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Tech Boom Hits San Francisco Rental Prices

Prices Soar as Well-Paid Tech Workers Stream Into City After a Long Exodus

Article

Video

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SAN FRANCISCO—The latest technology boom is helping to stem a decadelong exodus of residents from San Francisco, but the influx of well-paid workers is driving up already-high housing costs and straining public resources.



The latest technology boom is helping to stem a decadelong exodus of residents from San Francisco, but the influx of well-paid workers is driving up already-high housing costs. Shira Ovide has details on Lunch Break. Photo: Michael Mullady for the Wall Street Journal.

\$3,500 a month before they landed a two-bedroom apartment. "A lot of people want to live here and are willing and able to pay incredibly high prices" to do so, Ms. Sheehan said.



Michael Mullady for The Wall Street Journal

Ian Schugel, outside his new building, moved to San Francisco from New York City and says he found the market 'more cutthroat' than Manhattan.

The promise and perils of the boom are evident in the experience of Genevieve Sheehan and her husband, who are relocating from the Boston area for her new job at social-games maker Zynga Inc. They have endured a grinding hunt for a home.

Ms. Sheehan, a 29-year-old recent Harvard Business School graduate, said open houses were "a zoo." The couple was forced to boost their rental budget 40% to

New Yorker Ian Schugel said finding a rental home in San Francisco is "so much more cutthroat" than in Manhattan, from which the 28-year-old and his partner are relocating. After one open house in South of Market, a neighborhood popular with tech firms and workers, they called 20 minutes later to find that the one-bedroom, listed at \$3,100 a month, had been snapped up.

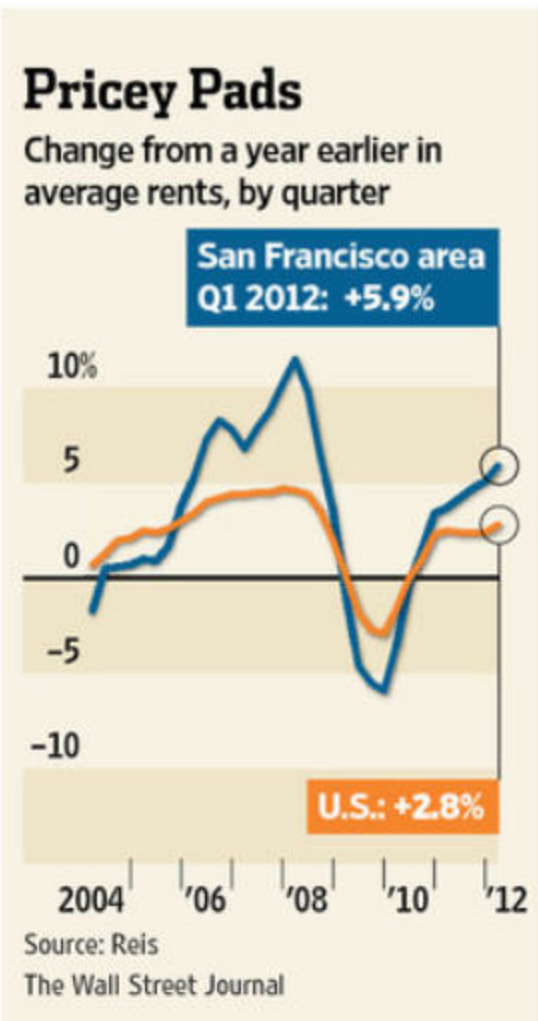
The new migration follows a long period in which San Francisco lost residents to

states such as Arizona and Nevada, which offered jobs, cheaper housing and warmer weather. During the decade that ended in 2010, an average of 9,000 people a year left San Francisco for other parts of the U.S., according to California's Department of Finance. The city of roughly 800,000 continued to grow due to immigration from abroad. But in the fiscal year ended last June 30, net domestic outflow fell to 3,400 people, the best performance since fiscal 2000.

While there are no migration data for late 2011 or this year, employers and economists say the renewal of San Francisco's tech scene is luring many workers from elsewhere. Local tech companies including Zynga and Twitter Inc. have expanded in San Francisco, and many techies who work at Facebook Inc., Google Inc. and Apple Inc., in Silicon Valley to the south, are opting to live in the city, too.

In April, the city's unemployment rate was 7.4%, down from 8.4% a year earlier. That compares with 8.1% for the nation, down from 9% a year earlier, according to the Bureau of Labor Statistics.

Livefyre Inc., a San Francisco start-up working on online-commenting technology, said it has hired about a quarter of its 45 employees from outside the Bay Area. "We're seeing more and more talent gravitating towards San Francisco, particularly in our engineering group, where we look across the country to recruit top talent," said Jordan Kretchmer, Livefyre's founder and chief executive.



The city's renewed popularity comes with problems. The average number of weekday riders on the Caltrain commuter line connecting San Francisco with Silicon Valley rose 12.7% in April from a year earlier, despite fare increases. "We're bursting at the seams," said Christine Dunn, a spokeswoman for Caltrain, which plans to add six trains to the service. In South of Market, the burgeoning pedestrian population is raising concerns about people getting hit by cars, said the city, which is weighing stronger traffic-control measures.

Economists and real-estate experts say San Francisco, with its tight supply of apartments and strict limits on the construction of new developments, can't keep up with the flood of techies streaming in. The result, beyond happy landlords, is soaring costs and a chaotic scrum for rentals.

The San Francisco area, which real-estate research firm Reis Inc. defines as the city plus Marin and San Mateo counties, had the nation's fastest-rising costs to rent a home in the first three months of this year. The average monthly rent hit \$1,888, up 5.9% from a year earlier, the biggest jump of all U.S. metropolitan areas tracked by Reis. The rise nationwide was 2.8%.

The second-fastest-growing market was an area of Silicon Valley anchored by San Jose, where rents jumped 4.9% over the same period. The average rental cost remains about 20% lower in the San Jose area than in the San Francisco area—the country's second-most-expensive rental market behind New York City, according to the Reis data.

Donovan McKendrick, owner of San Francisco property-management company DMcK Properties, said that earlier this year he raised the rent on a two-bedroom, 600-square-foot apartment in the Mission neighborhood by 40% to \$2,800 a month.

"As long as we do basic renovations such as new paint and maybe cleaning up the appliances or installing new ones, we get 30% to 40% uplift in rent on the same unit," he said.

Gentrification is raising alarms among advocates for renters with low to moderate incomes. Some are being pushed out to cities up to 100 miles from San Francisco in search of affordable homes, advocates say.

"People have a lot of money and are willing to do whatever it takes to land a spot," said Ryan Paredes, a 26-year-old student at San Francisco State University who on a recent apartment hunt found himself contending with doctors and other professionals. "I can't compete with that."

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