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TEXAS SNAPSHOT, NOVEMBER 2011

Corpus Christi Retail Market

It's good to be from Texas; moreover it's good to be from Corpus Christi. Are the efforts of Washington finally grabbing hold and stimulating the local market, thus driving up the demand for commercial real estate? No comment to that, but we can confirm that Corpus Christi is a direct recipient of the many benefits of the oil and gas industry. You may have heard of its recent boom, but since early 2010 the local economy has been rebounding and actually thriving compared to many of the areas of the country. This is the result of several factors and key projects, all of which have helped the Corpus Christi region bounce back, and has positively influenced multiple sectors of the commercial real estate market.

Industrial

Corpus Christi has long been an industrial market, not in the sense of the traditional assembly line manufacturing processes common in the rust belt, but in other areas like oil and gas exploration, refining, industrial service companies, and so on. While the Eagle Ford Shale has cranked up the demand for grade-level industrial office/warehouse space on 2 to 5 acres, the prices have as well. On existing quality buildings ranging from 5,000- to 15,000-square-foot rental rates are averaging roughly \$9.60 per square foot and new construction in the same size range are leasing for about \$12 per square foot. To date, supply has been limited and even with roughly a dozen new projects currently under construction, the supply is still lacking. Most of the new projects are build-to-suit or were spec buildings that have already been leased up. It seems like the large companies are growing tremendously, the start-ups are thriving and the mom-and-pops don't look so mom-and-pop anymore.

Even with all of the above industries growing, there is still more to be thankful for, like the Tianjin Pipe Co. In late August, in the small town of Gregory (a few miles to the northeast of Corpus Christi proper) the Tianjin Pipe Co. broke ground on a 252-acre pipe plant, where it will construct a 1.6 million-square-foot facility that will recycle steel and convert it into an estimated 500,000 metric tons of seamless pipe to be used throughout the world in the oil and gas industry. This project is unequivocally the largest single investment by a Chinese company in an American manufacturing project in the history of the United States. The entire facility is considered to be a \$1 billion project that will ultimately take several years to construct and is estimated to yield a \$2.7 billion infusion into the local economy during its first decade of operation.

On top of that, there is another new game in town (or at least close to town) — Canyon Port. Just past the town of Gregory there is another small town, Ingleside, where the former naval station is being converted into a thriving private enterprise. Private developers are scheduled to redevelop the abandoned naval station and purchase some nearby land on Harbor Island for a total land area of approximately 1,400 acres. The facility will ultimately be used as a storage, supply and logistics hub for offshore, deep-water drilling operations in the Gulf of Mexico. Multiple oil and gas tenants have already expressed a strong interest in the development, and, given its location to the reserves in the western Gulf, it will allow for quicker response times than its contemporary port developments, thus creating more economical supply chain operations. It also allows the service contractors, drilling companies and all of the ancillary companies to be more profitable. This project will dramatically increase all types of jobs in the Corpus Christi region, and is slated to have an impact of approximately 2,400 jobs once in full operation.

In the Corpus Christi region the words "La Quinta" aren't just correlated with fluffy beds, hot waffles and high-speed Internet at a hotel, but with the La Quinta Trade Gateway Terminal Project, which will open up an additional 1,100-acre greenfield site for the Port of Corpus Christi. The dredging project has already begun and by year end 2013, the federal extension of the 45-foot deep La Quinta Ship Channel is anticipated to be completed. Along with the extension of the channel, there are also plans to construct a 3-berth ship dock approximately 3,800 feet long with numerous cranes, a rail yard, a warehousing complex, and a cargo and container storage yard. What is so interesting about this is that not only will it create a significant amount of industrial real estate opportunities, but it will also open access and availability to the Panama Canal (currently being expanded), giving the

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Corpus Christi region easier access and inroads into the Asian markets.

What's the verdict for the industrial sector? All of the above projects continue to solidify the Corpus Christi region as a strong industrial community and prove that the industrial real estate market has a bright future and should bring investors a solid investment.

Retail

The Corpus Christi region is a second-tier market that did not see the extreme fluctuations of the boom in retail, nor did they see as great of a decline that began in 2008. This is not to say that we have not been challenged. While we worked to maintain a level plane in 2008, 2009 and early 2010, the industrial expansion in oil and gas brought many changes to the area. As previously mentioned, the Eagle Ford Shale, Canyon Port, the La Quinta Terminal Project and the Tianjin Pipe Plant are just a few of the latest announcements that will shape the future of Corpus Christi's retail sector.

Corpus Christi is a little sister to Houston and is a blue collar type market. Unlike Houston, our demographics support a more value oriented market. Our retail growth and/or replacement comes from a myriad of value-oriented tenants and from tenants that appear to be recession proof. Wal-Mart is opened three new superstores in October. These stores are located on South Staples Street and Carmel Parkway in central Corpus Christi on the site of the old Parkdale Plaza, at 6161 Saratoga Blvd. on the south side, and in the eastern area of Corpus Christi on Flour Bluff Drive and South Padre Island Drive. These stores have been 10 plus years in the making. The Parkdale store will be complimented by a 44,000 square foot retail building that broke ground this past summer. Proposed retail is in the pre-leasing stage at the Saratoga location and there does not appear to be adjacent retail for the Flour Bluff store. As a result of the new construction, Wal-Mart will vacate two older stores, one in Flour Bluff and one at SPID and Everhart, thus opening up opportunities for re-development along Corpus Christi's strongest commercial corridor.

HEB Grocery has responded to the Wal-Mart growth by fortifying and enhancing its existing locations. HEB's store located on Kostoryz and Gollihar was demolished, making way a larger state-of-the-art-store. HEB recently purchased adjacent land to expand its store on Robert Drive at Alameda Street and it is also totally remodeling its Alameda and Glazebrook store.

The proposed outlet mall in Robstown, just west of Corpus Christi proper and approximately 4 miles from the city limits of Corpus Christi, is back on track. The developers, Dolphin Ventures I, have proposed a 350,000-square-foot outlet mall with 70 to 80 tenants on approximately 45 acres next to the Richard M. Borchard Regional Fairgrounds at the intersection of U.S. Highway 77 and State Highway 44. The developers have named the project the Outlets at Corpus Christi Bay. It will have a development cost of \$50 million.

Mom-and-pops, value-oriented national tenants, restaurants, fitness centers and medical/dental practices are the most active segments in Corpus Christi and the surrounding markets. These tenants are starting to fill mid-block centers that were built between 2004 to 07. Many of the smaller landlords got on the bandwagon expecting rents of \$16 to \$20 per square foot for these mid-block centers. The mom-and-pop tenants are mainly entertainment and restaurant oriented. They have driven pretty hard bargains and filled shell space that had been unoccupied for upwards of 4 years. In making these deals, the tenants took between 4,000 to 7,000 square feet at rates of \$10 to \$14 per square foot with modified net charges; ultimately bringing cash flow to these centers and keeping the properties out of potential foreclosure.

As previously stated we have seen growth in the national restaurant industry along with the value-oriented/fitness segments. GNC has recently opened a store in Moore Plaza and is continuing to look at opportunities in this market. Cheddar's Restaurant recently opened its pro-typical store on SPID between Airline Road and South Staples Street. Golden Corral closed its older store on South Staples Street and built a brand new larger store adjacent to Cheddar's. Ghengis Grill recently purchased the closed 3,600-square-foot Krispy Kreme building, located at 5633 S. Padre Island Dr. and is now under construction. K Bob's Steakhouse has come back strong into this market. They recently opened in the old B&J's Pizza location in North Corpus Christi and at the former Chili's in Rockport. They will build a ground-up store in the Esplanade at North Shore Shopping Center in Portland.

New and expanding retailers to the region include GNC, Burke's Outlet, Bealls, Wells Fargo, Super Cuts, Cost Cutters, Rue 21, Kool Smiles for Kids, Subway, Approved Money, Little Caesars Pizza, Yoway Yogurt and other similar tenants.

The old Furr's Cafeteria located at 4331 So. Padre Island Drive had been in a bankruptcy/legal action for the past 10 or so years. It was finally released for foreclosure and sold in July. It will be home to a new hotel, possibly the first Hyatt Place.

Corpus Christi continues to remain steady with well-located shopping centers operating at healthy occupancies with Moore Plaza (Target Center) and La Palmera Mall leading the way. With the new industry bringing high paying jobs to this area,

the retail sector should stay strong and open up new opportunities for retailers not yet in this market.

Office

The Corpus Christi region's office market is performing slightly better than last year. There are only two Class A buildings, Frost Bank Plaza and One Shoreline Plaza, and their occupancy has risen to slightly above 80 percent. Rates range between \$17 to \$20 per square foot. Tenants taking full floors this year have been in either engineering or health/medical fields. Surprisingly, many of the petrochemical related companies have not expanded in Corpus Christi. The expansion has taken place in either Houston or San Antonio.

Class B and C buildings have better occupancy, averaging in the mid-80s to low-90s. However, with rental rates that range between \$12 to \$15 per square foot gross, building owners are having trouble paying for the operation of their buildings. Recently The Prosperity Bank Building, a low Class B building, was sold at a foreclosure auction to a local buyer. Several other Class B buildings are on the brink of foreclosure as well.

There have been no new multi-story office buildings built in Corpus Christi since the 1980s, and there doesn't appear to be a need for one in the near future.

Multifamily

The apartment market in Corpus Christi continues to grow stronger. Average occupancy hovers around 94 percent. Rents range from \$1.05 per square foot for an efficiency and \$0.75 per square foot for a 2-or 3-bedroom unit. New off-site housing for students at Corpus Christi A & M, located close to intersection of Ennis Joslin and South Padre Island Drive, has recently been completed.

Developers are scouting the market for possible sites for new construction. However, rents have not reached the level needed to support the cost of new construction.

— *Lynann Pinkham, Matt Cravey, and Josh Gaines are all affiliated with NAI Cravey Real Estate Services, Inc.*

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