



Greetings from the corner office in Miami.

Miami is once again, "Cool as the other side of the pillow" and clearly a sought after destination, whether you are coming from Harvard, Madison, New York or Brasil. Upon my arrival to Miami, 27 years ago, the view corridors from I-95 to South Beach and Key Biscayne were clear and only dotted by the occasional high-rise. Now, both Downtown and Brickell are solid with office and residential towers, with strong occupancies and high rental rates. The blighted, low-rise apartments and dated retail buildings in Mary Brickell Village (just west of Brickell Ave) are being replaced by high-rise condominiums and midrise apartments. Brickell City Centre, the mixed-use Swire development on 11.4 acres on the north side of Mary Brickell Village, recently topped off its first building. It consists of 565,000 SF of retail, 260,000 SF of office, 780 condos and a resort. Worldcenter, the 27 acre development just north of the downtown Miami core, is currently underway and will encompass, not only a Marriott Marquis with 600,000 SF of convention space, but Bloomingdales and Macys and condos. Miami is well on its way in becoming the coveted 24-hour city, with the only lags in infrastructure and public transportation. However, the developments of the intermodal terminal at Miami International Airport, the PortTunnel to the Port of Miami and cruise lines, All Aboard Florida and even, Uber are all slowly easing the strains. Below is our commentary on interest rates and the financial and real estate markets.

KEY RATES

STABLE: Prime is **3.25%**. (30 days ago, **3.25%**; 3 mnths ago, **3.25%**; 1 yr ago, **3.25%**)
STABLE: Libor (30 day) is **.17%**. (30 days ago, **.17%**; 3 mnths ago, **.17%**; 1 yr ago, **.20%**)
RISING: T-Bill (10 yr.) is **1.98%**. (30 days ago, **2.17%**; 3 mnths ago, **2.42%**; 1 yr ago, **2.90%**)
RISING: Swaps (10 yr.) is **2.09%**. (30 days ago, **2.30%**; 3 mnths ago, **2.56%**; 1 yr ago, **2.97%**)

As illustrated, interest rates are at historic lows and will likely remain for the next quarter of 2015. Despite the FED's reduction in bond stimulus activity and its corresponding propensity for rate increases, shocks to the international economy of oil dropping to under \$50/barrel and the strengthening in the US dollar, have caused a flight to US Bonds and thus, their compressed prices. However, this will not continue, as we move into the 2nd and 3rd quarters of 2015.

MARKET COMMENTARY

- **Banks, life companies and capital markets.** Small to middle market banks have seen continued growth in the \$2M to \$20M loan ranges, underwriting is rigorous, competition is fierce, but deals are getting done. Regional and Superregionals are being very selective and the activity has been sporadic and sometimes dysfunctional. Capital markets are clearly back, as 2015 will likely see the breaching of \$110+ Bil in total production, up 20% from 2014 (\pm \$91 Bil). While there is homogeneity, still in products and pricing; brands and relationships will be the key in executions. Similarly, life insurance companies and Agencies continue to look for higher quality assets, as debt allocations are flat or dwindling. Our recommendation is to strike early in 2015, while rates are low and aggressiveness with deal structuring points are high.
- **Expanded products.** We have teamed up with an international hedge fund to provide short-term mortgages under \$25M, with rates starting at 7%. The focus is on Florida, Texas and Mid-Atlantic assets, expedited underwriting and closings, most in two to three weeks. This was tested in December, when a regional bank rescinded terms to a client and we worked to

garner a commitment in 48 hours. While our focus is to place debt and equity, and has been since the inception of CapitalQuest Group, we continue to expand our breadth of services to include: Asset sales, due diligence and advisory services to meet our client's needs.

- **Apartments/Condos.** These assets continue to be the driving force in the strengthening of the South Florida economy. There are over 40,500 condo units (310+ towers) being proposed/under-development for South Florida with the breakdown of 70% in Miami-Dade (+\$850/SF prices); 20% in Broward (+\$540/SF prices) and 10% in West Palm Beach (+\$500/SF prices). The South American/European Model for requiring buyer deposits in the 50% to 60% range is weakening, with many of the buildings now taking staggered deposits up to 40%. Banks and finance companies are filling that "cost void", but very selectively. Downtown Miami, Brickell and Mary Brickell Village apartment rents are nearing \$3.00/SF and vacancies are still under 4%. The torrid 20% growth in rents over the past 18 months has slowed and increased inventory will likely keep that growth steady, but back to the norm of low single digits.
- **Industrial.** The strongest market in South Florida continues to be the institutional grade, Airport West Market with vacancies of 6%. New tenants are looking for volume (28' to 36' clears), T5 efficient lighting and enhanced security features. Rents are in the \$9.50/sf - \$10/sf ranges on an industrial gross basis and the new space is closer to \$12/sf.
- **Office.** The Class "A" markets of Brickell Ave. and Coral Gables have bounced back very well with vacancy rates of 15% and falling, as newly developed space is limited to Brickell City Centre. Downtown vacancy rates are just under 20% and likely to climb with the migration to newly proposed buildings. CBD rents are now above \$42/SF.
- **Retail.** Miami retail vacancy rates are under 5%, the scarcity of land continues to dampen new construction, with new tenants providing renovation proceeds for the limited retail space. The overall rates are above \$29/SF NNN and trending higher.

CAPITALQUEST COMMITMENT

Interest rates will rise, as the yield curve continues to correct itself and the actions by the FED have virtually ceased. Take full advantage of the rates NOW, and be diligent when chasing yield in secondary and tertiary locations, since growth in those locations will be at or below the CPI and the demographic trends can abruptly abate.

We get business done and provide efficient, profitable solutions. This year, when an international regional bank abruptly stopped performing, we were able to work with a correspondent and garner a 48-hour commitment. Our decades of institutional experience and focus enables us to provide accurate and timely solutions in the areas of, loan structuring, loan placements, financial advisory, 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.

We encourage you to peruse our website, www.CapitalQuest.net, which includes a News Section to keep you abreast of the ever changing market conditions and provides insights to financing and asset opportunities.

Thank you to our many clients who have utilized our many services and strengthened the CapitalQuest Brand. We look forward to being part of your continued successes in 2015; to earn your business and solidifying your trust.

John and the CapitalQuest Crew.

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

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