MSA Snapshot: Tracking the Impact of Population Increases and Declines on Issuance Volumes Across Major CRE Property Types

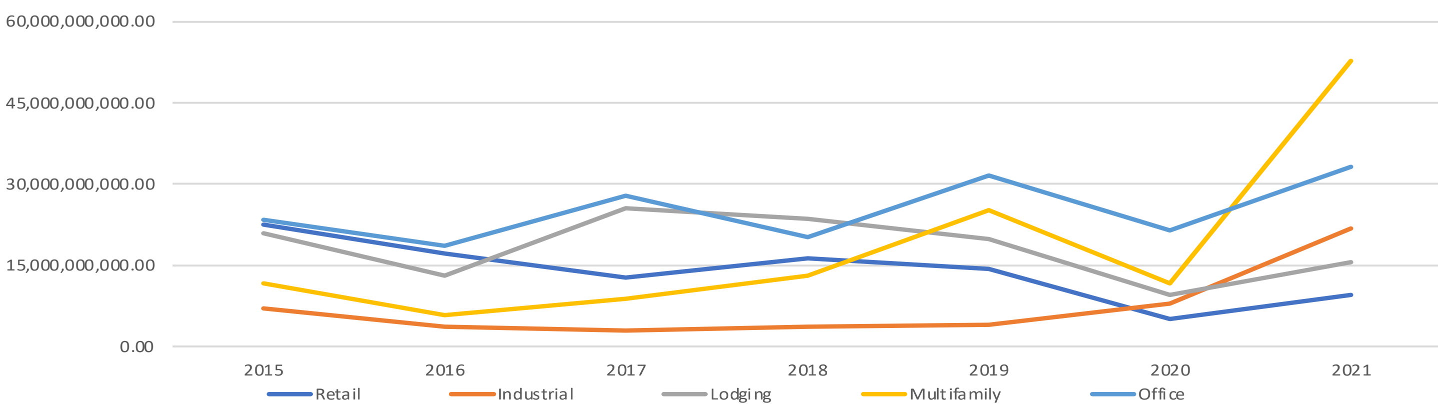
Key Takeaways:

- **Over the past five years, metropolitan statistical areas (MSAs) that experienced an increase in population also saw significant increases in CMBS loan issuance. Areas that faced population declines did not report such large issuance volumes, and some reported declines.**
- **Population changes have an impact on CRE lending, but the effect is not uniform across the board for each property type.**

Recently the CMBS space has been reporting optimistic numbers that point towards recovery in the market, with overall issuance volume reaching a five-year high last year. The multifamily sector came out on top in 2021, with an issuance volume of $52.71 million for the year.

Unfortunately for commercial real estate (CRE) investors, overall growth does not mean all regions of the market have seen growth of the same scale. Therefore, by segmenting the CRE space into metropolitan statistical areas (MSAs), and looking closely at population trends, perhaps Trepp can provide insight into the next CRE opportunity.

FIGURE 1: ISSUANCE VOLUME



Source: Trepp

POPULATION GROWTH AND LENDING VOLUMES

Figures two and three highlight population growth rates for some of the most populous MSAs. Figure two highlights five MSAs that had the most significant growth in population from 2015 to 2020, and figure three shows those that experienced population declines over the five-year period.

To explore the connection between population shifts and the desirability of the market for investors, Trepp examined historical loan issuance in these areas. Figure four looks at the percentage change of overall issuance between 2015 and 2021 in MSAs that experienced the

FIGURE 2: POPULATION CHANGE (2015-2020)

MSA	GROWTH RATE
Phoenix-Mesa-Scottsdale, AZ	8.23%
Charlotte-Concord-Gastonia, NC-SC	7.29%
Dallas-Fort Worth-Arlington, TX	6.93%
San Antonio-New Braunfels, TX	6.79%
Tampa-St. Petersburg-Clearwater, FL	6.30%

Source: Trepp

FIGURE 3: POPULATION CHANGE (2015-2020)

MSA	GROWTH RATE
Pittsburgh, PA	-1.37%
Chicago-Naperville-Elgin, IL-IN-WI	-1.33%
Los Angeles-Long Beach-Anaheim, CA	-1.13%
New York-Newark-Jersey City, NY-NJ-PA	-1.10%
Detroit-Warren-Dearborn, MI	-0.30%

Source: Trepp

highest levels of growth in population, while figure five looks at the same numbers in MSAs that experienced the largest declines in population.

These figures reveal that population influxes do have some correlation to issuance volumes, supported by the fact that the MSAs that experienced an increase in population over the past five years also underwent significant increases in loan issuance. Areas that declined in population though, did not report such large issuance volumes, and some even reported declines in issuance. However, overall issuance volumes do not tell the full story. To better understand how lenders are operating, and how issuance trends have been shaped by population growth over the past five years, Trepp examined each of the five major CRE property types: retail, multifamily, industrial, office, and lodging.

FIGURE 4: TOP FIVE MSAS THAT INCREASED IN POPULATION - % CHANGE IN OVERALL ISSUANCE (2015-2021)

MSA	OVERALL
Phoenix-Mesa-Scottsdale, AZ	54%
Charlotte-Concord-Gastonia, NC-SC	50%
Dallas-Fort Worth-Arlington, TX	120%
San Antonio-New Braunfels, TX	82%
Tampa-St. Petersburg-Clearwater, FL	148%

Source: Trepp

FIGURE 5: TOP FIVE MSAS THAT DECLINED IN POPULATION - % CHANGE IN OVERALL ISSUANCE (2015-2021)

MSA	OVERALL
Pittsburgh, PA	-3%
Chicago-Naperville-Elgin, IL-IN-WI	14%
Los Angeles-Long Beach-Anaheim, CA	17%
New York-Newark-Jersey City, NY-NJ-PA	35%
Detroit-Warren-Dearborn, MI	-48%

Source: Trepp

RETAIL

FIGURE 6: MSA THAT INCREASED IN POPULATION - % CHANGE IN RETAIL ISSUANCE (2015-2021)

MSA	RETAIL
Phoenix-Mesa-Scottsdale, AZ	-5%
Charlotte-Concord-Gastonia, NC-SC	-1%
Dallas-Fort Worth-Arlington, TX	-55%
San Antonio-New Braunfels, TX	17%
Tampa-St. Petersburg-Clearwater, FL	277%

Source: Trepp

FIGURE 7: MSA THAT DECLINED IN POPULATION - % CHANGE IN RETAIL ISSUANCE (2015-2021)

MSA	RETAIL
Pittsburgh, PA	-58%
Chicago-Naperville-Elgin, IL-IN-WI	-55%
Los Angeles-Long Beach-Anaheim, CA	-40%
New York-Newark-Jersey City, NY-NJ-PA	-50%
Detroit-Warren-Dearborn, MI	-77%

Source: Trepp

Overall retail CMBS issuance numbers have been modest in the past five years. In 2015, total retail issuance stood at $22.60 billion, and even before the pandemic issuance numbers were on the decline and reported $14.39 billion in 2019. As for 2021, the retail sector reported an issuance volume of $9.52 billion, slightly more than half of where it was in 2019. This demonstrates the distress we have seen in the sector as a result of the pandemic in the past two years.

When Trepp broke this trend down geographically and looked at retail issuance trends in MSAs with the largest changes in population. There was a notable decline in retail issuance in MSAs where the population fell from 2015 to 2020. One explanation for this decline could be the fact that the MSAs mentioned already had a significant retail presence prior to population changes. Perhaps investors believed that there was a greater opportunity for investment in growing markets and chose not to oversaturate the markets with a property type they are already cautious about issuing.

In locations that saw population increases, issuance volumes either grew or declined modestly. Similar to those in the above category, the MSAs in this group also have an existing strong retail presence. However, as the population in an area increases, the demand and overall need for retail space increases as well. Therefore, despite the large footprint for retail properties, the new influx of population creates a new demand and the need for more properties.

MULTIFAMILY

FIGURE 8: MSA THAT INCREASED IN POPULATION - % CHANGE IN MULTIFAMILY ISSUANCE (2015-2021)

MSA	MULTIFAMILY
Phoenix-Mesa-Scottsdale, AZ	2567%
Charlotte-Concord-Gastonia, NC-SC	336%
Dallas-Fort Worth-Arlington, TX	512%
San Antonio-New Braunfels, TX	171%
Tampa-St. Petersburg-Clearwater, FL	379%

Source: Trepp

FIGURE 9: MSA THAT DECLINED IN POPULATION - % CHANGE IN MULTIFAMILY ISSUANCE (2015-2021)

MSA	MULTIFAMILY
Pittsburgh, PA	112%
Chicago-Naperville-Elgin, IL-IN-WI	510%
Los Angeles-Long Beach-Anaheim, CA	549%
New York-Newark-Jersey City, NY-NJ-PA	345%
Detroit-Warren-Dearborn, MI	-55%

Source: Trepp

The multifamily CMBS space reported robust growth in lending volumes over the past five years. One factor that supports multifamily growth is an overall increase in wage and job growth. A recent report revealed that all U.S regions experienced wage growth of over 3.0%, especially regions in the south and west. If this trend continues into 2022, it is very possible that we will continue to see growth in the multifamily market in the coming year.

Additionally, the sector thrives off the consistent demand driven by population growth and strong economic activity, so it is no surprise that the markets that reported an increase in population also experienced high volumes of multifamily growth. This property type also has a history of strong performance in the five markets that saw growth, with multifamily occupancy rates remaining high over the past five years. This trend has continued into the first quarter of 2022, with all five top MSAs in terms of population growth reporting an average occupancy rate above 91% for the quarter.

It may be a surprise then, that the five MSAs that reported the largest declines in population over the past five years also saw multifamily growth from 2015 to 2021.

This trend suggests further success for the sector, given that despite population declines, there was still clear demand for multifamily properties in those MSAs.

INDUSTRIAL

FIGURE 10: MSA THAT INCREASED IN POPULATION - % CHANGE IN INDUSTRIAL ISSUANCE (2015-2021)

MSA	INDUSTRIAL
Phoenix-Mesa-Scottsdale, AZ	57%
Charlotte-Concord-Gastonia, NC-SC	-100%
Dallas-Fort Worth-Arlington, TX	-100%
San Antonio-New Braunfels, TX	-100%
Tampa-St. Petersburg-Clearwater, FL	-100%

Source: Trepp

FIGURE 11: MSA THAT DECLINED IN POPULATION - % CHANGE IN INDUSTRIAL ISSUANCE (2015-2021)

MSA	INDUSTRIAL
Pittsburgh, PA	-53%
Chicago-Naperville-Elgin, IL-IN-WI	-1%
Los Angeles-Long Beach-Anaheim, CA	92%
New York-Newark-Jersey City, NY-NJ-PA	353%
Detroit-Warren-Dearborn, MI	-4%

Source: Trepp

Next, industrial. In contrast to the property types already listed, we saw higher declines in industrial loans for the MSAs that reported an influx in population growth. These declines could be a result of the fact that, as these major cities grow larger, a higher and "best use" property type is not necessarily industrial. Industrial properties tend to be distanced farther from city centers and densly populated areas.

With that in mind, the decline in industrial loans is not necessarily a negative or warning sign for the sector, it could just indicate that investors are more inclined to profit from higher value property types in majorly populated areas.

It is more difficult to compare trends for industrial properties in those MSAs that face a decline in population, because although there was a change in population, the locations in question remain densely populated, and therefore do not necessarily attract industrial investments for the same reasons listed previously. Population factors that would impact the industrial space in these markets are minuscule.

OFFICE

FIGURE 12: MSA THAT INCREASED IN POPULATION - % CHANGE IN OFFICE ISSUANCE (2015-2021)

MSA	OFFICE
Phoenix-Mesa-Scottsdale, AZ	-67%
Charlotte-Concord-Gastonia, NC-SC	-2%
Dallas-Fort Worth-Arlington, TX	120%
San Antonio-New Braunfels, TX	-64%
Tampa-St. Petersburg-Clearwater, FL	137%

Source: Trepp

FIGURE 13: MSA THAT DECLINED IN POPULATION - % CHANGE IN OFFICE ISSUANCE (2015-2021)

MSA	OFFICE
Pittsburgh, PA	-22%
Chicago-Naperville-Elgin, IL-IN-WI	-1%
Los Angeles-Long Beach-Anaheim, CA	6%
New York-Newark-Jersey City, NY-NJ-PA	26%
Detroit-Warren-Dearborn, MI	-27%

Source: Trepp

Despite office properties having fared well throughout the last year, with delinquency rates never climbing above 3% for the past 12 months, the space remains risky and unpredictable for investments. The market is still filled with uncertainty as the influence the new 'work-from-home' environment will have on the sector in the long term remains unknown. Many firms have opted to offload their excess office capacity and chosen to either downsize or do away with their in-person office space altogether.

Therefore, even though historically an increase in population would correlate to an increase in demand for office properties, that is no longer the case. Instead, the need for office space is more on a firm-by-firm basis. This likely accounts for why issuance trends vary across the board.

LODGING

FIGURE 14: MSA THAT INCREASED IN POPULATION - % CHANGE IN LODGING ISSUANCE (2015-2021)

MSA	LODGING
Phoenix-Mesa-Scottsdale, AZ	-98%
Charlotte-Concord-Gastonia, NC-SC	-64%
Dallas-Fort Worth-Arlington, TX	-100%
San Antonio-New Braunfels, TX	-100%
Tampa-St. Petersburg-Clearwater, FL	-85%

Source: Trepp

FIGURE 15: MSA THAT DECLINED IN POPULATION - % CHANGE IN LODGING ISSUANCE (2015-2021)

MSA	LODGING
Pittsburgh, PA	-100%
Chicago-Naperville-Elgin, IL-IN-WI	-74%
Los Angeles-Long Beach-Anaheim, CA	-29%
New York-Newark-Jersey City, NY-NJ-PA	-64%
Detroit-Warren-Dearborn, MI	-100%

Source: Trepp

The final trend to note is the decline of lodging loans issued for all MSAs in question. To understand this trend, we can look at the entire CMBS market. CMBS lenders abruptly stopped funding loans against hotels in the wake of the pandemic, and the market is still working towards recovery. Investors continue to tread carefully in this market, regardless of overall MSA popularity. It is important to distinguish that just because an MSA is an attractive area for permanent residents, this does not equate to a destination hotspot. This means even in MSAs where populations are increasing, lodging investments may not be ideal.

Many factors are more influential than population trends in deciding where it is best to invest in lodging properties and given the added risk brought on by the pandemic uncertainty, investors are more reserved than normal.

CONCLUSION

Population changes undoubtedly have effects on CRE lending, but an in-depth analysis of the MSAs with some of the largest increases and declines in population over the last five years reveals that the effect is not uniform across the board. Although there is a correlation between locations with increasing populations and increased lending volumes, variability in issuance numbers still exists as a result of nuances within each individual CRE property type.

For more information about Trepp's commercial real estate data, contact info@trepp.com.
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