

# NOW Podcast

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## The Future of Cities: What We Can Learn from San Francisco

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**Host:** Meredith Etherington, *Portfolio Manager, Brown Advisory*

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**KEN STUZIN:** Hello, this is Ken Stuzin. I'm a partner at Brown Advisory. Welcome to the NOW podcast. NOW stands for Navigating Our World. Through these discussions, we try to better understand the world to navigate some of the most pressing questions that are shaping our lives, our culture, and our investment challenges. As we look to the future, whether we agree or disagree with each other, the one thing we know for sure is that none of us can figure this out on our own. At Brown Advisory, we are focused on raising the future, and we hope these NOW conversations will help us do just that.

### **MEREDITH SHUEY ETHERINGTON:**

There is no shortage of stories about companies fleeing San Francisco for places like Austin and Miami, sometimes called a Techsodus. But as you'll hear in a minute, my guests today are unapologetic advocates for the long-term vitality of San Francisco and the Bay Area, as well as for cities in general. I'll talk to them about solutions to some of the Bay Area's many challenges, and we'll also discuss the creativity, collaboration, culture, and ultimately the human connection that cities inspire. I'm Meredith Shuey Etherington. I'm a partner at Brown Advisory, and I'm a portfolio manager based in San Francisco. I wanted to examine the question as we've come out of the pandemic, can the Bay Area keep and even grow its identity as ground zero for the innovation economy? I'm thrilled to have the chance to explore this question about the future of the Bay Area, this place I love, with two thoughtful experts. Fred Blackwell, the CEO of the San Francisco Foundation, and Craig Young, the Managing Principal of Tidewater Capital. Stay tuned after my conversation with Fred and Craig. I'll talk with my colleagues Amy Hauter and JJ Baylin about the implications for investors and some of the ways that we are investing in the future of cities for our clients. Fred and Craig, thank you for joining us today.

Let's dive in. So both of you are investors in the future of San Francisco and the Bay Area. Let's set the stage for this conversation by talking about how each of you thinks about the Bay Area. Why are the city in the region important to you, and why should the outcome here matter to those outside of this region? Fred, maybe start of with you.

### **FRED BLACKWELL:**

Sure. That's a multi-layered question for me. I grew up in Oakland, California. I'm a Bay Area kid. And the only time that I've spent away from the Bay Area was the time that I went to undergraduate school at Morehouse, and then went to my first job in Washington, DC. It was a particularly bad winter that year. And the first time I had shovel snow to get to work, I decided it was really time for me to come back to the bay.

So the bay represents to me home. Most of my career since I've been back has been about improving this place where we live, and work, and play. It's a dynamic place. I love the typography. I love the diversity. I love the climate. And for me, the Bay Area just represents a place where all things are possible. We look around and we just see nothing but abundance and opportunity. But that doesn't necessarily apply to everyone in the Bay Area.

So I think that given our history around being innovative, the diversity that we have here, the Bay Area also represents to me a place where if we can't get it all right here, where can we get it right becomes the question.

One of the things that I love about the Bay Area is that it's the opposite of Las Vegas. And what I mean by that is they talk about how what happens in Vegas stays in Vegas. What happens in the Bay Area gets exported everywhere. So it's really a place where if we can figure it out, it has implications for the nation. So those are the ways that I think about the bay. It's really a dynamic place.

**MEREDITH SHUEY ETHERINGTON:**

Love it Fred. And especially the shoveling snow being from the East Coast, I understand exactly what you mean there. But love the thought of we can't get it right here, where can we? Craig, how about you?

**CRAIG YOUNG:**

Thanks for having me Meredith. And Fred, really looking forward to the opportunity to get together with you today and trade notes here. I too share a personal connection to the Bay Area. My mom was raised in Marin County and both of my parents met on a houseboat in Sausalito in the early 1970s. And really was always drawn to the beauty, the access to the outdoors. And I think you said it Fred, just this ethos of anything is possible.

There really is a culture of kind of tolerance and acceptance here in the Bay Area. And I think that given our ability to welcome people of all walks of life here. And it's also, it's tolerant of risk-taking, which I found really appealing as an entrepreneur. And maybe even more so encouraging of risk-taking. A place that really encourages creative entrepreneurial spirit. You think the gold rush in the 1960s and now this kind of tech driven economy. But the Bay Area has a chemistry with which to put those ideas, and innovation, and capital together to create opportunity for folks.

We're fortunate here. We have the technology industry, which is kind of that goose that lays the golden egg for our region, and the innovation economy, and the home of the knowledge worker, and all of the VC investment that happens here, world renowned educational institutions. And the result is this phenomenal job growth in this economic engine that's really the envy of a lot of municipalities across the globe. And I think the challenge that we see as Fred alluded to is how do we meet the demands of that regional expansion and the issues that come along with that traffic, and homelessness, and inequality, and mega commutes and grossly undersupplied housing market?

So in a lot of the ways, we have a responsibility here because the world is looking to us to see how has the Bay Area going to deal with its own challenges and perhaps being able to extrapolate some of those solutions to other parts of the nation and the world.

**MEREDITH SHUEY ETHERINGTON:**

That's great, Craig. And you just touched on regionalism. I'd love to spend a little bit more time there and talk about the importance of taking that regional perspective. What does that mean to you and maybe kick it over to Fred first?

**FRED BLACKWELL:**

Yeah. That's a great question. And we're called The San Francisco Foundation, but we have a regional footprint in the Bay Area, which means that we do a lot of thinking about the region. And I think the one thing that's really important, and Craig alluded to this, to understand about the region as a unit of analysis is that whether it's housing, transportation, jobs, criminal justice reform, these are all issues that do not conform neatly with jurisdictional boundaries. People may live in one place, work in another, worship in another, get their hair cut in another part of the Bay Area. People definitely experience the San Francisco Bay Area as a region. So if we're not trying to tackle problems and take advantage of opportunities with a regional frame, we're really missing the boat.

**MEREDITH SHUEY ETHERINGTON:**

Great. Fred, thank you. Craig, how about you?

**CRAIG YOUNG:**

I think Fred hit the nail on the head. For us at Tidewater, regionalism is a cornerstone. We were investors and developers with a geographic focus in the greater Bay Area here. We invest across product types. Think office, residential, retail, industrial. We just opened a hotel in Oakland recently. And I joke, but the new tagline is we do everything from hotels to homeless shelters.

But I think getting to this region, many of the issues that we face are just too large and complex for a single city to address on its own. Housing for example, a regional approach is critical. And San Francisco often takes the blame for kind of the underproduction of housing and the incredibly high cost of living, and the critics will point to the complex planning and approval process. But San Francisco has actually really stepped up its production of housing in recent years. And we can't just rely on one municipality to solve these problems. It spans jurisdictions as Fred alluded to, and we need our housing production to catch up with the job growth metrics that we have. And the only way that we can do that is if we plan and produce region wide as opposed to relying on a single city to try to solve the problem.

**MEREDITH SHUEY ETHERINGTON:**

I'd love to maybe switch gears a little bit in thinking about the last year that we've all experienced and really focusing on the city here. The pandemic really has been disastrous for many of the most vulnerable members of our community. And what we've seen in the aftermath of it's really led to this case shape recovery, where some of us has rebounded, but many of us have not. And really where our income and our wealth inequality has widened from levels that were already significant. So Fred, I'd love to hear how does developing strategies for the most vulnerable really help all of us?

**FRED BLACKWELL:**

Thank you for that question. At the foundation, maybe about five years ago, we developed a new North Star that was really focused in on achieving a greater degree of racial equity and economic inclusion at a regional level of scale. And we did that because what we saw was that the rising tide was not lifting all boats. And that while there as I said before has been a tremendous amount of wealth, and income, and prosperity that has been generated in here in the Bay Area, it hasn't touched everyone. And for far too many people, they either feel left out or actually left out

based on things like their family's economic status, their race and/or ethnicity, or something as simple as their zip code that they grow up in. So being responsive to that reality has been something that's been important to us. And we developed a North Star around it.

Our point of view here is that in a lot of ways, we think that meeting the needs of the most vulnerable among us is an ethical and moral imperative. But we also view it as an economic imperative. When we think about what it takes to be competitive as a nation, as a state, as a region, it really requires that all of us have the ability to contribute. I think we often think about in this society at least, a kind of scarcity approach to this. Meaning that one community's game has to necessarily be another community setback. Where in reality, if we really think about and develop strategies to meet the needs of the most vulnerable, we all benefit from that.

The most tangible example of that, because it can seem abstract sometimes when you say those things, is an article that coincidentally, my mom wrote in the Stanford Social Innovation Review called The Curb-Cut Effect. And curb cuts, you'll know this when I start to explain them. If you go to any intersection in the Bay Area will you see is that in that intersection, there's a part of the sidewalk that goes down to the street. And curb cuts came out of the advocacy on behalf of people with mobile disabilities so that they could get from one side of the street and kind of engage in the public's fear just like everybody else. And if you just were one day to sit back and look at who's using curb cuts nowadays, you'll see a mother with a baby carriage, you'll see a lawyer with a suitcase full of briefs. You'll see a catering company that's running from one job to another. You'll even see people who had no mobile impairments whatsoever get irritated when they can't get access to the curb cuts. Curb cuts are the perfect of how when you meet the needs of the most vulnerable, everybody benefits. And you can take that concept and apply it to all kinds of things.

So for example, if you find a police department that acknowledges that Black lives matter, I guarantee you that's a police department that treats everybody with dignity and respect.

#### **MEREDITH SHUEY ETHERINGTON:**

I absolutely love that Fred. The curb cut effect to me is just an amazing visual, how you just laid it out. Thinking about all the people who are benefiting and realizing that when you are thinking about the most vulnerable, yeah, the solution in itself just helped so many more people. It really helped everybody. And I just absolutely love that example. Kudos to your mother for writing the article.

So let's talk about housing. Now Craig, you've touched on this a little bit when we were talking about regionalism. We'd love to come back to it though. Obviously this is a critical issue as it is for many urban areas, but very much here in San Francisco. So would love to hear from you, what will it take and from which stakeholders to create a viable long-term solution to the housing crisis that we see here?

#### **CRAIG YOUNG:**

It's a tough question. It's a multifaceted issue. And if I had a magic wand to wave to help address it, I would. I wish it was that easy. But the reality is we've consistently under produced housing state and region wide for decades here. And at a really basic level, a functioning housing market needs to produce at least one housing unit for every new household that's formed. And in California since 2010, we've produced 74 units of housing for every 100 households that have formed statewide. Since 2010 in San Francisco, the number is even lower. We've only produced 69 units of housing for every 100 households that have formed during that time.

Another way to look at it is how many jobs are we producing relative to how many housing units are we producing? And at the state level since 2010, we've produced about four and a half jobs for every housing unit that gets delivered. The net effect of that is just rampant demand for a limited supply of housing product. And that does a couple of things, right? It drives up occupancy rates. It boosts rents so that we have the highest cost of living in the country. And it displaces people. It moves folks that can't otherwise afford to live in these housing units to places that are further afield. So I think it's 6 or 7% of San Franciscans have a mega commute, which is a commute of over 90 minutes.

So this is kind of the issue at hand. And I think there's a couple things to think about related to this solutions and maybe how to address it. Policy is a big obvious one. The legislators here have just made it too easy to prevent housing from getting built. The NIMBY movement, the not in my backyard, this is a bastion of that sort of approach and has done a great job in preventing housing to get produced.

At the state level I think to their credit, they've worked really hard over recent years to help correct some of this legislation. But at the end of the day, there's a lot of vested interests that are fighting housing. The second big one is just the cost of construction. It's just way too expensive to build here. And there's a ton of different reasons why that is the case. We need more investment in emerging construction technologies. The hotel that I mentioned previously we built with modular construction. So the hotel rooms were actually built in Pocatello, Idaho in a factory, put on a flatbed truck, and driven to Oakland, and then lifted into place by a crane. So that's a new approach that saves time and money, and will allow us to produce either units of housing, or in this case, a hotel quicker than we otherwise would.

And then finding ways to incentivize market rate production of housing. Every unit of housing that is produced helps address this shortage. Developers can help foot the bill. We can help with producing affordable housing through inclusionary housing policy, where we're required to build a certain number of affordable units when we build a new market rate project. This is I think particularly important going forward, just given what we're looking at stake and local tax revenue projections. And there's not going to be as much subsidy available in the near term to help produce affordable units in the same way that we have in the past. So really, relying on the private sector and saying, "Okay, you want to build that 200 unit apartment building, 10, 15, 20% of those units need to be dedicated, permanently affordable for let's say those making 50, 55% of the area median income." That's an example of inclusionary housing policy that helps to deliver housing across all income levels.

**MEREDITH SHUEY ETHERINGTON:**

That's great. Fred, I'd love to hear your viewpoint on this as well.

**FRED BLACKWELL:**

First of all, underline, amplify, put an exclamation mark on everything that Craig just said. I thought that was an excellent analysis of the complexity of the problem and what some of the solutions might be. Before coming to the foundation, most of my career has been in local government. And most of that time in local government has been spent on community development and housing related issues. And I've come to think about the housing challenge in the Bay Area is one that needs a three-pronged approach to solving. And Craig has touched on much of it.

One is we've got to produce more housing at all levels of affordability at a level of scale that is in sync with job growth. So production is one. And that's one of three P's actually.

The second P is preservation. We have a really great history here in the Bay Area, a sophisticated group of housing developers that are for profit nonprofit that have developed really great affordable housing stock. And one of the things that we have to do is make sure that we are investing in the preservation of that stock so that as we produce, that production is not undermined by housing units coming offline.

And then the third is protection. Because of all the dynamics that Craig mentioned, we end up with a very vulnerable population with tenants, particularly low-income tenants that are being displaced and gentrified. So we've got to have strategies and policies in place that really protect folks who are currently in housing. So the three P's of production, preservation, and protection I think are all part of the solution.

And part of the challenge in the Bay Area is that we've had great organizations, individuals, advocates who've taken up one of those P's, but end up viewing their respective P as the silver bullet. So the real jewel in the crown I think is to be able to set the table in a way where those who believe that it's a production issue, those who believe that it's a preservation issue, those who believe it's a protection issue, can come together and come up with a higher common denominator around what they all have in common.

The last thing that I would mention that I think is one of the biggest impediments in the Bay Area is the fact that we don't treat it like a regional problem. And even if we treat it like a regional problem, we then leave it up to the 100 plus cities that make up the Bay Area to come up with their own unique solutions. That's called local control. Local control is like the third rail of politics when it comes to land use and housing in the Bay Area. If you touch it, you're guaranteed to get electrocuted. And having a regional regulatory framework around housing and not allowing jurisdictions that aren't producing their fair share to do that with impunity is going to be key to getting to solutions.

**MEREDITH SHUEY ETHERINGTON:**

That's fantastic. I'd love to stay on the idea of this collaboration that we need. Craig, I'd love to hear you tell the story of your 888 Post Street Project.

**CRAIG YOUNG:**

Yeah, sure. 888 Post Street is a 35,000 square foot commercial building really in the heart of San Francisco. And we bought this building a number of years ago. And the business plan was to renovate it, lease it out to a technology tenant, and hopefully make a few bucks and be on our way. We as a company took a step back and we said, "Man, is there another use here that we can think about that might be a better fit?" And the mayor was recently elected. She had an objective to deliver 1,000 shelter beds by 2020. Today we only have shelter beds for about 40% of the homeless population in San Francisco. We spend over \$300 million a year on the issue. We have roughly the same number of homeless in 2019 that we did in 2002. So it's just been an intractable issue that we've had a real hard time approaching.

And we said, "Well, is there a way to kind of adjust the use here, try to form a public private partnership," which we've done in the past. And we think it's a really good tool for kind of addressing some of the thornier issues that are there out there were more complex projects. The city partnership and the private sector partnership just when done right can be a really beautiful recipe and can create a lot of outcomes that are really positive for many stakeholders.

We went to the mayor, we went to the local supervisor and we said, "We have this vision of creating a shelter here on this site." And they mentioned that there was a particular population of transitional aged youth. So homeless youth aged 18 to 24 that happened to be concentrated in this part of town. So collectively, we came up with a vision to convert this commercial building into temporary housing for the transitional aged youths to come off of the street and get a place to rest their head. Case management services, housing navigation services to help them get reintroduced into society. Health services, advocacy. And then on the ground floor, there was going to be job readiness and training programs that would ultimately lead to employment with a view towards permanent housing.

We came up with this idea. We got the city behind it. We engaged with the local community to get support of those that live, work, and play nearby. And we put this project together and we ended up building it and opened it about 30 days ago. And it's a real feather in our cap in so much as it's a partnership with the city. And it's in our view, perhaps a nice case study for something that could be replicated. Not just in San Francisco, but in other parts of the U.S. in places that have issues with the same challenges around homeless.

**MEREDITH SHUEY ETHERINGTON:**

Thank you. It's a fantastic project. And we'd love to hear a little bit more of your thoughts on how can a type of development like this really get scaled?

**CRAIG YOUNG:**

It's tough. I think the problem is we're fighting against the market, right? The market here would have said, "Just go lease it to the technology company and sell it and turn the dollar. And onto the next one." Incidentally here, we ended up having a great financial outcome for our investors as well. It was a true win-win. So I don't know if there's a simple answer, but for investing in the relationships and the partnerships that are going to create these opportunities in San Francisco, but elsewhere I think as well, it's a nice example that can be ported over to other markets.

**FRED BLACKWELL:**

When I hear Craig you talk about that story, it reminds me of the African proverb that we've all heard. If you want to go fast, go alone. If you want to go far, go together. This is a perfect example of that and I think embedded in that proverb is the answer to the question around how you go to scale. It requires investors, employers, the public sector, elected leaders and bureaucrats. It takes labor. It takes the nonprofit world and philanthropy working together to scale the kinds of solutions that Craig is talking about. That is the way you get there. We cannot solve these problems in our own corners or under our own rocks.

**CRAIG YOUNG:**

There's an element of duration that should be considered, like the idea of quarterly earnings and trying to just get in and get out. We're really fortunate because one, we're local. The fact that I could even get in front of the decision-makers at the city to be able to pitch an idea like this, that's from years of relationship building and work that goes into that. And if duration allows us to think in 20 year increments instead of two quarter increments, I think that's how we can get to scalable solutions as well. If shifting the mindset around how quickly something has to happen versus how critical and how impactful could the solution be if we thought a little bit different.

**MEREDITH SHUEY ETHERINGTON:**

I'll have to tell you both, I got goosebumps listening to you with those responses. I absolutely loved it. Thank you. So Fred, switching gears here a little bit, we experienced a reckoning with our legacy of racial injustice during the past

year. Many people, including Brown Advisory had important and difficult conversations about race. How do we take advantage of this opening so that as we think about the recovery from the pandemic, we do it in a way that incorporates this region's history around race and the opportunity that we have to create real solidarity around racial questions and challenges?

**FRED BLACKWELL:**

Yeah, that's a great question. And for me, it starts with the arc of our experiences over the last year. It started with the health impacts associated with the pandemic, and very quickly, how we saw the impacts not being experienced broadly, but the very specific populations. When you looked at who was getting sick, who was dying, it was disproportionately Black and brown folks and Black and brown people on the lower end of the economic scale.

Then as we went into sheltering in place and quarantining, and we saw the impacts of that on the economy, you saw yet another phenomenon where people of color and low income folks were being disproportionately impacted once again. And then you head into the summer, and just the multiple examples with the crescendo being the murder of George Floyd, where you saw the criminal justice and law enforcement system disproportionately impacting certain communities.

And what this summer highlighted for us is how our systems are producing differential outcomes based on race and class, particularly based on race. So a lot of what we saw this summer in terms of the protests and the conversations were obviously in reaction to the public murder of George Floyd. But it was actually deeper than that. It was a frustration with multiple systems that really needed a reckoning when it came to race. And I've been working on these issues my entire career. I've come from a family of activists around issues having to do with race and racial justice. And I have to say that the conversations that we've been having as a nation around race are conversations that I've never seen before.

And at the same time, we still got Daunte Wright was just this week. And what that says to me is that the conversations are important, the statements are important. But we all have to work every day to make sure that the circumstances, the situations that we're seeing now are not the same things that we are having to talk about, having to respond to in the future. Our discomfort has made us avoid the conversations, and avoiding the conversations has gotten us to where we are today.

**MEREDITH SHUEY ETHERINGTON:**

I think it can be so difficult to really lean into that discomfort. I'm glad that we have had these challenging discussions and really hope that they do continue. One of the things I think about is how do we speed up that change, and then how do we make it stick so that the future is different from here?

**FRED BLACKWELL:**

Yeah. The only other thing that I would add Meredith is that one of the uncomfortable conversations for this country has to do with the reckoning around its history. And that really revolves around two things. The pursuit early on in our establishment as a country of free labor and free land. The free labor translating into slavery, bondage, Jim Crow, you name it. And the pursuit of free land translating into genocide basically for indigenous peoples and Native American people. As uncomfortable as that is, it's difficult for us to move to a higher place without acknowledging that history. And I think that is a really important part of the conversation.

**CRAIG YOUNG:**



One note to Fred's comments there in thinking about one of these systems, these entrenched frameworks with which we've worked with that has created a lot of the issues around racial justice for us is land use policy. And you look at redlining, and exclusionary zoning, and basically just more modern day practices of what Fred just alluded to. So some of that still persists to this day. It's part of that entrenched system that needs to be reckoned with and addressed.

**MEREDITH SHUEY ETHERINGTON:**

Both of your points about not just acknowledging, but also reckoning with our racial history are so well-taken and so important in creating a truly inclusive community that will attract and retain the employees of the future.

Craig, there has been what seems like endless discussion around a Techsodus. So companies that are leaving San Francisco and California more broadly for places like Austin and Miami. If we look at the dollars that venture funds have invested in startups in 2020, which was a record year, and in the first quarter of this year, that certainly doesn't seem to be the case. I'd love to hear from you. What is your perspective on this, and what are you seeing?

**CRAIG YOUNG:**

Yeah. I think the short answer is no. I don't think that there's a Techsodus it were. I think we're suffering from a severe case of selectivity bias in the news. And the headlines, the articles, the anecdotal evidence one would share to support Techsodus that's occurring.

The pundits are pointing to a handful of high profile names, right? It's Elon Musk. It's the certain VCs that have elected to move. But I think if you really get down into it, it's not necessarily representative of the data that is out there.

We looked at some of the U.S. Postal Service data. And the results there are basically of the top 20 zip codes that San Franciscans migrated to during the pandemic, 19 were in California. So I think it's if anything, maybe a little bit of a reshuffling within the state, although the bulk of those locations that are destinations for San Francisco's leaving the city were actually in close proximity to San Francisco itself. So it was more we're going to move out of the city and into the suburbs at that point. It's Alameda County, and Marin County, and San Mateo.

San Francisco sort of has this reputation of importing 20 year olds and exporting 30 year olds. And people show up to San Francisco because that's where the jobs are. That's where the culture is. The urban amenities, the museums, the restaurants, the bars, etc. And that whole paradigm shifted when this went down, right? The jobs left and somebody took a sledgehammer to all of those urban amenities. So there was really no reason for people to be in San Francisco. And God knows they didn't want to have to spend \$3,500 on the studio apartment while they could live anywhere and work anywhere.

I think we had a little bit of a point in time situation where there was this very aggressive outmigration. But as these jobs are returning, we're starting to see the people return to come back to the office.

You mentioned VC. I think it was upwards of 40% of VC investment in 2020 ended up in the Bay Area. That's always been the stalwart engine for us to continue to innovate and create jobs and opportunities in companies. You may have read about Oracle leaving the Bay Area. The week that they announced that, Oracle's \$180 billion market cap

company. The same week, \$180 billion plus of Bay Area based IPO activity occurred in the same week that Oracle announced their departure. Are people leaving? Yes. Is it some mass exodus that we should all be concerned about? I don't personally think so.

That said, when there's smoke, there's sometimes fire. So one has to really review these issues carefully, because we are facing serious issues as a region. And we touched on it before, the traffic, the homelessness, the congestion, the taxes, the bureaucracy. And if we're not careful, we do run the risk of driving people away.

**MEREDITH SHUEY ETHERINGTON:**

The investment that we've seen just in the first quarter of this year specifically, it was \$25 billion invested in Bay Area startups. That's over a third of the total that was invested in startups around the country. It's greater than New York, Boston, LA combined. It's 30 times the investments made in Austin. So just an incredible amount of money that continues to flow into Bay Area companies.

Thinking about the reshuffling that you were talking about and combining that with the thought of this pandemic driven trend towards from home, what do you think will be the future of San Francisco in terms of thinking about if we're going to be working from home, or if the jobs actually aren't in San Francisco, or if you're Twitter and you're saying you can work from anywhere indefinitely?

**CRAIG YOUNG:**

I think the idea of working from home is a massive threat to cities in general. I think that it's a veiled threat because I don't think it's going to stick. And I think at the end of the day, cities rely on people. Cities are where people, and innovation, and capital combine with one another. It's the great mixing bowl. And our success depends on collaboration, which the city help us to collaborate. These micro interactions that take place on a day-to-day basis in cities. I mean, some of the stem markets like science, technology, engineering, math markets, the knowledge worker markets, they'll likely have an easier transition to more work from home. But it's not a binary outcome.

I think what we're really talking about is more your share of the work week that you're in the office versus working from somewhere else. And I think in that way, yes, we may have a three-day or a four-day work week in the office. But the counterbalancing, the wind blowing in the other direction is you're going to need more space per employee. You're going to have a situation where people are leasing more space. There's still more activity in the cities because people are coming in for three or four days a week. But the amount of space that you need per employee is going to grow. So the net effect on the office market is to be determined. But we definitely don't think that there's an en masse move to never coming into offices again, which obviously would be a hugely negative impact to cities in general.

I think that the other thing just with regard to work from home quickly, it erodes culture. It leads to productivity loss. You can't train and hire new people effectively. And I think the great irony of this whole experiment that we went to was we had more meetings, you could communicate with people across the globe, and yet we all felt more isolated and less connected with one another. I'm really looking forward to being back in the office. We're headed back this month and rolling in over the course of the early summer here coming into the summer. But yeah, cities aren't going anywhere. That's my view.

**FRED BLACKWELL:**

I agree with Craig. Cities are places where people and businesses co-exist with one another with a high level of density. And that density creates ecosystems and networks that allow for quick and easy exchange of ideas, information, culture, products. The list goes on and on. And the value add of San Francisco specifically as the epicenter of activity in the region will become more clear. They will be different, but we rely on the ecosystems and the networks that exist within cities to innovate, to support economies.

**CRAIG YOUNG:**

Well said Fred.

**MEREDITH SHUEY ETHERINGTON:**

So last question. Would love to hear from both of you. What gives you hope?

**FRED BLACKWELL:**

You know, what gives me hope are young people. The level of dissatisfaction with the status quo that has been displayed over the last year, that display of dissatisfaction has happened with a spirit of kind of solidarity is what gives me hope. So I'm inspired by them. And I think that as they grow and become leaders in the workplace, leaders in politics, leaders in the nonprofit space and community space, we're going to be better off because of it.

**MEREDITH SHUEY ETHERINGTON:**

How about you Craig?

**CRAIG YOUNG:**

I hope that we can go back to embracing the spirit of human connection. Because I'm just so skeptical around technology. I've got two young girls and we do everything we can to try to keep them off screens. But it's very hard. And I think that spirit of human connection and the realization through this process that our species and the evolution of our species is really as social animals. And we have a thirst for an authentic human connection with others that I think oftentimes is really clouded through the use of technology. So my hope is that we can get past Zoom, get past these distributed work models, and get back to being humans again and connecting with one another. So I'm hopeful to be back together in person with those that I love and folks that I want to spend time with.

**MEREDITH SHUEY ETHERINGTON:**

Fantastic. Fred and Craig, I just want to thank you both for joining us today. It was certainly just such a treat for me to hear both of your perspectives. So thank you both.

**CRAIG YOUNG:**

Fred, I feel like we've met in another life perhaps somewhere along the way.

**FRED BLACKWELL:**

Possibly. Thank you for having us.

**CRAIG YOUNG:**

Thank you for having us.

**MEREDITH SHUEY ETHERINGTON:**

I will be back in a minute to chat about some investment takeaways.

I've been thinking about my conversation with Fred and Craig, and specifically about the investment implications. I called up two of my colleagues who I knew would have interesting insights, Amy Hauter and JJ Baylin. Amy is the head of sustainable fixed income.

**AMY HAUTER:**

Hey, Meredith.

**MEREDITH SHUEY ETHERINGTON:**

And JJ manages the real estate investments that we make for clients.

**JJ BAYLIN:**

This very fun conversation. I appreciate you doing it. Learned a lot.

**MEREDITH SHUEY ETHERINGTON:**

I'm thrilled to be sitting down with you, and I'm really excited to hear your thoughts and put the conversation on the future of San Francisco through the lens of an investor. Both of you think a lot about and invest in the future of cities. So maybe we can start by what struck you most from my conversation with Fred and Craig?

**AMY HAUTER:**

Sure. I'm happy to take that first. From my perspective, it's definitely how grossly undersupplied the housing market is in the San Francisco Bay Area and how interconnected that is amongst many other challenges they face while experiencing such rapid job and economic growth. And while the growth is great, it can definitely lead to vulnerable populations being disproportionately affected by that growth. And really underpins a lot of what Fred and Craig alluded to in terms of the programs that need to be created and implemented to really help support the growth in many areas.

**JJ BAYLIN:**

I picked up on that too. The housing shortage in California seems to be representative of what's going on across the country, Craig threw out the stats on how many housing units were produced for every new job created. And California as a state is widely undersupplied San Francisco, it's even more magnified in the city. It's happening across the country too. The Harvard Joint Center for Housing Studies estimates that we'll need one and a half million housing units each year between 2018 and 2028 in order to meet the demand that's going to be coming nationally. And from 2018 to the end of 2020, we're still below that level. And since the great financial crisis, we've also been below that level. So we have a steep upward hill that we need to climb on the housing affordability issue and the housing shortage across the country. And California's too representative of what's going on across the country.

**MEREDITH SHUEY ETHERINGTON:**

So Amy, one of the issues that Craig and Fred talked about was affordable housing. You're a bond investor. You manage a fund focused on sustainable outcomes within municipal entities. One of the impact areas you look to support is affordable housing and supporting underserved populations. I'd love to hear from you, have there been any emerging programs that you have seen across the country or directly in San Francisco that help address the critical issues of homelessness and affordable housing?

**AMY HAUTER:**

It's a great question. I learned a lot both from Fred and Craig. Their perspectives were very insightful and reinforced a lot of the fundamental issues that we actually look for and look to address through our portfolio holdings, homelessness being one of them. Within the bond market, for example just last year, California Health Facilities Finance Authority issued the first of its kind sustainability bond that was tied to their No Place Like Home Program. This program aims directly to address the homelessness crisis in California, which is home to roughly a quarter of the nation's homeless populations. A quarter of those also suffer from severe mental illness, another critical issue. This bond provides funds to counties and develop responses for the development of permanent supportive housing for people who are experiencing homelessness and/or needs mental health services.

And this really underpins one of the key points that Craig made. Some of the challenges that the San Francisco Bay Area and other large urban areas face with rapid growth are too complex for one single city to address. There needs to be more of a regional mindset, which this bond aims to do.

I'll mention one more because this is a program that we've supported and invested in for quite some time. Freddie Mac has a workforce housing program. And affordable housing is the crux of their mission. Think about half of all renters are considered cost burden, meaning they spend more than 30% of their income on housing. This burden is much heavier for many lower income households where they're working in cities that might have higher cost of living like San Francisco. So this program is designed to help essential service workers like teachers, police officers, and firefighters, and others who generally have lower average medium income to be able to live in the communities in which they serve.

**MEREDITH SHUEY ETHERINGTON:**

Personally, I love diving into the bond side and seeing the impact that you can make in your portfolio. I think for investors, it's often a piece of your portfolio that you don't quite remember has actually this huge ability to make an impact in terms of investing in your community. So I'd love to hear those examples from you. So Amy, both Fred and Craig talked about the importance of taking a regional approach. What are some investment opportunities you see that help provide capital to help some of the interconnected challenges that the Bay Area faces?

**AMY HAUTER:**

They highlighted a lot of challenges that comes with regional growth, and phenomenal job growth, and economic expansion. But a few other ones outside of just affordable housing that come to mind and that they mentioned is mega commutes and traffic, which is also very correlated to the challenges of affordable housing in the grossly undersupplied housing market. Through our investments, we also look for investment opportunities in other sectors that can also help support some of these challenges. So for instance, in public mass transit opportunities that are helping to provide solutions to remedy these challenges specifically. The San Francisco Bay Area Rapid Transit is a great example, and are also one of the leading municipal green bond issuers. But they're also an absolutely essential transportation system to the Bay Area. They use mass transit services using an electrified railway that provides a low carbon alternative to automobile travel.

But most notably, one of their most recent green bond deals includes various planned projects to make mega commutes and cutting down on traffic even more sustainable, which includes extending certain lines to the Silicon valley, which will provide an alternate to driving in two of the most congested highway corridors in the Bay Area. Also another project is the Transbay capacity relief, which will increase peak hour capacity in San Francisco by 40%.

And lastly, and probably most importantly is one of the projects that they have planned is the new Transbay Rail Crossing, which will transform the 21 county Northern California megaregion's passenger rail network into a faster, more integrated system. Providing a safe, efficient, equitable, and affordable means for travel for all types of trips.

**MEREDITH SHUEY ETHERINGTON:**

That's great Amy. And sticking with you, Fred talked a lot about the challenges that faced the most vulnerable communities in the wake of the pandemic, many of which are communities of color. How can our fixed income investments promote a more equitable future? And how do you incorporate diversity and inclusion when you are analyzing your bonds?

**AMY HAUTER:**

A lot of these questions are very aligned, and we actively are pursuing opportunities to finance entities and projects that in our view at least are positively addressing some of the root causes of inequality in society. Especially as municipal investors, we tend to generally favor revenue bonds over general obligation bonds because this emphasis in our portfolios allows us to target investments with specifically earmarked uses for the funds raised by a given bond. So such as housing finance authorities that are expanding access to affordable housing, hospitals that are addressing health disparities in their communities, and higher education systems that are also promoting diversity and inclusion on campus.

**MEREDITH SHUEY ETHERINGTON:**

JJ, just turning it over to you to think about on the real estate side, how can real estate investors and developers be a part of the solution for affordable housing?

**JJ BAYLIN:**

Yeah. It's as Craig and Fred alluded to. It's an incredibly complex problem. I thought one of the more interesting anecdotes that was shared in the discussion was the 888 Post Project that Tidewater worked on in San Francisco, and the ability to first of all work hand in hand with the local municipality to create a public/private partnership, to deliver much needed housing and much needed services for vulnerable part of the population was very compelling. I thought the example was particularly impactful because not only is it providing an impact for the residents of the neighborhood, but it's also providing a financial impact for investors in that project. And frankly, it's one of the more important elements of getting it right as a real estate investor and a real estate developer. You're not out on your own. You have to work with multiple stakeholders as part of every project that you work on. So making sure that you are meeting the needs of all the stakeholders who are involved in the process along the way is critical to creating that sustainable impact, that social impact, but also that financial impact on your projects.

**AMY HAUTER:**

Meredith, you work with a lot of clients. When you have clients who are asking about investing for impact, specifically impacting their cities, what do you usually recommend? Are there ample opportunities? And how are you seeing this landscape evolve?

**MEREDITH SHUEY ETHERINGTON:**

Thanks, Amy. It's a great question. And if I think about it, maybe I'll take a step back and say when clients really want to invest in their communities, think about it in maybe two ways. One is through their philanthropy, and the other through their investment portfolio. I would say that's probably one of the first stops we'll make with a client is to say if you're interested in investing in your community, let's connect with community leaders and see where the most

important places are. And really, where can you invest through your philanthropic dollars that are really going to carry those dollars forward and make change?

You're thinking about your investment portfolio. I do really go back to the bond side of the portfolio to say how can you invest locally? One of the best areas to do that and especially in a state like California where perhaps you have a larger state, a larger municipality, the ability to invest more dollars this way. But investing on the bond side of your portfolio is a great way to really focus on your specific areas of impact. And Amy, you mentioned several examples of the ability to do that.

I think sometimes for investors, it can be maybe a little harder to do that because the bond side doesn't seem that exciting. Especially in this low interest rate environment, if you're only getting 1.5% yield off of your portfolio, that perhaps doesn't feel like you're doing a lot. But on the impact side, you're actually able to move the needle a lot further than perhaps you think you might be able to. Real estate is to me another area where you can make that impact. I think that's also fun for clients as well to be able to perhaps get their arms around a specific project. What we do with our clients is really taking that big step back to say, "What is the most important areas for you, and where do you want to achieve your impact?" And then looking across the landscape to say, "How can we do that?" I think we're lucky in this day and age that we're able to do that across the portfolio, whether it's your bonds, your equities, your private investments. You're really able to seek that impact throughout the portfolio, and it's pretty exciting to be able to do that for our clients.

Amy and JJ, it's been fantastic to have you join me today in picking through the investment implications of the conversation that we had with Craig and Fred. And just fantastic to hear your thoughts. So thanks for joining me.

**JJ BAYLIN:**

It's been a pleasure being a part of it. Thanks for having us.

**AMY HAUTER:**

Thanks Meredith.

**KEN STUZIN:**

Thank you again for joining us as we continue this effort to seek out insights that help us understand a rapidly evolving world. If you enjoyed listening, we encourage you to subscribe to the podcast. Please look out for our next episode, where we will examine why investors should care about the ethics of artificial intelligence, and why ensuring that AI is used to help rather than harm is a matter of material significance to both investment performance and our system. Until then, be well, and stay safe.