THE RIGHT TO TERMINATE A LEASE BEFORE ITS EXPIRATION DATE BY ELDERLY TENANTS AND TENANTS IN THE MILITARY

By Martin Meltzer and Julian M. Rodriguez

Under most circumstances, a tenant does not have the right to terminate a lease prior to its expiration date. Without the express permission of the landlord, a tenant is responsible to pay all the rent that (s)he agreed to pay through the expiration of the lease, even if the tenant vacates early. Despite this general principle of law, however, there are a few noteworthy exceptions. This article addresses the ability of elderly tenants and tenants in the military to terminate their leases early, and without penalty.

Under Section 227-a of the New York State Real Property Law, an elderly tenant can terminate his/her lease if three specific conditions are met. Specifically:

(a) The tenant, or the spouse of the tenant who resides with the tenant, is at least 62 years old (or will turn 62 during the term of the lease);

(b) Either a physician certifies that the tenant (or spouse), for medical reasons, is no longer able to live independently in the apartment and will move to a residence of a member of his/her family, or the tenant (or spouse) received notification of an opportunity to move to an adult care facility; and

(c) The tenant delivers a notice in writing to the landlord, or the landlord’s agent.

The primary issue in litigation invoking this statute as a means to terminate a lease is compliance with the notice requirements. Case law addressing the notice requirements holds that the notice requirements must be strictly met. Specifically, the notice:

(a) Is effective no earlier than 30 days after the date on which the next rental payment subsequent to the date when such notice is delivered is due (for example: if notice is mailed on the 5th of the month, continued on page 2
it is deemed delivered five days later on the 10th, and since the next rental payment is due on the 1st of the next month, the earliest lease termination date will be effective on the 1st of the following month); and

(b) Must include either:

1) A physician’s certification, and a notarized statement from a family member stating that the senior citizen is related and will be moving into their place of residence for a period of at least six months; or

2) Admission or pending admission to an adult care facility (required documentation includes copy of an executed lease or contract between the tenant and the facility).

Substantial compliance, or “compliance with the statute in spirit,” as one case referred to it, is insufficient. This means that the notice must be both timely and contain the appropriate documentation. Failure to comply means that the tenant will continue to be liable for the payment of rent through the balance of the lease term.

Service members in the military have a similar right to terminate their leases under specific circumstances. This right is codified in section 310 of New York State’s Military Law as well as the federal Servicemembers Civil Relief Act (SCRA) and applies across the United States, including in New York. Though this law is unrelated to the State Real Property Law, both laws share several of the same requirements. Specifically:

(a) The law applies to leases for occupancy of an apartment by the servicemember or a servicemember’s dependents;

(b) The lease can be terminated any time after the tenant’s entry into the military, or the date of the tenant’s military orders for a change of permanent station or deployment, for a period of at least 90 days;

(c) The tenant must deliver written notice of such termination and a copy of the servicemember’s military orders to the landlord or landlord’s agent by:

1) Hand delivery;
2) Private business carrier; or
3) Mail with return receipt requested.

As is the case under the Real Property Law, the termination of the lease under the SCRA is effective 30 days after the first date on which the next rental payment is due from the time when notice is delivered.

Unlike the Real Property Law, however, the SCRA specifically provides for the situation where arrears are owed by the tenant to the landlord. Under the SCRA, arrears for rent unpaid for the period preceding the termination shall be paid by the tenant on a prorated basis. The SCRA also states that the landlord cannot charge an early termination fee, but can seek any other obligation, due under the lease, including charges for excess wear, that are due at the time of termination of the lease.

A landlord should be mindful of these legal exceptions upon receipt of correspondence from a tenant to the effect that he or she wishes to terminate a lease based on the grounds discussed in this article. Though it is the tenant’s duty to comply fully with these legal requirements, a landlord can face serious penalties for enforcing lease obligations after a proper termination, including fine, imprisonment, or both.

If you have a situation in which a tenant seeks to terminate his or her lease, it is advisable to consult with counsel.

Martin Meltzer is a partner, and Julian M. Rodriguez is an associate, in BBWG’s Litigation department.
When transferring real estate held for investment purposes with a low tax basis, the so-called “1031 exchange” is a popular method of avoiding the immediate recognition of income tax gain. Specifically, pursuant to Section 1031 of the Internal Revenue Code (“IRC”), a taxpayer is able to defer recognition of income tax gain in the transfer of real property held for investment purposes if the sales proceeds from the low-basis property are used to acquire a replacement investment property within 180 days of the sale. The low basis of the relinquished property is shifted to the replacement property and no gain is recognized until the replacement property is sold.

In order to qualify for Section 1031 treatment, the IRC requires, with limited exceptions, that the title holder of the relinquished property also be the title holder of the replacement property. The limited exception is where the title holder is a single member limited liability company. Since a limited liability company is a disregarded entity for tax purposes, the single member may hold title to the replacement property in its own name or in the name of another single-member limited liability company.

Problems arise, however, where the property is held by a partnership or multi-member limited liability company. In that case, partners or members cannot acquire the replacement property in their own name. Thus, a partner that desires to engage in a Section 1031 transaction, where its other partners do not, must convert its interest into a tenancy-in-common form of ownership before relinquishing the property and purchasing the replacement property. In that way, the taxpayer can then take title to the replacement property solely in its own name or as a tenant-in-common with others. Before doing such a conversion, however, you should consult with an accountant or tax lawyer.

Merely converting a partnership interest into a tenancy-in-common interest will not automatically qualify the transaction if the tenancy-in-common is a so called de facto partnership. Thus, the relationship of the co-owners must qualify as bona fide tenants-in-common. The relationship between co-owners is frequently memorialized in a tenancy-in-common agreement commonly known as a “TIC” agreement. A TIC Agreement is necessary because there is no other document governing the relationship between the parties, such as a partnership or operating agreement.

TIC agreements have become the subject of IRS scrutiny in determining whether the relationship established among co-owners is a bona fide tenancy-in-common. Notably, a revenue ruling issued in 2002 has been recently utilized by the IRS to determine whether TIC agreements actually qualify for favorable 1031 treatment.

In Rev. Proc. 2002-22, the IRS issued the following criteria for a qualifying TIC arrangement:

1. Each of the co-owners must hold title to the investment property (the “Property”) as a tenant in common;
2. The number of co-owners must be limited to no more than 35 persons;
3. The co-ownership may not file a partnership or corporate tax return, or conduct business under a common name, except by identifying all of the co-owners;
4. The owners may enter into limited co-ownership or TIC agreements that may run with the land (frequently a memorandum of such agreements is recorded in the land records);
5. The co-owners must retain the right to approve the hiring of any manager;
6. Each co-owner must have the right to transfer, partition and encumber the co-owner’s undivided interest in the replacement property; provided that such rights may be restricted under the terms of a mortgage consistent with customary commercial lending practices;
7. If the property is sold, any debt secured by a blanket lien must be satisfied and remaining sales proceeds must be distributed to the co-owners;
8. Each co-owner must share in all revenues generated by the Property and all costs associated with the Property in proportion to the co-owners’ undivided interests (i.e., there cannot be classes of co-owners).
9. The co-owners must share in any indebtedness secured by a blanket lien in proportion to their undivided interest;

10. A co-owner may issue an option to purchase its undivided interest with the option call price at fair market value;

11. The co-owner’s activities must be limited to those customarily performed in connection with the maintenance and repair of rental real property;

12. The co-owners may enter into a management or brokerage agreement, but (i) such agreement must be renewable no less frequently than annually and (ii) any agent, who may be a co-owner, cannot be a lessee of the property;

13. All leasing arrangements must be bona fide leases for federal tax purposes;

14. Co-owners must share in the profits and losses in proportion to their tenancy in common percentage interests;

15. The mortgagee may not be related to any co-owner; and

16. The amount of any payment to the sponsor, in the acquisition of a co-ownership interest, must reflect the fair market value of the acquired co-ownership interest and may not depend on the income or profits derived by any person from the Property.

If the TIC arrangement violates the above criteria, the taxpayer risks having favorable Section 1031 treatment denied. As a result, TIC agreements must be carefully drafted with some rights, such as partition and transferability, structured to comply with the above.

Parties opting to convert their interests to TIC’s must be prepared to relinquish the tight control over co-owners that normally exists in partnerships and other non-TIC arrangements.

Robert Jacobs is a partner in the Transactional Department at BBWG. For information on TIC agreements and related topics, please contact Mr. Jacobs at rjacobs@bbwg.com.

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**NEW MCI APPLICATION FORMS**

**By Paul Kazanecki**

Recently, the DHCR issued new instructions and forms for MCI applications. Although the underlying forms had been slightly revised several times over the last three decades, the new forms constitute a major revision and require more detail. The new MCI forms must be used for all new filings as of September 1, 2016.

The new application forms, for example, now require an owner to list all of the invoices and corresponding checks on a supplemental form. In addition, an owner must explain on a separate sheet of paper any check that does not equal the invoice it is paying. Accordingly, it is important when contemplating filing an MCI application not to commingle check payments for other non-related projects.

Another requirement is that an owner must exclude governmental filing fees from the claimed cost of an MCI. These fees would include payments to the NYC Department of Buildings for elevator upgrades, rewiring, boilers/burners etc. Historically, these fees were included in previous MCI application calculations as part of completing an MCI project.

Additionally, the new MCI forms require the square footage for each commercial space in the building, including laundry rooms and storage spaces rented to tenants.

Although it will likely take more time to complete the new MCI applications, most of the processing that was done by the DHCR will now take place before the initial MCI filing. Hopefully, the new applications will shorten the processing time by reducing the number of notices issued by the DHCR, but that remains to be seen.

Paul Kazanecki is a Legal Assistant of BBWG’s Administrative Department. For more information regarding this article or MCI applications in general, Mr. Kazanecki can be reached at pkazanecki@bbwg.com.
BBWG CONVINCES DHCR TO REVERSE ITS
RESTRICTIVE POLICY RELATING TO A BUILDING
OWNER’S RIGHT TO AN MCI FOR INSTALLATION
OF A “HANDICAP RAMP”

By Phillip Billet

Pursuant to the Rent Stabilization Law and Code, when a building owner installs a Major Capital Improvement (“MCI”) at its building, it is entitled to file an application with DHCR, seeking permission to increase the rent of each rent-regulated apartment at its building by a percentage of the “net approved cost” of the improvement.

In order to be deemed a “major capital improvement” warranting an MCI increase, an improvement must, in relevant part: (a) be deemed depreciable under the Internal Revenue Code, other than for ordinary repairs; (b) be for the operation, preservation and maintenance of the structure; (c) inure directly or indirectly to the benefit of all tenants of the building; and (d) meet the requirements set forth in DHCR’s “useful life” schedule.

Notwithstanding these clearly-defined criteria, DHCR has periodically enacted policies which imposed additional restrictions on an owner’s right to MCI increases.

BBWG was recently successful in convincing DHCR to reverse such a policy, which had provided that a building owner would not be entitled to an MCI increase based on its installation of a “handicap ramp” at its building, (hereinafter a “Handicap Ramp MCI Increase”), unless it was able to demonstrate that, at the time it had installed the ramp, there was an immediate need for such installation.

The saga began in 2009, when an owner filed an MCI Application in which it requested an MCI increase based on its installation of various items at its building, including a handicap ramp.

In response to the portion of the application which requested a Handicap Ramp MCI Increase, DHCR directed the owner to submit a list of disabled tenants at its building.

Even though the owner replied by explaining that it was unable to submit such a list because the owner was barred under city, state and federal fair housing laws from soliciting or requesting information from applicants or residents...
relating to disabilities, DHCR’s Rent Administrator denied the owner’s request for a Handicap Ramp MCI Increase based solely upon the owner’s failure to submit a list of disabled tenants.

After the Rent Administrator’s order was affirmed by DHCR’s Deputy Commissioner in a PAR Order, BBWG challenged the Deputy Commissioner’s order in an Article 78 proceeding in Supreme Court. In its petition, the owner argued that DHCR’s policy conditioning the issuance of a Handicap Ramp MCI Increase on the owner’s submission of a list of disabled tenants) violated the law inasmuch as: (a) the Code contains no such restriction; (b) there was no legal basis for the imposition of such restriction; and (c) DHCR’s attempt to impose such restriction constituted an improper attempt to abrogate an existing policy without explanation and moreover, improperly required the owner to perform an impossible task.

Upon review of BBWG’s petition, DHCR agreed to have the case remanded so that it could reconsider its denial of the owner’s request for a Handicap Ramp MCI Increase.

However, once the proceeding was remanded, DHCR made it clear that it actually intended to maintain its restrictive “need restriction” policy, this time by re-framing its policy to provide that an owner would only be entitled to a Handicap Ramp MCI Increase if it installed the ramp in response to a complaint filed by a tenant of the building, either with the owner or an appropriate governmental agency. To this end, it directed the owner to submit proof that, at the time it installed the ramp, it received “a reasonable modification request” from a tenant, asking it to install such ramp.

Although the owner did not believe that it was required to submit proof of such a request in order to be entitled to a Handicap Ramp MCI Increase, it nevertheless complied with DHCR’s request by submitting a copy of a letter it received from one of the building’s tenants, asking the managing agent of the building to install a handicap ramp in order to accommodate his wife’s need for such a ramp.

However, notwithstanding the owner’s submission of this letter, DHCR again denied the owner’s request for a Handicap Ramp MCI Increase, this time ruling that the tenant’s letter did not constitute a reasonable modification request because it was submitted 18 months prior to the date the owner commenced its installation of the handicap ramp.

BBWG thereupon commenced another Article 78 proceeding in which it reiterated the arguments it made in its first petition, and argued further that there was no justification for DHCR’s need restriction inasmuch as: (a) a handicap ramp installed at a building would benefit all tenants of the building, not just handicapped tenants; and (b) even if DHCR’s need restriction was applied and even if a building did not contain any handicapped residents, a building owner should still be entitled to a Handicap Ramp MCI Increase based upon its installation of such ramp because it could be required to install such ramp in the future if a handicapped tenant moved into the building.

Upon review of BBWG’s petition, DHCR again agreed to have the case remanded so that it could again reconsider its denial of the owner’s request for a Handicap Ramp MCI Increase. However, after over a year had elapsed and DHCR still had not issued an order on remand, BBWG commenced a third Article 78 proceeding, in which it asked the court to either rule that DHCR’s denial of the owner’s request for a Handicap Ramp MCI Increase was arbitrary and capricious, or, in the alternative, direct DHCR to issue an order forthwith.

Shortly after the owner commenced this third proceeding, DHCR issued an order in which it granted the owner’s application for a Handicap Ramp MCI Increase, ruling that “accessibility ramps (both interior and exterior) will be eligible for MCI Increases.” While DHCR did not address BBWG’s argument that the imposition of a need restriction constituted an improper attempt by DHCR to abrogate an existing policy without explanation, it did concede that it had adopted such a restriction and, apparently accepting BBWG’s argument, further conceded that its policy “must adapt to modern realities.” In this regard, DHCR noted that:

Such ramps are also beneficial to citizens and tenants. All generations benefit from the ramps; babies in strollers, to the elderly who have some difficulty walking; individuals with temporary injuries and people toting luggage on wheels and disabled visitors. At any time a tenant or family member may become disabled. Rational planning for this eventuality should therefore be acknowledged.

In sum, while DHCR may implement a new policy from time to time in order to change the method by which it processes complaints or applications, owners should realize that such a policy might violate the law, or the rights of owners under the Rent Stabilization Law or Code, or other relevant statute. In such case, an owner or its agent should oppose such a policy vigorously, in order to protect its rights.

Phillip Billet is a member of BBWG’s Administrative Department, and can be reached at pbillet@bbwg.com.
CONDO AND UNIT OWNERS CAN SUE SPONSOR FOR AFFIRMATIVE MISREPRESENTATIONS IN OFFERING PLAN—BUT NOT OMISSIONS

Board of Managers of The South Star v. WSA Equities, LLC Appellate Division, 1st Department

COMMENT—Going against the general theme of prior holdings, the Court also held that the sponsor’s principals could be sued personally since they participated in the commission of a tort.

CO-OP BARRED FROM SUING SHAREHOLDER FOR NON-PAYMENT, DUE TO LACK OF C OF O—EVEN IF SHAREHOLDER’S ACTIONS CONTRIBUTED TO SUCH LACK

Lispenard Studio Corp. v. Loeb Civil Court, New York County, L&T Part

COMMENT—The Court used a classic tenant-protective approach, minimizing the actions of the tenant that enabled it to benefit therefrom.

SPONSOR’S CLAIMS BARRED VS WINDOW MANUFACTURER FOR ALLEGED WINDOW DEFECTS IN NEW CONSTRUCTION CONDO

Residential Board of Managers of 310 West 52nd Street Condominium v. El-Ad 52 LLC Appellate Division, 1st Department

COMMENT—The sponsor asserted these claims as third-party claims in a suit brought by the condo, and the dismissal thereof was on various procedural grounds.

CO-OP SHAREHOLDER CAN SUE BOARD FOR REJECTING BUYER FOR TOO LOW A PRICE

Graham v. 420 East 72nd Tenants Corp. Supreme Court, New York County

COMMENT—The Board was hurt by the fact that the Board had felt that $535,000 was too low a price, after the Board had itself previously offered only $400,000 for the apartment.

CONDO BOARD LIABLE TO SUBCONTRACTOR’S EMPLOYEE FOR INJURY IN FALL FROM SCAFFOLD, UNDER STRICT LIABILITY LABOR LAW; SPONSOR NOT LIABLE

Jerdonek v. 41 West 72, LLC Appellate Division, 1st Department

COMMENT—The Court emphasized that the Board controlled the building and is deemed its “owner” for Labor Law liability purposes. The dissent sought to hold the sponsor liable as well, based on its ownership of unsold units.
SHAREHOLDER CANNOT SUE CO-OP OR MANAGING AGENT FOR FAILURE TO PROVIDE INFO TO LENDER, WHICH RESULTED IN SHAREHOLDER’S REFINANCING FAILING

Galanova v. TKR Property Services, Inc. Supreme Court, Kings County

COMMENT–The Court held (impractically) that a co-op and managing agent have no contractual or other duty to a shareholder to provide such information to a lender.

SIMULTANEOUS OCCUPANCY BY CO-OP SHAREHOLDER IS REQUIRED FOR DAUGHTER TO ALSO LIVE IN APARTMENT

11 Wooleys Lane Housing Corporation v. Smith District Court, Nassau County, L&T Part

COMMENT–Breaking with prior decisions in the 2d Department, the Court adopted the “Manhattan Rule” in requiring simultaneous occupancy. The Court found that the shareholder did occupy it simultaneously, so the daughter was not evicted.

CO-OP SHAREHOLDER CAN SUE MANAGING AGENT FOR LEAK DAMAGES AFTER NUMEROUS FAILED REPAIR ATTEMPTS

Karydas v. Ferrara-Ruhrs Appellate Division, 1st Department

COMMENT–Questions of fact over management’s actions enabled the suit to survive dismissal.

CO-OP LIABLE TO SHAREHOLDER FOR INACCESSIBILITY TO APARTMENT TERRACE

Goldhirsch v. St. George Tower and Grill Owners Corp. Appellate Division, 2nd Department

COMMENT–The Court found that the co-op had breached the warranty of habitability, and the proprietary lease, and awarded a maintenance abatement for loss of use of the terrace, even though such loss was due to necessary building-wide repairs. Prior decisions had generally rarely made such awards based on such facts.

SPONSOR LIABLE TO CONDO FOR CONTINUED EXISTENCE OF HAZARDOUS CONDITIONS, DESPITE “AS IS” CLAUSE IN OFFERING PLAN AND ISSUANCE OF TCO

Board of Managers of Loft Space Condominium v. SDS Leonard, LLC Appellate Division, 1st Department

COMMENT–The Court also held the sponsor liable for failure to obtain a permanent C of O, and also that the sponsor could be sued for transferring the Commercial Unit for no consideration. A really bad day for this sponsor.

CONDO UNIT OWNER CAN INSPECT AND COPY RECORDS, AND OBTAIN LIST OF UNIT OWNERS AND THEIR “CONTACT INFORMATION”

Pomerance v. McGrath Appellate Division, 1st Department

COMMENT–The Court implied that a Board/managing agent might be obligated to divulge Unit Owners’ private email addresses. The Court held that a Board’s concerns about Unit Owner confidentiality could be addressed by requiring the requestor to sign a confidentiality agreement. Real-world practicality and enforceability uncertain.
BBWG IN THE NEWS

Sherwin Belkin, a partner in the Firm’s Appeals and Administrative Law Departments, was quoted in articles that discussed pending litigation over 421-g real estate tax benefits, which appeared in: The Real Deal (August 19), Pro Publica (August 19); and Downtownerxpress.com (September 8). Mr. Belkin was also quoted in articles that discussed ongoing efforts to adopt legislation to combat “AirBnB-type” transient use of apartments, in: Citybizlist (August 10); in bisnow.com; in property-report.com; and in Real Estate Weekly online edition (all August 17). Mr. Belkin also participated in a panel discussion sponsored by LandlordsNY at the NY Real Estate Expo on September 29.

Litigation Department co-head Joseph Burden was quoted in The Real Deal September edition in a feature on “What They’re Reading Now”.

Aaron Shmulewitz, head of BBWG’s co-op/condo practice, was quoted extensively in a September 22 article in The Cooperator on “What You Should Know About Sponsor Units”.

Martin Heistein, head of the Firm’s Administrative Law Department, was quoted in Globest.com on August 19 in an article entitled “Did 421-a Just Get Saved?”.

Martin Meltzer, a partner in BBWG’s Litigation Department and head of its non-payment practice, was quoted in Real Estate Weekly online edition on August 24 in an article entitled “Non-payment proceedings a need to know business”.

Kara I. Rakowski, a partner in the Firm’s Administrative Law Department, was quoted in an article in the September 11 New York Times Sunday Real Estate section entitled “Where To Live? Ask an App”. Ms. Rakowski was also a guest speaker at a September 28 seminar sponsored by CHIP (Community Housing Improvement Program) entitled “Know Your Building: Tenant Relations and Property Management”, speaking about unique issues relating to occupied buildings undergoing renovations.

A condominium’s lawsuit against a unit owner over a bedbug infestation, being handled by Matthew Brett, a partner in BBWG’s Litigation Department, was featured in articles on September 8 in law360.com, and the New York Post.
2016 NEW YORK METRO SUPER LAWYERS AND RISING STARS

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