

# Quarterly Portfolio Update



**Annualised dividend yield of 6.0 per cent; Portfolio 80 per cent contracted at floating interest rates**

Starwood European Real Estate Finance Limited ("SEREF" or "the Group"), a leading investor originating, executing and managing a diverse portfolio of high quality senior and mezzanine real estate debt in the UK and Europe, is pleased to announce a strong performance for the quarter ended 30 September 2022.

## SHARE PRICE / NAV AT 30 SEPTEMBER 2022



## HIGHLIGHTS

- **Strong cash generation** - the portfolio continues to support annual dividend payments of 5.5 pence per Ordinary Share, paid quarterly, and generates an annual dividend yield of 6.0 per cent on the share price as at 30 September 2022
- **Regular and Consistent Dividend** - £196 million of dividends paid since inception
- **Inflation protection** – 80 per cent of the portfolio is contracted at floating interest rates (with floors) which will provide an increase in revenue as expected higher inflation results in higher interest rates
- **Robust portfolio** - the loan book is performing in line with expectations with its defensive qualities reflected in the Group's continued stable NAV; the weighted average Loan to Value for the portfolio reduced this quarter to 59.9 per cent from 60.5 per cent last quarter
- **53 per cent** share price total return since inception in December 2012
- **Compelling pipeline of opportunities** - The Investment Adviser and Manager continue to see an active investment pipeline across a range of geographical regions and sectors which represent attractive risk adjusted returns

**John Whittle, Chairman of SEREF, said:**

“ In these turbulent times we are reassured by the highly defensive nature of the Group’s portfolio, the quality and resilience of which has again been proven in another testing macro environment. As evidence of this, once again all interest payments have been received in full, with the ongoing strong cash generation supporting our annual dividend target distribution of 5.5 pence per share, a yield of 6.0 per cent on the share price as at 30 September 2022.

Importantly, we remain satisfied with our average portfolio LTV which has further fallen during this quarter to 59.9 per cent, representing a very significant cushion to the Group’s loans.

We are also pleased with the substantial new loan that was originated in the period comprising a £46.2 million investment in an industrial campus at Loughborough, increasing our portfolio weighting to the light industrial sector to 6.9 per cent.

Looking ahead, we continue to evaluate an interesting and diverse pipeline of potential opportunities across various regions and sectors and we anticipate attractive new opportunities to arise from the current volatility. In the meantime, given the high weighting of the portfolio to floating interest rates (80 per cent), portfolio income will continue to benefit from the inflationary environment.”

## DIVIDEND

On 21 October 2022, the Directors declared a dividend in respect of the third quarter of 2022 of 1.375 pence per Ordinary Share, equating to an annualised income of 5.5 pence per annum. The Board is targeting a dividend of 5.5 pence per annum (payable quarterly) which it considers to be sustainable and covered by earnings during the course of 2022 with any excess cash generated being used to replenish a modest dividend reserve.

The Invested Loan Portfolio unlevered annualised total return has been increasing steadily as interest rates curves have moved upwards. The year-on-year increase is 70 basis points (i.e. now 7.4 per cent, up from 6.7 per cent in September 2021). As the interest rate environment increases there is additional support for the dividend cover.

## PORTFOLIO UPDATE

Despite the various wider macroeconomic headwinds, we are very pleased with the performance of the portfolio. Average LTV of the portfolio is 59.9 per cent. Our valuations are based on independent third party RICS red book appraisals with a weighted average age of 1.2 years for the total portfolio. While these numbers are backward looking, there remains a very significant cushion to the Group’s loan basis. Risk around interest rate increases is managed by a combination of underlying borrowers having interest rate hedging contracts or various other structural features including cash reserves in place. All interest and scheduled amortisation have been paid in line with contractual obligations to date.

We were pleased to announce the origination of one new loan in the quarter with £46.2 million of total loan commitment on an industrial campus in the UK. This investment has increased our exposure to industrial assets to 6.9 per cent and has had the impact of reducing our largest sector exposure, hospitality, to 37.4 per cent, down from 39.9 per cent last quarter.

Despite a slowdown in transactions across the market, we have continued to see the Group’s borrowers execute specific strategic sales. A total of £16.2 million repaid in the quarter from a combination of underlying property sub-portfolio sales. Post quarter end in October 2022, the Group received a further partial loan repayment of €7.2 million on the Dublin Office Portfolio loan. This was the result of the borrower executing a sale of a large office building in Dublin for over €90 million. The sale price was ahead of the Group’s most recent independent valuation report for this portfolio from March 2022. This assists in providing confidence that valuations have held up in the last quarter, particularly for high quality assets where borrowers have executed asset management plans including the re-gearing of occupational leases and select refurbishment projects.

As the existing portfolio becomes more seasoned, risk around ground up construction or heavy refurbishment projects reduces significantly as these projects build out and near completion. The Group’s exposure to ground up construction is 13.4 per cent of the current portfolio across two projects. Both of these buildings are forecast to substantially complete within the next six months. These projects have benefitted from having fixed price design and build contracts and strong sponsors who are delivering very high quality, desirable buildings. The largest exposure, Hotel & Residential UK (£49.9 million loan) has pre-sold the majority of its residential units, with the total contracted sales value exceeding the total loan commitment. This provides material de-risking of the lenders position and we expect this loan to fully repay during 2023.

We continue to closely monitor any actual or potential impact of market headwinds such as energy, food, labour and construction cost inflation through review of underlying asset performance and discussions with sponsors and asset managers. The Group’s key sector exposures of hospitality (37 per cent of total invested portfolio), office (24 per cent) and retail (11 per cent) all continue to perform in line with expectations. Hotels have performed very strongly throughout the summer, with average daily rates exceeding the Group’s underwritten expectations, underpinning the demand for these hotels, driven by robust demand for business and leisure travel. Occupancy across the office portfolio continues to be robust. Occupancy of the Spanish Shopping Centres, which comprise over 90 per cent of the Group’s retail exposure, continues to be robust and remains ahead of the pre-pandemic level occupancy.

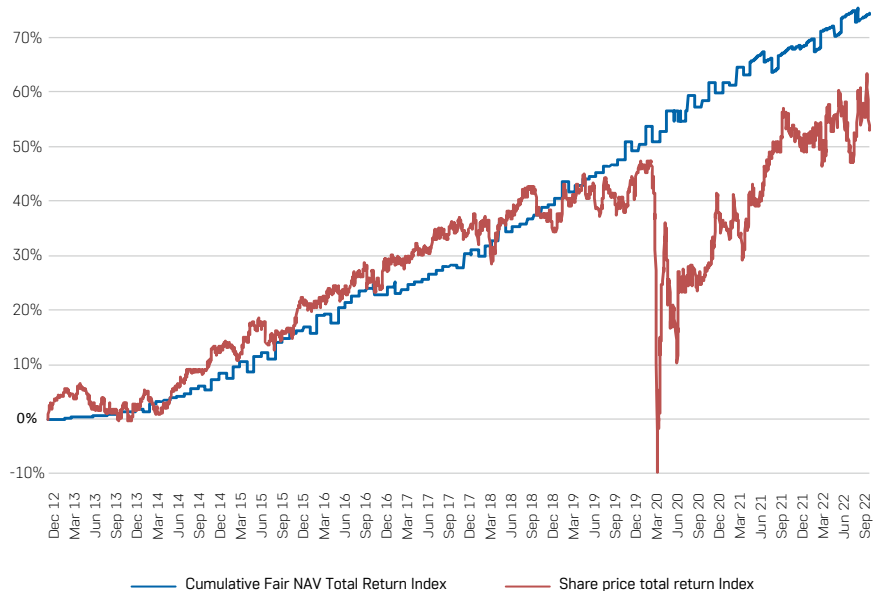
## KEY PORTFOLIO STATISTICS AT 30 SEPTEMBER 2022

Number of investments	<b>20</b>
Percentage of currently invested portfolio in floating rate loans	<b>79.7%</b>
Invested Loan Portfolio unlevered annualised total return <sup>(1)</sup>	<b>7.4%</b>
Portfolio levered annualised total return <sup>(2)</sup>	<b>7.7%</b>
Weighted average portfolio LTV – to Group first £ <sup>(3)</sup>	<b>13.7%</b>
Weighted average portfolio LTV – to Group last £ <sup>(3)</sup>	<b>59.9%</b>
Average loan term (based on current contractual maturity)	<b>5.0 years</b>
Average remaining loan term	<b>1.9 years</b>
Net Asset Value	<b>£414.2m</b>
Amount drawn under Revolving Credit Facilities (including accrued interest)	<b>£42.0m</b>
Loans advanced (including accrued interest)	<b>£453.4m</b>
Cash	<b>£4.0m</b>
Other net liabilities (including hedges)	<b>£1.2m</b>

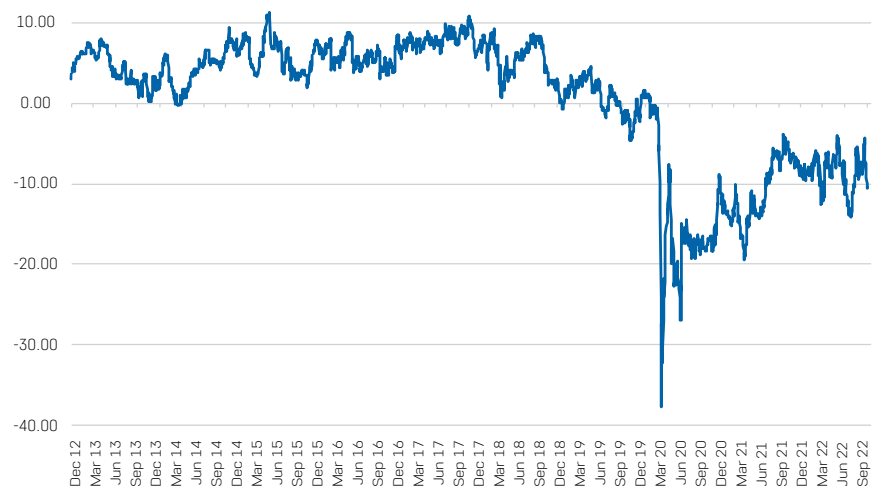
Remaining years to contractual or negotiated maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	<b>£139.4</b>	<b>31.1%</b>
1 to 2 years	<b>£82.4</b>	<b>18.4%</b>
2 to 3 years	<b>£115.6</b>	<b>25.7%</b>
3 to 5 years	<b>£111.4</b>	<b>24.8%</b>

\* excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity. Negotiated maturity is agreed subject to certain conditions being met by the borrower.

## SHARE PRICE AND CUM-FAIR NAV TOTAL RETURN



## PREMIUM / DISCOUNT CUM-FAIR

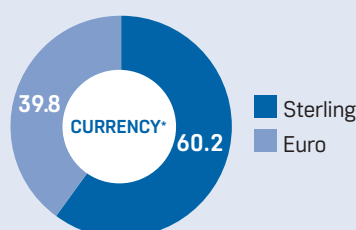
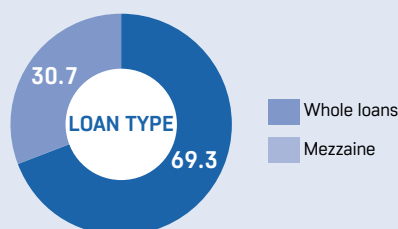
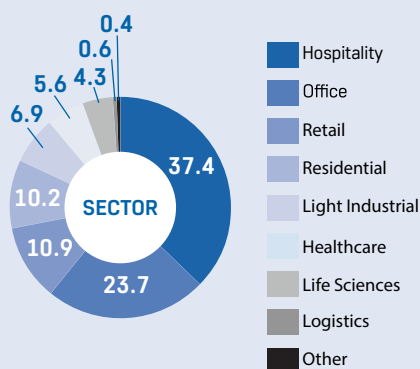
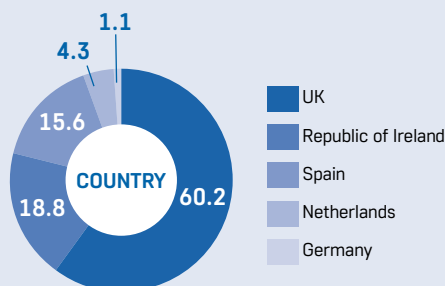


(1) The unlevered annualised total return is calculated on amounts outstanding at the reporting date, excluding undrawn commitments, and assuming all drawn loans are outstanding for the full contractual term. 17 of the loans are floating rate (partially or in whole and all with floors) and returns are 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 uninvested. 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 SONIA/ Euribor.

(3) LTV to Group last £ means the percentage which the total loan drawn less any deductible lender controlled cash reserves and 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.

#### % 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.

## NEW LOAN

In September 2022 the Group funded the initial advance of a £46.2 million floating rate whole loan secured by an industrial estate in Loughborough, UK. The financing has been provided in the form of an initial advance to assist the acquisition of the asset along with a capex facility to support the borrower's value-enhancing capex initiatives.

The asset is a multi-let industrial estate currently consisting of 802k sq ft over 11 buildings across 53 acres with a strong income base. It is located in Loughborough within the Golden Triangle for logistics providing strong transport links within the UK.

## PARTIAL REPAYMENTS

During the quarter, despite lower transaction volumes across the markets because of the cautionary approach being adopted by investors, borrowers in the portfolio successfully executed a number of disposals ahead of business plan that resulted in the following partial repayments of loan obligations:

- €7.5 million, Hotel, Dublin
- €5.3 million, Mixed Portfolio, Europe
- €5.0 million, Office and Industrial Portfolio, The Netherlands
- €0.7 million, Logistics Portfolio, Germany

In addition, since quarter end, the following partial repayments have been received:

- €7.2 million, Office Portfolio, Dublin
- €3.4 million, Mixed Portfolio, Europe

## MARKET COMMENTARY AND OUTLOOK

- While the most recent UK and US rates of annual inflation are down on previous months the overall levels remain high.
- Central banks continue to fight inflation by raising short-term interest rates and long-term interest rate expectations have continued to rise to fresh post global financial crisis highs during the quarter.
- Public markets remain volatile. Many stock markets are currently in bear markets. Credit markets are reflecting the new interest rate environment, with the biggest effect seen in medium to long-term fixed rate credit markets.
- The UK mini budget was badly received by markets who are questioning the credibility of the fiscal plan. The market reaction has caused some reversal of policy and some resignations but markets remain jittery.
- Hotel market data continues to illustrate positive revenue growth for operating real estate.
- Choppy markets will create opportunities for lending to borrowers with solid real estate and business plans.

We are now almost 8 months into the war in Ukraine which continues to have a destabilising effect on energy and commodity supply which are the largest drivers of rising inflation.

Inflation and interest rates continue to dominate markets with central banks resolute in their aim of tackling inflation through higher interest rates. Central banks have continued to raise rates during the quarter with the Fed raising rates by 150 basis points in the quarter to a 3-3.25 per cent range and the Bank of England by 100 basis points to 2.25 per cent. The market anticipates a steep pace of further increases with UK rates expected to peak at almost 6 per cent. These rates are creating recessionary pressures but particularly in the UK we are also seeing long term rates continuing to rise as the markets require a higher return given concerns around fiscal prudence.

## INVESTMENT RESTRICTIONS AND GUIDELINES

### LOCATION

UK & wider European Union's internal market.  
No more than 50 per cent 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 per cent 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 per cent with a blended portfolio LTV of no more than 75 per cent.

### REAL ESTATE SECTOR & PROPERTY TYPE

Commercial real estate. No more than 30 per cent of NAV in residential for sale. No more than 50 per cent of NAV in any single sector in the UK except office which is limited to 75 per cent.

### COUNTERPARTY & PROPERTY DIVERSIFICATION

No more than 20 per cent of NAV exposed to one borrower legal entity and no single investment exceeding 20 per cent of NAV at time of investment.

In the UK, the September inflation figure of 10.1 per cent was up from 9.9 per cent in August, while in the US the September inflation number of 8.2 per cent was slightly lower than previous month levels but both remain at very elevated levels. Inflation numbers continue to be driven by increased energy costs. Energy prices in August were estimated to be up 38.6 per cent compared to a year earlier for the Eurozone, up 52.0 per cent for the UK and up 23.8 per cent for the US. However, even after stripping out energy and food, core inflation was 4.3 per cent for the Eurozone, 6.3 per cent for the UK and 6.3 per cent for the US. Commodity prices are expected to remain volatile while the war in Ukraine causes disruption to energy, agricultural and other exports from Ukraine due to blockades of the ports and from Russia due to sanctions.

Interest rates have moved very quickly over the past quarter and this can be seen in the SONIA, Euribor and swap rates, to which most of the Group's investments are linked. As at 30 September 2022, 3 month (forward-looking) SONIA and Euribor currently stands at 3.24 per cent and 1.17 per cent respectively versus 1.55 per cent and negative 0.20 per cent just 3 months ago at 30 June 2022. The 5 year sterling swap and 5 year Euro swap have also moved significantly and currently stand at 5.04 per cent and 2.92 per cent respectively versus 2.48 per cent and 1.74 per cent last quarter, reflecting increases of 2.56 per cent and 1.18 per cent in the quarter. These movements have provided a significant yield benefit to lenders with exposure to floating rate loans and have resulted in a significant sell off in fixed rate debt.

In the public credit capital markets, primary issuance has picked up somewhat but continues to be slow across asset classes and secondary pricing has increased as investors digest the implications of the rising rate environment and the knock-on effects. Fixed rate credit markets, where lenders do not have the benefit of rising rates in the credit instrument they own, have continued to sell off reflecting higher interest rates.

In the European high yield market there were a number of new issues in September but overall year to date issuance is still down 62 per cent versus the 2017 to 2019 average. The iTraxx Crossover index is a good example of the volatility in the market. The index which had already more than doubled to reach 580 basis points at the end of the second quarter traded in a very wide 200 basis points range in September and peaked at 695 basis points in late September before closing the quarter at 638 basis points.

There remains limited primary markets activity for real estate corporate unsecured bonds with only three new issuances in the real estate space and no CMBS issuance in Europe during the quarter. This is contributing to the reduced capacity of investment banks to underwrite and distribute real estate risk and we think it is likely to continue until the end of the year.

In our last factsheet we gave some examples of how rate inflation in operational real estate could be seen to be boosting revenues in hotel market data. We are continuing to see that trend compounded with a strong dollar helping drive UK and European hotel performance.

The vast majority of gateway markets in Europe reported higher average daily rates ("ADRs") in August 2022 compared with August 2019. Paris continues to be the leader in both total and luxury markets versus 2019, achieving a premium of 46 per cent and 52 per cent to 2019 rates respectively. Milan achieved ADRs 20 per cent and London 16 per cent higher overall. Prague was the only city with a lower ADR – down 1 per cent versus 2019.

August 2022 occupancy levels almost reached 2019 levels, with Milan and Warsaw exceeding those levels by 9 per cent and 2 per cent respectively. 17 out of the 25 markets achieved over 70 per cent in August. Leisure destinations have been performing well, such as Glasgow (88 per cent), Edinburgh (87 per cent), Dublin (87 per cent) and Spanish Resorts (86 per cent).

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## Notes:

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.

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London Heathrow saw traffic in August at 79 per cent of 2019 levels – down 3 per cent vs. July as staff shortages have had a negative impact on the total number of passengers processed. The number of travellers from Northern American reached 97 per cent of its 2019 level, a strong increase over summer up from 78 per cent in May. Middle Eastern travel has also recovered strongly to 92 per cent of 2019 levels.

The UK mini budget announcement in late September was received very badly by the market. The market had not been prepared for the size of the tax policy changes and did not like the lack of information with no forecasts to back up how the books would be balanced.

Interest rates shot up both at the short end as the plans are expected to drive further inflation and have also risen at the long end showing investors' doubts over UK finances in the current government's hands with investors and third parties like the International Monetary Fund particularly critical of the lack of financial forecasting.

Since the initial reaction the government has been forced by markets to abandon many of the proposed tax cuts and both the Chancellor and the Prime Minister have now resigned.

While the initial volatility has somewhat passed, this story is not over, neither the markets nor the Conservative party have yet reached final conclusions and long dated gilt markets are still fragile despite resignations, U-turns and Bank of England intervention.

The mini-budget also brought a focus to the pound's foreign exchange rate. The pound did drop significantly over the Friday and Monday of the mini budget to an all-time low of 1.035. However, it has rallied since and while the pound does look weak against the dollar the currency story is actually more one of dollar strength as both the Euro and Japanese Yen are down more than the pound this year.

We anticipate a slow and cautious resumption in market activity which will depend on assessing how inflation and interest rates expectations will stabilise. Disrupted markets provide opportunity for the Group allowing it to focus on deal selection and generating strong returns with good downside protections.

## NO CREDIT LOSSES RECOGNISED

All loans within the portfolio are classified and measured at amortised cost less impairment. The Group closely monitors the loans in the portfolio for deterioration in credit risk. There are some loans for which credit risk has increased since initial recognition. However, we have considered a number of scenarios and do not currently expect to realise a loss in the event of a default. Therefore no expected credit losses have been recognised.

This assessment has been made based on information in our possession at the date of reporting, our assessment of the risks of each loan and certain estimates and judgements around future performance of the assets.



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**INVESTMENT PORTFOLIO AT 30 SEPTEMBER 2022**

As at 30 September 2022, the Group had 20 investments and commitments of £499.8 million as follows:

	<b>Sterling equivalent balance <sup>(1)</sup></b>	<b>Sterling equivalent unfunded commitment <sup>(1)</sup></b>	<b>Sterling Total (Drawn and Unfunded)</b>
Hospitals, UK	£25.0 m		£25.0 m
Hotel & Residential, UK	£49.9 m		£49.9 m
Office, London	£18.8 m	£1.8 m	£20.6 m
Hotel, Oxford	£23.0 m		£23.0 m
Hotel, Scotland	£42.6 m		£42.6 m
Hotel, North Berwick	£15.0 m		£15.0 m
Life Science, UK	£19.5 m	£7.1 m	£26.6 m
Hotel and Office, Northern Ireland	£12.5 m		£12.5 m
Hotels, United Kingdom	£31.4 m	£19.3 m	£50.7 m
Office and Industrial Portfolio, UK <sup>(2)</sup>	£5.5 m		£5.5 m
Industrial Estate, UK	£27.2 m	£19.0 m	£46.2 m
<b>Total Sterling Loans</b>	<b>£270.4 m</b>	<b>£47.2 m</b>	<b>£317.6 m</b>
Three Shopping Centres, Spain	£30.3 m		£30.3 m
Shopping Centre, Spain	£14.9 m		£14.9 m
Hotel, Dublin	£46.2 m		£46.2 m
Office, Madrid, Spain	£16.3 m	£0.9 m	£17.2 m
Mixed Portfolio, Europe	£11.7 m		£11.7 m
Mixed Use, Dublin	£10.1 m	£2.8 m	£12.9 m
Office Portfolio, Spain	£8.4 m	£0.1 m	£8.5 m
Office Portfolio, Ireland	£27.8 m		£27.8 m
Logistics Portfolio, Germany	£2.7 m		£2.7 m
Office and Industrial Portfolio, The Netherlands <sup>(2)</sup>	£10.0 m		£10.0 m
<b>Total Euro Loans</b>	<b>£178.4 m</b>	<b>£3.8 m</b>	<b>£182.2 m</b>
<b>Total Portfolio</b>	<b>£448.8 m</b>	<b>£51.0 m</b>	<b>£499.8 m</b>

<sup>(1)</sup> Euro balances translated to sterling at period end exchange rate..

<sup>(2)</sup> Office and Industrial Portfolio, UK and Office and Industrial Portfolio, The Netherlands are one single loan agreement with sterling and Euro tranches.

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## LOAN TO VALUE

All assets securing the loans undergo third party valuations before each investment closes and periodically thereafter at a time considered appropriate by the lenders. The current weighted average age of the dates of these third party valuations for the whole portfolio is just 1.2 years while the current weighted average age of the valuations for the income-producing portfolio (i.e. excluding loans for development or heavy refurbishment) is just over 10 months.

On the basis of the methodology and valuation processes previously disclosed (see 30 June 2020 factsheet) and including new valuations received, at 30 September 2022 the Group has an average last £ LTV of 59.9 per cent (30 June 2022: 60.5 per cent).

The table below shows the sensitivity of the loan to value calculation for movements in the underlying property valuation and demonstrates that the Group has considerable headroom within the currently reported last LTVs.

Change in Valuation	Hospitality	Retail	Residential	Other	Total
-25%	78.2%	93.4%	77.7%	78.3%	79.9%
-20%	73.3%	87.6%	72.9%	73.4%	74.9%
-15%	69.0%	82.5%	68.6%	69.1%	70.5%
-10%	65.2%	77.9%	64.8%	65.2%	66.6%
-5%	61.8%	73.8%	61.4%	61.8%	63.1%
0%	58.7%	70.1%	58.3%	58.7%	59.9%
5%	55.9%	66.7%	55.5%	55.9%	57.0%
10%	53.3%	63.7%	53.0%	53.4%	54.5%
15%	51.0%	60.9%	50.7%	51.1%	52.1%

## SHARE PRICE PERFORMANCE AND SHARE BUYBACK PROGRAMME

The Company's shares closed on 30 September 2022 at 91.6 pence, resulting in a share price total return since the start of 2022 of 1.8 per cent. As at 30 September 2022, the discount to NAV stood at 11.6 per cent, with an average discount to NAV of 9.7 per cent over the quarter. The Board, the Investment Manager and Adviser continue to believe that the shares represent attractive value at this level.

Note: the 30 September 2022 discount to NAV is based off the current 30 September 2022 NAV as reported in this factsheet. All average discounts to NAV are calculated as the latest cum-dividend NAV available in the market on a given day, adjusted for any dividend payments from the ex-dividend date onwards.

The Company received authority at the most recent AGM to purchase up to 14.99 per cent of the Ordinary Shares in issue on 10 June 2022. On 19 July 2022 the Board announced that it had engaged Jefferies International Limited as buy-back agent to effect share buy backs on behalf of the Company. In order to assist in managing the discount, the Board has shareholder approval to hold in treasury any shares repurchased by the Company, rather than cancelling them. The purpose of this active discount management programme is to reduce discount volatility, subject to the availability of cashflow. During the quarter to 30 September 2022, the Company bought back 9.0 million shares for a total consideration of £8.5 million. In addition, the Board has been consulting with investors in recent weeks in recognition of the ongoing discount control assessment period.



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