



# PART 2: BRIDGING THE GAP: UNLOCKING STRATEGIES TO BOOST HOUSING SUPPLY

**Elex Michaelson** 00:00

All right, I'm back. Good to see everybody. Thanks for staying with us. We appreciate it, and it's great to have this great panel here. I'm going to go down the line and ask each of you, I guess because they didn't introduce us, to introduce yourself. But then also to say, what is the biggest obstacle to affordable housing? Let's start with you.

**Stephanie Copeland** 00:27

Hi, everyone. I'm Stephanie Copeland. I run a large private investment fund. We do multi-family development across Colorado. I took a big part of the opportunity zone incentive and put it to work after designating the zones in Colorado. And I think the biggest issue for me, it's not about affordable housing, it's about general housing supply in general, is getting more of the market to consistently put supply in the market. And I think the biggest barrier to that is the cyclical issues that go on relative to the cost of capital and relative to regulation that changes pretty dramatically over time.

**Adama Kah** 01:09

Hello, can you hear me? Adama Kah. I'm the founder and CIO of Kah Capital Management. It's an alternative investment firm focused on US residential mortgage credit.

**Elex Michaelson** 01:25

Adama, try it one more time.

**Adama Kah 01:27**

Okay. Better now? Can you hear me?

**Stephanie Copeland 01:27**

Yeah.

**Adama Kah 01:27**

Okay, good. Thank you. Yeah. So, I mean—

**Elex Michaelson 01:33**

—No, use the mic.

**Adama Kah 01:34**

This mic? Yeah. Okay. Yeah. So in terms of the housing supply, I think clearly we have a structural undersupply issue in the US, and this is clearly driven by a number of factors. Some of it is regulatory, some of it is more financial and more operational. I think it takes quite a bit of number of those to address that. So, clearly in terms of the supply of housing, a lot of that historically has come from existing home sales, which actually comprise at least 80 percent of supply. And of course, that's currently running about 4 million annualized pace, which is actually about 25 percent to 30 percent below the historical average. And given where mortgage rates are currently, and potentially trending higher, we don't see actually that easing up. So currently, roughly about over 80 percent of homeowners—existing homeowners—have mortgages that are well below 6 percent. So supply is not going to come from there. So in terms of the new home construction, that actually we have been underbuilding. So I mean, since the great financial crisis in 2008, housing formation is about 22 million, but we've only built about 15 million new homes. So we have this gap of six to seven million housing units, and it is growing because housing formation continues to exceed new home construction. So these are the structural issues that actually continue to drive the shortage in housing.

**Elex Michaelson** 03:29

Maren Kasper, biggest issue.

**Maren Kasper** 03:32

Hello, everybody. Maren Kasper, Bayview Asset Management, and I am the CEO of Lakeview Loan Servicing, which is a large owner of mortgages in the country. We partner with some of the largest housing finance agencies to further affordable housing. And I joined Bayview from Ginnie Mae. So I spent a tour in the federal government, and I'm very close to federal housing policy. I think structurally you'll hear across the board is that new supply is our biggest constraint. And when you think about that, I think about it in two facets. Yes, there is the building of new homes, which continues to be cyclical in nature, suffer from capital market constraints, et cetera. But I think also the way I think about it is our existing home stock. And how do we leverage our existing home stock to further affordable housing? And what I think is if we look longer term and we take this out 10 years and how do we really address this structural issue, that comes down to our deferred housing maintenance that we have. The average home age in this country is 40 years old. How that housing has been maintained and the needs of that housing are going to continue to grow and is not something I think consumers in this country, particularly at the entry level, are poised to handle that. So I think that is really something to grapple with from a policy perspective. Happy to elaborate as we move forward.

**Elex Michaelson** 05:02

Yeah. We'll talk more about that in a little bit. Now to Jonathan Scott.

**Jonathan Scott** 05:03

I know my maintenance needs really amped up after 40, so—My name's Jonathan Scott. I am the better-looking Property Brother. And, you guys, I could literally talk about all of the things that you spoke about, but I honestly think the biggest challenge in the housing space is ignorance. There is a misunderstanding of how this affects our everyday lives financially, the cost of homelessness, how that affects social services, but also supply as well. When you look at all the red tape and the costs involved, if I was to build the exact same building, and for those of you who don't know me, that's what I do. I build buildings. And the exact same building using public monies, the cost is about 40 percent higher, which means there's fewer people that we can help. But it's not just red tape on the government level. It's also a real challenge with communities understanding who are affected by the problems, and when we do finally get through all these steps and identify a property that we can build affordable housing on, people show up in droves and say, "Not in my backyard. I do not want that." They think it's going to be a crime-ridden crack den, and that is 100 percent not what it is. It's teachers, nurses, public workers. It's a million different people who need to live where they work. So I think ignorance is the biggest challenge we face.

**Elex Michaelson** 06:30

Mr. Mayor, Mayor Kirk Frank Watson from Austin, Texas is here.

**Kirk Watson** 06:36

Thank you. Yeah. I'm Kirk Watson. I'm from Austin, Texas, and supply, you're going to hear that over and over again. From my perspective, in Austin, I ran on the idea of affordability first, and there are a couple of factors in that. One is land use and making sure that the land use is set up in such a way so you can build the kind of housing we need. Second is regulation and red tape. Austin was stepping over its own feet and really getting in the way of itself when it came to affordability. We've made some changes in that regard. And then also addressing the market where you can address the market. For example, doing away with requirements that the market ought to be making better decisions in that regard. So for example, parking requirements.

**Elex Michaelson** 07:21

Mm-hmm. Great. So we're going to dig in on all of that. A reminder that you can ask questions in this session. I've got an iPad to get your questions. I think there may be a QR code at some point that they can put up on the screen. And if you've got a question that you want this panel to answer, then please submit it. I don't know if that is happening, but hopefully it does. Okay. In the meantime, let's dig into some of what we talked about. Jonathan, let's go back to you. I know you feel like some of the issues are not just with buyers, but there are issues with developers as well. What do you mean by that?

**Jonathan Scott** 07:59

Well, the way the system is right now, developers are disincentivized to actually take on these buildings because the numbers just don't work. And when you look abroad, we were talking about this earlier, north of the border in Canada, there are programs that allow developers to pull upwards of 95 percent of their money back out of a building so they can continue to build and continue to utilize those funds. Now, can the building sustain that kind of debt? We were talking about the cost of debt these days. So I think there need to be programs that really help streamline the process, and also when it takes the developer years to actually get going on these properties, that alone kills the margins of what we can do. So I think finding ways to streamline it so when we identify the need and we know the areas we want it, developers can start right away. What we're seeing a shift to, which you spoke about, Mary, is finding existing buildings. Even in our backyard here in Santa Monica, there are a lot of brand-new buildings that were built, condo buildings that were built, and they're sitting empty. They're not renting them at market rent. So there are funds that have been created now that allow people to buy these existing buildings at a fraction of what the per door cost would be if we were building something brand new and going through all the red tape of that initial process.

**Elex Michaelson** 09:16

And are those private funds or public funds, or how's that work?

**Jonathan Scott** 09:19

Well, a combination of both actually. So I do think that the corporate world is going to be the strongest partner if we can understand the value that we're bringing. In fact, there are even incentives that are being introduced for better use of capital gains and things like that, that will allow the corporate world to invest knowing that they're going to get a slightly smaller return. But it's good for their portfolio, and it's very good for the communities to make sure that we can have enough housing available for everybody. We're about 4 million houses short of a truly healthy housing market in the US.

**Elex Michaelson** 09:52

Wow. And the secretary just said 7 million houses.

**Jonathan Scott** 09:55

Well, he's so wrong, guys. I'm the guy. No, I would trust that, but yeah.

**Elex Michaelson** 10:02

Mr. Mayor. For anybody who's been to Austin, and I'm sure most people in this room have been to Austin.

**Kirk Watson** 10:07

I hope so, and if you haven't, come on and spend your money.

**Elex Michaelson** 10:10

Every time you come, it's crazy how much new housing construction there is there. Why is it working in Austin when in a place, frankly, like here in Los Angeles, it's not? What are you guys doing?

**Kirk Watson** 10:22

Well, a couple of things. One is, I think that what we've done with regard to land use has started making a really big difference. We've had a couple of initiatives. One is we changed our land use so that now you can build three-by-right on single-family lots, SF1, SF2, and SF3, so that is allowed. In addition to that, we changed our minimum lot size. Our minimum lot size was 5,750 square feet until just two years ago when we changed that to 1,800 square feet. Now immediately what we're seeing is happening with those two big changes is that you're getting smaller houses. The reports are, we're looking at this continually, you're getting smaller houses that are about 53 percent less expensive, and they're about 44 percent smaller. But they're still three bedroom. The median house has been four bedroom, and now you're seeing three bedrooms on those smaller lots. So a family, you can have a starter home, more likely to have a starter home. If you've got a 5,750 square foot minimum lot, about the only thing you're going to be able to build on that's a McMansion. So now if you have an 1,800 square foot lot, you can build starter homes and things of that nature. In addition, we brought in, in the first nine months of 2023, we brought in McKinsey and said, "You've got nine months. We want a soup to nuts, top to bottom review of all of our regulations in the site planning area," because—by the way, I ran for mayor in '22, and not a single person came up to me and said, "Watson, don't screw with the site plan process. That's really working." Not a single person. And so we fixed that. And so we went from over 100 days for a first review on site planning to now under 30 days. A second review went from over 50 days to now around 14 days. And one of the things that we're looking at in addition to that is we have so many different departments that get a say that you have too many bosses, if you will, in that situation. So we're changing that as well. Then I'll quickly say two other things. One is we eliminated the parking requirements. We're the largest city in America that's done that, and that's going to let the market decide where you need to have the parking and how much parking you need to have.

**Elex Michaelson** 12:54

What was the requirement before, and what did you get rid of?

**Kirk Watson** 12:56

Oh, I can't even remember. It was something ridiculous, right? Everybody needed to have two cars or something. I don't even remember what it was. So the bottom line to it is, is that will help the market then to be able to cost it out in a certain way. And then the final thing I'll say is that we built into the process a continued review. And as part of that review, one of the things that we're finding on the minimum lot size issue is that our subdivision rules on infill development, they're not working. So we need to be re-examining that. So it's a constant—and I think that's part of what our success is being, is that we're constantly reviewing that and willing to admit, "Oh, that didn't work exactly the way it was supposed to."

**Elex Michaelson** 13:43

Interesting. Stephanie, I know you've worked a lot on opportunity zones, which is something the secretary just talked about. You've done it from the Colorado perspective. What are you seeing on that front?

**Stephanie Copeland** 13:59

If we go back to what's preventing people from building, it's that the investment thesis has to work. So you have to create a return for your investors, whether your investor is a LIHTC investor or a market rate investor, they need to see a minimum amount of return. And you can impact returns through a number of ways. One, you can lower your cost, the cost to build, you can shorten the time by creating more policy that streamlines things more, or you can give incentives to investors that say if they put dollars in, they get a benefit that creates an accelerated investment or an improvement on their investment if they invest in certain areas. The opportunity zones were one of the first initiatives in the US that the federal tax policy completely put the rules into the single investor's hands. So the single investor, they care about how much am I going to pay in tax on a capital gain that I've realized, and will I get a benefit by putting that investment in this geography versus that geography, and the answer is yes. So OZs are becoming something where I'm an individual investor and I can actually improve my return by three to 400 basis points by investing in an opportunity zone, and that offsets some of the other headwinds we have with regard to building costs, with regard to time and policy. And so it doesn't make a bad investment good, but it makes a good investment that may be marginal actually pencil. The investing environment has also shifted dramatically. If you're trying to put dollars to work in a market where you can have 6 or 7 percent returns with liquid assets, public vehicles, and you're looking at whether you put money there or in a non-liquid, longer term investment, people are shifting to the public markets more than they are to real estate, which is also taking wind out of the system. Opportunity zones are a way to bring that back in, where you can actually normalize the playing field a little bit. It's now a permanent part of the tax code. It is a fantastic element that was added to the one big beautiful bill, and it essentially gives anyone that wants to invest a five-year kind of hold requirement and they get discount on their—lots of rules around it, but it's a pretty seamless way for you to level the playing field. Sorry.

**Elex Michaelson** 16:19

So you know a lot, obviously, about Colorado and the state government and the local governments there. Why do you think a lot of cities are not doing what Austin is doing? Why are so many regulations in place that cities keep in place?

**Stephanie Copeland** 16:33

It's so interesting. I think people have really good intentions. They want green buildings. They want parking for everyone. They want not in my backyard. They want to respect the community. I've been called more names as a developer than I'd care to mention, and I can't even say them here. But the answer is the regulation has got to take into account practical realities. So, for example, in Denver, we put green codes on our buildings where you have to have a certain type of energy, and it's increasing the cost, not only for the build, but also for the tenant in the quest for greener development. Again, really great intention, really off-putting outcome. So I think it's well-intended, it just does not serve more supply coming in.

**Elex Michaelson** 17:20

Mr. Mayor, did you have pushback?

**Kirk Watson** 17:23

Oh, yeah.

**Elex Michaelson** 17:24

And how did you deal with that pushback when you were trying to cut some of the regulations?

**Kirk Watson** 17:27

I was 6'5" when we started. Yeah, I had pushback.

**Elex Michaelson** 17:32

Just to see what that looks like.

**Kirk Watson** 17:33

Yeah. There you go. Look at that. And my hair was that color. Yeah, and there's a couple things. I'll have a couple reactions to that. One is I've tried to outlaw the whole old NIMBY, the YIMBY. I don't want anybody using those words in the city hall, and the reason is, is I think one of the things is it immediately creates partisan politics and everybody loses their empathy, right? "Oh, you're a YIMBY, that's all I need to know about you." Right? And it creates a real problem in being able to get where you need to get. The second thing that I think is important on this is that you need to be sure you have a clear vision of what it is you're articulating. For example, in Austin, Texas, we've always had this thing, I call it the fountain of youth, and it's this thing called the University of Texas at Austin. And every year you have thousands of people, Huston-Tillotson's there, Concordia, St. Ed's, all of those are there, and what happens is that young people come, they immediately fall in love with Austin, they want to stay, but if they can't stay because they can't afford to be there, they don't see starting a family there, we're going to lose Austin. So you have to have a clear vision of that. And then the third part of it is that you have to do it in a way where you do it with things like minimum lot size, so that it's a changing of the density, but in my opinion, it's doing it in a softer way. And then the final part of it is you have to be willing to listen and be willing to say some things don't work. We have a density bonus program that we're revamping because the bonus program was too rigid, and what it did is it created real incompatible developments in the middle of single-family

neighborhoods. So we're revisiting that. You have to be willing, I think, to say, "That's not working the right way." Don't fear the failure of it, or fear the better idea coming along.

**Elex Michaelson** 19:43

Yeah. Maren, you talked about the idea of aging supply. Can you expand upon that idea, what you see as the challenges from that, and also maybe the opportunities from that?

**Kirk Watson** 19:52

Yeah. The—

**Elex Michaelson** 19:53

—Oh, sorry. To Maren.

**Kirk Watson** 19:55

Oh, go ahead—I thought you said mayor.

**Elex Michaelson** 19:57

Yeah. That sounds similar.

**Kirk Watson** 19:59

I'd rather hear what she's got to say.

**Elex Michaelson** 20:00

Yeah.

**Maren Kasper** 20:01

I think it's really interesting to think about. Again, the average age of a house in this country is 40 years old. And in markets, say, that are often more affordable, take out the coastal markets, and you go north, that housing is 65 years old. But it really does meet the definition of what an affordable house is. I think it's probably worth noting today, when you put in Claude, "What is an affordable house in America?" It will tell you it's a \$400,000 house. For families where your average income is \$80,000, I think that's where we're starting from the problem that we're trying to address. And so when our housing stock is aging and that housing is ultimately going to turn over, we can talk about ways to kind of unlock that housing. I think there are some interesting policy ideas there. But when that housing does turn over and go on the market, consumers are going to have to do the maintenance that may or may not have been done, or just naturally will be needed. And that's expensive and risky. I don't know how many folks in here have done a housing renovation project, but how often—

**Elex Michaelson** 21:13

—We know one.

**Maren Kasper** 21:14

How often do they finish—well, maybe yours definitely do. But how often do they finish on time and on budget? And do we want average Americans taking on all of that risk? The federal government does have some renovation solutions, but they're wildly underutilized because they're really burdensome. So I think that is one place that the federal government can play, where in so many of these supply conversations, it's a local zoning issue that the federal government doesn't have as many tools.

**Elex Michaelson** 21:42

And Jonathan, you know a thing or two about renovating houses. What do you see as some of the big challenges in that space?

**Jonathan Scott** 21:49

Well, one of the biggest issues I've noticed, and so separate and aside from the shows that we produce about renovating houses, we also manufacture 2,500 products. So I'm sure somewhere in your house you have something that is manufactured by us. And it's challenging because sometimes there are incentives that people want to put on the end user to apply for. It's a burdensome process, and it can be complicated. There are some incentives that are actually given at the beginning so that when the product is purchased, the trade who's putting it in gets that. But what we've noticed is then a lot of times it gets marked up so that the end consumer doesn't even see any benefit from it. The real challenge, I think, is we need to figure out, one, a way for our housing inventory to last longer. When you look at an already short supply, and then something like the LA fires happens that wipes out literally thousands of homes, and we see this in

Texas with flooding, we see this in Florida with hurricanes. We keep building back the exact same way for it only to happen again. And it makes me want to rip my hair out because there's technology that exists now. So in the Palisades, when the fires happened there, my fiancée's family home of 40 years burned, and so I'm rebuilding that. It will be the very first fully fireproof, fully earthquake-proof home built back in the Palisades. But it's not going to look like a modern box. I think a lot of people think if you're going to have something that's going to withstand the elements, it has to look like a modern box. It will look like the original 100-year-old Spanish-style home, just better. And so there are technologies now where your gray shell cost is 10 percent more than what it would've been to do wood framing. There's no wood in this house that we're building. There are technologies as well where it's impossible to have a catastrophic flood from a burst pipe or a laundry hose that slips off. Everyone knows somebody who's been affected by a flood. It's a \$500 device that makes that impossible. So all of these things, not only do we need the supply, but we need to be thinking about where the housing is and how can we ensure that people don't have these disruptions. Resilience is not just about fires in a fire zone. Resilience is anything that disrupts your way of life, the community's way of life, and we can make smarter decisions around it.

**Elex Michaelson** 24:06

And so what is that, real quickly, what is the property that you're, or what are you using in the house that's not wood?

**Jonathan Scott** 24:11

So the material I'm using is called RSG 3D. So it's like a reverse ICF system with a rebar structure, polystyrene core, and a mesh on the inside and outside. So you shotcrete concrete as you're finished. It'll look like stucco on the outside. It's actually fireproof from the inside and the outside. So there's technologies. Phyn is the leak detection system, AI driven, one device on the whole home, P-H-Y-N. There are all these things that I don't expect the average homeowner to know about, but I would love to see architects and builders being the ones that are bringing this forward to their clients and saying—just so you know, in the US, and same in Canada, we are obsessed with wood-frame construction, and we are one of the only places in the world that are obsessed with wood-frame construction. Well, it used to be that it was so much more cost-effective, but it's not the case anymore. There are technologies that allow us to build safer homes, and there's nothing wrong with wood-frame construction if you're not in an area that's going to be subject to fires, termites, floods, rot, all of these things.

**Elex Michaelson** 25:14

Maren.

**Maren Kasper** 25:15

Well, I think what you bring up, and you brought this up earlier when we were speaking, is that requires a retraining of the workforce that is building houses. All the subcontractors want to continue to do what they're doing, and one thing that I think is just such a general theme here, but not necessarily one always thinks about when they think about housing, is how do we use technology? How do we get AI into the world that we are operating in? And I think this is where we're going to do it, but it is going to require a huge retraining of our workforce that is building affordable housing.

**Jonathan Scott** 25:46

Which I'll say one other thing, too, on that is, I don't know if anyone here has ever had a contractor that's stubborn? Yes. Even my own contractor. I run eight GCs. None of my contractors had ever used this technology. It was a real hurdle to get them over it. The GC now that is doing that has said 100 percent this is the way; he's doing it moving forward anytime he can. But I think another part of it is not only the training, which will involve technology. We're seeing it at the community level, the state level. We're seeing programs now that are going to fast-track permitting. There's a lot of stuff that doesn't need to have months and months of red tape. These are decisions that could happen as long as everything complies. You talked about modular building earlier with Scott. We've invested in modular building companies because if you can UL test and certify everything in a controlled environment, a factory, it reduces the amount of stuff that the local body, jurisdiction has to oversee and approve that's going in. We just want to make sure houses are safe. That's the number one thing.

**Elex Michaelson** 26:48

Right. Adama, in terms of loan acquisitions, something else to think about, and I know is a space that you're especially interested in.

**Adama Kah** 26:58

Yeah. So I think the point here as relates to aging housing is actually very valid, and I think it clearly needs to be part of the solution around addressing the housing supply issue. And I think in the financing aspect of that, I think there's been evolution there as well. So I mean, in terms of for people who are familiar with the residential transition loan market, so these are really what used to be more of a mom-and-pop kind of a segment that is getting increasingly institutionalized, and we're investors in some of that space as well. And a lot of this goes towards, you have a local builder who's actually going and actually buying an old home, which by buying that, essentially you provide some opportunity to bring supply into the market. Because quite often, those tend to be the most affordable homes, just as these guys mentioned, but they are not ready for the first-time homeowner to get into. So when these local builders—guys much smaller than you—buy it, they need financing. Before, there wasn't availability for that financing. Increasingly, there is that financing, which is typically anywhere from nine months to 18 months to finance the fixing up of those assets, bringing it back as supply into the market. And the other benefit of that is it also reduces the blight aspect of any of these types of neighborhoods. We think there's opportunity for the private sector to partner with local government because you can essentially think of mechanisms, creative ways

that the mayor is doing in Austin, where you can actually incentivize local small businesses that actually have expertise in building and fixing up these places, whether it is to encourage them, give them some tax benefit, where if that property ends up back as an unoccupied home or someone from the neighborhood buying it, they actually get certain kind of credit. I think those are small things, but they really do add up.

**Elex Michaelson** 29:09

Have thoughts on that?

**Stephanie Copeland** 29:10

I was just going to say, I think we're talking about a lot of issues that are highly fragmented. You have from design to procurement to construction, but at the end of the day, the reason housing starts have gone down so dramatically in the past few years is because of interest rates. Interest rates have gone up. They went up very dramatically, and housing starts are down across the country, and they're down in every market, no matter what the growth looks like. So when we think about public finance, we need to think about ways and how do GSEs come in, how do they actually work counter-cyclically with the market such that you have a constant set of supply, and on top of that, you do it smarter, and on top of that, you do it more cost-effectively, and on top of that, you do it in a more streamlined way from a process standpoint. But until we smooth out the ebbs and flows of interest rates, which are the most sensitive indicator to building, we won't have constant supply coming in, and therefore, we're going to have big ebbs and big flows, and that's what's happened recently. We're not going to catch up with this anywhere until we figure out a way where the market can work on its own when it works and can be supported when it isn't working, and that has to be less rigid than it is today.

**Elex Michaelson** 30:27

I see this Q&A resources thing, which is ready to go. If we put that up, a reminder to folks when we put that up on the screen, that if you want to do a question, you can click on that, and that will take you to the place to ask questions, and those questions will come to me here. So if you've got a question, good time to put that in right now. Jonathan, you brought up the issue—

**Jonathan Scott** 30:49

I feel like you're picking on me a lot.

**Elex Michaelson** 30:50

Well, we don't have to go to you. But this issue of, yes in my backyard, no in my backyard, people stopping a lot of these projects from happening. We've certainly seen that here in Southern California. How do we deal with that?

**Jonathan Scott 31:09**

So it's sort of retraining ourselves to understand what the real need is. Sometimes it's financially driven, where people think, "It's going to reduce my property values if we build affordable housing here." The term affordable housing, unfortunately, I think has become sullied. People don't understand what it is. It's not drug rehabilitation and all these things. These are literally teachers and nurses and people who work in that community who should be allowed to live in the community where they work. And so, one thing that I thought was really unfortunate was when you look at the Palisades, for example, where we're building after the fires, you don't get the opportunity to build an entire city back, ever. And so, there was an opportunity here to really look at—there's a district in that area, close to shopping, where there was already a large supply of multi-family housing. There was an opportunity to create more density there, which would bring in a lot of much needed new homes, and people showed up in droves to vote it down. They said they don't want it, it's going to change the community. If you look anywhere else in the world, cities that have embraced more affordable housing have flourished. It does not negatively affect the property values, and there are some things that were suggested that I do think, and you touched on it too, you need to make sure that certain housing works in certain communities, but for the city as a whole, you have to embrace this. So I think getting people to understand that it's the nurses and the teachers and the people in the community.

**Maren Kasper 32:37**

It's good for them.

**Jonathan Scott 32:38**

It's very good for them. In fact, I did a talk about a month ago, and someone came over and said, "I appreciate what you said because I live two hours away from where I work." That means four hours a day that person is commuting. That is not a quality of life component. So, I think that's a big thing.

**Maren Kasper 32:59**

Well, that's not who you want as your teacher, right? You want invigorated teachers who are in their community. And I do think that's where you can take the conversation.

**Kirk Watson** 33:06

You want your cops and firefighters to be able to live in that community. And you want to be in a situation where you also can pay for the services that everybody wants. The truth of the matter is that in places like Texas, the state government has capped what local governments can do with their tax rate to minimize how much revenue you can collect based upon the previous year. And in a growing city like Austin, where you have these increased needs, you want to be able to pay for those services. Well, the people that sometimes don't want the ADU or don't want the duplex or don't want the missing middle type of development in their neighborhood, we need to help them appreciate that that's increasing the tax base that allows us then to pay for those kinds of services. And sometimes it just gets focused on the NIMBY/YIMBY, the very partisan approach to it, and we don't have the full discussion. It's been an interesting thing for me. In addition, I was mayor of Austin from 1997 to 2001 and back. Feels just like the second grade. I got to do that twice, too. That's a joke, I didn't really. But the truth of the matter is that back then we were just starting to address the affordability issues. It's interesting what you say about the word affordable. We created a, quote, "SMART housing program," S-M-A-R-T. That all stood for something. But the "A" wasn't for affordability, because if you put the word affordability in it, everybody freaked out. So we used "R", which was reasonably priced. And so it's important that we have the full discussion. And that includes things like tax base. Otherwise, you end up just in an all-or-nothing, winner-take-all sort of discussion.

**Elex Michaelson** 34:59

Let's get to some of your questions that are starting to come in. Thank you for those. What role can mortgage servicers play in supporting housing affordability?

**Maren Kasper** 35:07

Well, as one of the larger mortgage servicers in the country, I think there's a couple of factors. One is ensuring that the mortgage market continues to function in an optimal way. In the United States, we are in a very unique position of having the 30-year fixed rate mortgage, which is an incredible asset to those trying to get into affordable housing. So ensuring that the mortgage market functions, and what does that mean? Ensuring that there's no disruption in the spread to treasuries, not to get too technical, but really making sure that stays predictable for investors. Because it's investors who are holding the product at the end of the day. As a mortgage servicer, we have the obligation to interact with the borrower. We process their payments, and really continuing to offer good customer service once a consumer is into our portfolio. So I think ensuring an incredibly well-functioning market, and there's plenty of talk of reforming the mortgage market in our country, but Secretary Bessent and the rest of the Trump administration have been very clear that disruption is not an option, and whether it's private or public, mortgage servicers stand to participate in the market.

**Elex Michaelson** 36:15

Got a question about opportunity zones. Do you feel like they have been politicized in a way where they're actually reflective of where capital is required?

**Stephanie Copeland** 36:25

I think initially they were, and I think that Politico and others came out with a lot of stories about where there was abuse, and every state designated their own zones, and that was done in really different ways. I think each state had about 90 days to designate the zone, and there were some states that did it better than others, and they were designating places where the flow of capital was already going, and so it wasn't really becoming catalytic. I think that's shifted pretty dramatically. In fact, in Colorado, I know that because we designated the zones there. We had 126 zones, and the new designations that are coming up this summer, 30 of those zones are no longer eligible because they've been taken out of the poverty line. And we did not designate particular areas that were eligible because we knew there was already a ton of tailwind in those spaces. I could have designated downtown Boulder, which is where the University of Colorado is because it was an eligible tract. We did not do that. We did not designate places that already had a lot of fire behind them. Where we did designate, we saw an outsized amount of investment going in, and you could just hold that steady. 300,000 to 400,000 homes were built in opportunity zone tracts that would not have been built. We did a complete A/B study around this, and it was highly, highly catalytic. There were abuses. There will always be abuses. The good way outweighs the bad in this case.

**Jonathan Scott** 37:50

And one thing I'd love to say as well is I do think it's frustrating in the world we live in today that there is a need in the housing sector that goes beyond any one city, goes beyond our country. The same need is in Canada, the same need is in other places. It just happens to be amplified in certain areas here, but it is constantly being turned into a political conversation. And then they're packing in solutions with other things that just confuse everybody about what it's about. It really is not rocket science. I do agree that the financial component would have the most impact if we could sort that out. Stability and predictability in the markets is so key. But housing is not just affected by the financial cost, it's also the construction cost. So every time we have a shortage of certain materials or different tax changes they're having, all of that creates confusion, and anything that creates confusion means there's no consumer confidence. And the prices of construction today, our show, I just finished our 650th episode but I've done over 1,200 renovations, and the cost now is so much higher than it has been in the past, and it already was too expensive in the past. So I think there's all this volatility that we need to find a way to cut through the bullshit and just focus on what will actually have large-scale ramifications.

**Maren Kasper** 39:18

But I do think this is an incredibly unique moment in time for housing policy. This has not been so front and center. It's because there's a clear need, right? It is a voter issue. It is something that affects everybody in this country. And so there is a moment in time to take action. You have action going on on the Hill right now. You have a bill that's about to get passed, which was completely bipartisan, the only bipartisan topic

that we have. So, to take that and use that as momentum to address the issues, not only for today, but do think 10 years down the road would be what I would love to see out of policymakers.

**Elex Michaelson** 39:53

It is a big issue, a voting issue right now. I'm—shameless plug—doing a debate tomorrow for the California governor's race on CNN from 6:00 to 8:00 PM. And I've interviewed every candidate for governor and asked each of them, "What is the number one issue that voters say to you?" And every single candidate, Republican and Democrat, have said the same thing. Housing affordability is the number one issue for voters in every town hall, every place they go.

**Jonathan Scott** 40:20

What I would like you to do then, is dig in to what that means to them, because I find a lot of people say housing. and they don't actually put the effort into understanding on a larger scale what would impact—and I think the most upsetting stat for me, we have a 9 and a 10-year-old, and I read a stat that said that that generation, it will be the first time in history where they cannot afford to buy a house. And that's across the country. I'm like, that is something that everybody should stand up and say, "All right, well, we need to figure this out, otherwise the future generations are literally going to be forced into an economic disparity."

**Maren Kasper** 40:53

Particularly as the primary tool for wealth building.

**Elex Michaelson** 40:57

Right. Well, and when you said \$400,000 is the average cost for affordable housing, for a lot of people, they can't buy that now. This generation, even Millennials or Gen Z, don't think of it. Another question that came in, we talked about rebuilding after natural disasters, such as fires and hurricanes. How is the rising cost of insurance and/or lack of access entirely to insurance factoring into the supply challenge? That's certainly something we're seeing in the Palisades.

**Jonathan Scott** 41:21

Is this a four-hour panel?

**Maren Kasper** 41:22

Yeah.

**Jonathan Scott** 41:23

Let's get going.

**Elex Michaelson** 41:24

Who wants to take that?

**Stephanie Copeland** 41:25

It's pretty dramatic. We build multifamily, so I build 200, 300 units at a time, and insurance cost per door has skyrocketed. We're in big fire zones. And it's nonsensical though, because we're not using technology to really forecast risk. We're just using these outdated FEMA maps that essentially say, "We think there's risk here. We think there's risk there." And so you have this really, back to Jonathan, your point, it's an unpredictable amount of expense that's going to go in over time, and you have to underwrite to the worst-case scenario, and that's shutting business cases down. And I think that we should be using more technology to dial in the risks so that we're not unduly burdening projects that will otherwise pencil.

**Elex Michaelson** 42:07

Yeah. Other thoughts?

**Adama Kah** 42:08

And I think even to add to that, I think we have this 30-year mortgage, which is great in the sense that even as interest rates have risen up from 2021, 2022, borrowers have the principal and interest payment is fixed. Unfortunately, you have this increase in insurance cost and other costs just to maintain the home, which especially for older people, more like people in retirement, that's a big payment jump. And we're seeing some of the families actually struggling to actually just stay in their homes, along with other inflation challenges that actually from a day-to-day consumer of food and so forth. So that's a real issue that I think, overall, we have to tackle. And it's worse in certain areas like Florida, where some of the insurance cost because of all of these hurricanes, it's a big issue. And I think we need to have a much more of a systemic way rather than this brute force. You have a hurricane last year, then all of a sudden you bump expenses all over.

**Elex Michaelson** 43:18

Other thoughts on insurance?

**Jonathan Scott** 43:20

So, speaking of the hurricanes that happened, we filmed the show in Galveston, Texas, where we renovated two houses that were in Galveston. About six months after we left, a hurricane came through and devastated the whole area, and the only two houses that were still standing were the two houses that we renovated because we used materials that we knew would withstand anything that comes in. So it does make a huge difference. The downside is a lot of insurance companies are still lumping their risk into one large pot, and they're not—literally, my house did a full fireproof shell, everything around it, all that—and they really said it doesn't matter because this zone has been deemed a fire zone. A lot of insurance companies are now requiring those leak detection devices. But they're now starting to say, "We're just going to make it mandatory or we'll cancel you. We're not going to actually give you an incentive." I think it's crazy. The insurance companies should be out front in saying, "If you rebuild your community this way, we will make this whole community more affordable." They're not doing it. But what is good is we now see community leaders who are coming out, and this is happening here in Altadena and in the Palisades, and they're saying, "We're going to get a large group of homeowners together and say, if you do all of these things, can we go out and find an insurance solution that's going to bring down that cost?" And it seems to be a conversation that's working. But I am a little disappointed because when the fires happened, I was working with the state and the city. I was in there with the Army Corps of Engineers that was doing the cleanup, and they were telling me the stuff that was working and the stuff that wasn't working. And I remember the colonel was saying that one of the big challenges is that insurance is staying silent. They're sort of sitting in the background. That's not helpful. So we have the science, we have the technology, we even have the funding mechanisms where we could offset the cost knowing that the risk is lower, but we need to start holding these people accountable. It's almost as though there's an insurance race happening in California that we want to put a lot of attention on.

**Elex Michaelson** 45:24

Yes. That's also on the ballot. All right, so we've got just a few more minutes. This is a smart crowd, a lot of money in this room, a lot of them looking for business opportunities, because a lot of times you can find a business opportunity that incentivizes with good policy. That's how real stuff gets done. So Mayor, let's start with you. The smart place to put your money, the big next thing happening in housing.

**Kirk Watson** 45:47

I would say the big next thing would be missing middle sorts of opportunities where, and what I mean by that is, duplexes, triplexes, quadruplexes, small up to about 16 size condo projects in places that will make

it easier for you to do those things. I think that's going to be, at least in Austin, it's going to be one of those areas that also even helps with the NIMBY/YIMBY sort of fights because it more gently puts density in the neighborhoods that are existing neighborhoods. The second thing that I would say is in already affordable housing that has aged out and needs to be redone, it's going to require figuring out a little bit more about the financing of it. But one of the things we're seeing is that those, say, apartment complexes, that if you could go in, get a little bit of investment that is more patient investment, that is willing to have a smaller rate of return for a period of time that helps finance those, that will end up being, in my mind, a lot more affordable housing and will get a better return over the long haul. So I'd say those would be the two things.

**Elex Michaelson** 47:07

Jonathan, the smart thing to move.

**Jonathan Scott** 47:09

I think the smartest thing would be if you have ideas, write it on a \$100 bill and pass it forward to the stage. We'll collect that and put it toward the fund. I think to skip all the NIMBY situation and the process for planning and changing zonings, the opportunity to convert existing inventory where investors were looking for market rents on buildings, taking that, converting those buildings into something. There's funds that exist already. There's a group, Community Solutions, who has been working with the World Economic Forum and other agencies to try and figure that out. It's working in different places. It's working in Denver. It's working in places all over the country. I think that's the fastest way to instantly convert stuff that's just sitting empty right now, nobody's renting it, into something that's actually helping the problem. But nothing is going to beat supply. We just need to figure out a way to fast-track turnaround for new development. The supply issue is the number one thing that's going to impact it.

**Elex Michaelson** 48:09

Maren, the smart opportunity.

**Maren Kasper** 48:10

So from the lens where I sit, as managing an MSR fund, in continuing to make sure that the market functions, but invest in ways—the one thing that we didn't talk about is some of the deregulatory nature that's happening administratively—invest in companies that are bringing technology solutions to lowering costs for consumers on the mortgage side. I think that will go hand in hand with housing affordability to the fact that supply is there to meet that.

**Elex Michaelson** 48:37

Adama.

**Adama Kah** 48:38

Yeah, as an investor that actually invests in the financing side of mortgage credit, we think it's a very attractive space. Not only in the new origination to finance some of these type of projects, but even on the distressed side. And part of that is get very attractive returns and with the amount of equity that homeowners have, get a lot of downside protection. And we do believe that actually you are able to, for many of these, even borrowers that fall behind, you're able to get them back on track because they have equity. And by doing that, you're preserving affordable housing because that homeowner, if they lose that home and they go out to rent, it actually costs them more. So they align to work with you to help them get back on track. It becomes a win-win, both for you as an investor returns wise, but also you're actually keeping the families stabilized and help them build generational wealth.

**Stephanie Copeland** 49:30

Yeah, I think data centers are the best place to invest. I'm kidding. But I think that when we look for a new opportunity to develop, I want municipalities that have done things like Mayor has done in Austin where they have looked at more reasonable zoning requirements, really partnering on tax abatements that will offset some of the ebbs and flows of new housing development. And I'll only look in markets where we've got a very predictable process and a very friendly, non-villainizing attitude towards developers, and so we'll constantly look at places like that. Austin is clearly one. Denver is becoming one. They have not been. They're making their way back. And there are places on the coast we wouldn't go near because of the villainization of development, and I think that's going to have to change in order for supply to consistently come in. So I would always go to those markets first that are Goldilocks markets like Austin, like Denver, even some of the smaller markets in the Midwest.

**Elex Michaelson** 50:33

And to end on something fun, Jonathan, what's coming up on "Property Brothers"? What can we look forward to?

**Jonathan Scott** 50:36

So I killed off my brother in season 12. No, we're excited. There's always something new happening, and I literally tell people every day that I have the greatest job in the world because the moment you hand the keys over to somebody who never thought that they could actually afford to do all of the things that we do with them, it's a pretty rewarding experience. So I wish I could do that with everybody in the country

who's looking for a house. But if nothing else, we definitely have inspired people to tackle that themselves, and I'd like to make sure that people can afford to do the improvements they want to do when they choose to do them. Right now we're seeing it's just a very difficult time.

**Elex Michaelson** 51:17

But more optimism after listening to all of you. Thank you for all the solutions that you're bringing to the table. Thank you for a great discussion. Thanks for being a great audience. Appreciate it. Thanks, everybody.

*Disclaimer: This transcript was reviewed by individuals for accuracy and serves as a reference. However, it may still contain errors or omissions. Please verify any critical information independently.*