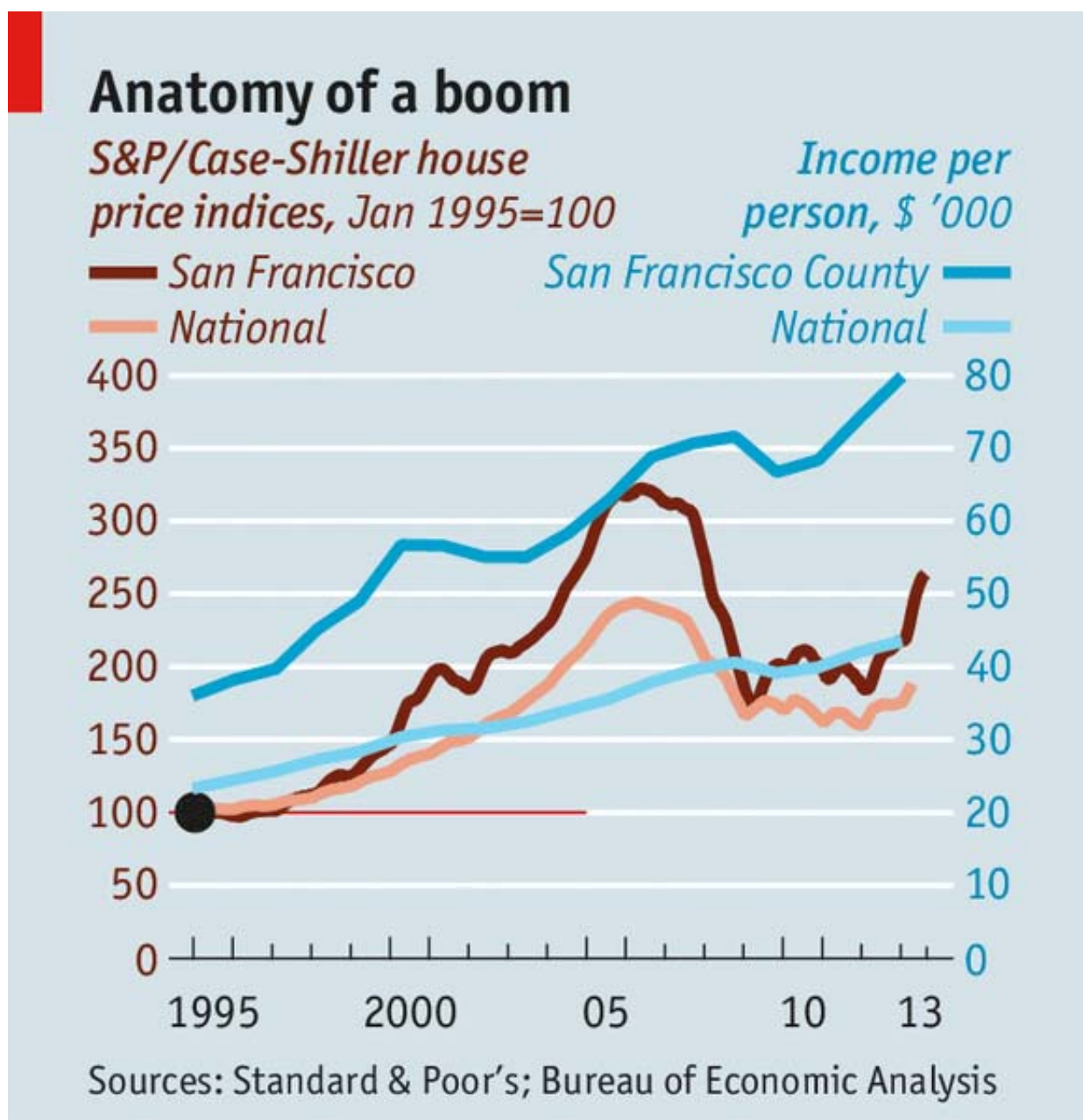


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San Francisco Growing pains

California's new technological heartland is struggling with its success

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GLANCING at his phone a few years ago, Marty Castleberg noticed that he had dialled 911

more than almost any other number. Little wonder; he lived in San Francisco's crime-ridden mid-Market area. His apartment block, a former office complex, had accepted tenants since the tech boom of the late 1990s. It did not meet the city's strict residential codes (not enough windows), but Mr Castleberg could live in the city centre for a pittance.

He was a pioneer of sorts. In 2011, with Twitter threatening to decamp to Silicon Valley, Edwin Lee, San Francisco's mayor, pushed through a payroll-tax holiday for companies in mid-Market. Twitter and 16 others moved in, bringing thousands of jobs. Boarded-up shopfronts and vacant lots made way for the likes of Zendesk, a customer-service software firm with 350 staff toiling away inside bright, airy offices. Mikkel Svane, Zendesk's hirsute boss, talks glowingly of his partnership with the city.

But Mr Castleberg has moved out. In September he and 60 of his fellow residents were served with eviction notices, because (they say) the landlord wants to replace them with more lucrative commercial tenants. Similar stories are playing out across the city, thanks to a shift in the Bay Area's economic geography. The technological heart of California has traditionally been Silicon Valley, the cluster of towns to San Francisco's south-east. But while thousands of San Franciscans commute to jobs in Palo Alto and Mountain View, many of them on private so-called "Google buses", a growing number stay in the city. Employment in San Francisco's technology sector has risen by 25% in the last two years, and now accounts for 8% of city jobs.

Unemployment in San Francisco is now an enviable 5.3%. But the flip side of this success is a crisis of affordability. The median rent for a two-bedroom apartment is now \$3,250, the highest in the country; the median house sells for \$850,000. That is a lot, even for the city's high earners (see chart). The National Association of Homebuilders, which compares prices to earnings, ranks San Francisco's housing the most unaffordable in America.



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Add in a mercilessly complex system of tenant protections, and you get a combustible mix. Almost two-thirds of San Franciscans rent, and most of their properties are subject to rent-control laws that limit annual rises to 60% of the local inflation rate under a continuous

tenancy. That is good news for longtime residents paying tiny rents to live in very nice places; less so for newcomers, who must contend with market rates. But it also creates incentives for landlords to get rid of tenants, or for speculators to buy apartment buildings to do the same. Evictions are multiplying. “I’ve never seen the anxiety level around housing this high,” says Scott Wiener, one of San Francisco’s board of supervisors.

Many middle-income households leave, often moving across the Bay Bridge to Oakland, inflating prices there. (One East Bay estate agent recently described the housing market as “out of control in a really good way.”) This contributes to a hollowing-out of San Francisco: the fastest-growing income bands are the poor, a disproportionate number of whom are black and Latino, and the rich. The city is greying, too; a quarter of the population is over 55. Some areas are virtually childless.

If you build it, they will come

Plenty of American cities are agonising about gentrification. Gavin Newsom, mayor between 2004 and 2011, says he cannot recall a year when San Francisco was not having this debate. But tensions have grown uncomfortably high in recent months. Another former mayor wrote of “a war brewing on the streets”. Hundreds protested outside Twitter’s office on the day of its flotation last month. The eviction of an elderly Chinese couple with a disabled daughter spurred Mr Lee to call on state legislators to grant San Francisco powers to make evictions more difficult.

But even more tweaks to housing law will not fix San Francisco’s problems. Indeed, after decades of failed housing policy there is probably no solution, at least in the short term. Thanks to restrictive zoning laws, a Byzantine permit process and a pathological culture of NIMBYism, San Francisco has dismally failed to meet demand for housing. John Rahaim, the city’s planning director, says his department reviews about 2,000 projects a year; New York, with ten times the population, handles 500. After the first filing it takes almost four years for the average residential project in San Francisco to be completed.

Homebuilding is speeding up, as a glance at the skyline shows; more than 6,000 units are under construction and tens of thousands more are planned. Yet the shortfall is such that even this (highly controversial) building bump may not seriously dent prices. Gabriel Metcalf of SPUR, an urban-policy think-tank, thinks the city needs to build 5,000 units a year for a good while. (Other Bay Area cities, he adds, such as Palo Alto, must also step up.)

In the meantime San Francisco has cultural wars to wage along the economic ones. Some old-timers fear the influx of hoodie-sporting geeks means a loss of *n oblesse oblige*; the only civic events you see techies at are those organised by tech firms, grumbles one. Others say that this

lot are far more engaged in the life of the city than the IPO-crazed bunch of the late 1990s. Civic initiatives that connect IT workers with city government are showing signs of life.

Most locals insist that these newcomers are just as welcome as their many predecessors over the decades. Yet too often this professed embrace of change conceals a fearful conservatism. San Franciscans may hold out their arms to the world, but many do so standing athwart their single-family homes and yelling “Stop!”

Most cities would love San Francisco’s problems. Last year it grew quicker than any comparable area in the United States, and not only because of technology: every employment sector outpaced the national average. This boom appears to have substance. “We need to keep a careful eye on things,” says Ted Egan, the city’s chief economist. “But there are plenty of companies here that could survive a crash.”

The more sustainable the growth, though, the more substantial the challenges. House-price rises may be slowing, a bit, but the music plays on: *Emerging Trends in Real Estate*, an industry guide, recently declared San Francisco its top market for 2014. Unlike an adolescent, San Francisco will not grow out of its pains for some time.

From the print edition: United States