Fannie Mae

Highest and Best Use Policy

Frequently Asked Questions

On Sept. 2, 2026, we updated our Highest and Best Use (HBU) policy to provide a clearer framework for assessing and reporting property value and eligibility, including the respective responsibilities of lenders and appraisers. These FAQs should be used in tandem with the *Highest and Best Use Playbook*, which provides a more in-depth look at the updated policy and key concepts, along with real-life scenarios to illustrate how the policy applies in practice.

Present use

The most reasonable and probable utilization of a property, as improved, as of the effective date of the appraisal based on its physical characteristics, design, and functional utility.

Q1. **What is the "present use" of a property?**

Present use is the most reasonable and probable utilization of the property, as improved or as proposed, as of the effective date of the appraisal, based on its physical characteristics, design, and functional utility.

Present use reflects how the property is designed and intended to be used, which may differ from how it is currently occupied or utilized by the occupant(s). The statement describing the subject's present use is independent from, and does not rely on, the highest and best use (HBU) conclusion.

Q2. **What information must be included in the appraiser's statement of present use?**

The appraiser's statement of present use must include:

- The total number of residential units, including any accessory dwelling units (ADUs);
- Any non-residential use of the subject property, such as agricultural, industrial, or commercial use; and
- Any modifications to the property that support a non-residential use.

Non-residential uses must be identified and reported in the applicable sections of the appraisal report (Site, Unit Interior, or Project Information, as appropriate).

Q3. **Does the way a property is currently occupied or utilized by its occupants affect its present use?**

No. Present use reflects how the property is designed and intended to be used based on its physical characteristics, design, and functional utility. It may differ from how the property is currently occupied or utilized. Accordingly, the presence or absence of a particular activity on the effective date of the appraisal does not, by itself, establish the present use of the property.

Q4. **Is the appraiser's determination of present use dependent on the highest and best use conclusion?**

No. The statement describing the subject property's present use is independent from, and does not rely on, the HBU conclusion. The appraiser first identifies the property's present use and then determines whether that present use satisfies the four HBU tests.

Q5. **Can a property have a residential present use but a non-residential highest and best use?**

Yes, those are separate determinations. Present use describes the most reasonable and probable utilization of the property, as improved or as proposed, based on its physical characteristics, design, and functional utility. HBU requires analysis of whether that present use is legally permissible, physically possible, financially feasible, and maximally productive.

If the property includes a residence, but the appraiser determines that the improvements do not contribute to the property's value and that the highest and best use of the property, as improved or as proposed, is commercial, agricultural, industrial, or otherwise non-residential, the property is not eligible for sale to Fannie Mae.

Highest and best use

The use of a property that is legally permissible, physically possible, financially feasible, and results in the highest value.

Q6. **What tests must the appraiser consider when determining whether the present use is the highest and best use of the property as improved, or as proposed?**

The appraiser must determine whether the present use satisfies all four HBU tests:

- Legally permissible;
- Physically possible;
- Financially feasible; and
- Maximally productive.

If the present use satisfies all four tests, the appraiser must answer "Yes" to the URAR question, "Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use?"

Q7. **Do the existing residential improvements have to represent the ideal improvement for the site to be considered the highest and best use as improved?**

No. The existing improvements do not have to be the ideal improvements for the site. Even when improvements exhibit physical, functional, or external obsolescence, they may still represent the HBU as improved if they make a positive contribution to the property's market value.

Q8. **Must the highest and best use of the property be residential for the loan to be eligible for sale to Fannie Mae?**

Yes. The property's HBU as improved, or as proposed, must be residential. To qualify as a residential use, the property must be primarily built as a residential dwelling, and the market must recognize the residential use as the HBU of the property.

Properties whose HBU is commercial, agricultural, industrial, or otherwise non-residential are not eligible.

Q9. **Does Fannie Mae require the appraiser to analyze the highest and best use of the site “as if vacant”?**

For mortgage lending purposes, Fannie Mae requires the property to be valued based on the existing or proposed improvements and does not require the property owner to modify or redevelop the property to achieve its highest and best use.

It’s important to note that an analysis of the highest and best use “as if vacant” may be relevant when developing the site value, identifying and analyzing functional or external obsolescence, and selecting the most appropriate comparable sales.

Analyzing subordinate uses

To qualify as a **subordinate use**, the non-residential use must be secondary to the property's residential use and the property's highest and best use must remain residential.

Q10. **When appraising a mixed-use property, how should the appraiser value the subordinate non-residential use?**

The appraiser must:

- Develop an opinion of market value for the real property only and exclude any value attributable to the business or going concern.
- Report any adverse impact on marketability and market resistance to the non-residential use of the property.

Comparable sales

A sale with the same highest and best use and similar physical and legal characteristics.

Q11. **What does Fannie Mae mean when the comparable sales must be similar to the subject property?**

To be considered a relevant comparable sale, the property must have the same highest and best use as the subject and have similar physical and legal characteristics. When selecting the most appropriate comparables, the appraiser must consider all factors that affect value, rather than relying on similarities in physical characteristics alone. See Q12 for guidance when similar sales are not available.

Q12. **What should the appraiser and lender do if comparable sales with the same highest and best use and similar physical and legal characteristics are not available?**

Follow the requirements for *Unique Housing Types* in SB4-1.3-05. On a case-by-case basis, both the appraiser and lender must independently determine whether sufficient information is available to develop a reliable opinion of market value. The appraiser may need to consider older comparable sales, comparable sales located in competing market areas, or other reliable market data to demonstrate the marketability of the property. If adequate market evidence is not available to develop a reliable opinion of market value, the loan is not eligible for sale to Fannie Mae.

Uniform Residential Appraisal Report

This policy only applies to UAD 3.6 appraisal assignments.

Q13. **If the present residential use is legal, physically possible, and financially feasible but is not the maximally productive use, how should the HBU question be answered?**

If any of the four HBU tests results in a “No”, the response to the single HBU question, “Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use?” must be “No”.

Q14. **Can the Uniform Residential Appraisal Report (URAR) be used if the property does not have a reasonable or probable residential use?**

No. The URAR is intended solely for residential property appraisals. Use of the URAR to report an HBU analysis assumes the appraiser has concluded that the property’s present use and its HBU as improved, or as proposed, are primarily residential. The URAR should not be used if the HBU as improved, or as proposed, is determined to be agricultural, commercial, industrial, or otherwise non-residential.

Q15. **Policy requires the appraiser to clearly identify the property’s present use. Where in the URAR should the appraiser report this information?**

The appraiser should summarize the property's present use conclusion in the Highest and Best Use Commentary. The URAR also includes specific fields that help support these policy requirements, including Units Excluding ADUs, Accessory Dwelling Units (ADUs), Primarily Residential, and Non-Residential Modifications.

Q16. **If the appraiser answers “No” to the question, “Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) its present use?”, where does the appraiser report the highest and best use is residential?**

The appraiser must report this information in the Highest and Best Use Commentary subsection of the URAR and summarize the rationale that supports the conclusion that the highest and best use is residential.

Q17. **Where does the appraiser report the required information for a mixed-use property?**

Non-residential uses must be reported within the applicable URAR sections (Site, Unit Interior, or Project Information).

Mixed-use properties

To qualify as a subordinate use, the non-residential use must be secondary to the property's residential use and the property's highest and best use must be residential.

Q18. **How should a non-residential use be addressed in the appraisal?**

The appraisal must:

- Provide a detailed description of the non-residential characteristics of the subject property;
- Indicate that the mixed-use is a legal, permissible use under local zoning requirements;

- Report any adverse impact on marketability and market resistance associated with the non-residential use; and
- Report the market value of the real property only, excluding any value attributable to the business.

Q19. **How to determine whether the non-residential use is subordinate to the residential use?**

To qualify as a subordinate use, the property must be primarily built as a residential dwelling. The non-residential use must be secondary to the residential use, and the market must recognize the residential use as the property's highest and best use (HBU). When the residential use results in the highest property value, the HBU is residential. Conversely, if the non-residential use results in the highest property value, the HBU is not residential and the non-residential use cannot be considered subordinate.

Q20. **Can value be attributed to modifications made specifically to support a business use?**

The appraisal must report the market value of the real property only and exclude any value attributable to the business. The appraiser must identify modifications supporting the non-residential use and analyze whether those modifications adversely affect the marketability as a residential property.

Q21. **Can a mixed-use property have more than one non-residential use?**

No. Fannie Mae permits only one subordinate non-residential use.

Q22. **Can a mixed-use property have an accessory dwelling unit (ADU)?**

No. The property must consist of only one-living unit that the borrower occupies as a principal residence.

Loan eligibility

A one- to four-unit residential property may remain eligible even when one or more of the highest and best use (HBU) tests are not met, provided all other applicable property requirements are satisfied.

Q23. **Does a "No" response to the highest and best use question automatically make the property ineligible for sale to Fannie Mae?**

A "No" response does not, by itself, make the property ineligible. When the present use does not satisfy one or more of the HBU tests, the lender must determine whether the property continues to meet Fannie Mae's Property Requirements. To be eligible for sale to Fannie Mae, the property must comply with all applicable collateral and property eligibility requirements in the Selling Guide. See B2-3-01, General Property Eligibility, for additional guidance.

Q24. **Are loans with a non-residential use eligible for sale to Fannie Mae?**

Yes, provided the property is a one-unit residence and any non-residential use is subordinate to the residential use. The property must also meet all other applicable eligibility requirements.

Q25. **What criteria must be met for a mixed-use property to be eligible?**

- The property must consist of only one-living unit that the borrower occupies as a principal residence.

- The borrower must be both the owner and the operator of the business.
- The property must be primarily residential, and any non-residential use must be subordinate to the residential use.
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.

See Mixed-Use Properties in SB2-3-04, *Special Property Eligibility Considerations* for more information.

Q26. **Is a loan on a property with six units eligible for sale to Fannie Mae?**

No. As improved, the mortgaged premises must be a one- to four-unit residence, inclusive of accessory dwelling units. A property with five or more living units is not eligible.

Q27. **What if the appraiser is unable to identify two comparable sales with ADUs that have the same non-compliant zoning use as the subject property?**

This loan is not eligible for sale to Fannie Mae. As required in “Zoning for an ADU” in SB4-1.3-05, *Dwelling Exterior, Unit Interior, and Outbuilding Sections of the Appraisal Report*, the appraisal report must demonstrate that the subject property’s improvements are typical for the market by analyzing at least two comparable sales with the same non-compliant zoning use.

Eligibility is contingent upon meeting all applicable *Selling Guide* requirements. Failure to satisfy any required condition renders the loan ineligible for sale to Fannie Mae.