Greetings,

Summer is here and capital is scrambling to find the best deals. I wanted to provide to some market commentary and an update of the past year.

Over the past 12 months, Libor and Prime has increased over 250 basis points, while the US treasuries moved a mere 120 basis points. This is expected to lead to "treasury creep" over the next six months, as the 10 year treasury climbs to the 5.5% to 5.6% range.

- New condo sales (Florida/DC/Vegas) have stalled, with most contract holders testing the resale market either through online resellers or sweetening the broker commissions/incentives. This stagnation has moved into the single family market and it continues to be a buyers market with inventory at all time highs. Despite strong foot traffic, true offers continue to be few and far between.

- Apartment cap rates are slowly rising from the 4%-5% ranges (converters) to approximately 50 to 100 basis points higher. Currently, the condo converters are focusing on sale of existing product to the scattered buyers, however many are contemplating putting the units back on the market as rentals. There are increased opportunities here, as converters are less skilled in property management and unit inventories continue to rise.

- Office and industrial markets have tightened, as contractors and building suppliers have focused on the more lucrative condo projects, leading to decreased new construction and corresponding inventories. Tenant renovation and relocation costs have significantly increased due to cost of materials rising (drywall; labor; gas), so most owners are raising rental rates and holding firm to TI allowances. Many tenants are opting to stay in existing space and negotiating with owners well before the expiration of leases. Most office and industrial condos have had limited success, since the rising interest rates in the past 6 months have caused total financing rates to exceed 10%.

- Retail markets continue to flourish, as new inventory has been scarce and many markets, including South Florida are significantly under-retailed on a SF/shopper basis. While many goods can be purchased very efficiently online, milk, slurpees and Starbucks can not.

- Hospitality markets have recovered nicely in the past 12 months, however the business traveler and employers continue to look for middle market value. This bodes well for the staple products of Marriott/Holiday Inn/Hampton Inn/Days Inn/Hilton. Lenders are stressing well positioned flags in good locations, with strong operators.

Over the past six months, CapitalQuest Group has closed nine transactions including: Condo association loan, apartments, office buildings, industrial buildings and a high-end villa. Peruse the details in the June, *Urban Land Institute Magazine* or on our website, www.CapitalQuest.net ; this will have the most current updates. While our primary focus is debt placement and loan structuring, we have been very active in equity placements (private and institutional) and acquisitions/ dispositions. Our team has also consulted various life companies, mutual fund companies, pension funds and hedge funds on the Florida real estate markets and some international markets. Lastly, we have also provided construction advisory services for many institutional lenders.

Thank you very much to those that have made our first six months an unbelievable success and we look forward to working with you again in the future. For those that we have not worked with yet, know this: ***We will never take a client or a referral for granted, YOUR NEEDS ARE OUR FOCUS***. We are committed to long term relationships, and client retention, not short run profits.

We appreciate your time, call us when we can be of service and continued success in 2006. *Remember, no matter how much milk is shaken, cream always rises to the top.*

John and the CapitalQuest Partners.