

# Global Real Estate Group

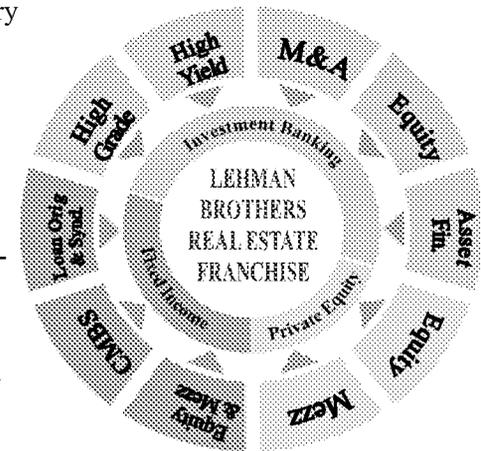
## Global Real Estate Update

*November 6, 2007*

LEHMAN BROTHERS

# Executive Summary

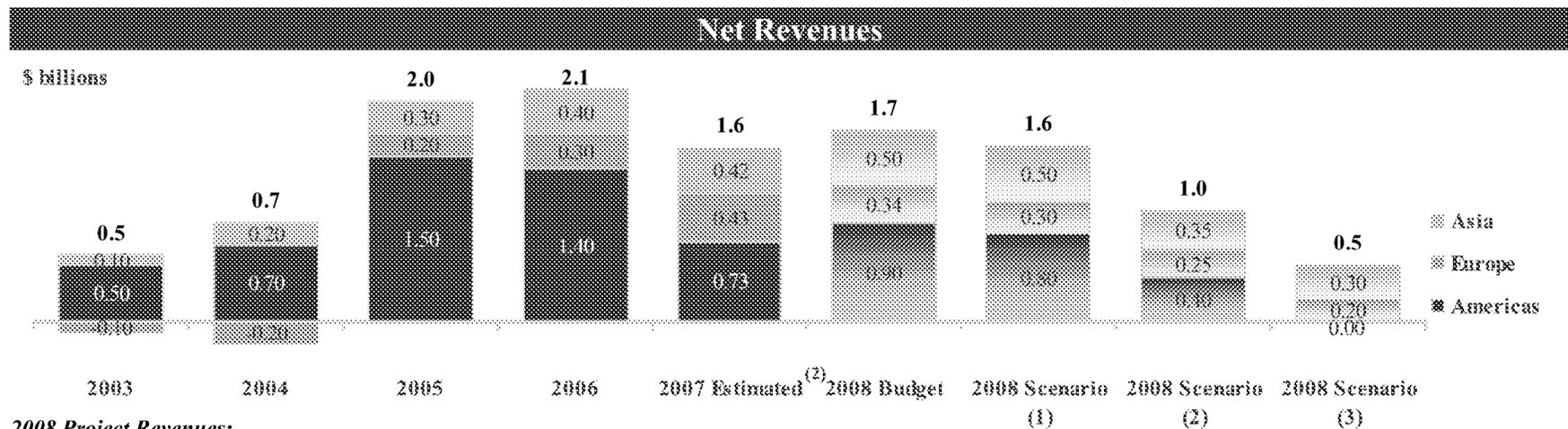
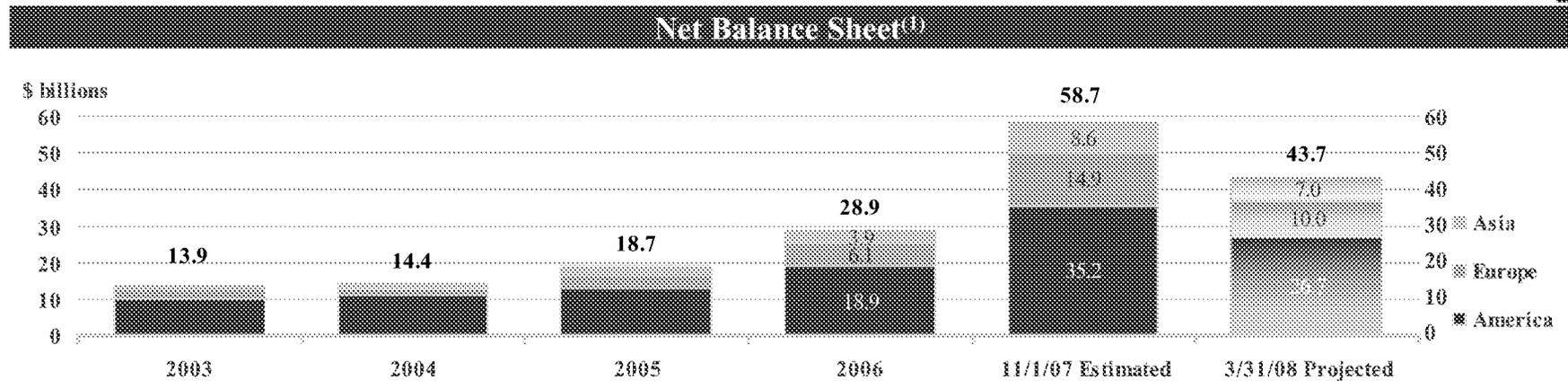
- ❖ The Global Real Estate Group (GREG) has grown rapidly and profitably over the past few years. At the same time the Real Estate Private Equity (REPE) business has grown into one of the pre-eminent REPE groups in the industry. Together REPE and GREG operate as the only fully integrated Real Estate group in the industry
- ❖ The business is built around over 200 real estate clients; 95% of the balance sheet used by GREG globally is used in facilitating some form of client transaction. The majority of transactions sourced for REPE (particularly in US) are sourced by the franchise
- ❖ GREG currently employs 445 people (inclusive of origination platform): US 256; Europe 102; Asia 87 (REPE 86 people globally)
- ❖ The GREG balance sheet is currently \$58Bn; the regional growth from '06 to '07: US \$19-35Bn, Europe \$6-15Bn and Asia \$4-8.6Bn
- ❖ With the advent of REPE, the balance sheet growth has been in the more debt-oriented parts of the capital structure. Accordingly, to maintain revenues (without significant headcount increases) the balance sheet has necessarily increased and the ROA has and will inevitably continue to decrease over time
- ❖ In 2006, GREG had revenues of \$2.1Bn; pretax margin of 75% and an approximate 7% ROA; estimated '07 revenues of \$1.6Bn
- ❖ The \$44Bn debt balance sheet is over 90% floating rate with approximate WAM of 28 months
- ❖ GREG has no repo or CMBS warehouse lines
- ❖ GREG has always aggressively marked and managed its position. Since 2003, it has taken over \$2.9Bn in write-downs while maintaining strong profitability based on its conservative policies and the cushion of imbedded profitability (albeit smaller today)
- ❖ Notwithstanding strong real estate fundamentals, transactions have slowed to a trickle due to uncertainty around financing, valuation (stalemate) and weakening economic forecasts
- ❖ All other CMBS competitors (except Goldman), have had some form of layoffs ranging from (10-50)
- ❖ GREG believes that under any circumstance an estimated \$15Bn reduction in global balance sheet is warranted
- ❖ 2008 revenue projections presuppose a 1Q08 capital markets recovery, depending on market conditions, the revenue will correspondingly be reduced



## Issues to Consider

- ❖ Franchise position: message to clients
- ❖ Headcount?
- ❖ Regional plans
- ❖ Major concentrations and risks (land, condos and Archstone)

# Global Balance Sheet & Net Revenues Trend



**2008 Project Revenues:**

*Budget – Assumed capital markets liquidity returned to normalcy in the 1Q08*

*Scenario 1 – Assumes capital markets liquidity returns to normalcy in the 1Q08 and balance sheet reduced by \$15Bn through the 2Q08*

*Scenario 2 – Assumes capital markets remain as is and reduce balance sheet by \$15Bn through the 2Q08*

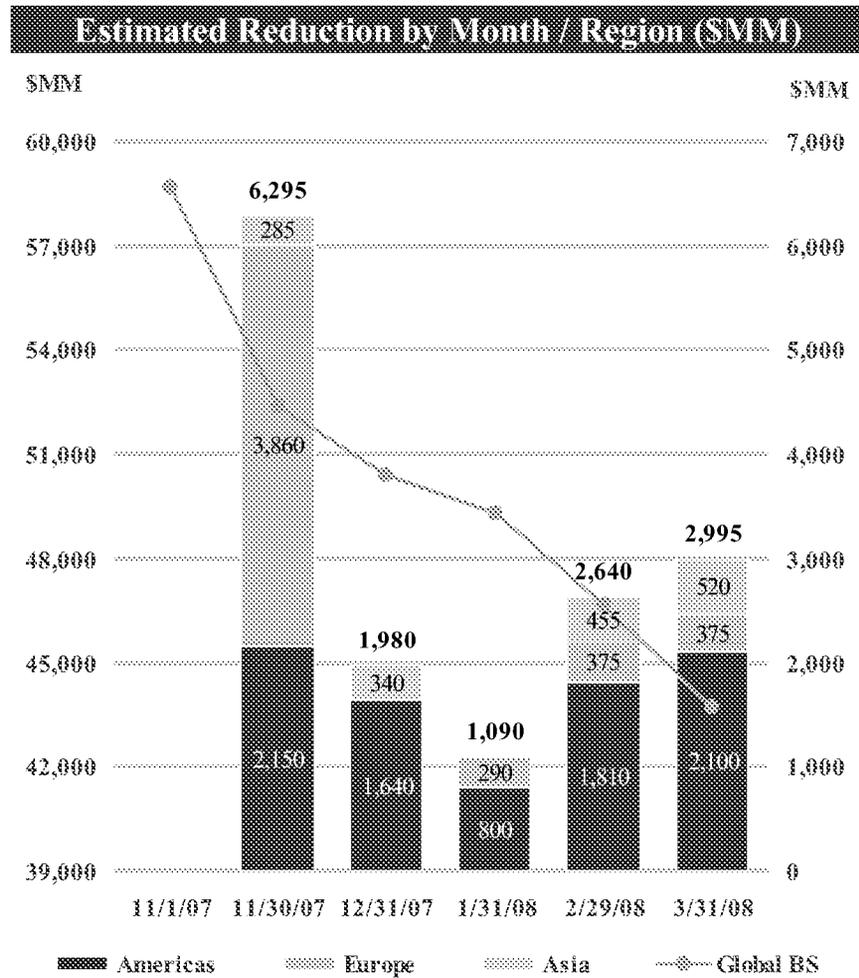
*Scenario 3 – Continued deterioration in capital markets and reduce balance sheet by \$15Bn through the 2Q08*

**\*The cost of effectuating the balance sheet reduction results in a \$100MM to \$700MM loss depending upon market conditions**

1. Net Balance Sheet excludes gross-ups

2. 2007 Revenue figures are based on an estimated Q4 '07 of approx. \$100mn

# Estimated Global Monthly Balance Sheet Reduction

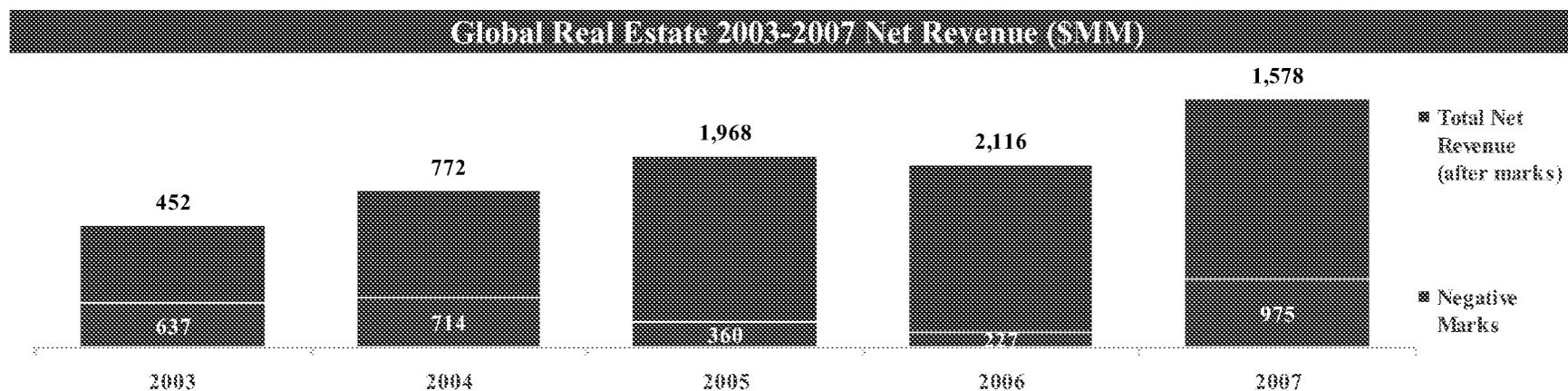


**Total Estimated Reduction (SMM)**

|                          | Americas     | Europe       | Asia         | Total         |                               |
|--------------------------|--------------|--------------|--------------|---------------|-------------------------------|
| Fixed Rate Securitizable | 1,550        | 1,700        | -            | 3,250         | } Spread Risk: \$6.9Bn        |
| Senior                   | -            | -            | -            | -             |                               |
| Large Loan Floating      | 1,240        | -            | -            | 1,240         |                               |
| CMBS Securities          | 750          | 1,100        | -            | 1,850         |                               |
| CMBS Loans               | -            | -            | 530          | 530           | } Spread/Credit Risk: \$8.1Bn |
| Mezz Floating / B- Note  | 1,510        | -            | -            | 1,510         |                               |
| Comm./ Term Loans        | 2,700        | -            | -            | 2,700         |                               |
| Bridge Equity            | 750          | 200          | -            | 950           |                               |
| Syndication              | -            | 1,900        | 1,070        | 2,970         |                               |
| Bridge Loan              | -            | -            | -            | -             |                               |
| Equity / Other           | -            | -            | -            | -             |                               |
| NPL                      | -            | -            | -            | -             |                               |
| <b>Total</b>             | <b>8,500</b> | <b>4,900</b> | <b>1,600</b> | <b>15,000</b> |                               |

# Global Real Estate 2003-2007 Mark Downs

GREG has diligently monitored and aggressively marked its positions through the years while maintaining strong revenues including policies that pass through negative carry costs as incurred



**Global Real Estate 2003-2007 Mark Downs (SMM)**

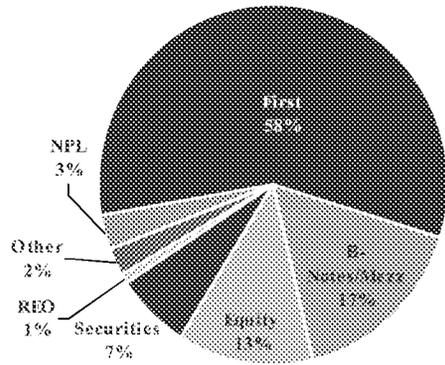
| Description                                       | 2003         | 2004         | 2005         | 2006         | 2007         | Total          |
|---------------------------------------------------|--------------|--------------|--------------|--------------|--------------|----------------|
| PTG and CMBS                                      | (428)        | (366)        | (299)        | (118)        | (264)        | (1,475)        |
| California Land and Condos                        | (33)         | (21)         | (24)         | (41)         | (300)        | (419)          |
| Archstone <sup>(1)</sup>                          | 0            | 0            | 0            | 0            | (233)        | (233)          |
| Bridge Equity <sup>(2)</sup>                      | 0            | 0            | 0            | 0            | (28)         | (28)           |
| <b>Total US</b>                                   | <b>(461)</b> | <b>(387)</b> | <b>(323)</b> | <b>(159)</b> | <b>(825)</b> | <b>(2,156)</b> |
| <b>Total Europe<sup>(3)</sup></b>                 | <b>(149)</b> | <b>(319)</b> | <b>(8)</b>   | <b>(16)</b>  | <b>(130)</b> | <b>(623)</b>   |
| <b>Total Asia</b>                                 | <b>(27)</b>  | <b>(7)</b>   | <b>(28)</b>  | <b>(52)</b>  | <b>(20)</b>  | <b>(135)</b>   |
| <b>Total Real Estate Mark Downs<sup>(4)</sup></b> | <b>(637)</b> | <b>(714)</b> | <b>(360)</b> | <b>(227)</b> | <b>(975)</b> | <b>(2,913)</b> |

1. Archstone mark down represents fees marked into the positions retained as of 11/2/07. 2. Bridge equity does not include approx \$240mm of fees marked into the respective positions in both US and Europe. 3. 2003 and 2004 mark downs reflect approx \$360mm on legacy European assets Allders, Burford and Meridien. 4. Of the \$975mm in 2007 losses, approx \$560mm (including Archstone) reflects marks taken since Sept 30th.

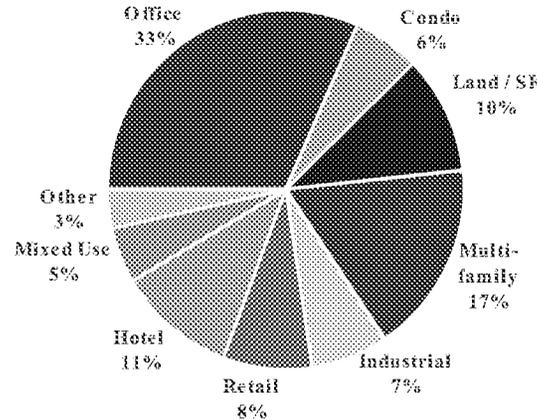
# Balance Sheet Exposure

GREG is well-diversified by region, property and risk type

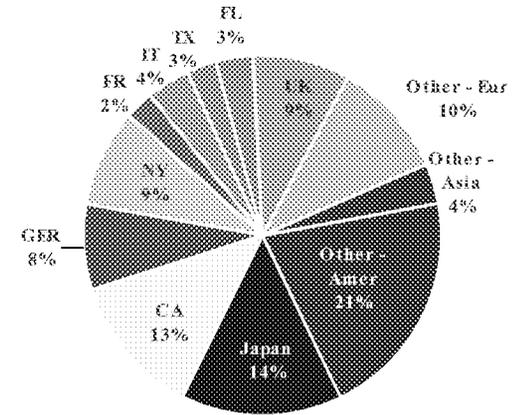
Global by Lien Type



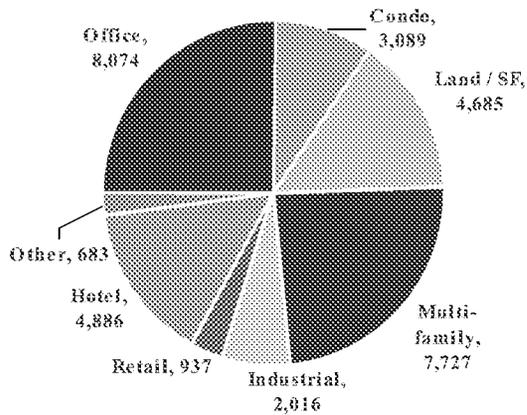
Global by Property Type



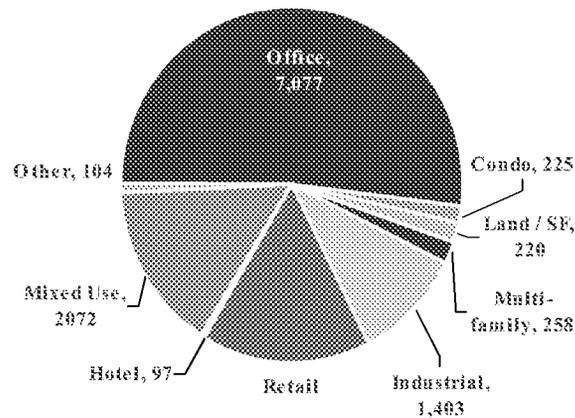
Global by State / Country



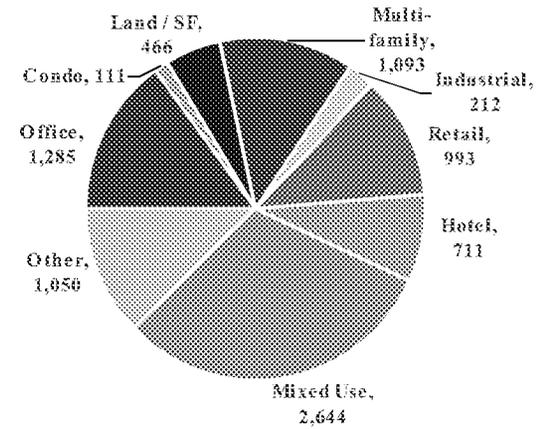
U.S. by Property Type (SMM)



Europe by Property Type (SMM)



Asia by Property Type (SMM)

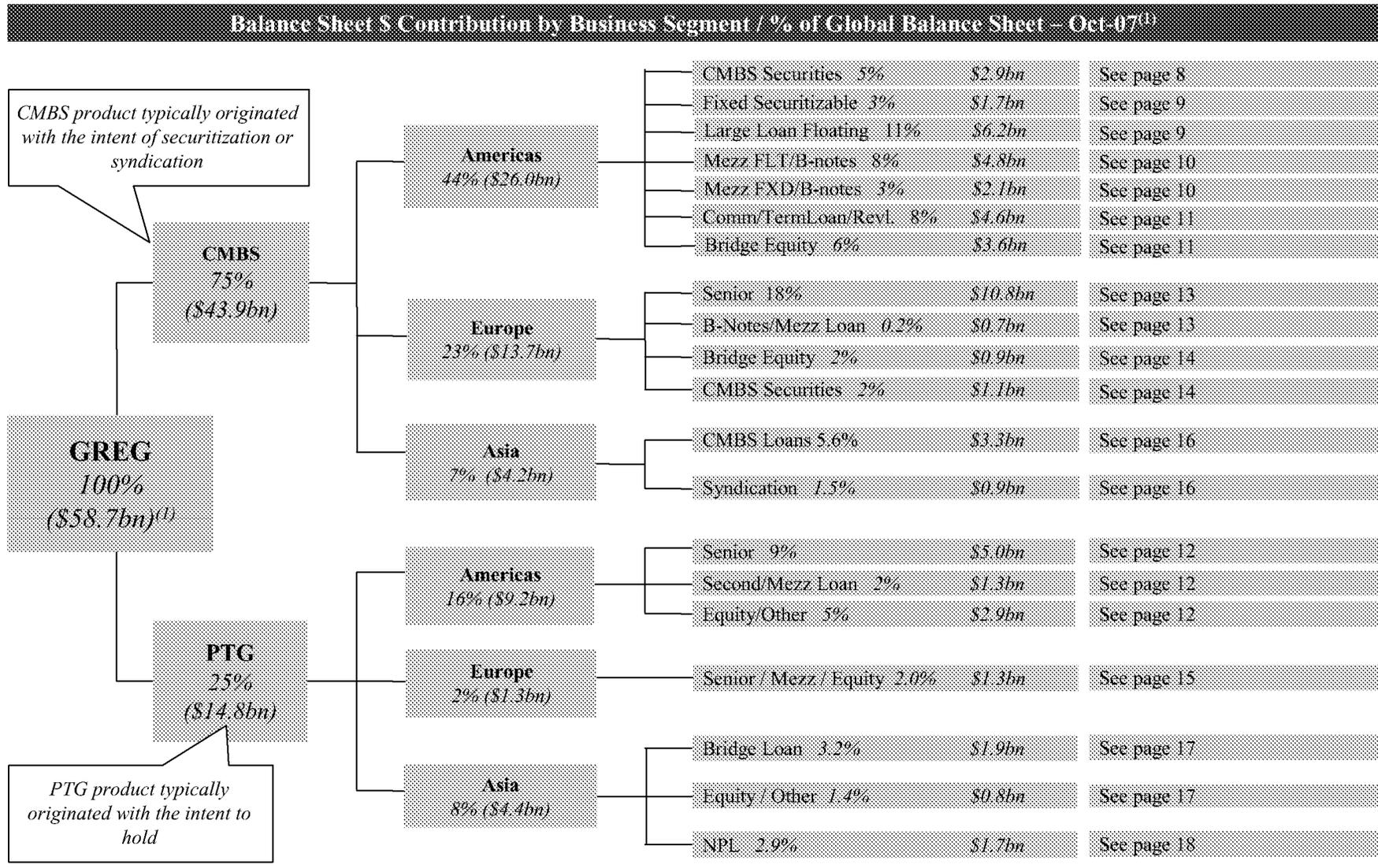


# Real Estate Capital Markets Overview

| Americas                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Europe                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Asia                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>◆ Fundamentals remain strong in the commercial sector (rent growth, lack of new supply)</li> <li>◆ Sales activity has slowed dramatically due to capital markets disruption</li> <li>◆ Stalemate – buyers want discount because of higher borrowing costs; sellers say they will wait until borrowing costs come down if they don't have to sell</li> <li>◆ The weak \$ and inflows of foreign capital have left cap rates low on class A properties in primary markets</li> <li>◆ Cap rates for class B properties and property located in secondary markets expected to rise more dramatically</li> <li>◆ Unlike the residential market, there has been no noticeable increase in delinquencies</li> <li>◆ Securities markets generally shut, the exception being AAA and below investment grade fixed rate bonds</li> <li>◆ Syndication market overwhelmed by supply</li> <li>◆ Spreads on whole loans and securities experienced drastic widening in the last month</li> </ul> | <ul style="list-style-type: none"> <li>◆ Rental Growth predicted to be less but still present in most major cities</li> <li>◆ Cap rates are under pressure for non-prime assets – Germany is biggest issue</li> <li>◆ UK Outlook uncertain, with most sectors exhibiting slow rental growth and falling capital values. Retail investor auctions giving strong mixed messages</li> <li>◆ U.K. House Prices (Minimal LB Exposure): Northern Rock hurt low / mid-market; £1 – 5m slower; £15m plus strong</li> <li>◆ Emerging Markets: Capital pullback likely; Russia looks tough</li> <li>◆ Bank Syndication: Wider pricing but good liquidity; Banks getting overwhelmed by supply</li> <li>◆ B-Note: Slightly wider pricing but good liquidity; Banks getting overwhelmed by supply</li> <li>◆ Mezzanine debt has priced wider but good liquidity</li> <li>◆ Equity: The outlying debt driven bidder is out – pricing changes (especially in Germany)</li> </ul> | <ul style="list-style-type: none"> <li>◆ Strong fundamentals across the region for all products; office rental rates in major cities (Tokyo, Hong Kong, Shanghai, Singapore) have risen 15-20% per year and continued growth is expected</li> <li>◆ Cap rates in growth areas continue to tighten (China, India, Singapore); Japan have stabilized, but are expected to slightly widen as debt markets re-price</li> <li>◆ Development activity continues to be very strong and there is ample liquidity across the region (China/India RE Co's IPO's, REIT activity, PE in-flows)</li> <li>◆ Stable debt markets across region; local banks active across products; minimal securitization penetration in the region so less volatility from global events</li> <li>◆ Japan CMBS is stable; high expected supply in near term; total capital structure WAC has widened 5bps from mid-year; whole loan spreads widening by 25bps and de-leveraging; minimal residual CMBS held; priced LJAC-6 Nov 5th</li> <li>◆ Major risks include government regulatory changes in Japan/China/India around in-flows and controlling RE appreciation; potential Japan deflation</li> </ul> |

# Diversified Product/Region Portfolio

GREG is well-diversified by region, property and risk type



1. Excludes Gross-up

# GREG US: CMBS Product Exposure

## CMBS Securities

### Overview

**Total: \$1.6bn (3% of Global BS)**

- ◆ Improving U/W standards; less pro forma, higher DSCR and lower LTV
- ◆ Supply will decrease dramatically; conduit origination down 70%; large loan origination down 90%.
- ◆ Q4 '07 supply is expected to be \$25bn vs Q4 '06 of \$53bn. Street consensus expects 2008 supply to decline 50-70% year over year.
- ◆ Total return swaps used to hedge AAA exposure.
- ◆ 69% of the position is rated AAA

### Fixed Rate CMBS Securities

| Rating       | B/S at Risk (\$mn) | % of Global BS at Risk | % of Regional BS at Risk | Spread in bps (05/02/07) | Spread in bps (10/31/07) |
|--------------|--------------------|------------------------|--------------------------|--------------------------|--------------------------|
| AAA          | 1,102              | 1.9%                   | 3.1%                     | 32                       | 73                       |
| AA           | 90                 | 0.2%                   | 0.3%                     | 51                       | 150                      |
| A            | 218                | 0.4%                   | 0.6%                     | 68                       | 240                      |
| BBB          | 187                | 0.3%                   | 0.5%                     | 234                      | 513                      |
| Non IG       | 8                  | 0.0%                   | 0.0%                     | 400                      | 800                      |
| <b>Total</b> | <b>1,605</b>       | <b>2.7%</b>            | <b>4.6%</b>              |                          |                          |

### Overview

**Total: \$1.3bn (2% of Global BS)**

- ◆ Different buyer base than fixed rate
  - SIV/Asset-backed CP conduits accounted for 40-50% of AAA
  - CDO buyers accounted for 60-70% of BBB demand.
- ◆ Origination has essentially stopped.
- ◆ Minimal liquidity and appetite in floating rate market
- ◆ 75% of the position is rated AAA

### Floating Rate CMBS Securities

| Rating       | B/S at Risk (\$mn) | % of Global BS at Risk | % of Regional BS at Risk | Spread in bps (05/02/07) | Spread in bps (10/31/07) |
|--------------|--------------------|------------------------|--------------------------|--------------------------|--------------------------|
| AAA          | 959                | 1.6%                   | 2.7%                     | 11                       | 60                       |
| AA           | 29                 | 0.0%                   | 0.1%                     | 25                       | 125                      |
| A            | 63                 | 0.1%                   | 0.2%                     | 45                       | 175                      |
| BBB          | 227                | 0.4%                   | 0.6%                     | 110                      | 300                      |
| Non IG       | 5                  | 0.0%                   | 0.0%                     | N/A                      | N/A                      |
| <b>Total</b> | <b>1,283</b>       | <b>2.2%</b>            | <b>3.6%</b>              |                          |                          |

# GREG US: CMBS Product Exposure

## Fixed Rate Securizable

### Overview

#### Fixed Rate Securizable: \$1.7bn (3% of Global BS)

- ◆ Fixed rate conduit is the most liquid / active market of the securitization markets.
  - AAA spreads have widened from 25bps in Jan-07 to 75bps in Aug and are currently trading at 65bps
  - BBB spreads have widened from 75bps in Jan-07 to 400bps in Aug and are currently trading at 500
  - Non-rated spreads have widened from 20% in Jan-07 to 27% in Aug and are currently trading at 28%
- ◆ Origination volumes are down an estimated 70%
- ◆ Pricing has widened and leverage points have fallen creating a more attractive risk profile on new originations
- ◆ WA LTV: 69%
- ◆ Key Risk: Spread rather than credit – mitigated by active hedging strategy utilizing TRS, CMBX and swaps

### Top 5 Positions - 69% of Category

| Position              | B/S at Risk (\$mm) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                                                                  | Exit                         |
|-----------------------|--------------------|------------------------|--------------------------|------------------------------------------------------------------------------------------------------------------------------|------------------------------|
| 1 Innkeepers          | 413                | 0.7%                   | 1.2%                     | 71% LTV acquisition financing for Apollo's purchase of Innkeepers (69 hotels)                                                | Securitization in Nov 2007   |
| 2 GM Building         | 319                | 0.5%                   | 0.9%                     | 25% participation in a 61% LTV \$1.9bn commercial mortgage loan originated by Deutsche Bank                                  | Securitization in 3Q/4Q 2008 |
| 3 Nashville Portfolio | 116                | 0.2%                   | 0.3%                     | 80% LTV acquisition financing to New Dawn and Lehman for the purchase of multifamily properties in and around Nashville, TN. | Securitization in Nov 2007   |
| 4 Meyerland Plaza     | 93                 | 0.2%                   | 0.3%                     | 68% LTV financing on a retail property in Houston, TX.                                                                       | Securitization in Nov 2007   |
| 5 Crossroads Plaza    | 75                 | 0.1%                   | 0.2%                     | 72% LTV financing on a retail property in Cary, NC.                                                                          | Securitization in Nov 2007   |
| <b>Total</b>          | <b>1,016</b>       | <b>1.7%</b>            | <b>2.9%</b>              |                                                                                                                              |                              |

## Floating Rate Large Loans

### Overview

#### Floating Rate Large Loans Total: \$6.2bn (11% of Global BS)

- ◆ Minimum liquidity in floating rate securitization market due primarily to SIV issues and sec lenders pull back
- ◆ The traditional first mortgage syndicated loan market has lagged the capital markets but is now experiencing tighter liquidity and spread widening
- ◆ Structural and pricing flex have been reintroduced to the market; approx. 35% of the exposure has a full price flex.
- ◆ WA LTV: 59%
- ◆ WA Life based on initial term: 24 months
- ◆ WA Life based on extended full maturity: 40 months
- ◆ WA DM: 275 bps over Libor
- ◆ Key Risk: Spread not credit risk

### Top 5 Positions - 52% of Category

| Position       | B/S at Risk (\$mm) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                                                                                      | Exit                                                                       |
|----------------|--------------------|------------------------|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| 1 Prologis     | 958                | 1.6%                   | 2.7%                     | 65% LTV acquisition financing to Prologis and LB bridge equity to acquire a 25 mn sf industrial portfolio. <b>Full price flex</b>                | \$540mn 5-yr loan with Metlife 1Q08/ Balance securitize/ syndicate in 1Q08 |
| 2 Archstone    | 889                | 1.5%                   | 2.5%                     | LB's share of the \$1.8bn 65% LTV acquisition loan. <b>Full price flex</b>                                                                       | Sold to Freddie Mac on 11/1/07                                             |
| 3 Hilton       | 857                | 1.5%                   | 2.4%                     | LB's 7.5% share of a 45% LTV, \$21bn acquisition financing to Blackstone's purchase of Hilton                                                    | Securitization 1Q 2008                                                     |
| 4 25 Broad     | 270                | 0.5%                   | 0.8%                     | 74% LTV condo conversion in lower Manhattan sized as a rental. Full recourse for bottom \$50mn.                                                  | Sell out of units (30% sold since Mar-07)                                  |
| 5 Toy Building | 262                | 0.4%                   | 0.7%                     | 79% LTV Financing for L&L, LBREP and LB Bridge Equity's acquisition of Toy Building. 45% of building is preleased to WPP. <b>Full price flex</b> | Syndication 2008                                                           |
| <b>Total</b>   | <b>3,236</b>       | <b>5.5%</b>            | <b>9.2%</b>              |                                                                                                                                                  |                                                                            |

# GREG US: CMBS Product Exposure

## Floating Rate Mezz / B-Notes

### Overview

#### Senior Total: \$4.7bn (8% of Global BS)

- ❖ Lack of available financing has widened spreads throughout the capital structure
- ❖ Lower leverage mezz widened by 25 ~ 50 bps. Cash buyers (e.g., insurance companies) still active
- ❖ High leverage mezz widened by 100 ~ 200 bps. Opportunistic buyers remain active
- ❖ CDO Buyers drove moderate leverage mezz market which remains the most challenged.
- ❖ About \$1.25 billion in balance sheet reduction expected by 1Q08
- ❖ Approximately one-third of the book has full price flex and/or some form of sponsor guaranty
- ❖ Market disruption caused customers to DK \$500mn of circled trades
- ❖ WA LTV: 73%
- ❖ Weighted average DM is 360 bps over Libor
- ❖ WA Life based on initial term: 23 months
- ❖ WA Life based on extended full maturity: 49 months
- ❖ Key Risk: spread and credit

### Top 5 Positions - 48% of Category

| Position     | B/S at Risk (\$mn) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                                                                                                                                                | Exit                                                                                    |
|--------------|--------------------|------------------------|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| 1 Hilton     | 672                | 1.1%                   | 1.9%                     | LB's 7.5% share of a 78% LTV, \$21bn acquisition financing to Blackstone's purchase of Hilton.                                                                                                             | Currently in the market; most junior pieces circled                                     |
| 2 Beacon III | 452                | 0.8%                   | 1.3%                     | 93% LTV financing for Broadway's acquisition of Beacon Fund III. \$322mn of senior bridge mezz and \$142mn junior bridge mezz. <b>Full price flex plus \$75mn limited sponsor guaranty (with 237 Park)</b> | In final phase of institutional fund raise; expect payoff of junior bridge mezz in 1Q08 |
| 3 237 Park   | 331                | 0.6%                   | 0.9%                     | 96% LTV acquisition financing for Broadway Partners. <b>Full price flex plus \$75mn limited sponsor guaranty (with Beacon III)</b>                                                                         | In final phase of institutional fund raise; expect payoff of junior bridge mezz in 1Q08 |
| 4 CalWest    | 323                | 0.6%                   | 0.9%                     | 84% LTV financing to Walton Street Capital's acquisition of the CalWest industrial portfolio.                                                                                                              | Currently being marketed; 66% circled with expected closing of 1Q08                     |
| 5 Beacon II  | 276                | 0.5%                   | 0.8%                     | LB's 49% participation of 78% LTV financing to Broadway's acquisition of Beacon Fund II, co-funded with Greenwich.                                                                                         | Sold down from 87% LTV to current level. Pending asset sales will continue to delever   |
| <b>Total</b> | <b>2,054</b>       | <b>3.5%</b>            | <b>5.8%</b>              |                                                                                                                                                                                                            |                                                                                         |

## Fixed Rate Mezz / B- Notes

### Overview

#### Mezzanine / B-Notes Total: \$2.1bn (3% of Global BS)

- ❖ Lower leverage market driven primarily by U.S. insurance companies and foreign financials
- ❖ Spreads have widened 25 ~ 100 bps throughout the capital structure
- ❖ Lack of available financing has not had as significant an impact as the floating rate market; typical buyer buys with cash
- ❖ Insurance company buyer base has become increasingly conservative around leverage
- ❖ WA LTV: 67%
- ❖ More than 75% of the book has price flex
- ❖ Key Risk: Spread and credit mitigated by active hedging using total return swaps, CMBX and swaps

### Top 5 Positions - 58% of Category

| Position            | B/S at Risk (\$mn) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                                                                        | Exit                                                                                             |
|---------------------|--------------------|------------------------|--------------------------|------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| 1 237 Park          | 461                | 0.8%                   | 1.3%                     | 96% LTV acquisition financing for Broadway Partners. <b>Full price flex plus \$75mn limited sponsor guaranty (with Beacon III)</b> | Upon completion of sponsor's capital raise, we will commence marketing. Closing anticipated 1Q08 |
| 2 Rosslyn Portfolio | 249                | 0.4%                   | 0.7%                     | 68% LTV financing for Monday Properties, LBREP and LB bridge equity. <b>Full price flex</b>                                        | Currently marketing; Indication of interest for approx. 60% of the position                      |
| 3 Archstone         | 240                | 0.4%                   | 0.7%                     | 65% LTV mezz behind FNMA fixed rate asset pools. <b>Full price flex</b>                                                            | Will commence marketing in Nov-07                                                                |
| 4 GM Building       | 148                | 0.3%                   | 0.4%                     | 25% participation in a 61% LTV \$1.9bn commercial mortgage loan originated by Deutsche Bank                                        | Syndication contemplated 3Q 2008                                                                 |
| 5 Bay Colony        | 122                | 0.2%                   | 0.3%                     | 73.5% LTV acquisition financing for Broadway Partners. Part of project Trois acquisition. <b>Full price flex</b>                   | Currently marketing                                                                              |
| <b>Total</b>        | <b>1,220</b>       | <b>2.1%</b>            | <b>3.5%</b>              |                                                                                                                                    |                                                                                                  |

# GREG US: CMBS Product Exposure

## Term Loans / Revolvers

### Overview

#### Term Loans / Revolver Total: \$4.6bn (8% of Global BS)

- ◆ Liquidity appears to be slowly returning to the market generally, although new issue levels remain below par
- ◆ Real estate related bank loan market largely driven by CDO issuers, most of whom remain sidelined due to lack of financing
- ◆ Significant exposures to Archstone and SunCal
- ◆ Archstone risk mitigated by price flex.
- ◆ Weighted average mark on SunCal exposure is 91.6
- ◆ Key Risk: Credit risk-California land recovery

### Top 5 Positions - 75% of Category

| Position                  | B/S at Risk (\$mn) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                                                                                                                                            | Exit                                                                                                            |
|---------------------------|--------------------|------------------------|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| 1 Archstone Term Loan     | 2,250              | 3.8%                   | 6.4%                     | 47.3% of BB-raised \$1.75 bn Term Loan A and \$3bn Term Loan B financing the acq of Archstone by Tishman and Lehman. Full price flex. \$5.1bn equity commitment to finance the \$23bn acq of Archstone | Mktg commencing on TLA 11/07. Mktg on Term Loan B to commence 3/08                                              |
| 2 Ritter Ranch            | 320                | 0.6%                   | 0.9%                     | Sr lien & mezz on 0.625 acre parcel in LA County, to be developed into a 7,158 lot master planned community. 97% LTV on liquidation value.                                                             | Exploring JV with Farallon to deliver; contemplated to be refinanced in connection with equity recap of SunCal. |
| 3 Wintergames (Intrawest) | 310                | 0.5%                   | 0.9%                     | LB/DB/BS originated a \$1.8bn loan to Fortress Investment Group to purchase Intrawest Corporation                                                                                                      | \$310mm is target hold                                                                                          |
| 4 Marblehead/Hearthland   | 287                | 0.5%                   | 0.8%                     | Term loans on two land development deals: (i) Marblehead - a 313-lot master planned community in Orange County, CA, and (ii) Hearthland - a 982-lot master planned community in Riverside County, CA.  | Marblehead currently selling lots. These lot sales alone will retire debt                                       |
| 5 SunCal Communities I    | 263                | 0.4%                   | 0.7%                     | First lien & mezz on 7 master planned communities consisting of 15,837 lots. 95% LTV on liquidation value.                                                                                             | To be repaid through asset specific construction loans. May syndicate post 3/08                                 |
| <b>Total</b>              | <b>3,436</b>       | <b>5.8%</b>            | <b>9.8%</b>              |                                                                                                                                                                                                        |                                                                                                                 |

## Bridge Equity

### Overview

#### Bridge Equity Total: \$3.6bn (6% of Global BS)

- ◆ Institutional capital has not re-priced core and core plus return thresholds; more scrutiny being placed on exit assumptions
- ◆ Investors are focused on current cash returns
  - Transactions with low cash on cash yields are requiring higher return thresholds
  - Investors are focused on the debt stack and the risk of spread widening on equity returns
- ◆ Bridge equity exposure reduced \$550mm (US/Europe) through asset sales and equity sales in the 3Q07
- ◆ Bridge equity book marked conservatively at 92.
- ◆ Key risk: At the money valuation risk (incorporates both spread and credit).
  - Price flex on debt eroding equity returns
  - Recession reduces / eliminates prospects for rental growth
  - Headline risk reduces investor demand for all real estate

### Top 5 Positions - 87% of Category

| Position                 | B/S at Risk (\$mn) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                                         | Exit                                                            |
|--------------------------|--------------------|------------------------|--------------------------|-----------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|
| 1 Archstone              | 1,942              | 3.3%                   | 5.5%                     | 47.3% of total \$5.1bn equity commitment to finance the \$23bn acq of Archstone                     | Syndication. \$1bn initial interest.                            |
| 2 Prologis               | 546                | 0.9%                   | 1.6%                     | Bridge equity for ProLogis and LB Bridge Equity's \$1.8 bn acq of the Dermody industrial portfolio. | Upon completion of debt recap, mktg to commence. Est Q1 '08.    |
| 3 Rosslyn                | 298                | 0.5%                   | 0.8%                     | Bridge Equity to Monday Prop and LBREP for acq of Rosslyn office portfolio.                         | Currently marketing. Prelim interest of \$120mm.                |
| 4 200 5th Ave (Toy Bldg) | 210                | 0.4%                   | 0.6%                     | Bridge Equity to L&L Acq and LBREP for acq and relevel of Toy Building. 45% already pre-leased.     | Upon debt syndication, equity syndication will commence Q1 '08. |
| 5 EOP Austin Portfolio   | 142                | 0.2%                   | 0.4%                     | Bridge Equity to Thomas Prop and CalSTRS for acq of EOP Austin portfolio.                           | \$75mm sold to ADIA. Currently mktg remaining balance.          |
| <b>Total</b>             | <b>3,138</b>       | <b>5.3%</b>            | <b>8.9%</b>              |                                                                                                     |                                                                 |

# GREG US: US PTG

## Senior Loans

### Overview

**Senior Total: \$5.0bn (9% of Global BS)**

- ❖ The majority of the loans are pre-development facilities with the option to provide construction financing
- ❖ By providing the entire capital stack LB was able to garner premium returns for the stated risk; retaining the option to leverage into an equity like return through syndication
- ❖ Many are structured with exit fees and/or equity participations
- ❖ Top 10 Deals = 37% (\$1.9Bn)
- ❖ Median size loan = \$10.5MM
- ❖ WA LTV: 68% WA Maturity: 18 Months WA Coupon: L+480
- ❖ Mark =94
- ❖ Key Risk: Refinancing risk and residential sales

### Top 5 Positions - 31% of Category

| Position               | B/S at Risk (\$mn) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                                                                                                                 | Exit                                          |
|------------------------|--------------------|------------------------|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|
| 1 Heritage Fields      | 474                | 0.8%                   | 1.3%                     | 32% LTV A&D loan for a newly planned community situated on 3,723 acres in Irvine. Equity sponsors include CALSTRS, NYSTRS, and Oregon State Employees.                      | Development and sales begin summer 2010.      |
| 2 Carillon             | 384                | 0.7%                   | 1.1%                     | Ground up condo development in Miami, FL. Development consists of 582 units of which 87% are sold. Expected completion and sell out of phase 1 in 4Q07.                     | Close units under contract in 2008.           |
| 3 Knickerbocker        | 267                | 0.5%                   | 0.8%                     | Acquisition and predevelopment loan to Isthmar, the real estate arm of the Dubai government, to re-position Time Square office back to its former use as a five star hotel. | Ref by third-party construction loan in 2008. |
| 4 Ritz Carlton Kapalua | 237                | 0.4%                   | 0.7%                     | Construction loan to convert 548 room hotel into condo-hotel in Maui with 298 hotel rooms and 107 condos.                                                                   | Sell hotel and individual condo units         |
| 5 Commons of Mclean    | 175                | 0.3%                   | 0.5%                     | Acquisition of multi-family project in Tyson's Corner, with plan to increase density.                                                                                       | Pursuing JV with MacFarlane Partners          |
| <b>Total</b>           | <b>1,537</b>       | <b>2.6%</b>            | <b>4.4%</b>              |                                                                                                                                                                             |                                               |

## Mezz / Equity

### Overview

**Mezzanine Total: \$1.3bn (2% of Global BS)**

**Equity Total: \$2.9bn (5% of Global BS)**

- ❖ Joint venture investments and loans to provide one-stop shopping for small to medium size local operators
- ❖ Investments are typically small, development or re-development plays
- ❖ Number of positions: 570
- ❖ Average position size: \$7.4mn
- ❖ Mark = 80
- ❖ Key Risk: Execution, credit risk and residential sales

### Top 5 Positions - 16% of Category

| Position                     | B/S at Risk (\$mn) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                                                   | Exit                                                                                                 |
|------------------------------|--------------------|------------------------|--------------------------|---------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| 1 Meridien                   | 228                | 0.4%                   | 0.6%                     | Originated from the recapitalization of the Meridien position in Nov-05. Secured by a portfolio of 31 hotels. | Maximize operations at the properties through management and renovations and position them for sale. |
| 2 Orlando Assets Acquisition | 162                | 0.3%                   | 0.5%                     | Foreclosed loan; Two failed condo conversions in Orlando, FL                                                  | Currently being marketed for sale as rentals.                                                        |
| 3 Stamford                   | 121                | 0.2%                   | 0.3%                     | Second lien mortgage on a 500k+ sf office building in Stamford, CT                                            | Potential sale to Gen Re; Fee owner and tenant                                                       |
| 4 South Beach                | 74                 | 0.1%                   | 0.2%                     | 86 room up scale hotel in South Beach, FL                                                                     | In negotiations with current management company to purchase hotel                                    |
| 5 Moonlight Basin/Mezz       | 70                 | 0.1%                   | 0.2%                     | Bride financing on a Ski mountain resort in Big Sky, MT                                                       | Real estate IBD has mandate to sell asset                                                            |
| <b>Total</b>                 | <b>654</b>         | <b>1.1%</b>            | <b>1.9%</b>              |                                                                                                               |                                                                                                      |

# GREG Europe: CMBS Product Exposure

## Senior

### Overview

**Senior Total: \$10.8bn (18% of Global BS)**

- ◆ CMBS market operating but in very reduced fashion
  - We are in the market with Windermere XIV (€1.1bn)
- ◆ Bank syndication market active but flooded with supply
- ◆ 100% floating rate
- ◆ 100% € or £ denominated
- ◆ WA LTV c. 73%
- ◆ WA maturity 3.5 years (loans don't have extensions)
- ◆ WA DM : 142 bps over Libor
- ◆ Key risk is spread not credit

### Market Spreads

| Tranche | Spreads (05/02/07) | Spreads (11/02/07) |
|---------|--------------------|--------------------|
| AAA     | 17                 | 55                 |
| AA      | 27                 | 90                 |
| A       | 48                 | 140                |
| BBB     | 80                 | 225                |
| BB      | 300                | 500                |

### Top 5 Positions - 47% of category

| Position     | B/S at Risk (\$mn) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                                               | Exit                                                                 |
|--------------|--------------------|------------------------|--------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| 1 Gospel     | 2,942              | 5.0%                   | 19.7%                    | 1,100 loans, 67% WA LTV Commercial mortgages purchased from Northern Rock, UK                             | Nov 2007 create bonds for funding                                    |
| 2 Yellow     | 602                | 1.0%                   | 4.0%                     | 90% WA LTV performing/non-performing German Commercial Real Estate Loans                                  | Nov 2007 create bonds for funding                                    |
| 3 Kapiteeli  | 557                | 0.9%                   | 3.7%                     | 85.1% LTV Senior loan to Niam and Whitehall for acquisition of a Finnish commercial Real Estate portfolio | Nov 2007 Windermere XIV                                              |
| 4 Pearl      | 518                | 0.9%                   | 3.5%                     | 62% LTV Bridge Finance of Dubai Real Estate sponsored by Dubai's Jebel Ali Free Zone Authority            | Client expected to refinance via Corporate Bond issuance in Nov 2007 |
| 5 Fintecna   | 456                | 0.8%                   | 3.1%                     | 75% LTV Senior loan to Fortress for Italian Office portfolio                                              | Nov 2007 Windermere XIV                                              |
| <b>Total</b> | <b>5,075</b>       | <b>8.6%</b>            | <b>34.1%</b>             |                                                                                                           |                                                                      |

## Mezzanine / B-Notes

### Overview

**Mezzanine / B-Notes Total: \$1.2bn (2% of Global BS)**

- ◆ Markets remain open to price and purchase risk – although pricing is wider
- ◆ Largely real estate specific buyer base
- ◆ CDOs had been small part of market – thus limited fallout
- ◆ PIK B notes have been hit hardest, with initial spreads of L + 300bps going to between L + 900 – 1000 bps
  - Lehman exposure is zero
- ◆ Key risk:
  - Credit crunch creates fundamental real estate issues
- ◆ WA LTV c. 77%
- ◆ WA residual maturity 2.47 years
- ◆ WA DM: 320 bps over Libor

### Top 5 Positions - 94% of category

| Position     | B/S at Risk (\$mn) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                                                                                                        | Exit                                        |
|--------------|--------------------|------------------------|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|
| 1 Calvino    | 469                | 0.8%                   | 3.1%                     | 70% LTC acquisition loan to the Whitehall fund for tender of units in an Italian Office real estate fund                                                           | Italy aiming to syndicate \$420MM by Nov 07 |
| 2 Beta       | 283                | 0.5%                   | 1.9%                     | JV Equity Investment with Sansedoni Spa, Fondiaria Spa and the Pitagora Fund and 90% LTC Bridge Loan for acquisition of 100% of quotas of Italian Real estate Fund | Italy aiming to syndicate by Nov 07         |
| 3 Teodora    | 147                | 0.3%                   | 1.0%                     | 78.6% at closing LTV finance to Cordca Savills for acquisition of 100% of quotas of an Italian Real Estate fund                                                    | Italy aiming to syndicate by Nov 07         |
| 4 Gagfah     | 141                | 0.2%                   | 0.9%                     | Exit loan to Fortress secured against shares in Gagfah; maturity in 07/2008                                                                                        | Due to be paid down to \$55MM by Sponsor    |
| 5 Sisu       | 86                 | 0.1%                   | 0.6%                     | 553 Finnish Assets formerly owned by Kapiteeli and acquired by Whitehall / 81.1% Occupancy / WAULT of 4.7 yrs vs. 4.6 yrs remaining loan term                      | To syndicate in / after Q1 2008             |
| <b>Total</b> | <b>1,126</b>       | <b>1.9%</b>            | <b>7.6%</b>              |                                                                                                                                                                    |                                             |

LEHMAN BROTHERS

# GREG Europe: CMBS / PTG Product Exposure

## Bridge Equity

### Overview

**Bridge Equity Total: \$915m (2% of Global BS)**

- ◆ Institutional investors continue to receive new allocations to property
- ◆ Sponsors' fee and promote structures will be pushed back upon by investors
- ◆ Feedback on existing positions has been positive but process is slow
  - Assets are very prime and unique, help insulate from market declines
- ◆ Key risk: At the money valuation risk (incorporates both spread and credit).
  - Price flex on debt (on certain deals) eroding equity returns
  - Recession reduces / eliminates prospects for rental growth
  - Headline risk reduces investor demand for all real estate

### Entire Book

| Position           | B/S at Risk (\$mm) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                                 | Exit                                                                                                                                            |
|--------------------|--------------------|------------------------|--------------------------|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 Coeur Defense    | 573                | 1.0%                   | 3.8%                     | Bridge Equity provided to LBREP/Atemi for €2.1Bn purchase of prime Paris office building    | Sold €75MM to GE Pension Fund. Potentially sell €204Mm to Oxford Properties (Canadian) Longer term (2008) interest from German and UK investors |
| 2 Devonshire House | 183                | 0.3%                   | 1.2%                     | Bridge Equity provided to Witkof/DCD Groups for acquisition of prime London Office building | Road Show stage, aiming to sell in 50MM tranches                                                                                                |
| 3 Vintners Place   | 103                | 0.2%                   | 0.7%                     | Bridge Equity and JV Equity investment with Atlas Capital Office acquisition in London      | Road Show stage, aiming to sell in 50MM tranches                                                                                                |
| 4 90 Long Acre     | 57                 | 0.1%                   | 0.4%                     | Bridge Equity provided to Witkof/DCD Groups for acquisition of UK Office building           | Sold €40MM; Road show stage                                                                                                                     |
| <b>Total</b>       | <b>915</b>         | <b>1.6%</b>            | <b>6.1%</b>              |                                                                                             |                                                                                                                                                 |

## CMBS Securities

### Overview

**CMBS Securities Total: \$1.1bn (2% of Global BS)**

- ◆ All floating rate
- ◆ 2 buckets
  - Uncleared bonds: leaking uncleared bonds out onto market
  - Secondary trading: opportunistic purchases / supporting Windermere brand
- ◆ Supply expected to reduce by over 80% for Quarter 4
  - 50 – 70% decline in issuance expected in 2008

### Entire Book

| Rating       | B/S at Risk (\$mm) | % of Global BS at Risk | % of Regional BS at Risk | Spread in bps (05/02/07) | Spread in bps (10/31/07) |
|--------------|--------------------|------------------------|--------------------------|--------------------------|--------------------------|
| AAA          | 769                | 1.3%                   | 5.2%                     | 17                       | 55                       |
| AA           | 141                | 0.2%                   | 0.9%                     | 27                       | 90                       |
| A            | 100                | 0.2%                   | 0.7%                     | 48                       | 140                      |
| BBB          | 109                | 0.2%                   | 0.7%                     | 80                       | 225                      |
| Non IG       | 4                  | 0.0%                   | 0.0%                     | 300                      | 500                      |
| <b>Total</b> | <b>1,123</b>       | <b>1.9%</b>            | <b>7.5%</b>              |                          |                          |

# GREG Europe: PTG Product Exposure

| PTG (Senior / Mezz / Equity)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                    |                                       |                          |                                                                                                                                                           |                                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Overview                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                    | Top Five Positions - 100% of Category |                          |                                                                                                                                                           |                                                                                              |
| <p><b>Senior Total: \$436mm (0.7% of Global BS)</b></p> <p><b>Mezz Total: \$363mm (0.6% of Global BS)</b></p> <p><b>Equity Total: \$539mm (0.9% of Global BS)</b></p> <ul style="list-style-type: none"> <li>◆ Joint venture investments and loans to provide one-stop shopping for small to medium size local operators</li> <li>◆ Investments are typically small, development or re-development plays</li> <li>◆ Number of positions: 65</li> <li>◆ Average position size: \$20.5mm</li> <li>◆ Mark = 98</li> <li>◆ Key Risks: <ul style="list-style-type: none"> <li>- Business plan execution</li> <li>- Micro-location property risk</li> <li>- Property market liquidity</li> </ul> </li> </ul> |                    |                                       |                          |                                                                                                                                                           |                                                                                              |
| Position                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | B/S at Risk (\$mm) | % of Global BS at Risk                | % of Regional BS at Risk | Description                                                                                                                                               | Exit                                                                                         |
| 1 Reva (Senior)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 219                | 0.4%                                  | 1.5%                     | 83.5% LTV Senior loan to Llanera to finance corporate purchase of Reva, a Spanish land owning company                                                     | Workout, believe more than sufficient collateral coverage to cover principal fees and margin |
| 2 Kwiksave (Senior)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 165                | 0.3%                                  | 1.1%                     | 86.2% LTV Senior loan to Chatham Estate Ltd to finance UK retail                                                                                          | Sell properties during 2008                                                                  |
| 3 Chancery Gate                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 59                 | 0.1%                                  | 0.4%                     | Holding company investment in the UK, 18.5% of fully diluted share capital of a freehold business space developer and seller. LBREP also owns 18.5%       | 5 Year asset management strategy. Exit Company via IPO or trade sale                         |
| 4 Peninsula Golf (Mezz)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 48                 | 0.1%                                  | 0.3%                     | 73% LTV Mezzanine Financing and Equity Investment with Colbert Orco for Golf Course and Residential development in France                                 | Sale of residential units and sale of golf course to partner scheduled for end of 2008       |
| 5 Boulbee Stockholm (Equity)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 39                 | 0.1%                                  | 0.3%                     | JV Equity and Mezzanine financing to Boulbee for acquisition of CentrumKonpaniet portfolio consisting of Residential and Commercial Real Estate in Sweden | 5.5 year hold, piecemeal break-up of portfolio, variety of exits                             |
| <b>Total</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>530</b>         | <b>0.9%</b>                           | <b>3.6%</b>              |                                                                                                                                                           |                                                                                              |

# GREG Asia: CMBS Product Exposure

## CMBS Loans

### Overview

**Total: \$3.3bn (6% of Global BS)**

- Japan CMBS distribution still stable, but supply increasing in near term; spreads widening; core accounts might be subject to regulatory pressure as FSA continues to try to slow RE equity story; current capital stack WAC at +85 from +65 at mid-year
- BB/B securities continues to attract domestic and foreign buyers (buy/hold accounts or mezz funds); minimal CDO buyers
- LB LJAC-6 \$850m deal to be priced Nov 5th
  - 30 accounts participating in deal
- Approx \$1.3bn expected to be sold by Q2
- WA LTV 77.3%
- WA maturity 4.2 years (4.4 years with extensions)
- WA DM L +235; 90% of book is floating yen libor
- Key risks are short term supply and FSA

### Market Spreads

| Tranche | Spread (bps) |        |
|---------|--------------|--------|
|         | May-07       | Nov-07 |
| AAA     | 26           | 40     |
| AA      | 42           | 50     |
| A       | 62           | 70     |
| BBB     | 110          | 175    |
| BB      | 230          | 350    |

### Top Five Positions - 47% of Category

| Position          | B/S @ Risk (\$m) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                | Exit                               |
|-------------------|------------------|------------------------|--------------------------|----------------------------------------------------------------------------|------------------------------------|
|                   |                  |                        |                          |                                                                            |                                    |
| 1 Kokusai Akasaka | 703              | 1.2%                   | 8%                       | 80% LTV, 1.5% spread; class A office building in central Tokyo             | LJAC 6 CMBS pricing Nov. 5th       |
| 2 Daito Apartment | 345              | 0.6%                   | 4%                       | 84% LTV, 2.2% spread; conduit Japan apartment loan program                 | Securitization targeted for Q1 '08 |
| 3 Project Cowboy  | 205              | 0.3%                   | 2%                       | 80% LTV, 2.4% spread; financing to Whitehall for 16 properties in Japan    | Securitization targeted for 2H '08 |
| 4 Pearlcity Hotel | 156              | 0.3%                   | 2%                       | 84% LTV, 2.4% spread, collateralized by 19 hotels located throughout Japan | Securitization targeted for Q1 '08 |
| 5 Kayabacho First | 138              | 0.2%                   | 2%                       | 43% LTV, 1.3% spread; collateralized by office building in central Tokyo   | LJAC 6 CMBS pricing Nov. 5th       |
| <b>Total</b>      | <b>1,547</b>     | <b>2.6%</b>            | <b>18%</b>               |                                                                            |                                    |

## Syndication Loans

### Overview

**Total: \$0.9bn (1% of Global BS)**

- Sell down strategy implemented for land/development loans across the region; seeing good interest from Banks for A-note real estate risk exposure in Thailand, Korea and Singapore
- Re-finance market in Japan for land/development debt still active and robust – sponsor quality being scrutinized
- WA LTV 79.5%
- WA maturity 2.2 years (2.6 yrs with extensions)
- WA DM L +300
- Key risks depth of sell-down market; FSA reg risk and non-conforming assets

### Top Five Positions - 86% of Category

| Position          | B/S @ Risk (\$m) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                              | Exit                                            |
|-------------------|------------------|------------------------|--------------------------|------------------------------------------------------------------------------------------|-------------------------------------------------|
|                   |                  |                        |                          |                                                                                          |                                                 |
| 1 Nagaoka Fudosan | 302              | 0.5%                   | 4%                       | 77% LTV, 3% spread; collateral is sub-performing loans secured by 45 properties in Japan | \$200m A-note sell down to be completed Nov/Dec |
| 2 Jingumae        | 154              | 0.3%                   | 2%                       | 83% LTV, 3.1% spread, land for retail property in Japan, 20% equity in development       | Refinance and sell senior tranche, retain mezz  |
| 3 Silver Court    | 150              | 0.3%                   | 2%                       | 85% LTV, 6% WAC; mixed retail, office & residential property in China                    | Sell down senior tranche / refinance            |
| 4 M Train         | 98               | 0.2%                   | 1%                       | 80% LTV, spread of 3.5%; grade B office/retail building in Seoul, Korea                  | Sell a senior tranche in Nov '07                |
| 5 Kismet          | 79               | 0.1%                   | 1%                       | 85% LTV, 7.5% yield; secured by 4 properties in Thailand                                 | Syndication Q1 '08                              |
| <b>Total</b>      | <b>784</b>       | <b>1.3%</b>            | <b>9%</b>                |                                                                                          |                                                 |

# GREG Asia: PTG Product Exposure

## Bridge Loans

### Overview

**Senior Total: \$1.9bn (3% of Global BS)**

- ◆ Strong real estate re-position stories with good underlying real estate fundamentals
- ◆ Re-finance local debt market in Japan and Non-Japan remains robust and positive towards the sector
- ◆ Largest position (Ryowa) will be liquidating pool structure with central Tokyo residential development sites with no equity leakage
- ◆ Non-Japan consist of 32 loans with average notional of \$24m; minimal sell down liquidity in these loans
- ◆ WA LTV 82.5%
- ◆ WA maturity 1.6 years (1.8 yrs with extensions)
- ◆ WA DM L+360
- ◆ Key risks - extension risk due asset type (land, etc); FSA reg risk; spread risk

### Top Five Positions - 45% of Category

| Position           | B/S @ Risk (\$m) | % of Global BS at Risk | % of        |         | Description                                                                           | Exit                                                           |
|--------------------|------------------|------------------------|-------------|---------|---------------------------------------------------------------------------------------|----------------------------------------------------------------|
|                    |                  |                        | Regional BS | at Risk |                                                                                       |                                                                |
| 1 Ryowa Life       | 358              | 0.6%                   | 4%          |         | 82% LTV, 6% spread, collateral is shares of Ryowa Life, a condo developer in          | Nov '07 target refinancing by LB to a real estate secured loan |
| 2 Daikoku          | 188              | 0.3%                   | 2%          |         | 80% LTV, 3.3% spread land financing for warehouse development in Japan                | Borrower refinancing target in early '08                       |
| 3 PSR Golf         | 133              | 0.2%                   | 2%          |         | 77% LTV, 2.9% spread, loan secured by equity pledge backed by 8 golf courses in Japan | Borrower refinancing target in May '08                         |
| 4 Kokura Iron Wing | 128              | 0.2%                   | 1%          |         | 95% LTV, 2.9% spread, large scale retail building in Japan                            | Exit via sale to a REIT                                        |
| 5 Migliore         | 96               | 0.2%                   | 1%          |         | 55% LTV, 4% spread, loan on mixed-use property in Seoul, Korea                        | Sale of senior tranche                                         |
| <b>Total</b>       | <b>903</b>       | <b>1.3%</b>            | <b>10%</b>  |         |                                                                                       |                                                                |

## Equity / Other

### Overview

**Total: \$0.8bn (1% of Global BS)**

- ◆ Equity investments are generally relatively small and are made in conjunction with strategic partners
- ◆ Assets are business plan specific rather than pure market plays
- ◆ The largest equity investments are in in very liquid markets (e.g. Central Tokyo, Singapore CBD) and/or prime locations (e.g. Phuket Beach Front)
- ◆ Number of positions: 70
- ◆ Average position size: \$10m
- ◆ Mark = 74 (basis over current estimated value)
- ◆ Exit timing 6 – 30 months with over 50% scheduled to be sold within 18 months
- ◆ Key Risk: Macro market down turn; regulatory intervention (e.g. Japan, China and India) and political instability (e.g. Thailand)

### Top Five Positions - 39% of Category

| Position              | B/S @ Risk (\$m) | % of Global BS at Risk | % of        |         | Description                                                                                           | Exit                                              |
|-----------------------|------------------|------------------------|-------------|---------|-------------------------------------------------------------------------------------------------------|---------------------------------------------------|
|                       |                  |                        | Regional BS | at Risk |                                                                                                       |                                                   |
| 1 Tokyo Property      | 62               | 0.1%                   | 0.7%        |         | Land parcel located in Roppongi, Tokyo                                                                | Q2 '08 sale of land                               |
| 2 Phuket Four Seasons | 48               | 0.1%                   | 0.6%        |         | Land for construction of hotel in Phuket, Thailand                                                    | Sale of hotel upon completion in 2010             |
| 3 Crosby Kajima       | 43               | 0.1%                   | 0.6%        |         | Partnered with Kajima on purchase / development of office building in Singapore                       | Partial sale in 1H '08; 5 year development plan   |
| 4 Ryowa               | 43               | 0.1%                   | 0.5%        |         | Preferred & common shares pledged on loan                                                             | Nov-07 target refinancing on loan                 |
| 5 Huntlee (Equity)    | 31               | 0.1%                   | 0.4%        |         | Investment in developer of a planned residential community near Newcastle, New South Wales, Australia | Sale of tranches after infrastructure is complete |
| <b>Total</b>          | <b>233</b>       | <b>0.4%</b>            | <b>3%</b>   |         |                                                                                                       |                                                   |

# GREG Asia: PTG Product Exposure

## NPL

### Overview

**Total: \$1.7bn (3% of Global BS )**

- ◆ Continued strong demand in Japan from domestic and international purchasers; most offerings attract five or more bidders
- ◆ Existing positions are conservatively marked; all collections for Non-Japan NPL reduce basis; no profit taken until portfolio basis is zero
- ◆ In the past 60 days, recent appraisals were received and reviewed for the large Japan NPL collateral (no write downs)
- ◆ US\$50m net mark up in Japan in 2007 (US\$60m in mark ups and US\$10m markdown); mark down due to a corporate bankruptcy, not real estate valuation
- ◆ In Japan over 80% of the borrowers (by purchase price) are making steady payments; most loans will be restructured and securitized or sold as whole loans
- ◆ Over 97% of the loans are variable rate and overall spreads on existing positions are wide relative to LTV (e.g. 70% LTV loans are +350bps or higher)
- ◆ No expected losses if an orderly liquidation (e.g. four months) is required; expected losses for a "fire sale" would be 2% or less of portfolio basis
- ◆ Mark = 90 (Security values do not take into account NPL liquidity discounts)
- ◆ Average portfolio size of \$10.2m, with average investment per borrow less than \$1m
- ◆ Key risk: government intervention to limit re-financing exits (e.g. Japan FSA)

### Top Five Positions – 23% of Category

| Position            | B/S @ Risk (\$m) | % of Global BS at Risk | % of Regional BS at Risk | Description                                                                  | Exit                              |
|---------------------|------------------|------------------------|--------------------------|------------------------------------------------------------------------------|-----------------------------------|
| 1 RCC Trust VII     | 98               | 0.2%                   | 1%                       | 65% LTV, 6% yield sub-bond backed by NPL / PL in Japan                       | Collateral resolutions/loan sales |
| 2 Tokyo Portfolio 1 | 88               | 0.2%                   | 1%                       | 90% LTV, 8% yield; secured by land / warehouses in Japan                     | Exit via property sale            |
| 3 Ryowa NPL         | 86               | 0.1%                   | 1%                       | 30% LTV, 3.5% yield, 1year loan secured by 650-unit condo project in Japan   | Refinance                         |
| 4 RCC Trust VI      | 69               | 0.1%                   | 1%                       | 75% LTV, 6.1% yield, sub-bond backed by NPL / PL in Japan                    | Collateral resolutions/loan sales |
| 5 Ambank            | 34               | 0.1%                   | -                        | 65% LTV, 9% yield on portfolio of commercial / residential loans in Malaysia | Collateral resolutions            |
| <b>Total</b>        | <b>376</b>       | <b>0.4%</b>            | <b>4%</b>                |                                                                              |                                   |

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## Key Portfolio Risk Factors and Stress Analysis

# West Coast Land Review

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

## Economy and Demographics

- ◆ Population is expected to increase by 13 million people by the year 2030, accounting for greater than 15% of total national growth
- ◆ Average annual demand is expected to be 220 thousand units per year and construction has lagged below, averaging just 174 thousand units per year since 1999
- ◆ There is substantial pent-up demand for affordable entry-level new housing across CA

## Approach and Portfolio Summary

### Portfolio Characteristics:

- ◆ Total basis for deals included is approximately \$2.9Bn (157 deals)
- ◆ The \$2.9Bn consists of \$1.8Bn in 1<sup>st</sup> liens (mtm=.93), \$332MM in mezz loans (mtm=.71) and \$721MM in equity (mtm=.78)
- ◆ Major sponsors include: Troxler, Capstone and Sunclal

### Assumptions:

- ◆ Stalled housing market will slow absorption of lot take downs
- ◆ Immediate price declines to remain flat through sellout
- ◆ Current carry costs for deals will remain in place (no refinance)

### Methodology:

- ◆ DCF models are used to provide LB with a base case scenario of how each deal is expected to perform through exit and used to determine if the deal is marked appropriately
- ◆ Sensitivity analysis / multiple stress scenarios are run

## Realized PTG P&L in CA Land by Year

| Year                 | 2003 | 2004 | 2005 | 2006 | 2007 | Total |
|----------------------|------|------|------|------|------|-------|
| Realized P&L CA Land | 103  | 92   | 209  | 125  | 52   | 583   |

- ◆ Despite the current market slowdown, the CA land business has been and we expect it will continue to be a profitable business line
- ◆ Projected net revenues of the position are estimated at \$793MM

## Financial Summary (SMM)

|                                                     |              |
|-----------------------------------------------------|--------------|
| PTG Balance @ 11/1/07                               | \$1,852      |
| PTG Basis @ 11/1/07                                 | 1,505        |
| Bank Loan Balance @ 11/1/07                         | \$1,491      |
| Bank Loan Basis @ 11/1/07                           | 1,372        |
| Current Combined Basis                              | 2,877        |
| <b>Potential Combined Mark Downs in Stress Case</b> | <b>(256)</b> |
| Potential Combined Basis                            | 2,621        |
| Potential Combined Mark                             | 0.78         |

- ◆ The NPV approach highlighted \$116MM in immediate credit impairment, which was flashed as of October month end
- ◆ Our stress analysis shows an incremental \$256MM in potential losses

# Major Exposures / Risks: Condo Development / Conversion

**Slower investor demand and tighter mortgage credit continue to challenge the market**

| Condo Status                                            | Number of Transactions | Current Outstanding Balance  |              |                              | % Sold     | % Under Contract | % Unsold   |
|---------------------------------------------------------|------------------------|------------------------------|--------------|------------------------------|------------|------------------|------------|
|                                                         |                        | Legal as of 9/30/07 (\$mm's) | Mark         | Basis as of 9/30/07 (\$mm's) |            |                  |            |
| Properties Less Than 35% Sold                           | 15                     | 737                          | 95.35        | 703                          | 2%         | 12%              | 86%        |
| Properties Between 35% and 75% Sold                     | 29                     | 752                          | 64.63        | 486                          | 32%        | 24%              | 44%        |
| Properties Greater Than 75% Sold                        | 26                     | 761                          | 90.49        | 688                          | 31%        | 60%              | 10%        |
| Condos w/o Sales LB will Develop with operating partner | 32                     | 534                          | 84.33        | 450                          | 0%         | 0%               | 100%       |
| Condos without Sales LB will not Develop / Convert      | 18                     | 785                          | 87.44        | 686                          | 0%         | 0%               | 100%       |
| <b>Totals/WA</b>                                        | <b>120</b>             | <b>3,569</b>                 | <b>84.45</b> | <b>3,014</b>                 | <b>20%</b> | <b>27%</b>       | <b>53%</b> |

## Portfolio Characteristics

- ◆ The total basis for condo projects in development is approximately \$3Bn across 120 deals (average deal size of \$25.1MM)
- ◆ The \$3Bn consists of \$1.8Bn in 1st liens (mtm=.98), \$761MM in mezz loans (mtm=.89) and \$430MM in equity (mtm=.55).
- ◆ Projected net revenues of the position are estimated at \$759MM; 10% price stress reduces projected net revenues to \$393MM
- ◆ The geographic footprint of the portfolio is as follows: 30% in NY, 20% in FL, and 16% in CA
- ◆ 35% of the book is condo conversion projects which have been negatively affected by the tightening of mortgage credit, coupled with highly leveraged underlying capital structures

## Market Risks

- ◆ Lack of investor demand
- ◆ Slowing absorption is stressing capital structures and increasing negative carry
- ◆ Over supply of new product in certain markets will hinder near term recovery
- ◆ Some buyers walking from deposits on new developments

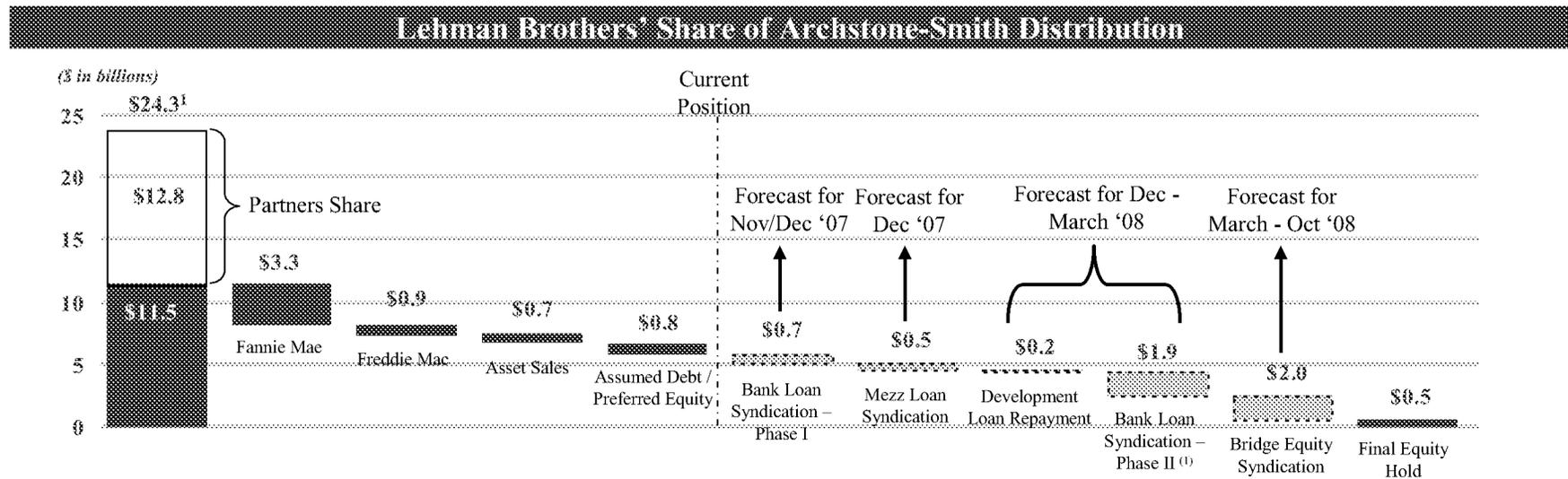
## Summary of Largest Positions

- ◆ **Carillon (Canyon Ranch)** – \$374MM Condo development in North Miami Beach, FL. 87% of project is sold; TCO obtained 11-1-07; Expected payoff of phase 1 in 1Q08
- ◆ **25 Broad St.** – \$306MM Condo conversion in downtown New York. 30% reserved since March 07'; Borrower has guaranteed \$50MM of loan
- ◆ **Greenwich Apartments** – \$230MM Condo conversion in Greenwich, CT. LB pursuing foreclosure and simultaneously exploring sale of loan; Strong investor demand for multi-family product should provide liquidity to LB's position

# Archstone-Smith Trust

Lehman Brothers, along with its partners, acquired Archstone-Smith Trust, a large multi-family REIT in the fourth quarter of 2007. The Firm reduced its total exposure to \$5.8 billion<sup>(1)</sup>

- ◆ Over 50% of Lehman's exposure to the acquisition was syndicated prior to the completion of the commitment
- ◆ Lehman's original committed exposure was \$11.5 billion, which was comprised of \$9.1 billion of debt<sup>1</sup>, \$2.2 billion of bridge equity and \$250 million of permanent equity
- ◆ The Firm has reduced its exposure to \$5.8 billion<sup>(1)</sup> through the following:
  - Fannie Mae purchased \$7.1 billion of the total debt on 10/5/07
  - Freddie Mac purchased an additional \$1.8 billion of debt on 11/1/07
  - A 90% interest in 16 select Orange County / San Diego properties has been sold, generating net proceeds of \$1.4 billion
  - \$1.4 billion of existing debt and \$370 million of preferred equity was assumed



1. Includes share of \$750 million revolver commitment.

# Spread Widening Risk: Global CMBS Business

For the Commercial Mortgage Backed Securitization (CMBS) business, the Firm utilizes stress scenarios, similar to previous events, to determine the worst-case losses. The scenarios below reflect two of the most severe stress scenarios

## Event Stress Scenarios and Impact on CMBS Positions as of September 30, 2007

| Spread Widening Assumptions      | Scenarios            |                            |
|----------------------------------|----------------------|----------------------------|
|                                  | Credit Crunch        | Rating / Default & HF Risk |
| AAA                              | 36bps                | 12bps                      |
| BBB                              | 255bps               | 80bps                      |
| Below Investment Grade           | 300bps               | 130bps                     |
| <b>Impact of Spread Widening</b> |                      |                            |
| US                               | (74)                 | (29)                       |
| Europe                           | (142)                | (26)                       |
| Asia                             | (36)                 | (6)                        |
|                                  | <b>Profit/(Loss)</b> | <b>(252)</b>               |

Note: Impact of spread widening is net of unrealized PnL. US and European spread widenings based on regional levels.

- ◆ Credit Crunch: Widening of credit spreads is similar to, but is not limited to, what was seen during July-August 2007. Mortgages decline significantly. Most other markets experience a flight to quality move, EMG credit spreads gap, fx carry trades unwind.
- ◆ Rating/Default and Hedge Fund Risk: Significant rating risk (e.g. GM), one name default in CDX or HVOL coupled with hedge fund blow-out on structured credit products causing panic selling, significant market widening with CDS basis gapping out (modeled after the period Jul 18, 2002 - Aug 2, 2002)

# Stress Test: Global PTG Assets/Bridge Equity/Bank Loans

The portfolio is stressed for a significant downward valuation movement similar to 1991-92 and flat 10% decline in property values

## Projected Portfolio Profit/(Loss) Scenarios (\$MM) – As of 10/31/07

|                                                      | P&L Estimate                      |                                          | Stress Scenario   |                              |                         |                              |                |                              |
|------------------------------------------------------|-----------------------------------|------------------------------------------|-------------------|------------------------------|-------------------------|------------------------------|----------------|------------------------------|
|                                                      | Total                             |                                          | PTG Debt & Equity |                              | Archstone Bridge Equity |                              | Total          |                              |
|                                                      | Profitability at Stabilized Value | Potential Profitability on Current Value | 1Q91 to 4Q92      | 10% Decline in Current Value | 1Q91 to 4Q92            | 10% Decline in Current Value | 1Q91 to 4Q92   | 10% Decline in Current Value |
| <b>US PTG/Bridge Equity/Bank Loans<sup>(1)</sup></b> |                                   |                                          |                   |                              |                         |                              |                |                              |
| Proceeds available to Lehman                         | 22,492                            | 15,355                                   | 11,003            | 11,796                       | 1,825                   | 1,521                        | 12,828         | 13,317                       |
| Firm Cost Basis                                      | 18,936                            | 14,215                                   | 12,310            | 12,310                       | 1,905                   | 1,905                        | 14,215         | 14,215                       |
| Profit/(Loss)                                        | 3,556                             | 1,140                                    | (1,307)           | (514)                        | (80)                    | (384)                        | (1,387)        | (898)                        |
| <b>Europe PTG and Bridge Equity</b>                  |                                   |                                          |                   |                              |                         |                              |                |                              |
| Proceeds available to Lehman                         | 3,547                             | 2,335                                    | 1,483             | 1,560                        |                         |                              | 1,483          | 1,560                        |
| Firm Cost Basis                                      | 2,961                             | 2,135                                    | 2,135             | 2,135                        |                         |                              | 2,135          | 2,135                        |
| Profit/(Loss)                                        | 586                               | 200                                      | (652)             | (575)                        | NA                      | NA                           | (652)          | (575)                        |
| <b>Asia PTG</b>                                      |                                   |                                          |                   |                              |                         |                              |                |                              |
| Proceeds available to Lehman                         | 4,817                             | 4,555                                    | 4,160             | 4,178                        |                         |                              | 4,160          | 4,178                        |
| Firm Cost Basis                                      | 4,334                             | 4,334                                    | 4,334             | 4,334                        |                         |                              | 4,334          | 4,334                        |
| Profit/(Loss)                                        | 483                               | 221                                      | (174)             | (156)                        | NA                      | NA                           | (174)          | (156)                        |
| Proceeds available to Lehman                         | 30,856                            | 22,245                                   | 16,646            | 17,534                       | 1,825                   | 1,521                        | 18,471         | 19,055                       |
| Firm Cost Basis                                      | 26,231                            | 20,684                                   | 18,779            | 18,779                       | 1,905                   | 1,905                        | 20,684         | 20,684                       |
| <b>Total Global</b>                                  | <b>4,625</b>                      | <b>1,561</b>                             | <b>(2,133)</b>    | <b>(1,245)</b>               | <b>(80)</b>             | <b>(384)</b>                 | <b>(2,213)</b> | <b>(1,629)</b>               |

(1) Assumes US losses have been offset by \$285MM for Archstone and \$75MM for other US Bridge Equity due to the clawback of Sponsor's asset management fees and promote

- ◆ With a 10% decline in property values, including the embedded value that we already take into account, we foresee a loss in an orderly liquidation of \$1.6Bn
- ◆ With an orderly disposition, we expect to generate a profit of \$1.5Bn
- ◆ The cost basis of the portfolio is currently \$20.7Bn. The expectation is that investments will be made in the underlying assets to increase their values. We expect that these investments will increase the cost basis to \$26.2Bn and will allow the Firm to harvest \$4.6Bn in profits
- ◆ The assets detailed incorporate the majority of the equity and debt investment reported as less liquid assets along with CMBS bridge equity positions

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## Appendices

# Historical Global CMBS Bookrunner League Table

| Global Rank | 2007*               |         | 2006                |         | 2005                |         | 2004                |         | 2003                |        | 2002                |        |
|-------------|---------------------|---------|---------------------|---------|---------------------|---------|---------------------|---------|---------------------|--------|---------------------|--------|
|             | 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

LEHMAN BROTHERS

# CMBS Delinquencies: Historic Perspective

Historic low delinquency rates

