CapitalQuest Group

Greetings from the corner office in Miami,

One of the most popular "YouTube" videos of the past six months has been the DirectTV commercial, titled "Opulence". It goes on to say "Opulence, I has it", indicating that the Russians/Foreign Investors have the capital. Well if you dig deeper into the skit, the brilliant accented actor is actually played by an American, whose recurring roles were more in the American cowboy genre. Ha ha. So, the moral is, while we have acted like cowboys in the past with our capital, we do not anymore. Below is our commentary on the current financial and real estate markets.

- Deal sizes continue to shrink to the $6MM to $8MM range, as the middle tier banks are the most active, but the LTVs remain 55% to 65%. Rates are not the issue, with most loans being in the mid 5% ranges, however the 90 to 120 day underwriting to close timeframes are highly problematic. Global cash flow calculations are now being implemented on all loans, i.e., searching for the cash flow drains and weaknesses in a borrower's total portfolios. The smaller banks are actively marketing problem loan portfolios on a one off basis vs. the bulk loan sales by the superregionals. However, both are moving very slowly and the liquidity freeze continues.

- Life insurance companies and pension funds are selective, but active, and rates are 100 to 200 basis points higher than banks on a non-recourse basis. LTVs remain under 65%. Agencies, despite the ongoing Federal restructures, are active in the tier 1 markets for multifamily product with rates under 4%, but again, the underwriting is much stricter.

- Capital Markets/CMBS, ***YES***, that Capital Markets is slowly making its way back. Not to the $300 Billion levels that it once was in 2007, but likely higher than the sub $10 billion that has plagued the real estate markets for the past three years. Product here is very homogenized, no single tenanted buildings unless "BBB" or better, no hospitality and no class "C" assets with poor occupancy. Thus, the overzealous underwriting is gone, and not likely to return. Strong consistent cash flow and "B" or better quality assets are the keys to execution. Restoring this debt source will be the key to unlocking the current freeze in the real estate financing markets.

- Apartments are highest on the financing appetites of lenders, with cap rates in the low 6%s, while office and industrial continue to trade in the low 8%s (institutional quality 100 basis points less). Retail continues to be a function of sales/sf from the tenants, with cap rates ranging from 8.5% to 9%. Retail bankruptcies and store closings will continue well into 2011.

- Interest rates today are at record lows and this should remain throughout the next 12 months. However, borrower liquidity and global cash flow are the keys to financing; as most transactions are limited by LTVs and not debt service coverage ratios and equity requirements are very high at 35% to 45%.

- Lastly, there will continue to be a constriction in the active real estate lenders and mortgage banking professionals. Federal regulators are strongly pressuring banks to unload non-accrual assets and/or restructure loans to move them from the Asset Recovery Departments to performing loans. Mortgage fraud, which has proliferated throughout residential lending, has now caused a national registry of mortgage bankers; which in Florida will now likely thin the total ranks of 42,000 to fewer than 20,000. So the perceived cleansing on both sides of the transactions continues.

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 **.25%.**	(30 days ago, **.25%**; 3 months ago, **.29%**; 1 year ago, **.24%**)
T-Bill (10 yr.) is **2.69%.**	(30 days ago, **2.9%**; 3 months ago, **3.9%**; 1 year ago, **3.5%**)

CapitalQuest Commitment

We get deals done and clients come to us for solutions. Our efforts during the past 12 months, have allowed clients to reduce interest expenses and we have restructured and procured new debt to insure long term stability. We have decades of institutional experience and our focus is providing accurate and timely solutions to our clients 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.

John and the CapitalQuest Crew.

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

John McLeod
President
CapitalQuest Group
250 Glenridge Road, PH
Key Biscayne, FL 33149

Email: JMcLeod@CapitalQuest.net
Phone: 305.361.1201
Fax: 305.361.1013
Cell: 305.992.5484
Web: www.CapitalQuest.net