Starwood European Real Estate Finance Limited

# Quarterly Portfolio Update

**Starwood European Real Estate Finance Limited ("SEREF", the "Company" or the "Group"), a leading investor managing and realising a diverse portfolio of high quality senior, junior and mezzanine real estate debt in the UK and Europe, presents its performance for the quarter ended 31 December 2024.**

## SHARE PRICE / NAV AT 31 DECEMBER 2024

# HIGHLIGHTS

- **Orderly Realisation of the portfolio is progressing** - to date, the Company has returned £210.0 million to shareholders in Compulsory Redemptions in accordance with its orderly realisation strategy adopted on 27 January 2023. While no redemptions were made in the quarter, a number of underlying loan investment repayments are forecast to be made during 2025 which will facilitate further return of cash to shareholders.
- **All assets are constantly monitored for changes in their risk profile** - the current risk status of the investments is listed below:
  - Four loan investments equivalent to 67 per cent of the funded portfolio as of 31 December 2024 are classified in the lowest risk profile, Stage 1.
  - Two loan investments equivalent to 19 per cent of the funded portfolio as of 31 December 2024 are classified as Stage 2.
  - As announced on 21 October 2024, one loan (equivalent to 14 per cent of the funded portfolio as of 31 December 2024) was reclassified from Stage 2 to Stage 3 and an impairment provision of €12.9 million was made against this loan investment.
- **Impaired loan investment** – since announcing a €12.9m impairment provision against one loan in October 2024, no material changes to the value of this loan are considered to have occurred.
- **Cash balances** - As of 31 December 2024 the Group held cash balances of circa £45.7 million. These cash balances include a cash reserve of £23.0 million to cover the Group's unfunded loan commitments as at the same date.
- **Dividend** - on 24 January 2025, the Directors announced a dividend, to be paid in February 2025, in respect of the fourth quarter of 2024 of 1.375 pence per share in line with the 2024 dividend target of 5.5 pence per share.
- **Strong cash generation** - the portfolio is expected to continue to support the annual dividend payments of 5.5 pence per share, paid quarterly.
- **The weighted average remaining loan term of the portfolio is 1.2 years.**
- **Inflation protection** - 84 per cent of the portfolio is contracted at floating interest rates (with floors).
- **Significant equity cushion** - the weighted average Loan to Value for the portfolio is 64 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 proud of the significant progress that has been made in our orderly realisation strategy over the course of 2024, with the Company having returned £210 million to Shareholders, equating to 50.5 per cent of the Company's NAV prior to the adoption of the orderly realisation strategy.

During the quarter under review, the Company saw an impairment on one investment, Office Portfolio, Ireland, equating to €12.9 million. However, the remaining six investments continue to perform within our expectations while the overall portfolio average duration has now reduced to 1.2 years. Accordingly, we look forward to issuing additional updates on our progress for the Company's orderly realisation strategy over 2025."

## 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 an Extraordinary General Meeting (the 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.

During 2023 and 2024 the Company returned circa £210.0m to Shareholders, equating to 50.5 per cent of the Company's NAV prior to the adoption of the orderly realisation strategy. As at the date of the issuance of this factsheet the Company had 193,929,633 shares in issue and the total number of voting rights was 193,929,633.

## LIQUIDITY AND CREDIT FACILITIES

During 2023 the Company built up a cash reserve sufficient to cover its unfunded commitments (which at 31 December 2024 amounted to £23.0 million). This cash reserve is included in the £45.7 million of cash held as at 31 December 2024.

The Company believes it holds sufficient cash to meet its commitments, including unfunded loan commitments.

## DIVIDEND

On 24 January 2025, the Directors announced a dividend, to be paid in February, in respect of the fourth 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 7 February 2025.

The unaudited year end 2024 financial statements of the Company show modest income reserves which are lower than the announced dividends in respect of the fourth quarter of 2024 as outlined above. However, given the current level of cash flow generated by the portfolio, the Company intends to maintain its annual dividend target of 5.5 pence per share. Dividend payments can continue to be made by the Company (as a Guernsey registered limited company) as long as it passes the solvency test (i.e. it is able to pay its debts as they come due).

## PORTFOLIO UPDATE

The Group continues to closely monitor and manage the credit quality of its loan exposures and repayments

The Group's exposure is spread across seven investments. The number of investments is unchanged versus the position as of 30 September 2024, with no material repayments made or falling due during the quarter to 31 December 2024. 99 per cent of the total funded loan portfolio as of 31 December 2024 is spread across five asset classes; Hospitality (39 per cent), Office (17 per cent), Light Industrial (17 per cent), Healthcare (16 per cent) and Life Sciences (10 per cent).

Hospitality exposure (39 per cent) comprises two loan investments. One loan (76 per cent of hospitality exposure) has two underlying key UK gateway city hotel assets, both of which have completed comprehensive refurbishment programmes during 2024. Both hotels have also rebranded to a major internationally recognised hotel brand. As a result, both assets are expected to trade strongly with the benefit of the new refurbished product in their respective markets. The second hospitality loan (24 per cent of hospitality exposure) comprises one hotel, which has also been recently refurbished. Trading performance improved during 2024 following the refurbishment project. Both hospitality loan sponsors are preparing to refinance the Company's loans during 2025. The weighted average Loan to Value of the hospitality exposure is 57 per cent.

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## KEY PORTFOLIO STATISTICS AT 31 DECEMBER 2024

| | |
|---|---|
| Number of investments | **7** |
| Percentage of currently invested portfolio in floating rate loans | **84.3%** |
| Invested Loan Portfolio unlevered annualised total return [1] | **9.1%** |
| Weighted average portfolio LTV – to Group first £ [2] | **20.6%** |
| Weighted average portfolio LTV – to Group last £ [2] | **63.5%** |
| Average remaining loan term* | **1.2 years** |
| Net Asset Value | **£194.9m** |
| Loans advanced (including accrued interest and less impairment provision) | **£149.5m** |
| Cash | **£45.7m** |
| Other net assets (including hedges) | **£0.3m** |

| Remaining years to contractual maturity* | Funded loan balances (£m) | % of invested portfolio |
|---|---|---|
| 0 to 1 years | **£84.6** | **53.2%** |
| 1 to 2 years | **£74.5** | **46.8%** |

* 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.

The Group's office exposure (17 per cent) comprises two loan investments. The weighted average Loan to Value of loans with office exposure is 95 per cent. The value used to calculate the Loan to Value for the Stage 1 office loan uses the latest independent lender instructed valuation. The value used for the Stage 3 office loan (which was downgraded from a Stage 2 asset in October 2024) is the marked down value as per the loan impairment recognised in October 2024. No material valuation changes are considered to have occurred since that time. 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. We note however, there has been a more positive recent outlook for real estate given interest rates have begun to reduce.

The largest office investment is a mezzanine loan which represents 74 per cent of this exposure and is classified as a Stage 3 risk rated loan. As outlined in previous factsheets, the underlying assets comprise seven well located European city centre CBD buildings and have historically been 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. A 50 per cent loan impairment provision related to this asset was announced on 21 October 2024 as a result of new operational information received from the borrower. Following an analysis of potential future scenarios and outcomes, the Board decided to make this provision. As noted in the announcement, the potential outcomes could recover a greater or lesser amount of the loan. The Investment Adviser continues to actively advise on this position to maximise recovery. No material changes to the value of this loan are considered to have occurred since October 2024 and therefore the loan risk classification and impairment provision remain unchanged. This remains under frequent review and the Company will provide updates as appropriate.

Light Industrial and Healthcare exposures comprise 17 per cent and 16 per cent, respectively, totalling 33 per cent of the total funded portfolio (across two investments) and provide 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 59 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. Six 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 (Loan to Value) 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 its value determined by the last independent third party appraisals for loans classified as Stage 1 and Stage 2 and on the marked down value per the recently announced loan impairment for the loan classified as Stage 3 in October 2024. Loan to Value 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).

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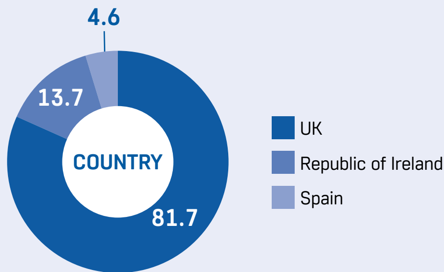
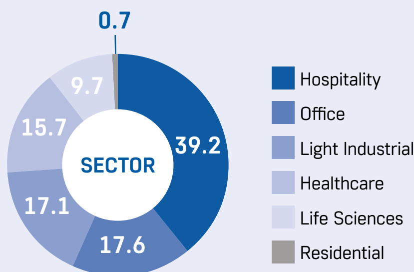
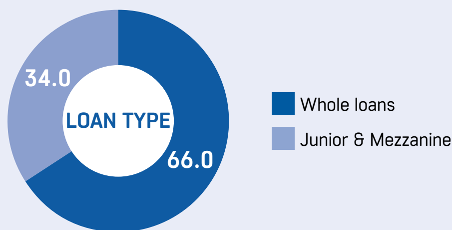
**% of invested assets**



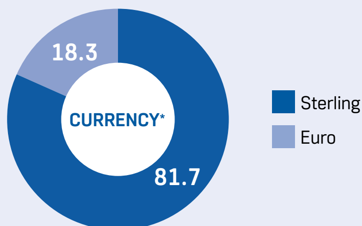

UK
Republic of Ireland
Spain




Hospitality
Office
Light Industrial
Healthcare
Life Sciences
Residential



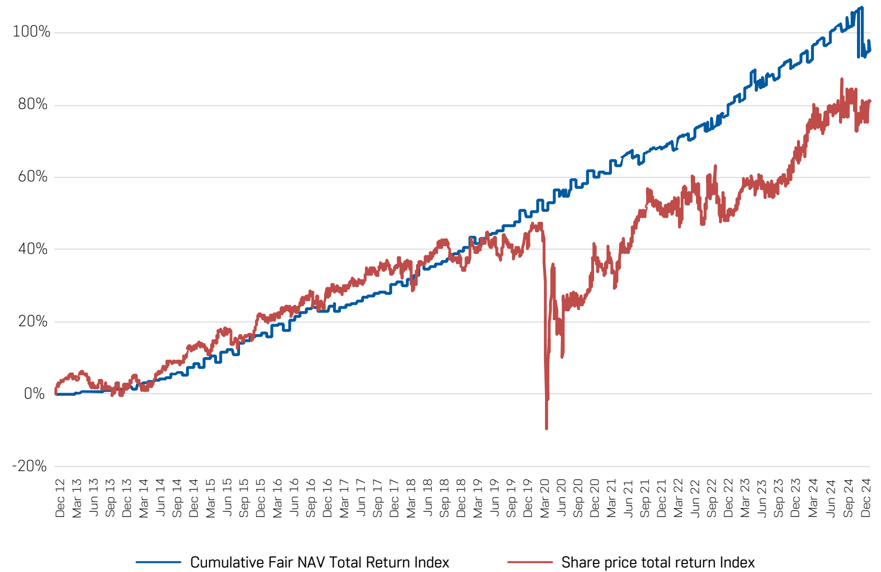

Whole loans
Junior & Mezzanine



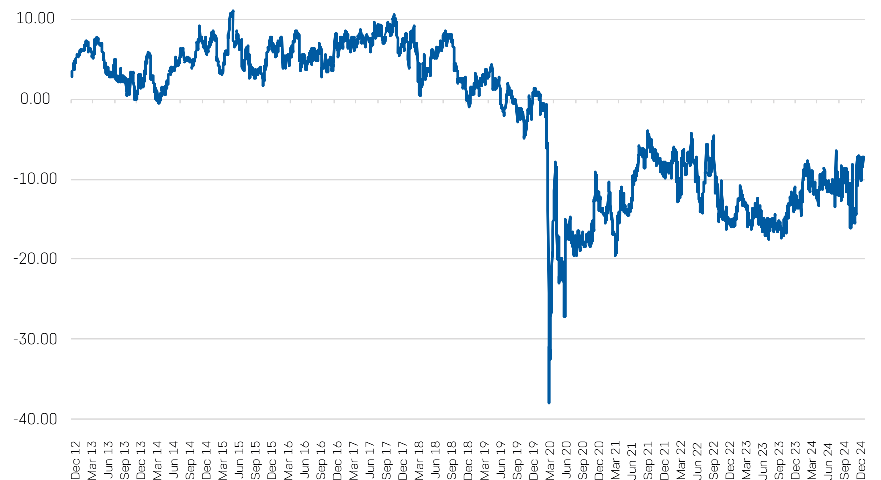

Sterling
Euro

*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.

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 at the date of this factsheet, assigned classifications are:

- Stage 1 loans – four loan investments totalling £106.8 million, equivalent to 67 per cent of the funded portfolio as of 31 December 2024 are classified in the lowest risk profile, Stage 1.
- Stage 2 loans – two loan investments totalling £30.5 million, equivalent to 19 per cent of the funded portfolio as of 31 December 2024 are classified as Stage 2. The average Loan to Value of these exposures is 54 per cent. The weighted average age of valuation report dates used in the Loan to Value calculation is just over 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. Under each of the existing Stage 2 loans, the underlying sponsors are progressing strategies to repay the loans in full by refinancing with third party lenders.

- Stage 3 loans – during October 2024, one loan (with a funded balance amounting to £21.8 million as of 31 December 2024) was reclassified as Stage 3. As of 31 December 2024, the balance of this loan represented 14 per cent of the total funded portfolio. As outlined above, a 50 per cent impairment of the 30 September 2024 loan balance has been provided for as per the Company's announcement dated 21 October 2024. The position is being monitored and managed closely, and updates will be provided as appropriate and when practically available.

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

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| Samuel Adams | |


**Notes:**

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## MARKET COMMENTARY AND OUTLOOK

Over the last couple of years our quarterly commentary has often started on the topic of the interest rate environment given its importance in commercial real estate. A notable deviation in this area from the beginning of last year is that expectations for interest rate decreases have been missed and current bond yields are actually now higher in the United States ("US") and the United Kingdom ("UK") than at the beginning of 2024. In addition, current expectations of the pace of future interest rate cuts over the next year are lower than at the beginning of 2024.

Central bank policy rates at the beginning of 2024 had hit peak levels with a range of 5.50 per cent to 5.25 per cent for the US Federal Funds rate and at 5.25 per cent for the Bank of England base rate. The European Central Bank Deposit Facility Rate was at 4.0 per cent. These levels are post Global Financial Crisis highs which have not been seen since 2008 for the UK and Europe and not since 2001 for the US. The higher interest rate environment has been driven by inflation levels which had risen sharply in the face of global supply chain challenges and energy price volatility which were caused by a combination of the stresses of the recovery, inactivity post COVID and global geopolitical events. Inflation had risen in 2022 to the highest levels since the early 1980s.

By the beginning of 2024 the aggressive central bank rate hikes had appeared to have done their job and inflation had materially decreased towards more normal levels and it was clear the direction in interest rates would be down. The market predicted base rate decreases of 1.5 per cent or more for both the UK and US. While inflation had largely been tempered throughout 2024, central banks in the US and the UK in particular continued to be hawkish on managing inflation and in the end the Bank of England only reduced the base rate by 0.50 per cent to 4.75 per cent and the Federal Reserve by 1.0 per cent to a range of 4.50 per cent to 4.25 per cent. With a low growth rate and less inflationary pressure the European Central Bank has been able to maintain a lower level and has made four rate cuts totalling a 1 per cent decrease and leaving the deposit rate at 3.0 per cent.

There is also now a slower expectation of future rate cuts and the bond market is also concerned by current political uncertainties including the transition to a new Trump presidency and the implementation of the economic policies of the new UK government. As a result, UK and US bond rates are higher now that they were this time last year. US 10 Year Treasury and UK Gilt yields are now at 4.7 per cent versus around 4 per cent this time last year. Looking at the key benchmark for the base rate used for financing real estate there is a more mixed picture with Sterling rates higher than this time last year but Euro rates lower. The Sterling and Euro 5-year swaps currently stand at 4.2 per cent and 2.3 per cent versus 3.8 per cent and 2.6 per cent at the same time last year.

The market had anticipated that a stabilised interest rate environment would lead to more stability in real estate valuations and a pickup of real estate transactions volumes in 2024 versus 2023 which was a trough year. After a period of yield expansion in 2022 and 2023 we saw a turn in direction early in 2024 to yield compression in most asset classes outside of Office. The more stable environment supported a pick up in transaction volumes of 20 per cent in the UK with similar trends around European markets. We saw some significantly larger transactions go through in 2024. These larger transactions were mostly for portfolios and there has been very limited volume in high value single asset transactions. As such, it is not surprising that despite the increase, volumes for the UK are still 22 per cent lower than the 10 year average.

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We commented at the beginning of last year that bank sentiment was meaningfully better with a high degree of confidence in US CMBS bond issuance (which acts as a bellwether for real estate finance sentiment globally). The predictions of a high volume of transactions and significant tightening in spreads did play out in that market. The 2024 US CMBS transaction volume was in excess of $100 billion which was the third highest year since the Great Financial Crisis ("GFC") and over double the 2023 level. Hotel, Industrial and Multi-family residential were the largest contributions to the volumes with a very low proportion of Office. The spread on the highest rated "AAA" bonds for floating rate single asset, single borrower CMBS declined from over 200 basis points in late 2023 to mid-100s during 2024.

While 2024 was a low year for Office CMBS we have seen improving sentiment during the year for the best quality office transactions. 2025 started strongly for office financing with a jumbo Manhattan office CMBS for Tishman Speyer and Harry Crown's Spiral building at Hudson Yards that closed in early January. The deal had a highly successful execution with pricing consistent with the best CMBS in the market and a significant over-subscription in spite of the notably large size of the deal which, at $2.65 billion, is one of the largest CMBS across all asset classes in recent years. There are indications that a number of further Office CMBS are in the pipeline for early 2025 both in the US and the UK.

Banks have had a strong year globally. The STOXX Banks index which includes the largest European banks is up 23.3 per cent in the year and US banks were up more than 30 per cent. Higher rates have helped banks increase net interest margins and contributed to the highest average return on equity since the GFC. Higher for longer rates and structural hedging by banks will help net interest margins hold up and the outlook for mergers and acquisitions is healthy following a number of slower years so 2025 is likely to be another good year for banks. Within commercial real estate lending many banks saw faster than expected repayment rates and lower volumes of available transactions and so they adjusted their approach to new lending opportunities to maintain or grow their lending books with lower pricing and increased loan sizes.

We saw strength of demand and a price tightening across all sources of real estate lending during the course of the year. In addition to the healthy bank and CMBS lending covered earlier, the corporate bond market recovered in both issuance volumes and pricing and is now fully reopened after a couple of difficult years. There is also good appetite from insurance lenders and other alternative lenders. Overall, the credit side of the real estate market starts the year in great shape and will provide a support for real estate transactions in 2025.

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## INVESTMENT PORTFOLIO AT 31 DECEMBER 2024

As at 31 December 2024, the Group had seven investments with total cash commitments (funded and unfunded) of £182.1 million as shown below.

| | Sterling equivalent balance (1), (2) | Sterling equivalent unfunded commitment (3) | 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 |
| Hotels, United Kingdom | £47.3 m | | £47.3 m |
| Industrial Estate, UK | £27.2 m | £19.0 m | £46.2 m |
| **Total Sterling Loans** | **£130.0 m** | **£23.0 m** | **£153.0 m** |
| Office Portfolio, Spain | £7.3 m | | £7.3 m |
| Office Portfolio, Ireland | £21.8 m | | £21.8 m |
| **Total Euro Loans** | **£29.1 m** | | **£29.1 m** |
| **Total Portfolio** | **£159.1 m** | **£23.0 m** | **£182.1 m** |

(1) Euro balances translated to sterling at period end exchange rate.
(2) These amounts are shown before any impairment provisions recognised.
(3) 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 Loan to Values (LTV) shown below are based on independent third party appraisals for loans classified as Stage 1 and Stage 2 and on the marked down value as per the recently announced loan impairment for the loan classified as Stage 3 in October 2024. The weighted average age of the dates of these valuations for the whole portfolio is just over eleven months.

As of 31 December 2024, the Group has an average last £ Loan to Value of 63.5 per cent (30 September 2024: 62.9 per cent).

The Group's last £ Loan to Value 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 or, in the case of the Stage 3 asset classified as Stage 3 in October 2024, the marked down value per the recently announced loan impairment. Loan to Value 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 £ Loan to Values.

| Change in Valuation | Hospitality | Office | Light Industrial & Healthcare | Other | Total |
|---|---|---|---|---|---|
| -15% | 67.0% | 111.9% | 69.1% | 58.3% | 74.7% |
| -10% | 63.3% | 105.7% | 65.2% | 55.1% | 70.5% |
| -5% | 59.9% | 100.2% | 61.8% | 52.2% | 66.8% |
| 0% | 56.9% | 95.1% | 58.7% | 49.6% | 63.5% |
| 5% | 54.2% | 90.6% | 55.9% | 47.2% | 60.4% |
| 10% | 51.8% | 86.5% | 53.4% | 45.1% | 57.7% |
| 15% | 49.5% | 82.7% | 51.0% | 43.1% | 55.2% |

## SHARE PRICE PERFORMANCE

The Company's shares closed on 31 December 2024 at 91.8 pence, resulting in a share price total return for the fourth quarter of 2024 of -0.4 per cent. As at 31 December 2024, the discount to NAV stood at 8.6 per cent, with an average discount to NAV of 11.2 per cent over the quarter.

Note: the 31 December 2024 discount to NAV is based off the 31 December 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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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 conduct an orderly realisation of the assets of the Company.

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The Group's assets are managed by Starwood European Finance Partners Limited, an indirect wholly owned subsidiary of Starwood Capital Group.

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