

Small Is the New Big
Small-Balance Commercial
Loan Market Presentation

General Address

by

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**The Mortgage Brokers Forum of Small-Balance
Commercial Real Estate Lending
Orlando, FL**

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BOXWOOD MEANS, INC

Doggone Truth

Small is the new big.

-- Seth Godin



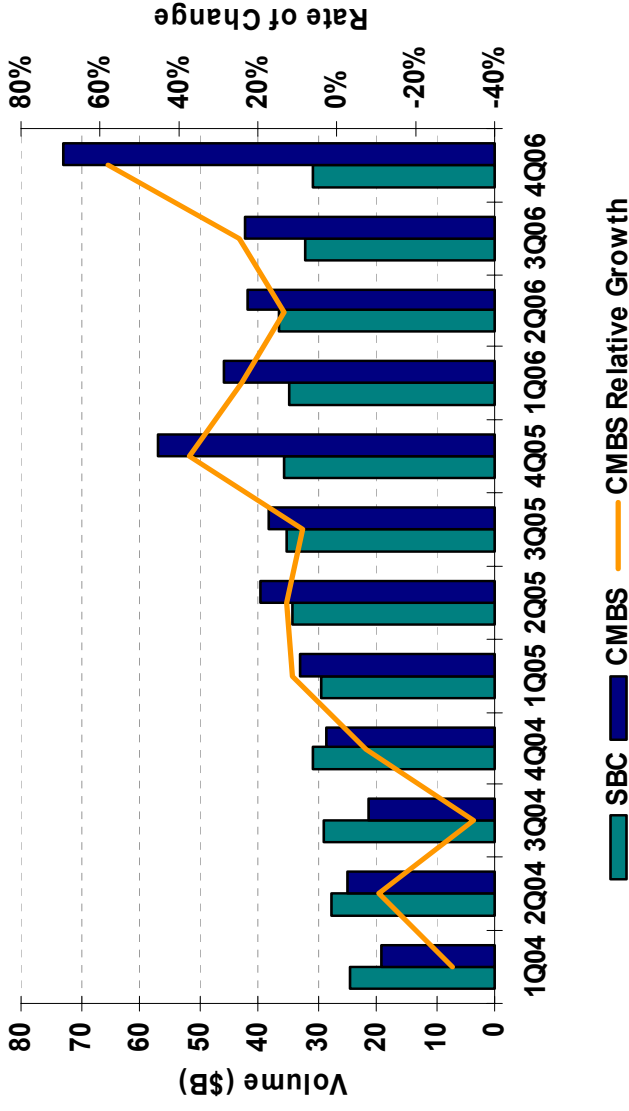
Overview

- 2006 Volume Totals \$130 Billion (again)
- Bifurcated Market
- Level-Playing Field (for now)
- Small-Cap Property Trends are Different
- Logjam in the Wholesale Channel?
- Impact of Residential Loan Brokers



Origination Trends

The SBC market is strong, but lacks the explosiveness of the CMBS market.



Source: Boxwood Means, Inc.,
Commercial R.E. Direct

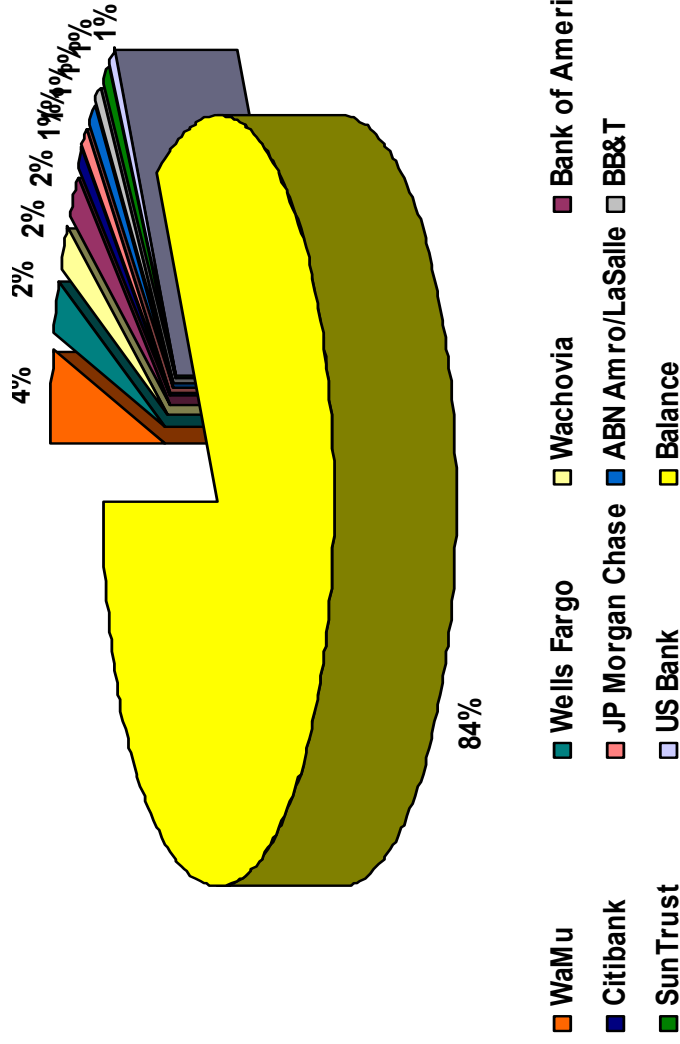
Bifurcated Marketplace

- There is more than ONE small loan “market”.
- Overall SBC production declined only 3% in 2006; but volume under \$500K dropped 11%.
- The smaller loan segment is tracking the decline of the residential mortgage market.
- Diversification of the loan product mix is important in this light.



Level-Playing Field

The top 10 lenders account for only 16% of total production.



But Volume Leaders Differ by Loan Size

WaMu ranks 1st overall, but rank by the lowest loan bracket tells a different story.

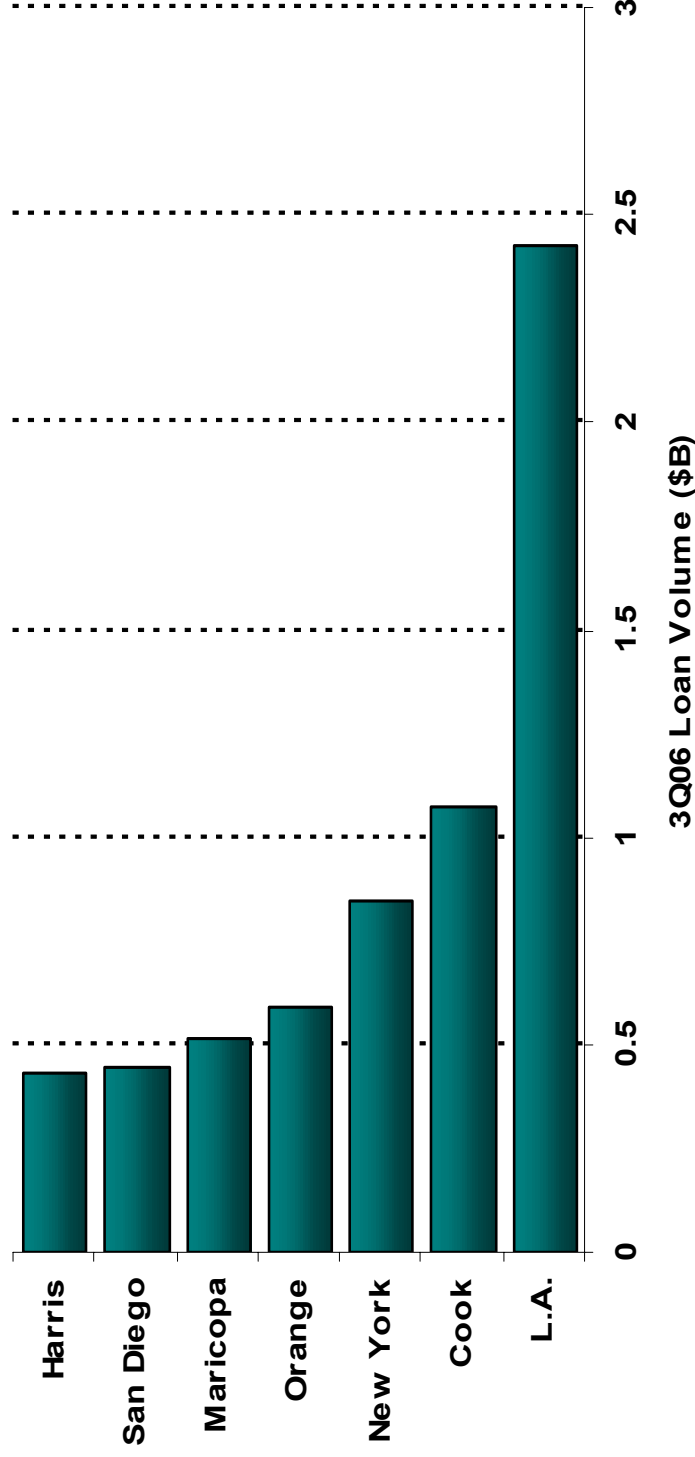
Lender	Rank	Market Share
Washington Mutual	1	4%
Wells Fargo	2	2%
Wachovia	3	2%
Bank of America	4	2%
Citibank	5	1%

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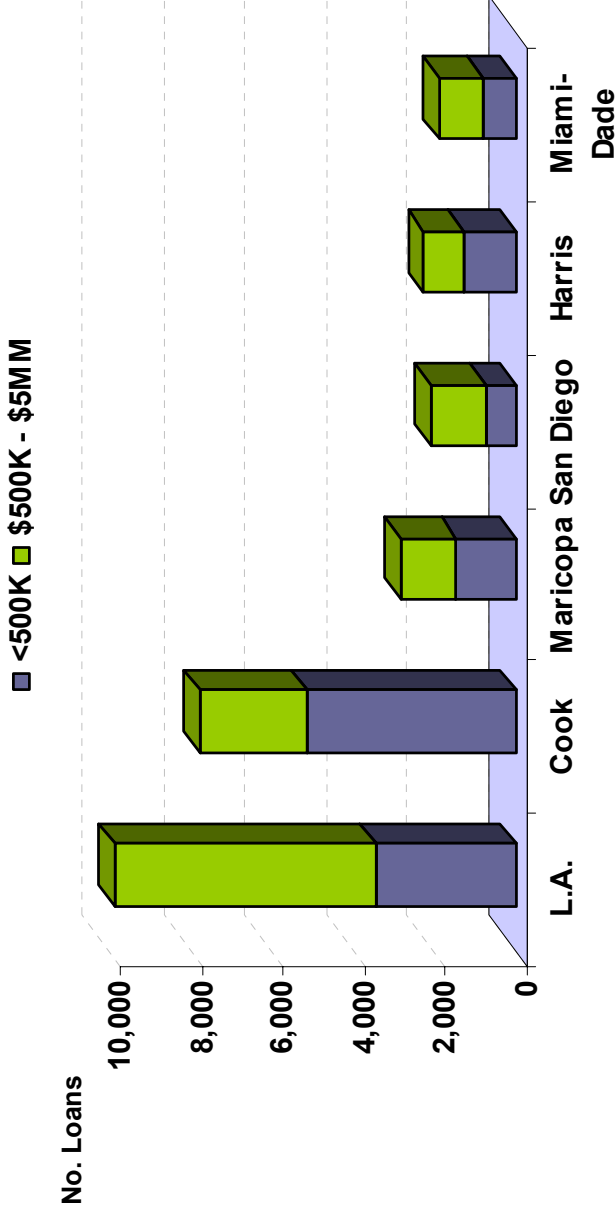
Loan Hot Spots

Top 7 markets account for 23% of total originations nationwide.



Where the Small Loans Are

Cook (66%) and Harris (56%) have the largest concentration of small loans among these big counties.



Small-Cap Property Investment Trends

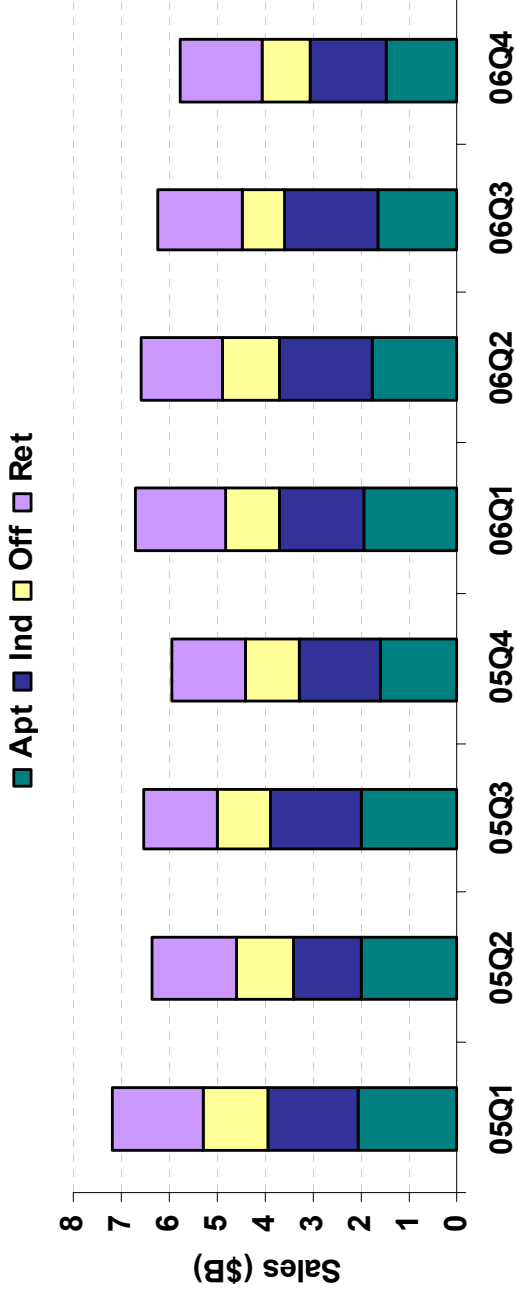
- Small-cap sales volume was \$142 billion in 2006.
- This total is down 4% year over year.
- Cap rates on small properties are higher than large caps, and rising.
- Markets matter – small-cap prices vary significantly by the size of the metro market.
- The implications for underwriting are important.



Small-Cap Sales Volume Trend

\$2.5MM - \$5.0MM

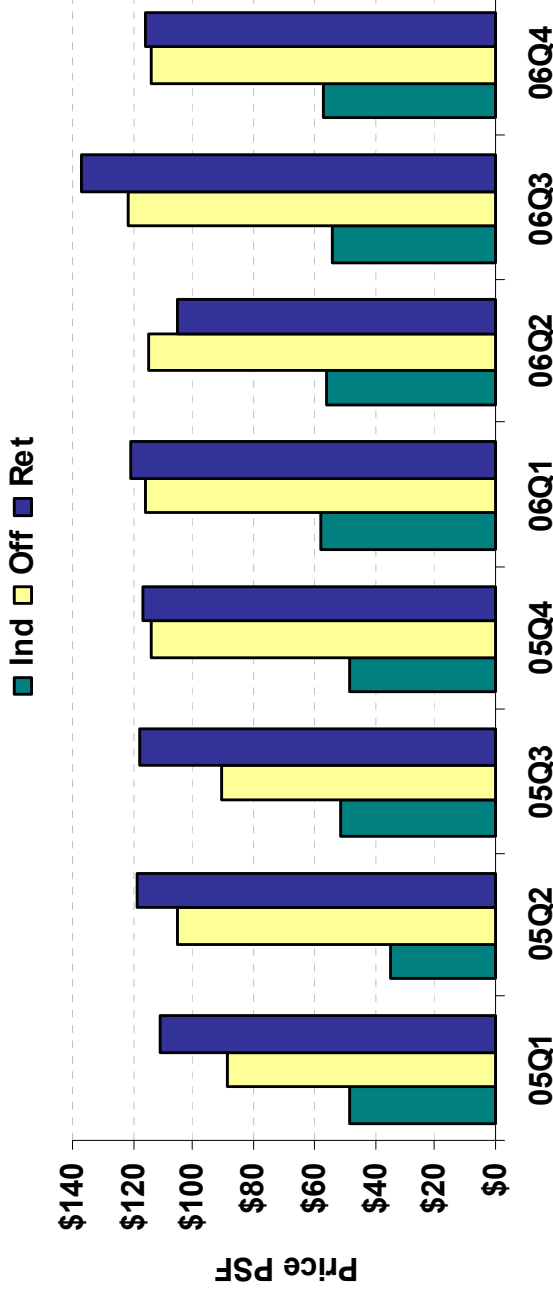
Property sales have declined only 2% year over year, but are down 20% since the beginning of 2005.



Source: R CA

Small-Cap Price Trends

Like the larger market, sales of office and industrial properties have been steadier than retail (and apartment).

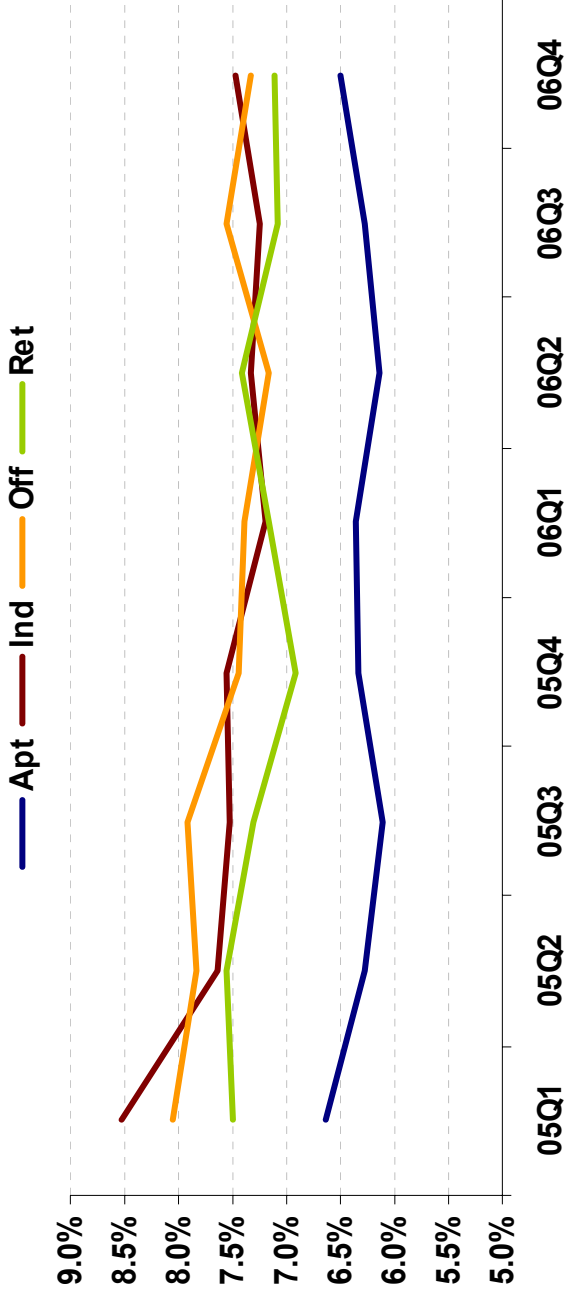


Source: R CA

Cap Rate Trends

Sales between \$2.5MM - \$5.0MM

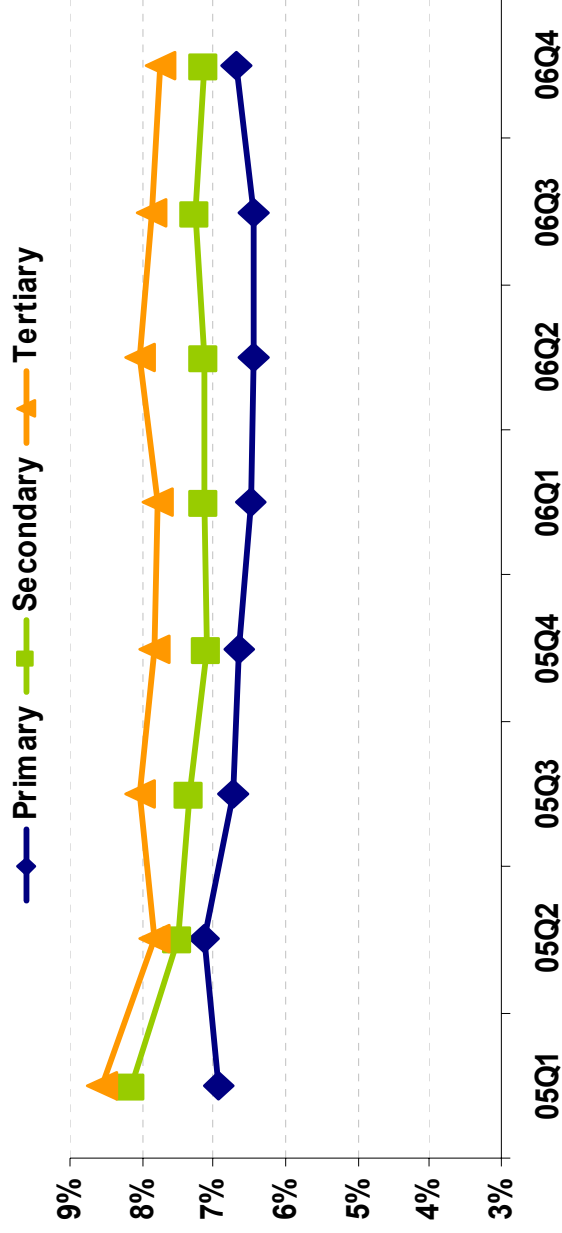
Rates for all property types have flattened out.



Source: R CA

Cap Rate Trends by Market Category

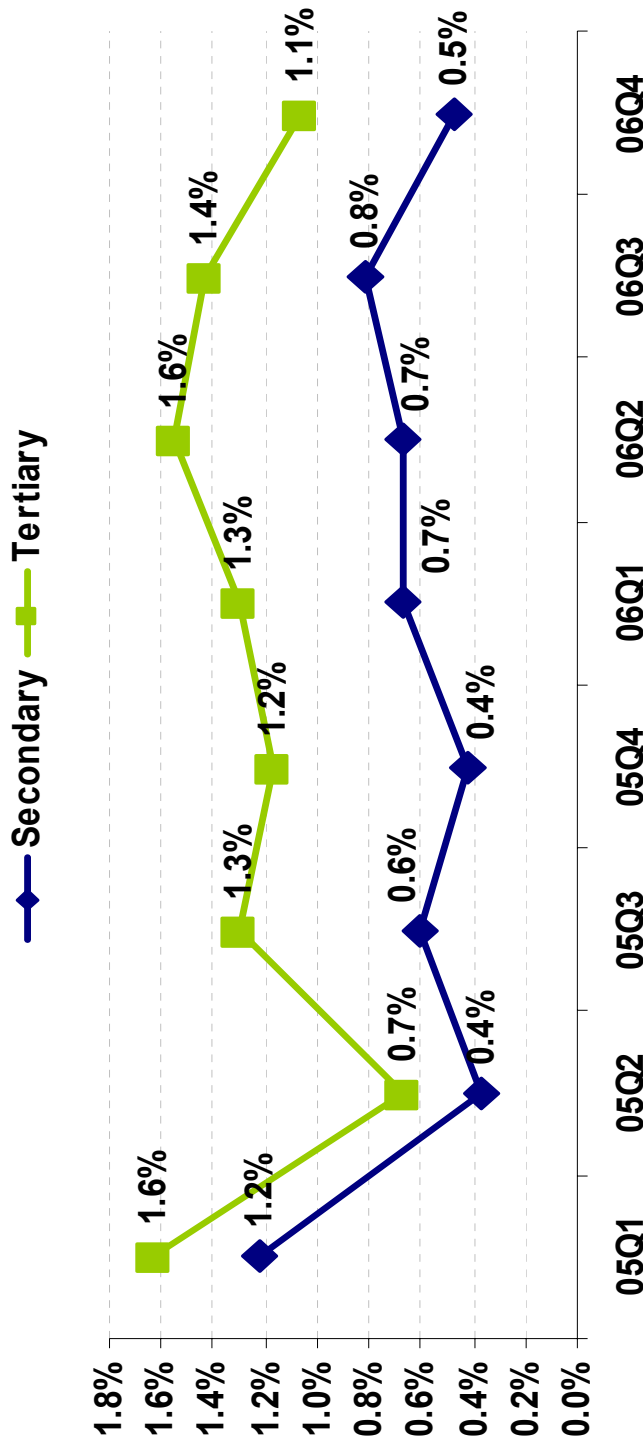
Markets do matter. Spreads can be as much as 100 basis points.



Source: R CA

Spreads to Primary Markets

Aggregate Cap Rates

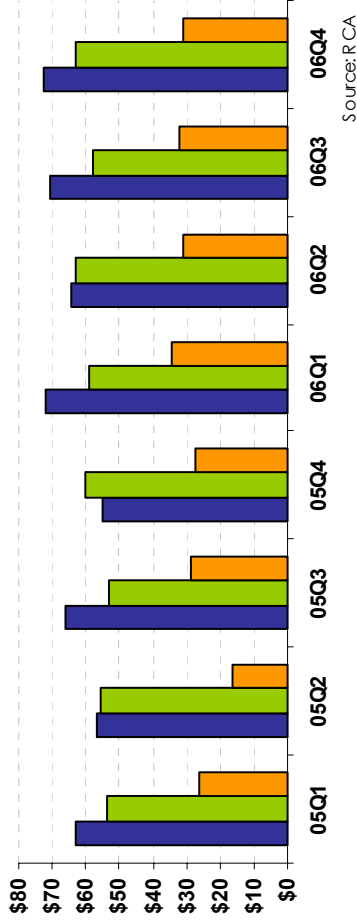


Source: R CA

Prices by Property Type and by Market Size

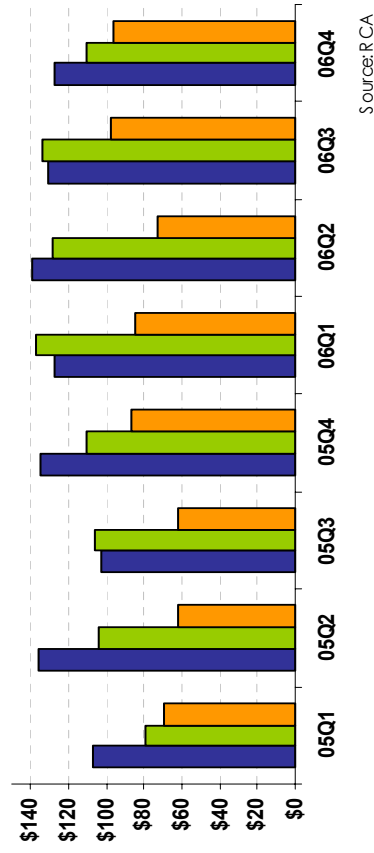
Industrial Prices PSF by Market Category

■ Primary ■ Secondary ■ Tertiary



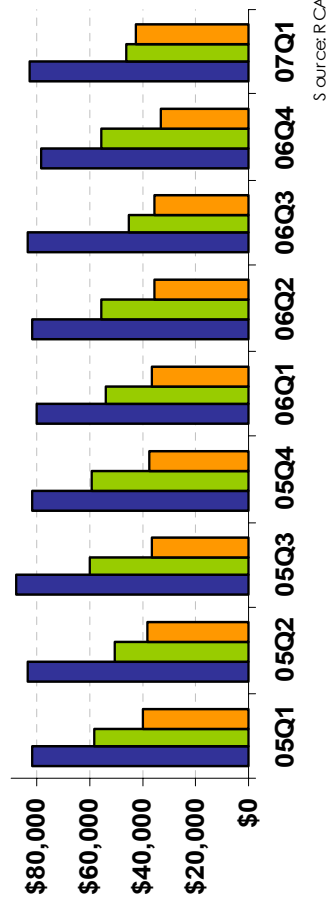
Office Prices PSF by Market Category

■ Primary ■ Secondary ■ Tertiary



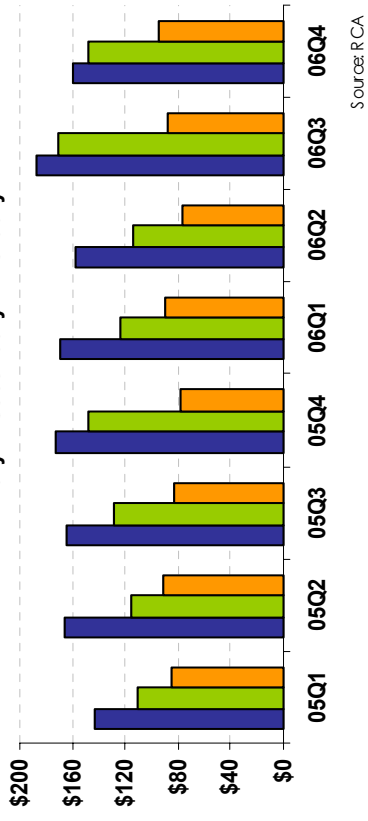
Apartment Prices Per Unit by Market Category

■ Primary ■ Secondary ■ Tertiary



Retail Prices PSF by Market Category

■ Primary ■ Secondary ■ Tertiary



Summary Property Price Spreads by Market

**AVERAGE PROPERTY PRICE SPREADS
BY MARKET CATEGORY, 2006**

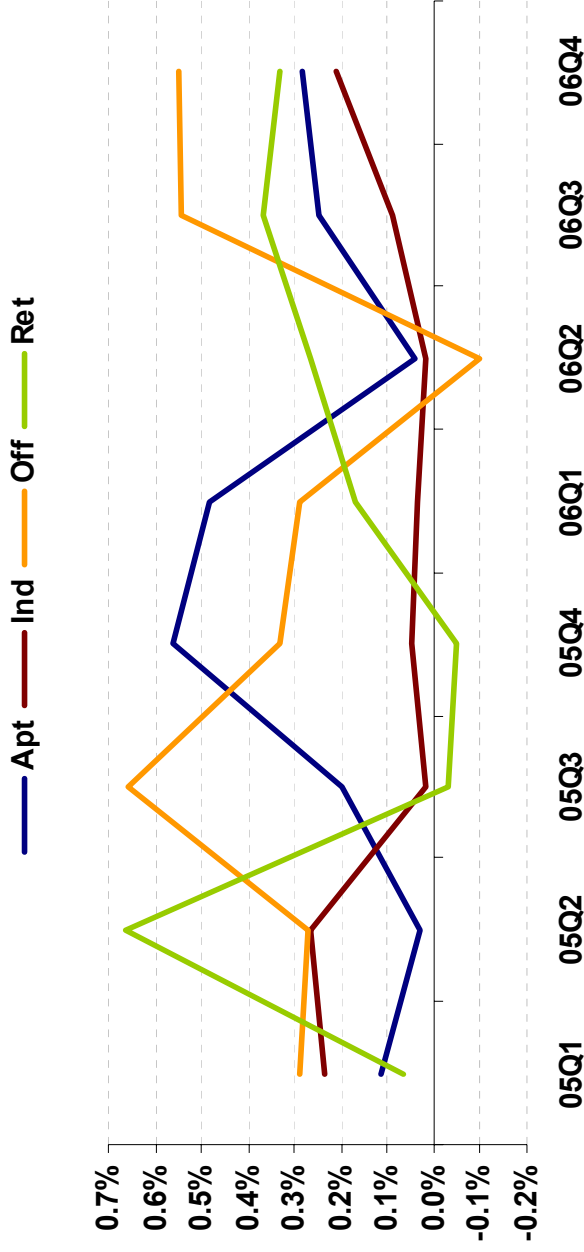
Market		Market		Market	
Sector	Primary PSF/Unit	Secondary Spread	Tertiary Spread	Sector	Tertiary Spread
Office	\$131	-\$4	-\$43	Office	-\$43
Industrial	\$70	-\$9	-\$38	Industrial	-\$38
Retail	\$168	-\$29	-\$81	Retail	-\$81
Apartment	\$82,000	-\$28,000	-\$46,000	Apartment	-\$46,000

Source: RCA; Boxwood Means, Inc.

Cap Rate Spread Trend #1

Small-Cap Properties vs. Large

Small caps appear to be growing more risky relative to larger cap properties.

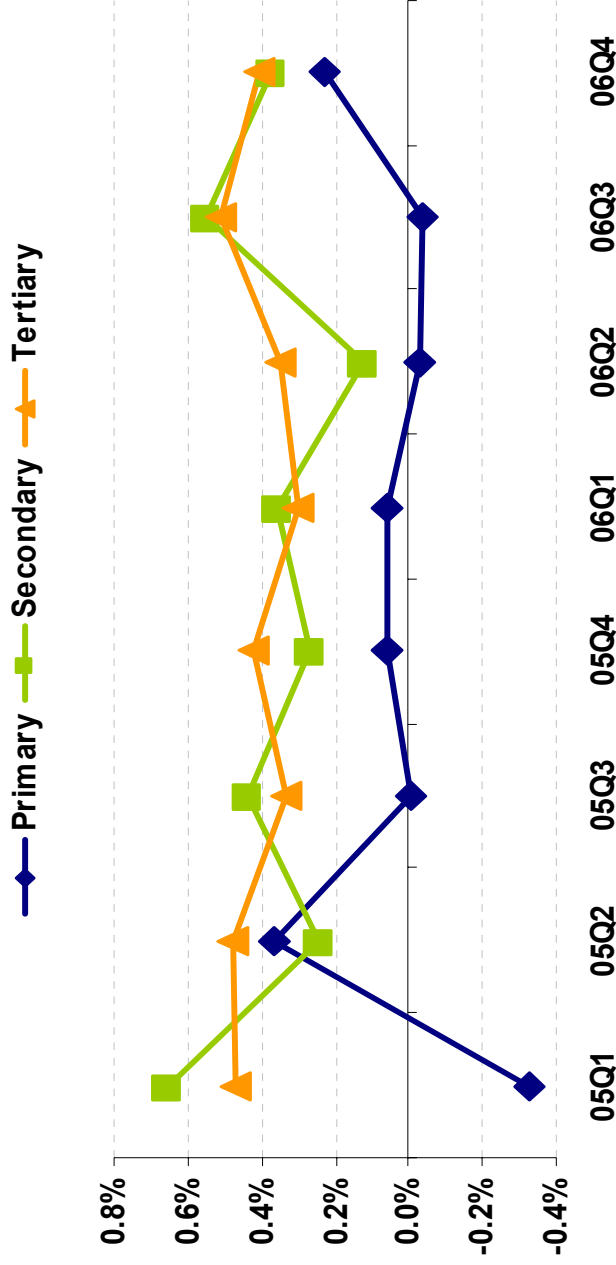


Source: RCA; Boxwood Means, Inc.

Cap Rate Spread Trend #2

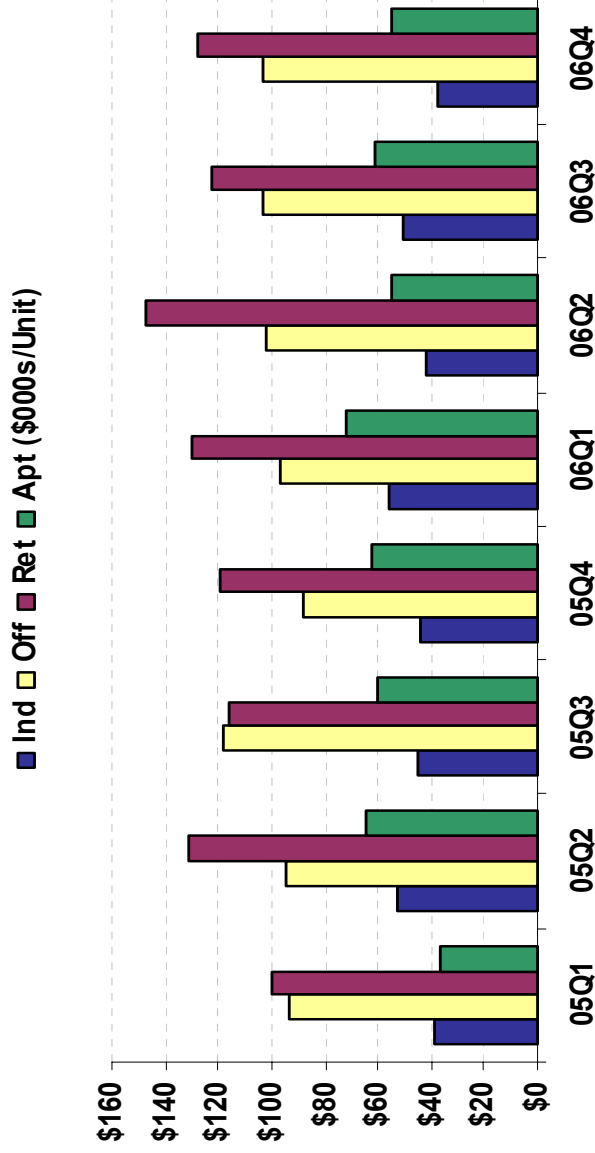
Small-Cap Properties vs. Large, by Market

The smaller markets carried a risk premium of 40 bps at year end.



Spreads in Prices PSF/Unit Small-Cap Properties vs. Large

Demand for small properties doesn't begin to approach the competition for larger assets.



Source: RCA; Boxwood Means, Inc.

Summary Property Price Spreads by Property Size

Hence, small-cap discounts to larger assets are sizable.

AVERAGE PROPERTY PRICE SPREADS Small vs Large Properties, 2006

Sector	Large Caps PSF/Unit	Small Caps Spread
Office	\$218	-\$101
Industrial	\$103	-\$47
Retail	\$251	-\$132
Apartment	\$121,000	-\$61,000

Source: RCA; Boxwood Means, Inc.



Property Markets Summary

- Cap Rates Are Flattening
- Small-Cap Pricing Differs Dramatically
- Duh - Markets Do Matter!
- Qualify the Collateral
- Quantify the Risk



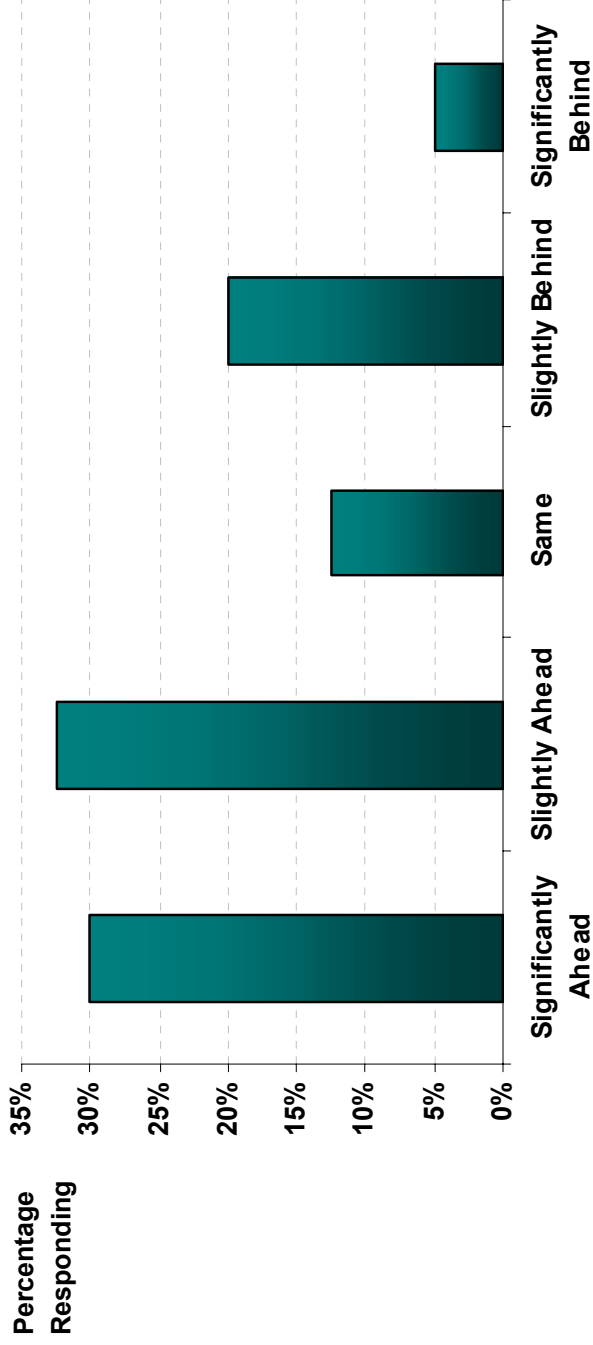
Boxwood – Scotsman Guide Lender Poll

Highlights of the March '07 Survey



Lender Production in 2007

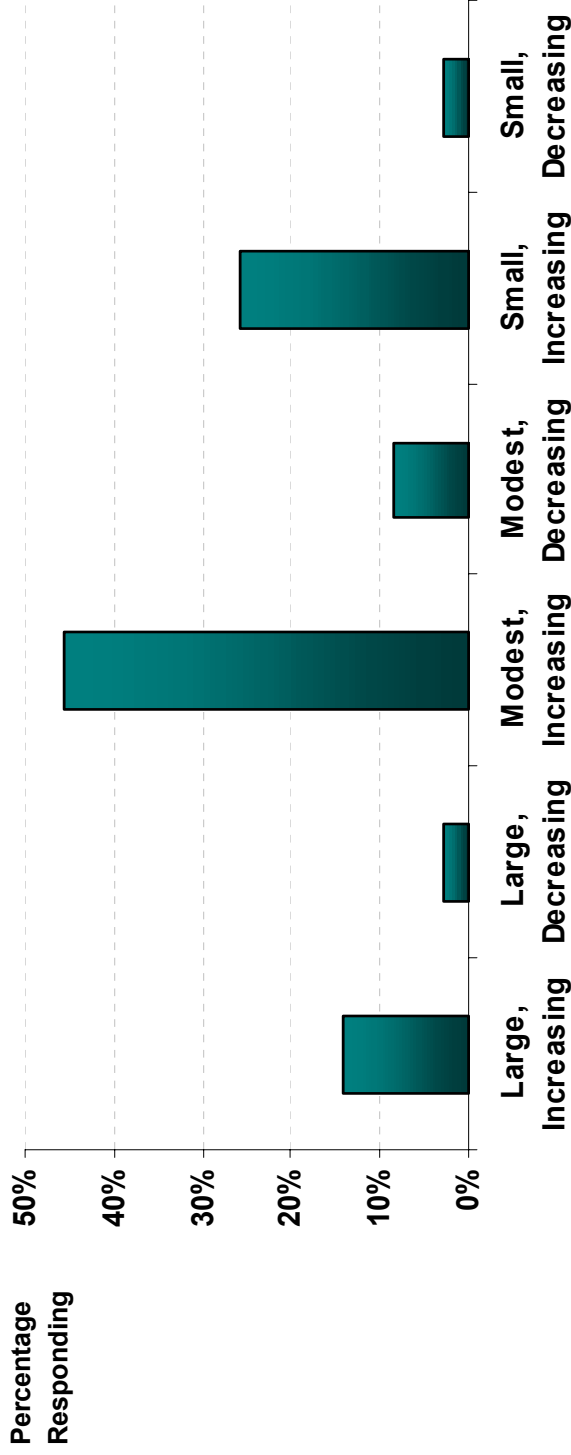
Sixty-three percent of lenders are ahead of last year's pace.



Source: Boxwood Means, Inc; Scotsman Guide

Contribution of Residential Loan Brokers

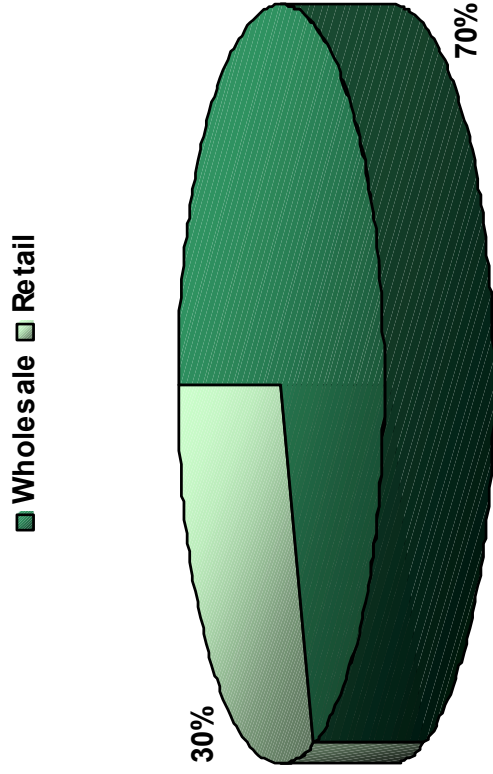
Eighty-six percent of the lenders say resi brokers have had an increasing impact on overall production over the last six mos.



Source: Boxwood Means, Inc; Scotsman Guide

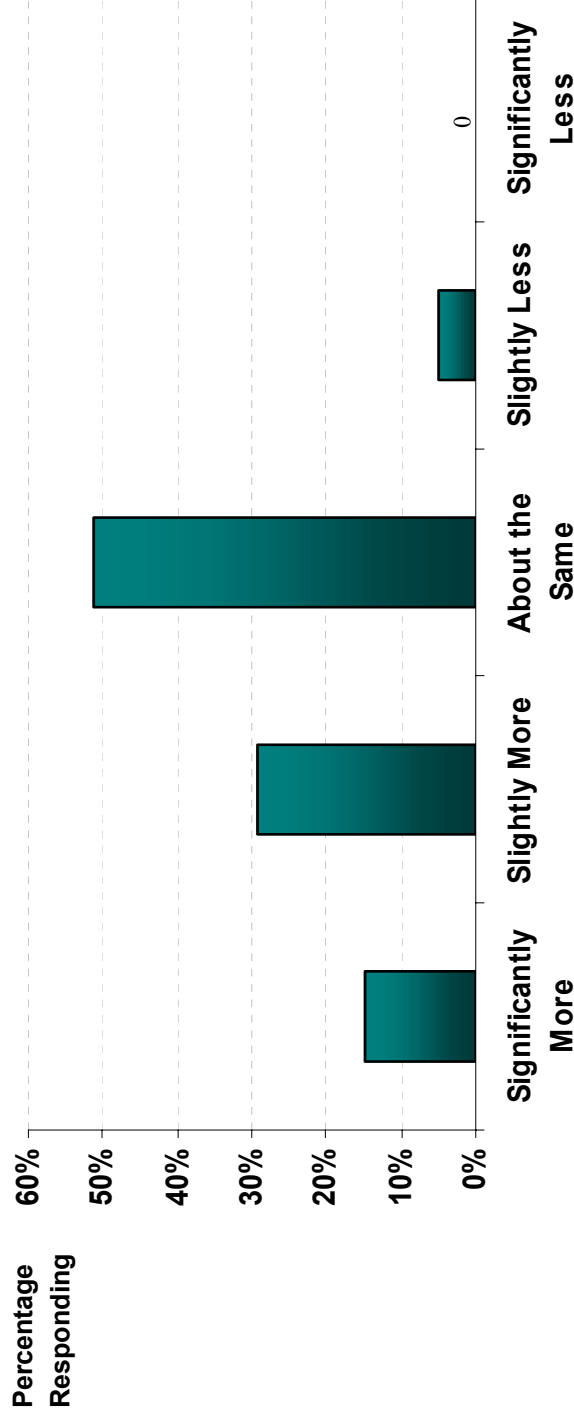
Dominance of the Wholesale Channel

Lenders rely on the broker channel for 70% of total loan production.



Competition in the Wholesale Channel

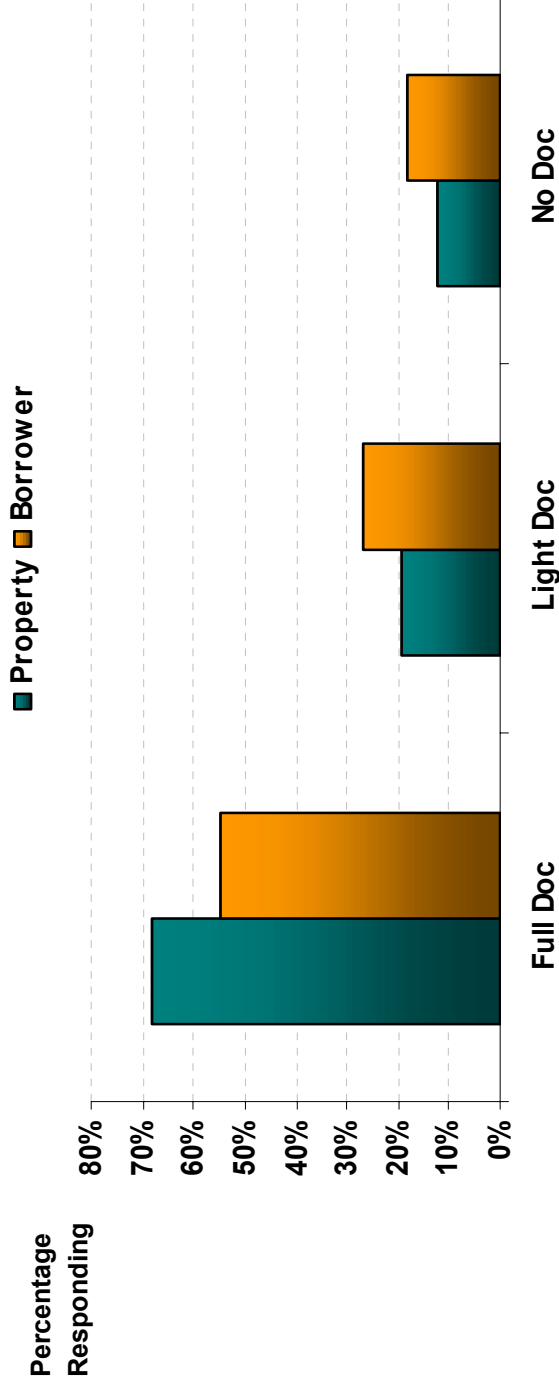
Forty-four percent claim that competitive pressures have been rising to some degree over the last six months.



Source: Boxwood Means, Inc; Scotsman Guide

Level of Loan Documentation

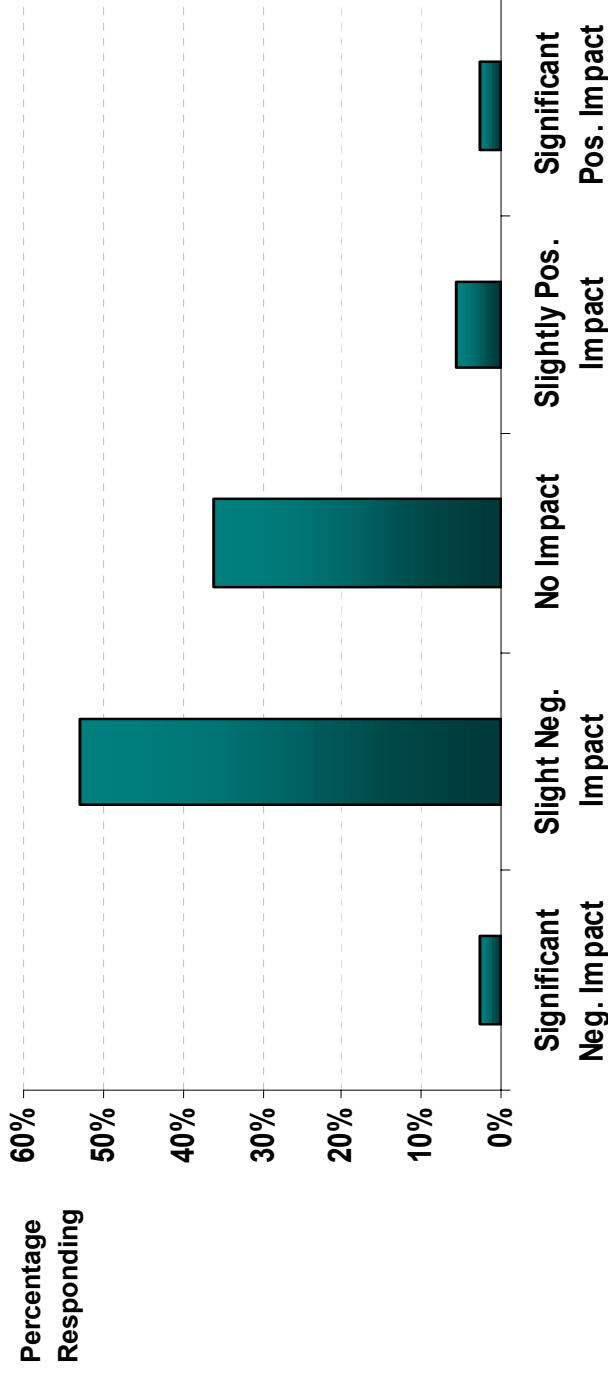
On average, 68% of all loans garner full doc on the property; 55% of loans are fully documented on the borrower.



Source: Boxwood Means, Inc; Scotsman Guide

Fall Out from Subprime Problems?

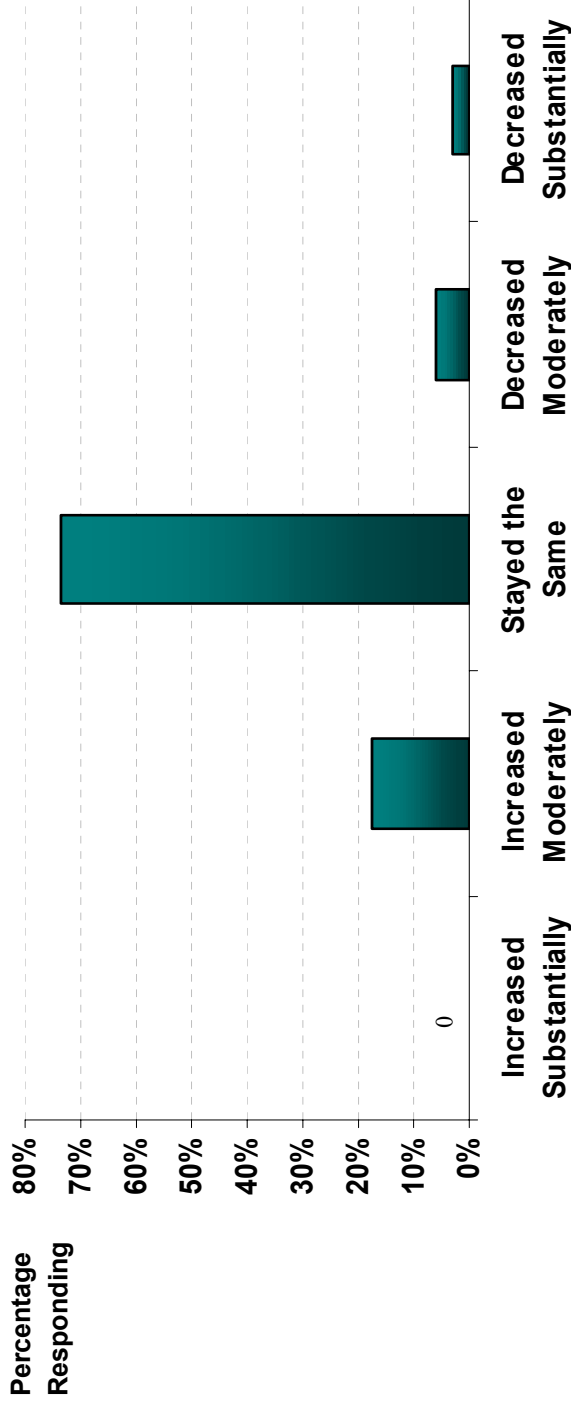
Roughly half of the lenders think the impact on credit availability in the SBC market would be slight.



Source: Boxwood Means, Inc; Scotsman Guide

Small-Balance Delinquencies

Most lenders claim delinquency rates remain unchanged, though 18% suggest it's increasing somewhat.



Source: Boxwood Means, Inc; Scotsman Guide

Closing Thoughts

- Property Fundamentals and Investment Market Remain Strong
- Capital Inflows Expected to Accelerate
- Underwriting Standards Will Be Further Tested
- Near-term Production Volatility... Watch the Residential Market
- Channel Competition Intensifies
- More Multi-channel Platforms by Lenders



Thank You!

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Small-Balance Research Experts

* *Mortgage Market Reports* * *Lead Lists* * *Portfolio Analytics* * *Survey Research*

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