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May 30, 2012

Re: NYC Continues Real Estate Tax Increases on Cooperatives and Condominiums

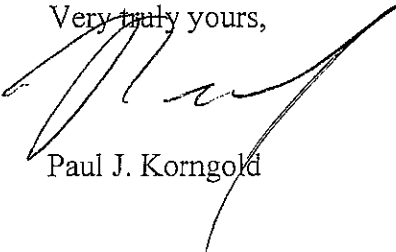
Dear Client:

As you are probably aware, real estate taxes on cooperatives and condominiums have dramatically escalated over the past few years. In many cases, real estate taxes are the largest single item in a building's annual budget. In what can only be described as an attempt to wring out the last penny from cooperatives and condominiums, the City of New York is attempting to ban cooperatives and condominiums from obtaining J-51 tax benefits. The J-51 program has been in existence since the 1950's as an incentive to building owners to upgrade and maintain their systems and to convert unnecessary excess commercial space to residential use. In the 1980's, the New York State Legislature recognized the importance of maintaining cooperatives and condominiums and thus expanded the program to allow all new cooperatives and condominiums as well as existing middle income cooperatives and condominiums to obtain the tax benefits of J-51 for maintaining their building systems.

The J-51 program expired last year and representations were made that the City would retroactively extend the program. In a complete about-face the city administration is attempting to radically change the J-51 law so that there will no longer be an opportunity for cooperatives and condominiums to obtain these benefits (see attached memorandum of pending legislative intent.) This attempt to eliminate these buildings from getting J-51 tax benefits for maintaining their buildings can only be described as another attempt to wring additional tax dollars from owners of cooperatives and condominiums. While owners of private homes maintain their huge tax breaks, the city administration is turning their backs on thousands of cooperative and condominium dwellers. We are urging all of our clients, friends and colleagues to reach out to their elected representatives in the New York State Legislature and urge them to enact a law that retroactively extends J-51 benefits for cooperatives and condominiums. Even if your building does not qualify under the existing J-51 guidelines, we urge you to join this effort to prevent further increases in real estate taxes.

Time is short. The New York State Legislature will be taking up this matter in the next few weeks. Please contact your local State Assemblyman or State Senator today or it will be too late.

Very truly yours,



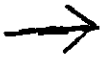

Paul J. Korngold

### Objective of Program Amendments

- 1) Ensure J-51 tax benefits are targeted to incent the preservation of NYC's aging multifamily housing stock (rental and affordable home ownership)
- 2) Incent the renovation of system-wide improvements in multifamily residences
- 3) Improve the efficiency of J-51 application process
- 4) Trim cost of J-51 program and find alternative funds to mitigate the impact of cuts to Federal HOME program
- 5) Address post-Roberts J-51 ambiguity

### Outline of J-51 Program Amendments

#### Legislative Program Amendments:

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- 1) Eliminate eligibility for all new J-51 applications on condos, coops, and conversion (non-residential to residential) with exception of those receiving Substantial Government Assistance (SGA)
    - "substantial governmental assistance" shall mean (i) grants, loans or subsidies from any federal, state or local agency or instrumentality pursuant to a program for the development of affordable housing approved by the local housing agency
  - 2) Authorization to require the filing of J-51 applications electronically
  - 3) Penalty equal to 10% of the costs associated with items of work that are the subject of that particular J-51 application where the owner has applied for J-51 benefits but the work is not yet completed on the date upon which HPD inspects the items of work claimed in the application
  - 4) Retroactive Extension of the J-51 program from January 1, 2012 to December 31, 2015
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#### Regulatory Program Amendments (non-legislative):

- 1) Amend J-51 Certified Reasonable Cost Schedule to:
  - a) Focus J-51 benefits on system-wide renovation items (roofs, boilers, wiring, etc.), while eliminating those items that focus on individual apartment improvements (cabinet doors, kitchen and bathroom fixtures, light fixtures, etc)
  - b) Increase the value of system-wide renovation items to 100% of RS Means value
- 2) Require CPA cost certification for submission of J-51 application

#### Roberts Clarification:

- 1) Offer a one-time option for those owners currently receiving benefits to buy out of the J-51 program
  - Owner would need to have deregulated at least one unit prior to October 2009
  - Owner would need to buy out of each year of receiving benefits with a compounding 7% interest per year of benefit received
  - Owner would need to notify Agency of desire to buy out of benefits within 6 months of bill passage; furthermore, the owner would need to pay in full, or enter into a payment agreement with City and make first payment of agreement within one year of passage of bill
  - Majority of revenue derived from buy-back allocated to fund the development and preservation of affordable housing in New York City
- 2) Those owners who do not choose to buy back J-51 benefits will be required to roll rents back on decontrolled units to the last paid rent on October 2005 (4 years prior to Roberts decision)