Vexed in the city: The 'sharing' economy's hidden toll on San Francisco

Under the guise of "sharing," companies like Airbnb and Uber are cashing in. While they're providing services beloved by many, their impact is also causing reverberations on the ground

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SAN FRANCISCO -- When Brad Worrell visited San Francisco on business last summer, he stayed in an Airbnb rental for the first time in the city's Castro district. He wasn't sure what to expect. He typically stays in hotels, but his company booked him a "Castro Gem" just a short walk to the studio where he'd be working for a few weeks.

He loved it. "I thought it was a really cute neighborhood. I was psyched when I got there," Worrell says. "It was one of those classic San Francisco apartments with high ceilings."

One other thing became quickly evident to Worrell: no one lived there.

"I've stayed in vacation rentals before and they had that vibe of 'supply just what you need',"' he says. "I would say there was definitely the minimum required."

This Castro Gem is a San Franciscan's dream apartment -- two bedrooms, one bath, with bay windows, a huge kitchen, and a fireplace. It's located on a quiet residential street, steps from prime locations including Mission Dolores Park and Market Street.

For Worrell, it was a choice booking. But for some lawmakers, housing advocates and people trying to find a place to live in a city with expensive housing and an apartment shortage, that Castro Gem is emblematic of everything that's wrong with the so-called sharing economy.

"San Francisco is experiencing its biggest housing crisis probably since World War II," says longtime housing advocate and Airbnb critic Calvin Welch. "There is a phenomenon of an extraordinary increase in the cost of housing."

Airbnb is just one of dozens of companies to describe itself as part of the sharing economy -- the idea of using the Internet to create person-to-person, or peer-to-peer, marketplaces that empower everyday people. The enabler -- companies like Airbnb -- gets a cut of each transaction it facilitates. While some sharing economy platforms promote in-kind trades among members, others, like Airbnb, tend to exchange services for money. Other well-known companies in this genre include car-sharing services Uber and Lyft.

On the surface, "sharing" may sound groovy -- hey, it's San Francisco, after all. But this new economy is creating social dislocation and tension that's near a boiling point. And, despite the kumbaya-like pronouncements of companies touting sharing services, there's one mega-force driving them: cash.

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What is the sharing economy, anyway?

The sharing economy has its roots in an altruistic movement. The underlying theme is that if people pool resources, goods, and services, the world will become a more cooperative and waste-free place. Tech platforms are key to the sharing economy because they let people reach out and share with anyone -- making the planet smaller and more interconnected. It's a bit like socialism with a tech twist.

"We should be looking forward and asking ourselves, 'What kind of future do we want to create?'" Airbnb co-founder and chief technology officer Nathan Blecharczyk said at a tech conference in New York in May.

Companies within the sharing economy span the gamut. Some platforms let people swap bicycles, cameras, tools, and musical instruments. Others, like Airbnb and VRBO, let people sublet their rooms or entire homes when they're not around. Car-sharing services, like Uber and Lyft, let people use their own cars to give strangers a ride -- acting as impromptu taxis.

The sharing economy gives "the ability to unlock human capital and potential," says Milicent Johnson, director of Partnerships and Community Building at sharing-economy advocate organization Peers.org. "People have a ton of options they never had before, like getting around the city or getting children's clothing. We are just getting started and are beginning to see that potential."

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While Peers.org promotes itself as a "member-driven organization that supports the sharing economy movement," it's been criticized as being Airbnb's mouthpiece for faux grassroots campaigns. Peers.org's co-founder and foundation board member Douglas Atkin is Airbnb's head of community. The vast majority of Peers' 80 listed partners are for-profit companies, including Airbnb, Lyft, and TaskRabbit. Only a handful are nonprofits.

Johnson wouldn't clarify the organization's affiliation to Airbnb. "Our partnerships are about helping spread the word about Peers," she said. An Airbnb spokeswoman added, "Airbnb and Peers are independent groups, but we often work together to highlight the benefits the sharing economy brings to cities."

And those benefits, say Airbnb proponents, include the boost that short-term rentals bring to San Francisco residents and tourists. Not only do they help "home sharers" make ends meet or pay off their mortgages, they also bring more visitors who might not be able to afford the city's high-cost hotels. The average daily rate for a San Francisco hotel room is about $230 a night, according to an August study by hotel research firm STR Global. On most given days on Airbnb, hundreds of one-bedroom San Francisco apartments with a private bath can be found for less than $100 a night.

Likewise, with car-sharing services, the promise is that anyone can make extra money as a driver. For passengers, e-hailing a ride-share through a mobile app on a smartphone is often far easier than tracking down a taxi in San Francisco.

It all sounds good in theory. But, what happens when some sharing economy participants are less interested in sharing and more intent on cashing in?

Is Airbnb really impacting San Francisco?

Airbnb has been the focus of intense criticism over the past few months. Irate residents, regulators, and housing advocates lashed out at the company in cities including New York, Portland, New Orleans, and San Francisco.

They say taking apartments off the market for short-term rentals means cities lose the tax revenue hotels would pay, while also reducing rental stock and exacerbating the housing crunch. Also, many short-term rentals are illegal under city laws, including in San Francisco.

Tension in the Bay Area is especially high, with anger directed at the tech world. The shift of high-paid tech workers moving from Silicon Valley to the city -- and the influx of young entrepreneurs looking to start the next Facebook or Twitter -- has fueled rises in rent and home prices.

Tech disruptors, like Airbnb, may be intensifying the situation.

San Francisco's vacancy rate is at an abysmally low 2.9 percent, according to research released in May by real estate company Paragon Commercial Brokerage. Rates this low tend to drive up rent and dislocate low-income tenants. According to Paragon, the average rent for a two-bedroom apartment in San Francisco is at an all-time high of $3,500 a month.

Many factors play into such a housing crisis, so Airbnb's role is debatable. But a look at company data reveals some insight into the number of apartments being taken off the market.

While Airbnb declined to release details on the number of apartments it lists, the San Francisco Chronicle published a comprehensive report in June that examined what's offered through the site. The newspaper found nearly 5,000 apartments, houses, and rooms listed for rent during one random day in May. Of these short-term rentals, nearly two-thirds were entire houses or apartments, and 160 of these were rented full-time. Of the 3,785 hosts, 513 operated multiple listings, which totaled 1,526 properties -- almost a third of all listings.

Take the "Castro Gem" that Worrell stayed in last summer. The host labeled the apartment as a "vacation condo rental." A closer look shows she has six other properties on Airbnb, a total of four in San Francisco and three in New Orleans. The apartment is also listed on other rental sites, like Vacation Home Rentals and HomeAway, which hosts VRBO. A one-night stay in this apartment costs $195, with a minimum of two days. A week costs $1,365 and a month is $5,788 -- far more than the average San Francisco rent price.

"San Francisco has 300,000 housing units," says San Francisco Chronicle reporter Carolyn Said, author of the Airbnb report. "Airbnb is a drop in a bucket. But compared to the vacancy rate, even 300 fewer apartments to rent in San Francisco is still significant because at any given time there's not that many apartments to rent."

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Housing advocate Calvin Welch

The "Castro Gem" doesn't represent how Airbnb markets itself. The company describes its service as a platform that lets regular folks occasionally share their home. The few numbers the company does divulge aim to highlight this idea of occasional use -- Airbnb says 82 percent of hosts rent only the place where they live.

"The overwhelming majority of Airbnb hosts in San Francisco share only the home in which they live, and use the additional income they earn to pay their rents or mortgages and pursue their dreams," an Airbnb spokeswoman said.

So is it Airbnb's fault when some of its hosts profit from its service? The company gets between 9 percent and 15 percent of the cost of each rental, and it's impressed investors with its potential: Airbnb is one of the highest-valued venture-backed companies in the world, with a valuation of as much as $10 billion.

And the more apartments it lists, the more options for its customers. That's why Welch believes Airbnb's focus isn't about helping everyday San Franciscans, but rather about making as much money as possible.

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What about car-sharing services?

Uber's cash-backed value swamps Airbnb. Not only is it one of the few venture-funded companies in the $1 billion club, the 5-year-old startup is actually at the top of the list, with a valuation of $18.2 billion.

Rival Lyft is valued at more than $700 million.

Like Airbnb, Uber and Lyft espouse the virtues of the sharing economy and promote their products as making the world a happier and more cooperative place. Lyft's motto is "your friend with a car" and says "your driver will welcome you with a friendly fist bump, and take you where you want to go."

One of Lyft's central motives is "to create a more social, sustainable, and affordable transportation system," a company spokeswoman said.

Similarly, Uber says on its website that it "is evolving the way the world moves" and its "global presence continues to bring people and their cities closer." Uber declined to be interviewed for this story.

Both Uber and Lyft have their detractors, however. They've battled taxi commissions and regulators in cities across the world, ignited protests in Paris and London, and been served cease-and-desist orders in Pennsylvania, Virginia, California, and other US states.

The taxi-hailing apps have also been taken to task for gouging passengers. Both companies raise prices for rides when demand is high and fewer cars are available -- a practice called surge pricing. This typically happens during rush hour, bad weather, or on certain holidays. Uber riders complained about running up bills totaling hundreds of dollars on New Year's Eve, and people criticized the company for using surge pricing during Hurricane Sandy in New York City in 2012.

But battling regulators and making money off passengers aside, the services help their drivers, right? Uber and Lyft say people can make extra cash by being their own boss and driving as much or as little as they want.

"Lyft offers an empowering and flexible peer-to-peer model that provides economic opportunity for tens of thousands of driver community members throughout the United States," the Lyft spokeswoman said.

It's unclear, though, how much Uber and Lyft are actually improving the work life of their drivers. Both companies have put price cut burdens on their motorists, and drivers for Uber and Lyft have filed class action lawsuits against the car-sharing services under California labor law.

The similar cases have two main claims. One: the companies allegedly pocket a percentage of gratuities often included in passenger fares. Two: by classifying drivers as independent contractors, rather than employees, the companies allegedly saddle drivers with an unfair amount of costs -- such as vehicle maintenance, insurance, and gas.

"Companies save an enormous amount of money in labor costs and services when they classify them as independent contractors rather than employees," said Shannon Liss-Riordan, the attorney representing the drivers. "Uber is trying to claim that it's really a tech company and it can't employ drivers because it's a tech company. It's really an old spin on something we've seen many times before."

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Classifying drivers as contractors brings other benefits to Uber and Lyft -- it prevents drivers from forming unions and frees the companies from having to pay various taxes, workers compensation, unemployment, and health insurance.

"A lot of their success is built on the backs of the drivers," Liss-Riordan added. "And a lot of the money that they are making stems from a scheme whereby the company is able to shift to its workers many of the costs of running a business."

Can't we all just get along?

Even as criticism and lawsuits aimed at Airbnb, Uber, and Lyft pile up, it's clear customers are embracing their services. In the last five years, more than 4 million people have stayed in Airbnb rentals worldwide. While Uber and Lyft don't reveal usage data, both companies have expanded rapidly over the past few years. Lyft now operates in more than 60 US cities and Uber is in 35 countries and more than 100 cities.

This has created a challenge for regulators who are debating whether there's a way to keep the good and toss the bad.

While Uber and Lyft have hashed out many of their battles with state regulators and are now operating legally in several cities, Airbnb is just getting started.

Under San Francisco housing law, most residential rentals less than 30 days are illegal -- meaning the vast majority of Airbnb listings are banned. This is meant to protect renters, so that slumlords don't force them out to make a quick buck on vacation stays. Short-term rentals are also considered commercial businesses, which aren't allowed in residentially zoned locations. The intent is to safeguard these areas for housing and ensure commercial businesses pay taxes, as hotels do.

In March, Airbnb pledged it would start "collecting and remitting taxes on behalf of our hosts in San Francisco" by July. "We have repeatedly said that we believe our community in San Francisco should pay its fair share of taxes," Airbnb head of global public policy David Hantman wrote in a blog post.

But as of July, Airbnb hadn't started giving the city the 14 percent hotel tax it said it would collect from hosts. A company spokeswoman said Airbnb "will have more details about our plan to begin collecting and remitting taxes in San Francisco later this summer."

Legislation to regulate Airbnb has been proposed by David Chiu, president of San Francisco Board of Supervisors. The legislation's specifics include collecting a 14 percent hotel tax from Airbnb hosts, creating a host registry, and letting people sublet their homes on a short-term basis for up to 90 days per calendar year.

While mostly supported by Airbnb, Chiu's legislation is being challenged by housing advocates and Airbnb hosts. On one hand, Airbnb hosts want Chiu's rules eased -- they don't like the idea of a registry and want 180 rental days per year. On the other hand, housing advocates want stricter legislation that better protects affordable housing, residential zoning, and landlords.

"We need to enforce the laws that are currently in the books," says Janan New, executive director of the San Francisco Apartment Association, which represents landlords. "If they change the rent law, they need to understand that impacts the whole rental system."

While the sharing economy was intended to be a little like socialism with a tech twist, it's turned out to be more like capitalism with a tech bent. Pioneers of the sharing economy probably didn't envision their Robin Hood-like ethos being criticized for diminishing affordable housing or yoking car-sharers with unfair costs.

Perhaps in this brave new world of $1 billion clubs, the word "sharing" has become an outdated misnomer. Maybe, the term should instead be swapped for "entrepreneur" or "speculator."