

High-tech boom brings sense of deja vu in San Francisco

19 August 2011, By Jessica Guynn and Maria L. La Ganga

When Twitter inventor Jack Dorsey decided to start third of all office space leased. a new company last year, he bypassed Silicon Valley and set up shop in San Francisco.

The 34-year-old, who said he was drawn to the "variety and vibrancy" of city life, is one of a growing number of entrepreneurs resisting the gravitational pull of high-tech's epicenter 30 miles to the south.

The result is a dramatic surge in [economic activity](#) not seen in San Francisco since the height of the dot-com boom more than a decade ago. It's a rare bright spot in the nation's troubled economy.

"Technology has firmly established a foothold in the city," said Jeremy Stoppelman, founder and [chief executive](#) of [Yelp](#), the online reviews site based in San Francisco.

The number of tech jobs in San Francisco will soon surpass the record of 34,000 set in 2000, accounting for 1 in 5 office jobs, according to an analysis by commercial real estate brokerage Jones Lang LaSalle. And tech companies are pulling out all the stops to entice new employees: soaring [salaries](#) and lucrative stock options, even signing bonuses as high as \$50,000.

The flood of new tech workers has set off a mad scramble for pricey apartments in such desirable areas as Pacific Heights, where vacancy rates have dipped to 1 percent, according to real estate firm Marcus & Millichap. T-shirt-clad employees from Twitter, Google and other companies mob open houses with credit reports and offers to pay hundreds of dollars above the asking rate.

Tech companies are hunting for 2.5 million square feet of office space to set up shop or expand, about 40 percent of all current demand, said Colin Yasukochi of Jones Lang LaSalle. In the first half of 2011, tech firms leased 1.6 million square feet of office space in the city, or about a

That demand has driven up office rents as much as 30 percent in the hip South of Market area, a magnet for startup companies with its renovated warehouses and industrial buildings. As vacancy rates there plunge, commercial landlords elsewhere in San Francisco are ripping out dropped ceilings, tearing down walls and exposing concrete floors and steel joists to appeal to tech companies.

Economists say the latest high-tech gold rush to hit San Francisco - the reason the city at 9 percent has the lowest unemployment rate in the Bay Area, lower even than Silicon Valley - may have more staying power than the last. City officials are banking on the tech industry to breathe new life into the economy and clean up stubbornly blighted stretches the same way it helped transform South of Market.

"We're not saying this is a tech boom. We're saying this is the new direction of the San Francisco economy," San Francisco Mayor Edwin M. Lee said.

San Francisco once reigned as the West Coast's financial center. But banks and other institutions have slashed jobs and vacated more than 1 million square feet of office space in the last year alone. Cheaper office rents and urban amenities have helped the city reinvent itself and rival Silicon Valley for startups.

Now, propelled by a more business-friendly Board of Supervisors receptive to doling out tax breaks and other incentives, San Francisco envisions turning a bedroom community for [Silicon Valley](#) into a beachhead for technology companies.

Among the new arrivals is Zynga Inc., which is on the verge of an initial public offering that is expected to value the social gaming company at \$20 billion or more. It plans to move next year into

a splashy 270,000-square-foot facility in the South of Market neighborhood that will house thousands of employees.

Next year, Internet software company Salesforce will break ground on its new headquarters, a 14-acre campus in Mission Bay, a former industrial area that has become a biotech hub; its bright, modern buildings will offer as much as 2 million square feet of office space for 8,000 employees.

Elected officials are encouraging the trend, seeing it as a way to gain much-needed jobs. In a bid to keep Twitter in San Francisco, the city in April adopted a payroll tax break for companies that put down roots in the troubled Central Market and Tenderloin areas.

Next year, Twitter will take advantage of the tax break by moving into a vacant furniture showroom on a neglected block of Market Street. Getting Twitter to stay put was considered a coup for San Francisco. Twitter has plans to increase its workforce to as many as 3,000 by 2013 from 600 today - with the expectation that most of these workers would be in San Francisco.

San Francisco Supervisor John Avalos has opposed the tax breaks, arguing that it benefits companies that don't need public support.

But Twitter's move has fueled hope that other tech companies will follow the company into the gritty neighborhood. A city analysis concluded that a Central Market technology cluster would generate an average of \$2.7 million in additional payroll taxes annually over 20 years.

"We want Twitter, Zynga, Salesforce to all feel they can be here for the long term," Lee said.

Not everyone agrees. Many of these tech startups aren't yet generating revenue, let alone profit; instead relying on the deeply lined pockets of private investors. If that funding were to vanish, many of the startups would too.

Even so, city officials and community activists say the tech industry could help revitalize areas such as Central Market and the Tenderloin, which missed

out on the last tech boom.

"This is far bigger than one company. This is about small businesses, community organizations, arts groups, the city and companies like Twitter coming together to make a positive difference," Twitter spokeswoman Carolyn Penner said.

Twitter will anchor the western edge of Central Market, the terminus of five long blocks of boarded-up storefronts and payday loan companies, adult theaters and head shops. The Tenderloin connects on the north.

Gail Gilman, executive director of Community Housing Partnership, which offers affordable housing to formerly homeless families and individuals, hopes a wave of technology investment will bring a grocery store and retail outlets that cater to working-class people or those on a fixed income.

Unlike during the last boom, there is little fear of gentrification. City officials note that a high percentage of the housing in the area is run by nonprofit organizations or protected by city ordinances. In fact, said Amy B. Cohen, the city's director of neighborhood and business development, "a few Twitter folks would be OK."

Dorsey said the high-tech industry can change the fortunes of San Francisco. His two companies, Twitter and Square, have already created more than 700 jobs here, and he is a longtime enthusiast of urban living.

As a teenager, Dorsey papered his bedroom in city maps and wrote software for dispatch systems. He lives in an apartment just steps from his office at Square on the edge of the Tenderloin. Investors have valued Square, whose technology lets people accept credit and debit-card payments with a smartphone, at more than \$1 billion.

"I've always lived in the most troubled part of a city," Dorsey said, "and I believe confronting the issues of a community on a daily basis helps one to better understand how to fix them."

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