

PRESENTED AT

Mortgage Lending Institute

September 17, 2021

Austin, TX

Land Use for the Lender: Due Diligence and Problem Solving

Reid Wilson

Wilson Cribbs + Goren
Houston, TX

rwilson@wcglaw.com

TABLE OF CONTENTS

I.	Overview of Entitlements Importance to Mortgage Collateral.....	1
A.	Entitlement Due Diligence.....	3
B.	Alternative Strategies to Address Entitlement Deficiencies.....	4
II.	Public Land Use Due Diligence.....	8
A.	Platting	8
B.	Parking	9
C.	Zoning	10
D.	Traffic	13
E.	Signage.....	14
F.	Title Commitment.....	14
G.	Development Agreements.....	14
III.	Public Land Use Problems and Solutions.....	14
A.	Platting	14
B.	Parking	15
C.	Zoning	16
D.	Traffic.	21
E.	Signage.....	21
F.	Development Agreements.....	22
G.	Title Insurance.	22
IV.	Unique Solutions – Public Land Use	22
A.	Protections from PlatMail.....	22
B.	Validation Act.....	23
C.	Vested Rights.....	23
D.	Moratorium	24
E.	Limitations on infrastructure exactions by cities.....	25
G.	Limitations on Tree Regulations.....	25
V.	Private Land Use – Due Diligence	25
VI.	Private Land Use Problems and Solutions	27
A.	Restrictive Covenants/Declarations	27
B.	Easements / Leases	29
C.	Condominium Declaration.....	30
VII.	Unique Solutions – For Private Land Use	31
A.	Statute of Limitation	31

B.	Declaratory Judgment	31
C.	Estoppel.....	32
D.	Foreclosure.....	32
E.	Title Insurance	32
F.	Termination of easements by necessity	35
VIII.	Land Use Checklist	35
IX.	Research Aids.....	35

LAND USE FOR THE LENDER: DUE DILIGENCE AND PROBLEM SOLVING

I. Overview of Entitlements' Importance to Mortgage Collateral

The importance of “entitlements” to real property collateral for a mortgage loan is paramount. Entitlements is a broadly inclusive term, describing the public and private rights, limitations and approvals for use of real property. Although often used in the context of purely public land use law regulation and related approvals, many entitlements emanate from private land use law.

Examples of Entitlement Areas:

Public:

- Platting
- Zoning
- Setbacks
- Traffic/Parking/Loading/Driveway access
- Signage
- Landscaping/Trees
- Pervious Area
- Grandfathering/Vested rights
- Use specific regulations
 - Sexually oriented businesses (SOB)
 - Pawn Shops
 - Bars
 - Entertainment venues
 - Other “NIMBY” (Not In My BackYard) uses

Private:

- Restrictive covenants (aka Deed Restrictions, Declarations, Reciprocal Easement Agreements [REA], etc.)
 - Property Owners Associations (POA)
 - Architectural Review/Control
 - POA Rules and Regulations
- Easements
- Long term ground leases (and the limits therein)
- Condominium declarations
- Timeshares

Real estate collateral without a legal right to use/develop/operate it for its economic “highest and best use” will have diminished value. Mortgage loans are underwritten based upon appraisals, which typically *assume* the ability to use/develop/operate the collateral for its highest and best use (or the use stated in the appraisal).

Without appropriate entitlements, the collateral may be restricted in that use or even prohibited, and the consequences for the borrower and lender could be dramatic. Without

necessary entitlements, borrowers may be more likely to default. If the collateral was previously foreclosed by the lender, then the lender's reasonable expectation for recovery will be diminished. Even if the lender has the patience to hold the collateral and seek necessary entitlements, new appraisals will be required. Based upon the *current* entitled use, the value of the collateral on the books of the lender is negatively affected. An assumption in an appraisal of different entitlements than currently exist is an *extraordinary assumption* which will require explanation in order to support the appraised valuation.

Real Life Examples:

- City Opposed Development – A loan is made for a new mixed use project located in a small un-zoned city. The borrower handled its affairs poorly, defaulted after commencing development and, ultimately, the lender became owner of the collateral. By that time, the development cycle was maturing and a denser version of the project was required to be viable. The city became concerned and commenced preparation of a zoning ordinance, with a focus on the small commercial area of the city. The draft zoning ordinance would significantly impede the proposed project. Despite negotiations with the city for changes to accommodate the proposed project, the city passed the new zoning ordinance prohibiting a major component of the proposed project. The lender filed a plat to vest the proposed project under the Texas vested rights statute (discussed later). Further negotiation with the city was unsuccessful. Ultimately, the dispute led to the lender suing the city, which took several years to result in project approval. No developer was willing to purchase the property without proper entitlements.
- Market Changes and City Rescinds Zoning Changes – A land developer assembled land for a mixed use project in a small zoned city. The developer negotiated with the Mayor and achieved support of rezoning to support a market supported density, as a matter of right (i.e., no discretionary review and approval). An economic down-cycle delayed the project. A building developer purchased land to develop the first building in the project, which was designed and underwritten based on existing zoning. The building was pre-leased to the level required by the construction lender. The details of the project and tenants were provided to the city and became public knowledge. Numerous meetings with the city reviewed development issues in preparation for the submission of construction plans and commencement of construction. At the last meeting, which included the land developer, the Mayor took the developers aside and disclosed that due to “citizen pushback,” the city had, without notifying the developers, reversed the prior zoning changes enacted for the benefit of the project. Instead, the city implemented a Planned Development ordinance which would require detailed, site specific review and approval. These changes delayed the proposed building, and adversely impacted the marketability of the remaining land in the overall project.
- Density Down-zoning – A residential lot developer options land in a zoned city and meets with the city to confirm density and requirements for a moderately priced single family residential subdivisions. The city confirmed current

Find the full text of this and thousands of other resources from leading experts in dozens of legal practice areas in the [UT Law CLE eLibrary \(utcle.org/elibrary\)](https://utcle.org/elibrary)

Title search: Land Use for the Lender: Due Diligence and Problem Solving

Also available as part of the eCourse

[2021 Special Topics in Commercial Lending: Loan Modifications; Land Use Due Diligence; Deal Financing and More](#)

First appeared as part of the conference materials for the
55th Annual William W. Gibson, Jr. Mortgage Lending and Servicing Institute session
"Land Use Due Diligence for Lenders"