

ADDENDUM 2

FUTURE RENT CALCULATIONS

The maximum Legal Rent for each Unit shall be calculated using the Base Date (January 22, 2003). The amount of rent set out in the lease for each individual Unit as of the Base Date shall be the "Base Date Amount," even if a lesser or greater amount was actually charged as of that date. In the event there was no lease in effect on the Base Date, the Base Date Amount shall be the rent reserved in the lease first executed after the Base Date.

The Legal Rent for each Unit shall be determined by increasing the Base Date Amount for each Unit by all of the following that have occurred for a given Unit from the Base Date to the Effective Date: (a) all Standard Vacancy Increases; (b) all Long Term Vacancy Increases; (c) all Individual Apartment Improvement Increases; (d) all Rent Guidelines Board Increases; (e) all Intercom Surcharges; (f) all Air Conditioning Surcharges; (g) all Major Capital Improvements; and (h) all other rent adjustments permitted under the RSL and RSC.

MODIFIED RENTS

"Modified Legal Rent" shall be calculated by increasing the Base Date Amount for each applicable Unit by all of the following that have occurred from the Base Date to the date the Order and Final Judgment is entered in the New York County Clerk's Office (the "Order and Final Judgment Date"); (a) no more than the first three (3) Standard Vacancy Increases occurring through December 15, 2010, and all Standard Vacancy Increases that have occurred thereafter; (b) all Long Term Vacancy Increases; (c) all Individual Apartment Improvement Increases; (d) all Rent Guidelines Board Increases; (e) all Intercom Surcharges; (f) all Air Conditioning Surcharges; (g) all Major Capital Improvements; and (h) all other rent adjustments permitted under the RSL and RSC.

PREFERENTIAL RENTS

Calculation of the Preferential Rent for a given Unit shall be as follows:

- a) If the first lease into which the Eligible Renter entered was signed after November 1, 2009, the Preferential Rent shall equal the Modified Legal Rent;
- b) If the first lease into which the Eligible Renter entered was signed between April 1, 2009, and October 31, 2009, and had a rent that was based on the Interim Rent, the Preferential Rent shall equal the Modified Legal Rent;
- c) If an Eligible Renter entered into a lease for one Unit prior to April 1, 2009 ("Prior Unit") and moved to another Unit before January 1, 2012 ("Current Unit"), the Preferential Rent for the Current Unit shall equal the Preferential Rent for the Prior Unit (calculated per sub-paragraph (d) below as of the date of the move) divided by the usable square footage of the Prior Unit ("Prior Unit Rent-Per-Square Foot") and multiplying the Prior Unit Rent-Per-Square Foot by the usable square footage of the Current Unit, then adding all rent adjustments and increases permitted under the RSL and RSC since the tenant moved into his, her or its Current Unit; and
- d) If a), b) or c) do not apply, the Preferential Rent shall be the lesser of: i) the Modified Legal Rent, or ii) the amount of rent contained in the first lease the Eligible Renter entered into after the Base Date plus all Rent Increases and all other increases permitted under the RSL and RSC since such first lease was signed.

If not otherwise terminated sooner, Preferential Rent for a Unit shall cease as of the last day of the lease for the Unit in effect when the Complex in which the Unit is located ceases receiving benefits under the J-51 Program (that is, June 30, 2020 or such earlier period as permitted by law).

Illustration 1: Assume Tenant A entered a two-year market lease for a 2-bedroom Unit from January 2002 through December 2003 at \$1,500 per month (“Lease 1”); a three-year market lease from January 2004 through December 2006 at \$3,000 per month (“Lease 2”); a one-year market lease from January 2007 through December 2007 at \$3,500 per month (“Lease 3”); a one-year market lease from January 2008 through December 2008 at \$4,500 per month (“Lease 4”); a two-year market lease from January 2009 through December 2010 at \$4,300 per month (“Lease 5”), which got reduced in April 2009 to \$2,500 under the Interim Stay; and a two-year lease from January 2011 through December 2012 at \$2,650 per month (“Lease 6” or “Current Lease”).

Assume also that \$40,000 of Individual Apartment Improvements (“IAI’s”) were added to the Unit in January 2004 (which under the RSL would entitle the owner to raise the rent by \$1,000 per month), and the owner was also permitted to add a 5% MCI increase as of January 2004. Assume for simplicity that the RGB increase was 3% per year each year for a one-year lease and 6% for a two-year lease, and that there were no other permissible increases under the RSL for any of the six lease periods.

For this hypothetical situation, the Legal Rent for each lease period would be as follows:

Lease 1: \$1,500.00 [“Base Rent”]

Lease 2: \$2,710.00 [Lease 1 Legal Rent of \$1,500 + \$1,000 for IAI’s + \$75 for MCI’s + \$135 for 3 RGB’s]

Lease 3: \$2,791.30 [Lease 2 Legal Rent of \$2,710.00 + \$81.30 for 1 RGB]

Lease 4: \$2,875.04 [Lease 3 Legal Rent of \$2,791.30 + \$83.74 for 1 RGB]

Lease 5: \$3,047.54 [Lease 4 Legal Rent of \$2,875.04 + \$172.50 for 2 RGB’s]

Lease 6: \$3,230.39 [Lease 5 Legal Rent of \$3,047.54 + \$182.85 for 2 RGB’s]

For this Tenant and Unit, the Modified Legal Rent for the Current Lease would be the same as the Legal Rent because the Tenant never vacated the Unit. The Preferential Rent would equal the Modified Legal Rent because the first lease the Tenant entered into after the Base Date (Lease 2) was for \$3,000 per month, which was higher than what the Modified Legal Rent would have been at that point in time.

Illustration 2: Assume the same facts as in Illustration 1 except that Tenant A moved from her 1,000 square foot 2-bedroom Unit to a 1,200 square foot 3-bedroom Unit with a Legal Rent of \$6,000 before signing her Current Lease. In that case, the Preferential Rent for her Current Lease would be:

\$3,876.47 [Prior unit rent of \$3,230.39 / 1,000 sq. ft. X 1,200 sq. ft = \$3,876.47]

Illustration 3: Assume that Tenant A in Illustration 1 vacated after Lease Period 1 ended in December 2003 and that a new tenant occupied the Unit every year thereafter through 2008, and then the Current Tenant moved in with a two-year market lease in January 2009 at \$4,300 per month rent, which got reduced in April 2009 to \$2,500 under the Interim Stay, and which he then renewed under a two-year lease from January 2011 through December 2012 at \$2,650 per month (the “Current Lease”).

For this hypothetical situation, each time a tenant vacated the owner would be entitled to a 20% Standard Vacancy Increase (“SVI”) for a new two-year lease, or a 17% SVI for a new one-year lease, in lieu of an RGB increase. Thus, the Legal Rent for each lease period would be as follows:

2003 Lease: \$1,500.00 [Base Rent]

2004 Lease: \$2,830.00 [Prior Legal Rent of \$1,500 + 1,000 for IAI's + \$75 for MCI's + \$255 for SVI]
2005 Lease: \$3,311.10 [Prior Legal Rent of \$2,830.00 + \$481.10 for SVI]
2006 Lease: \$3,873.99 [Prior Legal Rent of \$3,311.10 + \$562.89 for SVI]
2007 Lease: \$4,532.57 [Prior Legal Rent of \$3,873.99 + \$658.58 for SVI]
2008 Lease: \$5,303.11 [Prior Legal Rent of \$4,532.57 + \$770.54 for SVI]
2009 Lease: \$6,363.73 [Prior Legal Rent of \$5,303.11 + \$1,060.62 for SVI]
2011 Lease: \$6,745.55 [Prior Legal Rent of \$6,363.73 + \$381.82 for 2 RGB's]

In this situation, the Modified Legal Rent for the Current Tenant would be less than the Legal Rent because SVI's cannot be taken for the 2007, 2008 and 2009 vacancies. The Modified Legal Rent would be calculated as follows:

2003 Lease: \$1,500.00 [Base Rent]
2004 Lease: \$2,830.00 [Prior Modified Rent of \$1,500 + 1,000 for IAI's + \$75 for MCI's + \$255 for SVI]
2005 Lease: \$3,311.10 [Prior Modified Rent of \$2,830.00 + \$481.10 for SVI]
2006 Lease: \$3,873.99 [Prior Modified Rent of \$3,311.10 + \$562.89 for SVI]
2007 Lease: \$3,990.21 [Prior Modified Rent of \$3,873.99 + \$116.22 for 1 RGB]
2008 Lease: \$4,109.92 [Prior Modified Rent of \$3,990.21 + \$119.71 for 1 RGB]
2009 Lease: \$4,356.52 [Prior Modified Rent of \$4,109.92 + \$246.60 for 2 RGB's]
2011 Lease: \$4,617.91 [Prior Modified Rent of \$4,356.52 + \$261.39 for 2 RGB's]

The Preferential Rent for the Current Tenant's Current Lease in this situation would be less than his Modified Legal Rent because the first lease the Tenant entered into was for \$4,300 per month in 2009. So the Preferential Rent for his Current Lease would be calculated as follows:

2011 Lease: \$4,558.00 [Initial Lease Rent of \$4,300.00 + \$258.00 for 2 RGB's]

Illustration 4: Assume the same facts as in Illustration 3 except that the Current Tenant moved from his 1,000 square foot 2-bedroom Unit upon conclusion of his 2009-2010 lease to a 1,200 square foot 3-bedroom apartment with a Legal Rent of \$6,000 before signing his Current Lease in 2011. In that case, the Preferential Rent for his Current Lease would be:

\$5,469.60 [Prior unit rent of \$4,558.00 / 1,000 sq. ft. X 1,200 sq. ft = \$5,469.60]