

SAN FRANCISCO City accuses big landlord of illegal tactics Firm accused of forcing people out of rent- controlled units



Chronicle / Laura Morton

City Attorney Dennis Herrera accused one of San Francisco's biggest landlords on Wednesday of using intimidation, shutting off utilities and employing other illegal tactics to force tenants out of rent-controlled apartments so they can be leased to new renters at higher rates.

The allegations were contained in a lawsuit filed in Superior Court by Herrera's office against CitiApartments and its corporate parent, Skyline Realty, which is owned by real estate mogul Frank Lembi and his family. The companies operate more than 150 apartment buildings housing some 7,000 tenants.

"The facts revealed by my office's investigation demonstrate very clearly that the owners of Skyline Realty and CitiApartments made a calculated business decision to operate in violation of the law -- and to do so consistently," Herrera said in a written statement.

"Given its dominant market position and web of subsidiaries, Skyline's illicit business practices do not merely victimize tenants, they cheat the vast majority of law-abiding landlords with whom they compete unfairly. Their business conduct is egregious, it is pervasive, it is illegal, and it will not be countenanced in San Francisco's rental marketplace."

Representatives for Skyline have denied similar allegations made in a lawsuit filed on behalf of tenants earlier this year. In response to the suit filed by Herrera on Wednesday, CitiApartments issued a statement defending its record, saying it "is a proud provider of safe, clean and well-maintained apartments."

The company, according to the statement, "has not had a sufficient opportunity to review the allegations in the complaint and, in any event, chooses not to try this matter in the press. Instead, CitiApartments will prove its case in the appropriate legal forum."

Lawsuits filed by tenants in March and April seek compensation for illegal evictions and other alleged abuses. In the suit filed Wednesday, Herrera asks that the companies be fined for violating tenants' rental agreements and conducting unlawful business practice. The suit also seeks to bar the company from renting apartments in 10 of its buildings.

Herrera said city attorney investigators found the company was using armed, uniformed guards to intimidate tenants, ask them for identification when they come and go, and enter residences during

unauthorized inspections. Tenants also were unlawfully threatened with eviction for having roommates, Herrera said.

"They'll say things like, 'You can go to the police but they're in our back pocket. They won't do anything,'" Lana Beckett, who lives at 737 Pine St., said Tuesday. "Tenants have come into my apartment, bursting into tears because they felt so threatened. It has felt like home invasion."

Other tenants declined to speak on the record or be named, saying they fear retaliation.

"People are afraid to make complaints or have (city inspectors) come in because they'll be singled out," said one man who has lived in a company-owned apartment near Civic Center for 15 years. "People are afraid to talk inside the building because you don't know if it will get back to the company. It's not a good way to live."

In April, a group of tenants sued CitiApartments, making allegations similar to those listed in Herrera's lawsuit. The city attorney is seeking a court to impose fines of \$1,000 a day for city housing violations and \$2,500 for each alleged unlawful business practice.

Skyline also is accused of marketing rooms allotted to long-term residents at the Gaylord Hotel on Jones Street to tourists, a violation of the city's hotel conversion law. The city alleges rooms at the hotel are being rented at more than four times the previous monthly rent.

Dean Preston, a lawyer with the Tenderloin Housing Clinic, has counseled or represented dozens of tenants who rent from CitiApartments.

"In my opinion, they're the most abusive landlord in San Francisco," he said Wednesday.

The Sky's the Limit

Frank Lembi owns rental units galore in SF and he and his family are shopping for more



Chronicle / Katy Raddatz



Chronicle / Katy Raddatz

In a sleek white-and-glass mezzanine suite overlooking a bustling office, Frank Lembi, the 87-year-old founder of Skyline Realty and one of the City's biggest real estate moguls, offers me a seat. Sporting a pumpkin-colored shirt and a multihued tie, the guy has the glow and vigor of someone 25 years younger. "I hope you don't mind the Sinatra," he says, tossing a hand toward the crooning emanating from stereo speakers.

Behind him stands a life-size sculpture of two silver eagles frozen in battle. Arrayed beside him, business suited and swiveling in leather chairs, are his human legacies: son Walter Lembi, nephew David Renal and grandson Taylor Lembi, who at the tender age of 25 has already brought his first two investment properties.

"It's not all Frankie Lembi," explains the patriarch when I ask him about his beginnings. "It's the famiglia. It's nepotism!"

Although I've just stepped in from the corner of Market and Church streets, a typical San Francisco neighborhood of used-book stores, cheap sushi bars and tattered progressive posters, Lembi Land, with its gleaming surfaces and multigenerational capitalist traditions, feels strangely foreign, if not downright fictitious, like I've stumbled into an episode of "Miami Vice" -- or "The Sopranos."

But this is San Francisco -- albeit one many San Franciscans come in contact with only when they grit their teeth and sign that rent check at the beginning of every month. Born and bred at 24th and York streets in the Mission District, Frank Lembi has gradually amassed a residential real estate empire of staggering proportions, primarily by catching a very long ride on the surreal waves of real estate inflation that have washed across our city for the last 60 years.

The Lembi family now owns more than 150 buildings -- including three office buildings, five boutique hotels and 140 large apartment houses in virtually every neighborhood in San Francisco. Besides the corporation that owns the Villas Parkmerced complex in the City's southwest corner, Skyline owns the most units in San Francisco, housing some 7,000 tenants. This figure may sound relatively small compared to those in some developer-built cities. But because the City's rental market is primarily made up of two- to four-unit buildings, Skyline dominates in the arena of large apartment buildings. It has also made the most of this empire, vertically incorporating most aspects of the business: it also runs a brokerage firm, a property-management company and its own mortgage brokerage.

All of this success has not come without controversy. They have a record as one of the companies with many cases before the Rent Board on landlord tenant disputes and have been the target of criticism by tenant advocate groups. And as the Chronicle reported in the 80s, as majority stakeholders of the Continental Savings of America, a troubled Savings and Loan, Walter and Frank Lembi were sued numerous times. Ultimately, the father and son team stepped down from their central roles.

Originally a pharmacist, in 1946 Lembi returned from serving in World War II for five years and began working as a real estate broker at Veterans Realty. Soon after, he joined with Anthony Salevouris and founded a brokerage firm called Skyline Realty. When Salevouris died in 1968, Lembi bought out the business and continued his expansion. Until the 1990s, the business focused on brokering, but, even in the beginning, Lembi had begun building his building portfolio.

"It was eight units at 15th and Castro for \$30,000, with \$3,000 down, and the owner carried the mortgage at 6 percent," he says, recalling the first building he bought as if he'd just closed the deal. "Then, in 1989, we traded it in for \$1 million."

This, in a nutshell, is the Lembi story: the family buys, the family holds and, one day, the property is worth an obscene amount. For Lembi, whose daily swimming regimen and thrice-daily vitamin-pill habit no doubt help sustain his energy, it's the love of real estate -- and his family -- that keep him coming into work every day. And it appears this passion runs in the blood. Even young Taylor Lembi tells me a "story" -- how, last year, his grandfather found him an unassuming \$1.8 million apartment building in the Outer Sunset, only to have it appraised this year for \$2.4 million.

After I've heard several of these tales of bricks to riches, the patriarch leans forward and declares, "There's your story: put your money in real estate."

Indeed, it's advice he's given many times before, with remarkable effect: many of the City's biggest real estate investors -- such as Martin Brown, who owns the Pacific Stock Exchange buildings -- originally started out as brokers at Skyline.

"You see Skyline the company, but what you don't see is the University of Skyline," says Renal. "We have spawned some of the biggest companies in the City: Columbia, Combined, Empire. The thing about Frank is that he loves for the people around him to be successful. He's a professor of real estate."

As Frank Lembi puts it, "I've had many people who came into my office with holes in their pockets, and they left with millions, millions!"

When I ask him what makes him like real estate so much, Lembi looks at me like I've got a screw loose. Then his nephew chimes in: "Would you ask Michelangelo why he loves art? For Frank, real estate is an art. If he tried to describe it, you wouldn't understand."

Indeed, even real estate experts are having a hard time understanding the seeming limitlessness of the Lembi passion. In the last five years, even as prices in every sector of the real estate market have soared beyond the pale, the Lembis have gone on a rip-roaring buying spree. Recently, they've been using mega-loans from Wall Street firms that they then turn around and sell to investors to buy multiple buildings at a time with low down payments. (In a typical commercial real estate transaction, the buyer needs to put about 30 percent down, but in one recent purchase, Skyline used 92 percent financing.)

All this activity has gotten some of their competitors murmuring about what's behind the Skyline

shopping spree. One recent purchase that received particular attention was the prestigious 33-unit Park Lane apartment building on top of Nob Hill, for which the company paid \$38 million. According to one apartment broker, the Lembis ended up outbidding a dozen competitors -- some by as much as \$10 million.

Because the building's current rental income cannot carry such a mortgage, some apartment experts have speculated about the wisdom of Skyline's overall plan. According to one real estate expert's estimated calculations, the Park Lane building might lose some \$1 million a year. "It's a huge financial gamble," he says on condition of anonymity. (Many brokers and investors I spoke to declined to go on the record about their concerns.) "And the high values that the Lembis are willing to pay have largely chased away the competition."

With the rental market weak and the job market bleak, many large landlords are struggling to find tenants to fill their buildings. In this context, some think it's difficult to justify the prices the Lembis are paying. "Oftentimes, they're essentially competing with themselves, because they've set their own comps," explains one apartment broker, using an industry term that refers to lists of recent sales of similar properties in nearby areas, which are used to help determine a property's market value. "The Lembis have single-handedly influenced the apartment market. I worry that they're creating a house of cards."

Former apartment investor Jim Forbes agrees that the large-apartment rental market might be 5 percent or 10 percent lower without Skyline's zealous involvement, but he is more cautious about making criticisms. As an investor, his bearish tendencies prevented him from missing a historically unprecedented period of appreciation. "My opinion is that [the current market] is unsustainable," he says, "but I haven't bought anything since 1998 -- which makes me a total fool."

What drives Lembi, his colleagues and competitors say, is that he loves the thrill of the deal. "He's nearly possessed with a love and thirst for real estate," one puts it. "It keeps him going -- it's a love maybe to the point of irrationality."

"There's no economics," says one of his more vociferous critics. "It's ego pride. They think they're invincible. It's like a drug."

In a ruthlessly competitive arena like big-time real estate, it's easy to see how such theories might flourish in the minds of disappointed investors. Even so, in a market where all values are interdependent, it's not surprising that some investors are worried about how an implosion of the Lembi empire might affect their own investments. What this outcome might mean to the average tenant is difficult to say; if the apartment market goes to hell in a handbasket, it might make rental prices drop. But it also might simply provide opportunities for the investors who have been sitting out the last few years.

Other real estate investors dismiss such apocalyptic prognostications. James Devincenti, a real estate agent with Marcus and Millichap who has represented the Lembis on many purchases, including Park Lane, describes the Skyline strategy as a good mix of risk taking and expertise. "They're not afraid to take chances, and they've been around for a long time," he says. "They believe in the long-term value of their property, regardless of ups and downs."

Even Skyline's worst critics acknowledge that only time will tell. "If they hold it long enough, maybe they don't care if they overpaid for a piece of property," one says. "In the end, they'll still look like geniuses."

For their part, the Lembis seem to view their purchasing habits as anything but a wild ride. "Our lenders are the bluest of the blue-chip lenders," says Jonathan Siegel, Skyline's attorney. "They have the highest confidence in what we're doing."

And, in some sense, they're just doing more of what they've always done: buying and holding.

"Frank said it best: 'We love San Francisco real estate,'" says Renal. "We know our business. We've been doing it a very long time."

"We look at the economics, too," adds Walter Lembi. "Just yesterday, we looked at two buildings that we passed on because they were overpriced."

But, more often than not, it's the things that they sold, or that they didn't buy, that come back to haunt them. Quoting the wisdom of the elders, Taylor Lembi comments, "Frank says the only thing he regrets is what he sells."

"Or didn't buy," adds his father.

If the Lembis have a game plan their competitors can't figure out, that's just fine with them. They agreed to an interview on the condition that I not ask questions about their business strategy. Indeed, in the small network of San Francisco investors, where everyone knows and talks to one another, it's not surprising they've become well versed in keeping their cards close to their vests. Frank Lembi shows plenty of swagger but none of his hand when asked how he assesses a building: "If she's an attractive woman like you, I'll buy her."

FRANK LEMBI / SKYLINE REALTY

From a tenant activist: Frank Lembi is the owner of Skyline Realty, a major San Francisco property management firm. Skyline is one among several property management companies that both owns and manages buildings. They do what tenant activists call "pretext evictions." This means that they give tenants eviction notices on the smallest pretext. Although most tenants who fight these attempted evictions win, many tenants just move out when they get an eviction notice. Thus the landlord is able to get tenants out of the building and move in people who will pay a higher rent.

Skyline Realty is also the subject of disciplinary action by the city of SF for major violations of lead paint law. High lead paint exposure has been linked to stunted development of children and circulatory and nerve disorders in adults.

From a tenant attorney: Tenant complaints against Skyline are that when they take over a property, their property manager seeks to intimidate tenants to vacate or pay higher rent. They look for any potential violation of lease, including when a family has a child, they argue that the child isn't on the lease, which they say is a violation of the lease. Either the tenants agree to pay market rent or they move out. This may not be rampant in Skyline's buildings; it is the practice of at least one Skyline building manager. Skyline seems particularly interested in getting into the Tenderloin and SOMA neighborhoods. They look for buildings that have "upside" potential: possibility that the low-income tenants can be cleared out and the building can be turned into something "nice." Lembi is pretty well connected. He is the former chief executive at Continental Savings & Loan.

THE SCUMLORDS: PART THREE OF A THREE-PART SERIES

Family business

The taxpayers bailed out Frank Lembi's S&L, but he emerged to build a huge real estate empire

By G.W. Schulz
gwschulz@sfbg.com

Frank Edward Lembi has spent nearly six decades turning San Francisco's hot housing market into his version of the American dream, in the process creating nightmares for many struggling renters.

The aging patriarch still resides at the top of the Lembi family's colossal accumulation of capital, Skyline Realty, also known widely as CitiApartments, the second-largest owner of rental units in San Francisco, as the company describes itself.

Skyline owns somewhere between 130 and 150 apartment buildings, hotels, and commercial properties throughout the city. Over the past few years, the company has spent tens of millions of dollars buying new properties everywhere from the Tenderloin to Russian Hill, quietly making the already controversial Skyline an even more ubiquitous force in San Francisco's housing market.

As the Guardian has reported over the past few weeks, some Skyline tenants claim the company has developed an aggressive business strategy intended to empty newly purchased buildings of unprofitable tenants with rent control by either offering onetime buyout deals or simply frightening and coercing them until they leave.

Records from the San Francisco Department of Building Inspection also show violations of the city's building and housing codes leading to complaints from tenants of roach and bedbug infestations and inoperable heating systems and elevators at some of the company's properties. Such allegations have resulted in two lawsuits filed by the city and several more by tenants. Skyline also filed more eviction attempts in San Francisco Superior Court last year than any other single year during the past decade, according to a review of court records. Those cases have climbed fastest over the past four years and don't reflect the true volume of notices to vacate that appear on tenants' doors and are resolved before the matter appears in court.

From additional interviews and a review of publicly available records, corporate filings, and old press accounts emerges the portrait of a man, Frank Lembi, who has survived some of the darkest periods of the past few decades of American capitalism and retained his position as one of the city's most powerful real estate moguls.

A San Francisco native, Lembi returned from serving in World War II and founded Skyline in 1947. Today he still lists the same Burlingame home address he had at least a decade ago when his longtime wife, Olga, passed away. The stark white and pea-green split-level is modest considering the wealth he's accrued since Skyline began its ascension.

He and Olga had five children, two of whom would join Frank's list of chief business allies. Yvonne Lembi-Detert is the president and CEO of a Skyline-affiliated company that owns a handful of posh boutique hotels. His son Walter joined the real estate business in 1969.

"I learned nepotism from my father," Frank told California Business in 1987. "He came to this country from Italy and started his children off pretty much the way I've started mine. It's a way of life for us."

Frank and Walter eventually founded Continental Savings of America in 1977, a savings and loan association that propelled the family beyond the simple purchase and resale of small apartment buildings. At its peak, Continental maintained a staff of nearly 200 and more than half a billion dollars in assets. The company was making individual real estate loans of up to a million dollars by 1983.

During the '80s and early '90s, federal deregulation of the S&Ls encouraged a push for much more profitable, yet risky, high-interest loans and resulted in a race to the bottom. It was the era of financial scandal, and paying back federally insured depositors who had invested in failed S&Ls eventually cost taxpayers billions.

Continental began posting major losses in the '90s as the company's capital sank, and in 1995 the Office of Thrift Supervision (OTS) took it over, fearing insolvency. Not long beforehand, just before Continental went public, Frank stepped down as chair, owing to a conflict of interest tied to Skyline's HomeOwners Finance Center. But Frank and Walter both remained major shareholders in the company.

It was a bad time for lenders, nonetheless, and Frank was apparently not happy. The feds had to file a restraining order against him after he allegedly threatened to plant security guards at Continental's 250 Montgomery St. doors to "physically prevent" the confiscation of its office furniture, according to court records.

In the end, according to an OTS official we contacted, the cost to taxpayers amounted to about \$22 million. But it clearly didn't send the Lembis to the poorhouse: Since the Continental Savings collapse, Skyline Realty, along with CitiApartments, has grown to become a very lucrative focal point of the family's enterprises.

Skyline Properties alone generated approximately \$36 million in sales during the 2004 fiscal year, according to the Directory of Corporate Affiliations. But the company has founded more than 100 corporations and limited liability companies, each owning individual Skyline properties, and making it difficult to ascertain Skyline's real annual revenue.

Its business model is not uncommon, but the complex web of affiliates has enabled the company to keep some legal liabilities aimed away from Skyline and Lembi and make sizable political contributions to various candidates and causes — nearly \$40,000 since 1999 — all of it in small amounts stemming from several different entities. In one case, Skyline's affiliates donated \$20,000 on a single day to help defeat a 2002 ballot initiative designed to increase utility rates and improve the Hetch Hetchy water system.

The company has declined to answer further questions for this series, but Skyline manager David Raynal stated in response to a list of e-mail questions in early March that the company's "plan is to restore apartment buildings to the highest standard." He wrote that Skyline supports the creation of special assessment districts that benefit those neighborhoods. "Every year we renovate many apartments, upgrade common areas, and improve neighborhoods."

Since we began publishing stories on Skyline, former employees have contacted us with tales about how the company conducts business. A onetime Skyline employee who requested anonymity said she was well aware of the company's buyout offers to rent-controlled tenants and added that the company was "pretty heavy-handed." She also said she was encouraged to enter tenants' units without prior notice.

"We were told we were making the community better, but we knew that was a bunch of bullshit," she said.

She added that Skyline had trouble retaining employees. High turnover rates are hardly uncommon in the real estate industry, but another former employee who also asked that his name not be revealed said Skyline's group of hotels had similar issues.

"[Frank Lembi] is not the friendliest man in the world," he said. "Salespeople would get frustrated and move on."

Dean Preston, an attorney for the Tenderloin Housing Clinic, said he's assisted at least 100 Skyline tenants with legal advice over the last five years.

"I deal with tenants, as well as landlords, all across the city," Preston said. "In my opinion, CitiApartments is the most abusive landlord that I deal with in my practice." *

The Bay Area's 45 Worst Slumlords

3. FRANK LEMBI/SKYLINE REALTY

From a tenant activist: Frank Lembi is the owner of Skyline Realty, a major San Francisco property management firm. Skyline is one among several property management companies that both owns and manages buildings. They do what tenant activists call "pretext evictions." This means that they give tenants eviction notices on the smallest pretext. Although most tenants who fight these attempted evictions win, many tenants just move out when they get an eviction notice. Thus the landlord is able to get tenants out of the building and move in people who will pay a higher rent.

Skyline Realty is also the subject of disciplinary action by the city of SF for major violations of lead paint law. High lead paint exposure has been linked to stunted development of children and circulatory and nerve disorders in adults.

From a tenant attorney: Tenant complaints against Skyline are that when they take over a property, their property manager seeks to intimidate tenants to vacate pay higher rent. They look for any potential violation of lease, including when a family has a child, they argue that the child isn't on the lease, which they say is a violation of the lease. Either the tenants agree to pay market rent or they move out. This may not be rampant in Skyline's buildings; it is the practice of at least one Skyline building manager. Skyline seems particularly interested in getting into the Tenderloin and SOMA neighborhoods. They look for buildings that have "upside" potential: possibility that the low-income tenants can be cleared out and the building can be turned into something "nice." Lembi is pretty well connected. He is the former chief executive at Continental Savings & Loan

Also, for those of you who do not know it, Frank Lembi also owns Learn iT!, a computer training school.

Do not do business with CitiApartments or Learn iT!



[CitiApartments](#)

2099 Market Street
San Francisco, CA 94114
415-861-1111

Learn iT![®]

[Learn iT!](#)

250 Montgomery
San Francisco, CA 94104
415-693-0250