

## Silicon Valley Real Estate: A Conversation with Michael Dreyfus

### Miranda Junowicz

Hi, I'm Miranda Junowicz, and this is Whereabouts, where we explore the curious ways that politics, business and culture intersect with real estate markets around the world. In this episode of Whereabouts, we find ourselves in Silicon Valley, California, home to thousands of high-tech startups, including giants like Facebook, Google and Apple. And when the most successful of the startups go public, they often create dozens, or hundreds, of millionaires - or billionaires - overnight. In 2019, locally-based companies including Airbnb, Uber and Pinterest, have or will soon make their stock public, and bring the area its next wave of young, cash-ready homebuyers. My co-host today is Silicon Valley real estate veteran Michael Dreyfus of Golden Gate Sotheby's International Realty. Mike and I are here to discuss what can be expected in the coming months for both buyers and sellers as a result of the newest bonanza of IPO millionaires.

### Miranda

So Mike, I'm excited to be launching this season of Whereabouts here at home in Palo Alto. And for those who don't know Palo Alto is the epicenter of Silicon Valley and the birthplace of some of the world's most important tech companies, like Facebook and Google. When those two went public their IPOs stood alone as the biggest news of the year. What makes now different is you have a handful of locally-based tech companies with public offerings happening in 2019. And this is causing a lot of buzz, particularly when it comes to its effects on the real estate market.

### Michael Dreyfus

Yeah, I think one of the - obviously everybody's I'll say excited. But everybody's focused on the big gang of unicorns that are going public all at once, which is probably the biggest collection of I'll call them publicly known IPOs that we've had since 1999 to 2000, when things were crazy up here. I've been through Google's IPO and Facebook's IPO, and these are of that significance. And I think that's why they capture people's attention, because they're so well known in terms of, you know, nobody really talks about a chip company or really talks about a biotech company, as much as they talk about Uber and Pinterest and Slack, and things that people are so aware of and use in their daily lives.

### Miranda

I'd say another distinction is that these 2019 companies are more mature as they go public. They've seen several rounds of investment at increasingly higher valuations, and a greater number of seasoned, high-level employees. Is all that going to mean an unprecedented

slew of wealthy employees when the shares go public? Is that what's driving the fears of a spike in property prices?

**Michael**

Well it's a good point. I think actually you can also go the other way is that because they're so mature, what you've seen with these companies that we did not see in the past is a lot of liquidity come into the companies and take out some of the employees' stock on an earlier basis. So a lot of these companies have been already putting money in the employees' hands and spreading it around. And so I think you can make an argument that they may be a little more muted than people expect, because that liquidity has been happening all along. Given the fact these companies have been raising so many series, and so many rounds of financing, a lot of that was directed at trying to get the employees a little bit liquid, so they stay. One thing that that people in startups don't like, is not going public or not being able to sell their shares. That's what they're in it for. And so with the long lives of these new startups and these unicorns, a lot of them got taken out.

**Miranda**

I just wanted to share some statistics. So in San Francisco, a population of 900,000 there were 5500 home sales last year. And Palo Alto, population 65,000, 450 homes sold in the last year. So is this just a few more cash-ready buyers in an already tight market, or are we looking at a new playing field as the year progresses?

**Michael**

Yeah, I think it's important to remember that this is really how we roll all the time. These liquidity events are always happening here. And so I think there's a tendency to kind of over-emphasize what's going on with these. They are significant because they're big, and there's a lot of them. But if you just go through, I can tell you in my business, when people buy houses, they're usually buying houses because they've had a liquidity event or their stock is going up. I mean we had, I had several deals with Apple employees last year, because Apple stock was performing like a rocket. So I think it's, it's something that's always happening. And then I think the other part of it too is that it's not an instant event. It's not something where, you know, everybody the day that the IPO - or even the day that the lockup ends - all go out and spend their money. It's something that gets spread out over time. You know, Facebook was a very good example of that. They came public, and they actually didn't perform well coming out of the gate. The Facebook employees were a significant part of my market for the next three years. As that stock recovered, and as they decided to sell, you know, there's a lot that goes into that. Do I sell my stock right now? Do I hang on? You know, do I need to buy a house? I mean, there's a lot that goes on in it. So I think it's probably better to think of this as the ongoing engine that drives Silicon Valley, and San Francisco housing.

**Miranda**

And it's not just the buyers asking these questions, but sellers too. It's been a consistent piece of the conversation for me at the moment, sellers exploring whether all this new wealth means they should wait to sell. Your thoughts on that?

**Michael**

Definitely. And buyers, I mean, some buyers are panicking a little bit too thinking they got to get in before it. And let's face it, you know, real estate agents encourage all that. So they don't encourage the sellers waiting, but they encourage the buyers to buy. And you know, I basically try to focus my sellers on the moment that it's good to be a seller right now. Because that's something you can't control and you don't know what's going to happen. And I'll go back to the Facebook example. If you see me on CNBC [in 2012] talking about Facebook not performing, and the interview guy is trying to paint it like it's a disaster. And I'm saying essentially what I'm saying now, is that there's other companies and there's other things. So from a seller standpoint, California is cyclical, we've had a really good run, and to sit around and wait is just, you know, there's risks. Sellers always look at upside, and they don't really focus on risk. I think that's part of our job is, both are okay. Upside's okay, but risk is also a big deal.

**Miranda**

And thinking again of the buyers, particularly buyers whose capacity and budget are not getting a big IPO boost this year. As much as they'd like to stay in Palo Alto, we're seeing a lot of them expanding their home search out of the immediate area.

**Michael**

Definitely

**Miranda**

San Jose and Morgan Hill to the south, East Bay communities across the Dumbarton Bridge like Castro Valley and Fremont, these are attracting more and more buyers who work in Silicon Valley but just can't find affordable home here. That's a trade-off, since we have a huge traffic problem that only seems to get worse by the day.

**Micheal**

Yes

**Miranda**

And sitting in that traffic has a huge impact on people's time and quality of life. What OTHER trade-offs are buyers making, and what other considerations should they be looking at?

**Michael**

Well, people want homes, and they want to live in a home. I think one of the things that we're going through here is, it's not necessarily the Ozzie and Harriet 1950 house that a lot of - let's take Palo Alto, Menlo Park, for example - that a lot of that stock is. And I think this newer generation would be happy in a condo. But they want theirs, they want a house. And so we're not doing a good job at delivering that. And at the same time, you're right. Time is a huge deal in people's lives. And traffic is time. And so it's really amazing what people will pay not to have to go across a bridge. Our area is kind of a Manhattan in a way. It's a peninsula, and there's three bridges that get you over. And you can even say, if you count Marin, the Golden Gate Bridge, I mean San Francisco's part of that peninsula. There's, you know, people definitely are prioritizing their time and being close to things. And so the question is, how far can that go, and how high can those prices go? And that's another interesting thing about the IPOs and the money that's coming out: will it be enough? For the very first time last year I was seeing the typical dual-income FANG couple - you know, Facebook or Google or Apple - tell me they couldn't afford it. Just flat out, we can't do this and we can't even get enough money to do this. And so I think we're pushing the envelope even for our very, very wealthy people here to get into housing.

**Miranda**

So, let's pull back and take a look at that then, pull out some price figures for Palo Alto. Three-bedroom two-bath on a 5000 sf lot?

**Michael**

It's so funny you ask that because it just made me flashback to the CNBC interview, which I think that was 2012? And they asked me that question at the end and I wasn't sure if I wanted to say it. And I finally did. And the answer then was \$1,800,000. And they all gasped, and I could almost hear all of America gasping when I said, you know, three-bedroom, two-bath, 2,000 square foot house can cost \$1,800,000? Well, today, that's \$3 million in North Palo Alto. I mean, it's hard to even help anybody on this entire peninsula for less than \$2 million dollars. You know, it's a struggle, and that's just to get in, that's just the start.

**Miranda**

That's such an incredible amount of money we're talking, way out of the ballpark for educators, government workers, even non-executive level tech employees. What are the conversations you're having with those potential buyers?

**Michael**

Well, are they going to leave, totally? I mean, just pack up and leave. And I think we're seeing that, we're seeing people that have to make, you know, decisions on having a better lifestyle where they can actually afford things. And, you know, locally, in the Bay Area, the East Bay is probably the hottest area in terms of where people are going to try to find housing that they can afford. Oakland, Berkeley. Oakland is having a big Renaissance. And then if you go farther down south down our peninsula into San Jose, there's Gilroy and there's areas that are far south. But those are really starting to stack up with a commute that's identical to driving across the bridge. I mean, you're talking about an hour, hour and a half to get in during traffic. If not, two, if things don't go well.

**Miranda**

Companies, particularly in tech, often seem to come up with creative work solutions for their employees, be it on-campus services or work-from-home arrangements. How are they helping to tackle these issues?

**Michael**

You know, there's a lot of flex commuting going on. There are people that actually commute on airplanes into the valley. I mean, we've seen a lot of people, I was on a flight to Bend [Oregon] recently. And there were people that were coming in to work in Silicon Valley for a couple of days, and then going back home. And so telecommuting has allowed that to happen. Also the expansion of these tech companies - you know, Google and Facebook have offices all over the place - it gives people the ability to maybe work in the Denver office and fly in and spend two days, three days here. You're seeing a lot more of that, of people just kind of doing temporary gigs here and living somewhere else.

**Miranda**

We also see the companies themselves making choices about where they want to grow, instead of expanding hubs here building new hubs or moving headquarters to somewhere else. Given the focus on Silicon Valley, most seem ready to pay the premium to stick around. But where they do look elsewhere, is that still in the Bay Area, but in less expensive areas? Or are they looking out of the area completely?

**Michael**

I mean, they're expanding and opening up other offices, but they're not moving. They're not leaving. I've had one company that I knew of that left a small company that actually and it's funny, I mentioned, Bend, because that's what they did. The founder walked in, he had 40 employees, he said, we're going to Bend and you're all invited. And I had the CFO as a client. And ironically, she went and she came back a year later. But you don't see much of

that. The valley is, it's kind of like everybody's tried to change Hollywood, there's always a New Hollywood somewhere. But Hollywood never goes away, and it's not going to go away. And the valley is not going to go away because the concentration of talent is here. And so if you get up at a high level in a company, you're going to live here, you're not going to be anywhere else, but you're going to be here. And it's interesting Pinterest who just went public announced that they're opening - they're based in San Francisco, but they just announced they're opening an office in Palo Alto, a sizable office. So it's another example of how there's talent here, and the companies have to be here to use it.

### **Miranda**

And so they continue to expand here and to attract new buyers here to the market. I think one of the things people find really surprising when they get here is the pace of the market - how quickly properties come on and are sold, within days. That is not how the experience goes in most other markets in this country, and it seems like a market that doesn't cater to its own clients. I.e., these are affluent people, they're busy. You know, you go away for a weekend and the property of your dreams got sold because you weren't here for the three days it went on the market.

### **Michael**

Yeah, the pace of play is frantic. At the same time, it kind of fits the culture in a weird way. I mean, it's a frantic culture, and people are instant messaged all the time. And so it's funny to think about how our real estate market sort of matches that pace. And also, I think we're probably at the forefront of, we don't really know it, but I think we're at the forefront of a changing way to sell houses. And, you know, everybody's trying to make it really easy, you know, to push a button and buy a house. But of the things that are difficult in selling a house is, you know, one of them is how much money am I going to get? But one of them's time. And we've really accelerated that ability to sell something and that's a positive thing for a seller, if you think about it. So I think that's part of the culture we're in and might encourage what we're doing. And that might be as significant as the obvious answer, which is supply and demand: there's not much supply, and there's a lot of demand.

### **Miranda**

And that demand is why homes go under contract just days after they are listed on the MLS, and with bidding wars that drive the price up by sometimes hundreds of thousands of dollars. That said, the time on MLS is actually a bit misleading in our market. Something truly unique in our market that we spend weeks and often months with our sellers, overseeing a whole host of everything from interior and exterior paint, fixing or replacing appliances, updating old kitchens and baths, and then staging with furniture and artwork for sale. To the tune of thousands of dollars. My feeling is this all developed to cater

because this culture is busy buyers in an expensive market. So, wanting to buy a home that's move-in ready because they don't have the time to deal with renovating, and not wanting to carry the hefty mortgage on a \$3 million house while it's being updated.

**Michael**

I think you're making a good point. I mean, you would think that we're prepping these houses to make them more attractive for sale. But I think where you're going is, we're doing what has to be done for these buyers to buy it. They don't have the time, they don't want to do it. And so we have to deliver a different set of product to these people than you might elsewhere. And that's becoming just more and more true. With construction costs and pricing of houses driving out labor, you know, and so more and more, it's becoming more important to set that up. And I don't think we're far away from you know, the staging furniture is being sold. I think there is a market for a toothbrush house, you know, literally dishes and the whole deal. I think there's a market for it.

**Miranda**

That's a really interesting concept. The fully-equipped home for the buyer who just doesn't have the time to do any of it. I'd imagine it would be particularly interesting for the executive relocating to Silicon Valley, maybe keeping their family home elsewhere.

**Michael**

Yeah.

**Miranda**

Let's talk a little bit about how you educate that buyer relocating to Silicon Valley. Safe to say they are coming from a market that is lower priced, or moves at a slower pace, or both. How do you educate them so they are ready for the right house when it comes along?

**Michael**

They have to get acclimated. And lots of times that does mean it's maybe better off that they rent something. What I tell my buyers is, I'm going to teach you what's going on, what value is, what neighborhoods are. And by the time you buy a house, you're going to feel like you don't even need me, because you're going to be so focused that you're going to know. You're going to be sitting on a neighborhood waiting for that house and when it comes up, you're going to know, that's my house, and you're going to know what it's worth. And that takes time here. And it's funny, it makes the real estate agent more important here than I think anywhere else, because you don't know what you're not seeing. And so if you think about lack of inventory is lack of knowledge. That's what it is for these buyers, they don't see enough to really make good decisions. And so they really need a good professional who can tell them, you just looked at three houses today, and they're all bad. None of those are

good. Without that they would buy the best of the bad ones. I tell people, you can't drop out of the sky and buy a house here. It's just not a good way to do it. Occasionally, we get lucky. And it's always funny when first house I show somebody I turn to him and say, you should buy this, I know you're not going to but you should. But that's very rare. It's really more of a hunt, and it takes time.

### **Miranda**

Actually, what you're talking about really speaks to the shifting role of real estate agents generally. MLS listings online and readily available. Buyers can set their own alerts and know about a new MLS listing as soon as we do. And a lot of these sites, Zillow and others also provide comprehensive information about walkability scores, neighborhood schools, demographics, and comparable sales. As you say, the value in the real estate agent is now more focused on educating about the market, in distilling all that raw data into meaningful insights about the house and the area. Beyond that though, there is a robust off-market world of properties that individual buyers need an agent to access. How do you see the opportunities for buyers there?

### **Michael**

Yeah, that's an interesting part of our business, too, is how much is sold that's not public. And there's a few things driving that. I mean, one is just hustle. Like, you know, real estate agents that are hustling for their clients, or the clients are hustling, trying to find something before everybody else sees it. So it creates this kind of jump-in-front market, where you're getting something that is going to be public, but you're getting it before it's public. The other part is privacy. And it's funny, because I've been saying that for a long time, but all of a sudden, it's in the news with Apple and Google and everybody's talking about privacy. And people are really uncomfortable with you know, sellers, you list your house and some guy in Singapore is looking at your bedroom, the next, you know, literally six seconds later. And then when the buyers get it there's a discomfort there as well. I mean, I remember being at a school event once and somebody said they just bought a house. And the woman next to him said, oh I love your master bedroom. And it was a little creepy. It's kind of like, I don't like that you were in my master bedroom. So there's an element of that that's going on too. And so those two things together mean that there's a lot happening that's not public. And so the data sources that people are looking at, they treat them like they're perfect, but they're not. And that's part of the problem. Again, I think this is something we're all learning. Facebook's not necessarily true, you know, what you read is not necessarily right. This estimate in Zillow is not necessarily you know, accurate. All that kind of stuff is being learned by this consumer set. And I bet in two or three years, everybody will just know that. But right now, I think people are making decisions on a bad set of data.

**Miranda**

Well, I think that's right. And in the meantime it's up to us to help them interpret the data in a meaningful and helpful way. All that to be continued... Mike, it's been great to explore these issues with you today. And I'm definitely curious to see where we end up when the dust settles.

**Michael**

It will be interesting to see where we are a year from now. It'll be very interesting to see how this all plays out. It's gonna be a fast and furious year, I think.

**Miranda**

Wonderful chatting with you Mike.

**Michael**

My pleasure.

**Miranda**

And thanks so much for listening to this episode of Whereabouts.

If you want to find out more about the Silicon Valley real estate market or to learn more about my co-host Michael Dreyfus, head to [whereabouts.dashpodcast.com](http://whereabouts.dashpodcast.com).

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