Recession suddenly humbles high-tech sector

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(AP) -- The $1.6 million red Bugatti crouches in the showroom, flanked by Lamborghinis, Bentleys and a Rolls-Royce all polished to a shimmer. The nearby potted plants, however, are dusty and wilting. With super-luxury car sales here just half of what they used to be, they had to cut something.

"We wash our own windows now, take care of the plants ourselves," says Ryan Dohogne, general manager of Silicon Valley Auto Group. Although they haven't laid anyone off, yet, Dohogne said they're saving everywhere they can.

Five miles away, former indoor plant specialist Michael A. Jones is having what he calls "a humbling experience" at a nonprofit food pantry, choosing dented cans of corn and tuna, a crunched box of Rice Krispies and some soon-to-expire milk to supplement his food stamps.

Jones used to gross $12,000 a month as an indoor horticulturist for high tech companies, restaurants and car dealerships, although not Silicon Valley Auto Group. Then "everyone cut back all at once and we had to shut down," he said. "It happened fast."

Very fast. In fact, nowhere in the country has the bust arrived more abruptly.

The Associated Press Economic Stress Index, a month-by-month analysis of foreclosure, bankruptcy and unemployment rates in more than 3,000 U.S. counties, shows that last year, as the national economy tanked, high tech economic centers from California's Silicon Valley to North Carolina's Research Triangle were apparently "recession-proof" with increasing jobs and stable housing prices.

Last fall, everything changed. When previously invested funds petered out, there was no new capital. Bankruptcies, foreclosures and unemployment in high tech regions spiked, and are now at some of the highest levels in the country.

For example:

- Santa Clara County, home to Silicon Valley, saw bankruptcies soar 59 percent in the past 12 months, and projections are that they're still climbing;

- North Carolina's unemployment has doubled since early 2008 to a record 10.7 percent, with close to 200,000 jobs lost in the state, 20 percent of those in Research Triangle, a high tech hot spot near Durham, Raleigh, and Chapel Hill.

- Foreclosures in once-booming tech neighborhoods around Boston are on track to reach a record high this year after tripling since last summer.

Simply put, these regions "are seeing their strength strangled as investors hold on to whatever funds they have left," said digital economy expert Ed Malecki, an Ohio State University professor. "Everyone's portfolio is smaller than a year or two ago, and venture capital - and even more, pre-venture angel financing - lives off of private wealth," said Malecki. "There is simply less private wealth around right now."

High tech regions, which throughout most of 2008 were far more economically secure than the rest of the country, are now seeing unemployment, foreclosure and bankruptcy rates on par with national averages, and in some cases even higher.

Even the most optimistic high tech community leaders have had to face facts.

"We had hoped we might stay insulated from the global economic crisis, and for a long time we were," said Silicon Valley Network president Russell Hancock. "But then it caught up with us and now everyone is laying off."

Everyone?

"There isn't anybody who isn't laying off," he said, then draws a long breath before reciting this list: "Microsoft, Intel, Hewlett Packard, Sun, Yahoo, Apple, Google." He pauses a moment to consider that. "Google. When Google is laying off you know something is going very wrong."

Social workers and volunteers trying to house, feed and clothe the area's newly devastated residents recognize that the economic disaster has arrived.

"It's alarming us to no end," said David Ujita, a director at the nonprofit service center West Valley Community Services Inc. in Cupertino, Calif. He said they've seen a 27 percent increase in first-time food pantry visitors since the fall.

"Folks believe that because we're in the Silicon Valley with million-dollar homes and billion-dollar businesses, hunger and homelessness don't exist. But in fact it's getting much worse, and it's just really frightening," he said.

The agency helps a hidden population: educated, motivated homeowners whose steep mortgages quickly overtook their savings accounts when they were laid off. They live in some of the most expensive communities in the country, places like Cupertino, home of Apple Inc., and neighboring Saratoga, where the average home costs more than $1 million. This month Ujita said they'd arranged with a church to open a new food pantry in Los Gatos, where the median income is $175,000.

"This doesn't look like the stereotypical inner-city plight, but it's just as devastating," said Ujita. Behind him three out-of-work men - all with master's degrees on their resumes - searched online job postings from the agency's computers.

A few miles away, almost every seat in the bankruptcy courtroom is full.

Joel Gonzalez, 42, who used to make $100,000 a year installing hardwood floors, earned "about 400 bucks" in March doing odd jobs. His life began falling apart in the fall when his boss, distraught about his failing business, committed suicide. Suddenly out of work, Gonzalez saw the adjustable payments on his $360,000 home loan increase from $2,400 to $3,200. Two months later his savings ran out and he found himself talking to a bankruptcy attorney.

"This is culture shock for me," he said, tugging at his dress shirt outside the federal courthouse. "But after my boss' death, I'm trying to keep it in perspective. I have a money problem, and I'll get through it."

Bankruptcy attorney Sam Taherian, juggling an armload of files, said his caseload is steadily increasing, but he's sure - based on how many people are coming in for initial free consultations - that they're nowhere near the peak.

"It usually takes someone a month or two after meeting with us to make their decision," he said. "And we're having a lot of meetings."

Foreclosures have kept pace with bankruptcy filings in this region, but they're far less obvious. In a new townhouse complex just a few miles from Intel Corp.'s Santa Clara headquarters, close to 10 percent of the units are on the market as foreclosure sales. But wander down the dreamy streets - Inspiration Place, Meditation Place, Fascination Place - and you would never know.

"They don't hang out signs because they want to be discreet," says Robert Lei, who holds a master's degree in semiconductor device physics but now works as a specialist in foreclosure sales. "They don't want so many people to see so many 'for sale' signs and get scared away, like there's something wrong here."

Resident Jeff Nelson, 27, a firefighter, said he and his wife, a teacher, would like to move their growing family into one of many low priced single family homes now on the market, but they're stuck in this complex, he said.

The numbers just don't add up: They bought their unit three years ago for $527,000, they owe $500,000 and his foreclosed neighbors are selling their places for less than $450,000.

"We thought owning our own place would get us somewhere," he said. "But now we've got to stay. It's either stay, foreclose, or short sell."

There are a few businesses thriving on the downturn.

In January, Pinkberry Inc., the tart and trendy South Korean frozen yogurt chain, opened its first Northern California store in downtown San Jose, a move considered something of a snub to San Franciscans.

It was a prescient decision, said store manager Farid Biglari, smiling at customers who line up before the store even opens. "People around here don't have a lot of money, but they still want to have a good time," he said.

College student Jarmine Kaur and her mother stopped by for a treat after stopping by Macy's to pay down a credit card.

"We looked at bags and we looked at dresses, but we don't buy anything anymore," said Kaur, pointing her spoon at a cup of the soft, sweet stuff. "So here's our luxury."