Trepp®

CRE Research

March 2017

MSA Snapshot: Dallas in High Demand as Commercial Properties Fill Up

Over the last decade, increased demand has strained core urban assets in major markets such as New York, Miami and Washington, D.C., and has driven investors to emerging "New World Cities." These are mid-sized markets that "typically excel in high-tech and high-value sectors supported by a robust infrastructure [and] a favorable quality of life."* The Dallas-Fort Worth-Arlington MSA has risen to be one of top property investment markets in this category. This is corroborated by CMBS data, as the Dallas MSA ranks seventh among all market areas in outstanding private-label loan balance, and fourth in total outstanding loan count.

[Figure 1] Top 10 MSAs by Outstanding CMBS Debt

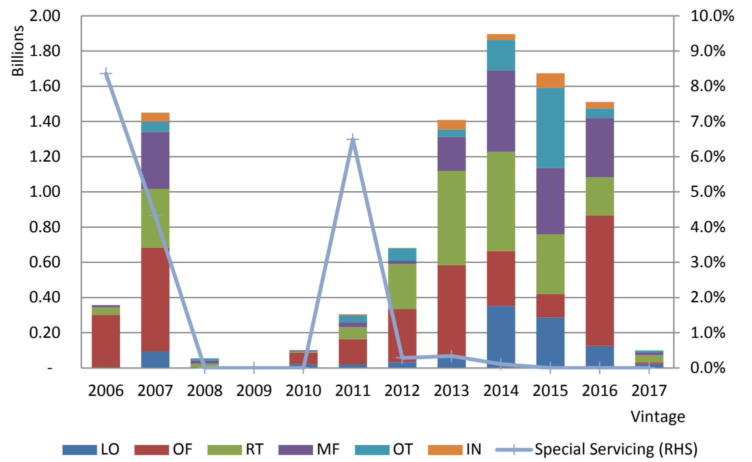
MSA	Current Balance ($B)	Loan Count
New York- Newark-Jersey City, NY-NJ-PA	76.1	2,132
Los Angeles-Long Beach-Anaheim, CA	23.8	1,323
Washington-Arlington-Alexandria, DC-VA	16.2	575
Chicago-Naperville-Elgin, IL-IN,WI	13.3	700
Houston-The Woodlands-Suagr Land, TX	11.2	885
Miami-Fort Lauderdale-West Palm Beach, FL	10.5	500
Dallas-Fort Worth-Arlington, TX	**10.0**	**825**
San Francisco-Oakland-Hayward, CA	9.0	411
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	7.9	459
Atlanta-Sandy Springs-Roswell, GA	7.8	639

Source: Trepp

Job Growth Drives Office Vacancies Down, Issuance Up

According to Trepp data, Dallas area properties collateralize about $10.0 billion worth of outstanding US CMBS debt. Office notes contribute the largest portion of that figure with 29.0%, followed by retail (26.4%) and multifamily loans (18.7%). Lodging debt comprises 12.0% of Dallas area CMBS, and industrial notes account for 2.8%. The MSA has a mere 2.6% of outstanding debt in special servicing, a low figure compared to the 5.9% in special servicing for all US private-label CMBS. The majority of Dallas' specially serviced balance is from the 2006, 2007, and 2011 vintages.

[Figure 2] Dallas MSA: CMBS Balance by Property Type



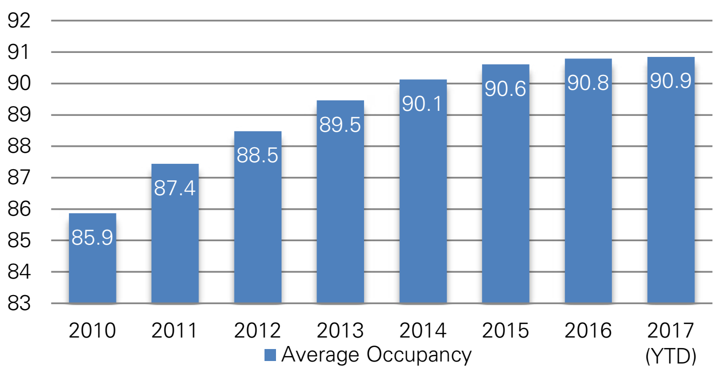
Source: Trepp

The Bureau of Labor Statistics reports that the unemployment rate for the Dallas MSA dropped from 4.0% in Q2 2016 to 3.5% in Q3 2016. The highest growth segments for employment were office jobs—more specifically, office jobs within the financial activities, business services, and trade, transportation and utilities sectors—which grew by an average of 4.6% over the past year. According to CRE data provider Xceligent, this job growth within the sector corresponded to a 5.2% drop in Dallas office vacancy, which was down to 14.5% at the end of 2016. For Dallas office CMBS loans, occupancy currently averages 87.5%.

Per an Xceligent report, total vacancy for the Dallas MSA has trended downward for both the office and industrial sectors since Q4 2015. Net absorption for area office space totaled roughly six million square feet in 2016, while industrial net absorption tallied over 19 million square feet. Trepp data confirms these trends as average loan occupancy has consistently increased since 2010. Average loan occupancy clocked in at 90.6% in February 2017, with the multifamily and industrial sectors posting the highest rates of 94.7% and 94.3%, respectively.

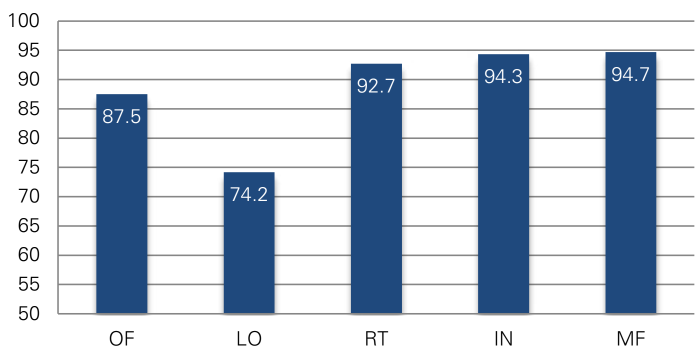
**JLL 2017 Investment Intensity Index*

[Figure 3] Dallas MSA: Historic Average Occupancy



Source: Trepp

[Figure 4] Dallas MSA: Current Occupancy by Property Type



Source: Trepp

According to Xceligent, Class A office properties underwent the highest growth in net absorption within the office sector. In particular, those properties located in submarkets with low vacancies and minimal construction activity in particular are expected to receive increased rents throughout 2017. Some of those submarkets include Preston Center, Denton/ Lewisville, and South Irving/Grand Prairie. Conversely, Far North Dallas has the highest amount of office construction in the pipeline by far at 4.04 million square feet. The Uptown submarket follows with 1.27 million square feet. As for the industrial sector, the Great Southwest submarket leads with 4.43 million square feet in construction. North Fort Worth and South Dallas are next up with 1.80 and 1.79 million of industrial square feet in progress, respectively.

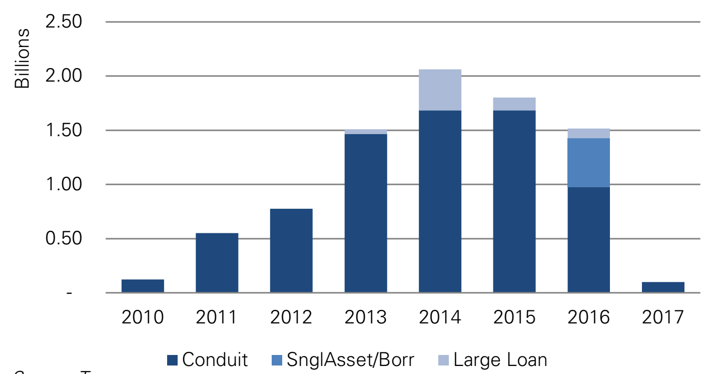
There was a steep uptick in CMBS issuance for Dallas this past November, thanks to the closing of the single-asset, $452.3 million CityLine State Farm loan. The collateral is an office complex in Richardson, Texas where State Farm Insurance is the largest tenant occupying 93.2%. The office buildings span a combined 2.3 million square feet, and have most recently been appraised for $842.0 million. This loan pushed 2016 private-label CMBS issuance for the Dallas MSA to $1.5 billion for the year. However, that mark still falls below 2014 and 2015 issuance levels of $2.1 billion and $1.8 billion, respectively. Even after picking up in 2013, yearly Dallas MSA issuance has still not touched its pre-crisis high of $5.0 billion in 2007.

Interest only loans (both partial and full) comprised roughly 64.1% of Dallas area CMBS issued over the last 12 months, while the remaining 35.9% were balloon payment notes.

Underlying Financials Are Stellar Across the Board

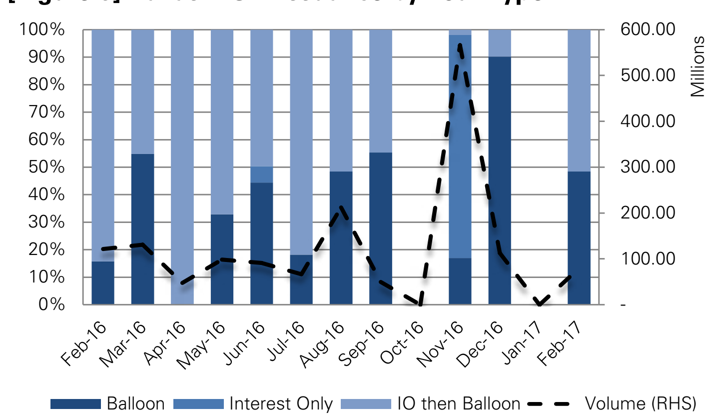
The average LTV for Dallas CMBS loans issued in the first half of 2016 came in at 67.7, while those issued in the second half boasted an average LTV of 66.5. According to Trepp Senior Managing Director Manus Clancy, the slightly lower securitized LTVs from the second half of the year were "likely in anticipation of risk retention regulations coming into effect."

[Figure 5] Dallas MSA: Issuance by Deal Type



Source: Trepp

[Figure 6] Dallas MSA: Issuance by Loan Type

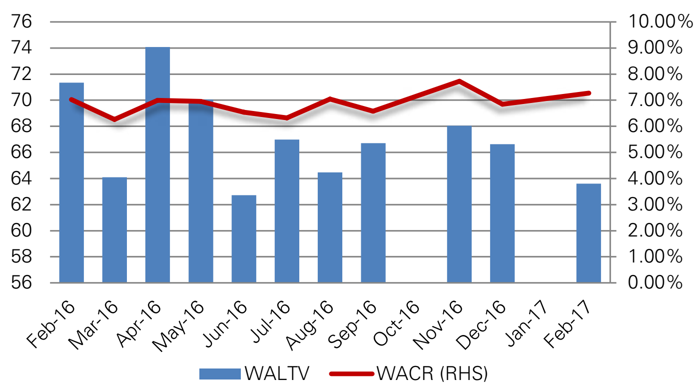


Source: Trepp

Average cap rates for Dallas area loans issued in 2016 fluctuated around 6.7% at securitization. That figure inched up to 7.3% for loans securitized in February.

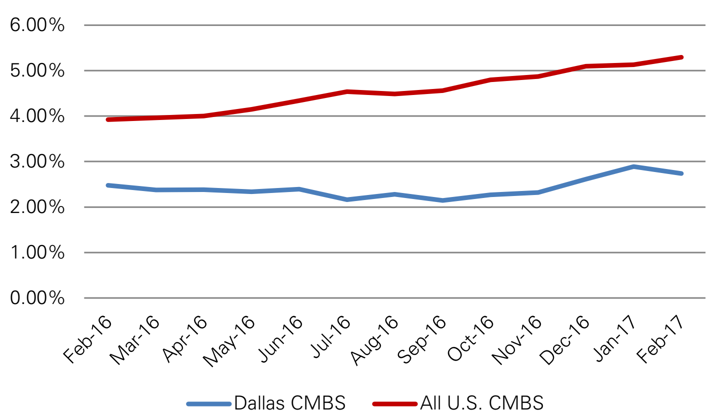
The Dallas MSA has a relatively low CMBS delinquency rate that continues to sit comfortably below the national delinquency rate, as it has for the past few years. The Dallas delinquency rate did increase every month from September 2016 to January 2017, reaching 2.89% in the process, but the rate dropped to 2.73% last month.

[Figure 7] Dallas MSA: Conduit LTV & Cap Rates



Source: Trepp

[Figure 8] Dallas MSA: Delinquency Rates



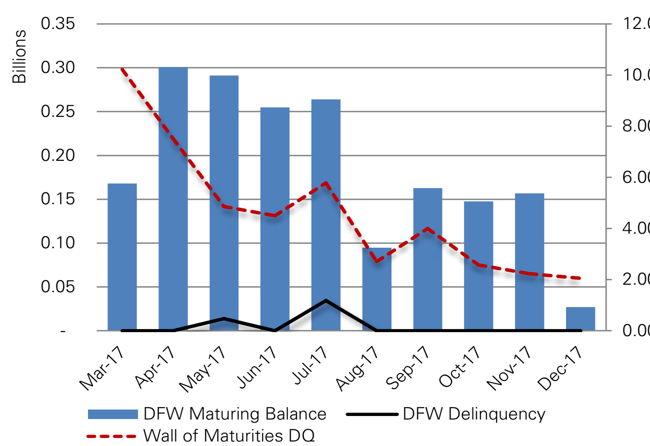
Source: Trepp

Looking Ahead: Maturing Debt in Good Health

There is approximately $2.0 billion of Dallas-backed CMBS debt across 172 loans scheduled to mature throughout the remainder of 2017. Those loans carry a weighted average DSCR of 1.40x. The delinquency rate for those loans is a tidy 1.4%, especially when compared to the overall 4.9% delinquency rate for the wall of maturities coming due in 2017.

CMBS loans behind Dallas area properties that are maturing between now and 2021 boast an average occupancy of almost 90%. However, that figure could soften in the months to come depending on completed construction volume and subsequent demand. As previously mentioned, there is a substantial amount of construction in the pipeline, particularly in the industrial and office sectors. However, the upward trend in Dallas occupancy is expected to persist, as the MSA continues to receive heightened demand.

[Figure 9] Dallas MSA: Maturing Loans



Source: Trepp

For inquiries about the data analysis conducted in this research, contact press@trepp.com or 212-754-1010.
For more information about Trepp's commercial real estate data, contact info@trepp.com

About Trepp

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