CASTELLAN

REAL ESTATE PARTNERS

December 2017 Update

Market Observation

The Trump administration finished 2017 with a dramatic flourish as the House and the Senate passed the $1.5 trillion Tax Cuts and Jobs Act. It has been just over 30 years since the last tax code overhaul, and the consensus view is that the changes will be beneficial to commercial real estate investors. We will be paying close attention to that as more information becomes available about the tax code, but our initial analysis indicates a favorable outcome to our investors including the potential ability to receive a 20% deduction of taxable income received from your Castellan investments; the continued ability to receive favorable deferred tax treatment on income from IRS Code 1031 transactions; and increased tax losses due to enhanced ability to immediately expense certain capital expenditures.

Lending

Castellan Real Estate Income Fund II LP

In a flurry of activity in the last two days of the year we closed on the following notable loans:

- A $33 million acquisition loan with an 8% interest rate and a 2-year term for a mixed use building between 5th Avenue and Avenue of the Americas in Midtown Manhattan; the building has 23 rental apartments and 7,600 square feet of retail space; the loan to value is 66%.
- A $10.4 million refinance loan for an 80% constructed luxury mansion in Beverly Hills, CA, with a 9.4% interest rate and an 18-month term with a 6-month extension; the loan to value is 47%; this property is notable for its location in one of the most desirable zip codes in the U.S.

Midtown Manhattan

- Earlier in the month we closed on a $775 thousand acquisition loan with a 10% interest rate for a mixed-used building in North Bergen, New Jersey; the property totals 7,748 square feet and consists of 4 residential units and 3 commercial units. The borrower plans to acquire the property, lease the vacant unit, and secure long-term financing; the loan to value is 70.5%.

We are pleased to announce early estimates for Q4 2017 interest distributions

Castellan Real Estate Income Fund LP 2016-2017 Interest Distributions

	Q1	Q2	Q3	Q4	YTD	Annualized ITD
2016	-	3.8%*	2.8%	2.7%	9.3%	
2017	2.6%	2.5%	2.5%	2.5%**	10.1%**	10.6%**

Castellan Real Estate Income Fund II LP 2017 Interest Distributions

	Q1	Q2	Q3	Q4	YTD	Annualized ITD
2017	-	2.1%	2.4%	2.5%**	7.0%**	10.1%**

*The first distribution in 2016 for CREIF was for the period from inception on 3/4/2016 to 6/30/2016. Past performance is not indicative of future results.

** Early estimate; returns may vary

Sales

452 West 164th Street in Contract for $4.8 Million

452 West 164th Street

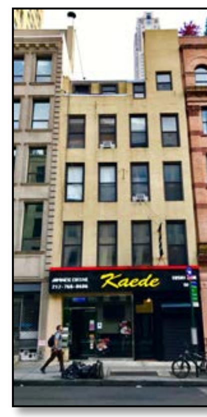
- CRP West 164th Street LLC entered into contract to sell the third of the three properties in this portfolio: 452 West 164th Street.
- The selling price for the property is $4,775,000, which we expect to result in a combined net investor IRR of 11.1% and a net equity multiple of 1.5x for all three properties in the portfolio.
- The property is a five-story walk-up with 20 residential units comprised of approximately 19,500 square feet. The building is well located in the Washington Heights neighborhood.
- The expected closing date for the sale is March 1, 2018

Current Investment Opportunities

For your information, we still have some capacity for investment in the two following properties:

CRP Chambers Street LLC

- A property located at 90 Chambers Street in the desirable Tribeca neighborhood of Manhattan.
- The property consists of 1,704 square feet of retail space with 25 feet of frontage along Chambers Street, and 5 residential apartments. In total, there are three four-bedroom apartments, and two two-bedroom units. The building also has approximately 5,230 square feet of unused air rights.
- We will seek to achieve a pretax, net internal rate of return of 13.0% and a net equity multiple of 2.8x



90 Chambers Street

CRP St. Marks Place LLC

- A 10,036 square foot mixed-use property on historic St. Marks Place in Manhattan's East Village. The building consists of two floors of retail space and four free-market residential apartments. The retail and all of the residential units were delivered vacant at closing. We are currently performing a full renovation of the building, with 90% of foundation finished, 50% of the façade restoration completed, and all demo of existing units.
- We will seek to achieve a pretax, net internal rate of return of 14.0% and a net equity multiple of 2.0x.

4 St. Marks Place

Please contact your financial advisor or Castellan Investor Relations at ir@castellanre.com if you would like to review the Private Placement Memorandums for these opportunities.

As always, we remain grateful for your support. Please do not hesitate to reach out to us at ir@castellanre.com if you have any questions.

Sincerely,

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The estimated annual distribution rate is calculated based on capital invested in Portfolio Investments, and capital may be invested in Portfolio Investments at a time after the date on which it is called and paid into the Partnership. The General Partner has discretion in determine whether and how to deploy called capital.

Cautionary Information Regarding Estimated Market Values

The estimated market values contained herein are not a guarantee of achieving a particular return. These estimates require Castellan to make numerous assumptions, including regarding the value of the unrealized portfolio holdings based upon a hypothetical sale of the asset as of the end of the relevant period used in the estimate. The business plan, however, is generally to hold the assets for a longer term period.

Although Castellan’s management believe that the assumptions made and the expectations represented by the estimates contained in this report are reasonable, there can be no assurance that any given estimate herein will prove to be an accurate prediction of the actual results. Actual results and developments may differ materially from those expressed or implied by the statements and estimates contained herein, and even if such actual results and developments are realized or substantially realized, there can be no assurance that they will have the expected consequences or effects.

The factors that could cause the actual results, performance and achievements to be materially different than so estimated include: (i) general economic and political conditions in the U.S. which may have an impact on the investments; (ii) Castellan’s ability to successfully implement its investment strategy; (iii) Castellan’s ability to maintain and reduce variable costs associated with the development and operation of properties; (iv) changes in competition in real estate sectors of the U.S.; (v) exposure to market risks; (vi) inflation, deflation, unanticipated turbulence in interest rates, equity prices or other rates or prices; (vii) the performance of the financial markets in the U.S. and globally; (viii) changes in laws, regulations and taxes; and (ix) Castellan’s success at managing risks that arise from these factors.