

inside small-balance

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

To notice important trends and loan segmentation occurring beneath the surface of the small-balance commercial loan market, it's useful to review where small-balance activity is occurring.

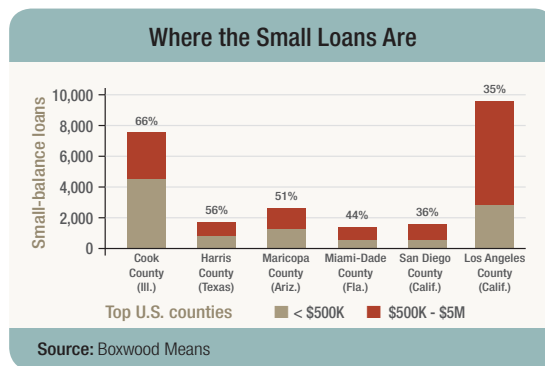
For starters, it should come as little surprise that larger geographical markets account for a sizable chunk of the originations volume. The fact is that the five most-populated U.S. counties — Los Angeles, Cook (Chicago), New York, Maricopa (Phoenix) and Orange (Calif.) — account for 18 percent of total U.S. production. Naturally, these markets attract many lenders. The competition for loans is stiff, and lender-share concentrations for the top originators can reach percentages in the mid-teens.

Because of local economic and real estate conditions, some areas of the country are disproportionately “low-balance producers.” In other words, several markets manufacture high volumes of smaller-sized loans, usually those of less than \$500,000. For example, among the nation's largest markets, Cook County (66 percent) and Houston's Harris County (56 percent) have the largest concentration of these smaller loans as a percentage of total small-balance commercial loan originations.

The geographic leaders shift modestly when we focus on loans of less than \$500,000. This size is still the “bread and butter” for many originators serving owner-users and small-cap property-owners. Nationwide, this loan bracket accounts for 19 percent of total production, a significant piece in terms of dollars and by far the lion's



Randy Fuchs, a principal and co-founder of real estate research and consulting firm Boxwood Means Inc., writes a monthly column on small-balance commercial loans for *Scotsman Guide*. Boxwood provides lenders with strategic mortgage reports, direct-mail lists, portfolio analytics and other services based on its proprietary database of small-balance transactions. E-mail randy.fuchs@boxwoodmeans.com.



share of small-balance loans in terms of the number of loans.

For commercial loans of less than \$500,000, the top five counties are Cook, Los Angeles, Kings (Brooklyn, N.Y.), Maricopa and Philadelphia. These markets represent 13 percent of total national production for this particular loan bracket. Kings and Philadelphia in particular are two densely packed locales where the local economies have been slower to recover and where commercial real estate investment traditionally has been affordable.

Loan volume did decline 5.3 percent among the top-15 counties in this smaller loan segment compared to the fourth quarter in 2006. By contrast, overall loan volume increased by 0.3 percent for all small-balance loans in the 15 most-active markets.

Brokers who segment the market and monitor its dynamics can better target their markets.