



Security Deposit Alternatives Offer Protection to Apartment Communities

By Richard Schreiber, SureDeposit

With metro-wide vacancy forecast to reach 7.5 percent this year, Chicago area apartment owners and property managers are dealing with pressure to boost or maintain occupancy and NOI. Many are offering larger concessions to applicants, waiving non-refundable fees and renting their units at a discount, all of which negatively affects NOI. Others are lowering their decision points and declining fewer applicants based on credit in an effort to boost occupancy. This move leaves them open to more bad debt caused by economically-stressed residents who cannot afford the rent and skip.

But owners and property managers of approximately 14,300 units in the Chicago metro area are more effectively dealing with these challenging market conditions with the help of security deposit alternatives in the form of a surety bond. Surety bonds help attract prospective residents who are looking for apartments within their financial means AND better protect property companies against bad debt than would a traditional security deposit.

How do security deposit alternatives work? At lease signing, the resident is offered a choice between paying a refundable security deposit to the property company or a one-time, non-refundable surety bond premium to the surety. The vast majority of residents choose the surety bond which costs a fraction of the cash outlay of a refundable security deposit. For example, at properties that offer SureDeposit's security deposit alternative program, a resident would pay \$87.50 for the surety bond premium for the minimum coverage amount of \$500. The bond protects the community, not the resident, who, under the terms of the bond, remains fully liable for his lease obligations.

Coverage purchased with one premium payment at lease signing applies for the life of a resident's lease and follows him to any participating apartment within the property company's portfolio.

If the resident meets his rental obligations and returns the apartment in good condition, he moves out without any further obligation. But if the apartment

incurs physical damages beyond normal wear-and-tear or monetary damages due to skipped rent at move-out, the property company submits a claim to the surety for payment, which then collects reimbursement for the claim from the resident.

RMK Management Company, for example, first offered SureDeposit to residents in 2005 and now deploys the program throughout all of its Chicago area and Minnesota properties. According to Executive Vice President Diana Pittro, rents range between \$1,000 and \$3,200. However, their market-level security deposits range between only \$300 and \$500. This low security deposit requirement leaves the company exposed to financial losses.

With SureDeposit, RMK is able to compete effectively for residents with an \$87.50 surety bond premium instead of having the resident pay the full security deposit, offering a clear marketing advantage. Moreover, RMK has seen a dramatic increase in recoveries with the surety bond over what they would have recovered with a traditional security deposit.

Pittro also touts the administrative benefits associated with the surety bond program, especially in light of Chicago's stringent security deposit laws, which require property companies to maintain extensive documentation, make timely interest payments and have a demanding schedule for disclosure requirements.

"Because the premium on the surety bond is non refundable and the premium is paid directly to the surety, we have been able to reduce our administrative time and expenses considerably with the use of SureDeposit's security deposit alternative," Pittro explained.

"Besides offering the program to new residents at lease signing, we offer our existing residents the opportunity replace their security deposit with the lower cost surety bond at lease renewal time, as well," she said. "This a great resident retention tool because our residents can put more of their money back in their pocket, while we are better protected against losses."

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