

To: Ernst & Young Audit Team for Lehman Brothers
 Joe Palumbo, Partner
 Jerry Gruner, Senior Manager *JG*
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Prepared by: Robert Martinek, Manager, Transaction Real Estate (TRE) *RM*

Reviewed by: Peter Brooks, Executive Director, TRE *PB*

Memo Date: January 24, 2007 *[initials]*

Testing Date: August 31, 2007

Re: Lehman Brothers Commercial Real Estate Portfolio

On October 10, 2007 Bob Martinek, Manager, in E & Y's TRE practice met with members of the E& Y Audit Team for Lehman Brothers and representatives of Lehman Brothers to discuss the process of analyzing 25 positions in Lehman Brothers' Real Estate Portfolio as of August 31, 2007. Members of the E&Y Audit team selected 22 non-hospitality and 3 hospitality positions for TRE to review. Bob Martinek reviewed the non-hospitality positions that are discussed in this memo and Peter Kalanda, Ian Quan, and Matthew Schuster also of TRE, participated in the review of the hospitality positions that are discussed in a separate memo (copy attached). It was noted that several of these positions contained multiple assets. There may have been some circumstances when a sample of the assets was selected, and not all of the properties were analyzed by TRE. These circumstances have been noted within this memo.

Trimont Real Estate Advisors, a third party asset manager for Lehman Brothers, performed and/or reviewed an independent valuation on all of these assets. TRE was asked to comment on the policies and procedures of Trimont Advisors, as well as the valuation methodology and key assumptions used. TRE was asked to review the valuations and the supporting documentation found in Trimont's files.

TRE visited Trimont's offices in Atlanta the week of November 6, 2007 and met with representatives of the company. These individuals included Directors, Team Leaders, Asset Managers, and Financial Analysts. These individuals had direct knowledge of each of the assets, and provided their insight to TRE. TRE also had phone conversations with those Asset Managers not located in the Atlanta Office.

Trimont provided TRE with a file for each position. Each file contained asset summary reviews (ASR), valuation assumptions, market research to support these assumptions, cash flow projections, various articles and clippings related to the asset, a review checklist, and a loan covenant compliance checklist.

As part of our analysis, TRE gathered market data for each of the assets through independent published market reports. Additional support was found in Trimont's files.

The following is a summary discussion of each position including:

- Asset Number and Name
- Deal Structure
- Clients Valuation Methodology and Key Assumptions
- E & Y Findings
- Conclusion

VL67 Commons at McLean Dolly Madison Blvd. and Route 267 McLean, Virginia

Deal Structure

Lehman has a first mortgage with a legal balance of \$175,385,000, marked at a basis of \$173,161,000. The capital structure also consists of \$9,100,000 of Monument equity. Monument Realty is the sponsor in the deal.

Collateral Description:

This position is comprised of one asset known as the Commons of McLean. Currently the asset is a 24-building 577-unit apartment complex situated on a 33 acre site in McLean, Virginia. Included on this 33 acre site is an 8.8 acre parcel is zoning which allows for the construction of 88 additional residential units. The buildings were constructed in five phases between 1966 and 1973. The project is currently 96.4% occupied. This asset was purchased in February 2005 for an all in cost of \$175,000,000.

TRE had discussions with Trimont Asset Manager Tina Frey on this property. According to Tina, the property was acquired with future development in mind. The site is in close proximity to a "planned" East Metro Station which will service the nearby Tysons Corner (a submarket of Washington, DC). The work on the Metro is expected to commence in 2008 and be completed in 2012. The sponsor intends to obtain a re-zoning which would allow for substantial development. A successful application to up-zone the property would enable the developer to construct a mixed use development containing 3,675,175 square feet of space. The development is expected to be broken up as follows:

Residential space	2,756,381 square feet
Office space	735,035 square feet
Retail space	183,759 square feet

Based upon the demographics in the Tyson Corner submarket, there appears to be significant demand for the development.

Valuation Methodology

The value of the subject property has been based upon a third party appraisal completed by Cushman and Wakefield. The report with a date of value of September 14, 2007 yields a value estimate of \$261,900,000

Findings

- The “residential” land value estimate of \$65.00 per square foot of proposed gross building area falls within the unadjusted range of \$63.00 to \$92.00 per square foot (FAR).
- The “office” land value estimate of \$90.00 per square foot of proposed gross building area falls within the unadjusted range of \$70.00 to \$91.00 per square foot (FAR).
- The “retail” land value estimate of \$90.00 per square foot of proposed gross building area falls within the unadjusted range of \$50.00 to \$119.00 per square foot (FAR).
- In support for the overall value estimate, we note a current contract of sale for a 19.8 acre parcel of land with a proposed mix use development totaling 2,156,730 square feet. The site is located on Springhill Road in McLean, and is under contract for \$146,657,640 or \$68.00 per FAR. This is similar to the subject properties overall FAR estimate of \$71.26 per the entire 3,675,175 square foot development.
- Cushman & Wakefield stated that it performed a Complete Appraisal Report in Summary Format as defined by the Uniform Standards of Professional Appraisal Practice (USPAP);
- Guy Rubley is an associate appraiser at Cushman & Wakefield. Kelly Small is a Senior Director out of Cushman & Wakefield. Kelly has been actively engaged in the real estate business since 1988. She is a Member of the Appraisal Institute (MAI). Both appraisers signed the report and are based out of Cushman & Wakefields’s Washington DC office.
- Kelly Small is a Certified Real Estate General Appraiser for the State of Virginia.
- The appraisers signed a certification indicating that they had no personal interest in the property and that their fee was not contingent on the value found.

E&Y Conclusions

TRE found the valuation estimate of \$261,900,000 to be within the expected range of probable values supported by the market.

(WH5712) Orlando Assets Acquisition LLC. Orlando, Florida**Deal Structure**

Lehman foreclosed on the loan for two multifamily properties on 4/17/07. The legal balance for this REO position is now \$196,958,000 and the basis is \$162,761,000.

Collateral Description:

This position is comprised of two assets located in Orlando, Florida. The properties are two Class A multi-family residences with a total of 1,032 units. Both of the properties are garden apartment complexes slated for condominium conversion. A brief description of each asset is listed below:

The Cottages at Hunters Creek

The Cottages consists of 61 two story garden style apartment buildings. The property is located on Colony Square Drive within the Hunters Creek development of South Orlando. The asset was developed in two phases over 1999 and 2000 and is located on 28.8 acre. The Cottages La Palazza contains 532 units with an average unit size of 1,111 square feet

La Palazza at Metro West

La Palazza consists of 14 three story garden style apartment buildings and 15 townhouse style buildings with attached garages. The property is located on Lake Debra Drive within the Metro West PUD, one of Orlando's most affluent and successful communities. La Palazza was developed in 2002 and is spread out over 44 acres of land. La Palazza contains 500 units with an average unit size of 1,172 square feet

As previously mentioned, both of these projects were slated for condo conversion. The developer informed Lehman Brothers the lender they had 250 contracts. It was found out at a later date, that over 200 contracts were no longer valid. At this point in time, the properties went into receivership. A study determined that the highest and best use of the property was for rental apartment. Lehman changed its business plan to leasing up the units as a rental apartment building.

In July 2007 the properties were marketed for sale by Jones Lang LaSalle, for an asking price of \$155 million. Occupancy at that time was 76% for La Palazzo and 53% at the Cottages. No bids have been received.

Valuation Methodology

The value of the subject property has been based upon a discounted cash flow analysis. The date of the analysis was November 27, 2007. Since Lehman has taken title, occupancy at La Palazzo has been increased to 95%, while the Cottages have been increased to 77%. The value of La Palazzo has been estimated at \$70 Million while the value of the cottages has been estimated at \$70,000,000

Findings

- Trimont has estimated a market rent estimate of \$1,095 per month for the Cottages which is slightly higher than four competing projects within Hunters Run which have a monthly rent of \$1,034 to \$1,039.
- Trimont has estimated concessions in the Cottages at 2 months free rent for a 12 month lease. This is within the competitor's ranges who are offering between 0 months and two months free rent.
- After concessions, Trimont has estimated an effective rent of \$967 per month, which is well within the four competitors' range of \$959 to \$1,065 per month. On a square foot basis, The Cottages effective rent of \$0.87 per square foot is within its four competitors' which vary from \$0.84 to \$0.88 per square foot.
- Trimont has estimated a stabilized occupancy rate of 95%, which is line with three competing properties within Hunters run. The fourth project has an occupancy rate of 93%.
- Rental rates within La Palazzo range from \$912/ month or \$1.07/SF for a one bedroom unit to \$1,353/mo or \$0.84 per square foot for a 4 bedroom unit. These rents fall within the range of \$793 to \$1,020 per month (\$1.03 to \$1.20 per square foot) for 1 bedroom units and \$1,095 to \$1,532 per month for three bedroom units. The competitors do not offer 4 bedroom units.
- Trimont has estimated concessions in La Palazzo at 1 month free rent for a 12 month lease. This is within the competitors' range of 0 months to two months free rent.
- Trimont has estimated a stabilized occupancy rate of 96%, which is line with three of the five projects surveyed whose occupancy rate exceeds 95%.
- The appraiser's terminal capitalization rate of 6.5% and discount rate of 7.5% for both the Cottages at Hunters Creek and La Palazzo at Metro West are within the range of the 2nd Quarter 2007 Korpacz Investor Survey of the National Apartment market which indicates a terminal cap rate range of 4.50% to 8.50% with an average of 6.61%, and a discount range of 6.00% to 12.00% with an average of 8.36% .

E&Y Conclusions

TRE found the value estimates to be within the expected range of probable values supported by the market.

WE 307 Emerald Dunes Golf Club West Palm Beach, Florida**Deal Structure**

Lehman has a first mortgage and mezzanine loan in this asset. Lehman has funded a mezzanine loan with a legal balance of \$2,842,000, marked at a basis of \$2,764,000. Lehman's senior loan has a balance of \$11,872,000. The capital structure also consists of \$13,000,000 of third party equity. RFR Holdings is the sponsor in the deal.

Collateral Description:

The collateral consists of a 127 acre 18-hole golf course known as Emerald Dunes Golf Club, and a 4 acre contiguous parcel of land situated in West Palm Beach Florida. Emerald Dunes was formally a top ten public course which was developed in 1998, and was privatized in 2005. The golf course contains a practice range with putting green, a 10,595 square foot clubhouse (under construction and expected to be substantially completed in November 2007), and a maintenance facility. The adjacent four acre parcel is zoned for one 227 room hotel, however, the business plan will consider developing the property with 10 two-story golf villas that would be fractionalized and sold to members.

As of October 10, 2007, 44 memberships have been sold (out of a projected 250 to 350 members). Upon privatization, membership sales commenced at \$85,000 per member. The most recent memberships have sold for \$125,000. Dues at Emerald Dunes are currently \$16,000 per year.

The golf course has been closed since May 2007 for course maintenance which includes refurbishment of the greens. The course is expected to open again in December 2007 to coincide with the completion of the clubhouse.

Valuation Methodology

Trimont has valued the collateral via a discounted cash flow analysis. The valuation commenced in October 2007 and runs through sellout in October 2018 (totaling 326 membership sales). An 11.5% capitalization rate has been allocated to the cash flow in the reversionary year, and all cash flows have been discounted at 13.5%. In addition, the four acre parcel has been valued at \$3,500,000. The DCF results in a total value estimate of \$21.99 million. This estimate is based upon a third party appraisal completed by HVS Golf Services. The value of the subject property has been based upon a discounted cash flow analysis.

Findings

- Trimont has estimated memberships at \$125,000 per member and yearly dues of \$16,000. This is consistent with the most recent membership sales at Emerald Dunes, and within the range of the market comparables. Although Emerald Dunes annual dues are above that of the competitors, it was noted that food and beverage is included, while the comparables F&B is not. HVS Golf estimates these fees at approximately \$5,000 per year. After subtracting this out of the subject property, the annual dues falls directly in line with the competitive set.

1. The Medalist Golf Club 110,000 Membership, 10,500 Annual Dues
 2. Juniper Hills \$161,000 Membership, \$11,500 Annual Dues
 3. MacArthur Golf Club \$185,000 Membership \$11,500 Annual Dues
- Trimont has estimated an average membership sales rate of 2.33 sales per month. This rate fluctuates from 3 sales per month during peak golfing season to 2 sales per month during May through December. This projection falls directly in line with historical figures (excluding the time the course has been closed).
 - Trimont's terminal capitalization rate of 11.5% and the discount rate of 13.5% fall within the range of the last Korpacz Real Estate Investor Survey for Golf Courses(2nd Quarter 2005) of 9% to 13.25%, Average 11% Terminal Rate and 9% to 18%, Average 13.78% Discount Rate.
 - Trimont's value estimate for the 4 acre parcel of land (\$3,500,000 or \$875,000 per acre) is within the adjusted range of five comparable land transactions which \$760,000 to \$1,250,000 per acre.

E&Y Conclusions

TRE found the value estimate to be within the expected range of probable values supported by the market.

SN 94 LB KTO LLC Honolulu, Hawaii**Deal Structure**

Lehman has an equity investment of \$19,496,000, marked at a basis of \$8,835,000, and is running the project today. The original sponsor, Honu Group, Inc., was diluted out of the project in 2000.

Collateral Description:

The collateral consists of an unimproved land parcel containing 58,000 square feet located on Kuhio Avenue, one block off King Kalakaua Boulevard in Waikiki. Lehman is currently processing a change in zoning from Resort-Commercial to Resort-Mixed Use. The Resort-Mixed Use classification allows for residential type use including hotel, condo, time share, etc. Planned improvements are for a high-rise condo or condo/hotel. Lehman's business strategy is to entitle the project and sell off the property.

Valuation Methodology

Per Trimont's policies and procedures with Lehman Brothers, this asset has been valued at 105% of capitalization or \$20,650,000.

Findings

TRE has tied in the equity piece as follows:

- Confirmed Lehman's equity piece of \$19,666,414
- Trimont's value estimate of \$20,650,000 represents a value estimate of per acre or \$356 per square foot. This value is supported by four recent land sale transactions in Honolulu which range from \$230 to \$417 per square foot.

<u>Address</u>	<u>City, State</u>	<u>Price</u>	<u>Acres</u>	<u>Price/Acre</u>	<u>Dev.Type</u>	<u>Sale date</u>	<u>Area in sq. ft</u>	<u>Price/Sq. Ft</u>
286 Beach Walk	Honolulu, HI	\$6,900,000	0.689	\$10,014,514	Mixed	9/15/2007	30,012.84	\$229.90
1199 Bishop St Ala Wai Blvd & Lipeepee St	Honolulu, HI	\$4,000,000	0.31306	\$12,777,103	apartment	9/17/2007	13,636.89	\$293.32
1391 Kapiolani Blvd	Honolulu, HI	\$43,000,000	4	\$10,750,000	Mixed	9/15/2007	174,240.00	\$246.79
	Honolulu, HI	\$26,000,000	1.43085	\$18,171,017	Mixed	9/28/2007	62,327.83	\$417.15

E&Y Conclusions

TRE found the valuation methodology as of October 1, 2007 of \$20,650,000 million to be consistent to that outlined in Trimont's Policy and Procedures Manual. Based upon comparables sales, we found the value estimate to be within the expected range of probable values supported by the market.

WD 91 Cabo San Lucas land Whole Loan, Baja California Sur, Mexico**Deal Structure**

Lehman has a first mortgage with a legal balance of \$89,305,000, marked at a basis of \$89,203,000. The capital structure also consists of \$14,380,000 of Borrower equity. Ken Jowdy is the Borrower in the deal.

Collateral Description:

The collateral consists of 1,510 acres of vacant land located 4 miles west of downtown Cabo San Lucas. The site has 1.5 miles of beachfront along the Pacific Ocean. Currently infrastructure improvements are underway for a master plan that will include 522 residential units (299 single family and 233 townhouse condominiums), with golf and ocean views, two championship golf courses, two clubhouses, a beach club with a restaurant and guest accommodations, community center with a spa, fitness center, tennis, pool, retail, restaurants, and other commercial services. Land for future development includes 190 acres of beachfront land, 65 acres for a hotel site and 235 acres of upland acres of excess land for residential development.

Valuation Methodology

Per Trimont's policies and procedures with Lehman Brothers, this asset has been valued at 105% of capitalization.

Findings

TRE has tied in the equity piece as follows:

- Confirmed Lehman's debt piece of \$93,495,595
- Confirmed Partner Equity of 8,415,523
- Trimont's value estimate of \$107 million relates to a value of \$70,860 per acre. This is supported by the following three sales within Cabo San Lucas, all within close proximity to the subject:
 1. 885 acres sold in July 2006 @ \$59,375 per acre
 2. 1,586 acres under contract @ \$75,600 per acre
 3. 99 acres under contract @ \$129,500 per acre

E&Y Conclusions

TRE found the valuation methodology as of November 1, 2007 of \$107 million to be consistent to that outlined in Trimont's Policy and Procedures Manual. The value is supported by comparables in the marketplace. Therefore, we found the value estimate to be within the expected range of probable values supported by the market.

VK 93 Teachers Senior Loan Southfield, Michigan**Deal Structure**

Lehman has a first mortgage and an equity position in this asset. Lehman has an equity investment of \$48,550,000, which now represents 100% ownership interest in the two remaining properties, Traveler's I and II. Lehman's debt position has a legal balance of \$54,151,000, with a basis of \$48,639,000. Kojanian Management was the original Sponsor in the deal.

Collateral Description:

The collateral consists of two Class B office buildings located in Southfield Michigan. The two buildings (Travelers I and II) consist of 795,544 square feet. Occupancy as of June 30, 2007 was 68.99% in Travelers I and 50.02% in travelers II. In November 2007, Collins and Aikman will be vacating their space in Travelers II, bringing the occupancy down to 0%. The Travelers I and II buildings were being marketed by Jones Lang LaSalle. Lehman rejected an earlier bid in early 2007 at \$60 per square foot. Lehman's business plan is to lease the space and sell off at a later date. Travelers II will be marketed to larger tenants.

Travelers I is an 18-story office tower located at Evergreen Road and Interstate 696 in Southfield Michigan. The building was constructed in 1974 and contains a net rentable area of 456,018 square feet.

Travelers II is a 13-story office tower situated next to Travelers I in Southfield Michigan. The building was constructed in 1973 and contains a net rentable area of 339,526 square feet.

Valuation Methodology

The value of the subject property has been based upon a discounted cash flow analysis. Separate DCF's were completed using the Argus software. The DCF's resulted in a value of \$26,522,000 for Travelers I and \$19,270,000 for Travelers II.

Findings

- Trimont has estimated market rent as follows
 - Travelers I (\$20.50 per SF for space over 5,000 SF, \$19.50 per SF for space less than 5,000 SF)
 - Travelers II (\$19.50 per SF)These rental projections are supported by the CB Richard Ellis and REIS 2Q market reports which indicate an average rent of \$19.39 and \$19.70 per square foot.
- Trimont has estimated a global vacancy rate of 20%. This estimate is supported by REIS Metro trends which indicate a vacancy rate of 21.8% in the Detroit MSA and 24% in the North Southfield market. REIS projects vacancy rates will slowly reduce in the Southfield market to 17.2% in 2011.
- Trimont has forecasted the space in Travelers I will be absorbed in 54 months while Travelers II is expected to take 66 months. Although no new space is planned in the marketplace, it is expected to take years for vacancy rates to decrease. Given the amount of space available this assumption appears reasonable.
- Trimont has estimated a terminal capitalization rate of 9.0% for Travelers I and 9.25% for Travelers II. These rates are supported by the 2Q07 Korpacz Investor Survey for the

National Suburban Office Market which has a terminal rate range of 6.25% to 11% with and average of 8.08%. Additionally, the Spring 2007 RERC report indicates an average terminal capitalization rate of 8.5% for the Detroit market. Given the high vacancy rate and softness in the market a rate higher than the average appears reasonable.

- Trimont has estimated a discount rate of 10.00% for Travelers I and 10.25% for Travelers II. These rates are supported by the 2Q07 Korpacz Investor Survey for the National Suburban Office Market which has a discount rate range of 7.00% to 12.00% with and average of 9.10%.
- Trimont's combined DCF value of \$45.79 million indicates a price of \$58 per square foot. This value is comparable to an earlier bid of \$60 per square foot when the building was being marketed by Jones Lang LaSalle.

E&Y Conclusions

TRE found the valuation estimate of \$45.79 million to be within the expected range of probable values supported by the market.

TG34 LB Farmington Hills Farmington Hills, Michigan**Deal Structure**

Lehman has an equity investment of \$13,500,000, marked at a basis of \$8,500,000, and has a 49% ownership interest. The capital structure also consists of \$45,824,000 of third party debt. Kojaian Management is the sponsor in the deal.

Collateral Description:

The collateral consists of 59.2 acres of undeveloped land with frontage on Twelve Mile Road and Interstate 696 in the Farmington Hills section of Michigan. Farmington Hills Corporate Center originally consisted of 128 acres of land in one of Detroit's most desirable suburbs. Since the acquisition in 2000, four vacant land parcels have been sold off and improved with office buildings. The remaining 59 acres consists of 43.46 acres of developable space and 16.46 acres of wetlands. The borrower has obtained site plan approval to build a four story 152,000 square foot office building on a 10 acre site (Parcel C2) to be known as Farmington Hills IV.

According to the most recent site plans for the development, the remaining acreage (not including parcel C2) will be subdivided into four parcels that are designed to accommodate an additional 400,000 square feet of office space, an 8,000 square foot restaurant and a 2,000 square foot bank branch. Although the developer is not actively marketing the sites, interest is expected to pick up as Mercedes Benz has just signed a lease in Farmington Hills II, bringing up the occupancy in Farmington Hills Corporate Center to 93%.

Valuation Methodology

Trimont has valued the subject parcel via the sales comparison approach. The value of the site was estimated at \$16,870,215. This relates to \$388,200 per acre or \$8.91 per square per of developable area.

Findings

- Trimont has estimated the remaining land (59.42 acres at \$8.91 per square foot). This value is supported by the four previous releases of land with the Farmington Hills Complex which indicated an average selling price of \$9.03 per square foot:

<u>Closed</u> <u>Lot</u>	<u>Release</u> <u>Date</u>	<u>Total Sales</u> <u>Price</u>	<u>Usable</u> <u>Acres</u>	<u>Usable</u> <u>SF</u>	<u>\$ PSF</u> <u>(Land)</u>
B	Nov-00	\$ 5,000,000	12.96	564,538	\$8.86
A1	Feb-01	\$ 5,000,000	11.28	491,357	\$10.18
C1	1-May	\$ 3,000,000	8.2	357,192	\$8.40
D	2-May	\$10,000,000	26.05	1,134,738	\$8.81

- Further support for Trimont's value estimate is a similar parcel of land totaling 31 acres and located directly to the south of the subject (across I-696) is currently being marketed for \$10.00 per square foot.

E&Y Conclusions

TRE found the valuation estimate of \$16.87 million to be within the expected range of probable values supported by the market.

(VG40) WSG Las Vegas Mart Las Vegas, Nevada

Deal Structure

Lehman has a first mortgage with a legal balance of \$19,896,000, marked at a basis of \$19,597,000. WSG Development Company is the Borrower in the deal.

Collateral Description:

This position is comprised of one asset. The asset consists of a 9.14 acre parcel of land situated at the intersection of South Highland Drive and West Desert Inn, across from the Fashion Show Mall. The site is currently improved with two industrial buildings containing a total of 160,048 square feet. The improvements are 50% occupied with one tenant. The asset was purchased in 2004 and was rezoned to the H-1 apartment district in 2005. The density allows for 1,600 units but a development plan must be approved by the City of Las Vegas.

In May 2007 the Sponsor hired a local attorney to obtain a special use permit that will allow gaming. Although the H-1 zone allows for potential gaming, the permit must be approved by the county board of commissioners before gaming will be allowed.

Valuation Methodology

Trimont has valued the subject parcel via the sales comparison approach. The value of the site was estimated at \$65,000,000. This relates to \$7,111,000 per acre or \$163 per square per of developable area.

Findings

- TRE has looked at four transactions which have taken place over the past two years. The comparables range in size from 3.64 acres to 23.94 acres. Sales prices for these four comparables ranged from \$4,970,000 per acre to \$8,422,000 per acre or \$114 to \$193 per square foot. Trimont's value estimate of \$7,111,000 or \$163 per square foot falls within this range.
- The subject property received a bid for \$65,000,000 in June, 2007. The purchaser could not raise the capital and the deal never closed.
- TRE has talked to several market participants about real estate values in Las Vegas. It was noted that active residential projects are feeling the effect of a residential slowdown, but there is still interest in vacant land. Developers are not moving forward on new projects, and the sales volume has decreased, but developers are "land banking" many of these properties for future development.

E&Y Conclusions

TRE found the valuation estimate of \$65,000,000 to be within the expected range of probable values supported by the market.

WE320 Exhibition Center Junior Mezz Whole Las Vegas, Nevada**Deal Structure**

Lehman has a first mortgage and mezzanine loan in this asset. Lehman has a mezzanine loan with a legal balance of \$54,769,000, marked at a basis of \$44,038,000. Lehman's senior loan has a balance of \$118,508,000. The capital structure also consists of \$13,000,000 of third party equity. SDS Las Vegas is the sponsor in the deal.

Collateral Description:

This position is comprised of one asset. The asset consists of a 55.4 acre parcel of land located between I-15 and South Las Vegas Boulevard (the strip) at the intersection of Blue Diamond Parkway.

The borrower is under contract to purchase an additional 52 acres of land which is contiguous to the subject property. The additional land was listed for sale for \$211,000,000 or \$4,050,000 per acre. The property is under a contract of sale to the borrower for \$181,000,000 or \$3.5 million per acre. This additional 52 acres of land was appraised by CB Richard Ellis in October 2007.

Upon completion of the acquisition, the borrower's business plan is for a phased development of at least 6 million square feet of permanent and temporary showroom space, trade show marts and convention facilities, designed to serve a variety of industries. Construction is expected to commence in February 2009.

Valuation Methodology

Per Trimont's policies and procedures with Lehman Brothers, this asset has been valued at 105% of capitalization or \$211,471,000.

Findings

TRE has tied in the debt and equity pieces as follows:

- Confirmed Lehman's 1st mortgage piece of \$11,354,902
- Confirmed Lehman's senior mezzanine loan of \$1,099,647
- Confirmed Lehman's junior mezzanine loan of \$47,189,077
- Confirmed Borrower Equity of \$31,757,321

- The current carrying value of \$211,471,000 relates to a value of \$3,817,000 per acre. This is supported by the following comparables located in Las Vegas:
 1. 62.58 acres pending for \$5,113,455 per acre
 2. 31.57 acres sold for \$3,262,591 per acre
 3. 66.5 acres currently on the market for sale at \$4,000,000 per acre

- The final value estimate is supported by the contract of sale on the second property, which relates to \$3.5 million per acre. In addition, there is a recent third party appraisal completed by CB Richard Ellis on the second parcel, which after combining the sites concluded a value estimate of \$4,050,000 per acre. TRE believes that as of August 31, 2007 the value estimate is reasonable since the project is nearing completion on site

planning. The appraiser has concluded that when the sites are combined, the value will increase as a result of plottage.

E&Y Conclusions

TRE found the valuation methodology as of November 1, 2007 of \$211.4 million to be consistent to that outlined in Trimont's Policy and Procedures Manual. We found the value estimate to be within the expected range of probable values supported by the market.

WD46 Antares Mezz Whole Loan Greenwich, Connecticut**Deal Structure**

Lehman has a first mortgage and mezzanine loan in this asset. Lehman has funded a mezzanine loan with a legal balance of \$58,813,000, marked at a basis of \$49,296,000. Lehman's senior loan has a balance of \$183,918,000. The capital structure also consists of \$49,211,000 of third party equity. Antares Property Management is the sponsor in the deal.

Collateral Description:

This position is comprised of two assets known as Antares Real Estate Development. A brief description of each asset is presented below:

- Weavers Hill is an existing apartment community located in the historic section of Glenville in Greenwich, Connecticut. The 29 acre site is improved with 20 residential buildings containing 130 units. The units include 68 two bedroom duplex and 62 three bedroom triplex units. The subject has an average unit size of 1,819 square feet. The complex was constructed in 1971.
- Putnam Green is located approximately one mile south of Weaver Hill. The four phase complex was constructed in 1964 and is situated on 22 acres. Phase I and II and III consist of 34 buildings containing 266 units. The units range in size from a 750 square foot one-bedroom studio to a 2,280 square foot for a three bedroom triplex. The average unit measures 1,350 square feet. Phase IV is a 2.66 acre site consisting of four, one and two-story garden apartment buildings containing a total of 66 units. The property has studio and one bedroom units with an average unit size of 701 square feet. Phase IV is on a long term land lease with a purchase option on the land.

The property was purchased in early 2006 for \$233 million. Lehman's strategy was to renovate the interiors and exteriors of Weaver Hill and Phases I, II and III of Putnam Green, and convert them into condominiums. Phase IV of Weaver Hill was not be renovated and would remain as rental apartments.

On July 10, the borrower defaulted on the loan. At that point in time there were 18 contracts in place at an average of \$530 per square foot, approximately 20% below underwriting. Lehman's strategy is to continue to complete the renovations and re-lease the property as an apartment building. Long term strategy is to look for eventual condominium conversion if the market dictates it. Current occupancies in the property rest at 37.2% for Putnam Green and 41.5% for Weaver Hill.

Valuation Methodology

Trimont has valued the collateral via a discounted cash flow analysis. The valuation commenced in October 2007 and runs through 2011 at which time all renovations will have been completed and the property will be stabilized.

Findings

- Trimont has estimated market rent as follows
 - Weaver Hill (\$2.10 to \$2.70 PSF with an average of \$2.26 PSF)
 - Putnam Greens (\$2.20 to \$3.20 PSF with an average of \$2.73 PSF)

Greenwich has few apartment projects as comparables. One project (Greenwich Shores) has rentals averaging approximately \$3.00 per square foot, which supports these market rental estimates.

- Trimont has forecasted an absorption schedule of 15 units per month for Putnam Greens and 10 units per month for Weaver Hill. Brokers in this area indicate that vacancies in this submarket are virtually non-existent with occupancies near 100%. If units become available, they are quickly leased up. The absorption is tied to how quickly renovations can be made and the units be made ready for occupancy. Given the subject' location, this assumption appears reasonable.
- Trimont has estimated a terminal capitalization rate of 5.5%. These rates are supported by the 2Q07 Korpacz Investor Survey for the National Apartment Market which has a terminal rate range of 3.5%% to 8%% with an average of 5.80%.
- Trimont has estimated a discount rate of 8.5%. This rate is supported by the 2Q07 Korpacz Investor Survey for the National Apartment Market which has a discount rate range of 6.00% to 12.00% with an average of 8.36%.

E&Y Conclusions

TRE found the valuation estimate of \$200.6 million to be within the expected range of probable values supported by the market.

WE110 Andaluía Senior Whole Loan**Deal Structure**

Lehman has a first mortgage with a legal balance of \$5,088,000, written down to a basis of zero. The capital structure also consists of \$28,501,000 of third party equity. Lehman is the sponsor in the deal.

Collateral Description:

This position is comprised of one asset known as Andaluía Townhomes. The property was constructed in 2002 as luxury apartments. The asset consists of 181 townhouse style units. The project contains 146 two-bedroom units averaging 1,231 square feet and 35 three bedroom units averaging 1,388 square feet. The property was acquired in 2004 and converted to condominium. After selling units in 2005 and 2006 Lehman determined the business plan would not succeed. In March 2007, Lehman acquired the all rights title and interest in the property. In May 2007, Lehman entered into an agreement with original principals to manage the property and sell off the remaining 80 units. The agreement called for the principals to share in the profits. As of August 31, 2007, the principals were successful in selling off 59 units. The current collateral consists of the remaining 21 units.

Valuation Methodology

The value of the subject property has been based upon a discounted cash flow analysis. Net cash flows have been discounted at 12% of the projected sellout period. The discounted cash flow yields a value estimate of \$9.896 million.

Findings

- Trimont has estimated an average sales price of \$460,000 for two bedroom units and \$550,000 for three-bedroom units. These projections are in line with recent sales in the subject property as well as comparable projects found in the marketplace.
- Trimont has estimated an absorption rate of five units per month, with sellout expected in December 2007. This estimate is well supported by the rate of sales during the past 4 months.
- Trimont's discount rate estimate of 12% is within the 2nd Quarter 2007 Korpacz Investor Survey of the National Land Development which indicates a range of 10.00% to 25.00%. Although the rate is below the average of 17.72%, we note that the project is near sellout and sales have exceeded the developer's projections.

E&Y Conclusions

TRE found the valuation estimate of \$9.89 million to be within the expected range of probable values supported by the market.

(TV71)Carillon-Canyon Ranch - 6801 Collins Avenue Miami Beach, Florida**Deal Structure**

Lehman has a first mortgage and mezzanine loan in this asset. Lehman has funded a mezzanine loan with a legal balance of \$66,614,000, marked at a basis of \$65,244,000. Lehman's senior construction loan has a balance of \$306,557,000. The capital structure also consists of \$17,412,000 of equity with WSG Development Company.

Collateral Description

This position is comprised of one asset known as Canyon Ranch Living. Canyon Ranch Living is a 5.81 acre parcel of land located in North Miami Beach. This two phase, three tower luxury condominium complex is currently under construction. Upon completion, the project will contain 583 units. The project will also contain a 62,000 square foot health spa fitness and treatment facility, run by Canyon Ranch. After construction, Canyon Ranch will manage the property.

Phase I will consist of two structures. The first building is currently being converted from a hotel to a condominium. It will contain 142 condo/hotel units and 84 condo units. A 22 story South Tower which will contain an additional 143 units, is new construction.

Phase II will be known as the North Tower, will be new construction, and will contain an additional 214 units. Construction on Phase II is underway.

As of August 31, 2007, Phase I of the project is 97% sold out with only 8 units left. Marketing started in December of 2003 and the project has seen substantial price increases since marketing began. Approximately 61% of the units in Phase II are pre-sold.

The South Tower received a temporary Certificate of Occupancy which will enable the developer to start closing units by December 2007.

Valuation Methodology

Per Trimont's policies and procedures with Lehman Brothers, this asset has been valued at 105% of capitalization or \$211,471,000.

Findings

TRE has tied in the equity piece as follows:

- Confirmed Lehman's 1st mortgage piece of \$146,479,752
 - Confirmed Lehman's 1st position of \$173,409
 - Confirmed Lehman's mezzanine loan of \$66,613,641
 - Confirmed Borrower Equity of \$17,412,359
- As of October 2007, the project had an average contract price of \$802 per square foot. TRE reviewed the Miami-Dade County 3rd Quarter report completed by Reinhold Wolff Economic Research. Although the level of new sales of condominium projects have declined by 36% in the first six months of 2007 as compared to the same period in 2006, prices have only declined 4.3% during this same period. The majority of the contracts within the subject property have been signed at rates below current asking prices, which

has lead to few cancellations. The property is approximately 87% sold out, lessening the risk of the weak environment.

E&Y Conclusions

TRE found the valuation methodology consistent to that outlined in Trimont's Policy and Procedures Manual, and the value estimate to be within the expected range of probable values supported by the market.

ST67 LB SMC Livonia LLC. Livonia, Michigan**Deal Structure**

Lehman has an equity investment of \$6,451,000, marked at a basis of \$4,140,000, and holds 69.8% ownership. The capital structure also consists of \$34,208,000 of third party debt. Kojaian Management is the sponsor in the deal.

Collateral Description:

The Seven Mile Crossing Portfolio (SMC) consists of 3 four-story office buildings with an adjacent restaurant pad, situated at the crossing of Seven Mile Road and Interstate 275. The development was constructed in phases between 1998, 1990, and 1999 and includes a total area of 338,124 square feet. Due to a stagnant job market, occupancy at Seven Mile Crossing has decreased to 79.19%. The weighted average base rent over the trailing twelve months is \$22.60 per square foot.

Valuation Methodology

The value of the subject property has been based upon a 10 year discounted cash flow analysis. Individual cash flows were completed on each of the buildings. The DCF's result in a combined value estimate of \$37,591,000.

Findings

- Trimont has estimated market rent at \$22.50 per square foot. This rental estimate is supported by REIS's 3Q market report which estimates Class B market rent at \$22.50 per square foot. Additional support is provided by recent renewals in the subject properties that average \$22.60 per square foot.
- Trimont has estimated a global vacancy rate of 14%. This estimate is supported by REIS's 3Q Subtrend Futures report which cites an average ten-year historical vacancy factor of 14.58% for B/C properties. Historically, SMC has operated at an average occupancy rate of 84.73%.
- Trimont has forecasted the space within SMC will be absorbed in 41 months. Given the amount of space available for lease this assumption appears reasonable.
- Trimont has estimated the following a terminal capitalization rates
 1. Building 1 - 8.0%
 2. Building 2 - 8.5%
 3. Building 3 - 8.0%
 4. Restaurant - 8.0%
- These rates are supported by the 2Q07 Korpacz Investor Survey for the National Suburban Office Market which has a terminal rate range of 6.25% to 11% with an average of 8.08%. Additionally, the Spring 2007 RERC report indicates an average terminal capitalization rate of 8.5% in the Detroit market.
- Trimont has estimated the following discount rates
 - Building 1 – 9.0%

- Building 2 – 9.25%
 - Building 3 – 9.0%
 - Restaurant – 9.0%
-
- These rates are supported by the 2Q07 Korpacz Investor Survey for the National Suburban Office Market which has a discount rate range of 7.00% to 12.00% with an average of 9.10%.
 - Trimont's DCF value of \$37.591 million indicates a price of \$111 per square foot. The individual value estimates of \$11,464,000 (101/SF) for building I, \$12,754,000 (95/SF) for Building 2, \$11,063,000 (121/SF) for Building 3, and \$2,310,000 for the restaurant pad site is value is supported by market data utilized in the sales comparison approach.

E&Y Conclusions

TRE found the valuation estimate of \$37.591 million to be within the expected range of probable values supported by the market.

SK 10 LB Kamalani, LLC Kailua, Kona**Deal Structure**

Lehman has an equity investment of \$38,475,000, marked at a basis of \$11,871,000. Lehman diluted the original partner, JRA, and brought in Centex Homes as a 50/50 equity partner. The senior construction loan has been paid down to a \$0 balance.

Collateral Description:

The collateral consists of a 29.73 acres of land located off of Waikoloa Beach Drive in the South Kohala district of Hawaii. A portion of the property fronts the Ocean, with the majority of the rest of the parcel sitting along side the Waikoloa Resort Ocean Golf Course. The site is being improved with 192 condominium units in twenty four buildings. The units consist of three story villas.

Unit closings commenced in March 2006. To date, 61 units have closed, while an additional 37 units are under contract.

Valuation Methodology

The value of the subject property has been based upon a discounted cash flow analysis. Net cash flows have been discounted at 12% of the projected sellout period. The discounted cash flow yields a value estimate of \$41.42 million.

Findings

- Current pricing for the unsold units is \$672 per square foot or \$929,000 per unit. It was noted that units under contract average \$572 per square foot with a "per unit" cost of \$790,000. Closed units to date have averaged \$1,078 per square foot or \$1,492,000 per unit. Variances when comparing the price per square foot for units that are unsold, under contract, or and closed, are a result of unit selection determined by buyers.
- To date, the units closed have yielded a greater price per square foot due to their location within the community, (proximity to the ocean), overall unit size (larger units have sold quicker) and the corresponding floor plans associated with the larger units.
- The sales office is currently offering 3% discounts on unit sales in the form of interior furnishings, buy-down of loan points, and broker incentives.
- Trimont has estimated 3 sales per month for the unsold units and 5 closings per month for the units under contract. This is a decrease from historical rates of approximately 5-6 sales per month.
- Although Trimont's discount rate estimate of 12% is towards the low end of the range (within the 2nd Quarter 2007 Korpacz Investor Survey of the National Land Development which indicates a range of 10.00% to 25.00), we note that the subject property has had consistent sales in a strong market, and the project is nearing sellout.
- TRE reviewed the Summer 2007 Market update prepared by C&H Properties located in Kamuela Hawaii. The report tracks sales on the North End of Hawaii. According to this report, condominium sales in Mauna Lani have totaled 77 units in the first six months; condo sales at the Waikoloa Resort have totaled 104 units; and condo sales have totaled

33 sales at the Hualalai Resort. Based upon these competitive developments, the sales forecast for the subject property appears reasonable.

E&Y Conclusions

TRE found the valuation estimate of \$41.42 million to be within the expected range of probable values supported by the market.

WE 350 Suncal Real Estate Holdings, LLC Oakland & Torrance California**Deal Structure**

Lehman has a 65% LTV first mortgage with a legal balance of \$128,078,000, marked at a basis of \$126,581,000. Suncal has an additional \$68,105,000 of equity in the deal.

Collateral Description:

This position is comprised of two assets: Oak Knoll and Deal Amo. Oak Knoll is a 167 acre contiguous parcel of land situated in Oakland that was previously used as a naval medical center. The site is currently improved with 71 structures including a 9 story 500,000 square foot hospital building. Demolition of the existing improvements is expected to commence shortly. The project is expected to be developed with a master plan residential community containing 702 homes with attractive views of the San Francisco Bay and the downtown area. There are plans to purchase an adjacent 5 acre parcel which may change the number of proposed units. Entitlements are expected to be submitted to the city shortly and discretionary approvals are expected by the 1st quarter of 2008.

Del Amo is a 16 acre contiguous parcel of land that is currently used as an overflow parking lot for the adjacent Del Amo Fashion Center in the City of Torrance. The site is entitled for 365 residential units.

The initial purchase price for Del Amo is \$55 million while Oak Knoll was purchased at \$100,500,000.

Valuation Methodology

Per Trimont's policies and procedures with Lehman Brothers, this asset has been valued at 105% of capitalization or \$202,238,088.

Findings

TRE has tied in the debt and equity pieces as follows:

- Confirmed Lehman's 1st mortgage piece of \$125,195,007
- Confirmed Partner Equity of \$67,412,696

- A recent search of the local real estate market has not yielded any comparable transactions. Although the sales pace for large development tracts has slowed, the Handley Wood report for residential properties indicates that residential prices have remained relatively stable in the subject's market area. The subject has a good location and excellent views. Given that marketing is not expected to commence until 2009/2010, we believe that 105% of capitalization is reflective of the market.

E&Y Conclusions

TRE found the valuation methodology to be consistent to that outlined in Trimont's Policy and Procedures Manual. We believe that the value is valid as of August 31, 2007, within the expected range of probable values supported by the market. It was noted that the residential market in California has been softening and has continued to deteriorate since August 31, 2007. In conversations with the audit team, it was noted that additional write-downs were taken in the 4Q. As a result of these conversations, we feel adequate internal controls are in place.

WE 225 SunCal Century City, LLC Beverly Hills California**Deal Structure**

Lehman has a first mortgage A&D loan with a legal balance of \$99,641,000, marked at a basis of \$98,423,000, and an additional commitment of \$20,359,000. The capital structure also consists of \$30,000,000 of third party equity. SunCal is the Sponsor and has \$30,000,000 of equity in the deal.

Collateral Description:

This position is comprised of a 2.4 acre (105,400 square foot) urban land parcel situated on Santa Monica Boulevard in Beverly Hills, California. The parcel is within walking distance of the Century City office district and Beverly Hills retail and restaurants. Initially, the project was expected to consist of two ultra luxury high rise condominium towers, each approximately 20 stories high, above a three story underground parking garage. Currently, the project is being redesigned with a single tower and a private membership "Core" club. The units will average 5,000 square feet up from the original underwriting average of 3,000 square feet.

Suncal is working with architect Jean Nouvel on conceptual drawings. It is believed that the new design will decrease the total saleable square footage from 615,000 to 580,000. When the new plan is finalized, Suncal will complete the submission to the City and begin the entitlement plan. The site was acquired in May 2006 for \$110.2 million at a bankruptcy auction

Valuation Methodology

Per Trimont's policies and procedures with Lehman Brothers, this asset has been valued at 105% of capitalization or \$139,922,609

Findings

TRE has tied in the debt and equity pieces as follows:

- Confirmed Lehman's 1st mortgage piece of \$103,259,628
- Confirmed Partner Equity of \$30,000,000

- TRE notes that there are several ultra luxury projects going up in the area. FiFelds 1200 Club View project will contain 35 units in a 21 story tower. It is scheduled to open the Fall of 2009 with an average price of \$1,500 per square foot.
- In the first quarter 2007, Candy and Candy purchased the former Robinson-May site for \$62.5 million or \$1,445 per square foot. Candy and Candy is planning on constructing a 252 unit project with proposed asking prices up to \$2,500 per square foot.
- The subject property was underwritten at an average sale price of \$1,200 per square foot which appears reasonable given the two comparable projects. In addition, the current value estimate of \$139.92 million, represents a value estimate of \$1,328 per square foot of land area. This value is supported by the Candy and Candy transaction which indicated a sales price of \$1,445 per square foot of land area.

E&Y Conclusions

TRE found the valuation methodology as of November 1, 2007 of \$139 million to be consistent to that outlined in Trimont's Policy and Procedures Manual. Based upon sales in the area, we found the value estimate as of August 31, 2007 is within the expected range of probable values supported by the market.

VF28 Troxler Residential Ventures 35 Werner Center Condominiums Woodland Hills, California**Deal Structure**

Lehman has an equity investment of \$30,760,000, marked at a basis of \$2,642,000, in a 1,279 unit condo conversion. Troxler Residential Ventures, the original Sponsor, assigned their membership interest to Lehman Brothers in October 2007. The capital structure also consists of \$194,782,000 of Senior Third Party Debt.

Collateral Description

This position is comprised of one asset known as the Metropolitan, a condominium conversion project located in Woodlands Hills California. The asset was acquired in September 2004 for \$325,300,000 or \$254,000 per unit. The former apartment complex consists of sixteen buildings which comprise 1,279 units. Of the 1,279 units, 105 are mandated affordable units. The project is broken up as follows:

- 422 one bedroom one bath units ranging from 660 to 835 square feet
- 778 two bedroom two bath units ranging from 876 to 1,126 square feet
- 79 three bedroom two bath units averaging 1,092 square feet

As of October 1, 2007, 724 units have closed, with one additional unit under a contract of sale for \$399,000 (\$425 per square foot). Sales averaged approximately 7 units per week from 2005 until the 1Q 2007. Due to a slowing market, sales have averaged 1.8 units per week from April through August 2007. Currently, there are 553 units left for sale. The borrower intends to reduce prices 17% on 32 units to increase absorption

Valuation Methodology

The value of the subject property has been based upon a discounted cash flow analysis. Net cash flows have been discounted at 12% of the projected sellout period. The discounted cash flow yields a value estimate of \$80.989 million.

Findings

- Trimont has estimated a reduced sales price of \$342,800 per unit. With this reduction, the subject property is expected to increase its absorption from 7.28 units per month to 15.00 units per month. Although the subject's sales prices are within the range of nine comparable projects in the area, the rate of absorption is above all 9 of these projects which indicate an absorption rate of .55 units per month for the Villa Trevi (opened in October 2005 to 11 units per month for Cortile at Porter ranch (opened September 2007)).
- Trimont's discount rate estimate of 12% is on the low end, but within the 2nd Quarter 2007 Korpacz Investor Survey of the National Land Development which indicates a range of 10.00% to 25.00%, We note that the developer's plan to reduce prices to increase absorption appears reasonable.

E&Y Conclusions

It appears reasonable that the drop in prices will help spur absorption. As a result, we believe that the value estimate valid as of August 31, 2007 of \$80.98 million is within the expected range of probable values supported by the marketplace. Further, in conversations with the audit team, it was noted that Lehman has taken significant write downs on this asset during its fiscal fourth quarter. The results of these conversations provide further evidence that adequate internal controls are in place.

VE 78 Troxler Residential Ventures 34 Marina Del Ray & Valley Village, California

Deal Structure

Lehman has a \$21,708,000 equity investment, marked at a basis of \$21,708,000, in two properties: Valley Villas and Marina Lofts. The capital structure also consists of two separate loans on each property totaling \$51,172,000 and \$3,012,000 of total third party equity. Troxler Residential Ventures is the sponsor in the deal.

Collateral Description:

This position is comprised of two assets.

Marina Lofts consists of two adjacent parcels of land in Marina Del Ray, California to be developed with a 100 unit condominium project. The development has all necessary entitlements in place. The project will consist of seven, four-story buildings offering two and three bedroom units averaging 1,411 square feet

Valley Villas consists of five acres of land totaling 1.85 acres. Three of the parcels are improved with single family residences, while the remaining two parcels are occupied by a commercial nursery. There is a proposal to demolish the existing improvements and improve the site with 96 condominium units over a subterranean garage. Forty eight units will contain two bedroom, two baths and have an average area of 1,425 square feet. The remaining 48 units will have three bedrooms two and a half baths and average 1,583 square feet. Valley Villas 96 Ventures LLC has also acquired a 29,000 square foot parcel directly south of the project. This property is currently improved with a single family residence and is already zoned R3-1 allowing for a maximum of 36 single family residences.

Valuation Methodology

Per Trimont's policies and procedures with Lehman Brothers, this asset has been valued at 105% of capitalization or \$78,995,551

Findings

TRE has tied in the debt and equity pieces as follows:

- Confirmed Third Party Debt of \$48,671,736
- Confirmed Partner Equity of \$3,368,392
- Confirmed Client Equity of \$23,197,540

- The developer has engaged Venice Properties to market the property. Venice Properties is an experienced broker the Venice/Marina Del ray Area. Venice Properties intends to

start marketing units at \$503 per square foot. This asking price falls in line with several competing projects in the vicinity:

1. Red Wood Lofts \$480 PSF
2. John Laing's Element \$530 PSF
3. Stel Lofts \$500 PSF
4. John Laing's Indigo \$510 PSF

E&Y Conclusions

TRE found the valuation methodology to be consistent to that outlined in Trimont's Policy and Procedures Manual. We believe that the value estimate is within the expected range of probable values supported by the marketplace.

WB28 LB Stamford LLC 692 East Main Street Stamford, Connecticut**Deal Structure**

Lehman has an equity investment of \$20,647,000, marked at a basis of \$120,650,000. The capital structure also consists of \$20,000,000 of third party debt and \$61,941,000 of third party equity. Stamford Investment Partners is the sponsor in the deal.

Collateral Description:

The subject property consists of a six story Class A office tower located on East Main Street in Stamford. The property has a total area 537,561 square feet with a 1,600 car parking deck. The property is fully leased to Gen Re, a AAA rated tenant and one of the world's largest re-insurers. Gen Re occupies 416,588 square feet of space and subleases an additional 128,412 square feet to fifteen separate tenants. The current lease runs through January 30, 2010, though Gen Re may terminate the lease as early as February 2009 through an Economic Disutility Clause in the lease. Gen Re owns the fee interest in the land. Lehman owns the building and leases the structure back to Gen Re

The current ground lease runs through 2035 and indicates a payment of \$1,560,000

Valuation Methodology

The value of the subject property has been based upon a broker's opinion prepared by Keystone Realty Capital. The value estimate assumes the following for valuation scenarios

Gen Re Renews 250,000 SF of Space with Ground Lease	\$292,212,300
Gen Re Renews 250,000 SF of Space with no Ground Lease	\$335,489,000
Gen Re Vacates Space with Ground Lease	\$260,810,000
Gen Re vacates Space with no Ground Lease	\$302,164,00

Findings

- Keystone has estimated market rent at \$46.00 per square foot. This rental estimate is supported by Cushman and Wakefield's 2Q market Overview of Stamford which indicates average Class A market rents of \$43 per square foot. Additional support is provided by quoted rents in the neighborhood which range from \$42 per square foot in Stamford Plaza to \$60 per square foot in Metro Center.
- Keystone has estimated the following terminal capitalization rates

Gen Re Renews 250,000 SF of Space with Ground Lease	7.5%
Gen Re Renews 250,000 SF of Space with no Ground Lease	7.0%
Gen Re Vacates Space with Ground Lease	7.5%
Gen Re vacates Space with no Ground Lease	7.0%

- These rates are supported by the 2Q07 Korpacz Investor Survey for the National Suburban Office Market which has a terminal rate range of 6.25% to 11% with an average of 8.08%.
- Keystone has estimated the following discount rates

Gen Re Renews 250,000 SF of Space with Ground Lease	7.75%
Gen Re Renews 250,000 SF of Space with no Ground Lease	7.25%
Gen Re Vacates Space with Ground Lease	7.75%
Gen Re vacates Space with no Ground Lease	7.25%

- These rates are supported by the 2Q07 Korpacz Investor Survey for the National Suburban Office Market which has a discount rate range of 7.00% to 12.00% with an average of 9.10%.
- Keystones DCF value estimates indicate the following prices on a square foot basis:

Gen Re Renews 250,000 SF of Space with Ground Lease	\$544/SF
Gen Re Renews 250,000 SF of Space with no Ground Lease	\$624/SF
Gen Re Vacates Space with Ground Lease	\$485/SF
Gen Re vacates Space with no Ground Lease	\$562/SF

This value estimates are supported by the following sales which took place on 2007

(4 Property Blackstone Sale in March 2007)	\$513/SF
Stamford Harbor Park in May 2007	\$345/SF
General Cable Building in March 2007	\$461/SF
UST Headquarters in February 2007	\$813/SF

E&Y Conclusions

TRE found the value estimates to be within the expected range of probable values supported by the market.

(VU97) Petrini Bakersfield, Bakersfield California**Deal Structure**

Lehman has a first mortgage and an equity position in this asset. Lehman's debt position has a legal balance of \$52,294,000, with a basis of \$45,849,000. Lehman has an equity investment of \$10,598,000, marked at a basis of \$9,005,000, and holds 61.2% ownership. The capital structure also consists of \$1,836,000 of third party equity. Troxler Residential Ventures is the sponsor in the deal.

Collateral Description:

This asset known as Petrini Bakersfield. The property consists of 1,810 acres of land located in Southwest Bakersfield California. The business plan is to entitle the land and bulk sale 6,087 lots in paper and finished lot condition. In addition to the residential lots there will be 94 acres of commercial property and 109 acres of multi-family property.

To date, closings have began with the sale of 40 acres to the Lakeside School District at \$141,000 per acre; 57.3 acres to the high School District at \$90,000 per acre; and 19 acres to Panama Buena Vista School District for \$90,000 per acre. There was a sale to a local developer in April 2007 for \$106,000 per acre. This parcel was deemed to be one of the less desirable tracts with subject property.

Valuation Methodology

Trimont has valued the collateral via a discounted cash flow analysis. Trimont has run two scenarios for the sellout. In the first scenario, bulk land sales are estimate to commence in July 2008. In the second scenario, sales have been pushed back six moths and are expected to commence in January 2009. The resulting cash flows were discounted at 12% yielding a value estimate of \$70,119,000.

Findings:

- Trimont has utilized a developmental technique, which is a viable way of estimating the property's market value;
- Sales have been estimated at \$90,000 per acre. This estimate is on the lower end of the range for transactions within the subject property. (\$90,000 to \$141,000 per acre. Given the current housing climate, this lower projection has been utilized.
- As previously mentioned two absorption scenarios were run. In the first scenario, sales were expected to commence in July 2008. In the second scenario, sales have been forecasted to commence six months later. Trimont believes that with the slowdown in the market, a more conservative approach is prudent. Therefore absorption of the property (50 acre lots) is projected to commence in January 2009. 50 lot sales are forecasted every two months until June 2011, at which time the projected is forecasted to be sold out. It was noted that Trimont assumed a bulk sale 552 acres in May 2010. Early projections are for a possible adult community.

- Per Trimont's agreement with Lehman Brothers, cash flows were discounted at 12%; Trimont's discount rate estimate of 12% is on the low end, but within the 2nd Quarter 2007 Korpacz Investor Survey of the National Land Development which indicates a range of 10.00% to 25.00%.
- We note that the residential market in California has been softening and has continued to deteriorate since August 31, 2007. In conversations with the Audit Team and the Client, it was noted that the cost basis fairly low, as it was negotiated in 2003. Hence the developer can further reduce prices if so needed.

E & Y Conclusions

We believe that the value estimate as of August 31, 2007 is within the range of probable values supported by the marketplace.

(TI71) Memphis Mall Holdings LLC – Memphis Tennessee**Deal Structure**

Lehman foreclosed on this land loan. The current legal balance for this REO position is \$32,526,000 and the basis is \$7,404,000.

Collateral Description

Memphis Mall was a 1.1 million square foot regional mall located off of Interstate 240. The mall was razed in November 2005. Currently the asset consists of a 95 acre site of vacant land. Lehman financed the transaction in 1998 with an all in cost of \$34 million. After Lehman took title to of the Mall in 2002, they spent an additional \$4 million on past due expenses and buyouts. Vacancy continued to increase until occupancy rested at 10% in June of 2003.

There have been several market studies in order to determine the highest and best use of the site. The majority of these studies indicate that the most likely use would be big box retail. Talks are currently underway to give 22 acres of the site to Wal-Mart, who will in turn construct a 178,000 square foot store. It is Lehman's plan that with Wal-Mart as an anchor tenant, other big box tenants will follow. Previously, Toyota Motors and Lifestyle Fitness had shown interest to buy acreage.

Valuation Methodology

- Trimont has valued the asset at \$9 million via the sales comparison approach;

Findings

- The direct sales comparison approach is a viable way of valuing the land;
- The value via the sales comparable approach represents a value of \$2.17 per square foot. This is supported by the following local sales in Memphis:
 1. American Way & Perkins St. - \$530,000 or \$2.50/SF for the 211,702 SF site
 2. Ridgeway & Highway 385 - \$2,500,000 or \$3.77/SF for the 662,448 SF site
 3. Ridgeway & Highway 385 - \$2,500,000 or \$3.44/SF for the 725,710 SF site
- According to Asset Manager Paul Sites, there are two offers on the property. One offer with contingencies is for \$12 million, while the second offer is "as is" for \$8,000,000. Trimont believes the lower value has a better chance of closing. They hope to negotiate to a \$9,000,000 value.

E&Y Conclusions

TRE found the valuation estimate of \$9,000,000 to be within the expected range of probable values supported by the market.

UG80 Pami Public Private III**Deal Structure**

Lehman's equity investment of \$45,292,000, marked at a basis of \$45,432,000, represents an ownership interest in 13 properties. The capital structure also consists of a total \$530,546,000 of third party loans across 7 of the 13 properties and \$141,509,000 in total third party equity. LCOR is the sponsor in the deal.

Collateral Description

Pami Public Private III consists of two portfolios of properties doing business under the name LCOR PropCo II and LCOR PropCo III. Each portfolio has been identified below:

PropCo II:

1. 225 East 34th Street- This is a for sale condominium development deal located by the Midtown Tunnel in Manhattan. The property is in the early stages of construction. As of the date of value, approximately 70% of the units are under contract. This asset is being held at 105% of capitalization.
2. Ravens Crest Garden Apartments- This asset consists of a garden apartment complex located in Monases, Virginia. The asset was purchased in 2Q 2006 for \$63.2 million. Trimont has valued the property via the income approach at \$64.1 million.
3. North Bethesda – This asset consists of a mixed use development under construction in North Bethesda Maryland. Harris Teter has committed to take the 65,200 SF of retail space. Construction of the 312 residential units is underway. Trimont has valued this asset at 105% of capitalization.
4. Montclair Apartments - This asset consists of a 256 rental units in Silver Springs Maryland. The asset was purchased in the 1Q 2007. A status report has not yet been completed on the asset. The asset is being held at its acquisition price of \$42 million.
5. Heather Ridge - This asset consists of a 324 units rental apartment building situated in Bowie, Maryland. The asset was purchased in December, 2006 for all in price \$63.69 million. The asset is being held at cost.
6. Heather Gate – This is a rental apartment building situated in Middleton Township Pennsylvania near Philadelphia. The asset was acquired in May of 2007 for \$37.25 million. Due to the date of acquisition, no status report has been completed. The asset is being held at cost.
7. The Ledges – This asset consists of a 339 unit apartment complex located in Groton, Connecticut. The asset closed in June 2007 for a purchase price of \$53.426 million. Due to the date of acquisition, no status report has been completed. The asset is being held at cost.

PropCo III:

1. Ballenger -This asset was originally purchased for \$3.5 million as vacant land in 2001. The parcel was entitled for two office buildings totaling 130,000 square feet and located in Alexandria Virginia. The parcel is located in the Old Town which is a very strong

- market. The site is located next to the United States Patent and Trade Office (USPTO) who leases 3 million square feet. The USPTO has expressed interest in the subject property. The asset is being held at 105% of capitalization.
2. 735 6th Avenue- This is a condo development under construction in the Chelsea section of Manhattan. The building is under construction expected to start delivering units early next year. Currently, 65% of the residential units are under contract at an average price of \$1,200 per square foot. The 15,873 square foot ground level retail unit is under contract to Congen for \$1,600 per square foot. Per Lehman's policies and procedures, the asset is being held at 105% of capitalization.
 3. 545 Madison Avenue – This is an older 139,537 square foot office structure which was purchased for renovation. Per Lehman's policies and procedures, the asset is being held at 105% of capitalization.
 4. Hoboken Terminal – PropCo III was the winning bidder on a ground lease with New Jersey Transit which was acquired in January 2006. PropCo III has an eight to ten year business plan to redevelop the 65 acres of land. The asset is being held at 105% of capitalization.
 5. 55 Bank - This asset consists of 2.3 acres of land situated in the downtown section of White Plains, New York. The site is entitled for two 24 story rental apartment towers which upon completion will contain 540 apartment units. The property was purchased in June 2007 for \$7.5 million. Since the acquisition was recent, there is no status report on the property. The asset is being held at 105% of capitalization.

Valuation Methodology

- Ravens Crest Apartments has been valued via the income approach. The remaining eleven assets were either valued at their acquisition cost or at 105% of capitalization (development deals).

Findings

- TRE had discussions with the Audit Team on this position. Given the large amount of assets and methods of valuation (mostly held at cost or 105% of capitalization), it was concluded that TRE would provide a high level review of this portfolio.
- TRE had discussions with Trimont Asset Manager McClendon Rafeedie on all twelve assets contained in the portfolio. All of the assets are located in the Northeast portion of the United States from Northern Virginia through Connecticut. The portfolio is mostly residential in nature with some retail and office development. Our discussions confirmed that all twelve assets are located in strong sub-markets. Assets currently under development have shown satisfactory pre-sales, and operating projects have not shown a decline in rents or occupancies. Eleven of the twelve assets discussed have been valued at acquisition cost, or 105% of capitalization.

E&Y Conclusions

TRE found the valuation estimate to be within the expected range of probable values supported by the market.

Lehman Brothers-Trimont Overview and General Observations /Findings

Trimont Real Estate Advisors acts as the asset manager for Lehman Brothers in regard to their various debt and equity positions, as well as real estate owned (REO) properties.

Trimont revised its Risk Managements Policy and Procedures for Asset Management on June 11, 2005.

Status reports are prepared for the benefit of Lehman Brothers' Risk Management Area. Trimont produces a status report eight months after a loan closes. Every report thereafter is due on or before the 12 month anniversary of the date that the last status report was delivered to Lehman. An updated status report may be required in the event that a "material" change occurs. A "material change" was further defined in the Policy and Procedures manual to include the following:

- 1) Any material development, event or action not contemplated in the last Status Report, change in business plan or budget, or other agreement including significant leasing activity (i.e. major tenant moves in or vacates or overall velocity of lease up is materially slower or faster than is assumed in last Status Report), significant market changes, or receipt of a new appraisal. Generally, a "material change" can be classified as any change which would cause the previously approved Current Value to change by an amount equal to the greater of 10% or 5MM, but in all cases, any variance in excess of 25MM will be considered a "material change" (excluding changes in Total Capitalization from future fundings under the existing capital structure or changes due to unit sales on For Sale Assets).
- 2) An "External Factor" occurs such as receipt of a broker's opinion of value, signed letter of intent, signed purchase and sales contract, or valid request for payoff.
- 3) A "Trigger Event" occurs such as a put option, a buy-sell option, a discounted payoff request, or forbearance period granted.

The final status report should include the following components:

- a. Cover page
- b. Map of Property
- c. Deal Status Report (including photo of property)
- d. Property status report (if more than one property)
- e. Exit analysis
- f. IRR (if applicable)
- g. Assumptions and justifications Sheet)
- h. DCF/Valuation Model with all supporting schedules
- i. Compliance Report (both debt and equity positions)
- j. Disclosure (if not included on printed DSR)

Trimont has a wide variety of sources available that provide market data needed to develop the assumptions utilized in Trimont's valuations.

For several of the assets, Third Party asset managers provided valuation estimates.

25 positions were selected by members of the E&Y Audit Team for the purpose of analyzing the assumptions utilized in Trimont's valuations. 22 of these positions were non-hospitality assets.

Limiting conditions: We have not inspected the subject properties or any comparable properties. We did not perform any engineering or environmental studies of the subject properties. We have relied on the information provided to us by Trimont as well as other information obtained from third parties. We did not perform either an appraisal or an appraisal review as this term is defined by the Uniform Standards of Professional Appraisal Practice (USPAP).