

Memorandum

TO: Executive Committee

FROM:

Global Real Estate Group: Mark Walsh

Investment Banking:

David Lazarus
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M&A:

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David Kim
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CC: Steven Hash, Group Head

DATE: Monday, May 7, 2007

SUBJECT: \$21.3 billion debt and equity financing commitment in connection with the potential acquisition of Archstone-Smith by Lehman Brothers and Tishman Speyer Properties

- \$17.2 billion debt commitment
 - \$3.7 billion bridge equity commitment
 - \$327 million permanent equity commitment
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Overview of the Transaction

- On May 2, Lehman and Tishman Speyer (the “Acquisition Group”) submitted a non-binding indication of interest to acquire Archstone-Smith Trust (“Archstone”, “ASN” or the “Company”) for \$64.00 per share, a 26% premium to the closing price of \$50.78 on Friday, May 4, 2007.
- LEH capital commitment: \$21.3 bn (\$17.2 bn debt, \$3.7 bn bridge equity, \$327mm perm equity)
- One of largest, highest-quality, U.S. multifamily REITs; \$24.0 billion transaction value
 - Assets concentrated in best U.S. markets: D.C., NYC, San Fran, and Southern CA
- MS running limited auction process; bids due May 21st
- Strategic opportunity to build our real estate asset management platform
 - Seed a long-term, best-in-class, multifamily investment vehicle
- Total economics to LEH of \$1.35 bn which include (details on next page):
 - Gross profit of \$943mm (net of investment and carry) on \$327mm equity investment
 - Asset management fee value of \$148mm (10x multiple of annual fees)
 - Debt financing fees of \$86mm (50% of \$17.2 billion of debt)
 - Bridge equity fees of \$132mm (50% of \$3.7 billion of bridge equity including carry)
 - Advisory fees of \$36mm

PORTFOLIO OVERVIEW

	Total Units	% of NOI
Core Markets		
Washington D.C. Metro Area	19,874	34.6%
Southern California	16,125	25.8%
New York City Metro Area	3,325	12.5%
San Francisco Bay Area	8,272	11.5%
Boston	3,251	5.0%
Seattle	3,746	4.2%
Other Core Markets	3,037	4.2%
Subtotal Core Markets	57,630	97.8%
Non-Core Markets	3,209	2.2%
Total Wholly- Owned U.S. Operating Portfolio	60,839	100.0%
Joint Venture Units	11,831	
Germany	8,334	
Construction in Progress	1,474	
Ameriton	5,533	
Total Portfolio	88,011	

TOTAL ECONOMICS TO LEHMAN

(\$ in thousands)

	Fee / Return	Lehman Share of Debt / Bridge Equity Financing			
		25%	33%	50%	TOTAL
M&A Advisory Fee	0.15% of Transaction	\$36,000	\$36,000	\$36,000	\$36,000
Floating Rate Debt	1.00% Origination	22,922	30,562	45,843	91,687
Fixed Rate Debt	1.00% of Profitability	20,200	26,934	40,401	80,802
Total Debt		\$43,122	\$57,496	\$86,244	\$172,489
Bridge Equity	4.00% Commitment	37,026	49,368	74,052	148,103
6 Month Carry	12.00% Return	55,539	74,052	111,077	222,155
Less: LEH Cost of Equity Capital L + 0.40%		(26,473)	(35,298)	(52,947)	(105,894)
Total Bridge Equity		\$66,091	\$88,121	\$132,182	\$264,364
Total LEH Fees in First 12 Months		\$145,213	\$181,618	\$254,427	\$472,853
Lehman Share of Annual Asset Management Fees (1)		14,810	14,810	14,810	14,810
Asset Management Fee Multiple		10.0x	10.0x	10.0x	10.0x
Value of Asset Management Fees		\$148,103	\$148,103	\$148,103	\$148,103
Return on LEH Permanent Investment over 10 Year Hold					
Return of & Return on Capital		1,082,541	1,082,541	1,082,541	1,082,541
Promote (1)		374,204	374,204	374,204	374,204
Less: LEH Investment		(326,698)	(326,698)	(326,698)	(326,698)
Less: LEH Cost of Equity Capital L + 0.40%		(186,872)	(186,872)	(186,872)	(186,872)
Return on LEH Permanent Investment		\$943,175	\$943,175	\$943,175	\$943,175
Total LEH Profit over 10 Year Hold		\$1,236,491	\$1,272,896	\$1,345,705	\$1,564,131

(1) Assumes LEH receives 40% share of asset management fees and promote.

Transaction Sources and Uses

- Under the proposed transaction, the Acquisition Group would form a core multifamily property fund (the "Fund") with each member contributing 50% of the GP capital and Lehman receiving 40% of asset management fees and promote.

SOURCES AND USES

(\$ in thousands)

Sources of Funds		Uses of Funds	
Tishman Speyer Equity	\$326,698	Purchase ASN Equity @ \$64.00	\$16,040,324
Lehman Permanent Equity	326,698	Liquidation of Series I Preferred	50,000
Lehman Bridge Equity	3,702,582	Repay Credit Facility	84,723
Total Equity	\$4,355,979	Repay International Term Loan	235,771
New Lehman Floating Rate Debt	9,168,671	Redeem Unsecured Debt	3,355,699
New Lehman Fixed Rate Debt	8,080,194	Repay Floating Rate Mortgage Debt	1,338,327
Total New Lehman Debt	\$17,248,866	Assumed Fixed Rate Mortgage Debt	1,673,678
Assumed Fixed Rate Mortgage Debt	1,673,678	Assumed JV Debt	410,079
Assumed JV Debt	410,079	Transaction Costs	500,000
Total Assumed Debt	\$2,083,757		
Total Sources	\$23,688,602	Total Uses	\$23,688,602

Capitalization

- Lehman and Tishman would each contribute \$327 million of permanent equity to the GP (15% of the total equity).
- Lehman would commit the remainder of the capital (excluding assumed debt of \$2.1 billion), comprised of \$3.7 billion of bridge equity and \$17.2 billion of debt. We believe we will be able to syndicate up to 50% of our debt and bridge equity positions to several other banks within a week or two of signing a definitive agreement.
- We intend to immediately sell \$9.2 billion of assets in order to opportunistically take advantage of aggressive pricing in the multifamily sales market. 100% of the proceeds will be used to repay a portion of Lehman's debt commitment, reducing leverage from 82% to 70%.

CAPITALIZATION					
<i>(\$ in thousands)</i>					
	ASN Existing	Transaction Adjustments	Pro Forma Transaction	Asset Sales Adjustments	Pro Forma Asset Sales
Total Equity	\$12,833,795	(\$8,477,816)	\$4,355,979	\$0	\$4,355,979
Series I Preferred Stock	\$50,000	(\$50,000)	\$0	\$0	\$0
Debt					
New Lehman Floating Rate Debt	-	9,168,671	9,168,671	(9,168,671)	-
New Lehman Fixed Rate Debt	-	8,080,194	8,080,194	-	8,080,194
Unsecured Credit Facilities	84,723	(84,723)	-	-	-
International Term Loan	235,771	(235,771)	-	-	-
Unsecured Debt	3,355,699	(3,355,699)	-	-	-
Floating Rate Mortgage Debt	1,338,327	(1,338,327)	-	-	-
Fixed Rate Mortgage Debt	1,673,678	-	1,673,678	-	1,673,678
Pro-Rate Share of JV Debt	410,079	-	410,079	-	410,079
Total Debt	\$7,098,277	\$12,234,346	\$19,332,623	(\$9,168,671)	\$10,163,951
Total Enterprise Value	\$19,982,072	\$3,706,530	\$23,688,602	(\$9,168,671)	\$14,519,931
<i>Net Debt / Enterprise Value</i>	<i>35.5%</i>		<i>81.6%</i>		<i>70.0%</i>
<i>Net Debt + Preferred / Enterprise Value</i>	<i>35.8%</i>		<i>81.6%</i>		<i>70.0%</i>

Summary of Returns

- Core/stabilized portfolio would be acquired at an implied cap rate of 4.05% or \$325,000/unit
- The unlevered and levered IRRs would be 8.9% and 13.4%, respectively, over a 10-year hold period. Net returns to investors would be 12.3%.
- Lehman investment IRR over a 10-year holding period of 18.1% including asset management fees and promote

RETURN SUMMARY				
(\$ in thousands)				
	Lehman (50% of GP) (1)	GP	LP	Deal
Return Profile:				
IRR	18.1%	19.4%	12.3%	13.4%
Multiple of Capital	4.9x	5.3x	3.3x	3.6x
Gross Dollar Returns (2)				
Return of Capital	\$326,698	\$653,397	\$3,702,582	\$4,355,979
Return on Capital	755,842	1,511,684	8,566,212	10,077,896
Asset Management Fee	148,103	370,258	-	370,258
Promote	374,204	935,510	-	935,510
Total	\$1,604,848	\$3,470,850	\$12,268,794	\$15,739,644
Less: Asset Management Fee	(148,103)			
Less: LEH Investment	(326,698)			
Less: LEH Cost of Equity Capital	(186,872)			
Total LEH Investment Profit over 10 Year Hold	\$943,175			
(1) Assumes LEH receives 40% share of asset management fees and promote.				
(2) Exclusive of financing and advisory fees.				

Why Archstone-Smith?

- 88,011 units, located primarily in attractive markets with high barriers-to-entry
 - 60,839 stabilized wholly-owned units in the U.S.
 - Approx. 85% of NOI generated from properties D.C. (35%), So CA (26%), New York (13%) and San Francisco (12%)
 - 8,334 unit German portfolio with dedicated German management team in place
 - Highest concentration of high-rise multifamily properties in the sector
 - Management recently stated on its 4Q06 earnings call that the portfolio's replacement cost is approximately \$390,000/unit (compared to our \$325,000/unit acquisition cost)
- Proven management team with track record of value creation for shareholders
 - ASN has produced an average annual total return in excess of 30% over the last 3 years, compared to 22.5% for its peer group
 - Over the last 11 years, the Company has sold over \$11.2 billion of assets generating an average unlevered IRR of 15.6%

ASSET PICTURES

Archstone Chelsea
New York, NY



Archstone 101 West End
New York, NY



The Flats at DuPont Circle
Washington, DC



Archstone Santa Clara
Santa Clara, CA



Archstone Playa Del Rey
Playa Del Rey, CA



Archstone Marina Del Rey
Marina Del Rey, CA



Lehman Brothers Illiquid Multifamily Real Estate Exposure

- Lehman Brothers currently has 81 illiquid domestic multifamily positions totaling \$450.8 million
- Approximately 91% of the portfolio is concentrated in 10 states, with the majority situated in the Midwestern and Southern regions
 - With primary concentrations in Texas (25.2%), Georgia (13.8%) and Ohio (12.7%), the Firm currently has minimal exposure to the robust, high growth coastal residential markets present in Archstone's portfolio.
- Of the firm's 81 positions, approximately 66% are first lien positions and equity investments
- The majority of Lehman Brothers' multifamily investments will be realized in the near-term, with only one position exiting after 2011

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