

# Vexed in the city: Silicon Valley's invasion of San Francisco

A major migration is under way, with technology companies large and small setting up shop in San Francisco and bypassing the historic heart of the tech industry.

by **Richard Nieva** @richardnieva / August 22, 2014 4:00 AM PDT

8 / 101 / 227 / 96 / / more +

- 1 **Vexed in the city: Silicon Valley's invasion of San Francisco**  
Tech Culture
- 2 **Facebook to developers: Please friend us**  
Internet
- 3 **With the One M9, HTC tries to build a 'timeless piece of design'**  
Mobile
- 4 **The driver's license of the future is coming to your smartphone**  
Digital Media
- 5 **Uber partnership with UN women's group hits dead end**  
Tech Industry



Zendesk was the first tech company to take advantage of a tax exemption in 2011 that brought the firm to the Tenderloin, a blighted neighborhood in San Francisco.

James Martin/CNET

*This story is part of a **CNET special report** that examines the controversy gripping San Francisco as a massive influx of techies feeds an unprecedented economic boom -- and backlash.*

SAN FRANCISCO -- From the sixth-floor boardroom where Zendesk holds its most important meetings, CEO Mikkel Svane has a unique view of San Francisco. It's not the iconic snapshot of the city -- no Golden Gate Bridge or Transamerica Pyramid. Instead he sees a jumble of grit and gild: a housing project, the gold-trimmed dome of City Hall, and a cryptic, crudely spray-painted message scrawled atop a nearby building: "Snakes get out or we flood."

"I still don't know what it means," says Svane, laughing while peering out the window on a clear day in late July.

The enigmatic view is a fitting one for the leader of a company doing business on relatively unfamiliar terrain. Instead of settling in Silicon Valley, some 40 miles south of the city, the customer service software firm decided to set up shop in San Francisco.

Last month, Svane moved the company to new headquarters in the city's Tenderloin district -- one of San Francisco's roughest neighborhoods -- from a smaller office just a few blocks away. Twitter and Spotify also have offices nearby. But Zendesk, which went public in May, was the pioneer in taking advantage of a tax break designed to lure companies to the distressed neighborhood. The company first settled in the Tenderloin in 2011.



Vexed in the city: CNET looks at how San Francisco is dealing with its tech boom.

James Martin/CNET

"I tell people all the time, it wasn't Twitter," said Mayor Ed Lee, at a housewarming event at the new office. "It was Zendesk to first sign up."

It may have been the first, but it's not the only tech company to call San Francisco home. Dropbox, Salesforce, Airbnb and Square, all have headquarters here. For younger companies, the scales have tipped toward the city. In 2012, venture capital investment for companies based in San Francisco and Oakland totaled \$7 billion, versus \$4 billion for Silicon Valley companies, according to a report by the Boston Consulting Group.

Even tech companies like Google and LinkedIn, headquartered outside of the city in Silicon Valley, are expanding their presence in San Francisco -- and fueling a blockbuster commercial real estate land grab along the way. Protesters blame the tech industry for **gentrification** and the even higher **cost of housing** in the city.

For the record, companies aren't abandoning Silicon Valley. Apple is building a new \$5 billion futuristic, doughnut-shaped campus in Cupertino, Calif., dubbed iSpaceship. Samsung, based in Korea, chose San Jose, Calif., as the site for its North American expansion. And Netflix continues to build out its headquarters in Los Gatos, Calif.

Still, for Svane, a tall Dane with an easy demeanor, the choice was a no-brainer. After co-founding the company in Copenhagen in 2007, Silicon Valley was never an option when he decided to take the firm stateside. He cites the urban buzz of San Francisco, but also says it had the kinds of communities and services better suited to his wife, who is deaf. He didn't want to "isolate her in the boonies," he says. "We're city people."

## Moving on up...

From the windows on the sixth floor of CNET's headquarters in San Francisco's South of Market district, five cranes are visible, busily stacking floors up to the city's skyline.

One is building 222 Second Street, a 26-story, 450,000-square-foot tower that will house up to 2,500 workers for the social network LinkedIn. Another crane is

working on Salesforce Tower, which will be the **tallest building in the city** and house the cloud-computing company's workers in over 714,000 square feet.

The cost of rent in new buildings like those comes at the highest price businesses have seen in almost 15 years. The average price of so-called Class A commercial rents -- or the highest-end office real estate available -- is \$64.45 per square foot. That's almost as expensive as it was **before the tech bubble popped in 2000**, when it was \$67.20.

So what's the draw? Many big tech companies have employees who already live in San Francisco. And many startups have chosen to settle here to draw talented engineers who want the "city" experience. Since 2010, 31 percent of the 67,000 jobs created in San Francisco are in the tech industry.



**"I've seen this city go through booms and busts. People don't like the booms -- they don't like the busts either."**

*David Prowler, former San Francisco Planning Commissioner*

LinkedIn and Salesforce aren't the only examples of Big Tech's migration into the city. Google, known for its sprawling campus in Silicon Valley's Mountain View, Calif., is also making the trek north. (Though it's also worth noting that Google's real estate binge is not exclusive to San Francisco. The company is also expanding **nearby its Silicon Valley headquarters** as well.)

Last month, Google **confirmed** that it bought a building along San Francisco's waterfront, and is leasing 250,000 square feet in a tower in the city's One Market office plaza. The search giant already has an office in the city, near the new building it's buying. One factor Google considers when it evaluates new property is how close the digs are to the company's existing offices. The aim is for workers to easily meet up, according to a person familiar with Google's strategy. The company hasn't yet decided what teams or departments will reside in the new San Francisco offices, that person said.

The expansion in San Francisco comes as tech companies face protesters unhappy with the commuter shuttles that ferry their workers to and from San Francisco to corporate campuses in Silicon Valley and along the peninsula. Because of Google's size and influence, it draws the most ire. To wit, Apple, Facebook and Yahoo all run employee shuttles in San Francisco, but the vehicles are colloquially known as "Google buses."

Google wouldn't say whether the timbre of the protests factored into its property grab in San Francisco. But commuting played a role when the company opened its last office in the city in 2007.

"SF is significant to Google as we have many users, employees, advertisers and publishers here, and it is an important base for recruiting," Google **said at the time**. "We are happy to have a presence in the city that will allow us to be more responsive to customer needs and cut down

#### **MORE FROM THE "VEXED IN THE CITY" SERIES**

**Tech's fraught transformation of SF**

**If you're moving to SF, bring cash. Lots of cash**

**The 'sharing' economy's hidden toll on SF**

**Pictures: The tech invasion of SF**

**Working in Silicon Valley tech is much more lucrative than you think**

**Benioff: Listen to dissenters**

**SF strife spurs tech defectors elsewhere**

**Starved for tech talent, yet**

commute times for many of our employees."

nobody to hire?

Google declined to say how many of its 52,000 employees live in San Francisco. LinkedIn and Salesforce were not available for comment.

#### VEXED IN THE CITY: THE TECH INVASION OF SAN...

[SEE FULL GALLERY](#)



1 - 4 / 17

[PREV](#) | [NEXT](#)

One often overlooked benefit of building an office in San Francisco is that the company doesn't have to worry about providing parking, says Bob Basso, a principle at the real estate development firm Cannae Partners. Parking square footage is an added cost. With offices on busy city blocks, and employees able to rely on public transportation, parking isn't as essential in the city, says Basso.

In fact, the amount of parking available impacts how many workers can occupy an office building. Offices in Silicon Valley typically require four parking spaces per 1,000 square feet, or one employee per 250 square feet for office spaces without direct access to public transportation, says Basso. That means, because of parking restrictions, companies in the Valley, even with numerous parking lots, aren't able to populate their buildings as densely as companies in the city.

So, while the commuter shuttle buses accommodate workers who don't want to drive, they also serve another purpose: They let big Silicon Valley companies fill their offices with more people because they've provided adequate transportation and can bypass the parking concerns, says Basso.

Smaller Silicon Valley companies who can't afford bus fleets pay more expensive prices for the limited office space near train lines. Dave Goldberg, CEO of the online survey company SurveyMonkey, ran into that problem when the firm moved into its new Palo Alto, Calif., headquarters last year. Employees said they'd rather be close to the commuter train that runs between San Francisco and San Jose, rather than have fancier offices with more perks that would require a shuttle bus ride to reach the train.

"We didn't want to pay as much as we did," says Goldberg. "But we couldn't afford to not be on the train [line] in the mid-peninsula." He adds that two-thirds of his employees ride the train to work.

"Because of the office space problem down here, we're forcing more companies to go to the city," he says.

The collective outcome for San Francisco is a taller skyline and an influx of highly compensated workers. Those two characteristics often draw comparisons to New York City, with its soaring skyscrapers and affluent bankers. (New York Magazine **wrote** one such rumination in March.) But not everyone is worried about the comparisons. "The Manhattanization of San Francisco has been a rallying cry since the 1970s," says David Prowler, a former San Francisco planning commissioner. Prowler was the mayor's project manager in the development of AT&T Park, where





New real estate developments are rapidly changing the city's skyline.

Seth Rosenblatt/CNET

the San Francisco Giants play. The stadium, a short walk from the Financial District and South of Market Street neighborhoods favored by startups, is considered by many to be a **textbook success** of city planning.

"I've seen this city go through booms and busts," says Prowler. "People don't like the booms -- they don't like the busts either."

### **...To the East Side**

San Francisco, Mountain View, and Cupertino aren't the only cities in the Bay Area vying for tech attention.

Along Interstate 880 in Fremont, Calif., Tesla builders hammer away on parts for Elon Musk's electric-**car** company. In 2010, Tesla moved into a 5.5 million-square-foot auto plant that was previously used by a joint venture between Toyota and General Motors.

Fremont Mayor Bill Harrison hopes other companies will follow. To lure tech to the town, which is located about 15 miles north of San Jose., Harrison launched an initiative last year called "Think Silicon Valley." The **website** and **video** campaign tout the city's low crime rate, diverse population, and affordable real estate (starting home price: \$415,600). In San Francisco, the median home price is now above \$1 million.

The video also assures would-be corporate residents that the city is "kicking up the urban vibe," with new entertainment districts springing up along the city's BART train line.



Bill Harrison, mayor of Fremont, Calif., is trying to lure tech companies to his city with a campaign called "Think Silicon Valley."

Still, he knows San Francisco is a tough act to beat when it comes to culture and nightlife, especially for the youthful startup scene. "I'm not going to compete with San Francisco. Nor am I even going to try," says Harrison. Instead, Fremont – which calls itself "**Silicon Valley East**" – can say that the median price to rent an apartment is \$2,300. The median apartment price in San Francisco is \$3,600.

San Francisco officials don't feel like they're competing with other regions when companies decide to settle in the city, either. "I think we succeed together," says Todd Rufo, San Francisco's head of economic development. He also says he hasn't heard of any resentment from leaders of neighboring cities.

San Francisco has worked to attract tech companies. In April 2011, the city tried to convince companies to move to the city's Mid-Market neighborhood -- where Zendesk and Twitter are located -- by **exempting** them from a payroll tax for new employees for six years. The city also passed a tax code reform in November 2012, changing from enforcing a payroll tax to a growth receipt tax. That means instead of paying a 1.5 percent tax on payroll more than \$250,000, companies would be taxed based on their size and what industry they are in.

**Opponents** of the tax exemptions, though, say the cuts are a form of corporate welfare, and the lost tax dollars could go to city services.

Svane says Zendesk would have settled in San Francisco even without the tax cuts, but he doesn't deny they factored into his thinking. "Would we have done it without the exemptions? Probably," he says. "Would we have looked at more places? Yeah."

But for now, Svane can look out that sixth-floor window and ponder what snakes and floods have to do with each other.

**Tags:** Vexed in the City, Tech Culture