August 20, 2011

In Silicon Valley, the Night Is Still Young

By CLAIRE CAIN MILLER

MENLO PARK, Calif.

LET the rest of the country worry about a double-dip recession. Tech land, stretching from San Jose to San Francisco, is in a time warp, and times here are still flush.

Even now, technology types in their 20s and 30s are dropping a million-plus each on modest ranch houses in Palo Alto in Silicon Valley and Victorian duplexes in San Francisco, and home prices in some parts have jumped nearly 50 percent in the last six months.

Jobs — good, six-figure jobs, with perks like free haircuts and lessons on how to create the next start-up company — are here for the taking, at least for software engineers.

And for anyone with a decent idea and the drive to start a company, $100,000 to get it off the ground is easy to come by.

Yet, for all the outward optimism, even before the recent gyrations on Wall Street, old fears have been creeping in, nagging memories of the dot-com bust. You can sense it at cocktail parties in Menlo Park, at business conferences in Redwood City, inside the hipper-than-thou offices of young Web companies in San Francisco. Maybe, just maybe, these good times won't last, and it will all come crashing down again.

"There's this '90s hangover people still have," says Peter Thiel, a PayPal co-founder and tech investor.

Now the worry is that all the turmoil on Wall Street will spread West. Can Silicon Valley really prosper if the general economy tips back into a recession? Can you make a fortune on your I.P.O. if the market is falling? Probably not. But then, no one should work here unless she is prepared to be lucky. Even in worrisome moments, like now, the essential optimism of this place endures.

“There’s a ‘greater-fool theory,’ ” says Lise Buyer, who was a tech stock analyst during the dot-com bubble and is back with a consulting firm, the Class V Group, that advises on initial public offerings. “In Silicon Valley, we are as a species wildly optimistic. But if we weren’t, we wouldn’t have so many entrepreneurs because no one who’s being rational would ever found a company.”

And so start-ups are multiplying. Engineers are deciding that this is the right time to create would-be Groupons or Facebooks — “me-too companies,” valley speak for start-ups that are basically copycats of a winning formula — or yet another local, social mobile app.

Even more than buying a new Prius or jetting off to Cabo for the weekend, the new money set here wants to keep investing — and believing. Backing another start-up is a status symbol, the No. 1 splurge, and it captures both the tech industry’s belief in the future and its fear of missing the next big thing.

“These are nouveau tech millionaires,” says Adeo Ressi, a coach for entrepreneurs. “It’s not that they don’t see the warning signs. It’s like roulette.”

Even before the fragility of the stock market became apparent, people here had been asking this question: Are we in a new tech bubble?

The optimists — or, some would say, the self-interested who stand to profit from the hype — note that the amounts being invested are nowhere near what they were in 2000, and that the companies this time are generally profitable and mature. The pessimists say yes, a bubble has been inflating, yet even they aren’t fleeing. They just hope to be the smart ones who get lucky and get out before it pops.

A bubble looks just like a boom, says Marc Andreessen, who touched off the first boom when his company, Netscape, went public in 1995. Frank Quattrone, the investment banker who took Netscape and dozens more companies public back then, says that today feels less like the height of the bubble and more like 1995, when tech companies were starting to go public but investors weren’t yet speculative.

Just four short years ago, social media and the iPhone were the hot new things, and money was sloshing around. But when the recession hit in 2008, Silicon Valley froze. Of course, that didn’t last long: by 2010, start-up investing was booming again with money from angel investors playing with their own cash, and this year the I.P.O. markets opened wide to tech companies for the first time since 2007.

Twenty-two tech companies went public in the second quarter alone this year worth $5.5 billion, the highest dollar amount since 2000, according to the National Venture Capital Association. Only six went public in all of 2008.

The valuations of young start-ups, meanwhile, have been defying gravity. Almost 1,000 raised $7.5 billion from venture capitalists in the second quarter, up 19 percent from the first quarter and 61 percent from the same period in 2009.

At first the bubble debate fixated on LinkedIn, which went public in May. Its stock price spiked on the first day of trading, reminding people of the bubble days — but then again, LinkedIn is a 10-year-old, profitable company. (Its shares have since fallen 16 percent.) Then more companies joined the I.P.O. rush, like the money-losing Groupon, just two years old. By promoting a gauge it called "acsoi" (for adjusted consolidated segment operating income) to measure its business performance, it called to mind the initial Internet wave, which offered interesting metrics like "eyeballs" and "mindshare."

Now, amid the stock market's overall upheaval, people are wondering whether highflying Web companies can still make it on Wall Street.

"Investors don't want stocks with valuations that rival the national debt," said Scott Sweet, senior managing partner of I.P.O. Boutique, an advisory firm. "They're going to have to be pristine, not only on revenue growth but also showing decreasing losses or increasing profits."

No matter what you call it — a bubble, a boom or business as usual in a land of optimism — something has been in the air. It may be harebrained or hopelessly out of touch, but if you don't have a rosy outlook, you don't belong here.

ON a rare sunny June day in southern San Francisco, hundreds of entrepreneurs and would-be entrepreneurs flocked to the Founder Showcase, a kind of "American Idol" for start-ups that is held every three months and run by Mr. Ressi. Ten lucky founders, chosen in advance, pitched their companies to a panel of five venture capitalist judges, while the rest watched and voted for their favorites on their cellphones.

The audience members were hoping for money — or even just a business card or some advice on pitching their own companies — from the investors among them. The investors were easy to spot: they were the older ones with button-down shirts and slacks.

It was the seventh Founder Showcase. But signaling the appetite for money-making ideas, it had sold 600 tickets, double the number of the previous event.

First to make a presentation was Bundled, a service for merchants that sell coupons on daily deal sites, just one of many start-ups chasing Groupon. But Dave Parker, Bundled's founder, said it was different — "the post-daily-deal company for businesses."

Not different enough, apparently, for some people. "I've probably seen four of these in the last two weeks," said Rebecca Lynn, a judge from Morgenthaler Ventures. The judges held up their scorecards. The average score was 3 out of 5.

Soon came VidCaster, a service for Web sites to add video; it was started by Kieran Farr, a taxi driver turned chief executive. He said his service had absolute stickiness — meaning that it lures Internet users to stick around for a long time.

"What's the gross margin of the business look like?" asked George Zachary of Charles River Ventures.

"What does that mean?" Mr. Farr said.

"That's a problem."

Average score: 2.8.

Downstairs, free wine and tables of salami and crudités beckoned, but many people lingered to swarm the V.C.'s with their own ideas.

Rory O'Driscoll, a venture capitalist, complained that all the new deals were incredibly overpriced, but he still dismissed bubble talk. "It's a little bit party-poopy," he said, "to go from the world is ending because no one is investing to the world is ending because everything is so overpriced, without going through the middle part where we all make money."

HANGING out near University Avenue in Palo Alto or in the SoMa district of San Francisco, you might wonder where all the wealth is. You can't spot many designer suits, diamond tennis bracelets or mansions with columns. Instead, waiting in line at the Off the Grid food trucks in SoMa or at Fraiche frozen yogurt in Palo Alto, you see people in fleeces emblazoned with the names of their start-ups and hear them chatting about their new app or what to do with $30 million.

"You never change the way you dress," says an executive at one hot start-up who made a small fortune at a previous one. He wore an orange T-shirt. "You don't want to flaunt it," he adds, "especially in front of your employees."

So you might buy a car that's nice but not too fancy — maybe a Prius or a BMW, but definitely not a Bentley — and take up a hobby like kite surfing. You occasionally charter a plane to fly privately, especially if it gives you more time to work on your start-up. Efficiency makes sense to engineers; splurging for splurging's sake does not.

At open houses, engineers in their 20s and 30s have offered cash to pay for $1.5 million homes, and are even bidding up the prices of $3,500-a-month rental apartments by a few hundred dollars. In Palo Alto, according to the real estate Web site Trulia, the median home sale price has risen 49 percent in six months, to about $1.2 million.

"You're seeing the new tech money and also the anticipation of new tech money," says Alex Lehr of Lehr Real Estate in San Carlos, Calif., as builders buy land and fixer-uppers in preparation for Facebook to go public.

Still, the young tech millionaires are not buying all they can afford. They avoid towns like Atherton and Woodside, where senior executives and rich venture capitalists live, because they don't want to seem showy.

For some, it's a different story. Yuri Milner, the Russian investor who stormed the valley with hundreds of millions of dollars, which he plowed into Facebook, Zynga and Twitter, recently spent $100 million on a French-style chateau with a ballroom, home theater and indoor and outdoor pools.

But it hasn't sat well with some people here.

"Being that ostentatious is O.K. in Russia, but not here," says an executive who attended a party at Mr. Milner's house but didn't want to be named, wishing to preserve business relationships.

The new home of Mark Zuckerberg, the Facebook founder, is more typical. Mr. Zuckerberg, who Forbes says is worth $13.5 billion, finally stopped renting and splurged on a house. He spent $7 million to buy one that is a century old — with just one pool (though it is saltwater).

Instead, the biggest splurge for the valley's nouveau riche is angel investing, putting $25,000 or $100,000 into a friend's start-up to keep the cycle going.

"That's where all the money goes," says Alex Rampell, a co-founder of TrialPay, an online advertising start-up in Mountain View. "It's not about making it back. It's about feeling good — and doing what's accepted."

At a rooftop party in the hills south of downtown San Francisco, M. C. Hammer was shouting into the microphone as attendees raised their cellphones high to take his picture. “Today and yesterday — different tempos, different styles,” he intoned.

The scene was an office-warming party for Airbnb, a service for people who want to rent rooms in their homes. It had just joined the club of start-ups, including Spotify, Square and Gilt, that were valued at $1 billion or more by their investors; its new office was befitting of a company with $112 million in fresh capital.

The conference rooms had been lavishly transformed into models of some of Airbnb’s most enviable properties, like an art-filled apartment in SoHo in Manhattan and a mushroom dome cabin near Santa Cruz. The women’s restrooms were painted hot pink and stocked with dry shampoo, Chloé perfume and affirmational notes — like “life is lovely” — scrawled on the wall. The shelves held multiple copies of books like “Secrets of the Millionaire Mind” by T. Harv Eker.

The guests, sipping cocktails and playing Skee-Ball, looked out of place in tech land. They were dressed in short black cocktail dresses and slacks. But once they put on the gray hoodies — bearing Airbnb’s logo — that were distributed at the event, they were a casting director’s dream.

A private security guard and a fire marshal watched with amusement from the sidelines. Many tech companies had been hiring them for parties, they said. The fire marshal said he had worked at one at AT&T Park, the baseball stadium that Genentech had rented out for a concert with “the guy from ‘American Idol’ who didn’t win but has a rock band now.”

Another night, another office-warming party in San Francisco — this time for Foursquare, the Web service that alerts your friends to your location. The event was in an airy loft around the corner from the offices of hot start-ups like Twitter.

“Hiring is the main reason for the party, to make some noise that we have space in San Francisco,” said Dennis Crowley, a Foursquare co-founder who had flown in from New York, where the company is based, on Virgin America, the pink-lit, WiFi-equipped airline that serves as a commuter train for tech types shuttling between the two cities.

A disco ball started flashing, and someone brought Mr. Crowley a gold paper crown. Engineers and venture capitalists cozied up to the bar to order “the Start-Up” (gin, tonic and blackberry soda) and “the Frat House” (rum and Mountain Dew Throwback). But the guests seemed mostly concerned with checking in to the party on Foursquare and posting about it on Twitter; their messages were broadcast on a giant screen.

Mr. Crowley may have a haircut like Justin Bieber's former shaggy look, but at 35 is old by Silicon Valley standards. During the first boom, he was a tech analyst at JupiterResearch. In 2004, he started Dodgeball, another check-in service, which Google bought for a few million dollars and later shut down.

He scoffed at comparisons to 1999. Today, he said, "companies get a lot more done with a lot less capital."

"There are so many more people on the Internet," he added. "My grandmother knows how to shop on Amazon."

"There is real money to be made."

THE Twitter message flickered on the screen of Aye Moah's iPhone, just as she was waking up in a Silicon Valley motel. She turned to her boyfriend and business partner, Alexander Moore, and said, "Get in the car and go."

The investor Dave McClure had just posted that he needed a ride because his car was in the shop. The payment: he would listen to a start-up pitch from his driver.

Ms. Moah and Mr. Moore had come to the valley to raise money for their e-mail start-up, Baydin, but their meetings hadn't gone well. So they leapt at Mr. McClure's offer.

Mr. Moore jumped into his Chevy Cobalt and picked up Mr. McClure. And by the time they reached his destination 20 minutes later, Mr. McClure had agreed to give Baydin $100,000.

Mr. Moore and Ms. Moah have since moved into an office with cement floors and sweeping views. Almost nightly, they attend networking events with other engineers, or parties like one in San Francisco featuring belly dancers playing with fire. The couple dream of turning their start-up into a big company.

But if the dream is contagious, so is the fear.

The other day, Mr. Moore went to a start-up event to learn about "quick exits" — valley talk for cashing out of your company while you still can — where executives from large tech companies coached young entrepreneurs on how to sell their nascent start-ups.

Just in case.

Miguel Helft contributed reporting.