

CONSTRUCTION

Understanding Build-to-Rent Trends

Managing Risks and Maximizing Value



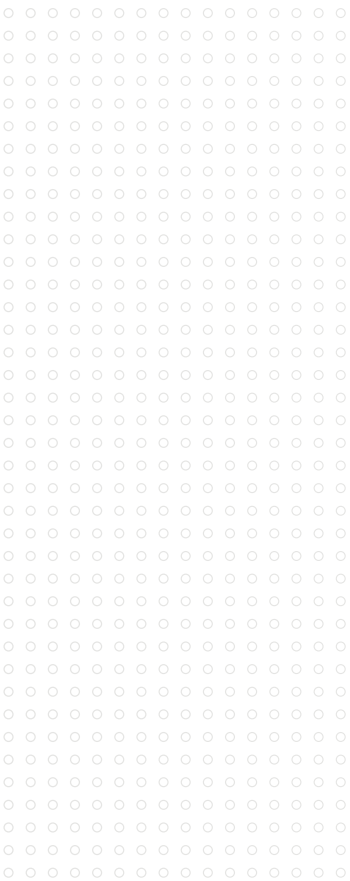
A New Frontier in Residential Construction

The build-to-rent (BTR) segment has emerged as a thriving niche in an otherwise challenging residential construction market.¹ Single-family homes are more costly and less accessible for buyers than they were just a few years ago, driving up the demand for rental properties.

The COVID-19 pandemic acted as a catalyst, accelerating existing trends such as delayed homeownership and the preference for rental properties among younger generations.² BTR developments offer a unique opportunity for investors and builders to meet this demand while diversifying their portfolios. However, this rapid growth also introduces new and complex risks that require careful navigation.

The Growth of the Build-to-Rent Market

The U.S. currently faces a shortage of single-family homes, with estimates ranging from 1 million to 7 million units depending on the source. While affordability for potential homeowners has dropped dramatically, falling by 38% since 2020, the BTR market has continued to expand. In the 12 months ending in mid-2024, 83,000 BTR units were started, representing a 20.3% increase year-over-year. BTR's share of new single-family construction now stands at a record 8.1%.³



¹Reuters, "US construction spending falls more than expected in July," September 3, 2024.
²The Ascent, "Millennial Home-Buying and Homeownership Statistics," September 10, 2024
³Arbor, "Build-to-Rent Construction Continues Its Record-Breaking Ascent," August 28, 2024.

Key Risks in Build-to-Rent Projects

While BTR projects offer strong investment potential, they come with unique risks that can impact builders and investors in the long-term if not addressed proactively. These include:

Insurance Voids on Conversion: Insurance coverage may be voided if BTR properties are converted to traditional homes before the statute of repose expires. When the market shifts, and more individuals look to purchase single-family homes, this presents a costly challenge to investors who may now want the flexibility to convert home units to sell but have not planned accordingly.

Construction Defect Risks: Construction defects are a significant liability, particularly in high-cost home building projects. Claims have spiked due to economic trends like high interest rates, the influence of nuclear verdicts, consumer-friendly construction defect statutes in many states and an increase in high value custom homebuilding projects of \$15 million each or more.⁴

Class Action Exposure: Conversion of portfolios of BTR properties introduces the possibility of class action construction defect litigation, if defects are present. So while a single owner/investor of a 100-home project may be more appealing to insurers, construction defect litigation risk increases significantly once those homes are converted and sold to individual consumers.

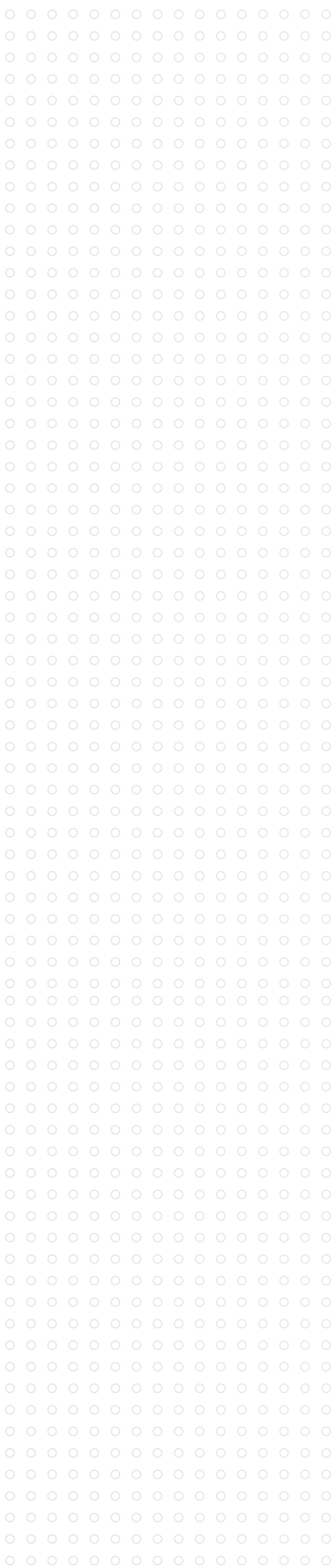
Mitigating BTR Conversion Risks: Strategies for Builders and Investors

Builders and investors need to adopt a long-term strategy to mitigate potential risks associated with BTR conversions and retain flexibility to respond to changes in market conditions. Recommended solutions include:

Comprehensive Conversion Planning: Plan at the outset for the possibility of converting and selling homes within the relevant Statute of Repose period and secure enhanced insurance coverage that anticipates future conversion risks. While this option is more expensive, it provides maximum flexibility and protects the value of the asset in the long term.

Incorporate Structural Warranties: Utilize warranties that combine elements of traditional general liability (GL) coverage, with alternative risk transfer and builder structural warranty mechanisms, to ensure continuity of construction defect coverage even if liability insurance is voided during conversion.

Consider Inherent Defects Insurance (IDI): IDI is a newer option in the North American market, but it is widely used in the UK and Europe. It covers risks like building collapses and other structural defects post-construction, offering protection beyond standard liability coverage.



⁴Risk & Insurance, “Construction Defect Claims on the Rise: Understanding the Trends and Impacts,” April 17, 2024



Closing the Risk Gap Through Innovation

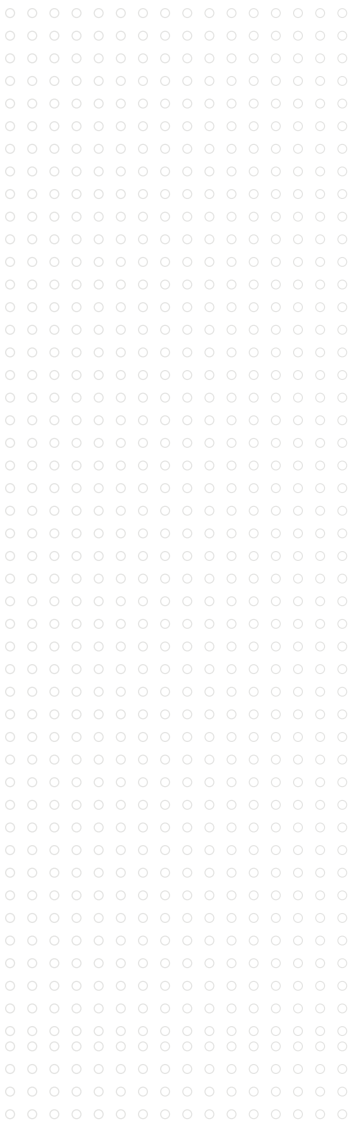
The root cause of many issues in the BTR market, and construction in general, is quality assurance. In response, HUB has partnered with [Real Time Risk Solutions](#) to develop a data capture tool that enables contractors and investors to compile and archive a detailed “as built” history of each home’s construction. This proprietary platform, similar to CARFAX® for the used car industry, enables a comprehensive historical record of construction milestones for every home in a BTR project, driving better risk management and providing underwriters with critical quality data.

For underwriters, this technology offers a granular view of each home’s construction quality, enabling more accurate pricing and risk assessment. For builders and investors, it mitigates potential future liabilities by maintaining an exhaustive historical record of critical construction milestones. For future investors, and individual consumers in the event of conversion, this digital life cycle history offers unprecedented visibility and transparency during the pre-sale diligence process.

Building the Future of BTR with Confidence

Build-to-rent developments are set to play a key role in the evolving U.S. housing market. With the right risk management strategy, builders and investors can capitalize on this opportunity without exposing themselves to undue risk. HUB’s dedicated construction insurance and risk management specialists are here to guide you through the complexities of BTR projects, from initial planning to long-term asset management.

For more information, contact a HUB construction insurance specialist.



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For more information on how to manage your insurance costs and reduce your risk, contact a HUB construction insurance specialist.

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