

Greetings from chilly Miami,

I wanted to share with you thoughts on the marketplace over the coming months. Fed Chairman Bernanke continues to indicate resistance to lowering short term interest rates, with Prime currently at 8.25% and 30 day Libor at 5.32%. Both are 100 basis points higher than the same time last year. Longer term rates, the 5 year and 10 year Treasuries are virtually the same at 4.70%, up by 40 basis points since last year. Short term rates are expected to remain ratcheted up, while the long term treasuries will have 25+ bpts of volatility. Here are some high points to remember.

\* Long term financing is very favorable now with most of the 10 year transactions pricing under 6%, i.e. 87 bpts. to 125 bpts. over the equivalent Treasury.

\* Conduit lenders are clamoring for new transactions for the first 6 months of the year by lowering spreads, life insurance companies continue to focus on high quality assets and the banks are very sensitive to their land and condo exposures. Websites that were set up to sell condos (condoflip.com) are closing, as the bottom of the market continues to be uncertain and investors are walking away from deposits. Most condo buildings in South Florida are being completed now; many above 50 stories, to maximum occupancies of 20% to 30% and new projects are on hold. Condo inventory in Miami-Dade is over 21,000 units indicating a 3+ year supply and that is growing.

\* The inverted yield curve has allowed lenders to offer more flexibility in loan terms, including interest only periods, yield maintenance vs. defeasance as prepayment options, fixed prepayment options and forward fundings priced very competitively.

\* Yield maintenance, as a prepayment option, is much more desirable, to avoid the \$75,000 to \$100,000+ in defeasance costs when paying off a loan prematurely.

\* Forward commitments are priced at 1 bpt to 2 bpts per month vs. in the past at 10 bpts+. Thus, a 12 month forward is 20+ bpts higher than a transaction that is closing today, which is very attractive.

\* All real estate product types, except land loans, condos and condo/hotels are being sought after vigorously. Cap rates are still under 7% for quality assets and credit tenanted assets under 6%.

My recommendation for 2007, work with people who are highly experienced and have excellent track records in deal structuring and negotiation. They can not only save you lots of time, but tens of thousands of dollars in the closing process and potential servicing issues after the loan closes.

Last year, we closed over \$118MM in loans and equity, which was exclusive of our consulting efforts with various national and international hedge funds, pension funds and insurance companies. We have forged strong alliances with them for placing debt and equity. Our focus remains on high quality clients and their needs, not short run profitability and one-off transactions. We are happy to make time to help at any stage of the process, but when we are involved early it is typically a win/win. Thank you for those we have worked with in 2006 and look forward to expanding relationships in 2007.

As always, continued success,

John and the CapitalQuest Crew.

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