

# Tucson Citizen

## Entrepreneurs see opportunities in housing downturn

by Andrew Johnson on Dec 12, 2006, under Local

For years, entrepreneurs have bemoaned the real estate market's tight grip over Arizona investors.

Business owners, especially those in the state's emerging technology and biosciences sectors, watched as financiers looked past their ideas, throwing dollars at real estate because it provided almost guaranteed returns.

Now, entrepreneurs are hoping several economic developments, including the recent housing slump, a growing network of investors and a new state tax credit, will result in big gains.

"This (housing) downturn that we're seeing could end up being the catalyst for a renaissance for technology investing in Arizona," said Akira Hirai, managing director of Phoenix-based business consulting firm Cayenne Consulting LLC.

Arizona historically has lagged behind other states when it comes to private equity and early stage financing activity.

Venture capital, or money that individuals and businesses typically invest in fast-growing startups, is considered a key measure for gauging a region's entrepreneurial climate.

In 2005, 21 Arizona-based companies received \$148 million in venture capital, making it 18th out of the 50 states and the District of Columbia, according to data collected by the National Venture Capital Association in Arlington, Va. and Thomson Financial.

But the amount of capital is far smaller than that received in areas such as California's Silicon Valley, Boston, the Research Triangle in North Carolina and Austin, Texas.

Ultimately, any discussion about investment activity comes back to investors' perceived love affair with real estate.

But investors and entrepreneurs alike say real estate is not the only reason that capital has been hard to come by for new technology firms.

Population size, demographics and the stage at which many of Arizona's startup firms are in their life cycle also play a role.

### **Tax credit**

The state's new Angel Investment Program is one tool that many hope will lead to more investments.

The tax credit was established by state legislation in 2005, went into effect July 1 and is set to expire June 30, 2011. Individuals who invest \$20,000 to \$250,000 in a company that is certified for the program through the state Department of Commerce are eligible to receive a tax credit of up to 35 percent of their investment over a three-year period.

Infusion Software & Consulting Inc. in Gilbert has received \$50,000 from two outside investors since it was certified Sept. 12.

President Clate Mask said the program has provided an incentive for investors leery of technology ventures to give companies like Infusion Software a second thought.

### **Future growth**

Technology firms such as Infusion Software, which develops and sells customer relationship management software products for small businesses, also tend to be labor-intensive rather than capital-intensive, Mask said.

“You can get a loan for something and secure that loan with a piece of equipment,” he said. “That’s a capital expenditure. But you can’t secure a loan (for) three people you’re going to hire next week that you’re going to use to start the business.”

Infusion Software turned to Silicon Valley Bank in Tempe after hitting a ceiling with mainstream banks.

The Santa Clara, Calif.-based bank, which works primarily with venture companies, opened its Arizona branch in 1998.

While some business owners say the state lacks a local investment pool large enough to support the needs of the region’s entrepreneurs, others challenge that notion.

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