

Biggest Contention in Property Management –

A Tenants Security Deposit

We have found security deposits to be the biggest point of contention in property management. There are many misconceptions and confusion about what a security deposit represents and how they are reconciled. We encourage our clients to consider their rental as a business, and understand that normal wear is to be expected, and there will likely be costs involved between tenancies.

What is a security deposit?

A security deposit is a sum of money that new tenants provide, in addition to their rental payments. The security deposit is held in a separate escrow account and is considered fully refundable to tenants. It is intended to provide insurance in the event the tenants fail to pay rent, as well as cover financial damages incurred by the Landlord as a result of Tenant misuse/abuse/neglect of the home or tenant lease responsibilities. The old terminology to bill tenants for damages “beyond normal wear and tear” is difficult to use as a measure and often leads to arbitrary outcomes.

The new tenant’s expectations or repair requests should not be the determining factor of what the last tenant’s security deposit deductions are.

If we assign security deposit damages to what actual costs are for items we can clearly define resulted from tenant misuse/abuse/neglect of their lease responsibilities, then we can confidently proceed and need not be concerned about the former tenant’s reaction or feelings on this. However, if we are arbitrary in our approach, then as a property manager we have a responsibility to you to inform you of potential outcomes, and possible incitement of legal processes. While we are not attorneys, our strategy is to recommend that clients avoid the legal process and have a clear position on exact damages and pricing relating to the security deposit.

The amount of the security deposit is typically equal to one month’s rent (in DC it cannot exceed one month, in Virginia it cannot exceed two month’s rent). When tenants vacate a property, a move-out inspection is performed, and the Inspectors compare and contrast the condition of the property at move-in, and then factor our professional recommendation of likely, and potential security deposit assessments. While this review is also subjective, our Inspectors base their security deposit recommendations on our experience, established industry standards, and what we would be confident would hold up, if challenged in court. We are also required to factor depreciable value to items in the home (paint, carpet, appliances, etc.). The security deposit must be reconciled within 45 days, including notifying tenants of any charges.

IF a security deposit assessment goes to the legal process, the landlord nearly almost always loses if we don’t provide the list of specific deductions within the appropriate timeframe (within 45 days of end of lease). Waiting until the last day is not an effective strategy, and it also creates logistical issues for our delivery of security deposit notices to the former tenant if we don’t have a confirmation of damages you wish to deduct at least a week ahead of the last day.

How security deposits are processed;

When handling the reconciliation of the security deposits, invoices come in once the work is completed. This means that oftentimes we will pay the invoice prior to the finalization of the security deposit. We strive to have a good and healthy working relationship with our vendors to ensure top quality service for repairs done at your home. Our agreement with our vendors is to try and pay all outstanding invoices within 30 days of receiving the bill. Since some reconciliations take up to 45 days, we will pay the invoice as soon as possible as long as your operating account has enough funds. This sometimes causes some confusion as to why you are paying the invoice if costs are to be charged to the tenant's deposit. When we reconcile the security deposit, the deposit is transferred to your operating account, a refund check is sent to the tenants, and the amount reimburse the cost of damages stays in your operating account. Sometimes this occurs between statement periods which you will see the invoice paid on one statement, but the reconciliation is processed on the next.

The most common security deposit charges include;

Failure to meet Lease obligations, such as outstanding rental balance, cleaning below acceptable standards, not replacing furnace filters, unpaid final utility billing, and repairs associated with damages considered neglect or abuse.

What are typically NOT considered security deposit charges;

Paint is considered to have a two year depreciable value in rentals. Nail holes, scuffs, dings, etc. are considered normal wear. Basically, anything short of tenants creating large holes, or if a tenant paints a room without permission or draws on walls, is not considered abuse. Landlords should have the expectation to paint between tenancies.

Carpets are considered to have a six year depreciable value in rentals. Traffic wear, light stains, fading, are considered normal wear and tear. Large stains or pet urine damages are considered abuse. For example, if carpet is three years old with damage considered as abuse, and cost to replace \$1000, we would charge the deposit \$500, based on depreciable value.

Wood flooring has a depreciable value of 25 years. Scratches, scuffs and dings are considered normal wear. Large gouges, very deep scratches, water stains from potted plants, would however, be considered as abuse.

Best practices to limit security deposit disputes;

The best way to reduce disputes and arguments related to security deposits is to ensure the conditions of the property are thoroughly documented when tenants assume possession. Having a detailed move-in condition report, supported with photos, allows the Inspector to compare and contrast conditions at move-out. Tenants are encouraged to report any missed deficiencies or discrepancies within ten days of move-in. When there is a solid baseline condition report it is possible to determine damages attributable to tenant misuse or abuse with confidence.

What has been our experience when security deposit charges are disputed or taken to court;

We base our security deposit recommendations on what we believe would hold up, if challenged in court. We have found that Judges who preside over these disputes have been conditioned to seeing catastrophic damages and malicious abuse, and tend to be dismissive of any cosmetic or minor damage. The reality is Judges tend to err on the side of the tenant, and we have seen cases when they require the Landlord to return the entire security deposit back to the tenant, even if some of the charges are legitimate and not in dispute. As your Property Manager, some of our recommendations and suggested may be construed as “tenant friendly”, but the risks of going to court typically outweigh the benefits.

Bottom line;

While there is always an element of subjectivity in the process, security deposit “amounts” should not be arbitrary - they should be specific to the financial damages incurred by the owner as a result of the tenant violating lease terms or misuse/abuse/ neglect at the property.

As your Property Manager, we will provide our suggestions and recommendations on what we would consider as security deposit charges. If the Landlord directs us to charge the tenant beyond what is recommended, we will, as your Agent, but you should be prepared to defend your position in the legal process (with attorney expenses at your own expense) if certain damages or the overall amount is challenged or disputed by tenants.

Charging the tenant the actual amount to repair a specific list of issues attributed to the tenant that are documented, have repair receipts, and pictures of the damages when applicable leads you to a reasonable and fair outcome that leads to security deposit success.

Thank you,

Chambers Theory Team