STARWOOD PROPERTY TRUST, INC.
Form 424B1
August 13, 2009

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Reg. Nos. 333-159754 and 333-161271

PROSPECTUS

40,500,000 Shares
Starwood Property Trust, Inc.
Common Stock

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

This is our initial public offering and no public market currently exists for our common stock. We are offering 40,500,000 shares of our common stock as described in this prospectus. Our common stock has been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol STWD.

Concurrently with the completion of this offering, SPT Investment, LLC, an affiliate of Starwood Capital Group which is controlled by Mr. Sternlicht, will acquire 1,000,000 shares 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 REIT, stockholders are generally restricted from owning more than 9.8% of our outstanding common or capital stock. 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 22 of this prospectus for a discussion of the following and other risks:

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

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

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

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

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

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

	Per Share	**Total**
Public offering price	$20.00	$810,000,000
Underwriting discount(1)	$1.20	$47,725,000
Proceeds, before expenses, to Starwood Property Trust, Inc.	$18.80	$762,275,000

(1) All shares sold to certain investors in private funds managed by affiliates of Starwood Capital Group will be purchased by the underwriters from us at $19.50 per share, representing a discount to the underwriters of $.50 per share, all of which discount will be payable by us at closing. For all of the other shares sold in the offering described in this prospectus, the underwriters will be entitled to receive $.60 per share from us at closing. In addition, our Manager will pay to the underwriters $.20 per share for such shares sold in the offering at closing and the underwriters will forego the receipt of payment of $.40 per share, subject to the following. We will agree to reimburse the $.20 per share to our Manager and pay the $.40 per share to the underwriters if during any full four calendar quarter period during the 24 full calendar quarters after the consummation of this offering our Core Earnings (as described herein) for any such four-quarter period exceeds an 8% performance hurdle rate (as described herein). If this requirement is not satisfied, the aggregate underwriting discount paid by us, based on $0.60 per share (or 3% of the public offering price), and by our Manager, based on $.20 per share (or 1% of the public offering price), would be $32,025,000, taking into account shares sold to certain investors in private funds managed by affiliates of Starwood Capital Group. See Underwriting.

The underwriters may purchase up to an additional 6,075,000 shares of our common stock from us at the initial public offering price, less the underwriting discount, within 30 days after the date of this prospectus to cover overallotments, if any.

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

The shares of common stock will be ready for delivery on or about August 17, 2009.

Joint Book Running Managers

BofA Merrill Lynch **Deutsche Bank Securities** **Citi**

Barclays Capital			**Wells Fargo Securities**
Calyon Securities (USA) Inc.	**Cantor Fitzgerald & Co.**	**Piper Jaffray**	**Scotia Capital**

The date of this prospectus is August 11, 2009.

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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 September 5, 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.

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 $20.00 per share, (2) 1,000,000 shares of common stock will be purchased 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 overallotment option to purchase up to an additional 6,075,000 shares of our common stock. The information in this prospectus assumes that no shares sold in this offering will be purchased by these investors.

Our Company

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

We will be externally managed and advised by SPT Management, LLC pursuant to the terms of a management agreement. SPT Management, LLC, or our Manager, is controlled by Barry Sternlicht, our chairman and chief executive officer. SPT Management, LLC is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht. Since its inception in 1991, Starwood Capital Group (including Starwood Capital-named affiliates controlled by Mr. Sternlicht) has sponsored eleven co-mingled opportunistic funds, including two dedicated debt funds, two dedicated hotel funds and several standalone and co-investment partnerships. Pursuant to the co-investment opportunity allocation provisions currently applicable to two private institutional funds managed by affiliates of Starwood Capital Group and us, we will have the right to invest 75% of the equity capital proposed to be invested by either of these two funds in real estate related debt investments, subject to certain limitations described under Conflicts of Interest and Related Policies and further elsewhere in this prospectus. However, if neither of these two funds exercise their respective co-investment rights, we would currently be able to invest 100% of the equity capital proposed to be invested by Starwood Capital Group in real estate related debt investments. Our Manager and Starwood Capital Group have agreed that neither they nor any entity controlled by Starwood Capital Group will sponsor or manage any U.S. publicly traded investment vehicle that invests primarily in the asset classes described in Our Target Assets other than us for so long as the management agreement is in effect and our Manager and Starwood Capital Group are under common control.

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

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

Our Manager and Starwood Capital Group

We will be externally managed and advised by 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. 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 Barbara Anderson, our chief financial officer, treasurer and chief compliance officer) are executives of Starwood Capital Group. Our chief financial officer and chief compliance officer will be seconded exclusively to us by Starwood Capital Group. We do not expect to have any employees. Starwood Capital Group is not obligated to dedicate any of its executives or other personnel exclusively to us. In addition, none of Starwood Capital Group, its executives and other personnel, including our executive officers supplied to us by Starwood Capital Group, is obligated to dedicate any specific portion of its or their time to our business. Our Manager will at all times be subject to the supervision and oversight of our board of directors and has only such functions and authority as we delegate to it.

Our Manager is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht. Starwood Capital Group has invested in most major classes of real estate, directly and indirectly, through operating companies, portfolios of properties and single assets, including multifamily, office, retail, hotel, residential entitled land and communities, senior housing, mixed-use and golf courses. Starwood Capital Group invests at different levels of the capital structure, including equity, preferred equity, mezzanine debt and senior debt, depending on the asset risk profile and return expectation. Starwood Capital Group has invested $6.8 billion of equity in most major sectors of real estate across the capital structure, representing approximately $20.2 billion in assets since inception as of March 31, 2009. As of March 31, 2009, Starwood Capital Group had approximately $11.4 billion of real estate assets and debt positions under management.

Our Manager will be able to draw upon the experience and expertise of Starwood Capital Group s team of approximately 130 professionals and support personnel operating in nine cities across six countries. Our Manager will also benefit from Starwood Capital Group s dedicated asset management group comprised of approximately 22 people operating in seven offices located in the United States and abroad. We also expect to benefit from Starwood Capital Group s portfolio management, finance and administration functions, which address legal, compliance, investor relations and operational matters, asset valuation, risk management and information technologies in connection with the performance of our Manager s duties.

Market Opportunities

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

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real estate debt positions, and originating new loans and other real estate related debt investments with less competition than when the debt markets were more liquid and at prices discounted to replacement cost.

Commercial Mortgage Loans

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

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

Commercial Real Estate Corporate Debt

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

Commercial Mortgage Backed Securities

During the next two years, we anticipate attractive opportunities to acquire select CMBS at attractive yields. As a result of risk premium re-pricing and severe liquidity constraints, implied spreads have widened considerably over the last nine months. Even the most senior AAA-rated CMBS are trading at levels that imply credit losses much higher than historical levels. We expect that investor confidence will eventually return and that spreads will tighten and pricing will stabilize to more reasonable levels. This process may be hastened by the U.S. Government s intervention through the TALF and PPIP, each of which is described under Business Our Financing Strategy, which we expect to provide leverage to investments in CMBS. We believe that our Manager can further create value through careful security selection and proprietary cash flow analysis.

Residential Mortgage Loans

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

Our Manager s Competitive Strengths

We will benefit from the deep experience and significant expertise of our Manager s executive team in real estate debt and equity investing. Headed by Barry Sternlicht, our chairman and chief executive officer, six members of our Manager s executive team have worked together for over 12 years.

The team has a proven debt investment track record in distressed market conditions similar to the current market. In the 1990 s, Starwood Capital Group s first fund invested primarily in assets sold by the Resolution

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Trust Corporation and two of its early funds capitalized on distressed debt opportunities. We believe the team s relevant experience in commercial real estate debt investing and its expertise in commercial real estate acquisition, ownership and operation across all major sectors will enable us to better identify and underwrite investment opportunities. This range of experience is applicable to all of our target asset classes.

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

Experienced and Well-Known Investment Team

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

Exceptional Domain Expertise

Our Manager s executive team s particular expertise structuring and investing in debt for Starwood Capital Group s other sponsored investment vehicles, including two dedicated debt funds, is well matched to the opportunities in the current volatile credit markets. As exemplified by Starwood Capital Group s creation of *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 value realization strategies.

Expertise in Real Estate Capital Markets, Corporate Acquisitions and Operations

Our Manager s executive team s real estate capital markets, corporate acquisition and operating experience sets it apart from most traditional real estate investors. Our Manager s executive team has executed large corporate and portfolio transactions, demonstrating a sophisticated structuring capability and an ability to execute complex capital markets transactions. On behalf of other funds sponsored by Starwood Capital Group, 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. Affiliates of Starwood Capital Group have also privatized large public entities such as National Golf Properties, Inc. and Société du Louvre.

Focus on Capital Preservation and Diversification

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

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

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

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Manager will be able to utilize Starwood Capital Group s in-house asset management team and legal, accounting and tax capabilities on our behalf.

Alignment of Starwood Capital Group and Our Manager s Interests

Concurrently with the completion of this offering, SPT Investment, LLC, an affiliate of Starwood Capital Group which is controlled by Mr. Sternlicht, will acquire 1,000,000 shares of our common stock in a private placement at a price per share equal to the price per share in this offering. SPT Investment, LLC will agree that, for a period of 365 days after the date of this prospectus, it will not, without the prior written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated, or Merrill Lynch, and Deutsche Bank Securities Inc., or Deutsche Bank, sell or otherwise transfer these shares, subject to certain exceptions and extension in certain circumstances. Concurrently with the completion of this offering, we will grant our Manager, an affiliate of Starwood Capital Group which is controlled by Mr. Sternlicht, 1,037,500 restricted stock units. This award will vest ratably on a quarterly basis over a three-year period beginning on the first day of the calendar quarter after we complete this offering. Once vested, this award of restricted stock units will be settled in shares of our common stock. Assuming the settlement of all restricted stock units granted as of the completion of this offering, Mr. Sternlicht and Starwood Capital Group would beneficially own approximately 4.8% of our common stock immediately after this offering and the concurrent private placement (or approximately 4.2% if the underwriters exercise their overallotment option in full).

Our Investment Strategy

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

- seeking to take advantage of pricing dislocations created by distressed sellers or distressed capital structures and pursuing investments with attractive risk-reward profiles;
- focusing on acquiring debt positions with implied basis at deep discounts to replacement costs;
- focusing on supply and demand fundamentals and pursuing investments in high population and job growth markets where demand for all real estate asset classes is most likely to be present;
- targeting markets with barriers to entry other than capital;
- structuring transactions with an amount of leverage that reflects the risk of the underlying asset s cash flow stream, attempting to match the rate and duration of the financing with the underlying asset s cash flow, and hedging speculative characteristics; and
- seeking to take advantage of acquisition financing programs and subsidies provided by the U.S. Government.

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.

Our Target Assets

We intend to invest in target assets secured primarily by U.S. collateral. We intend to originate or acquire loans and other debt investments backed by commercial real estate, or CRE, where the realizable value of the underlying real estate collateral is deemed to be more than the price paid for the loans or securities, as applicable. We may also invest in residential mortgage loans and RMBS. We may invest in performing and non-performing mortgage loans and other real estate-related loans and debt investments, but we will not target any near term loan to own investments as described in Conflicts of Interest and Related Policies. Our Manager will target markets where it has a view on the expected cyclical recovery as well as expertise in the real estate collateral underlying the assets being acquired. We will seek situations where a lender or holder of

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a loan or security is in a compromised situation due to the relative size of its CRE portfolio, the magnitude of non-performing loans, or regulatory/rating agency issues driven by potential capital adequacy or concentration issues.

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

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

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

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

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

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

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

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

  - senior and subordinated investment grade CMBS, which are rated BBB- (or Baa3) or higher,

  - below investment grade CMBS, which are rated lower than BBB- (or Baa3), and

  - unrated CMBS;

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

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

  - investment grade corporate bonds, which are rated BBB- (or Baa3) or higher by at least one nationally recognized rating agency,

- below investment grade corporate bonds, and
- unrated corporate bonds.

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

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

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RMBS: securities collateralized by residential mortgage loans, including:

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

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

Our Financing Strategy

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

- equity investments in funds that have non-recourse term borrowing facilities and capital provided under the U.S. Government s Public-Private Investment Program, or the PPIP, and invest either in mortgage loans, non-Agency RMBS or CMBS;
- non-recourse loans provided under the U.S. Government s Term Asset-Backed Securities Loan Facility, or the TALF, for the acquisition of CMBS;
- securitizations;
- other sources of private financing, including warehouse and bank credit facilities; and
- public offerings of our equity or debt securities.

In the future, we may utilize other sources of financing to the extent available to us. If we are not able to obtain financing through the PPIP and/or the TALF within approximately six months of this offering, and investing in mortgage loans, non-Agency RMBS or CMBS on an unlevered basis would not yield attractive returns, then we will either utilize other financing sources to acquire these types of assets or we will invest our available capital in other of our target asset classes.

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. We are not required to maintain any particular leverage ratio.

We expect, initially, that we may deploy leverage on our commercial mortgage loans, on a debt-to-equity basis, of up to 3-to-1. In addition, we do not expect under current market conditions to deploy leverage on any subordinated real estate debt investments, commercial real estate corporate debt, CMBS, or our other target assets except in conjunction with financings that may be available to us under programs established by the U.S. Government. To the extent that we invest in public-private investment funds, or PPIFs, that acquire commercial mortgage loans and/or CMBS under the PPIP, we expect such PPIFs will deploy leverage on these assets, on a debt-to-equity basis, of up to 6-to-1. We consider these initial leverage ratios to be prudent for these asset classes.

Investment Guidelines

Our board of directors has adopted the following investment guidelines:

- our investments will be in our target assets;
- no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;
- no investment shall be made that would cause us or any of our subsidiaries to be required to be registered as an investment company under the 1940 Act;

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

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

any investment of up to $25 million requires the approval of our chief executive officer; any investment from $25 million to $75 million requires the approval of our Manager s Investment Committee; any investment from $75 million to $150 million requires the approval of the Investment Committee of our board of directors and our Manager s Investment Committee; and any investment in excess of $150 million requires the approval of our board of directors.

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

Investment Committee of Our Manager

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

Risk Management

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

Asset Management

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

Interest Rate Hedging

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

Market Risk Management

Because we will invest in commercial mortgage loans and other debt investments, including CMBS, investment losses from prepayments, defaults, interest rate volatility or other risks can meaningfully reduce or eliminate funds available for distribution to our stockholders. To minimize the risks to our portfolio, we will actively employ portfolio-wide and asset-specific risk measurement and management processes in our daily operations.

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Credit Risk

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

Summary Risk Factors

An investment in shares of our common stock involves various risks. You should consider carefully the risks discussed below and under the heading Risk Factors beginning on page 22 of this prospectus before purchasing our common stock. If any of these risks occur, our business, financial condition, liquidity, results of operations and prospects could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you may lose some or all of your investment.

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

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

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

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

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

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

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

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

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

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

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In order to acquire certain of our target assets, we will depend on various sources of financing, including, to the extent available to us, financing through various U.S. Government-sponsored programs, and our inability to access financing for our target assets on favorable terms could materially and adversely impact us.

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

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

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

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

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

Neither our Manager nor Starwood Capital Group has significant experience investing in CMBS or RMBS.

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.

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

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

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

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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 on a fully diluted basis (assuming no exercise by the underwriters of their overallotment option) and the concurrent private placement to SPT Investment, LLC.

(1) Includes an aggregate of 8,800 restricted shares of our common stock to be granted to our four director nominees pursuant to our Director Stock Plan described in Management Equity Incentive Plans concurrently with the completion of this offering. Also assumes the issuance of 5,000 shares of common stock in settlement of an award of 5,000 restricted stock units to be awarded to our chief financial officer concurrently with the completion of this offering.

(2) Starwood Capital Group Global, L.P. is controlled by Mr. Sternlicht.

(3) Concurrently with the completion of this offering, we will grant our Manager 1,037,500 restricted stock units, as described in Management Equity Incentive Plans. We will also grant our chief financial officer an award of 5,000 restricted stock units concurrently with the completion of this offering. Each of these restricted stock units will vest ratably on a quarterly basis over a three-year period beginning on the first day of the calendar quarter after we complete this offering. Once vested, these awards will be settled in shares of our common stock. These percentages assume that these awards have been settled in shares of our common stock concurrently with the completion of this offering.

(4) 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.

(5) We expect SPT TALF Sub I, LLC to borrow under the TALF in order to acquire TALF-eligible assets. We anticipate that SPT TALF Sub I, LLC will rely on the exemption from registration under the 1940 Act provided by Section 3(c)(7) thereof. See Business Operating and Regulatory Structure 1940 Act Exemption.

Management Agreement

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.

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

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Type	Description
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