

Confidential

An Overview of the Global Real Estate Business

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June 6, 2005

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Agenda

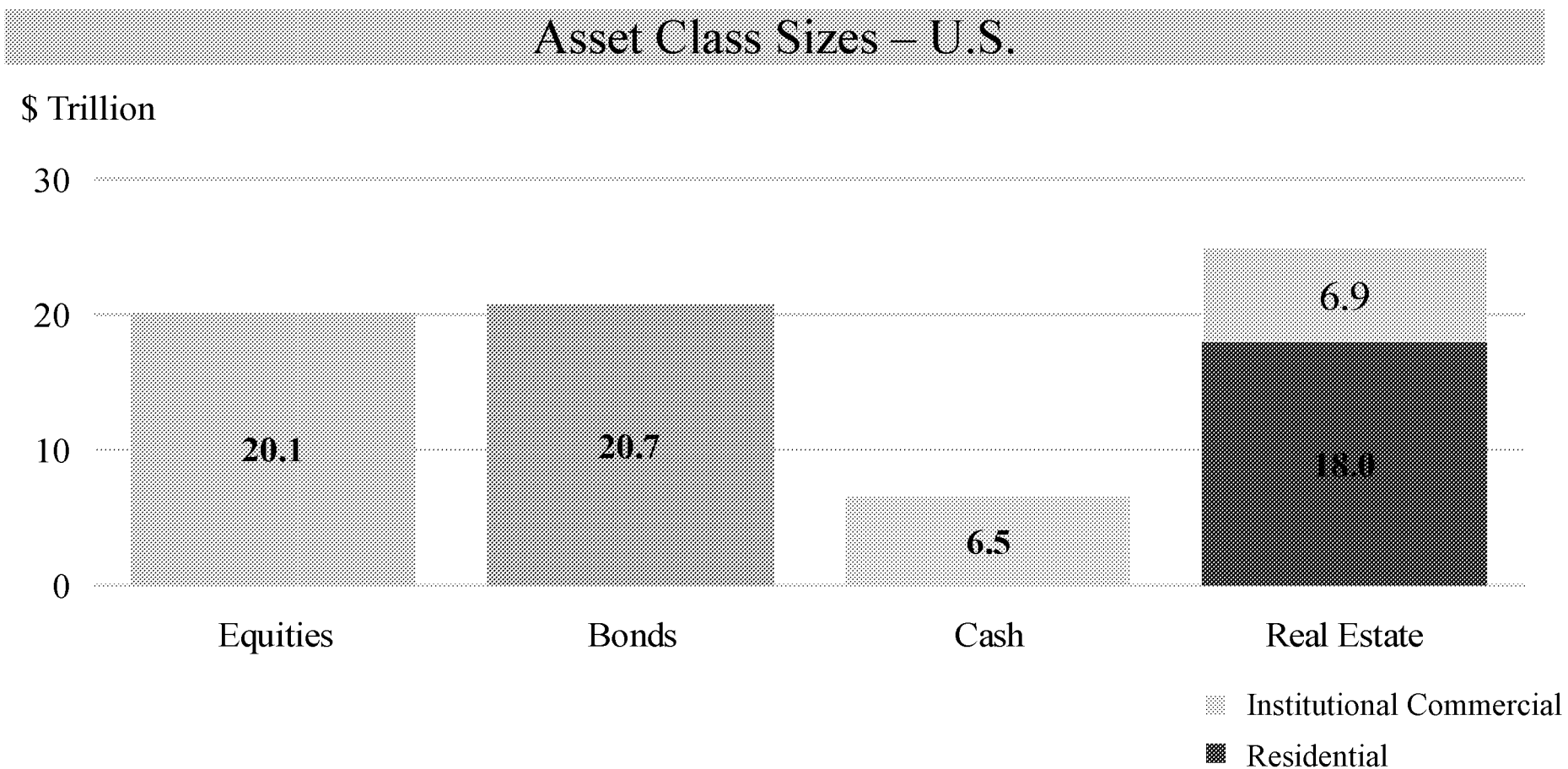
- ◆ Overview of the Real Estate Markets
- ◆ Current State of the LB Global Real Estate Business
- ◆ An Overview of the Global Real Estate Products
- ◆ Risk Management
- ◆ Product Control



Overview of the Real Estate Markets

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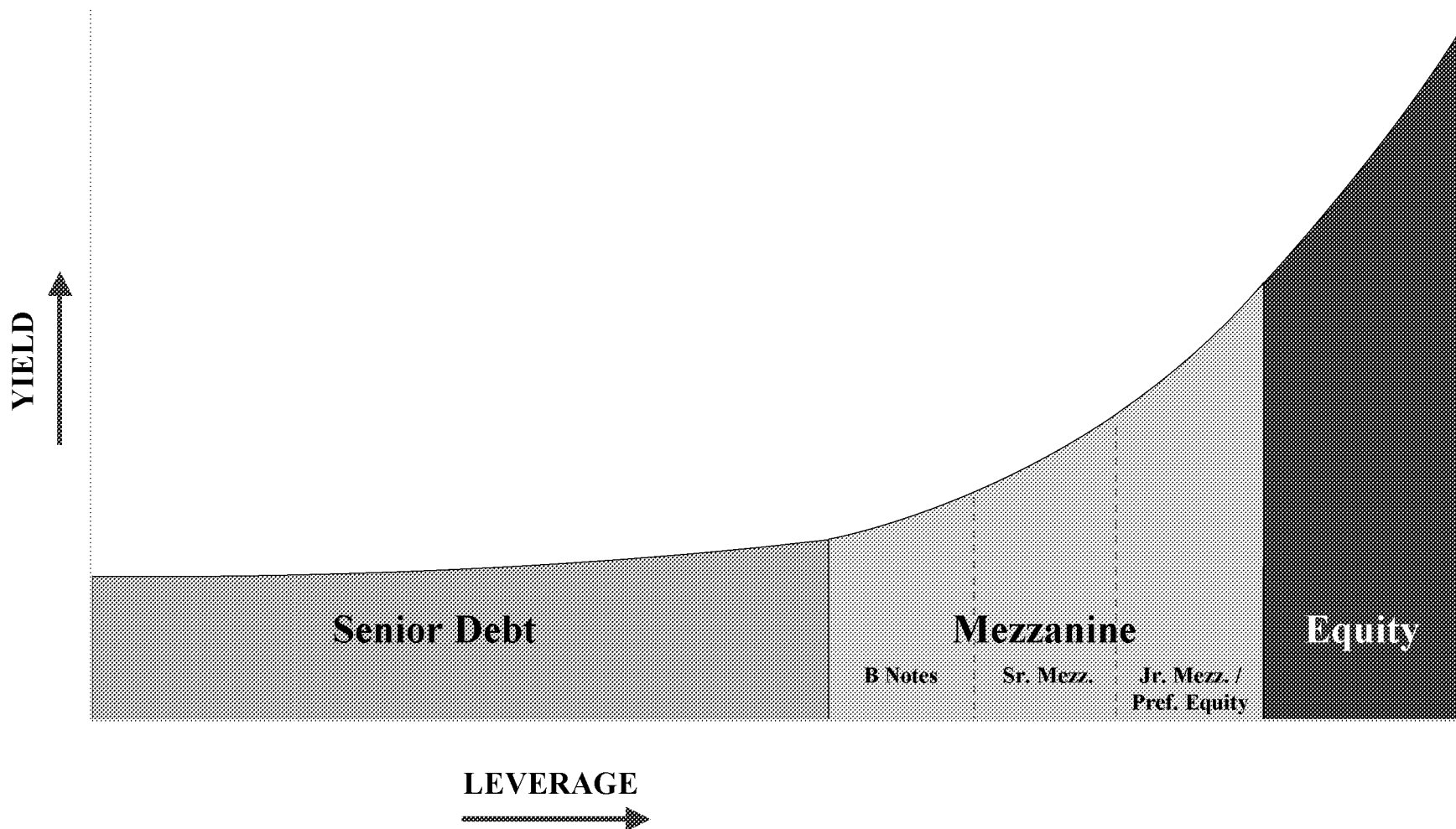
Overview of the Real Estate Markets



Source: Federal Reserve, Flow of Funds, RCG

Overview of the Real Estate Markets

The spectrum of real estate risk and return



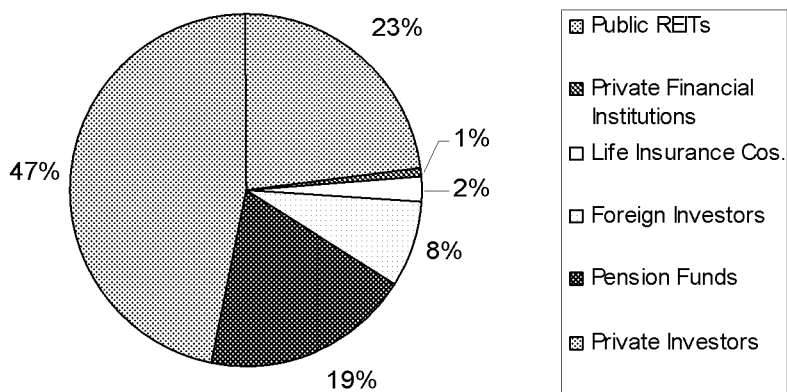
Source: Lehman Brothers

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Overview of the Real Estate Markets

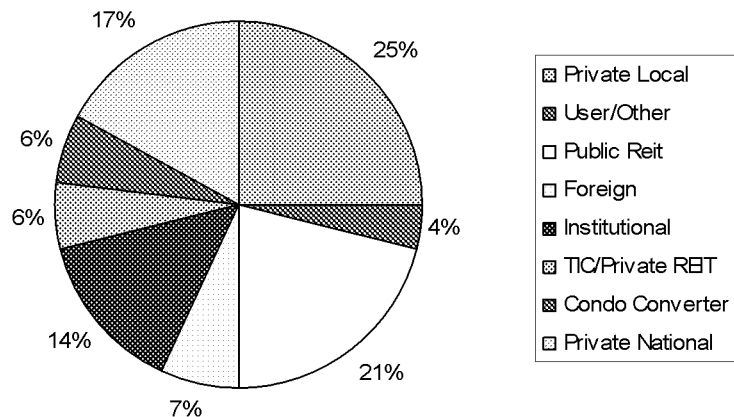
Commercial Real Estate Equity⁽¹⁾

US Commercial Real Estate Equity Ownership
As of Midyear 2004



Commercial Real Estate Investors⁽²⁾

2004 US Commercial Real Estate Investors
by Dollar Volume - \$181.4B

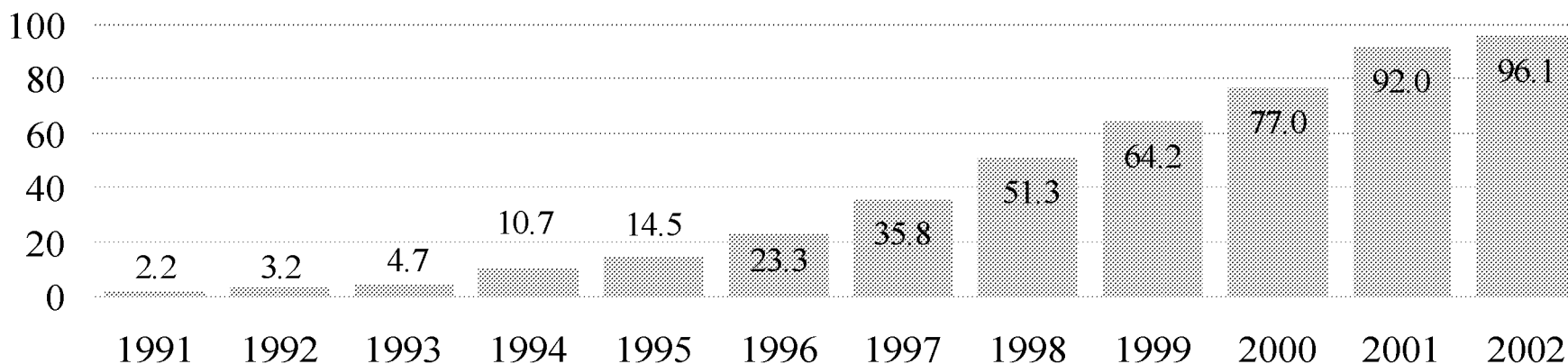


1. Source: RERC, NAREIT, Pensions & Investments, ACLI, AFIRE, Principal Real Estate Investors, as of midyear 2004.

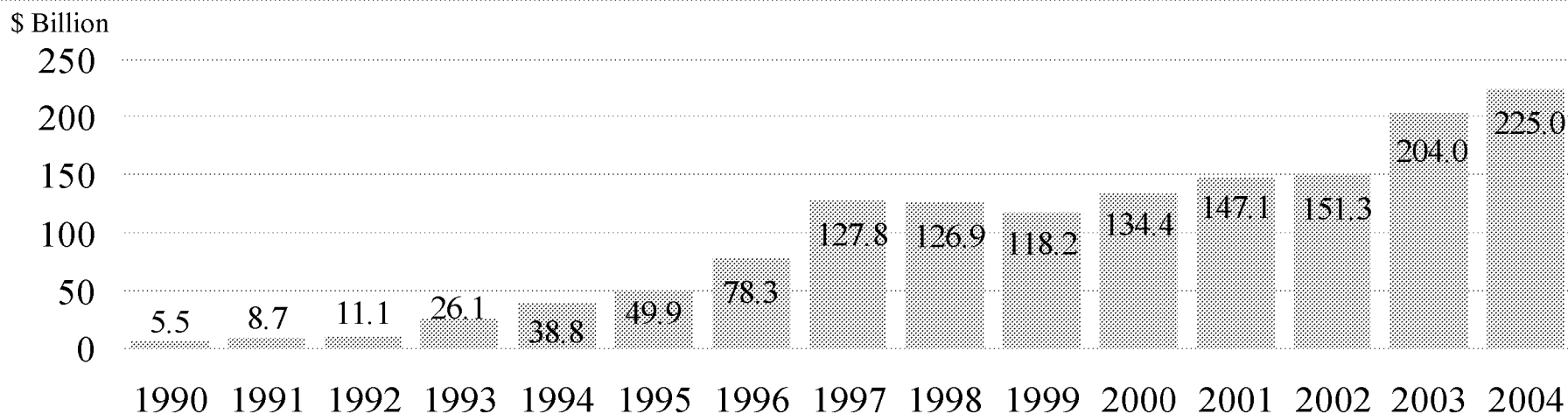
2. Source: Real Capital Analytics, February 2005 Capital Trends Monthly.

Overview of the Real Estate Markets

Cumulative Equity Flows to Opportunity Funds⁽¹⁾



Growth in Equity Real Estate Securities⁽²⁾



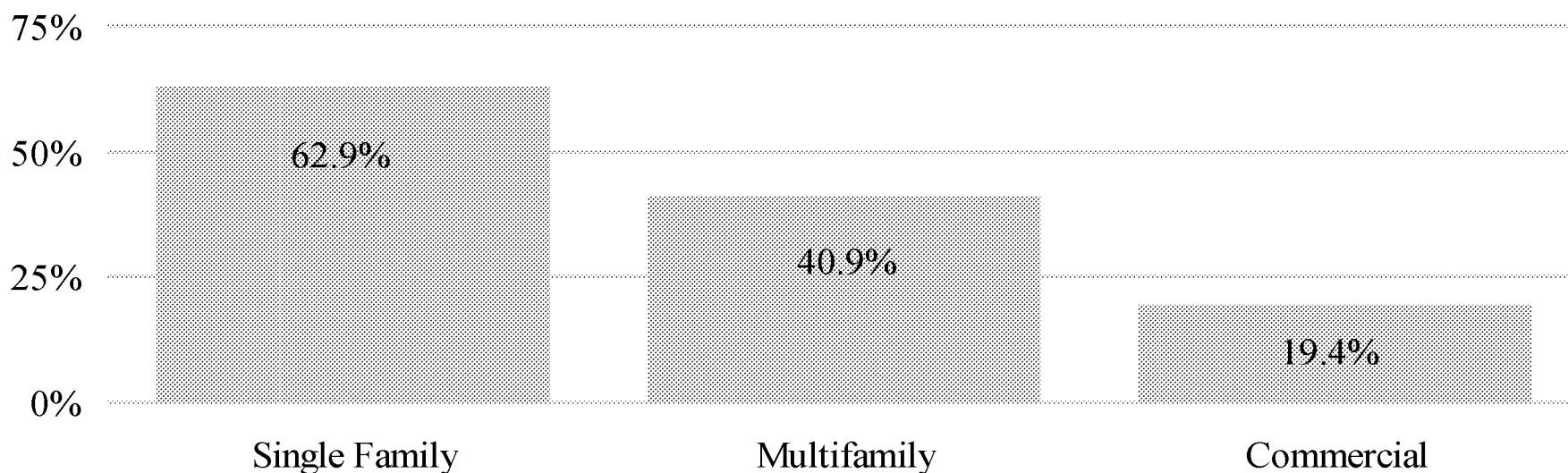
1. Source: Pension Consulting Alliance.

2. As of 3/31/04. Source: NAREIT.

Overview of the Real Estate Markets

- ◆ Mortgage securitization has continued to grow with commercial mortgage securitization representing a much smaller piece of the market than single family or multi-family

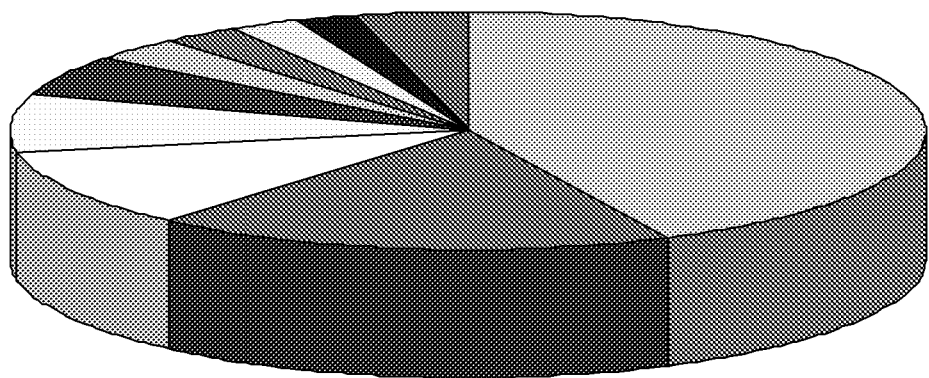
Mortgage Market Securitization: 2003



Source: Federal Reserve, Flow of Funds, RCG.

Overview of the Real Estate Markets

Total Commercial Mortgage Market Breakdown



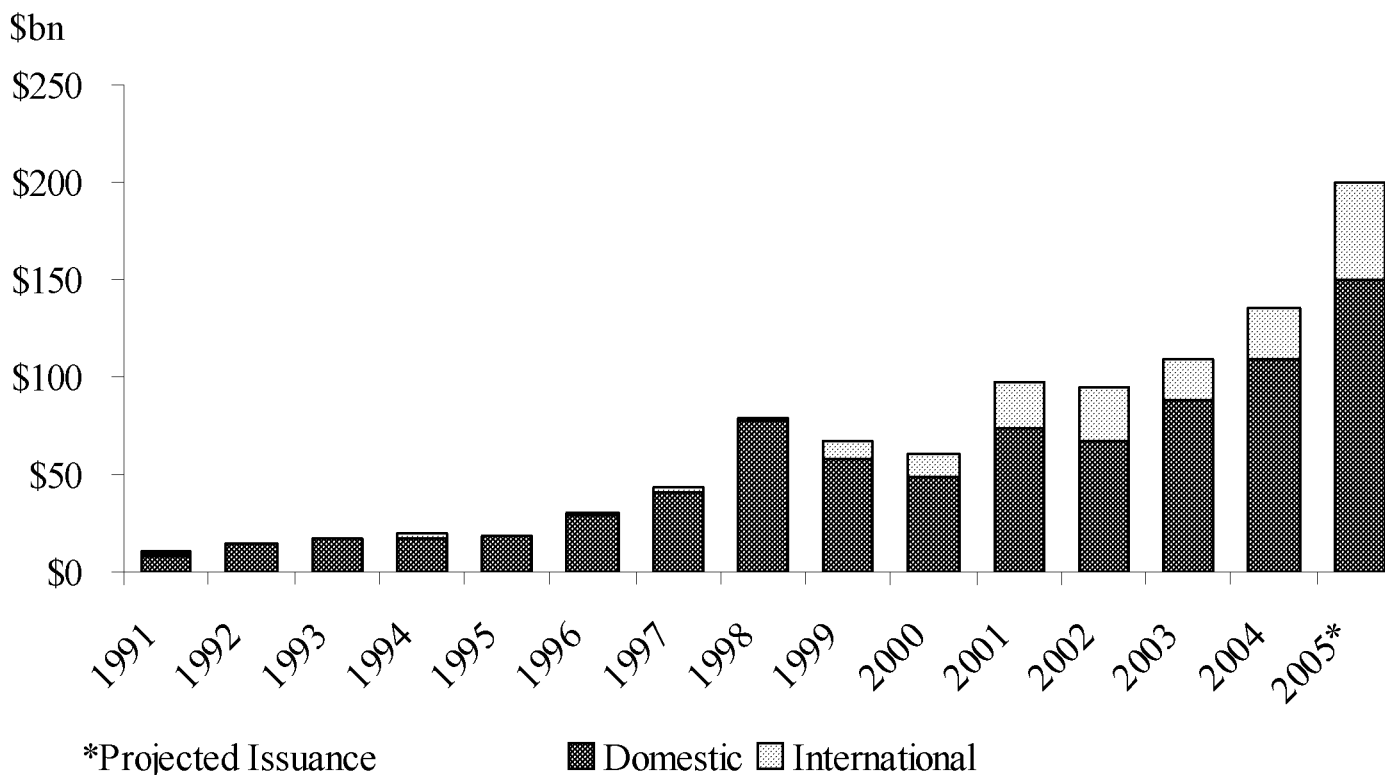
Commercial Banks:	\$982.3B (42.8%)
CMBS:	\$423.0B (18.4%)
Life insurance cos:	\$250.8B (10.9%)
Savings institutions:	\$182.0B (7.9%)
Agency backed pools:	\$124.7B (5.4%)
State/local governments:	\$ 67.9B (3.0%)
GSE:	\$ 65.4B (2.9%)
Federal government:	\$ 57.4B (2.5%)
Finance companies:	\$ 52.7B (2.3%)
Others:	\$ 87.7B (3.8%)

*Source: Federal Reserve: 'Flow of Funds Accounts of the US' report. As of 12/31/04.
Includes multifamily residential mortgages and commercial mortgages.*

Overview of the Real Estate Markets

Trends in CMBS Product Supply

- ◆ Banner year expected in '05



- ◆ 2004 was a record year with \$136 bn in total issuance of which \$110 bn was domestic
- ◆ 1Q05 new issuance amounted to a record \$47.5 bn, of which \$36.4 bn was domestic
- ◆ Domestic new issuance in 2Q05 is expected to approach \$40 bn

Source: Commercial Mortgage Alert. Projections based on Lehman Brothers' estimates.

Overview of the Real Estate Markets

CMBS Has Been A Consistent Performer Over The Past Few Years

Total Returns							
Index	1999	2000	2001	2002	2003	2004	YTD-2005
U.S. Aggregate	-0.82%	11.63%	8.44%	10.26%	4.10%	4.34%	1.96%
ABS	1.81	10.84	9.81	8.55	4.01	3.00	1.26
CMBS	0.49	13.47	9.44	15.32	4.66	4.10	1.79
Fixed-rate MBS	1.86	11.16	8.22	8.75	3.07	4.70	1.78
U.S. Agency	-0.94	12.18	8.31	11.01	2.59	3.33	1.85
U.S. Credit	-1.96	9.39	10.40	10.52	7.70	5.24	1.68
CMBS Rank	3	1	3	1	2	3	2

Excess Returns ⁽¹⁾							
Index	1999	2000	2001	2002	2003	2004	YTD-2005
U.S. Aggregate	0.80%	-1.31%	0.54%	0.29%	1.55%	0.46%	-0.19%
ABS	1.37	0.43	1.39	-0.16	1.81	1.08	0.23
CMBS	0.87	-0.41	1.31	2.10	2.01	0.76	0.17
Fixed-rate MBS	1.13	-0.77	-0.75	1.73	0.11	0.62	0.05
U.S. Agency	0.41	-0.13	0.73	0.96	0.27	0.40	0.24
U.S. Credit	1.70	-4.63	2.77	-1.87	5.27	0.64	-1.00
CMBS Rank	4	3	3	1	2	2	3

Source: Lehman Brothers Fixed Income Indices.

1. Excess returns versus comparable duration treasuries.

Overview of the Real Estate Markets

The Real Estate Markets have been strong and have outperformed other investment alternatives

◆ **Current Demand Factors**

- Attractive yields
 - Real estate yield spreads are attractive versus financing costs
- Hard assets are in favor
- Capital flows into real estate have increased
 - Growth of high-yield investment vehicles has raised significant capital targeted for real estate

◆ **Real estate market cycles are inevitable, but should not be as severe as they have been historically**

- Closer financial alignment of interest between real estate owners and capital providers
 - In both debt and equity, the market has changed from fee and spread based capital providers to total return based capital providers
 - Pension funds are deploying their capital in more performance oriented structures (opportunity funds)

Overview of the Real Estate Markets

- ◆ **Real estate market cycles are inevitable, but should not be as severe as they have been historically (cont.)**
 - Increased market liquidity and dissemination of information
 - The current size of the public markets (CMBS and REITs) provides the structural and pricing technology for liquidity never before available, and ensures faster dissemination of current information
 - CMBS spreads and REIT stock prices are replacing private portfolio “buy and hold” pricing
 - Research in public debt and equity provides further accountability
 - Public companies can have their capital supply cut off by the market when investment returns are judged to be low
 - When a real estate correction occurs, the public format permits far greater trading liquidity and price stabilization than private portfolio ownership of the past

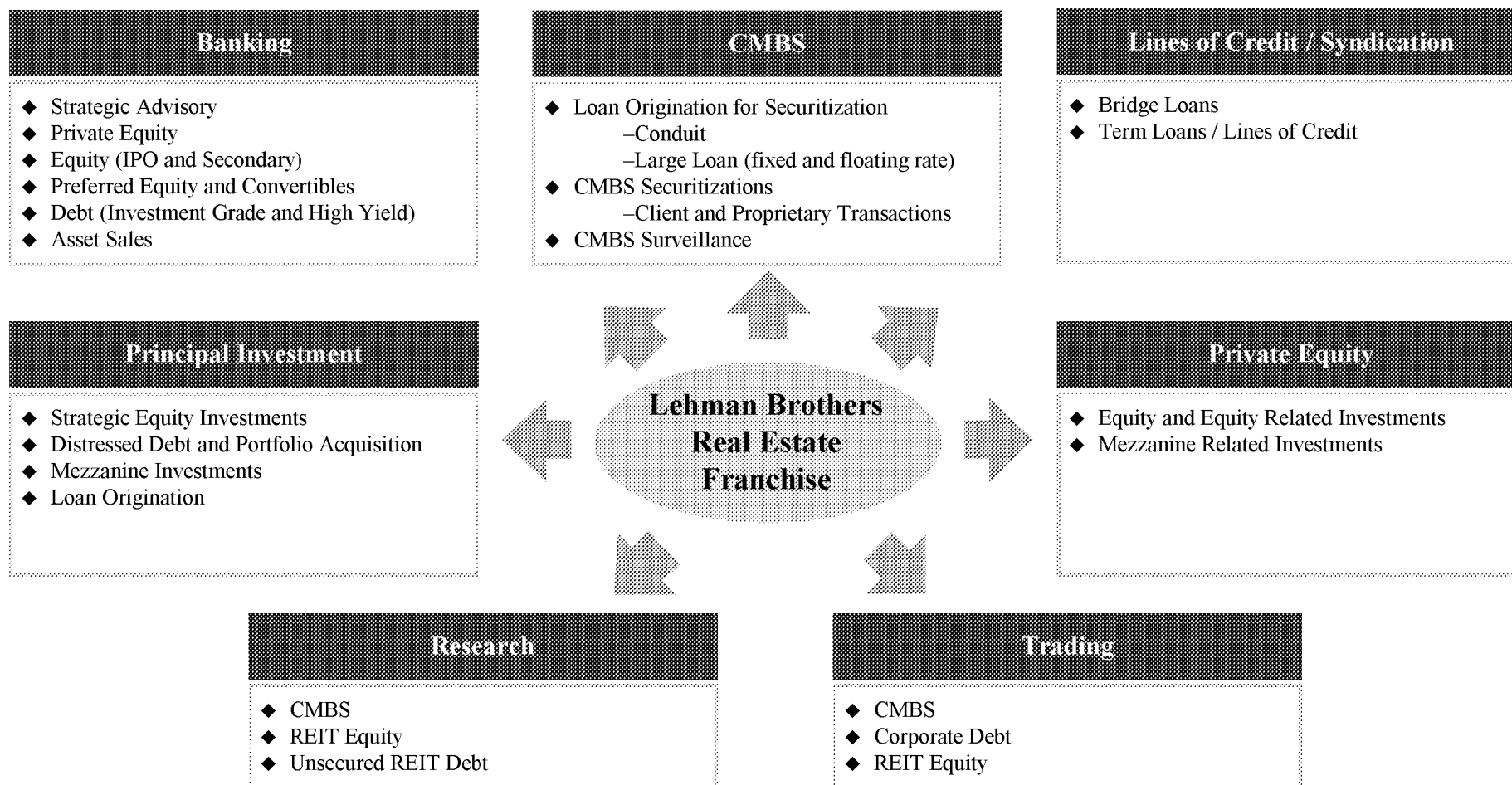


The Global Real Estate Business

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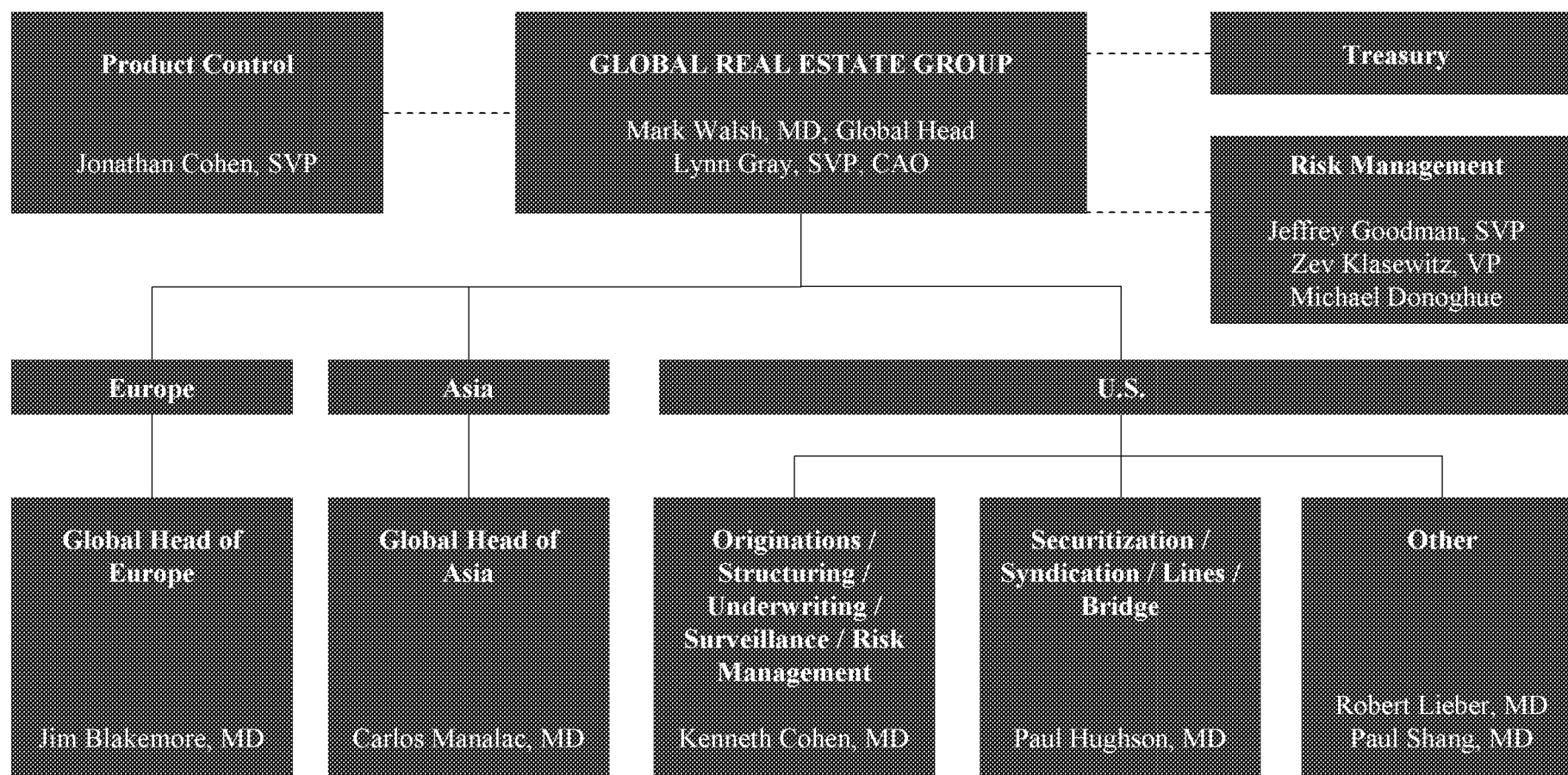
The Global Real Estate Business

Lehman Brothers' Global Real Estate Group is a dominant player in all products and markets



The Global Real Estate Business

The Global Real Estate Group is comprised of more than 300 professionals worldwide and is led by seasoned managers who have significant longevity both at Lehman Brothers and in the real estate industry



The Global Real Estate Business

- ◆ Seasoned management team that has been at Lehman Brothers for an average of 12 years and in the real estate industry for an average of 19 years

<u>Name</u>	<u>Title</u>	<u>Lehman</u>	<u>Industry</u>	<u>Education</u>
Mark Walsh <i>Global Head of Global Real Estate Group</i>	MD	17 years	21 years	College of Holy Cross 1981 Fordham Law School, J.D. 1984
Kenneth Cohen <i>Head of U.S. Originations</i>	MD	19 years	19 years	University of Vermont, B.A. 1986
Paul Hughson <i>Head of U.S. Securitization, Syndication and Lines of Credit</i>	MD	12 years	19 years	Tufts University, B.A. 1983 UVA Law School, J.D. 1986
Lynn Gray <i>CAO, Global Real Estate Group U.S.</i>	SVP	7 years	27 years	Tufts University, B.S. 1971 Cornell Law School, J.D. 1975
James Blakemore <i>Head of European Real Estate</i>	MD	7 years	12 years	Lewis and Clark College, B.A. 1986 NYU Law School, J.D. 1993
Carlos Manalac <i>Head of Asian Real Estate</i>	MD	8 years	15 years	Fordham University, B.S. 1987 University of Chicago, M.B.A. 1989

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The Global Real Estate Business

Lehman Brothers has always been a dominant participant in the Global Real Estate markets

Conduit & Large Loans

- ◆ Named First Annual 'Bank of the Year' by *Real Estate Finance & Investment*, 2003
- ◆ LB-UBS Franchise named 'Partnership of the Year' by *Real Estate Finance & Investment*, 2004
- ◆ #1-ranked underwriter of CMBS in total volume from 1994 to 2005 Q1 (Commercial Mortgage Alert)
- ◆ Originated over \$60 billion of commercial and multifamily conduit and large loans from 1998 through 2004
- ◆ Funded an average of \$391 million of commercial and multifamily conduit loans per month during 2004
- ◆ Originated and/or securitized approximately \$43.2 billion of fixed and floating rate lower leverage large loans between 1998 and 2005 YTD*
- ◆ Provided over \$23 billion of interim financing to facilitate client acquisitions and capital raising since 1997

CMBS Origination and Trading

- ◆ #1-ranked in overall service quality by 2003 & 2004 *Greenwich Associates* survey
- ◆ #1-ranked in providing direct access to traders by 2003 *Greenwich Associates* survey
- ◆ #1-ranked for CMBS research by 2003 & 2004 *Greenwich Associates* survey
- ◆ #1-ranked CMBS trading desk in 2003 & 2004 *Institutional Investor Magazine* survey
- ◆ #2-ranked 'Issuer with Highest Quality Transactions' in 2003 *Real Estate Finance & Investment Magazine* Survey
- ◆ #2-ranked 'Most Actively Support Secondary Market' in 2003 *Real Estate Finance & Investment Magazine* Survey
- ◆ 'Securitisation House of the Year' by the *Banker* in Europe in 2002
- ◆ Co-lead manager/ joint bookrunner for largest single issuer CMBS deal in U.S. history \$2.55 billion GGP Mall Properties Trust 2002-GGP1

Loan Origination / Syndication

- ◆ Underwrote in excess of \$145.6 billion of CMBS since 1991
- ◆ Approximately \$109.3 billion originated since 1998

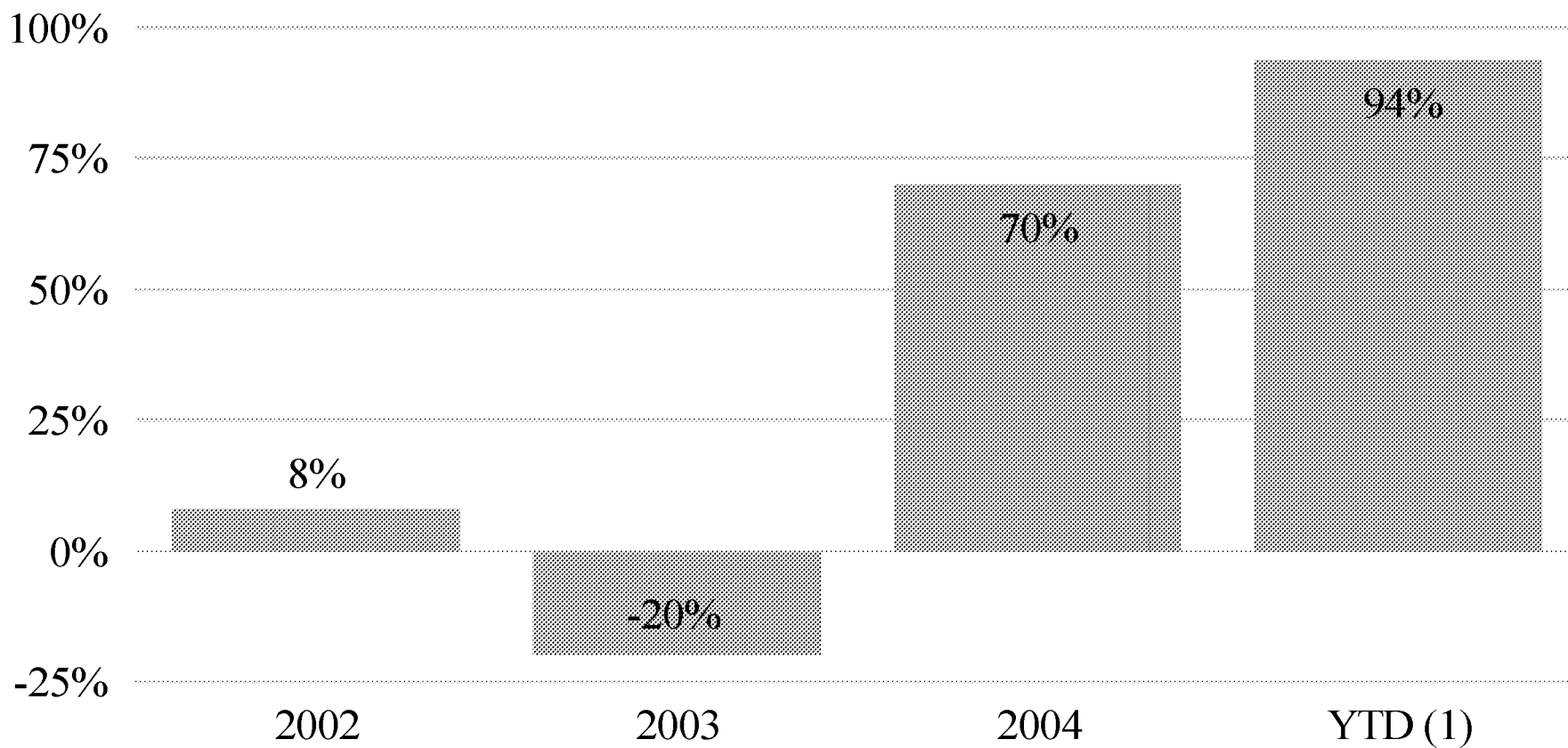
Real Estate Advisory and IPO Issuance

- ◆ #1 ranked Total REIT Trading Volume 2001-2004
- ◆ #2 ranked in M&A for Real Estate 2001-2004
- ◆ #2 ranked underwriter of Equity REIT IPO's 2001-2004
- ◆ #2 ranked REIT Block Trades 2001-2004

* As of April 1, 2005.

The Global Real Estate Business

Strong growth in revenues



1. As of May 2005, annualized.

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An Overview of the Global Real Estate Products

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Overview of Global Real Estate Products

Commercial Real Estate Finance

◆ Fixed Rate and Floating Rate Commercial Mortgage Loans

- Conduit loans
 - \$1 - \$75 million
 - Up to 80% leverage
 - Primarily fixed rate
- Large Loans
 - \$76 million - \$1 billion
 - Lower leverage
 - Fixed and floating rate
- Securitized and syndicated to institutional clients

◆ Lines of Credit/Term Loans

- Leveraged short-term secured and unsecured financing for variety of real estate focused companies (primarily rated public companies)
- Syndicated to bank participants

◆ Bridge Equity

- Short-term bridge equity for acquisitions of properties by institutional clients
- Distributed into the pension fund, insurance company and endowment sector

Overview of Global Real Estate Products

Commercial Real Estate Finance

◆ Principal Investment

- Prior to 2001, GREG provided equity and debt funds for real estate investment in non-stabilized assets which were scheduled to be repaid over a three- to five-year period
 - In 2001, Lehman Brothers Real Estate Partners closed its first equity fund, which since that date has been the primary source of equity capital for Principal Investments
 - Lehman Brothers Real Estate Partners' second equity fund is expected to close this month
 - Lehman Brothers recently established its first Mezzanine Loan Fund, which is expected to close next month
- GREG continues to originate a much more limited number of short-term loans (average duration 2.5 years) secured by second mortgages or ownership interests in properties
- Limited amount of strategic equity for:
 - Properties in markets with lack of competition for the property type or have significant barriers to entry due to complexity of the situation or market issues
 - Purchases of non-performing and sub-performing loans or loan portfolios from lenders and government agencies (HUD, FHA)
 - Over the past few years, the volume of this investment has diminished due to scarcity of sellers and multitude of buyers seeking the upside that this type of investment provides

Overview of Global Real Estate Products

Real Estate Banking Advisory Services

- ◆ Comprehensive advisory and capital raising services
 - General business and financial analysis
 - Equity (IPO and secondary)
 - Debt (investment grade and high yield)
 - Transaction feasibility analysis and pricing
 - Assists in negotiations and related strategy of transactions
 - Identifies, structures and negotiates financings
 - Advises in the corporate capital planning and risk management for transactions
 - Coordinates and assists clients' other professional advisors in the financial aspects of transactions and the preparation and negotiation of transaction documentation
 - Clients are corporations, REITs, property companies, governments and financial institutions

Overview of Global Real Estate Products

Key Risks of Global Real Estate Products

- ◆ Interest rate risk
- ◆ Spread risk
- ◆ Changing market condition and execution risk
- ◆ Servicing exposure
- ◆ Exit strategy

Managing Risk of Global Real Estate Products

- ◆ Short holding periods
 - Securitizations and/or syndications every 6 weeks – 3 months through joint securitizations with UBS for our fixed rate loans, through our Large Loan Floating Rate Securitization Program, and to institutional investors for our term loans and bridge equity
- ◆ Positions (whole loans and CMBS bonds) actively hedged with swaps, treasuries, agencies, and derivatives
 - Fixed rate loans are hedged upon rate lock
 - Pipeline continuously risk managed and modeled

Overview of Global Real Estate Products

Managing Risk of Global Real Estate Products

- ◆ Rigorous underwriting standards at origination for all products
 - Lehman Brothers underwrites all loans with internal underwriting staff (professionals with extensive lending experience)
 - Internal guidelines include loan criteria and review committees
 - Loans also underwritten to reflect rating agency credit support criteria—Lehman Brothers' senior underwriting staff includes former rating agency professionals
 - Large Loan program underwriting usually involves presenting agencies with loan parameters before origination
 - Third party reports (appraisal, environmental, etc) required on all loans
- ◆ Active and seasoned surveillance group monitors products
 - Proprietary data base provides real time information
 - Communication maintained with servicers
 - Wachovia Securities services fixed rate loans as they are aggregated for securitization
 - Wachovia monitors performance of the loans and processes any borrower requests
 - ORIX Capital Markets and Midland Loan Services, Inc. service floating rate loans and loans that are designated for syndication instead of securitization

Overview of Global Real Estate Products

Managing Risk of Global Real Estate Products

- ◆ Control for property cash flows from principal investments
 - Generally, cash flows from principal investment properties are managed by Lehman Brothers to ensure monitoring of expenses, and ultimately control of real estate collateral
 - Funds are not released unless consistent with operating plan
 - If difficulties with property arise, have immediate control of cash
 - If borrower declares bankruptcy, loan becomes recourse
- ◆ Defined exit strategies for principal investments
 - Based on creation in value, not overall appreciation in real estate markets
 - Focus on markets with significant barriers to entry and/or properties with complex issues

Overview of Global Real Estate Products

Managing Risk of Global Real Estate Products

- ◆ Special servicers engaged as asset managers for principal investments
 - Actively monitor performance
 - Principal and interest payments/remittance process
 - Construction, leasing, and unit sales progress reporting
 - Pending maturities and refinancing efforts
 - Tax and insurance compliance
 - Collateral-level risk monitoring
 - Quarterly asset re-underwriting/valuations (Argus)
 - Monitor leasing velocity and supervise marketing efforts
 - Advise on disposition strategies and engage local expertise to execute plans
 - Watch list items and exit strategies are discussed with GREG and corporate Risk Management

Overview of Global Real Estate Products

Recent Transaction Bond Structure

- ◆ Sequential pay structure (1)
- ◆ Interest and principal are paid to senior classes before subordinate classes receive interest and principal (1)
- ◆ Credit enhancement for each class will be provided by the more subordinate classes
- ◆ Losses are allocated in reverse sequential order starting with the non-rated principal balance class (Class S) (2)

Class	Face Amount (\$)	Rating (Underlying)	Credit Support	Pass-Through Rate Description	Wtd. Avg. Life (Years)	Revised Maturity
A-1 ⁽⁸⁾	\$70,000,000	AAA/Aaa	20.000%	Fixed Rate	2.78	05/2005 – 02/2010
A-2 ⁽⁸⁾	\$551,000,000	AAA/Aaa	20.000%	Fixed Rate	4.92	02/2010 – 04/2010
A-3 ⁽⁸⁾	\$81,000,000	AAA/Aaa	20.000%	Fixed Rate	5.74	01/2011 – 01/2011
A-4 ⁽⁸⁾	\$305,000,000	AAA/Aaa	20.000%	Fixed Rate	6.91	01/2012 – 04/2012
A-AB ⁽⁸⁾	\$76,000,000	AAA/Aaa	20.000%	Fixed Rate	7.27	04/2010 – 12/2014
A-5 ⁽⁸⁾	\$511,744,000	AAA/Aaa	20.000%	Fixed Rate	9.83	12/2014 – 04/2015
A-J ⁽⁸⁾	\$124,590,000	AAA/Aaa	13.750%	Fixed Rate	9.99	04/2015 – 04/2015
B ⁽⁸⁾	\$14,950,000	AA+/Aa1	13.000%	WAC ⁽⁶⁾	9.99	04/2015 – 04/2015
C ⁽⁸⁾	\$29,902,000	AA/Aa2	11.500%	WAC ⁽⁶⁾	9.99	04/2015 – 04/2015
D ⁽⁸⁾	\$42,360,000	AA-/Aa3	9.375%	WAC ⁽⁶⁾	9.99	04/2015 – 04/2015
E ⁽⁸⁾	\$42,361,000	A/A2	7.250%	WAC ⁽⁶⁾	9.99	04/2015 – 04/2015
X-CP ⁽⁸⁾	\$1,814,345,000 ⁽⁷⁾	AAA/Aaa	N/A	Variable IO ⁽⁹⁾	5.29 ⁽³⁾	04/2006 – 04/2012 ⁽¹⁰⁾
X-CL	\$1,993,431,018 ⁽⁷⁾	AAA/Aaa	N/A	Variable IO ⁽⁹⁾	7.59 ⁽³⁾	05/2005 – 03/2020 ⁽¹⁰⁾
F	\$14,951,000	A-/A3	6.500%	WAC ⁽⁶⁾	9.99	04/2015 – 04/2015
G	\$19,934,000	BBB+/Baa1	5.500%	WAC ⁽⁶⁾	9.99	04/2015 – 04/2015
H	\$17,442,000	BBB/Baa2	4.625%	WAC ⁽⁶⁾	9.99	04/2015 – 04/2015
J	\$29,902,000	BBB-/Baa3	3.125%	WAC ⁽⁶⁾	9.99	04/2015 – 04/2015
K	\$14,951,000	BB+/Ba1	2.375%	Fixed Rate ⁽⁵⁾	9.99	04/2015 – 04/2015
L	\$7,475,000	BB/Ba2	2.000%	Fixed Rate ⁽⁵⁾	9.99	04/2015 – 04/2015
M	\$2,492,000	BB-/Ba3	1.875%	Fixed Rate ⁽⁵⁾	9.99	04/2015 – 04/2015
N	\$4,983,000	NR/B1	1.625%	Fixed Rate ⁽⁵⁾	9.99	04/2015 – 04/2015
P	\$4,984,000	NR/B2	1.375%	Fixed Rate ⁽⁵⁾	9.99	04/2015 – 04/2015
Q	\$4,983,000	NR/B3	1.125%	Fixed Rate ⁽⁵⁾	9.99	04/2015 – 04/2015
S	\$22,427,018	NR/NR	N/A	Fixed Rate ⁽⁵⁾	13.50	04/2015 – 03/2020

1. Except that Class A-1, Class A-2, Class A-3, Class A-4, Class A-AB, Class A-5, Class X-CL and Class X-CP receive interest on a pro-rata basis. Principal distributions will be made as follows: to Class A-AB until Class A-AB is reduced to the Class A-AB Planned Principal Balance; Class A-1; Class A-2; Class A-3; Class A-4; Class A-AB; and Class A-5. To the extent that the total principal balance of the Class A-J through Class S is reduced to zero, then Class A-1, Class A-2, Class A-3, Class A-4, Class A-AB and Class A-5 receive principal on a pro-rata basis.
2. Except that Class A-J bears losses after Class B and before Class A-1, Class A-2, Class A-3, Class A-4, Class A-AB, and Class A-5 (which six classes bear losses on a pro-rata basis).
3. Calculated, assuming among other things, 0% CPR and no defaults or losses. Any deviation from these assumptions can result in a different weighted average life and/or principal window for any class of certificates.
4. Certificates offered as part of the public offering.
5. For any distribution date, if the weighted average of certain net interest rates on the underlying mortgage loans is less than a specified fixed rate for such class, then the pass-through rate for that class of certificates on that distribution date will equal such weighted average net interest rate.
6. The pass-through rates will equal the weighted average of certain net interest rates on the underlying mortgage loans ("WAC") or, in some cases, the WAC minus a specified percentage.
7. Represents the notional amount.
8. The Class X-CL and X-CP certificates accrue interest on their respective notional amounts at the weighted average of certain strip rates.
9. Represents the weighted average life of each dollar reduction in notional amount.
10. Represents period over which the notional amount will be reduced to zero.



Risk Management

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Risk Management

Risk Measurement: Risk Appetite

- ◆ A measurement that represents the quantity the Firm is “prepared to lose” in one year; integrates market risk and event risk into one comprehensive indicator
- ◆ Calculated as annual amount at 95% confidence level

Market Risk/VaR

- ◆ VaR is the potential daily mark-to-market loss on all positions from an unfavorable market move in all risk factors (whereas Market Risk is defined as the “annualized” VaR figure)
- ◆ Commercial Mortgages
 - Daily VaR is measured at a 95% confidence level and is based on simulated P&L generated from four (4) years of historical data and current exposures

Risk Management

Market Risk/VaR (cont.)

- ◆ Commercial Mortgages
 - Main risk factors are interest rate risk and spread risk
 - Conduit and Large Loans
 - The interest rate component is estimated from IR01s and changes in swap curves bucketed by maturity
 - The spread component is estimated from the spread sensitivities and changes in the composite (based on recent securitizations) CMBS spread time series
 - CMBS secondary securities
 - The interest rate component is estimated from IR01s and changes in swap curves bucketed by maturity
 - The spread component is estimated from the spread sensitivities and changes in CMBS spread index curves bucketed by rating, maturity, fixed vs. floating

Risk Management

Event Risk

- ◆ Potential property value losses on real estate
 - For real estate and related loans, we measure the capital value losses due to real estate downturns
 - We use a “historical simulation” approach to determine the P&L impact of shocks in the real estate market on today’s portfolio:
 - Stressed property values (by property and geographic location) are used to simulate P&L impact (only loss amounts are taken) => P&L vector:

$$\left[\begin{array}{c} \text{Market Value} \\ \text{of Property} \end{array} \right] \times \left[\begin{array}{c} \text{Historical Time Series of} \\ \text{Property Value Changes} \end{array} \right] - \left[\begin{array}{c} \text{Senior Debt} \\ \text{if applicable} \end{array} \right] - \left[\begin{array}{c} \text{Lehman Loan} \\ \text{MTM Basis} \end{array} \right] = \left[\text{Simulated P \& L for each loan} \right]$$

- Aggregate losses across property types within an MSA (thus, conservatively assuming perfect correlation between property types within each MSA) => P&L vector
- Aggregate across regions using assuming zero correlation across different regions using a procedure similar to High Yield defaults => Joint probability distribution => Loss at the desired confidence level

Risk Management

VaR and Risk Appetite Process

- ◆ VaR process, daily risk recap & trade validation
 - VaR figures are generated in LehmanRisk using position information supplied by RAMP and disseminate daily CMBS Risk Report to trades/ business leaders
 - Positions and hedges are validated and large trades are investigated with traders/ middle office/ RAMP
 - Summarize daily exposure changes and explain daily VaR and Risk Appetite changes
 - Focus on large transactions, risk themes
- ◆ VaR and Risk Appetite monitoring and limit usage reporting
 - Weekly Top Risk reporting: Report on trades with large exposures. Summarizes weekly moves in terms of exposures, potential losses, market trends and sentiments
 - Limit overages are communicated to business heads and exit strategies are verified

Risk Management

Pipeline & Firm Commitment Committees

- ◆ Large pipeline deals are discussed with business leaders (deal structure, hedges, exit strategies) to ensure risk is captured appropriately
- ◆ Firm Commitment Committees
 - Transactions involving senior loans with a principal amount of \$250 million or more, mezzanine loans with a principal amount of \$50 million or more, loans in which the credit of a company is relevant to the underwriting decision, or loans with a principal amount of \$50 million or more which will be syndicated by Lehman Brothers by means of an offering document require Firm Commitment Committee review
 - Equity investments of \$10 million or more intended to be held longer than 10 months require Firm Investment Committee review



Product Control

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U.S. Real Estate Price Verification

Price Testing Review and Escalation of Issues

- ◆ Product controllers are responsible for summarizing price testing results and resolving variances with traders
- ◆ All unresolved pricing variances are raised to the attention of senior product control management and the appropriate business head for resolution
- ◆ A fully documented price testing summary is due on the 17th business day of the month
- ◆ Senior product control management reviews the final price verification summary documents monthly

Price Testing Matrix

- ◆ The standard pricing classification for real estate is based on the Fair Value hierarchy as set out in the FASB Fair Value measurement exposure draft. As of April 30, 2005, the break-out is as follows:

	% of Bal Sht Amt
Level 1	0%
Level 2	0%
Level 3	55%
Level 4	45%
	100%

U.S. Real Estate Price Verification

Equity, REO and Higher Leveraged Mezz Loans (PTG)

- ◆ Receive a monthly data tape from servicers, which includes certain loan and property specific attributes for each position
- ◆ Compare the tape with the prior month's and investigate material differences with the servicer
- ◆ Review the tape and, based on discussions with the business, servicer or risk management, hard-code values and/or dates to present a more accurate picture of the portfolio
- ◆ Determine discount rates by interpolating spreads published in various real estate publications
- ◆ Positions are then priced based on the net proceeds available to Lehman as well as on a net present value basis
- ◆ PCG applies positive variance threshold of \$5mm and negative variance threshold of \$1mm to highlight positions for further review and potential adjustment

U.S. Real Estate Price Verification

Large Loans Floating Rate and Commercial Conduit Fusion Loans Fixed Rate

- ◆ For floating rate loans where the properties are stabilized, price using matrix of current spreads being offered for new origination correlated to the position's LTV and property type
- ◆ Investigate all floating-rate positions outside the published range of spreads
- ◆ For all securitizable fixed rate loans, compute independent prices based on a mock securitization modeled after a recent Lehman securitization
- ◆ Positive variances based on the mock securitization are not recognized into P&L since the majority of the P&L is contingent upon the successful execution for a CMBS transaction. For floating rate loans where the properties are not stabilized or where the a fixed rate loan cannot be securitized, the loan will be valued and price tested as a PTG Whole Loan

U.S. Real Estate Price Verification

CMBS Securities

- ◆ All securities are valued on an individual basis using a Net Present Value analysis
- ◆ PCG creates (straight interpolation) a spread matrix for fixed and floating-rate securities based on spreads published in third-party newsletters
- ◆ Once the appropriate spreads to be used for each security have been determined (based on security ratings and WAL), each security is then priced on Bloomberg using the Yield Table function
- ◆ Where the price from Bloomberg is not reasonable, the desk is consulted as to how best to model the positions. The methodology is discussed and if reasonable the revised method is used to price the positions
- ◆ PCG applies positive variance threshold of \$2mm and negative variance threshold of \$1mm to highlight positions for further review and potential adjustment

U.S. Real Estate Price Verification

Commercial N/R Mezzanine and B Notes

- ◆ PCG determines a theoretical shadow rating for each security based on its LTV
- ◆ Using this shadow rating, PCG interpolates the spreads published in third party newsletters
- ◆ Each position is then priced based on a net present value analysis
- ◆ PCG applies positive variance threshold of \$2mm and negative variance threshold of \$1mm to highlight positions for further review and potential adjustment

REIT LOC/Term Loans

- ◆ The appropriate spread for each position is found by cross referencing the loan type and its credit rating (from Bloomberg/Moody's)
- ◆ Using this shadow rating, PCG interpolates the spreads published in a third party website
- ◆ Each position is then priced based on a net present value analysis
- ◆ PCG applies positive variance threshold of \$2mm and negative variance threshold of \$1mm to highlight positions for further review and potential adjustment



LEHMAN BROTHERS