



PUBLIC UTILITIES BUILDING

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102

GOLDEN STATE PORTFOLIO OFFERING MEMORANDUM

11 office properties • 7.3 million square feet
20 year sale/leaseback portfolio
3 California core metro markets

Capital Markets, Institutional Group





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www.cbre.com/goldenstateportfolio



STATE OF CALIFORNIA

EXECUTIVE SUMMARY

The Offering

CB Richard Ellis, as exclusive advisor to the State of California, is privileged to present the opportunity to acquire a 100% fee simple interest in the Public Utilities Commission Building, located at 505 Van Ness Avenue in the Civic Center submarket of San Francisco, California (the "Property"). The Property consists of a LEED® Silver certified, Class A office property containing 270,768 rentable square feet over a two-level subterranean garage that can accommodate approximately 235 cars. The Property was constructed in 1984 and consists of a 5-story steel framed mid-rise office building.

The property is 100% leased, of which 99.4% is leased to the State of California for a firm term of 20 years, and may be acquired separately or as part of an 11 office property sale/leaseback portfolio (the "Golden State Portfolio") comprising approximately 7.3 million square feet located in the San Francisco Bay Area, Los Angeles and Sacramento.

This rare opportunity to acquire an excellent quality Class A office property provides an investor a stable, long-term income stream from an investment grade tenant.

Offering Summary

Property Name:	Public Utilities Commission Building
Address:	505 Van Ness Avenue San Francisco, CA 94102
Rentable Square Footage:	± 270,768
Number of Buildings:	One
Year Built:	1984
Number of Stories:	5 Stories
Parking:	± 235 Stalls (0.87 per 1,000 sf)
LEED Certification:	LEED Silver
State of California Lease Term:	20 years firm



Investment Highlights

- **Long Term Credit Tenancy**

The Property is 100% leased, of which 99.4% is leased to the State of California for 20 years firm, providing an investor with stable and secure cash flows and built-in rent escalations that enhance yields during the lease term. The State of California has an investment grade credit rating of "A-" by Standard & Poors. The lease will commence at the close of escrow.

- **Exceptional San Francisco Civic Center Location**

The Property is situated between Van Ness Avenue (US Highway 101) and Franklin Street, two of San Francisco's main north/south arterials. Across the street from San Francisco City Hall, the Property's irreplaceable location is highly valued by government and support service users. The Property enjoys excellent access to public transportation via the Civic Center station 4 blocks away providing service throughout the city and region via the SF Municipal Railway and the Bay Area Rapid Transit (BART) system.

- **On-Site Parking and Amenities**

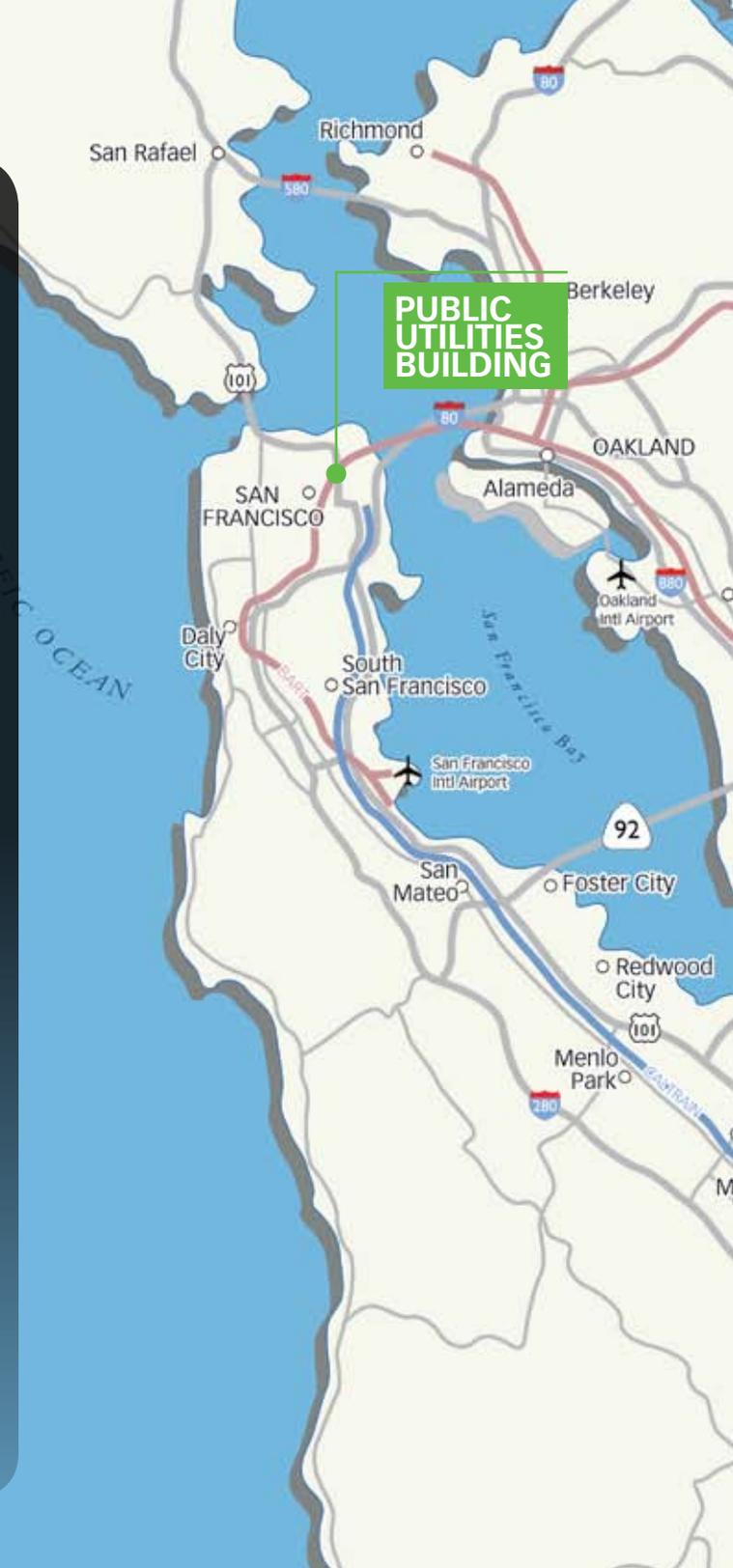
The Property's two subterranean garage floors can accommodate approximately 235 cars. The Property also features an attractive open courtyard providing with much sought after open space and public assembly area. The interior courtyard also allows for additional window-line to the floorplates. There is a full service cafeteria for tenant convenience as well as an onsite day care.

- **Critical Mass in Supply Constrained Submarket**

The Property represents a critical mass of square footage unmatched in the submarket, where large users have few comparable options in the entire San Francisco office market let alone the submarket. Additionally, no new office properties larger than 100,000 sf have been constructed in the submarket in the last 20 years.

- **Strategic Facility**

The State of California's commitment to the Property is demonstrated by the 20 year initial lease term. The State tenancy provides the investor a superb captive tenant story based on their utilization of the Property and the State's projected increased long term space needs.



Property Overview

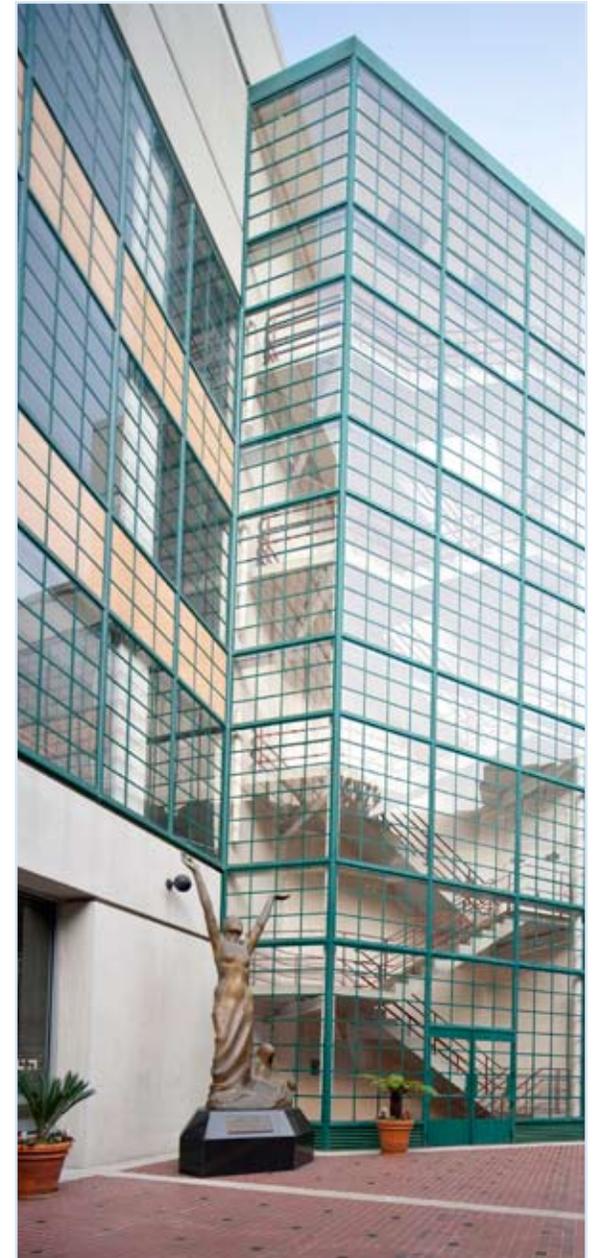
The Public Utilities Commission Building, also known as the Edmund G. "Pat" Brown Building, was named for the State of California's 32nd Governor, and native of San Francisco. A 1982 agreement between the City and County of San Francisco Redevelopment Agency and the State of California Department of General Services created the San Francisco State Building Authority, which caused the construction of the Governor Edmund G. "Pat" Brown Building. The building was designed to house a single state agency, the California Public Utilities Commission. The Commission has occupied the building since its construction.

The Property's construction is fireproofed steel column and beams that support reinforced structural slabs on steel decking. The cladding is typically pre-cast concrete panels hung from the steel frame. The roofing varies from flat asphaltic membrane covering the majority of the building, and sloped pre-cast panels and sloped metal standing seam expressed from above pivot window heads to a small roof parapet. The building is set on a garage podium that creates an entry plaza level above the adjacent streets.

The building's distinctive 18' diameter state seal was created by Petaluma and Santa Rosa artists Rosa Estebanez and Jacque Giuffre. It was cast in fiberglass by workers of the firm of William Kreysler and Associates.

Location Overview

The Property is located within the Civic Center submarket of San Francisco, the political center of the City and the Bay Area. The City of San Francisco has invested heavily in the area over recent years including a new Symphony Hall, a renovated Opera House, a new Asian Arts Museum, a new Library and a renovated City Hall. The private sector has supplemented this with development of luxury housing, commercial space and amenities. San Francisco enjoys excellent transportation options and is accessible by all major forms of public transportation - including light rail (BART and Muni), ferry, and bus - serve San Francisco. San Francisco also has an international airport only minutes from the Civic Center submarket. The Property enjoys easy access to interstate freeways 80 and 280, US Highway 101, and both the Golden Gate and the Bay Bridges.



Recent Developments

The Civic Center submarket has seen little new recent development and is generally full built-out. One notable exception is the SFPUC building currently under construction at 525 Golden Gate Avenue. The project consists of a new 13-story office building that will house the San Francisco Public Utilities Commission (SFPUC) administration offices and its critical Supervisory Control and Data Acquisition system that monitors and controls the SFPUC's water transmission and distribution system. With funding secured and necessary approvals in place, the expected LEED Platinum certified building will be completed in Spring 2012 at an estimated cost of \$190 million.

The Opportunity

The Public Utilities Commission Building offers investors the rare opportunity to acquire an institutional quality office asset that is leased for 20 years to an investment grade credit tenant – the State of California. The Property features an attractive open courtyard providing much sought after open space as well as a generous window line. The combination of a long term lease to a credit tenant, and rent escalations during the term will provide healthy yields throughout the investment horizon. The Property's LEED Silver certification, on-site parking and other amenities further enhance the asset's investment appeal.

LEED Certified

The LEED® (Leadership in Energy and Environmental Design) Green Building Rating System is the nationally accepted benchmark for the design, construction, and operation of high performance green buildings. Developed by the U.S. Green Building Council, LEED provides building owners and operators a concise framework for identifying and implementing practical and measurable green building design, construction, operating and maintenance solutions.

Befitting California's legacy as the nation's leader in "green" legislation and technology, 92% of the Golden State Portfolio is LEED certified (including two pending buildings). The benefits of LEED are many and have the potential to provide superior investment performance.

Studies have shown that LEED projects:

- Obtain higher rents
- Offer productivity gains with fewer employee sick days
- Provide employers with a recruitment tool for new employees and a strong retention rate for existing employees
- "Green" buildings generally have lower operating costs and enjoy a more favorable public image



Marketing Process/Key Dates

- 2/26/10 – 4/14/10** Offering Period
- 2/26/10 – 10:00 AM** Initial Flyer/Brochure release and Website Launch
- 3/2/10 – 4/14/10** Potential buyers that sign the registration agreement will:
- Obtain access to the electronic marketplace for the buyer selected property or properties to review the offering memorandum(s), BOMA studies, preliminary title report(s), 3rd party leases and ALTA survey(s) for the applicable property or properties; and
 - Be invited to property tours that will be conducted on announced dates.
- 4/14/10** The deadline for potential buyers' initial offer submittal
- 4/19/10 – 4/23/10** State evaluation of all initial offers*
- 4/23/10 – 5/6/10** At the State's discretion, potential buyers within the competitive range will be invited to participate in additional offer rounds.
- 4/23/10 – 5/20/10** Potential buyers within the competitive range will be invited to participate in a Best and Final round. During the Best and Final round, invited potential buyers will be provided a copy of the respective draft purchase and sale agreement for review and comment, proposed draft lease agreement(s) and confidential due diligence information which includes 3rd party property condition reports and building plans and specifications. The State may conduct buyer qualification interviews. Comments on the purchase and sale agreement must be provided with the offer.
- 5/24/10 – 5/28/10** State evaluation of all best and final offers*
- 5/28/10** Anticipated date of the selection of the buyer(s)
- Buyer(s) selection will be based on the following criteria:
- Offered Price;
 - Buyer's Financial Capabilities including potential need for debt as a condition of close;
 - Buyer Due Diligence and Closing Timing;
 - Buyer's Terms and Conditions;
 - Buyer's past performance; and
 - Aggregate Proceeds Analysis (Individual Sales, Partial Portfolio, Portfolio)
- * Buyers that tender offers on multiple assets are required to specify their pricing for each asset or the offer will be rejected. Any property complex that consists of more than one building, e.g. the Capitol Area East End Complex, the Franchise Tax Board Complex, the San Francisco Civic Center, and the California Emergency Management Agency shall be considered a single asset for the purposes of this paragraph.



PROPERTY SUMMARY

Property:

505 Van Ness Avenue
San Francisco, CA 94102

LEED® Certification:

LEED Silver



Year Built:

1984

Architectural/Structural:

Sidmore, Owings & Merrill

Number of Structures:

One 5-story office building including a 2 level parking garage

Parcel Numbers:

Block 0767, Lots 001 to 007 & 009 to 014

Site Area:

± 383,495 square feet (±1.94 acres)

Total Rentable Area:

270,768 square feet

Zoning:

C-2 (Community Business)

Floors:

5

Site Location:

The Property is located on Van Ness Avenue between McAllister Street and Golden Gate Avenue in downtown San Francisco, California. Adjacent properties consist of a combination of similar low to mid-rise office buildings.

Site Access:

Accessible paths of travel from the public sidewalk and parking areas are provided to the main building entry. Pedestrian access to the open air central public courtyard is from public sidewalks at the corner of Van Ness Avenue and McAllister Street, with both a set of monumental steps and a side accessible ramp, and a through-building breezeway from Golden Gate Avenue that connects at street grade. The parking garage access ramp is on Golden Gate Avenue.

General access control is provided by a guard station in the main lobby. A card access system is provided for access control with card readers located at the garage and at the Golden Gate Avenue entry. Closed circuit security cameras are provided inside and outside and are monitored and digitally recorded.

Signage:

Building signage consists of an approximately 20'-0" diameter circular State of California Seal. Surface-mounted metal address numerals are installed.

Elevators:

There are 7 elevators: 4 gear-traction passenger elevators, 1 gear-traction freight elevator, and 2 hydraulic elevators. The elevators were manufactured by Dover Elevator.

Elev. No.	Type	Capacity	Floors Served
1, 2, 3	Passenger, traction	3,500 lbs	1-5
4	Freight, traction	4,000 lbs	P2, P1, 1-5
5, 6	Passenger, hydraulic	3,500 lbs	P2, P1
7	Passenger, traction	3,000 lbs	1-5

Parking:

±235 garage stalls in 2 basement levels

The two-level below grade garage is accessed via a ramp off Golden Gate Avenue and is for private use of the building. A total of six disabled-accessible parking stalls and one van-accessible stall are provided. The surrounding public streets all have metered street parking. There are also other paid public parking garages in the immediate vicinity. The parking ratio for this building is ± 0.87 spaces per 1,000 rentable square feet.



Total Floor Area:

Floor	Rentable Floor Area	Gross Measured Area
Roof	8,344	8,645
5	44,164	46,780
4	52,521	54,882
3	52,522	54,678
2	52,482	54,643
1	46,474	50,800
LL1	10,582	15,517
LL2	3,679	4,581
TOTAL	270,768	290,526

Paving, Curbs and Sidewalks:

Paving: The entry drive ramp to the garage and loading dock area apron are concrete.

Curbs: The public sidewalk curbs are concrete and integral with the street gutter.

Sidewalks: Public sidewalks along all building elevations are concrete with a trowel finish.

Courtyard: The elevated central exterior courtyard has a geometric grid of concrete topping slab bands with ceramic tile infill.



Structure:

Vertical Load System: The elevated floors and roof deck consist of a lightweight concrete deck, reinforced with welded-wire fabric steel reinforcement, on a light gage steel corrugated deck. The deck spans to steel wide-flange beams and girders that are supported on steel wide-flange columns. The steel columns are partially encased in concrete in the parking areas and deliver the vertical loads to the foundation.

Lateral Load System: The lateral force-resisting system consists of the elevated concrete deck diaphragms which deliver lateral loads from wind pressure and seismic inertial forces to steel moment-resisting frames. The frames consist of steel wide-flange beams and columns and utilize pre-Northridge-type moment connections. The moment frames deliver the lateral loads to the foundation.

Roof:

A new Title 24 compliant base sheet, cold process coating and lightcolored aggregate surfacing system is currently being installed over the original built up roofing and rigid insulation on the steel deck. A new base sheet has been installed and coated with a Tremco Rock-It polymeric surfacing adhesive to adhere the light-colored fire-retardant aggregate. There are a number of smaller built up roofs at the top of the open courtyard stairways and the corner office bays. The main building entry from the central courtyard has a cantilevered metal canopy.

Exterior Finishes and Components:

Exterior walls consist of precast glass fiber reinforced concrete (GFRC) panels with a light sandblast aggregate finish and structural metal stud panel framing. The panels are typically \pm 4" thick and thicken to 8" at lateral tie in connections. The weather seal panel joints as well as between precast panels and aluminum windows frames, appear to be silicone sealant. The rear exterior walls are cement plaster over rigid insulation, sheathing and metal stud wall framing, with horizontal metal reveals and a paint finish. The underside of the roof has fiberglass batt insulation. The exterior horizontal ribbon windows have factory finished aluminum frames and single-pane tinted glazing, which also has interior solar film on the south and western facing elevations. Individual punched windows on the curved southeast building elevation facing the intersection of Van Ness Avenue and McAllister Street, as well as above the top row of horizontal ribbon windows on most other building elevations, are also matching aluminum and glass. Glass is held in place with extruded rubber glazing gaskets at frames. Main and secondary storefront type aluminum and glass entries have factory finished aluminum frames and tinted single-pane glazing. Soffits at open air entries to the building's open courtyard are painted Stucco. Exterior steps are typically cast concrete with stainless steel railings. There is a ramp off Van Ness Avenue to provide accessible access to the raised open central courtyard and main building entry. Three fire exit stairs face the central courtyard and are precast concrete treads and landings with painted metal railings.

Stairwell enclosure windows facing the outdoor central courtyard are clear single pane glass set in steel sash frames and the exit doors.

Exterior Doors and Frames:

The main building lobby entry doors are wood with glass lites. Secondary entry doors consist of clear anodized finish aluminum frames with tinted, single-pane, tempered glazing. The courtyard stair doors are painted steel frames with true divided glass lites. Service doors are typically hollow metal doors with a paint finish. The loading dock has one 30' wide by 15' high and one 12'-wide by 15' high motorized overhead coiling metal security grilles.

Office Area:

Office areas have carpeted floors, painted gypsum board walls, painted wood doors with lever-type hardware in aluminum or painted metal frames, lay-in acoustical tile ceiling set in a metal grid suspension system and recessed lay in fluorescent light fixtures. Vinyl flooring is installed at localized break and supply areas.

Common Areas:

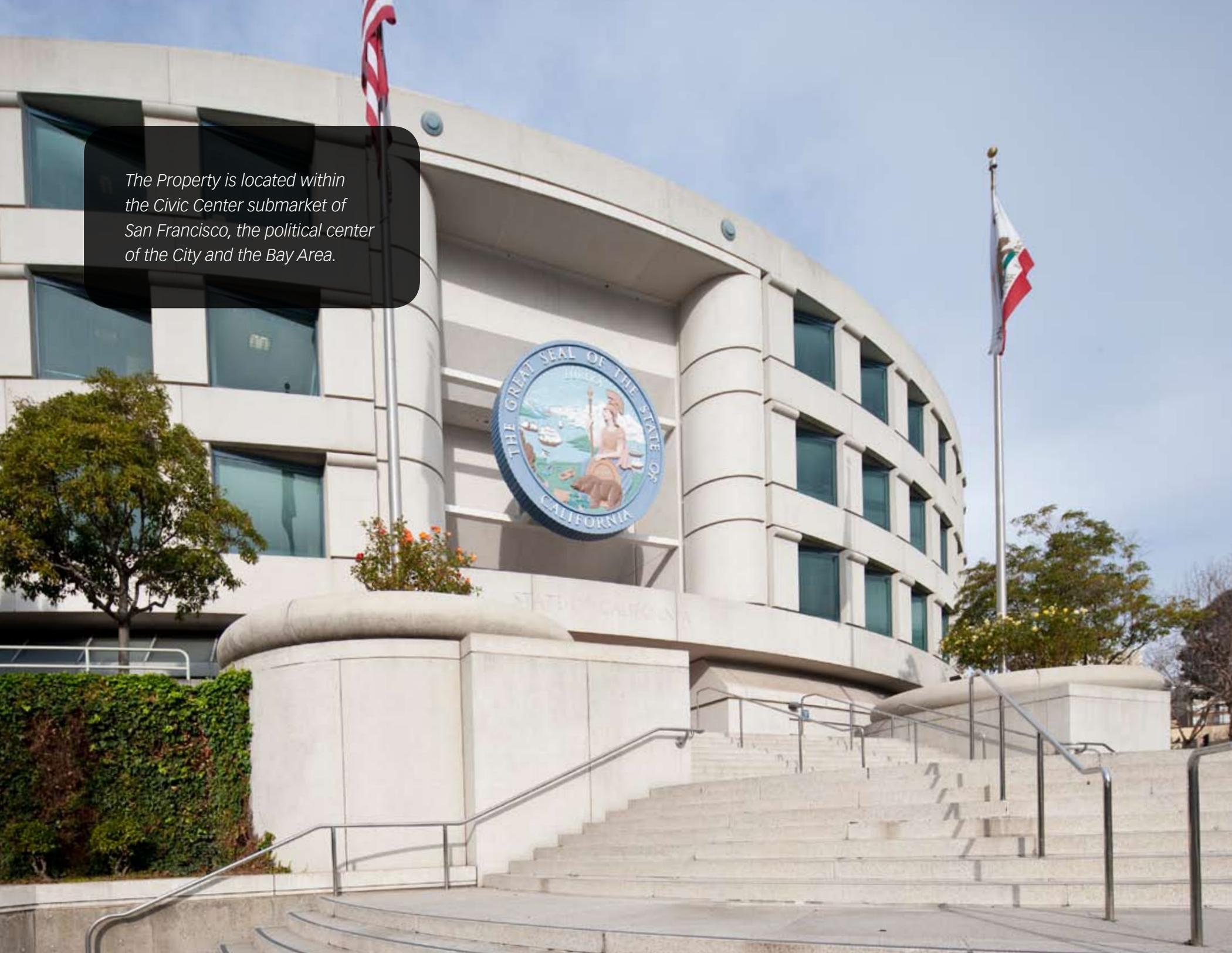
The central core contains the elevator lobby and elevator shafts, and separate multiple occupancy men's and women's restrooms on each floor. Circulation to the office areas disperses around the open central courtyard. Three emergency exit

stairwells are located at three corners of the open courtyard, and one additional exit stairwell is located at the northwest portion of the building.

The common areas include the main lobby, elevator lobbies at the upper levels, the cafeteria, the auditorium, and core area restrooms. The lobby is a one-story height space and has terrazzo flooring with painted gypsum board walls and ceiling, with recessed ceiling lighting and a security desk.

The upper level elevator lobby and corridor finishes include a combination of commercial-grade carpet, vinyl flooring, and gypsum board walls. Most upper level ceilings are typical acoustical drop in ceiling tiles, however ceilings at elevator lobbies are gypsum board with a paint finish. Floor 5 features concealed spline ceiling tile panels. Interior, restroom and service doors are typically wood with a paint finish in aluminum or painted metal frames with lever type hardware. Finishes in the common area restrooms generally include ceramic tile at the floors, a ceramic tile wainscot, painted gypsum board at the upper walls and ceilings, and floor mounted metal toilet partitions. Individual sinks are wall mounted with lever style hardware and have wall-mounted mirrors above. Plumbing fixtures and restroom accessories are commercial grade.

The Property is located within the Civic Center submarket of San Francisco, the political center of the City and the Bay Area.



Interior Lighting:

Office area lighting is generally fluorescent fixtures with T-8 lamps and electronic ballasts, with T-12 lamps remaining in localized service areas. Exit lights are generator-backed illuminated fixtures located at exits and indicate the path of egress. Emergency lighting is provided by generator-backed fixtures. Garage lighting consists primarily of suspended T-8 fluorescent lighting fixtures. Building soffits have recessed down lights.

Interior Doors:

Doors are typically wood with a paint finish in aluminum or painted metal frames with lever type hardware.

Loading Docks:

Redwood Street is utilized as a loading area for deliveries to the building and there is a concrete drive apron at the loading dock apron. The building has one 30' wide by 15' high motorized overhead coiling metal grille rollup door serving the two loading bays and one 12'-wide by 15' high motorized overhead coiling metal grille rollup door serving the trash compactor bay.

HVAC/Heating System:

Cooling is provided generally by two 200-ton Carrier water-cooled centrifugal chillers that use R-11 refrigerant. Heat from the chillers is rejected by two BAC cooling towers, each with VFD fan control. Total cooling capacity of 400 tons represents 565 square feet per ton based on the estimated 226,000 square feet of conditioned office area. The building

has a variable air volume air distribution system with a built-up air handling unit with three Flakt supply fans and three Flakt return air fans, located in the roof penthouse. Supply and return fans are VFD controlled for partload operation. VFDs were installed in 2002. Two 2,100-mbh input capacity Rite gas-fired forced-draft boilers produce heating hot water that is circulated to heating coils in VAV boxes.

The data center is served by two approximately 10-ton Liebert computer room air conditioning units with a separate Evapco roof-mounted cooling tower.

Outside air for the office areas is supplied through the air handling unit. Typical floor restrooms are exhausted by roof-mounted fans. The garage is ventilated by exhaust fans controlled by carbon monoxide sensors.

Automatic temperature controls are provided by a combination of pneumatic and Honeywell direct digital controls (DDC). Pneumatic air is used for thermostats, and damper and valve actuators and the Honeywell system interfaces with the pneumatic devices through transducers.

Energy Management System:

The Honeywell system performs the energy management functions and the control logic. The front end computer is located in the engineer's office.

Plumbing System:

Water Service: A domestic water service with meter and backflow preventer serves the buildings. A triplex booster pump system is provided but is abandoned because it is not needed for adequate domestic water pressurization. A separate irrigation water service is provided.

Domestic Water Piping: Domestic water distribution piping is copper tubing of an unknown type and the main is galvanized steel pipe.

Water Heaters: Domestic hot water is produced by an A.O. Smith gas-fired boiler with 300,000 Btu/hr input capacity and is stored in a 2,500 gallon tank. There is a solar heating system that uses solar collectors and stores hot water in a 2,000 gallon tank.

Plumbing Waste & Vent Lines: Sanitary waste and vent piping is cast iron.

Fixtures: Restroom facilities typically have wall mounted water closets and wallmounted urinals and lavatory sinks. Plumbing fixtures and restroom accessories are commercial grade. **Natural Gas:** The building is served by one natural gas service with earthquake shutoff valve. Gas is supplied to the building for the boilers, domestic water heater, and the kitchen.

Two duplex sump pumps are located in the lower level of the garage for storm and for sanitary waste.

A grease trap is located in the floor of the kitchen.

Electrical System:

Description of Service: The building is served by two 277/480-volt, 3-phase, 4-wire feeds from the local utility; both serve 2,500-amp main switchboards (MSB). Based on the total capacity of the two MSBs the resulting capacity is approximately 8.7 watts per gross square foot.

Electrical Distribution: Power is distributed from the MSBs to three electrical rooms on each floor located in the east, central, and west portions of the building. Step-down transformers are located in the second and fourth floors of the east and west risers and serve two floors. The central electrical rooms have step-down transformers on the third and fourth floors and serve two floors. High voltage lighting panels are located in each electrical room for lighting.



Emergency Power: There is one diesel-driven emergency generator with a capacity of approximately 150-kW. The generator is used to back up the building's fire and life safety systems and freight elevator. A UPS system of unknown capacity located in the computer room is used for computer room power-down.

An underground diesel fuel storage tank of unknown capacity stores fuel for the generator.

Fire/Life Safety System:

The building is Type-II non-combustible, steel frame construction with spray fireproofing of the main structural components, and fully fire-sprinklered with a light-hazard type wet system. Interior shafts are likely 2-hour rated shaftwalls with fire dampers at lateral distribution connections. Exit corridors are typically one-hour fire rated gypsum board walls full height to structure. Doors and frames are solid core wood in hollow metal frames labeled 3/4 hour. Glazed openings into the corridors have wired safety glazing.

Water for the fire sprinkler system is supplied by an 8" connection with backflow preventer. The building is protected by a full-coverage automatic wet-pipe fire sprinkler system with outside fire department connections on the building. The sprinkler system is pressurized by a 1,500-gpm, electric ITT fire pump located in the garage.

The computer room is protected by a Fenwall system with tanks located above the ceiling. Kitchen hoods are protected by An Ansul fire suppression system.

A Honeywell fire alarm panel monitors flow and tamper switches in the sprinkler system, smoke detectors in corridors and elevator lobbies, and monitors pull stations at exits. The fire alarm system activates ADA horn/strobes located throughout the building and garage. The fire alarm system is monitored on-site by the owner. The computer room has a separate fire alarm system with Fenwall panel that monitors smoke detectors in the space and below the floor.

Handheld fire extinguishers are located throughout the building.

Two fire hydrants are located at the public right-of-way at the intersection of Franklin Street and Golden Gate Avenue.

Utilities:

Water: City of San Francisco

Sewer: City of San Francisco

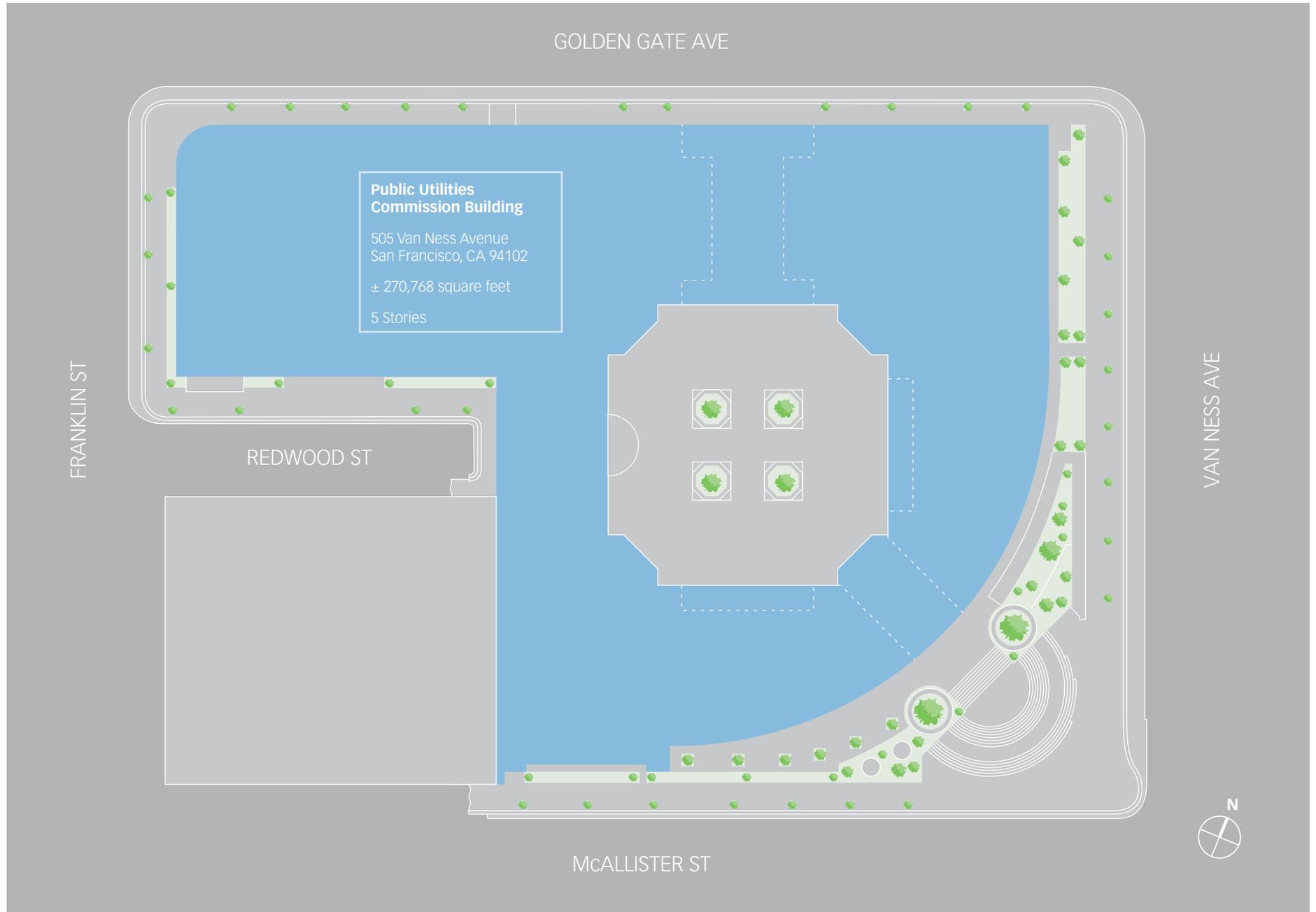
Electricity: Pacific Gas and Electric (PG&E)

Gas: PG&E

Telephone: AT&T



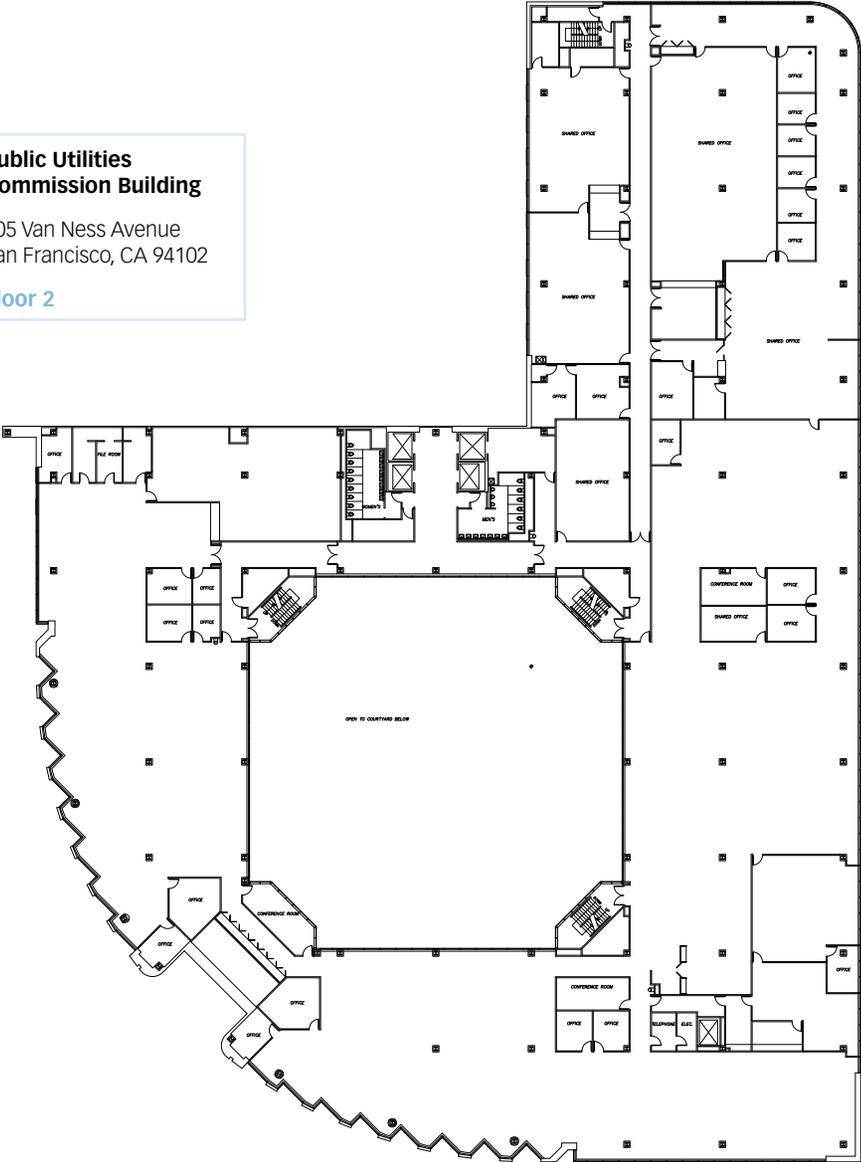
Site Plan



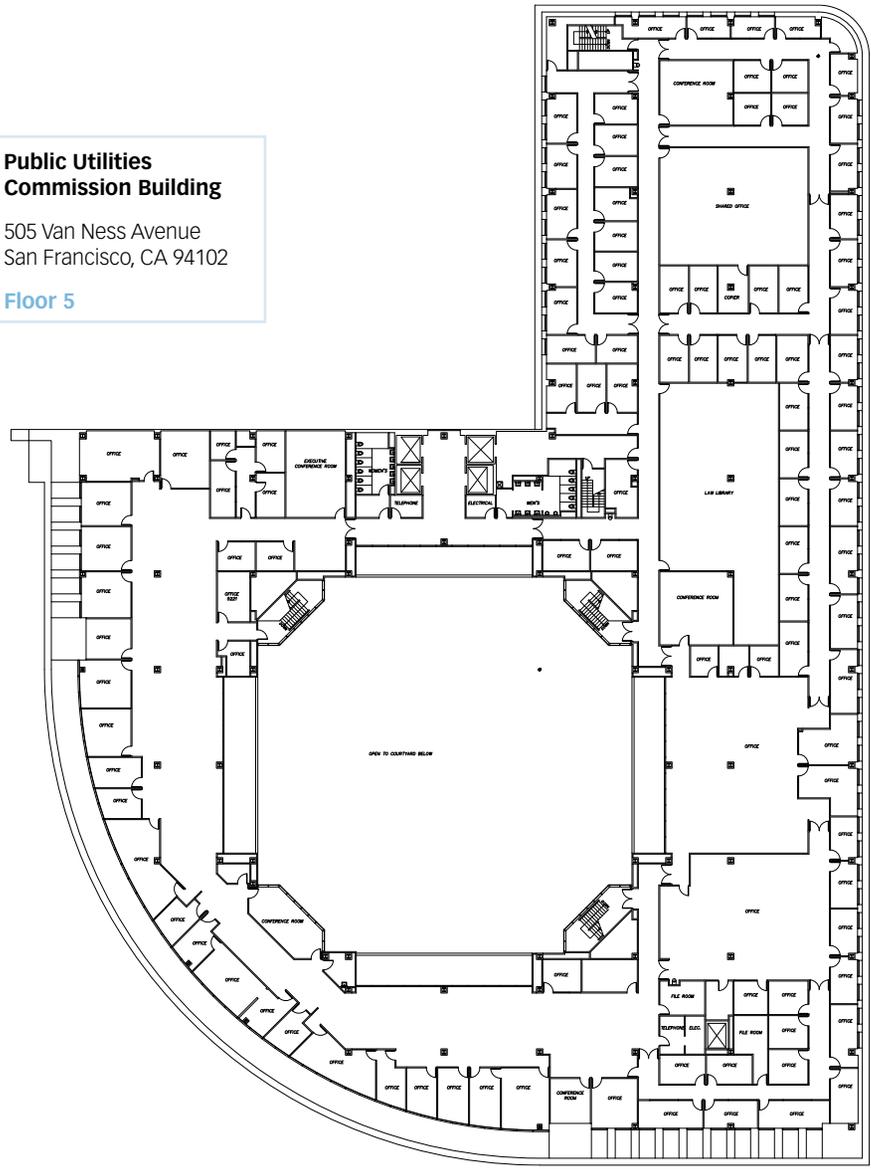


Representative Floor Plans

**Public Utilities
Commission Building**
505 Van Ness Avenue
San Francisco, CA 94102
Floor 2



**Public Utilities
Commission Building**
505 Van Ness Avenue
San Francisco, CA 94102
Floor 5







BAY BRIDGE

PUBLIC
UTILITIES
BUILDING

THE SAN FRANCISCO BAY AREA OVERVIEW

The San Francisco Bay Area has the unique distinction of being the most innovative place in America. The Bay Area is one of the most inventive, competitive economies in the world based on a productive and educated workforce, deep venture capital pool, concentration of research organizations, culture of innovation and receptivity to new ideas. Some of the highlights of the Bay Area include:

- Over 7.2 million residents and the highest percentage of graduate and professional degrees in the nation
- The second most densely populated major American city, after New York
- Home to 29 Fortune 500 companies and 32 of Inc. 500's fastest growing private companies
- Superb quality of life with a Mediterranean climate, world-famous wine country, world-class cultural resources, and the stunning natural beauty of the Pacific Ocean and the Sierra Nevada Mountains
- Highest concentration of venture capital firms in the world which have invested an average of \$10 billion annually in 1,100 local area firms
- Proximity to outstanding education and research institutions at Stanford University, University of California at Berkeley, University of California at San Francisco, University of California at Davis, Santa Clara University and San Jose State University

Knowledge-Based Economy

With its longstanding reputation for cutting-edge innovation, the Bay Area has always required one of the most specialized and educated workforces in the country. The Bay Area has the highest share of population with a bachelor's degree and the largest number of top 10 graduate programs. For the more specialized industries, academic excellence ensures an ongoing supply of highly-educated researchers. In fact, one in four of California's biotech firms were founded by University of California scientists.

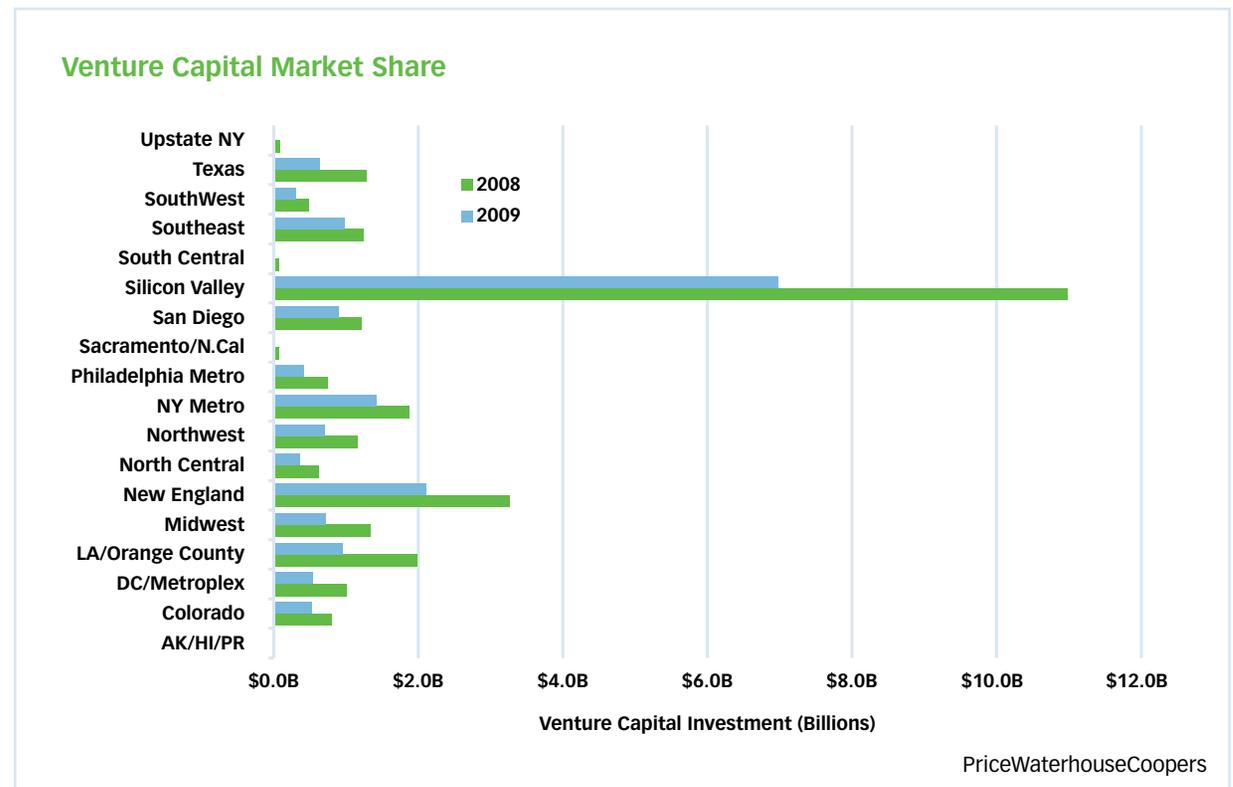
Recent literature by acclaimed author, Dr. Richard Florida, credits the knowledge workers of the Bay Area as the main catalyst for economic growth in his publication, *Who's Your City?*. He cites the Bay Area as the premier location for this "creative class," with its established demographic talent, diverse and tolerant community, and the advanced technology infrastructure necessary to fuel an entrepreneurial culture. Those, he claims, who can "create outcomes in new ideas" will bring any region to great economic power and growth.

Venture Capital Funding

The San Francisco Bay Area lays claim to the highest concentration of venture capital firms in the world. By providing capital and management expertise to burgeoning companies, venture capitalists facilitate ground-breaking innovation. Companies such as Cisco, Intel, Oracle, Apple and Genentech were all funded by venture capitalists before they grew to the multinational corporations they are now. These Bay Area companies are evidence of the proximity advantage. Those close to venture capitalists tend to attain financing faster: Bay Area start-ups gain financing on average 11.6 months after launch, compared to an average of 16.6 months across the nation. Thus the Bay Area has become the venture capital “capital” of the world, receiving 39.5% of all venture capital invested in the US, amounting to nearly \$7 billion in 2009.

Venture capital funding has contributed to the Bay Area’s leading position in global innovation as it has evolved with and facilitated the repeated waves of major new technologies. The latest rounds of funding have focused on the clean tech industry, as the market for products/services which reduce energy consumption is rapidly gaining momentum. Venture capital investment in clean tech has grown nearly 350% from 2005 levels, totaling \$2.2 billion

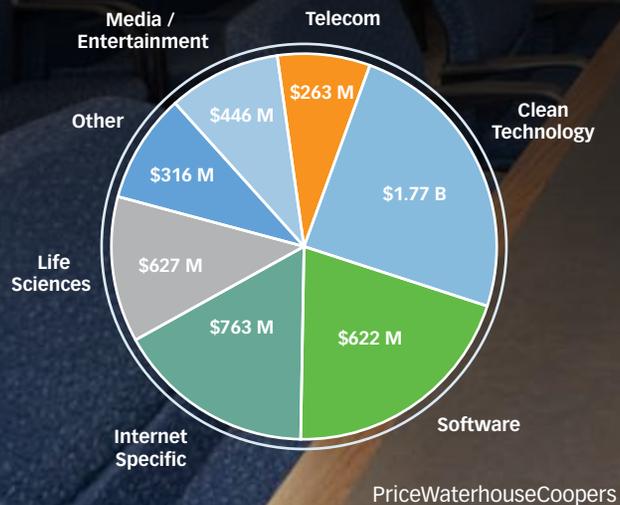
in 2007. The Bay Area leads the charge, accounting for 62% of California’s and 21% of US investment. The arrival of regional initiatives has also established Bay Area clean tech predominance, with over \$750 million invested into environmental research by the US Department of Energy and the British Petroleum Corporation.



Life Sciences

The Bay Area is home to the nation's largest concentration of basic and applied research facilities in the country with six leading research universities, five national laboratories, and numerous private and independent research labs and organizations. Touted as the "birthplace of biotechnology," the Bay Area is the leading life science region with approximately 1,300 life science companies providing more than 100,000 jobs to the area. The life science industry brings high-paying jobs and tremendous growth potential based on expected pending breakthroughs in medical research. In all, the industry generates more than \$62 billion in revenue for Northern California.

2009 Venture Capital Investments By Sector



Global Orientation & Trade

The Bay Area's global presence is supported by a sophisticated trade infrastructure, generating \$80 billion annually. Three international airports and the nation's fourth largest container port provide a logistical base that ensures its companies are among the most globally connected in the world. The global demand for the Bay Area's technology products and services has been a driving factor behind the region's economic expansion and accounts for a large share of revenue for tech companies in the region.

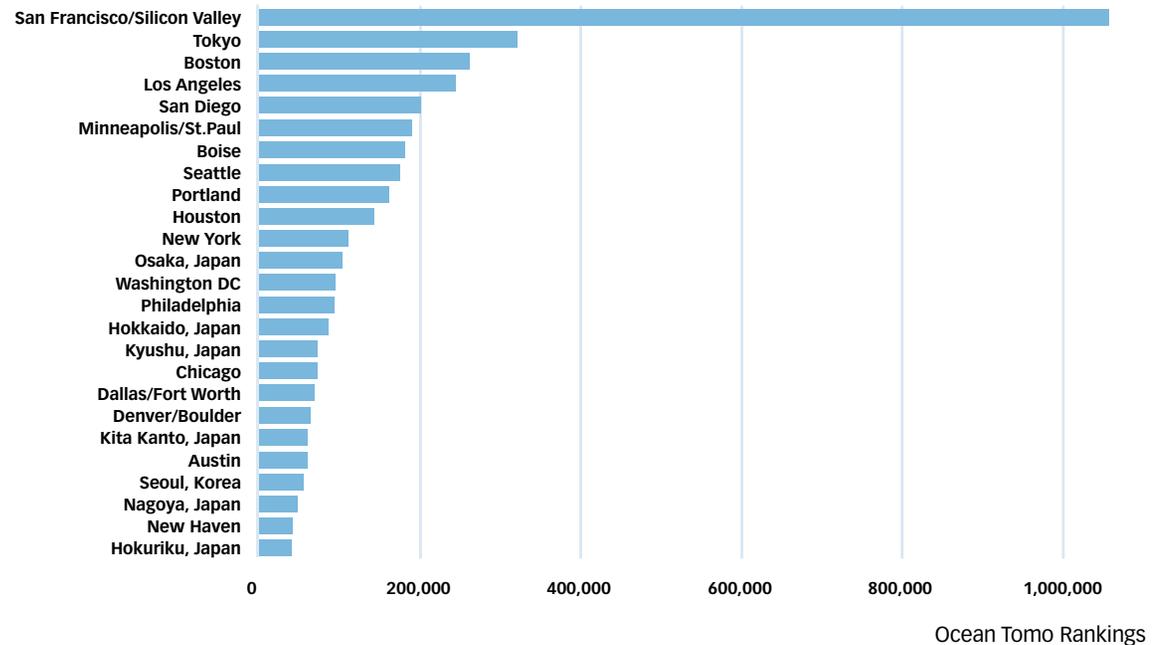
A Center of Innovation

It is not surprising that the Bay Area has the unique distinction of being the most inventive place in the world. A recent Business Week article ranked the top inventive cities in the world according to Ocean Tomo, a Chicago-based financial research and services firm. The company based their findings on the value of patents awarded since 1976 based on 50 factors, including patent maintenance fees and how many times each patent is cited in new ones and then cross-referenced with the addresses of the first-listed patent holders.

San Francisco/Silicon Valley was number one on the list by a huge margin. The Bay Area benefits from an unparalleled creative center which boasts strong biotech, research firms, universities and labs.



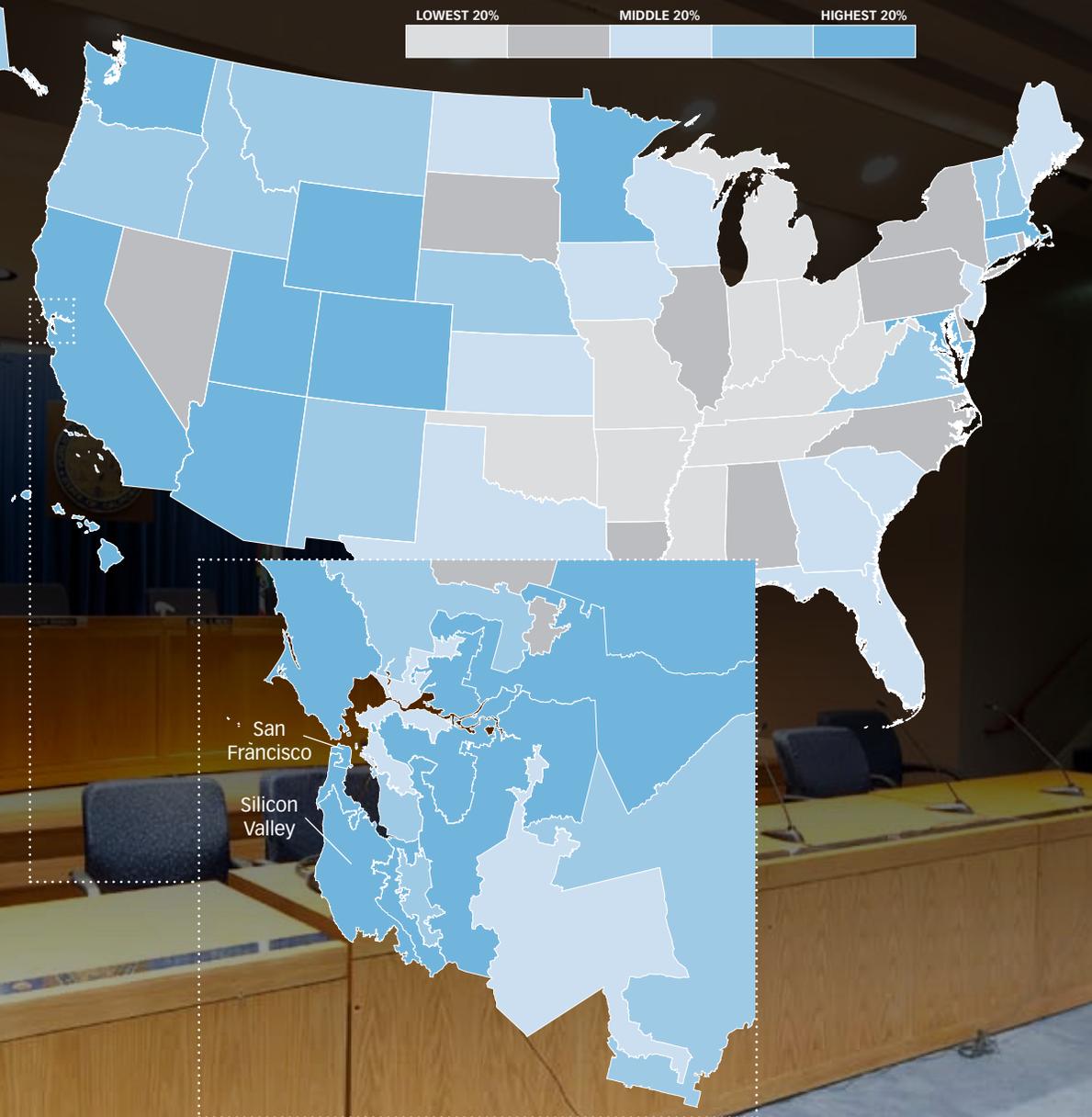
Top 25 Inventive Cities In The World



The Well-Being Index

While superior quality of life and the Bay Area have often been synonymous, a recent nationwide survey has helped quantify this statement. The Gallup Corporation created an index to rank the desirability of places throughout the country, and the Silicon Valley ranked number one in the nation. The Gallup-Healthways Well-Being Index ranks places according to the following six general metrics: Life Evaluation, Emotional Health, Physical Health, Healthy Behavior, Work Environment, and Basic Access. (<http://www.aphiwire.org/wellbeing/>).

California's 14th Congressional district, which comprises portions of San Mateo, Santa Clara and Santa Cruz counties ranked at the top of the list of all 435 Congressional districts in the country with respect to the Well-Being Index (see map). Silicon Valley's #1 ranking overall includes the following highlights: work quality (#1 in the country) and healthy behavior (#2 in the country). Other congressional districts in the Bay Area were not far behind and ranked in the top 20% in the country according to the poll.



SAN FRANCISCO OVERVIEW

Home to over 800,000 residents and numerous major publicly traded and private companies, San Francisco is among the most popular cities in the world to live, work and visit. The city's economy boasts great diversity, with substantial financial services, professional services, technology, real estate, entertainment, consumer goods, advertising, biotechnology, tourism, education and engineering sectors.

Employment

As the financial center of the West Coast, Montgomery Street is known as the "Wall Street of the West", San Francisco is home to the 12th District Federal Reserve Bank, the Federal Home Loan Bank and the California State Banking Department. Also headquartered in San Francisco are Wells Fargo and Bank of America (western region), two of the largest banks in the country. International bank Barclays Global Investors, the largest money manager in the world also calls San Francisco home. Large financial service firms such as Bank of America Securities and Charles Schwab are headquartered in San Francisco. Investment banks such as Goldman Sachs, Morgan Stanley and JP Morgan Chase all maintain regional headquarters in the city. San Francisco will always rank among the preeminent business locations in the United States.



The following is a list of the largest public companies located in San Francisco ranked by revenue:

Company	Industry
McKesson Corp.	Pharmaceutical
Wells Fargo & Co.	Banking
PG&E Corp.	Utility
Gap Inc.	Retail
URS Corp.	Engineering
Charles Schwab Corp.	Financial Services
Del Monte Foods Co.	Food
ABM Industries Inc.	Commercial Services
Williams-Sonoma Inc.	Retail
Salesforce.com Inc.	software

Life Sciences and Mission Bay

Life sciences firms, historically headquartered just south of San Francisco, are gravitating into the City mainly due to the world-class biomedical research performed at the University of California San Francisco (UCSF). In addition, Mayor Gavin Newsom has shown support to extend a biotech exemption tax through 2014. Estimates suggest that more than 2,200 life science jobs have been created since the incentive was made available in 2004 and has been key to attracting businesses from one of the nation's fastest growing industries. Also, with California's Proposition 71 passed in 2004, which allocated \$3 billion in bonds to fund stem cell research, the Independent Citizen's Oversight Committee selected San Francisco as the headquarters for the California Institute of Regenerative Medicine. The focal point for life sciences firms is now Mission Bay, a 303-acre development project near San Francisco's CBD that includes a 43-acre biotech research campus for UCSF, office buildings, apartments, condominiums and neighborhood retail.



STATE OF CALIFORNIA

STATE OF CALIFORNIA
LEGISLATIVE CENTER
BUILDING

STATE OF CALIFORNIA
LEGISLATIVE CENTER
BUILDING



PUBLIC
UTILITIES
BUILDING

MARKET ANALYSIS

San Francisco Office Market

The San Francisco office market consists of approximately 80 million sf. Major submarkets include the Financial District with 26.4 million sf and the South Financial District with 23.2 million square feet. The Civic Center/Van Ness submarket comprises only 3.1 million sf of the total market.

The economic downturn that plagued 2009 took its toll on the San Francisco office market; however, at year-end, a few positive signs emerged in market fundamentals. Availability and vacancy decreased slightly as activity in the market picked up in the fourth quarter. Absorption, although minimal, was positive for the first time in six quarters and was a

significant improvement from the more than 1.8 million SF of negative absorption in the first half of the year. The fourth quarter experienced a further decline in lease rates, although it was the smallest drop in six quarters. With a significant amount of lease rollover in 2010, transaction volume is expected to increase next year; however, growth from these tenants will be dependent upon an economic rebound. Two economic indicators that historically have been tied to the San Francisco office market, the NASDAQ and Silicon Valley venture capital funding, have shown signs of recovery. Since the end of 2008, NASDAQ has increased 30%, and Silicon Valley venture capital funding nearly

doubled from the second to the third quarter of 2009. These signs, coupled with positive absorption this quarter and a decline in the vacancy rate, hint that the bottom may be near for the San Francisco office market.

A large component of the five million SF of tenant demand will potentially convert into renewal activity in 2010. In fact, existing financial, legal and business services tenants are looking to right-size their current space; however, since these companies have been more efficient with their office usage, the amount of space to be given back is predicted to be minimal.

San Francisco Office Market Q4 - 2009

Submarket	Net Rentable Area	Total Vacancy	Class A Vacancy	Average Asking Rate			Q4 Net Absorption	Y-T-D Net Absorption
				Class A	Class B	Class C		
CBD	48,256,376	13.4%	13.4%	\$34.27	\$27.50	\$22.95	63,395	(894,495)
North Waterfront/Jackson Square	4,837,695	17.5%	20.5%	\$31.00	\$27.00	\$26.00	12,612	(316,739)
Rincon/South Beach	2,721,511	11.5%	4.6%	\$34.50	\$28.50	\$23.00	36,115	(56,657)
Yerba Buena	3,316,424	22.2%	54.2%	\$31.00	\$27.00	\$24.00	8,792	(244,759)
South of Market	2,729,010	17.6%	4.6%	\$28.00	\$25.50	\$19.00	4,500	(83,995)
Multimedia Gulch	3,406,757	26.5%	49.5%	\$33.00	\$28.50	\$25.50	(152,877)	(234,804)
Mission Bay/China Basin	2,261,508	22.3%	22.3%	\$34.00	N/A	N/A	20,609	142,334
Potrero Hill	2,088,242	14.8%	15.8%	\$28.00	\$26.00	\$25.00	(13,186)	(68,969)
Civic Center/Van Ness	3,156,141	11.4%	4.5%	\$27.00	\$22.00	\$19.00	15,871	(44,530)
Union Square	3,765,705	12.5%	7.2%	\$31.00	\$25.00	\$23.00	12,031	(160,429)
San Francisco Office Market	76,539,369	14.9%	15.1%	\$33.79	\$26.70	\$22.94	7,862	(1,963,043)

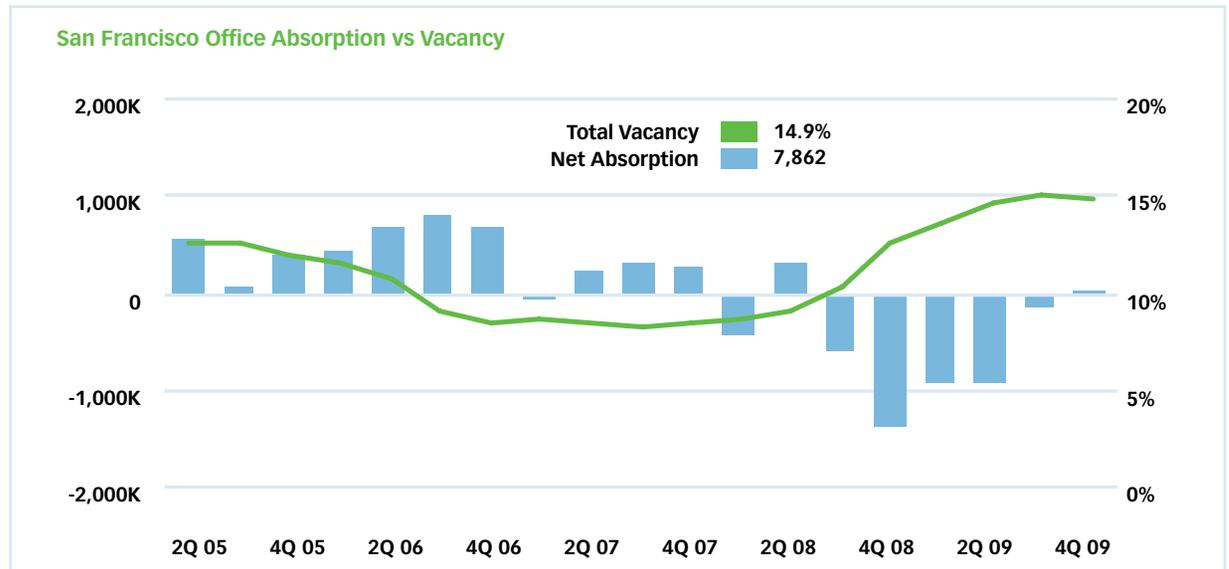
This trend marks a difference from the last downturn when tenants were sitting on large amounts of excess space that eventually hit the market. In 2010, capital constraints may limit relocations and expansions like Del Monte, which signed a lease for 153,000 SF at 1 Maritime Plaza this quarter.

San Francisco has long been a desired location for technology tenants; this was evident in 2009, as demand from technology companies more than doubled. Over 70 tech tenants are currently being tracked in the market, with many anticipated to contribute to new growth.

In addition, biotechnology/life science companies from around the world are relocating to San Francisco, specifically, in the Mission Bay submarket. The result of occupancy from these tenants will be absolute growth. Going forward into 2010, San Francisco's ability to attract a wide variety of tenants will allow the market to remain ahead of the curve as the national economy slowly recovers.

Civic Center/Van Ness Submarket

Class A averaging asking rents in the Civic Center submarket stood at \$27/sf/yr in Q4 2009. Since the year 2000, asking rents have averaged \$30.82/sf/yr, reaching a high of \$52.53/sf/yr in Q2 2000. Average Class A asking rents in the San Francisco CBD stood at \$34.27/sf/yr in Q4 2009. The Public Utilities Commission Building is one of the top buildings in the submarket, across the street from City Hall, which is the center of the Civic Center submarket. The State of California will have an



initial annual leaseback rent of \$35.84/sf modified gross (\$2.99/sf monthly) for the property for twenty years.

The market rent for the Property is significantly higher than current average asking rent in the Civic Center submarket for the following reasons:

- Above average interior finishes not found in the submarket
- Attractive open courtyard that provides tenants with much sought after open space and public assembly area, and allows for additional window-line to the floorplates
- The Property's office space is more comparable to Class A properties in the CBD submarket, where average asking rents are currently \$34.27/sf/yr, and range up to \$60/sf/yr.

- The Property affords a critical mass of square footage unmatched in the submarket - large users have few comparable options in the entire San Francisco office market let alone the Civic Center submarket.

- LEED Silver certification commands a premium over non-certified properties
- Irreplaceable location across the street from City Hall

The Civic Center submarket contains many of the city's largest governmental institutions and has two large plazas, Civic Center Plaza and United Nations Plaza.

Rich in culture and history, the United Nation's Charter was signed in the War Memorial Veteran's

Building's Herbst Theatre in 1945 leading to the creation of the United Nations, this submarket has withstood the test of time and changing economic climates. In the 1980's and '90s, the Louise M. Davies Symphony Hall, the Main Library and the Asian Art Museum were all added to this diverse submarket.

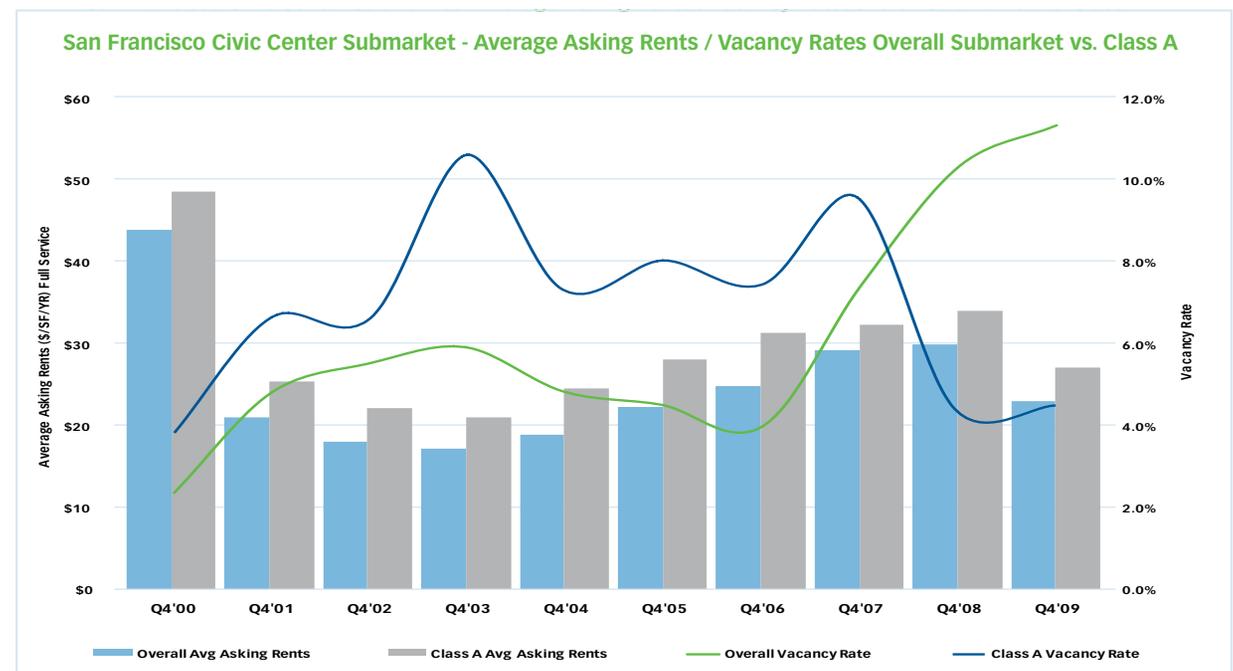
San Francisco's Civic Center office submarket is generally defined as the triangular area bound between Turk and Market Streets running west to Van Ness Avenue. The Civic Center office submarket comprises approximately 3.1 million square feet, and total vacancy as of the fourth quarter 2009 is approximately 11.4%, lower than the 14.9% vacancy for the overall San Francisco office market.

There is a relatively limited total supply of Class A space in the Civic Center submarket, which consists of approximately 980,000 square feet. Class A vacancy in the Civic Center stands at a tight 4.5% as of the fourth quarter 2009 illustrating the lack of available Class A space in the submarket. Office users in the area tend to be government tenants and larger corporate users.

Average asking rents measure the rates achievable for available space. With the minimal amount of Class A space for lease in the submarket, the current average asking rents substantially underestimate the rent levels achievable for the property under consideration if it were available for lease as none of the available space in the market is comparable to the property. As seen historically, as vacancy rates tighten in the Civic Center submarket, rent levels can grow significantly.

The Civic Center submarket is anchored around the Civic Center Plaza and City Hall. Office space proximate to City Hall commands a premium as major governmental users and supporting services must locate offices near this central location.

The Civic Center submarket has seen virtually no sizable "for lease" office construction in the last 20 years, and the general quality of office space in the submarket is inferior to similar properties in downtown San Francisco. Properties with high quality construction and finishes command a significant premium over average properties given the scarcity of true Class A high quality office space.





Big Sur

STATE OF CALIFORNIA OVERVIEW

The State of California is a critical economic engine for both the United States and the world. Exemplifying a diverse economy that accounts for approximately 13% of the total Gross Domestic Product (GDP) of the United States, California would rank among the top ten nations globally if it were an independent country with an estimated GDP of \$1.8 trillion in 2008. As the most populous state in the US with approximately 37 million residents, California is forecast to continue to enjoy future population growth above the national average in

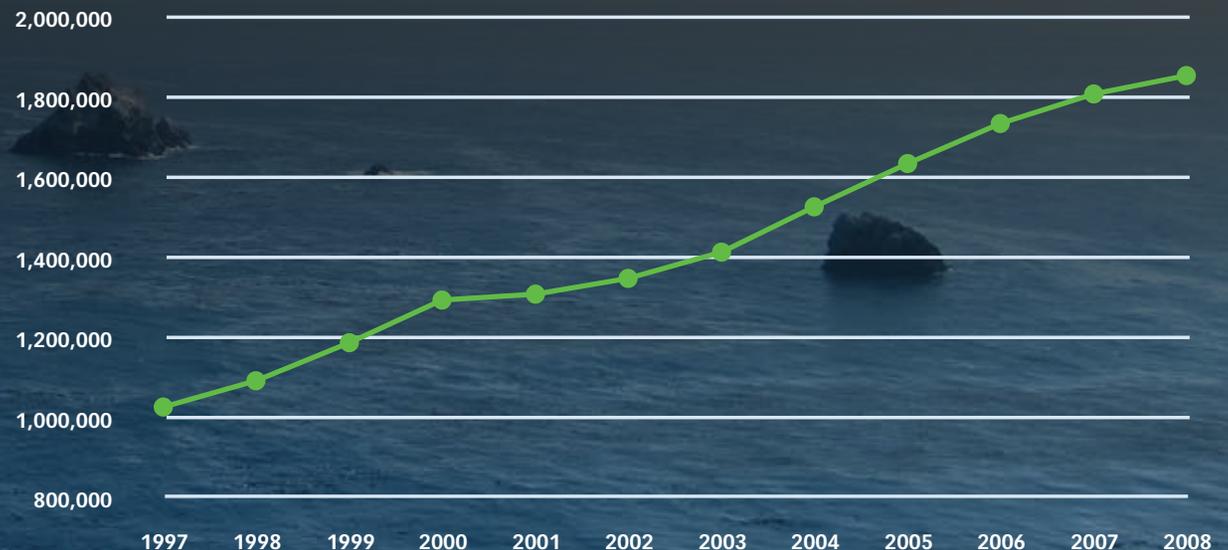
part due to its temperate climate, excellent quality of life, diverse population, world-renowned cities and its position as the gateway to the Pacific Rim. Additionally, California prides itself on striving to be the "greenest" and most eco-friendly states in the country. California's desirable quality of life, vast coast lines and massive valleys, diverse educated work force and uniquely entrepreneurial spirit position it to continue as the nation's most dominant economy.

- Largest state population of ±37 million
- One of the top 10 largest economies in the world
- \$1.8 trillion State GDP
- 3rd largest state by area
- Lowest in per capita energy usage
- 2nd in hydroelectric power potential
- 3rd in crude oil production
- Most major professional sports league franchises (19)

Economy

California's economy has long been an influential force within the United States and the world. With a gross domestic product of approximately 13% of the overall U.S. total, the largest of any state, the gross state product for California was approximately \$1.8 trillion at year-end 2008. California exported \$144 billion worth of goods in 2008, increasing from \$134 billion in 2007 and \$127 billion in 2006. Computers and electronic products are California's top exports, accounting for 42 percent of all the state's exports, according to California Chamber of Commerce trade statistics. California exported to 226 foreign markets in 2008, contributing to a positive annual rate growth of 15 percent. California enjoys the enviable position of being the United State's gateway to the Pacific Rim. California's trade and international commerce account for nearly ¼ of the State's GDP.

GDP of California from 1997-2008

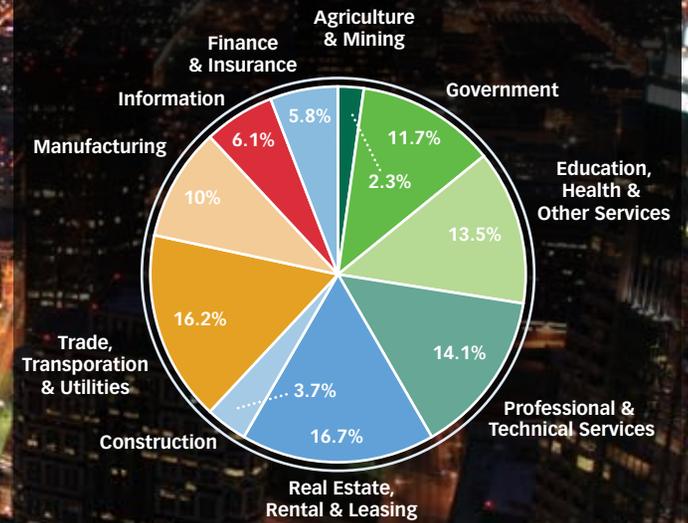




Downtown Los Angeles

According to the Bureau of Economic Analysis, the five largest job sectors in the State are real estate, rental and leasing; trade, transportation and utilities; professional and technical services; education, health and other services; and government. Additionally, California had a total personal income (TPI) of \$1.6B in 2008, a two percent increase from 2007, which ranks 1st in the United States.

GDP of California 2008



Tourism & Entertainment

California is one of the most visited states in the United States. Two of the top international ports of entry to the US were Los Angeles (ranked 3rd) and San Francisco (ranked 6th), accounting for approximately 14.5% of tourism through November 2009. According to the California Travel and Tourism Commission, approximately 14 million persons visited the state of California in the year 2008 and spent \$97.6 billion throughout the state. The State also has the largest market share of domestic travel of all 50 states, 11.3% in 2008.

Los Angeles has long been a favorite tourist city due to the glamour of Hollywood, fame of movie stars and the gorgeous Pacific beaches that charm many guests. Additionally, San Francisco has also held a soft spot in the hearts of tourists, as one of the most beautiful cities in the world. With its distinctive hills and streets, stunning bay views and the Golden Gate Bridge, San Francisco attracts travelers from all corners of the globe.

Tourists also travel to California for athletic events. The state hosted the 1960 Winter Olympics, the 1932 and 1984 Summer Olympics in Los Angeles, in addition to the 1994 FIFA World Cup. Additionally, California has nineteen major professional sports league franchises, far more than any other state. The San Francisco Bay Area has seven major league teams spread over three cities, San Francisco, Oakland and San Jose. The Greater Los Angeles Area is home to ten major league franchises, while Sacramento and San Diego add two major league teams to the State's total.





Pebble Beach



California Redwoods



Yosemite National Park

Geography

The State of California is located on the West Coast of the United States. California is bordered by Oregon to the north, Nevada to the northeast, Arizona to the southeast, the Mexican state of Baja California to the south, and the Pacific Ocean to the west. The Los-Angeles-Riverside-Orange MSA ranks as the second largest consolidated metropolitan area in the United States, and San Francisco-Oakland-San Jose MSA as the fourth. With eight of the nation's fifty most populous cities, California is home to the nation's second and sixth largest census statistical areas respectively.

California is the third-largest U.S. state by land area, after Alaska and Texas. The State's geography is vast and ranges from the Pacific coast to the Sierra Nevada mountain range in the east, to the Mojave desert in the southeast and the redwood, pine and fir forests of the northwest. Approximately 45% of California is covered by forests and contains more forestland than any other state except Alaska. The Central Valley, running approximately 400 miles from north to south, is one of the most productive agricultural areas in the world.



Torrey Pines Gliderport, San Diego

LEASE ABSTRACT

Tenant: State of California

Premises: Public Utilities Building
505 Van Ness
San Francisco, CA

Net Rentable Area: 269,268 square feet

Commencement Date: The Lease Term shall commence at close of escrow

Lease Term: Lease Term shall be twenty (20) years (240 months)

Rent: Rent shall be paid by the State in arrears on the last day of each month during the Lease Term as follows:

Years	SF	\$/Month	\$/SF/Month*	\$/Year	\$/SF/Year*
Years 1 to 5	269,268	\$804,167	\$2.99	\$9,650,000	\$35.84
Years 6 to 10	269,268	\$884,583	\$3.29	\$10,615,000	\$39.42
Years 11 to 15	269,268	\$973,042	\$3.62	\$11,676,500	\$43.37
Years 15 to 20	269,268	\$1,070,346	\$3.98	\$12,844,150	\$47.70

Note: Escalations in Base Rent detailed in the above Rent schedule are calculated on the basis of a 10% increase on the fifth (5th) anniversary of the commencement date and on each fifth (5th) anniversary thereafter.

*Rounded to two decimal places

Gas/Electricity: In addition to Rent, the State shall pay directly the cost of gas and electricity.

Parking: Two hundred thirty five (235) parking spaces. State shall have the exclusive right (but not the obligation) to use all parking at a charge of \$250 per stall per month, payable in arrears. The parking rate shall increase by ten percent (10%) on the fifth (5th) anniversary of the Commencement Date and on each fifth (5th) anniversary thereafter.

Services, Utilities and Supplies: Lessor, at Lessor's sole cost and expense, with the exception of payment for gas and electricity, shall provide the full range of services, utilities, and supplies to the entirety of the State's premises (including but not limited to): sewer, trash disposal, water, elevator service, janitorial services and property management services all of which shall be in similar levels and quantities as those provided under other Full Service leases in comparable quality office buildings in the same market area.

Repair and Maintenance and Capital Repairs and Replacements:

Lessor shall maintain the entire leased premises (including occupied space) and the building and property of which they are a part (to include site, landscape and parking areas and structures) in good repair and tenable condition during the entire Lease Term. Such maintenance and repairs and replacements shall include but not be limited to: ongoing maintenance of designated special equipment, annual testing and maintenance of all fire extinguishers, replacing inoperative lighting, repairing floor covering as necessary and replacing all building system components (including roof) as and when required.

CPI Escalator Operating Expense:

On the first anniversary date of the Lease, and each twelve (12) months thereafter, the monthly Rent will automatically increase or decrease by one-twelfth ($1/12^{\text{th}}$) of an amount that will be determined by multiplying the base amount of \$3,241,203 by the percentage that the applicable CPI index for the preceding 12 months increased over or decreased under the same index, for the month of June, 2010, which shall be the base period.

Property Tax Expense Escalator:

On the first anniversary date of the Lease, and each twelve (12) months thereafter, the monthly Rent will automatically increase by one-twelfth ($1/12^{\text{th}}$) of an amount determined by multiplying the annual property tax expense for the preceding twelve (12) months by the actual percent increase capped at 2%. Initial property tax expense shall be based on the initial purchase price, and will not reflect future changes in value due to subsequent sales.

Painting and Carpet:

Lessor agrees at Lessor's sole cost and expense to repaint all interior painted surfaces upon or after the sixtieth (60^{th}) month of the Lease Term and every sixty (60) months thereafter. Further, Lessor shall replace all carpet and floor covering upon or after the one hundred twentieth (120^{th}) month of the Lease Term and every one hundred twenty (120) months thereafter.

Assignment and Subletting:

No assignment of Lease without prior written consent of the Lessor, which shall not be unreasonably withheld; State may sublet the premises, or any portion thereof.

Insurance:

Lessor shall furnish to the State a certificate of insurance as evidence of insurance as fully set forth in the Lease paragraph 33 and briefly to include: (1) Commercial General Liability of not less than \$1,000,000 combined per occurrence and \$10,000,000 General Aggregate with State as additional insured; (2) commercial property insurance for full replacement cost (max deductible \$100,000) to include business income coverage equal to 24 months Rent and with State as additional insured; (3) Automobile Liability with State as additional insured; (4) Workers Compensation Insurance with Waiver of Subrogation in favor of State; (5) Employee Dishonesty blanket insurance with limit of not less than \$1,000,000 and with State named as loss payee; and (6) for demolition and construction activities, Pollution Liability coverage of not less than \$3,000,000 per occurrence and Builder's Risk/Installation Floater covering labor, materials and equipment.

Property Taxes:

The State, as part of its rent, shall pay any property taxes assessed against the leased premises as a result of the sale of same from the State to a subsequent purchaser. In the event that an obligation to pay property taxes does not exist, the State shall be provided with an annual credit against its Rent equal to the amount of the taxes not assessed.

Right of First Refusal:

At any time that is ninety (90) days or more prior to the then scheduled lease termination date, if Lessor receives bona fide offer from unaffiliated third party to purchase Lessor's interest in Property, State shall have up to thirty (30) days from receipt of Lessor's written notice of receipt of such offer to respond in writing advising Lessor of State's election to acquire Lessor's interest in Property under same terms and conditions as those set forth in such third party offer.

Option to Renew Lease:

State shall have the option to extend the term of this Lease for six (6) additional terms of five years each, on the same terms, conditions and covenants as are set forth in this Lease, with the exception of Basic Rent and CPI escalator operating expenses. State shall provide written notice of its intention to extend this Lease at least twenty four (24) months prior to the expiration of the then applicable term of its Lease. Rent during the then applicable renewal term shall be set on the basis of the same schedule of ten percent (10%) increases at the end of each five years that applied to the Initial Term, thus the monthly Rent during the applicable renewal term shall be equivalent to one hundred and ten percent (110%) of the monthly Rent payable during the immediately preceding year of the Lease. Further, the amount of the base amount for the CPI Escalator Operating expenses shall be equivalent to the amount applicable to the immediately preceding twelve month period (the last twelve months of the immediately preceding lease term) and increased or decreased by the percentage in the applicable CPI Index and the base period shall be the first twelve (12) months of the applicable renewal term. The parties shall enter into a brief lease amendment incorporating the applicable rent and the revised CPI escalator operating expense provision.

Onsite Management:

Lessor agrees to furnish the services of an onsite professional property management company at Lessor's sole cost and expense. Said duties shall be more particularly described in exhibits to the lease attached thereto.

Operating Lease:

The Lease is intended to be treated as an Operating Lease on behalf of the State, under current FASB/GASB rules governing Operating Lease standards (i.e. FAS 13, FAS 66 and FAS 98). Bidders will be responsible for demonstrating that their purchase offers will comply with these standards.



Included in the following section is the Financial Analysis to assist investors in their underwriting:

- Cash Flow Assumptions
- Expense Detail
- Rent Roll
- Cash Flow Projections

Cash Flow Assumptions

For purposes of our analysis the cash flow period begins July 1, 2010 and has been prepared using ARGUS v14. A copy of the ARGUS file is available on the website.

Year One Rents:

	Annual	Type of Lease	Total RSF	% Total
State of California	\$35.84	Modified Gross	269,268	99.45%
Property Management Office	\$35.84	Modified Gross	1,500	0.55%

Market Rent Growth:

3% - Fiscal Year Ending June Inflation

Expense Recoveries:

Modified Gross – Electricity and Gas are paid directly by the State of California. The State of California will also be responsible for the building security.

Lease Term:

20 years initial term with six (6), five (5) year options to renew

Rent Increase Over Term:

10% Every 5 Years on base rent

	Annual Rent	\$/SF/Year*
Current	\$9,650,000	\$35.84
July 2015	\$10,615,000	\$39.42
July 2020	\$11,676,500	\$43.37
July 2025	\$12,844,150	\$47.70

*Rounded to two decimal places

Capital Reserves:

\$0.15 PSF, per year

General Vacancy Loss:

0.0%

Consumer Price Index (CPI):

3%

Operating Expense Growth Rate:

3%

Property Tax Growth Rate:

2%

Property Tax Millage Rate:

1.14%

Note: Buyer is responsible for adjusting property taxes bases upon offer price. All inflation is Fiscal Year ending in June.

Revenues

Expense Reimbursement Revenue:

State of California shall pay increases for operating expenses and property taxes annually. On the first anniversary date of the Lease, and each twelve (12) months thereafter, the monthly Rent will automatically increase or decrease by one-twelfth (1/12th) of an amount that will be determined by multiplying the base amount of \$3,241,203 by the percentage that the applicable CPI index for the preceding 12 months increased over or decreased under the same index, for the month of June, 2010, which shall be the base period.

Management Office pays no reimbursements.

Parking Revenue:

The structure provides for a total of 235 parking spaces. Current market rates are \$250 per space per month. It is assumed parking is 100% variable based on occupancy, and the parking rate shall increase by ten percent (10%) on the fifth (5th) anniversary of the Commencement Date and on each fifth (5th) anniversary thereafter.

Expenses

Note: Year One Operating Budgets have been developed by CB Richard Ellis' Asset Services based upon building inspections, operating cost history from similar assets managed in the subject markets, operating expense data published by industry associations and competitive bids from selected third party vendors and is conformed to the State of California detailed specifications in the lease.

Insurance Calculation:

Property Insurance (including earthquake coverage) = \$.26 per each \$100 of hard cost building value (building replacement hard cost value (less land)/100 then multiplied by .26)

Liability (Office) = \$.03 per building square feet

Umbrella = 60% of the Liability premium

This above quote is based on the CBRE large pool discount, includes earthquake coverage up to the first \$100 million within the pool, and requires CBRE Asset Services to manage the property.

Management Fee Expense:

\$81,996.

Please note that the Management Fee the Year One budget is based upon a portfolio sale and will vary on a one-off sale basis, and requires CBRE Asset Services to manage the property.

Refurbishment Allowances:

Landlord shall be responsible to repaint interior premises every five (5) years and carpet every ten (10) years for the State of California.



Rent Roll

as of 7/1/2010

Suite	Tenant Name	Square Feet	% of Property	Lease Term		Rental Rates					Recovery Type	Comments/Options
				Begin	End	Begin	Monthly	PSF	Annually	PSF		
100	State of California	269,268	99.45%	Jul-2010	Jun-2030	Current	\$804,167	\$2.99	\$9,650,000	\$35.84	See Abstract	Tenant has six (6) 5-year options to renew at 10% increases over prior rent.
						Jul-2015	\$884,583	\$3.29	\$10,615,000	\$39.42		
						Jul-2020	\$973,042	\$3.62	\$11,676,500	\$43.37		
						Jul-2025	\$1,070,346	\$3.98	\$12,844,150	\$47.70		
Mgt	Management Office	1,500	0.55%	Jul-2010	Jun-2030	Current	\$4,480	\$2.99	\$53,757	\$35.84	None	-
						Jul-2015	\$4,928	\$3.29	\$59,133	\$39.42		
						Jul-2020	\$5,420	\$3.62	\$65,046	\$43.37		
						Jul-2025	\$5,963	\$3.98	\$71,551	\$47.70		
Totals / Averages		270,768					\$808,646	\$2.99	\$9,703,757	\$35.84		
Occupied sq. ft.		270,768	100.0%									
Vacant sq. ft.		0	0.0%									
Total sq. ft.		270,768	100.0%									

Cash Flow Projections

Fiscal Year Ending - June 30

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Physical Occupancy		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Overall Economic Occupancy ^[1]		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total Operating Expenses PSF Per Year		\$15.92	\$16.36	\$16.81	\$17.27	\$17.75	\$18.24	\$18.74	\$19.26	\$19.79	\$20.34	\$20.90
Revenues	FY 2011 \$/SF/YR ^[2]											
Scheduled Base Rent												
Gross Potential Rent	\$35.84	\$9,703,757	\$9,703,757	\$9,703,757	\$9,703,757	\$9,703,757	\$10,674,133	\$10,674,133	\$10,674,133	\$10,674,133	\$10,674,133	\$11,741,546
Absorption & Turnover Vacancy	0.00	0	0	0	0	0	0	0	0	0	0	0
Base Rent Abatements	0.00	0	0	0	0	0	0	0	0	0	0	0
Total Scheduled Base Rent	35.84	9,703,757	9,703,757	9,703,757	9,703,757	9,703,757	10,674,133	10,674,133	10,674,133	10,674,133	10,674,133	11,741,546
Expense Reimbursements	0.00	0	0	0	0	0	0	0	0	0	0	0
Parking Revenue	2.60	705,000	705,000	705,000	705,000	705,000	775,500	775,500	775,500	775,500	775,500	853,050
State of CA Expense Increases	0.00	1	117,969	239,264	363,982	492,219	624,078	759,663	899,080	1,042,439	1,189,857	1,341,446
Total Gross Revenue	38.44	10,408,758	10,526,726	10,648,021	10,772,739	10,900,976	12,073,711	12,209,296	12,348,713	12,492,072	12,639,490	13,936,042
General Vacancy Loss	0.00	0	0	0	0	0	0	0	0	0	0	0
Effective Gross Revenue	38.44	10,408,758	10,526,726	10,648,021	10,772,739	10,900,976	12,073,711	12,209,296	12,348,713	12,492,072	12,639,490	13,936,042
Operating Expenses												
Security	(0.36)	(98,400)	(101,352)	(104,393)	(107,524)	(110,750)	(114,073)	(117,495)	(121,020)	(124,650)	(128,390)	(132,241)
Cleaning	(3.70)	(1,000,850)	(1,030,876)	(1,061,802)	(1,093,656)	(1,126,465)	(1,160,259)	(1,195,067)	(1,230,919)	(1,267,847)	(1,305,882)	(1,345,059)
Repairs & Maintenance	(3.00)	(812,500)	(836,875)	(861,981)	(887,841)	(914,476)	(941,910)	(970,167)	(999,273)	(1,029,251)	(1,060,128)	(1,091,932)
Utilities	(0.23)	(61,200)	(63,036)	(64,927)	(66,875)	(68,881)	(70,948)	(73,076)	(75,268)	(77,526)	(79,852)	(82,248)
Management Fee	(0.30)	(81,996)	(84,456)	(86,990)	(89,599)	(92,287)	(95,056)	(97,908)	(100,845)	(103,870)	(106,986)	(110,196)
Onsite Office Expense	(0.49)	(132,957)	(136,946)	(141,054)	(145,286)	(149,644)	(154,134)	(158,758)	(163,520)	(168,426)	(173,479)	(178,683)
Admin (Excl Mgt Fee)	(1.13)	(306,400)	(315,592)	(325,060)	(334,812)	(344,856)	(355,202)	(365,858)	(376,833)	(388,138)	(399,783)	(411,776)
Lot & Landscaping	(0.25)	(67,200)	(69,216)	(71,292)	(73,431)	(75,634)	(77,903)	(80,240)	(82,648)	(85,127)	(87,681)	(90,311)
Parking	(0.67)	(182,400)	(187,872)	(193,508)	(199,313)	(205,293)	(211,452)	(217,795)	(224,329)	(231,059)	(237,991)	(245,130)
Real Estate Taxes	(3.95)	(1,069,504)	(1,090,894)	(1,112,712)	(1,134,966)	(1,157,666)	(1,180,819)	(1,204,435)	(1,228,524)	(1,253,094)	(1,278,156)	(1,303,719)
Insurance	(1.84)	(497,300)	(512,219)	(527,586)	(543,413)	(559,716)	(576,507)	(593,802)	(611,616)	(629,965)	(648,864)	(668,330)
Total Operating Expenses	(15.92)	(4,310,707)	(4,429,334)	(4,551,305)	(4,676,716)	(4,805,668)	(4,938,263)	(5,074,601)	(5,214,795)	(5,358,953)	(5,507,192)	(5,659,625)
Net Operating Income	22.52	6,098,051	6,097,392	6,096,716	6,096,023	6,095,308	7,135,448	7,134,695	7,133,918	7,133,119	7,132,298	8,276,417
Capital Costs												
Tenant Improvements	0.00	0	0	0	0	0	0	0	0	0	0	0
Leasing Commissions	0.00	0	0	0	0	0	0	0	0	0	0	0
Capital Reserves	(0.15)	(40,615)	(41,834)	(43,089)	(44,381)	(45,713)	(47,084)	(48,497)	(49,952)	(51,450)	(52,994)	(54,583)
State of CA - Paint & Carpet ^[3]	0.00	0	0	0	0	0	(538,536)	0	0	0	0	(1,077,072)
Total Capital Costs	(0.15)	(40,615)	(41,834)	(43,089)	(44,381)	(45,713)	(585,620)	(48,497)	(49,952)	(51,450)	(52,994)	(1,131,655)
Operating Cash Flow	\$22.37	\$6,057,436	\$6,055,558	\$6,053,627	\$6,051,642	\$6,049,595	\$6,549,828	\$7,086,198	\$7,083,966	\$7,081,669	\$7,079,304	\$7,144,762

[1] This figure takes into account vacancy/credit loss, absorption vacancy, turnover vacancy, and base rent abatements.

[2] Based on 270,768 square feet.

[3] State of California to have premises re-painted every 5 years (estimated to be \$2 PSF) and re-carpeted every 10 years (estimated to be \$2 PSF).





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