

Policy on Point (POP) Call Series: Understanding Condominium Commercial Space

Joel McMahon and Richard Yeung

October 3, 2019



Welcome!

2019 Q3 Policy on Point (POP) Quarterly Call Series

Understanding Condominium (Condo) Commercial Space



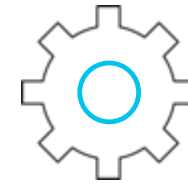
Topic 1:

**Understanding the
Condominium
(Condo) Commercial
Space Guidelines**



Topic 2:

**Making Accurate
Commercial Space
Calculations**



Topic 3:

**Condo Project
Advisor[®]**

Topic 1 – Condo Commercial Space Guidelines



HOT OFF THE PRESS!



Guide Bulletin 2019-20

Effective October 2, 2019

- Commercial Space Guidelines have moved from 5701.11 and are combined with the ineligible projects in section 5701.3(d)
- We consolidated our commercial space requirements to make the Condo Chapter easier to navigate

Topic 1

New Table

Guide 5701.3(d)

Type of commercial or non-residential space	Include in the commercial or non-residential space calculation?
Retail and other commercial or non-residential space (for example, restaurants and stores)	Yes
Residential rental apartments, hotels, motels and other similar types of space, although such space may have residential characteristics	Yes
Non-residential space that the HOA does not own, but that is owned by a private individual or entity outside of the HOA structure (for example, private fitness facilities that are membership-based rather than owned by the HOA for the sole use of the residential unit owners)	Yes
The total square footage of commercial or non-residential space even when the HOA representing the residential owners is different from the association representing the commercial owners	Yes
Commercial parking facilities	No
Project amenities and facilities that are residential in nature, owned by the HOA or unit owners, and allocated for the sole use of the residential unit owners	No

POP Quiz

What is the maximum percentage of commercial or non-residential space that is permitted?

A) 10%

B) 25%

C) 35%



Bulletin 2018-10

The maximum permitted commercial or non-residential space increased from 25% to 35%.

Commercial Space Risks



Commercial unit owners may act as a voting block to keep the condominium project underfunded to maximize their returns on investments.

A shortfall in rent or vacant commercial units can cause the HOA to fund the shortfall by:

- Pulling the funds from their reserve accounts
- Increasing HOA dues
- Passing a special assessment

Topic 1

Marketability Impact

If the HOA were to increase HOA dues or pass a special assessment then:

- Existing and potential commercial tenants may search for a location with cheaper rent
- Higher amounts of commercial vacancies will make it harder for the condominium project to attract new commercial tenants



Potential purchasers of residential condo units may be attracted to similar mixed-use condo projects with more affordable HOA dues.

Commercial Space Requirements (Guide Section 5701.3(d))

A project that includes commercial or non-residential space is ineligible if:

- A project in which more than 35% of the total above and below grade square footage of the project (or more than 35% of the total above and below grade square footage of the building in which the project is located) is used as commercial or non-residential space.

Exclusions to the calculation include:

- Project amenities and facilities that are residential in nature, owned by the HOA or unit owners, and allocated for the sole use of the residential unit owners are considered to be residential space.
- Commercial parking facilities. If review type is Established or New, any income received from the parking facility may not be more than 10% of its budgeted income.



Commercial Space Calculation Requirements

The following must be included as commercial or non-residential space:

- Retail and other commercial or non-residential space
- Residential rental apartments, hotels, motels and other similar types of space, although such space may have residential characteristics
- Non-residential space that the HOA does not own, but that is owned by a private individual or entity outside of the HOA structure
- The total square footage of commercial or non-residential space even when the HOA representing the residential owners is different from the association representing the commercial owners

POP Quiz

Are Sellers always required to verify that the condominium project meets the requirements in 5701.3(d)?

A) True

B) False

5701.3(d) Project with excessive commercial or non-residential space

A project in which more than 35% of the total above and below grade square footage of the project (or more than 35% of the total above and below grade square footage of the building in which the project is located) is used as commercial or non-residential space.

The division of the total commercial or non-residential square footage by the total square footage of the project or building will determine the total amount of commercial or non-residential space. In calculating the amount of commercial or non-residential space, Sellers must determine:

- The total square footage of the project (or the building in which the project is located);
- The square footage of the commercial or non-residential space; and
- The residential space square footage

Below is a table illustrating what must be included or may be excluded from the calculation of commercial or non-residential space:

Type of commercial or non-residential space	Include in the commercial or non-residential space calculation?
Retail and other commercial or non-residential space (for example, restaurants and stores)	Yes
Residential rental apartments, hotels, motels and other similar types of space, although such space may have residential characteristics	Yes
Non-residential space that the HOA does not own, but that is owned by a private individual or entity outside of the HOA structure (for example, private fitness facilities that are membership-based rather than owned by the HOA for the sole use of the residential unit owners)	Yes
The total square footage of commercial or non-residential space even when the HOA representing the residential owners is different from the association representing the commercial owners	Yes
Commercial parking facilities	No
Project amenities and facilities that are residential in nature, owned by the HOA or unit owners, and allocated for the sole use of the residential unit owners	No

5701.2

Condominium Project review and general Condominium Project eligibility requirements

Effective 06/05/19

	Seller must determine compliance with		
	Project review requirements in Sections 5701.2(a)	General project eligibility requirements in Section 5701.2(b)	Ineligible projects Section 5701.3
Freddie Mac project review types			
<i>Streamlined reviews</i> ¹ Section 5701.4	X	X	X
<i>Established Condominium Projects</i> Section 5701.5	X	X	X
<i>New Condominium Projects</i> Section 5701.6	X	X	X
<i>Reciprocal project reviews</i> Section 5701.9		X	X
If delivered in accordance with the requirements in Section 5701.7:			
<i>2- to 4- Unit Condominium Projects</i>		X	
<i>Detached Condominium Units</i>		X	
<i>Freddie Mac owned "no cash-out" refinance Condominium Unit Mortgage</i>		X	



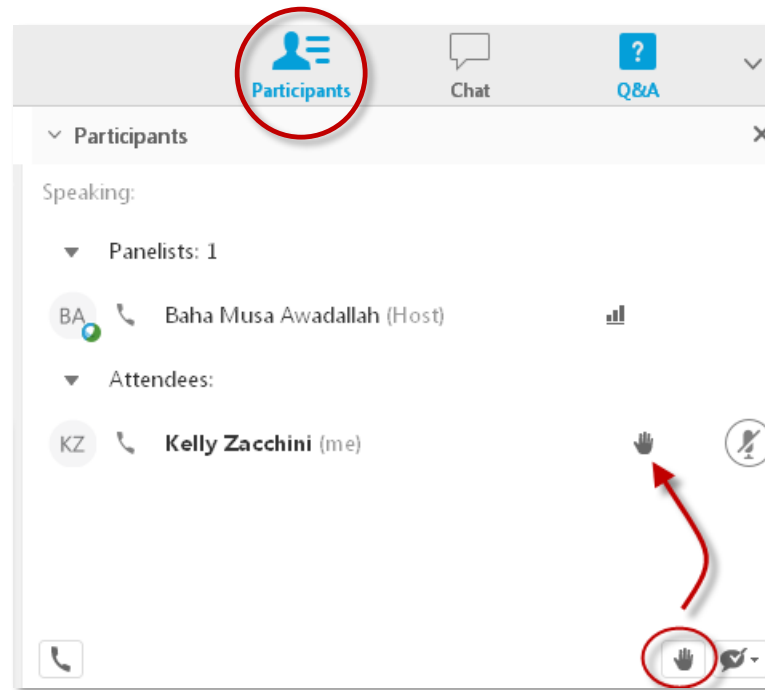
Summary

When Evaluating Condo Projects with Commercial Space

- Freddie Mac's maximum permitted commercial or non-residential space is 35%.
- Project amenities that are owned by the HOA and are for the exclusive use of the condominium unit owners do not need to be included in the commercial space calculation.
- Commercial parking facilities are permitted to be excluded from the commercial space calculation if the commercial parking income does not exceed 10% of the total budgeted income.
- Condominium Unit Mortgages that meet the requirements of 5701.7 and are delivered as "Exempt From Review" are not required to comply with the requirements in 5701.3(d).

Customer Questions

To ask a question...
Raise your hand. Your line will be unmuted.



Topic 2 – Making Accurate Commercial Space Calculations

When calculating the amount of commercial or non-residential space, determine:

- The total square footage of the project (or the building in which the project is located)
- The total square footage of the commercial or non-residential space
- If there is anything that can be excluded from the commercial space calculation
- The percentage of commercial or non-residential space

Calculation of the commercial or non-residential space

- The division of the total commercial or non-residential square footage by the total square footage of the project or building will determine the total amount of commercial or non-residential space



Topic 2

Example 1

- Total square footage is 100,000
- Total square footage of the office space, restaurants, and stores is 30,000
- Total square footage of the gym is 15,000; this gym is owned by the residential unit owners and is for the exclusive use of the residential the unit owners

Commercial Space Calculation:

$$\frac{30,000 \text{ sf}}{100,000 \text{ sf}} = 30\%$$



Topic 2

Example 2

- Total square footage is 225,000
- Total square footage of the restaurants and stores is 33,750
- Total square footage of the commercial parking facility is 56,250

Commercial Space Calculation:

$$\frac{33,750 \text{ sf}}{225,000 \text{ sf}} = 15\%$$



Topic 2

Excluding the Commercial Parking Space from the Calculation

Established Condominium Projects or New Condominium Projects Review

- Ensure that the commercial parking income does not exceed 10% of the Condominium Project's budgeted income

Streamlined Review

- No additional requirements





Example 3

- Total square footage is 175,000
- Total square footage of the restaurants, stores, and office space is 70,000

Commercial Space Calculation:

70,000 sf

175,000 sf

= 40%



If the Condominium Project is established, then a Project Waiver Request can be submitted through Condo Project Advisor

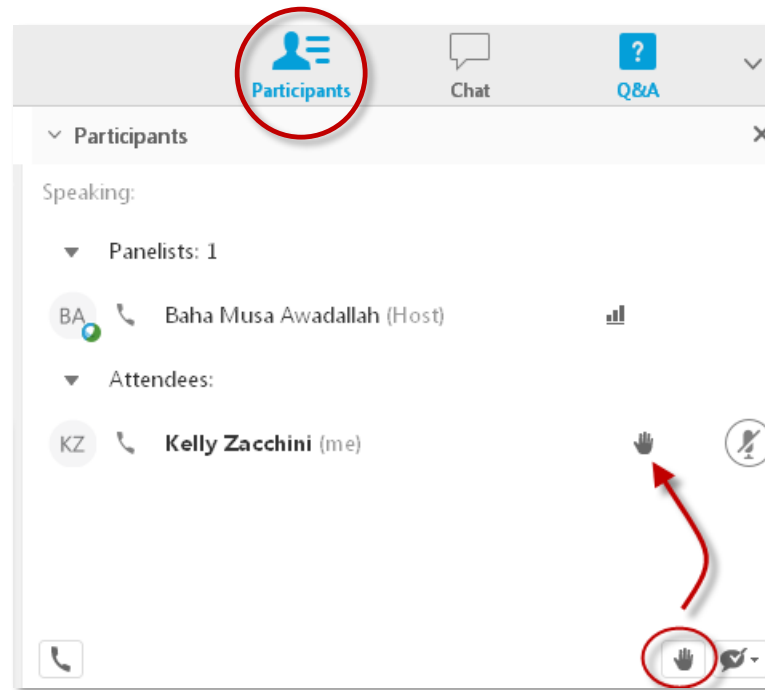
Summary

When Calculating Commercial Space

- Determine the following:
 - ✓ The total square footage of the condominium project or building
 - ✓ The total square footage of the commercial or non-residential space
- Keep in mind, the percentage of commercial or non-residential space is calculated by dividing the total commercial square footage into the total square footage of the condominium project or building.
- Don't forget that commercial parking facilities and amenities owned by the HOA and that are for the exclusive use of the condominium unit owners may be excluded from the commercial space calculation.

Customer Questions

To ask a question...
Raise your hand. Your line will be unmuted.



Condo Project Advisor[®]

What is Condo Project Advisor?

- Condo Project Advisor allows authorized sellers to submit a request for single loans exceptions for condominium projects that do not meet certain project eligibility requirements

Eligibility:

- Condo projects must meet the definition of an established project:
 - ✓ Construction is 100% complete and not subject to additional phasing
 - ✓ The unit owners control the homeowners association
 - ✓ At least 75% of the total units in the project have been conveyed to unit purchasers
- The exception must be one of the 6 categories – Delinquent Assessments, Commercial Space, Litigation, Owner Occupancy, Reserves, and Single Entity Ownership

Decision Time:

- We make every effort to respond with a decision in two business days once all necessary information and documentation is received

Topic 3

Submission for Excessive Commercial Space

Step-by-Step

1. Access Condo Project Advisor through Freddie Mac Loan AdvisorSM
2. Select 'Project Waiver Request'
 - ✓ Complete the project details and upload the HOA certificate
 - ✓ Select "continue" to move on to the next screen
3. Complete the excessive commercial space screen and upload your supporting documents
4. Press the 'submit' button on the top right



Once the exception is decisioned, the system will provide an automated notification to the submitter's email address on file

FreddieMac | Loan AdvisorSM MENU

Automated Collateral Evaluation
Help your borrowers get to closing faster and save money. Automated Collateral Evaluation (ACE), available exclusively through Loan Product AdvisorSM, lets you originate some loans without an appraisal.

Loan Product AdvisorSM
Enhanced Underwriting Workflow

Main Menu

Tools

- Loan Product AdvisorSM LEARN MORE
- Loan Collateral AdvisorSM LEARN MORE
- Loan Closing AdvisorSM LEARN MORE
- Loan Selling AdvisorSM LEARN MORE
- Quality Control AdvisorSM LEARN MORE
- Condo Project AdvisorSM OPEN
- Loan Quality AdvisorSM LEARN MORE
- Business Intelligence LEARN MORE
- Loan Coverage AdvisorSM LEARN MORE

Condo Project AdvisorSM PROJECT WAIVER REQUEST PIPELINE AND APPROVALS REPORTING PWR #

Project Waiver Request

Project Details

Project Name * Sample project Saller Loan Number

Total Units in the Project * 200 Project TRF

Street Number * 123 Street Name * MAIN Unit #

City * ANYTOWN State * VA Zip * 12345

HOA Website Link Doc File ID Loan Product Advisor Key Desktop Underwriter Key

Lender HOA Questionnaire Upload *

1. HOA Questionnaire.d... 0.01 MB

Select Files

CONTINUE SAVE CANCEL

Condo Project AdvisorSM PROJECT WAIVER REQUEST PIPELINE AND APPROVALS REPORTING PWR #

Sample project (PWR #10000230)

EXCESSIVE COMMERCIAL SPACE

Excessive Commercial Space

Commercial or non-residential space managed by or operated under a separate association must be considered in the calculation.

Does the project (or building in which the project is located) contain excessive commercial or non-residential space? *

Total Square Footage of the Condo Project or Building * Total Commercial or Non-Residential Square Footage *

% NON-RESIDENTIAL SQUARE FOOTAGE OF ENTIRE PROJECT

Please provide an explanation supporting the waiver request * (Max 2000 Characters)

Document Upload

Select Files

SAVE CANCEL

SUBMIT

Submission for Excessive Commercial Space Best Practices

Documentation

Max commercial space is at 35%; so anything above that does not meet requirements. When considering an exception, we look at the full picture and evaluate the overall risk of the condominium project.

Suggested documentation for an exception:

- Project Questionnaire
- Project Financials: Current budget, prior year financials (actuals), balance sheet
- Letter of Explanation:
 - ✓ Describe the voting structure
 - ✓ Describe the commercial space
 - ✓ Include supporting documentation
- Appraisal: Include comments on any adverse marketability due to the percentage of commercial space and provide supporting comps with similar commercial influence

Topic 3

Submission for Excessive Commercial Space Best Practices

Explanation

Condo Project Advisor explanation field supporting the waiver request:

- ✔ Do provide mitigating "project" factors that can potentially offset the risk;
- ✘ Do not provide customer qualifications as mitigating factors.

The screenshot shows a form titled "Excessive Commercial Space" with a red asterisk indicating a required field. The form includes a header with a document icon and the text "Commercial or non-residential space managed by or operated under a separate association must be considered in this calculation." Below this is a question: "Does the project (or building in which the project is located) contain excessive commercial or non-residential space?" with radio buttons for "Yes" and "No". There are two input fields: "Total Square Footage of the Condo Project or Building" and "Total Commercial or Non-Residential Square Footage". Below these is a label "% NON-RESIDENTIAL SQUARE FOOTAGE OF ENTIRE PROJECT" with a "--" value. The main field is a large text area labeled "Please provide an explanation supporting the waiver request" with a "(Max. 2000 Characters)" limit. A green arrow points to this text area. At the bottom right, it says "2000 Characters Remaining".

Topic 3

Submission for Excessive Commercial Space Best Practices

Delivery Requirement

Items required on delivery:

- Condo Project Advisor Feedback Certificate must be included with the loan file
- Condo unit mortgage must be delivered to Freddie Mac within 180 days from the date of the approval

FreddieMac Condo Project Advisor™ Feedback Certificate

Results CONDO PROJECT WAIVER REQUEST#:

CONDO PROJECT REPRESENTATION AND WARRANTY RELIEF*

ELIGIBLE

CONDOMINIUM PROJECT NAME

CONDOMINIUM PROJECT ADDRESS	SELLER NAME	SELLER SERVICER #

DATE ISSUED	EXPIRATION DATE
07/31/2019	01/27/2020

Summary Results

* Condo Project Representation and Warranty Relief means that, for this Mortgage loan and with respect to a Condominium Unit securing the Mortgage loan which is located in this Condominium Project, Freddie Mac will not exercise its remedies in connection with Seller's breach of its representations and warranties relating to the matters identified below:

- Excessive commercial space - Guide Section 5701.3(d)
- Reserves for capital expenditures and deferred maintenance - Guide Section 5701.5(d)

Note: This Condominium Project Advisor Feedback Certificate should be maintained in the applicable mortgage file.

During the initial phase of Condo Project Advisor, condo project Representation and Warranty Relief messaging will not be available through other LAS applications.

During such time, this Condominium Project Advisor Feedback Certificate is evidence Seller is relieved of condo project Representations and Warranties.

POP Quiz

How much does Freddie Mac charge to submit an exception request through Condo Project Advisor?

A) \$200

B) \$100

C) \$0

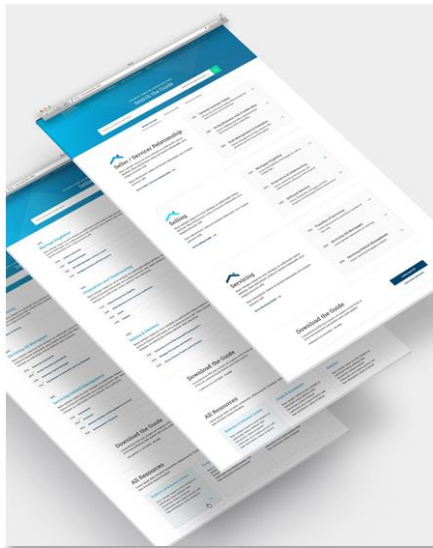
Topic 3

Condo Project Advisor Resources



5701.1(c)

Freddie Mac Condo Project Advisor SM



Freddie Mac We make home possibleSM Condo Project Advisor Online Help Back to Main Menu

Additional Resources

Additional Resources

List of training resources include:

- [Condo Project Advisor User Guide](#)
- [Condo Project Advisor: Project Waiver Request Support Documents](#)
- [Tips for Getting Started with Condo Project](#)
- [Condo Project Advisor: Pipeline Export and Reporting Features](#)

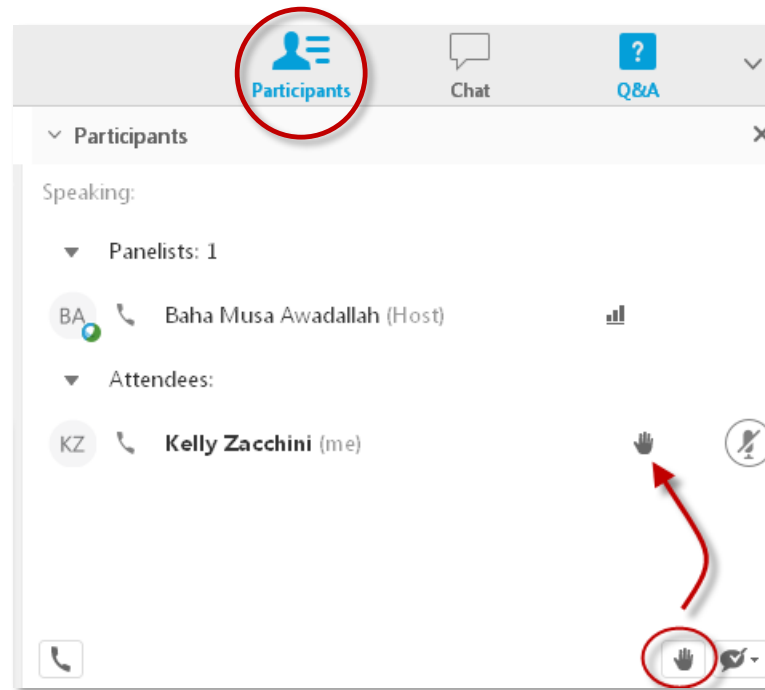
© 2019 Freddie Mac [The Learning Center](#)

-Search- 🔍

- Welcome
- Getting Started
- Navigating Condo Project Advisor
 - Introduction
 - Using the Navigation Toolbar
 - Searching for a Project Waiver Request
 - My Workspace on the Homepage
 - Removing Project Waiver Requests
 - Changing Your Default Landing Page
 - Creating and Submitting a Project Waiver Request
 - Managing Your Pipeline and Approvals
 - Report Functions
 - Error Messages
- < **Additional Resources**

Customer Questions

To ask a question...
Raise your hand. Your line will be unmuted.



Additional Resources



[Freddie Mac Learning](#)

[Condo Project Advisor[®]](#)

[Condominium Unit Mortgages](#)



Customer Support Center

1-800-FREDDIE



Freddie Mac Single-Family

sf.FreddieMac.com

Freddie Mac Single-Family
Seller/Service Guide

guide.FreddieMac.com

Thank You
