

START-UP CITY

# Why San Francisco May Be the New Silicon Valley

RICHARD FLORIDA AUG 05, 2013 23 COMMENTS

**Author's Note:** This is the sixth in my *Start-up City series* looking at 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.

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 nerdistans 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 nerdistans. 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.

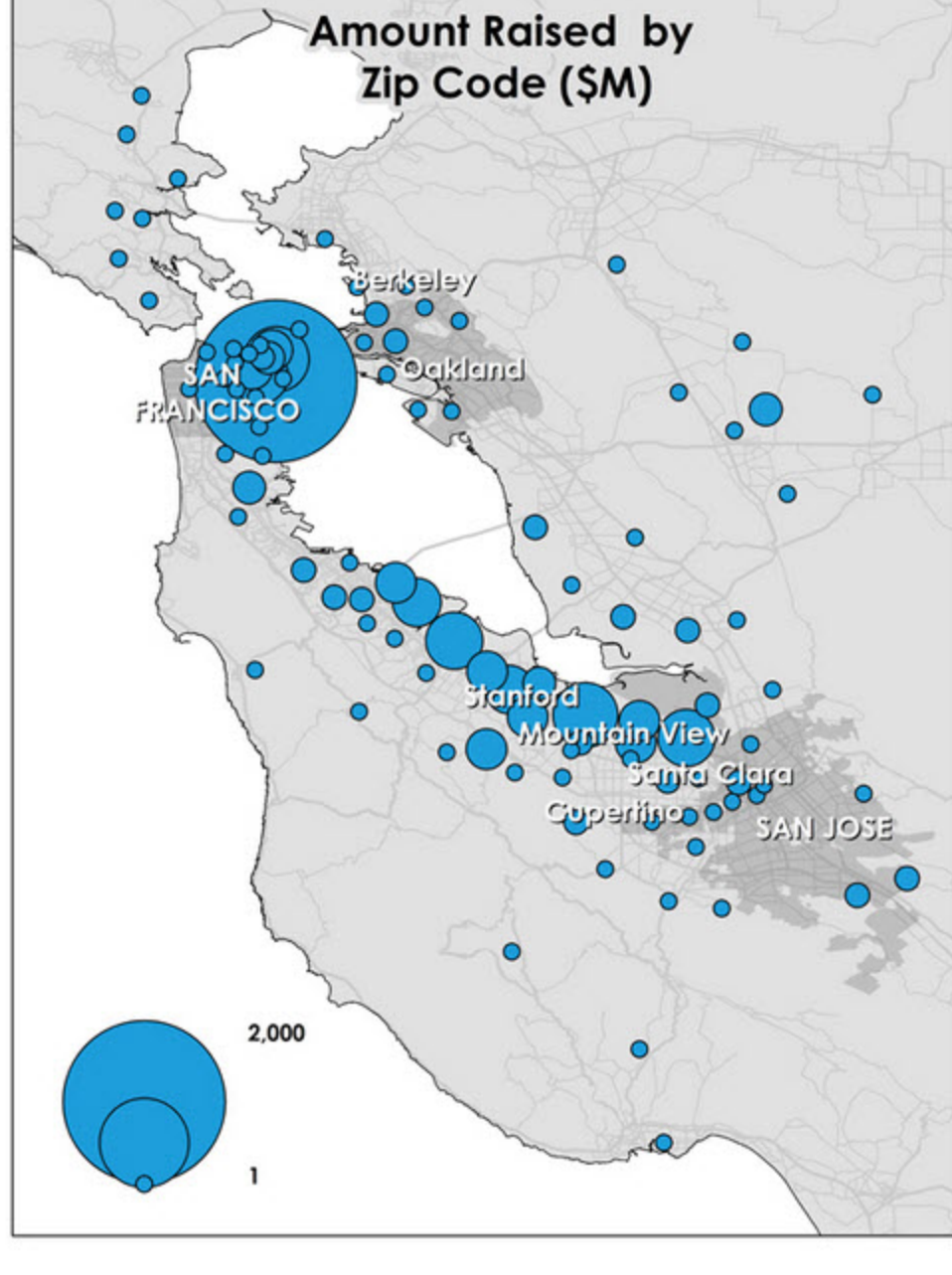
But recent studies have pointed to an urban shift -- to [New York City](#), [San Francisco](#), Boston and Cambridge in the United States and [London](#), [Berlin](#) and [elsewhere](#) around the world. A great deal of other research has noted the return of people, jobs and commerce to the urban core, 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.

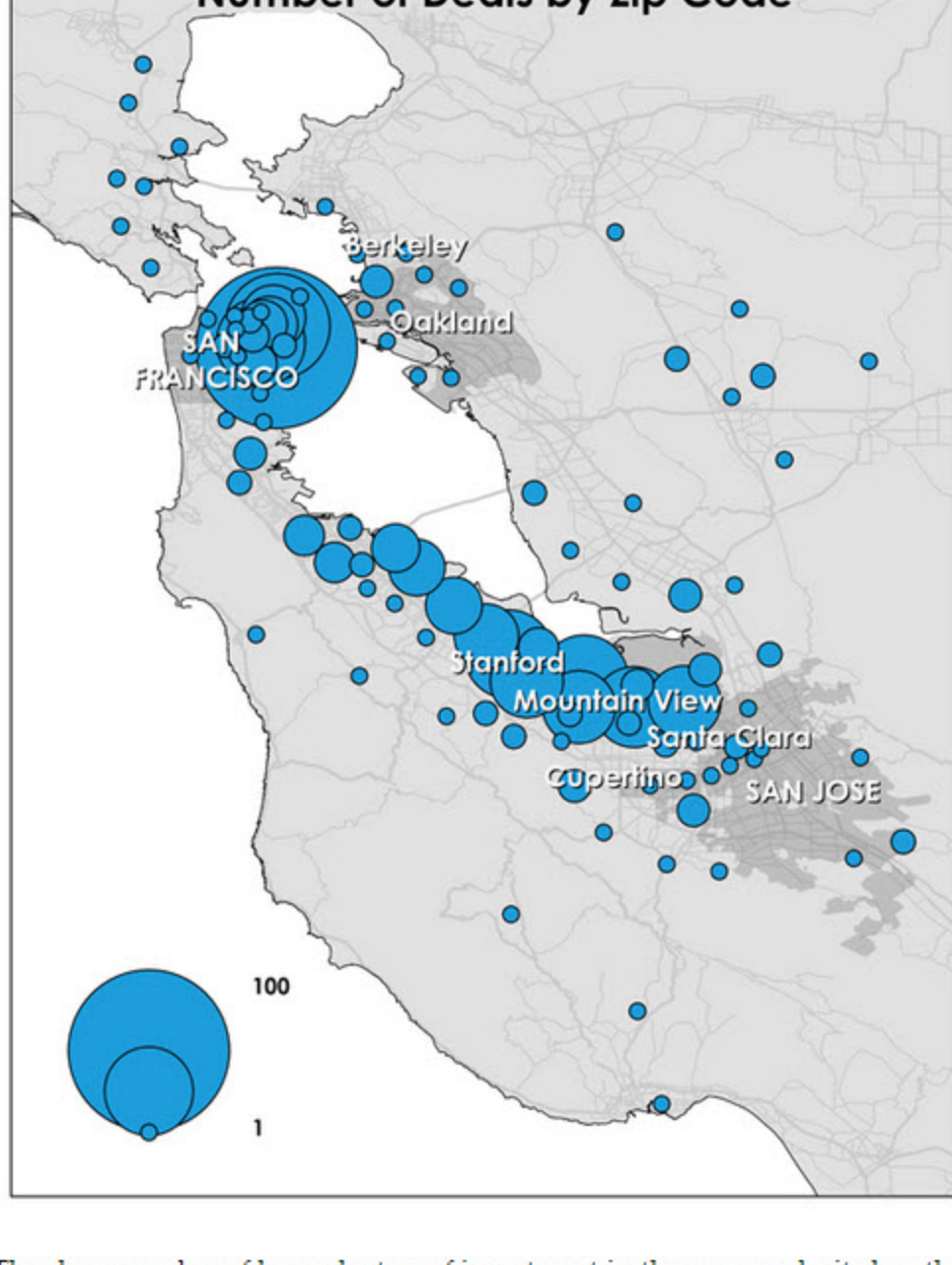
But zip code level data made available to us by [Dow Jones](#) enables us to look into the location of venture capital investment in cities and suburbs in much greater detail.

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.

• • • • •



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	\$54.6
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 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."

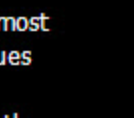
That "competitor" has turned out to be nearby San Francisco. In her book *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*, [AnnaLee Saxenian](#) of the University of California, Berkeley, explained how Silicon Valley's decentralized, cooperative ecosystem allowed it to adapt 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 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.

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 »](#)

Follow @Richard\_Florida 167K followers

**About The Atlantic Cities**  
The Atlantic Cities explores the most innovative ideas and pressing issues facing today's global cities and neighborhoods. By bringing together news, analysis, data, and trends, the site is an engaging destination for an increasingly urbanized world.

**Contact Us**  
Suggestions and Feedback

**Cities to Go**  
Follow Like 13k

**Subscribe to Our Newsletter** (preview)  
EMAIL ADDRESS SUBSCRIBE  
☐ I want to receive updates from partners and sponsors

**The Atlantic**  
FAQ  
Subscribe  
Jobs  
Privacy  
Terms and Conditions  
Advertising with The Atlantic  
Advertise Guidelines  
Follow The Atlantic  
Masthead

**Atlantic Media**  
The Atlantic  
The Atlantic Wire  
National Journal  
Government Executive  
NextGov  
Quartz