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 30 JUNE 2017

| Share Price (p) | NAV (p) | Premium / Discount | Dividend Yield | Market Cap |
|---|---|---|---|---|
| 108.25 | 101.89 | 6.2% | 6.0% | £406.0m |

## 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 30 JUNE 2017

As at 30 June 2017, the Group had 15 investments and commitments of £396.1 million as follows:

| Transaction | Sterling equivalent balance [1] | Sterling equivalent unfunded commitment [1] |
|---|---|---|
| Centre Point, London | £45.0m | – |
| 5 Star Hotel, London | £13.0m | – |
| Industrial Portfolio, UK | £25.5m | – |
| Hospitals, UK | £25.0m | – |
| Hotel, Channel Islands | £26.9m | – |
| Varde Partners mixed portfolio, UK | £17.0m | – |
| Mixed use development, South East UK | £8.5m | £5.4m |
| Regional Budget Hotel Portfolio, UK | £75.0m | – |
| **Total Sterling Loans** | **£235.9m** | **£5.4m** |
| Office, Netherlands | £12.2m | – |
| Residential Portfolio, Cork, Ireland | £5.3m | – |
| Residential Portfolio, Dublin, Ireland | £6.8m | – |
| Logistics, Dublin, Ireland | £13.1m | – |
| Hotel, Barcelona, Spain | £40.5m | – |
| School, Dublin, Ireland | £16.6m | – |
| Industrial Portfolio, Eastern Europe | £60.3m | - |
| **Total Euro Loans** | **£154.8m** | **-** |
| **Total Portfolio** | **£390.7m** | **£5.4m** |

[1] Euro balances translated to sterling at 30 June 2017 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.

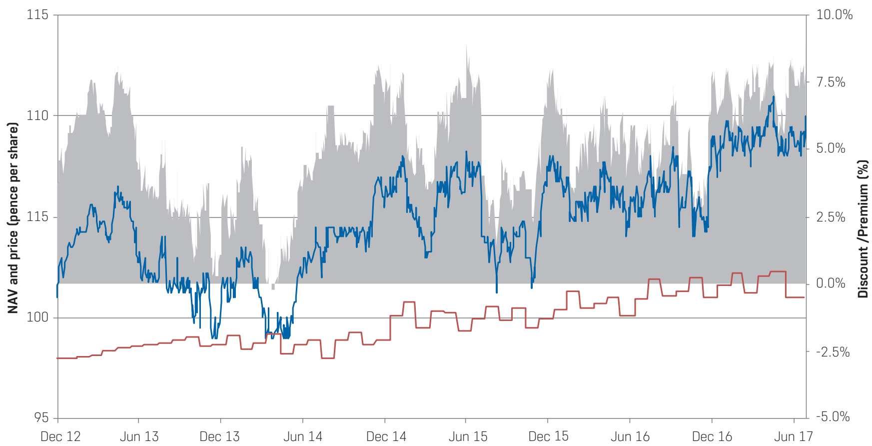
## KEY PORTFOLIO STATISTICS as at 30 June 2017

| | |
|---|---|
| Number of investments | **15** |
| Percentage of currently invested portfolio in floating rate loans [1] | **73.2%** |
| Invested Loan Portfolio annualised total return [2] | **7.9%** |
| Weighted average portfolio LTV – to Group first £ [3] | **17.8%** |
| Weighted average portfolio LTV – to Group last £ [3] | **63.9%** |
| Average loan term (stated maturity at inception) | **4.4 years** |
| Average remaining loan term | **3.1 years** |
| Net Asset Value | **£382.1m** |
| Amount drawn under revolving credit facility (excluding accrued interest) | **-£7.5m** |
| Portfolio value (including accrued income) | **£393.4m** |
| Cash | **£2.4m** |
| Other net assets/ (liabilities) (including hedges) | **-£6.2m** |

## DIVIDEND

On 25 July 2017 the Directors declared a dividend of 1.625 pence per Ordinary Share (annualised 6.5 pence per Ordinary Share) in relation to the second quarter of 2017.

## SHARE PRICE, NAV AND DISCOUNT




[1] Calculated on loans drawn at the reporting date using the exchange rates applicable when the loans were funded.

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

[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 as at 30 JUNE 2017

| Remaining years to contractual maturity* | Value of loans | % of invested portfolio |
|---|---|---|
| 0 to 1 years | £51.1m | 13.1% |
| 1 to 2 years | £37.7m | 9.6% |
| 2 to 3 years | £121.4m | 31.1% |
| 3 to 5 years | £155.5m | 39.8% |
| 5 to 10 years | £25.0m | 6.4% |

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

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## PORTFOLIO ACTIVITY

As at 30 June 2017, the average maturity of the Group's £390.7 million loan book was 3.1 years. The Group has £2.4 million of cash and £7.5 million drawn on the revolving credit facility, with £5.4 million of commitments to fund. The gross annualised total return of the invested loan portfolio is 7.9 per cent.

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

**Industrial Portfolio, Central and Eastern Europe:** On 31 May 2017 the Group funded the remaining commitment of €42.0 million for a portfolio of industrial assets located across Central and Eastern Europe.

**Mixed use development, South East:** The Group has agreed to a facility amendment incorporating a modest downsize of the undrawn loan with the Group's total commitment reducing from £15 million to £13.9 million.

**Center Parcs, UK:** The Group received full repayment of £9.5 million (notional) in relation to the Center Parcs bonds at a redemption price of 104.8%. The repayment premium is equivalent to approximately 8 months of make-whole interest.

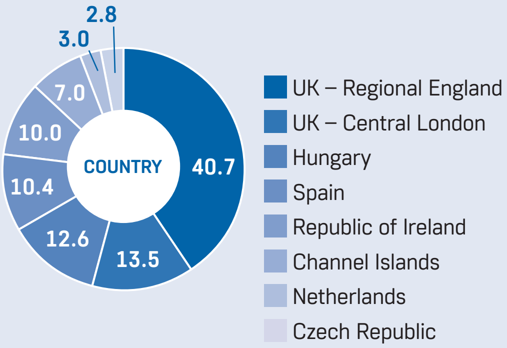
**Other repayments to 30 June 2017:** During June, the Group also received full repayment of the Retail & Residential Portfolio, Ireland and received amortisation of £2.3 million on the Industrial Portfolio, UK loan. A loan repayment of £4.0 million was also received on the Industrial Portfolio, UK loan in May 2017 as the borrower sold properties resulting in mandatory repayments of the loan.

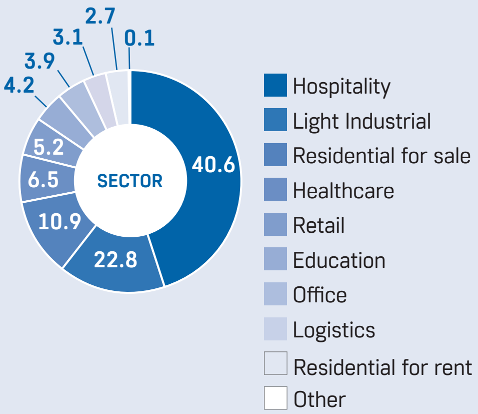
The Company constantly seeks to minimise cash drag and attempts to manage repayment events by tactically using the £50 million revolving credit facility available to it. The proceeds of these repayments were used to repay £14.0 million of drawings on the revolving credit facility, leaving £7.5 million drawn on the revolving credit facility at 30 June 2017.

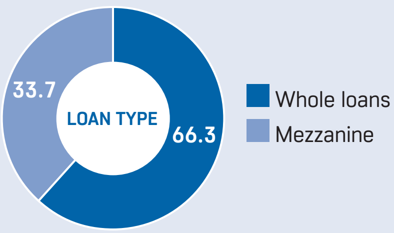
Since the quarter end, on 18 July 2017, the Group received full repayment of the Office, Netherlands loan following a successful refinancing of the property by the owner. The £12.2 million repayment proceeds will be used to repay the remaining £7.5 million balance on the revolving credit facility. This facility will then be undrawn and available for new investments.

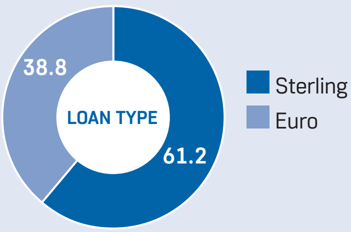
## KEY PORTFOLIO STATISTICS
## as at 30 JUNE 2017

**% 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.

## PIPELINE

We continue to see similar themes to those seen over the last few quarters. Geographically we continue to focus on the UK and Spain in particular. We are being patient with development financing opportunities. While these loans offer good risk adjusted return opportunities, they also consume larger amounts of time and resources to underwrite, execute and manage post-closing. We are also finding that development financing processes are taking longer to progress from the initial borrower's financing requests to execution and are often subject to significant scope changes during the process leading to less execution certainty. We expect to see continuing acquisition activity in alternative real estate asset classes which should yield opportunities with early stage hospitality, student accommodation and leisure asset financings currently on our target pipeline.

## MARKET COMMENTARY

A number of property finance research pieces focussed on the UK were released during the quarter. These include the de Montfort University lending survey, Savills Financing Property 2017 presentation, Laxfield Capital's 8th Property Finance Barometer and a new piece of research: Capita's inaugural Real Estate Finance Market Trend Analysis.

The De Montfort University lending survey is the leading commercial property financing research piece on the UK market. The semi-annual report provides insights into the opaque lending market with hard data sourced from many market participants including the Group. The year end 2016 survey was released at the beginning of May and reports that total year end 2016 debt secured by commercial real estate in the UK is relatively unchanged at £208.7 billion, down 1.5 per cent year on year. The Brexit effect can be seen in a number of the outputs, with average loan-to values ("LTVs") down, and average margins up slightly; but the largest effect has been a reduced acquisition financing volume as transactions numbers fell. Average LTVs for prime office lending are down 5 per cent, margins are up 15 basis points between year-end 2015 and year-end 2016 and new loan origination is down 17 per cent to £44.5 billion. A larger proportion of activity, at 61 per cent of the total is refinancing compared to 44 per cent in 2015.

The proportion of loans made by UK Banks was higher at 47 per cent this year versus 34 per cent last year. This is likely related to the larger proportion of refinancings versus new acquisitions, where incumbent UK banks benefit from existing relationships within the lending book. Syndications are down from £18 billion to £14 billion, reflecting a lack of paper rather than a lack of appetite. Lending volumes continue to be dominated by a small number of players – 62 per cent of new loan origination by volume came from only 12 institutions (six UK banks, two German banks, one North American bank, one insurance company and two other international banks). Only UK banks and non-bank lenders reported larger balance sheets at year end 2016 than 2015. In particular origination volume by US banks fell 56 per cent and insurance companies fell 46 per cent (reflecting reduced larger transaction activity). Non-bank lenders continue to take a market share of around 10 per cent of the market. 76 per cent of mezzanine / junior debt is held by non-bank lenders with a further 18 per cent held by insurance companies and only 6 per cent held by banks.

## MARKET COMMENTARY (CONTINUED)

The Savills report repeats many of the findings from the De Montfort Survey, which is published a month earlier, adding some further observations in their Financing Property 2017 report. Savills write that "Property has rarely been so financeable" comparing the UK All Property Equivalent Yield and average all in cost of money and showing the all in cost of real estate debt is at historical lows and the spread between property yield and financing cost being at historical highs. Savills also note that development finance is not growing significantly and is at less than half the levels of 2007 and 2008. This theme is in line with what we are seeing in the market but we also see a risk that as an increasing amount of development financing is being provided by alternative lenders (especially on the larger tickets), this could be missed from survey data, as these lenders are less likely to report their lending to the survey.

Both Savills' and Capita's reports highlight the general desire of the lending community to do new business. Savills quote 81 per cent of lenders expressing a desire to increase their lending while Capita say that 52 per cent of lenders are looking to grow their lending teams and 71 per cent are looking to grow their lending book over the next year. Both highlight the variety of different lender types in the market and there is such a diversity that Capita divide lenders into twelve separate categories.

Capita's report was released after the general election: interestingly they see very little macro nervousness among lenders despite uncertainties from Brexit and the recent general election. Evidence of the market shrugging off Brexit uncertainties for prime London properties can be seen in lower margins being achieved on recent larger London financings. For example, according to Debtwire the "Cheesegrater" (122 Leadenhall Street) financing for CC Land was priced at Libor+ 150bps and, also according to Debtwire, London and Regional have refinanced 55 Baker Street at 175bps over Libor for the 60 per cent LTV senior loan and 450bps over Libor for the 60-70 per cent LTV junior loan. This represents some of the lowest post global financial crisis mezzanine pricing we have seen in the UK.

The challenge to obtain UK development financing can be seen in the results of the Laxfield survey which shows that borrowers' development loan margin expectations are up 21 per cent in the 6 month period ending 31 March 2017 versus the previous six month period. This appears to be an issue which is affecting the UK specifically and we continue to see much stronger availability of development financing in most other countries around Europe. Laxfield report the six months ending 31 March 2017 was the second slowest by volume after the preceding six months, with volumes of UK commercial property financing requests down by 20 per cent on the same period last year from £11.8 billion to £9.5 billion. At the same time the number of financings reported was up from 162 to 173 so we are seeing a higher number of smaller deals make up a lower overall volume. The De Montfort data backs this up: average loan size fell considerably between 2015 and 2016 with over 50 per cent of loans being in the £100-500 million range in 2015 and just 8 per cent in 2016. Laxfield also report borrower expectations on margin for most LTV points were up in this period.

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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**