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Chicago Landlords Beware

If you are looking for an investment and want to buy a rental property in Chicago, you must familiarize yourself with the landlord's nightmare known as the Chicago Residential Landlord and Tenant Ordinance (CRLTO). The CRLTO governs nearly all rental agreements for dwelling units in the City of Chicago. It contains a plethora of tenant-friendly provisions, with many opportunities for landlords to find themselves in violation.

A potential pothole is the landlord's handling of security deposits. While security deposits can help to secure performance of tenants' lease obligations and defray unit repair and cleaning expenses, the inconvenience and risk to the landlord under the CRLTO make them a less attractive option. Under the CRLTO, a landlord:

- must hold security deposits in a federally insured interest-bearing account in the State of Illinois;
- must pay the required interest to the tenant at the end of every 12 months;
- may not commingle the funds with the landlord's funds;
- must disclose to tenant the name and address of the bank where the deposit is held; and

- must provide a receipt for the deposit.

Procedures governing the application of security deposits and the timing of their return can also be difficult to manage for a property owner. A violation of any of these provisions exposes a landlord to liability for twice the amount of the deposit, plus the tenant's attorney's fees and court costs.

Because of the hassle and potential liability of collecting and handling security deposits, many Chicago landlords have simply chosen to forego security deposits altogether and instead have gone to a non-refundable "move-in fee" which is collected upon entering into the lease. A move-in fee can provide similar protections to landlords a security deposit, but without the stringent requirements and risks associated with security deposits.

As a buyer of a tenant-occupied property, it is critical to determine whether the current owner has collected security deposits. As the successor landlord, you would become liable to the tenants for the handling of those funds under the CRLTO. If in fact security deposits were collected, and if you have decided that you do not want to deal with the headaches associated them, one approach would be to require the current owner to refund all security deposits plus all accrued interest to the tenants prior to the closing, and to obtain an indemnification from the current owner for claims made by tenants or by the City of Chicago.