

Internal Memorandum

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Quarterly Review Valuation Procedures for Archstone & SunCal Real Estate Investments

Background

Lehman's Global Real Estate Group ("GREG") transacts in areas including: (1) commercial real estate loan origination; (2) direct investments in real estate partnerships; (3) real estate owned properties (REO). In fiscal 2007, Lehman provided investment banking services in connection with Tishman Speyer's acquisition of Archstone Smith Trust. This transaction resulted in Lehman retaining several classes of senior and mezzanine debt, assumed entity corporate debt, term loans, preferred equity, bridge equity, and general partnership equity for an initial \$5.4BN investment at a current carrying basis at May 31, 2008 of approximately \$4.7BN. Additionally, since 2005 Lehman has provided financing to a strategic counterparty, SunCal, a developer of land, residential, and multifamily properties in California. These investments include REIT Lines of Credit, Commercial Loans, and PTG senior and mezzanine debt as well as bridge equity and common equity for a total basis at 5/31 of approximately \$1.7BN. Lehman has developed quantitative models that are tailored to the Archstone and SunCal positions designed to capture a series of detailed cash flow data as well as a series of position-specific assumptions based on available research and market data, which is modeled to produce an IRR that Lehman expects a potential buyer would require.

Review Procedures

Our Quarterly Review procedures related to Archstone and SunCal consist of the following:

1. We held multiple meetings with Real Estate Product Control Jonathan Cohen and Abe Kebede to understand the portfolios of positions, the underlying variables and value drivers of each position, and the summary of the methodology used to price each position in the portfolio.

2. We obtained and reviewed valuation summaries that outlined each position, the key assumptions used in the models as well as target IRRs, the stress scenarios performed to test reasonableness of modeled values, descriptions of third party data sources used in the models, and the resulting position valuations. We have noted the IRRs have increased from prior quarters, absorption has been pushed out and additional stresses have been contemplated.
3. We, in conjunction with EY's Real Estate Advisory Services (REAS) practice, held a meeting with Sheila Bjornstad of Lehman's GREG Front Office to discuss the detailed, underlying inputs and assumptions utilized in the SunCal models as well as the valuation methodology and mechanics of the models to assess the model for reasonableness. Sheila also provided us with examples of third party reports supporting many of the assumptions in the model which form the basis for Lehman's assumptions.
4. We obtained and reviewed the Archstone valuation model for reasonableness and noted detailed data inputs and assumptions, specific calculation scenarios, and price sensitivity stress tests of IRR, growth rates, cap rates, development value and timing, loan terms, and other assumptions designed to provide reasonable ranges for position values.

Based on our understanding of these positions, their valuation assumptions, the results of our discussions with management, and the support provided to us, the process by which the Archstone and SunCal positions are valued as well as the related inputs, assumptions, and calculated values appear reasonable for the purpose of assessing reasonableness for our quarterly review.

These procedures are designed to provide the understanding and analysis consistent with a SAS 100 review as required for Quarterly Procedures and do not constitute, on their own, audit evidence. As such, the Mortgage Capital audit team will perform additional procedures related to the Company's valuation of Archstone, SunCal and/or additional real estate positions with significant exposure as part of our audit of the Company's Balance Sheet as of 11/30/2008 and the operating results for the fiscal year then ended. This work will include both work performed by the primary audit team and work performed by a specialist from the EY REAS practice. Please refer to the Mortgage Capital Team GAMx file for related audit procedures and conclusions.