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## 'Second-tier' status hinders quest for foreign investment

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Attempts to attract Russian billionaires, China's new investor class and oil-rich Arabs could be hampered by Phoenix's lack of international flights and its traditional status as a second-tier U.S. market -- not in the same league as Los Angeles, New York or San Francisco.

Growth and wealth creation in newer economies such as Russia, China, Dubai and Saudi Arabia, the sagging U.S. real estate market and the resulting weak dollar make the U.S. ripe for foreign direct investment.

That has Phoenix businesses, real estate owners and economic developers hoping to attract money from cash-flush foreign investors.

Economic developers and businesses see foreign investment as a way to navigate through the rocky economy and housing market.

The problem is getting those high rollers and foreign private equity funds into the Valley and shaking its reputation as a second-tier U.S. market.

"Foreign investors, particularly from China, Canada, Japan and other parts of Asia, are looking at the Phoenix real estate market as a real buying opportunity," said Leonardo Loo, an attorney specializing in international business at the Phoenix law office of **Fennemore Craig PC**.

"The combination of the weak dollar and depressed prices presents really attractive opportunities for foreign investors," he said.

Loo said he is seeing wealthy foreigners buying vacation homes in the Valley, as well as foreign businesses looking at acquisition and investment opportunities in the state.

Greater Phoenix Economic Council CEO Barry Broome said international entities are accounting for an increasing number of the business and investment prospects looking at the Valley.

"We're seeing foreign direct investment as probably our best possible pipeline," Broome said.

Phoenix Sky Harbor International Airport has only one direct flight to Europe (a British Airways flight to London) and no direct service to Asia, demonstrating the New England colloquialism "You can't get there from here."

There are direct flights from Phoenix to Mexico, Canada and Costa Rica.

"Four international destinations are inadequate if Phoenix is to compete with other U.S. cities," said Lisa Von Bargen, CEO of Beyond Implementation Inc., a Phoenix-based business consulting firm.

Von Bargen said Atlanta (which has substantial international service) has been able to attract German companies and investors since establishing air service to Frankfurt in the 1970s.

Miami has a larger number of flights to Latin America and, as a result, has attracted plenty of South American businesses and real estate investments.

The city of Phoenix (which runs Sky Harbor) and business leaders are trying to recruit more direct international flights.

Phoenix Mayor Phil Gordon wants at least to draw German airline **Lufthansa** AG back to the Valley. Lufthansa terminated a Phoenix-Frankfurt flight in 2004, saying it was not profitable enough.

Gordon and airport officials hope Lufthansa will bring a flight back to Sky Harbor over the next 12 months.

They also are lobbying the Dubai-based Emirates airline to bring direct service to Phoenix. The Middle Eastern carrier already flies to New York and Houston and is launching service to San Francisco and Los Angeles later this year.

David Dewar, principal of Trillium Residential LLC and a backer of Phoenix's effort to attract investments and trade from the wealthy Persian Gulf city-state of Dubai, said more international flights are needed to bring investors and equity fund managers to Phoenix to see market opportunities.

Dewar and **Arizona State University** President Michael Crow also want to cast the region more as an international business center, and less as a regional U.S. market driven by tourism and housing.

"We've got to change our mind-set. We are very provincial," Dewar said.

Part of that second-tier status stems from the Valley having less international air service and fewer corporate headquarters than major coastal cities. The lingering image many people have of Arizona is cowboys, tumbleweeds, retirees and golf.

Crow wants the region to aim higher with its economic aspirations and look at competing on the global stage.

Glenn Williamson, managing director of investment banking at **Exeter Financial**, said growing economies such as Singapore, Dubai, Russia and China are flush with cash, but do not have their own domestic investment outlets, so they are looking at developed markets such as the U.S.

Arizona needs to follow the money and put itself into position to attract that cash, he said.

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