

Greetings from Miami,

After finishing 2007 with over \$104MM in debt and equity placements, it can be characterized as the tale of two halves or *"Have then Have-Not"*. While it started ferociously, as 85% financing, interest only periods and T-bill spreads under 100 were the norm, the last six months were littered with victims of repricing of spreads to T+300± (7.35%-7.75%+ loan rates) and loan terms significantly tightening. During the latter part of 2007, transactions were quoted over swap spreads to eliminate spread "sticker shock"; however all-in rates were virtually the same as the treasury quotes but with increased almost daily volatility. As the subprime mortgage and residential market's cold symptoms quickly turned to the flu or worse in 2007; this was short lived for the commercial markets, as the coughs and sneezing are slowly subsiding.

The January CMSA conference (CMBS sales/production conference in Miami Beach) was somber and the MBA/CREF conference (mortgage banking conference in Orlando) in February, 2008 will inevitably be the same. During 2007, there were a total of \$203 Billion in CMBS transactions closed in the US (\$298 Bill in total); and it is predicted that 2008 will show a marked reduction to as estimated \$115 Billion in the US (\$160 Bill in total). Life insurance Companies have historically done approximately 20-25% of the volume of CMBS and this will likely continue.

Current, mortgage spreads (as of, 1/14/08) in basis points are listed below.

	<u>Banks</u>	<u>Life Co.</u>	<u>CMBS</u>
Multifamily	P+ 25 / L+165-185	T+175-195	T+240-260
Office	P+ 50 / L+185-225	T+190-225	T+260-285
Retail	P+ 50 / L+185-225	T+185-220	T+255-280
Industrial	P+ 50 / L+175-200	T+185-215	T+250-275
Hospitality	P+ 100 / L+225-275	T+225-270	T+285-315

Prime is 7.25%. (30 days ago, 7.25%; 1 year ago, 8.25%)

Libor (30 day) is 4.24%. (30 days ago, 5.2%; 1 year ago, 5.35%)

T-Bill (10 yr) is 3.78%. (30 days ago, 4.25%; 1 year ago, 4.6%)

Swap spreads (10 yr) is 60. (30 days ago, 83; 1 year ago, 46)

As you can see, the CMBS spreads are 50 to 75 basis points higher, which will likely tighten over the first quarter of 2008 and the Prime Rate is expected to be reduced correspondently. Banks and life insurance companies continue to be very selective with asset quality and borrower financial strength and track records.

Our investment banking and equity contacts are excellent, as banks, conduits, pension funds and life insurance companies are consistently giving us access to their limited pockets of low interest, short term and long term funds. Our focus remains on high quality clients and their financial needs including loan structuring, loan placements and financial consulting. When granted the opportunity, we get it done.

As always, continued success and prosperity in the New Year and we look forward to being a part of that.

John and the CapitalQuest Crew.

Remember, no matter how much milk is shaken, cream rises to the top.

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