

Memorandum

TO	BRETT BOSSUNG, MARK NEWMAN
FROM	COBURN PACKARD, ARASH DILMANIAN
CC	KEVIN DINNIE, RODOLPHO AMBOSS
DATE	SEPTEMBER 17, 2007
SUBJECT	ARCHSTONE-SMITH ACQUISITION UPDATE

The purpose of this memo is to provide an update on the take-private acquisition by Lehman Brothers, in partnership with Tishman Speyer Real Estate Ventures VII, L.P. (“Tishman”, and together with Lehman, the “Sponsor”), of Archstone-Smith Trust (the “Company”). Pursuant to the Agreement and Plan of Merger dated May 28, 2007, the Sponsor agreed to acquire all of the outstanding shares of the Company for total consideration of approximately \$23.3 billion or \$60.75 per share in cash. The transaction has been approved by the Company’s shareholders and is expected to close on October 5, 2007.

Company Overview

As you know, the Company is a fully integrated real estate company based in Englewood, Colorado that is engaged primarily in the acquisition, development, redevelopment, operation and long-term ownership of apartment communities in the United States and Europe. Archstone owns a best-in-class portfolio of upscale apartment communities with over 96% of NOI generated by properties located in the nation’s most desirable and supply-constrained markets, including New York City, Washington D.C., Southern California, the San Francisco Bay area, Boston and Seattle. Post-closing, the Company will own or have an ownership position in 375 operating and development communities, representing 92,161 units. Archstone’s domestic assets are a mix of high-quality high-rise (43.5%) and garden apartment (56.5%) communities located in the most desirable locations in the apartment sector.

Capital Structure

The transaction capitalization at closing will comprise: (i) \$16.5 billion of new debt financing; (ii) \$1.7 billion of assumed debt and preferred units; and (iii) \$5.1 billion of equity, \$4.6 billion of which will be provided by bridge equity investors and \$500 million of which will be invested 50/50 by Lehman and Tishman. Proceeds from the acquisition financing will be used to: (i) purchase the outstanding common shares and units, (ii) repay certain existing indebtedness of the Company, (iii) fund related transaction costs and a \$500 million interest reserve; and (iv) for general corporate purposes. The following table outlines the latest sources and uses of funds for the transaction:

SOURCES AND USES OF FUNDS (\$000's)

Sources of Funds			Uses of Funds		
	\$ Amount	% Total		\$ Amount	% Total
Tishman Speyer GP Equity	\$250,000	1.1%	Purchase ASN Equity @ \$60.75 per sh.	\$15,574,154	67.0%
Lehman Brothers GP Equity (REPE)	250,000	1.1%			
Bridge Equity	4,600,000	19.8%			
Total Equity	\$5,100,000	21.9%			
New Preferred (Assumes 20% OP roll)	\$322,580	1.4%	OP Unit Rollover	\$322,580	1.4%
Assume Series I Preferred	50,000	0.2%	Assume Series I Preferred	50,000	0.2%
Total Preferred	\$372,580	1.6%			
New Term Loan A (Pro Rata Paydown)	\$3,893,622	16.7%	Repay Credit Facility	\$830,595	3.6%
New Term Loan B (Mandatory Amort.)	2,146,491	9.2%	Repay Unsecured Corporate Bonds	2,377,660	10.2%
New Development Acquisition Loan	500,000	2.1%			
New Floating Rate Debt: FNMA	\$1,390,010	6.0%	Repay Mortgage Debt	\$1,226,688	5.3%
New Floating Rate Debt: FRMC (Sellco)	1,078,967	4.6%			
New Floating Rate Debt: FRMC (Holdco)	677,787	2.9%			
Total Senior Floating Rate Debt	\$3,146,765	13.5%			
5 Yr Fixed Rate Debt: FNMA	\$2,346,317	10.1%			
7 Yr Fixed Rate Debt: FNMA	933,994	4.0%			
10 Yr Fixed Rate Debt: FNMA	2,666,657	11.5%			
Total Senior Fixed Rate Debt	\$5,946,968	25.6%			
New Mezzanine: Lenders TBD	\$773,906	3.3%			
New Ground Lease Financing	\$88,760	0.4%			
Assume Tax Exempt & JV Debt	1,150,951	4.9%	Assume Tax Exempt & JV Debt	\$1,150,951	4.9%
Assume International Debt	109,330	0.5%	Assume International Debt	109,330	0.5%
Assume Development Debt	27,018	0.1%	Assume Development Debt	27,018	0.1%
Total Debt	\$17,783,809	76.5%			
Total Debt & Preferred	\$18,156,389	78.1%	Transaction Costs	1,087,415	4.7%
			Interest Reserve	500,000	2.1%
Total Sources	\$23,256,389	100.0%	Total Uses	\$23,256,389	100.0%

Note: Sources of Funds and structure of new financing have not been finalized and are subject to change.

Loan Syndication

Barclays Capital and Bank of America have committed to fund 53% of aggregate acquisition debt and equity capital, representing \$8.7 billion of the \$16.5 billion loan commitment and \$2.4 billion of the \$4.6 billion bridge equity commitment. Fannie Mae has committed to provide \$7.3 billion of debt financing comprised of the following: (i) \$5.9 billion of fixed rate debt (61% LTV) with 5, 7 and 10 year maturities at weighted average rate of Swaps + 82 bps; and (ii) \$1.4 billion of floating rate financing (61% LTV) with 2-year term and three 1-year extension options at LIBOR + 126 bps. Freddie Mac has executed a term sheet to provide \$1.8 billion of floating rate financing (60% LTV) with 2-year term and three 1-year extension options at LIBOR + 97 bps.

Fannie Mae is expected to close concurrent with acquisition closing, and Freddie Mac is expected to close 30 days post acquisition closing. Additionally, Lehman and Bank of America are commencing bank meetings this week to syndicate the Term Loan A, Term Loan B, Development Acquisition Loan and Revolver.

Net of the \$9.1 billion of Fannie Mae and Freddie Mac commitments, and \$1.4 billion of net joint venture proceeds at closing, \$6.0 billion of new debt financing is remaining for syndication, representing 37% of the \$16.5 billion new financing requirement. Net of the commitments from Barclays and Bank of America, Lehman's share of remaining loan commitments comprises \$2.8 billion or 17% of the \$16.5 billion of new financing requirement.

We have entered into swap contracts on \$8.0 billion of notional debt over the past 30 days comprising: (i) \$1.0 billion of 2-yr. maturities at 4.61% vs. current 4.78%; (ii) \$2.5 billion of 3-yr. maturities at 4.98% vs. current 4.78%; (iii) \$2.5 billion 5-yr. maturities at 5.28% vs. current 4.90%; and (iv) \$2.0 billion 10-yr. maturities at 5.53% vs. current 5.17%. Swap contracts overall represent a weighted average fixed rate of 5.16% as compared to Investment Committee underwriting of LIBOR at 5.32%. Overall, we expect our all-in weighted average cost of debt (detailed below) to be 6.74% based on 76.5% LTV as compared to Investment Committee underwriting of 7.57% based on 70% LTV.

The following table provides a summary of loan proceeds and pricing:

COST OF DEBT (\$000's)						
<i>Senior Debt</i>	Status	Cumm. LTV	Base	Spread	Total	Amount
New Floating Rate Debt: FNMA	Spread Locked	61%	4.72%	1.26%	5.98%	\$1,390,010
New Floating Rate Debt: FRMC (Sellco)	Spread Locked	60%	4.94%	0.94%	5.88%	\$1,078,967
New Floating Rate Debt: FRMC (Holdco)	Spread Locked	60%	4.94%	1.01%	5.95%	\$677,787
Total / Wtd. Avg.			4.84%	1.10%	5.94%	\$3,146,765
5 Yr Fixed Rate Debt: FNMA	Rate Locked	61%	5.25%	0.86%	6.11%	\$2,346,317
7 Yr Fixed Rate Debt: FNMA	Rate Locked	61%	4.82%	0.82%	5.64%	\$933,994
10 Yr Fixed Rate Debt: FNMA	Rate Locked	61%	5.38%	0.79%	6.17%	\$2,666,657
Total / Wtd. Avg.			5.24%	0.82%	6.06%	\$5,946,968
OC/SD Joint Venture Debt: Lender TBD	In Negotiation	55%	4.91%	0.70%	5.61%	\$85,027
Assumed Mortgage Debt			0.00%	0.00%	4.90%	\$1,150,951
Total / Wtd. Avg.			0.34%	0.05%	4.95%	\$1,235,978
<i>Mezzanine Debt</i>						
New Floating Rate Debt: Lender TBD	Marketing	65%	4.72%	3.00%	7.72%	\$91,148
New Floating Rate Debt: Lender TBD	Marketing	70%	4.94%	3.25%	8.19%	\$179,828
New Floating Rate Debt: Lender TBD	Marketing	70%	4.94%	3.25%	8.19%	\$112,965
Total / Wtd. Avg.			4.89%	3.19%	8.08%	\$383,941
5 Yr Fixed Rate Debt: Lender TBD	Marketing	65%	5.25%	3.00%	8.25%	\$153,857
7 Yr Fixed Rate Debt: Lender TBD	Marketing	65%	4.82%	3.00%	7.82%	\$61,245
10 Yr Fixed Rate Debt: Lender TBD	Marketing	65%	5.38%	3.00%	8.38%	\$174,863
Total / Wtd. Avg.			5.24%	3.00%	8.24%	\$389,965
OC/SD Joint Venture Debt: Lender TBD		70%	5.04%	3.25%	8.29%	\$23,189
<i>Entity Level Debt</i>						
Revolver	Marketing		5.62%	*	3.00%	8.62%
Term Loan A	Marketing		4.96%		3.00%	7.96%
Term Loan B	Marketing		5.62%	*	3.25%	8.87%
Development Acquisition Loan	Marketing		5.62%	*	1.75%	7.37%
Total / Wtd. Avg.			5.31%	2.98%	8.29%	5,046,491
<i>Misc Debt</i>						
New Ground Lease Financing			5.62%	*	1.26%	6.88%
Assume International Debt			0.00%		0.00%	5.00%
Assume Development Debt			0.00%		0.00%	7.50%
Total / Wtd. Avg.					6.74%	\$16,398,404

Note: "*" indicates Base Rate is based on LIBOR.

Equity

As mentioned above, Lehman and Tishman will form a closed-end fund capitalized with \$5.1 billion of new equity, comprised of \$500 million of permanent equity contributed by the Sponsor (50% from Tishman and 50% from Lehman) and \$4.6 billion of bridge equity. CEO Scot Sellers and the Archstone management team will manage the Company's day-to-day operations and major decisions will require the approval of both Tishman Speyer and Lehman Brothers. We are currently negotiating the General Partnership and Limited Partnership agreements with Tishman. Additionally, we are considering hiring a dedicated asset manager to manage Lehman's day-to-day decision making with Tishman and Archstone.

Barclays Capital and Bank of America have committed to fund \$2.4 billion of aggregate bridge equity at closing, representing 53% of Lehman's \$4.6 billion bridge equity commitment. Additionally, The Irvine Company and ADIA have committed or soft-circled \$300 million of permanent equity to be funded at closing. Net of these commitments, Lehman's outstanding bridge equity exposure is \$2.0 billion, representing 44% of total bridge equity. The formal bridge equity marketing process for remaining commitments will commence post-closing.

Share Purchases

Subsequent to closing, we entered into a Standstill Waiver and Voting and Lock-Up Agreement with the Company allowing Lehman and Tishman to purchase securities of the Company, including common stock and operating trust units, prior to closing the transaction in open market or privately negotiated transactions. Open market acquisitions are regulated by Rule 10b-18 (which limit the amount of shares we may acquire daily, among other restrictions) and are expected to benefit all of the GP and LP equity participants. To date, Lehman has acquired approximately 1.6 million shares totaling \$94.1mm of principal on the open market, representing 1.9% of total venture equity investment and a net gain of \$1.5 million. Lehman, Barclays and Bank of America will be required to make a joint 13(d) public filing upon acquiring shares in excess of 5.0% of outstanding shares.

Asset Sales / Joint Venture

We have executed a binding agreement with The Irvine Company to form a joint venture partnership with the Company comprising 16 assets located in Orange County and San Diego at a gross purchase price \$1.54 billion (\$303,600 per unit; 3.9% going-in cap rate). The Irvine Company will contribute 90% of equity capital, pay the Company a 35 bps asset management fee on equity capital and a 20% promote above an 8.0% IRR. The transaction will be financed by a \$1.1 billion whole loan originated by Lehman; Met Life is evaluating the \$774 million A-note position and our mezzanine fund is evaluating a \$152 million B-2 Note position.

Following execution of the Merger Agreement, Lehman and Tishman engaged CB Richard Ellis to conduct a limited marketing process for a select group of non-core assets in the Company's primary markets (NY, SoCal, SF Bay Area, Seattle, Washington, DC). The marketing process was largely limited to well-capitalized "portfolio buyers" with the ability to transact quickly with limited information.

Several institutional buyers conducted due diligence and submitted offers for specific pools of assets, including Equity Residential, Kennedy Wilson, IMT and Morgan Stanley; however, these buyers ultimately declined to proceed with each respective transaction in early August given: (i) challenging capital markets environment; (ii) short due diligence and closing period; and (iii) asset pricing. We continue to work with select buyers on potential asset and/or portfolio sales, but will likely not formally re-engage in the marketing process until capital markets have stabilized.