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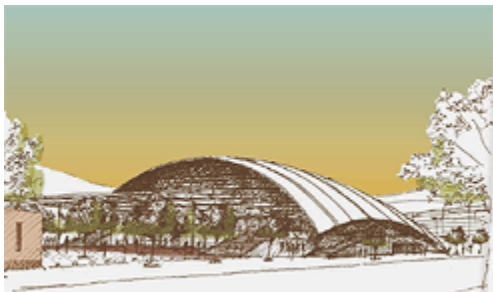
Commercial Pause Might Spur Public Projects

By MAURA WEBBER SADOVI

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Tucson's slowing economy is likely to curtail some planned commercial-real-estate construction, but the downturn may enable Arizona's second-largest metropolitan area to shift its attention to larger, public projects.

The slowdown is expected even as the region's commercial real estate ranks among the nation's healthiest. Tucson's commercial real-estate market tied with two other markets for the sixth-strongest score out of 59 U.S. markets surveyed by Moody's Investors Service in a report based on second-quarter data. By contrast, larger neighbor Phoenix tied with two other markets for the fourth-weakest overall score, in part because of a glut of suburban office construction.



The City of Tucson


An arena with a design inspired by a desert tortoise is being planned to revitalize downtown Tucson.

Tucson's commercial markets will weaken on the tails of housing, says Marshall Vest, an economist at University of Arizona's Eller College of Management in Tucson. "They're probably at or past their peaks," Mr. Vest said, noting that Tucson could weather a downturn better than Phoenix because there was less overbuilding. "Things didn't get quite as crazy here," he said.

The Tucson metropolitan area, with one million residents just north of the Mexican border, is driven by tourism, the defense industry, construction and many smaller service companies. Job growth slipped to 2.1% in September from an annual rate of about 3.5% in 2006, according to the Bureau of Labor Statistics. Mr. Vest predicts the economy could post a net loss of jobs by year's end as the housing market continues to batter mortgage lenders and the construction sector.

Mortgage lender First Magnus Financial Corp., one of the city's largest employers, filed for bankruptcy-law protection in August. Median prices of condominiums and co-ops dropped 10% in the second quarter from a year earlier to \$153,800, the third-largest percentage drop in the nation after New Orleans and Syracuse, N.Y., among markets tracked by the National Association of Realtors. The median price of existing single-family homes increased only 1.1% in the second quarter from a year earlier. That is a significant shift compared with 2005, when the area's median price rose 30.6% from 2004.

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For now, Tucson's commercial-real-estate market remains largely on the upswing. A relatively small industrial sector is among the strongest, with vacancies at a 10-year-low, says Don Ahee Jr. of CB Richard Ellis Tucson. Retailer **Target** Corp. is planning to open a 975,000-square-foot facility in 2009 to service its online business.

The slowing housing market has cooled efforts to add condominiums intended to revitalize an area of downtown known as Rio Nuevo. Several condo projects that had been expected to be completed this year or next have been delayed, says Jaret Barr, assistant to the Tucson city manager.

Mr. Barr says the city will use the pause to focus on other projects. The city plans to begin construction next year on a \$130 million arena with a design inspired by a desert tortoise, a \$60 million expansion of the city's convention center and a new convention-center hotel, he says.

Meanwhile, construction on another project, One North Fifth, is moving ahead. Portland, Ore., developer Williams & Dame Development and its local partners plan to turn Tucson's 1960s-era public-housing facility into rental apartments in an effort to bring new life to a largely 9-to-5 downtown and jump-start the sluggish demand for condos.

Matt Brown, project manager for One North Fifth with Williams & Dame, says the renovation aims to enhance the property while staying true to the original. "We're not trying to hide the fact that it's a modern concrete building, but with the new retail in the front, it's going to have a whole new look," he said.

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