

Understanding PUDs, Condos & Townhomes

Knowing what you own or what you're going to buy is critical. The following information explains the differences between Planned Unit Developments, Condominiums and Townhomes, and how they affect title insurance policies and/or policy coverage.

Planned Unit Developments (PUDs):

Today, many cities and counties are fitting more and more people into smaller areas. The most common way to accomplish this is to create a Planned Unit Development (PUD).

Technically a PUD is an area where the standard zoning rules do not apply. A PUD allows for a higher density of housing units to be built per lot than would be allowable for Single Family Residential (SFR) construction.

Within a PUD the owner will own a lot inclusive of the structure and improvements and will also benefit from an association that provides common areas and amenities. Of course, this brings along all the rules and regulations of the association. Zoning should not be the basis for classifying a project as a PUD.

A PUD can have multiple types of dwellings including: single-family detached residences, townhomes, multi-family buildings, commercial, and even industrial properties. When property is in a PUD, a lender will often require an endorsement called the ALTA 5, known as the CLTA 115.2, which gives the lender assurance for issues arising from the association and assessments.

The Owners' Policy legal description will show the lot as created by the map, and there will be exceptions shown for the governing documents of the association, known in the industry as CC&Rs (Covenants, Conditions and Restrictions).

Liens affecting the association and/or common areas do not attach to the individual owners lot due to the separate ownership of the common areas by the associations.



Condominiums:

So how do Condominiums fit in?

A Condominium project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project. So, in a sense the ownership is collective with exclusive rights only to your unit and exclusive use areas.

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Many people have a misunderstanding of what the term “*Condominium*” actually refers to. Quite often, people think that Condominium refers to a particular design of an attached dwelling unit where the living area is all on the same level. However, this is by no means true. The term Condominium does not reflect the physical appearance, i.e., style, design, or how many floors or levels it has. A Condominium is a form of ownership that involves a separation of property into individual ownership elements and common elements.

Each owner holds the fee simple interest to his or her individual unit, and also shares in a percentage of the fee simple to the common areas (normally divided equally between all units).

The owners will also have easements for patios, storage, parking, decks, and other use areas. The unit is defined by the Condominium plan, and consists only of the airspace. All of the structure is a part of the common area.

Lenders will require to see endorsement ALTA 4, also known as CLTA 115.1, which deals with specific issues Condominiums present. The legal description in the policy will have several parcels, one being the unit, another being the common area(s), and possibly more for any easements the owner may have.

Owner and lender policies will have exceptions for the governing documents (CC&Rs) and the Condominium plans. Liens affecting the association and/or common area can affect unit owners as they own a percentage of the common areas.

Townhomes:

Let’s not forget the last term, Townhome.

The Townhome is not a legal form of ownership, nor is it affected by density or zoning requirements.

A Townhome is a dwelling unit, generally having two or more stories and attached to other similar units via party walls.

Townhomes are often used in PUD and Condominium developments, which provide for clustered or attached housing and common area open space.

As a Townhome is merely an architectural design, it has no bearing on the title policy other than it may indicate that there are party wall agreements that may be recorded or be a part of the governing documents. So for title insurance, both the PUD and the Condominium have unique items that lenders require specific endorsements to address.

The owner of a PUD will have ownership of the land and structures, while a Condominium owner will have ownership of the airspace and a percentage of the land and structures. The owners policies will have governing documents shown as exceptions and these documents should be read by any prospective buyer so they fully understand what they are getting into.

There are advantages and disadvantages to both ownerships, and any questions regarding the type of ownership should be directed to your title company for clarification.



Please contact your local Equity Title Company Sales Representative with any questions!