INTERNAL MEMO

TO: DON PETROW

FROM: KEITH CYRUS, WEB NEIGHBOR

SUBJECT: ARCHSTONE UPDATE

DATE: 5/16/08

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As a follow up to our recent discussions, below please find an update on the recent activity around Archstone. The memo first highlights successes and challenges and then discusses various valuation analyses. Supporting slides are attached.

Major Successes

Closed:

- Reduction in overall commitment from 100% to 47% through participation of BofA and Barclays
- Placement of $7.1 billion and $1.8 billion of first mortgage debt with Fannie and Freddie
- Sale of 90% interest in portfolio of 16 Orange County and San Diego assets to the Irvine Company at a value of $1.54 billion (3.92% cap rate); JV structure results in fees and promote to Archstone, substantiating asset management platform
- Placement of $880 million of first mortgage debt on Irvine assets with Met Life
- Additional closings of $165 million on German Fund
- Sale of two Crystal City assets for $216 million (4.50% cap rate) to Carlyle / Bainbridge
- Sale of 9 additional assets for $250 million – 10% above basis
- Closed new mortgage financing with Fannie on 3 assets resulting in $150 million of proceeds to repay TLA
- Operations: NOI 1.1% ($1.7 million) ahead of budget through Q1 (revenue 0.1% below budget, expenses 2.1% ahead of budget). See Slides #10-14 for operating comparison to peer group.
- To date, $560 million of Term Loan A ("TLA") and $110 million ($96 million net of PIK accrual) of Development Loan have been repaid. Note that this is significant as repayment at par saves $6.7 million for each point of OID that might have otherwise been incurred by the Company.

Pending:

- 7 assets under contract to be sold for $495 million; expected closings May-July ($110 million of net sales proceeds to TLA; 50% sweeps thereafter)
- $60 million second mortgage with Fannie on Calabasas asset; proceeds to TLA; closing week of 5/23
- $172.5 million commitment from TIAA for construction loan on 3 assets - $71.2 million drawn at closing to repay development loan; commitment executed; closing early June
- $230 million commitment from Prudential for construction loan on 3 assets - $88 million drawn at closing to repay development loan; commitment execution week of 5/19; close mid-June
- $90 million commitment from NEBF for construction loan on 1 asset; no proceeds at closing; commitment execution expected late May; close mid-June
- $300 million capital commitment from Prudential for 85/15 JV to fund mezzanine lending business; closing June
- $182 million of second mortgages with Fannie on five low leverage New York City assets; may close prior to or concurrent with the potential sale of these assets to Related, as described below

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Advanced Discussions:

- Negotiating P&S for 3 assets in suburban DC with EQR for $232 million [these are lower quality assets outside the beltway that were under contract with another bidder prior to closing]; unencumbered assets result in paydown of TLA and revolver
- Negotiating P&S for 4 Crystal City assets with SJ Ross / Dune Capital partnership for $680 million; $85 million mezz paydown; $112m TLA / Revolver paydown (assumes par release pricing on mortgage)
- In advanced discussions with Related on sale of 5 New York assets for $1.30 - $1.35 billion; low leveraged assets; net proceeds available for debt paydown of TLA / Revolver $690 million; includes refi proceeds of $182 million which may close either prior to or concurrent with sale
- Evaluating bids on six other assets with total sales price of $300 million
- Soliciting bids for financing of recently completed high rise in Cambridge, MA; 30 lenders submitted bids; expected proceeds $130 million; sweeps TLA

Challenges

Asset Sales: Credit crisis has resulted in a soft asset sales market, which has slowed the pace of asset sales and resulted in lower than expected offer prices.

Short Term Liquidity: As of May 15th, Archstone had $120 million of revolver capacity and cash on hand, which is sufficient to fund approx. 3 months of cash flow shortfalls. Restoring liquidity is highly dependent on successful execution of assets sales. Execution of the asset sales and refinancings outlined above will result in net proceeds of $1.47 billion, of which $1.0 billion will be swept to repay TLA and $470 million will be available to repay the revolver (as well as release $55 million of outstanding LOCs). In total this will provide approx. 15 months of liquidity. See Slide #6 for Archstone's sales execution history.

Leverage: Archstone has proposed a strategic business plan (the "Plan"), specifically focused on a disposition and refinancing strategy that will enable the Company to de-leverage its balance sheet. At closing, the Company had total leverage of 75.9% vs. the long term target leverage level is 65%. In addition to the items with near term visibility noted above, the Plan includes additional asset sales slated for the second half of 2008. Upon conclusion of the Plan in Q4 2008, the $1.75 billion TLA, the $500 m Development Loan, and the $76 m Fee Loan are all projected to be almost entirely repaid, resulting in leverage of 69.1%. At this point, only the $3.0 billion TLB will remain as debt above the mortgage / mezz level. In order to be in a position to market the remaining term loan and bridge equity, we will assess the capital structure relative to market conditions at that time. To successfully market the loan, we may need to create a senior / sub structure, where we would market the senior piece and hold the subordinated piece, which would be repaid through asset sale sweeps.

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Valuation

IRR Analysis: For internal valuation purposes, Lehman marks the equity under various underwriting scenarios, primarily stressing exit cap rates on the core long-term hold portfolio as well as timing of the equity sale. The equity is currently carried at of 79.6% of par, a valuation that produces mid-teens returns under reasonably stressed cases. Various sensitivities to cap rate and rent growth are presented in the attached slides. To put the sensitivities in some context, core-plus funds typically offer returns of 12-15%.

Spot Value: Archstone has sold $289 million of core assets to date for a 4.77% cap rate. It should be noted that these assets, and more broadly the assets held for sale in general, are biased toward lower quality, lower growth assets and thus trade at a wider cap rate than the average Archstone asset. Also, the Company is marketing during unfavorable market conditions and is perceived as a distressed seller (based in part on unfair media commentary by the likes of Barrons), which is putting upward pressure on cap rates. We expect that once the initial marketing process has concluded, Archstone's short term liquidity issues are resolved, and credit and asset sales markets improve throughout the year, cap rates will be lower on later sales. Slide #4 shows this detail.

REITs: Slide #9 shows valuation metrics on the multifamily REITs. Green Street Advisors ("GSA"), a respected – but conservative – independent research firm, uses a 5.0% to value AVB, Archstone's closest competitor. Note that GSA considers Platform Value in its REIT valuation methodology. In a research report released in June 2007, GSA estimated Archstone's platform value at $2.4 billion (16% of NAV) and AVB at $1.9 billion (18% of NAV), the highest two among all multifamily REITs. Our purchase price allocation assumes a more conservative platform value of $1.0 billion. Assuming GSA's platform value, the implied cap rate of the core portfolio would be closer to 4.50% (vs. 4.05%). Slides #7 and #8 shows REIT share performance since the deal was announced on 5/29/07.

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