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 31 MARCH 2019

Share Price (p)	NAV (p)	Premium / (discount)	Dividend Yield	Market Cap
105.50	102.80	2.6%	6.2%	£395.6m

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 MARCH 2019

As at 31 March 2019, the Group had 16 investments and commitments of £448 million as follows:

Transaction	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment [1]
Hospitals, UK	£25.0m	–
Mixed use development, South East UK	£14.0m	£1.4m
Regional Hotel Portfolio, UK	£45.9m	–
Credit Linked Notes, UK real estate	£21.8m	–
Hotel & Residential, UK	£39.9m	–
Total Sterling Loans	**£146.6m**	**£1.4m**
Logistics, Dublin, Ireland	£12.5m	–
Hotel, Barcelona, Spain	£39.5m	–
School, Dublin, Ireland	£16.2m	–
Industrial Portfolio, Central and Eastern Europe	£42.7m	–
Three Shopping Centres, Spain	£30.8m	£7.5m
Shopping Centre, Spain	£14.6m	–
Hotel, Dublin, Ireland	£51.5m	–
Residential, Dublin, Ireland	£7.7m	–
Office, Paris, France	£13.7m	–
Hotel, Spain	£15.9m	£21.8m
Office & Hotel, Madrid	£24.7m	£0.9m
Total Euro Loans	**£269.8m**	**£30.2m**
Total Portfolio	**£416.4m**	**£31.6m**

[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 MARCH 2019

Number of investments	16
Percentage of currently invested portfolio in floating rate loans	80.6%
Invested Loan Portfolio unlevered annualised total return [1]	7.3%
Invested Loan Portfolio levered annualised total return [2]	7.8%
Weighted average portfolio LTV – to Group first £ [3]	17.6%
Weighted average portfolio LTV – to Group last £ [3]	63.3%
Average loan term (stated maturity at inception)	4.1 years
Average remaining loan term	2.6 years
Net Asset Value	£385.5m
Amount drawn under Revolving Credit Facilities (excluding accrued interest)	-£43.9m
Loans advanced	£397.6m
Financial assets held at fair value (including accrued income)	£21.9m
Cash	£6.7m
Other net assets/ (liabilities) (including hedges)	£3.3m
Origination Fees – current quarter	-
Origination Fees – last 12 months	£0.5m
Management Fees – current quarter	£0.7m
Management Fees – last 12 months	£2.9m

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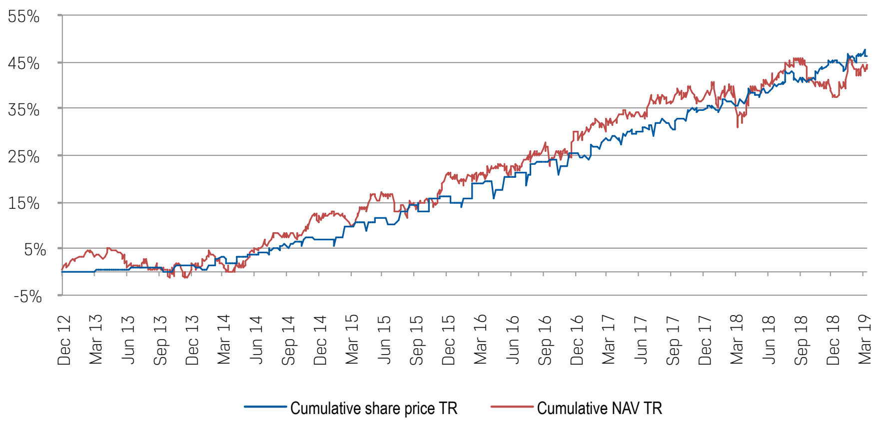
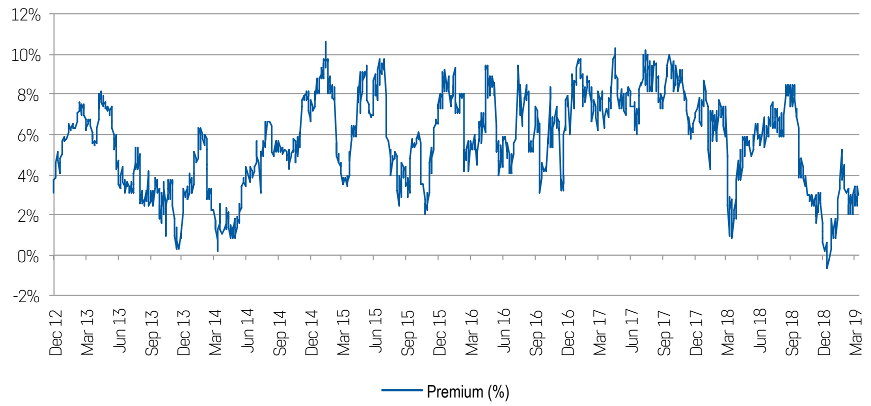
DIVIDEND

On 24 April 2019 the Directors declared a dividend in respect of the fourth quarter of 1.625 pence per Ordinary Share payable on 24 May 2019 to shareholders on the register at 3 May 2019.

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. 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 (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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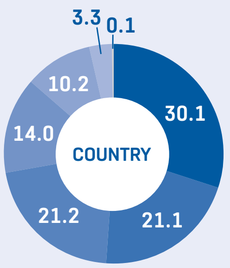
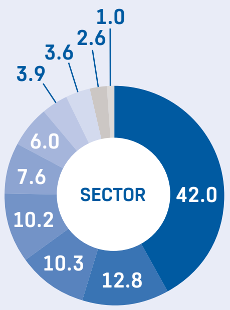
KEY PORTFOLIO STATISTICS AT 31 MARCH 2019

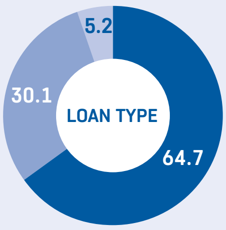
Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	80.6	19.4
1 to 2 years	113.7	27.2
2 to 3 years	103.9	25.0
3 to 5 years	93.2	22.4
5 to 10 years	25.0	6.0

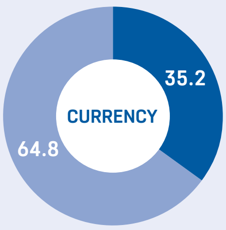
* excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

% 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.

FIRST QUARTER PORTFOLIO ACTIVITY

The following portfolio activity occurred in the first quarter of 2019:

- **Repayment: Varde Partners mixed portfolio:** The remaining balance of £1.0 million was repaid at the January 2019 interest payment date following completion of the borrower's business plan.
- **Repayment: Student Accommodation:** The loan of €10.6 million was repaid on 01 March 2019 following successful completion of the borrower's business plan.

Following this portfolio activity the Group remains substantially fully invested with drawings of £37.2 million (net of cash) on its £114 million credit facilities and £31.6 million of unfunded commitments.

As we have reported in previous years, the first quarter is frequently quiet in the market and we have only tended to see high levels activity in the first quarter when deals which are under execution have not completed over the Christmas period. This year no deals have rolled over from 2018 and the first quarter has been relatively subdued. Similarly, we have received minimal repayments in the quarter. The Group continues to see strong opportunities to deploy capital in our target markets. The Investment Adviser has a number of transactions under review, which present solid risk adjusted returns, some of which are shortly moving into the execution phase and we expect to announce further loans originated during the course of the second quarter.

MARKET COMMENTARY

With the current state of Brexit, and Q1 typically being a quieter quarter it is unsurprising that the London office market saw mixed data this quarter. According to CBRE take-up fell by 34 per cent in Q1 2019 versus 2018 to 2.7 million square feet but with availability reaching its lowest level since Q3 2016. There was mixed reporting by different brokers on transaction volume but a big fall due to Brexit uncertainty has not been seen. CBRE reported volume down by 14 per cent to £2.4 billion in Q1 2019 but Savills reported £3.2 billion in the first quarter of 2019, being a 28 per cent increase on the £2.5 billion invested in Q1 2018. What is clear from both is the high proportion of transactions involving international capital with 70 per cent of purchases being by overseas buyers according to CBRE. One clear trend we have seen was a pause on many UK situations where people had been watching how Brexit would play out. Sentiment has quickly changed since the longer extension to the 31st October and we have seen a restarting of momentum on transactions as a result.

Headlines on the UK retail market remain gloomy. More recently we have been seeing the operational performance and yield sentiment for retail feeding through and more visibly impacting lenders. For example in March, Property Week reported on two troubled retail loans. The first example was RDI REIT experiencing an LTV breach on its Aviva facility secured by a portfolio of four UK shopping centres where a revaluation has resulted in the lender's loan to value hitting 89.4 per cent and exceeding the 85 per cent loan to value (LTV) covenant. The second was in relation to a portfolio of seven shopping centres, acquired by Lone Star for £260 million in 2014 and financed with a £200 million loan from Citi. Following a fall in value of the portfolio it is reported that the borrower has handed the keys to the senior mezzanine lender in a capital structure that included senior, senior mezzanine and junior mezzanine debt.

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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

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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On the occupational side Debenhams, which is the largest occupier of non-food retail space in the UK, has been put into administration, there are reports of William Hill demanding 50 per cent rent decreases from landlords and Holland and Barrett unilaterally changing terms to paying monthly (rather than quarterly in advance which is typical for UK leases). We expect the pace of negative headlines to remain high and the drivers to be a combination of real occupational performance impacts but also of sentiment.

This volume of headlines does tend to drown out all other news in the sector but dynamics for prime city centre retail and retail warehouses are markedly different to those for shopping centres and regional high streets. Headlines in newspapers do not cover news such as the number of new international retailers opening debut stores in Central London. This figure increased significantly in 2018, reaching 33 individual openings (an increase of 26.9 per cent compared to 2017 levels). We continue to monitor the sector cautiously for potential opportunities.

Link Asset Services released their third Market Trend Analysis report for UK commercial real estate lending. Key take-aways included that lenders are less bullish on both expansion of their teams and their lending books than in the previous survey. However, of the participants surveyed 43 per cent are still looking to increase the team size and 54 per cent are looking to expand their lending books. Brexit and political risks dominate the lenders' concerns about the market: many see a potential softening in the real estate market, generally, but expect that loan terms will remain broadly stable.

Of the eight loans made by the Company in 2018, seven were in our three main focus markets for new origination of the UK, Spain and Ireland. While the market dynamics continually shift, particularly at the moment in the UK, we expect to continue to see a similar geographical pattern in 2019.

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www.starwoodeuropeanfinance.com