

# Techs and the city: From gloom to boom

‘Unparalleled time in San Francisco’

Premium content from San Francisco Business Times by Patrick Hoge, Reporter

Date: Friday, April 6, 2012, 3:00am PDT - Last Modified: Friday, April 6, 2012, 11:59am PDT



Photo: Paolo Vescia

Yammer’s David Sacks (left), Kevin Hartz of Eventbrite: PayPal veterans shared a small space on Townsend Street in San Francisco for their new ventures - until both companies went on a growth tear.

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[Patrick Hoge](#)

Reporter - *San Francisco Business Times*

[Email](#) | [Twitter](#)

This is San Francisco’s time.

The city has risen to newfound prominence amid the Bay Area’s current tech boom and become the nation’s startup capital. To an unprecedented degree, companies developing a wide variety of technology-powered products and services, ranging from business applications to games, are choosing to cluster and grow in the city.

This trend has pushed office leasing to historic levels, sent real estate prices soaring and driven apartment rents to new highs. It is refilling restaurants and bars, reshaping the area south of Market Street and even remaking the city’s politics, with politicians paying closer attention than

ever before to what the tech sector wants. But it's also raising fears among skeptics that it's a bubble that is inflating, only to burst.

"It's a very special renaissance, and it's an unparalleled time in San Francisco," said [Kevin Hartz](#), a longtime tech entrepreneur who is now CEO of Eventbrite, a fast-growing digital ticketing service with nearly 200 employees in tech-trendy SoMa.

"The city is transforming truly into this digital city that is the epicenter of innovation throughout the world," said Hartz, who was an early investor in PayPal.

The data points are striking:

Tech companies have signed 14 leases of more than 100,000 square feet in San Francisco since Jan. 1, 2011, the busiest such 15 months ever. More than 1 million square feet was signed by tech tenants this year alone, the fastest quarterly take-up of space in more than a decade. Seventy-five percent of first-quarter leasing was to tech companies, and the frenzy is unlikely to slow down soon. At least a half-dozen companies like Yelp, Salesforce and Square are known to be still shopping for big chunks of space.

The 415 area code, which includes San Francisco and Marin County, was the destination for \$3 billion in venture capital investment last year. That exceeded the amount invested in the South Bay, though it trailed the Peninsula, according to [National Venture Capital Association](#) data.

San Francisco in February had the third-lowest unemployment rate in the state and Bay Area at 8 percent, trailing only Marin and San Mateo counties. For the last three years, the city has had the highest number of job listings at "high growth" startup companies in the region, according to jobs site StartUpHire. That's nearly 40 percent of the Bay Area's 2011 total, which has led the state that has led the country.

Apartment rents have shot up 14 percent in the last year, prompting developers to dust off plans for 3,000 new units now under construction. The average cost of a one-bedroom was \$2,330 in 2011, up from \$2,010 in 2009, according to RealFacts.

### **Shift from the Peninsula to S.F.**

San Francisco's central geographic location and its cultural diversity have placed it at a crossroads of design and technology, a sweet spot that is fueling the growth of technology enterprises from video gaming and mobile entertainment to business applications and big data management software.

Longtime early-stage tech investor [Ron Conway](#), who's funded 500 companies over his career, said that five years ago 75 percent of those he invested in were down the Peninsula, with the remainder in San Francisco. That ratio is now even, with San Francisco headed toward 60 percent this year, he said recently.

Many others see the same dynamic.

“There has been a shift in the center of the universe for technology. It was always down on the Peninsula and the South Bay, and it feels like it’s shifting up here,” said entrepreneur [Niklas Lindstrom](#), a 12-year Silicon Valley veteran. Lindstrom’s San Francisco mobile location-based people-meeting application, called Skout, got \$22 million in venture funding this week.

The city’s complexion has changed significantly as a result, Lindstrom said, particularly South of Market Street.

“Twelve years ago I would never have imagined it like it is today,” he said. “You are in a coffee shop and there’s people pitching VCs (venture capitalists) — you can hear it.”

[Shayan Zadeh](#), co-founder of the dating site Zoosk and a SoMa resident, said he sees flyers on the street in SoMa advertising engineering jobs.

“That’s totally new, and it didn’t exist five, six years ago,” said Zadeh, whose company is approaching \$100 million in annual revenue.

Service businesses like The Creamery at Fourth and Townsend Streets say they are being lifted by the rising tide. Opened in December of 2007, the cafe was slow during the first half of 2008 and then things picked up considerably. The owners opened a taqueria next door, and a catering business that counts numerous area tech companies as regular customers.

“The tech community is a key element of our customer base,” said manager [Ivor Bradley](#).

“A couple of years ago, there was a lot of empty office space, empty car parking spaces. Now there’s none of that,” he said. “I can feel that there’s a busier presence in the neighborhood.”

### **Ghost of the bubble**

However, with tech firms gobbling up space at ever-higher rents, companies hiring at a breakneck pace, investors pouring billions of dollars into a panoply of untested ventures, and techies once more packing San Francisco’s bars and restaurants, others feel the presence of something else: the ghost of the dot-com bubble.

That, after all, was San Francisco’s last tech explosion. The years ending in 1999-2000 saw a seemingly similar burst of growth among pioneers of the then-nascent Internet that also rippled rapidly through the city’s real estate, finance, housing and entertainment sectors — before it collapsed nearly as quickly.

But despite surface similarities, those inside and outside the tech industry who have been through both eras say the differences are more striking.

The Internet, for one thing, is much larger, with more than 2 billion people now online, and the mass use of mobile computing devices did not exist a decade ago. Access to international markets is greatly improved, emerging economies offer enormous opportunities, and technology

itself has greatly lowered the cost of starting a tech company. Software is also disrupting an ever-widening range of industries.

But the biggest difference can be summed up in one word: revenue.

The new breed of large San Francisco technology companies have real customers and real revenue, sometimes in staggering amounts, and defensible balance sheets. The gaming company Zynga, for instance, recently paid \$228 million for its Showplace Square headquarters building — cash.

“The biggest difference between this cycle and the dot-com boom and bust of the late 1990s is that the companies driving job growth now are actually making money,” said [Michael Cohen](#), now of the real estate investment firm Strada Investment Group and former director of San Francisco’s Office of Economic and Workforce Development.

“The companies that are taking big blocks of space are generally more mature companies than in the late 1990s — it’s companies like Salesforce and Riverbed and Macy’s.com that have real track records and real balance sheets,” Cohen said. “Even the relative startups like Zynga are making boatloads of money.”

The bench of companies in the city that could go public is deep, and includes Airbnb, AKQA, Dropbox, Eventbrite, Kabam, Kixeye, Splunk, Square, Trulia, Twitter and Yammer.

### **Cautious growth**

Companies are also being more prudent about the pace and scale of hiring.

“This is not a bubble,” said [Tom Silver](#), senior vice president of North America at Dice Holdings Inc., the online job board for technology workers.

“As a result of the crash, employers are smarter about hiring,” Silver said. Over time, he said, tech sector employment has improved to where we are now. The current job market is not the result of a quick run-up in demand.

The city’s increasing concentration of companies from startups to behemoths is creating its own gravity that is continuing to draw in companies from elsewhere in the region, or outside the area, so as to be able to better compete for talent.

Kabam, a successful social gaming company that raised \$115 million in venture capital last year, said recently it will close its Redwood City headquarters and move some of those 200 employees to San Francisco, where the company already has a studio of nearly 200 workers. The biggest block of Kabam’s nearly 500 employees already lived in San Francisco, and the city is more accessible to others living in the East and North Bay areas, said Kabam CEO [Kevin Chou](#).

“The most important reason is that engineering talent is easier to get in San Francisco,” said Chou, himself a city resident.

“You have all these very innovative companies in San Francisco. It feels a bit more like a community,” he said. “You can’t beat the culture and the restaurants and the coffee shops and the entertainment. If you are a young entrepreneur, living in the city is incredible.”

“In this economy, talent is the single-most-scarce resource, and that talent wants to live in San Francisco more than Mountain View,” said Cohen. “Being able to offer a San Francisco address is a big advantage.”

### **Hunt for talent**

Meanwhile, the decreased cost of starting a technology business and a flood of early-stage capital is leading many people to try to be entrepreneurs, thus making it that much harder to hire talented people in a tight labor market, particularly for technical jobs.

[Greg Tseng](#), CEO of Tagged, a social network for meeting new people, said, “These days it’s so easy, one might say even too easy, to start a company, that every engineer thinks (he) can be the next [Mark Zuckerberg](#).”

“There are so many little companies getting started it spreads the talent pool of Silicon Valley way too thin,” said Tseng. “Companies like us and a lot of these smaller companies just can’t hire.”

Indeed, StartUpHire, a company that claims to have the largest online database for jobs at startups, recently compiled data in partnership with the National Venture Capital Association showing that San Francisco had by far the greatest concentration of jobs at “high growth” startup companies in California, said [Steve Roberson](#), StartUpHire general manager.

Of the 42,000 total number of startup jobs listed in 2011, 36.3 percent were in California, and of those, more than 29 percent were in the Bay Area.

Of those in the Bay area, 39.9 percent were in San Francisco, up from 39.1 percent and 32.6 percent the prior two years. That compares with less than 11 percent in San Mateo in 2011, about 9 percent in San Jose and Santa Clara, and between 7 percent and 8 percent in Sunnyvale and Palo Alto.

People just out of college with degrees in computer science are getting nearly \$100,000 starting salaries in the city, and poaching for talent among companies is rampant, said Zoosk’s Zadeh.

The fevered atmosphere belies a central fact, however, which is that the amounts of money it takes to launch a startup these days with the advances in technology are tiny compared with a decade ago, he said. So even if many of the startups fail, as they likely will, the capital lost will likely have little impact on the wider economy.

For now, when companies are stalling out or failing, the employees are quickly being absorbed into other enterprises.

“There’s a lot of cheap experimentation going on,” Zadeh said.

It’s a far cry from when Yammer relocated to San Francisco from Los Angeles in 2009 and moved into a shared 9,000-square-foot office in SoMa with Eventbrite, which Hartz and his wife, Julia, helped co-found in 2006.

Their building at 410 Townsend St., which sits within sight of the Caltrain station, was half empty, said Yammer CEO [David Sacks](#), who was also in the thick of the last boom as the first COO of PayPal.

The building subsequently filled up, though a number of tenants have left for larger space. Eventbrite, which is processing \$500 million a year in ticket sales, occupies more than 30,000 square feet at 651 Brannan St.

Yammer, which raised \$85 million in February, has been negotiating a possible lease for 130,000 square feet on Third Street.

“A dozen years ago, there were no real tech companies up in the city. Now, I’d say it’s probably 50-50 between San Francisco and the Peninsula for consumer Internet companies,” Sacks said.

“It’s going to keep going,” Sacks predicted. “We are going to see at least two more very good years in San Francisco, at least two really exciting years.”

Reporting contributed by: Lindsay Riddell, J.K. Dineen, Eric Young, Blanca Torres, Mark Calvey.

Patrick Hoge covers technology for the San Francisco Business Times.