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 SEPTEMBER 2019

Share Price (p)	NAV (p)	Discount	Dividend Yield	Market Cap
100.50	102.87	2.3%	6.5%	£415.3m

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 2019

As at 30 September 2019, the Group had 18 investments and commitments of £479.1 million as follows:

Transaction	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment [1]
Hospitals, UK	£25.0m	-
Mixed use development, South East UK	£2.4m	£1.1m
Regional Hotel Portfolio, UK	£45.9m	-
Credit Linked Notes, UK real estate	£21.8m	-
Hotel & Residential, UK	£39.9m	-
Office, Scotland	£4.4m	£0.6m
Office, London	£12.5m	£8.1m
Residential, London	£45.2m	£11.6m
Total Sterling Loans	**£197.1m**	**£21.4m**
Logistics, Dublin, Ireland	£12.6m	-
Three Shopping Centres, Spain	£33.5m	£5.7m
Shopping Centre, Spain	£15.1m	-
Hotel, Dublin, Ireland	£53.3m	-
Residential, Dublin, Ireland	£1.9m	-
Office, Paris, France	£14.2m	-
Hotel, Spain	£26.4m	£21.7m
Office & Hotel, Madrid	£16.4m	£0.9m
Mixed Portfolio, Europe	£45.8m	-
Mixed Portfolio, Dublin	-	£13.1m
Total Euro Loans	**£219.2m**	**£41.4m**
Total Portfolio	**£416.3m**	**£62.8m**

[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 30 SEPTEMBER 2019

Number of investments	**18**
Percentage of currently invested portfolio in floating rate loans	**80.5%**
Invested Loan Portfolio unlevered annualised total return [(1)]	**7.2%**
Portfolio levered annualised total return [(2)]	**7.1%**
Weighted average portfolio LTV – to Group first £ [(3)]	**23.5%**
Weighted average portfolio LTV – to Group last £ [(3)]	**63.2%**
Average loan term (stated maturity at inception)	**3.9 years**
Average remaining loan term	**2.5 years**
Net Asset Value	**£425.1m**
Amount drawn under Revolving Credit Facilities (excluding accrued interest)	**(£25.1m)**
Loans advanced	**£397.2m**
Financial assets held at fair value (including accrued income)	**£21.9m**
Cash	**£32.2m**
Other net assets/ (liabilities) (including hedges)	**(£0.4m)**
Origination Fees – current quarter	**£0.6m**
Origination Fees – last 12 months	**£1.0m**
Management Fees – current quarter	**£0.8m**
Management Fees – last 12 months	**£3.0m**

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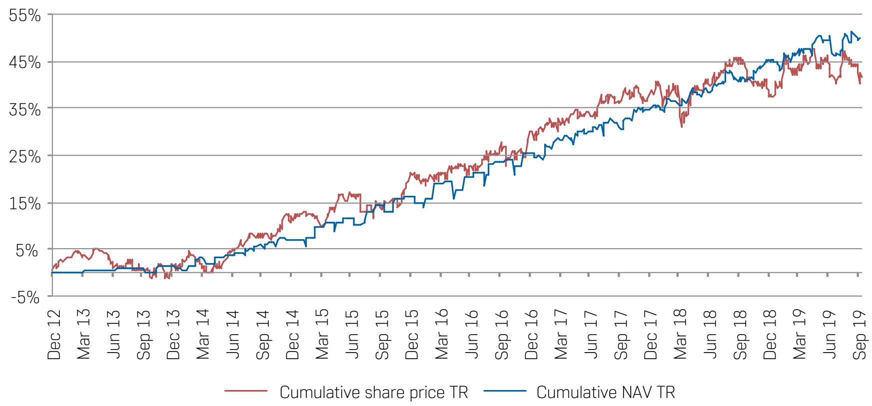
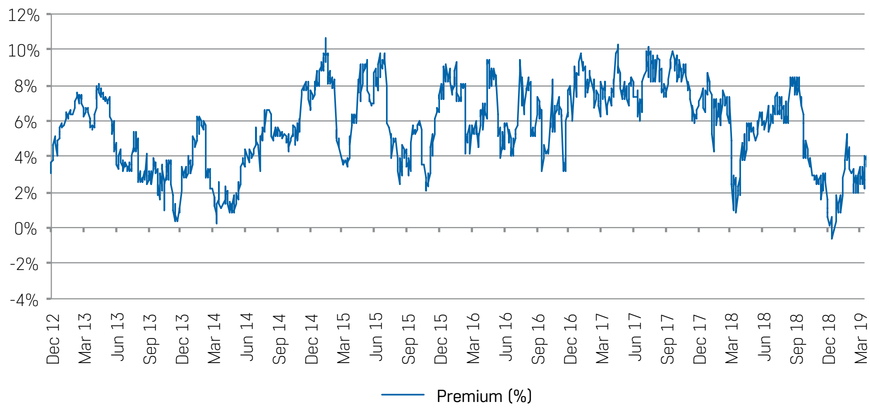
DIVIDEND

On 22 October 2019 the Directors declared a dividend in respect of the third quarter of 1.625 pence per Ordinary Share payable on 22 November 2019 to shareholders on the register at 1 November 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. 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.

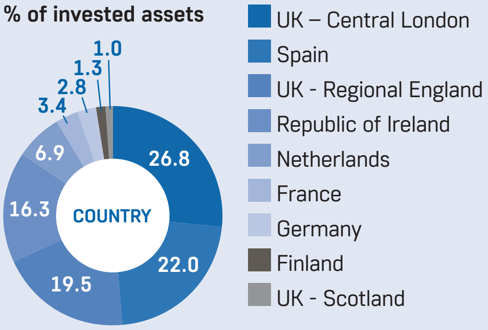
[(3)] LTV to Group last £ means the percentage which the total loan drawn less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal lender valuation received by the reporting date. 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.

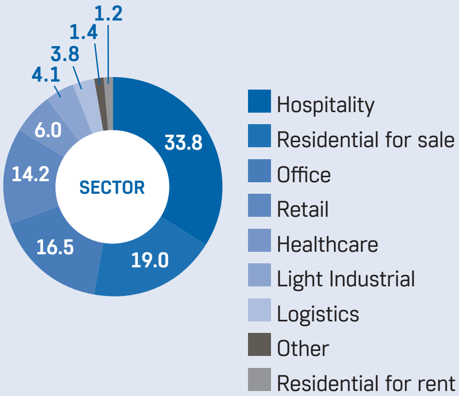
KEY PORTFOLIO STATISTICS AT 30 SEPTEMBER 2019

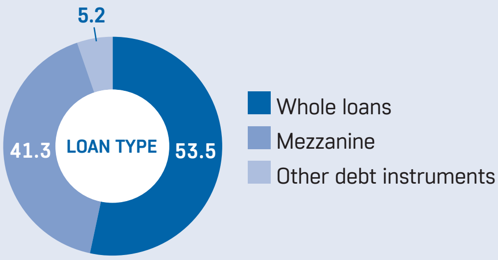
Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	19.4	4.7
1 to 2 years	122.3	29.4
2 to 3 years	173.3	41.6
3 to 5 years	76.3	18.3
5 to 10 years	25.0	6.0

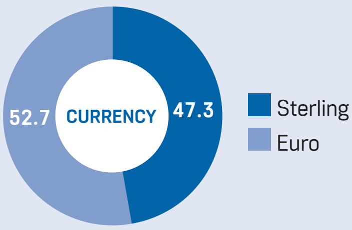
* excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

% 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.

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THIRD QUARTER PORTFOLIO ACTIVITY

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

Loan repayment: Mixed Use Development UK: The Group received £8.1 million amortization following the sale of one of the properties in line with the business plan. £2.4 million remains on the loan.

Loan repayment: Industrial Europe: The Group received €26.3 million amortization following the sale of some properties in July 2019 and final repayment of €15.0 million in September 2019 as the borrower completed the execution of their business plan.

Loan repayment: Hotel, Barcelona, Spain – the Group received full repayment of €46 million following the sale of the hotel.

New Loan: Office, London: In July 2019 the Group committed to fund a £20.5 million floating rate whole loan to support an office redevelopment in London. £12.5 million was drawn on 26th July and the balance will be drawn over the life of the development. The term of the loan is approximately 3 years.

New Loan: Residential, London: On 19th September 2019 the Group committed to fund a £56.8 million floating rate whole loan to support a residential scheme in London. The financing has been primarily provided in the form of an initial advance along with a smaller capex facility to support the sponsor's completion of the scheme. The loan term is 2 years.

New Loan: Mixed use Dublin: On 30th September 2019 the Group committed to fund a €14.7 million fixed rate whole loan to support a mixed use development in Dublin. The loan is currently undrawn and is expected to draw down gradually over the next 2.5 years.

THIRD QUARTER PORTFOLIO ACTIVITY - COMMENTARY

During the quarter we had a large volume of unexpected repayments in July, most of which was due to an unsolicited offer on a property which concluded and resulted in repayment very quickly. Additionally, as noted above, significant new loan drawdowns occurred towards the end of the quarter in late September 2019. Following this portfolio activity, the Group remained substantially fully invested at 30 September 2019 with net cash of approximately £7 million and £62.8 million of unfunded commitments.

In light of the unexpected repayments, and drawdowns towards the end of the quarter, the Group has experienced some cash drag during the quarter. Taken together these events have resulted in the portfolio's income generation being below expectations in the quarter. The Investment Adviser has a number of transactions under review and, absent any material unexpected repayments, should these transactions all occur we would expect the income run rate to normalise in early 2020. The Company has sufficient dividend reserves available to maintain the dividend during periods where cash drag continues for longer than anticipated.

The Group's pipeline continues to be of a consistent geography and asset class, with a further loan in Spain currently under exclusivity and Irish and UK investments also featuring in the fourth quarter potential pipeline. The main concentration of new loans in the pipeline is currently in the office and hospitality sectors.

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MARKET COMMENTARY

Interest rates, especially in Europe continue to be at very low levels, with negative yields on fixed income becoming increasingly pervasive. The global stock of negative yielding bonds hit $17 trillion at its peak earlier this year. In the corporate bond space Siemens has issued at negative rates and in October even Greece issued 3 month paper at a negative rate. On the real estate corporate bond side we have seen corporate bonds trading tighter, with Vonovia's 2022 maturity bond trading at a 0% yield. In Europe the interest rate curve continues to be flat with 3 month Libor at negative 42 bps and 5 year swaps at negative 40 bps as at October 14th. For bank lending, Libor / Euribor has historically typically been floored at zero however, depending on the source of funding, some lenders are now able to take the floor out. By way of example some Pfandbrief (covered bond) issuers have issued bonds at negative rates and hence are able to pass the benefits of below zero funding rates to borrowers.

UK commercial real estate financing activity has remained active through continued Brexit uncertainties. We have seen a number of significantly sized financings close since the end of the summer break, including bank, insurance and CMBS loans. Notable transactions include two of the largest financings of the year to refinance Brookfield's 100 Bishopsgate and Blackstone and Telereal's Arches portfolio. AIG, Royal Bank of Canada and Rothesay Life provided £850 million of debt to refinance the Arches portfolio with a 50% loan to value and a 12 year maturity and, according to Debtwire, the c. £900 million 100 Bishopsgate financing was provided by a club of banks that includes ING, Bank of China and Standard Chartered Bank. This loan replaces a £500 million construction financing with a significant excess and has a reported to loan-to-value ratio of 65%. The strength of appetite for this financing is supported by brand new high quality space in a top city location, with a blue chip tenant profile.

We have also seen a good level of UK CMBS issuance. Bank of America Merrill Lynch executed the first post summer CMBS which was an equity out refi for Blackstone's existing "Sunflower" CMBS which priced at the wider end of indicative range with AAAs at 120bps and BBBs at 295bps over Libor respectively. Subsequently, Deutsche Bank brought a two tranche CMBS to the market backed by the Intu Derby shopping centre which they had financed with a low 40s% loan to value as part of a 50% interest sale by Intu to Cale Street. The AAAs priced at 190bps over Libor reflecting a significantly higher coupon required to other CMBS reflecting investors' attitudes to retail collateral. Most recently Bank of America Merrill Lynch priced a £232.2 million CMBS backed by UK student housing for Brookfield. Despite pricing in October amongst a high point for Brexit uncertainty, the AAA tranche came in at the tight end of expectations at Libor + 110bps and the BBBs at Libor + 255bps, both ahead of the Sunflower CMBS pricing.

The real estate corporate bond market has been very active across Europe since the summer with new records regularly getting set. Some examples include Logicor's inaugural UK bond. This £900 million 7 year bond issued in October is the largest ever single tranche sterling real estate corporate bond offering and was the second largest in all sterling corporate bonds this year pricing at 7 year mid swaps plus 160bps. Vonovia issued €1.5 billion of new bonds. The 3.5, 8 and 20 year bonds were sold at a reoffer yield of 0.16%, 0.76% and 1.74% respectively. As part of a €1.8 billion triple tranche transaction Prologis have printed the second-ever 30 year Euro tranche in the real estate sector, at a 1.604% yield (mid swaps +150bps). There have been numerous other issuers accessing the market including Digital Realty Trust, WP Carey and Blackstone and many others from Sweden, Germany and France.

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The conclusions from the above are that there is a clear trend of new financing being provided by a diverse set of lenders, with UK domestic banks less active and an increasing market share for international banks, insurers and capital markets lending.

With respect to the underlying real estate market, there are mixed indicators in the residential sector. Brexit continues to provide headwinds, however, according to Savills data the prime London residential market which the Company has most exposure to has shown positive sales growth in the 12 months ending Q2 2019 up 9% since the previous quarter and with both completions and new starts also falling in this segment. The improvement was more pronounced at the higher end with sales of homes costing more than £5 million rising 12% in the three months compared with a year earlier, according to the data group LonRes. From our experience we continue to see international investors choosing London for investment given its enduring status as a place of social, financial and legal security with a particularly strong interest from Hong Kong based investors at the moment.

The Savills City office market reports that the market is starved of stock for sale resulting in lower turnover more given a shortage of supply than demand. August saw 13 sales taking investment for the year to £4.58 billion, which is 44% below 2018 and 33% below the five year average for turnover up to August. On the occupational side, take-up was 421,000 square foot across 26 lettings which is down 13% on 2018 and in line with the 10 year average but there are also 2.8 million square foot under offer, which is up on the long term average by 116%, indicating a very active final quarter can be expected.

There are also elements of distress in selected areas of the market. We have previously highlighted some of the issues in the UK retail space and we have continued to see reports of loan defaults particularly in relation to higher levered acquisitions from the past five years. We have also seen a lender step in on one loan where DRC took control of the mezzanine borrower of the Maroon loan in the Elizabeth Finance 2018 CMBS and appointed APAM as asset manager.

There has been significant news in the past quarter in the flexible office space. In particular the industry is continuing to try and understand the impact of WeWork's pulled IPO following investors' feedback on both concerns on corporate governance and on valuation. The fallout has led to the co-founder, Adam Neuman, agreeing to step down as CEO. There will clearly be further news and implications of the IPO having been withdrawn and the related issues for the company and the market over the coming months. We have also seen some other asset specific distress in the UK serviced office space with press reports of some special purpose vehicles being put into administration or renegotiating leases with landlords. These recent events are a reminder that when looking at the flexible office space there are many business models, lease structures and asset specific considerations that landlords, lenders and operators all need to consider when evaluating this type of asset which has been a rapidly growing part of the office market.

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Starwood European Real Estate Finance Limited: Quarterly Factsheet Publication

Starwood European Real Estate Finance Limited (the "Company") announces that the factsheet for the third quarter ended on 30 September 2019 is available at:

www.starwoodeuropeanfinance.com