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El Paso Reinvents Itself for New Economy

By Mark G. Dotzour and Jennifer S. Cowley



El Paso is a city in transition. For four centuries, it has been a major North American commercial center. Since 1994, when the North American Free Trade Agreement went into effect, it has endured the slings and arrows of economic turmoil as its mainstay, the apparel industry, transferred operations south of the border to take advantage of lower labor costs. Local officials estimate that nearly 12,000 El Paso garment jobs were lost in the past five years.

Today, this city of 700,000 is reinventing itself to secure a position in the new global economy. El Paso is diversifying, with steadily growing employment in distribution, call centers and international trade. About 10,000 new manufacturing jobs have nearly offset the losses in the apparel industry.

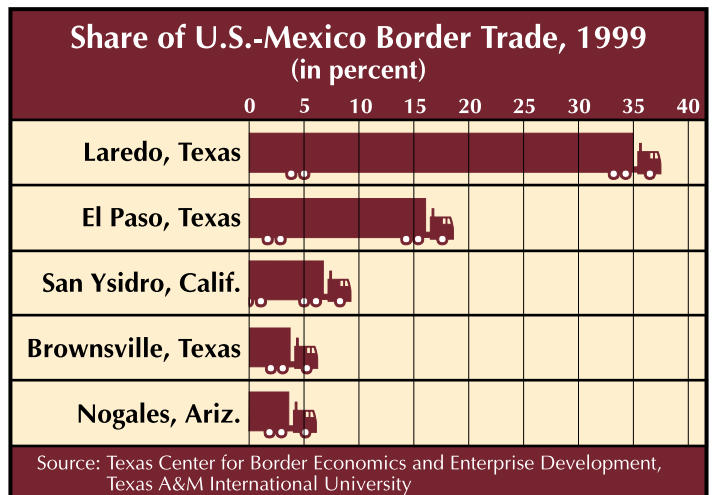
El Paso's economy is inextricably linked with that of Juarez, Mexico, and the thriving *maquiladora* industry. Maquiladoras, which are manufacturing or assembly plants owned by non-Mexican companies, import raw materials and components from the other countries and export the finished products. As of February 2000, Juarez was home to 300 such plants employing 280,000 people, up from 190,500 in 1997.

Inbound and outbound call centers, including AT&T, MCI, Southwestern Bell and State Farm, have proliferated in the El Paso area in the past few years. Attracted by the availability of college students, bilingual workers and the area's lower wage rates, 13 area call centers employ more than 7,000 workers.

Economic development initiatives begun in the early 1990s are starting to pay dividends. Appliance manufacturer Helen of Troy located its world headquarters in northwest El Paso, and Boeing opened a strategic manufacturing center for electronics for the defense industry, employing more than 1,000 in 1999.

Ft. Bliss, an air defense training facility for the U.S. Army, generates roughly 10 percent of the local economy. As of March 1999, the post supported 11,000 active military personnel and more than 6,500 civilian employees. The size of the facility — more than one million acres — gives Ft. Bliss the distinction of being the only site in the United States where a missile with a 150-mile range can be launched without ever leaving government air space.

Nearly 32,000 military retirees and their families also wield significant influence on the local economy. An increasing focus on this retiree market has led to the development of ten assisted-living projects in the city.





RESIDENTIAL BUILDING

activity in the area has been robust, with the lion's share of development occurring in east El Paso.

El Paso real estate markets have been active in recent years. A total of 56 subdivisions were recorded in 1999, including 3,626 residential dwelling units, compared to 2,056 in 1998. Almost 80 percent of the platted lots are in east El Paso, 12 percent are in northwest El Paso, and 7 percent are in northeast regions of the city. Single-family building activity has increased substantially in the past two years, with nearly 3,500 houses permitted in 1999, up 50 percent from 1997. Building activity remained robust through the first half of 2000.

The average value per new El Paso dwelling unit was \$51,600 in 1999, **nearly \$2,900 less than the average value in 1987**. Clearly, the housing market has changed in El Paso in the past ten years, and homebuilders have adapted by providing low-cost affordable housing that fits local market demand.

Apartment construction was active in 1999, with 724 units permitted, up substantially from 251 permitted in 1998. An additional 200 units had been permitted through May 2000. According to Apartment MarketData Research, the overall occupancy rate was 95 percent at the end of June. The average rent per square foot increased from 61 cents in 1998 to 62 cents in 1999.

Substantial job growth in Juarez has boosted sales for retailers in downtown El Paso. Four million pedestrians cross the Paso del Norte Bridge into downtown El Paso every year, while eight million cars cross the Bridge of the Americas. Before the peso was devalued in early 1995, rent levels for retail space downtown were among the highest in the country. The devaluation had disastrous effects on the downtown retail market, causing many retailers to close.

The value of the peso has stabilized in the past two years, and downtown retail activity is on the upswing. According to a University of Texas at El Paso business researcher, per capita income is expected to increase by more than 5 percent over the next two years, and total retail sales could exceed \$6 billion by 2001.

Major regional malls are located in the northwest and east portions of the city. Five new shopping centers are scheduled to be completed in 2000 including developments along Redd



and Zaragoza. Lowe's has announced the opening of three area stores; Home Depot currently operates two area stores. Kohl's, Bed Bath and Beyond, SteinMart, Walgreens and Hobby Lobby all have plans to expand into the local market. Retail rents have been rising, with new space ranging from \$12-\$13 per square foot.

The office market currently has more than seven million square feet of space, with an overall occupancy rate of 87 percent. The central business district has 2.7 million square feet and an occupancy rate of 78 percent. Rental rates range from \$9 to \$15 per square foot.

The growth in Juarez maquiladoras has had a positive impact on El Paso's manufacturing and warehouse market. Because construction and land costs are higher in Juarez, capital-intensive manufacturers that supply parts and equipment needed by the Juarez maquiladoras tend to locate in El Paso. Labor-intensive manufacturing plants locate across the border in Juarez because of the dramatic reduction in labor costs.

International trade has created substantial demand for warehouse space for the El Paso trucking industry. More than 700,000

trucks per year cross El Paso area international bridges. The El Paso industrial market has approximately 48.5 million square feet of space; Juarez adds 29 million square feet. During 1999, vacancy rates fell 1 percentage point to 7.3 percent, according to local real estate professionals.

Several major construction projects are underway in the El Paso area. Lear Corporation is building a 351,000-square-foot facility, and Home Products International will occupy a 404,000-square-foot plant. Border Steel is planning a \$30

El Paso's economy is inextricably linked with the thriving maquiladora industry in Juarez.

million expansion, and Thomson Consumer Electronics moved into a 950,000-square-foot plant in Socorro, N.M. Acer Computers is moving their computer manufacturing operations to Juarez. Many Acer suppliers are following them from Taiwan.

Revitalization of the downtown El Paso area continues. In May 2000, local voters approved four bond issues that provide funds for new libraries and parks, doubling the size of the city zoo and building a history museum downtown, all of which will enhance quality of life in the entire community.

Long-range plans for the downtown area include the Rio Grande River Park concept, which will provide bike paths and lighted pedestrian access along the Rio Grande, with a connection to the downtown central business district. The city also is exploring possible sites for a 20,000-seat arena that may be related to the Riverpark project. The city, Fannie Mae, downtown property owners and local lenders are working together to identify downtown properties that can be converted to downtown housing.

El Paso faces challenges as well as opportunities in the new century. Water cost and availability is one of the keys to future area growth. An estimated \$1 billion must be spent over the

next 15 years to meet future water demands. Plans include a new water treatment facility that will triple current capacity and building a 30-mile pipeline that will change the city's water supply from groundwater to surface water sources.

Education and training of the labor force will be essential for El Paso to compete in the new economy. A \$45 million federal grant will give the city an opportunity to pioneer educational and training programs to assist local workers in making the transition from unskilled positions to information-age jobs.

Positioned at the center of a major trade route through the Americas, El Paso seeks to become a strategic gateway for e-commerce and telecommunications industries in Mexico and other Latin-American markets. Having played a vital role in international commerce for more than 400 years, the city stands to accomplish that and more. ♣

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