

**Palo
Alto**

Weekly

Voters teach city a lesson

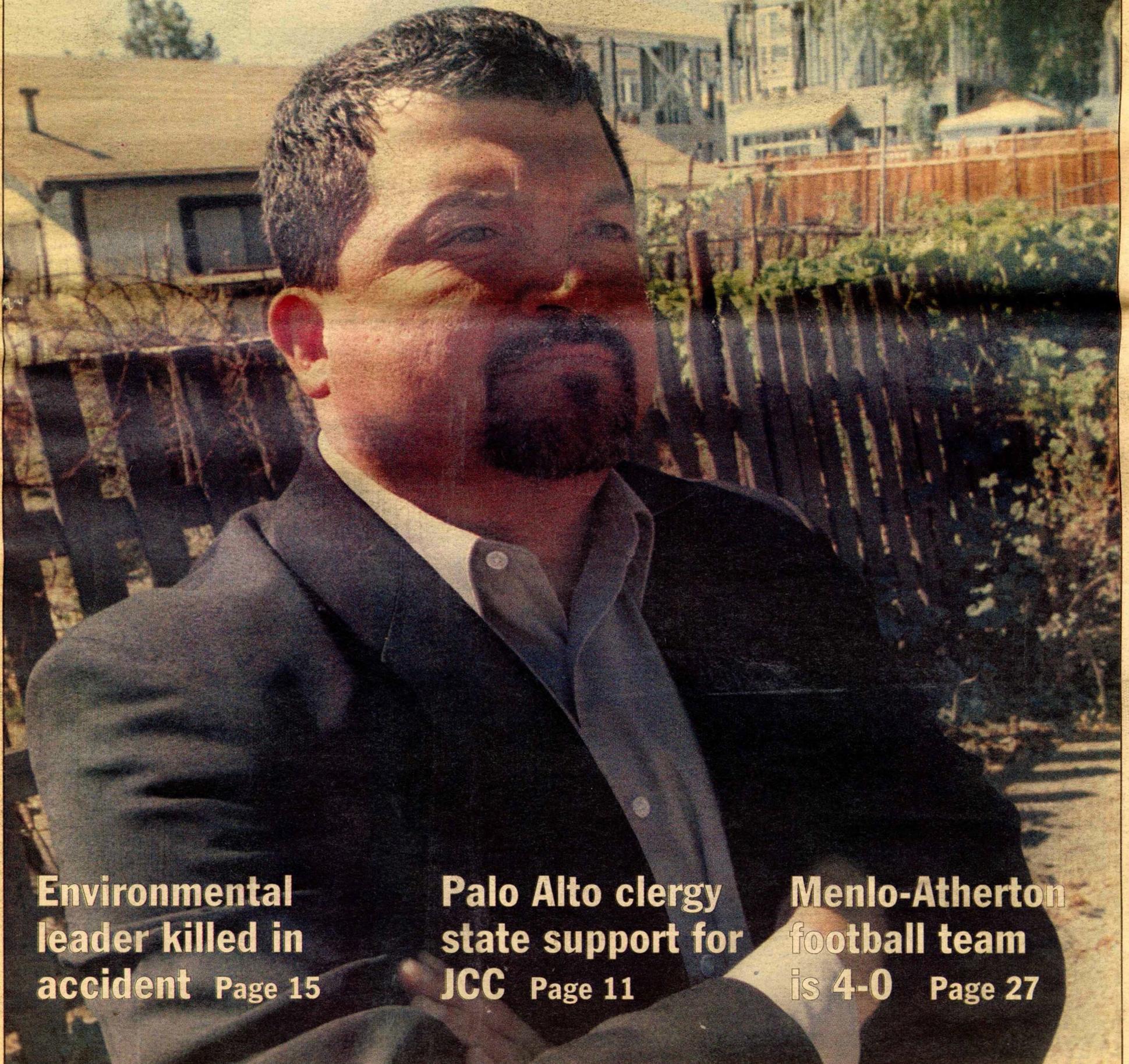
City Council picks up the pieces after failure of storm-drain election **Page 3**

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The turning tide

New developments in East Palo Alto may push out longtime residents **Page 16**



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Low
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Wave of Development

Engulfs East Palo Alto

Over-income
rents forced to
as home prices
rise

Story by Heather Wax

Photography by Kate Robertson

When Ruben Avelar grew up in East Palo Alto, "everyone knew everyone." That was before University Avenue was connected to the Dumbarton Bridge, back when there was only "one way in and one way out."

Avelar, a vocational counselor, applauds East Palo Alto's courting of big-box businesses (Home Depot, Good Guys, Ikea) into its new Ravenswood 101 Retail Center. He's enamored by its plan to build a hotel-office development at University Circle, where Whiskey Gulch used to be.

But for many of the city's residents, there is no honeymoon. Instead, there may be a divorce between native East Palo Altans and the city they have known, both in good times and bad, as high-end housing and retail space prices out low-income dwellers.

Officials, outsiders and some residents say the community is experiencing a period of growth. Others call the situation "sad," "difficult" and "unfair."

As talk begins about a rebirth of East Palo Alto, the renaissance being proclaimed is not a rebellion against past values but an immediate, high-impact demonstration of the old real estate maxim: location, location, location.

Middle-class homeowners, who

can't afford to live in surrounding cities, are starting to move into East Palo Alto in droves. They're looking to a community that is likely to become a hot neighborhood in the coming years. In the process, home prices are doubling, neighborhood streets are clogging up and lower-income city residents are moving out.

Avelar says the loss of East Palo Alto's neighborhood feel and hometown element started in the early 1980s, when 40,000 cars a day started coming through the city down University Avenue. Now, a red-hot real estate market and an upward economic trajectory have led to the conversion of old factories into condos, the construction of new office towers and an influx of young professionals from neighboring communities looking to East Palo Alto as one of the last affordable cities on the Midpeninsula.

"We're not experiencing any-

The impact on diversity?

The development wave and its backwash will affect East Palo Alto's diverse racial and ethnic mix, possibly in major ways. The community has long been predominantly African American, with a strong Latino growth in recent decades (reflected this year in the first "Latino slate" for the City Council election), with pockets of South Pacific Islanders, Asians and whites.

How deeply the demographics change depends in part on how community leaders, educators and others respond to the economic tsunami hitting the community and how many present residents are able to ride the wave versus getting washed out of town.

Many community leaders fear the economics of the region could ultimately result in a loss of diversity in the community as more affluent whites enter the rental market and longtime property owners sell to reap sometimes huge profits on their homes.

But the basic impacts explored in this story relate to income levels, without attempting to address the highly complex (and often emotionally charged) demographic implications. ■

—Jay Thorwaldson

thing unusual. We're the last bastion of affordable housing and underdevelopment. We are it and we're like a gold mine," Avelar said.

Wally Tseng grew up in Kansas. He came to the Bay Area in 1993 to go to Stanford. The first thing he heard about East Palo Alto was that it had the highest murder rate in the United States. Back then, the median home price was about \$158,000. Now, it's up to \$268,000 and the 25-year-old, who works in the Internet industry, is looking to buy a \$600,000 home at the new University Square community, with two of his friends.

"It's not like I'm made of money or anything," Tseng said. "I need a place to live really bad."

Walking through a model single-family home at the Tinsley Street complex, he admitted that "there are not super-thick walls or anything." Tseng added that when he first heard about the University Square homes, they were selling in the mid-\$300,000s.

"We're looking at 2,000 square feet. That's mad," he said, marveling at the craziness that has come with the Bay Area's housing market boom.

"It's cheap, relative to neighboring cities. It's nicer than a lot of other places that you can get for the same amount. And wait until everybody finds out about this place."

No matter how nice, you cannot ignore the fact that these houses—and others like them—are down the street from rows of tired-looking homes with rundown yards, in a city that does not even own its own city hall.

There are dingy apartment blocks and slums, and the city doesn't really have a "downtown." For years, the city could not fix the potholes on its roads or replace broken street lights because there was not enough money for repairs.

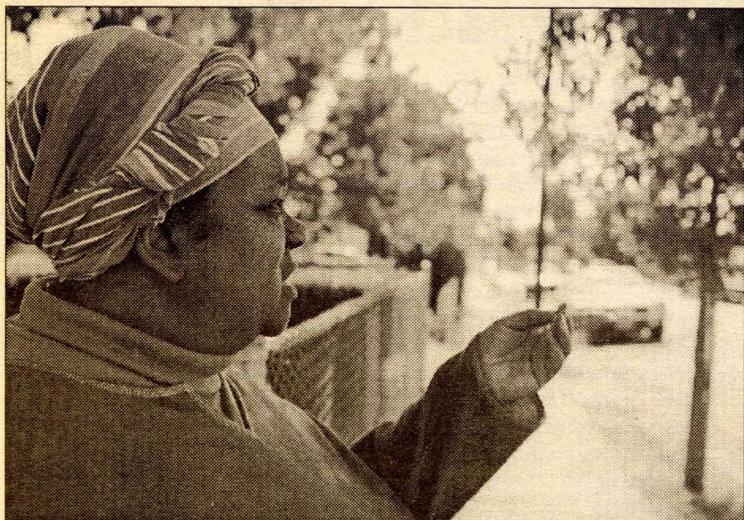
Even now, the city's \$5 million general fund budget is still nowhere near Palo Alto's \$100 million budget. But first-time homebuyers shopping in East Palo Alto see a bargain, not a fringe community.

"There's a lot of money now being pumped into this place. It will be all right," Tseng said, looking out among the home construction at the University Square subdivision, the third phase of the shopping center redevelopment plan. The spacious residences, with auxiliary sitting rooms and multiple bathrooms, line three streets only a short walk away from the new retail center that hosts a Good Guys and Home Depot.

(continued on page 18)



The apartments at 1760 Bay Road (left) are being replaced by higher-end housing. Homes at the new University Square development (above)—a short walk from the new shopping center—are selling in the \$600,000 range.



Aretha Lawrence, a longtime Palo Alto resident, laments the loss of culture in her changing neighborhood.

(continued from previous page)

Like Tseng, many young homebuyers looking for investment potential are convinced they have found it in the neighborhoods of East Palo Alto.

Property values in the city rose more than 14 percent in 1999, more than in any city in San Mateo County. A two-bedroom home on O'Connor Street sold for \$350,000. The average rent for a one-bedroom apartment is now \$791 and climbing, up about \$100 from a year ago.

At the time of the 1990 census, the median home price was \$157,000 and there were none with a value over \$400,000 and only 1.6 percent more than \$300,000. Only about 8 percent of the city's one-bedroom apartments were renting for more than \$750. For all rental units, only 9.8 percent cost more

than \$1,000 a month.

The 90 luxury apartments being built along San Francisquito Creek, with spacious entryways and cathedral ceilings, are going for as much as \$2,400 a month. The market-rate units in the new Peninsula Park apartments, at the corner of Clarke Avenue and O'Connor Street, will range from \$900 a month for a one-bedroom to \$1,700 a month for a three-bedroom.

How does a city most commonly known for poverty and crime gain the reputation as not only safe but profitable? How does a place that had the highest murder rate per capita in 1992 suddenly seem welcoming and inclusive?

"Racial dynamics, poverty and crime allowed it to exist as a pocket left alone, but I think that with the

market pressures so high now, people don't care (about those problems)," said Carl Anthony, executive director of the Urban Habitat Program, a nonprofit that works to keep housing livable and affordable.

"Many involved in the information explosion are young people who don't care about much other than their computer screens," he said.

The program put out a report early this year called "There Goes the Neighborhood: A Regional Analysis of Gentrification and Community Stability in the San Francisco Area." The bottom line: East Palo Alto is being "gentrified." The term "gentrification" is a fancy name for a logical process: When a depressed area suddenly sees a surge of reinvestment, property values skyrocket and low-income residents and small businesses are forced out.

For now, in East Palo Alto, this process is still going slowly. But according to the Urban Habitat Program, the 2.5-square-mile city is showing the signs of gentrification.

"There's the overlay of the economically affluent looking at its potential," Anthony said.

"What you have now is a new kind of manifestation of the process of gentrification where the forces you're dealing with are new. The dot-com revolution is something that's new."

Those who have property in East Palo Alto now find themselves accidental entrepreneurs. The inexpensive space they bought years ago is now hot property. Soon, it will be too expensive to live in the community, many fear.

As business in Silicon Valley booms, the great movement is outward—to neighboring cities—to look for housing. In East Palo Alto, the average household income is below \$34,000 and—according to 1990 census figures—the percentage of residents who didn't go to high school is equal to those who have graduated from college.

And so a shift comes with the influx of a new class that is more educated, more highly skilled and more highly paid. In the end, it encourages real estate agents, property developers and house-hunters. The biggest losers are the lower-wage workers already there—those who earn below the Bay Area's \$70,000

average income.

"Now we're looking at a new type of resident, upwardly mobile and educated. Not blue-collar workers, but people in high-tech, who are making good money and have a stake in where they live," Avelar said of his home town.

Matthew Kosny, a San Mateo

"Anytime a community is intergenerational, people are able to work together. The sad part of East Palo Alto is that so many outside forces have kept people from doing better."

-Aretha Lawrence

mathematician who works in software, and his wife, Rebecca, are currently looking to East Palo Alto as a place to settle down and raise their two small sons. While they are definitely not "sold" on the school district, Kosny said the city's locale is a big draw.

"Its central location in Silicon Valley is the most attractive thing," he said. "And as for its other aspects, we believe that these will change if more people move in."

Avelar views East Palo Alto as a city using development to pull itself up, finding solutions to the low property values, the money shortage and more.

"We're sitting in the belly of Silicon Valley and we have to be part of the growth, development and prosperity of the area. We can't be in the depression mode we have been in for years," he said.

"For years we were the stepchild of San Mateo County."

Isaiah Woods, who founded Ravenswood—as it was known in the 1850s—thought the community could be the last stop on the Transcontinental Railroad. But it would not become a transportation hub—the end-of-the-line station was put in Oakland, and the line connecting San Francisco and San

Jose skipped over the town completely.

The city was settled by a labor force of agriculture and blue-collar workers. The blue-collar job market did not mesh with the high-tech industrial economy that sprouted throughout the valley.

Now, as high-tech jobs multiply, there's also a growing wage gap. And there's a vast difference between finding it tough to pay rising Silicon Valley rents and just trying to find any kind of shelter.

With a combination of regressive landlord-tenant laws and a declining supply of affordable housing, many low- and middle-income residents of East Palo Alto are being driven out of their neighborhoods—and sometimes even onto the streets.

Even Avelar, a strong proponent of East Palo Alto's housing boom, knows that prosperity does not increase the same way the need for housing does. The vast majority of new homebuyers in East Palo Alto were not born in the city and have no comforting "old neighborhood" ties. What they do have, for the most part, are budgets well above \$300,000. Investors have already nudged homes to the \$900,000 boundary and above. The homes in the new University Square redevelopment, a Ponderosa Community, are nearly \$700,000 apiece.

"There's a minority of people in East Palo Alto who could afford that. I'm considered middle class, and I couldn't," Avelar said.

"The cost is prohibitive for a lot of white-collar workers. When you start doing the math, you have to be making some serious money to live in one of those places. It's a different type of person who can afford that and not blink."

Cindy Beattie, vice president of marketing for Ponderosa—the developer of University Square—said she could not discuss the financial specifics of those buying the single-family detached houses. But "of course they can all qualify for homes in the high \$500,000s—so they have fairly adequate incomes."

She added that most of them "work somewhere in high-tech," naming off such well-known firms as Sun Microsystems, Oracle and Excite @home.

A dot-com-sized income may be

The desperate search for affordable housing

Few options in East Palo Alto

With property values exploding, what are low-income residents supposed to do? One option is to try and find below-market-rate housing. Another option is to move out, or move into a home that is too small to accommodate all the people living there.

"Young people can try to move somewhere else, like Sacramento, and maybe they'll have an opportunity to get a job. The cost of housing is much more affordable there," said William Webster, chairman of the East Palo Alto Rent Stabilization Board. "But the problem in that area is finding a decent job. Here there are plenty of well-paying jobs but no housing."

From 1995 to 1997 in the San Francisco Bay region, only one housing unit was built for every nine jobs.

"There's an entrapment of generations in the same house, homes that are often inadequate. It's OK en masse because there are parents and grandparents to take them in," said Webster. "If they were on their own here, these people would be thrown into the street, scrambling for a decent place on the sidewalk. As bad as it's portrayed, it's even worse because it's masked by relatives and friends willing to take them in."

Robert Jones, director of EPA CAN DO, a nonprofit that builds affordable housing, is helping residents stay put with first-time home buyers' workshops and credit counseling at the organization's Housing Assistance Center.

"What we're trying to do is find a way (for) local residents (to) have a high probability of getting in (affordable units)," he said. "It's about outreach, marketing and mechanisms, and short of not wanting others to apply, we'd like to see first preference—if it could—go to East Palo Alto residents."

Even if this could happen, it would not necessarily stop the majority of low-income tenants from being pushed out of a neighborhood. Even if every apartment now being built in East Palo Alto was affordable, Jones said there still would not be enough units.

Jones said 500 applicants approached EPA CAN DO for help when 129 units in the new Peninsula Park development, 64 of which are below market rate, were built. The joint-venture with Bridge Housing of San Francisco is partial replacement housing for those bulldozed because of the Gateway project.

"The units are still under construction, so I'm not sure how it's going to break down," he said. "But there's never enough affordable housing because demand is just so keen." ■

—Heather Wax



The face of businesses as well as housing is changing rapidly in East Palo Alto.

necessary to move into one of the O'Connor or Gates street homes, with their options for state-of-the-art wiring materials and computer workstations. But there are also 22 below-market-rate housing units being built, ranging from the \$100,000s to the mid-\$200,000s.

"They're dependent upon income qualifications," Beattie said.

Stewart Hyland, a member of Peninsula Interfaith Action (PIA), said 22 units, even at below-market-rate prices, are not enough to keep the portion of residents who are below 80 percent of the median income—\$40,550 in San Mateo County as of January 1999—in the city. Some are making as little as \$12,000 to \$15,000 a year.

While PIA, a coalition of 20 Peninsula church congregations, works to find solutions to the pressing housing issue, Hyland pointed out that St. Francis of Assisi Church—where he has belonged for 16 years—has become a center for swapping relocation stories. There is talk of family members who have moved to the Central Valley, commuting sometimes four hours a day back to East Palo Alto to have both the house they can afford and a better-paying job.

When Hyland decided to hand out a survey to 50 members at his church, he was surprised at the results. Eighty percent said they were sharing homes with someone else. Of that group, 80 percent said there were 10 or more of them living in a two- or three-bedroom dwelling.

"It's out of necessity, the only way to get by. But I just couldn't believe it," said Hyland, a longtime resident of East Palo Alto.

"Families are coming together and trying to support each other as best they can. But there are older folks that are still in a bind because even thought their property values are going up they can't help their children. And then they can't live in the area."

As the working-class neighborhood begins to follow the lead of high-end homesteads—encouraging the blending of residential and commercial developments—community needs become secondary to property and sales tax revenue collection.

"It's really caught a lot of folks in a bind. It seems really difficult to keep what East Palo Alto is already, its flavor," Hyland said.

Homegrown businesses are also forced to seek space elsewhere when redevelopment happens. For example, Three Brothers Tacos still hasn't recovered after it was forced to relocate because of the Dumbarton redevelopment. J's Fish and Seafood and Community True Value Hardware are now out of business.

And both Century 21 and Nina's Nails, previously in Whiskey Gulch, had to move to Menlo Park.

"These businesses that were part of the city, that were really ours, are going away. Sure, McDonald's employees people, but it's bland. You could see it in 40 different cities. That part is really worrying me. It's losing its culture, what East Palo Alto is really about. It feels like we've been stuck in a blender and mixed around," Hyland said.

Hyland is working on the Neighborhood Improvement Initiative, a partnership with the Haas Center for Public Service and the Peninsula Community Foundation. Together, they are deciding how to best utilize a grant for more than \$4 million from the Hewlett Foundation.

Similar investments for neighbor-

East Palo Alto average single-family home prices

1998
January - June
\$206,000
July - December
\$210,299

1999
January - June
\$229,393
July - December
\$324,985

2000
January - June
\$358,759
July - August
\$355,771

hood improvement have been launched in East San Jose and West Oakland. In East Palo Alto though, much more than the other two sites, the plan is driven by residents.

"Development inside has to really want to work with folks to understand what kind of community it is. We are here to make sure that happens," Hyland said.

Aretha Lawrence, former president of the East Palo Alto Historical Agricultural Society, remembers East Palo Alto back in the 1970s. She was there when the population was a tenth of its current count of 26,000. She knew most of the children who were growing up in the shadow of Palo Alto to the west—boys she describes as "fidgety," who used to hang out between mom-and-pop shops and by often litter-filled streets.

"Who's your grandmother?" you would say to them. Well, you would know their grandmothers, their mothers, their entire family. And you could say to that child, "I know them and they wouldn't want you to behave like this," she said.

"Anytime a community is inter-generational, people are able to work together. The sad part of East Palo Alto is that so many outside forces have kept people from doing better."

The boys Lawrence used to know have grown up. Many have to live with their mothers and grandmothers, sometimes sleeping three to a room. Many have gone to places like Modesto, Stockton, Sacramento and farther—priced out of the neighborhood they grew up in.

The opulence of Silicon Valley does not spill over into East Palo Alto as readily as the demand for housing and office space.

"Was it Adam Smith that said that if you allow the weakest link to be thrown to the wayside, it makes everyone move up? The problem in East Palo Alto is that, if it adheres to that as a process, it will look more like Palo Alto because that would be the most natural form. And people will be forced out," Lawrence said.

East Palo Alto City Councilman Duane Bay does not like the word "forced," preferring the term "voluntary transaction." He also cites the difference between "forced" and "not staying when you would rather stay."

He added that a lot of attention has been given to 200 new houses out of the 7,500 homes in the city. It's important to realize just what numbers are being thrown about

when there's talk of displacement. About half of the city's housing units are owner-occupied, and close to two-thirds of the other units are under rent control.

"So, we're talking about a proportion of about 20 percent that are renters without rent control," he said.

There are other numbers he thinks are much more telling. For instance, in 1996 the general fund budget was \$125 per resident per year, and now it is up to \$275, he said. In the past four years, the value of property owned by East Palo Alto residents has also risen by \$250 million, Bay added.

Finally, Bay said there's the current cost—depending on how it is counted and the solutions offered—to make one unit of housing affordable permanently. Bay put that at \$50,000 to \$100,000.

"The challenge is that to provide subsidized housing is extremely expensive," he said.

"Out of about 8,000 homes, what's a reasonable percent to protect from gentrification? Say 10 percent—800 units. Well, \$40 (million) to \$50 million will do that, but that money has to come from somewhere. So you can build a commercial spine up University and to the Bay, and you can build a tax base and use it to pay for services, but it's really hard to find that balance.

"Undeniably some of the people moving in have higher incomes than I do," Bay said, adding that the lack of affordable housing worries him enough to hope it will become an election issue.

"There's a legal obligation for a replacement of units. The legal obligation calls for 400. I would like to see us at least double that," he said.

And with local businesses and non-profits also being squeezed out, he's trying to make sure they, too, have a place to go when redevelopment hits. Right now, the focus is on the newest of East Palo Alto's big plans—"University Palms," a pair of office buildings connected by a sky bridge that would run two blocks along Donohoe from University to Cooley Avenue and replace several small businesses.

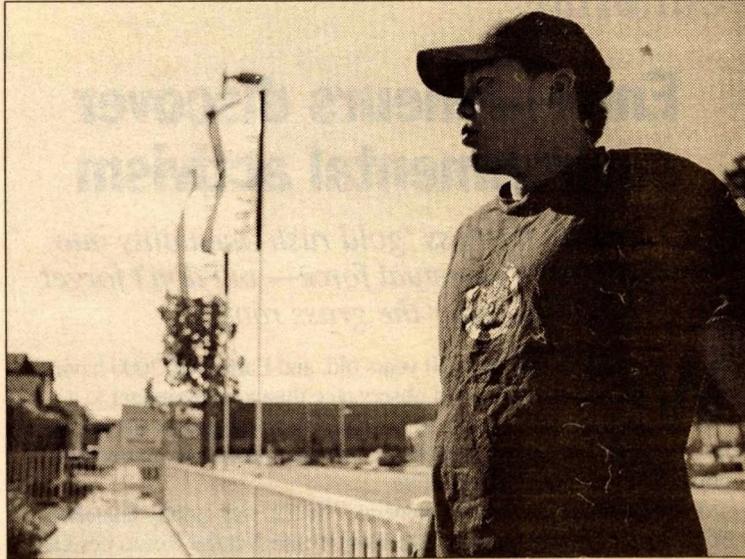
"The ground floor would be retail, with first preference to local businesses at subsidized rates they can afford. To make it economically viable, something has to pay for it. What's going to pay is the office space above. Who are the tenants going to be? I don't know," Bay said.

"But probably the rents will be one-half Palo Alto rents and five times as much as the current rent on that corner."

It is also probable that University Palms could bring up to \$200,000 a year in sales and property tax revenues, money that could be used to boost now-lacking civic services.

Whatever the statistics bear out, the growth is unprecedented for East Palo Alto—a kind of middle-class renovation. As the urban area becomes a smart investment over the long haul, those with money to spend will get their relatively low-priced homes near the area that has some of the priciest properties around.

And what will those already in East Palo Alto get? Those who stay get to find themselves in a desirable area, with burgeoning profitability and perhaps a new kind of community stability. ■



Wally Tseng, a 25-year-old who works in the Internet industry, is hoping to buy one of the University Square homes with two friends.

Fewer options for renters

Rent control, Section 8 housing harder to find

Renters are finding East Palo Alto's housing market to be nearly as expensive as homebuyers. There was a time in the community when rent increases were capped, even when a new resident took over a home.

A 1995 law, however, allows landlords to raise rents to whatever level they believe the market will bear as soon as units are vacant. This means that any time after Jan. 1, 1999—when the law came into full effect—2,000 units in East Palo Alto were available for market-rate rents as soon as they became uninhabited.

Right now, market-rate one-bedrooms at the Peninsula Park apartments rent from \$900 a month, whereas the below-market-rate units will start at \$436.

William Webster, chairman of the East Palo Alto Rent Stabilization Board, said weakened rent control, combined with a booming real estate market, does not create an atmosphere that's beneficial for renters.

He estimates there used to be between 27,000 and 28,000 units under rent control, but because of redevelopment that number is down to about 23,000. Some of these units were lost with the demolition of Whiskey Gulch, where rent ranged from \$400 to \$800 for studios and two-bedroom apartments.

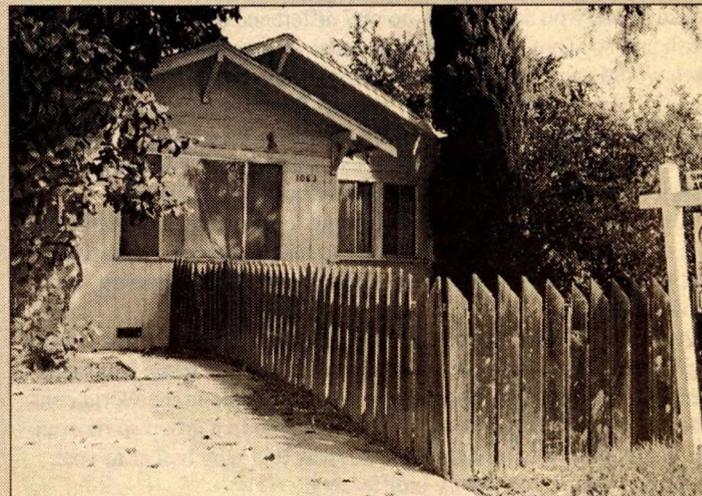
"There's still rent control in East Palo Alto and people will climb fences to get at it, but like everywhere else there are no vacancies," said Webster. He said those who don't have controlled rent are often told by tenant advisors to "get lost—move to Modesto, move to the moon." Then there are those who live in Section 8 housing, the "most affected," according to Webster. Section 8 housing is a federal subsidy program instituted in 1974 that lets tenants pay a maximum of 30 percent of their salary toward rent while the program makes up the difference.

There are two buildings in East Palo Alto that are classified as Section 8 housing—Runnymede Gardens and Light Tree Apartments. But as East Palo Alto's housing crisis worsens, the city may be on the verge of a wholesale elimination of reasonably-priced apartment units as private landlords grow more eager to cash in.

"There are still a number of Section 8 units because Caucasians are not yet moving in in significant numbers," Webster said. "But maybe it's starting—and they can afford to pay \$3,000 a month for a three-bedroom home.

"As more well-heeled whites move in, there's the incentive for landlords to get rid of Section 8 residents. The reason why it's not plummeting yet is that there is not yet enough of the white affluent market," Webster said. "East Palo Alto is still sort of a community of diversity but the new group moving in are the high-techers. They're the primary purchasers of homes in the new housing developments." ■

—Heather Wax



Asking prices for East Palo Alto houses is beginning to soar: This home at 1063 Garden St. was recently listed for \$950,000.