

Market Analysis for Padre Boulevard Initiative in the Town of South Padre Island, TX

Prepared for Gateway Planning Group

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PRESENTED BY 



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Table of Contents

Introduction	1
The Market Environment	1
Market Area Real Estate Demand	3
Specific Assumptions	6
Buildout Scenarios & Market Demand	7
Development Orientation	8
Conclusion	9

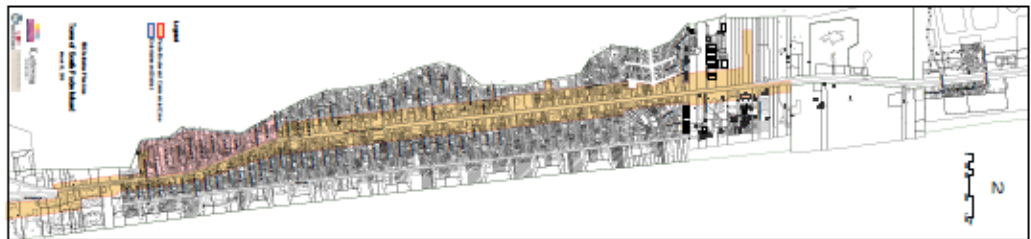


Introduction

The Town of South Padre Island is contemplating an ambitious effort to redevelop Padre Boulevard, the main thoroughfare in the community. As part of that effort, TXP has been given an initial task of conducting a market feasibility study to determine overall demand projections for the Study Area highlighted in Figure One below. The analysis is broken into the following areas of discussion:

1. Market environment, including the regional situation, overall economic and demographic forecasts, and projections of specific real estate demand
2. TXP projections for absorption
3. Conclusions

Figure 1: Padre Boulevard Study Area



Source: Gateway Planning Group

The Market Environment

Cameron County Status

As the nation struggles to emerge from recession, there is no question that Cameron County and its individual communities have felt the impact. The numbers tell the story, as job growth has slowed, sales tax revenue is stagnant, and development has more or less come to a halt. That having been said, the impacts in the Rio Grande Valley have been less profound than elsewhere, and the area should be well-positioned to bounce back. Factors that will contribute to the resurgence, aside from recovery of the national economy, include continued in-migration and overall population growth, resolution of Border issues and resumption of Mexican demand, and continued development of attractions for both tourists and permanent residents. In addition, current market values that are fairly low compared to similar destinations, competitive labor costs, and a comparatively modest overall tax burden all indicate a cost environment that accommodates future development and growth.

Cameron County Forecast

Short-Term Outlook

The national recession clearly has local implications, but Cameron County job growth should remain positive, with the forecast for a total of just over 1,800 net new jobs to be created this year (approximately 1.4 percent ahead of last year, measured on an annual year-over-year basis), followed by total job growth of 1.6 percent during 2010.

The data on construction and other development-related industries will remain sluggish for much of this year, but rebuilding in the wake of the hurricane should add some jobs. In the meantime, the bulk of the net new jobs will be in the secondary sectors of services, trade, and government. Tourism will continue to make a contribution, as new infrastructure, the relatively high costs of overseas travel in slow economic times, and momentum all contribute to growth.

Long-Term Outlook

Over the long-term, growth in Cameron County should remain relatively strong, as the region continues to develop. Following effectively no growth in 2009 and 2010, the local job base is projected to expand at a compound annual rate of 1.8 percent from 2011 through 2040. Similarly, total County personal income will rise 5.4 percent annually over the same period. The global economy remains an important determinant of Cameron County's outlook.

Table 1: Historical & Projected Growth in Cameron County Key Indicators

	2000-2005	2006-10	2011-40
Total Population	2.1%	1.8%	1.6%
Total Employment	1.3%	2.1%	1.8%
Total Personal Income	5.7%	4.8%	5.4%
Total Taxable Property Value	9.1%	8.0%	5.4%
Total Taxable Retail Sales	6.1%	4.5%	5.4%

Source: TXP

Town of South Padre Island

The Town of South Padre Island has experienced strong growth over the past two decades. Land use patterns are consistent with a beach community whose economic base is linked to seasonal tourism and second home ownership. Given the number of large residential towers, the population and unit density is greater on South Padre Island than anywhere else in the Study Area. Commercial activity is heavily concentrated around the bridge landing and along South Padre Island Boulevard. The larger undeveloped lots are located in the north of the town near the South Padre

Island Convention Centre. There are a significant number of smaller undeveloped lots mixed throughout the town.

Table 2: Town of South Padre Island Annual Indicators

	A. Sales Tax	B. Population	C. Room Nights (000s)	D. Housing Units Permitted
2000	\$1,683,385	2,447	595.5	37
2001	\$1,661,093	2,433	611.4	120
2002	\$1,851,449	2,481	650.3	118
2003	\$1,859,452	2,516	627.5	112
2004	\$1,957,939	2,555	667.3	64
2005	\$2,015,292	2,564	683.6	241
2006	\$2,196,448	2,659	717.6	229
2007	\$2,343,033	2,756	706.3	131
2008	\$2,403,512	2,837	552.0	108
2009	\$2,705,862	2,868*	568.4	67

Sources: A. Texas State Comptroller's Office; B. Census Bureau; C. Source Strategies; D. Census Bureau; * estimated

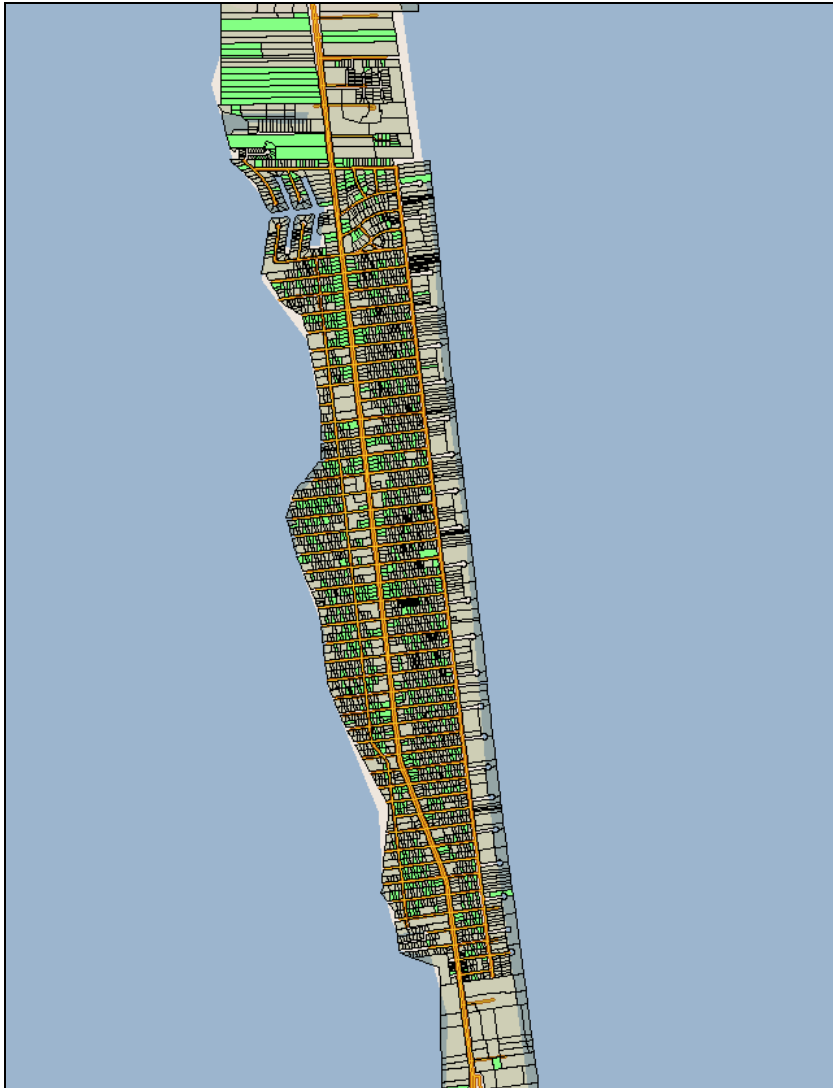
Table 3: Estimated 2009 Land Use by Select State Codes (acres)

Land Use	Town of South Padre Island	SPI North of Town Limits
Single Family Residence	256	0
Multifamily Residence	23	0
Vacant Lot	226	304
Qualified Agriculture Land	0*	0
Non-Qualified Land	146*	2,670
Commercial Real Property	135	0
Residential Inventory	23	0

* TXP obtained these values from the Cameron Appraisal District website under the annual certified city report section. Source: TXP, Cameron Appraisal District

At this point, the Town of South Padre Island does not have current or future land use maps. The Town's 2008 Comprehensive Plan anticipates the area will experience tremendous growth over the coming decades. The Plan calls for a more dense and walk-able community that encourages responsible growth while protecting the existing quality of life.

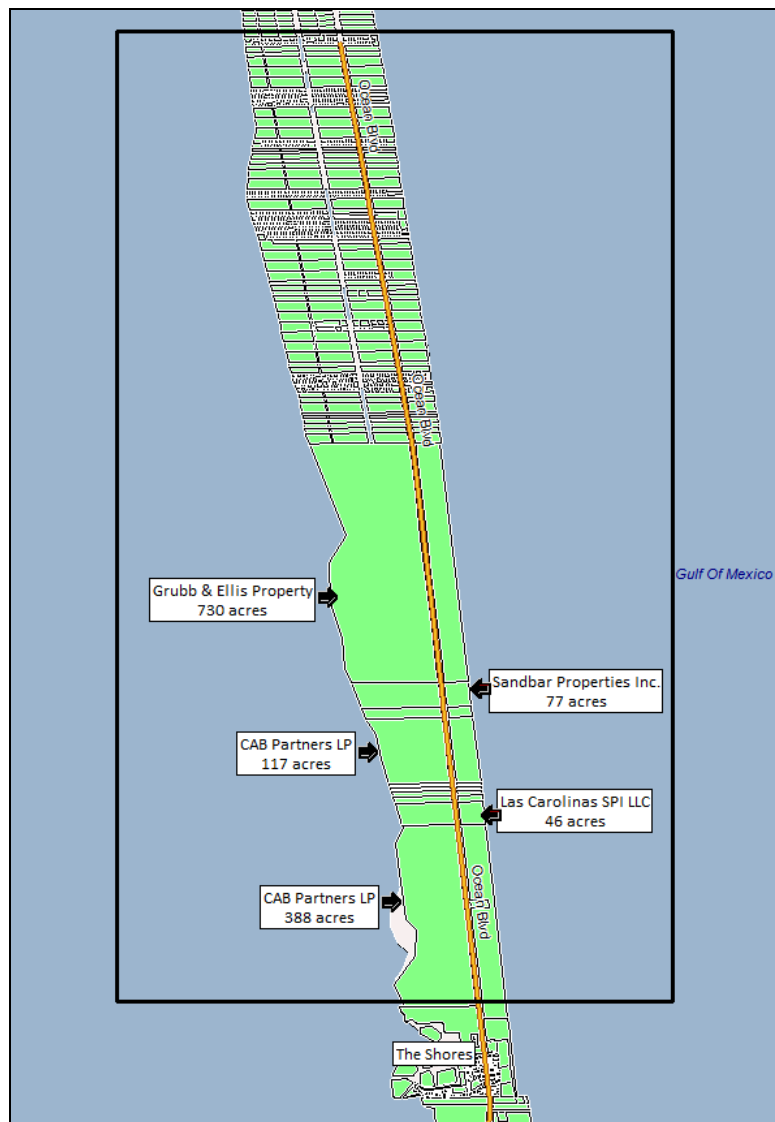
Figure 2: Town of South Padre Island Undeveloped Land Parcel Map



Source: TXP, Cameron Appraisal District

North of the Town of South Padre Island boundary limit exists 3,000 to 4,000 acres of privately held property. Much of this land is in the extraterritorial jurisdiction (ETJ) of the Town of South Padre Island. After reaching an agreement between private landowners and the Laguna Madre Water District, water and sewer utilities were extended about 5 miles north of the Town's northern boundary. Electric utility lines do not extend much beyond The Shores development (on the Town's northern boundary), but there are not physical or environmental barriers to extending this infrastructure northward. There are also road easements that run through the properties north of the boundary.

Figure 3: North South Padre Island Parcel Map



Source: TXP, Cameron Appraisal District

Based on meetings with private landowners, real estate developers, and public sector representatives, the consensus is that the land north of the Town of South Padre Island until the end of the paved road (about 6 miles) is developable. Privately held property north of this point is subject to the Coastal Barriers Resources Act System which makes development more financially difficult. Future development in this area will need to comply with Cameron County, Texas General Land Office, and U.S. Army Corps of Engineers rules and requirements. Currently, the commercial real estate firm Grubb & Ellis is actively marketing a 730-acre tract in this region (PID# 199119). Figure 3 highlights the five largest tracts of land in this area that total approximately 1,350 acres.

While there is no agreement amongst stakeholders on the total amount of developable acreage in this area, after adjustments for environmental issues such as mandatory mitigation or beach access setbacks, it is believed that the town of South Padre Island’s “existing footprint” could more than double in this area. TXP’s assessment of the Cameron Appraisal District information and meetings with stakeholders supports this finding. This forecast assumes that the second causeway ultimately is built, but that no other major economic development initiatives unknown at this time are undertaken.

Table 4: Projected Town of SPI Population, Households, & Employment

	Population	Total Employment	Office-Related Jobs	Retail/Rest./Ent. Jobs
2010	2,911	4,404	862	2,096
2011	2,997	4,482	875	2,126
2012	3,083	4,560	893	2,168
2013	3,168	4,637	912	2,217
2014	3,254	4,715	931	2,266
2015	3,340	4,793	951	2,316
2016	3,458	4,867	971	2,366
2017	3,575	4,940	990	2,417
2018	3,693	5,014	1,011	2,468
2019	3,810	5,087	1,031	2,521
2020	3,928	5,161	1,052	2,573
2021	4,049	5,237	1,072	2,626
2022	4,170	5,313	1,093	2,680
2023	4,291	5,389	1,115	2,735
2024	4,412	5,465	1,136	2,789
2025	4,533	5,541	1,158	2,845
2026	4,651	5,615	1,179	2,901
2027	4,768	5,688	1,201	2,957
2028	4,886	5,762	1,224	3,014
2029	5,003	5,835	1,246	3,072
2030	5,121	5,909	1,269	3,130

Source: TXP

Market Area Real Estate Demand

Specific Assumptions

- Base data was derived from a number of sources, including County Business Patterns, the Texas Comptroller’s Office, the Bureau of Labor Statistics, the Census Bureau, and the Texas Real Estate Research Center.
- SPI population projections were based on both the 1.0 and 3.0 Migration Scenarios from the Texas State Data Center, updated to reflect base data through 2009 for the county and 2008 data for the city. Due to the large number of properties that are not occupied by permanent residents, the ratio of dwelling units to population from the 2000 Census (just under 2.0) is held constant, with the population forecast used to project overall dwelling unit growth.

- Employment forecasts were developed using 2008 base data for SPI in conjunction with overall county forecasts. A twenty-year time planning horizon was assumed.
- A blended American Planning Association (APA) ratio of 650 sq. ft./employee was used to estimate aggregate new development required for retail/restaurant/entertainment. Similarly, an adjusted APA ratio of 250 sq. ft./employee was used to estimate aggregate new development required to meet office/commercial demand.

Table 5: Projected SPI Overall Real Estate Demand

	Dwelling Units	Office-Related Sq Ft.	Retail/Rest./Ent. Sq. Ft.
2010	143	0	0
2011	166	3,234	19,075
2012	166	4,376	27,632
2013	164	4,777	31,586
2014	166	4,832	31,972
2015	166	4,886	32,356
2016	228	4,939	32,738
2017	226	4,992	33,116
2018	228	5,045	33,493
2019	226	5,097	33,866
2020	228	5,149	34,236
2021	234	5,200	34,604
2022	234	5,251	34,968
2023	234	5,301	35,328
2024	234	5,351	35,686
2025	234	5,400	36,039
2026	228	5,449	36,389
2027	226	5,497	36,736
2028	228	5,544	37,078
2029	226	5,591	37,417
2030	228	5,637	37,751
TOTALS	4,413	101,548	672,066

Source: TXP

Buildout Scenarios & Market Demand

The following table details the Study Area’s share of current SPI land use. As is evident, much of the commercial activity on the Island is concentrated proximate to Padre Blvd., while residential uses are much less evident. This information is used as guidance to create a range of estimates of the share of new building that can be captured over the next twenty years by the Study Area.

Table 6: Study Area Share of SPI (2009)

Land Use	Values	Land Mass
Residential Property	6.9%	10.3%
Commercial Real Property	80.7%	68.6%
Vacant Lots	42.2%	27.1%

Sources: TXP, Gateway Planning, Cameron Appraisal District

Table 7: Total Market Area Demand for Real Estate – Alternative Scenarios

Capture Rate	2%	4%	6%	8%	10%	12%
Total Housing Units	88	177	265	353	441	530
Capture Rate	55%	60%	65%	70%	75%	80%
Total Commercial Sq Ft.	425,488	464,168	502,849	541,530	580,211	618,891
Retail/Rest./Ent./Lodging	369,636	403,240	436,843	470,446	504,050	537,653
Office	55,851	60,929	66,006	71,084	76,161	81,238

Development Orientation

If the Study Area is to capture a significant share of the projections outlined above, a development orientation that reflects a changing market structure is desirable. For example, a number of trends are beginning to influence land development and urban revitalization in the United States, including:

- *Demographics*, specifically smaller household sizes;
- *Changes in the structure of the economy*, with a heightened emphasis on adding value through the provision of service and knowledge;
- *Shifts in consumer tastes and preferences*, including a greater acceptance of owner-occupied multi-family housing and a strong desire for “authenticity” and “experience;”
- *Technology*, especially as it enables decentralized work and informs consumer tastes;
- *Transportation*, including congestion and rising energy costs, and
- *Cultural/entertainment*, an element of society that is increasingly multi-faceted and diverse.

Underlying all of the above (which have an impact through all of society) is the desire for what has been termed *Walkable Urbanism*. According to the Brookings Institute, “since the rise of cities 8,000 years ago, humans have only wanted to walk about 1,500 feet (approximately a quarter mile) until they begin looking for an alternative means of transport: a horse, a trolley, a bicycle, a car. This distance translates into about 160 acres – about the size of a super mall, including its parking lot. It is also about the size, +/- 25 percent, of Lower Manhattan, Downtown Albuquerque, the financial district of

San Francisco, Town Center Atlanta, and most other major Town Centers in the country.”

What makes walkable urbanism function is not merely distance, but the experience – a pedestrian trip where one encounters a mix of sights and sounds in the context of a range of land uses and a diverse built environment. The translation is that “critical mass” occurs when visitors can find enough to do for an afternoon or an evening, residents’ daily needs are largely met within easy access, and the underlying economics justify ongoing investment. When this happens (and is sustained), a dynamic system is in place that will create enhanced economic and fiscal value.

In this context, it is unlikely that this approach will allow SPI to capture a disproportionate share of regional growth. However, failure to implement policies, procedures, and investment decisions related to infrastructure along these lines puts the community in danger of losing some of its “fair-share” to adjacent areas. If that happens, these forecasts are at risk.

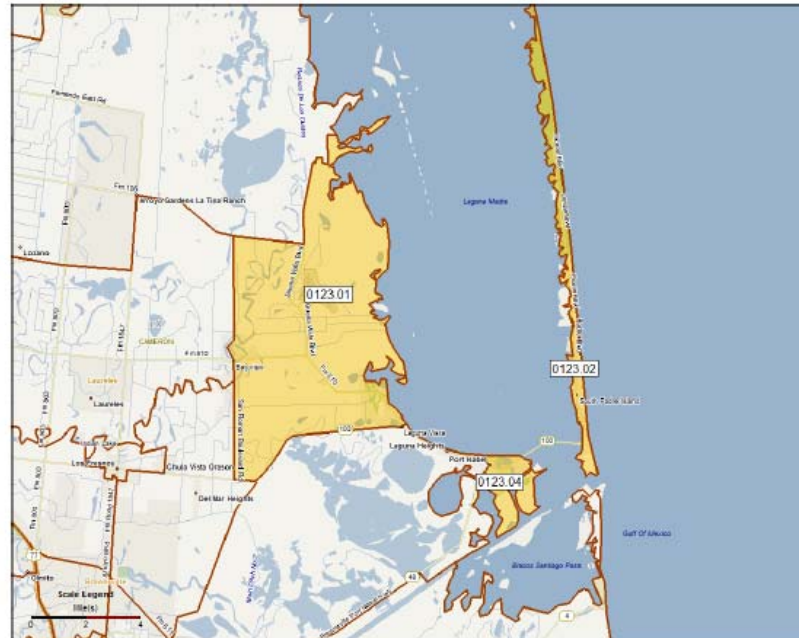
Conclusion

While the Study Area historically has been the commercial base of SPI, the high volume of existing vacant tracts and the opening of new areas for development to the north (enhanced by the construction of a second causeway) could create pressure for growth to shift elsewhere. The Padre Boulevard initiative is a potential response, as the reorientation of land use and infrastructure will help maintain the Study Area’s viability and appeal. All things taken together, the baseline assumption is for the Study Area to capture 6 percent of the residential and 65 percent of the commercial development over the next twenty years. As a result, SPI can expect to see the development over in that period in the Study Area of approximately 265 housing units, 71,000 square feet of office, and approximately 470,000 square feet of retail/lodging/entertainment space.

Appendix

South Padre Island Socioeconomic Context

Study Area Census Tracts (123.01, 123.03, and 123.04)



South Padre Island Socioeconomic Context

Population Growth within Cameron County

	South Padre*	Laguna Vista	Port Isabel	Los Fresnos	San Benito	Harlingen	Brownsville	Cameron County
1970	0	287	3,067	1,297	15,176	33,503	52,522	140,368
1980	791	632	3,769	2,173	17,988	43,543	84,997	209,727
1990	1,673	1,166	4,467	2,473	20,125	48,746	98,962	261,728
2000	2,418	1,677	5,018	4,574	23,990	58,885	143,383	336,562
2001	2,405	1,757	5,036	4,683	23,929	59,311	147,396	342,684
2002	2,457	2,005	5,295	4,787	24,082	59,777	151,760	350,407
2003	2,495	2,137	5,302	4,912	24,153	60,854	156,788	358,366
2004	2,537	2,367	5,303	5,043	24,247	61,499	161,228	365,815
2005	2,548	2,560	5,292	5,143	24,361	62,250	165,223	372,703
2006	2,648	2,784	5,292	5,234	24,486	62,847	169,096	379,708
2007	2,752	3,250	5,268	5,361	24,715	64,221	172,806	387,210
2008	2,837	4,017	5,290	5,538	25,072	64,843	175,494	392,736
% Change 00 to 08	17.3%	139.5%	5.4%	21.1%	4.5%	10.1%	22.4%	16.7%

* Queen Isabella Causeway opened in 1974

South Padre Island Socioeconomic Context

South Padre Island Employment by Sector

Description	2002	2003	2004	2005	2006	2007	2008
SPI Jobs	3,480	3,380	3,347	3,591	3,907	3,478	3,586
Agriculture, Forestry, Fishing and Hunting	12	13	17	1	0	7	8
Construction	26	20	24	53	47	38	56
Manufacturing	11	10	9	12	6	4	7
Wholesale Trade	8	5	5	4	9	10	10
Retail Trade	276	291	228	351	373	350	347
Transportation and Warehousing	20	5	1	2	5	19	25
Information	10	2	8	11	10	8	8
Finance and Insurance	379	363	340	343	333	66	56
Real Estate and Rental and Leasing	331	322	321	349	410	378	483
Professional, Scientific, Technical Services	17	14	16	15	13	27	31
Administration & Support	55	52	65	61	57	58	66
Educational Services	234	181	234	236	244	205	177
Health Care and Social Assistance	15	26	30	29	23	25	17
Arts, Entertainment, and Recreation	52	38	39	54	56	62	67
Accommodation and Food Services	1,615	1,597	1,556	1,653	1,861	1,729	1,747
Other Services	262	225	236	206	220	237	236
Public Administration	157	216	218	211	238	255	245

South Padre Island Socioeconomic Context

Where Employed South Padre Island Residents Work

Description	2002	2003	2004	2005	2006	2007	2008
Employed SPI Residents	395	430	406	437	501	544	488
South Padre Island	36%	38%	44%	41%	42%	33%	36%
McAllen	13%	10%	9%	11%	12%	10%	13%
Brownsville	9%	9%	7%	12%	11%	11%	9%
Port Isabel	6%	7%	5%	2%	4%	3%	6%
Laredo	2%	0%	1%	2%	1%	1%	2%
Corpus Christi	1%	1%	2%	3%	2%	2%	1%
Harlingen	6%	2%	1%	1%	2%	4%	6%
Mission	1%	3%	2%	2%	1%	3%	1%
Edinburg	4%	2%	2%	2%	3%	4%	4%
Pharr	2%	3%	1%	1%	3%	2%	2%
All Other Locations	20%	24%	26%	23%	20%	26%	20%

South Padre Island Socioeconomic Context

Where Employees of South Padre Island Based Businesses Live *

Description	2002	2003	2004	2005	2006	2007	2008
SPI Employment	3,480	3,380	3,347	3,591	3,907	3,478	3,586
Brownsville	33.0%	34.6%	31.5%	30.1%	34.5%	31.2%	29.3%
Port Isabel	9.5%	7.3%	10.9%	12.3%	13.8%	11.6%	14.1%
Laguna Vista	6.8%	7.8%	7.5%	8.8%	9.7%	7.6%	6.9%
Laguna Heights	1.9%	1.7%	2.5%	4.5%	3.8%	3.7%	5.7%
South Padre Island	4.1%	4.7%	5.1%	5.1%	6.0%	5.2%	5.2%
Los Fresnos	3.6%	3.9%	3.3%	4.5%	5.0%	4.4%	3.0%
Harlingen	3.1%	3.9%	3.1%	3.6%	3.6%	3.2%	2.6%
Laureles	2.6%	2.7%	1.8%	1.9%	3.3%	2.5%	2.5%
San Benito	1.4%	1.6%	1.4%	1.4%	1.9%	1.2%	1.5%
McAllen	2.4%	1.5%	2.2%	2.2%	1.4%	0.7%	1.3%
All Other Locations	31.6%	27.5%	26.9%	28.9%	29.3%	28.6%	31.0%

*Employment data fluctuates substantially based on season and data source.

South Padre Island Socioeconomic Context

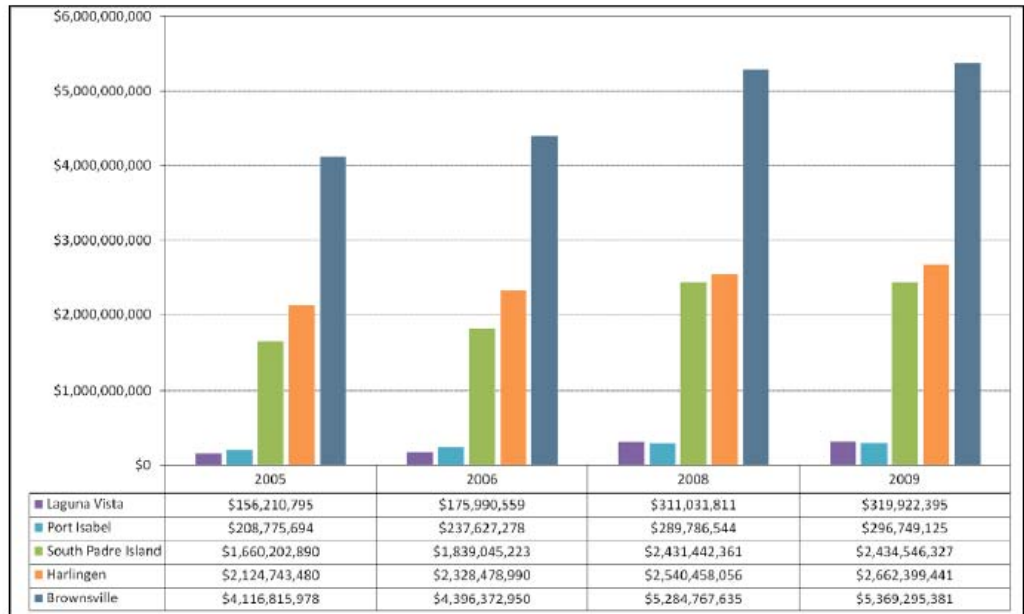
SPI captures between 40% to 50% of Cameron County Total Tourism Activity

Year	Destination Spending (000s)	Earnings (000s)	Employment	State Tax Receipts (000s)	Local Tax* Receipts (000s)
2002	\$263.40	\$63.30	4,040	\$15.40	\$7.11
2003	\$254.20	\$61.50	3,890	\$14.80	\$6.82
2004	\$271.90	\$65.50	4,060	\$15.70	\$7.29
2005	\$289.40	\$69.10	4,140	\$16.50	\$7.58
2006	\$309.60	\$72.70	4,230	\$17.60	\$8.19
2007	\$315.20	\$73.50	4,080	\$17.80	\$8.31
2008	\$266.90	\$61.60	3,260	\$14.90	\$6.73

*Tax receipts collected by counties and municipalities, as levied on applicable travel-related purchases, including lodging, food and beverage service, retail goods and auto rental. Property taxes are not included.

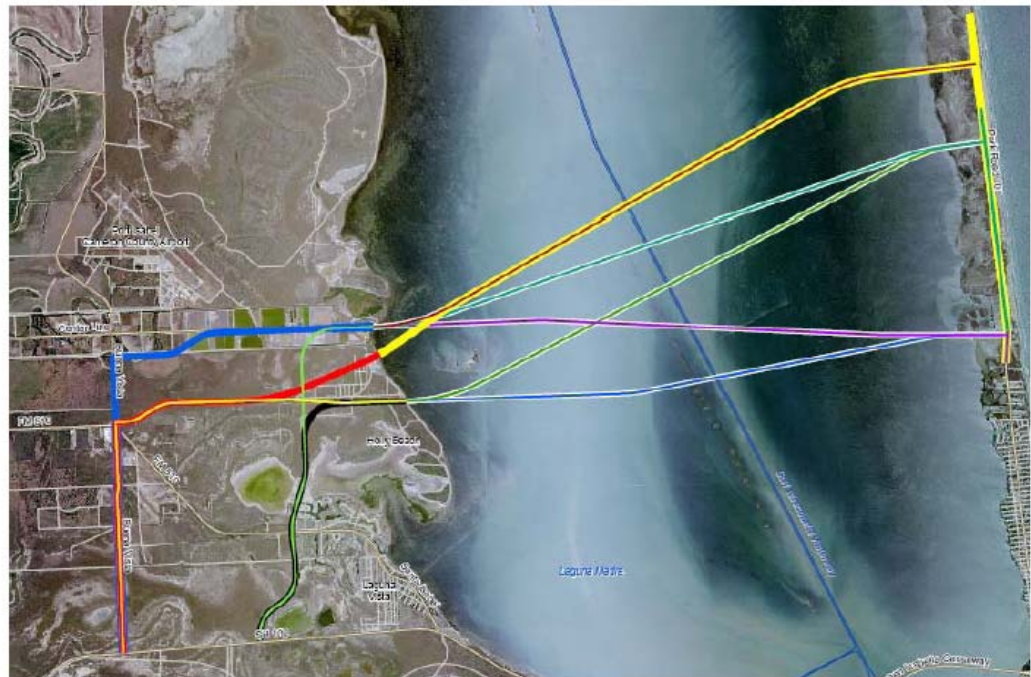
Certified Net Taxable Value of Properties

SPI is 1% of population and 16% of tax base



South Padre Island Socioeconomic Context

Second Access Point Reasonable Alternatives



South Padre Island Socioeconomic Context

South Padre Island Region Population & Employment Forecast
(Census Tract 123.02 – includes Long Island)

Population	2008	2015	2030	2045
Low	4,553	5,064	6,235	7,781
Medium	4,553	5,140	6,921	9,948
High	4,553	5,216	7,607	12,115
Employment	2008	2015	2030	2045
Low	4,310	4,722	5,323	5,943
Medium	4,310	4,793	5,909	7,598
High	4,310	4,864	6,494	9,252

Source: TXP

South Padre Island Socioeconomic Context

Key Issues

- When is the second bridge built?
- What affect will the outer loop have on SPI?
- Will the major land owners north of The Shores work together to create a different land use pattern than the southern end of the island (no P&Z to north)?
- How quickly will SPI's employment base rebound?
- Will wealthy Mexican citizens continue to buy 30 to 40 percent of residential properties?
- Will SPI attract more fulltime residents?