

**From:** Neighbor, Webster <rwebster.neighbor@lehman.com>  
**Sent:** Wednesday, August 1, 2007 11:10 PM (GMT)  
**To:** Hughson, Paul A <phughson@lehman.com>  
**Subject:** ASN / WSJ report

---

FYI - From today's wsj. References Litt's research note on ASN / TS / LEH from last week:

> Credit Crunch Takes Its Toll  
> Commercial Real Estate Feels  
> The Effects of Fewer Buyers  
> For Pooled Mortgage Securities  
> By RYAN CHITTUM and KEMBA J. DUNHAM  
> August 1, 2007; Page B11  
> The fuel behind the skyrocketing commercial real-estate prices of the  
> past three years -- cheap debt and easy lending terms -- is running  
> low. As a result, high-risk buyers might be left behind and the pace  
> of real-estate companies going private might slow.  
> Low-cost loans with lenient terms have propelled the  
> commercial-real-estate market to what many feared was an unsustainable  
> level. The boom was propped up by the commercial-mortgage-backed  
> securities markets, which allowed banks to issue mortgages, pool them  
> and sell them as bonds. With less risk on their books, banks were able  
> to lend with cheaper rates and looser terms, making it easier for  
> private-equity firms to buy huge portfolios and real-estate investment  
> trusts. The buying frenzy culminated in Blackstone Group  
> </quotes/main.html?type=djn&symbol=bx> 's landmark, \$23 billion  
> acquisition of Equity Office Properties Trust in February. Many of  
> those EOP properties were quickly flipped at even higher prices.  
> In the past few weeks, though, nervous buyers of these commercial  
> securities have pulled out of the market altogether or demanded  
> sharply higher yields, fearing that many transactions were too risky.  
> That has forced lenders to raise interest rates, increasing the cost  
> of buying real estate.  
> "I have major REIT clients, and investment banks are changing the  
> deals on them as we speak because their costs of capital have gone  
> up," said Gary Mozer, principal with George Smith Partners, a Los  
> Angeles-based commercial-real-estate finance firm.  
> Mike Kirby, chairman of Green Street Advisors, a Newport Beach, Calif.  
> real-estate research company, estimates that borrowing costs are about  
> 0.3% higher than they were a couple of weeks ago and as much as 0.9%  
> higher than when Blackstone bought EOP.  
> The turmoil has led to a shakeout, with highly leveraged buyers  
> stymied and conservative buyers flexing their muscles. Yet, with fewer  
> bidders for buildings and with fewer loans being originated, sale  
> prices could start to fall, experts say.  
> Investors are fretting over the commercial sector despite strong  
> fundamentals because they see similarities to problems that led to the  
> crash of the subprime residential-mortgage market. This spring, the  
> credit-ratings services issued warnings about lax underwriting

> standards on commercial loans.

> Meanwhile, the market for collateralized debt obligations (which are

> complex pools of securities backed by commercial mortgages and are big

> buyers of low-rated commercial-mortgage-backed securities debt) has

> turned down sharply. "There's an enormous amount of uncertainty and an

> enormous amount of anxiety," says Matthew Ostrower, a real estate

> analyst with Morgan Stanley.

> Throughout the boom, many buyers borrowed 85% or more of the total

> costs of their acquisitions. Many of these loans were underwritten

> either with the presumption that rising prices would allow buyers to

> flip the properties for a profit or that future rent increases would

> offset the high mortgage payments.

> In a conference call with investors Monday, Jeffrey Donnelly, senior

> analyst with Wachovia Capital Markets, predicted that "the

> high-leveraged investor is probably going to be priced out the market

> in the near term."

> Well-financed investors find themselves at an advantage. For example,

> Hines Interests, a Houston-based real-estate developer, just closed on

> its U.S. Office Value Added Fund II, raising \$828 million in equity

> that will allow for \$2.7 billion of investment. "We are welcoming the

> change in the debt markets, which will remove some of the potential

> buying competition," says Dave Congdon, Hines senior vice president.

> Another likely outcome is a slowdown in REIT buyouts, which hit a

> record of \$64.5 billion in 2006, according to SNL Financial.

> The biggest pending transaction is Tishman Speyer Properties and

> Lehman Brothers Holdings [/quotes/main.html?type=djn&symbol=leh](http://quotes/main.html?type=djn&symbol=leh) ,

> Inc.'s \$15.2 billion buyout of apartment REIT Archstone-Smith Trust

> [/quotes/main.html?type=djn&symbol=ASN](http://quotes/main.html?type=djn&symbol=ASN) . The \$60.75-a-share deal was

> announced in May, and the REIT's stock dropped below \$59 on fears that

> Lehman would have trouble offloading the debt.

> A report Friday from Citigroup analyst Jonathan Litt speculated that

> Lehman might find it advantageous to cancel the deal and pay

> Archstone-Smith a \$1.5 billion breakup fee rather than holding the

> debt involved in the deal. Archstone-Smith's stock dropped as low as

> \$56.55 Monday before rebounding yesterday to \$57.41 a share.

> While it is still possible for private-equity concerns such as

> Blackstone to buy REITs, the residual flipping would be more

> difficult, experts say. "What's happened is the increasingly more

> aggressive triple flip -- something only Greg Louganis could do --

> those types of property trades are not likely to happen again," said

> Steve Schwartz, co-head of JP Morgan Real Estate.

> --Alex Frangos and Jennifer S. Forsyth contributed to this report

>

>