

# THE BREAKTHROUGH

Alex Trembath: Welcome to another episode of Breakthrough Dialogues, the podcast for pragmatists and problem solvers, brought to you by the Breakthrough Institute. I'm Alex Trembath, your host and deputy director at Breakthrough. For this episode, I sat down with Kim-Mai Cutler. Kim-Mai is a partner at Initialized Capital, contributor to TechCrunch, and really one of the leading voices in a recently revitalized conversation about housing policy, urban density, and urbanism at large. I was really excited for this conversation. I've followed Kim-Mai's work since I read her graphic novel, "How Burrowing Owls Lead To Vomiting Anarchists." For more context on that, you'll have to listen to the full episode. I've really appreciated her ability to change the conversation about housing and density in honestly a few different ways. And it's a conversation we ecomodernists are really interested in. The planet is 50, going on 80, percent urban, urbanization drives economic growth and resource efficiency, and we think it ultimately lowers our footprint on biodiversity and landscapes and lowers are emissions. How to achieve that vision is another story, and that's why I wanted to have Kim-Mai on the podcast. Kim-Mai Cutler, thanks for joining us.

Kim-Mai Cutler: Thank you for having me.

Alex Trembath: I want to ground this conversation in some current news in California, some current policy news. Can you tell us what SB 50 is?

Kim-Mai Cutler: We would like to call them More Homes Act, that's its other name. It was last session, state Senator Scott Wiener, who's from San Francisco, introduced a bill to encourage more housing around transit, and he introduced this idea in a very purist sense of the phrase. So he wanted to upzone housing within a quarter and a half mile of major transit stations within California. And the reason this is important, from at least a climate perspective, is that, in a dense city like San Francisco, almost half of emissions come from transportation and more than 90% of those come from cars. And so, if you compare that to the footprint of say, BART, or

Muni, or Caltrain, one of these kinds of fixed line rail systems, your emissions are going to be far, far less.

Kim-Mai Cutler: And also, it's just more convenient from a mobility perspective to just locate housing near transit. And that bill faced a lot of criticism initially because it wasn't introduced with things like tenant protections, anti-displacement provisions, and I think that year was an interesting learning experience in which the folks behind that piece of legislation took in a lot of feedback and then incorporated that all into a piece of legislation that they brought back this year with all of those protections built in from day one, and with the support of the construction labor unions, and the More Homes Act is the second version of that. It's been introduced with a wide range of bipartisan support with legislators from all over the state of California. From the Central Valley, from Southern California, and from both parties.

Alex Trembath: Yeah. Can you talk a little bit more about the politics of housing in California? You mentioned there was some resistance to last year's bill, less so now. Where is the resistance coming from?

Kim-Mai Cutler: I think California in particular is a state that was largely built out, or the bulk of its population and housing stock was built out in the mid-20th century, which is largely around cars and suburbs, and the existing property on your population that bought into that also bought into that aesthetic ideal, and not that particular vision. However, beginning in the 1970s, a lot of the coastal California land, both in Northern California and Southern California, got to be filled out. We are a state that is the most populous state in United States, and also we're on a major fault, so our elevation ascends pretty quickly from sea level up into everything from the hills and the mountains surrounding like the LA Basin and also the hills surrounding the Bay Area.

Kim-Mai Cutler: And so once you build that out, the logical place to go from there is to go up, but in the 1970s, a lot of communities decided to downzone and to preserve their urban form in amber. And then, they also fiscally preserved that form in amber through a set of tax changes at the state level that make it really prohibitively hard for cities to finance basic infrastructure like schools and roads and mass transit, and then also schools and then also make it... Which also makes it difficult to create a city landscape or a community landscape that you would see in cities that are more mature around the world globally, like on the east coast or in Europe.

Alex Trembath: My understanding is that you've got a couple of competing pressures with a growing economy and a growing population in California. On the one hand you have more people in an increasingly wealthy economy with a limited supply of housing, and that drives up the price of housing. The remedy there being, build more housing, which is a very core tenet of the YIMBY movement. A counter to that that you hear is that you've got more people moving to California for these tech jobs, you've got richer people moving into neighborhoods that were not wealthy neighborhoods before, and that new and wealthy tenants drive up rent. How do these pressures meet... What are the relative strengths of these different pressures on housing prices, and how do we think about all of those dynamics shaking out?

Kim-Mai Cutler: I would say regardless of the industry... The dynamics of job growth within the tech industry, in California every year, there are about 500,000 births, 200,000 deaths and then there are about 500,000 and 600,000 people moving in and out in either direction both domestically and internationally. Even if you just took the raw numbers, you're still looking at net population growth of maybe like 300K a year, and if you're assuming that you want to have two or three people per household, you're still going to need to build... Yeah, I believe the figure is 180,000 housing units a year, I want to say, and California has been doing roughly 80,000 for the last 10 years or so.

Alex Trembath: 80K?

Kim-Mai Cutler: Yeah. Eight, zero. And then also, if you think about the most recent set of fires... The fires from the season destroyed like 20,000 homes, I was reading the LA Times yesterday. There is a deficit that's accumulating just based on raw population growth. And in that situation, given the limited housing stock in many of these communities, you're going to have folks who have more resources and who are going to be able to out-compete for that limited stock of housing units.

Alex Trembath: Yeah. I do want to return to that, but you mentioned the fires in California. I assume most of our listeners will have heard of the pretty horrible fires in both Northern and Southern California that took place in late 2018. Can you tell us what the fires make you think in terms of where Californians are living and how we should think about where we're building housing and where we're living in the future?

Kim-Mai Cutler: About 15% of California's housing stock is in the Wildland-Urban Interface. That means it's prone or at risk to fire. I'm not a climate scientist, I'm not a fire scientist. I, myself, have individually been trying to make sense of this and trying to read different interpretations of how... Like, should we have different building codes? Should we... Do we assume that we're just going to have to live with fire and this is going to periodically happen, and more regularly happen, and more devastatingly happen? Or, do we need to rethink where we live in addition to how we build? And those are both incredibly pertinent questions.

Kim-Mai Cutler: And I think from a regional perspective, it underscores and elevates the idea that for the land that we do have that is flat, that is less prone to sea level rise, that is less prone to fire risk, we need to be really thoughtfully thinking about how we can support more population growth there as opposed to sprawl out into areas where we're going to be putting people's lives at risk. And also, fires themselves also generate a huge amount of emissions that cancel out any progress that we would make on GHG generally.

Alex Trembath: Right. You mentioned the policy conversation, you mentioned changes to the California tax code that were made around the '70s that make it really hard to build more and to build up in this state. One of the things that got me really interested in your writing was a conversation we had a couple of years ago about all of the ways, that not just local or California statewide policy, but US policy turns housing into an asset class, basically, into a wealth generator for the United States, or for Californians. Can you talk about that?

Kim-Mai Cutler: Sure. I think it's important to remember that these are some deep, deep, deep cultural norms that have existed in this country for centuries, and we are in... The United States was an English colony that derived its legal system and approach to property and property rights from the English, which also has a similar cultural approach to property as well.

Kim-Mai Cutler: So like, the United States is founded on the idea of being a property-owning democracy where farmers were in this prized and elevated political position, and during and after the Great Depression, our president at that time, Franklin Delano Roosevelt, was really grappling with ways to jumpstart the American economy. And he looked towards housing as a way to do that. When you look at the industrial revolution, it created the first class of commuters, like, rather than people living and working on the

same piece of land that they were at before in an agricultural era, they were commuting from apartment buildings to work in factories, and that severed that traditional relationship between land, and personal and family and household wealth.

Kim-Mai Cutler: And so, in his creation of a set of institutions like the FHA and Fannie Mae to jumpstart the US economy, he looked towards the technology of the car and the ability to build roads, and the ability to build houses that were far away from the urban core, and the creation of these kinds of housing, these kinds of public institutions like the FHA and Fannie Mae to uphold these homes as a form of wealth savings and household savings, so that he was tying together this notion of a home and a farmstead or homestead as well back together just like they were in the pre-industrial era.

Kim-Mai Cutler: And so, his idea was like, "Well, if you're just working a wage job in a factory, if you don't have some other kind of means of putting your savings somewhere so that you can take it out if there's ever an economic shock or an income shock or a house shock... It's the government's responsibility to help create that." And so, he created this whole back door system of financing that is government-supported to enable access to this type of wealth savings tool. And it's also important to underscore that the creation of these policies was not... It was not racially equitable, right? It was primarily white Americans that had access to these loans and to these financial tools and to purchase housing.

Alex Trembath: Yeah. It becomes actually not just a form of wealth accumulation, but of passing down wealth from generation to generation, so it's a legacy problem too.

Kim-Mai Cutler: Right. And so, if you look at the basis of the modern racial wealth gap in the United States between white families and families of color, it would be predominantly in the form of home ownership and the savings represented by that home ownership that's passed down.

Alex Trembath: When you put it like this, it really seems to me like even if we, in California, or in other superstar cities around the country built more housing or even a lot more housing, that might not be enough. Do we need to change more than just the stock of available housing for sale?

Kim-Mai Cutler: I would say that building a lot more housing is absolutely necessary but not sufficient.

Kim-Mai Cutler: By that I mean, every time and every decade we've not built a sufficient amount of housing in the Bay Area for the amount of people that are being born here for that amount of jobs are being created, literally, every economic cycle housing values have just doubled, like two X every time, which over the course of multiple decades is significant. I couldn't imagine what would happen, like, what if housing values doubled again in the next economic... It's unthinkable right now, but I can't imagine what that would look like if that happened in the next cycle.

Alex Trembath: Right. Something we're not in right now, but it's what happened in the last decade, right? So, yeah.

Kim-Mai Cutler: It's what's happened in the last 30 to 40 years.

Alex Trembath: Yeah.

Kim-Mai Cutler: We do have to build more housing, at the same time, given where the cost of housing is today of the existing housing stock, and then given where the cost of purchasing a piece of land, where construction labor costs are at, where financing costs are at, where permitting costs are at, we can't just build a new unit of housing that is accessible and affordable to a minimum wage worker. That requires a public subsidy.

Kim-Mai Cutler: But the problem with the public subsidy is that public subsidy is also like, 300K a unit, which if you're going to go out to the public and make an argument like, "We've got to generate 300K a unit to subsidize below market rate housing." That cost is pretty extraordinary relative to the cost it takes to educate one student in the K through 12 system per year or one university student or one... It is pretty extraordinary relative to other programs that we run. Which is why all of the affordable housing initiatives that have been run at a municipal or city level, at best, they're producing like in the hundreds. Like, maybe San Francisco was producing the equivalent of 500 affordable units a year, and then now, because we're... The cycle's changing, that number is going to drop off by half or more. It speaks to a larger cultural issue, which you've talked about before, which is it's very challenging to make housing meet these dual contradictory expectations where housing is... Housing seems to be a good investment and it's supposed to be affordable at the same time, and over multiple years and decades maybe that's just not possible.

Alex Trembath: Yeah. I know, you certainly convinced me at this point that housing can be affordable or it can be a wealth generator and a way to pass wealth down to our children and grandchildren, but it can't really be both. If that's the case and I'm pretty convinced that it is, then how should we think about housing in an ideal way? And is there an alternative asset class? Is there an alternative wealth incentive to property that could take its place?

Kim-Mai Cutler: I don't have the answer to that question. Also, the same question that I asked myself, I would like to have more time to look at different alternative structures. But I would say, there are other high functioning economies in the world like in Japan and Germany that do not center housing at the core of wealth creation in the way that the United States, or Australia, or the United Kingdom do. And in the case of Germany, Germany's a tenant majority society, so to say, it's like only 40% home ownership, but they also have other robust ... More robust programs around access to medical care, around higher education that is relatively affordable compared to the United States, to vocational training, to lots of other support programs that enable over the longterm for people to have access to normally to housing that's relatively affordable, but to other services that are affordable.

Kim-Mai Cutler: In the United States, we put... We've put an increasing amount of risk on individuals on households, and at some level, one could make the argument, "Oh, well that makes our society more risk-taking and entrepreneurial." But on the other hand, you have all these individuals who have to plan for very large and expensive unknowns. Like, what happens if you have a medical... A serious medical condition? These things are expensive. And so, there's an extent to which, when you place that much risk on individuals, then maybe people are collectively making sub-optimal decisions, in some sense.

Alex Trembath: Now, that's another thing that you got me to think differently about: obviously the deck is stacked against new entries to urban areas, against people who didn't inherit a house or wealth from a family legacy of property. But the system is not designed to be optimal for the homeowners either; they're shouldering a huge amount of societal risk.

Kim-Mai Cutler: Yeah. Yeah. In many cases, we saw that with the 2008 crisis. You had a lot of households who over-extended and over-leveraged themselves in pursuit of this American dream of home ownership. And it wasn't ultimately sustainable for many households and actually destroyed the credit of, I

don't know how many families, how many households. And so, there were a series of lessons that could have been gleaned from that. But we're now in the situation where we've restarted that entire system, and now... Because we tried to salvage and restart the banking system after that crisis, and not only didn't really critically look at the incentives within the finance industry, but also critically look at incentives within those broader conception of how we think about and approach housing. Now we're in the situation where we've jump-started this system, and now it's entirely out of reach of different disadvantaged socioeconomic groups and racial minorities in America, but also, an entire generation of young people.

Alex Trembath: Right. It is this weird thing where it's one of the only classes of product or whatever in the United States where you've got a whole bunch of people celebrating rising prices, we don't do that for food, is another way that you've gotten me to think about it. One thing that really sticks out in my mind is that a classmate of mine from high school is a realtor now and he posted on his Instagram recently that, "Great news. The house that we just sold in Pacific Heights in San Francisco went for over a million dollars over the asking price." And he got a bunch of likes and he was bragging about this presumably because he wants more clients to use him as a realtor. But it struck me as this very strange set of incentives that lead us to celebrate not just really, really expensive housing, but people paying irrationally more for it than they should. And I had sympathy for the guy because he's a realtor and that's what his job is, to get the highest price for his clients.

Alex Trembath: I had sympathy obviously for the homeowner because they just got a million dollars more than they were expecting, and even the people who bought the house, who now have a house in San Francisco. It's not necessarily any of these actors' faults, but the way that these incentives are stacked up creates this very strange way we think and talk about this fundamental element of human life and activity, which is where we live.

Kim-Mai Cutler: Yeah, if you were to see home prices rise 15% every year, you could always tell yourself home prices become 15% less affordable every year. Or alternately, as the economic cycle changes and home prices soften, there will be stories, home prices drop 10% or... But they're actually... It'd be hard to say whether they're... In many cases, like in the current climate right now, because interest rates are rising, net net, the costs might be the same or rising even if the list price is going down. And so, it's not necessarily clear, even in a soft market, that housing affordability is actually improving.

- Alex Trembath: Right. Well, to tie this all together and to bring it back to the politics a little bit since I've got you here, I really do have to ask what you mean when you say, "Why Burrowing Owls Are Leading to Vomiting Anarchists."
- Kim-Mai Cutler: Oh, did you not know the history of that, why it was titled that way?
- Alex Trembath: I do. At least, I know what the idea is, but I'm sure our listeners would love to know what it means when you say, burrowing owls are leading to vomiting anarchists.
- Kim-Mai Cutler: Yeah. That was that I was just trying to tie what seemed two disparate headlines together to tell a regional story about a very complex system that was hard for people to understand. And what was happening, on the vomiting anarchists side, this is four years ago. There were a series of bus protests against tech buses, and there was one in Oakland near the MacArthur Station where a protester had mounted a... I want to say it was a Yahoo bus, and then vomited on it just to... These people were upset. People were upset that workers who are paid six-figure incomes are moving to a neighborhood in Oakland, which has this strange position of having some characteristics of being an industrial or postindustrial city, but also happens to be adjacent to the most expensive city in the country.
- Kim-Mai Cutler: It has these contrasting identities in a very complex racial and socioeconomic history. And so, there was this guy vomiting on this bus over in Oakland, but at the same time, if you crossed the bay over in Mountain View, which is where Google is headquartered, if I remember correctly, they had zoned for something like 30,000 additional jobs and were building hardly any housing units. And one of the reasons that they weren't concerned about it was, there is a species there called the burrowing owl that they were worried about a dwindling population there, and they had formed a feral cat task force to monitor cats attacking these owls. And this is one reason that they were not approving anywhere near the level of housing represented, or close to the number of jobs that they were approving, and this is creating this spillover effect where all these extra Google workers, or Facebook workers, or Apple workers, or what have you, couldn't find any housing and housing stock down there. And so, they were commuting from San Francisco and then increasingly, Oakland, just to get to work.
- Alex Trembath: It's honestly one of the best treatments of the whole politics and structure of housing problems in the Bay Area that I've read, so we'll include it in the

show notes. One last thing I'm curious about is how you got interested in this space in the first place. What got you interested in housing and urbanism? Where has that taken you, and where are you going?

Kim-Mai Cutler: Yeah. I grew up in the Bay Area. I grew up in the South Bay. The house that I grew up in I believe was built the same year that Steve Jobs graduated from high school, and my neighborhood looks pretty much the same today as when he graduated high school, and Apple has gone from being something that grew out of the computer club to being the most valuable company in the world with a massive headquarters, with now a massive, like five billion dollar headquarters that was designed by Norman Foster and what have you. And the city looks the same, and there's been all this job creation and wealth creation. And having traveled to lots of other cities all over the United States and all across the world, I love beautiful walkable cities with lots of different amenities and resources and mixed use. And that just wasn't happening at all in Cupertino.

Kim-Mai Cutler: I was like, "What is going on?" This seems like a natural path that cities move along towards, and I was just always really curious why it wasn't happening there. And then when the protests started happening in San Francisco, it seemed like, "Wow! Why couldn't we just add more housing?" And then asking that question was just like opening Pandora's box and seeing like, well, there are decades of loss, decades of rulings. There are decades of all of these different fights and struggles over the way in which we use land and the way in which we apportion who gets to live where and who gets to join what community. And so, I researched that for like two months and then wrote that thing and it kind of blew up.

Alex Trembath: Yeah, it certainly has blown up. Breakthrough is increasingly interested in the housing and urbanism debates, not least of all because of the work you did before we started paying attention. So thanks for joining us.

Kim-Mai Cutler: Thank you for having me.

Alex Trembath: Thanks for tuning into Breakthrough Dialogues. If you like our show, tell your friends, rate us on iTunes, and subscribe on whatever platform you get your podcasts. I want to again, thank my guest, Kim-Mai Cutler, and our producers Alyssa Codamon and Tali Perelman. Catch you next time.