

Episode 8: What Could the Future of Housing Look Like?

Welcome to Dwellings, a podcast from the City of San José Housing Department, where we talk with experts about ending homelessness, building affordable housing, and exploring housing policies at the city and state level. I'm your host Alli Rico.

On today's episode, I'm joined by David Friedlander, CEO of The Change Order Group, a climate and innovation-focused development company, for a conversation about what the future of housing might look like.

Alli Rico (AR): Housing construction in the Bay Area is incredibly expensive. What, what are you expecting to see from both the real estate like purchase market and rental prices when the pandemic ends? Whenever, whenever that might be.

David Friedlander (DF): Yeah. To answer this question, um, kind of have to go back to, uh, to 2009 or thereabout and start looking at when, uh. Essentially what happened with, um, I mean the buildup of 2009 and 2007, the subprime conditions that caused it, um, were a function of people, you know, essentially commoditizing the American dream, um, you know, building houses so people could, uh, you know, could occupy them taking enormous amounts of risks with debt on the supposition that there would be future markets for housing for various adjacent industries. Right? We get through that and instead of bailing out, instead of bailing out tenants and homeowners, um, you know, the fed and the government decided to bail out the banks. And it's, in my mind? It's it just solidified the, um, the commoditization of, of housing, um, and where essentially whoever has the most money wins, you know? And for the last 10 years, most of capital market, uh, real estate development has been focused on uh, places like San Francisco and New York City, because these were hubs of global finance. So the richest people in the world, um, I mean, there's, uh, there's a million, uh, millionaires in California and, uh, by far the highest percentage of billionaires in the world, um, in, San Francisco, um, you know, the median price. So. So you're, I mean, you're just so stuffed packed with, with money. Um, now the thing was, money used to like multi multi-family development, largely because they saw it as, as both an appreciating asset. And also, um, I heard this term recently called a "swanktuary," which is right up there with McMansion. Um, so it's like, you know, I mean, I don't know about you, but I can't afford a \$5,500, two-bedroom apartment, you know? Um, yet seemed to be, you know, New York City and San Francisco, you know, like, You know, they just kept on building and building these things. And, and this has been, you know, my rallying cry for, for ages, which is, you know, that, that the stock is a mismatch for the market. Um, and if you actually want good stock, you have to go back in time. When, you know, when architecture was actually built around people's needs, instead of, you know, instead of this commodity, uh, focused, um, uh, development, um, and instead of designing around, uh, you know, people's needs, designed around marketing needs and, uh, and those are, you know, oftentimes... So anyway, you know, to get to your answer, um, like in 2015 Ed Glazer, did this report, um, I was just looking at it the other day. Uh, was it, um. At the time, the average unit, uh, construction cost with, uh, what's a minimum profit, um, NPCC, uh, was, um, \$800,000 and

only, no. The cost was like, uh, it was around \$250,000 in the actual sale price was \$800,000. And all of that was around land use restrictions and all this nonsense. It had nothing to do with the actual cost of the house.

AR: Land around here is so expensive. And then I, like, I have like, just touched the surface on understanding the cost of land and, uh, the cost of construction. But I I've heard from, like attending public meetings, um, and listening to, to council meetings that, you know, like the cost of developing market rate or affordable housing - subsidized affordable housing - is, is going through the roof. So if you, if you, if you want to talk a little bit more about like how construction costs and land use costs kind of also impact how those prices are going to either fluctuate or continue to skyrocket.

DF: Uh, I mean, I'm going to allude to, uh, um, you know, another question, which is like the, you know, the future of cities, um, I'm going to go to two ways with this question. One is, um, one is there, there's certain places that are kind of always, um, well, uh, again, there's going to be a severe asterisk on this, but there are certain places that are kind of always beautiful. You know, generally speaking, those places, and California in general, is going to be a durable market, 'cause it's been a durable place for a long time. Um, So, so, you know, kind of central locations with good, good weather and whatnot, those places are just going to always be valuable. Pre-COVID and all this stuff, I mean, there there's, there's long been huge labor shortages, um, uh, in, in the Bay Area. Um, and that's driven by a number of number of things. One is just a lack of advocacy for, for the trade, uh, which is kind of ridiculous. Um, it's, uh, a very well paid, um, trade, like carpentry is, uh, is a very well paid trade and it's very useful. Um, and yet, uh, there's a, um, a shrinking body of skilled workers, and [Issi Romem did a, did a report on that a couple of years ago about the declining number of, of young people interested in, uh, in the building trades](#). So a scarcity of workers, and then on the top end like general contractors and whatnot, they actually do have a very hard time, because of the cost of land use restrictions and, um, and rising material costs. And, uh, and the overall cost of development, they, they actually do have a hard time. Um, now that I don't want to, I don't want to overstate their plight, but, it is a complicated formula to make, to make things pencil, um, because the margins are tight. And then what, generally how they deal with that is, is scaling up and making, you know, big, uh, you know, the big capital projects go towards those towers and stuff like that. One of the asterisks that I had about, you know, California always being a, uh, a beautiful place. I mean, I think, you know, the, the wildfires and droughts and stuff like that, and, you know, very, uh, you know, very, very, uh, very real threats, uh, can, um, you know, can up-end any of those sort of, uh, real estate maximums about durability of markets. The way America has been developing for, for ages is, we just go where the building, where there are no land use restrictions, where the building, uh, oversight is minimal. So right now, um, the, you know, capital markets and, um, you know, the large flow of investment, there are all going to places like Arizona and South Carolina and places like this. And these were places that basically could not exist without air conditioning, you know? [Arizona or some, I forget if it was Phoenix or all Arizona had 144 days over 100 degrees this year](#). So, we're building these like, colonies for people who live in air, you know, climate-controlled environments and, and just, you know, depleting water tables and so on and so forth.

So, um, yeah, these environmental things are very, very real. And, and even like in Northern California, like in, you know, I think in North Bay and whatnot, you know, they're still building these single family houses, you know, very, I don't wanna say heedless, I think they're, you know, getting quite aware, but eventually the cost of, I, I know there's large parts of, um, you know, California that are becoming uninsurable.

AR: What, what do you think will be different about where we build homes or where people want to live once this pandemic is over?

DF: My parents, or, no. My grandmother's family fled Germany in 1933. And I'm just, you know, I just keep on looking. It's like, you know, these guys have, have, have dealt with this before, right? Like they've dealt with, they've dealt with epidemics too, you know, or pandemics or whatever, like all these. And, and so to answer your question, you know, um, like this kind of facile, like, you know, "density, density, density," um, is, is wrong because like, if you go, so, um, and, and also - Just, just to tell you how I relate, um, I was... I'm back in Colorado, kind of temporarily. And, um, I was in New York, but, um, I moved to New York from Colorado, and it was between moving to New York or moving to the Bay Area where my, uh, where my Aunt Spring lived. And, um, and the reason I chose New York, uh, was, was the public transportation system. And that, that I was able to live car-free, you know? And um, you know, that part was, was, was, was definitely great. And that was the, that was the determinative thing. Now over the, over the course of the last, whatever, um, you know, 10 years, six years or something like that, especially since the YIMBY conversation has been so vocal, um, I think there's been a little bit too much focus on, um, you know, just density as a catchall and density as, um, as a very nuanced topic, you know? And something that really needs to be tempered with, um, you know, uh, economic drivers, um, cultural, you know, kind of societal needs for the particular place. So, you know, um, so ideally, um, I mean, really people are not doing this, the American and. I was, um, you know, I was in this, uh, [Netflix documentary about minimalism](#), right. And my whole thing. And I was in, and that was a part of this [Making Room exhibition with the national building museum](#) and whatnot. And really just speaking out against the, sort of the ravages of single-family housing and Americans really don't seem to have with, you know, learned their lesson. They don't really understand how destructive single-family housing is on, on so many levels, and how many options there are between, you know, a McMansion and like, a micro-apartment, you know? Like, townhouses are great, you know, duplexes, triplexes, whatever! This is smart density and I mean, this is, this is a concept with The Change Order Group. I'm trying to build a fund and an investment and development platform. Uh, and I have an idea which is called the "minimum viable building." Um, and essentially, what people do is developers and investors do nowadays is they, they create these housing, that housing, but it has no relationship to the environment, to the local economy, to food. You know, to food - like what, what happens when there's food shortages, you know? Uh, do we have agriculture, local, agricultural resources to, to handle this, you know, to handle the density that we, or are we relying on, you know, the, the vagaries of the climate in Iowa, right? Um, and you know, really considering every part of, uh, you know, how, what does this building touch? You know, the people, it touches the, the economy it touches. Um, and, and just really thinking that through.

AR: You've kind of touched on this a little bit. Um, there's been this, this conversation about how, like, "cities are canceled" or "cities are over." Um, and we're seeing a lot of people that are leaving, you know? Like, I know that there's been plenty of plagues and pandemics in all of our cities in the past and like, that's why older apartments in New York look the way they do where they have like windows going all the way through front to back, so there's airflow. Do you, do you think that that's actually true? Are cities -

DF: The impact of health and all that?

AR: Yeah, like, are cities canceled?

DF: [laughs] Uh, I don't, I mean, cities as a urban formation are, I don't think are ever going to be, you know, I mean, we've been going since Mesopotamia, um, more or less. But, um, I mean these mega, these mega cities are unsustainable, you know, straight up. And to my mind, I think, because they do - A lot of them do have intrinsic values, um, you know, I think they should be retrofitted. Um, but definitely not, not built up in the same way. Um, you know, really, uh, dispersing populations and, and, and, you know, planning and, legislating for economic, racial, cultural, diversity, you know?

AR: You mentioned it, And I I've looked at some of your medium pieces about, um, the kind of like, I think you might have called it in one piece, like congregate living? The idea of like, you have shared amenities, but you have your own sleeping/living space.

DF: Yeah, I think what I, I think is the future of co-living and collaborative living, it becomes much, I mean - This is my ideal and this is where, you know, I, I want to go is, um, you know, seeing it far more, uh, integrated into the process, like really taking into consideration human needs and, and the efficiencies that can come from things like congregate housing cause, um, uh. I've been married and I've been in a number of committed relationships and lived with people and children, various and roommates and whatnot. Uh, but at the ripe age of 44, like I don't like living with other people if I'm single. Right? Uh, like I, I like my own damn space. Um, and I think. I think most people agree with that. Like you need, you need a place where you can kind of stow away and lock away. And the fact is, I mean, I don't know what the stats were before, but, um, you know, 28% or there. I mean, definitely in the last census, it was around 28% of the population is single and it might even be higher, I think it's higher than that anyway, like a huge pop, you know, proportion of the. Uh, of the population is single and we need to have really good options for them. Um, there's just, uh, and. And the other thing with like, um, I mean, I don't, I, I mean, it probably varies a little bit and you can vary the product a little bit, but like, I don't like cooking for myself. It's like, it's depressing, you know? Um, and kitchens are one of the, you know, one of the main expenses. So, you know, having just my own private space that I can call my own and, you know, and, and have access to other stuff and, um, you know, social spaces and whatnot is, um, I mean, w that's what they do in Europe. So let's just do what they do in Europe! It's like, why are we acting like this is a new problem? I go like, "Oh, people like to interact with other people instead of just being holed up, you know, watching six hours of CNN," you know? Like, oh, you can go to the, you know, the, the platz and like, you know, talk to your old school chum!

AR: Do you see, um, given like the, the pandemic and everything, do you see that model of housing still succeeding in the future? Or like what, what kind of shifts are going to need to happen in order for that, that type of, uh, housing model to still be successful?

DF: Yeah. Um, I mean, people are gonna need to get, I mean, first of all, there have been some reports that, uh, that, um, and I, and I have some, some, you know, substantiation of this that, you know. Some areas with co-living, we're actually doing quite well because of the social isolation aspect. Right? Um, you know, I lived in, I was in New York city until March and, you know, as things, um, shut down, like the, you know, the value of the city is, is gone. Um, so all of a sudden, you know, like I couldn't go to restaurants and, you know, museums and whatnot and, and, and then all of a sudden the architecture got a lot less interesting, you know? Um, and I was like, I want to go into nature. And, you know, I think a lot of people, you know, uh, um, followed that same impulse. But, you know, with the, with the co-living model, you have a certain level of social socialization, uh, in, you know, built into your housing and, um. You know, we're talking about the public health threats of, of COVID, but you know, like all of these things, like, um, you know, social isolation, I mean, I heard, you know, suicide numbers are through the roof right now and, and, and all these things. So we need to design housing around people's needs. And I think, you know, having, having a strong social component like co-living, um, I mean, you can, you can kind of always, always tweak with the, with the particulars of it, but, uh, essentially having, you know, a private space and shared amenities, I think that's not going to go away. Now here's the big aha moment I had in the last couple of years, which is, um, really co-living is not that much different than a hotel. And right now the hospitality industry is collapsing, like no other industry. Um, and. You know, I'm, I'm, I'm a big believer in low hanging fruit and obvious answers. And, um, uh, while I was with 'em while I was under the employee of Panoramic Interest, I did a white paper for them, uh, about [converting residential hotels and bringing back the residential hotel](#), which, um, I did some, uh, some research on it. And if you ever are into the topic, check out this guy named [Paul Groth, and he goes into the history of residential living](#), uh, housing and San Francisco was really, it was a huge, huge, uh, part of the - I want to say it was like 14% of the overall housing stock was like full-time residential hotel. I've been living more or less in hotels for the last year for a variety of, uh, unfortunate reasons. But, but I also, I like hotel living as a single person. And some other research that I'm pretty sure, [Issi Romem was responsible for as well, uh, it was talking about how, when the economy is doing well, people, people tend to move around](#), um, and having, you know, lightweight, you know, safe, clean accommodations, um, you know, is a vital part of that. And, um, I think there's a ton of potential for really bringing, bringing that model back. Um, and, and with the collapsed, uh, residential market, um, it's kind of the high time to do it.

AR: Yeah. And we're kind of already seeing it here with like, with Project Homekey, granted it, they're being bought for sheltering our homeless residents, but it's that same idea of like these hotels aren't being used and what a waste of letting them sit vacant when they could very easily house 70 or 80 people.

DF: Hotels are awesome! Yeah. And it's like, okay, well you can make one a homeless one, but you can also make one for people making \$27,000 a year, you know? And like, and those people are going to have, you know, those people are gonna like really enjoy it, you know!

I'm a huge fan of hotel living and, and, and I mean kind of going back, I mean, it was so unfortunate, but I mean, I think it's in my blood. My, um, so my grandmother, um, Eva Strauss, um, she, she, she actually eventually landed in Berkeley, but she left Germany in 1933 and then was in Switzerland, France, and England, and like all these places in between, you know, in New York where she met my grandfather. And it's just, you know, it's, it's, it's, it's actually a lifestyle that, you know, was once quite in fashion, like, you know, living in hotels and you know, you go down to you're to sometimes they have a restaurant and you go down and you see, you see people or you don't.

AR: Um, and we also in San Jose, we've been, we've been opening these, like, modular tiny homes for - the ones that we've been opening have been to house our homeless neighbors. Um, does the concept of like that type of living, does that also kind of fit the model that you see of the future of co-living? Or is that a separate -

DF: Yeah. I mean, there, there there's the, the answer is, you know, right now, what are, what are we at 7 billion people? You know, there's, there's a lot of answers. Um, uh, I would say, in general, looking at the like, um, [Scandinavian Swedish co-housing model](#) is really good. Um, kind of medium density planned communities, and it's usually around families, you know? And when, when you have families, your, your needs are very specific, you know? You know, I, again, I don't think it has to be that complex for single people. Like you just put them in a hotel and you have a hotel lobby, you know, and you make them appropriate to the price point, you know? And you know, some are going to be fancier than others, but, um, I mean, congregate housing is a very specific type. It's a, it's a specific type of, a specific term. I think it's usually. Yeah, it's a, it's, it's usually one, it's a bedroom to, um, kitchen ratio. Um, so I think I can San Francisco, it's like, um, uh, eight beds to a full kitchen. Um, and it's usually, I think it's. It's not always applied to student housing and stuff like that, but it's a lot of housing typology like that. But there's, you know, there are things like co-living and co-housing, which are, um, a little, uh, a little more fuzzy in terms of, um, w what those, what those being, um, uh, structurally and design wise. Um, and I mean, I, you know, I mean, I've tried all this stuff. I'm, I'm divorced and, uh, and, and like, our apartment was, you know, we lived in a micro-apartment and frankly, um, without sort of the infrastructure, it was, um, for, for all these, for all these things, to like to disperse the childcare and, and, um, having a social network, it didn't work. Like, it really has to be part of an ecosystem, you know?

AR: So I'm, I'm wondering, like, as we progress into the future, I think there, there really is this, this desire from some people to see less of these huge buildings and more of these missing middle, like smart growth, slow density kind of buildings. And I'm wondering like what your thoughts are on the future of that?

DF: Well, the problem... The problem is that the towers are already built, you know? And, um, I mean, what I've been trying to do for the last 10 years is say, don't build the towers, build the missing middle. I like to, there's like a Buddhist. I'm paraphrasing a Buddhist, a Buddha quote, which is like, it's, "it's easier to cover your feet and leather than it is to cover the world with, you know, smooth out the world" or something like that, you know? Um, so I'm, I'm big into, I really think this is a good time to like, kind of bring back the, um, uh,

counterculture really. And, um, I think, uh, using houses, um, you know, using our architecture, whether it's, you know, subdividing - You know, subdividing single family housing um, I actually think that is, that is the quintessential, uh, architectural form of America is the, is sort of like the added on, um, single family house. Uh, you know, so, uh, in, in a certain way the ADU is kind of part of that, that heritage, um. And I would love to see, um, you know, people densifying, uh, suburbs, cause we - Here's the thing: they're built, they're there, you know, and pretty soon they're going to be really cheap, you know, um, and better to use what, you know, better to use what we got instead of, um, you know, continuing to build something new.

AR: What, what trends do you, do you anticipate seeing over the next, like 5 or 10 years when that the decision-makers in like city and state governments should keep in mind when it comes to like urban planning and managing their housing stock and, and even finding sources for affordable housing?

DF: Well, legislators need to really get serious about, um, about climate, cause I mean. The reason I've chosen climate or climate real estate as my, you know, as my thing is, um, its ability to impact, uh, uh, climate change. And reduce the amount of greenhouse gases. Um, you know, whether it's through embodied energy of construction, whether it's operational energy of um, you know, of, of the actual house or, you know, how people relate to the house, you know, through mobility and local economics. Right? Um, so this is, I mean, this is, this is the, this is the place. Um, one of the biggest culprits was, uh, air travel. You know, that's been kind of derailed. I mean, a lot of, a lot of the COVID has had an unintended effect of shutting down a lot of major, um, you know, huge, uh, greenhouse gas, emission emitters. And I mean, I would love, instead of like recharging the, uh, you know, starting up the factories again, this is a great time to like, say, "Hey, how, how are we going to be around in a hundred years?" Cause a lot of places won't, you know, like Miami won't. I mean all estimates and all projections point to Miami not being there, like in 20 or 30 years, you know, much less a hundred years! So legislators need to need to get real about, about climate and planning and the impact of, of unaffordability. Because essentially what's happening, there's massive. Um, there's going to be these massive, uh, rent delinquencies, um, and, uh, you know, defaults on mortgage and whatnot. And then there's just going to like people everything's going to shut down. Um, and like, we have the information, we have the data we see, you know, where it's going and we, we see how, uh, you know, the data points of today, you know, line up pretty damn nice with the data points of, of 2007, 2008, but also, you know, 1929, you know? So legislators really need to get clear about the, about the severity and the, um, the magnitude of the threats facing their municipalities. Um, so that's one, um.

DF: And two is, is to, to start taking care of themselves instead of taking into necessarily state direction. You know, I have faith in, I don't have faith in it, very little faith in large groups, but I, you know, I, I have faith in myself and individuals, you know, and, uh, I've seen change in myself and I feel like other people can change too. So it's like, let's go to Vienna. You know, what did they do in the similar conditions when, when they had hyperinflation, how did they solve their problems? They, they created these amazing, amazing housing, you know? But I mean, like looking at, looking at historical precedent like that, uh, I mean really,

um the, the analogs of the, of the two eras are, are, are striking, um, you know, uh, dust bowl. I mean, well, I guess, I dunno that Europe had a dust bowl, but certainly had depression and hyperinflation in the twenties and thirties. And that's when that's when some of the most innovative social housing came out. And I actually read something the other day was like [something like 74% Vienna's population lives in state housing](#).

AR: Wow.

DF: It's like, insane. Yeah. And I, yeah. I mean like again, why there's all the, you know, I I'm involved with like this whole, you know, prop tech and startup scene. And, um, I have a big, a big gripe with all of them. It's like, we don't, we. We don't need as many startups as we need follow-ups, you know? And, and like, first of all, you know, make sure that the properties that we do have are safe and clean and healthy. And then, if we're, you know, we're looking to do stuff that's, you know, um, if we're looking to answers, uh, two questions, you know, like, you know, creating affordable conditions and, uh, social things like, you know, look to places that have, have, have, have solved for this.

Thanks so much to David for joining me on today's episode. To learn more about The Change Order Group and the work they're doing on climate-centered master planning, visit their website at changeorder.group.

Thanks for listening to Dwellings, the City of San José Housing Department podcast.

Our theme music is "Speed City," composed and performed by Ettaine Charles. Thanks to San José Jazz for letting us use your music.

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