Starwood European Real Estate Finance Limited

Quarterly Investment Update

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 DECEMBER 2017

Share Price (p)	NAV (p)	Premium / Discount	Dividend Yield	Market Cap
109.50	102.17	7.2%	5.9%	£410.6m

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 DECEMBER 2017

As at 31 December 2017, the Group had 16 investments and commitments of £399.5 million as follows:

Transaction	Sterling equivalent balance (1)	Sterling equivalent unfunded commitment (1)
Centre Point, London	£25.4m	–
Industrial Portfolio, UK	£25.5m	–
Hospitals, UK	£25.0m	–
Hotel, Channel Islands	£26.9m	–
Varde Partners mixed portfolio, UK	£9.2m	–
Mixed use development, South East UK	£10.5m	£2.7m
Regional Hotel Portfolio, UK	£45.9m	–
Junior notes, UK real estate loans	£21.8m	–
Total Sterling Loans	**£190.2m**	**£2.7m**
Residential Portfolio, Cork, Ireland	£5.3m	–
Residential Portfolio, Dublin, Ireland	£6.8m	–
Logistics, Dublin, Ireland	£13.1m	–
Hotel, Barcelona, Spain	£40.9m	–
School, Dublin, Ireland	£16.8m	–
Industrial Portfolio, Eastern Europe	£60.9m	–
Shopping Centres, Spain	£31.0m	£8.7m
Office building, Paris	£23.1m	-
Total Euro Loans	**£197.9m**	**£8.7m**
Total Portfolio	**£388.1m**	**£11.4m**

(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.

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 DECEMBER 2017

Number of investments	**16**
Percentage of currently invested portfolio in floating rate loans	**75.2%**
Invested Loan Portfolio unlevered annualised total return [1]	**7.5%**
Invested Loan Portfolio levered annualised total return [2]	**7.7%**
Weighted average portfolio LTV – to Group first £ [3]	**14.5%**
Weighted average portfolio LTV – to Group last £ [3]	**63.2%**
Average loan term (stated maturity at inception)	**4.2 years**
Average remaining loan term	**3.1 years**
Net Asset Value	**£383.1m**
Amount drawn under Revolving Credit Facility (excluding accrued interest)	**£13.3m**
Portfolio value (including accrued income)	**£392.1m**
Cash	**£11.8m**
Other net assets/ (liabilities) (including hedges)	**-£7.5m**

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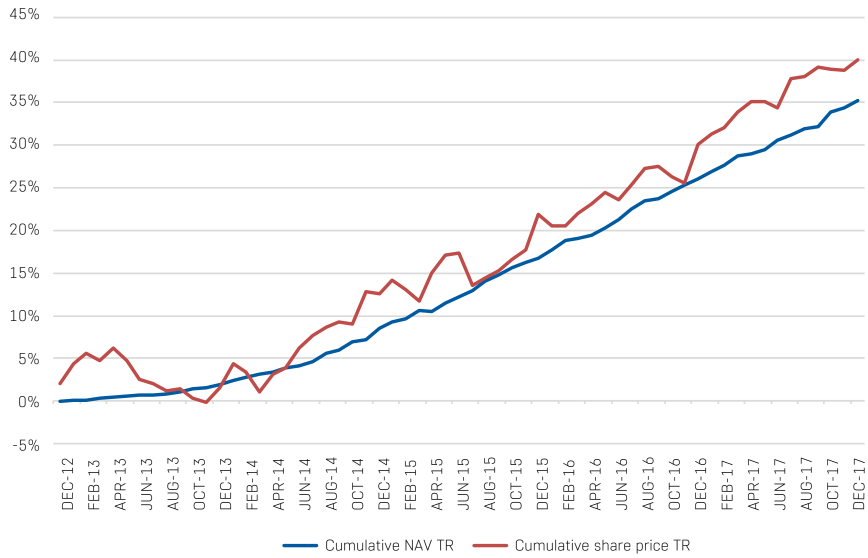
DIVIDEND

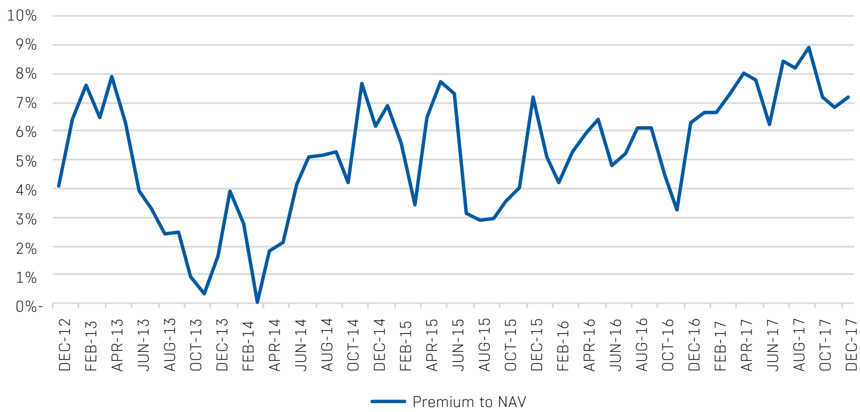
On 26 January 2018 the Directors declared a dividend of 1.625 pence per Ordinary Share (annualised 6.5 pence per Ordinary Share) in relation to the fourth quarter of 2017.

SHARE PRICE, NAV AND DISCOUNT

Cumulative total returns



Share price premium to NAV



[1] Calculated on amounts outstanding at the reporting date, excluding undrawn commitments, and assuming all drawn loans are outstanding for the full contractual term. 13 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 and cash un-invested. The calculation 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 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 commitment 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 loan commitments (when aggregated with any other indebtedness ranking senior to it). For Centre Point, the Irish School, Dublin and the mixed use development, south east UK, the calculation includes the total facility available and is calculated against the assumed market value on completion of the project.

KEY PORTFOLIO STATISTICS AT 31 DECEMBER 2017

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	25.4	6.5
1 to 2 years	50.5	13.0
2 to 3 years	107.6	27.7
3 to 5 years	179.6	46.3
5 to 10 years	25.0	6.5

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

PORTFOLIO ACTIVITY

As at 31 December 2017, the average remaining maturity of the Group's £388.1 million loan book was 3.1 years. The Group had £11.8 million of cash with £11.4 million of commitments to fund. The Group had drawn £13.3 million on its available credit facilities. The gross annualised levered return of the invested loan portfolio is 7.7 per cent.

The following portfolio activity occurred in the fourth quarter of 2017:

Repayment: UK Regional Budget Hotel Portfolio: The Group received full repayment of the £75 million loan following a successful refinancing of the portfolio by the owner. In the September factsheet the Company indicated that it was expecting further repayments in the final quarter of the year and this was one of the loans we had anticipated would be repaid.

New Loan: Spanish Shopping Centres: On 24 November 2017, the Group closed a €44.63 million, five-year floating rate whole loan secured by three shopping centres in Spain. The loan was made available to fund an initial acquisition advance along with capex funding to support the sponsors' proven retail repositioning capability to make further investment in the properties. The properties are well-anchored, dominate their catchment areas and are positioned to benefit from the sponsors' active asset management strategy.

New Loan: Regional Hotels: On 20 December 2017 the Group closed on a £45.87 million mezzanine loan secured by a well-invested portfolio of geographically diversified mid-range hotels in strong regional UK cities.

New Loan: Junior notes, UK Real estate loans: On 22 December 2017 the Group acquired £21.77 million junior notes linked to the performance of a portfolio of high quality UK real estate loans owned by a major commercial bank. The underlying reference loan pool is secured by an institutional quality, well-diversified pool of commercial real estate assets with an average LTV of less than 50 per cent.

New Loan: Office, Paris: On 22 December 2017, the Group subscribed to a €26 million note issuance, the proceeds of which were used to finance an office building in suburban Paris.

Whilst the Group had material cash for parts of the quarter, a number of the loans which have been repaid during the year benefitted from prepayment protection in their early years providing a level of income protection whilst in that protected period. This income allows the Group to mitigate cash drag for periods of time during which the Group reinvests the proceeds from repayments.

Following the new loan activity in the last quarter the Group remains substantially fully invested. The Investment Adviser is reviewing multiple lending opportunities and several opportunities are in execution. The Group expects to be able to utilise the credit facilities available to it in the near future and as a result increase the levered return on the invested portfolio.

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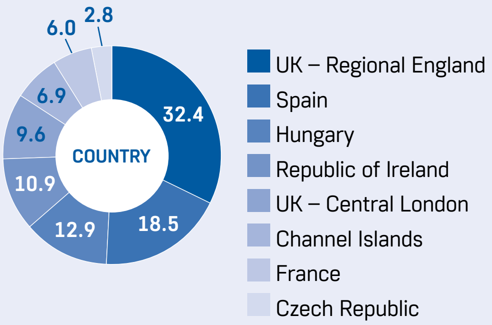
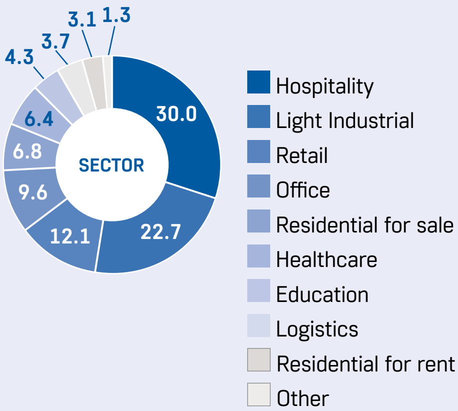
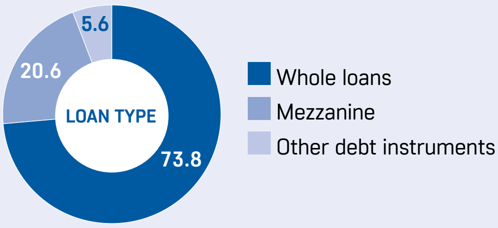
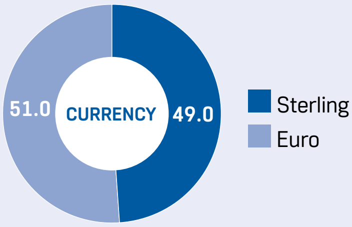
KEY PORTFOLIO STATISTICS AT 31 DECEMBER 2017

% 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.

CREDIT FACILITIES AVAILABLE TO THE GROUP

On 18 December 2017, the Group entered into a new £64 million secured borrowing facility (the "Secured Facility"). The Secured Facility provides for additional flexibility and optionality for the Group to implement its investment strategies. The Secured Facility is a five-year revolving credit facility allowing both for term financing of whole loans and additional capacity to bridge syndication strategies.

Previously the Group used its £50 million revolving credit facility with Lloyds to manage new investments, loan repayments and equity raising. Whilst this facility continues to be extremely useful, the Secured Facility will provide additional investment and operational flexibility. The longer term nature of the Secured Facility will allow the Group to flexibly apply longer-term leverage to enhance returns on whole loans which would otherwise generate returns lower than the Group's targets, without the cost and time requirements of syndicating an A-Note. Alternatively, the facility could be used to provide a backstop financing to an A-Note syndication where the Group is underwriting a whole loan with the intention of syndicating an A-Note. This allows time to effect a sale without suffering from reduced returns in the interim period. The Secured Facility may also be used in conjunction with the Lloyds facility to manage liquidity and repayment risk and also as a bridge to an equity raise.

COMMENTARY

2017 was generally seen as a year of two halves for commercial real estate lending activity, with market participants reporting a lower volume of lending prior to the summer break followed by a very active final quarter. According to Real Estate Capital, commercial real estate loan syndication volumes were down in the first half of the year by 25 per cent year on year, despite underlying investment market volumes being up. Sentiment changed after the summer and during the final quarter of the year we frequently heard that borrowers were struggling to get traction on new loans because lenders were loaded up with existing transactions in execution and so they had little further capacity to take on more lending mandates. We also saw issues with capacity amongst financing lawyers, valuers and other advisers to cope with the requests in the market. The Group had a good start to the year with £115.5 million of new investments making it the highest half one origination volume for the Group. We saw a similar pattern to the market in the second half of the year reflected in our origination with an additional four new loans with a total commitment of £130.3 million all being made in the month from the end of November to end of December also making it the largest new origination volume for the full year for the Group.

On the underlying commercial real estate market side despite the continuing BREXIT uncertainties, there has been increased volume in the UK market with a total of £26 billion of London commercial real estate transactions in 2017 versus £22 billion in 2016 and £62 billion versus £52 billion for the UK as a whole according to PropertyData. London still tops the table for global real estate investment in 2017 with the next largest contributor of Hong Kong at only £16 billion and Manhattan next at £12.4 billion. The average yield is also down by 28bps for the UK as a whole and 19bps for London. Recent data on London office leasing activity has also been strong, according to Savills 2017 was the second highest year of take-up for the West End and the fourth highest take-up for the City since 2000.

There has been an increase in the number of participants in the loan brokerage market and the number of brokered loans. Loan brokers have traditionally been a large part of the market in the U.S. but until recently have been a small part of the market in Europe. We believe this growth reflects a more diverse lender universe where it is harder for borrowers, especially those who access the market less frequently, to understand the market and so they are increasingly using brokers to help navigate the market to source debt. One example is HFF, a large player in the U.S. who have set up in Europe since the

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FOR FURTHER INFORMATION, PLEASE CONTACT:

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Starwood European Real Estate Finance Limited is an investment company listed on 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.

www.starwoodeuropeanfinance.com

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.

end of 2016 where the Group was the lender to their first European loan. We are also seeing increased volume coming through from the second tier brokerage teams at both established real estate services firms and also from an increasing group of smaller, often one-man brokers.

We continue to see anomalies in loan pricing and terms around Europe. An example from CBRE European debt map is that Prague prime office is more competitive than Oslo and London. This is both from a higher LTV at 70 per cent versus 60 per cent and 55 per cent respectively and pricing of 100-125bps versus 150bps and 140bps respectively. On the face of it this is counter intuitive given a lower country credit rating and a smaller, less liquid market, however there are many dynamics including the size and regulatory environment for banks, the level of cross-border lending and currency considerations which create these anomalies.

Overall the more fragmented market and the market dynamics highlighted above continue to offer the Group good opportunities with our flexible mandate between jurisdictions, real estate asset classes and capital structure. Looking into 2018 we start with a robust pipeline of new opportunities which has similar themes to previous investments. The UK, Ireland and Spain remain the jurisdictions that provide the most interesting opportunities for the Group. Whole loans are now are larger part of the book and we expect to see this continue into 2018.

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www.starwoodeuropeanfinance.com