

Security Guards: Unlocking new tech ideas could solve deposit conundrum, say industry experts

BY HOLLY DUTTON • JULY 27, 2018

Besides the Statue of Liberty, Empire State Building, and Times Square, perhaps the most well-known thing about New York City is that it is an expensive place, especially if you want to live here.

After a recent report outlined the steep cost of putting up security deposits, the City is proposing ways to make it easier for New Yorkers to find housing. But will the industry be on board with the changes?

Last week, New York City Comptroller Scott Stringer released a report that found that New Yorkers spent \$507 million on security deposits in 2016 alone.

That number, he said, represents another giant hurdle to residents of the City looking for not just affordable housing, but housing in general.

Stringer has proposed several ways to help keep costs down and people housed:

One, set a one-month security deposit cap for one year leases. Rent-regulated and rent-stabilized apartments are already required to cap at one month, and this proposal would extend that cap to all housing units in the City;

A second proposal from Stringer would reduce steep upfront costs by landlords offering payment plans, where tenants could pay a security deposit in installments each month. The proposal would also extend to pet deposits, last month's rent, and move-in fees;

Another is insurance as an alternative to the security deposit. A number of startups have jumped into the security deposit arena in recent years, like Rhino and Jetty, companies that allow renters to pay a small monthly fee to what is basically an insurance policy for the landlord. This way, a landlord is guaranteed its security deposit, but a tenant does forego getting a security deposit back.

Getting a security deposit back from a landlord has been an issue for many tenants, and Stringer is also tackling that issue by proposing the city follow the lead of England and put security deposits in the hands of a third party instead of the landlord, to ensure its return at the end of a lease.

“Every day, New Yorkers are working harder and saving less – and right now, huge portions of their annual incomes are being held hostage in security deposits. These may just be considered the costs of being a renter in New York, but it’s not right and it’s not necessary,” said Stringer in the announcement.

“To tackle our mounting affordability crisis, we need to think outside the box and put bold ideas into action.

Stringer’s announcement and proposals garnered support from public officials and tenant advocacy groups such as the Legal Aid Society, a nonprofit legal services organization that serves low-income residents of the City.

“Our clients spend huge portions of their incomes on security deposits sacrificing groceries, medicine, and other necessities,” said Judith Goldiner, and attorney that heads up the Civil Law Reform Unit at The Legal Aid Society.

But it’s not just low-income New Yorkers who can feel the squeeze of upfront costs for leasing an apartment.

For those in the middle and higher-end of the price spectrum, a pricier apartment means a pricier security deposit. However, brokers say for the most part, clients are prepared to pay up.

“I think for the most part everybody expects they’ll be paying a security deposit,” said Melissa Noblit, CEO of Mirador Real Estate. “But you’ll definitely see listings advertised with no security, or reduced security for well-qualified applicants.”

On the flip side, for prospective renters who don’t meet certain qualifications, landlords and management companies can often request security deposits of up to six months upfront.

“It’s always been kind of an insurance policy,” said Douglas Wagner, director of brokerage services at BOND. “And some spaces, frankly, one month is not enough to replace everything.”

Wagner has been in the residential real estate business since the 1990’s, and in terms of security deposits, not much has changed.

“Even in markets where landlords give three months free, or pay the broker’s fees, security deposits have always been a given and non-negotiable,” he said.

He’s seen management companies that have a standard of two months security deposits, and some that would ask between two and six months, depending on the prospective renter’s credit.

And when it comes to tenant's getting back the deposit at the end of the lease, Wagner said it's out of brokers' hands.

"As brokers we sometimes get contacted asking how to get a security deposit back from the landlord," he said.

"Unfortunately, we're not part of that deal, and we don't know what condition the apartment was in when the tenant left."

Citi Habitats president Gary Malin supports startups like Rhino and Jetty that help renters deflect large upfront costs and get into an apartment quicker, while also extolling the benefits of the traditional security deposit.

"I think the main reason it is beneficial is that it keeps landlords and tenants on an even playing field," said Malin.

He often explains why security deposits are so important by comparing the landlord/tenant relationship to taking out a loan. "In the event a tenant doesn't pay, they're defaulting on the loan," he said. "If they come from other markets, this might seem more onerous, but it's really a matter of ensuring you can pay back what you're insuring for."

While there seems to be bipartisan support for services such as Rhino and Jetty, and companies like Insurent which guarantee leases, the practice is still not as common as traditional security deposits, and many people simply don't realize they have other options like these.

"There is a learning curve," said Mitch Posilkin, general counsel for the Rent Stabilization Association (RSA), a trade organization for property owners, on new ways to tackle the security deposit issue.

He said in the landlord/tenant and rent-regulation world, which is often contentious, "people are afraid to break new ground, because it's new ground."

"This is an important issue, we do not believe that limiting or restricting the amount of security deposits for unregulated units is the way to go," said Posilkin. "It's the unregulated marketplace for a reason. The unregulated marketplace should take care of itself."

However, he did advocate for the insurance option for renters, an option that he said benefits both landlords and tenants.

"We really think that from our perspective it protects owners, which is our first priority. But secondly, it enables tenants who are of limited means, and scraping together a first month's rent and security deposit is difficult, whether it's regulated or unregulated."

Posilkin acknowledged that many people may not know the option exists, and others are cautious, because they know the current security deposit model works for them as owners. But for other owners, at both the high-end (where there is a glut of inventory) and low-end of the price scale, it can serve as a marketing tool.

“We believe it is a 21st century approach,” he said. “We believe it’s one of these rare situations where the landlord world and tenant world should be on the same side of the page.

“We disagree on a number of issues, but we believe it’s a model that by all objective measures accomplishes the mutual goal of protecting both parties on the transaction.”