

STARWOOD PROPERTY TRUST, INC.

Form S-11/A

July 07, 2009

**Table of Contents**

**As filed with the Securities and Exchange Commission on July 7, 2009**

**Registration Statement No. 333-159754**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Amendment No. 1**

**to**

**Form S-11  
FOR REGISTRATION  
UNDER  
THE SECURITIES ACT OF 1933  
OF CERTAIN REAL ESTATE COMPANIES**

**Starwood Property Trust, Inc.**

*(Exact name of registrant as specified in its governing instruments)*

**Starwood Property Trust, Inc.  
c/o Starwood Capital Group  
591 West Putnam Avenue  
Greenwich, CT 06830  
(203) 422-7700**

*(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)*

**Ellis F. Rinaldi, Esq.  
Executive Vice President & General Counsel  
Starwood Property Trust, Inc.  
c/o Starwood Capital Group  
591 West Putnam Avenue  
Greenwich, CT 06830  
(203) 422-7773**

*(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)*

*Copies to:*

**David J. Goldschmidt, Esq.**  
**Skadden, Arps, Slate, Meagher & Flom LLP**  
**Four Times Square**  
**New York, New York 10036**  
**Tel (212) 735-3574**  
**Fax (917) 777-3574**

**Edward Petrosky, Esq.**  
**James O Connor, Esq.**  
**J. Gerard Cummins, Esq.**  
**Sidley Austin LLP**  
**787 Seventh Avenue**  
**New York, New York 10019**  
**Tel (212) 839-5455**  
**Fax (212) 839-5599**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

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 the definitions of large accelerated filer, 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 a smaller reporting company)

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Proposed Maximum Aggregate Offering Price<sup>(1)(2)</sup></b>	<b>Amount of Registration Fee<sup>(1)</sup></b>
Common Stock, \$0.01 par value per share	\$500,000,000	\$27,900

(1)

Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933, as amended. Previously paid.

- (2) Includes the offering price of common stock that may be purchased by the underwriters upon the exercise of their over-allotment option.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

---

**Table of Contents**

The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is declared effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted

**Subject to Completion  
Preliminary Prospectus dated July 7, 2009**

**PROSPECTUS**

**Shares  
Starwood Property Trust, Inc.**

**Common Stock**

Starwood Property Trust, Inc. is a newly organized Maryland corporation focused primarily on originating, investing in, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities, and other commercial real estate-related debt investments. We may also invest in residential mortgage loans and residential mortgage-backed securities. We will be externally managed and advised by SPT Management, LLC, which 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.

This is our initial public offering and no public market currently exists for our common stock. We are offering    shares of our common stock as described in this prospectus. We expect the initial public offering price of our common stock to be \$    per share. We have applied to list our common stock on the New York Stock Exchange under the symbol    STWD.

At our request, the underwriters have reserved for sale, at the initial public offering price, up to    % of the shares offered hereby for sale to our directors and officers as well as employees of, and other persons having relationships with Starwood Capital Group and its affiliates, including investors in private funds managed by affiliates of Starwood Capital Group. The number of shares available for sale to the general public will be reduced to the extent such persons purchase such reserved shares.

Concurrently with the completion of this offering, SPT Investment, LLC, an affiliate of Starwood Capital Group which is controlled by Mr. Sternlicht, will acquire \$    million of our common stock in a private placement at a price per share equal to the price per share in this offering.

We intend to elect and qualify to be taxed as a real estate investment trust, or REIT, for U.S. federal income tax purposes, commencing with our taxable year ending December 31, 2009. To assist us in qualifying as a real estate investment trust, stockholders are generally restricted from owning more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of common or capital stock. Different ownership limits will apply to Starwood Capital Group and SPT Investment, LLC. In addition, our charter contains various other restrictions on the ownership and transfer of our common stock, see    Description of Capital Stock    Restrictions on Ownership and Transfer.

**Investing in our common stock involves risks. See Risk Factors beginning on page 24 of this prospectus for a discussion of the following and other risks:**

We have no operating history and may not be able to operate our business successfully or generate sufficient cash flow to make or sustain distributions to our stockholders.

We have not yet identified any specific investments that we may acquire with the net proceeds of this offering and the concurrent private placement.

There are various conflicts of interest in our relationship with Starwood Capital Group, which could result in decisions that are not in the best interest of our stockholders.

We are dependent on Starwood Capital Group and their key personnel who provide services to us through the management agreement, and we may not find a suitable replacement for our Manager if the management agreement is terminated, or for these key personnel if they leave Starwood Capital Group or otherwise become unavailable to us.

Our failure to qualify as a REIT in any taxable year would subject us to U.S. federal income tax and potentially state and local taxes, which would reduce the cash available for distribution to our stockholders.

Maintenance of our exemption from registration under the Investment Company Act of 1940 and our REIT qualification impose significant limits on our operations.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discounts and commissions <sup>(1)</sup>	\$	\$
Proceeds, before expenses, to Starwood Property Trust, Inc.	\$	\$

<sup>(1)</sup> Shares sold to investors in private funds managed by affiliates of Starwood Capital Group through the directed share program described above will be purchased by the underwriters from us at \$ per share, representing a discount to the underwriters of \$ per share.

The underwriters may purchase up to an additional shares of our common stock from us at the initial public offering price, less the underwriting discount, within 30 days after the date of this prospectus to cover overallotments, if any.

The shares of common stock sold in this offering will be ready for delivery on or about , 2009.

**Merrill Lynch & Co.**

**Deutsche Bank Securities**

The date of this prospectus is \_\_\_\_\_, 2009.

---

**TABLE OF CONTENTS**

<u>Summary</u>	1
<u>The Offering</u>	22
<u>Risk Factors</u>	24
<u>Forward-Looking Statements</u>	63
<u>Use of Proceeds</u>	65
<u>Distribution Policy</u>	66
<u>Capitalization</u>	67
<u>Selected Financial Information</u>	68
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	69
<u>Business</u>	82
<u>Management</u>	105
<u>Our Manager and the Management Agreement</u>	111
<u>Principal Stockholders</u>	124
<u>Certain Relationships and Related Transactions</u>	125
<u>Description of Capital Stock</u>	129
<u>Shares Eligible For Future Sale</u>	134
<u>Certain Provisions of the Maryland General Corporation Law and Our Charter And Bylaws</u>	136
<u>U.S. Federal Income Tax Considerations</u>	141
<u>ERISA Considerations</u>	163
<u>Underwriting</u>	164
<u>Legal Matters</u>	169
<u>Experts</u>	169
<u>Where You Can Find More Information</u>	169
<u>EX-23.3</u>	

**You should rely only on the information contained in this prospectus, or in any free writing prospectus prepared by us. We have not, and the underwriters have not, authorized any other person to provide you with different or additional information. If anyone provides you with different or additional information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and any free writing prospectus prepared by us is accurate only as of their respective dates or on the date or dates which are specified in these documents. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.**

**Until \_\_\_\_\_, 2009 (25 days after the date of this prospectus), all dealers that effect transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.**



**Table of Contents**

**SUMMARY**

*This summary highlights some of the information in this prospectus. It does not contain all of the information that you should consider before investing in our common stock. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. Except where the context suggests otherwise, the terms company, we, us, and our refer to Starwood Property Trust, Inc., a Maryland corporation, together with its consolidated subsidiaries; our Manager refers to SPT Management, LLC, a Delaware limited liability company, our external manager; and Starwood Capital Group refers to Starwood Capital Group Global, L.P. (and its predecessors), together with its affiliates, including our Manager and SPT Investment, LLC, other than us. Unless indicated otherwise, the information in this prospectus assumes (1) the common stock to be sold in this offering is sold at \$ per share, (2) a \$ million investment will be made by SPT Investment, LLC, an affiliate of Starwood Capital Group, in a private placement to be completed concurrently with the completion of this offering, and (3) the underwriters do not exercise their over-allotment option to purchase up to an additional shares of our common stock. Shares sold to certain investors through the directed share program described under Underwriting Directed Share Program will be purchased by the underwriters from us at a reduced underwriting discount, but will be sold to such investors at the same price per share as all other investors in this offering. The information in this prospectus assumes that no shares sold in this offering will be purchased by these investors.*

**Our Company**

Starwood Property Trust, Inc. is a newly organized Maryland corporation focused primarily on originating, investing in, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities, or CMBS, and other commercial real estate-related debt investments. We may also invest in residential mortgage loans and residential mortgage-backed securities, or 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.

We will be externally managed and advised by SPT Management, LLC pursuant to the terms of a management agreement. SPT Management, LLC, or 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 eleven co-mingled opportunistic funds, including two dedicated debt funds, two dedicated hotel funds and several standalone and co-investment partnerships. Pursuant to the investment opportunity allocation provisions applicable to three funds managed by affiliates of Starwood Capital Group, including Starwood Global Opportunity Fund VIII, a private fund that targets equity and debt investments in real estate, Starwood Capital Hospitality Fund II Global, a private fund that targets debt and equity investments related to hotels and other hospitality related properties, and Starwood Capital Debt Fund II-U, L.P., a private fund that targets debt investments, we will have the right to invest from 67.5% to 90% of the equity capital proposed to be invested by any investment vehicle managed by an entity controlled by Starwood Capital Group in real estate related debt investments, subject to certain limitations described under Conflicts of Interest and Related Policies. Our Manager and Starwood Capital Group have agreed that neither they nor any entity controlled by Starwood Capital Group will sponsor or manage an additional publicly traded or any other investment vehicle that may invest in any of our target assets for so long as the management agreement is in effect and our Manager and Starwood Capital Group are under common control, unless either (i) our Manager adopts a policy providing for the fair and equitable allocation of investment opportunities between all investment vehicles managed by an entity controlled by Starwood Capital Group that may invest in our target assets or (ii) our Manager provides us the right to co-invest with such vehicles, in each case subject to the suitability of each investment opportunity for the particular

investment vehicle and the availability of each vehicle's capital for investment.

**Table of Contents**

Our objective is to provide attractive risk adjusted returns to our investors over the long term, primarily through dividends and secondarily through capital appreciation. We intend to achieve this objective by selectively acquiring target assets to construct a diversified investment portfolio designed to produce attractive returns across a variety of market conditions and economic cycles. We intend to construct a diversified investment portfolio by focusing on asset selection and the relative value of various sectors within the debt market.

We will commence operations upon completion of this offering. We intend to elect and qualify to be taxed as a real estate investment trust, or 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 intended qualification as a REIT. We also intend to operate our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act of 1940, or the 1940 Act.

**Our Manager and Starwood Capital Group**

We will be externally managed and advised by SPT Management, LLC, or our Manager. Pursuant to the terms of a management agreement between our Manager and us, our Manager will provide 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 will have 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 the persons or person who will serve as our chief financial officer and chief compliance officer) are executives of Starwood Capital Group. The persons (or person) who will serve as our chief financial officer and chief compliance officer will be employed directly by us. We do not expect to have any other employees. 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. Starwood Capital Group has invested \$6.5 billion of equity in most major sectors of real estate across the capital structure, representing approximately \$21.0 billion in assets since inception as of March 31, 2009. As of March 31, 2009, Starwood Capital Group had approximately \$11.6 billion of real estate assets and debt positions under management.

Our Manager will be able to draw upon the experience and expertise of Starwood Capital Group's team of approximately 130 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 comprised of approximately 22 people operating in seven 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.

Concurrently with the completion of this offering, SPT Investment, LLC, an affiliate of Starwood Capital Group which is controlled by Mr. Sternlicht, will acquire \$ million of our common stock in a private placement at a price per share equal to the price per share in this offering. Upon completion of this offering

## **Table of Contents**

and the concurrent private placement, SPT Investment, LLC will beneficially own % of our outstanding common stock (or % if the underwriters fully exercise their overallotment option). Each of SPT Investment, LLC and our Manager, each of which is controlled by Mr. Sternlicht, will agree that, for a period of after the date of this prospectus, it will not without the prior written consent of the representatives of the underwriters, dispose of or hedge any shares of our common stock, subject to certain exceptions and extension in certain circumstances as described elsewhere in this prospectus.

### **Market Opportunities**

We believe that the next five years will be one of the most attractive real estate investment periods in the past 50 years. In the last decade, real estate became significantly overpriced as values appreciated beyond underlying fundamentals. In the past two years, a significant price correction has been underway. Due to continuing uncertainty about market direction, a void has been created in the debt and equity capital available for real estate. Many banks, insurance companies, finance companies and fund managers face insolvency or have determined to reduce or discontinue investment in real estate. Market dislocations have already caused and we believe will continue to cause an over-correction in the repricing of real estate assets. We believe that there will be a significant supply of distressed investment opportunities from sellers and equity sponsors, including national and regional banks, investment banks, individuals, insurance companies, finance companies, fund managers and other institutions. We expect to capitalize on these market dislocations and capital void by acquiring real estate debt positions, and originating new loans and other real estate related debt investments with less competition than when the debt markets were more liquid and at prices discounted to replacement cost.

### **Commercial Mortgage Loans**

In the near to medium term, we anticipate a significant opportunity to acquire discounted loans on high quality real estate at attractive yields from banks, investment banks and other forced sellers due to margin calls, redemptions, capital adequacy concerns or capital requirements. Further, we believe there may be attractive opportunities to acquire discounted loans from failed depository institutions through the Federal Deposit Insurance Corporation, or the FDIC. However, we believe this will be a relatively short term opportunity. Pricing of performing debt will likely improve as spreads tighten and liquidity returns to the market.

We anticipate a longer term opportunity to originate commercial real estate mortgage and mezzanine loans and other debt investments to proven sponsors on high-quality assets at attractive yields and reasonable loan to value levels. Originations will likely be a pillar of our strategy as the wave of commercial mortgage loans matures.

### **Commercial Real Estate Corporate Debt**

We also anticipate attractive investment opportunities in the corporate debt of publicly-traded commercial real estate operating and finance companies. Debt maturities and deteriorating fundamentals will continue to plague both public and private real estate companies for some time. Corporate bank debt and secured and unsecured bonds are trading at significant discounts to face value, implying asset valuations at discounts to replacement cost.

### **Commercial Mortgage Backed Securities**

During the next two years, we anticipate attractive opportunities to acquire select CMBS bonds at attractive yields. As a result of risk premium re-pricing and severe liquidity constraints, implied spreads have widened considerably over the last nine months. Even the most senior AAA-rated CMBS are trading at levels that imply credit losses much higher than historical levels. We expect that investor confidence will eventually return and that spreads will tighten and pricing will stabilize to more reasonable levels. This process may be hastened by the U.S. Government s

intervention through the TALF and PPIP, each of which is described under Our Financing Strategy, which we expect to provide leverage to investments in CMBS. We believe that our Manager can further create value through careful security selection and proprietary cash flow analysis.

**Table of Contents**

**Residential Mortgage Loans**

Residential mortgage loan pricing has fallen to historically low levels as a result of the housing market correction which began in late 2006 and the current liquidity crisis. Given favorable long-term demographics trends and recent significant U.S. Government initiatives to support the housing market in the United States, we expect housing to be the first major real estate asset class to recover. We believe that opportunities exist in the near term to earn attractive returns by purchasing distressed residential mortgage loans at significant discounts to their unpaid principal balances from sellers, including regional banks, investment banks, the FDIC, and other institutions.

**Our Manager's Competitive Strengths**

We will benefit from the deep experience and significant expertise of our Manager's executive team in real estate debt and equity investing. Headed by Barry Sternlicht, our chairman and chief executive officer, six members of our Manager's executive team have worked together for over 12 years. On behalf of Starwood Capital Group's eleven sponsored funds, this team has been responsible for investing \$6.5 billion of equity across the capital structure in most major sectors of real estate, representing approximately \$21.0 billion in assets since inception as of March 31, 2009. As of March 31, 2009, Starwood Capital Group had approximately \$11.6 billion of real estate assets and debt positions under management.

The team has a proven debt investment track record in distressed market conditions similar to the current market. In the 1990's, Starwood Capital Group's first fund invested primarily in assets sold by the Resolution Trust Corporation and two of its early funds capitalized on distressed debt opportunities. We believe the team's relevant experience in commercial real estate debt investing and its expertise in commercial real estate acquisition, ownership and operation across all major sectors will enable us to better identify and underwrite investment opportunities. This range of experience is applicable to all of our target asset classes.

We believe that our Manager's competitive strengths will enable us to generate attractive risk-adjusted returns for our stockholders. These strengths include the following:

**Experienced and Well-Known Investment Team**

On behalf of the eleven co-mingled opportunistic funds sponsored by Starwood Capital Group, our Manager's executive team has closed more than 300 transactions involving all major real estate classes, ownership structures and investment positions in the past 18 years throughout all stages of the real estate investment cycle. As former chairman and chief executive officer of Starwood Hotels & Resorts Worldwide, Inc., a Fortune 500 company, Mr. Sternlicht enjoys relationships with corporate leaders around the globe that provide a source of transaction flow not otherwise available to the general investment community. Additionally, his broad operating and investing experience in 80 countries gives him an ideal vantage point for steering our investment strategy.

**Exceptional Domain Expertise**

Our Manager's executive team's particular expertise structuring and investing in debt for Starwood Capital Group's other sponsored investment vehicles, including two dedicated debt funds, is well matched to the opportunities in the current volatile credit markets. As exemplified by Starwood Capital Group's creation of iStar Financial, Inc., this team has considerable expertise in the credit markets, including origination and lending of real estate debt, investing in and managing mortgages and executing effective value realization strategies.

**Expertise in Real Estate Capital Markets, Corporate Acquisitions and Operations**

Our Manager's executive team's real estate capital markets, corporate acquisition and operating experience sets it apart from most traditional real estate investors. Our Manager's executive team has executed large corporate and portfolio transactions, demonstrating a sophisticated structuring capability and an ability to execute complex capital markets transactions. On behalf of other funds sponsored by Starwood Capital Group,



## **Table of Contents**

members of our Manager's executive team have created or taken public three successful companies, including *iStar Financial, Inc.* and *Starwood Hotels & Resorts Worldwide, Inc.* It also participated in the formation of *Equity Residential Properties Trust*. Affiliates of *Starwood Capital Group* have also privatized large public entities such as *National Golf Properties, Inc.* and *Société du Louvre*.

### **Focus on Capital Preservation and Diversification**

On behalf of *Starwood Capital Group's* other funds, our Manager's executive team has placed a premium on protecting and preserving capital by performing a comprehensive risk-reward analysis on each investment, with a rigorous focus on relative values between each real estate asset sector and geographic market and its position in the capital structure. *Starwood Capital Group* utilizes appropriate leverage to enhance equity returns while avoiding unwarranted levels of debt or excessive interest rate or foreign currency exposure. Our Manager intends to employ a similar capital preservation strategy for us.

### **Dedicated Asset Management Team and In-House Operational and Professional Services**

Attaining attractive returns from investing in real estate requires both wise investment decision making and prudent asset management. *Starwood Capital Group* has an in-house asset management team that employs approximately 22 people in seven offices located both domestically and internationally. This team is responsible for managing all of the investments made by *Starwood Capital Group's* sponsored funds. Through an investment advisory agreement between our Manager and *Starwood Capital Group Management, LLC*, our Manager will be able to utilize *Starwood Capital Group's* in-house asset management team and legal, accounting and tax capabilities on our behalf.

### **Alignment of Starwood Capital Group and Our Manager's Interests**

Concurrently with the completion of this offering, *SPT Investment, LLC*, an affiliate of *Starwood Capital Group* which is controlled by Mr. Sternlicht, will acquire \$ million of our common stock in a private placement at a price per share equal to the price per share in this offering. Upon completion of this offering and the concurrent private placement, *SPT Investment, LLC* will beneficially own % of our outstanding common stock (or % if the underwriters fully exercise their overallotment option).

Concurrently with the closing of this offering, we will grant shares of restricted common stock, equal to % of the number of shares that we issue in this offering (without giving effect to any exercise by the underwriters of their overallotment option) to . These shares will vest ratably on a quarterly basis over a -year period beginning on the last day of the quarter in which we complete this offering.

### **Our Investment Strategy**

We will 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;

- 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;

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; and

seeking to take advantage of acquisition financing programs and subsidies provided by the U.S. Government.

## **Table of Contents**

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, but without the approval of our stockholders. However, we would only be able to expand our investment strategy to include equity investments in real estate after the expiration of the exclusivity provisions of certain Starwood private real estate funds (Starwood Global Opportunity Fund VIII and Starwood Capital Hospitality Fund II Global) which restrict other Starwood Capital Group sponsored investment vehicles from targeting such types of investments.

### **Our Target Assets**

We intend to invest predominantly in the United States in target assets secured primarily by U.S. collateral. We intend to originate or acquire loans and other debt investments backed by commercial real estate, or 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 as described in Conflicts of Interest and Related Policies. Our Manager will target 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 will 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.

Based on prevailing market conditions, our current expectation is that our initial investment portfolio will consist of between 60% to 70% commercial mortgage and mezzanine loans, 10% to 20% commercial real estate corporate debt, 10% to 20% MBS (consisting primarily of CMBS and secondarily of RMBS), and the balance in our other target assets. However, there is no assurance that upon the completion of this offering we will not allocate the proceeds from this offering and the concurrent private placement in a different manner among our target assets. Our decisions will depend on prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments.

Our target assets will 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;

**Table of Contents**

CMBS: securities which are collateralized by commercial mortgage loans, including:

senior and subordinated investment grade CMBS, which are rated BBB- (or Baa3) or higher,  
below investment grade CMBS, which are rated lower than BBB- (or Baa3), 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, which are rated BBB- (or Baa3) or higher by at least one nationally recognized rating agency,  
below investment grade corporate bonds, and  
unrated 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.

**Our 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 initially expect to finance the acquisition of our target assets, to the extent available to us, through (i) investments in funds that have non-recourse term borrowing facilities and capital provided under the Public-Private Investment Program, or the PPIP, (ii) non-recourse loans provided under the Term Asset-Backed Securities Loan Facility, or the TALF, (iii) securitizations, and (iv) other sources of private financing, including warehouse and bank credit facilities. In the future, we may utilize other sources of financing to the extent available to us. If we are unable to obtain financing through U.S. Government programs and unable to invest in the asset classes expected to be financed through these programs at attractive rates of return on an unlevered basis, then we will either utilize other financing sources or we will not invest in these asset classes.

The sources of financing for our target assets are described below.

**The Public-Private Investment Program (PPIP)**

On March 23, 2009, the U.S. Treasury, in conjunction with the FDIC and the Federal Reserve, announced the creation of the PPIP. The PPIP is intended to encourage the transfer of certain illiquid legacy real estate-related assets off of the balance sheets of financial institutions, restarting the market for these assets and supporting the flow of credit and other capital into the broader economy. The PPIP is expected to be \$500 billion to \$1 trillion in size and, as announced, has two primary components: the Legacy Loans Program and the Legacy Securities Program. As currently proposed, public-private investment funds, or PPIFs, under the Legacy Loans Program, or Legacy Loans PPIFs, will be established to purchase troubled loans from insured depository institutions and PPIFs under the Legacy Securities Program, or Legacy Securities PPIFs, will be established to purchase from financial institutions legacy non-Agency RMBS and CMBS that were

**Table of Contents**

originally rated AAA. Legacy Loans PPIFs and Legacy Securities PPIFs are expected to have access to equity capital from the U.S. Treasury as well as debt financing provided or guaranteed by the U.S. Government. Announcements describing the Legacy Loans Program have stated that the U.S. Treasury will provide up to 50% of the equity capital for each Legacy Loans PPIF, with the remainder provided by private investors, and that the FDIC will guarantee the debt issued by each Legacy Loans PPIF up to a 6-to-1 debt-to-equity ratio. Under the Legacy Securities Program, the U.S. Treasury has announced that it will provide up to 50% of the equity capital for each Legacy Securities PPIF, with the remainder provided by private investors, and will provide senior debt up to 100% of the total equity capital of a Legacy Securities PPIF so long as the PPIF's private investors do not have voluntary withdrawal rights.

On June 3, 2009, the FDIC announced that the development of the Legacy Loans Program will continue, but that a previously planned pilot sale of assets by banks targeted for June 2009 will be postponed. In making the announcement, the FDIC noted that banks have been able to raise capital without having to sell assets through the Legacy Loans Program, which in the view of the FDIC reflects renewed investor confidence in our banking system. The FDIC also indicated that it will continue its work on the Legacy Loans Program and will be prepared to offer it in the future as what the FDIC characterized as an important tool to cleanse bank balance sheets and bolster their ability to support the credit needs of the economy, although no specific timeframe for the program was announced. As a next step, the FDIC will test the funding mechanism contemplated by the Legacy Loans Program in a sale of receivership assets this summer. This funding mechanism draws upon concepts successfully employed by the Resolution Trust Corporation in the 1990s, which routinely assisted in the financing of asset sales through responsible use of leverage. The FDIC expects to solicit bids for this sale of receivership assets in July. Neither the Legacy Loans Program nor the Legacy Securities Program have been finalized and their terms are subject to change. As a result, the attractiveness of these programs to us cannot be determined at this time.

We anticipate that we would participate as an equity investor in one or more Legacy Loans PPIFs, one or more of which may be managed by affiliates of Starwood Capital Group. Starwood Capital Group has applied to serve as one of the investment managers for the Legacy Securities Program, but there can be no assurance that it will be selected for this role. We anticipate that we would participate as an equity investor in one or more Legacy Securities PPIFs established and managed by Starwood Capital Group if its application to act as an investment manager for a Legacy Securities PPIF is approved. We may also invest in Legacy Securities PPIFs established by unaffiliated parties.

**The Term Asset-Backed Securities Loan Facility (TALF)**

On November 25, 2008, the U.S. Treasury and the Federal Reserve announced the creation of the TALF. Under the TALF, the Federal Reserve Bank of New York, or the FRBNY, will provide up to \$200 billion of non-recourse loans to borrowers to help fund their purchase of eligible assets, which initially included certain asset-backed securities, or ABS, but not CMBS or RMBS. On March 23, 2009, the U.S. Treasury announced preliminary plans to expand the TALF to include CMBS and certain highly-rated non-Agency RMBS. On May 1, 2009, the Federal Reserve provided more of the details as to how the TALF would be expanded to include CMBS and explained that beginning in June 2009, up to \$100 billion of TALF loans would be available to finance purchases of CMBS created on or after January 1, 2009. On May 19, 2009, the Federal Reserve announced that, starting in July 2009, it would expand the TALF to include certain high-quality CMBS created on or prior to January 1, 2009, or legacy CMBS, and announced additional criteria that would apply to TALF loans for legacy CMBS. The TALF program is scheduled to expire on December 31, 2009, but may be extended.

We believe that the expansion of the TALF to include highly rated CMBS and possibly non-Agency RMBS may provide us with attractively priced non-recourse term borrowing facilities that we could use to purchase CMBS and non-Agency RMBS that are eligible for funding under this program. However, many legacy CMBS have had their ratings downgraded, and at least one rating agency, Standard & Poor's Investors Services, Inc., or S&P, has announced that further downgrades are likely in the future as property values have declined. These downgrades may significantly

reduce the quantity of legacy CMBS that are TALF eligible. Further, the FRBNY is still assessing whether or not to include non-Agency RMBS as eligible assets that



## **Table of Contents**

could be financed under the TALF and the feasibility and potential impact of such a program. There can be no assurance that the TALF will be expanded to include legacy CMBS and non-Agency RMBS, and if so expanded, that we will be able to utilize the TALF to finance the acquisition of legacy CMBS and non-Agency RMBS or that the financing terms will be attractive.

## **Securitizations**

We intend to seek to enhance the returns on our commercial mortgage loan investments, especially loan originations, through securitizations that may be supported by the TALF. To the extent available, we intend to securitize the senior portion, expected to be equivalent to AAA-rated CMBS, while retaining the subordinate securities in our investment portfolio. In order to facilitate the securitization market, TALF is currently expected to provide financing to buyers of AAA-rated CMBS. Therefore, we expect to see interest in the credit markets for such financing at 50% to 60% of our cost basis in the relevant assets, and more importantly, at reasonable cost of fund levels that would generate a positive net spread and enhance returns for investors in such securitizations.

## **Other Potential Sources of Financing**

In the future, we may also use other sources of financing to fund the acquisition of our target assets, including warehouse facilities, bank credit facilities (including term loans and revolving facilities) and other secured and unsecured forms of borrowing. We may also seek to raise further equity capital or issue debt securities in order to fund our future investments.

## **Leverage Policies**

We intend to employ prudent 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.

We expect, initially, that we may deploy leverage on our commercial mortgage loan assets, on a debt-to-equity basis, of up to 2-to-1. In addition, we do not expect under current market conditions to deploy leverage on any subordinated real estate debt investments, commercial real estate corporate debt, CMBS, or our other target assets except in conjunction with financings that may be available to us under programs established by the U.S. Government. To the extent that we invest in PPIFs that acquire commercial mortgage loans and/or CMBS by financings under the PPIP, we expect such PPIFs will deploy leverage on these assets, on a debt-to-equity basis, of up to 6-to-1. We consider these initial leverage ratios to be prudent for these asset classes.

## **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 to be regulated as an investment company under the 1940 Act;

## **Table of Contents**

not more than 25% of our equity will be invested in any individual asset, including any equity investment by us in a Legacy Loans PPIF or Legacy Securities PPIF, without the consent of a majority of our independent directors;

until appropriate investments can be identified, our Manager may invest the proceeds of this and any future offerings 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.

### **Investment Committee of Our Manager**

Our Manager has an Investment Committee which will initially be comprised of Mr. Sternlicht, the chairman of the committee, and Jeffrey Dishner, Jerome Silvey, Marc Perrin and Christopher Graham. The Investment Committee will review our investment portfolio and its compliance with our investment guidelines described above at least on a quarterly basis or more frequently as necessary.

### **Risk Management**

As part of our risk management strategy, our Manager will closely monitor our portfolio and actively manage the financing, interest rate, credit, prepayment and convexity (a measure of the sensitivity of the duration of a debt investment to changes in interest rates) risks associated with holding a portfolio of our target assets.

### **Asset Management**

Starwood Capital Group has a dedicated, in-house asset management group that provides not only investment oversight, but also critical input to the acquisition process. Our asset management group creates value through careful asset specific and market surveillance, rigid enforcement of loan and security rights, and timely execution of disposition strategies.

### **Interest Rate Hedging**

Subject to maintaining our qualification as a REIT, we intend to engage in a variety of interest rate management techniques that seek on the one hand to mitigate the economic effect of interest rate changes on the values of, and returns on, some of our assets, and on the other hand help us achieve our risk management objectives.

### **Market Risk Management**

Because we will invest in CRE mortgage loans and other debt investments including CMBS, investment losses from prepayments, defaults, interest rate volatility or other risks can meaningfully reduce or eliminate funds available for

distribution to our stockholders. To minimize the risks to our portfolio, we will actively employ portfolio-wide and asset-specific risk measurement and management processes in our daily operations.

**Table of Contents**

**Credit Risk**

Through our investment strategy we will seek to limit our credit losses and reduce our financing costs. We seek to manage credit risk through our pre-acquisition due diligence process and through use of non-recourse financing, when and where available and appropriate. Our investment guidelines do not limit the amount of our equity that may be invested in any type of our target assets; however, not more than 25% of our equity may be invested in any individual asset, without the consent of a majority of our independent directors. Our investment decisions will depend on prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. As a result, we cannot predict the percentage of our equity that will be invested in any of our target assets at any given time.

**Summary Risk Factors**

An investment in shares of our common stock involves various risks. You should consider carefully the risks discussed below and under the heading "Risk Factors" beginning on page 24 of this prospectus before purchasing our common stock. If any of these risks occur, our business, financial condition, liquidity, results of operations and prospects could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment.

We have no operating history and may not be able to operate our business successfully or generate sufficient cash flow to make or sustain distributions to our stockholders.

We have not yet identified any specific investments that we may acquire with the net proceeds of this offering and the concurrent private placement.

The management agreement with our Manager was not negotiated on an arm's-length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate.

There are various conflicts of interest in our relationship with Starwood Capital Group, which could result in decisions that are not in the best interest of our stockholders.

We are dependent on Starwood Capital Group and their key personnel who provide services to us through the management agreement and the investment advisory agreement, and we may not find a suitable replacement for our Manager and Starwood Capital Group if the management agreement and the investment advisory agreement are terminated, or for these key personnel if they leave Starwood Capital Group or otherwise become unavailable to us. Our Manager is not required to make available any particular individual personnel to us.

Our board of directors will approve very broad investment guidelines for our Manager and will not approve each investment and financing decision made by our Manager unless required by our investment guidelines.

Our board of directors may change any of our investment strategy, financing strategy, investment guidelines or leverage policies without stockholder consent.

The incentive fee payable to our manager under the management agreement is paid quarterly and is based on our Core Earnings (as defined herein) and therefore, may cause our Manager to select investments in more risky assets to increase our short-term Core Earnings.

We expect to use leverage in executing our business strategy, which may adversely affect the return on our assets and may reduce cash available for distribution to our stockholders, as well as increase losses when economic conditions are unfavorable.

We may incur significant debt, which will subject us to increased risk of loss and may reduce cash available for distributions to our stockholders, and our governing documents contain no limitation on the amount of debt we may incur.

In order to acquire certain of our target assets, we will depend on various sources of financing, including, to the extent available to us, financing through various U.S. Government-sponsored programs,

**Table of Contents**

and our inability to access financing for our target assets on favorable terms could materially and adversely impact us.

There can be no assurance that the actions of the U.S. Government, U.S. Federal Reserve, U.S. Treasury and other governmental and regulatory bodies for the purpose of stabilizing the financial markets, including the establishment of the TALF and the PPIP, will achieve their intended effects, or that our business will benefit from these actions, and further government or market developments could materially and adversely impact us.

An increase in our borrowing costs relative to the interest we receive on investments in our target assets would adversely affect our profitability and our cash available for distribution to our stockholders.

Hedging against interest rate exposure may adversely affect our earnings and could reduce our cash available for distribution to our stockholders.

Our current investment strategy focuses, in part, on distressed opportunities, thereby involving an increased risk of loss, and certain investments such as our sub-performing or non-performing assets may have a particularly high risk of loss, and we cannot assure you that we will be able to generate attractive risk-adjusted returns.

The mortgage loans that we will acquire, and the mortgage and other loans underlying the CMBS and RMBS that we will acquire, are subject to defaults, foreclosure timeline extension, fraud and commercial and residential asset price declines, and unfavorable modification of loan principal amount, interest rate and amortization of principal, which could result in losses to us.

If our Manager overestimates the yields or incorrectly prices the risks of our investments, we may experience losses.

An increase in interest rates may cause a decrease in the volume of certain of our target assets, which could adversely affect our ability to acquire target assets that satisfy our investment objectives and generate sufficient cash flow to make distributions to our stockholders.

Prepayment rates may adversely affect the value of our investment portfolio.

Our failure to qualify as a REIT in any taxable year would subject us to U.S. federal income tax and potentially state and local taxes, which would reduce the cash available for distribution to our stockholders.

Complying with REIT requirements may cause us to forego otherwise attractive investment opportunities or financing or hedging strategies.

Maintenance of our exemption from registration under the 1940 Act imposes significant limits on our operations.

**Table of Contents**

**Our Structure**

We were organized as a Maryland corporation on May 26, 2009.

The following chart shows our structure after giving effect to this offering and the concurrent private placement to SPT Investment, LLC:

- (1) We expect SPT Real Estate Sub I, LLC to qualify for an exemption from registration under the 1940 Act as an investment company pursuant to Section 3(c)(5)(C) of the 1940 Act.
- (2) We expect SPT TALF Sub I, LLC to borrow under the TALF in order to acquire TALF-eligible assets. We may also organize additional special purpose subsidiaries that may borrow under the TALF. We anticipate that SPT TALF Sub I, LLC and some of these other special purpose subsidiaries may be organized to rely on the exemption from registration under the 1940 Act for certain structured financing vehicles under Rule 3a-7 of the 1940 Act. We intend to conduct our operations so that the value of our investment in SPT Real Estate Sub I, LLC, SPT TALF Sub I, LLC and other special purpose subsidiaries relying on the Rule 3a-7 exemption from registration under the 1940 Act, as well as other subsidiaries not relying on Section 3(c)(1) or Section 3(c)(7) of the 1940 Act, will at all times, on an unconsolidated basis, exceed 60% of our total assets. See Business Operating and Regulatory Structure 1940 Act Exemption.

**Management Agreement**

We will be externally managed and advised by our Manager. We expect to benefit from the personnel, relationships and experience of our Manager's executive team and other personnel of Starwood Capital Group. Our chief executive officer and president and our other officers (other than the persons (or person) who will serve as our chief financial officer and chief compliance officer) are executives of Starwood Capital Group. The persons (or person) who will serve as our chief financial officer and chief compliance officer will be employed directly by us. We do not expect to have any other employees. 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.

We will enter into a management agreement with our Manager effective upon the closing of this offering. Pursuant to the management agreement, our Manager will implement our business strategy and perform certain services for us, subject to oversight by our board of directors. Our Manager will be responsible for, among other duties, (1) performing all of our day-to-day functions, (2) determining our investment strategy and guidelines in conjunction with our board of directors, (3) sourcing, analyzing and executing investments, asset sales and financings, and (4) performing asset management duties. In addition, our Manager has an Investment



**Table of Contents**

Committee that will oversee compliance with our investment strategy and guidelines, investment portfolio holdings and financing strategy.

The initial term of the management agreement will end three years after the closing of this offering, with automatic one-year renewal terms that end on the anniversary of the closing of this offering. Our independent directors will review our Manager's performance annually and, following the initial term, the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors based upon: (1) our Manager's unsatisfactory performance that is materially detrimental to us or (2) our determination that the management fees payable to our Manager are not fair, subject to our Manager's right to prevent termination based on unfair fees by accepting a reduction of management fees agreed to by at least two-thirds of our independent directors. We will provide our Manager with 180 days prior notice of such a termination. Upon such a termination, we will pay our Manager a termination fee equal to three times the average annual base management fee and incentive fee, each as described in the table below. We may also terminate the management agreement at any time, including during the initial term, for cause without payment of any termination fee. During the initial three-year term of the management agreement, we may not terminate the management agreement except for cause. Our Manager may terminate the management agreement if we become required to register as an investment company under the 1940 Act, with such termination deemed to occur immediately before such event, in which case we would not be required to pay a termination fee. Our Manager may also decline to renew the management agreement by providing us with 180 days written notice, in which case we would not be required to pay a termination fee. Our Manager is entitled to a termination fee upon termination of the management agreement by us without cause or by our Manager if we materially breach the management agreement.

The following table summarizes the fees and expense reimbursements that we will pay to our Manager:

<b>Type</b>	<b>Description</b>
<b>Base management fee</b>	1.5% of our stockholders' equity per annum and calculated and payable quarterly in arrears. For purposes of calculating the management fee, our stockholders' equity means: (a) the sum of (1) the net proceeds from all issuances of our equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus (2) our retained earnings at the end of the most recently completed calendar quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (b) any amount that we pay to repurchase our common stock since inception. It also excludes (1) any unrealized gains and losses and other non-cash items that have impacted stockholders' equity as reported in our financial statements prepared in accordance with accounting principles generally accepted in the United States ( GAAP ), and (2) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case after discussions between our Manager and our independent directors and approval by a majority of our independent directors. As a result, our stockholders' equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown on our financial statements. The base management fee is payable quarterly in cash.
<b>Incentive fee</b>	Our Manager will be entitled to an incentive fee in an amount equal to 20% of the dollar amount by which Core Earnings (as defined below), on a rolling four-quarter basis and before the incentive fee for the current quarter,

exceeds the product of (1) the weighted average of the issue price per share of all of our public offerings multiplied by the weighted average number of common shares outstanding in such quarter and (2) 8%. Installments of the incentive fee are payable quarterly in arrears based on annualized Core Earnings.

**Table of Contents**

<b>Type</b>	<b>Description</b>
	<p>Core Earnings is a non-GAAP measure and is defined as GAAP net income (loss) excluding non-cash equity compensation expense, depreciation and amortization (to the extent that we foreclose on any properties underlying our target assets), any unrealized gains, losses or other non-cash items recorded in net income for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income. The amount will be adjusted to exclude one-time events pursuant to changes in GAAP and certain other non-cash charges after discussions between our Manager and our independent directors and after approval by a majority of our independent directors.</p> <p>Any net loss incurred by us in a given quarter or quarters will be offset against any net income earned by us in future quarters for purposes of calculating the incentive fee in such future quarters. For example, if we experience a net loss of \$25.0 million in the fourth quarter of a fiscal year and a net loss of \$15.0 million in the first quarter of the following fiscal year (for a cumulative net loss of \$40.0 million in those two quarters), but then earn net income of \$30.0 million in the second quarter and \$40.0 million in the third quarter, then our \$30.0 million of net income in the second quarter would be reduced to zero, and no incentive fee would be payable for the second quarter, and our \$40.0 million of net income in the third quarter would be reduced by the remaining \$10.0 million of net loss to \$30.0 million for purposes of calculating the incentive fee for the third quarter.</p> <p>At the election of our Manager, up to % of each payment of the incentive fee may be paid in shares of our common stock, subject to the approval of a majority of our independent directors and compliance with our charter's stock ownership limit (after giving effect to any higher ownership limit that may be in effect for Starwood Capital Group and its affiliates, including our Manager), and any applicable securities laws and NYSE rules.</p>
<b>Expense reimbursement</b>	<p>We will be required to reimburse our Manager for operating expenses related to us that are incurred by our Manager, including expenses relating to legal, accounting, due diligence and other services. Our reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash on a monthly basis.</p>
<b>Fee Reduction for Investments in any Affiliate Managed PPIF</b>	<p>In our management agreement, our Manager has agreed to reduce the base management fee and incentive fee by the amount of any separate fees we may pay our Manager or its affiliates in respect of any equity investment we make in any Legacy Loans PPIF or Legacy Securities PPIF managed by it or any of its affiliates.</p>
<b>Termination fee</b>	<p>Termination fee equal to three times the sum of the average annual base management fee and incentive fee earned by our Manager during the 24-month period prior to such termination, calculated as of the end of the most recently completed fiscal quarter.</p> <p>The termination fee will be payable upon termination of the management agreement by us without cause or by our Manager if we materially breach the management agreement.</p>



**Table of Contents**

<b>Type</b>	<b>Description</b>
<b>Incentive plan</b>	Our equity incentive plan includes provisions for grants of restricted common stock and other equity based awards to our directors or officers or any personnel of our Manager or Starwood Capital Group who provide services to us. Concurrently with the closing of this offering, we will grant shares of restricted common stock, equal to % of the number of shares that we issue in this offering (without giving effect to any exercise by the underwriters of their overallotment option) to . These shares will vest ratably on a quarterly basis over a -year period beginning on the last day of the quarter in which we complete this offering.

**Investment Advisory Agreement**

Our Manager will enter into an investment advisory agreement with Starwood Capital Group Management, LLC effective upon the closing of this offering. Pursuant to this agreement, our Manager will be provided with access to, among other things, Starwood Capital Group's portfolio management, asset valuation, risk management and asset management services as well as administration services addressing legal, compliance, investor relations and information technologies necessary for the performance of our Manager's duties in exchange for a fee representing the Manager's allocable cost for these services. The fee paid by our Manager pursuant to this agreement shall not constitute a reimbursable expense under the management agreement.

**Conflicts of Interest and Related Policies**

*Management.* We are dependent on our Manager for our day-to-day management and do not have any independent officers or employees other than the persons (or person) who will serve as our chief financial officer and chief compliance officer. Each of our officers and three of our directors, Mr. Sternlicht, Mr. Dishner and are executives of Starwood Capital Group. Our management agreement with our Manager was negotiated between related parties and its terms, including fees and other amounts payable, may not be as favorable to us as if it had been negotiated at arm's length with an unaffiliated third party. In addition, the obligations of our Manager and its officers and personnel to engage in other business activities, including for Starwood Capital Group, may reduce the time that our Manager and its officers and personnel spend managing us.

*Incentive Compensation.* The management compensation structure that we have agreed to with our Manager may also cause our Manager to invest in high risk investments. In addition to its base management fee, our Manager is entitled to receive incentive compensation based in part upon our achievement of targeted levels of Core Earnings. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on Core Earnings may lead our Manager to place undue emphasis on the maximization of our short-term Core Earnings at the expense of other criteria, such as preservation of capital, in order to achieve a higher incentive fee. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

*Current Co-Investment Rights and Obligations.* Our ability to make investments in our target assets is governed by the investment opportunity allocation provisions applicable to (i) Starwood Global Opportunity Fund VIII, a private fund currently managed by an entity controlled by Starwood Capital Group that targets equity and debt interests in real estate, or the Starwood Global Fund, (ii) Starwood Capital Hospitality Fund II Global, a private fund currently managed by an entity controlled by Starwood Capital Group that targets equity and debt interests related to hotels and other hospitality related properties, or the Starwood Hotel Fund, (iii) Starwood Capital Debt Fund II-U, L.P., or the

Starwood Unlevered Debt Fund, a private fund managed by Starwood Capital Group that invests in debt, including debt related to real estate, on an unlevered basis, and (iv) us. Pursuant to the investment opportunity allocation provisions applicable to the Starwood Global Fund and the Starwood Hotel Fund, or the Starwood Private Real Estate Funds, and us, (i) the Starwood Private Real Estate Funds collectively have the right to invest 25% of the equity capital proposed to be invested by

**Table of Contents**

any investment vehicle managed by an entity controlled by Starwood Capital Group in debt investments relating to real estate, and (ii) subject to the co-investment rights of the Starwood Unlevered Debt Fund as described below, we may invest the remaining 75%. Pursuant to the investment opportunity allocation provisions applicable to the Starwood Unlevered Debt Fund, it has the right to invest 10% of the equity capital proposed to be invested by any investment vehicle managed by an entity controlled by Starwood Capital Group in debt and we may invest the remaining 90% if the proposed debt investment is within one of our target asset classes, in each case subject to the Starwood Private Real Estate Funds' collective right to invest up to 25% of the capital required to make any debt investment related to real estate. If the Starwood Private Real Estate Funds exercise their collective co-investment rights in such case, we would only be entitled to invest up to 67.5% of the equity capital required to make the proposed investment and the Starwood Unlevered Debt Fund would be entitled to invest the remaining 7.5%. The ability of each of the Starwood Private Real Estate Funds and the Starwood Unlevered Debt Fund to exercise their co-investment rights is subject to (i) the availability of the fund's capital for investment, and (ii) the determination by the general partner of the fund, which is an affiliate of Starwood Capital Group, that the proposed investment is suitable for the fund. Our co-investment rights are subject to (i) the availability of our capital for investment, (ii) our Manager's determination that the proposed investments is consistent with, and would not violate any of our investment guidelines as described under Investment Guidelines, (iii) the determination by our Manager that the proposed investment is suitable for us, taking into account the composition of our portfolio at the time and any other relevant factors, and (iv) our Manager's sole discretion as to whether or not to exclude from our investment portfolio at any time any medium-term loan to own investment, which our Manager considers to be any mortgage loan or other real estate-related loan or debt investment where the proposed originator or acquiror of the investment has the intent and/or expectation of foreclosing on, or otherwise acquiring the real property securing the loan or investment at any time between 18 and 48 months of its origination or acquisition of the loan or investment. To the extent that any of these limitations on our co-investment rights apply to any particular investment opportunity, Starwood Capital Group would be permitted to provide the portion of the investment otherwise allocable to us to the Starwood Private Real Estate Funds and/or the Starwood Unlevered Debt Fund, as applicable. The co-investment rights of the Starwood Private Real Estate Funds are expected to be in effect for up to three years following this offering. The co-investment rights of the Starwood Unlevered Debt Fund are expected to be in effect through the end of September 2009. Our co-investment rights with the Starwood Private Real Estate Funds and the Starwood Unlevered Debt Fund will apply for the same time periods that these other funds have their co-investment rights as long as the management agreement is in effect and our Manager and Starwood Capital Group are under common control. Our independent directors will periodically review our Manager's and Starwood Capital Group's compliance with the co-investment provisions described above, but they will not approve each co-investment by any of the Starwood Private Real Estate Funds, the Starwood Unlevered Debt Fund and us unless the amount of capital we invest in the proposed co-investment otherwise requires the review and approval of our independent directors pursuant to our investment guidelines.

*Investment Activities of Certain Starwood Capital Group Affiliates.* Starwood Real Estate Securities, L.L.C., and its sponsored funds, or SRES, are generally long/short real estate securities hedge funds which invest in publicly traded equity securities globally and options thereon, and Starwood Energy Group Global, L.L.C., and its sponsored funds, or SEG, invest in energy, power, water and other natural resources related businesses and investment activities, including equity investments in these businesses. SRES and SEG have in the past and may in the future make investments in certain of our target asset classes. These funds are affiliates of Starwood Capital Group because they are indirectly controlled by Mr. Sternlicht. However, neither of these funds are controlled by Starwood Capital Group or are part of Starwood Capital Group's real estate investment business. None of the Starwood Private Real Estate Funds, the Starwood Unlevered Debt Fund or us have any co-investment rights with, nor co-investment obligations to, either of these funds. Neither our Manager nor its Investment Committee are or will be involved in the investment process for either of these funds. In addition, no individual responsible for the day to day management of either of these funds will be responsible for the day to day management of our business. However, the management team of each of these funds may periodically consult with Mr. Sternlicht on each fund's investment decisions.





**Table of Contents**

*Future Investment Opportunity Allocation Provisions.* Our Manager and Starwood Capital Group have agreed that for so long as the management agreement is in effect and our Manager and Starwood Capital Group are under common control no entity controlled by Starwood Capital Group will sponsor or manage another publicly traded or other investment vehicle that focuses on investing in our target assets, which we refer to as competing vehicles, unless Starwood Capital Group either (i) adopts a policy providing for the fair and equitable allocation of investment opportunities among all competing vehicles and us, or (ii) provides us the right to co-invest with the competing vehicles, in each case subject to the suitability of each investment opportunity for the particular competing vehicle and us and the competing vehicles and our availability of capital for investment.

*Exclusivity Provisions.* Pursuant to the exclusivity provisions of the Starwood Private Real Estate Funds, our investment strategy may not include (i) equity interests in real estate, or (ii) the origination or acquisition of any mortgage loans or other real estate-related loans or debt investments if we have the intent and/or expectation of foreclosing on, or otherwise acquiring the real property securing the loan or investment within 18 months of our origination or acquisition of the loan or investment, or near-term loan to own investments. These funds' exclusivity rights are expected to be in effect for up to three years following this offering. Therefore, our Manager and our board of directors would not have the flexibility to expand our investment strategy to include equity interests in real estate or near-term loan to own investments prior to the expiration of the exclusivity provisions of these Starwood private real estate funds.

*Policy Regarding Investments Related to Properties Managed by Starwood Capital Group Affiliates.* We expect our board of directors to adopt a policy permitting us to originate or acquire loans and investments with respect to properties owned by unaffiliated parties that may be managed by, or leased in whole or part to, an affiliate of Starwood Capital Group or with respect to which an unaffiliated owner may have engaged an affiliate of Starwood Capital Group to provide certain other services with respect to the property. In addition, we expect this policy to permit us to make loans and investments with respect to properties owned by unaffiliated parties for which an affiliate of Starwood Capital Group may concurrently be engaged by the property owner to manage it or provide other services with respect to the property or which may concurrently agree to lease such property to it in whole or in part. Furthermore, to the extent that we have rights as a lender pursuant to the terms of any of our loans or investments to consent to an unaffiliated property owner's engagement of a property manager or any other service provider, or to lease the property, this policy would permit us to provide a consent to such a property owner seeking to engage, or lease property to, an affiliate of Starwood Capital Group.

*Transactions with Other Starwood Capital Group Funds.* In order to avoid any actual or perceived conflicts of interest between our Manager, Starwood Capital Group, any of their affiliates or any investment vehicle sponsored or managed by Starwood Capital Group or any of its affiliates, which we refer to as the Starwood parties, and us, the approval of a majority of our independent directors will be required to approve (i) any purchase of our assets by any of the Starwood parties, and (ii) any purchase by us of any assets of any of the Starwood parties.

*Limitations on Personal Investments.* Shortly after the consummation of this offering, we expect our board of directors to adopt a policy with respect to any proposed investments by our directors or officers or the officers of our Manager, which we refer to as the covered persons, in any of our target asset classes. We expect this policy to provide that any proposed investment by a covered person for his or her own account in any of our target asset classes will be permitted if the capital required for the investment does not exceed the lesser of (x) \$5 million, or (y) 1% of our total stockholder's equity as of the most recent month end, or the personal investment limit. To the extent that a proposed investment exceeds the personal investment limit, we expect that our board of directors will only permit the covered person to make the investment (i) upon the approval of the disinterested directors, or (ii) if the proposed investment otherwise complies with terms of any other related party transaction policy our board of directors may adopt in the future.

*Other Conflicts.* To the extent that a conflict of interest arises with respect to the business of our Manager, Starwood Capital Group, any of their affiliates or us that is not currently addressed by the co-investment or exclusivity provisions of the funds described above, the independent members of our board of

## **Table of Contents**

directors would consider the matter and, in certain circumstances, our Manager may need to adopt certain policies and procedures to address such matters in the future.

## **Operating and Regulatory Structure**

### **REIT Qualification**

We intend to elect to qualify as a REIT commencing with our taxable year ending on December 31, 2009. Our qualification as a REIT depends upon our ability to meet on a continuing basis, through actual investment and operating results, various complex requirements under the Internal Revenue Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our shares. We believe that we have been organized in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code, and that our intended manner of operation will enable us to meet the requirements for qualification and taxation as a REIT.

So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on our taxable income that we distribute currently to our stockholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to U.S. federal income tax at regular corporate rates and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which we lost our REIT qualification. Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income or property.

### **1940 Act Exemption**

We intend to conduct our operations so that we are not required to register as an investment company under the 1940 Act. Section 3(a)(1)(A) of the 1940 Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the 1940 Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis. Excluded from the term investment securities, among other things, are U.S. Government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the 1940 Act.

We are organized as a holding company that conducts its businesses primarily through wholly-owned subsidiaries. We intend to conduct our operations so that we do not come within the definition of an investment company because less than 40% of the value of our total assets on an unconsolidated basis will consist of investment securities. The securities issued by any wholly-owned or majority-owned subsidiaries that we may form in the future that are excepted from the definition of investment company based on Section 3(c)(1) or 3(c)(7) of the 1940 Act, together with any other investment securities we may own, may not have a value in excess of 40% of the value of our total assets on an unconsolidated basis. We will monitor our holdings to ensure continuing and ongoing compliance with this test. In addition, we believe we will not be considered an investment company under Section 3(a)(1)(A) of the 1940 Act because we will not engage primarily or hold ourselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, through our wholly-owned subsidiaries, we will be primarily engaged in the non-investment company businesses of these subsidiaries.

If the value of securities issued by our subsidiaries that are excepted from the definition of investment company by Section 3(c)(1) or 3(c)(7) of the 1940 Act, together with any other investment securities we own, exceeds 40% of our

total assets on an unconsolidated basis, or if one or more of such subsidiaries fail to maintain an exception or exemption from the 1940 Act, we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (b) to register as an investment company under the 1940 Act, either of which could have an adverse effect on us and the market price of our securities. If we were required to register as an

## **Table of Contents**

investment company under the 1940 Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the 1940 Act), portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters.

We expect SPT Real Estate Sub I, LLC to qualify for an exemption from registration under the 1940 Act as an investment company pursuant to Section 3(c)(5)(C) of the 1940 Act, which is available for entities primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate. In addition, certain other subsidiaries that we may form in the future also may qualify for the Section 3(c)(5)(C) exemption. This exemption generally requires that at least 55% of such subsidiaries' assets must be comprised of qualifying assets and at least 80% of each of their portfolios must be comprised of qualifying assets and real estate-related assets under the 1940 Act. Specifically, we expect each of our subsidiaries relying on Section 3(c)(5)(C) to invest at least 55% of its assets in mortgage loans, mortgage-backed securities, or MBS, that represent the entire ownership in a pool of mortgage loans and other interests in real estate that constitute qualifying assets in accordance with Securities and Exchange Commission (or the SEC) staff guidance and/or positions taken by other industry participants in public filings with the SEC and approximately an additional 25% of its assets in other types of mortgages, MBS, securities of REITs and other real estate-related assets. Although we intend to monitor our portfolio periodically and prior to each investment acquisition, there can be no assurance that we will be able to maintain this exemption from registration for these subsidiaries. Certain of our subsidiaries may rely on the exemption provided by Section 3(c)(6) to the extent that they hold mortgage assets through majority owned subsidiaries that rely on Section 3(c)(5)(C).

We have organized SPT TALF Sub I, LLC as a special purpose subsidiary for the purpose of borrowing under the TALF and we may in the future organize additional special purpose subsidiaries that would borrow under the TALF. We anticipate that some of these subsidiaries may be organized to rely on the 1940 Act exemption provided to certain structured financing vehicles by Rule 3a-7. To the extent that we organize subsidiaries that rely on Rule 3a-7 for an exemption from the 1940 Act, these subsidiaries will need to comply with the restrictions described in

Business Operating and Regulatory Structure 1940 Act Exemption. In addition, in certain circumstances, compliance with Rule 3a-7 may also require that the indenture governing the subsidiary include additional limitations on the types of assets the subsidiary may sell or acquire out of the proceeds of assets that mature, are refinanced or otherwise sold, on the period of time during which such transactions may occur, and on the level of transactions that may occur. In light of the requirements of Rule 3a-7, our ability to manage assets held in a special purpose subsidiary that complies with Rule 3a-7 will be limited and we may not be able to purchase or sell assets owned by that subsidiary when we would otherwise desire to do so, which could lead to losses.

Qualification for exemption from registration under the 1940 Act will limit our ability to make certain investments. For example, these restrictions will limit the ability of our subsidiaries that rely on 3(c)(5)(C) to invest directly in mortgage-backed securities that represent less than the entire ownership in a pool of mortgage loans, debt and equity tranches of securitizations and certain ABS and real estate companies or in assets not related to real estate. We expect that SPT Real Estate Sub I, LLC and most of our other majority-owned subsidiaries will not be relying on exemptions under either Section 3(c)(1) or 3(c)(7) of the 1940 Act. Consequently, we expect that our interests in these subsidiaries (which we expect will constitute a substantial majority of our assets) will not constitute investment securities and that we will be able to conduct our operations so that we are not required to register as an investment company under the 1940 Act.

### **Restrictions on Ownership of Our Common Stock**

To assist us in complying with the limitations on the concentration of ownership of a REIT imposed by the Internal Revenue Code, our charter prohibits, with certain exceptions, any stockholder from beneficially or constructively

owning, applying certain attribution rules under the Internal Revenue Code, more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of common stock, or 9.8% by value or number of shares, whichever is more restrictive, of our outstanding capital stock. Our board of directors may, in its sole discretion, waive the 9.8% ownership limit with respect to a particular stockholder if

**Table of Contents**

it is presented with evidence satisfactory to it that such ownership will not then or in the future jeopardize our qualification as a REIT. We expect our board of directors to waive this ownership limit in order to allow Starwood Capital Group and SPT Investment, LLC to collectively hold up to % of our common stock.

Our charter also prohibits any person from, among other things:

beneficially or constructively owning shares of our capital stock that would result in our being closely held under Section 856(h) of the Internal Revenue Code, or otherwise cause us to fail to qualify as a REIT; and

transferring shares of our capital stock if such transfer would result in our capital stock being owned by fewer than 100 persons.

In addition, our charter provides that any ownership or purported transfer of our capital stock in violation of the foregoing restrictions will result in the shares so owned or transferred being automatically transferred to a charitable trust for the benefit of a charitable beneficiary, and the purported owner or transferee acquiring no rights in such shares. If a transfer to a charitable trust would be ineffective for any reason to prevent a violation of the restriction, the transfer resulting in such violation will be void from the time of such purported transfer.

**Table of Contents**

**The Offering**

<b>Common stock offered by us</b>	shares (plus up to an additional shares of our common stock that we may issue and sell upon the exercise of the underwriters overallotment option).
<b>Common stock to be outstanding after this offering and concurrent private placement</b>	shares. <sup>(1)</sup>
<b>Use of proceeds</b>	We intend to invest the net proceeds of this offering and the concurrent private placement of common stock to SPT Investment, LLC in our target assets. We expect that our initial focus will be on purchasing commercial mortgage loans, other CRE and CRE-related debt investments and CMBS. Until appropriate investments can be identified, our Manager may invest these funds 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. These initial investments are expected to provide a lower net return than we will seek to achieve from investments in our target assets. See Use of Proceeds.
<b>Distribution policy</b>	We intend to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its taxable income. We generally intend over time to pay quarterly distributions in an amount equal to our taxable income. We plan to pay our first distribution in respect of the period from the closing of this offering through , 2009, which may be prior to the time that we have fully invested the net proceeds from this offering in investments in our target assets. Prior to the time we have fully used the net proceeds of this offering and the concurrent private placement to acquire our target assets, we may fund our quarterly distributions out of such net proceeds. Any distributions we make to our stockholders will be at the discretion of our board of directors and will depend upon, among other things, our actual results of operations and liquidity. These results and our ability to pay distributions will be affected by various factors, including the net interest and other income from our portfolio, our operating expenses and any other expenditures. For more information, see Distribution Policy.
<b>Proposed NYSE symbol</b>	STWD
<b>Ownership and transfer restrictions</b>	To assist us in complying with limitations on the concentration of ownership of a REIT imposed by the Internal Revenue Code and for other purposes, our charter generally prohibits, among other prohibitions, any stockholder from beneficially or constructively owning more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of common stock, or 9.8%



by value or number of shares, whichever is more restrictive, of our outstanding capital stock. See Description of Capital Stock Restrictions on Ownership and Transfer.

**Table of Contents**

**Risk factors**

Investing in our common stock involves a high degree of risk. You should carefully read and consider the information set forth under the heading **Risk Factors** beginning on page 24 of this prospectus and all other information in this prospectus before investing in our common stock.

- (1) Includes        shares of our common stock granted under our equity incentive plan. Excludes shares of our common stock that we may issue and sell upon the exercise of the underwriters' overallotment option.

**Our Corporate Information**

Our principal executive offices are located at 591 West Putnam Avenue, Greenwich, Connecticut 06830. Our telephone number is (203) 422-7700. Our website is        . The contents of our website are not a part of this prospectus. The information on our website is not intended to form a part of or be incorporated by reference into this prospectus.

**Table of Contents**

**RISK FACTORS**

*Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus before purchasing our common stock. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment.*

**Risks Related to Our Relationship with Our Manager**

**We are dependent on Starwood Capital Group, including our Manager, and their key personnel, especially Mr. Sternlicht, who provide services to us through the management agreement, and we may not find a suitable replacement for our Manager and Starwood Capital Group if the management agreement is terminated, or for these key personnel if they leave Starwood Capital Group or otherwise become unavailable to us.**

We have no separate facilities and are completely reliant on our Manager. Our chief executive officer and our other officers (other than the persons (or person) who will serve as our chief financial officer and chief compliance officer) are executives of Starwood Capital Group. We do not expect to have any employees other than the persons (or person) who will serve as our chief financial officer and chief compliance officer. Our Manager has significant discretion as to the implementation of our investment and operating policies and strategies. Accordingly, we believe that our success will depend to a significant extent upon the efforts, experience, diligence, skill and network of business contacts of the officers and key personnel of our Manager. The officers and key personnel of our Manager will evaluate, negotiate, close and monitor our investments; therefore, our success will depend on their continued service. The departure of any of the officers or key personnel of our Manager could have a material adverse effect on our performance.

Our Manager is not obligated to dedicate any specific personnel exclusively to us. In addition, none of our officers (other than the persons (or person) who will serve as our chief financial officer and chief compliance officer) or the officers of our Manager are obligated to dedicate any specific portion of their time to our business. Each of them has significant responsibilities for the Starwood private real estate funds and other investment vehicles currently managed by affiliates of Starwood Capital Group. As a result, these individuals may not always be able to devote sufficient time to the management of our business. Further, when there are turbulent conditions in the real estate markets or distress in the credit markets, the attention of our Manager's personnel and our executive officers and the resources of Starwood Capital Group will also be required by the Starwood private real estate funds. In such situations, we may not receive the level of support and assistance that we may receive if we were internally managed.

In addition, we offer no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager's officers and key personnel. The initial term of our management agreement with our Manager, and the investment advisory agreement between our Manager and Starwood Capital Group Management, LLC only extends until the third anniversary of the closing of this offering, with automatic one-year renewals thereafter. If the management agreement and the investment advisory agreement are terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan.

**There are various conflicts of interest in our relationship with Starwood Capital Group, including our Manager, which could result in decisions that are not in the best interests of our stockholders.**

We are subject to conflicts of interest arising out of our relationship with Starwood Capital Group, including our Manager. Specifically, Mr. Sternlicht, our chief executive officer, Mr. Dishner, one of our other directors, \_\_\_\_\_, another one of our directors, and certain of our other executive officers are executives of Starwood Capital Group. Our

Manager and executive officers may have conflicts between their duties to us and their duties to, and interests in, Starwood Capital Group and its other investment funds. The Starwood Private Real Estate Funds and the Starwood Unlevered Debt Fund collectively have the right to invest from 10% to 32.5% of the equity capital proposed to be invested by any investment vehicle managed by an entity controlled by Starwood Capital Group in debt interests relating to real estate. Our co-investment rights are subject to, among other things, (i) the determination by our Manager that the proposed investment is suitable for us, and (ii) our Manager's sole discretion as to whether or not to exclude from our investment portfolio at any time any

**Table of Contents**

medium-term loan to own investments. Since we are subject to the judgment of our Manager in the application of our co-investment rights, we may not always be allocated the above-described percentages of each co-investment opportunity in our target asset classes. The Starwood Private Real Estate Funds' co-investment rights are expected to be in effect for up to three years following this offering. The co-investment rights of the Starwood Unlevered Debt Fund are expected to be in effect through the end of September 2009. Our independent directors will periodically review our Manager's and Starwood Capital Group's compliance with the co-investment provisions described above, but they will not approve each co-investment by any of the Starwood Private Real Estate Funds and the Starwood Unlevered Debt Fund and us unless the amount of capital we invest in the proposed co-investment otherwise requires the review and approval of our independent directors pursuant to our investment guidelines. Pursuant to the exclusivity provisions of the Starwood Private Real Estate Funds, our investment strategy may not include (i) equity interests in real estate, or (ii) near-term loan to own investments. These funds' exclusivity rights are expected to be in effect for up to three years following this offering. Therefore, our board of directors would not have the flexibility to expand our investment strategy to include equity interests in real estate or near-term loan to own investments prior to the expiration of the exclusivity provisions of these Starwood private real estate funds. After the expiration of the co-investment rights of the Starwood Private Real Estate Funds, Starwood Capital Group and our Manager may either (i) provide us the right to co-invest with the competing vehicles, in each case subject to the suitability of each investment, or (ii) adopt a policy providing for the fair and equitable allocation of investment opportunities among all competing vehicles and us. To the extent that we have co-investment rights with competing vehicles in the future, there can be no assurance that these future rights will entitle us to a similar percentage allocation as we have with respect to the Starwood Private Real Estate Funds and the Starwood Unlevered Debt Fund. To the extent that our Manager and Starwood Capital Group adopt an investment allocation policy in the future, we may nonetheless compete with competing vehicles for investment opportunities sourced by our Manager and Starwood Capital Group. As a result, we may either not be presented with the opportunity, or may have to compete with the competing vehicles to acquire these investments. Some or all of our executive officers, the members of the Investment Committee of our Manager and other key personnel of our Manager would likely be responsible for selecting investments for competing vehicles and they may choose to allocate favorable investments to one or more competing vehicles instead of to us.

Shortly after the consummation of this offering, we expect our board of directors to adopt a policy with respect to any proposed investments by the covered persons in any of our target asset classes. We expect this policy to provide that any proposed investment by a covered person for his or her own account in any of our target asset classes will be permitted if the capital required for the investment does not exceed the personal investment limit. To the extent that a proposed investment exceeds the personal investment limit, we expect that our board of directors will only permit the covered person to make the investment (i) upon the approval of the disinterested directors, or (ii) if the proposed investment otherwise complies with terms of any other related party transaction policy our board of directors may adopt in the future. Subject to compliance with all applicable laws, these individuals may make investments for their own account in our target assets which may present certain conflicts of interest not addressed by our current policies.

We will pay our Manager substantial base management fees regardless of the performance of our portfolio. Our Manager's entitlement to a management fee, which is not based upon performance metrics or goals, might reduce its incentive to devote its time and effort to seeking investments that provide attractive risk-adjusted returns for our portfolio. This in turn could hurt both our ability to make distributions to our stockholders and the market price of our common stock.

Concurrently with the completion of this offering, SPT Investment, LLC will acquire \$ million of our common stock in a private placement at a price per share equal to the price per share in this offering. Upon completion of this offering and the concurrent private placement, SPT Investment, LLC will beneficially own % of our outstanding common stock (or % if the underwriters fully exercise their over-allotment option). Concurrently with the closing of this offering, we will grant shares of restricted common stock, equal to % of the number of shares that we issue in this offering (without giving effect to any exercise by the underwriters of their over-allotment option)

to . These shares will vest ratably on a quarterly basis over a -year period beginning on the last day of the quarter in which we complete this offering. Each

**Table of Contents**

of SPT Investment, LLC and our Manager, each of which is controlled by Mr. Sternlicht, will agree that, for a period of \_\_\_\_\_ after the date of this prospectus, it will not without the prior written consent of the representatives of the underwriters, dispose of or hedge any shares of our common stock, subject to certain exceptions and extension in certain circumstances. SPT Investment, LLC may sell the shares it purchases in the concurrent private placement at any time following the expiration of this lockup period. To the extent SPT Investment, LLC sells some of these shares, our Manager's interests may be less aligned with our interests.

**The management agreement with our Manager was not negotiated on an arm's-length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate.**

Our executive officers (other than the persons (or person) who will serve as our chief financial officer and chief compliance officer) and three of our seven directors are executives of Starwood Capital Group. Our management agreement with our Manager was negotiated between related parties and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party.

Termination of the management agreement with our Manager without cause is difficult and costly. Our independent directors will review our Manager's performance and the management fees annually and, following the initial three-year term, the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors based upon: (1) our Manager's unsatisfactory performance that is materially detrimental to us, or (2) a determination that the management fees payable to our Manager are not fair, subject to our Manager's right to prevent termination based on unfair fees by accepting a reduction of management fees agreed to by at least two-thirds of our independent directors. Our Manager will be provided 180 days prior notice of any such a termination. Additionally, upon such a termination, the management agreement provides that we will pay our Manager a termination fee equal to three times the sum of the average annual base management fee and incentive fee received by our Manager during the prior 24-month period before such termination, calculated as of the end of the most recently completed fiscal quarter. These provisions may increase the cost to us of terminating the management agreement and adversely affect our ability to terminate our Manager without cause.