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“Money for Nothing”: Landlords Take on Residential Tenants’ Security Deposits

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Legislation Commented On: *Residential Tenancies Act*, [SA 2004, c R-17.1](#), Part 4

Landlords must place their residential tenants’ security deposits in an interest-bearing trust account. When interest rates are low, landlords take for themselves all of the interest earned in these accounts. When interest rates are higher, landlords take at least the first three percent of the interest earned on their tenants’ money, delivering the rest to their tenants. In addition to benefiting from this “spread,” landlords’ duty to pay interest on security deposits to their tenants ends when tenants vacate the rental premises, but landlords can keep the security deposits for at least ten, if not thirty days. If landlords wrongfully withhold security deposits, they can keep both security deposits and the interest earned for weeks, months or even years of negotiation, law suits, judgment filings and service, and collections. This might seem like small change if your idea of a landlord is a couple renting out a basement suite in their home. However, landlords in Alberta these days tend to be Real Estate Investment Trusts (REITS) and some of these REITS have thousands of residential tenants. If a REIT has 20,000 rental units in Alberta with an average of one \$2,000 security deposit per unit, a REIT would have \$40,000,000 of their tenant’s money earning the REIT at least 3% interest annually. That would be \$1,200,000 per year. Money for nothing and all legal. The three percent spread and the interest-free holding after tenants vacate are enabled by Alberta’s *Residential Tenancies Act*, [SA 2004, c R-17.1](#) (*RTA*) and its regulations. The refusal of the Residential Tenancies Dispute Resolution Service (RTDRS) to require landlords to pay interest on wrongfully withheld security deposits, or to otherwise compensate tenants, is not required, but it seems to be their policy.

In this post I first set out the context for this look at the funneling of interest on residential tenants’ security deposits to landlords. I then look at the relevant legislation, followed by the very few cases applying that legislation. The conclusion summarizes the problems with the current legislation and why changes to the law are needed.

Context

The *RTA* was first enacted in 2004, but the issue of the interest landlords earn on their tenant’s security deposits has not received any attention. There are at least three reasons for this lack of attention over the past two decades.

First, no interest has been payable for 14 of the past 16 years. The *Security Deposit Interest Rate Regulation*, [Alta Reg 190/2004](#), provides in section 2 that the minimum annual rate of interest since the beginning of 2005 “is the rate that is 3% below the rate of interest that is in effect on November 1 of the previous year for cashable one-year guaranteed investment certificates held or offered by Alberta Treasury Branches Financial.” (emphasis added) That rate was 0% from 2009 to 2023. It was 1.6% in 2024 and 0.5% in 2025 (Service Alberta, [“Security Deposits and Changes: Interest Chart”](#)). Of course, 1.6% and 0.5% interest rates are not much of a cost for using someone else’s money; the Alberta Treasury Branches Financial prime rate for borrowing their money was 4.45% in December 2025.

This legislated spread means that even when a landlord is paying the very low amount of interest required by the Regulation to their tenants, the landlord is still making money by holding tenants’ security deposits in a trust account, a holding required by section 44 *RTA*. This is true even though each security deposit can be no greater than one months rent according to section 43(1) *RTA*. Section 45(3) *RTA* opportunely provides that a “landlord is entitled to retain any interest and profit resulting from the investment of a security deposit in excess of the amount of interest payable to the tenant...” (emphasis added).

Second, landlords have changed a lot since 2004. REITs had their start in Canada in 1993, offering investors a pooled real estate investment vehicle, but they were largely ignored until 2005 (“[Evolution of Canadian REITS](#),” AdvisorAnalyst.com, 27 March 2018). Now we have REITs such as Boardwalk Real Estate Investment Trust which held about 21,000 rental units in Alberta in March 2024 (“[Boardwalk REIT Reports Strong Results for Q1 2024](#)”, Cision, 7 May 2024). Another REIT, Mainstreet Equity, with over 10,000 rental units in Alberta (“[Property Portfolio](#),” Mainstreet, accessed 17 December 2025). The difference between the interest paid their tenants and the amount of interest these types of landlords earn on the invested security deposits of all their tenants is not small change.

Third, the Residential Tenancies Dispute Resolution Service (RTDRS) publishes very few of its decisions, and none before 2019. This is important because the RTDRS is the most commonly used third-party decision-maker in residential tenancy disputes. Most, if not all, law suits by tenants for the return of their security deposits would be filed with the RTDRS because the RTDRS’s filing fees are less than those of the Alberta Court of Justice or the Court of King’s Bench of Alberta (\$75 versus \$100-250) and the RTDRS wait times between filing and hearings are shorter (30 business days on average in 2023-2024; [RTDRS Annual Report, 4th edition](#), at page 7).

However, almost all reasons for RTDRS decisions are now delivered orally over the telephone to the parties at the end of hearings. We are not told how many hearings are conducted annually, but in the fiscal 2023-2024 year, the RTDRS received 14,753 applications and in 2022-2023 they received 14,113 (RTDRS Annual Report, 4th edition, at page 5). In each of the 2024 and 2025 calendar years, only 20 RTDRS decisions were published on the [RTDRS website on CanLII](#) – the only place where RTDRS decisions are published. We do not know if the RTDRS have ever addressed the question asked in this post, but they have not done so in the very few decisions published in the last two years when interest was required to be paid.

The combination of no legislative changes in the past 21 years, no interest payable for 14 of the past 16 years, the publication of only 0.1348% of all RTDRS decisions during the past two years when interest was payable, the small amount owing to each individual tenant, and the easy money available to landlords makes it unlikely that we would hear about this boondoggle.

Residential Tenancies Act Provisions

There is also a difference between when interest on a security deposit stops accruing to a tenant and when interest on a security deposit has to be paid to a tenant. Interest that is accruing is interest that accumulates over time in the landlord's trust account but has not yet been paid out to a tenant. Interest is paid when it is delivered, sent or deposited to the tenant. When interest stops accruing and when interest must be paid to the tenant can be two different points in time. However, the *RTA* provisions do not use this vocabulary and do not seem to consistently recognize the difference between accumulation and payment.

The main provisions governing a landlord's duty with respect to interest owed to a tenant on the tenant's security deposit are [subsections 45\(1\)](#) and (2) *RTA*:

45(1) Subject to subsection (2), a landlord shall pay annually to the tenant interest calculated at the prescribed rate on a security deposit consisting of money.

(2) If a security deposit consists of money, a tenant and the tenant's landlord may agree in writing that the interest on the security deposit shall not be paid annually and in that case the interest shall be compounded annually and be paid to the tenant on the expiration or termination of the tenancy. (emphasis added)

At first glance, these two subsections appear to use the words “pay” and “paid” as synonyms for both “accrue” and “deliver.” The default position in section 45(1) is that interest accrues for one year and is delivered to a tenant at the end of that year. If the landlord and tenant agree interest will not accrue and be delivered annually, then the alternate position in section 45(2) is that interest accrues and is delivered to a tenant at the end of the tenancy. Most standard residential tenancy leases will include boilerplate that provides that interest is not to be paid annually.

However, “pay” and “paid” cannot mean “deliver” in subsections 45(1) and (2) – at least not all the time. Subsection 45(2) says interest will be “paid” at the end of the tenancy, and by paid it must mean “accrue” or “accumulate” up to the end of the tenancy if read with section 46. Section 46 also tells us when the accrual of interest ends in the last year of a tenancy where the interest is payable annually under the default provision in subsection 45(1).

Section 46 *RTA* tells us when a landlord must “return “or “deliver” or “send” a security deposit and accrued interest to a tenant. They have either 10 days, and sometimes 30 days, “after the day on which the tenant gives up possession of the residential premises” according to subsection 46(2). So, landlords have 10 or 30 days to pay the accrued interest to tenants. In section 46(1)(c), the usual definition of “security deposit” that is in section 1(1)(n) *RTA* (which does not include interest), is changed for the purposes of section 46 – and only section 46 – to include “any amount owing to the tenant as interest under section 45 at the time of the expiration or termination of the tenancy” (emphasis added).

In other words, security deposits stop accruing interest for tenants at the end of the tenancy, no matter when interest is actually paid to them. In at least one case, the landlord's payment of interest was made two years after the interest stopped accruing to the tenant; see *008364 (Re)*, [2024 ABRTDRS 19 \(CanLII\)](#) (discussed below).

Why should a portion of the interest in a landlord's trust account stop accruing to the tenant's benefit and start accruing instead to the landlord's benefit just because the tenancy ended? A landlord still has the tenant's security deposit. Why should it now have the free use of a tenant's money as an investment?

In addition, some landlords wrongfully refuse to return all or part of a tenant's security deposit. For example, they may deduct for normal wear and tear, which they cannot do under section 46(5) *RTA*. The tenant may have to sue for the return of their security deposit and interest, as provided for in section 46(3) *RTA*. It may take some time to get a hearing before the RTDRS. While the weeks or months or even years go by, the landlord has the tenant's money for free thanks to section 46 *RTA*. Indeed, if a landlord does not have to pay interest on their tenants' security deposits after a tenant moves out, landlords have a financial incentive to withhold or delay the return of security deposits.

RTDRS Cases

Section 46(3) states that a tenant can sue their landlord if their landlord fails to return all or part of a security deposit in accordance with the rules in section 46(2). Tenants made 1,349 applications to the Residential Tenancies Dispute Resolution Service (RTDRS) for the return of their security deposits in 2023-2024, the last fiscal year for which an Annual Report has been published by the RTDRS ([RTDRS Annual Report, 4th edition](#), April 2023 to March 2024, at page 8). The number of such applications have been over 1,000 per year since 2021. More than one thousand Alberta tenants have taken the time and paid the RTDRS filing fee to sue every year. That is a significant number. It is perhaps an indication of the dire straits some tenants find themselves in when they need money for a security deposit in their new home.

Although the question of when a security deposit stops accruing interest for a tenant has not been addressed by the RTDRS, there is at least one case holding that a landlord's duty to pay interest to a tenant stops at the end of the tenancy and the landlord can wrongfully withhold the deposit without paying any interest, damages or compensation for doing so. *008364 (Re)*, involved a 35-year tenancy and a \$1,100 security deposit that the estate of the deceased tenant sued to recover, along with rent abatements, damages for improper rent increase notices, and compensation for pest control. After 35 years, the security deposit of \$1,100 grew to \$1,753,52 thanks to interest accrued to November 22, 2022, the date the tenant died. The Tenancy Dispute Officer noted that the landlords should have returned the deposit including interest within 10 days of the death of the tenant that ended the tenancy. But that "should" was not enforced. The landlords withheld the amount for another two years, and they were not required to pay any interest on the security deposit they wrongfully retained during those extra two years. Nor was the landlord required to pay damages or other compensation for wrongfully refusing to return the tenant's security deposit between November 2022 and November 2024, when the RTDRS decision was made.

In *24010731 (Re)*, [2024 ABRTDRS 18 \(CanLII\)](#), the tenant applied to recover his \$2,100 security deposit after the tenancy ended. He had a fixed term tenancy from September 1, 2023 to August 31, 2024 and he had left at the end of the fixed term. The landlord claimed they agreed to a one-month extension and kept the deposit, but the Tenancy Dispute Officer found no agreement to extend and so the landlord had wrongfully withheld the security deposit. The result was that “[t]he Tenants shall have judgment for recovery of the security deposit and applicable interest in the amount of \$2122.40, and the RTDRS filing fee of \$75.00, for a total judgment inclusive of costs in the amount of \$2,197.40.” The tenant only received interest up to August 31, 2024, the date the tenancy ended ($\$2100 \times 0.016 \times 2/3$). The judgment in the tenant’s favour was made October 11, 2024, and the tenant received no damages or compensation for not having the use of his money for the intervening six weeks (or more if the landlord refused to return the deposit and interest until served with the RTDRS judgment).

In addition to the practice suggested by these two cases, the RTDRS’s [Rules of Practice and Procedure \(December 2025\)](#) contains section 2.4, entitled “Limit on the amount of claim and award”, which provides:

With the exception of interest on the security deposit as stipulated in the *Residential Tenancies Act* and the *Mobile Home Sites Tenancies Act*, the RTDRS does not award pre-judgment interest.

The “interest on the security deposit as stipulated” seems to be a reference to sections 45 and 46 *RTA* – the interest that the landlord has no duty to pay the tenant after the tenancy ends. Categorizing interest on security deposits payable to a tenant before their tenancy ends as a type of “pre-judgment interest” is odd. More importantly, this seems to be a “practice and procedure” to allow landlords to keep for themselves all of the interest earned on tenants’ security deposits after the tenancies end, no matter if the security deposit is wrongfully retained.

Conclusion

Alberta’s *Residential Tenancies Act* is infamous for being the most landlord-friendly tenant protection legislation in Canada, and giving landlords free use of their tenants’ security deposits contributes to that poor reputation. So does the *RTA*’s silence on other fees landlords collect, such as pet deposits, key deposits and the like (a topic for another day).

Admittedly, the amounts involved are so small as to make little, if any, difference to any one tenant. However, by setting the interest rate payable to tenants so much lower than a market rate, by allowing landlords to keep the difference between the interest earned by the invested security deposits and what they have to pay their tenants throughout the tenancies, and by letting landlords keep all of the interest those security deposits are earning after the tenancies end and before they are paid back to the tenants, however long that might take, the amounts involved add up for the larger corporate landlords with hundreds or thousands of tenants in Alberta.

When it comes to interest on tenant’s security deposits, the *RTA* is legislation that disadvantages tenants. That is counter to the purpose of the *RTA*, which is “to address the power imbalance between tenants and landlords”: *CIBC Mortgages Inc v Bello*, [2018 ABQB 176 \(CanLII\)](#) at para

25, citing *Botar v Mainstreet Equity Corp*, [2012 ABQB 417 \(CanLII\)](#) at para 2. The Alberta Law Reform Institute is currently conducting a [review of the Residential Tenancies Act](#). The issue of interest on tenant’s security deposits should be added to the long list of problems in this area of the law.

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