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Global Real Estate Product Control

Global Real Estate Markdowns

January, 2008

LEHMAN BROTHERS

Executive Summary

- ◆ The capital markets meltdown continued into the first quarter. CMBS spreads have widened to all-time highs and investors have been staying on the sidelines.
- ◆ CMBS delinquencies are still at historic lows, but real estate is usually a lagging indicator
- ◆ Many of our bank loans and PTG positions are directly related to the residential housing sector, which is extremely troubled.
- ◆ In general, the collateral performance of our whole loan positions has not been an issue, but the spread widening at all the debt tranches have led to lower values.
- ◆ The inability to hedge our floating rate book and the mezz classes of our fixed rate loans has continued to result in losses.
- ◆ The mark downs effected in January are the best estimates by the business and product control at this time.

Executive Summary (Continued)

- ◆ As part of its ongoing marking methodology, the Global Real Estate Group (GREG) performed a valuation review of their entire portfolio. The review took into consideration the continuing widening of credit spreads, continued sluggishness in the residential market, and lack of liquidity in the market place.
- ◆ The Real Estate Product Control group has reviewed the mark adjustments and agrees with these adjustments
- ◆ The review resulted in a total markdown of \$665mn (approx. \$505mn in the US, and \$160mn in Europe).

	Legal Balance (12/31/07)	Mark	Market Value (12/31/07)	Mark Downs (\$ millions)	Comments
US Commercial					
Fixed Rate Securizable	941	99.1	933	-	Hedged for credit and interest rate movements
Suncal Term Loans	2,093	89.7	1,878	(147)	\$130mn markdowns were taken in 3Q/4Q 2007 (See page 3)
Term Loans / LOCs (excluding Suncal)	3,215	98.4	3,164	-	Mainly Archstone term loan, which has a full price flex
CMBS:					
Bonds	2,803	91.1	2,554	(68)	See page 4
IO's	32,101	1.5	485	(41)	See page 4
Bridge Equity	3,848	91.2	3,510	(72)	See page 5
Floating Rate B-Notes / Mezz	4,235	96.8	4,101	(40)	See page 6
Fixed Rate B-Notes / Mezz	2,172	97.4	2,117	(18)	See page 7
Floating Rate Whole Loans	5,308	97.8	5,190	(13)	See page 8
<i>Total US Commercial</i>	<i>56,716</i>	<i>n/m</i>	<i>23,930</i>	<i>(399)</i>	
US PTG	11,815	80.2	9,470	(111)	See page 9
Total Americas	68,532	n/m	33,400	(510)	
Europe				(160)	
Total				(670)	

US Commercial: Suncal (\$147 million)

- ◆ The positions in this category include mainly term loans for residential land developments primarily located in southern CA. Original business strategy was to develop land and sell to home builders.
- ◆ As a result of the general slow down in the residential market, execution of original business plan is not going ahead as planned. Most loans have either defaulted and/or are in the process of foreclosure.
- ◆ Current business strategy is to foreclose and hold the assets until market recovers or other exit strategy is figured out.
- ◆ Valuation review took into consideration the extended absorption rate as a result of the softness of the market and decline in market prices.
- ◆ Valuation methodology was based on a DCF to a target unlevered IRR of 15%. Cash flow projections were provided by a third party vendor.

Asset Name	Lien Type	Legal Bal. 12/31/07	Mark	Mkt Value 12/31/07	Mark Adj. 1/31/08	Mkt Value 1/31/08	Collateral Description
Suncal Master LBREP	Second/ Third/ Revolver	130	84.4	110	(45)	65	A master planned community on a 5,406 acres of undeveloped farmland and ranchland in Southern California. These include Mcallister Ranch, McSweeny, Summerwind Ranch and Borchard Patterson. 98% of the portfolio is entitled.
Ritter Ranch	Senior/ Mezz/ Revolver	311	84.4	262	(39)	223	A 7,158-lot master planned community on a 6,675 acres of entitled land in Palmdale, CA, with a wide variety of housing products, including residential areas and commercial development areas.
Delta Shores	Equity	42	96.4	41	(34)	7	423 acres of unentitled land in Sacramento, CA planned for retail and residential development.
Oak Valley Champions	Senior/ Revolver	121	84.4	103	(22)	81	A 3,300-lot master planned community on approximately 982 acres located within the northern area of the City of Beaumont, Riverside County, CA. The development is primarily residential and will also include two commercial/retail sites and recreational fac
Marblehead / Heartland	Senior	294	94.9	279	(11)	269	A 1,290-lot master planned community on a 668 acres of entitled land in San Clemente (Orange County) and Beaumont (Riverside), CA. The development is primarily residential and will also include one commercial/retail site, and several parks.
Terra Lago	Equity	12	100.0	12	(7)	5	A 1,473-lot on a 350 acres of entitled land in Indio, CA planned for retail and residential development.
Pacific Point	Senior/ Revolver	141	72.9	102	8	110	A 387-lot master planned community on a 256 acres of entitled land located directly east of the San Diego (Orange County), CA. Planned housing products range from condos and townhomes to large estate lots as well as recreational centers.
Various	Various				2		
					(147)		

US Commercial: CMBS Bonds / IO's (\$109 million)

- ◆ The positions in this category include CMBS bonds / IO's either bought in the secondary market for trading purposes or retained from our own securitizations.
- ◆ Write-downs were triggered by spread widening and lack of liquidity.

Fixed Rate Investment Grade Bonds: \$(18)million

- ◆ Most of the write-down is on 2006/2007 originated bonds
- ◆ Exposure primarily on mezz positions
- ◆ AAA exposure hedged with CMBS indices

Rating	Spread Movements	
	From	To
A+	420	525
A	445 - 495	525 - 575
A-	480 - 530	600 - 650
BBB+	685 - 785	800
BBB	785 - 885	875 - 950
BBB-	885 - 995	1000 - 1075

Floating Rate Bonds: \$(50)million

- ◆ 95% of the write down on retained bonds from our last floating rate deal (LBFRC - 2007)
- ◆ Pricing to full extension
- ◆ No deals in the market for over a month
- ◆ Not a lot of secondary trades in the market

Rating	Spread Movements	
	From	To
AAA (Class A1)	90	150
AAA (Class A2)	100	225
AAA (Class A3)	110	300

IO's: \$(41)million

- ◆ Trades even less frequent than floating rate bonds
- ◆ New trades do not publish IO prices
- ◆ Data point is, thus, when we do our own deals (No Lehman deals in 2008 FY yet)

Rating	Spread Movements	
	From	To
AAA	100 - 500	350 - 700

US Commercial: Bridge Equity (\$72 million)

- ◆ Lehman typically provides the entire capital stack when we provide bridge equity
- ◆ Business plan is usually to syndicate bridge equity within 6 to 12 months. In a typical deal where LB provides bridge equity financing, we get full price flex on the debt (i.e, irrespective of where we sell the debt positions, Lehman will make a fixed profit).
- ◆ Widening of credit spreads eats into the equity yield, making syndication at par difficult.
- ◆ Marks taken represent required adjustments to exit bridge equity positions at the reduced yields. It's our policy to apply bridge equity fees (usually 4%) to basis.
- ◆ Most of the write-down is on 237 Park Ave bridge equity, in which LB is in talks with the sponsor (Broadway Partners) for a partial redemption and to convert a portion of our bridge mezzanine and equity investments into a Broadway Fund III investment diversifying our exposure.

Asset Name	Legal Bal. (12/31/07)	Mark	Mkt Value (12/31/07)	Mark Adj. Jan-08	Mkt Value (1/31/08)	Collateral Description
237 Park Avenue LB Syndication Partn	58	96.0	56	(50)	6	237 Park Avenue is a 1.2 million square-foot Class A high-rise building located in Manhattan.
Austin Portfolio LB Syndication Partnc	148	94.6	140	(7)	133	The portfolio includes five of Austin, Texas's premier CBD office buildings consisting of 2.5 million square feet, and five Class A/B suburban assets totaling 1 million square feet.
Rosslyn LB Syndication Partner LLC	310	94.0	291	(5)	286	Six buildings located in Rosslyn, VA and one located in Merrifield, VA consisting of 2.5 million square feet of office space.
PLF LB Syndication Partner LLC	574	87.3	501	(5)	496	Portfolio includes 114 properties, comprising approximately 25 million square feet of modern, high-quality industrial properties in several key distribution markets.
LB Atlanta Area Portfolio Partner LP	71	97.0	69	(3)	66	5 class A and B office developments in the metro Atlanta area. The portfolio contains 21 office buildings and five development sites.
Orlando Centre LB Syndication Partne	25	96.0	24	(2)	22	One Orlando Center is a premier 19-story Class A office tower prominently located in Orlando, FL. It contains 355,000 square feet
				(72)		

US Commercial: Floating Rate B-Notes / Mezz (\$40 million)

- ◆ Original exit plan was through syndication to institutional investors
- ◆ Syndication market is suffering from lack of liquidity
- ◆ Valuation based on estimated market spreads discounted to full extension

Asset Name	Lien Type	LTV	Legal Bal 12/31/07	Mark	Mkt Value 12/31/07	Mark Adj. 1/31/08	Mkt Value 1/31/08	Collateral Description
Calwest Portfolio	Mezz	70%	131	95.6	126	(8)	117	25% participation in a \$2.45bn acquisition loan on a portfolio of 97 industrial properties known as CalWest Portfolio. \$275mm of senior loan was securitized in LB-FRC 2007-LLF C5 and \$206mm was syndicated.
John Hancock Center	B-Note	90%	187	93.4	174	(6)	168	Financing to a partnership between Whitehall and Golub & Company secured by the John Hancock Center, a 100 story, 1.13bn square foot of office space in Chicago, IL. \$182mm of senior debt was securitized in LB-FRC 2007-LLF C5.
San Francisco Office Portfolio	Mezz	89%	117	95.0	111	(6)	105	Financing in connection with Morgan Stanley Real Estate Value Fund V's acquisition of The Blackstone Group's downtown San Francisco office portfolio purchased from EOP. The portfolio consists of 10 Class A office buildings within the financial district. \$187mm of the senior was securitized in LB-FRC 2007-LLF C5.
Project Deuce	Mezz	72%	172	97.0	167	(5)	161	50% participation in a \$3.43bn acquisition loan for a portion of the Beacon Fund II Portfolio. The portfolio includes 8 office properties with over 5.8mm square foot of space located in MA, DC and CA. Part of mezz and senior were syndicated and securitized in LB-UBS 2007-C2 and LB-FRC 2007-LLF C5.
Crescent Hotels	Mezz	80%	132	95.4	126	(3)	123	Financing to Walton Street Capital in connection with their acquisition of Crescent Real Estate Equities' portfolio of six hotel properties, one office tower and a golf course in CA, CO and TX. \$181mm of senior debt was securitized in LB-FRC 2007-LLF C5.
Wyndham Portfolio	Mezz	63%	122	100.1	122	(2)	120	\$285mm financing to W2005 WYN Hotels and Highgate for refinancing. The collateral is secured by a portfolio of 13 hotel properties located in nine states across the U.S and comprise 3,468 rooms. \$150mm of senior debt was securitized in LB-FRC 2007-LLF C5.
EOP Austin	Mezz	65%	46	97.7	45	(2)	43	Financing to Thomas Properties Group's \$1.12bn acquisition and management of a 3.5 million square foot office portfolio in Austin, TX. The current writedown is on two out of six properties.
301 Howard	Mezz	84%	80	94.5	76	(2)	74	Mezz position of a \$120mm financing on a 23 story multi-tenant Class A office building in San Francisco, CA. \$40mm of senior securitized in LB-FRC 2007-LLF C5.
Normandy Office Portfolio	Mezz	74%	43	96.1	41	(2)	39	Mezz position of a \$176mm financing on 12 office buildings located across northern NJ and Boston. \$110mm of senior debt was securitized in LB-FRC 2007-LLF C5 and \$23mm of mezz was syndicated.
Various Other	Various		252	96.1	242	(3)	239	
						(40)		

US Commercial: Fixed Rate B – Notes / Mezz (\$18 million)

- ◆ Original exit plan was through syndication to institutional investors
- ◆ Syndication market is suffering from lack of liquidity
- ◆ Valuation based on estimated market spreads discounted to maturity dates

Asset Name	Lien Type	LTV	Legal Bal. 12/31/07	Mark	Mkt Value 12/31/07	Mark Adj. 1/31/08	Mkt Value 1/31/08	Collateral Description
GM Building	Mezz	61%	147	98.3	145	(12)	132	A 25% participation in a \$1.9bn commercial mortgage loan originated by Deutsche Bank to refinance the GM Building.
125 High Street	Mezz	70%	55	99.2	55	(2)	52	Junior mezz position of a \$529mm financing on a 1.48mm square feet office building in Boston, MA. \$340mm of senior debt was securitized in LB-UBS 2006-C6 and \$134mm of mezz was syndicated.
McCandless Tower	Mezz	73%	51	95.8	49	(2)	47	Mezz position of a \$168mm financing on a 418k square feet office building in Santa Clara, CA. \$116mm of senior debt was securitized in LB-UBS 2007-C6.
Courvosier Center	Mezz	74%	58	90.1	53	(1)	52	Mezz position of a \$112mm financing on a 335k square feet office property located in Miami, Florida. \$54mm of senior debt was securitized in LB-CMT 2007-C3.
One Federal	Mezz	70%	28	102.2	28	(1)	27	Mezz position of a \$375mm financing on a 1.12 million square feet office building in Boston, MA. \$262mm of senior debt was securitized in LB-UBS 2006-C4 and \$84mm of mezz was syndicated.

US Commercial: Floating Rate Whole Loans (\$13 million)

- ◆ Exit through securitization / syndication
- ◆ Securitization market almost dead
- ◆ Buyers of floating rate paper were European investors who stopped buying after the sub-prime melt down
- ◆ Valuation based on estimated market spreads discounted to full extension

Asset Name	Lien Type	LTV	Legal Bal. 12/31/07	Mark	Mkt Value 12/31/07	Mark Adj. 1/31/08	Mkt Value 1/31/08	Collateral Description
Hilton	Senior/ Mezz	70%	1,387	98.2	1,362	(11)	1,351	7.5% participation in Blackstone's \$21bn acquisition of Hilton Hotels Corporation.
Innkeepers	Senior/ Mezz	75%	385	67.3	371	(3)	368	Acquisition financing of \$1.2bn to Apollo Investment Corp for Innkeepers USA Trust, a public hotel REIT. The portfolio consists of 69 hotels, primarily extended stay and limited service. All of the fixed rate debt of \$825mm was securitized in LB-UBS 2007-C6 and C7.
Ritz Kapalua	Senior	62%	62	91.7	57	(3)	54	Financing to Gengate, Whitehall Street and Maui Land & Pineapple Co. for the refinancing and redevelopment of Ritz-Carlton Kapalua, Maui, Hawaii.
Toy Building	Senior	76%	283	98.2	278	5	283	Financing L&L Acquisitions for acquisition and redevelopment of 200 Fifth Avenue, the Toy Building, a New York office tower prominently located in the Flat Iron District submarket in Midtown Manhattan. Business plan is to redevelop the asset and lease the space as Class A office.
Various	Various		765	97.2	744	(1)	742	
							(13)	

US PTG (\$111 million)

- ◆ Investments over the couple of years have primarily been related to land or condominium development / conversion.
- ◆ Valuation based on IRR models provided by a third party servicers (Trimont/ PCCP)
- ◆ Cash flow projections factor the softness of the residential market thereby extending absorption period and reducing sales prices

Asset Name	Lien Type	Legal Bal. (12/31/07)	Mark	Mkt Value (12/31/07)	Mark Adj. Jan-08	Mkt Value (1/31/08)	Collateral Description
PCCP LB Mountain House LLC	Equity	82	81.7	67	(15)	52	490 acres of land located primarily within the Mountain House Master Plan located in Mountain House, CA
Skyline at MacArthur	Mezz	29	79.8	23	(14)	9	3.0 acres of land in Santa Ana, CA, fully entitled for two 25-story condo towers containing 349 luxury condo units.
Orlando Assets Acquisition	REO	197	82.9	163	(14)	149	Foreclosed loan; Two failed condo conversion projects in Orlando, FL.
Colonial Grand at Bayshore	First	50	98.2	49	(12)	37	The Project consists of the conversion of an existing 376-unit Class B+ apartment complex built in Bradenton, Florida.
PCCP LB Mariposa Lakes LLC	Equity	24	99.5	24	(10)	14	Part of the Mariposa Lakes planning area which consists of 3,810 acres of unentitled land in the City of Stockton, California. The Company controls roughly 1,860 acres of the 3,810 acres under land option.
LB South Beach LLC	Equity	115	64.9	74	(8)	66	An upscale Hotel-Condo development in Miami Beach, Florida; Consists of 173 condominium units and an adjacent 86 room hotel.
PCCP LB ASU Towers	Equity	8	100.0	8	(8)	-	A 1.62 acre parcel adjacent to the ASU campus in downtown Tempe, Arizona; Currently entitled for a 20 story condo tower and an 18 story hotel.
Greenwich Portfolio	REO	247	81.7	202	(7)	196	The separate multifamily properties containing a total of 462 units located in Greenwich, CT.
Whiteface Lodge	First	36	92.5	33	(6)	27	An 86-unit five-star luxury resort and private residence club offering 1/12 fractional ownership located in Lake Placid, New York.
PCCP LB Nuevo Lakes LLC	Equity	5	100.0	5	(5)	0	80 acres of unentitled land in an unincorporated area of Riverside County, CA (known as Nuevo)
Middle Mountain	First	36	96.5	35	(5)	30	196 acres of raw land located 20 miles north of Phoenix CBD.
PCCP LB Central Valley Land	Equity	10	100.0	10	(5)	5	409 mapped lots on 5 different land parcels in Parlier, Sanger, and Selma, CA.
Spring Mountain Ranch Mezzanine	Mezz	47	0.0	0	47	47	The project is 785 acres of vacant land in the County of Riverside, California.
Various (<\$5mn in write-downs)	Various	63	82.1	52	(50)	23	
(111)							