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Google Steps Into Housing

The Silicon Valley tech giant aims to buy 300 apartment units from modular-home startup

By LAURA KUSISTO

VALLEJO, Calif.—Soaring home prices and apartment rents in Silicon Valley have become a growing headache for technology titans. Google owner **Alphabet Inc.** is taking a step toward addressing the issue.

The Mountain View, Calif., company is finalizing an order to buy 300 apartment units from **Factory OS**, a modular-home startup, in a building likely to serve as short-term housing for Google employees, according to executives from both companies.

The expected value of the deal is \$25 million to \$30 million, according to Rick Holliday, founder and chief executive of **Factory OS**. It would be the first order for the company.

Modular-building technology, essentially factory-built homes that are pieced together on site, could help reduce the cost of construction in the Bay Area by 20% to 50%, experts said.

“Anything that can help us to move forward with a greater knowledge of how we can produce housing more effectively is something we’re interested in,” said John Igoe, director of design and con-

Up, Up and Away

Home-price index for the San Francisco metro area, including Silicon Valley



Note: Data is seasonally adjusted.
Source: S&P CoreLogic Case-Shiller
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struction at Google. “We absolutely are confident that it will work. Hopefully, it doesn’t become false bravado.”

To be sure, modular-building companies in places like California and New York have failed over the years, and the approval process can be just as difficult if not more so, because the technology is still developing. And so far, the cost savings haven’t been as big as developers have hoped, though experts predict costs will come down sharply as the industry evolves.

As Silicon Valley battles its severe housing shortage, tech companies are becoming more active in trying to help solve the problem. Facebook Inc. has pledged to plan and design

1,500 units in Menlo Park, of which 15% will be classified as affordable housing. The project is still in the early planning phase. A spokesman said the company is considering modular housing and is supportive of Mr. Holliday’s project.

In modular construction, also known as prefab, builders construct entire homes, apartment units or individual rooms in a factory and truck them to home sites, fitting them together like puzzle pieces. The process is quicker and usually cheaper than on-site construction, because companies can work through bad weather and bring more order to a job site.

“We won’t have much of a housing market if we don’t figure this out,” Mr. Holliday said.

Experts said one of the few ways to reduce housing costs would be to build apartment towers in factories. San Francisco rents have jumped by almost 50% since 2010, while home prices have increased 98% since the bottom of the market in 2009.

“We’ve reached a tipping point where costs are just so high that people are desperate to figure out a solution,” said Carol Galante, faculty director of the **Turner Center for Housing Innovation** and a former federal housing commissioner.

Mr. Holliday, who also is the owner of **Holliday Development**, a builder of affordable and market-rate housing in the Bay Area, said he became en-

amored of the idea after years of dealing with labor shortages, chaotic construction sites and difficulty finding workers.

The **Factory OS** facility in Vallejo is two to three times as big as most modular-construction facilities.

As a developer, Mr. Holliday can fill holes in the pipeline with his own projects. He is funded mostly by foundations, not venture capitalists, putting less pressure on him to maximize profits from the outset.

Mr. Holliday was introduced to modular construction when he pulled off the highway near Sacramento one day to tour the factory owned by a company named **Zeta**.

Zeta, founded in 2008, generated buzz in the Bay Area with a handful of successful pilots, when it installed the modules for a four-story building in four days—although it took about five months in total from the start of the project to finish. It would have taken at least nine months using normal construction methods, according to Co-Founder and Chief Executive **Naomi Porat**.

But Ms. Porat acknowledged the company faced numerous challenges, including venture-capital backers who expected a quick return and difficulty establishing a steady pipeline of work.

“The pioneers are not always going to be the last standing,” she said. “I believe that off-site construction is the method of the future.”