Story after sad story of sky-high rents, leases shanghaied by tech companies

➤ Continued from page 1

the procession, but the executives were unable to wait hours for a turn to speak and left early, as Kim noted at the end of the hearing.

Mark Burns, deputy director of In-Home Supportive Services Consortium, testified at the hearing that, in May, Essex Properties acquired Fox Plaza at Ninth and Market Street, where the Consortium had been for 18 years. In that time, Burns said, the Consortium had delivered 8.5 million hours of in-home services to clients, now numbering 1,500, who otherwise would be at "extreme risk for being permanently institutionalized."

"Our new landlord," he said, "exercised its right to prematurely terminate our lease at $18 per square foot and offered us a new lease at $45 per square foot — a 250% markup," unaffordable to the nonprofit provider.

The Consortium, he said, wound up on Market Street near Sixth, in a building that Seligman Western Enterprises purchased at the peak of the tech bubble back in 2000, and for years had been unable to keep fully occupied. However, Burns said, the move "comes at a steep cost in the quality of life for our staff. While demand for our services grows, we are reducing our office space by 17% and moving our full-time staff of 63 workers into a windowless basement." Yet he feels "both successful and fortunate to remain at a location vital to both our transit-dependent workforce and to our client base."

Teresa Friend, director and managing attorney of the Homeless Advocacy Project at 1360 Mission, said it pays $1.90 per square foot monthly, and "the landlord has made clear even before they gave us an extension through 2014 that they wanted us to find new space." The landlord is nonprofit developer Mercy Housing, which holds an expensive long-term master lease on the building.

HAP, which moved from Sixth and Mission in 2000, serves about 2,000 clients annually, Friend said, helping with legal and social services for the homeless, plus eviction defense, SSI advocacy and immigration policy work.

In the same building is Senior and Disability Action Network — a merger of Planning for Elders in the Central City and Senior Action Network — which last year arrived from 965 Mission St. when that landlord started renovating the building and increased its rent by 150%. One by one, all the nonprofits in that building were forced out, said Sarah Jarmon, the Network's spokeswoman.

District 6 Supervisor Kim had requested this hearing after meeting in August with members of the Human Services Network, a trade association of more than 100 city contractors, some of San Francisco's largest nonprofit human services providers. In September, HSN surveyed its members about the status and cost of their operating space, and 90 groups responded.

Twenty-nine organizations said that 45 leases they hold had expired in 2012 or will by 2014. For the 14 that had renewed or signed new leases since 2012, average rent jumped by a third for spaces that on average were 8.5% smaller. One nonprofit's rent nearly doubled on 800 square feet. Another's 17,771-square-foot space went up 49.3%.

According to a policy analysis report by the supervisors' legislative analyst, the city pays 1,425 nonprofit contractors more than $500 million a year to provide a significant portion of the safety net for San Francisco's most vulnerable citizens, many the city is unable to reach with its more institutional programs.

"Nonprofits greatly enhance our city, fulfill our city's mission and actually help combat some of our most challenging issues," Kim said.

"The city relies on nonprofits as an integral part of our service delivery system," said Debbi Lerman, director of HSN, citing a recent Stanford study that puts 23% of San Francisco's population below the poverty level, "if we look at the actual costs of living here in the midst of all this wealth."

But the city is now finding that important pieces of that multimillion-dollar investment "is at risk as community-based nonprofits can't afford to stay in the neighborhoods they are funded to serve," Lerman said. "Property owners are doubling rents, terminating leases and offering only short-term leases as they speculate on future opportunities." She also cited the "hundreds of millions" for moving and renovation costs that "nonprofits are forced to pay when they're lucky enough to find new spaces."

"We're in danger of losing not only the heart of the city ... but the conscience of the city."

Supervisor Eric Mar

The reality for nonprofits is that office space in the central city is dwindling with most building owners on Market Street refusing to lease to human services providers and upping space costs in western SoMa to $3 per square foot and beyond, which translates to $3,000 monthly for a modest office of 1,000 square feet.

The tech demand has gobbled most of the desirable locations already, forcing the nonprofits to move out of the neighborhood or rehab rundown units in the Tenderloin where the tech startups are reluctant to go.

"We need some help to manage this crisis," said Nancy Nielsen, deputy director of SoMa's Lutheran Social Services. She described how her organization, which helps its thousands of clients remain housed through a money-management program, was told by its landlord this year that, despite being exemplary tenants, their lease would not be renewed come April as a tech company was offering twice as much.

Although they've found a space to lease, she said, the building is "in very bad condition," requiring $400,000 in improvements, which her organization will have to borrow money to pay for. Ironically, its new space is at the hardcore Tenderloin corner of Golden Gate Avenue and Leavenworth Street, which Lutheran Social Services left eight years ago.

Bill Hirsch, executive director of the AIDS Legal Referral Panel that provides free and low-cost legal assistance to clients living with HIV/AIDS, said its long-term Mission Street lease will expire in February, and he's "hopeful" that rent will only more than double to $28 per square foot.

"We will be going from paying about $35,000 per year in rent to over $80,000," Hirsch said. "That's at the mercy of our landlord who's been bringing in tech folks and talking about the amenities in our building. I can assure you there are no amenities in our building. We're lucky if the elevator works."

Brad Erickson, executive director of Theater Bay Area, which serves 300 dance and theater organizations throughout the Bay Area and 2,500 individual artists, said it's been in the city for 37 years at six different facilities, "sometimes (moving) because we've grown, sometimes because we had to because of rising rates. Our rent went up 18% last year and was going to go up an additional 21% this year.

"We were lucky to find really great space above ACT's Costume Shop at 1119 Market. But I tell you, it was the ONLY space after looking for many, many months that we could afford and that was central, which is so crucial to our work in serving artists and arts groups in the city. We're not alone. You've heard from these other organizations. It's affecting small ones and even large ones like ACT, which has had to reduce its classroom and administrative space by one third because of rising rates."

The displacement problem is most acute in the central city, where so many human services reside to be near their needy client base. But the tech land grab also exists in southern SoMa, Potrero Hill and beyond.

"Our rent is about to quadruple at the end of 2014," said Terri Winston, executive director of Women's Audio Mission, which is situated at Bryant and Mariposa streets. "We are looking to move pretty much anywhere in San Francisco even though we are going to lose the really strong ties that we have to the schools that we serve in the area.

"Anybody that's looking right now can tell you it's nearly impossible to compete with the tech and the wealth that's coming into these neighborhoods," Winston said. "Almost any property that we put a bid on, it's almost immediately a cash transaction that we can't compete with. Most nonprofits are making a pretty sizable investment in our capital infrastructure for any space that we move into, and we're having trouble finding leases that are long enough to make that sustainable for us. So it really affects our growth long-term."

Supervisor Kim said: "As we are increasing revenue from our increased success, we need to really think about how we share that with the rest of our city. I know that when I co-authored the mid-Market tax exclusion and I promised jobs and increased tax revenue I also said that this would go back into our community and we really need to have a discussion about that.

Almost half of the supervisors have experience working in the nonprofit sector, she noted, "so we need to recognize that you are also job-creators and we need to support that community."

"We're in danger of not only losing the heart of the city like the artists and the arts organizations, but the conscience of the city with nonprofits and the social justice groups," budget committee member Supervisor Eric Mar had offered at the outset of the hearing.

Speaking with The Extra after the hearing, Mar, who felt "brain dead" after taking in the neighborhood's relentless testimony, said that although he and Kim had voted for the tax incentives that helped initiate the tech boom, "it's very clear we didn't put near enough protections for tenants, seniors, nonprofits and artists."

"It's heart-wrenching," Kim said. ■

—Geoff Link, editor and publisher of Central City Extra, contributed to this report.

Photo Mark Doneza

Dr. Dawn Harbatkin of Lyon-Martin Health Services *talks with Ivette Vazquez at the clinic's Upper Market offices, where Harbatkin is bracing for a whopping rent increase that she expects will force the clinic out after 22 years.*

Photo Mark Doneza

Brad Erickson *of Theater Bay Area is ensconced in new digs he recently found after "many, many months" of searching for affordable space in the central city.*

Study Center victimized — but landlord eases move out

By Geoff Link

The woeful tales told in these pages are being heard more and more as nonprofits are blindsided by staggering financial blows to their organizational stability — the roof over their head is coming down, compromising their ability to serve their clients.

What the supervisors listened to at the Budget and Finance Committee hearing Oct. 9 was the sound of San Francisco's safety net rending as those nonprofits' troubles reverberate throughout the city's vulnerable populations, which for obvious reasons are clustered in the central city.

Some commercial leases — for nonprofits as well as merchants — carry a termination clause, allowing the landlord to end the lease at any time to "redevelop" the premises.

In Study Center's case, it is necessary to "redevelop" our office-heavy seventh floor into an open-floor plan tech space to enable upstairs-neighbor, Hack Reactor, to expand its successful training program for computer programmers.

This is not a common clause in most commercial leases, says Hans Hansson, a principal at Starboard Worldwide Commercial Real Estate, and Robert Sheppard, a respected real estate attorney, who calls the practice "overreaching."

A simple rent raise on an expiring lease can also set off a scenario for a nonprofit with the same finality as a termination order. Without commercial rent control, a maturing lease can be optioned by the landlord at two to four times the current rate, a price no nonprofit can match.

Without commercial rent control, it's a total seller's market. If another business wants your space and will pay more for it than you, they get it. The nonprofits, however, which may have unkempt clients coming and going in the building, are seldom given the opportunity to bid against the predators. They're just out.

Aug. 8 — less than 20 months after moving to 944 Market St. — a hand-delivered letter declared our five-year lease terminated. The Florida owners wanted us out by Nov. 8 so that our 8th-floor neighbor could move in and take over our entire 7th-floor suite. We were not told of Hack Reactor's intentions nor given a chance to meet or beat its offer, whatever it is.

Swift and Co., the local reps of the Coral Gables owners, at least, have recognized the Study Center's dilemma and our need to relocate somewhere our clients can thrive. The city-funded Office of Self Help and S.F. Mental Health Clients' Rights Advocates, which serve up to 30 clients daily, have long been an integral part of the Study Center. Thus, when Study Center gets the boot, hundreds of people are affected by one blow delivered right out of the blue.

This follows our being harassed out of the Grant Building at the end of 2011 by the Johnson family who bought the old nonprofit office landmark to redo into a happening 90-room hostel to capture the significant tourist boom in western SoMa.

But that was before the Twitter tax break altered the landscape of the central city. Despite the new opportunity in the technology explosion, the software-wealthy Johnsons — Peter and son Simon — have kept the Grant Building untouched for two years: 140 fine old offices remain empty after they ran out all the nonprofits, with the Study Center last to go.

Now we have to move again. This time, Study Center is being given time to secure new space for our administration, programs and their clients.

Swift and Co. agreed to ease our move out by accommodating the Study Center and the programs if a lease for new space was in place by the end of October.

Signing of the lease was authorized by our Board of Directors on Oct. 31. We are moving to 1663 Mission St. ■

—Jonathan Newman contributed to this report

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NONPROFIT LEADERS TESTIFY AT HEARING

Nancy Nielsen, Lutheran Social Services: *"We need some help to manage this crisis."*

Mark Burns, In-home Support Services Consortium: *After losing offices it occupied for 18 years, finds space in a Market Street basement for full-time staff of 63.*

Teresa Friend, Homeless Advocates Project: *Reasonable rent now, but knows it's not for long.*

Brad Erickson, Theatre Bay Area: *Found new quarters with ACTON Market Street, "but I tell you, it was the ONLY space after looking for many, many months."*

Debbi Lerman, Human Services Network: *"Nonprofits can't afford to stay in the neighborhoods they are funded to serve." She represents about 100 city contractors.*