

Financial Services and
Real Estate Conference

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JMP



SMALL BALANCE MARKET OVERVIEW & TRENDS

Presented by:

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Boxwood Means, LLC

June 22, 2017

SmallBalance.com

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BOXWOOD PROFILE

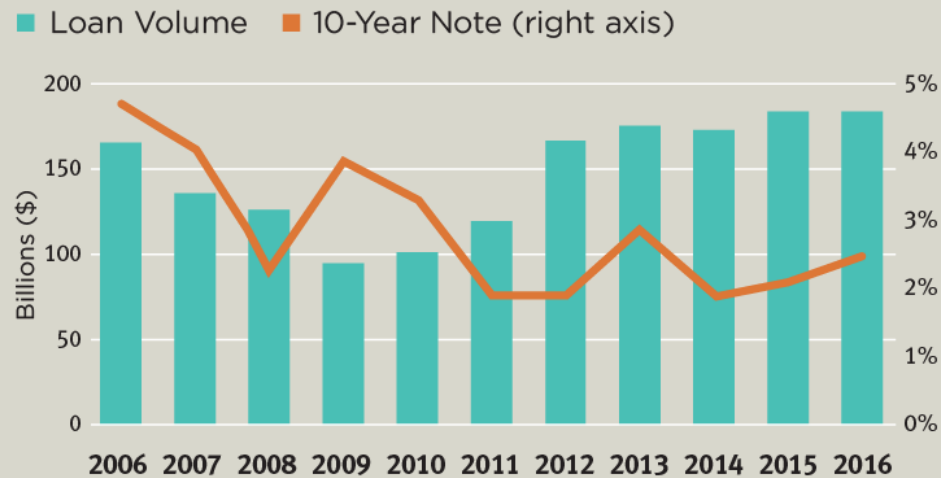
- ▶ Domain experts in small cap CRE property/loan research and valuations
- ▶ Company founded in 2003 by veteran CRE research analysts
- ▶ Best-in-class commercial evaluations; full suite of appraisal products for small cap CRE collateral
- ▶ Over 175 lenders on scalable SmallBalance.com platform. Deliver 500 valuation reports per month supporting originations, renewals, credit reviews and portfolio valuations

SBL ORIGINATIONS MARKET

SIZABLE MARKET SCALING NEW HEIGHTS

Volume reached \$180+ billion during the last two years

SMALL BALANCE ORIGINATIONS TREND | Loans under \$5 Million



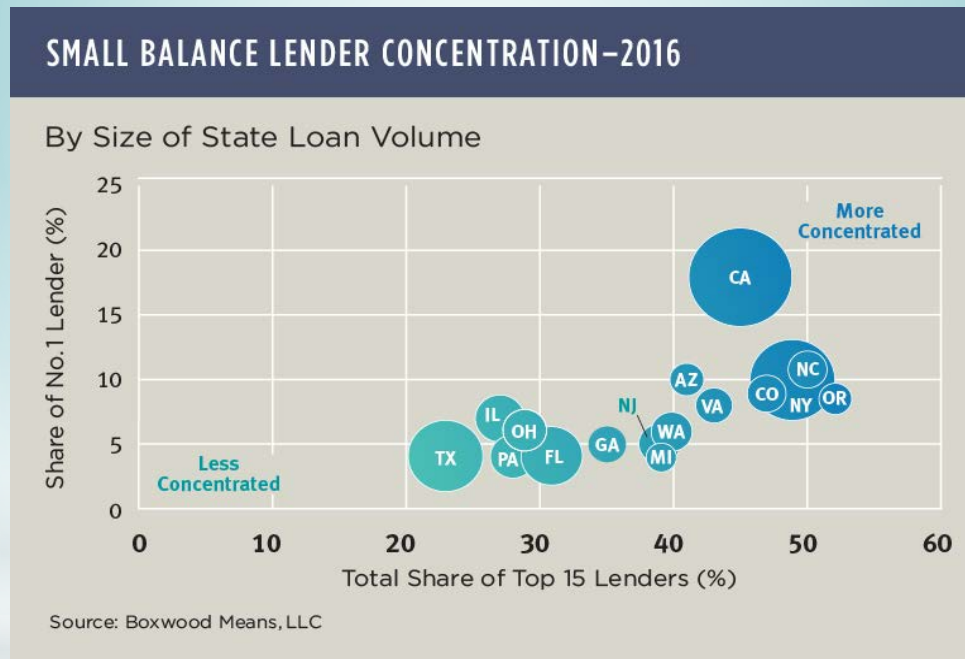
Source: Boxwood Means, LLC; Federal Reserve

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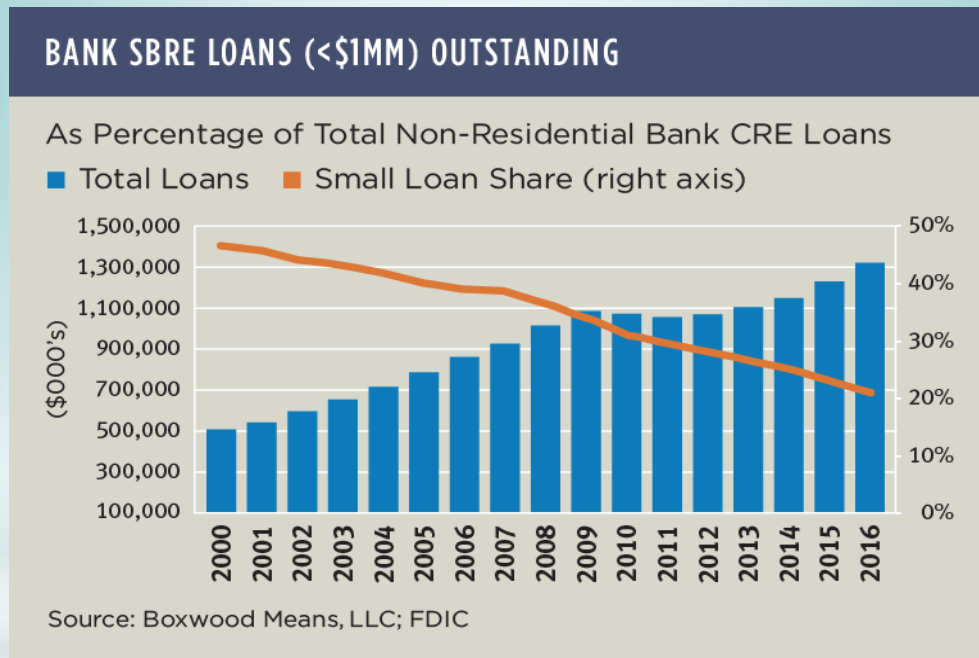
FRAGMENTED MARKET: OPPORTUNITY OR TRAP?

Nationally the top 15 lenders command only 20%, but some states are highly concentrated



LOSS OF BANK SHARE: A SECULAR TREND

SBRE loan portfolios declined by 25% since 2008 peak while balance of CRE loans rose 62%



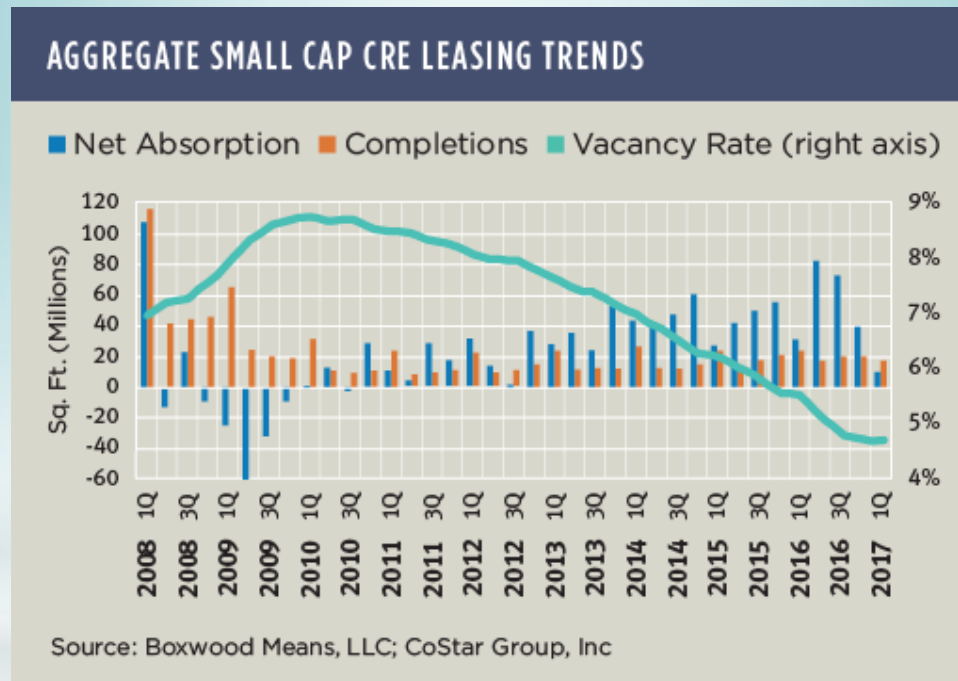
SPACE MARKET FUNDAMENTALS

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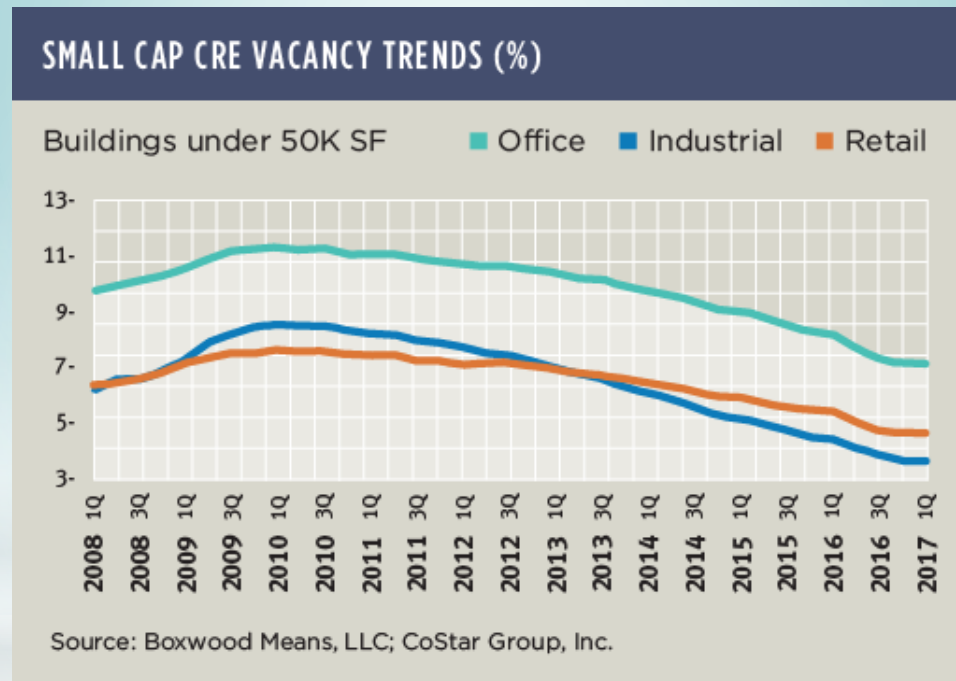
STRONG SPACE MARKET FUNDAMENTALS

Record net absorption of 224 million SF in 2016 is likely unsustainable



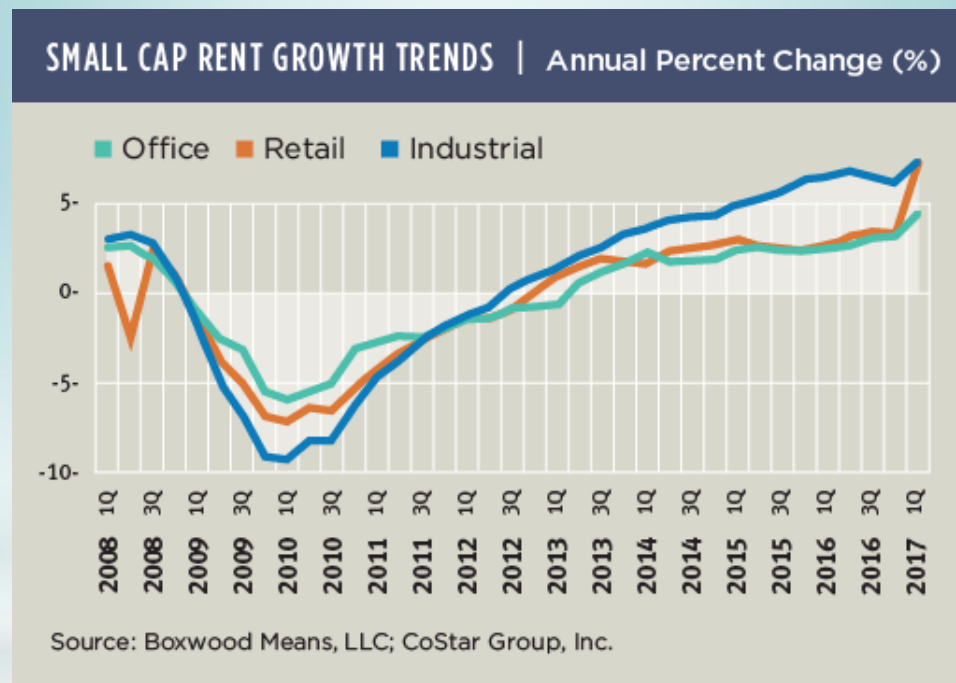
VACANCIES IN UNCHARTED TERRITORY

Ranging from 120 - 250 bps below pre-recession lows, but leveling off



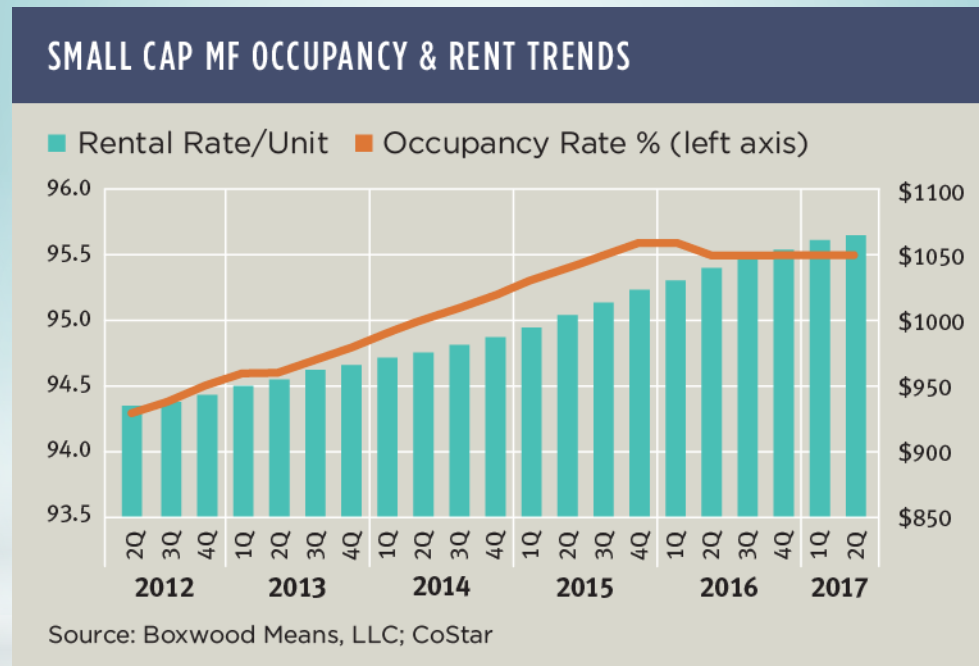
RENTS ACCELERATE: CLASSIC LATE CYCLE EVENT

Nominal pre-recession rent levels are finally eclipsed thanks to 4-7% YOY growth rates



APARTMENT RENTS ARE STILL ADVANCING, TOO

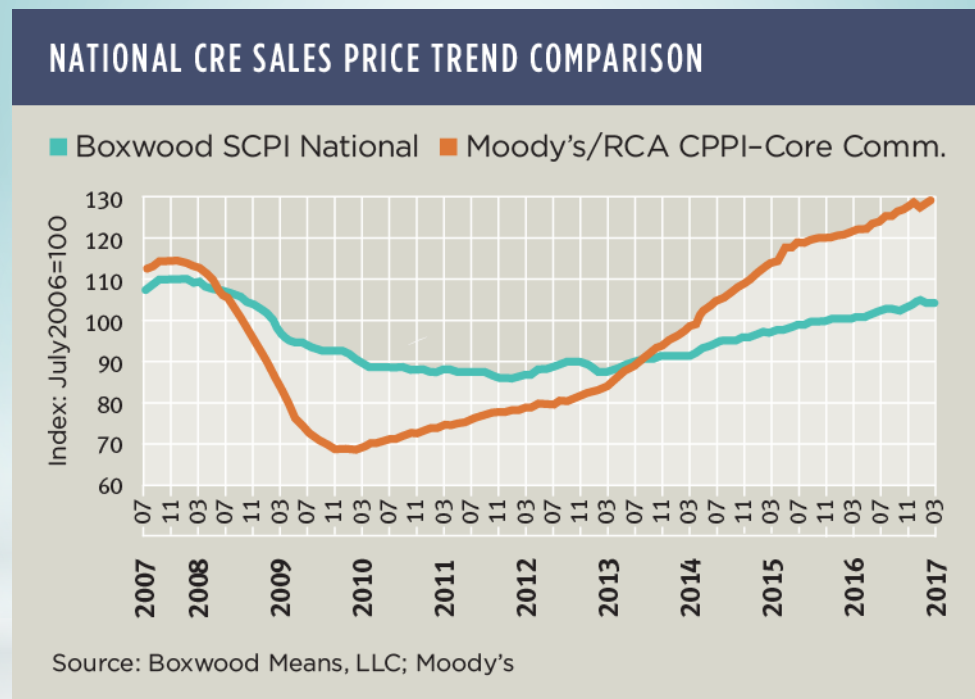
But growth in small cap MF rents and occupancy has slowed of late



PRICE TRENDS

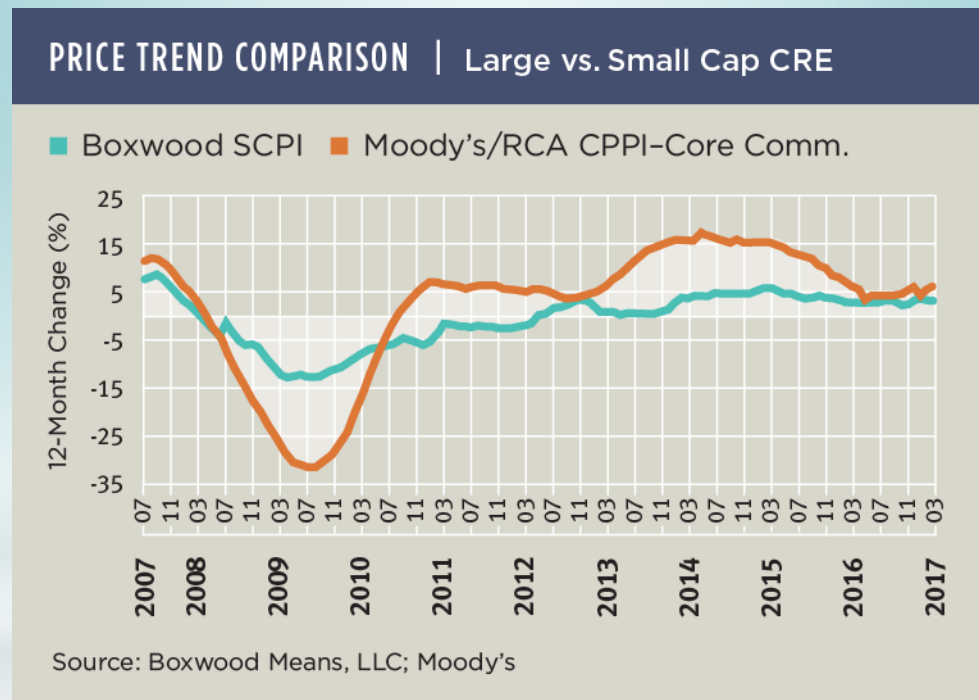
TALE OF TWO MARKETS: DISPARATE PRICE GROWTH

Prices of large cap CRE assets are 13% above peak while small caps remain 5% below



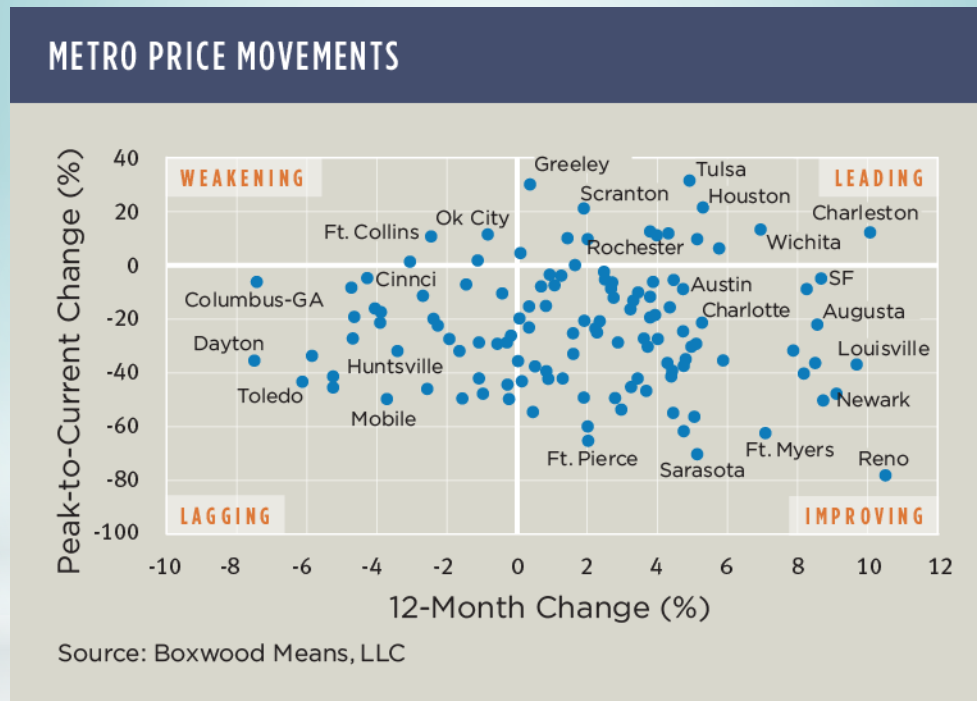
ASSET PRICES ARE NORMALIZING

YOY price appreciation has reverted to single-digit, average growth rates post recession



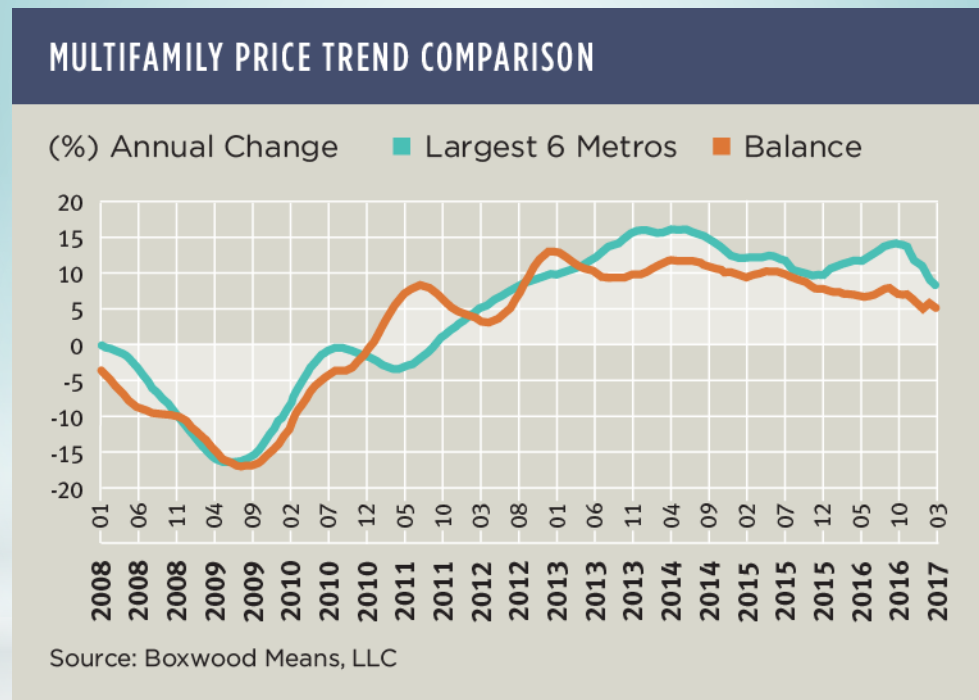
SMALL CAP PRICE GROWTH VARIES WIDELY

80% of the 125 metro areas remain below previous peak levels



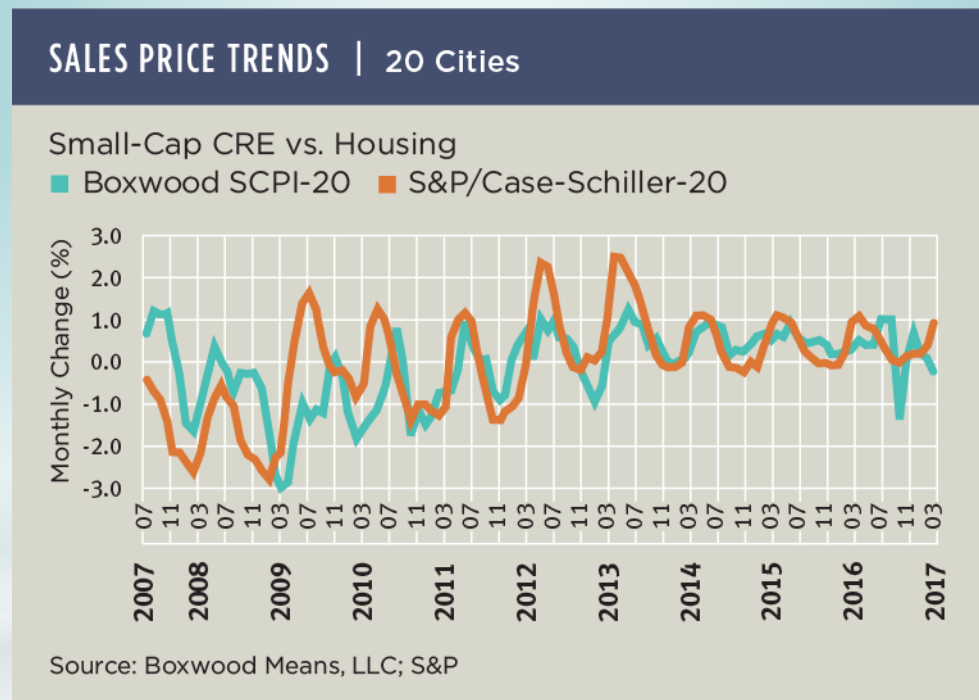
SMALL CAP MULTIFAMILY PRICES ARE ELEVATED

Growth is slowing, but prices are 28% above the previous peak level



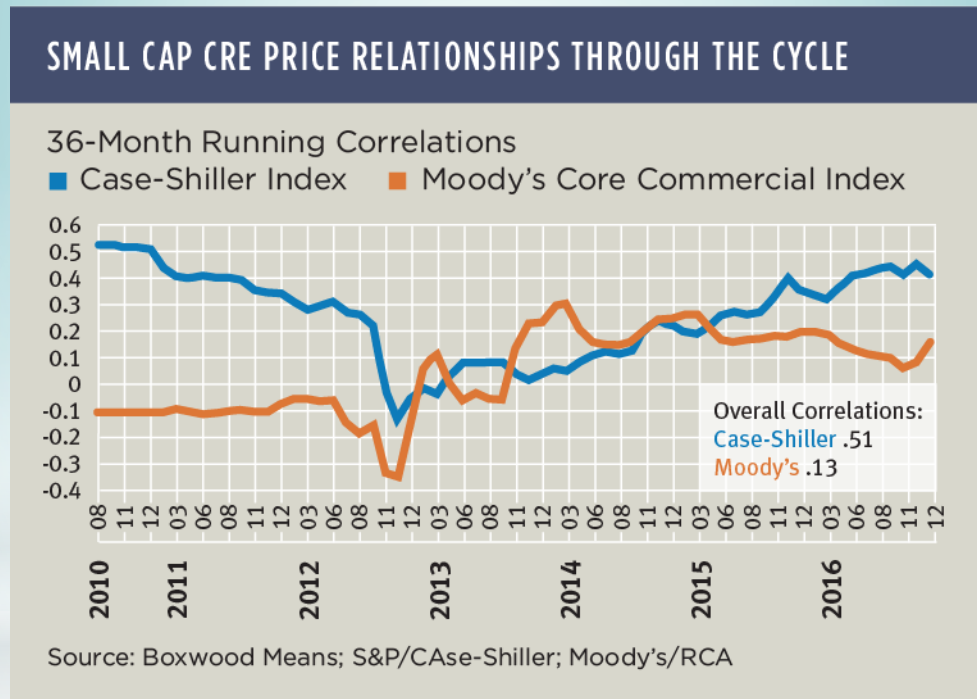
BUT WHAT ABOUT RESIDENTIAL HOUSING?

Small cap prices tend to lag housing on the way down, but move in lockstep on the way up



AS GOES HOUSING, SO GOES SMALL CAP CRE

Correlations are stronger with residential housing than with large cap CRE



TAKEAWAYS

- ▶ SBL space is unique - performs more like a hybrid commercial-housing market than conventional CRE
- ▶ Space market fundamentals remain strong; performance comparisons with last year will be challenging
- ▶ Growth in small cap commercial prices will likely stay in the 4% range this year and still bolster the SBL market; multifamily annual returns will likely be in the mid-to-high single digits.
- ▶ Another year of robust SBL originations in the \$170 billion range barring major changes in the capital markets



Thank you!

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