

Vexed in the city: If you're moving to San Francisco, bring cash. Lots of cash

Most cities would die for the problems San Francisco is having. But with so many techies flooding the city, the cost of renting or buying a place to live is soaring.

by **Shara Tibken** @sharatibken / August 20, 2014 4:00 AM PDT

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Protesters march on the house of Jack Halprin, a Google lawyer, in April after he purchased a multi-family house and moved to evict his tenants.

Robert Nickelsberg/Getty Images

*This story is part of a **CNET special report** that examines the controversy gripping San Francisco as a massive influx of techies feeds an unprecedented economic boom -- and backlash.*

SAN FRANCISCO -- Two years and 18 bids after they first tried to find a place to live in San Francisco, Julia Knittel and her fiancé Rasheq Zarif finally nabbed an apartment.

The couple, New York transplants, started scouring the city in 2012 for a place to buy that met their needs -- at least two bedrooms, sunny, close to a park, and not in a high rise. About eight months after starting the search, they found the perfect apartment in February 2013. But the couple lost out to a higher bidder.

The same thing happened again. And again. And again.

"There were times through that process we were like, 'What are we doing wrong?'" said Knittel, a 39-year-old marketing director. "Are we asking for too much? Can we get what we want with the money we have, or is it just never ever going to be possible?"

Knittel and Zarif aren't alone in their house-hunting struggles.

San Francisco – a city of about 47 square miles nestled next to the famous Golden Gate Bridge – is experiencing its worst housing crunch ever. While some US regions are still recovering from the late-2000s housing crash, San Francisco bounced back strongly. Home sales and rental prices have topped their prior peak from 2005 and 2006 -- and continue to rise. The number of vacant rentals totaled only 3 percent in the second quarter, according to real estate research firm Reis, and it's nearly impossible to buy a home if you don't have hundreds of thousands of dollars in the bank.



Vexed in the city: CNET looks at how San Francisco is dealing with its tech boom.

James Martin/CNET

"Homes are more expensive than they've ever been in San Francisco right now," said Svenja Gudell, director of economic research at Zillow, a company that tracks the real-estate market and provides housing listings. "If you just moved to the area and work for Google or Apple, you get a nice salary and can afford a nicer house." But even those techies are losing out in the bidding wars, she adds.

The median purchase price for a home in San Francisco today is nearly \$1 million, according to Zillow, while the median rent is about \$3,600. That made San Francisco the most expensive home sales market out of the 500 biggest cities in the country in June – and the second most expensive rental market after Santa Monica, Calif.

In fact, the Bay Area played host to four of the top five priciest home sales markets in the nation (including San Francisco, Redwood City, Mountain View, and Sunnyvale) and three of the top five most expensive rental markets (including San Francisco, San Mateo, and Sunnyvale), Zillow said.

The housing crisis has led to evictions and protests, with Silicon Valley taking most of the blame -- though it's not entirely deserved. Companies such as Apple and Google have hired hundreds of new employees in the past several years, but the number of new apartments in the Bay Area hasn't kept up. Sleek, double-decker commuter buses shuttle tech employees to their offices for free, allowing people to live 30 miles or more away from work. (For the record, home prices in Silicon Valley are also expensive, with houses in cities around Apple and Google starting at \$1 million, as well.)

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Julia Knittel, a 39-year-old marketing director who recently searched for an apartment in San Francisco

Many people are living in San Francisco instead of near their company's headquarters in Cupertino or Mountain View -- because they choose to do so and have the cash to get what they want.

"Everybody wants to live here," said Dan McLean, a realtor from Coldwell Banker with 14 years of experience in the San Francisco housing market. "All the young techie people want to be where they can walk to a coffee shop, walk to get a sandwich, and they have a lot of money."

Newly minted tech millionaires

Twitter's IPO in November created an estimated 1,600 new millionaires, according to financial data provider PrivCo, with many living and working in San Francisco. And **Facebook's debut in May 2012** reportedly made 3,200 new millionaires, PrivCo said.

Then there are all the startups, including Uber and Airbnb, that are flush with venture capital money and choose to base their headquarters in the city instead of Silicon Valley, which is located about 30 miles to the south. What many of those tech workers do with their newfound cash is purchase homes or rent pricey apartments near their commuter bus stops.

Facebook and Twitter declined to comment.

Facebook CEO Mark Zuckerberg, who became a multi-billionaire from his Menlo Park-based company's IPO, **paid \$30 million last year to buy four of his neighbors' homes** in Palo Alto. He had purchased a five-bedroom house in the Crescent Park neighborhood for \$7 million in 2011 and reportedly wanted to have control over who moved in next door.

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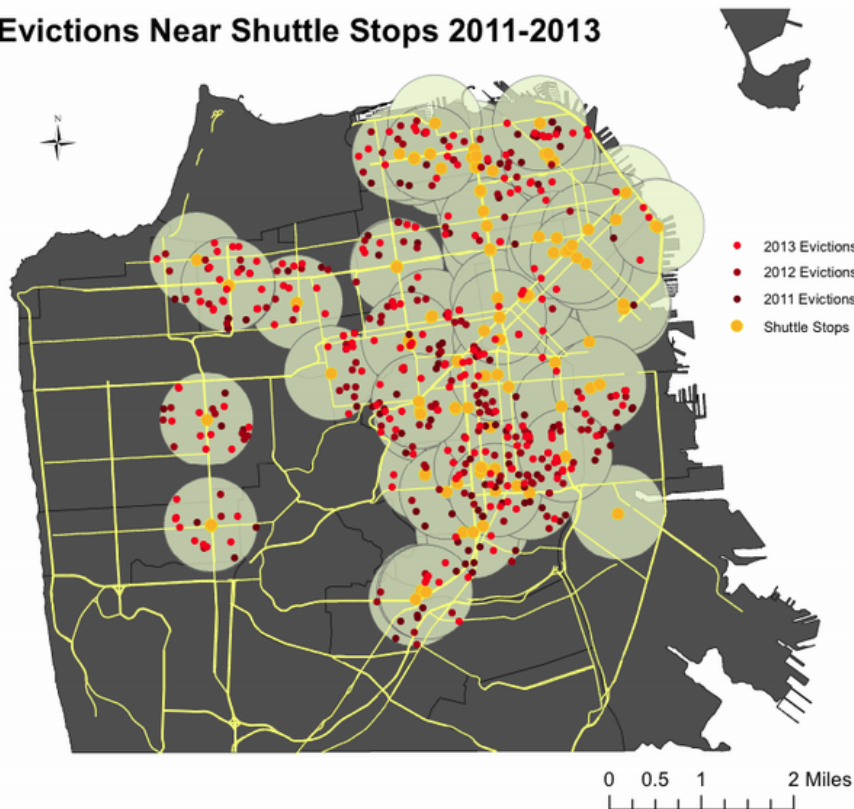


Zuckerberg also owns a home near San Francisco's Mission District, a former working-class Hispanic area that has become popular with tech workers.

It's there in the Mission that tech commuter buses have attracted some of the tenant protests raging across the city. Many view the free shuttles as the reason

why housing prices are jumping -- highly paid tech workers can live in San Francisco but work in Silicon Valley. The University of California, Berkeley, discovered there's some truth to the protesters' claims. A study by the school found 40 percent of tech bus commuters said they'd move closer to their jobs if their free shuttles were discontinued. And 10 percent said they'd quit their jobs if the shuttles were canceled.

Evictions Near Shuttle Stops 2011-2013



The Anti-Eviction Mapping Project found 69 percent of no-fault evictions from 2011 to the end of 2013 were within four blocks of tech commuter bus stops.

Anti-Eviction Mapping Project

In addition, data collected by the **Anti-Eviction Mapping Project** show that between 2011 and the end of 2013, 69 percent of no-fault evictions were within four blocks of tech commuter bus stops. Rental prices in 2012 went up at least 20 percent within half a mile radius of the private bus stops, the group added.

An 18-month pilot program, **which launched earlier this month**, allows shuttle buses run by companies such as Google and Facebook to use San Francisco bus stops. The companies will pay the city at least \$3.55 every time they pick up or drop off passengers at more than 100 locations throughout the city. The San Francisco Municipal Transportation Agency estimates there are **35,000 daily trips made on the shuttles**, and the funds raised will help maintain the stops.

But critics say the amount determined by the SFMTA didn't take into account how the tech buses are affecting housing prices.

"This is the city's means of addressing the impact the tech buses are having," said Erin McElroy, a 31-year-old self-taught coder and activist who runs the Anti-Eviction Mapping Project. "But we find this a ridiculous solution because the city failed to look at any correlation between housing and transportation in establishing what tech and tech buses owe the city to mitigate their damages."

Mission control

In the Mission, where some of the biggest changes are appearing and some of the most vocal protests are being heard, gentrification is happening at a rapid pace, forcing many long-time Latino and low-income residents to leave.

The Mission has seen the highest number of evictions using the Ellis Act, a California law that lets landlords evict rent-controlled tenants if they're planning to take their rental properties off the market. With booming prices, some landlords have used the Ellis Act to evict tenants and then sell the apartment units. **According to an October report** from the San Francisco Budget and Legislative Analyst office, the number of Ellis Act convictions nearly tripled from 2010 to 2013. In total, evictions in San Francisco rose 38 percent during that period, the report said.



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Legislation proposed by California State Senator Mark Leno, Senate Bill 1439, would have required new property owners to wait five years before using the Ellis Act to evict tenants. The bill passed a Senate vote in late May but was killed in its first committee hearing in the assembly in mid June. Leno said the Ellis Act is being abused by speculators who resell properties for a profit and that many of the displaced tenants are senior citizens, disabled, or low-income.

"This local control bill would have given San Francisco the opportunity it needs to stop the bleeding and save the unique fabric of our city," Leno said in a statement.

One target of eviction protestors: Google attorney Jack Halprin. After purchasing a seven-unit, 107-year-old Victorian on Guerrero Street in the Mission two years ago for \$1.48 million, Halprin sent Ellis Act eviction notices to six tenants in February. The tenants include two teachers, a small child, an artist, and a disabled senior, **according to San Francisco blog Mission Local**. One of the tenants, elementary schoolteacher Claudia Tirado, even **interrupted the keynote at Google's developer conference** in June. She held a sign that said, "Develop a conscience. Stop Jack Halprin from evicting SF teachers."

Halprin didn't respond to CNET's requests for comment.

Low inventory

These days, potential San Francisco home buyers need to have down payments of at least 20 percent. That is, if they're not paying for the home outright with cash, says Tania Seabock, a realtor with Bradley Real Estate. Roughly a third of all home sales in San Francisco are all-cash, according to Zillow, and "for the past two years, everything has been going for more than the list price," Seabock said.

Knittel and Zarif, the couple who apartment-hunted for two years, lost about half of their bids to people paying cash and who forked over well more than the asking prices. But their 18th offer on an apartment turned out to be the winning one. The

couple in July finally outbid other applicants on a three-bedroom apartment in the Buena Vista Park area by offering about 16 percent over the listing price.

"We were getting really worn out," Knittel said. "[But] now it's almost like 'who cares that we searched for so long?' It's like having a baby."



This three bedroom, 1.25 bathroom home on 26th Ave in the Richmond district sold for \$1.4 million in cash in May.

Screenshot by James Martin/CNET

Tech workers are facing most of the ire for rising home prices, but they're not the only ones to blame. Realtors say all-cash purchases are also being made by trust fund babies, Asian investors (the low value of the dollar relative to foreign currencies is attracting overseas buyers), and real estate owners who sell a previous building and immediately buy another for tax purposes.

Also to blame is the low number of new housing units being built in the city. San Francisco has strict height laws and a tough permit process. And more than four-fifths of housing is occupied by owners or **rent controlled**, some **reports say**.

Developers added only 1,680 new units to San Francisco's housing stock in 2013, **according to a report** from the San Francisco Planning Department. At the same time, the population of San Francisco increased by about 10,000, **according to census estimates**.

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As of the second quarter, plans were **under way for 49,200 new housing units** to be built in the city, but about half of those units -- coming to Parkmerced, Treasure Island, and the Bayview Waterfront -- won't be ready for decades. Only about 20 percent of the projects, or 4,600 housing units, are currently under construction,

the Planning Department said.

For that reason, some tech companies are choosing to opt out of the Silicon Valley tech scene and set up shop in less expensive, tech friendlier locales including Detroit and Austin, Texas.

Real-estate experts say the housing crisis can't go on forever. But it's also unclear what might turn things around, barring a major earthquake, tech bust, or stock market crash. That's not something anyone wants to see.

"Most cities would die for the problems that San Francisco is having," said Dave Goldberg, CEO of SurveyMonkey, a cloud-based survey development company. Survey Monkey just opened new headquarters in Palo Alto, near the train line that runs between San Francisco and San Jose to accommodate commuters. "I'm not saying they're not real problems, but be careful what you wish for. The only thing worse than having too many tech people buying real estate is not having anyone buying it."