Greetings from Miami,

The recent bankruptcies of Corus Bank, CIT and other bank-like entities continue to deliver a shockwave through the already fragile financial markets. However, these Companies and their toxic assets are being quickly discounted and purchased by large and very anxious private equity sources (PE). This PE has been sitting on the sidelines for the past 12 months, waiting for the right opportunity and in some cases now finding it. While these are dramatic shocks to the system, longer term (3-5 year) capital is now being correctly matched with the longer term real estate assets, which bodes well for a steady recovery. Middle tier banks and super regional's are not as lucky.

The FDIC is opting for more of a "pretend and extend" scenario when advising banks to work with borrowers, rather than commence with foreclosures and defaults. Construction, development and land loans are not in this vaulted category, as most of the financial periodicals are littered with legal actions and their current asset values are well below loan balances. Banks are also scouring through portfolios, as regulators have adopted new guidelines in reclassifying once non-performing assets, into split categories in efforts to recover pockets of reserves. Despite these valiant efforts, it is likely that an additional 1,000 banks will fail over the next 12 months, which will reduce the total number of banks to just fewer than 5,000 nationally. The market indicators are outlined below and will be the keys to rebuilding the financial system in the coming months.

- Private equity rates are in the 10% to 12% ranges and is abundant; but it is chasing too few financeable deals. Banks are hesitant to lend on real estate today, unless in the 50% to 65% LTV ranges at rates of 6.5% to 7%. Life insurance companies have taken a similar LTV stance, but their rates are 7.25% to 7.75%. Fannie Mae and Freddie Mac, despite their financial problems, have been very attractive options for multifamily assets, with similar sub 65% LTVs. Assets in excess of $15MM or higher leveraged ones are resigned to highly structured transactions using private placements and/or PE to provide for refinancing solutions.

- Developers Diversified Realty's $400MM deal is moving along with Goldman providing the $400MM in debt, with the ultimate execution through a TALF CMBS offering. While it is a single borrower, the 28 underlying, stabilized shopping centers as collateral has given comfort to the FED. This execution is thought to begin a trickle of potential CMBS transactions back in the market, but it has been highly scrutinized. Gone are the CMBS days of I/O financing, and 85%+ LTVs, and more prudence is back in the underwriting.

- Cap rates have risen 50 to 75 basis points in the past six months, with multifamily and GSA transactions only slightly breaching the sub 8% benchmark. In markets such as Florida, where high rise condos were once frothy and now, unemployment is above national averages (FL is over 11%, highest since 1975), cap rates tend to be 25 bpts higher. Thus, apartments (7.9% to 8.3%); industrial (8.5% to 8.8%); office (8.5% to 8.7%) and retail (8.5% to 8.8%). Grocery anchored shopping centers continue to do well; as do medical office buildings and garden style apartments. Hospitality assets remain in a free fall (10.5%+ caps), with only limited service hotels expected to recover to break-even profitability within the next 12-18 months.

- Maturing commercial debt continues to be a significant issue, as the bulk of the refinancing will occur by banks, on a highly selective basis. Life insurance companies and CMBS will continue to focus on large very well capitalized borrowers and strong real estate assets. While one silver lining continues to be the bank's recent ability to reclassify assets and free up reserves to allow for renewed extensions and loan modifications; new loans and not just restructures are the key to a fluid and hastened market recovery.

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, **4.5%**)
Libor (30 day) is **.24%.**	(30 days ago, **.24%**; 3 months ago, **.29%**; 1 year ago, **4.28%**)
T-Bill (10 yr) is **3.48%.**	(30 days ago, **3.47%**; 3 months ago, **2.57%**; 1 year ago, **3.96%**)

CapitalQuest Commitment

We get deals done. We have not only procured debt/equity in this barren market, but have worked with clients and financial institutions to restructure and revitalize existing transactions. In one case, we devised a restructure/recapitalization plan saving a client $1MM+ and this allowed the bank to reclassify a loan recovering $500M in reserves, thus a WIN/WIN. 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. We have decades of institutional experience and our focus is providing accurate and timely solutions to the financial needs of 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.

We wish you continued success in the balance of 2009 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 -

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