

Greetings from Miami,

Latest news/deals:

- **South Florida Business Journal names *CapitalQuest Group* in top 25 of the Largest Commercial Mortgage Lenders in South Florida.**
- **Industrial: \$6.7MM loan; 80% LTV; rate 5.65%; 10 yr. I/O, 10 yr. fixed, YM.**
- **Office: \$9.1MM loan; 75% LTV; rate 5.92%; 5 year I/O, 10 yr. fixed, YM.**
- **Office: \$3.9MM loan, 80% LTV; rate 6.28%; 5 yr I/O, 10 yr. fixed, YM**
- **Retail: \$12.5MM loan; 80% LTV; rate 6.2%; 10 year I/O, 10 yr. fixed, YM.**

HOT: Hotels, industrial and office buildings (GSA deals) and Green buildings.

NOT: Big box retail; single family homes/condos and land loans.

During the past 90 days, we have continued to see the fallout from the subprime lending market and softness in the residential markets. The Prime Rate (**8.25%**) and Libor (**5.35%**) have not moved, but the 10 year Treasury has made a dramatic rise of 58 basis points (**5.07%**). China's reduced appetite for bonds is one of the causes; low unemployment and economist's expectations that the Fed will not reduce short term rates till early '08 are the others. This market turbulence has caused the tightening of credit/underwriting standards in the banks and long term lenders.

Long term financing is still very attractive, given the inverted yield curve. However, spreads over Treasuries have risen 10 to 20 basis points during the past 30 days (T+100 to T+140 norms) and I/O (interest only) and waived loan reserves are being eliminated as loan options. Forward transactions by conduits are being reduced to 4-6 months, while life companies/pension funds are still offering upwards of 18 months, both at a cost of 2-4 basis points/month. Yield maintenance (YM), as a prepayment option, continues to be the most desirable, to avoid the \$75,000 to \$100,000+ in defeasance costs when paying off a loan prematurely.

Banks are being very selective with clients on construction lending, retail markets are softening and condos/land loans are limited to loan restructures. Portfolio management areas continue to grow as the production wanes, and newly formed capital markets groups in the middle market banks are finding both profits and volumes very spotty.

There continues to be a glut of condos in South Florida, especially in Miami-Dade County. The latest figures in Miami are 26,000 units under construction (3 year supply) and an additional 60,000 units in the planning stages, but these will likely not break ground. The insurance premiums, maintenance costs and plummeting values have led to buyers engaging attorneys to look for ways out of the contracts or merely walk away from deposits. These walk-aways have grown from 2%-3% at each project to 8%-10%. Single family home sales have dropped 25%, since last year and many of the homes are being taken off the market. Equity lines, now near capacity are being replaced with fixed rate mortgages to reduce the 100 to 150 bpts. in interest costs.

Retail markets have turned tepid and the ICSC mood last week in Las Vegas was somber, due to the falling retail sales and rising interest rates. Casual shopping is being replaced by online, delivered purchases with gas prices rising above \$3.40/gallon.

Our recommendations over the next 6 months, continue to work with people who are highly experienced and have excellent track records in deal structuring and negotiation and **LOCK RATES NOW**. This can not only save you time, but thousands of dollars in the closing process and potential servicing issues after the loan closes. Last year, we closed over \$118MM in loans and equity, which was exclusive of our consulting efforts with various national and international hedge funds, pension funds and insurance companies. We have also forged strong alliances with them for placing debt and equity. Our focus remains on high quality clients and their needs. Thank you for those we have worked with in the past and look forward to expanding relationships in 2007.

As always, continued success, John and the CapitalQuest Crew.

how much milk is shaken, cream rises to the top.

Remember, no matter