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## Technology Bubble Bursts Twice for a City That Pins Its Hopes on the New Economy

By JAYSON BLAIR

**KINGSTON, N.Y.**— The weed-strewn parking lots and abandoned houses became a common sight here soon after I.B.M. left, turning this Hudson River city into just another example of the trail of upheaval left by corporate downsizing in the early 1990's.

Over decades, I.B.M. had practically turned this part of eastern Ulster County into a company town. So when it closed the offices and factories here that made mainframe computers, the Kingston region lost nearly 8,000 jobs, sinking into economic anguish that wrought increases in drug abuse, homelessness and crime.

Thus it was a triumph for Kingston when, during the Internet boom, local leaders came up with what they thought would be a silver bullet for the area's problems: they agreed to give millions of dollars, including hefty tax breaks, to two developers who wanted to transform two old I.B.M. campuses into high-tech centers for the new economy.

But the optimism was short-lived. By spring 2000, before the two technology centers could fill even half their space with tenants, the Internet bubble had burst, and this city of 23,500 people was left feeling betrayed yet again by a technology boom that had made others rich.

More than that, Kingston, about 100 miles north of Manhattan, has become a telling example of the dreams and disappointments of the Internet boom and bust, which are generally associated with 22-year-old programming whizzes and dot-com paper millionaires in places like San Francisco and New York City. The city's plight shows how the new economy's rise and fall reached far into the lives of people in small-town America.

"There were a number of small cities and towns across the country that were inspired by the technology boom that we had from 1996 through 1999," said Ross C. DeVol, director of regional and demographic studies at the Milken Institute, an economic research group in Santa Monica, Calif., which studied Kingston for a report on emerging high-tech centers. "But, as it turns out, a lot of those places focused too much of their technology-based economic development strategies on dot-coms."

In many respects, Kingston's economy had a slow recovery after I.B.M. left in 1993. Although the number of jobs had slowly started to go back up by the late 1990's, many of the new positions involved less skill and lower pay than the jobs I.B.M. had provided; the company's workers had pumped an estimated \$2.5 billion a year into the local economy.

In the middle of 1997, when many thought the Internet boom would go on forever, local economic development officials, with help from the state, put together a plan to turn this rural region into a technology corridor. The hope was to draw dot-coms to the cheap office space that I.B.M. left behind when it pulled out.

The state expanded the Empire Zone in Kingston and Ulster, a nearby town, giving new companies that brought jobs to the area a reprieve from sales taxes, a tax exemption on the purchase of certain services or property and other tax breaks. Gov. George E. Pataki gave Kingston \$250,000 to refurbish its ornate but deteriorating City Hall, and \$2.7 million to redo a traffic circle in the historic district.

Economic development officials raised more than \$400,000 from local nonprofit organizations, businesses and government agencies to promote the old I.B.M. complexes to companies outside the area. State and local officials pitched in nearly \$1 million for the effort.

The chairman of the Ulster County Legislature, Ward Todd, began personally recruiting technology companies and developers. As added enticements, Kingston offered Internet companies a work force cheaper than New York City's and a way of life that included beautiful yet inexpensive four-bedroom Victorian homes near the Catskills and the Hudson River.

By 1998, the I.B.M. complexes in Kingston had been sold to two Manhattan developers: Alan Ginsberg, the president of the Ginsberg Organization, a commercial real estate firm, and Savanna Partners, a real estate group that had successfully marketed technology centers like Dumbo, a neighborhood in Brooklyn, and Silicon Alley in Manhattan.

Savanna Partners spent \$4.5 million to buy the smaller site, a 600,000-square-foot, two-building complex that was renamed the Ulster County Technology Center.

The 12-acre site, once the home to nearly 1,000 I.B.M. workers who tested software and computers, was able to offer an average rent of \$9.50 per square foot a year, compared with rates of about \$63 per square foot in Manhattan, according to research from Newmark & Company Real Estate, a Manhattan broker.

Savanna, which teamed up with Newmark, was given a generous property tax break, paying the full rate only on space that had been occupied by tenants.

Nearby, Mr. Ginsberg's site, called Tech City, sits on a 256-acre former I.B.M. campus that includes more than 20 buildings and offers tenants more than 2.5 million square feet of large spaces -- many more than 10,000 square feet each -- for \$10 to \$13 per square foot. He bought it for about

\$14.5 million and said he had made millions of dollars in improvements.

The complex once housed more than 7,000 I.B.M. employees. Over the years, it was used for operations like testing mainframes and manufacturing typewriters.

At first, local leaders were euphoric about both developers. But the enthusiasm did not last. Mr. Ginsberg, who sold leases on his own, wrestled with local officials over how the area should be marketed, and ultimately did not receive the same type of local property tax break given to Savanna Partners.

He lost a court battle with local officials over his desire to reduce the \$3 million tax bill, a ruling he is appealing.

In court papers for the case, which both sides agree has permanently strained their relations, Mr. Ginsberg said he was losing millions of dollars a year on the property.

Today, 1.7 million square feet of Tech City is still available. Empty hallways and offices with raised ceilings only add to the feeling of desolation.

But local officials do not sound sympathetic. "I think Mr. Ginsberg, if he marketed the site properly, would have at least by now had people lining up to sign up for the building," said James Maloney, the local tax assessor.

Across Route 9W at the Ulster County Technology Center, things are financially a bit better, even though only 65,000 out of 600,000 square feet has been rented. The only reason the technology center is breaking even is that special tax breaks were given by the local officials. Savanna officials grumble that Newmark has been unable to attract the type of tenants they want.

Mr. Ginsberg, who has begun marketing his site as back office space for large companies, said that he was still committed to Tech City, but that he was having a hard time attracting tenants. "I came here with the hope and desire to make this successful," he said. "But it has been much harder than I expected."

Local officials, who are unsure how much money was spent trying to recast Kingston, now say that they are going to lie low and evaluate the economic situation before making a move on any other industries.

"It's depressing," said Eugene R. Gruner, a real estate broker whose family roots in Kingston run back to the 1840's. He said he had little hope for either of the two properties. "For local people, this is not an optimistic place to live right now. Our money could have been better spent."

Photos: Top, Alan Ginsberg, the developer of Tech City in Kingston, N.Y. Above, Tom Collins, a broker at the Ulster County Technology Center. (Photographs by Chris Ramirez for The New York Times)

