

Debunking the biggest myths about California's economy, population, and tech sector



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c. Oct. 19, 2023

Introduction

Despite the negative press California gets, the U.S.'s most populous state is not experiencing an exodus of residents or businesses to other states. And despite the recent spate of tech layoffs, most of the large Bay Area-based tech companies have larger workforces and market caps today than in 2019.

The above information is backed by the U.S. Bureau of Labor Statistics, Internal Revenue Service, and Census data. However, what California is — the U.S.'s largest state by population that boasts the U.S.'s largest tech talent pool¹ — contrasts sharply with how the state has been recently portrayed in the local and national media. Google the phrase "California Exodus," and you'll get tens of thousands of results, many questioning whether the state has lost its luster during the pandemic.

What this white paper will show in the following three sections is that claims about California seeing a corporate exodus and a population exodus are vastly overstated and that the Bay Area's tech sector, the state's largest, has been largely unaffected by the tens of thousands of Bay Area tech layoffs since last year. Using publicly available data collected and analyzed by state and federal agencies, the following three sections examine:

- **California's population exodus myth:** California's decline of 480,000 people between 2020 and 2022 represents 1.2 percent of its total population,² and the state's millionaire population increased by a record rate between 2019 and 2021, contradicting the narrative that most of the people who left California during that time were high-income earners.³
- **The corporate exodus myth:** California receives an unrivaled amount of venture capital dollars and saw more businesses created or moved into it than Texas between 2018 and 2021,⁴ challenging the narrative that California companies have migrated en masse to Texas in recent years.
- **The overstated impact of tech layoffs:** Between the second half of 2022 and February, Google, Meta, and some of the world's other largest tech companies laid off just 2 percent of Silicon Valley's innovation and information sector workforce.⁵ The Bay Area, with 400,000 tech workers, is the U.S.'s largest tech talent pool — and most of the 50 most promising companies building businesses out of artificial intelligence are based in the region.⁶

1 Landes, Emily. "Bay Area tops the nation for both tech talent and expenses." *The Real Deal*, July 19, 2023. <https://therealdeal.com/sanfrancisco/2023/07/19/bay-area-tops-the-nation-for-both-tech-talent-and-expenses/>

In short, California may have its share of socioeconomic issues, but its tech industry and corporate sector are two of its strengths, not weaknesses. And its population, while recently declining, remains the U.S.'s largest and 30 percent bigger than second-ranked Texas.⁷ And barring a series of seismic events or accelerating negative trends, the state's status as the nation's largest by population isn't in danger of being relinquished anytime soon.

² Johnson, Hans, Eric McGhee, Carolyn Subramaniam, and Vicki Hsieh. "What's Behind California's Recent Population Decline—and Why It Matters." *Public Policy Institute of California*, October 2023. <https://www.ppic.org/publication/whats-behind-californias-recent-population-decline-and-why-it-matters/>

³ Kamisher, Eliyahu and Carson, Biz. "The Ultra-Rich Are Flourishing and Sticking Around in California." *Bloomberg*, Aug. 1, 2023.

<https://www.bloomberg.com/news/articles/2023-08-01/california-s-home-to-more-millionaires-than-ever-and-they-re-getting-richer?sref=sHjzrUut>

⁴ Hiltzik, Michael. "Column: That big tech exodus out of California turns out to be a bust." *The Los Angeles Times*. March 23, 2022.

<https://www.latimes.com/business/story/2022-03-23/california-tech-exodus-was-a-bust>

⁵ Sherr, Ian. "What Layoffs? Data Shows Silicon Valley Is More Boom Than Bust." *CNET*, Feb. 15, 2023.

<https://www.cnet.com/culture/what-layoffs-data-shows-silicon-valley-is-more-boom-than-bust/>

⁶ Cai, Kenrick. "The AI 50 2023." *Forbes*, April 11, 2023.

<https://www.forbes.com/lists/ai50/?sh=587ac85c290f>

⁷ Johnson, Hans, Eric McGhee, and Marisol Cuellar Mejia. "California's Population."

Public Policy Institute of California, January 2023.

<https://www.ppic.org/publication/californias-population/>

PART I: California's recent population decline is a reality check — but nowhere near an exodus

Myth: California is seeing a mass exodus of people to Texas, Nevada, Florida, and other more affordable states, so much so that the loss of income from departing high-net-worth individuals threatens the future of California's economy.

Reality: Only 1.2 percent of California's total population left the state between 2020 and 2022 — contradicting the narrative that the state is grappling with a recent exodus of residents.

"We see this slowing of the year-over-year declines. We would expect to get back to a period of positive growth in the next 18 months, where we'd see a resumption of year-over-year growth in the state's population." — H.D. Palmer, spokesman for the California Department of Finance.⁸

Recent headlines may lead you to believe things aren't going well in California:

1. Bay Area exodus: Wealthy resident departures worsen 'doom loop' fears⁹
2. Amid California exodus, state population projected to be same in 2060 as today, data shows¹⁰
3. The California exodus continues as residents head south of the border.¹¹

California has seen its population decline by 480,000 people between 2020 and 2022,¹² to just under 39 million people.¹³ The mental image of that many people leaving California may conjure images of an exodus, a word popularized by the Bible to describe a mass migration of people. Yet between 2020 and 2022, the state lost about 1.2 percent of its total population, according to the latest California Department of Finance data.¹⁴

8, 13 Karlamangla, Soumya. "The Population of California Declined, Again." *The New York Times*, May 3, 2023.
<https://www.nytimes.com/2023/05/03/us/california-population-decline.html>

9 Varian, Ethan. "Bay Area exodus: Wealthy resident departures worsen 'doom loop' fears." *The Mercury News*, April 13, 2023.
<https://www.mercurynews.com/2023/04/13/bay-area-exodus-wealthy-resident-departures-worsen-doom-loop-fears/>

10 Kliegman, Aaron. "Amid California exodus, state population projected to be same in 2060 as today, data shows." *Fox News*, July 26, 2023.
<https://www.foxnews.com/politics/amid-california-exodus-state-population-projected-be-same-2060-today-data-shows>

11 Green, Dymond. "The California exodus continues as residents head south of the border." *CNBC*, July 31, 2023.
<https://www.cNBC.com/2022/06/11/californians-working-from-home-are-moving-to-mexico-amid-inflation.html>

12, 14 Johnson, Hans, Eric McGhee, Carolyn Subramaniam, and Vicki Hsieh. "What's Behind California's Recent Population Decline—and Why It Matters." Public Policy Institute of California, October 2023.
<https://www.ppic.org/publication/whats-behind-californias-recent-population-decline-and-why-it-matters/>

11 Green, Dymond. "The California exodus continues as residents head south of the border." *CNBC*, July 31, 2023.
<https://www.cNBC.com/2022/06/11/californians-working-from-home-are-moving-to-mexico-amid-inflation.html>

12, 14 Johnson, Hans, Eric McGhee, Carolyn Subramaniam, and Vicki Hsieh. "What's Behind California's Recent Population Decline—and Why It Matters." Public Policy Institute of California, October 2023.
<https://www.ppic.org/publication/whats-behind-californias-recent-population-decline-and-why-it-matters/>

12, 14 Johnson, Hans, Eric McGhee, Carolyn Subramaniam, and Vicki Hsieh. "What's Behind California's Recent Population Decline—and Why It Matters." Public Policy Institute of California, October 2023.
<https://www.ppic.org/publication/whats-behind-californias-recent-population-decline-and-why-it-matters/>

12, 14 Johnson, Hans, Eric McGhee, Carolyn Subramaniam, and Vicki Hsieh. "What's Behind California's Recent Population Decline—and Why It Matters." Public Policy Institute of California, October 2023.
<https://www.ppic.org/publication/whats-behind-californias-recent-population-decline-and-why-it-matters/>



No matter how you spin it, 1.2 percent does not constitute an exodus. And the people who are leaving are not flocking in droves to Texas, which has long sought to woo California residents and businesses, or Idaho, Montana, and Florida, which saw the highest population growth among U.S. states between 2020 and 2022.¹⁵

Instead, as is the case for people who left the Bay Area’s Santa Clara County — synonymous with Silicon Valley — many of them didn’t actually leave the Bay Area, as the graph below shows.

1. Alameda County (Oakland), Calif.	14,409
Alameda County was the top destination for people leaving Santa Clara County, with 14,409 people moving in 2021-21, equivalent to 14% of people who left Santa Clara County	
2. San Mateo County, Calif.	7,003
3. San Joaquin County, Calif.	6,242
4. Contra Costa County, Calif.	4,709
5. San Francisco County (San Francisco), Calif.	3,949
6. Sacramento County, Calif.	3,876
7. Los Angeles County (Los Angeles), Calif.	3,207
8. San Diego County (San Diego), Calif.	2,982
9. King County (Seattle), Wash.	2,955
10. San Benito County, Calif.	2,635

Over a quarter of those who left Santa Clara County between 2020 and 2021 relocated to a different Bay Area county; Alameda County, San Mateo County, Contra Costa County, San Francisco County, or San Benito County. (U.S. Internal Revenue Service).

In fact, most California residents stayed put or moved within the state.¹⁶ Not enough people moved out of the state’s most populous counties to make a dent in their populations. Recent headlines might give you the impression that young families and skilled workers are fleeing California’s major metropolitan areas.

Yet California Department of Finance data disproves that. The data show that although the state’s biggest recent population losses by number of people have been in Los Angeles County and the Bay Area’s Santa Clara and Alameda counties, those losses — 32,512 in the two Bay Area counties and 113,048 in Los Angeles County — represented about 1 percent of residents in each county.¹⁷

¹⁵ Fitzpatrick, Alex, and Kavya Beheraj. “See the fastest growing (and shrinking) U.S. states.” *Axios*, April 9, 2023.

<https://www.axios.com/2023/04/07/population-change-pandemic>

¹⁶ Sumida, Nami. “S.F. wasn’t the only city to see an exodus. These maps show the most detailed info on where people are moving.” *San Francisco Chronicle*, Aug. 7, 2023.

<https://www.sfchronicle.com/projects/2023/maps-migration/>

Proportionally, the state's largest population losses occurred in rural counties in the Sierra Nevada mountain range and the North Coast. For example, Lassen County — where 28,275 people reside at California's northeastern tip — lost 4.3 percent of its population between January 2022 and January 2023.¹⁸ Santa Clara County, whose population totals over 1.88 million, lost 0.3 percent of its population during that time.¹⁹

A notable exception to the data-backed trend that California's mainly small communities have been hollowed out during the pandemic is San Francisco. The city and county's population declined by 7.5 percent between April 2020 and July 2022, as pandemic-induced lockdowns and the widespread adoption of remote work led many working professionals to decamp from San Francisco's core and adjacent neighborhoods.²⁰

Yet even the city that's become the poster child for California's exodus narrative has made headway in reversing its population decline: Between 2021 and 2022, San Francisco's population declined by only 0.3 percent, to 808,437 residents.²¹ Another narrative being peddled about California's recent population decline is that most residents who left the state between 2020 and 2021 were high-income earners.

In fact, those who left were mainly low- and middle-income households.

As the graph at the top of page 8 shows, California lost about 140,000 high-income households between 2020 and 2021, less than the approximately 150,000 middle-income households and the 200,000 or so lower-income households that left the state during that time.



¹⁷ Bloemraad, Irene, and Ethan Roubenoff. "Opinion: Despite falling numbers, California does not have a population crisis." *The Mercury News*, March 1, 2023.

<https://www.mercurynews.com/2023/03/01/opinion-despite-falling-numbers-california-does-not-have-a-population-crisis/>

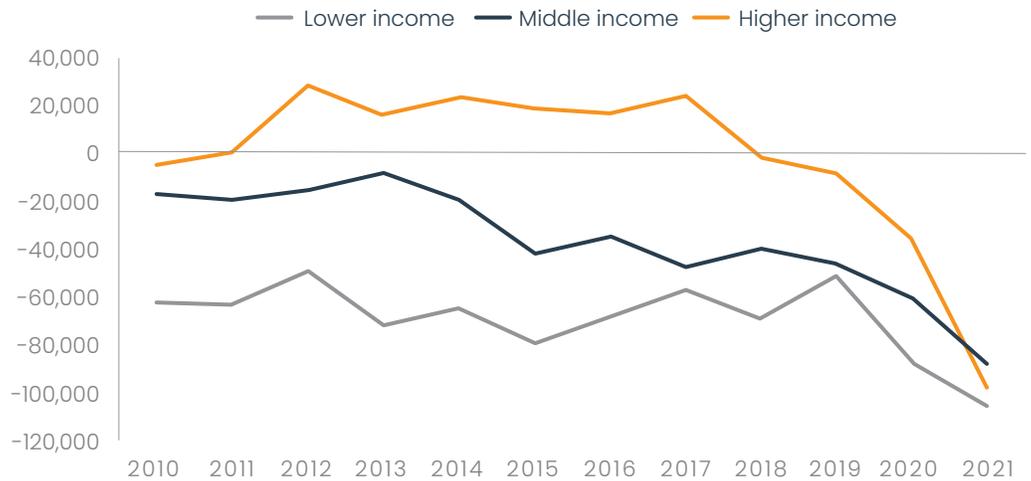
^{18, 19} California Department of Finance. "State's Population Decline Slows While Housing Grows Per New State Demographic Report." Released May 1, 2023.

https://dof.ca.gov/wp-content/uploads/sites/352/Forecasting/Demographics/Documents/E-1_2023PressRelease.pdf

^{20, 21} Jones Thompson, Maryann. "It's Official: A Quarter Million People Fled the Bay Area Since Covid." *The San Francisco Standard*, March 31, 2023.

<https://sfstandard.com/2023/03/31/san-francisco-bay-area-california-population-decline-census-pandemic-covid/>

Net interstate migration among California adults, ages 18–64



SOURCE: PPIC based on American Community Survey data through 2021.

NOTES: Income categories based on federal official poverty levels which vary by family size. Lower income is defined here as up to two times the poverty level (in 2022, less than \$55,000 for a family of four). Middle income extends from two to five times the poverty level (over \$137,500 based on family of four).

FROM: PPIC Blog, March 2023

California's net population loss between 2020 and 2021 equated to about 2.3 percent of its lower-income population, 1.6 percent of its middle-income population, and 1.4 percent of its higher-income population (American Community Survey data).

Meantime, California has become home to even more ultra-rich residents in recent years. To be sure, more high-net-worth individuals moving to California will deepen concerns about the wealth gap between its high- and low-income households, already among the nation's largest.

Yet California, for the sake of its economic fortunes and infrastructure, needs all the ultra-rich residents it can get: The state's progressive tax system relies on the top 1 percent of earners for roughly 50 percent of personal income tax revenue.²² From the end of 2019 through 2021, California added more than 116,000 millionaire taxpayers, according to the most recent personal income tax data provided by the state's Department of Finance.²³

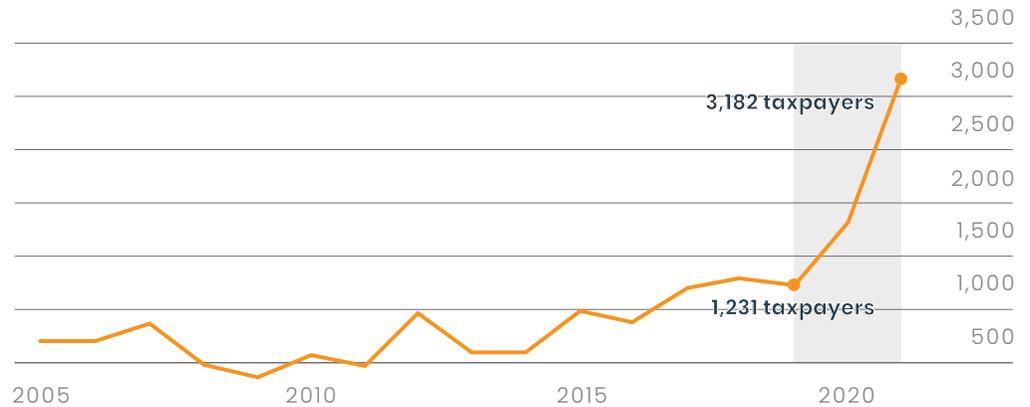
^{22, 23} Kamisher, Eliyahu and Carson, Biz. "The Ultra-Rich Are Flourishing and Sticking Around in California." *Bloomberg*, Aug. 1, 2023. <https://www.bloomberg.com/news/articles/2023-08-01/california-s-home-to-more-millionaires-than-ever-and-they-re-getting-richer?sref=sHjzrUut>

That increase in millionaires between 2019 and 2021 was the most in a two-year period in the state’s history – and more than in the previous decade combined.²⁴

Top Tier of Wealthy Californians Grew by 158%

Number of taxpayers reporting over \$50 million in income

— Income over \$50 million



SOURCE: California Department of Finance aggregate data on individual taxpayers

The number of California taxpayers reporting over \$50 million in income increased by 158 percent between 2019 to 2021. (Bloomberg)

And it seems unlikely that we will see an outflow of millionaires out of California if things remain the way they are. The gravitational pull of everything from the movie industry to the artificial intelligence technology boom taking over Silicon Valley makes it “extraordinarily hard for California’s prosperous taxpayers to leave,” Bloomberg reported in August.²⁵

“We’ve never seen an absolute growth in the number of millionaires like this data,” Cristobal Young, a Cornell University professor who has studied wealth migration, told Bloomberg.²⁶

“Ultimately, California is a great place to make money,” Young said.

24-26 Kamisher, Elyahu and Carson, Biz. “The Ultra-Rich Are Flourishing and Sticking Around in California.” *Bloomberg*, Aug. 1, 2023. <https://www.bloomberg.com/news/articles/2023-08-01/california-s-home-to-more-millionaires-than-ever-and-they-re-getting-richer?sref=sHjzrUut>

The winds are changing.

Although California's population declined by 138,443 residents last year, the most recent annual drop was the smallest since the downward trend began in 2020 — suggesting that a reversal of fortunes could be on the horizon, said H.D. Palmer, spokesman for the California Department of Finance.²⁷

"We see this slowing of the year-over-year declines," Palmer said in May. "We would expect to get back to a period of positive growth in the next 18 months, where we'd see a resumption of year-over-year growth in the state's population."²⁸

Such optimistic projections may be tied to factors swinging back to the state's favor. For example, California in a normal year might have between 140,000 and 150,000 people move in from other countries, but in 2020, it was only 29,000 people — a direct impact, state officials say, of the Trump administration halting new visas for much of the year.²⁹ That included an executive order Trump signed in 2020 that suspended the H-1B visa program for workers in specialty occupations and the L-1 visa, which allows companies to transfer employees from overseas offices. A Washington, D.C. think tank estimated that the restrictions would block 219,000 temporary workers from entering the U.S.³⁰

In addition, restrictive state and county lockdowns to curb the spread of Covid-19 prompted a 29 percent decline in international students coming to California in 2020, or about 53,000 people.³¹ And California's overall death rate increased by 19 percent that year; driven by Covid-19, some 51,000 more lives were claimed in 2020 than would have been normal, according to the state's three-year average.³²

These factors — Covid-19 deaths, falling immigration, and declining international student numbers — would not have been enough to move the needle independently. Taken together, though, the result is California had about 225,000 fewer people than would have been normal in 2020 — which is why California's net population decline that year has mainly been tied to those three factors.

Add in the enduring adoption of remote work policies by many companies based in California, allowing people to work from anywhere, and the end result has been three straight years of net population decline.



27, 28 Karlamangla, Soumya. "The Population of California Declined, Again." *The New York Times*, May 3, 2023.

<https://www.nytimes.com/2023/05/03/us/california-population-decline.html>

29, 31-32 Beam, Adam. "California leaving: State population declines for first time."

The Associated Press, May 7, 2021.

<https://apnews.com/article/california-health-immigration-coronavirus-pandemic-d4df0f6a2eef7a3dc4a6d27c65df7b84>

30 Iyengar, Rishi, and Brian Fung. "Tech companies slam Trump's executive order restricting H-1B visas." *CNN Business*, June 23, 2020.

<https://www.cnn.com/2020/06/22/tech/executive-order-trump-immigration-tech/index.html>

Yet the winds are changing in California's favor. The Biden administration has taken a much more lenient approach to the H-1B visa program compared with his predecessor; according to recent data for H-1B petitions for initial employment, the H-1B visa denial rate dropped to 2 percent in fiscal year 2022, well below the high of 24 percent in fiscal year 2018.³³

Remote work, meantime, peaked in April 2020 and has gradually declined since then.³⁴ In September, companies enacted stricter office attendance mandates impacting 1 million workers and resulting in record post-pandemic attendance rates.³⁵ Before this return-to-office surge, employees at California-based companies with remote work policies could relocate to cheaper housing in another state. Not only do the stricter office mandates discourage that practice, but they also may lead a number of employees to move back to California or risk losing their jobs.

To reiterate, California's recent population decline is not anywhere close to exodus levels. Yet it is a reality check, especially because some worrying trends have emerged recently for the state's population trackers and elected officials.

Fertility rates have declined in California by more than twice the national average since 2010.³⁶ Meantime, Los Angeles, San Francisco, and San Jose crossed a significant threshold in 2020 and 2021: More college-educated workers left than moved in.³⁷ That, if anything, is perhaps the most worrying trend tied to the state's population decline. And it's directly tied to the enduring popularity of remote work and California's inability to solve its decades-long housing crisis: College graduates who've been forced to spend a larger proportion of their monthly income on housing in California compared with anywhere else in the country, or who can only rent due to a dearth of available single-family homes in their price range, have, through their employer's remote work policy, what may turn out to be a once-in-a-generation opportunity to move to a home in another state with a lower personal income tax rate — while making the same amount of money as before.

That's a sizable incentive for many California graduates working in the tech sector to tap into, particularly those who aren't wedded to the state's mild climate or

“We see this slowing of the year-over-year declines. We would expect to get back to a period of positive growth in the next 18 months, where we'd see a resumption of year-over-year growth in the state's population.”

**H.D. Palmer, spokesman
for the California
Department of Finance.**

³³ American Immigration Council. "The H-1B Visa Program and Its Impact on the U.S. Economy." Modified Aug. 18, 2023.

<https://www.americanimmigrationcouncil.org/research/h1b-visa-program-fact-sheet>

^{34, 35} Oakes, Anna. "3 predictions about the return to office debate." *Quartz*, Oct. 18, 2023.

<https://qz.com/3-predictions-about-the-return-to-office-debate-1850933991>

³⁶ Hubler, Shawn. "A New Demographic Surprise for California: Population Loss." *The New York Times*, May 7, 2021.

<https://www.nytimes.com/2021/05/07/us/california-population-loss.html>

³⁷ Karlamangla, Soumya. "College Graduates, Too, Are Fleeing California's Big Cities." *The New York Times*, May 22, 2023.

<https://www.nytimes.com/2023/05/22/us/california-housing-college-graduates.html>

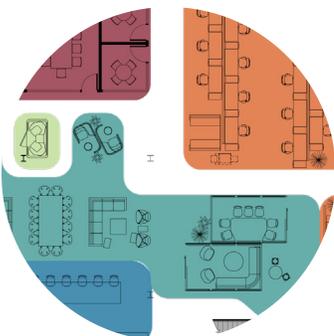
whose families live in a different part of the country.

To address the crisis and ensure that California’s college-educated workforce can afford to live here, one potential way is to zone for more housing and make it cheaper and easier for housing to be built. Once the capital markets rebound and construction financing becomes more affordable again, housing developers with fully financed development projects will handle the rest.

However, as the future of workplaces remains uncertain, so do the future demographics of California.

While rates of international immigration will play a role, the key to the state’s future population trend will likely be whether Californians continue to relocate to more affordable states or have to stay in the state or return to keep their jobs.

Although it’s too early to say whether the recent surge in the return-to-office movement³⁸ is a flash in the pan or a harbinger, one thing is clear: We’d need to see several more years of net population losses before the issue approaches something resembling an exodus. Based on how attractive the state remains in the eyes of the ultra-wealthy, despite all of its perceived issues constantly depicted in the media, California remains a symbol of economic opportunity and prosperity — two things many other states can’t claim.



38 Rowden, Jacob. "US Office Outlook – Q3 2023." *JLL*, Oct. 17, 2023. <https://www.us.jll.com/content/dam/jll-com/documents/pdf/research/americas/us/jll-us-office-outlook-q3-2023.pdf>

Part II: California not grappling with a “corporate exodus”; the state remains the center of the venture capital universe and will be a dominant player in the AI boom

Myth: Businesses of all sizes are shifting their headquarters to Texas from California and bringing many employees with them, the clearest indication yet that California’s business community has finally had enough of the state’s regulatory environment and tax rate.

Reality: Two-thirds of American decacorns (over \$10 billion in valuation) are headquartered in the Bay Area alone.³⁹ The state’s pool of tech workers remains vastly larger than Texas, and its share of the U.S.’s venture capital market is unrivaled.⁴⁰

“There is still such a deep bench of tech talent that other regions can’t really compete with.” — Robert Sammons, senior research director at Cushman & Wakefield, a commercial brokerage firm.

Sammons said those exact words to the San Francisco Chronicle while it was reporting that Anthropic, a fast-growing artificial intelligence company, had agreed to lease the entire former Slack headquarters building in San Francisco.⁴¹

The 230,000-square-foot sublease would be one of the largest local new office leases signed during the pandemic and the “strongest sign yet that the AI boom is lifting the city’s beleaguered downtown office market and economy,” the Chronicle reported in September.⁴²

And the deal is another indicator that, no, California is not experiencing anything remotely close to a corporate exodus. Rather, new business openings with employees in California have actually been on the rise, increasing by 21 percent between 2021 and 2022, after falling about 7 percent between 2020 and 2021.⁴³ Moreover, a quarter of the country’s unicorn companies, each of which has at least \$1 billion in valuation, are still headquartered in the Bay Area.⁴⁴



39–40, 44 Au-Yeung, Angel, and Jeffrey Taylor. “The Case For California: Why Stories About The Golden State’s Demise Are Overblown.” *Forbes*, April 30, 2021.

<https://www.forbes.com/sites/angelauyeung/2021/04/30/the-case-for-california-san-francisco-pandemic-exodus-economy-job/?sh=95bb1b16b37f>

41, 42 Li, Roland. “Exclusive: This S.F. AI firm is leasing the entire former Slack HQ in major boost to downtown.” *The San Francisco Chronicle*, Aug. 31, 2023.

<https://www.sfchronicle.com/bayarea/article/s-f-ai-firm-leasing-entire-former-slack-hq-18341028.php>

43 Sawerengera, Jane, Shannon McConville, and Sarah Bohn. “Signs of Increased New Business Growth since the Pandemic.”

Public Policy Institute of California, June 13, 2023.

<https://www.ppic.org/blog/signs-of-increased-new-business-growth-since-the-pandemic/>

Between 2018 and 2021, 133,503 businesses were created or moved into California. Texas added 90,916 businesses in that same span – almost one-third less than California’s total.⁴⁵ Business license applications were up 46 percent in the 12-month period ending in June, the biggest increase of any state, according to Office of Business and Economic Development data.⁴⁶

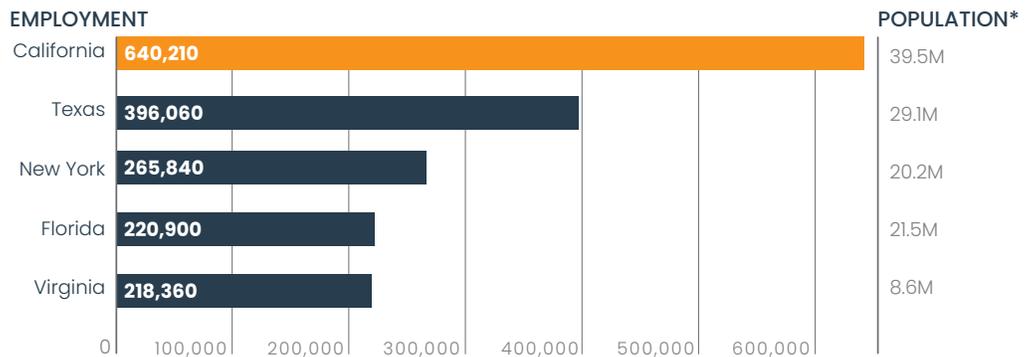
Despite being home to more than half of the U.S.’s top 20 most expensive regions,⁴⁷ California is consistently ranked as the best state for entrepreneurs, contradicting the narrative that the state is anti-business.⁴⁸ In fact, the state’s reputation for talent and its perch atop the U.S.’s venture capital and tourism industries make it an ideal nesting ground for startups that can afford relatively high operating costs. Even more so in the Bay Area, which accounted for about 40 percent of all venture capital funding in the U.S. during the first half of 2023.⁴⁹

The charts below and on the next page offer some insight into the strength of California’s economy. Perhaps the starkest reflection of how far ahead the state’s tech sector is compared with other states is the “Technology Employment” chart. California’s pool of tech workers is 62 percent larger than Texas’, the chart shows.

Technology Employment

COMPUTER AND MATHEMATICAL OCCUPATIONS

From artificial intelligence to software services and tech manufacturing, California is the unquestioned global leader in technological innovation.



Data: US Bureau of Labor Statistics, Cansus.gov * As of 4/1/21

As of April 1, 2021, California’s pool of tech workers is 62 percent larger than Texas’. (Forbes)

⁴⁵ Hiltzik, Michael. "Column: That big tech exodus out of California turns out to be a bust." *The Los Angeles Times*, March 23, 2022.

<https://www.latimes.com/business/story/2022-03-23/california-tech-exodus-was-a-bust>

⁴⁶ Collins, Jeff. "California business departures rising, study says."

The Orange County Register, June 5, 2023.

<https://www.ocregister.com/2023/06/05/california-business-departures-rising-study-says/>

⁴⁷ Li, Roland, and Yuri Avila. "California has 11 of the top 20 most expensive U.S. regions – here’s where S.F. metro area stands." *The San Francisco Chronicle*, Dec. 15, 2022.

<https://www.sfchronicle.com/sf/article/California-has-11-of-the-top-20-most-expensive-17657084.php>

⁴⁸ Bicaku, Enina. "What are the Best US States for Entrepreneurs?" *Looka*, July 26, 2022.

<https://looka.com/blog/best-states-for-entrepreneurs/>

“There is still such a deep bench of tech talent that other regions can’t really compete with.”

Robert Sammons, senior research director at Cushman & Wakefield, a commercial brokerage firm.

To be sure, being a global leader in technological innovation isn't enough to stop companies from moving their headquarters out of state. A paper by Lee Ohanian of the Hoover Institution and Joseph Vranich, CEO of a Texas business relocation firm, found that Hewlett-Packard Enterprise, Tesla, and Oracle were among the 352 companies that moved their corporate headquarters out of California between 2018 and 2021.⁵⁰

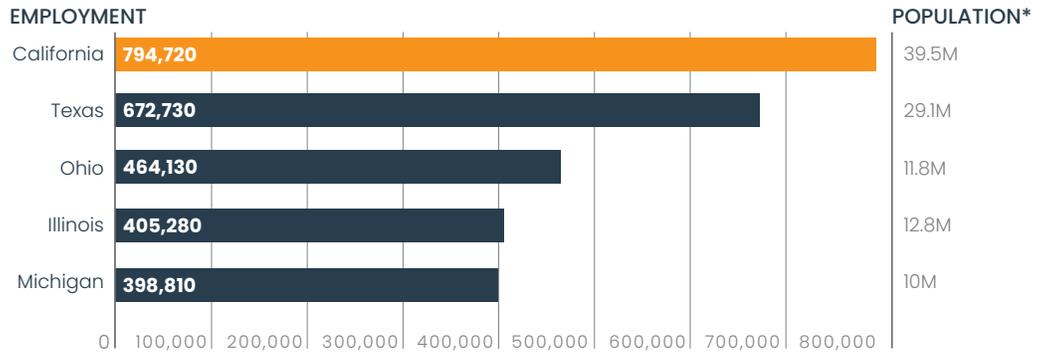
What the report didn't say was that the same month Tesla said it would shift its base to Austin, the electric vehicle maker signed a 325,000-square-foot office lease in Palo Alto, the former site of its corporate headquarters.⁵¹ Since signing that lease in October 2021, Tesla has designated the Bay Area city of Palo Alto as its second headquarters for global engineering;⁵² is expanding its megafactory in another Bay Area city, Fremont,⁵³ and has agreed to rent an additional 755,000 square feet of office, research and development, and industrial space in the Bay Area.⁵⁴

Tesla doubling down on growth in California shows the payoff of the state's support for certain high-growth companies, thereby creating a win-win situation.

Manufacturing Employment

PRODUCTION OCCUPATIONS

California is the number-one state for both manufacturing output and manufacturing jobs, with more than 35,000 such companies headquartered in the state. The manufacturing sector spans industries from aerospace to electronics and zero-emissions vehicles.



Data: US Bureau of Labor Statistics, Cansus.gov * As of 4/1/21

As of April 1, 2021, California was first in manufacturing output, business, and employment. (Forbes)

49 Renda, Matt. "AI Means Bay Area Still Dominates Tech-Related VC Funding". *Bisnow*, Aug. 4, 2023. <https://www.bisnow.com/san-francisco/news/office/ai-means-bay-area-still-dominates-tech-related-vc-funding-120094>

50 Vranich, Joseph, and Lee Ohanian. "Why Company Headquarters Are Leaving California in Unprecedented Numbers." *The Hoover Institution Economics Working Papers Series*, published August 2021, revised Sept. 14, 2022. https://www.hoover.org/sites/default/files/research/docs/21117-Ohanian-Vranich-4_0.pdf

51 Avalos, George. "Tesla agrees to big office lease in Palo Alto, despite HQ exit." *The Mercury News*, Oct. 8, 2021. <https://www.mercurynews.com/2021/10/08/tesla-agrees-to-big-office-lease-in-palo-alto-despite-hq-exit/>

52, 53 Li, Roland. "Tesla names Palo Alto as second HQ less than two years after moving corporate base to Texas." *The San Francisco Chronicle*, Feb. 22, 2023. <https://www.sfchronicle.com/bayarea/article/tesla-names-palo-alto-second-hq-17799339.php>

The state provided Tesla with \$3.2 billion in subsidies and other credits, and in exchange, the company has designated California as an engineering hub,⁵⁵ which the state can use as a recruiting tool to attract the next Tesla.

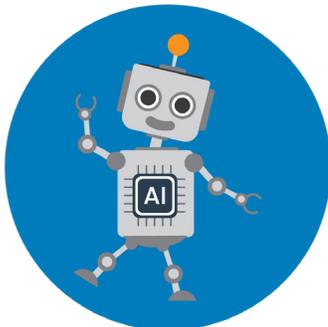
Long-term, new business starts and tourism spending will allow California to remain a jobs engine, but what will allow it to truly prosper is its access to venture capital and position as the head of the artificial intelligence (AI) industry. In both cases, the state is unrivaled. The Bay Area accounted for approximately half of all VC funding geared toward AI in the U.S., with \$2.9 billion in the first half of 2023, according to the latest Pitchbook data.⁵⁶

Outside of just AI, the Bay Area recorded 567 VC deals with a total value of around \$16 billion in the second quarter of this year.⁵⁷ The state or municipality with the next-highest total value? The entire state of New York, at \$4.5 billion – less than 3 times what the Bay Area recorded during the first half of 2023.⁵⁸

That bodes well for the Bay Area's ability to remain a tech hub in the coming decades, with San Francisco and Silicon Valley poised to be innovation centers for the foreseeable future. Of the 50 members of this year's Forbes "AI 50" list, which highlights promising AI companies, 20 are based in San Francisco, compared with four in New York and two in Austin. Silicon Valley, meantime, is home to 12 Forbes AI members, meaning San Francisco and Silicon Valley alone account for more than 60 percent of the companies on the magazine's 2023 AI 50 list.

To be sure, the Bay Area and California have some of the U.S.'s most stringent business regulations, a number of them related to the environment and promoting energy efficiency. The state remains one of the nation's most expensive places to do business and will remain that way for the foreseeable future.

Yet for the companies that can afford it, and the small businesses that can survive and expand into mid-sized or even large ones, the state remains a leader in innovation and a hub of startup activity – and there are no indications, not even a few large companies shifting their headquarters elsewhere, to suggest that's in any danger of changing.



54 Burke, Katie. "Tesla Pursues California Growth Even After High-Profile Headquarters Move to Texas." *CoStar News*, April 10, 2023.

<https://www.costar.com/article/770556412/tesla-pursues-california-growth-even-after-high-profile-headquarters-move-to-texas>

55 Li, Roland. "Tesla names Palo Alto as second HQ less than two years after moving corporate base to Texas." *The San Francisco Chronicle*, Feb. 22, 2023.

56 Renda, Matt. "AI Means Bay Area Still Dominates Tech-Related VC Funding". *Bisnow*, Aug. 4, 2023. <https://www.bisnow.com/san-francisco/news/office/ai-means-bay-area-still-dominates-tech-related-vc-funding-120094>

57, 58 Pimentel, Benjamin. "What doom loop? Venture capital (still) loves SF." *The San Francisco Examiner*, July 20, 2023.

https://www.sfoxaminer.com/news/technology/venture-capital-shrugs-at-sf-doom-loop-still-loves-bay-area/article_77df0f04-2724-11ee-b5da-efbfd4f8f1c9.html

Part III: The impact of the tech layoffs on California has been vastly overstated — especially because the Bay Area remains the U.S.'s largest tech talent pool

Myth: California-based companies are laying off more workers based in the state than anywhere else, which has significantly depressed the Bay Area's tech economy and is increasing the region's exodus of college graduates to other, more affordable parts of the country.

Reality: Layoffs announced in the second half of 2022 and in January represented just 2 percent of the innovation and information products and services sectors in Silicon Valley, home to many of the world's biggest tech companies. Moreover, layoffs by Google and Meta, two of the prominent Bay Area-based tech companies to trim headcount in 2022 and this year, represent 2 percent of the 400,000 tech workers based in the Bay Area.

"There is no way we can construe this as a crisis," — Russell Hancock, head of Joint Venture Silicon Valley, a San Jose-based think tank.⁵⁹

Since 2019, a group of 10 major tech companies — Amazon, IBM, Dell, Philips, Booking.com, Cisco, Salesforce, Meta, Google, and Microsoft — collectively increased their headcounts by 875,000 employees, a hiring spree that was financially feasible due to low interest rates and necessary to keep up with a spike in demand for tech products and services.⁶⁰

These same companies were among those who over-hired the most during Covid, and now, faced with a much tougher economic climate than 18 months ago, the 10 of them have made or are in the process of making the tech sector's biggest individual headcount reductions since the pandemic began.⁶¹

The combined total job cuts made by these 10 leading tech employers: 90,000 jobs — about one-tenth as many new jobs these companies created since 2019.⁶²

To be sure, the U.S. tech sector has spent much of the past 12 months in a period of retrenchment, forgoing the rapid expansion that defined the first two years of Covid for cost-cutting measures. In Silicon Valley, the region's tech industry has experienced unprecedented success since the end of the Great Recession.

“There is no way we can construe this as a crisis.”

Russell Hancock, head of Joint Venture Silicon Valley, a San Jose-based think tank.

59 Sherr, Ian. "What Layoffs? Data Shows Silicon Valley Is More Boom Than Bust." *CNET*, Feb. 15, 2023. <https://www.cnet.com/culture/what-layoffs-data-shows-silicon-valley-is-more-boom-than-bust/> 60–62 Irwin-Hunt, Alex. "Big tech layoffs barely touch pandemic-era hiring." *fDi Intelligence*, Feb. 15, 2023. <https://www.fdiintelligence.com/content/data-trends/big-tech-layoffs-barely-touch-pandemic-era-hiring-82050>

Yet the likes of Google, Meta, Microsoft, Dell and Cisco — part of the group of major tech companies mentioned earlier, and each with a large presence in Silicon Valley — are among the many regional tech businesses that disclosed layoffs from mid-2022 onward.

In fact, Silicon Valley lost about 11,000 tech jobs from the second half of 2022 to January alone,⁶³ contributing to the region's unemployment rate increasing to 2.9 percent from 2.2 percent during that time.⁶⁴ Yet those layoffs represented just 2 percent of Silicon Valley's tech workforce.⁶⁵ Although the region's total number of tech layoffs has increased by a couple thousand people since January, it still represents a tiny fraction of the region's tech workforce, which totaled about 550,000 people at the start of 2023.⁶⁶

"The only way we can accurately depict this is as an adjustment," Hancock told the *San Francisco Chronicle*, referring to how Silicon Valley's economy had been impacted by the tech layoffs and the enduring popularity of remote work.⁶⁷

Despite the layoffs, Silicon Valley still added 22,000 jobs during the second half of 2022, underlining its economy's strength as the rate of new tech layoffs began picking up steam across the nation — and as rising interest rates and fears of a recession pushed the tech sector into a new economic reality.⁶⁸ In short, Silicon Valley avoided a downturn despite 11,000 of its tech workers losing their jobs over a seven-month span. And that's despite being relatively tech-reliant — Apple, Alphabet and Meta employed 19 percent of the region's workers at the end of last year.⁶⁹

Yet how and why was Silicon Valley able to do so? The answer is that despite all of the headlines about Alphabet, Meta, and numerous other tech companies cutting staff, what sometimes gets overlooked is most tech companies employ more workers — and in some cases, many more workers — today than they did three years ago or even in 2022, as the graph at the top of p. 19 shows.

“There is still such a deep bench of tech talent that other regions can't really compete with.”

Robert Sammons, senior research director at Cushman & Wakefield, a commercial brokerage firm

63, 65–67 Said, Carolyn. "Despite tech layoffs and remote work, Silicon Valley's economy not in 'crisis' mode." *The San Francisco Chronicle*, Feb. 14, 2023.

<https://www.sfchronicle.com/tech/article/silicon-valley-s-economy-crisis-17784109.php>

64 Silicon Valley Institute for Regional Studies. "Monthly Unemployment Rate."

Accessed Oct. 19, 2023.

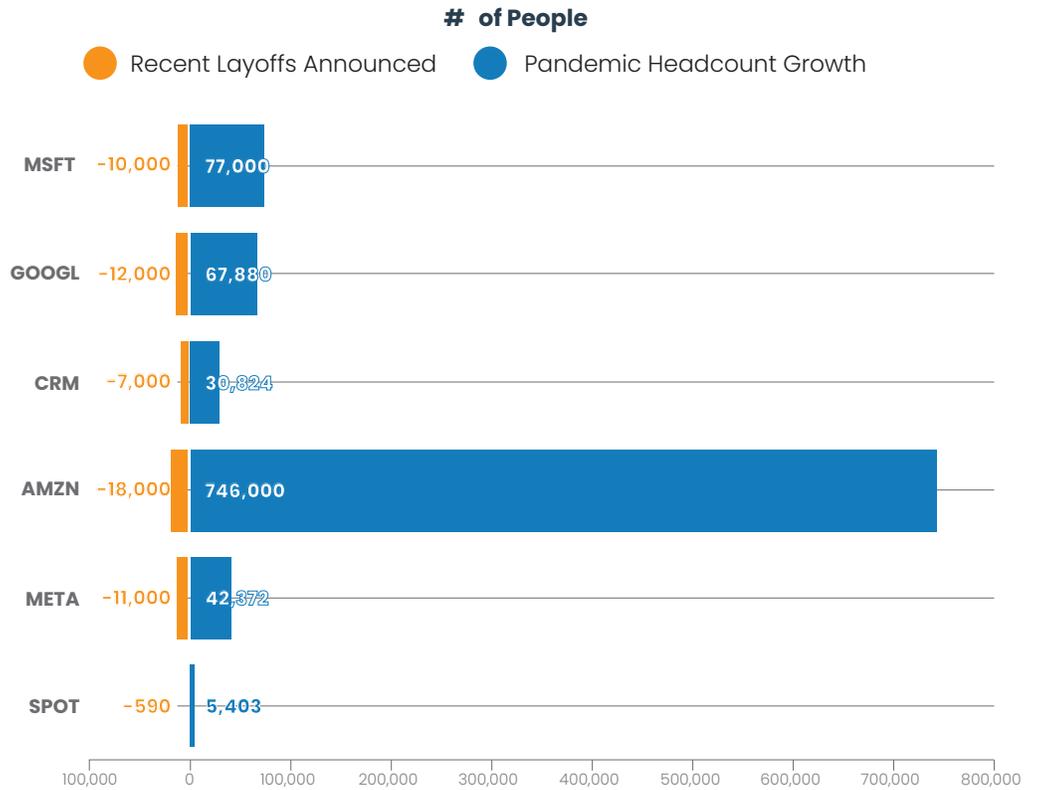
<https://siliconvalleyindicators.org/data/economy/employment/unemployment/monthly-unemployment-rate/>

68, 69 Joint Venture Silicon Valley Institute for Regional Studies. "2023 Silicon Valley Index."

Accessed Oct. 15, 2023.

<https://jointventure.org/images/stories/pdf/index2023.pdf>

Tech Companies Laying off Workers After Pandemic Hiring Sprees

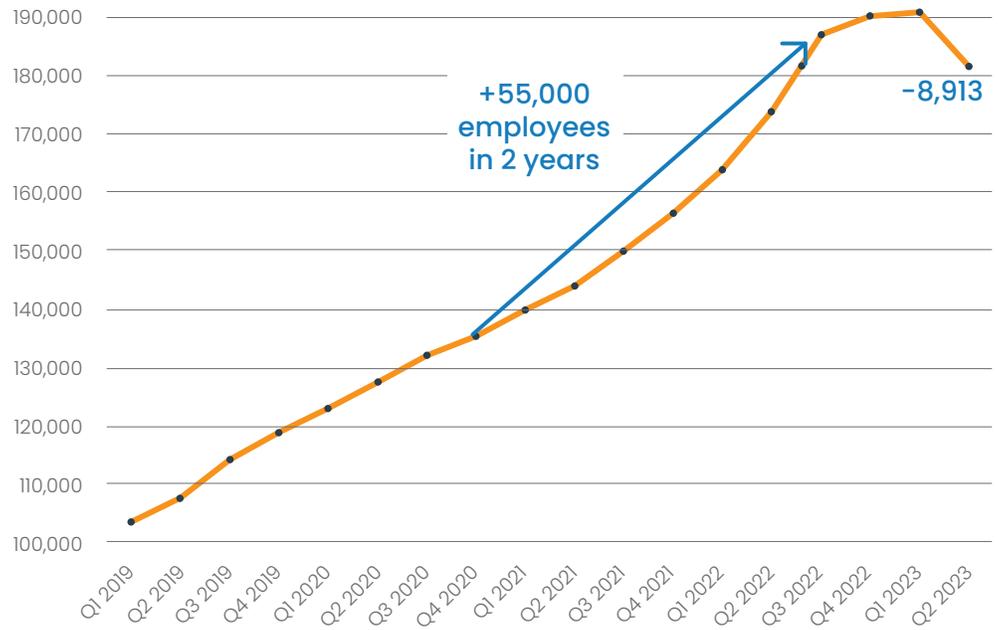


SOURCES: Yahoo Finance, Bloomberg • Pandemic Headcount Q4 2019 to Q3 2022

Note: SPOT is the stock symbol for Spotify, while CRM is the stock symbol for Salesforce. Meta and Alphabet (stock symbol "GOOG") are based in Silicon Valley, while Amazon and Microsoft occupy campuses in the region. (Yahoo! Finance)

Alphabet (represented by stock symbol “GOOGL” on the graph) said at the start of this year that it was laying off 12,000 workers, or 6 percent of its workforce.

Alphabet Full-Time Employees
Number of employees at end of quarter



SOURCE: ALPHABET 10-K, 10-Q

wolfstreet.com

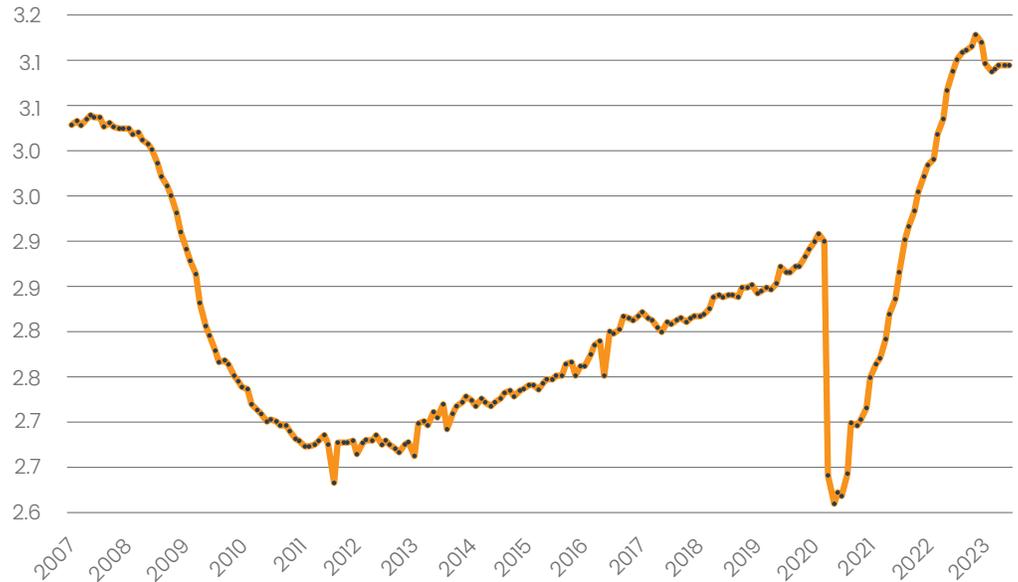
As of June 30, Alphabet’s headcount totaled 181,796 employees, up about 4.5 percent year-over-year.

However, as the chart above shows, that represents less than one-fifth of the number of workers it hired from the fourth quarter of 2019 to the third quarter of last year. In 2021 and 2022, Alphabet added 54,933 full-time employees, increasing its headcount by 41 percent. As the chart above shows, the company’s headcount increased in 17 consecutive quarters until the first quarter of this year.

The U.S.’s “information” sector as a whole — made up of web search portals, telecommunications, and other tech-adjacent industries — significantly expanded between 2021 and 2022, climbing to over 3.1 million employees from just over 2.6 million during that time, according to the graph on the next page, p. 21. The graph shows it took five years from the end of the Great Recession of 2007–09 for the information sector to stabilize, compared with less than a year during the most recent downturn that began last year.

During the Great Recession, the information sector lost over 400,000 jobs, about four times the number of positions cut from 2022 to this year before the industry stabilized, the graph at the top of the next page shows.

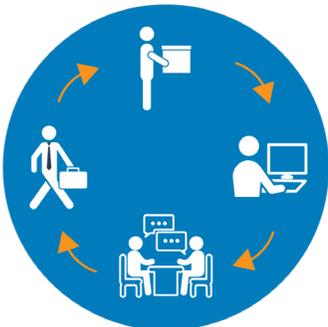
Jobs in Information Million workers



The U.S.'s information sector includes web search portals, data processing, data transmission, information services, software publishing, motion picture and sound recording, broadcasting including over the Internet, and telecommunications, according to Wolfstreet.com.

Unlike the tech layoffs made during the Great Recession, those implemented from 2022 onward “turned into massive churn – rather than a pileup of unemployed workers – with most of the laid-off people changing jobs within the industry,” Wolf Richter, editor-in-chief of his eponymous “Wolf Street” financial blog, wrote in a July blog post.⁷⁰

Some of those laid-off workers changed industries, such as switching to industrial companies' tech divisions, helping to explain why the total information sector headcount began inching back up this year, Richter wrote in his blog.⁷¹



^{70, 71} Richter, Wolf. “What Alphabet’s Layoffs, Current Headcount, and Unemployment Claims Tell us about the Erstwhile Tech Layoff Tsunami.” *Wolf Street*, July 27, 2023. <https://wolfstreet.com/2023/07/27/what-alphabets-layoffs-current-headcount-and-unemployment-claims-tell-us-about-the-erstwhile-tech-layoff-tsunami/>

The spike in people who joined the information sector over the past three years, many of whom are still working in the industry despite the layoffs, further reinforces why Silicon Valley's economy and the larger Bay Area economy have so far been able to weather a slowdown in tech hiring, high-interest rates and inflation, and other macroeconomic factors. Better days are likely ahead for the Bay Area, widely considered California's and the nation's premier startup and innovation hub.

The rate of new tech layoffs in the region dropped by over 48 percent from the first to the second quarter of this year, the first time that had happened since early 2022.⁷² And in May, tech companies added 2,300 jobs in the Bay Area, the first tech sector gains in over a year – a relatively tiny amount, to be sure, but another sign that the worst of the tech layoffs seems to be behind the region.⁷³

Additionally, the 18,500 Bay Area tech workers laid off by their companies through October⁷⁴ represent less than 5 percent of the region's entire tech workforce.⁷⁵ Most of them were in tech companies' marketing, finance, and recruiting departments, meaning that many employers have continued to hold on to their engineering talent, Chris Shepherd, executive vice president of commercial brokerage CBRE's Tech and Media practice, wrote in a statement earlier this year.⁷⁶

With more than 400,000 tech workers as of July, the Bay Area still has the largest tech talent pool in the nation with the highest number of tech roles in any U.S. market, according to CBRE's latest annual Scoring Tech Talent report.⁷⁷

In summary, to borrow a phrase from Joint Venture's Russell Hancock, the Bay Area's tech sector is in the middle of an "adjustment period." Whether it's adjusting to a smaller workforce than this time last year or adjusting to a "different economic reality," a phrase Alphabet CEO Sundar Pichai used in the company's last layoff announcement, some of the region's largest employers are doing this while simultaneously undertaking an entirely different adjustment – ensuring they're well-positioned for the growth in AI that could become the tech sector's "next big thing" in the coming decades.

⁷² Avalos, George. "Tech, biotech, non-tech layoffs jolt Bay Area with 900-plus job cuts." *The Mercury News*, Sept. 5, 2023. <https://www.mercurynews.com/2023/09/05/tech-biotech-job-cut-layoff-economy-covid-bay-area-milpitas-palo-alto/>

⁷³ Avalos, George. "Massive job cuts start to ease at Bay Area tech companies as sector stabilizes." *The Mercury News*, July 17, 2023. <https://www.mercurynews.com/2023/07/17/tech-bay-area-facebook-google-twitter-amazon-layoff-job-economy-covid/>

⁷⁴ Avalos, George. "Electronics manufacturer cuts East Bay jobs in fresh tech layoffs." *The Mercury News*, Oct. 18, 2023. <https://www.mercurynews.com/2023/10/18/tech-fremont-east-bay-electronics-jobs-economy-layoff-tech-jabil-work/>

^{75–77} Landes, Emily. "Bay Area tops the nation for both tech talent and expenses." *The Real Deal*, July 17, 2023. <https://therealdeal.com/sanfrancisco/2023/07/19/bay-area-tops-the-nation-for-both-tech-talent-and-expenses/>



Granted, while there's no such thing as a welcome time for layoffs, those who've lost their jobs in the past 12 months have been put in an especially precarious situation given the high-interest-rate environment and 4.6 percent statewide unemployment rate as of August. The layoffs have underlined the downsides to going on a hiring spree before a sharp rise in interest rates, which, while likely little solace to the individual workers who've lost their jobs, ought to serve as a painful learning experience for the companies that failed to account for the last 12 months of rate hikes.

And if there's another learning experience these same companies can draw from, it's that Silicon Valley, the Bay Area, and California have seen sharp contractions before, namely during the dot-com bust and the Great Recession of 2007–09. The main difference now compared with past downturns is the extent of the layoffs has been nowhere near the dot-com bust, when almost 2 million tech workers nationwide lost their jobs in 2001 alone — compared with 93,000 tech layoffs in 2022.⁷⁸

Moreover, as the graph on page 19 shows, many of the Bay Area-based companies that have disclosed layoffs over the past year still have more employees than at the beginning of the pandemic. That puts them on solid footing when interest rates and inflation inevitably decline to their historical averages, heralding the next chapter in the Bay Area tech sector's boom–bust cycle.

And if the coming boom is anything like the one the region experienced from 2010 to 2019, there won't be any talk of layoffs or contraction over the next decade — but rather, of expansion and innovation.

⁷⁸ Crunchbase News. "The Crunchbase Tech Layoffs Tracker." *Crunchbase News*, updated Oct. 19, 2023, accessed Oct. 19, 2023. <https://news.crunchbase.com/startups/tech-layoffs/>

Conclusion

This white paper's goal was to debunk three myths central to the "California is on the decline" narrative. Through public data and insights in news articles from those who closely monitor California's tech, population, and economic trends, this paper showed that:

- **California's "population exodus" storyline is vastly overblown.** California's decline of 480,000 people between 2020 and 2022 represented 1.2 percent of its total population, and the state's millionaire population increased by a record rate between 2019 and 2021 — contradicting the narrative that most of the people who left California during that time were high-income earners.
- **The inflow of money into California remains greater than the outflow.** California isn't seeing anything resembling an exodus of businesses to Texas or Florida, and it remains the most popular destination for venture capital. In addition, more businesses were created or moved into California than Texas between 2018 and 2021, and California is poised to catch most of the economic windfall from the artificial intelligence industry's projected boom.⁷⁹
- **Tech remains an economic engine in Silicon Valley.** The Bay Area is still the U.S.'s largest tech talent pool, and many of the world's largest tech companies — several of which are based in Silicon Valley — employ more workers, and in some cases, many more workers, today than they did pre-Covid or even last year.

If your main takeaway from reading this paper is that California's economy and tech sector are doing far better than how they're portrayed by some in the press, then you may be asking yourself, "What does California need to do to change the many negative narratives surrounding it?"

One answer to this question is to do nothing; if you're an entrepreneur who's read the same statistics presented in this white paper and can afford to start a business in California, you're likely not too concerned about the criticisms being leveled against the state in the media.

Another answer is to take action, and this is where the state government can play a crucial role in helping to change the perception of California on a larger scale. The state can continue to pressure local municipalities to build more housing, using the potential loss of state funding as a main deterrent for cities and towns to skirt their Regional Housing Needs Allocation targets.



⁷⁹ Bloomberg Intelligence. "Generative AI to Become a \$1.3 Trillion Market by 2032, Research Finds." *Bloomberg Intelligence*, June 1, 2023. <https://www.bloomberg.com/company/press/generative-ai-to-become-a-1-3-trillion-market-by-2032-research-finds/>

California's state government is already doing this to get cities and towns to comply with their state-mandated housing needs allocations, but ensuring that the potential loss of state funding isn't an empty threat could lead certain jurisdictions that have long resisted increasing their housing stock to finally open their doors to more housing development.

Taking action on housing is particularly relevant considering the enduring popularity of remote work, despite the recent nationwide uptick in return-to-office mandates,⁸⁰ may continue to discourage out-of-state residents from moving to California if they can find a similar living arrangement in a less expensive state. One of the most effective ways the state can continue to attract and retain residents is to do everything it can to encourage new housing development.

Doing so addresses multiple problems simultaneously. More new housing that's affordable to construction workers will allow them to live closer to project sites, putting downward pressure on labor costs — a key factor in the Bay Area having the world's second-highest construction costs.⁸¹

More new housing gives couples who would like to start a family in California the opportunity to do so, which will help reduce the state's outflow of residents. More housing means more relocation opportunities for out-of-state residents interested in living in California, which will help address one of the state's biggest problems: attracting out-of-state residents. California ranks last in the nation for its share of the population that just arrived from out of state, according to the latest U.S. Census data.⁸²

Housing — specifically Silicon Valley's multifamily market, one of the nation's priciest — will be the main focus of our next white paper that we will publish on our website toward the end of this year.

⁸⁰ Estrada, Sheryl. "Back at the office today? Post-Labor Day RTO mandates could push attendance past 50% for the first time since the pandemic." *Forbes*, Sept. 5, 2023. <https://fortune.com/2023/09/05/return-to-office-mandates-september/>

⁸¹ Zevin, Alisa. "Global Survey: US Now Is Most Expensive for Construction." *Engineering News-Record*, June 28, 2023. <https://www.enr.com/articles/56708-global-survey-us-now-is-most-expensive-for-construction>

⁸² Lansner, Jonathan. "What exodus? California has 4th 'stickiest' population in US." *The Orange County Register*, Sept. 7, 2023. <https://www.ocregister.com/2023/09/07/what-exodus-california-has-4th-stickiest-population-in-us/>

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