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 2020

Share Price (p)	NAV (p)	Discount	Dividend Yield	Market Cap
90.0	104.18	13.6%	7.2%	£369m

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 2020

As at 31 December 2020, the Group had 18 investments and commitments of £490.1 million as follows:

Transaction	Sterling equivalent balance[1]	Sterling equivalent unfunded commitment[1]	Sterling Total (Drawn and Unfunded)
Hospitals, UK	£25.0 m		£25.0 m
Hotel & Residential, UK	£49.9 m		£49.9 m
Office Scotland	£4.8 m	£0.2 m	£5.0 m
Office, London	£13.3 m	£7.3 m	£20.6 m
Residential, London	£24.5 m	£1.1 m	£25.6 m
Hotel, Oxford	£16.7 m	£6.3 m	£23.0 m
Hotel, Scotland	£27.2 m	£15.5 m	£42.7 m
Hotel, Berwick	£10.5 m	£4.5 m	£15.0 m
Logistics Portfolio, UK [2]	£12.0 m		£12.0 m
Total Sterling Loans	**£183.9 m**	**£34.9 m**	**£218.8 m**
Three Shopping Centres, Spain	£33.3 m		£33.3 m
Shopping Centre, Spain	£15.4 m		£15.4 m
Hotel, Dublin	£54.2 m		£54.2 m
Hotel, Spain	£47.7 m	£1.3 m	£49.0 m
Office & Hotel, Madrid, Spain	£16.7 m	£0.9 m	£17.6 m
Mixed Portfolio, Europe	£29.5 m		£29.5 m
Mixed Use, Dublin	£3.2 m	£10.1 m	£13.3 m
Office Portfolio, Spain	£19.3 m	£2.0 m	£21.3 m
Office Portfolio, Ireland	£31.8 m		£31.8 m
Logistics Portfolio, Germany [2]	£5.9 m		£5.9 m
Total Euro Loans	**£257.0 m**	**£14.3 m**	**£271.3 m**
Total Portfolio	**£440.9 m**	**£49.2 m**	**£490.1 m**

(1) Euro balances translated to sterling at period end exchange rate.
(2) Logistics Portfolio, UK and Logistics Portfolio, Germany is one single loan agreement with sterling and Euro tranches.

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 2020

Number of investments	**18**
Percentage of currently invested portfolio in floating rate loans	**79.2%**
Invested Loan Portfolio unlevered annualised total return [1]	**6.7%**
Portfolio levered annualised total return [2]	**7.0%**
Weighted average portfolio LTV – to Group first £ [3]	**18.2%**
Weighted average portfolio LTV – to Group last £ [3]	**61.8%**
Average loan term (stated maturity at inception)	**4.5 years**
Average remaining loan term	**2.4 years**
Net Asset Value	**£426.7m**
Amount drawn under Revolving Credit Facilities (including accrued interest)	**(£19.6m)**
Loans advanced (including accrued interest)	**£442.7m**
Cash	**£2.9m**
Other net assets/ (liabilities) (including hedges)	**£0.7m**
Origination Fees – current quarter	**£0.0m**
Origination Fees – last 12 months	**£0.5m**
Management Fees – current quarter	**£0.8m**
Management Fees – last 12 months	**£3.2m**

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PORTFOLIO UPDATE

All loan interest and scheduled amortisation payments up to the date of this factsheet have been paid in full and on time.

Notwithstanding the pandemic-related disruption continuing to be experienced, the portfolio continues to be robust and portfolio performance is in line with expectations. In the sectors that are most impacted, hospitality and retail, borrowers remain adequately capitalised and are projecting to continue to pay loan interest and capital repayments despite the latest lockdown measures, with realistic pandemic related business plans in place to deal with any underlying income displacement being experienced.

Key updates are outlined below;

Hospitality (35.7 per cent of Investment Portfolio)

- The largest hotel exposure (Hotel, Dublin), at 27 per cent of hospitality exposure, continues to benefit from a licence in place to the Irish Government's Health Service Executive. This has de-risked the impact of the pandemic in the medium term. In addition, the sponsor has continued to work on their wider business plan in relation to the extensive land adjacent to the hotel that also forms part of the loan's collateral. In the last quarter, the sponsor has been successful in achieving planning permission for a residential scheme of over 220 apartments on a small island site that forms part of the wider land collateral. This has enhanced the value and future liquidity of this site.
- The UK hotel exposures (Hotel Oxford, Scotland and North Berwick, accounting for 35 per cent of hotels in the portfolio) all successfully re-opened during the summer following the lifting of domestic travel restrictions. Trading was generally positive despite the backdrop of the wider market uncertainty. This reflected the domestic demand for staycation breaks in the UK, particularly for leisure destinations with nearby outdoor facilities such as golf which is offered by the Hotel Scotland and North Berwick. This trend is expected to continue into 2021 with market commentators such as VisitBritain.org forecasting that the recovery of domestic tourism in 2021 will be significantly stronger than inbound tourism. While 2021 is not expected to recover to pre-Covid-19 levels, VisitBritain.org (as of mid December 2020) forecast that the value of domestic tourism spending could reach up to 84 per cent of 2019 levels by December 2021. All three of these UK hotels have comprehensive re-positioning capex plans in place, which sees each sponsor injecting material additional equity into the properties. In line with the underwritten capex plan, each hotel has now closed and refurbishment projects are underway as planned, thereby any planned revenue from these sites are not impacted by the current Covid-19 restrictions in the UK. The hotels will re-open during 2021 with attractive new brands and a fully refurbished offering which is expected to be well placed to benefit from pent up UK domestic leisure travel demand.

[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. 15 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.

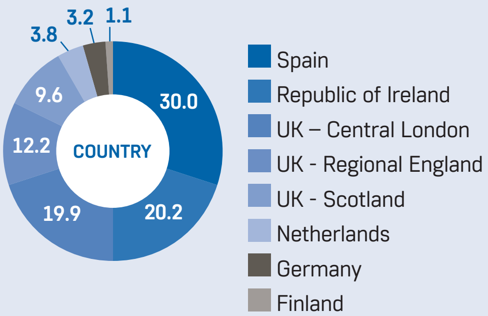
[3] LTV to Group last £ means the percentage which the total loan drawn less any deductible lender controlled cash reserves and less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal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

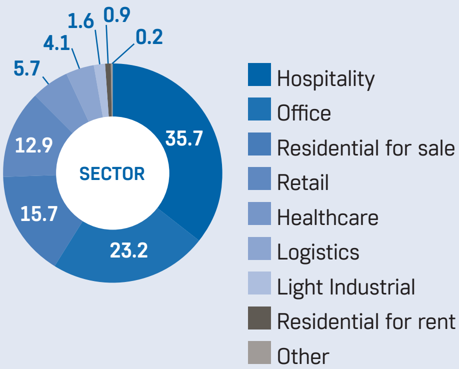
KEY PORTFOLIO STATISTICS AT 31 DECEMBER 2020

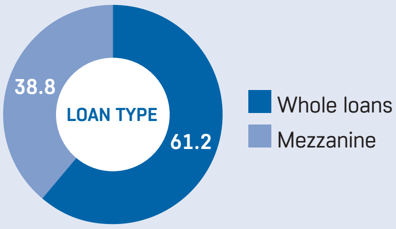
Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	79.2	18.0%
1 to 2 years	94.7	21.5%
2 to 3 years	155.8	35.3%
3 to 5 years	111.1	25.2%

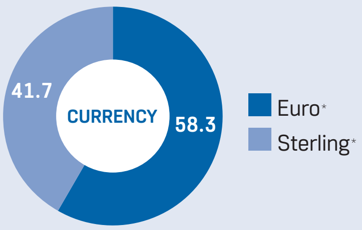
* excludes any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity.

% 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.

- Hotel, Spain (accounting for 30 per cent of hospitality exposure) completed a heavy refurbishment project in late summer 2020 and opened for a very successful short marketing period before closing for winter 2020/21. The underwritten business plan and hotel operating model sees this hotel closing annually during the winter months in any event. Ordinarily the hotel would open in April 2021, however contingency plans are in place to delay this should substantial travel restrictions remain in place by that time. The sponsor remains well capitalised to fund any operational cash shortfalls in the event of further delays to opening. Forward customer bookings for summer 2021 are strong and the hotel is expected to trade well once the pandemic restrictions are lifted.
- All hospitality loans have adequate resources to meet their cash needs in the medium term.

Retail (12.9 per cent of Investment Portfolio)

- Retail re-opened across Europe during summer 2020 following the lifting of local restrictions, before new measures to reduce the autumn / winter virus infection rates were re-introduced. By September 2020 we saw encouraging signs of footfall and sales recovery, whereby on the Group's largest retail loan exposure (a portfolio of three shopping centres), footfall had recovered on a weighted average basis to approximately 92 per cent of the prior year comparable month.
- While new restrictions introduced in late Q4 2020 and early 2021 have meant that footfalls and sales have again materially reduced, the sponsors have worked intensively to support tenants by signing specific pandemic related discounts in line with wider industry practice. As part of these pandemic related tenant measures, the sponsors have also extended the term certain under leases, which is advantageous and provides greater certainty of future income. The impact of supporting tenants during the pandemic has meant that occupancy has remained robust, with a weighted average occupancy decline across the four centres of only 1% since mid-2020.
- Loans with retail exposure continue to have adequate cash reserves to pay interest, with detailed business plans in place to deal with any underlying income displacement related to granting tenants concessions during shutdown and recovery periods.

Construction & Heavy Refurbishment (21.2 per cent of Investment Portfolio)

- The Group's construction and heavy refurbishment exposure has decreased by 28 per cent since mid-2020 with the successful completion of the Hotel, Spain project in late summer and completion of the London Residential project.
- While some construction programme disruption has been experienced by mandated site shutdowns and the adjustment of work practices to new Covid-19 related industry regulations, all sites re-opened in summer 2020. Despite the latest restrictive measures introduced in December 2020, construction sites in the UK remain open. Construction sites in the Republic of Ireland were mandated by the government to close on 8th January 2021, however we note that the Group's exposure to Irish construction loans is limited to under 1 per cent of loans invested as of 31 December 2020. In any event all construction loans remain adequately capitalised with funding in place to complete projects.
- Please note that the construction & heavy refurbishment exposure noted above will include assets also included in Hospitality and in Office, Industrial, Logistics & Residential.

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Office, Industrial, Logistics & Residential (45.5 per cent of Investment Portfolio)

- These sectors continue to display resilient characteristics in terms of rent collection.
- All of the Group's material exposure to residential is either under construction or newly completed, held for-sale product. Residential sales of both completed and under construction units have continued throughout the pandemic. Factors such as stamp duty reductions, weak Sterling and continued foreign investor interest in the capital have assisted in incentivising purchasers to transact. Average selling prices continue to track ahead of underwritten values on the residential portfolio.
- The Logistics and Industrial portfolios are proving to be very robust with property sales continuing to transact during the second half of 2020 at prices ahead of underwritten levels.

CURRENT AND FUTURE DIVIDEND

On 21 January 2021, the Directors declared a dividend in respect of the fourth quarter of 1.625 pence per Ordinary Share, equating to an annualised 6.5 pence per annum. As announced on 24 July 2020, from 1 January 2021 the Board intends to target a dividend of 5.5 pence per annum (payable quarterly) which reflects the broader lower interest rate environment. This will provide a more sustainable level of dividend which should be fully covered by earnings whilst ensuring the Company maintains strong credit discipline. For the year ended December 2020 6.5 pence was paid out in dividends which was covered 0.9x by earnings (excluding unrealised FX gains). The Company maintains a dividend reserve which was partially utilised to ensure dividends were not paid out of capital.

EXPECTED CREDIT LOSSES (ECLs)

All loans within the portfolio are classified and measured at amortised cost less impairment. Under IFRS 9 a three stage approach for recognition of impairment was introduced, based on whether there has been a significant deterioration in the credit risk of a financial asset since initial recognition. These three stages then determine the amount of impairment provision recognised.

At Initial Recognition	Recognise a loss allowance equal to 12 months expected credit losses resulting from default events that are possible within 12 months.
After initial recognition:	
Stage 1	Credit risk has not increased significantly since initial recognition. Recognise 12 months expected credit losses.
Stage 2	Credit risk has increased significantly since initial recognition. Recognise lifetime expected losses. Interest revenue recognised on a gross basis.
Stage 3	Credit impaired financial asset. Recognise lifetime expected losses. Interest revenue recognised on a net basis (i.e. losses are "above the line" and impact P&L and NAV).

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For the purposes of classifying between stages 1 to 3 after initial recognition, the Group considers a change in credit risk based on a **combination** of the following factors:

- Underlying income performance is at a greater than 10 per cent variance to the underwritten loan metrics;
- Loan to Value is greater than 75-80 per cent;
- Loan to Value or income covenant test results are at a variance of greater than 5-10 per cent of loan default covenant level;
- Late payments have occurred and not been cured;
- Loan maturity date is within six months and the borrower has not presented an achievable refinance or repayment plan;
- Covenant and performance milestones criteria under the loan have required more than two waivers;
- Increased credit risk has been identified on tenants representing greater than 25 per cent of underlying asset income;
- Income rollover / tenant break options exist such that a lease up of more than 30 per cent of underlying property will be required within 12 months in order to meet loan covenants and interest payments; and
- Borrower management team quality has adversely changed.

At 31 December 2020 six loans with a value of 35.3 per cent of NAV are classified as Stage 2 (the six loans are unchanged since 30 June 2020 and 30 September 2020 when they represented 33 per cent and 35.2 per cent of NAV respectively and are as disclosed in the Group's interim reporting dated 30 June 2020) and the remaining loans are still classified as Stage 1. The loans classified to Stage 2 are predominantly in the retail and hospitality sectors (but not all hospitality loans are in Stage 2). The main reason for moving the loans to Stage 2 in the second quarter was expected income covenant breaches due to the disruption from Covid-19 and there has been no material update to our analysis in this respect during the last six months.

It is important to note that although these six loans have been classified as Stage 2 no ECLs have been recognized. This is because the formula for calculating the expected credit loss is:

"Present Value of loan" x "probability of default" x "value of expected loss".

Although credit risk has increased for these loans we have considered a number of scenarios and as a result of these do not currently expect to realise a loss in the event of a default (i.e. the last part of the formula above is considered to be zero for all loans).

This assessment has been made, despite the continued pressure on the hospitality and retail markets from Covid-19, on the basis of 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. The position on any potential ECLs on the Spanish retail assets in particular continues to be closely monitored and analysed, and we have sought input, analysis and commentary from Spanish market advisers in this regard, to supplement our own information. Although we continue to update the information available and have yet to receive the Company's external valuation appraisal of certain underlying assets secured against the Company's respective loans, at this point in time we have no reason to believe that any ECLs should be recognised against any of the loans determined to be Stage 2.

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The reasons, estimates and judgements supporting our current assessment are as follows:

- Significant headroom on the loans based on the last independent valuations received with an LTV of 67.9 per cent. These valuations were received in the first quarter of 2019 and are currently being updated (although we have worked with local market experts to revise our own estimates to date);
- The performance of the centers where local restrictions were lifted following the first wave of Covid-19 was very encouraging for future recovery with the sites on average in September 2020 reaching 92 per cent of comparable month prior year footfall and we expect this will re-occur;
- We have determined that although there is pressure in this market, it is unlike the UK retail market as we are currently seeing no evidence of significant liquidations in the Spanish retail market;
- We believe that following the rollout of the vaccine and the loosening of lockdown restrictions, income in the centers is well positioned to recover as a result of the above; and
- We have reviewed valuations of listed peers of the borrower and valuations have not moved materially and therefore currently judge that the revised valuation on these assets, which is being appraised by the same market experts, is unlikely to result in an ECL being recognised.

As ordinary course, the Company is currently seeking to update its independent valuations on its Spanish retail assets which, together with the borrower reporting due to be received during January, will form part of the information we use in our assumptions and estimates as we continue to keep the ECLs under review and consider the NAV production for the financial statements as at 31 December 2020. In addition to helping ensure the valuation encompasses more recent comparable market movements and for changes in the underlying cash flows and forecasts, such independent valuations aid the Company in ensuring accurate testing of the LTV covenant.

FAIR VALUE

The amortised cost loan recognition is governed by IFRS9 and we do not have a choice of methodology to follow – we are not eligible to follow fair value accounting for the vast majority of our loans, and in our eight year history only one loan has ever been eligible to be recognized at fair value (the credit linked notes which repaid in the second quarter of this year). Therefore our NAV does not show significant fluctuations during periods of market volatility.

The table below represents the fair value of the loans based on a discounted cash flow basis using different discount rates.

Discount Rate	Value Calculated	% of book value
4.8%	£ 464.6 m	104.9%
5.3%	£ 458.9 m	103.7%
5.8%	£ 453.4 m	102.4%
6.3%	£ 448.0 m	101.2%
6.8%	**£ 442.7 m = book value**	**100.0%**
7.3%	£ 437.4 m	98.8%
7.8%	£ 432.3 m	97.7%
8.3%	£ 427.3 m	96.5%
8.8%	£ 422.4 m	95.4%

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The effective interest rate ("EIR") – i.e. the discount rate at which future cash flows equal the amortised cost, is 6.8 per cent. We have sensitised the cash flows at EIR intervals of 0.5 per cent up to +/- 2.0 per cent. The table reflects how a change in market interest rates or credit risk premiums may impact the fair value of the portfolio versus the amortised cost. Further, the Group considers the EIR of 6.8 per cent to be conservative as many of these loans were part of a business plan which involved transformation and many of these business plans are advanced in the execution and therefore significantly de-risked from the original underwriting and pricing (for example the Hotel, Spain). The volatility of the fair value to movements in discount rates is low due to the low remaining duration of most loans.

LOAN TO VALUE

Please refer to the 30 September 2020 factsheet for details on the methodology for calculating LTV and the valuation processes. No assets have received updated valuations during the current quarter. Updated valuations have been instructed but not yet received for the Spanish retail assets but these valuations will be subject to material uncertainty clauses in the current environment.

On the basis of the methodology previously outlined, at 31 December 2020 the Group has an average last LTV of 61.8 per cent (30 September 2020: 62.6 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%	80.9%	89.2%	76.9%	83.9%	82.3%
-20%	75.8%	83.6%	72.1%	78.6%	77.2%
-15%	71.4%	78.7%	67.8%	74.0%	72.6%
-10%	67.4%	74.3%	64.1%	69.9%	68.6%
-5%	63.9%	70.4%	60.7%	66.2%	65.0%
0%	**60.7%**	**66.9%**	**57.7%**	**62.9%**	**61.8%**
5%	57.8%	63.7%	54.9%	59.9%	58.8%
10%	55.1%	60.8%	52.4%	57.2%	56.1%
15%	52.7%	58.2%	50.1%	54.7%	53.7%

SHARE BUY BACKS AND SHARE PRICE PERFORMANCE

The Company received authority at the most recent AGM to purchase up to 14.99 per cent of the Ordinary Shares in issue on 8 June 2020 and since then, in August 2020, the Board engaged Jefferies International Limited as buy-back agent to effect share buy backs on behalf of the Company. During the third and fourth quarters the Company bought back 3,648,125 shares at an average cost per share of 86.9 pence per share and these shares are held in treasury. Share buy backs are subject to available cash.

During the fourth quarter, the Company's shares returned 7.6 per cent on a total return basis. Despite market dislocation and volatility, the share price has been less volatile than in the first half of the year, trading in the range between 84.8 pence and 94.0 pence, ending the period at 90.0 pence. This price stability has been supported by the share buy-back programme which commenced at the end of the second quarter.

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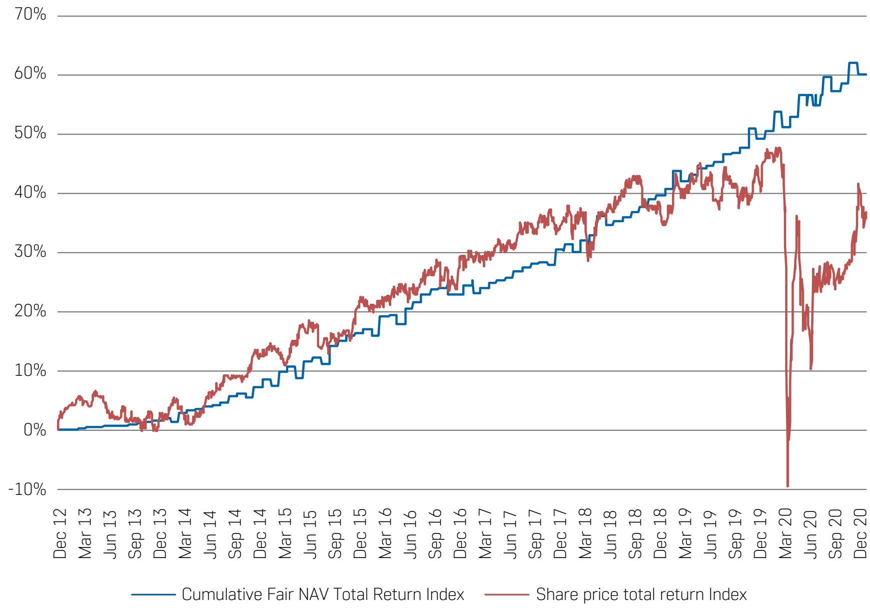
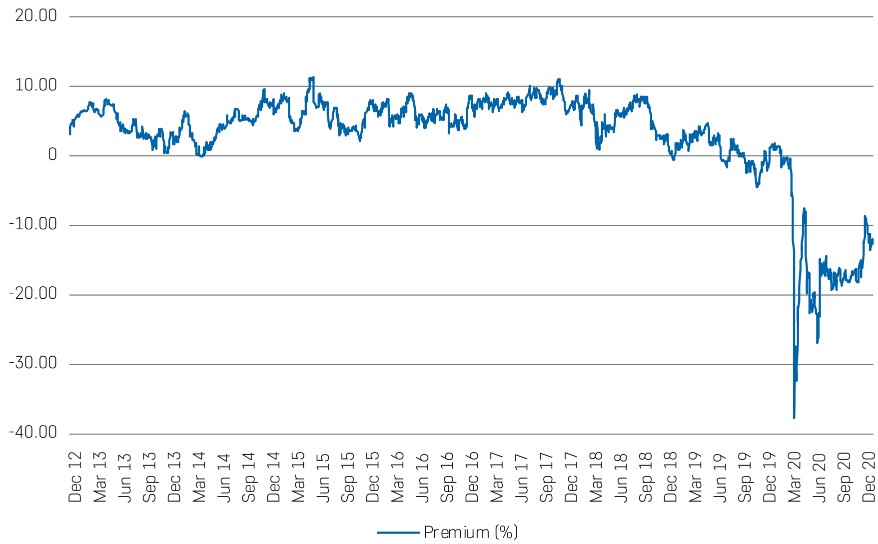
Over the three months ended 31 December, the share price traded at an average discount to the cum-div NAV of 15 per cent which has improved from the 17 per cent average seen in the previous quarter. The Board and the Investment Adviser continue to believe that the shares represent very attractive value at this level.

SHARE PRICE, NAV AND DISCOUNT





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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.

MARKET COMMENTARY AND OUTLOOK

Many people are happy to wave good-bye to 2020's troubles as we enter the New Year, but we should not be surprised if 2021 delivers its own shocks. There have been many significant world events since our last quarterly factsheet. Some news has spurred markets, with better than expected vaccine timing and efficacy, a clear result in the US Presidential election and finally the agreement of a Brexit deal. On the other hand, the new faster spreading mutant of Covid-19 and the resulting rise in cases, hospitalisations and deaths, a new lockdown and unrest on the streets of Washington have created new uncertainties. Markets are signalling that taken altogether the outlook is better than a quarter ago. Following news of the first vaccine the iShares UK Property ETF jumped 10 per cent in a few days at the beginning of November and it has remained stable at similar levels since. The US Presidential election result and more recently the Democrats' wins in Georgia have spurred equities further with the expectation of a more substantial fiscal stimulus in the U.S. as a result. The UK FTSE 100 has further been buoyed by the conclusion of the Brexit deal with the FTSE 100 closing 15 per cent higher at the time of writing than at the last factsheet.

Uncertainties remain, including how fast the new variant of Covid-19 will spread and the toll it will take, whether it will mutate further and if the vaccines will be effective against further mutations. While there are some voices criticising a slow pace, the UK is ahead of most countries with one in four over eighty year olds already vaccinated in early January and an ambitious vaccination plan is cause for optimism. If the UK is successful in the target of having 13 million people vaccinated by mid-February a very large proportion of the higher risk older population will have been covered which will enormously reduce hospitalisations and deaths from the virus.

Brexit so far has played out along the common rules of EU history. It has taken longer than expected, the deal was delivered at the last minute, there are some uncomfortable compromises and there are tricky levels of details involved in the final agreement. The end of the transition period and the agreement of the trade deal with Europe is a landmark in the Brexit process which does deliver some elements of certainty but it will take longer to understand the full impacts of the UK leaving the EU. In particular details around financial services have been delayed. While equivalence arrangements are likely to simplify matters significantly, the devil is often in the detail. Tariff free trade appears to be a success in principle but it also remains to be seen whether the red-tape introduced for trade between Europe and the UK creates its own barriers.

In the real estate markets, big box and last mile logistics and residential have been the clear winners of 2020. Office and student accommodation have been subject to more nuanced case by case effects and hospitality and retail have faced the biggest challenges. The struggle is not over for hospitality with a particularly tricky outlook over the remainder of the winter season with lockdowns in place. The recovery will be uneven with a pent up leisure demand arriving first. Unspent holiday and leisure budgets mean people keen to go on holidays, concerts and events will have the savings to pay. This demand will likely first focus domestically and then internationally as practicalities allow. Corporate and conference business are likely to take longer to resume. While the 2020 sector themes are likely to continue in 2021, taking the longer view there are likely to be opportunities for the right assets with well thought out and well capitalised business plans in all sectors.

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Interest rates remain as they have for some quarters practically unchanged since the previous factsheet with Sterling Libor at 0.03 per cent and the curve remaining extremely flat with the Sterling 5-year swap rate at only 0.11 per cent. With rates so low investors are keen to find yield which has supported record European issuance in both investment grade and non-investment grade credit in 2020. Yields in the high yield market are near all-time lows with spreads having recovered to pre-Covid-19 levels and strong new issuance in the first week of 2021 from real estate names with final pricing significantly inside of initial price talk.

In real estate lending while the data is not yet available, volumes will be down significantly in 2020. As we move in to 2021 we expect market conditions to become somewhat more liquid as the market adjusts to the Covid-19 and post Covid-19 environments. Some of that adjustment has already taken place and in particular the investment bank inventory of loans originated in the fourth quarter of 2019 and first quarter of 2020 which had weighed on new business during 2020 has largely been cleared during the second half of 2020 and with little incentives provided. While we expect dislocations to remain in the market during 2021, we are seeing willingness from the market to engage on all asset classes and more recently also including hotels and retail again. The lending appetite is coming from diverse sources reflecting an increasingly fragmented market. There continues to be a significantly lower participation from balance sheet bank lenders particularly for development financing and for financing other non-vanilla business plans and asset classes. We expect this pattern to continue as a long term theme that will support the Group's strategy of sourcing attractive new investment opportunities in 2021 and beyond.

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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 quarter ended on 31 December 2020 is available at:

www.starwoodeuropeanfinance.com