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 2018

Share Price (p)	NAV (p)	Premium / (discount)	Dividend Yield	Market Cap
102.0	102.68	(0.7%)	6.4%	£382.5m

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 2018

As at 31 December 2018, the Group had 18 investments and commitments of £477.2 million as follows:

Transaction	Sterling equivalent balance (1)	Sterling equivalent unfunded commitment (1)
Hospitals, UK	£25.0m	–
Varde Partners mixed portfolio, UK	£1.0m	–
Mixed use development, South East UK	£13.8m	£1.6m
Regional Hotel Portfolio, UK	£45.9m	–
Credit Linked Notes, UK real estate	£21.8m	–
Hotel & Residential, UK	£34.5m	£6.7m
Total Sterling Loans	**£142.0m**	**£8.3m**
Logistics, Dublin, Ireland	£13.2m	–
Hotel, Barcelona, Spain	£41.5m	–
School, Dublin, Ireland	£17.0m	–
Industrial Portfolio, Central and Eastern Europe	£45.7m	–
Three Shopping Centres, Spain	£31.8m	£8.4m
Shopping Centre, Spain	£15.3m	£0.1m
Hotel, Dublin, Ireland	£54.1m	–
Residential, Dublin, Ireland	£6.8m	£1.3m
Office, Paris, France	£14.4m	–
Student Accommodation, Dublin	£9.5m	£0.6m
Hotel, Spain	£23.7m	£25.9m
Office & Hotel, Madrid	£16.7m	£0.9m
Total Euro Loans	**£289.7m**	**£37.2m**
Total Portfolio	**£431.7m**	**£45.5m**

(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 DECEMBER 2018

Number of investments	**18**
Percentage of currently invested portfolio in floating rate loans	**80.1%**
Invested Loan Portfolio unlevered annualised total return (1)	**7.4%**
Invested Loan Portfolio levered annualised total return (2)	**8.0%**
Weighted average portfolio LTV – to Group first £ (3)	**16.7%**
Weighted average portfolio LTV – to Group last £ (3)	**64.1%**
Average loan term (stated maturity at inception)	**4.0 years**
Average remaining loan term	**2.8 years**
Net Asset Value	**£385.1m**
Amount drawn under Revolving Credit Facilities (excluding accrued interest)	**-£68.8m**
Loans advanced	**£413.4m**
Financial assets held at fair value (including accrued income)	**£21.9m**
Cash	**£28.2m**
Other net assets/ (liabilities) (including hedges)	**-£9.6m**
Origination Fees – current quarter	**£0.4m**
Origination Fees – last 12 months	**£1.5m**
Management Fees – current quarter	**£0.7m**
Management Fees – last 12 months	**£2.9m**

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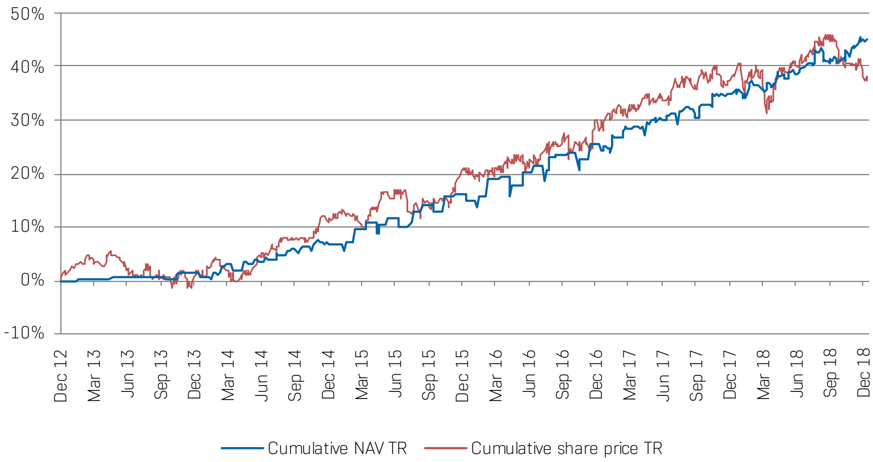
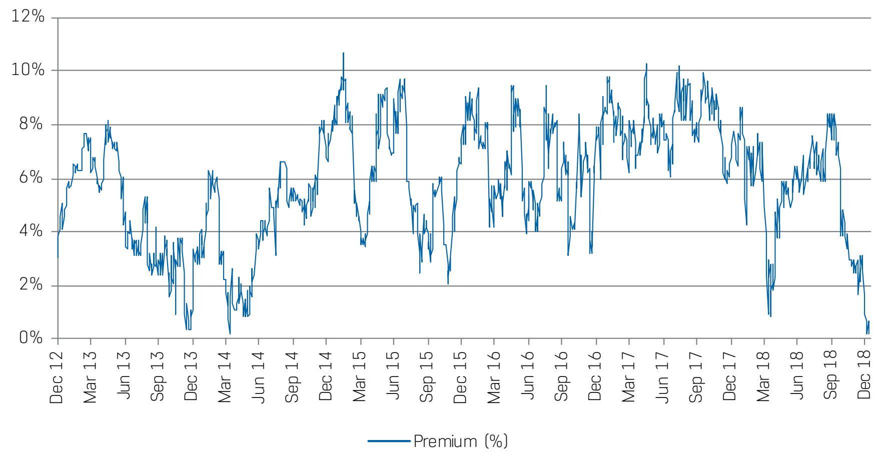
DIVIDEND

On 23 January 2019 the Directors declared a dividend in respect of the fourth quarter of 1.625 pence per Ordinary Share payable on 22 February 2019 to shareholders on the register at 1 February 2019. The total amount of dividends paid in respect of 2018 will total 6.5 pence.

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. 14 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 development projects the calculation includes the total facility available and is calculated against the assumed market value on completion of the relevant project.

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KEY PORTFOLIO STATISTICS AT 31 DECEMBER 2018

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	**21.6**	**5.0**
1 to 2 years	**101.9**	**23.6**
2 to 3 years	**135.1**	**31.3**
3 to 5 years	**148.0**	**34.3**
5 to 10 years	**25.0**	**5.8**

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

The share price was at a small discount to NAV at the year end. The Company has typically traded at around a 4 to 8 per cent premium in the last few years. We believe this recent movement is due to general market sentiment, particularly towards the end of the year, and we note that the share price has moved back to a premium during early 2019. The Company's NAV has remained stable during the year, moving from 102.17 pence at the end of 2017 to 102.68 pence as at 31 December 2018, not accounting for dividends of 6.5 pence declared in respect of 2018.

OVERVIEW OF THE PORTFOLIO

2018 was another successful origination year with £208 million of new commitments made to borrowers and with repayments and amortisation at a more typical level than in 2017 (which was unusually high due to the repayment of one large loan), net commitments increased by £70.8 million during the year. The table below shows the Group's loan origination and repayment profile over the last five years.

	2014	2015	2016	2017	2018
New loans to borrowers (commitment)	£143.2m	£118.7m	£175.9m	£245.8m	£208.0m
Loan repayments and amortisation	-£48.8m	-£49.0m	-£129.3m	-£213.1m	-£137.2m
Net Investment	**£94.4m**	**£69.7m**	**£46.6m**	**£32.7m**	**£70.8m**

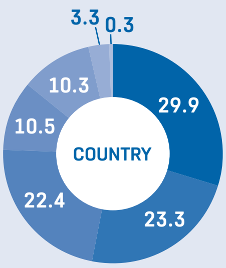
As at 31 December 2018, the average remaining maturity of the Group's loan book was 2.8 years. The gross levered return of the invested loan portfolio is 8.0 per cent per annum which has increased from 7.8 per cent at the end of the third quarter. It is worth noting that the calculation of annualised returns quoted in these factsheets excludes a number of potential upsides that are not incorporated in the returns figures quoted.

- In the quoted return we amortise all one off fees (such as arrangement and exit fees) over the contractual life of the loan which is currently four years for the portfolio. However, it has been our experience that loans tend to repay after approximately 2.5 years and as such these fees are actually amortised over a shorter period.
- Many loans benefit from prepayment provisions which means that if they are repaid before the end of the protected period, additional interest or fees become due. As we quote the return based on the contractual life of the loan these returns cannot be forecast in the return.
- The quoted return excludes the benefit of any foreign exchange gains on Euro loans. We do not forecast this as the loans are often repaid early and the gain may be lower than this once hedge positions are settled.

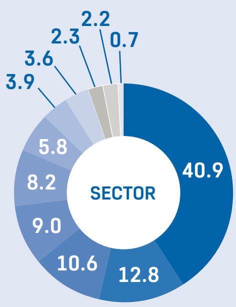
The above three upsides to quoted returns are not incorporated in the gross levered yield of 8.0 per cent as they are not guaranteed to occur, are difficult to forecast accurately and to incorporate them could overstate the expected return. However, we expect these to continue to provide an enhancement to the quoted levels of return going forward although the levels of this enhancement may vary depending on when the loans repay versus contractual maturity and prepayment protection, as well as the shape of the sterling-euro forward curve. Over the life of the Company to date, we have experienced on average an enhancement of 0.66 percentage points from prepayments and one off fees when loans repay and for the most recent Euro loan originated we are forecasting a pick up of 1.3 percentage points if held to maturity.

KEY PORTFOLIO STATISTICS AT 31 DECEMBER 2018

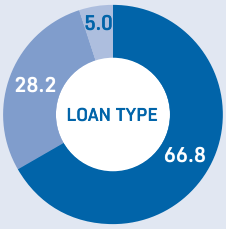
% of invested assets



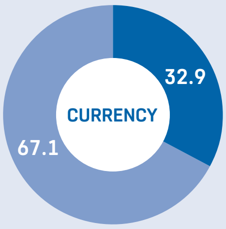
- Spain
- Republic of Ireland
- UK – Regional England
- UK – Central London
- Hungary
- France
- Czech Republic



- Hospitality
- Retail
- Light Industrial
- Residential for sale
- Office
- Healthcare
- Education
- Logistics
- Residential for rent
- Student Accommodation
- Other



- Whole loans
- Mezzanine
- Other debt instruments



- Sterling
- Euro

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

FOURTH QUARTER PORTFOLIO ACTIVITY

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

New Loan: Mixed Use, Madrid: On 12 November 2018 the Group closed a €19.5 million fixed rate whole loan secured by a mixed-use office and hotel property located in Madrid, Spain. The financing was primarily provided in the form of an initial advance along with a smaller capex facility to support the borrower's value-enhancing, light capex initiatives. The loan term is 5 years, and the Group expects to earn an attractive risk-adjusted return in line with its stated investment strategy.

New Loan: Mixed Use, London: On 18th December 2018 the Group committed to fund a £62.5 million fixed rate mezzanine loan to support the development of a prime mixed-use scheme in Central London with Starwood Property Trust, Inc (through a wholly owned subsidiary), participating in 66 per cent of the loan amount, providing the Company with a net commitment of £41.25 million. The loan term is 3 years with a 1 year extension option, and the Group expects to earn an attractive risk-adjusted return in line with its stated investment strategy. The loan partially funded on 21 December 2018 with the remaining balance expected to be funded in early 2019.

Repayments: The Group also received the following three final repayments totalling approximately £37 million:

On 29 November 2018, the Group received full repayment of €7.5 million in relation to the loan advanced on the Residential Portfolio in Dublin as a result of a sale of the portfolio.

On 20 December 2018, the Group received full repayment of £17.6 million in relation to the loan advanced on the Industrial Portfolio in the UK as a result of a refinance of the portfolio.

On 21 December 2018, the Group received full repayment of €14.8 million in relation to the loan advanced on the Industrial asset in Paris as a result of the sale of the portfolio.

A number of loans in the portfolio benefit from prepayment protection providing a level of income protection should the loan repay whilst in that protected period. Two of the repaid loans benefit from such provisions.

The Group also received material repayments on other loans that remain in the portfolio in the amount of approximately £12 million, the most significant being a €10 million repayment on the loan advanced on an office in Paris.

Following the portfolio activity in the last quarter the Group remains substantially fully invested with drawings on its £114 million credit facilities (net of cash) of £40.6 million and £45.5 million of unfunded commitments. The Group continues to see strong opportunities to deploy capital in the target markets. The origination pipeline is healthy with a number of transactions under review, which present solid risk adjusted returns.

As previously explained, the Group is cautious about raising equity until it has a good level of certainty in respect of the likelihood of transactions to close and has to balance this with the typical repayments of 35-40 per cent of the loan book during any year. Both new loan closings and repayments tend to be "lumpy" and difficult to predict in terms of timing as these are often dependent on factors outside the Group's control, although there is certainly a trend of concentrations of activity pre-Easter, summer and Christmas. The Group continues to see an attractive and healthy pipeline of suitable investment opportunities and will continue to monitor the appropriate capital structure to finance these.

FOR FURTHER INFORMATION, PLEASE CONTACT:

Sarah Newton

Ipes (Guernsey) Limited as Company Secretary

T: +44 1481 735810

Duncan MacPherson

Starwood Capital

T: +44 207 016 3655

Neil Winward

Mark Bloomfield

Gaudi Le Roux

Stifel Nicolaus Europe Limited

T: +44 20 7710 7600

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

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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MARKET COMMENTARY

2018 numbers from Cushman and Wakefield show that the real estate market in London has been resilient despite the uncertainties of Brexit. Preliminary figures revealed a total office take-up of 12.1 million square feet which was 3 per cent higher than 2017 and 18 per cent higher than 2016. From an investment point of view, total spend reached £19.7 billion, slightly down on the £20 billion from 2017 but above the £16 billion of 2016. The latest INREV investment intentions survey shows that the UK is still high up on investors' targets with 64.6 per cent of investors in the survey looking to invest in the UK which is behind only Germany at 66.7 per cent. Overall the commercial real estate lending market still has a high level of liquidity, however, we have seen a repricing for UK loans by some German lenders who are affected by the uncertainties around how UK loans with be treated for Pfandbrief (covered bond financing) purposes when the UK leaves the EU. In addition, there has been a slight pullback for financing more transitional business plans in London which may present opportunities for lending on good risk adjusted returns.

UK retail continues to fare less well and this is clearly reflected in investment volumes and a lack of appetite from investors and lenders to take on new retail exposure. In Q4 2018, according to data from CBRE Research and Property Data, year-to-date shopping centre transaction volumes stood at £878.1 million, significantly down from a peak of £5.5 billion in 2014. We expect to see a larger number of shopping centres in distress as a result of loan maturities coming due where lenders are keen to be repaid but the owners will find it difficult to find replacement debt or liquidity to sell the property. The retail occupational market will continue to be tough in many places and it still appears to be too early to judge where the new equilibrium will settle for retail income.

In the wider credit markets we have seen widening of spreads during 2018 which accelerated toward the end of the year. In CMBS EUR AAA and BBB pricing reached a low in Q2 2018 of 70bps and 230bps respectively but ended the year around 40 bps wider on each. While that has added to blended pricing of CMBS financing during the year this is not a huge move and BBB spreads were higher than this as recently as Q3 2017. There has been a larger move in the high yield market with the Markit iTraxx Europe Crossover index, which is made up of the 75 most liquid sub-investment grade entities, having started the year at 233 bps and ending at 353bps. After similar volumes to 2017 for the first three quarters of the year there was a sharply subdued level of new issuance of leveraged loans and high yield bonds in Q4 2018 with only €18 billion of new issuance versus €65 billion in Q4 2017. One big contrast between the commercial real estate and corporate credit markets is the growth in size of the markets since the global financial crisis. The volume of outstanding non-financial BBB corporate debt has grown by 181 per cent since 2007 whereas according to the Cass business school the total outstanding CRE debt in the UK is 35 per cent lower than the 2007 peak.

In the Group's other key markets of Spain and Ireland growth remains significantly ahead of the rest of Europe. In Dublin there is low vacancy in prime office, hotels are running at the top occupancy of all cities in Europe and there is a shortage of residential and student stock. This year the Group has financed the development of new student accommodation in central Dublin, residential housing in commuter areas and one of the largest investments of the year for the Group was a loan made to support the acquisition of an Irish hotel. In Spain unemployment has continued falling and GDP growth remains strong. In the Madrid market we are seeing a similar pattern in the real estate metrics with a decreasing vacancy rate and rents increasing from a low base as a result. At this stage we are able to lend against capital values per square metre which are significantly below the previous peak and which represent a discount to replacement cost.

Across the eight new loans the Group made in 2018, seven were in our key target markets of the UK, Ireland and Spain. We see these dynamics continuing into 2019 and a similar mix of geographical split going forward.

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www.starwoodeuropeanfinance.com