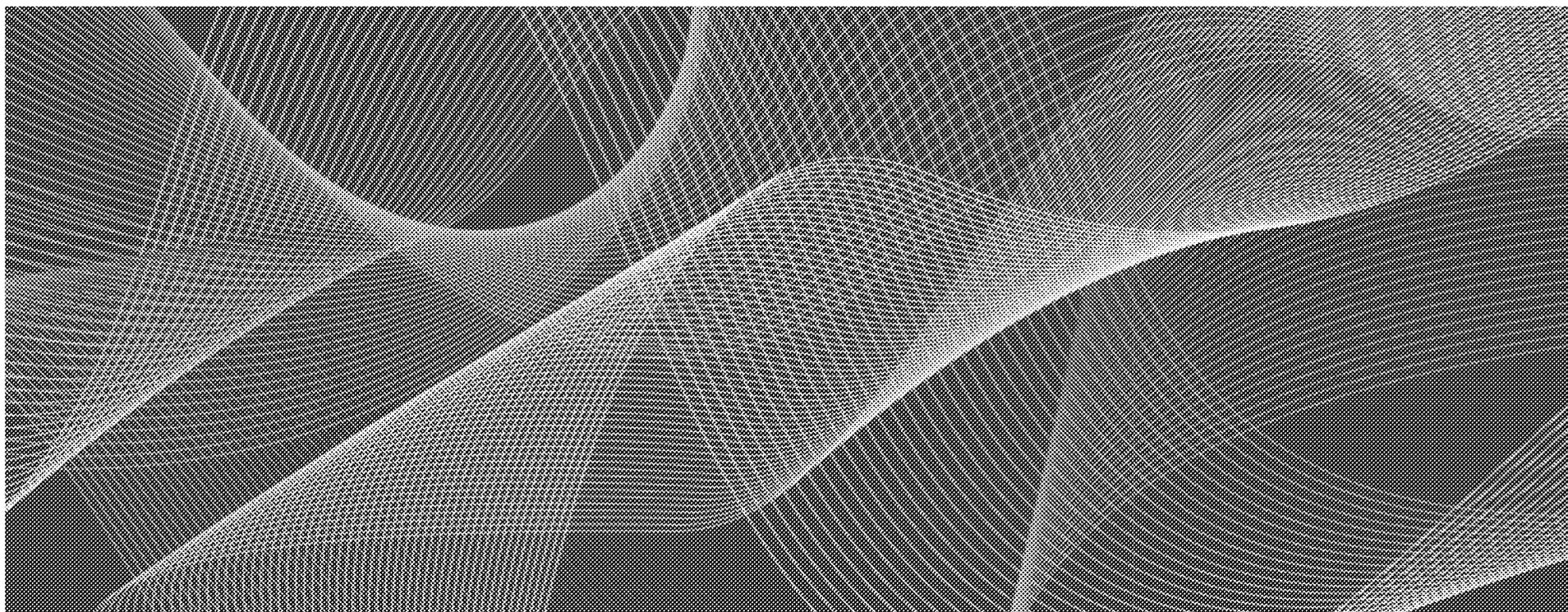


Global Commercial Real Estate



Confidential Presentation

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- III. Global Portfolio Overview

LEHMAN BROTHERS

Commercial Real Estate Overview and Strategy

Management Team

The senior management team has an average of 20 years of industry experience

Senior Management

Name	Position	Title	Experience	
			Lehman	Industry
Mark Walsh	Global Head of Global Real Estate Group	MD	20 years	24 years
Kenneth Cohen	Head of U.S. Originations	MD	23 years	23 years
Paul Hughson	Head of U.S. Securitization, Syndication and Lines of Credit	MD	14 years	21 years
James Blakemore	Head of European Real Estate	MD	9 years	14 years
Thomas Pearson	Co-Head of Asian Real Estate	MD	7 years	24 years
Mark Gabbay	Co-Head of Asian Real Estate	MD	7 years	19 years
Steve Hash	Head of Global Real Estate Banking	MD	9 years	14 years

Finance and Risk Management

Name	Position	Title	Experience	
			Lehman	Industry
Gerry Reilly	Head of Capital Markets Product Control	MD	12 years	21 years
Jonathan Cohen	Head of GREG Finance	SVP	3 years	21 years
Jeffery Goodman	Global Head of Fixed Income Risk Management	MD	4 years	26 years

Commercial Real Estate Business Overview

Commercial Real Estate Overview and Strategy

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 warehouses them until a sufficient principal amount (\$1-\$2 bn) is aggregated for securitization
- ◆ The loans created are secured by a variety of commercial property, including office, retail, multi-family, industrial and hospitality
- ◆ Loans that are more efficiently placed into the bank market are syndicated

Principal Transactions Group (PTG) / Equity

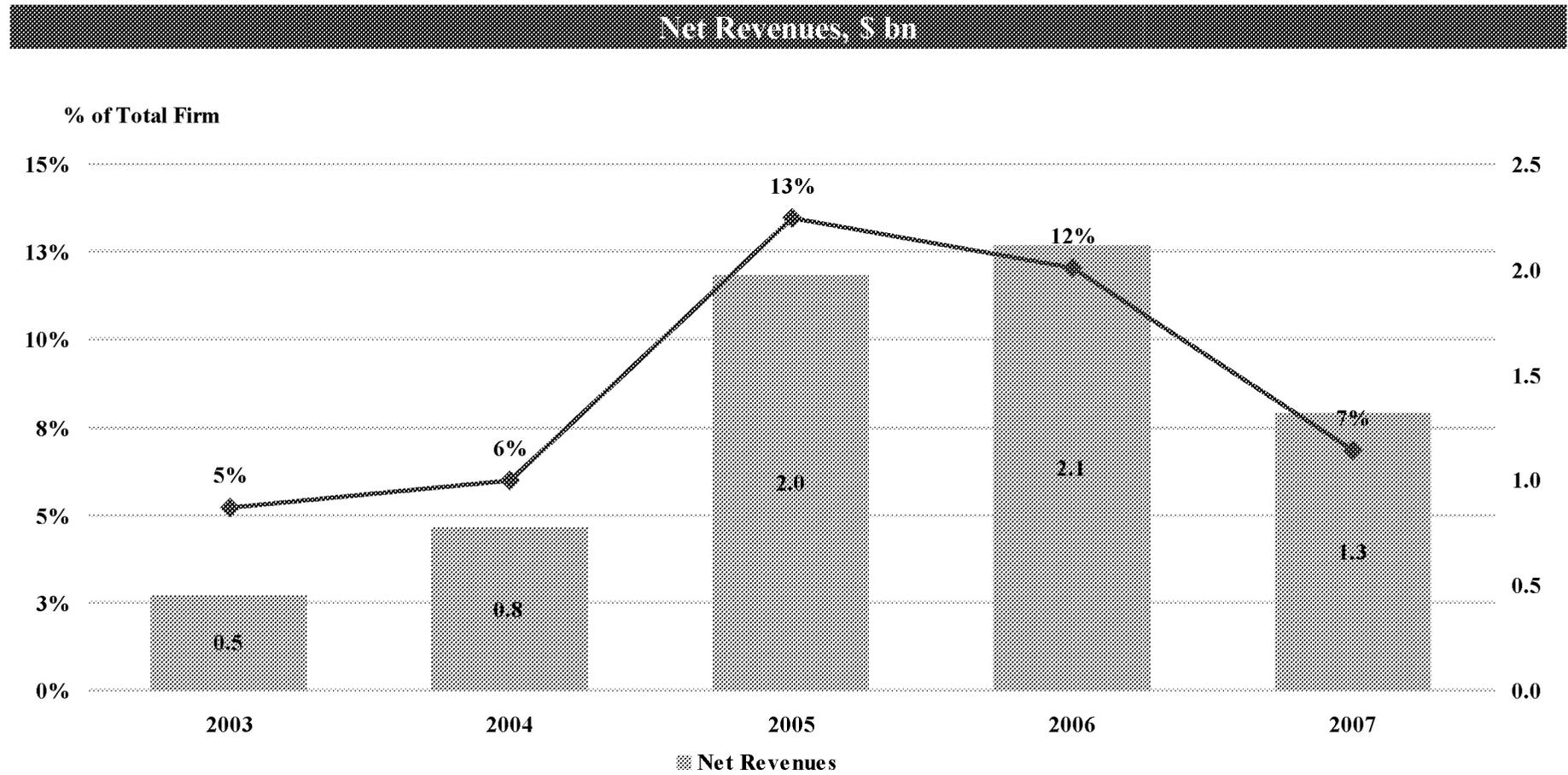
- ◆ Originates short-term loans and equity investments with a defined exit strategy; positions are secured by either first/second mortgages or ownership interests in properties
- ◆ Makes strategic equity investments in markets where the Firm believes it can bring a competitive advantage or that has significant barriers to entry so that value increase is available in the near term
- ◆ Makes equity investments with clients with intent to syndicate into the institutional equity markets
- ◆ 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

Contribution to the Firm

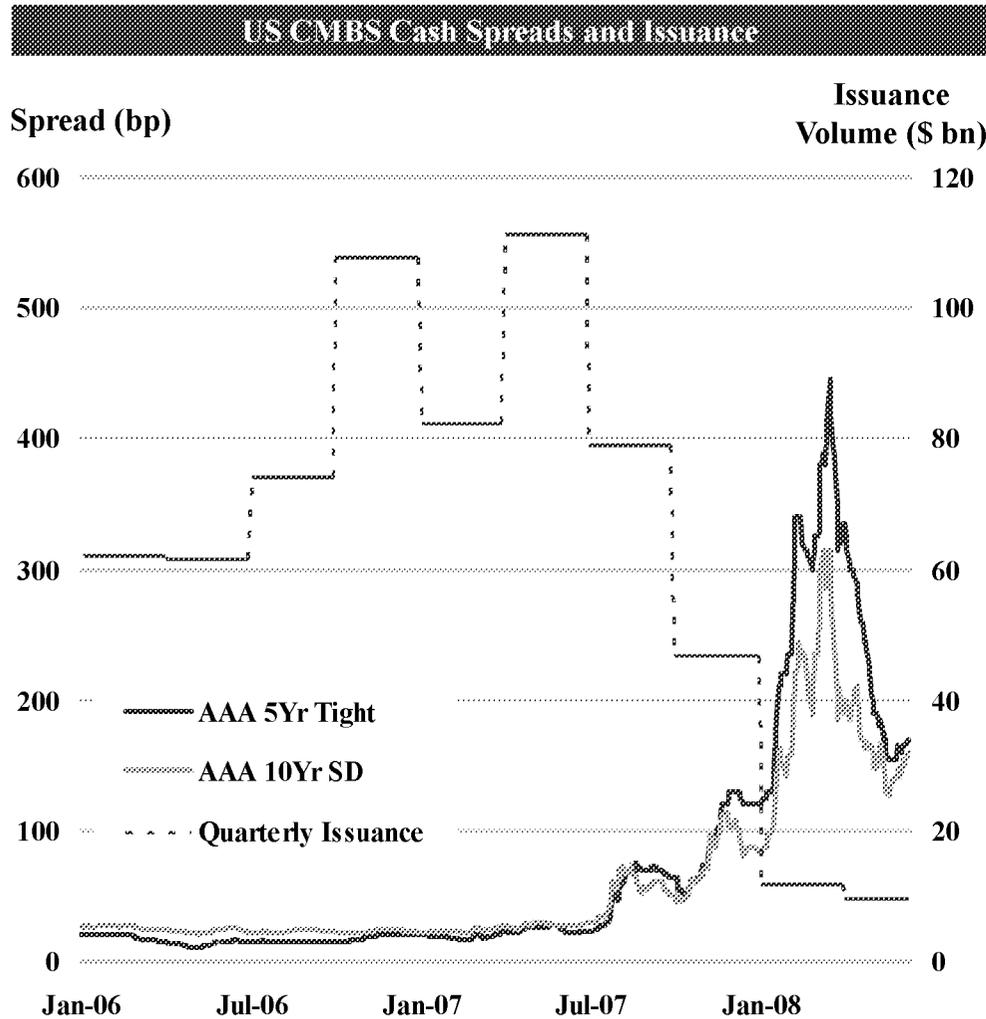
In combination, the GREG businesses accounted for approximately 7% of the Firm's 2007 net revenues



1. Real Estate Assets net of Accounting Gross-ups

Perfect Storm

Commercial Real Estate experienced a perfect storm, impacting GREG performance



Source: Lehman Brothers.

Market Impact

- ◆ Unprecedented spread widening across the capital structure
- ◆ Dramatically reduced CMBS volumes since securitization markets are shut
- ◆ Dichotomy between *Equity* buyers focused on fundamentals and *Credit* buyers impacted by spread contagion

GREG Impact

- ◆ Forced to hold positions originally originated for securitization/syndication
- ◆ GREG write-downs of ~\$2.5 bn 1H'08
- ◆ Active deleveraging: Reduced commercial mortgages by ~\$7 bn in Q2

Real Estate Fundamentals

However, Commercial Real Estate will still be an attractive business for Lehman

Revenue Potential

- ◆ Commercial Real Estate market will continue to exist (not sub-prime)
- ◆ Large stock of commercial real estate with significant turnover
- ◆ CMBS issuance will re-emerge, albeit at lower (e.g., 2004) levels

Intermediation Opportunity

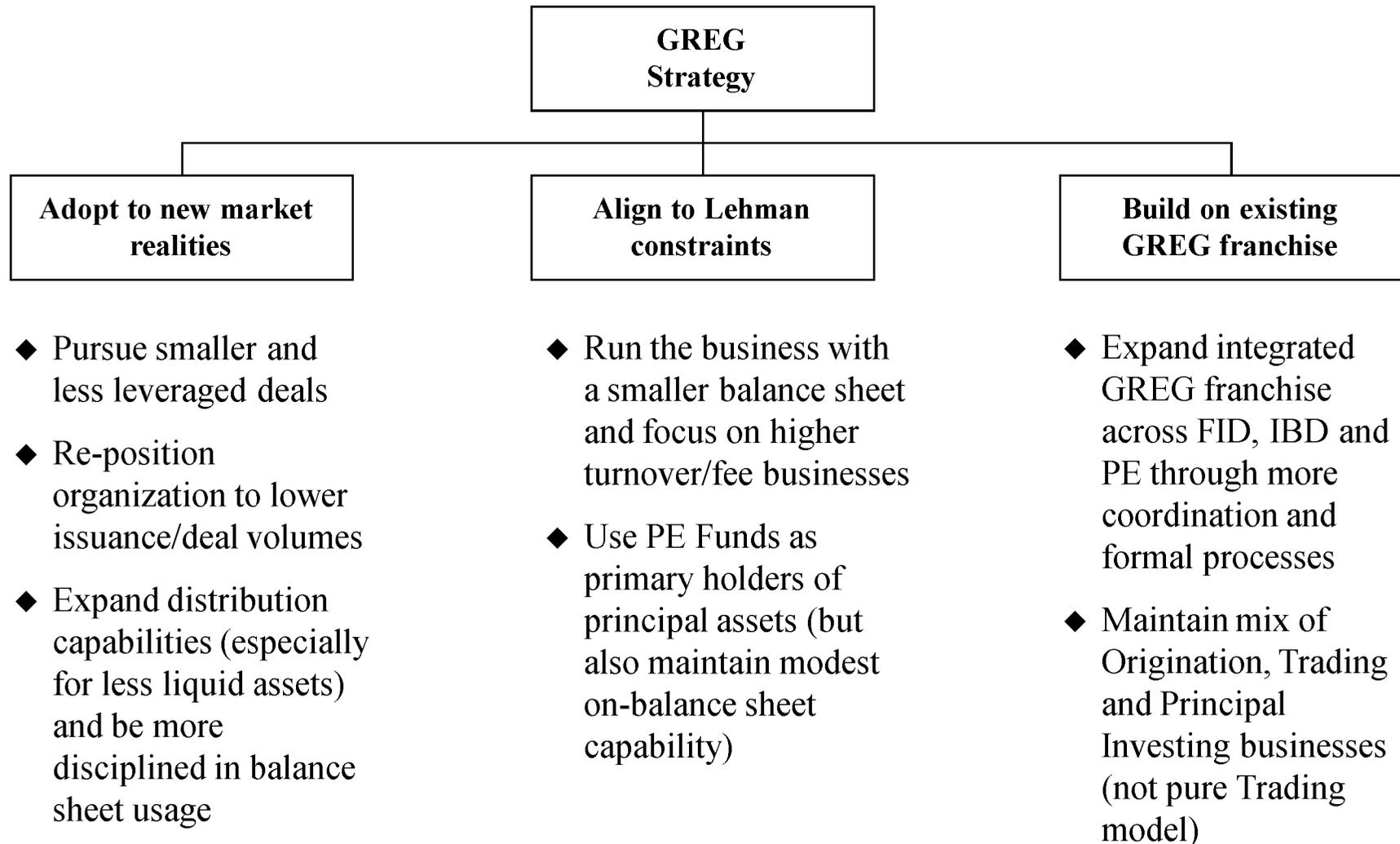
- ◆ Borrowers continue to need financing (and no GSEs for CRE)
- ◆ Insurance and bank balance sheets cannot compensate for capital markets
- ◆ All Wall Street competitors impaired or exiting (e.g., UBS, Wachovia, Morgan Stanley, RBS, Bear Stearns, Nomura, Countrywide, Deutsche Bank)

Lehman Positioning

- ◆ Strong brand name and deep client relationships
- ◆ Real Estate hard asset knowledge and expertise
- ◆ Ability to deliver the capital markets through integrated GREG franchise

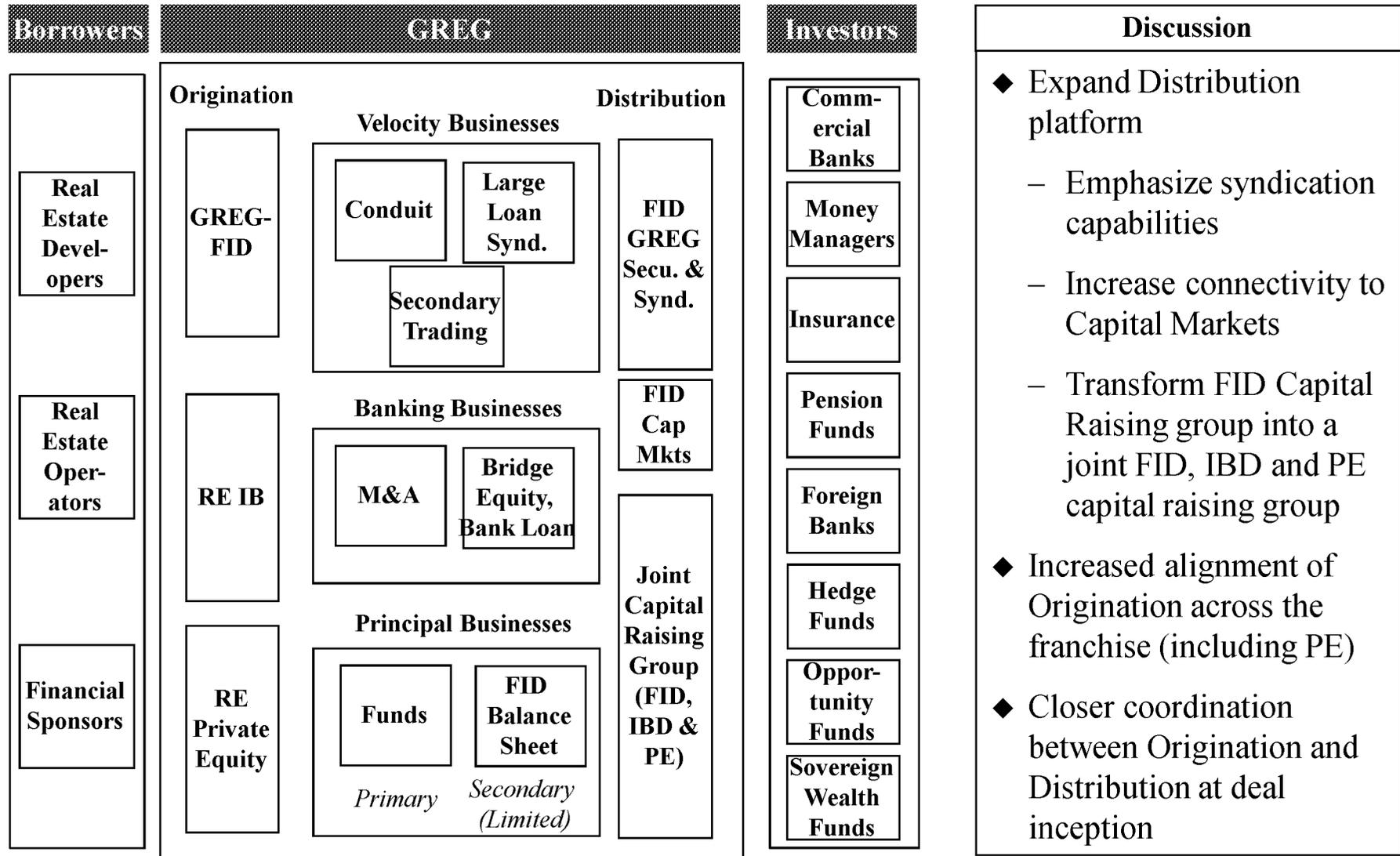
GREG Strategy

GREG will adjust its strategy to the new environment, but build on the existing franchise



GREG Operating Model

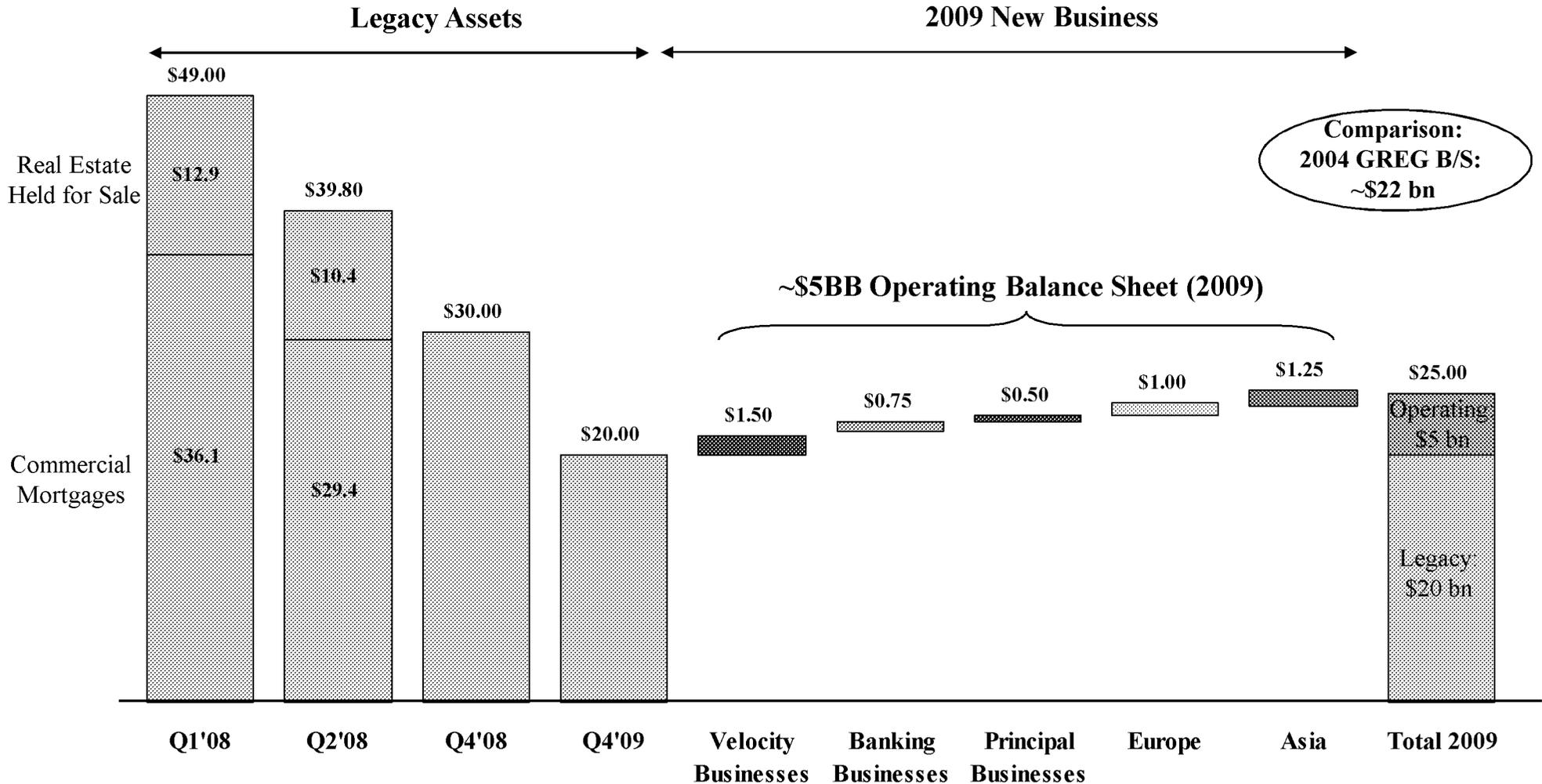
GREG will expand distribution and use the Funds as the primary holder of principal assets



Balance Sheet

GREG will run a small operating balance sheet and reduce the legacy book further in 2009

GREG Commercial Mortgages and Real Estate Held for Sale Balance Sheet 2009 (\$ bn)

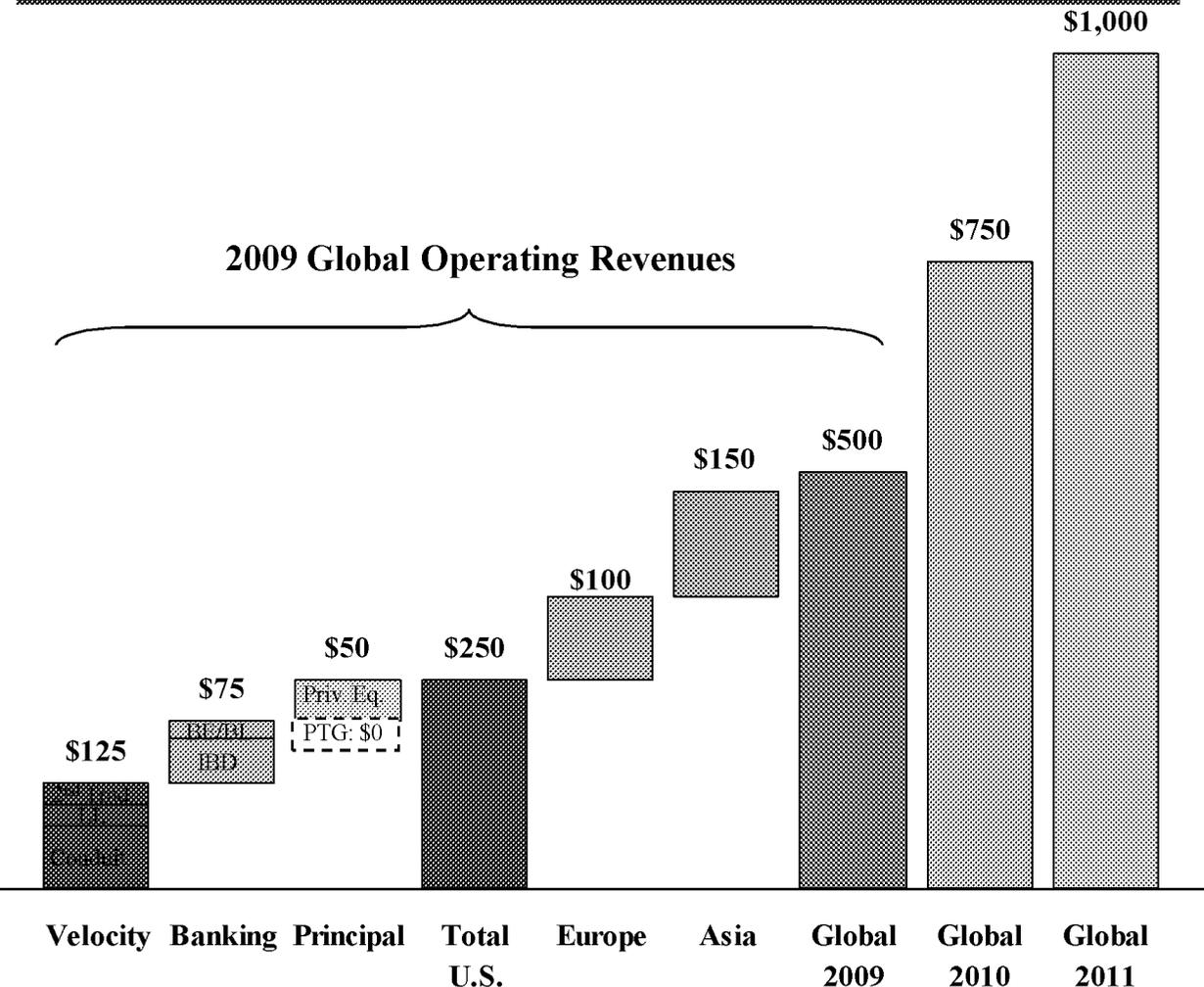


1. Balance Sheet does not include Corporate Debt, Corporate Equity, Derivative mark-to-market and gross-ups

Revenues

Revenues will be primarily generated off higher velocity and fee-based businesses

GREG Operating Revenue Budget 2009 and 2010/11 (\$ mm)

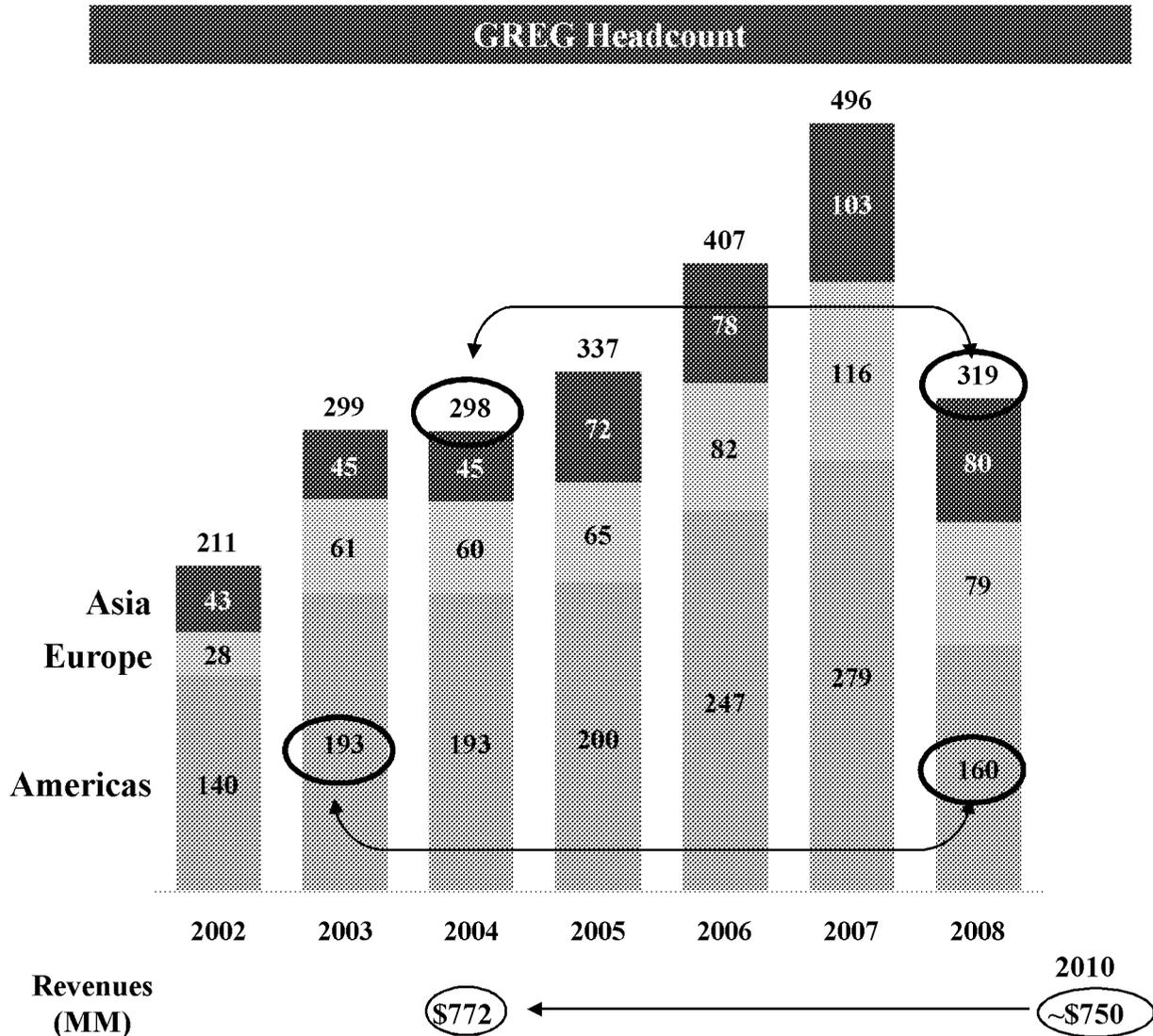


Discussion
<ul style="list-style-type: none"> ◆ Revenues driven by higher turnover/low balance sheet and fee businesses <ul style="list-style-type: none"> – Conduit Lending – Large Loan Syndication – Secondary Trading – M&A – Private Equity ◆ Significantly scale back (but not exit) balance sheet-intensive businesses <ul style="list-style-type: none"> – Large Loan Lending – PTG

1. Revenue estimates for Operating Revenue only; assumes no further write-downs (but also no write-ups) from the legacy book
 2. LL – Large Loan Business, BE – Bridge Equity Business, BL – Bank Loan Business, PTG – Principal Transaction Group

Headcount

Headcount is down to 2003/4 levels

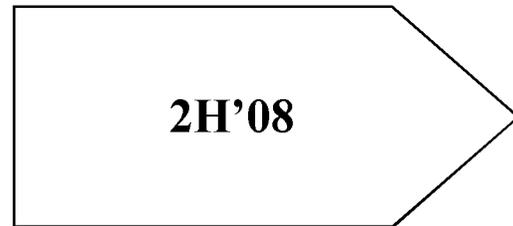


1. Does not include the Real Estate Private Equity headcount

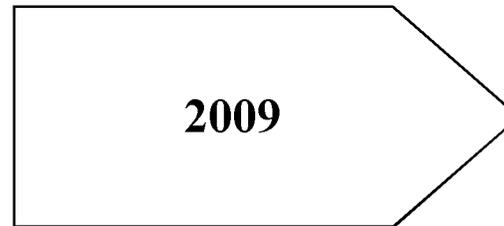
Discussion
<ul style="list-style-type: none"> ◆ Headcount down to 2003/4 levels, when GREG was a ~\$770 mm business ◆ Business is right-sized for estimated 2010 revenues <ul style="list-style-type: none"> – Maintain presence as integrated franchise with capabilities across the capital structure – Ongoing asset distribution ◆ Going forward, will use more variable staffing (e.g., underwriting) where applicable

Timeline

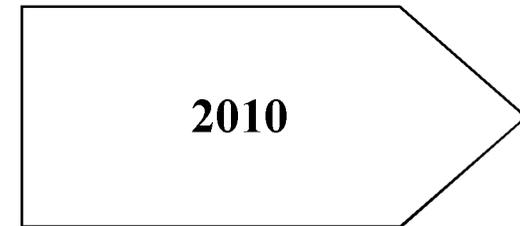
GREG will re-start the business in a measured fashion under the new operating model



- ◆ Continue to manage balance sheet down
- ◆ Engage clients in on-going dialogue
- ◆ Re-start Conduit Business
- ◆ Re-start Large Loan Lending (agency basis)
- ◆ Originate Principal for PE Fund only
- ◆ Expand Secondary Trading
- ◆ Start NPL investments



- ◆ Continue to manage balance sheet down
- ◆ Offer full product suite, but at 'half capacity' until legacy balance sheet down to comfort level
- ◆ Re-start selected On-Balance Principal sheet business

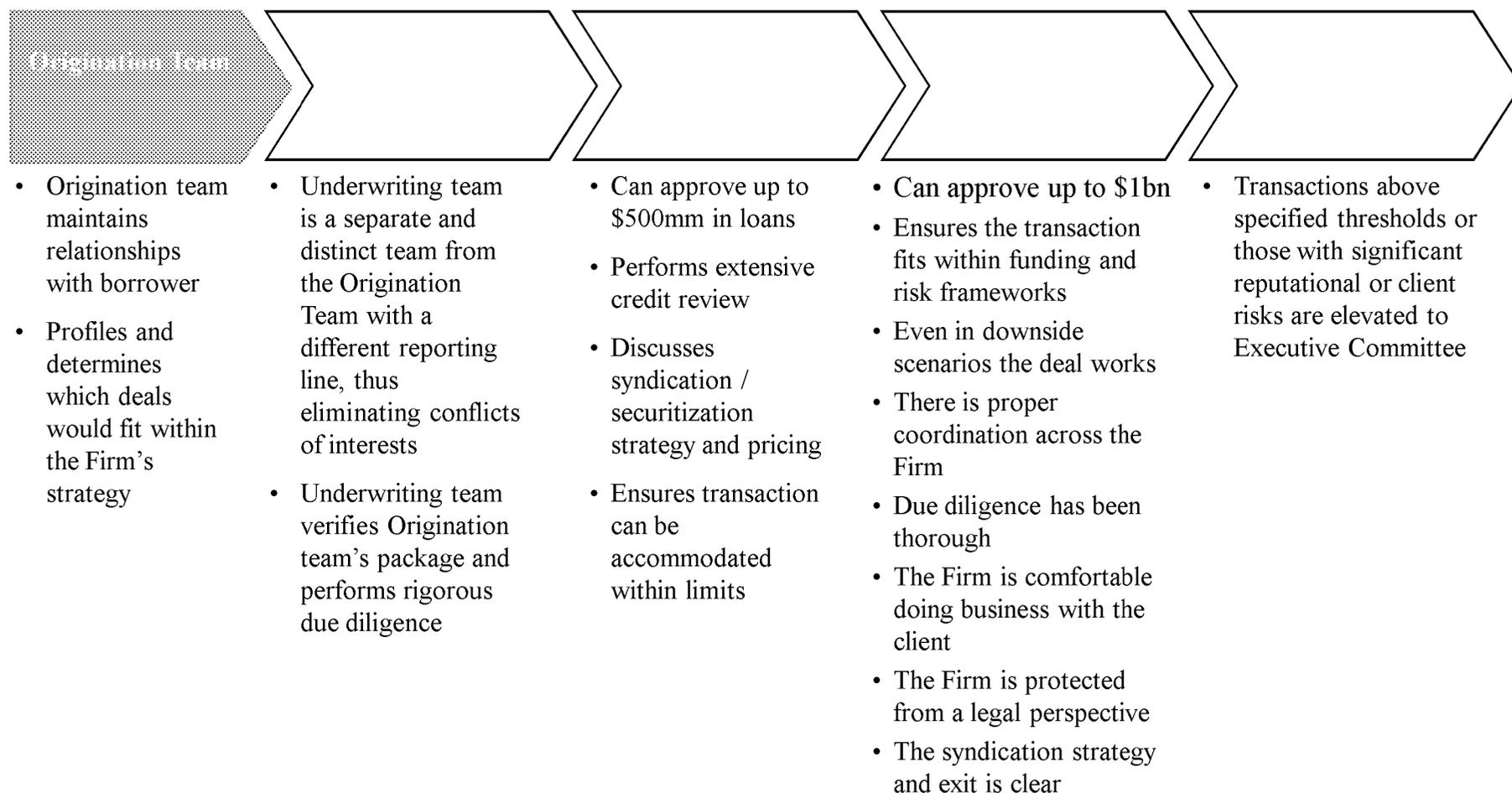


- ◆ Offer full product suite at 'full capacity'
- ◆ Continue to run the business under changed operating model

Underwriting, Valuation, and Price Verification

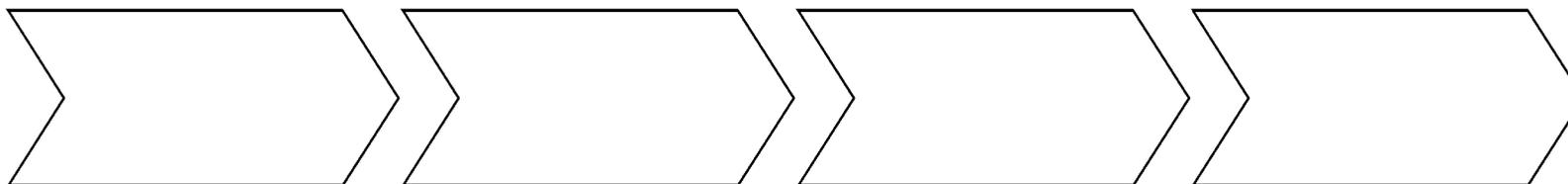
CMBS Underwriting Process

To ensure the integrity of originated loans, the Firm follows a strict underwriting process. Individual product groups first review and approve transactions prior to them being elevated to Firm-wide Committees. Transactions above certain thresholds or those containing significant reputation risk to the firm are elevated to the Executive Committee.



PTG Underwriting Process

PTG underwriting builds on the CMBS process. For senior loans, the processes are essentially identical. Mezzanine and equity investments receive additional level of scrutiny



- Maintain relationships with developer/borrower
- Profiles and determine which deals would fit within the Firm's strategy
- Conducts rigorous financial scenario analysis and due diligence process
- Sign off by head of business group

- Can approve up to \$25mm for equity and \$100mm for loans
- Performs extensive due diligence on collateral and partners
- Discusses exit strategy
- Ensures transaction can be accommodated within limits

- Can approve up to \$100mm in equity and \$1bn in loans
- Ensures the transaction fits within funding and risk frameworks
- Even in downside scenarios the deal works
- There is proper coordination across the Firm
- Due diligence has been thorough
- The Firm is comfortable doing business with the client/partner
- The Firm is protected from a legal perspective
- The exit strategy is clear

- Transactions above specified thresholds or those with significant reputational or client risks are elevated to Executive Committee

Commercial Real Estate – Valuation Methodology

Underwriting, Valuation, and Price Verification

Valuation / Marking methodology

- ◆ Securities: Marked to market in accordance with daily observable trades in the marketplace as well as for movements in interest rates and relevant derivative indices

- ◆ Whole Loans: Marked based on the intended exit strategy and attendant recent market pricing in the securitization, syndication and origination markets

- ◆ Equity: Marked to yields that are consistent with yield expectations of third party institutional capital for assets of comparable risk

Commercial Real Estate – Price Verification Methodology

Underwriting, Valuation, and Price Verification

The Finance Division independently performs a monthly comprehensive price verification exercise to review appropriateness of the portfolio valuation

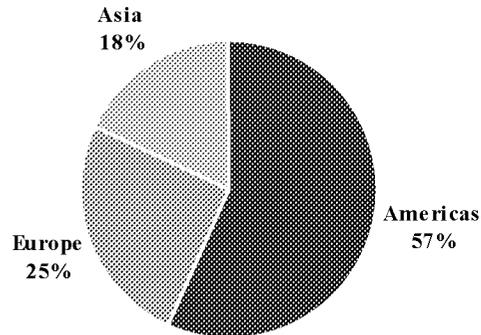
- ◆ Price verification is performed on a monthly basis
- ◆ Generally, third party pricing inputs are used where available
- ◆ The principal book (PTG) is price verified using a NPV approach with a significant emphasis on the credit qualities of each collateral. Our models use:
 - Property level information provided by third party servicers (Trimont & PCCP) - information received includes position attributes, collateral valuation and current update commentary
 - Discount rates are derived from third party publications (Institutional Investors’ Real Estate Finance & Investments)
 - Product Control also reviews IRR models developed for each position by Trimont for reasonableness
- ◆ Bridge equity generally marked to target investor yields for the specific investment. Product Control reviews / discusses the reasonableness of the valuation assumptions
- ◆ The commercial book is price verified using internal models based on spreads obtained from third party publications giving special emphasis to recent sales, circles and bids on notes of similar attributes (LTV, property type, location, etc.)
- ◆ Finance holds regular discussions with the business senior management to discuss pricing variances that exceed our established thresholds. Based on the results of the price verification review, PC recommends / suggests mark adjustments. These positions are either remarked or adequate justification or support is provided by the business to support the existing mark

In addition, the risk management department independently measures, quantifies and evaluates the risk of this portfolio

Global Portfolio Overview

Global Portfolio Overview

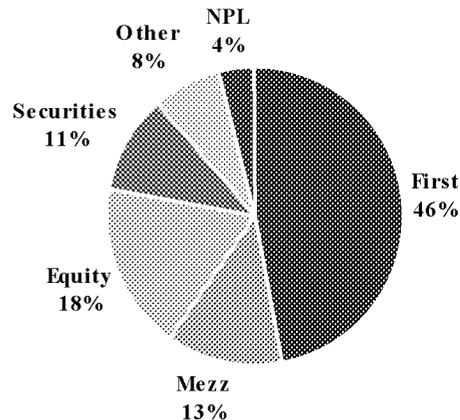
Regions



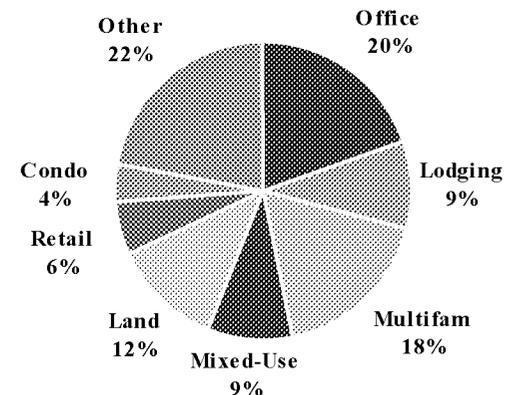
Overview

- ◆ 2,603 positions
- ◆ Largest exposure is Archstone at \$5.1 bn ⁽¹⁾
- ◆ Average exposure size is \$15.3 mm
- ◆ Weighted avg. maturity of first lien debt is 34 months
- ◆ Weighted avg. maturity of mezz debt is 26 months

Security Interest



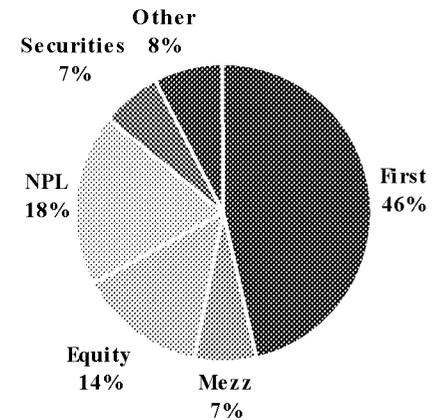
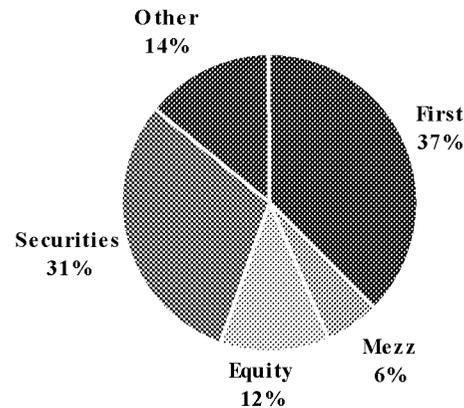
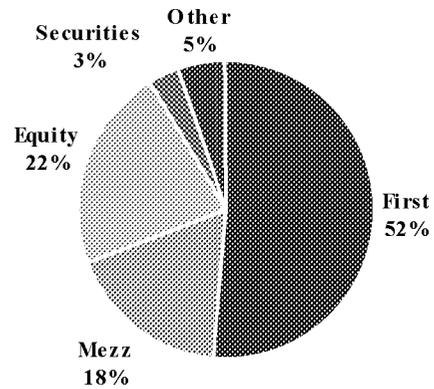
Property Type



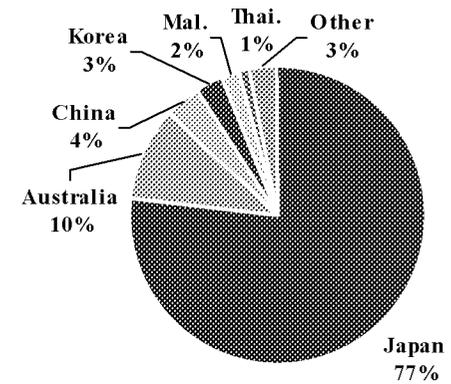
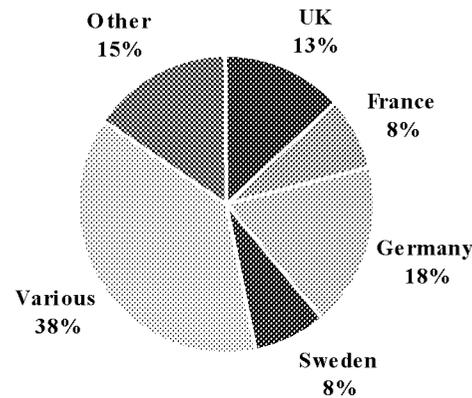
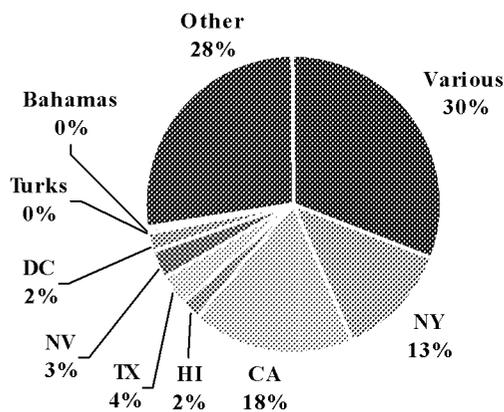
1. Gross balance sheet exposure as of 5/31/08.

Global Portfolio Overview

Americas Europe Asia



Americas Europe Asia



“Joint Venture” – Largest Position Summary

<u>Position</u>	<u>\$ mm</u>	<u>Comments</u>
Archstone / Tishman Speyer	\$5,063 mm (1)	<ul style="list-style-type: none"> ◆ Class A multifamily assets - 96% of NOI derived from high barrier-to-entry markets including DC, So. CA, NYC, San Francisco, Seattle and Boston ◆ Significant future value creation from \$5.0 Bn development pipeline
Northern Rock Commercial Loan Portfolio	\$2,636 mm	<ul style="list-style-type: none"> ◆ The Gospel portfolio is secured by over 1,400 properties spread across the entire UK ◆ Portfolio includes 42% office, 30% retail, 16% industrial, 3% residential, 2% hotel (by mkt. value)
Hilton / Blackstone	\$1,203 mm	<ul style="list-style-type: none"> ◆ Collateral includes all Hilton assets; 38 owned, 78 leased and 36 joint venture hotels as well as a hotel real estate fee segment (2,855 managed/franchised hotels), timeshare assets and two office buildings
Gencom	\$957 mm	<ul style="list-style-type: none"> ◆ Luxury resort and residential properties ◆ Includes properties in the US, Bahamas and Turks and Caicos ◆ Includes six Ritz Carlton properties
Prologis	\$768 mm	<ul style="list-style-type: none"> ◆ Industrial portfolio developed and managed by Dermody Partners ◆ Avg. year built 2002 and avg. occupancy of 97% ◆ Located in NV, PA and NJ

1. The Lehman share of the term loan, revolver and development loan are not shown in the Archstone property profile.

“Joint Venture” – Largest Position Summary (cont.)

<u>Position</u>	<u>\$ mm</u>	<u>Comments</u>
Heritage Fields	\$650 mm	<ul style="list-style-type: none"> ◆ Redevelopment of 2,300 acres located on former Marine Corps Air Station El-Toro ◆ Will consist of residential (approx. 5,000 proposed units), education, recreation and R&D land uses
Austin EOP / Thomas Properties / CalSTRS	\$580 mm (1)	<ul style="list-style-type: none"> ◆ 10-asset portfolio located in greater Austin, TX ◆ Five Class A trophy office assets (2.5 mm sqft) in Austin’s CBD and five Class A office assets (1.0 mm sqft) in Austin’s Northwest suburbs
237 Park Ave. / Broadway Partners	\$534 mm	<ul style="list-style-type: none"> ◆ 1.2 mm SF, 21-story, Class A office building ◆ Located two blocks from Grand Central Terminal ◆ In-place rent is approximately 45% below market
Goodwater	\$425 mm	<ul style="list-style-type: none"> ◆ 86 predominantly office properties in Germany ◆ Majority located in central-CBD areas in well-know cities such as Düsseldorf, Cologne, Munich, Hamburg and Frankfurt
Octopus Portfolio	\$384 mm	<ul style="list-style-type: none"> ◆ 40 commercial real estate assets spread across mainly West Germany ◆ 55% office, 23% technical and 9% storage space

1. Does not include San Jacinto Center and Frost Bank Tower.