

# CALIFORNIA FIRST, LLC

April 14, 2010

VIA HAND DELIVERY,  
EMAIL, & FACSIMILE

Mr. Kevin Shannon  
Vice Chairman  
CB Richard Ellis, Inc.  
990 W. 190th Street  
Torrance, CA 90502

**Re: Offer Letter for the Golden State Portfolio: An eleven property, approximately 7.3 million square foot, office sale/leaseback portfolio (the "Properties") located in the San Francisco Bay Area, Los Angeles, and Sacramento markets.**

Dear Mr. Shannon:

This Offer Letter from California First, LLC (the "Purchaser") describes preliminary terms and conditions to the State of California ("Seller") for the purchase and leaseback in its entirety of the Golden State Portfolio referenced above. This is a non-binding document as a first step toward execution of a definitive Purchase and Sale and Lease Agreement ("Contract"). The preliminary terms upon which Purchaser would be willing to acquire the Properties are as follows:

**Seller:** State of California

**Purchase Price and Offer:** The Purchase Price shall be Two Billion Eighty Three Million Seven Hundred Thousand Dollars (**\$2,083,700,000**), all cash at Close of Escrow for all of the Properties as described below. The Purchaser's offer includes an energy efficient retrofit of the Properties. The offered Purchase Price is based upon acquisition of the Golden State Portfolio in its entirety, and represents a pricing of each of the Properties as follows:

Property	Location	Net Rentable SF	Allocated Purchase Price	Capitalization Rate
Public Utilities Commission Building	San Francisco	270,768	\$89,307,000	6.83%
San Francisco Civic Center	San Francisco	912,387	\$322,783,000	6.83%
Elihu M. Harris Building	Oakland	700,589	\$162,698,000	7.75%
Judge Joseph A. Rattigan Building	Santa Rosa	92,358	\$13,298,000	7.82%
Franchise Tax Board Complex	Sacramento	1,814,056	\$495,151,000	6.93%
Department of Justice Building	Sacramento	381,718	\$60,139,000	8.21%
Capital Area East End Complex	Sacramento	1,474,705	\$512,950,000	6.93%
Attorney General Building	Sacramento	376,866	\$143,680,000	6.76%
Cal EMA	Sacramento	116,687	\$38,029,000	7.68%
Junipero Serra State Building	Los Angeles	431,856	\$86,905,000	7.82%
Ronald Regan State Building	Los Angeles	739,158	\$158,760,000	7.68%
<b>TOTALS/AVERAGE</b>		<b>7,311,148</b>	<b>\$2,083,700,000</b>	<b>7.11%</b>

**Purchaser:**

**California First, LLC**, is a consortium of experienced real estate and investment firms that has collectively executed transactions with a combined value in excess of \$50 billion (please note that this does not include transactions completed while certain members of the consortium were employed in an executive capacity by the State of California). The Purchaser, through its investment partners, currently has in excess of \$2.7 billion of deployable capital.

**Members of the Purchaser's consortium include:**

- **Black Equities Group**

(headquartered in Beverly Hills, CA)

The Black Equities Group and its affiliates own in excess of 18 million square feet of property. Black Equities and its affiliates currently manage six million square feet of property.

([www.blackequitiesgroup.com/](http://www.blackequitiesgroup.com/))

- **Steadfast Companies**

(headquartered in Newport Beach, CA)

Steadfast Companies is a privately held real estate investment company. Steadfast controls, operates and manages approximately \$1.8 billion in assets.

([www.steadfastcompanies.com](http://www.steadfastcompanies.com))

- **CastlePines Corporation**

(headquartered in Australia)

CastlePines Corporation is a multi-billion dollar consortium of private companies and trusts that invest partner equity in a broad range of assets worldwide including large, investment grade real estate, renewable energy and infrastructure. CastlePines is well funded and consists of private sector investors who seek to purchase long term conservatively yielding assets that provide a secure stream of income.

(<http://castlepines.com.au/>)

- **ACRE, LLC (Antarctica Capital Real Estate)**

(headquartered in New York City and Irvine, CA)

ACRE is an international private equity firm with operations in the United States and India. The ACRE team has collectively executed more than \$10 billion in transactions and has raised over \$3.5 billion in investment funds.

([www.antarcticacapital.com](http://www.antarcticacapital.com))

- **Belgravia Capital**

(headquartered in Irvine, CA)

Belgravia is an investment company specializing in complex real estate financings. Belgravia has originated real estate financings exceeding \$3 billion annually.

([www.belgravia.com](http://www.belgravia.com))

- **Capital Pacific Holdings, Inc.**  
(headquartered in Newport Beach, CA)

Capital Pacific Holdings is a diversified real estate development company headed by Hadi Makarechian. Mr. Makarechian serves as Chairman of Makar Properties Board of Directors and Banning Lewis Ranch Management Company. Mr. Makarechian served as chief executive officer and chairman of the board of directors of Capital Holdings, Inc., a company he founded in 1991. He also founded and served as president of Shamron Corporation from 1979 to 1991. Mr. Makarechian is a Regent of the University of California.

([www.cph-inc.com](http://www.cph-inc.com))

- **The Linc Group**  
(headquartered in Irvine, CA)

The Linc Group will help coordinate the energy efficient retrofit of the Properties and thereby lower building energy usage and utility costs. Linc is an award-winning provider of HVAC and building systems services, lighting and electrical solutions, and other support services to thousands of commercial, government, and residential clients worldwide.

([www.thelincgroup.com](http://www.thelincgroup.com))

The Purchaser and its management team are uniquely positioned to provide the Seller with the greatest net proceeds from the sale of the Properties and to ensure the closure of the transaction in the shortest time possible. The team has considerable experience in managing the challenges related to State-owned real estate acquisition and financing, including direct experience in the privatization and financing of state buildings. Our team's unique knowledge of the Properties and their current financial structure gained through their direct personal experience acting on behalf of the Department of General Services and the State of California in underwriting the bond sales that financed them (including financing four of the Properties in the Golden State Portfolio) will prove invaluable in ensuring that this transaction is closed in the shortest possible time frame.

On behalf of the Purchaser, Richard Mayo, Grover L. McKean, and Chandra R. Patel will serve as managing partners, coordinating the purchase and transition of operational control of the Properties.

**Rich Mayo** has over 25 years experience in the California real estate industry and has been personally responsible for nearly \$5 billion in real estate transactions, including nearly 20 million square feet of commercial office properties. As an appointee of former Governor Pete Wilson to the State Department of General Services, Mr. Mayo was responsible for overseeing the consolidation and privatization of the State of California's 35 million square foot real estate portfolio.

**Chandra Patel** has over 18 years experience in cross-border investment transactions. He has significant experience in structuring the acquisition of government-owned assets and innovative capital market transactions. Mr. Patel founded Antarctica's private equity business, and raised its first real estate fund from institutional investors and a sovereign wealth fund.

**Jon Castaldo** has executed over \$2.5 billion in financings, including over \$1.5 billion of equity in real estate investments. Previously, Mr. Castaldo was U.S. Head, Illiquid Structured Credit at UBS. He has led private placement efforts to distribute structured assets including real estate. Prior to working at UBS, Mr. Castaldo had a similar role in the Global Markets Solutions Group at Credit Suisse.

**Grover McKean** has substantial experience with financing real estate for the State of California as the former official in charge of all debt issuance for the State, and later as an investment banker for three major firms that served the State of California and its debt issuing agencies. Mr. McKean served as Deputy State Treasurer of California for six years. During this time he supervised the structuring and sale of California's entire general obligation, revenue and lease purchase bond program, totaling several billions of dollars. He was the State Treasurer's liaison to all state agencies, including the Department of General Services, seeking to issue debt obligations encumbering the State of California. On behalf of the Treasurer he served on 21 boards and commissions dealing with the state's General Obligation and Revenue Bond Obligations.

Mr. McKean has intimate knowledge of the State of California's perspective on credit, budgetary concerns, real estate debt obligations, and the financing formulas that were used to create the State's lease purchase revenue bond programs, particularly through his extensive experience supervising the issuance and sale of all State securities. After leaving state government, Mr. McKean served as the senior banker on the financings for four of the Properties in the Golden State Portfolio, with his responsibilities including structuring and liaison with the various State Office Building Authorities and the Department of General Services. Mr. McKean also has had considerable success raising investment funds from institutional investors, helping to raise over \$3 billion. He was appointed President of Trust Fund Advisors, a SEC registered investment advisor for union pension funds. TFA had \$4 billion dollars under management and served over 80 separate union pension funds.

On behalf of ACRE, **Michael B. McCook** is acting as advisor to the Purchaser. Mr. McCook for five years was the Senior Investment Officer in charge of global real estate investments for the California Public Employees Retirement System (CalPERS). Prior to CalPERS, Mr. McCook spent over 20 years in senior executive positions within the real estate industry.

The Purchaser and its advisors have the capabilities to work with the State of California to structure and close on a purchase transaction that maximizes the net proceeds to the Seller. Specifically, the Purchaser has the unique experience and intimate knowledge to navigate the existing

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complex debt structures of the Properties to facilitate the timely and certain sale of the Properties.

**Advisors/Legal Counsel:** It is envisioned **CBRE** will be engaged as a financial advisor and act as a debt placement agent, subject to the State of California's approval, to work with the Purchaser's own investment bankers.

Furthermore, the Purchaser has engaged as counsel the law firms of **White and Case, LLP** as general counsel and **Allen Matkins Leck Gamble and Mallory LLP** as its real estate counsel. The Purchaser's municipal finance legal advisor is expected to be **Orrick, Herrington & Sutcliffe LLP**, subject to the State of California's approval.

**Asset & Property Management:**

The Purchaser intends to engage **CB Richard Ellis** to provide ongoing property and asset management services for the Properties.

**Earnest Money Deposit:**

Within three (3) days after this Offer Letter is accepted and fully executed by Seller and Purchaser, Purchaser would deposit One Million Dollars (**\$1,000,000**) (the "Earnest Money Deposit") as an earnest money deposit with Fidelity National Title Insurance Company (the "Title Company"). At such time we would expect to enter into an exclusivity agreement with the Seller with respect to the Properties. The Earnest Money Deposit amount shall be applied to the Purchase Price, upon mutual execution of a Contract.

**Access & Information:**

The Seller would provide Purchaser with access to the Properties and all pertinent information in Seller's possession or control within two (2) days after execution of a Contract.

**Closing:**

The closing of this purchase would be at a mutually acceptable date subject to the Seller's schedule for disposition of the Properties and other requirements.

**Title Company:**

The closing would take place through escrow at Fidelity National Title Company, subject to Seller's approval.

**Title Policy:**

The Seller would provide the Purchaser with absolute ownership of the fee simple interest of the properties described herein; free and clear of all liens, encumbrances, etc., except for approved exceptions to title.

**Commissions:**

Purchaser warrants that Purchaser has dealt with no other Real Estate Broker in connection with this transaction other than CB Richard Ellis, Inc. ("Seller's Broker"). Purchaser is representing itself in this transaction. There is no real estate commission payable in connection with this transaction other than Seller's Broker paid by Seller under separate agreement(s).

**Expiration of Offer Letter:**

If the Seller has not executed and delivered this Offer Letter to the Purchaser by 5:00 PM, Pacific Time, Friday, May 28, 2010 this Offer Letter shall automatically terminate,; provided, however, if the Seller

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extends the timeframe for selection of the potential buyer the expiration date of this letter shall be adjusted by the Purchaser as appropriate.

**Definitive Agreements:**

None of the Purchaser, the Seller or any member of the Purchaser's consortium will be under any obligation (legal or otherwise) of any kind whatsoever by virtue of this Offer Letter or any other written or oral expression, unless and until a definitive Contract is hereafter signed and delivered by the parties thereto. No definitive Contract shall be entered into unless it is satisfactory to both Purchaser and Seller, in their respective sole discretion.

If the above terms are acceptable, please execute all of the originals in the appropriate spaces provided and return one fully executed copy to our attention. Upon receipt of the executed Offer Letter, Seller shall commence preparation of a proposed Contract and deliver the same to the Purchaser for review.

We are confident that these efforts will result in a successful transaction with the State of California, and we look forward to your favorable reply.

If you have any questions, please do not hesitate to contact:

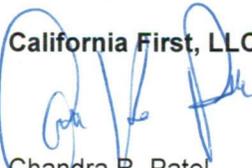
Rich Mayo (M: 310-413-5405; [rmayo@antarcticacapital.com](mailto:rmayo@antarcticacapital.com))

Grover L McKean (M: 323-661-6655; [GLMcKean@antarcticacapital.com](mailto:GLMcKean@antarcticacapital.com))

Chandra R. Patel (M: 917-593-8387; [crpatel@antarcticacapital.com](mailto:crpatel@antarcticacapital.com)).

Sincerely,

**California First, LLC**



Chandra R. Patel  
Managing Partner

**ACCEPTED AND AGREED TO:**

**State of California**

Date: \_\_\_\_\_, 2010

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Its: \_\_\_\_\_