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Cc: .

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Subject: bridge equity.

The methodology on pricing bridge equity is generally based on the initial capitalization structure on day 1, which also includes assumptions of the projected entity level cash flows and estimated yields that we would sell the bridge equity to investors. We mark our investments at 96 (par less the 4 point fee we charge to the ultimate investors). We also do these deals with the intention of collecting accrued preferred returns from investors (usually 11%-13%). To be conservative, we do not recognize this accrued preferred return until collected.

Since it was always expected to be carried short-term, there was never a robust analysis put in place at the independent servicer to value the equity. Over the past few months, Anthony Barsanti and Trimont, our servicer, are putting in a valuation framework and cash flow monitoring procedures. That said, these investments are actively monitored from the business side (Paul Hughson) to see if there is any yield impairment to the ultimate equity investor). For one of the large investments (ProLogis), we had a legal balance of \$575mm (marked at 96 day 1). Due to the capital markets, the assumptions for debt financing needed to be negatively adjusted and the corresponding equity was impacted. Thus, in order to sell the equity at the yield investors would require for this asset type (net levered yield of 11%), we marked the asset down \$55mm over the past 2 quarters.

For Archstone, all fees days one 1 (\$233mm) went to reduce the debt positions (\$33mm) and bridge equity (\$200mm). We have also taken any excess coupon over carry cost and applied it to the bridge equity mark. The mark is now approx 89.6. Even when the term loan or other debt is paid down, we do not record positive p&l. Based on a failed syndication (i.e. not able to syndicate equity in 9-12 months), we would be able to sell equity without sponsor asset mgmt fees or promote. The current assumption is that we are carrying the equity assuming a failed syndication and we can sell to investors at a 15% yield. As the entity level cash flows are updated, which occurs often, this yield will be reevaluated.

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