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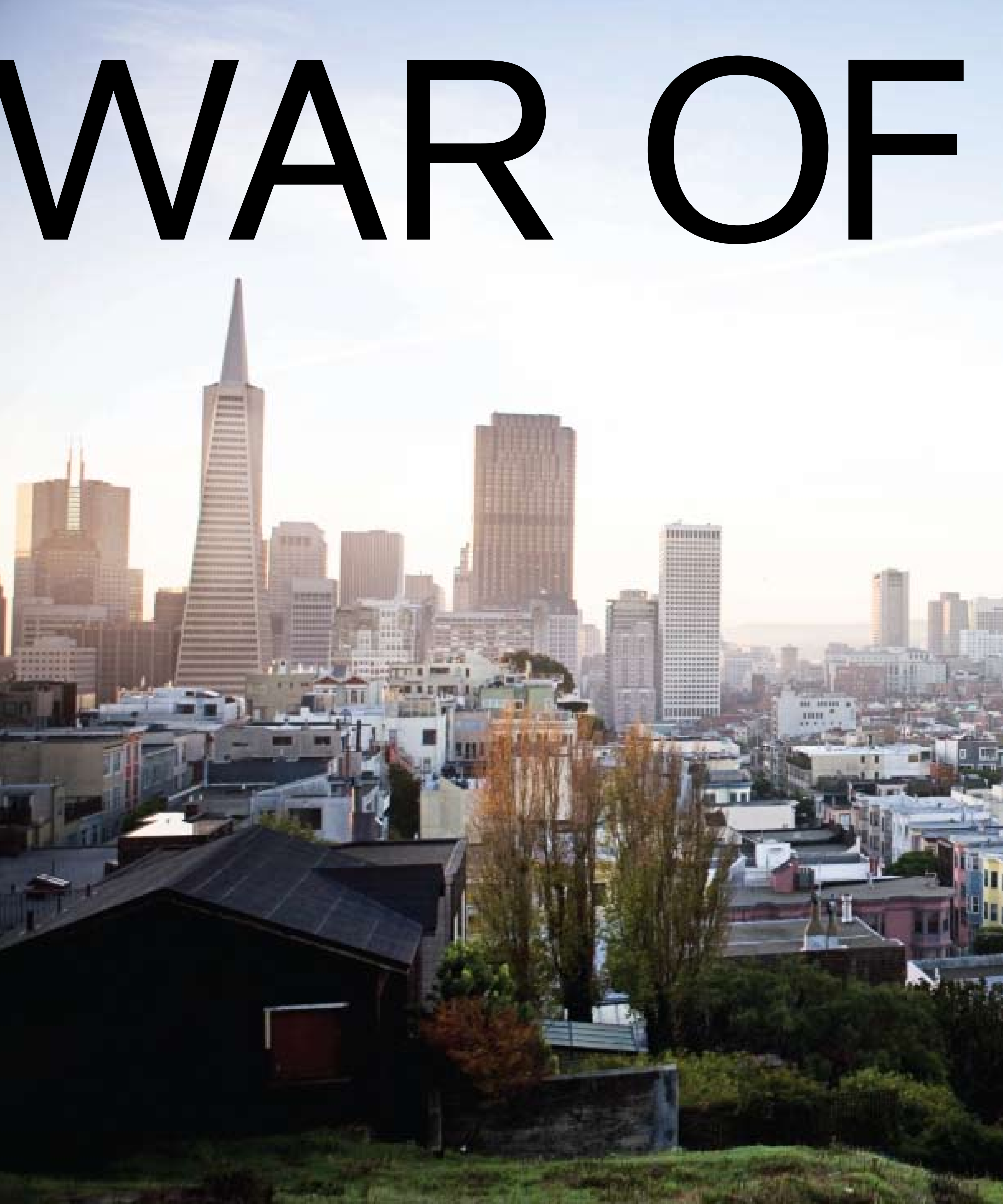
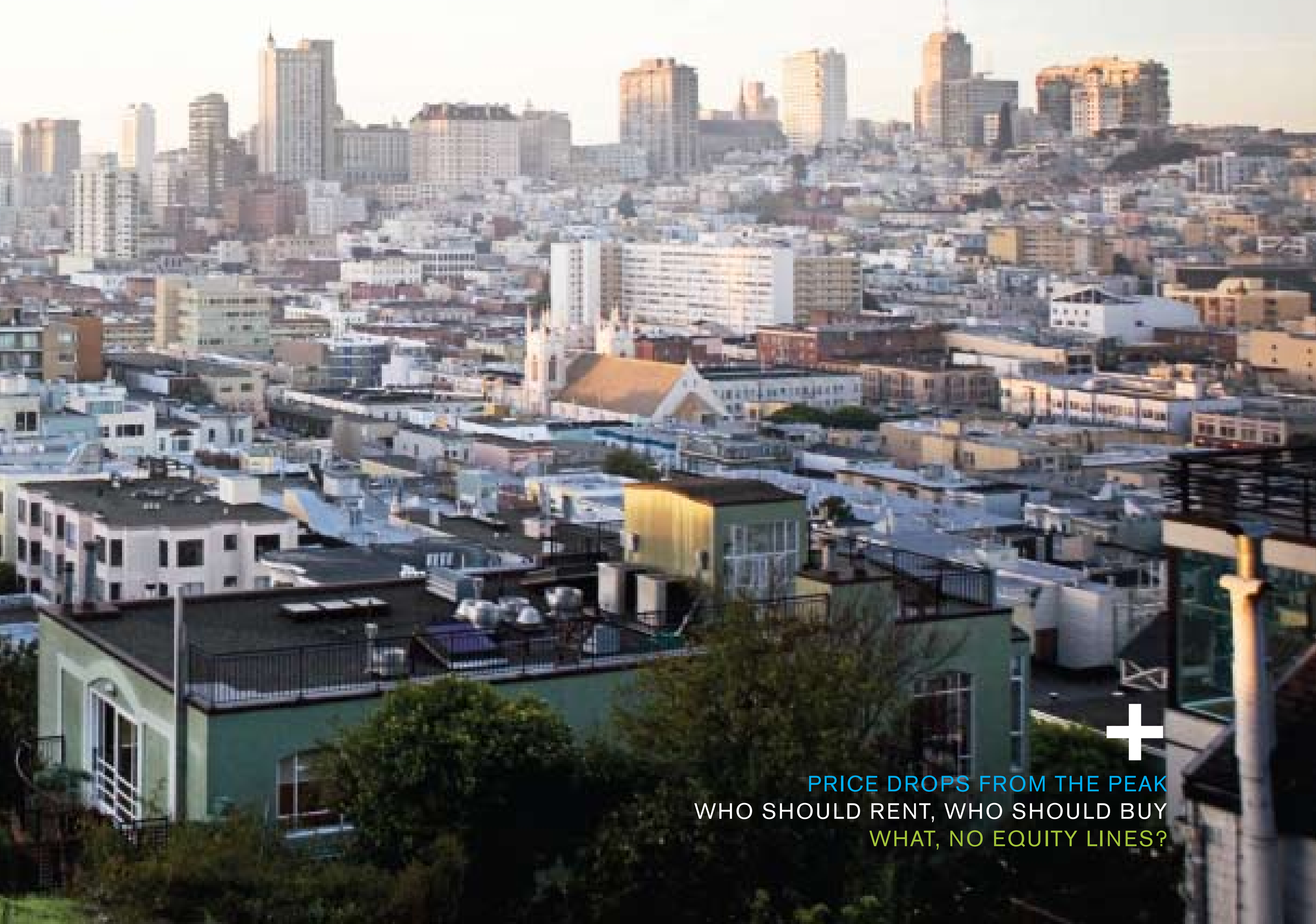


VALUES

What should a decent place to live cost in this beautiful, desirable, stubborn city?

As the smoke clears over the post-bubble cityscape, only now is it clear that a vicious, high-stakes battle has been raging over the answer. It has pitted the runaway global financial system and one startlingly ambitious family of landlords—the Lembis—against hundreds of thousands of residents—rich, poor, and most everyone in between—who rent. We don't think the subprime crisis has touched us directly. But it has, San Francisco, it has.

BY DANELLE MORTON | PHOTOGRAPHS BY EMILY POLAR



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PRICE DROPS FROM THE PEAK

WHO SHOULD RENT, WHO SHOULD BUY

WHAT, NO EQUITY LINES?

THE TOP OF GREEN STREET OFFERS VIEWS OF SAN FRANCISCO that make people gasp. Look east, and you'll see a flat, flinty blue expanse of water punctured by the blocky gray foundations of the Bay Bridge. Turn north and there, right in your face, is a close-up of Coit Tower with a glimpse of the Golden Gate in the foggy distance. The penthouses at 345 and 347 Green also look out over the downtown skyline, with the Transamerica Pyramid front and center. Views like these are what make San Francisco real estate, and specifically this little stretch of Telegraph Hill, some of the most desirable in the world.

When Joseph Carlomagno sold his other properties in the neighborhood and bought the vacant land at the top of Green in 1945, the skyline was modest. On a double lot, he built a two-story duplex for his wife, Emma, and their family, with a "secret garden," as the grandchildren later called it, shaded by plum, cherry, and apricot trees; on an adjacent plot, he erected an apartment building—14 units in all. A hardworking man of conservative habits, Joe had started selling the *Call-Bulletin* at the Ferry Building at age 10, when his father died and he and his older brother left school to help support the family. In his 20s, he opened Green Street Italian Grocery, at the corner of Sonoma Alley, a block from his future home.

Joe got up every morning before 6 to open the store, and at the end of each day, he brought home a fresh loaf of sourdough. For four decades, he kept things equally simple at his Green Street apartments, finding tenants through friends of friends. Even before rent control came to the city in 1979, "My dad never raised anyone's rent," says Joseph Carlomagno Jr., an artist who lives in Marin. "He said we didn't need the money. He wanted people to stay there a long time. Our tenants were like family." Steven Batiloro, a resident at 347 Green since 1978, recalls Joe Sr. as "grouchy, a bent sparrow of a man" who went to mass every morning in a suit and tie. Well into his 80s, he could be seen out in front of his buildings, picking the weeds from between the paving stones and sweeping the sidewalks.

When Joe Sr. died, in 1992, his son took over maintenance of the Green Street properties. Fourteen years later, Emma died, and Joe Jr., by then in his mid-70s, grew tired of driving in from Mill Valley three or four days a week. In the summer of 2007, a couple of weeks after

he put the buildings on the market, his agent said they had an offer: $7.55 million, or $550,000 above the asking price. "The real estate guy said the buyer was an old Italian family, native San Franciscans," Joe Jr. says. "I liked that idea."

The buyers were the Lembis, owners of the CitiApartments and Skyline Realty property dynasty begun by their paterfamilias, Frank, around the same time, and in much the same hardscrabble fashion, that Joe Sr. got his start. Although Joe Jr. had never heard of the Lembis, he was pleased to be handing over his father's legacy to

THIS PAGE, LEFT: **The view from the top of Green Street, on Telegraph Hill.** RIGHT: **The apartment building the Lembis purchased from the Carlomagnos in 2007.** OPPOSITE: **Joe Carlomango Jr. , now 79, was proud of the great price he negotiated for his family's property.**


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a trustee who he imagined shared his family's values. But when his daughter, Cynthia, found out to whom her dad had sold Nana's place, she burst into tears. "They built it with their flesh and blood," Cynthia remembers crying, "and you sold it to Satan."

The Lembis, it turned out, were notorious—sued by the San Francisco city attorney's office, dubbed "scumlords" by the *Bay Guardian*, and vilified all over the Internet for their treatment of tenants going back at least 10 years. They were also in the midst of a five-year apartment-buying binge the likes of which San Francisco had never seen. On August 31, 2007, the same day the Lembis closed escrow on the Carlomagno property, a Lembi-owned corporation, Trophy Properties XIV, took deed to 23 other apartment buildings, including three in the Mission, three in the Tenderloin, three in the Richmond, and one down the hill in North Beach. Total borrowed: $164 million for 418 units. Already that year, the Lembis had purchased 17 buildings in April and another 17 in May. Since 2003, the family, through its various corporate entities, had acquired more than 170 properties—close to $1 billion in real estate—on top of the 130 or so they'd already owned. This—briefly—made them the largest private landlord in a city where 65 percent of residents are tenants.

There seemed to be no pattern to their acquisitions.

"WALT WOULD SAY, 'BRING ME BUILDINGS. **BRING ME MORE BUILDINGS.'** BUT THERE WAS ONLY A CERTAIN AMOUNT OF PROPERTY ON THE MARKET.

JAMES DEVINCENTI

They bought everything from grande dames, like the Park Lane on Nob Hill, to ratty dumps in the Tenderloin. Despite signs by mid-2007 that the credit markets were drying up and the real estate bubble was about to burst, the Lembis seemed to be awash with cash and spending freely. That year, they accounted for 74 percent of sales of San Francisco apartment buildings of 10 or more units. To get their hands on bunches of buildings quickly, they frequently bid 10 over the asking price. In the Carlomagnos' case, the purchase price was 8 percent above asking, but more than double the $3.7 million that—in earlier times—would have seemed justified based on the monthly, rent-controlled income the building generated.

Joe Jr. was proud of the price he'd negotiated for the benefit of his family. He felt good about the tenants, too, because he knew they were protected by rent control. "They couldn't have their rent raised by more than 1 or 2 percent a year," he says. "No one could evict them for any reason. I thought everyone was safe."

What Joe Jr. didn't realize was that he'd just placed the Green Street tenants in the middle of a battle for the soul of San Francisco, with skirmishes being fought one apartment and one tenant at a time—and the Lembis were at the heart of it. Two years later, as the Lembi empire implodes, dragging San Francisco's renters into

JASON STEINBERG

the global financial meltdown, the city still doesn't know what hit it.

I'm a fourth-generation San Franciscan who spends perhaps a bit too much time despairing that the city is changing, and that greed is at the root of what I don't like about what I see. It's sour grapes, too. When I returned here in 2004, after a 12-year absence, I couldn't afford an apartment in Noe Valley, the place where, within a four-block radius of Alvarado Elementary School, on 22nd and Douglass, most of my working-class family had lived for decades. My great-grandmother rented a studio at 24th and Capp, and her landlord, who operated a business in the storefront downstairs, brought her peaches and squash from his garden in the summer. At my grandparents' two-bedroom Edwardian on Eureka Street, the landlord's brother lived downstairs—a big help when my grandfather, a firefighter, was on his overnight shift. During Christmastime, at our place at 24th and Diamond, my mom and I would spend a lot of time planning what we were going to make our landlord—a good man, she told me, because he didn't complain when she was late with the check. Of course, like the Carlomagnos, my family's landlords never raised their rents.

Maybe if I had moved back a little sooner, when tech stocks crashed and the rental market fell with them, I might have been able to find a place I could afford. But by the time I returned, rents were bouncing back from their dot-com-bust lows. The metric used by James Devincenti, a broker at Marcus & Millichap, to gauge market fluctuations is the price of a studio apartment in the Marina. "In 1999, it was $1,600," he says. "By 2002, that same studio was $1,200 to $1,300." Flash forward six years: In 2008, Walter Lembi, Frank's only son and the driving force behind the family's expansion, told an interviewer from the San Francisco Apartment Association newsletter that rents were climbing *daily*. That week's new high, Walter said, was $2,000 a month for a studio in the Marina with no parking.

On the face of it, this jump in rents for new tenants made sense. Like New York City, San Francisco is a place where people always want to live and work, and both cities have a limited amount of land. Even in slack times, vacancy rates are low, and when apartments do become available, the city's rental laws allow landlords to charge whatever the market will bear. With the Dow hitting heady new heights in 2006-2007, there were plenty of flush newcomers in town willing to pay top dollar.

Still, like Joe Jr., most long-term tenants figured they were protected by rent control. And when the subprime crisis caused home prices to plunge last year, San Francisco renters who had been kicking themselves for not getting in on the housing boom felt relieved they had been protected from that mess, too.

But they weren't, and the connection was the Lembis. The money the family used to buy up all these buildings came not from local investors or the family's personal reserves, but from investment banks in places like New York, Zurich, and Tokyo—from the same pots of dough that stoked the sub-prime boom. To those institutions, a place like Green Street wasn't an apartment building and it certainly wasn't a community. It was a position in the global capital market anchored by pricey and glamorous San Francisco real estate, whose continued rise seemed like one of the surest bets in the world.

The Lembis, meanwhile, had a vision of the city that involved high-end apartments with granite countertops in the kitchen, a wholly remade Tenderloin district, and corporate apartments where middle-class peoples made way for executives from London and Hong Kong. Their business plan was simple: Exploit the difference between artificially low, rent-controlled rents and the sky's-the-limit, market-rate rents they could charge when the old tenants were out and new ones took their place. This has been the motive behind many a buyout and eviction, legal or illegal, in San Francisco and every other city with rent control. For the Lembis, however, it was also a strategy that made them more attractive to all that practically free short-term money—hundreds of millions of dollars—flowing in from around the globe.

It's a cascade of connections that's almost impossible to believe: that the agony of one old lady on Leavenworth Street who couldn't get downstairs for three days because her elevator had been shut off, could have anything to do with the annual bonus of a banker in Switzerland. Or that a sudden edict forbidding tenants in a building near Union Square from using the lobby for Friday-night happy hour might be remotely connected

OPPOSITE: **91-year-old Frank Lembi with his son, Walter, and grandson Taylor last year.** THIS PAGE, TOP: **The lobby of the Park Lane, purchased by the Lembis in 2005.** BOTTOM: **The Park Lane's exterior.**

$300,000,000

ESTIMATED **NET WORTH** OF FRANK AND WALTER LEMBI IN EARLY 2008.

▲ **KEY:** **Lembi properties, circa 2008** **Buildings mentioned in city attorney's suit** (see right)

BIG, BAD CITI

Around San Francisco, few individuals or institutions stir up the kind of strong feelings that CitiApartments does. A lawsuit by the city attorney's office demonstrates why. Citi denied any wrongdoing, saying the suit mixed up its facts and that tenants were disgruntled because of attempts to evict them for perfectly legal reasons. Here are some of the allegations.

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NUMBER OF **LEMBI-OWNED, RENT-CONTROLLED APARTMENT BUILDINGS** AT THE PEAK—UP FROM 123 BUILDINGS IN 2003.

LEFT: **After buying up much of the Tenderloin (in the foreground) and multiple buildings in Nob Hill, North Beach, and Telegraph Hill (at the top), CitiApartments held unprecedented swaths of residential real estate—and this graphic excludes the other half of the family's holdings located elsewhere in San Francisco.**

A 620 JONES ST. (aka GAYLORD HOTEL)

This building banned tenants from using common areas, putting an end to Friday-night happy hours, communal Sunday breakfasts, monthly pasta nights—and a close-knit community that had taken years to create. Citi turned a number of buildings near Civic Center into de facto hotels, in violation of city law. At the Gaylord, the average monthly rent quadrupled when the units were converted to short-term corporate suites, from $990 to $3,972.

A 620 JONES ST.

One tenant who paid her rent while away for three months returned to find she had been locked out of her place, her belongings had been moved to the basement, and her immigration documents had been taken.

520 BUCHANAN ST.

Citi demanded proof that a houseguest was staying no longer than two weeks, though the guest had already left, then posted a notice on the tenant's door declaring her in violation of her lease.

355 FULTON ST.

After Citi took over, a tenant found two men in her lobby, wearing bulletproof vests and armed with guns and billy clubs, who demanded to see her ID before letting her enter her apartment.

B 1126 BUSH ST.

When one tenant refused Citi's buyout offer, a Citi employee showed up at the door, armed and wearing combat fatigues, and demanded proof of residency and immigration status.

B 1126 BUSH ST.

A disabled tenant's in-home caregiver—who lived in the apartment under an agreement with the previous owners—was refused a key because he was not on the lease.

1126 BUSH ST.

Citi employees entered an apartment without permission, sometimes while the tenant was sleeping. Once, as the tenant got out of her bed to confront the intruder, the door slammed closed and locked before she reached it. On other occasions, the tenant came home to find that her desk and financial papers had been rifled through.

78 BUCHANAN

This building was cited by the city authorities as a public nuisance because of constant construction, frequent disruption of water and electric service, and repairs done without permits.

C 737 PINE ST.

Twelve years after a tenant broke up with his live-in girlfriend, retaining their apartment, Citi tracked her down in another city and asked her to confirm that her ex was in the apartment illegally. (She refused.)

D 755–757 GREEN ST.

After the sale to CitiApartments, tenants returned home to find new locks on the doors and men in the lobby who demanded to see I.D.s before distributing keys.

E 1221 JONES ST.

This building underwent repairs without permits and has been cited as public nuisance.

F 1470 CALIFORNIA ST.

A 15-year tenant was evicted for "unlawful subletting" because he allowed his younger cousin to live with him.

3270 MISSION ST.

Citi requested a meeting with one tenant, during which two agents threatened him with eviction because his domestic partner was not on the lease. When the tenant's rent check was returned, along with a declaration that Citi intended to evict, the man and his family took a buyout.

G 635 ELLIS ST.

Citi allegedly refused to repair a sewage backup in one apartment because, the company claimed, the tenant had routinely paid his rent three days late.

990 FULTON AVE.

During a time of extensive renovation, Citi left notices with a tenant saying they would enter his unit, but did not specify a date or time. After the tenant requested that notices include those details, a Citi agent asked what he thought of all the construction and whether he was now willing to accept a buyout and move out.

to the same Wall Street financial instruments that have pushed the world economy to the brink.

Yet that's what was going on in San Francisco, almost completely hidden from everyone, for five years. As one broker told me, "It was the perfect storm of greed and capital waiting to be deployed."

The Lembis are proud of their San Francisco roots and their deep attachment to the city. But they're not like the Haases or the Hearsts. There are no Lembi stadiums or Lembi wings of colleges. Mostly, they keep to themselves. They don't play the society circuit, and they have few political allies. They rarely give interviews—they declined to be interviewed for this story, despite numerous requests. A 1986 *Chronicle* article described Frank as "one of the quietest fortunes in the city" and speculated that he was worth more than $200 million, a figure he refused to confirm. "I don't like the limelight," Frank said. "I want to be a self-made man on the Q.T."

Frank grew up in Potrero Hill, the first generation of his Italian family born on U.S. soil. His father, Orlando, was a grocer, but he also ran restaurants and did a little bootlegging on the side. As Frank tells it, every morning, he went with his father to the produce market to buy the goods to stock the shelves before heading off to school.

When it came time to make a life of his own, Frank studied to be a pharmacist, but he returned from World War II with a hankering to buy real estate. He acquired his first properties in the late 1940s, amassing the money when, as he once recalled, "I didn't have a penny to my name." He impulsively bid $125,000 on five buildings in probate, then called around to friends of the family to raise the purchase price. He must have been a pretty persuasive salesman: He collected the full amount plus $25,000, he claimed, acquiring the buildings without spending a dime of his own.

Those buildings served as the foundation of Skyline Realty, and later of CitiApartments. As his business grew, Frank and his wife, Olga, settled with their family in the

LET'S MAKE

THE BAY AREA RENTAL MARKET HAS ALWAYS BEEN A TOUGH NUT TO CRACK, but along with everything else in the failing economy, rents have definitely come down in the past year. In San Francisco County, the average asking price fell 5.6 percent from September 2008 to September 2009; in Alameda County, it dropped 5.9 percent; and in Marin, it fell 2.9 percent. But even these numbers don't tell the whole story—for starters, they only apply to buildings with 50 or more units—and if you know how to look, you can find some real deals.

The declines are being driven by the upper end of the scale, says Janan New, executive director of the San Francisco Apartment Association, so you'll see bigger drops in more high-end neighborhoods. (Rents in the Marina, Telegraph Hill, and Russian Hill have plunged at least 10 percent since October 2008.) Also, prices in neighborhoods with fewer rent-controlled units, like South Beach, tend to drop the most, since landlords know they can make up the difference once the economy improves.

To get a taste for the current market, we found 12 properties, from Oakland to Palo Alto, that were advertised in October 2009 for rents ranging from $1,350 to $9,500 per month. Then we asked their rental agents what the price would have been last summer, when the recession was just beginning.

suburbs, as did many successful businessmen at that time. Despite their comfortable childhood, the four young Lembis were encouraged never to forget the value of a dollar. Frank's daughter Yvonne, a hotel entrepreneur who once aspired to become mayor of San Francisco by 2007, recounted how, as a child, she was cleaning the kitchen floor and swept a penny into the dustpan. She was about to dump it into the garbage when, she said, her father "hit the roof."

Walter, now 62, didn't share his father's frugality. When he settled down on the Peninsula, he chose a large house in a pricey Burlingame. His fondness for Bentleys, expensive clothes, and weekends in Las Vegas are well known. In recent years, Walter took over more and more of the company, but his father remained very much involved. As late as last year, Frank was still driving into the office every day despite his 90 years. He also had a hand in training the next generation—Walter's son, Taylor, whose responsibilites have included the family's corporate suites operation. As Frank told SFGate in 2005, "It's not all about Frankie Lembi. It's the *famigilia*. It's nepotism!"

In the '80s and '90s, the Lembis became known for another family enterprise that nearly ruined them, Continental Savings of America. They established the S&L in 1977, recognizing the opportunities that might accrue for a real estate company that was also in the lending business. The deregulation of the industry in 1982 pushed the business to a whole new level. By 1988, Continental's assets were nearly $600 million. Around that time, the Lembis—Walter was chairman, and Frank, vice chairman—bought a building at 250 Montgomery Street as the S&L's new headquarters. Joe Montana, the superstar 49ers quarterback, appeared in their ads.

Even in the freewheeling days of the S&L boom, Continental attracted regulators' attention. Like other thrifts, it underwrote tens of millions of dollars of risky real estate loans, many to developers who eventually went bust, dragging the lender down with them. By the late 1980s, Continental was posting significant losses.

85

PERCENTAGE OF TENANTS THE LEMBI GROUP TOLD WALL STREET LENDERS IT WOULD SOMEHOW REMOVE WITHIN TWO YEARS OF TAKING OVER A BUILDING.

A DEAL

SOUTH BEACH
Luxury three-bedroom, three-bath condo in the St. Regis Residences. Comes with concierge, valet, butler, and room service.
JUNE 2008: $12,000 per month
CURRENTLY ASKING: $9,500
CHANGE: -21%

TELEGRAPH HILL
Two-bedroom, one-bath with bay view and shared garden.
JUNE 2008: $3,200 per month
CURRENTLY ASKING: $2,800
CHANGE: -13%

PACIFIC HEIGHTS
Renovated single-family Victorian with four bedrooms and private roof deck.
JUNE 2008: $11,000 per month
CURRENTLY ASKING: $8,995
CHANGE: -18%

MARINA
Renovated studio with hardwood floors, near Chestnut Street.
JUNE 2008: $1,550 per month
JUST RENTED FOR: $1,350
CHANGE: -13%

RUSSIAN HILL
Recently renovated 1,100-square-foot one-bedroom with bonus room, near Hyde Street.
JUNE 2008: $2,950 per month
CURRENTLY ASKING: $2,700
CHANGE: -8%

ROSS
Gated estate with six bedrooms, five baths, and a pool, on a third of an acre.
JUNE 2008: $12,000 per month
CURRENTLY ASKING: $8,950
CHANGE: -25%

MILL VALLEY
Four-bedroom, four-bath house with bay and city views, treehouse, and vegetable garden.
JUNE 2008: $7,500
CURRENTLY ASKING: $5,800
CHANGE: -23%

NORTH BERKELEY
Two-bedroom, one-bath in duplex with garage, blocks from the Gourmet Ghetto.
JUNE 2008: $2,400 per month
JUST RENTED FOR: $1,900 (advertised at $2,150)
CHANGE: -21%

OAKLAND HILLS
Newly remodelled three-bedroom house with easy access to public transit, in quiet Millmount
JUNE 2008: $3,200 per month
CURRENTLY ASKING: $2,700
CHANGE: -16%

PALO ALTO
Three-bedroom, two-and-a-half-bath house with porch and waterfall-fed pond.
JUNE 2008: $5,900 per month
CURRENTLY ASKING: $4,900
CHANGE: -17%

MOUNTAIN VIEW
Two-bedroom in a14-unit apartment complex, with two parking spots and private washer/dryer.
JUNE 2008: $2,195 per month
CURRENTLY ASKING: $1,995
CHANGE: -9%

The Lembis were also accused of self-dealing. A cease-and-desist order, as well as a shareholder lawsuit, described how they ran Continental real estate transactions through Skyline and took fees on both sides of the deal, which was generally against the law, says a regulator who oversaw the S&L. A 1988 shareholders' suit—ultimately settled out of court—accused the Lembis, who had initially held a minority stake in the company, of using proxies to quietly increase their position to a 52 percent majority, a change they didn't report to the federal government or their shareholders until three years later. There were suits by individual borrowers as well.

Eventually, the federal government had to step in and bail out the whole industry, Continental included. In 1995, the feds brokered a sale to Cal Fed, which picked up $364 million of Continental's deposits, while taxpayers were stuck with $354 million in troubled assets. In all, the Resolution Trust Corporation's cleanup of the S&L mess cost taxpayers $124 billion nationwide, the biggest financial scandal and bailout in history—until now.

Continental's collapse shook the Lembis, who went through a period of retrenchment. They managed to hold on to some of the buildings they owned outright—about a thousand rental units—and remained resolute, a family credo. As Yvonne recalled, her father once found her crying in a hotel closet after a rough day and admonished her: "You can't quit. You're a Lembi."

In the late '90s, Walter began mounting a comeback. When trying to get the family back on its feet, he thought big. He securitized a loan for two hotels, an office building, and 12 apartment buildings. With $6 million from that transaction, the Lembis started buying rental properties again.

Then, in the new millennium, a fresh opportunity presented itself: a real estate boom fueled by a hot new financial instrument called the collateralized debt obligation, or CDO.

CDOs weren't always the junk magnets we know them to be today. Basically, they're a type of mortgage-backed security that allows big institutions to invest in real estate—everything from houses in fast-growing parts of Florida to skyscrapers in Manhattan—by eliminating the need to deal with individual mortgage holders and properties. In their early days, CDOs had a solid track record as a way for institutional investors, like pension funds and college endowments, to earn better-than-average returns on their investments while minimizing their risks.

"You create a trust in which you put in, say, 100,000 mortgages," explains Charles R. Morris, author of *The Two Trillion Dollar Meltdown*, an authoritative account of the great credit crash of 2007-2008. "Then you raise money by selling bonds, secured by the assets in the trust. But the special gimmick is that the bonds have a tiered set of payment priorities." In the 1990s, even the lowest-rated of these tiered segments, or tranches, would lose at most 8 or 9 percent of their value over the life of the loan.

378,000

ESTIMATED **NUMBER OF SAN FRANCISCANS WHO LIVE IN A RENT-CONTROLLED APARTMENT**. SOME 178,000 OF THOSE TENANTS HAVE BEEN IN PLACE SINCE AT LEAST 2003.

OPPOSITE:. **The Lembis had a vision for the city that included high-end apartments and corporate suites where middle-class people had once lived.**

AN END TO FREE MONEY

WHEN THE NATIONAL REAL ESTATE MARKET COLLAPSED, the first thing to go, of course, was people's homes. But there's been a second, invisible wave of loss: homeowners' equity line of credit. For some people, that money was a bit of a joke, an unexpected gift they could use to juice their consumer lifestyle–to build that new entertainment center or install a high-end kitchen. But others used the credit for daily living expenses or to beef up their savings.

A home equity line of credit, or HELOC, acts like a second mortgage on a home but can be used like a credit card, at a much lower cost. For as little as $20 to $100 a year, a homeowner can reserve a line of credit against the value of his home without having to use the money right away. For some families, access to that credit has meant being able to pay a child's college tuition. Cupertino daycare operators Jeffrey and Jenifer Schulken used theirs to renovate their house to accommodate their business and to cover big bills, like property tax.

But falling real estate values also mean falling equity, and some banks have turned off the spigot–or at least cut it to a trickle. That's what happened to the Schulkens last March: Washington Mutual froze their $250,000 credit line with more than half of it remaining, even though the couple still had $500,000 in equity in their home.

"We counted on it, and then one day, boom, our safety net was gone," says Jeffrey. The Schulkens got the bad news when they checked their account online, but many Bay Area homeowners were notified of the freeze by mail.

Gary Kishner, a spokesman for JPMorgan Chase, which recently acquired Washington Mutual, says consumers can protest these changes, but Jeffrey was told by someone at his bank that his credit line would never be reinstated. "We were told that our income was insufficient to satisfy our debt, even though it was higher in 2008 than when we originally took out the loan," he says. He also suspects that the cutoff may have to do with the fact that his interest had dropped from 8 percent in 2005 to 3 percent, which "clearly isn't to the bank's advantage," he says.

The Schulkens' only recourse has been to join one of the many class-action lawsuits that have been filed nationwide, challenging the banks' practices. In the meantime, they're happy with the support they've gotten for that decision. "People from all over have come up and said, 'Good for you,' and told me it had happened to them, too," says Jeffrey. "The main thing I want is an apology, but I also want to see the banks held accountable."

PAMELA MACLEAN

The explosion in the CDO market can be traced to the aftermath of the tech crash and 9/11. In an attempt to stimulate the economy, the Federal Reserve pushed interest rates so low that two things happened: Big institutions began looking for higher-yield investments than Treasury bills, and the real estate market took off. Tax cuts under President Bush put even more capital into the system. Real estate CDOs are where much of that global tidal wave of money washed up.

This is how the real estate boom turned into a bubble. The problem, says Morris, was that by 2004 or so, all the safe, solid, credit-worthy borrowers who wanted mortgages already had them, so banks started to look down a rung or two to the subprime market. Meanwhile, European bankers, who had watched Wall Street investment banks get rich off fees for assembling and managing CDO deals, wanted in on the action. "The banks in Europe got into this late," says Morris. "Banks really liked this stuff, and they didn't care what it looked like or what was really in it. CDOs became a way for the very worst slime [among mortgage lenders] to sell garbage to the bluest of the blue Swiss banks." These, meanwhile, would market the CDOs to pension funds and other institutions, which didn't know they were buying junk. "Most were blinded by triple-A Moody ratings," Morris says. "Investment advisers would tell them this was a good thing."

At the peak, Morris says, bankers were assembling $20 billion in CDOs a week. Some CDOs were stuffed full of subprime residential mortgages. Others featured commercial real estate and apartment buildings. Whereas in the past, the properties that banks were happiest to underwrite were those that had enough income—from rents, hotel rooms, and so forth—to pay the interest on the loan, by 2006 this was no longer the case. They were underwriting everything.

"THEY COULDN'T HAVE THEIR RENT RAISED BY MORE THAN 1 OR 2 PERCENT A YEAR. NO ONE COULD EVICT THEM... I THOUGHT EVERYONE WAS SAFE."

JOE CARLOMAGNO JR.

Still, in such an aggregation of miscellany, San Francisco apartment buildings were particularly appealing. Their reputation for steady, high rents increased confidence in the quality of the portfolio. Investment banks also loved the idea of owning a piece of this alluring city, one broker says.

But San Francisco real estate presented a problem. The city has always been about small landlords, like the Carlomagnos, not speculators with large holdings who might be enticed to take on massive new debt. One of the only real estate companies in town big enough to get into this high-stakes game was Trinity Properties, owned by Angelo Sangiacomo. But the Sangiacomos were known to be risk averse.

The Lembis, on the other hand, seemed to have no problem with risk.

It's not clear how and when the Lembis and Citi- Apartments started taking advantage of this wild new market, but by 2005, they were in the thick of their

RIGHT PRICE,

WITH HOME PRICES down from Hunters Point to Sea Cliff, it might seem like a great time to get in on the market, even for those lucky enough to have a beautiful, $2,000/month, rent-controlled flat with views. That may be true—but then again, it may not, depending on a host of lifestyle and financial factors.

who should jump in

THE CLIMBERS: You and your life partner have happily nested in 800 square feet in the Berkeley flats for more than a decade. But with the triplets due in March, what's always been cozy is starting to feel cramped. Sure, your current home won't fetch the price it likely would have a c ouple of years ago. But given your accumulated equity, now could still be a good time to trade up, since properties in the higher price range you've been striving to reach may have finally come down to within your grasp.

THE SIT-TIGHTERS: An ICU charge nurse married to a tenured Stanford professor, you aren't likely to see your job evaporate with the next stock market fluctuation. Go ahead and put down roots, since experts say that owning over the long term–think a decade or more–in the Bay Area will likely be a good investment.

THE ASPIRING FORECLOSURE VULTURE: You've been in a great rent-controlled apartment in the Marina for years, and you thought you could never afford to buy there–or in a comparable neighborhood. But these days, even in the poshest Bay Area enclaves, seven-figure homes are seeing the occasional foreclosure. Keep your eyes peeled, and you may be able to find a real deal.

record expansion. Like Frank at the beginning of his career, Walter put very little of the Lembis' own money into their real estate purchases. Most of the financing was in the form of short-term, interest-only loans. Sometimes the family financed more than 100 percent of the purchase price—covering everything from closing costs, to interest payments, to the cost of future renovations—using buildings they already owned as collateral.

To find their properties quickly, the Lembis had several brokers—as well as contractors and real estate managers whom they compensated for leads—scouring the city. James Devincenti, of Marcus & Millichap, was one of the family's most reliable sources. "Walt would say, 'Bring me buildings. Bring me more buildings.'" But there was only a certain amount of property on the market.

The Lembis were primarily interested in properties built before 1979: buildings, in other words, covered by rent control. The reason is spelled out in a confidential document prepared by the investment bank Credit Suisse in winter 2008. The document focuses on the group of 24 properties, including the Carlomagno buildings. It shows, unit by unit, how the Lembis planned to get 85 percent of tenants out in two years. The Lembis had set aside $9 million for "relocation costs" and another $13 million for renovations. "Those tenants most below market and/or with the longest history are the priority for relocation." Once the apartments were fixed up, the document states, CitiApartments planned to raise rents by an average of 59 percent.

The Lembis had particularly good luck finding properties in the Tenderloin. They bought up multiple buildings on streets, such as Eddy and Jones, where families had been holding on to their major assets for generations. They were also very active in North Beach. One small landlord, who had been saying for years that he would never sell his family's 21-unit building at the top of Montgomery Street, succumbed to the Lembis' offer of $7 million for a property he believed was worth only $4 million. As this seller told a friend of mine, a long-time observer of North Beach real estate, "Kid, I made more money off the interest in the bank than I could make on the rents."

One effect of buying so much real estate in a neighborhood: "The Lembis were setting their own comps," says David Gruber, whose family owns more than a dozen apartment buildings and who serves as president of San Francisco's rent board. He is referring to the comparable prices for buildings sold recently in the surrounding area—the basis on which buyers, sellers, and agents set the price for other properties. Every time the Lembis overbid for a building, they provided a precedent for the next sale, driving up the paper value of all their holdings. When it came time to refinance or take cash out of a building, they could use these higher values to get bigger loans.

The Lembis' new purchases were then quickly bun-

WRONG TIMING?

who should keep renting

THE NEWLYWEDS: You envision raising your kids in a four-bedroom ranch house in Lamorinda. But right now, you and your spouse are medical residents, saddled with debt from school, and can only afford to buy a one-bedroom condo in Emeryville. Keep renting, and grow your savings for a bigger down payment later. If you buy the smaller place now and sell before 2015, experts say, the appreciation of your home–if any–isn't likely to cover the transaction costs of the deals.

THE NERVOUS NELLIE: As an Oakland public school teacher, you know that buying even a studio would leave you financially strapped. But you feel anxious to get into the market now–if you don't, interest rates might rise, and you'll be left behind to rent forever. Relax. There's no big rush. Experts say the staggering boom-year leaps in local home prices–10, 15, even 20 percent per year–are gone and won't return anytime soon.

THE FORECLOSURE DREAMER: As a restaurant owner–chef, you've pumped most of your money into keeping your neighborhood bistro afloat during the recession. You've got a little cash set aside for a down payment on a house, but only enough for a foreclosed property in a far-flung Bay Area city that's been hard hit by the housing crisis, like Fairfield or Martinez. Don't do it. Prices may fall even further in such neighborhoods, experts say, and low tax revenues in a scantily populated area can mean hard-to-stomach cuts to basic services, like garbage pickup and policing.

THE YOUNG BUCK: A crack code jockey for a Web 3.0 startup who lives in Palo Alto, you're making enough to afford to purchase your first stylin' pad. But in your volatile field, gigs tend to last for a few years, tops, before you have to move on to the next big thing. If you sign a mortgage now, you may need to endure a time-sucking, miserable commute to your next job, or take a financial hit if you have to sell sooner than you expected.

$1,050

AVERAGE INCREASE IN MONTHLY RENT THE LEMBI GROUP HOPED TO GET FROM NEW TENANTS, ONCE RENT-CONTROLLED TENANTS WERE REMOVED.

dled into CDOs assembled by leading investment banks such as JPMorgan. A July 2007 CDO, worth $5 billion, included some Holiday Inn Express hotels in Ohio and North Carolina, as well as the Healthnet headquarters in Connecticut. The Lembi piece of this was loan number 11, the Lembi Portfolio, a $90 million loan for 662 apartments.

By 2007, at the height of the business' growth, the Lembis had more than tripled the annual sales volume in San Francisco apartment buildings of 10 or more units, from $190 million a year in 2003 to $678 million. Marcus & Millichap handled 40 percent of the market for the Lembis during those years. To celebrate the closing of a big deal, Walter and Devincenti went to lunch regularly at Scala's Bistro, in the Sir Francis Drake. Walter is not much of a drinker, but he has a fondness for good Italian food. After lunch, the two men would sometimes stroll to Wilkes Bashford, where, Devincenti says, he would buy himself and Walter expensive suits. Devincenti was one of many brokers who showered Walter with lavish presents. "The tailor got to know us on a first-name basis," Devincenti recalls.

Devincenti marveled at Walter's tolerance for risk, which he says was a lot higher than his own: "He's a big thinker. Like Donald Trump—to us it seems like risk. To them, they have a strategy—they don't view it as risk."

Those who weren't profitting from the Lembis' deals, however, were mystified by what they were doing—and where they were getting the money to keep buying. "Skyline Realty is like an anaconda that just swallowed a herd of water buffalo, horns and all," wrote one broker who has specialized in city rental properties for 20 years. Adds David Gruber, "Paying what they did, no one could figure out how they were going to continue buying property. It was unsustainable."

The Lembis didn't see it that way. My friend the real estate observer was with Walter in 2007 at an open house for a 15-unit apartment building on Gough and Francisco streets, where Walter seemed confident he was about to close yet another deal. He stood in the lobby and raised his arms in a bodybuilding pose, crying out, "I'm going to be bigger than Angelo!"

Last year, when I first started working on this story, the talk all over town was not about the Lembis' high-flying finances, but about the aggressive way in which the family got tenants to vacate apartments and the living conditions those who stayed put were sometimes forced to endure.

Late one afternoon, I was having a drink with a friend at a bar on Valencia Street, regaling him with the most vivid story I'd come across that day. Charlie Canfield, an animator, had been living at 2 Guerrero Street for nine years when CitiApartments began renovations—again. One day in 2004, Canfield kicked open the back door, as he had done hundreds of times before, and stepped onto the second-floor landing. But the landing wasn't there

"I went through the floor but caught my arms on the crosspieces [of the studs]," Canfield told me. "I splayed my limbs in all directions. They had taken up all the planks, but they hadn't blocked the door, and there was no notice." As I stood next to the bar with my arms extended, mimicking Canfield valiantly holding himself in the Iron Cross, a stranger on the next barstool asked, "You're not talking about CitiApartments, are you? I've got a story about CitiApartments."

As he launched into his friend's experience, in which he said CitiApartments' representatives called him three times a day for six months, trying to convince him to take a buyout and move to another part of town, the bartender stopped him. "You're talking about CitiApartments? People are in here talking about those guys all the time. The guy I'd like to meet is the one who gets the tenants to move out. What's his name? Andrew something?"

Andrew Hawkins is a burly 6'3" former nightclub bouncer who headed up CitiApartments' relocation program. According to the Credit Suisse document, before Hawkins arrived in 2000, CitiApartments' policy was to "[weed] out illegal tenants through in-depth tenant due diligence, legal evictions, and lease violations." In the first year that Hawkins was in charge, the com-

THIS PAGE: **2 Guerrero Street, not far from the CitiApartments offices.** OPPOSITE: **Charlie Canfield, who fell through the floor in his building while it was being renovated.**

pany managed to relocate 137 tenants. His methods were so successful that CitiApartments soon created a department for him on a handshake deal. "Let's just [say]— we have an understanding," Hawkins told lawyers a few years ago in a deposition. "I don't like contracts, because I don't like being told what to do. I don't do well with that."

When the Lembis' expansion was at its peak, Hawkins led several teams totaling at least 14 full-time employees. In 2006, they relocated 400 tenants. In 2007, they more than doubled that number, getting 899 people to move. In all, CitiApartments estimates that Hawkins relocated more than 2,500 tenants. According to the Credit Suisse document, after all the rent-control tenants were gone, the Lembis' $7.5 million investment would be worth almost $11 million, the prospectus claimed—a nearly 50 percent increase in just two years.

The document doesn't lay out Hawkins' and CitiApartments' tactics, but a number of lawsuits allege a pattern of harassment and intimidation: the relocation teams seized keys, changed locks, kicked out anyone who wasn't officially on the lease, and made life miserable for those who remained. Tenants also complained of constant renovations, sometimes done without permits, using unlicensed contractors. In Charlie Canfield's case, the construction posed a physical danger, though his injuries were minor and he never sued. The noise, dust, and chaos were particularly upsetting for older residents—the very tenants who tended to pay the lowest rents. Last summer, former supervisor Aaron Peskin, whose district included North Beach and parts of Russian Hill, read me an email he'd just received from one of his constituents. "Our situation is dire at 808 Leavenworth, with many senior and disabled renters on the upper floors.... CitiApartments has had the elevators shut down for three days and will have the water off tomorrow. I'm fearful many senior and disabled renters will die without food, medication, and water. Many tenants are afraid to complain for fear of reprisals. I'm afraid people will die if we don't get some intervention. Please tell us how to proceed."

For those who couldn't be evicted or scared off, the preferred inducement was a buyout. The document describes the process this way: "Upon acquisition of a building, every tenant is contacted via phone or, if unreachable, face-to-face. Tenants with significantly below market rents are chosen for thorough screening to see if they might be relocated or if ... they will leave on their own. Those tenants most below market and/or with the longest history are the priority for relocation."

At the Green Street property, the pressure began with breezy introductory letters asking tenants to come into the Skyline Realty office for a chat. Steve Payonzeck, a resident for 12 years, got a call.

"It started out with, 'I have a very important message for you from the building ownership,'" he says. "It was a survey asking how you like the apartment, all leading up to the idea that if you said you didn't want this or didn't like that, they had a different place. You say you'd like bigger closets. Well, they happened to have an apartment with huge closets. Except that it was on the other side of town and cost three times what I was paying."

At the time, tenants were paying $535 to $2,800 a month for apartments the Lembis believed could rent for as much as $4,400. As a 30-year resident, Steven Batiloro paid among the lowest rents in the building. After he turned down the Lembis' first proposal of $10,000, the calls became more frequent. Batiloro stopped answering them, although he recorded each one in a notebook. The offers escalated every few months, topping out at $45,000 in October 2008. "I thought the next offer would come at the barrel of a gun."

In fact, Hawkins did say that it was sometimes necessary to carry a weapon. "When somebody calls up and talks about people breaking into the building, I sit inside the building and wait for these people to show up," he said at his 2003 deposition. "Then I'll handcuff them in the common areas and call the police, and they're arrested." While he described his work as "security" and "consulting," he sometimes resembled a one-man street-sweeping force. "There was ... homeless people sleeping on the front door," he said. "I had to go out there with my golf club and run them off. There's prostitutes all up and down that street until I cleared them out of there."

The Lembis insisted that these "special patrols" benefited renters and, in some cases, entire neighborhoods. "The city has to do more to clean up the Tenderloin," Walter told the San Francisco Apartment Association last year. "One of our potential tenants at 1000 Leavenworth Street was waiting outside for the rental agent and was robbed." Some brokers and other landlords believed the Lembis' efforts to improve their renters' quality of life was being ignored. The family "has received awards from the San Francisco Apartment Association for turning disgusting drug and rat-infested buildings into safe, quality housing for all residents," a Marcus & Millichap broker pointed out in a newsletter last year. "Unfortunately for the city, the politicians got it wrong again and have elected to defend the rats and drug dealers instead of defending the Lembi Group."

But efforts of Hawkins and his relocation teams were hardly confined to the Tenderloin. The economic incentives to remove tenants were even greater in the high-end buildings the Lembis acquired. One extreme example of the lengths to which they might go occurred at the Park Lane on Nob Hill, one of the crown jewels of San Francisco real estate, located directly across the street from the Pacific Union Club.

When the Park Lane came on the market in 2004, many people were interested, but Walter outbid them all. The winning offer was $38 million, or more than $1 million for each apartment.

But however well heeled the Park Lane's tenants were, they were covered by rent control as long as the building was their main residence. Hawkins started enlisting the help of the doormen to determine which tenants might be using their apartments as pieds-à-terre. He trained his sights on Stephene McKeen, later described by the Bay Guardian as "a 70-year-old woman suffering from emphysema," who'd lived at the Park Lane for 18 years.

The paper's description makes her sound like a poor victim, but McKeen is anything but. She's the kind of society dame who shows up at charity events for the hospitals and pals around with Dede Wilsey. The fact that she frequently decamped to her country home in Napa got Hawkins' attention. According to a thick stack of documents on file with the rent board, when he found out that she listed it on her taxes as her "principal place of residence," he bore down. McKeen was paying $3,605 a month for her place at Park Lane, which seems like a pretty hefty sum until you find out that when apartments became vacant, CitiApartments began charging as much as $12,000. (By 2008, one apartment was renting for $15,000.)

McKeen rebuffed Hawkins' insistent letters, so he traveled to Napa and served her with a subpoena demanding her appearance at a rent-board hearing. Never mind that he was not an officer of the court—and that the rent board doesn't issue subpoenas. While he was there, he snapped pictures of her home and the grounds. At some point while McKeen was away from her apartment, someone from CitiApartments gained entry to it and photographed her grand canopy bed, her ball gowns in dry cleaning bags, and her pointy-toed dancing shoes. "It was a strange feeling, like there was always someone watching me," McKeen says. "The whole thing was so vicious."

To undercut her claim that she bought her Napa spread as an investment property, Hawkins hired an expert, Richard T. Nagaoka, to assess the health of the lovely olive and walnut trees that dot the wandering roads near the house. Nagaoka's October 2005 report stated that the trees were not healthy and that McKeen would lose money on this "investment."

Based on such evidence, CitiApartments petitioned the rent board to force McKeen to pay market-rate rent. McKeen carefully strategized her wardrobe for the hearing. "This blond lady from Nob Hill—down at the rent board, they are going to love me," she remembers thinking. She dressed as plainly as she could and was horrified when the photo displayed on the big screen in the hearing room was of her and her boyfriend, George Fullerton, dressed up in silky cowboy outfits with outsize turquoise jewelry for a summer party. "Does that look like a woman from a rent-controlled apartment?" she thought to herself.

To her surprise, McKeen prevailed. Afterward, though, she and Fullerton bought a place of their own down the street. Her neighbors, such socially prominent San Franciscans as Carol F. Buck and ex–49ers president Carmen Policy, have moved out of the Park Lane, too. "I always thought they were going to have to carry me out of that building," McKeen says. "I love that building. But it would just have been living hell to stay there."

San Francisco is a stubborn place. Try to change it into something that it's not, and people rise up. Maybe if the Lembis had been more politically connected, they would have understood that this city, of all places, would fight for its rent control. By 2006, the war was raging.

The major front was the lawsuit by the city attorney's office, which accused CitiApartments, Skyline Realty, and other Lembi companies of unfair business practices, including dozens of instances of intimidation and harassment and illegally turning some of their buildings into short-term corporate apartment/hotels. "Theirs was a predatory business model that victimized tenants and drastically altered the competitive landscape for law-abiding landlords," says city attorney Dennis Herrera. "Even if the city never collects a dime, we will send a message that we will not tolerate that kind of activity in the marketplace."

Meanwhile, a small but persistent insurgent force was fighting skirmishes in Lembi buildings all over town. Citi-Stop, an offshoot of the San Francisco Tenants Union, knocked on doors and slipped flyers across thresholds to inform residents of their legal rights: new owners can't raise rents; landlords can't enter tenants' apartments without prior written notice; tenants don't have to answer any questions about themselves, their neighbors, or their living situations. Ted Guillicksen, head of the Tenants Union, says that while the evictions and buyouts continued, the campaign had a real impact. In November 2008, city voters passed an anti-tenant-harassment initiative that some referred to as the Lembi Law.

Ultimately, however, what stopped Citi and the Lembis wasn't a group of grassroots organizers. The party in the world of wildly risky financial transactions was already winding down by late 2007—the slowdown started soon after the Carlomagno purchase, in fact—and came to a screeching halt in September 2008, when Lehman Brothers collapsed. Real estate values were plunging, the Lembis were wildly overleveraged, and their short-term loans were starting to come due. Just before the meltdown, Walter admitted he was having a tough time keeping the financial shell game going. "We'd like to try to refinance the whole portfolio, but that market is pretty much gone right now," he told the San Francisco Apartment Association in August 2008. "This is

Half Page Vertical
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the worst financial market I've seen in the history of my career in real estate, and my father says the same thing, and he's been here a lot longer than me."

The Credit Suisse document, which dates from around this time, said Frank and Walter Lembi were worth more than $300 million and had $20 million in cash. But with global credit all but dried up, they couldn't meet their financial obligations. The year 2009 began with CitiApartments being forced to hand back 51 buildings to UBS, which held the mortgage, rather than surrender the Lembis' reported $400 million in personal loan guarantees. (If you don't make your payments, that kind of guarantee permits a bank to seize your personal assets.) "Bankers are not sympathetic to your personal woes," says Guy Cecala, publisher of *Inside Mortgage Finance*, an industry newsletter. "If they let [someone] off the hook for the personal guarantees, it's because they believe the borrower didn't have enough money to fulfill them." As 2009 drew to a close, many of the 174 buildings acquired during the Lembis' expansion were moving toward foreclosure or were being handled by outside managers or receivers.

By the beginning of 2009, inside the CitiApartments offices, things were also unraveling fast. During the year and a half that I've been working on this story, I developed a source who started to send me emails detailing the company's decline week by week. Sad good-bye observances became a regular occurrence, as employees who'd been with the Lembis for 10 or 20 years cleared out their desks.

With no money to pay tenants to move, the relocation teams were let go. Building managers discovered that the locksmiths and hardware and paint stores where they got supplies had closed their accounts because the Lembis were months behind on their bills. Before long, most of the managers were fired. Afterward, some of them filed a class-action suit alleging that the way they had been compensated violated state labor laws.

With the managers gone, CitiApartments began asking tenants to assume the responsibilities of taking out the garbage and sweeping the hallways for a few hundred dollars a month off their rent. Up on Green Street, the Carlomagno building was starting to look a little down at the heels. There were scuff marks on the exterior paint, weeds were growing in the driveway, and the hallways were dim. At 345 Green, no one had replaced a lightbulb in months.

Tenants were getting screwed in other ways, too. At some point, CitiApartments stopped refunding security deposits, in violation of the law, and some tenants were not paid their promised relocation money. Laramar, a company that is managing more than 100 former Lembi buildings, filed suit, accusing CitiApartments of using the security-deposit fund to pay other expenses.

Then, as I was finishing up this piece in November, I tried to get in touch with Andrew Hawkins to see if he would answer a few questions. But my email was rejected with a notice that the CitiApartments site was being shut down. The company's reputation was so bad that at one point, my source told me, those who answered the phone had been told to say “Apartments,” not “CitiApartments.” Now, the rental business goes by a new name—First Apartments—and ads on Craigslist give only the name of the rental agent.

Now that Walter and his wife, Linda, have divorced, he lives at the Park Lane, that symbol of old-fashioned San Francisco style. In late October, Clark County, Nevada, authorities issued a warrant for Walter’s arrest charging that in May, he had passed nearly $300,000 in bad checks to cover his markers at Caesar’s Palace in Las Vegas. A day after that news broke, Walter’s lawyer announced a payment plan and the charges were dropped, so maybe the Lembis aren’t completely out of cash. My sources say that Frank was furious with Walter for the mess he made of the company but put those feelings aside when Walter discovered that he had esophageal cancer. Now, a few times a week, looking gray and haggard, father and son have been seen taking their morning coffee at Caffè Trieste.

Those who post comments on websites about local real estate are gleeful as they watch the Lembis’ fortunes fall. I don’t share that joy. What the Lembis did affected a huge segment of San Francisco, all the way from the day laborer who didn’t get paid for his work on a CitiApartments property to the swells on Nob Hill. No one will spend a day in jail for the trouble the Lembis caused to thousands of San Franciscans in their quest to dominate the local real estate market using other people’s money.

My bet is that the Lembis are taking some satisfaction from the recent revival in the San Francisco real estate market for buildings of 10 or more units. As I was finishing this story, the banks that had been holding Lembi properties were releasing some for sale. People who had been staying out of the market for years, while the Lembis gobbled up everything in sight, are edging back in. At first, no one knew what anything was worth after the Lembis so distorted the market. But as James Devincenti says, San Francisco doesn’t go on sale very often. Buyers who had been spooked by the inflated prices had continued to build their war chests and now were in the perfect position to buy. By the end of October, 35 buildings had sold, and some of the prices were right around what the Lembis paid, though other properties were sold a steep discount. “A lot depends how far [the Lembis] were able to get their income up during ownership,” one broker told me.

Even as they were besieged on all sides, the Lembis managed to hold on to some buildings. According to my source, there’s been talk around the Lembi offices of hunkering down and coming up with a new plan for expansion once this downturn has run its course.

To that end, Taylor Lembi, Walter’s son and the first of that generation to enter the family business, started a company, Urban Pioneer, that reportedly manages some of the properties that the banks took back from CitiApartments and Skyline. He has claimed that the operation is a wholly separate enterprise from his family. At least one of the lawyers who are suing the Lembis have their doubts. Walter tipped his hand to this new strategy way back in that 2008 interview: “I don’t think there’s a lender in the United States who would want to come in here and manage 310 buildings,” he said. “So we’re protecting their assets with our management and renovation abilities.” Urban Pioneer was incorporated in February 2009, shortly after the Lembis gave back those buildings to UBS.

As I drive around and see the signs that their empire has crumbled, I don’t think about the Lembis, but about the city I love and how much they changed it. Over on Green Street, the new management company that took over from CitiApartments is doing a better job of maintaining the property. But the tenants there have grown wary of interacting with their landlords. This was a place where Steve Payonzeck and Joe Jr. once worked side-by-side over the course of a weekend renovating Steve’s kitchen, with Steve doing the demo work and Joe Jr. installing the fixtures. Yet when the water started to back up in Steven Batiloro’s kitchen sink, he just poured hot water and Liquid-Plumr down the drain—he’d rather handle the problem on his own than ask the new landlord. “I wouldn’t let those people in my apartment, he says, “whoever they are.” ■

DANELLE MORTON HAS WORKED AT THE *NEW YORK TIMES* AND THE *SAN JOSE MERCURY NEWS* AND SPENT FIVE YEARS IN THE LOS ANGELES BUREAU OF *PEOPLE.*