

'It's a colony': Why Texas won't take Silicon Valley's crown just yet

The San Francisco Bay Area remains the innovative center of the US tech industry. But challenges are on the horizon.

It didn't come as a huge surprise when Oracle Corp announced it was moving its headquarters from California to Texas last week. The world's second largest software company, founded in Silicon Valley in the late 1970s, had already transitioned parts of its 135,000-member workforce to Austin over the last two years as executives sought to cut costs.

But, following other high-profile departures, including Hewlett Packard Enterprise's move from San Jose, California, to Houston, and the Tesla CEO Elon Musk's very public exit, and amid a steady stream of news reports on San Francisco residents leaving the Bay Area, Texas officials started seeing an opportunity to gloat.

"While some states are driving away businesses with high taxes and heavy-handed regulations, we continue to see a tidal wave of companies like Oracle moving to Texas thanks to our friendly business climate, low taxes and the best workforce in the nation," said the Texas governor, Greg Abbott.

Although it's true that with the rise in remote work easing geographical workplace restrictions companies created in California could be looking for less-costly labor and lower taxes, industry experts say the San Francisco Bay Area remains the innovative center of the US tech industry and that title isn't slipping away any time soon. Austin, which has long held its position as one of the top-10 tech destinations in the US, isn't necessarily a competitor for California, they argue, but a colony.

"There is little sense that there is any massive relocation of startup ecosystems out of San Francisco," said Richard Florida, a professor of economic analysis and policy at the University of Toronto and the co-founder of CityLab. "I think most people are just waving their hands."

Yet there are challenges on the horizon, experts and policymakers admit. While Silicon Valley's spill-over into other states won't immediately shift the tides, the region's ability to retain business moguls and churn out new startups will be crucial to its future. The biggest competitors in that area aren't coming from inside the US.

'Still the most innovative economy in the world'

Tech companies have established outposts in the Lone Star State to cut costs, helping cities like Austin steadily grow its tech sector over the last two decades. Austin's tech hub is even dubbed the "Silicon Hills" a nod to where most tech companies got their start.

But even some of the most easily recognizable names sprouting offices in those "hills" still officially call the Bay Area home: Facebook, Apple, Google and even Musk's Tesla aren't likely to shift the bulk of their businesses out of California any time soon.

"There is a satellite system that's developing," Florida said, "but the hub of technology and innovation in the United States is the San Francisco Bay Area."

The Bay Area still boasts more startups than any other state, eclipsing even its closest rivals in venture capital and investment. The nine-county region boasts a \$535bn GDP and ranks 19th among the world's economies. This year, it regained its title as the top large metro in the "best-performing cities" ranking of the Milken Institute, an economic thinktank, praised for its "abundant venture capital, and innovation and entrepreneurial culture support regional high value-added industries, including the expanding tech and biotech industries".

It's also continued to foster a good environment for new fast-growing companies – nearly a quarter of the companies on this year's fastest-growing companies list compiled by Fortune were launched in California. Startup data from 2018 shows that more than \$81.8bn was invested over a two-year period in San Francisco. Austin saw roughly \$3.6bn for the same time period.

"This is still the most innovative economy in the world," said Dee Dee Myers, the director of the California governor Gavin Newsom's Office of Business and Economic Development. "I am not saying we don't have challenges we don't need to try to solve – but people have been saying that California is over for a long time and it keeps not being true."

Acknowledging that CEOs have left in search of lower taxes, more space, or cheaper labor, she argued that the Golden State was where some of those businesses grew to begin with. "They have benefited greatly from being here," she said.

Challenges ahead

That doesn't mean there's not cause for concern. Although California still attracts close to half of all venture dollars, its share is declining. Texas may not be a threat to its tech sector, but competition is creeping in from outside the country.

"The United States has really been dramatically losing share of high technology businesses," Florida said. "San Francisco is still one of the biggest centers but Shanghai and Beijing are very close behind."

This year's annual Bloomberg Innovation Index – an analysis that looks at a variety of metrics, including the number of hi-tech companies, manufacturing potential and research and development spending – listed the US as ninth in the world, after giving it the top spot in 2013.

San Francisco and San Jose were ranked No 1 and 2 in investment per capita, according to a 2018 analysis by the Center for American Entrepreneurship, a research and advocacy organization. But the same report awards Beijing the top spot for driving global growth.

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Region	November 2019	October 2020	November 2020	Percentage Point Change	
				1 month	12 months
San José–Sunnyvale MSA	2.4%	5.8%	5.1%	- 0.7	+ 2.7
San Francisco MD	1.9%	6.3%	5.4%	- 0.9	+ 3.5
California	3.7%	8.7%	7.9%	- 0.8	+ 4.2
United States	3.3%	6.6%	6.4%	- 0.2	+ 3.1

Sector — November 2020	San Jose MSA	San Francisco MD	Combined Region	Percentage Change (Combined Region)	
				1 month	12 months
Total Nonfarm	1,091,800	1,088,600	2,180,400	+ 0.7%	- 7.6%
Construction	51,400	39,500	90,900	- 2.9%	- 5.4%
Manufacturing	163,200	36,000	199,200	- 0.4%	- 6.4%
Retail Trade	81,900	75,600	157,500	+ 4.4%	- 5.4%
Information	92,500	90,300	182,800	+ 0.3%	- 10.4%
Professional & Business Services	247,000	291,900	538,900	+ 0.7%	- 0.7%
Educational Services	44,200	29,300	73,500	+ 0.8%	- 9.3%
Health Care & Social Assistance	128,000	111,300	239,300	+ 0.7%	- 2.4%
Leisure & Hospitality	80,600	100,700	181,300	+ 0.6%	- 28.7%
Government	95,400	121,600	217,000	+ 0.6%	- 7.1%

Note: San José MSA (San José–Sunnyvale–Santa Clara Metropolitan Statistical Area) = Santa Clara and San Benito Counties
San Francisco MD (San Francisco–Redwood City–South San Francisco Metropolitan Division) = San Mateo and San Francisco Counties

Source: California Employment Development Department, LMID

	Labor Force			Employed			Unemployment		
	November 2019	November 2020	Change	November 2019	November 2020	Change	November 2019	November 2020	Change
California	19,534,600	18,928,800	- 3.1%	18,816,600	17,437,200	- 7.3%	3.7%	7.9%	+ 4.2
Alameda County	847,000	815,200	- 3.8%	824,200	760,200	- 7.8%	2.7%	6.7%	+ 4.0
Contra Costa County	563,400	542,200	- 3.8%	547,600	505,100	- 7.8%	2.8%	6.8%	+ 4.0
Marin County	141,000	134,400	- 4.7%	13,100	128,100	- 7.2%	2.1%	4.7%	+ 2.6
Napa County	73,600	71,000	- 3.5%	71,700	66,700	- 7.0%	2.6%	6.0%	+ 3.4
San Francisco County	589,800	566,500	- 4.0%	578,100	534,100	- 7.6%	2.0%	5.7%	+ 3.7
San Mateo County	465,500	444,700	- 4.5%	456,700	422,000	- 7.6%	1.9%	5.1%	+ 3.2
Santa Clara County	1,059,200	1,042,700	- 1.6%	1,034,700	989,600	- 4.4%	2.3%	5.1%	+ 2.8
Solano County	210,400	203,600	- 3.2%	203,400	188,300	- 7.4%	3.3%	7.5%	+ 4.2
Sonoma County	260,600	250,200	- 4.0%	254,300	236,400	- 7.9%	2.4%	5.5%	+ 3.1
SF Bay Area (sum)	4,210,500	4,070,500	- 3.3%	4,108,800	3,830,500	- 6.8%	2.4%	5.9%	+ 3.5

Note: Totals may not add correctly due to rounding

Source: California Employment Development Department, LMID

November 2020 Layoff Events			WARN SUMMARY	
Company	Location	# Affected	Events YTD †:	114
Flying Food Group	South San Francisco	7	Individuals Affected YTD :	6,589
IHG Management	Milpitas	50	Individuals Previous YTD ‡:	3,530
Intercontinental Hotels Group	Multiple cities	82		
NetApp	Sunnyvale	103		
Prime Time Athletic Club	Burlingame	57		
Sodexo	South San Francisco	200		
Total		499		

* **WARN: Worker Adjustment and Retraining Notification**
(notice of mass layoff or closure)

† **YTD: Year to Date**
(Program year: July 1–present)

‡ **Previous YTD:**
(Same date range as YTD, one year prior)

Note: Layoff data are preliminary and should be considered an estimate of monthly regional activity

Source: California EDD, CalJOBS: WARN database