



The Search for Yield –  
Alternative Real Estate  
Investment Opportunities

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LEHMAN BROTHERS

# Session Agenda

- ◆ The Backdrop – Commercial Real Estate / CMBS Markets
  - Why are Spreads so Tight?
  - A Closer Look at the Real Estate Players
- ◆ Alternative Real Estate Investment Opportunities
  - I. Real Estate Equity Co-Investment
  - II. B-Notes and Mezzanine Debt
  - III. Co-Origination
  - IV. Leveraged Loans
  - V. Opportunities in the Housing Sector
    - A. Condominiums
    - B. Land Development

# The Backdrop – Commercial Real Estate Markets

# Credit Trends: No Surprise, Spreads are Tighter

## Loan Pricing Continues to Trend Tighter

- ◆ Various factors lead to declining cost of funds for CMBS transactions
  - Increase in B-piece buyers
  - Overall FI spread tightening
  - Improving credit characteristics
  - Lower credit enhancement
  - Robust CDO market providing efficient financing
- ◆ Overall conduit profit margins have declined

Lehman Brothers Whole Loan Index:  
Spread to Treasuries



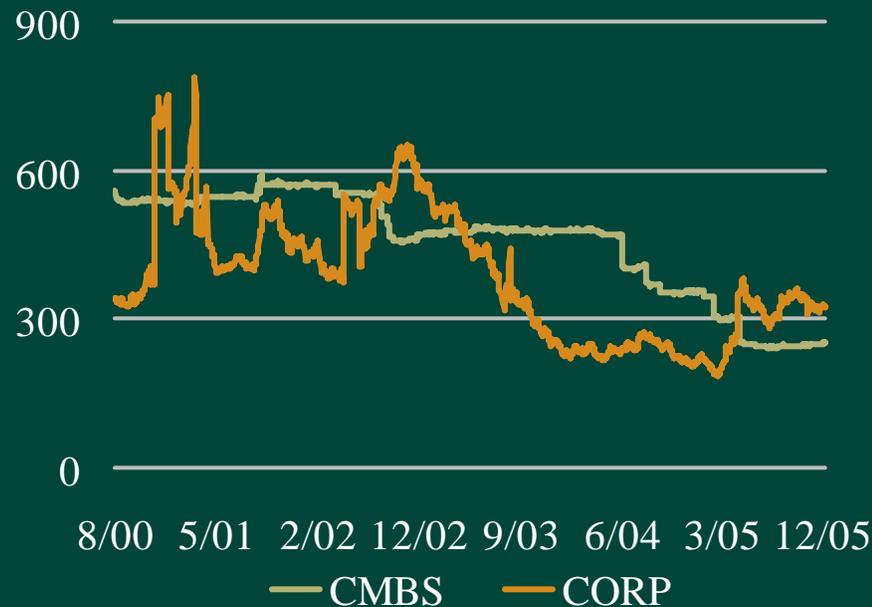
# CMBS vs. Corporates – Recent Spread History

## Credit Spreads are Tighter in Most Fixed Income Assets

- ◆ CMBS spreads may look tighter relative to historical standards, but they have not kept pace with spread tightening in corporate markets
- ◆ The silver lining
  - Spread volatility is clearly lower in CMBS than in Corporates

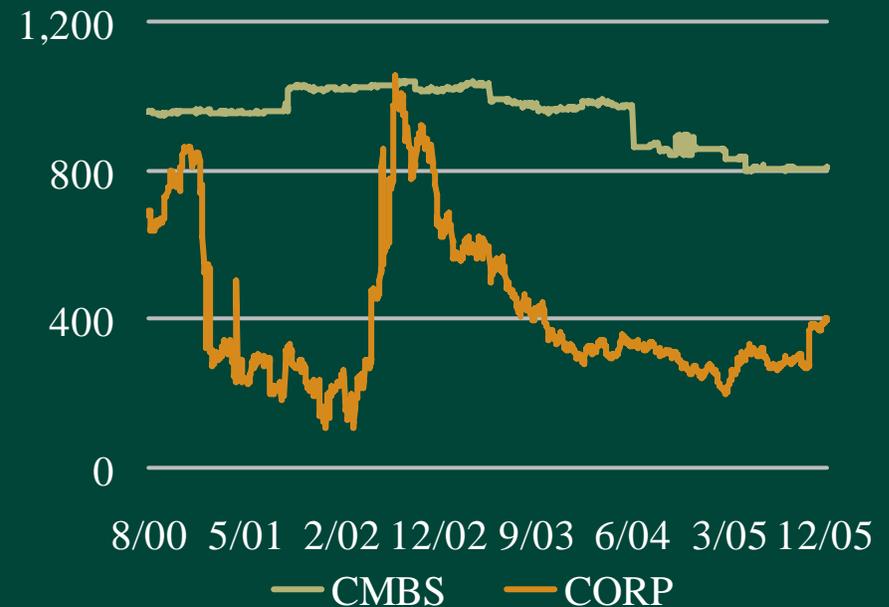
CMBS vs. Corp – BBs

Spread over Treasuries (bp)



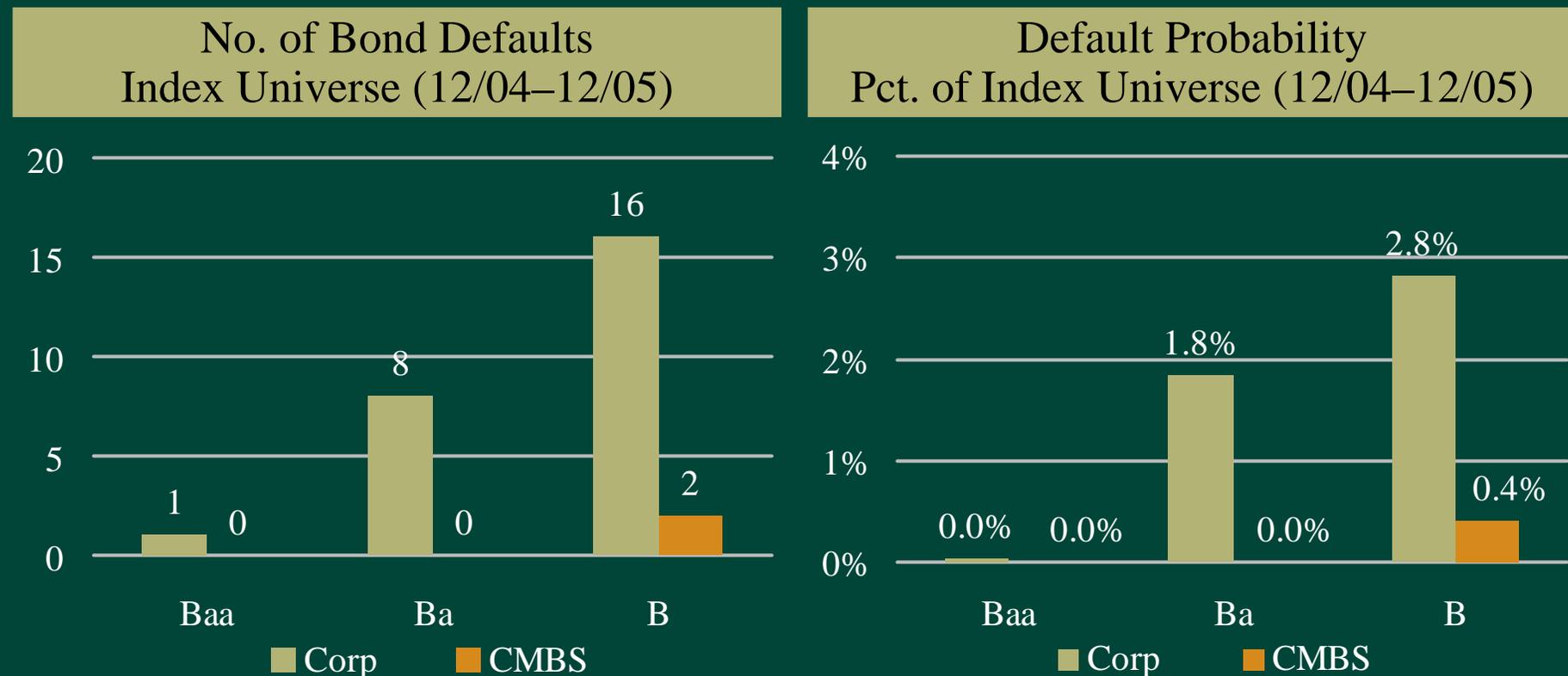
CMBS vs. Corp – Single-Bs

Spread over Treasuries (bp)



# Non-Investment Grade CMBS

## Corporates have Suffered More Defaults than CMBS



- ◆ Approach – Track CMBS and Corporates in Lehman Brothers Indices for one year; corporate defaults measured as failure to pay interest or principal, CMBS defaults measured as bond taking a write-down
- ◆ Results – Credit support in structured CMBS has prevented defaults on rated CMBS classes

Source: Lehman Brothers Credit and CMBS Indices.

# Why are CRE Spreads So Tight?

## Bond Perspective – Attractive Risk-Return Profile

- ◆ CMBS sector consistently produces solid returns with minimal volatility
- ◆ More investors increasing allocation to CMBS for diversification benefits
  - CMBS has grown from 1.4% of the U.S. Agg. in 1999 to 4% in 2005

## Real Estate Perspective – Capital Continues to Flow

- ◆ Inflows into real estate remain strong, despite shift in composition
  - Private sources decline; REITs, institutions and foreign buyers return
  - Pension funds, insurance companies search for access to real estate assets
- ◆ Crowded? A diverse real estate buyer base may help as borrowing rates rise

## Developing Market Perspective – New Vehicles for Efficient Risk Transfer

- ◆ Availability of structured vehicles enhances financing and risk transfer
  - CRE CDOs provide efficient vehicle for B-notes, mezz. and pref. equity
  - HY CLOs provide efficient financing alternative for bank loan market
- ◆ Synthetics enhance market players ability to hedge or take a dissenting view

# A Closer Look – Bondholders

## CMBS Offers a Very Attractive Risk-Return Profile

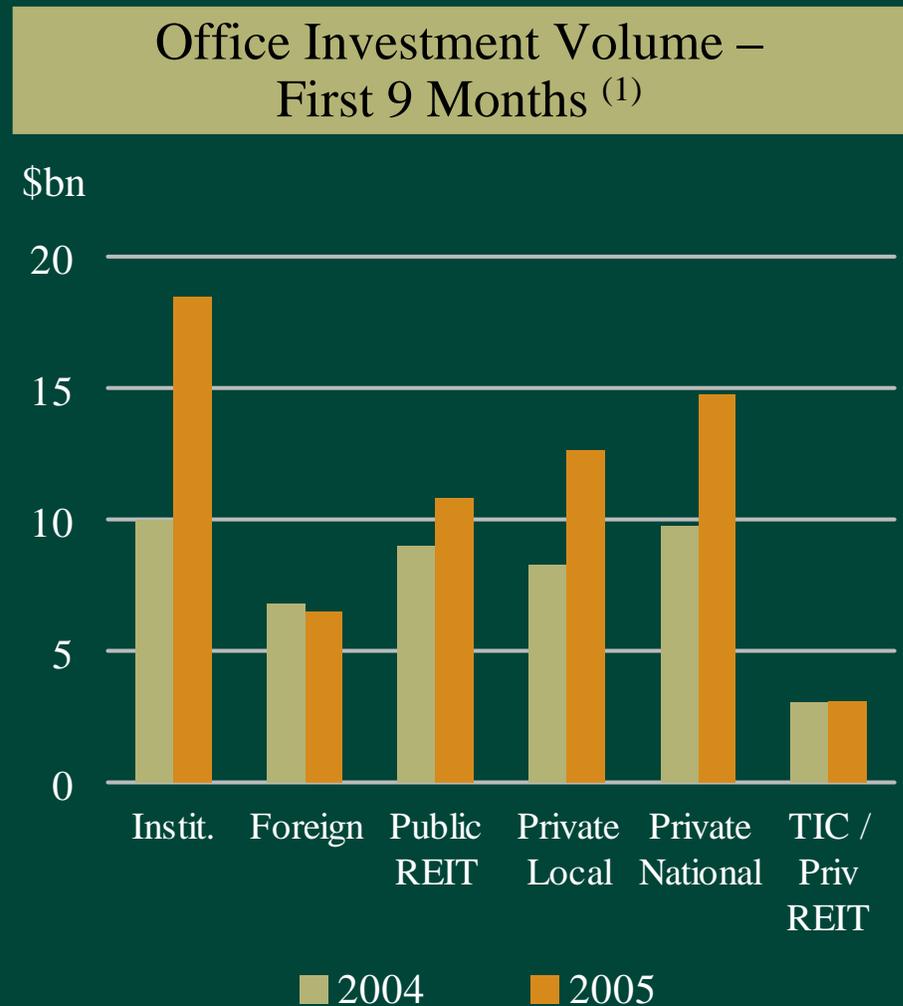
- ◆ Despite volatile markets, the CMBS sector has displayed minimal volatility
- ◆ Consistently solid returns with low risk puts CMBS near the top of the charts from a risk-return perspective
  - Over a 3yr or 5yr horizon, CMBS consistently posts strong performance
- ◆ Who wants to reduce exposure?

Sharpe Ratio Analysis				
Index	Analysis Period	Excess Return (bp)	Risk (bp)	Return/Unit Risk
U.S. Agg.	1yr	-30	13	-0.20
	3yr	223	19	0.32
	5yr	297	26	0.26
CMBS	1yr	16	17	0.08
	3yr	330	25	0.37
	5yr	633	31	0.34
Fixed MBS	1yr	-35	16	-0.18
	3yr	116	35	0.09
	5yr	208	32	0.11
U.S. Credit	1yr	-84	37	-0.19
	3yr	574	37	0.43
	5yr	654	74	0.15

# A Closer Look – Real Estate Buyers

## Despite Changing Composition, Capital Continues to Flow In

- ◆ Levered players remain active
- ◆ Pension funds, REITs and private investors all increased real estate purchases
  - Office investment inc. by 42% over first 9 months of '05 relative to the same period in '04
  - Institutions, public REITs and private investors all post increases
- ◆ Fear of rising cap rates may curb appetite of levered private funds



Source: Real Capital Analytics.

1. Through 9/05.

# A Closer Look – Insurance Companies

## Insurance Companies have Trouble Meeting Growth Targets

- ◆ Commercial mortgage loan holdings at the Top 20 Life & Health (L&H) Insurance Companies are increasing at a slower pace than General Account asset growth
  - Since 2000, GA assets have grown by 48%, from \$1.24trn to \$1.84trn
  - CM loan holdings have grown by only 23% over the same period
- ◆ Where can Insurance Companies compete?

Mortgage Loans –  
Top 20 L&H Companies



CM Loan Hldgs. (\$bn)	2000	2001	2002	2003	2004
Total GA Assets (\$)	1,235	1,357	1,516	1,659	1,837
Top 20 (%)	13.8	13.1	12.4	11.4	11.4
Top 20 (\$)	170.4	177.7	188.0	189.1	209.9

Source: Real Capital Analytics.  
1. Through 9/05.

# A Closer Look – U.S. Pension Funds

## Pension Funds are Targeting Over \$30bn in Real Estate

- ◆ In 2004, the Top 50 Pension Funds committed about \$9.8bn of equity to new real estate funds
- ◆ Based on RE allocation targets, they have another \$33bn to go

Top 50 U.S. Pension Funds	Avg. Total Assets 12/04 (\$mm)	Avg. Total RE Assets 12/04 (\$mm)	Real Estate Allocation		Avg. Targeted Additions (\$mm)
			Actual (%)	Target (%)	
Top 25%	79,457	4,725	6.6	8.7	1,616
Upper Middle Quartile	32,741	1,740	6.3	8.3	677
Lower Middle Quartile	17,198	754	5.8	7.3	251
Bottom 25%	14,627	387	5.8	8.2	352
<b>Total/Weighted</b>	<b>1,775,646</b>	<b>93,393</b>	<b>5.3</b>	<b>7.2</b>	<b>32,830</b>

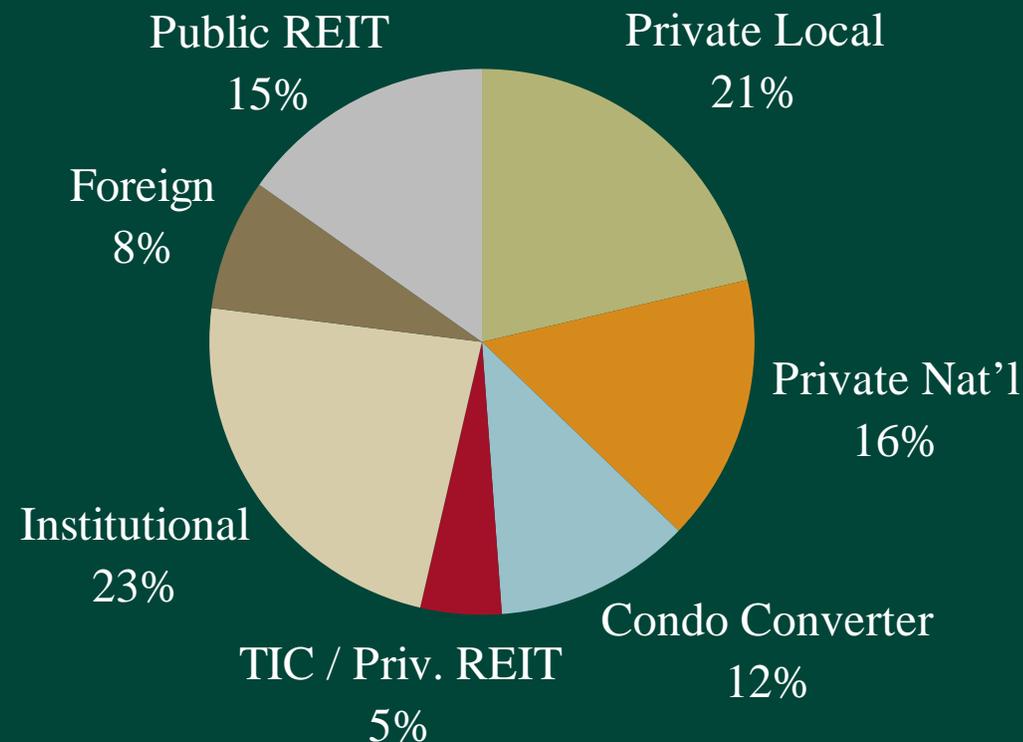
Source: Real Estate Alerts.

# Too Much Capital Chasing Real Estate?

## The Buyer Base is More Fragmented...and More Diverse

- ◆ Capital is flowing into commercial real estate from a myriad of sources
- ◆ Buyer diversity will be a key factor for property valuations as rates rise

2005 Buyers – By Volume (\$171.5bn)<sup>(1)</sup>



Source: Real Capital Analytics.

1. Through 9/05.

# Alternative Real Estate Investment Opportunities

# I. Real Estate Equity Co-Investment

# Real Estate Equity Co-Investment

## Investment Overview

### Opportunity Overview

- ◆ Equity co-investment in real estate
  - Invest alongside Lehman Brothers and premier operating partners
- ◆ High quality office portfolios, multi- or single-tenant buildings
- ◆ Multifamily portfolios or in-fill urban high rise
- ◆ Industrial portfolios
- ◆ Major U.S. markets targeted

### Benefits to Co-Investors

- ◆ Alignment of interest with Lehman Brothers and operating partners
- ◆ Access to Lehman Brothers proprietary transactions and structuring
- ◆ Off-market transactions
- ◆ Efficient investment process
  - No pursuit costs
  - Simplicity of pre-packaged transactions
- ◆ Potential liquidity features from Lehman Brothers
- ◆ Transparency of structure and compensation
- ◆ Pre-determined assets or portfolios, not a blind pool

# Real Estate Equity Co-Investment

## Investment Overview

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### Transaction Structure

- ◆ Limited Partnership, LLC or private REIT
  - ◆ Three to ten-year investment horizon
  - ◆ Limited co-investor control rights
  - ◆ Leverage between 55% and 70%
- 

### Return & Risk Parameters

- ◆ Core plus returns, focus on current and total return
  - ◆ Appropriate management of risk
    - Credit quality
    - Transaction structure
    - Debt quantity and structure
    - Quality of real estate
-

# Case Study – The Met Life Building

## A Premier Class A Asset in New York City



- ◆ 58-story, 2.85mm sq. ft. building is a commanding presence in the middle of Park Avenue next to Grand Central Station, a world-class location
- ◆ The Property has benefited from long-term institutional ownership and is maintained in a first-class manner
- ◆ Befitting its premier status, on-site amenities at the Property include: a 249 space executive parking garage, immediate access to Grand Central Terminal, a health club, multiple white tablecloth restaurants, and fine retail shops

# Case Study – The Met Life Building

## Projected Capitalization

Uses of Capital	Amt. (\$000)
Purchase Price	\$1,720,000
Other Closing Costs	125,000
<b>Total Capitalization</b>	<b>\$1,845,000</b>

Source of Capital	Amt. (\$000)	Comments
First Mortgage Debt	\$1,175,000	◆ 63.5% LTC at all-in rate of 5.49%
Tishman JV Equity	100,000	◆ Equity commitment provided by Tishman Speyer Properties in conjunction with NYC Employees Retirement Systems and Teachers Retirement Systems of New York
Co-Investment Equity	570,000	◆ A portion of the co-investment equity may be capitalized in the form of mezzanine debt

- ◆ **Upside Potential.** Nearly entirely leased to tenants at rental levels well below market
- ◆ **Discount.** The Met Life Building sold at a significant discount to both replacement cost and recent comparable trophy asset sales

# Case Study – The Met Life Building

## Sales Comps Tell the Relative Value Story

<b>NYC Office</b>	Year Built	Sale Date	Total SF	Price	Price/SF	Buyer
Merrill Lynch Fin. Ctr.	1958	Sep-04	450,000	\$353.0	\$784	EOP, Feil Organization
General Motors Bldg.	1968	Aug-03	1,800,000	\$1,400.0	\$778	Macklowe Properties
Seagram Bldg.	1958	Oct-02	630,000	\$460.2	\$730	HGA Capital Grundbesitz und Anlage
399 Park Ave.	1961	Sep-02	1,680,000	\$1,060.0	\$631	Boston Properties
200 Park Ave.	1963	Apr-05	2,850,000	\$1,720.0	\$604	Tishman Speyer Properties
<b>London Office</b>						
280 Bishopsgate, EC2	2001	3Q04	270,000	\$449.1	\$1,663	Royal Bank of Scotland
Westferry Circus		Mar-05	171,330	\$250.7	\$1,463	Private Investors
Windsor House, SW1	1979	4Q04	156,285	\$204.0	\$1,305	Bank of Ireland
No. One, Waterside, W2	2003	4Q04	231,704	\$262.0	\$1,131	Irish Consortium
The Point, N. Wharf Rd., W2	2002	4Q04	222,350	\$233.9	\$1,052	Schroder and Hermes JV (WELPUT)
<b>Tokyo Office</b>						
Alliance Bldg.	1989	Jun-04	66,784	\$89.5	\$1,340	Nippon Building Fund
Jingumae Media Sq. Bldg.	1998	Oct-03	111,607	\$119.6	\$1,072	REIT
Sakurabashi Bldg.	1985	Nov-04	80,316	\$73.8	\$919	Da Vinci
Akasaka Kokusai Bldg.	1973	Nov-04	676,336	\$600.3	\$888	Lone Star
Kenwa Bldg.	1989	May-04	63,282	\$50.0	\$790	Nippon Prime Realty
JAL Bldg.	1996	Dec-04	887,651	\$637.3	\$718	Nomura Office Fund

# Case Study – Gables Residential Trust

Date	September 2005
Asset Class	Multi-Family
Total Units	23,000+
Partner	ING Clarion
Transaction Type	Take Private
Amount	\$3.0bn



## Transaction Summary

- ◆ Take-private acquisition of the highest quality publicly-traded multi-family REIT, Gables Residential Trust (NYSE: GBP)
  - Represents a total capitalization of approximately \$130,000/unit–\$140,000/unit
  - Largest public to private REIT transaction in the multifamily sector, and the fourth largest in the REIT sector overall
- ◆ Portfolio of high-quality apartments located within Established Premium Neighborhoods in economically diverse markets characterized by high job growth and resiliency to national economic downturns
  - Stabilized portfolio: 21,000+ units / Development portfolio: 2,000+ units
  - Land holdings / Acquisition rights: 2,000+ units

## Lehman Brothers Role

- ◆ 50/50 joint venture between Lehman Brothers and ING Clarion
  - Each provided \$50mm of permanent equity and \$350mm of bridge equity
- ◆ Lehman Brothers provided over 85% of the total capitalization, including \$2.2bn of debt
- ◆ Lehman Brothers and ING Clarion jointly syndicated the bridge equity positions to pension funds, insurance companies, offshore investors, endowments and foundations

# Case Study – Gables Residential Trust

## Investment Overview

- ◆ Opportunity to invest in a closed-end fund co-sponsored by ING Clarion and Lehman Brothers that will own Gables Residential

## Investment Thesis

- ◆ Achieve projected total net leveraged returns in excess of 15% by implementing total return strategy
  - Opportunistically sell 25–35% of stabilized portfolio within 12 months of Gables acquisition
  - Expand development portfolio to 20–30% and broaden geographic footprint to new EPNs
  - Increase leverage to target ratio of 65%
  - Actively manage stabilized portfolio by maintaining 93% occupancy and growing NOI by 3.9% CAGR
  - Decrease corporate overhead by streamlining operations and eliminating public company costs

### Private Market Efficiencies

#### Gables Residential Trust (Public Format)

Dividend and FFO focus

Leverage level of 45%

Extreme limitations on sales

Limited stock price recognition of economic benefits of development activities

Corporate G&A built for public company model and \$4.0bn entity

#### Lions Gables Apartment Fund (Private Format)

Total return focus

Targeted leverage level of 65%

Opportunistic sales creating value

Expansion of development pipeline generating 20–30% profits

Lower cost structure appropriate for a \$2.5bn private company

## II. B-Notes and Mezzanine Debt

# B-Notes and Mezzanine Debt

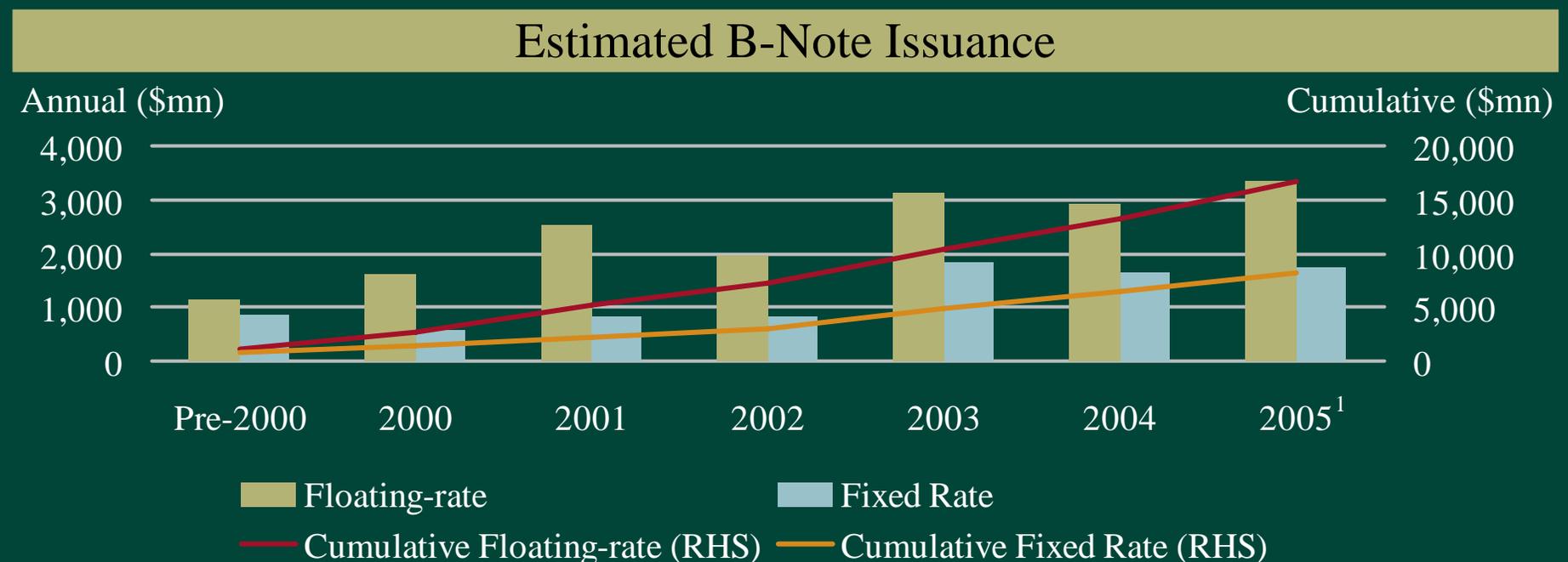
## **Banks and insurance companies have become active participants in the B-Note and Mezzanine Debt market**

- ◆ Often already familiar with the asset
- ◆ Asset specific diligence is complimentary to in-house real estate expertise
- ◆ Opportunity to invest reasonable dollar amounts (\$10 million to \$100 million)
- ◆ Provide higher returns than the whole loan market by leveraging exposure
- ◆ Provide some flexibility in LTV exposure within the capital structure
- ◆ Ability to direct workout situations
- ◆ Tend to prefer B-Notes and Mezzanine Debt with the following characteristics:
  - Moderate leverage (50% to 75% LTV)
  - Strong sponsorship
  - Institutional quality real estate in good markets

# B-Notes and Mezzanine Debt

## B-Note market takes off in early '00s

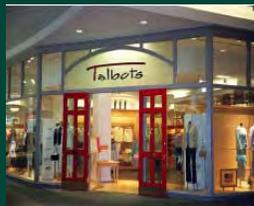
- ◆ The B-Note market developed in the late '90s but really took off in early '00s
- ◆ B-Notes from floating-rate loans still account for the bulk of the market
  - We estimate that over 60% of the total issuance volume has been floating-rate



1. Through August 2005.

# Case Study – Providence Place Mall

Capital Structure	Tranche Size (mn)	LTV	Debt Service Coverage
First Mortgage Note	\$273.6	51.8%	1.69x
Mezzanine Loan	\$106.4	72.0%	1.42x
<b>Total Debt</b>	<b>\$380.0</b>	<b>72.0%</b>	<b>1.42x</b>



## Transaction Summary

- ◆ Refinancing of existing debt on Providence Place Mall, a regional mall located in Providence, Rhode Island
- ◆ The property has four-levels and is anchored by Nordstrom, Filene's and JC Penney
- ◆ Overall occupancy is 97.9% (7/28/05) with in-line sales of \$528/SF
- ◆ The sponsor is General Growth Properties, Inc. a publicly traded REIT and one of the largest owner/operators of regional malls in the U.S.

## Lehman Brothers Role

- ◆ Lehman Brothers provided the \$273.6 million first mortgage loan and \$106.4 million of mezzanine debt to refinance existing debt on the Property
- ◆ The five-year first mortgage was securitized in LB-UBS 2005-C5 and the mezzanine debt was sold to an insurance company

# III. Co-Origination

# Co-Origination

**In a highly competitive lending environment with limited opportunities, Co-Origination often allows banks and insurance companies to compete more effectively and results in their retaining of B-Notes on loans with A-Notes that are securitized by Lehman**

- ◆ The CMBS market prices investment grade credit risk (A-Note) at extremely tight levels and well through most financial institution minimum commercial mortgage yield thresholds
- ◆ Retaining a B-Note allows the financial institution to lever its return
- ◆ Flexibility in the size of the B-Note and LTV range within the capital structure can be accommodated
- ◆ By retaining servicing rights, financial institution becomes the primary point of contact with the borrower, strengthening its existing relationship and retains the ability to direct workout situations

# Co-Origination

**For larger financing opportunities, Co-Origination can be an effective strategy to reduce total loan exposure**

- ◆ Accommodates lending opportunities that exceed the maximum allowable loan size
- ◆ Provides the ability to limit exposure to markets and property types
- ◆ Leverages underwriting and closing capabilities of Lehman Brothers

# IV. Leveraged Loans

# Leveraged Loans

## Lehman Brothers is a Market Leader in Originating and Syndicating Unique, Highly-Structured Real Estate-Based Corporate Credit Facilities

- ◆ Lehman Brothers has provided financing to a variety of REITs and real estate owners / operators across the U.S., including
  - Hospitality (Boykin Lodging, CapStar, Interstate Hotels and Resorts, Lodgian, MeriStar Hospitality and Starwood)
  - Mixed-use / other (CalSTRS, Capital Automotive REIT, CenterPoint Properties, Corrections Corporation of America, H2 Capital, iStar Financial, Kite Companies and Vornado)
  - Movie theatres (Cinemark and Regal Cinemas)
  - Multifamily (AIMCO, Archstone, AvalonBay, Gables Residential, The Related Companies and Sun Communities)
  - Office (Arden, HQ Global, The Rubenstein Company and SL Green)
  - Regional malls (Developers Diversified, General Growth Properties, Glimcher Properties, Westfield America and Westfield Corporation, Inc.)
  - Self storage (Amsdell Companies, Storage Deluxe and U-Store-It)
  - Gas stations (Getty Petroleum Marketing and MAPCO)
  - Land development (SunCal Companies)

# Leveraged Loans

## 2005 was Another Record Year for the Leveraged Loan Market

### Record Volumes

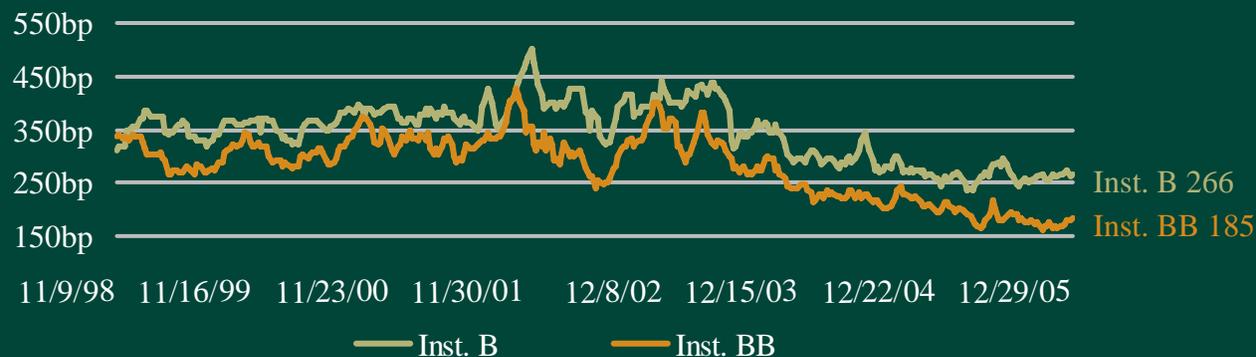
- ◆ Leveraged loan volume increased 11% in 2005 to \$295bn, once again setting a new record for volume in the market
- ◆ Institutional volume stayed above the \$100bn level for the second straight year, finishing at \$183bn, 20% higher than 2004's prior high of \$153bn
- ◆ M&A volume reached a six-year high of \$129bn and second-lien volume increased by 33.6% in 2005, to a record \$16.3bn

### Investor Capacity

- ◆ CLO issuance in 2005 reached \$53bn, topping the prior 2004 record by 110%
- ◆ The institutional investor base grew once again, attracting 55 net new investors during the year raising the institutional investor base to 225 accounts
- ◆ 2005 new-issue institutional loans attracted an average of 53 accounts in the primary, up from 38 in 2004, resulting in average allocation of \$5.9mm, down from \$6.9mm in 2004

### Low Spreads

- ◆ Average BB spreads of new issues remained at sub-200bp levels in 2005, however they widened toward year end and finished the year at L + 185bps
- ◆ B/B+ spreads widened from Q3 levels to L + 266bps at year end



# Leveraged Loans

## Demand from Structured Vehicles Drives Market Momentum

- ◆ Average spreads of new issues remained at record lows throughout 2005
  - This reflects significant investor demand supported by the in-flows into investor accounts exceeding new issue supply during 2005
- ◆ CLOs continue to offer primary source of liquidity
  - CLO issuance in 2005 reached \$53bn, topping prior high in 2004 by 110%
  - Issuance was particularly strong in Q4 with issuance of \$21bn of CLO vehicles, up from \$16bn during Q3 and \$10bn during the Q4 2004

### Leveraged Loan Volume



### Cash Inflows vs. New-Issue Volume



Source: Portfolio Management Data.

# Case Study – Gables Residential Trust

September 2005

\$2,200,000,000



Senior Secured Credit Facility

*Sole Lead Arranger*

**LEHMAN BROTHERS**

## Transaction Summary

- ◆ On June 7, 2005, Gables Residential Trust (“Gables” or the “Company”) and a private equity partnership sponsored by ING Clarion Partners (“ING Clarion”), a wholly-owned subsidiary of ING Groep, NV announced that a partnership managed by ING Clarion has agreed to acquire the Company
- ◆ Total capitalization of the transaction was approximately \$3.0bn
- ◆ Gables shareholders received \$43.50 per share in cash (\$1.4bn in total) representing a 14.1% premium to Gables’ previous closing stock price
- ◆ The transaction was funded with a \$1.9bn term loan and \$800mm in equity
- ◆ This was the largest ever public-to-private transaction in the multifamily REIT sector
- ◆ 73% going-in leverage
- ◆ First mortgage senior secured credit facility rated Ba2/BB+ by Moody’s and S&P, respectively
- ◆ Pricing: L + 175bps

## Lehman Brothers Role

- ◆ Lehman Brothers acted as Sole Financial Advisor and sole debt and equity capital arranger to ING Clarion Partners
- ◆ Lehman Brothers served as Sole Lead Arranger for a \$2.2bn senior secured credit facility, comprised of a \$300mm revolver and \$1.9bn term loan
- ◆ Lehman Brothers retained a \$50mm equity investment in the new entity

# V. Opportunities in the Housing Sector

# Opportunities in the Housing Sector

## National Housing Trends

- ◆ National Demographic Trends Remain Strong
- ◆ Population Growth in the U.S.
  - Over the next 30 years, U.S. population is expected to grow 30%, by 82mm people
- ◆ Impact of Echo Boom Generation and Over-55 Cohort
  - The entrance of the Echo Boom generation into the housing market, and the impressive size and growth rate of the over-55 cohort over the next few years will together provide a big boost to housing demand overall
- ◆ Immigration and Minority Homeownership<sup>(1)(2)</sup>
  - Immigration into the U.S. has averaged 1.2mm people per year since 2000
  - Minority homebuyers were responsible for 40% of the growth in homeownership over the past decade, a number which is likely to rise with increasing immigration
- ◆ Influence of Women as Homeowners
  - Women continue to play a larger role in the housing markets due to delayed marriage, higher divorce rates, lower remarriage rates, greater longevity and increased labor force participation
  - Unmarried women accounted for 30% of the growth in homeowners from 1994–2002
- ◆ According to the Department of Commerce, new home sales increased 13% in October 2005 to an annual pace of 1.42mm units and selling prices also increased

1. U.S. Census Bureau, *Interim State Projections, 2005*.

2. *The State of the Nation's Housing – Joint Center for Housing Studies of Harvard University*.

# A. Condominiums

# Condominiums

## Opportunities Continue to Exist in Targeted Markets

- ◆ Historically, condominiums were viewed as an inexpensive alternative to single-family homes, but lifestyle choices are now playing a greater role than affordability
  - People increasingly have a desire to live in an urban community, with easy access to entertainment and restaurants, and no long daily commute or time spent maintaining their home
  - After decades of declining urban populations, U.S. Census Bureau Statistics show that Houston, Seattle, Chicago, Denver, Portland, Atlanta, Memphis and San Diego all experienced greater percentage increases in their downtown populations from 1990 to 2000 than in their entire urban areas over the same decade; other cities, including Cleveland, Baltimore, Philadelphia, and Detroit, incurred downtown population increases while losing population as a whole
- ◆ Condominium values have outpaced single-family dwellings for the past nine years
  - According to the National Association of Realtors (“NAR”), between 2001 and 2004, condominium values appreciated 57%, while those of single family homes rose 25%
  - In 2004, the annual ratio of conventional single-family sales to condominium sales was about 7-to-1, and, according to the Census Bureau’s annual housing survey, among owner-occupied housing units, there were about 15 conventional single-family dwellings for every condominium

# Condominiums

## Opportunities Continue to Exist in Targeted Markets

- ◆ Condominiums are particularly popular among first-time buyers, single women, as well as empty nesters looking for maintenance-free lifestyles; the over-55 cohort is drawn to the luxury condominium market and fully-amenitized age-qualified communities
  - First-time home buyers purchased 42% of condominiums in 2004, while homebuyers 45 years and older purchased 54% of the condominiums, up from 42% in 2003

# Case Study – The Manhattan House

## A Distinctive, 583-Unit Asset in New York City

- ◆ In October 2005, Lehman Brothers co-originated a \$672mm Senior Loan and an \$84mm Mezzanine Loan for the acquisition and condominium conversion of Manhattan House
- ◆ The Borrower, a JV between the O'Connor Group and Manchester Realty, contributed equity of \$84mm
- ◆ A distinctive New York property, the 583-unit Manhattan House occupies an entire block between 2nd and 3rd Avenues and 65th and 66th Streets on the Upper East Side



# Case Study – The Manhattan House

## Total Capitalization – \$840.0mm

Equity	\$84.0 mm	100%	Lehman Loan \$756mm
Mezz 2	\$42.0 mm	90%	
Mezz 1	\$42.0 mm	85%	
B-Note 3	\$42.0 mm	80%	
B-Note 2	\$42.0 mm	75%	
B-Note 1 \$138mm	\$63.93mm	\$74.07mm Future Funding	
Securitized A-Note	\$450.0 mm	54%	

## Loan Sale Economics

Loan Total	Loan Total per Sq. Ft. <sup>(1)</sup>	Loan to Gross Sellout <sup>(2)</sup>	Spread Upfront (bps)	Fees
\$756.0mm	\$969	69%	1,150	1.0%
\$714.0mm	\$916	66%	950	1.0%
\$672.0mm	\$862	62%	625	0.5%
\$630.0mm	\$808	58%	425	0.5%
\$588.0mm	\$754	54%	325	1.0%
\$450.0mm	\$577	41%	46	0.0%

1. Based on 779,807 total net sellable SF.
2. Based on minimum Total Gross Sellout of \$1,090mm.

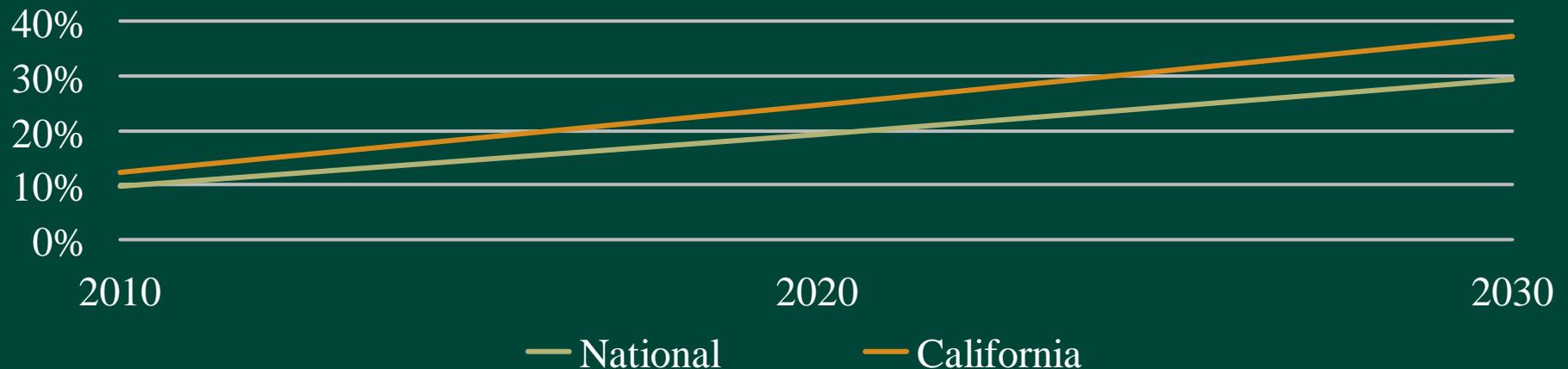
# B. Land Development

# Land Development

## Regional / California Housing Trends

- ◆ In the West, especially California, population growth drives long-term demand
- ◆ Population in California<sup>(1)</sup>
  - With population expected to increase from 33mm to 46mm in California by 2030<sup>(1)</sup>, housing demand is expected to grow rapidly
  - Despite recent records in housing growth and prices across the nation, the Building Industry Association states that California has the ability to absorb an additional 40,000 units annually without upsetting the current supply-demand balance

Population Growth – National vs. California<sup>(1)</sup>



Source: U.S. Census Bureau, Interim State Population Projections, 2005.

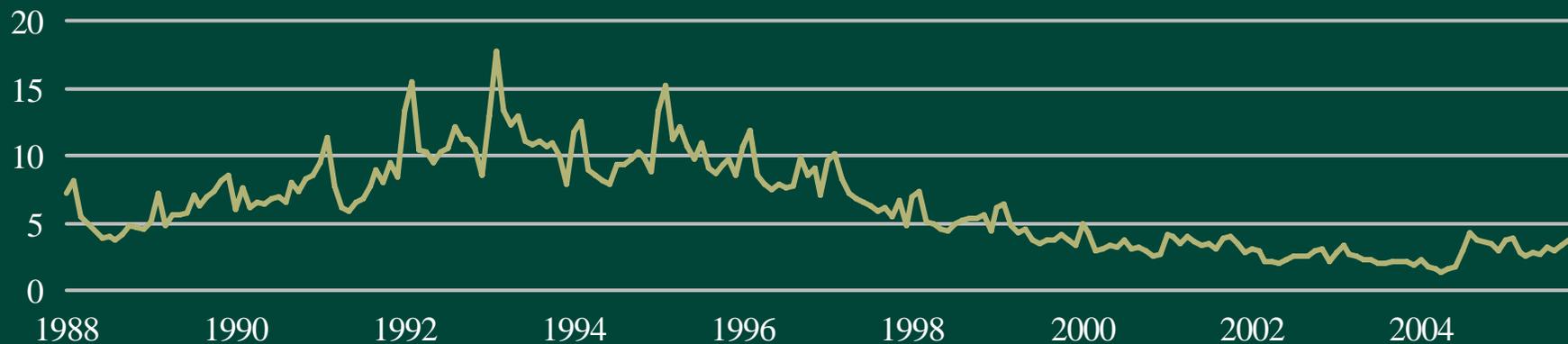
# Land Development

## Regional / California Housing Trends

- ◆ The housing sector in California is reflecting stronger indicators than that of the nation as a whole
- ◆ The average number of months of inventory available for sale in California was 3.1 months during the 3rd quarter of 2005 which is lower than the national average of 4.6 months
- ◆ Inventory levels which reached an average of 8.5 months during the housing decline during the early 1990s has steadily decreased over the last six years supported by overall economic growth in the region
- ◆ Between 2001 and 2004, the inventory available for sale decreased from 4.8–2.7 months reflecting strong demand for new housing
  - Indicators have remained low during 2005 reflecting the market's ability to sustain growth despite increases to interest rates

### California Unsold Inventory Index<sup>(1)</sup>

Months



Source: California Association of Realtors.

# Land Development

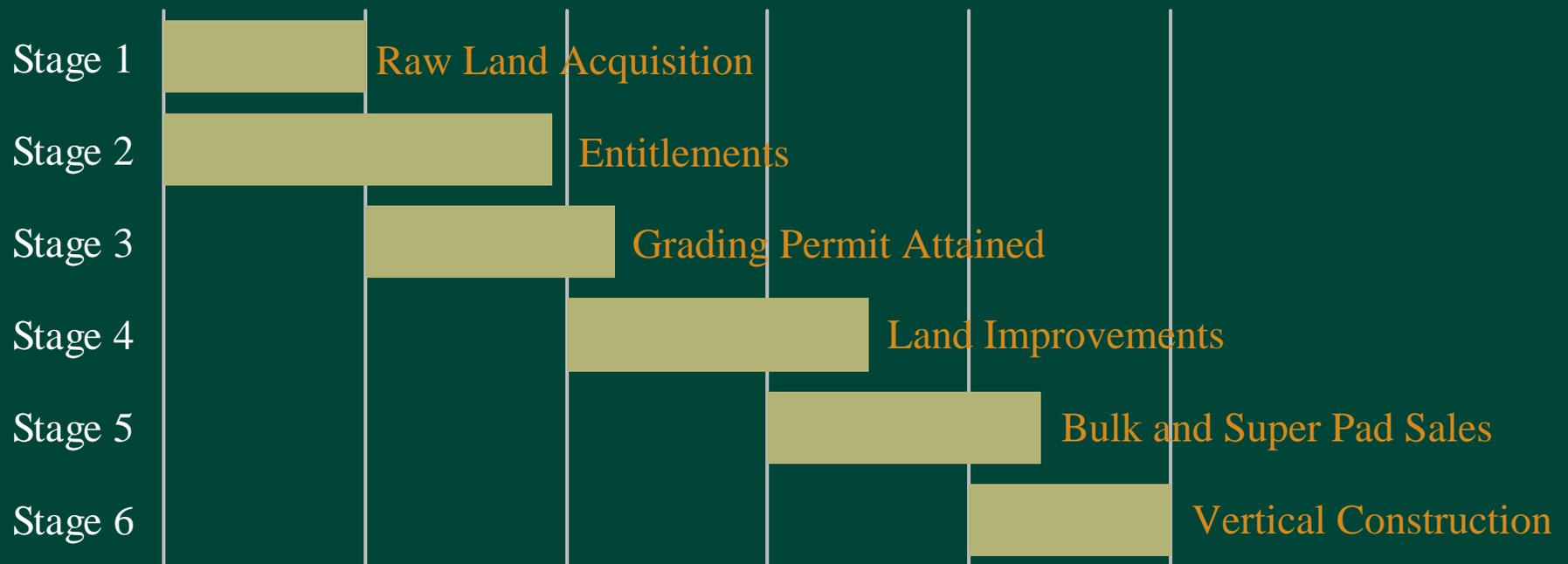
## Regional / California Housing Trends

- ◆ Over the past several years, California has experienced a steady rise in median home prices, as the state continues to be underserved by new housing developments
  - The sustained supply / demand imbalance for new housing that exists across the state has driven the median price of existing single-family detached homes to \$539,000 as of October 2005, which is the highest of any state in the U.S. and represents an increase of approximately 17% over the previous year
- ◆ The rapid price appreciation for single-family homes is the result of sustained housing supply constraints, driven largely by steady job growth in California since 1995 outpacing new home construction
  - Although the California housing market has slowed slightly in momentum, fundamentals suggest continued strength in the market, particularly within master-planned communities

# Land Development

## Master-Planned Residential Developments

- ◆ Traditionally served by relationship and regional banks
  - Strong sector characteristics, limited institutional participation
- ◆ Land development of “Entitled” land
  - “Horizontal development” – minor entitlements, utilities, grading, drainage, roads
  - Land is sold in bulk as “blue top” parcels and “super pads”



# Land Development

## National Homebuilders Generate Predictable Cash Flows from Contracts

Company Type	Homebuilder	Moody's	S&P	Fitch
Inv. Grade Public	Pulte Homes	Baa3	BBB-	BBB+
	Lennar Corp.	Baa3	BBB-	BBB+
	Centex Corp.	Baa2	BBB	BBB+
Public Companies	D.R. Horton	Ba1	BB+	BBB-
	K.B. Home	Ba1	BB+	BB+
	Beazer Homes	Ba1	BB	BB+
Private Companies	Shea Homes			
	Choice Homes			
	Mercedes Homes			

# Case Study – SunCal Companies

January 2006

\$320,000,000



Senior Secured Credit Facility

*Sole Lead Arranger*

**LEHMAN BROTHERS**

## Situation Overview

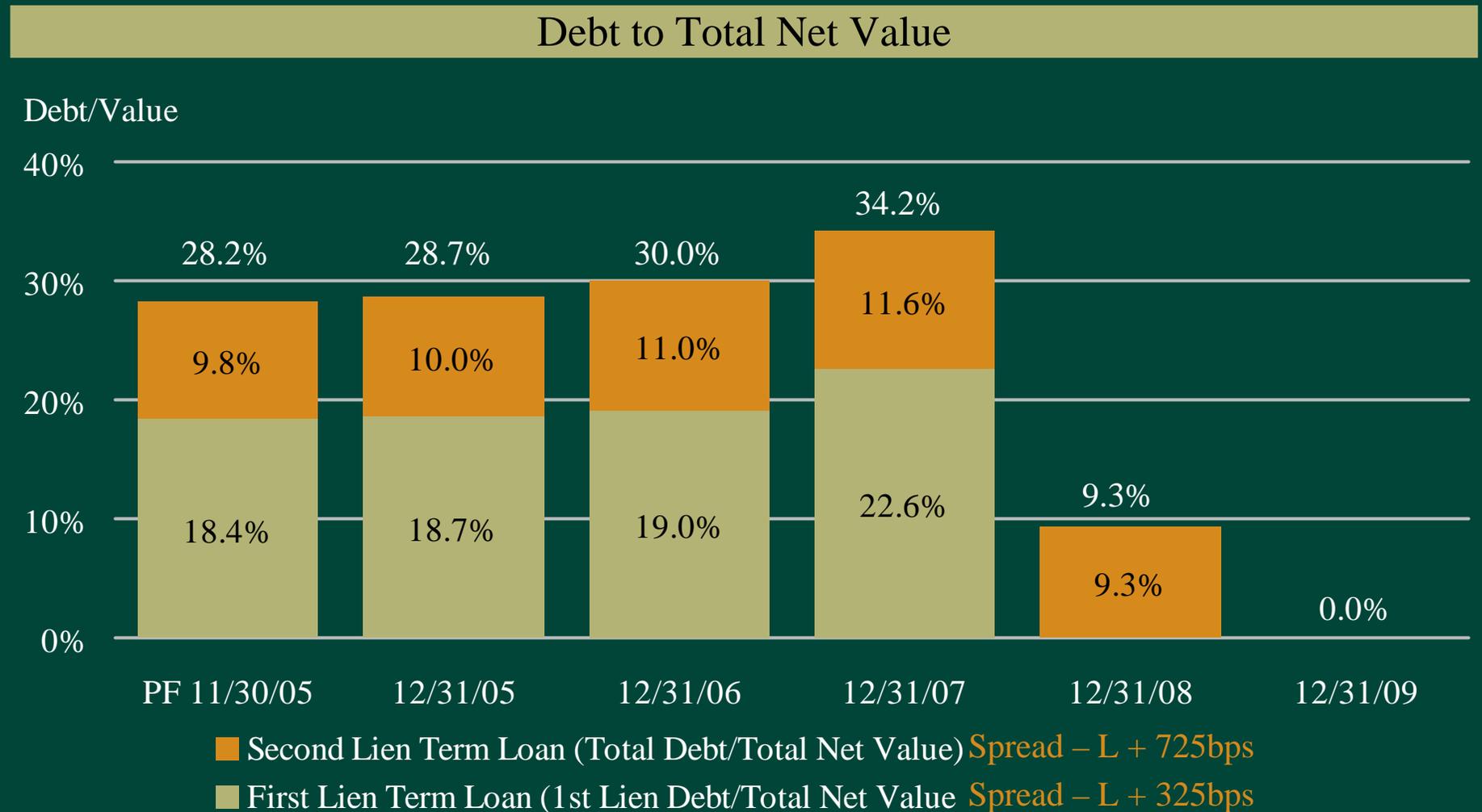
- ◆ Lehman Brothers recently completed the syndication of a \$320mm senior secured credit facility (the “Facility”) for SunCal Companies’ (“SunCal”) development of four separate land parcels (the “Developments”)
- ◆ The Facility is comprised of a 3-year \$75mm first-lien revolver, a 4-year \$160mm first-lien term loan and a 5-year \$85mm second-lien term loan
- ◆ The Developments consist of four master-planned communities located in Southern California encompassing a total of 12,185 lots on 5,452 acres
- ◆ Construction has commenced at three of the developments (McAllister Ranch, McSweeny Farms and SummerWind Ranch) and construction of the fourth (Borchard Patterson) is expected to commence during 2008

## Company Overview

- ◆ Founded in 1973 by Bruce Elieff, SunCal is a privately held, full service real estate development firm headquartered in Irvine, California
- ◆ SunCal is the largest private residential land developer in California
- ◆ Developed over 60,000 lots – single family homes, condominiums and apartments
- ◆ SunCal has approximately 100,000 new single family lots throughout California currently under development

# Case Study – SunCal Companies

## Summary Projected Leverage



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# LEHMAN BROTHERS

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