CAPITALQUEST GROUP

Greetings from the corner office in Miami.

Where are we in the cycle? That is the critical question with real estate developers, investors and financiers. To get that answer, I reached out to two graduates of Harvard and Wisconsin, with degrees in Economics, Statistics and Real Estate. They indicated that the current fiscal stimulus is having short term effects on the economy, though interest rates have been volatile and cap rates continue to move up within a 25 to 50 basis point range on current transactions. When I pressed them, on deeper fiscal and monetary policy analysis, they both looked at me and said "Dad, what do you think, since you are always, 100% right, 80% of the time?" Here is a quick outline of key interest rates and their movements in the past year.

KEY RATES

Prime is	**5.0%.**	(30 days ago, **5.0%**; 90 days ago, **4.75%**; 1 yr. ago, **4.25%**)
Libor (30 day) is	**2.17%.**	(30 days ago, **2.05%**; 90 days ago, **2.00%**; 1 yr. ago, **1.24%**)
T-Bill (10 yr.) is	**3.07%.**	(30 days ago, **2.95%**; 90 days ago, **2.83%**; 1 yr. ago, **2.16%**)
Swaps (10 yr.) is	**3.13%.**	(30 days ago, **3.02%**; 90 days ago, **2.99%**; 1 yr. ago, **2.10%**)

As illustrated, short-term rates have shown significant increases and we are highly confident of an additional 25 basis point increase in the next 90 days, both in terms of the Prime rates and T-bills/Swaps. All rates are trending up, as the FED is looking to stave off inflationary concerns in the next two quarters and we expect a steady climb (75 bpts+) in the next 12 months, with only nominal spread compression by lenders.

MARKET COMMENTARY

- **Recent Transactions.**
  - $25M Medical office building portfolio sale. **Obstacles** included: Single credit tenants, S&P rating volatility and rising rates. **Action:** We facilitated the timely sale the MOB portfolio for an existing client, allowing them to lock in a sub 5% cap and provided a 75% LTV, long term, non-recourse facility for the buyer (another, long term client), at 4.4%.

  - $15M Industrial building financing. **Obstacles** included: Tertiary market and short term leases. **Action:** We provided a long term, 20/20 facility for a new client, taking advantage of the low rates, at 5%, with a niche, portfolio lender, on a non-recourse basis.

  - $7M Medical office building financings. **Obstacles** included: Major potential tenant vacancy, capital expenditures needed and short term leases, but long term tenants. **Action:** We structured and secured, interim debt, for a long term client, allowing for the renovation, retenanting and lease-up earn-outs, on three, high traffic assets in a mature market.

  - $4.2M Office financing. **Obstacles** included: Short term tenant leases and under market leases from existing tenants. **Action:** We structured and secured long term debt, on an interest only basis for a valued, long term client, taking advantage of the low leverage (65% LTVs) and low rates (5.1%). This facilitated an additional financing request, with a quick, 30 day closing.

- ***Apartments/Condos.*** New, Miami-Dade apartment vacancies have backed up, a bit, to the current 5% mark, as class "A" urban rents have surpassed $3.40/SF (1/1s) and $3/SF (2/2s). Suburban rents are $.50/SF to $1/SF lower, with $.50/SF reductions in rent, for every hour of commute time to CBDs in Miami and Fort Lauderdale. The new condos continue to be absorbed at a meager pace (40 units/month in YTD 2018 vs. 1,125 units/month in 2007). However, new inventory is limited to ±3,500 units vs. the 30,000 units in 2007, indicating stabilizing markets. New projects over 250 units are lacking the presales and therefore the ability to be readily financed. Resales have surpassed the peak prices (2007) in the markets of Key Biscayne, Coconut Grove and Coral Gables, but sales velocity, again, is weak.

- ***Industrial.*** The strongest market in South Florida continues to be the institutional grade, Airport West Market with vacancies of 2.9%. New construction has been limited, due to scarcity of land, leading to rising rental rates and higher, sales/SF, but overall, new sales have been stagnant, (year/year). A 855,000 SF Amazon fulfilment center in Miami Lakes was recently completed and is the largest, private project ever built in Miami Dade County, further bolstering the "Amazon effect" on South Florida retail tenants.

- ***Office.*** South Florida office vacancies and absorptions are stabilizing. The class "A" markets of Brickell Ave. and Coral Gables have matured with vacancy rates of 11.5% and rents of $53+/SF and $43+/SF for class A space, respectively. New construction has occurred, but only with proximity to transportation (Brightline) and medical hubs (Cleveland Clinic and Baptist Hospital).

- ***Retail.*** South Florida retail vacancy rates are stabilizing, with most vacancies under 5% for larger, well located shopping centers and grocery anchored retail. The scarcity of land continues to dampen new construction, with new tenants providing their own renovation proceeds for the limited retail space. Big box tenants have seen bankruptcies, such as Toys R Us, Sports Authority and the Sears restructuring, but they have been quickly backfilled in this mature market. However, cap rates have increased 50 to 75 BPs, as interest rates have risen, credit ratings dropped and the overall "Amazon effect" on many tenants.

- ***Banks, life companies and capital markets.*** The last 12 months have seen interest rates rising 75-90 basis points and cap rates have slowly followed. While spreads by lenders on transactions have compressed, they have not matched the rising interest rates. Bank consolidations continue, in effort to increase efficiencies in both the lending and servicing departments, leading to increased loan minimums and more "generic" transactional structures. Life Companies have shifted to financing large loan portfolios and fine-tuning their asset classes and allocations. Agency debt is prevalent, but there has been a reduction in LTVs and tightened underwriting. Our recommendation is to strike early in 2019, while rates are still low and aggressiveness in structural terms will be high.

- ***Expanded products.*** 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.

CAPITALQUEST COMMITMENT

Again, take advantage of the rates **NOW**. As we head into 2019, long term interest rates will breech 5% for the coveted multifamily and credit tenanted loans, and underwriting will continue to tighten and leverage reduced, for older assets in secondary and tertiary locations. 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.

We execute and get business done. 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, bridge lenders, 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.

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 2019; 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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