



Greetings from the corner office in Miami,

It is a glorious Monday morning and am contemplating to begin the day by tweeting, blogging and Facebooking. No worries, my focus is on the tasks at hand, perusing a forty five page contract and commenting on a thirty three page commitment letter, both of which were just emailed to me; and our clients need answers within the hour. Today, one must embrace technology and its velocity, but when a social media's 28 year old Chairman is a hoodied billionaire, I will avoid pursuing those aspects and focus on our clients.

Webster's dictionary defines "Client" as follows:

1. One under the protection of another.
2. A person who engages the professional advice or services of another.
3. A computer in a network that uses the services provided by a server.

Our focus is providing professional services and advice to our clients, while protecting them from the perils of volatile markets, structures, rates and terms; based on our twenty five years of experience. This comes from both, keen current market knowledge and thousands of transactions committed, closed and sometimes even lost. We strive to assist our clients in making the best informed decisions; which leads to higher profits, efficiencies and risk mitigation.

HOT MONEY

- Apartments. All lenders are clamoring for this product, with low rates and flexible terms.
- Triple net, credit tenants. Secondary and tertiary markets are seeing bolstered activity.
- Low leveraged assets. Life companies and pension funds have razor thin pricing for top tier assets.

KEYS TO SUCCESS IN 2013

- ❖ Concentrate on key locations for development and acquisitions, with strong demographics and walkability to entertainment centers, mass transit and employment. Miami is becoming one of those cities being elevated to top ten status in the US, as it will become a 24 hour city with the development of Swire's CitiCentre (4.3MM SF mixed use project) and the surge of Mary Brickell Village and downtown.
- ❖ Be very diligent when chasing yield in secondary and tertiary locations.
- ❖ REIT and home builder's stock will do very well over the next twelve months, as residential sales/development is solidifying real estate markets and commercial growth.
- ❖ ***Lock in long term rates now on core assets and acquisitions. Low leveraged debt is being secured at or below 4%. The long term upside of saving 150-200 bpts far outweighs the 25 bpt savings in the short term.***

MARKET COMMENTARY

- ***Banks, life companies, Agencies and capital markets.*** Conduit activity has been brisk as spreads have tightened and year end closings should push 2012 totals to just over \$40 bil. Bank terms are being relaxed as profitability continues to erode. Life insurers/pension funds have been very steady, but their appetites are exclusively low leverage and conservative underwriting. Agencies (Freddie Mac/Fannie Mae) want multifamily product now and long

term rates are well under 4%, but underwriting and secondary markets can be restrictive. As for interest rates, we are slowly seeing a creep up in long term bonds and lender spreads are volatile. Floors are being implemented with most lenders and conduit underwriters are using debt yields (not current rates) to size transactions.

- **Commercial markets.** Institutional investors are coming back strong into South Florida, with large, \$50MM to \$100MM industrial portfolios being purchased by National REITs and insurance funds (AEW and Prudential). Well located, speculative industrial space is being developed again, as vacancy rates are back near 5%. Big box retailers continue to right size real estate portfolios and store sizes, and internet sales are expanding, despite the looming sales tax implementations. Grocery anchored retail commands the lowest cap rates of the class, with cap rates in the 5.5% to 5.75% range and some well capitalized companies like Publix are even opting to buy their sites for redevelopment. Office occupancies have been mixed, which is primarily based on the stagnant new job creation, as companies wait for the coming elections. Disposable income continues to shrink and stresses on all layers of the middle class have occurred from salary freezes, higher fuel costs, to college bound teens running into staggering increases in college costs.
- **Residential markets.** Nationally, home building has surged and is up over 30% from last year and similar results are being seen in South Florida. Sale prices have also increased, as desirable, non-short sale inventory wanes and “liar’s poker” with brokers continues. Brokers are opting to use current listings as comparables and not that of recorded sales, last ± 12 months, which is the standard used by appraisers and lenders. Moderately priced condo (\$350/SF \pm) inventory is also dwindling, as approximately 7,000 units remain (vs. 55,000 that was developed), or a 10 to 12 month inventory in Miami-Dade County. The market for new condos (starting at \$450+/SF) in South Florida is strengthening again, with well-located luxury product being presold at weekend cocktail parties. However, the financial risk is borne by the buyer as contracts are commanding 20% deposits, which grow through the duration of construction. Apartment rental rates are up over 13% in the Brickell Corridor and 10% throughout most of South Florida, which also bodes well for new development activity for multifamily, pushing cap rates under 5%.
- **Expanded products.** We have teamed up with a South Florida hedge fund to provide short term mortgages under \$5MM, with rates starting at 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 services to include: Asset sales and advisory services to meet our client’s needs.

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 .21% .	(30 days ago, .22% ; 3 months ago, .25% ; 1 year ago, .21%)
T-Bill (10 yr.) is 1.79% .	(30 days ago, 1.64% ; 3 months ago, 1.46% ; 1 year ago, 2.30%)
Swaps (10 yr.) is 1.81% .	(30 days ago, 1.71% ; 3 months ago, 1.54% ; 1 year ago, 2.39%)

CAPITALQUEST COMMITMENT

We get deals done and provide efficient, profitable solutions. Our strong results during the first three quarters of 2012 have been achieved by selling underperforming assets, restructuring and procuring new debt for our clients. 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. 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 during the latter months of 2012 and we look forward to being a big part of it. If you have questions, just ask and we will work together to get it done.

John and the CapitalQuest Crew.

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

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