FitchRatings

Fitch Affirms Battery Park City Authority's Sr. Lien Revenue Bonds at 'AAA'; Outlook Stable

Fitch Ratings-New York-17 March 2017: Fitch Ratings has affirmed the following senior lien revenue bonds issued by Battery Park City Authority (BPCA), NY at 'AAA':

--$56.6 million series 2009A (federally taxable - BABs);
--$28.8 million series 2009B;
--302.1 million series 2013A.

The Rating Outlook is Stable.

SECURITY
The bonds are special obligations of the authority, payable from pledged revenues that include primarily payments in lieu of real property taxes (PILOTs) from the leasing and subleasing of parcels in Battery Park City (BPC). Bondholders are additionally secured by a cash-funded debt service reserve fund (DSRF) equal to maximum annual debt service (MADS).

KEY RATING DRIVERS

ROBUST RESILIENCE: Strong debt service coverage and limited pledged revenue volatility provide the structure with a significant cushion against economic stress, offsetting concerns about pledged revenue concentration.

SOUND REVENUE GROWTH PROSPECTS: Fitch believes pledged revenues will continue to grow at least at the rate of U.S. GDP. While prospects for new development are limited, property appreciation should remain strong. This assessment is supported by recent retail and transportation-related enhancements in the area.

WATERFRONT LOWER MANHATTAN LOCATION: The project area from which pledged revenues are generated is situated on the Hudson River waterfront in downtown Manhattan.

TAX BASE CONCENTRATION: The six commercial towers in BPC comprise almost half of the project area's assessed value (AV). Financial service firms occupy a significant share of that space, and U.S. Census data indicate that many of BPC's residents are employed in that industry. There has been some evidence of diversification in both BPC tenants and downtown employment but Fitch expects the area to continue to rely heavily on the financial services industry.

SOUND RESIDENTIAL PERFORMANCE: The residential portion of the project has shown steady growth in AV and now makes up about 46% of pledged revenue, up from less than 40% 10 years ago. Resident income levels are exceptionally strong.

LIMITED DEBT EXPECTATIONS: Since the project area is essentially fully developed, Fitch does not expect additional debt.

RATING SENSITIVITIES
REDUCED OCCUPANCY: A significant, unexpected and sustained decline in occupancy rates that reduces AV and pledged revenues to a level that weakens financial resilience would result in a rating downgrade.

INCREASED LEVERAGE: While not anticipated, significantly increased leverage could negatively affect coverage levels and the rating.

CREDIT PROFILE

BPCA is a New York state public benefit corporation that owns and manages the infrastructure and site development for BPC, a 92-acre complex of office, hotel, and residential condominium and rental apartment buildings situated on the Hudson River waterfront in downtown Manhattan. The fee ownership of the BPC site was conveyed to the authority by the city in 1982 for a nominal consideration.

SOUND LEGAL STRUCTURE
The authority obtains its revenues principally from the leasing of parcels in

BPC pursuant to long-term net ground leases that extend beyond the final maturity of the bonds. BPCA's credit position as owner and landlord of the project area is senior to all tenants, lenders or mortgagees. At the end of the lease terms, all improvements are scheduled to revert to the authority.

In the event that a commercial or residential lessee fails to make payment of base rent or PILOT to the authority, BPCA has the right, pursuant to the ground leases, to commence the process of taking back the properties. In each case, however, any mortgagee who has loaned money to the lessee for improvements to the property has the right to step in to cure the missed payment. While the mortgagees are not required to cure, failure to do so would allow the authority to void the mortgages and the lenders would lose all security interest in the building to BPCA. Under that scenario, BPCA would become the sole owner of the improvements free and clear of any mortgage liens.

Collections on residential properties in the event of non-payment may be complicated by a time-consuming eviction process, and even more so for the condominium associations, whose boards are not responsible for payment defaults by individual unit owners. This concern is mitigated by the history of strong pledged revenue performance and the large coverage cushion.

In the event of a default, BPCA would have to seek redress from the individual defaulting property owners. Additionally, foreclosure by a first mortgagee of a residential condominium owner extinguishes BPCA's lien on the unit's accrued rental arrears, and if BPCA were to become the owner of a condominium unit it would become liable for any common charges payable to the condominium board. The history of lease interruption or default is limited to the withholding of several months of rent by a single residential building during a rent strike in 2001, which had an inconsequential impact on revenue performance

FAVORABLE PROJECT AREA PROFILE DESPITE CONCENTRATION
BPC's six office buildings total 10.7 million square feet (msf) of commercial space and comprise nearly one-half of both AV and pledged revenues. They include four towers at Brookfield Place, which are leased by BPCA to various entities affiliated with Brookfield Financial Properties (Brookfield, not rated by Fitch); the New York Mercantile Exchange; and 200 West St (leased by

Goldman Sachs for its headquarters). Other large tenants in the complex include several financial services firms (including Bank of America, Bank of New York Mellon, American Express, Oppenheimer Funds, Knight Capital Group and Royal Bank of Canada), law firms (Cadwalader, Wickersham & Taft LLC, Jones Day) media (Time Inc., Associated Press, and Dow Jones), and other sectors to a lesser extent.

The BPC community also includes more than 10 msf of residential development with 4,967 rental units and 3,648 condominiums. The 30 residential buildings are substantially occupied according to the authority. BPC has an estimated population of over 15,000 residents with very low unemployment rates and high income levels, according to census data for the two zip codes that make up most of the project area.

The project area has several retail shops and restaurants, 20 works of public art, several museums (including the Museum of Jewish Heritage), Conrad New York and Ritz-Carlton hotels, a multiplex cinema, three public schools (including Stuyvesant High School), a marina, and approximately 36 acres of parkland and open spaces. In 2015 Brookfield completed a $250 million renovation of the retail and public spaces within the commercial portion of the project. The World Trade Center (WTC) Transportation Hub, which was completed in 2016, connects the new and developing WTC towers with several subways, buses, the PATH train, and ferries, includes a passageway to Brookfield Place.

STRONG REVENUE GROWTH PROSPECTS

Fitch believes revenue growth prospects are in line with historical performance. The Battery Park City area is built out but has seen continued population growth and property appreciation. Residential values have increased at a faster rate than commercial values, and in fiscal 2017 residential and commercial AV were virtually equivalent. Zillow projects a 4% increase in home values over the next year, after an 11% increase in the past year. Hotels comprise 5% of fiscal 2017 AV.

Fitch expects the recently completed Brookfield Place retail upgrade and opening of the WTC Transportation Hub will support continued growth. Continued development of the WTC towers may add competitive pressures to

BPC's commercial properties but should continue to draw visitors and residents to the area. Pledged revenues are also affected by changes in New York City's tax rates, which determine changes in PILOTs. Fitch does not expect such changes to significantly alter pledged revenue growth trends.

STRUCTURE RESILIENT IN ECONOMIC CYCLES
To evaluate the sensitivity of the dedicated tax revenue stream to cyclical decline, Fitch considers both a revenue sensitivity scenario (using a 1% decline in national GDP scenario) and the largest decline in revenues over the period covered by the revenue sensitivity analysis (fiscal 1999 to present). Based on BPCA's pledged revenue history, the Fitch analytical sensitivity tool (FAST) generates a 1% decline in the first year of a moderate recession. The largest cumulative revenue decline historically was 5.9% between fiscal years 2000 and 2002. This time period includes the events of Sept. 11, 2001. Pledged revenues suffered a modest 2.4% decline in fiscal 2013, the year in which Superstorm Sandy hit the east coast. This was followed by a 12.7% increase in fiscal 2014.

At the current leverage level, pledged revenues could decline 81% before becoming insufficient to pay debt service. This is equal to 13.7x the largest cumulative historical pledged revenue decline, which is consistent with a 'aaa' assessment of financial resilience and Fitch believes provides an adequate cushion to offset concerns about pledged revenue concentration.

The authority expects to develop a multi-year capital plan during fiscal 2017. Issuance of parity debt to the amount permitted by the additional bonds test, which requires coverage by pledged revenues of 2x, would still result in resilience consistent with the current rating. Fitch's believes issuance of additional debt of that magnitude is unlikely, since BPC is fully developed.

Fitch believes BPCA's operating risk is minimal, as operating expenditures are modest relative to its revenue base; therefore Fitch has not assigned an IDR to the authority.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
(https://www.fitchratings.com/site/re/879478)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
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