct. 4, and expects to try the market with a further $270 million issue later in the year, as reported. The MetPier deal, rated BBB by Fitch and A by S&P Ratings, had spreads ranging from 76 bps to 81 bps, calculated from price talk on Oct. 3

The Heldrich Center Hotel/Conference Project is also looking to tap into the rebound of convention centers with a tender offer for its Series 2005 bonds, according to EMMA. The deal was backed by hotel revenue, and Heldrich defaulted in 2020, as reported. While Heldrich disclosed a $548,174 operating profit as of August 2023, EBITDA totaled negative $11,450. The hotel center reported 53.8% occupancy for the month of July, down from 61.7% in June.

Heldrich disclosed negative $444,213 of net income available after debt service as of August. The August financial report did not disclose the debt service coverage ratio. The following table shows the capital structure for the Heldrich Center Hotel:

Heldrich Center Hotel				
Issuer & Description	**Principal At Issuance ($)**	**Coupon (%)**	**Maturity Date**	**CUSIP**
REV BDS HELDRICH CTR HOTEL/CONF SR 2005 A				
SR-HELDRICH CTR HOTEL-SER A	$3,375,000	5.00%	1/1/2015	596566PU7
SR-HELDRICH CTR HOTEL-SER A	$3,815,000	5.00%	1/1/2020	596566PV5
SR-HELDRICH CTR HOTEL-SER A	$14,035,000	5.00%	1/1/2032	596566PW3
SR-HELDRICH CTR HOTEL-SER A	$8,775,000	5.13%	1/1/2037	596566PX1
REV BDS HELDRICH CTR HOTEL/CONF SUB 2005 B				
SUB-HELDRICH CTR HOTEL-SER B	$8,240,000	6.13%	1/1/2025	596566PY9
SUB-HELDRICH CTR HOTEL-SER B	$29,055,000	6.25%	1/1/2037	596566PZ6
REV BDS HELDRICH CTR HOTEL/CONF JR 2005 C				
JR-HELDRICH CTR HOTEL-SER C	$2,750,000	8.75%	1/1/2037	596566QA0
Total	**$70,045,000**			

U.S. Bank, bond trustee for the hotel's Series 2005 and 2007 debt backing the project, recently made a $144,914 draw on the hotel's reserve fund in March for "payment of the fees and costs incurred by the Trustee in performing its duties," according to an EMMA notice posted in April.

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