S&P Global
Ratings

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Summary:

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

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Credit Profile		
Hudson Yards Infrastructure Corp., New York		
New York City, New York		
Hudson Yards Infrastructure Corp. sec ind rev bnds Fiscal (New York City) (Tax Exempt)		
Long Term Rating	AA/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AA' from 'AA-' on Hudson Yards Infrastructure Corp. (HYIC), N.Y.'s revenue bonds outstanding.
- The outlook, in line with that on New York City, is stable.
- The upgrade reflects progress and ongoing development at Hudson Yards that has led to increased payments in lieu of (real estate) taxes (PILOTs), which are now more than sufficient to cover debt service payments, mitigating the risk of nonappropriation of the city's tax equivalency payments (TEPs) and allowing us to align the rating on HYIC with that on New York City.

Security

The corporation's bonds outstanding 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.

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. Given that PILOT revenues are now sufficient to cover debt service, we consider them a pledge of legally available funds and equalize our ratings on HYIC with those on New York City. Although there is no specific full faith and credit general obligation (GO) pledge by New York City, the HYIC bond indenture directs all legally available funds, i.e. pledged funds, including PILOTs, to pay debt service. We believe the strong relationship between New York City and HYIC inextricably 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 TEPs, and governance of the property assessment process that oversees the basis for the commercial office PILOTs. Therefore, we believe the city's general creditworthiness, as represented in the 'AA' GO rating, constrains the rating (see report published Sept. 22, 2023, on RatingsDirect).

Credit overview

Concerns about the health of New York City's commercial real estate (CRE) market have remained elevated since the onset of the COVID-19 pandemic, as office occupancy remains below pre-pandemic levels and Manhattan office availability averaged 19% in the second quarter of 2023. However, the average rate of leased floor space has remained broadly stable in existing buildings at Hudson Yards, while leased space in recently completed buildings such as 50 Hudson Yards, 66 Hudson Boulevard, and 2 Manhattan West has increased since 2021. The weakness of New York City's CRE market is reflected in lower assessed values for most completed buildings at Hudson Yards. That said, given the desirability of commercial space in the project area, especially considering that the office buildings are Class A office space, reductions in assessed values are not as pronounced as for other buildings in New York City. Asking rents at Hudson Yards, and for Class A properties in particular, remain well above the Manhattan average.

Although PILOTs for some buildings at Hudson Yards slightly decreased for fiscal years 2023 and 2024, PILOT revenue overall has continued to increase. In part, this is because recently completed buildings such as 66 Hudson Boulevard and 2 Manhattan West had earlier ramp-ups in their PILOTs.

As a result, PILOTs have been more than sufficient to cover debt service payments as of fiscal 2023, with coverage of 1.1x. The city estimates that coverage will improve to 1.5x by fiscal 2027. In addition, HYIC collects TEP revenues and when including these funds, coverage from net recurring revenues improves to 2.1x in fiscal 2023 and 2.8x by fiscal 2027. All rights, title, and interest to PILOT revenue and PILOT mortgages are assigned to HYIC, but New York City appropriates TEPs and subsequently remits them to the corporation.

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 still somewhat pressured following the pandemic, continues to experience investment and has grown over various economic cycles;
- The rezoning and adoption of a uniform tax-exemption policy providing for various exemptions to encourage growth in the project area;
- The evolution and ongoing development activity in the project area, which has resulted in PILOT revenue providing debt service coverage of more than 1x in fiscal 2023;
- 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. Regardless, we consider the debt directly linked to the rating on the city's GO debt. Furthermore, HYIC entered into the support and development agreement between HYIC, Hudson Yards Development Corp., 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

We view the environmental, social, and governance risk factors for HYIC as consistent with those for New York City, as discussed in our analysis published Sept. 22, 2023.

Outlook

The stable outlook reflects our view of PILOTs now being sufficient to provide at least 1x debt service coverage on an ongoing basis, based on existing and recently completed developments.

Downside scenario

We could lower the rating if PILOT revenues were no longer sufficient to cover debt service payments, necessitating HYIC to again rely on city appropriations for interest support payments. We could also lower the rating if we lowered our rating on the city's GO debt.

Upside scenario

We could raise the rating in concert with a higher rating on the city's GO debt.

Credit Opinion

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 the 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. In line with broader shopping trends, the retail component, although only a small share of tenants in the project area, continues to struggle. Following the bankruptcy and departure of Neiman Marcus, a key occupant in the Shops, during the pandemic, over half of rentable area remains vacant at 20 Hudson Yards although some of it could be converted to office space.

Recurring revenue including TEP revenue provides 2.07x coverage in fiscal 2023, but only interest is payable on the fiscal 2022 bonds through fiscal 2025. As of 2021, PILOT revenue for completed projects and development under construction was 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 sources is projected to increase significantly by 8.0% on average from fiscal years 2024 to 2027.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 26, 2023)		
Hudson Yards Infrastructure Corp., New York		
New York City, New York		
Hudson Yards Infrastructure Corporation (New York City) rev bnds (Climate Bond Certified)		
Long Term Rating	AA/Stable	Upgraded
Hudson Yards Infrastructure Corp. (New York City) sales tax (AGM) (SECMKT)		
Long Term Rating	AA/Stable	Upgraded
Hudson Yards Infrastructure Corp. (New York City) sales tax (BAM) (SECMKT)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Hudson Yards Infrastructure Corp. (New York City) secd ind rev bnds Fiscal (New York City) (Tax Exempt) ser 2017 A due 02/15/2047		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Hudson Yards Infrastructure Corp. (New York City) (AGM) (SEC MKT)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.