

Home Builders Are Getting Buried in Claims of Shoddy Construction

Legal liabilities for big builders have surged. Industry representatives say lawyers encourage homeowners to pursue dubious allegations.

By

Nicholas G. Miller

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A contractor on the roof of a home under construction. DAVID PAUL MORRIS/BLOOMBERG NEWS

Quick Summary

Blake and Beth Horio bought a home in 2022 in a Henderson, Nev., community thinking it would be an ideal place to retire. But soon, cracks began spreading across the ceilings. Their sliding glass doors wouldn't open. Their foundation sank several inches, leaving a gap underneath the house.

When an engineer who examined the home dropped a marble on the kitchen floor, it sped off into the corner. "Your home is sinking," he told them.

Now, the Horios are involved in a legal dispute with PulteGroup, the home's builder. The couple said Pulte responded to their complaints, but performed only cosmetic repairs of a ceiling crack and ultimately failed to address the underlying soil issue.

"We worked hard to get here and we can't enjoy our home," said Beth Horio. "I can't even have coffee outside. I can't get outside."

A company representative said 5% of the homes in the community might have been affected by "what is believed to be compression of native soils in isolated areas." He added that "we follow strict construction and quality standards" and "PulteGroup stands behind the homes it builds and is committed to completing needed repairs."

The legal liabilities of some of America's biggest home builders, including D.R. Horton and Lennar, have surged in recent years as buyers increasingly sue for damages from alleged construction defects.





An engineer told Blake and Beth Horio that their home is sinking. BETH HORIO
Homeowners say the legal claims are the result of builders constructing shoddier, error-ridden homes. They allege that builders are using cheaper materials, cutting corners and hiring unqualified and undersupervised subcontractors.

Builders say the claims reflect a tiny fraction of the total homes they produce and that errors are typically the fault of subcontractors, not the companies. They also say that plaintiffs' lawyers are actively seeking out homeowners, encouraging them to pursue dubious claims with the hopes of landing a lucrative settlement.

The Seminole Tribe of Florida is alleging in litigation that Lennar built more than 450 defective homes with improperly installed roofs and mold-ridden walls, causing health problems. Lennar declined a request for comment.

D.R. Horton faces litigation involving thousands of Louisiana homeowners whose homes allegedly fail to keep out moisture.

Mounting legal bills represent another headache for the home-building industry, which is already coping with a stagnant housing market by offering

buyers significant mortgage-rate buydowns. Labor shortages and rising materials costs are also making building homes more expensive.

D.R. Horton and Lennar, the two biggest builders in the U.S. by total volume, have experienced the biggest surges in potential legal costs.

Lennar's self-insurance reserve, earmarked for liabilities that insurance won't cover, rose 21% in fiscal 2025 to \$336.9 million, according to the company's annual financial statement.

2018'19'20'21'22'23'24'2500.20.40.60.81.01.2\$1.4billion

D.R. Horton's reserves for legal claims, which include expectations for future claims, rose 57% to \$1.1 billion from the end of fiscal 2022 to the end of fiscal 2025.

Nearly all of Horton's reserves for legal claims last year were for construction-defect matters. The company resolved 405 claims for a total cost of \$57.2 million, more than double the number of claims and their costs in 2022.

Tabatha Hayden, a paraplegic, had given up on finding an accessible home that she, her husband and their five children could afford. But then she saw a D.R. Horton-built house in Slidell, La., with a ramp to the porch, a wide doorway and a community pond in the backyard that reminded her husband of his childhood on the bayou.

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Now, the Haydens are involved in the Louisiana litigation against D.R. Horton. Their home has a mold infestation, the result of construction and design with inadequate ventilation and an HVAC system positioned in the wrong place to cope with the Louisiana humidity, specialists told Hayden.

One of her children has developed a sinus condition and another has chronic headaches. A third has developed skin rashes, she said.

"It's heartbreaking because we literally bought this house thinking it was going to be our forever home," she said.

D.R. Horton didn't respond to requests for comment.

One factor in pushing up legal liabilities: Plaintiffs' lawyers, such as those for the Seminole tribe and the Louisiana homeowners, are successfully challenging arbitration clauses that force defect claims against builders into private arbitration instead of court. They argue the arbitration clauses in sales contracts give the buyer no choice.

Those challenges have allowed a few cases to proceed in state court, where jurors are often perceived as being friendlier to homeowners than private arbitrators.

Homeowners with similar claims are also finding new ways to connect on social media. Seeing reports of others' problems can encourage homeowners to take action, said South Carolina construction-defect attorney Justin Lucey.

Several builders have also disclosed in filings that providers of insurance for construction defects are retreating from the market, forcing them to pay higher rates and cover more of the claims themselves through self-insurance.

Rising construction costs also inflate the expenses to repair defects, leading plaintiffs to claim larger damages.

Lawyers for home builders often fault aggressive plaintiffs' lawyers. Ian Faria, a lawyer in Texas who represents home builders, said that in new communities, plaintiff attorneys often go door-to-door, pointing out potential problems in homes and encouraging owners to consider litigation.

Once they find one or two takers, they then send out letters to the rest of the neighborhood encouraging them to join in, he said.

Some home builders say in many instances, the blame for defects falls on their subcontractors. Once they are presented with a claim, builders' lawyers will often attach their subcontractors to the case, arguing that any defects are their responsibility.

Subcontractors playing a role in resolving claims has helped Pulte decrease its self-insurance reserves in recent years, the company reported in filings.

Home builders are often willing to expend significant effort to recover costs from their subcontractors because defending themselves is enormously expensive. The legal costs for both defendants and plaintiffs are steep in construction-defect cases.

They often involve hiring expert witnesses and performing forensic investigations, said Florida attorney Bill Scherer, who is representing the Seminole tribe in its lawsuit against Lennar.

"It takes so much to litigate a construction defect, you spend more than you do to build a house," Scherer said.