

AREL CAPITAL

Arel Capital, LP

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This brochure provides information about the qualifications and business practices of Arel Capital, LP, an investment adviser registered with the United States Securities and Exchange Commission (the "SEC"). If you have any questions about the contents of this brochure, please contact us at 212.920.4901 or gabriel.bousbib@arelcapital.com.

This information has not been approved or verified by the SEC or by any state securities authority.

Registration with the SEC or with any state securities authority does not imply a certain level of skill or training.

Additional information about Arel Capital, LP also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 Material Changes

The following material change occurred since our last annual filing of March 29, 2020.

- On July 2, 2020, Gabriel Bousbib was named Chief Compliance Officer, replacing Christopher Aliprandi.

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Item 4 Advisory Business

Arel Capital, LP, ("Arel" or the "Firm") based in New York, NY, was formed in January 2013 to make and manage real estate investments in pooled investment vehicles structured as limited partnerships or other similar entities (each a "Fund" or "Client" and collectively, the "Funds" or "Clients").

Arel or one of its affiliates acts as the asset manager and general partner or managing member of each Fund.

Arel was founded by its principal owners, Richard Leibovitch and Gabriel Bousbib. Mr. Leibovitch was a founding partner and the former Chief Investment Officer of Gottex Fund Management, an \$8 billion publicly-traded asset management firm. Mr. Bousbib was the Chief Operating Officer of Gottex Fund Management. The two have worked closely and successfully together in the past.

Arel selects real-estate assets with a particular emphasis on mid-sized multifamily residential properties (\$10 mm to \$150 mm), primarily in North America. Depending on the properties, their location and their potential for value-add developments, Arel will seek to generate returns through a combination of operating income and property price appreciation.

Arel tailors its advisory services to the specific investment objectives and restrictions of each Fund as set forth in each Fund's limited partnership agreement or limited liability company agreement, (collectively, the "Documents"). In accordance with common industry practice, the Funds may enter into "side letters" or side agreements with certain investors in the Funds, pursuant to which Arel may grant an investor specific rights, benefits, or privileges. These arrangements typically clarify any regulatory, informational and interpretational issues and may also include changes in the financial terms. These arrangements do not provide preferential liquidity treatment to such investor.

As of December 31, 2019, Arel had \$616,610,644 in discretionary assets including called and uncalled capital commitments. Please see Item 16 for a description of Arel's discretionary advisory services.

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Item 5 Fees and Compensation

Arel typically charges the Funds an annual management fee equal to 1% of a Fund's aggregate capital contributions outstanding and deployed during the investment period. The fee is payable quarterly in advance and is prorated for any partial year.

Management fees are billed to each Fund and paid by the Fund from its assets. To obtain cash for the payment of management fees, the manager of the Fund may draw down investors' capital commitments.

Arel also receives acquisition fees in connection with the evaluation and acquisition of the investment properties. In general, the Funds pay Arel an acquisition fee of up to two percent (2.0%) of the purchase price of the investment properties, which shall be earned at the closing of the purchase of such properties. In some cases, an Arel affiliate may also receive construction supervision fees, which range between \$2,000 and \$8,000 per month.

Please see each Fund's respective operating agreement or partnership agreement for further details regarding the management fee and the acquisition fee.

When loans are made, loan origination fees are paid by the borrower to Arel Capital. These fees are market based, and range from 1-3%. They are not paid by the Fund making the loan.

The Funds generally invest on a long-term basis. Accordingly, investors generally are not permitted to withdraw or redeem interests in the Funds.

In addition, each Fund will be subject to other investment and administrative expenses such as legal, auditing (if an audit is required), tax preparation, appraisal fees, consulting and accounting expenses, expenses of the advisory board and meetings of the investors, taxes, fees or other governmental charges, preparation and distribution of reports, insurance, bank service charges, other expenses associated with the acquisition, holding and disposition of its investments and all third-party expenses in connection with transactions not consummated and extraordinary expenses (such as litigation). The Funds pay organizational expenses incurred in their formation.

The Funds may incur brokerage and other transaction costs. Please see Item 12 for more information about Arel's brokerage practices.

Item 6 Performance-Based fees and Side-by-side management

Affiliates of Arel that act as the general partners of the Funds and/or as special members of entities majority owned by the Funds, receive performance-based fees that are disclosed to investors in the Funds' Documents.

Item 7 Types of Clients

Arel provides advice directly to the Funds, currently its only clients, and not to individual investors. The Funds are not registered under the Investment Company Act of 1940, as amended (the "Investment Company Act") and the securities purchased for the portfolios are not registered under the Securities Act of 1933, as amended. The Funds are not offered through any form of general solicitation or general advertising. Access to information about the Funds is limited to investors who meet specified minimum investment criteria relating to their financial holdings, investment experience, etc. The Funds' investors are typically institutions and high net worth individuals.

Details concerning minimum initial and additional subscription amounts are found in the Funds' Documents.

Item 8 Methods of Analysis, Investment Strategies And Risk of Loss

The Firm focuses on buying real-estate assets, with a particular emphasis on mid-sized multifamily residential properties (\$10 mm to \$150 mm), primarily in North America. Depending on the properties, their location, their potential for value-add developments, the Firm will seek to generate returns through a combination of carry and property price appreciation.

Sourcing and Evaluation

Arel concentrates on markets with which it is familiar and has strong relationships (including but not limited to New York, Texas, Massachusetts, Ontario, North Carolina, South Carolina, Florida, California, Tennessee, and Washington, D.C. Metro Area), as well as large metropolitan centers with diverse and growing economies and attractive valuations (e.g., Philadelphia, Houston, Atlanta, Denver, Phoenix, Charlotte). Within these markets the focus is on growing neighborhoods with improving demographic trends and positive business climates, and properties with market value below construction value. Arel will then develop pro-forma models with assumptions that are verified by local partners to identify the source of value in the transaction.

Due Diligence

Onsite due diligence is conducted by both Arel partners as well as by an independent property management partner. Arel works with third-party service providers to verify assumptions and provide service to the property, and uses local contacts to understand the source of value in the transaction. The firm will then perform relative value comparison to validate its original assumptions.

Operating Partnership

Arel has developed relationships in property development, property management, brokerage, legal and accounting. Property performance is reviewed monthly and properties are normally visited quarterly. Efficiencies are created by standardizing operations using industry best practices for property management.

Harvesting

In order to increase potential return, Arel focuses on growing net operating income ("NOI") for refinancing opportunities and seeks to sell when NOI is maximized. Dialogue with limited partners as to their goals and objectives may guide exit strategy. Typically, Arel will exit through refinance or sale after a 36 to 48 month holding period.

Risk Factors

An investment in the Funds involves various risks. Such risks include, but are not limited to, those described below. Prospective investors should carefully consider the following information in conjunction with the other information contained in the Funds' Documents before investing in the Funds.

These strategies and the investments involve risk of loss to investors and investors must be prepared to bear the loss of their entire investment.

No Assurance of Returns

There can be no assurance that the Limited Partners will receive distributions in an amount equal to their investment. The Funds will have no source of funds from which to pay distributions to the partners other than income and gain received on its investments and the return of capital.

Targeted Returns

The Funds will make investments based on the general partner's estimates or projections of internal rates of return. Investors have no assurance that actual internal rates of return will equal or exceed the stated target return to investors. In addition, the Fund's ability to achieve their targeted return may be adversely impacted by a variety of factors, including, but not limited to, increased competition faced by a property.

Past Performance

The past investment performance of other investments made by Arel Capital, L.P. and its affiliates may not be construed as an indication of the future results of an investment in a Fund. Each Fund's investment strategy should be evaluated on the basis that there can be no assurance that Arel's assessments of assets will prove accurate or that the Fund will achieve its investment objective.

Diversification

The Funds' strategy is to invest in the real estate industry and, as such, may be especially vulnerable to an adverse economic event or unfavorable business climate in this industry generally. In addition, each Fund will invest substantially all of its assets in a particular real estate investment as set forth in that Fund's Documents. The exposure of the investor to this investment is not diversified and the Funds will not actively seek to minimize or hedge any risks associated with their investment so that any adverse impact on this investment will adversely affect the investor's investment in a Fund.

Risks of Real Estate Ownership

Any interest in real property, including ownership in vehicles that hold real estate assets, is subject to the risks generally incident to the ownership of real property. Real estate historically has experienced significant fluctuations and cycles in value and is subject to local market conditions which may result in reductions in value. The marketability and value of the Funds' real property interests will depend on many factors beyond the control of the general partners, including:

- national, regional and local economic conditions (which may be adversely impacted by plant closings, business layoffs, industry slow-downs, weather conditions, natural disasters, and other factors);
- local real estate conditions (such as competition from other owners or operators of properties, over-supply of, or insufficient demand for, residential space);
- perceptions by prospective tenants of the convenience, services, safety, and attractiveness of a property;
- increases in costs of maintenance, insurance, compliance with laws and regulations and other operating expenses (including energy costs, real estate taxes and compliance with the Americans with Disabilities Act);

- change in applicable laws or regulations (including tax laws, land-use and zoning restrictions, rent controls or building codes);
- potential environmental and other legal liabilities;
- changes in interest rate levels;
- the availability and cost of refinancing that may render the sale or refinancing of a property difficult;
- the financial condition of tenants, buyers and sellers of properties;
- the ability to find suitable tenants for a property and to replace any departing tenants with new tenants;
- the fact that real estate investments generally cannot be sold quickly; and
- Various uninsured or uninsurable risks and acts of God, natural disasters and uninsurable losses.

In addition, general economic conditions, as well as conditions of domestic and international financial markets, may adversely affect the operations of the Funds.

Newly-Completed Properties and Properties Under Construction

Fund investments may be directly or indirectly, in land or other property intended to be developed and in properties under development. Purchase of property prior to completion of development and construction, or making loans relating to properties under development, is subject to greater risks than purchasing or loaning funds to properties with operating histories. In connection with the purchase of, or loans with respect to, properties under development and construction, the Funds will be subject to certain risks, including the risks of unanticipated delays in, or increases in the cost of, development and construction beyond the control of the general partners or Arel. These factors may include strikes, adverse weather, material shortages, building restrictions, clearances, environmental impact studies, insolvency of the contractor or subcontractors and increases in the cost of labor and materials. In addition, the contractor may not be able to build in conformity with plans and specifications or such plans or specifications may change, and the property may not be rented for the amounts or within the time projected. Delays in completing any development project will cause corresponding delays in the receipt of operating income and, consequently, the distribution of any cash flow by the Funds with respect to such project. Additional risks may be incurred where the Funds make periodic progress payments or other advances to contractors prior to completion. There is also the risk that inadequate oversight over local contractors, architects or engineers may result in poor quality construction or the diversion of funds intended for construction, and the quality of construction generally may not be commensurate with appropriate standards, resulting in potential difficulties in obtaining all authorizations necessary for operation. The Funds may be unable to recover such payments after any such contractor's default. Such factors can result in increased costs, delay in completion, loss of anticipated rental revenues and corresponding depletion of the Funds' working capital and reserves or loss of the Funds' investment. Furthermore, the price paid for a property upon which improvements are to be constructed or completed must out of necessity be based upon projections of rental income and expenses or fair market value of the property upon completion of construction. Whether the property will operate at such projected income and expense levels or achieve such projected fair market value cannot be determined in most cases until after completion of construction and a number of months of actual operation. In particular, newly developed real estate projects may be disproportionately affected by fluctuations in demand and supply as they have no existing tenancies and need to be leased up in their entirety. Because of the long lead time between the inception of a project and its completion, a well-conceived project may, as a result of changes in real estate market, economic and other conditions prior to its completion, become an economically unattractive investment.

Investment in Office Properties

The Funds anticipate that they may invest in an office property. There are a large number of risk factors associated with investments in office properties, including the impact of general economic conditions on the local market and the building's tenants; the quality of an office building's tenants; an economic decline in the business operated by the tenants; the physical attributes of the building in relation to competing buildings (e.g., age, condition, design, appearance, location, access to transportation and ability to offer certain amenities, such as sophisticated building systems and/or business wiring requirements); the physical attributes of the building with respect to the technological needs of the tenants, including the adaptability of the building to changes in the technological needs of the tenants; the diversity of an office building's tenants (or reliance on a single or dominant tenant); the availability of sublease space; the desirability of the area as a business location; the strength, nature and unemployment rates of the local economy, including labor costs and quality, tax environment and quality of life for employees; and an adverse change in population, patterns of telecommuting or sharing of office space and employment growth (which creates demand for office space). Further, such a property could fail to generate sufficient revenue if, for example: a significant number of such property's tenants are unable to meet their lease obligations; a property manager is unable to lease, renew leases for, or release a sufficient amount of office space in such property on economically favorable terms; and a property manager is unable to collect a sufficient amount of rental payments with respect to such property, and do so in a timely fashion, or any other reason (for example, following a tenant's lease default, such property manager may experience delays in enforcing the landlord's rights against the tenant). Certain tenants of the properties each account for a significant portion of the respective property's annual revenues. The loss of one or more of these tenants could have a material adverse effect on the revenue of the respective property. To the extent any of such risk factors are heightened or the conditions associated with such risk factors deteriorate in the continuing economic crisis, the Funds' investment in an office property may incur losses.

Investments in Retail Properties

The Funds anticipate that they will invest in a retail property. The value and successful operation of a retail property is sensitive to a number of risk factors, including, but not limited to: changes in consumer spending patterns, local competitive conditions (such as the supply of retail space or the existence or construction of new competitive shopping centers or shopping malls, including, for example, competition between regional malls and local shopping centers and changing consumer preferences for upscale outlet malls, big-box discount stores and price clubs); the bankruptcy or distress of tenants; the availability of sublease space; alternative forms of retailing (such as direct mail, video shopping networks and internet web sites, which reduce the need for retail space by retail companies); the safety, convenience and attractiveness of the property to tenants and their customers or clients; the public perception of the safety of customers at shopping malls and shopping centers; the need to make major repairs or improvements to satisfy the needs of major tenants; traffic patterns and access to major thoroughfares; and unemployment rates in the local economy.

The general strength of retail sales also directly affects retail properties. If retail sales by tenants in the Funds' property were to decline, the rents that are based on a percentage of revenues may also decline, and tenants may be unable to pay the fixed portion of their rents or other occupancy costs. The cessation of business by or bankruptcy of a significant tenant can have a material adverse effect on a retail property, not only because of rent and other factors specific to such tenant, but also because significant tenants at a retail property play an important part in generating customer traffic and making a retail property a desirable location for other tenants at such property.

Investment in Multifamily Properties

The Funds anticipate that they will invest in a multifamily residential property. A large number of risk factors may affect the value and successful operation of such properties, including: physical attributes of the property such as its age, condition, design, appearance, access to transportation and

construction quality; location of the property; ability of management to provide adequate maintenance and insurance; the types of services or amenities that the property provides; the property's reputation; the level of mortgage interest rates and availability of government incentives, which may encourage tenants to purchase rather than lease housing; presence of competing properties; the tenant mix, such as the tenant population being predominantly students or being heavily dependent on workers from a particular business; adverse local or national economic conditions, which may limit the amount of rent that may be charged and may result in a reduction of timely rent payments or a reduction in occupancy levels; state and local regulations, which may affect the building owner's ability to increase rent to the level of market rents for an equivalent apartment; government assistance/rent subsidy programs; and the inventory of unsold condominium units in the local market that are being rented until economic conditions in the condominium market improve. If any of such risk factors are heightened or the conditions associated with such risk factors deteriorate in the continuing economic crisis, the Funds' investment in a multifamily property may incur losses.

In addition, certain jurisdictions regulate the relationship between an owner and its tenants. Commonly, these laws require a written lease, good cause for eviction, disclosure of fees and notification to residents of changed land use, while prohibiting unreasonable rules and retaliatory evictions.

In addition to U.S. federal, state and/or local regulation of the landlord-tenant relationship, some counties and/or municipalities impose rent control on apartment buildings. These ordinances may limit rent increases to fixed percentages, to percentages of increases in the consumer price index, to increases set or approved by a governmental agency or to increases determined through mediation or binding arbitration.

Deployment of Capital: Impact on Investment Returns

In light of the Funds' investment strategies and the need to be able to deploy capital quickly to capitalize on potential investment opportunities, the Funds may from time to time maintain cash at the partnership level pending deployment into investments, which may at times be significant. Such cash may be held in an account of the partnership for the benefit of the limited partners or may be invested in money market accounts or other similar temporary investments. While the expected duration of such holding period is expected to be relatively short, in the event the Fund is unable to find suitable investments, such cash positions may be maintained at the partnership level for longer periods, which would be dilutive to overall investment returns. It is not anticipated that the temporary investment of such cash into money market accounts or other similar temporary investments pending deployment into investments will generate significant interest, and investors should understand that such low interest payments on the temporarily invested cash may adversely affect overall partnership returns.

Investments Longer Than Term: Valuations

Although the general partners expect that investments will be disposed of prior to dissolution of the Funds, the Funds may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

Risks of Leverage

The Funds may leverage their investments with non-recourse debt financing (subject to customary non-recourse carve-outs). The Funds may also obtain recourse debt financing to the Funds' assets only in a few select situations (including use of a subscription line of credit) to allow the Funds to close transactions quickly or to secure more favorable terms or to enhance cash flow management and reduced cash call administration. Although the use of leverage may enhance returns and increase the number of investments that can be made, it may also substantially increase the risk of loss.

Risk of Bridge Financing

The general partners anticipate that the direct or indirect acquisitions, redevelopments and developments of any property may be financed using the proceeds of lines of credit or other forms of temporary secured or unsecured financing that may have less advantageous terms than permanent debt financings. Use of these forms of financing will be subject to the risk that permanent financing for these projects might not be available or would be available only on disadvantageous terms. If permanent debt financing is not available on acceptable terms to refinance projects undertaken without permanent financing, further acquisitions, redevelopments or developments may be curtailed and cash flows may be adversely affected. In addition, if the Funds make an equity investment in a transaction with the intent of refinancing a portion of the equity, there is a risk that the Funds may be unable to successfully complete the refinancing. This could lead to increased risk as a result of the Funds having more equity at risk in the investment for a longer term than intended.

Need for Follow-On Investments

The Funds may be called upon from time to time to provide additional funds to their investment. There is no assurance that the Funds will make such follow-on investments. Any decision by the general partners (and/or their affiliates, as applicable) not to cause the Funds to make follow-on investments may have a substantial negative impact on the Funds' investment.

Powers of General Partners

All decisions with respect to the Funds and their investments, other than with respect to the issues requiring the approval of an LP Advisory Committee, will be made exclusively by the general partner. Limited partners will have no right or power to take part in the management of the Funds, as all aspects of operation and management of the Funds are entrusted to the general partners. Accordingly, no investor should purchase interests unless such investor is willing to entrust all aspects of the operation and management of a Fund to the general partner.

Dependence on Key Personnel

Although the general partners' management team will include a number of individuals with substantial experience in owning, operating, managing, developing and acquiring interests in commercial properties, the Funds are dependent on the efforts of certain key personnel. There can be no assurance that key personnel will continue to be affiliated with the Funds throughout their anticipated terms. While the Funds believe that they could find replacements for these individuals, the loss of key personnel could have an adverse effect on the Funds.

Absence of Recourse

The Funds' Documents limit the circumstances under which the general partners and its affiliates, including their officers, directors, partners, employees, shareholders, members and other agents, can be held liable to the Funds. As a result, investors may have a more limited right of action in certain cases than they would have in the absence of such a limitation.

Performance Based Compensation

The carried interest distributable to the general partners and the incentive allocation made to an operating partner may create an incentive for the general partners and/or the operating partner to make investments that are riskier or more speculative than it would otherwise make.

Conflicting Investor Interests

Investors may have conflicting interests, tax and other interests with respect to their investment in the Funds. Conflicts may arise in connection with decisions made by the general partners regarding an investment that may be more beneficial to one investor than another, especially with respect to tax

matters. In structuring, investing or realizing an investment, Arel will consider the investment and tax objectives of the Funds and their investors as a whole, not the investment, tax or other objectives of any investor individually.

Potential Environmental Liability

Under various federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such laws often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of any required remediation and the owner's liability therefor as to any property are generally not limited under such laws and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate contamination from such substances, may adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral.

Persons or entities that arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of hazardous or toxic substances at the disposal or treatment facility, whether or not that facility is owned or operated by the person arranging for the disposal or treatment of hazardous or toxic substances. In connection with the ownership, operation, management and development of a property, the Funds may be potentially liable under these laws and may incur costs in responding to these liabilities.

Reliance on Third Parties

The Funds may make investments through partnerships, joint ventures or other entities. Such investments may involve risks not present in investments where a third party is not involved, including, for example, the possibility that a co-venturer or partner of the Funds might become bankrupt, or may at any time have economic or business interests or goals which are inconsistent with those of the Funds, or that such co-venturers or partners may be in a position to take action contrary to the Funds' objectives. In addition, the Funds may be liable in certain circumstances for actions of their co-venturers or partners.

Liquidity of Investments

The investments to be made by the Funds will generally be illiquid. The eventual liquidity of the investment will be dependent upon the success of the realization the Funds' strategies, which could be adversely affected by a variety of risk factors. Realization of the Funds' assets on termination or otherwise could be a process of uncertain duration. Furthermore, an investment that is held in joint ventures may prove more difficult to realize and the realization price for a joint venture stake may be less than the value implied by the fair market value of the underlying property.

Operating Risks

The Funds' properties will be subject to operating risks, including competition from other developments, excessive building of comparable properties, decreases in population or increases in unemployment in the markets in which the property is located, increases in operating costs due to inflation and other factors (which increases may not necessarily be offset by increased rents) and inability or unwillingness of tenants to pay rent increases. If operating expenses increase, the local rental markets may limit the extent to which rents may be increased to meet increased expenses without decreasing occupancy rates.

Assumption of Business, Terrorism and Catastrophe Risks

The Funds may be subject to the risk of loss arising from exposure that it may incur, indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events. These risks of loss can be substantial and could have a material adverse effect on the Funds and the limited partners' investments.

Risk of Uninsured Losses

The Funds' liability, casualty, and other insurance policies with respect to the properties in which they have an interest are subject to customary limits on and exclusions from coverage. Certain types of losses (such as from wars or terrorist acts) are not insured because they are either uninsurable or not economically insurable. Should an uninsured loss or a loss in excess of insured limits occur, the Funds could lose their capital invested in the applicable property as well as the anticipated future revenue from the applicable property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the applicable property. Accordingly, an uninsured loss or a loss in excess of insured limits could adversely affect the Funds.

Failure to Make Capital Contributions

If a limited partner fails to pay when due installments of their commitments to the Funds, and the contributions made by non-defaulting limited partners and borrowings by the Funds are inadequate to cover the defaulted capital contribution, the Funds may be unable to pay their obligations when due. As a result, the Funds may be subjected to significant penalties that could materially adversely affect the returns of the limited partners (including non-defaulting limited partners). The consequences of defaulting on a capital call are material and adverse to the defaulting limited partner. If a limited partner defaults, it may be subject to various remedies including reductions in its capital account balance and preclusion from further investment in the Fund.

Inflation

Inflation may decrease the value of the Funds' investment in an applicable property. For example, a substantial rise in inflation over the term of the Funds' investment in the applicable property may reduce the actual return on such investment.

Valuation Risks

As the Funds will typically invest in assets that are not readily marketable, the determination of fair market value will be based upon valuations and estimates which may vary from actual amounts realized upon the dispositions of the assets being valued. Although such valuations and estimates will be made in good faith, there can be no assurances that they will prove to be accurate.

No Market For Interests

Interests in the Funds are illiquid and should only be acquired by investors able to commit their funds for an indefinite period of time. The interests offered may not be transferred, sold or assigned without the consent of the general partners, and will be subject to certain restrictions contained in the Documents, as well as restrictions on resales imposed under federal and state securities laws. There is no public market for the interests and it is not anticipated that such a market will develop.

Dilution and Other Implications of Subsequent Closings and Increase of Commitments

Limited partners subscribing for interests or increasing their capital commitments at subsequent closings up to and including the Funds' final closing dates will participate in existing investments based on their aggregate capital contributions, diluting the interest of existing limited partners. Such dilution of the interest of existing limited partners will also occur in case of an increase of the capital commitments by certain limited partners with respect to an additional portfolio investment.

In-kind Distributions

The Funds may distribute their investments "in kind" to the limited partners. There can be no assurance that a limited partner will be able to dispose of these investments. Moreover, there is no guarantee that the value of these investments, as determined pursuant to the terms of the Documents for purposes of determining the distributions and calculating the carried interest distributable to the general partners, will ultimately be realized.

No Registration under the Investment Company Act of 1940

The Funds are not required to register as an investment company and has not registered as such under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and, accordingly, the provisions of the Investment Company Act (which may provide certain regulatory safeguards to investors) are not applicable.

Compliance with Laws and Regulations

In response to increased regulatory concerns with respect to the sources of funds used in investments and other activities, the Funds may request prospective and existing partners to provide additional documentation verifying, among other things, such partner's identity, including the identity of such partner's owners, stockholders and/or stakeholders, and the source and type of funds used to purchase its interest. The general partners may decline to accept a subscription if this information is not provided or on the basis of such information that is provided. Requests for documentation may be made at any time during which a partner holds an interest. The general partners may be required to provide this information, or report the failure to comply with such requests, to governmental authorities, in certain circumstances without notifying the limited partners that the information has been provided. The general partners will take such steps as may be necessary to comply with applicable laws, rules, regulations, orders, directives, special measures that may be required by government regulators or interpretation thereof by the appropriate regulatory authority having jurisdiction, and to which the Funds or general partners are subject, including, with the opinion of counsel, requiring a partner to stop making additional contributions of capital to the Funds, requiring a partner to deposit distributions to which such partner would otherwise be entitled into an escrow account or causing the withdrawal of a partner from a Fund.

Tax Liability

A limited partner's tax liability with respect to Fund income for a year may exceed its cash distributions for such year. In such event, the limited partner will have to use other means to satisfy such tax liability.

Forward-Looking Statements

Certain statements contained in the Documents constitute "forward-looking statements" that can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "estimate," "intend," "continue" or "believe" or the negatives thereof or other variations thereon or other comparable terminology. Due to various risks and uncertainties, including those set forth above, actual events or results or the actual performance of the Funds may differ materially from those reflected or contemplated in such forward-looking statements.

Item 9 Disciplinary Information

This item is not applicable.

Item 10 Other Financial Industry Activities and Affiliations

The Firm's affiliates serve as general partners and managing members of the pooled investment vehicles.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics and Personal Trading

Arel has adopted a Code of Ethics in accordance with Section 206 of the Investment Advisers Act of 1940 and Rule 204A-1 under that Act (the "Code"). The Code provides for a high level of ethical conduct applicable to the Firm's partners and employees ("Access Persons"), and obligates all Access Persons to put Clients' interest above their own. The purposes of the Code are to (i) educate Access Persons about Arel's expectations and the laws governing their conduct, (ii) remind Access Persons that they are in a position of trust, (iii) protect Arel's reputation, (iv) guard against violation of the federal securities laws, (v) protect Clients by deterring misconduct, and (vi) establish procedures for Access Persons to follow to assess compliance with our ethical principles. Arel's Chief Compliance Officer ("CCO") monitors compliance with the Code by reviewing required disclosures of personal securities accounts and transactions, gifts and entertainment, political contributions, outside business activities and other affirmations of compliance by Access Persons.

Arel, in the course of its investment management and other activities (e.g., board or creditor committee service), may come into possession of confidential or material nonpublic information about issuers, including issuers in which Arel or its related persons have invested or seek to invest. The Code includes policies and procedures concerning "inside information" that are designed to prevent the misuse of material, non-public information. Access Persons are required to certify to their compliance with the Code, including the Insider Trading Policy, on a periodic basis. Arel is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of another person, regardless of whether such person is a Client. The Firm maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to ensure that the Firm is meeting its obligations to Clients and remaining in compliance with applicable law.

Potential or existing investors in Arel-sponsored Funds may request a copy of the Code by contacting Arel's CCO, Gabriel Bousbib, at (212) 920-4901 or by electronic mail at: Gabriel.Bousbib@arelcapital.com.

Participation or Interest in Client Transactions

Certain principals, employees and affiliates of Arel have invested in the Funds through its general partner and/or or as limited partners. Such investments are usually on the same terms as the other limited partners in the Funds. For further details regarding other conflicts of interest, please see "Conflicts of Interest" immediately below.

Conflicts of Interest

Arel and its affiliates may from time to time invest in opportunities that could be (or could have been) appropriate investments for the Funds and may own or acquire properties that compete with the Funds' investments. Arel or its affiliates may also have business dealings with companies that compete for investment opportunities or that invest in properties that compete with the Funds' investments. These

business dealings may include the provision of development, property management and leasing services, investment banking services, underwritings, other capital raising activities and investments in debt or equity securities issued by such persons.

The Funds have a diverse range of limited partners that may have conflicting interests stemming from differences in investment preferences, tax status and regulatory status. Arel will consider the objectives of the Funds and the limited partners as a whole when making investment decisions with respect to the selection, structuring and sale of portfolio investments. However, such decisions may be more beneficial for one limited partner than for another.

Other possible conflicts of interest may include:

- Follow-on investments may present conflicts of interest, including determination of the equity component and other terms of the new financing.
- The general partner of a Fund may determine in good faith that it is in the best interests of that Fund to offer all or a portion of an investment opportunity to specific limited partners who have expressed an interest in co-investment opportunities, or to other third parties. Conflicts of interest may arise in the allocation of such co-investment opportunities and their expenses to specific limited partners or other parties.
- Arel's performance-based fee may cause the Funds to make higher risk investments than it would otherwise make in the absence of performance-based compensation.
- Conflicts of interest may arise in allocating management time among the Funds and the other activities of the principals, future investment funds, Arel, and their respective affiliates;
- Conflicts of interest may arise as a result of competing claims between classes of interest within a Fund.

Item 12 Brokerage Practices

As the Funds invest primarily in private equity ventures, investments in publicly traded securities will generally be infrequent occurrences (e.g., money market instruments). However, to meet its fiduciary duties to the Funds, Arel has adopted written policies to address issues that might arise with respect to purchasing, holding, and selling publicly traded securities.

Item 13 Review of Accounts

Oversight and Monitoring

The investment portfolios of the Funds are generally illiquid and long-term in nature, and accordingly, Arel's review of the portfolios is not directed toward a short-term decision to dispose of securities. Arel's investment staff continuously monitors the performance of assets held by the Funds.

Reporting

Arel issues quarterly and annual reports to limited partners that include unaudited financial statements, narrative descriptions of investment results and a summary of the period's developments. These reports encourage clients to compare the information provided by Arel with the information provided in the statements provided by the qualified custodian. These reports are issued by making them available on a secure investor portal.

To meet its obligations under the Custody Rule (Rule 206(4)-2), Arel has arranged for the qualified custodians of cash accounts over which it has signatory authority to deliver statements directly to the investors of its pooled investment vehicles. Arel has arranged for the qualified custodians of cash accounts over which Arel has governance authority but no signatory authority to deliver statements directly to these investors. In both cases, statement delivery occurs quarterly in arrears.

During the Funds' terms, an annual meeting of the limited partners is generally held. The purpose of this meeting is to discuss the partnerships' affairs, and it is purely informational in nature.

Item 14 Client Referrals and Other Compensation

Arel may engage broker dealers as placement agents for a Fund in connection with the offer and sale of interests to certain potential investors. Such firms would receive a fee in an amount equal to a percentage of the capital commitments made by such potential investors to the Fund. Such fees are advanced by the Fund and repaid by Arel through an equivalent reduction of management fees, so Arel and not the Fund (or its limited partners) bears the cost of those fees.

Arel does not have any arrangements pursuant to which someone other than the Funds provides an economic benefit to Arel for providing investment advice or advisory services to the Funds.

Item 15 Custody

Arel relies on the surprise examination method to comply with SEC Rule 206(4)-2 (the "Custody Rule"). To fulfill Arel's responsibilities under the Custody Rule, all cash balances for the Funds are held by a US financial institution that is a qualified custodian and Arel has arranged for the qualified custodian to deliver quarterly statements to the investors of the relevant pooled investment vehicles.

In addition, Arel has arranged with a qualified custodian to retain the executed limited liability company agreements in cases where those LLC interests constitute securities.

Item 16 Investment Discretion

Investment advice is provided on a discretionary basis directly to the Funds under the direction and control of Arel and not individually to the investors in the Funds. Discretionary in this context refers only to operating discretion over matters such as selection of a property manager, establishing a pricing policy, determining marketing strategy and similar matters.

Item 17 Voting Client Securities

Arel's primary business is to provide investment advisory services for private investment vehicles that invest in real estate. Although Arel generally does not invest in publicly-traded securities on behalf of its Clients, it has adopted a proxy voting policy to comply with Rule 206(4)-6 under the Advisers Act. The policy is designed to ensure that Arel administers proxy voting matters in a manner consistent with the best interest of its Clients and in accordance with its fiduciary duties under the Advisers Act and other applicable laws and regulations. Clients may obtain a copy of Arel's proxy voting policies and procedures upon written request to the address on the cover of this brochure. Copies of relevant proxy records identifying how proxies were voted in connection with the Funds and copies of proxy voting policies are available to any investor or prospective investor upon written request to: Gabriel Bousbib, Chief Compliance Officer, Arel Capital, LP, 540 Madison Avenue, 26th Floor, New York, New York 10022.

Item 18 Financial Information

This item is not applicable.