

# inside small-balance

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

## Regional unpredictability

Nature plays no favorites. So when Hurricane Ike smashed into Texas in September, it reminded us that all regions of the country have their strengths and vulnerabilities.

Boosted by growth in the energy sector as well as exports, the Texas economy had looked strong in recent months when compared to other parts of the country. Oil-rig counts have been up, drilling firms have been hiring and demand has been high for professionals in service businesses related to the oil and gas industries.

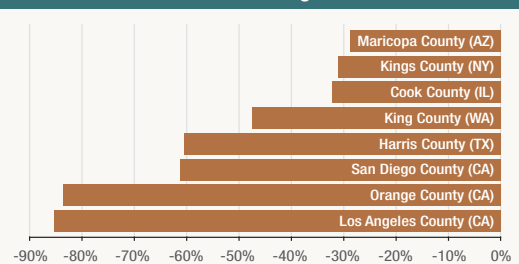
As a result, annual employment growth in Texas was at 2.3 percent in May, according to the U.S. Bureau of Labor Statistics, compared with the national growth rate of 0.2 percent. Even the state's housing market is doing OK: Figures from the Office of Federal Housing Enterprise Oversight indicate that home-price index grew 4.7 percent in Texas from first quarter 2007 to first quarter 2008, while home prices for the nation as a whole shrunk by 3.1 percent in the same period.

The reality is that even before Ike inflicted damage and disrupted economic growth in the Houston area, Texas's economy actually had been slowing down all year. Sectors such as transportation, construction and some manufacturing industries have been weak, as in other parts of the country. And of course, credit tightening has cast its shadow on deal-making in the Lone Star State, and lending activity has thus cooled.



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### First-Quarter Small-Balance Originations 2008 vs. 2007



Source: Boxwood Means Inc.

In other words, although national economic ills have affected some areas of the country more than others, healthier markets such as Houston aren't immune.

For instance, note that among the top U.S. counties for originations of small-balance loans, or commercial loans less than \$5 million:

- **None of the top markets had positive volume growth year over year;** and
- **Although markets such as Los Angeles, Orange County and San Diego that had been blasted by the residential housing crunch predictably experienced sharp declines in volume, so did strong markets such as Seattle and Houston,** which have performed well economically in the past few years.

Clearly, the waves created by the nation's housing troubles and recession-like economy have left an irregular pattern of loss in their wake. Some undiversified metropolitan areas are at risk and face strong challenges to growth, while better-balanced economies will allow others to weather the storm intact and rebound faster.

With the seeming unpredictability of national and global markets, only two things are constant: Local small-balance markets will continue to evolve, and the risks and rewards for investors and lenders will require persistent monitoring and calculation.