



Windermere XII FCC

Analysts

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Commercial Mortgage Backed Floating Rate Notes

Class Description	Current Balance	ICR ¹	Original Rating	Current Rating	Trend
Class A	EUR 776,000,000	2.62	AAA	AAA	-
Class X	EUR 300	n/a	AAA	AAA	-
Class B	EUR 317,400,000	1.86	NR	NR	n/a
Class C	EUR 126,600,000	1.67	NR	NR	n/a
Class D	EUR 39,200,000	1.61	NR	NR	n/a
Class E	EUR 80,800,000	1.52	NR	NR	n/a
Class F	EUR 81,300,000	1.43	NR	NR	n/a
Class G	EUR 38,700,000	1.39	NR	NR	n/a
Class H	EUR 59,000,000	1.34	NR	NR	n/a

1. The interest coverage ratio is based on the annualised 10 July 2008 net operating income (NOI) and using the cap rate.

DBRS Ratings Viewpoint

DBRS placed the ratings of Class A and Class X of Windermere XII FCC (Windermere) Under Review with Developing Implications on 17 September 2008 because of the transaction's exposure to Lehman Brothers Holding, Inc. (LBHI) and its subsidiaries. LBHI filed for Chapter 11 bankruptcy on 15 September 2008. As such, the borrower is required to replace the hedge. To date, the borrower has not replaced the hedge. The borrower placed the full interest payment in the rent account for the October 2008 payment. However, the rent account was opened in the name of Lehman Brothers Bankhaus Aktiengesellschaft (Lehman Bank AG) and pledged to the benefit of the trust. With the LBHI bankruptcy and the moratorium, the trust and subservicer, CB Richard Ellis (CBRE), are not able to direct the funds to the trust account. CBRE is working with legal counsel to be able to operate the pledged accounts. In the meantime, EUR 21.2 million was drawn from the EUR 182.3 million available Liquidity Facility to make the trust payments.

The borrower has until 3 November 2008 to replace the hedge in order to be compliant with the loan documents. If the hedge is not replaced, it would be considered an event of default and up to the management company's (EuroTitrisation, ultimately with the Controlling Class) discretion how to enforce the lender's rights.

Class A and Class X are expected to continue to receive timely interest payments and the liquidation value of the collateral exceeds the principal balances of both. Overall, the collateral property has declined in value based on a valuation of the property done by Cushman & Wakefield LePage in September 2008, with the loan-to-value (LTV) increasing to 92.3% from 78.9% as of March 2008 and from 76.6% at issuance. The value decline is a result of a decline in total contractual rent as well as an increase in the capitalisation rate. The borrower continues to market its vacant space; however, it has signed no new leases since issuance. Additionally, the property is expected to experience increased vacancy and further stress to the asset value as tenants that have given notice vacate the property early or leave upon their 2009 lease expiries. The appraised value has not declined as significantly as DBRS would have anticipated given the declines in cash flow from the lack of leasing activity and increased vacancy. The deal is secured by two loans that are collateralised by a Class A office building, known as Cœur Défense, located in Paris's La Défense Business District, and is highly concentrated in terms of geography, property type, loan terms and sponsor. The loans mature in July 2012, but each has two one-year extension options.

Rating Considerations

Strengths

- (1) Experienced management
- (2) Property quality and location

Challenges

- (1) The loan is concentrated with security in a single asset
- (2) Increasing vacancy
- (3) Increasing probability of default
- (4) Value declining and current LTV of 92.3%, above the 80% LTV covenant
- (5) No hedge is in place and the three-month Euribor is high and volatile

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Collateral Description

Cœur Défense is a Class A office building located in Paris's La Défense Business District. The subject, built in 2001, features 177,040 square metres (sqm) in two 39-storey towers and three eight-storey buildings linked by an atrium. The property has 2,830 parking spaces and benefits from an indoor taxi stop and close proximity to public transportation. The La Défense (Grande Arche) station, within a few minutes' walk from the property, is the primary transportation hub in La Défense, housing the RER A, Train T2 and the Métro Line 1. Additional amenities at the property include a fitness centre, a VIP entrance, restaurants and retail space.

The average floor plate is 1,600 sqm; however, the towers can be connected to allow for floor plates of up to 3,200 sqm. Given the newer construction of the property compared with the La Défense inventory, the property operates more efficiently, with lower running costs. The property is able to accommodate approximately 10 sqm to 15 sqm per workstation compared with the 18 sqm to 25 sqm required in the Central Business District (CBD).

Tenancy

The property is currently 87.1% leased. Based on indications from the borrower, occupancy will decline to 78.2% by June 2009 as two tenants (8.9% of net rentable area (NRA), 10.2% of net rental income (NRI)) have served notice of plans to exercise their lease-break options (one in March 2009 and the other in June 2009). Oracle Corporation (3.9% of NRA, 5.4% of NRI) negotiated an early termination of its lease at the end of September 2008; the tenant paid an indemnity of EUR 9.8 million, of which EUR 7.7 million was deposited into the reserve account and the remainder allocated for anticipated tenant improvements and service charge allocation to lease expiry date. The borrower has begun refurbishing and marketing the space and continues to market the 14,353 square metres of existing vacant space. According to the servicer, the vacant space comprises the only large, self-contained, premium quality space immediately available in La Défense.

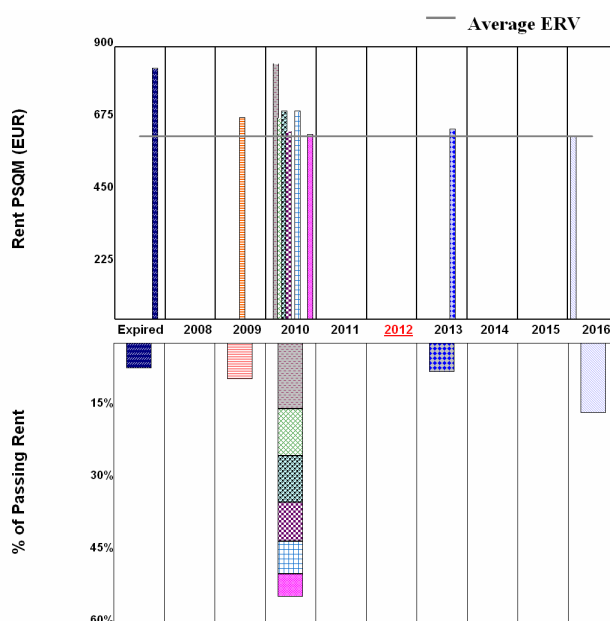
Given the time that has lapsed without any leasing activity (14 months), DBRS is concerned about the viability of management's original plan, which identified a two-year time frame to lease space at estimated rental value (ERV) when supply was anticipated to be constrained (the majority of existing buildings in the submarket would have a significant portion of space offline with mandatory asbestos abatement work). More recently, the excessive debt burden has resulted in a break-even rental rate that exceeds not only market levels but rental rates necessary to support new construction. DBRS is concerned that it has taken more than a year to absorb the competitive space in the market and in the meantime, the market may have softened, which will have an impact on management's ability to sign leases at its suggested ERV. The suggested ERV has been above market asking rates for similar spaces within the submarket, limiting further upside. If this trend continues into 2009, property cash flow could be further stressed heading into 2010, when the most significant roll occurs. If the renewal probability or leasing downtime is unfavourable, the property will be at risk of further declines in value, drawing on the reserve account and even entering a payment default.

The ten largest tenants are represented by a unique colour in the graph below. The grey line (in the upper portion of the graph) represents average ERV. The columns (in the upper portion of the graph) represent each tenant's rental rate. The bottom portion of the graph represents the percentage of passing rent rolling in each year. DBRS assumed the earlier of lease expiry or lease break.

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Tenant Rollover Graph



DBRS Cash Flow and Value Analysis

DBRS Net Cash Flow

Given the time that has lapsed without any leasing activity, future cash flow is expected to be stressed, especially if this trend continues. As indicated in the Tenant Rollover Graph above, tenant leases are generally at or above average ERV. ERV for office space is reported to be between 580 and 590 per square metre, according to the October 2008 valuation. With the latest vacancy notifications, the current and refinance cash flows are down from issuance.

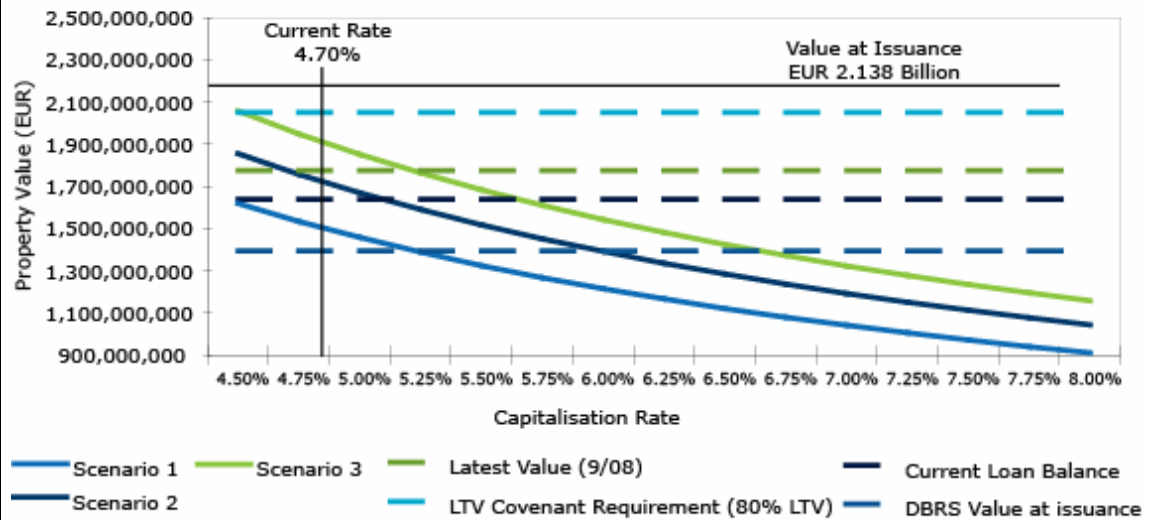
DBRS Value Analysis

At issuance, Cushman & Wakefield LePage estimated the value of the property at EUR 2.138 billion, resulting in 76.6% LTV. In March 2008, an updated valuation of the property done by Cushman & Wakefield LePage indicated the value had declined to EUR 2.077 billion, resulting in the LTV increasing to 78.9%. In September 2008, an updated valuation of the property done by Cushman & Wakefield LePage indicated the value had declined to EUR 1.8 billion, resulting in the LTV increasing to 92.3%. DBRS originally estimated the property's value at EUR 1.394 billion, based on a replacement-cost approach, which puts a ceiling on the value. If the Cushman & Wakefield LePage valuation remains below EUR 2 billion, it would result in an event of default. However, the value remains well above DBRS's value; therefore, the DBRS ratings on Class A and Class X remain appropriate. Given that the value is determined by cash flow and capitalisation rates, the graph below shows four potential scenarios for cash flow and what the corresponding value will be based on different capitalisation rates.

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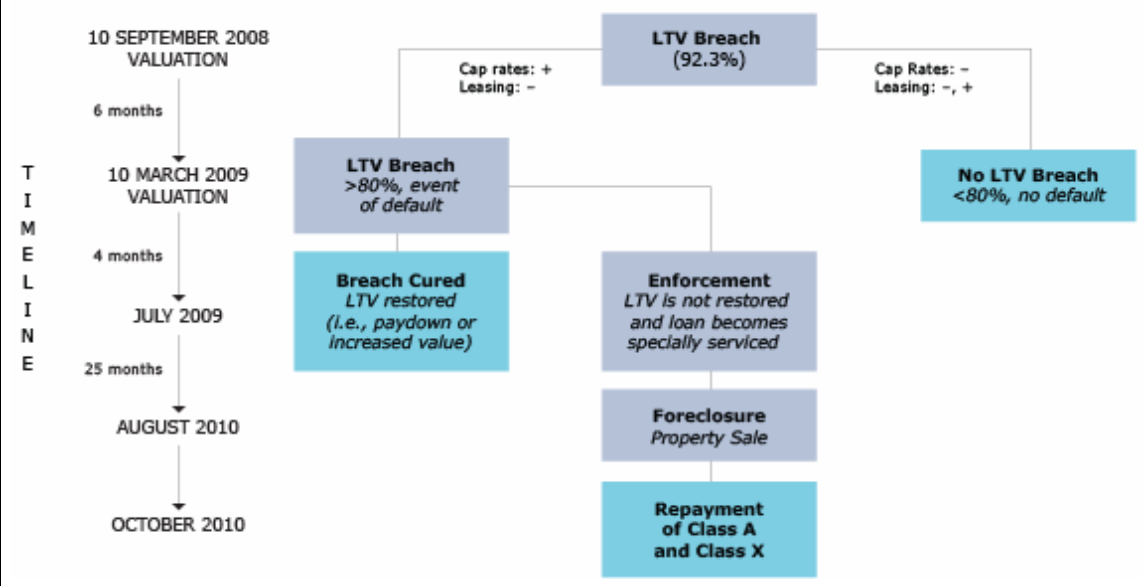
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Valuation Scenarios



Scenario 1: Cash flow declines with the lease-break notifications in 2009.
 Scenario 2: Cash flow remains the same as at the 10 September 2008 valuation.
 Scenario 3: The current vacant space is leased at the valuer's rental value.

Possible Sequence of Events If LTV Breach Continues



Reserves

At issuance, a reserve account was set up with a EUR 5.0 million balance to cover potential shortfalls for the first two quarters. The reserve account can be used for any payment under the finance documents. The indemnity received for the Oracle Corporation lease termination, which went into the reserve account, was EUR 7.7 million, bringing the total reserve balance to EUR 12.9 million. A cash surplus can be used to grow the reserve account to the extent the reserve account balance is below the minimum reserve needed for the interest payment date (IPD).



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DBRS Site Inspection

DBRS visited the property on 2 June 2008. DBRS found the building to be deserving of its landmark status despite its vacancy. The property is located close to residential and smaller buildings, yet it is firmly situated in the centre of La Défense, offering access to quality transportation and infrastructure, as well as a degree of prestige to its tenants.

La Défense Office Market

The La Défense market still enjoys prominence among large enterprises seeking space within the French and European markets. Compared with office space in London, La Défense continues to have lower rental rates and access to better urban infrastructure. However, given the short history of the market and the continued possibility of development, the market has not completely stabilised.

According to Atisreal, the Île-de-France office market continues to show steady performance despite concerns in financial and real estate markets. Although leasing volume is down by 21% from last year, this volume is still better than in 2005. Yet despite this relative stability, market concerns have been affecting the nature of the space that is currently being leased. Small and medium-sized spaces (less than 5,000 square metres) accounted for 56% of leasing activity in Q1 2008, a larger proportion than usual. Additionally, businesses are reorganizing their operations and rethinking their strategies as far as real estate is concerned. This might in some ways benefit the market, as leases are signed as part of reorganization efforts, but it is not likely to benefit Cœur Défense because of the size of the spaces offered there and its higher rental rates. Given the amount of new space entering the market, Cushman & Wakefield LePage anticipates a stabilised vacancy rate of 6.0% in the region.

The government is currently overseeing the expansion of the La Défense market. Most of these plans are part of La Défense 2015, a development project announced in 2006. Along with development of lodging and transport, the plan includes 850,000 square metres of new office space, the demolition or renovation of several older towers and the building of two new skyscrapers, the Tour Generali and the Tour Phare. Much of this new construction, including the two skyscrapers, is being undertaken by the businesses that will occupy them, somewhat reducing fear of overdevelopment and competition. Increased vacancy is still possible as some of those businesses were previously occupying space in other buildings in La Défense. Additionally, improvements in transportation and other infrastructure should make the area more marketable to national and international tenants.

The new T1 Tower, one of Cœur Défense's most direct competitors in the market, was recently completed and fully leased. The fact that this new construction is fully leased effectively eliminates the heaviest competition in the market for large, prime quality space for several years.

Ownership and Management

The sponsors are Lehman Brothers Real Estate Partners (LBREP) and Atemi SAS (Atemi), which have a long-standing relationship, having teamed up on multiple transactions over the last several years. In 2003, LBREP took a 40% stake in Atemi. LBREP has significant experience, with an excess of USD 45 billion invested in real estate, of which more than USD 10 billion is invested in Europe. In 2006, of the USD 606.3 million of equity invested, 66% was in Europe. Of its European investments, 20% were in France with Atemi. Atemi's core businesses comprise asset management of medium to large portfolios, residential condominium conversions and development of residential and commercial properties.

The asset manager is Atemi, which has in-depth knowledge and extensive experience in large office properties. At the end of 2006, Atemi's assets under management amounted to approximately EUR 1.1 billion. LBREP and Atemi have acquired approximately EUR 360 million of office properties in France, all of which are now under Atemi's management. Key personnel at Atemi have an average of more than 15 years of experience in the real estate sector. While the personnel strengthens the asset management team, DBRS believes there is some key-man risk. A team of four to five professionals is fully dedicated to the management of Cœur Défense.



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Business Plan

The sponsor's business plan is to capitalise on the prime location of the asset in La Défense and its view of a lack of new offers in the La Défense area until 2011, capturing both the significant expected growth in the rental market over the next few years as well as the potential for active management. The property has a number of lease renewals coming up over the next three years, which management believes are timed well to take advantage of the strong rental market and anticipated short-term rental growth.

Management is attempting to create value. This is evidenced by a desire to animate shared spaces of the building, create inter-tower and inter-tenant interaction and clearly communicate management strategies. Tenant breakfasts, dinners and meetings, as well as efforts to bring cultural activities into the building's atrium space, further emphasise this strategy. The presence of high-quality tenant services, such as a well-known conference centre, an exclusive restaurant for the use of tenants and their clients and a VIP entrance and garage, underlines the desire to make the building a business centre in multiple senses of the term.

Management continues to market Cœur Défense as an exclusive centre for large and big-name tenants. As such, it does not want to divide the vacant space into multi-tenant space. Given the current economic environment, many businesses are not as comfortable leasing the large spaces that Cœur Défense offers. Management's approach is dependent on a tightening of the market that seems uncertain in the short term. Although hopeful that it will work, DBRS remains concerned with progress to date.

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