CONFIDENTIAL

LEHMAN BROTHERS

MEMORANDUM

TO: **INVESTMENT COMMITTEE** *As of 7/1/05*

Committee Members

Steven Berkenfeld (Chairman) (399 Park Ave-9)
Madelyn Antoncic (29)
Charles Ayres (399 Park Ave-9)
Thomas Bernard (Via E-Mail/Merchant Bking & Euro Mezz)
J. Stuart Francis (SF) (Via E-Mail/Venture Capital Only)
Raymond Mikulich (399 Park Ave-9)
John Niebuhr (20)
Michael Odrich (399 Park Ave-9)
Bill Tudor John (London) (Via E-Mail)
Anthony Tutrone (399 Park Ave-9)
Mark Walsh (399 Park Ave-8)
Steven Wolitzer (23)

Evette Saldana (20)
Blanca Garrido (20)
(Committee Coordinators)

cc: (Full Book)

Emily Davis (20)
Kevin Genirs (20)
Jeffrey Goodman (29)
Jeffrey Glibert (29)
Patrick McGarry (29)
Bert Kwan **(399 Park Ave-9)**
Dean Marsan **(399 Park Ave-5)**
Fred Steinberg **(399 Park Ave-5)**

Zev Klasewitz (29) **(LBREP Only)**
Rodolpho Amboss **(399 Park/9-LBREP Only)**
Jeffrey Bailey **(399 Park/9-LBREP Only)**
Brett Bossung **(399 Park/9-LBREP Only)**
Yon Cho **(399 Park/9-LBREP Only)**
Kevin Dinnie **(399 Park/9-LBREP Only)**
Michael McNamara **(399 Park/9-LBREP Only)**
Mark Newman (London) **(LBREP Only)**
Paul Shang **(399 Park/8-LBREP Only)**
Tanya Tarar **(399 Park/9-LBREP Only)**

cc: (Memo only via Outlook)

Thomas Banahan
Scott Freidheim
Jonathan Cohen
Joseph Gault
Josefina Granoff
Edward Grieb
Judi Howgego
Ted Janulis
Robert Matza
Skip McGee
Mark Merchant
Cindy Michel
Christopher O'Meara
Gerald Parkes
Goran Puljic
Robert Redmond
Peter Sherratt

FROM: Brett Bossung
Yon Cho
Khanh Pham
Andrew Dillenburg
Justin

CC: Harry Bruni
Navid Moshtaghi
Bryan Crane

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Robert Redmond
Peter Sherratt

FROM: Brett Bossung, Yon Cho, Khanh Pham, Andrew Dillenburg, Justin Pattner

CC: Harry Bruni, Navid Moshtaghi, Bryan Crane

MEETING DATE: **JULY 8, 2005**

TIME: **9:00 AM**

LOCATION: **ALLAN KAPLAN'S CONF.ROOM-20TH FLOOR (SOUTHEAST CORNER) 745 SEVENTH AVENUE**
LOCATION: **399 PARK AVENUE – CONF. ROOM: TBD**
Via Conference Call-in # 866-779-0772 (US) or 334-309-0261 (Int'l)
Conf. Room # (*See the Meeting Planner*) (You must enter the *)

SUBJECT:	$252.7 million bridge loan secured by a first mortgage provided by Lehman Brothers Real Estate Mezzanine Partners, L.P., to Heritage Fields LLC for the acquisition of the 3,723-acre former Marine Corps Air Station El-Toro, located in Irvine, CA.

Please call Khanh Pham (5-1881) or Andrew Dillenburg (5-9809) for additional information.

CORE Number: IB435.017

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I. EXECUTIVE SUMMARY

Investment Overview

Lehman Brothers Real Estate Mezzanine Partners ("LBREM") is requesting approval from the Private Equity Investment Committee to provide a $252.7 million bridge loan (the "Loan") secured by a first mortgage to Heritage Fields, LLC ("Borrower") for the site acquisition of Heritage Fields (the "Project"). The Borrower is comprised of Lennar Corporation and LNR Property Corporation, as the developer ("Lennar") and their capital partners which include Blackacre, Rockpoint, MSD Capital, CALSTRS, and NYSTRS, among others *(See the table below for a list of the equity partners and their respective capital contributions).*

Capitalization at Closing

(in thousands) Sources of Funds	$	% Equity	% Total		$	% Equity
LBREM Bridge Loan	252,661		32%	Equity Breakdown by Investor		
Total Equity	541,172	100%	68%	Lennar	67,647	13%
Total Sources	**793,833**		**100%**	LNR	67,647	13%
				Blackacre	67,647	13%
				Rockpoint	67,647	13%
				MSD Capital	67,647	13%
				CALSTRS	62,443	12%
				NYSTRS	31,221	6%
				Oregon Employees	62,443	12%
				Stanford Employees	46,832	9%
				Total Equity	**541,172**	**100%**

(1) Includes a $200 mm initial funding, the second installment of the Development Agreement Fee of $33.3 mm (funded 30-days after closing), property taxes of $2.75 mm, a $9.75 mm environmental insurance premium, a $1.3 mm LBREM origination fee, a $5.3 mm interest reserve, and $250,000 of lender third-party expenses..

LBREM would be providing a low loan-to-cost ("LTC") bridge loan to facilitate the closing of this acquisition on July 12, 2005 and secure the right to provide a more permanent acquisition and development loan (the "A&D Loan") during the Project's pre- and post-entitlement phases. Bridge loan terms include an interest rate of LIBOR plus 500 basis points ("bps"), a 50 bps origination fee, and a 12-month term. Repayment of the Loan will come from the A&D Loan, which is anticipated to be put in-place within 90 days. LBREM plans to finalize its due diligence on the Project during this period. We intend to return to the Private Equity Investment Committee to present the A&D loan prior to making that investment. To the extent we cannot agree upon terms with the Borrower or our diligence is not satisfactory, the Borrower will have the right to repay the Loan without penalty.

In addition to the LBREM professionals, the deal team includes Harry Bruni, Navid Mostaghi, and Bryan Crane from the Lehman Brothers Global Real Estate Finance Group in California as well as the law firm of Paul, Hastings, Janofsky & Walker LLP ("Paul Hastings") acting as lead counsel on documentation and HellerErhman ("Heller"), who is leading the diligence on the entitlement, environmental and development agreement issues related to the Project. All of these parties have extensive experience in structuring financing for California land development.

The investment is an opportunity for LBREM to provide bridge financing that will be collateralized by significant value and substantial equity. At acquisition, the Loan will have a loan-to-cost (LTC) of 32% (inclusive of the second installment of the Development Agreement Fee). The remaining 68% of the capital represents $541.2 million in Borrower equity. At closing, the loan-to-value ("LTV") is approximately 30% based on Lennar's estimated $830 million discounted land value. Given the low initial loan-to-cost debt exposure and extremely strong equity sponsorship, LBREM expects to be able to lever its investment with 70% non-recourse financing at a rate of approximately L+200 bps, which will generate an approximate 17% levered IRR.

Project Overview

The site is situated on 3,723 acres that was formerly the El Toro Marine Corps Airstation and was sold in four separate parcels. The Heritage Fields master-planned community consists of 3,630 residential home sites, 3.1 million square feet of research and development/office space, 225,000 square feet of retail space, and two golf courses totaling 45-holes amidst the 367-acre Great Park and a wide variety of other public/recreational uses. The Project's planned development intensities have been approved under an Overlay Zoning Plan, which will be enacted upon the Borrower's execution of the Development Agreement with the City of Irvine. Lennar must obtain approvals for several remaining entitlements that are primarily procedural obligations that have limited discretionary risk. *(Please see Section V for a detailed discussion of the Project's outstanding entitlements).* As one of Orange County's last large-scale sites for private development (not owned by the Irvine Company and Rancho Mission Viejo), Heritage Fields is well-positioned to capitalize on the favorable supply-demand imbalance for new homes in the immediate area.

II. CAPITALIZATION

It is anticipated that the LBREM bridge loan will be replaced by the A&D Loan within 90 days of closing to fund the Project's Pre-Entitlement and Post-Entitlement phases. The A&D Loan will have a term of 5 years. During the Pre-Entitlement phase, the loan will have an interest rate of L+500 bps, which will be reset to a market rate during the Post-Entitlement phase. The Pre-Entitlement phase is projected to last 18 months, over which time Lennar will process the remaining entitlements necessary to begin development. The Post-Entitlement phase will last an additional 39 months to complete the infrastructure development. The following table and sections summarize the Project's three phases and the respective total cost and capitalization.

LBREM Loan Funding by Phase

(in thousands)	Closing: Jul. '05 — Sept. '05	Sept. '05 — Dec. '06	Dec. '06 — Aug. '10
Project Phase	**Bridge**	**Pre-Entitlement**	**Post-Entitlement**
Duration	**< 90 Days >**	**< 18 Months >**	**< 39 Months >**
Action	Negotiate A&D Loan	Process and Obtain Entitlements	Begin Development and Sales
Total Cost	$793,833	$161,056	$434,602
Cumulative Cost	*793,833*	*954,889*	*1,389,491*
Equity Contribution	$541,172	$23,810	$52,957
Cumulative Equity	*541,172*	*564,982*	*617,939*
Total Loan Funding	$252,661	$137,246	$381,644
Cumulative Loan Amount	*252,661*	*389,907*	*771,551*
Cumulative LBREM Net Investment(1)	$75,798	$116,972	$231,465
Loan-To-Cost	32%	40%	55%

(1) Assumes 70% financing on total funding amount

Bridge Phase

Acquisition costs total $793.8 million, which will consist of a $649.5 million purchase price for the land, a $51.0 million redemption payment to SunCal for Parcel IV (*See explanation below as well as Section IV – "Merits and Considerations"*), $66.7 million in Development Agreement fees and $26.7 million in environmental insurance and other closing expenses.

Sources and Uses of Funds at Closing

(in thousands)

Sources of Funds	$	%	Uses of Funds	$	$/ Resi. Lot	%
LBREM Bridge Loan	252,661	32%	Land Acquisition [1]	649,500	179,172	82%
Lennar/LNR Equity	135,293	17%	SunCal Redemption Payment [2]	51,000	14,069	6%
Capital Partner Equity	405,879	51%	Dev. Ag. Fee [3]	66,667	18,391	8%
Subtotal - Equity	541,172	68%	Enviro. Insurance Premium [4]	9,750	2,690	1%
			Lennar Closing Costs & Working Capital [5	7,339	2,025	1%
			Financing Costs [5]	9,578	2,642	1%
Total Sources	**$ 793,833**	**100%**	**Total Uses**	**$ 793,833**	**$ 218,989**	**100%**

1

Parcel	Purchase Price ($000)
I	$125,000
II	$310,500
III	$154,000
IV	$ 60,000
Total	**$649,500**

2 At closing, Borrower will pay Suncal $51 million (excl closing costs) in excess of the $60 million contract price to purchase its rights to acquire Parcel IV.

3 Development Agreement fees payable to the City of Irvine. Approximately $33.3 million will be paid at closing. LBREM will fund the remaining $33.3 million into an escrow account which will be drawn within 30 days of closing.

4 Lennar is responsible for the remediation of any future environmental conditions that arise on parcels that the Navy transferred in fee. To offset this potential remediation cost, Lennar purchased an environmental insurance policy that covers clean-up obligations until 2019. Please see Section V for a description of the environmental insurance.

5 Include interest reserve, origination fee, and escrow for taxes.

LBREM's $252.7 million bridge loan will be secured by a first mortgage on the property. The loan will bear interest at a rate of L+500 bps, have a 12-month term and earn a 50 bps origination fee. The Loan is fully pre-payable. The Loan amount at closing will include a $5.3 million interest reserve to pay the loan current over a 90-day period; the second installment of the Development Agreement Fee, which is due within 30 days of closing; the origination fee; and escrows for taxes and insurance. Lennar Corporation, a publicly-traded company with a market capitalization of approximately $10 billion, will provide an environmental indemnification and guarantee standard non-recourse carve-outs.

Bridge Loan Terms	
Borrower:	Heritage Fields, LLC
Security:	First Deed of Trust on the remediated portions of all parcels of land within the Project and any existing improvements. Areas subject to further remediation by the Navy shall be leased to the Borrower until remediation has concluded. Approximately 90% of the entire site has been remediated and will be transferred in fee at closing. The remaining 10% will be leased by Lennar from the Department of the Navy ("Navy") until the Navy completes remediation work.
Closing Date:	July 12, 2005
Loan Amount:	$252.7 million which includes a $5.3 million, 90-day interest reserve and $33.3 million to fund the second installment of the Development Agreement fee, which will be drawn within 30 days of closing.
Interest Rate:	LIBOR plus 500 bps
Term:	12 months
Amortization:	None
Prepayment:	Prepayable in full at anytime
Fees:	Origination fee at 0.50% of the maximum loan amount, inclusive of the interest reserve, the second installment of the Development Agreement Fee, and all other capitalized costs
Interest Reserves:	90 days of interest
Recourse:	Lennar Corporation will provide an environmental indemnification and guarantee standard non-recourse carve-outs.

Pre-Entitlement Phase

The Pre-Entitlement Phase is expected to last approximately 18 months during which time Lennar anticipates receiving final entitlements so it can begin its full development. During this 18-month phase, it is anticipated that total costs will increase from the initial $793.7 million to approximately $954.9 million. This additional $161.1 million will primarily consist of another installment of the Development Agreement fee, entitlement costs, environmental clean-up costs, financing costs, and legal and other fees. The A&D Loan will fund 100% of these added costs, but in no event will the loan amount exceed 40% of total costs. An estimate of the final Pre-Entitlement phase capitalization is shown below.

Sources & Uses of Funds for Pre-Entitlement

(in thousands)

Sources of Funds	$	%	Uses of Funds	$	$/ Resi. Lot	%
LBREM A&D Loan	389,907	40%	Land Acquisition	649,500	179,172	68%
Lennar/LNR Equity	141,246	15%	SunCal Redemption Payment	51,000	14,069	5%
Capital Partner Equity	423,737	45%	Dev. Ag. Fees	133,333	36,782	14%
Subtotal - Equity	564,982	60%	Enviro. Insurance Premium	9,750	2,690	1%
			Planning/Engineering/Entitlement	27,534	7,596	3%
			Environmental Cleanup	10,000	2,759	1%
			Legal and Other	64,194	17,709	7%
			Financing Costs	9,578	2,642	1%
Total Sources	**$ 954,889**	**100%**	**Total Uses**	**$ 954,889**	**$ 263,418**	**100%**

(1) Assumes interest accrues over pre-development phase, which is subject to change pursuant to A&D Loan terms (applies to Post-Entitlement phase as well)

The preliminary terms of the A&D Loan include an interest rate of L+500 bps during the Pre-Entitlement phase and a maximum Loan-to-Cost of 40%. It is anticipated that LBREM would lever its investment during this phase using non-recourse financing at an advance rate of 70% and a financing spread of L+200 bps. This would yield a levered return of approximately 17%.

Post-Entitlement Phase

The Post-Entitlement Phase is anticipated to last approximately 39-months following the receipt of full entitlements, at which time Lennar can begin sitework/development of the Project. The additional costs for this phase total $434.6 million and bring total costs to approximately $1.39 billion. The additional $434.6 million in costs is associated with the Project's backbone infrastructure (i.e. utility/road installation and grading), the last installment of the Development Agreement Fee ($66.7 million), $10 million in environmental clean-up expenses, and added soft costs. It is anticipated that equity will fund 45% of the total cumulative costs and the A&D loan will fund the remaining 55%. The total capitalization for the Post-Entitlement phase is shown below.

Sources & Uses of Funds for Post-Entitlement

(in thousands)

Sources of Funds	$	%	Uses of Funds	$	$/ Resi. Lot	%
LBREM A&D Loan	771,551	55%	Land Acquisition	649,500	179,172	47%
Lennar/LNR Equity	154,485	12%	SunCal Redemption Payment	51,000	14,069	4%
Capital Partner Equity	463,455	33%	Dev. Ag. Fees	200,000	55,172	14%
Subtotal - Equity	617,939	45%	Environmental Cleanup/Insurance	19,750	5,448	1%
			Backbone Infrastructure	206,704	57,022	15%
			Infrastructure Cost Contingency	13,460	3,713	1%
			Non-Profit Village Build-Out	49,500	13,655	4%
			Soft Costs	199,577	55,056	14%
Total Sources	**$ 1,389,491**	**100%**	**Total Uses**	**$ 1,389,491**	**$ 383,308**	**100%**

Upon receipt of full entitlements, it is anticipated that the terms of the A&D loan will be reset to market terms through a mechanism triggered by LBREM. At this time, LBREM will submit to the Borrower its view on market rate fees and interest rates, which the Borrower can accept or refuse. If the Borrower chooses not to accept the terms, the Borrower must refinance the A&D Loan. These provisions will be negotiated with the Borrower over the next 90 days.

III. RETURNS AND VALUATIONS

Given the Borrower's significant equity contribution at closing and the indicative Project valuation, the Loan maintains low exposure on both a loan-to-cost and loan-to-value basis at closing and during the Pre-Entitlement Phase. At closing, the LTC is approximately 32%. If LBREM provides the A&D Loan, the LTC will increase to 40% by the end of the Pre-Entitlement Phase. In addition, the LTV is anticipated to remain at 27% as Lennar processes the remaining entitlements and begins site work.

Debt Exposure		
	At Closing	**Upon Entitlement**
Date:	July 2005	December 2006 (18 mos.)
Loan Amount	$252,660,875	$389,906,943
Total Cost [1]	$793,833,333	$954,889,276
LTC	*32%*	*40%*
Discounted Value [2]	$829,688,786	$1,449,325,246
LTV	*30%*	*27%*

(1) Includes land acquisition, SunCal redemption payment and development agreement fees due at closing and the additional planning, engineering, environmental remediation and legal fees expended through the Project's entitlement period.
(2) Represents the future value of all Project costs and revenues discounted back to closing and upon achieving entitlement, respectively. The valuation assumes a 20% unlevered discount rate to solve for the Project's discounted value at closing and a 15% unlevered discount rate to solve for the Project's discounted value upon entitlement. The 5% reduction in discount rates reflects the risk of a Project timing delay, which is significantly reduced upon reaching entitlement.

LBREM expects to leverage the investment with 70% non-recourse financing at a rate of L+200 for both the Bridge Loan phase and the A&D Loan during the Pre-Entitlement Phase (18 months). The levered return is anticipated to be approximately 16.9% as shown below.

Investment Returns				
($ in thousands)				
LBREM Loan Amount		**90-Day Bridge**		**Pre-Entitlement**
Anticipated Initial Funding	$	252,661	$	252,661
Additional Funding		-		137,246
Total	$	252,661	$	389,907
Peak Investment (L+500)	$	252,661	$	389,907
Less: Amount Financed (L+200)		(176,863)		(272,935)
LBREM Investment	$	75,798	$	116,972
Multiple [1]		1.04x		1.17x
Levered IRR		16.9%		16.9%

(1) Reflects interest reserve funded at loan closing

Full Project Returns

Outlined below is a full project returns summary as provided by Lennar and its capital partners pursuant to implementing their business plan. As part of our final due diligence prior to funding the A&D Loan, all assumptions, financial analysis, and market studies will be reviewed extensively by the underwriting team. The primary assumptions in the business plan are as follows:

- 4% annual home price appreciation
- Homebuilder profit margins of 8% and 7%, respectively, that were utilized in the residual land pricing of the Project's detached and attached home residential lots, resulting in a $437,535 weighted average residential lot price
- R&D commercial parcel sales of $79 per buildable square foot

The overall projected sell-out value of the Project as estimated by Lennar is approximately $2.7 billion. LBREM completed a preliminary valuation analysis by lowering Lennar's primary assumptions to review the sensitivity of Project-level returns. Both analyses are shown below.

Deal Margin Analysis

(in 000's, except per unit amounts)	**Sponsor Case**			**LBREM Case**		
	$	**$/Lot**	**% Net Revenue**	**$**	**$/Lot**	**% Net Revenue**
Assumptions						
Homebuilder Profit Margin - Detached Homes			8%			12%
Homebuilder Profit Margin - Attached Homes			7%			10%
Annual Home Price Appreciation (Cumulative)			14%			2%
Annual Infrastructure Cost Inflation			3%			3%
Months to Achieve Entitlements			18			18
Infrastructure Development Period			28			28
Residential Parcel Sales Begin / End		2Q 2008 /	4Q 2013		2Q 2008 /	4Q 2013
Commercial Parcel Sales Begin / End		3Q 2006 /	2Q 2011		3Q 2006 /	2Q 2011
Project Revenues						
Residential Lot Sales	2,262,175	624,048	84%	1,734,627	478,518	80%
Commercial Lot Sales	463,883	127,968	17%	460,577	127,056	21%
Gross Sales Proceeds	2,726,058	752,016	101%	2,195,205	605,574	101%
Less: Sales Commissions	(23,079)	(6,367)	(1%)	(21,386)	(5,900)	(1%)
Net Sales Proceeds to Repay Debt	2,702,979	745,649	100%	2,173,819	599,674	100%
LBREM Principal	771,551	212,842		764,024	210,765	
LBREM Interest	147,434	40,672		142,548	39,324	
Total Cash Flow to Loan	918,986	253,513		906,572	250,089	
Net Proceeds to Equity	1,783,993	492,136		1,267,247	349,585	
Equity Contribution	(565,409)	(155,975)		(625,075)	(172,434)	
Total Profit	1,218,584	336,161		642,172	177,151	
Multiple of Capital	3.2x			2.0x		
Profit Margin	45%			30%		
Return on Cost	82%			42%		

If LBREM provides the A&D loan for the entire development period, the Sponsor projects net sales proceeds well in excess of the loan balance (principal and interest). This assumes the A&D loan is priced at L+500 during the Pre-Entitlement phase and L+225 during the Post-Entitlement phase. Based on

LBREM's projections, which assumes 2% home price appreciation and increased homebuilder margins, Lennar's sales proceeds are reduced by ~$529 million to $2.2 billion, which is well in excess of the $907 million required to repay the Loan. LBREM projects a profit margin and return-on-cost of 30% and 42%, respectively.

The following assumptions were utilized in LBREM's projections of revenues and costs:

<u>Project Revenues:</u>
- No value attributed to Planning Area Zone 10 in Parcel I, which is currently zoned for educational uses but planned to be rezoned for development of 1,500 student housing units (Lennar finished pad valuation of $38.3 million)
- $3.5 million finished pad valuation for 60 faculty home sites on Planning Area Zone 8 in Parcel I (vs. Lennar valuation of $16.8 million for an assumed 230 faculty home sites, which is in excess of the Overlay zoning for this parcel)
- 16 residential lot types, including 15% affordability requirement, sold for weighted average $429,550 per lot
- 12% and 10% homebuilder margins factored into the Project's detached and attached residential lot residuals, respectively *(Please see Exhibit C for the Project's residential lot residual values)*
- 2.7 million square feet of office and R&D space sold for average $77 per buildable square foot
- Total $1.8 billion uninflated Parcel sell-out value ($2.1 billion with assumed 2% annual home price appreciation) as detailed in the table entitled Project Land Uses and Projected Parcel Land Values in Section VIII – Project Overview

<u>Project Costs (Held Lennar Assumptions Constant):</u>
- Development Agreement Fees totaling $200 million are paid in three equal installments upon initial land acquisition, and 12 and 24 months following initial land acquisition per the Development Agreement
- $186.7 million (inflated 3% annually) infrastructure cost budget (including $61 million in demolition costs and $30 million in golf course construction costs)
- $13.5 million development cost contingency (20% on inflated infrastructure and environmental cleanup costs)
- $49.5 million cost to construct 165-unit homeless shelter that will be conveyed to the City of Irvine for zero purchase price per the Development Agreement
- North Irvine Transportation Mitigation Fees of $53.7 million payable in 2Q 2007
- CFD capacity of $227 million, which thereby necessitates no supplemental development agreement fees, and provides for $27 million in additional funding available to the Borrower to offset development costs

IV. MERITS AND CONSIDERATIONS

Merits

- **Low LTC and LTV** - At acquisition, the debt exposure on the Loan is approximately 32% LTC. By the end of the Pre-Entitlement Phase, LTC and LTV of the land are estimated to be approximately 40 % and 27%, respectively.
- **Strong Sponsorship** - Lennar Corporation and LNR Property Corporation ("LNR") will develop the Project. Lennar Corporation has significant experience in developing land in Southern California and has partnered with LBREP on two residential land development deals in the region, Harveston and Bressi Ranch, representing a total LBREP equity investment of $67 million. With a $9.9 billion market capitalization and $10.5 billion in revenue, as of year end December 2004, Lennar has grown into one of the largest homebuilding, land-owning, loan-making companies in the country. LNR Property Corporation, a subsidiary of the privately-held Cerberus Management, L.P, owns and manages a portfolio of approximately 40 office, industrial, hotel, and multifamily properties as well as 700 acres of commercial land. As of year end November 2003, LNR earned $419.5 million in revenue and $109.6 million of net income.
- **Significant Equity Contribution** – The Loan is supported by approximately $541.2 million in equity that represents 68% of the total capitalization at initial funding. The equity investment comes from Lennar as well as its capital partners including: i) Blackacre Capital Management, LLC, the U.S real estate investment arm of Cerberus Capital Management, that has invested over $4 billion in 250 distinct transactions since its inception in 1994, ii) Rockpoint Group, LLC, a global real estate investment and management firm with approximately $1 billion of capital and $787 million of equity invested in 42 transactions, and iii) MSD Capital, L.P, a New York based company that manages the capital of Michael Dell and his family, in a broad range of investments. Additional partners include the following pension funds: CALSTRS, NYSTRS, Oregon and Stanford Employees.
- **Substantial Equity Value in Overall Project** - The Borrower anticipates generating approximately $2.7 million in net sales proceeds which would be available to repay the A&D loan throughout the term (five years) of the Loan. The Borrower anticipates a profit margin of approximately 45% and a return-on-cost of approximately 82%.
- **Limited Entitlement Risk** – Although there remains certain entitlement rights to be obtained, the major discretionary entitlements are in-place to allow for the development of 3,625 residential lots, 3.1 million square feet of research and development/office space, 225,000 square feet of retail space, two golf courses totaling 45-holes, and a 367-acre Great Park, among other permitted uses. The entitlements that currently exist include an Overlay Plan, Development Agreement, and Final Environmental Impact Report (EIR).
- **Well-located Project** – The Property is centrally located in Orange County approximately 40 miles southeast of Downtown Los Angeles and 80 miles north of San Diego. The Project is highly accessible via I-5 and Highway 133 and is located adjacent to the Irvine Transportation Center, which provides MetroLink and Amtrak rail service. The Project also benefits from its proximity to the Pacific Ocean, which is approximately 10 miles west.
- **Favorable Demand/Supply Imbalance** - The Orange County housing market continues to experience a supply/demand imbalance that has led to record home price appreciation and rapid absorption of new housing product. This is attributable to employment gains in both Orange and Los Angeles County and the region's lack of developable land to supply enough new housing to meet rising residential demand. Annual new home supply is projected to peak at just below 8,000 residential home sites in 2007, which compares to projected Orange County job growth of over 30,000 annually through 2009.
- **Appreciating Home Prices** - The median price of an existing Orange County single family detached home rose to $704,000 in May 2005, which represented a 6.3% increase over the 12-months prior and was 35% higher than the median home price statewide. Orange County's median new home price has appreciated 12.8% per year, on average, since 1999.

- **Strong Economic and Demographic Trends** - Over the next four years, Orange County employment and population are expected to grow by a healthy 1.4% and 2.0% per annum, respectively. These trends are expected to support sustained housing demand for the area.

Considerations

- **The Loan is fully pre-payable and therefore a minimum yield is not guaranteed.** *Mitigating Factor: It is unlikely that the Loan will be refinanced prior to the receipt of full entitlements. It is anticipated that the entitlement process will take approximately 12-18 months based on Lennar's estimates and verified by HellerErhman, Lehman Brothers' legal counsel handling the real estate due diligence.*
- **The Property is not fully-entitled. In order to start development, Lennar must receive approvals for tentative maps, a master plan, and several resource agency permits.** *Mitigating Factor: The Project will receive key entitlements including an EIR, overlay plan, and development agreement at closing. Remaining entitlements are largely administrative and are not believed to pose any discretionary approval risk given the City's support for the Project. For instance, the City has transferred to Lennar key responsibilities it originally retained in order to expedite the development of the Project. Pursuant to the Development Agreement, Lennar has the right to develop the Project's backbone infrastructure, establish design guidelines, and prepare the tentative maps. (Please see Section V for a more detailed discussion of existing and outstanding entitlements.)*
- **Environmental conditions exist in certain areas of the Project site. The Navy is responsible for completing the remediation work (at its expense) for these areas. However, it may have insufficient funds for the adequate and/or timely completion of all known and pre-existing conditions, which may delay future development.** *Mitigating Factor: Of the Borrower's 2,302 net developable acres, 2,068 acres (90%) have been determined to be sufficiently clean to support residential development and will be transferred in fee at closing. Only ten percent of the developable land (234 acres) is subject to remediation by the Navy. The Navy expects to complete the bulk of the clean-up activities by 2007, with some remediation extending to 2012. Lennar intends to actively track the Navy's progress and offer assistance to the Navy to avoid delays and is also exploring ways it could assume control of the remediation efforts.*
- **Lennar is liable for additional remediation of environmental conditions on FOST areas, which may be discovered during development. This would increase the total cost of the Project.** *Mitigating Factor: Lennar has purchased environmental insurance from AIG of up to $80 million for clean-up obligations associated with these newly discovered conditions and up to $5 million for the remediation of soil contamination during site excavation and grading.*
- **The Project has been the subject of prior litigation and may be subject to future litigation.** *Mitigating Factor: Thirteen cases filed primarily by those who wanted the Project zoned as a civilian airport have been resolved. Future approval of the tentative maps and issuance of resource agency permits may offer opportunities for future challenges to the Project's non-aviation use. However, these appeals will be subject to the terms of existing settlements. The City of Irvine has been diligent in defending the Project. There are no outstanding litigation against the Project.*
- **Even though the City intends to raise $200.0 million through issuing community facility district (CFD) bonds to cover infrastructure costs, the amount of financing available remains uncertain. Any shortfalls may increase costs to Lennar by up to $60.0 million in the form of a Supplemental Fee payable during the Post-entitlement phase. This would negatively impact the Project value.** *Mitigating Factor: LBREM projects $287 million in CFD financing available for the Project (Please see Exhibit C for the calculation of CFD proceeds). Furthermore, the City has assured Lennar that it has never refused requests for public financing through a CFD.*
- **In order for LBREM to achieve targeted returns, the Loan must be financed.** *Mitigating Factor: Based on the Project's strong sponsorship, the investment's low LTV, and the procedural nature of obtaining approvals for the remaining entitlements, LBREM expects to be able to successfully finance or syndicate a senior portion of the loan to create an investment that meets LBREM's investment hurdles.*
- **The Project is listed under the Federal National Priorities List as a superfund site. This designation may hinder sales and thereby reduce the value of the collateral.** *Mitigating Factor: Ninety percent of the Project is environmentally clean leaving only 10% that requires further remediation. The Navy is obligated to perform this remediation and has set timeframes for*

its routine completion. A substantial portion of this work is expected to complete by 2006. Lennar is expected to begin the process of delisting the site after closing.

- **At closing, Borrower will pay SunCal $51 million (excl closing costs) in excess of the $60 million contract price to purchase its rights to acquire Parcel IV. Subsequently, the Borrower will also pay SunCal two equal installments of $10 million on the 12th and 24th month from closing and 10% interest on $10 million over a 24-month period. As an equity partner with SunCal in the purchase of Parcel IV, LBREP is expected to receive approximately $23 million from these payments.** *Mitigating Factor: Based on other similar transactions reviewed, LBREM believes the pricing on the Loan represents market terms that account for the Project's risk profile, low LTC, and strong sponsorship.*

V. PROPERTY OVERVIEW

Overview and Background

Covering approximately 3,723 acres, Heritage Fields is located in the heart of Orange County in the City of Irvine, California on the site of the former Marine Corps Air Station El Toro ("MCAS El Toro"). The Project is well-served by transportation including the I-5 freeway and Highway 133 as well as the Irvine Transportation Center, a stop for Metrolink and Amtrak, which is contiguous to the property on the south.

In 1993, in accordance with the Base Realignment and Closure Act (BRAC), the Department of Defense (DOD) listed MCAS El Toro for base realignment and operational closure by 1999, and subsequent transfer of the base to civilian control. Closure officially occurred in July 1999. Heritage Fields has approximately 1,306 buildings consisting of former maintenance, administrative, community, residential, and support buildings, totaling approximately 52 million square feet. The characteristic runway configuration of the former airfield consists of over 3.9 million square yards of pavement. Many existing buildings, structures, ancillary facilities, runways, etc. have been left onsite by the Navy and portions of the site are currently utilized for agricultural operations.

In March 2002, after an eight-year legal and political battle, Orange County voters passed Measure W that set forth the future of the former air station. The passing of Measure W specified that the property be used for non-aviation purposes, as well as a "Great Park" to be enjoyed by the surrounding Orange County communities. The Great Park Plan will allow development on the property that is consistent with the uses allowed by the voter-approved Measure W. Under the Great Park Overlay Plan, the 3,723-acre El Toro property will become a master planned community. Over 60% of the lands will be dedicated to open space uses, including a Meadows Park, a Sports Park, an Educational Campus, an Exposition Center (including museum and cultural activities), and a Wildlife Corridor.

Location

Heritage Fields is located 40 miles southeast of downtown Los Angeles and 80 miles north of San Diego. The Saddleback Mountains and the Cleveland National Forest bound the property to the east while the Pacific Ocean is 10 miles to the west. Freeways and toll roads are highly convenient to the Project, which is located directly northeast of the intersection of Interstate 5 and Interstate 405, both of which run northwest to Los Angeles and southeast to San Diego. The Project is strategically located within a short distance of an abundance of employment centers in central Orange County and major parts of Los Angeles County, including Anaheim, Fullerton and Los Angeles, which are located roughly 15, 20 and 40 miles northwest along Interstate 5, respectively. Local arterials bordering the project area include Sand Canyon Avenue to the northwest, Portola Parkway and Irvine Boulevard to the north, and Bake Parkway to the northeast. The Irvine Transportation Center, a major multi-modal transit center linking Orange County Transportation Authority (OCTA) bus, Metrolink commuter rail, and Amtrak rail services, is located within walking distance of portions of the planned project, further enhancing commuter potential from the site. Additionally, John Wayne Airport is conveniently located seven miles west of the Project.

The Project is generally bounded by the cities of Irvine and Lake Forest on the south and east, and unincorporated area in the County of Orange on the north. Other nearby local jurisdictions include the cities of Laguna Hills, Laguna Niguel, Laguna Woods, Mission Viejo, Aliso Viejo and Tustin. Surrounding land uses include: i) the 5,000-acre Irvine Spectrum business park to the southwest, which also provides major shopping and entertainment amenities; ii) Wild Rivers Water Park and the Verizon Wireless Ampitheater to the southwest; iii) residential neighborhoods to the west within the City of Irvine; iv) industrial/business parks and residential neighborhoods to the southeast within the City of Lake Forest; v) the James A. Musick Jail (1,200 inmate minimum and medium security facility) to the east; and vi) agriculture and open space to the northeast. The Irvine Company has recently opened their latest master-planned community, Woodbury, to the east and is in final design and builder negotiations for the property, Portola Springs, directly to the north. *(Please see Exhibit A for Project maps and aerials.)*

Project Description

The redevelopment of the former military base will include the 367-acre Great Park, 3.1 million square feet of research and development space, 225,000 square feet of retail space, 3,630 low, medium and high-density residential home sites, 45 holes of golf on two golf courses, a university campus, a cemetery, agricultural land, a museum district and a sport park, all of which are outlined as approved uses and intensities per the Project's Overlay Zoning Plan, which will be enacted upon the Borrower's execution of the Development Agreement with the City of Irvine. The former MCAS El Toro airbase includes 4,693 acres, 970 acres of which have or will be transferred to the FAA or other recipients and were not included in the original public auction. The Project site is comprised of the remaining 3,723 acres, which is further segmented into 1,421 acres that will be conveyed for zero purchase price to the City of Irvine for the Great Park, Sports Park, Museum District, Drainage/Riparian Corridors, Homeless Shelter, elementary school and other public facilities, and 2,302 acres that the borrower will retain and develop as residential and commercial revenue generating uses.

It is also important to note the current CERCLA classification of the Project's parcels and the associated timing implications for development. Of the borrower's 2,302 net developable acres, 2,068 acres (90%) have been determined to be sufficiently clean to support residential development, with California's Department of Toxic Substances Control ("DTSC") concurrence, and will be transferred in fee at closing. The timing of infrastructure development on these parcels is not impacted by ongoing Navy remediation at the rest of the base and may begin upon receipt of the outstanding Project entitlements. The Borrower's remaining 234 developable acres (10%) are still subject to Navy remediation under CERCLA, and will therefore be transferred in leasehold at closing and subsequently transferred in fee upon the completion of all required remediation. With the exception of three planning areas in the Project's Parcel II, the Navy is scheduled to complete remediation of the Borrower's leased parcels by September 2006, which should not delay the anticipated schedule of infrastructure development on those parcels. The Navy's anticipated timeframe to complete remediation on the three remaining leased parcels is September 2012. The Borrower's development plan for these parcels includes 264 low-density homes, a water park and golf course, the development timeline of which may be impacted by the ultimate transfer date from the Navy.

Summary Physical Assessment

Overall, the Project offers one of the most convenient and sought after locations within Orange County. Market depth in terms of new housing demand is especially potent at the site area, and will translate into intense interest for new housing offered at market supported prices at Heritage Fields.

The following table provides a breakout of the Project's planned land uses and intensities by parcel and underwritten sell-out values. *(Please see Exhibit A for the Project's land use plan.)*

Project Land Uses and Projected Parcel Land Values

(In 000's, except per unit amts.)	Housing Type	Number Units/SF	Total Acres	Lot Size	Home Size	Home Price	Lot Price / $/FAR / $/Acre	Lot Price % of Home	Total Revenue	Homebldr. Margin	Begin Deliveries	Absorption (Units/Mo.)
Parcel I - Medium Density Senior Housing/Faculty Housing/R&D Park/Education Campus												
Residential												
Active Adult - Mid-Rise Flats	Attached	161	6	1,100	1,150	$ 449,280	$ 139,571	31%	$ 22,471	10%	2Q09	6.00
Active Adult - Luxury Flats	Attached	132	11	2,400	1,400	576,300	254,639	44%	33,612	10%	2Q09	5.00
Active Adult - Triplex	Attached	131	15	3,100	1,500	624,240	285,517	46%	37,260	10%	2Q09	5.00
Active Adult - Courtyard	Detached	105	15	4,000	1,800	752,760	357,646	48%	37,553	12%	4Q08	4.75
Active Adult - 45x105	Detached	80	13	4,725	1,950	827,175	414,010	50%	33,071	12%	2Q08	4.50
Active Adult - 52x105	Detached	71	14	5,460	2,250	934,800	464,296	50%	33,058	12%	2Q08	4.25
Affordable	Detached	120	5	1,100	1,000	168,367	27,664	16%	3,320	12%	2Q08	120.00
Faculty Housing	Detached	60	31	3,800	1,200	287,500	58,614	20%	3,517	12%	4Q09	5.00
Sub-Total/Wtd. Avg. - Residential		**860**	**109**	**2,844**	**1,469**	**$ 557,243**	**$ 237,164**	**43%**	**$ 203,861**			
Other												
R&D Space		1,100,000	77				$ 79		86,581		2Q08	
Private College Campus		243,302	39				$ 103		25,156		4Q09	
Retail		225,000	33				$ 79		17,710		2Q08	
Agricultural Land			173				$ 50,000		8,635		1Q10	
Public College Campus			125						-			
Roadways/Neighborhood Parks			50						-			
City Conveyance Parcels			202						-			
Other			97						-			
Sub-Total - Other			**794**						**$ 138,081**			
Total - Parcel I			**903**						**$ 341,942**			
Parcel II - Low Density Housing/Golf Courses/Cemetary/Homeless Shelter/Water Park												
Residential												
Vineyard	Detached	14	50	95,000	6,250	$ 3,825,000	$ 1,978,940	52%	$ 27,167	12%	2Q08	2.0
SFD 80x120	Detached	190	70	9,600	5,000	2,075,000	1,063,250	51%	202,339	12%	4Q08	3.0
SFD 70x110	Detached	191	56	7,700	4,100	1,575,000	851,980	54%	162,523	12%	3Q08	3.5
SFD 60x100	Detached	164	38	6,000	3,400	1,230,000	625,589	51%	102,735	12%	3Q08	4.0
Custom	Detached	187	102	14,300	6,000	2,625,000	1,238,017	47%	231,702	12%	3Q08	3.0
Courtyard	Detached	106	26	5,100	2,750	1,075,000	585,896	55%	61,871	12%	2Q09	3.5
Luxury	Attached	83	14	4,700	2,250	850,000	445,633	52%	37,166	10%	3Q08	4.0
Affordable	Attached	165	8	1,300	1,000	168,367	26,924	16%	4,442	10%	3Q09	165.0
Sub-Total/Wtd. Avg. - Residential		**1,100**	**364**	**8,550**	**3,766**	**$ 1,502,772**	**$ 754,381**	**50%**	**$ 829,945**			
Other												
Retail		708,000	23				$ 28		19,602		2Q08	
Water Park			51				$ 200,000		10,200		2Q08	
Agricultural Land			153				$ 50,043		7,657		3Q07	
Cemetary			73				$ 273,224		20,000		2Q08	
Golf Courses (45 holes)			304				$ 32,949		10,000		1Q10	
Roadways/Neighborhood Parks/Open Space			228						-			
City Conveyance Parcels			544						-			
Sub-Total - Other			**1,375**						**$ 67,459**			
Total - Parcel II			**1,739**						**$ 897,404**			
Parcel III - High-Density Housing (Transit-Oriented Development)												
Residential												
Affordable	Attached	225	10	1,300	1,000	$ 168,367	$ 26,924	16%	$ 6,059	10%	2Q08	225.1
Stkd Flats over Pod	Attached	120	2	570	900	355,000	130,230	37%	15,628	10%	2Q08	8.0
Lofts over Pod	Attached	208	5	710	1,050	393,000	143,014	36%	29,747	10%	2Q08	7.0
Garden Flats/TH	Attached	164	9	1,600	1,200	452,000	200,972	44%	32,919	10%	2Q08	6.0
Tuckunder TH	Attached	101	6	1,800	1,375	506,000	222,746	44%	22,453	10%	3Q08	5.5
SFD 50x90	Detached	370	59	4,500	2,500	923,100	445,254	48%	164,647	12%	2Q08	4.3
SFD 50x100	Detached	245	43	5,000	3,000	1,083,400	521,759	48%	127,935	12%	4Q08	4.0
SFD Courtyard	Detached	68	9	3,800	2,200	793,700	359,419	45%	24,261	12%	2Q08	4.5
Sub-Total/Wtd. Avg. - Residential		**1,500**	**144**	**2,732**	**1,797**	**$ 631,839**	**$ 282,406**	**45%**	**$ 423,648**			
Other												
Church			5				$ 1,089,000		5,445		2Q08	
Commercial			12				$ 1,000,000		11,700		2Q08	
Roadways/Neighborhood Parks/Open Space			68						-			
City Conveyance Parcels			629						-			
Sub-Total - Other			**714**						**$ 17,145**			
Total - Parcel III			**859**						**$ 440,793**			
Parcel IV - R&D Park/Auto Center												
R&D Space		1,600,000	115				$ 76		121,600		3Q06	
Auto Center			34				$ 1,089,000		37,135		3Q07	
Roadways			28						-			
City Conveyance Parcels			46						-			
Total - Parcel IV			**223**						**$ 158,735**			
Total/Wtd. Avg. - Residential		**3,460**	**618**	**4,610**	**2,342**	**$ 890,244**	**$ 421,244**	**47%**	**$ 1,457,454**			
Total/Wtd. Avg. - Other			**3,106**						**381,420**			
Total - All Parcels			**3,723**						**$ 1,838,874**			

VI. MARKET OVERVIEW

Orange County Demographic and Economic Overview

The Orange County MSA, which includes the cities of Anaheim, Santa Ana, Fullerton, Huntington Beach, Garden Grove, Orange and Irvine, is the 16th largest metro area in the United States with a current population of 3.0 million residents and ranks 11th in terms of Gross Metropolitan Product nationwide. The metro's population grew 1.4% in 2004, compared to 0.9% nationally, and is projected to continue growing 1.4% annually, on average over the next five years. Significantly, the metro experienced net in-migration of 11,200 in 2004, up from its annual average of 6,716 over the last four years, in spite of the increasing number of residents re-locating west for more affordable housing options in the neighboring Inland Empire.

The Orange County Metro is home to five Fortune 500 companies, including Ingram Micro, PacifiCare Health Systems, Fluor, First American Corp., and Pacific Life. The Metro's five largest employers include the Walt Disney Company (21,000 employees), University of California Irvine (15,500), The Boeing Company (11,160), St. Joseph Health System (8,975) and Albertson's (8,700). The Metro depends heavily on the success of the professional and business services (17.8%), manufacturing (12.8%), leisure and hospitality services (11.1%) and retail trade (10.8%) sectors, which account for more than 52% of total employment in the MSA.

Nonfarm employment increased at a moderate rate from February 2004 to February 2005, adding 27,100 jobs (1.9%) during this time period, just above the 1.7% national employment growth rate. Job growth has been evident in most industries, although highest concentrations occurred in Construction, Durable Goods, Trade/Transportation/Utilities, Financial Activities, Professional and Business Services, and Educational Services. Orange County's tech-based industries are also expanding, largely due to the importance of defense contracting. This is evidenced by the creation of nearly 3,500 jobs in defense-related electronics since mid-2002. Similarly, net hiring has been positive over the past year within the aerospace industry, driven by the increased value of defense procurement contracts, which has more than doubled from its 2000 low. Job losses in State and Local Government, which has slowed overall job growth for several quarters, moderated during 3rd quarter 2004 and now shows net positive growth for the past twelve-month period. Annual job growth is projected to continue at 2% over the next four years, which is well in excess of the nation's projected 1.4% annual employment growth rate over the same period. The broad base of technology industries will be a positive, although moderate, driver of the economy in the near term.

Historical Orange County Job Growth

Month/ Year	For the Month of February: Total Jobs	12 Mo. Change #	12 Mo. Change %	Jobless Rate
Feb-90	1,170,300	-	-	2.7%
Feb-91	1,143,100	-27,200	-2.3%	4.9%
Feb-92	1,116,300	-26,800	-2.3%	6.0%
Feb-93	1,108,000	-8,300	-0.7%	6.9%
Feb-94	1,111,300	3,300	0.3%	6.3%
Feb-95	1,137,700	26,400	2.4%	5.0%
Feb-96	1,168,100	30,400	2.7%	4.5%
Feb-97	1,198,800	30,700	2.6%	3.4%
Feb-98	1,269,700	70,900	5.9%	2.9%
Feb-99	1,322,000	52,300	4.1%	2.7%
Feb-00	1,363,700	41,700	3.2%	2.5%
Feb-01	1,414,400	50,700	3.7%	2.5%
Feb-02	1,388,600	-25,800	-1.8%	4.0%
Feb-03	1,407,800	19,200	1.4%	4.0%
Feb-04	1,435,900	28,100	2.0%	4.6%
Feb-05e	1,463,000	27,100	1.9%	4.1%
Feb-06p	1,498,150	35,150	2.4%	4.7%

12-Month Job Growth by Industry – Feb. 2005

ORANGE COUNTY CHANGE IN JOBS BY INDUSTRY

Industry	Orange County Nonagricultural Wage & Salary Jobs: February,2004	February,2005	Change	Percent
Natural Resources & Mining	**600**	**600**	**+0**	**+0.00%**
Construction	**87,000**	**91,000**	**+4,000**	**+4.60%**
Manufacturing	**182,000**	**184,300**	**+2,300**	**+1.26%**
Durable Goods	125,600	128,000	+2,400	+1.91%
Nondurable Goods	56,400	56,300	(100)	(0.18%)
Trade, Transportation, Utilities	**259,900**	**263,500**	**+3,600**	**+1.39%**
Wholesale	81,600	82,000	+400	+0.49%
Retail	149,200	152,400	+3,200	+2.14%
Trans., Warehousing and Utilities	29,100	29,100	+0	+0.00%
Information	**34,300**	**33,400**	**(900)**	**(2.62%)**
Financial Activities	**129,000**	**133,200**	**+4,200**	**+3.26%**
Finance and Insurance	93,300	96,300	+3,000	+3.22%
Real Estate and Rental and Leasing	35,700	36,900	+1,200	+3.36%
Professional & Business Services	**251,300**	**262,700**	**+11,400**	**+4.54%**
Educational and Health Services	**130,200**	**131,500**	**+1,300**	**+1.00%**
Educational Services	19,200	19,500	+300	+1.56%
Health Care and Social Assistance	111,000	112,000	+1,000	+0.90%
Leisure and Hospitality	**160,100**	**160,900**	**+800**	**+0.50%**
Other Services	**46,600**	**46,700**	**+100**	**+0.21%**
Government	**154,900**	**155,200**	**+300**	**+0.19%**
Federal Government	12,000	11,500	(500)	(4.17%)
State and Local Government	142,900	143,700	+800	+0.56%
Total Nonfarm	**1,435,900**	**1,463,000**	**+27,100**	**+1.89%**

Project Area Demographic Overview

We have analyzed the demographics of the Project's immediately surrounding vicinity as defined by 2-mile (the "Site Area") and 5-mile (the "General Area") radii around the Project site. From 2000 to 2004, the Site Area population increased at an annual rate of 3.29%, slower than the General Area population growth rate of 4.30%, but faster than the Orange County Metro's growth rate of 1.2%. According to Claritas' estimates, Site Area population growth is forecast to increase by 2.61% annually over the next 5 years, well in excess of the Metro's projected 1.4% annual population growth over the same period.

With a 2004 estimated median household income of $83,754, Site Area household incomes are roughly 10.7% higher than those of the overall Metro, which is indicative of the area's affluent demographic. The Site Area population is comprised largely of white-collar employees, including professional and related occupations and sales and office personnel.

Housing Market Overview

The Orange County housing market continues to experience a supply/demand imbalance that has led to record home price appreciation and rapid absorption of new housing product. This is attributable to employment gains in both Orange and Los Angeles County and the region's lack of developable land to supply enough new housing to meet rising residential demand, The median price of an existing Orange County single family detached home rose to $704,000 in May 2005, which represented a 6.3% increase over the 12-months prior and was 35% higher than the median home price statewide. Orange County's median new home price has appreciated 12.8% per year, on average, since 1999.

Orange County's sustained housing supply/demand imbalance is best illustrated through a historical comparison of the Metro's total employment-to-housing stock and change in employment-to-change in housing stock ratios. The following table depicts these relationships since 1989, the peak of the last housing cycle.

Historical Orange County Total Jobs-to-Housing and Change in Jobs-to-Housing

	Total Jobs-to-Housing Relationships			Change in Jobs-to-Housing Relationships		
Year	Regional Jobs	Housing Stock	Ratio	Regional Jobs	Housing Stock	Ratio
1989	1,156,700	859,687	1.35 to 1	26,800	21,001	1.3 to 1
1990	1,172,400	876,491	1.34 to 1	15,700	16,805	0.9 to 1
1991	1,143,700	889,246	1.29 to 1	(28,700)	12,755	-2.3 to 1
1992	1,126,000	897,727	1.25 to 1	(17,700)	8,481	-2.1 to 1
1993	1,115,400	904,546	1.23 to 1	(10,600)	6,819	-1.6 to 1
1994	1,126,800	911,151	1.24 to 1	11,400	6,606	1.7 to 1
1995	1,151,700	919,679	1.25 to 1	24,900	8,528	2.9 to 1
1996	1,184,300	929,432	1.27 to 1	32,600	9,753	3.3 to 1
1997	1,233,800	938,823	1.31 to 1	49,500	9,391	5.3 to 1
1998	1,299,100	948,727	1.37 to 1	65,300	9,904	6.6 to 1
1999	1,345,200	960,358	1.40 to 1	46,100	11,631	4.0 to 1
2000	1,388,900	972,190	1.43 to 1	43,700	11,832	3.7 to 1
2001	1,413,700	980,414	1.44 to 1	24,800	8,225	3.0 to 1
2002	1,403,000	990,018	1.42 to 1	(10,700)	9,604	-1.1 to 1
2003	1,429,008	1,001,018	1.43 to 1	26,008	11,000	2.4 to 1
2004e	1,460,008	1,010,168	1.45 to 1	31,000	9,150	3.4 to 1
2005p	1,491,559	1,018,516	1.46 to 1	31,551	8,348	3.8 to 1

Source: Real Estate Economics Residential Economic Report – April 2005 Orange County Edition

As shown in the above table, the Metro's total jobs-to-housing ratio is currently 1.45-to-1.0 and has averaged 1.35-to-1.0 since 1989, indicating a sustained supply/demand imbalance that, along with historically low financing costs, continues to drive home price appreciation. Since the return to positive job growth in 2003, Orange County has added roughly 2.9 jobs for every new home that was built, thus furthering the Metro's existing residential supply/demand imbalance.

Orange County new home sales volume has averaged 6,490 per year since 2000. The future Orange County housing supply is very tight and controlled by a few landowners, namely The Irvine Company and Rancho Mission Viejo, which jointly own 70-80% of the future developable residential lands (roughly 64,000 home sites). Both companies are focused on controlling lot development and absorption in order to continue to enhance the value of their land holdings. Annual new home supply is projected to peak at just below 8,000 residential home sites in 2007, which compares to projected Orange County job growth of over 30,000 annually through 2009.

Comparable Sales

For purposes of assessing the market potential and positioning of the Project, Real Estate Economics surveyed 35 active new home developments (80 neighborhoods) currently selling in the defined competitive market area. To date, these communities have collectively released 4,900 homes, or 66% of their 7,434 total home inventory, of which 4,550 have been sold. Sales prices have ranged from $286,990 for an 822 square foot, 1-bedroom attached townhouse at Shea's Jasmine at Quail Hill neighborhood (located 5 miles west of the Project) to $3.7 million for a 5,200 square foot, 5-bedroom custom home situated on a half-acre lot at Laing's Shady Canyon community (also located 5 miles west of the Project). Overall, the comparable communities' weighted average home sales price is roughly $1,100,000 for a 2,646 square foot home ($416 psf), which compares to the Project's underwritten weighted average home sales price of $890,200 for a 2,345 square foot home ($380 psf; 9% discount to comps). Exhibit C provides a comparison between the Project's underwritten end-home sales prices and absorption versus currently selling new-home communities in close proximity to the Project.

Area Schools

Heritage Fields neighborhoods will initially be served by Irvine High School, within the Irvine Unified School District. Irvine schools are popular, and post some of the highest test scores in the State, thus driving further demand for the Project's future residential neighborhoods.

Irvine Unified School District SAT Test Scores for 2002-2003 School Year

School(s)	Average Verbal SAT Test Score	Average Math SAT Test Score	Average Total SAT Test Score	Orange County Average	State Average
University High	584	649	1232	1016	1012
Northwood High	558	602	1160	1016	1012
Irvine High	548	602	1150	1016	1012
Woodbridge High	542	600	1142	1016	1012
Foothill High	540	571	1111	1016	1012
Tustin High	481	507	988	1016	1012

Source: California Department of Education, Education Planning and Information Center.

Summary Residential Market Assessment

At the envisioned densities, the Project will offer strong draw to a wide market audience, from young working couples, to growing families, to established families with older children, to retired households. Many family buyers will be seeking larger homes and will be rolling over equities from smaller homes purchased in nearby Irvine and Tustin neighborhoods during the past several years. Older move-down buyers will be seeking to remain in the area in which they currently reside, while moving to a well amenitized, low maintenance community near family and friends.

Though most buyers are likely to originate from the Irvine area, there will also be an abundance of buyers drawn from outside of the local area. Many of these buyers will be drawn from northerly communities which do not offer the appeal of the Irvine area in terms of a master planned definition and amenities, locational convenience, schools, low crime levels, and family orientation. Some will be transferring to Orange County, and will be working at job centers within a short distance of the subject community. Some households will have split commute patterns, with one household member working locally, and another taking advantage of convenience to commuter routes or rail lines to commute to more northerly employment centers.

With the inclusion of new schools, parks and other recreational facilities, young, upwardly mobile couples and families will be drawn to the subject communities in large numbers. Most potential buyers will be willing to pay a substantial premium and/or will accept higher density product for locational convenience, access to the 'Great Park' and related recreation, and the master planned community definition and amenities associated with residential development.

R&D/Industrial Market Overview

Having accumulated 3.5 million square feet of positive net absorption in 2004, Orange County's industrial market saw another 324,000 square feet of positive net absorption in the first quarter of 2005 and for the first time since the end of 2000, net absorption has been positive for five consecutive quarters. This activity has brought the total amount of vacant industrial space to 9,075,264 square feet, and has contributed to the tightest vacancy rate in over three years, currently at 3.7%. At 4.4%, the R&D sector's first quarter 2005 vacancy rate was slightly above that of the overall industrial market. The diminishing supply of available space combined with strong demand have driven average asking lease rates for industrial space up $0.03, to $0.63 per square foot, the highest level since the first quarter of 2001. Growth of $0.02 per square foot in the R&D market pushed average rates to $0.81 per square foot, representing only the third time in four years that rates surpassed $0.80. Average asking sale prices have also experienced considerable growth as of year end March 2005, increasing 18.2%. A survey of comparable industrial land sales in the adjacent Irvine Spectrum, representing an average per square foot sell out of $27.50 per land square foot as well as this recent sales performance over the past year, support our base case underwriting of $26-29 per land square foot.

VII. ENTITLEMENT STATUS & ENVIRONMENTAL CONDITIONS

At acquisition, major discretionary entitlements will be in-place to allow for the development of 3,625 residential lots, 3.1 million square feet of research and development/office space, 225,000 square feet of retail space, two golf courses totaling 45-holes, and a 367-acre Great Park, among other permitted uses. These entitlements include an Overlay Plan and a related Final Environmental Impact Report, the Development Agreement (to be signed by Heritage Fields after it purchases the property), and utility will-serve letter. Because the City is in favor of the Project, obtaining remaining entitlements that require approval by the City are anticipated to be largely procedural processes with limited discretionary risk. These entitlements include receiving approvals on the master subdivision/tentative map(s), for which the City has transferred its right to prepare these documents to Lennar in order to expedite the start of development. Lastly, Lennar must obtain resource agency permits to start development, and must exercise reasonable efforts to receive these permits within 700 days of the recording of the development agreement.

Existing Entitlements

Details for existing entitlements are provided below:

<u>Overlay Plan</u> - Allows for increased density in excess of the General Plan. The General Plan only authorizes minimal development, including 225 residential units. The Overlay Plan allows for the development of up to 3,625 residential units (*Please see Section VIII for the breakdown of permitted uses).* The Overlay Plan becomes effective upon Lennar's execution of the Development Agreement.

<u>Development Agreement</u> - Requires Lennar to 1) convey to the City substantial portions of the Project for parks and open space which includes over 1,200 acres for the Great Park, 2) fund infrastructure costs via $200 million in development fees and additional transportation infrastructure fees, 3) consent to the City's formation of a CFD to supplement infrastructure costs not covered by development fees (the City has the option, but not the obligation, to form the CFD), 4) fund long-term maintenance of public facilities, 5) prepare and process master subdivision maps, and 6) obtain resource agency permits such as: (a) Section 404 Army Corps of Engineers permit, (b) 1602 Streambed Alteration Agreement with the CA department of Fish and Game, (c) an Irvine Ranch Water District Subarea Master Plan, (d) a water discharge permit, and (e) a master dry utility plan. To the extent the development fees and CFD financing is not sufficient, the City can assess the supplemental development fee of up to $60.0 million. In the unlikely event that a CFD is not formed, Lennar is responsible for paying a proportionate share of the costs to complete the public Great Park up to a maximum of $201,000,000. Lennar has also negotiated a right to construct the infrastructure improvements, thereby controlling costs as well as construction pace. The Development Agreement is effective thirty days after recordation and extends for 25 years.

<u>Environmental Impact Report</u> – The EIR evaluated the environmental impact of annexing areas of the Project into the City of Irvine and modifying the General Plan to the Overlay Plan (the "Overlay Plan EIR"). In May 2003, the City certified the Overlay Plan EIR and the deadline for appeals have lapsed. The Overlay Plan EIR provides that biological surveys, wetland delineations, hydrology surveys, and updated traffic studies must be in-place in order for the Project to receive master subdivision/tentative map approvals. The Overlay Plan EIR will provide the starting point and basis for all future environmental planning documents required for the project by the California Environmental Quality Act ("CEQA")

<u>Water & Sewer Service</u> - The Irvine Ranch Water District will be responsible for providing water to the Project. The district concluded that the total water supplies available within a 20-year projection will meet the Project's water demands, in addition to the demands of existing and other planned future uses. The Water District will also have sufficient capacity to treat waste water generated by the Project, but the Project will require an increase transmission capacity for water and waste.

Outstanding Entitlements

Under the Development Agreement, Lennar must exercise reasonable efforts to submit for approval the outstanding entitlements listed below within 365 days of the DA's effective date. Lennar has successfully negotiated a shift in who retains the responsibility of obtaining these approvals from the City to the developer. As a result, Lennar is projected to receive approvals for all outstanding entitlements within 18 months.

Master Subdivision/Tentative Map(s) – These maps will subdivide the site in accordance with the Overlay Plan, and will provide for individual residential and commercial parcel sales. As previously discussed, Lennar must complete 1) focused surveys for identified plant and animal species; 2) wetland delineations; 3) hydrology surveys of drainage ways; and 4) updated traffic studies prior to obtaining approvals for the master subdivision/tentative maps. Lennar must exercise reasonable efforts to submit the master subdivision/tentative maps for each Parcel within 365 days of the effective date of the DA. In order to do so, the resource agency surveys and delineations described below must be initiated immediately after closing. According to Heller Erhman, City approval of the master subdivision/tentative maps will take at least 18 months, and such approvals must comply with CEQA.

Resource Agency Permits - Lennar must exercise reasonable efforts to file applications for the following seven permits within 365 days of the DA effective date, and attempt to obtain the permit within 700 days of the effective date.

1. Incidental Take Permit – Provided by the federal Fish and Wildlife Service and the California Department of Fish and Game covering threatened or endangered species identified during the biological surveys, which may include the California coastal Gnatcatcher. Obtaining this permit is likely to be expedited under the Natural Community Conservation Planning program that allows developers to apply to local government for a permit.
2. Section 404 Permits – Provided by the Army Corps of Engineers and defines the Project's impact on wetland water resources. Mitigation measures will be required for project impacts.
3. Section 401 Certification - Before a Section 404 permit can be issued, the California Regional Water Quality Control Board must certify project's compliance with water quality standards. This certification also often requires mitigation measures.
4. Streambed Alteration Agreement – Provided by the CDFG that addresses the Project's affects on a state's streambed.

Obtaining Section 404 & 401 permits and a Streambed Alteration Agreement may be expedited if the City adopts a Special Area Management Plan and Master Streambed Alteration Agreement (SAMP) that will address jurisdictional waters, biological resources and streambeds. The SAMP could be completed by October 2006 or early 2007. Under SAMP, the approval time could be reduced to 90 days. In the absence of SAMP, permits can be processed within 18 months.

5. National Pollution Discharge Elimination System (NPDES) Permit – Permits discharge of stormwater associated with construction activity.
6. Irvine Ranch Water District Subarea Master Plan - Addresses the size and location of pipelines and other facilities necessary to deliver potable water to the Project, and to transport wastewater from the Project.
7. Master Dry Utility Plan - Addresses the supply of such electric power and telephone service.

Master Plan - Under the City's Zoning Code, the Planning Commission must approve a master plan for the various planning area zones showing the number of dwelling units, community design program, landscape, and circulation patterns. In City of Irvine, the Master Plan process is akin to the approval of a Conditional Use Permit for specific construction projects. Lennar must also work with the City to establish guidelines for the master design and development phasing and financing of the project that include provisions for sustainable and environmentally sensitive development. Lennar has retained a master land use planner and the City has hired a land use designer to work on the Master Plan. The Master Plan must be approved by the City, and such approval must comply with CEQA.

Environmental Status

Federal and State agencies have determined that ninety percent of the Project is suitable for residential development with respect to hazardous materials clean-up, and will be transferred in fee at acquisition. Any remediation work needed for hazardous material environmental conditions that arise after the transfer will be covered by an AIG-sponsored environmental insurance policy purchased by Lennar at closing. Remediation of the remaining 10% of the Project will be performed by the Navy. The bulk of this work will be completed in 2006. The Navy has also set timeframes for the routine completion of the remaining remediation beyond 2006.

Existing Environmental Conditions

The Project site was placed on the National Priorities List in 1990 for environmental concerns associated with groundwater contamination, landfills, hazardous substances held in under ground and above ground storage tanks, and petroleum contamination. The Department of the Navy ("Navy") has been actively remediating the site. In preparation for the potential transfer of the Project site, the Navy divided the site into two classifications: areas that have been remediated for residential use and those that have contamination and require further clean-up to be completed by the Navy. The disposition of clean areas is subject to a document entitled the Findings of Suitability to Transfer (FOST) that allows for a transfer in fee; while contaminated areas can be transferred subject to a lease that allows the Navy to complete remediation pursuant to the Findings of Suitability to Lease (FOSL). The areas subject to the FOSL cannot be transferred in fee until investigation and clean-up is complete and a FOST is prepared. Of the borrower's 2,302 net developable acres, 2,068 acres (90%) have been determined to be sufficiently clean to support residential development, with California's Department of Toxic Substances Control ("DTSC") concurrence, and will be transferred in fee at closing. Lennar has expressly represented that the timing of infrastructure development on these parcels is not impacted by ongoing Navy remediation at the rest of the base and may begin upon receipt of the outstanding Project entitlements. The Borrower's remaining 234 developable acres (10%) are still subject to Navy remediation under CERCLA, and will therefore be transferred in leasehold at closing and subsequently transferred in fee upon the completion of all required remediation. With the exception of five planning areas in the Project's Parcel II, the Navy is scheduled to complete remediation of the Borrower's leased parcels by September 2006, which should not delay the anticipated schedule of infrastructure development on those parcels. The Navy's anticipated timeframe to complete remediation on the five remaining leased parcels is September 2012. The Borrower's development plan for these parcels includes 264 low-density homes, a water park and golf course, the development timeline of which may be impacted by the ultimate transfer date from the Navy.

The Project site continues to be listed on the National Priorities List (NPL), including the areas that are subject to the FOST. Lennar is working with the Navy and EPA to initiate the process to remove the FOST areas from the NPL.

Potential Environmental Conditions

The Navy is responsible for the remediation of any newly discovered, environmental conditions that arise from contamination released on the property by the Navy. However, Lennar, as the new property owner pursuant to the FOST process, will also have obligations to remediate any such contamination and, as a practical matter, will likely feel compelled to remediate such contamination on a schedule faster than that pursued by the Navy. To offset any such potential remediation costs, Lennar purchased an environmental insurance policy from AIG that covers clean-up obligations until 2019. The policy provides the following coverages to Lennar:

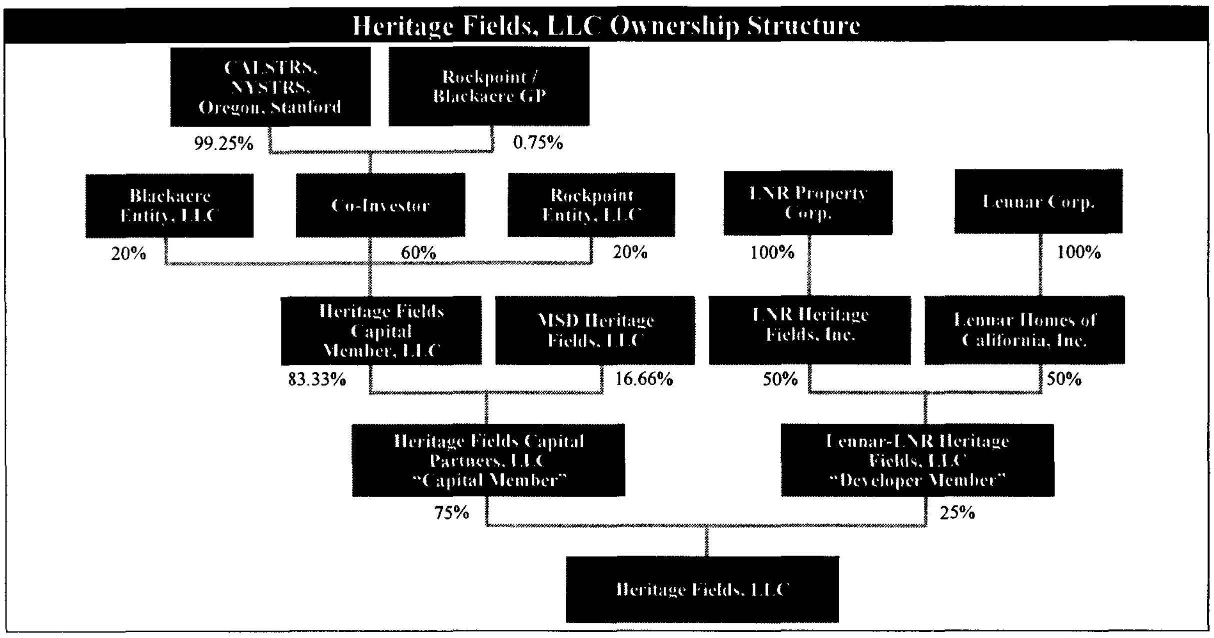
1) Up to $80 million to fund clean-up obligations and third-party injury liability claims (on- and off-site) arising from newly discovered pollution/contamination that was present on the Property prior to the effective date of the policy. The $80 million in aggregate coverage will be reduced to $35 million in July 2015.

2) Up to $5.0 million to fund <u>specified</u> clean-up obligations arising from identified, known areas of existing pollution. Lennar and the City intend to draw upon this coverage for soil contamination encountered in the course of foundation and grading work. The cost of this surface soil remediation work is projected to be $2.18 million. As a result, the insurer requires the first $2.18 million of coverage to be drawn from the $9.5 million total policy premium (including city conveyance parcels). The endorsement covers all cost in excess of the $2.18 million up to a total of an additional $2.82 million. Essentially then, Lennar prepaid $2.18 million of such remediation costs and has purchased an additional $2.82 million in cost overrun insurance for the specified remediation work.

This environmental policy does not cover the cost of remediation work the Navy intends to complete on the FOSL sites. Thus, Lennar is at-risk for this cost if the Navy has insufficient funds to complete the remediation work, which may delay the start of development. In these cases, Lennar intends to initiate an early transfer of the FOSL and assume the remediation obligation from the Navy. This risk is particularly relevant for the remediation work that is expected to be completed in the outer years (i.e. 2009 & 2011).

VIII. SPONSOR OVERVIEW

The Borrower entity is structured as a Limited Liability Company that is comprised 25% by the developer member (Lennar/LNR; the "Developer Member") and 75% by the capital member (Rockpoint, Blackacre, MSD Capital and a 50% co-investor vehicle that includes four state pension funds; the "Capital Member"). The following is an ownership structure chart and profiles of the Borrower entities.



Lennar Homes ("Lennar"):

Founded in 1954, Lennar Homes has grown into one of the largest homebuilding, land-owning, and loan-making companies in the country. As of year end November 2004, the publicly traded homebuilding company (NYSE: LEN, S&P: BBB) had a market capitalization of $9.9 billion and revenues of $10.5 billion, representing year over year revenue growth of approximately 18%. Lennar builds approximately 32,600 homes annually for both first-time and move-up buyers. Home prices range from $100,000 to over $1 million, with an average of approximately $272,000. Lennar has significant experience in developing land in Southern California and has partnered with LBREP on two residential land development deals in the region, Harveston and Bressi Ranch, representing a total LBREP equity investment $67 million.

LNR Property Corporation ("LNR"):

Since 1969, LNR has been engaged in the development, ownership and management of commercial land, office, industrial, retail and multi-family properties nationwide. Through October 1997, LNR operated as the commercial development and investment division of Lennar Corporation, one of the largest homebuilders in the United States. In 1997, LNR spun off from Lennar Corporation to become a separate public company focused on commercial real estate investment and development. In 2005, LNR was acquired by LNR Property Holdings Ltd., which is owned by Cerberus Capital Management, L.P., its real estate affiliate Blackacre Capital Management, LLC, Stuart Miller, the former Chairman of the Board of LNR, and senior members of LNR's management team. Currently, LNR owns and manages a portfolio of approximately 40 office, industrial, hotel and multifamily properties and about 700 acres of commercial land. LNR also acquires portfolios of unrated and junk-grade commercial mortgage-backed securities and makes high-yield mortgage loans. Although LNR is a distinct company from Lennar Corporation, both entities continue to work together and complement each other's interests in mixed-use communities. As of year end November 2003, LNR earned $419.5 million in revenue and $109.6 million of net income.

Rockpoint Group, LLC ("Rockpoint"):

Formed in 2003, Rockpoint is a global real estate investment and management firm with 38 professionals located in Boston, Dallas, San Francisco and Tokyo. Since 1994, the Rockpoint Managing Members, former managers of Westbrook Real Estate Partners, have been involved in, through two Rockpoint funds and four prior funds, investing $4.4 billion of equity in 171 transactions with a peak capitalization of approximately $17.3 billion. The closed-ended, commingled fund has raised in excess of $1 billion of capital: i) $100 million of capital for Rockpoint Real Estate Special Fund and ii) in excess of $900 million of capital for its opportunistic venture, Rockpoint Real Estate Fund I, since its formation in 2003. As of March 2005, the Rockpoint Funds have invested or committed to invest approximately $787 million of equity in 42 transactions, with a peak capitalization of approximately $4 billion. The Fund has an eight year term, with two one-year extension options and is targeting a 20% return.

Blackacre Institutional Capital Management, LLC ("Blackacre"):

Blackacre is the real estate investment arm of Cerberus Capital Management LP, a New York-based global investment manager responsible for over $15 billion in aggregate capital. Founded by Jeffrey Citrin in 1994, Blackacre has invested over $4 billion on behalf of its affiliated funds in approximately 250 distinct equity, debt and hybrid investments involving real estate assets and entities worldwide. The Fund specializes in identifying, managing, acquiring and originating investment opportunities in undervalued, high yielding or overlooked real estate assets, debt and operating companies.

MSD Capital, L.P. ("MSD Capital"):

MSD Capital is the New York-based investment firm that exclusively manages the capital of Michael Dell and his family. The firm participates in a broad range of investment activities and is primarily focused on investing in publicly traded securities, traditional private equity and real estate. Currently, the firm has investments, of no less than $50 million, in thirty – three different companies / assets across the continental United States.

IX. DUE DILIGENCE OVERVIEW

The due diligence for the investment is being conducted by Khanh Pham and Andrew Dillenburg from LBREM along with Harry Bruni, Navid Moshtaghi, and Brian Crane from LBGREG. Heller Ehrman ("Heller") is LBREM's real estate counsel for the investment and has provided all of the required entitlement and environmental due diligence for the Project. Paul Hastings is coordinating loan documentation. Mike Delvin & Associates ("Delvin") has provided a detailed review of the Project's development infrastructure budget. Mark Boud and Real Estate Economics prepared a study of the Orange County residential market and competitive projects and CBRE prepared an appraisal of the Project's planned non-residential uses.

Areas of due diligence are as follows, with involved parties shown in parentheses and material results shown in italics. Except as otherwise noted, all due diligence has been completed satisfactorily prior to closing.

General Real Estate Due Diligence.

- Site visit and tour of the market, including competitive existing projects and future developments (LBREM, LBGREG, Delvin – completed)
- Review of the Project's preliminary demolition and infrastructure cost budgets (LBREM, Delvin) *Lennar's development budget is based on demolition and infrastructure development studies prepared by the engineering consulting firms CH2MHill and Psomas, respectively. Based on the review of these studies and budgets as well as conversations with the consultants and representatives of Lennar, the $187 million infrastructure budget (before 3% assumed annual cost inflation) is believed to be adequate to demolish the existing site infrastructure and to complete all requisite land development prior to selling the Project's finished residential and commercial building pads.*
- Review of Project environmental reports including 1) Final Environmental Impact Report (EIR) dated May 27, 2003, 2) Final Environmental Baseline Survey prepared for the Department of the Navy by Earth Tech Inc. dated September 2003, 3) Draft Environmental Due Diligence Report prepared for Lennar Communities by CH2M Hill dated February 2004, 4) Draft Finding of Suitability of Transfer prepared by the Department of Navy, and 5) Draft Finding of Suitability of Transfer prepared by the Navy. (LBREM, Heller – completed. *Please refer to Section V - Entitlement Status and Environmental Considerations for the results of the Heller review*)

Market Due Diligence

- Review of Real Estate Economics November 2004 residential market study and product positioning recommendations and January 2005 update thereto (LBREM – completed)
- Review of Real Estate Economics First Quarter 2005 Orange County Residential Economic Report (LBREM – completed)
- Review of CBRE's November 2004 appraisal of the Project's planned non-residential uses (LBREM – completed)

Legal Due Diligence

- Review of title and survey (Heller – in progress)
- Review of Project Entitlements (EIR, Development Agreement Overlay) *We have been advised by Heller that receipt of the Project's remaining entitlements is administrative and not discretionary and only poses a risk from a timing standpoint. [Please refer to Section V - Entitlement Status and Environmental Considerations for an overview of outstanding entitlements.]*
- Review of Development Agreement with the City of Irvine (LBREM, Heller – completed)
- Review of North Irvine Transportation Mitigation Agreement (LBREM, Heller – completed)

The development of the Project is subject to the timely payment of fees set forth in the North Irvine Transportation Mitigation Program ("NITM"), which was enacted in 2003 to provide a funding mechanism for the coordinated and phased installation of required traffic and transportation improvements as required under CEQA. The Project's share of the total NITM fees is $44.3 million, escalated annually, the payment of which is due in full upon issuance of the Project's first building permit. LBREM has budgeted a total of $53.7 million for the Project's escalated fees dues under the program.

- Review of the Lease in Furtherance of Conveyance (LBREM, Heller – ongoing)
- Review of the Project's environmental insurance policy (LBREM, Heller –ongoing)

Timing of Remaining Due Diligence

Any outstanding due diligence items will be satisfactorily completed prior to LBREM funding any loan proceeds.