

## **Easy Living Talking Points for Executive Committee and Rating Agencies**

Wanted to give you a heads up on a large transaction we are looking at. It is a competitive situation so there is no certainty of winning, but we wanted you to be aware of our thinking.

We plan on participating in a bid for a company which owns a portfolio of multi-family real estate. We have been working with large investors, anchored by US pension funds and Middle East institutions on launching a low risk real estate fund, to satisfy their demand for a “core, stabilized multi-family property fund” and so have been reviewing a number of opportunities. This represents a unique proposition in that it contains a large number of high quality properties in highly sought after locations. The assets will form the basis of the new fund, and allows us to quickly seed a best in class multi-family asset management platform.

There is huge demand in the market for these types of assets. Some fund managers have already allocated part of their portfolios to this space and are working to get the allocation filled. It is viewed as being part of their fixed income portfolio due to its stabilized, cash flowing characteristics. A recent example of the demand for this type of asset is the Stuyvesant Town transaction which was 3x oversubscribed, in spite of the cost and certain large investors not wanting the political exposure this particular asset entailed.

The portfolio is owned by a REIT – Archstone-Smith. The bid would be structured as a purchase of the REIT and simultaneous sale of certain assets.

The REIT, which is minimally levered (25% of MV) would be restructured such that the assets go into CMBS securitizations.

The portfolio is comprised of:

- 179 stabilised US properties in the US (88,000 units)
- 119 international properties (83,000 units)
- 33 separate JVs
- Highest concentration of high-rise multifamily properties in the sector
- Concentrated (87%) in high barrier to entry markets
- Proven management team
- Cap rate of 4.25% is well above the 3% for Sty town
- Properties in US concentrated in NY, San Fran and southern California, and DC

Total cost is expected to be \$22-24 billion.

Expect to sell \$9 bill at closing. This is to take advantage of high demand for the properties, mainly in midtown Manhattan, and to minimize transfer taxes (highest in NY). This is similar to the EOP strategy completed by Blackstone recently.

We are partnering with Tishman Speyer. They have tremendous experience in this space – most recently with Sty Town. They bring investment and distribution expertise.

We believe that we are well placed to execute the transaction because of our experience in securitization, as well as our equity distribution.

Of the remaining \$13-15 billion post closing, \$9-11 billion will be financed by senior debt we would sell at closing – avoiding any funding by Lehman. There is unlimited price flex so as close to certainty on the debt saleability.

The remaining \$4 – 4.5 billion of equity and mezz will be distributed to investors. Lehman will keep \$250 mm for the fund. Tishman are investing \$250 mm.

50% of the equity and mezz will be sold within 2-3 weeks of closing to other investors. We have spoken to a number of large institutional investors (esp 2 large financial institutions) who have shown interest in taking this 50% immediately.

The remaining equity will be sold over the next 6 months or so, as we formalize the new fund and get the investors to go through the documentation process. For us, as GP managers of the fund, this will provide an annuitized revenue stream and become a new product in our asset management business, with fees (and carried interest).. Based on the work done to date with potential investors, we are VERY confident that this will be fully taken up, but will take some time to officially get through the investment approval processes of these large investors.

These assets are thought of by many investors as fixed income instruments rather than equity, because of the strong and consistent cash flows. Consequently there is limited repricing risk. The pricing risk is more in the disposition of the portfolio of assets to be sold at closing – although mitigated by the short period to close and the stability of the NY market. The securitization risks are largely hedged with swaps and contingent acq hedges.

Within our existing real estate inventory we have very little exposure to multi-family (<5%) so should not be thought of as dollar for dollar additive to existing risk.

The economics are extremely attractive: we would earn on the M&A fees, structuring and distribution, and subsequently AM fees.

Clearly all of this is dependent on winning the bid. We plan to submit our bids early next week, and will update you as we know more.