

Court Rules New York City's 'Guaranty Law' is Unconstitutional

The Bottom Line

- The Guaranty Law provided protection to personal guarantors of commercial leases in New York City. However, a New York federal court decided on March 31, 2023, that the Guaranty Law violates the U.S. Constitution's Contracts Clause.
- Commercial landlords and tenants in New York City should consult with legal counsel regarding this significant change in liability for personal guarantors.

A federal court said New York City's Guaranty Law was a goodwill effort to protect guarantors of commercial leases during the COVID-19 pandemic, but the law violates the U.S. Constitution's Contracts Clause. The March 31, 2023 decision from the U.S. District Court for the Southern District of New York came in a lawsuit brought, in part, by property owners in Brooklyn, Queens and Manhattan.

The [legislation was enacted at the start of the pandemic](#) to shield personal guarantors of commercial leases from facing liability for ongoing lease obligations. Administrative Code Section 22-1005, entitled "Personal Liability Provisions in Commercial Leases," and commonly known as the "Guaranty Law," limited liability for personal guarantors of commercial leases for obligations incurred between March 7, 2020 and June 30, 2021. The law's effects were significant and permanent, as the City prohibited landlords from recovering damages against personal guarantors even after the pandemic ended.

Court Finds That the Guaranty Law is Unconstitutional

The plaintiffs in *Melendez v. The City of New York* argued that the law violated the Contracts Clause by rendering "guaranty clauses" in commercial leases unenforceable for any unpaid rental obligations accrued during the law's protected period. The City argued the law was intended to provide relief for small business owners.

The plaintiffs were awarded summary judgment by the court, which agreed that the Guaranty Law – although “well intentioned” – violated the Contracts Clause. The court reasoned that the Guaranty Law posed an “absolute barrier” to a landlord’s recovery of unpaid rent from a personal guarantor, and that doing so represented a “substantial” impairment of a landlord’s right to contract. The court further found that the City failed to narrowly target the law to its stated purpose and that the “burden of the guaranty law was placed exclusively on landlords.”

Impact on New York City Commercial Landlords

By ruling in favor of the plaintiffs, the court determined that landlords may enforce their guaranties against personal guarantors for unpaid rent during the protected period. Pending a potential appeal by the City to the U.S. Second Circuit Court of Appeals, the Guaranty Law no longer protects personal guarantors of New York City lease agreements. Commercial landlords in the City can now seek and recover damages against personal guarantors for any obligations incurred during the protected period.

For More Information

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