ScratchThat Podcast Episode 26: Moving On Up or Moving On Out?

Emily: Hey, I'm Emily Chenevert, advocacy nerd, Peloton enthusiast, wife, and mama to two and CEO of the Austin Board of REALTORS®. Every day, real estate is changing. So we're taking it to the experts to unpack major topics that you need to know about to be successful in this business. Scratch what you think you know about this business, and listen up for a fresh take on an old industry.

Emily: Ralph McLaughlin is the Chief Economist and Senior Vice President of Analytics at Haus. He's not your typical economist, in that he came at the business by way of a policy and planning background. He's got a way of making data digestible and accessible, and he's helping us digest the housing trends we might expect following the impact of COVID-19. We started our conversation when I asked him to give us a rundown on what Haus does and how the model might be coincidentally perfect under the economic circumstances we've all been presented with. So tell us, Ralph, what does Haus do?

Ralph: We are an alternative to housing finance that doesn't involve debt. So if you are a home buyer, pretty much for the last, you know, a hundred years in the US if you wanted to buy a house, you had to go get a loan, which involves obviously, debt. We provide an alternative path, which is we will co-invest with the home buyer. So if a home buyer wants to buy a house, wants to put 10% down, we'll put 90% down. Instead of that, 90% down being a loan we co-invest in the house and slowly, every month, the home buyer pays us a fee. Part of that is an option fee to retain the option, to do whatever they want with the house, and then the other part of the fee actually goes to buying shares of the co-investment back from us. So basically we just partner with the home buyer, proportional to the amount of money that each side sets in, not unlike say a commercial real estate deal, where you have partners going in on it. We do that on the owner occupancy side. We think it's a valuable alternative to financing one's home that doesn't involve debt. Our product also was flexible at a couple of different ways. You know, several times a year at the home buyers discretion, they can cash in some of their shares. So if you need money to say, build a new deck or do a repair on a house, you can just come ask to us and we'll provide, you know, some, some cash in exchange for shares back from the partnership. And probably most importantly, in relevant to today, if, uh, one of our investors, our partners say loses a job, we will allow them to go for an undefined number of months without having to make a payment. And in exchange, we will just slowly purchase shares back from the co-investor. And then when the person gets back on their feet, they can continue to make payments all without having to go through a foreclosure process, all without having to short sell a house or fire sell house. So it's a win-win for both sides of the coin, at least from our perspective, and we think there is a nontrivial demand in the marketplace for this kind of product.

Emily: So how many markets are you co-invested in right now?

Ralph: So right now we are in California, Oregon, and Washington, with a goal to expand nationally, sometime in the next 12 to 24 months.

Emily: How far into your co-investments are you that now we're experiencing this kind of economic turn, because what an interesting test of the waters, right?

Ralph: Yeah, exactly. So, we started doing our first deals in July of last year, and we've actually had one of our first co-investors come to us to ask for, you know, some, some relief. So right now they are getting relief from us. They're not having to make any payments until July when this person thinks they'll get back on their feet. And we just are slowly buying a small amount of shares back in exchange for them not making a payment. We've also had a handful of other partners that have come to us and say, hey, I need a little extra cash to, you know, get me through this tough cycle. And we said, sure, okay, here's some cash, and in exchange, we get some shares back. And well that's provided to be pretty valuable and pretty flexible. And, and a key feature that our existing customers have said they really liked. So we were going to have some testimonials coming out soon. So you don't have to, you know, hear it from us. These are actually going to be real people, not like the actors that, you know, afterwards they get paid on online or on the radio. These are real people, real customers with us, and um not scripted. And they're just going to tell the world what they think of our product.

Emily: How deeply will you allow the balance to shift when you're allowing the co-investor to take out their shares and access that cash equity?

Ralph: Great question, Emily. The minimum is 10%.

Emily: Okay. So you could be in essentially a 90-10 relationship with Haus owning 90% of the property and you owning 10%.

Ralph: That's correct. And, you know, I think our average balance right now, at least going into a partnership is about 15%. And, you know, to give you an idea, you know, a 5% ownership, stake in a house would get someone through. If something happened to them, theoretically, it would get them through, you know, 12 to 16 months. So we think having that, having that minimum of 10 and the ideal a little, just a little bit more, it doesn't have to be 20%, but a little bit more really puts our partner in a very good position to, you know, weather life's destructions.

Emily: I would expect that you get engaged at the same time that a lender would be engaged at the point that the consumer is working with our agent to identify the right property. They may have also already reached out to you to establish what the credit could look like or what kind of qualification they should seek.

Ralph: That's exactly right. Anyone interested in buying a house and using our product should approach us as early in their house hunts as possible. It doesn't have to be before they found the home of their dreams. We can move pretty quickly. Actually, that's one of the advantages we have to say, lenders, you know, we can move pretty quickly. We can close deals. I think the quickest we closed the deal probably been in about a week, you know, on average it probably takes between two to three weeks appraisals, as you probably know, today are a little bit slower. Yeah.

Emily: Yeah. Everything's a little slower right now, right?

Ralph: That's right. But during normal times, you know, we expect between a seven and 14 day close that's, that's our target.

Emily: And then that option fee the fees that they paid to retain, you know, maximum ownership and flexibility in the property. How does that compare to the interest that they might pay on a mortgage,

Ralph: Two thirds of a payment go to our option fee. One third goes to buying back shares. Now to put it into perspective. If you were to get a 30 year mortgage, one third of your mortgage payment, wouldn't be reached until you're like year seven or year eight in the deal. So, you know, our product is, again, not for everyone. If you plan to stay in your house for 30 years and you think your market's really going to go up, you know, explode, you know, go get a 30 year mortgage, you know, we're not gonna, we're not gonna stretch the truth. It would be very, very open and honest. But you know, if you, especially, if you're a first time home buyer, you might think, oh, I want to buy my starter home now. And then five to seven years, I might want to trade up. We're a much better product. A much better bargain.

Emily: Find that equity faster.

Ralph: That's right.

Emily: And how many of the transactions that you manage include a REALTOR® agent representation?

Ralph: Um, I think of all of the deals that we've had that were on the purchase side, because we do purchase and restructure, it's involved a REALTOR® on both sides of the transaction.

Emily: Good answer!

Ralph: Um, you know, we are a licensed broker in many States and we do have the option of actually selling a house at basically very low cost if a partner wants to use us. And we certainly don't have any obligations, don't put any obligations on, on the homeowner to use us, but if they want, basically all they'd need to pay is a, is a buyer side commission. We're not a full service real estate firm. And, and certainly, you know, we're not gonna provide, uh, you know, as many bells and whistles as realtor would, but we, we do retain that, that option for the home buyer.

Emily: Okay. Awesome. Well, it sounds like a really interesting concept. I mean, how prudent to have that type of flexibility for consumers at this time sounds like a silver lining that you're getting to experience the full flex of the product through this environment, which, where some people are really struggling, you're getting to sort of prove up your value in some ways, which is awesome.

Ralph: That's exactly right. I mean, when I, you know, I joined the company in December, I've been an advisor since June or July last year. And you know, I think all of us, uh, you know, at that time were thinking, Oh, well maybe we'll get the, prove this out on the flexible side. And two, three, four years the economy was looking very healthy. That's another opposite, right? Exactly, exactly. Another buck. And here we are. So it actually does feel very good to, you know, be able to help keep people in their homes during such a, a terrible health and economic crisis.

Emily: So let's talk a little bit about the economy overall. Zillow's chief economist has echoed what we've heard others say in the sense that they're expecting a check marked recession. So a deep dive and then a pretty steep climb back up again. What are you expecting? What are we hearing from you?

Ralph: A great question. Our forecast is a little different from those that you just mentioned. We're expecting what we're calling a flying W shaped recovery.

Emily: A flying W!

Ralph: A flying W yeah.

Emily: Straight out of Harry Potter!

Ralph: Harry Potter. I mean, if any, if there's any Weezer fans here, you know, the user logo, that's a flying W you have it kind of kinked a little, a little one way. And basically what we think is going to happen, is that we are coming to the end of the first leg of the W. So we've seen this big crash after this black swan event, right. We do see signs that there is actually pent up demand from what would have been probably a robust home buying season. And maybe you can attest to some things that you've seen in the ground in, in Austin, but all signs for this spring, you know, it was going to be a fantastic season. We don't think that that fundamental demand has necessarily gone away. It's just been pushed back. So after this big drop, this first leg of this flying W that we think this pent up demand is going to come back, it's probably going to come back in the summer. Maybe not to the extent that it would have been without the pandemic, but we think it's going to come back. And that's the middle of the w then as we go into the off season, we think there's, there's two things. One the real steady equilibrium of demand, that arguably is going to be lower because lots of people lost their jobs, which has been tragic, combined with the possibility of the pandemic coming back, or the virus coming back is going to lead to a shorter, not as steep fall again. And that would be that third leg of the w and then the final leg of the w the flying part as early 2021. As you know, if things really get back on their feet, the impact of the virus is behind us. And the economy really starts to recover. And whether or not you think it's Nike shaped, or check shaped or flying W shaped, most economists are thinking that the rebound is really going to start to take full effect beginning of next year. So we're really sort of splitting hairs about what's going to happen between now and then

Emily: You're just talking about two checkmarks instead of one, essentially, right. We had a significant crash. The summer's going to pick back up because the factors leading to what was really, truly supposed to be another record year in the housing market, at least in Austin, Texas, are still largely intact with the exception of that percentage of the population. That's experienced such a setback that they're gonna need more time to recover, and then pending what happens with the virus and the fall, we see another dive, and then we picked back up again for a more long-term stretch, hopefully at the first quarter of '21.

Ralph: Exactly. I mean, you said that much more eloquently than I could have ever said that. So thank you. And that's a great job of interpreting an economist. And one of the reasons why we really think there's going to be a strong rebound, it has to do with fundamental demand side parts of the economy, which gets into demographics.

Emily: Right.

Ralph: We have a very large share of the U S population, basically second, only to boomers in millennials and gen Z that do want to own homes. They've told us for years, they want to own homes. There are very strong signs of last year that they were the ones that were really buying houses, but they still don't own homes at rates that their parents did when they were that age. But we think that's, um, you know, really going to be a big boom for the economy over the next five years.

Emily: How does that pair with those who have most been impacted by the economic turn? So where do millennials shake out in the groups that have been most impacted by job loss?

Ralph: Yeah, the unfortunate thing is that those from an economic standpoint that were probably hurt most that were working in say retail in service and leisure sectors that have hit very hard, do tend to be younger, you know, younger, younger buyers, but also, uh, on, on the flip side, and you'll see this sort of in your neck of the woods, the tech economy, which, you know, has been, you know, relatively unscathed, there's been layouts for sure, but that's a really...

Emily: Yea they're happy. Happy at home.

Ralph: They're, they're a healthy growing part of it. They're young.

Emily: Yup they are. They're babies.

Ralph: But they had, they had the skills needed to grow their careers, and they may not be as impacted as much. It's certainly going to be at the least a very big speed bump for some of those households. You know, you might think of households that weren't in industries that were affected that were ready to buy houses this spring. They had that down payment, and as long as they didn't go through and a big economic disruption might be seeing this as an opportunity to actually get into the market rates are very, very low, much lower than they've been for a long time. The only downside you may have seen is that inventory, you know, sellers have almost freaked out more than buyers in this market, and that's, you know, not going to lead to a widespread, uh, you know, collapse, the housing market. I don't think we're gonna see as many foreclosures. The government's got, you know, some really solid plans in place to help keep people in their homes. And that's not likely to lead to a major drop in prices, or a major increase in force.

Emily: I mean, all of those facets you just described are absolutely paramount in the Austin market. The tech economy is still driving hard. Those kids are happy and they are still going to want to buy property because they believe in that investment tech continues to remain a strong industry in the sense of weathering the storm, you know, overall, and then inventory is a terrible problem in most urban markets. But especially in Austin, Texas, we've been under two months balanced inventory across the whole of the region, even worse in many parts of Austin, proper. And people freaked out in April, which was understandable, and they pulled their listings, or they put them pending steed, you know, put them in T status and hung out on the temporary line for a while. And so I do think that where there might've been a good deal for a couple of weeks, there there's no deal to be had for a buyer right now, sellers need to get their listings back on the market so that we can get capacity opened up for the demand that we've got pinned up. And it was like that before the virus. So it's worse now.

Ralph: Yeah. I mean, the inventory problem has been bad. I mean, you know, that it's been bad for years. This was not something that was caused by pandemic, but the pandemic has just taken it to a whole lower level, unfortunately,

Emily: But let's talk about the inventory problem in the context of your background a little bit. So, you know, many of us believed that one of the tools that helps resolve the issue of capacity is to build denser, especially in cities like ours, where we are not very dense yet. Despite what people think about Austin being incredibly progressive, it's a somewhat flat and sprawl-y sort of city. And, you know, we've been having a conversation about an overhaul of our entire land use code here. So we've been having a very existential conversation about what kind of Austin we want to be in the future. People generally, we're starting to work towards having a greater understanding and acceptance of a more urban community. One that was a little denser, but then we've seen density play this really interesting and scary role in the context of the pandemic. How do we balance out those fears with what we know academically about the value of density as it relates to capacity?

Ralph: Well, that's a great question that I'm not going to have the perfect answer to in the time of this podcast.

Emily: Now, I expected perfection Ralph.

Ralph: Well, you know, I've had my academic hat off for several years now. So, I mean, it's going to be a fundamental dichotomy. What happened my, my guess is that cities are not going to go away. And the demand to actually live in denser environments is going to increase. We might see a short term impact of this virus, push some people to live further from density. But I think overall the value of our urban economies, the value of agglomeration of economies has only strengthened over the years. And I don't think the virus is going to disrupt that. However, you know, I think there are, you know, there's going to be some reconsideration that happens within some of these firms that are benefiting from density. And that's what attracts people to live in a dense places in that maybe the importance of cities isn't going to go away. In fact, it might strengthen, but maybe the importance of an individual, uh, being in a dense environment 24/7 isn't what we thought it was. Maybe someone could, um, you know, live outside of a city or, or split time between places and still reap the benefits both from the individual perspective, but also the firm perspective of, of that dense, dense urban environment, you know, zoning regulations, of course, a big deal as an economist. My personal perspective is that we need to let the market dictate what the densities should be. You know, people want to live in all sorts of different environments. People want to live in rural environments. People want to live in dense urban environments that we should allow that choice for however people want to live. And, you know, not necessarily, um, you know, restrict people's choices. Uh, but again, you know, the, the pandemic has led to people needing to, you know, sort of reconsider their life choices, reconsidering, where they want to spend time. But I would, I would suspect in a few years that, uh, you know, as a society probably will have a much looser memory or, or much less of a desire to actually leave cities than maybe some of us have now.

Emily: Yeah, I agree. It's fresh. And it makes sense that we would be somewhat reactive towards the kind of traumatic experiences that we've all been managing through. Sort of related, but a little different, you wrote an article recently about pre COVID commute to work times and the cost of that in the context of people seeking to move back into the city and wanting that kind of density. But then now we've seen all of these businesses, mine included, shift to these fully remote environments and open up a new conversation about how long some of us will last like this. And if we're making permanent shifts towards these remote work environments. So if we make the shift towards a remote work environment, having the fourth, worst congestion in the country, doesn't matter in Austin, Texas, as much as it used to in part because our congestion is getting better, but also because I don't have to sit in it any longer. So then what changes am I making from a consumer perspective to maybe not care as much about where I am?

Ralph: It's interesting that even before this pandemic, the share of people working remotely, it was at a historic high, you know, and by historic high, it was by 5%.

Emily: You know, like a tiny historic high.

Ralph: So it's tiny, a tiny historic high, but the trend is what matters, of course. And so, um, I think what's going to happen with this pandemic is that there's going to be a certain share of the population. That has always wanted to work remotely, but has never been able to find the occupation or find the employer to be able to do that. And then on the flip side, there's going to be an employers that never ever considered having a remote disperse workforce, uh, that suddenly they're forced into it and realize maybe it's not as bad as they were thinking.

Emily: Yeah. Mine included.

Ralph: And so it's going to be included. Yeah. I mean, me too working remotely, and it's the proportion of each that if you multiply them together, we'll tell you, and I don't know what that number is, but that will tell you essentially what share is likely to live and move and migrate to rural areas. And it doesn't necessarily mean that they perhaps will give up, you know, coming into the city, but they may just not do it every day. They may do it a few times a week instead of four or five times.

Emily: Yeah. Well, I surveyed my staff recently. We're having the conversation about what it looks like to reopen the facility, at least now just at a conceptual place, not yet in the context with the staff of the liabilities of doing that, but, um, you know, we asked, would you rather work full time remote now that you've had that experience? And even my young, barely millennial staff said, no, I really want a hybrid. I want to have my cake and eat it too. I'd like to work from home sometimes. And then I want to come into the office and see my friends occasionally. And it's funny because from a business operation standpoint, creating space for both is very taxing. So we're going to have to make some hard decisions about how to do that. And still most importantly serve our 14,000 members, but it's been an interesting conversation. And they, they surprised me by still wanting to have that anchor in the office sometimes.

Ralph: We can get close to substitutes, right? So this is kind of close to having, um, you know, an in person conversation, I think what is lost and maybe what your staff is demanding. And certainly what, um, you know, many of employees at Haus are demanding is the organic interaction, right? Conversations, the drive by the driveway, conversation, the coffee, the water cooler conversation, and say, hey, do you want to go grab a bite to eat and just randomly chat? You know, and there's a lot of knowledge built over in productivity that actually comes out of those interactions. And that's not something that's easy to do unless we all have our zoom on turned on all the time with everyone at our workplace. It's just, you know, for those reasons, I think there's still gonna be demand to have people, you know, come and live in, you know, a central workplace and live in, live in cities. On the flip side though, there's also potential productivity gains that could come from, uh, firms actually moving towards a more distributed workforce. Um, and that is, they don't necessarily have to hire just from, within their given market. They could hire from anywhere. And so, uh, you know, that potentially lowers the wages that they have to pay. If someone, you know, can live in, in rural Montana, uh, and their workplaces in San Francisco. Well, the employer in San Francisco doesn't have to pay them San Francisco wages.

Emily: Yeah. And developers in Montana better get their skills ready because that's exactly right.

Ralph: Yeah! That's exactly right. I, I got a friend who moved up there several years.

Emily: Yeah. Hiring the hiring a stack workers in Austin is pretty expensive too. So I'd be happy to get one out of Montana. That's funny. Well, let's wrap up with a speed round. Are you good with that?

Ralph: I'm good with that. Let's play.

Emily: What is your favorite beer? My understanding is that you're a beer connoisseur on Twitter occasionally.

Ralph: Uh, yes. Uh, my favorite, oh, I'm going through right now. My favorite is Edinburgh. It's an Austrian Pilsner. Uh, but you know, these things change on a, you know, on the weekly.

Emily: Yeah. Is this like a quarantine favorite or is seasonal?

Ralph: It's a seasonal favorite. Of course, growing up in California, I, you know, I have that certain innate hoppy, uh, desire that's on my palette, but you know, over the years, I've gravitated more towards a good German and Austrian pilsners.

Emily: That's awesome. Who are your favorite Twitter accounts to follow?

Ralph: Uh, so, so many good ones out there. Uh, I mean to, to quickly name a few, um, Bill McBride runs the blog called Calculated Risk. And, you know, he predicted the 2007, 2008 and outbound, just a fantastic wealth of knowledge there. Uh, and then also a colleague of mine, uh, Len Kiefer, who's deputy chief economist at, uh, Freddie Mac just makes some amazing data visualizations, really, really amazing stuff. Um, there's lots of good stuff, uh, out there, of course, a joint center for housing studies to whatever account, if you're a housing, you know, neuro like we are, they're always good to get good to follow.

Emily: Awesome. What's your favorite city in the U.S. And why?

Ralph: Well, you know, I vote with my feet, so I'm here in Alexandria, Virginia. So I'm going to say old town, Alexandria, Virginia is gotta be one of my, um, one of my favorites also very I'm partial to the Sierra Nevada. So not necessarily a city, but a regions here in Nevada, California, uh, particular, the high Sierras holds a good, good place in my heart. And, you know, from the actual, you know, Hey, I want to go on vacation, hang out in the city. I mean, it's, it's hard to beat New Orleans.

Emily: Oh yeah. Well, as a, as a Cajun myself, I would agree. What's your favorite podcasts?

Ralph: I listened to a lot of different ones. I like Radio Lab. Listened to some radio lab podcast this morning.

Emily: Me too.

Ralph: Um, yeah, that's a, that's a good one. The Real Estate Guys Investing. I'm a sort of small scale real estate investor myself, and they always have a wealth of, of, of knowledge. And then to explore new music. I'm a big fan of WB Walkers Old Soul Radio Show, if you haven't heard that, uh, uh, streaming out of the Dingus West Virginia. He's a, a, he's a railroad conductor. And when he's not, uh, you know, riding the cool trains on the East coast, he actually does a podcast for a lot of local musicians out of, uh, uh, Eastern Kentucky and Western West Virginia. It's a great, great place to discover new music.

Emily: I love that. I love that podcasting gives light to people that would never have had that kind of voice before. I think that's special and neat. There just are not that many, you know, train conductors that are out telling their stories.

Ralph: Exactly, exactly. Right. And these are things. These are stories we never would hear. It was probably music I never would hear of, you know, even 10, 20, 15 years ago.

Emily: It's an awesome medium. Well, Ralph, you've been a delight. Thank you so much for hanging out with us today. Good luck at Haus. We're excited to see how it shakes out through the rest of this downturn. And we'll look for our second check Mark later and see if you were right.

Ralph: Thanks a lot, Emily.

Emily: Alright thanks so much. Thanks for tuning in. Like what you hear, let's continue this conversation. Give us some love by leaving us a review on iTunes and let your friends know about this show by sharing this episode on social media. You can also follow along and tag me @EmChenevert. That's E M Chenevert. Until next time.