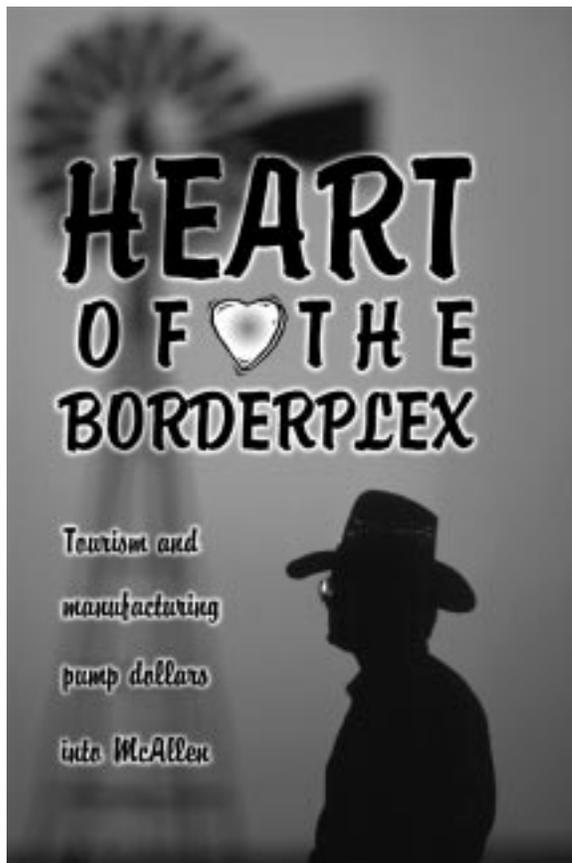


A Reprint from *Tierra Grande*, the Real Estate Center Journal



By Mark G. Dotzour and Jennifer S. Evans

Encompassing all of Hidalgo County, the McAllen metropolitan area includes the major cities of McAllen, Edinburg and Mission. McAllen is located along the Texas-Mexico border, the heart of an area now referred to as the "Borderplex." At the center of international economic activity between the Americas, with three international bridges, the area is poised for explosive economic growth.

McAllen, as well as Hidalgo County, benefit from growing diversity in manufacturing facilities located in the McAllen MSA and in nearby Reynosa, Mexico. Until five years ago, the economy was largely agricultural. The primary crops include citrus fruits, vegetables, cotton and sugar cane. Spurring growth, NAFTA has had a major impact on the area's manufacturing and distribution facilities on both sides of the border.

Employment growth has been significant in this decade. The total number of jobs in the McAllen MSA increased from 128,600 in 1990 to more than 160,000 in late 1998, with the largest increases in service and trade. Unem-

ployment rates traditionally are high in border cities, and in McAllen an unemployment rate of 16.3 percent was recorded for October 1998. Reynosa, Mexico, just south of the border from McAllen, is a major manufacturing center with steady employment growth.

According to Solunet's *Complete Twin Plant Guide*, nearly 70 manufacturing facilities are located in Reynosa, employing approximately 50,000. The area is a major center for manufacturing of automobile parts, electronic components and television sets. This manufacturing trend is expected to continue.

An estimated 130,000 'winter Texans' move to the area to escape colder climates. They create demand for additional retail sales and services.

Manufacturing growth in Reynosa creates corresponding employment increases on the Texas side of the border. NAFTA has had a significant impact on growth of the maquiladoras, Mexican

assembly plants. Before NAFTA, no Pacific Rim companies operated in the area. Now there are more than 20 such companies in this market.

McAllen's population has grown as quickly as the economy. In 1997, the population reached 507,400. The annual growth rate since 1990 has averaged more than 4.5 percent. In addition, McAllen has a large number of "winter Texans." It is estimated that 130,000 people move to the area for the winter, creating additional demand for retail sales and services.

Area higher education facilities have recorded tremendous enrollment growth. South Texas Community College has grown more than 2,000 percent in the past three years, to 6,000 students. The University of Texas-Pan American has grown to 13,000 students, added new engineering and science buildings and plans to add a new student union and expand the library.

Local home sales in 1998 were strong but slowed from 1997 numbers when 965 homes were sold through the local MLS. Through November 1998, 617 homes sold, with an average selling price of \$92,400. New home construction continues at a fast pace. In 1997, 4,155 new single-family home permits were issued, compared with 4,445 through November 1998. The need continues for affordable single-family housing.

During the past three years, McAllen has steadily added to the number of apartment units. In 1997, 1,121 permits were issued. Through November 1998, 796 apartment units were permitted, and the current apartment occupancy rate is at 91 percent, according to Apartment MarketData Research Services.

McAllen is a retail center for South Texas and Northern Mexico, drawing from a population of more than ten million within a 200-mile radius. Of the top 100 retail outlets in the United States, 24 can be found in McAllen. In the past

ten years, retail sales have more than doubled from \$1.7 billion in 1987 to \$3.6 billion in 1997. The completion of a Foley's store added 180,000 square feet of retail space. Since 1997, 79,000 square

feet of retail space has been permitted in McAllen, with a value of more than \$2 million. During the same period, 23,000 square feet of restaurant space was permitted.

Border-crossers and the "winter Texans" make a major contribution to retail sales. McAllen is unique for a city of its size because it has three viable retail shopping districts. Traditional mall shopping and modern shopping centers are located on the town's north side near up-scale housing and on the south side near the airport and Mexico.

McAllen has a vibrant downtown retail district as well. All districts serve not only the Texas surrounding areas but also an active market of shoppers from Mexico, who find Texas prices less expensive than those at home. Bus service to and from Monterrey provides a steady stream of shoppers into the area.

McAllen is one of the few smaller metropolitan areas to record office construction in the past two years. Between January 1997 and May 1998, more than 222,000 square feet of office space, valued at nearly \$8 million, were permitted. This new construction was spread throughout the city.

According to Michael Blum, president of NAI Rioco Realty, city-wide occupancy rates for Class A office space are at 80 percent. Class A occupancy rates are down from the 1997 rate of 98 percent because of a new high-rise bank and office building that opened in July



McALLEN ATTRACTS connoisseurs of border cuisine and is a mecca for birdwatchers.

1998. The Class B office vacancy rate is 20 percent. Average rental rates for downtown office space are \$15.50 per square foot, and new suburban office space rents at \$13 per square foot. Class A suburban office space rents for \$14 per square foot, and Class B space rents for \$9 per square foot.

The area is poised for substantial industrial growth. Two major business parks are being added to McAllen. The Sharyland Business Park is on the south side of town and offers 900 acres of world-class industrial development potential. Part of a mixed-use development of nearly 6,000 acres, the park offers foreign trade zone (FTZ) status and double freeport tax exemption.



According to the McAllen Economic Development Corporation, 700 acres also are available inside the FTZ at below-market prices. Warehouse and office space is ready for leasing in the FTZ, located southwest of the airport and adjacent to the Sharyland Business Park. As these parks expand, McAllen is well poised to participate in the future growth of economic activities between the Americas. ☐

Dr. Dotzour is chief economist and Evans is a research associate for the Real Estate Center at Texas A&M University.

REAL ESTATE CENTER

©1999, Real Estate Center. All rights reserved.

Director, Dr. R. Malcolm Richards; **Associate Director**, Gary Maler; **Chief Economist**, Dr. Mark G. Dotzour; **Senior Editor**, David S. Jones; **Associate Editor**, Wendell E. Fuqua; **Assistant Editor**, Jenifer V. Hofmann; **Assistant Editor**, Kammy Baumann; **Art Director**, Robert P. Beals II; **Circulation Manager**, Gary Earle; **Typography**, Real Estate Center; **Lithography**, Wetmore & Company, Houston.

Advisory Committee: Gloria Van Zandt, Arlington, chairman; Joseph A. Adame, Corpus Christi, vice chairman; Celia Goode-Haddock, College Station; Carlos Madrid, Jr., San Antonio; Catherine Miller, Fort Worth; Kay Moore, Big Spring; Angela S. Myres, Houston; Jerry L. Schaffner, Lubbock; John P. Schneider, Jr., Austin; and Pete Cantu, Sr., San Antonio, ex-officio representing the Texas Real Estate Commission.

Tierra Grande (ISSN 1070-0234), formerly *Real Estate Center Journal*, 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, \$30 per year, including 12 issues of *Trends*.

Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, the Lowry Mays College & Graduate School of Business or Texas A&M University.