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Story

Small balance wall of CMBS maturities spurs opportunities

Sabal Financial is offering a mix of equity and debt up to USD 20m, while C-III Commercial Mortgage plans to keep feeding USD 100m pockets of small balance loans to new CMBS deals, executives at each firm told *Debtwire ABS*.

The two belong to a niche of lenders looking at opportunities in small balance origination as the US heads into a rising sea of commercial real estate debt maturities. All told, loans of less than USD 20m account for USD 177bn of the USD 443bn in CMBS mortgages maturing from 2013 through 2018, according to Trepp LLC.

Retail, for example, will have USD 17.5bn in small balance loans maturing in 2016, the largest block (among loans under USD 20m) by asset type coming due in that period, according to the data.

"It's an underserved market," said Pat Jackson, CEO at Sabal in a telephone interview. "Banks that served the space are largely out."

To be sure, community banks have dominated loans of USD 5m and less. That makes tracking balance sheet loan maturities tricky. Last year, production of those loans reached a 2006 peak of USD 160bn, according to Boxwood Means, one of a few sources for data on the topic.

But the trend has lost some momentum as Treasury yields marched higher since May, cutting small balance production by 27% to USD 29.7bn in the 12 months ending 2Q13, according to the report.

Unlike residential, where 50% of the market is dominated by the five top lenders, JPMorgan Chase, Wells Fargo and Bank of America comprise only 10% of the fragmented small balance commercial real estate lending space, according to the report.

Securitization and small balance

On the equity front, Sabal is tailoring its commitments to each property, but will participate in the USD 3m–USD 10m range, Jackson said. That would mostly run co-terminus with the firm's three-to-four year bridge loans of the same size, at roughly 6%–8% rates on major asset classes.

Under current conditions, many maturing loans are not able to refinance, Jackson said, pointing to his firm's ability to offer one-stop debt and equity shopping. Banks are restricted in providing the latter by regulators, he said.

Sabal is targeting double-digit returns for its debt and equity program. The portfolio lending platform is keeping loans on Sabal's balance sheet for now, but could look to securitization in the future.

For its part, C-III's small balance platform has already been lending where its USD 132bn special servicer portfolio has a footprint.

Last month, it originated USD 116.6m of the USD 1bn **WFRBS 2013-C16** conduit CMBS, 11.1% of the pool, according to the deal's term sheet.

That percent going forward feels about right, a C-III executive said.

Small balance loans offer diversity to new CMBS pools, but can also create due diligence headaches if a deal's loan count reaches well beyond 100, he said.

by Joy Wiltermuth

Source Debtwire