HUD Multifamily *Property Eligibility*

What Qualifies a Project for 223(f) and 221(d)(4) — and What Rules One Out

Most apartment owners have heard of HUD financing and know it carries low, fixed interest rates, fully amortizing terms, and non-recourse treatment. But many owners are unsure whether their project qualifies under the HUD programs. We cover what HUD multifamily financing is and how the programs work in our overview of HUD multifamily loans. This article covers the other question — what makes a project eligible, and what rules a project out.

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While HUD is well known by the general public for helping finance single family homes for homeowners, HUD also has a multifamily mortgage program that insures multifamily projects, here defined as containing at least five residential units.

01
THE BASICS

What HUD *Insures*

The two most popular multifamily programs are named after the section of the Housing Act that established them:

- **Section 221(d)(4)** for new construction and substantial rehabilitation
- **Section 223(f)** for the acquisition or refinance of an existing property

One misconception is worth clearing up before anything else. HUD multifamily financing is not limited to Section 8, LIHTC, or otherwise affordable properties. A 100% market rate apartment project — no rental assistance, no tax credits, no affordability restrictions of any kind — is fully eligible under both 221(d)(4) and 223(f). Affordability changes the ratios HUD will underwrite the loan to, and a rent-assisted or affordable project gets more favorable debt service coverage and loan-to-value treatment than a market rate one, but it has nothing to do with whether a project qualifies in the first place.

This article covers rental multifamily. HUD does insure licensed healthcare projects — assisted living, memory care, skilled nursing, board and care — under Section 232, which runs on a different processing track with different underwriting. Some housing, like independent living or "senior" housing, is not always the best fit under either the traditional HUD multifamily housing program or the HUD 232 program. These independent living style projects don't fit under the HUD 232 program because they don't have enough licensed beds, while they also don't fit well within the HUD multifamily programs because they often offer meal services, extensive resident service packages, continuous protective oversight, or units built with a kitchenette instead of a full kitchen. In general, everything below contemplates a traditional multifamily project rather than any type of senior or healthcare project.

HUD prefers the project real estate be held in fee simple, though a ground lease is acceptable under specific circumstances. MAP Guide 3.1.23 and 3.7.19 accept a lease with a term of at least ninety-nine years that is renewable, or a term of at least fifty years running from the date the mortgage is executed. The lease payment structure also has to meet HUD's requirements. Under 7.15.3, ground rent has to be computed one of three ways: a fixed percentage of gross collections or effective gross income, a fixed percentage of net cash flow to equity, or a stated dollar amount per year that stays fixed for at least ten years beyond the term of the insured mortgage. In the first two cases the percentage cannot change over the life of the lease. HUD will not accept variable ground rent, which rules out graduated escalation schedules, COLA or CPI adjustments, and increases tied to future appraisals or arbitration. A standard commercial ground lease with a CPI bump is not financeable as written, and the lease has to be amended before the deal can move.

> In October 2026, HUD began insuring build-to-rent (BTR) communities — detached single-family homes, duplexes, and triplexes operated as one rental property — under Mortgagee Letter 2026-12. HUD had long discouraged these projects over how to value them and how the Fair Housing Act's accessibility rules apply to buildings with fewer than four units. BTR is now eligible under 221(d)(4) for new construction only, and under 223(f) only where the last certificate of occupancy is less than three years old.

02

INSIDE EACH UNIT

The Unit Test, and *What It Disqualifies*

HUD insures projects with five or more residential units, and every unit needs a full kitchen and its own full bathroom. That requirement applies to new construction and to existing properties being refinanced or acquired. This means that group homes are not eligible for FHA multifamily mortgage insurance. Single Room Occupancy properties are considered only where existing project-based Section 8 contracts are already in place, and manufactured home parks are not eligible under 223(f).

The kitchen and bathroom requirement is what disqualifies some hotel conversions, which have been more common lately. Adaptive reuse itself is not a problem with HUD — many office-to-apartment conversions work under 221(d)(4) substantial rehabilitation, because the office floorplate is getting built out into many new apartment units with standard, full kitchens. Many hotel conversions, however, try to keep the existing hotel kitchenette in the new rental unit. Often times, bringing new plumbing, gas or electrical service, ventilation, and cabinetry into a room where it was previously designed for a bathroom and nothing else is expensive, and a developer who decides against it is often making the right decision, it just means that they cannot use a HUD loan on it.

Projects with micro units and co-living products often run into the same requirement. A small unit is not disqualifying on its own — a 350 square foot studio with its own full kitchen and its own bath is a legal unit, and we have financed many projects with very small units. But what HUD stops are projects where the economics depend on shared bathrooms, kitchenettes, or a common kitchen down the hall.

03

WHO CAN OCCUPY

Tenancy and *Lease Structure*

Beyond the physical unit, HUD also has rules about who can occupy the units and on what terms. Section 513 of the National Housing Act prohibits the use of the insurance programs for transient or hotel purposes, and MAP Guide 3.1.24 sets out what that means in practice. Leases for less than 30 days are prohibited. Further, tenants cannot be provided with hotel services — maid service, furnishing and laundering of linens, room service. Two specific tenant types come up often enough in our conversations with sponsors that they are worth covering on their own.

Student housing

Students are eligible occupants of HUD insured family housing, however, a project designed and built to house only students is not allowed for two different reasons:

1. The first is fair housing. 3.11.1 prohibits age and family status discrimination in housing except where a restriction is authorized by statute, and every occupancy restriction HUD recognizes is an elderly one — the statutory authorities under Sections 221, 231, and 236 and Section 8, the 62-and-over head-of-household definition, and the Fair Housing Act's housing for older persons exemption. There is no student equivalent for allowable age restriction. 3.1.22 states the conclusion directly: insured projects cannot be designed solely for student occupancy.
2. The second reason is hidden within the HUD underwriting rules, which would affect even a project that gets around the first reason. Under 3.1.22, a project in a college area must be underwritten at rents comparable to family housing in the area. This means that the loan cannot be underwritten on rents that assume multiple student occupants in a unit where doing so produces a processing rent higher than a typical family apartment. The appraisal may not use sales or capitalization rates generated by comparable student housing properties. A purpose-built, by-the-bed student property is therefore valued and sized as though it were a conventional apartment building, which removes the premium the student housing model is built on.

In the end, we tell sponsors with purpose-built student product to look at agency or bank execution. It is generally not a HUD deal.

Corporate and short-term leases

Corporations and businesses are eligible residents in an insured project so long as the lease term equals or exceeds 30 days, however, the units subject to corporate leases cannot exceed 10% of the units, and the percentage of total gross income obtained from corporate leases cannot exceed 10% for underwriting and valuation purposes.

Short-term leases are handled separately in 7.7.12.5. Projects with lease terms of less than 30 days are not eligible for HUD-insured financing under any circumstances. Leases of at least 30 days that are still shorter than a typical market term are permitted, and the premium they generate can be recognized to the extent it exists in the local market. The premium is the difference between the rent for a unit at a term typical for the market, generally one year, and the rent for the short-term lease. It is resident-related and treated as ancillary income.

04

MIXED-USE LIMITS

Commercial Space

Commercial space is permitted in an insured project as long as it is under the allowable net rentable area and allowable percentage of effective gross income (EGI).

PROGRAM	MAX % OF TOTAL NET RENTABLE AREA	MAX % OF EFFECTIVE GROSS INCOME
221(d)(4)	25%	15%
223(f)	25%	20%

Underwritten commercial occupancy is capped as well. For every program except 223(f), the maximum underwritten commercial occupancy rate is the lesser of what the market indicates or 80%. For 223(f) it is the lesser of what the market indicates, the actual occupancy of the subject, or 90%. A fully leased retail bay does not get underwritten at 100% either way.

Regional Center Directors may waive the commercial income limits under 7.7.13, so long as the result does not describe a property that is primarily commercial rather than residential.

On deals with substantial commercial space we sometimes structure around the limits instead of seeking relief from them. Condominiumizing the project into a residential regime and a commercial regime, and placing the HUD loan on the residential collateral only, takes the commercial component out of the insured mortgage entirely. The commercial portion is then financed separately, and the HUD loan carries no commercial exposure.

05

THE OUTDATED RULE

Property Age and the *Three-Year Rule*

Even now, when you search Google for HUD eligibility, you will see results and AI engines say that a property has to be three years past completion before it can be refinanced under 223(f). That was the old rule, and HUD changed it in Notice H 2020-03 on March 2, 2020. The revised policy was carried into the current MAP Guide at 3.7.2.

Newly built or substantially rehabilitated properties — those with certificates of occupancy issued less than three years before application — are now eligible to be accepted as soon as the property achieves the applicable programmatic DSCR for not less than one full month. The three-year mark now only imposes a processing and underwriting distinction that changes what you have to provide in due diligence.

06

THE PRACTICAL FLOOR

Deal Size

There is no minimum loan amount anywhere in the MAP Guide. There is a practical floor, however, and it comes from the cost of doing the transaction rather than from a formal rule. This practical floor means that we do not often see HUD deals below about 20 units.

The reason is that a HUD transaction carries a set of costs that barely move with the size of the project. The same work gets done on a 20-unit property as on a 300-unit property, so the cost per unit climbs as the project gets smaller until the execution stops making sense against a bank or agency small balance alternatives. These costs include:

- **Lender legal and borrower legal.** The HUD closing document set is the same regardless of loan size — the Regulatory Agreement, the single asset entity documents, the security instrument and note on HUD forms, and any ground lease addendum. Both sides are paying counsel to paper the same transaction.
- **Third party reports scoped to HUD requirements.** The appraisal is prepared on HUD forms and has to support the programmatic analysis rather than just a value conclusion. The capital needs assessment runs through the CNA e-Tool. The Phase I ESA has to meet HUD's environmental scope, which is beyond a standard ASTM report. None of these reports scale down in cost proportionally with the unit count.
- **The survey.** HUD requires a detailed ALTA survey along with the Surveyor's Report on form HUD-91073M, which is a more demanding scope than the survey a conventional lender accepts, and the cost is driven more by the site than by the number of units on it.

But don't let this scare you if you have a 15-unit project that clears every eligibility test in this article. We would just want to talk through whether the all-in cost of a HUD execution makes sense against what else is available.

Sponsor *Experience and Financial Capacity*

Sponsors ask us for the net worth and liquidity requirements expecting a formula — the kind of test where principals have to show net worth and/or liquidity equal to some percentage of the loan. For most deals, that test does not exist.

It exists above the large loan threshold. Section 3.10 applies HUD's large loan risk mitigation policies only to loans at or above that threshold, and expressly does not apply them to smaller loans or to Section 223(a)(7) applications. For a large loan, 3.10.5 requires the principals of the borrowing entity to have, in aggregate, net worth equal to at least 20% of the loan amount and liquidity equal to at least 7.5% of the loan amount. That requirement can be waived for sponsors of subsidized affordable housing properties.

What HUD considers a "large loan" moves every year. Mortgagee Letter 2023-14 raised it from $75 million to $120 million in June 2023 and built in an annual inflation review in $5 million increments. It has indexed up since, and Mortgagee Letter 2026-05 left it at $130 million for calendar year 2026, applicable to applications submitted or amended on or after January 1, 2026 that have not been initially endorsed.

Below the large loan threshold, the principal financial analysis is a lender and HUD judgment rather than a specific ratio. The MAP Lender reviews the financial statements of the Borrower and its Principals to determine if they have the financial capacity to own and operate the property. On construction proposals the same analysis asks whether the owner and the General Contractor have the singular ability to deliver the project. The determination rests on three things: past financial condition, present liquidity, and projected future financial capacity. Financial analysis is performed on the Active Principals identified in the borrowing entity's organizational structure.

That framing matters most on a 221(d)(4), where the sponsor has a real cash requirement at closing rather than a refinance that often has cash out at the closing table. The 221(d)(4)'s Working Capital Escrow alone is 4% of the mortgage amount on new construction, split between a 2% construction contingency and 2% for excess soft costs and the cost of putting the project in operation. On substantial rehabilitation it is 2%. A sponsor whose liquidity is thin relative to that number has a problem no amount of property-level performance will solve.

On experience, the Guide is less specific than sponsors expect but the direction from HUD is clear. 8.4.5 asks whether the principal has been engaged in deals comparable in scale to the proposed insured mortgage transaction. HUD wants to see that a sponsor has done something like this before — similar size, similar product, and ideally similar construction complexity on a construction deal.

When a sponsor does not have that record, the solution is usually to bring in a co-general partner who does have the experience. Again, this is most relevant on 221(d)(4) deals, where HUD is underwriting the sponsor's ability to deliver a building that does not exist yet and HUD considers a thin track record as a real risk. On a 223(f) refinance it matters much less. A sponsor who has owned and operated the subject property successfully for the last several years has already demonstrated the thing HUD is trying to evaluate, and the property's own operating history carries most of the weight.

Credit and character are reviewed separately under 8.4. A principal should be rejected for a history of late payment or default without a reasonable attempt to cure, unresolved delinquent federal debt, judgments that could materially affect their financial position, pending bankruptcy or insolvency at application, firm commitment, or closing, or an active flag in the Active Partners Performance System for FHA-insured mortgage defaults. Repaired credit can be approved, but HUD expects a positive history sustained through both favorable and unfavorable economic conditions, and says it is unlikely that period would be less than seven years.

08

SITE CONDITIONS

Environmental *Hard Stops*

Most environmental findings are mitigation problems, but a few are hard stops, and those are the ones worth knowing before a sponsor spends money on third party reports.

Under 9.6.5, an application for mortgage insurance shall not be approved for a property located in a floodway, a coastal high hazard area, or a FEMA identified special flood hazard area in which the community has been suspended from or does not participate in the National Flood Insurance Program. Floodways are designated Zone AE hatched. Coastal high hazard areas are designated Zone V1–30, VE, or V. Where a stream running through a site is in the 100-year floodplain but no floodway has been designated, development is prohibited in the channel of the stream.

Three other conditions function as hard stops or close to it:

- **Runway Clear Zones.** Construction or major rehabilitation of any property within a Clear Zone or Runway Protection Zone is prohibited. Acquisition and refinance of an existing project inside one is allowed, with notification requirements attached.
- **Former landfills.** A site over a former solid waste or hazardous waste landfill or dump is not acceptable for development unless the hazardous substances and petroleum products are completely removed or remediated to restricted residential standards, and the state or local oversight authority gives written approval of the site for residential use.
- **Unacceptable noise.** New construction, or conversion of an existing structure to residential use, in the Unacceptable Noise Zone — outdoor levels above 75 dB — is generally prohibited. Getting one approved requires an Environmental Impact Statement and sign-off from the appropriate Assistant Secretary, or a waiver of the EIS requirement at that same level. Noise exposure by itself will not cause HUD to reject an existing residential property, where it is treated as a marketability factor instead.

09

DOWN THE ROAD

What Eligibility *Unlocks Later*

Two of the four HUD multifamily programs are only available to properties that already carry a HUD-insured mortgage. Closing a 221(d)(4) or a 223(f) is what puts them in the HUD universe. On the lender side we write them as 223a7 and 241a in emails and term sheets.

Section 223(a)(7) is a streamlined refinance of an existing insured loan. Under 3.8.1, only currently FHA insured loans are eligible. Most transactions re-amortize at a lower rate, either within the remaining term or with an extension of up to twelve years including any previous extensions. Because the property and the borrower are already in HUD's portfolio, a large part of MAP processing falls away, which is why it closes faster and cheaper than anything else in the program.

Section 241(a) is a supplemental loan secured by a second mortgage on a property that already has a HUD-insured first. It is how an owner funds a substantial capital improvement, an additional phase, or an energy retrofit without refinancing the existing first mortgage, which matters when that first mortgage carries a rate the owner has no interest in giving up.

Sponsors evaluating their first HUD deal tend to weigh it against a single alternative financing on a single property. The more useful comparison is what the execution opens up over the following decade on that asset.

10

FREQUENTLY ASKED

Common Questions About *HUD Eligibility*

What properties are eligible for HUD 223(f) financing?

Existing rental multifamily properties with at least five residential units, where each unit has a full kitchen and its own full bathroom, and the property does not require substantial rehabilitation. The real estate must be held in fee simple or under a qualifying leasehold. Group homes and manufactured home parks are not eligible under 223(f), and projects providing meal services are not eligible except in narrow circumstances involving Section 202 properties or properties with project-based rental assistance.

Does a property have to be three years old to qualify for HUD 223f?

No. HUD removed that requirement in Notice H 2020-03, effective March 2, 2020, and carried the change into the current MAP Guide. A property with a certificate of occupancy issued less than three years before application is eligible under 3.7.2, and is accepted once it achieves the applicable programmatic DSCR for at least one full month. Applications inside that three-year window carry additional documentation requirements.

What is the minimum number of units for a HUD multifamily loan?

Five residential units for both 221(d)(4) and 223(f). The practical floor is higher than the rule — the fixed costs of a HUD transaction mean we do not often see deals below about 20 units.

Can a hotel be converted to apartments with a HUD loan?

Only if every converted unit gets a full kitchen and its own full bathroom. Adaptive reuse itself is not a problem, and office-to-apartment conversions are routine under 221(d)(4). Hotel conversions that keep the existing kitchenette are not eligible, and the cost of installing full kitchens in every key is often what makes the sponsor choose a different financing source.

Are micro units eligible for HUD multifamily financing?

Yes, provided each unit has its own full kitchen and full bathroom. Unit size on its own is not disqualifying. What is disqualifying is a co-living product whose economics rely on shared bathrooms, kitchenettes, or a common kitchen serving multiple units.

Will HUD finance student housing?

HUD will not insure a project designed solely for student occupancy. Students are eligible occupants of insured family housing, but a purpose-built student property fails on fair housing grounds and on underwriting grounds. A project in a college area has to be underwritten at rents comparable to family housing in the area, cannot be underwritten on per-bed rents that exceed a typical family apartment, and cannot be appraised using sales or capitalization rates from comparable student housing properties.

Does HUD have a net worth or liquidity requirement for borrowers?

Not as a ratio, below the large loan threshold, which is $130 million for calendar year 2026 under Mortgagee Letter 2026-05 and is reviewed annually for inflation. At or above that threshold, principals must show aggregate net worth of at least 20% of the loan and liquidity of at least 7.5%. Below it, the lender evaluates financial capacity based on past financial condition, present liquidity, and projected future capacity, without a fixed ratio.

Can market-rate apartments get HUD loans?

Yes. HUD multifamily financing is available for 100% market rate properties with no rental assistance, tax credits, or affordability restrictions. Both 221(d)(4) and 223(f) are open to conventional market rate apartments. Affordability affects the debt service coverage and loan-to-value ratios HUD will underwrite to, and affordable or rent-assisted properties get more favorable treatment, but it is not an eligibility requirement.

Can a property in a floodplain get HUD financing?

A property in a 100-year floodplain can be financed, subject to compliance with 24 CFR Part 55 and HUD flood insurance requirements. A property in a floodway, in a coastal high hazard area, or in a special flood hazard area where the community does not participate in the National Flood Insurance Program cannot be approved.

Do I need prior HUD experience to get a 221d4 loan?

Not prior HUD experience specifically, but HUD looks for a sponsor whose past transactions are comparable in scale to the proposed loan. Where a sponsor does not have that record, the usual solution is bringing in a co-general partner who does. This matters most on construction deals; on a 223(f) refinance of a property the sponsor has operated successfully for several years, the property's own operating history carries most of the weight.

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HUD/FHA Multifamily Origination

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