

# ePaper:

## BTR & PRS Projects: The importance of flexible LDI Policies for Developers and Funders

---

 RIDGEMONT

 J<sup>3</sup> Advisory



We are construction & real estate law experts that simplify and resolve complex legal issues.

Providing you with the clarity and pragmatic advice you need to make informed commercial decisions.



#### BTR & PRS Projects: The importance of flexible LDI Policies for Developers and Funders

The latent defects market has acknowledged the substantial investments being made in the BTR sector and has responded by providing customised policies that offer crucial support to developers in both the short and long run.

Previously, developers seeking first-party insurance would typically opt for a [commercial latent-defects policy](#). However, this choice proved to be inflexible, particularly if the developer or owner wanted to realise the capital appreciation in the years following completion. Now, developers and funders involved in BTR and PRS schemes have a broader range of options that allow for the inclusion of UK finance-approved wording. This ensures that if a fractional sales strategy is implemented post-completion, the policy can be adjusted to facilitate a unit-by-unit sell-off.

Jack Bristow, MD at J3 Advisory, commented, “Developers who have adjusted their exit strategy by embracing the shift from traditional build-to-sell models to build-to-rent (BTR) are now prioritising the procurement of the right LDI Policy.”

Such a policy not only safeguards the structural integrity of the asset but also provides flexibility in the event of a future fractional sell-off. With the market leaning towards BTR, developers must remain receptive to various policy options and carefully consider the advantages and implications regarding premiums and excess. Additionally, funders are recognising the importance of having first-party insurance coverage in place, rather than solely relying on collateral warranties.”

Another consideration is the financial limit of a latent defects policy when selecting a provider. Jack emphasises that “not all policies are created equal, and some providers may have an internal limit, for example, of £25 million. Consequently, on a £100 million project, the policy would only cover 25% of the total reinstatement cost. Therefore, it is crucial for developers to thoroughly comprehend the specifics of the policy and its offerings before committing their financial resources. As always, the devil is in the details.”

#### Other key factors to consider when procuring an LDI policy includes:

- Limit of indemnity: Ensure it complements reinstatement cost to avoid underinsurance.
- A-rated capacity: It is recommended to always proceed with Insurers that have a financial rating from a UK rating agency.
- Access to the lending market: Insurer’s access can affect sales, especially with lesser-known insurers.
- Competent and compliant technical services: Check that the Insurer’s requirements on-site align with the project.
- Demonstrable experience: Insurers’ experience with similar projects and references are important.
- Consider experience and capacity before choosing a provider solely based on an attractive price.

Jack goes on to say, "While many aim to adopt a long-term strategy for emerging projects, developers and funders who have received sound guidance and implemented the right policy will be better positioned to adapt to changes, should the need arise."

Since its establishment in 2021, J3 Advisory has placed structural warranty insurance for more than 5,000 units across the UK, encompassing residential, BTR, PBSA, and commercial developments. Recent notable transactions include the placement of LDI policies on a high-value residential project in central London, boasting a contract value surpassing £200 million, alongside a £60 million PBSA scheme in South London.

#### ABOUT J3 ADVISORY:

J3 Advisory is an insurance and structured finance advisory firm.

Having spent more than twenty years working between both insurance and finance markets, J3's leadership team witnessed first-hand how these two disciplines, which should interlink, are instead fragmented and disconnected.

To solve this, J3 Advisory has set out with the mission to enable regional developers, SMEs, and property professionals across the country to make better decisions, faster.



This ePaper should not be considered legal advice and is for information purposes only. If you have a legal issue that relates to this content then you should take independent legal advice.



Sign up to our  
newsletter full of  
engaging free content!



Avoid missing out on the latest  
news by following us on  
LinkedIn!

If you require any legal assistance please contact John Wallace or Tim Seal at [contactus@ridgemont.co](mailto:contactus@ridgemont.co).

#### Our offices

24 Greville Street, London, EC1N 8SS

St Nicholas House, 31-34 High St, Bristol, BS1 2AW (appointment only)

+44 (0) 203 909 9590

[contactus@ridgemont.co](mailto:contactus@ridgemont.co)

[www.ridgemont.co](http://www.ridgemont.co)

