

**Market Downshift**  
**Small-Balance Commercial**  
**Loan Market Presentation**

**General Address**

**by**

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**The Mortgage Brokers Forum of Small-Balance  
Commercial Real Estate Lending  
Las Vegas, NV**

**December 4, 2007**



**BOXWOOD MEANS, INC**

# Lower RPMs For Now



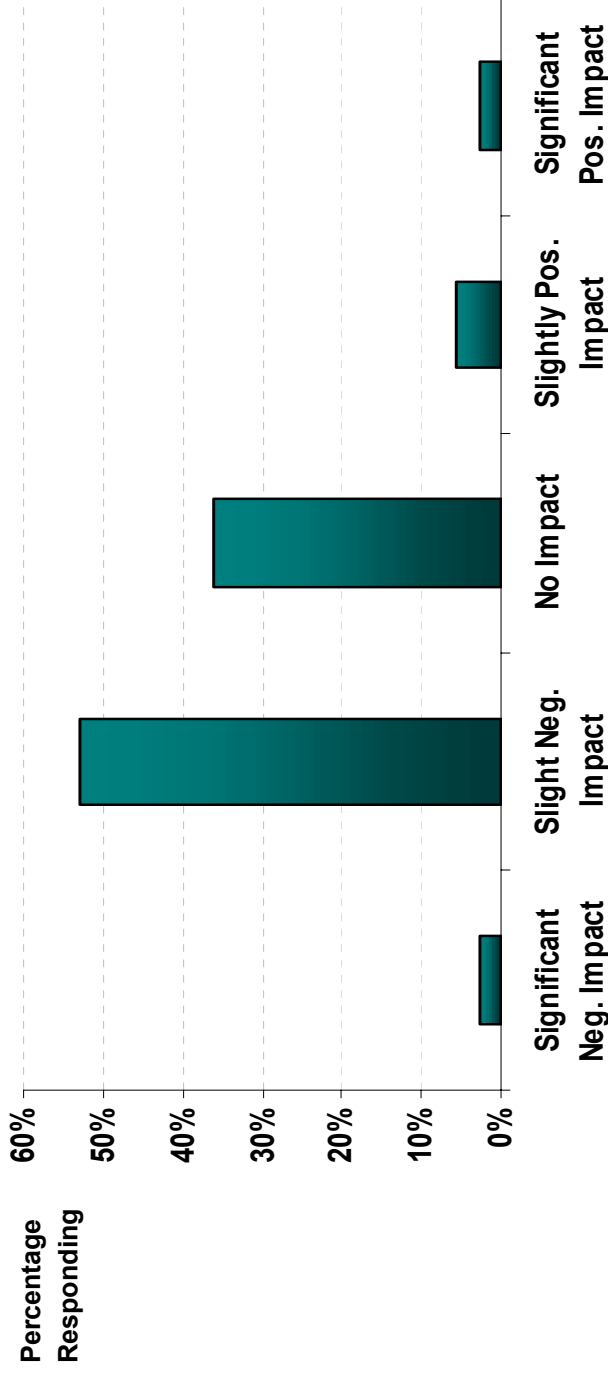
# Overview

- Originations Volume is Slowing
- Funding is Tight; Securitizations Sidelined
- Small-cap Property Sales Falling
- 12-Mos. Ending 2Q07 - \$140 Billion
- Loan Performance is A-Okay
- Residential Housing Market is Important



# Fall Out from Subprime Problems?

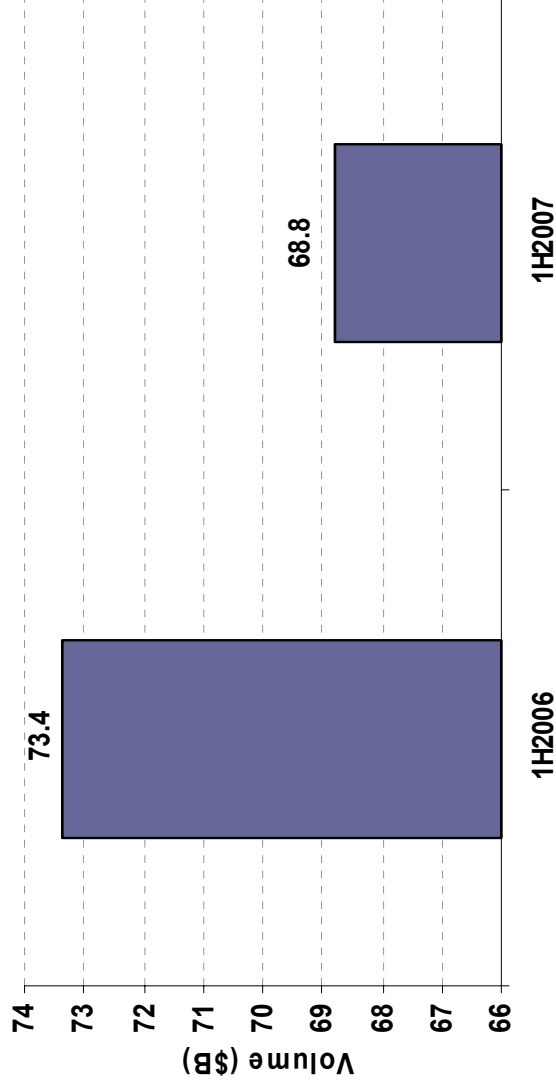
*So much for vision! -- from our lender survey this past March.*



Source: Boxwood Means, Inc; Scotsman Guide

# Origination Trends

*Volume is off, but it's still a \$100 billion marketplace.*



Source: Boxwood Means, Inc.,

# Bifurcated Marketplace

- There is more than ONE small loan “market”.
- Not all segments are growing at the same rate.
- The smallest loan segment is tracking the decline of the residential mortgage market.
- Diversify the loan product mix.



# Originations by Loan Bucket

*The market is telling us what's selling and what's not.*

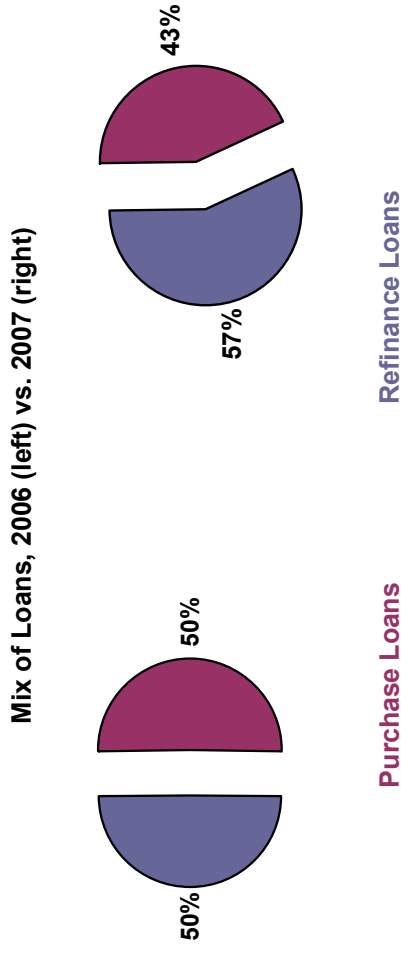
Year over Year Change, 1H2007 vs. 1H2006



Source: Boxwood Means, Inc.

# Purchase vs. Refinance Volume

*Purchase loans are slowing; refinances are growing.*

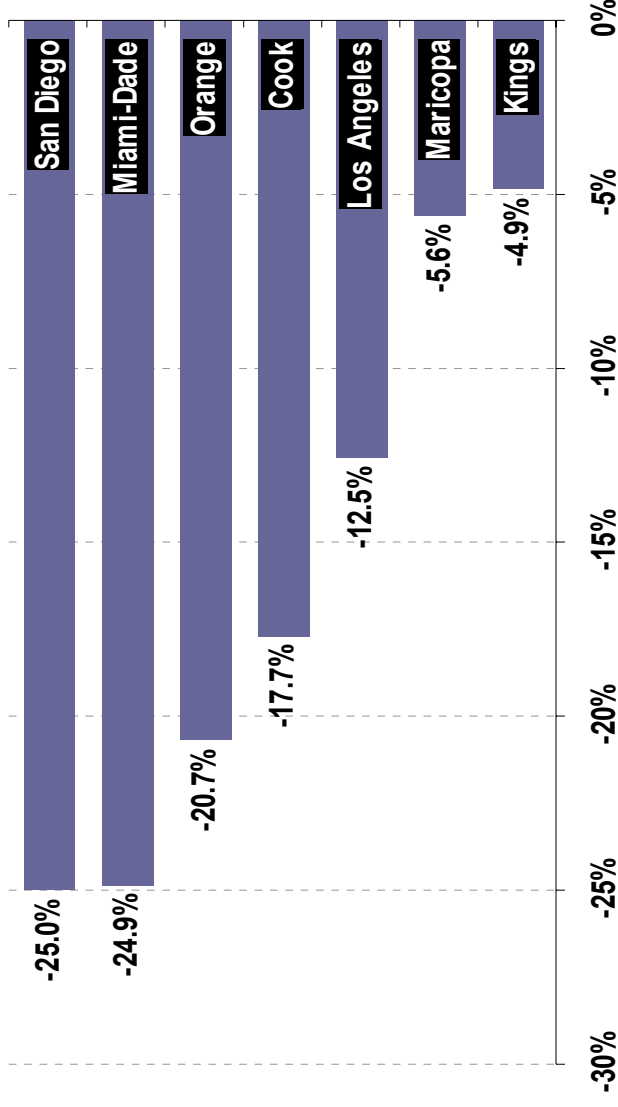


Source: Boxwood Means, Inc.



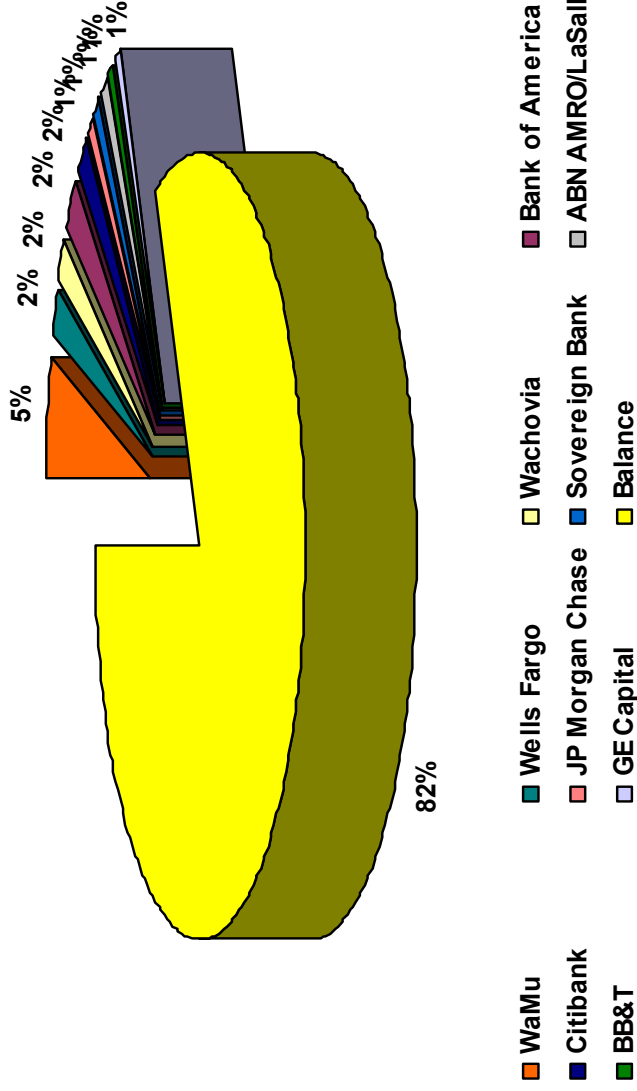
# Chilling Climates

*Volume changes in selected Top 10 markets year over year.*



# Level-Playing Field

*The top 10 lenders account for only 18% of total production.*



# Lender Tables

*There's more movement year-to-year than meets the eye.  
Dedicated programs make a difference.*

Lender	Previous Rank	Current Rank	Market Share
Washington Mutual	1	1	<\$5MM
Wells Fargo	2	2	5%
Wachovia	4	3	2%
Bank of America	3	4	2%
Citibank	5	5	1%

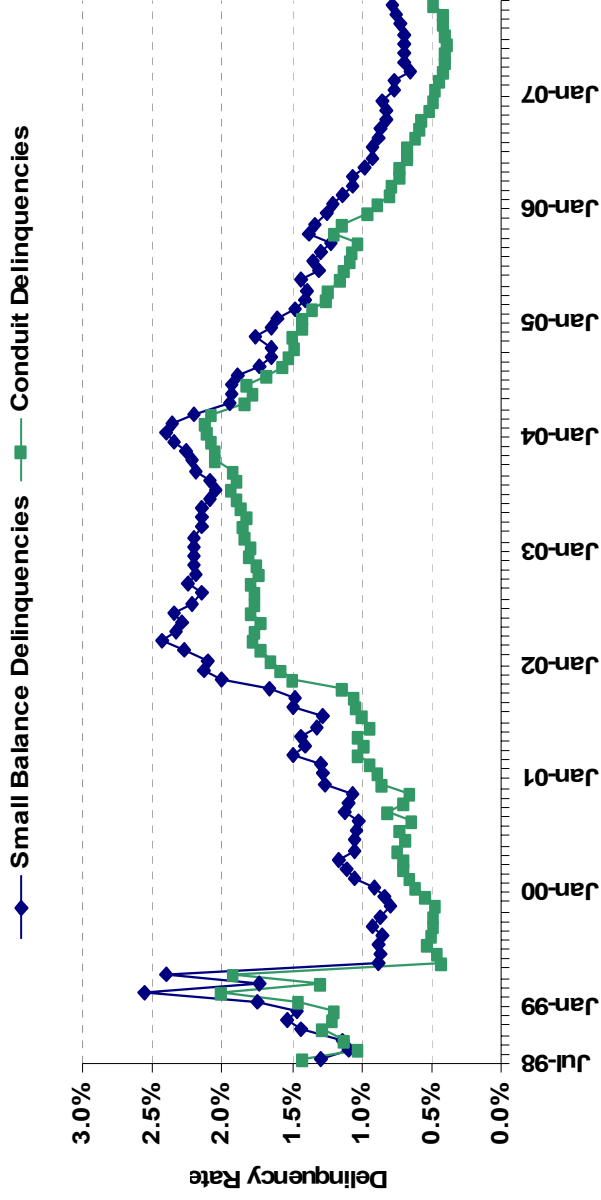
  

Lender	Previous Rank	Current Rank	Market Share
Washington Mutual	1	1	<\$1MM
Wells Fargo	3	2	4%
Wachovia	4	3	3%
Bank of America	5	4	2%
Bayview Financial	6	5	2%
Greenpoint Mtg.	15	7	1%
BB&T	12	8	1%
Lehman Brothers	18	14	1%



# Small-Balance Loan Performance

*Meanwhile, delinquencies are under control.*



Source: Trepp

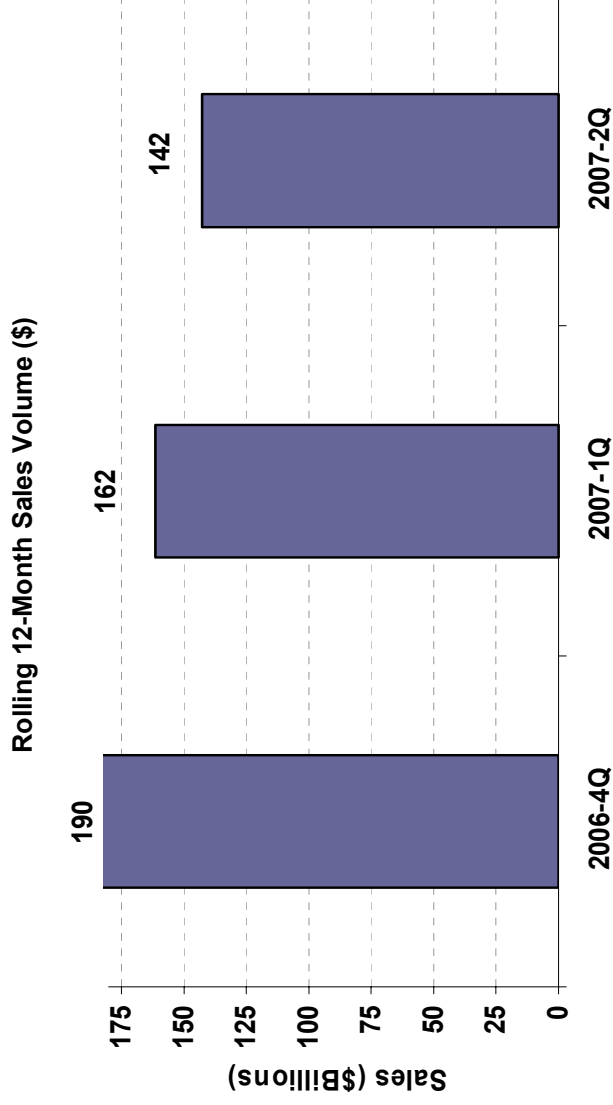
# Small-Cap Property Investment Trends

- Small-cap sales volume is slowing.
- Cap rates are flattening.
- Markets matter – small-cap prices vary by region and market size.
- The implications for underwriting are important.



# Small-Cap Sales Trend

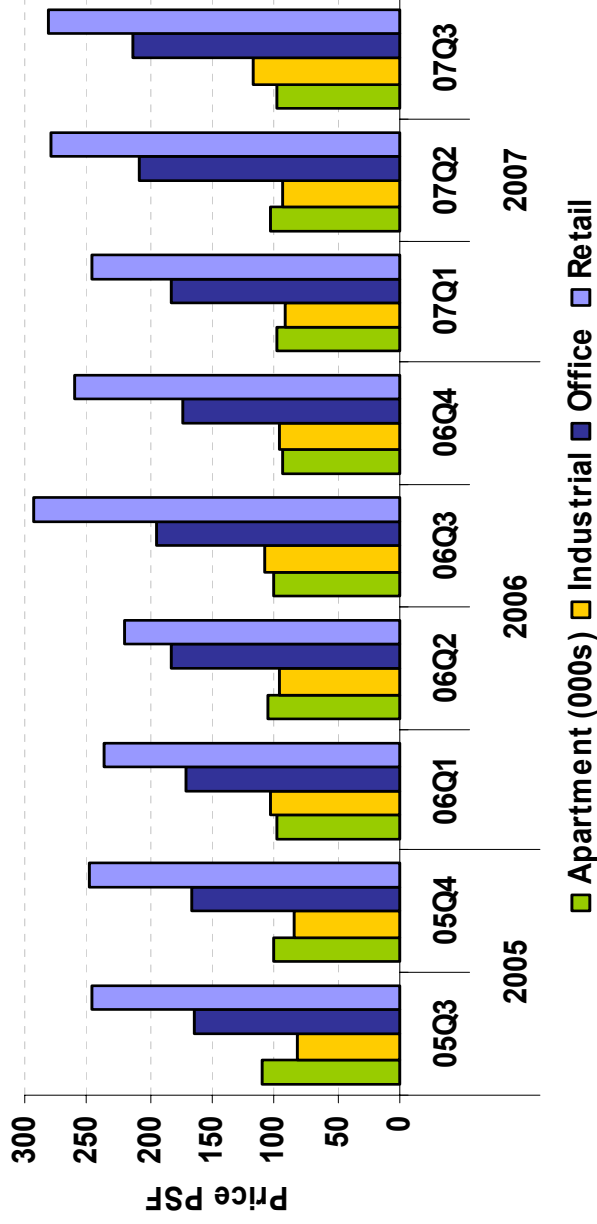
*Transaction volume is down 25% since the year ending 2006.*



Source: Boxwood Means, Inc.

# Small-Cap Price Trends

*Office and Industrial properties remain strong; Retail and Apartment sectors are modestly slipping.*

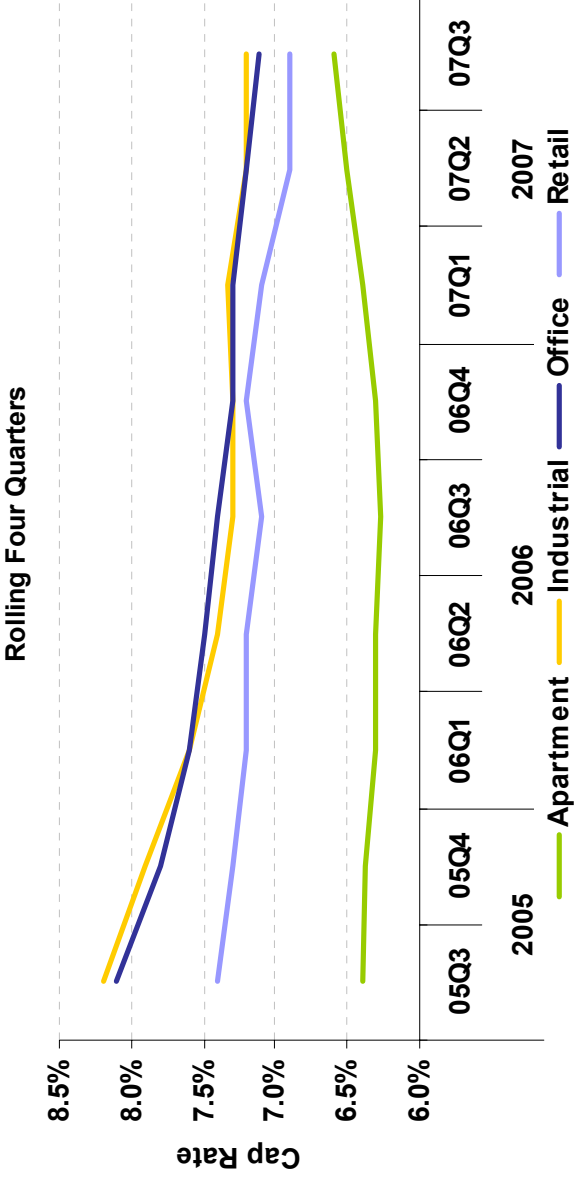


Source: RCA

# Cap Rate Trends

## Property Sales \$2.5MM - \$5.0MM

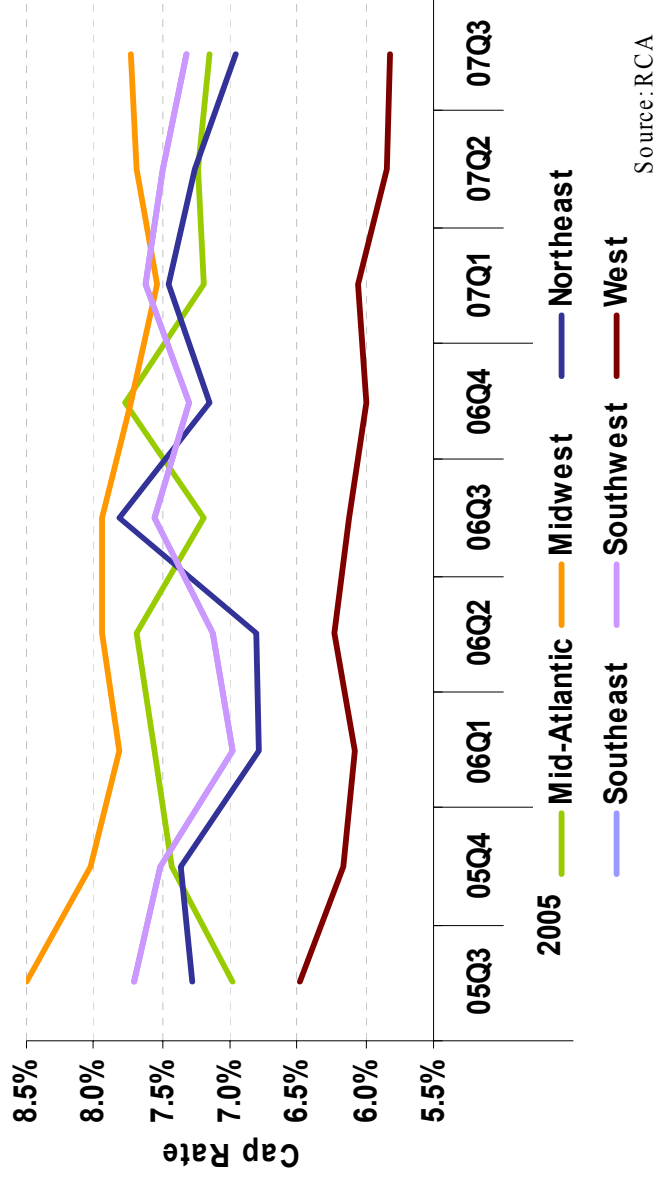
*Rates for all property types have flattened out.*





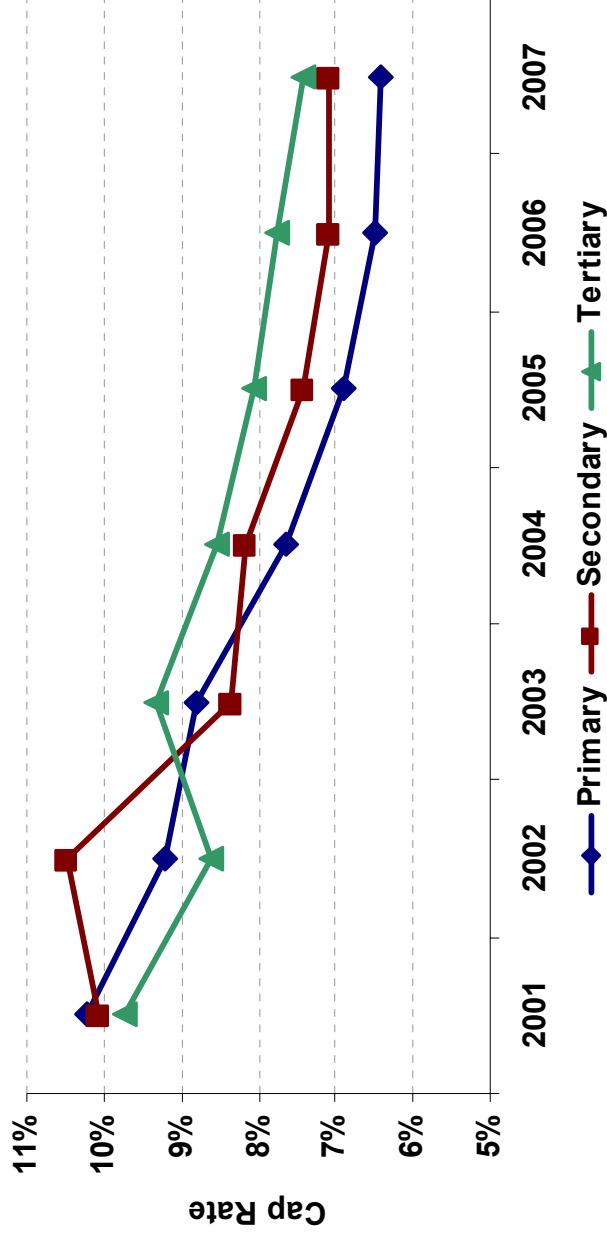
# Regional Cap Rates

*The West and Northeast out-perform like the broader market.*



# Cap Rate Trends by Market Category

*Markets matter. Spreads range from 70 - 100 basis pts.*



Source: RCA; Boxwood Means, Inc.

# Summary Property Cap Rate Spreads by Property Size

*But are the risk premiums adequate?*

AVERAGE CAP RATE SPREADS Large & Small Cap Properties, 3Q07			
Sector	Market		Rate Spread (bps)
	Large Caps	Small Caps	
Office	6.5%	7.1%	60
Industrial	6.8%	7.2%	40
Retail	6.7%	6.9%	20
Apartment	6.1%	6.6%	50

Source: RCA; Boxwood Means, Inc.

# The Influence of Residential Housing

- Boxwood's research indicates there's a special relationship between small-cap property sales and the housing market.
- Residential sales is the most highly correlated factor with small-cap sales, followed by population growth.
- Implication: Continued slowdown in originations in the short term.



# Outlook – Our Thoughts

*The basic coordinates of the SBC market remain unchanged.*

- It's still a large marketplace – make no little plans.
- Boxwood's forecast is for 1.0-1.5% GDP growth in 2008
- Another six months of residential weakness.
- Strong economic growth in 2H2008.
- Uptick in originations to follow.



# Thank You!

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