



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

MORTGAGEE LETTER 2026 -12

TO: All FHA-Approved Multifamily Mortgagees

SUBJECT: “Build-To-Rent” Developments Underwriting Eligibility

I. Purpose

Effective immediately, HUD will accept applications for mortgage insurance on multifamily rental properties that consist of detached single-family homes, duplexes, or triplexes—commonly referred to as Build-to-Rent (“BTR”) communities (formerly referred to as “subdivisions for rent” by HUD). These properties will now be treated under the same terms and conditions as traditional multifamily rental developments, subject to the specific requirements outlined in this memorandum.

II. Background

This Mortgagee Letter is responsive to Section 3 of Executive Order 14376, issued January 20, 2026 – Stopping Wall Street from Competing with Main Street Homebuyers – which directs HUD to include “narrowly tailored exceptions for Build-to-Rent properties that are planned, permitted, financed and constructed as rental communities.”

HUD’s Office of Multifamily Housing has traditionally limited its insured loans to developments with buildings containing four or more units—such as garden-style, mid-rise, or high-rise apartments. Build-to-Rent (BTR) properties were excluded due to their single-family design and subdivision-style layout that raised concerns about Fair Housing Act compliance (particularly, accessibility design requirements) and valuation and underwriting challenges. To align with evolving market dynamics, increased demand for rental housing for families unable to purchase homes, and the growing prevalence of professionally managed BTR communities, HUD is revising its policy to expand access to HUD-insured financing for BTR developments by providing the following guidance for eligibility.

III. Eligibility Criteria

BTR properties are eligible under the following multifamily programs:

- Section 221(d)(4) – New construction only.
- Section 223(f) – Acquisition or refinancing of recently developed (i.e., certificate of occupancy dated less than 3 years prior to application) multifamily rental housing only.

To qualify, BTR properties must meet the following conditions:

1. Developed on a single cohesive contiguous site and operated as one multifamily rental property.
 - a. The project must be developed for the purpose of long-term rental housing with five or more dwelling units on a site that is characteristically uniform and recognizably one cohesive rental property.
 - b. While a single tax parcel is preferable, multiple contiguous parcels on a single site that defines the insured collateral is acceptable.
 - c. No interspersed privately owned parcels or residences are allowed.
 - d. No sales of parcels, buildings, or any partial release of collateral will be approved during the insured loan term.
 - e. Projects with a mix of building types that include a BTR component along with traditional multifamily buildings are acceptable, but the lender must address the underwriting and accessibility compliance complexities in the application.
 - f. HUD recognizes that BTR projects may use manufactured or modular construction methods as opposed to on-site “stick-built” construction. While all are generally acceptable, manufactured housing and modular construction add challenges to HUD’s traditional approach to insuring advances for work installed on-site, and these issues must be carefully vetted at the concept meeting.
2. Management and Governance.
 - a. The property must be professionally managed similar to comparable multifamily projects in the market, including other BTR projects.
 - b. The presence of an on-site management office (including the leasing office) and maintenance staff should be consistent with comparable properties in the market. If not on-site, the management and maintenance operation must have a local presence in the market area and be adequately staffed to operate the subject property and the rest of the portfolio.
 - c. Any Homeowner’s Association (HOA) or other types of governing regime of any larger masterplan community shall not impede HUD’s enforcement of programmatic or statutory requirements, or the borrower’s full management control of the property.
 - d. The lender must disclose any HOA involvement and other governing regime during the Concept Meeting and must ensure that there are no conflicts or impediments with a full analysis by the time the Firm Application is submitted.
3. Amenities and services consistent with the market.
 - a. Amenities should be consistent with similar BTR properties or other comparable multifamily developments in the market. Deviations from market norms shall be discussed and accurately adjusted for on form HUD-92273.

- b. The lender must evaluate strengths and prevalences of amenities specific to the market. For example, common area amenities such as clubhouses, pools or playgrounds may not be prevalent when individual unit-based amenities such as private backyards, lawns or garages prevail in the market.
 - c. Common area maintenance services should be adequate and include (but not be limited to): (i) interior and exterior common spaces; (ii) trash removal; and (iii) seasonal grounds and building maintenance.
- 4. Accessibility requirements under the Fair Housing Act accessibility design and construction requirements, the Americans with Disabilities Act, and Section 504 of the Rehabilitation Act of 1973.
 - a. Detached single family houses, duplexes and triplexes do not meet the definition of “covered multifamily dwelling.” Therefore, the following [Fair Housing Accessibility Guidelines design requirements](#) are exempt for such non-covered building types and the unit(s) located within: Requirement #1, Accessible Building Entrance on an Accessible Route; Requirement #4, Accessible Route Into and Through the Covered Dwelling Unit; Requirement #5, Light Switches, Electrical Outlets, Thermostats and Other Environmental Controls; Requirement #6, Reinforced Walls for Grab Bars; and, Requirement #7, Usable Kitchens and Bathrooms. While not required, such accessibility features are strongly encouraged.
 - b. If the site contains multiple building types and includes any “covered multifamily buildings” (i.e., buildings with four or more dwelling units), the Fair Housing Act accessibility design and construction requirements apply to those buildings and the covered units within.
 - c. Accessible routes, entries, and other features under the Fair Housing Act are required for common use areas and site amenities, the same as for typical multifamily properties.
 - d. Other accessibility laws and requirements may apply, depending on the funding source and other criteria. For example, Section 504 of the Rehabilitation Act of 1973 implementing Uniform Federal Accessibility Standards (UFAS) applies when federally funded; and Americans with Disabilities Act applies to public accommodation, if present.
 - e. Where relevant federal, state, or local laws differ, the more stringent requirements shall apply.
- 5. BTR-specific underwriting issues fully addressed, including the following.
 - a. Borrowers, contractors and management agents demonstrate successful experience developing (design and construction) and operating similar projects in type and scale.

- b. Initial operating deficit (IOD) estimates should be conservative, anticipating slower lease-up for BTR communities than other traditional multifamily properties in the market.
 - i. For new construction, HUD will consider 24 months for maximum allowable absorption period recognizing a longer “rolling” basis construction and leasing schedule with possible ongoing construction impact on the completed units.
 - ii. At minimum, the IOD escrow amount must be the greater of 3% of the loan amount or 4 months of debt service.
 - iii. The lender must provide a robust analysis to independently size the IOD needed in accordance with the Multifamily Accelerated Processing (MAP) Guide, supported by available recent lease-up activities at comparable BTR communities in the market, addressing the complexity with a detailed construction schedule and planned leasing strategy.
 - c. Operating expenses may be higher due to low-density layouts (e.g., grounds and road maintenance).
 - i. For new and recently constructed projects: use borrower/agent budgets, comparable data from stabilized BTR projects, and industry benchmarks.
 - ii. Only using expense data from traditional multifamily projects is discouraged.
 - d. Anticipate higher initial and annual Reserve for Replacement (RfR) deposits at BTR properties due to the increased number of buildings and associated components (e.g., roofing, exterior cladding, and windows) that require ongoing maintenance and scheduled replacement.
 - e. Vacancy estimates should be conservative, as BTRs are relatively new both to the market and HUD’s insurance platform.
 - i. For Market Rate projects: use the greater of 7% or market-based rate of comparable projects.
 - ii. For Affordable projects: a lower vacancy than 7% may be reasonable based on the market, the Area Median Income (AMI) targets, the duration of affordable restrictions and the rent advantage, but a minimum of 5% vacancy is required.
 - iii. Smaller projects may require higher vacancy assumptions as each vacant unit has heavier impact.
- 6. Building codes and safety standards appropriately applied.
 - a. We recognize the confusion around the term “multifamily,” as it can refer to both the building/structure (i.e., a building containing multiple dwelling units) as well as the property itself (i.e., multifamily rental development). While BTR is a “multifamily” *property*, the individual detached single-family house onsite is not

a “multifamily” *building*. Multifamily *buildings* contain four or more units by definition, whereas BTR residential buildings typically contain only one dwelling unit (possibly up to three for triplexes).

- b. For example, where National Fire Protection Association (NFPA) 101 requires fire sprinklers for new multifamily *buildings*, detached single-family structures for rental at a multifamily property (e.g., BTR) may be exempt based on the structure type and various factors such as the separation between buildings, etc.
- c. In general, HUD will recognize and rely on the local building department’s interpretation and proper enforcement of building codes and other safety standards for the building types (detached, duplexes or triplexes) and the property usage.

IV. Implementation

This Mortgagee Letter is effective immediately and remains effective until amended, superseded, or rescinded. The MAP Guide will be revised to incorporate the changes specified in this Mortgagee Letter. Additionally, related MAP Guide cross references will be revised for consistency with the revisions. For questions about this Mortgagee Letter, please contact Margaret Lawrence, Deputy Director, Office of Multifamily Production at margaret.a.lawrence@hud.gov.

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Joseph M. Gormley, performing the delegable duties
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