

LEHMAN BROTHERS

Memorandum

TO Executive Committee

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DATE Friday, May 18, 2007

SUBJECT \$23.4 billion debt and equity financing commitment in connection with the potential acquisition of Archstone-Smith Trust

- \$19.3 billion debt commitment
 - \$1.9 billion junior mezzanine commitment
 - \$2.0 billion bridge equity commitment
 - \$250 million permanent equity commitment
-

Situation Overview

We are requesting approval to provide a \$23.4 billion debt and equity commitment and advisory services in connection with the potential acquisition (the "Transaction") of Archstone-Smith Trust ("Archstone", "ASN" or the "Company") by Tishman Speyer Properties ("Tishman") and Lehman Brothers (collectively, the "Acquisition Group"). We intend to submit a bid up to \$64.00 per share, representing a 23.1% premium to the closing price of \$52.01 on Thursday, May 17, 2007 and implying a \$24 billion transaction value (including costs). Archstone-Smith is one of the largest U.S. multifamily REITs with asset concentrations in the best U.S. markets including Washington, D.C., New York City, San Francisco and Southern California. As of March 31, 2007, the Company owned or had an ownership position in 344 communities, representing 86,014 units, including units under construction. In addition, ASN has a robust development pipeline with a total estimated cost of \$4.4 billion, representing 14,237 units.

Under the proposed transaction, Lehman and Tishman would form a core multifamily property fund (the "Fund") consisting of the highest quality large-scale portfolio of multifamily assets in the sector. Lehman and Tishman would serve as co-general partners of the Fund, with each investing \$250 million of permanent equity. It is currently anticipated that Lehman's Real Estate Private Equity Group will retain Lehman's permanent equity position. In addition, Lehman would initially commit to the remaining capital commitment of \$23.2 billion, consisting of a \$19.3 billion floating rate bank loan, a \$1.9 billion junior mezzanine loan and \$2.0 billion of bridge equity. Benefits to Lehman include asset management fees, increase in assets under management, and advisory and financing fees, in addition to the underlying return on the investment, which we believe will be strong.

On May 2, we submitted a non-binding indication of interest at \$64.00 per share, representing a 24.9% premium to the previous day's closing price of \$51.25. Although the Company has not made a public announcement that it is evaluating strategic alternatives, it engaged Morgan Stanley following our initial indication of interest. On May 9, the Company opened a data room and provided non-public information to 2-3 potential investors, including Lehman and Tishman. Firm bids are due on Monday, May 21, 2007, and the Company expects to make a public announcement regarding the sale of the Company shortly thereafter.

Our Partner Tishman / Transaction Structure

Tishman Speyer Properties is one of the leading owners, developers and operators of real estate in the world. Since its formation, the company has developed or acquired more than 230 properties totaling over 100 million square feet of real estate and over 14,000 residential units and manages a global property portfolio in excess of \$40 billion. Tishman is considered one of the most successful and well-respected real estate investors/operators in the world. Tishman is a long-time Lehman Brothers client with whom we have completed over \$6.0 billion worth of real estate transactions. Most recently, Lehman provided a bridge equity and debt commitment for Tishman's \$2.8 billion acquisition of the CarrAmerica Washington, D.C. office portfolio.

Tishman and Lehman will work together to raise the long-term private institutional equity (the "Investor Equity") that will repay the junior mezzanine and bridge equity positions. Tishman recently completed the syndication of a \$1.6 billion equity bridge, which was oversubscribed, provided to them by Wachovia and Merrill Lynch in connection with the acquisition of Stuyvesant Town and Peter Cooper Village. We and Tishman believe there will be significant investor interest in Archstone as a private entity.

Lehman's \$1.9 billion junior mezzanine and \$2.0 billion bridge equity investment will be in a joint venture (the "Joint Venture" or "JV") with the Acquisition Group, who will invest the remaining \$500 million of equity (with Lehman and Tishman each investing \$250 million of permanent equity). Tishman will be responsible for managing the day-to-day operations of the Joint Venture and will continue to operate the Company substantially as it operates today, except that the constraints Archstone faces as a public company would be eliminated. It is anticipated that Archstone's senior management will be retained to run the multifamily platform.

Exit Strategy

Within 2-3 weeks of signing a definitive agreement, Lehman intends to syndicate up to 50% of the debt, junior mezzanine and bridge equity positions to 2-3 other capital partners. Within the confines of our confidentiality agreement, we are having discussions with both debt and equity partners and do not anticipate an issue in syndication.

The Acquisition Group will look to immediately sell approximately \$8.9 billion of assets to opportunistically take advantage of aggressive pricing in the apartment sales market, reducing leverage from 89.5% to 83.1%. A significant component of the asset sales are projected to occur contemporaneously with the closing of the transaction. The debt position will be further reduced to 70% as the Acquisition Group intends to raise \$1.9 billion of equity after closing to repay debt. Moreover, the Acquisition Group plans to close the transaction with a significant amount of fixed rate term debt in order to reduce interest rate exposure. In addition, the debt commitment will have flex pricing.

Lehman Brothers will also syndicate its junior mezzanine and bridge equity positions. There is currently substantial institutional demand for direct investment in high-quality, cash flow generating real estate assets. However, the supply of such opportunities is limited. The Archstone portfolio represents a unique opportunity for “core-plus” investors to immediately acquire a significant equity stake in a large, well-diversified multifamily portfolio that would otherwise take years to assemble. More importantly, it gives access to a development and value creation platform that is very difficult to find.

Sources and Uses

SOURCES AND USES OF FUNDS (AT CLOSING)			
<i>(\$ in thousands)</i>			
Sources of Funds		Uses of Funds	
Tishman Speyer Equity	\$250,000	Purchase ASN Equity @ \$64.00	\$16,040,324
Lehman Permanent Equity	250,000	Liquidation of Series I Preferred	50,000
Lehman Bridge Equity	1,987,303	Repay Credit Facility	84,723
Total Equity	\$2,487,303	Repay International Term Loan	235,771
New Lehman Junior Mezz	1,944,834	Redeem Unsecured Debt	3,355,699
New Lehman Bank Loan	19,256,464	Repay Floating Rate Mortgage Debt	1,338,327
Total New Lehman Debt	\$21,201,298	Repay Fixed Rate Mortgage Debt	1,673,678
Assumed Fixed Rate Mortgage Debt	-	Repay JV Debt	410,079
Assumed JV Debt	-	Transaction Costs	500,000
Total Assumed Debt	\$0		
Total Sources	\$23,688,601	Total Uses	\$23,688,601

Capitalization

PRO FORMA CAPITALIZATION					
<i>(\$ in thousands)</i>					
	Pro Forma Transaction	Asset Sales Adjustments	Pro Forma Asset Sales	New Equity & CMBS Recap	Pro Forma Recap
Total Equity	\$2,487,303	\$0	\$2,487,303	\$1,944,834	\$4,432,137
Series I Preferred Stock	\$0	\$0	\$0	\$0	\$0
Debt					
New Lehman Junior Mezz	1,944,834	-	1,944,834	(1,944,834)	-
New Lehman Bank Loan	19,256,464	(8,929,274)	10,327,190	(10,327,190)	-
New Lehman CMBS	-	-	-	10,327,190	\$10,327,190
Unsecured Credit Facilities	-	-	-	-	-
International Term Loan	-	-	-	-	-
Unsecured Debt	-	-	-	-	-
Floating Rate Mortgage Debt	-	-	-	-	-
Fixed Rate Mortgage Debt	-	-	-	-	-
Pro-Rate Share of JV Debt	-	-	-	-	-
Total Debt	\$21,201,298	(\$8,929,274)	\$12,272,024	(\$1,944,834)	\$10,327,190
Total Enterprise Value	\$23,688,601	(\$8,929,274)	\$14,759,327	\$0	\$14,759,327
<i>Net Debt / Enterprise Value</i>	<i>89.5%</i>		<i>83.1%</i>		<i>70.0%</i>
<i>Net Debt + Pref. / Enterprise Value</i>	<i>89.5%</i>		<i>83.1%</i>		<i>70.0%</i>

Projected Returns

- Core / stabilized portfolio would be acquired for approximately \$325,000/unit
 - Management has stated that the portfolio's replacement cost is approximately \$390,000/unit
- The levered IRR would be 12%-13% over a 10-year hold period
 - Net returns to investors' would be 11%-12%
- LB investment IRR over a 10-year hold period would be 17.1% (including asset management fee and promote)

SUMMARY RETURNS				
<i>(\$ in thousands)</i>				
	Lehman (50% of GP) (1)	GP	LP	Deal
Return Profile:				
IRR	17.1%	18.3%	12.1%	13.4%
Multiple of Capital	7.8x	8.4x	5.2x	5.9x
Gross Dollar Returns (2)				
Return of Capital	\$250,000	\$500,000	\$1,987,303	\$2,487,303
Return on Capital	1,060,536	2,121,073	8,430,428	10,551,501
Asset Management Fee	137,625	393,214	-	393,214
Promote	414,552	1,184,434	-	1,184,434
Total	\$1,862,713	\$4,198,720	\$10,417,732	\$14,616,452
Less: Asset Management Fee	(137,625)			
Less: LEH Investment	(250,000)			
Less: LEH Cost of Equity Capital	(143,000)			
Total LEH Investment Profit over 10 Year Hold	\$1,332,088			

(1) Assumes LEH receives 35% share of asset management fees and promote.
 (2) Exclusive of financing and advisory fees.

Fee Analysis

- Represents a strategic opportunity to build Lehman's real estate asset management platform
- LB economics of \$1.7 billion (assuming 50% of economics after sell-down of initial commitment)
 - Gross profit of \$1.3 billion (net of investment and carry) on \$250 million investment over a 10-year hold
 - Asset management fee value of \$137.6 million (10x multiple on \$13.8mm of annual fees)
 - Debt financing fee of \$96.3 million
 - Junior mezzanine / bridge equity fee of \$140.4 million
 - Advisory fee of \$34.4 million

TOTAL ECONOMICS TO LEHMAN					
<i>(\$ in thousands)</i>					
		Lehman Share of Debt / Bridge Equity Financing			
	Fee / Return	25%	33%	50%	TOTAL
M&A Advisory Fee	0.15% of Transaction	\$34,419	\$34,419	\$34,419	\$34,419
New Debt	1.00% Origination	48,141	64,188	96,282	192,565
Total Debt		\$48,141	\$64,188	\$96,282	\$192,565
Junior Mezz	4.00% Commitment	19,448	25,931	38,897	77,793
6 Month Carry	12.00% Return	29,173	38,897	58,345	116,690
Less: LEH Cost of Equity Capital L + 0.40%		(13,906)	(18,541)	(27,811)	(55,622)
Total Bridge Equity		\$34,715	\$46,287	\$69,431	\$138,861
Bridge Equity	4.00% Commitment	19,873	26,497	39,746	79,492
6 Month Carry	12.00% Return	29,810	39,746	59,619	119,238
Less: LEH Cost of Equity Capital L + 0.40%		(14,209)	(18,946)	(28,418)	(56,837)
Total Bridge Equity		\$35,473	\$47,298	\$70,947	\$141,893
Total LEH Fees in First 12 Months		\$152,749	\$192,192	\$271,078	\$507,738
Lehman Share of Annual Asset Management Fees (1)		13,762	13,762	13,762	13,762
Asset Management Fee Multiple		10.0x	10.0x	10.0x	10.0x
Value of Asset Management Fees		\$137,625	\$137,625	\$137,625	\$137,625
Return on LEH Permanent Investment over 10 Year Hold					
Return of & Return on Capital		1,310,536	1,310,536	1,310,536	1,310,536
Promote (1)		414,552	414,552	414,552	414,552
Less: LEH Investment		(250,000)	(250,000)	(250,000)	(250,000)
Less: LEH Cost of Equity Capital L + 0.40%		(143,000)	(143,000)	(143,000)	(143,000)
Return on LEH Permanent Investment		\$1,332,088	\$1,332,088	\$1,332,088	\$1,332,088
Total LEH Profit over 10 Year Hold		\$1,622,462	\$1,661,905	\$1,740,791	\$1,977,451

(1) Assumes LEH receives 35% share of asset management fees and promote.

Summary Terms of Commitments

SUMMARY TERMS OF JOINT VENTURE	
Overview	Lehman will form a joint venture with Tishman Speyer (the “Sponsor”). Sponsor will then enter into a joint venture with another affiliate of Lehman as the bridge equity provider (the “Joint Venture”). The Joint Venture will acquire all of the interests in the Company. Lehman and Tishman will each invest \$250 million of long-term equity and Lehman will provide a bridge equity, junior mezzanine and bank loan commitment to bridge the closing of the transaction.
Initial Capitalization	\$250 million – Lehman Equity (subject to increase of up to \$100 million) \$250 million – Tishman Speyer Equity \$2.0 billion – Bridge Equity \$1.9 billion – Junior Mezzanine \$19.3 billion – Bank Debt
% Economic Interests in Asset Management Fees & Promote	35% – Lehman 65% – Tishman Speyer
Distribution of Promote	All distributions will be made pro rata based on contributed capital, except that after syndication (and subject to the Failed Syndication provisions below), Sponsor will be entitled to a twenty percent (20%) promote after the other partners receive an eight percent (8%) IRR; provided, however, that there will be no promote of Lehman’s capital so long as Lehman continues to own any equity interest in the Joint Venture.
Bridge Equity Commitment Fee	Four percent (4%) of Lehman’s bridge equity commitment, payable to Lehman at closing. If the transaction is consummated but Lehman’s equity commitment is not funded, Sponsor and all equity investors in the Joint Venture will be obligated to pay Lehman 3% of the commitment. If the transaction is not consummated, no bridge commitment fee is due.
Bridge Equity Return	In addition to its Bridge Equity Commitment Fee, Lehman shall be entitled to a return on equity, compounded quarterly, equal to 10.0% per annum on its equity investment in the Joint Venture.
Syndication of Lehman’s Equity	Lehman and Sponsor intend to jointly syndicate Lehman’s entire equity position in the Joint Venture to third-party equity investors within nine (9) months after closing at a price that provides Lehman with a return of its original capital plus the Bridge Equity Return accrued through the date of such syndication.
Failed Syndication	If the syndication of all of Lehman’s equity interest in the Joint Venture has not been completed prior to the end of the Syndication Period, then (i) such syndication shall be deemed a “Failed Syndication”; (ii) Lehman shall be entitled to assume sole control over the syndication and shall be permitted to sell its equity position to any investor in Lehman’s sole discretion; and (iii) Lehman shall have the sole authority to reduce or eliminate the promote and administration fees otherwise payable to Sponsor.

SUMMARY TERMS OF BRIDGE FACILITY

Senior Borrower:	[Newly formed entity wholly owned by Tishman/Lehman Joint Venture Entity.]
Guarantors:	The holding company parent of the Borrower and each of its direct and indirect, existing and future, subsidiaries.
Credit Facilities:	A \$19,000,000,000 (plus revolver commitment) senior secured credit facility (the "Facility"), which shall be comprised of: <ul style="list-style-type: none"> (i) 3 year, [\$TBD] revolving credit facility (the "Revolver"); and (ii) 18-month, \$19,000,000,000 senior secured term loan (the "Senior Term Loan") which shall consist of: <ul style="list-style-type: none"> (a) \$10,000,000,000 CMBS bridge loan ("TLX"), and (b) \$9,000,000,000 term loan B ("TLB"), a portion of which may be structured as a second lien.
Collateral:	A perfected first priority security interest in all tangible and intangible assets (including, without limitation, intellectual property, certain real property and all of the capital stock of the Borrower and each of its direct and indirect subsidiaries).
Pricing:	Revolver: LIBOR plus [225] bps, subject to a leverage grid. Term Loan: LIBOR plus [225] bps.
Market Flex:	Subject to complete price flex.
Unused Fee:	50.0 bps on the average undrawn portion of the Revolver paid quarterly in arrears.
Assumed Rating:	BB/Ba2 (corporate)
Voluntary Prepayments:	Prepayable at any time without premium or penalty, subject to customary breakage costs.
Scheduled Amortization:	None.
Mandatory Prepayments:	The following amounts shall be applied to repay the Facility in the following order; first to repay TLB, second to repay TLX and third to repay the Revolver, with the exception of (a) amounts in (ii) below shall be applied first to repay the Junior Mezz and second to repay the Facility and (b) CMBS indebtedness included in (iii) below shall be applied first to repay TLX and second to repay the Facility: <ul style="list-style-type: none"> (i) 100% of excess cash flow; (ii) 100% of the net cash proceeds from any issuance or sale of equity; (iii) 100% of the net cash proceeds from the incurrence of indebtedness; and (iv) 100% of the net cash proceeds from the sale or other disposition (including as a result of casualty or condemnation) of any assets.
Financial Covenants:	Shall include with respect to the Senior Borrower, but not be limited to, the following: <ul style="list-style-type: none"> (i) Maximum consolidated debt to value; (ii) Minimum consolidated debt service coverage ratio; and (iii) Minimum tangible net worth.
Negative Covenants:	Customary for financings of this type.
Sole Arranger / Bookrunner:	Lehman Brothers Inc.
Administrative Agent:	Lehman Commercial Paper Inc.

Issues Before the Committee

MERITS AND CONSIDERATIONS	
MERITS	CONSIDERATIONS
<ul style="list-style-type: none">• High-Quality Portfolio• Decrease in Home Affordability and Homeownership Rate• Lehman Brothers Core Multifamily Property Fund• Attractive \$4.4 Billion Development Pipeline• Tishman's Ability to Raise Private Equity• Discount to Replacement Cost• Strong Markets with High Barriers-to-Entry• Strong Sales Market• Proven Track Record• Benefits of Going Private	<ul style="list-style-type: none">• Limited Financing Outs• Bridge Equity and Junior Mezzanine Risk• Potential for Publicity• High Leverage and Low Initial Coverage• Development Risks• Real Estate Considerations• Lehman's \$19.3 Billion Floating Rate Bank Loan Commitment• Widening of Spreads• Business Plan Execution

Merits

High-Quality Portfolio

Archstone is one of the premier multifamily REITs with some of the highest quality assets in the sector located in the best multifamily markets in the U.S. ASN has an ownership interest in 86,014 units, located primarily in attractive markets with high barriers-to-entry. ASN also has the highest concentration of high-rise multifamily properties in the sector.

Decrease in Home Affordability and Homeownership Rate

The homeownership rate in the U.S. has dramatically increased over the last 10 years, driven by strong economic and job growth and historically low interest rates. Since a portion of the growth was driven by unqualified buyers of homes, it is anticipated those buyers will become renters again over the next few years as they are unable to meet their mortgage payments. Over the last 12 months, despite continued historically low interest rates, home sales volume has declined dramatically and the homeownership rate has decreased as many buyers during the for-sale housing boom have been forced to become renters again. It is anticipated that the homeownership rate will continue to decline, which will in turn drive demand for multifamily product across the U.S. In addition, home affordability should also play an increasingly important role in determining the strength of overall rental demand. Moreover, home appreciation in coastal markets has far outpaced both the national average and the growth in apartment rents, and while the cost to own versus rent in these markets has always been well above the national average, the disparity has become even more lopsided in recent years.

Lehman Brothers Core Multifamily Property Fund

This transaction is a strategic opportunity to build Lehman Brothers' real estate asset management platform. The acquisition will seed a long-term, core return vehicle with the highest quality large-scale portfolio of multifamily assets in the sector. The benefits to the Firm include asset management fees, increase in assets under management, and advisory & financing fees, in addition to the underlying return on the investment. The Fund will be structured as a closed-end vehicle with a ~70% leverage level, targeted levered IRRs in the 11-13% range and a 100bps asset management fee on LP equity.

Under the proposed transaction, Lehman Brothers can earn \$13.8 million of fees annually from the Fund, which will grow as the fund acquires more assets and/or the market values of the assets appreciate. Through this transaction, the Acquisition Group would be able to take advantage of institutional investors increasing appetite for high-quality U.S. real estate. We believe that the opportunity to buy one of the highest quality multifamily portfolios in a significant scale will be met with substantial demand from core property investors.

Attractive \$4.4 Billion Development Pipeline

As of March 31, 2007, ASN had 6,291 units under construction with an expected investment of \$1.8 billion, and 7,946 units in planning representing an expected investment of \$2.6 billion. The pipeline is concentrated in strong markets that include Manhattan, downtown Boston, Southern California, the San Francisco Bay Area and Washington, D.C. The Company is projecting a stabilized yield of approximately 7% and approximately \$2 billion of value creation. In addition, ASN has a shadow pipeline of 2,833 units with a total expected investment of \$957.7 million. ASN's development platform provides investors with the opportunity to achieve outsized returns that they would otherwise not be able to access. The public markets do not properly value ASN's development activities. As a result, the Acquisition Group plans to expand the development portfolio to 20%-30% of assets in order to take advantage of the current market environment. Development returns remain approximately 150-200 basis points north of acquisition returns.

Tishman's Ability to Raise Private Equity

The proposed transaction will allow investors the opportunity to co-invest with Tishman and benefit from their deep capability and experience. Tishman's many real estate funds have attracted capital from numerous city and state pension funds including the State of Alaska, New York City Employees and New York City Teachers, university endowments including Brown University, Skidmore College and Barnard College and offshore investors including The Investment Office of Dubai, ABP and HSH Nordbank. Tishman has already sold 100% of the equity in its recent \$5.4 billion acquisition of Stuyvesant Town and Peter Cooper Village and was significantly oversubscribed.

Discount to Replacement Cost

The Transaction represents an opportunity to acquire a premium multifamily portfolio at a significant discount to replacement cost. On the Company's recent earnings call, management stated that the portfolio's replacement cost is approximately \$390,000 per unit. The portfolio is being acquired at approximately \$325,000 per unit, significantly less than the estimated replacement cost of the portfolio.

Strong Markets with High Barriers-to-Entry

ASN's high-quality portfolio is located in the strongest multifamily markets in the country with strong growth prospects. High barrier-to-entry coastal markets are significantly outperforming the lower barrier markets. For example, in the fourth quarter of 2006, high barrier markets generated revenue growth that was roughly 300 basis points greater than that of low barrier markets. Approximately 87% of the Company's NOI is generated from properties located in four core markets with substantial growth prospects: Wash. D.C. (35.4%), So. Cal. (27.1%), New York (12.2%) and San Fran. (12.7%).

High barrier-to-entry markets are characterized by favorable supply and demand dynamics due to limited supply and high cost of land, strong job growth and relatively high cost of home ownership. Furthermore, the fact that Archstone is located in coastal markets is attractive as they generally have large, diversified economies as they serve as a gateway for international commerce and travelers and are cultural centers with strong employment and an educated work force. They are also thought of as the most prestigious places to live. As a result, high barrier-to-entry coastal markets have historically outperformed lower barrier markets and are projected to continue to outperform going forward.

Strong Sales Market

The Acquisition Group intends to immediately sell \$8.9 billion of assets in order to take advantage of aggressive pricing in the multifamily sales market. The asset sales will validate the initial pricing of the deal and also reduce the Acquisition Group's basis in the hold portfolio. 100% of the proceeds will be used to repay a portion of Lehman's debt commitment.

Proven Track Record

Over the last 12 years, the Company has sold over \$11.9 billion of assets, generating an average unlevered IRR of 15.9%. ASN's has successfully executed its long-term business plan to exit its non-core markets and enter high-growth bi-coastal markets, substantially improving the quality and location of its portfolio. The Company has taken advantage of the compression in cap rates between lower barrier markets and higher barrier markets that transpired over the last few years. In the last 3 years, ASN has produced an average annual total return in excess of 30%, compared to 22.5% for its peer group. The Company is now in a position to benefit from its high-quality portfolio in supply-constrained markets with superior long-term growth prospects.

Benefits of Going-Private

The benefits of going-private include the following:

- Elimination of quarterly earnings pressure.
- Freedom to acquire and develop with reduced sensitivity to earnings volatility and increased focus on total return.
- Ability to increase leverage without public market pressure to stay in line with leverage of other multifamily companies.
- Increased ability to act opportunistically, such as through asset sales without pressures of dilution and reinvestment.
- Elimination of public costs, such as those relating to Sarbanes-Oxley compliance.

Considerations

Limited Financing Outs

As is customary in public company sales, the buyer will have very limited conditions under which it is not obligated to close the Transaction. Lehman's financing commitment outs mirror these limited circumstances. These outs relate only to a material adverse change in the condition of the Company, taken as a whole, and a standard market out for events such as war or a major disruption of the financial markets.

Bridge Equity and Junior Mezzanine Risk

Lehman will have a \$2.0 billion bridge equity and \$1.9 billion junior mezzanine position. *This consideration is mitigated because of Lehman's intention to syndicate 50% of the position within 2-3 weeks after closing. It is also mitigated because of Lehman's bridge equity expertise in the multifamily sector, demonstrated by the successful syndication of \$650 million of bridge equity in connection with the acquisition of Gables Residential Trust. In addition, Lehman recently partnered with Tishman in the \$2.8 billion acquisition of the CarrAmerica Washington, D.C. office portfolio. Tishman's expertise and experience as a premier real estate franchise and investment manager will reduce the risk that the commitment will not be fully syndicated.*

Potential for Publicity

Because of Lehman's role as an equity provider and investor, there is the potential for publicity. Additionally, the Archstone proxy would detail our involvement in the buying group. *This consideration will be mitigated by our attempts to limit publicity around Lehman's role.*

High Leverage and Low Initial Coverage

At the close of the Transaction, the Company is projected to be 89.5% levered. *This issue is mitigated by the fact that the Acquisition Group intends to immediately sell \$8.9 billion of assets and use 100% of the proceeds to repay debt, reducing leverage to 83.1%. The Acquisition Group is also intending to raise \$1.9 billion of equity after closing in order to reduce leverage to 70%. In addition, leverage is projected to decrease and coverage is projected to increase as developments stabilize and rental rates grow. We are also structuring an interest reserve to cover any cash flow shortfall.*

Development Risks

As mentioned above, the Company has a development pipeline that it plans to complete over the next several years. ASN will be subject to a variety of risks associated with development including construction, labor, and weather that could result in cost overruns or even non-completion. *This issue is mitigated by the fact that the Company has a proven track record and has created tremendous value through its development platform.*

Real Estate Considerations

Real estate investments are subject to varying degrees of risk and are illiquid investments compared to public companies. Real estate values are affected by a number of factors including: general economic climate, local market conditions, quality of the managers of the properties, competition based on rental rates and changes in operating costs. Real estate values are also affected by such macro factors as interest rate levels and potential liability under changing environmental and other laws. *This consideration is mitigated by the high-quality of the Company's assets, the positive outlook of the multifamily sector and the fact that a significant portion of the Company's portfolio is located in strong markets, such as California, New York and Washington, D.C.*

Lehman's \$19.3 Billion Floating Rate Bank Loan Commitment

Lehman will have a \$19.3 billion floating rate debt commitment. *This consideration is mitigated by the fact that Lehman intends to syndicate 50% of the position within 2-3 weeks after closing and also immediately sell \$8.9 billion of assets, using all of the proceeds to repay debt. We also plan to close the transaction with a significant amount of fixed rate term debt in order to reduce interest rate exposure. In addition, Lehman has proven its ability to syndicate large debt commitments, such as its successful syndication of its \$9.75 billion debt commitment in connection with General Growth Properties' acquisition of The Rouse Company.*

Widening of Spreads

As CMBS prices are falling, rating agencies are warning of higher subordination levels and B-piece buyers are rejecting loans, lenders are becoming more cautious and underwriting more conservatively. Securitization programs are raising loan spreads, requiring higher debt-service coverage, insisting on higher levels of amortization and providing less leverage. Market players estimate that on some properties, loan sizes are down as much as 30% from a few weeks ago. The tighter loan standards could affect the sales market and hinder the Acquisitions Group's ability to capitalize on its asset sales strategy. *This is mitigated by Lehman's CMBS expertise and conservative underwriting standards. In addition, the Company's institutional quality assets appeal to buyers who use very limited leverage.*

Business Plan Execution

The returns to investors are driven to a large extent by a large number of projected asset sales. Valuations are currently at all-time highs. A downturn in the market or an increase in interest rates could cause demand to soften. *Mitigating this risk is the historical correlation between an increase in the relative value of rental housing and a rising interest rate environment, providing a hedge to the valuation of this portfolio. In addition, the globalization and securitization of real estate, longer-term demographic realities and the growing use of REITs in pension and retirement investment alternatives should mean that any upward movement in cap rate will be relatively modest.*

Examples of Archstone's Properties

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

