Top 20 CMBS Markets for Growth and Investment

As property investors increasingly focus on fast-growing "18-hour" cities, both major and secondary markets are experiencing accelerated growth rates. As a result, CMBS deals feature a growing volume of loans against properties in those markets.

Top-tier markets—New York, Los Angeles, Chicago, Washington, D.C., San Francisco and Boston—are still showing consistent absolute economic growth. But property prices in the "big six" 24-hour cities are reaching peak levels, especially for office and retail properties.

The higher costs of living and higher cost of business in those markets are driving investors to expand into other markets, including up-and-coming secondary areas boast above-average urban populations. Those areas include Austin, Texas; Tampa, Florida; Orlando, Florida; Dallas, Texas; and Charlotte, North Carolina.

Employment

Major markets, such as Dallas, Houston, Philadelphia, Atlanta, Miami, Phoenix, Detroit, Seattle and Minneapolis, posted the highest absolute and relative growth in employment during the 12 months through March 2017, netting 580,000 new jobs for a 2.61% growth rate. Secondary markets – meaning those with employment bases of 900,000 to 1.5 million – followed,

EMPLOYMENT ($ MILLIONS)				
	16-Mar	17-Mar	Abs. Change	% Change
Top-Tier	29.13	29.56	0.43	1.48%
Major	22.23	22.81	0.58	2.61%
Secondary	22.87	23.41	0.55	2.39%
All U.S.	**145.8**	**143.7**	**-2.10**	**-1.44%**

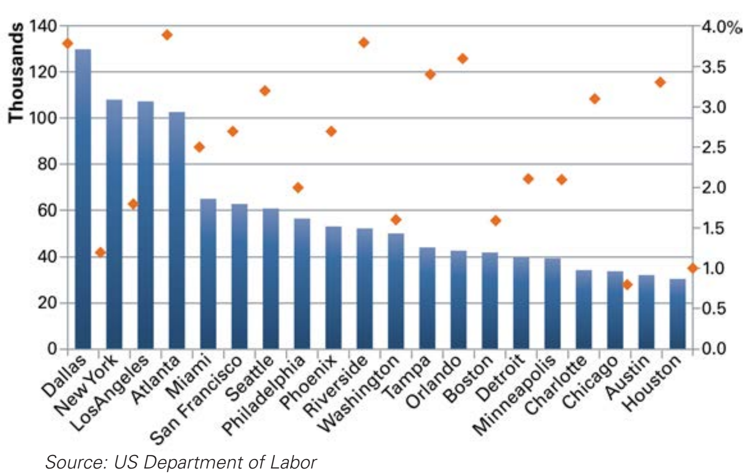
Source: US Department of Labor

with a 2.39% growth rate in jobs. Both alternative market categories are now outperforming the gateway cities in job creation, as the top-tier markets gained a total of 430,000 jobs, for a 1.48% growth rate during the period.

Dallas, New York, Los Angeles and Atlanta lead absolute job growth over the past year with more than 100,000 new jobs each. On the relative scale, Dallas, Atlanta, Riverside-San Bernardino, California, and Orlando outperformed, as each experienced greater than 3.5% employment growth.

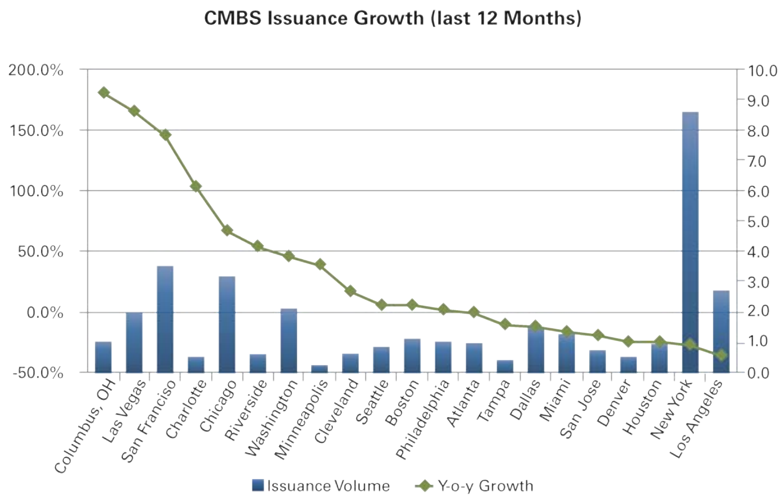
Employers are flocking to major and secondary cities where it is less expensive to expand and do business, which in turn attracts job seekers and boosts population. The millennial demographic is a large driving factor for investor interest in 18-hour cities, which offer not only affordability, but also a vibrant "live, work and play" culture where entertainment and recreational options are as abundant and accessible as career opportunities. Rising alternative cities have several characteristics in common: moderately priced housing, contemporary urban developments with amenities, and strong transit-oriented infrastructure.

Metro-Area Nonfarm Job Growth (March 2015-2016)



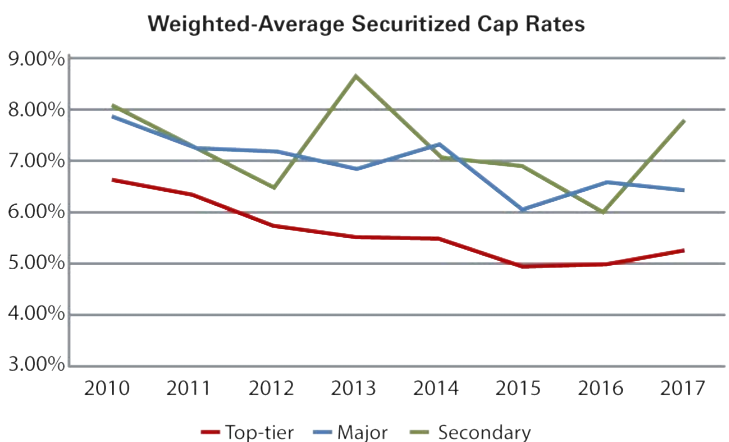
Source: US Department of Labor

CMBS Organizations



Source: Trepp

The combination of compressed property capitalization rates and heavy competition from foreign investors in core markets is driving many investors, both foreign and domestic, to alternative US markets, particularly for retail investments. Second-tier cities boast higher yielding property investment opportunities. Data from Trepp LLC reflect this shift, as the markets displaying high private-label CMBS issuance growth are no longer dominated by the 24-hour cities, but rather an assortment of secondary, major and top-tier metropolitan areas



Source: Trepp

**Based on current "as-is" values at securitization*

Leading Markets

Seattle, Las Vegas, Atlanta and Orlando top Trepp's CMBS market rankings. These markets feature robust population growth, employment growth, and solid CMBS loan performance. Seattle, Las Vegas, and Orlando are each in states that don't have an income tax, and Georgia has a reputable low tax burden and business-friendly climate. Some of the top markets are performing better than others in terms of private-label CMBS origination growth, which may signify that different types of lenders are actively providing financing.

Metros in the Middle

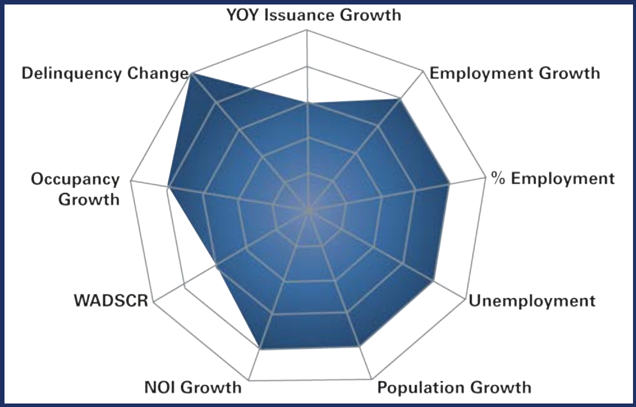
Metros like Phoenix, Dallas, Tampa, Boston, Charlotte, Denver, and Riverside have healthy job growth, and each (with the exception of Boston) posted employment growth rates of more than 2.0% for the year. These markets experienced varying CMBS loan performance; some outperformed while others struggled with rising delinquencies, below-average DSCR, or sluggish NOI growth. Still, these middle-ranking markets could still provide interesting opportunities for CMBS lenders, as some of the lackluster CMBS growth rates may be attributed to loans with lower credit quality in the wall of maturities.

Slower Growth Markets

The markets at the bottom of Trepp's ranking are characterized by slower growth rates overall, and varying levels of improvement for loan performance. San Jose, Philadelphia, Columbus, and New York are within this group. These markets posted lower relative employment growth rates, and less active population growth. With the exception of Philadelphia, average occupancy decreased in each of these markets for the five major property types. These metros offer steady—although relatively slower—growth with less risk compared to some of the faster growing areas.

THE RANKINGS:

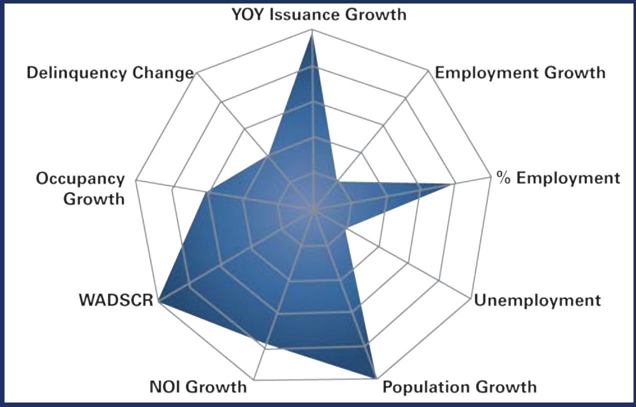
#1: Seattle-Tacoma-Bellevue, WA



Seattle takes the #1 ranking for top CMBS market for growth and investment. The metro area is home to a diverse mix of key industries, including information tech startups, clean technology, and manufacturing & maritime. Jobs grew by 61,200 over the last year, which is a high 3.2% in relative growth. Unemployment is low at 3.7%, and population growth is an elevated 1.9%.

The MSA has an outstanding CMBS balance of $3.38 billion across 228 loans. $858 million has been issued over the last 12 months, which is a year-over-year 7.8% increase. Seattle loans also posted an average occupancy growth of 0.33%, and 0.42% NOI growth from the prior fiscal year. The delinquency rate has improved from 3.8% 12 months ago to just 3.0% in April, and loans currently have a WADSCR of 2.06x.

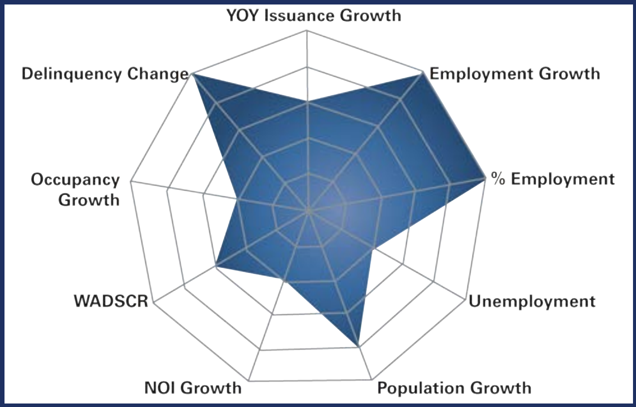
#2: Las Vegas-Henderson-Paradise, NV



Las Vegas is experiencing superior issuance growth, population growth and DSCR. Las Vegas secures a CMBS balance of $7.3 billion across 320 notes. $2.0 billion has been issued over the last 12 months, which more than double the amount issued in the 12 months prior. Las Vegas loans have a strong 2.45x weighted-average DSCR, and average NOI has grown by 0.6%. Average occupancy also increased by 0.24% in the last year.

The tourism-driven MSA added 29,200 jobs, which amounts to a strong 3.1% employment growth rate. The Las Vegas population expanded by 2.2%, as the area offers a low cost of living as well as a business-friendly environment with no state, individual, or corporate tax. However, the unemployment rate is relatively high at 4.8%. The delinquency rate also went up by 0.32 percentage points in the last 12 months to 7.19%.

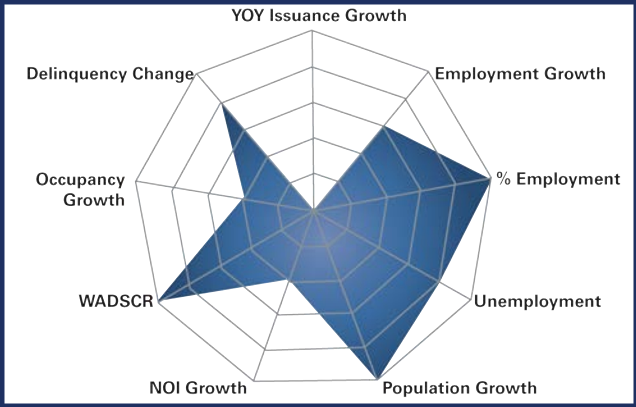
#3: Atlanta-Sandy Springs-Roswell, GA



Atlanta is showing noteworthy employment growth, both absolute and relative. The MSA is becoming a leading center of business, trade and manufacturing, and created 103,100 jobs in the last year. This amounts to a robust 3.9% employment growth rate. The delinquency rate has dropped significantly to 4.46% from 5.86% in April 2016. The Atlanta population grew by 1.6%, and the unemployment rate is just slightly above average at 4.6%.

There are a total of 610 outstanding Atlanta loans, which combine for $7.6 billion of CMBS debt. $983 million has been issued over the last 12 months, which is a -0.8% year-over-year growth rate. Atlanta loans have a solid WADSCR of 1.89x, but posted lower growth rates for occupancy (-0.17%) and NOI (-0.1%).

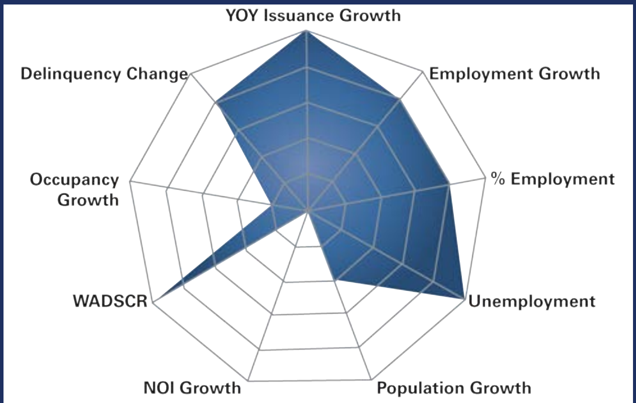
#4: Orlando-Kissimmee-Sanford, FL



Orlando is the top 4th MSA overall due to its momentous employment growth, population growth, and improved loan performance. WADSCR is an elevated 2.84x, and the delinquency rate has improved by nearly half a percentage point in the last year to 2.18%. The Orlando MSA secures $3.4 billion of CMBS debt across 228 notes. Year-over-year private-label issuance is down by 70.9%, as a mere $257 million was securitized over the last 12 months. Orlando loans averaged a -0.15% change in average occupancy, and NOI growth was slightly down at -0.07%.

Orlando experienced a high 2.5% population growth rate, while unemployment is a healthy 3.9%. The metro area's economy is driven by leisure and hospitality, agriculture and tourism. Jobs increased by 42,800, or 3.6% on the year.

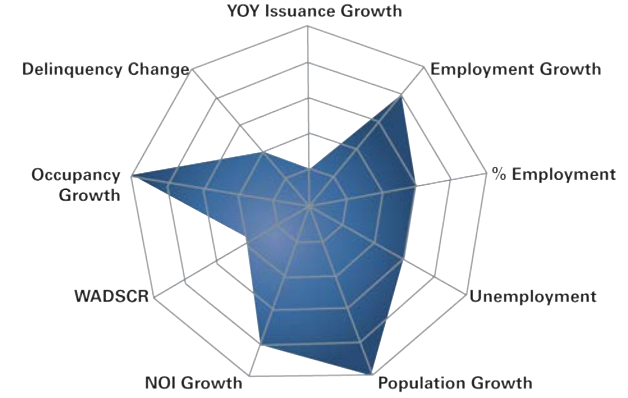
#5: San Francisco-Oakland-Hayward, CA



Top-tier market San Francisco posted notably high employment growth rates. The MSA added 63,000 jobs over the last year, which is an elevated 2.7% employment growth rate. San Francisco also has a low unemployment rate of 3.5%, however population growth is less impressive at 0.8%. Key industries include tourism, technology, and financial services.

The San Francisco area has an outstanding CMBS balance of $9.1 billion across 391 loans. $3.6 billion has been issued over the last 12 months, which is more than double the amount issued in the 12 months prior. San Francisco loans averaged -0.61% NOI growth from the prior fiscal year and -0.59% occupancy growth, however the weighted-average DSCR is particularly high at 3.15x. The delinquency rate has improved slightly by 0.2% to just 1.3% in April.

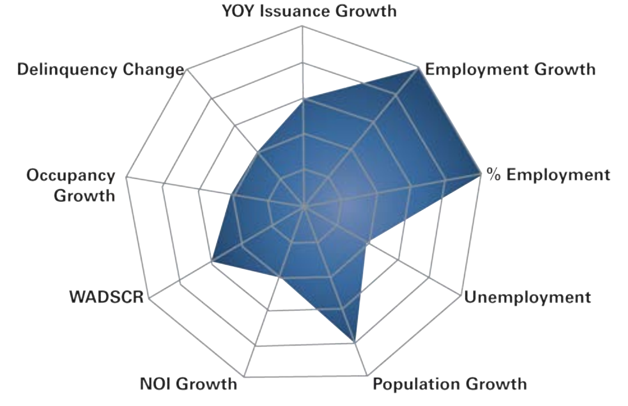
#6: Phoenix-Mesa-Scottsdale, AZ



Major market Phoenix boasts sizeable growth in employment, population, NOI and occupancy. The MSA had an active population growth rate of 2.1%, and unemployment is 4.1%. 53,400 new jobs were added in the last year, amounting to a relative growth rate of 2.7%. Economic growth is propelled by advanced manufacturing, as well as renewable energy, bioscience and technology.

Phoenix loans have a WADSCR of 1.89x, and posted robust average occupancy growth of 0.94%. Average NOI growth was also exceptional at 0.44%. Phoenix secures $6.1 billion across 427 CMBS loans. Issuance growth came in at -63.6%, with $500.7 million issued over the last 12 months. Delinquency has risen by nearly 0.7 percentage points over the last year to 6.32%.

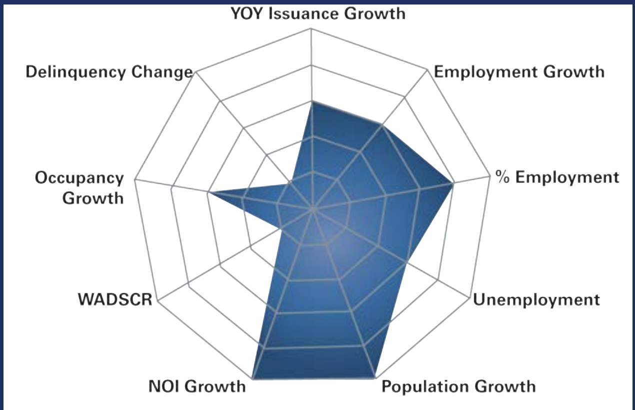
#7: Dallas-Fort Worth-Arlington, TX



The Dallas MSA posted the highest absolute job growth in the past year, surpassing each of the top-tier markets with a total of 129,700 new jobs for a 3.8% growth rate. According to Xceligent, office jobs within financial activities, business services, and trade, transportation & utilities experienced the highest growth. The unemployment rate is 4.3%, and population growth is a high 2.0%.

Properties in the Dallas MSA secure $9.7 billion of CMBS paper across 777loans. $1.5 billion was issued over the last 12 months, setting issuance growth at -12.9%. Dallas loans have a weighted-average DSCR of 1.92x, and a climbing delinquency rate of 3.03%. NOI and occupancy growth were both slightly negative year-over-year at -0.19% and -0.18%, respectively.

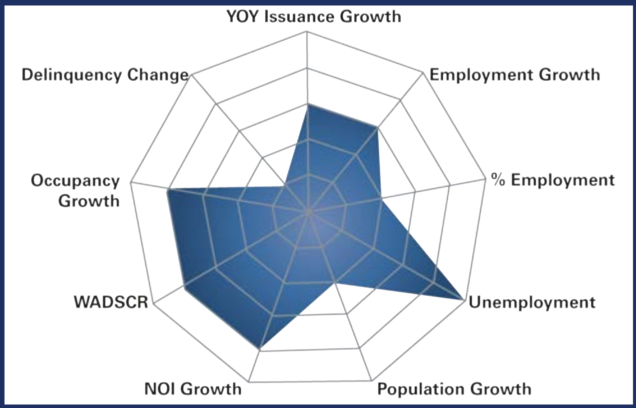
#8: Tampa-St. Petersburg-Clearwater, FL



Tampa experienced a high 2.1% population growth rate in the past year, and employment growth also outperformed at 3.4% after the MSA added 44,100 new jobs. Information technology, hospitals, and medical manufacturing are making strong gains. The unemployment rate came in at 4.1% in March.

The Tampa MSA secures $2.7 billion of CMBS debt across 236 loans. Year-over-year issuance is slightly down at -10.1%, with $367 million securitized over the last 12 months. Tampa loans averaged a nearly stagnant occupancy rate with a 0.1% increase, and currently have a weighted-average DSCR of 1.70x. The delinquency rate went up from last April, and is relatively high at 9.96%. On the other hand, NOI grew by an impressive 1.03% year over year.

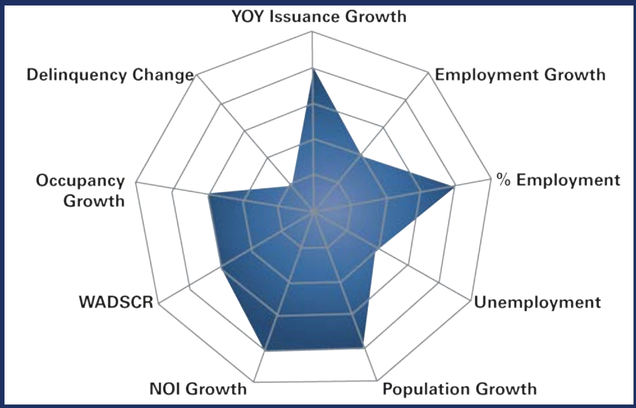
#9: Boston-Cambridge-Newton, MA-NH



Boston ranks as the 9th top CMBS market for growth and investment, as loans are showing relatively high occupancy growth (0.28%), NOI growth (0.69%), and a solid weighted-average DSCR (2.17x). The Boston MSA has an outstanding CMBS balance of $5.8 billion across 233 loans. $1.1 billion has been issued over the last 12 months, which is a 7.7% increase year over year. The delinquency rate has increased by over three percentage points since April 2016 to 6.51% last month.

The Boston metro area added 42,200 new jobs from March 2016 through March 2017, which is a below-average 1.6% employment growth rate. Population growth is also marginally below average at 0.6%, however Boston has a very low unemployment rate of 3.4%. Major industries include finance, education, and high-tech research and development.

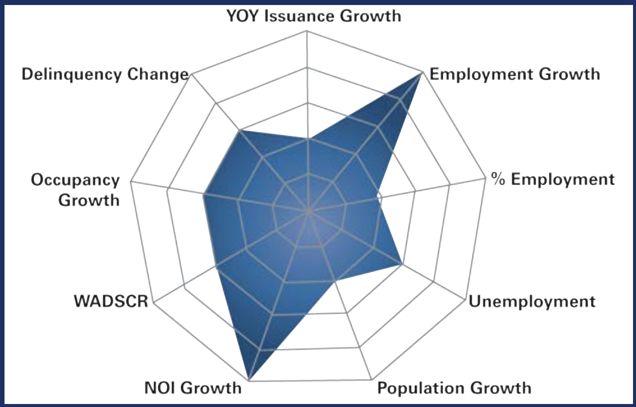
#10: Charlotte-Concord-Gastonia, NC-SC



Charlotte posted substantial growth rates in issuance, population and NOI. The Charlotte MSA backs $3.0 billion in CMBS across 245 CMBS loans. Year-over-year issuance is up by over 100%, with a total of $486 million new issuance over the last 12 months. Charlotte loans have a solid WADSCR of 1.93x, and impressive growth in NOI (0.54%). However, the delinquency rate has gone up by 1.3% in the past year to a relatively high 6.02% last month, and there has been little change in occupancy (-0.01%).

While the absolute employment growth of 34,700 jobs is average, this is a high 3.1% employment growth rate for Charlotte. The distribution, banking, and defense-related industries are key in this metro area. The unemployment rate is 4.4%, and population growth is active at 2.0%.

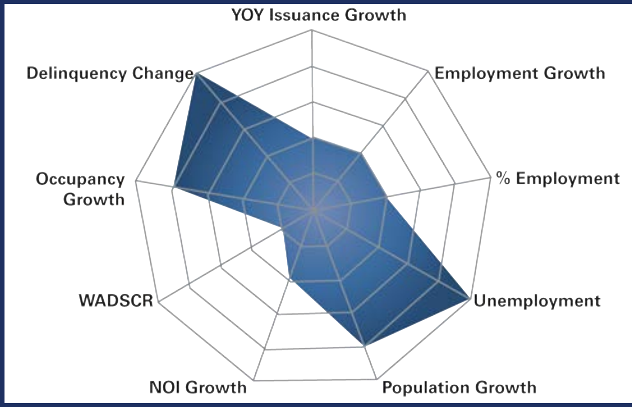
#11: Los Angeles-Long Beach-Anaheim, CA



The Los Angeles MSA's diverse economy is fueled by the entertainment, tourism, aerospace, retail trade and tech industries. Los Angeles had a less active population growth rate of 0.3%, and the unemployment rate is average at 4.2%. The employment growth rate was slightly below average at 1.8%, however the metro area still created an ample 107,600 jobs.

Los Angeles has the second-largest CMBS balance of $21.7 billion across 1,218 CMBS loans. Year-over-year issuance growth came in at -35.2%, with a total of $2.74 billion issued over the last 12 months. Los Angeles loans posted a stable WADSCR (1.96x) and average occupancy growth (-0.03%), and the delinquency rate remained relatively unchanged at a low 1.95%. Average NOI jumped by 1.07%.

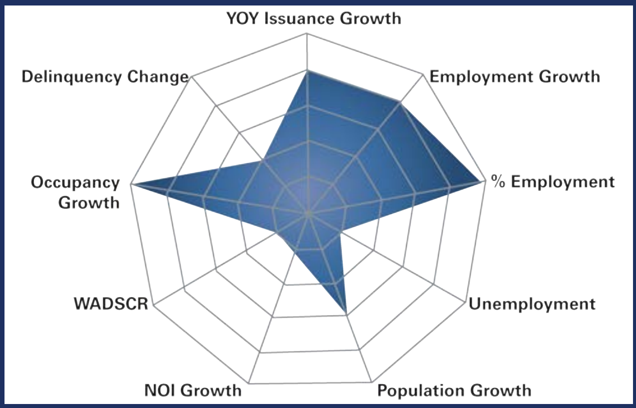
#12: Denver-Aurora-Lakewood, CO



The Denver MSA has a very low 2.4% unemployment rate, and population growth is climbing at 1.6%. Employment grew by 30,100 jobs from March 2016 through March 2017, which is a 2.1% employment growth rate. However, Denver is still the largest secondary market with nearly 1.5 million jobs. Technology, telecommunications, and aerospace drive the regional economy.

There are 251 outstanding Denver loans that total of $3.4 billion. $546 million has been issued over the last 12 months, which is a year-over-year decrease of 20.9%. Denver loans have a WADSCR of 1.74x, and NOI growth was -0.04%. Average occupancy, however, increased by 0.35%. The delinquency rate has also improved significantly by over half a percentage point from April 2016 to 4.57% last month.

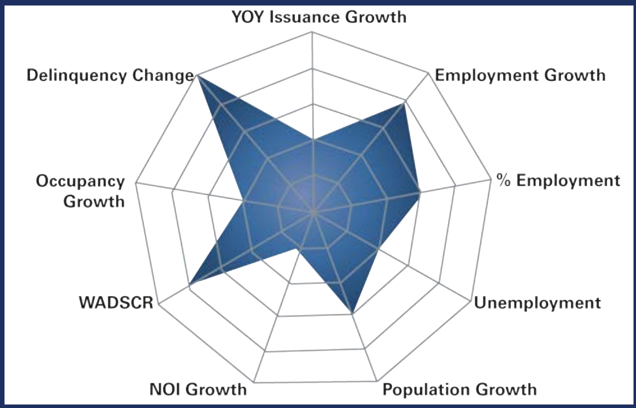
#13: Riverside-San Bernardino-Ontario, CA



319 CMBS loans totaling $3.3 billion of debt are backed by properties in the Riverside-San Bernardino market. $637 million has been issued over the last 12 months, which marks a 53.8% increase year over year. Riverside loans have a relatively high delinquency rate, which climbed nearly a percentage point since April 2016 to 8.39% last month. WADSCR is 1.81x, and NOI growth came in at -0.27%. Average occupancy, however, grew significantly by 0.58%.

The MSA posted an elevated 3.8% employment growth after adding 52,400 jobs in the past year. Riverside-San Bernardino is one of the largest secondary markets with over 1.4 million jobs and an affordable housing market. The metro area's economy is focused on manufacturing, retail, and healthcare. The unemployment rate is 5.3%, and population growth is 1.2%.

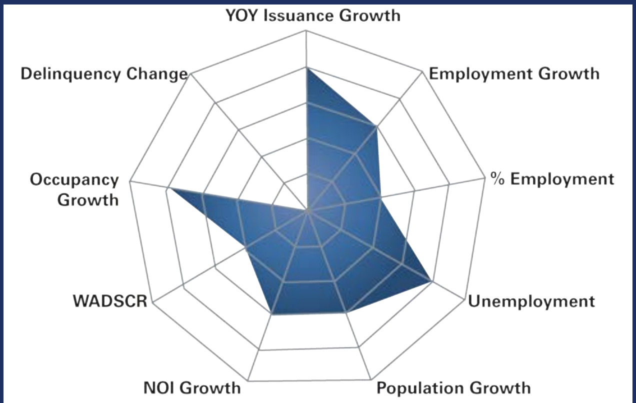
#14: Miami-Fort Lauderdale-West Palm Beach, FL



Major market Miami had a high absolute employment increase of 65,400 jobs, which amounted to 2.5% growth for the MSA. The unemployment rate is relatively high at 4.6%, and population growth is average at 1.1%. The Miami economy has diversified from its traditional tourism base, and is now also fueled by media, and international trade and banking.

Miami properties secure $10.4 billion of CMBS paper across 486 loans. Weighted-average DSCR is a strong 2.1x, and the delinquency rate improved by nearly one percentage point year-over-year to 2.66%. Average occupancy has decreased by 0.25% year over year, which may be a repercussion of particularly high retail construction activity. NOI has also gone down by 0.29%. $1.3 billion was issued over the last 12 months, setting issuance growth at -17.2%.

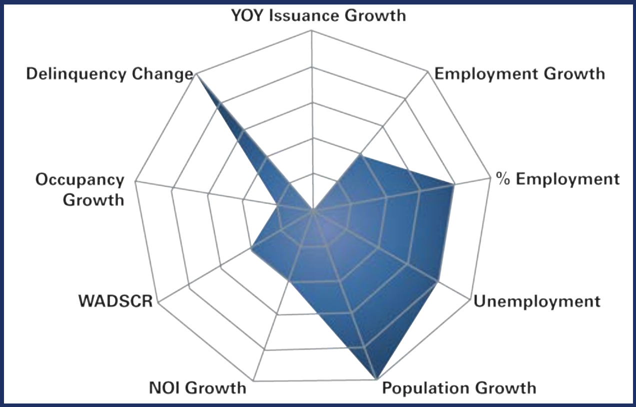
#15: Washington-Arlington-Alexandria, DC-VA-MD-WV



Top-tier market Washington DC is growing at a modest pace, with population growth at 0.9%. The MSA added 50,500 new jobs for a 1.6% growth rate, and unemployment is down to 3.7%. Federal government, education, and tourism industries continue to dominate the economy's growth.

Washington DC has 537 outstanding loans which tally a high CMBS balance of $15 billion. $2.2 billion of that has been issued over the last 12 months, marking 45.2% year-over-year issuance growth. WADSCR is 1.83x, and average occupancy has increased significantly by 0.23%. NOI has also gone up compared to last year by 0.19%. The delinquency rate is the highest among all the top-tier, major, and secondary markets, increasing by 6.6% from April 2016. Last month, the rate came in at 14.4%

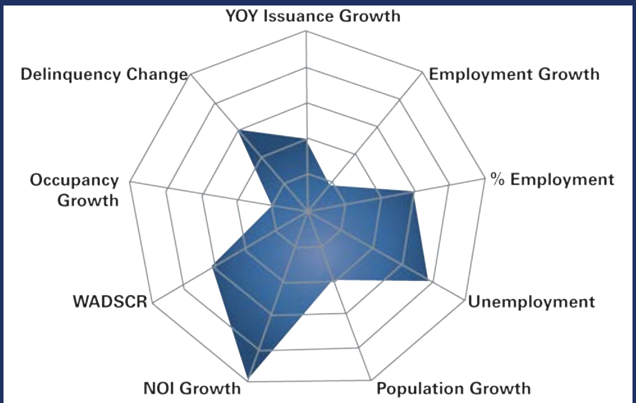
#16: Austin-Round Rock, TX



Austin-Round Rock recorded the highest population growth rate of 2.9%. The MSA also added 32,700 jobs for a significant employment growth rate of 3.3%, fueled by the tech sector (clean energy as well as digital media tech firms) and manufacturing. Unemployment is a very low 3.6%.

There are 201 Austin loans that combine for $3 billion in CMBS debt. $240 million has been issued over the last 12 months for a year-over-year growth rate of -68.9%. The delinquency rate has improved by roughly 0.2 percentage points to a minute 1.1%. WADSCR is 1.88x. Average occupancy and NOI growth rates were both negative at -0.38% and -0.07%, respectively.

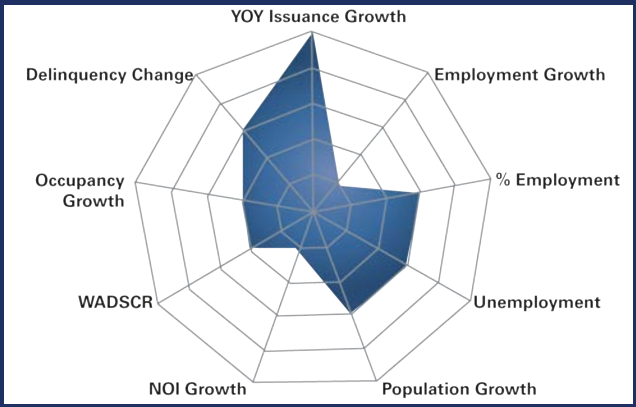
#17: San Jose-Sunnyvale-Santa Clara, CA



The San Jose-Sunnyvale MSA is the smallest top-tier CMBS market, representing a subsection of the San Francisco Bay Area. 159 San Jose loans comprise $4.4 billion of CMBS debt. $765.7 million has been issued over the last 12 months, which is down by 20.4% compared to issuance in the 12 months prior. The delinquency rate remained unchanged at 0.0%. San Jose-Sunnyvale loans have a WADSCR of 2.0x, and NOI has increased substantially by 1.6%. Vacancy, on the other hand, has risen by 1.1%.

Known as "Silicon Valley," this area is largely concentrated with high-tech engineering, computer, and microprocessor companies. Education is also a key industry. San Jose gained 24,200 new jobs for a 2.3% growth rate, and population growth is marginally below-average at 0.5%. Unemployment is low at 3.6%.

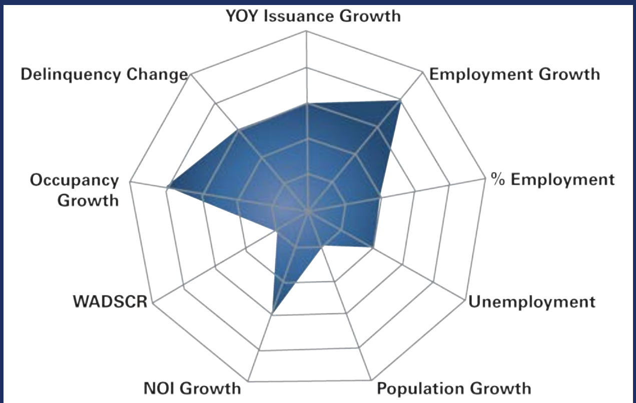
#18: Columbus, OH



Secondary market Columbus, OH secures $2.8 billion of CMBS debt across 220 notes. $1.0 billion has been issued over the last 12 months, which is a 180.3% increase compared to issuance in the 12 months prior. The delinquency rate has increased slightly over the last year to 7.84% in April. Columbus loans have a WADSCR of 1.85x. Average vacancy has increased by 0.2%, and NOI growth is down by 0.52%.

The Columbus metro area has a diversified economy with services, trade, manufacturing and data processing/logistics among the strongest industries. Employment grew by 27,000 new jobs for a solid 2.6% growth rate. Unemployment is relatively average at 4.0%, and population growth came in at 1.1%.

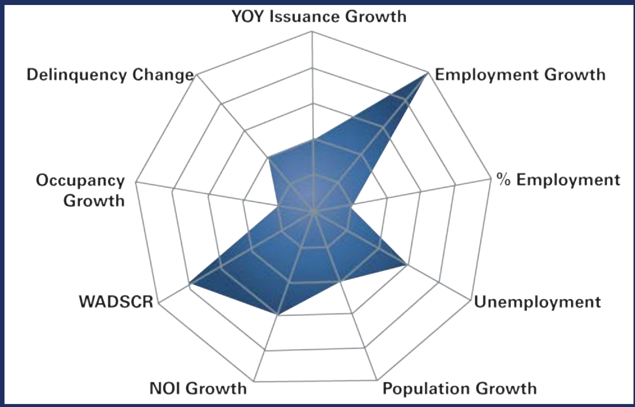
#19: Philadelphia-Camden-Wilmington, PA-NJ-DE-MD



Occupancy is rising in the Philadelphia MSA, as the average rate is up by 0.43% compared to 12 months ago. The major market secures 416 loans totaling $7.6 billion in CMBS debt. The delinquency rate last month came in 7.2%, a slight 0.3% increase from April 2016. Year-over-year issuance growth levels are nearly stationary at 2.0%, as $996.4 million was issued over the last 12 months. Philadelphia loans have a relatively low WADSCR of 1.65x, and NOI has grown by a decent 0.22%.

The Philadelphia MSA created 57,000 new jobs over the last year, which is substantial in absolute growth but below-average in relative growth (2.0%). The unemployment rate is 4.6%, and the population growth is sluggish at 0.1%. Philadelphia's top economic sectors include higher education, biotechnology and healthcare, and manufacturing.

#20: New York-Newark-Jersey City, NY-NJ-PA



New York—the largest CMBS market by a long shot—ranks 20th as its stable and robust absolute growth rates are offset by slower relative growth rates. 2,001 New York loans combine for a massive $74.3 billion in CMBS debt, which is more than half of the combined debt for the top 20 markets listed. $8.6 billion was issued over the last 12 months, which is a -27.1% growth rate year-over-year. Average occupancy for New York loans has actually decreased since April 2016 by -0.39%, but WADSCR remains solid at 2.24x. NOI is up slightly by 0.09%.

The New York metro tallied a strong 108,200 jobs in the last year for 1.2% growth. Unemployment is 4.1%, and population growth is relatively low at 0.2%. The financial services, healthcare, and professional & technical service industries are not only vital to the regional economy, but the global economy as well.

METHODOLOGY

This analysis is intended to be a current snapshot ranking for the top CMBS markets by current balance—only top-tier, major, and secondary markets were included. Trepp used nine factors, designed to measure not just absolute growth, but relative growth as well. Each factor was given equal weighting, and are as follows:

- Absolute employment growth (March 2016 - March 2017)
- Percentage change in employment (March 2016 - March 2017)
- Unemployment Rate (March 2017)
- Population growth (July 2015 - July 2016)
- NOI growth (average of the five major property types from prior to most recent full fiscal year)
- Weighted average DSCR
- Occupancy growth (change in average occupancy rate from April 2016 to April 2017)
- Delinquency change (April 2016 to April 2017)
- Year-over-year CMBS issuance growth (issuance over the last 12 months compared to the 12 months prior)

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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