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New FHA mortgage policy benefits first-time home buyers — and developers

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View of the Brickell financial center on Wednesday, May 30, 2019. PEDRO PORTAL PPORTAL@MIAMIHERALD.COM

New Federal Housing Administration rules make it easier for first-time home buyers to purchase condos — and for developers to sell them.

Since 2010, the FHA has limited condo mortgages to approved developments, with re-certification required every two years. Beginning Oct. 15, certification will be extended to three years. In addition, the percentage of units that must be owner-occupied shifts from 50% to a range between 25% to 75%. The previous cap on commercial space of 50 percent of a project's square footage will shift to a range of 25 to 60 percent.

Also, would-be home buyers will be able to apply for FHA-backed financing for units outside pre-approved developments that meet certain specifications. FHA-backed mortgages are attractive to first-time home buyers because they require lower down payments and are available to buyers with lower credit scores.

In urban markets, condos are often far less expensive than single-family homes. In Miami-Dade, the median price for a single-family home is \$360,000; the median price for an existing condominium is \$247,000, according to the Miami Association of Realtors. In Broward, the median price for a single-family home is \$365,000 versus \$175,000 for a condo.

In Miami-Dade and Broward, FHA only insures mortgages up to \$356,500.

The change gives the developer the power of using their own discretion and flexibility in a project.

Developers welcome the changes, saying it gives them more flexibility to create projects that will be more profitable.

“The requirements that they are looking to change to bring down the percentages of actual occupied buyers or owners in a building is wonderful because most of these condominiums, they start off with the idea that they are going to sell 100%. They don’t,” said developer Henry Torres, CEO and President of the Astor Companies. In particular, he applauded the change in the required number of owner-occupied units.

Some developers are more likely to benefit than others, said Andrew Blasi, a lawyer with Shapiro Blasi Wasserman Hermann. “For example, I imagine the Melo Group will likely adhere to these changes. Any developer of large-scale, typically urban-setting developers who are building large mixed-use projects or larger condo projects which are being marketed to investors as well as to owner-occupants.”

The changes are designed to aid first-time homeowners, minorities and seniors, said Federal Housing Commissioner Brian Montgomery. Unlike conventional mortgages that require 20% down, the FHA-backed loans require 3.5% down payments.

In a Wednesday press conference announcing the changes, U.S. Housing and Urban Development Secretary Ben Carson said, “The home-ownership rate is currently about 64%, which is lower than historical highs particularly among minority families. Owning a home is the primary way for most families to lay down roots in their community and to build wealth.”

Roughly 20 percent fewer minorities — including African Americans and Latinos — own homes than in the general population, said Montgomery. “Minorities were disproportionately impacted during and after the financial crisis a decade ago. While we are seeing great strides in the economy, many are still recovering.”

Condo developments span across the country with over 150,000 in the works, 9,307 of which are in Miami-Dade and Broward, but FHA currently only approves 6.5 percent of the projects.

Previously, buyers could apply for FHA-backed mortgages only when the entire development was approved.

The rule change is expected to increase the number of FHA mortgages for condos by 20,000 to 60,000 units.

Wider availability of mortgages could increase construction by 7,000 condos, according to an analysis last year by HUD.

Lower requirements for down payments help younger people move from renting to home ownership, said Torres.

“One of the things that people who own homes when they buy early or young, by the time they become retirement age, it is their most powerful investment that they have put money into, and it is their nest egg to be able to retire and not have to depend solely on social security and they are not a burden to their families. I think that for economic purposes and for the future of the country, that’s a wonderful idea what the FHA is doing,” said Torres.

The changes are expected to make condos more marketable in the long run, said Blasi: “It would likely improve the marketability of condo units

generally because a wider range of condo units may now be FHA-financed in instances where a buyer lacks a large cash down payment or where there may be a relatively high percentage of investor-owned units which are not being owner-occupied.”

But it’s unclear just how much the expansion could increase the U.S. home ownership rate, as prices have risen faster than incomes and the inventory of homes on the market has been below historical averages.

A recent Miami Herald series, [Priced out of Paradise](#), detailed the shortage of housing affordable to most local workers, whose wages have failed to keep pace with rising rents and housing costs.