Summary:

Hudson Yards Infrastructure Corp., New York; Appropriations; Sales Tax

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Rating Action

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AA-' from 'A+' on Hudson Yards Infrastructure Corp. (HYIC), N.Y.'s fiscal 2017 series A (tax-exempt) and B (taxable) second-indenture revenue bonds. At the same time, we assigned our 'AA-' long-term rating to HYIC's approximately $452 million fiscal 2022 series A revenue bonds. Finally, we affirmed our 'AA-' SPUR on HYIC's fiscal 2012 series A bonds outstanding, which we expect the fiscal 2022 series A bond proceeds to defease. The outlook is positive.

The rating action reflects our view of the progress and ongoing development within Hudson Yards, which has reduced the reliance on city-appropriated revenue and support for payment of debt service on the HYIC's bonds. The rating action also takes into consideration termination of the 2006 trust indenture with only the May 1, 2017, trust indenture outstanding after closing; the series 2017 and 2022 bonds are issued under the 2017 trust indenture on parity with a senior claim to pledged revenue, which precludes HYIC from issuing debt senior to the bonds. Following the transaction, HYIC will have about $2.6 billion in bonds outstanding with a final maturity of 2047.

We rate HYIC's debt based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria, published Nov. 20, 2019, on RatingsDirect. The rating reflects our view of New York City's ongoing support and obligation to appropriate revenue, including interest support payments, in the event pledged revenue is insufficient. We believe the strong relationship between New York City and HYIC inexpressibly links the city's underlying credit fundamentals to HYIC obligations, including the city's commitment to the success of the development, determination of the amount and appropriation of tax equivalency payments (TEPs), and its governance of the property assessment process that oversees the basis for the commercial office payments in lieu of (real estate) taxes (PILOTs). Therefore, we believe the city's general creditworthiness, as represented in the AA/Stable general obligation (GO) rating, constrains the rating.

With more than 25 million square feet of office, residential, and hotel construction complete within Hudson Yards, the city projects that PILOT revenue alone covers 80% of total debt service on the 2017 and 2022 bonds in fiscal 2022 and grows to 134% of total debt service in fiscal 2024. In addition, total recurring revenue in fiscal 2022, including TEPs, is expected to generate about $274 million versus combined debt service estimated at $169.3 million. All rights, title, and interest to PILOT revenue and PILOT mortgages are assigned to HYIC, but New York City appropriates TEPs and subsequently directs them to the corporation. The positive outlook reflects a one-in-three chance we could raise the rating during the outlook period, which typically spans two years, should PILOT revenue fully cover debt service on...
the bonds and mitigate the city's appropriation risk.

Despite the pandemic's overall effect on the city's Class 4 property values, which experienced a substantial decline in assessed value stemming partly from return-to-office uncertainty and potential for businesses to downsize office space with the implementation of hybrid employee work plans, management reports that similar space in Hudson Yards dipped less than 1%. The de minimis decline is indicative of the high-quality, Class A office space as well as the synergy provided by the adjacent Penn Station redevelopment area. Furthermore, the outlook for return-to-office is forecast to accelerate as the U.S. approaches herd immunity, although a potential virus surge following the holiday season and the emergence of variants could negatively affect this forecast. However, we believe that beginning in first-quarter 2022 the percentage of New York City-based workers who spend at least a portion of the week in the office will grow from the current 28%, driving demand for the office space in Hudson Yards.

The bonds are special obligations of HYIC secured by and payable solely from net revenue, including recurring PILOTs and TEPs, primarily from hotel and residential developments, and nonrecurring revenue from district improvement bonus payments, and payments in lieu of mortgage recording taxes. In addition, interest support payments subject to annual appropriation by New York City remain available to cover any interest shortfalls on debt service. The fiscal 2022 series A bond proceeds will fully refund the series 2012A bonds, which is expected to generate net present value savings of approximately 37.5% of the refunded par, with approximately $16.1 million of annual savings estimated to be realized in fiscal years 2023 to 2025 and approximately $9.1 million thereafter until the bonds mature in 2047.

Credit overview
Our analysis reflects a preponderance of factors, including the city's commitment to real estate development and other infrastructure investments within the project area, a narrow yet reliable pledged revenue source and the appropriation obligation for interest support payments if pledged revenue is insufficient, and the lack of political and administrative risks that would result in the city's unwillingness to continue supporting the project.

We also view the following as important factors in our rating determination:

• New York City's general creditworthiness (AA/Stable GO rating) and status as a global economic and employment center with a high-value real estate market that, while somewhat pressured following the pandemic, has generally recovered and experienced investment and growth over various economic cycles

• The rezoning and adoption of a uniform tax-exemption policy providing for various exemptions to encourage growth within the project area

• The evolution and ongoing development activity in the project area leading to increased PILOT revenue that by fiscal 2024 is expected to fully cover debt service

• HYIC's five-member board of directors appoints the corporation's officers, all of whom are city employees, and the city primarily oversees HYIC's limited operations.

The PILOT agreements are executed through the New York Industrial Development Agency (IDA), and the IDA Assignment Agreement assigns all rights, title, and interest in the PILOTs to HYIC. Bond counsel provided an opinion that revenue and assets under the IDA Assignment Agreement represent a true sale and would not be considered
property of the city should the city file Chapter 9 bankruptcy. Furthermore, HYIC entered into the support and development agreement between HYIC, HYDC, and the city that outlines the city's commitment to appropriating interest payments. HYIC notifies the city each April 1 of required interest payment support, and the mayor includes the amount necessary in the city's expense budget. In addition, the city annually calculates TEPs and pays amounts due to HYIC twice a year (Aug. 1 and Feb. 1). Management reports that, while the city must appropriate TEPs, these payments do not represent an obligation of city-specific revenue sources.

**Environmental, social, and governance (ESG) factors**
We view the ESG factors for HYIC as consistent with those for New York City, as discussed in our report published Aug. 13, 2021.

**Positive Outlook**

**Upside scenario**
We could equalize the rating with that on the city's GO bonds should PILOT revenue fully cover debt service. If that occurs, we will view the stability and strength of PILOT revenue paid directly to the corporation to cover debt service as largely mitigating the city's obligation to appropriate interest support payments. We could also raise the rating in concert with a higher rating on the city's GO debt.

**Return to stable scenario**
We could lower the rating if development within the project area stalls and PILOT revenue remains below debt service requirements for a period longer than forecast, leading to the city's requirement to appropriate and pay interest support payments. We could also lower the rating if we lowered our rating on the city's GO debt.

**Hudson Yards Project Area And Infrastructure Corp.**

The 45-block Hudson Yards Financing District (or project area) extends from West 29th and West 30th streets at the south end, 7th and 8th avenues at the east, West 43rd Street at the north, and 11th and 12th avenues at the west. Hudson Yards was designed to allow for the expansion of the Midtown central business district, as well as to realize the development potential of Manhattan's Far West Side. We view the completion of the No. 7 subway line as a significant accomplishment that has bolstered development providing direct access to the project area.

In our opinion, the project area benefits from its location adjacent to Midtown central business district and the Penn Station redevelopment area. In addition, the area's amenities, including the Shops and Restaurants at Hudson Yards, the Edge, the High Line, the Moynihan Train Hall, and Times Square, are attractive tourist destinations that we believe support the hotel activity in the project area, including three hotels under construction. While retail businesses were struggling prior to the pandemic as shopping behaviors transitioned from traditional brick-and-mortar stores to online options, retail accounts for only a small share of tenants in the project area. Although Neiman Marcus, a key occupant in the Shops, filed for bankruptcy during the pandemic, but we understand that the developer will likely convert the previously leased square footage to office space.

Recurring revenue provides 1.61x coverage in fiscal 2022, but only interest is payable on the fiscal 2022 bonds through
fiscal 2025. Although interest support payments are not expected to be required to cover debt service through final maturity, they represent approximate commitments of $106 million in fiscal 2022 and $117 million in fiscal 2023. PILOT revenue for completed projects and development under construction is expected to generate $11.6 billion through 2047 and represents more than 57% of total revenue available for bondholders without taking into account planned development. Total revenue from recurring and nonrecurring sources are projected to decline about 4% in fiscal 2023 and increase significantly in fiscal years 2024 to 2026 as additional assets are complete and initiate PILOT payments.

### Ratings Detail (As Of October 7, 2021)

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Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.