

STARWOOD PROPERTY TRUST, INC.

Form 10-K

March 08, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

**Commission file number 001-34436
Starwood Property Trust, Inc.**

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

27-0247747
(I.R.S. Employer
Identification Number)

**591 West Putnam Avenue
Greenwich, Connecticut**
(Address of Principal Executive Offices)

06830
(Zip Code)

Registrant's phone number, including area code (203) 422-8100

Securities registered pursuant to 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$0.01 par value per share

New York Stock Exchange

Securities registered pursuant to 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer," and "smaller reporting

company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2009, the last business day of our most recently completed second fiscal quarter, our common stock was not listed on any exchange or over-the counter market. Our common stock began trading on the New York Stock Exchange on August 12, 2009. As of December 31, 2009, the aggregate market value of the voting stock held by non-affiliates was \$668,102,578 based on the number of shares held by non-affiliates of the registrant as of December 31, 2009, and based on the reported last sale price of our common stock on December 31, 2009. Shares of our common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded from this calculation in that such persons may be deemed to be affiliates. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of March 4, 2010 was 47,583,800.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement to be filed on or about March 31, 2010 (the Proxy Statement) are incorporated by reference in Part III of this Annual Report on Form 10-K.

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Special Note Regarding Forward Looking Statements

This Annual Report on Form 10-K contains certain forward-looking statements, including without limitation, statements concerning our operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are developed by combining currently available information with our beliefs and assumptions and are generally identified by the words believe, expect, anticipate and other similar expressions. Forward-looking statements do not guarantee future performance, which may be materially different from that expressed in, or implied by, any such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates.

These forward-looking statements are based largely on our current beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or within our control, and which could materially affect actual results, performance or achievements. Factors that may cause actual results to vary from our forward-looking statements include, but are not limited to:

- factors described in this Annual Report on Form 10-K, including those set forth under the captions Risk Factors and Business ;
- defaults by borrowers in paying debt service on outstanding items;
- impairment in the value of real estate property securing our loans;
- availability of mortgage origination opportunities acceptable to us;
- national and local economic and business conditions;
- general and local commercial real estate property conditions;
- changes in federal government policies;
- changes in federal, state and local governmental laws and regulations;
- increased competition from entities engaged in mortgage lending;
- changes in interest rates; and
- the availability of and costs associated with sources of liquidity.

In light of these risks and uncertainties, there can be no assurances that the results referred to in the forward-looking statements contained in this Annual Report on Form 10-K will in fact occur. Except to the extent required by applicable law or regulation, we undertake no obligation to, and expressly disclaim any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, changes to future results over time or otherwise.

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PART I

Item 1. Business.

The following description of the business should be read in conjunction with the information included elsewhere in this Annual Report on Form 10-K for the year ended December 31, 2009. This description contains forward-looking statements that involve risks and uncertainties. Actual results could differ significantly from the results discussed in the forward-looking statements due to the factors set forth in Risk Factors and elsewhere in this Annual Report on Form 10-K. References in this Annual Report on Form 10-K to we, our, us, or the Company, refer to Starwood Property Trust, Inc.

General

Starwood Property Trust, Inc. is a Maryland corporation that commenced operations on August 17, 2009, upon the completion of our initial public offering. We are focused primarily on originating, investing in, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities (CMBS), and other commercial real estate-related debt investments. We will also invest in residential mortgage loans and residential mortgage-backed securities (RMBS). We collectively refer to commercial mortgage loans, other commercial real estate debt investments, CMBS, other commercial real estate-related debt investments, residential mortgage loans, and RMBS as our target assets.

Our objective is to provide attractive risk adjusted returns to our investors over the long term, primarily through dividends and secondarily through capital appreciation. In order to achieve these objectives, we are focusing on asset selection and the relative value of various sectors within the debt market to construct a diversified investment portfolio designed to produce attractive returns across a variety of market conditions and economic cycles.

We are externally managed and advised by SPT Management, LLC pursuant to the terms of a management agreement. SPT Management, LLC (our Manager), is controlled by Barry Sternlicht, our Chairman and Chief Executive Officer. SPT Management, LLC is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht. Since its inception in 1991, Starwood Capital Group (including Starwood Capital-named affiliates controlled by Mr. Sternlicht) has sponsored numerous opportunistic funds, including dedicated debt funds, dedicated hotel funds and several standalone and co-investment partnerships.

We intend to elect to be taxed as a real estate investment trust (REIT), for U.S. federal income tax purposes, commencing with our taxable year ending December 31, 2009. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of our taxable income to stockholders and maintain our qualification as a REIT. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the 1940 Act).

Our corporate headquarters office is located at 591 West Putnam Avenue, Greenwich, Connecticut, and our telephone number is (203) 422-8100.

Investment Strategy

We seek to maximize returns for our stockholders by constructing and managing a diversified portfolio of our target assets. Our investment strategy may include, without limitation, the following:

- seeking to take advantage of pricing dislocations created by distressed sellers or distressed capital structures and pursuing investments with attractive risk-reward profiles;
- focusing on acquiring debt positions with implied basis at deep discounts to replacement costs;

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focusing on supply and demand fundamentals and pursuing investments in high population and job growth markets where demand for all real estate asset classes is most likely to be present; targeting markets with barriers to entry other than capital; and structuring transactions with an amount of leverage that reflects the risk of the underlying asset's cash flow stream, attempting to match the rate and duration of the financing with the underlying asset's cash flow, and hedging speculative characteristics.

In order to capitalize on the changing sets of investment opportunities that may be present in the various points of an economic cycle, we may expand or refocus our investment strategy by emphasizing investments in different parts of the capital structure and different sectors of real estate. Our investment strategy may be amended from time to time, if recommended by our Manager and approved by our board of directors, without the approval of our stockholders. In addition to our Manager making direct investments on our behalf, we may enter into joint ventures or management agreements with persons that have special expertise or sourcing capabilities.

Financing Strategy

Subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our exemption from the 1940 Act, we may finance the acquisition of our target assets, to the extent available to us, through the following methods:

- sources of private financing, including long- and short-term repurchase agreements and warehouse and bank credit facilities;
- securitizations;
- non-recourse loans provided under the U.S. Government's Term Asset-Backed Securities Loan Facility (the TALF), for the acquisition of CMBS; and
- public offerings of our equity or debt securities.

In the future, we may utilize other sources of financing to the extent available to us.

Our Target Assets

We invest in target assets secured primarily by U.S. collateral. We may originate or acquire loans and other debt investments backed by commercial real estate (CRE), where the realizable value of the underlying real estate collateral is deemed to be more than the price paid for the loans or securities, as applicable. We may also invest in residential mortgage loans and RMBS. We may invest in performing and non-performing mortgage loans and other real estate-related loans and debt investments, but we will not target any near term loan to own investments, which our Manager considers to be mortgage loans or other real estate-related loan or debt investments where the proposed originator or acquiror of any such investment has the intent and/or expectation of foreclosing on, or otherwise acquiring the real property securing the loan or investment at any time within the first 18 months of its origination or acquisition of the loan or investment. Our Manager targets markets where it has a view on the expected cyclical recovery as well as expertise in the real estate collateral underlying the assets being acquired. We seek situations where a lender or holder of a loan or security is in a compromised situation due to the relative size of its CRE portfolio, the magnitude of non-performing loans, or regulatory/rating agency issues driven by potential capital adequacy or concentration issues.

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Our target assets include the following types of loans and other debt investments with respect to commercial real estate:

whole mortgage loans: loans secured by a first mortgage lien on a commercial property which provide long-term mortgage financing to commercial property developers or owners generally having maturity dates ranging from three to ten years;

bridge loans: whole mortgage loans secured by a first mortgage lien on a commercial property which provide interim or bridge financing to borrowers seeking short-term capital typically for the acquisition of real estate;

B-Notes: typically a privately negotiated loan that is secured by a first mortgage on a single large commercial property or group of related properties and subordinated to an A Note secured by the same first mortgage on the same property or group;

mezzanine loans: loans made to commercial property owners that are secured by pledges of the borrower's ownership interests in the property and/or the property owner, subordinate to whole mortgage loans secured by first or second mortgage liens on the property and senior to the borrower's equity in the property;

construction or rehabilitation loans: mortgage loans and mezzanine loans to finance the cost of construction or rehabilitation of a commercial property;

CMBS: securities which are collateralized by commercial mortgage loans, including:
senior and subordinated investment grade CMBS,

below investment grade CMBS, and

unrated CMBS;

corporate bank debt: term loans and revolving credit facilities of commercial real estate operating or finance companies, each of which are generally secured by the Company's assets;

corporate bonds: debt securities issued by commercial real estate operating or finance companies which may or may not be secured by the Company's assets, including:

investment grade corporate bonds,

below investment grade corporate bonds, and

unrated corporate bonds.

Our target assets may also include the following types of loans and debt investments relating to residential real estate:

residential mortgage loans: loans secured by a first mortgage lien on a residential property;

RMBS: securities collateralized by residential mortgage loans, including:

Agency RMBS: RMBS for which a U.S. Government agency or a federally chartered corporation guarantees payments of principal and interest on the securities, and

Non-Agency RMBS: RMBS that are not guaranteed by any U.S. Government agency or federally chartered corporation.

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As of December 31, 2009, the Company's total investment portfolio had the following characteristics based on carrying values:

Investment	Carrying Value	Face Amount	Weighted Average Coupon	Weighted Average Life (years)
Fixed Rate	\$ 449,353	\$ 498,445	7.15%	4.5
Variable Rate	11,064	12,950	LIBOR+1.44 %	2.2
Total Investments	\$ 460,417	\$ 511,395		

Collateral Property Type		Geographic Location	
Hospitality	32.7%	Northeast	14.1%
Industrial	26.5%	Mid-Atlantic	14.8%
Office	18.0%	Southeast	35.9%
Retail	16.2%	Southwest	5.3%
Multifamily	5.1%	Midwest	8.7%
Other	1.2%	West	17.2%
Mixed Use	0.3%	Other	4.0%
	100.0%		100.0%

As of December 31, 2009, all of our investments were performing as expected.

Investment Activities

Since the closing of our initial public offering on August 17, 2009, we have invested approximately \$284 million in TALF-financed CMBS, single-borrower CMBS and commercial mortgage loans. The following table sets forth the amount of each category of commercial real estate investments we owned at December 31, 2009:

Investment	Property Type	Book Value	Face Amount	% Owned	Financing	Net Investment	Rating	Vintage
Multi-Asset CMBS	Assorted	\$ 202,646	\$ 202,699	75%	\$ 171,394	\$ 31,252	AAA	2006-2007
Single-Borrower CMBS	Hospitality	43,250	53,712	100%		43,250	BB+	2001-2006
Loan Originations	Assorted	104,702	107,722	100%		104,702	N/A	2009
Loan Acquisitions	Industrial	109,819	147,262	100%		109,819	N/A	1999
		\$ 460,417	\$ 511,395		\$ 171,394	\$ 289,023		

Our investment process includes sourcing and screening of investment opportunities, assessing investment suitability, conducting interest rate and prepayment analysis, evaluating cash flow and collateral performance, reviewing legal structure and servicer and originator information and investment structuring, as appropriate, to seek an attractive return commensurate with the risk we are bearing. Upon identification of an investment opportunity, the investment

will be screened and monitored by us to determine its impact on maintaining our REIT qualification and our exemption from registration under the 1940 Act. We will seek to make investments in sectors where we have strong core competencies and believe market risk and expected performance can be reasonably quantified.

We evaluate each one of our investment opportunities based on its expected risk-adjusted return relative to the returns available from other, comparable investments. In addition, we evaluate new opportunities based on their relative expected returns compared to comparable positions held in our portfolio. The terms of any leverage available to us for use in funding an investment purchase are also taken into consideration, as are any risks posed by illiquidity or correlations with other securities in the portfolio. We also develop a macro outlook with respect to each target asset class by examining factors in the broader economy such as gross domestic product, interest rates, unemployment rates and availability of credit, among other things. We also analyze fundamental trends in the relevant target asset class sector to adjust/maintain our outlook for that particular target asset class. We conduct extensive diligence with respect to each target asset class by, among other things, examining and monitoring the capabilities and financial wherewithal of the parties responsible for the origination, administration and servicing of relevant target assets.

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TALF Financed CMBS

The TALF was first announced by the Federal Reserve in November 2008 and has since been expanded in size and scope. Under the TALF, the Federal Reserve Bank of New York (FRBNY) makes loans (which, with certain exceptions, are non-recourse) to borrowers to fund their purchase of eligible assets, currently certain asset-backed securities, including certain CMBS. The nature of the eligible assets has been expanded several times. Beginning in June 2009, the TALF was expanded to include certain high quality newly originated CMBS as eligible assets, and in July 2009, TALF loans were made available to fund certain legacy securitization assets, including legacy CMBS. Currently, TALF loans have either three-year or five-year terms, have interest due monthly, are exempt from mark to market rules and margin calls related to a decrease in the underlying collateral value, are pre-payable in whole or in part, and prohibit the substitution of any underlying collateral. Borrowers currently have the option to select five-year loans for certain eligible assets, including CMBS. Payments of principal on the collateral underlying a TALF loan are required to be applied to reduce the loan's principal amount pro rata based upon the original loan-to-value ratio.

During the period ended December 31, 2009, we invested a net \$23 million in AAA rated Class A2 CMBS at an average price of 99.97% of par. The CMBS are secured by diversified pool of fixed rate commercial mortgage loans and have a weighted average coupon at acquisition of approximately 5.69%.

The CMBS were financed through the TALF program at an average rate of 3.82%. The balances are pre-payable without penalty. The Starwood Private Real Estate Funds exercised their 25% co-investment rights with regard to this investment and the TALF financed CMBS are held in a joint venture that is a 75% owned, consolidated subsidiary of ours.

The Class A2 bonds are among the most senior bonds within the CMBS capital structure, which are typically only junior to a small A1 class and are paid before the balance of the junior AAA bonds (A-3 through AJ). The Class A2 bonds have limited exposure to credit losses; the primary risk involves timing of principal repayment and the potential that the underlying bonds will be extended beyond their maturity dates.

The CMBS have an expected pay-off of two to three years, however, the base case return analysis assumed extensions though five years from acquisition.

Single-Borrower Commercial Mortgage-Backed Securities

During the period ended December 31, 2009, we invested \$43.3 million in various CMBS bonds, which are secured by a single mortgage on one or more properties and were acquired on average at 80% of par. Approximately \$20 million, or 45% of the bonds, are investment grade, with the balance rated BB or BB+ by Standard & Poor's Ratings Services, Inc. (S&P) and all are secured by high quality hotel assets in markets with significant barriers to entry. The underwriting indicates limited principal risk, but base case analysis assumes maximum extensions under the terms of the offering documents governing such bonds. Approximately \$32.2 million, or 74% of the bonds, are fixed rate with and weighted average coupon of 6.7%. The \$11.1 million floating rate bonds pay an average spread of 1.44% over the index, which is the one month London Interbank Offered Rate (LIBOR).

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Our primary focus is to build a portfolio of commercial mortgage loans at attractive risk adjusted returns by focusing on the underlying real estate fundamentals and credit analysis of the borrowers. As of December 31, 2009, we had originated three loans and acquired a portfolio of 17 loans in the secondary market (collectively, the Loan Portfolio), as summarized below:

Investment	Book Value	Face Amount	Weighted Average Coupon	Weighted Average Life (years)
First Mortgages	\$ 182,829	\$ 212,424	8.7%	7.2
Subordinated Debt	31,692	42,560	8.1%	12.6
Total Loans	\$ 214,521	\$ 254,984		

We continually monitor borrower performance and complete a detailed, loan-by-loan formal credit review on a quarterly basis. The results of this review are incorporated into our quarterly assessment of the adequacy of loan loss reserves.

As of December 31, 2009, all loans were performing as expected and no allowance for loan losses was deemed necessary. We continually monitor borrower performance and the quality of the underlying collateral and complete formal credit reviews on a quarterly basis.

As of December 31, 2009, our loan portfolio had the following characteristics:

Collateral Property Type		Geographic Location	
Hospitality	41.4%	Northeast	0.0%
Industrial	51.2%	Mid-Atlantic	23.3%
Office	0.0%	Southeast	61.0%
Retail	7.4%	Southwest	0.0%
Multifamily	0.0%	Midwest	7.4%
Other	0.0%	West	8.3%
Mixed Use	0.0%	Other	0.0%
	100.0%		100.0%

Summary of Interest Characteristics

As described in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 7A Quantitative and Qualitative Disclosures about Market Risk, we utilize certain interest rate risk management techniques, including both asset/liability matching and certain other hedging transactions, in order to mitigate our exposure to interest rate risk.

As of December 31, 2009, 97.6% of our investments were comprised of fixed rate loans and securities with a weighted average coupon of 7.0%. Only 2.4%, or approximately \$11.1 million, of single borrower CMBS was variable rate with a LIBOR based index.

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As of December 31, 2009, our investment portfolio had a weighted average maturity of 5.3 years, based on management's judgment of extension options being exercised. The table below shows the carrying value expected to mature annually over the next ten years.

Year of Maturity	Number of Investments Maturing	Carrying Value	% of Total
2011	3	\$ 125,302	27.2%
2012	2	88,408	19.2%
2013	2	71,099	15.4%
2014	2	39,058	8.5%
2015	1	15,818	3.4%
2016			0.0%
2017	5	40,799	8.9%
2018			0.0%
2019 and thereafter	13	79,933	17.4%
Total	28	\$ 460,417	100.0%

Regulation

Our operations are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (1) regulate credit granting activities; (2) establish maximum interest rates, finance charges and other charges; (3) require disclosures to customers; (4) govern secured transactions; and (5) set collection, foreclosure, repossession and claims-handling procedures and other trade practices. Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies, and require licensing of lenders and financiers and adequate disclosure of certain contract terms. We are also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans. We intend to conduct our business so that neither we nor any of our subsidiaries are required to register as an investment company under the 1940 Act.

In the judgment of management, existing statutes and regulations have not had a material adverse effect on our business. In the wake of the existing financial crisis, legislators in the United States and in other countries have said that greater regulation of financial services firms is needed, particularly in areas such as risk management, leverage and disclosure. While we expect that new regulations in these areas will be adopted in the future, it is not possible at this time to forecast the exact nature of any future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon our future business, financial condition or results of operations or prospects.

Competition

We are engaged in a competitive business. In our investment activities, we compete for opportunities with numerous public and private investment vehicles, including financial institutions, specialty finance companies, mortgage banks, pension funds, opportunity funds, hedge funds, insurance companies, REITs and other institutional investors, as well as individuals. Many competitors are significantly larger than us, have well established operating histories and may have greater access to capital, more resources and other advantages over us. These competitors may be willing to accept lower returns on their investments or to compromise underwriting standards and, as a result, our origination volume and profit margins could be adversely affected.

Employees

We are dependent on our Manager for our day-to-day management and do not have any independent officers or employees although our Chief Financial Officer and Treasurer and our Executive Vice President, General Counsel and

Chief Compliance Officer, currently Ms. Barbara J. Anderson and Mr. Andrew J. Sossen, respectively, are seconded exclusively to us by Starwood Capital Group. Messrs. Sternlicht and Jeffrey G. Dishner, who are, respectively, our Chief Executive Officer and our President, are also executives of Starwood Capital Group.

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The Manager

We are externally managed and advised by our Manager and benefit from the personnel, relationships and experience of our Manager's executive team and other personnel of Starwood Capital Group. Pursuant to the terms of a management agreement between our Manager and us, our Manager provides us with our management team and appropriate support personnel. Pursuant to an investment advisory agreement between our Manager and Starwood Capital Group Management, LLC, our Manager has access to the personnel and resources of Starwood Capital Group necessary for the implementation and execution of our business strategy.

Our Chief Executive Officer and President and our other officers (other than Ms. Anderson, our Chief Financial Officer and Treasurer and Mr. Sossen, our Executive Vice President, General Counsel and Chief Compliance Officer) are executives of Starwood Capital Group. Our Chief Financial Officer and Chief Compliance Officer are seconded exclusively to us by Starwood Capital Group. Starwood Capital Group is not obligated to dedicate any of its executives or other personnel exclusively to us. In addition, none of Starwood Capital Group, its executives and other personnel, including our executive officers supplied to us by Starwood Capital Group, is obligated to dedicate any specific portion of its or their time to our business. Our Manager will at all times be subject to the supervision and oversight of our board of directors and has only such functions and authority as we delegate to it.

Our Manager is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht. Starwood Capital Group has invested in most major classes of real estate, directly and indirectly, through operating companies, portfolios of properties and single assets, including multifamily, office, retail, hotel, residential entitled land and communities, senior housing, mixed-use and golf courses. Starwood Capital Group invests at different levels of the capital structure, including equity, preferred equity, mezzanine debt and senior debt, depending on the asset risk profile and return expectation.

Our Manager will be able to draw upon the experience and expertise of Starwood Capital Group's team of professionals and support personnel operating in nine cities across six countries. Our Manager will also benefit from Starwood Capital Group's dedicated asset management group operating in offices located in the United States and abroad. We also expect to benefit from Starwood Capital Group's portfolio management, finance and administration functions, which address legal, compliance, investor relations and operational matters, asset valuation, risk management and information technologies in connection with the performance of our Manager's duties.

Taxation of the Company

We intend to elect to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code), for federal income tax purposes. We generally must distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any net capital gain, in order for federal corporate income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Code, which relate to organizational structure, diversity of stock ownership and certain restrictions with regard to owned assets and categories of income. If we qualify for taxation as a REIT, we will generally not be subject to United States federal corporate income tax on our taxable income that is currently distributed to stockholders.

Even if we qualify as a REIT, we may be subject to certain federal excise taxes and state and local taxes on our income and property. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and will not be able to qualify as a REIT for four subsequent taxable years. REITs are subject to a number of organizational and operational requirements under the Code. See Item 1A Risk Factors Risks Related to Our Taxation as a REIT for additional tax status information.

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Leverage Policies

We intend to employ leverage, to the extent available, to fund the acquisition of our target assets and to increase potential returns to our stockholders. Although we are not required to maintain any particular leverage ratio, the amount of leverage we will deploy for particular investments in our target assets will depend upon our Manager's assessment of a variety of factors, which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including hedges, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and commercial and residential mortgage markets, our outlook for the level, slope, and volatility of interest rates, the credit quality of our assets, the collateral underlying our assets, and our outlook for asset spreads relative to the LIBOR curve.

Investment Guidelines

Our board of directors has adopted the following investment guidelines:

our investments will be in our target assets;

no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;

no investment shall be made that would cause us or any of our subsidiaries to be required to be registered as an investment company under the 1940 Act;

not more than 25% of our equity will be invested in any individual asset without the consent of a majority of our independent directors;

until appropriate investments can be identified, our Manager may invest the proceeds of our initial public offering and any future offerings of our equity or debt securities in interest-bearing, short-term investments, including Agency RMBS, AAA-rated CMBS and money market accounts and/or funds, that are consistent with our intention to qualify as a REIT; and

any investment of up to \$25 million requires the approval of our Chief Executive Officer; any investment from \$25 million to \$75 million requires the approval of our Manager's Investment Committee; any investment from \$75 million to \$150 million requires the approval of the Investment Committee of our board of directors and our Manager's Investment Committee; and any investment in excess of \$150 million requires the approval of our board of directors.

These investment guidelines may be changed from time to time by our board of directors without the approval of our stockholders. In addition, both of our Manager and our board of directors must approve any change in our investment guidelines that would modify or expand the types of assets in which we invest.

Available Information

Our website address is www.starwoodpropertytrust.com. We make available free of charge through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports and other filings as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"), and also makes available on our website the charters for the Audit, Compensation, Nominating and Corporate Governance and Investment Committees of the Board of Directors and our Codes of Business Conduct and Ethics and Code of Conduct for Principal Executive Officer and Senior Financial Officers, as well as our corporate governance guidelines. Copies in print of these documents are available upon request to our corporate Secretary at the address indicated on the cover of this report. The information on our website is not a part of, nor is it incorporated by reference into, this Annual Report on Form 10-K.

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We intend to post on our website any amendment to, or waiver of, a provision of our Code of Business Conduct and Ethics or Code of Conduct for Principal Executive Officer and Senior Financial Officers that applies to our Chief Executive Officer, Chief Financial Officer and Controller or persons performing similar functions and that relates to any element of the code of ethics definition set forth in Item 406 of Regulation S-K of the Securities Act of 1933, as amended.

To communicate with the Board of Directors electronically, we have established an e-mail address, BoardofDirectors@stwdreit.com, to which stockholders may send correspondence to the Board of Directors or any such individual directors or group or committee of directors.

We have included as exhibits to this report the Sarbanes-Oxley Act of 2002 Section 302 certifications of our Chief Executive Officer and Chief Financial Officer regarding the quality of our public disclosure.

Item 1A. Risk Factors.

In addition to the other information in this document, you should consider carefully the following risk factors in evaluating an investment in our securities. Any of these risks or the occurrence of any one or more of the uncertai