

CRITTENDEN NATIONAL  
REAL ESTATE CONFERENCE

**SMALL BALANCE LENDING TRENDS**

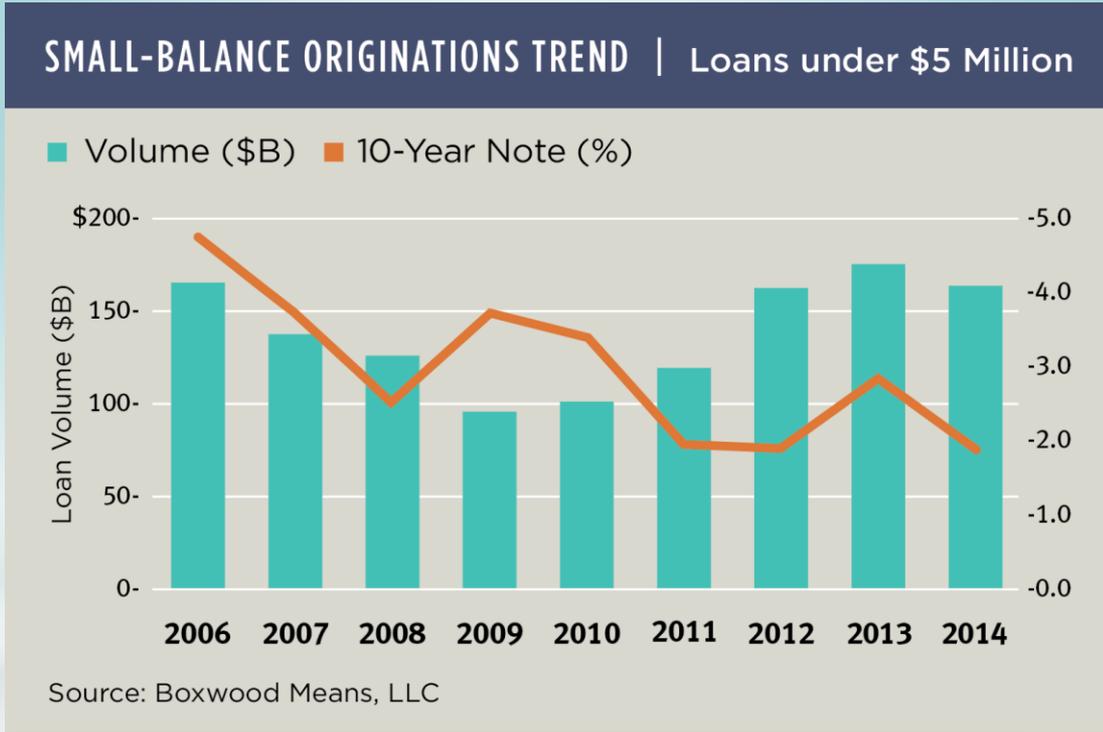
*Research Presented by:*  
Randy Fuchs, Principal/Co-Founder  
Boxwood Means, LLC

April 29, 2015

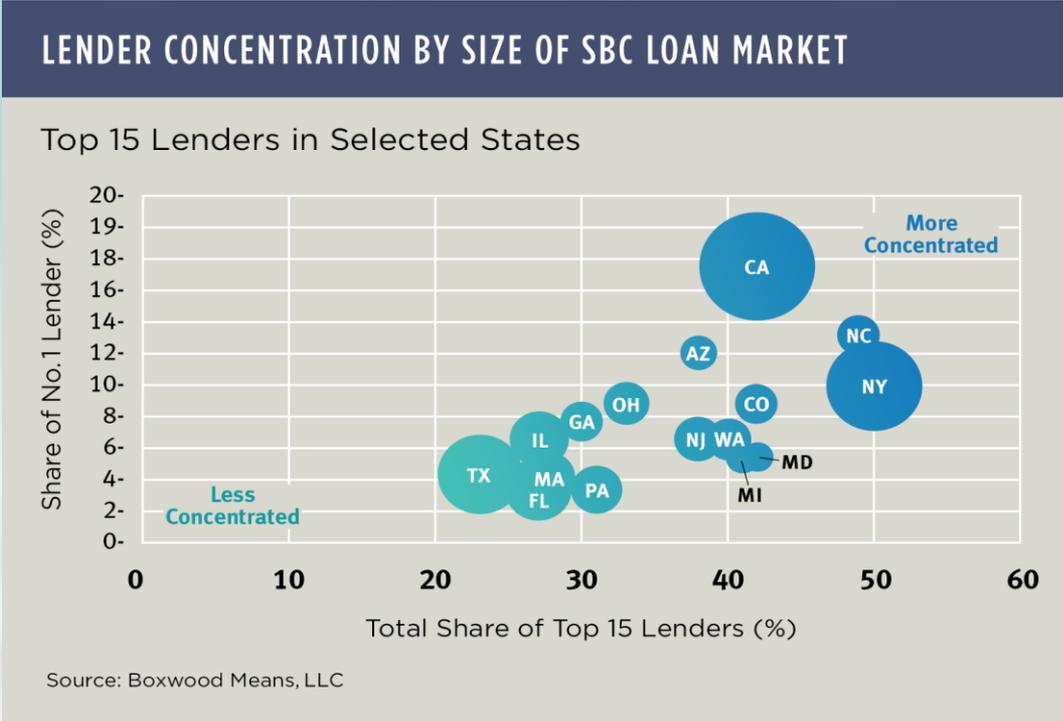
# COMPANY BACKGROUND

- 📄 Specialists in CRE valuations and data analytics in the small commercial property and loan markets since 2003.
- 📄 Deliver 500 valuation reports per month to bank and non-bank lender-clients nationwide via SmallBalance.com
- 📄 Proprietary analytics include: small commercial price indices (SCPI); forecasts; and small-cap CRE property sales and small balance originations research

# LAST YEAR'S ORIGINATIONS WERE SHORT OF 2013'S RECORD, BUT STILL STRONG



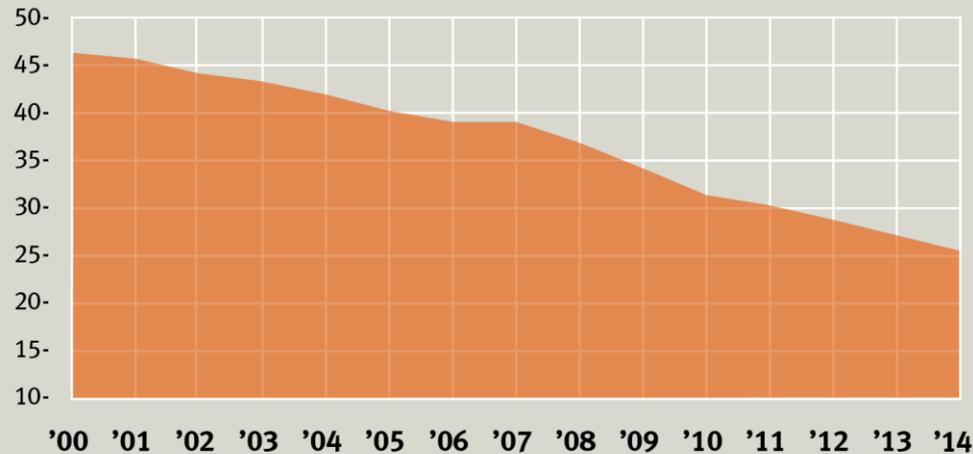
# FRAGMENTED MARKET? MAYBE NOT SO MUCH



# BANKS' PERCENTAGE OF SBRE LOANS: LONG-STANDING, GRADUAL DECLINE

## SMALL BUSINESS REAL ESTATE LOANS (<\$1MM)

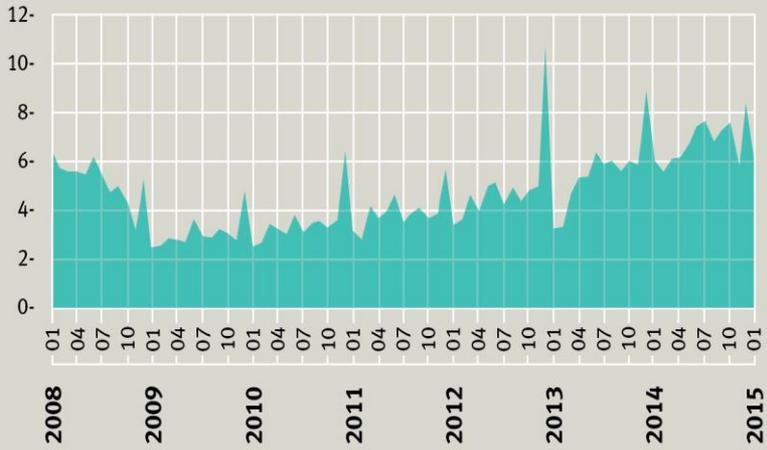
Percentage of Total Bank CRE Loans Outstanding



Source: Boxwood Means, LLC; FDIC

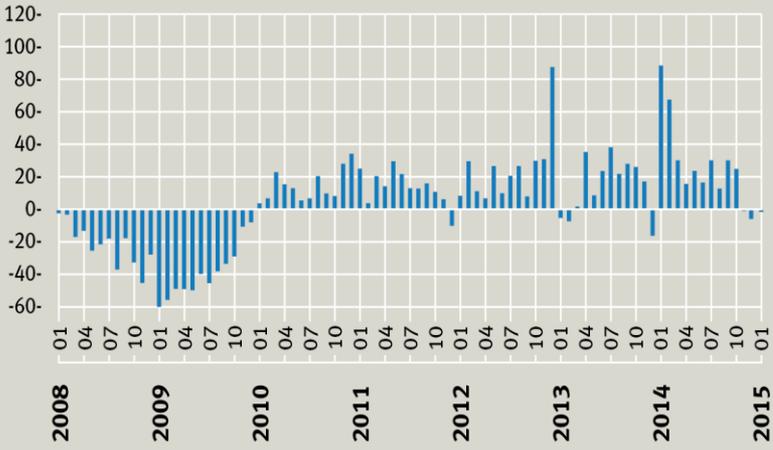
# PROPERTY SALES HIT RECORD TERRITORY LAST YEAR; OFF TO A GOOD START IN 2015

SALES VOLUME TREND | Property Sales (\$B)



Source: Boxwood Means, LLC

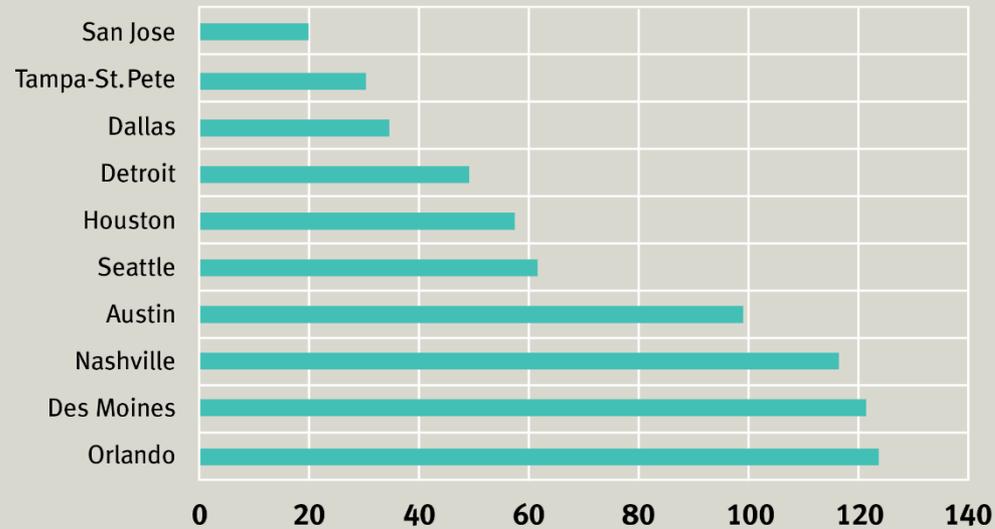
ANNUAL CHANGE IN SALES VOLUME (%)



Source: Boxwood Means, LLC

# STRONG SALES GROWTH IN SMALLER MARKETS

SALES GROWTH LEADERS (%) | Year-over-Year Change



Source: Boxwood Means, LLC

# SPACE DEMAND SPARKS MARKET EXPANSION

## SMALL CAP NET ABSORPTION TRENDS | Sq. Ft. (Millions)



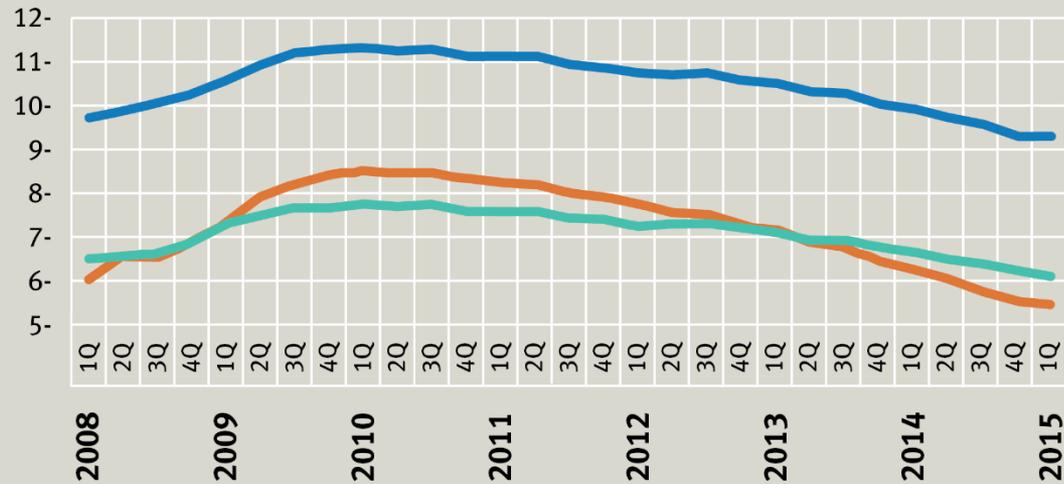
Source: Boxwood Means, LLC; CoStar Group, Inc

# VACANCIES APPROACHING PRE-RECESSION LOWS

## NATIONAL SMALL CAP CRE VACANCY TRENDS (%)

Buildings under 50K SF

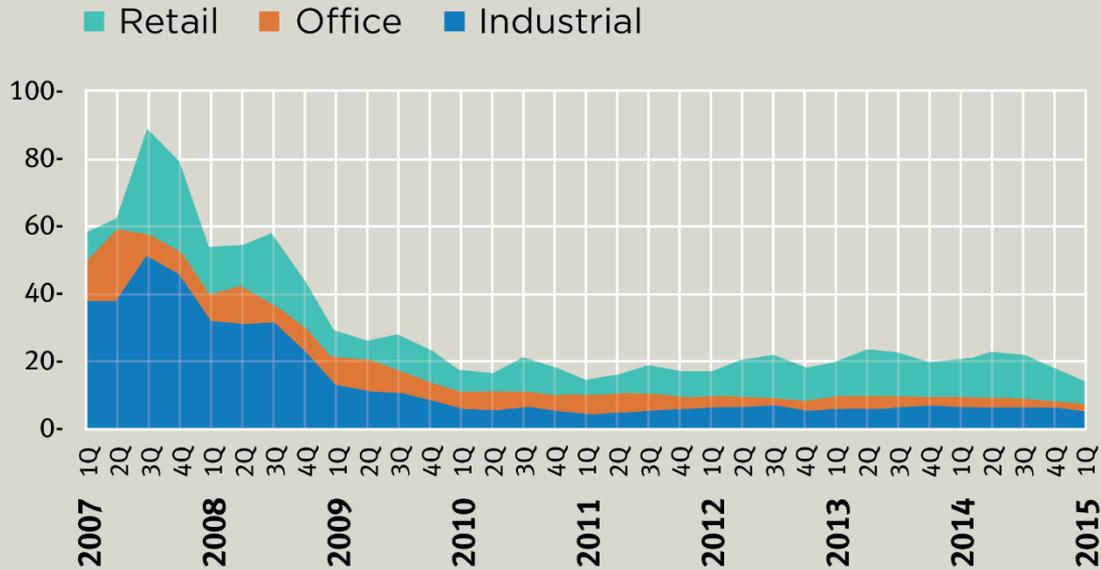
■ Office ■ Industrial ■ Retail



Source: Boxwood Means, LLC; CoStar Group, Inc.

# SUPPLY PIPELINE IS WEAK

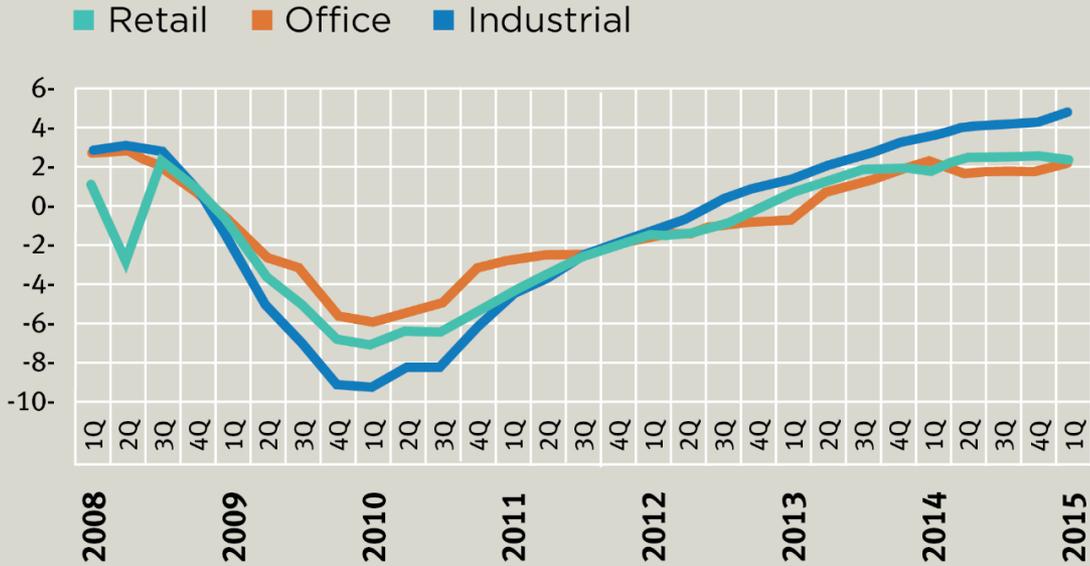
## SMALL CAP CRE NEW CONSTRUCTION TRENDS | Sq. Ft. (Millions)



Source: Boxwood Means, LLC; CoStar Group, Inc.

# RENT GROWTH ON THE UPSWING

## SMALL CAP RENT GROWTH TRENDS | Annual Percent Change (%)



Source: Boxwood Means, LLC; CoStar Group, Inc.

# WEAKNESS IN ENERGY MARKETS?

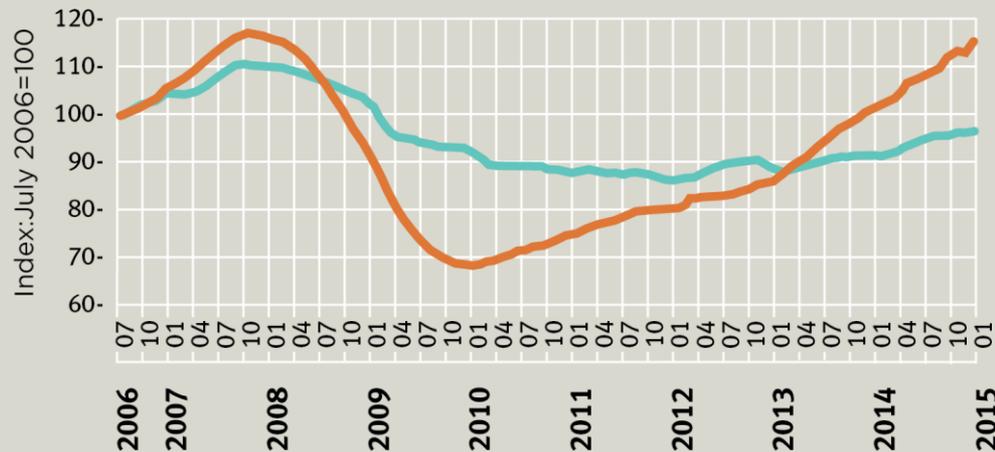
SELECTED MARKET FUNDAMENTALS - FIRST QUARTER, 2015									
Metro	Rent			Vacancy			Net Absorption		
	Rent/SF	Qtr Chg (%)	YOY Chg (%)	Rate (%)	Qtr Chg (bps)	YOY Chg (bps)	Net Abs (M/SF)	Qtr Chg (%)	YOY Chg (%)
Houston - IND	\$6.27	2.6	5.9	4.8	0	-60	3.8	160.2	82.6
Houston - OFF	\$27.46	0.7	2.8	11.6	80	30	1.7	-51.8	-32.0
Houston - RET	\$15.28	0.4	4.4	5.6	0	-50	0.6	5.1	-53.8
Oklahoma City - IND	\$4.80	-1.2	5.3	3.8	-140	-190	1.2	149.3	246.2
Oklahoma City - OFF	\$14.58	-2.1	1.3	7.3	-20	-80	0.3	82.5	162.9
Oklahoma City - RET	\$11.26	1.7	3.9	6.5	0	-30	0.06	-65.6	1,438.5
Tulsa - IND	\$4.11	-0.3	-0.7	4.6	-90	-150	0.8	363.2	639.4
Tulsa - OFF	\$14.03	0.1	1.5	11.4	10	-100	0.02	-88.5	-84.5
Tulsa - RET	\$11.80	3.2	19.3	5.5	10	-20	0.1	-36.1	-39.8

Source: Boxwood Means, LLC; CoStar Group, Inc.  
April, 2015

# SMALL CAP PRICES ARE RISING BUT TRAIL THE INSTITUTIONAL MARKET

## NATIONAL CRE SALES PRICE TREND COMPARISON

■ Boxwood SCPI-117 ■ Moody's/RCA CPPI-Core Commercial



Source: Boxwood Means, LLC; Moody's

# SMALLER MARKETS ARE GETTING STRONGER

## CITIES WITH BEST PRICE GROWTH (%)



Source: Boxwood Means, LLC

# TAKEAWAYS

- **Originations will approach \$170 Billion this year**
- **Commercial banks, though active, play a reduced role in the small balance space**
- **Property incomes are rising with low vacancies and solid rent growth, which will drive small cap asset values higher.**
- **Industrial sector rents are surging**
- **Property sales are ahead of last year, when transaction volume hit record territory**
- **Attractive asset prices, especially in secondary markets, will continue to fuel investment activity**



**Thank you.**

**Come visit us at our table in the Grand Ballroom Foyer.**

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