STARWOOD PROPERTY TRUST, INC.
Form S-11
June 05, 2009

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As filed with the Securities and Exchange Commission on June 4, 2009
Registration Statement No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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)

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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: o

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. o

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. o

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. o

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

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 o Accelerated filer o Non-accelerated filer þ Smaller reporting company o
(Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(1)
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.

(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.

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, Dated June 4, 2009
Starwood Property Trust, Inc.

Shares
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, 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. Our Manager will draw upon the experience and expertise of Starwood Capital Group s investment professionals as well as its asset management group and other disciplines.

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 .

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 % 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 Mr. Sternlicht, 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 28 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, 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 passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to Starwood Property Trust, Inc.	$	$

We have granted the underwriters the right to purchase up to 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 over-allotments, if any.

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

The date of this prospectus is , 2009.

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EX-23.3: CONSENT OF DELOITTE & TOUCHE LLP

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.

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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.

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 of the funds currently managed by Starwood Capital Group that target investments in real estate, we will have the right to invest from 67.5% to 90% of the capital proposed to be invested by any investment vehicle managed by an affiliate of Starwood Capital Group in debt interests relating to real estate. See Conflicts of Interest and Related Policies. Our Manager and Starwood Capital Group have agreed that neither they nor any of their affiliates 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 without providing us with the right to invest at least 50% of the capital required for any proposed investment in our target assets, unless a majority of our independent directors decides otherwise.

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. Initially, we expect to finance our investments in commercial mortgage loans and CMBS with financings under the

U.S. Government s Public-Private Investment Program, or PPIP, and CMBS with financing under the Term Asset-Backed Securities Loan Facility, or TALF, as well as through securitizations and other sources of financing in each case to the extent available to us.

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 our chief financial officer and chief compliance officer) are executives of Starwood Capital Group. Our chief financial officer and chief compliance officer are 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. 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. 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 $5.8 billion of equity in most major sectors of real estate across the capital structure, representing approximately $20.4 billion in assets since inception as of December 31, 2008. As of December 31, 2008, Starwood Capital Group had approximately $12.8 billion of directly and indirectly owned real estate assets under management.

Our Manager will be able to draw upon the experience and expertise of Starwood Capital Group s team of approximately 135 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 30 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.

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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 over-allotment 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 well beyond their underlying fundamentals. In the past two years, a significant correction in the price of real estate has been underway. Due to the dramatic repricing of real estate assets thus far and the continuing uncertainty in the direction of the real estate markets, a void in the debt and equity capital available for investing in real estate has been created as many banks, insurance companies, finance companies and fund managers face insolvency or have determined to reduce or discontinue investment in debt or equity related to real estate. The dislocations in the real estate market have already caused and we believe will continue to cause an over-correction in the repricing of real estate assets. We expect to capitalize on these market dislocations and capital void. We believe that there will be a significant supply of distressed investment opportunities from sellers and equity sponsors of real estate, including national and regional banks, individuals, insurance companies, finance companies, fund managers and other institutions. The specific investment opportunities within this real estate investing environment may change over time and therefore, our investment strategy may also adapt to take advantage of the changing opportunities. Correction and recovery will take place at different points during the cycle, depending on the asset class and geography. In some markets, long term supply and demand real estate fundamentals will be positive as supply is constrained due to difficulty in obtaining financing, and demand will grow as the local population continues to expand. Underwriting real estate assets today requires rigorous analysis of the macro-economic environment and micro market supply and demand fundamentals as well as analysis of comparable and competing assets and projections on individual or portfolio assets. For real estate debt investments, underwriting requires increased scrutiny of insolvency scenarios and longer holding periods (including extension risk), in addition to typical real estate investment criteria such as coverage ratios, basis and operating fundamentals. We believe that well funded managers will have the opportunity to acquire real estate debt positions and assets with limited competition and at prices deeply discounted to replacement cost. Through identifying the investment opportunities at each point of the cycle and conducting rigorous underwriting analysis on each investment, we believe that our Manager will be well positioned to capitalize on the upcoming market opportunities.

Commercial Mortgage Loans

In the near to medium term, we anticipate a significant opportunity to originate commercial real estate mortgage loans and other debt investments at attractive spreads and low loan-to-value assumptions and to acquire discounted loans on high quality real estate at attractive yields. The global liquidity crisis has led to a re-pricing of risk, more dramatic and severe than other recent periods of distress. The market is demanding the continued de-leveraging of balance sheets of financial institutions in the face of rising loan maturities. Unlike the Resolution Trust Corporation crisis of 1990 to 1992, distress today is affecting much higher quality assets where opportunities are created by excessive leverage and distressed sellers. Given the low interest rate environment, many of these assets cover debt service but the likelihood that they will be refinanced at maturity is in doubt. In light of this, we anticipate attractive investment opportunities in acquiring performing and non-performing loans from banks, investment banks or any other forced sellers due to margin calls, redemptions, capital adequacy concerns or capital requirements during the next year or two. However, we believe the acquisition of discounted loans will be a relatively short term opportunity because pricing of performing debt positions will likely improve as spreads tighten and liquidity returns to the market.

We anticipate origination of mortgage and mezzanine loans to be a longer lived opportunity and will likely be a pillar of our investment strategy as the wave of floating-rate loans mature. As traditional financing sources diminish, we expect to capitalize on the financing gap by providing mortgage and mezzanine loans to proven sponsors on high-quality assets at attractive yields and reasonable loan-to-value levels. We intend to seek to further enhance our returns by securitizing the senior tranches of our positions to the extent that TALF financing may be available for these types of securities. See Our Financing Strategy.

We believe that there may be attractive opportunities to acquire discounted loans from failed banks and financial institutions through the Federal Deposit Insurance Corporation, or the FDIC, during the next two to three years. Thirty-three depository institutions have failed in 2009 through May 22, 2009, with more than $19.6 billion in combined assets. As of May 18, 2009, we estimate that the FDIC held more than $3 billion in residential mortgage loans from failed depository institutions. The FDIC typically auctions off the loan portfolios, usually in large pools, and often provides debt and/or equity capital for such transactions. These auctions are generally conducted on tight timeframes and provide limited access to information on the specific assets and local markets. We believe that Starwood Capital Group s market knowledge, real estate expertise, geographic coverage and most importantly, execution speed will enable us to be a competitive bidder in these processes. Starwood Capital Group s first sponsored fund successfully executed a similar strategy in the early 1990 s by acquiring assets from the Resolution Trust Corporation.

Commercial Real Estate Corporate Debt

Over the next few years, we also anticipate attractive investment opportunities in the corporate debt of publicly-traded commercial real estate operating and finance companies. We believe that debt maturities and deteriorating operating fundamentals will continue to plague both public and private real estate companies for some time, creating compelling investment opportunities. Implied values of the underlying real estate, already at a fraction of replacement costs, are expected to decline further in the near-term due to the uncertainty of debt refinancing and decreasing cash flows. Corporate debt including bank debt and secured and unsecured bonds are trading at significant discounts to face value, creating implied asset valuation at steep discounts to replacement cost. We expect to capitalize on this market dislocation.

Commercial Mortgage Backed Securities

During the next two years, we anticipate attractive opportunities to acquire select bonds of CMBS at attractive yields. As a result of the drastic re-pricing of risk premiums and severe liquidity constraints, CMBS implied spreads have widened considerably over the last nine months. Even the most senior AAA (or Aaa)-rated CMBS are trading at levels that imply credit losses much higher than historical levels. With the U.S. Government s intervention through the TALF and PPIP programs, which we expect to provide leverage to investments in CMBS, we expect investor confidence to return, spreads to tighten and pricing to stabilize at more

reasonable levels in the near term. We believe that our Manager can further create value through careful security selection and proprietary cash flow analysis.

Residential Mortgage Loans

Residential mortgage loan pricing has fallen to historically low levels as a result of the U.S. housing market correction which began in late 2006 and the current liquidity crisis. Given the favorable long-term demographics trends and the recent significant U.S. Government initiatives to support the housing market in the United States, we expect the housing market to be the first of all major real estate asset classes to recover. This expected recovery should stabilize loan pricing levels to some extent. 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. Recovery timing and magnitude will depend also on local market fundamentals and trends. Starwood Capital Group has an established joint venture platform that we expect to provide us with access to a national network, presence and knowledge of many key residential real estate markets and enable us to identify potential opportunities and better underwrite our investments.

Our Manager s Competitive Strengths

We believe that we will benefit from the deep experience and significant expertise of our Manager s executive team in real estate investing. Headed by Barry Sternlicht, our chairman and chief executive officer, most of our Manager s executive team has worked together for over 15 years at Starwood Capital Group. On behalf of Starwood Capital Group s eleven sponsored funds, this team has been responsible for investing $5.8 billion of equity in most major sectors of real estate across the capital structure, representing approximately $20.4 billion in assets since inception as of December 31, 2008. As of December 31, 2008, Starwood Capital Group had approximately $12.8 billion of directly and indirectly owned real estate assets under management. Starwood Capital Group has been a leader of public-private/private-public market executions, including the recapitalization and public offerings of NYSE-listed Starwood Hotels & Resorts Worldwide, Inc. and *i*Star Financial, Inc. and privatizations of Société du Louvre and National Golf. It also participated in the formation of Equity Residential Properties Trust, one of the premier U.S. multifamily REITs. Starwood Capital Group has built successful operating businesses in various real estate-related sectors, including hotels, office, multifamily, mezzanine debt, senior housing, golf, retail and health clubs. Our Manager s executive team has managed funds through multiple recessions and market downturns with successful results, creating a strong track record in profiting from distressed real estate. Starwood Capital Group s first fund in the early 1990 s invested primarily in assets sold by the Resolution Trust Corporation in a distressed market place which we believe is similar to the currently prevailing real estate market conditions. We believe this team has an exceptional combination of commercial real estate acquisition, ownership and operating experience in all major sectors.

Achieving attractive returns without taking excess risk is the very foundation of Starwood Capital Group. In any market environment, proprietary transaction flow, knowledge of the property markets, speed of execution, excellent financing relationships, understanding of capital markets, thorough asset underwriting and due diligence, prudent asset management, and a focus on opportunistic exits combine to significantly reduce risk and enhance investor returns. Starwood Capital Group carefully underwrites and structures its investments to protect against downward fluctuations in pricing, operational deficiencies or credit dislocations, sometimes trading a portion of the upside to decrease its risk.

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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

Our Manager s executive team consists of Starwood Capital Group s executives, a group of seasoned investment professionals headed by Mr. Sternlicht that has largely worked together for more than 15 years through all stages of the real estate investment cycle. On behalf of the eleven investment vehicles 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. 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 *i*Star 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 realization strategies on non-performing positions including foreclosure, discounted pay-off, loan restructuring and sales of loans or underlying securities. These more traditional realization strategies are supplemented by Starwood Capital Group s expertise in the structuring of fractured loans (before or after restructuring) and are combined with Starwood Capital Group s real estate expertise to realize the underlying value of real estate collateral efficiently.

Expertise in Capital Markets, Corporate Acquisitions and Real Estate

Our Manager s executive team s 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, members of our Manager s executive team have created or taken public three successful companies, including *i*Star Financial, Inc. and Starwood Hotels & Resorts Worldwide, Inc. It also participated in the formation of Equity Residential Properties Trust, one of the premier U.S. multifamily REITs. Affiliates of Starwood Capital Group have also privatized large public entities as with the recapitalization and restructuring of National Golf Properties, Inc. and the acquisition of Société du Louvre.

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. This will allow our Manager to maximize underlying real estate potential through, when appropriate, branding, development, renovation and repositioning of assets, and to create tailored corporate and partnership solutions to maximize returns.

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-

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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.

On behalf of its previously sponsored funds, Starwood Capital Group has been careful to create a diversified portfolio for fund investors and to actively manage concentrations of each fund s capital. All of these funds have maintained diversification by risk profile, geographic area, position in the capital structure and asset type. Our Manager intends to employ a similar diversification strategy for us.

Dedicated Asset Management Team

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 30 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 this group as necessary.

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 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.

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;

- seeking to insulate total returns with a balance of sustainable cash flow and residual value by focusing on sustainable yield, which is of paramount concern, particularly in a risk-averse and low interest rate environment such as the current one;

- 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.

In implementing our investment strategy, we will utilize our Manager s expertise in identifying undervalued assets, securities and operating companies as well as its capabilities in transaction sourcing, underwriting, execution and asset operation, management and disposition. Our Manager s Investment Committee, which will be chaired by Mr. Sternlicht and will also include Jeffrey Dishner, Jerome Silvey, Barden Gale, Marc Perrin and Christopher Graham, will make investment, financing, asset management and disposition decisions on our behalf. These decisions will be generally based upon our Manager s view of the current and future economic environment, its outlook for real estate in general and the particular asset class and, finally, its assessment of the risk-reward profile derived from proprietary underwriting and cash flow analysis. In general, our Manager will employ a bottom-up , fundamental approach to asset and security valuation. All investment decisions will be made with a view to maintaining our qualification as a REIT and our exemption from registration under the 1940 Act.

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 which restrict other Starwood Capital Group sponsored funds from targeting such 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 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.

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 a commercial property developer 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 a construction or rehabilitation of a commercial property;

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 corporate grade 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 is 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) non-recourse term borrowing facilities and capital provided under the PPIP, (ii) non-recourse loans provided under the TALF, and (iii) securitizations. In the future, we may utilize other sources of financing to the extent available to us.

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, announced the creation of the PPIP. The PPIP is designed 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. 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 legacy non-Agency RMBS and CMBS that were originally rated AAA from financial institutions. Legacy Loans PPIFs and Legacy Securities PPIFs will have access to equity capital from the U.S. Treasury as well as debt financing provided or guaranteed by the U.S. Government. Under the Legacy Loans Program, the U.S. Treasury will provide up to 50% of the equity capital for each Legacy Loans PPIF, with the remaining 50% provided by private investors, and the FDIC will guarantee the debt issued by the PPIF up to a 6-to-1 debt-to-equity ratio. Under the Legacy Securities Program, the TALF will be expanded and the Federal Reserve Bank of New York, or FRBNY, will provide non-recourse loans to investors to fund purchases of eligible assets, and through Legacy Security PPIFs, the U.S. Treasury will provide up to 50% of the equity capital and senior debt up to 100% of the total equity capital of such PPIFs.

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. The PPIP has not been finalized and its terms are subject to change. As a result, the attractiveness of the 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. In our management agreement, our Manager has agreed to waive any fees payable to our Manager in respect of any equity investment we may decide to make in a Legacy Loans PPIF or Legacy Securities PPIF if managed by Starwood Capital Group or any of its affiliates, including our Manager.

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, provides non-recourse loans to borrowers to fund their purchase of eligible assets, which initially

included certain asset-backed securities, or ABS, but not RMBS or CMBS. On March 23, 2009, the U.S. Treasury announced preliminary plans to expand the TALF to include (i) CMBS, and (ii) non-Agency RMBS. On May 1, 2009, the Federal Reserve provided more of the details as to how TALF will be expanded to include CMBS and explained that beginning in June 2009, up to $100 billion of TALF loans will 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, certain high-quality CMBS issued before January 1, 2009, or legacy CMBS, would become eligible collateral under the TALF. However, the FRBNY may limit the volume of TALF loans secured by legacy CMBS and is in the process of establishing other requirements that will apply to legacy CMBS. To date, neither FRBNY nor the U.S. Treasury has announced any details on the manner in which the TALF will be expanded to cover non-Agency RMBS. 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 may provide us with attractively priced non-recourse term borrowings that we could use to purchase CMBS that are eligible for funding under this program. Once the legacy CMBS requirements are finalized, we believe that the TALF may also provide us with attractively priced non-recourse term financing for the acquisition of legacy CMBS. However, there can be no assurance we will be able to utilize the TALF to finance the acquisition of legacy CMBS 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 our investors.

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 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. To the extent that we fund our acquisition of commercial mortgage loans and CMBS under the PPIP, we expect to deploy leverage on these assets, on a debt-to-equity basis, of up to 6.0 to 1.

Investment Guidelines

Our board of directors has adopted the following investment guidelines:

- 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;
- our investments will be in our target assets;
- 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; and
- 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 money market accounts and/or funds, that are consistent with our intention to qualify as a REIT.

In addition, any investment of up to $25 million requires the approval of our chief executive officer. Any investment in excess of $25 million but less than or equal to $75 million requires the approval of our Manager s Investment Committee. Any investment in excess of $75 million but less than or equal to $150 million requires the approval of the Investment Committee of our board of directors, which initially will consist of , as well as our Manager s Investment Committee. 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 strategy that would modify or expand the types of assets in which we invest.

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 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. 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. We believe that the flexibility of our investment strategy, combined with our Manager s expertise among our target asset classes, will enable us to make distributions and achieve capital appreciation throughout changing interest rate and credit cycles and provide attractive risk-adjusted long term returns to our stockholders under a variety of market conditions and economic cycles.

Investment Committee

Our Manager has an Investment Committee which will initially be comprised of Mr. Sternlicht, the chairman of the committee, and Jeffrey Dishner, Jerome Silvey, Barden Gale, Marc Perrin and Christopher Graham. The Investment Committee will periodically review our investment portfolio and its compliance with our investment guidelines described above, and provide our board of directors an investment report at the end of each quarter in conjunction

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with its review of our quarterly results. From time to time, as it deems appropriate or necessary, our board of directors also will review our investment portfolio and its compliance with our investment guidelines and the appropriateness of our investment guidelines and strategies.

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 (the 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

We recognize the importance of active asset management in successful investing and Starwood Capital Group has a dedicated, in-house asset management group. These asset management professionals provide not only investment oversight, but also critical input to the acquisition process. This interactive process coordinates underwriting assumptions with direct knowledge of local market conditions and costs and revenue expectations. These critical assumptions then become the operational benchmarks by which the asset managers are guided and evaluated in their on-going management responsibilities. For mortgage investments, annual budgets are reviewed and monitored quarterly for variance, and follow up and questions are directed by the asset manager back to the owner. For securities investments, monthly remittance reports are reviewed, and questions are prompted by the asset manager to the servicer and trustee to ensure strict adherence to the servicing standards set forth in the applicable pooling and servicing agreements. All materials are submitted to our chief financial officer for review on a quarterly basis. Our main value creation will be careful asset specific and market surveillance, rigid enforcement of loan and security rights, and timely sale of underperforming positions. One of the key components in the underwriting process is the evaluation of potential exit strategies. The asset management group monitors each investment and reviews the disposition strategy on a regular basis in order to realize appreciated values and maximize returns.

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 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 objective. We intend to utilize derivative financial instruments, including, among others, puts and calls on securities or indices of securities, interest rate swaps, interest rate caps, interest rate swaptions, exchange-traded derivatives, U.S. Treasury securities and options on U.S. Treasury securities and interest rate floors to hedge all or a portion of the interest rate risk associated with the financing of our investment portfolio. Specifically, we will seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by fluctuations in short-term interest rates. In utilizing leverage and interest rate hedges, our objectives will be to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a favorable spread between the yield on our assets and the cost of our financing. We will rely on our Manager s expertise to manage these risks on our behalf. We may implement part of our hedging strategy through a domestic taxable REIT subsidiary, or TRS, which will be subject to U.S. federal, state and, if applicable, local income tax.

Market Risk Management

Risk management is an integral component of our strategy to deliver returns to our stockholders. 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. In addition, because we will employ financial leverage in funding our asset portfolio, mismatches in the maturities of our assets and liabilities can create risk in the need to continually renew or otherwise refinance our liabilities. Our net interest margin will be dependent upon a positive spread between the returns on our asset portfolio and our overall cost of funding. 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. Our Manager s risk management tools include software and services licensed or purchased from third parties, in addition to proprietary analytical methods developed by Starwood Capital Group. There can be no guarantee that these tools will protect us from market risks.

Credit Risk

Through our investment strategy we will seek to limit our credit losses and reduce our financing costs. However, we retain the risk of potential credit losses on all of the commercial and residential mortgage loans, other real-estate related debt investments, and the mortgage loans underlying the CMBS and RMBS we may acquire. We seek to manage this risk through our pre-acquisition due diligence process and through use of non-recourse financing, when and where available and appropriate, on a risk adjusted basis which limits our exposure to credit losses to the specific pool of mortgages that are subject to the non-recourse financing. In addition, with respect to any particular target asset, our Manager s investment team evaluates, among other things, relative valuation, comparable analyses, supply and demand trends, shape of yield curves, prepayment rates, delinquency and default rates, recovery of various sectors and vintage of collateral.

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 28 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, financial strategy, investment guidelines or leverage policies without stockholder consent.

The manner of determining the incentive fee under the management agreement may cause our Manager to select investments in more risky assets to increase our short-term net income and thereby increase the incentive fee it earns.

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.

In order to acquire 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, 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, or market response to those actions, will achieve their intended effects, or that our business will benefit from these actions, and further government or market developments would 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 price depreciation, 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 and our REIT qualification impose significant limits on our operations.

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 our chief financial officer and chief compliance officer) are executives of Starwood Capital Group. Our chief financial officer and chief compliance officer are employed directly by us. We do not expect to have any other employees. Starwood Capital Group is not obligated to

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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 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 management fee described in the table below. We may also terminate the management agreement with 30 days prior notice from our board of directors, without payment of a termination fee, for cause, as defined in the management agreement. 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:

Type	Description
Base management fee	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.
Incentive fee	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%. Core Earnings is a non-GAAP measure and is defined as GAAP net income (loss) excluding non-cash equity compensation expense, excluding any unrealized gains, losses or other non-cash items recorded in 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. The incentive fee is payable quarterly in arrears. 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.

Type	Description
Expense reimbursement	Reimbursement of operating expenses related to us 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 monthly in cash.
Fee waiver	In our management agreement, our Manager has agreed to waive any fees payable to it in respect of any equity investment we may decide to make in any Legacy Loans PPIF or Legacy Securities PPIF managed by Starwood Capital Group or any of its affiliates, including our Manager.
Termination fee	Termination fee equal to three times the sum of the average annual management fee earned by our Manager during the prior 24-month period prior to such termination, calculated as of the end of the most recently completed fiscal quarter. Upon termination of the management agreement by us without cause or by our Manager if we materially breach the management agreement.
Incentive plan	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 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.

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

We are dependent on our Manager for our day-to-day management and do not have any independent officers or employees other than our chief financial officer and chief compliance officer. Each of our officers and three of our directors, Mr. Sternlicht, 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.

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Our ability to make investments in our target assets is subject to investment opportunity allocation provisions applicable to certain funds currently managed by affiliates of Starwood Capital Group other than our Manager. On behalf of a number of institutional and individual investors, affiliates of Starwood Capital Group currently manage private funds targeting investments in equity and debt interests in various classes of real estate. We collectively refer to these funds as the Starwood private real estate funds. Pursuant to the investment opportunity allocation provisions of the Starwood private real estate funds, they collectively have the right to invest from 10% to 32.5% of the capital proposed to be invested by any investment vehicle managed by an affiliate of Starwood Capital Group in debt interests relating to real estate. Each Starwood private real estate fund s ability to exercise its co-investment right is subject to the availability of the fund s capital for investment and 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 right is likewise subject to the availability of our capital for investment. The Starwood private real estate funds co-investment rights are expected to be in effect for up to three years following this offering. 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 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. Our Manager and Starwood Capital Group have agreed that neither they nor any of their affiliates 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 without providing us with the right to invest at least 50% of the capital required for any proposed investment in our target assets, unless a majority of our independent directors decides otherwise.

Pursuant to the exclusivity provisions of certain 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 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 loan to own investments prior to the expiration of the exclusivity provisions of these Starwood private real estate funds.

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.

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 to us, and (ii) any sale of our assets to any of the Starwood parties. We expect our board of directors to adopt a policy that prohibits any of our directors or officers or the officers of our Manager from making any individual investments for their own account in any of our target assets in excess of $10 million. However, our code of business conduct and ethics contains a conflicts of interest policy that prohibits our directors and officers and any other personnel of Starwood Capital Group who provide services to us from engaging in any transaction that involves an actual conflict of interest with us.

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 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 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 % by value or number of shares, whichever is more restrictive, of our outstanding shares of common stock, or % 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 % ownership limit with respect to a particular stockholder if 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 Mr. Sternlicht, 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.

The Offering

Common stock offered by us	shares (plus up to an additional shares of our common stock that we may issue and sell upon the exercise of the underwriters over-allotment option).
Common stock to be outstanding after this offering and concurrent private placement	shares.[1]
Use of proceeds	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 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.
Distribution policy	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 dividends in an amount equal to our taxable income. We plan to pay our first dividend 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. 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.
Proposed NYSE symbol	
Ownership and transfer restrictions	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 % by value or number of shares, whichever is more restrictive, of our outstanding shares of common stock, or % 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.

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 28 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 over-allotment 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.

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 our chief financial officer and chief compliance officer) are executives of Starwood Capital Group. We do not expect to have any employees other than 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 executive officers and key personnel of our Manager. The executive 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 executive 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 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 principals and professionals. 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,

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and , two of our other 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. Our ability to make investments in our target assets is subject to investment opportunity allocation provisions applicable to the Starwood private real estate funds. These funds collectively have the right to invest from 10% to 32.5% of the capital proposed to be invested by any investment vehicle managed by an affiliate of Starwood Capital Group in debt interests relating to real estate. Each Starwood private real estate fund s ability to exercise its co-investment right is subject to the availability of the fund s capital for investment and 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 right is likewise subject to the availability of our capital for investment. The Starwood private real estate funds co-investment rights are expected to be in effect for up to three years following this offering. 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 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. In addition, our independent directors must approve the sale of any assets to us by the Starwood parties or from us to the Starwood parties in accordance with our conflicts of interest policy as described below under The conflicts of interest policy we will adopt may not adequately address all the conflicts of interest that may arise with respect to our investment activities and also may limit the allocation of investments to us. Pursuant to the exclusivity provisions of certain of the Starwood private real estate funds, our investment strategy may not include (i) equity interests in real estate, or (ii) 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 loan to own investments prior to the expiration of the exclusivity provisions of these Starwood private real estate funds.

We expect our board of directors to adopt a policy that prohibits any of our directors or officers or the officers of our Manager from making investments for their own account in any of our target assets if the proposed investment requires capital in excess of $10 million. 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 and incentive fees that is based on our Core Earnings. 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. The manner of determining the incentive fee under the management agreement may cause our Manager to select investments in more risky assets to increase our short-term net income and thereby increase the incentive fee it earns. 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 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 lock-up 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 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 management 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.

Our Manager is only contractually committed to serve us until the third anniversary of the closing of this offering. Thereafter, the management agreement is renewable for one-year terms; provided, however, that our Manager may terminate the management agreement annually upon 180 days prior notice. If the management agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan.

Pursuant to the management agreement, our Manager will not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Under the terms of the management agreement, our Manager, its officers, members, personnel, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary s stockholders or partners for acts or omissions performed in accordance with and pursuant to the management agreement, except because of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement. In addition, we have agreed to indemnify our Manager, its officers, stockholders, members, managers, directors, personnel, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our Manager not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed in good faith in accordance with and pursuant to the management agreement.

The conflicts of interest policy we will adopt may not adequately address all of the conflicts of interest that may arise with respect to our investment activities and also may limit the allocation of investments to us.

In order to avoid any actual or perceived conflicts of interest with our Manager, Starwood Capital Group or any of the Starwood parties, we will adopt a conflicts of interest policy prior to the closing of this offering to specifically address some of the conflicts relating to our investment opportunities. Although under this policy 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 to us and (ii) any sale of our assets to any of the Starwood parties, there is no assurance that this policy will be adequate to address all of the conflicts that may arise or will address such conflicts in a manner that results in the allocation of a particular investment opportunity to us or is otherwise favorable to us. In addition, as described above under 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, the Starwood parties entities now or in the future may participate in some of our investments, possibly at a more senior level in the capital structure of the underlying borrower and related real estate than our investment. Our interests in such investments may also conflict with the interests of the Starwood parties in the event of a default or restructuring of the investment. Participating investments will not be the result of arm s length negotiations and will involve potential conflicts between our interests and those of the Starwood parties in obtaining favorable terms. Since our executives are also executives of Starwood Capital Group, the same personnel may determine the price and terms for the investments for both us and the Starwood parties and there can be no assurance that any procedural protections, such as obtaining market prices or other reliable indicators of fair market value, will prevent the consideration we pay for these investments from exceeding their fair market value or ensure that we receive terms for a particular investment opportunity that are as favorable as those available from an independent third party.

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 Manager will be authorized to follow very broad investment guidelines. Our board of directors will periodically review our investment guidelines and our investment portfolio but will not, and will not be required to, review all of our proposed investments, except if the investment requires us to commit at least $150 million of capital or 25% of our equity. In addition, in conducting periodic reviews, our board of directors may rely primarily on information provided to them by our Manager. Furthermore, our Manager may use complex strategies, and transactions entered into by our Manager may be costly, difficult or impossible to unwind by the time they are reviewed by our board of directors. Our Manager will have great latitude within the broad parameters of our investment guidelines in determining the types and amounts of target assets it may decide are attractive investments for us, which could result in investment returns that are substantially below expectations or that result in losses, which would materially and adversely affect our business operations and results. Further, decisions made and investments and financing arrangements entered into by our Manager may not fully reflect the best interests of our stockholders.

Risks Related to Our Company

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

We were organized in May 2009 and have no operating history. We have no assets and will commence operations only upon completion of this offering. We cannot assure you that we will be able to operate our business successfully or implement our operating policies and strategies as described in this prospectus. The results of our operations depend on several factors, including the availability of opportunities for the acquisition of target assets, the level and volatility of interest rates, the availability of adequate short and long-term financing, conditions in the financial markets and economic conditions.

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

Our board of directors may change any of our investment strategy or guidelines, financing strategy or leverage policies with respect to investments, acquisitions, growth, operations, indebtedness, capitalization and distributions at any time without the consent of our stockholders, which could result in an investment portfolio with a different risk profile. A change in our investment strategy may increase our exposure to interest rate risk, default risk and real estate market fluctuations. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this prospectus. These changes could adversely affect our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders.

We are highly dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.

Our business is highly dependent on communications and information systems of Starwood Capital Group. Any failure or interruption of Starwood Capital Group s systems could cause delays or other problems in our securities trading activities, which could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

Terrorist attacks and other acts of violence or war may affect the real estate industry generally and our business, financial condition and results of operations.

The terrorist attacks on September 11, 2001 disrupted the U.S. financial markets, including the real estate capital markets, and negatively impacted the U.S. economy in general. Any future terrorist attacks, the anticipation of any such attacks, the consequences of any military or other response by the U.S. and its allies, and other armed conflicts could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and worldwide financial markets and economy. The economic impact of these events could also adversely affect the credit quality of some of our loans and investments and the properties underlying our interests.

We may suffer losses as a result of the adverse impact of any future attacks and these losses may adversely impact our performance and may cause the market value of our common shares to decline or be more volatile. A prolonged economic slowdown, a recession or declining real estate values could impair the performance of our investments and harm our financial condition and results of operations, increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. We cannot predict

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the severity of the effect that potential future terrorist attacks would have on us. Losses resulting from these types of events may not be fully insurable.

In addition, the events of September 11th created significant uncertainty regarding the ability of real estate owners of high profile assets to obtain insurance coverage protecting against terrorist attacks at commercially reasonable rates, if at all. With the enactment of the Terrorism Risk Insurance Act of 2002, or the TRIA, and the subsequent enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007, which extended the TRIA through the end of 2014, insurers must make terrorism insurance available under their property and casualty insurance policies, but this legislation does not regulate the pricing of such insurance. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market s overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties underlying our interests are unable to obtain affordable insurance coverage, the value of our interests could decline, and in the event of an uninsured loss, we could lose all or a portion of our investment.

Risks Related to U.S. Government Programs

There can be no assurance that the actions of the U.S. Government, the 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, or market response to those actions, will achieve the intended effect, or that our business will benefit from these actions, and further government or market developments would materially and adversely impact us.

In response to the financial issues affecting the banking system and the financial markets and going concern threats to investment banks and other financial institutions, the Emergency Economic Stabilization Act of 2008, or the EESA, was enacted in October 2008. The EESA provides the U.S. Treasury Secretary with the authority to use up to $700 billion to, among other things, inject capital into financial institutions and establish a program to purchase from financial institutions residential or commercial mortgage loans and any securities, obligations or other instruments that are based on or related to such mortgages, that were originated or issued on or before March 14, 2008, as well as any other financial instrument that the U.S. Treasury Secretary, after consultation with the Chairman of the Federal Reserve, determines necessary to promote financial stability. In addition, the U.S. Treasury Secretary has the authority to establish a program to guarantee, upon request of a financial institution, the timely payment of principal and interest on these financial assets.

The recent economic challenges in the residential mortgage markets have significantly affected Fannie Mae and Freddie Mac. The Housing and Economic Recovery Act of 2008, or the HERA, which established a new regulator for Fannie Mae and Freddie Mac, the FHFA, was signed into law on July 30, 2008. Under this plan, among other things, the FHFA has been appointed as conservator of both Fannie Mae and Freddie Mac, allowing the FHFA to direct and control the actions of Fannie Mae and Freddie Mac without forcing them to liquidate, which would occur if Fannie Mae and Freddie Mac were placed under receivership. Importantly, the primary focus of the plan is to increase the availability of mortgage finance by allowing these companies to continue to grow their guarantee business without limit, while limiting net purchases of RMBS to a modest amount through the end of 2009. Beginning in 2010, these companies will gradually start to reduce their portfolios.

In addition, in an effort to further stabilize the U.S. mortgage market, the U.S. Treasury took three additional actions. First, the U.S. Treasury entered into a preferred stock purchase agreement with each of Fannie Mae and Freddie Mac, pursuant to which $100 billion will be available to each entity. Second, it established a new secured credit facility, the Government Sponsored Enterprise Credit Facility, or the GSECF, available to each of Fannie Mae and Freddie Mac (as well as Federal Home Loan Banks) through December 31, 2009, when other funding sources are unavailable. Third, it has established an Agency RMBS purchase program, under which the U.S. Treasury may purchase Agency RMBS in the open market. This latter program will also expire on December 31, 2009. Although the federal government has committed capital to Fannie Mae and Freddie Mac, there can be no assurance that these actions will be adequate for their needs. If these actions are inadequate, these entities could continue to suffer losses and could fail to honor their guarantees and other obligations which could materially adversely affect our business, operations and financial condition.

Furthermore, on November 25, 2008, the U.S. Treasury and the Federal Reserve announced the creation of the TALF. Under the TALF, the FRBNY provides non-recourse loans to borrowers to fund their purchase of eligible assets, which initially included ABS, but not RMBS or CMBS. On March 23, 2009, the U.S. Treasury announced preliminary plans to expand the TALF to include (i) CMBS, and (ii) non-Agency RMBS. On May 1, 2009, the Federal Reserve provided more of the details as to how TALF will be expanded to CMBS and explained that beginning in June 2009, up to $100 billion of TALF loans will 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, certain high-quality CMBS issued before January 1, 2009, or legacy CMBS, would become eligible collateral under the TALF. However, the FRBNY may limit the volume of TALF loans secured by legacy CMBS, and is in the process of establishing other requirements that will apply to legacy CMBS. To date, neither the FRBNY nor the U.S. Treasury has announced any details on the manner in which the TALF will be expanded to cover non-Agency RMBS.

On March 23, 2009, the U.S. Treasury, in conjunction with the FDIC, announced the creation of the PPIP. The PPIP is designed to encourage the transfer of certain illiquid legacy real estate-related assets off of the balance sheets of certain financial institutions, restarting the market for these assets and supporting the flow of credit and other capital into the broader economy. Legacy Loans PPIFs will be established to purchase troubled loans from insured depository institutions and Legacy Securities PPIFs will be established to purchase legacy non-Agency RMBS and CMBS that were originally rated AAA from financial institutions. Legacy Loans PPIFs and Legacy Securities PPIFs will have access to equity capital from the U.S. Treasury as well as, in the case of Legacy Securities PPIFS, debt financing provided or guaranteed by the U.S. Government. Under the Legacy Loans Program, the U.S. Treasury will provide up to 50% of the equity capital for each Legacy Loans PPIF, with the remaining 50% provided by private investors, and the FDIC will guarantee the debt issued by the PPIF up to a 6-to-1 debt-to-equity ratio. Under the Legacy Securities Program, the TALF will be expanded and the FRBNY will provide non-recourse loans to investors to fund purchases of eligible assets, and through Legacy Security PPIFs, the U.S. Treasury will provide up to 50% of the equity capital and senior debt up to 100% of the total equity capital of such PPIFs.

There can be no assurance that the EESA, HERA, TALF, PPIP or other recent U.S. Government actions will have a beneficial impact on the financial markets, including on current extreme levels of volatility. To the extent the market does not respond favorably to these initiatives or these initiatives do not function as intended, our business may not receive the anticipated positive impact from the legislation. There can also be no assurance that we will be eligible to participate in any programs established by the U.S. Government such as the TALF or the PPIP or, if we are eligible, that we will be able to utilize them successfully or at all. In addition, because the programs are designed, in part, to restart the market for certain of our target assets, the establishment of these programs may result in increased competition for attractive opportunities in our target assets. It is also possible that our competitors may utilize the programs which would provide them with attractive debt and equity capital funding from the U.S. Government. In addition, the U.S. Government, the Federal Reserve, the U.S. Treasury and other governmental and regulatory bodies have taken or are considering taking other actions to address the financial crisis. We cannot predict whether or when such actions may occur, and such actions could have a dramatic impact on our business, results of operations and financial condition.

The terms and conditions of the PPIP have not been finalized and there is no assurance that the final terms will enable us to participate in the PPIP in a manner consistent with our investment strategy.

While the U.S. Treasury and the FDIC have released a summary of proposed terms and conditions for the PPIP, they have not released the final terms and conditions governing these programs. The existing proposed terms and conditions do not address the specific terms and conditions relating to: (1) the guaranteed debt to be issued by participants in the Legacy Loans Program, (2) the debt financing from the U.S. Treasury in the Legacy Securities Program and (3) the warrants that the U.S. Treasury will receive under both programs. In addition, the U.S. Treasury and the FDIC have reserved the right to modify the proposed terms of the PPIP. When the final terms and conditions are released, there is no assurance that we will be able to participate in the PPIP in a manner acceptable to us consistent with our investment strategy.

The terms and conditions of the TALF may change, which could adversely affect our investments.

The terms and conditions of the TALF, including asset and borrower eligibility, could be changed at any time. Any such modifications may adversely affect the market value of any of our assets financed through the TALF and otherwise or our ability to obtain additional TALF financing. The TALF is scheduled to expire on December 31, 2009, unless extended. If the TALF is prematurely discontinued or reduced while our assets financed through the TALF are still outstanding, there may be no market for these assets and the market value of these assets would be adversely affected. We intend to enhance the returns on our commercial mortgage loan investments, especially loan originations, by securitizing the senior portion, expected to be equivalent to AAA-rated CMBS, while retaining the subordinate securities in our investment portfolio to the extent that TALF financing would be available for buyers of these AAA-rated CMBS. The TALF eligible asset requirements have not been finalized. As a result, there can be no assurance that our intended securitizations would benefit from TALF financing for AAA-rated CMBS.

Downgrades of legacy CMBS and/or changes in the rating methodology and assumptions for future CMBS issuances, may decrease the availability of the TALF to finance CMBS.

On May 26, 2009, Standard & Poor s Investors Service, Inc., or S&P, which rates a substantial majority of CMBS issuances, issued a request for comment regarding its proposed changes to its methodology and assumptions for rating CMBS, and in so doing indicated that the proposed changes would result in downgrades of a considerable amount of CMBS (including super-senior tranches). Specifically, S&P indicated that it is likely that the proposed changes, which represent a significant change to the criteria for rating high investment-grade classes, will prompt a considerable amount of downgrades in recently issued (2005-2008 vintage) CMBS. S&P noted that its preliminary findings indicate that approximately 25%, 60%, and 90% of the most senior tranches (by count) within the 2005, 2006, and 2007 vintages, respectively, may be downgraded. The current TALF guidelines issued by the FRBNY indicate that in order to be eligible for the TALF, legacy CMBS must not have a rating below the highest investment-grade rating category from any TALF CMBS-eligible rating agency, which includes S&P. Other rating agencies may take similar actions with regard to their ratings of CMBS. As a result, downgrades of legacy CMBS may limit substantially the availability of the TALF for legacy CMBS. Further, changes to the methodology and assumptions in rating CMBS by rating agencies, including S&P s proposed changes, may decrease the amount or availability of new issue CMBS rated in the highest investment-grade rating category.

There is no assurance that we will be able to participate in the PPIP or, if we are able to participate, that funding will be available.

Investors in the Legacy Loans Program must be pre-qualified by the FDIC. The FDIC has complete discretion regarding the qualification of investors in the Legacy Loans Program and is under no obligation to approve our participation even if it meets all of the applicable criteria. Requests for funding under the PPIP may surpass the amount of funding authorized by the U.S. Treasury, resulting in an early termination of the PPIP. In addition, under the terms of the Legacy Securities Program, the U.S. Treasury has the right to cease funding of committed but undrawn equity capital and debt financing to a specific fund participating in the Legacy Securities Program in its sole discretion. We may be unable to obtain capital and debt financing on similar terms and such actions may adversely affect our ability to purchase eligible assets and may otherwise affect expected returns on our investments.

There is no assurance that we will be able to obtain any TALF loans.

The TALF is be operated by the FRBNY. The FRBNY has complete discretion regarding the extension of credit under the TALF and is under no obligation to make any loans to us even if we meet all of the applicable criteria. Requests for TALF loans may surpass the amount of funding authorized by the Federal Reserve and the U.S. Treasury, resulting in an early termination of the TALF. Depending on the demand for TALF loans and the general state of the credit markets, the Federal Reserve and the U.S. Treasury may decide to modify the terms and conditions of the TALF. Such actions may adversely affect our ability to obtain TALF loans and use the loan leverage to enhance returns, and may otherwise affect expected returns on our investments.

We could lose our eligibility as a TALF borrower, which would adversely affect our ability to fulfill our investment objectives.

Any U.S. company is permitted to participate in the TALF, provided that it maintains an account relationship with a primary dealer. An entity is a U.S. company for purposes of the TALF if it is (1) a business entity or institution that is organized under the laws of the United States or a political subdivision or territory thereof (U.S.-organized) and conducts significant operations or activities in the United States, including any U.S.-organized subsidiary of such an entity; (2) a U.S. branch or agency of a non-U.S. bank (other than a foreign central bank) that maintains reserves with a Federal Reserve Bank; (3) a U.S. insured depository institution; or (4) an investment fund that is U.S.-organized and managed by an investment manager that has its principal place of business in the United States. An entity that satisfies any one of the requirements above is a U.S. company regardless of whether it is controlled by, or managed by, a company that is not U.S.-organized. Notwithstanding the foregoing, a U.S. company excludes any entity, other than those described in clauses (2) and (3) above, that is controlled by a non-U.S. government or is managed by an investment manager controlled by a non-U.S. government, other than those described in clauses (2) and (3) above. For these purposes, an entity controls a company if, among other things, such the entity owns, controls, or holds with power to vote 25% or more of a class of voting securities, or total equity, of the company. The application of these rules under the TALF is not clear. For instance, it is uncertain how a change of control subsequent to a stockholders purchase of shares of common stock which results in such shareholder being owned or controlled by a non-U.S. government will be treated for purposes of the 25% limitation. If for any reason we are deemed not to be eligible to participate in the TALF, all of our outstanding TALF loans will become immediately due and payable and we will not be eligible to obtain future TALF loans.

We may not be able to acquire sufficient amounts of eligible assets to qualify for in the PPIP or the TALF consistent with our investment strategy.

Assets to be used as collateral for PPIP and TALF loans must meet strict eligibility criteria with respect to characteristics such as issuance date, maturity, and credit rating and with respect to the origination date of the underlying collateral. These restrictions may limit the availability of eligible assets, and we may be unable to acquire sufficient amounts of assets to obtain financing under the PPIP and TALF consistent with our investment strategy. In the Legacy Loans Program, eligible financial institutions must consult with the FDIC before offering an asset pool for sale and there is no assurance that a sufficient number of eligible financial institutions will be willing to participate as sellers in the Legacy Loans Program. Once an asset pool has been offered for sale by an eligible financial institution, the FDIC will determine the amount of leverage available to finance the purchase of the asset pool. There is no assurance that the amount of leverage available to finance the purchase of eligible assets will be acceptable to us. The asset pools will be purchased through a competitive auction conducted by the FDIC. The auction process may increase the price of these eligible asset pools. Even if we submit the highest bid on an eligible asset pool at a price that is acceptable to us, the selling financial institution may refuse to sell us the eligible asset pool at that price. These factors may limit the availability of eligible assets, and we may be unable to acquire sufficient amounts of assets to obtain financing under the Legacy Loans Program consistent with our investment strategy.

Our ability to transfer any assets we may purchase using PPIP and TALF funding, to the extent available to us, is restricted.

Our assets purchased using TALF funding will be pledged to the FRBNY as collateral for the TALF loans. If we sell or transfer any of these assets, we must either repay the related TALF loan or obtain the consent of the FRBNY to assign our obligations under the related TALF loan to the applicable assignee. The FRBNY in its discretion may restrict or prevent us from assigning our loan obligations to a third party, including a third party that meets the criteria of an eligible borrower. In addition, the FRBNY will not consent to any assignments after the termination date for making new loans, which is December 31, 2009, unless extended by the Federal Reserve.

Any assets we may purchase using PPIP funding, to the extent available to us, will be pledged to the FDIC as collateral for their guarantee under the Legacy Loans Program and to the U.S. Treasury as collateral for debt financing under the Legacy Securities Program. If we sell or transfer any of these assets, we must either repay the related loan or obtain the consent of the FDIC or the U.S. Treasury to assign our obligations to the applicable assignee. The FDIC or the U.S. Treasury, as applicable, each in its discretion, may restrict or prevent us from assigning our obligations to a third party, including a third party that meets the criteria for participation in the PPIP.

These restrictions may limit our ability to trade or otherwise dispose of our investments, and may adversely affect our ability to take advantage of favorable market conditions and make distributions to stockholders.

We may need to surrender eligible TALF assets to repay TALF loans at maturity.

Each TALF loan must be repaid within three to five years. We intend to invest in CMBS that do not mature within the term of the TALF loan. If we do not have sufficient funds to repay interest and principal on the related TALF loan at maturity and if these assets cannot be sold for an amount equal to or greater than the amount owed on such loan, we must surrender the assets to the FRBNY in lieu of repayment. If we are forced to sell any assets to repay a TALF loan, we may not be able to obtain a favorable price. If we default on our obligation to pay a TALF loan and the FRBNY elects to liquidate the assets used as collateral to secure such TALF loan, the proceeds from that sale will be applied, first, to any enforcement costs, second, to unpaid principal and, finally, to unpaid interest. Under the terms of the TALF, if assets are surrendered to the FRBNY in lieu of repayment, all assets that collateralize that loan must be surrendered. In these situations, we would forfeit any equity that we held in these assets.

FRBNY consent is required to exercise our voting rights on CMBS.

As a requirement of the TALF, we must agree not to exercise or refrain from exercising any voting, consent or waiver rights under the TALF eligible assets without the consent of the FRBNY. During the continuance of a collateral enforcement event, the FRBNY will have the right to exercise voting rights in the collateral.

We will be dependent on the activities of our primary dealers.

To obtain TALF loans, we must execute a customer agreement with at least one primary dealer which will act on our behalf under the agreement with the FRBNY. The primary dealer will submit aggregate loan request amounts on behalf of its customers in the form and manner specified by the FRBNY. Each primary dealer is required to apply its internal customer identification program and due diligence procedures to each borrower and represent that each borrower is an eligible borrower for purposes of the TALF, and to provide the FRBNY with information sufficient to describe the dealer s customer risk assessment methodology. These customer agreements may impose additional requirements that could affect our ability to obtain TALF loans. Each primary dealer is expected to have relationships with other TALF borrowers, and a primary dealer may allocate more resources toward assisting other borrowers with whom it has other business dealings. Primary dealers are also responsible for distributing principal and interest after receipt thereof from The Bank of New York Mellon, as custodian for the TALF. Once funds or collateral are transferred to a primary dealer or at the direction of a primary dealer, neither the custodian nor the FRBNY has any obligation to account for whether the funds or collateral are transferred to the borrower. We will therefore be exposed to bankruptcy risk of our primary dealers.

We will be subject to interest rate risk, which can adversely affect our net income.

We expect interest rates on fixed-rate TALF loans will be set at a premium over the then-current three-year or five-year LIBOR swap rate. All CMBS TALF loans must be fixed rate loans. As a result, we may be exposed to (1) timing risk between the dates on which payments are received on assets financed through the TALF and the dates on which interest payments are due on the TALF loans and (2) asset/liability repricing risk, due to differences in the dates and indices on which floating rates on the financed assets and on the related TALF loans are reset.

Our ability to receive the interest earnings may be limited.

Interest payments that are received from the assets that used as collateral for a TALF loan must be applied to pay interest on the related TALF loan before any interest payments can be distributed to us. To the extent there are interest payments from the collateral in excess of the required interest payment on the related TALF Loan, the amount of such excess interest that will be distributed to us will be limited. For example, for a five-year TALF loan, the excess of interest distributions from the collateral over the TALF loan interest payable will be remitted to us only until such excess equals 25% per annum of the haircut amount in the first three loan years, 10% in the fourth loan year, and 5% in the fifth loan year, and the remainder of such excess will be applied to the related TALF loan principal.

We may be required to use our earnings to keep the TALF loans current. If the interest on the collateral pledged to support a TALF loan is not sufficient to cover the interest payment on such loan, we will have a grace period of 30 days to make the interest payment. If the loan remains delinquent after the grace period, the FRBNY will enforce its rights to the collateral.

Under certain conditions, we may be required to provide full recourse for TALF loans or to make indemnification payments.

To participate in the TALF, we must execute a customer agreement with a primary dealer authorizing it, among other things, to act as our agent under TALF and to act on our behalf under the agreement with the FRBNY and with The Bank of New York Mellon as administrator and as the FRBNY s custodian of the CMBS. Under such agreements, we will be required to represent to the primary dealer and to the FRBNY that, among other things, we are an eligible borrower and that the CMBS that we pledge meet the TALF eligibility criteria. The FRBNY will have full recourse to us for repayment of the loan for any breach of these representations. Further, the FRBNY may have full recourse to us for repayment of a TALF loan if the eligibility criteria for collateral under the TALF are considered continuing requirements and the pledged collateral no longer satisfies such criteria. In addition, we will be required to pay to our primary dealers fees under the customer agreements and to indemnify our primary dealers for certain breaches under the customer agreements and to indemnify the FRBNY and its custodian for certain breaches under the agreement with the FRBNY. Payments made to satisfy such full recourse requirements and indemnities could have a material adverse effect on our net income and our distributions to our stockholders, including any proceeds of this offering that we have not yet invested in CMBS or distributed to our stockholders.

Risks Related to Private Sources of Financing

Our access to private sources of financing may be limited and thus our ability to maximize our returns may be adversely affected.

Initially, we expect to finance the acquisition of our target assets through borrowings under U.S. Government programs such as the TALF and the PPIP, in each case to the extent available to us, and securitizations. If and to the extent available in the future, our financing sources may include borrowings in the form of bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities, structured financing arrangements, public and private equity and debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements.

Our access to private sources of financing will depend upon a number of factors over which we have little or no control, including:

- general market conditions;
- the market s view of the quality of our assets;
- the market s perception of our growth potential;
- our eligibility to participate in and access capital from programs established by the U.S. Government;
- our current and potential future earnings and cash distributions; and
- the market price of the shares of our capital stock.

The current dislocation and weakness in the capital and credit markets could adversely affect one or more private lenders and could cause one or more of our private lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing. In addition, if regulatory capital requirements imposed on our private lenders change, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price.

Under current market conditions, structured financing arrangements are generally unavailable, which has also limited borrowings under warehouse and repurchase agreements that are intended to be refinanced by such financings. Consequently, depending on market conditions at the relevant time, we may have to rely more heavily on additional equity issuances, which may be dilutive to our shareholders, or on less efficient forms of debt financing that require a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future business opportunities, cash distributions to our shareholders and other purposes. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which may cause us to curtail our asset acquisition activities and/or dispose of assets, which could negatively affect our results of operations.

We may incur significant debt, which will subject us to increased risk of loss and may reduce cash available for distributions to our shareholders.

Subject to market conditions and availability, we may incur significant debt through bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements. The percentage of leverage we employ will vary depending on our available capital, our ability to obtain and access financing arrangements with lenders and the lenders and rating agencies estimate of the stability of our investment portfolio s cash flow. Our governing documents contain no limitation on the amount of debt we may incur. Initially, we anticipate utilizing moderate leverage. However, we may significantly increase the amount of leverage we utilize at any time without approval of our board of directors. In addition, we may leverage individual assets at substantially higher levels. Incurring substantial debt could subject us to many risks that, if realized, would materially and adversely affect us, including the risk that:

- our cash flow from operations may be insufficient to make required payments of principal of and interest on the debt or we may fail to comply with all of the other covenants contained in the debt, which is likely to result in (i) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision) that we may be unable to repay from internal funds or to refinance on favorable terms, or at all, (ii) our inability to borrow unused amounts under our financing arrangements, even if we are current in payments on borrowings under those arrangements and/or (iii) the loss of some or all of our assets to foreclosure or sale;

- our debt may increase our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase with higher financing costs;

- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, future business opportunities, shareholder distributions or other purposes; and

- we are not able to refinance debt that matures prior to the investment it was used to finance on favorable terms, or at all.

Interest rate fluctuations could significantly decrease our results of operations and cash flows and the market value of our investments.

Our primary interest rate exposures will relate to the yield on our investments and the financing cost of our debt, as well as our interest rate swaps that we utilize for hedging

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purposes. Changes in interest rates will affect our net interest income, which is the difference between the interest income we earn on our interest-earning investments and the interest expense we incur in financing these investments. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us. Changes in the level of interest rates also may affect our ability to invest in investments, the value of our investments and our ability to realize gains from the disposition of assets. Changes in interest rates may also affect borrower default rates.

To the extent that our financing costs will be determined by reference to floating rates, such as LIBOR or a Treasury index, plus a margin, the amount of which will depend on a variety of factors, including, without limitation, (i) for collateralized debt, the value and liquidity of the collateral, and for non-collateralized debt, our credit, (ii) the level and movement of interest rates and (iii) general market conditions and liquidity. In a period of rising interest rates, our interest expense on floating rate debt would increase, while any additional interest income we earn on our floating rate investments may not compensate for such increase in interest expense, the interest income we earn on our fixed rate investments would not change, the duration and weighted average life of our fixed rate investments would increase and the market value of our fixed rate investments would decrease. Similarly, in a period of declining interest rates, our interest income on floating rate investments would decrease, while any decrease in the interest we are charged on our floating rate debt may not compensate for such decrease in interest income and interest we are charged on our fixed rate debt would not change. Any such scenario could materially and adversely affect us.

Our operating results will depend, in part, on differences between the income earned on our investments, net of credit losses, and our financing costs. For any period during which our investments are not match-funded, the income earned on such investments will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may immediately and significantly decrease our results of operations and cash flows and the market value of our investments.

In the event non-recourse long-term securitizations become available to us in the future, such structures may expose us to risks which could result in losses to us.

We may utilize non-recourse long-term securitizations of our investments in mortgage loans, especially loan originations, if and when they become available. Prior to any such financing, we may seek to finance these investments with relatively short-term facilities until a sufficient portfolio is accumulated. As a result, we would be subject to the risk that we would not be able to acquire, during the period that any short-term facilities are available, sufficient eligible assets to maximize the efficiency of a securitization. We also would bear the risk that we would not be able to obtain new short-term facilities or would not be able to renew any short-term facilities after they expire should we need more time to seek and acquire sufficient eligible assets for a securitization. In addition, conditions in the capital markets, including the current unprecedented volatility and disruption in the capital and credit markets, may not permit a non-recourse securitization at any particular time or may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets. While we would intend to retain the unrated equity component of securitizations and, therefore, still have exposure to any investments included in such securitizations, our inability to enter into such securitizations would increase our overall exposure to risks associated with direct ownership of such investments, including the risk of default. Our inability to refinance any short-term facilities would also increase our risk because borrowings thereunder would likely be recourse to us as an entity. If we are unable to obtain and renew short-term facilities or to consummate securitizations to finance our investments on a long-term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price.

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Any warehouse facilities that we may obtain in the future may limit our ability to acquire assets, and we may incur losses if the collateral is liquidated.

In the event that securitization financings become available, we may utilize, if available, warehouse facilities pursuant to which we would accumulate mortgage loans in anticipation of a securitization financing, which assets would be pledged as collateral for such facilities until the securitization transaction is consummated. In order to borrow funds to acquire assets under any future warehouse facilities, we expect that our lenders thereunder would have the right to review the potential assets for which we are seeking financing. We may be unable to obtain the consent of a lender to acquire assets that we believe would be beneficial to us and we may be unable to obtain alternate financing for such assets. In addition, no assurance can be given that a securitization structure would be consummated with respect to the assets being warehoused. If the securitization is not consummated, the lender could liquidate the warehoused collateral and we would then have to pay any amount by which the original purchase price of the collateral assets exceeds its sale price, subject to negotiated caps, if any, on our exposure. In addition, regardless of whether the securitization is consummated, if any of the warehoused collateral is sold before the consummation, we would have to bear any resulting loss on the sale. Currently, we have no warehouse facilities in place, and no assurance can be given that we will be able to obtain one or more warehouse facilities on favorable terms, or at all.

Any repurchase agreements and bank credit facilities that we may use in the future to finance our assets may require us to provide additional collateral or pay down debt.

Although under current market conditions we do not anticipate that we will utilize repurchase agreements and bank credit facilities (including term loans and revolving facilities) to finance our assets, we may utilize such arrangements to finance our assets if they become available on acceptable terms. In the event we utilize such financing arrangements, they would involve the risk that the market value of the loans pledged or sold by us to the repurchase agreement counterparty or provider of the bank credit facility may decline in value, in which case the lender may require us to provide additional collateral or to repay all or a portion of the funds advanced. We may not have the funds available to repay our debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all. Posting additional collateral would reduce our liquidity and limit our ability to leverage our assets. If we cannot meet these requirements, the lender could accelerate our indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from them, which could materially and adversely affect our financial condition and ability to implement our business plan. In addition, in the event that the lender files for bankruptcy or becomes insolvent, our loans may become subject to bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could restrict our access to bank credit facilities and increase our cost of capital. The providers of repurchase agreement financing and bank credit facilities may also require us to maintain a certain amount of cash or set aside assets sufficient to maintain a specified liquidity position that would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would choose, which could reduce our return on assets. In the event that we are unable to meet these collateral obligations, our financial condition and prospects could deteriorate rapidly.

Currently, we have no repurchase agreements or bank credit facilities in place, and there can be no assurance that we will be able to obtain one or more such facilities on favorable terms, or at all.

Lenders may require us to enter into restrictive covenants relating to our operations.

If or when we obtain debt financing, lenders (especially in the case of bank credit facilities) may impose restrictions on us that would affect our ability to incur additional debt, make certain investments or acquisitions, reduce liquidity below certain levels, make distributions to our shareholders, redeem debt or equity securities and impact our flexibility to determine our operating policies and investment strategies. For example, our loan documents may contain negative covenants that limit, among other things, our ability to repurchase our common shares, distribute more than a certain amount of our net income or funds from operations to our shareholders, employ leverage beyond certain amounts, sell assets, engage in mergers or consolidations, grant liens, and enter into transactions with affiliates. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights and, with respect to collateralized debt, the posting of additional collateral and foreclosure rights upon default. Further, this could also make it difficult for us to satisfy the qualification requirements necessary to maintain our status as a REIT for U.S. federal income tax purposes.

If one or more of our Manager s executive officers are no longer employed by our Manager, financial institutions providing any financing arrangements we may have may not provide future financing to us, which could materially and adversely affect us.

If financial institutions that we seek to finance our investments require that one or more of our Manager s executives continue to serve in such capacity and if one or more of our Manager s executives are no longer employed by our Manager, it may constitute an event of default and the financial institution providing the arrangement may have acceleration rights with respect to outstanding borrowings and termination rights with respect to our ability to finance our future investments with that institution. If we are unable to obtain financing for our accelerated borrowings and for our future investments under such circumstances, we could be materially and adversely affected.

Risks Related to Hedging

We may enter into hedging transactions that could expose us to contingent liabilities in the future.

Subject to maintaining our qualification as a REIT, part of our investment strategy will involve entering into hedging transactions that could require us to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in our results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely impact our financial condition.

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

Subject to maintaining our qualification as a REIT, we intend to pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates. Our hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- due to a credit loss, the duration of the hedge may not match the duration of the related liability;
- the amount of income that a REIT may earn from hedging transactions (other than hedging transactions that satisfy certain requirements of the Internal Revenue Code or that are done through a TRS) to offset interest rate losses is limited by U.S. federal tax provisions governing REITs;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

In addition, we may fail to recalculate, readjust and execute hedges in an efficient manner.

Any hedging activity in which we engage may materially and adversely affect our results of operations and cash flows. Therefore, while we may enter into such transactions seeking to reduce interest rate risks, unanticipated changes in interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio positions or liabilities being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss.

Hedging instruments often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities and involve risks and costs that could result in material losses.

The cost of using hedging instruments increases as the period covered by the instrument increases and during periods of rising and volatile interest rates, we may increase our hedging activity and thus increase our hedging costs during periods when interest rates are volatile or rising and hedging costs have increased. In addition, hedging instruments involve risk since they often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying hedging transactions may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in its default. Default by a party with whom we enter into a hedging transaction may result in the loss of unrealized profits and force us to cover our commitments, if any, at the then current market price. Although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty

and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot assure you that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in significant losses.

We may fail to qualify for hedge accounting treatment.

We intend to record derivative and hedging transactions in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, or SFAS 133. Under these standards, we may fail to qualify for hedge accounting treatment for a number of reasons, including if we use instruments that do not meet the SFAS 133 definition of a derivative (such as short sales), we fail to satisfy SFAS 133 hedge documentation and hedge effectiveness assessment requirements or our instruments are not highly effective. If we fail to qualify for hedge accounting treatment, our operating results may suffer because losses on the derivatives that we enter into may not be offset by a change in the fair value of the related hedged transaction or item.

We may enter into derivative contracts that could expose us to contingent liabilities in the future.

Subject to maintaining our qualification as a REIT, we may enter into derivative contracts that could require us to fund cash payments in the future under certain circumstances (*e.g.*, the early termination of the derivative agreement caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the derivative contract). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses may materially and adversely affect our results of operations and cash flows.

Risks Related to Our Investments

We have not yet identified any specific investments for our portfolio and therefore, we may allocate the net proceeds from this offering and the concurrent private placement to investments with which you may not agree.

We have not yet identified any specific investments for our portfolio and, thus, you will not be able to evaluate the manner in which the net proceeds of this offering and the concurrent private placement will be invested or the economic merit of our expected investments before purchasing our common stock. As a result, we may use the net proceeds from these offerings to invest in investments with which you may not agree. Additionally, our investments will be selected by our Manager and our stockholders will not have input into such investment decisions. Both of these factors will increase the uncertainty, and thus the risk, of investing in shares of our common stock. The failure of our Manager to apply these proceeds effectively or find investments that meet our investment criteria in sufficient time or on acceptable terms could result in unfavorable returns, could cause a material adverse effect on our business, financial condition, liquidity, results of operations and ability to make distributions to our stockholders, and could cause the value of our common stock to decline.

Until appropriate investments can be identified, our Manager may invest the net proceeds of this offering and the concurrent private offering in interest-bearing short-term investments, including money market accounts and/or funds, that are consistent with our intention to qualify as a REIT. These investments are expected to provide a lower net return than we will seek to achieve from investments in our target assets. We expect to reallocate a portion of the net proceeds from these offerings into a portfolio of our target assets within three months, subject to the availability of appropriate investment opportunities. Our Manager intends to conduct due diligence with respect to each investment and suitable investment opportunities may not be immediately available. Even if opportunities are available, there can be no assurance that our Manager s due diligence processes will uncover all relevant facts or that any investment will be successful.

We cannot assure you that we will be able to identify assets that meet our investment objective, that we will be successful in consummating any investment opportunities we identify or that one or more investments we may make using the net proceeds of this offering will yield attractive risk-adjusted returns. Our inability to do any of the foregoing likely would materially and adversely affect our results of operations and cash flows and our ability to make distributions to our stockholders.

Because assets we expect to acquire may experience periods of illiquidity, we may lose profits or be prevented from earning capital gains if we cannot sell mortgage-related assets at an opportune time.

We bear the risk of being unable to dispose of our target assets at advantageous times or in a timely manner because mortgage-related assets generally experience periods of illiquidity, including the recent period of delinquencies and defaults with respect to commercial and residential mortgage loans. The lack of liquidity may result from the absence of a willing buyer or an established market for these assets, as well as legal or contractual restrictions on resale or the unavailability of financing for these assets. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which may cause us to incur losses.

The lack of liquidity in our investments may adversely affect our business.

The illiquidity of our investments in real estate loans and investments other than certain of our investments in mortgage backed securities, or MBS, may make it difficult for us to sell such investments if the need or desire arises. Many of the securities we purchase will not be registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or their disposition except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. In addition, certain investments such as B Notes, mezzanine loans and bridge and other loans are also particularly illiquid investments due to their short life, their potential unsuitability for securitization and the greater difficulty of recovery in the event of a borrower s default. As a result, we expect many of our investments will be illiquid and if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. Further, we may face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or our Manager has or could be attributed with material, non-public information regarding such business entity. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations and financial condition.

Our investments may be concentrated and will be subject to risk of default.

While we intend to diversify our portfolio of investments in the manner described in this prospectus, we are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our board of directors. Therefore, our investments in our target assets may at times be concentrated in certain property types that are subject to higher risk of foreclosure, or secured by properties concentrated in a limited number of geographic locations. To the extent that our portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of our investments within a short time period, which may reduce our

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net income and the value of our common stock and accordingly reduce our ability to pay dividends to our stockholders.

Difficult conditions in the mortgage, commercial and residential real estate markets may cause us to experience market losses related to our holdings, and we do not expect these conditions to improve in the near future.

Our results of operations are materially affected by conditions in the real estate markets, the financial markets and the economy generally. Continuing concerns about the declining real estate market, as well as inflation, energy costs, geopolitical issues and the availability and cost of credit, have contributed to increased volatility and diminished expectations for the economy and markets going forward. The mortgage market has been severely affected by changes in the lending landscape and there is no assurance that these conditions have stabilized or that they will not worsen. The disruption in the mortgage market has an impact on new demand for homes, which will compress the home ownership rates and weigh heavily on future home price performance. There is a strong correlation between home price growth rates and mortgage loan delinquencies. The further deterioration of the real estate market may cause us to experience losses related to our assets and to sell assets at a loss. Declines in the market values of our investments may adversely affect our results of operations and credit availability, which may reduce earnings and, in turn, cash available for distribution to our stockholders.

We operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments in our target assets and could also affect the pricing of these securities.

We operate in a highly competitive market for investment opportunities. Our profitability depends, in large part, on our ability to acquire our target assets at attractive prices. In acquiring our target assets, we will compete with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds (including other funds managed by Starwood Capital Group), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. Several other REITs have recently raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us, such as funding from the U.S. Government, if we are not eligible to participate in programs established by the U.S. Government. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exemption from the 1940 Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, competition for investments in our target assets may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments in our target assets may be limited in the future and we may not be able to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

The commercial mortgage loans we expect to acquire and the mortgage loans underlying our CMBS investments will be subject the ability of the commercial

property owner to generate net income from operating the property as well as the risks of delinquency and foreclosure.

Commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower s ability to repay the loan may be impaired. Net operating income of an income-producing property can be adversely affected by, among other things,

- tenant mix;
- success of tenant businesses;
- property management decisions;
- property location, condition and design;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- changes in national, regional or local economic conditions and/or specific industry segments, including the credit and securitization markets;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate tax rates and other operating expenses;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and
- acts of God, terrorist attacks, social unrest and civil disturbances.

In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations and limit amounts available for distribution to our stockholders. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

Our investments in CMBS are generally subject to losses.

We may acquire CMBS. In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B Note, if any, then by the first loss subordinated security holder (generally, the B-Piece buyer) and then by the holder of a higher-rated security. In the event of default and the exhaustion of

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any equity support, reserve fund, letter of credit, mezzanine loans or B Notes, and any classes of securities junior to those in which we invest, we will not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related mortgage-backed securities. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

We may not control the special servicing of the mortgage loans included in the CMBS in which we invest and, in such cases, the special servicer may take actions that could adversely affect our interests.

With respect to the CMBS in which we invest, overall control over the special servicing of the related underlying mortgage loans will be held by a directing certificateholder or a controlling class representative, which is appointed by the holders of the most subordinate class of CMBS in such series (except in the case of TALF-financed CMBS, where TALF rules prohibit control by investors in a subordinate class once the principal balance of that class is reduced to less than 25% of its initial principal balance as a result of both actual realized losses and appraisal reduction amounts). Since we will focus on acquiring classes of existing series of CMBS originally rated AAA, we will not have the right to appoint the directing certificateholder. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificateholder, take actions with respect to the specially serviced mortgage loans that could adversely affect our interests.

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

Our Manager will value our potential investments based on yields and risks, taking into account estimated future losses on the mortgage loans and the underlying collateral included in the securitization s pools, and the estimated impact of these losses on expected future cash flows and returns. Our Manager s loss estimates may not prove accurate, as actual results may vary from estimates. In the event that our Manager underestimates the asset level losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

Our investments in corporate bank debt and debt securities of commercial real estate operating or finance companies will be subject to the specific risks relating to the particular company and to the general risks of investing in real estate-related loans and securities, which may result in significant losses.

We may invest in corporate bank debt and debt securities of commercial real estate operating or finance companies. These investments will involve special risks relating to the particular company, including its financial condition, liquidity, results of operations, business and prospects. In particular, the debt securities are often non-collateralized and may also be subordinated to its other obligations. We are likely to invest in debt securities of companies that are not rated or are rated non-investment grade by one or more rating agencies. Investments that are not rated or are rated non-investment grade have a higher risk of default than investment grade rated assets and therefore may result in losses to us. We have not adopted any limit on such investments.

These investments will also subject us to the risks inherent with real estate-related investments referred to in this prospectus, including the risks described with respect to commercial properties and similar risks, including:

- risks of delinquency and foreclosure, and risks of loss in the event thereof;
- the dependence upon the successful operation of, and net income from, real property;
- risks generally incident to interests in real property; and
- risks specific to the type and use of a particular property.

These risks may adversely affect the value of our investments in commercial real estate operating and finance companies and the ability of the issuers thereof to make principal and interest payments in a timely manner, or at all, and could result in significant losses.

Investments in non-conforming and non-investment grade rated loans or securities involve increased risk of loss.

Many of our investments will not conform to conventional loan standards applied by traditional lenders and either will not be rated or will be rated as non-investment grade by the rating agencies. The non-investment grade ratings for these assets typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers credit history, the properties underlying cash flow or other factors. As a result, these investments will have a higher risk of default and loss than investment grade rated assets. Any loss we incur may be significant and may reduce distributions to our stockholders and adversely affect the market value of our common shares. There are no limits on the percentage of unrated or non-investment grade rated assets we may hold in our investment portfolio.

Any credit ratings assigned to our investments will be subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded.

Some of our investments may be rated by Moody s Investors Service, Fitch Ratings or S&P. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our investments in the future, the value of these investments could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to us. Further, if rating agencies reduce the ratings on assets that we intended to finance through the TALF, such assets would no longer be eligible collateral that could be financed through the TALF.

The B Notes that we may acquire may be subject to additional risks related to the privately negotiated structure and terms of the transaction, which may result in losses to us.

We may acquire B Notes. A B Note is a mortgage loan typically (1) secured by a first mortgage on a single large commercial property or group of related properties and (2) subordinated to an A Note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B Note holders after payment to the A Note holders. However, because each transaction is privately negotiated, B Notes can vary in their structural characteristics and risks. For example, the rights of holders of B Notes to control the process following a borrower default may vary from transaction to transaction. Further, B Notes typically are secured by a single property and so reflect the risks associated with significant concentration. Significant losses related to our B Notes would result in operating losses for us and may limit our ability to make distributions to our stockholders.

Our mezzanine loan assets will involve greater risks of loss than senior loans secured by income-producing properties.

We may acquire mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our initial expenditure. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to our mezzanine loans would result in operating losses for us and may limit our ability to make distributions to our stockholders.

Bridge loans will involve a greater risk of loss than traditional investment-grade mortgage loans with fully insured borrowers.

We may acquire bridge loans secured by first lien mortgages on a property to borrowers who are typically seeking short-term capital to be used in an acquisition, construction or rehabilitation of a property. The typical borrower under a bridge loan has usually identified an undervalued asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower s projections, or if the borrower fails to improve the quality of the asset s management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the bridge loan, and we bear the risk that we may not recover some or all of our initial expenditure.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a bridge loan. Bridge loans therefore are subject to risks of a borrower s inability to obtain permanent financing to repay the bridge loan. Bridge loans are also subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event of any default under bridge loans held by us, we bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest of the bridge loan. To the extent we suffer such losses with respect to our bridge loans, the value of our company and the price of our shares of common stock may be adversely affected.

The residential mortgage loans that we may acquire, and that underlie the RMBS we may acquire, are subject to risks particular to investments secured by mortgage loans on residential real estate property.

Residential mortgage loans are secured by single family residential property and are subject to risks of delinquency and foreclosure and risks of loss. The ability of a borrower to repay a loan secured by a residential property typically is dependent upon the income or assets of the borrower. A number of factors may impair borrowers abilities to repay their loans, including:

- acts of God, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of events;
- adverse changes in national and local economic and market conditions;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance;
- costs of remediation and liabilities associated with environmental conditions; and
- the potential for uninsured or under-insured property losses.

We may acquire non-Agency RMBS, which are backed by residential real estate property but, in contrast to Agency RMBS, their principal and interest are not guaranteed by federally chartered entities such as Fannie Mae and Freddie Mac and, in the case of Ginnie Mae, the U.S. Government. Our investments in RMBS will be subject to the risks of defaults, foreclosure timeline extension, fraud, home price depreciation and unfavorable modification of loan principal amount, interest rate and amortization of principal, accompanying the underlying residential mortgage loans. In the event of defaults on the residential mortgage loans that underlie our investments in Agency RMBS and the exhaustion of any underlying or any additional credit support, we may not realize our anticipated return on our investments and we may incur a loss on these investments.

We may acquire subprime or Alt A residential mortgage loans, which are subject to increased risks.

We may acquire non-Agency RMBS backed by collateral pools of mortgage loans that have been originated using underwriting standards that are less restrictive than those used in underwriting prime mortgage loans. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories, mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, subprime mortgage loans have in recent periods experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of the higher delinquency rates and losses associated with subprime mortgage loans and Alt A mortgage loans, the performance of non-Agency RMBS backed by subprime mortgage loans and Alt A mortgage loans that we may acquire could be correspondingly adversely affected, which could adversely impact our results of operations, financial condition and business.

Construction loans involve an increased risk of loss.

We may invest in construction loans. If we fail to fund our entire commitment on a construction loan or if a borrower otherwise fails to complete the construction of a project, there could be adverse consequences associated with the loan, including: a loss of the value of the property securing the loan, especially if the borrower is unable to raise funds to complete it from other sources; a borrower claim against us for failure to perform under the loan

documents; increased costs to the borrower that the borrower is unable to pay; a bankruptcy filing by the borrower; and abandonment by the borrower of the collateral for the loan.

Risks of cost overruns and noncompletion of renovation of the properties underlying rehabilitation loans may result in significant losses.

The renovation, refurbishment or expansion by a borrower under a mortgaged property involves risks of cost overruns and noncompletion. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on our investment, which could result in significant losses.

Interest rate fluctuations could reduce our ability to generate income on our investments and may cause losses.

Changes in interest rates will affect our net interest income, which is the difference between the interest income we earn on our interest-earning investments and the interest expense we incur in financing these investments. Changes in the level of interest rates also may affect our ability to originate and acquire assets, the value of our assets and our ability to realize gains from the disposition of assets. Changes in interest rates may also affect borrower default rates. In a period of rising interest rates, our interest expense could increase, while the interest we earn on our fixed-rate debt investments would not change, adversely affecting our profitability. Our operating results depend in large part on differences between the income from our assets, net of credit losses, and our financing costs. We anticipate that for any period during which our assets are not match-funded, the income from such assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates may significantly influence our net income. Increases in these rates will tend to decrease our net income and the market value of our fixed rate assets. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us.

We may experience a decline in the fair value of our assets.

A decline in the fair market value of our assets may require us to recognize an other-than-temporary impairment against such assets under GAAP if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the amortized cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be other-than-temporarily impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale.

Some of our portfolio investments will be recorded at fair value and, as a result, there will be uncertainty as to the value of these investments.

Some of our portfolio investments will be in the form of positions or securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We will value these investments quarterly at fair value, as

determined in accordance with SFAS No. 157, *Fair Value Measurements*, or SFAS 157, which may include unobservable inputs. Because such valuations are subjective, the fair value of certain of our assets may fluctuate over short periods of time and our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

An increase in prepayment rates could adversely affect yields on our investments.

The value of our assets may be affected by prepayment rates on mortgage loans. Prepayment rates on mortgage loans are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond our control, and consequently, prepayment rates cannot be predicted with certainty. In periods of declining mortgage interest rates, prepayments on mortgage loans generally increase. If general interest rates decline as well, we are likely to reinvest the proceeds of prepayments received during these periods in assets yielding less than the mortgage loans that were prepaid. In addition, the market value of the mortgage loan assets may, because of the risk of prepayment, benefit less than other fixed-income securities from declining interest rates. Conversely, in periods of rising interest rates, prepayments on mortgage loans generally decrease, in which case we would not have the prepayment proceeds available to invest in assets with higher yields. Under certain interest rate and prepayment scenarios, we may fail to recoup fully our cost of certain investments purchased at a premium to face value.

Liability relating to environmental matters may impact the value of properties that we may acquire or the properties underlying our investments.

Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances.

The presence of hazardous substances may adversely affect an owner s ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of a property underlying one of our debt investments becomes liable for removal costs, the ability of the owner to make payments to us may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by us and our ability to make distributions to our stockholders.

If we acquire any properties, the presence of hazardous substances on a property may adversely affect our ability to sell the property and we may incur substantial remediation costs, thus harming our financial condition. The discovery of material environmental liabilities attached to such properties could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our stockholders.

Mortgage loan modification programs and future legislative action may adversely affect the value of, and the returns on, the target assets in which we intend to invest.

The U.S. Government, through the Federal Reserve, the FHA and the FDIC, commenced implementation of programs designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures. The programs may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans or the rate of interest payable on the loans, or to extend the payment terms of the loans. For example, the

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Helping Families Save Their Homes Act of 2009, which was enacted on May 20, 2009, provides a safe harbor for servicers entering into qualified loss mitigation plans with respect to residential mortgages originated before the act was enacted. A servicer s duty to any investor or other party to maximize the net present value of any mortgage being modified will be construed to apply to all investors and other parties and will be deemed satisfied when the following criteria are met: (a) a default on the payment of the mortgage has occurred, is imminent, or is reasonably foreseeable, (b) the mortgagor occupies the property securing the mortgage as his or her principal residence and (c) the servicer reasonably determined that the application of such qualified loss mitigation plan will likely provide an anticipated recovery on the outstanding principal mortgage debt that will exceed the anticipated recovery through foreclosure. Any servicer that is deemed to be acting in the best interests of all investors and parties is relieved of liability to any party owed a duty as discussed above and shall not be subject to any injunction, stay or other equitable relief to such party based solely upon the implementation by the servicer of a qualified loss mitigation plan. The act further provides that any person, including a trustee, issuer and loan originator, shall not be liable for monetary damages or subject to an injunction, stay or other equitable relief based solely upon that person s cooperation with a servicer in implementing a qualified loss mitigation program that meets the criteria set forth above. By protecting servicers from such liabilities, this safe harbor may encourage loan modifications and reduce the likelihood that investors in securitizations will be paid on a timely basis or will be paid in full.

Members of Congress have indicated support for additional legislative relief for homeowners, including an amendment of the bankruptcy laws to permit the modification of mortgage loans in bankruptcy proceedings.

Loan modifications are more likely to be used when borrowers are less able to refinance or sell their homes due to market conditions, and when the potential recovery from a foreclosure is reduced due to lower property values. A significant number of loan modifications could result in a significant reduction in cash flows to the holders of the mortgage securities on an ongoing basis. These loan modification programs, as well as future legislative or regulatory actions, including amendments to the bankruptcy laws, that result in the modification of outstanding mortgage loans may adversely affect the value of, and the returns on, the target assets in which we intend to invest.

Risks Related to Our Common Stock

There is no public market for our common stock and a market may never develop, which could cause our common stock to trade at a discount and make it difficult for holders of our common stock to sell their shares.

Our shares of common stock are newly-issued securities for which there is no established trading market. We have applied to list our common stock on the NYSE under the trading symbol . However, there can be no assurance that an active trading market for our common stock will develop, or if one develops, be maintained. Accordingly, no assurance can be given as to the ability of our stockholders to sell their common stock or the price that our stockholders may obtain for their common stock.

Some of the factors that could negatively affect the market price of our common stock include:

- our actual or projected operating results, financial condition, cash flows and liquidity, or changes in business strategy or prospects;

actual or perceived conflicts of interest with our Manager or Starwood Capital Group and individuals, including our executives;

equity issuances by us, or share resales by our stockholders, or the perception that such issuances or resales may occur;

actual or anticipated accounting problems;

publication of research reports about us or the real estate industry;

changes in market valuations of similar companies;

adverse market reaction to any increased indebtedness we incur in the future;

additions to or departures of our Manager s or Starwood Capital Group s key personnel;

speculation in the press or investment community;

our failure to meet, or the lowering of, our earnings estimates or those of any securities analysts;

increases in market interest rates, which may lead investors to demand a higher distribution yield for our common stock, if we have begun to make distributions to our stockholders, and would result in increased interest expenses on our debt;

failure to maintain our REIT qualification or exemption from the 1940 Act;

price and volume fluctuations in the stock market generally; and

general market and economic conditions, including the current state of the credit and capital markets.

Market factors unrelated to our performance could also negatively impact the market price of our common stock. One of the factors that investors may consider in deciding whether to buy or sell our common stock is our distribution rate as a percentage of our stock price relative to market interest rates. If market interest rates increase, prospective investors may demand a higher distribution rate or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and conditions in the capital markets can affect the market value of our common stock. For instance, if interest rates rise, it is likely that the market price of our common stock will decrease as market rates on interest-bearing securities increase.

Common stock eligible for future sale may have adverse effects on our share price.

We are offering shares of our common stock as described in this prospectus. In addition, concurrently with 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. Our equity incentive plan provides for grants of restricted common stock and other equity-based awards up to an aggregate of % of the issued and outstanding shares of our common stock (on a fully diluted basis) at the time of the award. 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. Assuming no exercise of the underwriters over-allotment option to purchase additional shares, approximately % of our shares of common stock are subject to lock-up agreements. When the lock-up periods expire, these shares of common stock will become eligible for sale, in some cases subject to the requirements of Rule 144 under the Securities Act of 1933, as amended (or the Securities Act), which are described under Shares Eligible for Future Sale.

We cannot predict the effect, if any, of future sales of our common stock, or the availability of shares for future sales, on the market price of our common stock. The market price of our common stock may decline significantly when the restrictions on resale by certain of our stockholders lapse. Sales of substantial amounts of common stock or the perception that such sales could occur may adversely affect the prevailing market price for our common stock.

Also, we may issue additional shares in subsequent public offerings or private placements to make new investments or for other purposes. We are not required to offer any such shares to existing stockholders on a preemptive basis. Therefore, it may not be possible for existing stockholders to participate in such future share issuances, which may dilute the existing stockholders interests in us.

We have not established a minimum distribution payment level and we cannot assure you of our ability to pay distributions in the future.

We are generally required to distribute to our shareholders at least 90% of our taxable income each year for us to qualify as a REIT under the Internal Revenue Code, which requirement we currently intend to satisfy through quarterly distributions of all or substantially all of our REIT taxable income in such year, subject to certain adjustments. We have not established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described in this prospectus. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, debt covenants, maintenance of our REIT qualification and other factors as our board of directors may deem relevant from time to time. We believe that a change in any one of the following factors could adversely affect our results of operations and impair our ability to pay distributions to our stockholders:

- the profitability of the investment of the net proceeds of this offering;
- our ability to make profitable investments;
- margin calls or other expenses that reduce our cash flow;
- defaults in our asset portfolio or decreases in the value of our portfolio; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

As a result, no assurance can be given that we will be able to make distributions to our stockholders at any time in the future or that the level of any distributions we do make to our stockholders will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect us.

In addition, distributions that we make to our stockholders will generally be taxable to our stockholders as ordinary income. However, a portion of our distributions may be designated by us as long-term capital gains to the extent that they are attributable to capital gain income recognized by us or may constitute a return of capital to the extent that they exceed our earnings and profits as determined for tax purposes. A return of capital is not taxable, but has the effect of reducing the basis of a shareholder s investment in our common shares.

Investing in our common stock may involve a high degree of risk.

The investments that we make in accordance with our investment objectives may result in a high amount of risk when compared to alternative investment options and volatility or loss of principal. Our investments may be highly speculative and aggressive, and therefore an investment in our common stock may not be suitable for someone with lower risk tolerance.

Future offerings of debt or equity securities, which would rank senior to our common stock, may adversely affect the market price of our common stock.

If we decide to issue debt or equity securities in the future, which would rank senior to our common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to owners of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us.

Risks Related to Our Organization and Structure

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law, or the MGCL, may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-prevailing market price of our common stock. We are subject to the business combination provisions of the MGCL that, subject to limitations, prohibit certain business combinations (including a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities) between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of our then outstanding voting capital stock or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then outstanding voting capital stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder. After the five-year prohibition, any business combination between us and an interested stockholder generally must be recommended by our board of directors and approved by the affirmative vote of at least (1) 80% of the votes entitled to be cast by holders of outstanding shares of our voting capital stock; and (2) two-thirds of the votes entitled to be cast by holders of voting capital stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder. These super-majority vote requirements do not apply if our common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has by resolution exempted business combinations between us and any other person, provided that such business combination is first approved by our board of directors (including a majority of our directors who are not affiliates or associates of such person).

The control share provisions of the MGCL provide that control shares of a Maryland corporation (defined as shares which, when aggregated with other shares controlled by the stockholder (except solely by virtue of a revocable proxy), entitle the stockholder to exercise

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one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of control shares) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast by the acquiror of control shares, our officers and our personnel who are also our directors. Our Bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. There can be no assurance that this provision will not be amended or eliminated at any time in the future.

The unsolicited takeover provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or Bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not yet have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide the holders of shares of common stock with the opportunity to realize a premium over the then current market price. Our charter contains a provision whereby we have elected to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of directors. See Certain Provisions of The Maryland General Corporation Law and Our Charter and Bylaws Business Combinations and Certain Provisions of The Maryland General Corporation Law and Our Charter and Bylaws Control Share Acquisitions.

Our authorized but unissued shares of common and preferred stock may prevent a change in our control.

Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock. In addition, our board of directors may, without stockholder approval, amend our charter to increase the aggregate number of our shares of stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our shares of common stock or otherwise be in the best interest of our stockholders.

Our staggered board may reduce the possibility of a tender offer or an attempt at a change in control.

Our Board of Directors is divided into three classes of directors. The initial terms of the first, second and third classes will expire in 2010, 2011 and 2012, respectively. Beginning in 2010, directors of each class will be chosen for three-year terms upon the expiration of their current terms, and each year one class of directors will be elected by the stockholders. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our stockholders. See Certain Provisions of Maryland Law and of the Company s Charter and Bylaws Classification of the Board of Directors.

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

We intend to conduct our operations so as not to become regulated as an investment company under the 1940 Act. Because we are a holding company that will conduct its businesses primarily through wholly-owned subsidiaries, the securities issued by these subsidiaries that are excepted from the definition of investment company under Section 3(c)(1) or

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Section 3(c)(7) of the 1940 Act, together with any other investment securities we may own, may not have a combined value in excess of 40% of the value of our total assets on an unconsolidated basis. This requirement limits the types of businesses in which we may engage through our subsidiaries.

We expect SPT Real Estate Sub I, LLC and certain other subsidiaries that we may form in the future to rely upon the exemption from registration as an investment company under the 1940 Act 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. This exemption generally requires that at least 55% of these 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. 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 in the future 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 general, Rule 3a-7 exempts from the 1940 Act issuers that limit their activities as follows:

- the issuer issues securities the payment of which depends primarily on the cash flow from eligible assets, which include many of the types of assets that we expect to acquire in our TALF fundings, that by their terms convert into cash within a finite time period;

- the securities sold are fixed income securities rated investment grade by at least one rating agency (fixed income securities which are unrated or rated below investment grade may be sold to institutional accredited investors and any securities may be sold to qualified institutional buyers and to persons involved in the organization or operation of the issuer);

- the issuer acquires and disposes of eligible assets (1) only in accordance with the agreements pursuant to which the securities are issued and (2) so that the acquisition or disposition does not result in a downgrading of the issuer s fixed income securities and the eligible assets are not acquired or disposed of for the primary purpose of recognizing gains or decreasing losses resulting from market value changes; and

- unless the issuer is issuing only commercial paper, the issuer appoints an independent trustee, takes reasonable steps to transfer to the trustee an ownership or perfected security interest in the eligible assets, and meets rating agency requirements for commingling of cash flows.

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.

There can be no assurance that the laws and regulations governing the 1940 Act status of REITs, including the Division of Investment Management of the SEC providing more specific or

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different guidance regarding these exemptions, will not change in a manner that adversely affects our operations. If we or our subsidiaries fail to maintain an exception or exemption from the 1940 Act, we could, among other things, be required either to (a) change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company, any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions which could have an adverse effect on our business and the market price for our shares of common stock.

Rapid changes in the values of our other real estate-related investments may make it more difficult for us to maintain our qualification as a REIT or exemption from the 1940 Act.

If the market value or income potential of real estate-related investments declines as a result of increased interest rates, prepayment rates or other factors, we may need to increase our real estate investments and income and/or liquidate our non-qualifying assets in order to maintain our REIT qualification or exemption from the 1940 Act. If the decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets that we may own. We may have to make investment decisions that we otherwise would not make absent the REIT and 1940 Act considerations.

Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in your best interests.

Under Maryland law generally, a director s actions will be upheld if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our charter authorizes us to indemnify our directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each director or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to fund the defense costs incurred by our directors and officers. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist absent the current provisions in our charter and bylaws or that might exist with other companies.

Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management.

Our charter provides that a director may only be removed for cause upon the affirmative vote of holders of two-thirds of the votes entitled to be cast in the election of directors. Vacancies may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in control of our company that is in the best interests of our stockholders.

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Ownership limitations may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares.

In order for us to qualify as a REIT for each taxable year after 2009, no more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year. Individuals for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. To preserve our REIT qualification, our charter generally prohibits any person from directly or indirectly owning more than % in value or in number of shares, whichever is more restrictive, of the outstanding shares of our capital stock or more than % in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock. This ownership limitation could have the effect of discouraging a takeover or other transaction in which holders of our common stock might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests. Our board of directors has waived this ownership limit in order to permit Mr. Sternlicht, Starwood Capital Group and SPT Investment, LLC to collectively hold up to % of our common stock.

Risks Related to Our Taxation as a REIT

If we do not qualify as a REIT or fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our stockholders.

We intend to operate in a manner that will allow us to qualify as a REIT for federal income tax purposes. Although we do not intend to request a ruling from the Internal Revenue Service, or the IRS, as to our REIT qualification, we will receive an opinion of Skadden, Arps, Slate, Meagher & Flom LLP with respect to our qualification as a REIT in connection with this offering of common stock. Investors should be aware, however, that opinions of counsel are not binding on the IRS or any court. The opinion of Skadden, Arps, Slate, Meagher & Flom LLP will represent only the view of our counsel based on our counsel s review and analysis of existing law and on certain representations as to factual matters and covenants made by us and our Manager, including representations relating to the values of our assets and the sources of our income. The opinion will be expressed as of the date issued and will not cover subsequent periods. Skadden, Arps, Slate, Meagher & Flom LLP will have no obligation to advise us or the holders of our common stock of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in applicable law. Furthermore, both the validity of the opinion of Skadden, Arps, Slate, Meagher & Flom LLP, and our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis, the results of which will not be monitored by Skadden, Arps, Slate, Meagher & Flom LLP. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of an instrument as debt or equity for federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements as described below. Accordingly, there can be no assurance that the IRS will not contend that our interests in subsidiaries or in securities of other issuers will not cause a violation of the REIT requirements.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and

would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of our common stock. Unless we were entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from qualified dividends payable to domestic stockholders that are individuals, trusts and estates has been reduced by legislation to 15% through the end of 2010. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any net capital gain, in order for federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. We intend to make distributions to our stockholders to comply with the REIT requirements of the Internal Revenue Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, we may be required to accrue income from mortgage loans, mortgage backed securities, and other types of debt securities or interests in debt securities before we receive any payments of interest or principal on such assets. We may also acquire distressed debt investments that are subsequently modified by agreement with the borrower either directly or pursuant to our involvement in the Legacy Loans Program or other similar programs recently announced by the federal government. If the amendments to the outstanding debt are significant modifications under the applicable Treasury regulations, the modified debt may be considered to have been reissued to us at a gain in a debt-for-debt exchange with the borrower, with gain recognized by us to the extent that the principal amount of the modified debt exceeds our cost of purchasing it prior to modification.

As a result, we may find it difficult or impossible to meet distribution requirements in certain circumstances. In particular, where we experience differences in timing between the recognition of taxable income and the actual receipt of cash, the requirement to distribute a substantial portion of our taxable income could cause us to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt or (iv) make a taxable distribution of our shares as part of a distribution in which shareholders may elect to receive shares or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with REIT requirements. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

The stock ownership limit imposed by the Internal Revenue Code for REITs and our charter may restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Internal Revenue Code, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) at any time during the last half of each taxable year following our first year. Our charter, with certain exceptions, authorizes our board of directors to take the actions that are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than % of the aggregate value of our outstanding capital stock. Our board may grant an exemption in its sole discretion, subject to such conditions, representations and undertakings as it may determine. The ownership limits imposed by the tax law are based upon direct or indirect ownership by individuals, but only during the last half of a tax year. The ownership limits contained in our charter key off of the ownership at any time by any person, which term includes entities. These ownership limitations in our charter are common in REIT charters and are intended to provide added assurance of compliance with the tax law requirements, and to minimize administrative burdens. However, these ownership limits might also delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. See Federal Income Tax Considerations Taxation of Starwood Property Trust, Inc. Any of these taxes would decrease cash available for distribution to our stockholders. In addition, in order to meet the REIT qualification requirements, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we intend to hold some of our assets through our TRS or other subsidiary corporations that will be subject to corporate-level income tax at regular rates. Any of these taxes would decrease cash available for distribution to our stockholders.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make certain attractive investments.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To qualify as a REIT, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans and certain kinds of mortgage-backed securities. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total securities can be represented by securities of one or more TRSs. See Federal Income Tax Considerations Taxation of Starwood Property Trust, Inc. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

We may in the future choose to pay dividends in our own stock, in which case you may be required to pay income taxes in excess of the cash dividends you receive.

We may in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. Under IRS Revenue Procedure 2009-15, up to 90% of any such taxable dividend for 2009 could be payable in our stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

Further, while Revenue Procedure 2009-15 applies only to taxable dividends payable in cash or stock in 2008 and 2009, it is unclear whether and to what extent we will be able to pay taxable dividends in cash and stock in later years. Moreover, various aspects of such a taxable cash/stock dividend are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock dividends, including on a retroactive basis, or assert that the requirements for such taxable cash/stock dividends have not been met.

The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to qualify as a REIT.

We intend to enter into financing arrangements that are structured as sale and repurchase agreements pursuant to which we would nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings which are secured by the assets sold pursuant thereto. We believe that we would be treated for REIT asset and income test purposes as the owner of the assets that are the subject of any such sale and repurchase agreement notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We may acquire debt instruments in the secondary market for less than their face amount. The discount at which such debt instruments are acquired may reflect doubts about their ultimate collectibility rather than current market interest rates. The amount of such discount will nevertheless generally be treated as market discount for U.S. federal income tax purposes. Accrued market discount is reported as income when, and to the extent that, any payment of principal of the debt instrument is made. Payments on residential mortgage loans are ordinarily made monthly, and consequently accrued market discount may have to be included in income each month as if the debt instrument were assured of ultimately being collected in full. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions.

Similarly, some of the MBS that we acquire may have been issued with original issue discount. We will be required to report such original issue discount based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such MBS will be made. If such MBS turns out not to be fully collectible, an offsetting loss deduction will become available only in the later year that uncollectibility is provable.

Finally, in the event that any debt instruments or MBS acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectibility. Similarly, we may be required to accrue interest income with respect to subordinate mortgage-backed securities at its stated rate regardless of whether corresponding cash payments are received or are ultimately collectible. In each case, while we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectible, the utility of that deduction could depend on our having taxable income in that later year or thereafter.

The taxable mortgage pool rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.

Securitizations could result in the creation of taxable mortgage pools for federal income tax purposes. As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we generally would not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax-exempt disqualified organizations, such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we may incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we may reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Moreover, we would be precluded from selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These

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limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans, which would be treated as sales for federal income tax purposes.

A REIT s net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to dispose of or securitize loans in a manner that was treated as a sale of the loans for federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us.

Our investments in construction loans will require us to make estimates about the fair market value of land improvements that may be challenged by the IRS.

We may invest in construction loans, the interest from which will be qualifying income for purposes of the REIT income tests, provided that the loan value of the real property securing the construction loan is equal to or greater than the highest outstanding principal amount of the construction loan during any taxable year. For purposes of construction loans, the loan value of the real property is the fair market value of the land plus the reasonably estimated cost of the improvements or developments (other than personal property) which will secure the loan and which are to be constructed from the proceeds of the loan. There can be no assurance that the IRS would not challenge our estimate of the loan value of the real property.

The failure of a mezzanine loan to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.

We may acquire mezzanine loans, for which the IRS has provided a safe harbor but not rules of substantive law. Pursuant to the safe harbor, if a mezzanine loan meets certain requirements, it will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. We may acquire mezzanine loans that do not meet all of the requirements of this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the IRS could challenge such loan s treatment as a real estate asset for purposes of the REIT asset and income tests and, if such a challenge were sustained, we could fail to qualify as a REIT.

Liquidation of assets may jeopardize our REIT qualification.

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate

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assets does not constitute gross income for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. See Federal Income Tax Considerations Taxation of Starwood Property Trust, Inc. As a result of these rules, we intend to limit our use of advantageous hedging techniques or implement those hedges through a domestic TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS.

Qualifying as a REIT involves highly technical and complex provisions of the Internal Revenue Code.

Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. When we use the words believe, expect, anticipate, estimate, plan, continue, intend, should, may or similar expressions, we intend to identify forward-looking sta Statements regarding the following subjects, among others, may be forward-looking:

- use of proceeds of this offering;
- our business and investment strategy;
- our projected operating results;
- actions and initiatives of the U.S. Government and changes to U.S. Government policies;
- our ability to obtain financing arrangements;
- financing and advance rates for our target assets;
- our expected leverage;
- general volatility of the securities markets in which we invest;
- our expected investments;
- interest rate mismatches between our target assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our target assets;
- changes in prepayment rates on our target assets;
- effects of hedging instruments on our target assets;
- rates of default or decreased recovery rates on our target assets;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- changes in governmental regulations, tax law and rates, and similar matters;
- our ability to maintain our qualification as a REIT for U.S. federal income tax purposes;
- our ability to maintain our exemption from registration under the 1940 Act;
- availability of investment opportunities in mortgage-related and real estate-related investments and securities;
- availability of qualified personnel;

estimates relating to our ability to make distributions to our stockholders in the future;

our understanding of our competition; and

market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. You should not place undue reliance on these forward-looking statements. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. Some of these factors are described in this prospectus under the headings Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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USE OF PROCEEDS

We are offering shares of our common stock at the anticipated public offering price of $ per share. We estimate that the net proceeds we will receive from selling common stock in this offering will be approximately $ million, after deducting underwriting discounts and commissions and estimated offering expenses of approximately $ million (or, if the underwriters exercise their over-allotment option in full, approximately $ million, after deducting underwriting discounts and commissions and estimated offering expenses of approximately $ million). 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, yielding $ million of proceeds to us.

We plan to use all the net proceeds from this offering and the concurrent private placement as described above to acquire our target assets in accordance with our objectives and strategies described in this prospectus. See Business Our Investment Strategy. We expect that our initial focus will be on purchasing commercial mortgage loans, other CRE and CRE-related debt investments and CMBS. Until appropriate assets can be identified, our Manager may invest the net proceeds from this offering and the concurrent private placement in interest-bearing short-term investments, including money market accounts, which are consistent with our intention to qualify as a REIT. These investments are expected to provide a lower net return than we will seek to achieve from 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.

DISTRIBUTION POLICY

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 REIT 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 net taxable income. We generally intend over time to pay quarterly dividends in an amount equal to our taxable income. We plan to pay our first dividend in respect of the period from the closing of this offering through September , 2009, which may be prior to the time when we have fully invested the net proceeds from this offering in our target assets.

To the extent that in respect of any calendar year, cash available for distribution is less than our taxable income, we could be required to sell assets or borrow funds to make cash distributions or make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. In addition, prior to the time we have fully invested the net proceeds of this offering, we may fund our quarterly distributions out of such net proceeds. We will generally not be required to make distributions with respect to activities conducted through any TRS that we form following the completion of this offering. For more information, see U.S. Federal Income Tax Considerations Taxation of Our Company in General.

To satisfy the requirements to qualify as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to make regular quarterly distributions of all or substantially all of our taxable income to holders of our common stock out of assets legally available therefor. Any distributions we make to our stockholders will be at the discretion of our board of directors and will depend upon our earnings, financial condition, liquidity, debt covenants, funding or margin requirements under securitizations, warehouse facilities or other secured and unsecured borrowing agreements, maintenance of our REIT qualification, applicable provisions of the MGCL, and such other factors as our board of directors deems relevant. Our earnings, financial condition and liquidity will be affected by various factors, including the net interest and other income from our portfolio, our operating expenses and any other expenditures. See Risk Factors.

We anticipate that our distributions generally will be taxable as ordinary income to our stockholders, although a portion of the distributions may be designated by us as qualified dividend income or capital gain, or may constitute a return of capital. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital, qualified dividend income or capital gain. For more information, see U.S. Federal Income Tax Considerations Taxation of Taxable U.S. Stockholders.

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CAPITALIZATION

The following table sets forth (1) our actual capitalization at June 1, 2009 and (2) our capitalization as adjusted to reflect the effect of (i) the sale of shares of our common stock in this offering at an assumed offering price of $ per share after deducting the underwriting discount and estimated organizational and offering expenses payable by us and (ii) the concurrent private placement to SPT Investment, LLC of shares of our common stock at the assumed initial public offering price. You should read this table together with Use of Proceeds included elsewhere in this prospectus.

	As of June 1, 2009	
	Actual	As Adjusted (1)
	(Unaudited)	
Stockholder s equity:		
Common stock, par value $0.01 per share; shares authorized, and 100 shares issued and outstanding, actual and shares authorized, issued and outstanding, as adjusted	$ 1	$
Preferred Stock, par value $0.01 per share; 0 shares authorized and 0 shares issued and outstanding, actual and shares authorized and 0 shares issued and outstanding, as adjusted		
Additional paid in capital	999	
Total stockholder s equity	$ 1,000	$

(1) Does not include the underwriters over-allotment option to purchase up to additional shares.

SELECTED FINANCIAL INFORMATION

The following table presents selected financial information as of June 1, 2009, that has been derived from our historical audited balance sheet as of such date and the related notes included elsewhere in this prospectus. We have no operating history and no investment portfolio.

The following selected financial information is only a summary and is qualified by reference to and should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited balance sheet as of June 1, 2009 and the related notes thereto included elsewhere in this prospectus.

	As of June 1, 2009
Assets:	
Cash	$ 1,000
Liabilities and Stockholder s Equity:	
Stockholder s equity	$ 1,000

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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, CMBS, and other commercial real estate-related debt investments. Initially, we expect to focus on opportunities that exist in the U.S. commercial mortgage loan, commercial real estate debt and CMBS markets. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions. We believe that the diversification of our portfolio of assets, our expertise among the target asset classes and the flexibility of our strategy will position us to generate attractive risk-adjusted returns for our stockholders in a variety of assets and market conditions.

We intend to construct a diversified investment portfolio by focusing on asset selection and the relative value of various sectors within the debt market. Initially, we expect to finance our investments in commercial mortgage loans and CMBS with financings under the U.S. Government s Public-Private Investment Program, or PPIP, and CMBS with financing under the Term Asset-Backed Securities Loan Facility, or TALF, in each case to the extent available to us, as well as through securitizations and other sources of financing that may be available to us. We are organized as a Maryland corporation and intend to elect and qualify to be taxed as a REIT for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2009. We also intend to operate our business in a manner that will permit us to maintain our exemption from registration under the 1940 Act. We will commence operations upon completion of this offering and the concurrent private placement.

Factors Impacting Our Operating Results

We expect that the results of our operations will be affected by a number of factors and will primarily depend on, among other things, the level of our net interest income, the market value of our assets and the supply of, and demand for, commercial mortgage loans, commercial real estate debt, CMBS and other financial assets in the marketplace. Our net interest income, which reflects the amortization of purchase premiums and accretion of purchase discounts, varies primarily as a result of changes in interest rates, prepayment rates on our mortgage loans and prepayment speeds, as measured by the Constant Prepayment Rate (or CPR), on our MBS assets. Interest rates and prepayment rates vary according to the type of investment, conditions in the financial markets, credit worthiness of our borrowers, competition and other factors, none of which can be predicted with any certainty. Our operating results may also be impacted by credit losses in excess of initial anticipations or unanticipated credit events experienced by borrowers whose mortgage loans are held directly by us or are included in our CMBS and/or Non-Agency MBS.

Changes in Fair Value of our Assets. It is our business strategy to hold our target assets as long-term investments. As such, we expect that the majority of our MBS will be carried at their fair value, as available-for-sale securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt or Equity Securities* (SFAS No. 115), with changes in fair value recorded through accumulated other comprehensive income/(loss), a component of stockholders equity, rather than through earnings. As a result, we do not expect that changes in the fair value of the assets will normally impact our operating results. However, at least on a quarterly basis, we will assess both our ability and intent to continue to hold such assets as long-term investments. As part of this process, we will monitor our target assets for other-than-temporary impairment. A change in our ability and/or intent to continue to hold any

of our investment securities could result in our recognizing an impairment charge or realizing losses upon the sale of such securities.

Changes in Market Interest Rates. With respect to our proposed business operations, increases in interest rates, in general, may over time cause:

- the interest expense associated with our borrowings to increase;
- the value of our mortgage loans and mortgage-backed securities or MBS, to decline;
- coupons on our mortgage loans to reset, although on a delayed basis, to higher interest rates;
- to the extent applicable under the terms of our investments, prepayments on our mortgage loan portfolio and MBS to slow, thereby slowing the amortization of our purchase premiums and the accretion of our purchase discounts; and
- to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to increase.

Conversely, decreases in interest rates, in general, may over time cause:

- to the extent applicable under the terms of our investments, prepayments on our mortgage loan and MBS portfolio to increase, thereby accelerating the amortization of our purchase premiums and the accretion of our purchase discounts;
- the interest expense associated with our borrowings to decrease;
- the value of our mortgage loan and MBS portfolio to increase;
- to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease, and
- coupons on our adjustable-rate mortgage loans and MBS to reset, although on a delayed basis, to lower interest rates.

Credit Risk. One of our strategic focuses is acquiring assets which we believe to be of high credit quality. We believe this strategy will generally keep our credit losses and financing costs low. Although we do not expect to encounter credit risk in our Agency MBS, we do expect to be subject to varying degrees of credit risk in connection with our other target assets. Our Manager will seek to mitigate this risk by seeking to acquire high quality assets, at appropriate prices given anticipated and unanticipated losses and by deploying a comprehensive review and asset selection process and by careful ongoing monitoring of acquired assets. Nevertheless, unanticipated credit losses could occur which could adversely impact our operating results.

Size of Portfolio. The size of our portfolio of assets, as measured by the aggregate principal balance of our mortgage-related securities and the other assets we own is also a key revenue driver. Generally, as the size of our portfolio grows, the amount of interest income we receive increases. A larger portfolio, however, may result in increased expenses as we may incur additional interest expense to finance the purchase of our assets.

Market Conditions. We believe that our target assets currently present highly attractive risk-adjusted return profiles. In addition, we believe that current conditions in the financial markets present opportunities for us to acquire our target assets at significantly depressed prices. Beginning in the summer of 2007, adverse changes in the financial markets have resulted in a deleveraging of the entire global financial system and the forced sale of large quantities of mortgage-related and other financial assets. As a result of these conditions, many traditional mortgage investors have suffered severe losses in their loan and securities portfolios and several major market participants have failed or been impaired, resulting in a

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contraction in market liquidity for mortgage-related assets. This illiquidity has negatively affected both the terms and availability of financing for all mortgage-related assets, and has generally resulted in mortgage-related assets trading at significantly lower prices compared to prior periods. The recent period has also been characterized by an almost across the board downward movement in loan and securities valuations, even though different mortgage pools have exhibited widely different default rate and performance characteristics. The lower asset prices have also been accompanied by correspondingly higher current yields on our universe of target assets. In an effort to stem the fallout from current market conditions, the United States and other nations have begun to inject unprecedented levels of liquidity into the financial system and take other actions designed to create a floor in financial asset valuations, restore stability to the financial sector and support the flow of credit and other capital into the broader economy.

Critical Accounting Policies And Use Of Estimates

Our financial statements are prepared in accordance with GAAP, which requires the use of estimates and assumptions that involve the exercise of judgment and use of assumptions as to future uncertainties. In accordance with SEC guidance, the following discussion addresses the accounting policies that we believe will apply to us based on our expectation of the nature of our initial operations. Our most critical accounting policies will involve decisions and assessments that could affect our reported assets and liabilities, as well as our reported revenues and expenses. We believe that all of the decisions and assessments upon which our financial statements will be based will be reasonable at the time made, based upon information available to us at that time. Our critical accounting policies and accounting estimates will be expanded over time as we fully implement our strategy. Those accounting policies and estimates that we initially expect to be most critical to an investor s understanding of our financial results and condition and require complex management judgment are discussed below.

Classification of Investment Securities and Valuations of Financial Instruments

Our MBS investments are expected to initially consist primarily of commercial real estate debt instruments and CMBS that we will classify as either available-for-sale or held-to-maturity. As such, we expect that our MBS classified as available-for-sale will be carried at their fair value in accordance with SFAS No. 115, with changes in fair value recorded through accumulated other comprehensive income/(loss), a component of stockholders equity, rather than through earnings. We do not intend to hold any of our investment securities for trading purposes; however, if our securities were classified as trading securities, there could be substantially greater volatility in our earnings, as changes in the fair value of securities classified as trading are recorded through earnings. MBS assets held for investment will be stated at their amortized cost, net of deferred fees and costs with income recognized using the effective interest method.

When the estimated fair value of an available-for-sale security is less than amortized cost, we will consider whether there is an other-than-temporary impairment in the value of the security. Unrealized losses on securities considered to be other-than-temporary will be recognized in earnings. The determination of whether a security is other-than-temporarily impaired will involve judgments and assumptions based on subjective and objective factors. Consideration will be given to (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of recovery in fair value of the security, and (iii) our intent to retain our investment in the security, or whether it is more likely than not we will be required to sell the security before its anticipated recovery in fair value. Investments with unrealized losses will not be considered other-than-temporarily impaired if we have the ability and intent to hold the investments for a period of time, to maturity if necessary, sufficient for a forecasted market price recovery up to or beyond the cost of the investments.

Loans Held-for-Investment

Loans held-for-investment will be stated at the principal amount outstanding, net of deferred loan fees and costs in accordance with SFAS No. 65, *Accounting for Certain Mortgage Banking Activities.* We expect that interest income will be recognized using the interest method or a method that approximates a level rate of return over the loan term in accordance with SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (SFAS No. 91). Net deferred loan fees, origination and acquisition costs will be recognized in interest income over the loan term as yield adjustment. Loans that we have a plan to sell or liquidate in the near term will be held at the lower of cost or fair value.

Loan Impairment

For loans classified as held-for-investment, we will evaluate the loans for possible impairment on a quarterly basis in accordance with SFAS No. 114, *Accounting by Creditors for Impairment of a Loan,* as amended (SFAS No. 114). Impairment occurs when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. Impairment will then be measured based on the present value of expected future cash flows discounted at the loan s contractual effective rate or the fair value of the collateral, if the loan is collateral dependent. Upon measurement of impairment, we will record an allowance to reduce the carrying value of the loan accordingly and record a corresponding charge to net income. Significant judgments are required in determining impairment, including making assumptions regarding the value of the loan, the value of the underlying collateral and other provisions such as guarantees.

Fair Value Option

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), permits entities to choose to measure many financial instruments and certain other items at fair value. Changes in fair value, along with transaction costs, would be reported through net income. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. We do not anticipate that we will elect the fair value option for any qualifying financial assets or liabilities that are not otherwise required to be carried at fair value in our financial statements.

Valuation of Financial Instruments

SFAS No. 157, *Fair Value Measurements* (SFAS 157) establishes a new framework for measuring fair value and expands related disclosures. SFAS No. 157 establishes a hierarchy of valuation techniques based on the observability of inputs utilized in measuring financial instruments at fair values. SFAS No. 157 establishes market based or observable inputs as the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The three levels of the hierarchy under SFAS No. 157 are described below:

Level I Quoted prices in active markets for identical assets or liabilities.

Level II Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants would use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.

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Level III Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used.

Unobservable inputs reflect our own assumptions about the factors that market participants would use in pricing an asset or liability, and would be based on the best information available. We anticipate that a significant portion of our assets will fall in Level III in the valuation hierarchy.

Any changes to the valuation methodology will be reviewed by management to ensure the changes are appropriate. As markets and products develop and the pricing for certain products becomes more transparent, we will continue to refine our valuation methodologies. The methods used by us may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we anticipate that our valuation methods will be appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. We will use inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced.

Securitizations

We may periodically enter into transactions in which we sell financial assets, such as commercial mortgage loans, CMBS and other assets. Upon a transfer of financial assets, we will sometimes retain or acquire senior or subordinated interests in the related assets. Gains and losses on such transactions will be recognized using the guidance in SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* (SFAS No. 140), which is based on a financial components approach that focuses on control. Under this approach, after a transfer of financial assets that meets the criteria for treatment as a sale legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transferred control an entity recognizes the financial and servicing assets it acquired or retained and the liabilities it has incurred, derecognizes financial assets it has sold, and derecognizes liabilities when extinguished. We will determine the gain or loss on sale of mortgage loans by allocating the carrying value of the underlying mortgage between securities or loans sold and the interests retained based on their fair values. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the securities or loans sold. From time to time, we may securitize mortgage loans we hold if such financing is available. These transactions will be recorded in accordance with SFAS No. 140 and will be accounted for as either a sale and the loans will be removed from our balance sheet or as a financing and will be classified as securitized loans on our balance sheet, depending upon the structure of the securitization transaction. SFAS No. 140 is a complex standard that may require us to exercise significant judgment in determining whether a transaction should be recorded as a sale or a financing.

Investment Consolidation

For each investment we make, we will evaluate the underlying entity that issued the securities we acquired or to which we make a loan to determine the appropriate accounting. A similar analysis will be performed for each entity with which we enter into an agreement for management, servicing or related services. In performing our analysis, we will refer to guidance in SFAS No. 140 and FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities,* (FIN 46R). FIN 46R addresses the application of Accounting Research Bulletin No 51, *Consolidated Financial Statements,* to certain entities in which voting rights are not effective in identifying an investor with a controlling financial interest. In variable interest entities, or VIEs, an entity is subject to consolidation under FIN 46R if the investors either do

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not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support, are unable to direct the entity s activities or are not exposed to the entity s losses or entitled to its residual returns. VIEs within the scope of FIN 46R are required to be consolidated by their primary beneficiary. The primary beneficiary of a VIE is determined to be the party that absorbs a majority of the entity s expected losses, its expected returns, or both. This determination can sometimes involve complex and subjective analyses.

Interest Income Recognition

We expect that interest income on our mortgage loans and AAA rated MBS will be accrued based on the actual coupon rate and the outstanding principal balance of such assets. Premiums and discounts will be amortized or accreted into interest income over the lives of the assets using the effective yield method, as adjusted for actual prepayments in accordance with SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* (SFAS No. 91).

We expect that interest income on our securities rated below AAA, including unrated securities, will be recognized in accordance with Emerging Issues Task Force (EITF), *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets* (EITF 99-20). Pursuant to EITF 99-20, cash flows from a security are estimated applying assumptions used to determine the fair value of such security and the excess of the future cash flows over the investment are recognized as interest income under the effective yield method. We will review and, if appropriate, make adjustments to our cash flow projections at least quarterly and monitor these projections based on input and analysis received from external sources, internal models, and our judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in interest income recognized on, or the carrying value of, such securities.

For whole loans purchased at a discount, we will apply the provisions of Statement of Position 03-3 *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3). SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. SOP 03-3 limits the yield that may be accreted (accretable yield) to the excess of the investor s estimate of undiscounted expected principal, interest, and other cash flows (cash flows expected at acquisition to be collected) over the investor s initial investment in the loan. SOP 03-3 requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual, or valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan s yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment.

Hedging Instruments and Hedging Activities

We will apply the provisions of SFAS No. 133, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities.* SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheets and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either other comprehensive income in stockholders equity until the hedged item is recognized in earnings or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

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In the normal course of business, we may use a variety of derivative financial instruments to manage, or hedge, interest rate risk. These derivative financial instruments must be effective in reducing our interest rate risk exposure in order to qualify for hedge accounting. When the terms of an underlying transaction are modified, or when the underlying hedged item ceases to exist, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income for each period until the derivative instrument matures or is settled. Any derivative instrument used for risk management that does not meet the hedging criteria is marked-to-market with the changes in value included in net income.

Derivatives will be used for hedging purposes rather than speculation. We will determine their fair value in accordance with SFAS No. 157 and we will obtain quotations from a third party to facilitate the process in determining these fair values. If our hedging activities do not achieve our desired results, our reported earnings may be adversely affected.

Income Taxes

Our financial results are generally not expected to reflect provisions for current or deferred income taxes. We believe that we will operate in a manner that will allow us to qualify for taxation as a REIT. As a result of our expected REIT qualification, we do not generally expect to pay U.S. federal corporate level taxes. Many of the REIT requirements, however, are highly technical and complex. If we were to fail to meet the REIT requirements, we would be subject to U.S. federal, state and local income taxes.

Recent Accounting Pronouncements

In October 2008, the FASB issued FASB Staff Position 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3), in response to the deterioration of the credit markets. This FSP provides guidance clarifying how SFAS No. 157 should be applied when valuing securities in markets that are not active. The guidance provides an illustrative example that applies the objectives and framework of SFAS No. 157, utilizing management s internal cash flow and discount rate assumptions when relevant observable data does not exist. It further clarifies how observable market information and market quotes should be considered when measuring fair value in an inactive market. It reaffirms the notion of fair value as an exit price as of the measurement date and that fair value analysis is a transactional process and should not be broadly applied to a group of assets. FSP 157-3 is effective upon issuance including prior periods for which financial statements have not been issued. We will apply the guidance in FSP 157-3 in determining the fair value of our financial instruments.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008, or EESA, was signed into law. Section 133 of the EESA mandated that the SEC conduct a study on mark-to-market accounting standards. The SEC provided its study to the U.S. Congress on December 30, 2008. Part of the recommendations within the study indicated that fair value requirements should be improved through development of application and best practices guidance for determining fair value in illiquid or inactive markets. As a result of this study and the recommendations therein, on April 9, 2009, the FASB issued FSP 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 provides additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased when compared with normal market activity for the asset or liability (or similar assets or liabilities). FSP 157-4 gives specific factors to evaluate if there has been a decrease in normal market activity and if so, provides a methodology to analyze transactions or quoted prices and make necessary adjustments to fair value in accordance with SFAS No. 157. The objective is to determine the point within a range of fair value estimates that is most representative of fair value under current market conditions.

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FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. We will apply the guidance in FSP 157-4 in determining the fair value of our financial instruments.

Additionally, in conjunction with FSP 15 7-4, the FASB issued FSP 115-2 and FSP 124-2, *Recognition and Presentation of Other Than Temporary Impairments* . The objective of the new guidance is to make impairment guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments (OTTI) on debt and equity securities in financial statements. This, too, was as a result of the SEC mark-to-market study mandated under the EESA. The SEC s recommendation was to evaluate the need for modifications (or the elimination) of current OTTI guidance to provide for a more uniform system of impairment testing standards for financial instruments. The new guidance revises the OTTI evaluation methodology. Previously the analytical focus was on whether the entity had the intent and ability to retain its investment in the debt security for a period of time sufficient to allow for any anticipated recovery in fair value. Now the focus is on whether the entity has the intent to sell the debt security or, more likely than not, will be required to sell the debt security before its anticipated recovery. Further, the security is analyzed for credit loss (the difference between the present value of cash flows expected to be collected and the amortized cost basis). If the company does not intend to sell the debt security, nor will be required to sell the debt security prior to its anticipated recovery, the credit loss, if any, will be recognized in the statement of earnings, while the balance of impairment related to other factors will be recognized in Other Comprehensive Income. If the company intends to sell the security, or will be required to sell the security before its anticipated recovery, the full OTTI will be recognized in the statement of earnings. We will consider the guidance in evaluating our investments for OTTI.

In January 2009, FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue 99-20* (FSP EITF 99-20-1), was issued in an effort to provide a more consistent determination on whether an other-than-temporary impairment has occurred for certain beneficial interests in securitized financial assets. Other-than-temporary impairment has occurred if there has been an adverse change in future estimated cash flow and its impact reflected in current earnings. The determination cannot be overcome by management judgment of the probability of collecting all cash flows previously projected. For debt securities that are not within the scope of FSP EITF 99-20-1, SFAS No. 115 continues to apply. The objective of other-than-temporary impairment analysis is to determine whether it is probable that the holder will realize some portion of the unrealized loss on an impaired security. Factors to consider when making an other-than-temporary impairment decision include information about past events, current conditions, reasonable and supportable forecasts, remaining payment terms, financial condition of the issuer, expected defaults, value of underlying collateral, industry analysis, sector credit rating, credit enhancement, and financial condition of guarantor. We anticipate that our Non-Agency MBS assets will fall under the guidance of FSP EITF 99-20-1 and as such we will assess each security for OTTI in accordance with its guidance.

Results of Operations

As of the date of this prospectus, we have not commenced any significant operations because we are in our organizational stage. We will not commence any significant operations until we have completed this offering and the concurrent private placement. We are not aware of any material trends or uncertainties, other than national economic conditions affecting mortgage loans, mortgage-backed securities and real estate, generally, that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition of real estate-related assets, other than those referred to in this prospectus.

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make distributions to our stockholders and other general business needs. We will use significant cash to purchase our target assets, repay principal and interest on our borrowings, make distributions to our stockholders and fund our operations. Our primary sources of cash will generally consist of the net proceeds from this offering and the concurrent private placement, payments of principal and interest we receive on our portfolio of assets, cash generated from our operating results and unused borrowing capacity under our financing sources. We expect that our primary sources of financing will be, to the extent available to us, through (i) non-recourse term borrowing facilities and capital provided under the PPIP, (ii) non- recourse loans provided under the TALF, and (iii) securitizations. In the future, we may utilize other sources of financing to the extent available to us.

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, announced the creation of the PPIP. The PPIP is designed 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. Legacy Loans PPIFs, will be established to purchase troubled loans from insured depository institutions and Legacy Securities PPIFs, will be established to purchase legacy non-Agency RMBS and CMBS that were originally rated AAA from financial institutions. Legacy Loans PPIFs and Legacy Securities PPIFs will have access to equity capital from the U.S. Treasury as well as debt financing provided or guaranteed by the U.S. Government. Under the Legacy Loans Program, the U.S. Treasury will provide up to 50% of the equity capital for each Legacy Loans PPIF, with the remaining 50% provided by private investors, and the FDIC will guarantee the debt issued by the PPIF up to a 6-to-1 debt-to-equity ratio. Under the Legacy Securities Program, the TALF will be expanded and the Federal Reserve Board of NY will provide non-recourse loans to investors to fund purchases of eligible assets, and through Legacy Security PPIFs, the U.S. Treasury will provide up to 50% of the equity capital and senior debt up to 100% of the total equity capital of such PPIFs.

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. The PPIP has not been finalized and its terms are subject to change. As a result, the attractiveness of the 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. In our management agreement, our Manager has agreed to waive any fees payable to our Manager in respect of any equity investment we may decide to make in a Legacy Securities PPIF or Legacy Loans PPIF if managed by Starwood Capital Group or any of its affiliates, including our Manager.

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, provides non-recourse loans to borrowers to fund their purchase of eligible assets, which initially included certain asset-backed securities, or ABS, but not RMBS or CMBS. On March 23, 2009, the U.S. Treasury announced preliminary plans to expand the TALF to include (i) CMBS, and (ii) non-Agency RMBS. On May 1, 2009, the Federal Reserve provided more of the details as to how TALF will be expanded to include CMBS and explained that beginning in June 2009, up to $100 billion of TALF loans will 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, certain high-quality CMBS issued before January 1, 2009, or legacy CMBS, would become eligible collateral under the TALF. However, the FRBNY may limit the volume of TALF loans secured by legacy CMBS and is in the process of establishing other requirements that will apply to legacy CMBS. To date, neither FRBNY nor the U.S. Treasury has announced any details on the manner in which the TALF will be expanded to cover non-Agency RMBS. The TALF program is set to expire on December 31, 2009, but may be extended.

We believe that the expansion of the TALF to include highly rated CMBS may provide us with attractively priced non-recourse term borrowings that we could use to purchase CMBS that are eligible for funding under this program. Once the legacy CMBS requirements are finalized, we believe that the TALF may also provide us with attractively priced non-recourse term financing for the acquisition of legacy CMBS. However, there can be no assurance we will be able to utilize the TALF to finance the acquisition of legacy CMBS 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 our investors.

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 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. To the extent that we fund our acquisition of commercial mortgage loans and CMBS under the PPIP, we expect to deploy leverage on these assets, on a debt-to-equity basis, of up to 6.0 to 1.

Contractual Obligations and Commitments

We had no contractual obligations as of June 1, 2009. Prior to the completion of this offering, we will enter into a management agreement with our Manager. Our Manager will be entitled to receive a base management fee, an incentive fee and the reimbursement of certain expenses. See Our Manager and the Management Agreement Management Fees, Expense Reimbursement and Termination Fee.

Our Manager will use the proceeds from its management fee in part to pay compensation to its officers and personnel who, notwithstanding that certain of them also are our officers, will receive no cash compensation directly from us.

We expect to enter into certain contracts that may contain a variety of indemnification obligations, principally with brokers, underwriters and counterparties to repurchase agreements. The maximum potential future payment amount we could be required to pay under these indemnification obligations may be unlimited.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, or special purpose or variable interest entities, established to facilitate off-balance sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities or entered into any commitment or intent to provide additional funding to any such entities.

Dividends

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 REIT 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 net taxable income. We intend to pay regular quarterly dividends to our stockholders in an amount equal to our net taxable income, if and to the extent authorized by our board of directors. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our repurchase agreements and other debt payable. If our cash available for distribution is less than our net taxable income, we could be required to sell assets or borrow funds to make cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. In addition, 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.

Inflation

Virtually all of our assets and liabilities will be interest rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our distributions will be determined by our board of directors consistent with our obligation to distribute to our stockholders at least 90% of our REIT taxable income on an annual basis in order to maintain our REIT qualification; in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

Quantitative and Qualitative Disclosures About Market Risk

We seek to manage our risks related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk-adjusted returns through ownership of our capital stock. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Credit Risk

We expect to be subject to varying degrees of credit risk in connection with our assets. While we do not expect to encounter credit risk in our Agency MBS assets, we will have exposure to credit risk on the mortgage assets and underlying mortgage loans in our Non-Agency RMBS and CMBS portfolios as well as other assets. Our Manager will seek to manage credit risk by performing deep credit fundamental analysis of potential assets. Credit risk will also be addressed through our Manager s on-going surveillance, investments will be monitored for variance from expected prepayments, defaults, severities, losses and cash flow on a monthly basis.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We will be subject to interest rate risk in connection with our assets and our related financing obligations. In general, we expect to finance the acquisition of our target assets through financings in the form of borrowings under programs established by the U.S. government, warehouse facilities, bank credit facilities (including term loans and revolving facilities), resecuritizations, securitizations and repurchase agreements. We may mitigate interest rate risk through utilization of hedging instruments, primarily interest rate swap agreements. Interest rate swap agreements are intended to serve as a hedge against future interest rate increases on our borrowings.

Interest Rate Effect on Net Interest Income

Our operating results will depend in large part on differences between the income earned on our assets and our cost of borrowing and hedging activities. The cost of our borrowings will generally be based on prevailing market interest rates. During a period of rising interest rates, our borrowing costs generally will increase (1) while the yields earned on our leveraged

fixed-rate mortgage assets will remain static and (2) at a faster pace than the yields earned on our leveraged floating rate mortgage assets, which could result in a decline in our net interest spread and net interest margin. The severity of any such decline would depend on our asset/liability composition at the time as well as the magnitude and duration of the interest rate increase. Further, an increase in short-term interest rates could also have a negative impact on the market value of our target assets. If any of these events happen, we could experience a decrease in net income or incur a net loss during these periods, which could adversely affect our liquidity and results of operations.

Hedging techniques are partly based on assumed levels of prepayments of our target assets. If prepayments are slower or faster than assumed, the life of the investment will be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions. Hedging strategies involving the use of derivative securities are highly complex and may produce volatile returns.

Interest Rate Cap Risk

We may acquire floating rate mortgage assets. These are assets in which the mortgages are typically subject to periodic and lifetime interest rate caps and floors, which limit the amount by which the asset s interest yield may change during any given period. However, our borrowing costs pursuant to our financing agreements will not be subject to similar restrictions. Therefore, in a period of increasing interest rates, interest rate costs on our borrowings could increase without limitation by caps, while the interest-rate yields on our floating rate mortgage assets would effectively be limited. In addition, floating rate mortgage assets may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of less cash income on such assets than we would need to pay the interest cost on our related borrowings. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would harm our financial condition, cash flows and results of operations.

Interest Rate Mismatch Risk

We may fund a portion of our acquisition of mortgage loans and MBS with borrowings that are based on the London Interbank Offered Rate (or LIBOR), while the interest rates on these assets may be indexed to LIBOR or another index rate, such as the one-year Constant Maturity Treasury (or CMT) index, the Monthly Treasury Average (or MTA) index or the 11th District Cost of Funds Index (or COFI). Accordingly, any increase in LIBOR relative to one-year CMT rates, MTA or COFI will generally result in an increase in our borrowing costs that may not be matched by a corresponding increase in the interest earnings on these assets. Any such interest rate index mismatch could adversely affect our profitability, which may negatively impact distributions to our stockholders. To mitigate interest rate mismatches, we may utilize the hedging strategies discussed above.

Our analysis of risks is based on our Manager s experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of decisions by our management may produce results that differ significantly from the estimates and assumptions used in our models and the projected results shown in this prospectus.

Prepayment Risk

Prepayment risk is the risk that principal will be repaid at a different rate than anticipated, causing the return on an asset to be less than expected. As we receive prepayments of principal on our assets, premiums paid on such assets will be amortized against interest income. In general, an increase in prepayment rates will accelerate the amortization of

purchase premiums, thereby reducing the interest income earned on the assets. Conversely, discounts on such assets are accreted into interest income. In general, an increase in prepayment rates will accelerate the accretion of purchase discounts, thereby increasing the interest income earned on the assets.

Extension Risk

Our Manager will compute the projected weighted-average life of our assets based on assumptions regarding the rate at which the borrowers will prepay the mortgages. If prepayment rates decrease in a rising interest rate environment, the life of the fixed-rate assets could extend beyond the term of the interest swap agreement or other hedging instrument. This could have a negative impact on our results from operations, as borrowing costs would no longer be fixed after the end of the hedging instrument while the income earned on the fixed-rate assets would remain fixed. In extreme situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

Market Risk

Market Value Risk. Our available-for-sale securities will be reflected at their estimated fair value, with the difference between amortized cost and estimated fair value reflected in accumulated other comprehensive income pursuant to SFAS 115. The estimated fair value of these securities fluctuates primarily due to changes in interest rates and other factors. Generally, in a rising interest rate environment, the estimated fair value of these securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of these securities would be expected to increase. As market volatility increases or liquidity decreases, the fair value of our assets may be adversely impacted. If we are unable to readily obtain independent pricing to validate our estimated fair value of the securities in our portfolio, the fair value gains or losses recorded in other comprehensive income may be adversely affected.

Real Estate Risk. Commercial and residential mortgage assets are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loans or loans, as the case may be, which could also cause us to suffer losses.

Risk Management

To the extent consistent with maintaining our REIT qualification, we will seek to manage risk exposure to protect our portfolio of financial assets against the effects of major interest rate changes. We generally seek to manage this risk by:

- attempting to structure our financing agreements to have a range of different maturities, terms, amortizations and interest rate adjustment periods;

- using hedging instruments, primarily interest rate swap agreements but also financial futures, options, interest rate cap agreements, floors and forward sales to adjust the interest rate sensitivity of our investment portfolio and our borrowings; and

- using securitization financing to better match the maturity of our financing with the duration of our assets.

BUSINESS

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, CMBS, and other commercial real estate-related debt investments. We may also invest in residential mortgage loans, and 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. 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 of the funds currently managed by Starwood Capital Group that target investments in real estate, we will have the right to invest from 67.5% to 90% of the capital proposed to be invested by any investment vehicle managed by an affiliate of Starwood Capital Group in debt interests relating to real estate. See Conflicts of Interest and Related Policies. Our Manager and Starwood Capital Group have agreed that neither they nor any of their affiliates 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 without providing us with the right to invest at least 50% of the capital required for any proposed investment in our target assets, unless a majority of our independent directors decides otherwise.

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 $5.8 billion of equity in most major sectors of real estate across the capital structure, representing approximately $20.4 billion in assets since inception as of December 31, 2008. As of December 31, 2008, Starwood Capital Group had approximately $12.8 billion of directly and indirectly owned real estate assets under management. Through an investment advisory agreement between our Manager and Starwood Capital Group Management, LLC, our Manager will be able to draw upon the experience and expertise of Starwood Capital Group s team of approximately 135 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 30 people operating in seven offices located in the United States and abroad.

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. Initially, we expect to finance our investments in commercial mortgage loans and CMBS with financings under the

PPIP, and CMBS with financing under the TALF, as well as through securitizations and other sources of financing, in each case to the extent available to us.

We will commence operations upon completion of this offering. We intend to elect and qualify to be taxed as a REIT for U.S. federal income tax purposes, commencing with our initial 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 1940 Act.

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 well beyond their underlying fundamentals. In the past two years, a significant correction in the price of real estate has been underway. Due to the dramatic repricing of real estate assets thus far and the continuing uncertainty in the direction of the real estate markets, a void in the debt and equity capital available for investing in real estate has been created as many banks, insurance companies, finance companies and fund managers face insolvency or have determined to reduce or discontinue investment in debt or equity related to real estate. The dislocations in the real estate market have already caused and we believe will continue to cause an over-correction in the repricing of real estate assets. We expect to capitalize on these market dislocations and capital void. We believe that there will be a significant supply of distressed investment opportunities from sellers and equity sponsors of real estate, including national and regional banks, individuals, insurance companies, finance companies, fund managers and other institutions. The specific investment opportunities within this real estate investing environment may change over time and therefore, our investment strategy may also adapt to take advantage of the changing opportunities. Correction and recovery will take place at different points during the cycle, depending on the asset class and geography. In some markets, long term supply and demand real estate fundamentals will be positive as supply is constrained due to difficulty in obtaining financing, and demand will grow as the local population continues to expand. Underwriting real estate assets today requires rigorous analysis of the macro-economic environment and micro market supply and demand fundamentals as well as analysis of comparable and competing assets and projections on individual or portfolio assets. For real estate debt investments, underwriting requires increased scrutiny of insolvency scenarios and longer holding periods (including extension risk), in addition to typical real estate investment criteria such as coverage ratios, basis and operating fundamentals. We believe that well funded managers will have the opportunity to acquire real estate debt positions and assets with limited competition and at prices deeply discounted to replacement cost. Through identifying the investment opportunities at each point of the cycle and conducting rigorous underwriting analysis on each investment, we believe that our Manager will be well positioned to capitalize on the upcoming market opportunities.

Commercial Mortgage Loans

In the near to medium term, we anticipate a significant opportunity to originate commercial real estate mortgage loans and other debt investments at attractive spreads and low loan-to-value assumptions and to acquire discounted loans on high quality real estate at attractive yields. The global liquidity crisis has led to a re-pricing of risk, more dramatic and severe than other recent periods of distress. The market is demanding the continued de-leveraging of balance sheets of financial institutions in the face of rising loan maturities. Unlike the Resolution Trust Corporation crisis of 1990 to 1992, distress today is affecting much higher quality assets where opportunities are created by excessive leverage and distressed sellers.

Given the low interest rate environment, many of these assets cover debt service but the likelihood that they will be refinanced at maturity is in doubt. In light of this, we anticipate attractive investment opportunities in acquiring performing and non-performing loans from banks, investment banks or any other forced sellers due to margin calls, redemptions, capital adequacy concerns or capital requirements during the next year or two. However, we believe the acquisition of discounted loans will be a relatively short term opportunity because pricing of performing debt positions will likely improve as spreads tighten and liquidity returns to the market.

We anticipate origination of mortgage and mezzanine loans to be a longer lived opportunity and will likely be a pillar of our investment strategy as the wave of floating-rate loans mature. As traditional financing sources diminish, we expect to capitalize on the financing gap by providing mortgage and mezzanine loans to proven sponsors on high-quality assets at attractive yields and reasonable loan-to-value levels. We intend to seek to further enhance our returns by securitizing the senior tranches of our positions to the extent that TALF financing may be available for these types of securities. See Our Financing Strategy.

We believe that there may be attractive opportunities to acquire discounted loans from failed banks and financial institutions through the Federal Deposit Insurance Corporation, or the FDIC, during the next two to three years. Thirty-three depository institutions have failed in 2009 through May 22, 2009, with more than $19.6 billion in combined assets. As of May 18, 2009, we estimate that the FDIC held more than $3 billion in residential mortgage loans from failed depository institutions. The FDIC typically auctions off the loan portfolios, usually in large pools, and often provides debt and/or equity capital for such transactions. These auctions are generally conducted on tight timeframe and provide limited access to information on the specific assets and local markets. We believe that Starwood Capital Group s market knowledge, real estate expertise, geographic coverage and most importantly, execution speed will enable us to be a competitive bidder in these processes. Starwood Capital Group s first sponsored fund successfully executed a similar strategy in the early 1990 s by acquiring assets from the Resolution Trust Corporation.

Commercial Real Estate Corporate Debt

Over the next few years, we also anticipate attractive investment opportunities in the corporate debt of publicly-traded commercial real estate operating and finance companies. We believe that debt maturities and deteriorating operating fundamentals will continue to plague both public and private real estate companies for some time, creating compelling investment opportunities. Implied values of the underlying real estate, already at a fraction of replacement costs, are expected to decline further in the near-term due to the uncertainty of debt refinancing and decreasing cash flows. Corporate debt including bank debt and secured and unsecured bonds are trading at significant discounts to face value, creating implied asset valuation at steep discounts to replacement cost. We expect to capitalize on this market dislocation.

Commercial Mortgage Backed Securities

During the next two years, we anticipate attractive opportunities to acquire select bonds of CMBS at attractive yields. As a result of the drastic re-pricing of risk premiums and severe liquidity constraints, CMBS implied spreads have widened considerably over the last nine months. Even the most senior AAA (or Aaa)-rated CMBS are trading at levels that imply credit losses much higher than historical levels. With the government s intervention through the TALF and PPIP programs, which will provide leverage to investments in CMBS, we expect investor confidence to return, spreads to tighten and pricing to stabilize at more reasonable levels in the near term. We believe that our Manager can further create value through careful security selection and proprietary cash flow analysis.

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Residential Mortgage Loans

Residential mortgage loan pricing has fallen to historically low levels as a result of the U.S. housing market correction which began in late 2006 and the current liquidity crisis. Given the favorable long-term demographics trends and the recent significant U.S. Government initiatives to support the housing market in the United States, we expect the housing market to be the first of all major real estate asset classes to recover. This expected recovery should stabilize loan pricing levels to some extent. 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. Recovery timing and magnitude will depend also on local market fundamentals and trends. Starwood Capital Group has an established joint venture platform that we expect to provide us with access to a national network, presence and knowledge of many key residential real estate markets and enable us to identify potential opportunities and better underwrite our investments.

Our Manager s Competitive Strengths

We believe that we will benefit from the deep experience and significant expertise of our Manager s executive team in real estate investing. Headed by Barry Sternlicht, our chairman and chief executive officer, most of our Manager s executive team has worked together for over 15 years at Starwood Capital Group. On behalf of Starwood Capital Group s eleven sponsored funds, this team has been responsible for investing $5.8 billion of equity in most major sectors of real estate across the capital structure, representing approximately $20.4 billion in assets since inception as of December 31, 2008. As of December 31, 2008, Starwood Capital Group had approximately $12.8 billion of directly and indirectly owned real estate assets under management. Starwood Capital Group has been a leader of public-private/private-public market executions, including the recapitalization and public offerings of NYSE-listed Starwood Hotels & Resorts Worldwide, Inc. and *i*Star Financial, Inc. and privatizations of Société du Louvre and National Golf. They also participated in the formation of Equity Residential Properties Trust, one of the premier U.S. multifamily REITs. Starwood Capital Group has built successful operating businesses in various real estate-related sectors, including hotels, office, multifamily, mezzanine debt, senior housing, golf, retail and health clubs. Our Manager s executive team has managed funds through multiple recessions and market downturns with successful results, creating a strong track record in profiting from distressed real estate. Starwood Capital Group s first fund in the early 1990 s invested primarily in assets sold by the Resolution Trust Corporation in a distressed market place which we believe is similar to the currently prevailing real estate market conditions. We believe this team has an exceptional combination of commercial real estate acquisition, ownership and operating experience in all major sectors.

Achieving attractive returns without taking excess risk is the very foundation of Starwood Capital Group. In any market environment, proprietary transaction flow, knowledge of the property markets, speed of execution, excellent financing relationships, understanding of capital markets, thorough asset underwriting and due diligence, prudent asset management, and a focus on opportunistic exits combine to significantly reduce risk and enhance investor returns. Starwood Capital Group carefully underwrites and structures its investments to protect against downward fluctuations in pricing, operational deficiencies or credit dislocations, sometimes trading a portion of the upside to decrease its risk.

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

Our Manager s executive team consists of Starwood Capital Group s executives, a group of seasoned investment professionals headed by Mr. Sternlicht that has largely worked together for more than 15 years through all stages of the real estate investment cycle. On behalf of the eleven investment vehicles 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. 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 *i*Star 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 realization strategies on non-performing positions, including foreclosure, discounted pay-off, loan restructuring and sales of loans or underlying securities. These more traditional realization strategies are supplemented by Starwood Capital Group s expertise in the structuring of fractured loans (before or after restructuring) and are combined with Starwood Capital Group s real estate expertise to realize the underlying value of real estate collateral efficiently.

Expertise in Capital Markets, Corporate Acquisitions and Real Estate

Our Manager s executive team s 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, members of our Manager s executive team have created or taken public three successful companies, including *i*Star Financial, Inc. and Starwood Hotels & Resorts Worldwide, Inc. They also participated in the formation of Equity Residential Properties Trust, one of the premier U.S. multifamily REITs. Affiliates of Starwood Capital Group have also privatized large public entities as with the recapitalization and restructuring of National Golf Properties, Inc. and the acquisition of Société du Louvre.

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. This will allow our Manager to maximize underlying real estate potential through, when appropriate, branding, development, renovation and repositioning of assets, and to create tailored corporate and partnership solutions to maximize returns.

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.

On behalf of its previously sponsored funds, Starwood Capital Group has been careful to create a diversified portfolio for fund investors and to actively manage concentrations of each fund s capital. All of these funds have maintained diversification by risk profile, geographic area, position in the capital structure and asset type. Our Manager intends to employ a similar diversification strategy for us.

Dedicated Asset Management Team

Attaining attractive returns from investing in real estate require both wise investment decision making and prudent asset management. Starwood Capital Group has an in-house asset management team that employs approximately 30 people in seven offices located both in the United States and abroad. 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 this group as necessary.

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 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.

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;
- seeking to insulate total returns with a balance of sustainable cash flow and residual value by focusing on sustainable yield, which is of paramount concern, particularly in a risk-averse and low interest rate environment, such as the current one;
- 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;

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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.

In implementing our investment strategy, we will utilize our Manager s expertise in identifying undervalued assets, securities and operating companies as well as its capabilities in transaction sourcing, underwriting, execution and asset operation, management and disposition. Our Manager s Investment Committee, which will be chaired by Mr. Sternlicht and will also include Jeffrey Dishner, Jerome Silvey, Barden Gale, Marc Perrin and Christopher Graham, will make investment, financing, asset management and disposition decisions on our behalf. These decisions will be generally based upon our Manager s view of the current and future economic environment, its outlook for real estate in general and the particular asset class and, finally, its assessment of the risk-reward profile derived from proprietary underwriting and cash flow analysis. In general, our Manager will employ a bottom-up , fundamental approach to asset and security valuation. All investment decisions will be made with a view to maintaining our qualification as a REIT and our exemption from registration under the 1940 Act.

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 which restrict other Starwood Capital Group sponsored funds from targeting such investments.

Our Target Assets

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 loan to own investments as describe 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.

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

Commercial Mortgage Loans and Other Commercial Real Estate Debt Investments

In the months following this offering, we intend to focus on commercial mortgage loan origination and purchase of loan portfolios that may become available under the Legacy Loans Program and any asset sales by the FDIC.

Whole Mortgage Loans. We may originate or purchase whole mortgage loans secured by a first mortgage lien on commercial property which provide long-term mortgage financing to commercial property developers and owners that generally have maturity dates ranging from three to ten years. In some cases, we may originate and fund a first mortgage loan with the intention of selling the senior tranche, or an A Note, and retaining the subordinated tranche, or a B Note, or mezzanine loan tranche. We may receive origination fees, extension fees, modification or similar fees in connection with our whole mortgage loans.

Bridge Loans. We may originate or purchase whole mortgage loans secured by a first mortgage lien on commercial property which provide interim or bridge financing to borrowers seeking short-term capital typically for the acquisition of real estate. The maturity dates of bridge loans are generally shorter than three years. Bridge loans contemplate a takeout with the borrower, using the proceeds of a conventional mortgage loan to repay our bridge loan. We may also receive origination fees, extension fees, modification or similar fees in connection with our bridge loans. We believe providing these bridge loans will lead to future investment opportunities for us, including conventional mortgage loans and mezzanine loans with the same borrowers.

B Notes. We may originate or acquire B Notes in negotiated transactions with the originators and in the secondary market. A B Note is 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. The subordination of a B Note typically is evidenced by an inter-creditor agreement with the holder of the related A Note. B Notes are subject to more credit risk with respect to the underlying mortgage collateral than the corresponding A Note.

Mezzanine Loans. We may originate or purchase mezzanine loans, which are loans made to property owners that are secured by pledges of the borrower s ownership interests in the property and/or the property owner. Mezzanine loans are subordinate to whole mortgage loans secured by first or second mortgage liens on the property and are senior to the borrower s equity in the property. Upon default, the mezzanine lender can foreclose on the ownership interests pledged under the loan and thereby succeed to ownership of the property, subject to the mortgage holders on the property. We may receive origination fees, extension fees, modification or similar fees in connection with our mezzanine loans.

Construction/Rehabilitation Mortgage Loans and Mezzanine Loans. We also may originate or acquire participations in construction or rehabilitation loans on commercial properties. These loans will generally provide 40% to 60% of financing on the total cost of the construction or rehabilitation project and will be secured by first mortgage liens on the property under construction or rehabilitation. Alternatively, we may make mezzanine loans to finance construction or rehabilitation of commercial properties. Investments in construction and rehabilitation loans would generally allow us to earn origination fees and may also entitle us to a percentage of the underlying property s net operating income (subject to our qualification as a REIT) or gross revenues, payable on an ongoing basis, as well a percentage of any increase in value of the property, payable upon maturity or refinancing of the loan.

Commercial Mortgage-Backed Securities

Commercial mortgage-backed securities, or CMBS, are securities which are collateralized by, or evidence ownership interests in, a mortgage loan secured by a single commercial property, or a partial or entire pool of mortgage loans secured by commercial properties. We may invest in senior or subordinated investment grade CMBS, which are rated BBB- (or Baa3) or higher. We may also invest in below investment grade CMBS, which are rated lower than BBB- (or Baa3), and unrated CMBS.

In general, we intend to invest in CMBS that will yield high current interest income and where we consider the return of principal to be likely. The yields on CMBS depend on the timely payment of interest on and principal of the underlying mortgage loans, and defaults by

the borrowers under such loans may ultimately result in deficiencies and defaults on the CMBS. In the event of a default by the issuer of the CMBS, the trustee for the benefit of the holders of CMBS has recourse only to the underlying pool of mortgage loans and, if an underlying mortgage loan is in default, to the property securing such loan. After the trustee has exercised all of the rights of a lender under a defaulted mortgage loan and the related mortgaged property has been liquidated, no further remedy will be available. However, holders of senior classes of CMBS will be protected to a certain degree by the structural features of the securitization transaction within which such CMBS were issued, such as the subordination of the junior classes of the CMBS.

We intend to acquire CMBS from private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage bankers, commercial banks, finance companies, investment banks and other entities. To the extent available to us, we may acquire CMBS through financing under the TALF, the PPIP and the Legacy Securities Program, each of which is described in Our Financing Strategy below. To the extent available to us, we generally expect to invest in newly originated CMBS under the TALF or the PPIP. Initially, we expect that the majority of our investments in CMBS will be acquired through financing under the TALF. CMBS financed under the TALF may not be junior to other securities with claims on the same pool of underlying commercial mortgage loans, must have a credit rating in the highest long-term investment-grade rating category from at least two TALF CMBS-eligible rating agencies and must not have a credit rating below the highest investment-grade rating category from any TALF CMBS-eligible rating agency.

Other Commercial Real Estate Related Investments

Commercial Real Estate Corporate Debt. We may invest in the corporate bank debt and corporate bonds of CRE operating or finance companies. Corporate bank debt may be in the form of a term loan or a revolving credit facility and is generally secured by the company s assets. A substantial portion of the corporate bank debt is the most senior position in the company s corporate liabilities and thus provides most safety and achieves high recovery rates historically. Corporate bonds may be secured by the company s assets or may not provide for any security. We may invest in high yield bonds of CRE operating or finance companies, which are debt obligations of corporations and other non-governmental entities rated below BBB− (or Baa3), as well as investment grade corporate bonds, which are debt obligations of corporations and other non-governmental entities rated BBB− (or Baa3) or higher. To the extent we invest in corporate bank debt and corporate bonds, we expect that a significant amount of the holdings will not be secured by liens on real estate assets. A substantial portion of the corporate bank debt and investment grade corporate bonds we may hold may have an interest-only payment schedule, with the principal amount remaining outstanding and at risk until the bond s maturity.

Residential Mortgage Loans and Residential Mortgage-Backed Securities

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

Residential Mortgage Loans. We may also invest in residential mortgage loans, which are generally secured by a first mortgage lien on a residential property. A portion of the loans may not have any amortization payments, or at least for a few years initially, and therefore the principal amount could remain outstanding and at risk until we exit our investment or until maturity.

Residential Mortgage-Backed Securities. We may invest in securities that are collateralized by residential mortgage loans, or RMBS. The mortgage loans underlying these securities may be adjustable rate mortgage loans, or ARMs, fixed rate mortgage loans, or FRMs, or

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hybrid ARMs. The payments of principal and interest on certain of the RMBS in which we may invest may be guaranteed by a U.S. Government agency such as the Government National Mortgage Association, or Ginnie Mae, or a federally chartered corporation such as the Federal National Mortgage Association, or Fannie Mae, or the Federal Home Loan Mortgage Corporation, or Freddie Mac. We refer to these types of RMBS as Agency RMBS. We may also invest in RMBS that are not guaranteed by any U.S. Government agency or federally chartered corporation, or non-Agency RMBS.

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) non-recourse term borrowing facilities and capital provided under the PPIP, (ii) non-recourse loans provided under the TALF, and (iii) securitizations. In the future, we may also utilize other private sources of financing. Descriptions of the types of financings we expect to employ are described in more detail below.

Government Financing

Initially, we expect to finance our investments in commercial mortgage loans and CMBS with financings under the U.S. Government s Public-Private Investment Program, or PPIP, and CMBS with financing under the Term Asset-Backed Securities Loan Facility, or TALF, in each case to the extent available to us, as well as through securitizations and other sources of financing that may be available to us.

A description of the financing that may be made available to us under the PPIP and the TALF is set forth below. There can be no assurance that we will be eligible to participate in these programs or, if we are eligible, that we will be able to utilize them successfully or at all.

The Public-Private Investment Program

On March 23, 2009, the U.S. Treasury, in conjunction with the FDIC, announced the establishment of the PPIP. The PPIP is designed to encourage the transfer of certain illiquid legacy real estate-related assets off of the balance sheets of certain 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 has two primary components: the Legacy Loans Program and the Legacy Securities Program.

Under the Legacy Loans Program, Legacy Loans PPIFs will be established to purchase troubled loans (including commercial and residential mortgage loans) from insured depository institutions. In the loan sales, assets will be priced through an auction process to be established under the program. For a bid to be considered in the auction process, the bid must be accompanied by a refundable cash deposit for 5% of equity of the bid. The Legacy Loans PPIF will be able to fund the asset purchase through the issuance of senior notes by the Legacy Loans PPIF. The notes will be collateralized by PPIF assets and guaranteed by the FDIC in exchange for a debt guarantee fee. The amount of the purchase price that can be funded through the issuance of these notes will vary from transaction to transaction based on standards to be established by the FDIC, but is not expected to exceed six times the amount of equity used by the PPIF to fund the acquisition. It is expected that financing terms and leverage ratios for fundings will be established and disclosed to potential investors prior to bid submission in Legacy Loans Program auctions. The U.S. Treasury will also provide up to 50% of the equity capital financing for each Legacy Loans PPIF. As required by the EESA, the U.S. Treasury will receive warrants from each PPIF. The terms and amounts of such warrants have not yet been determined. Legacy Loans PPIFs, through their investment manager, will

control and manage their asset pools within parameters pre-established by the FDIC and the U.S. Treasury, with reporting to and oversight by the FDIC. Legacy Loans PPIFs must agree to waste, fraud and abuse protections and will be required to make certain representations, warranties and covenants regarding the conduct of their business and compliance with applicable law. They must also provide information to the FDIC in performance of its oversight role. We may acquire commercial and residential mortgage loans with financing under the Legacy Loans Program.

Under the Legacy Securities Program, Legacy Securities PPIFs will be established to purchase from financial institutions certain non-Agency RMBS and CMBS that were originally rated in the highest rating category by one or more of the nationally recognized statistical rating organizations. The U.S. Treasury will invest up to 50% of the equity capital raised for each PPIF and will also provide attractively priced secured non-recourse loans in an aggregate amount of up to 50% of the PPIF s total equity capital so long as the PPIF s private investors do not have voluntary withdrawal rights. In addition, the U.S. Treasury will consider requests for debt financing of up to 100% of a PPIP s total equity capital, subject to restrictions on asset level leverage, withdrawal rights, disposition priorities and other factors to be developed by the U.S. Treasury. Loans made by the U.S. Treasury to any PPIF will accrue interest at an annual rate to be determined by the U.S. Treasury and will be payable in full on the date of termination of the PPIF. The equity and debt financing under the Legacy Securities Program is available to Legacy Securities PPIFs managed by investment managers who have been selected as a Legacy Securities PPIF asset manager under the program.

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. The PPIP has not been finalized and its terms are subject to change. As a result, the attractiveness of the program 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. In our management agreement, our Manager has agreed to waive any fees payable to our Manager in respect of any equity investment we may decide to make in a Legacy Loans PPIF or Legacy Securities PPIF if managed by Starwood Capital Group or any of its affiliates, including our Manager.

The Term Asset-Backed Securities Loan Facility

In response to the severe dislocation in the credit markets, the U.S. Treasury and the Federal Reserve jointly announced the establishment of the TALF on November 25, 2008. The

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TALF is designed to increase credit availability and support economic activity by facilitating renewed securitization activities. Under the TALF, the FRBNY makes non-recourse loans to borrowers to fund their purchase of ABS collateralized by certain assets such as student loans, auto loans and leases, floor plan loans, credit card receivables, receivables related to residential mortgage servicing advances, equipment loans and leases, loans guaranteed by the SBA and CMBS. Under the TALF, the FRBNY may lend up to $200 billion to certain holders of TALF-eligible ABS. Any U.S. company that owns TALF-eligible ABS may borrow from the FRBNY under TALF, provided that the company maintains an account relationship with a primary dealer. TALF is scheduled to expire on December 31, 2009, but may be extended.

On March 23, 2009, the U.S. Treasury announced preliminary plans to expand the TALF to include (i) CMBS and (ii) non-Agency RMBS. On May 1, 2009, the Federal Reserve provided more of the details as to how TALF will be expanded to include CMBS and explained that beginning in June 2009, up to $100 billion of TALF loans will 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, certain high-quality CMBS issued before January 1, 2009, or legacy CMBS, would become eligible collateral under the TALF. However, the FRBNY may limit the volume of TALF loans secured by legacy CMBS and is in the process of establishing other requirements that will apply to legacy CMBS. To date, neither FRBNY nor the U.S. Treasury has announced any details on the manner in which the TALF will be expanded to cover non-Agency RMBS.

To be eligible for TALF funding, the following conditions must be satisfied with respect to newly issued CMBS:

- The CMBS must be collateralized by first-priority mortgage loans or participations therein that are current in payment at the time of securitization;

- The underlying mortgage loans must be fixed-rate loans that do not provide for interest-only payments during any part of their term;

- The underlying mortgage loans must be secured by one or more income-generating commercial properties located in the United States or one of its territories;

- Ninety-five percent or more of the dollar amount of the credit exposures underlying the CMBS must be exposures that are originated by U.S.-organized entities or institutions or U.S. branches or agencies of foreign banks.

- The CMBS must be issued on or after January 1, 2009 and the underlying mortgage loans must have been originated on or after July 1, 2008;

- The underwriting for the CMBS must be prepared generally on the basis of then-current in-place, stabilized and recurring net operating income and then-current property appraisals;

- The CMBS collateralizing the TALF borrowing must have a credit rating in the highest long-term investment-grade rating category, without the benefit of third party credit support, from at least two CMBS eligible national rating agencies and must not have a credit rating below the highest long-term investment-grade rating category from any CMBS eligible national rating agency;

- The CMBS must entitle its holders to payments of principal and interest (that is, must not be an interest-only or principal-only security);

The CMBS must bear interest at a pass-through rate that is fixed or based on the weighted average of the underlying fixed mortgage rates;

The CMBS collateralizing the TALF borrowing must not be junior to other securities with claims on the same pool of loans; and

Control over the servicing of the underlying mortgage loans must not be held by investors in a subordinate class of the CMBS once the principal balance of that class is reduced to less than 25% of its initial principal balance as a result of both actual realized losses and appraisal reduction amounts .

The Federal Reserve also described the following terms for CMBS collateralized TALF loans:

Each TALF loan secured by CMBS will have a three-year maturity or five-year maturity, at the election of the borrower;

A three-year TALF loan will bear interest at a fixed rate per annum equal to 100 basis points over the three-year LIBOR swap rate. A five-year TALF loan is expected to bear interest at a fixed rate per annum equal to 100 basis points over the five-year LIBOR swap rate;

The collateral haircut for each CMBS with an average life of five years or less will be 15%. For CMBS with average lives beyond five years, collateral haircuts will increase by one percentage point for each additional year of average life beyond five years. No CMBS may have an average life beyond ten years. The TALF loan amount for each legacy CMBS will be the dollar purchase price of the CMBS less the base dollar haircut (from par);

Any remittance of principal on the CMBS must be used immediately to reduce the principal amount of the TALF loan in proportion to the TALF advance rate. In addition, for five-year TALF loans, the excess of CMBS interest distributions over the TALF loan interest payable will be remitted to the borrower only until such excess equals 25% per annum of the haircut amount in the first three loan years, 10% in the fourth loan year, and 5% in the fifth loan year, and the remainder of such excess will be applied to TALF loan principal. For a three-year TALF loan relating to Legacy CMBS, such excess will be remitted to the borrower in each loan year until it equals 30% per annum of the haircut amount, with the remainder applied to loan principal;

The loans will be non-recourse to the borrower, unless the borrower breaches its representations, warranties or covenants;

The loans will be exempt from margin calls related to a decrease in the underlying collateral value;

The loans are pre-payable in whole or in part at the option of the borrower, and generally prohibit collateral substitutions;

A TALF borrower must agree not to exercise or refrain from exercising any voting, consent or waiver rights under a CMBS without the consent of the FRBNY;

The FRBNY will retain the right to reject any CMBS as TALF loan collateral based on its risk assessment, and will pay particular attention to CMBS mortgage pools with large historical losses, concentrations of loans that are delinquent, in special servicing or on servicer watch lists or concentrations of subordinated-priority mortgage loans, and CMBS mortgage pools that are not diversified with respect to loan size, geography, property type, borrower sponsorship and other characteristics; and

The FRBNY may limit the volume of TALF loans secured by legacy CMBS, and is considering whether to allocate such volume via an auction or other procedure.

We believe that the expansion of the TALF to include highly rated CMBS may provide us with attractively priced non-recourse term borrowings that we could use to purchase CMBS that are eligible for funding under this program. Once the legacy CMBS requirements are finalized, we believe that the TALF may also provide us with attractively priced non-recourse term financing for the acquisition of legacy CMBS. However, there can be no assurance we will be able to utilize the TALF to finance the acquisition of legacy CMBS 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, if available, 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 our investors.

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 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. To the extent that we fund our acquisition of commercial mortgage loans and CMBS under the PPIP, we expect to deploy leverage on these assets, on a debt-to-equity basis, of up to 6.0 to 1.

Investment Guidelines

Our board of directors has adopted the following investment guidelines:

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

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 money market accounts and/or funds, that are consistent with our intention to qualify as a REIT.

In addition, any investment of up to $25 million requires the approval of our chief executive officer. Any investment in excess of $25 million but less than or equal to $75 million requires the approval of our Manager s Investment Committee. Any investment in excess of $75 million but less than or equal to $150 million requires the approval of the Investment Committee of our board of directors, which initially will consist of as well as our Manager s Investment Committee. 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 strategy that would modify or expand the types of assets in which we invest.

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 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. 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. We believe that the flexibility of our investment strategy, combined with our Manager s expertise among our target asset classes, will enable us to make distributions and achieve capital appreciation throughout changing interest rate and credit cycles and provide attractive risk-adjusted long term returns to our stockholders under a variety of market conditions and economic cycles.

Investment Committee

Our Manager has an Investment Committee which will initially be comprised of Mr. Sternlicht, the chairman of the committee, and Jeffrey Dishner, Jerome Silvey, Barden Gale, Marc Perrin and Christopher Graham. Our Manager s Investment Committee will meet periodically, at least every quarter, to discuss investment opportunities. The Investment Committee will periodically review our investment portfolio and its compliance with our investment guidelines described above, and provide our board of directors an investment report at the end of each quarter in conjunction with its review of our quarterly results. From time to time, as it deems appropriate or necessary, our board of directors also will review our investment portfolio and its compliance with our investment guidelines and the appropriateness of our investment guidelines and strategies.

Investment Process

Through our Manager s investment advisory agreement with Starwood Capital Group Management, LLC, our Manager has access to a dedicated acquisition team of experienced real estate professionals assisted by an associate/analyst pool. This team is responsible for underwriting the market, developing a financial model to test sensitivities, structuring transactions and leading the due diligence process. The acquisition team receives assistance from Starwood Capital Group s asset management group in developing market assumptions on rents, occupancies, lease-up, expenses, etc. They also receive technical support from Starwood Capital Group s construction, legal, tax and finance teams. These in-house functions align our interests with our investors in all aspects of the process, preserving accountability to drive performance. Our Manager s acquisition team will hold regular meetings where they share their observations on the market activities and policy changes, review our investment strategy and discuss transactions of potential interest and updates on our pipeline.

Our investment process will include sourcing and screening of investment opportunities, assessing investment suitability, conducting interest rate and prepayment analysis, evaluating cash flow and collateral performance, reviewing legal structure and servicer and originator information and investment structuring, as appropriate, to seek an attractive return commensurate with the risk we are bearing. Upon identification of an investment opportunity, the investment will be screened and monitored by our Manager to determine its impact on maintaining our REIT qualification and our exemption from registration under the 1940 Act. We will seek to make investments in sectors where our Manager has strong core competencies and where we believe market risk and expected performance can be reasonably quantified.

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

Risk Management

As part of our risk management strategy, our Manager will actively manage the financing, interest rate, credit, prepayment and convexity risks associated with holding a portfolio of our target assets.

Asset Management

We recognize the importance of active asset management in successful investing and Starwood Capital Group has a dedicated, in-house asset management group. These asset management professionals provide not only investment oversight, but also critical input to the acquisition process. This interactive process coordinates underwriting assumptions with direct knowledge of local market conditions and costs and revenue expectations. These critical assumptions then become the operational benchmarks by which the asset managers are guided and evaluated in their on-going management responsibilities. For mortgage investments, annual budgets are reviewed and monitored quarterly for variance, and follow up and questions are directed by the asset manager back to the owner. For securities investments, monthly remittance reports are reviewed, and questions are prompted by the asset manager to the servicer and trustee to ensure strict adherence to the servicing standards set forth in the applicable pooling and servicing agreements. All materials are submitted to our chief financial officer for review on a quarterly basis. Our main value creation will be careful asset specific and market surveillance, rigid enforcement of loan and security rights, and timely sale of underperforming positions prior to potential for loss. One of the key components in the underwriting process is the evaluation of potential exit strategies. The asset management group monitors each investment and reviews the disposition strategy on a regular basis in order to realize appreciated values and maximize returns.

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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 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 objective. Under the U.S. federal income tax laws applicable to REITs, we generally will be able to enter into certain transactions to hedge indebtedness that we may incur, or plan to incur, to acquire or carry real estate assets, although our total gross income from interest rate hedges that do not meet this requirement and other non-qualifying income generally must not exceed 5% of our gross income.

Subject to maintaining our qualification as a REIT, we intend to engage in a variety of interest rate management techniques that seek on one hand to mitigate the influence of interest rate changes on the values of some of our assets and on the other hand help us achieve our management objective. We intend to utilize derivative financial instruments, including, among others, puts and calls on securities or indices of securities, interest rate swaps, interest rate caps, interest rate swaptions, exchange-traded derivatives, U.S. Treasury securities and options on U.S. Treasury securities and interest rate floors to hedge all or a portion of the interest rate risk associated with the financing of our portfolio. Specifically, we will seek to hedge our exposure to potential interest rate mismatches between the interest we earn on our investments and our borrowing costs caused by interest rate fluctuations. In utilizing leverage and interest rate hedges, our objectives will be to improve risk-adjusted returns and, where possible, to lock in, on a long-term basis, a favorable spread between the yield on our assets and the cost of our financing. We will rely on our Manager s expertise to manage these risks on our behalf.

The U.S. federal income tax rules applicable to REITs, may require us to implement certain of these techniques through a TRS that is fully subject to U.S. federal corporate income taxation.

Market Risk Management

Risk management is an integral component of our strategy to deliver returns to our stockholders. 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. In addition, because we will employ financial leverage in funding our portfolio, mismatches in the maturities of our assets and liabilities can create risk in the need to continually renew or otherwise refinance our liabilities. Our net interest margin will be dependent upon a positive spread between the returns on our asset portfolio and our overall cost of funding. 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. Our Manager s risk management tools include software and services licensed or purchased from third parties, in addition to proprietary analytical methods developed by Starwood Capital Group. There can be no guarantee that these tools will protect us from market risks.

Credit Risk

Through our investment strategy we will seek to limits our credit losses and reduce our financing costs. However, we retain the risk of potential credit losses on all of the commercial and residential mortgage loans, other real-estate related debt investments, and the mortgage loans underlying the CMBS and RMBS we may acquire. We seek to manage this risk through our pre-acquisition due diligence process and through use of non-recourse financing, when and where available and appropriate, on a risk adjusted basis which limits our exposure to credit losses to the specific pool of mortgages that are subject to the non-recourse financing.

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In addition, with respect to any particular target asset, our Manager s investment team evaluates, among other things, relative valuation, comparable analysis, supply and demand trends, shape of yield curves, prepayment rates, delinquency and default rates, recovery of various sectors and vintage of collateral.

Conflicts of Interest and Related Policies

We are dependent on our Manager for our day-to-day management and do not have any independent officers or employees, other than our chief financial officer and chief compliance officer. Each of our officers and three of our directors, Mr. Sternlicht, 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 our Manager and its officers and personnel spend managing us.

Our ability to make investments in our target assets is subject to investment opportunity allocation provisions applicable to certain funds currently managed by affiliates of Starwood Capital Group other than our Manager. On behalf of a number of institutional investors, affiliates of Starwood Capital Group currently manage private funds targeting investments in equity and debt interests in various classes of real estate. We collectively refer to these funds as the Starwood private real estate funds. Pursuant to the investment opportunity allocation provisions of the Starwood private real estate funds, they collectively have the right to invest from 10% to 32.5% of the capital proposed to be invested by any investment vehicle managed by an affiliate of Starwood Capital Group in debt interests relating to real estate, which are referred to as Specified Debt Investments in these funds organizational documents. Specified Debt Investment is defined in these funds organizational documents as an investment opportunity where more than 50% of the aggregate anticipated investment returns are from either: (i) a loan or debt instrument, mezzanine loan, participating loan, derivative transaction, swap or hedging transaction or similar investment (or a participation therein), in each case, whether or not (A) having equity characteristics, or (B) convertible into equity; provided that such investment is acquired or made without the primary intent and/or expectation of foreclosing on, or otherwise acquiring, the real property securing the same in exchange for, or in satisfaction of, such loan within eighteen (18) months after such investment is acquired or made; or (ii) an investment in, or relating to, any person or entity whose primary business is or relates to, the making of investments described in clause (i). Each Starwood private real estate fund s ability to exercise its co-investment right is subject to the availability of the fund s capital for investment and 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 right is likewise subject to the availability of our capital for investment. The Starwood private real estate funds co-investment rights are expected to be in effect for up to three years following this offering. 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 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 certain 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 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 director would not have the flexibility to expand our investment strategy to include equity interests in real estate or loan-to-own investments prior to the expiration of the exclusivity provisions of these Starwood private real estate funds.

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 consent to such a property owner seeking to engage, or lease property to, an affiliate of Starwood Capital Group.

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 to us, and (ii) any sale of our assets to any of the Starwood parties. We expect our board of directors to adopt a policy that prohibits any of our directors or officers or the officers of our Manager from making any individual investments for their own account in any of our target assets in excess of $10 million. However, our code of business conduct and ethics contains a conflicts of interest policy that prohibits our directors and officers and any other personnel of Starwood Capital Group who provide services to us from engaging in any transaction that involves an actual conflict of interest with us.

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 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.

Policies With Respect to Certain Other Activities

If our board of directors determines that additional funding is required, we may raise such funds through additional offerings of equity or debt securities or the retention of cash flow (subject to provisions in the Internal Revenue Code concerning distribution requirements and the taxability of undistributed REIT taxable income) or a combination of these methods. In the event that our board of directors determines to raise additional equity capital, it has the authority, without stockholder approval, to issue additional common stock or preferred stock in any manner and on such terms and for such consideration as it deems appropriate, at any time.

In addition, to the extent available we intend to borrow money to finance the acquisition of our investments. We intend to use traditional forms of financing, including securitizations, as well as financing that may be available to us through the PPIP and TALF. We also may utilize structured financing techniques to create attractively priced non-recourse financing at an all-in

borrowing cost that is lower than that provided by traditional sources of financing and that provide long-term, floating rate financing. Our investment guidelines and our portfolio and leverage are periodically reviewed by our board of directors as part of their oversight of our Manager.

As of the date of this prospectus, we do not intend to offer equity or debt securities in exchange for property.

We may invest in the debt securities of other REITs or other entities engaged in real estate operating or financing activities, but not for the purpose of exercising control over such entities.

Our board of directors may change any of these policies without prior notice to you or a vote of our stockholders.

Operating and Regulatory Structure

REIT Qualification

We intend to elect to qualify as a REIT commencing with our initial 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 REIT taxable income 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.

The company is organized as a holding company that conducts its businesses primarily through wholly-owned subsidiaries. The company intends to conduct its operations so that it does not come within the definition of an investment company because less than 40% of the value of its 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

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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 the company will not be considered an investment company under Section 3(a)(1)(A) of the 1940 Act because it will not engage primarily or hold itself 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 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, 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 contained in this Rule. In general, Rule 3a-7 exempts from the 1940 Act issuers that limit their activities as follows:

- the issuer issues securities the payment of which depends primarily on the cash flow from eligible assets, which include many of the types of assets that we expect to acquire in our TALF fundings, that by their terms convert into cash within a finite time period;

any securities sold to the public are fixed income securities rated investment grade by at least one rating agency (fixed income securities which are unrated or rated below investment grade may be sold to institutional accredited investors and any securities may be sold to qualified institutional buyers and to persons involved in the organization or operation of the issuer);

the issuer acquires and disposes of eligible assets (1) only in accordance with the agreements pursuant to which the securities are issued, (2) so that the acquisition or disposition does not result in a downgrading of the issuer s fixed income securities and (3) the eligible assets are not acquired or disposed of for the primary purpose of recognizing gains or decreasing losses resulting from market value changes; and

unless the issuer is issuing only commercial paper, the issuer appoints an independent trustee, takes reasonable steps to transfer to the trustee an ownership or perfected security interest in the eligible assets, and meets rating agency requirements for commingling of cash flows.

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 MBS 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.

Competition

Our net income will depend, in part, on our ability to acquire assets at favorable spreads over our borrowing costs. In acquiring our target assets, we will compete with other REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies and other entities. See Management s Discussion and Analysis of Financial Condition and Results of Operations Market Conditions. In addition, there are numerous REITs with similar asset acquisition objectives, including a number that have been recently formed, and others may be organized in the future. These other REITs will increase competition for the available supply of mortgage assets suitable for purchase and origination. Many of our anticipated competitors are significantly larger than we are, have access to greater capital and other resources and may have other advantages over us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than we can. Current market conditions may attract more competitors, which may increase the competition for sources of financing. An increase in the competition for sources of funding could adversely affect the availability and cost of financing, and thereby adversely affect the market price of our common stock. See Management s Discussion and Analysis of Financial Condition and Results of Operations Market Conditions.

In the face of this competition, we expect to have access to our Manager s professionals and their industry expertise, which may provide us with a competitive advantage and help us assess investment risks and determine appropriate pricing for certain potential investments. We expect that these relationships will enable us to compete more effectively for attractive investment opportunities. In addition, we believe that current market conditions may have adversely affected the financial condition of certain competitors. Thus, not having a legacy portfolio may also enable us to compete more effectively for attractive investment opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face. For additional information concerning these competitive risks, see Risk Factors Risks Related to Our Investments We operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments in our target assets and could also affect the pricing of these securities.

Staffing

We will be externally managed by our Manager pursuant to the management agreement between our Manager and us. Our chief executive officers and each of our other executive officers (other than our chief financial officer and our chief compliance officer) are executives of Starwood Capital Group. Upon completion of this offering, we will have only two employees, our chief financial officer and our chief compliance officer. See Our Manager and The Management Agreement Management Agreement.

Legal Proceedings

Neither we nor, to our knowledge, our Manager is currently subject to any legal proceedings which we or our Manager consider to be material.

MANAGEMENT

Our Directors, Director Nominees and Executive Officers

Currently, Mr. Sternlicht is our sole director. Upon completion of the offering, our board of directors is expected to be comprised of seven members, three of which will be executives of Starwood Capital Group. Our directors will each be elected to serve a term of one year. We expect our board of directors to determine that each of the four director nominees listed in the table below satisfy the listing standards for independence of the NYSE. Our Bylaws provide that a majority of the entire board of directors may at any time increase or decrease the number of directors. However, unless our Bylaws are amended, the number of directors may never be less than the minimum number required by the MGCL nor more than 15.

The following sets forth certain information with respect to our directors, director nominees, executive officers and other key personnel:

Name	Age	Position Held with Us
Barry S. Sternlicht		Chief Executive Officer, President and Chairman of the Board of Directors
		Director
		Director
		Director Nominee
		Director Nominee
		Director Nominee
		Director Nominee
Jerome C. Silvey		Chief Financial Officer, Treasurer, Executive Vice President
Ellis F. Rinaldi		General Counsel, Secretary, Executive Vice President

Pursuant to our charter, upon the completion of this offering, the board of directors will be divided into three classes of directors. Our first class of directors (consisting of and) will serve until our annual meeting of stockholders in 2010, our second class of directors (consisting of and) will serve until our annual meeting of stockholders in 2011; and our third class of directors (consisting of Barry S. Sternlicht, and) will serve until our annual meeting of stockholders in 2012. At each annual meeting of the stockholders, the successors to the class of directors whose term expires at such meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify.

Set forth below is biographical information for our directors, director nominees and executive officers.

Directors and Director Nominees

Barry S. Sternlicht is the chairman of our board of directors and our chief executive officer and president. He also serves as the president of our Manager.

Mr. Sternlicht has been the President and Chief Executive Officer of Starwood Capital Group since its formation in 1991. Over the past 18 years, he has structured more than 300 investment transactions with an asset value of more than $40 billion. He was the Chairman of Starwood Hotels & Resorts Worldwide, Inc., an NYSE-listed company, from September 1997 to May 2005 and the Chief Executive Officer of this company from January 1999 to October 2004.

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He was also the Chairman of Starwood Hotels & Resorts, a wholly-owned subsidiary of the NYSE-listed company, from January 1995 to May 2005 and the Chief Executive Officer of this subsidiary from January 1995 to October 2004. Founded by Mr. Sternlicht in 1995, Starwood Hotels is now one of the leading hotel and leisure companies in the world with more than 800 properties in 80 countries and more than 115,000 employees. Starwood Hotels is a fully integrated owner, operator and franchiser of hotels and resorts with seven internationally renowned brands, including: The St. Regis, The Luxury Collection, W Hotels, Sheraton, Westin, Le Meridien and Four Points by Sheraton, as well as Starwood Vacation Ownership, Inc., a premier developer and operator of vacation ownership resorts.

Mr. Sternlicht is Chairman of the Board of Société du Louvre and Baccarat. He also serves on the Board of Directors of National Golf, The Estée Lauder Companies, the National Advisory Board of JPMorgan Chase and the Advisory Board of Eurohypo Bank. Mr. Sternlicht is a Trustee of Brown University. He serves on the boards of the Juvenile Diabetes Research Foundation s National Leadership Advocacy Program, Kids in Crisis, The Harvard Club, the Business Committee for the Arts and the Center for Christian-Jewish Understanding. He is a member of the Committee to Encourage Corporate Philanthropy, the Presidential Tourism & Travel Advisory Board, the Young Presidents Organization, the World Travel & Tourism Council and the Urban Land Institute.

Mr. Sternlicht received his BA, magna cum laude, with honors from Brown University. He later earned an MBA with distinction from Harvard Business School.

Executive Officers

Jerome C. Silvey is our chief financial officer and treasurer and one of our executive vice presidents. He is also an executive vice president of our Manager. Mr. Silvey is an Executive Vice President and has been the Chief Financial Officer of Starwood Capital Group since 1993. He is a member of the Executive and Investment Committees of Starwood Capital Group. Mr. Silvey oversees all of partnership and property accounting, tax planning and compliance, investor relations, treasury operations and MIS systems for Starwood Capital Group. Mr. Silvey joined Starwood in 1993 after 13 years at Price Waterhouse, where he served a variety of clients, including IBM and Olympia & York. He is a member of the Board of Directors of Société du Louvre and Baccarat, as well as a member of the Editorial Board of Institutional Real Estate Investors, the Pension Real Estate Association, and the American Institute of CPAs.

Mr. Silvey received a BA in mathematical economics from Colgate University in Hamilton, New York. He earned his MBA from Rutgers Graduate School of Management.

Ellis F. Rinaldi is our general counsel and secretary and one of our executive vice presidents. He is also the general counsel and an executive vice president of our Manager. He is an Executive Vice President of Starwood Capital Group and has been one of its two Co-General Counsels since 1999. Mr. Rinaldi has represented Starwood Capital Group s legal interests since 1991. Mr. Rinaldi is actively involved in the legal aspects of all of Starwood Capital Group s business, including acquisitions, financing, asset management and strategic planning. Mr. Rinaldi became an officer of Starwood Capital Group and a member of Starwood Capital Group s Executive Committee in 1999. Mr. Rinaldi has been structuring, negotiating, documenting and closing complex real estate transactions since 1987. He was an associate at the law firm of Winthrop, Stimson, Putnam & Roberts and then Pircher, Nichols & Meeks prior to forming Rinaldi, Finkelstein & Franklin, L.L.C. (RFF), Starwood Capital Group s lead outside counsel. Mr. Rinaldi is currently the managing member of RFF and also serves on the board of directors of Baccarat.

Mr. Rinaldi received his JD from George Washington University, where he was a member of the GW Law Review, and his BBA degree, summa cum laude, in accounting from the University of Massachusetts at Amherst, Honors Program.

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Corporate Governance Board of Directors and Committees

Our business is managed by our Manager, subject to the supervision and oversight of our board of directors, which has established investment guidelines described under Business Investment Guidelines for our Manager to follow in its day-to-day management of our business. A majority of our board of directors is independent, as determined by the requirements of the NYSE and the regulations of the SEC. Our directors keep informed about our business by attending meetings of our board of directors and its committees and through supplemental reports and communications. Our independent directors meet regularly in executive sessions without the presence of our corporate officers or non-independent directors.

Upon completion of this offering, our board of directors will form an audit committee, a compensation committee and a nominating and corporate governance committee and adopt charters for each of these committees. Each of these committees will have three directors and will be composed exclusively of independent directors, as defined by the listing standards of the NYSE. Moreover, the compensation committee will be composed exclusively of individuals intended to be, to the extent provided by Rule 16b-3 of the Exchange Act, non-employee directors and will, at such times as we are subject to Section 162(m) of the Internal Revenue Code, qualify as outside directors for purposes of Section 162(m) of the Internal Revenue Code.

Audit Committee

The audit committee will comprise , each of whom will be an independent director and financially literate under the rules of the NYSE. will chair our audit committee and serve as our audit committee financial expert, as that term is defined by the SEC.

The committee assists the board of directors in overseeing:

- our financial reporting, auditing and internal control activities, including the integrity of our financial statements;
- our compliance with legal and regulatory requirements;
- the independent auditor s qualifications and independence; and
- the performance of our internal audit function and independent auditor.

The audit committee is also responsible for engaging our independent registered public accounting firm, reviewing with the independent registered public accounting firm the plans and results of the audit engagement, approving professional services provided by the independent registered public accounting firm, reviewing the independence of the independent registered public accounting firm, considering the range of audit and non-audit fees and reviewing the adequacy of our internal accounting controls.

Compensation Committee

The compensation committee will comprise , each of whom will be an independent director. will chair our compensation committee.

The principal functions of the compensation committee will be to:

review and approve on an annual basis the corporate goals and objectives relevant to Chief Executive Officer compensation, if any, evaluate our Chief Executive Officer s performance in light of such goals and objectives and, either as a committee or together with our independent directors (as directed by the board of directors), determine and approve the remuneration of our Chief Executive Officer based on such evaluation;

review and oversee management s annual process, if any, is paid by us for evaluating the performance of our senior officers and review and approve on an annual basis the remuneration of our senior officers;

oversee our equity-based remuneration plans and programs;

assist the board of directors and the chairman in overseeing the development of executive succession plans; and

determine from time to time the remuneration for our non-executive directors (including the chairman).

Nominating and Corporate Governance Committee

The nominating and corporate governance committee will comprise , each of whom will be an independent director. will chair our nominating and corporate governance committee.

The nominating and corporate governance committee will be responsible for

providing counsel to the board of directors with respect to the organization, function and composition of the board of directors and its committees;

overseeing the self-evaluation of the board of directors and the board of director s evaluation of management;

periodically reviewing and, if appropriate, recommending to the board of directors changes to, our corporate governance policies and procedures; and

identifying and recommending to the board of directors potential director candidates for nomination. -

Executive and Director Compensation

Compensation of Directors

A member of our board of directors who is also an employee of Starwood Capital Group is referred to as an executive director. Executive directors will not receive compensation for serving on our board of directors. Each non-executive director will receive an annual base fee for his or her services of $ and an annual deferred director fee of $ in restricted shares of our common stock under our equity incentive plan. Base director fees will be paid in cash and deferred director fees will be paid in restricted shares of our common stock which may not be sold or transferred during the non-executive director s service on our board of directors. Both base and deferred director fees will be paid on a quarterly basis. We will also reimburse each of our directors for their travel expenses incurred in connection with their attendance at full board of directors and committee meetings. We have not made any payments to any of our directors or director nominees to date.

Executive Compensation

Because our management agreement provides that our Manager is responsible for managing our affairs, our chief executive officer and each of our other executive officers (other than our chief financial officer and chief compliance officer), each of whom is an executive of Starwood Capital Group, do not receive cash compensation from us for serving as our executive officers. Instead we will pay our Manager the management fees described in Our Manager and the Management Agreement Management Agreement Management Fees and Expense Reimbursements. Each of our Chief Financial Officer and our Chief Compliance Officer is directly employed by us. The annual base salary of our chief financial officer and chief compliance officer is $ and $, respectively, and each are eligible to receive an

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annual bonus between % and % of their respective annual base salary. In their capacities as officers or personnel of Starwood Capital Group, persons other than our chief financial officer and chief compliance officer will devote such portion of their time to our affairs as is necessary to enable us to operate our business.

We will adopt an equity incentive plan for our officers, our non-employee directors, our Manager s personnel and other service providers to encourage their efforts toward our continued success, long-term growth and profitability and to attract, reward and retain key personnel. See Equity Incentive Plan for detailed description of our equity incentive plan. 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.

Equity Incentive Plan

Prior to the completion of this offering, we will adopt an equity incentive plan to provide incentive compensation to attract and retain qualified directors, officers, advisors, consultants and other personnel, including our Manager and affiliates and personnel of our Manager and its affiliates, and any joint venture affiliates of ours. Unless terminated earlier, our equity incentive plan will terminate in 2019, but will continue to govern unexpired awards. Our equity incentive plan provides for grants of share options, restricted shares of common stock, phantom shares, dividend equivalent rights and other equity-based awards up to an aggregate of % of the issued and outstanding shares of our common stock (on a fully diluted basis) at the time of the award. In making awards under the plan, our board of directors or the compensation committee, as applicable, may consider the recommendations of our Manager as to the personnel who should receive awards and the amounts of the awards. Prior to the completion of this offering, we have not issued any equity-based compensation. 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.

The equity incentive plan is administered by the compensation committee appointed for such purposes. The compensation committee, as appointed by our board of directors, has the full authority (1) to administer and interpret the equity incentive plan, (2) to authorize the granting of awards, (3) to determine the eligibility of directors, officers, advisors, consultants and other personnel, including our Manager and affiliates and personnel of our Manager and its affiliates, and any joint venture affiliates of ours, to receive an award, (4) to determine the number of shares of common stock to be covered by each award (subject to the individual participant limitations provided in the equity incentive plan), (5) to determine the terms, provisions and conditions of each award (which may not be inconsistent with the terms of the equity incentive plan), (6) to prescribe the form of instruments evidencing such awards and (7) to take any other actions and make all other determinations that it deems necessary or appropriate in connection with the equity incentive plan or the administration or interpretation thereof. In connection with this authority, the compensation committee may, among other things, establish performance goals that must be met in order for awards to be granted or to vest, or for the restrictions on any such awards to lapse. From and after the consummation of this offering, the compensation committee will consist solely of non-employee directors, each of whom is intended to be, to the extent required by Rule 16b-3 under the Exchange Act, a non-employee director and will, at such times as we are subject to Section 162(m) of the

Internal Revenue Code, qualify as an outside director for purposes of Section 162(m) of the Internal Revenue Code, or, if no committee exists, the board of directors.

Code of Business Conduct and Ethics

Our board of directors has established a code of business conduct and ethics that applies to our officers and directors and to our Manager s officers and any personnel of Starwood Capital Group when such individuals are acting for or on our behalf. Among other matters, our code of business conduct and ethics is designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely and understandable disclosure in our SEC reports and other public communications;
- compliance with applicable governmental laws, rules and regulations;
- prompt internal reporting of violations of the code to appropriate persons identified in the code; and
- accountability for adherence to the code.

Any waiver of the code of business conduct and ethics for our executive officers or directors may be made only by our board of directors or one of our board committees and will be promptly disclosed as required by law or stock exchange regulations.

Limitation of Liability and Indemnification

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (1) actual receipt of an improper benefit or profit in money, property or services or (2) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision and limits the liability of our directors and officers to the maximum extent permitted by Maryland law.

Our charter authorizes us, to the maximum extent permitted by Maryland law, to indemnify and pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (1) any present or former director or officer of our company or (2) any individual who, while serving as our director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or any other enterprise as a director, officer, partner or trustee of such corporation, REIT, partnership, joint venture, trust, employee benefit plan or other enterprise, from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her service in such capacity or capacities. Our Bylaws obligate us, to the maximum extent permitted by Maryland law, to indemnify and pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (1) any present or former director or officer of our company who is made or threatened to be made a party to the proceeding by reason of his service in that capacity or (2) any individual who, while serving as our director or officer and at our request, serves or has served another corporation, REIT, partnership, joint venture, trust, employee benefit plan or any other enterprise as a director, officer, partner or trustee of such corporation, REIT, partnership, joint venture, trust, employee benefit plan or other enterprise, and who is made or threatened to be made a party to the proceeding by reason of his service in that capacity. Our charter and Bylaws also permit us to indemnify and advance expenses to any person who served any predecessor of our company in any of the capacities described above and to any personnel or agent of our company or of any predecessor.

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The MGCL requires us (unless our charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he is made or threatened to be made a party by reason of his service in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or threatened to be made a party by reason of their service in those or other capacities unless it is established that (1) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (A) was committed in bad faith or (B) was the result of active and deliberate dishonesty, (2) the director or officer actually received an improper personal benefit in money, property or services, or (3) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under the MGCL, a Maryland corporation may not indemnify a director or officer in a suit by or in the right of the corporation in which the director or officer was adjudged liable on the basis that a personal benefit was improperly received. A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct or was adjudged liable on the basis that personal benefit was improperly received. However, indemnification for an adverse judgment in a suit by us or in our right, or for a judgment of liability on the basis that personal benefit was improperly received, is limited to expenses. In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation s receipt of (1) a written affirmation by the director or officer of his good faith belief that he has met the standard of conduct necessary for indemnification by the corporation and (2) a written undertaking by him or on his behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the appropriate standard of conduct was not met.

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OUR MANAGER AND THE MANAGEMENT AGREEMENT

General

We will be externally managed and advised by our Manager. Each of our officers (other than our chief financial officer and chief compliance officers) is an executive of Starwood Capital Group. The executive offices of our Manager are located at 591 West Putnam Avenue, Greenwich, Connecticut 06830, and the telephone number of our Manager s executive offices is (203) 422-7700.

Officers of Our Manager

The following sets forth certain information with respect to each of the executive officers of our Manager:

Officer	Age	Position Held with Our Manager
Barry S. Sternlicht		President
Jeffrey G. Dishner		Executive Vice President
Jerome C. Silvey		Executive Vice President
Ellis F. Rinaldi		General Counsel and Executive Vice President
Barden Gale		Executive Vice President
J. Marc Perrin		Executive Vice President
Christopher D. Graham		Executive Vice President

Set forth below is biographical information for the officers of our Manager.

See Management Our Directors, Director Nominees and Executive Officers for biographical information regarding Messrs. Sternlicht, Silvey and Rinaldi.

Jeffrey G. Dishner. Mr. Dishner is a Senior Managing Director of Starwood Capital Group and the Head of Real Estate Acquisitions at Starwood Capital Group. He is a member of the Executive and Investment Committees of Starwood Capital Group. Prior to joining Starwood Capital Group in 1994, Mr. Dishner was with the Commercial Mortgage Finance Group of J.P. Morgan & Co., where he focused on whole-loan dispositions and securitizations for various thrift institutions from 1993 to 1994. Prior to J.P. Morgan & Co., Mr. Dishner was a member of the Acquisitions Group at JMB Realty Corporation from 1987 to 1991.

Mr. Dishner received a BS degree in economics from the Wharton School of Finance at the University of Pennsylvania and an MBA from the Amos Tuck School at Dartmouth College.

Barden Gale. Mr. Gale is one of our executive vice presidents. He is a Vice Chairman of real estate involved with the Firm s overall investment strategy and new business opportunities. He joined Starwood Capital Group in February 2008. Before joining Starwood Capital Group, Mr. Gale was with ABP Investments U.S., Inc., the investment arm of Stichting Pension Funds ABP, one of the world s largest pension funds. At ABP, as Chief Investment Officer for real estate, Mr. Gale built a world-class team and leading investment program while helping oversee a global portfolio valued in excess of 20 billion. While at ABP he earned the 2007 Industry Achievement Award from the National Association of Real Estate Investment Trusts. Prior to joining ABP, Mr. Gale was an investment banker with Salomon

Brothers, Inc. and Nesbitt Burns Securities, Inc. He was also a principal in a development company with investments in New York City and New Jersey, and was a practicing attorney.

Mr. Gale is currently Co-Chair of the Real Estate Investor Advisory Council of NAREIT, and a member of the Property Investment Committee of the National Pension Reserve Fund of Ireland, the Development Board of St. Hugh s College, Oxford University and the Board of

Directors for the Shoshana Foundation, Inc. He is a former Board member of AFIRE and the Pension Real Estate Association.

Mr. Gale received a BA from Union College, an MA from the University of London, where he studied at the School of Oriental and African Studies, and a JD from Columbia University.

J. Marc Perrin. Mr. Perrin is a Managing Director of Starwood Capital Group supervising its investments on the West Coast since 1999 and overseeing its Asia operations since 2006. He is also a member of Starwood Capital Group s Investment Committee. Mr. Perrin is responsible for originating, structuring, underwriting and closing investments in all property types. Prior to joining Starwood in 1997, Mr. Perrin was with Salomon Brothers Inc., where he worked on debt, equity and strategic advisory assignments for real estate industry clients from 1995 to 1997. From 1990 to 1993, Mr. Perrin was with Bramalea Limited, working in its Southern California land development and residential housing business. Mr. Perrin s responsibilities included land acquisitions and divestitures as well as entitlements.

Mr. Perrin received a BA degree in international political economy from the University of California at Berkeley, and an MBA from The Anderson School at UCLA.

Christopher Graham. Mr. Graham is a Managing Director of Starwood Capital Group in its Acquisitions Group since 2007. Mr. Graham is responsible for originating, structuring, underwriting and closing investments in all property types in the Eastern region of the United States. He is also a member of Starwood Capital Group s Investment Committee. Prior to joining Starwood Capital Group in 2002, Mr. Graham was with CB Richard Ellis in Washington, D.C., where he was Director of its Financial Consulting Group for the Eastern Region of the United States from 1999 to 2000. Prior to his role in the Financial Consulting Group, Mr. Graham was Associate Director, Eastern Region, of CB Richard Ellis Investment Properties Group from 1998 to 1999. Mr. Graham also served as a consultant to Lincoln Property Company s Washington, D.C. office on various asset management, development and acquisition assignments in 2000.

Mr. Graham received a BBA in Finance from James Madison University and an MBA from the Harvard Business School.

Investment Committee

Our Manager has an Investment Committee which will initially be comprised of Mr. Sternlicht, the chairman of the committee, and Jeffrey Dishner, Jerome Silvey, Barden Gale, Marc Perrin and Christopher Graham. The role of the Investment Committee is to oversee our investment guidelines, our investment portfolio holdings and related compliance with our investment policies. The Investment Committee will meet as frequently as it believes is necessary.

Management Agreement

Upon completion of this offering, we will enter into a management agreement with our Manager pursuant to which it will provide for the day-to-day management of our operations. The management agreement will require our Manager to manage our business affairs in conformity with the investment guidelines and other policies that are approved and monitored by our board of directors. Our Manager s role as Manager will be under the supervision and direction of our board of directors.

Management Services

Our Manager will be responsible for (1) the selection, purchase and sale of our portfolio investments, (2) our financing activities, and (3) providing us with investment advisory services. Our Manager will be responsible for our day-to-day operations and will perform (or will cause to be performed) such services and activities relating to our assets and operations as may be appropriate, which may include, without limitation, the following:

(i) serving as our consultant with respect to the periodic review of the investment guidelines and other parameters for our investments, financing activities and operations, any modification to which will be approved by a majority of our independent directors;

(ii) investigating, analyzing and selecting possible investment opportunities and acquiring, financing, retaining, selling, restructuring or disposing of investments consistent with the investment guidelines;

(iii) with respect to prospective purchases, sales or exchanges of investments, conducting negotiations on our behalf with sellers, purchasers and brokers and, if applicable, their respective agents and representatives;

(iv) negotiating and entering into, on our behalf, repurchase agreements, interest rate swap agreements, agreements relating to borrowings under programs established by the U.S. Government and other agreements and instruments required for us to conduct our business;

(v) engaging and supervising, on our behalf and at our expense, independent contractors that provide investment banking, securities brokerage, mortgage brokerage, other financial services, due diligence services, underwriting review services, legal and accounting services, and all other services (including transfer agent and registrar services) as may be required relating to our operations or investments (or potential investments);

(vi) advising us on, preparing, negotiating and entering into, on our behalf, applications and agreements relating to programs established by the U.S. Government;

(vii) coordinating and managing operations of any joint venture or co-investment interests held by us and conducting all matters with the joint venture or co-investment partners;

(viii) providing executive and administrative personnel, office space and office services required in rendering services to us;

(ix) administering the day-to-day operations and performing and supervising the performance of such other administrative functions necessary to our management as may be agreed upon by our Manager and our board of directors, including, without limitation, the collection of revenues and the payment of our debts and obligations and maintenance of appropriate computer services to perform such administrative functions;

(x) communicating on our behalf with the holders of any of our equity or debt securities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;

(xi) counseling us in connection with policy decisions to be made by our board of directors;

(xii) evaluating and recommending to our board of directors hedging strategies and engaging in hedging activities on our behalf, consistent with such strategies as so modified from time to time, with our qualification as a REIT and with our investment guidelines;

(xiii) counseling us regarding the maintenance of our qualification as a REIT and monitoring compliance with the various REIT qualification tests and other rules set out in the Internal Revenue Code and Treasury Regulations thereunder and using commercially reasonable efforts to cause us to qualify for taxation as a REIT;

(xiv) counseling us regarding the maintenance of our exemption from the status of an investment company required to register under the 1940 Act, monitoring compliance with the requirements for maintaining such exemption and using commercially reasonable efforts to cause us to maintain such exemption from such status;

(xv) furnishing reports and statistical and economic research to us regarding our activities and services performed for us by our Manager;

(xvi) monitoring the operating performance of our investments and providing periodic reports with respect thereto to the board of directors, including comparative information with respect to such operating performance and budgeted or projected operating results;

(xvii) investing and reinvesting any moneys and securities of ours (including investing in short-term investments pending investment in other investments, payment of fees, costs and expenses, or payments of dividends or distributions to our stockholders and partners) and advising us as to our capital structure and capital raising;

(xviii) causing us to retain qualified accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures and systems, internal controls and other compliance procedures and testing systems with respect to financial reporting obligations and compliance with the provisions of the Internal Revenue Code applicable to REITs and, if applicable, TRSs, and to conduct quarterly compliance reviews with respect thereto;

(xix) assisting us in qualifying to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;

(xx) assisting us in complying with all regulatory requirements applicable to us in respect of our business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Exchange Act, the Securities Act, or by the NYSE;

(xxi) assisting us in taking all necessary action to enable us to make required tax filings and reports, including soliciting stockholders for required information to the extent required by the provisions of the Internal Revenue Code applicable to REITs;

(xxii) placing, or arranging for the placement of, all orders pursuant to our Manager s investment determinations for us either directly with the issuer or with a broker or dealer (including any affiliated broker or dealer);

(xxiii) handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which we may be involved or to which we may be subject arising out of our day-to-day operations (other than with our Manager or its affiliates), subject to such limitations or parameters as may be imposed from time to time by the board of directors;

(xxiv) using commercially reasonable efforts to cause expenses incurred by us or on our behalf to be commercially reasonable or commercially customary and within any budgeted parameters or expense guidelines set by the board of directors from time to time;

(xxv) advising us with respect to and structuring long-term financing vehicles for our portfolio of assets, and offering and selling securities publicly or privately in connection with any such structured financing;

(xxvi) forming the Investment Committee, which will propose investment guidelines to be approved by a majority of our independent directors;

(xxvii) serving as our consultant with respect to decisions regarding any of our financings, hedging activities or borrowings undertaken by us including (1) assisting us in developing criteria for debt and equity financing that is specifically tailored to our investment objectives, and (2) advising us with respect to obtaining appropriate financing for our investments;

(xxviii) providing us with portfolio management;

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(xxix) arranging marketing materials, advertising, industry group activities (such as conference participations and industry organization memberships) and other promotional efforts designed to promote our business;

(xxx) performing such other services as may be required from time to time for management and other activities relating to our assets and business as our board of directors shall reasonably request or our Manager shall deem appropriate under the particular circumstances; and

(xxxi) using commercially reasonable efforts to cause us to comply with all applicable laws.

Liability and Indemnification

Pursuant to the management agreement, our Manager will not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Under the terms of the management agreement, our Manager, its officers, stockholders, members, managers, directors, personnel, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary s stockholders or partners for acts or omissions performed in accordance with and pursuant to the management agreement, except because of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement, as determined by a final non-appealable order of a court of competent jurisdiction. We have agreed to indemnify our Manager, its officers, stockholders, members, managers, directors, personnel, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our Manager not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed in good faith in accordance with and pursuant to the management agreement. Our Manager has agreed to indemnify us, our directors and officers, personnel, agents and any persons controlling or controlled by us with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our Manager constituting bad faith, willful misconduct, gross negligence or reckless disregard of its duties under the management agreement or any claims by our Manager s personnel relating to the terms and conditions of their employment by our Manager. Our Manager will not be liable for trade errors that may result from ordinary negligence, such as errors in the investment decision making process (such as a transaction that was effected in violation of our investment guidelines) or in the trade process (such as a buy order that was entered instead of a sell order, or the wrong purchase or sale of security, or a transaction in which a security was purchased or sold in an amount or at a price other than the correct amount or price). Notwithstanding the foregoing, our Manager will carry errors and omissions and other customary insurance upon the completion of this offering.

Management Team

Pursuant to the terms of the management agreement, our Manager is required to provide us with our management team, including a chief executive officer and , along with appropriate support personnel, to provide the management services to be provided by our Manager to us. None of the officers or employees of our Manager will be dedicated exclusively to us, except for our chief financial officer and chief compliance officer who will be directly employed by us. Members of our management team will be required to devote such time as is necessary and appropriate commensurate with the level of our activity.

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Our Manager is required to refrain from any action that, in its sole judgment made in good faith, (1) is not in compliance with the investment guidelines, (2) would adversely and materially affect our status as a REIT under the Internal Revenue Code or our status as an entity intended to be exempted or excluded from investment company status under the 1940 Act or (3) would violate any law, rule or regulation of any governmental body or agency having jurisdiction over us or that would otherwise not be permitted by our charter or Bylaws. If our Manager is ordered to take any action by our board of directors, our Manager will promptly notify the board of directors if it is our Manager s judgment that such action would adversely and materially affect such status or violate any such law, rule or regulation or our charter or Bylaws. Our Manager, its directors, members, officers, stockholders, managers, personnel, employees and any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager will not be liable to us, our board of directors, our stockholders, partners or members, for any act or omission by our Manager, its directors, officers, stockholders or employees except as provided in the management agreement.

Term and Termination

The management agreement may be amended or modified by agreement between us and our Manager. The initial term of the management agreement expires on the third anniversary of the closing of this offering and will be automatically renewed for a one-year term each anniversary date thereafter unless previously terminated as described below. Our independent directors will review our Manager s performance and the management fees 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) 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 such termination due to unfair fees by accepting a reduction of management fees agreed to by at least two-thirds of our independent directors. We must provide 180 days prior notice of any such termination. Unless terminated for cause, our Manager will be paid a termination fee equal to three times the sum of the average annual management fee during the 24-month period immediately preceding such termination, calculated as of the end of the most recently completed fiscal quarter before the date of termination.

We may also terminate the management agreement at any time, including during the initial term, without the payment of any termination fee, with 30 days prior written notice from our board of directors for cause, which is defined as:

- our Manager s continued material breach of any provision of the management agreement following a period of 30 days after written notice thereof (or 45 days after written notice of such breach if our Manager, under certain circumstances, has taken steps to cure such breach within 30 days of the written notice);
- our Manager s fraud, misappropriation of funds, or embezzlement against us;
- our Manager s gross negligence of duties under the management agreement;
- the occurrence of certain events with respect to the bankruptcy or insolvency of our Manager, including an order for relief in an involuntary bankruptcy case or our Manager authorizing or filing a voluntary bankruptcy petition;
- any change of control of our Manager;
- our Manager is convicted (including a plea of nolo contendere) of a felony; and
- the dissolution of our Manager.

Our Manager may assign the agreement in its entirety or delegate certain of its duties under the management agreement to any of its affiliates without the approval of our independent directors if such assignment or delegation does not require our approval under the Investment Advisers Act of 1940.

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 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. In addition, if we default in the performance of any material term of the agreement and the default continues for a period of 30 days after written notice to us, our Manager may terminate the management agreement upon 60 days written notice. If the management agreement is terminated by our Manager upon our breach, we would be required to pay our Manager the termination fee described above.

We may not assign our rights or responsibilities under the management agreement without the prior written consent of our Manager, except in the case of assignment to another REIT or other organization which is our successor, in which case such successor organization will be bound under the management agreement and by the terms of such assignment in the same manner as we are bound under the management agreement.

Management Fees, Incentive Fees and Expense Reimbursements

We do not expect to maintain an office or directly employ personnel. Instead we rely on the facilities and resources of our Manager to manage our day-to-day operations.

Base Management Fee

We will pay our Manager a base management fee in an amount equal to 1.5% of our stockholders equity, per annum, calculated and payable quarterly in arrears in cash. For purposes of calculating the base 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 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 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. Our Manager uses the proceeds from its management fee in part to pay compensation to its officers and personnel who, notwithstanding that certain of them also are our officers, receive no cash compensation directly from us. The management fee is payable independent of the performance of our portfolio.

The management fee of our Manager shall be calculated within 30 days after the end of each quarter and such calculation shall be promptly delivered to us. We are obligated to pay the management fee in cash within five business days after delivery to us of the written statement of our Manager setting forth the computation of the management fee for such quarter.

Although there is no current intention to do so, as a component of our Manager s compensation, we may in the future issue to personnel of our Manager stock-based compensation under our equity incentive plan.

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Incentive Fee

We will pay our Manager an incentive fee, calculated and payable quarterly in arrears, 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%. For the initial four quarters following this offering, Core Earnings will be calculated on the basis of each of the previously completed quarters on an annualized basis. Core Earnings for the initial quarter will be calculated from the settlement date of this offering on an annualized basis. Core Earnings is a non-GAAP measure and is defined as GAAP net income (loss) excluding non-cash equity compensation expense, excluding any unrealized gains, losses or other non-cash items recorded in 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.

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.

Fee Waiver

We intend to invest in one or more Legacy Loans PPIFs or Legacy Securities PPIFs, one or more of which may be managed by affiliates of Starwood Capital Group if the application of Starwood Capital Group to serve as an investment manager for the Legacy Securities Program is accepted by the U.S. Treasury. In our management agreement, our Manager has agreed to waive any fees payable to our Manager in respect of any equity investment we may decide to make in a Legacy Loans PPIFs or Legacy Securities PPIF if managed by Starwood Capital Group or any of its affiliates, including our Manager.

Reimbursement of Expenses

We will be required to reimburse our Manager for the expenses described below. Expense reimbursements to our Manager are made in cash on a monthly basis following the end of each month. Our reimbursement obligation is not subject to any dollar limitation. Because our Manager s personnel perform certain legal, accounting, due diligence tasks and other services that outside professionals or outside consultants otherwise would perform, our Manager is paid or reimbursed for the documented cost of performing such tasks, provided that such costs and reimbursements are in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm s-length basis.

We also pay all operating expenses, except those specifically required to be borne by our Manager under the management agreement. The expenses required to be paid by us include, but are not limited to:

expenses in connection with the issuance and transaction costs incident to the acquisition, disposition and financing of our investments;

costs of legal, tax, accounting, consulting, auditing, administrative and other similar services rendered for us by providers retained by our Manager or, if provided by our Manager s personnel, in amounts which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm s-length basis;

the compensation and expenses of our directors and the cost of liability insurance to indemnify our directors and officers;

costs associated with the establishment and maintenance of any of our credit facilities, other financing arrangements, or other indebtedness of ours (including commitment fees, accounting fees, legal fees, closing and other similar costs) or any of our securities offerings;

expenses connected with communications to holders of our securities or of our subsidiaries and other bookkeeping and clerical work necessary in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of governmental bodies or agencies, including, without limitation, all costs of preparing and filing required reports with the SEC, the costs payable by us to any transfer agent and registrar in connection with the listing and/or trading of our stock on any exchange, the fees payable by us to any such exchange in connection with its listing, costs of preparing, printing and mailing our annual report to our stockholders and proxy materials with respect to any meeting of our stockholders;

costs associated with any computer software or hardware, electronic equipment or purchased information technology services from third-party vendors that is used for us;

expenses incurred by managers, officers, personnel and agents of our Manager for travel on our behalf and other out-of-pocket expenses incurred by managers, officers, personnel and agents of our Manager in connection with the purchase, financing, refinancing, sale or other disposition of an investment or establishment and maintenance of any of our securitizations or any of our securities offerings;

costs and expenses incurred with respect to market information systems and publications, research publications and materials, and settlement, clearing and custodial fees and expenses;

compensation and expenses of our custodian and transfer agent, if any;

the costs of maintaining compliance with all federal, state and local rules and regulations or any other regulatory agency;

all taxes and license fees;

all insurance costs incurred in connection with the operation of our business except for the costs attributable to the insurance that our Manager elects to carry for itself and its personnel;

costs and expenses incurred in contracting with third parties;

all other costs and expenses relating to our business and investment operations, including, without limitation, the costs and expenses of acquiring, owning, protecting, maintaining, developing and disposing of investments, including appraisal, reporting, audit and legal fees;

expenses relating to any office(s) or office facilities, including but not limited to disaster backup recovery sites and facilities, maintained for us or our investments separate from the office or offices of our Manager;

expenses connected with the payments of interest, dividends or distributions in cash or any other form authorized or caused to be made by the board of directors to or on account of holders of our securities or of our subsidiaries, including, without limitation, in connection with any dividend reinvestment plan;

any judgment or settlement of pending or threatened proceedings (whether civil, criminal or otherwise) against us or any subsidiary, or against any trustee, director, partner, member or officer of us or of any subsidiary in his capacity as such for which we or any subsidiary is required to indemnify such trustee, director, partner, member or officer by any court or governmental agency; and

all other expenses actually incurred by our Manager (except as described below) which are reasonably necessary for the performance by our Manager of its duties and functions under the management agreement.

We will not reimburse our Manager for the salaries and other compensation of its personnel. In addition, we may be required to pay our pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of our Manager and its affiliates required for our operations.

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.

Grants of Equity Compensation to Our Manager, Its Personnel and Its Affiliates

Under our equity incentive plan, our compensation committee (or our board of directors, if no such committee is designated by the board) is authorized to approve grants of equity-based awards to our officers or directors and to our Manager and its personnel and affiliates. Concurrently with the completion of this offering, we expect to grant shares of our common stock to . Future equity awards may be made under our equity incentive plan. See Management Equity Incentive Plan.

Starwood License Agreement

We have entered into a license agreement with Starwood Capital Group Global, L.P. pursuant to which it has granted us a non-exclusive, royalty-free license to use the name and trademark Starwood. Under this agreement, we have a right to use this name and trademark for so long as Starwood Capital Group Global, L.P. and SPT Investment, LLC are under common control and SPT Management, LLC serves as our Manager pursuant to the management agreement. This license and trademark will terminate concurrently with any termination of the management agreement.

PRINCIPAL STOCKHOLDERS

Immediately prior to the completion of this offering, there will be 100 shares of common stock outstanding and one stockholder of record. At that time, we will have no other shares of capital stock outstanding. The following table sets forth certain information, prior to and after