



PWSC
HOME EXPERTS

FIVE RESIDENTIAL CONSTRUCTION TRENDS FOR 2022

A look at what's changing, what's not, and how to prepare for both



Cinch up those toolbelts as 2022 is projected to be another big year for builders.

That's the good news. Unfortunately, the problems of 2021 will be sticking around as well.

Yet 2022 presents something interesting that aligns with its name. This year offers a second shot at many of the homebuilding opportunities and challenges of the previous year—with a few new surprises. That means the benefits of a record-setting homebuilding boom with the foresight to anticipate many of the hurdles.

Will your company make the most of this second chance?

Put on your hard hat and work boots and let's tackle the top five residential construction trends of 2022.

Trend



Build-to-Rent Keeps Booming

A 2021 Yahoo! real estate investment article declared single-family rentals “where it's at.” The trends indicate the same can be said about 2022. While the hot housing market may cool off a bit in the coming months, expect things to be far from chilly. Limited inventory and rising purchase prices for houses will continue making the single-family home rental market an attractive alternative.

The Price Push

Over the past year, U.S. home prices increased a record 19.8%. Fannie Mae predicts median home prices to rise another 8% in 2022, far outpacing the 4.1% U.S. average since 1987. The growth projections factor in a strong anticipation for climbing mortgage rates. However, historically low home inventories will make the impact of those increases negligible. Jefferies Research indicates contractors must build 1.7 to 2 million homes per year for the next several years just to fix the current imbalance.

Low inventory and high demand have priced many potential buyers out of the market. As a result, more families are turning to single-family rental homes. Rental occupancy rates spent much of 2021 hovering around 95%—a historic high. This despite a 10-year increase of 250% in single-family homes built specifically for renting.

According to John Burns Real Estate Consulting, nearly 100 public builders have build-for-rent projects currently in the works. Over the last year, investors injected more than \$30 billion in capital targeting U.S. rental housing. With rent also rising quickly, the economic stage is set for prioritizing single-family home rental builds in 2022.

A Changing Mindset

Economics are not the only factor driving people to rent rather than buy. While renting fails to deliver the equity of homeownership, it does offer distinct benefits—and more people are taking notice.

In general, homeownership is in decline. Every generation since Baby Boomers have pursued “the American dream of homeownership” less frequently. The current annual rate of homeownership is one of the lowest in the last 25 years. Millennials aged 24 to 39 now represent the nation's largest generation. This group of nearly 90 million are entering their prime years for purchasing a home. Yet more than 50% are currently choosing not to buy.

For many, the flip relates to flexibility. A 2019 Freddie Mac housing survey found that 40% of renters never want to own a home. That marks a 23% increase from just two years prior. About 80% of potential permanent renters

indicated they like the amenities of single- and multi-family residences void of the hidden and unexpected costs of homeownership.

Now even Boomers are making the switch. They want to live without the time and costs required to maintain a home at their age. As for the much younger Gen Z, they are entering the workforce with substantial student debt. Saddled with this kind of financial burden, renting that builds credit without creating additional debt is ideal.

Rentals and the Work Revolution

The pandemic also played a part in the rush toward rentals. The last two years changed the way people work. Deemed the “Great Resignation,” the number of American workers quitting their jobs and looking for something else keeps climbing. Remote work means they can pursue jobs somewhere else too. People are migrating from urban areas to suburbs in search of something better. Renting presents an ideal option for people wanting to test new areas or searching for quality school options before making the commitment to buy.

Renting also aligns with how younger generations approach jobs. About 40% of millennials have had four or more jobs since entering the workforce. When it comes to advancing their careers, 75% believe regularly changing jobs helps. With that level of career mobility, they are waiting longer to purchase homes and want the freedom that renting provides.

The work-from-home revolution also has some of the country’s biggest companies making the move to more tax-friendly cities in 2022. Yet these same locations represent the nation’s least affordable housing markets making renting the most cost-effective option.

Overall, more people are buying and looking to rent. But renters outpace buyers by about 12%—a trend that began in 2000. More than half of those renters are leasing houses rather than apartments. Analysts expect that number to go even higher post-pandemic.

Historically, owning versus renting has been a story of haves and have-nots. Not anymore. An increasing number of people—across locations, demographics, and generations—see renting as the objective rather than a back-up plan.



Trend

2

Shortages and Steep Prices

A simple answer to cost pressures: build more, build faster. Not possible.

Homebuilders are fighting against unprecedented shortages in labor, land, and materials. The result is higher prices and significant delays. With construction expected to slow slightly in 2022, builders may feel some relief, but not enough to outpace demand. If 2021 felt like a costly waiting game, 2022 may seem like déjà vu.

The Demand for Construction-Ready Land

Author Mark Twain famously wrote, “Buy land. They’re not making it anymore.” More than 100 years later and those words still apply. Builders are grappling with a shrinking supply of construction-ready land. Over the last five years, lots available for new home construction have dropped by nearly 14%. The market is more than one million lots short of what is needed to correct the housing imbalance in 2022.

While a shortage of construction-ready land is not a new problem, it is a growing one. The unexpected demand for new homes during the pandemic left many builders exhausting their own supply of land parcels faster than expected. Other builders navigating market uncertainty temporarily stopped buying land. Since it can take more than a year to meet requirements for turning raw land into a new home development, many construction companies are left shoveling through paperwork rather than soil.

Do not expect the process for approving construction-ready land to improve anytime soon. Short-handed municipalities are working through a backlog of land development requests. Delays in approving building permits, conducting inspections, and setting up utilities will continue into 2022.

Help Wanted

In March 2021, Associated Builders and Contractors (ABC) estimated that construction companies needed to hire 430,000 more workers than they employed in 2020 to keep up with building demand. By 2023, the trade association estimates employment demand will increase by another one million workers. To put the gravity of this gap into perspective, of the 1.5 million construction workers lost following the 2008 recession, the industry has only been able to replace 60% of them—in 10 years.

Construction workers are not the only ones missing. The industry also has a significant deficit of skilled trade workers. An analysis by industrial staffing firm, PeopleReady, shows astonishing increases in demand for skilled trades including carpenters (+360%), painters (+357%), electricians (+244%), and plumbers (+104%). Help is not on the horizon for 2022 with more people retiring and less members of the millennial and Gen Z populations pursuing trades work. According to the National Electrical Contractors Association, new electricians joining the industry falls 30% short of those leaving it every year.

These labor shortages are poised to impact every aspect of home building from wait times to work quality, and certainly cost.

Supply Chain Delays

Product shortages and delays have been headline news for much of 2021. The pandemic created major interruptions throughout the supply chain globally and manufacturers are still fighting to catch up. International trade routes have been disrupted. Container ships are overbooked. Ports of entry are backed up for weeks.

Advance order time has nearly tripled for items like vinyl siding and windows. HVAC systems and fixtures are in short supply. Delays on items like appliances and cabinets are holding up occupancy permits with delays often exceeding a month. Eight out of 10 tradespeople in lumber, flooring, roofing, and other fixtures indicate material shortages are impacting their ability

to work. The problem spans from paint to plumbing and nearly everything else needed to build a home.

Federal Reserve chair Jerome Powell said Americans should be prepared for the global supply chain to remain in crisis through 2022.

Increasing Materials Costs

Home purchase prices are up, but so is the cost to build them. Lumber represents a major culprit. After prices peaked to an all-time high in May 2021, this hot commodity is surging once again. Up by 50% at mid-year, analysts expect the comeback to last well into 2022. The cost of other materials like concrete, bricks, metal products, and roofing supplies are on the rise as well.

According to Bloomberg, the cost of nearly every item that goes into building a house in the U.S. is climbing. For some materials, prices have nearly doubled since the pandemic began. Economists anticipate elevated building prices until the summer of 2022. Before builders can benefit from lower costs, changes to inflation, inventory levels, and supply chain speed must occur. Each of those remain big “ifs” for the new year.



Trend # 3:

Commercial Insurance Uncertainties

A trend began in 2017 that has impacted every business, especially construction. That year the insurance market quickly started to harden. The result was double-digit rate increases across nearly every insurance line. Projections show no signs of insurance costs going down anytime soon. Homebuilders recently going through an annual insurance negotiation felt the pain of paying more—significantly more—for commercial insurance premiums. Builders should budget for even higher rates in 2022.

For the last several years, most insurance lines have been unprofitable. The losses relate to a higher frequency of claims with escalating price tags. Insurers are facing an unprecedented number of damage claims related to natural disasters. Hurricane Ida from the summer of 2021 is expected to produce up to \$30 billion in claims alone. The 2021 wildfire season conservatively created \$70 billion in losses. The pandemic produced a spike in insurance claims with a full cost that may go unknown for years.

Big losses like these on the liability side have insurers exiting the space or charging significantly higher premiums. Unfortunately, insurers already consider construction risky business, so these companies likely will feel the brunt of additional price hikes in 2022. But paying more does not necessarily come with a better policy. Many of the biggest insurers are offering less coverage and higher deductibles.

Based on insurance trends, expect to see more exclusions and payout limitations around:

- › Business interruption from communicable diseases
- › Cyberattacks
- › Commercial auto coverage for distracted-driving events
- › Pollution
- › Weather-related events

The flurry of construction activity also has insurers on edge. More homes naturally mean more defects and related losses. The average claim settlement increased 35% in recent years. Combined with the frequency and amount of other losses, insurers are hesitant to take on more. So, for builders with unfavorable loss histories going into 2022 negotiations, affordable coverage may be extremely hard to come by.

However, mortgage rate increases may work in builders' favor here. If insurers can offset poor performance through improved investment income driven by higher interest rates, premium costs and loss history, tolerances may improve later in the coming year.



Trend # 4:

Construction v. Courtroom

The current building boom looks like that of the '80s and '90s, which famously produced an entire industry of construction defect litigation. Builders often say, "It won't happen to us," right before "it" happens. The catastrophic claim that wipes out profits, takes up time, and ruins a reputation.

To make matters worse, lawsuits often accompany these big losses. The frequency of litigation in construction has some builders padding home prices by several thousand dollars. With record-setting purchase prices already leaving many people out of the market, these builders may be pricing themselves out too.

For the past several years, jury awards have trended upward in both amount and frequency. Nuclear verdicts have hit builders hard. Even common structural defects are winning homeowners damages of six and seven figures. But home-related problems are not the only issues keeping construction companies inside the courtroom. Changing EPA regulations have more states going after businesses that pollute. Legal action against architects and engineers is more common. Employment-related lawsuits are ticking up as well.

Today's labor market also mirrors that of California circa the 1980's. The overwhelming demand has homebuilders relying on contractors and unskilled laborers more. Nearly 74% of firms report struggling

to find qualified trade workers. Novice and third-party labor increases the opportunity for repetitive detailing mistakes. A defect in one home now may exist in hundreds or thousands. That creates the perfect opportunity for lawyers to launch mass and class-action lawsuits.

The time it takes to find construction defects also will keep builders inside the legal crosshairs in 2022 and beyond. Research presented to the National Association of Homebuilders shows that 25% of new homes will experience some form of structural distress at a price just shy of \$50,000. Most defects are latent and manifest between years four and seven. Finding them during a standard home sale inspection is almost impossible.

States govern defects using a statute of repose. The clock starts at construction completion and usually goes for up to a decade. Builders own responsibility for all major defects during that time. A lot can go wrong in 10 years. Rest assured that lawyers will be there when it does.

The worst claims and court cases are the preventable ones. Builders looking to avoid a litany of lawsuits should enhance their comprehensive risk management strategy. This includes insurance policies and other protections, closely monitoring labor activities, and increasing risk reserves for 2022 and the following years.

Trend

5

Escalating Customer Expectations

Home buyers and renters will not freely pay more for less. Along with higher home prices comes higher customer expectations. From amenities to maintenance-free living, people want homes that make life easy. That means hard work for builders in 2022.

IQ and Amenities

Smart homes are no longer a novelty. Market size is expected to grow more than 64% in the next five years at a value of \$139 billion dollars. Thermostats, lighting controls, doors, and appliances—people want their homes to be as smart as possible.

As for residential developments, people want more than great neighbors and good floorplans. Buyers and renters are increasingly looking for green space, business centers, spas, pools, and gyms.

Smart devices and unique amenities can serve as a key differentiator for builders and developers. However, offering more opens the door to additional maintenance issues.

Managing Maintenance

Data indicates that avoiding maintenance and its unexpected costs is a primary reason those who could buy choose to rent.

People increasingly want a low-maintenance lifestyle. Builders who understand and capitalize on this will reap the benefits in 2022.

Two big shifts currently are happening. Many millennials are becoming first-time home buyers and people are more frequently making the switch from apartments to single-family rental homes. Despite the change in living situation, the maintenance mentality often stays the same. “That is someone else’s job.”

Those living in a home for the first time often lack general maintenance skills. They require more guidance and support. But that does not mean they return that same level of patience. They expect quick resolutions for maintenance issues and defects. They want 24/7 access to customer support across multiple communication channels.

That round-the-clock access also extends to maintenance. After all, things do not only break between the hours of 9 to 5. People want repairs at their convenience.

Breakdowns are not a matter of if, but when. Builders considering maintenance as an important part of the customer experience will see higher ratings, more positive reviews, and increased referrals throughout the coming year. A great home with poor maintenance can destroy a builder's reputation. But a good home with great maintenance can turn buyers and renters into extensions of the sales team.

A Trendsetter by Your Side: PWSC

These tools can help navigate 2022 trends: PWSC's suite of risk management solutions.

- › **Insurance-Backed Warranty** – tiered coverage backed by a highly rated insurer with claims, sales, and marketing support from industry experts. This home warranty picks up where insurance leaves off keeping builders protected from unnecessary out-of-pocket repair costs.
- › **Builder-Backed Warranties** – warranty administration services incorporating innovative legal protections and claims resolution protocols that keep customers happy and claims out of the courtroom. Detailed claims information and reporting offer actionable risk insights to drive decision-making.
- › **FirstLink** – delivers real-time, white glove, concierge care to homeowners while taking first- and second-year call burdens off of builders.
- › **HomePRO System and Appliance Warranty** – comprehensive coverage for new home sales and aftermarket homes to promote confidence in homeownership and relieve the stress of budget-busting repairs.
- › **Rental Property Protection** – system & appliance coverage designed to meet the unique needs of single-family rental homes. This program generates higher customer satisfaction rates and lower operating costs.

Discover why the majority of the nation's top 20 U.S. homebuilders partner with PWSC. Now marks the perfect time to see how PWSC's full-service risk management solutions can help every builder and property manager make the most of 2022.

You focus on construction. We focus on the protections that keep you covered. Everyone builds better and more confidently.





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