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Revised FHA Rules Are Challenging for Condominium Developers

Late 2009 brought many adjustments to the Federal Housing Administration (FHA) policy regarding condominium projects. As a reaction to high-rise condominium projects that were failing nationwide, the FHA sought to avoid situations in the future where, through mass foreclosures, they would assume the ownership of a majority of units in any given project.

Now, six months after changes have been made to the FHA condominium process, the agency seems to have settled into a long-term policy regarding the use of FHA financing for single family projects.

The full current policy titled *Condominium Approval Process for Single Family Housing* notes that the term "single family" housing refers to one mortgage per unit. Examples of single family housing under the new definition include traditional condominiums as well as townhome-type units that are platted as condominiums. Units platted as fee-simple townhomes are not impacted by the policy change.

New, more intense ownership restrictions pose the greatest impact on condominium developers. With these changes, the market for a large share of a project's condo units will be limited. The following is a summary of the major project eligibility requirements included in the policy:



- **Commercial Space** – No more than 25 percent of the property's total floor area can be used for commercial uses.
- **Investor Ownership** – No more than 10 percent of the units may be owned by one investor. This limitation also applies to developers/builders that subsequently rent vacant and unsold units. For projects with ten or fewer units, no single entity may own more than one unit.
- **Delinquent HOA Dues** – No more than 15 percent of total units can be more than 30 days past due on their association fee payments.
- **Pre-sales** – At least 50 percent of the total units must be sold prior to the endorsement of a mortgage on any unit. Valid presales include purchase agreements, evidence that units are closed and occupied, or signed developer certification.
- **Owner Occupation Ratios** – At least 50 percent must be owner occupied.
- **FHA Concentration** – No more than 30 percent of the units in a project can include FHA financing.

The current FHA policy includes substantial changes that make it more difficult to find eligible buyers. In the past, it was not uncommon to hear of a project that included nearly 100 percent of buyers using FHA financing. That option will no longer be available for the majority of units in ongoing and future condominium projects. Considering the new reality in condominium financing, it will be essential for condominium developers to establish a strong sales strategy to complete projects and achieve success.



For more information, please contact
Jason McCarty, PE, LEED AP
 Land Sector Leader
jason.mccarty@westwoodps.com
 952-906-7446

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