

Dot-Com Bubble

The first decade of the 2000s started off with a bang, or “BURST” that is. After Netscape launched the first successful Internet browser in the early 90s, the Internet industry exploded and a period began that is now known as the “Dot-Com” bubble. Hundreds of start-up internet companies or “dot-coms” popped up and thousands of jobs were formed. Venture capital flowed into the new companies and investors bought up stocks in companies that were highly over-valued, and a number of dot-com millionaires were born.

Many of these companies engaged in unusual business practices with the hopes of dominating the market. The mantra was growth over profit, assuming that if they built up their customer base, their profits would rise as well. At the height of the boom, it was possible for a promising dot-com to make an initial public offering (IPO) of its stock and raise a substantial amount of money, even though it had never made a profit.

Investors responded to daring business practices with money; lots of it. The US stock market rose dramatically during the this period, with hundreds of companies being founded weekly, especially in tech hot spots like the Silicon Valley near San Francisco. Some companies engaged in lavish internal spending, such as elaborate business facilities and luxury vacations for employees.

Then the bubble burst in March of 2000. Investors began selling off stock in large quantities, putting the market into a precipitous fall for the next two years until it finally bottomed out. Billions of dollars vanished and thousands lost their jobs. ² [Follow the complete timeline](#)

Commercial Real Estate Effect

Cities all over the US sought to become the “next” Silicon Valley by building network-enabled office space to attract Internet entrepreneurs. There was false demand for commercial real estate that was fueled by the dot-com companies and their insatiable appetite for growth. Many professionals achieved great success quickly moving tenants into 100,000 SF facilities — much of which was unneeded space.

In the beginning of the bubble, Data Centers — facilities housing computers, servers, telecommunications and storage equipment, and systems to backup and protect data, power and cooling systems — were the popular purchase. When the bubble burst, much of these Data Centers and office space were left vacant. The cost of transferring Data Centers back to usable office space was very expensive. Over-committed tenants quickly dumped their unneeded space, quadrupling the available sublease inventory in the span of six quarters to 146 million SF³. The flood of sublease space was concentrated in technology hubs such as San Francisco, San Jose, Seattle, Austin and Boston.

Silicon Valley and San Francisco were hit the hardest. Rents plummeted in both areas. San Francisco's office demand in the 91-block former industrial area known as South of Market, had 49% vacancy after the burst. The citywide office vacancy rate climbed to 23% in the fourth quarter of 2001 from 1.8% in the third quarter of 2000. Office space from failed companies such as Pets.com were turned into Apartments. Employment in Silicon Valley high-tech industries declined by about 17% and rent fell 30%.⁴



Future Effect

Recent research suggests, however, that as many as 50% of the dot-coms survived through 2004, reflecting two facts: the destruction of public market wealth did not necessarily correspond to firm closings, and second, that many of the dot-coms were small players who were able to weather the financial markets storm. Also, much of the sublease inventory opened the doors for tenants to enjoy Class A space at reduced rates.

Web 2.0 Bubble?

In 2007, new Internet technologies prompted another rush of start-ups to tap the energy associated with Web 2.0 - wikis, blogs, podcasts, widgets and social media — to quickly extend their Internet real estate.

But while the Web 2.0 phenomenon may have some things in common with the Dot-Com bubble, experts note that there are also differences, including the low cost of entry for companies launching blog, wiki or social networking businesses. The main difference, however, is that this time around, consumers are driving the adoption of the technologies rather than companies trying to force their Internet sites onto users.⁵

Opportunities Today

The business need for Internet speed is rising exponentially in the digital era of Google, Yahoo, Netflix, YouTube, Facebook, Twitter, online gaming and smart phones. Such “cloud” data must be stored offsite at colossal data centers. Data center property niche has been one of the few commercial real estate sectors to generate sizzle through the recession.

Granted, data center sales, leasing and development transactions slowed considerably in 2008 and 2009 as construction and acquisition financing dried up. However, pent-up demand since 2005 has sparked a new flurry of construction, acquisitions and equity raising activity by data center builders and investors, with hundreds of thousands of square feet of new data center facilities were announced in 2009-2010.⁶