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AI's Role in San Francisco's Economic Recovery

Dr. Ted Egan

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Land Acknowledgement

We wish to acknowledge this land on which the University of Toronto operates. For thousands of years it has been the traditional lands of the Wendat nation, the Seneca, and the Mississaugas of the Credit. Today, this meeting place is still the home to many Indigenous people from across Turtle Island and we are grateful to have the opportunity to work on this land.

AI’s Role in San Francisco’s Economic Recovery

Ted Egan, Ph.D.
Chief Economist, San Francisco Controller’s Office

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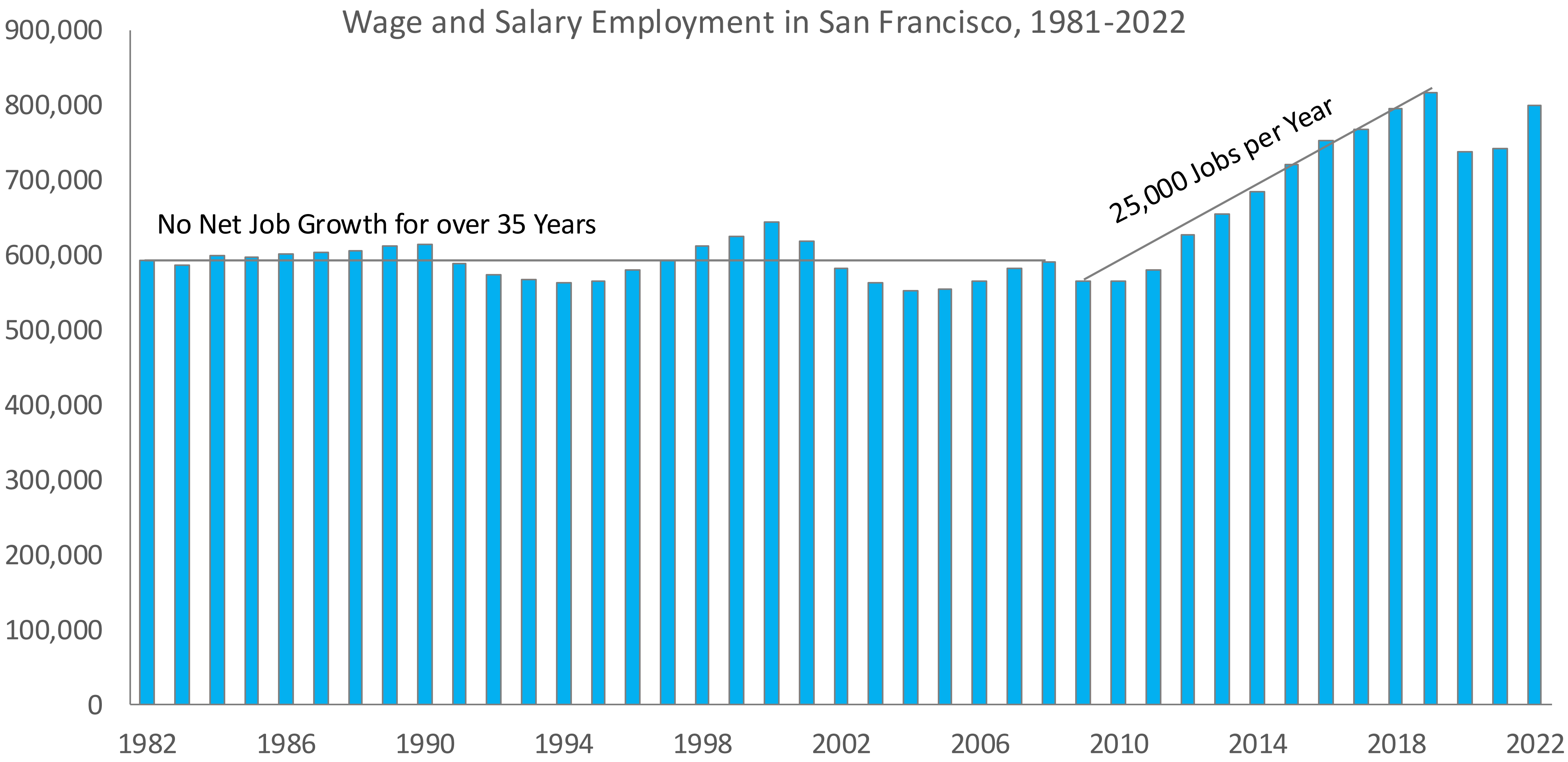
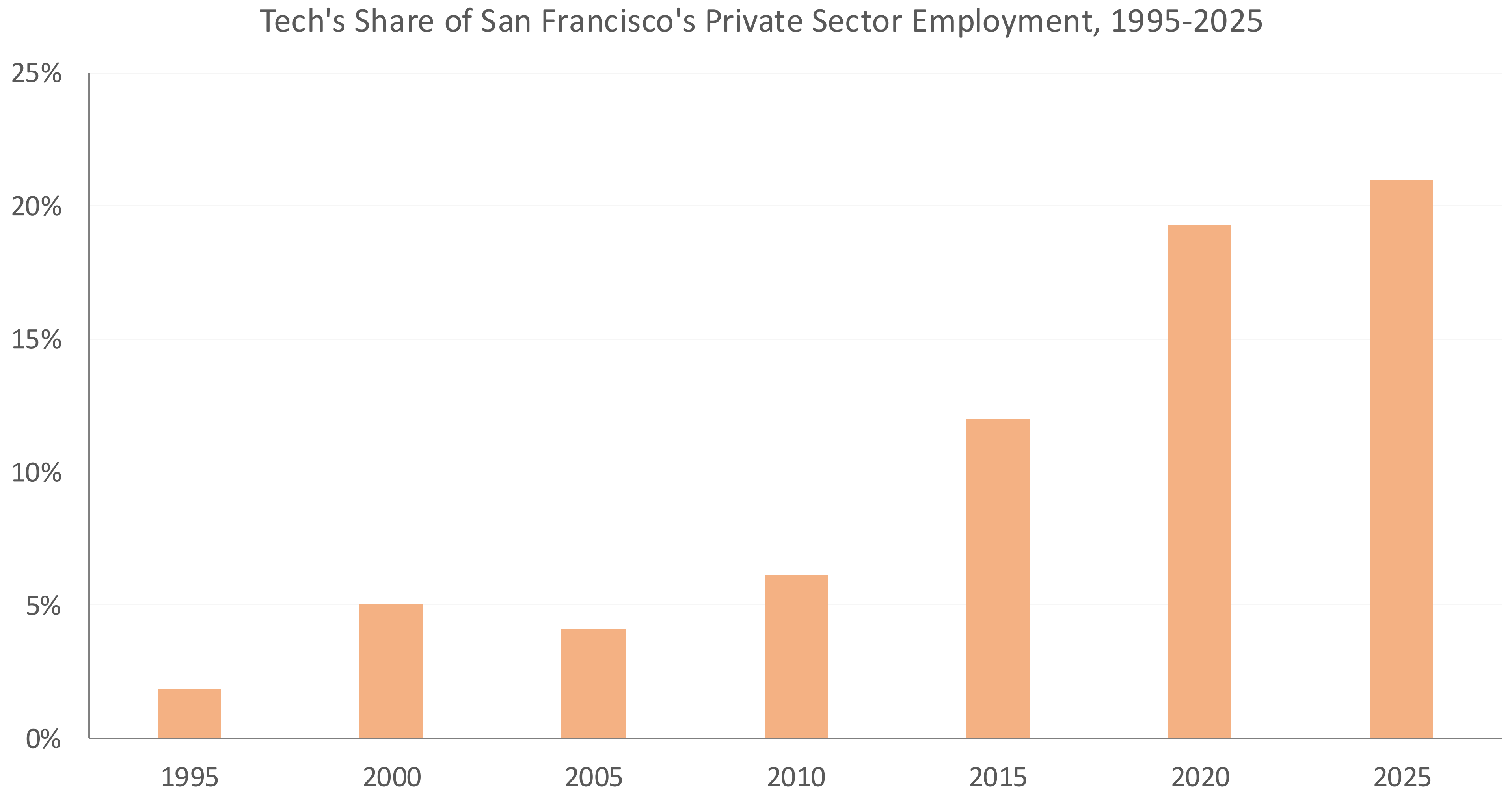
San Francisco Had Sluggish Growth Before 2010s Boom



Source: Bureau of Economic Analysis

Tech Emerged As, And Remains, a Major Economic Driver

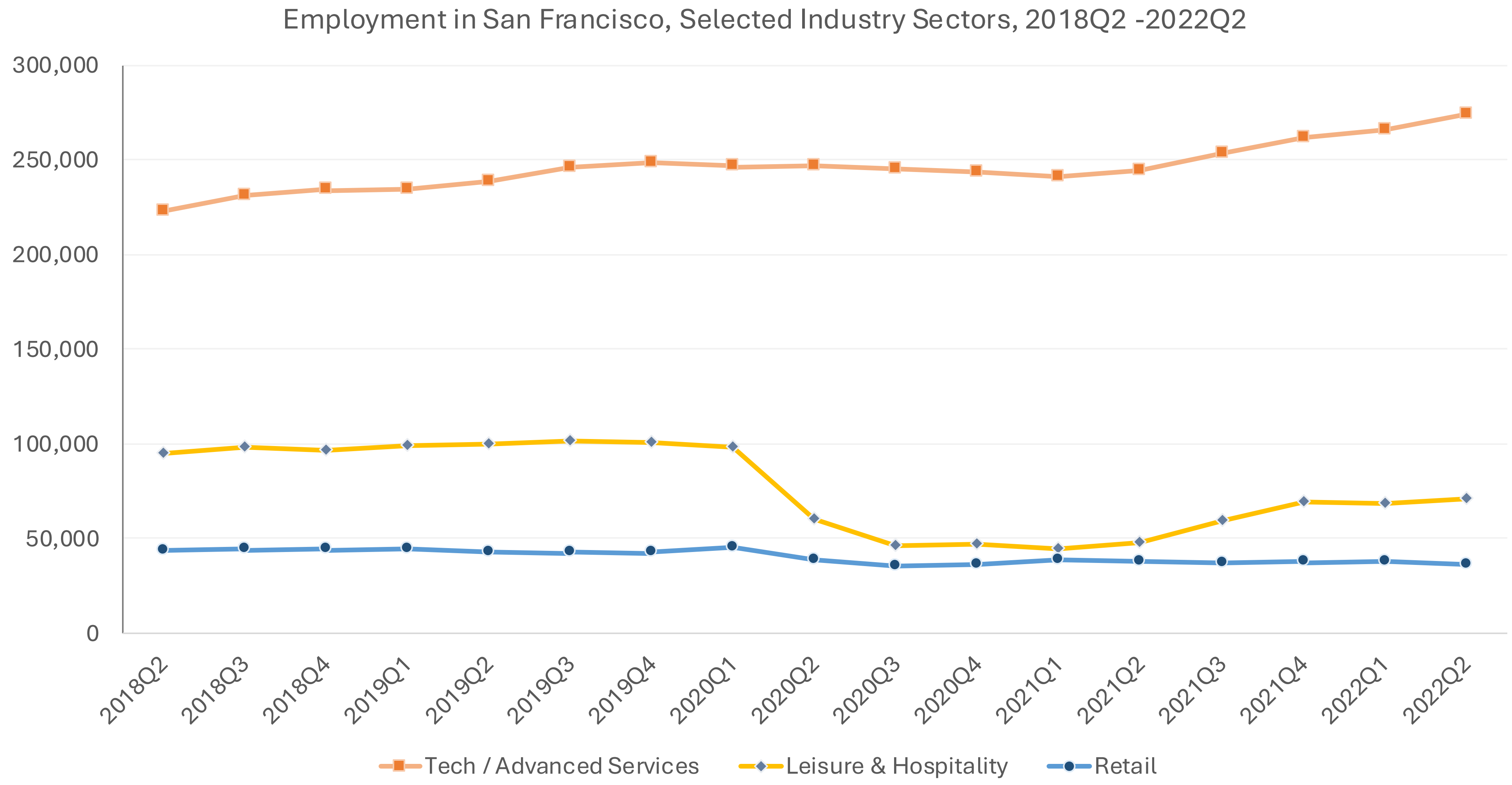


Source: Census, Quarterly Workforce Indicators. “Tech” defined as NAICS 5132,5162,5182,5192,5415,& 5417.

Three COVID-Era Economic Challenges

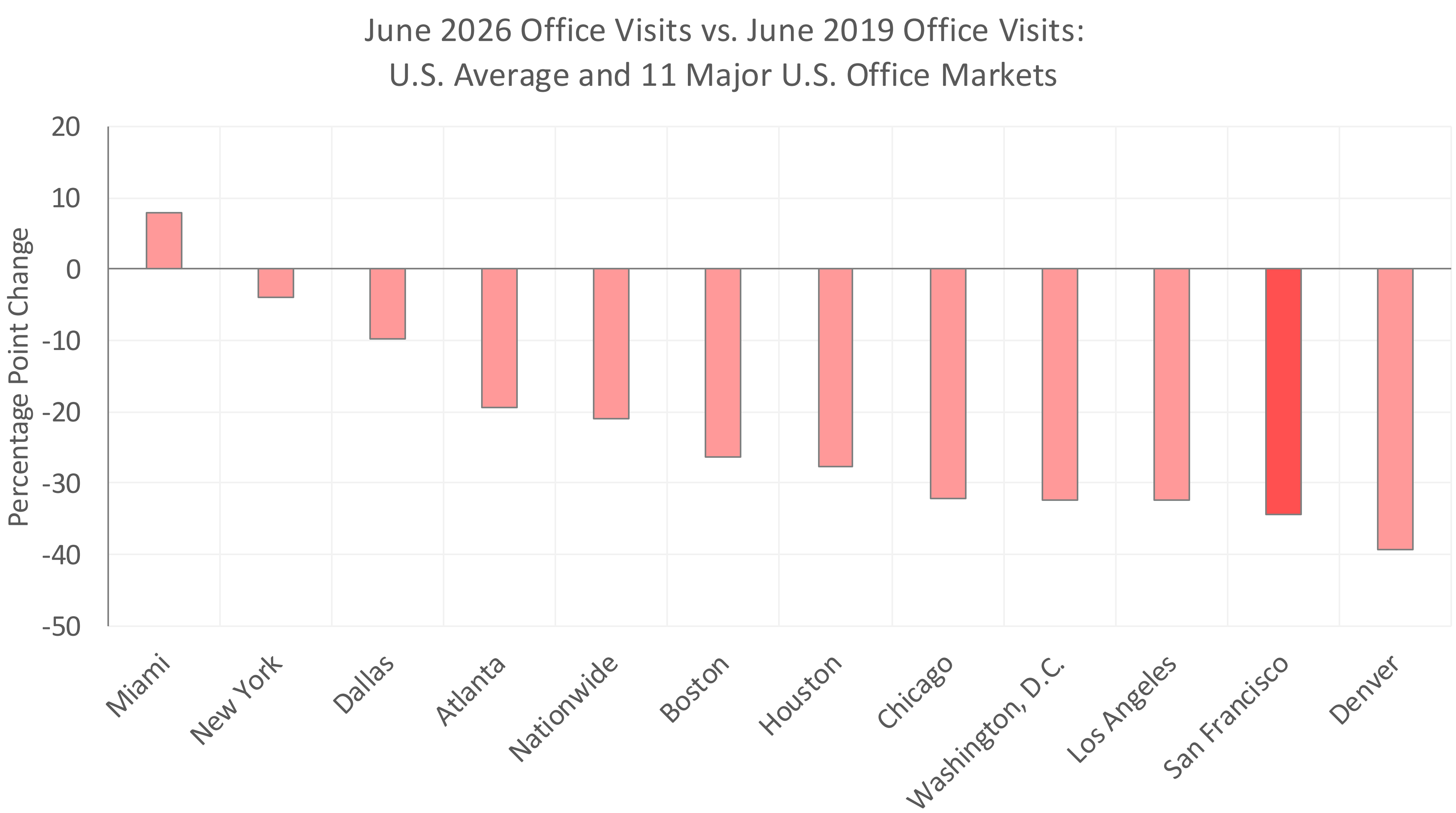
1. The shutdown
2. Work from home
3. Tech layoffs

Shutdown Mainly Affected Tourism & Retail



Source: Census, Quarterly Workforce Indicators

San Francisco's Return-to-Office Levels Have Been Low



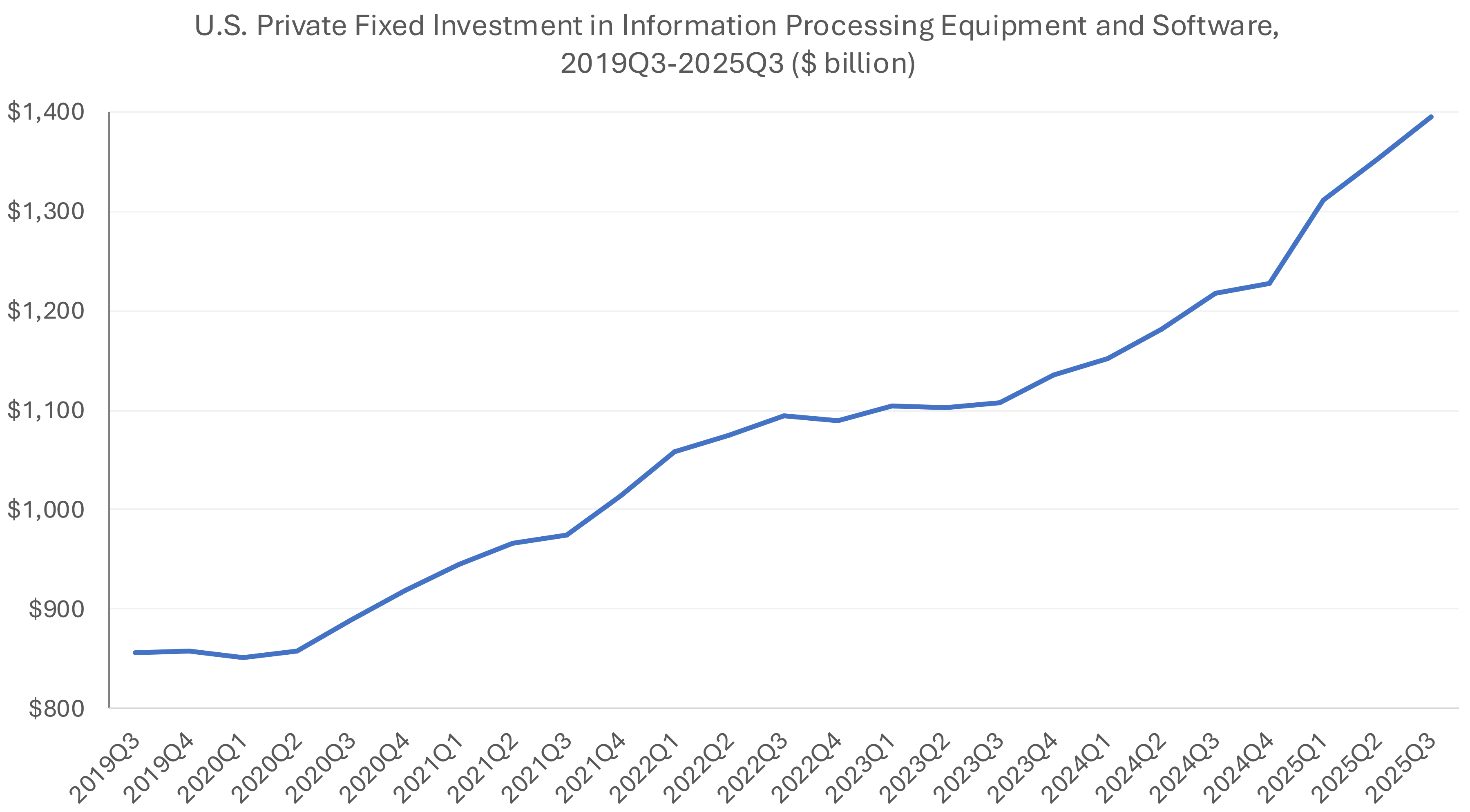
Source: Placer.ai

SF Office Vacancy: Lowest to Highest in the U.S.

	Q4 2019 Vacancy Rate	Increase Since Q4 2019	Current Vacancy Rate
San Francisco	5.9%	+26.7%	34.4%
Down. Oak	12.0%	+20.2%	32.2%
680 Corridor	14.5%	+15.8%	30.3%
Down. Seattle	7.7%	+22.0%	29.4%
LA	13.4%	+15.1%	28.7%
Chicago	17.4%	+10.8%	27.9%
Austin	8.7%	+16.7%	26.0%
DC	12.9%	+11.4%	23.7%
Boston	12.6%	+15.0%	23.5%
Mid-Pen	9.0%	+10.0%	23.0%
Silicon Valley	7.7%	+14.1%	22.0%
New York City	7.6%	+3.9%	14.5%
San Diego	10.3%	+5.9%	14.1%

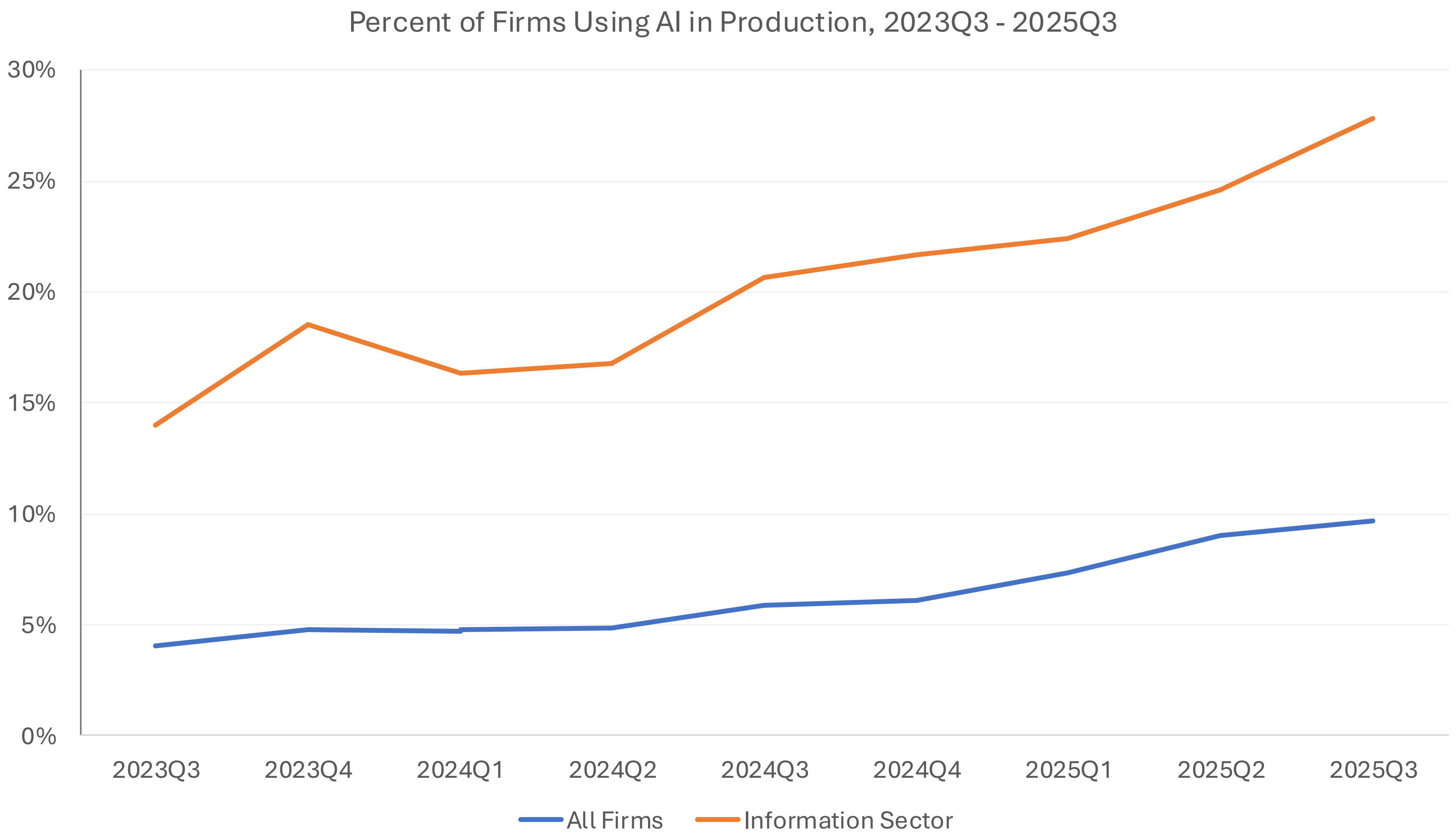
Source: JLL

U.S. Investment in AI (Chips, Software, Data Centers)



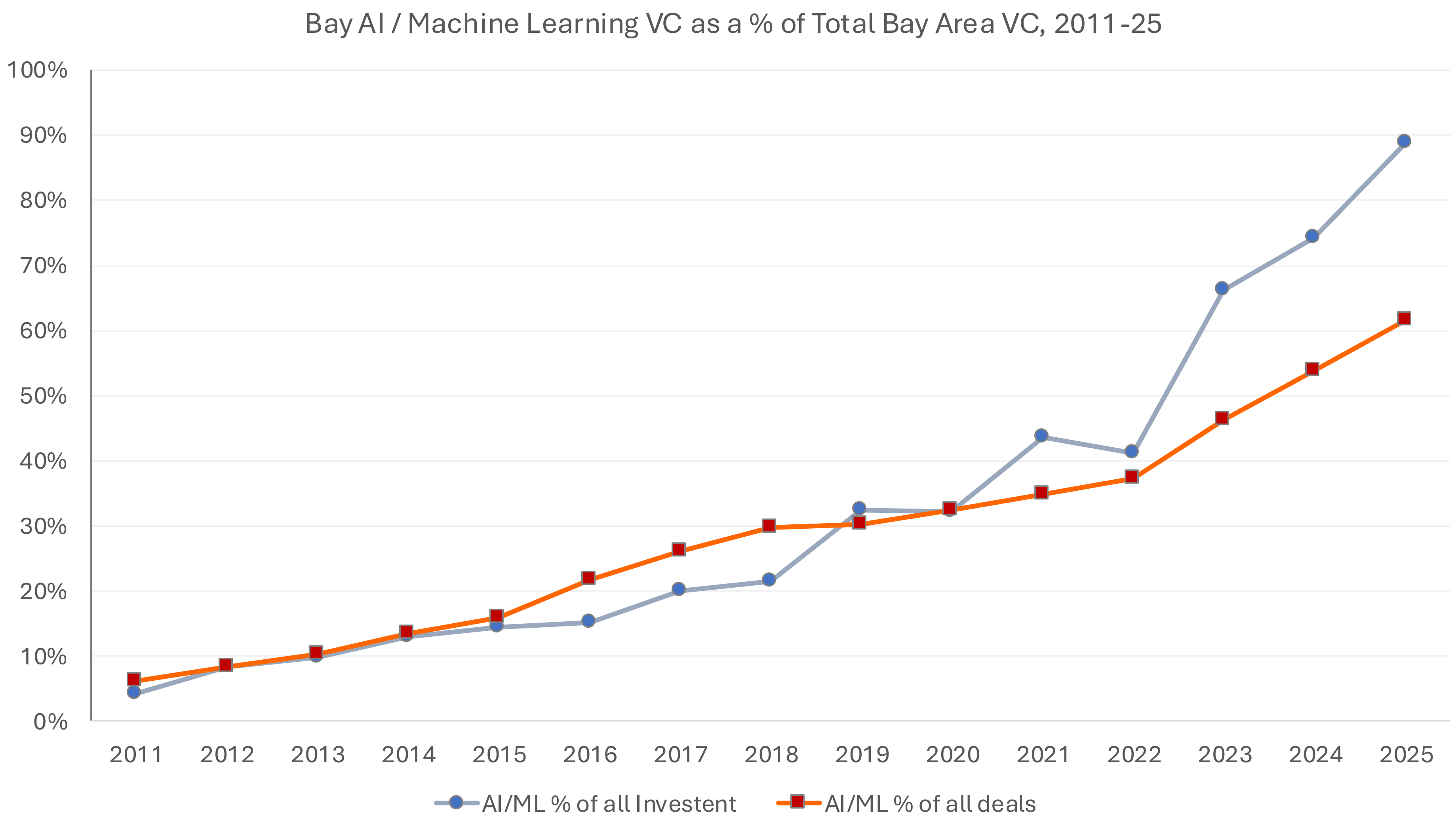
Source: BEA

AI Adoption Also Growing Rapidly, Especially in Tech



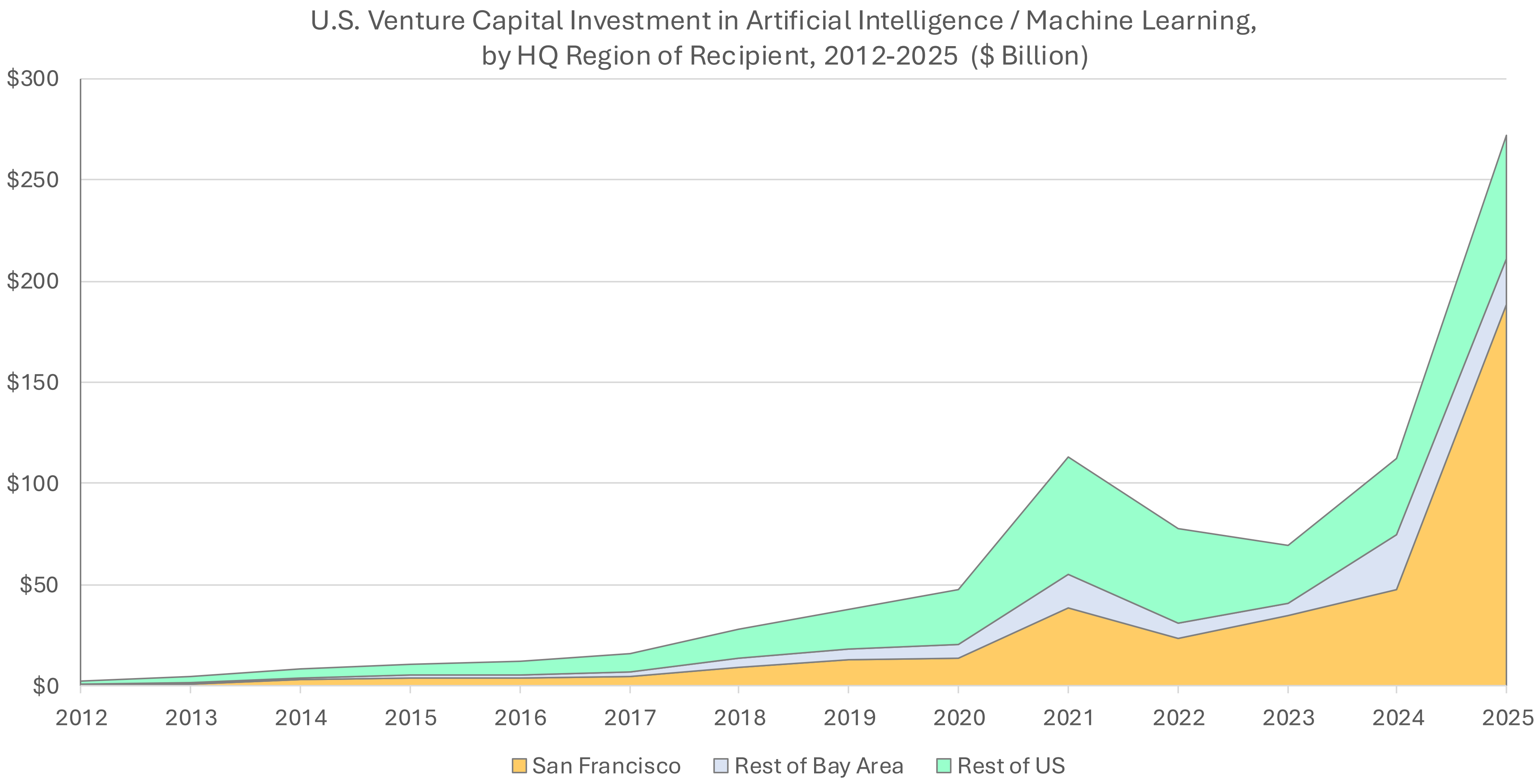
Source: U.S. Census, BTOS Survey

AI Accounts for 90% of Bay Area VC Investment



Source: Pitchbook

60% of U.S. AI Venture Capital Went to SF, 2023-25



Source: Pitchbook

Structure of the AI/Tech Cluster in San Francisco

AI

"Native AI" Applications:
Sierra, Harvey, Perplexity

Hardware/Deep Tech

Software Data Infrastructure: Scale, Databricks

Foundation Models: OpenAI, Anthropic

Legacy

Consumer/ Platforms:
Pinterest, Yelp, Reddit

Enterprise / SaaS:
Salesforce,
Autodesk

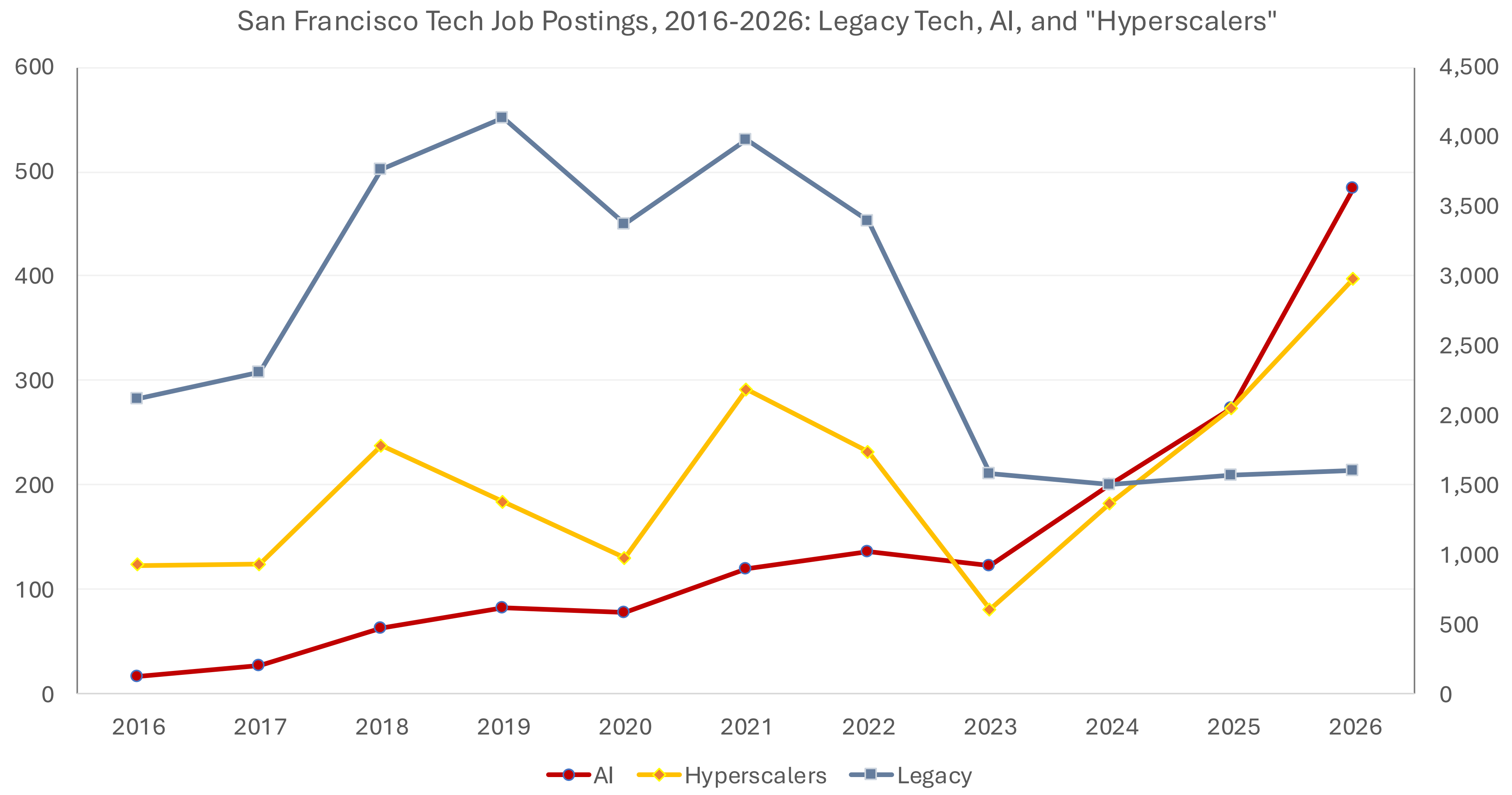
Verticals
Fintech, Healthtech,
Proptech, etc.

Services:
Accenture,
CapGemini

"Hyperscalers": Microsoft, Google, Meta, Amazon

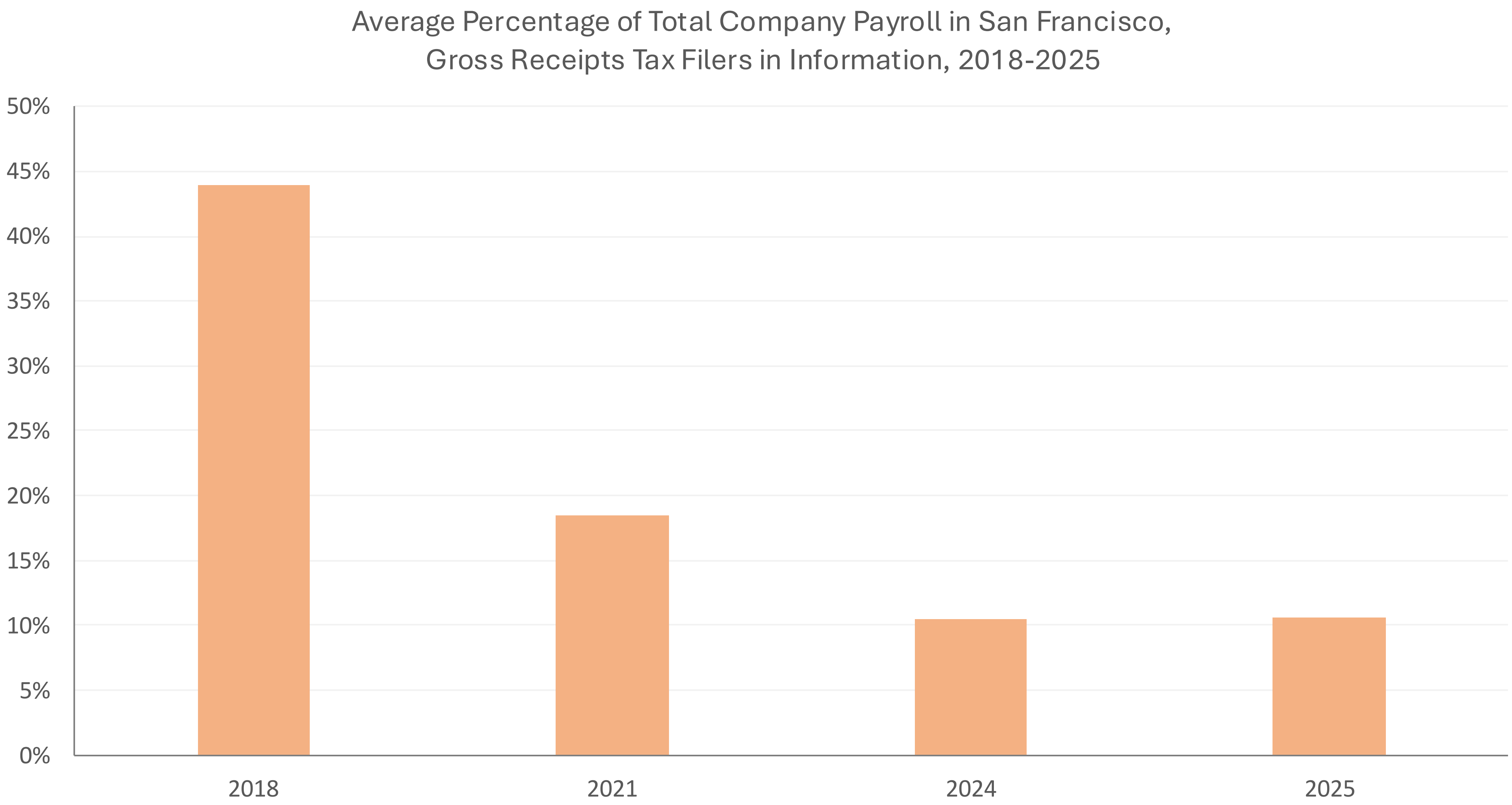
Hardware / Compute: NVIDIA, AMD – not in SF

AI vs. Legacy: Labor Market Dynamics



Source: Lightcast

Pre-COVID Tech Companies Still Reducing Reliance on SF



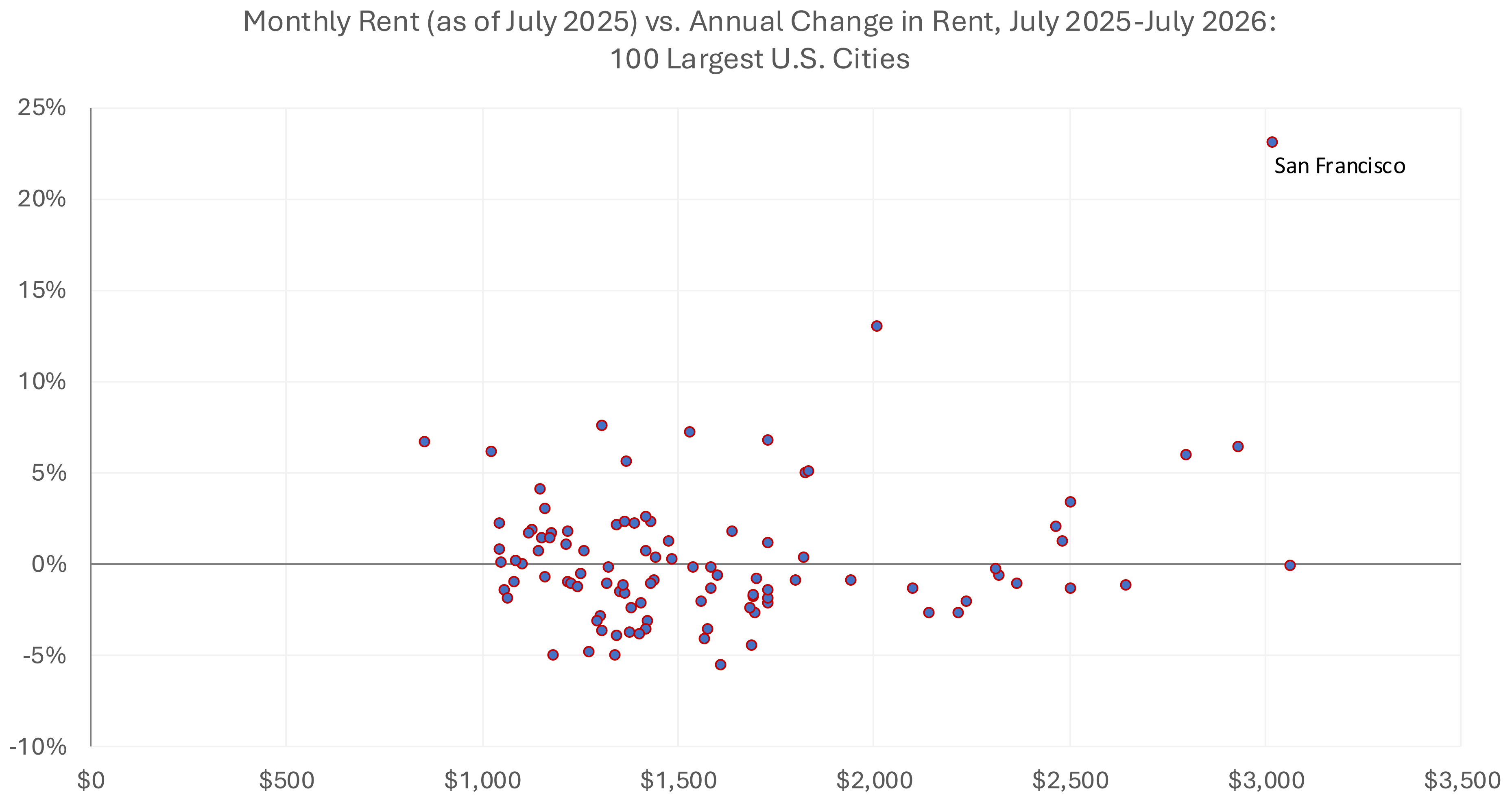
Source: San Francisco Office of the Treasurer and Tax Collector

Three Contrasting Tech Booms

	1997-2000	2011-13	2023-25
Bay Area venture capital ($ 2025 B)	~$130	~ $65	$405.5
SF Office Net Absorption (Million square feet)		5.3	-7.5
Change in SF Tech Employment	17,175	19,800	-17,900
Change in SF Total Employment	42,300	87,100	-46,900

Source: Pitchbook, CoStar, BLS. Tech defined as earlier.

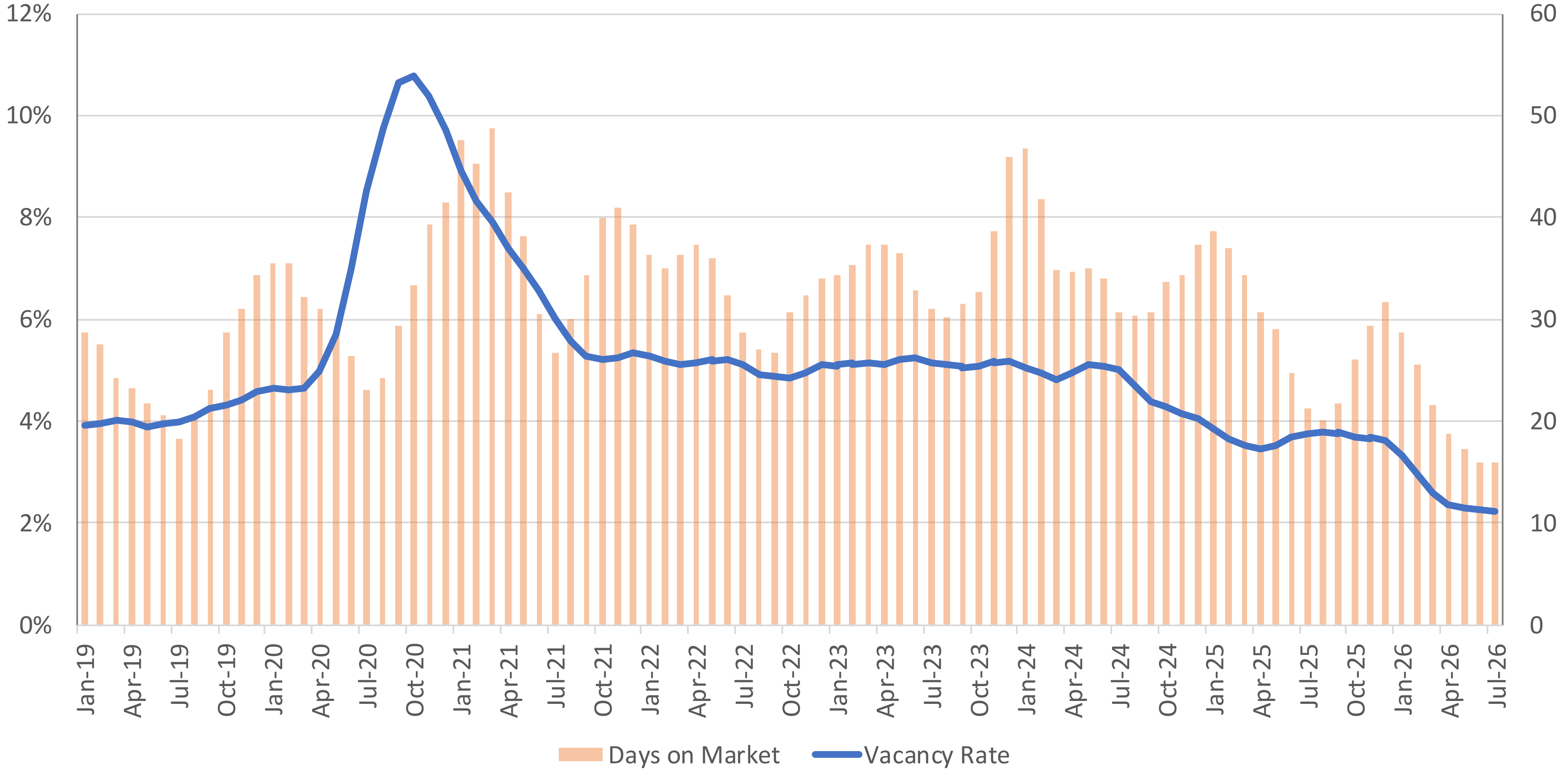
SF Now Has the Highest, And Fastest-Growing, Rents



Source: Apartment List

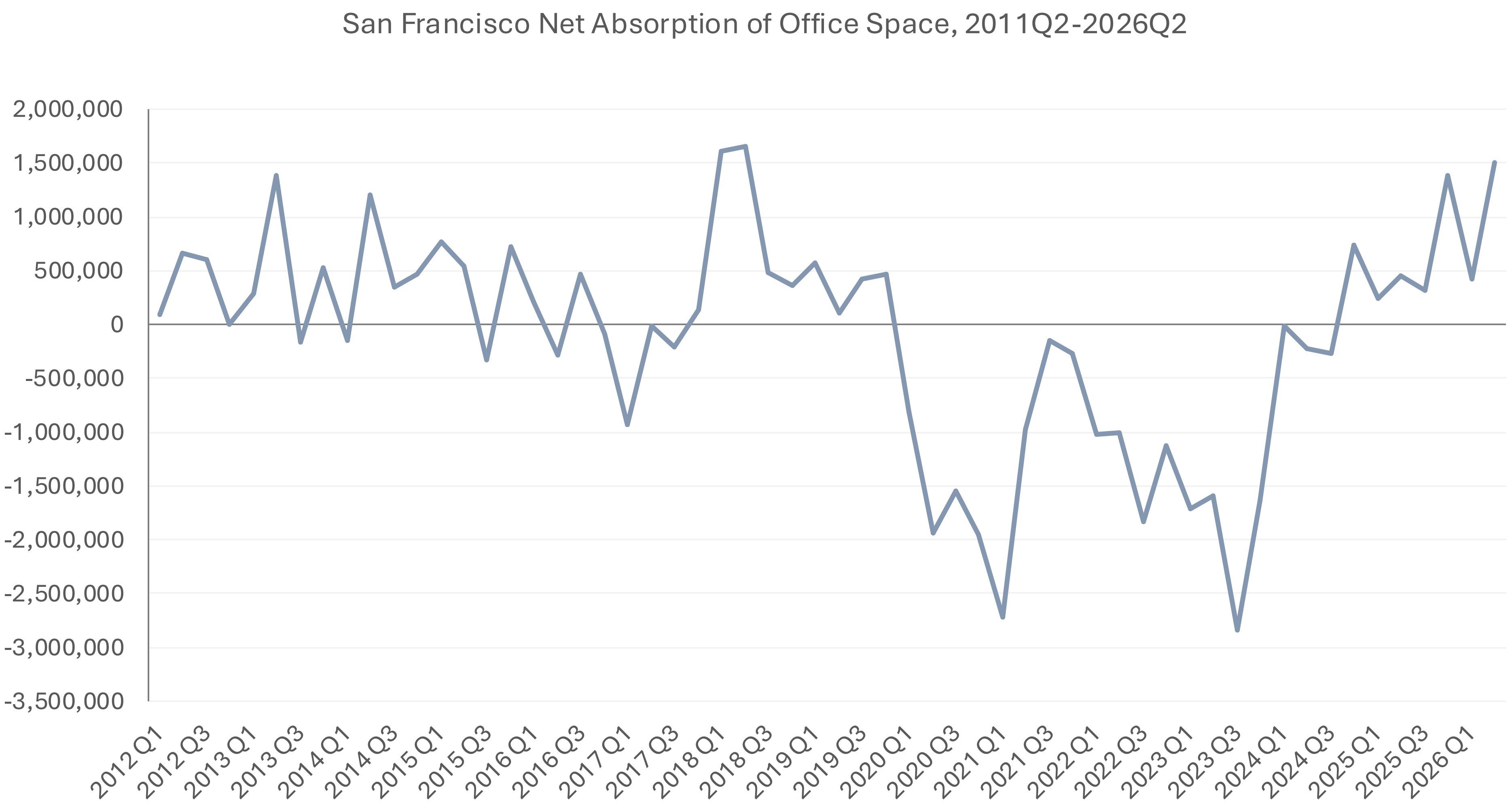
Rental Market Has Become Unusually Tight

San Francisco Apartment Rental Market Dynamics, 2019-2026



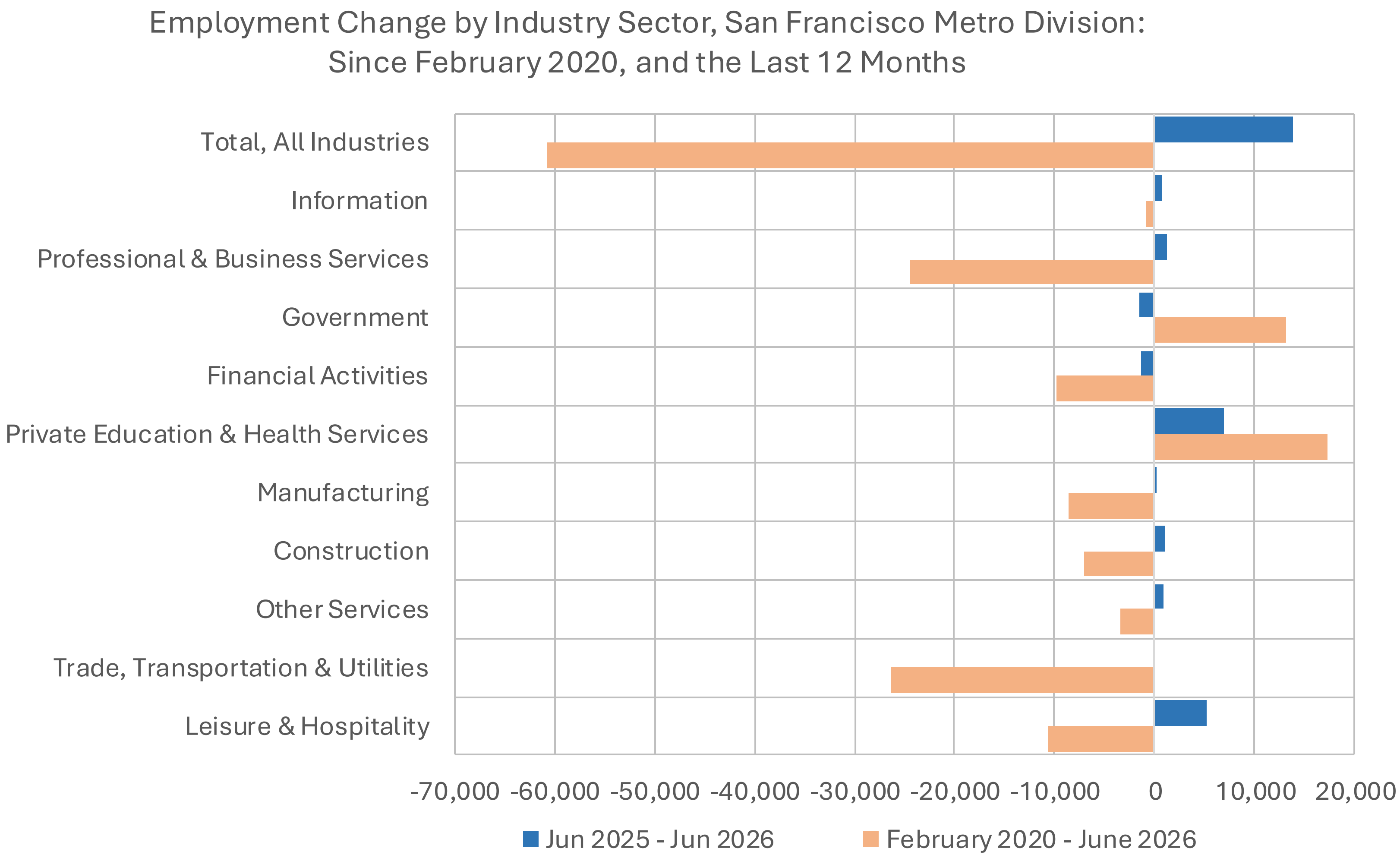
Source: Apartment List

With AI Demand, Office Leasing Has Turned a Corner



Source: CoStar

Employment – Including Tech Jobs – Are Growing Again



Source: California Employment Development Department

Conclusions

- AI is rapidly evolving, but the U.S. AI scene seems to be more concentrated in San Francisco than 2010s tech.
- The AI boom has occurred at a time during an economic slump, prompted by a deep contraction during COVID, and persistent work-from-home after the pandemic.
- Unlike prior tech booms in the city, the AI boom has not yet led to broad-based economic growth in other sectors of the economy, although growth has broadened and accelerated in recent months.
- One main reason for the muted impact of AI is that the rest of the city’s tech sector has contracted at the same time, likely because of the effect of AI, among other reasons. Another impact is that AI companies are significantly leaner, and more capital-intensive, than tech firms of earlier eras.
- The primary impact of AI seen so far has been in the housing market, where rapid demand growth has combined with the city’s chronic supply rigidities to produce a major spike in asking rents.