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San Francisco's urban tech boom

Richard Florida

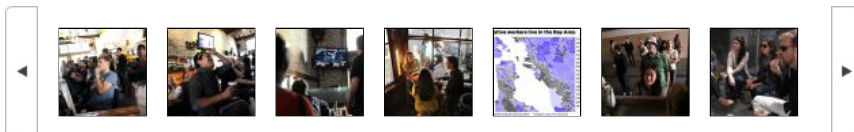
Updated 1:52 pm, Saturday, September 8, 2012

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Where creative workers live in the Bay Area



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Pinterest's recent move from Palo Alto to San Francisco has sparked chatter in the high-tech world: Is the Bay Area's innovative center of gravity shifting away from suburban Silicon Valley to urban San Francisco?

The answer is a qualified yes. The tech migration is not just a phenomenon of San Francisco - it's happening in New York's

downtown Silicon Alley and East London's once rundown and raw Silicon Roundabout. This emerging model of "urban tech" just seems to fit downtown San Francisco especially well.

For one, the city is filled with the dense, gritty districts where young techies increasingly prefer to live and work. San Francisco's inner-city neighborhoods, some blighted and now

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transitioning, are a huge draw for this new generation of techies, who don't want big, cookie-cutter suburban houses and prefer walkable areas that enable them to live close to their friends and the amenities they need. To capture these workers, Google has long run its famous daily bus between the city and the Googleplex in Mountain View.

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The city's urban center also is filled with easily repurposed and relatively inexpensive older warehouses and factory lofts, as well as industrial, commercial and other mixed-use buildings that companies can retrofit into the flexible, creative spaces to which this new breed of techies are drawn.

Case in point: The Mid-Market neighborhood. Just last year, The Chronicle noted that "Market Street was once a destination, featuring now-shuttered theaters with lights so bright, the street was dubbed the Great White Way. But the glory faded into disrepair in the 1960s, when the street was torn up for construction of the [Bay Area Rapid Transit](#) system. Now, it's best known for homeless people, drug deals and the stench of urine."

A year later, it's home to Twitter's headquarters in a formerly vacant 1937 Art Deco landmark.

These neighborhoods and districts also enable companies to draw on the amenities - coffee shops, restaurants, take-out shops, food trucks, dry cleaners and gyms that tech workers require - without having to put them and pay for them on campus. Apple's San Francisco flagship is open seemingly 24/7 to serve just this group with their flexible hours and blending of work and after-work life.

San Francisco's neighborhoods have the additional advantage of public transit - BART, Muni Metro, buses and cable [cars](#) - that enable workers, customers and residents to get around without owning a car. They also provide the urbanity and lively street culture that bring people together, encouraging serendipitous interactions.

When smart people rub together in different groupings and places, they spark new ideas, which ultimately generate even more startups. Surprisingly, as expensive as it is, San Francisco offers would-be entrepreneurs a significant cost advantage over Silicon Valley.

Office space for tech companies runs \$3.55 per square foot per month in San Francisco compared with \$5.78 in downtown Palo Alto, \$4.81 in the Palo Alto-Stanford Park area and \$5.21 in Menlo Park, according to figures from [real estate](#) firm Cushman & Wakefield reported in June on Gigaom.com.

This is partly due to its supply of older industrial and commercial buildings that can be redeveloped into high-tech offices.

For all these reasons, San Francisco has emerged as a high-tech power, closing in on and in some cases overtaking its well-established neighbor. The San Francisco metropolitan area ranked third in my ranking of America's high-tech metros, trailing only Seattle and Silicon Valley. And it placed second, behind Boulder, Colo., on my overall creativity index, which assesses regions on the "3Ts" of economic development (see box). And it topped the list of venture-capital investments in 2011, with \$8.6 billion compared with \$6.9 billion for Silicon Valley, according to data from the [National Venture Capital Association](#).

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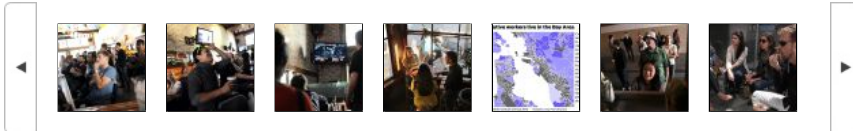
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Gaming: Kevin Mao of San Francisco reacts to a particularly nerve-racking moment in the "Starcraft II" game, right, a barroom spectator sport for video-game enthusiasts. Photo: Michael Short, Special To The Chronicle



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It's not just that San Francisco has leveraged and drawn off Silicon Valley technology. Silicon Valley can only be understood in relation to the creative DNA that is etched deeply within San Francisco's culture and economy.

Two key characteristics of creative ecosystems are cutting-edge music and art scenes and openness to gays and lesbians as well as immigrants and outsiders in general. San Francisco gave birth to the Jefferson Airplane, Big Brother and the Holding Company and

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countless other bands that shaped its innovative 1960s sound. And it has long been the epicenter of gay culture and the gay-right's movement.

Many of the early techies and entrepreneurs who pioneered Silicon Valley also were drawn by the openness to new ideas, risk and different and new models of thinking that were key characteristics of San Francisco's open and creative culture - what used to be called its "counterculture."

The shift to urban tech is not without its problems, however. The influx of new high-tech enterprises and higher skilled, more affluent residents is driving up already expensive rents and housing prices. San Francisco's creative class is strongly concentrated in and around the city's central core.

This stands in contrast to many other U.S. cities, which continue to suffer from the classic "hole in the doughnut" problem as affluent and middle-class residents have decamped to the suburbs.

In San Francisco, it is blue-collar and lower-wage service workers who are displaced, furthering the class divide. Rampant neighborhood transformation and gentrification deepen inequality and can threaten the very urbanity that powered the rise of such innovative spaces in the first place.

With its great neighborhoods, abundant transit and authentic urbanity, San Francisco has benefited from the shift to urban tech. To get the most out of it, the city's and region's leadership need to be mindful of the very urban assets that have powered this shift and take steps to mitigate the tensions it generates along the way.

San Francisco's high-tech stars

Twitter: With more than 500 million users generating 340 million 140-character tweets per day, Twitter is one of the 10 most-visited sites on the Internet. **Zynga:** The developer of such browser-based games as "CityVille," "FarmVille" and "Words With Friends," Zynga went public at the end of 2011. More than 292 million people play its games every month. **Yelp:** A product of the San Francisco tech incubator MRL Ventures, Yelp provides a search service, consumer-generated reviews and a social-networking site to its 71 million-plus monthly users. **Square:** A credit-card reader for smartphones developed by Twitter co-founder Jack Dorsey, Square now processes about \$500 million in payments per month. **Salesforce.com:** A software giant best known for its cloud-based Customer Relationship Management products. Founded in 1999, it is a Fortune 500 company with annual revenue of \$2.26 billion. **Pinterest:** The popular photo-sharing website was founded in 2009. Its current valuation is in the range of \$1 billion to \$1.5 billion.

Source: Richard Florida

The '3Ts' of economic development

Innovative cities and regions are powered by technology, talent and tolerance. Each is necessary, but one alone is an insufficient condition for growth. The most successful cities, like San Francisco, put all three together.

Technology: Innovative cities and regions need great universities and leading tech companies to power innovation. San Francisco ranks third on Richard Florida's technology index.

Talent: Successful regions need to develop, attract and retain top talent. The San Francisco metropolitan area is home to almost 750,000 creative-class workers spanning the fields of science and technology, management and business, education and health care, and arts, design media and entertainment, nearly 40 percent of its workforce. They take home an average pay of \$91,361 a year, the second highest in the nation. The creative class makes up more than 46 percent of the workforce in San Francisco County, placing it in the top 20 of America's more than 3,000 counties.



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Tolerance: Innovative and prosperous cities and regions benefit from openness to talent from varied ethnicities, nationalities, sexual orientations and so on. The San Francisco area ranks among the top 20 metros on Richard Florida's tolerance index.

Source: Richard Florida

Richard Florida is author of "The Rise of the Creative Class Revisited," (Basic Books, 2012). He is director of the Martin Prosperity Institute at the University of Toronto's Rotman School of Management, global research professor at New York University and senior editor at the Atlantic. Send your feedback to us through our online form at sfgate.com/chronicle/submissions/#1

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PROPERTY REPORT

Landlords make a play for rapidly expanding tech tenants

Technology businesses represented about one-fourth of the 3.5 million square feet in Los Angeles County leases closed during the first six months of 2013, CBRE said.

October 10, 2013 | By Roger Vincent

Los Angeles may not have the biggest collection of technology businesses in the country, but it does have some of the coolest ones and they are expanding quickly.

The region's deeply rooted entertainment industry is wielding new technology to create computer games, dramas for online video services such as Netflix Inc., wacky monologues for YouTube and amusing mobile phone applications people use to pass the time.

"We have the fun, sexy tech," said real estate broker Hayley Blockley, who helps negotiate leases with entertainment companies and other creative firms. "We make very little hardware compared to other markets."

L.A. County was the fifth-fastest-growing high-tech center the U.S. as measured by job growth from 2010 to 2012, brokerage CBRE group said.

But unlike in Silicon Valley and Seattle, where technology companies drive the office rental market, the tech industry is a comparatively small — but highly sought after — kind of tenant in the Los Angeles area.

Landlords love tech companies because they are expanding more than conventional corporations and they are flush enough to pay some of the highest rents in the region. Silicon Beach in Santa Monica and Venice commands prices that exceed monthly rents in the showy skyscrapers of downtown L.A.

Tech tenants represented about one-fourth of the 3.5 million square feet in Los Angeles County leases closed during the first six months of 2013, CBRE said. In August, comedy video website Funny or Die said it would rent more than 20,000 square feet in West Hollywood.

The bulk of Los Angeles office users are in financial services and insurance businesses, the brokerage said.

In Orange County, high-tech tenants are seeking nonconventional "creative" office space but have limited options because of short supply. The demand for such space has driven up office rental rates in Irvine, the Angel Stadium area of Anaheim and parts of south Orange County.

Across the country, firms involved in software development, mobile and social media technologies, and information and technology services are driving job creation, CBRE Group said.

These firms have added jobs five times faster than the national average, producing 366,000 new high-tech services jobs at a 17.4% growth rate, while total nonfarm jobs in the U.S. grew 3.4% from 2009 to mid-2013.

The high-tech services sector was responsible for 1 out of every 4 new office-using jobs, CBRE Group Inc. said, significantly affecting office occupancy and rental rates in many markets such as San Francisco's SOMA neighborhood south of Market Street, Redwood City and New York's Midtown South.

In addition to Silicon Beach, Los Angeles County has tech clusters in Playa Vista, El Segundo, Culver City and Hollywood. Rents are more expensive in some of those markets than others, but each has status in the tech world.

Real estate cachet counts in tech, certainly more so than it does in businesses in which competition for top employees is less intense.

"With a virtual 'war for talent' taking place every day, tech companies are going to great lengths to enhance the employee experience and attract, retain and nurture fresh talent," architecture firm Gensler said in a recent report on workplaces.

Tech firms are "very concerned" where their employees are located, analyst Colin Yasukochi of CBRE said. "They need to have an environment that fosters creativity and innovation, because innovation is key to the tech industry."

Some companies, including Microsoft Corp. and Google Inc., have manufactured creative campus environments out of whole cloth. Other tech firms choose locations with built-in appeal such as Santa Monica, where employees can surf before bicycling to work and choose from a wide array of bars and restaurants after hours.

As downtown Los Angeles' reputation as a 24-hour neighborhood grows, it stands to become another significant tech center in the region, real estate observers said.

Firms "looking for that urban aesthetic are coming downtown, trying to find diamonds in the rough," said broker Blockley of Jones Lang LaSalle's downtown Los Angeles office. So far, most have passed on the financial district where banks, law firms and other time-honored companies have reigned for generations.

That pattern stands to change because the financial district has the highest "walkability" score downtown, Blockley said, and the kind of tech firms thriving in Los Angeles are getting bigger much faster than most mature white-collar firms.

Companies that provide the social media we click to on our computers, create comedies we watch on tablets or make television commercials that catch our eyes while we ride the bus have room to grow as video display mechanisms grow more cheap and plentiful.

"Our appetite as users of content has not yet peaked," Blockley said. "And we'll continue to be exposed to that content on a 24-7 basis."

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START-UP CITY

Why San Francisco May Be the New Silicon Valley

RICHARD FLORIDA AUG 05, 2013 COMMENTS

A decade ago, billionaire entrepreneurs Peter Thiel and Elon Musk decided to take booming start-up PayPal public from a small coffee shop along Palo Alto's University Avenue. The street, the epicenter of Silicon Valley high tech, also helped incubate such now-established giants as Facebook and Google. But today, Thiel has seemingly left the Valley behind.

The venture capital funds he runs are based 30 miles north, in a San Francisco building with views of the Golden Gate Bridge. A number of highly publicized start-ups like Twitter, Square, and Pinterest are also located in the heart of urban San Francisco. As Twitter co-founder Jack Dorsey tweeted last February from his new headquarters in San Francisco's Mid-Market neighborhood, "I love the idea of an urban corporate campus with all the energy and variety that provides."

To what extent have clusters of venture capital and start-ups shifted from their traditional locations in suburban nerdistan to urban tech in bigger cities and denser urban districts?

Back in the 1980s, in a [series of studies](#) with [Martin Kenney](#), we [found](#) successful venture capital and high-tech innovation to be embedded in what we dubbed a regional "social structure of innovation," comprised of high-tech firms, university research and specialized support services. The dominant social structures of venture capital-backed innovation we identified at the time – Silicon Valley and Boston's Route 128 area – were quintessential nerdistan. We did not identify a single urban center that was home to such a localized social structure of high-tech innovation and venture capital-backed start-up activity.

But recent studies have pointed to an urban shift -- to [New York City](#), [San Francisco](#), Boston and Cambridge in the United States and [London](#), [Berlin](#) and [elsewhere](#) around the world. A great deal of other research has noted the return of people, jobs and commerce to the urban core, especially of more highly educated individuals and households – a trend Alan Ehrenhalt dubs "[the great inversion](#)." This urban shift in venture capital and start-ups is in line with the long held view that dense cities, as opposed to sprawling suburbs, provide the ecology required for breakthrough innovation.

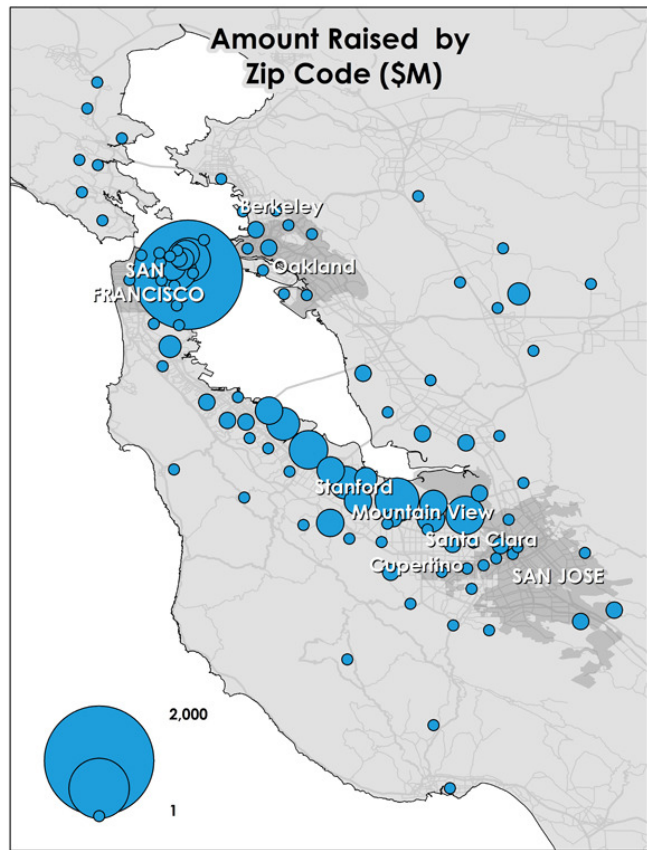
Until now, the evidence for this shift has been mainly anecdotal. But that's changing. Previous posts in this series have used various metrics, including [traditional](#), [census-based definitions of metro areas](#) and [telephone area codes](#), to track the geography of venture investment and start-up activity across the United States.

But zip code level data made available to us by [Dow Jones](#) enables us to look into the location of venture capital investment in cities and suburbs in much greater detail.

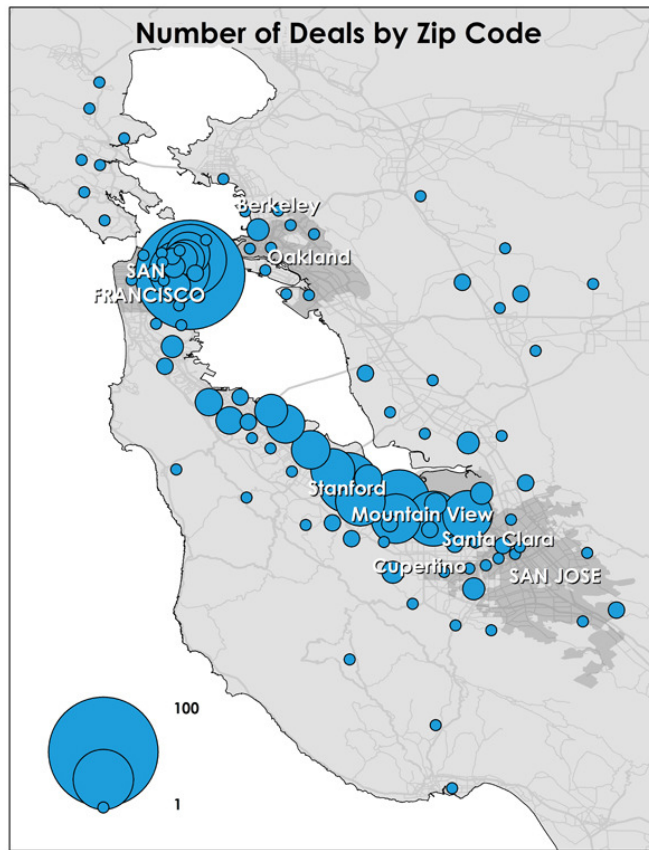
Today, I'll focus on the case of the Bay Area, comparing urban and suburban venture capital investment in San Francisco and Silicon Valley. In the coming weeks I'll look at other American startup hubs in the Boston-New York-Washington corridor, LA and Southern California, Seattle, Austin, Chicago and elsewhere. Zara Matheson of the [Martin Prosperity Institute](#) mapped the data.

In the 1980s,
1990s, and
2000s not a
single urban
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This first map (above) shows the dollars value of venture capital investment across Bay Area zip codes, while the second (below) traces the number of venture capital deals in startup companies across the region's zips. The maps show clear clusters of investment in the city of San Francisco and in Silicon Valley, particularly in Palo Alto and nearby Mountain View.



The sheer number of large clusters of investment in the maps make it clear that venture capital in Bay Area is no longer primarily or predominantly centered in the quintessential techie hub of Silicon Valley. San Francisco has been catching up: The biggest dots by far – indicating the greatest volume and concentration of venture capital activity investment – appear to be in and around the center of San Francisco.

The table below ranks the ten leading Bay Area zip codes by venture capital investment.

Top Ten Zip Codes for Venture Capital Investment in the Bay Area				
Rank	Zip Code	Neighborhood and Features	City	Investment (millions)
1	94107	Portero Hill, South Beach, South Park	San Francisco	\$1,885.8
2	94105	Rincon Hill, Embarcadero South	San Francisco	\$693
3	94043	Suburban Mountain View, including Google headquarters	Mountain View	\$660.5
4	94063	Centennial, Stambaugh Heller, Redwood Village, Friendly Acres	Redwood City	\$575.2
5	94103	South of Market	San Francisco	554.6
6	95054	Suburban Santa Clara, north	Santa Clara	\$548.3
7	94065	Redwood Shores	Redwood City	\$433.5
8	94301	Crescent Park, University South, Old Palo Alto	Palo Alto	\$412.7
9	94085	North-central Sunnyvale	Sunnyvale	\$389.7
10	94089	North Sunnyvale, including Lakewood, Lockheed Martin headquarters	Sunnyvale	\$378.2

The two leading zip codes by far are 94107 and 94105, two urban districts that include large swathes of San Francisco's waterfront, running south from the central financial district, and that have been strong

tech hubs since the 1990s dot-com boom. And San Francisco is also home to the fifth leading zip code as well.

The third richest zip, 94043, points to the continued strength of more traditional, suburban tech centers. This Mountain View district is home to the Googleplex, the quintessential nerdistan campus. Other leading zip codes are located in Redwood City, and in the Silicon Valley hubs of Palo Alto, Mountain View and Sunnyvale. Some are more suburban in orientation, with large corporate campuses, but dense downtown Palo Alto (94301) also makes the list. Overall, the leading Bay Area zip codes for venture investment include vibrant, urban areas – both within the city of San Francisco and in the smaller downtowns of Silicon Valley towns – as well as more traditional suburban nerdistans.

The next table below is perhaps even more telling, showing the distribution of venture capital investment within and across Bay Area cities.

Leading Cities for Venture Capital Investment in the Bay Area		
Rank	City	Investment (millions)
1	San Francisco	\$4,390
2	Palo Alto	\$1,291
3	Redwood City	\$1,064
4	Mountain View	\$918
5	Sunnyvale	\$800
6	Santa Clara	\$733
7	San Jose	\$688
8	San Mateo	\$307
9	Fremont	\$299
10	Pleasanton	\$284

The city of San Francisco is the leader with \$4.39 billion in venture capital investment, roughly a third of the Bay Area total. This is by far the largest amount of venture investment of any jurisdiction in the region, and a whopping 16 percent of total venture investment nationally. Palo Alto is a distant second with \$1.29 billion (4.8 percent of the national total), followed by Redwood City (\$1.06 billion), Mountain View (\$918 million), Sunnyvale (\$800 million), Santa Clara (\$733 million), and San Jose (\$688 million). Investment has also begun to spread up and down the Peninsula, filling in the cities that stretch between San Jose and San Francisco proper. And, within the Bay Area broadly, according to these zip code level data, the San Francisco metro attracted nearly 70 percent more venture capital (\$8.5 billion) than the Silicon Valley region (\$5 billion).

Predominantly urban zip codes accounted for 85.7 percent of venture investments across the Bay Area.

The data also enable us to chart the distribution of venture capital investment and startup activity across urban and suburban zip codes. A zip code is classified as "predominantly urban" if more than half of it falls inside a central city, and "predominantly suburban" if more than half it falls outside a central city. Looked at this way, in both Silicon Valley as well as San Francisco, urban zip codes are the overwhelming winners. Taken as a whole, predominantly urban zip codes accounted for 85.7 percent of venture investments across the Bay Area (\$11.6 billion), compared to 14.4 percent (\$1.9 billion) in predominantly suburban codes. And venture investments going to predominantly urban zip codes make up a slightly larger share of all venture investments in the San Jose metro (93.1 percent) than the San Francisco metro (81.6 percent).

These map and data provide the most detailed evidence yet of the urban shift in venture capital in the Bay Area. Long gone are the days when high-tech startups were overwhelmingly located in sprawling suburban nerdistans. The center of gravity for venture capital and startup activity in the Bay Area today appears to have

shifted to central cities.

"For all its power, Silicon Valley has a great weakness," wrote [legendary Silicon Valley investor Paul Graham](#), its "soul-crushing suburban sprawl." But, he added, "a competitor that managed to avoid sprawl would have real leverage."

That "competitor" has turned out to be nearby San Francisco. In her book *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*, [AnnaLee Saxenian](#) of the University of California, Berkeley, explained how Silicon Valley's decentralized, cooperative ecosystem allowed it to adapt to new technologies, besting Boston's more rigid corporate model. This flexibility has come to the fore once again, as the Bay Area's tech community adjusts its locational model to meet the preferences of a new generation of workers and to take advantage of the abundance of affordable, easily repurposable industrial real estate that can be found in cities.

Of course cities and suburbs are not either/or propositions when it comes to startups, venture capital and high-tech in the Bay Area. If start-ups thrive in dense, diverse urban center cities where talent clusters, serendipity thrives, and services can be found in the surrounding neighborhood, large established companies like Google, Apple and Facebook need the space that their suburban campuses provide. The locational symbiosis is reflected in [the shuttle buses](#) these companies have long run between their suburban campuses and downtown San Francisco, where more and more of their workers prefer to live.

And, together, the Bay Area's centers in Silicon Valley and San Francisco make the Bay Area the world's largest center for venture capital-backed high tech industry in the United States and the world. The region — which includes Silicon Valley, San Francisco, Oakland and surrounding areas — attracted \$13.5 billion in venture capital investment in 2011, more than four times that of greater Boston or greater New York, the nation's second and third largest centers for venture capital investment.

My next post in this series will look at the suburban-urban shift in venture capital investment on the East Coast across the Boston-New York-Washington corridor.

This is the seventh in [a series of posts](#) exploring the new geography of venture capital and high-tech start-ups, and the degree to which these start-up communities are shifting from their traditional locations in the suburbs to urban areas.

Keywords: San Francisco, San Jose, San Francisco, Silicon Valley, Nerdistan, Venture Capital



Richard Florida is Co-Founder and Editor at Large at The Atlantic Cities. He's also a Senior Editor at *The Atlantic*, Director of the Martin Prosperity Institute at the University of Toronto's Rotman School of Management, and Global Research Professor at New York University. He is a frequent speaker to communities, business and professional organizations, and founder of the Creative Class Group, whose

current client list can be found [here](#). [All posts »](#)