STARWOOD PROPERTY TRUST, INC.
Form 424B5
December 07, 2010

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Registration No. 333-169008

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 7, 2010

P R E L I M I N A R Y P R O S P E C T U S S U P P L E M E N T

(To Prospectus dated August 23, 2010)

20,000,000 Shares

Starwood Property Trust, Inc.

Common Stock

$ per share

We are offering 20,000,000 shares of our common stock.

We have granted the underwriters an option to purchase up to 3,000,000 additional shares to cover over-allotments.

Our common stock, par value $0.01 per share, is listed on the New York Stock Exchange under the trading symbol "STWD." The last reported sale price of our common stock on the New York Stock Exchange on December 6, 2010 was $21.00 per share. We have declared a dividend of $0.40 per share on our shares of common stock, payable on January 17, 2011. Stockholders of record as of December 31, 2010 (including holders of the shares of common stock we issue in this offering) will be entitled to receive this dividend.

We impose certain restrictions on the ownership and transfer of shares of our common stock. You should read the information under the section entitled "Description of Capital Stock Restrictions on Ownership and Transfer" in the accompanying prospectus for a description of these restrictions.

Investing in our common stock involves certain risks. See "Risk Factors" beginning on page S-10 of this prospectus supplement and in the reports we file with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, incorporated by reference in this prospectus supplement and the accompanying prospectus, to read about factors you should consider before making

an investment in our common stock.

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

	Per Share	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds, Before Expenses, to Us	$	$

Upon the completion of this offering, we will grant to SPT Management, LLC, or our Manager, 1,075,000 restricted stock units, subject to the terms described in "Summary The Offering" herein.

The underwriters expect to deliver the shares to purchasers on or about December , 2010 through the book-entry facilities of The Depository Trust Company.

Joint Book-Running Managers

Citi	**Wells Fargo Securities**	**BofA Merrill Lynch**	**Deutsche Bank Securities**	**Goldman, Sachs & Co.**

December , 2010

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus required to be filed with the Securities and Exchange Commission, or the SEC. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent 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 supplement, the accompanying prospectus, any such free writing prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering and also adds to or updates the information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which provides more general information about our common stock and other securities that do not pertain to this offering of common stock. To the extent that the information contained in this prospectus supplement conflicts with any information in the accompanying prospectus or any document incorporated by reference, the information in this prospectus supplement shall control. The information in this prospectus supplement may not contain all of the information that is important to you. You should read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully before deciding whether to invest in our common stock.

Unless otherwise indicated or the context requires otherwise, in this prospectus and any prospectus supplement hereto, references to "our company," "we," "us" and "our" mean Starwood Property Trust, Inc. and its consolidated subsidiaries.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

- factors described in our Annual Report on Form 10-K for the year ended December 31, 2009, including those set forth under the caption "Risk Factors";
- defaults by borrowers in paying debt service on outstanding items;
- impairment in the value of real estate property securing our loans;
- availability of mortgage origination opportunities acceptable to us;
- national and local economic and business conditions;
- general and local commercial real estate property conditions;
- changes in federal government policies;
- changes in federal, state and local governmental laws and regulations;
- increased competition from entities engaged in mortgage lending;
- changes in interest rates; and
- the availability of and costs associated with sources of liquidity and financing.

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

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SUMMARY

This summary highlights information about us and the shares of our common stock being offered by this prospectus supplement and the accompanying prospectus. This summary is not complete and may not contain all of the information that you should consider prior to investing in our common stock. For a more complete understanding of our company, we encourage you to read this entire document, including the information incorporated by reference in this document and the other documents to which we have referred.

Starwood Property Trust, Inc.

Overview

We are a Maryland corporation that commenced operations on August 17, 2009, upon the completion of our initial public offering. We are focused primarily on originating, investing in, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities, or CMBS, and other commercial real estate-related debt investments. In addition, we may invest in commercial properties subject to net leases. We 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, commercial properties subject to net leases and residential mortgage loans as our target assets. In addition, we make certain short term investments in RMBS that are used by us as an alternative to our available cash that has not been deployed while we identify appropriate investments.

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 employ leverage, to the extent available, to fund the acquisition of our target assets and to increase potential returns to our stockholders. We are organized as a holding company and conduct our business primarily through our wholly-owned subsidiaries.

Since the closing of our initial public offering in August 2009, we have focused primarily on opportunities that exist in the U.S. commercial mortgage loan, commercial real estate debt, and CMBS and RMBS 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 are externally managed and advised by our Manager pursuant to the terms of a management agreement. Our Manager is controlled by Barry Sternlicht, our Chairman and Chief Executive Officer. 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 numerous opportunistic funds, including dedicated debt funds, dedicated hotel funds and several standalone and co-investment partnerships.

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

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

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Recent Developments

Changes in our Manager's Key Personnel. Effective October 1, 2010, our Manager hired an experienced originations team, led by senior executives Boyd Fellows, Stew Ward, Chris Tokarski and Warren De Haan, to drive the growth of our company. With this new team, our Manager seeks to complement our strong originations platform by expanding our ability to access commercial mortgage loans and continuing our evolution to a multi-faceted commercial finance company that provides a broad range of financing solutions across multiple real estate-related asset types. Mr. Fellows serves our Manager as its President and Managing Director, and, on November 4, 2010, Mr. Fellows was elected by our board of directors to serve as President and director of our company. Mr. Ward serves our Manager as its Chief Financial Officer, Head of Capital Markets and Risk Management and as Managing Director. Mr. Tokarski serves our Manager as its Chief Credit Officer and as a Managing Director. Mr. De Haan serves our Manager as its Chief Originations Officer and as a Managing Director.

These four executives have worked together for more than 15 years and have more than 90 years combined experience in both commercial real estate, or CRE, finance and the capital markets. Among their collective accomplishments, together they founded and built the CRE finance business of Countrywide Financial Corporation, or Countrywide, into one of the largest in the United States. They also founded and served as Managing Partners at Coastal Capital Partners, LLC, which acquired distressed CRE debt, advised owners of CRE on restructurings and financed health care properties.

Declaration of Dividend. On November 10, 2010, we declared a dividend of $0.40 per share of our common stock for the quarter ending December 31, 2010. The dividend is payable on January 17, 2011 to stockholders of record as of December 31, 2010. As a result, stockholders of record as of December 31, 2010 related to the shares of common stock we issue in this offering will be entitled to receive this dividend.

Master Repurchase Agreement. On December 2, 2010, one of our subsidiaries entered into a master repurchase agreement with Goldman Sachs Mortgage Company. The repurchase agreement will be used to finance the acquisition or origination of eligible mortgage loans, as described in the repurchase agreement. The repurchase agreement provides for asset purchases of up to $150 million and as of December 6, 2010 had not been drawn upon. Advances under the repurchase agreement accrue interest at a per annum rate of 30 day LIBOR plus a margin of between 1.95% and 2.25%, depending on the loan-to-value ratio of the purchased mortgage loans. In connection with the repurchase agreement, we have guaranteed the obligations of our subsidiary up to a maximum liability of 25% of the then currently outstanding repurchase price of all purchased loans. We are also liable under the guaranty for customary "bad boy" events. The repurchase agreement is scheduled to mature on December 3, 2012.

The repurchase agreement and guaranty contain various affirmative and negative covenants, including the following financial covenants for our company: (i) the ratio of EBITDA to interest expense for any calendar quarter shall not be less than 2.0 to 1.0; (ii) the ratio of total indebtedness to total assets shall not be greater than .75 to 1.0, in each case adjusted to remove the impact of FAS 140, FAS 166 and FIN 46 and to the extent of related transfers to special purpose entities in connection with bona fide securitization transactions; (iii) cash liquidity shall not be less than $10 million and near cash liquidity shall not be less than $20 million; (iv) tangible net worth shall not be less than $750 million; and (v) the ratio of EBITDA to fixed charges shall not be less than 1.5 to 1.0.

Secured Credit Agreement. On December 3, 2010, one of our subsidiaries entered into a term loan credit agreement with Bank of America, N.A. providing for initial availability of approximately $125.2 million, with the possibility of increasing the amount of the loan to $150 million. The proceeds of the credit agreement of approximately $125.2 million were used to partially finance the acquisition of a $205 million first mortgage loan secured by substantially all of the assets of a worldwide operator of hotels, resorts and timeshare properties. Advances under the credit agreement accrue interest at a per annum rate based on LIBOR or a base rate, at the election of our subsidiary. The margin can vary between 2.35% and 2.50% over LIBOR, and between 1.35% and 1.50% over base rate, based on the performance of the assets securing the note. The credit agreement is secured by our subsidiary's interest in the first mortgage loan. The credit agreement is guaranteed by us and certain of our subsidiaries. The credit agreement is scheduled to mature on December 3, 2013, subject to our right to extend the maturity date for an additional year upon our satisfaction of certain conditions.

The credit agreement contains various affirmative and negative covenants, including the following financial covenants for our company: (i) the ratio of total indebtedness to total assets shall not be greater than .75 to 1.0, adjusted to remove the impact of FAS 140, FAS 166 and FIN 46 and to the extent of related transfers to special purpose entities in connection with bona fide securitization transactions; (ii) cash liquidity shall not be less than $10 million and the sum of cash liquidity and near cash liquidity shall not be less than $30 million; (iii) tangible net worth shall not be less than $750 million, plus 75% of the net cash proceeds of any sales of equity interests; and (iv) the ratio of EBITDA to fixed charges shall not be less than 1.5 to 1.0.

Investment Strategy

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

- seeking to take advantage of pricing dislocations created by distressed sellers or distressed capital structures and pursuing investments with attractive risk-reward profiles;

- focusing on acquiring debt positions with implied basis at deep discounts to replacement costs;

- focusing on supply and demand fundamentals and pursuing investments in high population and job growth markets where demand for all real estate asset classes is most likely to be present;

- targeting markets with barriers to entry other than capital; and

- structuring transactions with an amount of leverage that reflects the risk of the underlying asset's cash flow stream, attempting to match the rate and duration of the financing with the underlying asset's cash flow, and hedging speculative characteristics.

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

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Financing Strategy

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

- sources of private financing, including long- and short-term repurchase agreements and warehouse and bank credit facilities;
- securitizations; and
- public offerings of our equity or debt securities.

We may also utilize other sources of financing to the extent available to us.

Our Target Assets

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

Our target assets include the following types of loans and other 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;

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- *CMBS:* securities which are collateralized by commercial mortgage loans, including:
  - senior and subordinated investment grade CMBS,
  - below investment grade CMBS, and
  - unrated CMBS;
- *corporate bank debt:* term loans and revolving credit facilities of commercial real estate operating or finance companies, each of which are generally secured by such companies' assets;
- *corporate bonds:* debt securities issued by commercial real estate operating or finance companies which may or may not be secured by such companies' assets, including:
  - investment grade corporate bonds,
  - below investment grade corporate bonds, and
  - unrated corporate bonds; and
- *net leases:* commercial properties subject to net leases, which leases typically have longer terms than gross leases, require tenants to pay substantially all of the operating costs associated with the properties and often have contractually specified rent increases throughout their terms.

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

- *residential mortgage loans:* loans secured by a first mortgage lien on a residential property;
- *RMBS:* securities collateralized by residential mortgage loans, including:
  - *Agency RMBS:* RMBS for which a U.S. Government agency or a federally chartered corporation guarantees payments of principal and interest on the securities, and
  - *Non-Agency RMBS:* RMBS that are not guaranteed by any U.S. Government agency or federally chartered corporation.

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Our Portfolio

The following table sets forth certain information regarding our investment portfolio as of September 30, 2010 (dollar amounts in thousands):

Investment	Property Type	Carrying Value	Face Amount	% Owned	Financing	Net Investment	Weighted Average Rating	Vintage
Loans, first mortgages	Assorted	$ 498,415	$ 511,904	100%	$ 262,076	$ 236,339	N/A	2005-2010
Loans, subordinated debt	Assorted	377,472	440,972	100%	73,655	303,817	N/A	1999-2005
CMBS AFS	Assorted	276,470	275,362	81%*	171,305	105,165	AA-	2001-2010
RMBS AFS	Residential	78,804	90,774	100%		78,804	BB-	2001-2007
Other Investments	Assorted	15,715	15,029	100%		15,715	N/A	N/A
		$ 1,246,876	$ 1,334,041		$ 507,036	$ 739,840		

* Reflects weighted average ownership percentage based upon carrying values and includes one joint venture in which we have a 75% ownership interest.

In addition, as of September 30, 2010, our investment portfolio had the following interest rate and property type and U.S. geographic diversification characteristics, based on carrying values (dollar amounts in thousands):

Investment	Carrying Value	Face Amount	Weighted Average Coupon	Weighted Average Life (years)
Fixed Rate	$ 1,019,949	$ 1,068,538	7.40%	3.21
Variable Rate	211,212	250,474	2.05%	2.47
Other	15,715	15,029	N/A	N/A
Total Investments	$ 1,246,876	$ 1,334,041		

Collateral Property Type	As of September 30, 2010	As of December 31, 2009	Geographic Location	As of September 30, 2010	As of December 30, 2009
Hospitality	24.3%	32.7%	Northeast	10.0%	14.1%
Industrial	7.5%	26.5%	Mid-Atlantic	10.1%	14.8%
Office	29.3%	18.0%	Southeast	12.8%	35.9%
Retail	29.5%	16.2%	Southwest	7.5%	5.3%
Multifamily	8.8%	5.1%	Midwest	31.4%	8.7%
Other	0.5%	1.2%	West	15.8%	17.2%
Mixed Use	0.1%	0.3%	Other	12.4%	4.0%
	100.0%	100.0%		100.0%	100.0%

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Summary of Maturities

As of September 30, 2010, our investment portfolio had a weighted average maturity of 3.3 years, based on management's judgment of extension options being exercised. We are presenting this information based upon management's judgment of extension options being exercised as opposed to the initial maturity dates, as we believe this reflects more accurately when the assets in our investment portfolio will mature. There can be no assurance that the extension options will be exercised as expected. The table below shows the carrying value expected to mature annually over the next ten years (dollar amounts in thousands).

Year of Maturity	Number of Investments Maturing	Carrying Value	% of Total
2011	55*	$ 447,841	35.92%
2012	9	219,210	17.58%
2013	4	291,899	23.41%
2014	1	15,756	1.26%
2015	2	73,614	5.90%
2016	2	14,671	1.18%
2017	3	78,669	6.31%
2018			
2019 and thereafter	16	105,216	8.44%
Total	92	$ 1,246,876	100.00%

* Includes 35 RMBS classified as available-for-sale with modified durations of less than 12 months in the aggregate with a total carrying value of $78,804.

Leverage Policies

We employ leverage, to the extent available, to fund the acquisition of our target assets and to increase potential returns to our stockholders. Although we are not required to maintain any particular leverage ratio, the amount of leverage we will deploy for particular investments in our target assets will depend upon our Manager's assessment of a variety of factors, which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including hedges, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and commercial and residential mortgage markets, our outlook for the level, slope, and volatility of interest rates, the credit quality of our assets, the collateral underlying our assets, and our outlook for asset spreads relative to the LIBOR curve. As of September 30, 2010, our ratio of total debt to equity (including minority interests) was 55.43%.

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The Offering

Issuer	Starwood Property Trust, Inc.