MOODY'S
INVESTORS SERVICE

Rating Action: MOODY'S ASSIGNS A2 RATING TO $1 BILLION OF NYC HUDSON YARDS INFRASTRUCTURE CORPORATION SENIOR REVENUE BONDS

Global Credit Research - 29 Sep 2011

A2 RATING AFFIRMED ON $2 BILLION OF OUTSTANDING PARITY DEBT; OUTLOOK IS STABLE

New York, September 29, 2011 -- Moody's Rating

Issue: Senior Revenue Bonds, Fiscal 2012 Series A; Rating: A2 Sale Amount: $1,000,000,000; Expected Sale Date: 10/18/2011; Rating Description: Revenue

Opinion

Moody's Investors Service has assigned an A2 rating to the Hudson Yards Infrastructure Corporation's $1 billion Hudson Yards Senior Revenue Bonds, Fiscal 2012 Series A. Proceeds of the bonds, scheduled to price on October 18, will be used to complete an extension of the Number 7 subway and to help finance construction of parks and other public amenities to help spur residential and commercial real estate development in an underutilized area on the west side of Manhattan.

SUMMARY RATING RATIONALE

The A2 rating reflects a unique credit structure in which no principal payments are due until various real estate-related revenues within the Hudson Yards project area are sufficient to cover debt service. The City of New York (general obligation rating of Aa2) has pledged to cover the interest costs for the life of the bonds when those revenues are insufficient; the city's obligation to pay interest is absolute and unconditional, subject to appropriation and thus the rating is derived from the city's credit quality. The three notch difference from the city's general obligation rating reflects the need for annual appropriation of the city's interest subsidy, the nature of the economic development projects being financed, and volatility in New York City's real estate markets that could delay development in the Hudson Yards area beyond what already has been experienced through the recent economic downturn. The outlook is stable.

STRENGTHS

-- Strong city support that includes a pledge to cover net interest payments until the project produces sufficient revenues to cover debt service on its own, for the life of the bonds

-- Large and diverse project area adjacent to the midtown central business district with infrastructure development provided by the city to stimulate private development, limited alternative space to develop large commercial or residential projects in Manhattan, and essentiality of the project to the future economic development of New York City

-- Tunneling for the Number 7 subway extension is complete and service is expected to begin on schedule in December 2013, a key milestone towards attracting development

CHALLENGES

-- Historic volatility of NYC real estate markets, uncertainty of future demand for office space and potential competition from outer boroughs and New Jersey for lower cost office and residential building space

-- Although tunneling is complete, the overall Hudson Yards project is complex and potential still exists for delays that could affect real estate development

-- With no principal due until sufficient real estate revenues are generated, debt service will ramp up quickly in later years

OUTLOOK

The outlook for the Hudson Yards Infrastructure Corporation is stable, based on the City of New York's general obligation rating and outlook, the importance of the project to the city and its strong support of the project's financing. While there is risk involved with the Hudson Yards project, particularly with the uncertainty of real estate demand, the city's interest support commitment is key, and we believe the city will also work actively to refinance or restructure the bonds in the future if Hudson Yards real estate revenues are insufficient to support debt service costs.

WHAT COULD CHANGE THE RATING UP

-- Rapid development of the district resulting in growth ahead of projections

WHAT COULD CHANGE THE RATING DOWN

-- Deterioration in the city's financial condition

-- Extraordinary delays in completion of the subway line extension

-- A prolonged real estate recession that slows development and construction in the district

-- Weakened political support for the project if delays or mismanagement force increased city financial commitments.

PRINCIPAL METHODOLOGY

Hudson Yards Infrastructure Corporation's rating was assigned by evaluating factors believed to be relevant to the credit profile of the senior revenue bonds such as i) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the nature of the dedicated revenue stream pledged to the bonds, iii) the debt service coverage provided by such revenue stream, iv) the legal structure that documents the revenue stream and the source of payment, and viii) and the issuer's management and governance structure related to payment. These attributes were compared against other issues both within and outside of Hudson Yards Infrastructure Corporation's core peer group and Hudson Yards Infrastructure Corporation's ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on <A href="http://www.moodys.com">www.moodys.com</A>;.

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