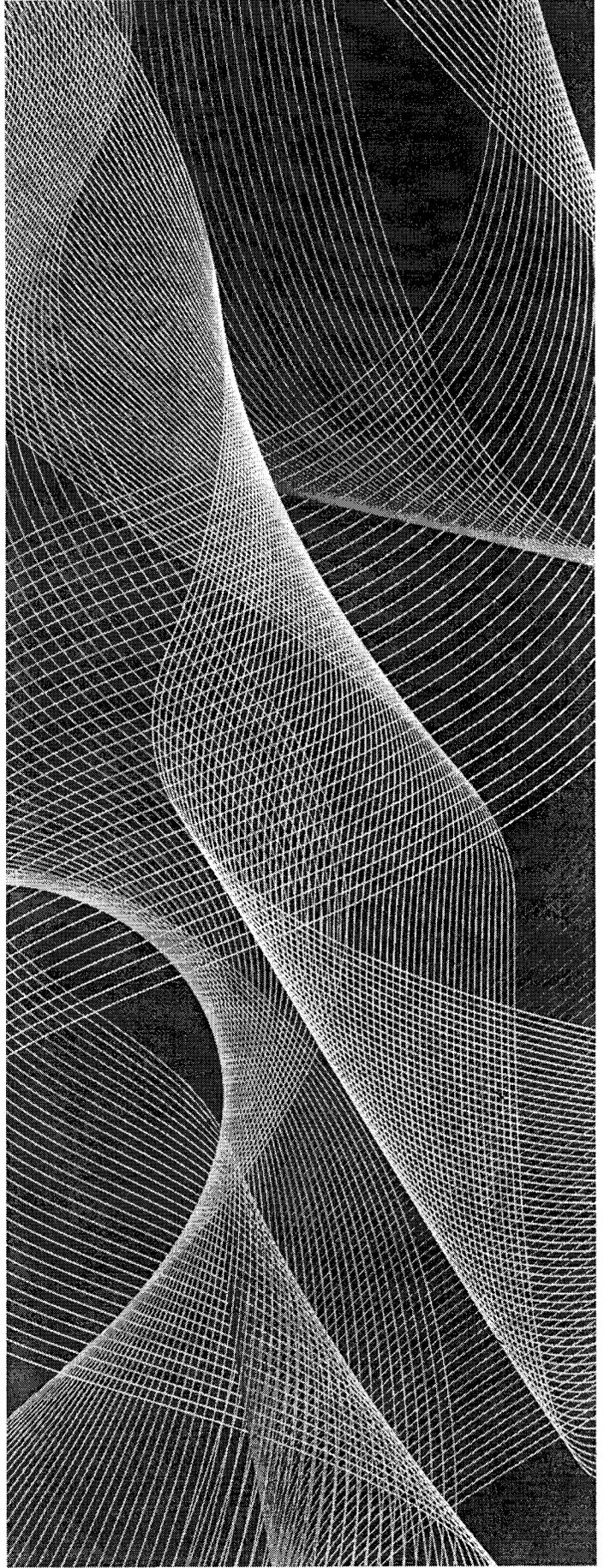


LEHMAN BROTHERS

GREG Update – 8/7/08



Confidential Presentation

# Management Team

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

## Senior Management

Name	Position	Title	Experience	
			Lehman	Industry
Mark Walsh	Global Head of Global Real Estate Group	MD	20 years	24 years
Kenneth Cohen	Head of U.S. Originations	MD	23 years	23 years
Paul Hughson	Head of U.S. Securitization, Syndication and Lines of Credit	MD	14 years	21 years
James Blakemore	Head of European Real Estate	MD	9 years	14 years
Thomas Pearson	Co-Head of Asian Real Estate	MD	7 years	24 years
Mark Gabbay	Co-Head of Asian Real Estate	MD	7 years	19 years
Steve Hash	Head of Global Real Estate Banking	MD	9 years	14 years

## Finance and Risk Management

Name	Position	Title	Experience	
			Lehman	Industry
Gerry Reilly	Head of Capital Markets Product Control	MD	12 years	21 years
Jonathan Cohen	Head of GREG Finance	SVP	3 years	21 years
Jeffrey Goodman	Global Head of Fixed Income Risk Management	MD	4 years	26 years

# Commercial Real Estate Business Overview

---

**GREG consists of three businesses: Commercial Whole Loans and CMBS, Principal Transactions Group (PTG), and Real Estate Advisory**

## Commercial Whole Loans and CMBS

- ◆ Originates loans and subsequently warehouses them until a sufficient principal amount (\$1-\$2 bn) is aggregated for securitization
- ◆ The loans created are secured by a variety of commercial property, including office, retail, multi-family, industrial and hospitality
- ◆ Loans that are more efficiently placed into the bank market are syndicated

## Principal Transactions Group (PTG) / Equity

- ◆ Originates short-term loans and equity investments with a defined exit strategy; positions are secured by either first/second mortgages or ownership interests in properties
- ◆ Makes strategic equity investments in markets where the Firm believes it can bring a competitive advantage or that has significant barriers to entry so that value increase is available in the near term
- ◆ Makes equity investments with clients with intent to syndicate into the institutional equity markets
- ◆ Purchases non-performing and sub-performing loans or loan portfolios from lenders and government agencies (HUD, FHA)

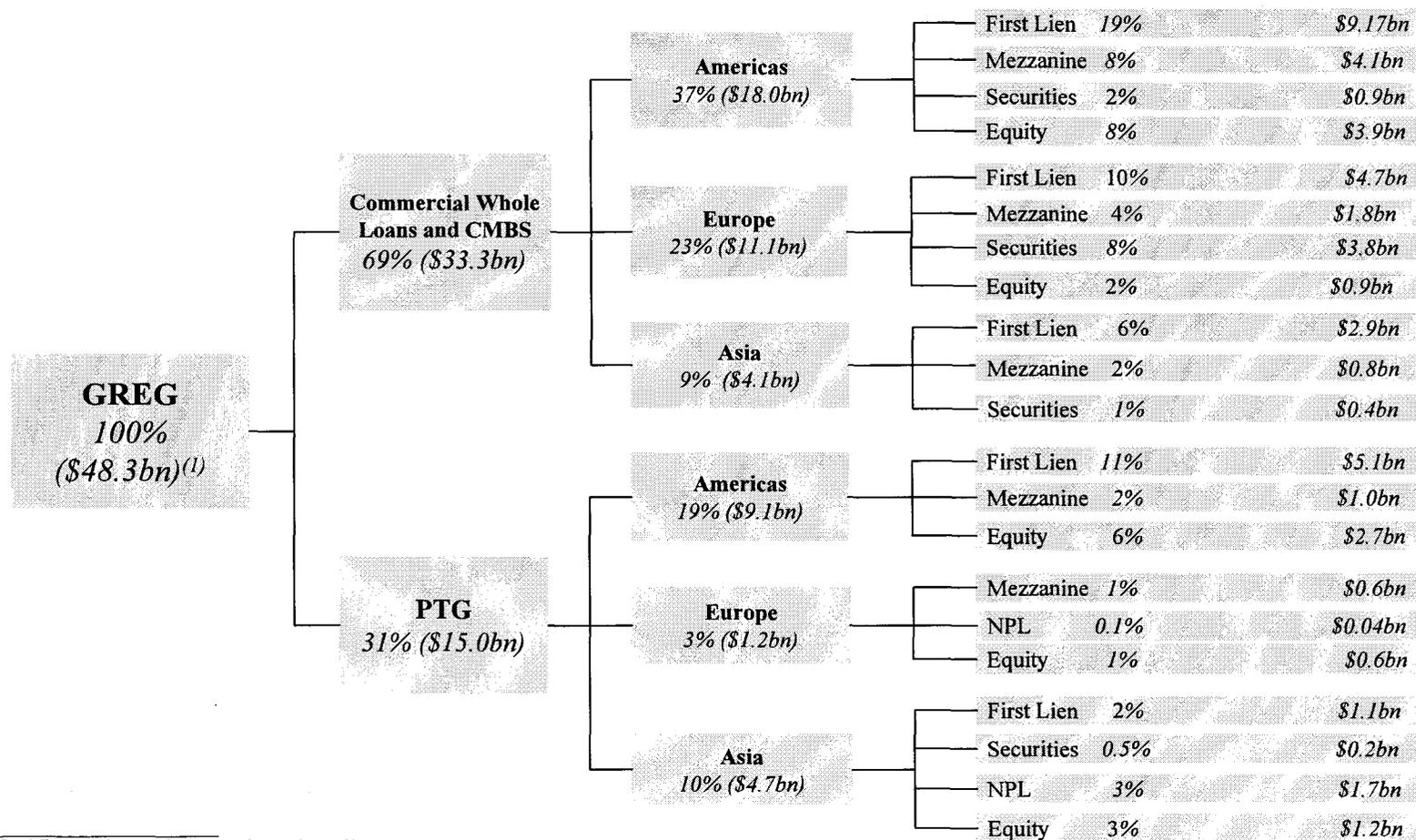
## Real Estate Advisory

- ◆ Provides comprehensive advisory and capital raising services, including general business and financial analysis as well as transaction feasibility analysis / pricing in a prospective acquisition for a diverse client base (corporations, REITs, property companies, governments, financial institutions)
- ◆ Does not utilize balance sheet

# Well-Developed Franchise

GREG's exposure is well-diversified across product, geographies, and type of assets, with relatively low concentration. First lien loans and securities make up most of the balance sheet.

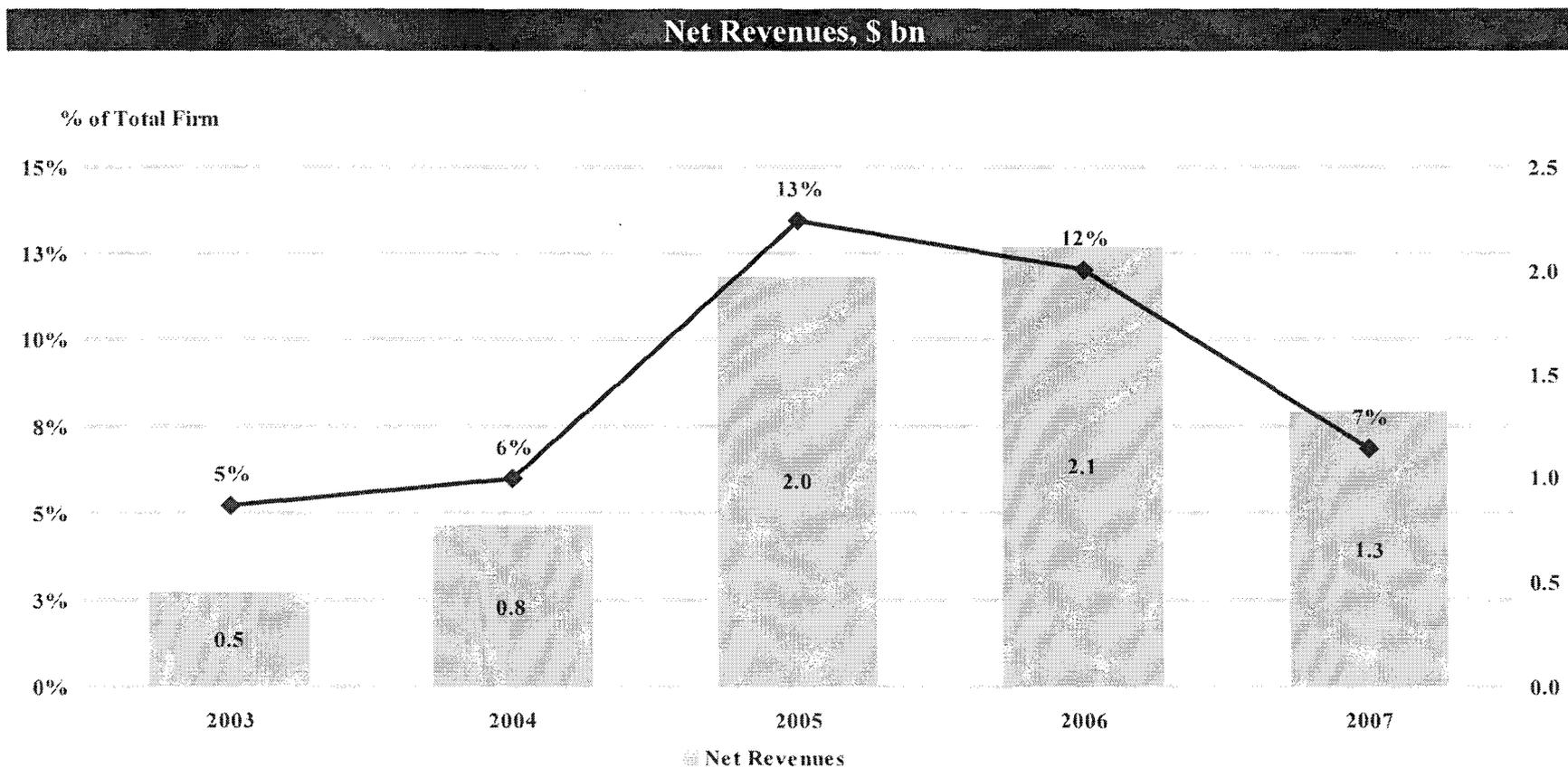
Balance Sheet \$ Contribution by Business Segment / % of Global Net Balance Sheet at May 2008<sup>1</sup>



1. Real Estate Advisory does not utilize Balance Sheet

# Contribution to the Firm

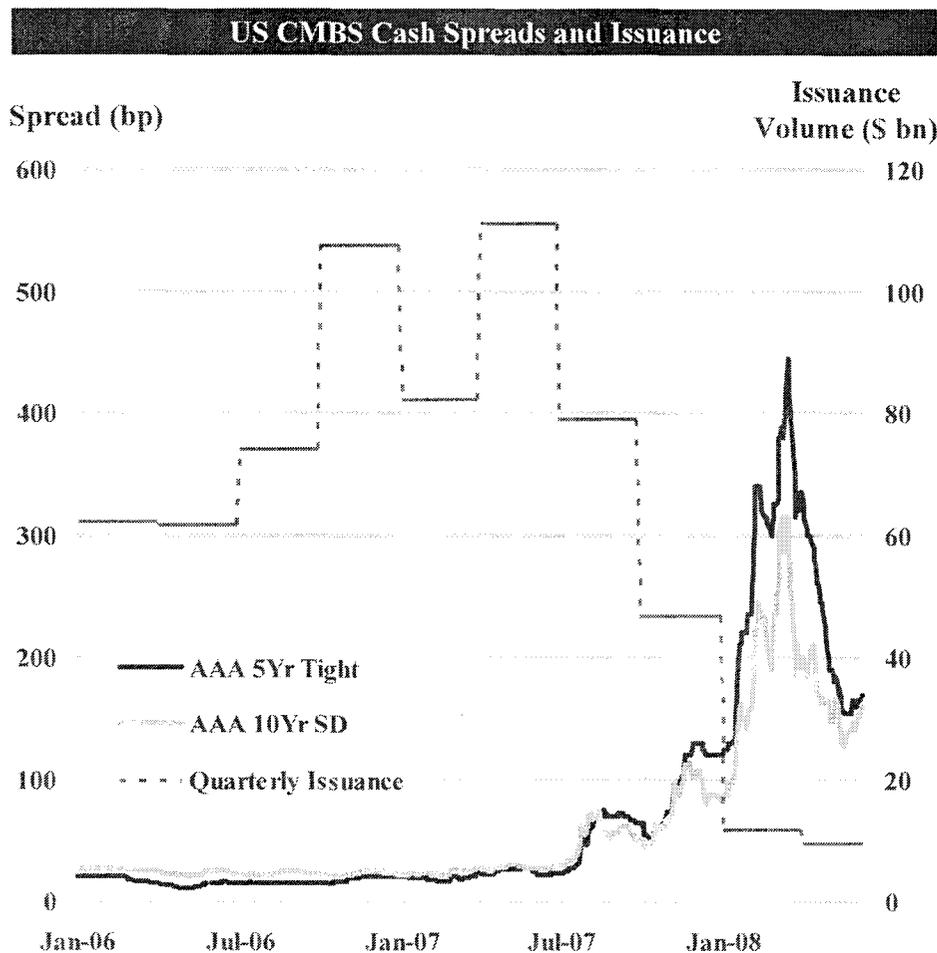
In combination, the GREG businesses accounted for approximately 7% of the Firm's 2007 net revenues



1. Real Estate Assets net of Accounting Gross-ups

# Perfect Storm

Commercial Real Estate experienced a perfect storm, impacting GREG performance



Source: Lehman Brothers.

## Market Impact

- ◆ Unprecedented spread widening across the capital structure
- ◆ Dramatically reduced CMBS volumes since securitization markets are shut
- ◆ Dichotomy between *Equity* buyers focused on fundamentals and *Credit* buyers impacted by spread contagion

## GREG Impact

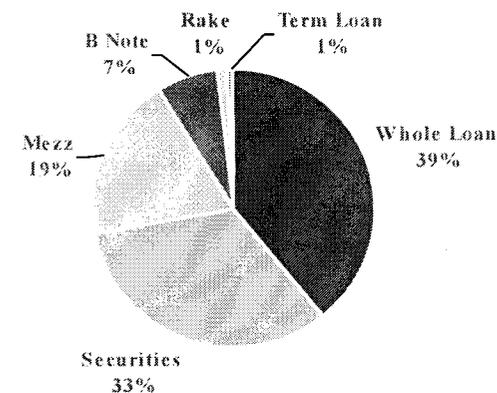
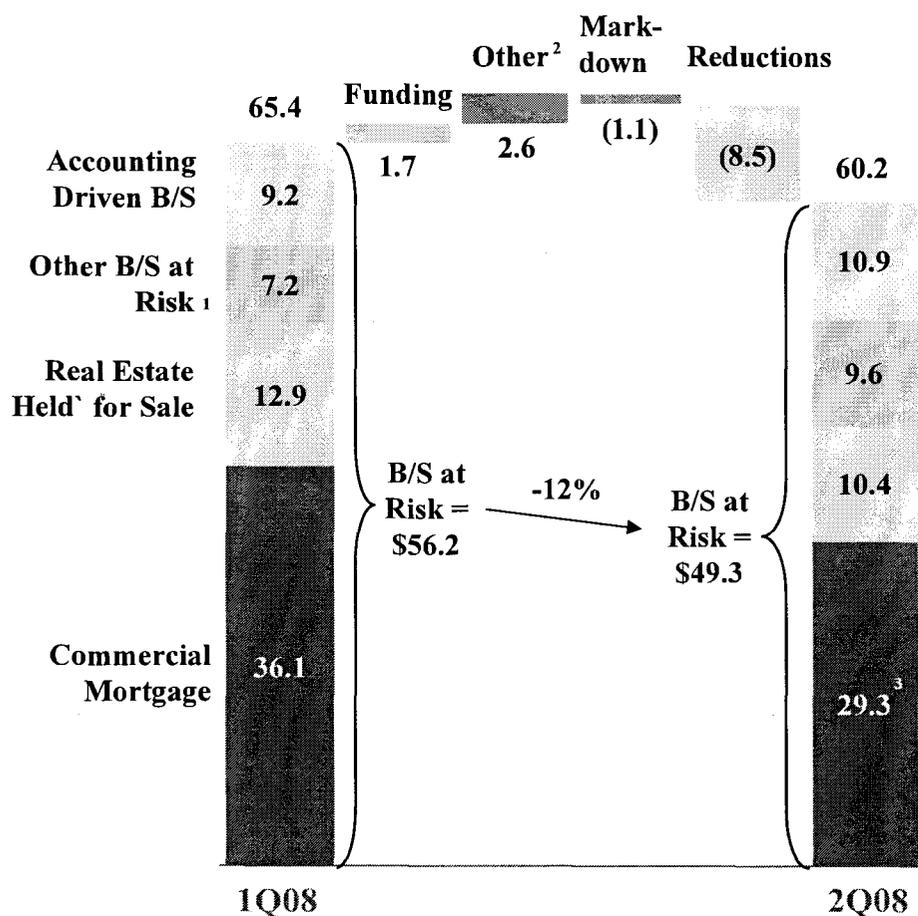
- ◆ Forced to hold positions originally originated for securitization/syndication
- ◆ GREG write-downs of ~\$2.5 bn 1H'08
- ◆ Active deleveraging: Reduced commercial mortgages by ~\$7 bn in Q2

# Commercial Real Estate Balance Sheet Reduction

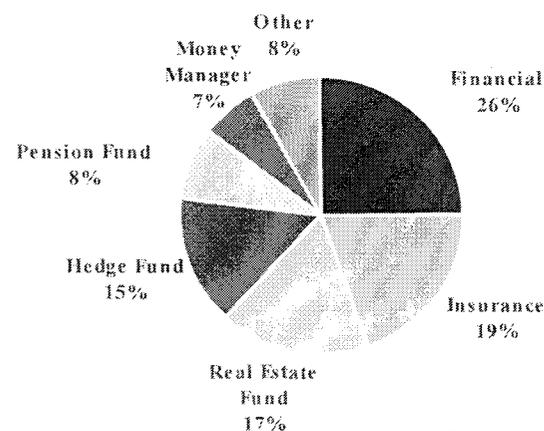
Balance Sheet at Risk was reduced by \$6.9bn and Commercial Mortgage Balance Sheet by \$6.8bn in the 2Q' 08

Global Commercial Real Estate Net Balance Sheet (\$BB)

Global Sales by Securities Type



Global Sales by Investor Type



1. Other Balance Sheet at Risk includes Corporate Debt, Corporate Equity, Derivative Mark to market and other assets.  
 2. Other includes FX Conversion, transfers from private equity, increases in accounting gross up and hedging  
 3. Commercial Mortgages currently excludes approximately \$650MM of Capital Crossing

# Real Estate Fundamentals

---

However, Commercial Real Estate will still be an attractive business for Lehman

## Revenue Potential

- ◆ Commercial Real Estate market will continue to exist (not sub-prime)
- ◆ Large stock of commercial real estate with significant turnover
- ◆ CMBS issuance will re-emerge, albeit at lower (e.g., 2004) levels

## Intermediation Opportunity

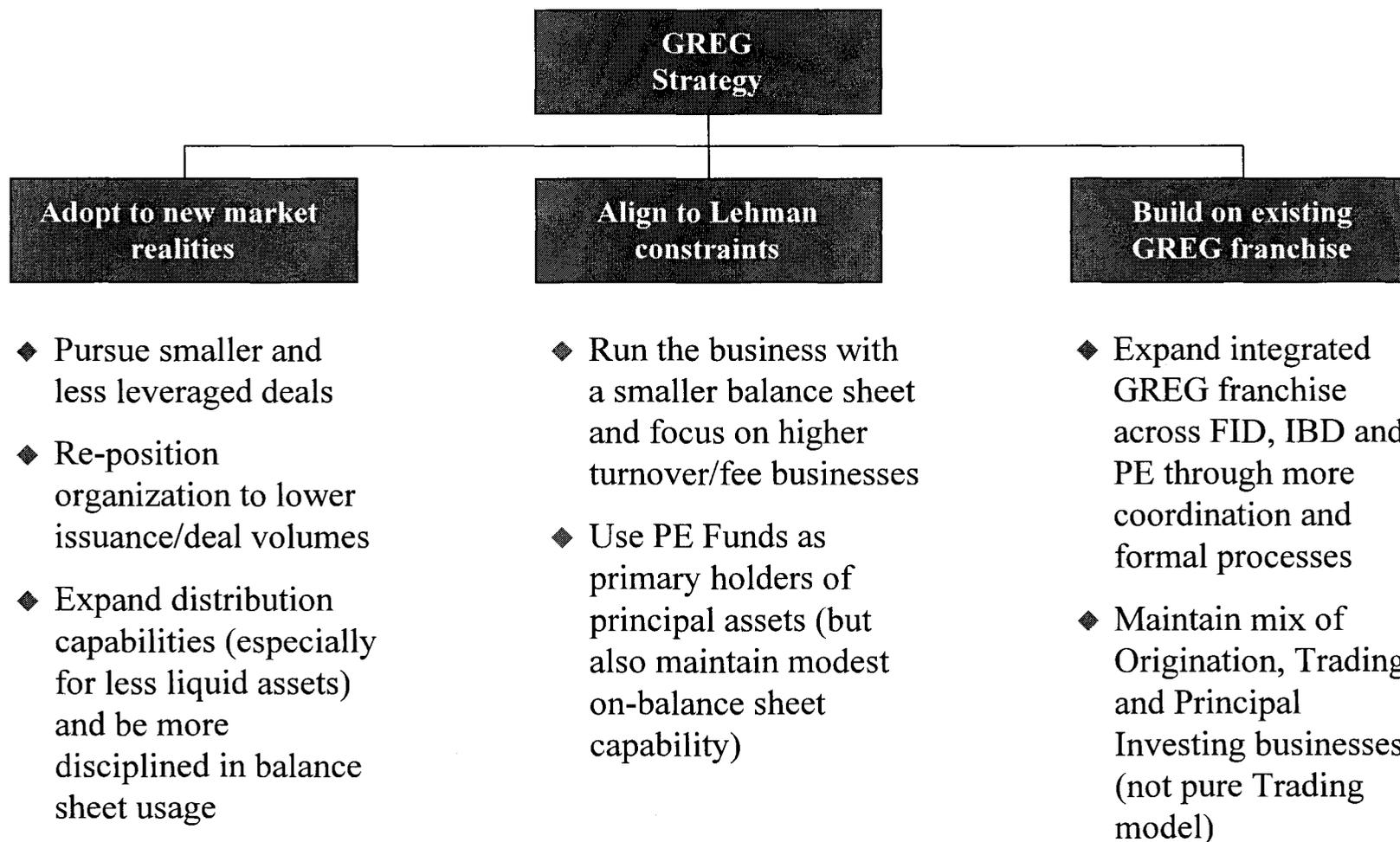
- ◆ Borrowers continue to need financing (and no GSEs for CRE)
- ◆ Insurance and bank balance sheets cannot compensate for capital markets
- ◆ All Wall Street competitors impaired or exiting (e.g., UBS, Wachovia, Morgan Stanley, RBS, Bear Stearns, Nomura, Countrywide, Deutsche Bank)

## Lehman Positioning

- ◆ Strong brand name and deep client relationships
- ◆ Real Estate hard asset knowledge and expertise
- ◆ Ability to deliver the capital markets through integrated GREG franchise

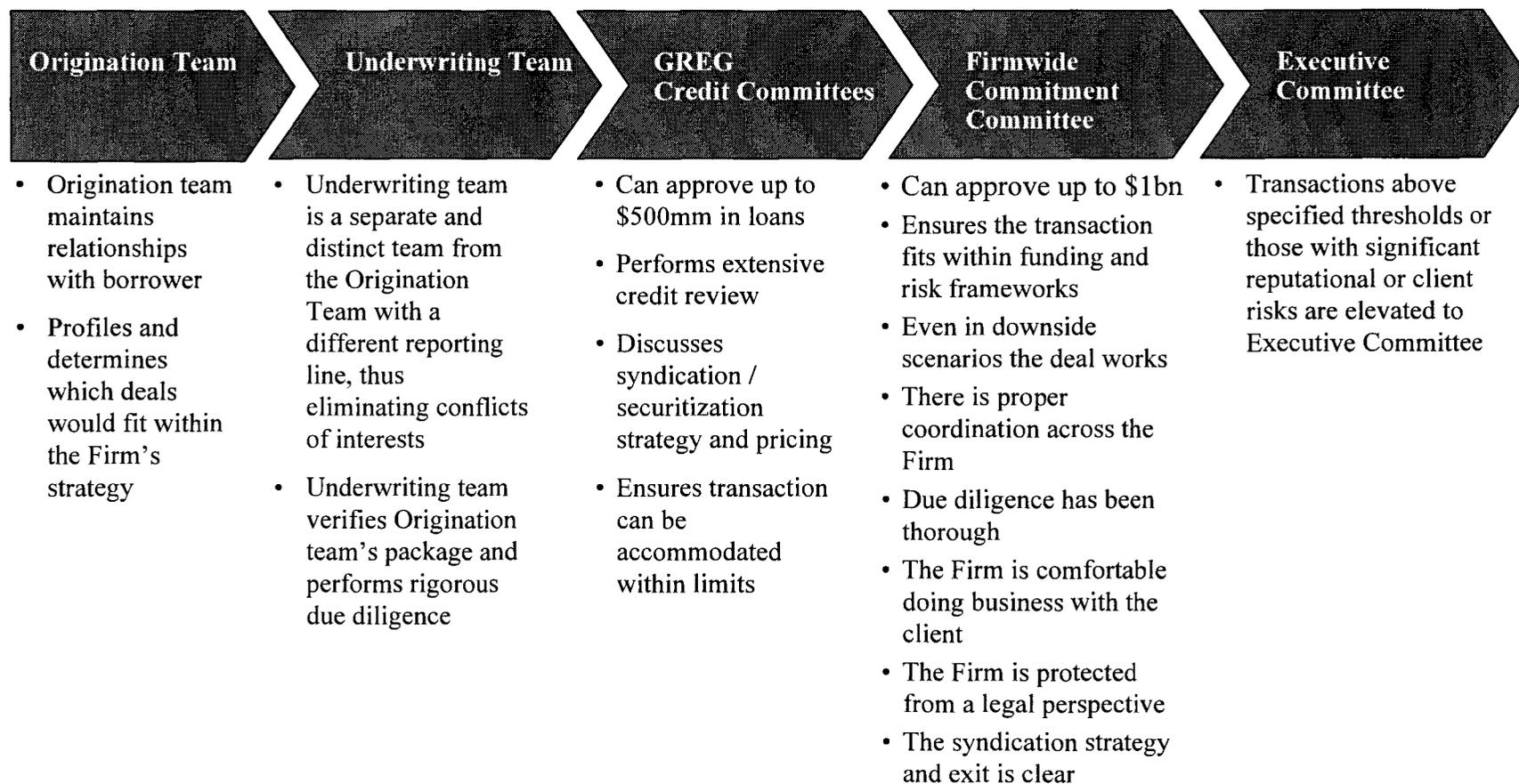
# GREG Strategy

GREG will adjust its strategy to the new environment, but build on the existing franchise



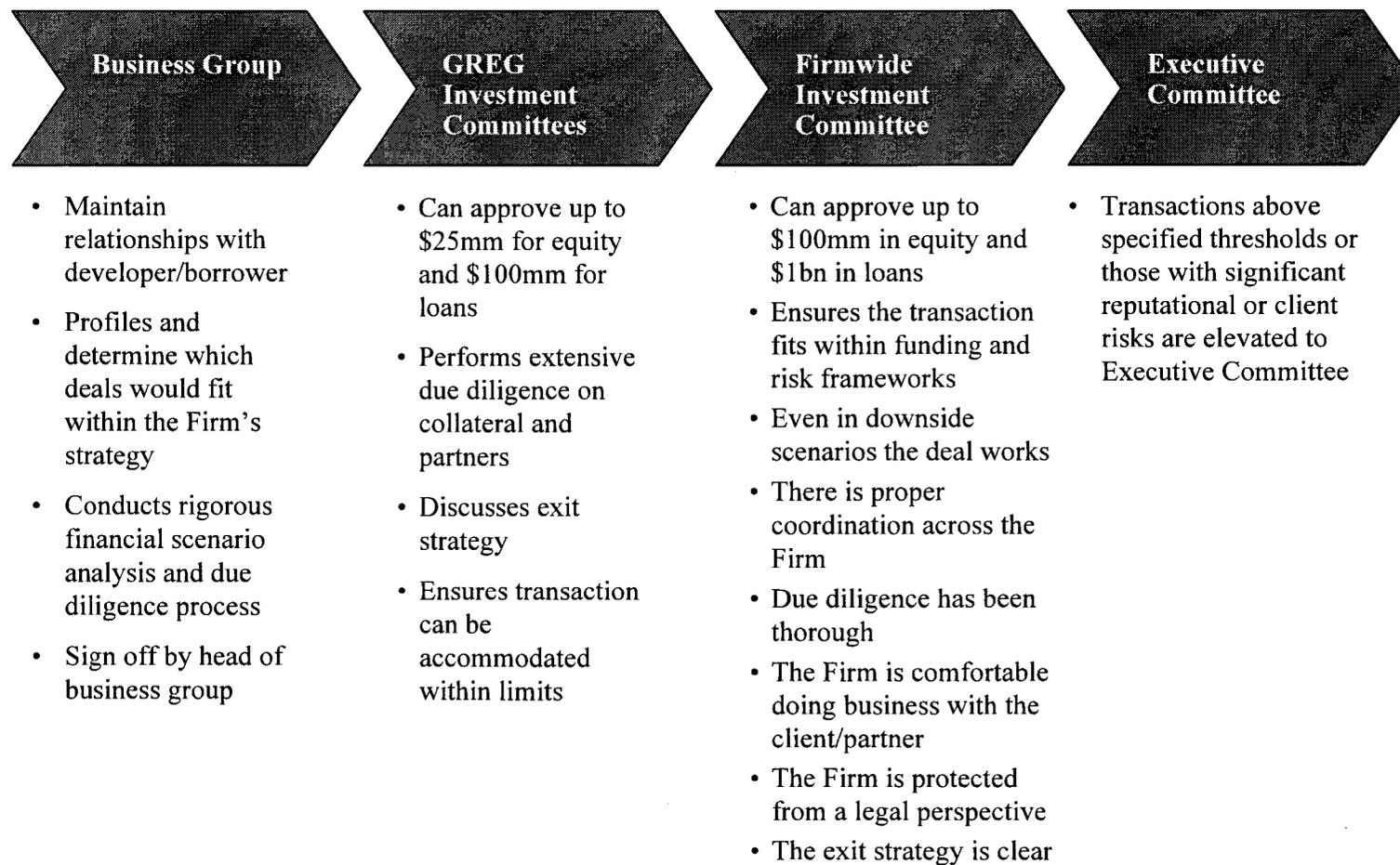
# CMBS Underwriting Process

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.



# PTG Underwriting Process

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



# Commercial Real Estate – Valuation Methodology

---

## Valuation / Marking methodology

- ◆ Securities: Marked to market in accordance with daily observable trades in the marketplace as well as for movements in interest rates and relevant derivative indices
- ◆ Whole Loans: Marked based on the intended exit strategy and attendant recent market pricing in the securitization, syndication and origination markets
- ◆ Equity: Marked to yields that are consistent with yield expectations of third party institutional capital for assets of comparable risk

# Commercial Real Estate – Price Verification Methodology

---

**The Finance Division independently performs a monthly comprehensive price verification exercise to review appropriateness of the portfolio valuation**

- ◆ Price verification is performed on a monthly basis
- ◆ Generally, third party pricing inputs are used where available
- ◆ The principal book (PTG) is price verified using a NPV approach with a significant emphasis on the credit qualities of each collateral. Our models use:
  - Property level information provided by third party servicers (Trimont & PCCP) - information received includes position attributes, collateral valuation and current update commentary
  - Discount rates are derived from third party publications (Institutional Investors' Real Estate Finance & Investments)
  - Product Control also reviews IRR models developed for each position by Trimont for reasonableness
- ◆ Bridge equity generally marked to target investor yields for the specific investment. Product Control reviews / discusses the reasonableness of the valuation assumptions
- ◆ The commercial book is price verified using internal models based on spreads obtained from third party publications giving special emphasis to recent sales, circles and bids on notes of similar attributes (LTV, property type, location, etc.)
- ◆ Finance holds regular discussions with the business senior management to discuss pricing variances that exceed our established thresholds. Based on the results of the price verification review, PC recommends / suggests mark adjustments. These positions are either remarked or adequate justification or support is provided by the business to support the existing mark

**In addition, the risk management department independently measures, quantifies and evaluates the risk of this portfolio**

---

**Portfolio Characteristics**

# Real Estate Held for Sale and Commercial Mortgage: 2Q08

## \$19.5bn Senior Whole Loans

(\$ millions)

LTV Buckets	Cumm. %	Global	Americas	Europe	Asia
<50%	6%	1,185	893	182	110
50 ~ 55%	13%	1,272	989	62	221
55 ~ 60%	18%	1,002	418	491	92
60 ~ 65%	24%	1,193	832	45	315
65 ~ 70%	31%	1,373	691	568	114
70 ~ 75%	39%	1,582	1,103	235	245
75 ~ 80%	49%	1,863	960	479	424
80 ~ 85%	71%	4,377	1,481	1,887	1,008
85 ~ 90%	84%	2,524	590	655	1,278
>90%	100%	3,124	2,716	96	312
<b>Total</b>		<b>19,495</b>	<b>10,674</b>	<b>4,700</b>	<b>4,121</b>
<b>WA LTV</b>		<b>76%</b>	<b>75%</b>	<b>77%</b>	<b>79%</b>
<b>WAL</b>		<b>18</b>	<b>20</b>	<b>16</b>	<b>14</b>
<b>WAM</b>		<b>35</b>	<b>26</b>	<b>31</b>	<b>60</b>
<b>MARK</b>		<b>93</b>	<b>90</b>	<b>98</b>	<b>96</b>

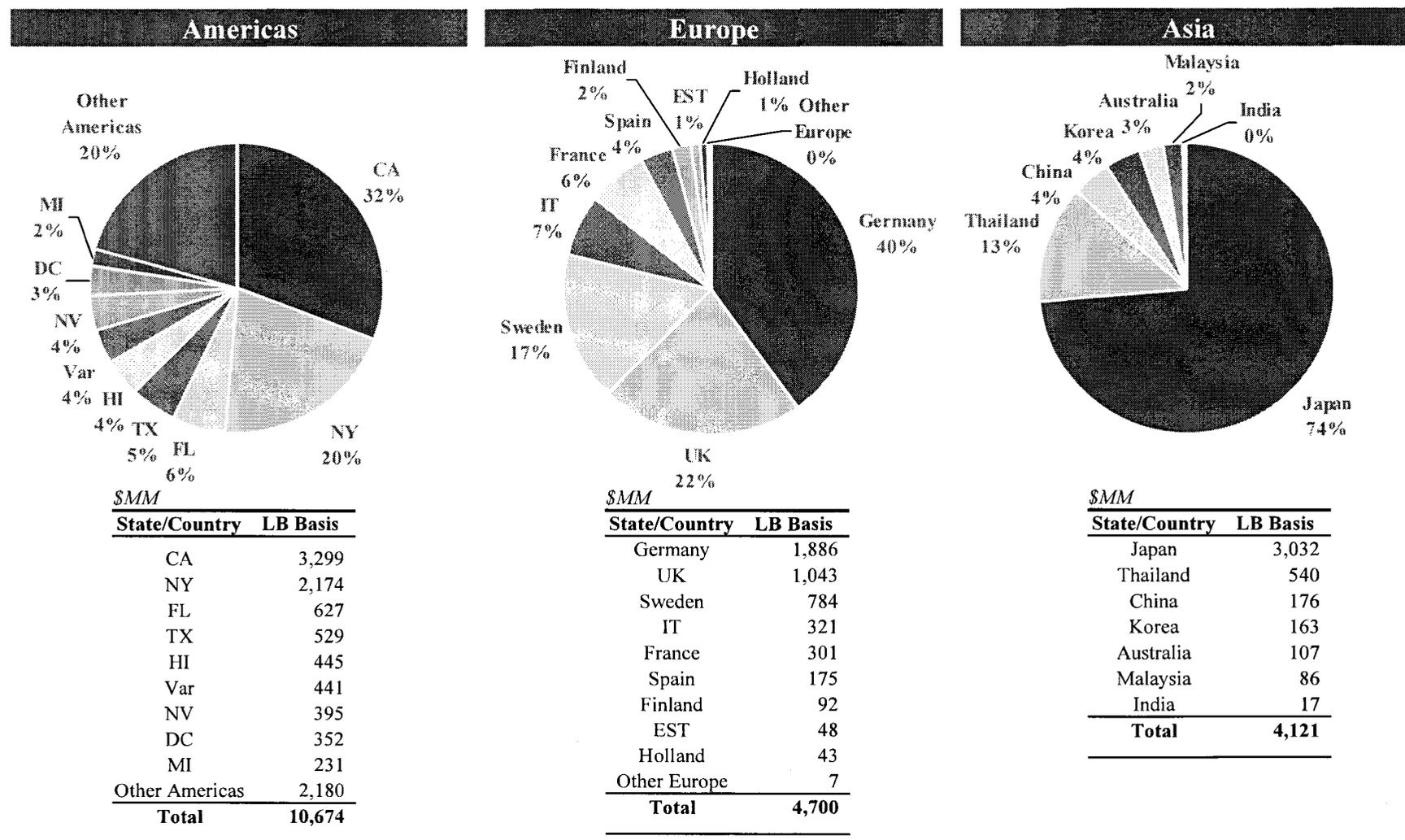
Property Type	% Global	Global	Americas	Europe	Asia
Office	19%	3,746	2,019	1,407	320
Multi-family	14%	2,684	1,562	85	1,038
Mixed Use	13%	2,606	5	1,554	1,046
Land	20%	3,961	3,225	205	531
Industrial	1%	102	87	15	-
Condominium	6%	1,178	1,178	-	-
Hotel	12%	2,248	1,753	65	430
Storage	1%	106	106	-	-
Other	3%	495	341	96	58
Retail	12%	2,369	398	1,274	697
<b>Total</b>	<b>100%</b>	<b>19,495</b>	<b>10,674</b>	<b>4,700</b>	<b>4,121</b>

## Top 3 Positions by Region

Rank	Position Name	Basis	WAM	LTV	Exit Strategy
<u>Americas</u>					
1	Heritage Fields	\$ 503	37	53%	\$87mm Near Term Pay down; Increase in underlying Interest Rate
2	GM Building	\$ 435	113	61%	Mezz Debt sold to Boston Properties; Commencing Syndication of Sr. Debt
3	Grand Prix	\$ 347	13	75%	Commencing Syndication Efforts
<u>Europe</u>					
1	Gospel	\$ 562	61	68%	Pay downs through Asset Sales & Sale of Whole Loan Pools
2	Protego	\$ 489	1	59%	Full Repayment late June
3	Goodwater	\$ 412	38	82%	Marketing in early Sept with expected close before Q4 end
<u>Asia</u>					
1	Project Cowboy	\$ 206	25	100%	Loan in work out; Partial asset disposition expected early '09
2	Crescent Heights	\$ 195	4	81%	Hold to Maturity; Potential senior tranche sell down by early '09
3	Leo Palace Loan Portfolio	\$ 194	335	84%	Securitization targeted for Q1 '09 as part of an LMAP issuance

# Real Estate Held for Sale and Commercial Mortgage: 2Q08

## Senior Debt Regional Summary



# Real Estate Held for Sale and Commercial Mortgage: 2Q08

## \$5.9B Mezz Whole Loans

(\$ millions)

LTV Buckets	Cumm. %	Global	Americas	Europe	Asia
<50%	7%	393	330	62	-
50 ~ 55%	10%	173	156	17	-
55 ~ 60%	11%	93	6	48	39
60 ~ 65%	15%	212	187	6	20
65 ~ 70%	25%	587	557	0	30
70 ~ 75%	42%	1,035	843	192	-
75 ~ 80%	51%	510	389	90	30
80 ~ 85%	64%	797	609	45	143
85 ~ 90%	76%	718	264	156	298
>90%	100%	1,392	1,249	118	24
<b>Total</b>		<b>5,909</b>	<b>4,591</b>	<b>735</b>	<b>583</b>
WA LTV		78%	78%	77%	83%
WAL		13	14	15	6
WAM		26	26	30	22
MARK		89	87	96	99

Property Type	% Global	Global	Americas	Europe	Asia
Office	37%	2,157	1,894	249	15
Multi-family	20%	1,165	1,064	101	-
Mixed Use	8%	486	-	151	335
Land	8%	457	428	29	-
Industrial	8%	450	441	9	-
Condominium	7%	439	439	-	-
Hotel	7%	407	279	110	19
Other	4%	222	8	-	214
Retail	2%	126	40	85	-
<b>Total</b>	<b>100%</b>	<b>5,909</b>	<b>4,591</b>	<b>735</b>	<b>583</b>

Mezz Type	%	Global	Americas	Europe	Asia
Junior Mezz	38%	2,225	1,604	274	347
Senior Mezz	62%	3,684	2,988	461	236
<b>Total</b>	<b>100%</b>	<b>5,909</b>	<b>4,591</b>	<b>735</b>	<b>583</b>

Mezz Type	%	Global	WA LTV	WAL	WAM
Junior Mezz	38%	2,225	92%	1.09	1.89
Senior Mezz	62%	3,684	70%	1.12	2.32
<b>Total</b>	<b>100%</b>	<b>5,909</b>	<b>78%</b>	<b>1.11</b>	<b>2.16</b>

## Top 3 Positions by Region

Rank	Position Name	Basis	WAM	LTV	Exit Strategy
<b>Americas</b>					
1	Archstone Mezz	\$ 485	64	68%	Commencing the Marketing of Pools aggregating \$400mm
2	Project Trois	\$ 428	2	93%	Mezz continues to de-lever through asset sales; One Sansome will result in \$100+ mm Pay down
3	237 Park Bridge	\$ 462	43	90%	Commencing Marketing of Sr. Mezz
<b>Europe</b>					
1	Centrum Kompaniet	\$ 123	15	90%	Pay downs through Asset Sales & Refinancings
2	Vermeer Portfolio	\$ 85	72	80%	Selling to Mezz fund in Q3
3	E-Shelter Frankfurt	\$ 74	15	73%	Targeted refinancing by end of Q3
<b>Asia</b>					
1	Clearth SubLoan SP2	\$ 199	10	88%	Hold to Maturity
2	Nagaoka NPL Mezz	\$ 61	40	84%	Sale of collateral properties and repayment of loan
3	Crystal	\$ 60	39	89%	Hold to maturity

# Real Estate Held for Sale and Commercial Mortgage: 2Q08

## \$7.2B Equity

Property Type	% Global	Global	Americas	Europe	Asia
Office	35%	2,484	1,284	1,002	198
Multi-family	12%	854	714	83	57
Mixed Use	5%	390	-	69	321
Land	13%	943	697	84	162
Industrial	9%	655	513	142	-
Condominium	5%	379	379	-	-
Hotel	7%	512	409	-	102
Other	12%	883	452	44	387
Retail	1%	86	36	50	-
<b>Total</b>	<b>100%</b>	<b>7,186</b>	<b>4,484</b>	<b>1,474</b>	<b>1,228</b>

## Top 3 Positions by Region

Rank	Position Name	Basis	Exit Strategy
<u>Americas</u>			
1	Prologis	\$ 456	Currently Marketing
2	Rosslyn	\$ 276	"
3	200 Fifth Ave	\$ 210	"
<u>Europe</u>			
1	Coeur Defense	\$ 557	Currently Marketing
2	Devonshire House	\$ 148	"
3	Vintners	\$ 122	"
<u>Asia</u>			
1	RCC Securitization VII	\$ 130	
2	Manhattan (Takaragumi)	\$ 84	
3	RCC Securitization VI	\$ 79	

# Real Estate Held for Sale and Commercial Mortgage: 2Q08

<b>\$1.9B NPLs</b>					
Property Type	% Global	Global	Americas	Europe	Asia
Office	11%	207	65	-	142
Multi-family	8%	144	100	-	44
Mixed Use	36%	682	-	43	638
Land	8%	154	0	-	154
Industrial	0%	5	-	-	5
Condominium	0%	0	-	-	0
Hotel	3%	57	23	-	33
Other	32%	610	10	-	601
Retail	3%	53	-	-	53
<b>Total</b>	<b>100%</b>	<b>1,911</b>	<b>198</b>	<b>43</b>	<b>1,670</b>
<b>Mark</b>		<b>10</b>	<b>61</b>	<b>41</b>	<b>9</b>

<b>\$5.3bn Securities</b>				
<b>Securitized: Fixed vs. Floating</b>				
Region	Global	Americas	Europe	Asia
Fixed	657	657	-	-
Floating	4,620	250	3,769	601
<b>Global</b>	<b>5,277</b>	<b>907</b>	<b>3,769</b>	<b>601</b>

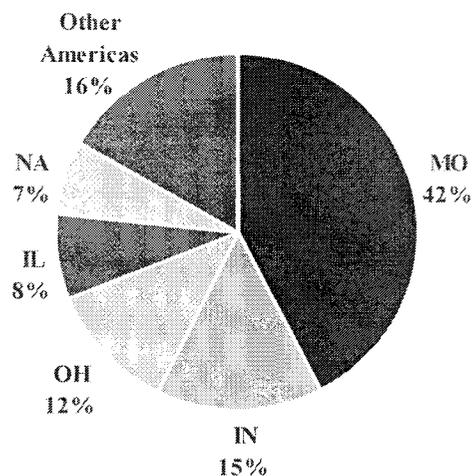
<b>Securitized: Rating Matrix</b>	
Rating	LB Basis
AA & Better	4,013
Other IG	929
Non IG	335
<b>Total</b>	<b>5,277</b>

<b>Securitized: Region / Rating Matrix</b>		
Regions	Rating	LB Basis
Americas	AAA	500
	AA	55
	A	100
	BBB	223
	Below IG	30
	<i>Total</i>	<b>907</b>
Europe	AAA	2,771
	AA	287
	A	277
	BBB	218
	Below IG	216
	<i>Total</i>	<b>3,769</b>
Asia	AAA	411
	AA	22
	A	40
	BBB	39
	Below IG	89
	<i>Total</i>	<b>601</b>
<b>Grand Total</b>		<b>5,277</b>

# Real Estate Held for Sale and Commercial Mortgage: 2Q08

## NPLs Regional summary

### Americas



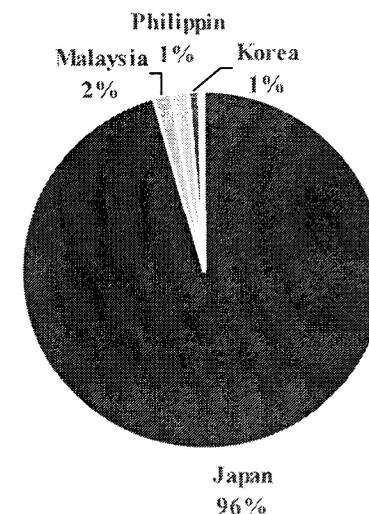
<i>SMM</i>	
State/Country	LB Basis
MO	84.1
IN	28.9
OH	23.3
IL	15.5
NA	13.0
Other Americas	33.0
<b>Total</b>	<b>198</b>

### Europe



<i>SMM</i>	
State/Country	LB Basis
Germany	43.4
<b>Total</b>	<b>43</b>

### Asia



<i>SMM</i>	
State/Country	LB Basis
Japan	1,597.5
Malaysia	26.7
Philippines	24.4
Korea	15.6
Indonesia	3.7
Taiwan	1.9
<b>Total</b>	<b>1,670</b>