Greetings from the corner office in Miami.

Welcome to Miami. Bem-vindo ao Miami. Bienvenido a Miami. Willkommen in Miami. Miami'ye hoş geldiniz. Miami continues to be the "HOT" destination in Florida, as domestic and international investors are welcomed daily. Residential inventory is scarce and there are an estimated of 40,000 new condos in the development stages. Also, cap rates are 100 basis points lower in South Florida, then their counterparts around the State. Now here is the rest of the story.

The recent government shutdown continues to have ripple effects in the real estate markets. The FED is expected to maintain its bond purchases through the first quarter of 2014, in effort to keep interest rates low and stem the volitiliy in long term rates. However, the 100 bpt Treasury rise over the past five months has hampered acquisitions and shrunk pipelines. Capital market/Conduit activities have been reduced, with estimates back to the 80 Bil mark, from a high of 100 Bil. Homeownership levels have peaked at 77% in the mid-80s. But today, they are currently at 65% and likely dropping, despite record low interest rates. While the root cause is a fragile economy, two ancillary causes are reductions in the marriage rate of households and students moving back home and/or in with roommates. And then there is Florida.

Florida is ranked second in investment capital in the United States behind Texas and the trends are strengthening. Also, it is ranked 5th in education and the population is growing with a postitive influx of residents. The areas of growth include: Orlando, Fort Myers and Tampa as investors flock to higher returns and rising occupancy rates across all commercial real estate products. And then there is Miami.

Miami has been bolstered by the rebound in the housing markets, with pricing 12% higher on a year to year basis. However, this has recently flattened as new inventory is being delivered and interest rates have risen. Significant new capital projects including Metromover expansion and intramodal system at the Miami Airport ($503MM); World class Jackson Healthcare renovations ($830MM) and the Port of Miami PortTunnel and dredging ($2 Bil) have been strong stimulants to Miami. The Port is being dredged to 52 feet, allowing for the only port south of Norfolk, Virginia to handle the traffic from the newly expanding Panama Canal and their supersized cargo ships. Also, in the coming months, Miami will be able to boast over 5 million cruise passengers, which remains the largest cruise disembarkments in the World.

MARKET COMMENTARY

- ***Apartments/Condos.*** Urban Brickell rents are now $2.40+/SF and vacancies are under 4%. The shadow inventory, which posed a modest concern last year, has now been virtually all sold off or rented. Thus, mitigating any issues of the overbuilt condominium market. Condominiums under $500M are becoming the most scarce as today's pricing again is near the highs of 2006 (vs. the highest mark in 2007). In addition, developers are recasting projects into the more lucrative condominiums, as opposed to apartments. Nine at Mary Brickell Village is being developed as 390 condominiums vs. the original scope as luxury apartments.

- ***Industrial.*** The strongest market continues to be the institutional quality, Airport West Market; with vacancies closing in on 5% again (actual is 6.4%, with a total of 10.2%, including subleasing opportunities). New tenants are looking for 28' to 36' foot clear ceiling heights, T5 efficient lighting and enhanced security features. Rents are in the $9.25sf - 9.50/sf ranges on an industrial gross basis and the newly built space is closer to $10/sf.

- ***Office.*** The Class “A” markets of Brickell and Coral Gables have bounced back very well with vacancy rates of 17% and falling. New assets in those markets have been limited, as have newly proposed developments. Downtown Miami CBD vacancy rates are above 20% and likely to climb with the migration to the new developments such as CitiCentre, in the Mary Brickell Village corridor. Swire’s proposed new development of CitiCentre will likely transform Miami into the coveted status of a 24-hour City. The mixed-use Project is now close to 8.3MM SF on 11.4 acres and it will materially change the urban core of Miami.

- ***Retail.*** Miami retail vacancy rates are under 5% and the scarcity of land continues to dampen new construction. New tenants absorb vacant space quickly and they provide virtually all of their own renovation costs for the limited retail space that is available. This phenomenon has caused a slight slippage in the average rental rate of $25.50/SF NNN, but this will likely increase to the norm of $27.50/SF NNN by the first quarter of 2014. Lastly, single tenant transactions over $2.5MM have exploded in the third quarter of 2013, with retail generating half of the total $15 Bil. and this is expected to continue.

- ***Banks, life companies and capital markets.*** There continues to be a fragility in the financing markets. Small to middle market banks have seen ongoing growth in the $2MM to $20MM range, however, underwriting is rigorous and conservative. Conduits are being hampered by the volatile swap index markets, with their overall pricing of 10 to 20 bpts above the corresponding Bonds. Transactions are closing, but loan proceeds being “adjusted” prior to, on most transactions. There is homogeneity in the loan products and pricing, but “Brands” do make a difference on the executions. Life insurance companies and Agencies continue to look for higher quality assets as allocations have been met for year or are dwindling.

- ***Expanded products.*** We have teamed up with a South Florida hedge fund to provide short-term mortgages under $15MM, with rates starting at now 8%. The focus is on Florida assets, expedited underwriting and closings, most in two to three weeks. 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 branded services to include: Asset sales and advisory services to meet our client’s needs.

<u>KEY RATES</u>

Prime is **3.25%.**	(30 days ago, **3.25%**; 3 months ago, **3.25%**; 1 year ago, **3.25%**)
Libor (30 day) is **.22%.**	(30 days ago, **.22%**; 3 months ago, **.22%**; 1 year ago, **.30%**)
T-Bill (10 yr.) is **2.75%.**	(30 days ago, **2.81%**; 3 months ago, **2.58%**; 1 year ago, **1.72%**)
Swaps (10 yr.) is **2.89%.**	(30 days ago, **2.97%**; 3 months ago, **2.77%**; 1 year ago, **1.77%**)

<u>CAPITALQUEST COMMITMENT</u>

Interest rates are going to rise, as the yield curve continues to correct itself and the actions by the Federal Reserve are slowly ending. Be very cautious when chasing yield in secondary and tertiary locations, since growth in those markets will be at or below the CPI and most demographic trends can quickly abate and show signs of weakness in our unstable political environment.

We get deals done and provide efficient, profitable solutions. This year, we sold underperforming assets, restructured real estate and procured new debt for our clients, recovering millions in written down loans and saving them significant interest costs. We have decades of institutional experience and our focus is providing accurate and timely solutions from: 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.

As the year comes to a close, we would like to thank our many clients who utilized our services and strengthened our CapitalQuest Brand. We look forward to being part of your continued successes in 2014.

John and the CapitalQuest Crew.

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