

STARWOOD PROPERTY TRUST, INC.
Form 10-K
February 25, 2015

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Item 8. Financial Statements and Supplementary Data.](#)

[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____
Commission file number 001-34436

Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

27-0247747

(I.R.S. Employer
Identification Number)

**591 West Putnam Avenue
Greenwich, Connecticut**

(Address of Principal Executive Offices)

06830

(Zip Code)

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

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

Title of each class

Common Stock, \$0.01 par value per share

Name of each exchange on which registered

New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been

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subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large
accelerated filer

Accelerated
filer

Non-accelerated
filer

Smaller reporting
company

(Do not check if a
smaller reporting
company)

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

As of June 30, 2014, the aggregate market value of the voting stock held by non-affiliates was \$5,195,893,119 based on the reported last sale price of our common stock on June 30, 2014. Shares of our common stock held by affiliates, which includes officers and directors of the registrant, have been excluded from this calculation. This calculation does not reflect a determination that persons are affiliates for any other purposes. The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of February 20, 2015 was 223,539,916.

DOCUMENTS INCORPORATED BY REFERENCE

Documents Incorporated By Reference: The information required by Part III of this Form 10-K, to the extent not set forth herein or by amendment, is incorporated by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or prior to April 30, 2015.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Part I</u>	<u>1</u>
<u>Item 1.</u>	<u>1</u>
<u>Item 1A.</u>	<u>11</u>
<u>Item 1B.</u>	<u>53</u>
<u>Item 2.</u>	<u>53</u>
<u>Item 3.</u>	<u>53</u>
<u>Item 4.</u>	<u>53</u>
<u>Part II</u>	<u>54</u>
<u>Item 5.</u>	<u>54</u>
<u>Item 6.</u>	<u>56</u>
<u>Item 7.</u>	<u>57</u>
<u>Item 7A.</u>	<u>82</u>
<u>Item 8.</u>	<u>87</u>
<u>Item 9.</u>	<u>171</u>
<u>Item 9A.</u>	<u>171</u>
<u>Item 9B.</u>	<u>171</u>
<u>Part III</u>	<u>172</u>
<u>Item 10.</u>	<u>172</u>
<u>Item 11.</u>	<u>172</u>
<u>Item 12.</u>	<u>172</u>
<u>Item 13.</u>	<u>173</u>
<u>Item 14.</u>	<u>173</u>
<u>Part IV</u>	<u>174</u>
<u>Item 15.</u>	<u>174</u>
<u>Signatures</u>	<u>177</u>

Table of Contents

Special Note Regarding Forward-Looking Statements

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

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

factors described in this Annual Report on Form 10-K, including those set forth under the captions "Risk Factors" and "Business";

defaults by borrowers in paying debt service on outstanding indebtedness;

impairment in the value of real estate property securing our loans;

availability of mortgage origination and acquisition opportunities acceptable to us;

our ability to fully integrate LNR Property LLC, a Delaware limited liability company ("LNR"), which was acquired on April 19, 2013, into our business and achieve the benefits that we anticipate from this acquisition;

potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;

national and local economic and business conditions;

general and local commercial and residential 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 and securities investing activities;

changes in interest rates; and

the availability of and costs associated with sources of liquidity.

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

Table of Contents

PART I

Item 1. Business.

The following description of our business should be read in conjunction with the information included elsewhere in this Annual Report on Form 10-K for the year ended December 31, 2014. This description contains forward-looking statements that involve risks and uncertainties. Actual results could differ significantly from the results discussed in the forward-looking statements due to the factors set forth in "Risk Factors" and elsewhere in this Annual Report on Form 10-K. References in this Annual Report on Form 10-K to "we," "our," "us," or the "Company" refer to Starwood Property Trust, Inc. and its subsidiaries.

General

Starwood Property Trust, Inc. ("STWD" together with its subsidiaries, "we" or the "Company") is a Maryland corporation that commenced operations in August 2009 upon the completion of our initial public offering ("IPO"). We are focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities ("CMBS"), and other commercial real estate-related debt investments in both the U.S. and Europe. We refer to the following as our target assets:

commercial real estate mortgage loans, including preferred equity interests;

CMBS; and

other commercial real estate-related debt investments.

Our target assets may also include residential mortgage-backed securities ("RMBS"), certain residential mortgage loans, distressed or non-performing commercial loans, commercial properties subject to net leases and equity interests in commercial real estate. 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.

On April 19, 2013, we acquired the equity of LNR Property LLC ("LNR") and certain of its subsidiaries for an initial agreed upon purchase price of approximately \$859 million, which was reduced for transaction expenses and distributions occurring after September 30, 2012, resulting in cash consideration of approximately \$730 million. Immediately prior to the acquisition, an affiliate of the Company acquired the remaining equity comprising LNR's commercial property division for a purchase price of \$194 million. The portion of the LNR business acquired by us includes the following: (i) servicing businesses in both the U.S. and Europe that manage and work out problem assets, (ii) an investment business that is focused on selectively acquiring and managing real estate finance investments, including unrated, investment grade and non-investment grade rated CMBS, including subordinated interests of securitization and resecuritization transactions, and high yielding real estate loans; and (iii) a mortgage loan business which originates conduit loans for the primary purpose of selling these loans into securitization transactions.

We have two reportable business segments as of December 31, 2014:

Real estate lending (the "Lending Segment") includes all business activities of the Company, excluding the real estate investing and servicing segment. The Lending Segment generally represents investments in real estate-related loans and securities that are held-for-investment.

Real estate investing and servicing (the "Investing and Servicing Segment") formerly referred to as the "LNR Segment", this segment includes all business activities of the acquired LNR business excluding the consolidation of securitization variable interest entities ("VIEs").

Table of Contents

On January 31, 2014, we completed the spin-off of our former single family residential ("SFR") segment to our stockholders. The newly-formed real estate investment trust ("REIT"), Starwood Waypoint Residential Trust ("SWAY"), is listed on the New York Stock Exchange ("NYSE") and trades under the ticker symbol "SWAY." Our stockholders received one common share of SWAY for every five shares of our common stock held at the close of business on January 24, 2014. As part of the spin-off, we contributed \$100 million to the unlevered balance sheet of SWAY to fund its growth and operations. As of January 31, 2014, SWAY held net assets of \$1.1 billion. The net assets of SWAY consisted of approximately 7,200 units of single-family homes and residential non-performing mortgage loans as of January 31, 2014. In connection with the spin-off, 40.1 million shares of SWAY were issued. Refer to Note 3 to our consolidated financial statements (the "Consolidated Financial Statements") included under Item 8 herein for additional information regarding SFR segment financial information, which has been presented within discontinued operations in the consolidated statements of operations.

We are organized and conduct our operations to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). As such, we will generally not be subject to U.S. federal corporate income tax on that portion of our net income that is distributed to stockholders if we distribute at least 90% of our taxable income to our stockholders by prescribed dates and comply with various other requirements.

We are organized as a holding company and conduct our business primarily through our various wholly-owned subsidiaries. We are externally managed and advised by SPT Management, LLC (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.

We have elected to be taxed as a REIT for U.S. federal income tax purposes, commencing with our initial taxable year ended December 31, 2009. We also operate our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act of 1940 as amended (the "Investment Company Act" or "1940 Act").

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

Investment Strategy

We seek to attain attractive risk-adjusted returns for our investors over the long term by sourcing and managing a diversified portfolio of target assets, financed in a manner that is designed to deliver attractive returns across a variety of market conditions and economic cycles. Our investment strategy focuses on a few fundamental themes:

origination and acquisition of real estate debt assets with an implied basis sufficiently low to weather declines in asset values;

focus on real estate markets and asset classes with strong supply and demand fundamentals and/or barriers to entry;

structuring and financing each transaction in a manner that reflects the risk of the underlying asset's cash flow stream and credit risk profile, and efficiently managing and maintaining the transaction's interest rate and currency exposures at levels consistent with management's risk objectives;

seeking situations where our size, scale, speed, and sophistication allow us to position ourselves as a "one-stop" lending solution for real estate owner/operators;

utilizing the skills, expertise, and contacts developed by our Manager over the past twenty plus years as one of the premier global real estate investment managers to correctly anticipate trends

Table of Contents

and identify attractive risk-adjusted investment opportunities in U.S. and European real estate debt capital markets; and

utilizing the skills, expertise, and infrastructure we acquired through our acquisition of LNR, a market leading diversified real estate investment management and loan servicing company, to expand and diversify our presence in various segments of real estate lending and debt securities, including:

origination of small and medium sized loan transactions (\$10 million to \$50 million) for both investment and securitization/gain-on-sale;

investment in CMBS; and

special servicing of commercial real estate loans in commercial real estate securitization transactions.

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 venture, management or other agreements with persons that have special expertise or sourcing capabilities.

Financing Strategy

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

sources of private financing, including long and short-term repurchase agreements and warehouse and bank credit facilities;

loan sales, syndications, and/or securitizations; and

public or private offerings of our equity and/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. or European collateral. We focus primarily on originating or opportunistically acquiring commercial mortgage whole loans, B-notes, mezzanine loans, preferred equity and mortgage-backed securities. We may invest in performing and non-performing mortgage loans and other real estate-related loans and debt investments. We may acquire target assets through portfolio or other acquisitions. Our Manager targets desirable markets where it has expertise in the real estate collateral underlying the assets being acquired. 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 that provide mortgage financing to commercial property developers or owners generally having maturity dates ranging from three to ten years;

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;

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Table of Contents

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 that 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 that may or may not be secured by such companies' assets, including:

investment grade corporate bonds,

below investment grade corporate bonds, and

unrated corporate bonds.;

Equity: equity interests in commercial real estate properties.

We have also invested in the following types of loans and other debt investments relating to residential real estate:

Non-Agency RMBS: securities collateralized by residential mortgage loans that are not guaranteed by any U.S. Government agency or federally chartered corporation; and

Residential mortgage loans: loans secured by a first mortgage lien on residential property.

In addition, we may invest in the following real estate related investments:

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;

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

Commercial real estate owned ("REO"): commercial properties purchased from CMBS trusts; and

Commercial non-performing loans ("NPLs"): as part of our efforts to attain additional servicing rights in Europe, we may acquire a minority interest in portfolios of NPLs, alongside other majority investors.

Business Segments

We currently operate our business in two reportable segments: the Lending Segment and the Investing and Servicing Segment. Refer to Note 23 to our Consolidated Financial Statements for our results of operations and financial position by business segment.

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Table of Contents

Lending Segment

The following table sets forth the amount of each category of investments we owned across various property types within our Lending Segment as of December 31, 2014 and 2013 (amounts in thousands):

	Face Amount	Carrying Value	Asset Specific Financing	Net Investment	Vintage
December 31, 2014					
First mortgages	\$ 3,863,318	\$ 3,801,751	\$ 1,803,955	\$ 1,997,796	1989 - 2014
Subordinated mortgages	374,859	345,091	2,000	343,091	1998 - 2014
Mezzanine loans	1,601,453	1,605,478	57,678	1,547,800	2005 - 2014
Loans transferred as secured borrowings	129,570	129,427	129,441	(14)	N/A
Loan loss allowance		(6,031)		(6,031)	N/A
RMBS AFS(1)	270,783	207,053	101,886	105,167	2003 - 2007
CMBS AFS(1)	93,686	100,349		100,349	2012 - 2013
HTM securities(2)	440,253	441,995	97,103	344,892	2013 - 2014
Equity security	14,237	15,120		15,120	N/A
Investments in unconsolidated entities	N/A	152,012		152,012	N/A
	\$ 6,788,159	\$ 6,792,245	\$ 2,192,063	\$ 4,600,182	

December 31, 2013					
First mortgages	\$ 2,749,072	\$ 2,701,731	\$ 1,099,628	\$ 1,602,103	1989 - 2013
Subordinated mortgages	442,475	407,462	4,000	403,462	1999 - 2013
Mezzanine loans	1,246,841	1,245,728		1,245,728	2010 - 2013
Loans transferred as secured borrowings	180,484	180,414	181,238	(824)	N/A
Loan loss allowance		(3,984)		(3,984)	N/A
RMBS AFS(1)	414,020	296,236	127,943	168,293	2003 - 2007
CMBS AFS(1)	100,648	114,346		114,346	2012 - 2013
HTM securities(2)	371,700	368,318	58,467	309,851	2013
Equity security	15,133	15,247		15,247	N/A
Investments in unconsolidated entities	N/A	50,167		50,167	N/A
	\$ 5,520,373	\$ 5,375,665	\$ 1,471,276	\$ 3,904,389	

(1) RMBS and CMBS available-for-sale ("AFS") securities.

(2) Mandatorily redeemable preferred equity interests in commercial real estate entities and CMBS held-to-maturity ("HTM").

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Table of Contents

As of December 31, 2014 and 2013, our Lending Segment's investment portfolio, excluding RMBS and other investments, had the following characteristics based on carrying values:

Collateral Property Type	December 31, 2014	December 31, 2013
Office	42.1%	33.1%
Hospitality	24.7%	25.6%
Multi-family	13.1%	1.3%
Mixed Use	8.8%	16.9%
Retail	8.3%	11.7%
Industrial	1.9%	1.8%
Residential	1.1%	9.6%
	100.0%	100.0%

Geographic Location	December 31, 2014	December 31, 2013
North East	26.8%	20.8%
West	25.6%	25.7%
International	14.2%	15.4%
South East	12.4%	17.7%
Midwest	8.5%	5.3%
Mid Atlantic	6.4%	9.1%
South West	6.1%	6.0%
	100.0%	100.0%

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

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

Our primary focus has been to build a portfolio of commercial mortgage and mezzanine loans at attractive risk-adjusted returns by focusing on the underlying real estate fundamentals and credit analysis of the borrowers. We continually monitor borrower performance and complete a detailed, loan-by-loan formal credit review on a quarterly basis. The results of this review are incorporated into our quarterly assessment of the adequacy of the allowance for loan losses.

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Table of Contents

The weighted average coupon for first mortgages, subordinated mortgages and mezzanine loans originated by the Lending Segment during the year ended December 31, 2014 was 4.6%, 8.5% and 10.2%, respectively. The following table summarizes the activity in the Lending Segment's loan portfolio and the associated changes in future funding commitments associated with these loans during the year ended December 31, 2014 (amounts in thousands):

	Principal Balance	Future Funding Commitments
Balance at January 1, 2014	\$ 4,531,351	\$ 915,002
Acquisitions/originations/additional funding	3,004,263	1,777,111
Capitalized interest(1)	49,611	
Loans sold	(500,778)	(424,940)
Loan maturities/principal repayments	(1,238,434)	(139,408)
Discount accretion/premium amortization	21,287	
Unrealized foreign currency remeasurement (loss) gain	(47,392)	(26,762)
Capitalized cost written off		
Change in loan loss allowance, net	(2,047)	
Transfer to/from other asset classifications	57,855	
Balance at December 31, 2014	\$ 5,875,716	\$ 2,101,003

(1) Represents accrued interest income on loans whose terms do not require current payment of interest.

As of December 31, 2014, the Lending Segment's loans held-for-investment, HTM securities and CMBS had a weighted-average maturity of 3.7 years, inclusive of extension options that management believes are probable of exercise. The table below shows the carrying value expected to mature annually for our loans held-for-investment, HTM securities and CMBS (amounts in thousands, except number of investments maturing).

Year of Maturity	Number of Investments Maturing(1)	Carrying Value	% of Total
2015	8	\$ 63,149	1.0%
2016	40	1,122,747	17.8%
2017	72	947,482	15.1%
2018	76	1,958,018	31.1%
2019	69	1,368,807	21.8%
2020	23	518,002	8.2%
2021	1	4,664	0.1%
2022			%
2023	4	52,178	0.8%
2024 and thereafter	18	259,617	4.1%
Total	311	\$ 6,294,664	100.0%

(1) Excludes loans transferred as secured borrowings, RMBS, equity security and investments in unconsolidated entities.

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Table of Contents

Investing and Servicing Segment

The following table sets forth the amount of each category of investments we owned within our Investing and Servicing Segment as of December 31, 2014 and 2013 (amounts in thousands):

	Face Amount	Carrying Value	Asset Specific Financing	Net Investment
December 31, 2014				
CMBS, fair value option	\$ 4,281,364	\$ 753,553(1)		\$ 753,553
Servicing rights intangibles	N/A	190,207(2)		190,207
Loans held-for-sale, fair value option	390,342	391,620	208,363	183,257
Loans held-for-investment	34,703	32,949		32,949
Investments in unconsolidated entities	N/A	48,693		48,693
Commercial real estate	N/A	39,854	14,000	25,854
	\$ 4,706,409	\$ 1,456,876	\$ 222,363	\$ 1,234,513

December 31, 2013				
CMBS, fair value option	\$ 3,871,803	\$ 550,282(1)		\$ 550,282
Servicing rights intangibles	N/A	257,736(2)		257,736
Loans held-for-sale, fair value option	209,099	206,672	129,843	76,829
Loans held-for-investment	17,144	12,781		12,781
Investments in unconsolidated entities	N/A	76,170		76,170
Commercial real estate	N/A			
	\$ 4,098,046	\$ 1,103,641	\$ 129,843	\$ 973,798

(1) Includes \$519.8 million and \$409.3 million of CMBS reflected in "VIE liabilities" in accordance with Accounting Standards Codification ("ASC") 810 as of December 31, 2014 and 2013, respectively.

(2) Includes \$46.1 million and \$80.6 million of servicing rights intangibles reflected in "VIE assets" in accordance with ASC 810 as of December 31, 2014 and 2013, respectively.

As of December 31, 2014, the Investing and Servicing Segment's CMBS and loans held-for-investment had a weighted-average expected maturity of 8.5 years. The table below shows the carrying value expected to mature annually over the next ten years (amounts in thousands, except number of investments maturing).

Year of Maturity	Number of Investments Maturing(1)	Carrying Value	% of Total
2015	65	\$ 18,463	2.3%
2016	31	12,331	1.6%
2017	7	21,087	2.7%
2018	24	26,975	3.4%
2019	21	37,768	4.8%
2020	10	54,625	7.0%
2021	7	29,509	3.8%
2022	3	3,548	0.5%
2023	19	109,069	13.9%

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2024	112	471,920	60.0%
Total	299	\$ 785,295	100.0%