LEHMAN BROTHERS

# Commercial Mortgages – Q2 2008

***August 6, 2008***

# Overview

- We will provide a walk through of our Commercial Real Estate Inventory which totals $48.6 billion. This inventory crosses several GAAP lines in our financial statements and the majority of it $39.8 billion is on page 71 of our 2nd quarter 10Q in a section called Commercial mortgage and real estate investment-related. In addition to this we have $6.9 billion and $1.9 billion of inventory in our Corporate debt and Corporate equity GAAP lines respectively.

- During the 2nd quarter we had substantial asset sales which provided us comfort from a valuation perspective related to our Senior, Mezzanine and Securities inventory.

- We will provide a summary of our top inventory exposures with capital structures and GAAP classifications and some detailed write ups related to our most significant exposures.

# Commercial Mortgage and Real Estate Investments

| | At May 31, 2008 | May 31, 2008 *vs.* February 29, 2008 Inc / (Dec) Dollars | Percent | At May 31, 2008 Americas | Europe | Asia | May 31, 2008 Number of Positions | Average Position Value[1] |
|---|---|---|---|---|---|---|---|---|
| Whole loans | | | | | | | | |
| Senior | $ 19.5 | $ (4.8) | (20) % | $ 10.7 | $ 4.7 | $ 4.1 | 875 | $ 22.2 |
| Mezzanine | 5.9 | (1.3) | (18) % | 4.6 | 0.7 | 0.6 | 299 | 19.8 |
| NPLs[5] | 1.9 | (0.1) | (3) % | 0.2 | — | 1.7 | 327 | 5.8 |
| Equity | 7.2 | (1.0) | (12) % | 4.5 | 1.5 | 1.2 | 670 | 10.7 |
| Securities | 5.3 | (2.2) | (29) % | 0.9 | 3.8 | 0.6 | 371 | 14.2 |
| Total | $ 39.8 | | | $ 20.9 | $ 10.7 | $ 8.2 | 2,542 | $ 15.7 |

| | At May 31, 2008 WALTV[2] | WAM[3] | WALA[4] | Fixed | Float |
|---|---|---|---|---|---|
| Whole loans | | | | | |
| Senior | 76 % | 34 | 18 | 9 % | 91 % |
| Mezzanine | 78 % | 26 | 13 | 15 % | 85 % |
| NPLs[5] | | | | | |
| Equity | | | | | |
| | **Inv. Grade** | **Non-Inv. Grade** | **AA or Better** | | |
| Securities | 94 % | 6 % | 77 % | | |

(1) In millions.

(2) WALTV is weighted average loan to value at origination. Loan to value is a ratio of outstanding debt on a property to the market value of that property.

(3) WAM is weighted average number of months remaining to initial maturity; to full extension Senior equals 36 months and Mezzanine equals 33 months.

(4) WALA is weighted average loan age in months.

(5) NPLs are loans purchased as non-performing loans.

# Commercial Mortgage and Real Estate Investments

| **Americas** | Balance | MV | Mark | Sales MV | Avg Px | LTV |
|---|---|---|---|---|---|---|
| Senior | 11,810 | 10,674 | 90.4 | 1,593 | 92.4 | 75% |
| Mezz | 5,267 | 4,591 | 87.2 | 1,280 | 89.9 | 76% |
| Equity | 6,459 | 4,484 | 69.4 | | | n\a |
| NPL | 322 | 198 | 61.4 | | | n\a |
| Securities Bonds | 851 | 589 | 69.2 | 1,645 | 91.1 | n\a |
| Securities IOs | 28,283 | 319 | 1.1 | 16 | 1.4 | n\a |
| **Commercial mortgage and real estate related investments** | | **$ 20,854** | | **$ 4,534** | | |

| **Europe** | Balance | MV | Mark | Sales MV | Avg Px | LTV |
|---|---|---|---|---|---|---|
| First | 4,814 | 4,700 | 97.6 | 425 | 98.1 | 77% |
| Mezz | 764 | 734 | 96.0 | 482 | 97.9 | 77% |
| NPL | 105 | 43 | 41.3 | | | n\a |
| Equity | 1,563 | 1,474 | 94.3 | | | n\a |
| Securities | 3,942 | 3,769 | 95.6 | 1,320 | 96.1 | n\a |
| **Commercial mortgage and real estate related investments** | | **$ 10,720** | | **$ 2,227** | | |

| **Asia** | Balance | MV | Mark | Sales MV | Avg Px | LTV |
|---|---|---|---|---|---|---|
| Senior | 4,210 | 4,053 | 96.3 | 593 | 99.3 | 78% |
| Mezz | 589 | 583 | 99.0 | | | 83% |
| Equity | 1,287 | 1,227 | 95.3 | | | n\a |
| NPL | 19,040 | 1,670 | 8.8 | | | n\a |
| Securities | 606 | 601 | 99.2 | | | n\a |
| **Commercial mortgage and real estate related investments** | | **$ 8,134** | | | | |

# Top Commercial Real Estate Exposures

| | | | | | | | | | | GAAP Classification | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Property / Asset | Country | Senior | B-Notes | Mezz | Perm. Equity | Bridge Equity | Credit Facility | CMBS | Total Funded | Commercial Mortgages | RE Held for Sale | Corporate Debt | Corporate Equity |
| 1 Archstone | USA | $2,160 | $ - | $485 | $ 185 | $1,609 | $235 | $ - | **$4,674** | $ 704 | $ - | $ 2,176 | $ 1,794 |
| 2 SunCal | USA | 1,364 | - | 132 | 148 | - | - | - | **1,644** | - | 1,644 | - | - |
| 3 Hilton/Project Murphy | USA | 683 | - | 429 | - | - | - | - | **1,112** | - | - | 1,112 | - |
| 4 Coeur Defense | France | - | - | - | 110 | 557 | - | 520 | **1,187** | - | 1,187 | - | - |
| 5 Prologis | USA | - | - | 313 | - | 456 | - | - | **770** | - | 770 | - | - |
| 6 EOP Austin | USA | - | 280 | 111 | - | 123 | - | - | **514** | - | 402 | 111 | - |
| 7 Beacon Fund III | USA | - | - | 508 | - | - | - | - | **508** | - | 508 | - | - |
| 8 Heritage Fields | USA | 503 | - | - | - | - | - | - | **503** | 503 | - | - | - |
| 9 Calvino | Italy | - | - | 526 | - | - | - | - | **526** | - | - | 526 | - |
| 10 Protego | Sweden | 491 | - | - | - | - | - | - | **491** | 491 | - | - | - |
| 11 237 Park Avenue | USA | - | - | 462 | - | - | - | - | **462** | 462 | - | - | - |
| 12 GM Building | USA | 305 | - | 131 | - | - | - | - | **435** | 435 | - | - | - |
| 13 Fountainbleau | USA | 172 | - | 45 | - | - | - | - | **217** | 84 | - | 133 | - |
| 14 Goodwater | Germany | 415 | - | - | - | - | - | - | **415** | 415 | - | - | - |
| 15 Octopus (German Office Portfolio) | Germany | 327 | - | 12 | 35 | - | - | - | **374** | - | 374 | - | - |
| 16 Innkeepers USA Trust Deal/Project Grand Prix | USA | 257 | - | 111 | - | - | - | - | **368** | 368 | - | - | - |
| 17 25 Broad | USA | 259 | - | 84 | - | - | - | - | **343** | 343 | - | - | - |
| 18 Exhibition City | USA | 164 | - | 162 | - | - | - | - | **326** | 326 | - | - | - |
| 19 Project Deuce/Beacon II | USA | - | 80 | 232 | - | - | - | - | **312** | 312 | - | - | - |
| 20 Beacon Capital Strategic Partners III | USA | - | - | - | - | 276 | (0) | - | **276** | - | 276 | - | - |
| 21 Vintners | UK | 154 | - | - | 22 | 99 | - | - | **275** | - | 275 | - | - |
| 22 Knickerbocker Hotel | USA | 275 | - | - | - | - | - | - | **275** | 275 | - | - | - |
| 23 Project Fortezza | Italy | 267 | - | - | - | - | - | - | **267** | 267 | - | - | - |
| 24 Ritz Carlton Kapalua | USA | 228 | - | 37 | - | - | - | - | **265** | 265 | - | - | - |
| 25 Reva | Spain | 173 | - | - | 84 | - | - | - | **257** | - | 257 | - | - |
| 26 Intrawest | USA | 217 | - | - | - | - | | - | **217** | - | - | 217 | - |
| 27 Toy Building | USA | - | - | 35 | 23 | 188 | - | - | **245** | - | 245 | - | - |
| 28 DaVinci Office Term Loan | Japan | 241 | - | - | - | - | - | - | **241** | - | - | 241 | - |
| 29 Project Cowboy (16 comm'l properties) | Japan | 206 | - | - | - | - | - | - | **206** | 206 | - | - | - |
| 30 Sun and Moon | France | 183 | - | 42 | - | - | - | - | **225** | 225 | - | - | - |
| 31 Greenwich Oaks/Greenwich Place | USA | - | - | - | 204 | - | - | - | **204** | - | 204 | - | - |
| 32 Meridien JV | Europe | - | - | - | 200 | - | - | - | **200** | 200 | - | - | - |
| 33 On the Avenue | USA | 163 | - | 39 | - | - | - | - | **202** | 202 | - | - | - |
| 34 Crescent Heights | Japan | 195 | - | - | - | - | - | - | **195** | 195 | - | - | - |
| | | | | | | | | | **$18,732** | **$ 6,279** | **$ 6,141** | **$ 4,517** | **$ 1,794** |

Notes:

*(1) Top Positions do not include Project Gospel and Green these are pools of small individual loans*

# Archstone-Smith

*($ in millions)*

## Overview

| | |
|---|---|
| Property Type: | Multifamily |
| Location: | Nationwide |
| Transaction Value: | $22.2 Bn |
| Sponsors: | Tishman Speyer & Lehman |
| Lehman Role: | Advisory |
| | Debt Financing (47%) (1) |
| | Bridge Equity |

## Initial Capitalization

| | Lehman $ Amount | Total $ Amount | % of Total |
|---|---|---|---|
| Mortgage Debt (2) | $272.4 | $9,529.2 | 43.0% |
| Mezzanine Debt | 505.7 | 1,096.7 | 4.9% |
| Assumed Debt | - | 1,390.9 | 6.3% |
| Term Loans | 2,253.2 | 4,764.0 | 21.5% |
| Preferred Equity | - | 292.0 | 1.3% |
| **Total Debt & Pfd.** | **$3,031.3** | **$17,072.8** | **77.0%** |
| Bridge Equity | $2,142.0 | $4,600.0 | 20.7% |
| Lehman (GP) (3) | 245.9 | 250.0 | 1.1% |
| Tishman Speyer (GP) | - | 250.0 | 1.1% |
| **Total Equity** | **$2,387.9** | **$5,100.0** | **23.0%** |
| **Total Capitalization** | **$5,419.2** | **$22,172.8** | |

## Fees & Marks

| | |
|---|---|
| Advisory Fees | $30.1 |
| Origination & Bridge Equity Fees | 203.0 |
| **Total Fees** | **$233.1** |
| Marks to date (5) | $634.6 |

1. *Other lenders include: B of A (28%) and Barclay's (25%)*
2. *Includes development acquisition and ground lease loans.*
3. *Includes $4.1mm of ASN management rollover equity.*
4. *Includes $44.3mm draw projected by end of June and $70.4mm that may only be used to fund OID upon sale of the term loans.*
5. *Includes fees, unrealized losses & the mark realized in IMD*

## Lehman Exposure as of May 30, 2008

| Type | Term | Rate | Initial | Current Hold | Carrying (Mrkt) Value $ | Carrying (Mrkt) Value % |
|---|---|---|---|---|---|---|
| Funded Debt | | | | | | |
| Mortgage Debt (floating) (2) | 5, 7, 10 | L + 247 | $272.4 | $229.0 | $219.2 | 95.7% |
| Mezzanine Debt (fixed) | 2, 25 | S + 272 | 242.3 | 242.3 | 239.9 | 99.0% |
| Mezzanine Debt (floating) | 5 yrs | L + 288 | 263.3 | 248.0 | 245.5 | 99.0% |
| Term Loans | 4, 5 | L + 316 | 2,253.2 | 1,963.9 | 1,940.4 | 98.8% |
| **Funded Permanent Debt** | | | **$3,031.3** | **$2,683.2** | **$2,645.0** | **98.6%** |
| Revolver | 5 yrs | L + 300 | - | 237.0 | 234.6 | 99.0% |
| **Total Funded Debt** | | | **$3,031.3** | **$2,920.2** | **$2,879.6** | **98.5%** |
| Funded Equity | | | | | | |
| Bridge Equity | | | $2,142.0 | $2,142.0 | $1,609.0 | 75.1% |
| Lehman (GP) | | | 245.9 | 245.9 | 184.9 | 75.2% |
| **Total Equity** | | | **$2,387.9** | **$2,387.9** | **$1,793.9** | **75.1%** |
| **Total Funded Exposure** | | | **$5,419.2** | **$5,308.1** | **$4,673.5** | **88.0%** |
| Unfunded Commitments | | | | | | |
| Revolver | 5 yrs | L + 300 | $354.7 | $117.6 | | |
| Incremental Term Loan (4) | 5 yrs | L + 325 | 114.7 | 114.7 | | |
| **Total Equity** | | | **$469.4** | **$232.3** | | |
| **Total Exposure** | | | **$5,888.6** | **$5,540.4** | | |

## Exit Strategy & Other Comments

- Majority of senior mortgage debt placed with Fannie & Freddie
- Asset-level mezzanine debt of $1.04Bn (Lehman: $490mm) to be opportunistically sold to mezz buyers and/or repaid with proceeds from asset sales
- Term loan marketing has been postponed
  - Initial term loan reduced $582mm (Lehman: $289mm) through asset sales
- Company is aggressively pursuing asset sales to repay debt
  - $1.9Bn sold to date; $410mm under contract or LOI; $3.0Bn currently in the market
- Lehman evaluating all strategic alternatives for equity including M&A and IPO

# SunCal Companies

*($ in millions)*

## Overview

| | |
|---|---|
| Property type: | Land |
| Location: | California |
| Purpose: | Residential Development |
| Original Basis: | $2,167mm |
| Current Basis: | $1,644mm |
| Origination Date | Various |
| Sponsors: | SunCal Companies |
| Lehman Role: | Senior Lender<br>Mezzanine Lender<br>Equity Investor |

## Lehman Exposure as of May 30, 2008

| Net Exposure | YTD 2008 Mark | Current Basis |
|---|---|---|
| $2,167.0 | ($287.7) | $1,644.0 |

## Portfolio Overview

- The SunCal portfolio consists of 24 residential land development projects, primarily located in Southern California
  -74% of basis located in Southern CA
  -24% of basis located in Northern CA
  -2% of basis located in Central CA
- The portfolio includes 41,000 lots
- Approximately 82% of the current basis is entitled for residential use, with the balance in various stages of the entitlement approval process

## Key Restructuring Terms

- Lehman Brothers has entered into and is finalizing a restructuring transaction involving 18 of SunCal's land development projects (the "Properties")
- The transaction involves the following key components
  - Restructuring of approximately $1,390.1mm (legal balance) of capital funded by Lehman relating to 17 of SunCal's Properties. SunCal will transfer title of these Properties to Lehman
  - Foreclosure of the Pacific Point Property, which is currently secured by approximately $169.4mm (legal balance) of debt provided by Lehman
  - The transaction is expected to be finalized and closed within the next 90 days
- SunCal will continue to manage the ongoing development of the Properties
- Subject to repayment of Lehman's funded capital, plus a 15% preferred return, SunCal will receive an incentive fee

## Exposure Summary

- The total exposure related to the SunCal portfolio equals $2,167.0mm
- The current mark-to-market equals $(523.0)mm
- The current basis equals $1,644.0mm

# Hilton Portfolio – Project Murphy

*($ in millions)*

## Overview

| | |
|---|---|
| Property type: | Hospitality |
| Location: | Nationwide |
| Purpose: | Acquisition financing |
| Original Value: | $28.4 Bn |
| Current Value: | No change/update |
| Origination Date: | October 24, 2007 |
| Sponsors: | Blackstone |
| Lehman Role: | Co-Lender (7.5%) (1) |

## Lehman Exposure as of May 30, 2008

| Type | Initial | Mat. Date | Ext. Date | Rate | Current Hold | Carrying (Mrkt) Value $ | Carrying (Mrkt) Value % |
|---|---|---|---|---|---|---|---|
| Funded Debt | | | | | | | |
| Mortgages (floating) | $865.3 | 10/12/2010 | 3, 1-yr ext. | L + 245 | $739.2 | $683.3 | 92.4% |
| Mezz Debt (floating) | 677.7 | 10/12/2010 | 3, 1-yr ext. | L + 245 | 464.0 | 429.1 | 92.5% |
| **Total Debt** | **$1,543.0** | | | | **$1,203.2** | **$1,112.4** | **92.5%** |
| **Total Funded Exposure** | **$1,543.0** | | | | **$1,203.2** | **$1,112.4** | **92.5%** |

## Initial Capitalization

| | Lehman $ Amount | Total $ Amount | % of Total |
|---|---|---|---|
| Mortgage Debt | $865.3 | $11,536.7 | 44.0% |
| Mezzanine Debt | 677.7 | 9,036.6 | 34.4% |
| **Total Debt** | **$1,543.0** | **$20,573.3** | **78.4%** |
| Sponsor Equity | $0.0 | $5,660.0 | 21.6% |
| **Total Equity** | **$0.0** | **$5,660.0** | **21.6%** |
| **Total Capitalization** | **$1,543.0** | **$26,233.3** | |

## Fees & Marks

| | |
|---|---|
| Origination Fee | $15.8 |
| Marks to date (2) | $90.8 |

## Exit Strategy & Other Comments

- Portfolio totals over 63,000 rooms (both owned & managed by Hilton)
- The syndicate group has sold the first loss piece – $1.3Bn mezzanine tranche – and $500mm unsecured loan (Lehman's portion was approximately $135mm)
- GE purchased $1.3Bn of Senior debt – Lehman's portion is approximately $126mm
- Wells Fargo has circled $200mm of mezzanine debt – Lehman's portion is approximately $19mm (has not closed yet – 70% probability)
- Currently marketing the Senior debt and multiple mezzanine tranches
- Domestic-owned RevPAR increased 11.1% MTD January 2008 vs. MTD January 2007 – occupancy improved from 70.3% to 73.2%
- Top 20 international owned & leased hotels posted 10.2% RevPAR increase MTD January 2008 vs. MTD January 2007
- As a result of slowing economy, anticipate a slowdown in the hotel sector over the course of the next 12+ months. Lehman's risk is somewhat mitigated by the fact that it has sold the first loss piece.

1. *Other lenders include: Bear Stearns (23.0%), bank of America (18.2%), Goldman Sachs (18.2%), Deutsche Bank (18.2%), Morgan Stanley (7.5%) and Merrill Lynch (7.5%).*
2. *Includes fees & unrealized losses*

# ProLogis – Dermody Portfolio

*($ in millions)*

## Overview

| | |
|---|---|
| Property type: | Industrial |
| Location: | PA, NV, NJ |
| Purpose: | Acquisition financing |
| Original Value: | $1.79 Bn |
| Current Value: | No change/update |
| Origination Date: | July 11, 2007 |
| Sponsors: | ProLogis |
| Lehman Role: | Debt Financing<br>Bridge Equity |

## Initial Capitalization

| | Lehman $ Amount | Total $ Amount | % of Total |
|---|---|---|---|
| Mortgage Debt | $965.0 | $965.0 | 53.9% |
| Assumed Debt | - | 107.3 | 6.0% |
| **Total Debt** | **$965.0** | **$1,072.3** | **59.9%** |
| Bridge Equity | $574.4 | $574.4 | 32.1% |
| Sponsor Equity | - | 143.6 | 8.0% |
| **Total Equity** | **$574.4** | **$718.0** | **40.1%** |
| **Total Capitalization** | **$1,539.4** | **$1,790.3** | |

## Fees & Marks

| | |
|---|---|
| Origination & Bridge Equity Fees | $31.9 |
| Marks to date (1) | $122.2 |

## Lehman Exposure as of May 30, 2008

| Type | Initial | Mat. Date | Ext. Date | Rate | Current Hold | Carrying (Mrkt) Value $ | Carrying (Mrkt) Value % |
|---|---|---|---|---|---|---|---|
| Funded Debt | | | | | | | |
| Mezz Loan 1 (floating) | $965.0 | 8/11/2008 | none | L + 250 | $283.4 | $279.2 | 98.5% |
| Mezz Loan 2 (floating) | - | 8/11/2008 | none | | 34.1 | 34.1 | 100.0% |
| **Total Debt** | **$965.0** | | | | **$317.5** | **$313.3** | **98.7%** |
| Funded Equity | | | | | | | |
| Bridge Equity | $574.4 | | | | $574.4 | $456.4 | 79.5% |
| **Total Equity** | **$574.4** | | | | **$574.4** | **$456.4** | **79.5%** |
| **Total Funded Exposure** | **$1,539.4** | | | | **$891.9** | **$769.7** | **98.7%** |

## Exit Strategy & Other Comments

- Portfolio of bulk distribution warehouses – Reno & Las Vegas account for 60% of the portfolio's NOI
- $682mm of Lehman's senior loan has been refinanced by multiple insurance companies
- $117mm of commitments from 3rd party lenders expected to close by July 2008
- Currently working with ProLogis to restructure the deal – Lehman will need to retain a mezzanine loan – expectation is that there will be $180mm of mezzanine debt. Lehman's portion of this debt & ultimate structure still to be determined.

1. *Includes fees & unrealized losses*

# Coeur Defense

*($ in millions)*

## Overview

| | |
|---|---|
| Property type: | Office |
| Location: | Paris, France |
| Purpose: | Acquisition financing |
| Original Value: | $3.3 Bn |
| Current Value: | $3.2 Bn (March '08) |
| Origination Date: | July 17, 2007 |
| Sponsors: | Atemi & LBREP III |
| Lehman Role: | Debt Financing |
| | Bridge Equity |

## Initial Capitalization

| | Lehman $ Amount | Total $ Amount | % of Total |
|---|---|---|---|
| Mortgage Debt | $1,266.1 | $2,532.3 | 74.7% |
| **Total Debt** | **$1,266.1** | **$2,532.3** | **74.7%** |
| LBREP III (GP) (2) | $110.0 | $110.0 | 3.2% |
| Atemi (GP) | - | 6.0 | 0.2% |
| Bridge Equity | 741.0 | 741.0 | 21.9% |
| **Total Equity** | **$851.0** | **$857.0** | **25.3%** |
| **Total Capitalization** | **$2,117.1** | **$3,389.3** | |

## Fees & Marks

| | |
|---|---|
| Origination & Bridge Equity Fees | $29.0 |
| Marks to date (3) | $74.9 |

## Lehman Exposure as of May 30, 2008

**Lehman Positions**

| Type | Initial | Mat. Date | Ext. Date | Rate | Current Hold | Carrying (Mrkt) Value $ | Carrying (Mrkt) Value % |
|---|---|---|---|---|---|---|---|
| Funded Debt | | | | | | | |
| Mortgage Debt (1) | $1,266.1 | | | | $0.0 | $0.0 | |
| CMBS retained (1) | - | 9/17/2012 | n/a | Various | 527.1 | 519.8 | 98.6% |
| **Total Debt** | **$1,266.1** | | | | **$527.1** | **$519.8** | **98.6%** |
| Funded Equity | | | | | | | |
| Equity | $854.0 | | | | $734.8 | $667.2 | 90.8% |
| **Total Equity** | **$854.0** | | | | **$734.8** | **$667.2** | **90.8%** |
| **Total Funded Exposure** | **$2,120.1** | | | | **$1,261.9** | **$1,187.0** | **94.1%** |

## Exit Strategy & Other Comments

- 1.9mm SF of Class A office property located in the Paris La Defense business district
- Senior loan was syndicated 50% to Goldman Sachs at closing & exited through the $2.1bn Windermere XII securitization and full placement of $330mm junior notes.
- $116mm of Bridge Equity was sold to GE Pension Trust in August 2007
- The property has not met its rental growth forecast
- The March '08 CBRE re-valuation of the property resulted in a 2% decline to $3.2B from $3.3B. The yield based on the re-valuation is 4.7% compared to 4.25% at close.

1. *Mortgage loan contributed to Windermere XII (CMBS).*
2. *Held by Private Equity.*
3. *Includes fees & unrealized losses*

# Beacon III – Project Trois

*($ in millions)*

## Overview

| | |
|---|---|
| Property type: | Office |
| Location: | Various |
| Purpose: | Acquisition financing |
| Original Value: | $2.16 Bn |
| Current Value: | No change/update |
| Origination Date: | May 17, 2007 |
| Sponsors: | Broadway Partners |
| Lehman Role: | Debt Financing<br>Bridge Mezzanine |

## Initial Capitalization

| | Lehman $ Amount | Total $ Amount | % of Total |
|---|---|---|---|
| Mortgage Debt | $845.2 | $845.2 | 39.2% |
| Mezzanine Debt | 735.8 | 735.8 | 34.1% |
| Bridge Mezzanine | 459.5 | 459.5 | 21.3% |
| **Total Debt** | **$2,040.5** | **$2,040.5** | **94.6%** |
| Sponsor Equity | - | $117.0 | 5.4% |
| **Total Equity** | **$0.0** | **$117.0** | **5.4%** |
| **Total Capitalization** | **$2,040.5** | **$2,157.5** | |

## Fees & Marks

| | |
|---|---|
| Origination & Bridge Equity Fees (1) | $37.3 |
| Marks to date (2) | $44.4 |

## Lehman Exposure as of May 30, 2008

| Type | Initial | Mat. Date | Ext. Date | Rate | Current Hold | Carrying (Mrkt) Value $ | Carrying (Mrkt) Value % |
|---|---|---|---|---|---|---|---|
| Funded Debt | | | | | | | |
| Mortgage Debt (floating) | $845.2 | 5/15/2009 | 3, 1-yr ext. | | $0.0 | $0.0 | |
| Mezzanine Debt (floating) | 367.1 | 5/15/2009 | 3, 1-yr ext. | Various | 24.1 | 17.8 | 73.9% |
| Mezzanine Debt (fixed) | 368.7 | 5/15/2012 | none | Various | 75.0 | 62.1 | 82.8% |
| Bridge Mezzanine | 459.5 | 5/1/2009 | none | 11.57% | 453.0 | 427.8 | 94.4% |
| **Total Debt** | **$2,040.5** | | | | **$552.1** | **$507.7** | **92.0%** |
| **Total Funded Exposure** | **$2,040.5** | | | | **$552.1** | **$507.7** | **92.0%** |

## Exit Strategy & Other Comments

- Portfolio encompasses 5.7mm square feet of Class A office space in New York, Boston, San Francisco, and Los Angeles
- On March 19, 2008 the transaction was restructured resulting in a $27mm paydown (applied to outstanding accrued interest & bridge mezz principal)
- Maturity date on the bridge mezz was extended to May 2009
- In addition, Lehman rec'd $69mm in association with Broadway's obligations under the flex pricing agreement (applies to both Beacon III & 237 Park)
- Since origination, have closed on the sale of approximately $343mm of floating rate mezz and $294mm of fixed rate mezz
- If market conditions persist, Broadway's ability to raise capital or sell the assets may be impaired & this deal will face potential restructure or foreclosure

1. *Does not include $69mm flex pricing payment (split between Beacon III and 237 Park).*
2. *Includes fees & unrealized losses*

# EOP Austin Portfolio

*($ in millions)*

## Overview

| | |
|---|---|
| Property type: | Office |
| Location: | Austin, TX |
| Purpose: | Acquisition financing |
| Original Value: | $1.2 Bn |
| Current Value: | No change/update |
| Origination Date: | June 1, 2007 |
| Sponsors: | Thomas Properties Group |
| Lehman Role: | Debt Financing<br>Bridge Equity |

## Initial Capitalization

| | Lehman $ Amount | Total $ Amount | % of Total |
|---|---|---|---|
| Mortgage Debt | $382.6 | $382.6 | 31.8% |
| B Notes | 286.8 | 286.8 | 23.9% |
| Mezzanine Debt | 45.6 | 45.6 | 3.8% |
| Term Loan | 192.5 | 192.5 | 16.0% |
| Revolver (1) | - | - | 0.0% |
| **Total Debt** | **$907.5** | **$907.5** | **75.5%** |
| Bridge Equity | $221.3 | $221.3 | 18.4% |
| Sponsor Equity | - | 73.8 | 6.1% |
| **Total Equity** | **$221.3** | **$295.0** | **24.5%** |
| **Total Capitalization** | **$1,128.8** | **$1,202.5** | |

## Fees & Marks

| | |
|---|---|
| Origination & Bridge Equity Fees (2) | $10.9 |
| Marks to date (3) | $33.0 |

## Lehman Exposure as of May 30, 2008

| Type | Initial | Mat. Date | Ext. Date | Rate | Current Hold | Carrying (Mrkt) Value $ | Carrying (Mrkt) Value % |
|---|---|---|---|---|---|---|---|
| Funded Debt | | | | | | | |
| Mortgage Debt (fixed) | $339.2 | 6/1/2017 | none | | $0.0 | $0.0 | |
| Mortgage Debt (floating) | 43.4 | 6/1/2009 | 3, 1-yr ext. | | 0.0 | 0.0 | |
| B Notes (fixed) | 286.8 | 6/1/2017 | none | various | 286.8 | 279.8 | 97.6% |
| Mezzanine Debt (floating) | 45.6 | 6/1/2009 | 3, 1-yr ext. | various | 0.0 | 0.0 | |
| Term Loan | 192.5 | 6/1/2013 | none | L + 325 | 112.5 | 111.4 | 99.0% |
| Revolver (1) | - | 6/1/2012 | none | L + 325 | - | - | |
| **Total Debt** | **$907.5** | | | | **$399.3** | **$391.2** | **98.0%** |
| Funded Equity | | | | | | | |
| Bridge Equity | $221.3 | | | | $147.5 | $122.6 | 83.1% |
| **Total Equity** | **$221.3** | | | | **$147.5** | **$122.6** | **83.1%** |
| **Total Funded Exposure** | **$1,128.8** | | | | **$546.8** | **$513.8** | **94.0%** |

## Exit Strategy & Other Comments

- 10 Properties encompassing 3.5mm SF – 80% of value derived from five assets located in Austin's CBD
- Property operating performance and projected lease-up velocity in line with pro-forma
- Cap rate at origination approximately 3.5%; in-place NOI has increased 9% since acquisition; cap rate, based on original purchase price & increased NOI, equals 3.85%
- The low cap rate at acquisition is due to the opportunistic nature of the transaction – value add opportunity. Market cap rates are in the 6.0% range currently.
- Strategic vacancy remains in two buildings Frost Bank Tower and 300 West 6th (2 of the newest assets in downtown – potential upside)
- JV currently considering sale of suburban assets – at or near stabilization
- Lehman is currently marketing the B Notes

1. *$100mm commitment; undrawn to date.*
2. *Does not include 1-point profitability flex pricing.*
3. *Includes fees & unrealized losses*

# Rosslyn Portfolio

*($ in millions)*

## Overview

| | |
|---|---|
| Property type: | Office |
| Location: | Rosslyn, VA |
| Purpose: | Acquisition financing |
| Original Value: | $1.29 Bn |
| Current Value: | No change/update |
| Origination Date: | May 15, 2007 |
| Sponsors: | Monday Prop. & LBREP II |
| Lehman Role: | Debt Financing |
| | Bridge Equity |

## Initial Capitalization

| | Lehman $ Amount | Total $ Amount | % of Total |
|---|---|---|---|
| Mortgage Debt | $310.0 | $310.0 | 24.0% |
| Assumed Debt | - | 251.0 | 19.4% |
| Mezzanine Debt | 257.7 | 257.7 | 20.0% |
| Term Loan | - | 77.0 | 6.0% |
| Revolver (1) | - | - | 0.0% |
| **Total Debt** | **$567.7** | **$895.7** | **69.4%** |
| Bridge Equity | $310.0 | $310.0 | 24.0% |
| LBREP II Equity | 42.5 | 42.5 | 3.3% |
| Sponsor Equity | - | 42.5 | 3.3% |
| **Total Equity** | **$352.5** | **$395.0** | **30.6%** |
| **Total Capitalization** | **$920.2** | **$1,290.7** | |

## Fees & Marks

| | |
|---|---|
| Origination & Bridge Equity Fees (2) | $13.0 |
| Marks to date (3) | $33.6 |

## Lehman Exposure as of May 30, 2008

| Type | Initial | Mat. Date | Ext. Date | Rate | Current Hold | Carrying (Mrkt) Value $ | Carrying (Mrkt) Value % |
|---|---|---|---|---|---|---|---|
| Funded Debt | | | | | | | |
| Mortgage Debt (fixed) | $310.0 | 5/15/2017 | none | | $0.0 | $0.0 | |
| Mezzanine Debt | 257.7 | 5/15/2017 | none | S + 60 | 0.0 | 0.0 | |
| Term Loan | 200.0 | 5/15/2012 | none | | 0.0 | 0.0 | |
| Revolver (1) | - | 5/15/2012 | none | L + 240 | 0.0 | 0.0 | |
| **Total Debt** | **$767.7** | | | | **$0.0** | **$0.0** | |
| Funded Equity | | | | | | | |
| Bridge Equity | $310.0 | | | | $310.0 | $276.4 | 89.2% |
| LBREP II Equity | 42.5 | | | | 42.5 | 42.5 | 100.0% |
| **Total Equity** | **$352.5** | | | | **$352.5** | **$318.9** | **90.5%** |
| **Total Funded Exposure** | **$1,120.2** | | | | **$352.5** | **$318.9** | **90.5%** |

## Exit Strategy & Other Comments

- Portfolio of 10 buildings encompassing 2.5mm SF – 2 "irreplaceable" trophy assets account for 40% of total space
- Property operating performance outperforming pro forma
- April 2008 appraised value 12% higher than original allocated purchase price
- Cap rate at origination equaled 4.89%; in-place NOI increased 7% since acquisition; cap rate, based on original purchase price & increased NOI, equals 5.25%
- Evaluating alternative exit strategies – considering bifurcating the portfolio between trophy assets & value add opportunities.
- Sold all tranches of the Mezzanine debt – largest tranche ($157.6mm) circled by Savannah; the balance by Guardian Life, AXA Financial and Prima Capital

1. *$9mm commitment; undrawn to date.*
2. *Does not include 1-point profitability flex pricing.*
3. *Includes fees & unrealized losses*

# 237 Park Avenue

*($ in millions)*

## Overview

| | |
|---|---|
| Property type: | Office |
| Location: | New York, NY |
| Purpose: | Acquisition financing |
| Original Value: | $1.34 Bn |
| Current Value: | No change/update |
| Origination Date: | May 15, 2007 |
| Sponsors: | Broadway Partners |
| Lehman Role: | Debt Financing<br>Bridge Mezzanine<br>Bridge Equity |

## Initial vs. Current Capitalization

| | Initial | Current (5/23/2008) |
|---|---|---|
| Mortgage Debt | $675.0 | $675.0 |
| Mezzanine Debt | 225.0 | 225.0 |
| Bridge Mezzanine (1) | 332.5 | 309.0 |
| **Total Debt** | **$1,232.5** | **$1,209.0** |
| Bridge Equity | $59.0 | $0.0 |
| Sponsor Equity | 53.0 | 160.0 |
| **Total Equity** | **$112.0** | **$160.0** |
| **Total Capitalization** | **$1,344.5** | **$1,369.0** |

## Fees & Marks

| | |
|---|---|
| Origination & Bridge Equity Fees (3) | $19.7 |
| Marks to date (4) | $73.2 |

## Lehman Exposure as of May 30, 2008

| Type | Initial | Mat. Date | Ext. Date | Rate | Current Hold | Carrying (Mrkt) Value $ | Carrying (Mrkt) Value % |
|---|---|---|---|---|---|---|---|
| Funded Debt | | | | | | | |
| Mortgage Debt (fixed) | $675.0 | 5/15/2017 | none | S + 91 | $0.0 | $0.0 | |
| B Note (fixed) | - | 5/15/2017 | none | S + 91 | 0.0 | 0.0 | |
| Mezzanine Debt (fixed) | 225.0 | 5/15/2017 | none | S + 91 | 225.0 | 177.4 | 78.8% |
| Bridge Mezzanine (1) | 332.5 | 5/1/2012 | none | 12.0% | 309.4 | 283.8 | 91.7% |
| **Total Debt** | **$1,232.5** | | | | **$534.4** | **$461.2** | **86.3%** |
| Funded Equity (2) | $62.2 | | | | 0.0 | 0.0 | |
| **Total Funded Exposure** | **$1,294.6** | | | | **$534.4** | **$461.2** | **86.3%** |

## Exit Strategy & Other Comments

- 21-story Class A office building encompassing 1.3mm SF
- On March 19, 2008 the transaction was restructured resulting in a $49mm paydown (applied to outstanding accrued interest & Bridge Mezzanine principal)
- Bridge Mezzanine was extended to May 2012
- Bridge equity was converted into an equity investment in Broadway Partners Fund III, which Lehman is carrying at a mark of 50%
- In addition, Lehman rec'd $69mm in association with Broadway's obligations under the Capital Services Agreement (applies to both Project Trois & 237 Park)
- Closed on a sale of the $255mm B Note to Prudential on May 20
- Lehman is currently marketing the Mezzanine Debt

1. *Bridge Mezzanine converted to 5-year Mezzanine Debt.*
2. *Bridge Equity converted to equity investment in Broadway Fund III, which is marked at 50%.*
3. *Does not include $69mm flex pricing payment (split between Beacon III and 237 Park).*
4. *Includes fees & unrealized losses*

# Appendix

# Price Verification Methodology

- Price Verification is performed on a monthly basis

- Positions are downloaded from internal systems and reconciled to ensure that the complete population is being price tested

- The principal book (PTG) contains leveraged debt and equity investments in Real Estate properties. This is price verified using a NPV approach with a significant emphasis on the credit qualities of each collateral. Testing comprises:
  - Property level information provided by third party servicers (Trimont & PCCP). Information received includes position attributes, collateral valuation and regular qualitative updates on the performance / progress of the property or project.
  - 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
  - Watch list assets are discussed in quarterly credit committee meetings with the servicers & front office asset management

- Large loans held for syndication or securitization and B-notes / Mezz loans (these are typically stripped out from floating rate large loans and generally have LTVs of up to 80%) . The prices are verified using internal models based on spreads obtained from third party publications (e.g. Commercial Mortgage alert) giving special emphasis to:
  - Recent sales, circles and bids on notes of similar attributes (LTV, property type, location, etc)
  - Shadow ratings assigned based on LTV and spreads based on these shadow ratings
  - Floating rate notes capped at 100% of legal balance to account for lack of prepayment protection

# Price Verification Methodology (cont')

- Bridge equity generally marked to target investor yields for the specific investment. Product Control reviews / discusses the reasonableness of the valuation assumptions.

- CMBS securities and IO positions – these are price tested using:
  - Third party data from pricing services e.g. EJV, IDC and Extel
  - Position marks are compared to recent sales activity. There was substantial sales activity in the second quarter
  - Where third party prices are not available or are found to be unreasonable / inaccurate, positions are modeled in Intex, Trepp or Bloomberg using spreads for similar securities
  - Reference is also made to the CMBX index, taking into account any basis that exists between the cash and Index markets

- Product Control 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, Product Control recommends mark adjustments. Those positions are either remarked or adequate justification or support is provided by the business to support the existing mark.