



Greetings from the corner office in Miami,

Remember back to Cheers, when George Wendt would enter the Bar and everyone would yell “NORM”, that describes the financial markets prior to the past 18 months. Well, the good news is “NORM” is peeking his head in the door and he is slowly starting to push it open. Banks are flush with capital; however it is still being disbursed to the very selective few clients. Life insurance companies / pension funds have had allocations reduced for 2010, but they are still very active. Even capital market lenders are returning to limited recourse financing on low leveraged assets with strong cash flow. Recently, Royal Bank of Scotland was able to complete a \$300MM+ securitization with multiple assets. So come on in “NORM” the beer is cold, but it likely won’t be frothy until 2011. Here is our commentary on the current financial and real estate markets.

- Real estate deals are getting done today with interest rates under 6%, fixed for five years and LTVs typically under 65%, with 20 to 25 year amortizations. Apartments are pushing the leverage to 75%, as effective rents are starting to stabilize in this sector, but the turmoil in the Agency Lenders continues to constrict these terms. Hotel financing is very difficult, as bank portfolios heavy in hospitality, (Silverton Bank’s \$400MM+ portfolio recently was being offered by FDIC) are being liquidated and the floors have yet to be established in valuations.
- Small banks are quickly reducing commercial real estate loan exposure through loan sales and their new focus is on consumer loans and deposits, i.e. retail banking. The FDIC is being very swift in calling for fresh capital or they are being closed/sold to ready buyers. Middle tier banks are lending on commercial real estate, but their focus continues to be on owner occupied assets with low leverage and strong cash flow. Larger banks continue to pay back TARP moneys at record paces, but remain saddled with non-performing assets and CMBS portfolios. Maturing debt is expected to bog down portfolio and credit departments for the next six months and new debt remains to be very selectively offered.
- Interest rates will likely remain low over the next 12 months, with the 10 year treasury breaching 4% in early April and recently retreating back to under 3.4%. Twelve month forwards for 30 day Libor exceed 1.5% vs. the current rate of .28%; which these forward rates match most current lender index floors. Cap rates have finally stabilized and are trending down, with apartments ranging from 8% to 8.5% (higher if assets are under \$5MM). Industrial and Office product 8.5% to 9%; with “A” quality assets continuing to be the focus for investors. Most retail is capped above 9% and underwriting is very conservative by both investors and lenders. Store closings and bankruptcies continue to plague this asset class.

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 .28% .	(30 days ago, .25% ; 3 months ago, .23% ; 1 year ago, .52%)
T-Bill (10 yr) is 3.4% .	(30 days ago, 3.90% ; 3 months ago, 3.66% ; 1 year ago, 3.12%)

CapitalQuest Commitment

We get deals done and clients come to us for solutions. Our efforts during the past 12 months, have allowed clients to not only save tens of thousands in interest expense; but we have restructured and procured new debt to insure long term stability in operations. 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 2010 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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