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Fitch Rates Hudson Yards Infrastructure Corp. (NY) Senior Revs 'A'; Outlook Stable

Fitch Ratings-New York-29 August 2013: Fitch Ratings has affirmed its 'A' rating on the Hudson Yards Infrastructure Corporation, NY's (HYIC) $3 billion in outstanding senior revenue bonds.

The Rating Outlook is Stable.

SECURITY
The bonds are special obligations of HYIC payable from a combination of recurring and one-time revenues expected to be generated from development in the Hudson Yards area of Manhattan.

Recurring revenues include payments in lieu of taxes (PILOTs) under agreements between property owners in the project area and the New York City Industrial Development Agency (NYCIDA) or Metropolitan Transportation Authority (MTA); tax equivalency payments (TEPs) representing an amount equal to real property taxes; and PILOTs collected by the city if PILOT agreements are not entered into with the IDA or MTA. PILOTs flow directly to the bond trustee and TEPs must be appropriated by the city.

Bondholders are further secured by interest support payments from the City of New York, subject to annual appropriation, sufficient to enable the corporation to pay interest on the bonds to the extent project revenues are insufficient for such purpose. The city is not obligated to pay principal on the bonds. The indenture allows another $500 million in parity debt, or the issuance of subordinate debt, but such issuance would require a city council resolution to increase the amount of interest support.

One-time development-related revenues include payments in lieu of mortgage recording taxes (PILOMRTs) that are made as part of PILOT agreements, district improvement fund bonus payments (DIBs) made in exchange for approval of greater density than base zoning allows, and proceeds from the sale of the transferrable development rights of the eastern rail yards (up to $200 million plus interest).

KEY RATING DRIVERS

CITY APPROPRIATION SUPPORT
The 'A' rating is primarily supported by New York City's obligation, subject to appropriation, to pay interest on the bonds if project revenues are insufficient for this purpose. Fitch rates the city's general obligation bonds 'AA' with a Stable Outlook.

PRINCIPAL REPAYMENT DEPENDENT ON DEVELOPMENT
HYIC's ability to repay principal relies on prospective development. While Fitch believes long-term development prospects are positive, implementation may be negatively affected by delays in project completion, competition from other development projects, and changes in the broader economy and the real estate and financial markets.

FLEXIBLE, LONG-DATED PRINCIPAL SCHEDULE
The bonds have a nominal final maturity of April 1, 2047 and scheduled principal payments do not commence until the project has demonstrated self-support from recurring revenues. The amortization structure, in conjunction with the city's interest payment commitment, allows time for construction and development delays and the phase-out of tax incentives.

SOUND AREA AND BROADER ECONOMY
The project area is in an attractive location for development, reflecting the city's unique role as a national and international center for commerce and culture, the project area's proximity to the city's midtown central business district, and a lack of development capacity that restrains future new office building space.

CREDIT PROFILE

NYC CREDIT SUPPORT
The city's interest support, in conjunction with the flexible principal repayment structure noted below, serves as the underpinning of the rating. The city's interest support commitment is for the life of the bonds. Interest is subordinate

to principal to insure that project revenues are applied first to principal, thus maximizing the benefit of the city's support.

The mechanism for this backstop, which is laid out in an agreement between HYIC and the city, provides that by April 1 of each year the corporation shall provide the city with the expected amount of interest support needed in the following fiscal year for inclusion in the mayoral budget submitted to city council. The request for interest support is included in the city's general debt service appropriation bill. If at any time the appropriation enacted for such fiscal year is no longer sufficient, the mayor shall take action to seek an increase in the appropriation from city council.

The city made $235 million in grants and support payments to the corporation in fiscal year 2012, including $156 million as a prepayment of future fiscal years' interest. The city's current financial plan for fiscal 2014-2017 includes full interest support payments in each year.

FLEXIBLE BUT LONG-DATED BOND STRUCTURE
The revenue bonds are structured as term bonds with a final maturity of Feb. 15, 2047. No sinking fund installments shall be scheduled until the conversion date, which is the date upon which the corporation certifies to the trustee that recurring revenues (net of corporation expenses) for each of the immediately preceding two fiscal periods equal at least 125% of maximum annual debt service (MADS) on outstanding senior bonds or 105% of MADS on all outstanding bonds. MADS is calculated assuming level or declining debt amortization beginning in the fiscal year after conversion. Subsequent to the conversion date, the obligation of the corporation to pay sinking fund installments on outstanding bonds is only to the extent that money is available.

Prior to conversion, all project revenues must be used to pay bond interest and corporation expenses. If excess revenues are available after interest has been retained for the subsequent fiscal year, revenues then pay down principal once bonds are callable. No project revenue flows to the city until after conversion, except for reimbursement for bond interest paid by the city in that fiscal year, if any.

HUDSON YARDS DEVELOPMENT AND REVENUES

Bond repayment ultimately relies on revenues expected to be generated from development in the Hudson Yards area of Manhattan. The project area is a roughly 45-square-block area from West 43rd Street, 7th & 8th Avenues, to 30th Street, 11th & 12th Avenues. In 2005 the city re-zoned this area from primarily manufacturing and low-density commercial use to allow for a medium- to high-density (office building, hotel, residential) extension of the midtown central business district. Consistent with the city's demonstrated support of the project, the NYCIDA has adopted tax incentives for the area to encourage commercial development.

Cushman & Wakefield (C&W) updated its 2006 demand and development study in conjunction with the series 2012A bond sale in 2011. The report projects demand for 50.6 million square feet (msf) of new mixed-use development in the project area. Officials report that their current expectations remain largely in line with the 2011 C&W report. Since 2005, 7.4 msf of new private residential and hotel development has been completed within the project area, yielding the corporation TEP and DIB revenue totaling $81.5 million and $88.1 million, respectively, through fiscal 2012. One PILOT agreement has been entered into to date.

In 2008 development rights to 11.9 msf of space presently constituting the east and west rail yards (ERY and WRY) were awarded by the MTA to The Related Companies (Related). Construction on the first office tower in the ERY is under construction. The 1.7 msf building is expected to house the headquarters of Coach and L'Oreal, as well as offices of SAP. Occupancy is expected in late 2015. Media reports confirm that Time-Warner Inc. has a tentative agreement to move its headquarters to another prospective tower in the project area. Related is reportedly actively marketing other sites. Near the ERY site, Brookfield Properties has begun construction of a platform to accommodate 4.5 msf of mixed-use space.

Based on one of several development scenarios, total recurring and non-recurring revenues through 2050 were projected in 2011 at $35.1 billion and $1.8 billion, respectively, more than sufficiently supporting debt service payments on the bonds. Under one stress scenario examined by the C&W report, full and timely payment still occurs even if only 29% of projected project revenues are realized. The revenue conclusions are based on certain real estate, demographic, and economic assumptions, which Fitch believes are reasonable.

SUBWAY LINE EXTENSION
To foster private development, the city committed to fund the extension of the #7 subway line west and south to a new station at 11th Avenue and 34th Street. The subway extension is critical to the Hudson Yards project; office building development in Manhattan is dependent on subway access, and the area is currently underserved. Upon completion of the subway extension most of the Hudson Yards will be within a 10-minute walk of a subway station.

The subway extension is the largest public infrastructure component of the Hudson Yards project, and the bulk of HYIC bond proceeds are for this purpose. Officials report funds on hand are sufficient to complete the project, with no additional debt expected. The extension is scheduled to be operational in late 2013, with revenue service in mid-2014.

PROJECT ADMINISTRATION

The HYIC is a local development corporation created by the city to finance the Hudson Yards project. HYIC does not engage in the development directly but finances the development which is managed by Hudson Yards Development Corporation (HYDC) in coordination with the city, the MTA, the New York City Economic Development Corporation (NYC EDC), and the city's Office of Management and Budget (OMB). The majority of the members of the board of directors of both HYIC and HYDC are appointees of the New York City mayor, and the staff of both organizations is largely comprised of members of OMB and former officials of the NYC EDC.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope and IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', dated Aug. 14, 2012;
--'U.S. Local Government Tax-Supported Rating Criteria', dated Aug. 15, 2012.

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)
U.S. Local Government Tax-Supported Rating Criteria (http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

Additional Disclosure
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Related Entities
Title
Hudson Yards Infrastructure Corporation (NY) (/gws/en/esp/issr/84183678)

Related Entity Research	
Title	Date
Fitch Rates Hudson Yards Infrastructure Corp. (NY) Senior Revs 'A'; Outlook Stable (/gws3.0/fitch-home/pressrelease?id=800831)	29 Aug
Hudson Yards Infrastructure Corporation, New York (/creditdesk/reports/report_frame.cfm?rpt_id=651991)	17 Oct
Fitch Rates Hudson Yards Infrastructure Corp. (NY) Senior Revs 'A'; Outlook Stable (/gws3.0/fitch-home/pressrelease?id=729383)	27 Sep
Fitch Affirms Hudson Yards (New York) $2B Senior Revs at 'A'; Outlook Stable (/gws3.0/fitch-home/pressrelease?id=725829)	10 Aug
Fitch: Insured Muni Securities Rating Actions Associated with Fitch's Downgrade of FSA & Assured (/gws3.0/fitch-home/pressrelease?id=517336)	13 Oct

Related Sector Research	
Title	Date
Sector Briefing: States (/creditdesk/reports/report_frame.cfm?rpt_id=747363)	28 Apr
Sector Briefing: States (/creditdesk/reports/report_frame.cfm?rpt_id=721876)	24 Oct

- Video (/jsp/general/video_all.jsp)
- The Why? Forum (http://thewhyforum.com)

- Infrastructure (/gws/en/sector/overview/globalInfrastructureProjectFinance)
- Insurance (/gws/en/sector/overview/insurance)
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