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 30 SEPTEMBER 2017

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 30 SEPTEMBER 2017

As at 30 September 2017, the Group had 13 investments and commitments of £364.5 million as follows:

Transaction	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment [1]
Centre Point, London	£45.0m	–
Industrial Portfolio, UK	£25.5m	–
Hospitals, UK	£25.0m	–
Hotel, Channel Islands	£26.9m	–
Varde Partners mixed portfolio, UK	£12.0m	–
Mixed use development, South East UK	£9.8m	£3.4m
Regional Budget Hotel Portfolio, UK	£75.0m	-
Total Sterling Loans	**£219.2m**	**£3.4m**
Residential Portfolio, Cork, Ireland	£5.3m	–
Residential Portfolio, Dublin, Ireland	£6.8m	–
Logistics, Dublin, Ireland	£13.0m	–
Hotel, Barcelona, Spain	£40.3m	–
School, Dublin, Ireland	£16.5m	–
Industrial Portfolio, Eastern Europe	£60.0m	–
Total Euro Loans	**£141.9m**	**–**
Total Portfolio	**£361.1m**	**£3.4m**

[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.

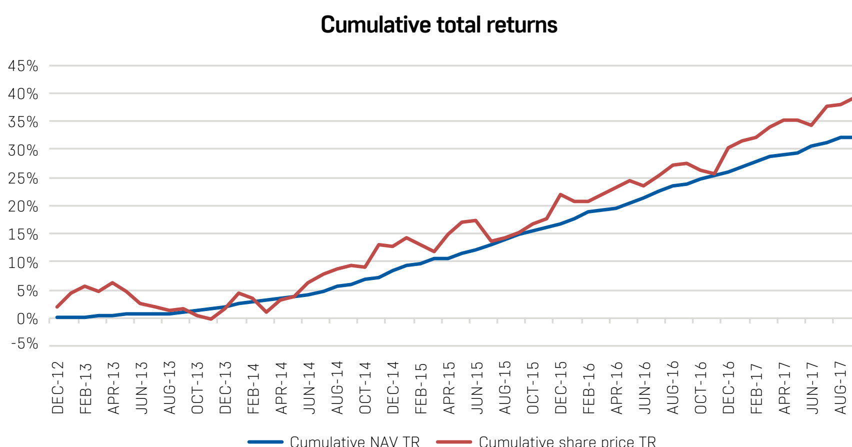
KEY PORTFOLIO STATISTICS AS AT 30 SEPTEMBER 2017

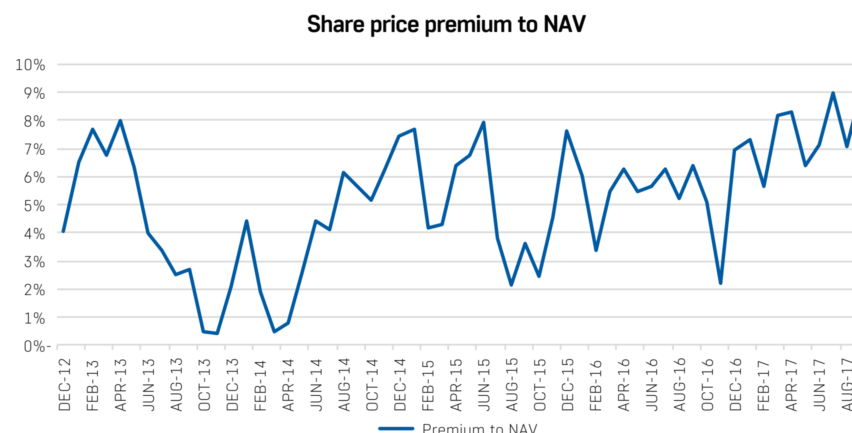
Number of investments	13
Percentage of currently invested portfolio in floating rate loans	74.6%
Invested Loan Portfolio annualised total return [(1)]	7.9%
Weighted average portfolio LTV – to Group first £ [(2)]	17.2%
Weighted average portfolio LTV – to Group last £ [(2)]	62.6%
Average loan term (stated maturity at inception)	4.4 years
Average remaining loan term	3.0 years
Net Asset Value	£380.5m
Amount drawn under Revolving Credit Facility (excluding accrued interest)	£0.0m
Portfolio value (including accrued income)	£363.9m
Cash	£23.7m
Other net assets/ (liabilities) (including hedges)	-£7.1m

DIVIDEND

On 19 October 2017 the Directors declared a dividend of 1.625 pence per Ordinary Share (annualised 6.5 pence per Ordinary Share) in relation to the third quarter of 2017.

SHARE PRICE, NAV AND DISCOUNT





[(1)] Calculated on amounts outstanding at the reporting date, excluding undrawn commitments, and assuming all drawn loans are outstanding for the full contractual term. Eleven 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)] 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.

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KEY PORTFOLIO STATISTICS AS AT 30 SEPTEMBER 2017

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	£45.0m	12.5%
1 to 2 years	£47.3m	13.1%
2 to 3 years	£88.6m	24.5%
3 to 5 years	£155.2m	43.0%
5 to 10 years	£25.0m	6.9%

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

PORTFOLIO ACTIVITY

As at 30 September 2017, the average maturity of the Group's £361.1 million loan book was 3 years. The Group had £23.7 million of cash with £3.4 million of commitments to fund. The gross annualised unlevered return of the invested loan portfolio is 7.9 per cent.

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

Office, Netherlands: On 18 July 2017 the Group received €13.8 million as full repayment of the Office, Netherlands loan following a successful refinancing of the property by the owner. The Group used the proceeds to repay £7.5 million drawn on the revolving credit facility at that time.

Five Star Hotel, London: On 13 September 2017, the Group received full repayment of £13 million of the 5 Star Hotel, London loan following a successful refinancing of the property by the owner.

Following these repayments, the Group remains substantially fully invested and the Investment Adviser is reviewing multiple lending opportunities to deploy the Group's uncommitted resources.

CREDIT FACILITIES AVAILABLE TO THE GROUP

The Group is expecting to enter into an additional £64 million five-year loan facility in the coming weeks which falls under the 20 per cent longer-term leverage approved by the shareholders at the 2016 Extraordinary General Meeting (the "New Facility"). At present the Group uses 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 New Facility will provide additional investment and operational flexibility. The longer term nature of the New 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, thus de-risking the associated syndication market risk. The New Facility may also be used in conjunction with the Lloyds facility to manage liquidity to bridge to equity raise and manage repayment risk.

The Group structure was re-organised on 6 October 2017 to enable the arrangement of the New Facility and, as part of the reorganisation, the Group also extended the maturity of its £50 million revolving credit facility with Lloyds to 6 October 2018.

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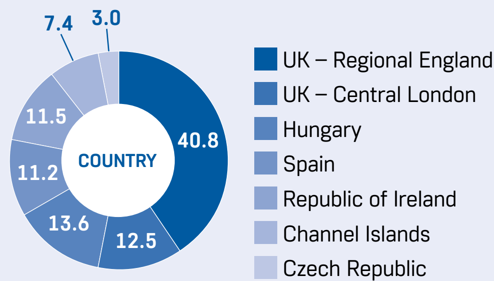
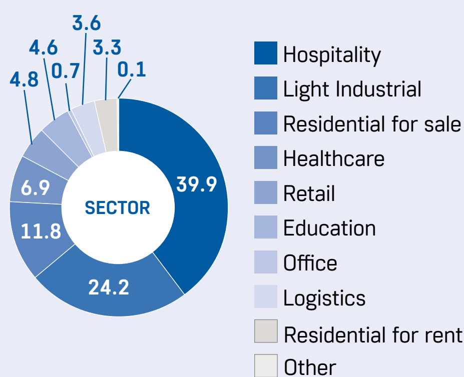
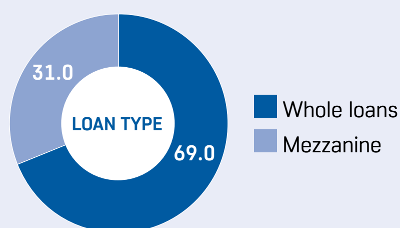
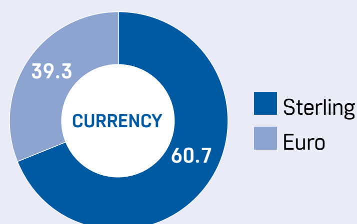
KEY PORTFOLIO STATISTICS AS AT 30 SEPTEMBER 2017

% 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.

OUTLOOK FOR FOURTH QUARTER

The Company held an Extraordinary General Meeting on 29 September, and we are pleased to confirm that shareholders approved the special resolution to permit the Company to allot new ordinary shares and to dis-apply pre-emption rights in respect of up to 20 per cent of the issued share capital on the date of the Extraordinary General Meeting. This takes advantage of the recent implementation of the Prospectus Regulation which now enables issuers such as the Company (subject to obtaining the requisite Shareholder authorities) to issue up to 20 per cent of the securities already listed by way of such issues over 12 months without any requirement to publish a prospectus (the previous limit having been 10 per cent).

This enhanced equity raising ability, together with the cash and credit facilities available to the Group, gives the Group considerable capacity of approximately £210 million to underwrite loans in the typically busy fourth quarter of the year. As is typical the summer period was relatively quiet with the first weeks of September setting the tone for the fourth quarter activity. The Group has developed a strong pipeline of deals in execution over the last six months and have secured further new opportunities during September meaning the Group expects a busy finish to the year. The pipeline mirrors geographical and sector themes highlighted previously with the UK, Spain and Ireland generating the bulk of the pipeline and with pipeline loans across a variety of asset classes including office, retail, residential and hospitality.

As indicated in the last few factsheets, we continue to expect 2017 to be a strong year for repayments. We have received repayments and amortisation of £115.6 million for the nine months to the end of September. We anticipate further repayments in the final quarter of the year and in the first quarter of 2018. We will therefore remain cautious with respect to equity issuance in order to minimise cash drag from future repayments.

MARKET COMMENTARY

Pricing in the European commercial real estate financing market continues to be relatively stable. The De Montfort University lending survey mid-year report is showing slightly higher margins for all UK lending types with prime financing margins up a few basis points and secondary office up by approximately 30 bps. The exception is in light industrial which is a sector currently attracting significant investor interest, and is showing slightly tighter margins than in the previous period. This contrasts starkly with the European corporate high yield market. The Financial Times reports record levels of new leveraged loan issuance of €85 billion in 2017 so far, being the largest amount since the global financial crisis. While volumes have increased, returns have fallen significantly. Bank of America Merrill Lynch's euro high yield bond index has dropped to 2.3 per cent having started 2016 at 6 per cent.

In the prime real estate lending space, there continues to be a supply and demand imbalance with banks and insurance companies finding it difficult to fulfil their lending volume ambitions. This is driven by a number of factors both on the supply and demand side. There is a current trend for prime assets bought by overseas investors to be financed with less or no leverage, and there is a cheap and highly liquid bond market for corporate borrowers. Examples in the bond sector this quarter include Segro and Land Securities issuing new long dated bonds at attractive levels. Segro has launched and priced a £350 million bond with a maturity of 12 years paying a coupon of 2.375 per cent and a £400 million bond with a maturity of 20 years paying a coupon of 2.875 per cent being a spread of 107 bps over the reference gilt rate. In September Land Securities issued a £500 million 20 year bond, paying a coupon of 2.625 per cent and a £500 million 40 year bond, paying a coupon of 2.75 per cent.

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MARKET COMMENTARY (CONTINUED)

At the same time, we are seeing increased appetite for prime lending from existing and new players. AXA has raised €1.5 billion through its 10th Senior Commercial real estate debt fund, taking its total debt book to €14 billion. Allianz's commercial loan book has surpassed €6 billion of total loans, with €1.5 billion lent so far this year and a budget of €2 billion of new lending for 2017. We are also seeing banks looking internationally to increase origination volumes, such as German bank Deutsche Hypo, which is planning to return to lending in Spain after leaving the market in 2013, where they expect to lend €200 million annually focussing on prime offices in Madrid and Barcelona.

With a higher level of competition there are risks that the requirements to deploy capital affect discipline on risk appetite. This has been seen in an increase in covenant light deals in the leveraged finance market for corporate borrowers, however for the most part we are not currently seeing a deterioration in risk standards in the mainstream commercial real estate lending market.

Political risk and its potential impact on the real estate market remains one of the key areas for scrutiny with, for example, the ongoing Brexit process, a German election and recent events in Catalonia. The Group is maintaining particularly close scrutiny on Spain and the Catalan situation. We have existing exposure through our €46 million Barcelona hotel whole loan and we have two further loans totalling €61 million secured by retail assets in Spain (outside Catalonia) in the late stages of execution. The tensions around Catalan independence are not new, however there is a significantly raised level of uncertainty following the independence referendum on 1 October. After a relatively muted initial reaction the IBEX (the main public equity market index in Spain) and Spanish 10 year government bonds have quickly reverted to levels prior to the vote. Capital Economics' view is that there will be limited impact economically, predicting both that a negotiated outcome is likely and that even in a prolonged period of uncertainty the economic impact would be 0.5 per cent on Catalan GDP, which would have only a 0.1 per cent impact on Spanish GDP. While the market has shrugged off recent events, the Group is more cautious and will prioritise opportunities that are relatively insulated from the ongoing uncertainty. During this time the Group will continue to track political developments while closely monitoring the Spanish market for particularly compelling risk adjusted opportunities that may arise.

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.

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www.starwoodeuropeanfinance.com