

South Padre Paradox

Selling Homes on Island Time

By Harold D. Hunt



South Padre Island is a city with small-town feel and “big-town” buildings. It is also host to a rather eclectic group of people. Depending on the day, the mix may be any combination of short-term visitors, long-term residents, Mexican nationals or Americans coming from anywhere.

The result is a residential niche located on a tiny sliver of Texas that moves to many different beats. Primarily driven by second-home demand and tourism, the market dynamics behind this coastal city offer a number of interesting insights for Texas real estate professionals.

Days of Easy Money

In 2006 and 2007, easy financing drove an unusually high level of investment, including out-of-state and international money, into South Padre’s residential property market. Real estate brokers were in dire need of additional agents, sometimes recruiting from local restaurants and retail shops.

At its peak, the city of about 2,500 permanent residents was home to 265 real estate agents and brokers. Several hundred

new condos were built and added to the market from 2005 to 2008.

In 2006, 610 residential sales transactions worth \$160 million were closed. In contrast, 2014 is expected to see just \$65 million in sales. Although most Texas housing markets have rebounded well since the last recession, South Padre is a notable exception.

“It’s not unusual to see 1,000 to 1,200 days on market for residential properties on the island,” says Julie Hyland of Hyland Appraisals. “However, if you look back over the past 20 or 30 years, slow sales on the island are really nothing new.”

Current property owners who are not full-time residents, especially those from the state’s major metropolitan areas, are often puzzled by the sluggishness of the South Padre market.

SALES DON'T HAPPEN
fast on South Padre. Time
on market may stretch to
1,200 days.

The extended marketing period has made it difficult for investors to implement a successful buy-and-flip strategy.

Island Demographics

The 2012 American Community Survey (ACS) published by the U.S. Census Bureau provides an estimate of the island's inhabitants and housing makeup based on actual surveys.

According to the ACS, South Padre has a full-time population of 2,837. On a busy summer weekend, the island's population, including visitors, may exceed 30,000.

The median age of full-time residents is 57. About three-fourths of locals are older than 45 while almost a third are 65 or older.

The city's 2014 comprehensive plan notes that an out-migration of younger people and in-migration of older folks has been occurring in the permanent population since 2000. The city is attempting to attract the optimal blend of permanent residents and seasonal visitors for maximum year-round economic activity. Knowing exactly who to target is difficult. The permanent population has remained basically flat since 2010.

Typical residential buyers on the island today can be broken down into several groups:

- Americans who purchase properties as second homes and either rent them infrequently or not at all;
- Americans who purchase properties, live on the island full-time and don't rent to others;
- American investors who purchase properties strictly for short-term rental to tourists; and
- Mexican nationals who purchase properties as second homes and rarely, if ever, rent to others.

Another category more prevalent in the past is families with children who purchase properties for limited vacation use, maybe only a few weeks a year. The property would then be leased out to others, either through the owner or a vacation rental management company, to help reduce the cost of ownership.

This group has been severely marginalized since the recession according to Wally Jones, CEO and co-owner of Padre Getaways.

"Before the recession hit, young families with children were a high percentage of the buyers," says Jones. "But current lending terms, including the need for much higher down payments, have virtually eliminated that segment from the market."



Table 1. South Padre Island, All Housing Units

Housing Occupancy	Estimate	Percent
Total Housing Units	7,053	100.0
Occupied Housing Units	1,586	22.5
Vacant Housing Units	5,467	77.5

Source: U.S. Census Bureau 2012 American Community Survey

Greg Jones, mortgage banker for Island Mortgage, agrees that more rigorous lending standards for second homes have had an effect.

"Before the economic downturn, there were viable options for Fannie Mae and Freddie Mac loans on the island. Today the mortgage alternatives we once had are virtually gone."

Greg Jones notes that most residential condo loans made on South Padre have never conformed to Fannie or Freddie guidelines.

One result of this has been a shift in the demographic makeup of potential buyers to a more affluent group.

"Young families can still buy on the island," says Hyland. "They just need a much better job than those who bought properties in the past."

Housing Makeup

South Padre's total residential stock of 7,053 units is heavily weighted toward large multifamily properties, with the ACS reporting 1,125 single-family detached homes or townhomes, 1,737 units in properties two to nine units in size and 4,191 units in properties that contain ten or more units.

Of the 7,053 total units, only 1,586 (22.5 percent) are occupied full time (Table 1). Of these, about two-thirds (1,066 units) are owner occupied (Table 2). Most full-time locals choose to live on the bay side of the island, finding it generally quieter than the more "touristy" beach side.

Surprisingly, the timeshare model has had little success on South Padre. "Part of the reason is limited developable beachfront," says Wally Jones. "We only have about three miles of it, which helps keep the values up but works against timeshare models.

"Also, access to the island is not as easy as other areas with successful timeshare properties. Air service is limited and fairly distant. Those wanting to jet around to multiple timeshares wouldn't consider South Padre a workable location."

Table 2. South Padre Island, Occupied Housing Units

	Total Occupied Housing Units	Owner-Occupied Housing Units	Renter-Occupied Housing Units
	1,586	1,066	520
Number of Units in Structure	Percentage Estimate	Percentage Estimate	Percentage Estimate
1 unit (detached)	34.7	43.8	16.0
1 unit (attached)	45.0	6.7	0.0
2 units	10.5	6.4	19.0
3 or 4 units	14.3	6.1	31.2
5 to 9 units	9.6	0.0	29.2
10 or more units	26.4	37.1	4.6

Source: U.S. Census Bureau 2012 American Community Survey

The ACS data also indicate a well-defined separation between the type of housing chosen by full-time owner occupants and full-time renter occupants (Table 2). More than 87 percent of owner occupants either live in single-family, detached homes or townhomes (50.5 percent) or condo properties with ten or more units (37.1 percent). Alternatively, almost 80 percent of full-time renter occupants live in the island's middle-sized structures of two to nine units.

About 42 percent of full-time owner-occupied units are valued at \$300,000 or more. The median value according to the ACS is \$276,300.

For ownership costs, the ACS looks only at properties that are occupied by the owner full time. Looking at the subset of owners who carry no mortgage, the median monthly cost of ownership is a fairly significant \$943. This number is made up of real estate taxes, insurance, utilities and homeowners association (HOA) or condo fees.

"HOA dues alone will run from the mid-\$300 range per month on the low side to \$900 on the high side," says Wally Jones. "And that's not considering any special assessments. So the cost of owning these properties can be quite high."

Mexican nationals have a reputation for keeping their properties on the island well maintained, even though they may seldom use the property. They often choose to congregate in

the same development, with most floor plans including accommodations for maids or nannies. They also tend to prefer beachfront properties.

Seasonal Tourism Variations

The timing of visits by tourists and part-time residents has become well established. Winter Texans, mainly from the Central United States and Canada, favor the months of January and February. The group that frequents South Padre favors condo rentals over recreational vehicle (RV) parks, partly because of the high cost and tight availability of RV spaces on the island and the cost of driving an RV such long distances.

"The demand is high from Winter Texans, but revenue is low," says Elana Jones, broker and co-owner of Padre Getaways. "Rents for one month in the winter are about equal to rents for one week during the peak season weeks of summer or spring break."

Where it used to be a whole month, spring breakers now only inhabit the island about ten days. Locals are often divided, with some appreciating the shorter duration and others whose

businesses depend on tourism wishing for longer stays.

It can take as long as two hours to travel the 2.5-mile distance across the island's only bridge during spring break and other peak times. A second bridge that would connect the north side of South Padre's city limits to the mainland has been in the planning stages for a number of years.

The three or four days around Easter are a popular time for visits from Mexican nationals. The summer break is continually busy, with families bringing their children to the island after school is out.



UPSCALE CONDOS are popular with Mexican nationals who visit the island a few times a year. The building in the foreground provides accommodations for nannies and maids.



"Compared with three or four years ago, I've noticed a change in the families who show up during summer," says Wally Jones. "Before, five to seven days was a typical stay for them. Now it's more like two to four days."

He has also noticed that the new group tends to be more budget-conscious, spending less money than those who used to stay a week.

When school begins in the fall, tourism slows except for a bit of activity over Labor Day. After that, the wait for the Winter Texans begins.

The hope is that SpaceX, a private space transport services company that plans to locate a launch site on nearby Boca

Chica Island, will spark additional economic opportunities for the island based on rocket launches. Shuttle launches in Florida generated an average of \$5 million in economic activity for surrounding local economies.

The city has extended electricity several miles to the north. However, no water or sewer infrastructure exists, nor are there any immediate plans for any. As a result, it may be some time before the footprint of the city increases in any meaningful way.

Obstacles to Clearing the Market

South Padre is not a primary housing market. "As a rule, no one is getting a job transfer here," says Wally Jones. "We are really a second-home market."

The result has been a demand pool consisting of people who are often in no hurry to buy. Until the lending environment improves, making it easier to finance condos and second homes, this is not likely to change.

Alternately, sellers on the island have been in no hurry to sell. "I would describe this as a market of patient sellers who can afford to hold," says Elana Jones. "Instead of prices adjusting and the market clearing as you would expect, properties simply don't sell."

The island has about 800 residential properties on the market today. "That sounds like a lot for such a small market, but it's actually about typical," says Wally Jones.

While current lending regulations have impaired the recovery of the real estate market on the island, mid- and long-term prospects look quite positive.

"Many of the properties for sale are great values as selling prices haven't increased significantly for the last several years," says Wally Jones. "We are also optimistic that the lending requirements will be relaxed. But it's really critical that effective marketing programs get put in place to increase the demand for properties here on the island going forward." ♦

Dr. Hunt (hhunt@tamu.edu) is a research economist with the Real Estate Center at Texas A&M University.

While current lending regulations have impaired the recovery of the real estate market on the island, mid- and long-term prospects look quite positive.

Chica Island, will spark additional economic opportunities for the island based on rocket launches. Shuttle launches in Florida generated an average of \$5 million in economic activity for surrounding local economies.

South Padre is only 4.5 miles from the future launch site. If there should be clear views of a launch from the island, it could become a major tourist attraction. Although some have speculated that SpaceX employees might also choose to live on the island, the 40-minute circuitous commute to get from South Padre to Boca Chica Island could hinder that possibility.

New Development Hurdles

The City of South Padre Island has run out of easily developable land. Although ample land exists north of the city, the fear is that protracted battles over such things as endangered species could occur. Also, wetland remediation could further slow the development process, possibly reducing the amount of developable land by as much as two-thirds.

THE TAKEAWAY

In a period when most Texas residential properties are turning over quickly, South Padre Island's market is an outlier. Here, longer marketing time is the norm due to very different buyer and seller attitudes and expectations.



MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

<http://recenter.tamu.edu>
979-845-2031

Director, Gary W. Maler; **Chief Economist**, Dr. Mark G. Dotzour; **Communications Director**, David S. Jones; **Managing Editor**, Nancy McQuiston; **Associate Editor**, Bryan Pope; **Assistant Editor**, Kammy Baumann; **Art Director**, Robert P. Beals II; **Graphic Designer**, JP Beato III; **Circulation Manager**, Mark Baumann; **Typography**, Real Estate Center.

Advisory Committee

Kimberly Shambley, Dallas, chairman; C. Clark Welder, San Antonio, vice chairman; Mario A. Arriaga, Conroe; Russell Cain, Fort Lavaca; Jacquelyn K. Hawkins, Austin; Doug Jennings, Fort Worth; Ted Nelson, Houston; Doug Roberts, Austin; Ronald C. Wakefield, San Antonio; and Bill Jones, Temple, ex-officio representing the Texas Real Estate Commission.

Tierra Grande (ISSN 1070-0234) is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Subscriptions are free to Texas real estate licensees. Other subscribers, \$20 per year. Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, Mays Business School or Texas A&M University. The Texas A&M University System serves people of all ages, regardless of socioeconomic level, race, color, sex, religion, disability or national origin. Photography/Illustrations: Harold Hunt, pp. 1, 2, 3, 4.



About the Real Estate Center

The Real Estate Center at Texas A&M University is the nation's largest publicly funded organization devoted to real estate research. The Center was created by the Texas Legislature in 1971 to conduct research on real estate topics to meet the needs of the real estate industry, instructors and the public.

Most of the Center's funding comes from real estate license fees paid by more than 135,000 professionals. A nine-member advisory committee appointed by the governor provides research guidance and approves the budget and plan of work.

Learn more at www.recenter.tamu.edu

The Texas Deer Lease



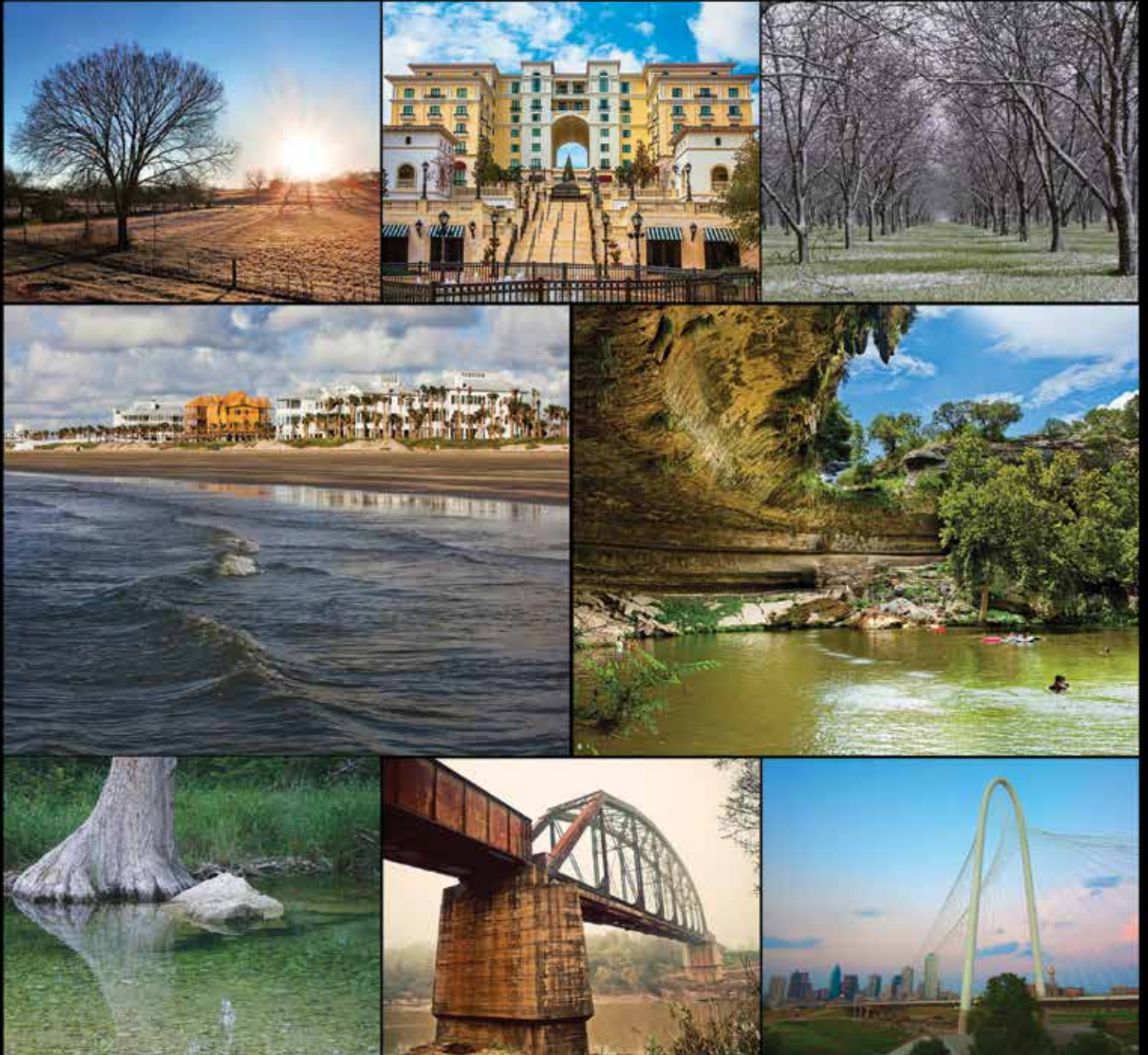
Judon Fambrough
Senior Lecturer and Attorney at Law
Technical Report 570

It's All About the Big Bucks

Another deer season has come and gone. Lucky hunters have a buck in the freezer. For landowners, the bucks are in the bank. But not everyone is happy. More often than not, their problems have something to do with the deer lease. Make sure your lease doesn't have holes in it.

Download *The Texas Deer Lease* for free.
recenter.tamu.edu/pdf/570.pdf

Order your favorite Center photos,
ready for framing.



Exclusively at
recenter.smugmug.com