



SFCED

San Francisco Center for Economic Development

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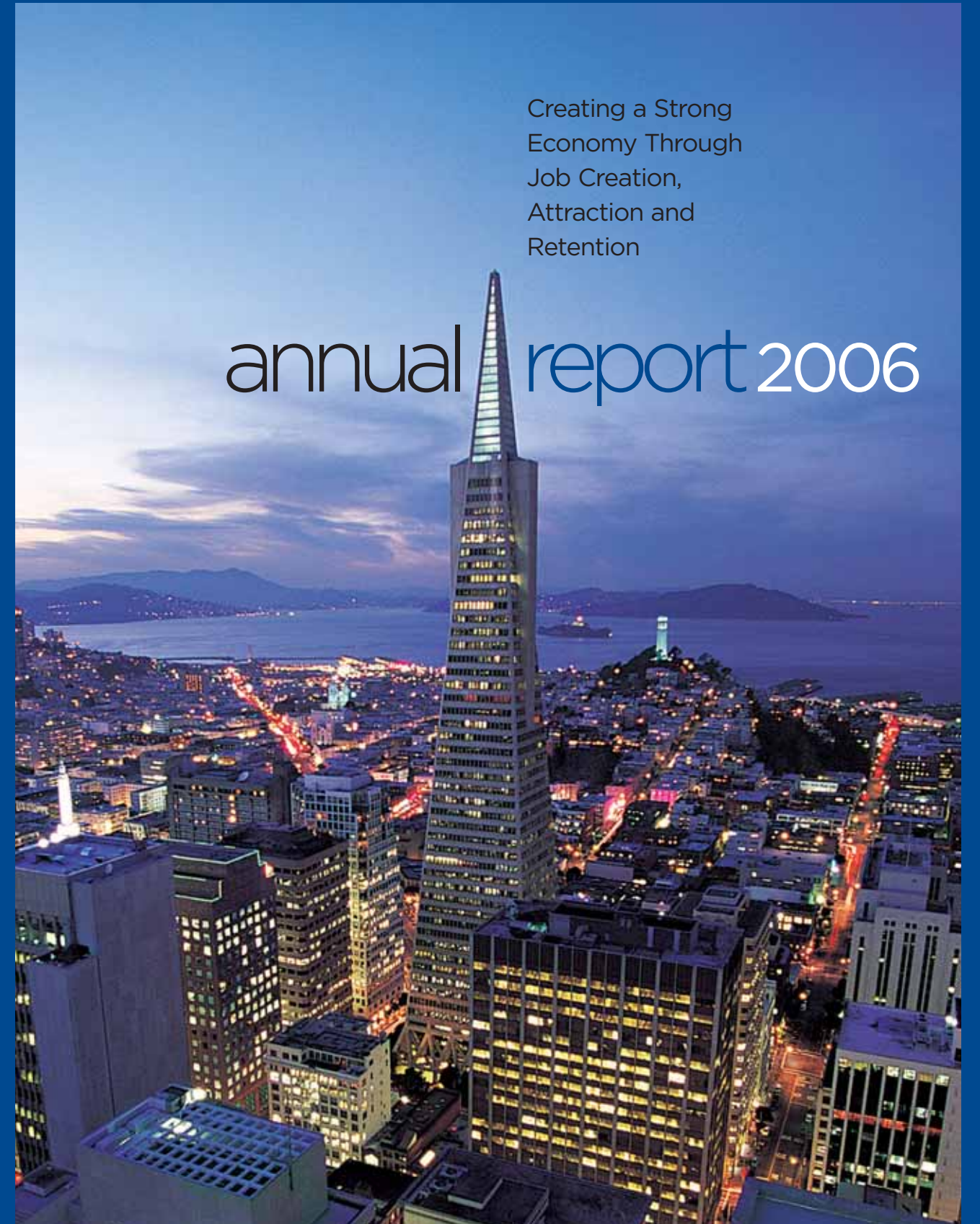
www.sfcged.org

SFCED

San Francisco Center for Economic Development

Creating a Strong
Economy Through
Job Creation,
Attraction and
Retention

annual report 2006





San Francisco's financial health is built upon two main economies...

knowledge generation, including such businesses as information technology, biotech, financial services, media and professional services...

[the] other main economy is based upon experiences, such as shopping, arts and culture, restaurants and tourism.



San Francisco Examiner

DIGITAL MEDIA AND ENTERTAINMENT

Interest in San Francisco speaks in part to the technology industry's transformation... Now, many of the hottest companies are in online media and business software, niches that can draw on the City's traditional strength in design, advertising and programming.



San Francisco Chronicle

Convergence... will likely accelerate as media companies, notably Pixar Animation, Lucasfilm, Wild Brain, and the Orphanage continue to push the boundaries of animation with computing power.



San Francisco Business Times

No investor funds were expended in the production of this report. © 2007 San Francisco Center for Economic Development

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Vision:

To Make San Francisco the
Number-One Place in the U.S. for Business

Mission:

To Attract and Retain Jobs

Strategy:

Focus and Collaboration

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The SFCED's reach and reputation have continued to increase year-over-year, as evidenced by our expanding investor base and the number of companies who consider us the portal of information and contacts for their relocation or expansion efforts. ”



executive director's letter

Dear Investors and Colleagues:

As the San Francisco Center for Economic Development enters its fourth year as San Francisco's private sector economic development organization, we take pride in the fact that we have built a sustainable business model and forged partnerships with a variety of organizations who share our goals of economic vitality and job creation.

The SFCED's reach and reputation have continued to increase year-over-year, as evidenced by our expanding investor base and the number of companies who consider us the portal of information and contacts for their relocation or expansion efforts. Our growth has been made possible by the confidence and market intelligence provided by our investors, and our collaborative approach and excellent working relationships with the Mayor's Office of Economic and Workforce Development, the San Francisco Chamber of Commerce, SPUR, and others who share our goals of a sound and growing economy.

Thank you to each of you who has been inordinately supportive and helpful—with dollars, with market intelligence, and with business expertise. Particular acknowledgment is due to our board chairs, Mary Huss (publisher of the *San Francisco Business Times*) and Bruce Wheeler (regional executive of Bank of America), for their leadership and guidance. Thanks as well to Steve Falk, president of the San Francisco Chamber of Commerce, for being a strong advocate for our efforts and an excellent partner in our dealings with City Hall.

In 2006 we were able to have direct contact with 280 companies with an interest in locating or expanding their business in San Francisco, a 40 percent increase over the previous year. Our website attracts more than 12,000 unique visitors a year, most with a need for direct information on locating a business in San Francisco or environs. We currently are engaged in a major upgrade to make our site even more robust and informative.

One of the highlights of 2006 was our work, along with leadership from the San Francisco Chamber of Commerce, in finalizing the City's first Economic Plan. We will continue to collaborate to ensure that we remain on-course and focused on the sectors with the highest probability of major investment and success: Biotech/Life Sciences; Digital Media and Entertainment; Environmental Technologies; International Development; Information Technology; and Professional Services. This is closely aligned with the City's Economic Plan, which stresses knowledge and experience-based businesses and will allow for further collaboration and sharing of information and market data.

As in any business, we face challenges, some within our control, and others beyond our purview. The costs associated with living and working in San Francisco; the lure and incentives offered by nearby Nevada and Arizona; and local tax and benefit burdens imposed on businesses large and small are difficulties we must acknowledge and address. The San Francisco Chamber's strong and effective public policy program is an important part of our ability to succeed.

However, we also have tremendous opportunities to leverage, notably our talented workforce and educational institutions that are second-to-none; our cultural diversity and location as the gateway to the expanding economies of Asia; access to capital; a worldwide reputation for innovation and entrepreneurship; extraordinary cultural and recreational opportunities; and a "can-do" attitude that has been creating a vibrant City for more than 150 years. These attributes can and will trump the challenges we face.

We are committed to building on our success, and on the success of the great companies who call San Francisco home. Thank you for your continued support and confidence in our efforts.

Sincerely,



Dennis J. Conaghan, Executive Director

We continue to attract world-class organizations and companies to the City and are strengthening our position as an international leader in the development of the clean technology, biotechnology, and digital media industries. ”



mayor's message



Office of the Mayor
City & County of San Francisco

Gavin Newsom

Dear SFCED Investors:

It has been three years since my administration and the San Francisco Center for Economic Development (SFCED) began their collaborative efforts to attract and retain jobs in San Francisco. This relationship is an excellent example of the power of public-private partnerships, and a reminder that neither party can “do it alone.”

I commend the SFCED for its outreach in 2006 to more than 280 companies with an interest in locating or doing business in San Francisco. The SFCED was often the first point of contact for these out-of-town businesses and I am proud of the job it did in showcasing San Francisco’s competitive advantage.

As a result of these efforts, we continue to attract world-class organizations and companies to the City and are strengthening our position as an international leader in the development of the clean technology, biotechnology, and digital media industries.

This is our mission: to work together to attract and retain businesses in San Francisco, so that we may have a vibrant economy, a growing tax base and prosperity for our community. The health of our business community and the quality of life for all our citizens are inextricably linked.

In order for San Francisco to continue to successfully compete in the global economy, I need non-profit partners like the SFCED. I thank you for your leadership and commitment to date and hope you will continue to be a part of SFCED’s efforts.

Sincerely,

A handwritten signature in dark ink, appearing to read "Gavin Newsom".

Gavin Newsom, Mayor
City and County of San Francisco

investors

AMB Property Corporation
R. Michael Alexander Consulting
Alexandria Real Estate Equities, Inc.
Alliance Residential Company
Anshen + Allen
AT&T California
Bank of America
Bode Gravel Company
Burr, Pilger & Mayer LLP
Catholic Healthcare West
Citibank, FSB
City National Bank
Commercial Partners
Cushman & Wakefield
Degenkolb Engineers

Del Monte Foods
Foley & Lardner, LLP
Gap Inc.
Gensler
Giants Enterprises
Hathaway Dinwiddie
Construction Company
Hellman & Friedman LLC
Huntsman Architectural
Group
Kaiser Permanente
Medical Center
KPMG LLP
The Lurie Company
MacKenzie Communications
Macy's West
The Mechanics Bank

Nibbi Brothers
Norcal Waste Systems, Inc.
Pacific Gas & Electric
Pacific Rim Partners, LLC
Pier 39
Presidio Bank
San Francisco Business Times
San Francisco Design Center/
Bay West
St. Mary's Medical Center
San Francisco State University
Saxon-Hamilton
Shorenstein Properties, LLC
The Swig Company
Swinerton Incorporated
Union Bank of California
United Airlines
Webcor Builders
Wells Fargo
Westfield Corporation, Inc.

advisory board 2007

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Westfield Corporation, Inc.

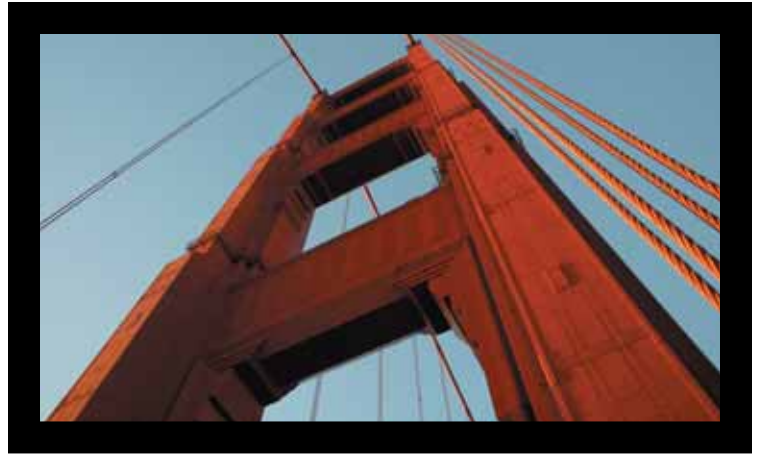
Don Fisher
Founder & Chairman Emeritus
Gap Inc.

Melinda Yee Franklin
Director, Government and
Public Affairs Western Region
United Airlines

Patrick Gallagher
President
Giants Enterprises

Nancy Geenen
Managing Partner
Foley & Lardner, LLP

The Bay Area's advantage as an innovation economy should continue to fuel job growth, with new sectors such as biotechnology and clean tech taking their places alongside existing high-tech industry. At the same time, international trade, specifically with the Pacific Rim, is experiencing strong growth. ”



San Francisco Chronicle

Tom Hart

Executive Vice President
Shorenstein Properties, L.L.C.

F. Warren Hellman

Chairman
Hellman & Friedman L.L.C.

Daniel Huntsman

President
Huntsman Architectural Group

Stan Kataoka

Manager, Economic Development
& Facilities Acquisition
Pacific Gas & Electric

Andie Katter

Co-Founder/
Executive Vice President
Commercial Partners

Jennifer Kurrie

Manager, Government Affairs
& Public Policy
Gap Inc.

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Norcal Waste Systems, Inc.

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Pier 39

Janis MacKenzie

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MacKenzie Communications

Gordon Marks

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Macy's West

Lou Miramontes

Managing Partner
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Bert Polacci

Executive Regional Director
Alliance Residential Company

Bill Poland

President & CEO
San Francisco Design Center/
Bay West

Chris Poland

Chair, President & CEO
Degenkolb Engineers

Steve Richardson

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Catholic Healthcare West

William Spain

Senior Vice President
Chief Corporate Affairs Officer
Del Monte Foods

Ken Steele

President & CEO
St. Mary's Medical Center

Roger Swanson

Chairman & CEO
Anshen + Allen

Eugene Valla

President
The Lurie Company

Daniel Winey

Vice President
Managing Principal
Gensler

James Woolwine

Chairman
Presidio Bank

major accomplishments 2006

With a staff of three full-time employees, the SFCED strives to deliver maximum value to investors and client companies through prudent allocation of time and resources.

The following are examples of our major accomplishments in 2006:

- Directly served more than 280 client companies with an interest in locating or expanding in San Francisco.
- Met with more than 150 commercial real estate professionals, investment advisors and other regional and state economic development entities to gain insight on opportunities and to encourage regional cooperation for business attraction.
- Identified several at-risk organizations, including an established company that was well on its way to relocating, along with 50 jobs. With help from the SFCED and the City, the company was able to move to a suitable location and remain in San Francisco.
- Convinced the Paris Region, one of Europe's major regional economic development agencies, to locate in San Francisco instead of New York, resulting in significant opportunities for local companies, particularly in the digital media and financial services sectors.
- One of the SFCED's first client companies, Sirna Therapeutics, was sold to Merck for more than \$1 billion. The SFCED worked closely with Sirna on the move of their headquarters to San Francisco from Boulder, Colorado in 2004—a move that initially created five new jobs, expanding to 150 in 2006. Merck plans to keep Sirna's headquarters in San Francisco.

No fewer than seven banks have started up—or are in the process of starting—in the Bay Area over the last

few years. Wealth management is one of the hottest areas in financial services, especially in the Bay Area, with its robust affluence demographics and wealth creation. ”

San Francisco Business Times





© National Park Service

- Assisted several of our investors with client introductions that may result in major assignments in Wuhan, China.
- Facilitated the first Digital Media Conference between private firms from the Paris Region, San Francisco, and San Francisco State University (SFSU). Ongoing results include business exchanges between companies, actual business transactions and development of a standard pilot program between SFSU, Paris Region colleges and universities, and Lucasfilm.
- Collaborated with the Chamber, SPUR, and the Mayor's Office of Economic and Workforce Development on the first economic development plan for the City in many years. This plan is closely aligned with the SFCED's conclusion, reached in 2004, that IT, Digital Media and Entertainment, Biotech, Clean Technology, Professional Services, and International Development represent primary areas of opportunity for the City's future.
- Outreach and liaison with Think London, London's economic development agency, to convince them to locate their second U.S. office in San Francisco. The selection of San Francisco was confirmed in January 2007, spurring additional opportunities between the Bay Area and UK companies.
- Collaborated with the Mayor's Office and the Chamber to assemble and present a compelling case for locating United Airlines' headquarters in San Francisco. Although UAL decided to remain in Chicago, it was a laudable example of the power of collaboration.
- Actively supported the efforts of Virgin America to gain Department of Transportation approval to locate their headquarters at SFO, along with 50 new jobs. (At publication, Virgin America's bid remains at the DOT, and the SFCED continues to support their efforts.)
- Represented San Francisco at industry symposia in targeted sectors to showcase the City's benefits, resulting in more than 60 qualified in-bound opportunities.
- Worked with SFO and the Mayor's Office of International Trade to encourage SFO as the location for new direct Asian and European flights.
- Grew the SFCED investor base.
- Published bimonthly newsletters on economic development issues and trends (www.sfcged.org/newsletter-archives).
- Upgraded the sfcged.org website, resulting in more than 1,000 unique visitors per month.
- Worked with the Mayor's Workforce Development Board to enhance the City's efforts in critical workforce development initiatives.
- To maximize reach and effectiveness, actively participated in the Bay Area Marketing Partnership; BayBio; CALED, a statewide economic development association; and TEAM California, a statewide marketing effort.

business strategy

TARGETED SECTORS: AN OVERVIEW

Information Technology

The San Francisco Bay Area is home to more than 4,100 IT firms that collectively employ more than 214,000 people. As such, IT is a key target sector for the SFCED's economic development efforts.

With almost 80 percent of households wired to the Internet, San Francisco rates among the world's top 10 cities for high-speed connections. The region also boasts the largest aggregation of research universities and federal research institutions in the nation. Bay Area colleges and universities produce more PhD. scientists and engineers than any other metropolitan area in the U.S.

The Institute for Next Generation Internet, founded at San Francisco State University in 2005, is testament to the huge IT research and development potential of the City. One of the Institute's major projects is the development of commercial applications for high-speed fiber networks, which can be 500 to 600 times faster than standard broadband. The Institute is using these high-speed networks to foster communication between San Francisco and international "sister cities" with the aim of promoting economic development. Mayor Newsom's goal of free, wireless Internet access for all residents furthers the City's position and reputation in IT leadership.

Digital Media and Entertainment

San Francisco's strong IT industry, talented workforce, and vibrant tradition in the creative arts position the City as a key location for digital media and entertainment. The opening of the Letterman Digital Arts Center in 2005, and SF State's proposed digital arts campus at Hunters Point, prime San Francisco for continued leadership in this exciting and growing sector.

In 2005, Mayor Newsom put the City's political muscle behind the industry by establishing the Digital Media Advisory Council. The 18-member council aims to attract new digital media businesses while continuing to support existing companies, expand workforce development and education in this sector, attract investment, and make San Francisco a global leader in digital media. Initial members of the Council include representatives from Dolby Laboratories, the Institute for Next Generation Internet, Lucasfilm, and Skywalker Sound.

We continue to work to promote San Francisco as a vibrant and hospitable location for the film, television and electronic gaming industries.

Biotechnology and Health Care Technologies

Biotechnology and health care technologies are two of the fastest growing sectors of the U.S. economy, and the Bay Area is widely considered the leader in biotech research and development. The Bay Area boasts more than 820 biotech companies employing some 250,000. San Francisco offers a compelling combination of venture capital, a highly-educated workforce, access to international transportation, and the confluence of three leading life sciences universities, making the City the nation's leading entrepreneurial environment for this flourishing industry. Mission Bay, with more than 300 acres entitled and dedicated to this industry, offers the University of California San Francisco (UCSF) and life sciences companies a location that can serve their needs today, and tomorrow.

San Francisco's win as the headquarters of the California Institute for Regenerative Medicine (CIRM) clearly positions the City at the helm of stem cell research, and is a magnet for emerging life sciences companies who can benefit from CIRM's \$3 billion in grants over 10 years.

UCSF is continuing to develop its 43-acre life sciences campus for teaching and research. UCSF's California Institute for Quantitative Biomedical Research (QB3) opened in 2005, setting the tone for Mission Bay's transformation into the nexus of the nation's bioscience and technology industry, while the Gladstone Institutes continue their leading, world-class research into virology, immunology and cardiac care and cures.



Environmental Technologies

Green is growing. In 2006, the clean technology industry in North America received \$2.9 billion in venture capital investments, a 78 percent increase over 2005. California received 37 percent of this investment, or \$1.067 billion, by far the largest share of any other state. PG&E, headquartered in San Francisco and an SFCED investor, is at the forefront of developing and promoting green technology as a means of sustaining economic growth while respecting the needs of the planet.

The San Francisco and Silicon Valley Area are leading the environmental technology revolution, and the City is capitalizing on the industry's potential by offering a Clean Technology Tax Exemption for businesses that engage in clean energy technology. To date, 15 clean technology companies have registered with the City for payroll tax exemptions, and more companies are expected to register soon. The SFCED is working in unison with the City, PG&E, and other energy companies to champion growth and innovation in this area.

In addition to private industry success in green technology, Bay Area universities continue to lead in clean tech research and development. UC Berkeley recently won an international contest to be the future site of the Energy Biosciences Institute, a 10-year, \$500 million initiative funded by BP. This enterprise solidifies the Bay Area's reputation as the leading location for clean technology companies and innovative technologies.

Professional Services

San Francisco boasts a vibrant professional services industry—the central nervous system supporting the Bay Area's booming IT, biotech, and clean tech industries. The professional services industry is comprised of financial, accounting, legal, consulting, architecture, engineering, technology support, and human resources. San Francisco has twice the national average of these high value-service companies, employing more than 200,000 professionals.

With benefits from a "critical mass" of financial institutions and capabilities, it is no surprise that financial services is one of San Francisco's leading professional services segments. As host to some of the country's largest commercial banks, a Federal Reserve Bank, and leading investment houses and venture capital firms, San Francisco is considered the financial center of the West Coast. The City is home to approximately 950 securities and investment firms, employing approximately 25,000 people.

The professional services sector supports and drives the success of all other Bay Area industries. For this reason it is paramount that the SFCED focus its efforts on attracting new, and retaining existing, professional firms.

International

San Francisco has always been an international City. With more than 15 Sister Cities, ranging from Osaka to Assisi, 75 Consulates, and 11 foreign trade and investment offices, the City's diversity of thought and culture is reflected in the 112 languages spoken here. More than 20 percent of San Francisco residents are bilingual.

Any region of the world is easily accessible from San Francisco International Airport (SFO), with traffic at SFO outpacing the national average and more air carriers serving SFO each year.

The vast potential of the Asian market is served by our close cultural ties and political relationships established decades ago. The importance of the EU market is evidenced by the arrival of trade and investment offices from Paris and London in 2006 and 2007, respectively, and the strong interest from German and Scandinavian companies in the emerging clean technology field.

business strategy

In 2007, the SFCED will continue to extend its activities by working collaboratively with the City and private industry to attract and retain target sectors to grow the number of new jobs in San Francisco.

The SFCED is proactively approaching companies from Biotech/Life Sciences, Digital Media and Entertainment, International Development, Environmental Technologies, Information Technology and Professional Services. Specific activities include:

Biotech/Life Sciences

- Expanding targeted outreach to attract qualified biotech research and medical device companies to San Francisco, specifically highlighting the Mission Bay life sciences cluster.
- Providing local, national and international media outlets with positive news stories about companies relocating to San Francisco.
- Representing San Francisco at conferences specifically targeted to biotech professionals, including BIO 2007 in Boston.

Digital Media and Entertainment

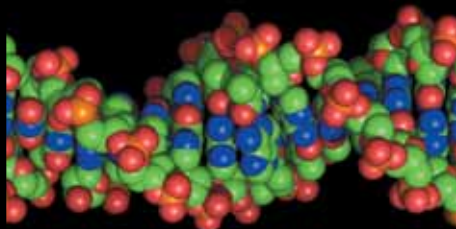
- Expanding focus in areas of digital arts and electronic gaming industries in collaboration with the Mayor's Office of Economic and Workforce Development and San Francisco State University.

International Development

- Proactively working with international trade and investment officers, SFO, consular corps, and Mayor's Office of International Trade to increase and strengthen interest in global businesses locating in San Francisco, and providing opportunities for San Francisco-based businesses.
- Creating targeted international reciprocal relationships.
- Participating in strategic international business forums and increasing interaction with foreign direct investment consultants.
- Co-sponsoring selected international development programs and conferences.

Environmental Technologies

- Strategically capitalizing on San Francisco's strengths in clean technology and source of venture capital to attract targeted companies to the City.
- Leverage new California Solar Initiative and San Francisco's Clean Tech Payroll Tax Exemption to attract new investment.



The SFCED will continue its focus on being the #1 source of information for site selectors and real estate brokers by:

- Ongoing, significant upgrades and content to the sfced.org website to be the centralized source for market intelligence.
- Representing San Francisco at conferences targeted to site selectors and brokers, including the CALED Annual Conference and CoreNet Global Conference.
- Presenting timely updates on commercial real estate trends and market analysis as an important economic indicator.
- Holding a real estate roundtable with Mayor Newsom for select members of the real estate community to discuss issues and trends.

The SFCED will broaden its outreach by providing topical and relevant information to target audiences through various events and publications, including:

- Hosting a joint Economic Forum, in collaboration with the Chamber, and the Mayor's Office of Economic and Workforce Development.
- Convening a Workforce Development Conference to foster collaboration between the City, area colleges and universities, the Chamber, and SFCED.
- Distributing bimonthly SFCED newsletters to targeted investors, media, and interested parties.
- Convening special meetings and forums in response to opportunities and challenges identified through outreach efforts.

The SFCED will collaborate with City officials and other like-minded groups to broaden its reach and influence by:

- Attending key events hosted by the Chamber, San Francisco Business Times, SPUR, Bay Area Council and other regional and statewide economic and business organizations.
- Partnering with the Chamber and SFWorks on educational programs and events throughout the year, highlighting economic and workforce development trends.
- Working with the City's Workforce Investment Board to strengthen programs and outreach.
- Continuing the SFCED's partnership with the Mayor's Office to present unified public-private community and business opportunities.
- Expanding relationships and collaboration with regional economic development agencies, including the Economic Development Alliance for Business (EDAB), Solano County Economic Development, the Bay Area Marketing Partnership, and the Bay Area Council.

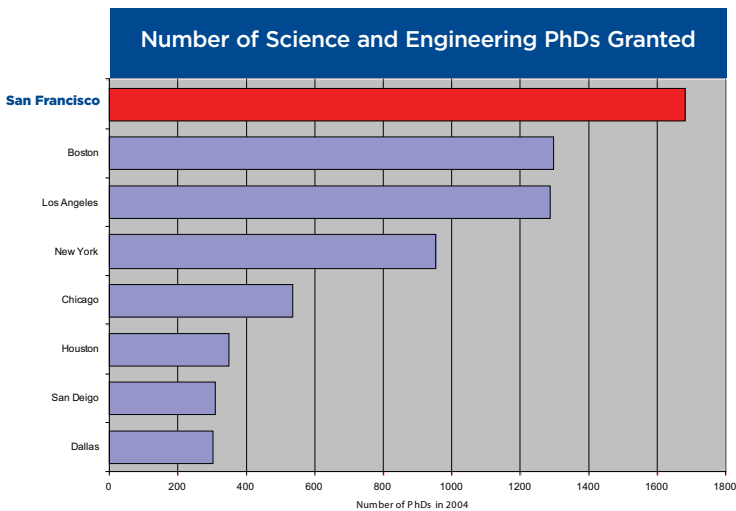


by the numbers

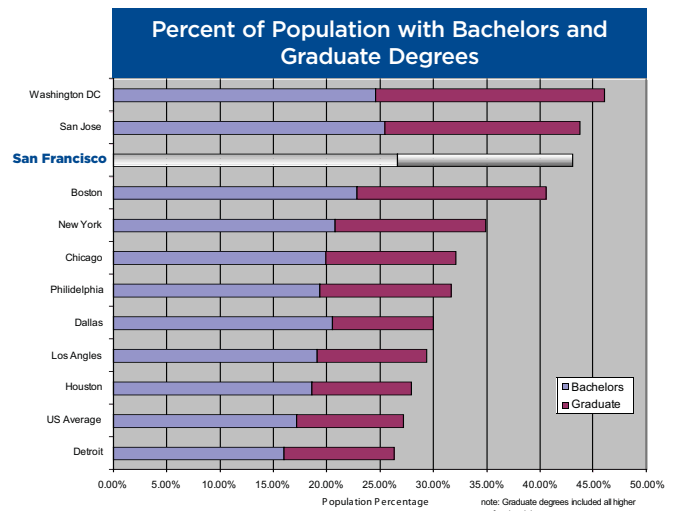


SAN FRANCISCO

- Land area:** 47 square miles
- Population:** 719,077
- Median age:** 39
- Total housing units:** 354,963
- Median household income:** \$57,496
- Number of colleges and universities:** 18
- Number of visitors annually:** 15.7 million (2006)
- Average hotel occupancy rate:** 76.4 percent (2006)
- Number of museums:** 18
- Number of public parks:** 200
- Average temperature:** 57°
- Total number of SFO airline passengers:** 33.75 million
- Number of square feet under construction:** 2.7 million sqft
- Number of proposed and planned projects:** 1.8 million sqft
- Number of new hotel rooms under construction/planned:** 2,200
- Average commercial rental rate:** \$34.20
(Class A, B and C buildings)
- Average commercial vacancy rate:** 12.3 percent



Source: ACS, 2005



Source: ACS, 2005

what others are saying

INFORMATION TECHNOLOGY For technology companies, San Francisco is—once again—the place to be. Proximity to top workers, competitive lease prices and an eclectic lifestyle has made the City’s downtown an irresistible draw for many Internet and software companies... In San Francisco, a quarter of all office space leased in 2006 went to technology companies, up from 14 percent in 2004. ””

San Francisco Chronicle

BIOTECHNOLOGY California remains the hot spot for biotechnology businesses... of the about \$5.9 billion in venture capital poured into the field, nearly half went to companies in California.

Venture capitalists are starting to stake claims in San Francisco’s Mission Bay, a sign that the City’s vision of an integrated biotechnology cluster is taking hold. ””

San Francisco Business Times

CLEAN TECH Many green technologies so far exist only in the lab. But investors are betting that green companies will one day make serious money. Venture capitalists pumped an estimated \$3 billion into the industry nationwide last year (2006). More than 20 percent of that cash went to the Bay Area, the No.1 destination. ””

San Francisco Chronicle