

# One U.S. city might do away with apartment security deposits

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As apartment rents rise across the U.S., so, too, have the security deposits tenants must pay when signing a new lease. The upfront cash most landlords require has gotten so high that one Midwestern city hopes to eliminate the need for security deposits altogether.

Under a proposed bill, Cincinnati would free renters from having to hand over a large lump sum and instead direct landlords to accept a security-deposit insurance policy as an alternative. The proposal could make Cincinnati the nation's first locale to mandate a new option for renters to pay security deposits.

The measure "would keep money in the pockets of middle- and working-class Americans to be able to provide for their families," Cincinnati Mayor John Cranley told CBS MoneyWatch.

The proposal comes at a time when rents are rising and apartments are forecast to become even more scarce in a city where two-thirds of the population are renters. Some local property owners find the proposed measure troublesome, but Cincinnati officials said the traditional security deposit format needs a revamp.

The monthly rent for a typical one-bedroom apartment in Cincinnati has jumped from \$850 in 2017 to roughly \$1,300, with a 2-bedroom costing upwards of \$1,600. As in many parts of the U.S., demand for affordable housing is outstripping supply.

The rent and demand numbers mean a one-month rent equivalent for security deposit will soon become too pricey for residents, according to Cranley and other city officials. Furthermore, a typical security deposit sits unused in an interest-bearing account controlled by the landlord and instead could be circulating through the local economy, they argue.

"Whether you're a black family living in Cincinnati or a millennial, the amount tied up in that security deposit can literally be the total of their life savings," said Councilman P.G. Sittenfeld, who recently introduced the bill.

High security deposits have even forced renters into smaller apartments or into places that are further away from work or family, Sittenfeld said.

"If it takes an extra \$900 to get into a one-bedroom in Cincinnati and you just flat out don't have it, well, you are then going to a suboptimal outcome," he said.

## What the bill would do

The bill would require that:

- Any company providing security-deposit insurance must be licensed by the state of Ohio.
- The insurance policy coverage amount must be at least the dollar amount of a would-be security deposit.
- Landlords must pre-select a list of security-deposit insurance providers that they will accept from a prospective tenant.

Cranley and Sittenfeld believe a new law would be a win for renters, though some insurance companies also stand to gain.

With security-deposit insurance, a tenant signs a policy with an insurer and pays a monthly premium and that policy guarantees an amount of money would be given to the landlord if there's damage to an apartment — say a broken window or singed patches of carpet on the floor. The premiums — which typically range from \$25 to \$50 — cost less than what a renter would have paid upfront when signing their lease. The downside is that renters don't receive the money back after they leave an apartment.

LeaseLock, SureDeposit, Rhino, TheGuarantors and other companies already provide security-deposit policies across the nation. Rhino, for example, has policies in Dallas, Atlanta, Chicago, San Francisco and New York City, said co-founder Ankur Jain.

As of October, the average rent around the U.S. was \$1,476, according to Yardi Matrix. In many states, a required security deposit amount is typically one month's rent. Jain said he believes other cities will follow Cincinnati's move and that ultimately will increase competition between insurers.

### **Landlords have concerns**

Not everyone is happy with the proposed legislation. The Cincinnati area has roughly 82,000 total rental units, most of which are managed and owned by families, said Charles Tassell, chief operating officer for the National Real Estate Investors Association. Tassell said his "ears have been chewed off" by landlords trying to understand what the proposal could mean for their tenants and leases.

The draft legislation is unclear if landlords will also need to become licensed with the state insurance department in order to accept security-deposit policies, Tassell said. He also said a long-term renter could be paying an outside company more in total monthly premiums than the initial cost of the one-month security deposit, depending on the length of time renting the apartment.

Security deposit insurance should really be an option only for the high-end, newly built apartment complexes, Tassell said, because the smaller landlords are already doing a version of it.

"A lot of the property owners take installments already because you have to work with people sometimes," he said. "But mandating those options has a lot of unintended consequences."

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