

Greetings from Miami,

Latest deals/news:

- Office: \$3.9MM loan, 80% LTV; rate 6.28%; 3 yr I/O, fixed, YM
- Retail: \$12MM loan; 80% LTV; rate 6.59%; 5 year I/O, fixed, YM.
- South Florida Business Journal names CapitalQuest Group in top 25 of the Largest Commercial Mortgage Lenders in South Florida.

HOT: Hotels, industrial and office buildings (GSA deals), workforce housing.

NOT: Big box retail; single family homes/condos and land loans.

During the past 30 days, the stock market has been on wild 1200 point swing with our children's college funds and IRAs feeling the brunt of it, as have the real estate financing markets. There continues to be fallout in the subprime lending market and severe softness in the residential markets. The Prime Rate (8.25%) and Libor (5.49%) have not materially moved, but the 10 year Treasury has made a dramatic fall to back under 4.60% and the discount rate was recently cut by 50 bpts by FED Chairman Bernanke. Banks have yet to make any moves on Prime and jumbo fixed rate loans (\$417M+) are still over 7.75%, 150 bpts higher than conventional mortgages.

Long term financing continues to be attractive, **HOWEVER**, because of the volatility in the markets, spreads have risen over 100-125 basis points. Deals closed during the past 90 days, saw 85% LTVs, I/O (interest only) periods, earn outs, yield maintenance, and very aggressive underwriting. Today that is gone, as most lenders are and will likely remain on the sidelines till year end or first quarter of 2008, despite commercial loan defaults still being under 2.4%.

Land loans are being relegated to loan restructures at banks or from betting by hedge funds/private investors at returns in the 15%+ range.

Condo developers are enhancing brokers with 8% to 10% commissions for new sales, or offers to the speculative buyers of postponed closing dates and cash flow shortfall payment guarantees if they close now and then rent their units. Walk away buyers (contract holders) represent 8% to 10% of most projects (one of the largest condo developers in the US, WCI reports 18% or higher in some of their high end projects) and attorneys are cashing in on "outs" in poorly written condo documents. In South Florida, there remains a 36 month supply of units and foreclosure rates are now in the 30%+ range, up 93% from last year. Offers at 65% to 70% of listing prices are becoming more common and some are being consummated on higher end units.

Office and industrial continue to lead the US markets with low vacancy rates and strong tenancy. However, insurance costs and rising real estate taxes are putting significant pressure on cap rates with non-institutional buyers winning most bids.

For our clients during the next 3 to 6 months, execution and experience are the keys in this tumultuous marketplace. As most have seen and some experienced, poorly underwritten or structured loans do not close at the aggressive loan proceeds and spreads offered, and many do not close at all. Well underwritten and structured loans can **always** be placed, with our strong lending relationships,

including banks, conduits, life companies and pension funds. Our focus remains on high quality clients and their financial needs from loan structuring, consulting to loan placements. Thank you for your business and the relationships we have fostered during 2007 and look to forge lasting ones in the years to come.

As always, continued success,

John and the CapitalQuest Crew.

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