



Greetings from Miami,

In the latest edition of "Deadliest Catch", the old captains are masterfully skirting through the treacherous waters, avoiding the hurricane force winds and continuing to hunt for King Crab, while the younger captains are looking for shelter and/or are going home. This is very similar to today's commercial real estate financial markets and it is NO TIME FOR INEXPERIENCED CAPTAINS.

By most expert opinions, we have been in a recession for the past 15 to 18 months, but we have likely hit bottom; as Chrysler, Ford, GM, other Fortune 500 Companies and most retailers have either scaled significantly back or opted for bankruptcy. Personnel in the financial industry has been shredded as divisions have been jettisoned, profitable or not, and emails and phone calls either bounce back or go unanswered. The stock market as measured by the DJIA plummeted to under 6,500 and gas prices exceeded \$4.25/gallon. However, there are some silver linings to these storms and the red skies at night (a sailors delight) are starting to appear more frequently.

- Gas prices are in the \$2/gallon region and crude oil has been hovering around \$50/barrel, with surpluses higher today than in the past 19 years. Also, Ford Motors recently surpassed Toyota for car sales for 2009.
- Stocks have rebounded nicely as the DJIA is now above 8,500 and stock brokers are calling with "recommended" buys again and 401Ks are actually up for the year.
- Local restaurants are bristling with activity, with managers being very attentive to not only bottom lines, but patron's price points **and** their repeat business.

However, we are not out of the storms yet and will likely continue to bump along the bottom for the next three to six months.

- Just under \$700 Bil in commercial loans will mature in the next three years; of which, \$155 Bil are in CMBS loans (\$90 Bil in 2009). The majority of these loans will not meet the current underwriting parameters of 60% to 65% LTVs and coupons in the 6% to 7% ranges.
- Many of the large Insurance Companies with CMBS portfolios have virtually stopped lending or have increased coupons above 7% and maxed out their LTVs at 60%.
- The recent stress tests (another unpleasant FED surprise) endured by Banks over the past two months have caused many Superregional and Money Centers Banks to address capital shortfalls vs. the mandate by the Government to start lending again. The TALF (Term Asset-backed Securities Loan Facility) only recently added the ability to include CMBS transactions and not just credit cards and home loans; which should aid the additional capital requirements by moving out the "toxic assets" from balance sheets, but it will take time.
- Unemployment figures are plateauing and the high quality employees that were subject to the layoffs and reorganizations are finding the setbacks to be only temporary. Most are finding new life in smaller, well capitalized organizations and are refocused on relationships again, not just bad loan reports and weekly rebudgeting.

At CapitalQuest Group, we are experienced captains, we love this commercial real estate business and our experience is measured by decades of multifaceted, complex transactions large and small, grey hair and sometimes Tums. While we have access to and analyze numerous National & Regional Economic and Valuation Reports, most of our knowledge comes first hand, by doing business, not just reading about it. As requested, below is the current **What's Hot/What's Not** and the key financial indices (5/5/09), please note the increased volatility.

What's Hot

- ❖ Apartments (under 150 units, cap rates 9-10%; over 150 units, 7%-8%).
- ❖ Medical Office (cap rates 7%-8%), a growth area as the US continues to age.
- ❖ GSA Buildings (cap rates of 7%-8%); buildings are going green and new space needed.

What's Not

- ❖ Retail, likely slow into 2010, as marginal sales and obscure concepts have doomed most shopping centers. List of closings (available on request) continues to grow. Bright spots include Publix and Target Centers.
- ❖ Hospitality, only the strong operators and flags will survive. Four star, award winning, properties continue to run \$99/night specials in premier destinations. Bright spots include Marriot and Holiday Inn brands.

Key Rates

Prime is **3.25%**. (30 days ago, **3.25%**; 3 months ago, **3.25%**; 1 year ago, **5.25%**)
Libor (30 day) is **.41%**. (30 days ago, **.56%**; 3 months ago, **.36%**; 1 year ago, **2.80%**)
T-Bill (10 yr) is **3.16%**. (30 days ago, **3.01%**; 3 months ago, **2.32%**; 1 year ago, **3.73%**)

CapitalQuest Commitment

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. We have also consulted with many of them on the disposition and restructuring of the troubled loans/assets on their balance sheets. Our focus is providing accurate and timely solutions to the financial needs of our clients from: loan structuring, loan placements, financial consulting, asset sales and loan sales/dispositions. 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.

As always, continued success in 2009. We look forward to being and would like to be, a big part of that success.

John and the CapitalQuest Crew.

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

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