

Chapter 5704: Leasehold Estates

5704.1: Purchase of leasehold Mortgages (06/04/25)

This section contains information related to:

- [Terms](#)
- [Leasehold estate eligibility requirements](#)
- [Lease provisions](#)
- [Projects on leasehold estates](#)

Freddie Mac will purchase a Mortgage secured by either a leasehold estate or a leasehold estate in a ground lease community where there is a demonstrated market acceptance of this type of property ownership. The Mortgage must be secured by a leasehold interest in the land or ground lease and the property improvements to be a leasehold Mortgage.

The following property types are eligible to secure leasehold Mortgages:

- 1- to 4-unit properties
- Planned Unit Development (PUD) units
- Condominium Units

Refer to the following Guide provisions for details on:

Other Guide provisions related to leasehold mortgages	
Topic	Guide location
Community Land Trust Mortgage requirements	Chapter 4502
Manufactured Homes located on leasehold estates	Chapter 5706
HeritageOne [®] Mortgages, including the special requirements for HeritageOne Mortgages that are leasehold Mortgages in Section 4504.8	Chapter 4504

(a) Terms

As used in this chapter, the following terms have the meanings ascribed to them below:

Purchase of leasehold Mortgage terms	
B	
Basic rent	<p>The amount paid for the use of the leasehold estate under the terms of the lease (or sublease, if applicable). Basic rent does not include:</p> <ul style="list-style-type: none"> ■ Taxes ■ Insurance ■ Utilities for the leasehold estate or common areas, or ■ Use fees or operating expenses for the common areas, facilities and services
G	
Ground lease community	<p>A planned residential development, including infrastructure, common areas and community facilities for use by the individual lessee, with the following characteristics:</p> <ul style="list-style-type: none"> ■ Under the terms of the lease, the individual lessee holds a real property leasehold estate in a parcel of land improved by a dwelling and has an undivided common interest in the infrastructure, common areas and community facilities ■ The ground lease community is either a PUD or Condominium Project, administered by a homeowners association; or the community is administered by the fee simple land owner/lessor that owns, and is obligated under the lease to maintain, the infrastructure, common areas and community facilities for the common use and benefit of the individual lessees
L	
Leasehold mortgagee	The mortgagee that has a lien on the lessee's (or sublessee's) leasehold estate, including improvements.

(b) Leasehold estate eligibility requirements

The Seller must ensure that the following eligibility requirements are met:

- The leasehold estate and property improvement must:
 - ☐ Constitute real property
 - ☐ Be covered by a title insurance policy that complies with the applicable requirements in Chapter 4702

- The lease (and any sublease including all amendments) must be:
 - ❑ Recorded in the appropriate land records
 - ❑ In full force and effect, and
 - ❑ Binding and enforceable against the lessor (and sublessor)
- The leasehold estate and Mortgage must not be impaired by any merger of the fee interest and leasehold interest in the event the same person or entity acquires both interests
- The term of the leasehold estate must run for at least five years beyond the maturity date of the Mortgage unless the fee simple title vests at an earlier date
- All basic rent and amounts due (for taxes, insurance, utilities and use fees or operating expenses) relating to the land and improvements must be current, and the Borrower must not be in default under any provision of the lease, nor may the lessor have claimed such a default
- The lease must not preclude the Borrower from retaining voting rights in the homeowners association, if applicable
- All applicable Servicing requirements under the Guide and other Purchase Documents must be met

(c) Lease provisions

The Seller must ensure that the following lease requirements are met:

- The lease must permit assignments, transfers, mortgaging and subletting of the leasehold (or subleasehold) estate, including any improvements on the leasehold estate
- The lease must provide that for a notice of lessee's default (monetary or non-monetary) to be valid, the lessor must send written notice of the lessee's default to the leasehold mortgagee not more than 30 days after such default.

The lease is not required to include a notice of default provision if the Mortgaged Premises is located in Maryland and applicable State law provides for all lessors to register residential leases with the State and requires the lessor to send written notice of default to the leasehold mortgagee no less than 30 days prior to the lessor filing an action of possession.

- The lease must provide for the right of the leasehold mortgagee, in its sole discretion, to cure a default for the lessee's (or sublessee, if applicable) account within the time permitted to lessee or take over the rights under the lease (sublease)
- The lease cannot contain default provisions allowing forfeiture or termination of the lease for non-monetary default
- The lease must provide for protection of the mortgagee's interests, including an insurable interest in the subject property (unless otherwise required by law) and interest in the lease, ground lease community and leasehold estate
- The lease may, but is not required to, include an option for the Borrower to purchase the fee interest; however, there can be no time limit on when the option must be exercised, and the lease and option to purchase must be assignable

(d) Projects on leasehold estates

Freddie Mac will purchase a Mortgage secured by a unit in a Condominium Project (see Section 5701.2(b)(3)) or PUD (see Section 5702.1(c)) situated on a leasehold estate if the requirements in this section are met.

5704.2: Appraisal requirements for leasehold Mortgages (06/04/25)

In addition to the other Guide requirements related to appraisals, an appraisal for each leasehold Mortgage must meet the requirements in this section.

Note: For special appraisal requirements for HeritageOne® Mortgages that are leasehold Mortgages, see Section 4504.9.

For leasehold Mortgages, the appraiser must develop a detailed description of the terms, conditions and restrictions of the ground lease. The appraiser must consider and report any effect the terms of the lease have on the value and marketability of the Mortgaged Premises.

When there are similar leasehold sales available that have the same lease terms, the appraiser should use these sales as comparable sales. If sales of properties with the same lease terms are not available, the appraiser should use other similar leasehold sales having different lease terms as comparable sales. The appraiser must describe the differences in the terms of the leases and report any effect the differences have on the value and marketability of the Mortgaged Premises.

If there are no sales of leasehold properties, the appraiser should use sales of similar properties owned in fee simple as comparable sales. The appraiser must explain why the use of sales with different property rights is appropriate and make appropriate adjustments to reflect the market's reaction to these differences.

For Condominium Projects and Planned Unit Developments (PUDs) on leasehold estates, the appraiser must also:

- Provide a description of the Common Elements, including Amenities
- Comment on the ground rent for the subject property and the competing properties

5704.2: Appraisal requirements for leasehold Mortgages (Future effective date 01/26/26)

Refer to Bulletin 2025-7, which announced the policy requirements for Uniform Appraisal Dataset (UAD) 3.6. Sellers may submit to the Uniform Collateral Data Portal® appraisal reports that use UAD 3.6 before the mandatory effective November 2, 2026 version of this section.

In addition to the other Guide requirements related to appraisals, an appraisal for each leasehold Mortgage must meet the requirements in this section.

Note: For special appraisal requirements for HeritageOne® Mortgages that are leasehold Mortgages, see Section 4504.9.

For leasehold Mortgages, the appraiser must develop a detailed description of the terms, conditions and restrictions of the ground lease. The appraiser must consider and report any effect the terms of the lease have on the value and marketability of the Mortgaged Premises.

When there are similar leasehold sales available that have the same lease terms, the appraiser should use these sales as comparable sales. If sales of properties with the same lease terms are not available, the appraiser should use other similar leasehold sales having different lease terms as comparable sales. The appraiser must describe the differences in the terms of the leases and report any effect the differences have on the value and marketability of the Mortgaged Premises.

If there are no sales of leasehold properties, the appraiser should use sales of similar properties owned in fee simple as comparable sales. The appraiser must explain why the use of sales with different property rights is appropriate and make appropriate adjustments to reflect the market's reaction to these differences.

For Condominium Projects and Planned Unit Developments (PUDs) on leasehold estates, the appraiser must also:

- Provide a description of the Common Elements, including Amenities
- Comment on the ground rent for the subject property and the competing properties

5704.2: Appraisal requirements for leasehold Mortgages (Future effective date 11/02/26)

In addition to the other Guide requirements related to appraisals, an appraisal report for each leasehold Mortgage must meet the requirements in this section.

Note: For special appraisal requirements for HeritageOne® Mortgages that are leasehold Mortgages, see Section 4504.9.

For leasehold Mortgages, the appraisal report must include the ground rent and the conditions and restrictions of the ground lease. The appraisal report must report the effect the terms of the lease have on the value and marketability of the Mortgaged Premises.

When there are similar leasehold sales available that have the same lease terms, these sales should be used as comparable sales. If sales of properties with the same lease terms are not available, other similar leasehold sales having different lease terms should be used as comparable sales. The appraisal report must include a description of the differences in the terms of the leases and report the effect the differences have on the value and marketability of the Mortgaged Premises.

If there are no sales of leasehold properties, the appraisal report should include sales of similar properties owned in fee simple as comparable sales. The appraisal report must include an explanation why the use of sales with different property rights is appropriate and appropriate adjustments must be made to reflect the market's reaction to these differences.

For Condominium Projects and Planned Unit Developments (PUDs) on leasehold estates, the appraisal report must also include:

- A description of the Common Elements, including Amenities
- Commentary on the ground rent for the subject property and the competing properties

5704.3: Ground lease requirements for leasehold Mortgages (06/04/25)

A copy of the lease, with recordation information, must be maintained in each leasehold Mortgage file. The documents must be provided to Freddie Mac upon request.

5704.4: Security Instruments for leasehold Mortgages (06/04/25)

The Uniform Security Instrument must describe the Mortgaged Premises as a leasehold interest created by a recorded lease in the property described in the legal description. In addition, the Seller must comply with Exhibit 5A, Authorized Changes to Notes, Riders, Security Instruments and the Uniform Residential Loan Application, Section IV, for leasehold estates.