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Decoding "key money," an old school NYC real estate gambit

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Sometimes, it seems like there are as many real estate jargon terms out there as there are actual apartments. In our new feature, Bricktionary, we decode them, one buzzword at a time.

No matter how much money you earn, the idea of having to pay a 12 to 15 percent broker's fee to rent an apartment in NYC these days will likely make you balk. But ask an old-school New Yorker about rental hassles they faced in *their* day, and you'll likely hear the term "key money" come up. And no, it doesn't mean the cost of getting an extra set of keys made.

"Key money is when you pay a landlord money (usually under the table) to secure an apartment," says renters rights attorney Sam Himmelstein, who notes that sometimes, it was supers, building managers, or even the tenants themselves who demanded the cash. The practice, unsurprisingly, is illegal—only licensed real estate brokers are allowed to collect commission for an apartment—and has largely fallen by the wayside in recent years. "I haven’t seen it in years," says Himmelstein, "and most people don't report it unless they get into a scrape with their landlords."

But why even agree to this kind of bribe in the first place? Essentially, key money served as a payoff for a lease that held particular value, like that of a rent-stabilized apartment. "If a rent-stabilized apartment came on the market, for instance, if it's well priced, it would be considered a good deal," explains Miron Properties broker Conrad Bradford. "So a landlord might have said, 'the apartment is $1,200, but there's key money of $1,200 or $2,500'." (One example: this renter who wrote to the *New York Times* back in 1995 after a tenant charged an illegal key money fee to take over their stabilized rental.)

While this almost certainly still happens for residential rentals, albeit less frequently—name a real estate hustle, and *someone* in New York is trying it—the term "key money" is most frequently used today in the world of commercial leases, where the practice is perfectly above-board. "It's very common in retail if you have a long-term lease that's below market rate, you can sell off the value of the lease as well," says Steven Evans of Platinum Properties, who notes that the practice is most common in the restaurant business, where owners will look to sell off the remainder of the lease, as well as on-site kitchen equipment, in an effort to recoup their investment. "Typically, the business owner will hire a broker to come and look at the space, and determine a price based on their total investment, and what the rent is versus the market rate."

But unlike shady residential key money demands, for commercial deals, business owners ask for key money with the full knowledge of the building's landlord, says Douglas Elliman's Yuval Greenblatt, and the amount will even be mentioned up front in the listing. This, as opposed to whispered off-handedly by a sleazy super demanding an envelope of cash. Ah, the good old days.