

From: Cohen, Jonathan <jonathan.cohen@lehman.com>
Sent: Monday, August 20, 2007 12:52 PM (GMT)
To: Lobo, Kenneth <Ken.Lobo@lehman.com>
Subject: Re: Is this a good assessment of the situation?

Spot on.

----- Original Message -----

From: Lobo, Kenneth
To: Cohen, Jonathan
Sent: Mon Aug 20 08:10:50 2007
Subject: Is this a good assessment of the situation?

Archstone-Smith Sale, If It Actually Happens, May Mark Era's End

By ALEX FRANGOS

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Yet another deal may be in trouble amid the brittle credit markets: The planned sale of Archstone-Smith Trust </quotes/main.html?type=djn&symbol=ASN> , a marquis name in real estate with more than 80,000 high-rent apartments, to a joint venture of Tishman Speyer Properties and Lehman Brothers Holdings </quotes/main.html?type=djn&symbol=leh> Inc.

When shareholders vote Tuesday, they are expected to sign off on the deal, in which the buyers have agreed to pay \$15.2 billion and assume \$6.5 billion in debt. Closing already has been postponed once, and is now scheduled for Oct. 5. But Wall Street will be closely watching to see if this deal crosses the finish line intact at a time when lenders are on the hook for more than \$200 billion in commitments on private-equity deals over all.

In some ways, the Archstone-Smith buyout is one of the last of an exciting era when private firms picked off publicly traded real-estate companies whose shares were trading below the value of their properties. Buyers in these deals typically invested little equity, used huge amounts of debt and reduced their risk by flipping many of the properties.

Indeed, in the Archstone-Smith deal, Tishman Speyer put in only \$250 million in equity. Lehman and its financing partners Bank of America and Barclays Capital, put in \$4.85 billion of equity and so-called bridge equity, much of which they need to sell to investors. Lehman and its partners must also come up with \$17 billion in debt financing at a time when credit markets are having trouble swallowing real-estate debt.

But unlike Blackstone Group </quotes/main.html?type=djn&symbol=bx> 's blockbuster takeout of Equity Office Properties Trust for \$23 billion, Tishman and Lehman are buying to own, rather than to flip. They intend to keep most of the properties, selling less than \$2 billion worth.

All that has Wall Street nervous. Archstone-Smith's stock closed at \$57.41 on Friday, up 1.6%, and 5.5% below the \$60.75-a-share buyout price, indicating investors are wary that the deal will get done.

Things looked different when the deal was announced in May. Shareholders complained then that the price, at \$60.75 a share, was too low as buildings were still trading at record prices.

But even then, cracks were apparent in the debt markets. As later disclosed in a government filing, Tishman and Lehman in May privately lowered their offer price for Archstone-Smith from as much as \$64 a share, citing "adverse changes in the debt markets" as well as unforeseen tax costs. The deal was scheduled to close by the end of August. But as the credit crisis worsened, Lehman, which is funding several other major

leveraged buyouts, including TXU Corp., asked Archstone-Smith for more time.

Given how real-estate stocks have sunk since May, the buyout price now seems a steal. Nonetheless, some say it might make more sense for the buyers to cancel the deal and pay as much as \$1.5 billion in termination fees to Archstone-Smith, rather than try to swallow all that debt. Another option, to lower the price, would require another shareholder vote.

After the vote, attention will shift solely to the financing. The end result will have major implications both for commercial real estate and Wall Street's deal-making world.

"My gut feeling is there's a 75% chance it gets done," says Rich Moore, a real-estate analyst at RBC Capital Markets. "You're talking about a very high-quality portfolio. If you can't arrange financing for that, you've got to wonder what you can finance."