From: jrosenthal@metlife.com
To: skandarian@metlife.com
Subject: Re: Initial RE Valuation - Draft for your review
Sent: Thu 14 Aug 2008 12:33:15

This is uiglier than I anticipated.

We got a bunch of info that we didn't have from Lehman last night, with more to come. It probably says smething that it is taking some time for them to deliver some basic stuff we are asking for.....

Inactive hide details for Steven A KandarianSteven A Kandarian

----- Original Message -----

From: Steven A Kandarian
Sent: 08/14/2008 06:48 AM EDT
To: Mark Wilsmann
Cc: John Rosenthal; Robert Merck; Kevin Cavanagh; Kenneth Mcintyre; James Ray
Subject: Re: Initial RE Valuation - Draft for your review

I appreciate everyone's hard work, especially given vacation schedules. Thanks for the analysis.

Inactive hide details for Mark WilsmannMark Wilsmann

----- Original Message -----

From: Mark Wilsmann
Sent: 08/13/2008 07:00 PM EDT
To: Steven Kandarian
Cc: John Rosenthal; Robert Merck; Kevin Cavanagh; Kenneth Mcintyre; James Ray
Subject: Fw: Initial RE Valuation - Draft for your review

Our initial valuation analysis of Lehman's approx. $49B in real estate holdings indicates a base-case current value of $26B, reflecting a dollar price of .53. Our initial stressed case reflects a value of $14B, or a dollar price of .30. These dollar prices are based on Lehman's current carrying value, which has been marked to .92 of original balances. This implies a $23B loss on our base case, and a $35B loss on our stressed case.

As we previously highlighted, the portfolio is characterized by aggressively underwritten, high LTV investments originated in 2006 and 2007, including many developmental and transitional assets, with roughly half the portfolio structured as subordinate tranches of debt and equity, including bridge equity. We believe these subordinated tranches of debt and equity are significantly impaired.

Our base case valuation reflects a dollar price of .71 on $19.4B of senior loans, .21 on $5.9B of mezz loans, .17 on $7.2B of project equity, .70 on $1.9B of non-performing loans acquired at a discount, .85 on $5..3B of senior loans held as securities, .03 on $1.9B of corporate equity related to real estate transactions, and .50 on corporate debt related to real estate transactions.

Our methodology was based on applying property-level market value adjustments reflecting changing cap rates and market conditions since the loans were originated, to determine likelihood of default. Our base case value adjustments ranged from 15% on apartment and industrial properties to 50% on residential land. Based on the high LTVs at origination and our assumptions on average value changes since origination, our analysis indicates that about 75% of the investments will default. We then applied industry average loss severities ranging from approx. 25% on the core property types to 50% on land, and overlayed these loss severities on Lehman's positions within the capital structure.

We would characterize our value estimate as the fair, ongoing concern value on Lehman's balance sheet. A further discount would be warranted to achieve an appropriate expected return if we were to purchase the assets.

If you have Q's you can reach me by BB or cell, 770-331-4850.