

# A region divided: cap rate forecast mixed across sectors and metros

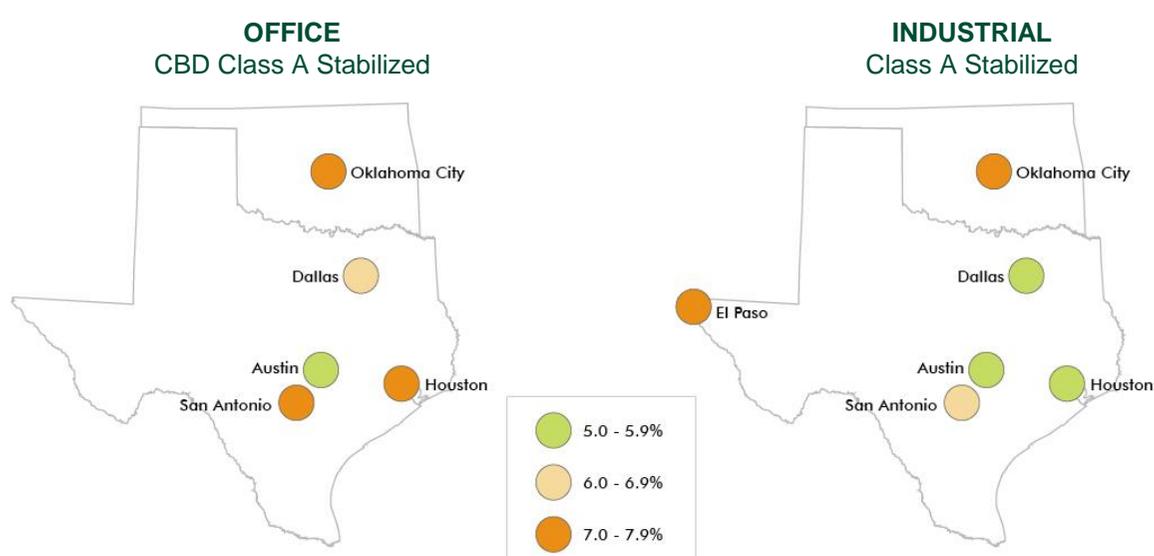
- While the overall Texas-Oklahoma-Arkansas region continues to motivate buyers, some isolated spots of softness have emerged in the first half of 2016. Trade volumes in Houston and Oklahoma City are well below last year while Dallas and Austin remain stable.
- Retail is the star product type with cap rate compression forecasted in all major Texas metros, benefiting buyers looking for low-risk investments. Hotel assets will likely see increased cap rates across the region and nation.

## A stable force: Austin and Dallas take down large trades

Boosted by strong office and industrial tenant demand, which shows few signs of slowing, Dallas/Fort Worth has captured more than half of the region's largest trades thus far in 2016, followed by Austin. According to data from Real Capital Analytics, demand for DFW office product is high and attracting the most buyer attention in the region; Austin sales are more varied across product types.

Hindered by negative national attention from depressed oil prices, Houston and Oklahoma City have seen consistently lower than average trade volumes this year, declining by 60% and 75% year-over-year, respectively. The suppressed interest in these markets can be seen in CBRE Research's North American Cap Rate Survey for H1 2016, which forecasts rising cap rates in these two markets.

## Compression for most markets: regional cap rate forecast



## Retail is strong

Across the region, retail continues to be one of the strongest product types both in leasing and capital markets. Most Texas metros, including Dallas/Fort Worth, Austin and San Antonio, saw notable cap rate compression in stabilized properties throughout the first half of the year. The exception is Houston, the only reporting market in the region seeing increases in neighborhood/community and power centers. Houston retail cap rates are also expected to increase in the coming months.

## Industrial is stable

Austin and San Antonio reported declining cap rates below the national average in the first half of 2016. El Paso cap rates, which remained flat when compared to H2 2015, are forecast to decrease in the short term. Houston and Oklahoma City could see slight increases, while the rest of the region should see stable rates.

## Office is split

Much like office leasing throughout the region, office sales outlooks are divided. Dwindling demand resulted in cap rate increases in Houston of 100 basis points (bps) in CBD Class A properties. Cap rates throughout the remainder of the region's markets saw increases of less than 15 bps, except Dallas/Fort Worth, which is forecasted to decline further.

## Multifamily is steady

After several years of strong rent growth and an active construction market, multifamily remains an attractive property type for buyers. The majority of the region's metros are forecasting stable cap rates through the end of the year, except for Class B Austin assets, which could decline.

## Hotel softens

The weakest commercial property type in the region is hotels, which had cap rate appreciation in almost every market except Dallas. While new supply and market fundamentals are in play, this national trend presented itself across various hotel asset classes.

## Urban Class A Forecast Trends

|                   | Office      | Industrial  | Retail      | Multifamily | Hotel       |  |
|-------------------|-------------|-------------|-------------|-------------|-------------|--|
| Dallas/Fort Worth | Increase    | Remain Flat | Increase    | Remain Flat | Increase    |  |
| Houston           | Increase    | Remain Flat | Increase    | Increase    | Increase    |  |
| Austin            | Remain Flat | Increase    | Increase    | Remain Flat | Increase    |  |
| San Antonio       | Remain Flat | Remain Flat | Remain Flat | Increase    | Remain Flat |  |
| Oklahoma City     | Increase    | Increase    | -           | Remain Flat | Remain Flat |  |
| El Paso           | -           | Increase    | -           | -           | -           |  |

Legend:  
 Increase (Light Green)  
 Decrease (Dark Green)  
 Remain Flat (Grey)

Source: CBRE Research, North America Cap Rate Survey, H1 2016.