

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 MARCH 2021



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 2021

As at 31 March 2021, the Group had 18 investments and commitments of £442.2 million as follows: :

	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	£4.9 m	£0.1 m	£5.0 m
Office, London	£13.4 m	£7.1 m	£20.5 m
Residential, London	£2.6 m	£1.1 m	£3.7 m
Hotel, Oxford	£16.7 m	£6.3 m	£23.0 m
Hotel, Scotland	£35.1 m	£7.5 m	£42.6 m
Hotel, Berwick	£10.5 m	£4.5 m	£15.0 m
Logistics Portfolio, UK ⁽²⁾	£4.2 m		£4.2 m
Total Sterling Loans	£162.3 m	£26.6 m	£188.9 m
Three Shopping Centres, Spain	£31.2 m		£31.2 m
Shopping Centre, Spain	£14.5 m		£14.5 m
Hotel, Dublin	£51.3 m		£51.3 m
Hotel, Spain	£46.3 m		£46.3 m
Office, Madrid, Spain	£15.8 m	£0.9 m	£16.7 m
Mixed Portfolio, Europe	£25.5 m		£25.5 m
Mixed Use, Dublin	£3.3 m	£9.3 m	£12.6 m
Office Portfolio, Spain	£18.3 m	£1.9 m	£20.2 m
Office Portfolio, Ireland	£30.0 m		£30.0 m
Logistics Portfolio, Germany ⁽²⁾	£5.0 m		£5.0 m
Total Euro Loans	£241.2 m	£12.1 m	£253.3 m
Total Portfolio	£403.5 m	£38.7 m	£442.2 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 MARCH 2021

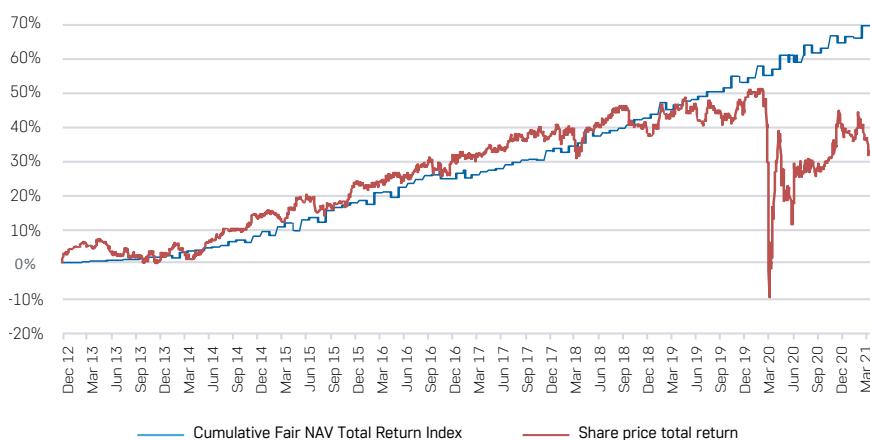
Number of investments	18
Percentage of currently invested portfolio in floating rate loans	77.5%
Invested Loan Portfolio unlevered annualised total return ⁽¹⁾	6.7%
Portfolio levered annualised total return ⁽²⁾	7.1%
Weighted average portfolio LTV – to Group first £ ⁽³⁾	18.8%
Weighted average portfolio LTV – to Group last £ ⁽³⁾	62.1%
Average loan term (based on current contractual maturity)	4.7 years
Average remaining loan term	2.3 years
Net Asset Value	£423.5m
Amount drawn under Revolving Credit Facilities (including accrued interest)	(£8.5m)
Loans advanced (including accrued interest)	£405.7m
Cash	£10.0m
Other net assets (including hedges)	£16.3m
Origination Fees – current quarter	£0.0m
Origination Fees – last 12 months	£0.1m
Management Fees – current quarter	£0.8m
Management Fees – last 12 months	£3.2m



DIVIDEND

On 23 April 2021, the Directors declared a dividend in respect of the first quarter of 1.375 pence per Ordinary Share, equating to an annualised 5.5 pence per annum. 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 sustainable level of dividend which should be fully covered by earnings over the year whilst ensuring the Group maintains strong credit discipline. The Company maintains a modest dividend reserve which can be utilised if required.

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. 15 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 LIBOR/EURIBOR.

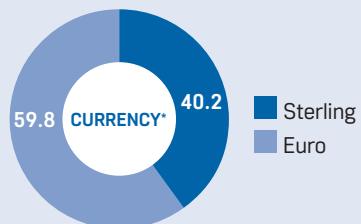
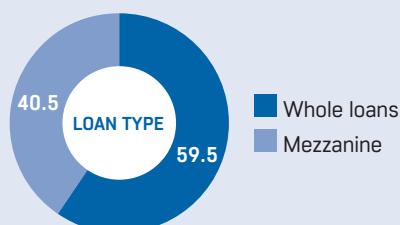
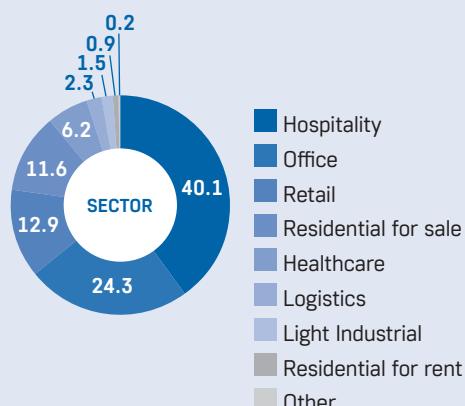
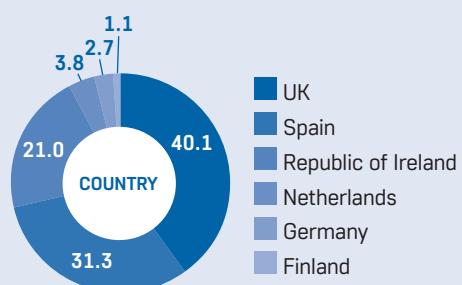
⁽³⁾ LTV to Group last £ means the percentage which the total loan drawn less any deductible lender controlled cash reserves and less any amortisation received to date (when aggregated with any other indebtedness ranking alongside and/or senior to it) bears to the market value determined by the last formal 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 MARCH 2020

Remaining years to contractual maturity*	Value of loans (£m)	% of invested portfolio
0 to 1 years	52.5	13.9
1 to 2 years	190.4	47.2
2 to 3 years	43.3	10.7
3 to 5 years	117.3	29.1

* 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.



NEW LOAN

On 22 April 2021 the Group announced that it had closed a £26.6 million floating rate whole loan secured by a portfolio of four properties. The properties being secured against consist of laboratory and office spaces let to a diverse range of life science occupiers in the UK. The financing has been provided in the form of an initial advance along with a smaller capex facility to support the borrower's value-enhancing capex initiatives. The loan term is 4 years, and the Group expects to earn an attractive risk-adjusted return in line with its stated investment strategy.

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 remains 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 various lockdown measures continuing into the second quarter, with realistic pandemic related business plans in place to deal with any underlying income displacement being experienced.

Key updates are outlined below:

Hospitality (40.1 per cent of funded Investment Portfolio)

- The largest hotel exposure (Hotel, Dublin), at 25.4 per cent of hospitality exposure, continues to benefit from a licence in place to the Irish Government's Health Service Executive, while hotels in Ireland remain closed for leisure in line with government guidelines. This licence has assisted in de-risking the impact of the pandemic in the medium term. In addition, the sponsor continues to work on complimentary asset management initiatives which are projected to add value to the overall loan collateral. This includes the successful achievement of a planning grant for 220 residential units on a separately owned site close to the hotel lands, and following a strategic capex investment, the ability to generate additional income on over 200 keys owned in a separate apartment building. These initiatives are considered to have enhanced the value of the Group's security.
- The UK hotel exposures predominately comprise of three hotels (Hotel Oxford, Scotland and North Berwick, accounting for 38.5 per cent of hotels in the portfolio). These hotels have all closed in line with business plan in order for comprehensive refurbishment works to be carried out. The hotels will re-open in summer 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. Remaining UK hotel exposure comprises a 50-key hotel ground up development within the Hotel and Residential loan. Construction is progressing well, with completion forecast in 2022. This loan is residential-led and the value of pre-sold residential units is now higher than the total loan commitment (inclusive of the hotel), which very significantly reduces hospitality exposure on this loan.
- Hotel, Spain (accounting for 28.6 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. Re-opening is planned for May 2021 and the volume of forward bookings and average room rates are considered strong. The sponsor remains well capitalised to fund any operational cash shortfalls in the event of further delays to opening.
- All hospitality loans have adequate resources to meet their cash needs in the medium term.

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Retail (12.9 per cent of funded Investment Portfolio)

- The Group's exposure to retail is predominantly comprised of the Three Shopping Centres, Spain and Shopping Centre, Spain loans. These are the only stand-alone retail loans in the portfolio and comprise 88 per cent of the Group's total retail exposure. All other retail exposure is contained in a limited number of mixed use portfolios where the retail sector represents less than 25 per cent of the total loan balance.
- The Group has updated its independent valuations of the two Spanish shopping centre loans. Compared to the valuations dated Q1 2019, values have declined on a weighted average basis of 15 per cent. This movement is in line with expectation and the decline is predominantly driven by an increase in investment yields expected to be demanded by investors for taking on exposure to retail at a time that the sector faces increased competition from on-line purchasing and uncertainty given pandemic related lockdown measures imposed by local governments.
- The impact of the valuation decline is not considered to have impacted the value of the loans secured against those assets or have a material adverse impact on the Group's overall portfolio; as a result no impairments to the value of the Group's loans are being recognised. Weighted average LTV of these two loans is now 82 per cent on gross basis and 79 per cent net of deductible reserves controlled by the lenders and there continues to be adequate headroom against the loan basis. The overall impact on the Portfolio LTV is marginal at just 1.3 percentage point negative movement. The loan sponsor continues to be very actively engaged in the asset management of the portfolio, including investing new equity to fund capex and tenant incentives related to new leasing. Despite the headwinds experienced during the pandemic, footfall had encouraging signs of recovery in September 2020, a time where some of the pandemic related restrictions had been temporarily eased. On the Group's two Spanish shopping centre loans, footfall in September had recovered on a weighted average basis to approximately 92 per cent of the prior year comparable month. This was at a time when considerable uncertainty was prevalent and therefore there is a positive expectation that footfall will recover during 2021 once pandemic restrictions are lifted, the centres and cinemas can trade normally and vaccination deployment is high.
- Across the Investment Portfolio, 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 (25.2 per cent of funded Investment Portfolio)

- 96.8 per cent of the Group's construction and heavy refurbishment loans are located in the UK. These projects have continued to operate on site throughout the period since the outbreak of the pandemic. This is very positive as it has allowed these projects to continue to progress toward completion even if on-site capacity has been impacted by pandemic-adapted working measures.
- Non-essential construction sites in the Republic of Ireland were mandated by the government to close from 8 January 2021, however we note that the Group's exposure to Irish construction loans is limited to under 1 per cent of total loans invested as of 31 March 2021. 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.

**Office, Industrial, Logistics & Residential
(40.6 per cent of funded Investment Portfolio)**

- These sectors continue to display resilient characteristics in terms of rent collection and overall performance.
- 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 at prices ahead of underwritten levels.

FAIR VALUE SENSITIVITY TABLE

Discount rate	Value calculated	% of book value
4.8%	£ 424.9 m	104.7%
5.3%	£ 420.0 m	103.5%
5.8%	£ 415.1 m	102.3%
6.3%	£ 410.4 m	101.1%
6.8%	£ 405.7 m = book value	100.0%
7.3%	£ 401.2 m	98.9%
7.8%	£ 396.7 m	97.8%
8.3%	£ 392.2 m	96.7%
8.8%	£ 387.9 m	95.6%

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.

EXPECTED CREDIT LOSSES & FAIR VALUES

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 and therefore no credit losses have been recognised.

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. As referred to above in the portfolio update, during the quarter, we have received independent, external valuations of the underlying assets secured against the Spanish loans. This information did not change our analysis on the Spanish loan and we note that valuation headroom remains on these loans. The updated valuations are reflected in the sector and portfolio LTV table on the next page.

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 recognised at fair value (the credit linked notes which repaid in 2020). Therefore our NAV does not show significant fluctuations during periods of market volatility. The table on the left represents the fair value of the loans based on a discounted cash flow basis using different discount rates.

LOAN TO VALUE

Please refer to the 30 September 2020 factsheet for details on the methodology for calculating LTV and the valuation processes. During the quarter, we have received independent, external valuations of the underlying assets secured against the Spanish loans and they are reflected in the sector and portfolio LTV table on the next page.

On the basis of the methodology previously outlined and including the new valuations received and referred to above, at 31 March 2021 the Group has an average last LTV of 63.6 per cent (31 December 2020: 61.8 per cent).

The table on the next page 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.

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SECTOR AND PORTFOLIO LTV TABLE

Change in Valuation	Hospitality	Retail	Residential	Other	Total
-25%	83.2%	101.9%	77.0%	83.2%	84.9%
-20%	78.0%	95.6%	72.2%	78.0%	79.6%
-15%	73.4%	90.0%	68.0%	73.4%	74.9%
-10%	69.4%	85.0%	64.2%	69.3%	70.7%
-5%	65.7%	80.5%	60.8%	65.7%	67.0%
-0%	62.4%	76.5%	57.8%	62.4%	63.6%
5%	59.5%	72.8%	55.0%	59.4%	60.6%
10%	56.8%	69.5%	52.5%	56.7%	57.9%
15%	54.3%	66.5%	50.2%	54.3%	55.3%

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 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 of 2020 and the first quarter of 2021, the Company bought back 4,308,125 shares at an average cost per share of 87.3 pence per share and these shares are held in Treasury.

During the first quarter of 2021, the Company's shares returned -4.3 per cent on a total return basis with the share price trading between 84.2 pence and 92.0 pence and ending the quarter at 84.6 pence. The Board made use of the share buy-back programme selectively where it was deemed necessary to address the imbalance in the demand and supply for shares and will continue to do so going forward where appropriate.

Over the three months ended 31 March 2021, the share price traded at an average discount to the cum-div NAV of 9.6 per cent which has improved marginally from the discount of 10.0 per cent to NAV on 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 demonstrated by Shelagh Mason, a member of the Board, who bought 95,131 shares during the quarter and Duncan MacPherson and Lorcain Egan of Starwood Capital Europe Advisers LLP, the Investment Adviser, who purchased 116,667 and 22,585 ordinary shares respectively over the same period.

MARKET COMMENTARY AND OUTLOOK

Following an unprecedented level of scientific collaboration and achievement there are now eight COVID-19 vaccines available for use around the world. Over 80 more are in clinical trials. Scaling up manufacturing from zero to billions of doses was always going to be a considerable challenge as to fully immunise the world population would require three times the doses produced each year for all other vaccines combined. Notwithstanding this, vaccination progress has moved very fast in the first quarter of 2021. The UK and the US in particular have been top performers and have set a standard that citizens of other countries will demand of their politicians. While there have been some glitches in deliveries and a cautious approach to a small number of serious side effects caused by the mass roll-out of vaccines, the positive impacts have been huge in reduction of death and serious disease and the steps forward in production and supply chain have been very fast and continue to ramp up.

Despite the UK having been one of the countries hardest hit by the COVID-19 pandemic, its vaccination success has set up a steady route to ease lockdown. In England, since March 8 schools have returned and since April 12 self-catering holidays, non-essential retail and outdoor hospitality have reopened. The third step is expected to happen on May 17 when indoor mixing will be allowed up to groups of six people and pubs and restaurants will be allowed to open indoors.

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Hotels, cinemas and other indoor venues will also reopen at this point (with the rule of six still in place). Sports stadiums will be allowed to reopen to fans, with the largest stadiums allowed to have 10,000 people in at once. It is also expected that short haul international tourism will be possible during the third quarter.

Since these steps were announced in February the plan has remained stable and the outlook for domestic tourism in the UK is very strong. Between March 2020 and January 2021 UK consumers accumulated £160 billion in savings and UK consumer confidence measured by GfK in March 2021 rose to the highest level since the start of lockdowns and the difference in the reading versus the previous level was the largest monthly increase in almost a decade. As such the short term operational outlook for the UK hotels that represent the largest part of the Group's hotel exposure is particularly strong.

The capital markets are reflecting the outlook for hotels. Marriot is the largest global public hotel company and its stock touched \$152 in March 2021 matching its previous high from December 2019. After a year of subdued transaction activity, investor interest in hospitality on the equity and the debt side in the private markets has come back strongly across Europe in 2021. As is typical when activity ramps up, single asset transactions are leading with portfolio transactions following. A landmark transaction that closed in March 2021 was Blackstone's £3.2 billion acquisition of Butlin's and Haven owner Bourne Leisure.

On the office side, future trends in occupational requirements continue to benefit from fresh thinking about how occupiers will use office space over the longer term. It was a default last year for large corporate occupiers to announce office requirement reviews as lockdowns changed the way they had to work. We do expect in some cases structural changes are likely to take place. Shareholders are keen to see cost cutting initiatives in difficult times and banks in particular have sent some clear messages to the market about efficiency possibilities in global real estate requirements. There will definitely be potential for reform and rationalisation of office use for some roles but there is doubt that the scale of reductions mentioned by some banks will be practical. Considerations around supervision, compliance, culture, morale, collaboration, creative interaction, training, workplace health and safety, the availability of employee home office space and the costs of investing in the home working environment are some of the considerations that will need to be taken into account. Outside of the banking sector we have seen some change in sentiment as occupiers plan for the return to office. According to a survey by KPMG most major global companies no longer plan to reduce their use of office space after the coronavirus pandemic. In the most recent survey just 17 per cent of chief executives say they plan to cut back on offices, down from 69 per cent in the last survey in August 2020. The survey covered 500 firms with sales of over \$500 million based in 11 countries including the United States, China, Japan, Germany and Britain, and took place between 29 January 2021 and 4 March 2021.

Investor sentiment towards the office space is varied but there is no shortage of supply of capital with real estate being an attractive investment in a low yield environment and providing for an element of inflation hedge. According to global real estate company CBRE, as much as £45 billion of global capital is targeting the London office market - the largest volume since the company started tracking investment in 2012, and representing far more than the amount of available stock.

Capital markets more generally have continued a positive trajectory. The FTSE 100, FTSE 250 and the iShares UK Property ETF are up 3.9 per cent, 5.0 per cent and 2.8 per cent respectively during the first quarter of 2021. While CMBS had initially lagged the recovery in some other areas of asset backed financing at the end of 2020, the European CMBS market is now fully reopened and rerated with Bank of America reporting six primary transactions totalling €2.1bn sold in the first quarter of 2021, compared to seven deals totalling €2.8bn in all of 2020, and with spreads having tightened to be near or at pre-pandemic levels at all points in the capital structure.

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The European leveraged finance market which has led the CMBS market continues to perform strongly with yields now approaching all-time lows across the credit spectrum. The market has set several new records in 2021 already with the busiest quarter ever across EMEA high yield bond and leverage loan issuance, the largest ever GBP high yield bond and the tightest CCC bond ever all happening in the first quarter of 2021.

In the private lending market we continue to see an increased share of non-bank lenders in the market in Europe. A prime recent example was for the financing of the acquisition financing for Bourne Leisure mentioned above. Starwood Capital Group led the execution of the deal as Mandated Lead Arranger with Starwood Capital Group affiliates, Starwood Property Trust and Starwood Real Estate Income Trust providing £720 million of the £1.8 billion acquisition loan and the remainder of the debt also being provided by non-bank lenders. Starwood has benefitted from being an early mover in the non-bank commercial property lending space and the total loan book managed by Starwood in Europe is now in excess of £3 billion. The Investment Adviser has an attractive pipeline of further opportunities and is well positioned to support further growth in European lending for the Group and the other funds it advises.



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