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A Sizzling Market on America's 'Third Coast'

By Julie Bennett

Second-home buyers priced out of the East and West Coast housing markets are discovering an affordable "Third Coast," the 367-mile Texas coastline on the Gulf of Mexico.

The area is so hot that buyers are snapping up condos and single-family lots on the state's barrier islands and near its fishing villages long before the units are built or the lots are available.

Dr. James Gaines, research economist at the Real Estate Center of Texas A&M University in College Station, says the state's evolving popularity reminds him of the Georgia and South Carolina coastlines in the 1970s, "when buying there was still affordable." Today, he says, you have to pay over \$1 million for a seaside cottage there and \$2 million to \$3 million for oceanfront property in Florida or California. In Texas, you can still buy a lot or a condo on the water for around \$300,000. If you can find them, that is.

Unlike Florida, whose East Coast is one long, continuous beachfront, Texas beaches are tucked into pockets, surrounded by land that cannot be developed. Much of the coastline lies in wetlands, is protected by the state or is already owned by a handful of families, Dr. Gaines says. These far-flung Texas beaches are worth looking for, he says, because the weather is good year-round and the waters are great for fishing and boating. And except for Galveston, which is 70 miles from Houston, "none of the other beaches are dominated by an urban area."

Texas beach towns even escaped damage from recent hurricanes, although they have not always been as fortunate. Long-time Galveston resident Michelle Hatmaker, owner of HatmakerGroup.com GMAC Real Estate, Galveston, and the developer of Ponticello, a gated community of single-family lots, says the city had been a "playground for wealthy Texans" until 1900, when a hurricane devastated its buildings. The Army Corps of Engineers, Ms. Hatmaker says, built a seawall and raised the town by 14 feet.

The rebuilt city became a playground again, this time for Houston oil families, until their own fortunes crumbled in the early 1980s, and resort-style construction stopped. "It seemed like Galveston was asleep for a long time," says John Sullivan, a resident who is a real estate investor.

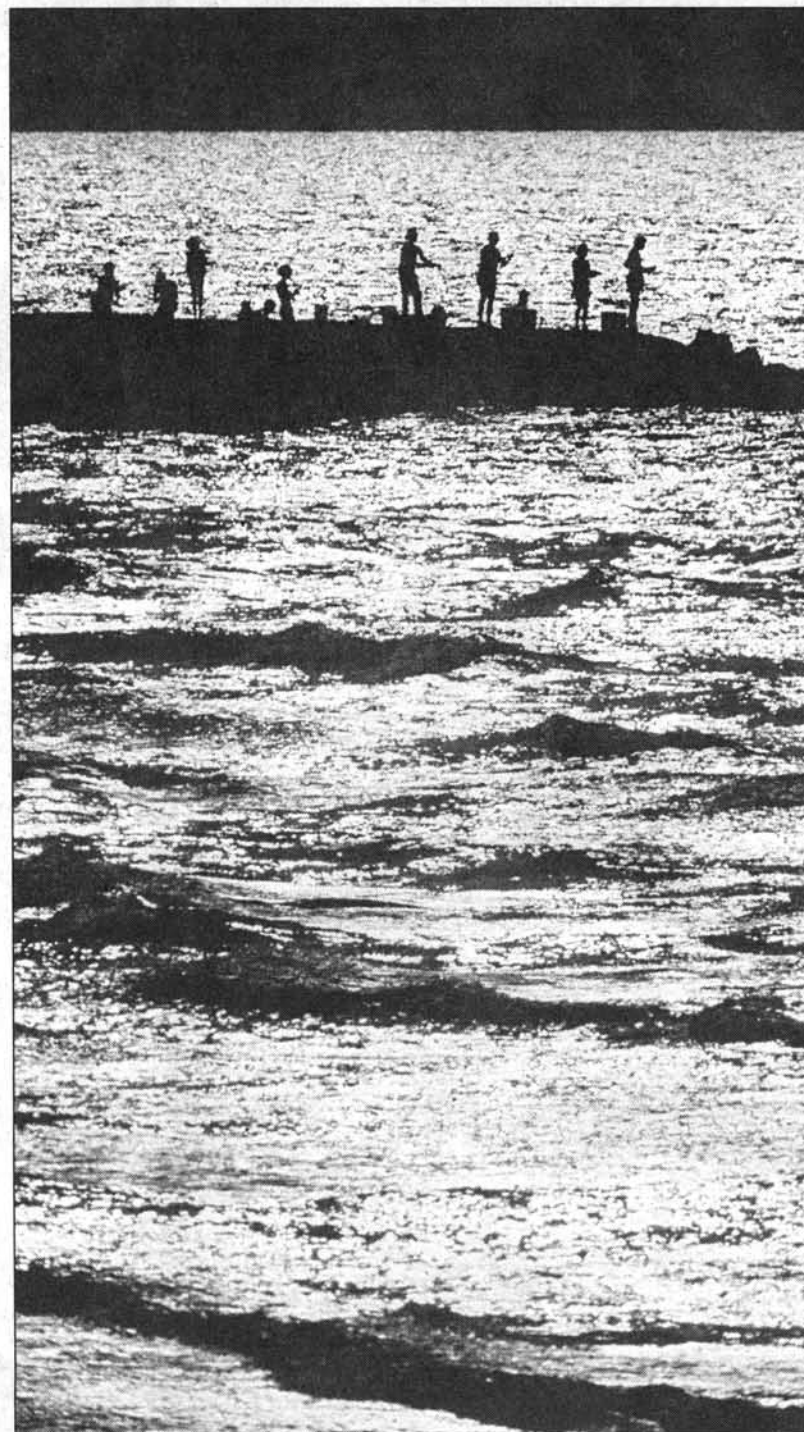
The Falcon Group of Houston is credited with the city's reawakening.

Says Richard Anderson, Falcon's vice president of development: "We realized that baby boomers would be looking for vacation property, so we bought some land in Galveston in 2000 and spent four years entitling and designing a product to attract them." That product is Palisade Palms, a condominium community that will take several years to complete. The first phase, which will open early next year, consists of two 27-story towers containing 288 units, 92% of which are already sold. Prices range from \$450,000 for a one-bedroom unit to about \$1.6 million for a penthouse with four bedrooms and a large balcony. The majority of buyers, Mr. Anderson says, are from Houston, but others are from "all over the country."

Another recent development is Tuscany Beachfront Condominiums on Seawall Boulevard, in front of Galveston's Stewart Beach, co-developed by Real Venture Corp. of Galveston. Prices for the 56 units start at \$158,000 for a one-bedroom and go up to \$490,000 for a 1,200-square-foot corner unit with two bedrooms and a balcony. Although groundbreaking isn't until December, Louis Conrad, CEO of Real Venture Corp., says he's already sold 15 units, to Texans and "to speculators from as far away as California. These people follow the market, and I want to be able to say that my buyers made a good profit."

Some speculators live nearby. Mr. Sullivan of Galveston and his mother, Cindy, both bought apartments in Diamond Beach, a condo resort now being built by Randall Davis Co. of Houston. Stephen Swan, its president, says prices for the project's first 120 units average \$500,000 and half of them are already sold. Mrs. Sullivan says she was attracted by the beach views and the amenities, which include a spa and wellness center, a very large pool and a lazy river, "where you can sit in a tube and languish."

Randall Davis is also building a second condo resort, Sapphire Beach, on South Padre Island. South Padre, on the tip of the protected Padre Island National Seashore, was never asleep, because the town is a spring-break haven for Midwest college students. Now developers are luring them, and their parents,



Silhouette of people fishing from a jetty in Galveston Bay

back with luxury condos. Sapphire Beach, for instance, is a 32-story tower that will contain 230 units with an average price of \$650,000, Mr. Swan says. Although the tower is far from complete, 78% of the condos are sold to buyers from 25 states, plus Puerto Rico and Mexico, he says.

Hal Jones, principal of Hal Jones

Development of Austin and Houston, is targeting second-home buyers who want a quieter retreat. He's building the Reserve at St. Charles Bay, a planned community near Rockport, a fishing village halfway between Galveston and Padre Islands. "We've designed a high-end coastal community surrounded by a

lagoon system," he says. "You can walk out your back door, get into your boat, and zip straight into the Gulf of Mexico."

The Reserve has 270 single-family lots which will sell from \$350,000 to the mid-\$500,000s, depending on location, Mr. Jones says, and will include 120 condos starting at \$350,000 in a four-story building near the community's centerpiece, an upscale fishing lodge. "We're still in the permitting stage," Mr. Jones says, "but we already have buyers waiting to make their reservations."

Buyers are also lining up for a dozen or so other projects planned for the central Texas coast, near Rockport or on 18-mile-long Mustang Island. Forestar Real Estate Group of Dallas and Douglasville, Ga., for example, has designed Tortuga Dunes, a Caribbean-style community with open breezeways

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to the beaches of Mustang Island. Nearby Newport Beach and Golf, a 1,800-acre resort community, will include an Arnold Palmer Signature Golf Course.

If these amenities and prices appeal to you, Texas A&M University's Dr. Gaines offers a few words of caution. "Don't buy anything without traveling there first," he says. "There are oil refineries and other industries along the Texas coast. Some beaches are pristine, but you have to be more careful of others. And the only access into more remote regions may be a two-lane road, which will be your only way out if a hurricane is coming."

Finally, Dr. Gaines says, be patient. "In this kind of market we always see fairly significant ebbs and flows. There is little doubt that in time the Third Coast will blossom like the East Coast, but it may take several years to get there."