CAPITALQUEST
GROUP

Greetings from the corner office in Miami,

We received another "Priceless Offering Memo" yesterday, which by our definition means, great real estate being offered for sale at a reasonable price. However, as most of us know, it implies assets with significant tenant roll over, secondary/tertiary markets and deferred maintenance, all for a price that is "Priceless" or "not listed". Which in "broker speak" requires the potential purchaser to: Cap the highest monthly, yet annualized cash flow at a sub 6% cap rate; all for the rights to make the final and best offer list. While that comment was somewhat tongue in cheek, here is where the rubber hits the road. Our update and commentary on the commercial real estate markets is below.

- The Dodd-Frank Wall Street and Consumer Protection Act has significantly reduced the fees that banks can now charge to retail consumers. With their overhead at 3.5% or greater, the banks must start making loans to keep analysts engaged for favorable ratings. C&I lending has lead the charge as junior lenders are scouring the commercial market for deals, and the salty old real estate lenders are slowly dipping toes back into the respective markets. Extend and pretend is now over, as special asset divisions are winding down, with personnel longevities in the 12 to 18 month range. The focus is now to foreclose, take title and liquidate with auctions or sales from institutional brokerage houses (i.e. "Priceless Offerings"). As the year progresses, the pressure to consummate real estate deals will strengthen considerably from the banks.

- Life insurance companies have been the most active, with staggering production increases of 150%+ over year to year closings. Assets are restricted to high quality, strong cash flows, primary markets and borrowers that are unstained from the past three years of turmoil. Interest rates have dropped into the mid-sixes and timings of closings are just over 75 days.

- Wall Street Lenders are ramping up operations with 18 new conduit shops back in the market. Moodys estimates $37 billion in new business ($5 bill already in 2011) will be closed in 2011, which far exceeds the $11.6 billion from last year. The new regulatory rule of having skin in the game (i.e. lenders must keep a small portion of the B pieces they originate), has only been a temporary speed bump in generating business. Currently, the types of loans being quoted look very homogenous, but as the appetite for deals increases so will the levels of risk, asset classes and term flexibility.

- The Agencies of Fannie Mae and Freddie Mac have strongholds on apartment financings, with rates in the low 5s and LTVs in most markets back up to 80%. The underwriting does have some tweaks in it, but executions have been consistent. HUD executions are lengthy with most taking 10+ months, while still a viable source, speed or lack thereof, kills most of the deals and they continue to be a lender of last resort for multifamily. Residential units in the southeast have bottomed, with bulk condos purchased for sub $200/SF prices, six to nine months ago, are now being resold at $300+/SF prices. Also, 90% of the once, unyielding inventory of 30,000+ units (22,300+ in Miami-Dade) in South Florida has virtually all been absorbed.

- Cap rates on most asset classes have shrunk by 100 basis points over the last 90 days, with stabilized commercial buildings breaking the 7% mark and apartments remaining in the low 6%s. The offset to this, there has been the 65 basis point increase in interest rates, which as the stock market continues to climb, so will interest rates and inflation. Our recommendation is to focus on quality assets, pay the lower caps and lock in interest rates NOW. As we head into the second quarter, capital is anxious to move into real estate and the days of 12% to 14% unlevered returns are gone.

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 **.23%.**	(30 days ago, **.26%**; 3 months ago, **.26%**; 1 year ago, **.29%**)
T-Bill (10 yr.) is **3.55%.**	(30 days ago, **3.4%**; 3 months ago, **2.92%**; 1 year ago, **3.74%**)

CapitalQuest Commitment

We get deals done and clients come to us for solutions. Our results 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 –

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