



Greetings from the corner office in Miami.

When describing the inverted yield curve, I use the following “irrational” analogy of two recent flights to New York. The cost of the flight to New York was \$79, the Uber ride to Fort Lauderdale Airport was \$85 and the cost of two bags was \$90; two weeks later, the flight was \$575, Uber \$25 and the two bags, were free. We continue to see volatility in interest rates and spreads, which will continue over the next six months. Below are the key interest rates and their movements in the past year.

KEY RATES

Prime is	5.5%.	(30 days ago, 5.5% ; 90 days ago, 5.5% ; 1 yr. ago, 5%)
Libor (30 day) is	2.30%.	(30 days ago, 2.43% ; 90 days ago, 2.50% ; 1 yr. ago, 2.09%)
T-Bill (10 yr.) is	2.06%.	(30 days ago, 2.09% ; 90 days ago, 2.60% ; 1 yr. ago, 2.86%)
Swaps (10 yr.) is	1.98%.	(30 days ago, 1.97% ; 90 days ago, 2.59% ; 1 yr. ago, 2.93%)

As illustrated, the yield curve is inverted, which has increased volatility in the lending markets, but it has provided significant opportunities to fix in long term debt. Over the next 90 days, short term rates are expected to decline 25 bpts and long term yield inversions will tighten, ie. long term rates will increase.

MARKET COMMENTARY

➤ **Recent Transactions.**

- \$10.5M Office building portfolio financing, Chicago, IL. **Obstacles** included: Under market rents, above market vacancy in one of the buildings. **Action:** We provided long term, non-recourse debt with an earn-out and closed at 4.43%, on an interest only basis.
- \$15M Line of credit, Miami, FL. **Obstacles** included: Construction and interim asset fundings throughout the Southeast US. **Action:** We provided a highly structured debt facility; developed loan templates, which allowed for seamless underwritings and individual closings of debt tranches. Loan closed in 45 days, on a fixed and floating basis’ and this type of facility has been a niche of ours for clients and indicates are ability to structure complex loans quickly and efficiently.
- \$11.2M Industrial building financing, Miami, FL. **Obstacles** included: Major potential tenant vacancy, capital expenditures needed and short term leases, but with long term tenancy. **Action:** We structured and secured, interim debt, for a long term client, allowing for the renovation, retenanting and lease-up with earn-outs. Positive results and low rates will allow for a 4th quarter, fixed rate refinancing at today’s very low rates.
- \$16.4M A&D residential and apartment financing, Miami, FL. **Obstacles** included: Very low basis in the asset, borrower with minimal liquidity, but solid net worth. **Action:** We structured and secured short term debt, allowing for tranching based on performance. LTV increases over time and vertical facility is being underwritten now.
- \$7.75M Special purpose industrial financing, Orlando, FL. **Obstacles** included: Specialty use building with a non-credit, long term lease in a secondary market.

Action: We structured and secured long term, non-recourse debt, on an interest only basis, for a valued, long term client, taking advantage of the low leverage (65% LTV) and low rates (4.45%).

- \$7.7M Charter school financing, Tampa, FL. **Obstacles** included: Specialty use building with a non-credit, long term lease in a secondary market. **Action:** We structured and secured long term, non-recourse debt, for a valued, long term client, taking advantage of the low leverage (70% LTV) and low rates (4.3%).
- \$5M Charter school financing, Tampa, FL. **Obstacles** included: Specialty use building with a non-credit, long term lease in a secondary market. **Action:** We structured and secured long term debt, for a valued, long term client, taking advantage of the low leverage (75% LTV) and low rates (4.4%).
- **Banks, Agencies, life companies and capital markets.** The last 12 months have seen the widening of the inverted yield curve, compression in long term loan spreads and tightening of underwriting across all asset classes and markets. Banks are fine tuning loan allocations, as balance sheet run off continues, due to the lower, long term rates; however, underwriting is rigorous and staffs are being reduced. Agencies are having record volumes, due to the high occupancies and low rates; but the 80% LTV norms are now, 70% to 75%. Life insurance companies' focus is on very high quality assets, forward pricing, construction/perms and certainty of execution. Capital markets continue to be homogenized lending (similar terms, spreads and structures for transactions) with hybrid lenders, having ability to access internal balance sheets, providing structural incentives to win business. Our recommendation is to strike now, while long rates and spreads are at record lows and aggressiveness in structural terms are prevalent.
- **Expanded products.** 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 services to include: Asset sales, due diligence and advisory services, all to meet our client's changing needs.

CAPITALQUEST COMMITMENT

Again, take advantage of the rates **NOW**. The inverted yield curve and compressed lending spreads have resulted in long term fixed transactions priced between 4.2% to 4.4% (apartments priced 3.75% to 4%).

As we head into latter 2019, underwriting will continue to tighten and leverage reduced, for older assets in secondary and tertiary locations. 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.

We execute and get business done. Our decades of institutional experience and focus, enables us to provide accurate and timely solutions in the areas of: Loan structuring, loan placements, financial advisory, asset sales and loan sales/dispositions. Our investment banking and equity relationships are superb, as banks, bridge lenders, 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.

Thank you to our many clients who have utilized our many services and strengthened the CapitalQuest Brand. We look forward to being part of your continued successes in 2020; to earn your business and solidify your trust.

John and the CapitalQuest Crew.

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

- JPM -