

ARTICLE 1

URBAN WORKFORCE HOUSING: AN
EMERGING ASSET CLASS

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Real estate development responds to supply and demand much in the way of many industries, and demand for residential real estate is fundamentally driven by the lifestyle of the end user. A young couple may choose to live in an urban multifamily complex full of amenities and close to transit, while a retired senior citizen may prefer a quieter environment where they can find community with their peers. A newly married couple with a child on the way may seek out a home with a yard and garage, as their credit score is finally ripe for a mortgage and they are looking for the financial security of homeownership.

This diversity in lifestyles is the fundamental reason for the existence of different housing asset classes: specialized housing types that serve specific user groups. Single-family detached homes, senior living, and student housing are all examples of real estate asset classes that are purpose-built for the lifestyles of those who live in them. Said more simply, one's stage of life defines both what kind of housing one needs and where that housing needs to be. Asset classes meet these diverse needs.

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Although there is a wide variety of existing asset classes, the real estate industry and capital markets have long failed to recognize the emergence of a growing demographic subgroup that deserves its own asset class. [In 2014, Millennials became a larger population subgroup than Baby Boomers.](#)

With college-educated members earning a median income of \$56,000 a year, this generation experiences [the lowest marriage rates of current generational cohorts and the highest rates of living at home with their parents between the ages of 25 and 37](#). As this generation makes up an ever-larger percentage of the U.S. population, its members are encountering older housing stock built for a vastly different lifestyle and price range.

Single, middle-income professionals who make up the urban workforce are hard-pressed to find affordable, private accommodations in the high-value real estate markets they call home. These urban residents, lauded over the COVID-19 pandemic as the "essential workers" who kept our hospitals, schools, and grocery stores running, have grown to become a substantial share of every metro area's population. This demographic is fundamentally attracted to urban areas, where it can find social, professional, and economic opportunity.

Cities are forges of potent connections; urban centers are where the desires of individuals meet the needs of companies and organizations. As places of support and opportunity, cities will continue to attract ambitious, early-career residents for years to come. At the life stage of the average early-career professional, the ideal housing type is flexible, affordable, and centrally located. Unfortunately, such housing is in short supply and, consequently, hard to find.

The fundamental demographics of the country have changed dramatically, and a new bracket is emerging with specific needs, a disposable income, and no purpose-built housing to serve it. This is a substantial untapped economic opportunity for forward-thinking investors and developers who help provide cities with affordable housing without relying upon public subsidy. Capital markets and real estate developers should recognize this market shift by allocating capital to and designing housing types specifically for single urban dwellers.

THE DEMOGRAPHIC CHANGE

The traditional image of the American household is stamped into the country's national memory by echoes of 1950s media. TV shows like *Leave it to Beaver*, Norman Rockwell paintings and iconic appliance advertisements all paint the picture of an ideal life in a nuclear suburban family. While many American households may have looked like this in midcentury America, most households live very differently today.

In 2018, a mere [30% of households were a married couple with at least one child](#). [Census data](#) show a steady increase in the average age of marriage since the 1970s, and marriage [rates are generally on the decline](#). While younger adults were busy getting married and starting traditional nuclear families midcentury, today the same section of the American population (usually from ages 23 to 38) are putting off marriage until later in life. As a result, a longer period of people's lives is spent single. There are now more 23-38-year-olds living with roommates than with children.

As this demographic shift fundamentally changes the look of the American household, culture, industry, and technology have led to a massive cultural attraction to urban areas. Tech-industry powered metros such

as the San Francisco Bay Area, Seattle, and Boston provide economic opportunity for this demographic with their concentrations of tech industry players. Urban areas continue to be the centers of career optionality for early-career professionals, as they have been for centuries.

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Recently, the COVID-19 pandemic cast doubt on the continued vitality of these areas, as the economic opportunity provided by major industries appeared no longer tied to geography. Prominent metros are more than just places of career opportunity for the urban workforce, however. People choose to locate in cities because of the promise of cultural opportunities, the chance to meet interesting people, and proximity to entertainment and cultural centers. Eric Willett, CBRE's director of research, states in [a recent New York Times article](#) that young tech workers who "left urban centers in large numbers" at the beginning of the pandemic are the exact group of people he and his team are "increasingly seeing move back."

This urban workforce is gradually changing the socioeconomic landscape in America. Economist Harry Holzer sees the category of work performed by the urban workforce as signs of the emergence of [a new middle class](#), which saw a 5% increase in employment in a period of time in which the "old middle class" saw a 44% reduction. In other words, it would be wise to consider how the middle class is changing rather than simply shrinking.

Despite its tremendous market potential, however, this emerging middle class is frequently overlooked by policymakers and investors. This represents a large, untapped

Employment by Occupation (2019) San Francisco - Oakland Hayward

	% of population
Management, Business, Science and Arts Occupations	
Management Occupations	14.5%
Computer & Mathematical Occupations	7.61%
Business & Financial Operations Occupations	7.53%
Life Physical, & Social Science Occupation	2.33%
Arts, Design, Entertainment, Sports, & Media Occupations	3.42%
Legal Occupations	1.87%
Health Diagnosing & Treating Practitioners & Other Technical Occupations	3.81%
Architecture & Engineering Occupations	3.25%
Community & Social Service Occupations	1.64%
Education Instruction, & Library Occupations	5.36%
Health Technologists & Technicians	1.36%
Production, Transportation, & Material Moving Occupations	
Transportation Occupations	3.05%
Production Occupations	2.77%
Material Moving Occupations	2.26%
Production, Transportation, & Material Moving Occupations	
Food Preparation & Serving Related Occupations	5.01%
Building Grounds Cleaning & Maintenance Occupations	3.39%
Healthcare Support Occupations	3.14%
Personal Care & Service Occupations	2.77%
Fire Fighting & Prevention, & Other Protective Service Workers Including Supervisors	1.21%
Law Enforcement Workers Including Supervisors	0.46%
Natural Resources, Construction, & Maintenance Occupations	
Construction & Extraction Occupations	3.67%
Installation, Maintenance, & Repair Occupations	1.69%
Farming, Fishing, & Forestry Occupations	0.17%
Sales & Related Occupations	
Sales & Related Occupations	8.95%
Office & Administrative Support Occupations	
Office & Administrative Support Occupations	8.78%

The Urban Work Force
32.4%

The urban workforce makes up a substantial portion of the urban labor and talent pool. Source: Data USA

market for real estate developers and a missed opportunity to help alleviate the housing crisis in the Bay Area.

A PREDICTABLE AND STABLE TENANT BASE

Any urban economy is fundamentally built on the urban workforce. Those who have come to be known as “essential workers” during the COVID-19 pandemic are a prime example of this: nurses, teachers, transportation and logistics workers, and paramedics are core aspects of the function of any city, and these jobs are consequently not going anywhere any time soon. This clientele is stable and ever-present in urban areas across the US, in high and low-cost cities alike.

As a developer with deep experience in the Bay Area, we have focused the following analysis on the specifics of this group in this geography. However, all signs indicate that these conclusions can be applied to urban markets across the United States.

The careers this demographic pursues tend to pay a rate that puts the worker between 80% and 120% of the area median income, or AMI. For example, the average Oakland OR [nurse makes about \\$80,100](#), putting them just below \$83,450, the [Oakland AMI for individuals](#).

Some members of the urban workforce are occupied in jobs that can be performed remotely, such as those working in entry-level software engineering. Given a choice, even these workers tend to prefer cities for the social and professional connections they can make in them.

However, many single people making a median income in urban areas perform jobs that simply cannot be performed outside of a workplace environment. Nurses, firefighters, service workers and teachers must report to their place of work; it is very difficult to put out a housefire over Zoom. There are [962,563 people in the Bay Area](#) making between \$60K and \$125K annually. Many of these people find it near impossible to find appropriate housing in their price range.

With a discretionary income of around \$40 a day, members of the urban workforce prioritize cost-effective solutions to daily needs to stretch their dollar and afford opportunities for leisure and recreation. With a legacy housing infrastructure designed for an entirely different resident profile, this demographic is often forced to spend too much for housing that does not appropriately serve its needs. This contributes to a severe shortage of housing affordable for this sizable group of people. [47% of renters in the Bay Area](#) spent more than 30% of their incomes on housing in 2019, which classified them as “rent burdened” by Housing and Urban Development’s housing affordability standards. With rent making up a significant portion of a member of the urban workforce’s daily living expenses, they often look to housing that provides comfort and convenience at an affordable price. Such housing is in short supply due to chronic underinvestment.

Urban policy and real estate investors have been slow to adopt the idea of purpose-built housing for urban workforce professionals. This lack of imagination poses a serious constraint to providing an economically viable product type for a substantial population subset.

ECONOMIC FEASIBILITY OF URBAN WORKFORCE HOUSING

This asset class provides a massive and reliable market opportunity for allocators of capital. Conservative estimates place the unbuilt need for middle-income housing in the Bay Area region alone at over \$200 billion. While subsidized affordable housing often serves a demographic making less than 60% of AMI, market-driven housing usually has no need (or qualification) for government subsidy. Capital markets are in a prime position to leverage this high-potential market opportunity and invest in market-rate housing types that serve this stable, middle-income demographic.

With a severe housing shortfall in the Bay Area, it is not possible to solve the housing crisis with subsidized housing alone.

Investors are willing to devote capital to the issue, but they must be satisfied with the level of risk involved in the investment.

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Traditionally, investors have been drawn to the high returns of luxury residential investments. Serving the high-income market may be profitable, but the luxury market is notoriously volatile.

The glamorous image of luxury residential assets masks their high risk. Chasing trophy luxury property development is a gamble entirely dependent on lucking out on market cycle timing. In 2020, many prominent luxury properties in San Francisco had only [60-70% occupancy](#).

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Investing in products within the price range of the urban workforce is a robust choice in a wide range of market conditions. For example, across Riaz Capital's Oakland portfolio of 1,200 units serving middle-income individuals, pandemic conditions saw an average 95% occupancy and 94% rent collection rate from April 2020 to April 2021. These high occupancy and rent recovery rates are evidence of the urban workforce's stability as a customer and the security of this subset of the population even in tough times. Urban workforce housing is an unfamiliar market to many investors, but the stability of its middle-income tenants preserves capital and generates consistent growth.

Committing capital to urban workforce housing is an investment in the provision of housing in a market that desperately needs it. This emerging asset class and the

demographic it serves is a large, untapped market ineligible for public subsidy and yet underrecognized by investors looking for stable, safe investment opportunities.

CONCLUSION: THE PROMISE OF URBAN WORKFORCE HOUSING

Urban workforce housing carries a tremendous amount of promise: promise as another tool for tackling housing unaffordability, promise for housing a significant portion of the population in comfort, and promise for investors seeking a responsible and safe place for their capital to produce a reliable return.

Urban workforce housing is a model that can be built in existing neighborhoods as a key infill solution, capitalizing on proximity to transit. It can be produced quickly and at scale, often requiring no special zoning exemptions in existing municipalities and can be completed in half the time of the average San Francisco project. And through efficient building and potential zoning reform, urban workforce housing can play a large role in creating the unsubsidized, affordable-by-design housing the Bay Area wants and needs.

To truly realize this asset class in a market, however, it takes more than just identifying market opportunity. Entitlement and construction must be efficient, speedy and cost-effective. Potential investments must be high yield to attract ambitious capital. Predictable development processes can lower the cost of capital and, as a result, lead to a substantial scale-up of the development of accessible housing in high-cost urban metros. Standardized policies and bureaucratic procedures on the side of regulation are crucial to enabling housing production. The political and technical efficiencies long present in the suburban single family home industry can, and must, be applied to urban

housing.

The following installments of this publication will explore the potential for urban workforce housing in more detail, looking at historic trends, design methodology, and looking forward to policy reform that would enable this asset class to be realized in the urban market. It is time for cities to embrace innovative housing, and this paper will explore how investors and policymakers can help make it happen.

ARTICLE 2

THE NEED FOR URBAN WORKFORCE HOUSING

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The Bay Area has failed to meet the housing needs of its growing population, leading to absurd housing costs across the region. While practically all households are touched by the housing imbalance, moderate income households feel the crunch particularly severely.

As economists, policymakers and investors often focus on the high and low ends of the housing affordability spectrum, middle-income households are consistently cost-burdened and underserved by the housing market, forcing middle-income individuals into inadequate housing.

The Bay Area and similar urban markets require a solution that serves essential professional residents. Our cities need urban workforce housing: an emerging asset class that offers a market-based solution to the middle-income housing crunch. With scalable, moderate-density forms of housing that can fit into existing neighborhoods, recent approaches to urban workforce housing provide a quality product at an affordable price for working professionals.

Our cities need urban workforce housing: an emerging asset class that offers a market-based solution to the middle-income housing crunch.

THE SHORTFALL

The housing crisis is unfortunately nothing new in the Bay Area. Since the era of the [freeway revolts](#) in the 1950s, a potent combination of social, political, and economic factors have prevented the metro area from approving and supplying a sufficient

amount of housing to keep up with a growing population. A general aversion to growth and development ensured that housing supply remained stable while the population of the Bay Area increased substantially with the rise of the tech-fueled economy. In addition, property tax policy incentivized cities to value commercial development over housing development, and increasing construction costs made the construction of any structure absurdly expensive.

Due to the associated difficulties of building it, housing has been chronically undersupplied in the Bay Area for decades. According to urban policy thinktank [SPUR](#), the Bay Area has seen a 699,000 housing unit production shortfall for the last 20 years. By 2070, an additional 1.5 million homes will need to be brought online to serve the region's population and alleviate the crippling housing shortage.

With a total of 2.2 million units needing to be built by 2070, we estimate the price tag for this massive surge of development at \$1.3 trillion at current construction costs. Such a price tag demands capital that public subsidy alone cannot hope to fully provide. To adequately address the scale of the housing deficit, it is crucial for private industry and capital to play a lead role in its development. Profitability and predictability are the keys to attracting needed capital for development, and as an industry we must identify and enable profitable, predictable solutions to the middle-income housing crisis.

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THE UNDERSERVED MODERN MIDDLE

In today's economic landscape, it is often easy to forget that much of modern America was built on the presumption of the family household. For a long time, households making around 100% of the area median income could afford to live comfortably with all the necessities and some luxuries within their budget.

With so many reports of the disappearing middle class, it may seem that the socioeconomic rung no longer exists. Although the proportion of middle-income households has decreased over time, these households still make up a substantial portion of the urban population and still demand housing.

In 2015, the City of San Francisco anticipated that 19% of all new housing stock produced until 2022 would need to serve the middle-income level. This estimate was determined through the standard RHNA methodology for that planning period. But by 2020, [the city achieved only 27% of this goal](#). Low-income and high-income units were produced at a higher rate than moderate income units, despite middle-income housing serving a stable demographic with a disposable income and evident demand for housing.

Even worse, the RHNA process may underestimate true housing needs. According to one [report](#), the RHNA methodology underestimates the actual housing needs of municipalities by focusing on demographic projections rather than market indicators. It is very possible that the RHNA political process is assigning municipalities fewer middle-income units than the market actually demands, making this shortfall particularly egregious. By the end of the 2015-2022 planning period, moderate income units are on track to be the least produced housing type in the city.

This housing production deficiency is indicative of a trend across the Bay Area, and adds up to a huge, untapped opportunity for solution-oriented capital. SPUR's goal of a total of 2.2 million housing units requires the Bay Area to provide about 45,000 units per year until 2070 to keep pace with demand. It is not possible to achieve the Bay Area's housing goals by building housing affordable only to those making low incomes and super high incomes. Digging from both sides of the mountain will accomplish nothing if policy and industry leaves a substantial piece in the middle.

San Francisco Regional Housing Needs Allocation, Planning Period 2015-2022

Household Affordability	Housing Goals 2015-2022	Actual Production as of 2020	% of Production Target Achieved	Production Deficit as of 2020
Above Moderate	12,536	18,528	100%*	-
Moderate Income	5,460	1,467	27%	3,993
Low Income	10,873	4,249	39%	6,624
Total	28,869	24,244	84%*	6,855

*Although market rate housing production is above the RHNA goal for that income level, 100% is shown here to indicate that the goal has been reached. The total percentage of target achieved reflects that as well.

Source: San Francisco Housing Inventory 2020

Moderate income units are on track to be the least produced housing type in the City of San Francisco, missing the production goal by the most out of all housing affordability levels. This is true for many Bay Area cities, including Oakland.

THE WRONG KIND OF HOUSING

Perpetuating single-family zoning has been the default policy of American urban planning for almost a century, even in high-value urban metros. In the Bay Area, [82% of residential land is zoned single-family](#). This particular housing type works well for upper-middle class families with children and cars, but its low density and high price point excludes most members of the urban workforce.

With gross under-delivery of housing in competitive geographies, middle-income housing is missing in high-value and high price urban markets. SPUR estimates that by 2070, the Bay Area will need to produce [269,000 units of housing within the price range of households making between \\$99K and \\$148K annually](#). Limited by the cost of construction and the lack of public subsidy, such a goal will be impossible to achieve without developers and investors moving to produce innovative forms of housing rapidly and at scale.

The housing shortage has made rent in the Bay Area prohibitively expensive for many residents. With a pre-pandemic median rent of over \$3,720 for a one bedroom unit in San Francisco, many median-income earning singles have little choice but to “double up” with roommates to afford rent.

In response to the proliferation of roommate living, there has been a recent rise in co-living models – like [Common](#) – which create a more formalized system of living with strangers. Through shared spaces, staffed cleaning service, and community events, coliving claims to be an affordable, community-centric way to house young professionals in in-demand urban markets.

Coliving falsely accepts the premise that one needs to live with roommates to afford housing. Doubling-up is a symptom of rents

being unaffordable to individual tenants, not a solution. Living with others should be an option for members of the urban workforce who seek the company of their peers, but it should not be the default mode of affordable living. To move beyond the formalization of roommate accommodations, there needs to be a new model of urban workforce housing that can achieve comfort, style, privacy, and location at a price affordable to the urban workforce.

Doubling-up is a symptom of rents being unaffordable to individual tenants, not a solution.

A NEW KIND OF MISSING MIDDLE HOUSING

A stark undersupply of housing is clearly the cause of the housing crisis, and the solution to the problem is to build more housing accessible to more people. Where this housing should be developed is also clear: within existing neighborhoods in highly resourced cities. [SPUR's Regional Strategy](#) outlines a vision for densifying high-resource, low density parts of existing urban areas, both in downtowns and outlying areas. Rather than building in greenfields and perpetuating sprawl and unsustainable land consumption, urbanists believe that neighborhoods can be retrofitted with higher-density housing typologies.

A common objection to this proposal is that densification of historically low-density neighborhoods will be a detriment to the community's character. There is a frequent fear of “Manhattanization” in California; a fear that densification inherently means the introduction of tall buildings in quiet, single-family neighborhoods. The idea of densification frequently conjures images of on-street parking shortages, crowded sidewalks, and shade cast by new skyscrapers.

Such fears of denser neighborhoods are unfounded. In truth, many desirable Bay Area neighborhoods are already examples of dense communities that retain a single-family neighborhood feeling. This balance of density and community character is accomplished through what architect and urbanist Daniel Parolek has called [“Missing Middle Housing.”](#)

Defined as “House-scale buildings with multiple units in walkable neighborhoods,” Parolek’s model took the world of urbanism by storm as a crucial means of tackling the crisis of housing unaffordability in low-density neighborhoods. Duplexes, triplexes, bungalow courts and fourplexes are all more affordable forms of housing accessible to a variety of people when compared to conventional single-family homes. Best of all, they are also contextually appropriate in existing, walkable but low-density neighborhoods. Missing Middle Housing provides a way to maintain neighborhood character while making the areas accessible and affordable to more people.

Urban workforce housing’s necessarily compact unit size can fit into a variety of housing shapes and sizes, including Missing Middle typologies. From mid-rise complexes in downtown cores to townhome-style units in historically low-density neighborhoods, this asset class’s small unit size allows for a flexible model that can fit units into contextually-appropriate building typologies. As a model of flexible, affordable housing, urban workforce housing can be an effective tool for cities seeking to build high-density affordable housing in existing neighborhoods while remaining sensitive to the area’s context and character.

SPUR’s [New Civic Vision](#) outlines a need for 282,000 small apartment buildings to be built across the Bay Area. A substantial portion of these developments must be in high-resourced, existing neighborhoods to provide access to opportunity for middle-income

individuals. With small unit sizes and a variety of housing typologies, urban workforce housing is in a unique position to help meet this need for middle-income individuals.

CONCLUSION

The Bay Area has chronically underbuilt housing for decades, leading to a severe shortage of adequate housing at all levels. The housing industry serves the luxury, middle-income and low-income markets, but it does not serve each proportionally. Luxury and affordable housing are built at higher rates than middle-income housing, leaving a substantial, underserved market despite demonstrated demand from the demographic. This has produced a particularly acute housing shortage for middle income individuals.

To fully tackle the severity of the Bay Area housing crisis, the region needs to tailor its housing production to each portion of the unaddressed market. Policy and industry must therefore be more attentive to the needs of the moderate-income urban workforce and provide adequate housing through a new kind of asset class: urban workforce housing.

With offerings in this asset class designed specifically for the demographic’s price point and lifestyle need, urban workforce housing is a critical piece of any strategy for housing the region. Political leaders, investors and urbanists should embrace the opportunity this asset class provides as another tool for making the Bay Area an accessible place for all.

In our next piece in this series, we will explore the people who make up the urban workforce. Their habits, preferences, and lifestyle choices all demand a form of housing tailored to their specific needs.

ARTICLE 3

WHO LIVES IN LESS THAN
400SF?

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Even before the COVID-19 pandemic, [1/3 of U.S. households were “doubled up”, containing an extra adult other than the householder](#). In high-cost urban areas like San Francisco, that number of adults living with parents or roommates is [even higher](#).

Adults tend to cohabitate with roommates out of necessity, not choice. As wages stagnate and housing costs in expensive metros only seem to increase, the cost of living is often too high to afford living alone. Many roommates are not friends and have no interest in becoming friends, and living together proves only to be difficult and uncomfortable. Given a choice, many would opt for smaller, private accommodations without the need for roommates.

In a tight housing market like the Bay Area, a particular demographic prefers small, private accommodations to large, shared accommodations. Members of the urban workforce – teachers, nurses and paramedics – seek private and high-quality housing within their price range and are thus willing to trade size for a well-located, comfortable, and private housing product.

Unfortunately, such a housing type does not exist en masse. A severe mismatch between housing needs of middle-income professionals and the availability of affordable, functional accommodations has led to a [trending increase in unmarried young adults living with their parents](#) and other housemates. If housing that suited their budgets and needs were in reach, it is doubtful that this demographic would choose to live in such arrangements.

To answer the question “who would want to live in less than 400 square feet?”, it is critical to understand the changing landscape of American demographics. Age, occupational trends, and the changing dynamics of interpersonal relationships all play a role in determining the lifestyle, and thus housing preferences, of this demographic.

In a tight housing market like the Bay Area, a particular demographic prefers small, private accommodations to large, shared accommodations.

THE NATURE OF ROOMMATES

The pressures of housing unaffordability have led many American adults to living arrangements with strangers. Living with roommates is a common occurrence, with [30% of American adults between the ages of 23 and 65 living with roommates despite the economic rebound since 2008](#). In fact, the proportion of adults living with roommates increased 9% from 2005 to 2018.

There is no shortage of roommate horror stories on the internet, with websites from Cosmopolitan to the Huffington Post full of hundreds of different accounts of roommate experiences. Though these tales are good for a decent laugh in a gossip magazine, the gross, privacy-invading, and emotionally draining experiences that come with living with a stranger undoubtedly reduce the quality of life in one’s home. After a long shift helping patients at a hospital, the last thing a middle-income nurse needs is to come home to a kitchen sink his roommate clogged with moldy bread. Living with strangers can even prove to be treacherous; violent roommates

can make cohabitation outright dangerous.

The quality and nature of one’s home is determined by the extent to which it allows for the quiet enjoyment of personal space. Everyone should have the right to comfortable, safe, and private living accommodations at a price they can afford. There is a common misconception that the rise of roommate living is a product of a generational desire to live life more communally; to find community in a world of late marriage, the isolation of remote work, and fluid relationships. In reality, many middle-income adults have roommates for economic reasons; they simply cannot afford comfort and privacy in their own home.

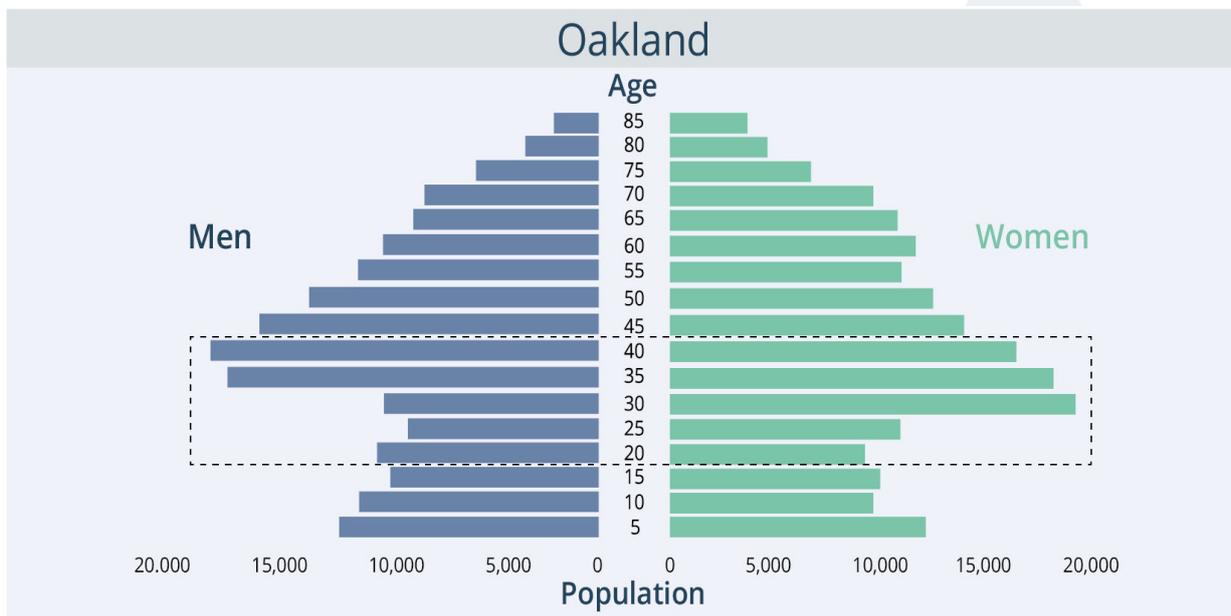
The quality and nature of one’s home is determined by the extent to which it allows for the quiet enjoyment of personal space.

Living with roommates should be a lifestyle choice rather than an economic necessity. Small, stylish studio apartments provide an affordable alternative to doubling-up.

AGE

Young professionals fresh out of college have a particular set of needs and wants that prioritize a well-located home over size or prestige. Being usually single and desiring the company of their general age cohort as they look to make friends and foster relationships, people between the ages of 20-35 look to live in dense, urban areas close to nightlife activities and ample transit options. In the Bay Area, these would include places like Uptown in Oakland and the Mission District in San Francisco.

In Oakland alone, [1/3 of the population is between the age of 20 and 40](#). That is a population of over 143,000, with many in need of housing as they look to fly the nest and begin their careers in the city. Oakland is not alone in having a large population of young folks. High-cost, productive metros across the country generally skew younger by sporting many young professionals and students. Young folks are attracted to these areas for their ample supply of interesting and engaging activities and, critically, a variety of career opportunities in fields they look to get involved in.



20 to 40-year olds make up a large portion of Oakland's population.
Source: World Population Review

In our own portfolio, we cater to residents averaging 32 years of age. With an average income of \$61K annually and an average credit score of 690, we see these tenants as a stable and reliable customer to cater to. We reject the notion that younger residents are financially volatile and difficult tenants, as appears to be the general sentiment of many property managers. Said differently, our target residents may have relatively modest incomes, but these incomes are very stable and make for a low-risk tenant base. A reliable income and high credit score make this customer base a safe and sage market for urban workforce housing.

From Seattle to Boston, young professionals are seeking opportunity in cities. Still single and making a median income as they begin their careers, young urbanites need quality, affordable housing that fits their urban lifestyle.

RELATIONSHIPS AND FAMILY

Many members of the urban workforce are Millennials, a generation marked by the lowest marriage rates of current generational cohorts. Much of this trend is driven by the desire to be [economically stable and confident in individual social and career aspirations](#) before committing to a single partner. This results in a substantial number of 25- to 34-year-olds living in single-individual households as they wait for the right time to tie the knot.

A person's spatial needs are determined almost entirely by the size and structure of their household. It is much more comfortable to raise children in a three-bedroom apartment than in a one bedroom unit, for example. But for a single householder with no children or live-in partner, what ultimately amounts to a single room with an associated bathroom is perfectly sized for the householder. As Millennials spend more of their lives single, they do not have

the same housing needs as their parents or grandparents had at their age until much later in life.

A person's spatial needs are determined almost entirely by the size and structure of their household.

Without children or a partner in the house, it makes little sense for a single tenant to pay for unnecessary space. Functional single-person homes look vastly different from homes considered ideal for couples, especially when the individual is the sole source of income in the household. As more people remain single for longer, there is a growing demand for housing that enables a comfortable, affordable, single lifestyle.

Cities have consistently failed to provide "right sized" housing for residents. From a family of four looking for a larger apartment to a single, middle-income individual seeking out a space they can afford without a roommate, cities are full of one- and two-bedroom units that do not work well for significant segments of the population. Urban workforce housing is an opportunity to fill a gap in the housing market for singles with minimal spatial needs at their life stage.

LOCATION PREFERENCES AND ECONOMIC TRENDS

Global and US trends point to an increasing urban population, [with over 80% of the US population presently living in urban areas](#). Seeing opportunity, employers are investing heavily in real estate in downtown cores. Despite adopting a broad work-from home policy for all employees in perpetuity, Twitter recently announced a [major expansion into Downtown Oakland with a large office lease](#). Major tech companies have also [made significant investments in downtown real estate](#) during the COVID-19 pandemic.

Such big bets on cities are no wonder: over [90% of GDP is produced by and 88% of jobs are located in cities](#). People, companies, institutions and capital are eager to take advantage of urban opportunity, fueling the continued growth and economic development of cities. In short, cities are where “things happen”, and people move to be close to where the economic and cultural action is. The trend toward continued urbanization shows little sign of ceasing any time soon: cities exist as economic hotbeds at the intersection of individual desire and organizational need.

As urban economies spur the development of new offices, cultural centers and entertainment venues, it is important to remember that not everyone touched by these developments will be a high-income software engineer or project manager. Facilities maintenance workers, baristas, shuttle drivers and line cooks will come to serve these new office spaces and the people who frequent them. As urban populations increase, opportunities for both high- and middle-income individuals will emerge. As new offices and homes are built for high-income employees, other industries such as hospitality, healthcare and transportation services will rise to meet the demand of those with a discretionary income. These industries will be staffed by an urban workforce, who will also need and deserve a place to live within their budget.

The baristas and bus drivers that make bustling downtowns and office campuses work have a right to live in the cities they work in. Teachers who staff the schools that lawyers and engineers send their kids to deserve a [16-minute commute](#) rather than a 2-hour slog through traffic.

People join the urban workforce in pursuit of economic and social opportunity. Those opportunities are best found in cities, where a variety of jobs and a diversity of people

allow the urban workforce to build its own wealth and make valuable social connections.

When a member of the urban workforce finds a job in a city, they should be able to just as easily find an affordable place to live in it. As urbanites with a moderate discretionary income, they will look to be close to transportation choice, cultural opportunity, and essential services. Urban workforce housing should provide them an affordable way to live in proximity to the things that matter to them and make their lives better.

EQUITY

“Urban air makes you free” is a German saying from the Middle Ages that rings true to this day. For hundreds of years, cities have been places for people seeking economic opportunity, social acceptance, and new experiences. They have long provided resources and opportunities that smaller, homogenous communities simply cannot.

Unaffordable housing is a major limit to the accessibility of urban opportunity. Without an adequate and affordable home close to employment, healthcare, and education opportunity, the benefits of urban life are limited to the higher rungs of the socioeconomic ladder. Especially for those who cannot afford private cars, [access to transit is a major avenue to opportunity](#). Everyone deserves access to the resources, culture, and economic opportunity that cities afford residents, and attainable housing is the key to providing this.

Unaffordable housing is a major limit to the accessibility of urban opportunity.

By building enough housing to meet demand, cities can ensure that both long-time and new residents can find valuable access to opportunity. Constrained housing supply

in high-growth areas leads to rising market rents for existing units, elevating the required eligible income to live in a community. If an older couple is looking to downsize from a house to a one-bedroom apartment, they may find that they cannot afford the rent for such a layout in their city. Just as tragic, the children of longtime residents may not be able to afford to live in the very neighborhoods they grew up in.

Walkable, transit-rich, and amenity-rich neighborhoods should be available to all who wish to live in them. This goes for new arrivals in cities as well as long-time residents looking to change their housing situation but stay in their community. By placing accessible housing in such high-resource areas, the benefits of city life can reach a greater number of people. To ensure that opportunity truly exists for everyone, it is critical to make well-sited housing affordable and accessible to all.

CONCLUSION: MICRO-LIVING FOR THE MASSES

Middle-income individuals in the urban workforce are increasingly young, single, and urban. The lifestyles they lead generally demand comfortable, affordable, and well-located living spaces. A single lifestyle does not place a premium on space, so to enable affordability the size of the unit can be reduced without compromising any of the other aspects that make micro studios appealing.

Clearly, micro studios as an asset class are attractive to the young, single members of the urban workforce. But how does one make the most out of 400 SF? How is style, convenience, and functionality built into such a compact package? Next, we will explain how design works to turn what would otherwise be a single-occupancy hotel room into a sleek, stylish, affordable-by-design home.

ARTICLE 4

DESIGNING THE MICRO-LIVING
EXPERIENCE

DESIGNING THE MICRO-LIVING EXPERIENCE

The casual observer may be baffled by the idea of people choosing to live in only 400 square feet. With partners, children, and high-paying jobs, people with established families and careers will understandably find it difficult to comprehend why living in such a small space would be desirable to anyone.

In recent years, many households in major cities across the country are gladly giving up space for privacy, comfort and location at a price they can afford. These households are opting for a particular lifestyle enabled by small, affordable units. Small spaces can be desirable, comfortable, and livable when designed with the resident's daily needs and wants in mind.

When properly furnished and finished, the perception of comfort makes even small spaces attractive to potential tenants. Some may know this way of life as the "small house, big life" lifestyle. A small, simple and well-located home provides an affordable means to access all the great things urban living has to offer. Young, single professionals making a median income actively seek out such small units. In search of an affordable place to live without the need for roommates, young teachers, nurses and other professionals are a group of people with a particular set of needs and priorities that up to 400 square feet provide very well.

When properly furnished and finished, the perception of comfort makes even small spaces attractive to potential tenants. Some may know this way of life as the "small house, big life" lifestyle.

Riaz Capital, as a firm, has been successfully renting to and building for this demographic for 10+ years. Our company is intimately familiar with the needs and wants of this tenant and have built a successful and proven model for this demographic. We have been on the forefront of this market for years, building and managing workforce housing, student housing, coliving and microunits. We hope to share some of our best practices and lessons learned regarding how to best serve the average member of the urban workforce.

Through our strategy, we have found that price is our best amenity. Potential tenants in our market are price-sensitive and begin their search for a home by establishing a personal price range for the rent they can afford. By keeping our prices comfortably within this range for most individual, middle-income households, our product stands out in the market to our target demographic.

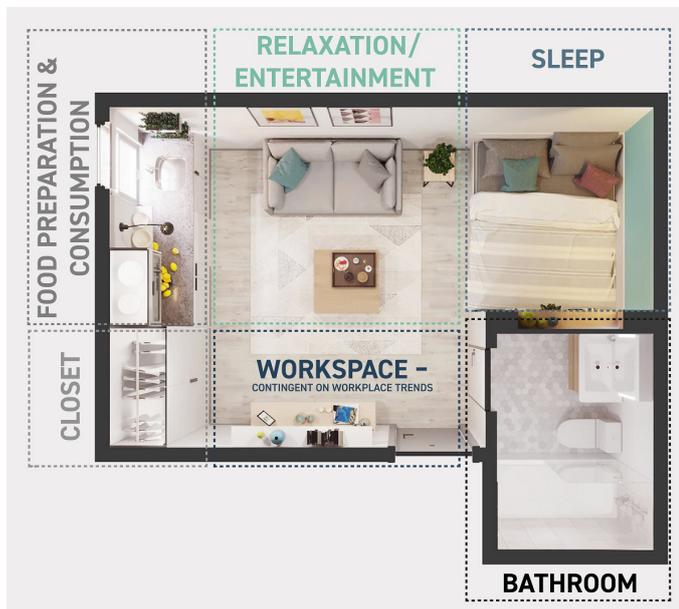
While tenants seeking micro-living are sacrificing quantity in terms of square footage, they are not sacrificing the quality of their space. The urban workforce, made up of middle-income professionals, places an emphasis on style, comfort, and convenience when selecting where to live, and developers who are focused on meeting this demand can provide a quality product in a compact and affordable package. The result is an emerging asset class: urban workforce housing. When well executed, this model is an ideal way to provide dignified, comfortable, and stylish housing that is highly marketable to the single-income urban professional.

Through our strategy, we have found that price is our best amenity.

THE FUNCTIONALITY CHECKLIST

The “Functionality Checklist” is a useful tool our company has developed over the years to shape the design of our housing typology. This Checklist is a concept explaining that the core of any marketable housing product is how comfortably it enables daily activities for the target customer. To be marketable, any dwelling unit will need at minimum six functional areas:

1. Food preparation and consumption space (such as a kitchen/ kitchenette)
2. Relaxation/ entertainment space
3. Sleeping space
4. Bathroom space
5. Closet space
6. Workspace – contingent on long-term effects of COVID-19 workplace trends



As studio units, our micro-living units check all six boxes of the Functionality Checklist. A kitchenette allows for light food preparation, a couch and TV act as entertainment space, and a small desk area, closet, private bathroom and queen-sized bed round out the Functionality Checklist. By perfectly optimizing the square footage of each of these functional areas, units optimize the

use of each square foot for what urban professionals value most. This ensures that they do not have to pay for what they do not need. This design produces tremendous value for the tenant and makes the efficiency of the unit a valuable and marketable aspect.

To achieve this spatial efficiency, our units utilize built-in furniture such as a closet rather than a wardrobe and a built-in media console. Built-in features provide both space efficiency and an extra level of convenience for those looking for a seamless move-in experience. As we will explain in the next section, tenant experience is paramount to success in this market.

THE TENANT EXPERIENCE

For a tenant prioritizing convenience in a high-turnover rental housing market, the experience of moving into a new apartment is top of mind when looking for a home. With fully-furnished apartments available at the tenant’s option, residents can experience a seamless and convenient move-in and move-out experience.

The fundamental idea of convenient housing is to transform the experience of moving into a new apartment from a dreaded chore to something akin to checking into a hotel. There is no need for tenants to buy furniture that may not fit into their next apartment, at which point they would need to dispose of the excess material. Rental housing can easily work as a full-service experience, providing not only the space but the means to live comfortably in it.

Micro-living units are a hospitality experience in an operationally multifamily product. In our own approach, our micro-living units come furnished and stocked with basic kitchen supplies, including pots, pans and silverware. Like checking into a hotel, all a tenant needs to bring with them during their

move-in is their clothes. The properties in our portfolio run the gamut from unfurnished apartments to hotel-like move-in experiences, but we feel that the convenience afforded by the fully furnished micro-living units is core to the micro-living strategy. With 70% of our new pre-pandemic tenants being relocations from out-of-town, we understand first-hand that convenience is key to attracting new residents.

Reducing or eliminating the need for tenants to provide their own bulky furniture has many benefits. Not only is it convenient to the tenant: the provided furniture is guaranteed to be appropriately sized to make the best use of the compact space within the unit. Not having to move furniture in and out with every move also cuts down on wear and tear in the apartments themselves, as furniture can scuff walls and floors as it is moved in and out of the space. This aspect is valuable to the asset owner because it reduces the costs associated with repairs and allows for quick unit turnover.

Micro-living units are a hospitality experience in an operationally multifamily product.

QUALITY OVER QUANTITY

Urban workforce housing focuses on providing quality where it matters most. To maximize value for the tenant, our compact units have high-quality finishes in places where tenants can enjoy them. Ceramic tiles adorn the showers, soft-close cabinets and drawers come standard, and tech-enabled door locks make entry easy and convenient. Fast internet is included in a flat community charge, and dimmable lighting enables a variable atmosphere. Minisplit climate control ensures thermal comfort for residents.

The real value in the micro-living model comes from effective segmentation of spatial

uses in a home. Fundamental to every multifamily complex are the conveniences located in three places: the residence, the building and the community. Within the residence, our model has placed everything the average resident uses daily behind the privacy of their locked door. This includes closet, bathroom, kitchenette, living space and bed.

Within the commonly accessible spaces of the building are things that residents may use weekly, monthly, quarterly, or, for some residents, never at all. Within our smaller complexes, these include a full range stove and oven, laundry machines (we encourage our residents to use these at least weekly), large living area, barbecue grill, and outdoor seating area. In larger buildings, shared amenities may include gyms, lounges, media rooms, bike rooms, and package rooms.

The surrounding community rounds out the tenant experience by providing neighborhood amenities. These include transit, jobs, bicycle infrastructure, grocery stores and pharmacies, restaurants and coffeeshops, and entertainment opportunities. By appropriately segmenting spatial uses and amenities, our model effectively optimizes the value of space for residents that place a heavy emphasis on getting a private, comfortable and livable unit for an affordable price.

The goal of developing urban workforce housing is not to simply develop the cheapest new construction housing possible. The goal is instead to focus development expenses on aspects that truly produce value for residents. Residents may not find value in having an in-unit washer/dryer in each unit, but they will place an emphasis on easily meeting their daily needs and having quality materials that they touch and use every day. By reducing the size of each unit, urban workforce housing can provide an uncompromised, luxurious experience to

tenants in a compact and affordable package.

MARKETING A LIFESTYLE

Single-income urban professionals look for homes that enable a rich lifestyle of ample social opportunity, independence from car ownership, and material simplicity. Small, stylish, efficient apartments in prime urban locations enable exactly such a lifestyle.

Single-income urban professionals look for homes that enable a rich lifestyle of ample social opportunity, independence from car ownership, and material simplicity.

As a builder of micro-living units, Riaz Capital is not trying to sell tenants on a particular kind of life. Tenants are perfectly aware of their preferred lifestyle: they already know that they prioritize comfort, privacy, and style over size. They know that they want a convenient, urban location proximate to mass transit and nightlife. As they look for a place to live, they seek out places with bike parking over complexes with unnecessary off-street car parking. When prospective tenants know what they want, micro-living marketing does not need to convince them that 400 square feet is enough space, or that it makes sense to be close to a BART station. Tenants are often pleasantly surprised by the style and quality of the space, and that is what gives micro-living units their edge in the market.

Our approach is one of respect: we are looking to enable the lifestyle choices our tenants have already made at a price they can afford. Micro-living studios provide an opportunity for tenants to live without roommates in well-located areas comfortably and affordably.

Our approach is one of respect: we are looking to enable the lifestyle choices our tenants have already made at a price they can afford.

Simple, stylish, and comfortable housing does not need to be spacious to attract and retain tenants. Through thoughtful design and a focus on tenant experience, small units can appeal to price-sensitive tenants who prioritize location, style and comfort over size. With apartments that provide a lot of value to prospective tenants with specific housing needs, micro-living units are a luxury experience in a compact, affordable package.

Of course, micro-living is not for everyone. Families and couples, for example, may find living in such small spaces very difficult. But for the single, young professional, such a space lies optimally at the intersection of their budget and needs. This housing product is the epitome of quality over quantity.

While much of the value of these units is derived from the qualities of their interiors, what exists outside the units' walls is just as important. In the next section, we will explore the power of location and the value of community amenities over property-specific ones.

ARTICLE 5

GUAC IS EXTRA – THE CITY IS
OUR AMENITY

GUAC IS EXTRA – THE CITY IS OUR AMENITY

One prominent rental property in San Francisco boasts 30,000 square feet of amenities, including three landscaped outdoor terraces, two different solariums, a fitness center, a “pet spaw,” and mailroom with cold storage for perishable deliveries. There is also a 60-foot outdoor pool and a staffed on-site spa (this one is for humans rather than pets). With a 1-bedroom unit renting for around \$4000 a month at the time of writing, this property is well out of reach of those making a median income of around \$61K in the Bay Area.

In recent years, many apartment complexes have tried to woo potential tenants through the inclusion of high-end amenities. These amenities are often very expensive and, in the case of workforce housing, completely unnecessary. Unfortunately, this has led to a market in which many middle-income single professionals simply cannot afford a one-bedroom unit in the Bay Area. So why have we seen this trend toward more amenities?

In recent years, many apartment complexes have tried to woo potential tenants through the inclusion of high-end amenities. These amenities are often very expensive and, in the case of workforce housing, completely unnecessary.

The driving factors of over-amenitized complexes come from two sources: the desire to justify higher rents, and policy pressure from planners. With housing as expensive as it is in the California market and particularly in the Bay Area, developers and property managers are often pressed to justify and demand higher rents through

the provision of extravagant amenities. It has become an arms race of sorts; complexes must continuously one-up one another to stay competitive in the amenity market. On top of this, planners require of projects often arbitrary open space requirements that reduce project efficiencies, increase construction and design costs, and often lead to private open spaces available only to tenants rather than the public at large. Extra, non-housing housing costs ultimately amount to an undue tax on the basic human right to shelter.

A TAX ON SHELTER

Many amenities are effectively non-housing housing costs. They are extras; parts of a housing development that contribute nothing to the provision of actual habitable units. In a tight, high-cost housing market like the Bay Area, such extraneous costs are an undue tax on residents desperately in need of attainable housing, as the costs associated with amenities are ultimately reflected in their rent.

Compulsory non-housing housing costs act as a regressive assessment on a basic human need: shelter. Although our society has long ago done away with taxes on other basic needs such as food and utilities, we still tax housing in a way that disproportionately burdens lower-income residents. This comes directly in the form of property taxes and indirectly through the required provision of amenities.

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Our society has effectively determined a way to distinguish between basic human needs and luxuries for the purposes of taxation. Most groceries are not subject to sales tax, while food served in a restaurant is taxed. The distinction lies in that groceries are considered a basic human need, while restaurants provide the extra nonessential service of the “dining experience.” Similarly, while it should be acceptable to tax luxury housing for providing an extra non-essential “living experience”, middle-income housing provides the basic service of shelter and thus should be exempt from any costs not directly related to providing that service.

Housing affordability requires de-taxation and de-amenitization: there is no need to provide extraneous amenities or require extra costs in housing destined to be affordable to the average middle-income resident. Of the two, amenities are a more tangible extra cost for residents. Admittedly, there is not much our company can do as a housing developer to directly reform U.S. tax policy. However, we can create efficient, attainable housing models made to be affordable by design.

As amenities are extras, tenants should have the option of paying for amenities rather than having them bundled into the cost of the unit. Another way to frame the idea is a food analogy: amenities in buildings should be like guacamole in a burrito in that their inclusion costs extra. You can buy a simple burrito to satisfy your hunger, and if you want something extra, you can opt for the guac.

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For those seeking an affordable place to live, amenities are an afterthought, especially

when it is so difficult to find an affordable place to simply put one’s head down at night. In a naturally affordable complex, tenants who value a particular amenity (be it a gym or a dog park) should be able to find it in the immediate surrounds of the complex and, as necessary, pay for it outside of the cost of their rent at their discretion.

When programming market-rate housing for middle-income individuals, the apartment’s location is its greatest physical amenity. Well-retailed, walkable, and transit-adjacent communities are often stocked with amenities vastly superior to the amenities any apartment complex can provide. By placing a priority on locating the property in an amenity-rich neighborhood, the desirability and marketability of the property is effectively maintained without the developer needing to sacrifice rentable square footage efficiency. For a well-sited, urban property, the city is a great amenity.

THE PROBLEM OF OVER-AMENITIZING

In competitive housing markets, it is easy for developers to get carried away with including amenities in their properties. After all, amenities are often seen as an effective way to stand out from the competition and retain tenants.

Housing marketable to those making less than \$100K a year, however, must be as pure to the core objective of providing quality, well-located housing as possible. As a result, any amenities that the market does not demand but planners require only add to the cost of housing and lowers the value of the space for the target tenant. If low rent is a desirable quality, compulsory amenities diminish the quality of the product.

As a resident-value driven product type, urban workforce housing effectively balances the need for amenities by embracing the

community around it. This provides residents with more choice in amenities, supports local businesses, and encourages street life. By relying on its location as an amenity, urban workforce housing effectively enables residents to enjoy high-quality amenities in the form of the community they live in.

By prioritizing a good location over the provision of on-site amenities, properties in our portfolio do more than just lower the price of the unit: they offer tenants the freedom to choose what they spend their money on. Living in a small unit with few amenities is not a limitation if the home is close to all the choice of activities that the city has to offer.

LOCATION, LOCATION, LOCATION

Many walkable, dense neighborhoods already possess many of the most desirable qualities any in-house amenity would seek to offer. For a property to be able to consider its location an amenity, the surroundings must meet certain criteria.

First, proximity to a variety of food opportunities is crucial. Restaurants, grocery stores, bars and weekly farmers markets are all desirable community amenities.

Entertainment and recreation are provided by other valuable community amenities available in most dense urban areas. Parks provide a place for residents to exercise pets and relax on warm days, while a nearby theater or bowling alley can give residents an opportunity to spend an evening with friends.

Finally, micro mobility rental and infrastructure, mass transit, and neighborhood walkability all provide easy access to even more that the city has to offer. Ease of transportation allows for quick and easy access to employment opportunities. Cities provide a variety of jobs and a diversity of people that allow the urban workforce

to build its own wealth and make valuable social connections. This demographic has an improved quality of life and better prospects for the future when it can live in proximity to urban opportunity and transportation choices.

More than anything else, a well-located apartment provides residents with convenience, which is something highly valued by the urban workforce. With the ease and speed of accessing all the community has to offer, the old adage that the three most important things in real estate are location, location, location continues to ring true. Indeed, workforce housing's greatest physical amenity is its location.

Many walkable, dense neighborhoods already possess many of the most desirable qualities any in-house amenity would seek to offer.

PRICE AS AN AMENITY

While location is a prime feature, price is the greatest overall amenity for urban workforce housing because it enables a small house, big life lifestyle for those with a limited income. Paying less for rent increases one's discretionary income and gives one the freedom of where they devote their money to make their lives better. If choice is freedom, these small apartments enable a lifestyle with a high degree of freedom.

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Relying on the broader market to provide amenities produces a tremendous amount of value for residents. Instead of paying for the operation and upkeep of property-level amenities through their rent, residents only pay for the amenities that they use as they

use them. Middle-income individuals who frequent the gym can choose to pay for a membership at a high-quality gym down the street, instead of subsidizing the use of an on-property gym that may be insufficient for their routine.

Providing fewer on-site amenities while ensuring a high-quality location is one of the best generators of value in an urban workforce housing property. Enabling lower rents empowers residents to use their discretionary incomes on what they truly value rather than what the operator believes that the average person would want.

MORE AMENITIES FOR MORE PEOPLE

Properly locating a property is the best way to ensure that tenants can access the greatest variety of community amenities, and in many cases ensures that tenants can access even niche amenities. While an individual building may not support a tennis court, a local club that caters to the greater community very well may.

The best way to appeal to the most tenants is to locate a property in an area with the greatest variety of community opportunities, not jam the property with amenities. Tenants will value the choice and opportunity to pursue their own tastes in amenities, while still only paying for what they personally value. With a well-located property, the opportunity for finding the right amenity for every taste is easily within reach.

CONCLUSION

In the case of urban workforce housing, excess amenities reduce tenant value. Middle-income individuals in high-value urban markets place a higher priority on the value they get out of their low rent and prime location than the amenities the property provides.

Rather than focus on the provision of a variety of amenities, urban workforce housing benefits from considering its location in well-served, walkable neighborhoods an amenity. By providing tenants with a choice in community amenities, urban workforce housing effectively retains value for tenants and helps support local businesses.

Community amenities are an excellent way for urbanites to share in the urban experience. In the next section, we will take a deeper look at how current trends and changes in technology have made sharing resources a booming industry in the contemporary urban economy.

ARTICLE 6

Technology, the sharing economy, and
ownership in culture

TECHNOLOGY, THE SHARING ECONOMY, AND OWNERSHIP IN CULTURE

For the average middle-income individual, it simply makes more sense to rent things than to own them. From homes to furniture to cars and bikes, many under the age of 30 today opt for the ease and flexibility of renting many of life's essentials.

In the short term, it is more financially feasible for someone with a limited discretionary income to rent things that take up a large portion of their necessary expenses. Housing and transportation, both capital-intensive but essential aspects of one's urban life, are both accessible to the average urbanite without the need to purchase a home or a car. Instead, they may rent an apartment and subscribe to a car sharing service, pocketing the savings and increasing their liquid funds.

Many middle-income people, even if ownership is within reach, will find it to be a burdensome and inconvenient arrangement. If a young, early-career professional changes jobs soon after moving to a new geography, it is far more convenient and cost-effective for them to change their living situation if they are renting their home rather than owning it. The transaction costs and headaches associated with listing and selling alone make ownership simply the wrong choice for many of those who prioritize flexibility in their lives.

Financial efficiency is not the only upside of renting over owning. A 2015 [FiveThirtyEight](#) article reported that the average American is expected to move 11.3 times in their lifetime, with the average 30-year-old already having moved 6 times. The younger the individual, the more moves they have ahead of them as their careers, relationships, and spatial needs change. To them, flexibility and ease

of movement is paramount. Renting enables this flexibility.

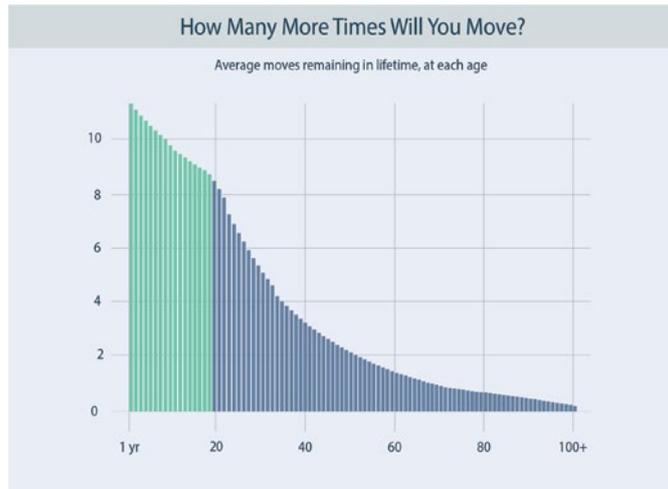
There is an impermanence in the life of single-income urban professionals. With their careers, relationships, and spatial needs changing year to year, it makes little sense for them to commit to the burdens of ownership. Renting an apartment, car, and even furniture is a logical choice for many younger professionals who have many moves and changes ahead of them.

The transaction costs and headaches associated with listing and selling alone make ownership simply the wrong choice for many of those who prioritize flexibility in their lives.

WHAT DRIVES THE NEED TO OWN?

The need to own property is fundamentally driven by one's household arrangement and composition. For an unmarried individual with no children or nuclear family to support, their discretionary income can be directed entirely toward their own benefit. For them, liquid assets are more important than having a financial nest egg; you can't pay a night club cover charge with equity from your condo.

Prior to settling with a partner, career, and location, younger individuals prioritize the flexibility and accessibility of renting expensive assets. Financial security is not top of mind for these individuals: their households often only consist of themselves, and they do not have much wealth to lose at such an early stage in life.



Younger people tend to anticipate moving much more frequently than older people. Flexibility is paramount to younger individuals, making them more likely to rent expensive assets rather than own them.

Source: Census Bureau, FiveThirtyEight

Prior to settling with a partner, career, and location, younger individuals prioritize the flexibility and accessibility of renting expensive assets.

Those who have settled down in a community, have a stable relationship with a life partner, and may even have kids look for a way to ensure financial security for their family. Hence, they seek the security of homeownership. Assets such as condominiums and houses are often the greatest places to maintain wealth available to middle-class families, and owning the roof over one's head makes financial sense once one is more or less committed to the community they are rooted in. Before that stage of life, however, it makes much more sense for a member of the urban workforce to rent their home rather than own it. To rent is to ensure flexibility, an asset in a life in flux.

To rent is to ensure flexibility, an asset in a life in flux.

TECHNOLOGY AND THE "SHARING ECONOMY"

The "Sharing Economy" is a broad term for emerging industries that provide services intended to be shared by clients. Uber, Revel, AirBnb and Zipcar are all well-known

examples of sharing economy companies serving primarily urban markets.

The sharing economy is a result of two converging trends: a cultural trend toward renting rather than owning, and the development of technology that can pair a service to a customer in need of it. Many have come to realize the capital efficiency of accessing a resource without needing to own it. At the same time, developments in big data processing and mobile technology enable customers to be properly matched to the urban resource they require, be it a ride in a car or an apartment in a city they are visiting. In addition, mobile technology has expanded the reach of these technologies and ease of access, allowing more people to participate in the sharing economy more easily. This is a booming sector. [Estimates](#) place the value of the sharing economy at \$335 billion by 2025.

Customers of the sharing economy are generally more interested in access to resources and services rather than ownership. To them, the concert they are going to is more important than owning the car, bike, or electric scooter that gets them to it. In today's culture, status is closely tied to the experiences one has and shares with others, and not just the material possessions they own.

Customers of the sharing economy are generally more interested in access to resources and services rather than ownership.

urban experience without the inflexibility of ownership and helps enable the lifestyle associated with living small. No parking space is no problem when you subscribe to Zipcar. If one is moving after a year, why would they commit to buying furniture when they can rent it through the furniture rental service Feather? To be competitive in today's market, urban workforce housing models must facilitate the flexible lifestyle the urban workforce lives.

HOUSING AS A SERVICE

Rental housing is in no way a new concept, but as ideas of ownership and lifestyles change, the idea of rental housing's place in the contemporary economy must change as well. The model of renting housing has always been, in effect, a means of allowing tenants to subscribe to the provision of shelter as a service.

Today, we have come to call this Housing as a Service, also known as HaaS. Many in the tech industry will be familiar with the concept of Software as a Service (SaaS), with companies like Salesforce and Microsoft offering cloud computing systems as accessible, subscription-based services for businesses. Many companies have adopted the strategy of providing Transportation as a Service (TaaS), focusing on providing the efficiency and ease of getting customers from point A to point B rather than selling a vehicle.

Housing as a Service is a paradigm that focuses on the tenant's experience in the rental property from move-in to move-out, marketing an experience of living in a property rather than just the property itself. Hospitality companies are masters at

this: from check-in to check-out, the guest experience is top of mind for hotel operators. Adapting the service-oriented housing model of hotels to multifamily properties is no stretch, and doing so can create a highly-marketable and attractive model of living for urban individuals who place a premium on experience and flexibility.

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The traditional model of HaaS is the well-known model of the extended stay hotel. Today, the idea of HaaS is most closely associated with coliving. While this formalized system of living with roommates places a heavy emphasis on the service aspect of HaaS, we believe that it does so at the expense of providing a quality housing product. The community events, cleaning services, and even mobile apps for chatting with neighbors are all emphasized to compensate for the lack of privacy tenants must endure.

Housing can operate as a service by providing a seamless move experience, basic supplies and a fully furnished space and still provide tenants with a private bathroom, kitchenette and living area comfortably behind their own locked door. The micro-living model is really the best of both worlds: it can offer the privacy of a traditional studio with the convenience of a fully-furnished and stocked coliving product.

Such white-glove service has long been common in luxury properties, but rarely has it been employed in housing targeted to middle-income individuals. With lifestyles and consumer expectations trending toward seeing housing as another service in a suite

of lifestyle services, it is time for housing to prioritize the tenant experience.

CONCLUSION

Current trends in lifestyle choices and technology have enabled people to live with fewer possessions, focusing more on experience and convenience rather than ownership. Young, middle-income individuals value flexibility and affordability over the security of asset ownership. At their stage of life, it makes the most sense for them to rent rather than own. Urban workforce housing is a response to these trends, promising a “Housing as a Service” experience to prospective tenants.

With the need for transportation being met by services than an excuse for owning a car, does it make sense for our cities to be built around the car like they are today? In the next piece in the series, we will explore the relationship of the car to urban spaces and housing.

ARTICLE 7

How planning for the car shaped our
Urban World

HOW PLANNING FOR THE CAR SHAPED OUR URBAN WORLD

So far, we have mostly considered the current trends shaping our urban world. To provide some perspective on one of the reasons why many American cities have become difficult places to develop middle-income housing in, it will be helpful to take a step back and review some of the history of car-centric urban planning in the United States.

Famed 20th century architect Frank Lloyd Wright was known to make his opinion of great American cities abundantly clear: he hated them. “To look at the plan of any great city is to look at the cross section of some fibrous tumor” he wrote in his 1932 book *The Disappearing City*. In Wright’s eyes, dense cities were overcrowded, antithetical to individuality, and a threat to democracy itself. Wright’s proposed cure for this “urban cancer” was a grand vision he called the Broadacre City: a model of urbanism that leveraged new technologies (namely the car) to merge the urban and rural. In Wright’s imaginary paradise, every house would sit on an acre of land, with high-speed roadways connecting the various elements of the city.

Wright and the urbanists of his time imagined a car-powered urban utopia. Today, we live in it and know it as suburban sprawl and congested urban highways.

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American cities experienced some of the most dramatic and destructive changes to their urban fabric during the middle of last century. With the broadened consumer

availability of the personal automobile, many American cities went from resembling echoes of Paris and Amsterdam to the sprawl and monotony of modern-day Dallas and Los Angeles.

Building cities around the automobile was the central theme of 20th century urban planning. But by the 21st century, treating the car as the default mode of urban transportation has turned out to be great cities’ undoing. In 2022, many American metros are bogged down by illogical and unnecessary inefficiencies caused by planning for cars before people. Some cities in the United States with legacy pedestrian and transit-oriented urban fabrics managed to escape the effect this had on the cost of housing. In many cities, however, attainable housing has become a direct casualty of car-first planning.

KING CAR AND THE AUTO-INDUSTRIAL COMPLEX

Car-centric urban utopias like Wright’s Broadacre City remained mostly dreams for decades. But the economic overdrive of WWII brought demographic, industrial and political shifts that worked in tandem to create the quintessential suburban ideal we know today.

Young adults returned from the war ready to start families, and this burgeoning middle class found itself able to afford a house and car in new suburbs built by trend-aware real estate developers. These suburban communities provided the space and community amenities that enabled the growth of a new family, such as ample yard space and nearby schools. On the Federal

level, this supply of housing was supported by FHA-insured financial products. Suburbs sprawled across the country as demand for family housing increased and low-density, car-oriented supply rushed in to fill it.

This urban form was created in part as a response to consumer demand, but a significant portion of the driving force was on the side of policy. Powers on the Federal level worked very hard to make the suburban form the predominant shape of housing in the United States, and this work was driven by a particular dynamic between policy and industry.

Charles Wilson, a former president of General Motors, was nominated as Secretary of Defense in 1953. When questioned about his interest in the welfare of the United States over that of General Motors, [he denied any conflict](#) "Our company is too big. It goes with the welfare of the country. Our contribution to the Nation is quite considerable" he said in one of his confirmation meetings.

Evident in this statement is the inextricable link between the US government and the automobile industry of the mid-20th century. Consumer preference played a part in the creation of the suburban sprawl we live in today, but the greater story lies in what we would call the "Auto-Industrial Complex" – the close relationship between the auto industry and the world of urban policy.

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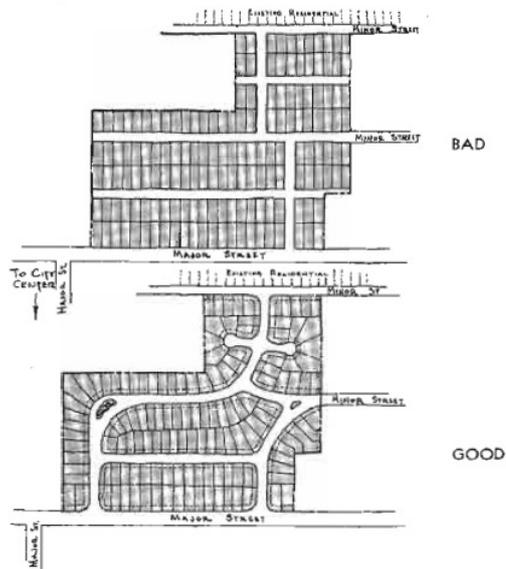
Large societal shifts occur when they are supported by a trifecta of demographic need, technological ability, and the backing

of policy. In this era, cars were produced and marketed on a massive scale while young families were looking to start new lifestyles outside of crowded cities. The U.S. government proceeded to pass a suite of policies that encouraged and enabled this shift and worked hard to bolster the proliferation of cars, single-family homes, and sprawling development by actively subsidizing these aspects of the human landscape.

Many are familiar with the clear racial biases the Federal Housing Administration abided by when it issued loans to returning GIs, [with the racist practice of redlining](#) allowing white families access to quality suburban housing while denying Black and other minority families the same opportunity. However, there was not only a bias toward what race could take full advantage of FHA loans: there was a clear bias as to the kind of urban development this financing could be used for. In 1938, the agency published "[Planning Profitable Neighborhoods](#)", a brief work that dictated and explicitly encouraged the suburban street layout we all know today. That street form became the predominant shape of suburbs during the postwar years.

On the front of reduced transportation choice, Los Angeles is possibly one of the gravest casualties of the Auto-Industrial Complex. In the early 1900s, the city had what was considered by many one of the best public transit systems in the country, if not the world. Electric streetcars provided easy access to all corners of the city, including neighborhoods like [Echo Park](#) which, to this day, retain the density and grid layout characteristic of a community built around transit. But by 1963, all streetcars in the city were replaced by bus lines and priority shifted to the car-centric culture that dominates LA today.

The Bay Area is a similar casualty of the



TRAFFIC SHOULD FLOW TOWARD THOROUGHFARES

When traffic does not flow toward main thoroughfares, it causes an unnecessary use of local streets in order to reach the main traffic ways. This excessive use of residential streets causes an added expense of pavement construction and maintenance. Local streets that carry unnecessary traffic form definite hazards to pedestrians and children.

The street design of a subdivision should be carefully planned to provide for all traffic demands and at the same time create a street arrangement that will make an attractive neighborhood. This will generally produce fewer streets than one which cuts up the land into numerous rectangles without consideration of proper traffic routing. A monotonous street system of this type is generally extravagant, producing more streets than are needed.

An illustration from "Planning Profitable Neighborhoods." The FHA actively worked to dictate the urban form of the United States and demonstrated a clear preference for developments centered on the car.

Source: Federal Housing Administration

car-first philosophy. Prior to WWII, San Francisco's MUNI and Market Street Railway served the city with far more electric streetcar lines than operate in the city today. Meanwhile, the Key System served the East Bay and even ran across the lower deck of the Bay Bridge to connect Oakland to San Francisco. But like was the case with Los Angeles, lower ridership and more car-centric planning led to the removal of most electric railways in the Bay Area, including the conversion of the Bay Bridge's lower deck to another auto thoroughfare.

Cars gradually crowded out once thriving streetcar lines across the country. Economic pressures, car-choked streets, and the complacency or misguided actions of municipal policymakers [worked in tandem](#) to build cities around the car. Instead of managing car traffic and reforming policy to ensure the survival of streetcar companies, policymakers instead turned their attention to designing cities in which cars were the default form of transportation.

In 1956, President Eisenhower created the Interstate Highway System, cementing the

car as the default mode of transportation in the United States. This may have been the Federal government's greatest endorsement of the Auto-Industrial Complex, and the dynamic's greatest achievement. "Every citizen has been touched by (the Interstate Highway System), if not directly as motorists, then indirectly..." states the Federal Highway Administration on its [website](#). Indeed, one does not need to drive on an Interstate to see its effects on the average American's life: the car-centric culture it bolstered shapes almost every aspect of American cities today.

The car's place as the default mode of transportation affects more than just the urban fabric; policies centered on this notion of "King Car" affect the very socioeconomic structure of cities. One of the most obvious (and detrimental) forms this takes is minimum parking requirements, which look to shift the burden of parking off streets and onto developments. In practice, these policies effectively raise the overall price of housing to levels unaffordable to those making a median income. Forcing the accommodation of personal cars in residential development has had the awful effect of practically

eliminating unsubsidized affordable housing in urban environments.

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SHIFTING THE BURDEN: MINIMUM PARKING REQUIREMENTS

Planning cities around the car did not remain solely in the suburbs—it shaped the form and nature of dense cities as well. When planners tried to fit a lot of cars into cities, they ran into the issue of where to store them when they were not in use. In suburbs, this problem was solved by creating large parking lots on cheap land. But in dense cities where land came at a much higher premium, planners looked to private developers to accommodate the car—and carry the cost for it. This came at the expense of producing much-needed housing, a legacy that continues to this day.

Cars are rarely in motion; they spend most of their time parked in a single spot. When that spot happens to be on the street, it makes parking harder for other motorists looking to park.

Minimum parking requirements—arbitrary, municipal-code-dictated allocations of parking spots required in developments—came about to accommodate vehicles and move parking off the street and onto private property. While the intent of this was to free up the common resource of street parking, minimum parking requirements are effectively another product of the Auto Industrial Complex: by requiring developers to provide parking spaces, policies work to induce the private subsidy of automobiles.

In many cases, the cost of parking is “bundled” with the rental rate of an

apartment. To recover the cost of building parking, developers reflect the cost in rents. This is all well and good for those who park their car in a complex’s provided parking lot, but in many metros there are plenty who have neither the means nor desire to own their own car. Yet, these residents pay the same bundled rate as their car-owning neighbors. In effect, those who do not own a car are subsidizing those who do by paying for the construction and upkeep of parking facilities they do not use.

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Smaller projects are hit particularly hard by minimum parking requirements, as parking costs make up a larger portion of their cost per unit to provide. A recent 90-unit development in Oakland saw an added cost of \$73,000 per unit just for parking. When each unit cost \$327,000 to build, that means that over 22% of the cost to build the unit went to building car storage. This construction cost ultimately translates to a \$535 premium on monthly rents. For someone making a median income in Oakland, \$535 a month can mean the difference between being able to afford an apartment and having to look elsewhere. Minimum parking requirements ultimately add up to a counter-productive housing surcharge, which is not helping ease the severe housing crisis in the Bay Area.

It is also unfair to tenants. Taxes and surcharges are generally designed to be paid by those who benefit from the things they fund, like gas taxes being used for road maintenance. If someone chooses to ride a train instead of driving, they do not benefit from having a well-maintained road and do not pay the associated tax. It makes no sense then that minimum parking requirements, which are ultimately taxes on housing, are

associated with something so indirect as car parking.

For a country that prides itself on its freedoms and abundance of choice, the United States has fundamentally failed to provide transportation choice by prioritizing private cars in its urban areas. This lack of choice has built a significant, and unnecessary, additional cost into housing. To ensure that residential developments provide space for the car, municipal planners have priced the middle class out of dense, service-rich urban areas.

BEYOND MINIMUM PARKING REQUIREMENTS

Today, many are coming to view urban transportation as a service provided by common-pool resources (such as transit and micro-mobility services) rather than private automobiles. Recent demographic shifts have seen the rise of a substantial urban population that does not find value in personal car ownership, creating demand for centrally located housing without associated parking.

The need for affordable housing is greater in cities than the need to store cars, and minimum parking requirements continue to force the creation of housing that excludes an already underserved demographic. Demographic changes in cities have combined with political and industrial innovations to signal that the time to end parking minimums is here. Micro mobility services, on-demand car rental, and bike-friendly infrastructure have helped supplement public transportation to create a robust network of alternatives to the car in urban areas. In effect, the sharing economy has made car ownership unnecessary in many dense cities.

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An arguably more productive way to view the private car is as a transportation appliance rather than an essential part of urban life. [Some advocates of parking reform](#) compare cars to appliances like dishwashers; convenient, useful, and desirable, but not strictly necessary if not worth the space. As the argument goes: not everyone has the space to justify an in-unit washing machine, so they use a laundromat. Similarly, not everyone has the need to store a car, and instead use alternative, often shared, transportation tools.

There will be plenty of people who find a car useful and desirable, and the market will accommodate them. Eliminating minimum parking requirements does not eliminate structured or in-complex parking: it means the consumer now has choice in transportation. If they value car ownership, they can choose to live in a complex with parking. If they do not value car ownership, they need not choose a complex with included parking.

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Best of all, the elimination of minimum parking requirements allows developers to focus capital on housing people rather than cars. More space on a site and money in a project can be dedicated to the construction of occupiable units, allowing for economies of scale and the subsequent reduction of rental rates in projects. This allows for the

creation of affordable-by-design housing without the need for government subsidy. The elimination of minimum parking requirements can directly lead to the creation of more attainable housing.

THE DESIRABLE, WALKABLE CITY

Paris, Barcelona, and Buenos Aires are all widely considered some of the most beautiful cities in the world. Americans travel to them every year to experience their vibrant street life and charm.

These cities were largely developed before the emergence of widespread individual car ownership and derive some of their charm from their walkability and pleasant scale. For hundreds of years, the only way to get around these cities was by foot or by horse. Thus, these cities were built on a human scale with short distances to everyday necessities, narrow streets and mixed uses on street level. Many older cities across the world are structured this way, and in many cases their walkable structure is one of their greatest assets.

In America, New York City was spared some of the blows of the auto-industrial complex. Although NYC does have minimum parking requirements, the municipal government is [determined to reduce or remove](#) many of them. In fact, the borough of Manhattan makes do largely [without parking requirements at all](#), and has for several decades. The city is walkable, well-served by transit, and generally reliant on alternatives to the car for transportation.

New York has the energy and walkability it does because it did not have minimum

New York has the energy and walkability it does because it did not have minimum parking requirements for much of its history.

parking requirements for much of its history. In the absence of cars, cities must accommodate foot, bicycle and other forms of traffic and are subsequently built around them.

CONCLUSION

Minimum parking requirements make housing unaffordable to the middle class, reduce transportation choice, and contribute to car-centric urbanism that runs counter to the ideals that make cities pleasant to live in. These policies are relics of a failed urban planning philosophy and concerted government efforts that ultimately helped create the crisis of housing unaffordability we live with today.

It is time to build our cities differently with the car not as the default mode of transportation. It is time to stop forcing people to subsidize the car through their rents. It is time to move past minimum parking requirements and invest in public transportation, walkability and micro mobility. Cars are a convenience, not a necessity, and they cause severe problems when their use is actively subsidized by policies left over from an era with very different values. Minimum parking requirements and car-centric urbanism are things of the past, best left in the dustbin of history.

Cities have always been centers of industry and economic vitality, and even the destruction wrought by car-oriented planning has not changed this fundamental fact. In the next section, we will work to understand the core economic forces that make cities hubs of business and commerce.

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