

Big Apple grows as a base for tech companies

January 12 2011, By Nathaniel Popper

Alexis Ohanian's company, Reddit, was based in New York four years ago when it decided to follow the yellow chip road to Northern California.

"New York didn't feel like a place where things were happening," Ohanian said. "There weren't a lot of people having conversations about start-ups, frankly."

But last year, Ohanian headed back east.

New York now has a hot [Internet](#) scene. There are marquee start-ups, such as [social networking service](#) FourSquare and fashion website Gilt.com, and heavyweights such as [Google](#) Inc. have increased their presence.

Ohanian returned as the first New York-based employee of Y Combinator, a Silicon Valley investment firm that seeks out promising start-ups.

He's glad he made the move, even though he's working harder.

"In San Francisco people are focusing on enjoying their life and eating well and living well," said Ohanian, who has rumpled hair and favors T-shirts. "When I am living in New York, I am probably cutting my life span a bit. But I am getting so much more done that it is worth it.

"It is the place to be if you are trying to do big things."

Ron Conway, a storied Silicon Valley investor, said New York has left behind its reputation as an also-ran tech hub.

"We no longer object when a company says, 'I'm going to move from Silicon Valley to New York,' " Conway said. "We say, 'Hey, that's probably a good idea for you.' It's not like in the past."

A series of subtle shifts have enabled twentysomethings working out of their studio apartments in Brooklyn and Manhattan to give Northern California techies a run for their money.

New York used to have a reputation as a stodgy, suit-and-tie kind of place that frowned on the casual creativity of Silicon Valley and the San Francisco Bay Area. During the tech boom in the late-1990s, New York may have won the sobriquet Silicon Alley because of numerous tech start-ups, but there were few big success stories, and little infrastructure had been developed.

New York's expensive real estate served as a deterrent to many innovators who needed space for their servers and laboratories.

But now the growth fields are in applications and software that capitalize on existing hardware. Someone looking to build the next social networking site now needs only a laptop and a sublet, thanks to the migration of servers and hard drives onto the Internet cloud.

"It's not like we have to make new gadgets - we have to make new ways for culture to flow on those gadgets," said Dan O'Sullivan, a professor who leads New York University's Interactive Telecommunications Program.

"In that realm, you are likely to get better minds in New York," he said, pointing to New York's traditional dominance in publishing and

advertising.

New York's mayor, Michael R. Bloomberg, got in on the action when he told the audience at a tech conference this summer that they should all move east.

"There's nothing wrong with Silicon Valley. It's a great place," he said at a conference held by the Web publication TechCrunch. "There's great weather and things to do. But it doesn't have what New York has."

Bloomberg and other boosters point to New York's booming online sectors in fashion, advertising and media. Gilt Groupe Inc., which runs the discount fashion site, and Etsy, an online boutique crafts seller, have capitalized on New York's expertise in fashion and retail. And New York's media minds have been tapped for the creation of Huffington Post and the online men's publication Thrillist.

Gary Chou, who moved from San Francisco to Brooklyn this summer and now works for Union Square Ventures, said some tech endeavors grew out of a New York state of mind.

"You had these start-ups emerging from New York - start-ups that wouldn't have come from anywhere else," he said, pointing to companies such as Foursquare and Tumblr Inc., a popular blogging platform.

Chou said that Tumblr reflects the city's artistic and design sensibilities, which contrast with Silicon Valley's more utilitarian aesthetics. Foursquare, with its geographic location updates, is particularly useful in a dense city such as New York, where friends are often just a few blocks away.

Silicon Valley doesn't have to worry about giving up its crown yet. It still attracted more than four times as much venture capital as New York in

the first three quarters of 2010, according to a report prepared by PricewaterhouseCoopers and the National Venture Capital Association.

But in those three quarters compared with 2009, the number of venture capital deals grew more than three times faster in New York than it did in the valley.

In the Internet sector, New York is attracting almost half as much venture capital as Silicon Valley, and twice the amount of the next biggest locales, Boston and Los Angeles.

Google's second-largest office is now in New York, and in December it signed the biggest real estate deal of the year in that city to buy the building where it had rented, giving it plenty of room to grow.

Apple Inc. also has been increasing its presence in New York, and Facebook Inc. is rumored to be looking at a new space for its operations in the city.

One factor that might have played a role in New York's tech growth is intangible - ego. Just a few years ago, programmers who might have been rock stars in Silicon Valley would have been overshadowed in New York by millionaire bankers. But the financial crisis has tweaked that balance.

"When I first started teaching in 2007, everyone wanted to go into investment banking," said Larry Lenihan, a venture capitalist and a professor at New York University. "Now, it's not as sexy and exciting explaining to someone at a party that you work at Goldman Sachs."

The financial crisis also pushed the city's government to cultivate more than just its old-line industries. In the past two years, Bloomberg's administration has run a competition for programmers, set up one of the

first city-funded venture funds in the country and helped establish several incubators that provide cheap rent and mentoring to entrepreneurs.

The Varick Street incubator that provides services to start-ups is in the top floor of an old industrial building not far from Google's local headquarters. The enormous light-flooded floor has clean white walls, exposed ventilation pipes and neon-colored furniture that can be pulled together for impromptu brainstorming sessions.

John Humphrey, who secured a spot in the incubator after moving from Palo Alto, Calif., in late 2009, is working on a new device for installing solar panels. He and his partner started their company, Sollega, in California. But thanks to the perks and guidance he has received since coming to New York, the operations here are growing much faster.

"You'd think with all these start-ups in San Francisco, there'd be this support network. We never found anything. We were a small fish in a big pond," said Humphrey, 37, while sitting at his desk that looks out at the Empire State Building.

"Yeah, it's expensive to live here," he added, "but God, if I have a question about anything, I have these free resources to help. I mean, it's amazing."

Some of those who made the move East say that New York now has the plucky, intrepid spirit that [Silicon Valley](#) was once famous for.

"The Bay Area is known for being a lot more competitive," Chou said. "These days, there is a broader sense of community here in New York."

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