

# VBI

REAL ESTATE

Project Maringá



Project Brigadeiro



Project Natal



Project Seropédica



Project Shopping Alcântara



Project Shopping Araçatuba



# Q4 2013

*Quarterly Report*

*Brazil Real Estate*

*Opportunities Fund II*

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# Letter from Brazil Real Estate Partners II GP

# A

February 17, 2014

Dear Limited Partner:

We are pleased to provide you with the Q4 2013 report for the Brazil Real Estate Opportunities Fund II.<sup>1</sup>

## Capital Commitments and Funded Amounts

Through the date of the writing of this letter in February, there have been nine capital calls, with U.S.\$ 145.5 million of capital called, as well as borrowings pursuant to the Fund's subscription credit facility in the amount of U.S.\$ 34.2 million, summing to a total of U.S.\$ 179.7 million of capital deployed. The portfolio is comprised of fourteen projects, requiring in the aggregate contributions from the Fund totaling an estimated U.S.\$ 339.5 million at the February 17 FX rate. Capital allocated to specified projects represents 68% of total investor commitments to date.

### Capital Commitments and Funded Amounts at February 17, 2014 (amounts in US\$ mm)

Total Aggregate Commitments	\$	500.0
Specified Investments		14
Capital required for Specified Investments	\$	339.5
% Aggregate Commitments		68%
Capital called from Limited Partners	\$	145.5
% Aggregate Commitments		29%
Drawings on Subscription Credit Line at Feb 17, 2014	\$	34.2
<b>Total Funded Amount</b>	<b>\$</b>	<b>179.7</b>

In that the bulk of the capital required to complete the Fund's projects is utilized for construction, the rate of capital utilization of the Fund will ramp up in accordance with the Fund's construction activities. The table below illustrates the construction timetables currently anticipated for the Fund's fourteen specified projects.

<sup>1</sup> Brazil Real Estate Opportunities Fund II is comprised of the following entities which invest in parallel: Brazil Real Estate Opportunities Fund II – Amazonas (BRL), L.P.; Brazil Real Estate Opportunities Fund II – Bahia (USD), L.P.; Brazil Real Estate Opportunities Fund II – Ceara (USD), L.P.; Brazil Real Estate Opportunities Fund II – Distrito Federal (BRL), L.P.; Brazil Real Estate Opportunities Fund II – Espírito Santo (BRL), L.P.; and Brazil Real Estate Opportunities Fund II – Floripa (BRL), L.P. Together, these entities may be referred to as the "Fund", "Brazil Real Estate Opportunities Fund II", "BREF II" or the "Investment Program".

## Projected Construction Timetables for Fourteen Specified Projects

Project Timetable	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019		
Project Natal																																				
Subdivision J.V.s																																				
Project Shopping Araçatuba																																				
Project Maringá																																				
Project Brigadeiro																																				
Project Shopping Alcântara																																				
Project Conx Leonilda																																				
Project Shopping Sta. Maria																																				
Project Secundino																																				
Project Gil Vicente																																				
Project Seropédica																																				
Project Vila Ema 3000																																				
Project Ourives																																				
Project Conx Rodovalho																																				

## Portfolio Summary

### Project Shopping Araçatuba

Status: in construction with opening scheduled for Q4 2014

Project Shopping Araçatuba is a shopping center development in the city of Araçatuba, located in the west of the State of São Paulo, approximately 519 km from the City of São Paulo. The project entails the development of an approximately 21,572 m<sup>2</sup> shopping mall on a 39,000 m<sup>2</sup> land site. Construction is underway and the opening is scheduled for Q4 2014. The Fund controls the development activities and owns 80% of the project.

**Leasing.** To date we have signed twenty-four leases, representing 21% of the total gross leasable area, and an additional nineteen firm proposals from tenants, representing an additional 16% of total gross leasable area. Summing signed leases with approved proposals, our total leasing commitments represent 37% of the total GLA and 21% of total expected storefronts. Leasing is slower going than we had anticipated, although this is largely due to the lack of tradition of retail entrepreneurship in Aracatuba, where most of the wealth owes its origins to agriculture. The leasing is behind schedule, and we are anticipating the possibility of offering first and second-year discounts to minimum rents as well as tenant improvement allowances to certain retailers in order to ensure that the mall opens in Q4 with an adequate tenant base. The impact of discounting base rents at the start of the tenancy and offering moderate tenant improvement allowances on the project's IRR and multiple of capital is not substantial, as long as we achieve the rental income targets for year three anticipated in our pro forma. With the Christmas season behind us, we will have a clearer idea of tenant demand in late February, as the construction on the superstructure progresses and our marketing initiatives resume.

**Construction.** Construction is well under way. At the writing of this letter, 51% of the total construction has been completed, with 35% of the total cost having been incurred. Our total construction budget is approximately 1% below the amount anticipated in our original business plan (adjusting for inflation).

**Financing.** We have completed the negotiation of the construction financing. Banco Bradesco will be the lender, financing R\$55 million, which represents 70% of the total cost of construction. The rate is TR + 10.5% per annum, 1% of the principal amount is changed in upfront fees and the final maturity is ten years. Progressing with the leasing of Shopping Aracatuba is one of our most urgent priorities. As we must have signed leases covering at least 50% of the gross leasable area before making the first draw on the construction financing, we are anticipating completing construction largely with equity from the Fund and refinancing shortly prior to the opening in Q4.

#### **Project Shopping Alcântara**

*Status: Awaiting municipal approvals*

Project Shopping Alcântara is a 30,372 m<sup>2</sup> shopping center development project to be located in the Alcântara region of the city of São Gonçalo, a city with a population of approximately one million located in metropolitan Rio de Janeiro. The Fund jointly controls the development activities in a joint venture together with ABL Shopping, a shopping mall development company controlled by Plural Capital, which owns a 50% stake in the venture.

In early 2013, we submitted the plans for Shopping Alcântara to the municipality of São Gonçalo. As of the writing of this letter the municipality has completed its technical review of the project and we are awaiting the final signature by the Housing Secretary responsible for issuing the final construction permit. The approvals process is dragging on, and we anticipate the need for more time to obtain the final municipal approval. The change in the municipal administration that occurred in Q1 2013 disrupted the project's approval process, which was largely completed before the October 2012 elections, but which has since been delayed. Completing the approval process is a top priority, and we believe that there are clear win-win solutions which will satisfy the municipality's requirements without disfiguring the economics of the project. We continue to aim for a construction start date in mid-2014, but we may be required to defer this date depending on the posture of the municipal authorities.

To date we have invested R\$3.5 million of the capital of the Fund in Project Shopping Alcântara. Of the total amount invested, R\$0.9 was earnest money paid to the land owner and the remainder represents investments made in project design. While several anchor tenants have expressed an interest in leasing space in Shopping Alcântara, the project approval delays have resulted in a deferral of the leasing efforts.

#### **Project Shopping Santa Maria**

*Status: Awaiting municipal approvals*

Project Shopping Santa Maria is a 22,235 m<sup>2</sup> shopping mall development to be located on 131,000 m<sup>2</sup> of land in the city of Santa Maria, located in the heart of the southern state of Rio Grande do Sul. Santa Maria is a city with a population of approximately 262,000 within the city limits. We secured the landsite for the mall during Q4 2013, and we are now completing the designs with the expectation of submitting the project to the municipality during Q1.

The initial project entails the construction of a shopping mall on a single level, to include a food court, cinema, game center, five anchor tenants, seven "megastores", a lifestyle center, and approximately 173 in-line stores. There will be 1,500 surface parking spaces, generating a parking ratio of 15 m<sup>2</sup> of GLA per parking space. The 22,235m<sup>2</sup> shopping mall represents the first phase of the project, and our project underwriting assumes no subsequent phases. Nonetheless, the zoning permits a total of up to 60,000m<sup>2</sup> of computable area, which would permit future mall expansion or inclusion of office or hospitality space in the future.

Our goal is to receive the project approval during Q3. Our dialogue with the municipal authorities from Santa Maria have been highly constructive, and we anticipate full support from the mayor's office as we advance through the municipal approvals. We have signed term sheets with the three primary anchors, Lojas Renner, C&A and Riachuelo, and we have received an additional fifteen tenant proposals. The anchor lease rates are in line with our underwriting.

#### **Project Natal**

*Status: 77% sold and construction complete for 2 of 4 phases*

Project Natal is a 906 unit residential development located on 60,000 m<sup>2</sup> of land in the city of Natal, the capital of the northeastern state of Rio Grande do Norte. Average price per unit is approximately R\$296,138, with units ranging from two to three bedrooms and average unit size of 71 m<sup>2</sup>. The Fund owns 40% of Project Natal and is entitled to a preferred return of 25% after both the Fund and Ecocil, the Fund's operating partner for this project, receives its full investment back.

Sales velocity picked up toward the end of Q4, and as of the writing of this letter 77% of the units have been sold. Construction of the first two phases is complete, the third is 98% complete and the fourth phase is 87% complete. Project Natal is likely to generate an IRR well above the 25% preferred return and a multiple of capital in the range of three times our invested capital of R\$12.4 million. Due to shrewd partnership structuring, Project Natal is the most successful project of the Fund to date, and the prototype for future partnerships with cash constrained developers.

#### **Project Maringá**

*Status: Sales of 2 out of 5 towers in progress and construction of first 2 towers 29% complete*

Project Maringá is a 570 unit residential development to be located on a 23,119 m<sup>2</sup> land site in a middle-class region of the city of Maringá, State of Paraná. The project entails the construction of five



17-stories towers. Construction is divided into two phases, with the first two towers currently under construction and the remaining three towers to begin construction upon achieving a critical mass in sales.

Sales of the first phase of Project Maringa, comprised of two towers and a total of 228 units, started in Q4 2012. To date we have sold 165 of the 228 units, representing 72% of the total. This result, while not terrible in relation to the usual sales velocity expectations of projects of this size, is below what we had anticipated in our project underwriting. With the remaining units in stock primarily concentrated in the lower floors or facing the adjacent tower, the sales velocity has been very slow since mid-2013. We are now preparing the official commercial launch of the second commercial phase, comprised of three towers totaling 342 units. Before we can proceed with the commercial launch of the second phase we must first finalize the agreement with the municipality in relation to the access road which connects three condominiums from the second commercial phase to the public road. This agreement is in the final phases, and upon completion of the agreement we will initiate the marketing activities for the third, fourth and fifth towers.

We are in the process of finalizing the construction loan. The lender will be Banco Itaú. The construction financing will be sufficient to cover 70% of the cost of construction and will have an all-in cost (including upfront points) of TR + 11% per annum. We anticipate, that the total equity required in order to complete Project Maringa will exceed our original underwriting. Our goal for 2014 in relation to this project is to sell more than 80% of the first two towers, 30% of the second phase and to advance to 70% completion of the first two towers and 20% of the second phase towers.

#### **Project Ourives**

*Status: Awaiting municipal approvals*

Project Ourives is a residential development project to be located on a 53,628 m<sup>2</sup> land site in the city of São Paulo at the border with the city of São Bernardo. The Project currently contemplates the development of approximately 840 residential units ranging in size from 46 m<sup>2</sup> to 67 m<sup>2</sup>. These units are to be sold off-plan in three commercial phases, each corresponding to an autonomous development. Project Ourives was originated by Valor Engenharia and will be jointly managed by VBI and Valor.

The investment entails the purchase of the land site for R\$25 million, 10% of which was paid upon the signing of the purchase-sale commitment, R\$3 million of which will be paid upon the final approval of the project with all relevant public authorities, with the remaining amount in thirty equal monthly inflation adjusted installments of R\$633,333, plus accrued construction cost inflation from the date of the payment of the first land installment.

While a single land purchase, Project Ourives is being structured as three developments of approximately equal size. Structuring the project as three developments has the benefits of simplifying the approval process and enables us to launch, sell and build each project with patience and in accordance with observed market demand. We have been observing the micro-region around Project

Ourives since 2010, when we launched Project Jardim Botânico, the most successful residential development in BREOF I. Our underwriting of Project Ourives has assumed that the final municipal approvals and environmental license required to start sales of the first of the three developments would be obtained by the end of H2 2014, and we are making steady progress in achieving this timetable.

During 2013 we submitted an application to Parsolo, the division of the municipal housing office responsible for land dismemberment, to request approval for the division of the single 53,628 m<sup>2</sup> land site into four separate lots, one of which is the environmental reserve and three of which will be independent residential development projects. In order to complete the land division process, Depave, the department of parks and green areas, must approve our plan for increasing the density of the vegetation on the land. We are in the process of creating this plan, which, upon review and approval by Depave, will permit Parsolo to authorize the land dismemberment. In parallel, we have submitted the architectural plans to the housing office in order to request planning permission in relation to the three separate condominiums.

The prevailing market price for units in the region around Project Ourives has substantially outpaced the evolution of construction cost inflation since our original underwriting of the project. We originally underwrote selling prices per square meter of living area of R\$3,800, which corrected by construction cost inflation from December 2011 to the present represents approximately R\$4,400 per square meter today. Comparable projects in this region are currently selling at approximately R\$5,000 to R\$5,200 per square meter. Our underwriting is therefore somewhat conservative.

To date the Fund has spent R\$4.3 million on Project Ourives, of which R\$2.6 million is attributed to land purchase installments and the remainder is primarily attributable to development expenses. Our goal for 2014 is to obtain municipal approval for the first of the three developments and be prepared for the commercial launch in Q1 2015.

#### **Project Gil Vicente**

*Status: Awaiting municipal approvals*

Project Gil Vicente is a residential development project to be located on a 5,177 m<sup>2</sup> land site in the downtown area of the city of Santo André, an industrial city with a population of approximately 676,000 located in Metropolitan São Paulo. The Project entails the development of three towers containing 199 residential units ranging in size from 52 m<sup>2</sup> to 65 m<sup>2</sup>, summing to a total living area of 11,153 m<sup>2</sup>. These units are to be sold off-plan in a single commercial phase over a period of approximately forty months from the date of the initial launch. We anticipate the commercial launch to occur in 2014. Project Gil Vicente was originated by Valor Engenharia and will be jointly managed by VBI and Valor.

The project approval process has been laborious due to a discrepancy between the land area as measured by the contracted surveyor and the land area in the municipal records. We completed the land rectification process during Q4 2013, and we have proceeded to submit the project to the municipality of Santo Andre

for review. Our expectation is to obtain municipal approval during H2 2014. We are projecting moderate margin erosion as time passes, as incomes in the Santo Andre region fail to keep up with construction cost inflation. Since our original underwriting in March 2012, we have adjusted projected selling prices upwards by 25% in nominal terms (approximately 13% in real terms) and construction costs by 35% in nominal terms (approximately 23% in real terms). The lower profit margin increases the project's peak exposure and reduces the expected multiple of capital.

Our goal for 2014 in relation to Project Gil Vicente is to obtain municipal approvals, execute the commercial launch and sell 30% of the total units. In the current market environment, this project is presented with moderate competitive pressure. There are six competing developments in this section of Santo Andre, representing approximately 1,000 new units in a 5 km radius. We are encouraged by the average sales price in the range of R\$5,200 per m<sup>2</sup> of living area, although our competitors retain 45% of total units in stock.

#### **Project Secundino**

*Status: 22% of units sold and construction due to start in H2*

Project Secundino is a residential development project located on a 4,691 m<sup>2</sup> land site in the Eastern Zone of the city of São Paulo. The Project contemplates the development of 194 residential units, to be comprised of total living area of 11,248 m<sup>2</sup>. These units are being sold off-plan in a single commercial phase over a period of thirty-six months early in Q4 2016. Project Secundino was originated by Valor Engenharia.

The commercial launch of Project Secundino occurred in November, and to date 43 out of the total of 194 units have been sold including sixteen units which were swapped with the previous land owner as the non-cash portion of the land purchase consideration. This is a satisfactory result. Habitats (a subsidiary of Lopes Imobiliária) are managing the sales process, and Sabiá is managing the post-sales process. We have completed the negotiation of a turn-key construction contract at a price of R\$29.0 million, to be adjusted by the construction cost inflation index (INCC). We are finalizing the construction financing terms and we anticipate the start of construction to occur toward the end of H2. Comparing the prevailing sale price and construction cost with that anticipated in our original underwriting, the nominal sale price has increased by 35% and the nominal construction cost by 39%. The anticipated profit margin has increased from R\$1,071 per m<sup>2</sup> of living area to R\$1,530 per m<sup>2</sup> of living area. The expected peak capital exposure of the project has increased from R\$10.3 million to R\$15.8 million as a result of the substantial modifications of the project specifications. If we achieve our profit margin targets, the project's multiple of capital will be 2x as anticipated in the original underwriting.

#### **Project Vila Ema 3000**

*Status: Awaiting municipal approvals with commercial launch expected in H2*

Project Vila Ema 3000 is a residential development project to be located on a 8,075 m<sup>2</sup> land site in the Eastern Zone of the city of São

Paulo. The Project currently contemplates the development of one 12-story and two 14-story towers containing 337 residential units ranging in size from 52 m<sup>2</sup> to 67 m<sup>2</sup>, summing to a total living area of 18,772 m<sup>2</sup>. These units are to be sold off-plan in a single commercial phase over a period of thirty-six months from the date of the initial launch. Our pro forma analysis assumes an initial launch in H2 2014. Project Vila Ema was originated by Valor Engenharia.

The investment entails the purchase of the land site for R\$15.3 million in cash, with a down payment of R\$50,000 upon the signing of the purchase-sale agreement, R\$1.4 upon the completion of legal and environmental due diligence, and the payment of the remaining balance of R\$13.4 million in six monthly installments. The total land price represents R\$1,895 per m<sup>2</sup> of land area and R\$815 per m<sup>2</sup> of total living area. Based on a projected total sell-out value for 100% of the units of R\$108.0 million, the total land acquisition cost represents 14.2% of the total gross sell-out value.

In Q3 2013, we submitted the plan for Project Vila Ema to the municipality of São Paulo, together with a proposal for the removal and replacement of the trees on the landsite. To date, earnest money in the amount of R\$1.3 million of the total land price of R\$15.3 million has been paid. Our target launch date is H2 2014.

#### **Project Conx Leonilda**

*Status: 96% of first of three phases sold, second phase 23% sold, construction to start in Q2*

Project Conx Leonilda is a residential development project located on a 9,933 m<sup>2</sup> land site in the Northern Zone of the city of Santo André, near the border with the Sapopemba neighborhood in the city of São Paulo. The Project entails the development of four towers of 10-stories, 12-stories, 13-stories and 17-stories each, containing 417 residential units ranging in size from 52 m<sup>2</sup> to 66 m<sup>2</sup>, summing to a total living area of 24,505 m<sup>2</sup>.

The first phase of Project Conx Leonilda, comprised of 136 units was launched in September 2013 and 132 units were sold within a month of the commercial launch at a price in line with our original underwriting. In November we opened sales for the second commercial phase, comprised of an additional 196 units, and as of the date of this letter 46 units have been sold. This is a satisfactory performance and in line with our original underwriting. Those who look back at our Q3 letter will see that we were a bit concerned about the sales momentum immediately after the launch of the second phase in November. With 23% of the units of phase 2 having been sold, we are comfortable with the sales progress.

We anticipate the start of construction in mid-year. We have received a very aggressive financing proposal for the Project from Banco do Brasil, which entails financing 90% of the hard costs at a rate of 9%, with adjustment to the principal by the *Taxa Referencial* (TR, which is currently less than 1% per annum). The more aggressive financing terms somewhat reduce the equity required for the Project, while increasing the IRR and multiple of capital. The return on capital we currently expect for Project Conx Leonilda is ahead of our original underwriting.

## Project Conx Rodovalho

*Status: Awaiting completion of seller's land clean-up while project is under review by municipality*

Project Conx Rodovalho is a residential development project located on the Eastern Zone of São Paulo to be located on a 5,772 m<sup>2</sup> land site. The Project entails the development of one tower with 246 residential units ranging in size from 34 m<sup>2</sup> to 83 m<sup>2</sup>, summing to a total living area of 11,458 m<sup>2</sup>. These units are to be sold off-plan in a single commercial phase over a period of forty months from the date of the commercial launch. The average price of the units is anticipated to be R\$280,000 representing R\$6,000 per m<sup>2</sup>. The project was originated by Conx, our partner in the project Conx Leonilda, which also owns 20% of the project. The project designs were submitted to the municipality in Q4 and our pro forma analysis assumes an initial launch in H2 2015.

The land acquisition entailed a R\$2.9 million refundable down payment (made in December), followed by the payment of R\$6.9 million in twelve monthly installments (adjusted by inflation) upon the completion of the decontamination of the land by the seller, who is the São Paulo electric utility company. In the event that the land decontamination is not finalized and validated by the environmental authority before Q4 2014, we retain the right to cancel our purchase commitment and receive the R\$2.9 million back, adjusted by IPCA. The total land acquisition cost represents 14.5% of the project's sell-out value, assuming a sale price of R\$5,772 per m<sup>2</sup> of living area. The peak capital exposure of Project Rodovalho is expected to be approximately R\$17.6 million (U.S.\$7.5 million).

## Land Sub-Division Joint Venture Program

*Status: Two equity JVs in advanced sales phase and cash flowing receivables portfolio*

The Fund has exposure to three land sub-division projects via a joint venture program dedicated to this segment. In our previous quarterly letter we dedicated substantial space to explaining the attractiveness of this segment, and why our investment sourcing initiatives are highly focused on this segment.

The Fund's first project in this segment is located in São Mateus, Espírito Santo. The project entails the sale of 828 lots with total selling area of 188,687 m<sup>2</sup>. The Fund owns 100% of the project. The developer is BRDU, which has a profit participation of 10% of total profits if a hurdle of inflation plus 12% is achieved. 641 lots have been sold to date, representing 77% of the total. The earth work is largely completed, the primary roads paved, and the connection to the electricity concessionaire's sub-station has been completed. Upon advancing further in the sales process, BRDU will proceed to build the waste water treatment plant. Our expectation is to complete the final lot sales by Q2 2014. With the infrastructure nearly complete and the majority of the lots sold, BRDU is preparing the securitize the receivables from the lot sales. The result would be a substantial return on capital. We are anticipating an IRR greater than 25% and a return on invested capital greater than 3x in relation to this project.

The Fund's second investment in the land-subdivision JV program is located in the city of Cuiabá in the state of Mato Grosso. The Cuiabá project entails the creation of an open *loteamento* (i.e. public infrastructure is donated to the municipality) with a total land area of 260,000 m<sup>2</sup>, of which the total selling area is 149,276 m<sup>2</sup>. 671 lots are expected to be sold over the course of a two year period. The land has been acquired by means of a cashless swap. The total capital to be contributed by the Fund is anticipated to be R\$4.2 million. To date 323 lots have been sold and the infrastructure is 22% completed. We anticipate the completion of the infrastructure build-out by the end of Q4 2015, at which time we anticipate a return on capital as the receivables are securitized.

The third project to which the Fund is exposed is a receivables financing in relation to a 2,500 lot sub-division project located in the city of Parauapebas in the state of Pará. The Fund purchased receivables from 778 purchase-sale agreements, with the cash flows from all 1,311 lots sold to support our receivables. The purchase price generates a yield of inflation plus 12% per annum (currently in the range of 17.5% pre-tax per annum) in monthly cash flows. The total investment was R\$60 million, representing U.S.\$ 26 million at the current FX rate. We are closely monitoring the performance of this portfolio, for which the on-site servicer is the developer itself and the master servicer is the securitization company.

Across the two development projects and one receivables securitization project in our land sub-division joint venture program we have a total capital exposure of R\$66.8 million.

## Project Seropédica

*Status: Environmental license obtained and earth movement starting*

Project Seropédica entails the development of an industrial park with a potential for up to 187,650 m<sup>2</sup> of gross leasable area to be located on a 438,672 m<sup>2</sup> landsite adjacent and with access to the Dutra Highway in the municipality of Seropédica, Rio de Janeiro. The landsite is located approximately 60 km from the Center of Rio de Janeiro and 2 km from the Arco Metropolitano, a new ring-road that is in construction around Greater Rio de Janeiro.

During the last months we made substantial progress in the development of Project Seropédica. In January we received the full environmental license, permitting us to proceed with the earth work and construction. In January we received the initial approval from the national transportation authority in Brasília for highway ramp access. With these two substantial milestones behind us, we may now proceed with the creation of the plateau. There remain additional regulatory hurdles to jump through in order to begin construction on the highway access. While both the highway concessionaire and the Rio de Janeiro office of the National Transportation Authority (ANTT) have approved our highway access plan, we must now elaborate a more detailed executive project for final review by the ANTT office in Brasília, and we must negotiate with the municipality of Seropédica the terms under which the project company will build and maintain the public road which connects the on/off ramp to the condominium entrance. We have bid out the earth work and will start the work in March, with

completion expected in Q4. We have opted to complete the earthwork for the entire condominium at once, at a total estimated budget of R\$7 million (U.S.\$3 million), rather than create plateaus in phases. This results in both the lowest cost and the lowest risk of interference of contiguous phases. We anticipate starting work on the highway connection in Q4 2014, with final completion in mid-2015. We expect to begin a full-blown pre-leasing effort in Q3 of this year, once the earth movement work is well underway and the executive project for the highway connection is fully approved.

The total land area was expanded in Q4 as we finalized the purchase of a parcel required for the highway connection and a parcel which will remain as an environmental reserve in perpetuity, in accordance with the national forestry law passed in 2012. The total land area has thus been expanded to 438,672 m<sup>2</sup> and the total land budget has been increased from the original amount intended of R\$8.8 million to R\$14.7 million. The total land budget stands at R\$78 per m<sup>2</sup> of total potential leasable area, as compared with R\$48 per m<sup>2</sup> in our original underwriting. Despite the increase in the land expenditures in relation to the total leasable area, our land price still remains very low. The tenant appeal of the Seropédica logistics park will be a combination of easy access to the Greater Rio de Janeiro consumer market via both the Dutra Highway and the new Metropolitan ring road, proximity to the Vale de Paraíba industrial nexus, and our ability to offer high specification space in modules ranging from as small as 1,500 m<sup>2</sup> to as large as 35,000 m<sup>2</sup> at a price that is 25% lower than the asking lease rates in the Avenida Brasil and Washington Luis regions, where asking lease rates are as high as R\$28 per m<sup>2</sup> per month. Our expenditures to date for Project Seropédica have been R\$16.7 million (U.S.\$ 7.6 million at the current FX rate). The total Fund equity required to complete the project is approximately R\$151 million (U.S.\$63 million at the current FX rate).

### Project Brigadeiro

*Status: Awaiting municipal approvals*

Project Brigadeiro is a Class AAA office development to be located on Avenida Brigadeiro Luis Antônio in the Jardins sub-market in São Paulo. VBI will own 100% of the project and will control the development activities. The land area, totaling 6,567 m<sup>2</sup> was acquired during Q3 2012, and permits the construction of an office building with a maximum GLA of approximately 24,365 m<sup>2</sup>.

The drawings were submitted to the municipality in Q2 2013, we received a request for clarification during Q4, and we are now anticipating obtaining final approvals during 2014. The project entails the construction of a 13-story tower with a total height of 109 meters, utilizing the full permitted height limit. The typical floor plate has a total carpetable area of 1,500 m<sup>2</sup>, leading to a total gross leasable area of approximately 24,365 m<sup>2</sup>. This gross leasable area is 33% higher than the amount originally envisioned primarily due to the inclusion of mezzanines on each floor. The floor plan is oriented in the direction of Ibirapuera Park, with the building core concentrated in the rear of the building maximizing the downhill park view. Slab-to-slab distances are around 7 meters, double the height of standard Class AAA office floors, with each floor including a built-out mezzanine level.

The total project budget is estimated to be approximately R\$273 million (U.S.\$114 million), which is equal to R\$11,185 per m<sup>2</sup> of GLA. Of the total capital required, we anticipate borrowing R\$101 million of the R\$145 million required in the form of a construction loan to be refinanced after the building is operational. The financing represents approximately 70% of the total construction cost.

We received proposals from six builders during December, and we were pleased to see that initial construction cost proposals were in line with what we had anticipated in our underwriting, suggesting that as we progress in negotiations with builders we may be able to reduce the total construction cost to below our underwritten amount. The high response rate to our RFP is indicative of the slow-down in building activity on the horizon. Builders to whom we sent the RFP out of courtesy and who we expected would decline to present a proposal sharpened their pencils and submitted competitive offers.

We continue to believe that the timing of Project Brigadeiro is highly favorable. There is currently vacancy in the range of 11% of total Class A office space in São Paulo. Looking outward eighteen months, the total additional new corporate office space is expected to be in the range of 500,000 m<sup>2</sup>. Current absorption rates would indicate that the market will tighten up substantially by 2016, around the time when Project Brigadeiro is nearing completion.

We achieved our project goals during 2013. Our goal for 2014 is to obtain the project approval, hire the builder and complete excavation and the retaining wall construction. Our overall goal is to complete construction in Q3 2016.

### Investment Pipeline

Capital to fund real estate entrepreneurs' projects is increasingly scarce. The FII market is effectively temporarily closed, new capital commitments to real estate private equity funds are few, the capital markets are closed for real estate companies, and non-institutional capital for investment in real estate development projects is increasingly reticent as business confidence dips and interest rates rise. This presents opportunities for the existing real estate private equity managers, several of which have kept their capital commitments on the sidelines in the recognition that next year's investment opportunities are better than today's. Our investment pipeline is focused on three primary areas:

- Opportunities to enter projects which have obtained municipal approvals, are nearly ready for commercial launch, and are substantially de-risked;
- Opportunities to provide completion financing to development projects, providing capital in the form of mezzanine debt or preferred equity, thereby reducing downside risk;
- Opportunities in the land sub-division segment to securitize receivables of quality projects in regions with potential for income growth.



#### Pipeline Summary at February 17, 2014

	Capital Required by Committed Projects (US\$ MM)	% of total Portfolio	% of Total Commitments	Capital Required for Projects in Pipeline (US\$ MM)
Retail	80.9	23.8%	16.2%	38.6
Residential	111.0	32.7%	22.2%	63.5
Industrial	63.2	18.6%	12.6%	0.0
Office	84.5	24.9%	16.9%	0.0
Total	339.5	100.0%	67.9%	102.0

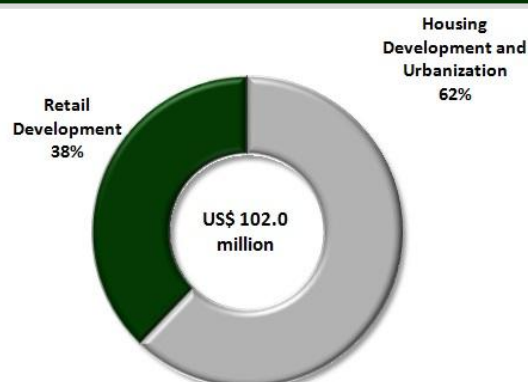
\* Uses the February 17, 2014 FX rate of 2.387

**Retail sector.** We are currently evaluating a shopping mall development project in a densely populated Class C region of a major metropolitan area, where the developer had arrived at terms with a local capital partner who was unable to find the capital for the project. We are familiar with and comfortable with the developer, the project and the micro-region, and we are in the process of negotiating a mezzanine or preferred equity position for the Fund. This project would require approximately R\$132 million (U.S.\$55 million) of capital from the Fund, and would entail taking approvals risk.

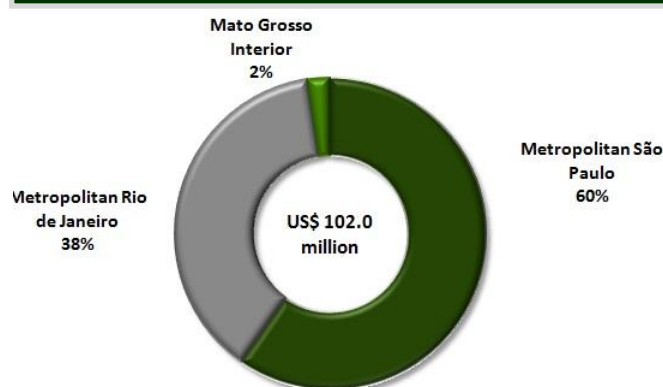
**Residential sector.** We are evaluating a series of land sub-division projects which would entail providing financing to the developer by securitizing a portfolio of purchase-sale agreements for projects already well underway in the commercialization and with the infrastructure build-out completed or near completion. The use of proceeds from the Fund would be utilized for the launch of additional projects in the region. The target gross unlevered returns for the receivables securitization is approximately 17% per annum. Assuming that a portion of the portfolio is financed at a ratio of 80% debt, 20% equity, the total after-tax gross IRR would be in the range of 20%. In addition, we are evaluating a multi-phase middle-income residential development project adjacent to a recently opened regional shopping mall in the city of São Paulo. The project would entail the Fund entering the development joint venture *pari passu* with the development partner by purchasing a stake in the JV from a real estate private equity fund that is forced to sell due to the imminent termination of its 2005 vintage fund. The Fund would enter the project substantially de-risked, in that the Fund would only purchase its stake upon obtaining municipal and environmental approvals and the JV partner would guarantee a cost of construction.

In addition to the investment prospects mentioned above, we are in the preliminary stages of evaluating a handful of investments in the retail and residential sectors in which the Fund would provide either preferred equity or mezzanine financing. We anticipate narrowing down the investment prospects over the course of the next three to four months.

#### Pipeline by Segment



#### Pipeline by Region



#### Leverage

The only debt at the project level as we write this letter is construction financing in relation to Project Natal, where 70% of the hard costs are financed by Banco Santander. Over the course of the two quarters we will be drawing on construction financing in relation to Project Shopping Aracatuba and Project Maringa. We also anticipate drawing on construction financing for Project Conx Leonilda before year end. Despite the outward shift of the local currency yield curve, we have not seen a corresponding increase in financing costs, since construction financing is funded largely by passbook savings deposits rather than market-sourced funds.

We continue to use the Fund's subscription credit facility on a revolving basis. Because the subscription credit facility is denominated in US Dollars, a weakening Real causes currency translation losses in relation to the amounts drawn on the subscription credit facility and converted to Reais. At December 31, 2013, the drawn amount on the subscription credit facility was U.S.\$ 29.7 million.

At December 31, 2013	US\$
Called Capital	145,512,554
Fund NAV	114,237,568
Total Project Level Borrowing	9,810,592
Subscription Credit Facility	29,727,606
Total Debt	39,538,198
Total Debt / (Debt + NAV)	25.7%
(Total Debt-Credit Facility)/(Debt-Credit Facility+NAV)	7.9%

## Foreign Exchange Exposure

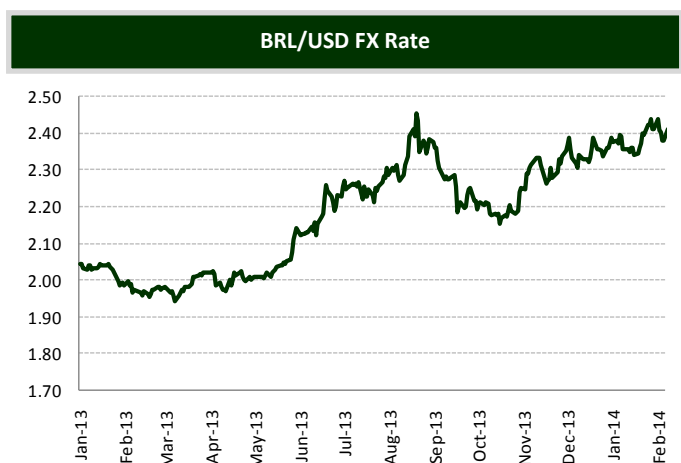
The Real weakened steadily over the course of Q4, starting the quarter at 2.22 to the Dollar and ending the year at 2.34 to the Dollar. The currency has been trading in the 2.35 to 2.40 range since December, with the Central Bank actively intervening in the FX market by rolling reverse swaps (selling US Dollar hedges). In summary, the Real weakened by 5% during Q4, and has weakened by a total of 7% from the end of Q3 to the date of the writing of this letter. Regardless of views regarding the equilibrium exchange rate at which Brazilian industry is sufficiently competitive, it's clear that increasing capital outflows from Brazil to developed markets will create spurts of selling pressure, some of which will be dampened by Central Bank intervention. With FX reserves of U.S.361 billion, there are ample resources for the Central Bank to reduce the volatility of the currency and secure the inflationary pressures that result from rapid FX weakening.

Our FX view has not contributed significantly to the rate at which we call capital. We call capital in response to the projects' needs for capital to pay for land, soft costs and construction. It's important that we continue to remember that a weaker Real / stronger USD enables the Fund to purchase more real estate for the same amount of Dollars. As the amount of BRL required to satisfy the Fund's committed investments is greater than the amount called to date, the project SPVs are essentially short the Real and therefore benefitting from the strengthening of the Dollar. Nonetheless, from an accounting point of view, future weakening will create a currency translation adjustment loss on the financial statements of the Fund.

Fluctuation January 1, 2013 - February 17, 2014				
	USD	JPY	EUR	GBP
<b>BRL</b>	17%	-1%	21%	20%
<b>MXN</b>	2%	-13%	6%	5%
<b>TRY</b>	22%	4%	28%	25%
<b>ZAR</b>	28%	9%	33%	32%
<b>INR</b>	13%	-4%	17%	17%

Source: Bloomberg

BRL exposure from existing investments at February 17, 2014			
(R\$ MM)	Invested	To be Invested	Net BRL position
Project Shopping Araçatuba	31.1	40.1	(9.0)
Project Shopping Alcântara	3.5	45.9	(42.4)
Project Shopping Santa Maria	0.3	72.1	(71.7)
Project Natal	12.4	-	12.4
Project Maringá	18.6	16.6	2.0
Project Ourives	4.5	51.0	(46.5)
Project Gil Vicente	7.1	9.4	(2.3)
Project Secundino	9.4	6.4	3.0
Subdivision J.V. Program	66.8	-	66.8
Project Vila Ema 3000	1.9	30.9	(29.0)
Conx Leonilda	6.5	5.9	0.6
Coronel Rodovalho	3.1	14.5	(11.5)
Project Seropedica	12.9	138.0	(125.1)
Project Brigadeiro	88.9	112.7	(23.9)
Cash at Brazilian Holding	7.6	-	(7.6)
Holding Expenses	4.8	-	(4.8)
<b>BREOF II Totals</b>	<b>279.4</b>	<b>543.5</b>	<b>(288.8)</b>



Source: Bloomberg

## Year-End Asset Appraisals and Revaluation Reserve

In accordance with the General Partner's requirements pursuant to the LPA, we have obtained year-end appraisals for the assets of the Fund. The General Partner hired CBRE to provide independent appraisals for the commercial real estate assets of the Fund (Shopping Aracatuba, Project Seropédica, and Project Brigadeiro). In the case of these three assets, substantial development milestones have been achieved since the original land acquisition and the land has been substantially fully acquired. The remaining eleven projects of the Fund at December 31, 2013, will be marked in conformity with the GAAP net worth of the underlying SPV. The accounting figures are validated with reference to project cash flow projections prepared by the Investment Advisor and validated by KPMG in the annual audit. The discount rates utilized for such cash flow projections are generally in excess of 20% in order to reflect the risk associated with real estate development projects.

The result of the year-end appraisals is an increase in the NAV (holding other factors constant) by U.S.\$ 12.8 million, as summarized in Section E of this letter.

## Market Trends

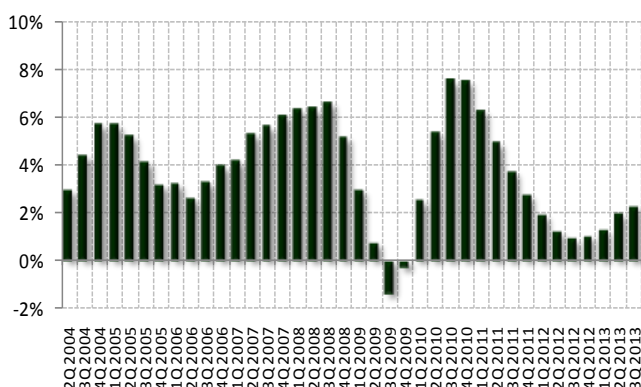
### Economic Overview

#### A disappointing 2013 and expected low growth in 2014

2013 was a year of disappointing economic performance and we expect 2014 to be even more challenging as the consumer and credit-driven growth model adopted by the Brazilian government in the wake of the global financial crisis confronts its limits. Growth in consumption in excess of growth in output has generated inflation in the range of 6% per annum and forced the Central Bank to raise the policy rate from 7.5% to 10.5%. The rising cost of living is particularly hard on the middle class, which is burdened by high debt service costs and whose wages are not rising to match cost of living increases.

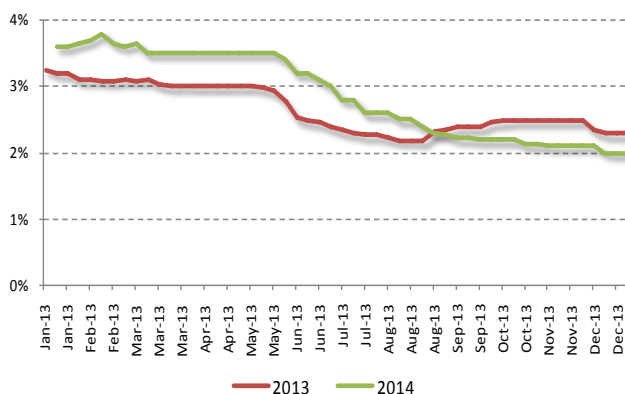
The market expectation for GDP growth in 2014 is 2%. The consumer sector continues to be a major contributor to growth, while the industrial sector continues to stagnate due to a series of factors which impede competitiveness, including high and complex taxes, poor physical infrastructure, onerous environmental regulation and bureaucracy, and high cost financing.

#### Quarterly LTM GDP Growth (%)



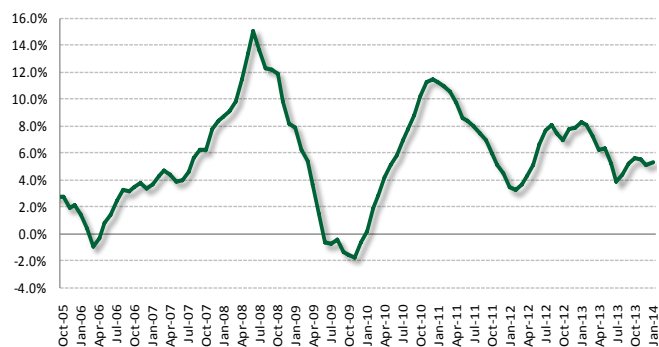
Source: Brazilian Central Bank

#### Market Expectation for GDP Growth Annualized (%)



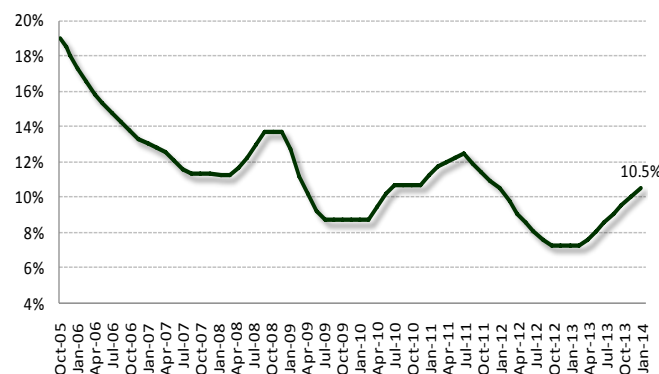
Source: Brazilian Central Bank

#### Trailing 12-month Inflation (%)



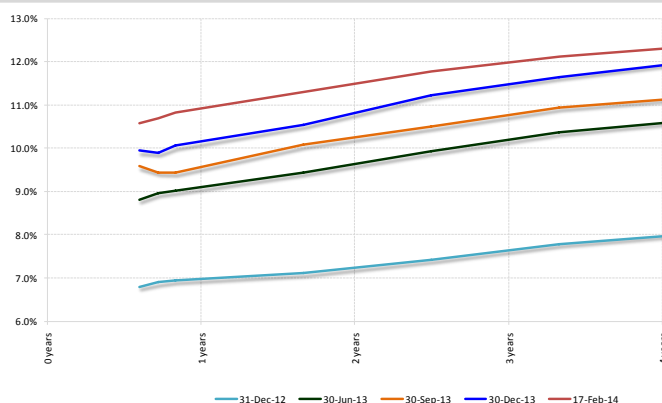
Source: Ipeadata

#### Selic Rate



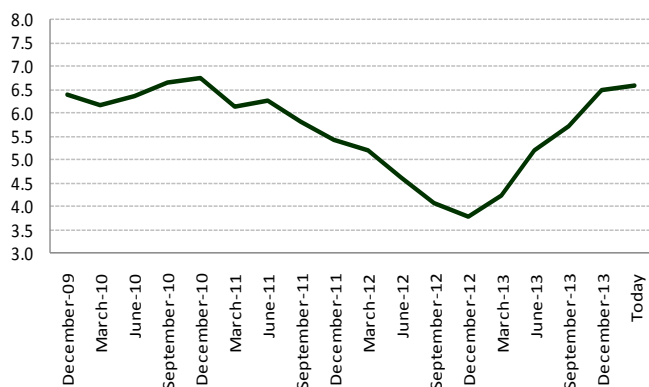
Source: Brazilian Central Bank

#### BRL Yield Curve



Source: BM&FBovespa

### Real Yields (20-Year NTN-B) (%)



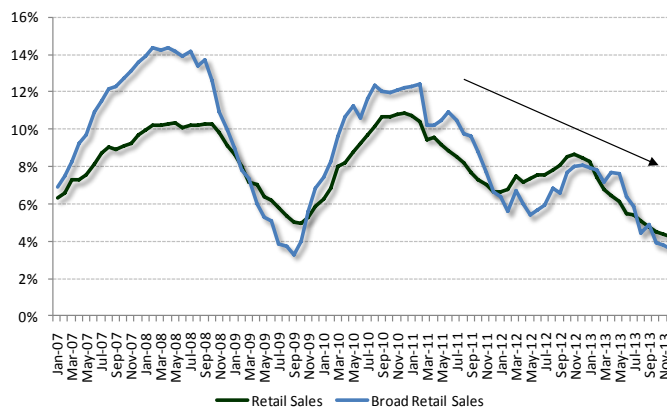
Source: Bloomberg

### Middle class consumers are stretched, and the consumption driven growth model needs to take a breather

While the long-term trend is a continued increase in household debt and consumption per capita, the growth policies enacted since early-2009, rooted in reducing taxes on consumer durables and using the Republic's balance sheet to capitalize state-controlled banks which in turn churn out consumer loans, has temporarily run its course. With interest rates high and loan terms short, small increases in household indebtedness have a high impact on households' debt service ratios (the portion of gross household income used to pay principal and interest). Considering the low household debt levels of Class A, D and E households, the budget difficulties faced by Class B and C consumers are even graver. These families must slow down their spending, pay down debt, and look forward to an array of budgetary, tax and banking sector reforms to bring down interest rates on consumer debt in the future. Even without the reforms, a short period (after election) of increased austerity to mend household balance sheets will refresh the dynamic middle-class Brazilian consumer.

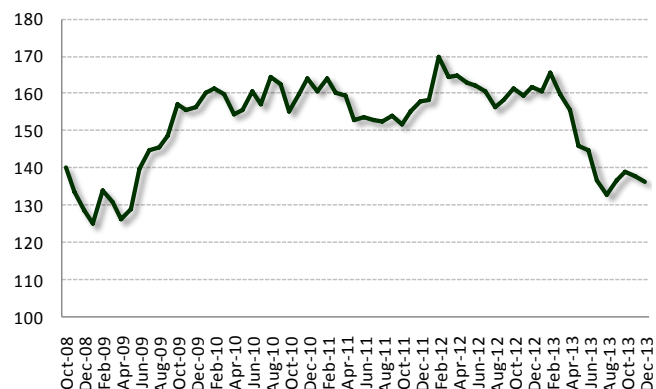
The consequence of policies oriented toward stimulating domestic demand while neglecting the productive sector is an increasing current account deficit, which can only be funded by attracting foreign capital to Brazil. Nonetheless, the largest contributor to the growth in the current account deficit is not an increasing trade deficit, but rather the increase in profit remittances from Brazil to developed countries—suggesting that the growth in the current account deficit is in part driven by inflation concerns and a negative FX outlook.

### Y-o-Y % Growth in Retail Sales (%)



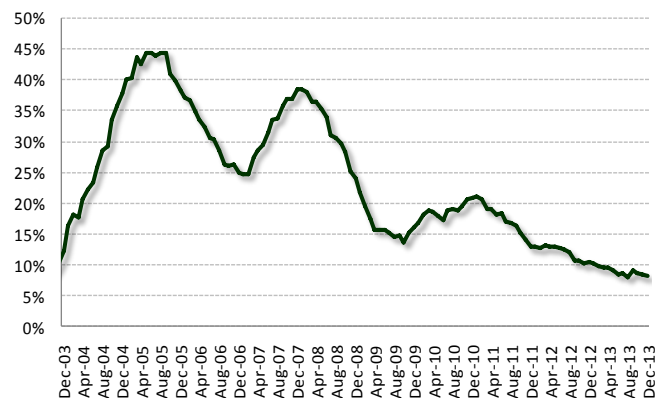
Source: IBGE

### Consumer Confidence (%)



Source: Fecomercio

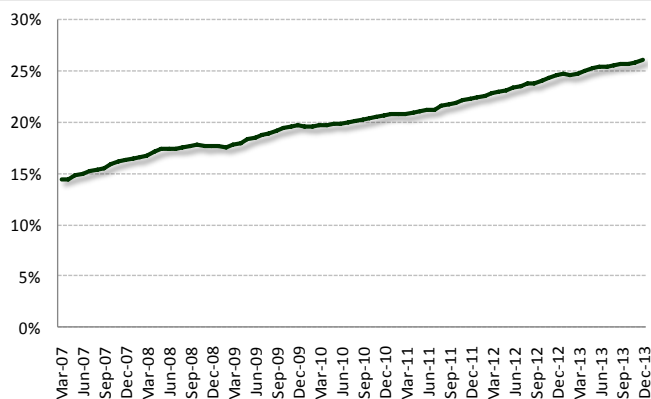
### Consumer Credit Y-o-Y Growth in Lending (%)



Source: Brazilian Central Bank

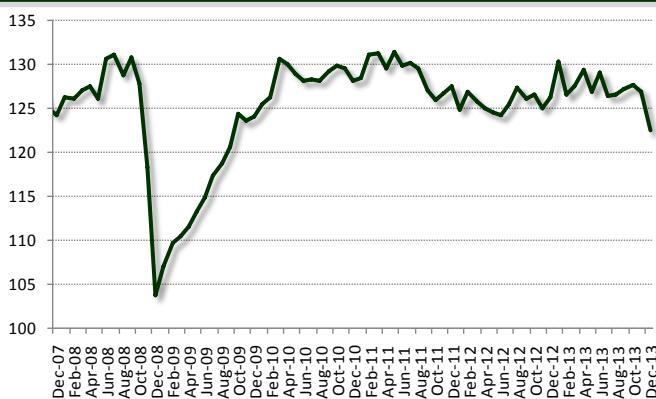


### Consumer Credit (% of GDP)



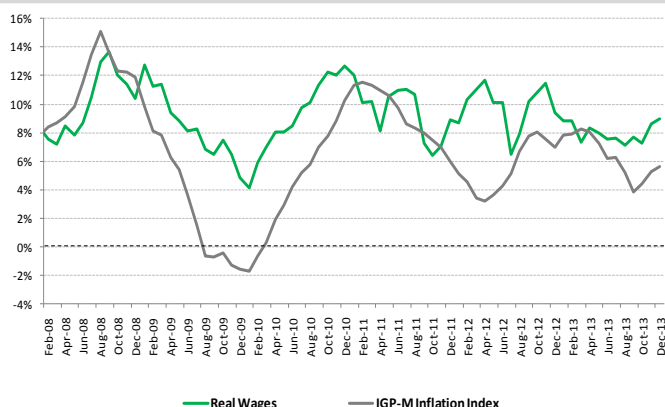
Source: Brazilian Central Bank

### Industrial Production



Source: IBGE

### Inflation vs. Wage Growth (%)



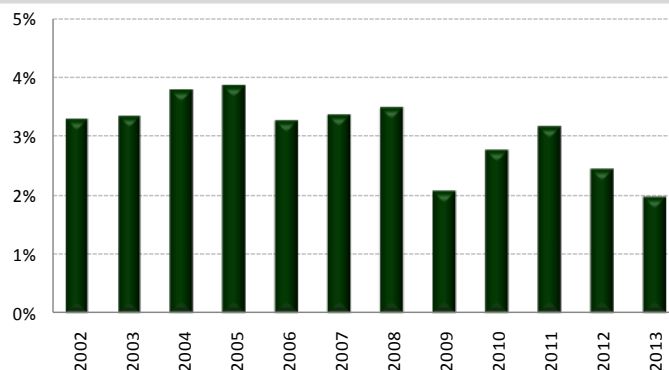
Source: Brazilian Central Bank and Ipeadata

**Fiscal deterioration is much less than anticipated—despite elections—and downgrade looks remote**

While winning the Presidential election in October 2014 is the highest priority for the Rousseff Administration, an acceleration in inflation could undermine this goal. The government has therefore taken heed of the markets and has expressed a commitment to achieving fiscal targets (despite the Government's legitimate doubt

regarding the necessity of a primary fiscal surplus in line with past years, when the cost of servicing the public sector's debt has declined so substantially.

### Primary Fiscal Surplus as of % GDP



Source: Brazilian Central Bank

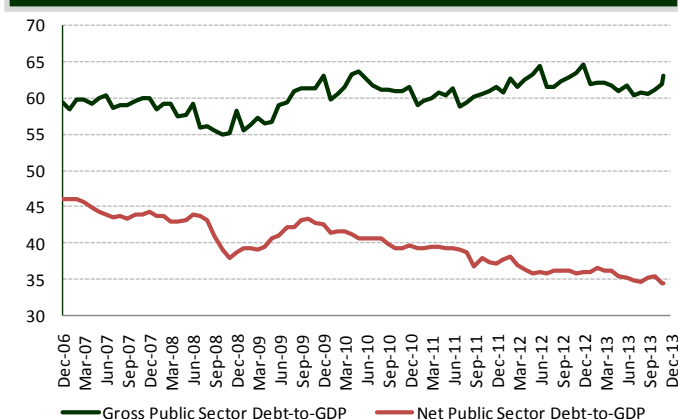
The primary fiscal surplus for 2013 was the worst since 2002, prompting the Federal Government to announce, with much ceremony, a plan to cut R\$44 billion out of the Federal budget in 2014. This announcement was very positively received by the market, causing the Real to strengthen by 2-3% in the after-math of the announcement. The market expectation is a primary fiscal surplus of 1.4% in 2014, which would cause a slight increase in the debt-to-GDP level. Not a problem. This perceived degree of fiscal control could keep the Central Bank from substantial further rate increases, and bodes very well for a resumption of interest rate declines once the uncertainty surrounding the normalization of US monetary policy is cleared up. With real interest rates of 6.5%, budget management is a more important determinant of the medium-term level of interest rates than US interest rates.

### Nominal Fiscal Deficit as of % GDP



Source: Brazilian Central Bank

### Public Sector Debt-to-GDP



Source: Brazilian Central Bank

### Increasing focus on investment and productivity as growth drivers

Looking back at our expectations for privatizations, new infrastructure concessions, and budget and tax reforms for 2013, it's evident that expectations for the year have not been met. Money flowing into Brazil gave the Brazilian government an excuse to avoid growth-supporting reforms. As a counterpart to this statement, when capital flows reverse direction, there's a tendency to blame local government policies for the debilitating effects on currencies, interest rates, the current account and local demand.

There is a very broad consensus that the motor of economic growth in Brazil over the next decade must be infrastructure investment. While household consumption is slowing as middle class families rebuild their savings, the Federal Government is preparing a wave of new infrastructure concessions. The five airport concessions which occurred in 2012 and 2013 were successful, with the international airports in Guarulhos (São Paulo's international airport), Galeão (Rio de Janeiro), Confins (Belo Horizonte's international airport), Brasília, and Viracopos (located in Campinas, 70 km from São Paulo). These privatizations generated some revenues for the Federal Government (although the BNDES is financing 70% of the acquisition price and the Federal Government itself owns 49% of the winning consortia), improve the airports' operating efficiencies, will force an efficient investment program oriented toward capacity expansion and service improvements, and stimulate best-of-class foreign operators, in partnership with local civil construction companies, to transfer their know-how to the local market. Most importantly, the concessions demonstrate the willingness of the Rouseff administration to create a framework for partnering with the private sector that respects the profit imperatives of the private sector.

Generally speaking, the pessimism surrounding a second term for President Rouseff is grounded in doubts regarding the willingness and capacity of the Rouseff administration to stimulate further private sector investment in infrastructure. The doubts fall into three categories: doubts surrounding her willingness to create an attractive regulatory framework, doubts surrounding her capacity to understand and accommodate the private sector's requirements, and doubts surrounding the political popularity of further

concessions. On all three counts, we are optimistic, and we believe that in addition to contributing to a high level of employment, attracting foreign direct investment, and reducing the "custo Brasil" (the high cost of doing business in Brazil due to both bureaucratic processes and poor physical infrastructure), infrastructure investment will generate specific opportunities for real estate investment in regions impacted by new infrastructure.

### Federal Concessions

Sector	Description	Size	Estimated investment	Auction date
Highways	9 projects	7,500 Km	BRL42.0bn (BRL23.5bn in 5 years)	TBD
Railways	12 projects	10,000 Km	BRL91.1bn (BRL56bn in 5 years)	TBD
High speed rail	High speed train between RJ and SP	511 Km	BRL35.6bn	TBD
Ports	4 blocks	160 ports	BRL54.6bn	Dec-13 – Mar-14
Airports	Regional airports	270 airports	BRL7.3bn	Not available

Source: Finance Ministry

### Market Forecasts (February 14, 2014)

	2014	2015
GDP growth (%)	1.79	2.10
IPCA inflation (%)	5.93	5.70
IGP-M inflation (%)	5.88	5.50
Selic rate (%)	11.25	12.00
BRL/USD (year end)	2.48	2.55
BRL/USD (average)	2.45	2.50
Current account deficit (R\$billion)	-74.60	-68.00
Primary fiscal surplus (%GDP)	1.42	2.06

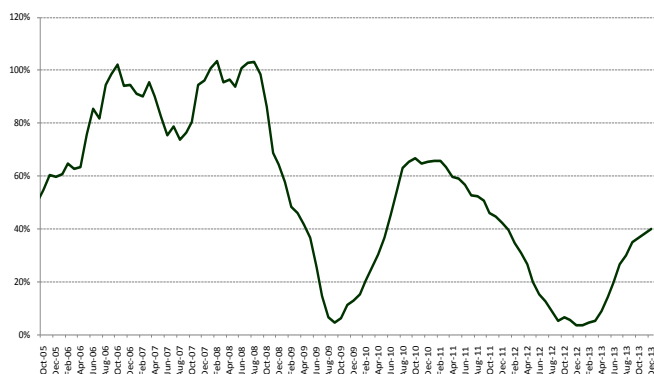
Source: Brazilian Central Bank

### Residential Mortgage Credit

Banks are facing unprecedented pressure to make mortgage loans, as growth in the passbook savings deposit base accelerates. The total volume of new mortgage loans for 2013 was R\$115.7 billion, an increase of 40% as compared with the 2012 volume. Mortgage approvals, however, are a lagging indicator, reflecting home purchase decisions made more than twelve months ago, and therefore, while the growth in mortgage lending points to a strong and supportive banking system, it is not indicative of a growing new home demand.

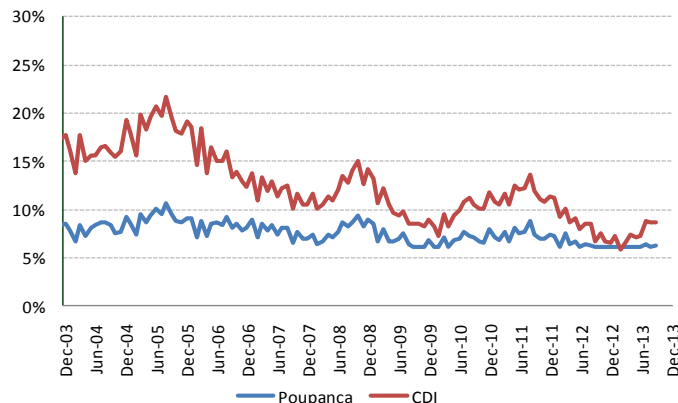
The acceleration in the growth in savings deposits, despite rising interest rates, indicates the stability of the primary funding base for mortgage credit. The spread between the annual pre-tax return on a savings deposit and the annual pre-tax return on CDI (bank overnight funding cost) is the highest it has been since Q1 2012. Nonetheless, in times of rising interest rates and political or economic uncertainty, consumer flight to safety takes the form of rising savings deposit balances.

### Trailing 12-month Growth in Mortgage Lending



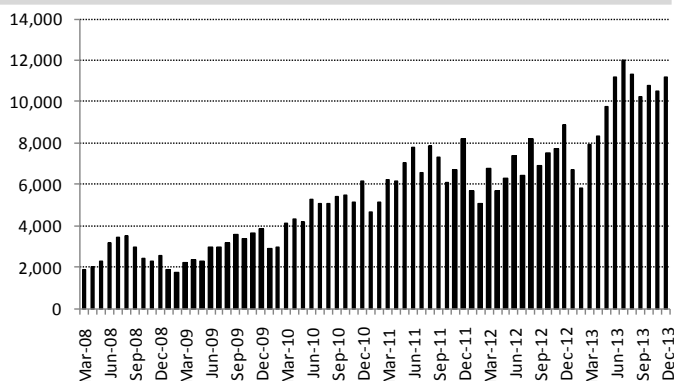
Source: Brazilian Central Bank

### Poupança (savings deposits) vs. CDI (annualized returns %)



Source: Brazilian Central Bank

### Monthly Real Estate Loans Made – R\$ MM



Source: Brazilian Central Bank

Despite the growing savings deposit base and urgency to on-lend to the mortgage sector, the private sector banks (primarily Bradesco, Itaú and Santander) have been increasingly cautious, and are requiring greater sales performance before the start of draw-downs on residential construction loans. Increasingly, construction lenders are requiring that as much as 50% of the units to be built be pre-sold prior to starting the draw-downs on the construction loan. In an environment of slower sales velocity, more equity is required in order to progress with construction while sales progress toward the minimum threshold required to begin to make draws.

### Savings Account Balance – Y-o-Y growth rate (%)



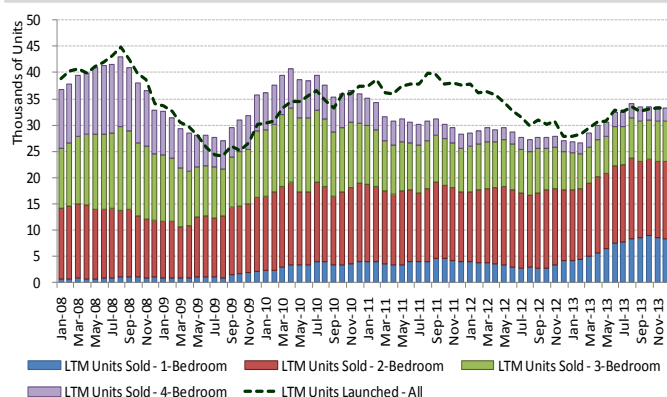
Source: Brazilian Central Bank

As a result, some developers are finding that they have not provisioned sufficient capital and that JV partners, a mezzanine loan or another variety of quasi-equity capital from third parties is needed in order to close a project's funding gap. This creates opportunities for real estate private equity investors. On the other hand, Caixa Econômica and Banco do Brasil have become increasingly aggressive, providing construction loans at high LTVs which are drawable with as little as 30% of units sold. It is likely that the current wave of aggressive lending to developers by Caixa Econômica and Banco do Brasil (both tightly controlled by the Federal Government) reflects election year imperatives. New lending targets will likely be scaled back after the elections.

### Housing Sector Overview

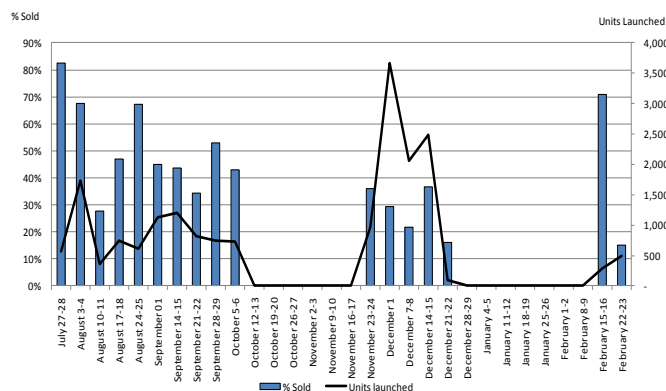
The fundamentals of the São Paulo housing market have weakened slightly, although the sales, launch and inventory data understates the slowdown in sales velocity. At the end of November, the latest available data, total inventory in São Paulo was 18,701 units, which represents about seven months of supply given prevailing sales volumes. A wave of project approvals and year-end launches is responsible for the increase in inventory from the annual low point of 15,960, the level at the end of September. Unit sales for the eleven months ended November 20, 2011, were 27% higher than the comparable period in 2012 and 25% higher than the comparable period in 2011. However, prices have increased on average by 13.9%, as compared with wage growth of 8.9%. The diminishing affordability is an insidious trend which will eventually force an end to price increases. When the music stops, developers may find margins untenably tight. Nonetheless, the fundamental drivers for housing demand, new family formation, employment, income growth, and the availability of long-term credit, remain intact. The sole worry is the sustainability of unit price increases.

### Units Sold - Trailing 12 Months (City of São Paulo)



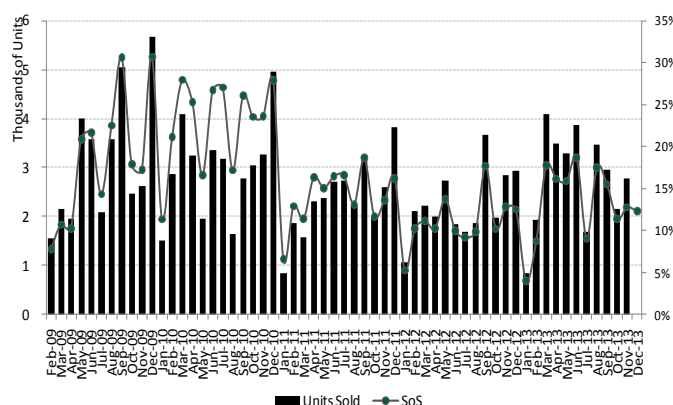
Source: Secovi-SP

### Weekend sales performance in São Paulo



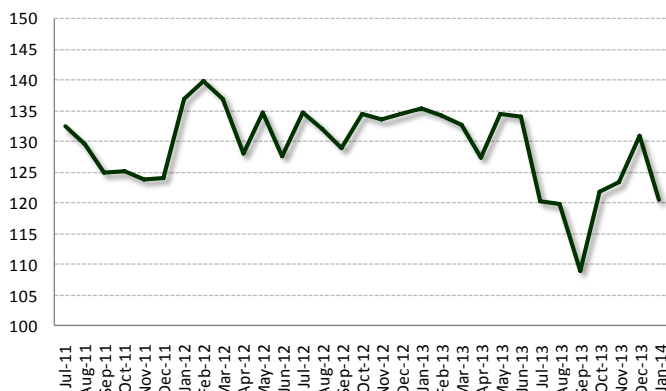
Source: Lopes Imobiliária

### Sales over Supply - (City of São Paulo)



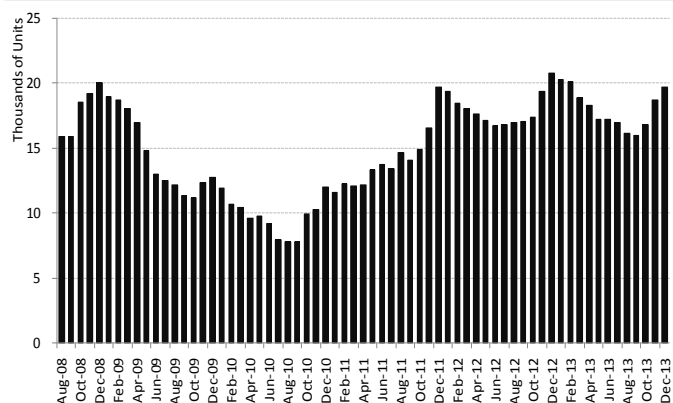
Source: Secovi-SP

### Property Buyer Confidence Index



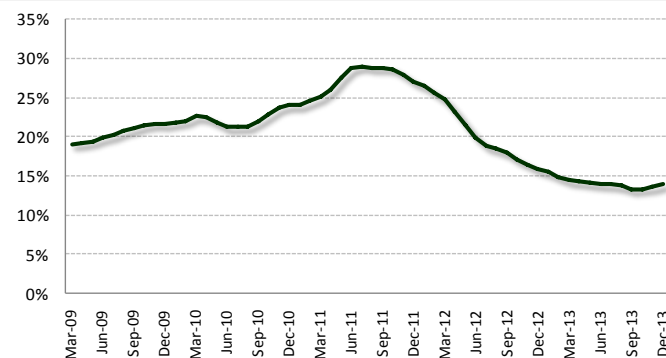
Source: Lopes Imobiliária

### São Paulo Inventory Levels



Source: Secovi-SP

### Price Trends YoY % Change (City of São Paulo)



Source: Fipe-Zap

## Office Market Overview

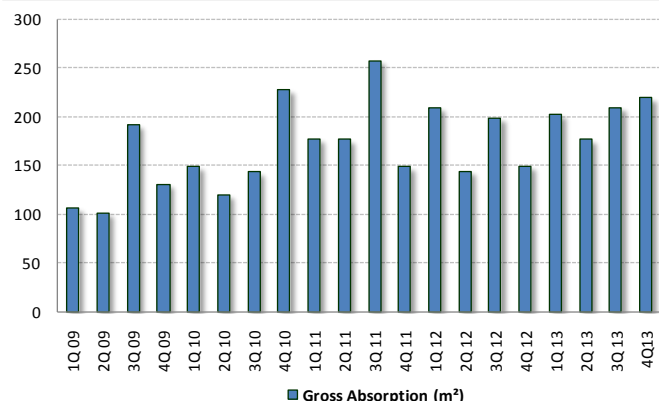
### São Paulo Office Market

Vacancy rates continue to rise gradually in São Paulo, due largely to the delivery of new stock. At December 31, 2013, total vacancy was 736 m<sup>2</sup>, representing 10.5% of the total stock. For Class A buildings, vacancy reached 14.3%. Q4 2013 was the eight consecutive month of increasing vacancy in São Paulo. During 2013, 557,600 m<sup>2</sup> of total



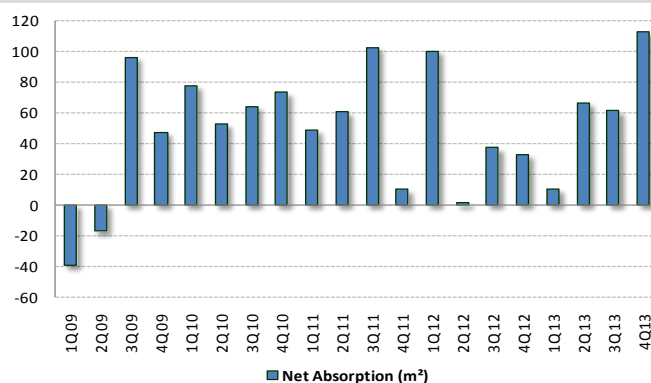
new stock was delivered in São Paulo (including Alphaville), increasing the total stock by 9%, amidst net absorption of 242,100 m<sup>2</sup>. The level of new stock added during 2013 is greater than the sum of new stock added in 2011 and 2012 combined. Gross absorption for 2013 was 799,000 m<sup>2</sup>, the highest level on record. Of the total net absorption, 225,500 m<sup>2</sup> was attributable to Class A buildings. The unprecedented level of gross absorption amidst moderate net absorption is due to tenants migrating from multiple Class B facilities in order to consolidate their premises in a single, new Class A facility, taking advantage of slightly lower asking prices, landlord discounts and grace periods as vacancies rise. During Q4 there were a handful of cases representative of the trend of corporate tenants seizing the opportunity to get good leasing deals in the current environment of rising vacancy. Samsung, KPMG, Swiss Re and Procter and Gamble are four cases of multi-national corporate tenants who have opted to move from one or more Class B locations to newly-constructed office buildings in the Berrini / Churri Zaidan region, enjoying discounts and tenant improvement allowances. The Faria Lima region of the Jardins sub-market continues to be the area with the highest asking rents, although competition among landlords (including landlords who own floors of strata title buildings) have been driving the asking levels of the top-quality Class A buildings delivered since 2005 down from the R\$150-180 level to the R\$110-130 level. Discounting has been even more pervasive in the Marginal market, which had approximately 401,500 m<sup>2</sup> of vacant space available at December 31, more than the entire rest of the city of São Paulo (excluding Alphaville) combined. As we look outward to 2015, we see a continuation of the trend of high levels of gross absorption, albeit in an environment of slower deliveries of new space. For 2014 and 2015, we anticipate a total of approximately 500,000 m<sup>2</sup> of new corporate office space to come on line in the Marginal and Jardins sub-markets. At the current levels of absorption in these regions, we envision a substantial tightening up of the market by the end of 2015.

#### São Paulo Gross Absorption (000s m<sup>2</sup>)



Source: CBRE

#### São Paulo Net Absorption (000s m<sup>2</sup>)

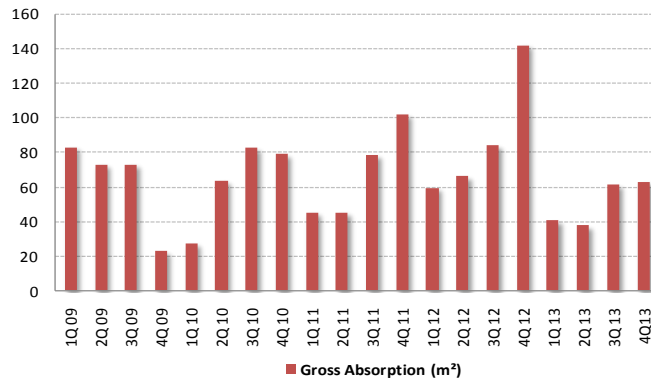


Source: CBRE

#### Rio de Janeiro Office Market

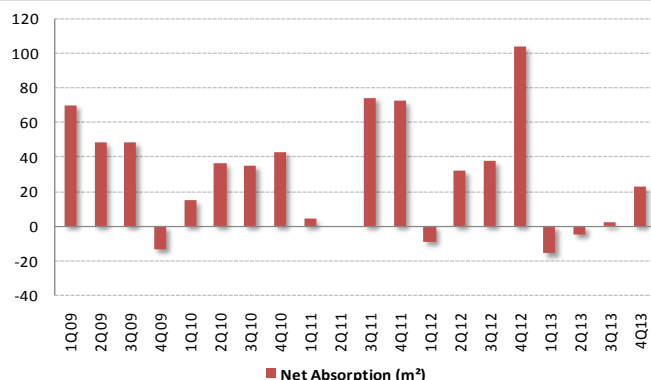
Vacancy has also risen in Rio de Janeiro, reaching 8.5% at December 31, as the stock of new office space increased by 192,400 m<sup>2</sup> amidst net absorption of 6,800 m<sup>2</sup>. Vacancy of Class A space was 12.4% at December 31. Asking lease rates have yet to decline significantly, a factor which may account for the relatively low levels of gross absorption. The highest concentration of vacancy is in Barra da Tijuca, with 70,600 m<sup>2</sup> of vacant area, representing 25% of the total vacant space in Rio de Janeiro.

#### Rio de Janeiro Gross Absorption (000s m<sup>2</sup>)



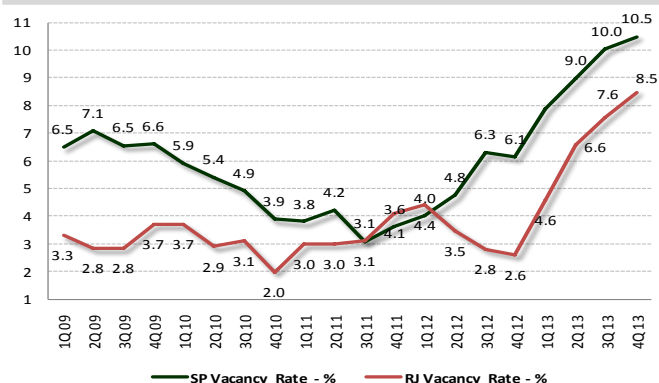
Source: CBRE

#### Rio de Janeiro Net Absorption (000s m<sup>2</sup>)



Source: CBRE

### São Paulo and Rio de Janeiro Vacancy Rates (%)

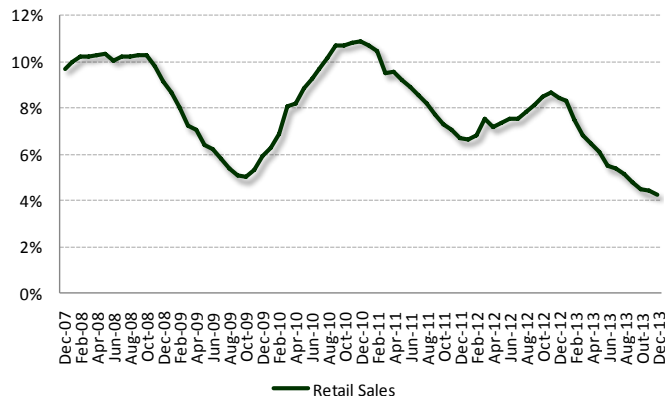


Source: CBRE

### Retail Market Overview

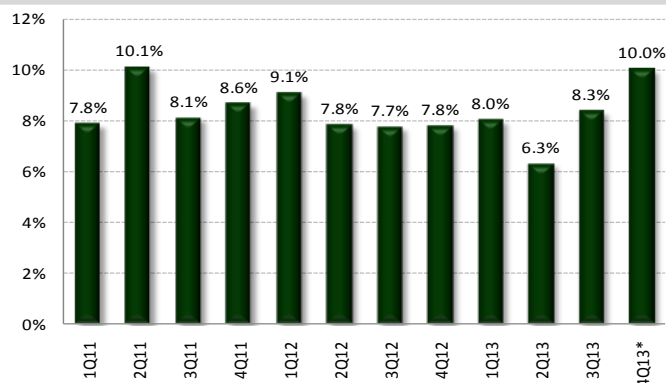
Retail sales continue to be robust, with the December 2013 retail sales index having increased by 4% as compared with December 2012. Looking at overall mall sales, according to the Abrasce index (which is arguably a loosely assembled index), shopping mall sales in December 2013 were 8% greater than in December 2012. Nonetheless, retailers are exhausted by record store openings in 2013 and concerned about a sluggish economy in 2014, the effect of ongoing consumer price inflation and more expensive credit.

### Retail Sales Y-o-Y (%)



Source: IBGE

### SSS - % Growth Y-o-Y\*



\*Weighted average by enterprise value of BR Malls, Multiplan, Iguatemi, Aliance and

Sonae-Sierra. Source: Company disclosures. For the 4Q13 it was not used Iguatemi and, Sonae-Sierra which had not released their 4Q13 results until the date of this letter.

### Conclusion

We are passing through a difficult moment in the business cycle and local electoral cycle, and these local uncertainties are exacerbated by generalized capital outflows from emerging markets to developed markets. However, we have invested with patience and prudence, and the real estate held by the Fund is of good quality and has a cost basis that reflects a discriminating investment process. Amidst lackluster overall GDP growth, there are segments of the economy that are shrinking and segments that are growing at double digit growth rates. Our job is to identify the outsized growth and invest accordingly. While a few of the Fund's investments are taking longer to develop than anticipated, we are confident in the underlying valuations.

Regards,  
Ken Wainer, Rodrigo Abbud, Rodrigo Sarti

# Portfolio Summary: Overview

C

## Executive Summary at December 31, 2013

Brazil Real Estate Opportunities Fund II - Amazonas (BRL), L.P.  
Brazil Real Estate Opportunities Fund II - Bahia (USD), L.P.  
Brazil Real Estate Opportunities Fund II - Ceara (USD), L.P.  
Brazil Real Estate Opportunities Fund II - Distrito Federal (BRL), L.P.  
Brazil Real Estate Opportunities Fund II - Espirito Santo (BRL), L.P.  
Brazil Real Estate Opportunities Fund II - Floripa (BRL), L.P.

In U.S. Million Dollars	BREOF II - Amazonas	BREOF II - Bahia	BREOF II - Ceara	BREOF II - Distrito Federal	BREOF II - Espirito Santo	BREOF II - Floripa	Combined BREOF II
Capital Commitments	179.0	137.5	70.0	44.3	25.0	44.3	500.0
Total Capital Drawn	52.1	40.0	20.4	12.9	7.3	12.9	145.5
Capital Returned to Limited Partners	-	-	-	-	-	-	-
Profit Distributed to Limited Partners	-	-	-	-	-	-	-
Management Fee Paid	9.1	6.6	3.8	1.7	1.0	1.6	23.8
Total Remaining Drawable Capital	126.9	97.5	49.6	31.4	17.7	31.4	354.5
Subscription Credit Facility	10.6	8.2	4.2	2.6	1.5	2.6	29.7
Specified Investments	14	14	14	14	14	14	14
Realized Investments	-	-	-	-	-	-	-

# Portfolio Summary: Fund Investments

## Portfolio Summary as at December 31, 2013

Project	Segment	Location	Area (m <sup>2</sup> ) <sup>1</sup>	Fund Ownership	Fund Equity Required		Amount Invested		Target Gross Equity Multiple <sup>3,4</sup>	Target Gross IRR <sup>3,4</sup>
					R\$ mm	US\$ mm <sup>2</sup>	R\$ mm	US\$ mm <sup>2</sup>		
Project Shopping Araçatuba	Retail	Araçatuba - SP	21,572	80%	71.2	30.4	31.1	13.3	1.7x	19%
Project Shopping Alcântara	Retail	São Gonçalo - RJ	30,372	50%	49.4	21.1	3.5	1.5	2.1x	19%
Project Shopping Santa Maria	Retail	Santa Maria - RS	22,235	100%	72.4	30.9	0.3	0.1	1.9x	18%
Project Natal	Residential	Natal - RN	64,087	40%	12.4	5.3	12.4	5.3	3.6x	25%+
Project Maringá	Residential	Maringá - PR	39,522	82%	35.1	15.0	18.6	7.9	1.9x	20%
Project Ourives	Residential	São Paulo - SP	49,286	100%	55.4	23.7	4.5	1.9	1.8x	17%
Project Gil Vicente	Residential	Santo André - SP	11,153	100%	16.6	7.1	7.1	3.1	1.7x	20%
Project Secundino	Residential	São Paulo - SP	11,248	100%	15.8	6.8	9.4	4.0	2.1x	24%
Subdivision J.V. Program	Residential	Various	333,608	90%	66.8	28.5	66.8	28.5	1.7x	22%
Project Vila Ema 3000	Residential	São Paulo - SP	18,772	100%	32.8	14.0	1.9	0.8	1.8x	24%
Conx Leonilda	Residential	Santo André - SP	24,505	80%	12.4	5.3	6.5	2.8	1.9x	25%+
Project Conx Rodovalho	Residential	São Paulo - SP	11,458	80%	17.6	7.5	3.1	1.3	1.9x	20%
Project Seropédica	Industrial	Seropédica - RJ	187,650	100%	150.9	64.4	12.9	5.5	1.7x	19%
Project Brigadeiro	Office	São Paulo - SP	24,365	100%	201.6	86.1	88.9	37.9	1.6x	20%
<b>BREOF II Totals</b>			<b>849,833</b>		<b>810.5</b>	<b>346.0</b>	<b>267.0</b>	<b>114.0</b>		

(1) Area (m<sup>2</sup>) = Total Private Area (m<sup>2</sup>) for residential projects and GLA for commercial and industrial developments.

(2) At December 31, 2013 the USD/BRL exchange rate was 2.34.

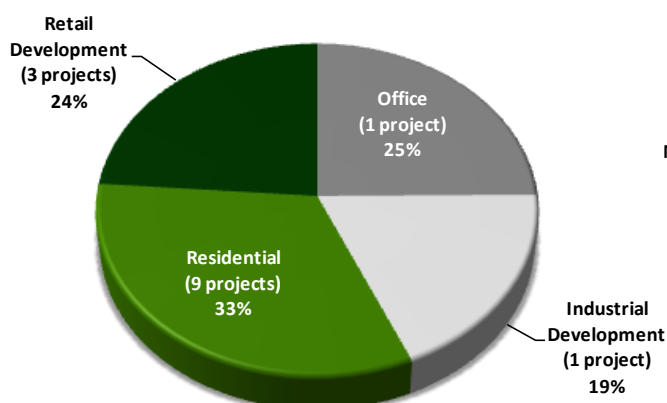
(3) Return estimates are prior to Fund-level costs, such as Organizational Expenses, Partnership Expenses, Management Fees and carried interest. In cases where our projections for unrealized projects indicate an IRR greater than 25%, we show "25%+". Returns are in USD.

(4) Return estimates are based on assumptions believed to be reasonable by the VBI Real Estate team and may be subject to change.

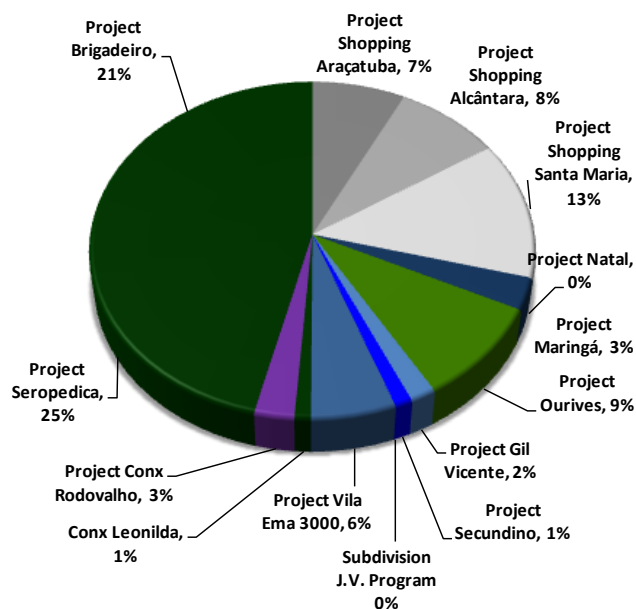
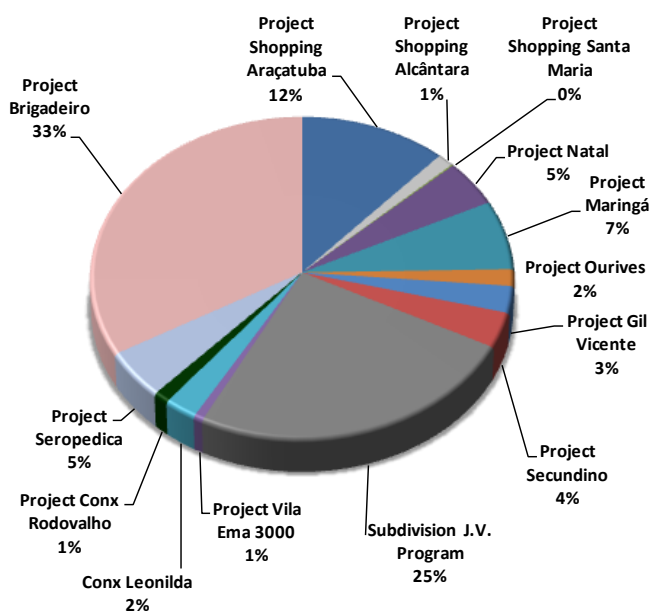
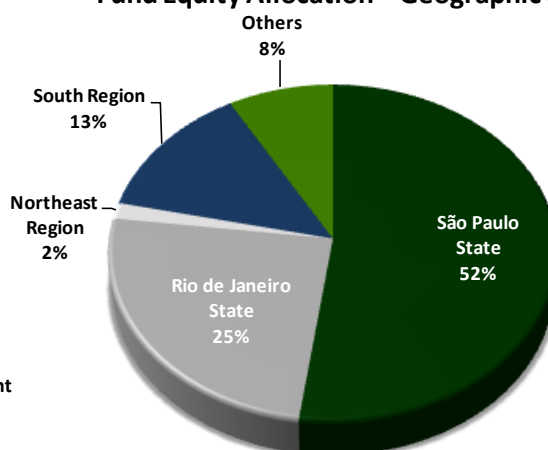


## Portfolio Summary: Fund Diversification

**Fund Equity Allocation – Investment Type (%)**



**Fund Equity Allocation – Geographic (%)**



# Investment Summaries

C

## Projects Specified as at December 31, 2013

**Project Shopping Araçatuba**



**Project Shopping Alcântara**



**Project Shopping Sta. Maria**



**Project Brigadeiro**



**Project Seropédica**



**Project Natal**



**Project Maringá**



**Project Ourives**



**Project Gil Vicente**



**Project Secundino**



**Project Conx Leonilda**



**Project Vila Ema 3000**



**Subdivision J.V. Program**



**Project Conx Rodovalho**





# 1. Project Shopping Araçatuba

## Retail Development, Araçatuba — SP

### 1.1. Investment information

Location	Araçatuba - SP
Property and investment type	Retail Development
Fund acquisition date	September 2011
Fund equity required	R\$ 71.2 million
Fund ownership	80%
Exit strategy	Brazilian REIT or sale to Consolidator
Construction budget	R\$ 80 - 85 million
Gross Leasable Area	21,572 m <sup>2</sup>
In-line stores target base lease rate	R\$ 76/month/m <sup>2</sup>
Average stores target base lease rate	R\$ 43/month/m <sup>2</sup>
Leverage (% of construction cost)	70%

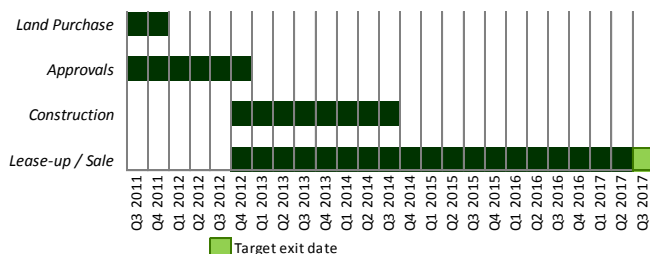
### 1.2. Land Site Location – Araçatuba (SP)



### 1.4. Construction in Progress



### 1.3. Timeline



### 1.5. Façade Rendering



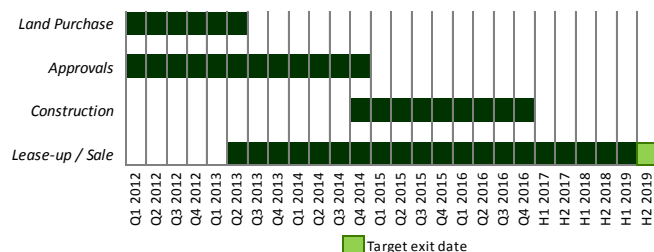
## 2. Project Shopping Alcântara

### Retail Development, São Gonçalo — RJ

#### 2.1. Investment information

Location	São Gonçalo - RJ
Property and investment type	Retail Development
Fund acquisition date	March 2012
Fund equity required	R\$ 49.4 million
Fund ownership	50%
Exit strategy	Brazilian REIT or sale to Consolidator
Construction budget	R\$ 130 - 140 million
Gross Leasable Area	30,372 m <sup>2</sup>
In-line stores target base lease rate	R\$ 82/month/m <sup>2</sup>
Average target base lease rate	R\$ 57/month/m <sup>2</sup>
Leverage (% of construction cost)	70%

#### 2.3. Timeline



#### 2.2. Mall Rendering



#### 2.4. Location



#### 2.5. Façade Rendering





## 3. Project Shopping Santa Maria

### Retail Development, Santa Maria — RS

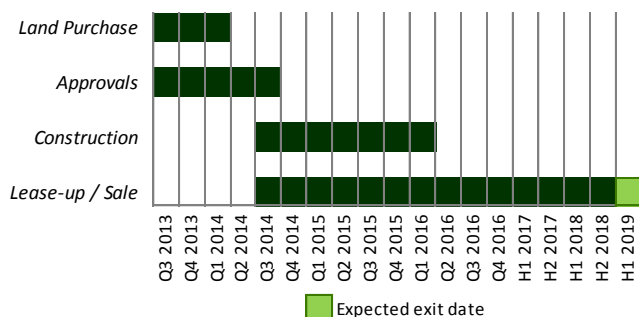
#### 3.1. Investment information

Location	Santa Maria - RS
Property and investment type	Retail Development
Fund acquisition date	September, 2013
Fund equity required	R\$ 72.4 million
Fund ownership	100%
Exit strategy	Brazilian REIT or sale to Consolidator
Construction budget	R\$ 95 - 100 million
Gross Leasable Area	22,235 m <sup>2</sup>
In-line stores target base lease rate	R\$ 90/month/m <sup>2</sup>
Average stores target base lease rate	R\$ 47/month/m <sup>2</sup>
Leverage (% of construction cost)	55%

#### 3.2. Mall Rendering



#### 3.3. Timeline



#### 3.2. Land Site Location – Santa Maria (RS)



#### 3.4. Preliminary Façade Rendering



## 4. Project Natal

### Residential Development, Natal—RN

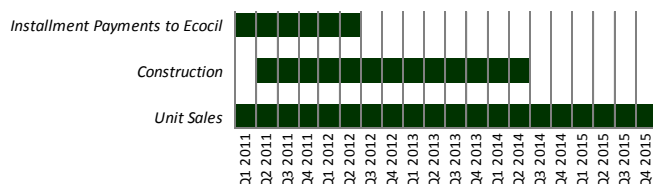
#### 4.1. Investment information

Location	Natal - RN
Property and investment type	Residential Development
Fund acquisition date	February 2011
Fund equity required	R\$ 12.4 million
Fund ownership	40%
Exit strategy	Sale of units
Construction contract	Turn-key contract
Site area / Total private area	60,000 m <sup>2</sup> 64,087 m <sup>2</sup>
Number of units	906 residential units
Average price per unit	R\$ 293,836
Average sales price	R\$ 4,154/m <sup>2</sup>
Leverage (% of construction cost)	78%

#### 4.2. Land Site Location – Natal (RN)



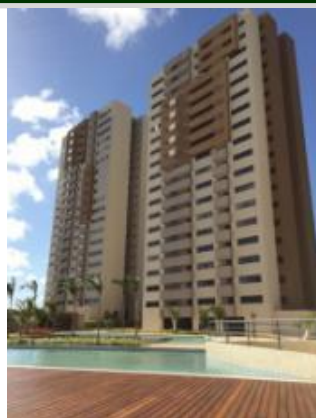
#### 4.3. Timeline



#### 4.4. Façade



#### 4.5. Construction in Progress



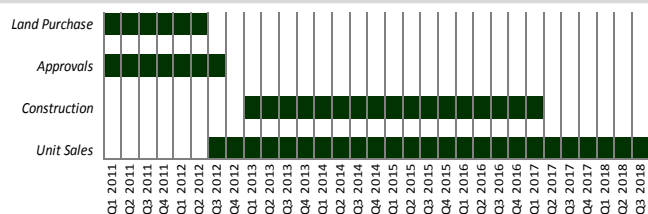
## 5. Project Maringá

### Residential Development, Maringá — PR

#### 5.1. Investment information

Location	Maringá - PR
Property and investment type	Residential Development
Fund acquisition date	March 2011
Fund equity required	R\$ 35.1 million
Fund ownership	82%
Exit strategy	Sale of units
Construction contract	Turn-key contract
Site area / Total private area	23,119 m <sup>2</sup> 39,522 m <sup>2</sup>
Number of units	570 residential units
Average price per unit	R\$ 308,565
Average sales price	R\$ 4,450/m <sup>2</sup>
Leverage (% of construction cost)	62%

#### 5.3. Timeline



#### 5.2. Construction in Progress



#### 5.4. Façade Rendering



#### 5.5. Sample Floor Plan and Construction Site





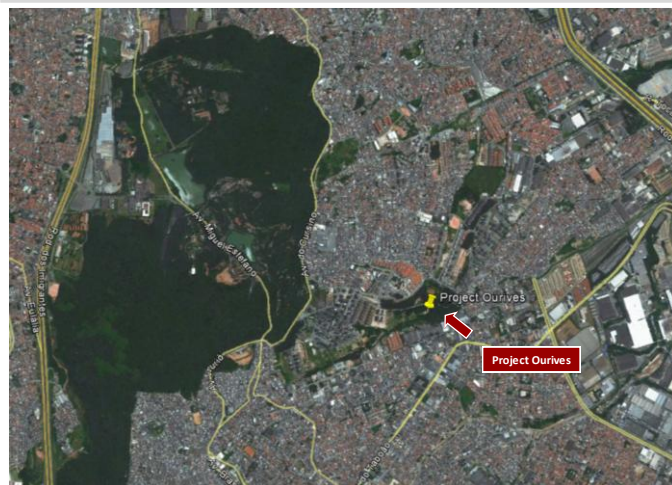
## 6. Project Ourives

### Residential Development, São Paulo — SP

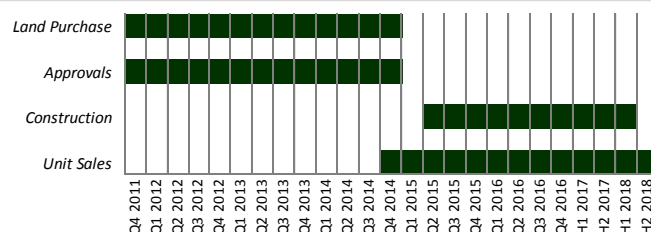
#### 6.1. Investment information

Location	São Paulo - SP
Property and investment type	Residential Development
Fund acquisition date	December 2011
Fund equity required	R\$ 55.4 million
Fund ownership	100%
Exit strategy	Sale of units
Construction contract	Turn-key contract
Site area / Total private area	53,628 m <sup>2</sup> 49,286 m <sup>2</sup>
Number of units (in three independent developments)	840 residential units
Average price per unit	R\$ 275,770
Average sales price	R\$ 4,700/m <sup>2</sup>
Leverage (% of construction cost)	70%

#### 6.2. Land Site Location – São Paulo (SP)



#### 6.3. Timeline



#### 6.4. Façade Rendering



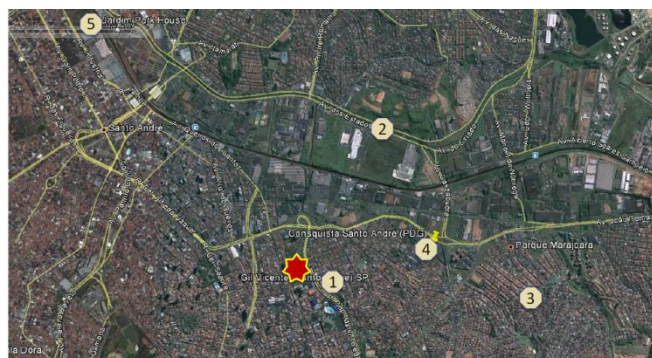
# 7. Project Gil Vicente

## Residential Development, Santo André — SP

### 7.1. Investment information

Location	Santo André - SP
Property and investment type	Residential Development
Fund acquisition date	March 2012
Fund equity required	R\$ 16.6 million
Fund ownership	100%
Exit strategy	Sale of units
Construction contract	Turn-key contract
Site area / Total private area	5,177 m <sup>2</sup> 11,153 m <sup>2</sup>
Number of units	199 residential units
Average price per unit	R\$ 291,435
Average sales price	R\$ 5,200/m <sup>2</sup>
Leverage (% of construction cost)	70%

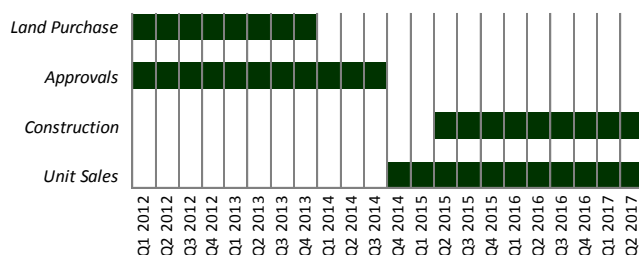
### 7.2. Location – São Paulo (SP)



### 7.3. Façade



### 7.3. Timeline



### 7.4. Implementation





## 8. Project Secundino

### Residential Development, São Paulo — SP

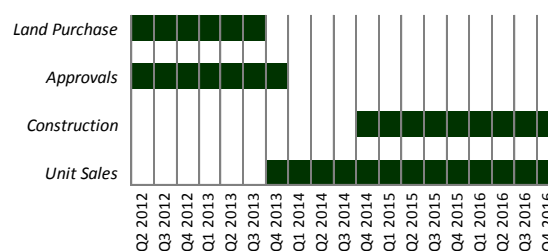
#### 8.1. Investment information

Location	São Paulo - SP
Property and investment type	Residential Development
Fund acquisition date	March 2012
Fund equity required	R\$ 15.8 million
Fund ownership	100%
Exit strategy	Sale of units
Construction contract	Turn-key contract
Site area / Total private area	4,691 m <sup>2</sup> 11,248 m <sup>2</sup>
Number of units	194 residential units
Average price per unit	R\$ 412,899
Average sales price	R\$ 7,122/m <sup>2</sup>
Leverage (% of construction cost)	75%

#### 8.2. Location – São Paulo (SP)



#### 8.3. Timeline



#### 8.4. Façade Rendering



## 9. Project Vila Ema 3000

### Residential Development, São Paulo — SP

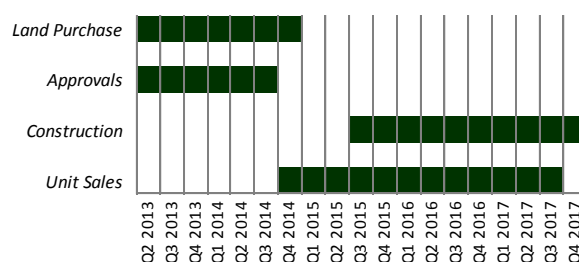
#### 9.1. Investment information

Location	São Paulo - SP
Property and investment type	Residential Development
Fund acquisition date	March 2013
Fund equity required	R\$ 32.8 million
Fund ownership	100%
Exit strategy	Sale of units
Construction contract	Turn-key contract
Site area / Total private area	8,075 m <sup>2</sup> 18,772 m <sup>2</sup>
Number of units	337 residential units
Average price per unit	R\$ 320,289
Average sales price	R\$ 5,750/m <sup>2</sup>
Leverage (% of construction cost)	70%

#### 9.2. Location – São Paulo (SP)



#### 9.3. Timeline



#### 9.4. Preliminary Masterplan Illustration





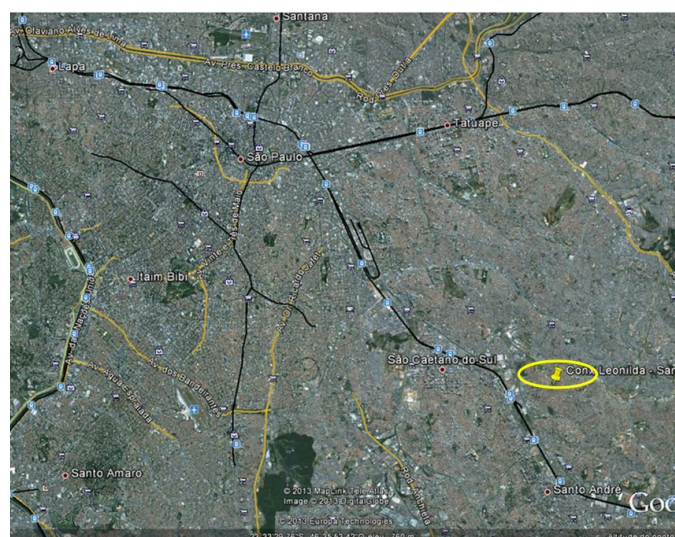
# 10. Project Conx Leonilda

## Residential Development, São Paulo — SP

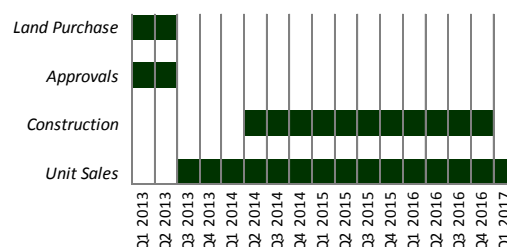
### 10.1. Investment information

Location	Santo André - SP
Property and investment type	Residential Development
Fund acquisition date	May 2013
Fund equity required	R\$ 12.4 million
Fund ownership	80%
Exit strategy	Sale of units
Construction contract	Turn-key contract
Site area / Total private area	9,933 m <sup>2</sup> 24,505 m <sup>2</sup>
Number of units	417 residential units
Average price per unit	R\$ 262,966
Average sales price	R\$ 4,475/m <sup>2</sup>
Leverage (% of construction cost)	85%

### 10.2. Location – Santo André (SP)



### 10.3. Timeline



### 10.4. Façade Rendering




# 11. Subdivision J.V. Program

## J.V.s related to urban subdivision projects and securitizations

### 11.1. Development Projects

	São Mateus	Cuiabá
Location	São Mateus, ES	Cuiabá, MT
Population of city	109,000	550,500
Project type	Open <i>loteamento</i>	Open <i>loteamento</i>
Land swap (% sales)	28%	28%
Gross land area	290,400 m <sup>2</sup>	260,154 m <sup>2</sup>
Saleable area	188,687 m <sup>2</sup>	144,921 m <sup>2</sup>
Average sales price	R\$170 / m <sup>2</sup>	R\$217 / m <sup>2</sup>
Average price per lot	R\$38,740	R\$46,867
Potential sell-out value	R\$32 mm	R\$31 mm
BREOF II Peak Exposure	R\$4.1 mm	R\$4.2 mm
% Sold	77%	48%

### 11.2. Receivables Securitization Projects

	CRI Cidade Jardim
Location	Parauapebas, Pará
Population of city	167,000
Project type	Open <i>loteamento</i>
Developer	LMSE
Underlying development	Phase 9 of <i>Loteamento</i> Cidade Jardim
Saleable area	534,000 m <sup>2</sup>
Launch date	June/2012
Average sales price	R\$342 / m <sup>2</sup>
Average lot size	216 m <sup>2</sup>
Average price per lot	R\$74,000
% of infrastructure completed	86%
% of lots sold	95%
Asset held by Fund	CRIs
Underlying asset	1,132 purchase sale-agreements
Portfolio final maturity	May 2023
Portfolio duration	5 years
Real guarantees	First mortgage on land area
Subordination	778 purchase-sale agreements
Assignor guarantees	Recourse to LMSE (net worth > R\$600 million)
Securitization company	REIT Securitizadora
Total purchase price	R\$60.7 million
Image	

# 12. Project Seropédica

## Logistic Development, Seropédica — RJ

### 12.1. Investment information

Location	Seropédica - RJ
Property and investment type	Logistics Condominium
Fund acquisition date	July 2012
Fund equity required	R\$ 150.9 million
Fund ownership	100%
Exit strategy	Brazilian REIT or sale to Consolidator
Total Land Area	461,190 m <sup>2</sup>
Maximum Gross Leasable Area	187,650 m <sup>2</sup>
Construction contract	TBD
Expected Lease Rate	R\$ 19/m <sup>2</sup> per month
Leverage (% of construction cost)	50%

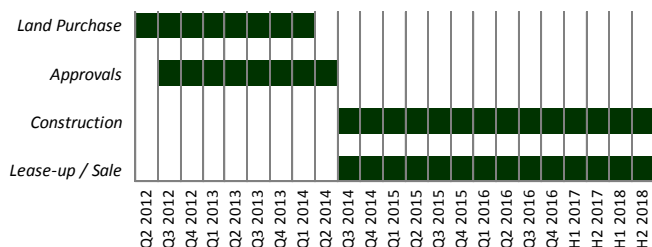
### 12.2. Docks Rendering



### 12.4. Warehouses Rendering



### 12.3. Timeline



### 12.5. Location – Rio de Janeiro Metropolitan Region





# 13. Project Brigadeiro

## AAA Office Development, São Paulo — SP

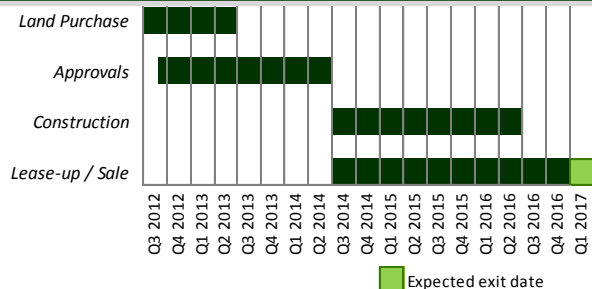
### 13.1. Investment information

Location	São Paulo - SP
Property and investment type	AAA Office Development
Fund acquisition date	Q3 2012
Fund equity required	R\$ 201.6 million
Fund ownership	100%
Exit strategy	FII or private sale
Construction contract	Bid process managed by VBI
Site area / Total Gross Leasable Area	6,568 m <sup>2</sup> 24,365 m <sup>2</sup>
Target exit price	R\$ 18,353/m <sup>2</sup>
Leverage (% of construction cost)	70%

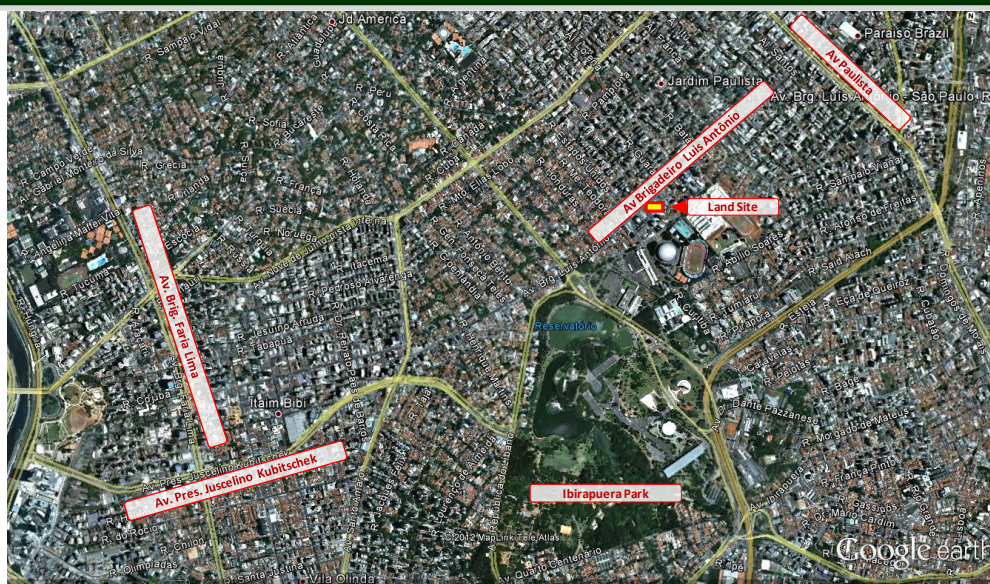
### 13.2. Preliminary Façade Rendering



### 13.3. Timeline



### 13.4. Land Site Location – Av. Brigadeiro Luis Antônio (SP)



# 14. Project Conx Rodovalho

Housing Development, São Paulo — SP

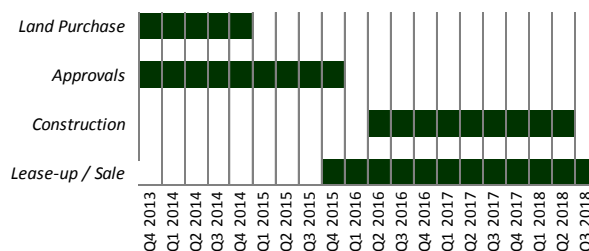
## 14.1. Investment information

Location	São Paulo - SP
Property and investment type	Residential Development
Fund acquisition date	December, 2013
Fund equity required	R\$ 17.6 million
Fund ownership	80%
Exit strategy	Sale of units
Construction contract	TBD
Site area / Total private area	5,772 m <sup>2</sup> 11,458 m <sup>2</sup>
Number of units	246 residential units
Average price per unit	R\$ 279,465
Average sales price	R\$ 6,000/m <sup>2</sup>
Leverage (% of construction cost)	80%

## 14.2. Land Site Location – Eastern Zone of São Paulo (SP)



## 1.3. Timeline



## 1.4. Preliminary Masterplan Illustration



# Financial Statements

# D

## **Financial Statements at December 31, 2013**

Brazil Real Estate Opportunities Fund II – Combined  
Brazil Real Estate Opportunities Fund II - Amazonas (BRL), L.P.  
Brazil Real Estate Opportunities Fund II - Bahia (USD), L.P.  
Brazil Real Estate Opportunities Fund II - Ceara (USD), L.P.  
Brazil Real Estate Opportunities Fund II - Distrito Federal (BRL), L.P.  
Brazil Real Estate Opportunities Fund II - Espirito Santo (BRL), L.P.  
Brazil Real Estate Opportunities Fund II - Floripa (BRL), L.P.

## Balance Sheet

### Brazil Real Estate Opportunities Fund II - Combined

As at December 31, 2013

(stated in U.S.\$)

<b>Assets</b>	
Cash in Partnership accounts	4,728,641
Accounts receivable at Partnerships	693
Prepaid expenses of Partnerships	731,458
Investments	
Cost	138,666,254
Fair Value adjustment	(66,871)
<b>Total Assets</b>	<b>144,060,175</b>
<b>Liabilities</b>	
Subscription Credit Facility	29,551,161
Credit Facility accrued interest	158,102
Other payables	113,344
<b>Total Liabilities</b>	<b>29,822,607</b>
<b>Fund's Equity</b>	
Paid-in capital from Limited Partners	145,512,554
Retained earnings from prior period	(26,216,959)
Net Income / (Loss) for this period	(5,058,027)
<b>Total Shareholders' Equity</b>	<b>114,237,568</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>144,060,175</b>

## Income Statement

### Brazil Real Estate Opportunities Fund II - Combined

From January 1, 2013 to December 31, 2013

(stated in U.S.\$)

#### Investment Results

Fair Value Adjustment - FIP	(1,722,071)
Fair Value Adjustment - Brazilian Real Estate Partnership	7,499,034
Reimbursement of Expenses	22,082

Total Investment Results	5,799,045
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#### Expenses

Organizational Expenses	-
Partnership Expenses	(467,741)
Financial Expenses	(1,611,830)
Management Fees	(8,777,500)
Accrued carried interest	-
Other Expenses	-

Total Expenses	(10,857,071)
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Net Income(Loss)	(5,058,027)
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## Balance Sheet

### Brazil Real Estate Opportunities Fund II - Amazonas (BRL), L.P.

As at December 31, 2013

(stated in U.S.\$)

<b>Assets</b>	
Cash in Partnership accounts	1,692,361
Accounts receivable at Partnerships	-
Prepaid expenses of Partnerships	259,848
Investments	
Cost	49,642,586
Fair Value adjustment	(24,006)
<b>Total Assets</b>	<b>51,570,788</b>
<b>Liabilities</b>	
Subscription Credit Facility	10,448,653
Credit Facility accrued interest	56,399
Other payables	30,082
<b>Total Liabilities</b>	<b>10,535,134</b>
<b>Fund's Equity</b>	
Paid-in capital from Limited Partners	52,093,966
Retained earnings from prior period	(9,289,232)
Net Income / (Loss) for this period	(1,769,081)
<b>Total Shareholders' Equity</b>	<b>41,035,654</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>51,570,788</b>

## Income Statement

### Brazil Real Estate Opportunities Fund II - Amazonas (BRL), L.P.

From January 1, 2013 to December 31, 2013

(stated in U.S.\$)

#### Investment Results

Fair Value Adjustment - FIP	(616,501)
Fair Value Adjustment - Brazilian Real Estate Partnership	2,684,654
Reimbursement of Expenses	4,650

Total Investment Results	2,072,803
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#### Expenses

Organizational Expenses	-
Partnership Expenses	(145,040)
Financial Expenses	(578,663)
Management Fees	(3,118,180)
Accrued carried interest	-
Other Expenses	-

Total Expenses	(3,841,883)
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Net Income(Loss)	(1,769,081)
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## Balance Sheet

### Brazil Real Estate Opportunities Fund II - Bahia (USD), L.P.

As at December 31, 2013

(stated in U.S.\$)

<b>Assets</b>	
Cash in Partnership accounts	1,296,710
Accounts receivable at Partnerships	-
Prepaid expenses of Partnerships	186,447
Investments	
Cost	38,133,178
Fair Value adjustment	(18,348)
<b>Total Assets</b>	<b>39,597,988</b>
<b>Liabilities</b>	
Subscription Credit Facility	7,521,806
Credit Facility accrued interest	37,650
Other payables	23,549
<b>Total Liabilities</b>	<b>7,583,005</b>
<b>Fund's Equity</b>	
Paid-in capital from Limited Partners	40,007,161
Retained earnings from prior period	(6,824,328)
Net Income / (Loss) for this period	(1,167,850)
<b>Total Shareholders' Equity</b>	<b>32,014,983</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>39,597,988</b>

# Income Statement

## Brazil Real Estate Opportunities Fund II - Bahia (USD), L.P.

From January 1, 2013 to December 31, 2013

(stated in U.S.\$)

### Investment Results

Fair Value Adjustment - FIP	(473,570)
Fair Value Adjustment - Brazilian Real Estate Partnership	2,062,234
Reimbursement of Expenses	2,575

Total Investment Results	1,591,240
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### Expenses

Organizational Expenses	-
Partnership Expenses	(109,177)
Financial Expenses	(412,545)
Management Fees	(2,237,368)
Accrued carried interest	-
Other Expenses	-

Total Expenses	(2,759,090)
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Net Income(Loss)	(1,167,850)
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## Balance Sheet

### Brazil Real Estate Opportunities Fund II - Ceara (USD), L.P.

As at December 31, 2013

(stated in U.S.\$)

<b>Assets</b>	
Cash in Partnership accounts	662,953
Accounts receivable at Partnerships	42
Prepaid expenses of Partnerships	105,709
Investments	
Cost	19,413,208
Fair Value adjustment	(9,294)
<b>Total Assets</b>	<b>20,172,618</b>
<b>Liabilities</b>	
Subscription Credit Facility	4,276,160
Credit Facility accrued interest	23,288
Other payables	11,396
<b>Total Liabilities</b>	<b>4,310,844</b>
<b>Fund's Equity</b>	
Paid-in capital from Limited Partners	20,371,268
Retained earnings from prior period	(3,758,348)
Net Income / (Loss) for this period	(751,146)
<b>Total Shareholders' Equity</b>	<b>15,861,774</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>20,172,618</b>

# Income Statement

## Brazil Real Estate Opportunities Fund II - Ceara (USD), L.P.

From January 1, 2013 to December 31, 2013

(stated in U.S.\$)

### Investment Results

Fair Value Adjustment - FIP	(241,090)
Fair Value Adjustment - Brazilian Real Estate Partnership	1,049,865
Reimbursement of Expenses	1,327

Total Investment Results	810,102
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### Expenses

Organizational Expenses	-
Partnership Expenses	(52,970)
Financial Expenses	(239,774)
Management Fees	(1,268,504)
Accrued carried interest	-
Other Expenses	-

Total Expenses	(1,561,248)
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Net Income(Loss)	(751,146)
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## Balance Sheet

### Brazil Real Estate Opportunities Fund II - Distrito Federal (BRL), L.P.

As at December 31, 2013

(stated in U.S.\$)

<b>Assets</b>	
Cash in Partnership accounts	420,526
Accounts receivable at Partnerships	255
Prepaid expenses of Partnerships	70,781
Investments	
Cost	12,271,980
Fair Value adjustment	(5,935)
<b>Total Assets</b>	<b>12,757,608</b>
<b>Liabilities</b>	
Subscription Credit Facility	3,005,508
Credit Facility accrued interest	17,286
Other payables	37,106
<b>Total Liabilities</b>	<b>3,059,900</b>
<b>Fund's Equity</b>	
Paid-in capital from Limited Partners	12,879,697
Retained earnings from prior period	(2,583,103)
Net Income / (Loss) for this period	(598,886)
<b>Total Shareholders' Equity</b>	<b>9,697,708</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>12,757,608</b>

# Income Statement

## Brazil Real Estate Opportunities Fund II - Distrito Federal (BRL), L.P.

From January 1, 2013 to December 31, 2013

(stated in U.S.\$)

<b>Investment Results</b>	
Fair Value Adjustment - FIP	(152,403)
Fair Value Adjustment - Brazilian Real Estate Partnership	663,664
Reimbursement of Expenses	3,728
<b>Total Investment Results</b>	<b>514,989</b>
<b>Expenses</b>	
Organizational Expenses	-
Partnership Expenses	(105,069)
Financial Expenses	(159,430)
Management Fees	(849,376)
Accrued carried interest	-
Other Expenses	-
<b>Total Expenses</b>	<b>(1,113,875)</b>
<b>Net Income(Loss)</b>	<b>(598,886)</b>



## Balance Sheet

### Brazil Real Estate Opportunities Fund II - Espirito Santo (BRL), L.P.

As at December 31, 2013

(stated in U.S.\$)

#### Assets

Cash in Partnership accounts	237,429
Accounts receivable at Partnerships	240
Prepaid expenses of Partnerships	41,667
Investments	
Cost	6,933,322
Fair Value adjustment	(3,353)

Total Assets	7,209,304
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#### Liabilities

Subscription Credit Facility	1,647,302
Credit Facility accrued interest	9,172
Other payables	3,949
Total Liabilities	1,660,423

#### Fund's Equity

Paid-in capital from Limited Partners	7,280,292
Retained earnings from prior period	(1,418,889)
Net Income / (Loss) for this period	(312,521)
Total Shareholders' Equity	5,548,882

Total Liabilities and Shareholders' Equity	7,209,304
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# Income Statement

## Brazil Real Estate Opportunities Fund II - Espirito Santo (BRL), L.P.

From January 1, 2013 to December 31, 2013

(stated in U.S.\$)

### Investment Results

Fair Value Adjustment - FIP	(86,104)
Fair Value Adjustment - Brazilian Real Estate Partnership	374,952
Reimbursement of Expenses	5,892

Total Investment Results	294,740
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### Expenses

Organizational Expenses	-
Partnership Expenses	(20,897)
Financial Expenses	(86,365)
Management Fees	(500,000)
Accrued carried interest	-
Other Expenses	-

Total Expenses	(607,262)
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Net Income(Loss)	(312,521)
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## Balance Sheet

### Brazil Real Estate Opportunities Fund II - Floripa (BRL), L.P.

As at December 31, 2013

(stated in U.S.\$)

<b>Assets</b>	
Cash in Partnership accounts	418,662
Accounts receivable at Partnerships	155
Prepaid expenses of Partnerships	67,006
Investments	
Cost	12,271,980
Fair Value adjustment	(5,935)
<b>Total Assets</b>	<b>12,751,868</b>
<b>Liabilities</b>	
Subscription Credit Facility	2,651,731
Credit Facility accrued interest	14,307
Other payables	7,262
<b>Total Liabilities</b>	<b>2,673,300</b>
<b>Fund's Equity</b>	
Paid-in capital from Limited Partners	12,880,170
Retained earnings from prior period	(2,343,059)
Net Income / (Loss) for this period	(458,542)
<b>Total Shareholders' Equity</b>	<b>10,078,568</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>12,751,868</b>

# Income Statement

## Brazil Real Estate Opportunities Fund II - Floripa (BRL), L.P.

From January 1, 2013 to December 31, 2013

(stated in U.S.\$)

<b>Investment Results</b>	
Fair Value Adjustment - FIP	(152,403)
Fair Value Adjustment - Brazilian Real Estate Partnership	663,664
Reimbursement of Expenses	3,910
<b>Total Investment Results</b>	<b>515,172</b>
<b>Expenses</b>	
Organizational Expenses	-
Partnership Expenses	(34,589)
Financial Expenses	(135,053)
Management Fees	(804,072)
Accrued carried interest	-
Other Expenses	-
<b>Total Expenses</b>	<b>(973,714)</b>
<b>Net Income(Loss)</b>	<b>(458,542)</b>



# Fair Value Appraisal

# E

Revaluation Reserve Description											
Project name	BREOF II % Ownership	Gross asset value as recorded on 11/30/2013	Asset appraised value as per 12/1/2013	Approved Appraiser	Gross gain/(loss) resulting from 12/1/2013 appraisal (R\$)	Taxes on future asset sale (R\$) 3 4	Commission on future asset sale (R\$) 3 4	Revaluation reserve pro forma for 12/1/2013 appraisal (R\$)	Revaluation reserve pro forma for 12/1/2013 appraisal (U.S.\$)	Existing revaluation reserve created in prior year in	Net change to revaluation reserve due to 12/1/2013 appraisal (U.S.\$)
		SPV balance	adjustment								
Project Brigadeiro	100%	87,569,122	90,000,000	CBRE	2,430,878	6,057,000	2,700,000	(6,326,122)	(2,700,470)	-	(2,700,470)
Shopping Aracatuba	80%	25,183,877	60,000,000	CBRE	34,816,123	4,038,000	1,800,000	28,978,123	12,370,069	-	12,370,069
Project Seropedica	100%	11,560,831	20,800,000	CBRE	9,239,169	1,399,840	624,000	7,215,329	3,080,052	-	3,080,052
Project Natal	100%	11,333,334	11,333,334	General Partner	-	-	-	-	-	2,992,815	(2,992,815)
Project BRDU São Mateus	90%	4,059,360	11,416,163	General Partner	7,356,803	-	-	7,356,803	3,140,443	483,923	2,656,520
Project BRDU Cuiaba	90%	3,627,449	4,590,220	General Partner	962,771	-	-	962,771	410,984	-	410,984
Total		143,333,973	198,139,717		54,805,744	11,494,840	5,124,000	38,186,904	16,301,077	3,476,738	12,824,340

Notes:

(1) Reflects BREOF II's percent ownership only.

(2) Reflects fair value of BREOF II's percent ownership only.

(3) Fair value recognized is net of taxes and sales commissions likely to be payable in the event of a sale.

(4) Assumes income tax rate of 6.73% of gross sales price and a sales commission of 3.0% of the gross sales price.

(5) Exchange rate of R\$2.3426 per 1 U.S.\$.

## NAV variation from November 30, 2013 to December 31, 2013 (U.S.\$)

	BREOF II Combined	BREOF II Amazonas	BREOF II Bahia	BREOF II Ceará	BREOF II Distrito Federal	BREOF II Espirito Santo	BREOF II Floripa
<b>NAV at November 30, 2013</b>	<b>96,182,865</b>	<b>34,570,972</b>	<b>27,031,034</b>	<b>13,338,647</b>	<b>8,108,323</b>	<b>4,651,604</b>	<b>8,482,286</b>
Capital called	-	-	-	-	-	-	-
Net income (loss) from Investments	6,900,456	2,470,363	1,897,626	966,064	610,690	345,023	610,690
Revaluation reserve	12,824,340	4,591,114	3,526,693	1,795,408	1,134,954	641,217	1,134,954
Currency translation gain (loss)	(812,926)	(291,028)	(223,555)	(113,810)	(71,944)	(40,646)	(71,944)
Management Fee	(731,458)	(259,848)	(186,447)	(105,709)	(70,781)	(41,667)	(67,006)
Organizational Expenses	-	-	-	-	-	-	-
Partnership Expenses	(1,609)	(588)	(405)	(108)	(604)	90	5
Financial Expenses	(124,100)	(45,332)	(29,963)	(18,718)	(12,930)	(6,739)	(10,418)
<b>Total</b>	<b>18,054,703</b>	<b>6,464,682</b>	<b>4,983,949</b>	<b>2,523,127</b>	<b>1,589,385</b>	<b>897,278</b>	<b>1,596,282</b>
<b>NAV at December 31, 2013</b>	<b>114,237,568</b>	<b>41,035,654</b>	<b>32,014,983</b>	<b>15,861,774</b>	<b>9,697,708</b>	<b>5,548,882</b>	<b>10,078,568</b>