



PHILADELPHIA CITY COUNCIL

**Committee on Housing, Neighborhood Development and the Homeless
April 7, 2025**

MEMORANDUM

To: Chairwoman, Councilmember Jamie Gauthier
From: The Greater Philadelphia Association of REALTORS®
CC: Councilmembers Landau, Bass, Squilla, Driscoll, Jones Jr.
Date: April 7, 2025
Re: Opposition to Bill No. 250044, 25045

INTRODUCTION

The Greater Philadelphia Association of REALTORS® (GPAR) is a membership organization whose purpose is to provide education, information, and legislative advocacy for licensed real estate professionals and related service providers in the greater Philadelphia area. The association advocates for property ownership and real estate consumers alike. The GPAR mission is to enhance the ability and opportunity of its members to conduct business successfully and ethically, and to promote homeownership and the preservation of the right to own, transfer and use real property for all. Because Pennsylvania requires an active real estate license to be a property manager, a significant portion of GPAR members are currently upstanding landlords, also work in the rental property management field or represent buyers and sellers in rental property real estate transactions.

SUMMARY

The City of Philadelphia has enacted some of the nation's strongest tenant protection laws, in recent years designed to ensure fair treatment and reduce unjust evictions. Affordable and quality housing is imperative to support economic growth and sustainability. However, rapidly rising administrative and operational costs and an unbalanced approach to rental housing regulation, has created an untenable environment for local, small to mid-sized housing providers.

The Move-in Affordability Plan which includes Bill No. 250044 and Bill No. 250045, is well-intended but as-introduced, these bills will yield even higher rental housing costs as property owners will be forced to adjust and account for additional assumed risk or default. The legislation drastically increases risk to property owners, especially small rental housing providers already struggling to maintain local compliance, quality of units and unmitigated operational expenses.

Following introduction of the bills, the sponsor engaged in thoughtful dialogue with stakeholder groups representing Philadelphia property owners, including GPAR. However, without vital assurances, clarification and recourse mechanism for rental property owners, GPAR cannot support the bills as presented. **GPAR urges Philadelphia City Councilmembers to VOTE NO on Bill No. 250044 & Bill No. 250045.**

BILL NO. 250044

Security deposits provide landlords with immediate financial protection against potential damage to the property, unpaid rent, or cleaning costs at the end of the tenancy. When renters have a financial stake in recovering their deposit, they are more likely to take care of the property, adhere to lease terms, and fulfill their rental obligations. This reduces instances of negligence and property misuse. If the security deposit is no longer required upfront as “skin in the game”, landlords will not be able to rely on afforded financial protections, when renters refuse to or are unable to pay it. Requiring deferred security deposits will inevitably encourage rental housing providers to screen tenants even more stringently, particularly for payment reliability. Property owners may have to implement more strict background and financial checks to assess the tenant’s ability to pay monthly rent plus deposit installments, increasing the tenant screening cost and administrative burden.

This bill provides no recourse for the property owner for missed or refused security deposit installments. The housing provider cannot file eviction proceedings based solely on non-payment of the security deposit, especially if the renter is paying rent. Even if the owner could initiate such legal drastic measures, it will cost exorbitant time and legal fees to do so. Security deposit fees are not eligible funds recoverable through the Eviction Diversion Program or mediation/arbitration efforts.

To offset the additional risk of deferred security deposits, landlords will raise the monthly rent to ensure they have enough funds to cover potential damages or unpaid rent. This could make the rental unit less affordable for tenants, especially in competitive markets. Many small landlords operate with tight margins and cannot afford unexpected repair costs or unpaid rent. Security deposits provide a financial cushion that enables them to continue offering rental housing without incurring significant losses. Small landlords, who often provide affordable rental options, may find it financially unsustainable to operate. Some may leave the rental market altogether, reducing the overall supply of rental housing and driving up competition and prices.

This bill will ultimately increase the reliance and popularity of private security deposit insurance companies, as an alternative to traditional security deposits collected upfront. Instead of paying a traditional security deposit to the landlord, tenants purchase a non-refundable insurance policy through a private company, which provides landlords with a guarantee against property damage, unpaid rent, or other financial risks typically covered by a security deposit. The tenant remains financially responsible for any damage, unpaid rent, or other issues that exceed the coverage amount or that are not covered by the insurance.

If a tenant fails to repay the insurance company for any amounts paid out to the landlord (such as unpaid rent or property damages), the insurance company may pursue legal action against the tenant for recovery of the funds. Many insurance companies report unpaid debts related to security deposit insurance to the credit bureaus if the tenant fails to reimburse the insurance company. If the debt is not repaid, the insurance company transfers the debt to a third-party debt collector, who would also report the debt to credit bureaus, further impacting the tenant’s credit report.

Balanced Solutions & Suggested Alternatives

- Enhance public outreach and enforcement of existing security deposit refund obligations. Under the Pennsylvania Landlord-Tenant Act, a landlord must return the security deposit to the tenant within 30 days after the expiration or termination of the lease. However, the landlord can withhold part of the deposit if there are damages to the property or if the tenant owes rent. If the landlord does withhold any portion of the security deposit, they must provide the tenant with an itemized list of damages or unpaid rent within the 30-day period. If the deposit is not returned within 30 days, the tenant may be entitled to a penalty, which can include the return of double the amount of the security deposit.
- Establish city-backed rental security or risk mitigation programs that provide landlords with compensation for damages or unpaid rent, reducing the financial risk of leasing to tenants with lower income or poor credit.
- Incentivize rental housing providers to opt in, offering renters deferred or installment security deposit payment plan. Property owners who opt into this model to receive annual tax credits.
- Establish expedited recourse and recovery channels in cases where the tenant fails to pay the security deposit installments in four months, as prescribed by this legislation.
- Upon lease expiration or termination, or within 30 days of move-in, allow landlords to assign all or a portion of security deposit funds held in escrow, directly to the tenants' new landlord. This would provide renters with financial flexibility and also assure landlords receive security deposit funds directly within 30 days.

In summary, security deposits are an essential risk management tool for landlords, ensuring that rental properties remain financially viable and well-maintained. Without them, landlords face increased financial risk, which could lead to stricter rental qualifications, higher rents, or even a reduction in availability of rental units. GPAR encourages councilmembers to prioritize a more balanced and comprehensive approach to remedying burdensome costs of rental housing transitions. This legislation, in its present form, would cripple many housing providers who rely on security deposit funds being accessible to ensure units are safe and well-maintained.

BILL NO. 250045

Rental housing application fees help cover the costs of tenant screening, which includes credit reports, background checks, and administrative time. These costs can vary for many reasons and often exceed the \$20 per applicant cap, prescribed by this bill. Uniformity in tenant screening practices is imperative to maintain fairness to all applicants. Today, these documents can be manipulated or pulled from an unverifiable source. Requiring providers to accept reports they have not collected themselves creates potential liability issues. Beyond the standard criminal background check and credit history report, housing providers collect and verify other indicators of suitability including references, income or employment history, rental history, etc. The pre-screening, verification process and possible interview of applicants requires meticulous record keeping, secure retention of sensitive personal data, persistent communication with applicants and as such, administrative costs easily exceed \$20.

Rental application fees should not be exorbitant or frivolously set by providers. Fees should cover expenses incurred for services performed. Per Philadelphia's Renter's Access Act of 2020,

landlords must be transparent about all additional fees associated with renting the property, such as application fees, late fees, and any other charges that may apply during the lease term. This ensures that renters are fully informed about the cost of living in the unit, avoiding surprise or hidden fees. Prospective applicants are able to be more selective about the units and properties they consider. The Renters Access Act also allows applicants to request access to the criteria used for evaluating rental applications.

Capping application fees will result in providers being more selective in choosing renters. This disadvantages applicants with lower credit scores, limited rental history, or those with non-traditional incomes. Some may even move toward requiring higher security deposits instead. In competitive markets, landlords often process multiple applications to find the best-qualified tenant. A fee cap discourages landlords from accepting multiple applications and delays processing, making it harder for tenants with less-than-perfect qualifications to find housing.

Large corporate landlords may absorb screening costs more easily, but small landlords, who provide a significant portion of affordable housing will struggle. Small to mid-range housing providers may opt to sell off properties for today's top-dollar prices, instead of renting them out. Properties once rented and maintained by local owners will be purchased by large-scale investment corporations.

Balanced Solutions & Suggested Alternatives

- A universal screening service could be developed where tenants pay for a single background and credit check that is accepted by all landlords in a jurisdiction or region. This would allow renters to use the same application report for multiple rentals, reducing the need to pay multiple fees for different application processes.
- Establish an adjustable fee structure tied to annual Consumer Price Index (CPI) increases.
- Increase cap from \$20 as initially proposed, to reflect real world costs of service. In larger cities or high-demand rental markets, application fees tend to be higher, sometimes reaching **\$100 or more**.

In summary, while capping rental application fees may seem like a pro-housing affordability measure, the unintended consequences will bring greater challenges such as stricter screening, higher rents, fewer available units, and the loss of smaller landlords. Rather than imposing an arbitrary cap, GPAR urges Philadelphia City Councilmembers to pursue alternative solutions, such as requiring housing providers to charge only the actual cost of screening procedures or implementing other practical transparency measures to ensure tenants are not overcharged.

CONCLUSION

The Greater Philadelphia Association of REALTORS® opposes Bill No. 250044 and Bill No. 250045, as currently proposed and respectfully, urges the Committee on Housing, Neighborhood Development and the Homeless to **VOTE NO**.

CC:

Councilmember Jamie Gauthier

Councilmember Rue Landau

Councilmember Cindy Bass

Councilmember Mark Squilla

Councilmember Michael Driscoll

Councilmember Curtis Jones, Jr.