

Startup City Insight

High tech startups are taking an urban turn. Manhattan and Brooklyn, downtown San Francisco, and Santa Monica are all becoming tech hubs.

Venture capitalists themselves have always been found in large financial centers. But, historically the high tech startups they funded were mainly, if not exclusively, located in suburban “nerdistans” — the sprawling office parks of Silicon Valley, Boston’s Route 128 corridor, and the suburbs of Austin and Seattle, where Microsoft is located. In recent years, high tech development, startup activity, and venture investment have all been growing in the urban cores of major cities.

This Insight summarizes the key findings from our first major report on the rise of startup cities. The report, [Startup City: The Urban Shift in Venture Capital and High Technology](#), tracks the increasingly urban geography of high tech startups backed by venture capital. It is based on unique data provided to us by the [National Venture Capital Association](#), Thompson Reuters and Dow Jones.

Venture capital investment by metro

Exhibit 1

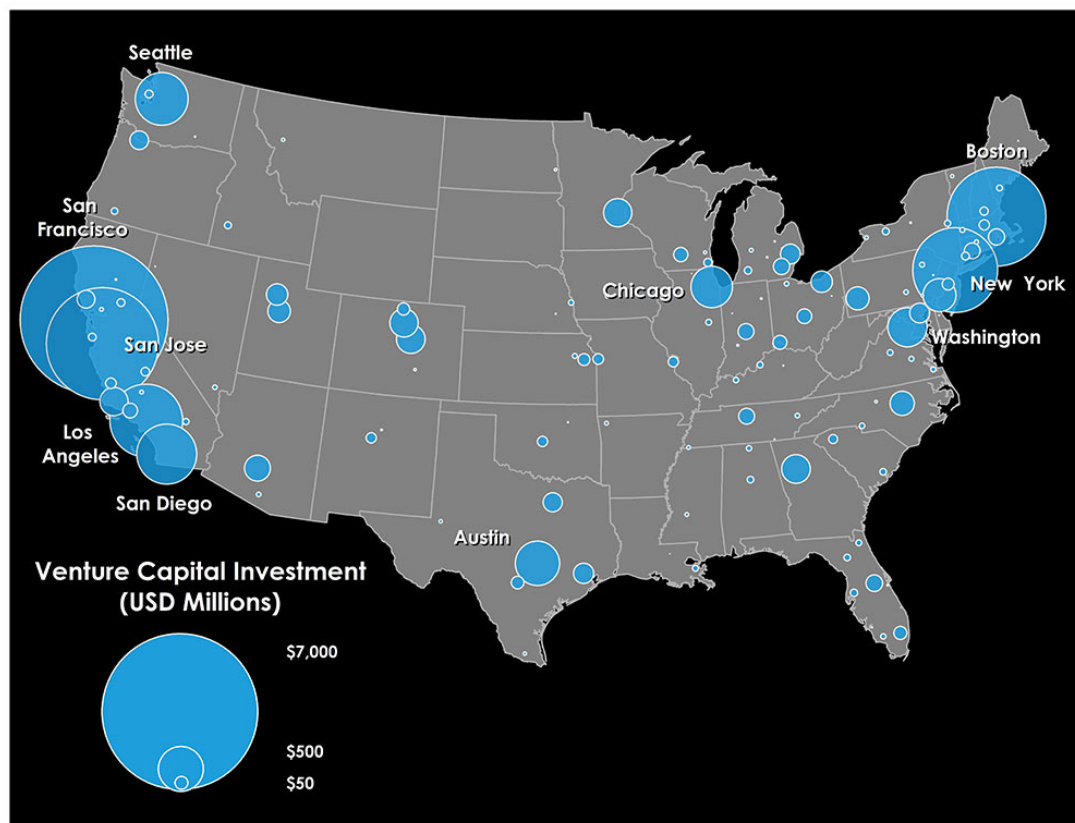


Exhibit 1 maps venture capital investment by metro. San Francisco is the leading metro, topping even Silicon Valley (San Jose). There is also a considerable amount of venture capital investment along the Boston-New York-Washington corridor, and Southern California from Los Angeles to San Diego. Other smaller but still significant locations for venture investment include Seattle, Austin, and Chicago. And, a number of smaller college towns like Boulder, Colorado; Ann Arbor, Michigan; and Lawrence, Kansas do well on venture capital on a per capita basis, though generally speaking, our analysis finds that venture capital investment is concentrated in denser, more compact, knowledge-based metros.

Startup City examines unique data on the distribution of venture capital and startup activity between cities and suburbs for 11 leading metros. The map in **Exhibit 2** presents the venture funding received by zip code for one of these leading metros: the Bay Area, including San Francisco and Silicon Valley. The biggest dots indicate that the greatest volume and concentration of venture capital activity investment are in and around the center of San Francisco. The two leading zip codes are urban districts that include large swathes of San Francisco's waterfront, running south from the central financial district.

Bay Area venture capital investments

Exhibit 2

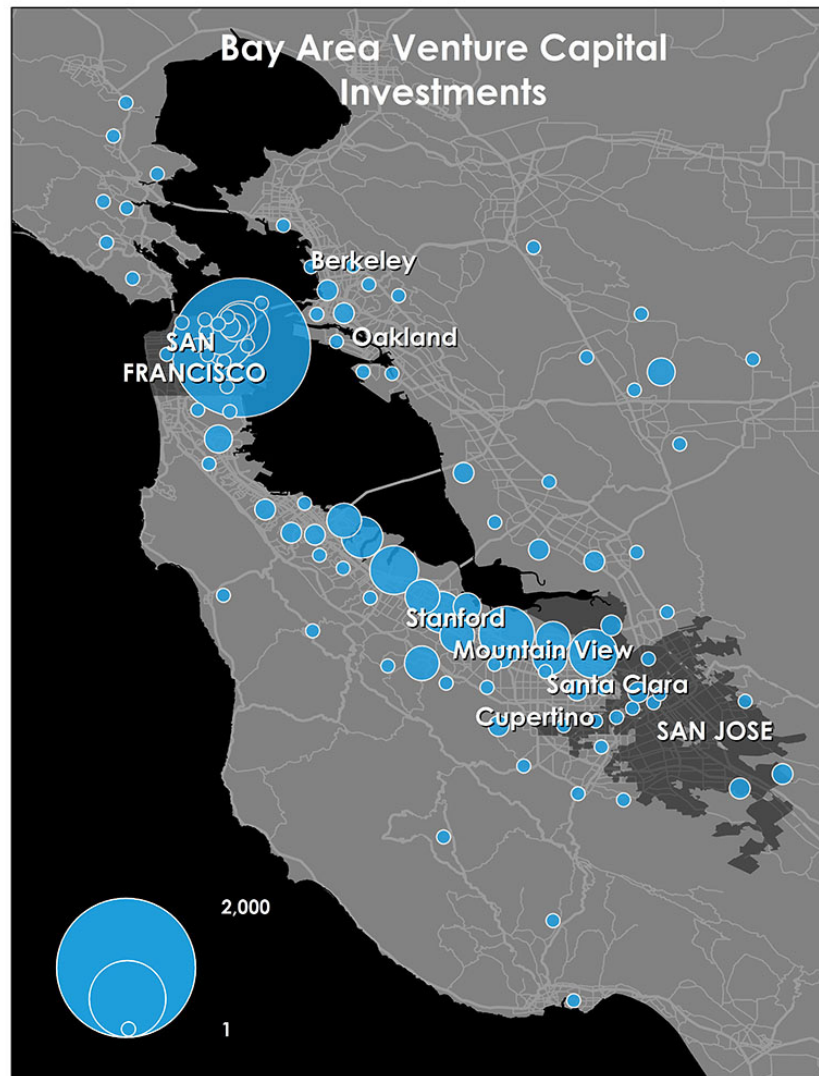
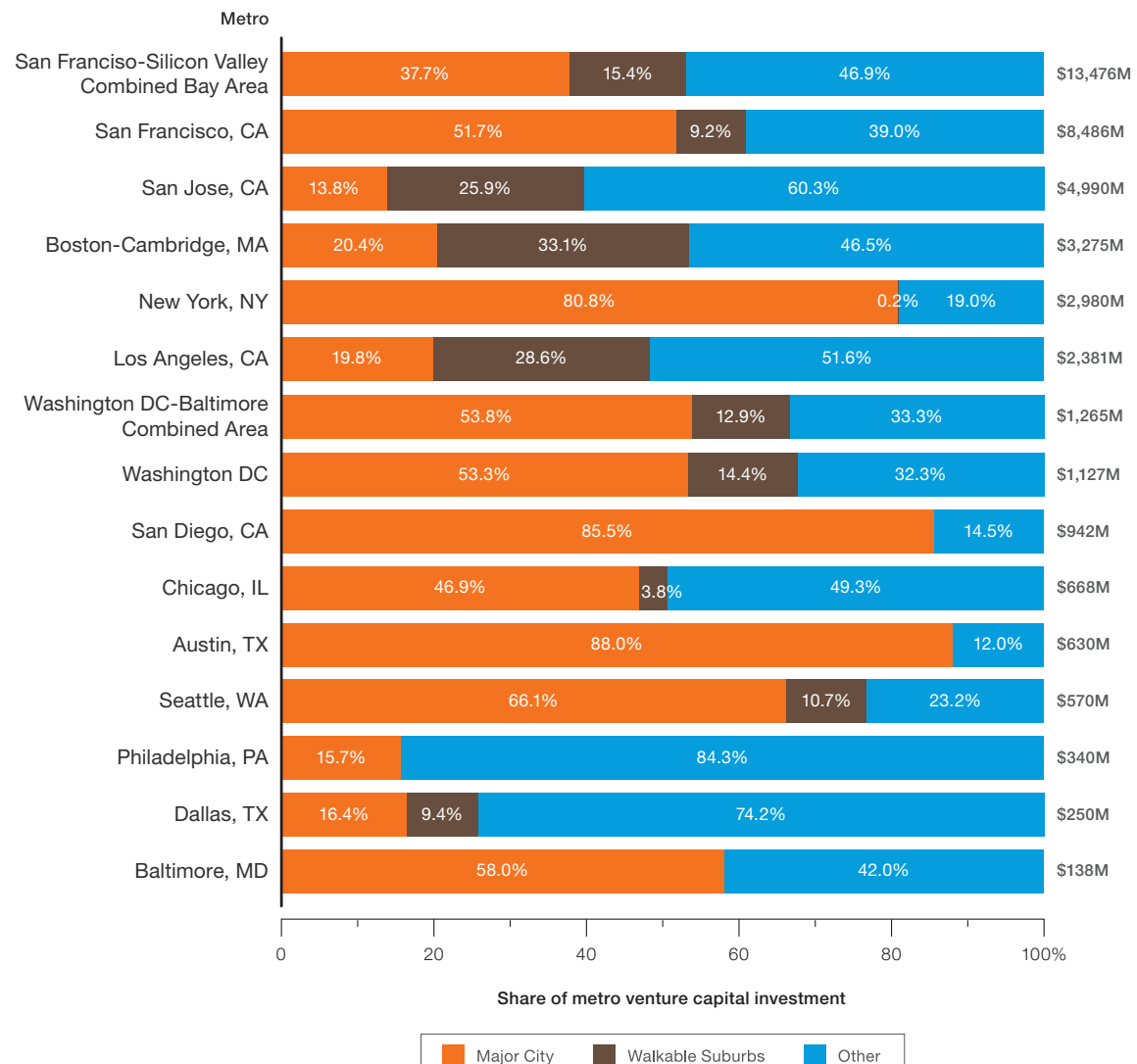


Exhibit 3 shows the share of venture capital investment going to the major center cities versus the walkable suburbs and other areas. The center city accounts for more than 80 percent of venture investment in three metros, New York, Austin and San Diego. It accounts for two-thirds in Seattle. It makes up roughly half in Greater Washington D.C and Baltimore and nearly half in Chicago. When Cambridge is added together with Boston, the two cities account for more than half of venture investment in the region. Palo Alto and San Jose combine for nearly 40 percent of all venture capital investment in Silicon Valley. And, together Santa Monica and LA account for almost 37 percent of the region’s total venture investment.

Several factors lie behind the urban turn in venture capital and high tech startups. Access to talent is key. Larger shares of techies are drawn to urban environments. And as the venture capitalist Fred Wilson has [noted](#), the new generation of tech talent sees themselves as creative artists as much as engineers or entrepreneurs; as such they are more likely to be urbanites than suburbanites. Urban areas also provide more efficient locations for smaller startups which can leverage the services and amenities that cities provide. “I love the idea of an urban corporate campus with all the energy and variety that provides,” Twitter co-founder Jack Dorsey tweeted last February, after opening his company’s new headquarters in a newly renovated Art Deco building in San Francisco’s

Share of venture capital investment going to center cities, walkable suburbs and other suburbs Exhibit 3



downtown. The changing nature of technology is also an important factor. Many tech startups use marketing or social media applications, or work with multi-media (games, music, and so on). Urban talent pools are richer in those skills than suburban ones.

This urban turn in venture capital and high tech startups reflects the longstanding role of cities as crucibles of creativity and innovation. The suburban nerdistan may well have been a historical aberration as the locus of innovation and entrepreneurship shifts back to the great urban centers that have served as their true catalysts all along.

To read the full report, click the following link: <http://martinprosperity.org/2014/03/26/startup-city-the-urban-shift-in-venture-capital-and-high-technology/>

The Martin Prosperity Institute at the University of Toronto's Rotman School of Management is the world's leading think-tank on the role of sub-national factors—location, place and city-regions—in global economic prosperity. We take an integrated view of prosperity, looking beyond economic measures to include the importance of quality of place and the development of people's creative potential.