

Owning and managing a tenant-occupied multifamily property in upstate New York comes with its own set of challenges—especially when it's time to sell. One of the most overlooked yet critical hurdles I see time and again is messy security deposit records. Whether you're a landlord listing your first townhouse or an agent pitching a small multifamily building, sloppy deposit accounting can tank a deal faster than you can say "Good Cause Eviction."

As someone who's walked the Capital Region's multifamily trenches for over a decade, I'll give you the straight talk on why cleaning up your tenant ledger is non-negotiable, how to go about it, and why this task shifts in importance thanks to New York's evolving rent laws.

Why Security Deposit Records Matter More Than Ever

Security deposit accounting isn't just about dusty paperwork tucked away—it's a linchpin in closing due diligence for any multifamily sale. Buyers want clarity on:

- What deposits are held and where
- Whether the amount complies with legal limits
- How deposit funds have been handled in prior tenant turnovers

Messy records can trigger alarms during your listing. Expect buyers—and their attorneys—to drill into the deposit ledger hard.

Why? Because New York's complex **Good Cause Eviction (GCE)** and rent regulation laws ramp up landlord liability. Municipalities opting into GCE, like Albany and Schenectady, are raising the stakes on deposit mishandling. The last thing you want is a legal question that blows up right before closing.

Good Cause Eviction and Municipal Opt-In Reality

Good Cause Eviction laws restrict when landlords can non-renew leases or evict tenants without cause. These laws also raise scrutiny on landlord behavior during tenancy, including deposit handling. Buyer pools have shrunk as owner-occupants and flippers exit markets wary of the growing legal complexity.

For listings in municipalities that have opted in to GCE, messy deposit records suggest to buyers potential litigation risk and cascading diligence delays. NYSAR's landlord resources emphasize that deposit accounting cleanup isn't an optional step anymore; it's part of meeting disclosure expectations.

Don't Misread Exemptions: They Are Narrow

Some landlords believe that because their multifamily building falls under certain rent cap exemptions or is smaller than certain thresholds, they can be lax about records. This is a mistake.

Exemptions under New York rent laws tend to:

- Apply narrowly and often exclude tenant-occupied multifamily buildings with rent-regulated units.
- Not absolve landlords from security deposit accountability or proper documentation and interest payments where required.

Overreliance on exemptions leaves sellers vulnerable to buyer pushback or worse, claims of non-compliance uncovered in attorney diligence.

Step 1: Perform a Deposit Accounting Cleanup

This isn't fluff advice—every good multifamily listing specialist I know insists on thorough deposit accounting cleanup. Here's a practical approach that I recommend:

1. **Gather All Deposit Records:** Locate lease agreements, tenant ledgers, bank statements, and escrow account records. McDonald Real Estate Company provides templates and checklists that simplify realizing what's missing.
2. **Reconcile Tenant Ledgers:** Cross-check every tenant's ledger entries for deposits received, interest accrued, and deductions made. Use spreadsheets where possible to visualise inconsistencies.
3. **Identify Missing or Misapplied Funds:** Flag any deposits that weren't properly accounted for or interest that wasn't paid. Document attempts to rectify these issues.
4. **Review Compliance With NYSAR Guidance:** The New York State Association of Realtors offers landlord-tenant compliance resources. Make sure you're not breaching fundamental rules such as timely deposit returns or accounting.
5. **Consult an Attorney or Accountant Specialized in Rental Property:** Closing due diligence demands airtight records. Specialists can help interpret any gaps or advise on remediation—sometimes, proactive transparency is your best defence.

Step 2: Understand the Rent Cap Math and CPI-Based Ceilings

While this isn't a rent cap explainer, it's critical to sanity-check your rent and deposit math because:

- Security deposits often tie to lawful rent caps — typically up to one month's rent for residential tenants.
- CPI (Consumer Price Index)-based adjustments influence rent ceilings annually, impacting what's allowable on new leases or renewals.

Before listing, run the numbers to ensure deposit amounts align with your tenants' rents and lawful limits. Don't believe a Facebook post claiming "no caps apply" without doing the arithmetic yourself—you can easily verify CPI adjustments on official state sites.

Quick Rent Cap Sanity-Check Table

Year	Max Rent Increase % (CPI-Based)	Max Deposit Amount (1 Month's Rent)	2023	3.2%	Equal to Rent at Lease Signing
2024	2.5% (Projected)	Equal to Updated Rent			

Use this math as a sanity-check before verifying deposit ledgers—too high or old deposits may trigger buyer scrutiny.

Step 3: Prepare Deposit Records for Buyer Due Diligence

When your deposit accounting is clean, organizing it for buyer review is your next priority. Here's a recommended set of deliverables for tenant-occupied multifamily sales:



- **Consolidated Tenant Ledger Spreadsheets:** Showing deposit amount, lease start, interest paid, and deductions.
- **Bank Statements or Escrow Account Proof:** Documenting where deposits are held, especially if legally held in separate escrow.
- **Disclosure Statements:** A summary of deposit compliance steps taken and any known issues.
- **Copies of Lease Sections on Deposits:** Verifying landlord/tenant expectations match lease language.

Failing to provide these encourages buyer frustration and often invites lower offers or even withdrawal. Investor buyers get nervous when deposit records aren't transparent—owner-occupants even more so.

Step 4: Expect and Manage a Shifting Buyer Pool

Here's what I routinely see in our Capital Region market:

- **Owner-Occupants and Flippers Are Stepping Back:** New local rent laws, especially GCE and rent caps, reduce the appetite for buildings with messy tenant ledgers or potential deposit disputes.
- **Professional Investors and 1031 Buyers Demand Cleaner Records:** These buyers look for turnkey, legally-compliant assets with minimal risk.
- **Sellers Publicly Boasting “Granite Counters” Without Deposit Records Are Missing The Point:** Good deposits info often matters more to buyers than interior finishes.

Your best move: make your building as close to turn-key in deposit compliance before listing.

Bonus: Avoid Common “Deal Killers” on Deposit Records

From my list of “deal killers” after years sitting on attorney calls, here are top offenders around deposits:

- Missing early deposit receipts for long-term tenants
- Inconsistent interest payment records—especially for deposits held over one year
- Mismatched tenant ledgers versus bank account statements
- Lack of disclosure about deposit use (for legal damages, cleaning, etc.)

- Assuming exemptions apply without documented proof

Fix these headaches upfront or face costly delays and renegotiations at closing.

Final Thoughts

Dirty [realtytimes.com](https://www.realtytimes.com) deposit records create unnecessary friction in a market already complicated by new rent laws and municipal Good Cause Eviction opt-ins. Clean your tenant ledger meticulously and be proactive about documentation. Use resources like NYSAR and McDonald Real Estate Company for checklists and templates.

Remember: buyers want certainty about what they're stepping into on closing day. Give them no reason to hesitate because of preventable deposit record issues.

If you want straight talk (and fewer headaches), start your deposit accounting cleanup now—not after you have a contract in hand.

