

# Home Equity and Wealth Stolen from American Families through Illegally Renovated Homes

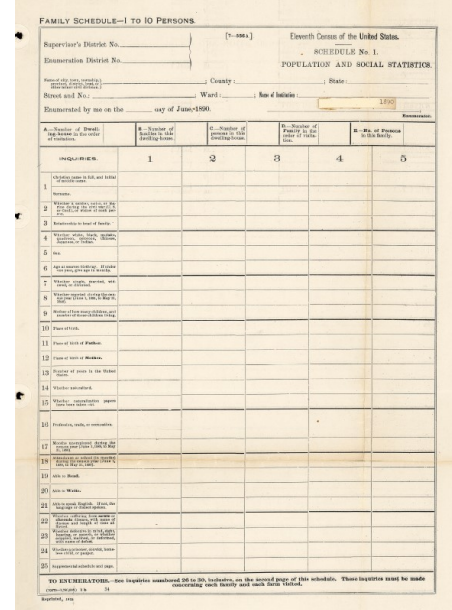
Report 1: Introduction and Illegally Renovated Single-Family Homes in Majority Black Chicago Neighborhoods  
September 29, 2023

By: Vaughn Harrison

Homeownership is the foundation of Wealth Creation for American families, and for many, it is fundamental of the American Dream. Habitat for Humanity reports that “decent, affordable housing provides a solid foundation for households...”, and Scholastica (Gay) Cororaton, in her 2022 National Association of Realtors Economists’ Outlook Blog states that, “Homeownership is the largest source of wealth among families”, and that “Housing Wealth (home equity or net worth) gains are built up through price appreciation and by paying off the mortgage.”

For more than a century, dating back to as early as 1890 according to the US Census data, the U.S. has tracked homeownership statistics. Historically, average homeownership rates have fluctuated from approximately 43% to 70%, with the lowest average rates experienced during the early 20<sup>th</sup> Century as a result of the Great Depression, to the highest rates experienced during the late 2004 to early 2005 period.

Unfortunately, however, not all Americans have experienced homeownership at equal rates. Through the discriminatory processes of Redlining, predatory lending, land contracts, and other restrictive methods rooted in racism, many Americans were intentionally kept from realizing the American Dream via homeownership. Consider this; while White American families have historically averaged in excess of 70% homeownership, Minority American families (e.g. Black and Hispanic) have lagged significantly. Black Families as an example, have never reached a homeownership rate above 50% (highest rate of 49.7 in Q2 2004) in the nearly 30-year history of recording housing data by race, and Hispanic Families have only managed to achieve the 50% threshold in 7 quarters during the same historical period.



The image shows a historical census form titled 'FAMILY SCHEDULE-1 TO 10 PERSONS' from the 'Eleventh Census of the United States'. The form is used for recording population and social statistics. It includes fields for Supervisor's District No., Enumeration District No., and the name of the person enumerated. The main body of the form is a table with columns for '1' through '5' and rows for various categories such as 'Total population', 'Total population under 18 years', 'Total population 18 years and over', etc. The form is partially filled out with handwritten numbers.

Despite the ongoing struggles many Americans face in achieving homeownership, this report does not endeavor to revisit the historical and current issues related to housing discrimination and the theft of American wealth via redlining, predatory lending, land contracts, biased appraisals, etc. Instead, the purpose of this article is to highlight and review a more recent, opaque strategy that is used to steal American wealth...

## Scenario

Imagine for a moment, that you are searching for a move-in ready home in a Seller’s market (In a Seller’s market, housing inventory is lower than home-buyer demand). After searching for more than a year, your Real Estate Agent locates a property that was recently renovated by an investor who purchased the property less than a year ago. The price for the renovated property is at the top of your budget, however the home is described in the Multiple Listing Service (MLS) as a full gut renovation. It’s finished with new cabinetry, quartz countertops,

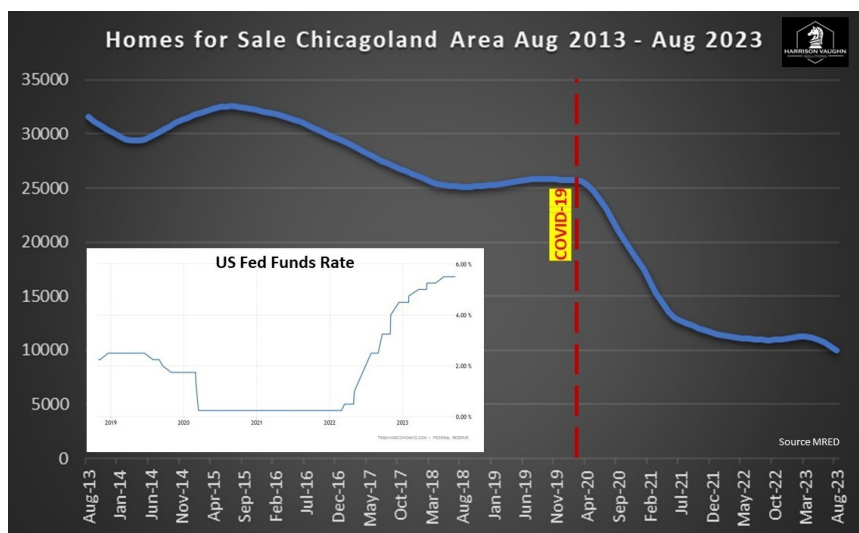
new plumbing fixtures, ornate light fixtures, recessed lighting, a dishwasher, modernized bathrooms, and a fully finished basement with a family room, bedroom, laundry room, and bathroom. You and your family fall in love with the home and decide to immediately submit an offer. The property shows well, so there is a multiple offer situation that calls for highest and best offers in a matter of 2 days. After a round of highest and best offers, you are informed that your offer for the full asking price, which represents the maximum value of the home with respect to comparable sales, was selected. Approximately 45 days after the purchase contract was executed, and after the Home Inspection and Appraisal are completed, you close on your home and celebrate at the closing table with your Real Estate Agent, Attorney, and Mortgage Lender. You are on your way to generational wealth!!!

A month after you and your family have moved in, a few recurring issues, which you previously noticed but didn't think much of, are now becoming a nuisance. Your kitchen light fixtures flicker, and the water pressure in the newly modernized ensuite bathroom shower is very low, to the point that the shower cannot be used when the washing machine or dishwasher are running. You recall that you received a home warranty at the closing and decide to schedule service. Upon completion of the technician's visit, you are informed that cloth-covered electrical wiring is fraying behind the walls and requires updating, and that the water service line coming into the house is not large enough for the additional plumbing that was added as part of the renovation. The technician also highly recommends that the original galvanized plumbing lines be replaced because they are all showing signs of decay and significant interior rusting. The replacement cost for the outdated wiring, which is a top priority due to the risk of fire, will be \$16,000 **excluding** refinishing walls and ceilings. The water service line replacement will be \$25,000, and the cost to update the plumbing system will be \$27,000. The additional work to refinish the walls, ceilings, and tile, post the repairs will cost approximately \$25,000 plus materials. Permit costs will be \$2500 plus the bond required by Chicago for opening the sidewalk, the street, and tapping into the city system unless you are eligible for the Chicago Service Line Replacement Program.

### How did we get here?

Nationally, during the housing boom years between 2004 and 2005, house flipping, widely described as the process of buying, fixing, and reselling, peaked at approximately 8% of all home sales. After the housing bubble burst during the Great Recession era between 2007 to 2009, the availability of foreclosures allowed speculative real estate investors to purchase distressed properties at low acquisition prices, renovate, and resale to a buyer for a profit. **NOTE:** As an important fact, and what proved to be a detrimental outcome of the Great Recession, Single Family Housing Starts, a measure of the number of New Construction Residential Homes, shrunk by almost 50% when adjusted for the increases in the U.S. population (Data Source: National Association of Home Builders).

A decade after the housing bubble burst, another financial crisis, this time by way of the global COVID-19 pandemic, caused homes available for sale to decline. Specifically, in the Chicagoland area, homes available for sale declined considerably (40%) within a few months, while demand was high as the Federal Reserve reduced interest rates to historical lows, and as the U.S. population received stimulus money from the U.S. Government to offset fears of an economic collapse due to COVID. All this, while the housing market suffered from already low inventory due to the Housing Starts falling by more than 50% in the 10 year period prior to COVID due to the Great Recession. The combination of low inventory, low interest rates,



and what I call a hyper-competitive market, caused a Chicagoland real estate dynamic that seemingly created a perfect real estate storm. In addition to the market dynamics, and to add more complexity, the City of Chicago Department of Buildings fully introduced a modernized Construction Code on August 1, 2020, requiring that permit applicants adhere to what I describe as Chicago's version of the International Building Code. All during COVID...

Without going into the nuances of the Chicago Construction Codes, or attempting to unravel and discuss possible budget constraints and/or improvement opportunities within the Chicago Department of Buildings or its administration of the Construction Code, the expectation of the Chicago Department of Buildings, as is the expectation of every other municipal Building Department, is clear. That is, any party performing a renovation and/or repair, shall adhere to the Building Code and Building Department requirements, which at the core, require a building permit and applicable inspections as aligned with the scope of work. It should be noted that building codes, not limited to the Chicago Construction Code, are fundamentally designed to protect the citizenry by ensuring the safety, functionality, and integrity of a building. **Profit margins for investors are not a consideration.**

As will be shown shortly, adhering to the Chicago Building Code expectations have proven difficult for investors (flippers). Acquisition prices and housing demand have increased proportionally; In Chicago, post COVID-19, the median market time for Single Family Detached homes decreased by more than 50% (demonstrating demand), while sales prices rose by roughly 25%. As a result, speculative real estate investors who planned to generate margin after purchase and renovation (flipping), were no longer able to achieve the desired returns due to housing market conditions. The risks, as experienced by speculative investors, associated with the housing market were exacerbated by historically high rates of inflation, which caused material prices to increase, and overall construction costs to rise (labor and materials). Along with these dynamics, was and is an ongoing construction labor shortage which some in the industry describe as “extreme”.

## The iconic American hard hat job that has the highest level of open positions ever recorded

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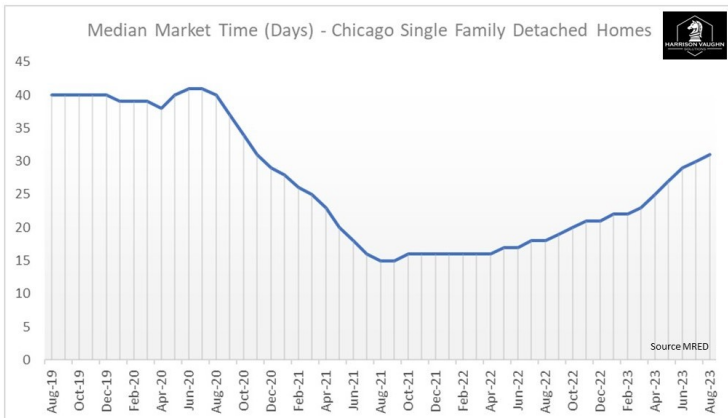
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The construction industry in America is facing an extreme labor shortage, roughly 650,000 workers, slowing completion of construction projects from residential homes to infrastructure to hospitals.



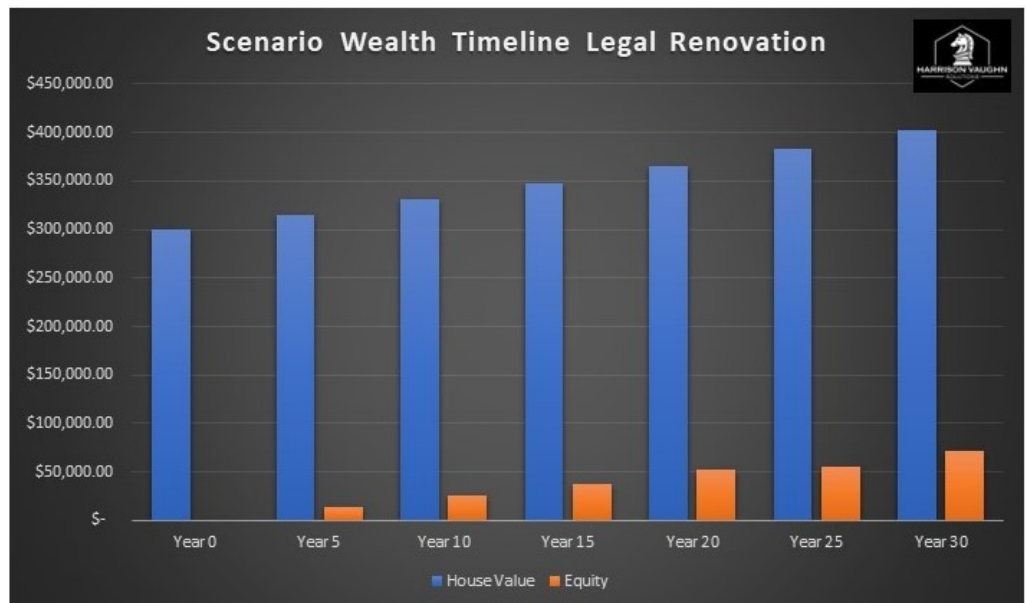
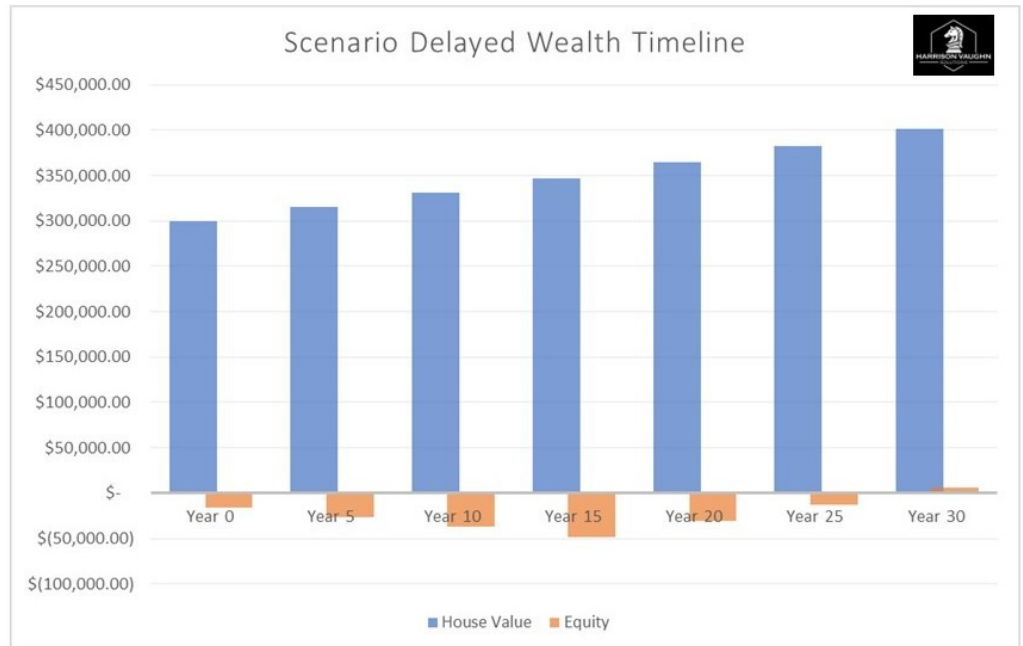
## Stolen Wealth and Accrued Wealth Through Equity Deferred

If you are reading this report, you may be wondering how a property that was illegally flipped is related to Stolen Real Estate Wealth. Well, as pressures on the Chicago Real Estate market have continued, speculative real estate investors (flippers) have demonstrated a seemingly desperate need to cut costs in an effort to continue maximizing returns. Unfortunately, as the data will show, some costs have seemingly been cut through the completion of renovated homes that were not accompanied with the proper building permits and inspections. In the City of Chicago, where 40% of the housing stock was built before 1939, obtaining the correct building permits and getting the proper Building Department inspections become paramount, and in some cases, following proper protocol is a matter of life or death as will be discussed in future reports.

In the case of the previous scenario, which by the way is not an exaggerated situation, real estate wealth was stolen through the acquisition, illegal renovation, and reselling of a home. Recall that at the core, Real Estate Wealth is created through the combination of accrued equity and home value appreciation. If a property was marketed and sold as a full gut renovation, adorned with finishes that give the appearance of a new home, the average homebuyer assumes that the property has also received an update of all major systems. As a result, in exchange for purchasing the home at its maximum value for the area, the homebuyer assumes a near defect free experience over a reasonable period of time. For comparison, buying an illegally rehabbed home is analogous to a buying an antique vehicle being sold as a frame-off restoration, only to learn that the aged vehicle only received a new paint job, new wheels and tires, but has the original engine and transmission that were never maintained.

**Regardless of the amount of time elapsed at which a defect occurs on an illegally rehabbed home, wealth is stolen because of the expectation of work completed and paid for via the purchase price.** The costs incurred to

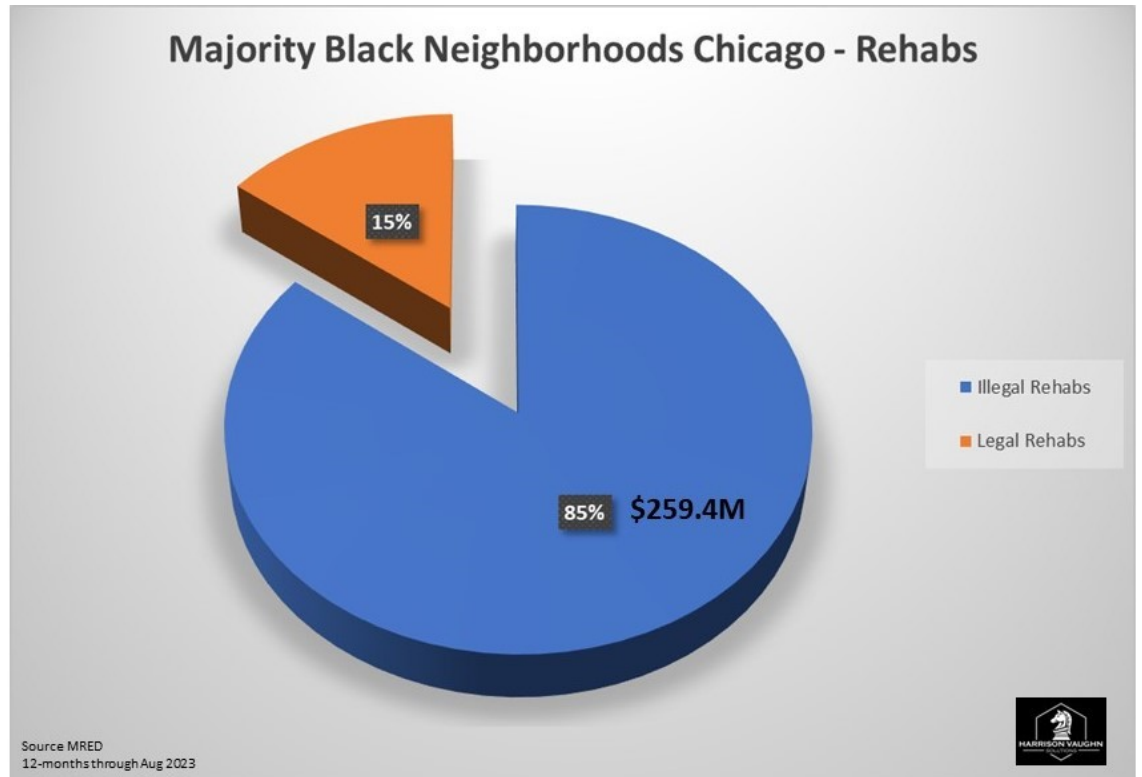
repair an illegally renovated home can never be recovered, and in the case of the scenario, the homeowner has immediate negative equity...Stolen Wealth...That is, the money the homeowner must invest to remedy the issues has already been paid to the investor who performed an illegal renovation and never completed the repairs. Like the American citizens whose accumulation of wealth was deferred for decades due to Redlining, homebuyers who have paid a premium for illegally rehabbed homes have wealth deferred until the total costs to properly update the home are offset by its appreciated value. In the case of the scenario, and using a cash purchase model for simplicity (it is understood that most homebuyers leverage a mortgage), with an appreciation of 5% every 5 years, the homeowners Real Estate Wealth via equity accumulation is deferred until **Year 30** (based on the total repair cost as quoted by the technician paid over time in 5 year increments) while Real Estate Wealth equity, under the expectation of a legal renovation, would have been realized in **Year 5**. The 25-year delay in wealth accumulation could be life altering!



## Renovated/Flipped Single Family Detached Homes in Predominantly Black Chicago Neighborhoods: The Data

**IMPORTANT NOTE:** One fundamental outcome of this report and series of reports to follow, is to reveal factual data to help quantify the impact of illegally renovated homes in Chicago. Chicago is comprised of 4 distinct race groups as part of its population (White, Black, Hispanic, and Asian). Chicago Neighborhoods, as the data reveals, are heavily segregated by race, and as a result, the data forms itself around the segregated populations. To that end, the analysis and reporting priorities are dictated by the results of the data. In simple terms, the data is objective and doesn't care about racial disparities, nor is it biased. Succinctly stated, the data doesn't lie.

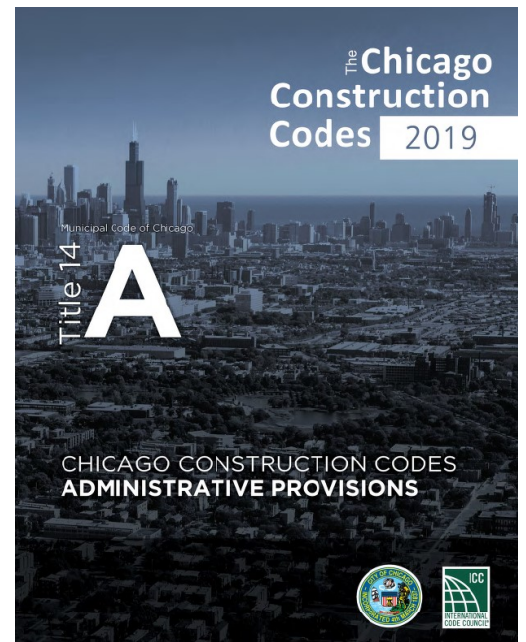
For MLS Real Estate Sales, during the previous 12-month period ending with MLS Data through August 2023, **85.484%** of Rehabbed properties sold in majority Black Chicago Neighborhoods (50% or more Black as reported in the CMAP Date (July 2023 Release)) were **illegal**. The cumulative sales value of those illegally rehabbed homes equals \$259M. For the same criteria, **14.516%** of the rehabbed homes were **legal**.



### City of Chicago Department of Buildings statement on illegal renovations:

**14A-4-401.1 Permit required.** It is unlawful to construct, enlarge, alter, rehabilitate, *repair*, move, demolish, or change the occupancy classification of a *building* or *structure*, or to erect, install, enlarge, alter, *repair*, remove, convert, or replace any fire protection, electrical, gas, mechanical, or plumbing system, or *conveyance device*, the installation of which is regulated by the *Chicago Construction Codes*, or to cause any such work to be performed, unless a *permit* for such work has first been obtained from the *building official* in accordance with this chapter or the work is exempt from *permit* under Section 14A-4-402.

While I will go into further details in upcoming reports, as a final comment for the initial report, homebuyers can avoid buying illegal renovated homes by obtaining copies of Building Department Records. In Chicago, records can be found online via the Department of Buildings website, and outside of Chicago, buildings records can be obtained via an FOIA request at the appropriate Village/City Hall.



## Upcoming Reports

Over the next few months, I will continue with additional reports, and will delve into the following:

- Chicago Renovated Homes by Demographic.
  - Majority White Neighborhoods
  - Majority Hispanic Neighborhoods
- The history of house flipping.
- House flipping and Mortgage Fraud.
- Chicago disasters caused by illegal construction activities.
- Examples of illegally renovated properties discovered in the data
- Chicago Building Code Enforcement and Enforcement Penalties.
- How to avoid buying an illegally renovated home (Referring to the Scenario and providing other fact-based examples).
  - Retrieving Building Department Records
    - What to look for in Building Department Records
- The fiduciary duties of a Licensed Real Estate Agent
- Industry Solutions
  - Impact
  - Training
  - Discipline

**NOTE: At no point will Vaughn Harrison release the names, organizations, or other identifiers associated with illegal rehabs unless compelled to do so by law.**

*Vaughn Harrison, a native of Chicago, is the owner of Harrison Vaughn, Inc. Vaughn is a Business Consultant who provides Project and Program Management services and specializes in delivering data-driven solutions for complex problems. Vaughn has an Illinois Managing Real Estate Broker License, HUD Consultant credentials, and a Building Permit Expeditor License in the City of Chicago. With an educational and experiential background in Engineering, Six Sigma, Project Management, and Program Management, Vaughn leverages his unique skill sets to achieve his commitment to improving the socioeconomic conditions of communities in the Chicagoland area. Unmotivated by being in the public eye or receiving approval, Vaughn does not make decisions or act based on dogma or popular public opinion, thus the formation of his corporation's mantra...*

*Disrupting and Transforming the Status Quo.*

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