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Work in progress

Idea of buying an unfinished home may encounter serious roadblocks

By Jeffrey Steele
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Last year, Neil Zamet learned about an eye-catching program in which a builder would sell him an unfinished home in Island Lake at a substantial savings. "I was fascinated," Zamet said of the program by Kenneth James Builders. "Coming from a background in ceramic tile and construction, I could go in and buy the home and do some of the work myself."

He said the home was offered at drywall stage, with plenty of work left on the interior. "I realized I could finish the whole inside of the home myself, or get some help from contacts I have in construction," he said.

Especially alluring to Zamet was the notion of purchasing a new home for what he estimates was a minimum of 25 percent off list price. Depending on the amount of sweat equity he was willing to invest, he could have reaped even more savings, he said.

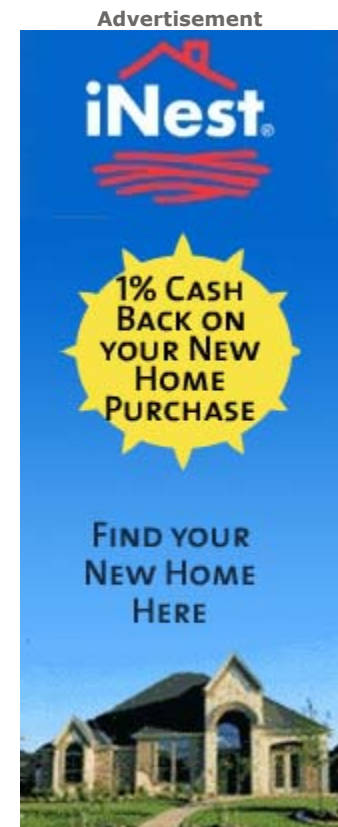
Zamet eventually decided to buy a completely finished home, due to family issues that necessitated a quicker move-in. But he feels the offer will appeal to like-minded buyers who have the skills and inclination to do much of a home's finishing work themselves.

Offering an unfinished home at a savings isn't a new marketing idea on the part of builders. In fact, it has reappeared time and again over the last few decades, often during periods of sluggish home sales like this one.

Frequently, it is seen at the lower end of the housing market, said Steve Hovany, president of Strategy Planning Associates, a Schaumburg consulting firm.

For instance, a \$200,000 home -- the entry-level price of Chicago-area new homes in the suburbs -- might be had for \$150,000 if the buyer is able to put in the finishing elements himself, Hovany said.

As appealing as the idea sounds, selling homes with raw space comes with built-in hurdles, he added.



"The idea that you finish the home yourself, doing the drywall, probably works if you're a tradesman, or if you can access that work among your friends," he said. "It gets the price down. The problem is that people stretch to buy the unfinished house, and don't have the wherewithal to finish it themselves."

Another roadblock may be funding the extra work.

If the homeowner is taking on a great deal of finishing work himself, he may be forced to obtain a second loan in addition to the mortgage to pay for building materials or labor.

"I think there's a financing problem," Hovany said. "The banks don't want to finance an unfinished house. ... They don't want to get an unfinished house back."

In addition, buyers and builders may run afoul of municipalities when it comes to occupancy permits.

"They'll let you get away with [an unfinished] basement, and you probably don't have to have drywall in your garage," Hovany said.

"[But] at some point, they say we're not going to give this house an OK until it's more finished. At some point, you run afoul of the building inspector. You can rough in a bathroom in the basement, but not in the master bedroom. The big concern is that the house will become derelict."

Dick Greenwood, vice president and director for Des Plaines-based Coldwell Banker Builder Marketing, agrees, noting many municipalities won't let buyers finish homes, citing building codes that safeguard health, safety and home values.

"If you finish the bathroom yourself, there's no guarantee you've done the work according to the building code," he observed. "As a result, the municipalities are against it. Nine times out of 10, [buyers] try to finish the job without building permits, no city inspector knows about it, and there are no inspections to guarantee the work is done in a professional manner."

"Many times, the municipality will tell the builder, 'You can't do it, because we'll lose control of what's being built in the community.'"

Moreover, finishing a home can often involve unexpected expenses.

Noting that "everyone thinks they're a tradesperson," Greenwood said buyers of homes with raw space often bungle the job of finishing a bathroom, thinking it will be easy until they actually get deep into the project.

"They end up suffering because they have to hire a professional to come in, correct the work, and finish the job," he said.

That's precisely what happened to a buyer of a home built by Empeco Custom Builders in Vernon Hills, recalled company vice president Curtis E. Perlman.

The homeowner insisted on having his own wood flooring contractor and tile contractor brought in to finish his home.

What happened?

"The tile shows up three weeks late," Perlman said. "That's huge. You can't do the trim work, or put the

kitchen in. It killed our schedule, costing us a lot of money. Then [the contractor] did the work, and to say it was sub-par would be an understatement.

"To top it off, he sealed into the wood floor pencil marks, paint drips and the normal wear and tear of construction that are typically sanded out."

Nonetheless, Kenneth James Builders LLC believes it has a solid marketing strategy in its offer of raw space. The Northbrook builder gives buyers a chance to reap savings in return for their own sweat equity in what the company calls its "U-Finish Homes Program."

The offer applies on single-family homes in differing levels of construction at Prairie Woods in Island Lake and Sunnyside in Libertyville, said president Carl James.

Prairie Woods offers 87 homes on one-quarter to three-quarter-acre heavily wooded lots, about 30 of which have sold. Sunnyside is an infill development that is under construction.

Over the years, James said, his company has fielded a number of requests from potential buyers about the possibility of buying partially finished homes at a small cost savings, and has entered into informal sweat-equity agreements with some of them.

Typically, the individual inquiring about the plan is a tradesman with friends in complementary trades.

"We think the attractiveness of this program is that there are lots of people who consider themselves handypersons or handy home buyers," James said. "A lot of them have a certain level of experience. It's not enough to build their own home from scratch.

"But if we take out of the equation the staking and siting of the home, the excavation of the home, the building of the foundation, the rough carpentry and the mechanicals like rough plumbing, electrical and HVAC [heating and air conditioning], they're more than qualified to do the finish work themselves.

He said he suggests they can do "trim carpentry, flooring and tile, cabinets and countertops, and finish the plumbing by installing fixtures."

Buyers can purchase homes at various stages of completion, but Kenneth James Builders prefers turning over homes at the post-drywall stage, where buyers "won't get in over their heads," James said. The number of homes offered at that stage will be determined by how many buyers are interested, he added.

Buyers aren't permitted to finish the exteriors of their homes.

"My reason for that is to protect the integrity," he added. "We want to make sure the exterior is done in a very expeditious manner, and with us controlling that, it does not become an issue."

How much can be saved? James estimates buyers might be able to take \$40,000 off the list price of homes by doing the finish work themselves.

How much they save in total will be dependent on the kinds of finishes they select and how much of their own labor goes into the home. At Prairie Woods, total savings might reach \$80,000; in Libertyville, buyers might be able to reap savings of \$150,000.

"We're trying to open up a market of people interested in taking advantage of sweat equity, and based on previous inquiries, we believe that market is there," he said.

While Hovany believes offers of homes with raw space tend to proliferate at the lower end of the market, there is also a high end for this concept -- a very high end.

At the Mandarin Oriental Tower in Chicago, just north of Millennium Park, a multimillion dollar raw space called the Jewel Box will occupy the 41st floor.

One of the tower's Residences, the \$21 million Jewel Box will provide 8,200 square feet of living space, 20-foot-high ceilings, an 875-square-foot wraparound terrace on three sides, and its own private elevator.

Asked why such a luxury setting would be served up raw, Martin Wolf, principle partner at Solomon Cordwell Buenz in Chicago, the lead architect, replied that those able to buy such premier spaces, or their designers, have a firm idea of how they would like the space finished.

For that reason, the architects set out to give buyers as much flexibility as possible.

"This is not at all atypical of super high-end buildings," Wolf said. "I've run into this on at least one other building where the top floor was not built out. They brought in their own designers, and did it the way they wanted to do it," Wolf said.

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