

inside small-balance

By **Randy Fuchs**, principal and co-founder, Boxwood Means Inc.

Housing market's impact

Amid the capital-markets turmoil, lenders and brokers attending the Mortgage Brokers Forum on Small-Balance Commercial Real Estate Lending in early December voiced concerns about liquidity, spreads and underwriting — all of which have been turned upside down lately. Still, I don't think anyone there shared one ounce of conviction that the small-balance commercial loan space wasn't still a great place to do business.

As I suggested at the forum, the market's large size, fragmentation and solid loan performance persist. From the lenders' perspective, the landscape also has opened up substantially, with as many as five major originators having vacated the space in the past six months as part of the nonprime fallout.

Of course, this is unfortunate for the industry professionals involved. But it also creates opportunities for other lenders to pick up substantial market share.

That said, because of the link between the residential and small-balance commercial sectors, the small-balance market will likely get worse before it gets better. Part of the reason is that home sales and prices are falling at a record pace because of tremendous oversupply.

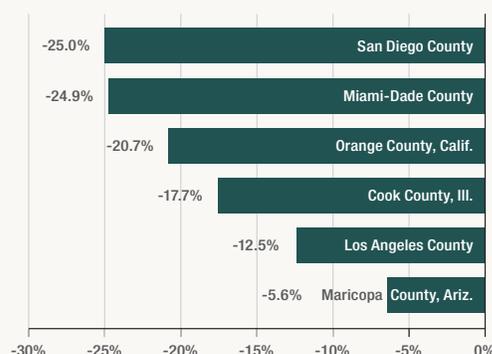
According to research that I presented at the forum, small commercial property acquisitions follow the direction of housing sales more closely than any other economic factor, including employment trends or population growth.



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Loan Volume: 2nd Quarter 2006 to '07



Source: Boxwood Means Inc.

Consequently, some of the previously explosive housing markets that are now experiencing severe corrections also are taking it on the chin in terms of overall small-balance commercial loan originations.

As the above graph shows, some of the top U.S. counties in terms of small-balance volume suffered significant declines in loan volume from second quarter 2006 to the second quarter of '07.

The Miami, Los Angeles and to a lesser extent, Phoenix areas are now pummeled by overbuilt-housing conditions.

Clearly, the small-balance growth engine has been slowing. But it's still a large and attractive marketplace despite current headwinds.