Greetings from the corner office in Miami,

I dropped by our local ice cream shop this weekend, after seeing the highly acclaimed “MoneyBall”. No, not the story of the latest CMBS Offering on Wall Street, but the story of revolutionary performance statistics (slugging, on-base percentage and scoring) and how they positively changed baseball. When the young ice cream vendor asked if I would like a “double dip”, I politely replied we can’t afford one. The simple moral is: While fears of double dips are everywhere, our focus needs to be on the overall performance and quality of our assets. This includes the bricks and mortar and most importantly our people. Here is our commentary on the financial and real estate markets.

- With commercial mortgage rates hovering in the low 5%s, cap rates continue to compress to spreads of 100 bpts to 150 bpts over prevailing rates. Apartments continue to command the lowest caps (6% to 6.5%), with the Agencies being the most aggressive on refinancings. Class A, trophy office buildings with stabilized cashflow and top CBD locations have also traded at historic low caps in the past six months. Finally, sale/leasebacks have spurred additional real estate activity, as investors are moving away from the volatile stock market to a more consistent, bond-like cash flow. The real estate transactions continue to take 75 to 90 days to close, however the low leverage (65% LTVs or lower) deals are met with the strongest institutional appetites and turnaround times. Local banks are focused on clients first, allowing the leverage to climb to traditional levels of 75%, but the underwriting continues to be rigorous and deal flow stagnant.

- Standard and Poor’s rating drop of U.S. Bonds from AAA, has caused a bristly chill in the CMBS market. Spreads widened by over 150 basis points in past two months, which resulted in Citibank and Goldman ultimately pulling a $1.5 Bil offering in July. Also, Deutsche Bank increased its spreads across the board on a recent $600MM CMBS offering to effectuate sales. For this year (2011) production estimates are now being revised to under $30 Bil; however that is still surpassing the $15.3 Bil totals for 2010. Expect CMBS lenders to refocus on higher quality assets, locational characteristics and demographics during the latter part of 2011.

- Housing prices have flattened, despite long term mortgage rates near 4%. Shadow inventory (homes that 90 days+ past due and in the foreclosure process) now make up over 35% of total mortgages in South Florida vs. slightly over 10% nationally. The condo inventory in South Florida has been virtually all absorbed, albeit, it is now in the hands of investors with three to four year sellout timeframes. Short sales continue to shock the fragile residential markets with most buyers losing patience in that six to nine month process and patient, investors ultimately picking up the bargains.

- We have teamed up with a South Florida hedge fund to provide short term mortgages under $5MM. The focus is on South Florida assets, expedited underwriting and closings. Deal sizes will be in the $1MM to $5MM range, pricing starts at 9% for one to three years terms.

- Lastly, we place debt and equity, and have since the inception of CapitalQuest Group. However, I would be remiss if I did not highlight our recent consultations and team of clients, whom we have fostered and developed over the past 24 years in the real estate finance business. During the past six months, we have institutionalized a $100MM commercial real estate portfolio for an international hedge fund and developed and implemented exit strategies for numerous real estate assets at sizeable profits. Finally, we have planned, structured and collaborated on a $125MM mixed use project from its inception (site demolition), oversaw architecture and engineering to assisting in the formation of a joint venture development between two, well respected clients. Our focus continues to be on the performance of our clients and enabling their achievement of high quality results.

Listed are 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 **.23%.**	(30 days ago, **.21%**; 3 months ago, **.19%**; 1 year ago, **.26%**)
T-Bill (10 yr.) is **1.85%.**	(30 days ago, **2.15%**; 3 months ago, **3.01%**; 1 year ago, **2.72%**)

CapitalQuest Commitment

We get deals done for our clients and they come to us for solutions. Our results during the past 12 months have been achieved by assisting in reducing interest and operating expenses, selling underperforming assets and by restructuring and procuring new, client debt to insure long term profitability. 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 excellent, 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 2011 and we look forward to being a big part of it. By working together, we can all "PLAY BALL", increase our on-base percentage and score.

John and the CapitalQuest Crew.

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

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