MOODY'S INVESTORS SERVICE

CREDIT OPINION
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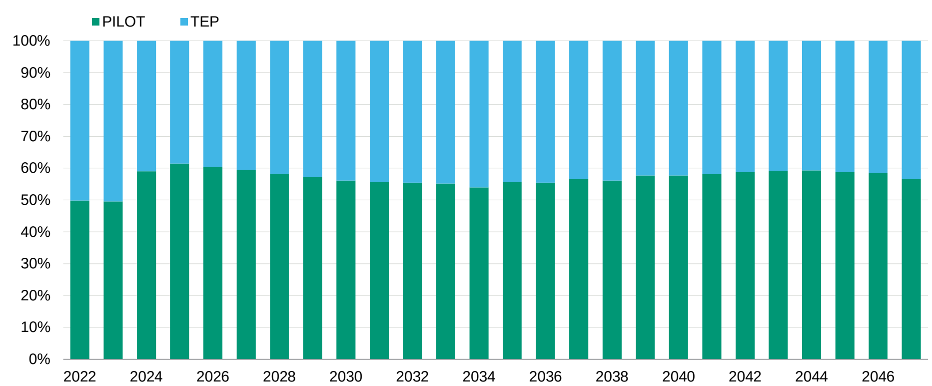
Hudson Yards Infrastructure Corporation, NY

Update to credit analysis following upgrade to Aa2

Summary

The Hudson Yards Infrastructure Corporation's (HYIC) revenue bond rating reflects steady growth in the portion of recurring revenue used to pay debt service that does not require city appropriation, and the expectation that the city will not have to appropriate any interest support payments for the remaining life of the bonds. Payments in lieu of taxes (PILOTs), which are paid by commercial property owners directly to the bond trustee and are not contingent on any action by the city, are estimated by fiscal 2024 to grow to provide 1.34x debt service coverage and to comprise 57% of the recurring revenue sources over the life of the bonds, based on properties that are already developed. Based on current year PILOT revenue and including tax equivalency payments (TEPs) that require annual city appropriation, recurring revenue provides 1.6x debt service coverage in fiscal 2022. On October 6 we upgraded HYIC's revenue bonds to Aa2.

Exhibit 1
Revenue to pay debt service is shifting to a majority of non-contingent PILOTs
Percentage of forecast recurring revenue from existing development derived from PILOTs or TEPs



Source: Hudson Yards Infrastructure Corporation

The rating, the same as the City of New York's general obligation rating (Aa2 stable) also reflects the strong legal structure which in addition to the flow of PILOT revenue includes a first mortgage lien on PILOT payments, and the essentiality of the subway line financed with the bonds. Even with growth in the PILOT revenue, the rating is constrained by the city's general obligation rating because of several factors: the Hudson Yards Infrastructure Corporation (HYIC) was created by and is controlled by the city; the PILOTs and TEPs used to pay debt service are based on the city's property tax system and thus subject to changes by the city if overall city tax rates were changed; TEPs still provide an estimated 43% of the revenue for debt service and require annual appropriation; and while no longer anticipated to be needed, city interest support payments are subject to appropriation.

Credit strengths

» Strong legal structure with PILOT payments flowing directly to trustee but tax equivalency payments subject to annual appropriation, and strong commitment of the City of New York to cover interest payments for the life of the bonds if necessary, subject to appropriation

» Essential nature of the primary project financed by the bonds, extension of a subway line

» Large and diverse project area adjacent to the midtown central business district, and limited alternative space to develop large commercial or residential projects in Manhattan, which has led to strong real estate development generating healthy revenue to pay debt service, tested through pandemic-era real estate stress

Credit challenges

» Volatility in New York City's real estate markets could weaken demand for commercial, hotel or residential properties in the Hudson Yards area and materially reduce the property tax-like revenue that pay debt service

Rating 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.

Factors that could lead to an upgrade

» An upgrade of the city's general obligation rating

Factors that could lead to a downgrade

» Downgrade of the city's general obligation rating

» A prolonged real estate recession that materially reduces the property tax-like revenue that pays debt service

» Failure to appropriate interest support payments, if needed

Key indicators

Exhibit 2

		2017		2018		2019		2020		2021
PILOT	$	21,376	$	30,879	$	76,148	$	118,897	$	136,785
TEP	$	70,545	$	84,332	$	113,347	$	129,847	$	154,361
Recurring (PILOT + TEP)	**$**	**91,921**	**$**	**115,211**	**$**	**189,495**	**$**	**248,744**	**$**	**291,146**
Non-recurring	$	52,089	$	197,721	$	109,170	$	178,037	$	6,423
Total	**$**	**144,010**	**$**	**312,932**	**$**	**298,665**	**$**	**426,781**	**$**	**297,569**
City interest support payments	$	-	$	-	$	-	$	-	$	-

Figures reflect cash basis receipts.
Source: Hudson Yards Infrastructure Corporation

Profile

The Hudson Yards Infrastructure Corporation is a local development corporation and instrumentality of the City of New York, created by the city in 2005 to finance the extension of the Number 7 subway line to spur real estate development in the Hudson Yards Financing District. HYIC is governed by a Board of Directors elected by its five members, all of whom are officials of the city.

Detailed credit considerations

Economy: strong growth in Hudson Yards area of the past 15 years

The Hudson Yards Financing District (HYFD) is a 45 square block area on the west side of Manhattan. It includes Madison Square Garden, Penn Station, and the new Moynihan Station. For decades this area was underutilized and consisting of open parking lots, warehouse and industrial buildings, small commercial and residential buildings, access roadways and plazas for the Lincoln Tunnel and approximately 26 acres of open rail yards belonging to the Metropolitan Transportation Authority (MTA, A3 stable) for its Long Island Rail Road. Over the past 15 years development in the district has grown strongly and it now includes 10.9 million square feet of office space, 10.7 million square feet of residential space and 3.6 million square feet of hotel space. Hudson Yards now is the city's premier Class A and “trophy” business district and home to large media, financial, consulting and law firms. Vacancy rates are low compared to the rest of the city and rents are well above average.

HYIC's original bonds (issued in 2006 and 2011) were interest only with a 40-year final maturity. When the recurring revenue could provide 125% coverage for two consecutive years of maximum annual debt service (MADS) on new amortizing bonds (plus 100% of HYIC operating expenses), the bonds converted to a level debt service amortization. That “conversion” test was met in 2017 when refunding bonds under a second indenture were issued to take out approximately 80% of the outstanding bonds and the remaining senior bonds began to amortize principal. Both the refunded and refunding bonds have level debt service. Before the bonds met the conversion test, they required city interest support payments (described in the “Legal Security” section below) in five of the past 16 years.

The bonds are payable with a mix of major recurring revenue sources and certain one-time revenue sources. The recurring revenue sources are PILOTs and TEPs. Nonrecurring revenue sources include payments in lieu of mortgage recording taxes; density bonus payments; and previously, revenue derived from the development potential of the MTA's eastern rail yards (all of this type of revenue has been realized)(see Exhibits 3 and 4). Based on completed and projected future development the recurring sources are estimated to be 98% of all pledged revenue through the life of the bonds.

Recurring revenue

» **PILOTs:** Based on the city's calculation of assessed value and paid by commercial office property owners directly to the HYIC trustee. PILOTs in the current fiscal 2022 are 50% of recurring revenue and are forecast to comprise 57% of recurring revenue over the life of the bonds. PILOT revenue is also paid first in the capital structures of the commercial buildings financed in the district.

» **TEPs:** Based on the city's calculation of assessed value and paid by residential, hotel, and some other commercial properties. TEP revenue is collected by the city, which has agreed to pay them to HYIC through a support agreement. The city's obligation to pay the TEPs to HYIC is absolute and unconditional, subject to appropriation. TEP revenue today is 50% of recurring revenue and are forecast to comprise 43% of recurring revenue over the life of the bonds.

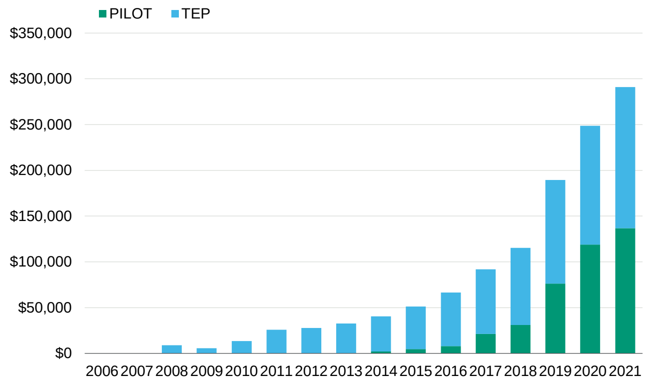
Non-recurring revenue

» **Payments in lieu of mortgage recording taxes:** Paid by commercial office property owners directly to HYIC trustee in an amount equal to mortgage recording taxes.

» **Density Improvement Bonus:** Payments made to increase the density of a property above base amounts set by zoning laws. Paid directly to HYIC trustee.

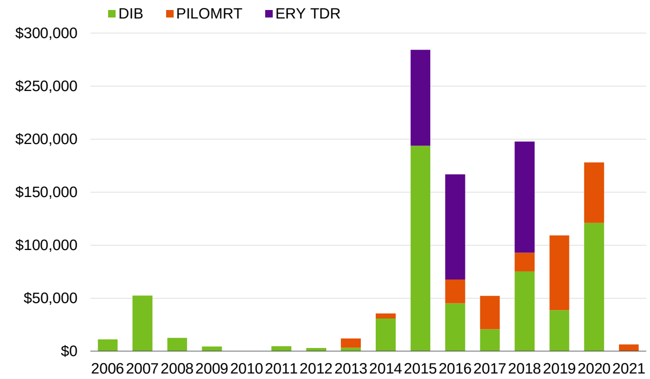
» **Eastern rail yard transferable development rights (TDRs):** Payments that were derived from property owners directly to HYIC that allow them to exchange the right to develop in the eastern rail yard for greater density on other properties in the Hudson Yards area. HYIC used $200 million of proceeds from its initial bond sale to buy TDRs from the MTA. No additional TDRs are expected.

Exhibit 3
Recurring revenue has grown strongly since 2006 as development bloomed
Payments in lieu of taxes and tax equivalency payments, fiscal 2006-2021 ($000s)



Source: Hudson Yards Infrastructure Corporation

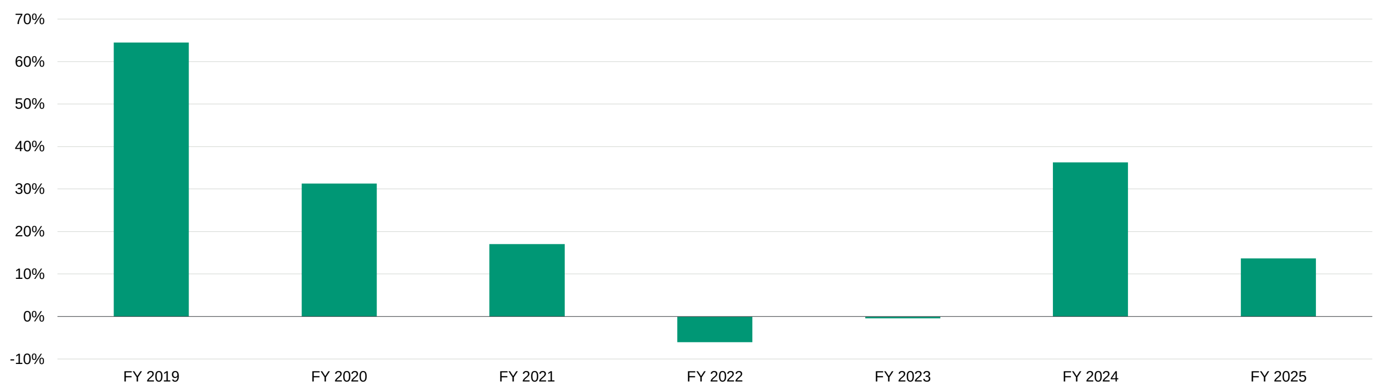
Exhibit 4
Non-recurring revenue was strong in some years as developers paid to increase density
Non-recurring revenue sources, fiscal 2006-2021 ($000s)



Source: Hudson Yards Infrastructure Corporation

Like other commercial property in New York City, property values and thus PILOT and TEP revenue have taken a pandemic-induced hit. Total recurring revenue declined 6% in the current fiscal year (fiscal 2022) with PILOTs flat but TEPs decreasing 11%. But because changes in value of Class 2 and Class 4 properties (rental, co-op, condo, hotel and office), which make up most of Hudson Yards, are phased-in over a five-year period, the decline is somewhat mitigated. In addition, PILOT revenue will increase from existing development because they are structured with partial abatements in early years that phase out over time. So, even based on a lower fiscal 2022 assessed value base, PILOTs from existing properties are increasing (see Exhibit 5).

Exhibit 5
Total recurring revenue declined similar to other city property taxes but will resume growth soon
Annual percentage change in recurring revenue



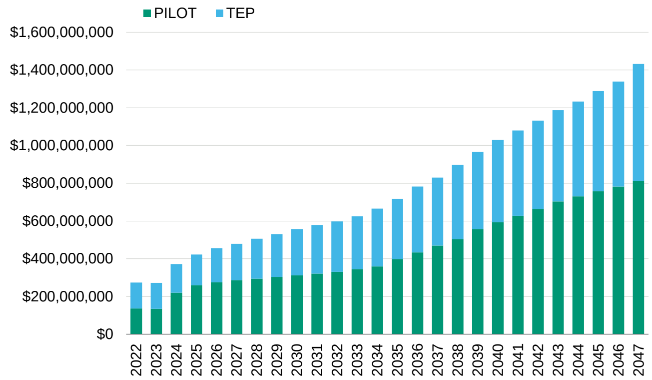
Source: Hudson Yards Infrastructure Corporation

Based solely on existing properties within the Hudson Yards District, PILOT revenue is estimated to comprise to 57% of recurring revenue through the life of the bonds, growing at a CAGR of 7.1%. TEP revenue is estimated to equal 43% of recurring revenue through maturity (see Exhibit 1 on page 1), with a CAGR of 6.0%. Non-recurring revenue is projected to continue, mostly DIBs, but only be 2% of total revenue (see Exhibits 6 and 7).

Exhibit 6

Recurring revenue from existing development will continue to grow

Payments in lieu of taxes and tax equivalency payments, estimated fiscal 2022-2047 ($000s)

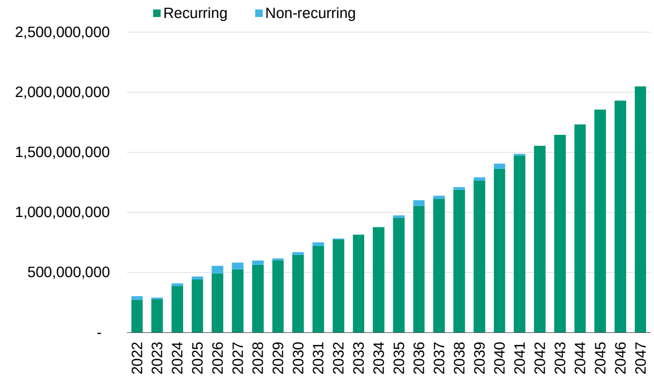


Source: Hudson Yards Infrastructure Corporation

Exhibit 7

Recurring revenue is 98% of the total

Estimated recurring revenue from existing and future development and non-recurring revenue, fiscal 2022-2047



Source: Hudson Yards Infrastructure Corporation

In our opinion, a major exodus from commercial office space is unlikely, with traditional office leases generally very long, which is the case of current leases in Hudson Yards. Even as the increase in remote work remains a large component of how work is done and a widespread return to the office seems delayed at least into 2022, it does not translate into a proportional drop in the use of physical office space. Even if a return to the office is not on a five-day-a-week basis for all employees, it is likely to reflect reduced desk density, more meeting space at the expense of single-person offices and even more square footage per employee.

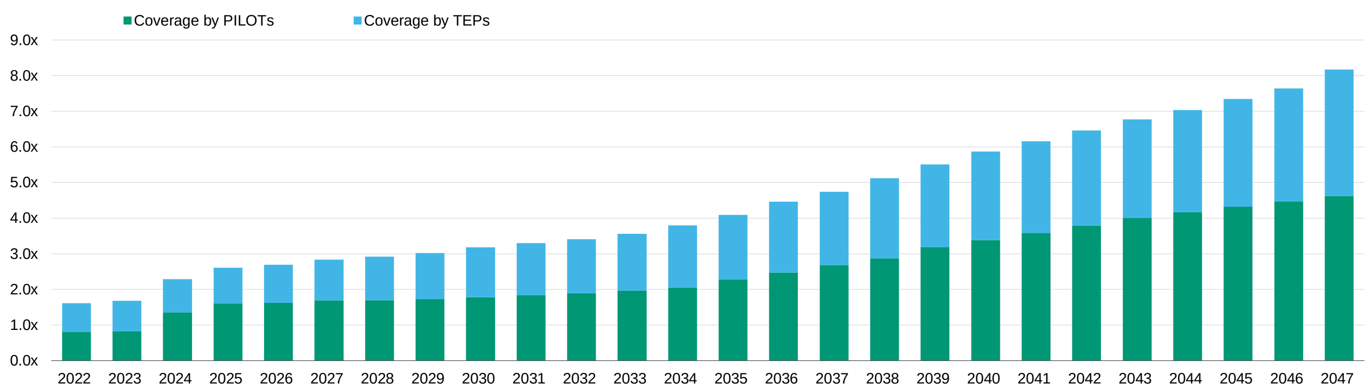
Finances: PILOTs from existing development grow to provide substantial debt service coverage, no future city interest support expected to be needed

Based on existing development, fiscal 2022 revenue provides 1.6x aggregate coverage (0.8x from PILOTs and 0.8x from TEPs) and no city interest support is required through the life of the bonds. PILOTs are projected to provide 1.34x coverage on their own in fiscal 2024 and to grow as a share of total coverage going forward (see Exhibit 8).

Exhibit 8

PILOTs, which do not require appropriation, grow to become primary revenue to pay debt service

Annual debt service coverage provided by existing revenue (x)



Source: Hudson Yards Infrastructure Corporation

Liquidity

See section above.

Debt and pensions: strong legal structure

Legal security
The legal structure is strong. Through an assignment agreement between HYIC, the city and the New York City Industrial Development Agency, the PILOT payments are assigned and paid directly to the bond trustee without any need for additional city action. The TEPs require annual appropriation by the city to HYIC.

Because of potential real estate market volatility and uncertainty about the speed of development in Hudson Yards, when the original bonds were issued the city committed to pay interest on the bonds if the underlying Hudson Yards revenue was insufficient. That commitment will remain in place for the life of the bonds. The city's obligation to make interest support payments, if required, is net of any available HYIC funds, and like the TEPs, is absolute and unconditional, subject to annual appropriation.

Following the fiscal 2022 refunding, the 2006 indenture will be terminated and the Series 2022 and Series 2017 bonds will have a senior lien on revenue.

The indenture and interest support agreement create a strong legal structure through which the city's interest support payments are budgeted. HYIC is required annually by April 1 to certify to the city's budget director the next fiscal year's net interest obligation (the difference between interest due on the bonds and revenue HYIC expects to have available). The mayor is then obligated to include that amount in the annual budget. In addition, if at any time during the fiscal year the appropriation is not sufficient to pay required TEP and interest support payments, the mayor is required to take any actions needed to seek an increase in the appropriation.

Additional bonds may be issued subject to an additional bonds test of 1.25x maximum annual debt service based on recurring revenue, on outstanding and new money bonds. The city has authorized interest support payments on up to $500 million of new bonds supported by interest support payments (ISP).

Debt structure
The bonds have level debt service and a 2047 final maturity.

Debt-related derivatives
HYIC is not party to any debt-related derivatives.

Pensions and OPEB
See our credit opinion on the City of New York for details on its pension and OPEB position.

ESG considerations

New York City's ESG Credit Impact Score is moderately negative CIS-3.

Exhibit 9
ESG Credit Impact Score

CIS-3

Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

New York City's ESG Credit Impact Score moderately negative (**CIS-3**), reflecting its above average exposures to environmental and social risks and good governance.

Exhibit 10
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-1
Moderately Negative	Moderately Negative	Positive

Source: Moody's Investors Service

Environmental

New York City's exposure to physical climate risks are high compared to regional and local governments as a sector, reflected in its E issuer profile score of moderately negative (**E-3**). Of the physical climate risks Moody's affiliate Four Twenty Seven evaluates, New York City's most significant exposures are to hurricanes, sea level rise and water stress. While the local government sector overall has low exposure to environmental risks, New York City's risks are more elevated because of its location on the Eastern Seaboard and its geographic position between two tidal estuaries. While only 6.2% of the city's housing stock is in the flood plain, those data understate its storm risks. In addition, all 14 of its wastewater treatment facilities, 12 of 27 power plants, 16% of all hospital beds and a significant portion of public housing are in the flood plain. Superstorm Sandy in 2012 caused an estimated $47 billion in damage across the region it hit (which was broader than just New York City) and $26 billion in lost economic output. New flood maps that reflect the Sandy experience and other scientific and technical improvements are expected in 2021 and likely will show more of the city at flood risk. That, in turn, will require more property owners to buy flood insurance and could also slow growth in property values. In addition to economic loss, Sandy cost the city an estimated $10.7 billion for emergency response and capital repair (including the New York City Housing Authority and NYC Health + Hospitals). To mitigate its environmental risks, the city is undertaking a 10-year $20 billion plan to protect infrastructure against natural disasters, especially coastal flooding, which will mostly be paid for with federal funds.

Social

New York City's S issuer profile score of moderately negative (**S-3**) reflects several factors. Income inequality in the five counties that make up New York City is among the highest in the nation, a driver of social spending and of policy priorities to create more affordable housing. Health and safety metrics are more favorable, however: nearly 93% of New York City's population has health insurance, slightly higher than the national rate. Similarly, on a per capita basis crime rates remain the lowest of big US cities.

Governance

New York City's G issuer profile score is positive (**G-1**). New York City's financial management is characterized by strong, institutional budget and financial management practices that emerged from the 1970s fiscal crisis and substantial transparency of its financial operations. The hallmark of these practices is effective multiyear planning via quarterly updates to the city's five-year financial plan, including consistently conservative revenue estimates, which gives a clear forward-looking view to potential budget challenges. The city is also known for its early adoption of new accounting standards and for being one of the most timely municipal issuers to publish its annual audited financial statements. By law, changes in property tax billable assessed value are phased-in over five years, which evens out ups and downs in the city's real estate markets and helps minimize swings in the city's tax revenue. Nonetheless, even with the city's strong governance structure, actions to structurally balance the budget can be politically difficult and the city's reserves are typically much lower than the sector and so provide limited financial resilience to its other exposures. State law that limits the amount of real property tax that a municipality may levy in any year — a factor in our institutional framework for New York cities — does not apply to New York City.

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