

To: Ernst & Young Audit Team for Lehman Brothers  
Jerry Gruner, Senior Manager  
Wyatt de Silva, Manager

Prepared by: Robert Martinek, Manager, Transaction Real Estate (TRE)

Reviewed by: Peter Brooks, Executive Director, TRE

Memo Date: December 17, 2006

Testing Date: August 31, 2006

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. Members of the E&Y Audit team selected 20 non-hospitality and 5 hospitality positions for TRE to review. Bob Martinek reviewed the non-hospitality positions that are discussed in this memo and Peter Kalanda, also of TRE, reviewed the hospitality positions that are discussed in a separate memo (copy attached). It was noted that several of these positions contained multiple assets. Each of these assets was analyzed by TRE.

TriMont Real Estate Advisors, a third party asset manager for Lehman Brothers, performed an independent valuation on all of these assets. Lehman Brothers also utilizes several third party asset managers for valuation purposes. 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 third party asset managers not employed by Trimont.

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 made a \$170 million first mortgage bridge loan to Monument Realty for the acquisition of the asset. Monument Realty provided \$5 million in equity. The property was purchased February 14, 2005 for \$175 million inclusive of all closing costs and capital.

#### 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 in this 33 acre site is an 8.8 acre parcel zoned to allow 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 & Wakefield’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**

Lehman made a \$170 million first mortgage bridge loan to Monument Realty for the acquisition of the asset. Monument Realty provided \$5 million in equity. The property was purchased February 14, 2005 for \$175 million inclusive of all closing costs and capital.

#### 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 were slated for condominium conversion. A brief description of each assets 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 Orlandos 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 bogus. 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. While the receivership, 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 has 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 competitors range 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 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 compeitors which vary from \$0.84 to \$0.88 per square foot.
- Trimont has estimated a stabilized occupancy rate of 95%, which is line with 3 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 \$10,20 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 3 of the 5 projects surveyed whose occupancy rate exceeds 95%.
- In the sales comparison approach, the appraisal states that no adjustment was made for terms, yet, an adjustment for terms was made for sale #1 on the market data grid.
- 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% .
- The sales comparison value range of \$125 to \$135 per square foot of gross owned area are within the range set by the comparables found in the report.

### **WE 307 Emerald Dunes Golf Club West palm Beach, Florida**

#### **Deal Structure**

Lehman bought the mortgage note which was in default and foreclosed on the borrower. Lehman sold 50 Nagog Drive, an office building, and still owns 100 Nagog Drive which is also an office building. The legal balance for this REO is \$13,516,000 and the basis is \$10,537,372.

#### **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 fot 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.

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%. The DCF results in a value estimate of ??????. In addition, the four acre parcel has been valued at ????. This estimate is based upon a third party appraisal completed by 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 has 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 competitors range 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 the four competitors range of \$959 to \$1,065 per month. On a square

#### **(VU97) Petrini Bakersfield, Bakersfield California**

##### Deal Structure

Lehman bought the mortgage note which was in default and foreclosed on the borrower. Lehman sold 50 Nagog Drive, an office building, and still owns 100 Nagog Drive which is also an office building. The legal balance for this REO is \$13,516,000 and the basis is \$10,537,372.

##### Collateral Description:

This asset known as Petrini Bakersfield. The property is a three story 193,756 square foot Class A-B office building constructed in 1982. At the time of the valuation (February 5, 2006), 17,000 square feet of the space was occupied.

TRE had discussions with TriMont Asset Manager John Sanders. Mr. Sanders noted that Nagog Park is a second tier office park with an average location. Current rents in the park run from \$18 to \$20 per square foot. One of the major downsides to the subject property is that tenant improvements in Nagog Park are running in the high \$30's per square foot. As of February 2006, the subject was being marketed at \$85 per square foot.

Rather than spending the TI costs and lease-up the property, it is Lehman's strategy to market the building "as is", hopefully to an owner user. With a tenant in place, it is Lehman's hope that the subject could sell at \$74 per square foot.

#### Valuation Methodology

- Trimont has valued the property via the direct sales comparison approach;
- Based upon their knowledge of the market, they have estimated a market value of \$14,356,000 or \$74 per square foot.

#### Findings:

- The direct sales comparison approach is a viable way of estimating the property's market value;
- Cushman and Wakefield is marketing the property at \$85 per square foot;
- A review of recent sales from Real Capital Analytics indicated that 50 Nagog Park, a 123,700 square foot office building next to the subject sold to an owner occupant in June 2005 for \$8,952,000 or \$72 per square foot. This sale was confirmed with John Sanders of Trimont;
- Conversations with Trimont Asset Manager John Sanders indicated that empty buildings are being marketed in the \$55 to 60 per square foot range. There was a contract of sale on the property to Leggat McCall for \$13,000,000. After performing due diligence, Leggat McCall did not go through with the sale. John Sanders indicated Trimont was considering dropping the asking price to \$65-\$70 per square foot.

#### E & Y Conclusions

TRE notes that a discounted cash flow analysis is typically utilized when valuing investment grade properties such as this current asset. Given Lehmann's decision not to supply workletters and market the property as is, we believe the direct sales comparison approach is a credible way to value this property. Although the value was supported at the time of valuation (February 10, 2006), as of the date of this analysis August 31, 2006, TRE found the valuation estimate of \$14,365,000 to be above the expected range of probable values supported by the market.

EY auditors note an updated appraisal was subsequently received and the valuation estimate was decreased to \$13mm. EY auditors also note the updated appraisal was received in a timely manner per the Company's policies and procedures. Additionally, EY auditors also rely on monitoring controls in the Lehman Product Control Group to identify significant changes in real estate markets which could have a material impact on the valuation of individual properties. Therefore, EY auditors have deemed the \$1.3mm difference to be insignificant and have deemed the client's control design and operations to be effective.

**(VK44) Pearson Square, Falls Church, Virginia****Deal Structure**

The capital structure includes an \$80,836,000 first mortgage construction loan commitment from Corus Bank. To date approximately \$27,000,000 has been funded.

Lehman and the Sponsor (Carr Pearson) formed LB Pearson Holdings LLC. Lehman originally had a 78% has an equity investment and Carr Pearson retained the remaining 22%. Lehman sold off 14.29% of its 78% interest to Goldstar. As a result, Lehman now owns 66.85%, Goldstar owns 11.15%, and Carr Pearson still has its original 22%. The total equity in the project is \$20,734,902 and is broken up as follows: Lehman (\$13,961,555), Goldstar (\$2,327,367), and Carr Pearson (\$4,445,980).

**Collateral Description:**

Pearson Square is a proposed residential condominium/retail project to be constructed on a 3.29-acre parcel in Falls Church, Virginia, approximately seven miles west of downtown Washington D.C. The land was acquired in the Spring of 2005 for \$21,900,000. The land was entitled at the time of the acquisition. Upon completion, the subject will consist of a mid-rise condominium project with 230 condominium units of saleable area, and 19,400 square feet of retail space. The project is situated next to a four story office building currently under construction by the same developer. Although it is not part of the collateral, a certificate of occupancy must be issued to this building before units may close in the subject. TRE spoke with Trimont Asset Manager Britt Payne and Analyst Jason Harwood. In their opinion, the office building is nearing completion and there should be no issue with the Cof O being acquired.

Asking prices in the project range from \$375,000 to \$800,000, and average \$400 per square foot. Marketing of the units started in the summer of 2005. To date, there are eleven units under contract. The development is expected to be completed by December 2007.

**Valuation Methodology**

- Per TriMont's policies and procedures with Lehman Brothers, this asset (because it is under development) has been valued at 105% of capitalization or \$32,378,160. This methodology is based upon TriMont Realty Advisors Risk Managements Policy and Procedures for Asset Management.

**Findings**

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

- Confirmed the debt of \$10,627,343 to Corus Bank NA
- Confirmed Lehman's equity position of \$13,961,555
- Confirmed the partner equity (Carr America) of \$6,247,455;

**E&Y Conclusions**

Pearson Square was valued on January 25, 2006 for \$32,378,160. TRE found the valuation methodology consistent to that outlined in TriMont's Policy and Procedures Manual. At the time of the analysis, TRE found the value estimate to be within the expected range of probable values supported by the market. It should be noted that the present valuation does not consider the risk involved with constructing and selling out the condominium development.

#### **(VC94) Waterfront Square – Philadelphia, Pennsylvania**

##### Deal Structure

Union Labor Life Company ("ULLICO") provided a \$96 million construction loan and Lehman funded a \$24,000,000 mezzanine loan for the construction of residential condominium units in 2004. The last one million dollars was not funded so the mezzanine loan balance is fully funded at \$23,000,000.

The deal was restructured in 2005 whereby Lehman made a junior mezzanine loan of \$27,500,000 to the borrower. It included \$22,500,000 to recapitalize their equity and \$5,000,000 to provide predevelopment financing for Phase II.

The senior mezzanine will be paid off by February 2007 when all the units in Phase I are closed. The junior mezzanine loan will be paid down to approximately \$12,500,000. There will be two additional phases built and the sales proceeds will payoff the outstanding junior mezzanine balance.

##### Collateral Description:

Waterfront Square is a three-phase 953 unit condominium development located on the Delaware River, just north of the Ben Franklin Bridge in Philadelphia. The land was acquired in 2001 and entitled afterwards. The asset has been further described below:

- Phase I is known as the Regatta. It consists of two residential towers totaling 305 units and 364,540 saleable square feet.
- Phase II includes two towers known as the Reef and the Horizon. It contains 421 units and 526,944 square feet of saleable area.
- Phase III will be known as the Tides and will contain a single tower containing 227 units and 287,302 salable square feet.

TRE had discussions with Trimont Asset Managers Al Battle and David Goble on Waterfront Square. Phase I began marketing units in January 2004. Sales averaged 35 units for the first eight months. Sales averaged two units per month thereafter, with the final penthouse going under contract in June 2006. Sales averaged \$421 per square foot with units going as high as \$500 per square foot. Closings commenced in late July 2006.

Marketing of Phase II started in 2005, while construction commenced in the Summer of 2006. To date, Phase II is 40% pre-sold. It is estimated that construction on Phase II will be completed by November 2007. Phase III is expected to begin construction in the Fall of 2007 and be completed in early 2010.

#### Valuation Methodology

- Per TriMont's policies and procedures with Lemman Brothers, this asset, because it is under development, has been valued at 105% of capitalization or \$152,648,674. This methodology is based upon Trimont Realty Advisors Risk Managements Policy and Procedures for Asset Management.

#### Findings

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

- Confirmed the debt of \$81,032,720 to the Union Labor Life Insurance Company;
- Confirmed two Mezz Loans to Lehman Brothers for \$22,999,920 and \$27,097,049 for a total of \$51,953,562;
- Confirmed the partner equity (Isle of Capri Associates) of \$14,250,000.

#### E&Y Conclusions

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

#### **(WC92, WD07) LB Spring Creek Investors, Sandy Springs, Georgia**

##### Deal Structure

Lehman has a first mortgage, mezzanine loan, and an equity position in this asset. Lehman's Large Loan Group funded an \$80,000,000 first mortgage loan. The Lehman PTG mezzanine loan commitment is \$27,000,000. Currently, the mezzanine loan balance is \$22,464,000.

Lehman has an equity investment of \$7,432,000. AEW Capital Partners has an equity investment of \$14,032,000 and the Sponsor, Lyon Capital Ventures, has an equity investment of \$1,652,000.

##### Collateral Description:

This position is comprised of one asset known as Lyon Spring Creek. Currently the asset is a 1,180-unit garden apartment complex situated on a 33 acre site in Sandy Springs Georgia. The buildings were constructed between 1983 and 1986. The project is broken into three sections: 1) The Fountains, 2) the Hills, and 3) the Falls. The asset was purchased on December 27, 2005 for a reported cost of \$98 Million or \$83,000 per unit. At the time of the purchase, the occupancy rate was approximately 90%. There are low income restrictions on 520 of the units. Based upon median incomes in Sandy Springs, the low income units are deemed to be at market.

Each of the three components is briefly discussed below:

**The Fountains** – This section of Lyon Springs contains 260 units and represents the high end units in the project. Average rents for the Fountains are \$939 per month.

**The Hills** – This section of Lyon Springs contains 400 units and represents the mid-range units in the project. Average rents for the Hills are \$845 per month.

**The Falls** – This section of Lyon Springs is the largest at 520 units, and represents the lower end units in the project. Average rents for the Falls is \$777 per month.

TRE had discussions with TriMont Asset Manager Mark King on this property. According to Mark, the strategy for Lehman Brothers was to acquire the asset, renovate the units and reposition them for rental increase, then sell off the asset. Lehman expects to put \$6,735,000 million, or \$5,700 per unit in renovations. This work will consist of re-painting, as well as new kitchens, bathrooms water closet, and tiling for the interior. Additionally landscaping will be upgraded. Incrementally, the most money will be spent on the Fountains, secondly on the Hills and the least amount on the Falls.

The renovations started in 2006. As units roll over they are renovated in all three phases simultaneously. Exterior work was occurring in November of 2006 and is slated for completion by first quarter of 2007. Interiors are expected to be completed by first quarter of 2008.

#### Valuation Methodology

- Trimont has valued the property via the direct capitalization technique;
- All computations were based upon existing rents and expenses. Renovation costs, and the enhanced revenues from the renovation were not utilized;
- The following capitalization rates were utilized:
  - The Fountains NOI of \$995,294 is capitalized at an overall rate of 6.0%
  - The Hills NOI of \$1,573,630,305,627 is capitalized at an overall rate of 6.25%
  - The Falls NOI of \$2,305,627 is capitalized at an overall rate of 6.5%
- The Overall value estimate of \$94.3 Million reflects a value of \$79,915 per unit.

#### Findings

- The direct capitalization technique is an appropriate way of valuing a stabilized apartment complex;
- The overall capitalization rates of 6.0%, 6.25%, and 6.5% fall within the 4.25% to 8.00%, with an average of 6.01% observed market range (Source: 2Q 2006 Korpacz Real Estate Investor Survey for National Apartment Market);
- The overall value estimate of \$79,915 per unit is supported by the 2Q REIS Survey which lists the average transaction in the Sandy Springs Dunwoody submarket at \$84,233 per unit.

E&Y Conclusions

TRE found the valuation on August 29, 2006 of \$94,300,000 to be within the expected range of probable values supported by the market. It was noted that the present valuation does not conform to the existing business plan of renovating the units.

(TF94) LB Hills Golf LLC.Deal Structure

This land loan was foreclosed. The legal balance for this REO is \$17,482,000 and the basis is \$5,564,903.

Collateral Description:

This asset known as the Hills Golf Club. The property consists of a 36-hole professional golf course known as the Golf Club at Terra Lago. The asset is located in Indio California, outside of Palm Springs. In addition to the course; the asset has a 20,000 square foot clubhouse and ancillary buildings. There were three excess land parcels which total approximately 80 acres of developable land approved for time-share/hotel and residential. They have been sold of and are no longer part of the collateral.

TRE had discussions with Trimont Asset Manager Jim Hill. According to our conversations, the golf course was taken back by Lehman in 2002. In November 2005, Arnold Palmer Century Golf replaced Landmark as the manager. Standard rack rate green fees range from \$135 to \$145 during the winter season and \$50 to \$60 during the off season summer months.

As previously noted, the excess land parcels were sold off. To date, Trendwest has developed and delivered 450 units. In addition to the Trendwest Development, several neighboring properties are in the development process. It is anticipated that an additional 685 homes will be completed within 18 months. Given the ongoing development in the area, Lehman believes the new construction will have a positive impact on the golf course. It is Lehman's strategy to wait until these additional homes are constructed and sell off the asset at the end of 2008.

Valuation Methodology

- Trimont used the direct capitalization technique to value the golf course;
- Forecasts have been based upon actuals for the first three months of 2006 and management's forecasts for the remainder of the year;
- The projected NOI estimate of \$1,356,371 has been capitalized at an overall rate of 9%;
- In a move to attract more golfers, management has reduced its prices so the average daily round went from \$68.04 to \$52.00. This has been offset by a significant increase in rounds played over the year.

Findings

- The direct capitalization is a viable way of valuing the golf course;
- Trimont's value estimate of \$15,000,000 or \$416,000 per hole is supported by the following two golf course transactions and one current listing:
  - Steele Canyon Golf Club in Jamul, California - \$6,000,000 for 27 holes or \$592,600 per hole;
  - Oak Quarry Golf Course in Riverside California- \$12,250,000 for 18 holes or \$680,600 per hole;
  - Shadow Lakes Golf Club in Brentwood California- Asking \$7,150,000 for 18 holes or \$397,200 per hole.

E&Y Conclusions

Historically, the subject operated at low rounds. Recent residential construction within close proximity to the subject property has had a positive impact on the subject property in regards to rounds played and total revenue. Overall, TRE found the valuation methodology for this asset as well as the assumptions contained in the analysis, to be well supported, and the value to be within the expected range of probable values supported by the market.

**(TD83) River Sound Development (The Preserve) Towns of Old Saybrook, Essex, and Westbrook, Connecticut**Deal Structure

This investment was a land loan funded in 1998. The borrower defaulted in 2000 and Lehman foreclosed in 2002. This REO has a legal balance of \$22,696,000 and an equity basis of \$20,303,380.

Collateral Description

This position is comprised of one asset known as the Preserve. The property consists of 1,001 acres of vacant land in three municipalities, located approximately 20 miles west of New Haven, Connecticut. Approximately 4 acres are situated in Westbrook, 71 acres are in Essex, and the remaining 926 acres are located in Old Westbrook.

After having conversations with asset manager Sam Stern, we were informed that the asset was originally acquired in 1998 as raw land. Original plans called for an 18-hole golf course along with 254 single family home sites. Lehman took title to the property in 2002. At the end of 2002 Lehman acquired a neighboring 30 acre parcel to provide better access to the rest of the site.

After applying for entitlements for several years, plans were scrapped when the wetlands commission denied approvals. Currently, there are plans for removal of the proposed golf course and the construction of 191 home sites. It was also noted that the State of Connecticut has inquired about purchasing the property for land conservation.

#### Valuation Methodology

- Trimont has valued the property via the sales comparison approach
- The analysis did not incorporate the potential subdivision (upside), but assumed the property would be acquired for land conservation
- The land has been valued at \$15 million or \$15,000 per acre

#### Findings

- TRE has cited the following three transactions acquired for land conservation and utilized by Sam Stern in his analysis: ;
  - 1) Walker Property in Simsbury Connecticut – Closing in 1Qtr 2007 Price is \$7,000,000 for 336 acres or \$20,800 per acre;
  - 2) Eagle River in Somers New York – Closed in April 05 for 20,400,000 or \$31,400 per acre;
  - 3) Gilford Tract in Gilford Connecticut Closed in March 2005 for \$384,000 for 16 acres or \$24,000 per acre;
- Given the size of the subject, we believe \$15,000,000 or \$15,000 per acre is somewhat conservative but supported by these sales.

#### E&Y Conclusions

Lehman is unsure of its strategy. Given the difficulty in receiving approvals, Lehman will entertain outside offers including selling the property for land conservation. TRE found the value estimate as of December 15, 2005 of \$15,000,000 to be somewhat conservative, but within the expected range of probable values supported by the market. It was noted that the present valuation does not conform to the existing business plan.

#### (VU22)Heritage Fields - Orange County, California

##### Deal Structure

Lehman PTG and Lehman Brothers Real Estate Mezzanine Partners ("LBREM") provided a \$500,000,000 loan commitment to fund the acquisition of 3,723 acre site which was the former Marine Corps Air Station El-Toro located in Irvine, California.

PTG has a 70% senior participation and LBREM has a 30% senior participation in the loan. PTG's loan balance on August 31, 2006 was \$252,700,000. LBREM's loan balance was \$108,000,000. The total outstanding balance was \$360,700,000 on August 31, 2006.

There is also \$541,200,000 in borrower equity. Borrower equity is comprised of five equity investors who have each put in an investment of \$67,647,000. These five investors consist of: Lennar, LNR, Blackacre, Rockpoint, and MSD Capital.

Additional equity investors consist of CALSTRS (\$62,443,000), NYSTRS (\$31,221,000), Oregon State employees (\$62,443,000 and Stanford University employees (\$46,832,000).

#### Collateral Description

This position is comprised of one asset known as Heritage Fields. The property is a 3,723 acre parcel that was the former El Toro Marine Corps Air Station, located in Irvine, California. The property was sold at auction by the Department of the Navy. Lennar Development purchased the property in 2005 for \$650 million. Heritage Fields is a large scale development project, which is still in a pre-development stage. Plans call for a master-planned community consisting of 3,630 residential home sites, 3.1 million square feet of R&D/office space, 225,000 square feet of retail space, and two golf courses totaling 45 holes.

#### Valuation Methodology

- Per TriMont's policies and procedures with Leman Brothers, this asset because it is under development has been valued at 105% of capitalization or \$942.9 million. This methodology is based upon Trimont Realty Advisors Risk Managements Policy and Procedures for Asset Management. The date of value was July 31, 2006.

#### Findings

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

- Confirmed the debt of \$106,928,000 to the Lehman Mezzanine Fund
- Confirmed the debt of \$249,500,000 to Lehman Brothers Holdings, Inc.;
- Confirmed the partner equity (Lennar) of \$541,500,000;

#### E&Y Conclusions

TRE found the valuation methodology as of August 30, 2006 of \$942.9 Million to be consistent to that outlined in TriMont's Policy and Procedures Manual. It should be noted that the present valuation does not consider the risk involved with constructing and selling out a project of this magnitude. At this point in time it is too speculative to perform a developmental technique on the project. As a result we believe a cost approach is a reasonable way to value the property. Therefore, we found the value estimate to be within the expected range of probable values supported by the market.

**(VS36) Mezz Holding LLC- Sears Tower 233 South Wacker Avenue, Chicago, Illinois****Deal Structure**

Lehman Brothers Real Estate Mezzanine Partners ("LBREM") acquired two tranches of the Sears Tower senior mezzanine loan with a face amount of \$73,000,000 and was purchased for at a discount for \$66,700,000. LBREM purchased the debt positions from Bank of America which financed the acquisition of Sears Tower in 2004. LBREM acquired the middle two tranches of a \$125,000,000 senior mezzanine loan, representing 68% to 76% loan to value. This debt is senior to \$130,000,000 junior mezzanine loan held by BlackRock, Bank of America and RCG: Longview and to \$94,500,000 in equity.

LB Principal Transactions Group acquired \$36,500,000 of the senior mezzanine debt and LBREM holds the remaining \$36,500,000. The total face amount for the two Lehman entities is \$73,000,000.

**Collateral Description:**

This asset known as the Sears Tower. The Sears Tower is a 110 story Class A Trophy Property containing a gross building area of 4.56 million square feet and a net rentable area of 3.73 million square feet, located in the Central Business District of Chicago, Illinois. The property is currently 82% leased. Major tenants include Ernst and Young, Bank of America, and several of the nation's largest law firms.

As of August 31, 2006, the borrower Chetrit Group was in midst of refinancing the property. The borrower received a commitment from Dillon Read to refinance the property with a fixed rate long term mortgage. The Chetrit Group is expected to pay off Lehman's balance in January, 2007, with the proceeds at the face amount, which is expected to yield LB Principal Transaction Group a profit of \$3,150,000.

**Valuation Methodology**

- Based upon this impending refinance a waiver of the status report was requested and obtained by Lehman. Trimont's estimate of \$919,500,000 was based upon the original underwriting completed in March 28, 2005.

**Findings**

- Based upon the new re-finance, we were informed in November 2006 that an appraisal valued the property at \$1.2 billion. Trimont does not have a copy of this appraisal. TRE believes that Trimont's valuation of the subject based upon the initial underwriting provides a conservative way of valuing the subject property.

**E&Y Conclusions**

Since we have not received a copy of the new appraisal, we cannot comment on its valuation. Therefore, TRE found the value of \$919.5 Million as of August 31, 2006 to be somewhat conservative, but within the expected range of probable values supported by the market.

**(SL51) 180 Euclid Avenue, Cleveland, Ohio****Deal Structure**

This is an equity investment with a legal balance of \$24,888,000 and the current basis is \$9,882,468. The offer was made in August and the property went under contract October 7, 2006, for \$11,100,000. A closing is expected in January.

**Collateral Description**

This asset is comprised of one asset known as 180 Euclid Avenue. The property is a nine-story 816,050 square foot retail building located in Downtown Cleveland. The landmark building is situated in the central business district within close proximity to the Gund Arena and The Rock and Roll Hall of Fame. The subject was constructed in 1914 and was occupied by the May Department Store. The building has an adjacent 10 story parking garage.

In 1999, the property was purchased in a joint venture with Ardent Ventures for conversion to a telecom hotel. At that time the building was gutted. After the building became vacant, Key Bank signed a lease for 45% of the space. Key Bank occupies portions of the 1<sup>st</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, and 8<sup>th</sup> floors. Key Bank is paying a rent of \$4.50 per square foot net, which is far below market. The lease runs through 2012. In addition to Key, there are several retail tenants which occupy the retail space attached to the garage. After attempting to market the property for several years, David Werner presented the partnership with an unsolicited bid for \$11,000,000 received in August 2006.

**Valuation Methodology**

- Trimont has valued the property via the offer of \$11,000,000.

**Findings**

- After discussions with Trimont Asset Managers Paul Sites and Bill Ireland, we were informed that Lehman recently received two additional offers on the property for \$11.1 million and \$11.5 million. After weighing all offers, it was Lehman's decision to pursue David Werner's offer since he was deemed to be the most qualified buyer and has the highest likelihood of closing.
- TRE believes that the contract to David Werner and the two backup offers support Trimont's valuation of \$11,000,000.

**E&Y Conclusions**

As of August 31, 2006, Trimont valued the property at \$11,000,000. It is our opinion that this value estimate is within the expected range of probable values supported by the market.

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

Lehman took title to mall in 2002 and razed it in November 2005. The legal balance for this REO is \$32,526,000 and the current basis on the land is \$7,403,880.

#### 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.

TRE had discussions with Trimont Asset Manager Alan Long on this property. According to Alan, 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. Apparently, Toyota Motors and Lifestyle Fitness have shown interest to buy acreage.

#### Valuation Methodology

- Trimont has valued the asset at \$10 million via the sales comparison approach;
- Trimont has valued the property at \$14 million via the land residual approach;
- Trimont believes the sales comparison approach is the most effective way of valuing the property and has reconciled a value estimate of \$10.5 million.

#### Findings

- Both the direct sales comparison approach and the land residual approach are viable ways of valuing the land;
- The value via the sales comparable approach represents a value of \$2.54 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. Quince Road - \$1,323,135 or \$6.24/SF for the 662,548 SF site
  4. Ridgeway & Highway 385 - \$2,500,000 or \$3.44/SF (asking) for the 725,710 SF site
- Hard costs were estimated at \$43.60 per square foot. This is supported by a quote from the J Companies, a construction firm in New York who has worked with Trimont in the past.
- The overall capitalization rate in the land residual approach was estimated at 8%. This is supported by the 2<sup>nd</sup> Q Korpacz report which estimates capitalization rates for power center properties to range from 5.5% to 9.0% with an average of 7.36%

#### E&Y Conclusions

TRE found the valuation estimate of \$10.5 million as of August 31, 2006, as well as the assumptions contained in the analysis, to be supported, and the resulting value to be within the expected range of probable values supported by the market.

**(UF56) Vegas Grand Mezzanine - Las Vegas Nevada****Deal Structure**

Lehman has a first mortgage in the amount of \$34,500,000. The borrower has equity of \$3,450,000.

**Collateral Description:**

This position is comprised of one asset. The asset consists of 20 acres of land situated on Flamingo Road with frontage on Cambridge and Swanson Roads in Las Vegas Nevada. There is a plan in place to construct a 5 building, multi-story 880-unit residential condominium complex.

TRE had discussions with Trimont Asset Manager McLendon "Mac" Rafeedie on this property. The site was acquired in May 2003 for \$22,500,000. A major problem facing the project was that construction prices increased dramatically and the developer had to raise prices by 27%. This resulted in buyers cancelling contracts, and seeking restitution in the courts. In 2006 a court settlement was reached and Vanguard replaced Summit as the general contractor. At the present time, units are being marketed from \$350 to \$400 per square foot. Construction began in August of 2006 on Bella 1, a 212 unit building. There are contracts on approximately 77 units or 40% of this building.

**Valuation Methodology**

- Per TriMont's policies and procedures with Leman Brothers, this asset has been valued at 105% of capitalization or \$28,875,000. This methodology is based upon Trimont Realty Advisors Risk Managements Policy and Procedures for Asset Management.

**Findings**

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

- Confirmed the debt of \$25,000,000 to Lehman Brothers Holdings Inc.
- Confirmed the partner equity (Vegas Grand Limited Holding Co. LLC.) of \$2,500,000;

**E&Y Conclusions**

TRE found the valuation methodology as of January 5, 2005 is consistent to that outlined in TriMont's Policy and Procedures Manual. It was noted that the property was not valued during 2006. According to the file, Trimont requested and received an exception from Donald O'Brien of Lehman Brothers. Given that the subject is 40% pre-sold, we found the value estimate is within be within the expected range of probable values supported by the market.

**(SZ10,ST92) LB Bell Earhart LLC - Ann Arbor, Michigan**

Deal Structure

Lehman has a first mortgage loan for \$22,000,000 and an equity investment of \$2,000,000. Lehman's ownership interest is 49%.

Collateral Description:

This position is comprised of one asset known as the Earhart Building. The subject property was purchased as 22 acres of raw land in a joint venture between Lehman and Kojaian Management. Kojaian has 51% interest while Lehman has 49%. The site was entitled in mid 2002 for a 203,667 square foot Class A 3 story office with underground parking. The subject is located off of Plymouth Farm Road in the Ann Arbor Northeast submarket. The building was originally slated for single occupant use by Dominos Pizza. They have since decided not to relocate.

TRE had discussions with TriMont Asset Manager Brad Keebler. According to Brad, The Northeast Ann Arbor office submarket has a total inventory of 1,729,000 square feet. Occupancy rates in the Northeast submarket are extremely high with a current vacancy rate of only 4%. Although this rate is expected to increase to 17.4% as the subject hits the market, the local area has shown a great deal of activity, with the recent sale of a neighboring property for \$161 per square foot. According to Mr. Keebler, Lehman's strategy is to lease the building to a few large tenants. At the present time, Google has shown interest in the immediate leasing of 60,000 square feet, with the possibility of taking the entire building.

Valuation Methodology

- Per TriMont's policies and procedures with Lemman Brothers, this asset because it is under development has been valued at 105% of capitalization or \$17,851,000. This methodology is based upon Trimont Realty Advisors Risk Managements Policy and Procedures for Asset Management.

Findings

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

- Confirmed the debt of \$17,000,000 to Lehman Brothers Holdings Inc.
- Confirmed the partner equity of \$1,000 (Kojaian Management Co.)

E&Y Conclusions

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

**(UA48) The Plaza at Turtle Creek, Dallas, Texas**Deal Structure

Lehman originated a loan on Plaza I, a residential property that was converted to condominiums and on Plaza II, a new condominium on August 20, 2000. The current legal balance on the two loans as of October 31, 2006 was \$38,058,000. The position has been paid down as condominium units were sold.

The properties became REO when they were transferred in November 2006 to an intermediary holding company of which LBHI owns 100%. The current basis is \$20,555,632.

#### Collateral Description

The asset is comprised of one property known as the Plaza at Turtle Creek. The property is a 3.133 acre site improved with two condominium buildings in the Turtle Creek area of Dallas. Each building is briefly discussed below:

- Plaza I is a seven story 49 unit building originally constructed as a rental apartment complex in 1997. It has been reconfigured and converted to a condominium building and encompasses 40, one to four bedroom units each ranging in size from 1,022 to 4,764 square feet. Two units were unsold as of the date of valuation (July 5, 2006).
- Plaza II is a new 18-story, 111 unit condominium building with units ranging in size from 1,227 to 5,923 square feet. As of the date of value August 1, 2006, there were 35 units still available for sale. It was noted that most of the remaining units are the largest and most desirable.

#### Valuation Methodology

Trimont estimated the market value of the remaining 37 unsold units to be \$21,761,954 using the following assumptions:

- A discounted cash flow model was utilized;
- Absorption of all remaining units is estimated at 1 unit per month through December 2006 (slow season in Dallas), then increasing to six units per month until sellout in (July 1, 2007) ;
- Asking price for remaining 37 unsold units has been reduced by approximately 20% to reflect the lenders minimum breakeven point. Trimont has estimated the remaining inventory at \$769,766 per unit or \$346 per square foot;
- Concessions of \$50,000 per unit offered in terms of free upgrades;
- Discount rate of 12%

#### Findings

- A discounted cash flow model is a viable way of valuing a condominium project in the midst of selling out;
- A review of Condominium Trends published by Garrison Partners Consulting, indicates twelve condominium projects located in the Uptown/Downtown/Turtle Creek area to be marketing units ranging from \$200 to \$500 per square foot, which supports Trimont's sales price estimates;

- Trimont's absorption estimate is supported by a study of five competitive projects in the market which indicate an absorption rate of 4.5 to 10.5 units per month;
- Trimont's discount rate of 12% is at the low end of the Korpacz 2 Q Land development Market range (12% to 20%), but reasonable considering the project has already been completed and the building is nearing sellout.

#### E&Y Conclusions

Trimont has valued the asset as of July 5, 2006 at \$21,761,954. TRE found the valuation methodology for this asset as well as the assumptions contained in the analysis, to be well supported, and to be within the expected range of probable values supported by the market.

#### (WB92) Washington Post - Columbia Center Washington, DC

##### Deal Structure

Lehman made a \$203,100,000 construction loan in 2005. In 2006, UBS purchased a 50% interest in the loan and UBS also acquired 50% of the equity in Columbia Center for \$18,400,000. Overall Lehman's ownership is 20%, Monument is the developer has 30% and UBS has a 50% interest. Lehman's has a legal balance of \$7,300,000 in imputed equity, and Monument has \$11,785,000 in inputted equity. The inputted equity is the result of appreciation of the asset, at the time of UBS buy-in.

##### Collateral Description

This position is comprised of one asset known as Columbia Center. The property is an office building currently under construction in the East End/CBD submarket of Washington DC. The 35,464 square foot site was purchased in two pieces by Monument Realty for \$48 million in October 2004, and is currently being improved with a twelve story 394,500 square foot office building. The building will include a 294 space underground parking garage, fitness center, and rooftop deck. Construction commenced in April 2005, and is expected to be completed by July 2007. UBS Real Estate Investments bought into the project in May 2006. At this time UBS assumed that the asset had increased by \$37,400,000. As a result, UBS put \$18.4 million of equity into the project, with the assumption that the remaining "imputed" equity belonged to Lehman and Monument.

TRE had discussions with Trimont Asset Manager Tina Frey and Trimont Analyst Jennifer Morris. According to Tina, a lease has recently been signed with Orrick Harrington for 138,093 square feet or 36% of the building.

##### Valuation Method

- The Property has been valued at \$137,779,036 by Trimont. This current value is based upon 100% of Capitalization

Findings

- The use of total capitalization is a deviation from Trimont's standard valuation methodology. Total capitalization was used because both the cash equity and imputed equity are included in the capitalization. Trimont determined that a current value equal to 100% of current capitalization would be more appropriate.

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

- Confirmed the debt of \$50,489,524 to Lehman Brothers Holdings Inc;
- Confirmed the debt of \$50,489,524 to UBS Real Estate Investments;
- Confirmed the partner equity of \$18,400,000 to UBS Real Estate Investments;
- Confirmed \$18,400,000 in "inputted" by both Lehman and Monument.

E&Y Conclusions

It was noted that Trimont deviated from its usual valuation model. Overall, TRE found the value as of August 5, 2006, to be within the expected range of probable values supported by the market.

**(WE32) Deerwood Manufactured Housing 12400 Pearce Lane, Del Valle, Texas**Deal Structure

Lehman purchased the first mortgage note, which was in default, at a discount in December 2005 and foreclosed on the borrower in March 2006. The property is now REO. The legal balance of the mortgage note was \$7,891,000 and the current basis is \$5,809,050.

Collateral Description

This position is comprised of one asset known as Deerwood. The property was acquired in December 2005 for \$7,800,000. The asset is a 89 acre parcel of and improved with a 491 space mobile home park that was constructed in 1997. Approximately 24% of the asset is situated in Austin, Texas and the remaining 76% of the property is located in neighboring Travis County, Texas. Lehman foreclosed on the property in March of 2006. At the time of foreclosure no new leases were signed. All leases are on a month to month basis.

TRE had discussions with outside Contract Asset Manager Eric Amend and Trimont Analyst Jason Harwood. According to Eric, Travis County will be annexing the area and the land under which the subject lies will be brought into the City of Austin in December 2006. At that time, the land will be zoned IRR Rural Residential. The subject will be grandfathered into a legal non-conforming use.

Since most of the site infrastructure in place, it is Lehman's strategy to convert to individual pad sites into condominium ownership, and construct manufactured housing.

Valuation Method

- The Property has been valued at \$8,400,000 by Contract Asset Manager Eric Amend. This is based upon the underwriting performed by Eric Amend at deal inception

Findings

- It was noted that Eric Amend is an outside contract asset manager who does not work for Trimont. As a result, this analysis does not adhere to Trimont's policies and procedures.
- We requested a copy of the underwriting analysis on this deal. After reviewing the underwriting analysis we note that the estimated rental estimate of \$315 per month is supported by the rents in the subject which range from \$295 to \$320 per month.

EY Conclusions

TRE found the valuation methodology as of August 31, 2006, to be appropriate for a mobile home park. It was noted that the valuation does not reflect the current business plan, nor does it consider the risks involved with an alternative use. Based upon the valuation as a mobile home park, TRE found the market value to be within the expected range of probable values supported by the market.

**(VR05) Williamsburg and Common, Cincinnati, Ohio****Deal Structure**

Lehman was the successful bidder on a HUD mortgage pool. Lehman acquired the first lien mortgages on the Williamsburg Apartments and The Commons Apartments. These mortgages were purchased at a discount and Lehman subsequently foreclosed and the properties are now REO.

The original loan balance for the two mortgage loans was \$65,000,000. The current basis is \$58,916,800.

**Collateral Description:**

This position is comprised of two assets known as CMS Williamsburg. A brief description of each asset is presented below:

- Williamsburg Apartments consists of a 109.6 acre site located on the north side of Cincinnati in the North Central Apartment Submarket. The site is improved with one-hundred, two and three-story buildings containing 976 units and a net rentable area of 1,073,029 square feet. The complex was constructed between 1966 and 1978.
- The Commons Apartments is also located on the north side of Cincinnati in the North Central Submarket. The 21.8 acre parcel is improved with twenty four three-story buildings containing 288 units and a net rentable area of 250,640 square feet. The complex was constructed in 1990 and renovated in 2002.

TRE had discussions with Contract Asset Manager John Sanders and Trimont Analyst Jason Harwood on these properties. According to John, the strategy for Lehman Brothers differs for each property. Lehman intends to market the Commons "as is", while they intend to renovate the Williamsburg, reposition the units for a rental increase, then sell off the asset. Lehman expects to put in approximately \$18 million dollars or \$14,000 per unit. They are looking to increase rents from their present rate of \$0.68 to \$0.72 per square foot per month to \$0.85 per square foot per month.

**Valuation Methodology**

- Trimont has valued both properties via the sales comparison approach;
- The analysis did not incorporate the proposed renovation, but assumed "as is" values;
- The Williamsburg was valued at \$47 Million or \$48,200 per unit;
- The Commons has been valued at \$18 Million or \$62,500 per unit based upon a Letter of Intent to purchase the Commons.

Findings

- TRE has received and reviewed a Letter of Intent dated November 13, 2006 from the Friedkin Realty Group to purchase the Commons for \$19,200,000. It was noted that this offer was received after Trimont valued the Commons at \$18,000,000. Therefore we believe Trimont's value estimate of \$18,000,000 for the Commons on March 1, 2006 to be supported.
- Trimont's value of \$48,200 per unit for the Williamsburg is supported by the following sales of multi-family properties extracted from Real Capital Analytics:
  1. Trinity Place, Middletown, OH \$9,700,000 for 200 units or \$48,500/ Unit
  2. 9310 Colerain Avenue, Cincinnati, OH \$6,945,000 for 150 Units or \$46,300/ Unit
  3. Colony of Springdale, Cincinnati OH \$10,400,000 for 251 Units or \$41,434/Unit
- Given the attributes of the properties, we believe John Sanders' estimate of \$18 Million or \$62,500 per unit for the Commons and \$47 Million or \$48,200 per unit for the Williamsburg are supported by the sales and the Letter of Intent.

E&Y Conclusions

TRE found the value estimate \$65,000,000 as of March 1, 2006 to be within the expected range of probable values supported by the market.

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

Lehman's Large Loan Group provided a first mortgage commitment for \$227,500,000 and the initial funding was \$147,839,748. The unfunded amount of \$79,661,252 was split between \$10,911,653 for interest reserve and \$68,749,598 for the costs of converting the rental apartments to condominiums. The current loan balance is \$165,679,000.

Lehman PTG made a mezzanine loan commitment for \$63,375,000. The current loan balance is \$55,330,000. The borrower provided equity of \$5,000,000. Arch Street Capital has an equity investment of \$44,000,000.

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 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.

TRE had discussions with Trimont Asset Manager Bill Ireland on these properties. According to Bill, the property was purchased in early 2006 for \$233 million. Lehman's strategy is 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 will not be renovated and will remain as rental apartments.

The exterior renovation is expected to take 19 months, while the interiors are expected to take 36 months. Exterior and interior renovation costs were projected at \$43 million. Approximately \$19 million is slated for Weaver Hill, with the remaining \$24 million has been allocated to Putnam Green. Soft costs have been budgeted at \$25 million. The borrower expects to market the units in three and one-half years at a blended rate of \$750 per square foot.

#### Valuation Methodology

- Per Trimont's policies and procedures with Lehman Brothers, this asset because it is under development has been valued at 105% of capitalization or \$246.8 Million as of August 31, 2006. This methodology is based upon Trimont Realty Advisors Risk Managements Policy and Procedures for Asset Management.

#### Findings

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

- Confirmed the 1<sup>st</sup> lien position of \$157,768,085 to Lehman Brothers Large Loans
- Confirmed the Mezz Loan of \$54,487,084 to Lehman Brothers
- Confirmed borrower equity of \$49,211,112 (Antares R.E. Investment Partners)

#### E&Y Conclusions

As of August 31, 2006, TRE found the valuation methodology consistent to that outlined in Trimont's Policy and Procedures Manual. It should be noted that the present valuation does not consider the risk involved with renovating the subject and selling out the condominium project. Based upon the valuation as a rental apartment complex with possible conversion, TRE found the market value to be within the expected range of probable values supported by the market.

**(SR43) LB Rose Ranch LLC- Garwood County Colorado****Deal Structure**

This REO which is now known as Ironbridge Golf Club has a legal balance of \$41,945,000. The net sales proceeds from the sale of lots in this master planned community have reduced the current basis to \$21,694,394.

**Collateral Description**

This position is known as Rose Ranch. It consists of 530 acres of land with entitlements in place for 320 residential units (including 30 affordable units) in Garwood County Colorado, approximately 3 miles south of Glenwood Springs. In addition, the collateral consists of an 18-hole golf course. Based upon location and views, the residential lots have been broken into four distinct classes: 1) River Lots, 2) Sopris Lots, 3) Mountain Lots, 4) Aspen Lots

TRE had conversations with Trimont Asset Manager Alan Long. We were informed that, as of the valuation date, 63 lots within Phase I had been sold and closed. The lots are being taken down by Hanson Construction who are constructing homes and selling them to third party purchasers. Hanson is not buying in bulk, but taking the lots down as units go under contract. Lehman is selling lots to Hanson at a discount and getting a percentage of the net home proceeds. Due to the desirability of the 36 lots with frontage on the river, they are being marketed directly by Lehman. Nineteen additional lots in Phase I have been sold, but had not yet closed as of July 2006. Site work for Phase II is underway and an additional 63 lots in Phase II had been presold.

Over the past few years, the golf course has been operating a net loss. As a result, management began offering an Executive Membership package which is \$15,000 per member, down from \$40,000 per member for a Full Membership. From April to July, 25 Executive Memberships were sold.

**Valuation Methodology**

Trimont estimated the market value of the remaining lots at \$14,000,000 and the golf course at \$2,000,000 using the following assumptions:

- A discounted cash flow model was utilized for the value of the unsold lots
- Absorption has been estimated at 82 units for the remainder of 2006 (16 lots per month); 102 lots for 2007 (8.5 lots per month); and 43 lots or 3.5 lots per month through December 2008 (final sellout); The 30 low income units have not been entered into the cash flow. The cost to construct is cancelled out by the amount of money expected to be achieved. As a result, they are deemed to have neither a positive nor negative effect on the property.
- Estimated prices for the lots are as follows
  1. \$400,000 per lot for the River lots
  2. \$63,336 per lot for the Sopris lots
  3. \$50,960 per lot for the Mountain lots
  4. \$42,224 per lot for the Aspen lots

- Discount rate of 15%
- A sales comparison approach was used for the value of the golf course

### Findings

- A discounted cash flow model is a viable way of valuing a land development project in the midst of selling out.
- Trimont's absorption estimates for 2007 and 2008 are supported by a review of a recent market study on absorption rates by the Genesis Group which indicates an absorption range of .30 lots to 8 lots per month for lots in the Glenwood Springs area of Colorado. Trimont has assumed higher volumes in the Spring and Summer months and lower volumes in the winter months to adjust for the peak and slow seasons. In addition, the opening of a 1.7 million recreation center in April 2008 is expected to help in sales. The Aspen lots are considered to be the least desirable and have been forecasted to sell last, hence the slower absorption rate in 2008.
- Trimont's discount rate of 15% is near the low end of the Korpacz 2Q Land development Market range (12% to 20%), but reasonable considering the project is only selling off lots and not completed homes.
- Trimont's value estimate of \$2,000,000 or \$111,111 per hole for the golf course is supported by the following four golf course transactions in the Western United States:
  - Canoa Hills Golf Club \$3,250,000 for 18 holes or \$180,556 per hole
  - Picacho Hills \$2,500,000 for 18 holes or \$138,889 per hole
  - Red Mountain Ranch CC for \$4,150,000 for 18 holes or \$230,556 per hole
  - Emerald Valley Golf Club for \$1,857,000 for 18 holes or \$103,167 per hole

### E&Y Conclusions

Trimont has valued the asset as of July 31, 2006 at \$16,000,000. TRE found the valuation methodology for this asset as well as the assumptions contained in the analysis, to be well supported, and to be within the expected range of probable values supported by the market.

**(SN71) LB South Beach LLC - Setai Hotel and Condominium, South Beach, Florida****Deal Structure**

Lehman has an equity investment of approximately \$80,000,000 with a basis of \$68,303,763. There is a first mortgage with Total Bank for \$6,000,000 which was funded when a neighboring property (the Abbey Hotel) was acquired.

**Collateral Description**

The Setai is an upscale hotel/condominium development in the South Beach Section of Miami Beach, Florida. The project consists of 173 condominium units, as well as an adjacent 86 room hotel. Amenities are shared between the condominium tower and the hotel. As of the date of the valuation, 127 of the condominiums had been sold and closed. One penthouse condominium is under a contract of sale for \$3,000,000, and 45 units which have been retained by ownership and used as hotel rooms. The condo portion opened in 2004 with the hotel portion opening in August 2005. Lehman purchased the Abbey a neighboring 47 unit hotel for \$8,000,000 in August 2005.

The Setai Hotel is being marketed as a 500+ membership fractional club known as the Setai Club. To date, nine units have been sold as Setai Club Rooms. Due to the lack of interest it is unknown if this plan will continue. Lehman is in the process of drafting a new business plan.

**Valuation Methodology**

- Trimont has based the one remaining individual condominium unit on the current contract price minus transaction costs.
- Trimont has based the value of the Abbey Hotel on the contract price
- Trimont has valued the Setai Hotel via a DCF utilizing the following assumptions:
  1. Trimont has an ADR projection of \$1,050;
  2. Occupancy has been projected at 44% for year 1 of the analysis increasing and stabilizing at 52% in year 3;
  3. Departmental expenses have been projected at 61.3% of total revenue. This is forecasted to stabilize at 50.2% in year 3;
  4. A management fee of 3% was applied;
  5. A terminal capitalization rate of 8.5% was utilized;
  6. A discount rate of 11% has been utilized.

**Findings**

- Trimont's valuation of the penthouse condominium unit is supported by the sales contract minus transaction costs;
- Trimont's value of \$8,000,000 for the Abbey Hotel is supported by its acquisition cost;
- A discounted cash flow model is a viable way of valuing the Setai Hotel;
- Trimont's ADR projection of \$1,050 is well supported by its historical ADR of \$1,029 in

- 2005 and management's budgeted forecast of \$1,074 for 2006;
- Trimont's projections for occupancy (44% for year 1 and increasing and stabilizing at 52% in year 3) is supported by historical gains (31.6% in 2005, to 46.7% for the first 3 months of 2006;
  - Trimont's management fee of 3% is consistent with historical trends and industry standards;
  - The terminal capitalization rate of 8.5% falls within the range of 6% to 11% as indicated by Korpacz, PFK Hospitality Research Group, and US Realty Consultants;
  - The discount rate of 11% falls within the range of 9% to 15% % as indicated by Korpacz, PFK Hospitality Research Group, and US Realty Consultants.

#### E&Y Conclusions

Trimont has valued the asset as of June 1, 2006 at \$85,523,966. TRE found the valuation methodology for this asset as well as the assumptions contained in the analysis, to be well supported, and to be within the expected range of probable values supported by the market.

#### **(UD13) PCCB LB Mountain House, Mountain House, California**

##### Deal Structure

The partnership, (Pacific Coast Capital Partners and Lehman Brothers) has a first mortgage loan for \$35,000,000 with Wells Fargo Bank. Lehman has a mezzanine loan for \$16,266,000 known as Mountain House CGKL.

Lehman's equity investment is \$23,348,000. Pacific Coast Capital Partners has an equity investment of \$216,000 and the Sponsor, Jerry Kamilos, invested \$3,000,000 of equity.

The total current capitalization is \$77,830,000.

##### Collateral Description

The subject property consists of 489.86 acres of land located in Mountain House, California. The majority of the property is situated within the Mountain House Master Plan. When complete, the Mountain House Master plan will contain approximately 10,000 homes on 8,000 acres of land. TRE spoke with Mason Ross and Phil Russick of Pacific Coast Capital Partners regarding this asset. We were informed that the site was originally acquired as raw land on January 30, 2004, and entitled in 2005. The four sites comprising the 489.86 acres are known as:

1. Texeria
2. Muela
3. Tusó
4. Pombo

Entitlements call for 1,115 residential units, 69 acres of commercial/industrial land, and 130 acres for future annexation into the Master Plan.

Lehman's strategy is to subdivide the land and sell off "Superpads". These superpads will have all utilities brought to site but no other site work completed. There are plans to have 14 residential superpads and 4 flex industrial superpad sites. The superpad sites are expected to be sold off in bulk to home-builders and the commercial and industrial land to developers.

Site work has begun and is expected to go through end of next year. Marketing of the Superpads is planned to commence in the summer of 2007. The residential pads will be marketed first, with the commercial superpads afterwards.

#### Valuation Methodology

- Pacific Coast Capital Partners did not have an updated value estimate. As a result, we spoke with Donald O'Brien of Lehman Brothers to tie in the debt and equity positions as of August 31. Lehman Brothers has applied the same methodology that Trimont does in valuing the asset. That is, valuing the asset at 105% of capitalization or \$81,760,000.

#### Findings

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

- Confirmed the 1<sup>st</sup> lien position of \$35,000.00 to Wells Fargo
- Confirmed the Mezz Loan of \$16,266,000 to Lehman Brothers
- Confirmed Lehman equity of \$23,384,000
- Confirmed Partner equity of \$216,000 (PCCP)
- Confirmed Sponsor equity of \$3,000,000 (Jerry Kamioos)

#### E&Y Conclusions

As of August 31, 2006, TRE found the valuation methodology derived by Lehman Brothers to be consistent to that outlined for all of the other development deals in this audit, and 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. 20 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).