Vancouver steps up as next tech hot spot

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If you follow the money, the Northwest's hottest startup is now 140 miles north of Seattle. Called HootSuite, it's a 370-employee company at the heart of a resurgent startup community in Vancouver.

In August, HootSuite raised an eye-popping $165 million from venture capitalists who backed Facebook and Twitter. That's 20 times more than the average Northwest startup raised last year and more that most Silicon Valley companies ever see.

HootSuite is in a thriving category. It makes tools that companies around the world are using to manage their presence on social networks.

But there may be another reason investors showed up at its Canada-chic offices this past summer, bearing truckloads of cash.

In tech circles, Canada is a hot new destination, despite the troubles of its beloved BlackBerry. Generous tax benefits and flexible immigration rules have long been a draw, but a bigger attraction now is Canada's relatively abundant supply of engineers, available for a fraction of the salaries that engineers demand in Silicon Valley.

This may lead to tension between homegrown ventures and the U.S. companies setting up satellite offices north of the border, but for now it's an enviable situation.

In British Columbia, tech is growing faster than the region's traditional forestry, mining and energy industries, and now employs more people -

more than 80,000 at 8,900 companies, including at least 350 active startups.

The concentration of tech companies in Vancouver still trails the ecosystem in Toronto, and startups in both regions have traditionally had less capital available to fuel their growth, according to a Startup Genome report on the world's tech hubs.

But that may be changing. Venture capitalists from Seattle, Silicon Valley and New York are prowling Vancouver's funky Gastown neighborhood and other hot spots, looking to get in on the action.

"There's good stuff to be had, and it's usually at a bit of a discount because the competition for it isn't quite as high," said Kristina Bergman, a principal at the Ignition Partners venture capital firm in Bellevue, Wash.

Bergman, a former Microsoft manager who grew up in Victoria, British Columbia, said Vancouver isn't likely to ever be as dynamic as Silicon Valley. But it's moving into the second tier of tech cities alongside hubs such as Seattle; New York; Austin, Texas; and Canada's tech strongholds in Montreal, Toronto and Waterloo, Ontario.

"You look at HootSuite doing well and you can forecast 10 years down the road, there are going to be impressive startups in related spaces," she said. "It's almost an inevitability in high-tech. There will be smart, talented people who will spin out from successful companies in a particular area and start related types of businesses."

Bergman was among a group of U.S. venture capitalists who spoke at the Grow tech conference, which brought investors and entrepreneurs from across Canada and the U.S. to Vancouver in August to look for new companies to back.

Meanwhile, a wave of big American tech companies has arrived. Amazon.com, Twitter and Facebook have set up satellite engineering offices in the Vancouver area.

They've come for tech talent that's still relatively plentiful and inexpensive. Not to mention Canadians' reputation for loyalty and politeness.

Engineers can be hired in the Vancouver area for a third or half of what they'd be paid in Silicon Valley, where the talent crunch also leads to frequent job-hopping between companies.

"If you don't have to pay three times for the same person, why would you? That's the kind of conversations that happen," said Brian Wong, chief executive of San Francisco-based mobile rewards venture Kiip.

Wong grew up in Vancouver and left to pursue his fortune in Silicon Valley. Now he's opening a satellite office in his hometown.

"We're also going to have people who are extremely excited and grateful to be employed as well," he said during a break at the Grow conference, over the roar of seaplanes flying in and out of downtown's harbor. "The best part about Canada is that the job market for the youth demographic is something that's just starting to improve."

The situation is similar to what Seattle's tech community saw in the past five years. Most every major California tech company set up a satellite engineering office in the Seattle area to take advantage of the region's software talent, without leaving the Pacific time zone.

Now that Seattle has nearly tapped out and salaries are approaching those offered in Silicon Valley, companies are looking farther up the road. "It's a talent game, and those with the best talent will win, right?" said

Ian Heine, head of the technology practice in Vancouver for the PricewaterhouseCoopers accounting firm.

In years past, Canada's faster visa process has been a draw for U.S. tech companies trying to lure top engineers from around the world. But that's less of an issue now that Congress is leaning toward allowing more foreign tech workers as part of immigration reform it's considering.

Microsoft is a leading advocate of increasing tech-worker visas in the U.S. Highlighting its concerns about the limited visa supply, Microsoft in 2007 opened a development center in suburban Vancouver, largely to accommodate workers it was recruiting overseas.

That facility remains, but has evolved from an immigrant stopover into a general development center. A former manager recently joined Amazon.com to help it build up a Vancouver engineering center.

Canada and its provinces also dangle all sorts of tax benefits, including a federal tax credit that can work out to about 40 cents per dollar of salaries in research and development fields.

But those incentives ebb and flow, depending on the political mood. Vancouver provides evidence that they may not be the best way to build a lasting industry.

Special tax credits and relatively low wages helped build the region's film industry. Later they were extended to video-game companies, turning Vancouver into one of the world's leading cities for game development.

Then the tide turned and thousands of those jobs evaporated in the past five years. The recession hit as the industry entered a low cycle. But Vancouver was hit particularly hard because other provinces were

offering more lucrative subsidies that lured away major studios.

"What that did was that created a downward spiral, in that Quebec starts to beat us in the tax-credit game so all the gaming companies moved over to Quebec," said Danny Robinson, a serial entrepreneur in Vancouver who formerly ran a government program promoting British Columbia startups.

"Then Quebec decided they don't want to be putting out the money, so now they're moving somewhere else," he said. "It seems like a nonsustainable model."

Robinson, who heads a video-portal startup called Perch, said the tax programs help attract investors, but the programs can be complicated. There's also a bigger question about whether the goal is to lure multinational companies shopping for the best deal, or nurture a homegrown, sustainable industry.

Already, Vancouver has a cluster of expertise in business intelligence, the legacy of a company called Crystal Decisions, which went through a series of mergers over the past decade.

As in Seattle, there's also a strong foundation of aerospace engineering. One of the region's largest tech companies is Richmond, British Columbia-based MacDonald, Dettwiler and Associates, which makes satellites, communication systems and other advanced systems, largely for government customers.

Now, Vancouver has a growing hub of social-media companies, radiating in part from HootSuite and perhaps Flickr, the Vancouver-born photo-sharing service acquired by Yahoo in 2005.

Fostering a new generation of startups is a big responsibility for

HootSuite's 38-year-old founder, Ryan Holmes, but it's not crimping his style too much.

Taking a break from the company's first hackathon this summer, the friendly, bearded entrepreneur brushed dog hair off a leather couch and invited a visitor to get comfortable in his log-cabin-style corner office.

In unlaced boots and a vintage shirt, Holmes doesn't look like most business gurus. But this is Canada, and his company uses stumps for coffee tables and green canvas tents for conference rooms inside its expansive, open office space.

Embracing his role as the face of Vancouver's latest wave of startups, Holmes talks of the potential for a "Maple Syrup Mafia" of startup veterans to spawn a series of hit companies, similar to the "PayPal Mafia" of PayPal veterans who went on to start LinkedIn, Tesla, Yelp, YouTube and others.

"I'd love to see in Vancouver a software culture really start to spark, and I'd love to see the alumni of this company angel invest in other projects, start up their own projects and really start to see a generator and a positive black hole of innovation," he said.

Noting the effect Microsoft has had on Seattle and tech startups have had on San Francisco, Holmes said, "There's a huge opportunity to create a really great tech-innovative center here."

Intense competition in Silicon Valley is driving up the cost of doing business and financing deals, pushing investors to look elsewhere for new opportunities, he noted.

"The old thought about moving to the Bay Area because there's a lot of engineers there? Yeah, there's lots of engineers, but they're also highly

sought after, very expensive and recruited by Twitter, Facebook, LinkedIn, Pinterest and the 10 other huge, amazing startups that are coming down the pipes," he said. "And so they're all picking from each other, and it makes it a challenge for any startup."

Yet Vancouver can supply only so many engineering graduates. With the arrival of Twitter, Facebook and others, Holmes is getting concerned.

"There's not enough grads getting pumped out of the schools to service all those orgs; there's not enough immigrants coming in," he said. "All of a sudden it's going to get real scarce, and we're in the same problem as the Valley or wherever."

Or maybe talent will just emerge out of the woods, like Holmes, who grew up off the grid in Vernon, British Columbia.

He ran a paintball business and a pizza parlor before moving to the big city to work at a short-lived dot-com. He stuck around and kept at it, avoiding the pull of California. He started a Web and digital marketing agency that created HootSuite, then spun it out in 2009.

That sort of breakout success is priceless when building a tech community, said startup veteran Robinson.

"If you build a billion-dollar company and put it here, that's going to create a lot more community and a lot more side benefits to the area than anything the government can do, anything that any one guy can do putting on events and incubators, conferences and that sort of thing," Robinson said. "Those are great - you need to have those, the main stuff. But the real thing that moves the needle is a billion-dollar success. When you do that, you inspire everybody else to try."

There's plenty of inspiration to go around already, apparently. Ignition's

Bergman and other investors were surprised by the 1,000 or so entrepreneurs, investors and others who trekked to August's Grow conference for the showcase of Canadian startups.

"I've never actually thought of Vancouver as a destination for entrepreneurs from all across North America before," she said. "But I certainly do now."

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