
NEWMARK

The

Bay Area

A Powerful Ecosystem
for AI Innovation



The
workplace
used to be

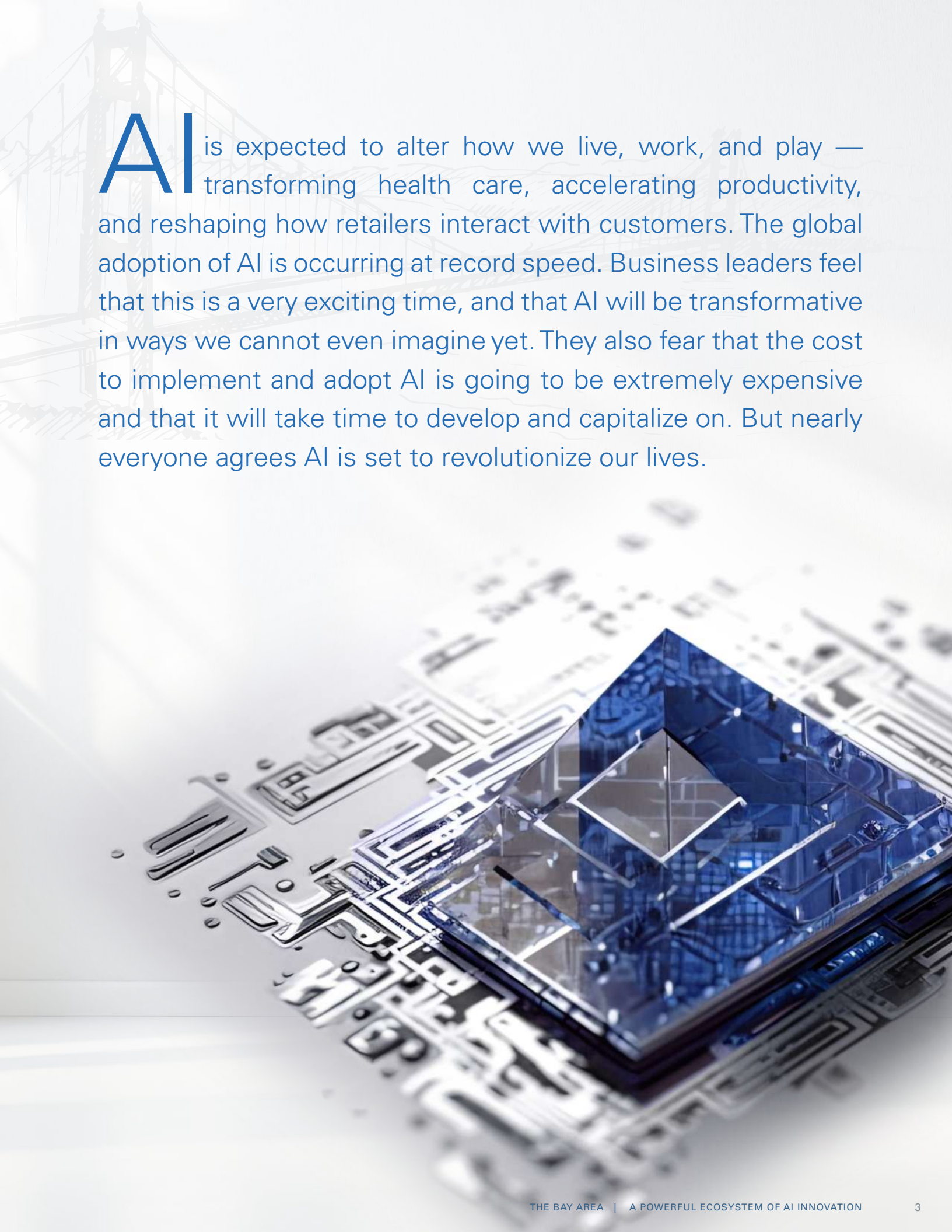
where people went to work
and technology was the tool.

Today,

technology
is the workplace

and the workplace is the tool.

Philip Ross Founder & CEO of the UnGroup and Cordless Group



AI is expected to alter how we live, work, and play — transforming health care, accelerating productivity, and reshaping how retailers interact with customers. The global adoption of AI is occurring at record speed. Business leaders feel that this is a very exciting time, and that AI will be transformative in ways we cannot even imagine yet. They also fear that the cost to implement and adopt AI is going to be extremely expensive and that it will take time to develop and capitalize on. But nearly everyone agrees AI is set to revolutionize our lives.

AI's Contribution to the Economy

No one wants to miss the potential benefits that AI might bring to an organization, so companies are channeling significant resources into this sector. The economic impact of AI on the U.S. economy is expected to be profound, driving productivity, innovation, job creation, and competitiveness. According to a PWC study, AI will contribute \$3.7 trillion to the North American economy in 2030,

equating to 14.5% of GDP in 2030. China is expected to record the largest increase in both relative and absolute terms with an increase of \$7.0 trillion during this same period or 26.1% of GDP. Of these global gains, 40% will come from improved productivity and 60% from product enhancement, mainly in the banking, technology, health care, and consumer experience sectors.

Companies are estimated to spend \$1 trillion on capex in the coming years including investments in infrastructure (power grid, data centers), hardware (chips, equipment), and software.

Goldman Sachs,
Top of Mind Issue 129, June 2024

Disrupting the Workplace



The race is on for experienced workers and much of this expertise is concentrated in the Bay Area.

The potential of AI to revolutionize industries is undeniable. Companies and organizations must be proactive in identifying and mitigating the potential economic and ethical challenges associated with AI. One area where people are both curious and at the same time skeptical of AI is the direct

impact of it on the workplace. While some fear that AI could lead to significant labor displacement, we believe it will primarily boost productivity as companies invest in job training and upskilling to equip their workforce for the future.

Race for Talent

One current challenge for these AI companies is a shortage of skilled and qualified workers. The race is on for experienced data scientists, developers, and programmers. According to a recent McKinsey Technology Trends Outlook report, job postings for specific Gen-AI talent jumped 111% between 2022 and

2023. In fact, AI companies are prioritizing the recruitment of highly skilled individuals, including PhDs and data scientists, and are prepared to invest in competitive wage packages. Much of this expertise, as it happens, is concentrated in the Bay Area.

Tech Clusters Driving AI Innovation in the Bay Area

The Bay Area offers a highly interconnected, supportive environment—an example of economies of agglomeration—where talent, technology, resources, and infrastructure converge to fuel innovation. This dynamic

ecosystem provides the knowledge and capital that foster creativity, encourage risk-taking, and create opportunities for start-ups, particularly those in AI.

The pioneers of the tech industry originated in the Bay Area (Hewlett-Packard and Fairchild Semiconductor) which paved the way for Intel, AMD, Apple, Oracle and Cisco.

The Bay Area is home to some of the largest tech companies in the world – Apple, Google (Alphabet), Facebook (Meta), and Nvidia.

The Bay Area has the highest concentration of Venture Capital firms.

Pitchbook recently released a top 100 colleges ranked by startup founders

Undergraduate

Graduate

MBA

 **Stanford**

#1

#5

#9

 **UC Berkeley**

#2

#1

#2

Given this, it is no surprise that the Bay Area accounts for the largest share of AI / technology workers in the country (if not the world). Drawn by the high wages and immense opportunity for employment in AI

directly, the Bay Area ranks as the top market in the country for job seekers. In fact, the Bay Area has the highest concentration of AI job ads, with 5 listings per square mile.

Top 10 MSAs With the Most AI Job Ads

LOCATION	ACTIVE JOB ADS (Last 12 Mos)	MEDIAN WAGE	AI JOB AD DENSITY*
SAN FRANCISCO BAY AREA San Francisco-Oakland-Berkeley, CA San Jose-Sunnyvale-Santa Clara, CA	25,460 13,487 11,973	\$160,100 \$170,000 \$150,200	5 5 4
New York, Newark, Jersey City (NY-NJ MSA)	17,038	\$134,000	3
Washington, Arlington, Alexandria (DC-VA-MD-WV)	16,934	\$119,300	3
Seattle, Tacoma, Bellevue (WA)	12,919	\$141,700	2
Boston, Cambridge, Newton (MA-NH)	8,163	\$129,900	2
Dallas, Fort Worth, Arlington (TX)	7,178	\$124,800	1
Chicago-Naperville-Elgin (IL-IN-WI)	5,974	\$120,300	1
Austin-Round Rock-San Marcos (TX)	5,372	\$125,700	1
Los Angeles, Long Beach, Anaheim (CA)	5,047	\$124,800	1

Source: JobsEQ Chmura, June 2024

*AI Job Ad Density refers to number of AI job ads per square mile.

Converging Forces: AI and Venture Capital in the Bay Area

The convergence of massive AI investments and the region's dominance in venture capital is fueling unprecedented growth in the AI industry. Global funding for AI firms is projected to surge 45% to over \$115 billion by the end of 2024, as investors scramble to find the next OpenAI. The U.S. has consistently

dominated this market, capturing an average of nearly 60% of all global AI investment in the past decade. Year-to-date through the third quarter of 2024, **a total of \$144 billion was invested across all sectors with \$59 billion targeting AI.**

More than \$60 billion Venture Capital capital was invested in the **Bay Area** through the first nine months of 2024, **with roughly 66%, or nearly 40 billion targeted at AI companies specifically.** AI companies in the Bay Area attracted nearly 67% of all AI capital invested in the U.S. year-to-date. In fact, AI companies

in the Bay Area captured a staggering 27% of all VC capital raised in the U.S. alone, across all sectors so far in 2024. Following this trend, the number of deals continued to push upward with an estimated 1,900 deals forecast for 2024, up nearly 24% from 2023 levels.

\$140B

Total Venture Capital Funding in the U.S.*

\$40B

27%

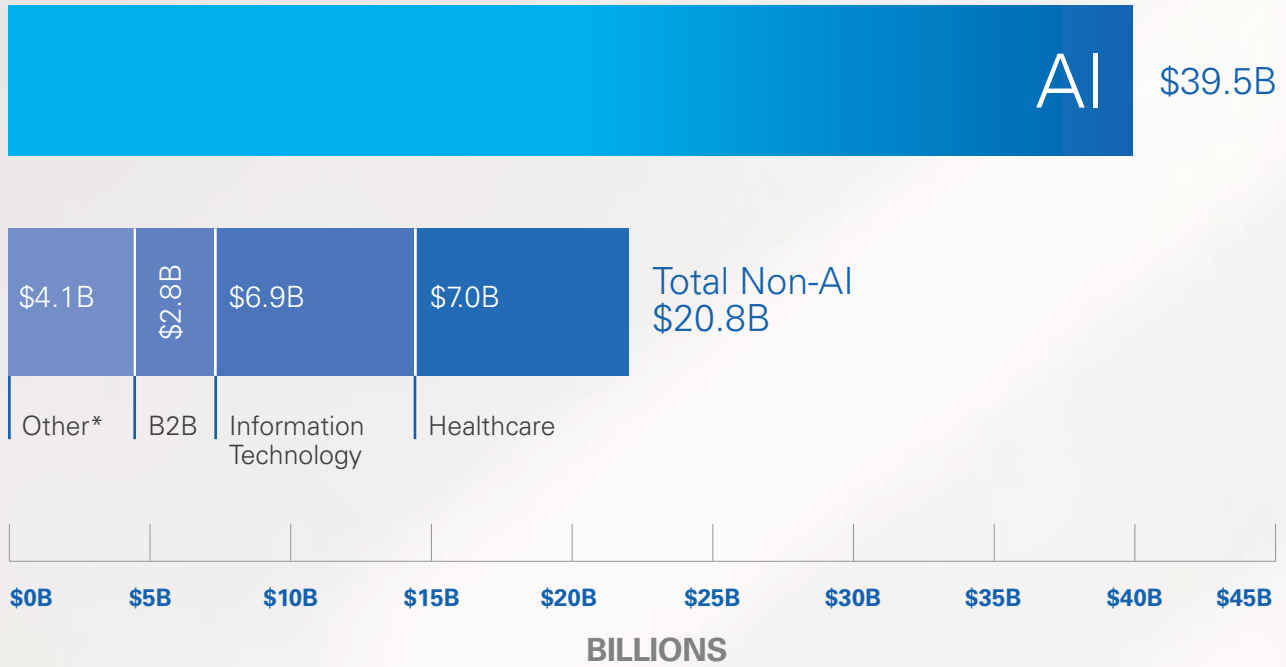
Bay Area AI firms claim a staggering 26% of all U.S. VC funding so far in 2024

Source: JobsEQ Chmura, May 2024

* Active AI Jobs Ad Density, Jobs Ads Per Sq Mile

Investment in AI in the Bay Area is nearly double the combined total of all other sectors.

TOTAL INVESTMENT YEAR-TO-DATE SEPTEMBER 2024



Source: Newmark Research, Pitchbook

*Other Includes B2C(\$1.7B), Financial Services (\$1.2B), Materials & Resources (\$802.5M), Energy(\$303.4M)

Silicon Valley AI Funding Surge

Silicon Valley AI companies have secured more than \$15 billion year-to-date through the third quarter, positioning the region to surpass more than \$20 billion by year-end, a new all-time high. This is nearly 45% more

than 2023 levels and even greater than 2021 levels. Nearly 450 deals have closed, leading us to believe that total deal count will be more than 600.

San Francisco: AI Funding Magnet

San Francisco AI companies have secured nearly \$23 billion year-to-date, positioning the city to surpass more than \$30 billion by year-end — an all-time high that eclipses any previous record. San Francisco captured more

than 50% of all AI capital in the Bay Area and nearly 38% nationwide. By the end of September, more than 1,000 deals closed in San Francisco, setting a robust pace by the close of the year.

**San Francisco AI
companies secured
16% of global
VC funding
across all sectors
in the first 3
quarters of 2024.**

Corporate Venture Capital Lowers Tenant Risk Profiles

Another notable trend in the investment cycle is the role of Corporate Venture Capital's (CVC) deeper involvement in startups, from inception to exit. Beyond just writing a big check, today CVCs are actively managing growth, mitigating risks, and providing crucial support like mentorship, market access, and parent company's infrastructure and resources. This active involvement has directly enhanced these companies' financial stability, improved their risk profiles, and in turn strengthened their position as a reliable tenant in the commercial real estate space.

In previous cycles, CVCs prioritized financial returns and speculative growth, often taking on high-risk investments with a "growth at all costs" mindset, largely ignoring business alignment, efficiency, and scalability. They were passive investors focused on profitable exits. For instance, Salesforce Ventures invested \$100 million in Zoom during its IPO in April 2019, only to sell its stake a year later after a 400% to 600% gain, without actively engaging with Zoom's business. Similarly, Salesforce Ventures acquired shares in Dropbox during its 2018 IPO but offloaded them in early 2020 as the global economy began to decline due to COVID-19. Salesforce Ventures investments was clearly just financial.

This cycle, however, CVCs are prioritizing strategic alignment with these AI companies, focusing on supporting business

objectives including productivity, automation, operational efficiency, and enhancing product offerings. Additionally, these AI companies are focused on generating revenue from the start, establishing paying customers early on, bringing predictable cash flow and stronger financial footing, making them financially attractive as a tenant because of the recurring nature of these revenues.

Start-ups are now considered creditworthy tenants, with global parent companies acting as 'co-signers' to reduce their risk profiles and bolster financial stability. This stronger backing transforms these start-ups into more reliable, stable tenants, contributing to a healthier real estate market, particularly in the Bay Area. Amazon's \$4 billion investment in Anthropic, as an example, not only fuels growth for both companies but also integrates Anthropic into Amazon Web Services (AWS) as its primary cloud provider and chip maker. This partnership improves Anthropic's cash flow and financial outlook, making it a preferred tenant for landlords. Salesforce also invested in Anthropic, and recently Anthropic expanded by subleasing space from Slack, another Salesforce-backed company, further demonstrating the advantage of strong corporate partnerships.

AI Companies Raising Capital but Delaying Deployment

Hidden in plain sight, many of these AI companies are still in their infancy stage and are not showing up yet in the funding data. They are quietly building their futures, bootstrapping their operations from a home office, co-working space or a dynamic virtual office. Compared to previous tech-driven

growth cycles, AI companies are taking a more measured approach to growth. Instead of rapid expansion, early-stage startups are scaling deliberately by **hiring slowly, opting for shorter leases, and utilizing the glut of available sublease spaces.**



AI companies' measured approach to growth have both positive and negative implications for the real estate market.

Potential Real Estate Benefits

Stabilized Growth

AI companies are taking longer to commit to office space and are gradually expanding their footprints, which may help them avoid the large fluctuations in both rapid expansion and subsequent downsizings recorded in previous cycles.

Leasing Sublease Space

62% of AI leases signed since the start of 2023 in San Francisco are in sublease space; in Silicon Valley, nearly 25% of all leases were in sublease space. These spaces are plug and play, so landlords and tenants can keep costs down; plus they help to reduce available space in the market, which is especially beneficial in San Francisco and other urban markets where oversupply has been an issue.

Quality Over Quantity

AI companies are increasingly preferring highly amenitized office spaces, with robust IT infrastructure, high-speed connectivity, flexible workspaces and additional conference rooms to enhance team productivity.



Potential Real Estate Challenges

Slower Activity, Longer Absorption

Tenants are taking longer to expand which could result in prolonged periods of vacancy that will negatively impact overall market performance and value.

Committing to Shorter Lease Terms

While signing up for only three-year terms versus the average of 5+ for non-AI companies creates stability that benefits the markets in the longer term, in the immediate future, it leaves vacancies in the market. This environment also creates challenges affecting the operator's ability to operate their buildings and manage their assets effectively.



Growth Trajectory of Bay Area AI Companies

While AI companies are taking a measured approach to growth, they are still driving demand for space through the Bay Area. In San Francisco alone, AI companies accounted for 20% of all leases and together with other tech sectors, accounted for nearly 44% of all leasing activity. Traditional office using companies, including professional and business services and legal services amounted to 38% of all leases signed.

Analyzing our lease data together with funding stages, we found that AI companies are staying in smaller spaces longer, carefully managing expansion of both their workforce and their footprint with the financial viability

and stability of their businesses. On average, early-stage companies in the Bay Area occupy 6,400 square feet of leased space and employ approximately 80 individuals. As these companies progress into the growth stage, they continue to lease relatively modest spaces of under 10,000 square feet, despite a significant increase in workforce to nearly 250 employees. It is in the final stage of the lifecycle, characterized by the addition of traditional roles such as sales, HR, legal, and administrative support, that their space requirements escalate dramatically to 40,000 square feet or more, accommodating a workforce exceeding 750 employees.

Growth Trajectory of AI Companies in the Greater Bay Area

EARLY STAGE

Accelerator / Incubator
Seed Round
Early Stage VC

6,400 SF

AVERAGE SIZE

80

AVERAGE EMPLOYEE SIZE

\$30M

AVERAGE TOTAL RAISED

GROWTH STAGE

Late Stage VC
PE Growth / Expansion
Mezzanine

9,700 SF

AVERAGE SIZE

240

AVERAGE EMPLOYEE SIZE

\$165M

AVERAGE TOTAL RAISED

LATE STAGE

Private Investment in Public Equity (PIPE)
Public Investments
Second Offering

40,000 SF

AVERAGE SIZE

750

AVERAGE EMPLOYEE SIZE

\$540M

AVERAGE TOTAL RAISED

San Francisco Leasing Trends

Analyzing our lease data since the beginning of 2023, we found that on average, San Francisco AI firms committed to 4,700 SF in the early stage, increasing to 9,200 SF during the growth phase and as their companies hired more employees, their space needs jumped to 28,500 SF. Both Silicon Valley and the East Bay followed a similar trend, starting with leases under 8,000 SF and expanding their footprint as their businesses grew and matured.

These AI companies, many of them founded by previous tech entrepreneurs, are being more financially cautious with the space needs and are committing to sublease space and taking shorter leases. The benefit of these sublease spaces is that, in addition to the lease terms being shorter, the space is already built out. In fact, 62% of AI leases signed since the start of 2023 are in sublease space with only 22% taking direct leases. These firms are signing up for only three-year terms versus the average of 5+ for non-AI companies and they are primarily moving into the Financial District South with nearly 49% of all leases signed whereas traditional office tenants are staying in the Financial District North.



AI Leasing in San Francisco since 2023



Then vs. Now (aka Chase the Money)

A deeper dive comparison between a specific AI company from a previous cycle as well as one in the current cycle

illustrates how these AI companies today are managing their growth and taking a new, more cautious approach.



SERIES A	FIRST FUNDING THROUGH	SERIES A
\$9.6M	MONEY RAISED	\$33.3M
11	EMPLOYEES	17
12,400 SF	SIZE OF LEASE	5,400 SF
1,130	SF PER EMPLOYEE	320
\$775	MONEY RAISED PER SF	\$6,175

SERIES C	LATEST STAGE FUNDING	SERIES B
\$76.1M	MONEY RAISED	\$83.3M
127	EMPLOYEES	82
25,000 SF	SIZE OF LEASE	11,800 SF
200	SF PER EMPLOYEE	140
\$3,050	MONEY RAISED PER SF	\$7,050

AI companies today are operating more conservatively in terms of office space usage relative to funding. While this may translate to a slower absorption of space, it also means that the local economy will be better positioned in the event of another downturn.



What Does This All Mean?

In summary, the rapid advancements in AI technology are set to profoundly transform how we work, live, and interact with the world around us. The Bay Area, recognized as a global innovation powerhouse, stands to gain significantly from this new wave of technological energy. Companies are pouring substantial capital and resources into AI, driven by the imperative to stay competitive in an evolving landscape. These investments span infrastructure, data centers, talent acquisition, and direct funding, underscoring the urgency to harness AI's potential.

AI companies are not only contributing to economic growth and job creation but are also redefining how start-ups use office

space. Unlike the aggressive expansion seen in previous tech cycles, today's AI startups are taking a more strategic and cautious approach, opting for smaller, more flexible leases, plug and play spaces, and leveraging sublease spaces. This shift helps stabilize operational costs and aligns with the changing dynamics of the commercial real estate market, providing a cushion against potential economic downturns. As these AI firms mature, they will play a crucial role in revitalizing the Bay Area's commercial real estate sector, driving talent influx, and sustaining long-term innovation in one of the world's most dynamic tech ecosystems.

AI is not just advancing technology — it's redefining the Bay Area's economic landscape and fueling a new era of innovation and resilience in commercial in commercial real estate.



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