

Bay Area still dominates U.S. venture capital industry but cracks may be showing

April 16 2018, by Seung Lee, The Mercury News

Despite all the talk of technology companies and workers leaving the Bay Area for cheaper pastures, Silicon Valley looks strong as ever—for now.

Technology companies in the Bay Area raised more than \$10 billion in the first three months of 2018, according to a new report Wednesday on the venture capital industry by Dow Jones. A total of 408 companies were financed in the Bay Area during that time period, more than twice New York City, which was the next highest region.

Compared to a year ago, the Bay Area saw the amount of investment capital increase by 13 percent. This quarter was the highest since the third quarter of 2015, when Bay Area tech companies raised a total of \$10.91 billion.

The \$10.58 billion raised by Bay Area companies accounted for nearly 40 percent of all technology investments made in the United States in the first quarter of 2018.

However, the Bay Area's oversized dominance in investments did not assuage concerns—ranging from the housing crisis to the high cost of living—for one venture capitalist in Menlo Park.

"It's not yet in the data but the storm clouds are brewing for the Bay Area," said Venky Ganesan, managing director at Menlo Ventures.

"Fundamentally, we'll hit a tipping point of housing prices, infrastructure

gridlock and talent exodus where it will become a very tough place to start a company."

Ganesan also pointed out that the optimistic figures in the Dow Jones report were likely skewed by the introduction of Softbank, a Japanese conglomerate that has aggressively invested in [technology companies](#) around the world with its \$98 billion Vision Fund and other reserves. In comparison, all venture capital firms in the United States invested \$85 billion total in 2017.

Three of the biggest investment rounds involved companies headquartered in the Bay Area and were all driven by Softbank. The largest deal involved Uber, which received a \$1.25 billion investment in January from Softbank, who then became the ride-hailing giant's largest shareholder at 15 percent of the [company](#) in return.

Uber, under new CEO Dara Khosrowshahi, is expected to go public in 2019 with Softbank's support. Softbank also invested billions in ride-hailing rivals such as China-based Didi Chuxing, India-based Ola and Singapore-based Grab.

Softbank also invested a \$865 million round to the Menlo Park-based construction startup Katerra and a \$535 million round to the San Francisco-based food delivery service DoorDash.

Softbank has had enormous ripple waves across the technology sector as a "late-stage investment mothership", according to ClearPath Capital's managing partner Paul Boyd. Both mergers and acquisitions and initial public offerings—two traditional paths for late-stage private companies—declined in the last quarter, partly due to Softbank making enormous private investments readily available.

Softbank's entry in Silicon Valley also left other [venture capital firms](#) in

the region scrambling to raise more cash, like Sequoia Capital's plan to start a \$8 billion venture fund in January, according to Ganesan. He expressed concern that the overwhelming capital ready for late-stage companies are leaving little focus for early-stage companies in the Bay Area to grow.

"Bay Area is where the unicorns are," said Ganesan, using a term for private companies valued at more than \$1 billion. "We are not planting the seeds for future growth. At the late stage, Softbank is powering everything. They are singlehandedly picking winners and losers."

Nationwide, the investment capital amount was the highest ever and increased by 30 percent compared to a year ago. Health care technology was the hottest sector, accounting for over 26 percent of all investment rounds this quarter.

While the Bay Area's lead in number of [investment](#) deals compared to other tech hubs like New York City, Los Angeles and Boston are slimming compared to past years, Boyd said he doesn't remain concerned about the Bay Area losing its reputation as the tech industry's Mecca.

"I don't think it's too concerning, as the dollar amounts (in the deal) are still very large for the Bay Area," said Boyd.

©2018 The Mercury News (San Jose, Calif.)
Distributed by Tribune Content Agency, LLC.

Citation: Bay Area still dominates U.S. venture capital industry but cracks may be showing (2018, April 16) retrieved 20 September 2024 from <https://phys.org/news/2018-04-bay-area-dominates-venture-capital.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private

study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.