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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

OR

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

FOR THE TRANSITION PERIOD FROM ______________ TO ______________

COMMISSION FILE NO. 1-10150

STARWOOD FINANCIAL INC. *

(Exact name of registrant as specified in its charter)

MARYLAND (State or other jurisdiction of incorporation or organization)	95-6881527 (I.R.S. Employer Identification Number)
1114 AVENUE OF THE AMERICAS, 27(TH) FLOOR NEW YORK, NY 10036 (Address of principal executive offices)	10036 (Zip code)

Registrant's telephone number, including area code: (212)930-9400

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

Title of each class:	Name of Exchange on which registered:
COMMON STOCK, $0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.375% SERIES B CUMULATIVE REDEEMABLE PREFERRED STOCK, $0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
9.200% SERIES C CUMULATIVE REDEEMABLE PREFERRED STOCK, $0.001 PAR VALUE	NEW YORK STOCK EXCHANGE
8.000% SERIES D CUMULATIVE REDEEMABLE PREFERRED STOCK, $0.001 PAR VALUE	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant; (i) 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 (ii) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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. / /

As of March 15, 2000, the aggregate market value of the common stock, $0.001 par value per share of Starwood Financial Inc. ("Common Stock") held by non-affiliates(1) of the registrant was approximately $1,462 million, based upon the closing price of $17.19 on the New York Stock Exchange composite tape on such date.

As of March 15, 2000, there were 85,045,936 shares of Common Stock outstanding.

* On November 4, 1999, the registrant completed a transaction in which its name was changed from Starwood Financial Trust to Starwood Financial Inc., it issued Common Stock in exchange for the class A and class B shares then outstanding, and the registrant listed its Common Stock on the New York Stock Exchange.

(1) For purposes of this Annual Report only, includes all outstanding Common Stock other than Common Stock held directly by the Registrant's directors and executive officers.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's definitive proxy statement for the registrant's 2000 Annual Meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. BUSINESS

EXPLANATORY NOTE FOR PURPOSES OF THE "SAFE HARBOR PROVISIONS" OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

Except for historical information contained herein, this Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which involve certain risks and uncertainties. Forward-looking statements are included with respect to, among other things, the Company's current business plan, business strategy and portfolio management. The Company's actual results or outcomes may differ materially from those anticipated. Important factors that the Company believes might cause such differences are discussed in the cautionary statements presented under the caption "Factors That May Affect the Company's Business Strategy" in Item 1 of this Form 10-K or otherwise accompany the forward-looking statements contained in this Form 10-K. In assessing forward-looking statements contained herein, readers are urged to read carefully all cautionary statements contained in this Form 10-K.

OVERVIEW

Starwood Financial Inc. (the "Company") is the leading publicly traded finance company focused on the commercial real estate industry. The Company, which is taxed as a real estate investment trust, provides structured mortgage, mezzanine and lease financing through its origination, acquisition and servicing platform. The Company's mission is to maximize risk-adjusted returns on equity by providing innovative and value-added financing solutions to private and corporate owners of commercial properties in major metropolitan markets nationwide.

The Company's primary product lines include:

- STRUCTURED FINANCE. The Company provides senior and subordinated loans from $20 million to $100 million to borrowers controlling institutional quality real estate. These loans may be either fixed or floating rate and are structured to meet the specific financing needs of the borrowers, including the acquisition, financing, repositioning or construction of large, high-quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership secured loans, participating debt and interim/bridge facilities.

- PORTFOLIO FINANCE. The Company provides funding to regional and national borrowers who own multiple properties in a geographically diverse portfolio. Loans are cross-collateralized to give borrowers the benefit of all available collateral and underwritten to recognize inherent portfolio diversification. Property types include multifamily, suburban office, all-suite, extended stay and limited service hotels and other property types where individual property values are less than $20 million on average. Loan terms are structured to meet the specific requirements of the borrower and range in size from $25 million to $150 million.

- CORPORATE LENDING. The Company provides senior and subordinated debt capital to corporations engaged in real estate or real estate-related businesses. Loans may be either secured or unsecured and range in size from $20 million to $100 million.

- LOAN ACQUISITION. The Company acquires whole loans and loan participations which present attractive risk-reward opportunities. Loans are generally acquired at a discount to the principal balance outstanding and may be acquired with financing provided by the seller. Loan acquisitions range from $5 million to $100 million and are collateralized by all major property types.

- CREDIT TENANT LEASING. The Company provides capital to owners and borrowers who control properties leased to single creditworthy tenants. The Company's net leased facilities are generally subject to long-term leases with rated corporate credit tenants, and provide for all expenses at the property to be paid by the tenant on a triple net lease basis. Credit tenant transactions range in size from $20 million to $200 million.

- SERVICING. Through its Starwood Asset Services division, the Company provides rated servicing to third-party, institutional loan portfolios, as well as to the Company's own portfolio.

As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company began its business in 1993 through private investment funds formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their approximately $1.1 billion of assets to the Company's predecessor, Starwood Financial Trust, in exchange for a controlling interest in that company. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions.

Specifically, in September 1998, the Company acquired the loan origination and servicing business of a major insurance company, and in December 1998, the Company acquired the mortgage and mezzanine loan portfolio of its largest private competitor. Additionally, in November 1999, the Company acquired TriNet Corporate Realty Trust, Inc., the largest publicly traded company specializing in the net leasing of corporate office and industrial facilities. The TriNet transaction was structured as a stock-for-stock merger of TriNet with a subsidiary of the Company. We refer to TriNet throughout this document as the "Leasing Subsidiary."

Concurrent with the TriNet transaction, the Company also acquired its external advisor in exchange for shares of Common Stock and converted its organizational form to a Maryland corporation. As part of the conversion to a Maryland corporation, the Company replaced its dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange on November 4, 1999. Prior to this date, the Company's common shares were traded on the American Stock Exchange.

INVESTMENT STRATEGY

The Company's investment strategy targets specific sectors of the real estate credit markets in which it believes it can deliver value-added, flexible financial solutions to its customers, thereby differentiating its financial products from those offered by other capital providers.

The Company has implemented its investment strategy by:

- Focusing on the origination of large, highly structured mortgage, mezzanine and lease financings where customers require flexible financial solutions, and avoiding commodity businesses in which there is significant direct competition from other providers of capital.

- Developing direct relationships with borrowers and corporate tenants as opposed to sourcing transactions through intermediaries.

- Adding value beyond simply providing capital by offering borrowers and corporate tenants specific lending expertise, flexibility, speed, certainty and continuing relationships beyond the closing of a particular financing transaction.

- Taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital, such as the spread between lease yields and the yields on corporate tenants' underlying credit obligations.

The Company intends to continue to emphasize a mix of portfolio financing transactions to create asset diversification and single-asset financings for properties with strong, long-term positioning. The Company's credit process will continue to focus on:

- Building diversification by asset type, property type, obligor, loan/lease maturity and geography.

- Financing high-quality commercial real estate assets in major metropolitan markets.

- Underwriting assets using conservative assumptions regarding collateral value and future property performance.

- Requiring adequate cash flow coverage on its investments.

- Stress testing potential investments for adverse economic and real estate market conditions.

In June 1999, the Company announced its intention to dispose of approximately $200 million of non-core properties held at the Leasing Subsidiary which generally have short-term lease rollover risk or other characteristics inconsistent with the Company's structured finance focus. Since that time, the Leasing Subsidiary has sold or entered into agreements to sell $146.8 million of assets.

As of December 31, 1999, based on current carrying values, the Company's business consists of the following product lines:

PRODUCT LINE:

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

STRUCTRED FINANCE	27%
Portfoloio Finance	12%
Credit Tenant Lease	47%
Corporate Lending	3%
Loan Acquisitions	11%

The Company seeks to maintain an investment portfolio which is diversified by asset type, underlying property type and geography. As of December 31, 1999, based on current carrying values, the Company's total investment portfolio has the following characteristics:

ASSET TYPE: PROPERTY TYPE: GEOGRAPHY:

EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

FIRST MORTGAGES	30%
Second Mortgages	14%
Partnership/Corporate/Other	10%
Net Leases	46%
Hotel	12%
Mixed Use	5%
Office	52%
Industrial	8%
R&D	3%
Aparment/Residential	3%
Resort/Entertainment	5%
Retail	8%
Homebuilder/Land	4%
Southeast	11%
Mid-Atlantic	9%
Northeast	15%
North Central	2%
Central	7%
South	15%
Southwest	2%
West	35%
Northwest	4%

FINANCING STRATEGY

The Company has access to a wide range of debt and equity capital resources to finance its investment and growth strategies. At December 31, 1999, the Company had approximately $1.8 billion of tangible book equity capital and a total market capitalization of approximately $4 billion. The Company believes that its size, diversification, investor sponsorship and track record are competitive advantages in obtaining attractive financing for its businesses.

The Company seeks to maximize risk-adjusted returns on equity and financial flexibility by opportunistically accessing a variety of public and private debt and equity capital sources, including:

- A match-funded, securitized debt program now in process.

- A combined $1.5 billion available under its revolving credit facilities (both secured and unsecured).

- Long-term, unsecured corporate debt.

- Public and private common and preferred equity.

The Company's business model is premised on significantly lower leverage than many other commercial finance companies. In this regard, the Company seeks to:

- Target a maximum consolidated debt/book equity ratio of 1.5x to 2.0x.

- Maintain a minimum tangible equity base of $1.5 to $2.0 billion.

- Maintain conservative credit statistics.

- Match fund assets and liabilities.

A more detailed discussion of the Company's current capital resources is provided in Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources".

BUSINESS

REAL ESTATE LENDING:

The Company provides structured mortgage, mezzanine and corporate financing to leading commercial real estate owners through its origination and acquisition platform.

Set forth below is information regarding the Company's primary real estate lending product lines as of December 31, 1999:

	CURRENT CARRYING VALUE (IN THOUSANDS)	PERCENTAGE OF TOTAL
Structured finance	$1,016,148	50.5%
Portfolio finance	447,343	22.2%
Loan acquisition	424,880	21.2%
Corporate lending	122,635	6.1%
Gross carrying value	2,011,006	100.0%
Provision for possible credit losses	(7,500)	
Total carrying value, net	$2,003,506	

As more fully discussed in Note 3 to the Company's Consolidated Financial Statements, the Company continually monitors borrower performance and completes a detailed loan-by-loan formal credit review on a quarterly basis. After having originated or acquired over $3 billion of lending transactions, neither the Company nor its private investment fund predecessors have experienced any actual losses on their loan investments. Further, based on current reviews of its portfolio, management is not aware of any factors relating to specific loans which indicate that such losses may be experienced in the forseeable future.

While no losses are currently expected, the Company has considered it prudent to establish a policy of providing reserves for potential losses in the current portfolio which may result in the future. Accordingly, since the quarter ended June 30, 1998, management has reflected quarterly provisions for possible credit losses in its operating results.

SUMMARY OF INTEREST CHARACTERISTICS

As more fully discussed in Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" as well as "--Interest Rate Risks", the Company utilizes certain interest rate risk management techniques, including both asset/liability matching and certain other hedging techniques, in order to mitigate the Company's exposure to interest rate risks.

As of December 31, 1999, the Company's Lending Business portfolio has the following interest characteristics:

	CURRENT CARRYING VALUE	PERCENTAGE OF TOTAL
	(IN THOUSANDS)	
Fixed rate loans	$1,268,005	63.1%
Variable rate loans	743,001	36.9%
Gross carrying value	$2,011,006	100.0%

SUMMARY OF PREPAYMENT TERMS

The Company is exposed to risks of prepayment on its loan assets, and generally seeks to protect itself from such risk by structuring its loans with prepayment restrictions and/or penalties.

As of December 31, 1999, the Companys Lending Business portfolio has the following prepayment term characteristics:

	CURRENT CARRYING VALUE	PERCENTAGE OF TOTAL
	(IN THOUSANDS)	
Yield maintenance	$ 424,280	21.1%
Substantial lock-out for original term	570,688	28.4%
Fixed prepayment penalties	635,509	31.6%
No significant prepayment protection	380,529	18.9%
Gross carrying value	$2,011,006	100.0%

SUMMARY OF LOAN MATURITIES

As of December 31, 1999, the Company's Lending Business portfolio has the following maturity term characteristics:

YEAR OF LOAN MATURITY	NUMBER OF LOANS MATURING	CURRENT CARRYING VALUE (IN THOUSANDS)	PERCENTAGE OF TOTAL
2000	5	$ 204,295	10.2%
2001	7	295,438	14.7%
2002	8	272,601	13.6%
2003	5	261,282	13.0%
2004	11	504,852	25.1%
2005	5	86,922	4.3%
2006	2	50,763	2.5%
2007	7	255,598	12.7%
2008	3	41,208	2.0%
2009	--	--	0.0%
2010 and thereafter	3	38,047	1.9%
Gross carrying value		$ 2,011,006	100.0%
Weighted average maturity		3.7 years	

STRUCTURED FINANCE

The Company provides custom-tailored senior and subordinated loans from $20 million to $100 million to borrowers controlling institutional quality real estate. These loans may be either fixed or floating rate and are structured to meet the specific financing needs of the borrowers, including financing related to the acquisition, refinancing, repositioning or construction of large, high-quality real estate. The Company offers borrowers a wide range of structured finance options, including first mortgages, second mortgages, partnership secured loans, participating debt and interim/bridge facilities.

As of December 31, 1999, the Company's structured finance investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	INITIAL CARRYING VALUE (IN THOUSANDS)	CURRENT CARRYING VALUE(1) (IN THOUSANDS)	CURRENT PRINCIPAL BALANCE OUTSTANDING (IN THOUSANDS)	WEIGHTED AVERAGE STATED PAY RATE
First Mortgages:						
Fixed	Residential/ Resort/Mixed Use	6	$188,092	$ 186,695	$ 188,201	10.78%
Floating	Office	3	223,882	225,487	226,378	LIBOR + 2.40%
Second Mortgages:						
Fixed	Office/Hotel/ Mixed Use/Resort	8	125,843	131,992	135,690	11.36%
Floating	Office	--	--	--	--	--
Partnership/Corporate/Other Loans:						
Fixed	Office/Hotel/ Mixed Use Resort	14	330,458	342,545	359,601	11.96%
Floating	Office	2	129,400	129,429	130,000	LIBOR + 4.80%
Total		33		$1,016,148	$1,039,870	

EXPLANATORY NOTES:

INVESTMENT CLASS	WEIGHTED AVERAGE STATED ACCRUAL RATE	WEIGHTED AVERAGE ESTIMATED ACCOUNTING YIELD(2)	WEIGHTED AVERAGE CURRENT LOAN-TO-VALUE(3)
First Mortgages:			
Fixed	11.12%	11.24%	62%
Floating	LIBOR + 2.82%	9.65%	76%
Second Mortgages:			
Fixed	12.36%	13.95%	71%
Floating	--	--	--
Partnership/Corporate/Other Lo			
Fixed	13.80%	11.91%	78%
Floating	LIBOR + 4.80%	10.81%	80%
Total			

EXPLANATORY NOTES:

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(1) Where Current Carrying Value is less than Initial Carrying Value, difference

represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.

(2) Estimated accounting yield represents the stated rate on the loan as adjusted for the amortization of loan fee revenue and any direct loan costs or acquisition premiums or discounts using the effective interest method over the term of the loan. Such estimate is not adjusted for the effects of expected early repayments of loans subject to prepayment penalties or the effects of possible additional contingent interest on loan participation features included under certain of the Company's loan investments.

(3) Weighted average ratio of current loan carrying value to underlying collateral value using third-party collateral appraisal (where applicable) or the Company's internal valuation (where no appraisal available).

PORTFOLIO FINANCE

The Company provides funding to regional and national borrowers who own multiple properties in a geographically diverse portfolio. Loans are cross-collateralized to give borrowers the benefit of all available collateral and underwritten to recognize inherent diversification. Property types include multifamily, suburban office, all-suite, extended stay and limited service hotels and other property types where individual property values are less than $20 million on average. Loan terms are structured to meet the specific requirements of the borrower and range in size from $25 million to $150 million.

As of December 31, 1999, the Company's portfolio finance investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	INITIAL CARRYING VALUE (IN THOUSANDS)	CURRENT CARRYING VALUE(1) (IN THOUSANDS)	CURRENT PRINCIPAL BALANCE OUTSTANDING (IN THOUSANDS)
First Mortgages:					
Fixed....................	Hotel/Land/Residential	1	$ 67,840	$ 64,259	$ 64,687
Floating.................	Office/Residential	3	154,479	159,258	160,160
Second Mortgages:					
Fixed....................	Hotel/Office	4	115,352	114,030	111,411
Floating.................	Hotel	1	29,689	39,771	40,000
Partnership/Corporate/Other Loans:					
Fixed....................	--	--	--	--	--
Floating.................	Hotel	1	69,856	70,025	70,500
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Total......................		10		$ 447,343	$ 446,758
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EXPLANATORY NOTES:

INVESTMENT CLASS	WEIGHTED AVERAGE STATED PAY RATE	WEIGHTED AVERAGE STATED ACCRUAL RATE	WEIGHTED AVERAGE ESTIMATED ACCOUNTING YIELD(2)	WEIGHTED AVERAGE CURRENT LOAN-TO-VALUE(3)
First Mortgages:				
Fixed....................	18.37%	20.75%	21.75%	50%
Floating.................	LIBOR + 2.54%	LIBOR + 2.54%	8.47%	70%
Second Mortgages:				
Fixed....................	11.79%	12.78%	13.69%	68%
Floating.................	LIBOR + 5.86%	LIBOR + 5.86%	11.58%	88%
Partnership/Corporate/Other				
Fixed....................	--	--	--	--
Floating.................	LIBOR + 5.37%	LIBOR + 5.37%	11.11%	81%
Total......................				

EXPLANATORY NOTES:

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(1) Where Current Carrying Value is less than Initial Carrying Value, difference represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.

(2) Estimated accounting yield represents the stated rate on the loan as adjusted for the amortization of loan fee revenue and any direct loan costs or acquisition premiums or discounts using the effective interest method over the term of the loan. Such estimate is not adjusted for the effects of expected early repayments of loans subject to prepayment penalties or the effects of possible additional contingent interest on loan participation features included under certain of the Company's loan investments.

(3) Weighted average ratio of current loan carrying value in underlying collateral value using third-party collateral appraisal (where applicable) or the Company's internal collateral valuation (where no appraisal available).

CORPORATE LENDING

The Company provides senior and subordinated debt capital to corporations engaged in real estate or real estate-related businesses. Loans may be either secured or unsecured and range in size from $20 million to $100 million. Corporate loans may be either cash flow-oriented or asset-based.

As of December 31, 1999, the Company's corporate lending investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	INITIAL CARRYING VALUE (IN THOUSANDS)	CURRENT CARRYING VALUE(1) (IN THOUSANDS)	CURRENT PRINCIPAL BALANCE OUTSTANDING (IN THOUSANDS)	WEIGHTED AVERAGE STATED PAY RATE
Second Mortgages:						
Fixed....................	Homebuilder/Land	1	$50,500	$ 53,568	$ 54,231	10.00%
Floating.................	--	--	--	--	--	--
Partnership/Corporate/Other Loans:						
Fixed....................	Resort Entertainment	2	45,899	44,390	43,150	12.68%
Floating.................	Homebuilder/Land	1	41,250	24,677	24,677	LIBOR + 6.00%
Total......................		4		$ 122,635	$ 122,058	

EXPLANATORY NOTES:

INVESTMENT CLASS	WEIGHTED AVERAGE STATED ACCRUAL RATE	WEIGHTED AVERAGE ESTIMATED ACCOUNTING YIELD(2)	WEIGHTED AVERAGE CURRENT LOAN-TO-VALUE(3)
Second Mortgages:			
Fixed....................	17.00%	15.64%	50%
Floating.................	--	--	--
Partnership/Corporate/Other			
Fixed....................	12.68%	12.00%	73%
Floating.................	LIBOR + 6.00%	12.50%	50%
Total......................			

EXPLANATORY NOTES:

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(1) Where Current Carrying Value is less than Initial Carrying Value, difference represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.

(2) Estimated accounting yield represents the stated rate on the loan as adjusted for the amortization of loan fee revenue and any direct loan costs or acquisition premiums or discounts using the effective interest method over the term of the loan. Such estimate is not adjusted for the effects of expected early repayments of loans subject to prepayment penalties or the effects of possible additional contingent interest on loan participation features included under certain of the Company's loan investments.

(3) Weighted average ratio of current loan carrying value to underlying collateral value using third-party collateral appraisal (where applicable) or the Company's internal collateral valuation (where no appraisal available).

LOAN ACQUISITION

The Company acquires whole loans and loan participations which may be performing, non-performing or sub-performing and which the Company believes represent attractive risk-reward opportunities. Loans are generally acquired at a discount to the principal balance outstanding and may be acquired with financing provided by the seller. The Company restructures many of these loans to performing status on terms favorable to the Company. In other cases, the Company negotiates a payoff at a price above the Company's basis in the loan. Loan acquisitions range from $5 million to $100 million and are collateralized by all major property types.

For accounting purposes, these loans are initially reflected at the Company's acquisition cost which represents the outstanding balance net of the acquisition discount or premium. The Company amortizes such discounts or premiums as an adjustment to increase or decrease the yield, respectively, realized on these loans using the effective interest method. As such, differences between carrying value and principle balances outstanding do not represent embedded losses or gains as the Company generally plans to hold such loans to maturity or negotiate a favorable restructuring of a discount loan.

As of December 31, 1999, the Company's loan acquisition investments have the following characteristics:

INVESTMENT CLASS	COLLATERAL TYPES	# OF LOANS IN CLASS	INITIAL CARRYING VALUE (IN THOUSANDS)	CURRENT CARRYING VALUE(1) (IN THOUSANDS)	CURRENT PRINCIPAL BALANCE OUTSTANDING (IN THOUSANDS)
First Mortgages:					
Fixed.............	Office/Retail	4	$ 205,346	$ 202,905	$ 203,905
Floating...........	Office	1	93,238	94,354	97,123
Second Mortgages:					
Fixed.............	Retail	2	113,627	109,825	109,796
Floating...........	--	--	--	--	--
Partnership/Corporate/Other Loans:					
Fixed.............	Office/Residential/Hotel/Resort	1	17,532	17,796	25,905
Floating...........	--	--	--	--	--
Total..		8		$ 424,880	$ 436,729

EXPLANATORY NOTES:

INVESTMENT CLASS	WEIGHTED AVERAGE STATED PAY RATE	WEIGHTED AVERAGE STATED ACCRUAL RATE	WEIGHTED AVERAGE ESTIMATED ACCOUNTING YIELD(2)	WEIGHTED AVERAGE CURRENT LOAN-TO-VALUE(3)
First Mortgages:				
Fixed.............	9.84%	9.84%	9.73%	82%
Floating...........	LIBOR + 1.75%	LIBOR + 1.75%	8.94%	68%
Second Mortgages:				
Fixed.............	9.72%	9.72%	7.59%	59%
Floating...........	--	--	--	--
Partnership/Corporate				
Fixed.............	9.97%	9.97%	11.30%	69%
Floating...........	--	--	--	--
Total................				

EXPLANATORY NOTES:

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(1) Where Current Carrying Value is less than Initial Carrying Value, difference represents contractual amortization, partial prepayment of loan principal, or amortization of acquired premiums, discounts or deferred loan fees.

(2) Estimated accounting yield represents the stated rate on the loan as adjusted for the amortization of loan fee revenue and any direct loan costs or acquisition premiums or discounts using the effective interest method over the term of the loan. Such estimate is not adjusted for the effects of expected early repayments of loans subject to prepayment penalties or the effects of possible additional contingent interest on loan participation features included under certain of the Company's loan investments.

(3) Weighted average ratio of current loan carrying value to underlying collateral value using third-party collateral appraisal (where applicable) or the Company's internal collateral valuation (where no appraisal available).

LOAN SERVICING

Through its Starwood Asset Services division, the Company provides loan servicing to third-party institutional owners of loan portfolios, as well as to the Company's own asset base. Starwood Asset Services is currently rated "above average" by Standard & Poor's as a master servicer. The Company's servicing business focuses on maximizing risk-adjusted investment returns through active, ongoing asset management with particular focus on risk management, asset financing strategies and opportunistic responsiveness to changing borrower/tenant needs.

In September 1998, a subsidiary of the Company acquired the loan origination and servicing business of Phoenix Realty Services, Inc., a subsidiary of Phoenix Home Life Insurance Company, for $2.0 million. This acquisition not only expanded the Company's ability to service its own loans, but provided a platform for third-party servicing and additional borrower relationships which may result in investment opportunities in the future.

CREDIT TENANT LEASING:

The Company, directly and through its Leasing Subsidiary, provides capital to corporate owners of real estate facilities. Net leased facilities are generally subject to long-term leases to rated corporate credit tenants, and typically provide for all expenses at the property to be paid by the tenant on a triple net lease basis. Credit tenant lease ("CTL") transactions generally range in size from $20 million to $200 million.

The Company pursues the origination of credit tenant lease transactions by structuring purchase/ leasebacks and by acquiring facilities subject to existing long-term net leases. In a typical purchase/ leaseback transaction, the Company purchases a corporation's property and leases it back to that corporation subject to a long-term net lease. This structure allows the corporate real estate user to reinvest the proceeds from the sale of its real estate into its core business while the Company capitalizes on its structured financing expertise.

The Company generally intends to hold its net leased assets for long-term investment. However, subject to certain tax restrictions, the Company may dispose of an asset if it deems the disposition to be in the best interest of the stockholders and may either reinvest the disposition proceeds, use the proceeds to reduce debt, or distribute the proceeds to stockholders.

The Company's CTL investments primarily represent a diversified portfolio of strategic office and industrial facilities subject to net lease agreements with creditworthy corporate tenants. The Company generally seeks high-quality, general-purpose real estate with residual values that represent a discount to current market values and replacement cost. Under a typical net lease agreement, the tenant agrees to pay a base monthly operating lease payment and all property operating expenses (including taxes, maintenance and insurance) are the responsibility of the tenant.

The Company generally seeks corporate tenants with the following characteristics:

- Established companies with stable core businesses or market leaders in rapidly growing industries.

- Investment-grade credit strength or appropriate credit enhancements if tenant credit strength is not sufficient.

- Commitment to the facility as an important asset to their on-going businesses.

As of December 31, 1999, the Company had more than 160 corporate tenants operating in more than 10 industries, including aerospace, automotive, finance, healthcare, hotel, technology and telecommunications. These tenants represent well-recognized national and international companies, such as AlliedSignal, Federal Express, IBM, Lucent, Microsoft, Nike, Hilton and Nokia.

As of December 31, 1999, the Company's CTL portfolio has the following tenant credit characteristics:

	ANNUALIZED OPERATING LEASE PAYMENTS(2)	PERCENTAGE OF TOTAL
	(IN THOUSANDS)	
Investment grade(1)	$ 85,698	44.8%
Non-investment grade	29,040	15.2%
Unrated	76,592	40.0%
	$191,330	100%

EXPLANATORY NOTES:

(1) A tenant's credit rating is considered "Investment Grade" if it has a published credit rating of Baa3/BBB- or above by one or more of the four national rating agencies.

(2) Reflects annualized monthly base lease rates in effect on December 31, 1999.

PORTFOLIO AND ASSET MANAGEMENT STRATEGY. The Company believes that diligent management of the CTL portfolio is an essential component of its long-term strategy. There are several ways to optimize the performance and maximize the value of net leases. The Company monitors its portfolio for changes that could affect the performance of the markets, tenants and industries in which it has invested. As part of this monitoring, the Company's asset management group reviews market, tenant and industry data and frequently inspects its properties. In addition, the Company attempts to develop strong relationships with its large corporate tenants, which provide a source of information concerning the tenants' real estate needs. These relationships allow the Company to be proactive in obtaining early lease renewals and in conducting early marketing of assets where the tenant has decided not to renew. The Company will seek to find a new tenant prior to the expiration of the existing lease.

As of December 31, 1999, the Company owned 148 office and industrial properties principally subject to net leases to more than 160 tenants, comprising 18.5 million square feet in 25 states. The Company also has a portfolio of 17 hotels under a long-term master lease with a single tenant. Information regarding the Company's CTL properties as of December 31, 1999 is set forth below:

INDUSTRY	# OF FACILITIES	% ANNUALIZED OPERATING LEASE PAYMENTS(1)	% SQUARE FEET	SIGNIFICANT TENANTS
Technology	58	36.8%	27.8%	IBM Corp., Sun Microsystems, Lucent Technologies, 3Com Corp., Xerox Corp. Unisys, Rational Software, Lotus Development Corp., Computer Sciences Corp., Microsoft.
Financial Services	12	11.9%	8.5%	AT&T Capital, Wellpoint Health Networks, New York Life Insurance Co., Guardian Life Insurance Co.
Telecommunications	11	10.4%	6.1%	ICG Holdings, Nokia, GTE Communications, Northern Telecom
Food and Related Services	21	6.5%	7.0%	Caterair, Welch Foods, Inc., Ralph's Grocery Co., Shaw's Supermarkets
Automotive, Aerospace and Defense	11	6.0%	6.5%	Volkswagen of America, Unison Industries, Allied Signal, TRW Space Communications, Lockheed Martin Aerospace Corp.
Energy and Utilities	3	5.2%	3.2%	Entergy Corp., Bay State Gas Company, Mobil Oil Exploration
Consumer Goods	10	4.7%	9.7%	Lever Brothers, Rex Stores Corp., Sears Logistics
Manufacturing	4	3.6%	7.3%	Nike, Adidas America, Inc., Central National-Gottlesman, Inc.
Transportation Services	3	2.1%	1.1%	Federal Express Corp.
Healthcare	5	1.7%	1.5%	Fresenius USA, Inc., Haemonetics Corp., Biomerieux Vitek, Inc.
Government Services	2	1.1%	0.7%	Massachusetts Lottery, Cal Trans, Consulate-General of Japan
Other	8	2.2%	5.4%	San Jose State University, Guste, Norstan
TOTAL LEASING SUBSIDIARY	148	92.2%	84.8%	
Hotel	17	7.8%	15.2%	Hilton Hotels Corp.
TOTAL PARENT	17	7.8%	15.2%	
TOTAL COMPANY	165	100.0%	100.0%	

EXPLANATORY NOTE:

(1) Reflects annualized monthly base lease rates in effect on December 31, 1999.

As of December 31, 1999, the Company's portfolio of lease expirations on its CTL assets are as follows:

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES EXPIRING	ANNUALIZED OPERATING LEASE PAYMENTS(1)	PERCENT OF TOTAL ANNUAL RENTS REPRESENTED BY EXPIRING LEASES
		(IN THOUSANDS)	
2000	16	$ 7,477	3.91%
2001	23	18,774	9.81%
2002	27	21,861	11.43%
2003	22	23,149	12.10%
2004	29	24,669	12.89%
2005	11	9,520	4.98%
2006	19	22,840	11.94%
2007	8	12,149	6.35%
2008	9	8,544	4.46%
2009	8	8,896	4.65%
2010 and thereafter	22	33,451	17.48%
Total	194	$191,330	100.00%
Weighted average lease term		6.7 years	

EXPLANATORY NOTE:

(1) Reflects annualized monthly base lease rates in effect on December 31, 1999.

POLICIES WITH RESPECT TO OTHER ACTIVITIES

At all times, the Company intends to make investments in a manner consistent with the requirements of the Code for the Company to qualify as a REIT unless, because of changing circumstances or changes in the Code (or in Treasury Regulations), the Company's Board of Directors, with the consent of the holders of a majority of the outstanding voting shares, determines that it is no longer in the best interests of the Company to qualify as a REIT.

INVESTMENT RESTRICTIONS OR LIMITATIONS

The Company does not have any prescribed allocation among investments or product lines. Instead, the Company focuses on corporate and real estate credit underwriting to develop an in-depth analysis of the risk/reward ratios in determining the pricing and advisability of each particular transaction.

The Company believes that it is not, and intends to conduct its operations so as not to become, regulated as an investment company under the Investment Company Act. The Investment Company Act generally exempts entities that are "primarily engaged in purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (collectively, "Qualifying Interests"). The Company intends to rely on current interpretations by the staff of the Securities and Exchange Commission in an effort to qualify for this exemption. To comply with the exemption, the Company, among other things, must maintain at least 55% of its assets in Qualifying Interests and also may be required to maintain an additional 25% in Qualifying Interests or other real estate-related assets. Generally, the Company's senior mortgages and certain of its subordinated mortgages constitute Qualifying Interests.

The Company is restricted from making certain types of investments which may limit its flexibility in implementing its investment policy. Specifically, without the amendment, termination or waiver of provisions of certain non-competition agreements between Starwood Capital Group, L.L.C. and Starwood Hotels & Resorts Worldwide, Inc. the Company is prohibited from: (i) making investments in loans collateralized by hotel assets where it is anticipated that the underlying equity will be acquired by the debtholder within one year from the acquisition of such debt; (ii) acquiring equity interests in hotels (other than acquisitions of warrants, equity participations or similar rights incidental to a debt investment by the Company or that are acquired as a result of the exercise of remedies in respect to a loan in which the Company has an interest); or (iii) selling or contributing to or acquiring any interests in Starwood Hotels & Resorts Worldwide, Inc., including debt positions or equity interests obtained by the Company under, pursuant to or by reason of the Company's ownership of debt positions.

Subject to the limitations on ownership of certain types of assets and the gross income tests imposed by the Federal Tax Code, the Company also may invest in the securities of other REITs, other entities engaged in real estate activities or other issuers, including for the purpose of exercising control over such entities.

COMPETITION

The Company is engaged in a competitive business. In originating and acquiring assets, the Company competes with public and private companies, including other finance companies, mortgage banks, pension funds, savings and loan associations, insurance companies, institutional investors, investment banking firms and other lenders and industry participants, as well as individual investors. Existing industry participants and potential new entrants compete with the Company for the available supply of investments suitable for origination or acquisition, as well as for debt and equity capital. Certain of the Company's competitors are larger than the Company, have longer operating histories, may have access to greater capital and other resources, may have management personnel with more experience than the officers of the Company, and may have other advantages over the Company in conducting certain businesses and providing certain services.

REGULATION

The operations of the Company are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (i) regulate credit granting activities; (ii) establish maximum interest rates, finance charges and other charges; (iii) require disclosures to customers; (iv) govern secured transactions; and (v) set collection, foreclosure, repossession and claims-handling procedures and other trade practices. Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies and require licensing of lenders and financiers and adequate disclosure of certain contract terms. The Company is also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans.

In the judgment of management, existing statutes and regulations have not had a material adverse effect on the business conducted by the Company. However, it is not possible to forecast the nature of future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon the future business, financial condition or results of operations or prospects of the Company.

The Company has elected and expects to continue to make an election to be taxed as a REIT under Section 856 through 860 of the Code. As a REIT, the Company generally will not be subject to federal income tax if it distributes at least 95% of its taxable income for each year to its shareholders. REITs are also subject to a number of organizational and operational requirements in order to elect and maintain REIT status. These requirements include specific share ownership tests and assets and gross income composition tests. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to state and local income taxes and to federal income tax and excise tax on its undistributed income.

Although the Company did not qualify as a REIT for its fiscal years 1993 through 1997, it received a written agreement from the IRS confirming that the Company was eligible to make an election under Section 856(c)(1) of the Code to be taxed as a REIT for its taxable years beginning January 1, 1998.

FACTORS THAT MAY AFFECT THE COMPANY'S BUSINESS STRATEGY

The implementation of the Company's business strategy and investment policies are subject to certain risks, including the effect of economic and other conditions on property values, the general illiquidity of real estate investments, the risks of borrower and tenant defaults, in risks resulting from delays in enforcing remedies or in gaining control over the real estate collateral following a default, risks that the properties collateralizing debt instruments held by the Company or properties which are owned by the Company will not generate revenues sufficient to meet operating expenses and to pay scheduled debt service, the risk that prepayment restrictions may be insufficient to deter prepayments, the existence of junior mortgages that may affect the Company's rights, the effect of competition from properties owned by others, liability associated with uninsurable losses and unknown environmental liabilities.

ENVIRONMENTAL MATTERS

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real estate (including, in certain circumstances, a secured lender that succeeds to ownership or control of a property) may become liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, under or in its property. Those laws typically impose cleanup responsibility and liability without regard to whether the owner or control party knew of or was responsible for the release or presence of such hazardous or toxic substances. The costs of investigation, remediation or removal of those substances may be substantial. The owner or control party of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. Certain environmental laws also impose liability in connection with the handling of or exposure to asbestos-containing materials, pursuant to which third parties may seek recovery from owners of real properties for personal injuries associated with asbestos-containing materials. Absent succeeding to ownership or control of real property, a secured lender is not likely to be subject to any of these forms of environmental liability. The Company is not currently aware of any environmental issues which could materially affect the Company.

EMPLOYEES

As of March 15, 2000, the Company had 111 employees and believes its relationships with its employees to be good. The Company's employees are not represented by a collective bargaining agreement.

ITEM 2. PROPERTIES

The Company's principal executive and administrative offices are located at 1114 Avenue of the Americas New York, NY 10036, 27th floor. Its telephone number, general facsimile number and e-mail address are (212) 930-9400, (212) 930-9494 and starwoodfinancial.com, respectively. The lease for the Company's primary corporate office space expires in February 2010. The Company believes that this office space is suitable for its operations for the foreseeable future. The Company also maintains super-regional offices in San Francisco, California, Hartford, Connecticut, and Atlanta, Georgia, as well as regional offices in Dallas, Texas, Denver, Colorado and New Orleans, Louisiana.

See Item 1--"Credit Tenant Leasing" for a discussion of real estate facilities held by the Company and its Leasing Subsidiary for investment purposes and Item 8--"Schedule III--Real Estate and Accumulated Depreciation" for a detailed listing of such properties.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material litigation or legal proceedings, or to the best of its knowledge, any threatened litigation or legal proceedings, which, in the opinion of management, individually or in the aggregate, would have a material adverse effect on its results of operations or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On November 3, 1999, the Company held a special meeting of shareholders to vote on the following proposals:

1. To approve the acquisition of TriNet through the merger of TriNet with a subsidiary of the Company, with TriNet surviving the merger as a subsidiary of the Company.

2. To approve the acquisition of 100% of the ownership interests in the Company's external advisor, Starwood Financial Advisors L.L.C., through a merger and a contribution of interests by the owners of the external advisor.

3. To approve the merger of the Company into a newly-formed corporation in order to change its form of organization from a Maryland real estate investment trust to a Maryland corporation and eliminate its dual class common share structure.

PROPOSAL	FOR	AGAINST	ABSTAIN
First Proposal	78,078,285	3,066	3,693
Second Proposal	78,077,827	3,155	4,062
Third Proposal	78,078,464	2,604	3,976

PART II

ITEM 5. MARKET FOR REGISTRANT'S EQUITY AND RELATED SHARE MATTERS

In November 1999, the Company eliminated its dual class share structure by exchanging its outstanding class A and class B shares for shares of a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange ("NYSE") under the symbol "SFI" on November 4, 1999. Prior to November 4, 1999, the class A shares were traded on the American Stock Exchange under the symbol "APT," and there was no established trading market for the class B shares.

The high and low sales prices per share of Common Stock (or class A shares for periods prior to November 4, 1999) are set forth below for the periods indicated.

QUARTER ENDED	HIGH(1)	LOW(1)
1998		
March 31, 1998	$36 3/4	$27 3/8
June 30, 1998	$56	$26 1/4
September 30, 1998	$59 1/4	$35 1/2
December 31, 1998	$80 1/4	$45 1/4
1999		
March 31, 1999	$63	$42 1/2
June 30, 1999	$66 1/2	$31 5/8
September 30, 1999	$76	$27 7/8
December 31, 1999	$27 5/8	$16 11/16

EXPLANATORY NOTE:

(1) As adjusted for a one-for-six reverse stock split effective June 19, 1998.

On March 15, 2000, the closing sale price of the Common Stock as reported by the NYSE was $17.19. The Company had approximately 1,203 holders of record of Common Stock as of March 15, 2000.

On June 12, 1998, the Frank Russell Company announced that the Company would be included in the Russell 1000 and Russell 3000 equity indices. The Company believes that index funds who were required to mirror the Russell indices' performance purchased a large number of the Company's class A shares in the public float. As a result of those purchases, and the limited availability of the shares in the public float at that time, the "market" price for the class A shares dramatically increased shortly after the June 12 announcement. From the time of the Company's inclusion in the Russell indices through the announcement that the Company had agreed to acquire TriNet, the reported stock price of the Company was highly volatile and trading volume relatively low due to the very limited number of shares available for trading at that time.

At December 31, 1999, the Company had four series of preferred stock outstanding: Series A Preferred Stock (which currently pays dividends at the rate of 9.50% per annum), 9.375% Series B Preferred Stock, 9.20% Series C Preferred Stock and 8.00% Series D Preferred Stock. Each of the Series B, C, D preferred stock was issued in connection with the TriNet acquisition and is publicly traded.

On January 4, 5 and 6, 1999 the Company issued 37,776, 1,512 and 8,945 class A shares, respectively, upon exercise of stock options issued to employees of the Company's external advisor. On March 15, 1999, the Company issued 15,000 class A shares upon exercise of stock options issued to an employee of the Company's external advisor. The exercise price of the options was $15.00 per share. As required by the Company's charter as in effect at that time, in connection with those option exercises, 31,616 class B shares were issued to the holders of the class B shares at par value.

The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 1999, the Company had repurchased approximately 2.3 million shares at an aggregate cost of approximately $40.4 million.

DIVIDENDS

The Company's management expects that any taxable income remaining after the distribution of preferred dividends and the regular quarterly or other dividends will be distributed annually to the holders of the Common Stock on or prior to the date of the first regular quarterly divided payment date of the following taxable year. The dividend policy with respect to the Common Stock is subject to revision by the Board of Directors. All distributions in excess of dividends on preferred stock or those required for the Company to maintain its REIT status will be made by the Company at the sole discretion of the Board of Directors and will depend on the taxable earnings of the Company, the financial condition of the Company, and such other factors as the Board of Directors deems relevant. The Board of Directors has not established any minimum distribution level. In order to maintain its qualifications as a REIT, the Company intends to make regular quarterly dividends to its shareholders that, on an annual basis, will represent at least 95% of its taxable income (which may not necessarily equal net income as calculated in accordance with generally accepted accounting principles), determined without regard to the deduction for dividends paid and excluding any net capital gains.

Holders of Common Stock will be entitled to receive distributions if, as and when the Board of Directors authorizes and declares distributions. However, rights to distributions may be subordinated to the rights of holders of preferred stock, when preferred stock is issued and outstanding. In any liquidation, dissolution or winding up of the Company each outstanding share of Common Stock will entitle its holder to a proportionate share of the assets that remain after the Company pays its liabilities and any preferential distributions owed to preferred stockholders.

The following table sets forth the dividends paid or declared by the Company on its Common Stock (or class A shares for periods prior to November 4, 1999):

QUARTERLY PERIOD ENDED	STOCKHOLDER RECORD DATE	DIVIDEND/ SHARE
1998		
June 30, 1998	June 30, 1998	$0.35
September 30, 1998	October 15, 1998	$0.38
December 31, 1998	December 31, 1998	$0.41(1)
1999		
March 31, 1999	April 15, 1999	$0.42
June 30, 1999	July 15, 1999	$0.43
September 30, 1999	October 15, 1999	$0.44
December 31, 1999	December 31, 1999	$0.57(2)

EXPLANATORY NOTES:

(1) A portion of this quarterly dividend (approximately $0.29 per share) was treated as income to shareholders of record in 1998, and the remainder was treated as 1999 income.

(2) A portion of this quarterly dividend (approximately $0.47 per share) was treated as income to stockholders of record in 1999, and the remainder will be treated as 2000 income.

In November 1999, the Company declared and paid a dividend of a total of one million shares of Common Stock pro rata to all holders of record of Common Stock as of the close of business on November 3, 1999. The Company also declared dividends aggregating $20.9 million for the Series A preferred stock, which was outstanding for the entire year ended December 31, 1999. In addition, the Company also declared dividends of $1.2 million, $0.7 million and $2.0 million on its Series B, C and D preferred stock, respectively, for the year ended December 31, 1999. The amounts for the Series B, C and D preferred stock represent only fourth quarter dividends which were payable by the Company as a result of its acquisition of TriNet. There are no dividend arrearages on any of the series of preferred stock currently outstanding. Further, it declared and paid dividends aggregating $0.2 million per quarter to the holders of class B shares in connection with the March 31, June 30 and September 30 quarterly dividends to the holders of the class A shares. As previously described, the former class A and class B shares were converted into shares of Common Stock on November 4, 1999. The Company did not declare any dividends for the period from November 19, 1993 through the quarter ended March 31, 1998, representing its partial first quarter of operations after the completion of the Recapitalization Transactions.

Distributions to shareholders will generally be taxable as ordinary income, although a portion of such dividends may be designated by the Company as capital gain or may constitute a tax-free return of capital. The Company annually furnishes to each of its shareholders a statement setting forth the distributions paid during the preceding year and their characterization as ordinary income, capital gain or return of capital.

The Company intends to continue to declare quarterly distributions on its Common Stock. No assurance, however, can be given as to the amounts or timing of future distributions, as such distributions are subject to the Company's earnings, financial condition, capital requirements, and such other factors as the Company's Board of Directors deems relevant.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data on a consolidated historical basis for the Company. However, prior to the recapitalization of the Company in March 1998, discussed more fully in Note 4 to the Company's Consolidated Financial Statements (the "Recapitalization Transactions"), the Company did not have substantial capital resources or operations. Prior to the Recapitalization Transactions, the Company's structured finance operations were conducted by two investment partnerships affiliated with Starwood Capital Group, L.L.C., which contributed substantially all their structured finance assets to the Company in the Recapitalization Transactions in exchange for cash and shares of the Company.

Further, on November 4, 1999, as more fully discussed in Note 4 to the Company's Consolidated Financial Statements, the Company acquired TriNet, which substantially increased the size of the Company's operations, and also acquired its external advisor. Operating results for the year ended December 31, 1999 reflect only the effects of these transactions subsequent to their consummation.

Accordingly, the historical balance sheet information as of and prior to December 31, 1998, as well as the results of operations for the Company for all periods reflected below, do not reflect the current operations of the Company as a well capitalized, internally-managed finance company operating in the commercial real estate industry. For these reasons, the Company believes that the information contained in the following tables relating to the 1995 through 1997 periods is not indicative of the Company's current business and should be read in conjunction with the discussions set forth in Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations."

	YEARS ENDED DECEMBER 31,				
	1999	1998	1997	1996	1995
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
OPERATING DATA:					
Interest income	$ 209,848	$ 112,914	$ 896	$ 478	$ 145
Operating lease/rental income	42,186	12,378	--	--	--
Other income	12,763	2,804	991	10	3
Total revenue	264,797	128,096	1,887	488	148
Interest expense	91,184	44,697	--	272	--
Property operating costs	2,246	--	--	--	--
Depreciation and amortization	10,340	4,287	--	--	--
General and administrative expense	6,269	2,583	461	639	283
Advisory fees	16,193	7,837	--	--	--
Provision for possible credit losses	4,750	2,750	--	--	--
Stock option compensation expense(1)	412	5,985	--	--	--
Costs incurred in acquiring external advisor(2)	94,476	--	--	--	--
Total expenses	225,870	68,139	461	911	283
Income (loss) before minority interest	38,927	59,957	1,426	(423)	(135)
Minority interest(3)	(41)	(54)	(1,415)	(154)	--
Net income (loss)	$ 38,886	$ 59,903	$ 11	$ (577)	$ (135)
Preferred dividend requirements	(23,843)	(944)	--	--	--
Net income allocable to common shareholders	$ 15,043	$ 58,959	$ 11	$ (577)	$ (135)
Basic earnings (loss) per common share(4)	$ 0.25	$ 1.40	$ 0.01	$ (1.36)	$ (0.32)
Diluted earnings (loss) per common share	$ 0.25	$ 1.36	$ 0.00	$ (1.36)	$ (0.32)
Dividends declared per common share(10)	$ 1.86	$ 1.14	$ 0.00	$ 0.00	$ 0.00
SUPPLEMENTAL DATA:					
Dividends declared on preferred shares	$ 24,819	$ 929	$ --	$ --	$ --
Dividends declared on common shares	116,813	60,343	--	--	--
Adjusted earnings allocable to common shareholders(7)	127,798	66,615	11	(577)	(135)
Adjusted earnings per common share--basic	2.19	1.59	0.01	(1.36)	(0.32)
Adjusted earnings per common share--diluted	2.07	1.53	0.00	(1.36)	(0.32)
Funds from operations allocable to common shareholders(5)(6)	121,666	63,261	1,426	(423)	(135)
Cash flows from:					
Operating activities	122,549	54,915	1,271	(227)	(184)
Investing activities	(143,911)	(1,271,309)	(6,013)	(522)	175
Financing activities	45,660	1,226,208	4,924	--	--
Pro Forma ratio of EBITDA to interest expense	2.83	2.84	--	--	--
Pro Forma ratio of EBITDA to combined fixed charges(8)	2.23	2.44	--	--	--
Weighted average common shares outstanding--basic(9)	57,749	41,607	1,258	425	425
Weighted average common shares outstanding--diluted(9)	60,393	43,460	2,562	425	425
BALANCE SHEET DATA:					
Real estate loans and net lease investments, net	$ 3,717,790	$ 2,013,703	$ --	$ --	$ --
Total assets	3,813,552	2,059,616	13,441	5,674	2,194
Debt obligations	1,901,204	1,055,719	--	--	--
Minority interest in consolidated entities(3)	2,565	--	5,175	3,917	--
Shareholders' equity	1,801,343	970,728	6,351	1,578	2,155
SUPPLEMENTAL DATA:					
Total debt to shareholders' equity	1.1x	1.1x	--	--	--

EXPLANATORY NOTES:

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(1) Historical stock option expense represents the option value of approximately 2.5 million fully-vested options to acquire class A shares which were issued to the Company's external advisor upon consummation of the March 18, 1998 capitalization of the Company. A portion of those options were then regranted to employees of the advisor subject to vesting periods which were typically three years from the date of grant. The remainder of those options were regranted on a fully-vested basis to an affiliate of Starwood Capital Group L.L.C., which then further regranted those options to certain of its employees subject to vesting restrictions.

(2) As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, this amount represents a non-recurring charge of approximately $94.5 million relating to the acquisition of the Company's external advisor.

(3) Historical minority interest for the Company for fiscal 1998, 1997 and 1996 represents a minority interest in APMT Limited Partnership which was converted into class A shares on March 18, 1998, the date the partnership was liquidated and terminated. Minority interests in fiscal 1999 also reflects minority interests in certain of the Leasing Subsidiary's consolidated ventures.

(4) Earnings per common share excludes 1% of net income allocable to the Company's class B shares prior to November 4, 1999. These class B shares were exchanged for Common Stock in connection with the TriNet acquisition and other related transactions on November 4, 1999. As a result, the Company now has a single class of Common Stock outstanding.

(5) Management generally considers funds from operations, or FFO, to be one measure of the financial performance which provides a relevant basis for comparison among REITs. FFO is presented to assist investors in analyzing the performance of REITs. In 1995, the National Association of Real Estate Investment Trusts, or NAREIT, established new guidelines clarifying its definition of FFO and requested that REITs adopt this new definition beginning in 1996. FFO, as defined by NAREIT, is income (loss) before minority interest (determined in accordance with generally accepted accounting principles), excluding gains (losses) from debt restructuring and sales of property, plus real estate-related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs. FFO should not be considered an alternative to net income as an indication of financial performance nor an alternative to cash flows from operating, investing, and financing activities as measures of liquidity.

(6) Because of certain non-cash or non-recurring items included in income for generally accepted accounting purposes, which are not adjusted for or eliminated under the NAREIT definition of FFO, FFO may differ from actual cash available for distribution to shareholders. These items include amortization of premiums or discounts on loan investments, provisions for possible credit losses, gains from sales of assets, deferred interest arising from differences between loan accrual and payment rates, non-cash rental revenues and capital expenditures. Accordingly, FFO is not necessarily indicative of cash available to fund cash needs or to pay dividends to shareholders.

(7) Adjusted earnings represent GAAP net income before depreciation and amortization and, for the year ended December 31, 1999, exclude the non-recurring cost incurred in acquiring the Company's external advisor (see Note 4 to the Company's Consolidated Financial Statements).

(8) Combined fixed charges are comprised of interest expense, capitalized interest, amortization of loan costs and preferred stock dividend requirements.

(9) As adjusted for one-for-six reverse stock split effected by the Company on June 19, 1998.

(10) The Company generally declares common and preferred dividends in the month subsequent to the end of the quarter.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, on March 18, 1998, the Company completed the Recapitalization Transactions which, among other things, substantially recapitalized the Company and modified its investment policy. Effective June 18, 1998, the Company (which was organized under California law) changed its domicile to Maryland by merging with a newly-formed subsidiary organized under Maryland law, and issued new shares of the subsidiary to the Company's shareholders in exchange for their shares in the Company. Concurrently, the Company consummated a one-for-six reverse stock split.

Immediately prior to the consummation of the Recapitalization Transactions, the Company's assets primarily consisted of approximately $11.0 million in short-term, liquid real estate investments, cash and cash equivalents.

On December 15, 1998, the Company sold $220.0 million of preferred shares and warrants to purchase class A shares to a group of investors affiliated with Lazard Freres. Concurrent with the sale of the preferred shares and warrants, the Company purchased $280.3 million in real estate loans and participation interests from a group of investors also affiliated with Lazard Freres. These transactions are referred to collectively as the "Lazard Transaction."

As more fully discussed in Note 4 to the Company's Consolidated Financial Statements, on November 3, 1999, the Company's shareholders approved a series of transactions including: (i) the acquisition of TriNet; (ii) the acquisition of the Company's external advisor; and (iii) the reorganization of the Company from a trust to a corporation and the exchange of the class A and class B shares for Common Stock. Pursuant to the TriNet acquisition, TriNet merged with and into a subsidiary of the Company, with TriNet surviving as a wholly-owned subsidiary of the Company. In the acquisition, each share of common stock of TriNet was converted into 1.15 shares of Common Stock. Each share of TriNet Series A, Series B and Series C Cumulative Redeemable Preferred Stock was converted into a share of Series B, Series C or Series D (respectively) Cumulative Redeemable Preferred Stock of the Company. The Company's preferred stock issued to the former TriNet preferred stockholders has substantially the same terms as the TriNet preferred stock, except that the new Series B, C, and D preferred stock have additional voting rights not associated with the TriNet preferred stock. The Company's Series A Preferred Stock remained outstanding with the same rights and preferences as existed prior to the TriNet acquisition. As a consequence of the acquisition of its external advisor, the Company is now self-advised and will no longer pay external advisory fees.

The transactions described above and other related transactions have materially impacted the historical operations of the Company and will continue to impact the Company's future operations. Accordingly, the reported historical financial information for periods prior to these transactions is not believed to be fully indicative of the Company's future operating results or financial condition.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

During fiscal year 1999, total revenue increased by approximately $136.7 million over total revenue for fiscal year 1998. This increase is a result of the interest generated by the loans and other investments contributed in the Recapitalization Transactions, as well as approximately $663.4 million of other loan investments newly-originated or acquired by the Company during 1999, an additional $46.4 million funded under existing loan commitments, and approximately $26.8 million in operating lease income generated from net lease assets acquired in the TriNet acquisition. The increase was partially offset by principal repayments of approximately $561.9 million made to the Company during fiscal year 1999. Included in other income for fiscal year 1999 is a fee associated with the repayment of a construction loan of approximately $1.9 million, yield maintenance payments of approximately $8.1 million resulting from the repayment of three loans, and approximately $1.0 million in additional revenue from certain cash flow participation features on five of the Company's loan investments.

The Company's total costs and expenses during fiscal 1999 increased by approximately $157.7 million compared to fiscal 1998. These increases were generally the result of the increased scope of the Company's operations as a result of the Recapitalization Transactions, costs associated with additional lending operations, the TriNet acquisition and the acquisition of the Company's external advisor.

The Company's interest expense increased by $46.5 million as a result of higher interest rates and higher average borrowings by the Company on its credit facilities and other term loans, the proceeds of which were used to fund additional loan origination and acquisition activities. Further, interest expense includes interest incurred by the Leasing Subsidiary subsequent to its acquisition.

Property operating costs represent unreimbursed property operating expenses incurred by the Leasing Subsidiary subsequent to its acquisition. All costs of this kind were borne directly by the tenant on the Company's pre-existing credit tenant leasing portfolio.

Depreciation and amortization increased as a result of a full year's depreciation on the Company's pre-existing credit tenant leasing portfolio, which it acquired in the Recapitalization Transactions, as well as depreciation on the Leasing Subsidiary's net leased assets subsequent to its acquisition.

General and administrative costs increased by approximately $3.7 million as a result of additional costs incurred subsequent to the acquisition of the Company's external advisor, as well as additional administrative expenses associated with the Leasing Subsidiary subsequent to its acquisition.

Base advisory fees increased by approximately $5.3 million as a result of fees being incurred from June 16, 1999 through year end in the prior year and through November 4, 1999 in fiscal 1999. Further, as a result of the Company's expanded operations, incentive fees paid under the prior advisory contract increased from $2.3 million in 1998 to $5.4 million in 1999. Subsequent to the acquisition of the Company's external advisor, the Company is now internally-managed and no further advisory fees will be incurred.

The Company's charge for provision for possible credit losses increased by approximately $2.0 million as a result of expanded lending operations as well as additional seasoning of the Company's existing lending portfolio. As more fully discussed in Note 5 to the Company's Consolidated Financial Statements, the Company has not realized any actual losses on any of its loan investments to date.

Stock compensation expense declined by approximately $5.6 million as a result of the non-recurring charge relating to the original grant of stock options to the Company's external advisor in fiscal 1998 concurrently with the consummation of the Recapitalization Transactions.

Finally, as more fully discussed in Note 4 to the Company's Consolidated Financial Statements, included in fiscal 1999 costs and expenses is a non-recurring charge of approximately $94.5 million relating to the acquisition of the Company's external advisor.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

During fiscal year 1998, total revenue increased by approximately $126.2 million over total revenue for fiscal year 1997. This increase is a result of the interest generated by the loans and other investments contributed in the Recapitalization Transactions, as well as approximately $1.0 billion of other loan investments newly-originated or acquired by the Company during 1998, and an additional $16.5 million funded under existing loan commitments. The increase was partially offset by principal repayments of approximately $103.9 million made to the Company during fiscal year 1998. Included in other income for fiscal year 1998 are fees associated with the repayment of two first mortgage loans aggregating approximately $1.2 million, a gain of approximately $0.9 million resulting from the repayment of a $2.8 million loan participation which had been acquired at a discount, and approximately $0.6 million in additional revenue from certain cash flow participation features on two of the Company's loan investments. In 1997, a gain of approximately $1.0 million was recognized in other income on the early repayment of a loan acquired at a discount.

The increase in the Company's total costs and expenses during fiscal year 1998 compared to fiscal year 1997 is primarily due to increased interest expense on the Company's borrowings used to fund its asset growth as well as the expense associated with the issuance to the Advisor of options to acquire approximately 2.5 million of the Company's class A shares (see Note 11 to the Company's Consolidated Financial Statements). Additionally, general and administrative costs associated with the implementation of the Company's business plan and advisory fee expenses increased the Company's total costs and expenses during fiscal 1998.

The Company believes that because of the significant expansion of the scope of its operations following the Recapitalization Transactions which occurred on March 18, 1998, prior periods are not necessarily indicative of the Company's future operating results or financial condition.

LIQUIDITY AND CAPITAL RESOURCES

The Company requires capital to fund its investment origination and acquisition activities and operating expenses. The Company's capital sources include cash flow from operations, borrowings under lines of credit, additional term borrowings, long-term financing secured by the Company's assets, unsecured financing and the issuance of common, convertible and/or preferred equity securities.

As a result of the Recapitalization Transactions, the Lazard Transaction, the TriNet acquisition, the acquisition of the Company's external advisor, and other transactions completed by the Company, the Company has significant access to capital resources to fund its existing business plan, which includes the expansion of its real estate lending and credit tenant leasing businesses. Further, the Company may acquire other businesses or assets using its capital stock, cash or a combination thereof.

The distribution requirements under the REIT provisions of the Code restrict the Company's ability to retain earnings and thereby replenish capital committed to its operations. However, the Company believes that its significant capital resources and access to financing will provide it with financial flexibility and market responsiveness at levels sufficient to meet current and anticipated capital requirements, including expected new lending and leasing transactions.

The Company's ability to meet its long-term (i.e., beyond one year) liquidity requirements is subject to the renewal of its credit lines and/or obtaining other sources of financing, including issuing additional debt or equity from time to time. Any decision by the Company's lenders and investors to enter into such transactions with the Company will depend upon a number of factors, such as compliance with the terms of its existing credit arrangements, the Company's financial performance, industry or market trends, the general availability of and rates applicable to financing transactions, such lenders' and investors' resources and policies concerning the terms under which they make such capital commitments and the relative attractiveness of alternative investment or lending opportunities.

Based on its monthly interest and other expenses, monthly cash receipts, existing investment commitments and funding plans, the Company believes that its existing sources of funds will be adequate to purposes of meeting its short- and long-term liquidity needs. Material increases in monthly interest expense or material decreases in monthly cash receipts would negatively impact the Company's liquidity. On the other hand, material decreases in monthly interest expense would positively affect the Company's liquidity.

As more fully discussed in Note 7 to the Company's consolidated financial statements, at December 31, 1999, the Company had existing fixed-rate borrowings of approximately $153.6 million secured by real estate under operating leases which mature in 2009, an aggregate of approximately $254.3 million in LIBOR-based, variable-rate loans secured by various senior and subordinate mortgage investments which mature in fiscal 2000, fixed-rate corporate debt obligations aggregating approximately $353.6 million which mature between 2001 and 2017, and other variable- and fixed-rate secured debt obligations aggregating approximately $151.6 million which mature at various dates through 2010.

In addition, the Company has entered into LIBOR-based secured revolving credit facilities of $675.0 and $500.0 million which expire in fiscal 2001 and 2000 respectively. (Subsequent to December 31, 1999, the Company extended the maturity of its $500.0 million facility to 2002). As of December 31, 1999, the Company had drawn approximately $593.0 million and $170.0 million under these facilities. Availability under these facilities is based on collateral provided under a borrowing base calculation. In addition, the Leasing Subsidiary has an agreement with a group of 13 banks led by Bank of America, N.A. which provides it with a $350.0 million unsecured revolving credit facility. This facility matures on May 31, 2001 and has a one-year extension period at the Company's option. Interest incurred on the facility is LIBOR-based with a margin dependent on the Company's credit ratings. Facility fees under the credit facility are also tied to its credit ratings. All of the available commitment under the facility may be borrowed for general corporate and working capital needs of the Leasing Subsidiary, as well as for investments. Under the terms of this facility, the Leasing Subsidiary is generally permitted to make cash distributions to the Company in an amount equal to 85% of cash flow from operations in any rolling four-quarter period. The facility requires interest-only payments until maturity, at which time outstanding borrowings are due and payable. As of December 31, 1999, the Company had $186.7 million drawn and $163.3 million available under this facility.

The Company has entered into LIBOR interest rate caps struck at 9.00%, 7.50% and 7.50% in notional amounts of $300.0 million, $40.4 million and $38.3 million, respectively, which expire in March 2001, January 2001 and June 2001, respectively. At December 31, 1999, the fair value appreciation of the Company's interest rate caps was $2.2 million.

The Company has originated or acquired certain assets using proceeds from LIBOR-based borrowings. In connection with such borrowings, the Company entered into approximately $205.2 million of interest rate swaps to effectively fix the interest rate on such obligations. In addition, in connection with the TriNet acquisition, the Company acquired an interest rate swap which, together with certain existing interest rate cap agreements, effectively fix the interest rate on $75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management expects that it will have aggregate LIBOR based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. At December 31, 1999, the fair value appreciation of the Company's interest rate swaps was $3.4 million.

The Company is currently pursuing or has consummated certain anticipated long-term fixed-rate borrowings and had entered into certain derivative instruments based on U.S. Treasury securities to hedge the potential effects of interest rate movements on these transactions. Under these agreements, the Company would generally receive additional cash flow at settlement if interest rates rise and pay cash if interest rates fall. The effects of such receipts or payments will be deferred and amortized over the term of the specific related fixed-rate borrowings. During the year ended December 31, 1999, the Company settled an aggregate notional amount of approximately $63.0 million that was outstanding under such agreements, resulting in a receipt of approximately $0.6 million to be amortized over the term of the anticipated borrowing.

During the year ended December 31, 1999, the Company refinanced its $125.0 million term loan maturing March 15, 1999 with a $155.4 million term loan maturing March 5, 2009. The new term loan bears interest at 7.44% per annum, payable monthly, and amortizes over an approximately 22-year schedule. The new term loan represented one of the forecasted transactions for which the Company had previously entered into U.S. Treasury-based hedging transactions. The net $3.4 million cost of the settlement of such hedges has been deferred and will be amortized as an increase to the effective financing costs of the new term loan over its 10-year term.

In the event that, in the opinion of management, it is no longer probable that the remaining forecasted transactions will occur under terms substantially equivalent to those projected, the Company will cease recognizing such transactions as hedges and immediately recognize related gains or losses based on actual settlement or estimated settlement value. No such gains or losses have been recognized by the company.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 1999, the Company had repurchased approximately 2.3 million shares, at an aggregate cost of approximately $40.4 million.

YEAR 2000

The statements in the following section include Year 2000 readiness disclosure within the meaning of the Year 2000 Information and Readiness Disclosure Act. The Company intends such statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and is including this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of the Company are generally identifiable by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Although the Company believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, the Company's actual costs progress and expenses with respect to its plan to address Year 2000 issues could differ materially from those set forth in the forward-looking statements. Factors which could have a material adverse effect on the Company's results and progress include, but are not limited to , changes in the expense of or delays, in: the identification and upgrade or replacement by the Company of computer systems that do not relate to information technology but include embedded technology; and the Year 2000 compliance of vendors (including vendors of the Company's computer information systems) or third-party service providers (including the Company's primary bank and payroll processor). These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

The term "Year 2000 issue" is a general term used to describe various problems that may result from the improper processing by computer systems of dates after 1999. These problems could results in a system failure or miscalculations causing disruptions of operations. The term "Year 2000 compliant" is used in this discussion to mean that the system or device in question will perform its essential functions in the Year 2000 without significant operational problems.

PARENT: The Company implemented a plan in 1999 to assess, test and correct, to the extent necessary, potential Year 2000 issues. Additionally, the Company assessed the potential impacts from outside parties and developed contingency plans for business interruptions after the date rollover. The costs involved in performing this internally managed plan were not significant to the Company's financial position or results of operations in 1998 and 1999. Since January 1, 2000, the Company has not experienced any material adverse impacts due to the Year 2000 issue. While the primary risk to the Company with respect to the Year 2000 issue continues to be the inability of external parties to provide services in a timely and accurate manner, to date, the Company is not aware of any such disruption. As a result, the Company does not expect any remaining Year 2000 risk to have a material adverse impact to the Company.

LEASING SUBSIDIARY: The Leasing Subsidiary recognized that the Year 2000 may result in risk and implemented a plan in 1998 to prepare for potential Year 2000 issues. The Leasing Subsidiary's efforts to address potential Year 2000 issues were focused in the following four areas: (i) reviewing and taking any necessary steps to correct the Leasing Subsidiary's computer information systems (i.e., software applications and hardware platforms); (ii) evaluating and making any necessary modifications to other computer systems that do not relate to information technology but include embedded technology at its properties, such as security, heating, ventilation, and air conditioning, elevator, fire and safety systems; (iii) communicating with certain significant third-party service providers to determine whether there will be any interruption in their systems that could affect the Leasing Subsidiary; and (iv) developing contingency plans for business interruptions after the date rollover. The Leasing Subsidiary's Year 2000 compliance program is substantially complete.

The cost involved in performing this internally managed plan were not significant to the Leasing Subsidiary's financial position or results of operations. The Leasing Subsidiary expects that a substantial portion of these costs will be passed back to tenants through recoveries of operating expense and that the remaining costs of addressing the Year 2000 issues will be funded through operating cash flows.

Since the date rollover on January 1, 2000, the Leasing Subsidiary has not experienced any material adverse impact due to the Year 2000 issue. While the primary risk to the Leasing Subsidiary, with respect to the Year 2000 issue, is the ability of certain third party service providers to continue to provide services in a timely and accurate manner, to date, the Leasing Subsidiary is not aware of any such disruption. While the Leasing Subsidiary's efforts to address its Year 2000 issues may involve additional costs, the Leasing Subsidiary believes, based on available information, that these costs will not have a material adverse effect on its business, financial condition or results of operations.

NEW ACCOUNTING STANDARDS

In June 1997, the FASB issued Statement No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS No. 131") effective for financial statements issued for periods beginning after December 15, 1997. SFAS No. 131 requires disclosures about segments of an enterprise and related information regarding the different types of business activities in which an enterprise engages and the different economic environments in which it operates. The Company adopted the requirements of this pronouncement in its financial statements beginning with its reporting for fiscal 1999. As of December 31, 1999, the Company is currently segmented between its lending and credit tenant lease businesses.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). On June 23, 1999 the FASB voted to defer the effectiveness of SFAS 133 for one year. SFAS 133 is now effective for fiscal years beginning after June 15, 2000, but earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as: (i) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (ii) a hedge of the exposure to variable cash flows of a forecasted transaction; or (iii) in certain circumstances a hedge of a foreign currency exposure. The Company currently plans to adopt this pronouncement as required effective January 1, 2001. The adoption of SFAS 133 is not expected to have a material financial impact on the financial position or results of operations of the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISKS

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. In pursuing its business plan, the primary market risk to which the Company is exposed is interest rate risk. Consistent with its election to qualify as a REIT, the Company has implemented an interest rate risk management policy based on match funding, with the objective that floating-rate assets be primarily financed by floating-rate liabilities and fixed-rate assets be primarily financed by fixed-rate liabilities.

The Company's operating results will depend in part on the difference between the interest and related income earned on its assets and the interest expense incurred in connection with its interest-bearing liabilities. Competition from other providers of real estate financing may lead to a decrease in the interest rate earned on the Company's interest-bearing assets, which the Company may not be able to offset by obtaining lower interest costs on its borrowings. Changes in the general level of interest rates prevailing in the financial markets may affect the spread between the Company's interest-earning assets and interest-bearing liabilities. Any significant compression of the spreads between interest-earning assets and interest-bearing liabilities could have a material adverse effect on the Company. In addition, an increase in interest rates could, among other things, reduce the value of the Company's interest-bearing assets and its ability to realize gains from the sale of such assets, and a decrease in interest rates could reduce the average life of the Company's interest-earning assets.

A substantial portion of the Company's loan investments are subject to significant prepayment protection in the form of lock-outs, yield maintenance provisions or other prepayment premiums which provide substantial yield protection to the Company. Those assets generally not subject to prepayment penalties include: (i) variable-rate loans based on LIBOR, originated or acquired at par, which would not result in any gain or loss upon repayment; and (ii) discount loans and loan participations acquired at discounts to face values, which would result in gains upon repayment. Further, while the Company generally seeks to enter into loan investments which provide for substantial prepayment protection, in the event of declining interest rates, the Company could receive such prepayments and may not be able to reinvest such proceeds at favorable returns. Such prepayments could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

While the Company has not experienced any significant credit losses, in the event of a significant rising interest rate environment and/or economic downturn, defaults could increase and result in credit losses to the Company which adversely affect its liquidity and operating results. Further, such delinquencies or defaults could have an adverse effect on the spreads between interest-earning assets and interest-bearing liabilities.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond the control of the Company. As more fully discussed in Note 9 to the Company's Consolidated Financial Statements, the Company employs match funding-based hedging strategies to limit the effects of changes in interest rates on its operations, including engaging in interest rate caps, floors, swaps, futures and other interest rate-related derivative contracts. These strategies are specifically designed to reduce the Company's exposure, on specific transactions or on a portfolio basis, to changes in cash flows as a result of interest rate movements in the market. The Company does not enter into derivative contracts for speculative purposes nor as a hedge against changes in credit risk of its borrowers or of the Company itself.

Each interest rate cap or floor agreement is a legal contract between the Company and a third party (the "counterparty"). When the Company purchases a cap or floor contract, the Company makes an up-front payment to the counterparty and the counterparty agrees to make payments to the Company in the future should the reference rate (typically one- or three-month LIBOR) rise above (cap agreements) or fall below (floor agreements) the "strike" rate specified in the contract. Each contract has a notional face amount. Should the reference rate rise above the contractual strike rate in a cap, the Company will earn cap income. Should the reference rate fall below the contractual strike rate in a floor, the Company will earn floor income. Payments on an annualized basis will equal the contractual notional face amount multiplied by the difference between actual reference rate and the contracted strike rate. The cost of the up-front payment is amortized over the term of the contract.

Interest rate swaps are agreements in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which swaps are based is not exchanged. In general, the Company's swaps are "pay fixed" swaps involving the exchange of floating-rate interest payments from the counterparty for fixed interest payments from the Company.

Interest rate futures are contracts, generally settled in cash, in which the seller agrees to deliver on a specified future date the cash equivalent of the difference between the specified price or yield indicated in the contract and the value of that of the specified instrument (e.g., U.S. Treasury securities) upon settlement. The Company generally uses such instruments to hedge forecasted fixed-rate borrowings. Under these agreements, the Company will generally receive additional cash flow at settlement if interest rates rise and pay cash if interest rates fall. The effects of such receipts or payments will be deferred and amortized over the term of the specific related fixed-rate borrowings. In the event that, in the opinion of management, it is no longer probable that a forecasted transaction will occur under terms substantially equivalent to those projected, the Company will cease recognizing such transactions as hedges and immediately recognize related gains or losses based on actual settlement or estimated settlement value. No such gains or losses have been recognized by the Company.

While a REIT may freely utilize the types of derivative instruments discussed above to hedge interest rate risk on its liabilities, the use of derivatives for other purposes, including hedging asset-related risks such as credit, prepayment or interest rate exposure on the Company's loan assets, could generate income which is not qualified income for purposes of maintaining REIT status. As a consequence, the Company may only engage in such instruments to hedge such risks on a limited basis.

There can be no assurance that the Company's profitability will not be adversely affected during any period as a result of changing interest rates. In addition, hedging transactions using derivative instruments involve certain additional risks such as counterparty credit risk, legal enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. With regard to loss of basis in a hedging contract, indices upon which contracts are based may be more or less variable than the indices upon which the hedged assets or liabilities are based, thereby making the hedge less effective. The counterparties to these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations. There can be no assurance that the Company will be able to adequately protect against the foregoing risks and that the Company will ultimately realize an economic benefit from any hedging contract it enters into which exceeds the related costs incurred in connection with engaging in such hedges.

The following table quantifies the potential changes in net investment income and net fair value of financial instruments should interest rates increase or decrease 200 basis points, assuming no change in the shape of the yield curve (i.e., relative interest rates). Net investment income is calculated as revenue from loans and other lending investments and operating leases (as of December 31, 1999), less related interest expense and property operating costs, for the year ended December 31, 1999, on a pro forma basis for the TriNet acquisition. Net fair value of financial instruments is calculated as the sum of the value of off-balance sheet instruments and the present value of cash in-flows generated from interest-earning assets, less cash out-flows in respect of interest-bearing liabilities as of December 31, 1999. The cash flows associated with the Company's assets are calculated based on management's best estimate of expected payments for each loan based on loan characteristics such as loan-to-value ratio, interest rate, credit history, prepayment penalty, term and property type. Most of the Company's loans are protected from prepayment as a result of prepayment penalties and contractual terms which prohibit prepayments during specified periods. However, for those loans where prepayments are not currently precluded by contract, declines in interest rates may increase prepayment speeds. The base interest rate scenario assumes interest rates as of December 31, 1999. Actual results could differ significantly from those estimated in the table.

	ESTIMATED PERCENTAGE CHANGE IN	
CHANGE IN INTEREST RATES	PRO FORMA NET INVESTMENT INCOME	NET FAIR VALUE OF FINANCIAL INSTRUMENTS (1)
- -200 Basis Points	2.17%	7.80%
- -100 Basis Points	1.08%	4.00%
Base Interest Rate	0.0%	0.0%
+100 Basis Points	(1.08%)	(3.90%)
+200 Basis Points	(1.97%)	(7.20%)

EXPLANATORY NOTE:

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(1) Amounts exclude fair values of non-financial investments, primarily assets under long-term operating leases and preferred limited partnership interests.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Financial statements of nine owned companies or joint ventures accounted for under the equity method have been omitted because the Company's proportionate share of the income from continuing operations before income taxes is less than 20% of the respective consolidated amount and the investments in and advances to each company are less than 20% of consolidated total assets.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Starwood Financial Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Starwood Financial Inc. and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
New York, NY
March 6, 2000

STARWOOD FINANCIAL INC.

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	AS OF DECEMBER 31, 1999	AS OF DECEMBER 31, 1998*
ASSETS		
Loans and other lending investments, net	$2,003,506	$1,823,761
Real estate subject to operating leases, net	1,714,284	189,942
Cash and cash equivalents	34,408	10,110
Restricted cash	10,195	5,699
Marketable securities	4,344	5,406
Accrued interest and rent receivable	17,358	13,122
Deferred expenses and other assets	29,074	11,054
Investment in Starwood Operating, Inc	383	522
Total assets	$3,813,552	$2,059,616
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 54,773	$ 10,536
Dividends payable	53,667	22,633
Debt obligations	1,901,204	1,055,719
Total liabilities	2,009,644	1,088,888
Commitments and contingencies	--	--
Minority interests in consolidated entities	2,565	--
Shareholders' equity:		
Series A Preferred Stock, $0.001 and $0.01 par value at December 31, 1999 and 1998, respectively, liquidation preference $50.00 per share, 4,400,000 shares authorized and outstanding at December 31, 1999 and December 31, 1998, respectively	4	44
Series B Preferred Stock, $0.001 par value at December 31, 1999, liquidation preference $50,000, 2,000,000 shares issued and outstanding at December 31, 1999	2	--
Series C Preferred Stock, $0.001 par value at December 31, 1999, liquidation preference $32,500, 1,300,000 shares issued and outstanding at December 31, 1999	1	--
Series D Preferred Stock, $0.001 par value at December 31, 1999, liquidation preference $100,000, 4,000,000 shares issued and outstanding at December 31, 1999	4	--
Common Stock, $0.001 par value at December 31, 1999, 200,000,000 shares authorized, 84,985,392 shares issued and outstanding at December 31, 1999	85	--
Class A shares $1.00 par value, 70,000,000 shares authorized, 52,407,718 shares issued and outstanding at December 31, 1998, none authorized at December 31, 1999	--	52,408
Class B shares, $0.01 par value, 35,000,000 shares authorized, 26,203,859 shares issued and outstanding at December 31, 1998, none authorized at December 31, 1999	--	262
Warrants and options	17,935	18,904
Accumulated other comprehensive income (losses)	(229)	(23)
Additional paid in capital	1,953,972	901,592
Retained earnings (deficit)	(129,992)	(2,459)
Treasury stock (at cost)	(40,439)	--
Total shareholders' equity	1,801,343	970,728
Total liabilities and shareholders' equity	$3,813,552	$2,059,616

EXPLANATORY NOTE:

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* RECLASSIFIED TO CONFORM TO 1999 PRESENTATION

The accompanying notes are an integral part of the financial statements.

STARWOOD FINANCIAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FOR THE YEAR ENDED DECEMBER 31,		
	1999	1998*	1997*
REVENUE:			
Interest income	$209,848	$112,914	$ 896
Operating lease income	42,186	12,378	--
Other income	12,763	2,804	991
Total revenue	264,797	128,096	1,887
COSTS AND EXPENSES:			
Interest expense	91,184	44,697	--
Property operating costs	2,246	--	--
Depreciation and amortization	10,340	4,287	--
General and administrative	6,269	2,583	461
Advisory fees	16,193	7,837	--
Provision for possible credit losses	4,750	2,750	--
Stock option compensation expense	412	5,985	--
Costs incurred in acquiring external advisor	94,476	--	--
Total costs and expenses	225,870	68,139	461
Income before minority interest	38,927	59,957	1,426
Minority interest	(41)	(54)	(1,415)
Net income	$ 38,886	$ 59,903	$ 11
Preferred dividend requirements	$(23,843)	$ (944)	$ --
Net income allocable to common shareholders	$ 15,043	$ 58,959	$ 11
Basic earnings per common share(1)(2)	$ 0.25	$ 1.40	$ 0.01
Diluted earnings per common share(1)(2)	$ 0.25	$ 1.36	$ 0.00

EXPLANATORY NOTES:

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* RECLASSIFIED TO CONFORM TO 1999 PRESENTATION.

(1) Net income per basic common share excludes 1% of net income allocable to the Company's class B shares prior to November 4, 1999. These shares were exchanged for Common Stock in connection with the TriNet acquisition and related transactions on November 4, 1999. As a result, the Company now has a single class of Common Stock outstanding.

(2) As adjusted for one-for-six reverse stock split effective June 19, 1998.

The accompanying notes are an integral part of the financial statements.

STARWOOD FINANCIAL INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(IN THOUSANDS)

	SERIES A PREFERRED STOCK	SERIES B PREFERRED STOCK	SERIES C PREFERRED STOCK	SERIES D PREFERRED STOCK	COMMON STOCK AT PAR	COMMON SHARES AT PAR CLASS A	COMMON SHARES AT PAR CLASS B
Balance at January 1, 1997*............	--	--	--	--	--	$ 2,550	$ 13
Exercise of warrants...................	--	--	--	--	--	5,000	25
Net unrealized losses..................	--	--	--	--	--	--	--
Net income of the period...............	--	--	--	--	--	--	--
Balance at December 31, 1997...........	--	--	--	--	--	7,550	38
Recapitalization Transactions..........	--	--	--	--	--	306,796	1,534
Issuance of options to Advisor.........	--	--	--	--	--	--	--
Effects of reorganization (1)..........	--	--	--	--	--	(261,956)	(1,310)
Exercise of options....................	--	--	--	--	--	18	--
Issuance of Preferred Shares and Warrants............................	44	--	--	--	--	--	--
Dividends declared-preferred...........	--	--	--	--	--	--	--
Dividends declared-common..............	--	--	--	--	--	--	--
Net income for the period..............	--	--	--	--	--	--	--
Change in net unrealized gains (losses) on investments.......................	--	--	--	--	--	--	--
Balance at December 31, 1998*..........	$ 44	--	--	--	--	52,408	262
Exercise of options....................	--	--	--	--	--	63	--
Dividends declared-preferred...........	--	--	--	--	--	--	--
Dividends declared-common..............	--	--	--	--	--	--	--
Effects of Incorporation Merger........	(40)	--	--	--	53	(52,471)	(262)
Acquisition of TriNet..................	--	2	1	4	29	--	--
Issuance of shares of Common Stock through conversion of joint venture partners interest....................	--	--	--	--	--	--	--
Advisor transaction....................	--	--	--	--	4	--	--
Special stock dividend.................	--	--	--	--	1	--	--
Purchase of treasury stock.............	--	--	--	--	(2)	--	--
Net income for the period..............	--	--	--	--	--	--	--
Change in accumulated other comprehensive income.................	--	--	--	--	--	--	--
Balance at December 31, 1999...........	$ 4	$ 2	$ 1	$ 4	$ 85	$ --	$ --

	WARRANTS AND OPTIONS	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE INCOME	TREASURY STOCK	TOTAL
Balance at January 1, 1997*............	$ 101	--	$ (1,086)	--	--	$ 1,578
Exercise of warrants...................	(101)	--	--	--	--	4,924
Net unrealized losses..................	--	--	--	(162)	--	(162)
Net income of the period...............	--	--	11	--	--	11
Balance at December 31, 1997...........	--	--	(1,075)	(162)	--	6,351
Recapitalization Transactions..........	--	432,084	--	--	--	740,414
Issuance of options to Advisor.........	5,985	--	--	--	--	5,985
Effects of reorganization (1)..........	--	262,786	--	--	--	(480)
Exercise of options....................	(270)	537	--	--	--	285
Issuance of Preferred Shares and Warrants............................	13,189	206,170	--	--	--	219,403
Dividends declared-preferred...........	--	15	(944)	--	--	(929)
Dividends declared-common..............	--	--	(60,343)	--	--	(60,343)
Net income for the period..............	--	--	59,903	--	--	59,903
Change in net unrealized gains (losses) on investments.......................	--	--	--	139	--	139
Balance at December 31, 1998*..........	18,904	901,592	(2,459)	(23)	--	970,728
Exercise of options....................	(969)	1,853	--	--	--	947
Dividends declared-preferred...........	--	330	(25,149)	--	--	(24,819)
Dividends declared-common..............	--	--	(116,813)	--	--	(116,813)
Effects of Incorporation Merger........	--	52,720	--	--	--	--
Acquisition of TriNet..................	--	868,933	--	--	--	868,969
Issuance of shares of Common Stock through conversion of joint venture partners interest....................	--	6,226	--	--	--	6,226
Advisor transaction....................	--	97,862	--	--	--	97,866
Special stock dividend.................	--	24,456	(24,457)	--	--	--
Purchase of treasury stock.............	--	--	--	--	(40,439)	(40,441)
Net income for the period..............	--	--	38,886	--	--	38,886
Change in accumulated other comprehensive income.................	--	--	--	(206)	--	(206)
Balance at December 31, 1999...........	$17,935	$1,953,972	$(129,992)	$(229)	$(40,439)	$1,801,343

EXPLANATORY NOTE:

* RECLASSIFIED TO CONFORM TO 1999 PRESENTATION.

(1) As adjusted for one-for-six reverse stock split effective June 19, 1998.

The accompanying notes are an integral part of the financial statements.

STARWOOD FINANCIAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	FOR THE YEAR ENDED DECEMBER 31,		
	1999	1998*	1997*
Cash flows from operating activities:			
Net income	$ 38,886	$ 59,903	$ 11
Adjustments to reconcile net income to cash flows provided by operating activities:			
Minority interest	41	54	1,415
Non-cash expense for options issued to Advisor	412	5,985	--
Non-cash expense for Advisor Transaction	94,476	--	--
Equity in earnings of unconsolidated joint ventures and subsidiaries	(234)	(96)	--
Depreciation and amortization	15,932	7,662	--
Amortization of discounts/premiums and deferred interest	(25,493)	(17,750)	--
Distributions from operating joint venture	470	--	--
Straight-line rent adjustments	(1,597)	--	--
Realized gain on securities	(11)	--	--
Provision for possible credit losses	4,750	2,750	--
Changes in assets and liabilities:			
Increase (decrease) in restricted cash	2,924	(5,699)	--
(Increase) decrease in accrued interest and rent receivable	(3,089)	(5,613)	4
Decrease in deferred expenses and other assets	(1,212)	(902)	(1,895)
Increase in accounts payable, accrued expenses and other liabilities	(3,706)	8,621	1,736
Cash flows provided by operating activities	122,549	54,915	1,271
Cash flows from investing activities:			
Net cash outflow for the Recapitalization Transactions (Note 3)	--	(334,964)	--
Net cash outflow for TriNet acquisition (Note 3)	(23,723)	--	--
New loan or investment originations/acquisitions	(640,757)	(975,670)	(31,346)
Principal fundings on existing loan commitments	(45,916)	(16,500)	--
Investment in Starwood Operating, Inc	--	(426)	--
Proceeds from sale of investment securities	--	--	21,546
Repayments of and principal collections from loans and other investments	520,768	103,926	3,787
Net investments (in) and advances to unconsolidated joint ventures	46,988	(47,675)	--
Other capital expenditures	(1,271)	--	--
Cash flows used in investing activities	(143,911)	(1,271,309)	(6,013)
Cash flows from financing activities:			
Net borrowings under revolving credit facilities	168,592	640,945	--
Net borrowings under term loans	39,234	368,683	--
Borrowings under repurchase agreements	(7,331)	46,091	--
Mortgage note repayments	(150)	--	--
Dividends paid	(110,600)	(38,638)	--
Payment for deferred financing costs	(4,593)	(11,615)	--
Proceeds from issuance of class B shares	--	1,534	--
Costs incurred in reorganization	--	(480)	--
Purchase of treasury stock	(40,439)	--	--
Proceeds from exercise of options	947	285	--
Proceeds from issuance of preferred stock and warrants	--	219,403	4,924
Cash flows provided by financing activities	45,660	1,226,208	4,924
Increase in cash and cash equivalents	24,298	9,814	182
Cash and cash equivalents at beginning of period	10,110	296	114
Cash and cash equivalents at end of period	$ 34,408	$ 10,110	$ 296
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$ 85,835	$ 38,006	$ --

EXPLANATORY NOTE:

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* RECLASSIFIED TO CONFORM TO 1999 PRESENTATION.

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--ORGANIZATION AND BUSINESS

ORGANIZATION--Starwood Financial Inc.(1) (the "Company") began its business in 1993 through private investment funds (collectively, the "Starwood Investors") formed to capitalize on inefficiencies in the real estate finance market. In March 1998, these funds contributed their approximately $1.1 billion of assets to the Company's predecessor, Starwood Financial Trust, in exchange for a controlling interest in that company. Since that time, the Company has grown by originating new lending and leasing transactions, as well as through corporate acquisitions. Specifically, in September 1998, the Company acquired the loan origination and servicing business of a major insurance company, and in December 1998, the Company acquired the mortgage and mezzanine loan portfolio of its largest private competitor. Additionally, in November 1999, the Company acquired TriNet Corporate Realty Trust, Inc. ("TriNet"), the largest publicly traded company specializing in the net leasing of corporate office and industrial facilities. The TriNet acquisition was structured as a stock-for-stock merger of TriNet with a subsidiary of the Company. Concurrent with the TriNet acquisition, the Company also acquired its external advisor (the "Advisor Transaction") in exchange for shares of common stock, $0.001 par value, of the Company (the "Common Stock"), and converted its organizational form to a Maryland corporation (the "Incorporation Merger"). As part of the conversion to a Maryland corporation, the Company replaced its dual class common share structure with a single class of Common Stock. The Company's Common Stock began trading on the New York Stock Exchange under the symbol "SFI" in November 1999.

During 1993 through 1997, the Company did not qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). However, pursuant to a closing agreement with the Internal Revenue Service (the "IRS") obtained in March 1998, the Company was eligible and elected to be taxed as a REIT for the taxable year beginning January 1, 1998.

BUSINESS--The Company believes it is the largest publicly traded finance company in the United States focused on the commercial real estate industry. The Company, which is taxed as a real estate investment trust, provides structured mortgage, mezzanine and lease financing through its origination, acquisition and servicing platform. The Company's investment strategy targets specific sectors of the real estate credit markets in which it can deliver value-added, flexible financial solutions to its customers, thereby differentiating its financial products from those offered by other capital providers.

The Company has implemented its investment strategy by: (i) focusing on the origination of large, highly structured mortgage, mezzanine and lease financings where customers require flexible financial solutions, and avoiding commodity businesses in which there is significant direct competition from other providers of capital; (ii) developing direct relationships with borrowers and corporate tenants as opposed to sourcing transactions through intermediaries; (iii) adding value beyond simply providing capital by offering borrowers and corporate tenants specific lending expertise, flexibility, speed, certainty and continuing relationships beyond the closing of a particular financing transaction; and (iv) taking advantage of market anomalies in the real estate financing markets when the Company believes credit is mispriced by other providers of capital such as the spread between lease yields and the yields on corporate tenants' underlying credit obligations.

The Company intends to continue to emphasize a mix of portfolio financing transactions to create built-in diversification and single-asset financings for properties with strong, long-term positioning.

EXPLANATORY NOTE:

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(1) As more fully discussed in Note 4, on November 4, 1999, the Company changed its form and became a corporation under Maryland law and changed its name from Starwood Financial Trust to Starwood Financial Inc.

NOTE 2--BASIS OF PRESENTATION

The accompanying audited Consolidated Financial Statements have been prepared in conformity with generally accepted accounting principles ("GAAP"). The Consolidated Financial Statements include the accounts of the Company, its qualified REIT subsidiaries, and its majority-owned and controlled partnership. Certain third-party mortgage servicing operations are conducted through Starwood Operating, Inc. ("Starwood Operating"), a taxable corporation which is not consolidated with the Company for financial reporting or income tax purposes. The Company owns all of the preferred stock and a 95% economic interest in Starwood Operating, which is accounted for under the equity method for financial reporting purposes. In addition, the Company has an investment in TriNet Management Operating Company, Inc. ("TMOC"), a taxable noncontrolled subsidiary of the Company, which is also accounted for under the equity method. Further, certain other investments in partnerships or joint ventures which the Company does not control are also accounted for under the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LOANS AND OTHER LENDING INVESTMENTS, NET--As described in Note 5 "Loans and Other Lending Investments," includes the following investments: senior mortgages, subordinate mortgages, partnership loans/ unsecured notes, loan participations and other lending investments. In general, management considers its investments in this category as held-to-maturity and, accordingly, reflects such items at amortized historical cost.

REAL ESTATE AND DEPRECIATION--Real estate is generally recorded at cost. Certain improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance items are expensed as incurred. The Company capitalizes interest costs incurred during the land development or construction period on qualified development projects including investments in joint ventures accounted for under the equity method. Depreciation is computed using the straight line method of cost recovery over estimated useful lives of 40.0 years for buildings, seven years for furniture and equipment, the shorter of the remaining lease term or expected life for tenant improvements, and the remaining life of the building for building improvements.

Real estate assets to be disposed of are reported at the lower of their carrying amount or fair value less cost to sell. The Company also periodically reviews long-lived assets to be held and used for an impairment in value whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. In management's opinion, real estate assets to be held and used are not carried at amounts in excess of their estimated recoverable amounts.

CASH AND CASH EQUIVALENTS--Cash and cash equivalents include cash held in banks or invested in money market funds with original maturity terms of less than 90 days.

NON-CASH ACTIVITY--During the year ended December 31, 1998, the Company had significant non-cash activity including: (i) conversion of units in APMT Limited Partnership (shown as "minority interest" in the consolidated financial statements) to class A shares of the Company (see Note 4); (ii) issuance of options to Starwood Financial Advisors, L.L.C. (the "Advisor") to acquire class A shares of the Company (see Note 11); and (iii) issuance of new class A shares in exchange for a portion of the acquisition of loans and related investments as part of the Recapitalization Transactions (see Note 4).

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The cash portion of the Recapitalization Transactions is summarized as follows (in thousands):

Acquisition of loans and other investments	$(1,061,006)
Acquired accrued interest and rent receivable	(7,451)
Conversion of minority interest	(5,387)
Par value of class A shares issued	306,796
Additional paid in capital on class A shares issued	432,084
Net cash outflow for the Recapitalization Transactions	$ (334,964)

During 1999, the Company acquired TriNet (see Note 4). The following is a summary of the effects of this transaction on the Company's consolidated financial position (in thousands):

	ACQUISITION OF TRINET
Fair value of:	
Assets acquired	$(1,589,714)
Liabilities assumed	676,936
Minority interest	2,524
Stock issued	875,195
Cash paid	(35,059)
Less cash acquired	11,336
Net cash outflow for TriNet acquisition	$ (23,723)

MARKETABLE SECURITIES--The Company has certain investments in marketable securities such as those issued by the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC). Although the Company generally intends to hold such investments for long-term investment purposes, it may, from time to time, sell any of its investments in these securities as part of its management of liquidity. Accordingly, the Company considers such investments as "available-for-sale" and reflects such investments at fair market value with changes in fair market value reflected as a component of shareholders equity.

REPURCHASE AGREEMENTS--The Company may enter into sales of securities or loans under agreements to repurchase the same security or loan. The amounts borrowed under repurchase agreements are carried on the balance sheet as part of debt obligations at the amount advanced plus accrued interest. Interest incurred on the repurchase agreements is reported as interest expense.

REVENUE RECOGNITION--The Company's revenue recognition policies are as follows:

LOANS AND OTHER LENDING INVESTMENTS: The Company generally intends to hold all of its loans and other lending investments to maturity. Accordingly, it reflects all of these investments at amortized cost less allowance for loan losses, acquisition premiums or discounts, deferred loan fees and undisbursed loan funds. The Company may acquire loans at either premiums or discounts based on the credit characteristics of such loans. These premiums or discounts are recognized as yield adjustments over the lives of the related loans. If loans that were acquired at a premium or discount are prepaid, the Company immediately

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
recognizes the unamortized premium or discount as a decrease or increase in the prepayment gain or loss, respectively. Loan origination or exit fees, as well as direct loan origination costs, are also deferred and recognized over the lives of the related loans as a yield adjustment. Interest income is recognized using the effective interest method applied on a loan-by-loan basis.

Certain of the Company's loans provide for accrual of interest at specified rates which differ from current payment terms. Interest is recognized on such loans at the accrual rate subject to management's determination that accrued interest and outstanding principal are ultimately collectible, based on the underlying collateral and operations of the borrower.

Prepayment penalties or yield maintenance payments from borrowers are recognized as additional income when received. Certain of the Company's loan investments provide for additional interest based on the borrower's operating cash flow or appreciation of the underlying collateral. Such amounts are considered contingent interest and are reflected as income only upon certainty of collection.

LEASING INVESTMENTS: Operating lease revenue is recognized on the straight-line method of accounting from the later of the date of the origination of the lease or the date of acquisition of the facility subject to existing leases. Accordingly, contractual lease payment increases are recognized evenly over the term of the lease. The difference between lease revenue recognized under this method and actual cash receipts is recorded as a deferred rent receivable on the balance sheet.

PROVISION FOR POSSIBLE CREDIT LOSSES--The Company's accounting policies require that an allowance for estimated credit losses be maintained at a level that management, based upon an evaluation of known and inherent risks in the portfolio, considers adequate to provide for possible credit losses. Specific valuation allowances are established for impaired loans in the amount by which the carrying value, before allowance for estimated losses, exceeds the fair value of collateral less disposition costs on an individual loan basis. Management considers a loan to be impaired when, based upon current information and events, it believes that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. Management measures these impaired loans at the fair value of the loans' underlying collateral less estimated disposition costs. Impaired loans may be left on accrual status during the period the Company is pursuing repayment of the loan, however, these loans are placed on non-accrual status at such time that the loans either: (i) become 90 days delinquent; or (ii) management determines the borrower is incapable of, or has ceased efforts toward, curing the cause of the impairment. While on non-accrual status, interest income is recognized only upon actual receipt. Impairment losses are recognized as direct write-downs of the related loan with a corresponding charge to the provision for possible credit losses. Charge-offs occur when loans, or a portion thereof, are considered uncollectible and of such little value that further pursuit of collection is not warranted. Management's periodic evaluation of the allowance for possible credit losses is based upon an analysis of the portfolio, historical and industry loss experience, economic conditions and trends, collateral values and quality and other relevant factors.

INCOME TAXES--The Company did not qualify as a REIT from 1993 through 1997; however, it did not incur any material tax liabilities as a result of its operations. See Note 10 to the consolidated financial statements for more information.

As confirmed in a closing agreement with the IRS obtained in March 1998, the Company was eligible and elected to be taxed as a REIT for its tax year beginning January 1, 1998. As a REIT, the Company will be subject to federal income taxation at corporate rates on its REIT taxable income; however, the

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Company is allowed a deduction for the amount of dividends paid to its stockholders, thereby subjecting the distributed net income of the Company to taxation at the shareholder level only. Starwood Operating and TMOC are not consolidated for federal income tax purposes and are taxed as corporations. For financial reporting purposes, current and deferred taxes are provided for in the portion of earnings recognized by the Company with respect to its interest in Starwood Operating and TMOC.

NET INCOME ALLOCABLE TO COMMON SHARES--Net income allocable to common shares excludes 1% of net income allocable to the class B shares prior to November 4, 1999. The class A and class B shares were exchanged for Common Stock in connection with the TriNet acquisition, as more fully described in Note 4.

EARNINGS (LOSS) PER COMMON SHARES--In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128") effective for periods ending after December 15, 1997. SFAS No. 128 simplifies the standard for computing earnings per share and makes them comparable with international earnings per share standards. The statement replaces primary earnings per share with basic earnings per share ("Basic EPS") and fully-diluted earnings per share with diluted earnings per share ("Diluted EPS").

USE OF ESTIMATES--The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NEW ACCOUNTING STANDARDS--In June 1997, the FASB issued Statement No. 131, "Disclosure about Segments of an Enterprise and Related Information" ("SFAS No. 131") effective for financial statements issued for periods beginning after December 15, 1997. SFAS No. 131 requires disclosures about segments of an enterprise and related information regarding the different types of business activities in which an enterprise engages and the different economic environments in which it operates. The Company adopted the requirements of this pronouncement in its financial statements beginning with its reporting for fiscal 1999. As of December 31, 1999, the Company is currently segmented between its lending and credit tenant lease businesses.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). On June 23, 1999 the FASB voted to defer the effectiveness of SFAS 133 for one year. SFAS 133 is now effective for fiscal years beginning after June 15, 2000, but earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. SFAS No. 13 establishes accounting and reporting standards for derivative financial instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments as fair value. If certain conditions are met, a derivative may be specifically designated as: (i) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; (ii) a hedge of the exposure to variable cash flows of a forecasted transaction; or (iii) in certain circumstances a hedge of a foreign currency exposure. The Company currently plans to adopt this pronouncement as required effective January 1, 2001. The adoption of SFAS 133 is not expected to have a material financial impact on the financial position or results of operations of the Company.

NOTE 4--CAPITAL TRANSACTIONS

TRANSACTIONS WITH AFFILIATES--In November 1993, the Company was notified that SAHI, Inc. (one of the Starwood Investors) had acquired all of the Company's 212,500 outstanding class B shares. Subsequent to the acquisition of the class B shares, SAHI Partners (another Starwood Investor) purchased the class B shares from SAHI, Inc. and accumulated 40,683 class A shares, or 9.60% of the total class A shares then outstanding.

On March 15, 1994, the Company announced that it had entered into an agreement with SAHI Partners and SAHI, Inc. for the sale of a warrant for the right to purchase 833,333 class A shares at a price of $6.00 per share (the "Class A Warrant") and 416,667 class B shares at a price of $0.06 per share (the "Class B Warrant"). SAHI Partners and SAHI, Inc. purchased the warrants for $101,000, which amount was applied against the purchase price for the initial class A and class B shares purchased pursuant to the warrants. On March 28, 1996, the Class A Warrant was assigned to Starwood Mezzanine Investors, L.P. ("Starwood Mezzanine").

On September 26, 1996, the Company became sole general partner of APMT Limited Partnership by contributing $400,000 in cash in exchange for an 8.05% interest in that partnership. Starwood Mezzanine became the 91.95% limited partner by contributing to the partnership its entire interest in the participation certificates in a mortgage note relating to the Warwick Hotel, valued by the Company at approximately $4.6 million as of September 30, 1996. Starwood Mezzanine's interest in the partnership was evidenced by units, which were convertible into cash, class A shares or a combination of both pursuant to an exchange rights agreement. As described below, the units were converted to class A shares in the first quarter of 1998.

On January 22, 1997, Starwood Mezzanine exercised its rights under the Class A Warrant to acquire 833,333 class A shares. After its exercise of the Class A Warrant, Starwood Mezzanine beneficially owned 833,333 class A shares and 761,491 units. In addition, SAHI, Inc. exercised its rights under the Class B Warrant to acquire 416,667 class B shares. After its exercise of the Class B Warrant, SAHI Inc. beneficially owned 1,009,911 class B shares and 40,683 class A shares. Upon exercise of the Class A and Class B Warrants, SAHI Partners, SAHI, Inc. and Starwood Mezzanine jointly owned 69.46% of the outstanding class A shares and, with the voting interest of the class B shares, controlled 79.64% of the voting interests of the Company. The Company increased its capital by approximately $5.0 million, and the resulting funds were used to purchase qualified short-term government securities.

During the quarter ended March 31, 1998, the Company consummated certain transactions and entered into agreements which significantly recapitalized and expanded the capital resources of the Company as well as modified future operations, including those described herein below in "Recapitalization Transactions" and "Advisor Transaction".

RECAPITALIZATION TRANSACTIONS--As more fully discussed above, pursuant to a series of transactions beginning in March 1994 and including the exercise of the Class A and Class B Warrants in January 1997, the Starwood Investors acquired joint ownership of 69.46% and 100% of the outstanding class A shares and class B shares of the Company, respectively, through which they controlled approximately 79.64% of the voting interests in the Company as of December 31, 1997. Prior to the consummation of these transactions (collectively, the "Recapitalization Transactions"), Starwood Mezzanine also owned 761,491 units which represented the remaining 91.95% of APMT Limited Partnership not held by the Company. Those units were convertible into cash, an additional 761,491 class A shares of the Company, or a combination of the two, as determined by the Company.

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

On March 18, 1998, each outstanding unit held by Starwood Mezzanine was exchanged for one class A share of the Company and, concurrently, the partnership was liquidated through a distribution of its net assets to the Company, its then sole partner.

Simultaneously, Starwood Mezzanine contributed various real estate loan investments to the Company in exchange for 9,191,333 class A shares and $25.5 million in cash, as adjusted. Starwood Opportunity Fund IV, L.P., one of the Starwood Investors ("SOF IV"), contributed real estate loans and related investments, $17.9 million in cash and certain letters of intent in exchange for 41,179,133 class A shares of the Company and a cash payment of $324.3 million. Concurrently, the holders of the class B shares who were affiliates of the Starwood Investors acquired 25,565,979 additional class B shares sufficient to maintain existing voting preferences pursuant to the Company's Amended and Restated Declaration of Trust. Immediately after these transactions, the Starwood Investors owned approximately 99.27% of the outstanding class A shares of the Company and 100% of the class B shares. Assets acquired from Starwood Mezzanine have been reflected using step acquisition accounting at predecessor basis adjusted to fair value to the extent of post-transaction third-party ownership. Assets acquired from SOF IV have been reflected at their fair market value.

ADVISORY AGREEMENT--In connection with the Recapitalization Transactions, the Company and the Advisor, an affiliate of the Starwood Investors, entered into an Advisory Agreement (the "Advisory Agreement") pursuant to which the Advisor managed the affairs of the Company, subject to the Company's purpose and investment policy, the investment restrictions and the directives of the Board of Directors. The services provided by the Advisor included the following: (i) identifying investment opportunities for the Company; (ii) advising the Company with respect to and effecting acquisitions and dispositions of the Company's investments; (iii) monitoring, managing and servicing the Company's loan portfolio; and (iv) arranging debt financing for the Company. The Advisor was prohibited from acting in a manner inconsistent with the express direction of the Board of Directors, and reported to the Board of Directors and the officers of the Company with respect to its activities.

The Company paid the Advisor a quarterly base management fee of 0.3125% (1.25% per annum) of the "Book Equity Value" of the Company determined as of the last day of each quarter but estimated and paid in advance subject to recomputation. "Book Equity Value" was generally defined as the excess of the book value of the assets of the Company over all liabilities of the Company.

In addition, the Company paid the Advisor a quarterly incentive fee of 5.00% of the Company's "Adjusted Net Income" during each quarter that the Adjusted Net Income for such quarter (restated and annualized as a rate of return on the Company's Book Equity Value for such quarter) equaled or exceeded the "Benchmark BB Rate." "Adjusted Net Income" was generally defined as the Company's gross income less the Company's expenses for the applicable quarter (including the base fee for such quarter but not the incentive fee for such quarter). In calculating both Book Equity Value and Adjusted Net Income, real estate-related depreciation and amortization (other than amortization of financing costs and other prepaid expenses to the extent such costs and prepaid expenses have previously been booked as an asset of the Company) were not deducted. The Advisor was also reimbursed for certain expenses it incured on behalf of the Company.

Because payment of both the base fee and the incentive fee commenced 90 days after the consummation of the Recapitalization Transactions, fees were recognized ratably over the period from March 18,

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

1998 through December 31, 1998. The operating results of the Company for such period were greater than they would have been had the advisory fee not been deferred.

The Advisory Agreement had an initial term of three years subject to automatic renewal for one-year periods unless the Company had been liquidated or a Termination Event (as defined in the Advisory Agreement and which generally included violations of the Advisory Agreement by the Advisor, a bankruptcy event of the Advisor or the imposition of a material liability on the Company as a result of the Advisor's bad faith, willful misconduct, gross negligence or reckless disregard of duties) had occurred and was continuing. In addition, the Advisor could have terminated the Advisory Agreement on 60 days' written notice to the Company and the Company could have terminated the Advisory Agreement upon 60 days' written notice if a Termination Event had occurred or if the decision to terminate were based on affirmative vote of the holders of two thirds or more of the voting shares of the Company at the time outstanding.

Prior to the transactions described below through which, among other things, the Company became self-advised, the Company was dependent on the services of the Advisor and its officers and employees for the successful execution of its business strategy.

1999 TRANSACTIONS--On November 3, 1999, consistent with previously announced terms, the Company's shareholders approved a series of transactions including: (i) the acquisition, through a merger, of TriNet; (ii) the acquisition, through a merger and a contribution of interests, of 100% of the ownership interests in the Advisor; and (iii) the change in form, through a merger, of the Company's organization into a Maryland corporation. TriNet stockholders also approved the TriNet acquisition on November 3, 1999. These transactions were consummated on November 4, 1999. As part of these transactions, the Company also changed its name to Starwood Financial Inc. and replaced its dual class common share structure with a single class of Common Stock.

TRINET ACQUISITION--TriNet merged with and into a subsidiary of the Company, with TriNet surviving as a wholly-owned subsidiary of the Company (the "Leasing Subsidiary"). In the TriNet acquisition, each share of TriNet common stock was converted into 1.15 shares of Common Stock, resulting in an aggregate issuance of 28.9 million shares of Common Stock. Each share of TriNet Series A, Series B and Series C Cumulative Redeemable Preferred Stock was converted into a share of Series B, Series C or Series D (respectively) Cumulative Redeemable Preferred Stock of the Company. The Company's preferred stock issued to the former TriNet preferred stockholders has substantially the same terms as the TriNet preferred stock, except that the new Series B, C, and D preferred stock has additional voting rights not associated with the TriNet preferred stock. The holders of the Company's Series A Preferred Stock will retain the same rights and preferences as existed prior to the TriNet acquisition.

The TriNet acquisition was accounted for as a purchase. Because the Company's stock prior to the transaction was largely held by the Starwood Investors, and, as a result, the stock was not widely traded relative to the amount of shares outstanding, the pro forma financial information presented below was prepared utilizing a stock price of $28.14 per TriNet share, which was the average stock price of TriNet during the five-day period before and after the TriNet acquisition was agreed to and announced.

ADVISOR TRANSACTION--Contemporaneously with the consummation of the TriNet acquisition, the Company acquired 100% of the interests in the Advisor in exchange for total consideration of four million shares of Common Stock. For accounting purposes, the Advisor Transaction was not considered the

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

acquisition of a "business" in applying Accounting Principles Board Opinion No. 16, "Business Combinations" and, therefore, the market value of the Common Stock issued in excess of the fair value of the net tangible assets acquired of approximately $94.5 million has been charged to operating income as a one-time item in the fourth quarter of 1999, rather than capitalized as goodwill.

INCORPORATION MERGER--Prior to the consummation of the TriNet acquisition and the Advisor Transaction, the Company changed its form from a Maryland trust to a Maryland corporation in the Incorporation Merger, which technically involved a merger of the Company with a wholly-owned subsidiary formed solely to effect such merger. In the Incorporation Merger, the class B shares were converted into shares of Common Stock on a 49-for-one basis (the same ratio at which class B shares were previously convertible into class A shares), and the class A shares were converted into shares of Common Stock on a one-for-one basis. As a result, the Company no longer has multiple classes of common shares. The Incorporation Merger was treated as a transfer of assets and liabilities under common control. Accordingly, the assets and liabilities transferred from Starwood Financial Trust to Starwood Financial Inc. were reflected at their predecessor basis and no gain or loss was recognized.

The Company declared and paid a special dividend of one million shares of its Common Stock payable pro rata to all holders of record of its Common Stock following completion of the Incorporation Merger, but prior to the effective time of the TriNet acquisition and the Advisor Transaction.

PRO FORMA INFORMATION--The summary unaudited pro forma consolidated statement of operations for the years ended December 31, 1999 and 1998 are presented as if the following transactions, consummated in November 1999, had occurred on January 1, 1998: (i) the TriNet acquisition; (ii) the Advisor Transaction; and (iii) the borrowing necessary to consummate the aforementioned transactions, and as if the following transactions consummated in March 1998, had occurred on January 1, 1998: (i) the Recapitalization Transactions; (ii) the exchange of each outstanding unit in the APMT Limited Partnership held by holders other than the Company for one class A share; (iii) the liquidation and termination of the partnership; and (iv) the borrowings necessary to consummate the aforementioned transactions. The unaudited pro forma information is based upon the historical consolidated results of operations of the Company and TriNet for the years ended December 31, 1999 and 1998, after giving effect to the events described above.

NOTE 4--CAPITAL TRANSACTIONS (CONTINUED)

PRO FORMA
CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)

	FOR THE YEAR ENDED DECEMBER 31, 1999	1998
	(UNAUDITED)	
REVENUE:		
Interest income	$218,359	$140,261
Operating lease/rental income	186,776	169,196
Other income	21,000	9,776
Total revenue	426,135	319,233
EXPENSES:		
Interest expense	135,795	99,138
Property operating costs	12,601	7,651
Depreciation and amortization	36,423	35,053
General and administrative	21,716	20,770
Stock option compensation expense	2,474	5,985
Provision for possible credit losses	4,750	2,750
Total expenses	213,759	171,347
Income before minority interest	$212,376	147,886
Minority interest	(164)	(128)
Net income	$212,212	$147,758
Preferred dividend requirements	(36,906)	(16,622)
Net income allocable to common shareholders	$175,306	$131,136
BASIC EARNINGS PER SHARE:		
Basic earnings per common share	$ 2.01	$ 1.50
Weighted average number of common shares outstanding	87,073	87,193

Investments and dispositions are assumed to have taken place as of January 1, 1998; however, loan originations and acquisitions are not reflected in these pro forma numbers until the actual origination or acquisition date by the Company. The pro forma information above excludes the charge of approximately $94.5 million taken by the Company in fiscal 1999 to reflect the costs incurred in acquiring the Advisor as such charge is non-recurring. The pro forma information also excludes certain non-recurring historical charges recorded by TriNet of $3.4 million in 1999 for a provision for a real estate write-down and $3.0 million in 1998 for a special charge for an expected reduction in TriNet's investment activity. General and administrative costs represent estimated expense levels as an internally-managed Company.

The pro forma financial information is not necessarily indicative of what the consolidated results of operations of the Company would have been as of and for the periods indicated, nor does it purport to represent the results of operations for future periods.

NOTE 5--LOANS AND OTHER LENDING INVESTMENTS

The following is a summary description of the Company's loans and other lending investments (in thousands):

TYPE OF INVESTMENT	UNDERLYING PROPERTY TYPE	# OF BORROWERS IN CLASS	ORIGINAL COMMITMENT AMOUNT	PRINCIPAL BALANCES OUTSTANDING	CARRYING VALUE AS OF DECEMBER 31, 1999	1998*
Senior Mortgages	Office/Hotel/Mixed Use/ Apartment/Retail/Resort	19	$959,595	$ 923,810	$ 938,040	$ 752,104
Subordinated Mortgages (4)	Office/Hotel/Mixed Use/Retail/ Conference Center	17	581,335	557,494	540,441	499,780
Partnership Loans/Unsecured Notes	Office/Hotel/Residential/Land	12	325,773	310,229	309,768	293,963
Loan Participations	Office/Retail	4	168,747	152,857	152,782	140,441
Other Lending Investments	Real Estate-Related Securities	N/A	N/A	N/A	69,975	140,223
Gross Carrying Value					$2,011,006	$1,826,511
Provision for Possible Credit Losses					(7,500)	(2,750
Total, Net					$2,003,506	$1,823,761

TYPE OF INVESTMENT	EFFECTIVE MATURITY DATES	CONTRACTUAL INTEREST PAYMENT RATES(1)	CONTRACTUAL INTEREST ACCRUAL RATES(3)	PRINCIPAL AMORTIZ-ATION	PARTICI-PATION FEATURES
Senior Mortgages	2000 to 2009	Fixed: 7.28% to 18.00% Variable: LIBOR + 1.25% to 5.00%	Fixed: 7.28% to 20.00% Variable: LIBOR + 1.25% to 5.00%	Yes (2)	Yes (3)
Subordinated Mortgages (4)	2000 to 2007	9.53% to 15.25% Variable: LIBOR + 4.50% to 5.80%	9.53% to 17.00% Variable: LIBOR + 4.00% to 5.80%	Yes (2)	Yes (3)
Partnership Loans/Unsecured Notes	2000 to 2028	8.00% to 15.00% Variable: LIBOR + 5.37% to 7.50%	8.50% to 17.50% Variable: LIBOR + 5.37% to 7.50%	Yes	Yes (3)
Loan Participations	2000 to 2005	Fixed: 10.00% to 13.60% Variable: LIBOR + 4.00% to 6.00%	Fixed: 10.00% to 13.60% Variable: LIBOR + 4.00% to 6.00%	No	Yes (3)
Other Lending Investments	2002 and 2007	Fixed: 12.50% to 12.75%	Fixed: 12.50% to 12.75%	No	No
Gross Carrying Value					
Provision for Possible Credit Losses					
Total, Net					

EXPLANATORY NOTES:

* RECLASSIFIED TO CONFORM TO 1999 PRESENTATION.

(1) Substantially all variable-rate loans are based on 30-day LIBOR and reprice monthly.

(2) The loans require fixed payments of principal and interest resulting in partial principal amortization over the term of the loan with the remaining principal due at maturity. In addition, one of the loans permits additional annual prepayments of principal of up to $1.3 million without penalty at the borrower's option.

(3) Under some of these loans, the lender receives additional payments representing additional interest from participation in available cash flow from operations of the property and the proceeds, in excess of a base amount, arising from a sale or refinancing of the property.

(4) As of December 31, 1999 and 1998, the unfunded committment amount on one of the Company's construction loans, included in subordinated mortgages, was $16.2 million and $36.7 million, respectively.

NOTE 5--LOANS AND OTHER LENDING INVESTMENTS

During the years ended December 31, 1999 and 1998, respectively, the Company and its affiliated ventures originated or acquired an aggregate of approximately $663.4 million and $1.0 billion in loans and other lending investments, funded $46.4 million and $16.5 million under existing loan commitments and received principal repayments of $561.9 million and $103.9 million.

The Company has reflected additional provisions for possible credit losses of approximately $4.8 million and $2.8 million in its results of operations during the years ended December 31, 1999 and 1998. No provisions were reflected in year ended December 31, 1997 as the Company had no significant lending operations prior to the Recapitalization Transactions. There was no other activity in the Company's reserve balances during this period. These provisions represent portfolio reserves based on management's evaluation of general market conditions, the Company's and industry loss experience, likelihood of delinquencies or defaults and the underlying collateral. No direct impairment reserves on specific loans were considered necessary. Management may transfer reserves between general and specific reserves as considered necessary.

NOTE 6--REAL ESTATE SUBJECT TO OPERATING LEASES

The Company's investments in real estate subject to operating leases, at cost, were as follows:

	DECEMBER 31, 1999	DECEMBER 31, 1998
Buildings and improvements	$1,390,933	$156,663
Land and land improvements	277,872	37,566
Less accumulated depreciation	(14,627)	(4,287)
	1,654,178	189,942
Investments in unconsolidated joint ventures	60,106	--
Real estate subject to operating leases, net	$1,714,284	$189,942

The Company's net lease facilities are leased to tenants with initial term expiration dates from 2000 to 2020. Future rentals under non-cancelable operating leases, excluding tenant reimbursements of expenses in effect at December 31, 1999, are approximately as follows (in thousands):

YEAR	AMOUNT
2000	$172,527
2001	163,431
2002	146,753
2003	134,423
2004	117,044
Thereafter	622,501

Under certain leases, the Company receives additional participating rent to the extent gross revenues of the tenant exceed a base amount. The Company earned $0.5 million and $0.6 million of such additional participating rent in the years ended December 31, 1999 and 1998, respectively.

At December 31, 1999, the Company had investments in five joint ventures: (i) TriNet Sunnyvale Partners L.P. ("Sunnyvale") whose external partners are John D. O'Donnell, Trustee, John W. Hopkins,

NOTE 6--REAL ESTATE SUBJECT TO OPERATING LEASES (CONTINUED)
and Donald S. Grant; (ii) Corporate Technology Associates LLC ("CTC I") whose external member is Corporate Technology Centre Partners LLC; (iii) Sierra Land Ventures ("Sierra"), whose external joint venture partner is Sierra-LC Land, Ltd.; (iv) Corporate Technology Centre Associates II LLC ("CTC II") whose external joint venture member is Corporate Technology Centre Partners II LLC; and (v) TriNet Milpitas Associates, LLC ("Milpitas") whose external member is The Prudential Insurance Company of America, for the purpose of operating, acquiring and in certain cases, developing properties. Effective November 22, 1999, the joint venture partners, who are affiliates of Whitehall Street Real Estate Limted Partnership, IX and The Goldman Sachs Group L.P. (the "Whitehall Group") in W9/TriNet Poydras, LLC ("Poydras") elected to exercise their right under the parntership agreement, which was accelerated as a result of the TriNet acqusition, to exchange all of their membership units for 350,746 shares of Common Stock of the Company and a $767,000 distribution of available cash. As a consequence, Poydras is now wholly owned and is reflected on a consolidated basis in these financial statements.

At December 31, 1999, the ventures comprised 22 net leased facilities totaling 1.5 million square feet, four properties under development totaling 312,400 square feet and 40.4 acres of land held for sale and development. The Company's combined investment, including advances, in these joint ventures at December 31, 1999 was $84.8 million. In the aggregate, the joint ventures had total assets of $332.8 million, total liabilities of $251.9 million, and net income of $0.5 million. The Company accounts for these investments under the equity method because the Company's joint venture partners have certain participating rights which limit the Company's control. The Company's investments in and advances to unconsolidated joint ventures, its percentage ownership interests, its respective income and the Company's pro rata share of its ventures' third party debt as of December 31, 1999 are presented below (in thousands):

UNCONSOLIDATED JOINT VENTURE	OWNERSHIP %	EQUITY INVESTMENT	ACCRUED NOTES RECEIVABLE	INTEREST RECEIVABLE	TOTAL INVESTMENT	JOINT VENTURE INCOME	INTEREST INCOME	TOTAL INCOME
Operating:								
Sunnyvale............	44.7%	$13,589	$ --	$ --	$13,589	$ 203	$ --	$ 203
CTC II...............	50.0%	4,594	20,674	4,098	29,366	(198)	849	651
Milpitas.............	50.0%	20,729	--	--	20,729	449	--	449
Development:								
Sierra...............	50.0%	5,136	--	--	5,136	(111)	--	(111)
CTC I................	50.0%	15,936	--	--	15,936	29	--	29
		$59,984	$20,674	$ 4,098	$84,756	$ 372	$ 849	$ 1,221

UNCONSOLIDATED JOINT VENTURE	PRO RATA SHARE OF THIRD PARTY DEBT
Operating:	
Sunnyvale............	$ 7,447
CTC II...............	8,288
Milpitas.............	41,130
Development:	
Sierra...............	2,588
CTC I................	31,923
	$ 91,376

At December 31, 1999, the Company was the guarantor for 50% of CTC I's $63.8 million construction loan. Additionally, if the Company agrees with its joint venture partner to commence the development of phase II of the project, it will have additional commitments to fund further development costs. The amount of these additional commitments are estimated to be $11.1 million. This amount will vary depending upon the amount of senior third party financing obtained.

Currently, the limited partners of the Sunnyvale partnership have the option to convert their partnership interest into cash; however, the Company may elect to deliver 297,728 shares of Common Stock in lieu of cash. Additionally, commencing in February 2002, subject to acceleration under certain circumstances, partnership units held by certain partners of Milpitas may be converted into 984,476 shares of Common Stock.

NOTE 7--DEBT OBLIGATIONS

As of December 31, 1999, the Company has debt obligations under various arrangements with financial institutions as follows (in thousands):

	MAXIMUM AMOUNT AVAILABLE	CARRYING VALUE 1999	CARRYING VALUE 1998	STATED INTEREST RATES	SCHEDULED MATURITY DATE
SECURED REVOLVING CREDIT FACILITIES:					
Line of credit	$ 675,000	$ 592,984	$ 554,907	LIBOR + 1.50%	March 2001
Line of credit	500,000	169,952	86,038	LIBOR + 1.00 - 1.25% (1)	August 2000 (1)
Total secured revolving credit facilities	1,175,000	762,936	640,945		
UNSECURED REVOLVING CREDIT FACILITIES:					
Line of credit	350,000	186,700	--	LIBOR + 1.55%	May 2001
Total revolving credit facilities	$1,525,000	949,636	640,945		
SECURED TERM LOANS:					
Secured by real estate under operating leases		153,618	125,000	7.44%	March 2009
Secured by senior and subordinate mortgage investments		109,398	112,927	LIBOR + 1.00%	August 2000
Secured by senior mortgage investment		90,902	89,991	LIBOR + 1.00%	August 2000
Secured by real estate under operating leases		78,610	--	LIBOR + 1.38%	June 2001
Secured by real estate under operating leases		73,279	--	Fixed: 6.00% + 11.30% Variable: LIBOR + 1.00%	(3)
Secured by senior mortgage investment		54,000	--	LIBOR + 1.75% (2)	May 2000
Secured by senior mortgage investment		--	40,765	LIBOR + 1.00%	N/A
Total term loans		559,807	368,683		
Less debt discounts		(521)	--		
Total secured term loans		559,286	368,683		
UNSECURED NOTES:					
6.75% Dealer Remarketable Securities (4)		125,000	--	6.75%	March 2013
7.30% Notes		100,000	--	7.30%	March 2001
7.70% Notes		100,000	--	7.70%	July 2017
7.95% Notes		50,000	--	7.95%	May 2006
Total unsecured notes		375,000	--		
Less debt discount (5)		(21,481)	--		
Total unsecured notes		353,519	--		
OTHER DEBT OBLIGATIONS		38,763	46,091	Various	Various
TOTAL DEBT OBLIGATIONS		$1,901,204	$1,055,719		

EXPLANATORY NOTES:

(1) Subsequent to year end, the Company extended the term of its $500.0 million facility to August 2002 and increased pricing under the facility to LIBOR + 1.50% to 1.75%.

(2) Based on a 12-month LIBOR contract currently at 5.317%, repricing in May 2000.

(3) Other mortgage loans mature at various dates through 2010.

(4) Subject to mandatory tender on March 31, 2003, to either the Dealer or the Leasing Subsidiary. The initial coupon of 6.75% applies to first five-year term through the mandatory tender date. If tendered to the Dealer, the notes must be remarketed. The rates reset upon remarketing.

(5) These obligations were assumed as part of the TriNet acquisition. As part of the accounting for the purchase, these fixed rate obligations were considered to have stated interest rates which were below the then prevailing market rates at which the Leasing Subsidiary could issue new debt obligations and, accordingly, the Company ascribed a market discount to each obligation. Such discounts will be amortized as an adjustment to interest expense using the effective interest method over the related term of the obligations. As adjusted, the effective annual interest rates on these obligations were 8.81%, 8.75%, 9.51% and 9.04%, for the 6.75% Dealer Remarketable Securities, 7.30% Notes, 7.70% Notes and 7.95% Notes, respectively.

NOTE 7--DEBT OBLIGATIONS (CONTINUED)

Availability of amounts under the secured revolving credit facilities are based on percentage borrowing base calculations. Except as indicated above, all debt obligations are based on 30-day LIBOR and reprice monthly.

Certain of the Leasing Subsidiary's debt obligations contain financial covenants pertaining to the subsidiary. Such obligations also establish restrictions on certain inter-company transactions between the Leasing Subsidiary and other Company affiliates. Further, such obligations also provide for a limit on distributions from the Leasing Subsidiary at 85% of cash flow from operations on a rolling four-quarter basis.

Subsequent to year end, the Company closed a new unsecured revolving credit facility. The facility is led by a major commercial bank, which has committed $50.0 million of the facility amount and intends to upsize the facility to $100.0 million through syndication. The new facility has a two-year primary term and a one-year extension at the Company's option, and bears interest at LIBOR plus 2.00% to 2.25%, depending upon certain conditions.

In addition, subsequent to year end, the Company extended the term of its existing $500.0 million secured credit facility. The Company extended the original August 2000 maturity date to August 2002, through a one-year extension to the facility's draw period and an additional one-year "term out" period during which outstanding principal amortizes 25% per quarter. In connection with the extension, the Company and the facility lender also expanded the range of assets that the lender would accept as collateral under the facility. In exchange for the extension and expansion, the Company agreed to increase the facility's interest rate from LIBOR plus 1.25% to 1.50%, to a revised rate of LIBOR plus 1.50% to 1.75%, depending upon certain conditions.

Future maturities of outstanding long-term debt, as adjusted for the subsequent term extension of the Company's $500.0 million secured credit facility discussed above, is as follows (in thousands):

2000	$ 296,969
2001	958,294
2002	185,293
2003	125,000
2004	44,426
Thereafter	313,224
Total principal maturities	1,923,206
Net unamortized debt (discounts)/premiums	(22,002)
Total debt obligations	$ 1,901,204

NOTE 8--STOCKHOLDERS' EQUITY

Prior to November 4, 1999, the Company was authorized to issue 105.0 million shares, representing 70.0 million class A shares and 35.0 million class B shares, with a par value of $1.00 and $0.01 per share, respectively. Class B shares were required to be issued by the Company in an amount equal to one half of the number of class A shares outstanding. Class A and class B shares were each entitled to one vote per share with respect to the election of directors and other matters. Pursuant to the Declaration of Trust, the class B shares were convertible at the option of the class B shareholders into class A shares on the basis of

NOTE 8--STOCKHOLDERS' EQUITY (CONTINUED)

49 class B shares for one class A share. However, the holder of class B shares had agreed with the Company that it would not convert the class B shares into class A shares without the approval of a majority of directors that were not affiliated with such holder. All distributions of cash were made 99% to the holders of class A shares and 1% to the holders of class B shares.

On December 15, 1998, for an aggregate purchase price of $220.0 million, the Company issued 4.4 million Series A Preferred Shares and warrants to acquire 6.1 million class A shares, as adjusted for dilution, at $35.00 per share. The warrants are exercisable on or after December 15, 1999 at a price of $35.00 per share and expire on December 15, 2005. The proceeds were allocated between the two securities issued based on estimated relative fair values.

As more fully described in Note 4, the Company consummated a series of transactions on November 4, 1999, in which its class A and class B shares were exchanged into a single class of Common Stock. The Company's charter now provides for the issuance of up to 200.0 million shares of Common Stock, par value $0.001 per share, and 30.0 million shares of preferred stock. As part of these transactions, the Company adopted articles supplementary creating four series of preferred stock designated as 9.5% Series A Cumulative Redeemable Preferred Stock, consisting of 4.4 million shares, 9.375% Series B Cumulative Redeemable Preferred Stock, consisting of 2.3 million shares, 9.20% Series C Cumulative Redeemable Preferred Stock, consisting of 1.5 million shares, and 8.0% Series D Cumulative Redeemable Preferred Stock, consisting of 4.6 million shares. The Series B, C and D Cumulative Redeemable Preferred Stock were issued in the TriNet acquisition in exchange for similar issuances of TriNet stock then outstanding. The Series A, B, C and D Cumulative Redeemable Preferred Stock are redeemable without premium at the option of the Company at their respective liquidation preferences beginning on December 15, 2003, June 15, 2001, August 15, 2001 and October 8, 2002, respectively.

STOCK REPURCHASE PROGRAM: The Board of Directors approved, and the Company has implemented, a stock repurchase program under which the Company is authorized to repurchase up to 5.0 million shares of its Common Stock from time to time, primarily using proceeds from the disposition of assets and excess cash flow from operations, but also using borrowings under its credit facilities if the Company determines that it is advantageous to do so. As of December 31, 1999, the Company had repurchased approximately 2.3 million shares, at an aggregate cost of approximately $40.4 million.

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

RISK MANAGEMENT--In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan assets that results from a property's, borrower's or tenant's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of loans, securities available for sale and purchased mortgage servicing rights due to changes in interest rates or other market factors, including the rate of prepayments of principal and the value of the collateral underlying loans and the valuation of real estate held by the Company.

USE OF DERIVATIVE FINANCIAL INSTRUMENTS--The Company's use of derivative financial instruments is primarily limited to the utilization of interest rate agreements or other instruments to manage interest rate risk exposure. The principal objective of such arrangements is to minimize the risks and/or costs associated

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

with the Company's operating and financial structure as well as to hedge specific anticipated transactions. The counterparties to these contractual arrangements are major financial institutions with which the Company and its affiliates may also have other financial relationships. The Company is potentially exposed to credit loss in the event of nonperformance by these counterparties. However, because of their high credit ratings, the Company does not anticipate that any of the counterparties will fail to meet their obligations. Prior to the Recapitalization Transactions, the Company did not significantly utilize derivative financial instruments.

The Company has entered into LIBOR interest rate caps struck at 9.00%, 7.50% and 7.50% in notional amounts of $300.0 million, $40.4 million and $38.3 million, respectively, which expire in March 2001, January 2001 and June 2001, respectively. At December 31, 1999, the fair value appreciation of the Company's interest rate caps was $2.2 million.

The Company has entered into approximately $205.2 million of interest rate swaps to effectively fix the interest rate on a portion of the Company's floating-rate term loan obligations. In addition, in connection with the TriNet acquisition, the Company acquired an interest rate swap agreement which, together with certain existing interest rate cap agreements, effectively fix the interest rate on $75.0 million of the Leasing Subsidiary's LIBOR-based borrowings at 5.58% plus the applicable margin through December 1, 2004. Management expects that it will have aggregate LIBOR-based borrowings at the Leasing Subsidiary in excess of the notional amount for the duration of the swap. The actual borrowing cost to the Company with respect to indebtedness covered by the swap will depend upon the applicable margin over LIBOR for such indebtedness, which will be determined by the terms of the relevant debt instruments. At December 31, 1999, the fair value appreciation of the Company's interest rate swaps was $3.4 million.

The Company is currently pursuing or recently consummated certain anticipated long-term fixed rate borrowings and had entered into certain derivative instruments based on U.S. Treasury securities to hedge the potential effects of interest rate movements on these transactions. Under these agreements, the Company would generally receive additional cash flow at settlement if interest rates rise and pay cash if interest rates fall. The effects of such receipts or payments will be deferred and amortized over the term of the specific related fixed-rate borrowings. During the year ended December 31, 1999, the Company settled an aggregate notional amount of approximately $63.0 million that was outstanding under such agreements, resulting in a receipt of approximately $0.6 million to be amortized over the term of the anticipated borrowing.

During the year ended December 31, 1999, the Company refinanced its $125.0 million term loan maturing March 15, 1999 with a $155.4 million term loan maturing March 5, 2009. The new term loan bears interest at 7.44% per annum, payable monthly, and amortizes over an approximately 22-year schedule. The new term loan represented one of the forecasted transactions for which the Company had previously entered into U.S. Treasury-based hedging transactions. The net $3.4 million cost of the settlement of the related interest rate hedges has been deferred and will be amortized as an increase to the effective financing cost of the new term loan over its effective 10-year term.

In the event that, in the opinion of management, it is no longer probable that the remaining forecasted transaction will occur under terms substantially equivalent to those projected, the Company will cease recognizing such transactions as hedges and immediately recognize related gains or losses based on

NOTE 9--RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS (CONTINUED)

actual settlement or estimated settlement value of the underlying derivative contract. No such gains or losses have been recognized by the Company.

CREDIT RISK CONCENTRATIONS--Concentrations of credit risks arise when a number of borrowers or tenants related to the Company's investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of credit risks. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risks.

Substantially all of the Company's real estate subject to operating leases (including those held by joint ventures), loans and other lending investments are collateralized by properties located in the United States, with significant concentrations (i.e., greater than 10%) as of December 31, 1999 in California (26.4%) and Texas (11.8%). As of December 31, 1999, the Company's investments also contain significant concentrations in the following asset/collateral types: office (52%), hotel/resorts (12%), retail (8%) and industrial (8%).

The Company underwrites the credit of prospective borrowers and tenants and often requires them to provide some form of credit support such as corporate guarantees or letters of credit. Although the Company's loans and other lending investments and net lease assets are geographically diverse and the borrowers and tenants operate in a variety of industries, to the extent the Company has a significant concentration of interest or operating lease revenues from any single borrower or tenant, the inability of that borrower or tenant to make its payment could have an adverse effect on the Company. As of December 31, 1999, the Company's five largest borrowers or tenants collectively accounted for approximately 15.0% of the Company's annualized interest and operating lease revenue.

NOTE 10--INCOME TAXES

Although originally formed to qualify as a REIT under the Code for the purpose of making and acquiring various types of mortgage and other loans, during 1993 through 1997, the Company failed to qualify as a REIT. As confirmed by a closing agreement with the Internal Revenue Service (the "IRS") obtained in March 1998, the Company was eligible and elected to be taxed as a REIT for the tax years commencing on January 1, 1998. The Company did not incur any material tax liabilities as a result of its operations during such years.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and income tax purposes, as well as operating loss and tax credit carry forwards. A valuation allowance is recorded if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized. Given the limited nature of the Company's operations and assets and liabilities from 1993 through 1997, the only deferred tax assets are net operating loss carry forwards ("NOL's") of approximately $4.0 million, which arose during such periods. Since the Company has elected to be treated as a REIT for its tax years beginning January 1, 1998, the NOL's have expired unutilized. Accordingly, no net deferred tax asset value, after consideration of a 100% valuation allowance, has been reflected in these financial statements as of December 31, 1999 and 1998 nor a net tax provision for any of the fiscal years ended December 31, 1999, 1998 or 1997.

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS

The Company's 1996 Long-Term Incentive Plan (the "Plan") is designed to provide incentive compensation for officers, other key employees and directors of the Company. The Plan provides for awards of stock options and restricted stock and other performance awards. The maximum number of shares of Common Stock available for awards under the Plan is 9% of the outstanding shares of Common Stock, calculated on a fully diluted basis, from time to time; provided that, the number of shares of Common Stock reserved for grants of options designated as incentive stock options is 4.9 million, subject to certain antidilution provisions in the Plan. All awards under the Plan, other than automatic awards to non-employee directors, are at the discretion of the Board or a committee of the Board. At December 31, 1999, a total of approximately 7.7 million shares of Common Stock were available for awards under the Plan, of which options to purchase approximately 3.9 million shares of Common Stock were outstanding.

Concurrently with the Recapitalization Transactions, the Company issued approximately 2.5 million fully vested (as adjusted) and immediately exercisable options to purchase class A shares at $15.00 per share to the Advisor with a term of ten years. The Advisor granted a portion of these options to its employees and the remainder allocated to an affiliate. In general, the grants to the Advisor's employees provided for scheduled vesting over a predefined service period of three to five years and in some cases provided for accelerated vesting based on a change in control of the Advisor or completion of certain liquidity transactions. These options expire concurrently with the original option grant to the Advisor. Upon consummation of the Advisor Transaction these individuals became employees of the Company.

In connection with the TriNet acquisition, outstanding options to purchase TriNet stock under TriNet's stock option plans were converted into options to purchase shares of Common Stock on substantially the same terms, except that both the exercise price and number of shares issuable upon exercise of the TriNtet options were adjusted to give effect to the merger exchange ratio of 1.15 shares of Common Stock for each share of TriNet common stock. In addition, options held by the directors of TriNet and certain executive officers became fully vested as a result of the transaction.

The TriNet directors received a number of options of the Company to purchase Common Stock on a fully vested basis on substantially the same terms as the TriNet options, in each case giving effect to the 1.15 exchange ratio for their options.

Also, as a result of the TriNet acquisition, TriNet terminated its dividend equivalent rights program. The program called for immediate vesting and cash redemption of all dividend equivalent rights upon a change of control of 50% or more of the voting common stock. Concurrent with the TriNet acquisition, all dividend equivalent rights were vested and amounts due to former TriNet employees of approximately $8.3 million were paid by the Company. Such payments were included as part of the purchase price paid by the Company to acquire TriNet for financial reporting purposes.

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

Changes in options outstanding during each of fiscal 1997, 1998 and 1999 are as follows:

	NUMBER OF SHARES			
	EMPLOYEES	NON-EMPLOYEE DIRECTORS	OTHER	AVERAGE STRIKE PRICE
OPTIONS OUTSTANDING, DECEMBER 31, 1996.........	--	333	--	$ 8.28
Granted in 1997..............................	--	1,000	--	$15.00
Exercised in 1997............................	--	--	--	$ --
Forfeited in 1997............................	--	--	--	$ --
OPTIONS OUTSTANDING, DECEMBER 31, 1997.........	--	1,333	--	$13.32
Granted in 1998..............................	--	9,996	2,493,842	$15.06
Exercised in 1998............................	--	(687)	(18,000)	$15.00
Forfeited in 1998............................	--	(646)	--	$15.00
OPTIONS OUTSTANDING, DECEMBER 31, 1998.........	--	9,996	2,475,842	$15.07
Granted in 1999..............................	--	4,998	--	$57.50
Exercised in 1999............................	--	--	(63,233)	$15.00
Forfeited in 1999............................	--	--	(4,166)	$15.00
Assumed in TriNet acquisition................	1,311,547	167,900	--	$25.65
Reclassification for Advisor Transaction(1).............................	1,658,443	--	(1,658,443)	$15.00
Adjustment for dilution......................	31,280	283	14,146	$15.00
OPTIONS OUTSTANDING, DECEMBER 31, 1999.........	3,001,270	183,177	764,146	$19.08

EXPLANATORY NOTE:

(1) Represents the reclassification of stock options originally granted to the Advisor and regranted to its employees who became employees of the Company upon consummation of the Advisor Transaction (see Note 4).

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

The following table summarizes information concerning outstanding and exercisable options as of December 31, 1999:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICE RANGE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	CURRENTLY EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$15.00	2,453,869	8.20	$15.00	1,243,431(1)	$15.00
$21.09-$21.417	106,950	3.60	$21.15	106,950	$21.15
$22.45	149,500	9.07	$22.45	--	$ --
$23.32	167,325	4.46	$23.32	--	$ --
$23.64	168,475	4.56	$23.64	--	$ --
$24.13-$24.57	251,275	6.11	$24.37	216,488	$24.34
$24.67-$26.85	178,222	5.21	$26.25	174,772	$26.27
$27.88-$28.37	138,000	2.61	$28.33	76,763	$28.33
$29.63	10,185	8.50	$30.18	10,185	$29.63
$30.33	309,350	3.56	$30.33	94,588	$30.33
$33.15-$33.70	10,350	2.83	$33.39	7,475	$33.49
$57.50	5,092	9.65	$58.58	5,092	$57.50
	3,948,593	7.04	$19.30	1,935,744	$18.94

EXPLANATORY NOTE:

(1) Includes approximately 764,000 options which were granted, on a fully exercisable basis, in connection with the Recapitalization Transactions to Starwood Capital Group, and were subsequently regranted by that entity to its employees subject to vesting requirements. As a result of those vesting requirements less than 2,000 of these options are currently exercisable by the beneficial owners. In the event that these employees forfeit such options they revert to Starwood Capital Group, who may regrant them at its discretion.

The Company has elected to use the intrinsic method for accounting for options issued to employees or directors, as allowed under Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation" ("SFAS 123") and, accordingly, recognizes no compensation charge in connection with these options to the extent that the options exercise price equals or exceeds the quoted price of the Company's common shares at the date of grant or measurement date. In connection with the Advisor Transaction, as part of the computation of the one-time charge to earnings, the Company calculated a deferred compensation charge of approximately $5.1 million. This deferred charge represents the difference of the closing sales price of the shares of Common Stock on the date of the Advisor Transaction of $20.25 over the strike price of the options of $15.00 for the unvested portion of the options granted to former employees of the Advisor who are now employees of the Company. This deferred charge will be amortized over the related remaining vesting terms to the individual employees as additional compensation expense.

In connection with the original grant of options to the Advisor, the Company utilized the option value method as required by SFAS 123 to account for the initial grant of options to the Advisor. An independent financial advisory firm estimated the value of these options at date of grant to be approximately $2.40 per share using a Black-Scholes valuation model. In the absence of comparable historical market information

NOTE 11--STOCK OPTION PLANS AND EMPLOYEE BENEFITS (CONTINUED)

for the Company, the advisory firm utilized assumptions consistent with activity of a comparable peer group of companies including an estimated option life of five years, a 27.5% volatility rate and an estimated annual dividend rate of 8.5%. The resulting charge to earnings was calculated as the number of options allocated to the Advisor multiplied by the estimated value at consummation. A charge of approximately $6.0 million has been reflected in the Company's first quarter 1998 financial results for this original grant.

Had the Company's compensation costs been determined using the fair value method of accounting for stock options issued under the Plan to employees and directors prescribed by SFAS 123, the Company's net income and earnings per share for the fiscal year ended December 31, 1999 would have been reduced on a pro forma basis by approximately $141,000, which would not have significantly impacted earnings per share. As the Company had no employees prior to the consummation of the Advisor Transaction, no pro forma adjustment is necessary to reflect in the results of operations for fiscal 1998 and 1997 as if the option value were utilized.

For the above SFAS 123 calculation, the Company utilized the following assumptions; a 33.63% volatility rate (derived from a group of comparable companies), a risk free rate of 5.91% and an estimated annual dividend rate of 11.85%.

Future charges may be taken to the extent of additional option grants, which are at the discretion of the Board of Directors.

Effective November 4, 1999, the Company implemented a savings and retirement plan (the "401 (k) Plan"), which is a voluntary, defined contribution plan. All employees are eligible to participate in the 401 (k) Plan following completion of six months of continuous service with the Company. Each participant may contribute on a pretax basis between 2% and 15% of such participant's compensation. At the discretion of the Board of Directors, the Company may make matching contributions on the participant's behalf up to 50% of the first 10% of the participant's annual contribution. The Company made contributions of approximately $0.02 million to the 401 (k) Plan for the year ended December 31, 1999.

NOTE 12--EARNINGS PER SHARE

Prior to November 4, 1999, basic EPS was computed based on the income allocable to class A shares (net income reduced by accrued dividends on preferred shares and by 1% allocated to class B shares) divided by the weighted average number of class A shares outstanding during the period. Diluted EPS was based on the net earnings allocable to class A shares plus dividends on class B shares which were convertible into class A shares, divided by the weighted average number of class A shares and dilutive potential class A shares that were outstanding during the period. Dilutive potential class A shares included the class B shares, which were convertible into class A shares at a rate of 49 class B shares for one class A share, and potentially dilutive options to purchase class A shares issued to the Advisor and the Company's directors and warrants to acquire class A shares.

As more fully described in Note 4, in the Incorporation Merger, the class B shares were converted into shares of Common Stock on a 49-for-one basis (the same ratio at which class B shares were previously convertible into class A shares), and the class A shares were converted into shares of Common Stock on a one-for-one basis. As a result, the Company no longer has multiple classes of common shares. Basic and

NOTE 12--EARNINGS PER SHARE (CONTINUED)

diluted earnings per share are based upon the following weighted average shares outstanding during the years ended December 31, 1999, 1998 and 1997, respectively.

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(IN THOUSANDS)		
Weighted average common shares outstanding for basic earnings per common share	57,749	41,607	1,258
Add effect of assumed shares issued under treasury stock method for stock options	1,500	1,311	542
Add effects of conversion of class B shares (49-for-one)	450	445	762
Add effects of assumed warrants exercised under treasury stock method for stock options	694	97	--
Weighted average common shares outstanding for diluted earnings per common share	60,393	43,460	2,562

As previously indicated, effective June 19, 1998, the Company consummated a one-for-six reverse stock split for its shares. Historical earnings per share have been retroactively restated to reflect the reverse split for comparative purposes.

NOTE 13--COMPREHENSIVE INCOME

In June 1997, the FASB issued Statement No. 130, "Reporting Comprehensive Income" ("SFAS No. 130") effective for fiscal years beginning after December 15, 1997. The statement changes the reporting of certain items currently reported as changes in the shareholders equity section of the balance sheet and establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. SFAS No. 130 requires that all components of comprehensive income shall be reported in the financial statements in the period in which they are recognized. Furthermore, a total amount for comprehensive income shall be displayed in the financial statement where the components of other comprehensive income are reported. The Company was not previously required to present comprehensive income or its components under generally accepted accounting principles. The Company has adopted this standard effective January 1, 1998. Total comprehensive income (loss) was $38.7 million, $59.9 million and $(0.2) million for the years ended December 31, 1999, 1998 and 1997 respectively. The primary component of comprehensive income other than net income was the change in value of certain investments in marketable securities classified as available-for-sale.

NOTE 14--DIVIDENDS

In order to maintain its election to qualify as a real estate investment trust, the Company must distribute, at a minimum, an amount equal to 95% of its taxable income and must distribute 100% of its taxable income to avoid paying corporate federal income taxes. Accordingly, the Company anticipates it will distribute all of its taxable income to its shareholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses, in certain circumstances, the Company may be required to borrow to make sufficient dividend payments to meet this anticipated dividend threshold.

NOTE 14--DIVIDENDS (CONTINUED)

On November 4, 1999, the class A shares were converted into shares of Common Stock on a one-for-one basis. Total dividends declared by the Company aggregated $116.1 million, or $1.86 per common share, for the year ended December 31, 1999. On November 29, 1999, the Company declared a dividend of approximately $48.4 million, or $0.57 per common share applicable to the fourth quarter and payable to shareholders of record on December 31, 1999. For the year ended December 31, 1999, total dividends declared by the Company aggregated $59.7 million, or $1.14 per common share. The Company also declared dividends aggregating $20.9 million, $1.2 million, $0.7 million, and $2.0 million, respectively, on its Series A, B, C and D preferred stock, respectively, for the year ended December 31, 1999. The Series B, C, and D preferred stock was issued in connection with the TriNet acquisition and the amounts above represent only fourth quarter dividends. There are no dividend arrearages on any of the preferred shares currently outstanding. Further, it declared and paid dividends aggregating $0.2 million per quarter to the holders of the class B shares in connection with the March 31, June 30, and September 30 quarterly dividends to the holders of the class A shares.

In November 1999, the Company declared and paid a dividend of a total of one million shares of Common Stock pro rata to all holders of record of Common Stock as of the close of business on November 3, 1999.

The Series A preferred stock has a liquidation preference of $50.00 per share, carry an initial dividend yield of 9.50% per annum. The dividend rate on the preferred shares will increase to 9.75% on December 15, 2005, to 10.00% on December 15, 2006 and to 10.25% on December 15, 2007 and thereafter. Dividends on the Series A preferred shares are payable quarterly in arrears and are cumulative.

Holders of shares of the Series B preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.375% per annum of the $25.00 liquidation preference, equivalent to a fixed annual rate of $2.34 per share. Dividends are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each March, June, September and December or, if not a business day, the next succeeding business day. Any dividend payable on the Series B preferred stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as of the close of business on the first day of the calendar month in which the applicable dividend payment date falls or on another date designated by the Board of Directors of the Company for the payment of dividends that is not more than 30 nor less than 10 days prior to the dividend payment date.

Holders of shares of the Series C preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.20% of the $25.00 liquidation preference per year, equivalent to a fixed annual rate of $2.30 per share.

Holders of shares of the Series D preferred stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8.00% of the $25.00 liquidation preference per year, equivalent to a fixed annual rate of $2.00 per share.

The exact amount of future quarterly dividends to common shareholders will be determined by the Board of Directors based on the Company's actual and expected operations for the fiscal year and the Company's overall liquidity position.

NOTE 15--FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" ("SFAS 107"), requires the disclosure of the estimated fair values of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments. Because no quoted market prices exist for a significant part of the Company's financial instruments, the fair values of such instruments have been derived based on management's assumptions, the amount and timing of future cash flows and estimated discount rates. The estimation methods for individual classifications of financial instruments are described more fully below. Different assumptions could significantly affect these estimates. Accordingly, the net realizable values could be materially different from the estimates presented below. The provisions of SFAS 107 do not require the disclosure of the fair value of non-financial instruments, including intangible assets or the Company's real estate assets under operating leases.

In addition, the estimates are only indicative of the value of individual financial instruments and should not be considered an indication of the fair value of the Company as an operating business.

SHORT-TERM FINANCIAL INSTRUMENTS--The carrying values of short-term financial instruments including cash and cash equivalents and short-term investments approximate the fair values of these instruments. These financial instruments generally expose the Company to limited credit risk and have no stated maturities, or have an average maturity of less than 90 days and carry interest rates which approximate market.

LOANS AND OTHER LENDING INVESTMENTS--For the Company's interests in loans and other lending investments, the fair values were estimated by discounting the future contractual cash flows (excluding participation interests in the sale or refinancing proceeds of the underlying collateral) using estimated current market rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities.

MARKETABLE SECURITIES--Securities held for investment, securities available for sale, loans held for sale, trading account instruments, long-term debt and trust preferred securities traded actively in the secondary market have been valued using quoted market prices.

OTHER FINANCIAL INSTRUMENTS--The carrying value of other financial instruments including, restricted cash, accrued interest receivable, accounts payable, accrued expenses and other liabilities approximate the fair values of the instruments.

DEBT OBLIGATIONS--A substantial portion of the Company's existing debt obligations bear interest at fixed margins over LIBOR. Such margins or spreads may be higher or lower than those at which the Company could currently replace the related financing arrangements. Other obligations of the Company bear interest at fixed rates, which may differ from prevailing market interest rates. As a result, the fair values of the Company's debt obligations were estimated by discounting current debt balances from December 31, 1999 or 1998 to maturity using estimated current market rates at which the Company could enter into similar financing arrangements.

INTEREST RATE PROTECTION AGREEMENTS--The fair value of interest rate protection agreements such as interest rate caps, floors, collars and swaps used for hedging purposes (see Note 9) is the estimated amount the Company would receive or pay to terminate these agreements at the reporting date, taking into account current interest rates and current creditworthiness of the respective counterparties.

NOTE 15--FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The book and fair values of financial instruments as of December 31, 1999 and 1998 were (in thousands):

	1999		1998	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
FINANCIAL ASSETS:				
Loans and other lending investments	$2,011,006	$2,031,065	$1,826,511	$1,924,037
Marketable securities	4,344	4,344	5,406	5,406
Allowance for credit losses	(7,500)	(7,500)	(2,750)	(2,750)
FINANCIAL LIABILITIES:				
Debt obligations	1,901,204	1,885,797	1,055,719	1,039,771
Interest rate protection agreements	117	5,556	577	(17,719)

NOTE 16--SEGMENT REPORTING

Statement of Financial Accounting Standard No. 131 ("SFAS 131") establishes standards for the way the public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected financial information about operating segments in interim financial reports issued to stockholders.

The Company has two reportable segments: Real Estate Lending and Credit Tenant Leasing. The Company does not have substantial foreign operations. The accounting policies of the segments are the same as those described in Note 3. The Company has no single customer that accounts for 10% or more of revenues (see Note 9 for other information regarding concentrations of credit risk).

NOTE 16--SEGMENT REPORTING (CONTINUED)

The Company evaluates performance based on the following financial measures for each segment:

	REAL ESTATE LENDING	CREDIT TENANT LEASING (1)	CORPORATE/ OTHER (2)	COMPANY TOTAL
		(IN THOUSANDS)		
1999:				
Total revenues(3):	$ 209,848	$ 42,186	$ 12,763	$ 264,797
Total operating and interest expense(4):	70,778	36,749	118,343	225,870
Net operating income before minority interests(5):	139,070	5,437	(105,580)	38,927
Total long-lived assets(6):	2,003,506	1,714,284	N/A	3,717,790
Total assets:	N/A	N/A	3,813,552	3,813,552
1998:				
Total revenues(3):	112,914	12,378	2,804	128,096
Total operating and interest expense(4):	36,998	12,554	18,587	68,139
Net operating income before minority interests(5):	75,916	(176)	(15,783)	59,957
Total long-lived assets(6):	1,823,761	189,942	N/A	2,013,703
Total assets:	N/A	N/A	2,059,616	2,059,616
1997:				
Total revenues(3):	896	--	991	1,887
Total operating and interest expense(4):	--	--	461	461
Net operating income before minority interests(5):	896	--	530	1,426
Total long-lived assets(6):	--	--	N/A	--
Total assets:	N/A	N/A	13,441	13,441

EXPLANATORY NOTES:

(1) Includes the Company's pre-existing Credit Tenant Leasing investments acquired in the Recapitalization Transactions since March 18, 1998 and the Credit Tenant Leasing business acquired in the TriNet acquisition since November 4, 1999.

(2) Corporate and Other represents all corporate-level items, including, general and administrative expenses and any intercompany eliminations necessary to reconcile to the consolidated Company totals. This caption also includes the Company's servicing business, which is not considered a material separate segment. In addition, as more fully discussed in Note 4, Corporate and Other for the year ended December 31, 1999 includes a non-recurring charge of approximately $94.5 million relating to the Advisor Transaction.

(3) Total revenues represents all revenues earned during the period from the assets in each segment. Revenue from the Real Estate Lending Business primarily represents interest income and revenue from the Credit Tenant Leasing business primarily represents operating lease income.

(4) Total operating and interest expense represents provision for possible credit losses for the Real Estate Lending business and property operating costs (including real estate taxes) for the Credit Tenant Leasing business. Interest expense, general and administrative, advisory fees and stock option compensation expense is included in Corporate and Other for all periods. Depreciation and amortization of $10,340, $4,287 and $0 in 1999, 1998 and 1997, respectively, are included in the amounts presented above.

(5) Net operating income before minority interests represents total revenues, as defined in note (B) above, less total operating and interest expense, as defined in note (C) above, for each period.

(6) Long-lived assets is comprised of Loans and Other Lending Investments, net and Real Estate Subject to Operating Leases, net, for each respective segment.

NOTE 17--SUBSEQUENT EVENTS

On January 31, 2000, the Company closed a new unsecured revolving credit facility. The facility is led by a major commercial bank, which has committed $50.0 of the facility amount and intends to increase the facility to $100.0 million through syndication. The new facility has a two-year primary term and one-year extension at the Company's option, and bears interest at LIBOR plus 2.00% to 2.25%, depending upon certain conditions.

As more fully discussed in Note 7, on February 4, 2000, the Company extended the term, modified the interest rate and certain other provisions on its existing $500.0 million secured credit facility.

NOTE 18--QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth the selected quarterly financial data for the Company (in thousands, except for per share amounts).

	QUARTER ENDED			
	DECEMBER 31, 1999	SEPTEMBER 30, 1999	JUNE 30, 1999	MARCH 31, 1999
1999				
Revenue	$89,483	$60,635	$59,255	$55,424
Net income (loss)(1)	(50,485)	31,271	29,883	28,217
Net income (loss) allocable to common shares(2)	(58,405)	25,963	24,575	22,909
Net income (loss) per common share	$ (0.80)	$ 0.49	$ 0.46	$ 0.43
Weighted average common shares outstanding	73,427	52,471	52,471	52,447

	QUARTER ENDED			
	DECEMBER 31, 1998	SEPTEMBER 30, 1998	JUNE 30, 1998	MARCH 31, 1998
1998				
Revenue	$48,349	$42,077	$33,704	$3,966
Net income (loss)	22,954	20,935	19,889	(3,875)
Net income (loss) applicable to class A shares	21,790	20,726	19,690	(3,836)
Net income (loss) per class A share	$ 0.42	$ 0.40	$ 0.38	$(0.44)
Weighted average class A shares outstanding(3)	52,408	52,390	52,390	8,644

EXPLANATORY NOTES:

(1) As more fully discussed in Note 4, the quarter ended December 31, 1999 includes a non-recurring charge of approximately $94.5 million relating to the Advisor Transaction. Excluding such charge, net income for the quarter would have been approximately $44.0 million and net income per common share for the quarter would have been $0.49.

(2) On November 4, 1999, through the Incorporation Merger, the class B shares were effectively converted into shares of Common Stock on a 49-for-one basis and the class A shares were converted into shares of Common Stock on a one-for-one basis.

(3) As adjusted for one-for-six reverse stock split effective June 19, 1998.

STARWOOD FINANCIAL INC.

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(DOLLARS IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS: CHARGED TO COSTS AND EXPENSES	ADDITIONS: CHARGES TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
FOR THE YEAR ENDED DECEMBER 31, 1997					
None	$ --	$ --	$ --	$ --	$ --
FOR THE YEAR ENDED DECEMBER 31, 1998					
Provision for possible credit losses (1)	$ --	$2,750	$ --	$ --	$2,750
FOR THE YEAR ENDED DECEMBER 31, 1999					
Provision for possible credit losses (1)	$2,750	$4,750	$ --	$ --	$7,500

EXPLANATORY NOTE:

(1) See Note 5 to the Company's 1999 Consolidated Financial Statements.

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST LAND	INITIAL COST BUILDING AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD LAND	GROSS AMOUNT AT CLOSE OF PERIOD BUILDING AND IMPROVEMENTS	TOTAL
UNISYS CORPORATION 1--2 2476 Swedesford Road Paoli, PA	$ --	$4,678	$27,195	$ --	$4,678	$ 27,195	$31,873
UNISYS CORPORATION 3 2611 Corporate West Drive Lisle, IL	6,676	6,693	16,308	--	6,693	16,308	23,001
REX STORES CORPORATION 4 2875 Needmore Road Dayton, OH	2,174	1,083	6,127	--	1,083	6,127	7,210
THE STANDARD REGISTER COMPANY 5 4000 South Racine Avenue Chicago, IL	--	426	3,008	--	426	3,008	3,434
RALPHS GROCERY COMPANY 6 2652 East Long Beach Avenue Los Angeles, CA	--	9,347	12,518	--	9,347	12,518	21,865
UNIVERSAL TECHNICAL INSTITUTE 7 3002 North 27th Avenue Phoenix, AZ	--	1,099	2,193	--	1,099	2,193	3,292
CATERAIR INTERNATIONAL CORPORATION							
8 50 Adrian Court Burlingame, CA	--	1,207	3,435	--	1,207	3,435	4,642
9 370 Adrian Road Millbrae, CA	--	734	2,085	--	734	2,085	2,819
10 3500 N.W. 24th Street Miami, FL	--	3,017	8,589	--	3,017	8,589	11,606
11 3630 N.W. 25th Street Miami, FL	--	1,596	4,540	--	1,596	4,540	6,136
12 4101 N.W. 25th Street Miami, FL	--	1,379	3,927	--	1,379	3,927	5,306

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
UNISYS CORPORATION 1--2 2476 Swedesford Road Paoli, PA	$(96)	1999	40.0
UNISYS CORPORATION 3 2611 Corporate West Drive Lisle, IL	(70)	1999	40.0
REX STORES CORPORATION 4 2875 Needmore Road Dayton, OH	(27)	1999	40.0
THE STANDARD REGISTER COMPANY 5 4000 South Racine Avenue Chicago, IL	(12)	1999	40.0
RALPHS GROCERY COMPANY 6 2652 East Long Beach Avenue Los Angeles, CA	(53)	1999	40.0
UNIVERSAL TECHNICAL INSTITUTE 7 3002 North 27th Avenue Phoenix, AZ	(12)	1999	40.0
CATERAIR INTERNATIONAL CORPORATION 8 50 Adrian Court Burlingame, CA	(15)	1999	40.0
9 370 Adrian Road Millbrae, CA	(8)	1999	40.0
10 3500 N.W. 24th Street Miami, FL	(37)	1999	40.0
11 3630 N.W. 25th Street Miami, FL	(19)	1999	40.0
12 4101 N.W. 25th Street Miami, FL	(17)	1999	40.0

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST LAND	INITIAL COST BUILDING AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD LAND	GROSS AMOUNT AT CLOSE OF PERIOD BUILDING AND IMPROVEMENTS	TOTAL
13 221 West 79th Street Bloomington, MN	--	399	1,135	--	399	1,135	1,534
14 1085 Bible Way Reno, NV	--	246	699	--	246	699	945
15 18850 28th Avenue, South Seattle, WA	--	820	2,331	--	820	2,331	3,151
16 2800 Collingswood Drive Orlando, FL	--	1,461	4,156	--	1,461	4,156	5,617
17 45-10 19th Avenue Astoria, NY	--	1,778	5,057	--	1,778	5,057	6,835
18 24-20 49th Street Astoria, NY	--	888	2,529	--	888	2,529	3,417
19 8401 Escort Street Philadelphia, PA	--	613	1,747	--	613	1,747	2,360
SEARS LOGISTICS SERVICES							
20 4150 Lockbourne Industrial Parkway Columbus, OH	2,748	390	7,478	--	390	7,478	7,868
NORTHERN STATES POWER COMPANY							
21 3115 Centre Point Drive Roseville, MN	1,385	1,102	4,407	--	1,102	4,407	5,509
PNC MORTGAGE CORPORATION OF AMERICA, INC							
22 440 North Fairway Drive Vernon Hills, IL	--	1,386	12,470	--	1,386	12,470	13,856
VOLKSWAGEN OF AMERICA, INC							
23 450 Barclay Boulevard Lincolnshire, IL	2,596	3,160	7,432	--	3,160	7,432	10,592
24 500 South Seventh Avenue City of Industry, CA	3,330	4,952	11,647	--	4,952	11,647	16,599
25 11650 Central Parkway Jacksonville, FL	1,864	2,287	5,380	--	2,287	5,380	7,667

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
13 221 West 79th Street Bloomington, MN	(5)	1999	40.0
14 1085 Bible Way Reno, NV	(3)	1999	40.0
15 18850 28th Avenue, South Seattle, WA	(10)	1999	40.0
16 2800 Collingswood Drive Orlando, FL	(18)	1999	40.0
17 45-10 19th Avenue Astoria, NY	(22)	1999	40.0
18 24-20 49th Street Astoria, NY	(11)	1999	40.0
19 8401 Escort Street Philadelphia, PA	(7)	1999	40.0
SEARS LOGISTICS SERVICES			
20 4150 Lockbourne Industrial Parkway Columbus, OH	(34)	1999	40.0
NORTHERN STATES POWER COMPANY			
21 3115 Centre Point Drive Roseville, MN	(19)	1999	40.0
PNC MORTGAGE CORPORATION OF AMERICA, INC			
22 440 North Fairway Drive Vernon Hills, IL	(53)	1999	40.0
VOLKSWAGEN OF AMERICA, INC			
23 450 Barclay Boulevard Lincolnshire, IL	(32)	1999	40.0
24 500 South Seventh Avenue City of Industry, CA	(43)	1999	40.0
25 11650 Central Parkway Jacksonville, FL	(23)	1999	40.0

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST LAND	INITIAL COST BUILDING AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD LAND	GROSS AMOUNT AT CLOSE OF PERIOD BUILDING AND IMPROVEMENTS	TOTAL
LOCKHEED MARTIN AEROSPACE CORPORATION 26 1260 Crossman Avenue Sunnyvale, CA	2,687	1,827	11,368	12	1,827	11,380	13,207
LAND O LAKES 27 1275 Red Fox Road Arden Hills, MN	1,791	711	6,475	--	711	6,475	7,186
MICROSOFT CORPORATION 28 1321 Greenway Irving, TX	1,435	2,258	7,276	52	2,258	7,328	9,586
UNIVERSAL CARD SERVICES 29 7595 Oak Grove Plaza Jacksonville, FL	2,346	1,370	3,872	--	1,370	3,872	5,242
VACANT 30 7585 Oak Grove Plaza Jacksonville, FL	1,214	868	2,215	39	868	2,254	3,122
UNISON INDUSTRIES, L.P. 31 7575 Oak Grove Plaza Jacksonville, FL	3,985	2,342	6,011	--	2,342	6,011	8,353
GOODMAN MANUFACTURING 32 100 Donwick Drive Conroe, TX	--	1,231	4,059	49	1,231	4,108	5,339
NIKE, INC 33 8400 Winchester Road Memphis, TN	6,113	1,471	23,045	--	1,471	23,045	24,516
CIRRUS LOGIC, INC 34 46702 Bayside Parkway Fremont, CA	1,203	647	4,545	--	647	4,545	5,192
35 46831 Lakeview Blvd Fremont, CA	--	1,075	7,884	--	1,075	7,884	8,959
CERTIFIED GROCERS OF CALIFORNIA, LTD 36 5200 Sheila Street Commerce, CA	2,879	3,447	12,889	--	3,447	12,889	16,336

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
LOCKHEED MARTIN AEROSPACE CORPORATION 26 1260 Crossman Avenue Sunnyvale, CA	(39)	1999	40.0
LAND O LAKES 27 1275 Red Fox Road Arden Hills, MN	(27)	1999	40.0
MICROSOFT CORPORATION 28 1321 Greenway Irving, TX	(27)	1999	40.0
UNIVERSAL CARD SERVICES 29 7595 Oak Grove Plaza Jacksonville, FL	(14)	1999	40.0
VACANT 30 7585 Oak Grove Plaza Jacksonville, FL	(8)	1999	40.0
UNISON INDUSTRIES, L.P. 31 7575 Oak Grove Plaza Jacksonville, FL	(33)	1999	40.0
GOODMAN MANUFACTURING 32 100 Donwick Drive Conroe, TX	(15)	1999	40.0
NIKE, INC 33 8400 Winchester Road Memphis, TN	(98)	1999	40.0
CIRRUS LOGIC, INC 34 46702 Bayside Parkway Fremont, CA	(18)	1999	40.0
35 46831 Lakeview Blvd Fremont, CA	(31)	1999	40.0
CERTIFIED GROCERS OF CALIFORNIA, LTD 36 5200 Sheila Street Commerce, CA	(55)	1999	40.0

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST LAND	INITIAL COST BUILDING AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD LAND	GROSS AMOUNT AT CLOSE OF PERIOD BUILDING AND IMPROVEMENTS	TOTAL
FIRST HEALTH STRATEGIES, INC 37-40 Decker Lake Lane Center Salt Lake City, UT	--	1,179	12,862	--	1,179	12,862	14,041
TRW, INC 41 3701 Doolittle Drive Redondo Beach, CA	--	2,572	9,119	--	2,572	9,119	11,691
DUNHAM'S ATHLEISURE CORPORATION 42 2201 E. Loew Road Marion, IN	--	142	4,598	--	142	4,598	4,740
NEWCOURT FINANCIAL USA INC 43 Gatehall Corporate Center II Parsippany, NJ	--	4,131	42,146	--	4,131	42,146	46,277
ACOSTA SALES & MARKETING CO 44 6300 Dumbarton Circle Fremont, CA	--	871	4,798	--	871	4,798	5,669
CASE SWAYNE CO INC 45 5015 South Water Circle Wichita, KS	--	222	3,316	--	222	3,316	3,538
TECH DATA CORPORATION 46 3900 William Richardson Drive South Bend, IN	--	189	6,242	--	189	6,242	6,431
PRIMERICA LIFE INSURANCE COMPANY 47 3120 Breckinridge Boulevard Duluth, GA	--	1,638	14,339	38	1,638	14,377	16,015
ARROW ELECTRONICS, INC 48 Capstone Building Aurora, CO	--	449	3,029	--	449	3,029	3,478
KOCH MEMBRANE SYSTEMS 49 10054 Old Grove Road San Diego, CA	--	1,514	3,030	--	1,514	3,030	4,544

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
FIRST HEALTH STRATEGIES, INC 37-40 Decker Lake Lane Center Salt Lake City, UT	(55)	1999	40.0
TRW, INC 41 3701 Doolittle Drive Redondo Beach, CA	(38)	1999	40.0
DUNHAM'S ATHLEISURE CORPORATION 42 2201 E. Loew Road Marion, IN	(22)	1999	40.0
NEWCOURT FINANCIAL USA INC 43 Gatehall Corporate Center II Parsippany, NJ	(179)	1999	40.0
ACOSTA SALES & MARKETING CO 44 6300 Dumbarton Circle Fremont, CA	(20)	1999	40.0
CASE SWAYNE CO INC 45 5015 South Water Circle Wichita, KS	(16)	1999	40.0
TECH DATA CORPORATION 46 3900 William Richardson Drive South Bend, IN	(27)	1999	40.0
PRIMERICA LIFE INSURANCE COMPANY 47 3120 Breckinridge Boulevard Duluth, GA	(61)	1999	40.0
ARROW ELECTRONICS, INC 48 Capstone Building Aurora, CO	(13)	1999	40.0
KOCH MEMBRANE SYSTEMS 49 10054 Old Grove Road San Diego, CA	(12)	1999	40.0

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST LAND	INITIAL COST BUILDING AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD LAND	GROSS AMOUNT AT CLOSE OF PERIOD BUILDING AND IMPROVEMENTS	TOTAL
NISSAN MOTOR ACCEPTANCE CORPORATION 50 2901 Kinwest Parkway Irving, TX	--	1,350	10,521	--	1,350	10,521	11,871
LEVER BROTHERS COMPANY 51 3501 E. Terra Drive O'Fallon, MO	--	1,374	12,573	--	1,374	12,573	13,947
FEDERAL EXPRESS CORPORATION 52-54 NonConnah Corporate Center Memphis, TN	--	3,197	29,727	--	3,197	29,727	32,924
VACANT 55 500 Airline Drive Coppell, TX	--	1,647	12,345	10	1,647	12,355	14,002
FRESENIUS USA, INC 56 2637 Shadelands Drive Walnut Creek, CA	--	742	7,624	--	742	7,624	8,366
TERADYNE, INC 57 2625 Shadelands Drive Walnut Creek, CA	--	488	5,021	--	488	5,021	5,509
LAM RESEARCH CORPORATION 58 1210 California Circle Milpitas, CA	--	4,053	8,240	--	4,053	8,240	12,293
BLUE CROSS & BLUE SHIELD UNITED OF WISCONSIN 59 401 West Michigan Street Milwaukee, WI	--	2,357	17,486	--	2,357	17,486	19,843
NORTHERN TELECOM INC 60 2021 Lakeside Boulevard Richardson, TX	--	1,217	5,604	--	1,217	5,604	6,821
adidas AMERICA, INC 61 5675 North Blackstock Road Spartanburg, SC	--	934	16,667	--	934	16,667	17,601

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
NISSAN MOTOR ACCEPTANCE CORPORATION 50 2901 Kinwest Parkway Irving, TX	(52)	1999	40.0
LEVER BROTHERS COMPANY 51 3501 E. Terra Drive O'Fallon, MO	(55)	1999	40.0
FEDERAL EXPRESS CORPORATION 52-54 NonConnah Corporate Center Memphis, TN	(115)	1999	40.0
VACANT 55 500 Airline Drive Coppell, TX	(62)	1999	40.0
FRESENIUS USA, INC 56 2637 Shadelands Drive Walnut Creek, CA	(29)	1999	40.0
TERADYNE, INC 57 2625 Shadelands Drive Walnut Creek, CA	(19)	1999	40.0
LAM RESEARCH CORPORATION 58 1210 California Circle Milpitas, CA	(35)	1999	40.0
BLUE CROSS & BLUE SHIELD UNITED OF WISCONSIN 59 401 West Michigan Street Milwaukee, WI	(69)	1999	40.0
NORTHERN TELECOM INC 60 2021 Lakeside Boulevard Richardson, TX	(23)	1999	40.0
adidas AMERICA, INC 61 5675 North Blackstock Road Spartanburg, SC	(71)	1999	40.0

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST LAND	INITIAL COST BUILDING AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD LAND	GROSS AMOUNT AT CLOSE OF PERIOD BUILDING AND IMPROVEMENTS	TOTAL
FRONTIER CORPORATION 62 12110 North Pecos Street Westminster, CO	--	304	3,489	--	304	3,489	3,793
RATIONAL SOFTWARE 63 18880 Homestead Road Cupertino, CA	--	7,614	18,132	--	7,614	18,132	25,746
GALILEO INTERNATIONAL PARTNERSHIP 64 6901 S. Havana Street Englewood, CO	--	2,937	14,858	--	2,937	14,858	17,795
LUCENT TECHNOLOGIES, INC 65 6162 S. Willow Drive Englewood, CO	--	1,756	16,919	6	1,756	16,925	18,681
IBM CORPORATION--DALLAS 66 13800 Diplomat Drive Farmers Branch, TX	--	1,301	8,814	--	1,301	8,814	10,115
RIVEREDGE SUMMIT 67 1500-1600 RiverEdge Parkway Atlanta, GA	--	5,652	48,598	15	5,652	48,613	54,265
NORTHERN TELECOM INC 68 Cardinal Commerce Center Richardson, TX	--	850	8,470	--	850	8,470	9,320
CANYON CORPORATE CENTER 69 5515 East La Palma Avenue Anaheim, CA	--	3,476	13,245	45	3,476	13,290	16,766
70 5601 East La Palma Avenue Anaheim, CA	--	2,205	8,434	--	2,205	8,434	10,639
71 5605 East La Palma Avenue Anaheim, CA	--	653	2,463	--	653	2,463	3,116

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
FRONTIER CORPORATION 62 12110 North Pecos Street Westminster, CO	(15)	1999	40.0
RATIONAL SOFTWARE 63 18880 Homestead Road Cupertino, CA	(71)	1999	40.0
GALILEO INTERNATIONAL PARTNERSHIP 64 6901 S. Havana Street Englewood, CO	(62)	1999	40.0
LUCENT TECHNOLOGIES, INC 65 6162 S. Willow Drive Englewood, CO	(72)	1999	40.0
IBM CORPORATION--DALLAS 66 13800 Diplomat Drive Farmers Branch, TX	(37)	1999	40.0
RIVEREDGE SUMMIT 67 1500-1600 RiverEdge Parkway Atlanta, GA	(215)	1999	40.0
NORTHERN TELECOM INC 68 Cardinal Commerce Center Richardson, TX	(36)	1999	40.0
CANYON CORPORATE CENTER 69 5515 East La Palma Avenue Anaheim, CA	(56)	1999	40.0
70 5601 East La Palma Avenue Anaheim, CA	(36)	1999	40.0
71 5605 East La Palma Avenue Anaheim, CA	(11)	1999	40.0

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST LAND	INITIAL COST BUILDING AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD LAND	GROSS AMOUNT AT CLOSE OF PERIOD BUILDING AND IMPROVEMENTS	TOTAL
RIVERPARK							
72 200 Riverpark Drive North Reading, MA	--	548	5,595	--	548	5,595	6,143
73 300 Riverpark Drive North Reading, MA	--	1,689	17,224	--	1,689	17,224	18,913
74 400 Riverpark Drive North Reading, MA	--	1,701	17,346	--	1,701	17,346	19,047
SUNBELT BEVERAGE CORP							
75 7621 Energy Parkway Baltimore, MD	--	1,520	9,230	10	1,520	9,240	10,760
FRONTIER CORPORATION							
76 1499 West 121st. Street Westminister, CO	--	610	7,217	--	610	7,217	7,827
CHARLESTON PLACE							
77 1545 Charleston Road	--	5,594	12,274	--	5,594	12,274	17,868
Mountain View, CA							
78-79 1565-1585 Charleston Road	--	12,374	27,147	--	12,374	27,147	39,521
BAY STATE GAS							
80 300 Friberg Parkway Westborough, MA	--	1,634	10,650	--	1,634	10,650	12,284

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
RIVERPARK			
72 200 Riverpark Drive North Reading, MA	(22)	1999	40.0
73 300 Riverpark Drive North Reading, MA	(64)	1999	40.0
74 400 Riverpark Drive North Reading, MA	(65)	1999	40.0
SUNBELT BEVERAGE CORP			
75 7621 Energy Parkway Baltimore, MD	(37)	1999	40.0
FRONTIER CORPORATION			
76 1499 West 121st. Street Westminister, CO	(30)	1999	40.0
CHARLESTON PLACE			
77 1545 Charleston Road	(50)	1999	40.0
Mountain View, CA			
78-79 1565-1585 Charleston Road	(111)	1999	40.0
BAY STATE GAS			
80 300 Friberg Parkway Westborough, MA	(45)	1999	40.0

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST LAND	INITIAL COST BUILDING AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD LAND	GROSS AMOUNT AT CLOSE OF PERIOD BUILDING AND IMPROVEMENTS	TOTAL
WARNER CROSSING							
81 1120 West Warner Road Tempe, AZ	--	694	4,295	--	694	4,295	4,989
82 1130 West Warner Road Tempe, AZ	--	1,023	6,585	--	1,023	6,585	7,608
83 1140 West Warner Road Tempe, AZ	--	1,023	6,585	--	1,023	6,585	7,608
84 8440 South Hardy Drive Tempe, AZ	--	1,023	6,585	--	1,023	6,585	7,608
85 8320 South Hardy Drive Tempe, AZ	--	1,497	9,634	--	1,497	9,634	11,131
GATEWAY LAKES							
86 1551 102nd Avenue St. Petersburg, FL	--	715	3,030	--	715	3,030	3,745
87 1527 102nd Avenue St. Petersburg, FL	--	627	2,659	--	627	2,659	3,286
EDENVALE BUSINESS PARK							
88 5853-5863 Rue Ferrari Drive San Jose, CA	--	9,579	23,054	--	9,579	23,054	32,633
PINACOR, INC							
89 105 West Bethany Drive Allen, TX	--	1,225	9,131	--	1,225	9,131	10,356
COMPUTER SCIENCES CORP							
90 7700-7720 Hubble Drive Lanham, MD	--	2,461	11,926	20	2,461	11,946	14,407

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
WARNER CROSSING			
81 1120 West Warner Road Tempe, AZ	(18)	1999	40.0
82 1130 West Warner Road Tempe, AZ	(28)	1999	40.0
83 1140 West Warner Road Tempe, AZ	(29)	1999	40.0
84 8440 South Hardy Drive Tempe, AZ	(29)	1999	40.0
85 8320 South Hardy Drive Tempe, AZ	(41)	1999	40.0
GATEWAY LAKES			
86 1551 102nd Avenue St. Petersburg, FL	(11)	1999	40.0
87 1527 102nd Avenue St. Petersburg, FL	(12)	1999	40.0
EDENVALE BUSINESS PARK			
88 5853-5863 Rue Ferrari Drive San Jose, CA	(94)	1999	40.0
PINACOR, INC			
89 105 West Bethany Drive Allen, TX	(38)	1999	40.0
COMPUTER SCIENCES CORP			
90 7700-7720 Hubble Drive Lanham, MD	(51)	1999	40.0

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST LAND	INITIAL COST BUILDING AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD LAND	GROSS AMOUNT AT CLOSE OF PERIOD BUILDING AND IMPROVEMENTS	TOTAL
POLYCOM, INC 91 1565 Barber Lane Milpitas, CA	--	4,831	12,243	--	4,831	12,243	17,074
ALLIANCE DATA SYSTEMS 92 17201 Waterview Parkway Dallas, TX	--	1,899	4,586	--	1,899	4,586	6,485
HEWLETT PACKARD 93 3000 Waterview Parkway Richardson, TX	--	2,903	30,921	--	2,903	30,921	33,824
MULTILINK 94 Six Riverside Drive Andover, MA	--	637	7,150	--	637	7,150	7,787
WELLPOINT HEALTH NETWORK, INC 95-96 2000 Corporate Center Drive Newbury Park, CA	--	4,518	24,660	--	4,518	24,660	29,178
TRINET PROPERTY PARTNERS, L.P. 97 1022 Hingham Street Rockland, MA	--	1,990	11,643	--	1,990	11,643	13,633
98 65 Dan Road Canton, MA	--	907	3,856	--	907	3,856	4,763
99 One Longwater Circle Norwell, MA	--	1,128	1,641	--	1,128	1,641	2,769
100 100 Longwater Circle Norwell, MA	3,910	964	3,766	--	964	3,766	4,730
101 101 Philip Drive Norwell, MA	2,356	501	2,254	--	501	2,254	2,755
102 30 Dan Road Canton, MA	--	1,395	3,851	--	1,395	3,851	5,246
103 85 Dan Road Canton, MA	--	1,066	2,718	55	1,066	2,773	3,839

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
POLYCOM, INC 91 1565 Barber Lane Milpitas, CA	(52)	1999	40.0
ALLIANCE DATA SYSTEMS 92 17201 Waterview Parkway Dallas, TX	(19)	1999	40.0
HEWLETT PACKARD 93 3000 Waterview Parkway Richardson, TX	(129)	1999	40.0
MULTILINK 94 Six Riverside Drive Andover, MA	(30)	1999	40.0
WELLPOINT HEALTH NETWORK, INC 95-96 2000 Corporate Center Drive Newbury Park, CA	(94)	1999	40.0
TRINET PROPERTY PARTNERS, L.P. 97 1022 Hingham Street Rockland, MA	(48)	1999	40.0
98 65 Dan Road Canton, MA	(16)	1999	40.0
99 One Longwater Circle Norwell, MA	(7)	1999	40.0
100 100 Longwater Circle Norwell, MA	(16)	1999	40.0
101 101 Philip Drive Norwell, MA	(10)	1999	40.0
102 30 Dan Road Canton, MA	(16)	1999	40.0
103 85 Dan Road Canton, MA	(11)	1999	40.0

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

DESCRIPTION	ENCUMBRANCES	INITIAL COST LAND	INITIAL COST BUILDING AND IMPROVEMENTS	COSTS CAPITALIZED SUBSEQUENT TO ACQUISITION	GROSS AMOUNT AT CLOSE OF PERIOD LAND	GROSS AMOUNT AT CLOSE OF PERIOD BUILDING AND IMPROVEMENTS	TOTAL
104 300 Foxborough Boulevard Foxborough, MA	3,285	1,206	3,719	--	1,206	3,719	4,925
105 105 Forbes Boulevard Mansfield, MA	1,071	578	1,428	--	578	1,428	2,006
106 60 Columbian Street Braintree, MA	--	2,203	7,328	--	2,203	7,328	9,531
107 76 Pacella Park Drive Randolph, MA	2,893	609	3,436	--	609	3,436	4,045
108 260 Kenneth W. Welch Drive Lakeville, MA	--	1,002	4,007	--	1,002	4,007	5,009
109 700 Longwater Drive Norwell, MA	--	1,344	5,374	--	1,344	5,374	6,718
110 3000 Longwater Drive Norwell, MA	2,061	1,144	1,634	--	1,144	1,634	2,778
ICG HOLDINGS, INC							
111 161 Inverness Drive West Englewood, CO	--	11,456	36,657	--	11,456	36,657	48,113
CONCORD FARMS							
112 Three Concord Farms Concord, MA	--	1,405	7,461	91	1,405	7,552	8,957
113 Four Concord Farms Concord, MA	--	1,297	7,590	39	1,297	7,629	8,926
114 Five Concord Farms Concord, MA	--	1,014	4,323	48	1,014	4,371	5,385
115 Six Concord Farms Concord, MA	--	1,292	7,387	39	1,292	7,426	8,718
Two Concord Farms Concord, MA	--	1,640	--	--	1,640	--	1,640
Seven Concord Farms Concord, MA	--	1,254	--	--	1,254	--	1,254

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
104 300 Foxborough Boulevard Foxborough, MA	(16)	1999	40.0
105 105 Forbes Boulevard Mansfield, MA	(6)	1999	40.0
106 60 Columbian Street Braintree, MA	(31)	1999	40.0
107 76 Pacella Park Drive Randolph, MA	(16)	1999	40.0
108 260 Kenneth W. Welch Drive Lakeville, MA	(16)	1999	40.0
109 700 Longwater Drive Norwell, MA	(21)	1999	40.0
110 3000 Longwater Drive Norwell, MA	(8)	1999	40.0
ICG HOLDINGS, INC			
111 161 Inverness Drive West Englewood, CO	(156)	1999	40.0
CONCORD FARMS			
112 Three Concord Farms Concord, MA	(32)	1999	40.0
113 Four Concord Farms Concord, MA	(31)	1999	40.0
114 Five Concord Farms Concord, MA	(19)	1999	40.0
115 Six Concord Farms Concord, MA	(30)	1999	40.0
Two Concord Farms Concord, MA	--	1999	n/a
Seven Concord Farms Concord, MA	--	1999	n/a

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

		INITIAL COST		COSTS CAPITALIZED	GROSS AMOUNT AT CLOSE OF PERIOD		
DESCRIPTION	ENCUMBRANCES	LAND	BUILDING AND IMPROVEMENTS	SUBSEQUENT TO ACQUISITION	LAND	BUILDING AND IMPROVEMENTS	TOTAL
ARBELLA CAPITAL CORP 116 1100 Crown Colony Drive Quincy, MA	13,280	3,275	21,537	--	3,275	21,537	24,812
MAST INDUSTRIES 117 100 Old River Road Andover, MA	--	1,769	8,401	--	1,769	8,401	10,170
HAEMONETICS CORP 118 355 Wood Road Braintree, MA	--	784	4,880	--	784	4,880	5,664
NOKIA 119 6000 Connection Drive Irving, TX	--	6,022	41,594	--	6,022	41,594	47,616
ANDERSEN CONSULTING 120 1661 Page Mill Road Palo Alto, CA	--	--	18,975	--	--	18,975	18,975
WINDWARD FOREST 121 960 Northpoint Parkway Alpharetta, GA	--	896	6,676	--	896	6,676	7,572
THE MITRE CORPORATION 122 11493 Sunset Hills Road Fairfax, VA	--	4,391	22,137	--	4,391	22,137	26,528
GTE COMMUNICATIONS CORP 123 Sierra I at Los Colinas Irving, TX	--	3,329	21,162	--	3,329	21,162	24,491
POYDRAS PLAZA 124 Entergy Building New Orleans, LA	78,610	2,064	35,092	2	2,064	35,094	37,158
125 Mobil Building New Orleans, LA	--	2,408	24,095	--	2,408	24,095	26,503
126 Parking Garage New Orleans, LA	--	6,134	9,350	5	6,134	9,355	15,489

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
ARBELLA CAPITAL CORP 116 1100 Crown Colony Drive Quincy, MA	(92)	1999	40.0
MAST INDUSTRIES 117 100 Old River Road Andover, MA	(38)	1999	40.0
HAEMONETICS CORP 118 355 Wood Road Braintree, MA	(21)	1999	40.0
NOKIA 119 6000 Connection Drive Irving, TX	(177)	1999	40.0
ANDERSEN CONSULTING 120 1661 Page Mill Road Palo Alto, CA	(74)	1999	40.0
WINDWARD FOREST 121 960 Northpoint Parkway Alpharetta, GA	(29)	1999	40.0
THE MITRE CORPORATION 122 11493 Sunset Hills Road Fairfax, VA	(90)	1999	40.0
GTE COMMUNICATIONS CORP 123 Sierra I at Los Colinas Irving, TX	(88)	1999	40.0
POYDRAS PLAZA 124 Entergy Building New Orleans, LA	(151)	1999	40.0
125 Mobil Building New Orleans, LA	(105)	1999	40.0
126 Parking Garage New Orleans, LA	(41)	1999	40.0

STARWOOD FINANCIAL INC.
SCHEDULE III--REAL ESTATE AND ACCUMULATED DEPRECIATION
AS OF DECEMBER 31, 1999
(DOLLARS IN THOUSANDS)

		INITIAL COST		COSTS CAPITALIZED	GROSS AMOUNT AT CLOSE OF PERIOD		
DESCRIPTION	ENCUMBRANCES	LAND	BUILDING AND IMPROVEMENTS	SUBSEQUENT TO ACQUISITION	LAND	BUILDING AND IMPROVEMENTS	TOTAL
HILTON HOTELS CORPORATION (1)(2)	153,618	5,101	32,080	--	5,101	32,080	37,181
127 18740 Pacific Highway South Seattle, WA							
255 Southwest Temple Salt Lake City, UT	--	5,620	32,695	--	5,620	32,695	38,315
1401 Arden Way Sacramento, CA	--	1,281	9,809	--	1,281	9,809	11,090
7450 Hazard Center Drive San Diego, CA	--	4,394	27,030	--	4,394	27,030	31,424
One Doubletree Drive Sonoma, CA	--	3,308	20,390	--	3,308	20,390	23,698
200 North Riverside Medford, OR	--	609	4,668	--	609	4,668	5,277
1800 Fairview Ave. Boise, ID	--	968	6,405	--	968	6,405	7,373
304 Southeast Nye Avenue Pendleton, OR	--	556	4,245	--	556	4,245	4,801
510 Kelso Drive Kelso, WA	--	502	3,779	--	502	3,779	4,281
100 Columbia Street Vancouver, WA	--	507	3,981	--	507	3,981	4,488
501 Camino Del Rio Durango, CO	--	1,242	7,865	--	1,242	7,865	9,107
1225 North Wenatchee Avenue Wenatchee, WA	--	513	3,825	--	513	3,825	4,338
1313 North Bayshore Drive Coos Bay, OR	--	404	3,049	--	404	3,049	3,453
205 Coburg Road Eugene, OR	--	361	2,721	--	361	2,721	3,082
499 Industrial Street Astoria, OR	--	269	2,043	--	269	2,043	2,312
700 West Broadway Street Missoula, MT	--	210	1,607	--	210	1,607	1,817
1415 Northeast Third Street Bend, OR	--	233	1,726	--	233	1,726	1,959
Total real estate subject to operating leases	$305,510	$277,872	$1,390,358	$ 575	$277,872	$ 1,390,933	$1,668,805

DESCRIPTION	ACCUMULATED DEPRECIATION	DATE ACQUIRED	DEPRECIABLE LIFE (YEARS)
HILTON HOTELS CORPORATION (1)(2)	(1,630)	1998	39.0
127 18740 Pacific Highway South Seattle, WA			
255 Southwest Temple Salt Lake City, UT	(1,698)	1998	39.0
1401 Arden Way Sacramento, CA	(665)	1998	39.0
7450 Hazard Center Drive San Diego, CA	(1,503)	1998	39.0
One Doubletree Drive Sonoma, CA	(906)	1998	39.0
200 North Riverside Medford, OR	(320)	1998	39.0
1800 Fairview Ave. Boise, ID	(399)	1998	39.0
304 Southeast Nye Avenue Pendleton, OR	(314)	1998	39.0
510 Kelso Drive Kelso, WA	(280)	1998	39.0
100 Columbia Street Vancouver, WA	(302)	1998	39.0
501 Camino Del Rio Durango, CO	(443)	1998	39.0
1225 North Wenatchee Avenue Wenatchee, WA	(272)	1998	39.0
1313 North Bayshore Drive Coos Bay, OR	(209)	1998	39.0
205 Coburg Road Eugene, OR	(200)	1998	39.0
499 Industrial Street Astoria, OR	(135)	1998	39.0
700 West Broadway Street	(122)	1998	39.0

Missoula, MT			
1415 Northeast Third Street Bend, OR	(123)	1998	39.0
Total real estate subject to operating leases	$(14,627)		

STARWOOD FINANCIAL INC.

NOTES TO SCHEDULE III

DECEMBER 31, 1999

(DOLLARS IN THOUSANDS)

1. RECONCILIATION OF REAL ESTATE:

The following table reconciles Real Estate from January 1, 1997 to December 31, 1999:

	1999	1998	1997
Balance at January 1	$ 194,229	$ --	$ --
Additions (see Note 4 to the Consolidated Financial Statements)	1,474,576	194,229	--
Dispositions	--	--	--
Balance at December 31	$1,668,805	$194,229	$ --

2. RECONCILIATION OF ACCUMULATED DEPRECIATION:

The following table reconciles Accumulated Depreciation from January 1, 1997 to December 31, 1999:

	1999	1998	1997
Balance at January 1	$ (4,287)	$ --	$ --
Additions	(10,340)	(4,287)	--
Dispositions	--	--	--
Balance at December 31	$(14,627)	$(4,287)	$ --

STARWOOD FINANCIAL INC.

SCHEDULE IV--MORTGAGE LOANS ON REAL ESTATE

AS OF DECEMBER 31, 1999

(DOLLARS IN THOUSANDS)

TYPE OF LOAN/BORROWER	DESCRIPTION/LOCATION	INTEREST ACCRUAL RATES	INTEREST PAYMENT RATES	FINAL MATURITY DATE
Senior Mortgages				
Borrower A......................	Retail, Chicago, IL	8.88%	8.88%	1/1/04
Borrower B(1)...................	Office, San Diego, CA	LIBOR + 1.50%	LIBOR + 1.50%	12/31/04
Borrower C(1)...................	Office, Dallas, TX	LIBOR + 1.75%	LIBOR + 1.75%	9/8/01
Borrower D......................	Office, Dallas, TX	LIBOR + 1.75%	LIBOR + 1.75%	8/24/04
Borrower E(1)...................	Retail, Concorde, CA	7.75%	7.75%	9/1/09
Borrower F......................	Office/Residential, San Diego and San Francisco, CA	LIBOR + 3.25%	LIBOR + 3.25%	12/31/02
Borrower G(1)...................	Hotel/Residential/Land, Honolulu, HI	20.00%	18.00%	5/25/02
Borrower G(1)...................	Hotel/Residential/Land, Honolulu, HI	24.00%	20.00%	5/25/02
Borrower H......................	Office, Gaithersburg, MD	LIBOR + 3.50%	LIBOR + 2.00%	11/30/00
Borrower I(1)...................	Hotel/Conference Center, Rye Brook, NY	10.30%	10.30%	3/31/07
All other senior mortgages individually LESS THAN 3%.......				
Subordinated Mortgages				
Borrower B(1)...................	Office, San Diego, CA	13.00%	8.00%	12/31/04
Borrower D(1)...................	Office, Dallas, TX	15.00%	LIBOR + 2.12%	8/24/04
Borrower E(1)...................	Retail, Concorde, CA	9.53%	9.53%	9/1/00
Borrower E(1)...................	Retail, Concorde, CA	10.13%	10.13%	10/1/00
Borrower J(1)...................	Hotels, Various States	LIBOR + 5.80%	LIBOR + 5.80%	9/15/03
Borrower K(1)...................	Bonita Springs, FL	17.00%	10.00%	3/1/01
Borrower I(1)...................	Hotel/Conference Center, Rye Brook, NY	10.30%	10.30%	3/31/07
All other subordinated mortgages individually LESS THAN 3%.......				
Partnership Loans/Unsecured Notes				
Borrower J(1)...................	Hotels, Various States	LIBOR + 5.37%	LIBOR + 5.37%	9/15/03
Borrower L......................	Office, Los Angeles, CA	13.75%	9.00%	11/11/27

TYPE OF LOAN/BORROWER	PERIODIC PAYMENT TERMS(3)	PRIOR LIENS(2)	FACE AMOUNT OF LOANS	CARRYING AMOUNT OF LOANS
Senior Mortgages				
Borrower A......................	P&I	$ --	$ 109,734	$ 109,292
Borrower B(1)...................	IO	--	105,000	105,000
Borrower C(1)...................	IO	--	97,123	94,354
Borrower D......................	IO	--	85,757	85,757
Borrower E(1)...................	P&I	--	9,853	10,203
Borrower F......................	P&I	--	65,160	64,297
Borrower G(1)...................	IO	--	52,609	52,313
Borrower G(1)...................	IO	--	12,079	11,995
Borrower H......................	P&I	--	62,326	63,085
Borrower I(1)...................	P&I	--	42,554	43,245
All other senior mortgages individually LESS THAN 3%.......		--	281,615	298,499

		--	923,810	938,040
Subordinated Mortgages				
Borrower B(1)...................	IO	--	29,000	26,448
Borrower D(1)...................	CF	--	29,539	30,423
Borrower E(1)...................	P&I	--	74,283	75,268
Borrower E(1)...................	P&I	--	35,512	34,557
Borrower J(1)...................	IO	108,100	40,000	39,771
Borrower K(1)...................	IO	17,700	54,231	53,568
Borrower I(1)...................	P&I	--	22,767	22,767
All other subordinated mortgages individually LESS THAN 3%.......		--	272,162	257,639
		125,800	557,494	540,141
Partnership Loans/Unsecured Notes				
Borrower J(1)...................	IO	134,900	70,500	70,025
Borrower L......................	IO	174,500	65,593	65,397

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Portions of the Company's definitive proxy statement for the 2000 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Portions of the Company's definitive proxy statement for the 2000 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Portions of the Company's definitive proxy statement for the 2000 annual meeting of shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Portions of the Company's definitive proxy statement for the 2000 annual meeting of the shareholders to be filed within 120 days after the close of the Company's fiscal year are incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) and (d). Financial statements and schedules--see Index to Financial Statements and Schedules included in Item 8.

(b) Reports on Form 8-K.

None.

(c) Exhibits--see index on following page.

INDEX TO EXHIBITS

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
2.1	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, ST Merger Sub, Inc. and TriNet Corporate Realty Trust, Inc.****
2.2	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, Starwood Financial, Inc. and to the extent described therein, TriNet Corporate Realty Trust, Inc.****
2.3	Agreement and Plan of Merger, dated as of June 15, 1999, by and among Starwood Financial Trust, SA Merger Sub, Inc., STW Holdings I, Inc., the Stockholders named therein, Starwood Capital Group, L.L.C. and, to the extent described therein, TriNet Corporate Realty Trust, Inc.****
3.1	Amended and Restated Charter of the Company (including the Articles Supplementary for the Series A, B, C and D Preferred Stock).
3.2	Bylaws of the Company
4.1	Amended and Restated Registration Rights Agreement dated March 18, 1998 among Starwood Financial Trust and Starwood Mezzanine Investors, L.P., SAHI Partners and SOFI-IV SMT Holdings, L.L.C.**
4.2	Investor Rights Agreement, dated as of December 15, 1998 among Starwood Financial Trust, a Maryland real estate investment trust, Starwood Mezzanine Investors, L.P., a Delaware limited partnership, SOFI-IV SMT Holdings, L.L.C., a Delaware limited liability company, B Holdings, L.L.C., a Delaware limited liability company, and Lazard Freres Real Estate Fund II, L.P., a Delaware limited partnership, Lazard Freres Real Estate Offshore Fund II L.P., a Delaware limited Partnership, and LF Mortgage REIT, a Maryland real estate investment trust.***
4.3..........	Form of warrant certificates.***
4.4	Form of stock certificate for the Company's Common Stock.
4.5	Form of certificate for Series A Preferred Shares of beneficial interest.***
10.1.........	Starwood Financial Trust 1996 Share Incentive Plan.**
10.2	Contribution Agreement dated as of February 11, 1998, between Starwood Financial Trust, Starwood Mezzanine Investors, L.P. and Starwood Opportunity Fund IV, L.P.**
10.3	Second Amended and Restated Shareholder's Agreement dated March 18, 1998 among B Holdings, L.L.C., SAHI Partners, Starwood Mezzanine Investors, L.P., SOFI-IV SMT Holdings, L.L.C., and Starwood Financial Trust.**
10.4	Securities Purchase Agreement, dated as of December 15, 1998, by and between Starwood Financial Trust, Lazard Freres Real Estate Fund II, L.P., a Delaware limited partnership, Lazard Freres Real Estate Offshore Fund II, L.P., a Delaware limited partnership, and LF Mortgage REIT, a Maryland real estate investment trust.***
10.5	Asset Purchase and Sale Agreement, dated as of December 15, 1998 by and between Lazard Freres Real Estate Fund, L.P., a Delaware limited partnership, Lazard Freres Real Estate Fund II, L.P., a Delaware limited partnership, Prometheus Mid-Atlantic Holding, L.P., a Delaware limited partnership, Pacific Preferred LLC, a New York limited liability company, Atlantic Preferred II LLC, a New York limited liability company, Indian Preferred LLC, a New York limited liability company and Prometheus Investment Holding, L.P., a Delaware limited partnership and Starwood Financial Trust.***

EXHIBIT NUMBER	DOCUMENT DESCRIPTION
10.6	Form of Advisor Lock-Up Agreement, dated as of June 15, 1999, among Greenhill & Co., LLC and each owner of interests in the Advisor*****
10.7	Form of Option Standstill Agreement, dated as of June 15, 1999, among Starwood Financial Trust and each of George R. Puskar, Willis Anderson, Jr., Stephen B. Oresman, Robert W. Holman Jr. and John G. McDonald*****
10.8	Form of Starwood Financial Trust Affiliate Lock-Up Agreement, dated as of June 15, 1999, between Greenhill & Co., LLC and each of B Holdings L.L.C., SOFI-IV SMT Holdings, L.L.C. and Starwood Mezzanine Investors, L.P.*****
10.9	Stock Purchase Agreement dated as of June 15, 1999 among Jay Sugarman, Spencer B. Haber, A. William Stein and Robert Holman, Jr.*****
10.10	Amendment No. 1 to the Stock Purchase Agreement dated as of July 26, 1999, which amends the Stock Purchase Agreement dated as of June 15, 1999 among Jay Sugarman, Spencer B. Haber, A. William Stein and Robert Holman, Jr.*****
10.11	Shareholder Agreement, dated as of June 15, 1999, among SOFI-IV SMT Holdings, L.L.C., Starwood Mezzanine Investors, L.P., B Holdings, L.L.C. and TriNet Corporate Realty Trust, Inc.*****
10.12	First Amendment to Shareholder Agreement dated as of July 15, 1999, which amends the Shareholder Agreement, dated as of June 15, 1999, among SOFI-IV SMT Holdings, L.L.C., Starwood Mezzanine Investors, L.P., B Holdings L.L.C. and TriNet Corporate Realty Trust, Inc.*****
10.13	Employment Agreement, dated as of May 20, 1999, by and between Starwood Financial Advisors, L.L.C. and Jay Sugarman.
21.1.........	Subsidiaries of the Company.

EXPLANATORY NOTES:

* Incorporated by reference from the Company's Registration Statement on Form S-4 filed on May 12, 1998.

** Incorporated by reference from the Company's Annual Report on Form 10- K for the year ended December 31, 1997 filed on April 2, 1998.

*** Incorporated by reference from the Company's Form 8-K filed on December 23, 1998.

**** Incorporated by reference to the Company's Current Report on Form 8-K filed on June 22, 1999.

***** Incorporated by reference to the Company's Registration Statement on Form S-4 filed on August 25, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STARWOOD FINANCIAL INC.
REGISTRANT

Date March 30, 2000

/s/ JAY SUGARMAN

Jay Sugarman
CHIEF EXECUTIVE OFFICER AND PRESIDENT

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following person on behalf of the registrant and in the capacities and on the dates indicated.

Date March 30, 2000	/s/ BARRY S. STERNLICHT Barry S. Sternlicht CHAIRMAN OF THE BOARD OF DIRECTORS
Date March 30, 2000	/s/ JAY SUGARMAN Jay Sugarman CHIEF EXECUTIVE OFFICER, PRESIDENT AND DIRECTOR
Date March 30, 2000	/s/ SPENCER B. HABER Spencer B. Haber CHIEF FINANCIAL OFFICER, SECRETARY AND DIRECTOR (EXECUTIVE VICE PRESIDENT--FINANCE)
Date March 30, 2000	/s/ JEFFREY G. DISHNER Jeffrey G. Dishner DIRECTOR
Date March 30, 2000	/s/ JONATHAN D. EILIAN Jonathan D. Eilian DIRECTOR
Date March 30, 2000	/s/ MERRICK R. KLEEMAN Merrick R. Kleeman DIRECTOR

Date March 30, 2000	/s/ ROBIN JOSEPHS -- Robin Josephs DIRECTOR
Date March 30, 2000	/s/ WILLIAM M. MATTHES -- William M. Matthes DIRECTOR
Date March 30, 2000	/s/ KNEELAND C. YOUNGBLOOD -- Kneeland C. Youngblood DIRECTOR
Date March 30, 2000	/s/ WILLIS ANDERSEN JR. -- Willis Andersen Jr. DIRECTOR
Date March 30, 2000	/s/ MADISON F. GROSE -- Madison F. Grose DIRECTOR
Date March 30, 2000	/s/ ROBERT W. HOLMAN, JR. -- Robert W. Holman, Jr. DIRECTOR
Date March 30, 2000	/s/ JOHN G. MCDONALD -- John G. McDonald DIRECTOR
Date March 30, 2000	/s/ STEPHEN B. ORESMAN -- Stephen B. Oresman DIRECTOR
Date March 30, 2000	/s/ GEORGE R. PUSKAR -- George R. Puskar DIRECTOR
Date March 30, 2000	/s/ MICHAEL G. MEDZIGIAN -- Michael G. Medzigian DIRECTOR

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of May 20, 1999, by and between Starwood Financial Advisors, L.L.C., a Connecticut limited liability company (the "Company"), and Jay Sugarman (the "Executive").

W I T N E S S E T H T H A T

WHEREAS, the Company wishes to provide for the employment by the Company of the Executive, and the Executive wishes to serve the Company, in the capacities and on the terms and conditions set forth in this Agreement;

NOW, THEREFORE, it is hereby agreed as follows:

1. EMPLOYMENT PERIOD. The Company shall employ the Executive, and the Executive shall serve the Company, on the terms and conditions set forth in this Agreement. The term of the Executive's employment under this Agreement shall be deemed to have commenced as of March 18, 1998 and, unless earlier terminated in accordance with Section 4 hereof, shall continue through March 30, 2001 (such term of employment shall be referred to herein as the initial "Employment Period"). Upon the expiration of the initial Employment Period and upon each anniversary of the date of the expiration of the initial Employment Period, the term of the Executive's employment hereunder shall automatically be extended and shall continue to be binding upon the Company and the Executive for an additional employment period of one year, subject to earlier termination in accordance with Section 4, (collectively, the "Additional Employment Period") unless either party gives prior written notice to the other party of its decision not to extend the initial Employment Period or to further extend the Additional Employment Period at least ninety (90) days prior to the scheduled expiration of the initial Employment Period or the Additional Employment Period, as the case may be.

2. POSITION AND DUTIES. a. During the term of his employment hereunder, the Executive shall serve as Chief Executive Officer of the Company. Subject to the provisions elsewhere set forth in this Section 2, the Executive shall have such duties and

responsibilities as are customarily assigned to the chief executive officer of a company of the size and nature of the Company, and such other duties and responsibilities not inconsistent therewith as may from time to time be assigned to him by the General Manager of the Company as of the date of this Agreement or by any successor to such manager as the person or body ultimately responsible for the business and affairs of the Company (the "Manager"). The Executive shall be a member of the board of trustees (the "Trust Board") of Starwood Financial Trust (the "Trust") as of the date of this Agreement, and the Company and the Manager (so long as the Company or the Manager shall remain controlled, directly or indirectly, by Barry S. Sternlicht and so long as the Company's Advisory Agreement with the Trust (the "Advisory Agreement") shall not have been terminated) shall use all reasonable efforts to maintain the Executive as a member of the Trust Board, and as Chief Executive Officer of the Trust, throughout the term of his employment hereunder. The Executive agrees that upon the termination of his employment hereunder for any reason or upon the termination of his position as the Chief Executive Officer of the Trust, his membership on the Trust Board shall immediately and automatically terminate. The Executive has executed and delivered, or upon written request shall execute and deliver, a letter evidencing his agreement as set forth in the immediately preceding sentence. The Executive's duties as Chief Executive Officer of the Company shall include the preparation of an annual calendar year budget (as modified and/or approved by the Manager, the "Budget") for the Company's projected revenues and expenses for each calendar year occurring in whole or in part during the term of the Executive's employment hereunder, which budget will be submitted for the Manager's review, modification and approval no less than 30 days prior to the commencement of any period to be covered by such budget (with a Budget that covers the balance of the calendar year 1999 having been heretofore approved and initialed by Executive and the Manager and with a Budget covering calender year 1998 being deemed to have been approved and satisfied). The Budget shall contain such detailed line-item information as the Manager may from time to time reasonably specify to the Executive. The Executive shall use his best reasonable efforts to manage the Company in accordance with the Budget. In the event that the Manager and the Executive shall disagree over a proposed budget or over any modification to an existing Budget, then (x) to the extent that the period covered by the proposed budget or modification shall be prior to the "Cross-Over Date" (which means all periods prior to such date as no less than 14,000,000 registered Class "A" Shares of the Trust (with appropriate equitable adjustments upon the occurrence of any of the events specified in Section 3.4 of the Stock Option Agreement referred to in Section 3(b) below) shall be issued, outstanding and owned by persons other than "Excluded Parties" as such term is defined in Section 3(d)(i) below) and during the term of the Executive's employment hereunder, neither the Manager nor the Executive shall unreasonably withhold or delay their respective approvals of such proposed budget or modifications; and (y) to the extent that the period covered by the proposed budget or modification shall occur on or after the Cross-Over Date and during the term of the Executive's employment hereunder, neither the Manager nor the Executive shall unreasonably withhold or delay their respective approvals of such proposed budget or modification so long as the total costs to be incurred by the Company under such proposed budget or under the existing Budget so modified shall not result in a projected net cash flow for the Company of less than (i) for the calendar year 1999, that set forth in the Budget heretofore approved and initialed by the Executive and the Manager, (ii) for the calendar year 2000, $15 million, and (iii) for the calendar year 2001, $18 million; PROVIDED, HOWEVER, that the foregoing provisions of this sentence shall not apply during any period after a Change in Control or following any public announcement by the Trust of an intention to liquidate all or substantially all of its assets. Except as provided in the preceding sentence, no proposed Budget or proposed modification to an existing Budget shall be effective unless and until the same has been approved by the Manager, acting in its sole, good faith discretion.

b. In his capacity as Chief Executive Officer of the Company, the Executive shall report directly to the Manager. All other executive officers of the Company shall report to the Executive.

c. During the term of his employment hereunder, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive shall devote substantially all of his business time and attention to the business and affairs of the Company and shall perform, faithfully and diligently, his duties and responsibilities hereunder. It shall not be considered a violation of the foregoing for the Executive to: (i) serve on corporate, industry, civic, social or charitable boards or committees or engage in charitable activities and community affairs; (ii) engage in business activities involving one or more of the Excluded Parties; or (iii) manage his own personal investments and affairs; PROVIDED that the foregoing activities do not materially interfere with the performance of the Executive's responsibilities hereunder.

d. Without limitation on the Manager's legal right to direct the operations and affairs of the Company from time to time, the Executive shall not, on or after the date hereof, knowingly take any of the following actions on behalf of the Company outside the ordinary course of the Company's business without the prior written approval of the Manager: (i) hiring or firing any employee other than non-executive level employees terminable "at will" and compensated solely from salary, discretionary bonuses and/or legally mandated overtime; (ii) borrowing cash, or incurring material debt, on behalf of the Company; (iii) entering into, materially modifying or terminating any material lease or sublease of real estate or acquiring or disposing of any material direct or indirect real estate interest; (iv) entering into, materially modifying or terminating any material contracts or agreements binding upon the Company; (v) entering into, materially modifying or terminating any arrangements or agreements with affiliates or related parties of the Executive; or (vi) knowingly taking any action or knowingly omitting to take any action that would place the Company in material breach of the Advisory Agreement; PROVIDED, HOWEVER, that no act or failure to act shall be considered "knowing" for purposes of this Agreement unless it is done, or omitted to be done, without reasonable belief that such action or omission was in, or not opposed to, the best interests of the Company.

3. COMPENSATION. a. BASE SALARY. The Executive's compensation during the term of his employment hereunder shall be determined by the Manager, subject to the next sentence and the other provisions of this Section 3. During the term of his employment hereunder, the Executive shall receive an annual base salary ("Annual Base Salary") of $225,000 per annum, subject to upward (but not downward) adjustment by the Manager in its sole discretion. The Annual Base Salary shall be paid in accordance with the Company's customary payroll practices for its executives.

b. INCENTIVES. The terms, provisions and conditions relating to the Executive's interest in the Company are as set forth in (x) Executive's Exhibit "A" dated as of June 30, 1996 to that certain agreement captioned "OPERATING AGREEMENT OF STARWOOD CAPITAL GROUP, L.L.C.", dated as of July, 1996, by and among Barry S. Sternlicht, as general manager, and various members of said Starwood Capital Group, L.L.C., as said Operating Agreement has been modified by a first amendment thereto (the "First Amendment") dated as of August, 1998 and as said Exhibit "A" has been modified by that certain "SUPPLEMENT TO EXHIBIT A TO OPERATING AGREEMENT" for Jay S. Sugarman dated as of March 18, 1998 and (y) that certain letter agreement, dated as of January 1, 1999, by and between the Executive and Barry S. Sternlicht (acting as General Manager of Starwood Capital Group, L.L.C., as President of STW Holdings I, Inc. and as an authorized signatory for Starwood Financial Advisors II, L.L.C.) (the "Shareholder Agreement"). The Manager and the Company each represent and warrant that neither the Company, the Manager nor SCG, to the extent within such person's direct or indirect control, will at any time hereafter allow (or has at any time since March 18, 1998 allowed) any transfer of any direct or indirect interest in the Advisor (including, without limitation, through the grant of any profit participation pursuant to Section 10A of the Operating Agreement), or any modification, termination or assignment of the Advisory Agreement, unless such person reasonably believes (or believed), at the time of such transfer, modification, termination or assignment (collectively, the "occurrence") and after reasonable good faith investigation, either (m) that the occurrence does not (did not) dilute the economic value represented by the Executive's direct and indirect ownership interests in the Company or (n) that the Executive received fair value in return for any such dilution. The terms, provisions and conditions relating to the initial option granted by the Company to the Executive to purchase shares of the Trust are as set forth in that certain agreement captioned "STARWOOD FINANCIAL ADVISORS, L.L.C. NON-QUALIFIED STOCK OPTION AGREEMENT DATED AS OF MAY 20, 1999" by and between the Company and the Executive (the "Stock Option Agreement")

c. FRINGE BENEFITS. (i) REIMBURSEMENT OF EXPENSES AND ADMINISTRATIVE SUPPORT. The Company shall pay or reimburse the Executive, upon the presentation of appropriate documentation of such expenses, for all reasonable travel and other expenses incurred by the Executive in the ordinary course of performing his obligations under this Agreement. The Company further agrees to furnish the Executive with office space and administrative support, and any other assistance and accommodations as shall be reasonably required by the Executive in the performance of his duties hereunder. Without the prior written approval of the Manager, the Executive shall not incur any material expense, other than in the ordinary course of performing his duties hereunder, for which the Executive desires reimbursement from the Company that would not in turn be a reimbursable expense by the Trust to the Company.

(ii) PARTICIPATION IN BENEFIT PLANS. The Executive shall be entitled to participate, during the term of his employment hereunder, in the Company's benefit plans, programs and arrangements, including but not limited to qualified and non-qualified pension and retirement plans, supplemental pension and retirement plans, group hospitalization, health, medical, vision, dental care, death benefit, disability, and post-retirement welfare plans, and other present and future employee benefit plans, programs and arrangements of the Company for which key executives are or shall become eligible (collectively, the "Benefit Plans"), on no less favorable terms than other key executives of the Company. The Executive shall be credited with four years of deemed service, as well as with his actual service, for purposes of determining his entitlements and benefits under any such Benefit Plans. The foregoing shall not be construed as a guaranty of, or as an obligation on the part of the Company to provide, any future awards (E.G., stock options, restricted stock or other performance awards) under any Company incentive plans from time to time in effect for its executives and other employees.

(iii) LIFE INSURANCE. In addition to and without limiting the generality of the foregoing, the Company shall obtain and maintain a term life insurance policy in the amount of $5,000,000, which policy shall be owned by the Executive, from a nationally-recognized insurance carrier reasonably acceptable to the Executive. Upon termination of the Executive's employment hereunder for any reason, the Company shall have no further obligation to pay premiums on the policy referred to in this Section 3(c)(iii).

(iv) VACATION. During the term of his employment hereunder, the Executive shall be entitled to four weeks paid vacation per annum. The Executive shall not be entitled to any cash payment in respect of any unused vacation time.

d. CHANGE IN CONTROL. For purposes of this Agreement, a "Change in Control" shall be deemed to have occurred upon any of the following events:

(i) any person or entity, or group of persons or entities acting in concert, (OTHER THAN (x) Barry S. Sternlicht, his family members or trusts for the benefit of same and his heirs and beneficiaries and (y) persons or entities controlling, controlled by, under common control with or who are employed directly or indirectly by, Starwood Capital Group, L.L.C., Starwood Capital Group, L.P. or Barry S. Sternlicht (the parties described in (x) and (y) being herein individually and collectively referred to as the "Excluded Parties")), shall become the "beneficial owner" (as such term is currently used in Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended) of securities of the Trust representing more than fifty percent (50%) of the outstanding voting power of the Trust; or

(ii) the aggregate direct and indirect equity ownership interests in the Company of the Excluded Parties shall be less than forty percent (40%) of the total equity ownership interests in the Company (measured either by voting power or by value); or

(iii) the Company shall cease to be controlled, directly or indirectly, by one or more of the Excluded Parties; or

(iv) all or substantially all of the business or assets of the Trust or the Company shall be disposed of pursuant to a sale, liquidation, merger, consolidation, or other transaction or series of transactions, other than to one or more of the Excluded Parties; or

(v) any merger, consolidation, or like business combination or reorganization of the Company resulting in the occurrence of any event described in clause (i), (ii) or (iii) above shall be consummated with any person or entity or group of persons or entities other than the Excluded Parties.

Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred for any purpose under this Agreement if, immediately following a transaction or occurrence that would otherwise be deemed to be a Change in Control, (x) Excluded Parties "beneficially own" securities of the Trust representing more than fifty percent (50%) of the outstanding voting power of the Trust and (y) the Trust owns, directly or indirectly, more than eighty percent (80%) of the equity ownership interests of the Company, measured both by value and by voting power.

4. TERMINATION OF EMPLOYMENT. a. DEATH OR DISABILITY. The Executive's employment hereunder shall terminate automatically upon the Executive's death. The Manager and the Executive shall each be entitled to terminate the Executive's employment hereunder because of the Executive's Disability. "Disability" means that the Executive has been unable, for a period of not less than (x) 120 consecutive days, or (y) 180 days within any 12 month period, to perform the Executive's duties under this Agreement, as a result of physical or mental illness, injury or impairment. A termination of the Executive's employment by either party for Disability shall be communicated to the other party by written notice, and shall be effective on the 30th day after receipt of such notice by the other party (such 30th day being the "Disability Effective Date"), unless the Executive returns to full-time performance of his duties hereunder before the Disability Effective Date.

b. BY THE COMPANY. (i) The Manager may, on behalf of the Company, terminate the Executive's employment hereunder for Cause or Without Cause. "Cause" means (w) the conviction of the Executive for the commission of (A) any felony, or (B) a misdemeanor involving moral turpitude, or (x) the Executive knowingly engages in misconduct that constitutes a willful breach of this Agreement, or in other willful misconduct, and that misconduct results in material and demonstrable damage to the business or reputation of the Company or the Trust, or (y) willful and complete abandonment by the Executive of his duties hereunder, or (z) without the prior written approval of the Manager, for any period covered by an applicable Budget, the Executive willfully and knowingly causes the Company to incur voluntary expenditures that exceed budgeted amounts by an aggregate amount equal to, or greater than, the greater of (I) 5% of the total budgeted expenditures for the calendar year within which such period falls and (II) a non-cumulative $500,000 per calendar year, AND the Executive fails, on thirty days notice from the Manager, to take actions (including, without limitation, causing other voluntary expenditures to be reduced or contributing personal monies for the purpose of funding voluntary expenditures) whose net effect is to offset the excess of (A) the voluntary expenditures in excess of budgeted amounts over (B) the greater of the amounts specified in subclause (I) and subclause (II) of this clause (z).

(ii) A termination of the Executive's employment hereunder for Cause may only be effected in accordance with the following procedures. The Manager shall give the Executive written notice ("Notice of Termination for Cause") of its intention to terminate the Executive's employment for Cause, setting forth in reasonable detail the specific circumstances that it considers to constitute Cause and the specific provision(s) of this Agreement on which it relies, and stating the date, time and place of the Special Members Meeting for Cause. "Special Members Meeting for Cause" means a meeting of the Members of the Company (or, if the Company is no longer a limited liability company, a meeting of the board of directors, board of trustees, or analogous governing body or person of the Company), called and held specifically for the purpose of considering the Executive's termination for Cause, that takes place not less than ten, and not more than twenty, business days after the Executive receives the Notice of Termination for Cause. The Executive shall be given an opportunity, together with counsel, to be heard at the Special Members Meeting for Cause. The Executive's termination for Cause shall be effective when and if a resolution is duly adopted at the Special Members Meeting for Cause terminating his employment for Cause, subject to DE NOVO review of the question whether Cause existed through arbitration in accordance with Section 12, below.

(iii) A termination of the Executive's employment hereunder by the Company "Without Cause" (that is, not for Cause and not for Disability) shall be effected by the Manager giving the Executive written notice of the termination and shall not constitute a breach of this Agreement.

c. BY THE EXECUTIVE. (i) The Executive may terminate his employment hereunder for Good Reason or Without Good Reason. "Good Reason" means:

A. failure by the Company or the Manager to maintain the Executive as the Chief Executive Officer of the Company, or failure to maintain the Executive as a member of the Trust Board and as Chief Executive Officer of the Trust, or the assignment to the Executive of any duties or responsibilities inconsistent in any respect with those customarily associated with the positions to be held by the Executive pursuant to this Agreement, or any diminution in the Executive's position, authority, duties or responsibilities in a manner inconsistent with the terms and provisions of this Agreement; PROVIDED, HOWEVER, that, notwithstanding the foregoing, the Executive shall in no event invoke "Good Reason" for a termination pursuant to this subsection A unless the Executive shall have first given written notice to the Manager of the circumstances purportedly constituting "Good Reason" and the Company shall have failed to remedy such circumstances within the thirty (30) days thereafter; and PROVIDED, FURTHER, that the occurrence of any transaction described in the last sentence of

Section 3(d) that results in a liquidation of the Company or a termination of the Company's Advisory Agreement with the Trust shall not, in and of itself, give rise to "Good Reason" under this Section 4(c)(i)(A) or otherwise so long as (x) the Trust expressly assumes all of the Company's duties and obligations under this Agreement as successor to the Company, (y) the Executive remains a member of the Trust Board and Chief Executive Officer of the Trust and (z) the Executive is afforded the continuing opportunity to hold, exercise and perform on behalf of the Trust the duties, authorities, positions and responsibilities previously performed by the Executive on behalf of the Company under this Agreement; or

B. any requirement that the Executive's services hereunder be rendered primarily at a location or locations other than executive offices of the Company in Manhattan County, N.Y.; or

C. any purported termination of the Executive's employment hereunder by the Company or the Manager for a reason or in a manner not expressly permitted by this Agreement; or

D. the failure of any successor to all or substantially all of the assets or business of the Company to promptly assume in writing all of the obligations of the Company under this Agreement; or

E. any other material breach of this Agreement by the Company that is not remedied by the Company within thirty (30) days after receipt of written notice thereof from the Executive; or

F. any person is appointed to be President of the Trust or of the Company over the objections of the Executive; or

G. a Change in Control (taking into account the last sentence of Section 3(d) above) occurs.

(ii) A termination of employment by the Executive for Good Reason shall be effectuated by his giving the Manager written notice ("Notice of Termination for Good Reason") of the termination, setting forth in reasonable detail the circumstances that constitute Good Reason and the specific provision(s) of this Agreement on which the Executive relies and by the Company's failure to remedy such circumstances within the cure period, if any, specified above. The termination shall be effective on the fifth business day following the date as of which said Notice of Termination for Good Reason shall have been given and all applicable cure periods for the Company, if any, shall have expired without full cure having occurred.

(iii) A termination of the Executive's employment by the Executive "Without Good Reason" (that is, not for Good Reason, not for Disability, and not by notice of non-extension pursuant to Section 1) shall be effected by his giving the Manager written notice of the termination and shall not constitute a breach of this Agreement.

d. NO WAIVER. The failure to set forth any fact or circumstance in a Notice of Termination for Cause or a Notice of Termination for Good Reason shall not constitute a waiver of the right to assert, and shall not preclude the party giving notice from asserting, such fact or circumstance in an attempt to enforce any right under, or in connection with, this Agreement.

e. DATE OF TERMINATION. The "Date of Termination" means the date of the Executive's death, the Disability Effective Date, the date on which the termination of the Executive's employment by the Company for Cause or Without Cause or by the Executive for Good Reason is effective, or the date on which the Executive gives the Manager notice of a termination of employment Without Good Reason or the date, if different, on which the Executive's employment hereunder terminates pursuant to the provisions of Section 1.

5. OBLIGATIONS OF THE COMPANY UPON TERMINATION. a. DEATH. If the Executive's employment hereunder is terminated by the Executive's death, the Company shall continue to pay to the Executive's designated beneficiaries (or, if there is no such beneficiary, to the Executive's estate or legal representative), the Annual Base Salary provided for in Section 3(a) as in effect on the Date of Termination through the end of the month in which the Executive's death occurs. The Company also shall promptly pay to the Executive's designated beneficiaries (or, if there is no such beneficiary, to the Executive's estate or legal representative), in a lump sum in cash within 30 days of the Date of Termination, the sum of the following amounts (the "Accrued Obligations"): any monetary payment to which Executive was entitled from the Company on the Date of Termination (PROVIDED, HOWEVER, that, for the avoidance of doubt, the Accrued Obligations shall not include any amounts to which Executive is entitled in his capacity as a member of Starwood Capital Group, L.L.C.). With respect to medical insurance coverage, the Company shall continue to provide the spouse and dependents of the Executive, at its expense, with the medical insurance coverage then provided generally to dependents of employees of the Company, for a period of one year following the termination of the Executive's employment, which coverage shall be included as part of any required continuation of coverage

under Part 6, Subtitle B of Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any similar state or local law ("COBRA Coverage"); PROVIDED, HOWEVER, that the COBRA Coverage shall terminate with respect to such spouse and/or dependents as of the date that the spouse and/or dependents receive equivalent coverage and benefits under any plans, programs and/or arrangements of any subsequent employer. Additional rights and benefits of the beneficiaries, estate or other legal representatives of the Executive under the benefit plans and programs of the Company and its affiliates shall be determined in accordance with the provisions of such plans and programs. The rights and benefits of the beneficiaries, estate or other legal representatives of the Executive with respect to the items referred to in Section 3(b) above shall be determined in accordance with the agreements referred to in said Section 3(b) and the rights and benefits of the beneficiaries, estate or other legal representatives of the Executive with respect to any subsequently granted options, restricted stock or other performance awards shall be as set forth in the provisions of the plans and grant agreements covering such subsequent awards. Except as otherwise provided in this Agreement, neither the estate or other legal representative of the Executive nor the Company shall have any further rights or obligations under this Agreement.

b. DISABILITY. If the Executive's employment hereunder is terminated by reason of the Executive's Disability, the Company shall continue to pay to the Executive the Annual Base Salary provided for in Section 3(a), as in effect on the Date of Termination, through the end of the sixth month after the month in which the Date of Termination occurs, with a full offset for payments (if any) received by the Executive during such period under the long-term disability plans, programs and arrangements of the Company, the Trust, and their affiliates. The Company also shall pay to the Executive, in a lump sum in cash within 30 days of the Date of Termination, the Accrued Obligations. The Company shall continue to provide the Executive and his spouse and eligible dependents, at its expense, with the medical insurance coverage then provided generally to employees of the Company and their eligible dependents, for a period of one year following the termination of the Executive's employment, which coverage shall be included as part of any required COBRA Coverage; PROVIDED, HOWEVER, that the COBRA Coverage shall terminate with respect to the Executive, his spouse and/or his dependents as of the date that such individual receives equivalent coverage and benefits under any plans, programs and/or arrangements of a subsequent employer. Additional rights and benefits of the Executive under the benefit plans and programs (including, without limitation, the long-term disability plans and programs) of the Company and its affiliates shall be determined in accordance with the provisions of such plans and programs. The rights and benefits of the Executive with respect to the items referred to in Section 3(b) above shall be determined in accordance with the agreements referred to in said Section 3(b) and the rights and benefits of the Executive with respect to any subsequently granted options, restricted stock or other performance awards shall be as set forth in the provisions of the plans and grant agreements covering such subsequent awards. Except as otherwise provided in this Agreement, neither the Executive nor the Company shall have any further rights or obligations under this Agreement.

c. WITHOUT CAUSE BY THE COMPANY OR FOR GOOD REASON BY THE EXECUTIVE. If the Executive's employment hereunder is terminated (x) Without Cause by the Company or (y) for Good Reason by the Executive, the Company shall promptly pay the Executive a lump-sum amount equal to the lesser of (m) the aggregate base salary provided in Section 3(a) that would have been payable to the Executive, at the rate in effect on the Date of Termination, had the Executive remained employed hereunder through the end of the initial Employment Period or the Additional Employment Period, as the case may be, and (n) an amount equal to two times his Annual Base Salary as in effect on the Date of Termination; PROVIDED, HOWEVER, that, in the event that such a termination occurs after a Change in Control, the lump-sum amount shall be equal to two times his Annual Base Salary as in effect on the Date of Termination. The rights and benefits of the Executive with respect to the items referred to in Section 3(b) above shall be determined in accordance with the agreements referred to in said Section 3(b) and the rights and benefits of the Executive with respect to any subsequently granted options, restricted stock or other performance awards shall be as set forth in the provisions of the plans and grant agreements covering such subsequent awards. The Company shall continue to provide the Executive, his spouse and his eligible dependents, at its expense, with the medical insurance coverage then provided generally to employees of the Company and their eligible dependents, for a period of one year following the termination of the Executive's employment, which coverage shall be included as part of any required COBRA Coverage; PROVIDED, HOWEVER, that the COBRA Coverage shall terminate with respect to the Executive, his spouse and/or his dependents as of the date that such individual receives equivalent coverage and benefits under any plans, programs and/or arrangements of a subsequent employer. Additional rights and benefits of the Executive under the benefit plans and programs of the Company and its affiliates shall be determined in accordance with the provisions of such plans and programs, if any. Except as otherwise provided in this Agreement, neither the Executive nor the Company shall have any further rights or obligations under this Agreement. The payment provided for in the first sentence of this Section 5(c) is intended to constitute both liquidated damages and consideration for the general release described in Section 5(e) below.

d. FOR CAUSE BY THE COMPANY OR WITHOUT GOOD REASON BY THE EXECUTIVE OR BY EXPIRATION OF THE TERM. If the Executive's employment hereunder is terminated (x) for Cause by the Company or (y) Without Good Reason by the Executive or (z) by expiration of the initial Employment Period or of the Additional Employment Period (as the case may be), the Company shall pay to the Executive in a lump sum in cash within 30 days of the Date of Termination any portion of the Executive's Annual Base Salary through the Date of Termination that has not yet been paid. The rights and benefits of the Executive under the benefit plans and programs of the Company and its affiliates shall be determined in accordance with the provisions of such plans and programs. The rights and benefits of the Executive with respect to the items referred to in Section 3(b) above shall be determined in accordance with the agreements referred to in said Section 3(b) and the rights and benefits of the Executive with respect to any subsequently granted options, restricted stock or other performance awards shall be as set forth in the provisions of the plans and grant agreements covering such subsequent awards. Except as otherwise provided in this Agreement, neither the Executive nor the Company shall have any further rights or obligations under this Agreement; PROVIDED, HOWEVER, that nothing in this Section 5(d) shall be construed as a release or waiver of any claim that the Company or the Executive may have (it being understood that a termination of his employment hereunder by the Executive Without Good Reason is not by itself a breach of this Agreement).

e. GENERAL RELEASE. The Company's obligation to make any payment pursuant to the first sentence of Section 5(c) shall be contingent on the Executive delivering to the Company, within thirty business days after the Date of Termination, a general release (the "Release"), in customary form, releasing the Company, its affiliates, the Excluded Parties and all current and former members, officers and employees of the Company (collectively, the "Releasees") from any claims relating to his employment hereunder, other than claims relating to continuing obligations under (x) this Agreement, (y) any compensation or benefit plan, program or arrangement in which the Executive was participating as of the Date of Termination and (z) the agreements referred to in Section 3(b) above; SUBJECT TO no Releasee initiating or maintaining any "Proceeding" or "Claim" (as defined in Section 11, below) against the Executive or any of his heirs, beneficiaries or legal representatives or against his estate, other than "Proceedings" and "Claims" relating solely to enforcing the Executive's continuing obligations under this Agreement or under any of the agreements, plans, programs and arrangements referred to in clauses (x), (y) and (z) of this sentence.

f. OTHER OBLIGATIONS. The respective obligations of the Company and the Executive under Sections 5 through 16 shall survive any termination of Executive's employment.

6. NON-EXCLUSIVITY OF RIGHTS. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliates for which the Executive may qualify,

nor, subject to paragraph (g) of Section 16, shall anything in this Agreement limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliates. Vested benefits and other amounts that the Executive is otherwise entitled to receive under the plans specified in Section 3 herein or under any other plan, policy, practice or program of, or any contract or agreement with, the Company or any of its affiliates on or after the Date of Termination shall be payable in accordance with the terms of each such plan, policy, practice, program, contract or agreement, as the case may be.

7. NO OFFSET, ETC. The Company's obligation to make the payments provided for in, and otherwise to perform its obligations under, this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company or any Releasee may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced, regardless of whether the Executive obtains other employment or receives benefits or compensation in connection therewith.

8. WITHHOLDING. Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable under this Agreement all federal, state, local and foreign taxes that are required to be withheld by applicable law or regulation.

9. CONFIDENTIAL INFORMATION. The Executive shall hold all secret or confidential information, knowledge or data relating to the Company or any of its affiliates and their respective businesses that the Executive obtains during his employment hereunder and that is not public knowledge (other than as a result of the Executive's violation of this Section 9) ("Confidential Information") in strict confidence. The Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after the Executive's employment with the Company, except (i) in the course of performing his duties for the Company, the Trust or their affiliates, (ii) in confidence to any attorney, accountant or other professional for the purpose of securing professional advice, (iii) with the prior written consent of the Company or (iv) as otherwise required by law, regulation or legal process. If the Executive is requested pursuant to, or required by, applicable law, regulation or legal process to disclose any Confidential Information, the Executive shall provide the Company, as promptly as the circumstances reasonably permit, with notice of such request or requirement and, unless a protective order or other appropriate relief is previously obtained, the Confidential Information subject to such request may be disclosed pursuant to and in accordance with the terms of such request or requirement, PROVIDED THAT the Executive shall use his best reasonable efforts, at the

Company's request and expense, to limit any such disclosure to the precise terms of such request or requirement.

10. NON-COMPETITION. The Executive acknowledges that the services to be rendered by him to the Company (which, as used in this Section 10, shall be deemed to include the Company and each of its subsidiaries) are of a special and unique character. In consideration of his employment hereunder, the Executive agrees, for the benefit of the Company, that he will not (other than in connection with performing his duties for the Company, the Trust or their affiliates):

a. during the term of his employment hereunder and, except in the case of a termination Without Cause by the Company or for Good Reason by the Executive, for twelve months thereafter: (i) engage, directly or indirectly, whether as principal, agent, representative, consultant, employee, partner, stockholder, limited partner or other investor (other than an investment of not more than (x) five percent (5%) of the stock or equity of any corporation the capital stock of which is publicly traded or (y) five percent (5%) of the ownership interest of any limited partnership or other entity) or otherwise, within the United States of America, in any business that competes directly and materially with the business conducted by the Trust as of the Date of Termination or (ii) solicit or entice, or attempt to solicit or entice, away from the Company or the Trust, either for his own account or for any individual, firm or corporation, any person known by him to have been, at any time during the twelve months prior to such solicitation, enticement or attempt, a borrower from, a lender to, or a direct and material participant in a substantial financial transaction with, the Company or the Trust, or to have been actively solicited by the Company or the Trust to become a borrower from, a lender to, or a direct and material participant in a substantial financial transaction with, the Company or the Trust; PROVIDED, HOWEVER, that the provisions of this Section 10(a)(ii) shall not apply to, and thus shall not be deemed to restrict, any solicitation, enticement or attempt made on behalf of a venture or business that does not compete directly and materially with the Trust in investment activities relating to the real estate industry; or

b. during the term of his employment hereunder and for twelve months thereafter: (i) solicit or entice, or attempt to solicit or entice, away from the Company or the Trust or any Excluded Party any individual who is known by the Executive to then be an officer or employee of the Company, the Trust or any Excluded Party either for his own account or for any individual, firm or corporation, whether or not such individual would commit a breach of a contract of employment by reason of leaving the service of the Company, the Trust or the Excluded Party, or (ii) employ, directly or indirectly, any person who is known by the Executive to have been, during the twelve months prior to employment by the Executive, an officer, employee or sales representative of the Company, the Trust or any Excluded Party.

11. INDEMNIFICATION. a. The Company shall promptly indemnify and hold harmless the Executive, to the fullest extent permitted by law and to the extent that he acted neither in deliberate bad faith nor in a manner that he believed to be opposed to the interests of both the Company and the Trust, against all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees reasonably incurred, reasonable costs of investigation, judgments, fines, penalties, ERISA excise taxes, interest and amounts paid, or to be paid, in settlement) incurred by the Executive in connection with any Proceeding or Claim. The indemnification extended by this Section 11(a) shall not apply to any cost, expense, liability or loss for which the Trust is obliged to indemnify the Executive.

b. The Company shall advance to the Executive all costs and expenses (including, without limitation, attorneys fees) reasonably incurred by him in connection with a Proceeding or Claim within 20 days after receipt by the Company of a written request for such advance. Such request shall include an itemized list of the costs and expenses and an undertaking by the Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses. Upon a request under this subsection (b), the Executive shall be deemed to have met any standard of conduct required for indemnification of such costs and expenses unless the contrary shall be established by a court of competent jurisdiction or through arbitration in accordance with Section 12. The right to advancement of costs and expenses provided by this Section 11(b) shall not apply to any cost or expense that the Trust is obliged to advance to the Executive.

c. For the purposes of this Agreement, (i) the term "Proceeding" shall mean any action, suit or proceeding, whether civil, criminal, administrative or investigative, in which the Executive is made, or is threatened to be made, a party or a witness by reason of the fact that he is or was an officer or employee of the Company or is or was serving as an officer, director, member, employee, trustee or agent of any other entity (excluding, for purposes of this Section 11 only, the Trust) at the request of the Company, whether or not the basis of such Proceeding arises out of or in connection with the Executive's alleged action or omission in an official capacity, and (ii) the term "Claim" shall mean any claim, demand, investigation, discovery request, or request for testimony or information that arises out of or relates to Executive's service as an officer, employer, agent or representative of the Company or service at the Company's request as a director, officer, employee, agent, manager, consultant, advisor, or representative of any other entity (excluding, for purposes of this Section 11 only and only so long as the Company and the Trust are separate entities, the Trust).

d. The Company shall not settle any Proceeding or Claim in any manner which would impose on the Executive any penalty or limitation without his prior written consent. The Executive shall not settle any Proceeding or Claim in a manner that would impose any indemnification obligation on the Company pursuant to this Section 11 without the prior written consent of the Company. Neither the Company nor the Executive shall unreasonably delay or withhold its or his consent under this subsection (d) to any proposed settlement.

e. The indemnification, and right to advancement of expenses, provided in this Section 11 shall continue as to the Executive even if he has ceased to serve in any of the capacities referred to in Section 11(c) and shall inure to the benefit of the Executive's heirs, executors and administrators.

f. The indemnification provided in this Section 11 shall not extend to any claims or disputes arising between the Company and the Executive under, pursuant to, or with respect to, this Agreement or any agreement referred to in Section 3(b) above. In the event of any such claim or dispute, such dispute shall be resolved in accordance with Section 12.

g. During the term of the Executive's employment hereunder and for six years thereafter, the Company shall keep in place, or cause to be kept in place, a liability insurance policy (or policies) providing coverage to the Executive that is in no respect less favorable then the coverage provided to any other present or former officer, director, or trustee of the Company or the Trust.

12. ARBITRATION. The provisions of this Section 12 shall apply and control over any conflicting or inconsistent provisions elsewhere set forth in this Agreement. In the event of any controversy, dispute or claim arising out of or relating to this Agreement, the agreements referred to in Section 3(b), or the Executive's employment by the Company or its affiliates, the parties hereto agree that all such matters shall be resolved pursuant to arbitration in accordance with the binding arbitration provision set forth in Section 27 of the Operating Agreement of Starwood Capital Group, L.L.C. (which section was added to said Operating Agreement pursuant to the First Amendment). For purposes hereof, all references in said Section 27 to "Member" or "member" shall be deemed to mean the Executive (or his successors as provided in Section 14 below or in Section 3.1 of the Stock Option Agreement), all references therein to the "Company" shall mean, when applicable, the "Company" as defined herein

(including, as applicable, its successors as provided in Section 14 below) and all references therein to the "Agreement" shall mean this Agreement (or, as applicable, any agreement referenced in Section 3(b) above or any agreement or arrangement otherwise relating to this Agreement or to the Executive's employment hereunder).

13. ATTORNEYS' FEES. The Company agrees to pay all legal fees and expenses incurred by the Executive in connection with the preparation of this Agreement up to a maximum of $100,000.

14. SUCCESSORS; BENEFICIARIES. a. This Agreement is personal to the Executive and, without the prior written consent of the Company, shall not be assignable by the Executive; PROVIDED, HOWEVER, that any of the Executive's rights to compensation hereunder may be transferred by will or by the laws of descent and distribution or as provided in Section 14(d).

b. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

c. No rights of the Company under this Agreement may be assigned or transferred by the Company, other then to a successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company that promptly and expressly agrees to assume and perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, the term "Company" shall mean both the Company as defined in the first sentence of this Agreement and any such successor that assumes and agrees to perform this Agreement, by operation of law or otherwise; the term "Trust" shall mean both the Trust as defined in the third sentence of Section 2(a) and any successor to all or substantially all of the business or assets of the Trust; and the term "Trust Board" shall include both the "Trust Board" as defined in the third sentence of Section 2(a) and the board of trustees, board of directors, or analogous governing body of any successor to all or substantially all of the business or assets of the Trust. Notwithstanding any other provision in this Agreement to the contrary, (i) neither Section 2(d) above nor any of the provisions in this Agreement relating to Budgets, budgets, or modifications thereof (including, without limitation, Section 4(b)(i)(z) and the last four sentences of Section 2(a)), shall apply in the event that a successor that is not a limited liability company succeeds to all or substantially all of the business or assets of the Company and (ii) none of the provisions relating to Budgets, budgets or modifications thereof shall apply in the event that the Trust becomes the owner, or "beneficial owner" (as such term is used as of May 10, 1999, in Rule 13d-3 promulgated under the Securities Exchange Act of 1934), directly or indirectly, of more than fifty percent (50%) of (x) the business or assets of the Company (measured by value) or (y) the outstanding equity securities, or other outstanding membership, ownership or equity interests, of the Company (measured either by voting power or by value); PROVIDED, HOWEVER, that in the event that the Trust becomes the owner or "beneficial owner" of more than fifty percent (50%) of the business, assets or interests described in clause (x) or (y), then Executive shall use reasonable efforts in the conduct of his duties and responsibilities to comply with any budget or budget modifications from time to time in effect as prescribed by the Trust Board or by any duly constituted committee thereof.

d The Executive shall be entitled, to the extent permitted under any applicable law, to select and change the beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Executive's death by giving the Company written notice thereof. In the event of the Executive's death or a judicial determination of his incompetence, references in this Agreement to the Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative.

15 REPRESENTATIONS. a. The Company and the Manager both represent and warrant that (i) each is fully authorized, by action of any person or body whose action is required, to enter into this Agreement and to perform its obligations under it; (ii) the execution, delivery and performance of this Agreement by the Company does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document of the Company, the Trust, or the Manager; and (iii) upon the execution and delivery of this Agreement by the parties, this Agreement shall be the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

b The Executive represents and warrants that, to the best of his knowledge and belief, (i) delivery and performance of this Agreement by him does not violate any applicable law, regulation, order, judgment or decree or any agreement to which the Executive is a party or by which he is bound, and (ii) upon the execution and delivery of this Agreement by the parties, this Agreement shall be the valid and binding obligation of the Executive, enforceable against him in accordance with its terms, except to the extent enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

16 MISCELLANEOUS. a. This Agreement shall be governed by, and construed, performed and enforced in accordance with, the laws of the State of New York, without reference to principles of conflict of laws. This Agreement may not be amended or

modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives.

b All notices and other communications under this Agreement shall be in writing and shall be given (i) by hand delivery or (ii) by registered or certified mail, return receipt requested, postage prepaid, addressed as follows or (iii) by nationally recognized overnight courier, addressed as follows:

If to the Executive:

Jay Sugarman
c/o Starwood Financial Advisors
1114 Avenue of the Americas, 27th floor
New York, NY 10036

If to the Company or the Manager:

Starwood Financial Advisors, L.L.C.
Three Pickwick Plaza,
Suite 240
Greenwich, CT 06830
Attention: Barry S. Sternlicht
Madison F. Grose

or to such other address or addresses as either party furnishes to the other in writing in accordance with this Section 16(b). Notices and communications shall be effective when actually received by the addressee.

c The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement. If any provision of this Agreement shall be held invalid or unenforceable in part, the remaining portion of such provision, together with all other provisions of this Agreement, shall remain valid and enforceable and continue in full force and effect to the fullest extent consistent with law.

d The captions and headings in this Agreement are not part of the provisions hereof and shall have no force or effect.

e The Executive's or the Company's failure to insist upon strict compliance with any provisions of, or to assert, any right under, this Agreement shall not be deemed to be a waiver of such provision or right or of any other provision of or right under this Agreement.

f No individual who is a direct or indirect officer, employee, owner, member, director or trustee of the Company or the Trust shall have any personal liability under this Agreement.

g The Executive and the Company acknowledge that this Agreement supersedes any other agreement between them concerning the specific subject matter hereof except to the extent necessary to protect existing rights.

h The rights and benefits of the Executive under this Agreement may not be anticipated, assigned, alienated or subject to attachment, garnishment, levy, execution or other legal or equitable process except as required by law or as provided in Section 14(a) or 14(d). Any attempt by the Executive to anticipate, alienate, assign, sell, transfer, pledge, encumber or charge the same, except as required by law or as provided in Section 14(a) or 14(d), shall be void. Payments hereunder shall not be considered assets of the Executive in the event of insolvency or bankruptcy.

i This Agreement may be executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Executive has hereunto set his hand, and the Company and the Manager have caused this Agreement to be executed in their name and on their behalf, all as of the day and year first above written.

Jay Sugarman

STARWOOD FINANCIAL ADVISORS, L.L.C.

By:

Name:

Title:

STARWOOD CAPITAL GROUP, L.L.C., as
Manager of Starwood Financial Advisors, L.L.C.

By:

Name:

Title:

LIST OF SUBSIDIARIES

SUBSIDIARY	STATE OR ORGANIZATION/ INCORPORATION	OTHER NAMES USED
BM Center, LLC	Delaware	None
FMAC Star Fund, L.L.P.	Connecticut	None
Red Lion G.P., Inc.	Delaware	None
RLH Partnership, L.P.	Delaware	None
SFT I. Inc.	Delaware	Starwood Financial I (CA)
SFT II. Inc.	Delaware	Starwood Financial II (CA)
SFT Bonds A, Inc.	Delaware	None
SFT-Ford City, Inc.	Delaware	None
SFT-Port Charlotte, Inc.	Delaware	None
SFT-Sun Valley, Inc.	Delaware	None
SFT/RLH, Inc.	Delaware	None
SFT Venturer, LLC	Delaware	None
SFT Whole Loans A, Inc.	Delaware	None
Starwood Cayman Bonds, Inc.	Delaware	None
Starwood Cayman Bonds GP, Inc.	Delaware	None
Starwood D.C., Inc.	Delaware	None
Starwood/Denver Place, L.L.C.	Delaware	None
Starwood Financial Advisors, L.L.C.	Delaware	None
TriNet Corporate Realty Trust, Inc.	Maryland	None
TriNet Essential Facilites I, Inc.	Maryland	None
TriNet Essential Facilities II, Inc.	Maryland	None
TriNet Essential Facilities III, Inc.	Maryland	None
TriNet Essential Facilities IV, Inc.	Maryland	None
TriNet Essential Facilities V, Inc.	Maryland	None
TriNet Essential Facilities VI, Inc.	Maryland	None
TriNet Essential Facilities VII, Inc.	Maryland	None
TriNet Essential Facilities VIIIR, Inc.	Maryland	None
TriNet Essential Facilities X, Inc.	Maryland	None
TriNet Essential Facilities XI, Inc.	Maryland	None
TriNet Essential Facilities XII, Inc.	Maryland	None
TriNet Essential Facilities XIV, Inc.	Maryland	None
TriNet Essential Facilities XV, Inc.	Maryland	None
TriNet Essential Facilities XVI, Inc.	Maryland	None
TriNet XVII Realty Trust, a Massachusetts business trust	Maryland	None
TriNet Essential Facilities XVIII, Inc.	Maryland	None
TriNet Essential Facilities XIX, Inc.	Maryland	None
TriNet Essential Facilities XX, Inc.	Maryland	None
TriNet Essential Facilities XXI, Inc.	Maryland	None
TriNet Essential Facilities XXII, Inc.	Maryland	None
TriNet Essential Facilities XXIII, Inc.	Maryland	None
TriNet Essential Facilities XXIV, Inc.	Maryland	None
TriNet Essential Facilities XXV, Inc.	Maryland	None
TriNet Essential Facilities XXVI, Inc.	Maryland	None
TriNet Essential Facilities XXVII, Inc.	Maryland	None
TriNet Essential Facilities XXVIII, Inc.	Maryland	None
TriNet Essential Facilities XXIX, Inc.	Maryland	None
TriNet Essential Facilities XXX, Inc.	Maryland	None
TriNet Corporate Partners I, L.P., a Delaware limited partnership	Maryland	None

SUBSIDIARY	STATE OR ORGANIZATION/ INCORPORATION	OTHER NAMES USED
TriNet Corporate Partners II, L.P., a Delaware limited partnership	Maryland	None
TriNet Corporate Partners III, L.P., a Delaware limited partnership	Maryland	None
TriNet Property Management, Inc.	Maryland	None
TriNet Property Partners, L.P., a Delaware limited partnership	Maryland	None
TriNet Realty Capital, Inc.	Maryland	None
TriNet Realty Investors I, Inc.	Maryland	None
TriNet Realty Investors II, Inc.	Maryland	None
TriNet Realty Investors III, Inc.	Maryland	None
TriNet Realty Investors IV, Inc.	Maryland	None
TriNet Realty Investors V, Inc.	Maryland	None
TriNet Realty Ventures, Inc.	Maryland	None

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