Starwood European Real Estate Finance Limited

Quarterly Portfolio Update

£64 million repaid across four investments during the quarter

Sixth capital redemption totalling £80 million to be implemented in July

Starwood European Real Estate Finance Limited ("SEREF" or the "Group"), a leading investor managing and realising a diverse portfolio of high quality senior and mezzanine real estate debt in the UK and Europe, is pleased to present its performance for the quarter ended 30 June 2024.

SHARE PRICE / NAV AT 30 JUNE 2024

HIGHLIGHTS

- **Further progress on portfolio realisation** - during the quarter:
  - A total of £64.1 million, over 28 per cent of the Group's 31 March 2024 total funded loan portfolio, has been repaid across four investments
  - This included the full repayment of three loans ((i) Three Shopping Centres, Spain, which had been classified as a Stage-2 loan, (ii) Hotel, Dublin and (iii) Hotel, Scotland) and one partial repayment (Hotel and Office, Northern Ireland)
  - The proceeds of these repayments, along with some of the additional cash available at 30 June 2024, will be used to fund the sixth return of capital to shareholders totalling £80.0 million which will take place in July 2024
- **Dividend** - on 24 July 2024, the Directors announced a dividend, to be paid in August, in respect of the second quarter of 2024 of 1.375 pence per Ordinary Share (for shares still in issue following the sixth redemption) in line with the 2024 dividend target of 5.5 pence per Ordinary Share in total
- **Strong cash generation** - going forward the portfolio is expected to continue to support annual dividend payments of 5.5 pence per Ordinary Share, paid quarterly
- **All assets are constantly monitored for changes in their risk profile** - no investments have been downgraded during the quarter and the current risk status of the investments is listed below:
  - Five loan investments equivalent to 69 per cent of the funded portfolio are classified in the lowest risk profile, Stage-1
  - Following the full repayment of Three Shopping Centres, Spain, three loan investments equivalent to 31 per cent of the funded portfolio are classified as Stage-2
  - There are no loans classified as Stage-3
- **The weighted average remaining loan term of the portfolio is 1.5 years**
- **Inflation protection** - 85 per cent of the portfolio is contracted at floating interest rates (with floors)
- **Robust portfolio** - the loan book is performing broadly in line with expectations with its defensive qualities reflected in the Group's continued NAV stability in a challenging macro environment
- **Significant equity cushion** - the weighted average Loan to Value for the portfolio is 58 per cent

The factsheet for the period is available at: **www.starwoodeuropeanfinance.com**

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John Whittle, Chairman of SEREF, said:

"We are pleased with the ongoing positive progress in our orderly realisation strategy with £64.1 million being realised in Q2 2024, following £37.9 million in realisations in Q1 2024. These realisations have enabled us to pledge to return £125.0 million to shareholders via capital redemptions in 2024 to date of which £80.0 million will be paid this month.

In particular, the full repayment of Three Shopping Centres, Spain in the second quarter of 2024, means that the Group no longer has any exposure to the retail sector.

The remaining portfolio loans continue to perform well and we remain on track to meet our aim of paying out a dividend of 5.5 pence per share for 2024. We look forward to updating shareholders on further progress in our orderly realisation strategy in due course."

ORDERLY REALISATION AND RETURN OF CAPITAL

On 31 October 2022, the Board announced the Company's Proposed Orderly Realisation and Return of Capital to Shareholders. A Circular relating to the Proposed Orderly Realisation, containing a Notice of Extraordinary General Meeting (EGM) was published on 28 December 2022. The proposals were approved by Shareholders at the EGM in January 2023 and the Company is now seeking to return cash to Shareholders in an orderly manner as soon as reasonably practicable following the repayment of loans, while retaining sufficient working capital for ongoing operations and the funding of committed but currently unfunded loan commitments.

The redemptions announced and implemented in 2023 returned circa £85.0 million in total to shareholders. During the first quarter of 2024, the Company announced and implemented its fourth and fifth capital redemptions, returning, in total, circa £45.0 million to shareholders through the compulsory redemption of 43,512,736 shares. Following the fifth redemption, the Company has 270,178,206 shares in issue and the total number of voting rights is 270,178,206.

There were no compulsory share redemptions in the second quarter of 2024.

On 24 July 2024 the Company announced the sixth capital redemption, which will return, in July 2024, circa £80.0 million to shareholders through the compulsory redemption of shares.

LIQUIDITY AND CREDIT FACILITIES

During 2023 the Company built up a cash reserve sufficient to cover its unfunded commitments (which as at 30 June 2024 amounted to £24.1 million). This cash reserve is included in the £117.1 million of cash held as at 30 June 2024.

The Company holds sufficient cash to meet its commitments and so did not pursue extending its credit facilities earlier in the year in order to reduce costs.

DIVIDEND

On 24 July 2024, the Directors announced a dividend, to be paid in August, in respect of the second quarter of 2024 of 1.375 pence per Ordinary Share in line with the 2024 dividend target of 5.5 pence per Ordinary Share. The dividend will be paid on Ordinary Shares in issue as at 2 August 2024 (i.e. post the sixth capital redemption which is being implemented in July 2024).

PORTFOLIO UPDATE

The Group continues to closely monitor and manage the credit quality of its loan exposures and repayments. The portfolio has continued to perform well, with total repayments of £64.1 million in the quarter to 30 June 2024, equivalent to 28 per cent of the 31 March 2024 total funded portfolio. These repayments marked successful execution of underlying borrower business plans to refinance or sell assets upon stabilisation. The repayments during the quarter included final repayment of the Three Shopping Centres, Spain loan which results in the Group's exposure to underlying retail assets reducing to zero.

On an aggregate portfolio level the Group continues to benefit from material headroom in underlying collateral value against the loan basis, with a weighted average loan to value of 58 per cent. These metrics are based on independent third party appraisals. These appraisals are typically updated annually for income producing assets. The weighted average age of valuations is just over ten months.

The Group's remaining exposure is spread across eight investments. 99 per cent of the total funded loan portfolio as of 30 June 2024 is spread across five asset classes; Hospitality (40 per cent), Office (19 per cent), Light Industrial (16 per cent), Healthcare (15 per cent) and Life Sciences (9 per cent).

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KEY PORTFOLIO STATISTICS AT 30 JUNE 2024

Number of investments	**8**
Percentage of currently invested portfolio in floating rate loans	**84.8%**
Invested Loan Portfolio unlevered annualised total return [(1)]	**9.1%**
Weighted average portfolio LTV – to Group first £ [(2)]	**16.7%**
Weighted average portfolio LTV – to Group last £ [(2)]	**58.0%**
Average remaining loan term*	**1.5 years**
Net Asset Value	**£283.5m**
Loans advanced (including accrued interest)	**£166.9m**
Cash	**£117.1m**
Other net liabilities (including hedges)	**£0.5m**

Remaining years to contractual maturity*	**Value of loans (£m)**	**% of invested portfolio**
0 to 1 years	**£45.3**	**27.4%**
1 to 2 years	**£46.3**	**28.1%**
2 to 3 years	**£73.5**	**44.5%**

* Remaining loan term to current contractual loan maturity excluding any permitted extensions. Note that borrowers may elect to repay loans before contractual maturity or may elect to exercise legal extension options, which are typically one year of additional term subject to satisfaction of credit related extension conditions. The Group, in limited circumstances, may also elect to extend loans beyond current legal maturity dates if that is deemed to be required to affect an orderly realisation of the loan.

Hospitality exposure (40 per cent) is diversified across three loan investments. This exposure has decreased from 50 per cent as of 31 March 2024 as a result of the full repayment of Hotel, Scotland and Hotel, Dublin during the quarter. One loan (71 per cent of hospitality exposure) has two underlying key UK gateway city hotel assets, both of which are undergoing comprehensive refurbishment programmes due to complete during 2024. Both hotels are also rebranding to a major internationally recognised hotel brand. The second largest hospitality loan (23 per cent of hospitality exposure) has also been recently refurbished and is slowly increasing operating performance metrics post refurbishment. One loan (6 per cent of hospitality exposure) benefits from a State/Government licence in place at the property and has structured amortisation that continues to decrease this loan exposure. This loan is expected to be fully repaid before year end 2024. The weighted average loan to value of the hospitality exposure is 56 per cent.

The Group's office exposure (19 per cent) is spread across three loan investments. The weighted average loan to value of loans with office exposure is 73 per cent and the average age of these independently instructed valuation reports is just over a year. The higher loan to value of this sector exposure reflects the wider decrease in market sentiment driven by post pandemic trends and higher interest rates. These factors have resulted in reduced investor appetite for office exposure and a decline in both transaction volumes and values. The largest office investment is a mezzanine loan which represents 65 per cent of this bucket and is classified as a Stage-2 risk rated loan. The underlying assets comprise seven well located European city centre CBD buildings and are well tenanted, albeit certain assets are expected to require capital expenditure to upgrade to Grade-A quality to retain existing tenants upon future lease expiry events. The loan remains in compliance of its third-party senior loan facility and the Group's mezzanine loan facility, however given the persisting challenging market dynamics, the Group is working closely with the sponsor, a very large institutional asset manager, and a leading global valuation and advisory firm to identify future capital expenditure needs, funding sources, exit values and the business plan to exit.

Light Industrial and Healthcare exposures comprise 16 per cent and 15 per cent each respectively, totalling 31 per cent of the total funded portfolio (across two investments) and provides good diversification into asset classes that continue to have very strong occupational and investor demand. The weighted average loan to value of these exposures is 56 per cent.

(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. Seven 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 paid to the Investment Manager.

(2) 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, reviewed in detail and approved by the reporting date. LTV to first Group £ means the starting point of the loan to value range of the loans drawn (when aggregated with any other indebtedness ranking senior to it). For development projects the calculation includes the total facility available and is calculated against the assumed market value on completion of the relevant project.

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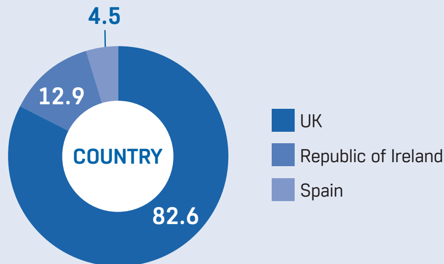
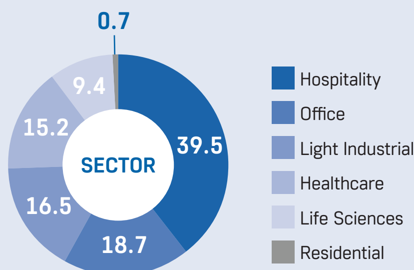
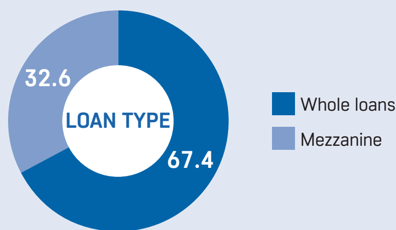
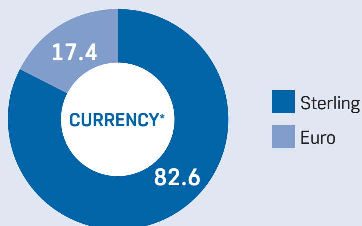
% of invested assets



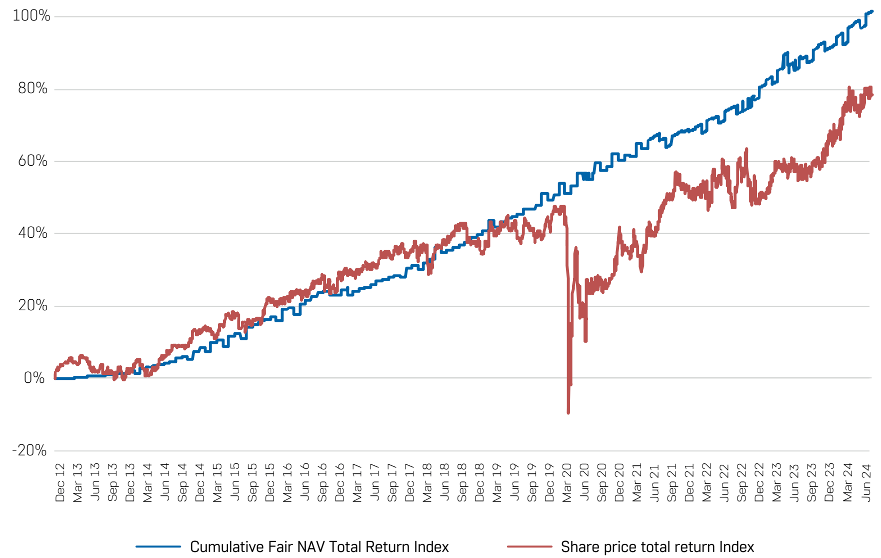




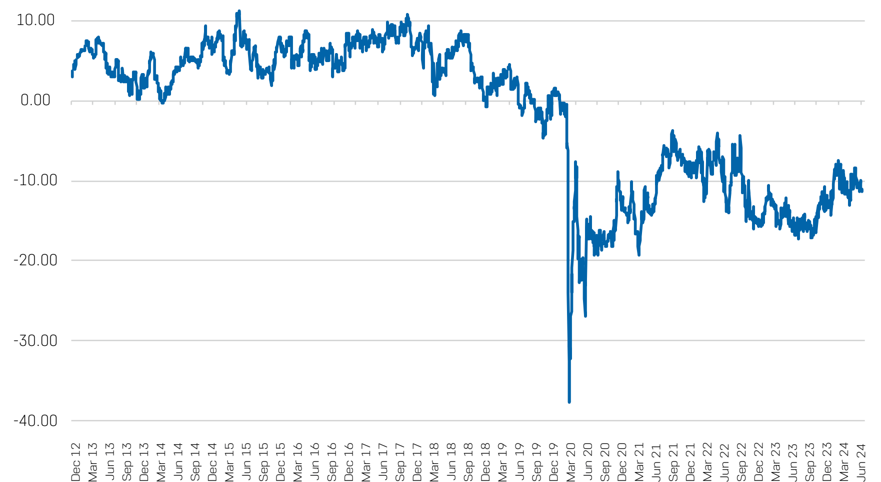


*The currency split refers to the underlying loan currency, however the capital on all non-sterling exposure is hedged back to sterling.

SHARE PRICE AND CUM-FAIR NAV TOTAL RETURN



PREMIUM / DISCOUNT CUM-FAIR



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INVESTMENT RESTRICTIONS AND GUIDELINES (UNDER WHICH THE PORTFOLIO WAS ORIGINATED PRIOR TO THE CHANGE IN INVESTMENT OBJECTIVE TO THE ORDERLY REALISATION OF THE ASSETS OF THE COMPANY)

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.

CREDIT RISK ANALYSIS

All loans within the portfolio are classified and measured at amortised cost less impairment.

During the quarter there have been no changes to the existing credit risk levels for any of the investments, however following the successful repayment of one of the remaining Stage-2 loans during the quarter, there has been an £11 million, equivalent to a 17.5 per cent decrease in the Stage-2 category loans, as of 30 June 2024 compared to 31 March 2024.

The Group follows a three-stage model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified as Stage-1 and has its credit risk continuously monitored by the Group. The expected credit loss ("ECL") is measured over a 12-month period of time.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage-2 but is not yet deemed to be credit-impaired. The ECL is measured on a lifetime basis.
- If the financial instrument is credit-impaired it is then moved to Stage-3. The ECL is measured on a lifetime basis.

The Group closely monitors all loans in the portfolio for any deterioration in credit risk. As of 30 June 2024, assigned classifications are:

- Stage-1 loans – five loan investments totalling £113.3 million, equivalent to 69 per cent of the funded portfolio are classified in the lowest risk profile, Stage-1.
- Stage-2 loans – three loan investments totalling £51.8 million, equivalent to 31 per cent of the funded portfolio are classified as Stage-2. The average loan to value of these exposures is 67 per cent. The weighted average age of valuation report dates used in the loan to value calculation is one year. While these loans are higher risk than at initial recognition, no loss has been recognised on a twelve-month and lifetime expected credit losses basis. Therefore, no impairment in the value of these loans has been recognised. The drivers for classifying these deals as Stage-2 are typically either one or a combination of the below factors:
    - lower underlying property values following receipt of updated formal appraisals by independent valuers or agreed and in exclusivity sale values;
    - sponsor business plans progressing more slowly than originally underwritten meaning that trading performance has lagged expectations and operating financial covenants under the facility agreements have breached; and
    - additional equity support is required to cover interest or operating shortfalls as a result of slower lease up or operations taking longer to ramp up.

The Stage-2 loans continue to benefit from headroom to the Group's investment basis. The Group has a strategy for each of these deals which targets full loan repayment over a defined period of time. Timing of repayment will vary depending on the level of equity support from sponsors. Typically, where sponsors are willing to inject additional equity to partially pay down the loans and support their business plan execution, then the Group will grant some temporary financial covenant headroom. Otherwise, sponsors are running sale processes to sell assets and repay their loans.

- Stage-3 loans – As of 30 June 2024, no loans were classified as Stage-3.

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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REPAYMENTS

During the quarter borrowers repaid a total of £64.1 million under the following loan obligations:

- £42.6 million, Hotel Scotland (full repayment of loan)
- €13.3 million, Three Shopping Centres, Spain (full repayment of loan)
- €11.0 million, Hotel, Dublin (full repayment of loan)
- £0.9 million, Hotel and Office, Northern Ireland (partial repayment of loan)

These repayments, along with available cash, will be used to fund the sixth return of capital to Shareholders in July 2024 (which will amount to circa £80.0 million).

MARKET COMMENTARY AND OUTLOOK

During the second quarter of 2024 some central banks started cutting interest rates. The Swedish National Bank ("SNB") and the European Central Bank ("ECB") have led the way in Europe with cuts in May for the SNB and June for the ECB. The Bank of England ("BOE") decision at the June meeting was finely balanced but, in the end, the BOE decided to wait with the market expecting that the BOE would then almost definitely cut in August. While the June headline rate of inflation does potentially support a cut, the stubbornly higher level of services inflation has resulted in the market showing that it is more likely than not that BOE hold rates now in August. The pace of cuts is likely to be measured with the BOE and ECB both flagging that they are not in a hurry to make cuts. In the United States the Federal Reserve has also not yet moved but with the June inflation data on the lower side the expectation is now a solid two cuts during 2024 with an increasing probability of a third cut being priced in.

Long term interest rates and government bond yields are largely unchanged over the quarter with UK 10 Year Gilt rates at 4.1 per cent versus 4.3 per cent at the beginning of the quarter and 3.5 per cent at the beginning of the year. German 10-year bonds are also slightly down at 2.4 per cent versus 2.5 per cent at the beginning of the quarter up from 2.0 per cent at the beginning of the year. Swap rates have also been steady with GBP and EUR 5-year swaps currently standing at 3.9 per cent and 2.7 per cent respectively with almost no movement over the quarter as a whole. A notable exception to the steady data was for France where the recent election led to a repricing of the spread between German and French government bonds. Prior to the election being called spreads were circa 50 basis points but jumped to as high as 80 basis points during the election process before settling back to a mid-point of 65 basis points at the time of writing.

Last time we reported, 2023 had the lowest level of investment volume in commercial real estate in Europe since the GFC with volumes half of the levels of recent years. Lower volumes are persisting as 2024 advances but we see a strong differentiation between asset classes in sentiment for deal catalysts. For example, in the hospitality sector where owners have more scope for asset management initiatives to create value, we have seen a number of larger portfolio transactions in 2024 including Blackstone's acquisition of Village Hotels for approximately £800 million, Starwood's acquisition of the Radisson Edwardian portfolio in Central London for a similar amount and Ares' acquisition of 21 Novotel and Ibis hotels for £400 million from Land Securities.

There has also been a pick-up in public market merger and acquisition activity including the merger of Tritax Big Box REIT and UK Commercial Property REIT to create a combined group with a portfolio of £6.3 billion and TPG's take private of Brussels listed Intervest with a €1.4 billion portfolio of logistics and office. In contrast some asset classes and geographies are seeing significantly less activity. For example, during the

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Notes:

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pre-COVID decade from 2010 to 2019 the value of office transactions as a proportion of the entire real estate transaction markets was 40.4 per cent, however in 2023 this declined to 22.8 per cent and we are seeing a similar proportion in the data from the first quarter of 2024. In the biggest markets of UK, Germany and France, it is France that has held the highest proportion of office transactions with 35.7 per cent of the total volume. Germany and the UK are maintaining similar levels close to the average with 18.3 per cent and 22.2 per cent respectively. Spain and Portugal are seeing the lowest share of office transactions with only 10.6 and 9.5 per cent of total country volume respectively.

We continue to see a relatively consistent level of appetite for the credit side of the capital structure in both the public and private markets. While only a small part of the European markets, the CMBS market in the US is a bell-weather for overall commercial real estate lending market sentiment. There has been USD 48 billion of total commercial real estate backed ABS issuance in the first half of the year which is an increase of 158 per cent versus the USD 18.6 billion at the same time last year. Bond spreads had contracted strongly in the first few months of 2024 leading to more favourable conditions for issuers but have now stabilised. With a higher level of supply, deals have been taking longer to clear the market and investors have had more choices leading to slightly more variation of pricing by deal but with overall spreads being stable.

In Europe the unsecured corporate bond market for real estate companies has seen a similar change in pricing dynamics and strong levels of new issuance since the beginning of the year. We have seen many high-quality issuers coming to market with high levels of order book coverage and attractive pricing. Including recently benchmark issuance sizes of €500 million plus for Logicor, Aroundtown and Grand City Properties, with the latest 5 year Logicor bond being 4.4x covered and priced at the mid swap rate plus 153 basis points.

In the private loan market we continue to see a good level of appetite from a diverse set of lender types including domestic and international banks, insurance companies, debt funds and other non-bank lenders leading to a healthy competition particularly for acquisition financing but also for the right refinancing opportunities. Beds, sheds and datacentres are often cited as the preferred asset classes for lenders, but we have seen that well-located, high-quality office assets also receives a good level of competition. One such example is the £235 million refinancing of 280 Bishopsgate which closed last month. 280 Bishopsgate is a top ESG rated office building located in the City of London near Liverpool Street Station. A £200 million senior loan was provided by LBBW with a further £35 million of mezzanine financing provided by Delancey making this one of the largest single asset office financings of the year.

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INVESTMENT PORTFOLIO AT 30 JUNE 2024

As at 30 June 2024, the Group had 8 investments and commitments of £189.2 million as follows:

	Sterling equivalent balance [1]	Sterling equivalent unfunded commitment [1], [2]	Sterling Total (Drawn and Unfunded)
Hospitals, UK	£25.0 m		£25.0 m
Hotel, North Berwick	£15.0 m		£15.0 m
Life Science, UK	£15.5 m	£4.0 m	£19.5 m
Hotel and Office, Northern Ireland	£7.3 m		£7.3 m
Hotels, United Kingdom	£46.3 m	£1.1 m	£47.4 m
Industrial Estate, UK	£27.2 m	£19.0 m	£46.2 m
Total Sterling Loans	**£136.3 m**	**£24.1 m**	**£160.4 m**
Office Portfolio, Spain	£7.5 m		£7.5 m
Office Portfolio, Ireland	£21.3 m		£21.3 m
Total Euro Loans	**£28.8 m**		**£28.8 m**
Total Portfolio	**£165.1 m**	**£24.1 m**	**£189.2 m**

[1] Euro balances translated to sterling at period end exchange rate.
[2] These amounts exclude interest which may be capitalised.

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LOAN TO VALUE (LTV)

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 LTVs shown below are based on independent third party appraisals. The weighted average age of the dates of these valuations for the whole portfolio is just over ten months.

As of 30 June 2024 the Group has an average last £ LTV of 58.0 per cent (31 March 2024: 57.9 per cent).

The Group's last £ LTV 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, reviewed in detail and approved 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.

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	Office	Light Industrial & Healthcare	Other	Total
-15%	65.4%	85.5%	65.4%	56.4%	68.3%
-10%	61.8%	80.7%	61.7%	53.3%	64.5%
-5%	58.6%	76.5%	58.5%	50.5%	61.1%
0%	55.6%	72.7%	55.6%	48.0%	58.0%
5%	53.0%	69.2%	52.9%	45.7%	55.3%
10%	50.6%	66.1%	50.5%	43.6%	52.7%
15%	48.4%	63.2%	48.3%	41.7%	50.5%

SHARE PRICE PERFORMANCE

The Company's shares closed on 30 June 2024 at 93.0 pence, resulting in a share price total return for the second quarter of 2024 of 2.4 per cent. As at 30 June 2024, the discount to NAV stood at 11.4 per cent, with an average discount to NAV of 10.5 per cent over the quarter.

Note: the 30 June 2024 discount to NAV is based off the current 30 June 2024 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.

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