

# 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 2018



## 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](http://www.starwoodeuropeanfinance.com)

## INVESTMENT PORTFOLIO AT 30 SEPTEMBER 2018

As at 30 September 2018, the Group had 19 investments and commitments of £460.8 million as follows:

Transaction	Sterling equivalent balance <sup>(1)</sup>	Sterling equivalent unfunded commitment <sup>(1)</sup>
Industrial Portfolio, UK	£17.6m	–
Hospitals, UK	£25.0m	–
Varde Partners mixed portfolio, UK	£2.2m	–
Mixed use development, South East UK	£12.6m	£0.6m
Regional Hotel Portfolio, UK	£45.9m	–
Credit Linked Notes, UK real estate	£21.8m	–
<b>Total Sterling Loans</b>	<b>£125.1m</b>	<b>£0.6m</b>
Residential Portfolio, Dublin, Ireland	£6.7m	–
Logistics, Dublin, Ireland	£13.0m	–
Hotel, Barcelona, Spain	£41.0m	–
School, Dublin, Ireland	£16.8m	–
Industrial Portfolio, Central and Eastern Europe	£45.9m	–
Three Shopping Centres, Spain	£31.4m	£8.3m
Shopping Centre, Spain	£12.9m	£2.3m
Hotel, Dublin, Ireland	£53.4m	–
Residential, Dublin, Ireland	£4.7m	£3.3m
Office, Paris, France	£23.2m	–
Industrial, Paris, France	£13.2m	–
Student Accommodation, Dublin	£9.4m	£0.6m
Hotel, Spain	£24.2m	£24.8m
<b>Total Euro Loans</b>	<b>£295.8m</b>	<b>£39.3m</b>
<b>Total Portfolio</b>	<b>£420.9m</b>	<b>£39.9m</b>

<sup>(1)</sup> 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 30 SEPTEMBER 2018

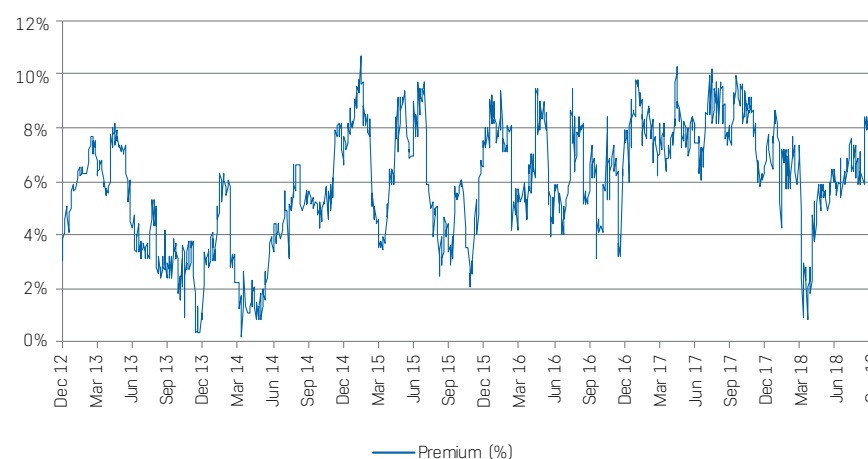
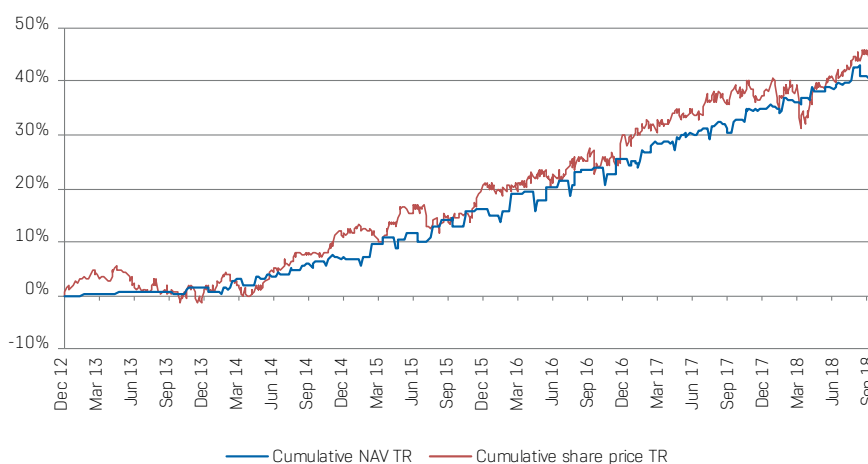
Number of investments	<b>19</b>
Percentage of currently invested portfolio in floating rate loans	<b>91.8%</b>
Invested Loan Portfolio unlevered annualised total return (1)	<b>7.3%</b>
Invested Loan Portfolio levered annualised total return (2)	<b>7.8%</b>
Weighted average portfolio LTV – to Group first £ (3)	<b>13.7%</b>
Weighted average portfolio LTV – to Group last £ (3)	<b>64.0%</b>
Average loan term (stated maturity at inception)	<b>4.1 years</b>
Average remaining loan term	<b>2.9 years</b>
Net Asset Value	<b>£382.7m</b>
Amount drawn under Revolving Credit Facilities (excluding accrued interest)	<b>-£44.7m</b>
Loans advanced	<b>£403.0m</b>
Financial assets held at fair value (including accrued income)	<b>£21.9m</b>
Cash	<b>£10.0m</b>
Other net assets/ (liabilities) (including hedges)	<b>-£7.5m</b>
Origination Fees – current quarter	<b>£0.0m</b>
Origination Fees – last 12 months	<b>£2.2m</b>
Management Fees – current quarter	<b>£0.7m</b>
Management Fees – last 12 months	<b>£2.8m</b>



## DIVIDEND

On 23 October 2018 the Directors declared a dividend in respect of the third quarter of 1.625 pence per Ordinary Share (equivalent to 6.5 pence per annum per Ordinary Share) payable on 16 November 2018 to shareholders on the register at 2 November 2018.

## SHARE PRICE, NAV AND DISCOUNT



<sup>(1)</sup> 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. 17 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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.

## KEY PORTFOLIO STATISTICS AT 30 SEPTEMBER 2018

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	37.1	8.8
1 to 2 years	91.7	21.8
2 to 3 years	123.1	29.2
3 to 5 years	144.0	34.2
5 to 10 years	25.0	5.9

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

## PORTFOLIO ACTIVITY

As at 30 September 2018, the average remaining maturity of the Group's loan book was 2.9 years. The gross levered return of the invested loan portfolio is 7.8 per cent per annum which has fallen from 8.2 per cent at the end of the second quarter. However, the unlevered return has only moved marginally down quarter on quarter (from 7.4 per cent to 7.3 per cent). The fall in the levered return is primarily due to the repayment of £9.9 million of revolving credit facilities in the quarter due to amortisation received and we would expect the levered return to increase when funds are redrawn on the Group's credit facilities in the future.

The Group's revolving credit facilities are an important tool in liquidity management, providing flexibility to finance new investments and manage loan repayments which enables the Group to efficiently manage its cash, investment portfolio and fundraising needs. The £64 million longer term Morgan Stanley facility (to December 2022) allows for long term financing of whole loans instead of pursuing a syndication strategy (although it can also be used as a bridge to syndication) and a temporary drop in levered returns is anticipated when repayments to revolving credit facilities are made due to this longer term financing strategy.

The shorter term £50 million revolving credit facility is in place with Lloyds Bank plc. The facility was due to expire on 8 October 2018 and has been successfully extended to 8 May 2020.

During the quarter the Group received £13.5 million of amortisation, primarily following asset sales on the Industrial Portfolio, Central and Eastern Europe. This represents approximately 3.5 per cent of the 2017 year-end book value and brings the year to date repayment and amortisation to approximately 22 per cent of the 2017 year-end book value of the loans. The Group also advanced £2.5 million of proceeds to borrowers to which it has existing outstanding commitments during the quarter.

The Group remained fully invested at 30 September 2018 with £39.9 million of commitments to fund over the next two years. The Group had drawn £44.7 million on its available credit facilities of £114 million and had cash of £10.0 million for working capital purposes.

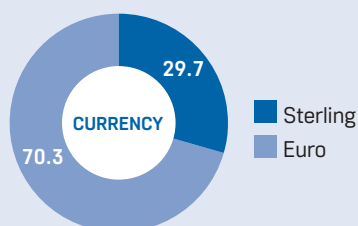
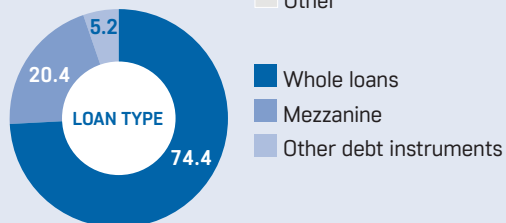
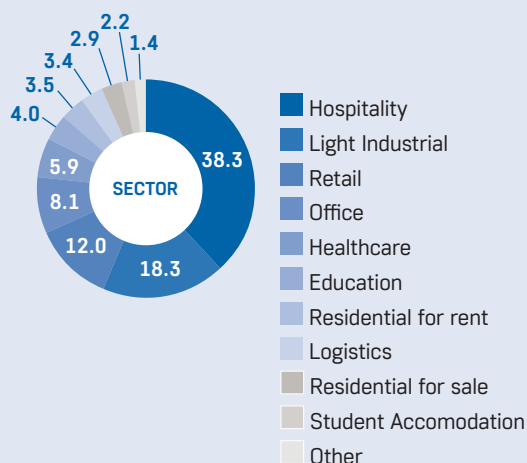
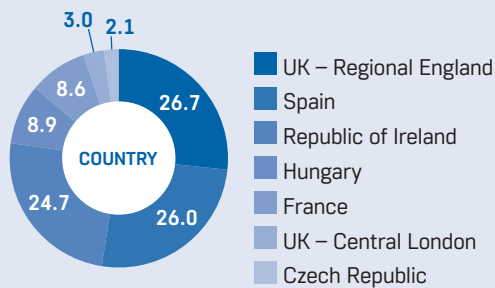
## OUTLOOK FOR FOURTH QUARTER

The Group has uncommitted capacity of approximately £79 million to underwrite loans in the typically busy fourth quarter of the year and the Investment Adviser is reviewing multiple lending opportunities to deploy the Group's uncommitted resources. 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.

The Group has received £87.6 million of repayments and amortisation to the end of the third quarter (approximately 22 per cent of the 2017 year end loan book as noted above). With an average loan term to repayment of around 2.5 years the Group expects the long term average repayment rate to be around 40 per cent per annum and expects the fourth quarter to be active in terms of repayments and originations. Whilst at this stage we do not envisage 2018 being significantly higher than the expected long term average repayment rate it is always possible that one of the larger loans repays earlier than expected if the borrower executes or changes their business plan and this could lead to a higher repayment rate (as was experienced in 2017). When this occurs, loans will often (but not always) have an element of prepayment protection, which gives the Group time to redeploy the cash without experiencing cash drag.

## KEY PORTFOLIO STATISTICS AT 30 SEPTEMBER 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.

## MARKET COMMENTARY

Expo Real is one of the two big pan European commercial real estate conferences taking place in Munich at the beginning of October each year. Our takeaways from the conference include that it seemed even busier than usual this year and that the banks we interviewed were already reporting that they were expecting a very busy fourth quarter with limited capacity to take on new mandates for 2018. This year-end congestion has historically led to opportunities for more nimble lenders.

The markets are trying to price in a number of macro considerations including risks relating to global political situations, a rising interest rate environment, trade tensions and Brexit. As a result we have seen increased volatility in the public markets. Of particular note is the rise in the Cboe Volatility Index which measures implied volatility in the Standard & Poor's 500 index and which has almost doubled the first two weeks of October. We are also keenly following how European government bond yields react as quantitative easing is pulled back from the market and the market reprices the relative sovereign risk. Italian bonds broke away from the pack of other European sovereign bonds in the second quarter of this year and the trend higher has continued with the spread to German 10 year bond having doubled from its average over the last couple of years to over 3 per cent.

Focusing on the UK, while Brexit dominates political and journalistic debate and there are clearly risks around Brexit for commercial real estate, the City office market statistics show investor and tenant appetite have not reflected this. According to the Savills City Office Market Watch report City Office metrics are healthy across all the board. Total take-up for 2018 year to date to the end of August is 4.3 million square feet, which is 12 per cent up on the 10-year average. The average grade A rent in the City is up on last year by 1.5 per cent and the vacancy rate of 5.4 per cent, is down on this point last year by 0.4 per cent, and down on the long term average by 1.2 per cent. Demand is diverse with Insurance and Financial Services contributing only 19 per cent of the total, with Tech & Media accounting for 16 per cent and public sector 15 per cent. The trend for growth in serviced office continues with 12 per cent of total take-up, and with a number of further large serviced office deals currently under-offer. Savills are expecting to see a very active last quarter as total space under-offer rose to 2.9 million square feet, which is up on the long-term average by 123 per cent, and the highest amount under-offer at the end of a month since their records began and that total demand rose at the end of August reaching 10 million square feet of known requirements for the City and Central London, which is up on the long-term average by 14 per cent, and the highest amount since August 2016.

The investment market and financing markets are also continuing to see large transactions including Korea's National Pension Service's £1.16 billion purchase of Plumtree Court and China's CK Asset Holdings' £1 billion acquisition of UBS's UK headquarters. According to Knight Frank in the first half of 2018, £5.6 billion of international capital was invested in the London commercial real estate market. Hong Kong was second with £5 billion and Paris third with £1.9 billion. On the lending side we see diverse sources of financings by both type and geography of lender with some notable large financings that illustrate this diversity of lenders including the £650 million refinancing of the Citi Tower at Canary Wharf by Société Générale, St Katherine's Docks being refinanced with £270 million of senior debt by Allianz and First Abu Dhabi Bank refinancing the 4 Seasons on Park Lane and Hampshire.



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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.

**[www.starwoodeuropeanfinance.com](http://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.

In other areas of the UK market we have seen some areas of distress, mostly notably in the retail sector where both equity and debt liquidity has dried up in recent months as investors and lenders try to evaluate where rental levels and demand will stabilise and with secondary assets hit particularly hard. Urban logistics have been the beneficiary on the other side of this coin as investors bid to increasingly low yields in the hope of rental growth as a result of increased demand. We have also seen some thinly capitalised developers where cost and time overruns are causing distress.

The Company's approach remains unchanged with the goal to target areas where we can provide lending solutions to borrowers to facilitate their business plans while finding a good risk adjusted returns. We focus on evaluating and mitigating risk through robust structures and a detailed real estate underwriting with an emphasis on the stabilised debt yield of the collateral we lend against. As we have highlighted earlier in the year, we continue to expect to originate our highest proportion of new loans in the UK, Ireland and Spain with an opportunistic approach to other geographies.

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**[www.starwoodeuropeanfinance.com](http://www.starwoodeuropeanfinance.com)**