Starwood European Real Estate Finance Limited

Quarterly Investment Update

STARWOOD
EUROPEAN REAL ESTATE FINANCE

The investment objective of Starwood European Real Estate Finance Limited ("the Company") is to provide shareholders with regular dividends and an attractive total return while limiting downside risk, through the origination, execution, acquisition and servicing of a diversified portfolio of real estate debt investments (including debt instruments) in the UK and Europe.

SHARE PRICE / NAV AT 31 MARCH 2018

Share Price (p)	NAV (p)	Premium / (discount)	Dividend Yield	Market Cap
104.00	101.69	2.0%	6.25%	£390.0m

FUND INFORMATION

FUND TYPE
Closed-ended investment company

DOMICILE	**Guernsey**
INCEPTION DATE	**17 Dec 2012**
LISTING	**LSE (Main Market)**
LSE IDENTIFIER	**SWEF**
ISIN CODE	**GG00B79WC100**
NAV FREQUENCY	**Monthly**
DIVIDEND FREQUENCY	**Quarterly**
ORIGINATION FEE	**0.75%**
MANAGEMENT FEE	**0.75%**

WEBSITE
www.starwoodeuropeanfinance.com

INVESTMENT PORTFOLIO AT 31 MARCH 2018

As at 31 March 2018, the Group had 19 investments and commitments of £486.2 million as follows:

Transaction	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment [1]
Industrial Portfolio, UK	£18.6m	–
Hospitals, UK	£25.0m	–
Hotel, Channel Islands	£26.9m	–
Varde Partners mixed portfolio, UK	£6.5m	–
Mixed use development, South East UK	£11.6m	£1.6m
Regional Hotel Portfolio, UK	£45.9m	-
Credit Linked Notes, UK real estate	£21.8m	-
Total Sterling Loans	**£156.3m**	**£1.6m**
Residential Portfolio, Dublin, Ireland	£6.7m	–
Logistics, Dublin, Ireland	£12.9m	–
Hotel, Barcelona, Spain	£40.3m	–
School, Dublin, Ireland	£16.5m	–
Industrial Portfolio, Central and Eastern Europe	£56.6m	–
Three Shopping Centres, Spain	£30.9m	£8.2m
Shopping Centre, Spain	£10.3m	£4.6m
Hotel, Dublin, Ireland	£52.5m	–
Residential, Dublin, Ireland	£3.3m	£4.6m
Office, Paris, France	£22.8m	–
Student Accommodation, Dublin	£6.6m	£3.3m
Hotel, Spain	£23.8m	£24.4m
Total Euro Loans	**£283.2m**	**£45.1m**
Total Portfolio	**£439.5m**	**£46.7m**

[1] Euro balances translated to sterling at period end exchange rates.

INVESTMENT RESTRICTIONS AND GUIDELINES

LOCATION
UK & wider European Union's internal market. No more than 50% in any country except the UK where it is unlimited (subject to sector limits below).

LOAN TERM
Between 3 and 7 years but discretion retained. At least 75% of loans 7 years or less.

LOAN TYPE
Senior, subordinated and mezzanine loans, bridge loans, selected loan on loan financing and other debt instruments.

LTV
Absolute maximum of 85% with a blended portfolio LTV of no more than 75%.

REAL ESTATE SECTOR & PROPERTY TYPE
Commercial real estate. No more than 30% of NAV in residential for sale. No more than 50% of NAV in any single sector in the UK except office which is limited to 75%.

COUNTERPARTY & PROPERTY DIVERSIFICATION
No more than 20% of NAV exposed to one borrower legal entity and no single investment exceeding 20% of NAV at time of investment.

KEY PORTFOLIO STATISTICS AT 31 MARCH 2018

Number of investments	19
Percentage of currently invested portfolio in floating rate loans	86.7%
Invested Loan Portfolio unlevered annualised total return [1]	7.4%
Invested Loan Portfolio levered annualised total return [2]	8.3%
Weighted average portfolio LTV – to Group first £ [3]	13.3%
Weighted average portfolio LTV – to Group last £ [3]	65.4%
Average loan term (stated maturity at inception)	4.1 years
Average remaining loan term	3.2 years
Net Asset Value	£381.4m
Amount drawn under Revolving Credit Facility (excluding accrued interest)	-£66.6m
Loans advanced	£421.0m
Financial assets held at fair value	£22.1m
Cash	£9.6m
Other net assets/ (liabilities) (including hedges)	-£4.7m

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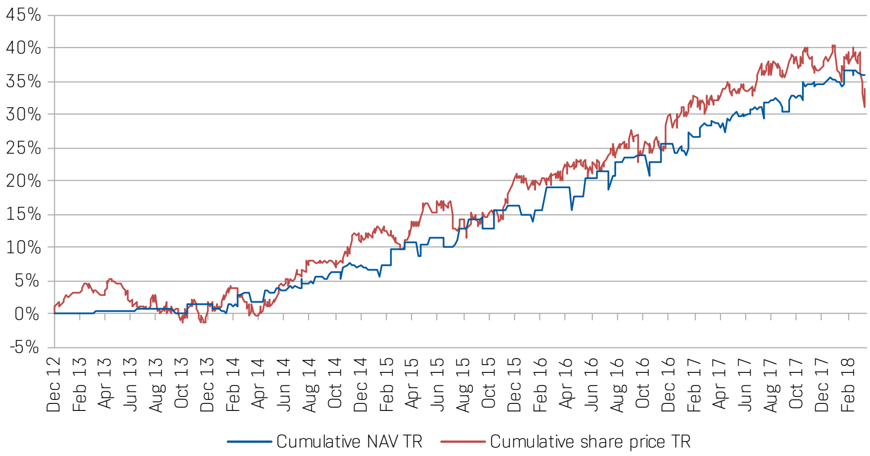
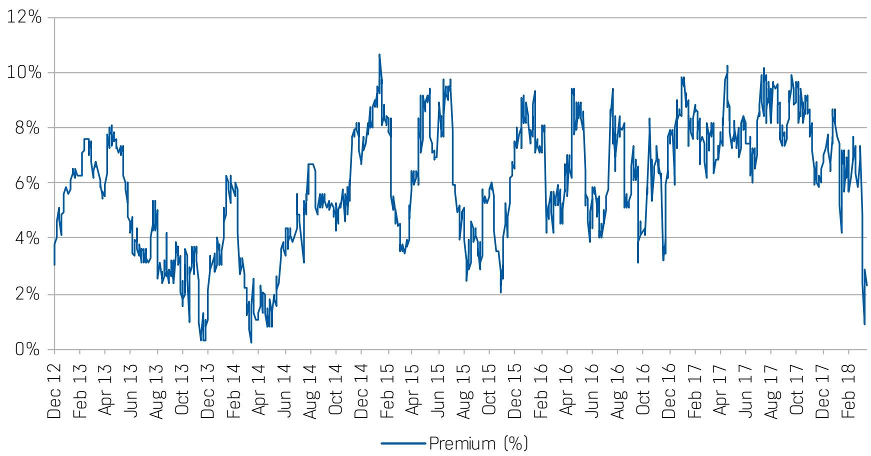
DIVIDEND

On 16 April 2018 the Directors declared a dividend of 1.625 pence per Ordinary Share (annualised 6.5 pence per Ordinary Share) in relation to the fourth quarter of 2018.

SHARE PRICE, NAV AND DISCOUNT





[1] The unlevered annualised total return is calculated on amounts outstanding at the reporting date, excluding undrawn commitments, and assuming all drawn loans are outstanding for the full contractual term. 15 of the loans are floating rate (partially or in whole and some with floors) and returns are based on an assumed profile for future interbank rates but the actual rate received may be higher or lower. Calculated only on amounts funded at the reporting date and excluding committed amounts (but including commitment fees) and excluding cash un-invested. The calculation also excludes the origination fee payable to the Investment Manager.

[2] The levered annualised total return is calculated as per the unlevered return but takes into account the amount of net leverage in the Group and the cost of that leverage at current LIBOR/EURIBOR.

[3] LTV to Group last £ means the percentage which the total loan drawn less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal lender valuation received by the reporting date. LTV to first Group £ means the starting point of the loan to value range of the loans drawn (when aggregated with any other indebtedness ranking senior to it). For the Irish School, Dublin and the mixed use development, south east UK and Student Accommodation, Dublin the calculation includes the total facility available and is calculated against the assumed market value on completion of the project.

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KEY PORTFOLIO STATISTICS AT 31 MARCH 2018

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	0.0	0.0
1 to 2 years	126.5	28.8
2 to 3 years	146.2	33.2
3 to 5 years	142.0	32.3
5 to 10 years	25.0	5.7

* excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

PORTFOLIO ACTIVITY

As at 31 March 2018, the average remaining maturity of the Group's loan book was 3.2 years. The gross annualised levered return of the invested loan portfolio is 8.3 per cent.

The following portfolio activity occurred in the first quarter of 2018:

Repayment: Centre Point, London: The Group received full repayment of the Centre Point loan on 16 February 2018 following successful completion of the borrower's business plan

Repayment: Residential, Cork: The Group received full repayment of the loan on 13 March 2018 following successful completion of the borrower's business plan.

The Group also received amortisation in the quarter on the Industrial Portfolio, UK, the Varde partners mixed portolio and the Industrial portfolio, Europe loans, totalling £12.9 million, all following asset sales in line with borrowers' business plans.

New Loan: Student Accommodation, Dublin: On 5 February 2018 the Group committed to a €11.25 million whole loan facility to finance a 127 bed purpose built student development scheme in central Dublin. The Dublin student market suffers from a severe structural undersupply of purpose built student accommodation, and the borrower's aim is to deliver high quality schemes in strong locations across Ireland in order to address this shortage. The initial facility advance was made on 5 February 2018, with remaining development costs for the scheme to be funded by the whole loan proceeds until expected practical completion in summer 2018. The facility has a term of two years.

New Loan: Residential, Dublin, Ireland: On 16 February 2018, the Group committed to a €9 million floating rate whole loan to finance the conversion of 84 apart hotels to residential use on a site adjacent to the Hotel, Dublin (described below). The financing has been provided in the form of an initial advance along with a capex facility to fund the refurbishment works for a period of 18 months with a six month extension option.

New Loan: Hotel, Dublin, Ireland: On 21 February 2018, the Group closed a €60 million floating rate whole loan to finance the acquisition of a 764 key hotel, 27 apart-hotel units and ancillary development land in Dublin. The financing has been provided in the form of a single advance for a four year term with a one year extension option.

New Loan: Shopping Centre, Spain: On 23 February 2018, the Group closed a €17 million floating rate mezzanine loan secured by a shopping centre in Spain. The property is well anchored, dominates its catchment and is positioned to benefit from the sponsors' active asset management strategy. The financing has been provided in the form of an initial advance along with a capex facility to implement further value enhancing initiatives. The Group's loan complements an existing senior facility provided by Spanish banks, a structure that the Group sees potential to replicate further in Spain. The loan term is 30 months with two one year extension options.

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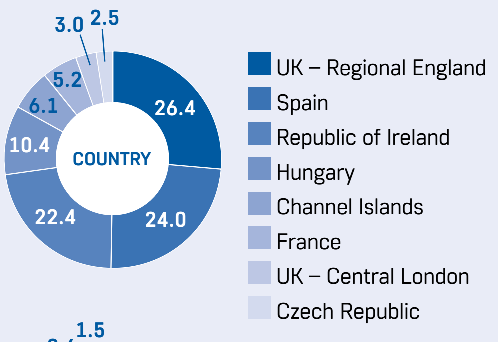
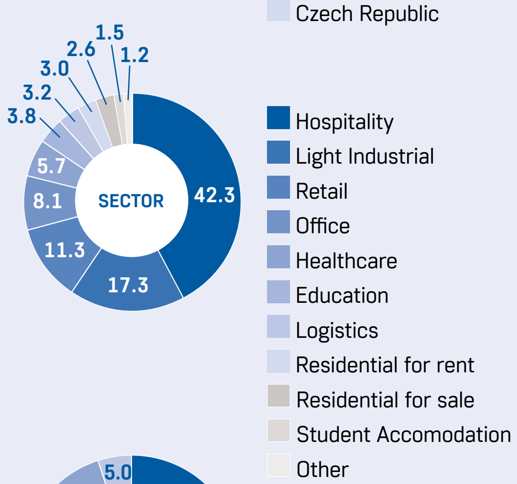
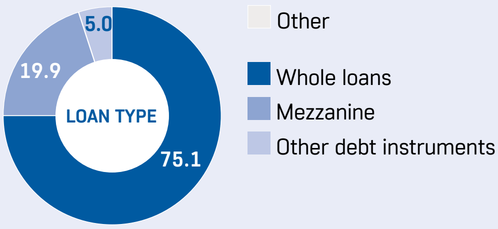
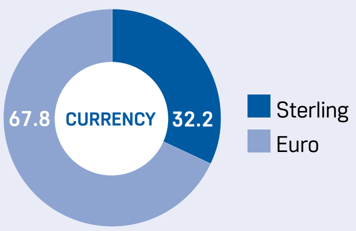
KEY PORTFOLIO STATISTICS AT 31 MARCH 2018

% of invested assets









* the currency split refers to the underlying loan currency, however the capital on all non-sterling exposure is hedged back to sterling.

New Loan: Hotel, Spain: On 15 March 2018, the Group closed a €110 million floating rate whole loan secured by a hotel in Spain with Starwood Property Trust, Inc (through a wholly owned subsidiary) participating in 50 per cent of the loan amount, providing the Company with a net commitment of €55 million. The financing has been provided in the form of an initial advance along with a capex facility to support the sponsor's repositioning strategy. The loan term is five years, and the Group expects to earn an attractive risk-adjusted return in line with its stated investment strategy.

Following the new loan activity, and the £43.7 million of repayments received in the first quarter, the Group remains fully invested with £46.7 million of commitments to fund. The Group had drawn £66.6 million on its available credit facilities of £114 million and has cash of £9.6 million for working capital purposes. The Investment Adviser is reviewing multiple lending opportunities, with some opportunities currently in execution, and will continue to focus on the use of credit facilities and equity issuance when appropriate in order to grow the loan book whilst limiting the cash drag impact of any future repayments.

COMMENTARY

In February CBRE issued an update to their "Four Quadrants real estate relative value" paper. This paper is compelling reading for the Group's investors as its conclusion is that within the real estate investment universe, the private debt strategy, which the Company invests in, continues to be the best relative risk adjusted return when compared generically to public real estate debt and both public and private real estate equity investments.

CBRE also highlighted that 2017 European commercial real estate investment volumes reached a record level of €285 billion which is up nine per cent on 2016 and two per cent on the prior peak year in 2015. There have been record volumes in Austria, Central and Eastern Europe, Denmark, Finland, Italy and the Netherlands and near peak levels in the UK and Germany. France was singled out as a market where, after a subdued start to the year, prior to the election, volume had picked up in the latter part of the year on the expectation of Macron's economic reforms with €12 billion of the annual €27 billion total volume being in quarter four alone. While the core loan market in France has been very well covered by domestic and German banks we are seeing some opportunities where the usual banks are not delivering for borrowers and we have been able to provide solutions. Further to closing our first investment in France at the end of last year we see potential follow-on transactions in the French market.

Link Asset Services (previously Capita) have released their second commercial real estate lender sentiment survey which presents some broad conclusions around the market. We agree with many of the conclusions such as the continued increase in appetite for longer dated paper from insurance companies, a relatively stable environment around risk criteria from lenders and the trend for slower closing processes in general. The Link Asset Services survey data shows that the average deal took 53 days in 2017 versus 46 days in the previous year to move from agreed terms to drawdown. One aspect we have not observed is that the survey sees an increase of 45 basis points in mezzanine pricing between 2016 and 2017. We think this reflects a diverse universe of mezzanine financing in the survey data including smaller ticket, development mezzanine and higher loan-to value ("LTV") mezzanine debt included. For the types of mezzanine loans that we typically look at, we see pricing and risk point as being relatively stable with pricing in the seven to nine per cent range. We have also seen a very small number of lower priced mezzanine debt loans from international capital where margins have been as low as mid 400s basis points spread over the Libor rate for trophy asset financings.

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Starwood European Real Estate Finance Limited is an investment company listed on the premium segment of the main market of the London Stock Exchange with an investment objective to provide Shareholders with regular dividends and an attractive total return while limiting downside risk, through the origination, execution, acquisition and servicing of a diversified portfolio of real estate debt investments in the UK and the wider European Union's internal market

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The Company is the largest London-listed vehicle to provide investors with pure play exposure to real estate lending.

The Group's assets are managed by Starwood European Finance Partners Limited, an indirect wholly-owned subsidiary of the Starwood Capital Group.

In the capital markets we continue to see an ongoing theme in the market for large stabilised senior investment loans secured by commercial real estate becoming increasingly liquid and competitive across Europe. This is driven by increasingly diverse sources of financing from an increased use of corporate debt for the investment grade listed property companies, domestic and international banks lending from their balance sheets, increased appetite from insurance companies for real estate debt and increasingly new commercial mortgage-backed securities ("CMBS") issues all competing for similar deals.

Most notable is the increased competitiveness in the CMBS market over the past quarter. Investment banks now favour this route as a base case exit when underwriting certain large investment loans for distribution. Previously investment banks would typically have looked to sell down similar large loans in smaller tickets in a loan syndication to a group of balance sheet bank lenders and insurance companies. This had previously been a better execution due to a lower cost of capital from those sources, but we have now seen an inflection point on demand and on pricing for CMBS where CMBS can now deliver a cheaper execution. Morgan Stanley research notes that at the end of the year in 2015 UK commercial real estate senior debt was 25-30 basis point tighter than what was available in the CMBS markets, however with loan pricing relatively unchanged but blended CMBS pricing more than 50 basis points tighter this relationship has now reversed. An example of this is Bank of America Merrill Lynch's Taurus 2017-2 issuance of a UK CMBS in November 2017. According to Debtwire, the facility supported the acquisition of a £545.6 million UK logistics portfolio. The detachment point of the most junior notes was c. 70 per cent LTV and the blended pricing on the issuance was c.164 basis points, which reflects both a higher LTV and pricing significantly inside what would have been achievable in the bank financing market for a senior loan. Since the fourth quarter of 2017, investment banks' underwrite to CMBS activity has increased significantly with Morgan Stanley research having increased its expectations of new issuance in 2018 from €1 billion to €3-4 billion. There are a number of drivers for this change in pricing including a reduction of the amount of outstanding CMBS in the market and the effect of quantitative easing on the availability of investable debt in the overall bond market generally.

While the re-emergence of CMBS is a notable development in the commercial real estate lending market, the overall trend for increased liquidity and lower pricing in the vanilla senior lending space has been continuing for a number of years. The Group has seen little impact on its ability to source new investments as a result of this trend as there is a limited overlap with the Group's more bespoke approach to lending and the Group has made good origination progress during the first quarter of the year making a total of £135 million of new commitments.

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www.starwoodeuropeanfinance.com