

# LEHMAN BROTHERS

## Memorandum

TO Commitment Committee

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CC Global Real Estate Group: Mark Walsh

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<u>RE Banking:</u> Steven Hash David Lazarus Scott Levin Julia Atwood Clay Wolford	<u>Private Equity:</u> Brett Bossung Mark Newman Coburn Packard David Kim Arash Dilmanian Jenny Hammarlund Constantine Tuijios Zach Crowe Elena Compton	<u>Bridge Equity:</u> Paul Hughson Robert Ashmun Joelle Halperin Keith Cyrus Web Neighbor Catherine Lam	<u>PTG:</u> Navid Moshtaghi Bryan Crane Mark Peckham Ashley Bickford	<u>CMBS:</u> Kenneth Cohen Larry Kravetz Spencer Kagan Charles Manna Mike Casavant Mike Lascher Bill Doramus Faizal Sheriff	<u>Term Loan:</u> Frank Gilhool Tom Buffa Sheila Bjornstad Brian Gross Andrew Wilson Derek Schneider
<u>Lev. Finance:</u> Bill Hughes Chip Heflin		<u>HY Sales:</u> James Seery	<u>M&amp;A:</u> Mark Shafir Lisa Beeson Deborah Smith Jim Dixson		<u>Credit Rating:</u> Mike Crehan

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DATE Tuesday, May 22, 2007

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SUBJECT [\$18.3] billion debt and equity financing commitment in connection with the potential acquisition of Archstone-Smith Trust

- [\$13.4] billion debt commitment
  - [\$2.3] billion junior mezzanine commitment
  - [\$2.3] billion bridge equity commitment
  - [\$250] million permanent equity commitment
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## Situation Overview

We are updating the Committee on the potential acquisition (the “Transaction”) of Archstone-Smith Trust (“Archstone”, “ASN” or the “Company”) by Tishman Speyer Properties (“Tishman”) and Lehman Brothers (collectively, the “Acquisition Group”). We intend to submit a bid of [\$60.00] per share, representing a 16.4% premium to the closing price of \$51.57 on Monday, May 21, 2007 and implying a \$22 billion transaction value (including costs). Archstone-Smith is one of the largest U.S. multifamily REITs with asset concentrations in the best U.S. markets including Washington, D.C., New York City, San Francisco and Southern California. As of March 31, 2007, the Company owned or had an ownership position in 344 communities, representing 86,014 units, including units under construction. In addition, ASN has a robust development pipeline with a total estimated cost of \$4.4 billion, representing 14,237 units.

Under the proposed transaction, Lehman and Tishman would form a core multifamily property fund (the “Fund”) consisting of the highest quality large-scale portfolio of multifamily assets in the sector. Lehman and Tishman would serve as co-general partners of the Fund, with each investing [\$250] million of permanent equity. It is currently anticipated that Lehman’s Real Estate Private Equity Group will retain Lehman’s permanent equity position. Lehman Brothers and Bank of America will each fund half of the remaining capital with a commitment of [\$18.1] billion, consisting of a [\$13.4] billion floating rate bank loan, a [\$2.3] billion junior mezzanine loan and [\$2.3] billion of bridge equity. Benefits to Lehman include asset management fees, increase in assets under management, and advisory and financing fees, in addition to the underlying return on the investment, which we believe will be strong.

Firm bids were due by 5:00 PM EST on Monday, May 21, 2007; however, the Company granted Tishman and Lehman a 24-hour extension. The Acquisition Group plans to submit a firm bid by 5:00 PM EST tonight and the Company expects to make a public announcement regarding the sale of the Company shortly thereafter.

**Sources and Uses**

<b>SOURCES AND USES OF FUNDS (AT CLOSING)</b>			
<i>(\$ in thousands)</i>			
<b>Sources of Funds</b>		<b>Uses of Funds</b>	
Tishman Speyer Equity	\$250,000	Purchase ASN Equity @ \$60.00	\$15,727,405
Lehman Permanent Equity	250,000		
Bridge Equity	2,319,433		
<b>Total Equity</b>	<b>\$2,819,433</b>	Liquidation of Series I Preferred	50,000
<b>Preferred Equity</b>	<b>\$1,311,643</b>	Repay Credit Facility	474,204
<b>Net Sales at Closing</b>	<b>\$400,476</b>	Repay International Term Loan	106,312
		Redeem Unsecured Debt	2,397,660
		Repay Mortgage Debt	1,199,980
New Junior Mezz	\$2,319,433		
New Bank Loan	13,433,405	Assume Mortgage Debt	1,305,214
<b>Total New Lehman Debt</b>	<b>\$15,752,839</b>	Transaction Costs	1,127,430
		New Working Capital and Other Assets	(98,600)
New German Refinancing	\$700,000		
Assumed Mortgage Debt	1,305,214		
<b>Total Assumed Debt</b>	<b>\$2,005,214</b>		
<b>Total Sources</b>	<b>\$22,289,605</b>	<b>Total Uses</b>	<b>22,289,605</b>

## Financing Assumptions

<b>DEBT SIZING SUMMARY</b>				
	Value	LTV	All-In Rate	Total Debt
<b>Floating Pool:</b>				
Floating Pool Assumed Debt (ALL YEARS)				
Sales At Closing	2,475,660,956	85%	7.35%	1,918,517,541
Sales - Year 1	1,228,950,617	85%	7.35%	1,047,522,341
Sales - Year 2	65,329,258	85%	7.35%	55,529,869
Sales - Year 3	502,716,952	70%	7.35%	169,151,872
<b>Total Floating Pool</b>	<b>4,272,657,783</b>	<b>75%</b>		<b>3,190,721,622</b>
<b>CMBS Pool :</b>				
Long Term Fixed Pool	14,312,267,288	60%	6.10%	7,043,210,440
Total Assumed Debt				\$1,305,214,040
Assumed Debt (Only Hold Assets)	-			\$905,903,351
<b>Total Fixed Rate (Hold Assets)</b>	<b>14,312,267,288</b>	<b>56%</b>		<b>7,949,113,792</b>
Development Pool	1,890,000,000	60%		1,130,000,000
Germany Pool	1,000,000,000	70%		700,000,000
<b>Total Fixed &amp; Floating</b>	<b>21,474,925,071</b>	<b>60%</b>		<b>12,969,835,414</b>
Preferred Units Pool (Treated As?)	Equity	80%		1,311,643,296
Value Available To Term Loan (Excl Sales, Germ & Dev))	14,312,267,288			
Term Loan Amount To 70% on US Operating Business		70%		2,069,473,310
<b>Total Domestic Operating Business</b>	<b>14,312,267,288</b>	<b>70%</b>		<b>10,018,587,102</b>
<b>Total Enterprise Debt</b>	<b>21,474,925,071</b>	<b>76%</b>		<b>16,350,952,020</b>
1031 Asset Purchases (Not Leveraged @ Close)	1,410,000,000			
<b>TOTAL</b>	<b>\$22,884,925,071</b>	<b>71%</b>		<b>\$16,350,952,020</b>

<b>DEBT FINANCING</b>										
	Assume Debt (1)	Development Loan	New Floating Rate Debt	New Fixed Rate Debt	Preferred Units	Term Loan	Operating Revolver (2)	Total Acquisition Debt	Term Loan Refinancing	1031 Pool Subsequent Financing
Acquisition Debt	\$1,305,214,040	\$1,130,000,000	\$3,190,721,622	\$7,043,210,440	\$1,311,643,296	\$2,069,473,310	\$150,000,000	\$6,239,341,999	\$3,194,209,964	\$987,000,000
Maximum		\$2,750,000,000						<b>\$16,050,262,708</b>		
Closing Date	Vary	7/1/2007	7/1/2007	7/1/2007	7/1/2007	7/1/2007	7/1/2007		7/1/2010	7/1/2008
Term	Vary	84	36	84	84	36	84		48	72
Maturity Date	Vary	6/30/2014	6/30/2010	6/30/2014	6/30/2014	6/30/2010	6/30/2014		6/30/2014	6/30/2014
Prepayment on Sales		80%								
Index Rate		Libor	Libor	Treasury	None	Libor	Libor			
Rate Cushion Applied		5.35%	5.35%	4.75%		5.35%	5.35%		0.00%	5.00%
Credit Spread		0.00%	0.15%	0.15%		0.00%	0.00%		2.00%	1.35%
Un-Used Fee		2.00%	2.00%	1.35%	6.00%	2.00%	2.00%			
Interest Only Period		0.50%				0.50%				
Amortization Period (Mos)			36 Months	84 Months	84 Months	36 Months	84 Months		120 Months	120 Months
Orig. / Assump. Fee (%) <sup>(4)</sup>	0.75%	1.25%	1.00%	0.00%	0.00%	1.25%	1.50%		1.00%	0.00%
Origination Fee	\$9,789,105	\$34,375,000	\$35,911,973	\$0	\$0	\$25,868,416	\$2,250,000	<b>\$108,194,494</b>	\$31,042,100	\$0
Commitment Fee (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		0.00%	0.00%
Commitment Fee	\$0	\$0	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>	\$0	\$0
Cost of Hedge (1.5%)	\$0	\$1,695,000	\$0	\$0	\$0	\$3,104,210	\$0	<b>\$4,799,210</b>	\$4,656,315	\$0
Loan Assump./Consents (above) <sup>(4)</sup>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>		
<b>Total Financing Costs</b>	<b>\$9,789,105</b>	<b>\$36,070,000</b>	<b>\$35,911,973</b>	<b>\$0</b>	<b>\$0</b>	<b>\$28,972,626</b>	<b>\$2,250,000</b>	<b>\$112,993,704</b>	<b>\$35,698,415</b>	<b>\$0</b>

- (1) In Place debt assumed with transaction.  
(2) Operating revolver funds NOI shortfalls for Operating Assets only.  
(3) Inclusive of 1.0% fee to Lehman Brothers.  
(4) An assumption fee of 0.75% is assumed on all in-place debt.

## Valuation Summary

## VALUATION BREAKDOWN SUMMARY

	Total Units	Allocated Value	Weighted Average Going-In Cap Rate on Value (1)
<b>Operating Portfolio:</b>			
Boston	2,277	\$900,000,000	4.66%
Inland Empire & Orange County	3,495	810,000,000	4.44%
Los Angeles & Ventura County	6,832	2,410,000,000	4.14%
New York & New Jersey	4,116	2,950,000,000	4.07%
San Diego	3,664	1,050,000,000	4.29%
San Francisco	7,275	2,190,000,000	4.25%
Seattle - Portland	3,857	750,000,000	4.41%
Southeast Region (FL, GA, TX)	4,219	540,000,000	4.73%
Virginia - Maryland	12,354	3,790,000,000	4.74%
Washington, D.C.	3,553	1,060,000,000	4.75%
Non-Core Markets	184	30,000,000	5.08%
Oakwood Properties	5,684	1,270,000,000	4.61%
1031 Asset Investment	Unknown	1,410,000,000	4.00%
<b>Total Operating Properties</b>	<b>57,510</b>	<b>\$19,160,000,000</b>	
<b>Development Portfolio:</b>			
Development Pipeline	22,523	\$1,890,000,000	
<b>Total Development Portfolio</b>	<b>22,523</b>	<b>\$1,890,000,000</b>	
<b>Germany Portfolio:</b>			
German Portfolio	10,752	\$1,000,000,000	
<b>Total Germany Portfolio</b>	<b>10,752</b>	<b>\$1,000,000,000</b>	
<b>Other Assets:</b>			
Intangibles			
Future Value Of Mgt. Business <sup>(2)</sup>			
<b>Total Other Assets</b>		<b>\$0</b>	
<b>Overall Valuation</b>		<b>\$22,050,000,000</b>	

(1) Value based on forward year NOI in all cases.

(2) \$500,000,000 in Year 7.

**Projected Returns**

– Levered returns over a 10-year hold period

<b>SUMMARY RETURNS</b>				
	<b>\$60.00</b>	<b>\$61.00</b>	<b>\$62.00</b>	<b>\$63.00</b>
<i>Purchase Premium to Trading</i>	16.35%	18.29%	20.22%	22.16%
Projected Leveraged IRR	13.96%	12.96%	12.03%	11.14%
Net Investor IRR	12.97%	12.12%	11.33%	10.59%

## **Due Diligence**

Due diligence for the Transaction is being conducted jointly by Lehman Brothers, Tishman, Wachtell, Lipton, Rosen & Datz (“Wachtell”), Weil, Gotshal & Manges (“Weil”), DLA Piper (“DLA”) and Ernst & Young (“E&Y”).

Prior to the Acquisition Group’s initial indication of interest on May 2, 2007, Lehman and Tishman spent several weeks reviewing publicly available information. In addition to reviewing publicly available information, we are currently reviewing non-public information provided in an on-line data room. Lehman, Tishman, E&Y and the Acquisition Group’s legal counsels have reviewed all property-level data as well as corporate, tax and legal information on the site. On Monday, May 14, 2007, representatives of Lehman and Tishman also attended a presentation given by Archstone’s executive management team.

In addition, Lehman’s Private Equity Group and Principal Transactions Group and Tishman’s regional acquisitions teams have conducted market research and underwriting relating to the Archstone properties. They have visited/toured almost all of the operating properties and have extensively toured the development assets. Both teams have found the properties to be of superior quality and condition and determined that they appear to be well-operated and well-maintained. The construction projects are also of superior/excellent quality and are designed to target the upper echelon of the leasing market.

The following table outlines the due diligence that is being conducted by the team in connection with the proposed Transaction.

<b>DUE DILIGENCE SUMMARY</b>			
<b>Due Diligence Area</b>	<b>Activity</b>	<b>Conducted By</b>	<b>Status</b>
1. Public information	Review ASN’s public filings, supplemental financial packages, recent earnings call transcripts, recent news, equity research reports	All	Completed
2. Corporate financial information	Review financial schedules including balance sheet, account payables and receivables, cash rollforward, severance, change of control provisions, 280G, etc.	Lehman / TSP	Completed
3. Operating property projections	Detailed review of the Company’s cash flow projections for each operating property, including assumptions for rents, growth rates, expenses and capex	Lehman / TSP	Completed
4. Development pipeline projections	Review pro forma projections for each development project, including assumptions on construction costs, development period, rents, etc.	Lehman / TSP	Completed
5. Valuation	Prepare LB valuation view for operating properties and development pipeline Review market data, sales comparables, etc.	Lehman / TSP	Completed
6. Audit of property projections	Audit cash flow projections and prepare property-by-property underwriting model	Lehman / TSP	Completed

7.	Property tours	<p>Visit substantially all of ASN's multifamily properties and development sites</p> <p>Meet with the ASN management team to discuss the strategy and direction of the company</p> <p>Discuss conditions and trends in ASN's markets, including supply, rents and occupancies, etc.</p>	Lehman / TSP	Completed
8.	Background checks	LB background checks on R. Scot Sellers, Charles Mueller, Jr., Jack Callison, and Gerald Morgan, Jr.	Lehman Due Diligence	Completed
9.	Litigation	Review pending litigation and contingent liabilities with ASN	Legal	Completed
10.	Real estate legal diligence	Review select titles, insurance policies, land surveys, lease abstracts, estoppels, management and service agreements and zoning opinions	Legal	Completed
11.	Corporate legal diligence	Customary corporate diligence	All	Completed

## Summary Terms of Commitments

<b>SUMMARY TERMS OF JOINT VENTURE</b>	
<b>Overview</b>	Lehman will form a joint venture with Tishman Speyer (the “Sponsor”). Sponsor will then enter into a joint venture with another affiliate of Lehman as the bridge equity provider (the “Joint Venture”). The Joint Venture will acquire all of the interests in the Company. Lehman and Tishman will each invest \$250 million of long-term equity and Lehman will provide a bridge equity, junior mezzanine and bank loan commitment to bridge the closing of the transaction.
<b>Initial Capitalization</b>	\$250 million – Lehman Equity (subject to increase of up to \$100 million) \$250 million – Tishman Speyer Equity \$2.3 billion – Bridge Equity \$2.3 billion – Junior Mezzanine \$13.4 billion – Bank Debt
<b>% Economic Interests in Asset Management Fees &amp; Promote</b>	35% – Lehman 65% – Tishman Speyer
<b>Distribution of Promote</b>	All distributions will be made pro rata based on contributed capital, except that after syndication (and subject to the Failed Syndication provisions below), Sponsor will be entitled to a twenty percent (20%) promote after the other partners receive an eight percent (8%) IRR; provided, however, that there will be no promote of Lehman’s capital so long as Lehman continues to own any equity interest in the Joint Venture.
<b>Bridge Equity Commitment Fee</b>	Four percent (4%) of Lehman’s bridge equity commitment, payable to Lehman at closing. If the transaction is consummated but Lehman’s equity commitment is not funded, Sponsor and all equity investors in the Joint Venture will be obligated to pay Lehman 3% of the commitment. If the transaction is not consummated, no bridge commitment fee is due.
<b>Bridge Equity Return</b>	In addition to its Bridge Equity Commitment Fee, Lehman shall be entitled to a return on equity, compounded quarterly, equal to 10.0% per annum on its equity investment in the Joint Venture.
<b>Syndication of Lehman’s Equity</b>	Lehman and Sponsor intend to jointly syndicate Lehman’s entire equity position in the Joint Venture to third-party equity investors within nine (9) months after closing at a price that provides Lehman with a return of its original capital plus the Bridge Equity Return accrued through the date of such syndication.
<b>Failed Syndication</b>	If the syndication of all of Lehman’s equity interest in the Joint Venture has not been completed prior to the end of the Syndication Period, then (i) such syndication shall be deemed a “Failed Syndication”; (ii) Lehman shall be entitled to assume sole control over the syndication and shall be permitted to sell its equity position to any investor in Lehman’s sole discretion; and (iii) Lehman shall have the sole authority to reduce or eliminate the promote and administration fees otherwise payable to Sponsor.

<b>SUMMARY TERMS OF BRIDGE FACILITY</b>	
<b>Senior Borrower:</b>	[Newly formed entity wholly owned by Tishman/Lehman Joint Venture Entity.]
<b>Guarantors:</b>	The holding company parent of the Borrower and each of its direct and indirect, existing and future, subsidiaries.
<b>Credit Facilities:</b>	A \$19,000,000,000 (plus revolver commitment) senior secured credit facility (the "Facility"), which shall be comprised of: <ul style="list-style-type: none"> <li>(i) 3 year, [\$TBD] revolving credit facility (the "Revolver"); and</li> <li>(ii) 18-month, \$19,000,000,000 senior secured term loan (the "Senior Term Loan") which shall consist of: <ul style="list-style-type: none"> <li>(a) \$10,000,000,000 CMBS bridge loan ("TLX"), and</li> <li>(b) \$9,000,000,000 term loan B ("TLB"), a portion of which may be structured as a second lien.</li> </ul> </li> </ul>
<b>Collateral:</b>	A perfected first priority security interest in all tangible and intangible assets (including, without limitation, intellectual property, certain real property and all of the capital stock of the Borrower and each of its direct and indirect subsidiaries).
<b>Pricing:</b>	Revolver: LIBOR plus [225] bps, subject to a leverage grid. Term Loan: LIBOR plus [225] bps.
<b>Market Flex:</b>	Subject to complete price flex.
<b>Unused Fee:</b>	50.0 bps on the average undrawn portion of the Revolver paid quarterly in arrears.
<b>Assumed Rating:</b>	BB/Ba2 (corporate)
<b>Voluntary Prepayments:</b>	Prepayable at any time without premium or penalty, subject to customary breakage costs.
<b>Scheduled Amortization:</b>	None.
<b>Mandatory Prepayments:</b>	The following amounts shall be applied to repay the Facility in the following order; first to repay TLB, second to repay TLX and third to repay the Revolver, with the exception of (a) amounts in (ii) below shall be applied first to repay the Junior Mezz and second to repay the Facility and (b) CMBS indebtedness included in (iii) below shall be applied first to repay TLX and second to repay the Facility: <ul style="list-style-type: none"> <li>(i) 100% of excess cash flow;</li> <li>(ii) 100% of the net cash proceeds from any issuance or sale of equity;</li> <li>(iii) 100% of the net cash proceeds from the incurrence of indebtedness; and</li> <li>(iv) 100% of the net cash proceeds from the sale or other disposition (including as a result of casualty or condemnation) of any assets.</li> </ul>
<b>Financial Covenants:</b>	Shall include with respect to the Senior Borrower, but not be limited to, the following: <ul style="list-style-type: none"> <li>(i) Maximum consolidated debt to value;</li> <li>(ii) Minimum consolidated debt service coverage ratio; and</li> <li>(iii) Minimum tangible net worth.</li> </ul>
<b>Negative Covenants:</b>	Customary for financings of this type.
<b>Sole Arranger / Bookrunner:</b>	Lehman Brothers Inc.
<b>Administrative Agent:</b>	Lehman Commercial Paper Inc.