



PETE RYAN FOR WSJ

How to Keep Workers On the Job

COUNTING HOUSE |

ROBYN A. FRIEDMAN

Here are some steps you can take before the work begins to make sure the contractor doesn't walk away from your project

Remodeling is often one of the largest expenses a homeowner will face after buying a property. Luxury-home renovations average \$120,000 to \$250,000, depending on the location and scope of the project, according to data from home-services marketplace Angi. So, what happens if a contractor walks away, leaving the job unfinished and your budget and timetable a mess?

Under a standard American Institute of Architects contract, which is frequently used for high-end remodeling projects, contractors can stop work or terminate the contract if they aren't paid on time, said Jared Paioff, a New York City attorney who specializes in real-estate litigation. Other than that, it's a breach of contract if a contractor walks off the job. While that happens rarely, industry experts said, the Better Business Bureau and the Federal Trade Commission warn on their websites about home-improvement scammers who will take your money and run.

The easiest way to prevent a contractor from walking away is to hire the right one. Check candidates for licensing and insurance, ask for their references and read online reviews of their work.

In New York, you can also use NYCourts.gov to see if any lawsuits have been filed against the contractor. Other states provide similar online court searches.

But what if, despite your efforts to vet the contractor, he doesn't complete your project?

Bill Feinberg, president of the Florida remodeling firm Allied Kitchen and Bath, said there are warning signs: phone calls that aren't returned, work grinding to a halt and inspectors not showing up to approve work performed.

Here's where AIA contracts offer some protection, because they provide that contractors get paid in installments, after certain phases are completed and the architect signs off, Paioff said. A properly written contract includes a retainage clause, allowing the homeowner to hold back a percentage of the project cost—typically 10%—until completion. Those funds can be used to hire someone else to finish the job, if needed.

A liquidated-damages clause is also recommended to keep things on track. It requires the contractor to pay a set fee for every day the project isn't completed after the date specified in the contract, unless the delay is due to something outside the contractor's control.

If a contractor walks off the job, homeowners need to follow the terms in their contract, including notifying the contractor, giving him an opportunity to resolve the problem, and then, if there's no response, terminating the contract and hiring a replacement. If the cost of finishing the job is higher than the contract price, the contractor is responsible for the difference, and the parties will go either to mediation, arbitration or court if they are unable to resolve the dispute, Paioff said.

Here are some additional steps you can take to ensure a contractor completes your project.

Get a permit

A contractor who offers to do the job without a building permit is a red flag. "In every case where a customer got into trouble, the common denominator was that the contractor didn't obtain a permit," said Feinberg. Contractors who get permits almost always finish the job because they can lose their licenses otherwise, he said.

Hire an owner's representative

An owner's rep acts as an intermediary between you and the contractor. Miltiadis Kastanis of Compass in Miami attributes the skill of the owner's rep to the successful completion of a \$1.5 million remodel of a Miami Beach condo a client bought in 2024 for \$5.25 million. The rep "eliminated a lot of stress and saved time and money" by catching potential problems, like when the subcontractor almost installed flooring incorrectly, he said. Owner's reps typically charge a monthly fee of \$5,000 to \$10,000, Kastanis added.

Ask for a performance bond

Performance bonds guarantee that a contractor will complete a project. If a contractor walks away or files for bankruptcy, the bond company will arrange for completion or cover the additional cost to finish the work, up to the bond amount, said Diane Delaney, executive director of the Private Risk Management Association. The bond is obtained and paid for by a contractor from a specialized company or insurance agent, and the cost runs 1% to 3% of the project estimate, she said.

Remember subcontractors

If they aren't paid by the contractor, subcontractors have the right to file a lien, or legal claim against your home. The contract should say that as each phase of a project is completed, the sub who performed that work will provide a lien waiver to the owner, according to Paioff. If the subs have done their jobs but weren't paid, consider paying them. To avoid paying twice—once to the sub and again to the contractor—get a release of claims and a lien waiver from the sub.

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