

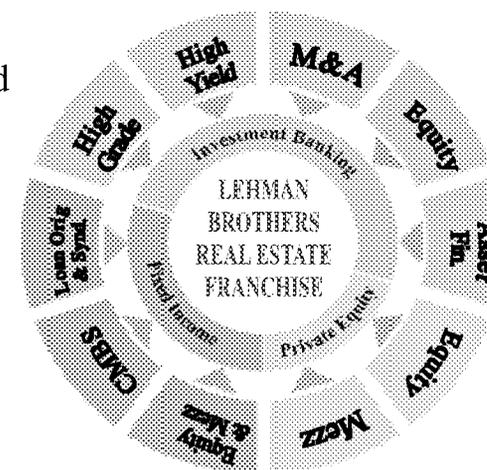
Commercial Real Estate Update

March 25, 2008

LEHMAN BROTHERS

Executive Summary

- ◆ Our Global Real Estate business (GREG) encompasses commercial mortgages, principal transactions and investment banking. It is a unique structure and has been very successful in leveraging expertise in each area. Over time, GREG has developed into one of the Firm's core strengths and has significantly contributed to the Firm's earnings, including through a number of difficult real estate markets. The scope has broadened from largely a U.S. business to approximately 50% international
- ◆ The \$55.2Bn 1Q08 balance sheet (US \$33.4Bn, Europe \$13.6Bn, Asia \$8.2Bn) has grown over the last couple of years in all regions, particularly in Europe and Asia. This growth has been predominantly in the higher quality, lower risk asset classes, reflecting a shift into senior loans and away from mezzanine and equity
- ◆ The debt inventory is 90% floating rate and the weighted average maturity is around 2 years. First lien mortgages are more than 75% of our whole loans, and our AAA instruments are more than 70% of securities held. Approximately 95% of whole loans have an LTV of less than 80%.
- ◆ Currently, *de-minimis* CDO, repo or financing exposures
- ◆ GREG is appropriately capitalized, with a significant portion of the Firm's equity allocated to it under our internal capital adequacy model
- ◆ Origination has virtually shutdown and we expect the focus to be on reducing balance sheet usage



Executive Summary Continued

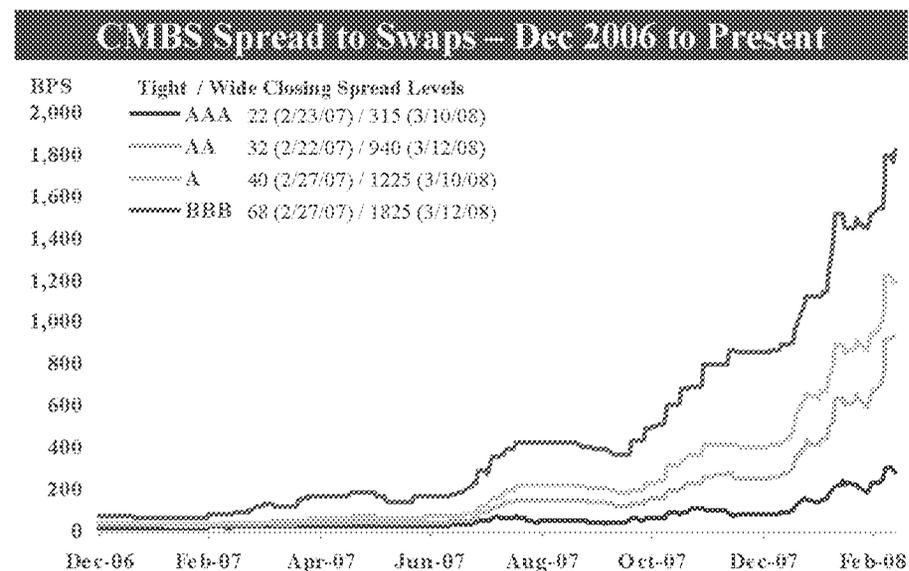
◆ We expect to reduce our exposures through 2008 by up to \$5B in the next month, an incremental \$10 Bn thereafter, and believe existing positions have a reasonable balance of risk and reward:

- Well-diversified by region, property and risk type
- Relatively low proportion of equity and mezz exposure
- Low LTVs on debt positions
- Strong Firm liquidity to fund business

◆ Total Real Estate markdowns in 2007 of \$907 million, offset by gains on sales and securitizations. Markdowns in Q1 '08 of \$854 million in the US and \$267 million in Europe

◆ The primary reasons for the markdowns are spread widening and asset specific credit impairments

◆ The Archstone acquisition has given us exposure to a portfolio of high quality multifamily properties. Given the worsening debt market, the disposition plan has been revised. We plan to reduce the leverage by asset dispositions



Overview |

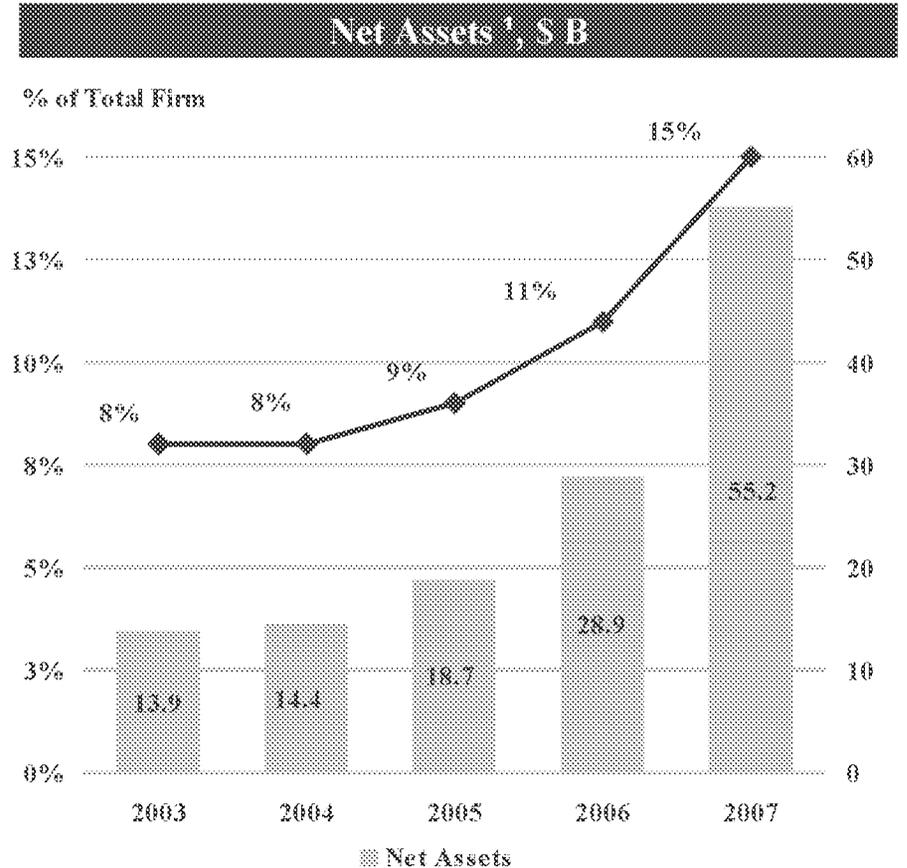
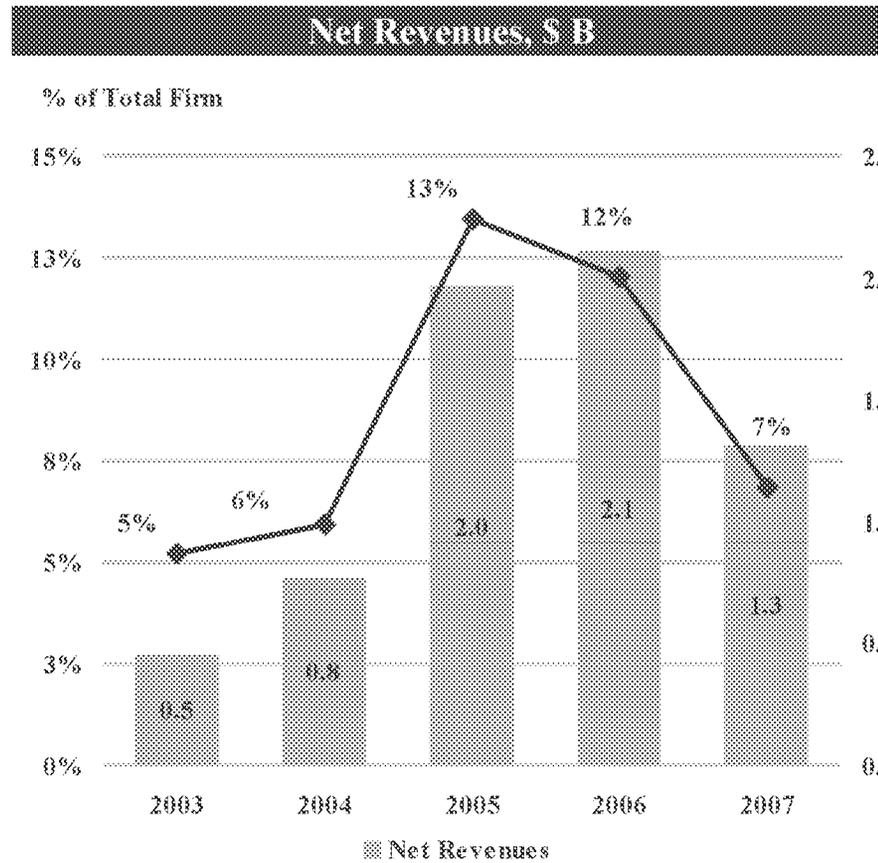
Real Estate Capital Markets Overview

Overview

Americas	Europe	Asia
<ul style="list-style-type: none"> ◆ Fundamentals had remained strong in the commercial sector (rent growth, lack of new supply) but are starting to weaken under pressure of recession ◆ Sales activity has slowed dramatically due to capital markets disruption ◆ The weak \$ and inflows of foreign capital have cushioned the rise in cap rates on class A properties in primary markets ◆ Cap rates for class B properties and property located in secondary markets expected to rise more dramatically ◆ Unlike the residential market, there has been no noticeable increase in delinquencies (mild increase expected) ◆ Securities markets generally shut, the exception being AAA and below investment grade fixed rate bonds ◆ Floating rate securities market is completely shut ◆ Syndication market overwhelmed by supply ◆ Spreads on whole loans and securities experienced drastic widening in the last several months, resulting in almost no borrowing aside from those who must refinance 	<ul style="list-style-type: none"> ◆ Fundamentals remain strong in the commercial sector (rent growth, lack of new supply) ◆ Market activity varies by country—the further from NY and London the more active the banks and the markets ◆ Sales activity has slowed dramatically due to capital markets disruption especially for over \$300 mm deals ◆ Cap rates are under pressure for non-prime assets ◆ Unlike residential market, no increase in delinquencies on CMBS ◆ Emerging Markets: Capital pullback likely; though local banks continue to lend in previous manner ◆ Securities market effectively shut—no buyers or sellers ◆ Bank Syndication: Wider pricing but solid liquidity; Worry re supply and continued bank appetite given write-down's in own balance sheets and spread widening ◆ B-Note: wider pricing but liquidity exits; Supply is high so investors can be selective 	<ul style="list-style-type: none"> ◆ Strong fundamentals across the region for all products; office rental rates in major cities (Tokyo, Hong Kong, Shanghai, Singapore) continue to grow ◆ Cap rates in growth areas continue to hold firm (China, India, Singapore); Japan have stabilized, but are expected to widen as debt markets re-price ◆ Development activity continues to be strong and there is ample liquidity across the region (China/India RE Co's IPO's, REIT activity, PE in-flows) ◆ Stable debt markets across region; local banks active across products; minimal securitization penetration in the region so less volatility from global events ◆ Japan CMBS is weakening; high expected supply in near term; total capital structure WAC has widened 25bps from Dec 07; slow down in the primary loan market due to Bank YE causing some concern; seeing Sponsors putting in new equity into deals in order to re-finance at wider spreads ◆ Major risks include government regulatory changes in Japan/China/India around in-flows and controlling RE appreciation; potential Japan deflation; continued contagion risk in Japan

Contribution to the Firm

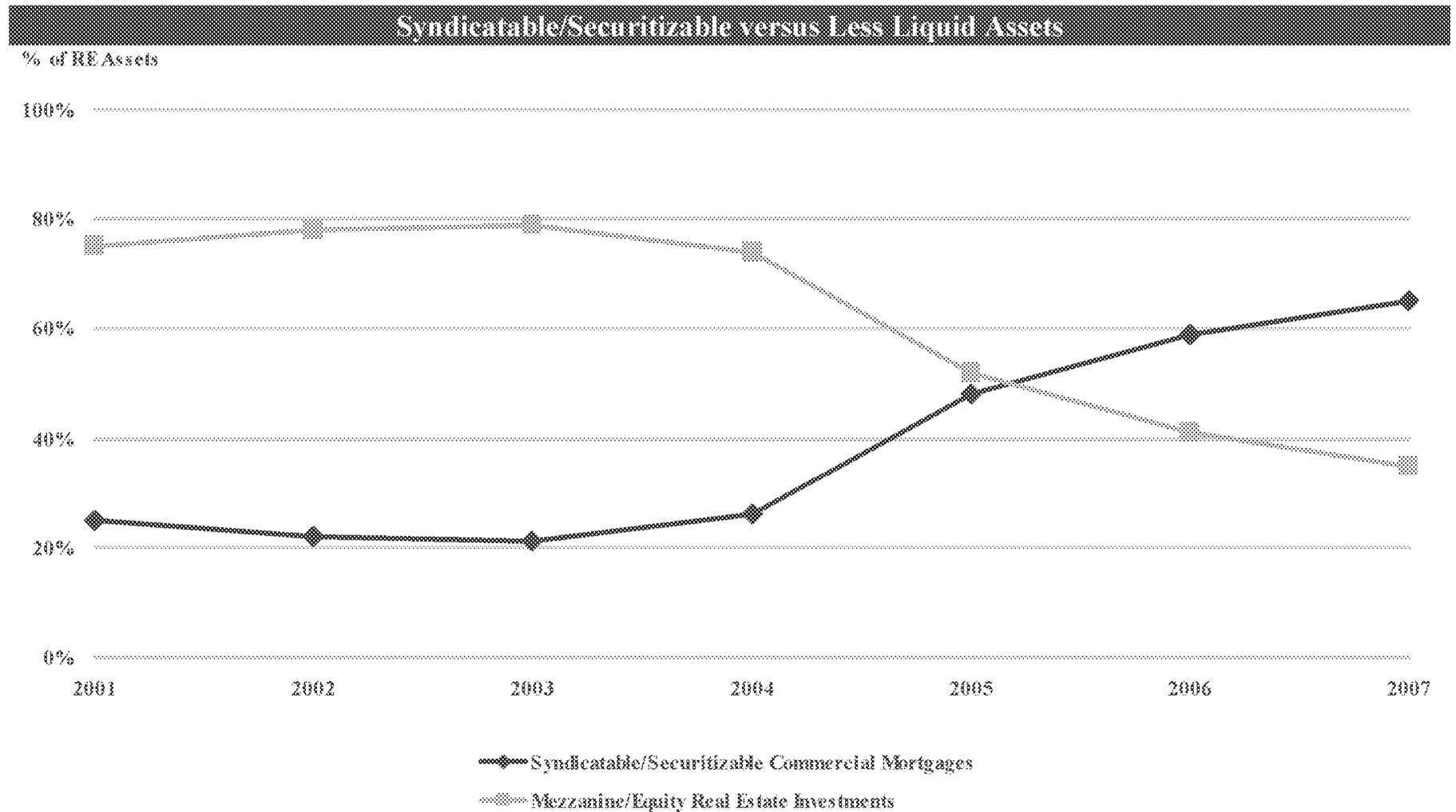
In combination, the GREG businesses account for approximately 7% of the Firm's 2007 net revenues and 15% of the Firm's net assets. Net balance sheet has increased with the slowdown in securitizations but is expected to decrease through 2008



1. Real Estate Assets net of Accounting Gross-ups

Asset Growth Trend

The majority of the net balance sheet growth has been in the more marketable Commercial Whole Loans and CMBS



Business Mix

Overview

GREG consists of three businesses: Commercial Whole Loans and CMBS, Principal Transactions Group (PTG), and Real Estate Advisory

Commercial Whole Loans and CMBS

- ◆ Originates loans and subsequently aggregates them until they create a sufficient principal amount (\$1-2 billion) to be securitized
- ◆ The loans created are secured by a variety of commercial properties, including offices, retail stores, multi-family apartment buildings and complexes, industrial facilities, and hotels
- ◆ Loans that do not fit well in a securitized pool are syndicated

Principal Transactions Group (PTG)

- ◆ Originates short-term loans and equity investments with a defined exit strategy; positions are secured by either first/second mortgages or ownership interests in properties
- ◆ Makes strategic equity investments in markets where the Firm believes it can bring a competitive advantage or that has significant barriers to entry
- ◆ Purchases non-performing and sub-performing loans or loan portfolios from lenders and government agencies (HUD, FHA)

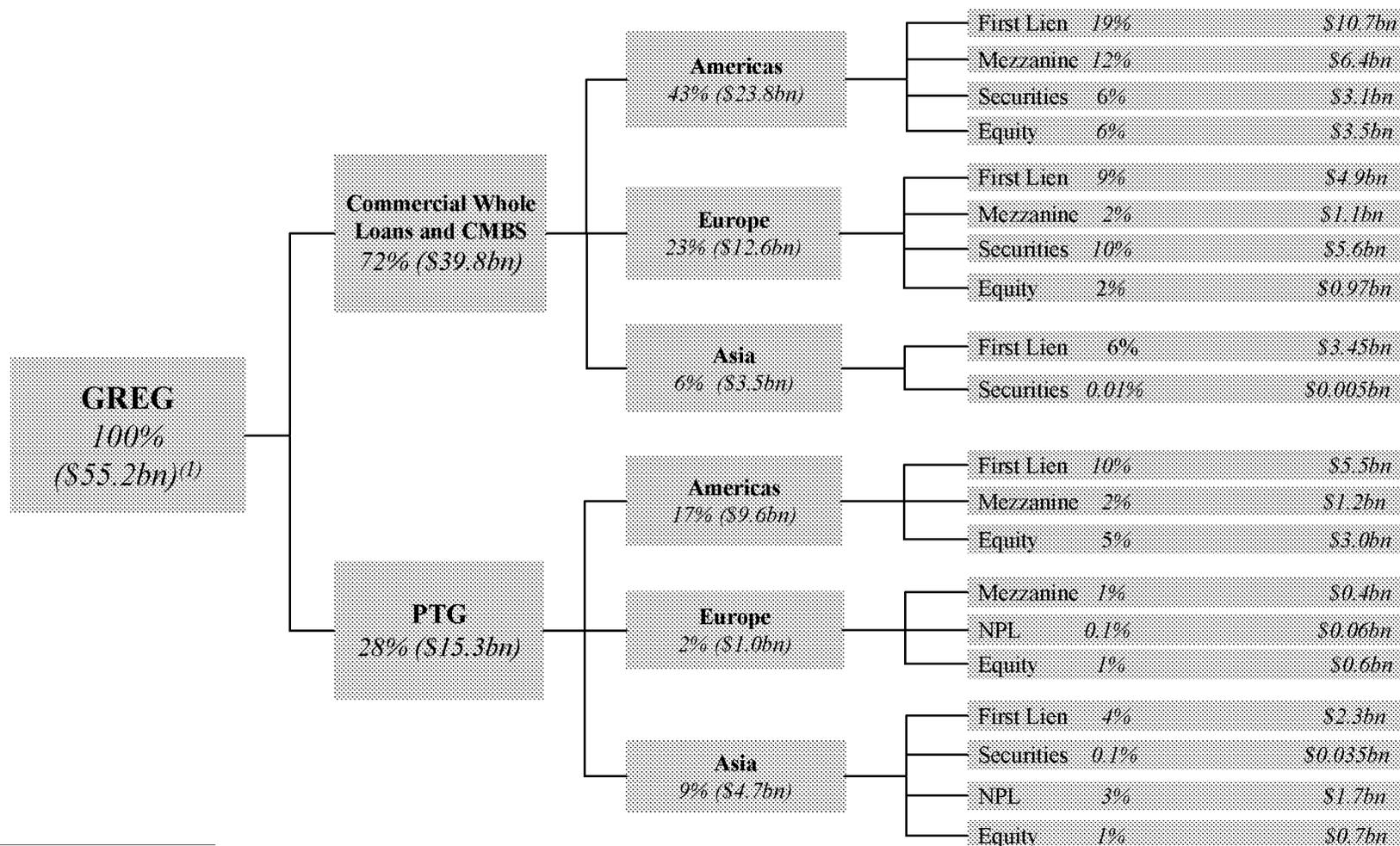
Real Estate Advisory

- ◆ Provides comprehensive advisory and capital raising services, including general business and financial analysis as well as transaction feasibility analysis / pricing in a prospective acquisition for a diverse client base (corporations, REITs, property companies, governments, financial institutions)
- ◆ Does not utilize balance sheet

Well-Developed Franchise

GREG's exposure is well-diversified across product, geographies, and type of assets, with relatively low concentration. First lien loans and securities make up most of the balance sheet.

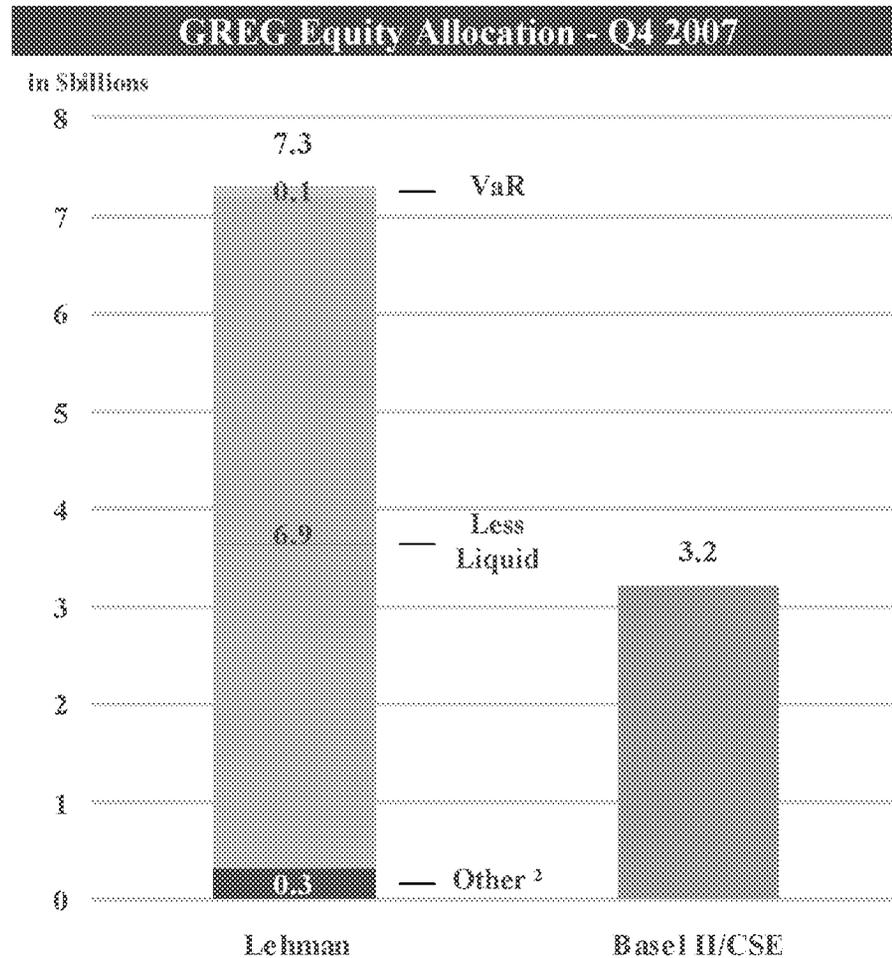
Balance Sheet Contribution by Business Segment / % of Global Net Balance Sheet at Feb 2008¹



1. Real Estate Advisory does not utilize Balance Sheet

Equity Allocation

The Firm uses a conservative approach in assigning equity to GREG. We hold \$7.3 billion in equity⁽¹⁾ for our Commercial Real Estate businesses, over two times the regulatory requirements



Lehman – Equity Adequacy Framework (EAF)

- ◆ The Firm uses a risk/liquidity-based approach (Equity Adequacy Framework) to allocate equity to its various business. The model includes equity allocations for trading, credit, liquidity, and operational risks.
- ◆ EAF’s methodology is similar to CSE’s implementation of the Basel II accords
- ◆ EAF is substantially more conservative than Basel II for equity allocation to Commercial Real Estate
 - In addition to the VaR charge, an explicit liquidity charge is assigned to every Commercial Real Estate asset, while Basel II only explicitly charges those assets contained in the “Banking Book”

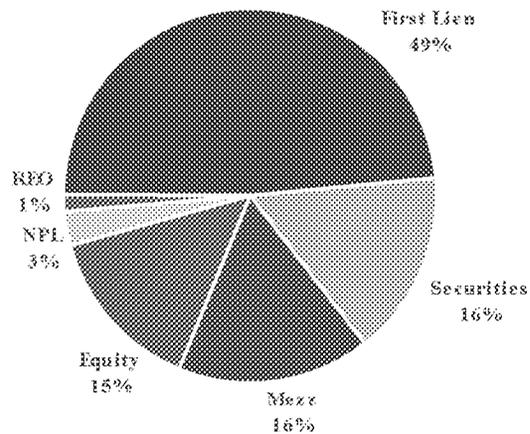
1. Including Hybrid equity
 2. Includes Operational Risk, Counterparty risk, etc

Asset Composition

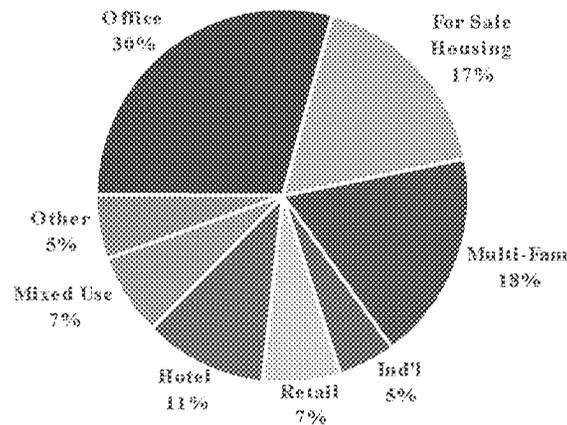
Balance Sheet Exposure

GREG's assets are well-diversified by region, property and risk type

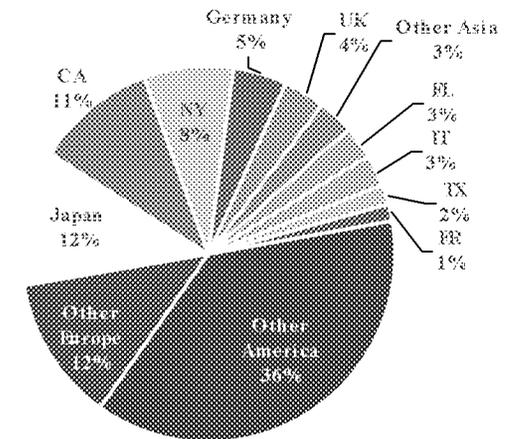
Global by Lien Type



Global by Property Type

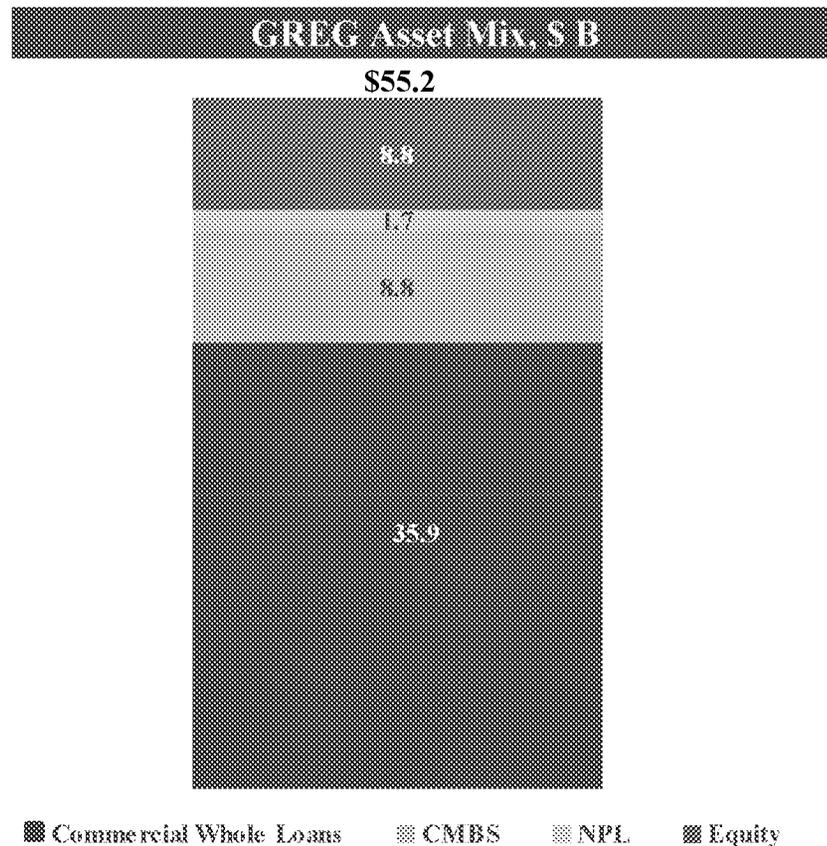


Global by State / Country



Asset Composition

GREG assets are comprised of different asset classes, with whole loans and CMBS being the largest components. Within each asset class, GREG's assets are well diversified, are of high credit quality, and are marked to reflect current market conditions



- Equity**
- Choice properties, geographically diversified
 - Performing projects
 - Marked to market, consistent with current spread environment

- Securities**
- Predominantly AAA rated; no residuals
 - Geographically diversified
 - Strong performance
 - Marked to market, consistent with current spread environment

- Whole Loans**
- Predominantly First liens
 - Low concentration (average size of \$17 mm)
 - High turnover
 - Strong credit fundamentals
 - Hedges on fixed rate assets

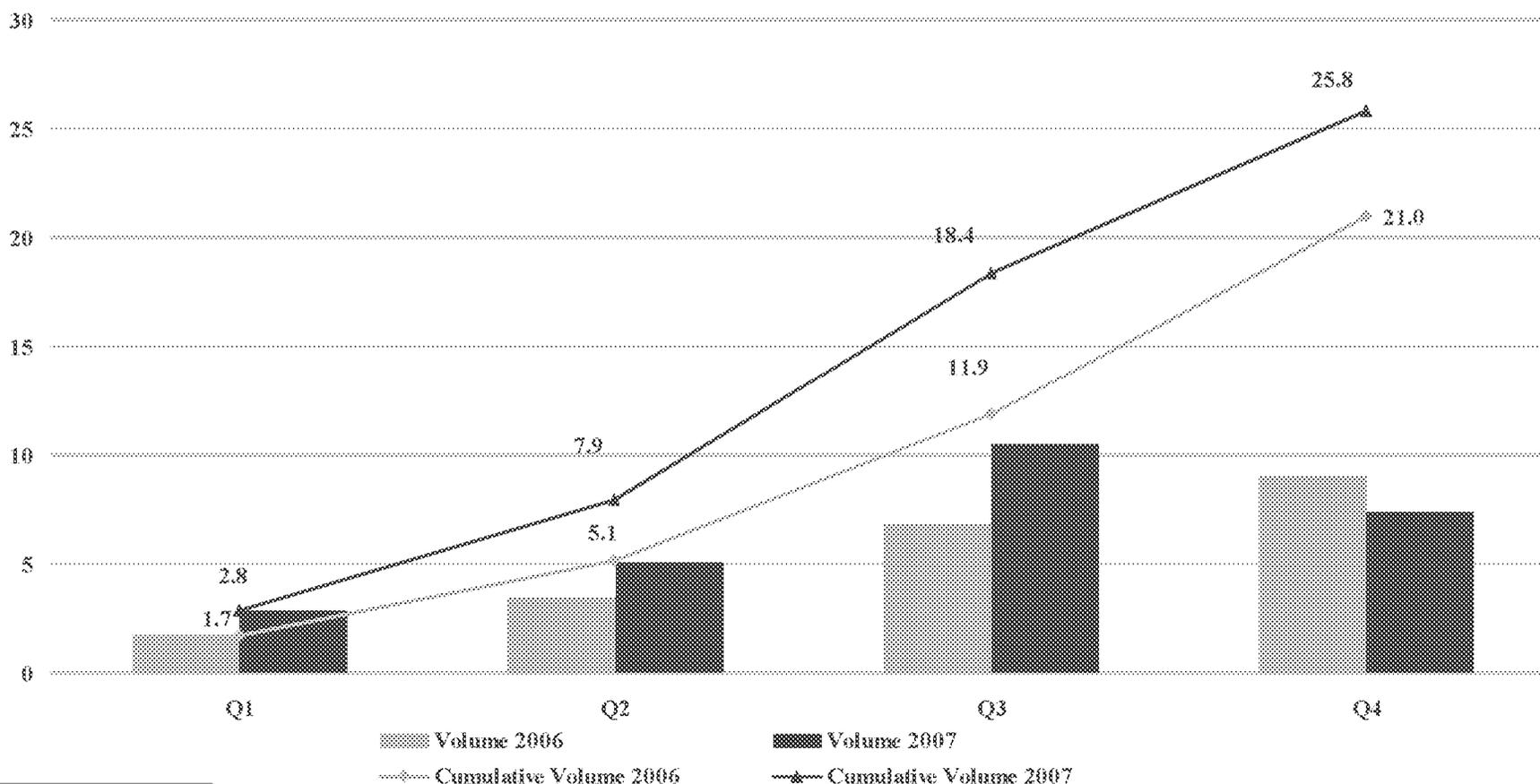
Note: Balance Sheet data as of November 30, 2007.

Securitization Volumes

In FY '07, the Firm completed 16 securitizations for a total of \$25.8 billion, which is 23% greater than the total volume of issuances in 2006. Additionally, we syndicated \$5.0 billion of US loans and \$3.5 billion of European loans in '07

CMBS Securitization Volumes – 2007 vs 2006¹

Volume in Billions

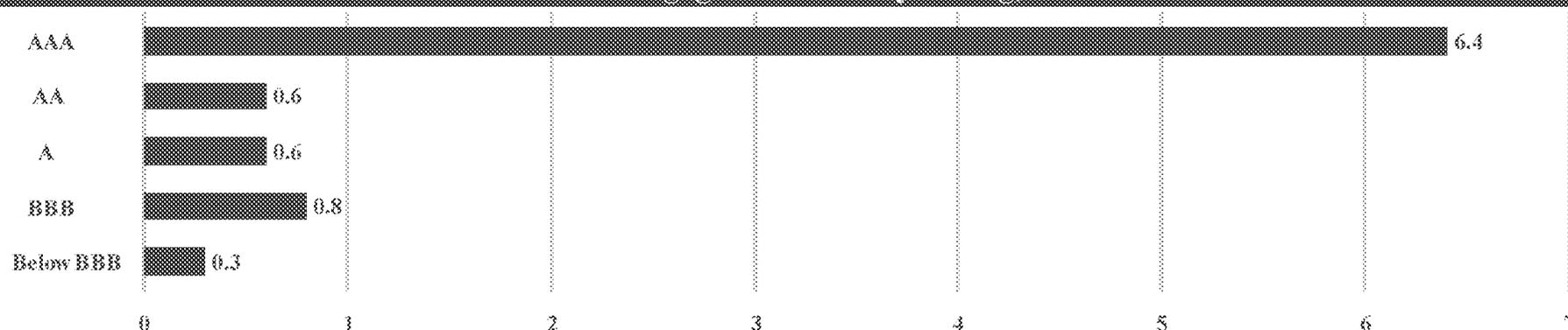


1. Based on Pricing date

Composition of Assets and Hedges

Our mortgage-backed securities are predominately AAA. All fixed rate positions (securities and whole loans) are fully hedged against interest rate risk. The credit risk on fixed rate positions is hedged via total return swaps or bond indices. We do not fully hedge our floating rate instruments because of their short duration and lack of reliable hedging instruments, however approximately 25% of the U.S. exposures have full price flex.

Commercial Mortgage Securities by Rating, \$ billion⁽¹⁾



Portfolio Composition, Including Securities, Whole Loans, and Hedges, \$ million

Securities	America		Europe		Asia	
	Asset	Credit Hedge	Asset	Credit Hedge	Asset	Credit Hedge
AAA	1,300	(1,300)	1,000	(950)	4,100	
AA	100	(10)			500	
A	200	(55)			400	
BBB	200	(60)	200		400	
Below BBB	100	-			200	
Total	1,900	(1,425)	1,200	(950)	5,600	-
Whole Loans	2,900	(3,075)	20,800	(5,500) ⁽²⁾	6,400	(135)
Net Fixed Income Portfolio	4,800	(4,500)	22,000	(6,450)	12,000	(135)

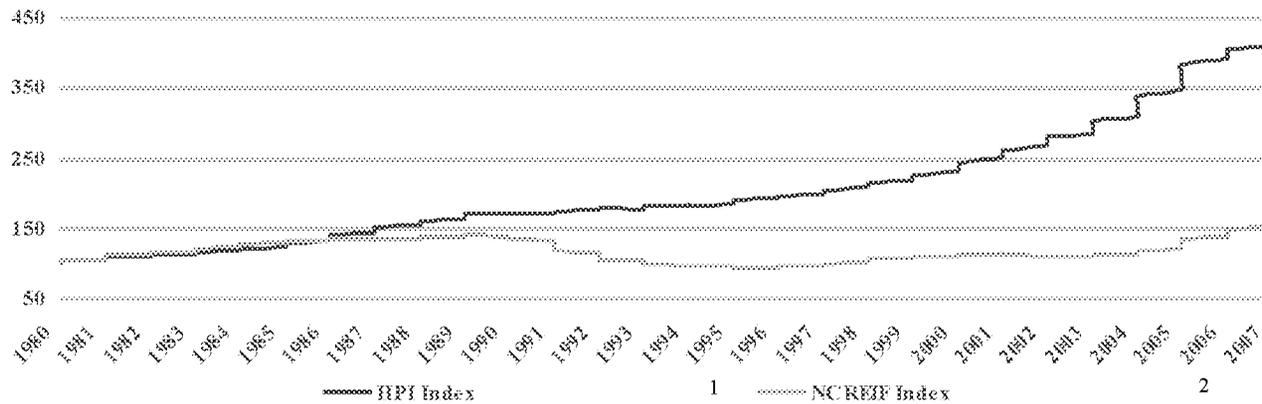
1. As of November 2007

2. Approximately \$5,000 million of US floating rate positions have full price flex and also reflects credit hedges added in Q1 '08

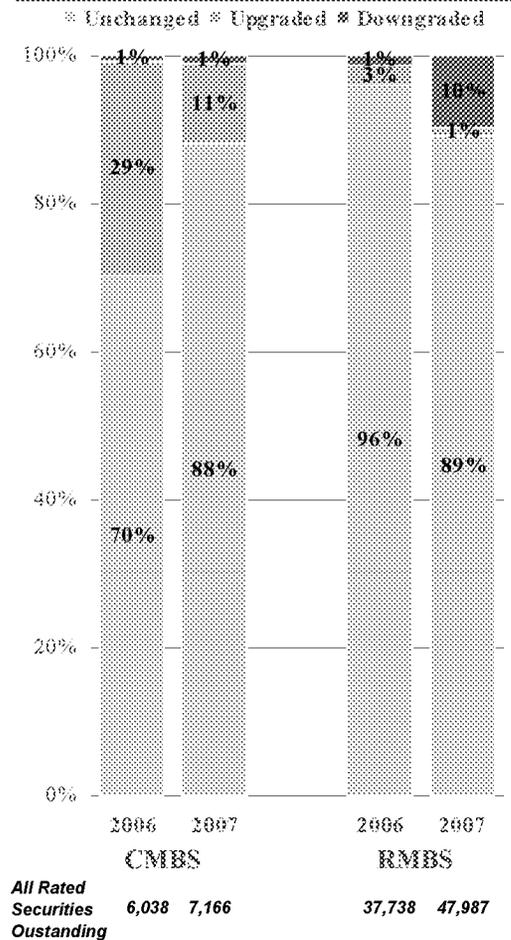
Valuation Dynamics

Commercial assets valuations have not increased at the same rate as residential asset valuations, and should have less down-side risk. Commercial loan delinquencies are also at a much lower level

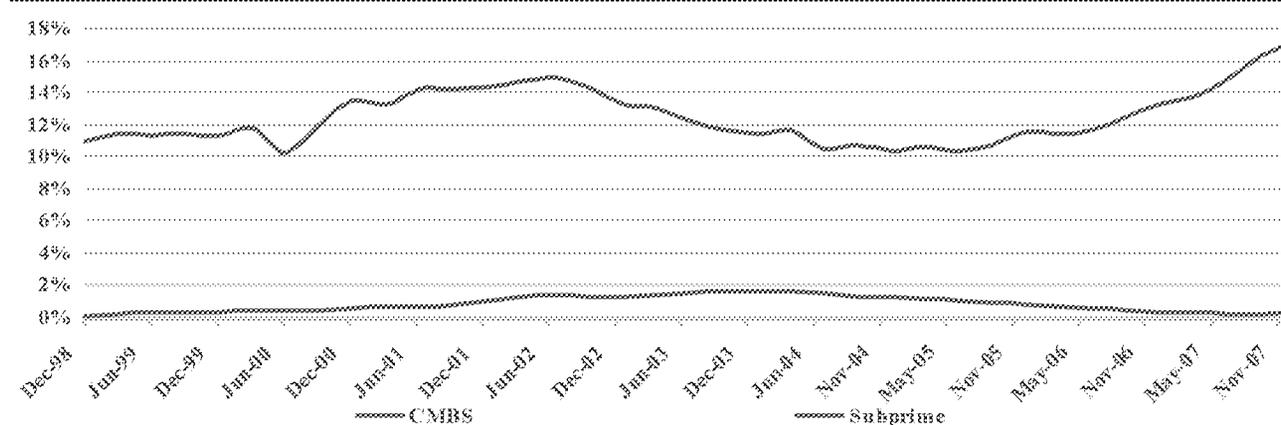
Indexed Commercial Assets Price Dynamics through December 31, 2007



MBS Rating Actions by Fitch



Delinquency Rates: Subprime vs. Commercial (60+ day) by dollar securitized



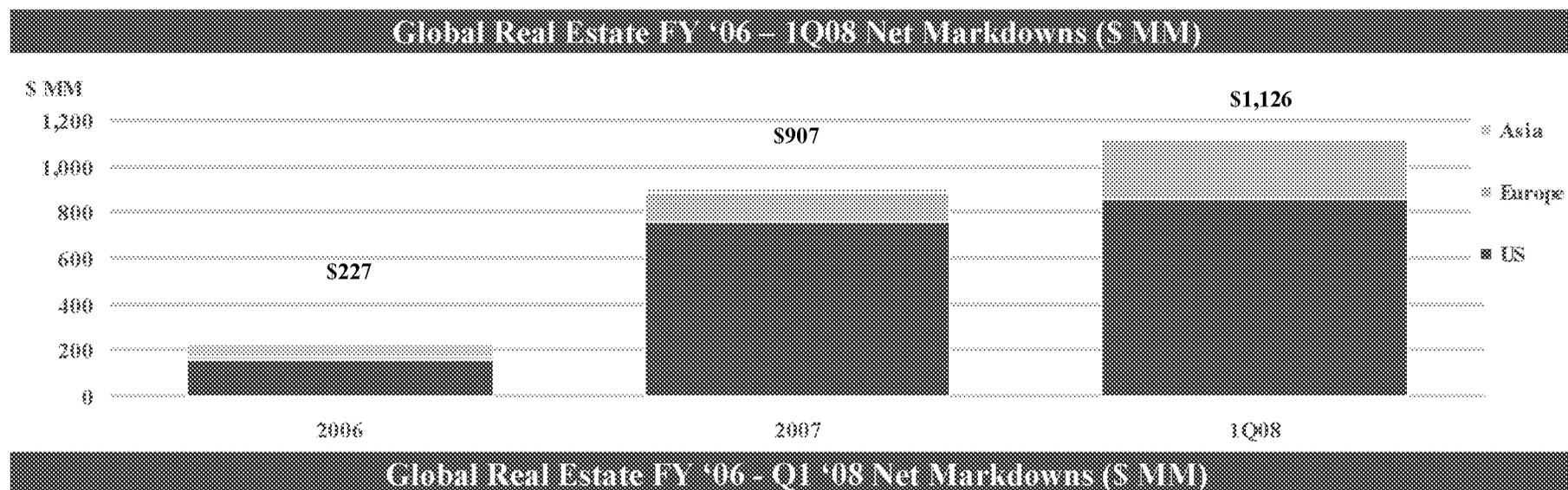
1. HPI: Residential property index representing a broad measure of the movement of single-family housing prices
 2. NCREIF: Commercial property index representing a measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only
 3. Source: CMSA, JPMorgan, Trepp, Inc.

Markdowns and Risk Factors

Global Real Estate FY'06 – 1Q08 Net Markdowns

Markdowns and Risk Factors

GREG has marked its positions to reflect the current market environment. The bulk of markdowns are in the US



Global Real Estate FY '06 - Q1 '08 Net Markdowns (\$ MM)

Region	2006	2007	1Q08
US	(159)	(760)	(854)
Europe	(16)	(127)	(267)
Asia	(52)	(20)	(5)
Total Markdowns	(227)	(907)	(1,126)

1. Q1 '08 through Feb 29

Stress Test: Global PTG Assets and Equity

Markdowns and Risk Factors

The portfolio is stressed for a 10% decline in property values

Hypothetical Portfolio Stress Scenario, Jan '07, \$M

Revenue Impact	Stress Scenario 10% Decline in Value
Americas	(1,053)
Europe	(645)
Asia	(287)
Total Global PTG / Equity	(1,985)
Net Income Impact⁽¹⁾	(645)

1. Assumes compensation reduction of 50% and tax rate of 35%

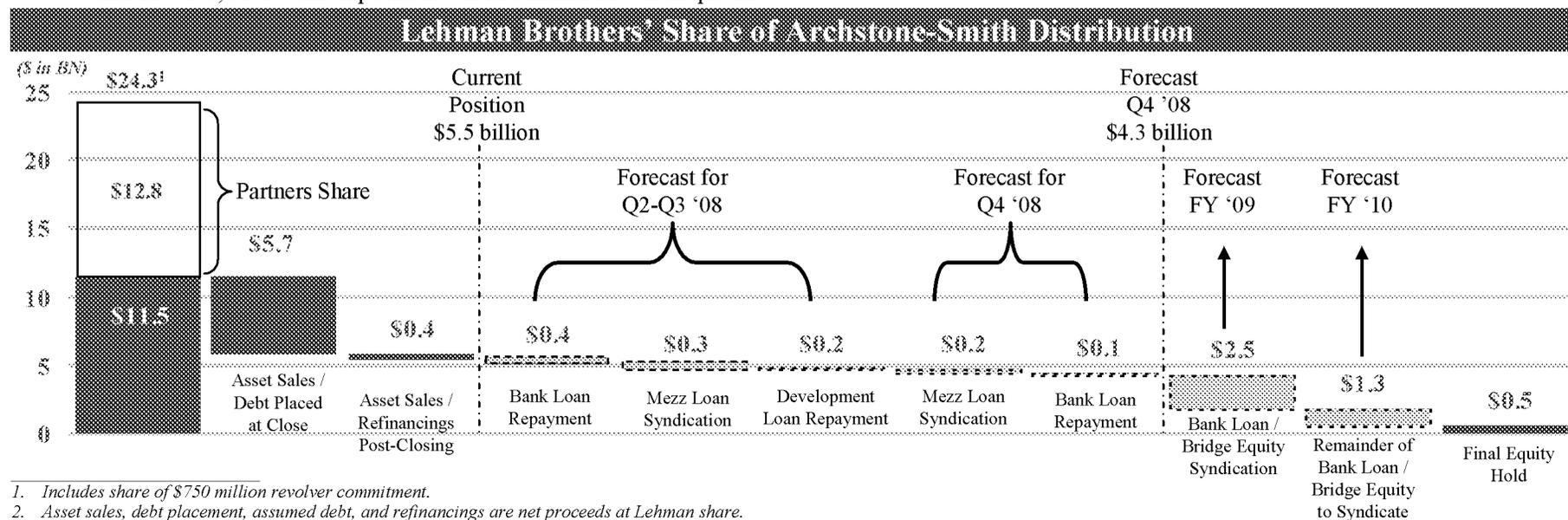
Archstone-Smith

Archstone-Smith Trust

Archstone-Smith

LEH, along with its partners, acquired Archstone-Smith Trust, a large multi-family REIT, in the fourth quarter of 2007. The Firm reduced its total exposure to \$5.5 billion⁽¹⁾

Company	Transaction
<ul style="list-style-type: none"> ◆ A portfolio of highly attractive assets <ul style="list-style-type: none"> – 96.4% of Core NOI is derived from assets located in high barrier-to-entry coastal markets – Concentrated in prime submarkets (Washington D.C., New York, Southern CA, San Francisco, Boston, Seattle) within each market – Class A assets with many unique high-rise properties ◆ Attractive fundamentals <ul style="list-style-type: none"> – Purchase price of \$323K per unit significant discount to the estimated replacement cost of \$390K per unit – 95.7% Occupancy rate across total portfolio – Rental rates increased in excess of 5.5% last year – Two recent sales out of the portfolio in December occurred at a cap rate of 4.1%, below the cap rate at which Archstone was acquired 	<ul style="list-style-type: none"> ◆ Over 50% of Lehman's exposure to the acquisition was syndicated prior to the completion of the commitment ◆ Lehman's original committed exposure was \$11.5 billion, which was comprised of \$9.1 billion of debt, \$2.2 billion of bridge equity and \$250 million of permanent equity ◆ The Firm has reduced its exposure to \$5.5 billion⁽¹⁾ through the following: <ul style="list-style-type: none"> – \$5.7 billion⁽²⁾ of asset sales, debt placement, and assumption of debt at closing or shortly thereafter – \$360 million⁽²⁾ of asset sales and refinancings executed post-closing ◆ The Firm anticipates reducing its exposure by \$1.2 billion during FY08 through mezzanine debt syndication, asset sales, and refinancings

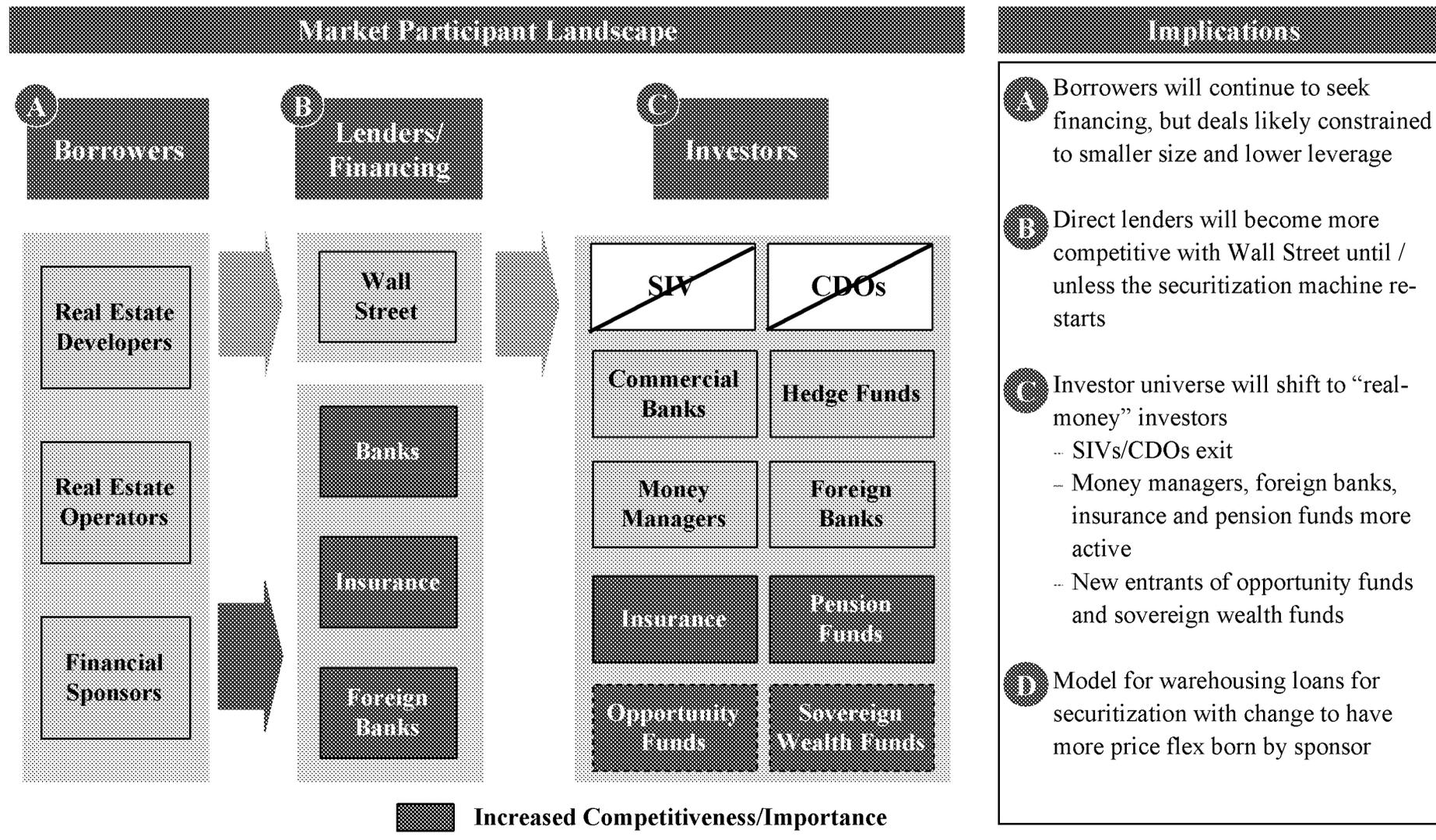


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Going Forward |

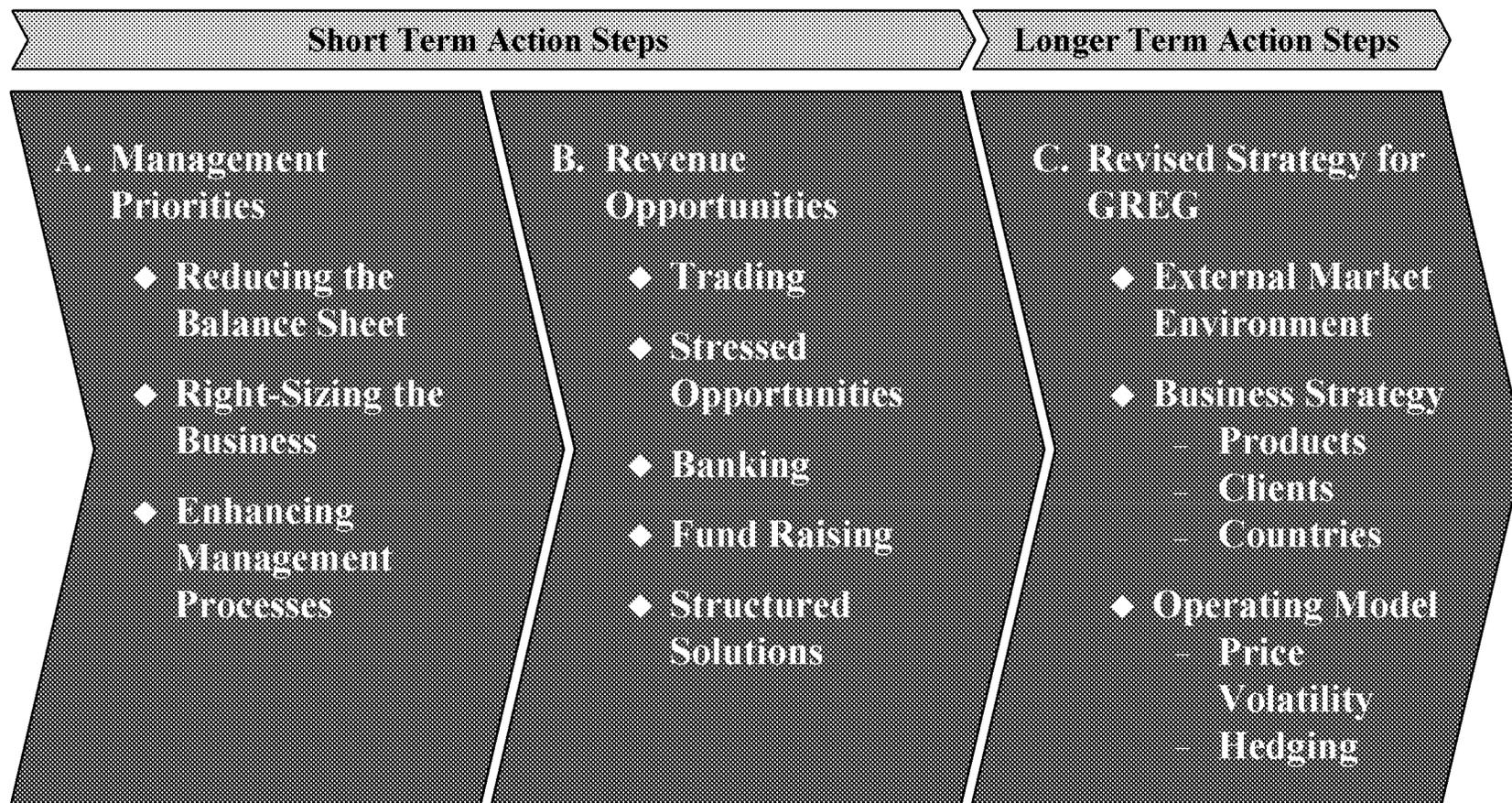
Going Forward: Shift in Market Participants

Traditional balance sheet lenders will become more competitive with Wall Street and “real-money” investors will become more important



Going Forward: Action Steps

Given changes in the market environment, an effort should be undertaken to develop a longer term revised strategy for GREG



Conclusion

- ◆ Lehman Real Estate assets are largely high-quality, relatively liquid commercial whole loans and securities
 - Whole loans with strong credit fundamentals: mostly first lien positions, low LTV (approx 95% with LTV under 80%), and well-diversified geographically
 - Securities are predominantly AAA, no residuals, no CDO exposure, fixed rate positions hedged, approximately 25% of floating rate loans have full price flex
 - Quality of our securities is evidenced by their performance, which is best-in-class

- ◆ Lehman PTG positions are high-quality properties, well-diversified across property types, regions, and sponsors
 - Each with a solid rationale for holding and with well-defined exit strategy
 - Commitment to reducing balance sheet

- ◆ Assets are marked appropriately
 - We have already taken \$1,230 million markdowns this quarter, in addition to approximately \$900 million last year

- ◆ Credit stress test, comparable to the worst periods of real estate performance, indicates potential loss (net of tax and compensation) of \$0.6 billion
 - While potentially putting pressure on the Firm's ROE, is within the Firm's capacity to absorb

- ◆ Going forward, retool business towards new investor base and Lehman's risk tolerances as real estate will always exist and will require some form of intermediation