

At: 11:00 AM (1/25/08)

Confidential Presentation to:

Moody's Investors Service

Commercial Real Estate

February 13, 2008

LEHMAN BROTHERS

FOIA CONFIDENTIAL TREATMENT REQUESTED
BY LEHMAN BROTHERS HOLDINGS INC.

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Executive Summary

- ◆ Our Global Real Estate business (GREG) encompasses commercial mortgages, principal transactions and investment banking. It is a unique structure and has been very successful in leveraging expertise in each area. Over time, GREG has developed into one of the Firm's core strengths and has significantly contributed to the Firm's earnings, including through a number of difficult real estate markets. The scope has broadened from largely a U.S. business to approximately 50% international
- ◆ The balance sheet has grown in all regions, particularly in Europe and Asia. This growth has been predominantly in the higher quality, lower risk asset classes, reflecting a shift into senior loans and away from mezzanine and equity
- ◆ Inventory is 90% floating rate and the weighted average maturity is around 2 years. First lien mortgages are more than 75% of our whole loans, and Aaa is more than 70% of securities held. Over 90% of whole loans have an LTV of less than 90%.
- ◆ While delinquencies on our commercial portfolio are still at historic lows and the collateral performance of our positions has not been an issue, the spread widening at all debt tranches and declining equity values have led to lower valuations
 - Total Real Estate markdowns in 2007 of \$907 million, offset by gains on sales and securitizations
 - Markdowns in Q1 2008 of \$510 million in the U.S. and \$160 million in Europe
- ◆ *De-minimis* CDO, repo or financing exposures
- ◆ GREG is appropriately capitalized, with a significant portion of the Firm's equity allocated to it under our internal capital adequacy model
- ◆ Origination has slowed very dramatically and we expect the focus to be on reducing balance sheet usage
- ◆ The Archstone acquisition has given us exposure to a portfolio of high quality multifamily properties. Given the worsening debt market, the disposition plan has been revised. We plan to reduce the leverage by asset dispositions and will close the fund early when a complete debt solution is in place
- ◆ We expect to reduce our exposures and balance sheet through 2008 and believe existing positions have a reasonable balance of risk and reward:
 - Well-diversified by region, property and risk type
 - Relatively low proportion of equity and mezz exposure
 - Low LTVs on debt positions
 - Strong Firm liquidity to fund business

Overview



Business Mix

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

Commercial Whole Loans and CMBS

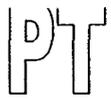
- ◆ Originates loans and subsequently aggregates them until they create a sufficient principal amount (\$2-3 billion) to be securitized
- ◆ The loans created are secured by a variety of commercial properties, including offices, retail stores, multi-family apartment buildings and complexes, industrial facilities, and hotels
- ◆ Loans that do not fit well in a securitized pool are syndicated

Principal Transactions Group (PTG)

- ◆ 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
- ◆ Purchases non-performing and sub-performing loans or loan portfolios from lenders and government agencies (HUD, FHA)

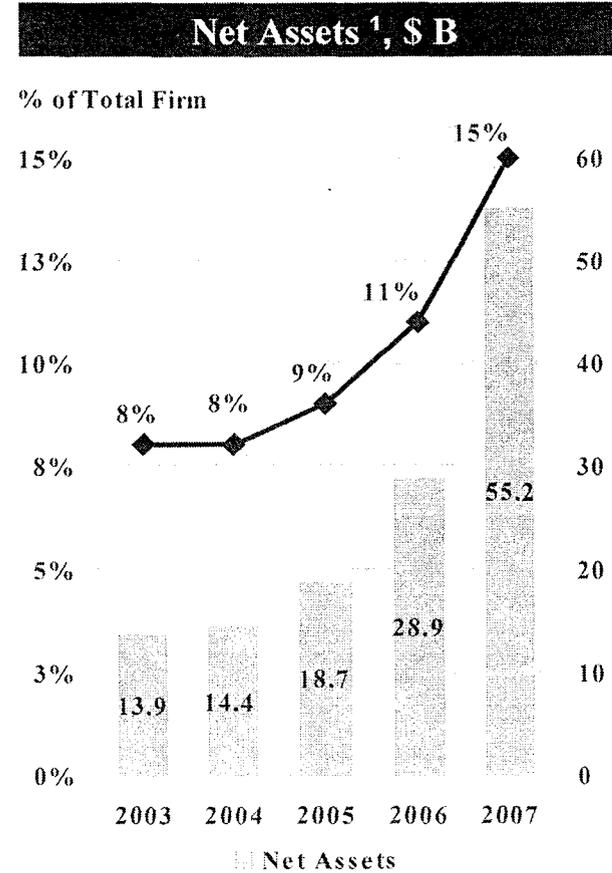
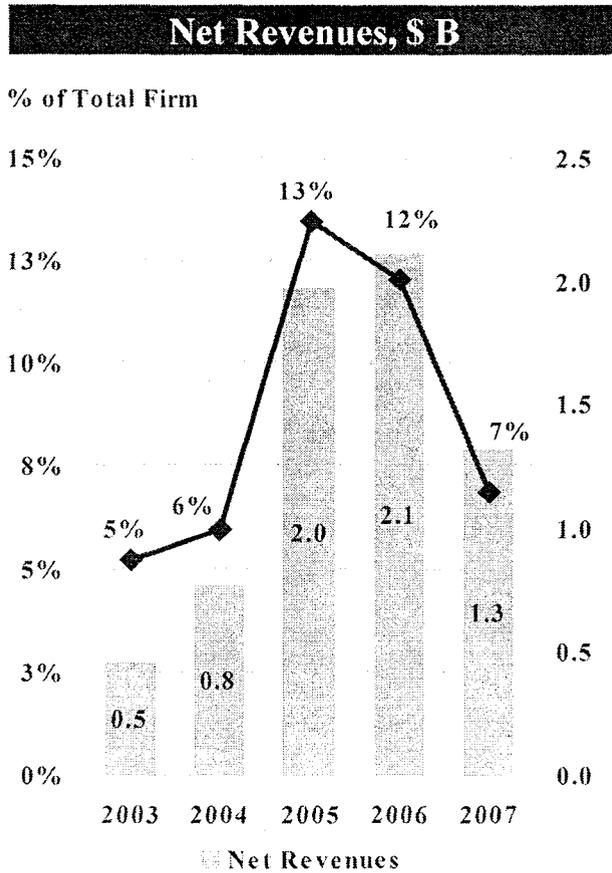
Real Estate Advisory

- ◆ 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



Contribution to the Firm

In combination, the GREG businesses account for approximately 7% of the Firm's 2007 net revenues and 15% of the Firm's net assets. Net balance sheet has increased with the slowdown in securitizations but is expected to decrease though 2008

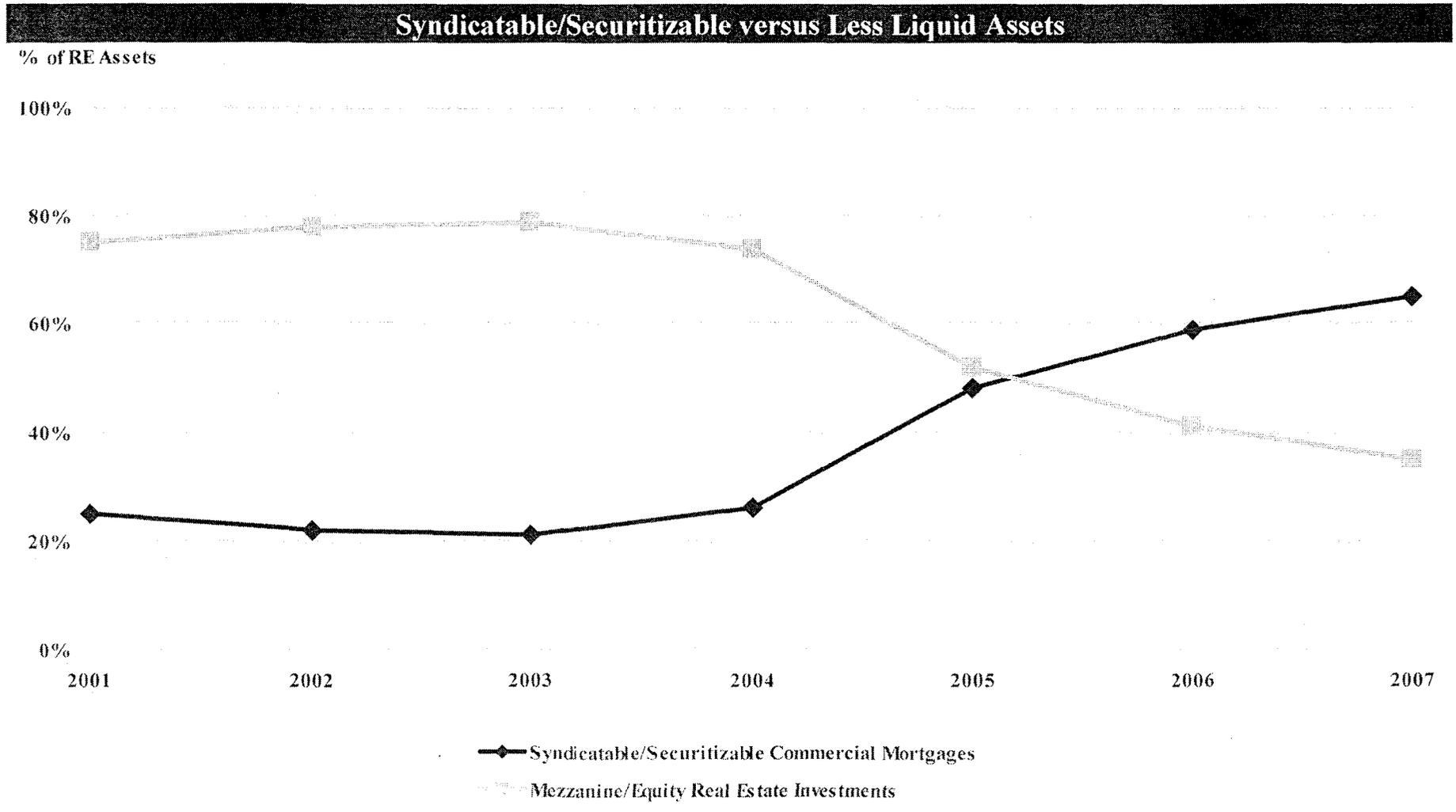


1. Real Estate Assets net of Accounting Gross-ups



Asset Growth Trend

The majority of the net balance sheet growth has been in the more marketable Commercial Whole Loans and CMBS.

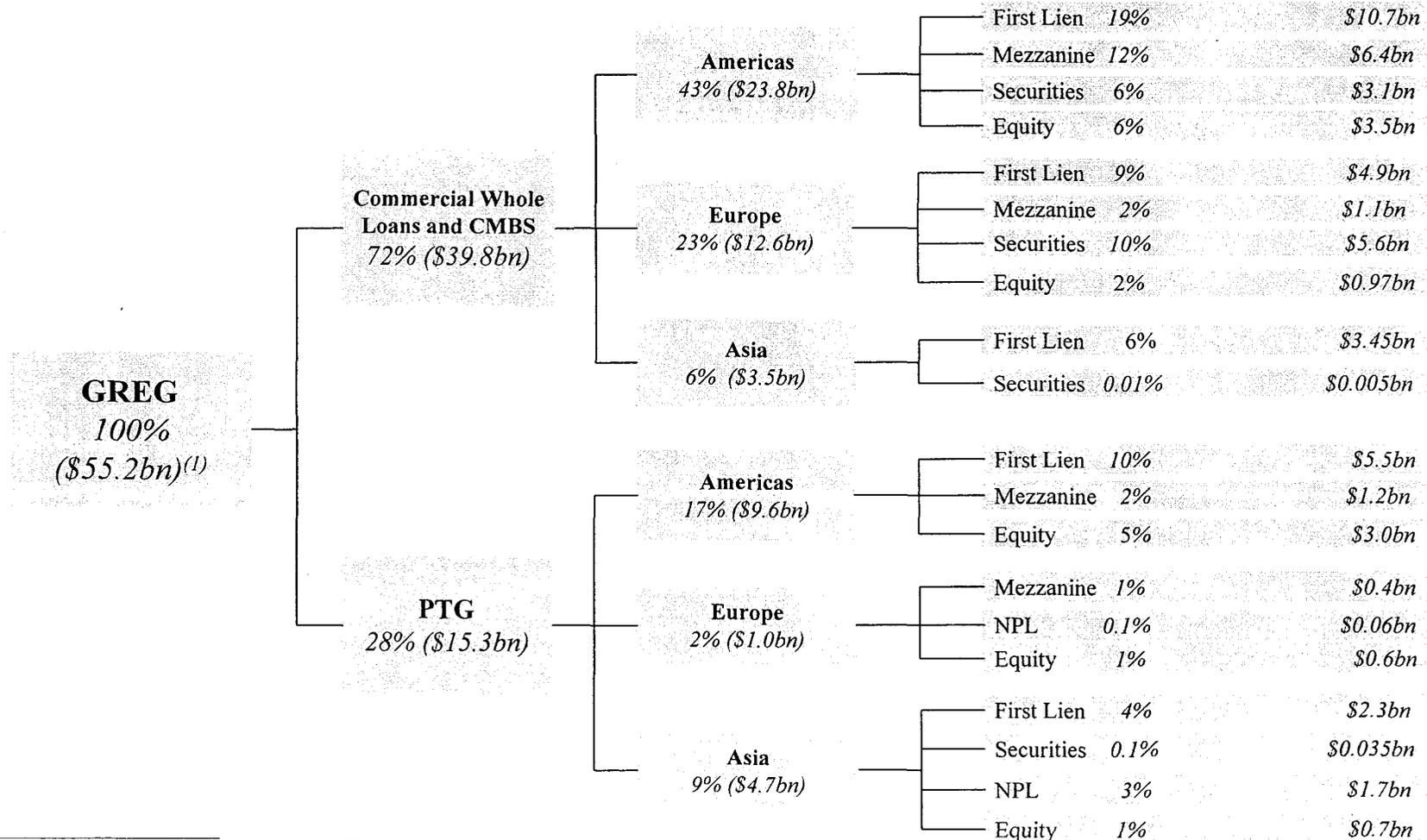




Well-Developed Franchise

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 Nov 2007¹



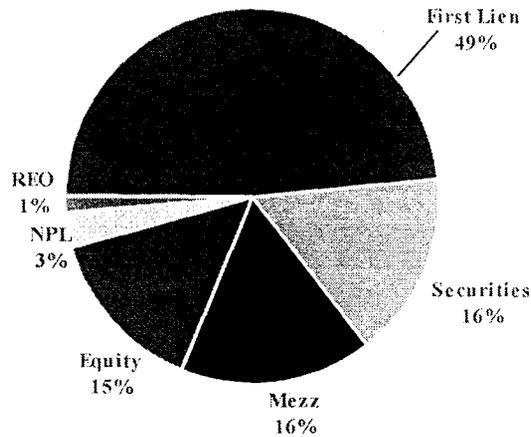
¹ Real Estate Advisory does not utilize Balance Sheet



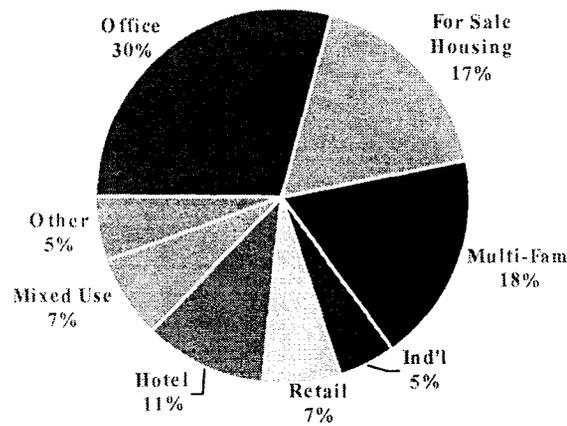
Balance Sheet Exposure

GREG's assets are well-diversified by region, property and risk type.

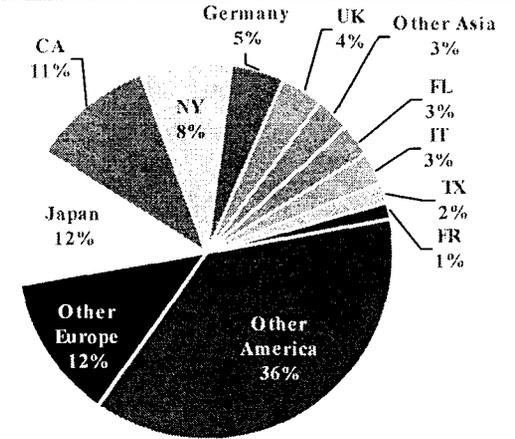
Global by Lien Type



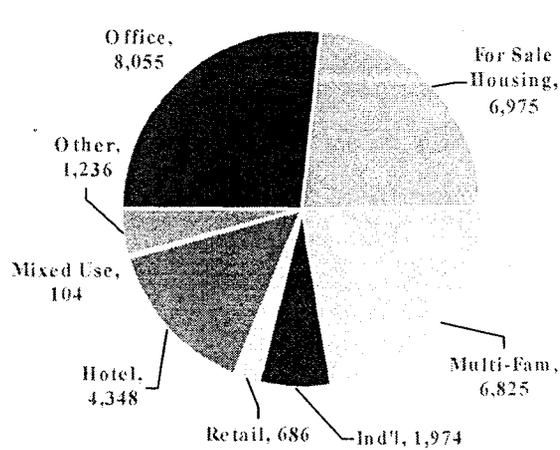
Global by Property Type



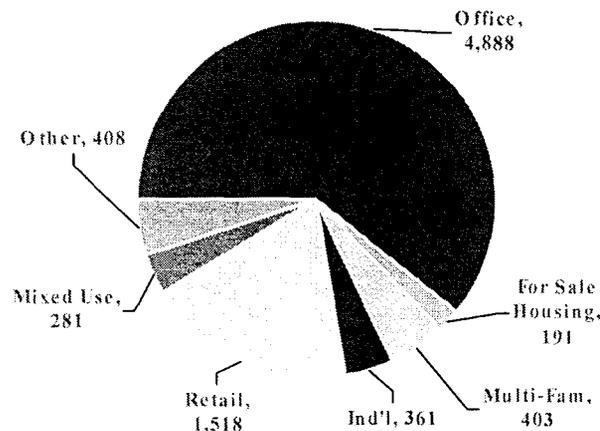
Global by State / Country



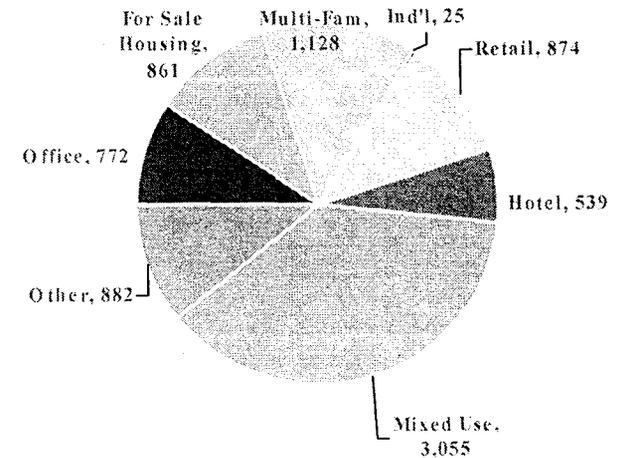
U.S. by Property Type (\$MM)

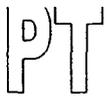


Europe by Property Type (\$ MM)



Asia by Property Type (SMM)

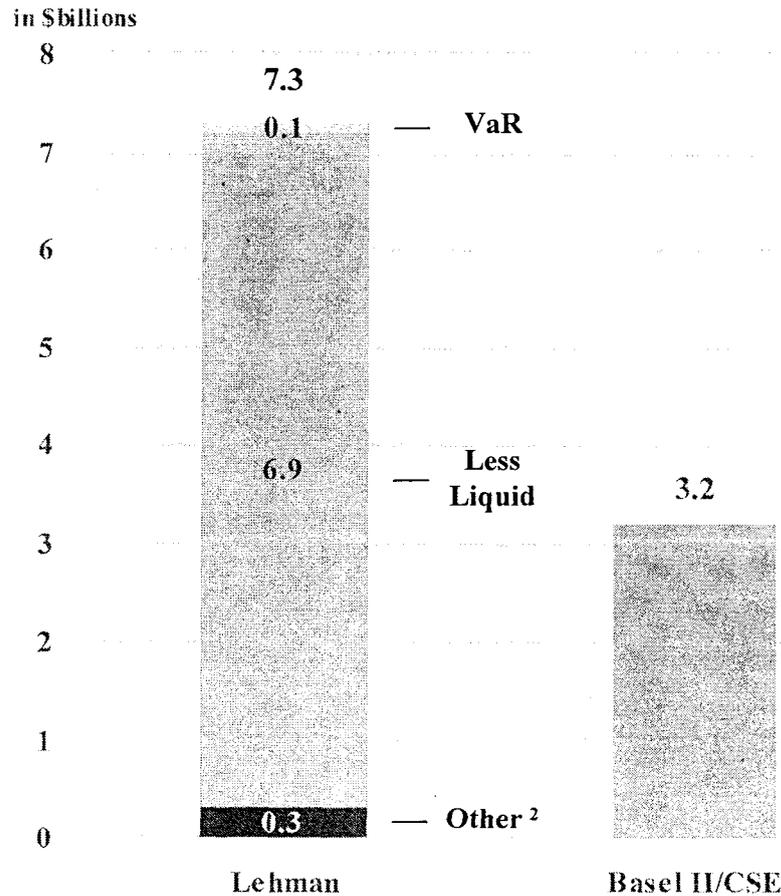




Equity Allocation

The Firm uses a conservative approach in assigning equity to GREG. We hold \$7.3 billion in equity⁽¹⁾ for our Commercial Real Estate businesses, over two times the regulatory requirements

GREG Equity Allocation - Q4 2007



Lehman – Equity Adequacy Framework (EAF)

- ◆ The Firm uses a risk/liquidity-based approach (Equity Adequacy Framework) to allocate equity to its various business. The model includes equity allocations for trading, credit, liquidity, and operational risks.
- ◆ EAF’s methodology is similar to CSE’s implementation of the Basel II accords
- ◆ EAF is substantially more conservative than Basel II for equity allocation to Commercial Real Estate
 - In addition to the VaR charge, an explicit liquidity charge is assigned to every Commercial Real Estate asset, while Basel II only explicitly charges those assets contained in the “Banking Book”

1. Including Hybrid equity
 2. Includes Operational Risk, Counterparty risk, etc

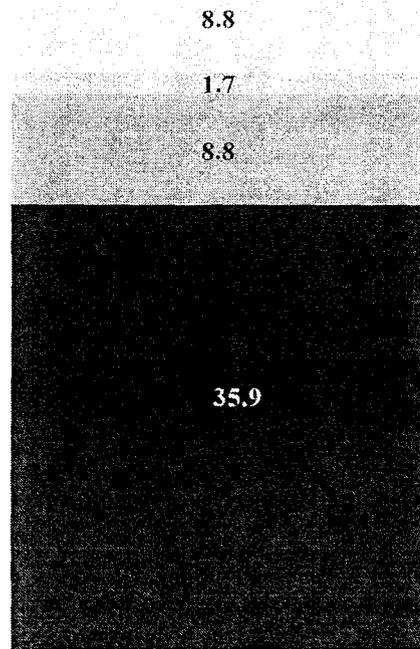
Asset Review



Asset Composition

GREG assets are comprised of different asset classes, with whole loans and CMBS being the largest components. Within each asset class, GREG's assets are well diversified, are of high credit quality, and are marked to reflect current market conditions

GREG Asset Mix, \$ B



■ Commercial Whole Loans ■ CMBS ■ NPL ■ Equity

Equity

- Choice properties, geographically diversified
- Performing projects
- Marked to market, consistent with current spread environment

Securities

- Predominantly Aaa-rated; no residuals
- Geographically diversified
- Strong performance
- Marked to market, consistent with current spread environment

Whole Loans

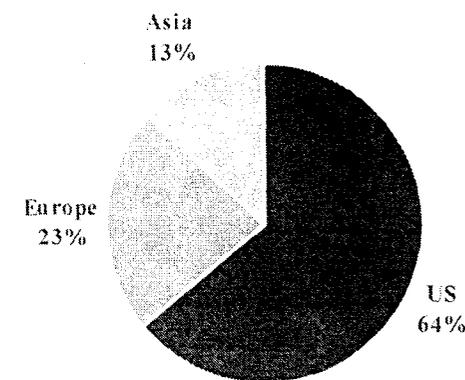
- Predominantly First liens
- Low concentration (average size of \$17 mm)
- High turnover
- Strong credit fundamentals
- Hedges on fixed rate assets

Commercial Whole Loans: Collateral Analysis

Commercial Whole Loans have a substantial amount of equity cushion to absorb property value declines, as 95% of the loans have an LTV < 80%. The assets are primarily First Liens (over 70%) and are well-diversified geographically.

Dollars At Risk in LTV Buckets, Nov '07 (\$MM)

	Net B/S	At Risk in LTV Buckets					
		<50%	50% - 60%	60% - 70%	70% - 80%	80% - 90%	>90%
US							
First	10,660	8,134	1,017	866	541	83	19
Mezz	6,430	1,261	1,456	1,751	1,161	632	170
	<u>17,090</u>	<u>9,394</u>	<u>2,473</u>	<u>2,617</u>	<u>1,702</u>	<u>714</u>	<u>189</u>
% (Cumulative)		55%	69%	85%	95%	99%	100%
Europe							
First	4,947	3,232	615	531	371	170	30
Mezz	1,086	668	134	127	86	62	9
	<u>6,033</u>	<u>3,900</u>	<u>749</u>	<u>658</u>	<u>457</u>	<u>231</u>	<u>39</u>
% (Cumulative)		65%	77%	88%	96%	99%	100%
Asia							
First	3,450	2,514	292	286	270	89	-
Mezz	-	-	-	-	-	-	-
	<u>3,450</u>	<u>2,514</u>	<u>292</u>	<u>286</u>	<u>270</u>	<u>89</u>	<u>-</u>
% (Cumulative)		73%	81%	90%	97%	100%	100%
Total Whole Loans	26,572	15,808	3,514	3,561	2,429	1,035	228
% (Cumulative)		59%	73%	86%	95%	99%	100%
First Lien	19,057	13,879	1,924	1,683	1,182	341	49
Mezz	7,515	1,929	1,590	1,878	1,247	693	178
Total Whole Loans	26,572	15,808	3,514	3,561	2,429	1,035	228



- ◆ Non-US regions diversified, including
 - Japan (\$3.5b)
 - Germany (\$2.5b)
 - Italy (\$1.3b)

Whole Loans: Inventory Concentration

The Firm's commercial whole loan inventory is spread over 2,000 positions with an average balance of \$17 million.

Distribution of Whole Loan Balances by Size

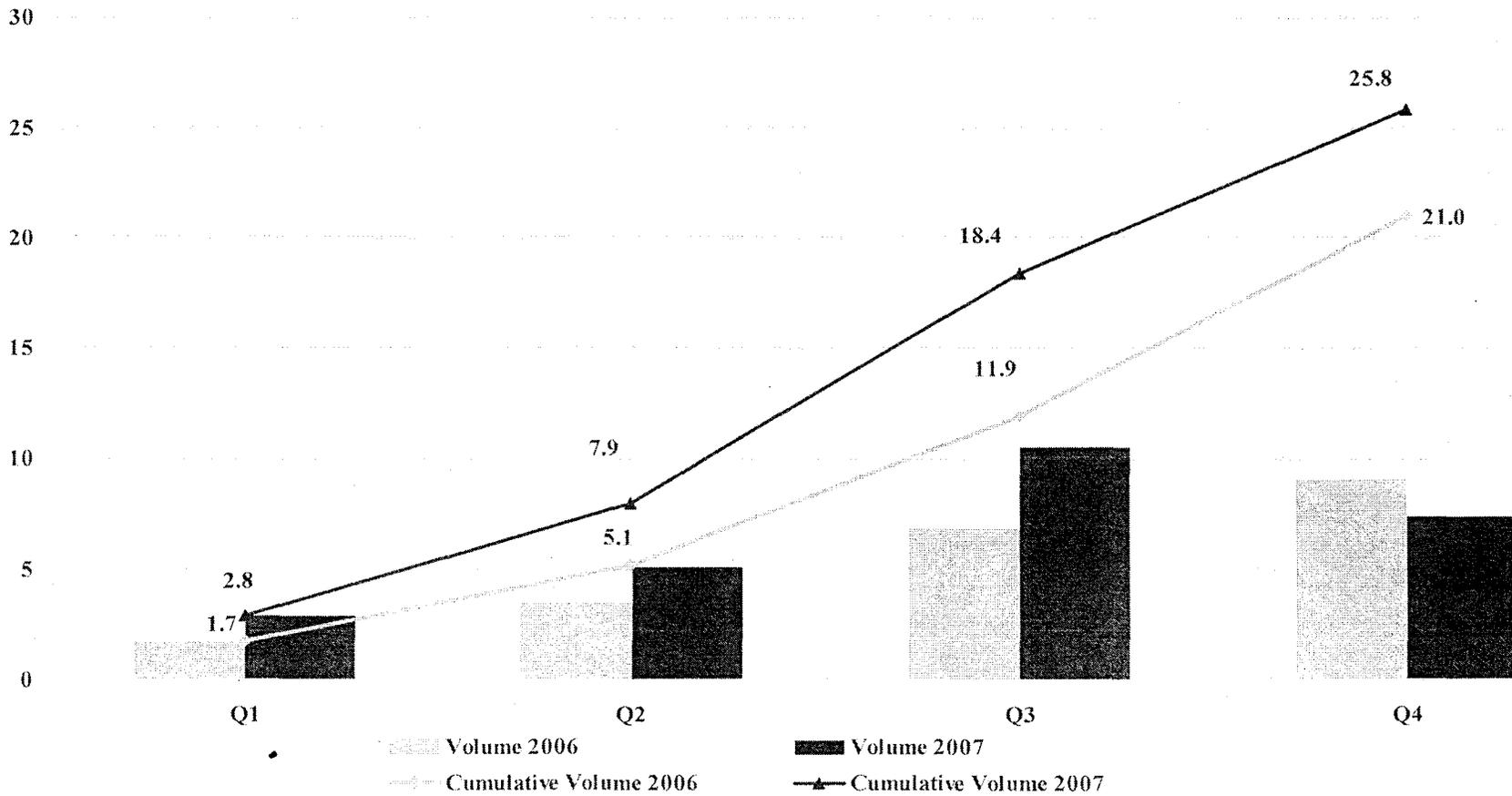
Investment Size, \$M	# of Positions	Average Investment Size, \$M
<25	1,833	3
25-50	100	28
50-100	86	56
>100	83	282
Total	2,102	17

Securitization Volumes

In FY2007, the Firm completed 16 securitizations for a total of \$25.8 billion, which is 23% greater than the total volume of issuances in 2006. Additionally, we have syndicated \$5 billion of US loans and \$3.5 billion of European loans

CMBS Securitization Volumes – 2007 versus 2006¹

Volume in \$billions



¹ Based on Pricing date



Profitability of Recent Securitizations

Even during this tumultuous market, the Firm was able to securitize commercial mortgages in a profitable manner. Of the securitizations that were actively marketed, Lehman completed eight securitizations utilizing different regions and structures. At year end, the Firm had *de-minimus* \$26mm of non-investment grade interests. The list of transactions below does not include a number of securitizations where some of the riskier tranches were sold but Aaa securities retained.

Recent Lehman Commercial Securitizations

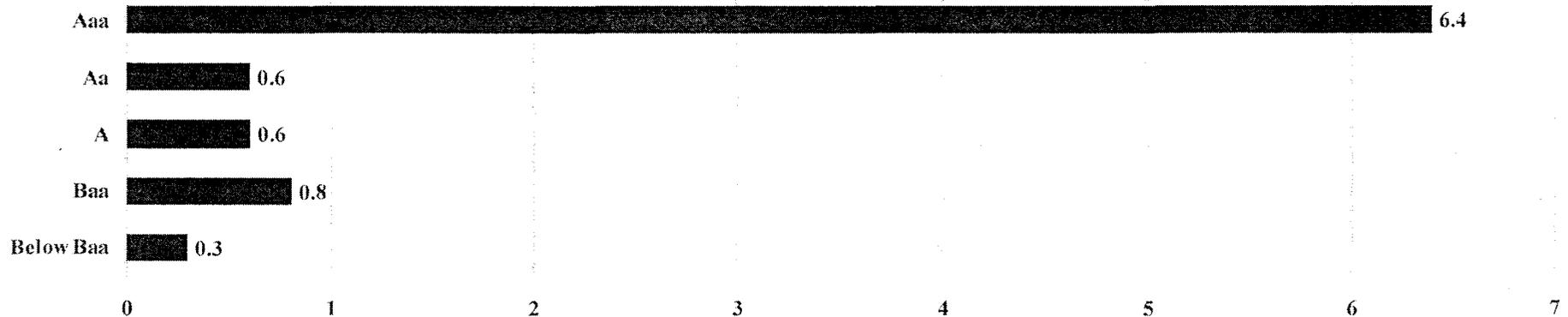
Month	Region	Securitization	Fixed vs. Floating	Securitization in \$Billions	Profit in bps	Non-Investment Grade Interests in \$Billions
April	Americas	LBUBS07-C2	Fixed Rate	2.4	200	0.0
July	Americas	LBCMT07-C3	Fixed Rate	3.2	125	0.0
July	Europe	WINX1	Floating Rate	1.4	30	0.0
August	Americas	LBFR07-C5	Floating Rate	2.3	30	0.0
August	Americas	LBUBS07-C6	Fixed Rate	1.9	75	0.0
August	Asia	LJAC 5	Floating Rate	0.6	125	0.0
November	Asia	LJAC 6	Floating Rate	0.8	90	0.0
November	Americas	LBUBS07-C7	Fixed Rate	1.7	100	0.0



Composition of Assets and Hedges

Our mortgage-backed securities are predominately Aaa. All fixed rate positions (securities and whole loans) are fully hedged against interest rate risk. The credit risk on fixed rate positions is hedged via total return swaps or bond indices. We do not hedge our floating rate instruments because of their short duration and lack of reliable hedging instruments, however approximately 25% of the U.S. exposures have full price flex.

Commercial Mortgage Securities by Rating, \$ billion⁽¹⁾



Portfolio Composition, Including Securities, Whole Loans, and Hedges, \$ million

	America				Europe		Asia	
	Fixed Rate		Floating Rate		Floating Rate		Floating Rate	
	Asset	Credit Hedge	Asset	Credit Hedge	Asset	Credit Hedge	Asset	Credit Hedge
<u>Securities</u>								
Aaa	1,300	(1,300)	1,000	-	4,100	-	-	-
Aa	100	(10)	-	-	500	-	-	-
A	200	(55)	-	-	400	-	-	-
Baa	200	(60)	200	-	400	-	-	-
Below Baa	100	-	-	-	200	-	-	-
Total	1,900	(1,425)	1,200	-	5,600	-	-	-
Whole Loans	2,900	(3,850)	20,800	(5,000) ⁽²⁾	6,400	(135)	5,700	-
Net Fixed Income Portfolio	4,800	(5,275)	22,000	(5,000)	12,000	(135)	5,700	-

1. As of November 2007

2. Approximately \$5,000 million of US floating rate positions have full price flex

MBS Rating Actions

As opposed to RMBS, performance of CMBS remains strong. Negative actions on CMBS are rare and effectively limited to non-investment grade securities

Recent Rating Actions by Moody's, October and November 2007

	All Rated Securities Outstanding	Positive Actions			Negative Actions			Percent Securities with Negative Actions
		Upgraded Securities	On Review for Upgrade	Total Positive Actions	Downgraded Securities	On Review for Downgrade	Total Negative Actions	
Nov '07 US CMBS	9,538	65	0	65	2	3	5	0.05%
Oct '07 US CMBS	9,427	53	0	53	8	0	8	0.08%
Nov '07 US RMBS	63,296	64	1	65	1,508	490	1,998	3.16%
Oct '07 US RMBS	63,318	2	20	22	2,763	1,231	3,994	6.31%

Downgrades by Rating, 12 months ending November 2007

	<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa</u>	<u>Spec-Grade</u>	<u>Total</u>
US CMBS	1	1	10	10	59	81
US RMBS	68	159	1,025	1,776	693	3,721

Source: Moody's Special Comment, December 2007



Securities: Relative 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

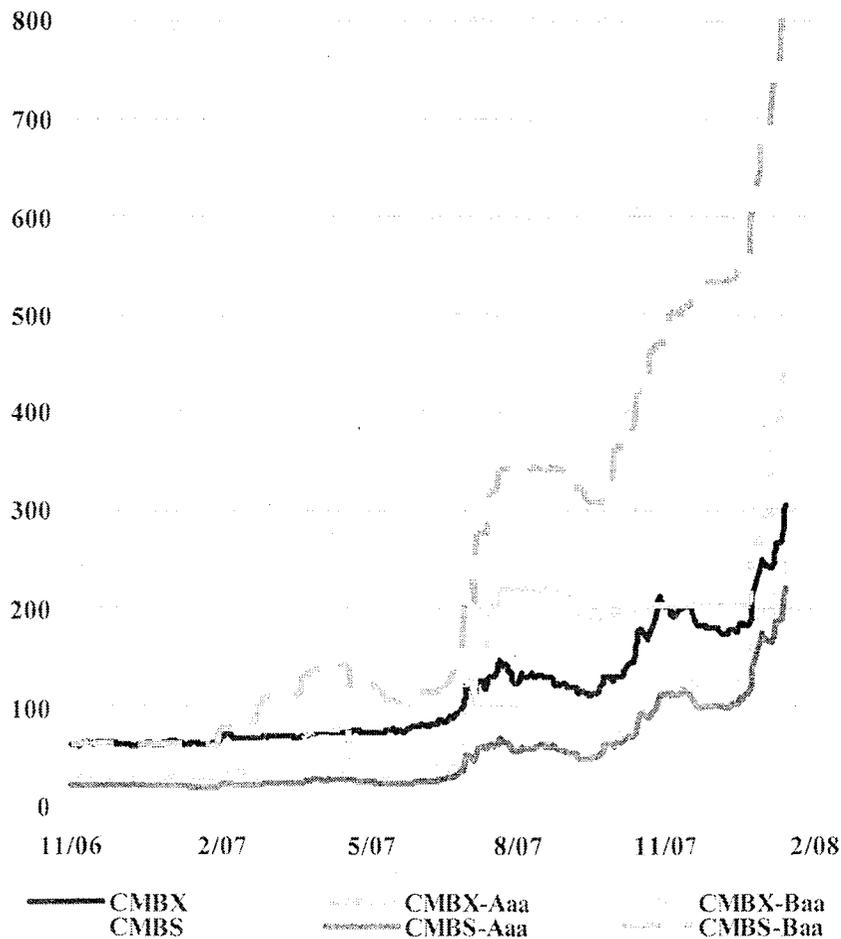
Contributor	Closing Balance (\$bn)	Current Balance	Age (yrs)	Credit Indicator ⁽¹⁾
Lehman Brothers	53.5	44.1	4.3	-1.05
Morgan Stanley	43.6	37.8	3.5	-0.69
Goldman	29.1	25.6	3.7	-0.68
Bank of America	53.2	46.7	3.5	-0.55
Wachovia	74.1	66.9	2.9	-0.39
Deutsche	35.1	31.7	3.3	-0.29
JP Morgan Chase	53.3	47.3	3.5	-0.26
Greenwich Capital	31.3	29.7	2.5	-0.25
Credit Suisse	64.4	52.8	4.4	-0.23
Merrill Lynch	30.2	24.7	3.7	0.12
Total / Wtd. Ave (Top 10)	467.8	407.3	3.5	-0.44
Others	307.7	270.1	3.2	-0.24
Total / Wtd. Ave	775.5	677.4	3.4	-0.36

Source: Trepp, LLC; Age adjusted by Lehman Brothers Surveillance Database. Data as of 11/30/07
 (1) Excess of 60+ day delinquencies and cumulative liquidations over age implied rate

Securities: Impact of Spreads Valuation

Dramatic increase of CMBS and CMBX spreads are the primary cause of writedowns taken in the first quarter.

CMBS and CMBX Spreads, 11/06-2/08¹



1. Source: LEH Live; Nov 30 '06 to Feb 6 '08

US Fixed Rate IG Bonds: \$(59) MM

- ◆ Total Assets - \$1.9 billion
- ◆ Most of the write-down is on 2006/2007 originated bonds
- ◆ Exposure primarily on mezz positions
- ◆ Aaa exposure hedged with CMBS indices

US Floating Rate Bonds: \$(50) MM

- ◆ Total Assets - \$1.2 billion
- ◆ 95% of the write down on retained bonds from our last floating rate deal (LBFRC – 2007)
- ◆ Pricing to full extension
- ◆ No deals in the market for over a month
- ◆ Not a lot of secondary trades in the market

Europe

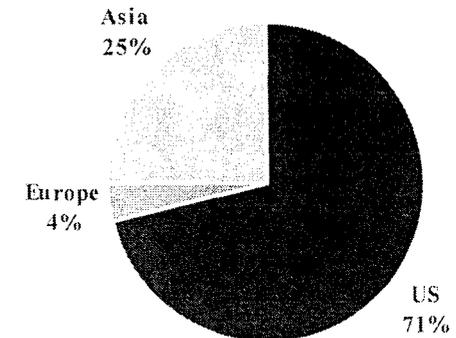
- ◆ Total Assets - \$5.6 billion
- ◆ \$90 million of writedowns on securities

PTG Whole Loans: Collateral Analysis

PTG's Whole Loans are primarily senior positions (First Liens over 80%) and have a substantial amount of equity cushion to absorb property value declines, as over 90% of the loans have an LTV < 80%

Dollars At Risk in LTV Buckets, Nov '07 (\$MM)

	Net B/S	At Risk in LTV Buckets					
		<50%	50% - 60%	60% - 70%	70% - 80%	80% - 90%	>90%
US							
First	5,470	4,021	535	418	303	137	55
Mezz	1,160	188	139	224	281	257	71
	<u>6,630</u>	<u>4,209</u>	<u>674</u>	<u>642</u>	<u>584</u>	<u>394</u>	<u>126</u>
<i>% (Cumulative)</i>		63%	74%	83%	92%	98%	100%
Europe							
First	-	-	-	-	-	-	-
Mezz	395	210	41	34	35	61	14
	<u>395</u>	<u>210</u>	<u>41</u>	<u>34</u>	<u>35</u>	<u>61</u>	<u>14</u>
<i>% (Cumulative)</i>		53%	64%	72%	81%	96%	100%
Asia							
First	2,121	1,053	369	316	271	106	5
Mezz	169	104	21	19	16	8	0
	<u>2,290</u>	<u>1,157</u>	<u>390</u>	<u>336</u>	<u>288</u>	<u>114</u>	<u>6</u>
<i>% (Cumulative)</i>		51%	68%	82%	95%	100%	100%
Total Whole Loans	9,315	5,576	1,105	1,012	906	569	147
<i>% (Cumulative)</i>		60%	72%	83%	92%	98%	100%
First Lien	7,591	5,074	904	735	574	244	61
Mezz	1,724	503	201	277	332	325	86
Total Whole Loans	9,315	5,576	1,105	1,012	906	569	147



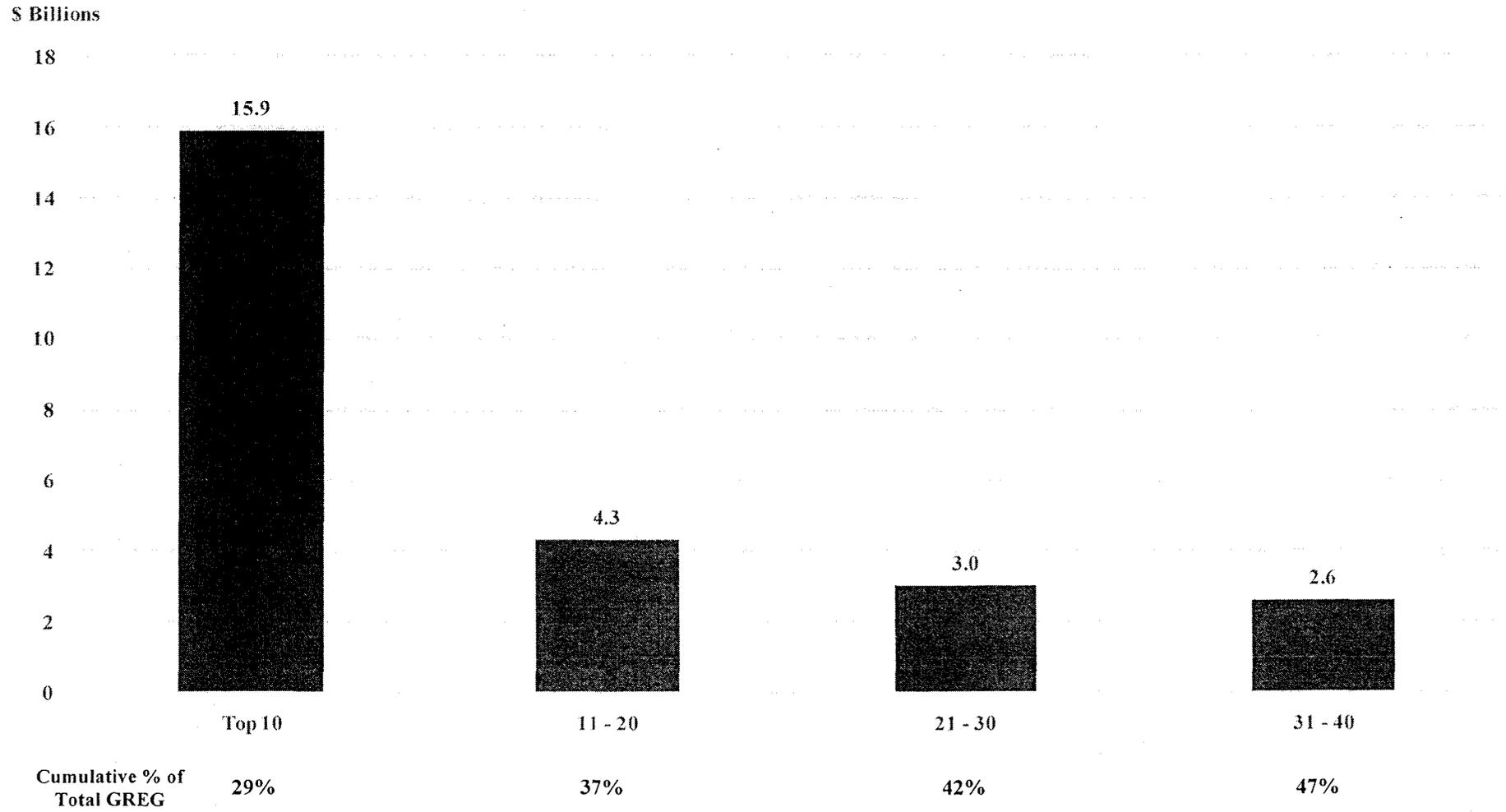
- ◆ Non-US regions diversified, including
 - Japan (\$1.1b)
 - China (\$0.3b)
 - Korea (\$0.3b)



Distribution of GREG Positions

Our Top 10 largest positions represent slightly more than 25% of our total inventory

GREG Positions at Nov 2007, by Funded Market Value





GREG Top 10 Positions by Reference Entity

We expect to reduce these positions by \$2.7B in the first half of FY '08

Top 10 GREG Positions by Reference Entity at Nov 2007, Funded Market Value (\$ MM)

Property / Asset	Sponsor	Location	First Lien	Mezz	Securities	Equity ¹	Total	IH '08 Disposition	Comments / Exit Strategy
Archstone	Tishman Speyer	USA	2,411	536	-	1,933	4,880	1,100	See separate slide in presentation (Archstone Syndication Update)
Gospel	Various Borrowers	UK	549	-	2,361	-	2,910	500	1,100 commercial loans, 67% LTV Exit via sale of bonds and loans
Hilton	Blackstone Group	USA	607	875	-	-	1,482	-	78% LTV acq fin on Hilton purchase Exit via continued mezz sales & secur/synd of senior (sold 68%-78% LTV slice) Currently in the market with 32%-68% LTV slice
Prologis	Prologis	USA	957	-	-	501	1,458	950	25mm sf industrial portfolio Exit via loan refi during Q2 '08; rate locked ~\$450mm; received term sheets for balance Existing debt has full price flex Commence equity marketing upon completion of debt refinance
Coeur Defense	LBREP/Atemi	France	-	-	674	587	1,261	-	Premier office bldg Exit via sales of bonds and synd of equity with increased occupancy Equity marked to 15% IRR
Beacon Fund III	Broadway Partners	USA	-	1,006	-	-	1,006	100	Partial paydown from Broadway's equity capital raise Broadway seeking asset level JV's to further de-lever debt position Existing debt has full price flex
Project Green/AMV	Various Borrowers	Germany	-	-	867	-	867	-	Portfolio of performing/sub-performing loans Exit via sale of bonds
237 Park Avenue	Broadway Partners	USA	249	541	-	56	846	-	Partial paydown from Broadway's equity capital raise Conversion of bridge equity position into interest in Broadway Fund 3 Broadway seeking add'l equity partners to further de-lever debt position Existing debt has full price flex
EOP Austin	Thomas Properties / CalSTRS	USA	509	-	-	140	649	-	3.5mm sf office portfolio Leasing performance ahead of pro-forma underwriting position deconsolidated through equity sale to ADIA Exit via marketing the balance of the equity; exploring strategic sale of the suburban component of the portfolio Existing debt has full price flex
Rosslyn Portfolio	Monday Properties / LBREP	USA	257	-	-	291	548	-	2.5mm sf office portfolio Performing well ahead of pro-forma Entitlements for 600,000 sf devp have been fully approved by City of Arlington Existing debt has full price flex Currently marketing equity and balance of debt
<i>Subtotal of Top 10</i>			<u>5,539</u>	<u>2,958</u>	<u>3,902</u>	<u>3,508</u>	<u>15,907</u>	<u>2,650</u>	
<i>% of Total GREG</i>			<u>21%</u>	<u>33%</u>	<u>44%</u>	<u>33%</u>		<u>29%</u>	

1. % of Total GREG for Equity column includes NPL, REO, and Other



GREG Next 10 Positions by Reference Entity

We expect to reduce these positions by \$0.9B in the first half of FY '08

Next 10 GREG Positions by Reference Entity at Nov 2007, Funded Market Value (\$ MM)

Property / Asset	Sponsor	Location	First Lien	Mezz	Securities	Equity ¹	Total	IH '08 Disposition	Comments / Exit Strategy
Calvino	Whitehall	Italy	-	488	-	-	488		70% LTC acq loan for tender of units in an Italian office fund Exit via syndication
Heritage Fields	Lennar / CaSTRS / Oregon / MSD Capital	USA	478	-	-	-	478		56% LTV A&D loan for newly planned community Development & sales begin 2010
Toy Building	L&L Acquisitions / LBREP	USA	265	-	-	210	475	250	Redevelopment into Class A office-already 45% pre-leased Currently in negotiations with construction lenders to take out LB acq. financing Commencing equity marketing
GM Building	Macklowe Properties	USA	313	142	-	-	455		25% participation in 61% LTV loan on GM Bldg Building currently being marketed for sale
Project Ryowa	Toranomon Capital	Japan	442	-	-	-	442	200	Prime property in Tokyo Exit via syndication or hold loan until maturity (18 month term)
Beacon II	Broadway Partners	USA	118	321	-	-	439	100	49% participation in 78% LTV loan on office portfolio \$100m of mezz debt currently circled by NY Life et al Exit via pay downs from asset sales
Goodwater	LBREP II/Atos Capital	Germany	415	-	-	-	415		Acq fin on office portfolio; exit via securitization or pay downs from asset sales Exit via securitization or pay downs from asset sales
Carillon	WSG /Canyon Ranch	USA	330	73	-	-	403	100	582-unit luxury condo dev'p in Miami; 480 units under contract (\$467m proceeds) 88 units scheduled to close within 90 days (\$96m paydown) Paydown of balance through unit closings
Innkeepers USA Trust Deal	Apollo Investment Corp	USA	259	112	-	-	371	200	71% LTV acq fin on Innkeepers purchase Expect to syndicate in Q2 '08
Octopus (German Office)	Sireo	Germany	323	15	-	33	371		41 commercial property portfolio; exit via sale of debt and equity Exit via sale of debt and equity
<i>Subtotal of Next 10</i>			<u>2,943</u>	<u>1,151</u>	<u>-</u>	<u>243</u>	<u>4,337</u>	<u>850</u>	
<i>% of Total GREG</i>			<u>11%</u>	<u>13%</u>	<u>0%</u>	<u>2%</u>	<u>8%</u>		
<i>Top 20% of Total GREG</i>			<u>32%</u>	<u>45%</u>	<u>44%</u>	<u>36%</u>	<u>37%</u>		

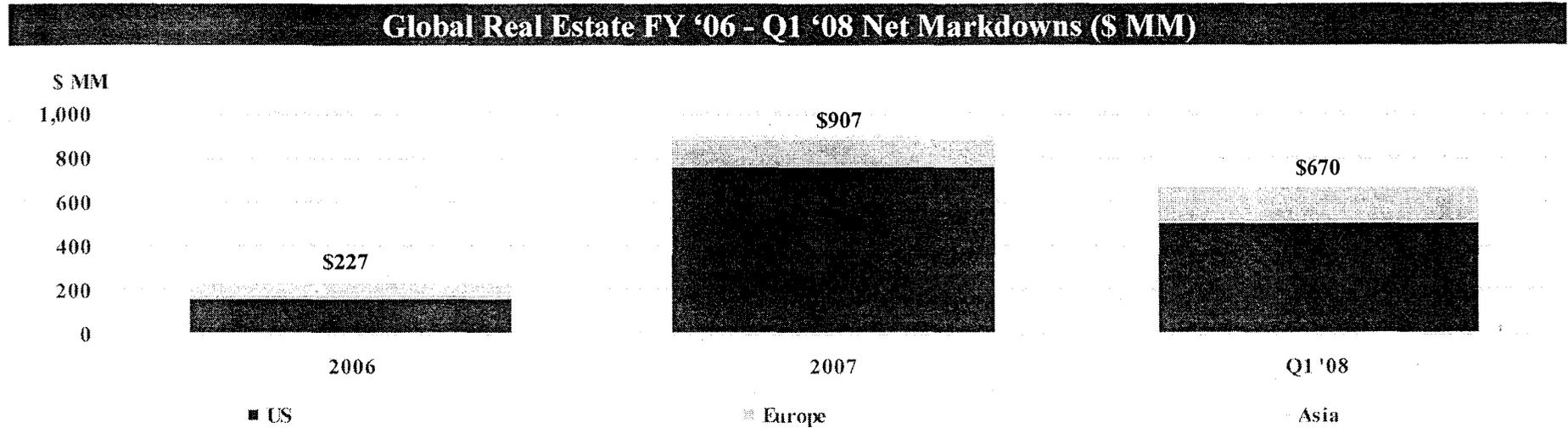
1. % of Total GREG for Equity column includes NPL, REO, and Other

Markdowns and Risk Factors



Global Real Estate FY'06 - Q1'08 Net Markdowns

GREG has marked its positions to reflect the current market environment. The bulk of markdowns are in the US



Global Real Estate FY '06 - Q1 '08 Net Markdowns (\$ MM)

Description	2006	2007	Q1 '08 ⁽¹⁾
Total US	(159)	(760)	(510)
Total Europe	(16)	(127)	(160)
Total Asia	(52)	(20)	0
Total Real Estate Markdowns	(227)	(907)	(670)

1. Q1 '08 through Jan 31



Stress Test: Global PTG Assets and Bridge Equity

The portfolio is stressed for a 10% decline in property values

Hypothetical Portfolio Stress Scenario, Dec '07, \$M

<u>Revenue Impact</u>	<u>Stress Scenario</u> <u>10% Decline in</u> <u>Current Value</u>
America	(1,125)
Europe	(665)
Asia	(295)
Total Global PTG / Bridge Equity	(2,085)
Net Income Impact ⁽¹⁾	(675)

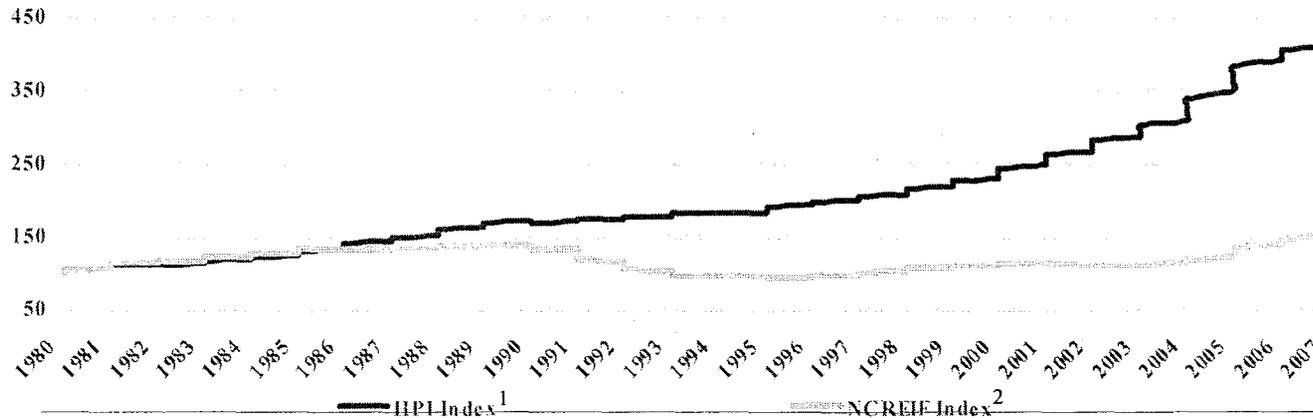
1. Assumes compensation reduction of 50% and tax rate of 35%



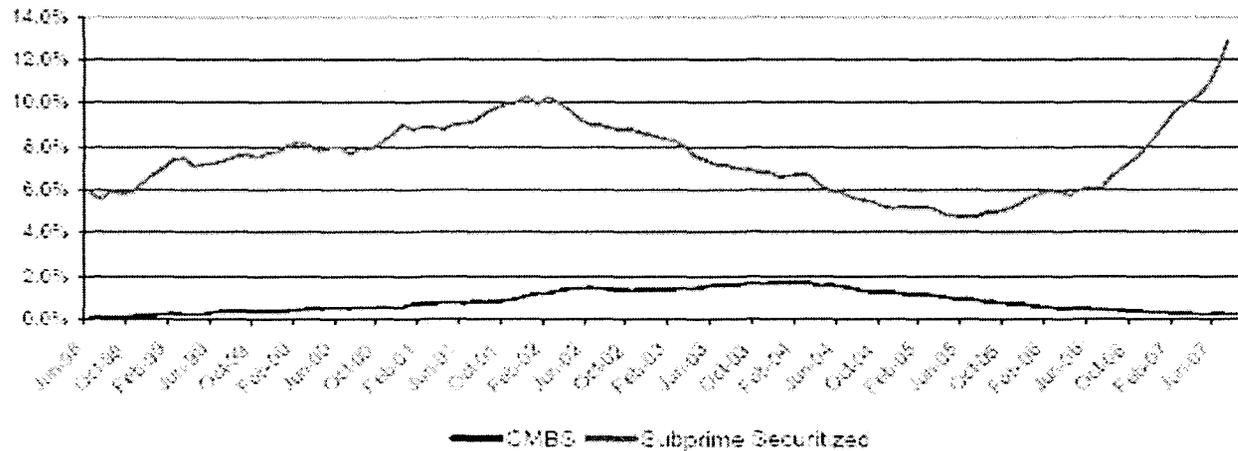
Valuation Dynamics

Commercial assets valuations have not increased at the same rate as residential asset valuations, and should have less down-side risk. Commercial loan delinquencies are also at a much lower level

Indexed Commercial Assets Price Dynamics through December 31, 2007



Delinquency Rates: Subprime vs. Commercial (60+ day) by dollar securitized³



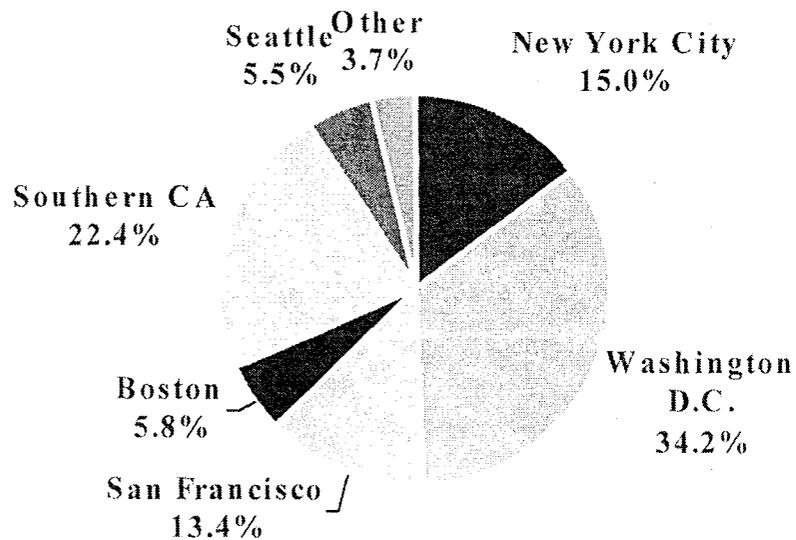
1. HPI: Residential property index representing a broad measure of the movement of single-family housing prices
 2. NCREIF: Commercial property index representing a measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only
 3. Source: CMSA, JPMorgan, Trepp, Inc.

Archstone-Smith

Archstone-Smith

Archstone-Smith Trust (ASN) is a portfolio of high-quality properties positioned in the most attractive real estate markets.

U.S. NOI Distribution



Asset Characteristics

- ◆ A portfolio of highly attractive assets
 - 96.4% of Core NOI is derived from assets located in high barrier-to-entry coastal markets
 - Concentrated in prime submarkets within each market
 - Class A assets with many unique high-rise properties

- ◆ Attractive fundamentals
 - Purchase price of \$323K per unit significant discount to the estimated replacement cost of \$390K per unit
 - 95.7% Occupancy rate across total portfolio
 - Rental rates increased in excess of 5.5% last year
 - Two recent sales out of the portfolio in January occurred at a cap rate of 4.1%, below the cap rate at which Archstone was acquired

- ◆ Additional upside potential
 - Newly developed 5.6K units to contribute to NOI in 2008
 - Best-in-class development/management partner

- ◆ Final retention target of \$500 million

Archstone Syndication Update

The Firm anticipates reducing its exposure to Archstone from \$5.1B to \$3.6B by the end of Q4 2008 with \$1.1B of the reduction to be completed by Q2 2008

- ◆ Archstone is planning \$ 4.3B in asset sales and \$0.6B in refinancing; \$2.5B of properties on the market now
 - Recently (January 2008) sold \$250M of assets in Washington, DC at a 4.1% cap rate
 - Funding being sought for \$1.1B bid
- ◆ Proceeds would pay down part of Lehman's interest in Term Loan A (\$421M), the Development Loan (\$147M), and the Revolver (\$37M)
 - Additional \$350M is expected to be paid down by the end of Q4 2008
- ◆ Mezzanine Debt (\$493M) is expected to be fully syndicated in Q2 2008
- ◆ Bridge Equity is marked at 90.3% of the funded balance, with an expected IRR of 15%; \$210M writedown taken

Archstone Exposure Disposition Schedule

	Current Balance ¹	Pay Down/ Syndication	Projected Q2' 08	Pay Down/ Syndication	Projected Q4' 08
Term Loan A	689	(421)	268	(260)	8
Term Loan B	1,425	-	1,425	63	1,488
Development Loan	198	(147)	51	(51)	-
Mezzanine Debt	493	(493)	-	-	-
Ground Lease Loan	36	-	36	(36)	-
Revolver	106	(37)	69	(69)	-
Bridge Equity	2,142	-	2,142	-	2,142
Total	5,089	(1,098)	3,991	(353)	3,638

1. Bridge Equity represents funded notional

Conclusion



Conclusion

- ◆ Lehman Real Estate assets are largely high-quality, relatively liquid commercial whole loans and securities
 - Whole loans with strong credit fundamentals: mostly first lien positions, low LTV (95% with LTV under 80%), and well-diversified geographically
 - Securities are predominantly Aaa, no residuals, no CDO exposure, fixed rate positions hedged, approximately 25% of floating rate loans have full price flex
 - Quality of our securities is evidenced by their performance, which is best-in-class

- ◆ Lehman PTG positions are high-quality properties, well-diversified across property types, regions, and sponsors
 - Each with a solid rationale for holding and with well-defined exit strategy
 - Commitment to reducing balance sheet

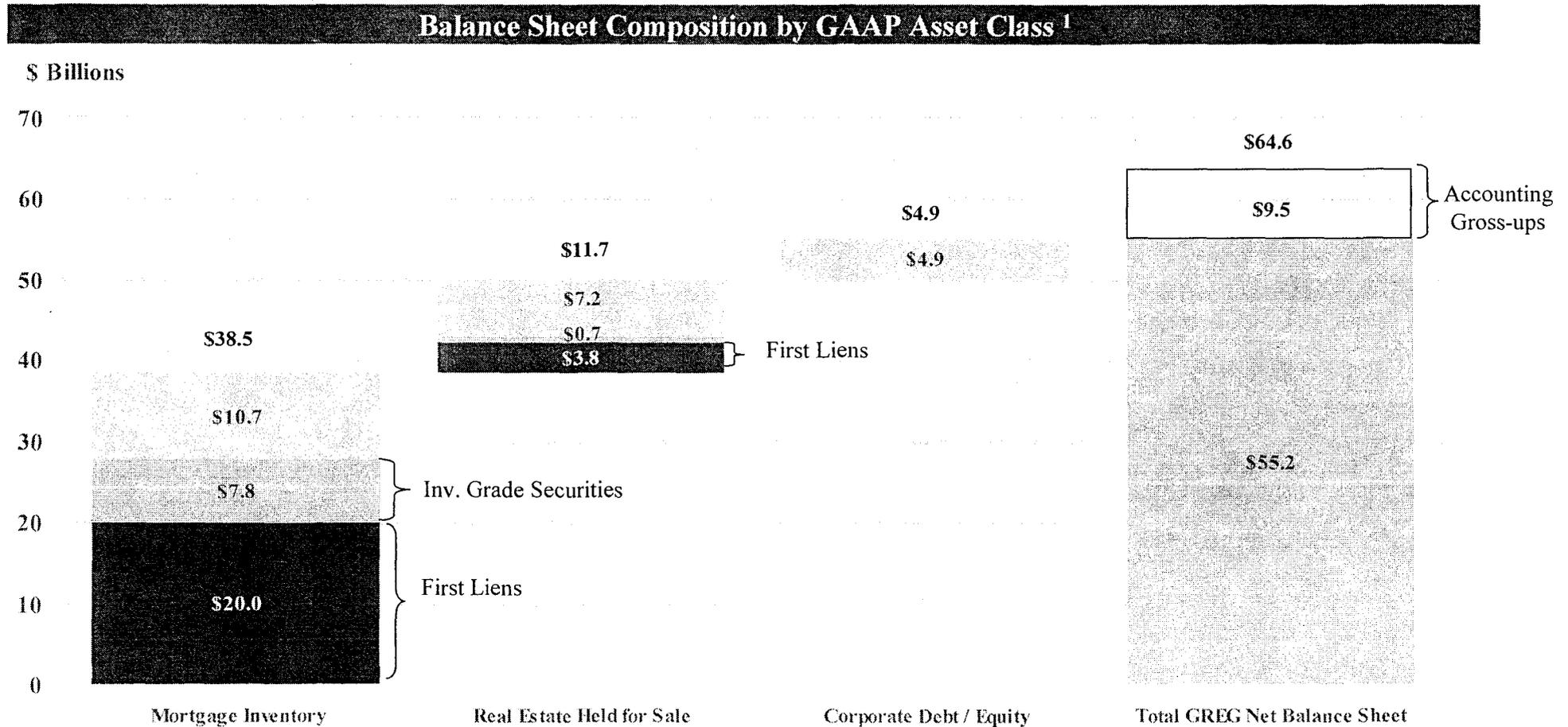
- ◆ Assets are marked appropriately
 - We have already taken \$670 million markdowns this quarter, in addition to approximately \$900 million last year

- ◆ Credit stress tests, comparable to the worst periods of real estate performance, indicate potential losses of \$2-3 billion
 - While potentially putting pressure on the Firm's ROE, are within the Firm's capacity to absorb

Appendices

Balance Sheet Composition by GAAP Asset Class

The balance sheet composition by asset class is predominately mortgage inventory – representing 70% of the net total and concentrated with First Liens and Inv. Grade securities – while the other asset classes combined hold ~\$7.5b in First Liens and Inv. Grade



1. GAAP asset classes comprised of: (i) Mortgage Inventory (primarily Mortgages and securities), (ii) Real Estate Held for Sale (we consolidate those entities in which we are the primary beneficiary in accordance with FIN 46(R) and we do not consider ourselves to have economic exposure to the total underlying assets in those entities; financial statement disclosure includes ~\$1.0b of Private Equity); and (iii) Corporate Debt / Equity (longer-term debt instruments / equity-related positions); may not add due to rounding

Historical Global CMBS Bookrunner League Table

Global Rank	2007*		2006		2005		2004		2003		2002	
	Lead Underwriter	(bil)	Lead Underwriter	(bil)	Lead Underwriter	(bil)	Lead Underwriter	(bil)	Lead Underwriter	(bil)	Lead Underwriter	(bil)
1	Morgan Stanley	\$37.6	Morgan Stanley	\$35.5	Morgan Stanley	\$33.0	Morgan Stanley	\$16.7	Morgan Stanley	\$14.2	Deutsche	\$12.5
2	Wachovia	\$28.2	CSFB	\$29.0	JP Morgan	\$23.5	CSFB	\$13.6	CSFB	\$11.3	CSFB	\$11.3
3	JP Morgan	\$25.7	Wachovia	\$27.1	CSFB	\$22.8	JP Morgan	\$12.4	Lehman	\$11.1	Lehman	\$10.7
4	Lehman	\$23.7	JP Morgan	\$27.0	Deutsche	\$21.1	Lehman	\$12.2	Deutsche	\$11.1	Morgan Stanley	\$10.4
5	CSFB	\$22.2	Lehman	\$24.5	Wachovia	\$19.1	B of A	\$11.8	JP Morgan	\$8.1	JP Morgan	\$8.2
6	Merrill Lynch	\$20.3	Deutsche	\$23.5	B of A	\$18.4	Citigroup	\$11.5	Wachovia	\$6.7	Citigroup	\$6.1
7	Deutsche	\$16.8	Merrill Lynch	\$21.1	Lehman	\$17.7	Deutsche	\$10.6	Goldman Sachs	\$6.1	B of A	\$4.9
8	B of A	\$14.8	B of A	\$19.2	Merrill Lynch	\$14.7	Wachovia	\$7.9	B of A	\$5.6	Bear Stearns	\$4.2
9	Citigroup	\$14.1	Citigroup	\$18.9	RBS Greenwich	\$12.3	Bear Stearns	\$7.6	Bear Stearns	\$4.7	Wachovia	\$3.9
10	RBS Greenwich	\$13.9	RBS Greenwich	\$13.1	Citigroup	\$10.8	Merrill Lynch	\$6.0	Merrill Lynch	\$4.6	Merrill Lynch	\$3.7
Top 10 Totals		\$217.4	Top 10 Totals	\$239.0	Top 10 Totals	\$193.5	Top 10 Totals	\$110.3	Top 10 Totals	\$83.6	Top 10 Totals	\$75.9
Global Totals		\$265.8	Global Totals	\$299.2	Global Totals	\$238.6	Global Totals	\$127.6	Global Totals	\$98.7	Global Totals	\$95.0
Lehman Market Share		8.9%	Lehman Market Share	8.2%	Lehman Market Share	7.4%	Lehman Market Share	9.6%	Lehman Market Share	11.3%	Lehman Market Share	11.2%

*2007 totals reflect YTD totals as of 9/30/2007.
Source: Commercial Mortgage Alert

Net Balance Sheet Roll-Forward

Beginning in Q3 2007, originations have been materially reduced to match distribution capabilities

Balance Sheet Quarterly Roll-Forward, Ex. Archstone ¹ (\$ MM)																
	America				Europe				Asia				Global			
	Q1 '07	Q2 '07	Q3 '07	Q4 '07	Q1 '07	Q2 '07	Q3 '07	Q4 '07	Q1 '07	Q2 '07	Q3 '07	Q4 '07	Q1 '07	Q2 '07	Q3 '07	Q4 '07
Global																
<u>Loans</u>																
Whole Loan Balance, BOP	15,268	15,842	21,641	19,924	5,648	8,069	9,481	11,228	3,748	5,110	5,464	6,325	24,664	29,021	36,586	37,477
Origination	7,501	11,037	7,323	4,542	3,442	3,272	6,045	1,100	1,593	1,847	2,196	2,533	12,536	16,156	15,564	8,175
Syndication	(1,936)	(2,008)	(1,943)	(1,061)	(768)	(220)	(1,350)	(933)	(149)	(409)	(496)	(596)	(2,853)	(2,637)	(3,789)	(2,590)
Securitization	(4,397)	(2,445)	(7,420)	(1,700)	-	(2,000)	(2,500)	(4,872)	-	(992)	(510)	(848)	(4,397)	(5,437)	(10,430)	(7,420)
MTM	(594)	(785)	323	(933)	(253)	360	(448)	(36)	(82)	(92)	(329)	(24)	(929)	(517)	(454)	(993)
Net Change	574	5,799	(1,717)	848	2,421	1,412	1,747	(4,741)	1,362	354	861	1,065	4,357	7,565	891	(2,828)
Whole Loan Balance, EOP	15,842	21,641	19,924	20,772	8,069	9,481	11,228	6,487	5,110	5,464	6,325	7,390	29,021	36,586	37,477	34,649
<u>Securities</u>																
Securities Balance, BOP	1,257	1,773	1,555	2,980	-	-	160	1,500	4	4	4	40	1,261	1,777	1,719	4,520
Securitization	4,397	2,445	7,420	1,700	-	2,000	2,500	4,872	-	992	510	848	4,397	5,437	10,430	7,420
Sales	(3,881)	(2,663)	(5,995)	(1,540)	-	(1,840)	(1,160)	(769)	-	(992)	(474)	(848)	(3,881)	(5,495)	(7,629)	(3,157)
Net Change	516	(218)	1,425	160	-	160	1,340	4,103	-	-	36	-	516	(58)	2,801	4,263
Securities Balance, EOP	1,773	1,555	2,980	3,140	-	160	1,500	5,603	4	4	40	40	1,777	1,719	4,520	8,783
<u>Equity</u>																
Equity Balance, BOP	2,413	3,467	3,982	4,662	421	500	455	1,377	171	177	235	655	3,005	4,144	4,672	6,694
Origination	1,106	669	1,456	-	116	178	640	-	-	-	-	-	1,222	847	2,096	-
Syndication	(52)	(154)	(776)	(104)	(37)	(223)	-	-	-	-	-	-	(89)	(377)	(776)	(104)
Other	-	-	-	-	-	-	282	183	6	58	420	65	6	58	702	248
Net Change	1,054	515	680	(104)	79	(45)	922	183	6	58	420	65	1,139	528	2,022	144
Equity Balance, EOP	3,467	3,982	4,662	4,558	500	455	1,377	1,560	177	235	655	720	4,144	4,672	6,694	6,838
Total	21,082	27,178	27,566	28,470	8,569	10,096	14,105	13,650	5,291	5,703	7,020	8,150	34,942	42,977	48,691	50,270

1. Archstone components: \$7.2b debt commitment (\$8.5b of original debt commitment, less \$1.2b of existing debt assumed and preferred units issued), \$1.9b bridge equity commitment, and \$4.3b syndication of debt commitment; Transaction closed and funded in early October

Land Portfolio Review – SunCal Companies

Portfolio underwritten for recovery in 2009/2010 due to strong macro fundamentals in CA

Portfolio Overview

Portfolio Overview

- ◆ The SunCal portfolio (the “Portfolio”) consists of 28 residential land development projects, primarily located in Southern California
 - 67% located in Southern California
 - 15% located in Northern California
 - 14% located in Central California
 - 4% located in Nevada
- ◆ The Portfolio, which is primarily comprised of master-planned communities, includes approximately 50,000 lots
 - Approximately 50% of the Portfolio is entitled, with the balance in various stages of the entitlement approval process

Mark-to-Market Methodology

Mark-to-Market Methodology

- ◆ Ongoing evaluations are conducted for each real estate asset, utilizing third party market research to assess market risk, entitlement risk, construction risk etc.
 - Lot pricing is estimated through a homebuilder residual
 - Lot take down timing is based upon market conditions
 - Cash flow projections are prepared for each asset
- ◆ The estimated return on capital invested is generated utilizing a present value cash flow analysis of the project level projections
- ◆ Return on capital is evaluated to determine the appropriate mark
- ◆ Benchmark comparison is IRR on the basis of invested capital, with IRR targets of 15% on an unlevered basis and 25% on a levered basis
- ◆ As-is values are estimated by discounting projected cash flows using appraisal discount rates, which range from 15-25%

Financial Summary

<i>(\$ in millions)</i>	Net Investment	Existing Mark	Current Basis	Proposed Mark	New Basis
GREG Balance Sheet					
Debt	\$1,813.7	(\$156.1)	\$1,657.6	(\$116.3)	\$1,541.3
Mezz / Equity	208.4	(46.8)	161.6	(13.1)	148.5
Total	\$2,022.1	(\$202.9)	\$1,819.2	(\$129.4)	\$1,689.8

Exposure Summary

Exposure Summary

- ◆ The total net investment related to the Portfolio equals \$2,022 million
 - The existing mark-to-market as of December 31, 2007 equals \$203 million, resulting in a current basis of \$1,819 million
- ◆ The current basis of \$1,819 million is comprised of
 - \$1,658 million of debt financing (91% of total)
 - \$161 million of mezzanine and equity financing (9% of total)
- ◆ The IRR benchmark analysis resulted in an additional mark-to-market loss of approximately \$129 million
- ◆ Pro forma for the proposed mark adjustment, the new basis would equal \$1,690 million

Real Estate Risk Equity as a % of Adj Equity

Real Estate Risk Equity as a % of Adj. Equity

