



THE BIG POND

A US-GERMAN LISTENING SERIES

Exploding Rents in San Francisco and in Berlin

by Martina Groß

Demonstration speaker: Good morning everyone. Good morning...today I am proud to introduce legislation with my co-sponsors, supervisors Preston and Ronin, that will close a major loophole...

Martina Groß: I have been coming to San Francisco since 1991. I have friends in town who put me up at their place. For the past years, I have been coming here to do research for my radio programs. Since the financial crisis hit in 2008, rents have exploded. By now San Francisco has overtaken New York as the most expensive city in the United States. Even in Berlin where I come from, the issue of affordable housing is a heatedly discussed topic. Basically, the situation is the same, if you disregard the actual amount of rent you pay. Ultimately, there is not enough affordable housing to maintain a social mix, especially downtown.

Brad Hirn: What we are seeing in San Francisco or across the state of California is a very deep housing crisis affecting poor, working-class, and middle-class people.

Martina Groß: Brad Hirn heads the team of San Francisco's Housing Rights Committee. Almost sixty percent of San Franciscans are tenants. But many are worried: "Will I be able to afford my apartment in the future?" Friends have moved away because they could not pay their rising rent. Many older people have to choose between paying their rent or paying their health costs. Should you lose your apartment, it is almost impossible to find a new affordable place with a middle or low income.

Brad Hirn: In San Francisco we have one of the strongest rent-control laws by the standards of the United States and California in particular. But we have an extremely well organized and well-funded real estate lobby, both in the state of California and in San Francisco. And we are seeing the loss of our rent-controlled housing. We are seeing tenants facing rent increases that they thought were not possible under rent control. And we are seeing speculators and predatory landlords buy up dozens, hundreds of buildings, rent-controlled buildings, in order to raise those rents and effectively flip the building from affordable to unaffordable.

Demonstration speaker (in San Francisco): What do we want? Affordable rent...

Martina Groß: My friends have lived in their flat forever, so, their rent is low. They don't want to be interviewed for this program. Therefore, I will tell their story. Visiting them in the spring of 2018, their building had just been bought by one of San Francisco's largest real estate companies. Their idea of business is to purchase rent-controlled buildings from "mom and pop owners" in trendy neighborhoods. Meanwhile, they probably own about 200 buildings with more than 5,000 apartments.

Brad Hirn: As they describe themselves, they are a vertically integrated company, so they have their own property management company, their own leasing agency, it is all one corporation. But really, they are driven by investors. They have large institutional investors including a large pension fund and a very public-sector union. Which we are hoping to kind of leverage at some point.

Martina Groß: Life has changed in my friend's building since the sale. Before, the janitor lived on premises. If there were problems with the apartment, they could be mended quickly and unbureaucratically. Now, however, there are a brand-new washing machine and a dryer in the basement, but if they are broken, you'll have to make numerous phone calls before some company comes and fixes them. If at all. When the heating broke down, it was months before it got repaired. Still, the rent kept rising. Moderately, but still. No one knows how things will develop. There is insecurity. But resistance against such speculative real estate business models is on the rise. Tenants, residents of San Francisco, and politicians have taken to the streets.

Sandra Lee Fewer (speaking at demonstration in San Francisco): They are increasing the base rent by up to 7 per cent on top of the large annual rental increase. They are allowed to do this because San Francisco is one of the only rent-controlled cities in California that still allows debt service and property taxes to be passed on to tenants...

Martina Groß: San Francisco in April 2018 at the corner of Powell and Pine Street. Supervisor Sandra Lee Fewer talks at a press conference to a motley crowd of tenants. For many, this is the first demonstration of their life. They are exchanging stories about their mutual landlords.

Interviewee: My rent has gone up 50 percent. On a rent-controlled apartment. In just three years. ... I think it was 2013...

Martina Groß: The real estate company they are protesting here is representative for a business model that considers the need for a place to live as a means to create profit. A tenant holds up a poster declaring "Protect tenants of rent controlled apartments".

Demonstration speaker (in Berlin): Vielen Dank, dass ihr euch an einem Freitag Vormittag hier raus in diese schöne Gegend begeben habt...

Martina Groß: San Francisco is not the only place where tenants are taking to the streets. On April 14, 2018, 25,000 people in Berlin protested against rent growth and the conversion of apartments into condominiums. Barely a month later, tenants and media representatives gathered in front of the headquarters of *Deutsche Wohnen*, a real estate company owning 110,000 units in Berlin. Just like in San Francisco, the group of protesters was mixed: young people, middle-aged people, and a lot of older people.

Demonstration attendee 1 (in Berlin): Überall. Nach vierzig Jahren sollen wir raus...

Martina Groß: The woman says she is in her early 60s and is now beginning to fight for her rights as a tenant. She lives in a middle-class district of Berlin. Her apartment is about to be sold and converted into a condo.

Demonstration attendee 2 (in Berlin): Ich wohne in Steglitz und das soll jetzt alles umgewandelt werden in Eigentumswohnungen...

Martina Groß: To understand Berlin's housing crisis, you have to go back to the nineties. After a banking scandal, the city was heavily in debt and sold public property for peanuts: almost 200,000 apartments, formerly owned by municipal and public housing companies. By now all of those who were involved in the sale have realized that that was a big mistake. At the Berlin Senate for housing and urban development I meet with the state secretary, Sebastian Scheel.

Sebastian Scheel: Berlin was a sleeping metropolis. For many years, we were privileged as our rents were really low, simply because there was enough space available. But as lots of people started moving to Berlin the situation changed, and now there is a housing shortage.

Martina Groß: There are 350,000 apartments left that belong to municipal housing companies. That might sound like a lot, but Berlin's population has increased to 3.7 million. In the past seven years, an annual average of 40,000 people have moved into the city. Entire small towns. Politicians were late to react. There will be not a fast solution as Thies Grothe from the central housing committee is convinced.

Thies Grothe: This problem has existed for quite some time, but we have not yet found an ideal answer. Our organization is trying to come up with a fair solution. On the one hand we represent our members' interests – in other words, a healthy turnover, and because of their company structure they need to make a profit. But on the other hand we have a responsibility we owe to society, so rents will not increase to an exorbitant level, which unfortunately does happen de facto, though I believe only in some cases which then catch the public's attention and are effectively used by many in the media.

Demonstration attendee 3 (in Berlin): It happens all over the world: London, Paris have been through it. In every small place, it's just pure capitalism. The same kind of speculation that takes place in the food industry also happens in real estate. This bubble will burst, too.

Martina Groß: The protesters in Berlin fear that they'll no longer be able to pay for their apartments. But they are also enraged that it is legal to speculate with such essentials as housing. Still, things here in Berlin have not yet gone as far as in London, Paris, or San Francisco. And everyone agrees that it will not come to that. Of course, construction is as ubiquitous in Berlin as it is in San Francisco: cranes everywhere, vacant lots being filled, and new quarters arising.

Sebastian Scheel: Of course, in the first years the construction of new housing was mostly in the hands of private investors and therefore did not result in rents that were

affordable for the people of Berlin. We have little industry and workplaces with decent wages, and so people could not afford those rents. So many Berliners had the impression that those new apartments were built not for them or their children. And that was an issue. Or our current problem is that because we are not building enough affordable housing, the government developed a housing program in which we set targets for construction, mainly to be carried out by public housing companies, 30,000 units by 2021, another 60,000 by 2026. And we are buying up more apartments in order to increase the percentage of municipal units....

Demonstration attendee (in San Francisco): In Berlin ist es ähnlich aber hier...es gibt viel mehr Geld hier...

Martina Groß: A 215 square feet flat, just renovated, is now being offered online for 2,000 dollars. 710 square feet can be had for almost \$4,500. The lease is limited to one year. They are still rent-controlled but on a much higher level. Other ways to increase the rent are luxury renovations or by increasing the service and maintenance costs. This applies mainly to two real estate companies as Sandra Fewer explains.

Sandra Lee Fewer: Just two investment companies have filed almost half of all the operating and maintenance petitions currently in the pipeline at the rent board. It is time for San Francisco to join cities like Oakland and San Jose and ban those speculative tactics. It is time to put people before profit. Thank you.

Martina Groß: The business model with the aim of maximizing profits will only work if a high percentage of the current tenants paying low rents move out. Once the apartment is empty, the landlord can charge what the market will give. This is aimed at the young, mobile, affluent staff of large companies such as Google, Twitter, Facebook, et al.

Angulo Sunny: You have to look at real estate as a big industry now. And I think San Francisco used to be a place where the majority of the property owners were small, you know, family-owned buildings...I am not saying that all property owners and all companies are speculative or speculators, but it is an industry and you, I understand that this is the way that they are looking at this business model.

Martina Groß: At the office of supervisor Aaron Peskin I meet with his coworker Angulo Sunny. Just like Sandra Lee Fewer, Peskin is reviewing housing laws trying to find loopholes in the regulations that will allow rents of rent-controlled apartments to be raised.

Angulo Sunny: Here in San Francisco, we are one of the last local jurisdictions that allows debt services, what's called debt service, in other words, to be passed through to tenants by property owners. So what happens is that investors at the outset of the purchase of a property, makes certain assumptions about their market returns, their kind of returns on their investment that they expect to make. They take out loans and to pay off the mortgage for these properties, and then they, legally, for a very long time, have been allowed to pass those through to tenants in the building.

[Singing at demonstration in Berlin]

Martina Groß: There are still plenty of exceptions despite the rent index which was designed as an instrument to ease the situation and to provide tenants and landlords alike with replicable information on the level of rents. The leeway for cities to intervene is limited. Housing law is federal law. Just like in San Francisco, landlords were entitled to charge for luxury renovation or furnished flats as much as the market would provide. Efforts such as the halfhearted attempt to limit rent growth did not provide the results hoped for: a slower increase in rents.

Sebastian Scheel: We are concerned, not only concerned but we have implemented instruments, increasing the number of so-called protected neighborhoods: Those are areas with a mix of people from different backgrounds that is worth preserving, and where we can influence the extent of gentrification. In other words, we can avoid luxury renovations or balconies being added and therefore make sure that the rents are somewhat stable, because the aim of the preservation statute is to maintain the social structure of the population. We have, however, noticed that the creativity of the real estate business knows no bounds, so we will become tougher and also fix rents in some cases.

Martina Groß: By now, 52 areas have been confirmed as protected neighborhoods and comprises 850,000 people according to Sebastian Scheel. Another option provided for in the protected-neighborhood statute is district's or the city's right of first purchase when buildings are up for sale. This is called re-communalizing. The buildings will then become part of the stock of municipal housing companies. Berlin's budget includes funds for such purchases. But the real issue of neighborhood protection is an "avoidance agreement" in which the purchasers agree to...

Sebastian Scheel: Not to terminate leases for personal use, to carry out only moderate modernization measures and other issues and if they do sign the agreement, then there is no need for us to claim our right of first purchase. Our goal is to come to an agreement with our purchasers. However, if it becomes clear that they are not willing to co-operate, then we have the instrument of the right of first purchase, and we will use it.

Martina Groß: There are funds and cheap loans available in San Francisco as well, which the city may grant for the maintenance and improvement for buildings in need of renovation. But big real estate companies are not asking for them. At the moment there is cheap money to be had. So, it's the "Mom and Pop owners" and non-profit organizations who apply for municipal loans and will be supported by the city financially. This is supposed to ensure affordable housing and preserve a social mix of people. One of the many non-profit organizations in San Francisco is the *Community Land Trust*. I meet Megan Svoboda, who explains to me, "we should have started saving the buildings from speculation 40 years ago - before the prices skyrocketed." Now they have to buy the buildings at market prices.

Megan Svoboda: We primarily work with buildings that are 2 to 25 units. So, that's kind of the range that we work in. And if a group of tenants wanted to work with the *Land Trust*, for us to purchase their building, the first thing they would do is start to organize internally. We are a really small non-profit, we are a small team at the *Land Trust*, and we require that people are organized and able to really do a fair amount of work themselves. We do all this sort of actual sort of technical things, of like working with the owners, and working with the real estate agents, and working with the banks

and all those things. But often times in order to get to those places, it requires some pressure, and it requires pressure from community groups, it requires pressure from well organized tenants.

Martina Groß: To transfer a building to the Community Land Trust, tenants do not need extra money. At least not as a rule.

Megan Svoboda: We don't need to take any money from tenants. Some of our buildings, tenants have put in money. We have one limited-equity co-op, where residents invested money in it. And we have another building that tenants, that was like really expensive and tenants raised some money to sort of help fill a gap. But those are just two of our 13 buildings, and then the other twelve, the tenants haven't had to put any money outside of their regularly monthly payments.

Martina Groß: The tenants of the *Community Land Trust* are of diverse ethnic and social backgrounds. There are Filipino families, an apartment block in Chinatown, a house for homeless men who are HIV-positive or a cooperative of artists. However, 13 buildings are not a lot. But perhaps a model for my friends? I tell them about it. They are interested. But not quite ready yet. My next stop is at SPUR, the *San Francisco Bay Area Planning and Urban Research Association*, a think-tank for urban development with offices on Mission Street. The members are architects, urban planners, property owners, and interested citizens. Kirsty Wang heads the planning commission at SPUR.

Kirsty Young: And I would say the underlying solution that we think is important is to keep growing, so we need to approve more housing, we need to build more housing for all income levels. So that rents will stabilize at some point. But that's not a very fast solution. Because it takes time. It's a sad thing to say, but we will be worse off, if we don't keep building housing. But we also need to do other things right now, including looking at, how do we invest more money in affordable housing, which is also a slow process, because getting affordable housing that is subsidized also takes time. But some of that is preserving existing apartments, trying to acquire them, have non-profits acquire them and rent them at lower rates.

Martina Groß: There are several projects in town where affordable housing is under construction. But that is not enough, and it doesn't solve the problem of long-term tenants who fear they won't be able to pay for their apartments because of rent increases. Kirsty Wang and SPUR are skeptical about calling for more and stricter regulations of the housing market and especially about the re-introduction of rent control for empty apartments. They fear that an overly strict regulation of the housing market might scare away investors. An assumption that Tim Redmond, an activist and a journalist for the online-magazine *48 Hills* believes is a myth.

Tim Redmond: That is a fundamental mythology of housing in San Francisco, that if we just build enough market-rate housing, which means luxury housing now, that's what people are building, that eventually prices will come down. You know, I've told the YIMBY people [editor's note: YIMBY is an acronym for "Yes In My Back Yard," a pro-development movement in contrast and opposition to the NIMBY – Not In My Back Yard – phenomenon. Typically the YIMBY movement supports development of new housing in cities where rental costs have escalated to unaffordable levels. Source: <https://en.wikipedia.org/wiki/YIMBY>] many times that, if I believed in that, I would

support them. I just think that's is completely fundamentally wrong. It completely ignores how the housing market works in San Francisco. Housing is built in San Francisco based on what international speculative investment capital wants to pay for. That is how it works these days. If you want to build housing in San Francisco, you have to go into the capital markets to get financing. And it is not banks anymore. It is all of these different international syndicates, real estate investment trusts. And they want the highest possible rate of return. And if the highest possible rate of return is in luxury condominiums in San Francisco, that's what's going to get built.

Martina Groß: I meet Tim Redmond at Muddy's Coffee Shop on Valencia Street in the Mission District. The store next door is currently under renovation. The District, home mainly to Hispanics and artists, is one of the hardest hit by gentrification.

Tim Redmond: This idea that we're going to...that this deregulated Ronald-Reagan style market economy, is going to solve the problem, there is no evidence for that. Never has. Never will. The only thing that is going to solve this problem is a more regulated housing economy, more social housing, and more government involvement. It is the only thing that is going to work. It is the only thing that ever has. Either that or what I call demand-side management, when they talk about supply and demand, no one talks about demand. We created intentionally through tax breaks and other inducements, we brought, I don't know 40,- 50,000 high-paid tech workers to San Francisco in the last ten years. Without any question whatsoever about where they were going to live. And then the fact that nobody at City Hall could figure this out is just astonishing, it is just astonishing for me. And then to say retroactively we are now going to build enough housing for those people, not even considering that a significant percentage of the luxury housing that's built in San Francisco is not even occupied. It is just being bought as investments from international investors who want a place to park their money.

Martina Groß: Redmond believes that increased luxury housing will create an even greater demand for affordable housing. Because the new tenants will need people who clean their flats, cook their food, and so on. All those people will only be able to afford low-cost housing. Which does not exist. Even if the city exerts more pressure on real estate companies to build more homes and initiates affordable housing projects. That is happening anyway. But contrary to Germany, social-housing projects are not municipal, but decided by federal agencies. Both cities lack property to build on. The prime lots have long been sold. But in both cities the owners are obliged, under certain circumstances, to build affordable housing. In Berlin, there is the so-called "Berlin Model," as Sebastian Scheel explains.

Sebastian Scheel: The co-operative property model, or the Berlin Model for short. Yes, we do expect private investors to participate in supplying people with affordable housing. So when building permissions are issued, in accordance with the zoning regulations, they are obliged to provide 30% of the housing space for low-income families or rent-controlled housing.

[Singing at demonstration in Berlin]

Martina Groß: When I returned to San Francisco in fall, I was just in time for another tenant rally.

Demonstration attendee 3 (in San Francisco): We think we won that. The pass through.

Demonstration attendee 4 (in San Francisco): Oh, yeah, they voted unanimous support of the board of supervisors, which is unusual to get a unanimous vote. So it means, when they buy a building, they can't pass on that debt to tenants. So, it takes the incentive out of them buying a building for much higher than what it is worth and it also means, that they can't pass on that rent increase, so for long-term tenants, the rents are not, well they're still increasing, but not that dramatically.

Martina Groß: It is not yet clear as of when the restrictions will become effective. Will my friends profit from them? Among the protesters are a pastor and two young doctors. They have come to support about 25 protesters. They point out the health risks of continued construction work and the consequences of the insecurity that tenants feel when they don't know whether they will be able to afford to pay for their apartment in the future. This is not the only issue that unites tenants in San Francisco and Berlin:

Demonstration attendee 5 (in Berlin): It is a totally new kind of awareness of life. One that I had not known so far. I am still working, and it used to be that there was the home where you could withdraw to, and now you are actually on a war field. The only way to get through now is to stand together, even with the tenants' association on your side. You can't just do it all on your own.

Martina Groß: In the past months, the districts and the city have increasingly made use of their right of first purchase – and have been criticized for it. For one, the purchases at market rates are expensive and will not provide new housing. But at least affordable housing will not be lost. In addition, dramatic rent growth influences the rent index and that will hurt other tenants as well. In Berlin, there now is a movement calling for a referendum in the spring [editor's note: of 2020]. Their aim is to dispossess real estate companies with more than 3,000 apartments. Whether that is possible, we will see. In any case, the companies will have to be reimbursed, that much is clear. Though the parties involved disagree about the amount of compensation. At the demonstration in April Wiebke Werner, the chair of the Berlin tenants' association, demanded further reforms of tenant laws:

Wiebke Werner: We are demanding that politicians have the courage to intervene and stop the pro profit dealings in the housing market. Without regulatory interventions, finance investors will continue to play Monopoly in the real estate market. A determined intervention should result in a serious reform of housing laws, but it goes even further, housing policies will have to be rethought. The space people inhabit is the center of their lives and a place they withdraw to, it should not be the object of speculation and profiteering. Housing companies and financial investors will have to commit to the community's interest in welfare and, as was mentioned several times today, to article 14, section 2 – ownership comes with responsibilities. Its use should serve common welfare.

Martina Groß: From the view point of the real estate committee the situation is understandably different.

Thies Grothe: I think this is a predominantly emotional discussion, not one that is dealing with facts in an objective way. I don't think it will get us anywhere if some are trying to air their anger. People sometimes do not have a simple understanding, it's obvious, in such initiatives, the people are obviously tenants, and as tenants they are protected by law. Yes, they are. But the fundamental right is not renting a place. The fundamental right is ownership. It comes with responsibilities, but it also gives you rights.

Martina Groß: But in the end the referendum, not matter what the outcome is, will ensure that the basic meaning of having a place to live will be discussed. And as Berliners say: "and that's a good thing, too!"

[Singing at demonstration]

Martina Groß: In the house of my friends in San Francisco, an empty apartment has undergone renovation. There's a new, astonishingly complicated doorbell system. The old one had worked just fine. Their rent has been raised in accordance with the law, but operating service and maintenance charges have suddenly increased. They are thinking about objecting to them. The house now has its own website, it advertises the trendy neighborhood and the creativity of the people who live there, people who would not be able to afford the current rent.



Martina Groß: These past years have strengthened tenants' organizations, people are now protesting for their rights. Not only in San Francisco. As Angulo Sunny says, there is hope:

Angulo Sunny: I have hope that people will continue to be engaged and want to advocate, not just for their own housing stability, but for their neighbors', too. And if we are in the midst of an eviction crisis, and if there are state laws that no one has been able to change or lack the political will or political courage to take on at the state level, we should be doing all that we can locally to try and preserve our communities and keep our neighborhoods intact. I mean, these are many long-term tenants that contribute immeasurable value to San Francisco's vibrant and unique character, these are working families and our teachers and our bus drivers and our musicians and our artists and you know, what will the city be if we lose that diversity?

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The Big Pond - A U.S.-German Listening Series is brought to you by the Year of German American Friendship (Deutschlandjahr USA), a comprehensive collaborative initiative funded by the German Federal Office, implemented by the Goethe-Institut, with support from the Federation of German Industries (BDI).

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