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Silicon Valley's 2025 Outlook: Challenges Persist Amidst AI-Driven Resurgence

Sean Randolph – January 6, 2025

As a new year begins let's revisit where the San Francisco/Silicon Valley Bay Area's economy stands in its long recovery from the pandemic. What we're seeing is consistent with patterns over 2023 and 2022: a mixed story of slow progress in addressing underlying structural challenges, combined with resurgent innovation at the research and business levels. Here are some high-level takeaways:

The Underlying Economy

The region's job recovery lags California and the nation, largely due to a pullback in tech employment.

Housing costs are rising, a sign of the region's continuing failure to produce enough housing but also of strong demand.

Commercial office vacancy is at a high of 37% but appears to be turning a corner.

Large commercial office buildings are selling for approximately half of what they were purchased for pre-pandemic and are being acquired by investors betting on recovery.

Companies are signing or renewing leases but with smaller footprints.

Return-to-work mandates by large companies such as Salesforce are starting to draw workers back to offices.

Venture-invested AI companies are committing to significant blocs of office space in San Francisco. AI leasing won't all fill the vacant space now but points to a major turnaround.

2025 will be another transition year, with a stronger recovery likely in 2026.

Homelessness is a concern but may also be turning a corner. A recent U.S. Supreme Court decision overturned a lower court ruling that prevented cities from closing street

encampments. Cities, with encouragement from the State of California, are moving more aggressively to clear the streets while offering supportive services.

Retail theft also remains a problem in some areas. In the November election fed-up California voters by a large margin approved stricter penalties.

Technology and Innovation

Regulation and housing costs have driven some companies and workers to leave. When companies leave their hiring in the Bay Area remains robust but tends to grow faster elsewhere. Still, while other tech regions have grown the Bay Area is by far the largest.

Texas is seeing net out-migration and falling property values as fewer migrants from California are arriving and some who left the Bay Area are returning – drawn by the wealth and density of the region's ecosystem.

California, anchored by Silicon Valley, leads the nation in company-funded semiconductor R&D, accounting for more than half of semiconductor R&D nationally.

Sunnyvale will soon become the headquarters of the National Semiconductor Technology Center (NSTC) and of the CHIPS for America Design and Collaboration Facility (DCF), one of three national semiconductor R&D facilities created under the 2021CHIPS Act.

The top five cities in the United States for patent generation are in Silicon Valley.

Of the top 4 U.S. universities graduating VC-backed startups two – Stanford and Berkeley – are in the Bay Area. Stanford ranks first overall and Berkeley first among public universities.

The Bay Area continues to dramatically outperform other US regions in its production of unicorns, pentacorns ($5B private companies), and decacorns ($10B private companies.)

The next transformative technology leap led by Silicon Valley is AI. Young, highly capitalized companies producing foundational models are being joined by large numbers of application-based startups. AI startups in the region are attracting one-fourth of global investment in the field. The density of AI jobs (talent) in the Bay Area is the highest in the United States.

The Bottom Line

Though slowly, and with variation between cities, metrics for the underlying economy are improving. 2025 will be another transition year. Meanwhile, the region's innovation economy, led by AI, is expanding and will continue to lead the nation and the world.

Sean Randolph is Senior Director of the Bay Area Council Economic Institute (https://www.bayareaeconomy.org)