CapitalQuest Group

Greetings from the corner office in Miami,

As I drove to the office this morning, serenading me in the background was Annie Lennox from the Eurythmics and when I stared at the South Florida skyline, I have to agree with her lyrics: "Here comes the cranes again". Ok, those are not the words, but it does accurately describe the brisk activity we are seeing in South Florida. Investors are pouring in, apartments are full and our once burgeoning condo hangover/inventory is now gone.

Here is our commentary on the financial and real estate markets.

- Banks and life companies are scurrying for product, as cap rates have dropped 100 bpts in the past nine months. Quarterly results for lenders are being stressed and production staffs pushed hard for deal flow. Apartments are trading in the 5% to 5.25% cap range and industrial product has breached the 6% barrier again. Retail occupancies have waned a bit, as big boxes continue to fine tune optimal footprints or announce store closings (Best Buy downsizing stores and closing 50 of its 1,100 stores). REITs are flush with cash and investment in high quality assets continue, coupled with a strong appetite for new development. Hence the increased number of cranes in the major MSAs. We have also seen a lot more "teaming up" of talent with developers on new construction; utilizing low leveraged bank financing (Libor +200) and institutional investors providing the majority of the equity (9% hurdle returns, expanding to 15%+ IRRs on asset sales). Risks are then borne and mitigated by the respective parties and deals are getting done.

- Infill locations for mid-high rise apartments are being acquired in larger CBDs again; as gas prices have sky rocketed above $4/gallon and seems to increase weekly. Municipalities are being very proactive in the development process in order to generate permit and impact fees, which are sorely needed to shore up budgetary constraints. Revenues from real estate taxes continue to be compressed by lower reassessments and higher delinquencies; while cuts to staff, COLAs and other benefits are the norm.

- Capital markets continue to be volatile, with starts and stops, in pricing and closings. Production estimates for the year, should exceed $40 Bil. ($30 Bil. in 2011), with the bulk of the activity coming in the third and fourth quarters of 2012. Well capitalized CMBS driven companies are closing interim transactions at 150 to 200 bpt. premiums to banks, but doing so on non-recourse basis. Internationally, the European debt crisis has added to our domestic choppiness in the bond and stock markets; whereby leading us into a spring stall.

- Residential markets are seeing a flight toward quality, with inventories shrinking and pricing making moderate gains. Well located homes have moved at 2%-3% higher price increments over the past six months, and this trend is expected to continue. However, most markets remain very fragile, as a log jam persists with banks opting not take rapid foreclosure action, but attempt to ride out the volatility. Long term fixed rates remain under 4%, and most buyers are opting to pay the 100 bpt premiums over the ARMs.

- To expand our product lines, we have teamed up with a South Florida hedge fund to provide short term mortgages under $5MM. The focus is on Florida assets and opportunities, expedited underwriting and closings; most in two to three weeks. Deal sizes are in the $1MM to $5MM range and pricing starts at 9% for one to three years terms.

- Lastly, our focus is to place debt and equity, and has been since the inception of CapitalQuest Group. However, we continue to expand our breadth of services. Recently, we have institutionalized a $100MM commercial real estate portfolio for an international hedge fund; developed and implemented exit strategies for its real estate assets at sizeable profits. We have planned, structured and collaborated on a $125MM mixed use project from its inception (site demolition), oversaw architecture and engineering to assist in a joint venture development between two, well respected clients. We also were retained to sell $30MM of trophy commercial assets.

Listed are historical key financial rates and our commitment to you.

Key Rates

Prime is **3.25%.**	(30 days ago, **3.25%**; 3 months ago, **3.25%**; 1 year ago, **3.25%**)
Libor (30 day) is **.24%.**	(30 days ago, **.24%**; 3 months ago, **.28%**; 1 year ago, **.21%**)
T-Bill (10 yr.) is **2.00%.**	(30 days ago, **1.97%**; 3 months ago, **1.97%**; 1 year ago, **3.46%**)

CapitalQuest Commitment

We get deals done and provide efficient solutions. Our strong results during the first quarter of 2012 have been achieved by selling underperforming assets, restructuring and procuring new debt for our clients. We have decades of institutional experience and our focus is providing accurate and timely solutions from: loan structuring, loan placements, financial consulting, asset sales and loan sales/dispositions. Our investment banking and equity relationships are superb, as banks, pension funds, life insurance companies and niche hedge funds are consistently giving us access to their limited pockets of low interest, short term and long term funds. Our website, www.CapitalQuest.net includes a News Section to keep you abreast of the ever changing market conditions and provides insights to financing and asset opportunities.

We wish you continued success in 2012 and we look forward to being a big part of it.

John and the CapitalQuest Crew.

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

John McLeod
President
CapitalQuest Group
575 Crandon Blvd., Suite 306
Key Biscayne, FL 33149

Email: JMcLeod@CapitalQuest.net
Phone: 305.361.1201
Fax: 305.361.3109
Cell: 305.992.5484
Web: www.CapitalQuest.net