Confidential Presentation to:

Standard & Poor's

Real Estate Update

October 2007

LEHMAN BROTHERS

Key Points

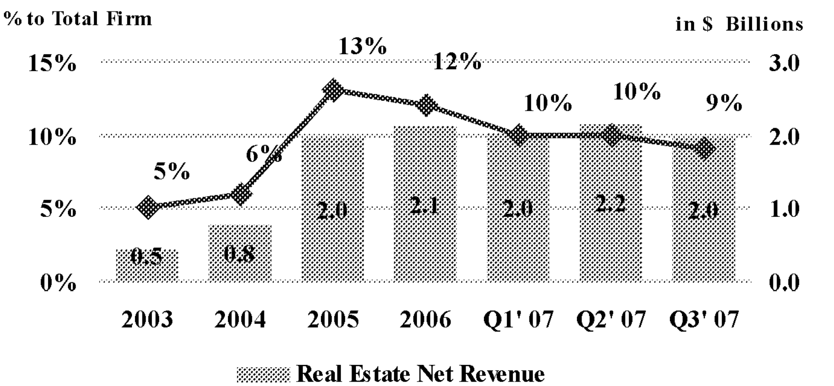
- Real Estate business consists of three components: Commercial Mortgage loan origination and securitization (CMBS), Principal Transactions Group (PTG), and Real Estate Advisory
  - Since 2003, the Firm's investment strategy has shifted more towards CMBS
  - In combination, Real estate businesses account for approximately 10% of the Firm's revenues and 13% of the balance sheet
- The risks in securitization business are linked to deterioration in whole loans ahead of securitizations and distribution in the CMBS markets
  - We manage these risks through careful underwriting, high volume of securitization and high asset turnover, an established, diversified client base, and spread hedging
  - Well diversified pool of investors, and tremendous distribution capabilities
  - Loans are predominately floating-rate and are well-diversified across regions and products
  - Effective hedging program
- The risks in the principal business, where exposures tend to be longer-term, are associated with the quality of the investment selection process and our ability to enhance the value of the property
  - We mitigate these risks by careful selection of the investments and partners, limiting the size of our exposures, and seeking geographic and segment diversification
  - Distribution of exposure includes more capacity within our own funds
- We are careful in managing our risk in our Real Estate business
  - Our risk appetite has remained limited to 3-6% of our Net Revenue.

Overview

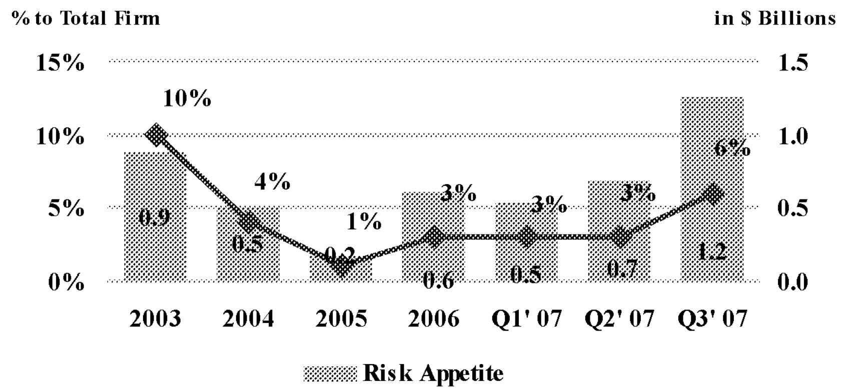
An Important But Not Disproportionate Part Of The Firm

Since 2003, GREG has grown considerably in absolute terms, yet its role in the Firm's portfolio has remained relatively stable. Risk appetite is limited to 3-6% of the Firm's revenue

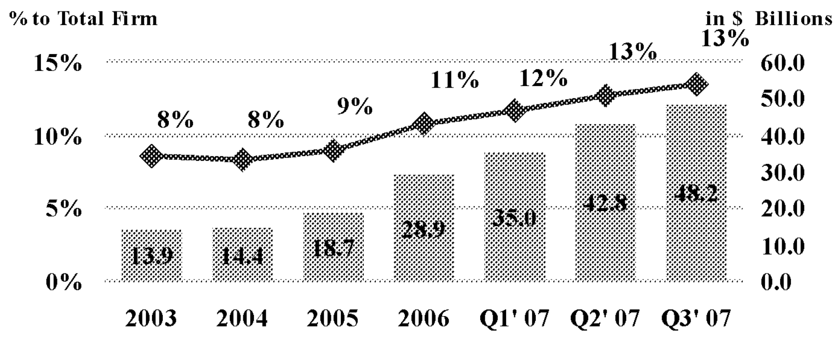
Real Estate Net Revenue as a % of Net Revenue[1]



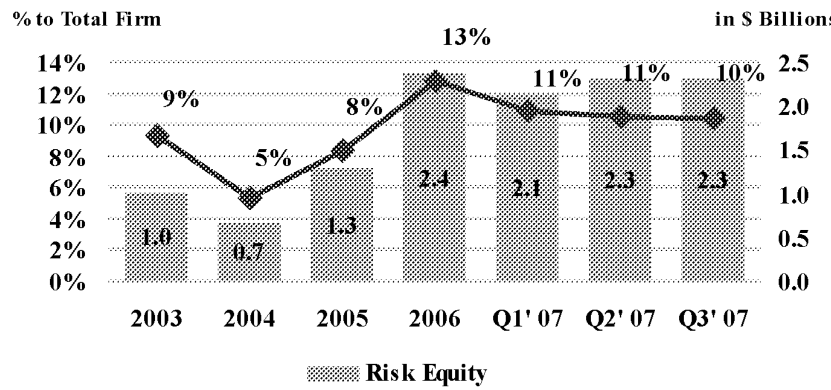
Real Estate Risk Appetite as a % of Net Revenue[1]



Real Estate Net Assets[2] as a % of Total Net Assets



Real Estate Risk Equity as a % of Adj. Equity[3]



1. *Quarterly 2007 Revenue figures are annualized*
2. *Real Estate Assets net of Gross-ups*
3. *Risk Equity for Q3 is June 2007*

Business Mix

Global Real Estate Group is made up of three businesses: Commercial Mortgage-Backed Securities business (CMBS), Principal Transaction Group (PTG), and Real Estate Advisory

CMBS Business (CMBS)

- The Firm makes loans, aggregates them until they create a sufficient principal amount ($2-3 billion) to be securitized
- The mortgages in the pool are secured by a variety of commercial properties, including office, retail stores, multi-family apartment buildings and complexes, industrial facilities and hotels
- Loans that do not fit well in a securitized pool are syndicated or seasoned until they are securitized

Principal Transaction Group (PTG)

- Originate short term loans (average duration 2.5 years) which are secured by first or second mortgages or ownership interests in properties. These short term loans have a defined exit strategy
- Make strategic equity investments in markets that the firm believes it can bring a competitive advantage or that the market has significant barriers to entry due to complexity of the situation
- Purchases non-performing and sub-performing loans or loan portfolios from lenders and government agencies (HUD, FHA).

Real Estate Advisory

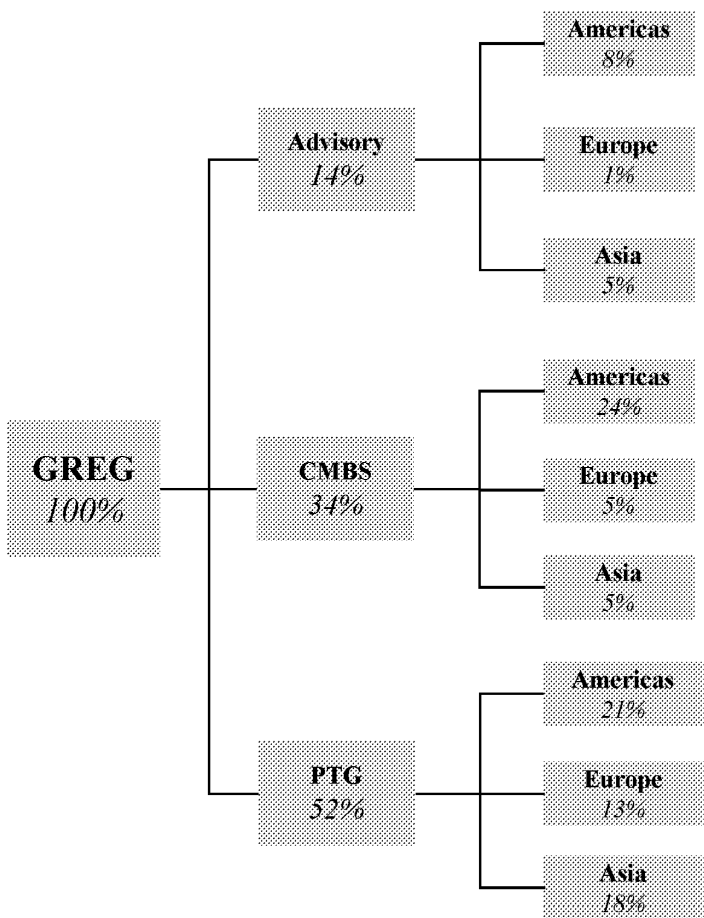
- GREG's Real Estate Banking Group provides comprehensive advisory and capital raising services, including general business and financial analysis, transaction feasibility analysis and pricing in a prospective acquisition for a large number of corporations, REITs, property companies, governments and financial institutions so that they can achieve their varied real estate objectives.
- Does not utilize balance sheet

Diversified Product/Region Portfolio

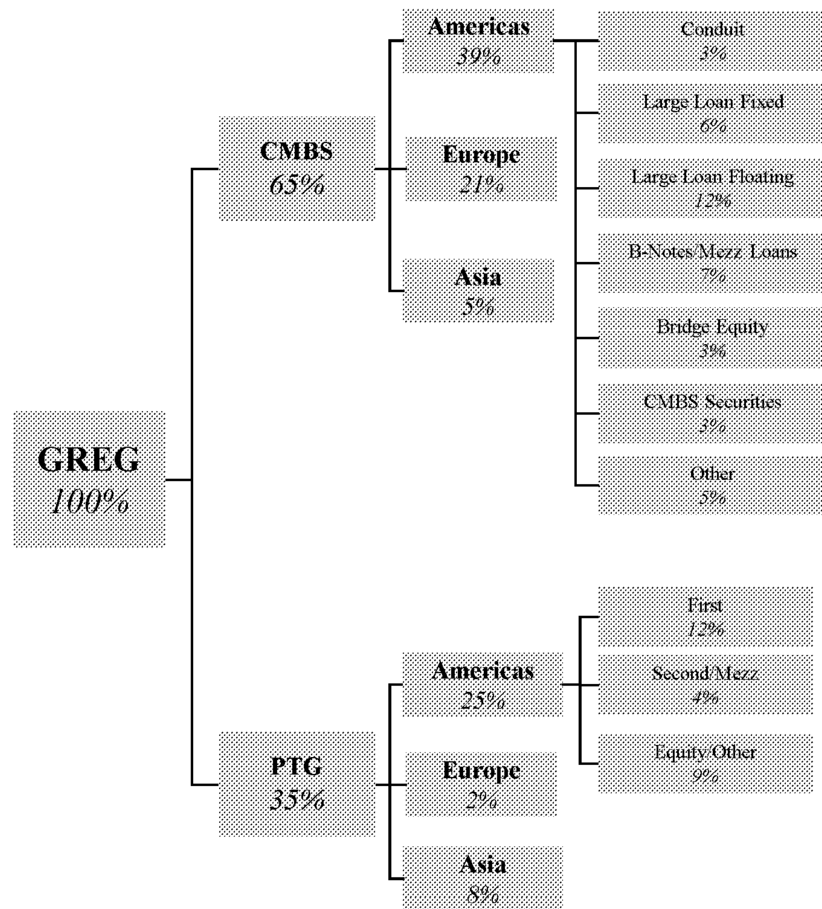
Section Header (used to create Tab Pages and Table of Contents)

GREG is well-diversified from regional/portfolio perspective. None of the products/regions account for more than 15% of the Group's Balance Sheet

Revenue Contribution by Business Segment Q2 2007



Balance Sheet Contribution by Business Segment Q2 2007[1]

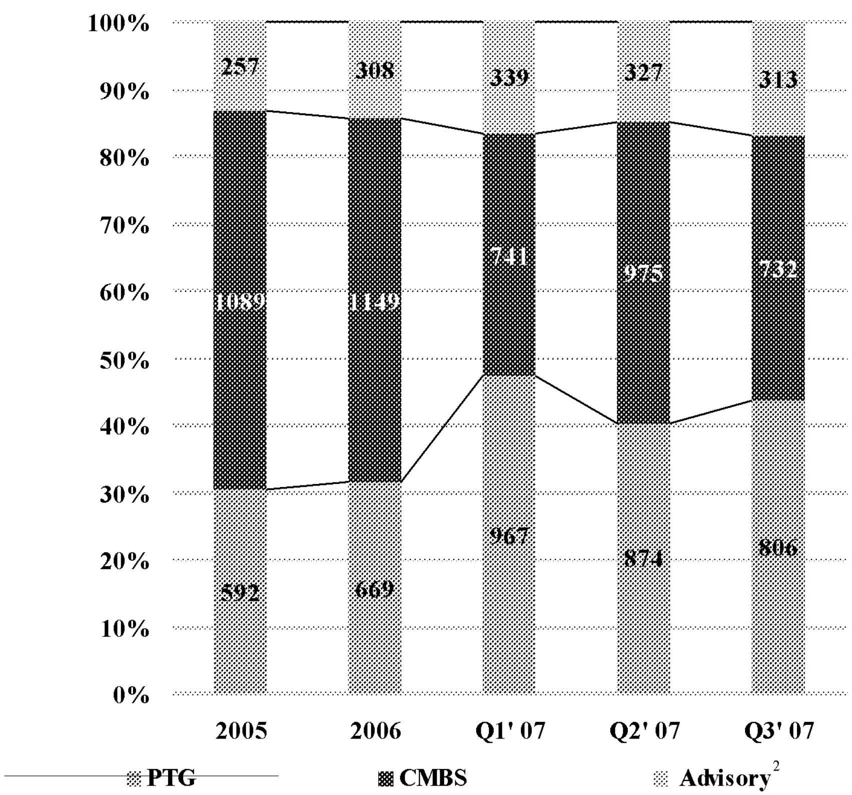


1. *Advisory Business does not use balance sheet*

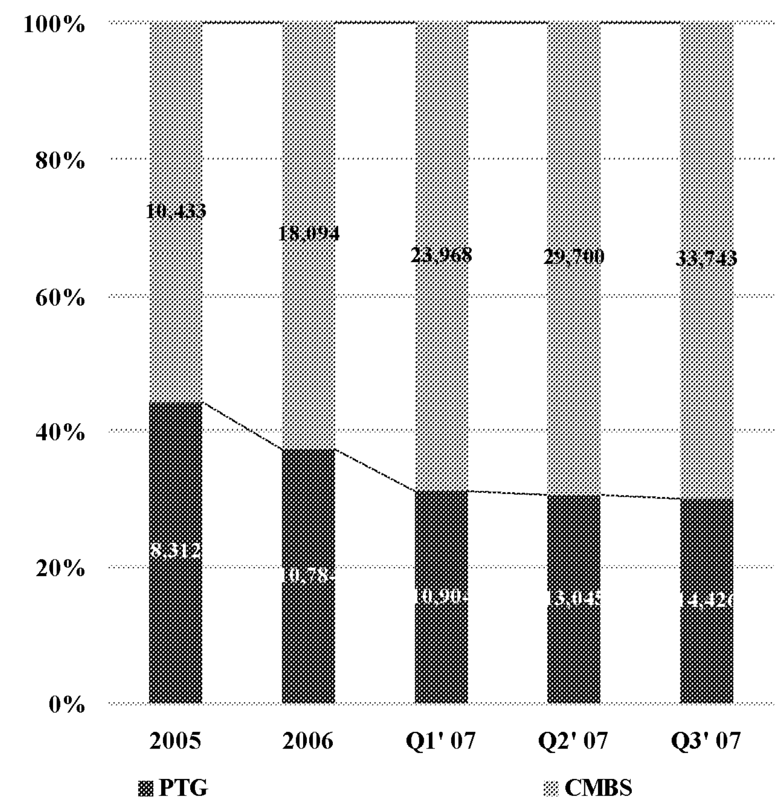
Moving vs. Storage Business Evolution

In the last few years, GREG has shifted its focus from predominantly less-liquid PTG to more fluid CMBS. Rapid development of Advisory Business has further reduced GREG's asset intensity

Revenue Mix by Business[1]



Balance Sheet Mix by Business[3]

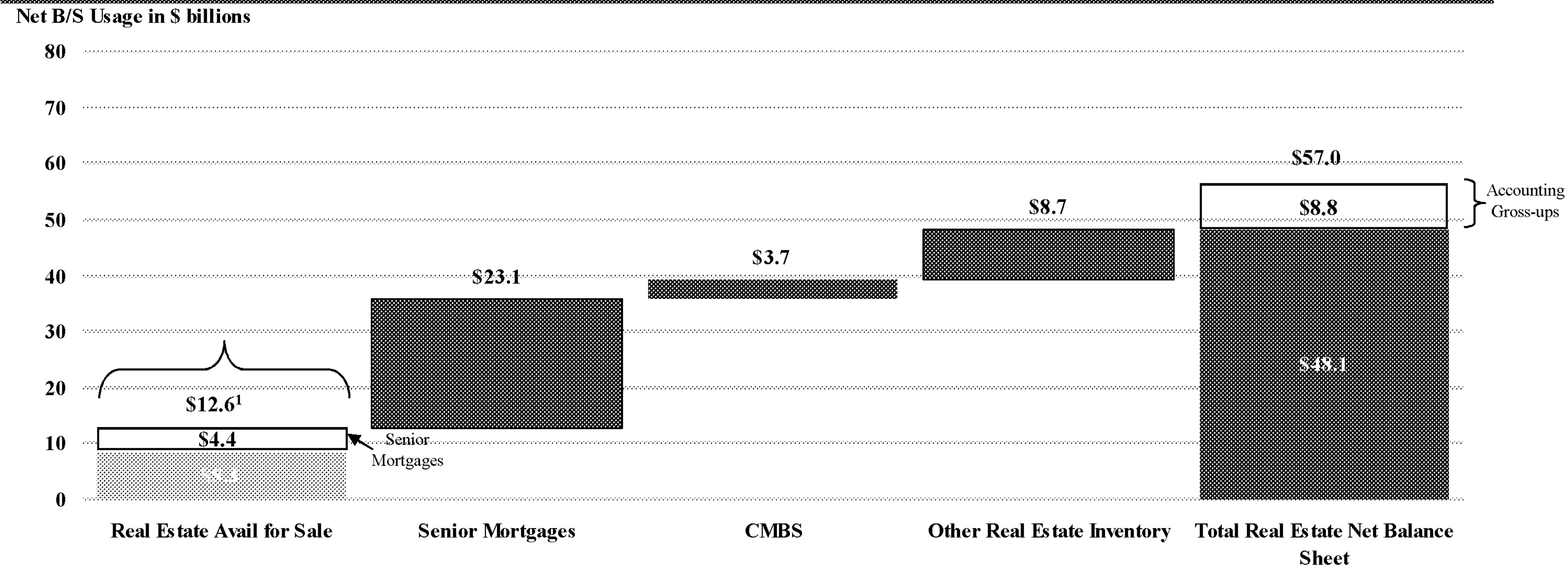


1. 2007 Revenue figures are annualized
2. Advisory Business does not utilize balance sheet
3. Net of Accounting Gross-ups

Asset Composition

Net Balance Sheet usage by the Real Estate business can be broken down into 4 component parts. Of the inventory, Senior Commercial Whole Loans (split between "Real Estate Available for Sale" $4.4 B and "Senior Mortgages" $23.1B) makes up 48% of the "at risk balance sheet".

Balance Sheet Break-down as of 3Q '07



1. Represents the 'Real Estate Available for Sale' net of non-recourse financing disclosure

Managing Liquidity

Commercial mortgages and equity assets are difficult to fund in a stress environment. We do not rely on any short-term financing (secured or unsecured) to fund any of the real estate balance sheet

- The Firm uses its three bank entities to fund a portion of its real estate assets. These regulated bank entities operate in a deposit protected environment and are able to source reliable term unsecured funds from a completely different investor base than that of Lehman debt. They are generally insulated from a Company specific or market liquidity event thus providing a reliable and diversified funding source, at a cost effective level.
  - Approximately $6 Billion in Real Estate assets are funded through Lehman's three banking entities (LBB, LB Bankhaus, LBCB)

- The Firm funds all assets based on their liquidity characteristics and does not rely on asset sales for liquidity. Cash capital sources, cash with remaining life of more than one year, is used to fund the Firm's less liquid assets including real estate
  - Long-term Debt and Equity Capital is used to fund Real Estate Assets

- Additionally, the Firm is utilizing its private equity funds, as an alternative outlet, for both mezzanine and equity investments. As a result, PTG's relative share of Net Assets is decreasing
  - PTG as a share of total Net Assets has declined from 9% in 2004 to 5% in 2007 YTD

Risks and Risk Mitigation in CMBS Business

Risks And Risk Mitigation

To mitigate risks specific to CMBS and PTG, the Firm deploys comprehensive suite of different tools and approaches.

Business	Activity	Risk	Risk Mitigation
◆ CMBS	◆ Origination of whole loans	◆ Underwriting risk ◆ Market risk	◆ Strong underwriting discipline ◆ Predominantly floating rate loans ◆ Shortened time between origination and securitization ◆ Geographic/segment diversification ◆ Hedge CMBS spread with derivatives
	◆ Securitization	◆ Inability to distribute securities, particularly non-investment grade tranches ◆ Reputational, legal risks if securities under-perform	◆ Established customer base for both senior tranches and residual interest ◆ High quality process with feedback to underwriting
◆ PTG	◆ Property selection and valuation ◆ Development	◆ Underwriting risk ◆ Market risk ◆ Development risk	◆ Disciplined due diligence process and committee approval ◆ Established developer partners ◆ Migration of investment into private equity funds ◆ Geographic/segment diversification

Strong Securitization Performance

Lehman's loans are performing better than those securitized by any of the top 10 issuers.

- Credit indicator is a seasoning adjusted measure of cumulative credit performance
  - More seasoned pool is expected to have experienced greater credit issues than less seasoned pool
- On a seasoning adjusted basis, Lehman Brothers has the strongest cumulative credit performance

Fixed Rate Conduit/Fusion Credit Performance by Issuer

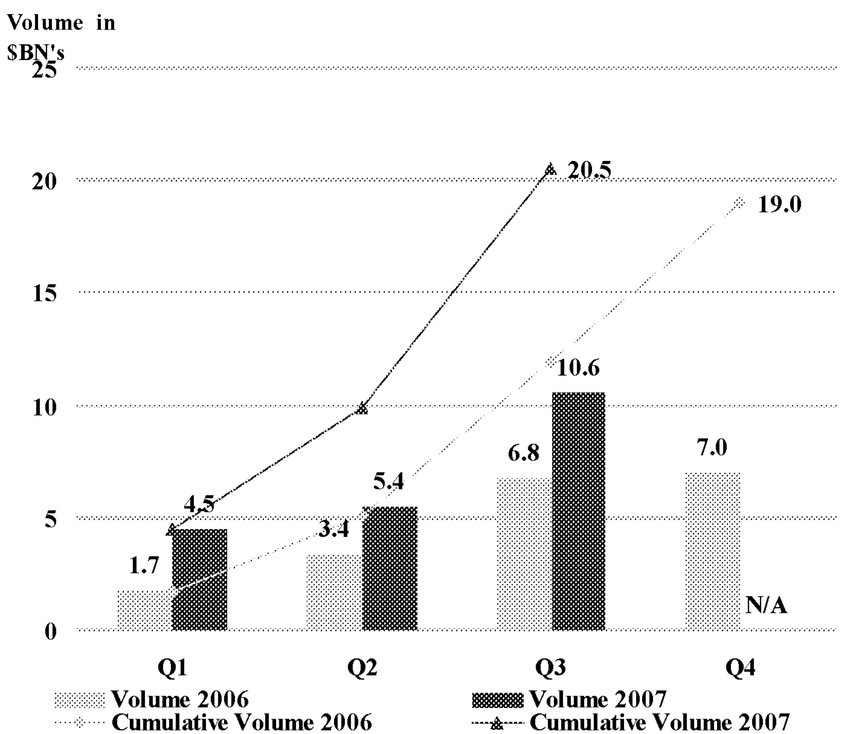
Contributor	Closing Balance ($bn)	Current Balance	Age (yrs)	Credit Indicator[1]
Lehman Brothers	45.8	37.1	4.7	-1.15
Bear Stearns	24.5	21.8	3.0	-0.79
Morgan Stanley	38.4	32.9	3.6	-0.66
Greenwich Capital	26.1	24.9	2.6	-0.11
Bank of America	48.8	42.6	3.5	-0.50
Wachovia	67.4	60.5	2.9	-0.40
JP Morgan Chase	47.8	42.1	3.6	-0.19
Deutsche	32.9	30.0	3.3	-0.14
Credit Suisse	60.2	49.6	4.5	-0.10
Merrill Lynch	26.8	21.8	3.9	0.32
Total / Wtd. Ave (Top 10)	**418.7**	**363.3**	**3.6**	**-0.39**
Others	272.7	236.8	3.5	-0.34
Total / Wtd. Ave	**691.4**	**600.1**	**3.6**	**-0.37**

Source: Trepp, LLC; Age adjusted by Lehman Brothers Surveillance Database. Data as of 8/31/07.
(1)Excess of 60+ day delinquencies and cumulative liquidations over age implied rate.

Effective Securitization Engine

Year to date, we have completed 12 securitizations for a total of $20.5 billion, which is 8% higher than the total volume of issuances in 2006. Our business model is to sell out all of the subordinated tranches. As of August 31, 2007, we had a de-minimis $78 million in below investment grade retained pieces of commercial mortgage securitizations -- primarily due to the Firm making a market in these securities

CMBS Securitization Volumes – 06 vs 07



Commercial Mortgage-Backed Securities: FY 2007 YTD

	Total Deal Size ($bn)	Lehman's Contribution ($bn)	Lehman's Exposure as of 3Q 2007 ($bn)	Lehman's Exposure as of 9/28/07 ($bn)	Lehman Non-investment grade residuals ($bn)
U.S. Issuance					
LBUBS07-C1	3.0	2.0	0.2	0.0	0.0
LBUBS06-C7	3.7	2.5	0.2	0.0	0.0
LBUBS07-C2	3.6	2.4	0.3	0.1	0.0
LBCMT07-C3	3.2	3.2	0.1	0.0	0.0
LBFRC07-C5	2.3	2.3	1.2	1.1	0.0
LBUBS07-C6	3.0	1.9	0.2	0.1	0.0
U.S. SUBTOTAL	**18.8**	**14.3**	**2.2**	**1.3**	**0.0**
NON-U.S. Issuance					
WINX	2.0	2.0	0.0	0.0	0.0
WINXI	1.4	1.4	0.5	0.3	0.0
WINXII	2.1	1.1	1.0	1.0	0.0
DTC 8	0.4	0.4	0.0	0.0	0.0
LJAC 4	0.7	0.7	0.0	0.0	0.0
LJAC 5	0.6	0.6	0.0	0.0	0.0
NON-U.S. SUBTOTAL	**6.2**	**6.2**	**1.5**	**1.3**	**0.0**
GLOBAL TOTAL	**25.0**	**20.5**	**3.7**	**2.6**	**0.0**

Profitability on Recent Securitizations

Even during this tumultuous market, Lehman has continued to securitize commercial mortgages in a profitable manner both in different regions and utilizing different structures

Recent Lehman Commercial Securitizations

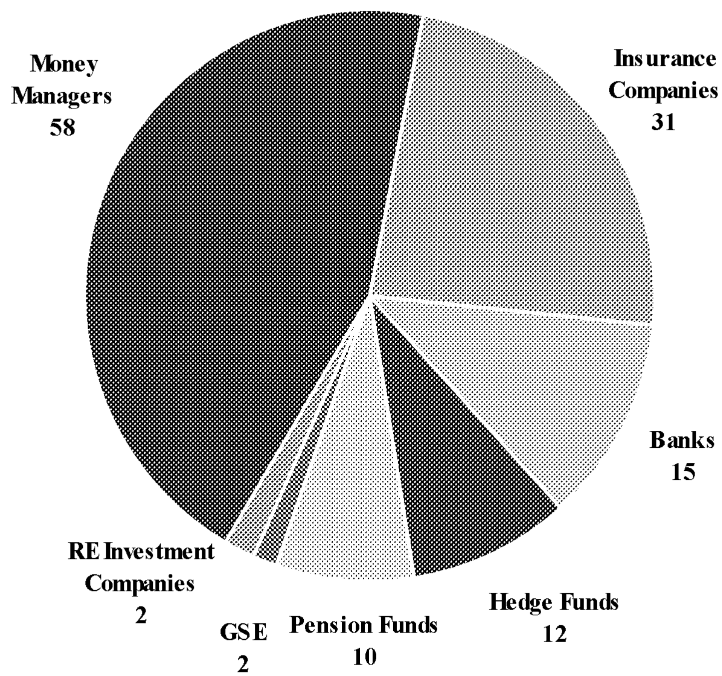
Month	Region	Securitization	Fixed vs. Floating	Securitization in $Billions	Profit in BPS
April	Americas	LBUBS07-C2	Fixed Rate	2.4	200
July	Americas	LBCMT07-C3	Fixed Rate	3.2	125
July	Europe	WINX1	Floating Rate	1.4	30
August	Americas	LBFRC07-C5	Floating Rate	2.3	30
August	Americas	LBUBS07-C6	Fixed Rate	1.9	75
August	Asia	LJAC 5	Floating Rate	0.6	125

Well-Established Distribution Capabilities

High volume of CMBS securitizations is supported by strong distribution capabilities. Most senior tranches are bought by traditional long only investors.

Buyers of Senior Tranches

Composition of Securitization Investors



Distribution of Subordinate Tranches

- Lehman has an established B-Note and mezzanine distribution program which accompanies every large loan floating rate transaction and most fixed rate transactions. As insurance companies, pension plans and money managers look to leverage off established real estate infrastructures in search of yield, the ranks of participants continues to expand.

- Lehman has capitalized on market appetite for B-Note and mezzanine risk by distributing those positions. This has allowed Lehman to offer investors a broader range of products as well as expand the investor base.

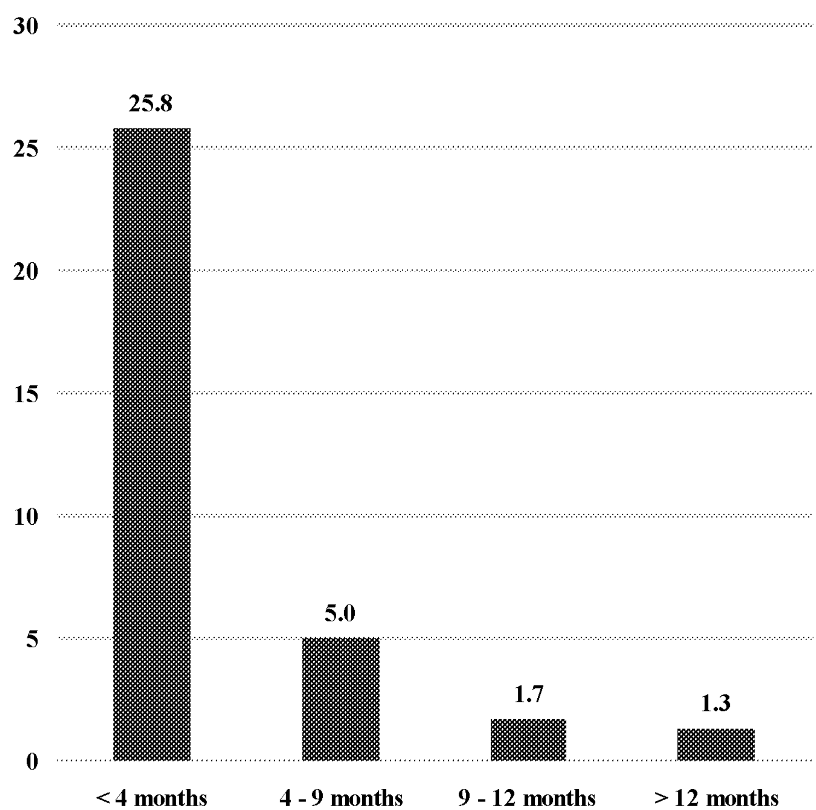
- Major investors who have bought these subordinated tranches recently include
  - HIMCO
  - Aegon
  - TIAA
  - Northstar
  - CW Capital
  - Sorin Capital
  - NY Life
  - Helaba
  - Allied Irish Bank
  - AIG
  - Capital Trust
  - Prima Capital

- Our competitors often provide financing through repo arrangements. Lehman does not offer such a service.

Rapid Inventory Turnover

The average life of the Firm's commercial whole loan inventory is just over 3 months with 76% of the portfolio aged 4 months or below. This inventory is spread over 2,000 positions with average balance of $16mm

Commercial B/S Aging 8/31/2007



Distribution of B/S by Size, $ million

Investment Size	# of Positions	Average Investment Size
<25	1,824	3
25-50	99	30
50-100	84	61
>100	83	231
Total	**2,090**	**16**

Top 5 Commercial Positions 8/31/2007

Deal	Balance as of 8/31/07	Property Type	State	Comment
PROLOGIS	1,504	INDUST	VAR	Industrial portfolio located in Reno, the Mid-Atlantic, Las Vegas, Chicago and Southern California
PROJECT TROIS	1,130	OFFICE	VAR	Portfolio encompasses 5.7 million sf of class A office space in New York, Boston, San Francisco, and Los Angeles.
237 PARK AVE	834	OFFICE	NY	21-story Class A office tower located in the Grand Central Submarket in Midtown Manhattan
PROJECT GRAND PRIX	802	HOTEL	CA	Assets are 69 hotels, primarily extended stay and limited service
AUSTIN EOP	649	OFFICE	TX	Austin Portfolio includes five of the city's premier office buildings and five Class A/B suburban assets

Additional Risk Mitigants

Fixed rate inventory is hedged for both credit spread and interest rates movements, while floating rate inventory, which has been less susceptible to credit spread movements, is further buffered by characteristics of the deal and profit margins

Fixed Rate Commercial Inventory

- Fixed Rate inventory is hedged both from an interest and credit perspective
  - Interest Rate Risk
    - Swaps and Treasuries are used to hedge fixed rate loans
  - Credit Spread Risk
    - 'AAA' – BBB–" rated portion of makes up 95%
      - Hedged using a 'AAA' CMBS Index
    - '< BBB-' rated portion makes up 5%
      - Pre-sold prior to securitization
      - Excess spread between origination and the securitization absorbs some of the credit spread movement

Floating Rate Commercial Inventory

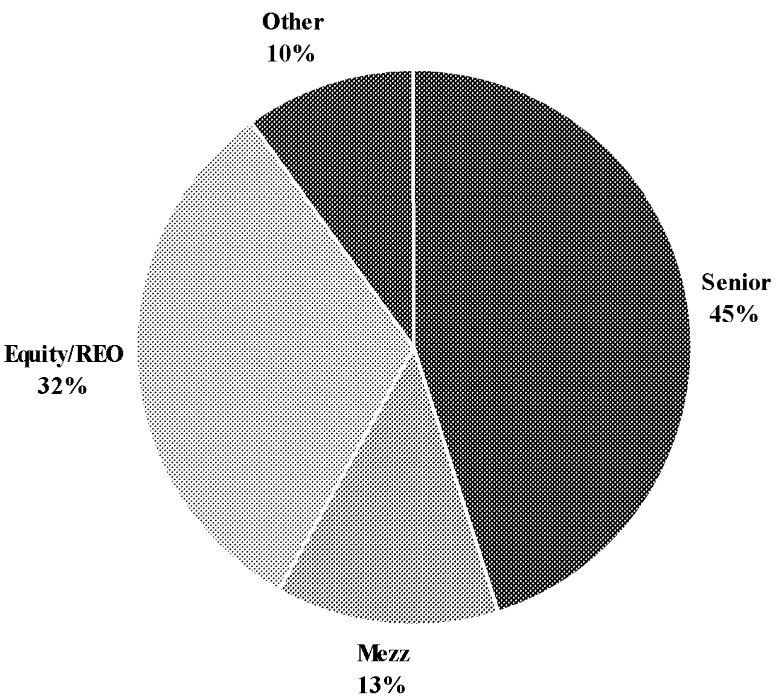
- Floating Rate inventory due to the below factors is well insulated from increasing credit spreads
  - Short-term in nature
    - The average remaining duration on these loans is approximately 1.25 years
  - Securitizing Spread
    - The excess spread and fees between origination and the securitization represents an additional buffer to protect from any spread widening
  - Flexible Pricing
    - Allows the Firm to reprice the loans based on any spread widening

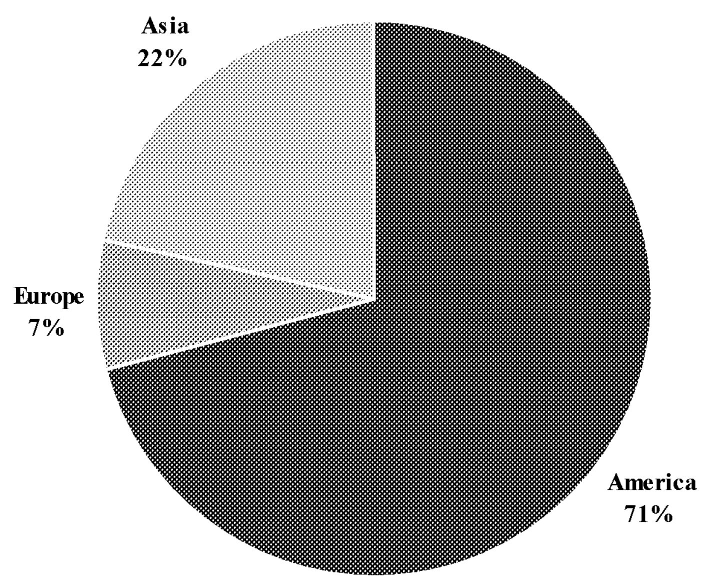
Risks and Risk Mitigation in PTG

PTG Investment Portfolio

The Firm's PTG portfolio is well diversified across investment types and geography that should reduce the effects of a specific product/geographic slow down

PTG Balance Sheet by Type	PTG Balance Sheet by Region





PTG Positions

Top 10 PTG Real Estate Positions as of August 31, 2007

Project	Type	Lien	Location	$ MMs	Comments
Heritage Fields	Multifamily	Senior	CA	456	Construction loan for a newly planned community situated on 3,723 acres and will consist of 3,630 residential home sites, 3.1 million square feet of R&D / office space, 225,000 square feet of retail space and two golf courses. Equity sponsors include CALSTRS, NYSTS, and Oregon State Employees
Project Clover	Multifamily	Senior	Japan	390	6- month bridge loan collateralized by pledge of shares of Ryowa, a Tokyo based publicly traded condominium developer.
Carillon	Multifamily	Debt Roll Up	FL	371	Ground up condo development in Miami. Expected completion and sell out of phase 1 in 4Q07
Knickerbocker	Hotel	Senior/Mezz	NY	263	Renovating and repositioning Time Square Hotel as five star hotel
Ritz Carlton Kapalua	Hotel	Debt Roll Up	HI	217	Construction loan to convert 548 room hotel into condo-hotel in Mahui
LBS Holdings SARL	Hotel	Equity	Various	220	Originating from the recapitalization of the Meridien position. Secured by a portfolio of 31 hotels. Strategy is to maximize operations at the properties through management and renovations and position them for sale.
Project Cowboy	Land	Senior	Japan	201	Origination of a 3-year senior secured floating rate loan to provide refinancing to K.K. Taurus Realty. The debt is secured by 1st mortgages on 16 properties located throughout Hokkaido, Miyagi, Niigata, and Osaka.
Commons of Mclean	Multifamily	Senior	VA	173	Senior loan secured by 23 multifamily buildings that were constructed in 5 phases between 1966-1973. The development project is located in one of the most affluent locations in the DC area. A new metro station which is nearing completion should increase the value of the property and provide a competitive advantage over other comparable properties.
Orlando Assets Acquisition	Multifamily	REO	FL	163	Foreclosed loan; Two condo conversion in Orlando
Daikoku Distribution Center TMK	Office	Senior	Japan	184	Purchase of TMK bond issued by Daitoku Distribution TMK. The bond is one year bridge financing collateralized by 1 land parcel. The initial LTV at deal closing is 77.7%.

PTG Deal Summary: The Post (Columbia Center)

Principal Transactions Group

Debt financing and equity participation in a ground up office project in Washington, D.C.

Financial Summary

Start Date:	December-03
Property Type:	Office
Location:	Washington D.C.
Sponsor:	Monument Realty
Deal Type:	Development

Capital Structure ($MM):	
LB Senior Loan	64.4
UBS Senior Loan	64.4
UBS Equity (50%)	18.4
Monu. Imputed EQ (30%)	11.0
LB Imputed Equity (20%)	7.4
Total Deal Commitments	**165.6**

Deal Summary

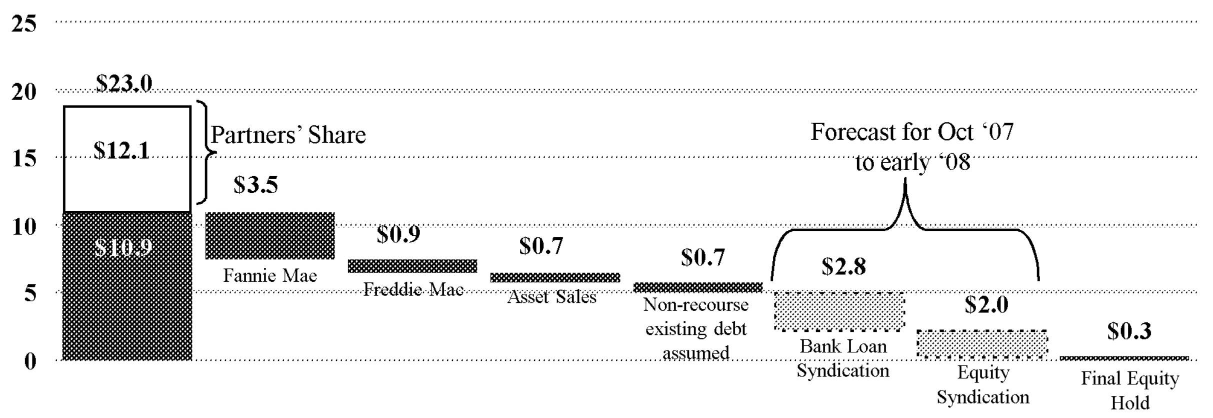
- ***Business Plan:*** Columbia Center will be a newly constructed, 394,500 SF trophy level office building constructed on a 35,464 SF parcel of land located on 15th Street in Washington, D.C. The building is expected to be completed in September 2007
- ***LB Participation:*** In 2003, LB funded a $19.9MM mezzanine loan to fund the acquisition of the land and pre-development costs. In 2004, LB purchased the outstanding senior loan on the deal from UBS increasing its commitment an additional $35MM on the deal. In December of 2005, LB committed construction financing of $203MM, which paid off LB's existing senior and mezzanine loans generating $12MM of P&L, and allowed LB to execute its option to convert the mezzanine loan into an equity position. In May of 2006, LB sold half of its equity position and senior loan position to UBS generating $14MM of P&L. LB maintained an equity position of 20% and a senior construction loan balance of $64.4MM.
- ***Sponsor:*** Monument Realty is a full-service real estate company focused on the acquisition and development of commercial, residential and hotel properties in the Washington metropolitan area. Lehman has had a strong relationship with the sponsor having originated over $1.4Bn in debt and equity across 35 investments resulting in realized profits to date of $131MM on $754MM of invested capital.
- ***Current Status:*** Construction is on schedule and the building is expected to be delivered in the first week of September 2007. In June of 2007, UBS bought-out the remaining 50% equity stake owned by LB (20%) and Monument (30%) and has paid off the remaining LB senior loan resulting in an additional $12.5MM in P&L and total deal profit of $38.5MM.

Archstone-Smith

Lehman, along with its partners, has acquired Archstone-Smith, a large REIT in Q4 2007. The Firm has commitments from outside parties and existing non-recourse financing in place to reduce its total exposure by $5.8 billion and is on schedule to reduce the position to the $250mm final hold

- Over 50% of the exposure to the acquisition was syndicated prior to the completion of the commitment
- Lehman's original commitment (excluding Fannie Mae and asset sales) was $10.9bn, comprised of: $8.5bn of debt; $2.2bn of bridge equity and $250mm of permanent equity
- The Firm has reduced its exposure to $5.1billion through the following:
  - Fannie Mae signed up for $7.35 billion of the total debt
  - Freddie Mac signed up for $1.8 billion of the floating rate loan
  - An asset sale agreement has been signed for the San Diego Properties for $1.35 billion. Proceeds will be used to reduce the term loan
  - Existing debt of $.7 billion was assumed net of non-recourse

Archstone-Smith Distribution



S&P Commentary – Archstone-Smith Trust

- **World-Class Multifamily Portfolio**
  - "With over 95% of the trust's investments concentrated in Washington, DC, Southern California, the San Francisco Bay Area, Chicago, New York, Boston, southeast Florida, and Seattle, we believe ASN has completed a transformation from a southeastern regional REIT to a nationwide REIT concentrated in protected, supply-constrained markets." (1)
    - "We like this strategy, and we believe it could help ASN operationally outperform peers." (1)
  - "We think ASN's markets in New York City and the West Coast--together close to 57% of property-level income--are driving solid 2007 results." (2)

- **High-Growth Coastal Markets with Substantial Barriers-to-Entry**
  - "ASN focuses its investment activities on markets characterized by high barriers to entry against new supply; expensive single family home prices; and strong economic fundamentals." (1)
  - "Barriers to entry exist in protected markets in which there is a very limited amount of land zoned for apartment development, and where local municipalities are reluctant to zone additional land for apartment communities." (1)

- **Significant Value Creation through Development Platform**
  - "ASN places considerable emphasis on value created through the development of new apartment communities." (1)
  - "…ASN's large development pipeline, totaling about 6,700 units, should begin to contribute meaningfully in late 2007 and 2008." (2)
  - "In addition, ASN has a significant pipeline of future development projects and is a building a platform for investment in Europe." (2)

1. *Source: Standard & Poor's Stock Report dated May 12, 2007.*
2. *Source: Standard & Poor's Stock Report dated October 6, 2007.*

Pricing Verification

On top of the daily P/L analysis done by the Product Controllers, the Firm also conducts a monthly price verification exercise that utilizes conservative principles

- Preparation
  - Gather various services data
  - Reconcile and segment all positions
- Determine Collateral Value
  - Use 3rd Party sources
  - Apply 10% haircut for selling costs and liquidity
- Determine Discount Rate
  - Obtain spreads from published newsletters
  - Based on property type (and LTV for debt)
- Model the Investment
  - Use a waterfall liquidation structure based on the investment
  - For Debt, take the lesser of the capped face, available proceeds or PV as a "market" value and compare to basis
  - For Equity, compares proceeds to LB ("market value") with the basis
  - Research is conducted for each position based on Asset Summary Reports & Deal updates on Servicers web-sites, and discussions with asset managers and the business
- Mark Adjustments
  - Discuss variances outside thresholds with the business for potential mark adjustments
    - Variance Limits: $1mm overvaluation and $3mm undervaluation
    - Real Estate classified as "available for sale" is carried at lower of cost or market

Scenario Modeling

Stress Scenarios For Commercial Mortgage Business

The Firm utilizes 13 stress scenarios to determine the worst-case losses. For the Commercial Mortgage Backed Securitization (CMBS) business, the three scenarios with the worst impact on CMBS spreads are detailed below.

It is worth noting that while our stress tests show the potential for losses in these hypothetical scenarios, in fact, our actual experience in the current challenging environment has been that the global CMBS business has generated positive revenues ranging from approximately $47mm to $89mm per month for the last three months, including September.

Stress Scenarios and Impact on CMBS Business as of August 31, 2007

	Scenarios		
Spread Widening Assumptions	**Credit Crunch**	**Rating / Default & HF Risk**	**HY / LBO / Default Risk**
AAA	36bps	12bps	8bps
BBB	255bps	80bps	65bps
Below Investment Grade	300bps	130bps	117bps
Expected Impact to the Firm (in $ MMs)	**(269)**	**(93)**	**(73)**

- Credit – Crunch -widening of credit spreads similar to but is not limited to what was seen during July-August 2007. Mortgages decline significantly. Most other markets experience a flight to quality move, EMG credit spreads gap, fx carry trades unwind, demand for energy
- Rating/Default and Hedge Fund Risk - Significant rating risk (e.g. GM), one name default in CDX or HVOL coupled with hedge fund blow-out on structured credit products causing panic selling, significant market widening with CDS basis gapping out (modeled after the period Jul 18, 2002 - Aug 2, 2002)
- HY / LBO / Default Risk - Global default rate increase coupled with lower recovery. Investor demand dries up after "hot" market, leading to a longer syndication time line or no syndication in large LBO or M&A loan deals (modeled after the period Sep 16, 2002 - Oct 17, 2002)

Residual Profit Analysis On Americas PTG Assets

Stressing our portfolio for a valuation movement similar to 1991/92 would result in a loss of $940 million. The '91 to '92 downturn is comparable, although more severe than the risk assumed in our Risk Appetite model. The repricing in 91-92 represents a 14% gross change to the current portfolio: an average of 17% and 16% for the California and New York based assets, respectively. The US Principal Transaction Group assets detailed below incorporates the majority of the equity and debt investment reported as less liquid assets

Portfolio Profit/(Loss) Statement as of July 31, 2007 given certain Scenarios[1]

US PTG in $ millions	Profitability at Stabilized Value	Potential Profitability on Current Portfolio	Stress 3Q:'91 to 3Q: '92 Downturn - Current Value	10% Decline - Current Value
Liquidation Value	18,306	11,854	9,720	10,283
Firm Cost Basis	13,934	10,660	10,660	10,660
Gross Portfolio Profitability	4,372	1,194	(940)	(377)

- With a 10% decline in property values, including the embedded value that we already take into account, we foresee a loss in an orderly liquidation of $377 million
- With an orderly disposition, we expect to generate a profit of $1,194 million
- The cost basis of the PTG portfolio is currently $10.7 billion. The expectation is that investments will be made in the underlying assets to increase their values. We expect that these investments will increase the cost basis to $13.9 billion and allow the Firm to harvest $4.4 billion in profits

1. *Stabilized Values reflect returns and costs associated with fully developing all projects and/or reaching projected levels of occupancy*

Conclusion

- Combination of three businesses with substantially different risk factors
  - Flow-driven CMBS
  - Investment-driven PTG
  - Low risk Advisory
- Well-established securitization engine
  - Bulk of balance sheet exposure
  - Securitizations on average once a month or even more frequent, different geographies and properties, average whole loan holding period approximately four months
  - De-minimis non-investment grade retained interest securities
- Diversified principal business
  - Careful selection of investments
  - Risk-sharing with partners
  - Transitioning from “hold” to “flow” business by using Real Estate funds to migrate assets

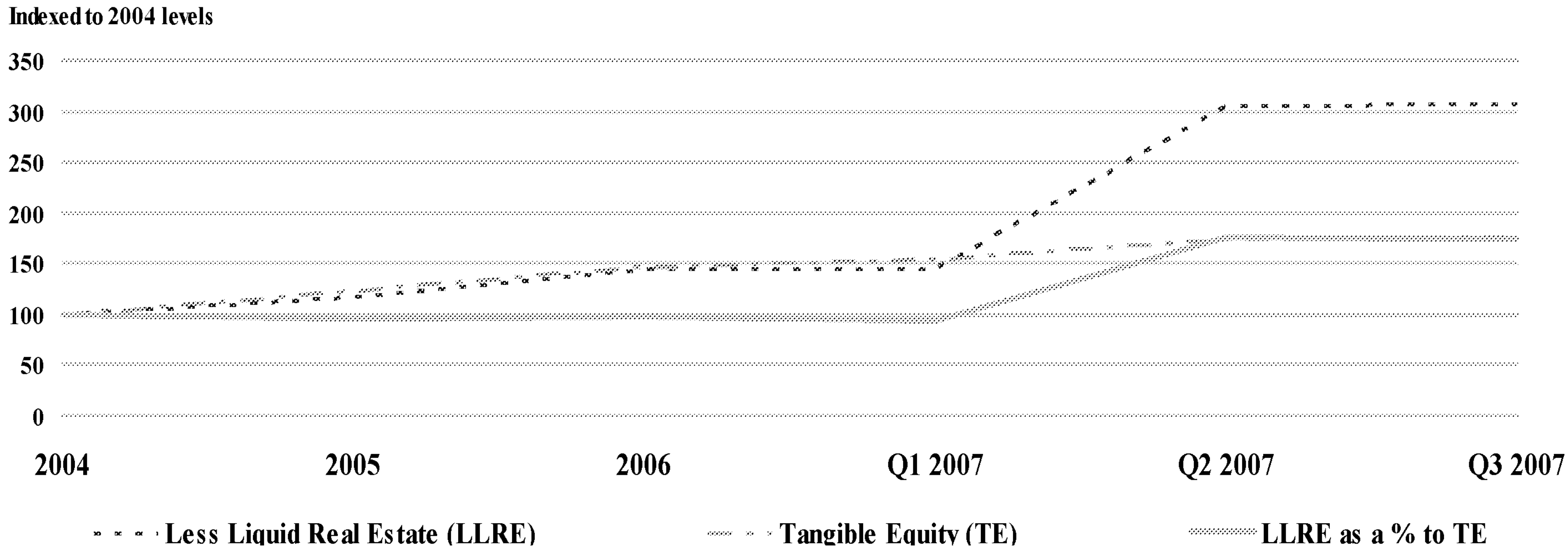
Appendices

Less Liquid Real Estate Assets

Our less liquid real estate investments classified as "Available for Sale" represents 57% of Tangible Equity. In the second quarter, the Firm ramped up its participation in bridge equity tranches, which caused an increase in this category, as it represents consolidated investments. Excluding the impacts of Project Trios, Rosslyn, and 237 Park Avenue, Q2 less liquid real estate would have been $8.3 billion

The investments are conservatively marked, as they are recorded at the lower of cost or fair value, with approximately $1.2 billion expected to be realized in an orderly disposition

Less Liquid Real Estate Positions



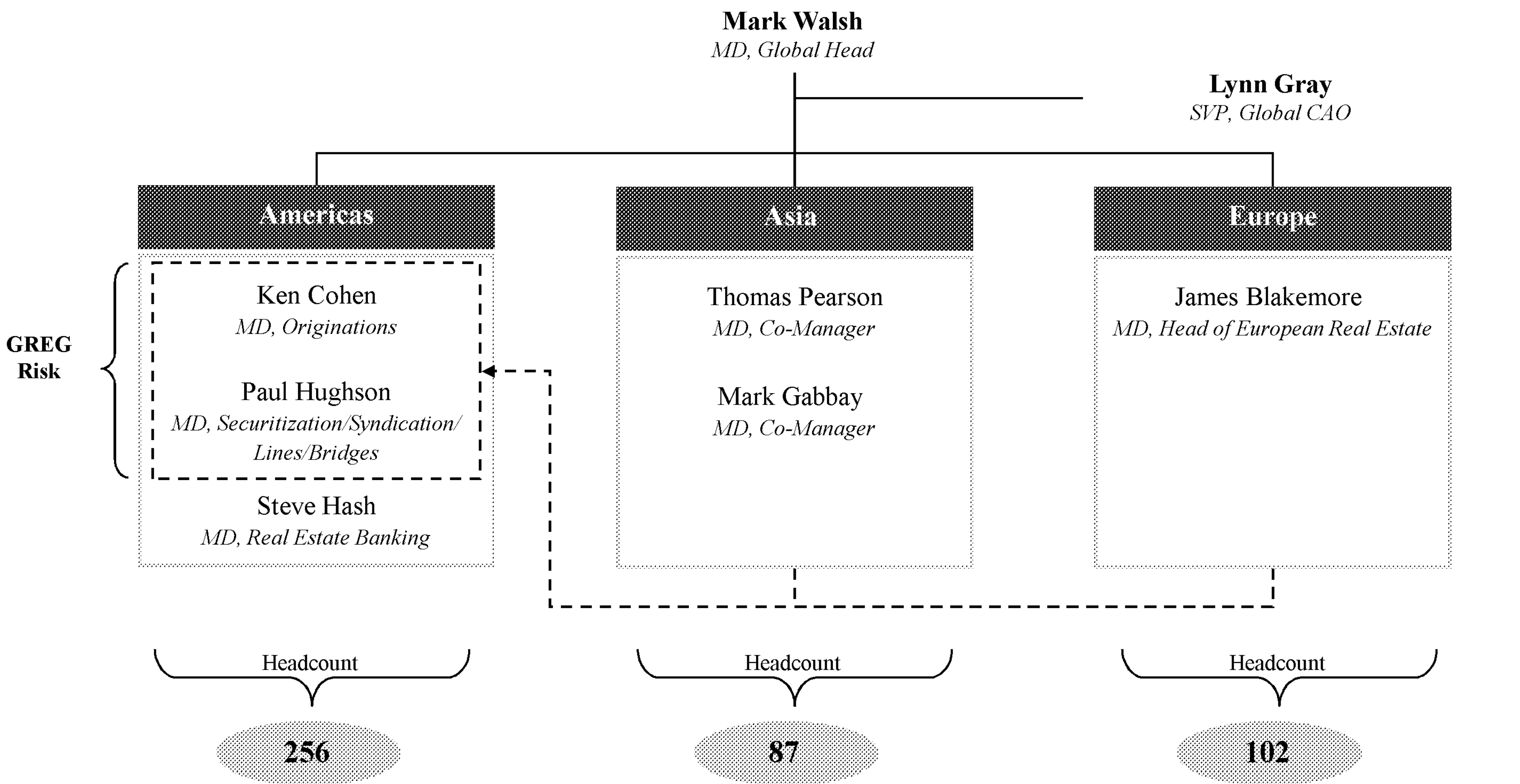
$ Billions	2004	2005	2006	Q1 2007	Q2 2007	Q3 2007	CAGR
Less Liquid Real Estate (LLRE)	4.1	4.8	5.9	5.9	12.5	12.6	50%
Tangible Equity	12.6	15.6	18.6	19.5	21.9	22.2	23%
LLRE as a % to TE	33%	31%	32%	30%	57%	57%	

1. *Less Liquid Real Estate is composed of direct investments in real estate through equity and/or debt recorded at the lower of cost or market value less any financing on a non-recourse basis*

Lehman Brothers Real Estate Group

The Lehman Brothers' Global Real Estate Group (GREG) is a team of experienced Real Estate professionals offering a complete set of services for the Firm's clients globally. The senior management team has an average of 19 years of industry experience

GREG Organizational Chart



Unused

Management Team

Section Header (used to create Tab Pages and Table of Contents)

The senior management team has an average of 20 years of industry experience

Senior Management

Name	Position	Title	Experience: Lehman	Experience: Industry	Education
Mark Walsh	Global Head of Global Real Estate Group	MD	18 years	20 years	College of the Holy Cross Fordham Law School, J.D.
Kenneth Cohen	Head of U.S. Originations	MD	22 years	22 years	University of Vermont, B.A.
Paul Hughson	Head of U.S. Securitization, Syndication and Lines of Credit	MD	14 years	21 years	Tufts University, B.A. Univ. of VA Law School, J.D.
Lynn Gray	CAO, GREG U.S.	SVP	9 years	29 years	Tufts University, B.S. Cornell Law School, J.D.
James Blakemore	Head of European Real Estate	MD	9 years	14 years	Lewis and Clark College NYU Law School, J.D.
Thomas Pearson	Co-Head of Asian Real Estate	MD	7 years	24years	Univ. of California, Los Angeles, B.A.
Mark Gabbay	Co-Head of Asian Real Estate	MD	7years	19year	Univ. of California, Berkeley, B.A.
Steve Hash	Head of Global Real Estate Banking	MD	9 years	14 years	NYU, M.B.A

Finance and Risk Management

Name	Position	Title	Experience: Lehman	Experience: Industry	Education
Gerry Reilly	Head of Capital Markets Product Control	MD	12 years	21 years	University of Scranton, B.A.
Jonathan Cohen	Head of GREG Finance	SVP	3 year	21 years	Binghamton University, B.S.
Jeffery Goodman		MD			

Risk Measurement

Real Estate Event Risk: Conceptual Framework

Step 1: Revalue each property to simulate P&L impact (6 possible property types with 55 MSAs)

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

Step 2: We then take the simulated P&Ls and aggregate losses across property types within MSAs. By doing this we take the conservative assumption of perfect correlation across the property types. The simulated P&L for a specific time period will include pull-to-par and exit fees only when property values survive a decline still allowing for sufficient coverage of Lehman's basis; otherwise pull-to-par and exit fees are zero. This process results in up to 55 simulated P&L vectors, with 66 observations in each MSA (4 quarters annually for 16.5 years)

New York Simulated P&L	Chicago Simulated P&L	Boston Simulated P&L
$\begin{bmatrix} P\&L_1 \\ P\&L_2 \\ \vdots \\ \vdots \\ P\&L_{66} \end{bmatrix}$	$\begin{bmatrix} P\&L_1 \\ P\&L_2 \\ \vdots \\ \vdots \\ P\&L_{66} \end{bmatrix}$	$\begin{bmatrix} P\&L_1 \\ P\&L_2 \\ \vdots \\ \vdots \\ P\&L_{66} \end{bmatrix}$

Step 3: Lastly, we aggregate across MSAs using the same approach as described above where we take the total exposures and calculate joint probabilities; a cumulative probability distribution is then created from which we cut a tail at any confidence interval to determine the Event Risk

CMBS Underwriting Process

To ensure the integrity of originated loans, the Firm follows a strict underwriting process. Individual product groups first review and approve transactions prior to them being elevated to Firm-wide Committees. Transactions above certain thresholds or those containing significant reputation risk to the firm are elevated to the Executive Committee.

Origination Team

- Origination team maintains relationships with borrower
- Profiles and determines which deals would fit within the Firm's strategy

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- Underwriting team is a separate and distinct team from the Origination Team with a different reporting line, thus eliminating conflicts of interests
- Underwriting team verifies Origination team's package and performs rigorous due diligence

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- Can approve up to $500mm in loans
- Performs extensive credit review
- Discusses syndication/securitization strategy and pricing
- Ensures transaction can be accommodated within limits

- Can approve up to $1B
- The transaction fits within our funding and risk frameworks
- Even in downside scenarios the deal works
- There is proper coordination across the Firm
- Due diligence has been thorough
- The Firm is comfortable doing business with the client
- The Firm is protected from a legal perspective
- The syndication strategy and exit is clear

- Transactions above specified thresholds or those with significant reputational or client risks are elevated to Executive Committee

PTG Underwriting Process

PTG underwriting builds on the CBMS process. For senior loans, the processes are essentially identical. Mezzanine and equity investments receive additional level of scrutiny

- Maintain Relationships with developer/borrower
- Profiles and determine which deals would fit within the Firm's strategy
- Conducts rigorous Financial Scenario analysis and due diligence process
- Sign off by head of business group

- Can approve up to $25mm for equity and $100mm for loans
- Performs extensive due diligence on collateral and partners
- Discusses exit strategy
- Ensures transaction can be accommodated within limits

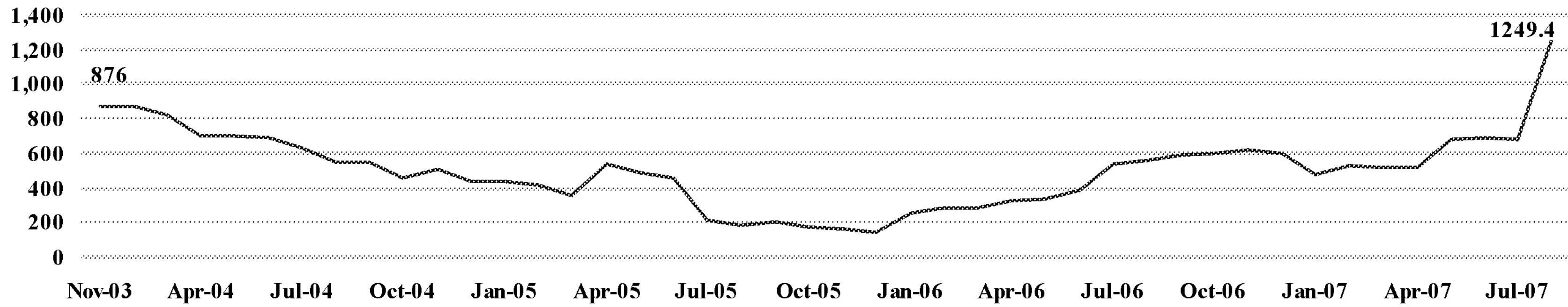
- Can approve up to $100mm in equity and $1B in loans
- The transaction fits within our funding and risk frameworks
- Even in downside scenarios the deal works
- There is proper coordination across the Firm
- Due diligence has been thorough
- The Firm is comfortable doing business with the client/partner
- The Firm is protected from a legal perspective
- The exit strategy is clear

- Transactions above specified thresholds or those with significant reputational or client risks are elevated to Executive Committee

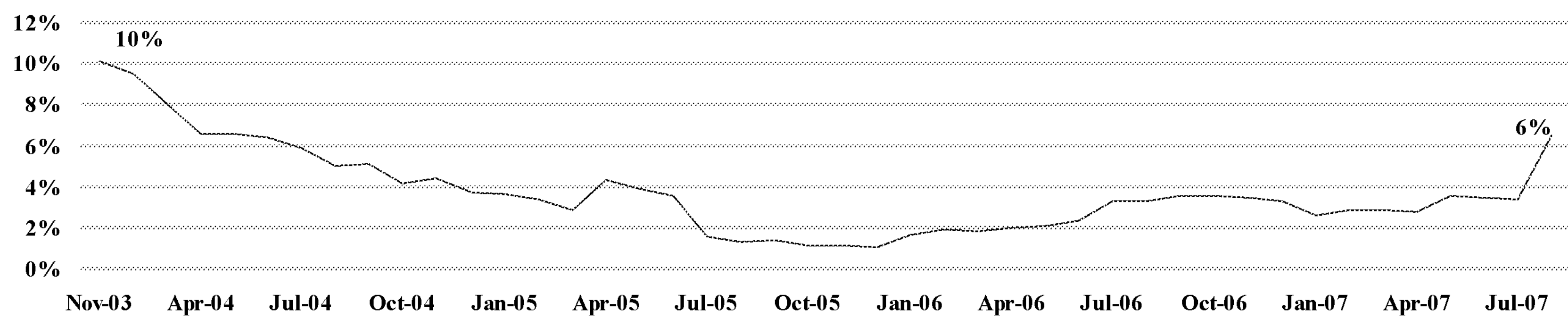
Risk Appetite Usage

Risk Appetite has increased but has fallen as a proportion of Net Revenue. It has dropped from a high of 10% to 6% as of the end of August 2007

Real Estate Risk Appetite Usage Over Time, $ millions



Real Estate Risk Appetite as a % of Net Revenue[1]

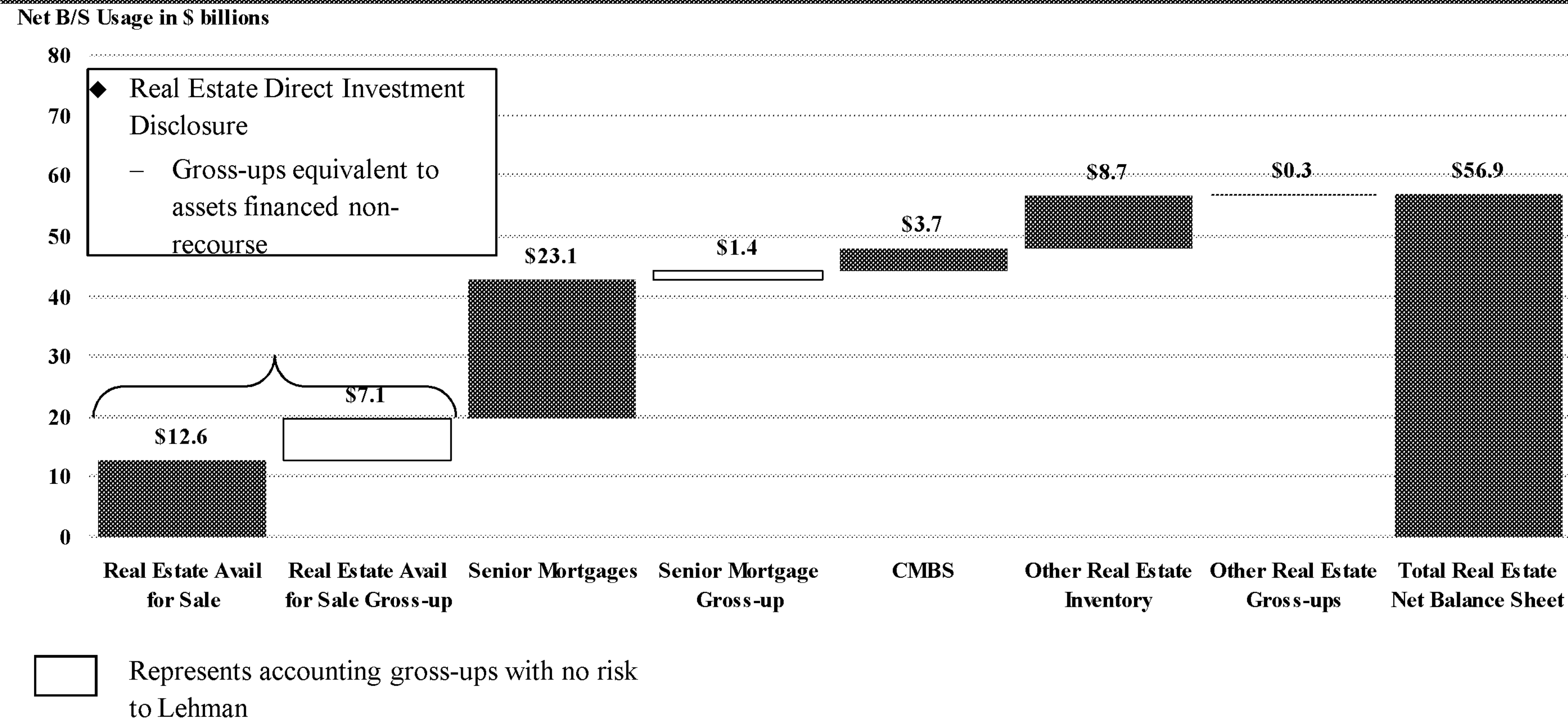


1. *Revenue is the sum of the trailing 12 months*

Asset Composition

Net Balance Sheet usage by the Real Estate business can be broken down into 4 component parts. Of the inventory, Senior Commercial Whole Loans (split between Real Estate Available for Sale and Senior Mortgages) makes up the largest share at 46%. Of the total, approximately 15% is made up of accounting gross-ups that do not represent Lehman exposure

Balance Sheet Break-down as of 3Q '07

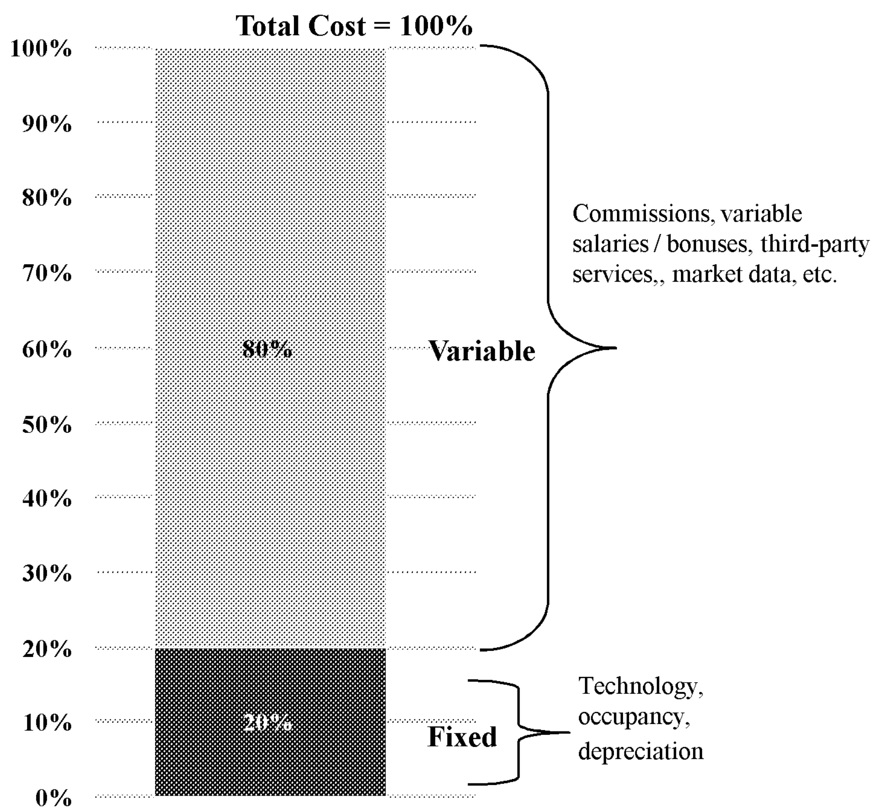


Flexible Cost Structure

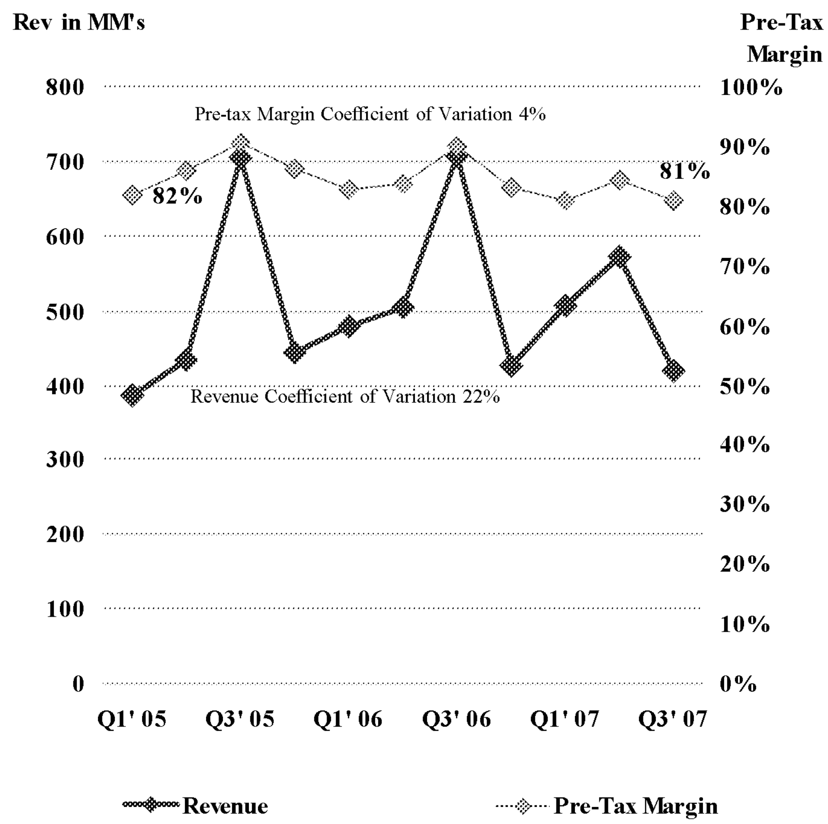
Origination

Disciplined approach to expenses is one of Lehman's hallmarks. Approximately 80% of GREG's cost structure is variable. As a result, pre-tax margins are quite stable, mitigating impact of revenue fluctuations on the group's contribution to the Firm's earnings

GREG Cost Structure



Revenue vs. Pre-Tax Margin ex Allocations



Market Stress Test For a Large Loan

When the value of the underlying asset is reduced by 10% in this scenario, the equity portion of the capital structure absorbs the valuation loss and the debt portion (essentially the mezzanine tranche) incurs widening of its spread

Large Loan Market Stress Analysis

	Base Case				Stress Case: 10% Decline			
Value of Underlying Asset	$313.4				$282.1			
			Holding				Holding	
Debt		LTV	Coupon[1]	Par		LTV	Coupon[2]	Par
Senior Mortgage	$108.4	34.6%	6.6%	100.0%	$108.4	36.3%	6.6%	100.0%
Mezzanine	$111.0	35.4%	7.8%	100.0%	$111.0	41.5%	8.4%	92.5%
Total Debt	$219.4	70.0%	7.2%	100.0%	$219.4	77.8%	7.5%	96.2%
Equity	$94.0	30.0%			$62.7	22.2%		
Total Capitalization	$313.4				$282.1			

- The total LTV of the capital structure increases from 70% to 78% in the stressed scenario, which causes the weighted average coupon to increase from 7.2% - 7.5%
  - In this example, the senior tranche's value is not effected, but the mezzanine tranche's par value falls to 92.5%
    - This perceived increase in risk is due to the higher LTV of the cap structure
- Equity is reduced by the full amount of the asset write-down ($31.3mm), which reduces the percentage of equity supporting the debt tranches to 22% from 30%

1. *Holding Coupon is equal to LIBOR + Spread*
2. *In the stressed scenario, only the spread for the mezzanine tranche widens (the senior tranche spread remains constant)*

Archstone

Lehman, along with its partners, is acquiring Archstone, a large REIT in Q4 2007. The Firm has commitments from outside parties to reduce its total debt exposure by $4.1 B and is working to reduce it even more

- Lehman's current commitment (excluding Fannie Mae and asset sales) is $10.9bn, comprised of: $8.5bn of debt; $2.2bn of bridge equity and $250mm of permanent equity
- The Firm expects to reduce its exposure to 6.7B through the following:
  - Fannie Mae has signed up for $7.35bn (Lehman's share $3.5B) of the total debt subject to a 30 day due diligence period
  - An asset sale agreement has been signed for the San Diego Properties for $1.35B (Lehman's share $.66B)which will close simultaneous to the overall closing on 10/5. Proceeds will be used to reduce the term loan

	Projected Commitment					Projected Commitment with Asset Sales and Fannie Mae				
	Lehman	Barclays	B of A	Tishman	Total	Lehman	Barclays	B of A	Tishman	Total
Fixed Rate Loan	2,859	1,511	1,674		6,045	-	-	-		-
Floating Rate Loan	1,481	783	868		3,132	865	457	506		1,828
Term Loan	2,199	1,163	1,288		4,650	1,544	816	904		3,265
Mezzanine	431	228	252		911	431	228	252		911
Development Loan	237	125	139		500	237	125	139		500
Existing Debt Assumed	609	322	356		1,287	609	322	356		1,287
Preferred Units Issued	634	335	371		1,340	634	335	371		1,340
Total Debt	8,450	4,466	4,949	-	17,865	4,319	2,283	2,529	-	9,131
Bridge Equity	2,176	1,150	1,274		4,600	2,176	1,150	1,274		4,600
Permanent Equity*	250			250	500	250			250	500
Total	10,876	5,616	6,223	250	22,965	6,745	3,433	3,803	250	14,231

* Private Equity

Additional reduction of exposure:

- A further $1.8 billion of floating rate loan is currently being looked at by Freddie Mac
- The term loan is currently being marketed to investors

Effective Hedging of Inventory Exposure

Commercial Inventory is hedged for both credit spread changes and interest rates

- Fixed Rate Whole Loans
  - Interest Rate Risk
    - Swaps and Treasuries are used to hedge fixed rate loans
  - Credit Spread Risk
    - 'AAA' – BBB–" rated portion of makes up 95%
      - -Hedged using a 'AAA' CMBS Index
    - '< BBB-' rated portion makes up 5%
      - - Excess spread between origination and the securitization absorbs some of the credit spread movement

Hedge Positions by Type and Rating	
Fixed Rate WHOLE LOANS	4,447
Credit Spread movements	
CMBS 'AAA'	(4,678)
Total Credit Spread Hedges	**(4,678)**
Interest Rate movements	
TSY	(30)
Interest Rate Swaps	(3,659)
Total Interest Rate Hedges	**(3,689)**

- Fixed Rate CMBS
  - Interest Rate Risk
    - Swaps and Treasuries are used to hedge fixed rate securities
  - Credit Spread Risk
    - 'AAA' rated portion
      - -Hedged using a 'AAA' CMBS Index
    - '< AAA' rated portion
      - -Difficult to hedge like whole loans, a portion is hedged using a Corp CDX (IG.8) index
    - CMBS CDS
      - -Hedged using similar rated CMBX indices

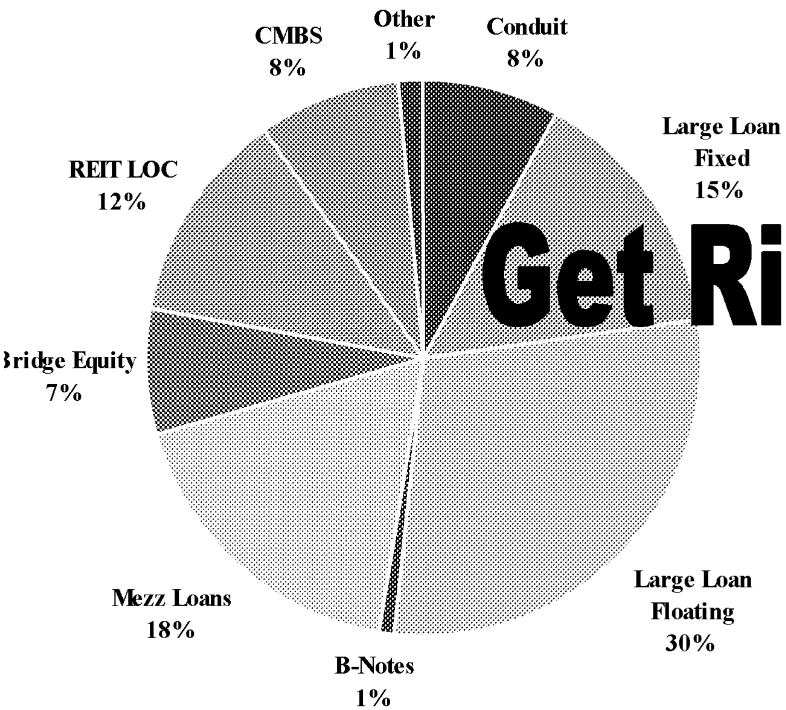
SECURITIES	
CMBS Cash	1,194
CMBS CDS	537
Total	**1,731**
Credit Spread movements	
CMBS 'AAA'	(750)
CDX.IG8	(200)
CMBX	(480)
Total Credit Spread Hedges	**(1,430)**
IR movements	
TSY	(62)
Interest Rate Swaps	(1,074)
Total Interest Rate Hedges	**(1,136)**

Asset Diversification

Balance Sheet exposure is well-diversified by type of product and geography to limit concentration risks

Get Rid per MW

US Commercial Business by Type



Commercial Business by Region