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Builders with buyers still building

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By Eric Martin | STAFF WRITER

Fewer homes have been sold, and they are spending months on the market.

And yet builders -- at least some of them -- are still building homes in the western suburbs, although at a slower pace.

Despite what some industry experts say is an oversupply of large, new homes, builders who are weathering a slowdown in the home market say business is good. It's just different from the time when homes were sold seemingly before they were advertised, often at higher than asking price.

Overall, 13 communities served by The Doings Newspapers saw a 19.2 decrease in the number of home sales between January and April, compared to the same period of 2006, according to Multiple Listing Service of Illinois data provided by the Mainstreet Organization of Realtors.

Speculation over

Some builders say that they have turned their focus, or kept their focus, on custom-built homes, rather than building houses on speculation. Many say home values are still strong in local markets, even if sales are slow.

In Hinsdale, which got a reputation as ground zero for the teardown trend, a record number of home demolition permits were issued in 2005, followed by a drop of nearly a third in 2006. During the first four months of this year, construction permits for new homes are half of what they were during the same period last year, according to village data.

In April of last year, the village had a 26-month supply of homes selling for \$2 million or more. This April there was a 35-month supply of \$2 million to \$3 million homes and an 81-month supply in the \$3 million-plus range, according to MLS data from Headrick-Wagner Appraisal Group. Homes are selling after an average 206 days on the market.

Allen Wightman is still building.

"The custom new homes, which means building for a client, is strong," Wightman said. "The speculation home market, where you build a home and try to sell it -- that's dead."

Wightman said his company, Hinsdale-based Wightman Homes, still has a spec home on the market, but it has been for sale for so long that he took it off the market and relisted it. There's too much inventory on the market, he said.

But construction is underway at Elm and Hickory streets in Hinsdale, where Wightman is building a home for a Hinsdale family that is getting a larger home now that they have three children.

He said the economy is still good and new home buyers are confident of values in Hinsdale.

Elmhurst has seen its construction permits for new homes drop by 45 percent over the last year; there is an 11-month supply of homes of \$2 million-plus.

Tim Schiller, assistant manager at Schiller Real Estate in Elmhurst, said that despite the large inventory, high-end new homes are selling in Elmhurst, as young professionals move in from Chicago.

He said the Elmhurst's market is in good shape, but builders are adjusting.

"Builders are becoming more educated. They're putting more quality into it because there is so much competition out there," he said. "And they're being more realistic with their prices."

John Doherty, owner of J. J. Doherty Builders, said business in Elmhurst is not as brisk as before, but it still is at a comfortable pace.

He said builders are seeing shrinking profits, because home prices have not continued to escalate, but costs have increased.

After having a spec home on the market for eight months, he has not purchased another site. Instead, he is focusing on custom homes.

"If you carry less property, and you keep your overhead down, then it's manageable," he said.

He saw it coming

Mike Barofsky warned of a market downturn a year ago. His Willow Springs company, Value in Land Inc., brokers teardown sales.

"It was coming, and boy it came," he said.

The problem, he said, is that the inventory of new construction homes is so great that it far exceeds demand. While he said the market is going to take longer to turn around than people realize, it also is healthier than they realize. But homes are spending much longer on the market.

He said his company has been receiving increased inquiries from buyers seeking to build new homes, but they are different buyers. They're more price conscious and more focused on prime locations.

"They're much more demanding on what they want, because they have more to choose from," he said. "It's a buyer's market, definitely."

More builders, then, are constructing build-to-suit homes, he said. And the builders that fare better are those who have been in the market for years and who kept a manageable pace during the teardown boom.

Schools still count

Clarendon Hills builder Bill Passero said homes are taking longer to sell, but he still has three homes in different stages of construction. He said Hinsdale and Clarendon Hills always have a lot on the market because they are in good school systems.

"What I've been telling people the last few months is it's actually a normal market," he said.

Passero said he focuses on finding good locations, since they always sell. He bought one property on Hinsdale's Lincoln Street a year ago, even while the market was soft, because it is "a great street to be on."

He said builders now are more willing to negotiate, unlike times homes sold at asking price or higher. But current market conditions have shaken out some of the smaller builders.

"You need one downtick in interest rates, and people are going to get off the fence," he said, referring to buyers.

La Grange

In La Grange, sales have decreased by 13 percent during the first four months of 2007, compared to the year-earlier period, but the 24-month supply of \$1 million to \$2 million homes in 2006 has shrunk to 12 months.

In Western Springs, however, there were slightly more building permits so far this year, and the 14 months supply of \$1 million to \$2 million homes in April of 2006 had more than doubled to 30 months this April.

Joan Smothers, of Smothers Realty Group in La Grange, said she has recently seen the first uptick in high-end new construction sales. Both she and Schiller said overblown media stories on home sales have had a negative impact locally.

But Smothers said sellers had to grow accustomed to a market in which buyers have more time to shop and are looking for amenities and details in a new home.

"What I've noticed is that the buyers are very particular, as well they should be, about price range," she said. "There was a day when they would buy whatever was new, and that's not the case any more."

She said builders who didn't jump into the market with everything they have are probably able to ride it out. But there also is optimism that there will be a turnaround.

"He who has homes up when it does turn around is going to win," she said.

A lot of inventory

Bob Headrick, chief executive officer of Headrick-Wagner Appraisal Group and an Oak Brook resident, said there had been hopes that high inventory numbers would begin dropping.

"It didn't happen this spring, and the fact that it didn't happen concerns me," he said. "I don't see that these inventory numbers can drop much, if at all, during the rest of the year. ... I don't know what it's going to take to get this inventory off the market. It will happen."

But Andrei Vorobiev of Xchange Properties, which brokers teardown homes, says the homes his company sells are an early indicator of what is to come in the new construction market. Vorobiev, a partner at the Clarendon Hills-based company, covers the Burr Ridge and La Grange area.

Prices are 5 to 10 percent lower, but teardown sellers appear to be adjusting psychologically to the new market.

Market warming up?

The company's broker covering Naperville to Elmhurst recently saw his best month yet in terms of sales. Vorobiev said it's a sign that the bottom of the slump is near.

"It is an indicator that people are coming on the market," he said. "We see that people started buying, but they are buying on a different level."

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