



April 14, 2010

Kevin Shannon
CB Richard Ellis
355 South Grand Ave
Suite 2700
Los Angeles, CA 90071

Via Email: Kevin.Shannon@cbre.com

**Re: State of California Portfolio
Public Utilities Commission Building
San Francisco, CA**

Dear Kevin:

Thank you for providing Wells Real Estate Funds the opportunity to review The State of California Portfolio – Public Utilities Commission Building for possible investment. Based upon our review of the financial information provided by your firm, we are pleased to forward a proposal that reflects the basic terms and conditions that Wells Real Estate Funds or its affiliated entities (the “Purchaser”) would use as a basis for entering into an Agreement of Purchase and Sale for the subject property from The State of California, the “Seller”. Wells Real Estate Funds is currently very active in the acquisition of Class A office buildings that are leased to credit tenants on a long-term basis.

Salient provisions of the anticipated transaction include the following:

1. The Property: The Property consists of one 5-story Class “A” office building, totaling 270,768 RSF, completed in 1984 and located at 505 Van Ness Avenue in San Francisco, CA. The Property contains 235 parking spaces providing a parking ratio of 0.87 per 1,000 square feet. We further understand the site consists of approximately 1.94 acres of land, as more fully described by the offering memorandum provided by your firm.
2. Purchase Price: **Public Utilities Commission Building: \$76,225,638** (\$281.52 PSF), all cash at closing.
3. Financing: None
4. Tenant and Lease Term: Purchaser is primarily a purchaser of surety of income as guaranteed by credit tenants and as such, it shall be a condition precedent to closing that there will have been no material adverse change in the financial condition or rating of any primary lease guarantor. Summary lease information is presented below, as outlined in the offering memorandum provided by your firm.

Building	Major Tenant	RSF	% of Bldg	Lease Expiration
Public Utilities Commission Building	The State of California	270,768	100%	20 Years (firm) from closing

5. Contract Preparation: Promptly after execution of this Letter of Intent, we will instruct our legal counsel to prepare a draft Purchase and Sale Agreement. To assist counsel in preparation of the draft Agreement, please provide us with the following preliminary due diligence documentation:
 - ◆ Copy of most recently issued owners title insurance policy and all exception documents.
 - ◆ Copy of most recently obtained boundary and/or as-built survey.
 - ◆ Copy of most recently obtained Phase 1 environmental site assessment.
 - ◆ Copy of any commission agreement with respect to the Leases.
 - ◆ Copy of executed leases and lease amendments, complete with all exhibits thereto.

8. Inspection Period and Closing: Purchaser will have a 30-day Inspection Period starting upon receipt of the Due Diligence materials. The parties agree to instruct their respective legal counsel to diligently negotiate and pursue the execution of the Agreement of Purchase and Sale within 10 days of mutual execution of this Letter of Intent. Closing shall occur within 30 days after the expiration of the Inspection Period.

9. Earnest Money Deposit: Purchaser will post a deposit of \$750,000 with a mutually agreeable escrow agent in accordance with the terms of an escrow agreement to be set forth as an exhibit to the Purchase and Sale Agreement. The deposit shall be held in an interest bearing account by the escrow agent and shall be refundable with interest prior to the expiration of the Inspection Period. The interest accrued from the time of the deposit until closing shall be for the benefit of the Purchaser. Upon expiration of the due diligence period, the Deposit shall become non-refundable but for Seller's default.

10. Closing Costs Responsibility: Purchaser to pay the cost of its legal counsel and third-party consultants. Seller to pay the costs of its legal counsel, Purchaser's title insurance, applicable transfer taxes, and as-built survey cost.

11. Brokerage Commission: Seller shall be solely responsible for any brokerage commissions with regard to the sale of the property. Purchaser represents and warrants that it has not engaged the services of an outside broker in connection with this transaction. Seller represents and warrants that except for CB Richard Ellis it has not engaged the services of an outside broker in connection with this transaction.

12. Information: In order to expedite and make possible Purchaser's due diligence investigations, Seller agrees to promptly make available to Purchaser all Property information in the possession of or available to Seller including, but not limited to: property maintenance and operating contracts, engineering reports, previously commissioned inspection reports, title policies, surveys, environmental reports, building plans, building permits, lease commission agreements, building operating budgets and relevant third-party and lease correspondence in Seller's files.

13. Confidentiality: This Letter of Intent is being entered into with the express understanding that its contents and the fact that it has been entered into remain confidential. Prior to the Closing, neither Seller nor Purchaser will make or allow to be made any public announcement of the transactions contemplated by this letter or the existence of this letter unless required by applicable law. It is expressly understood that this Letter of Intent does not constitute a legally binding contract between the parties hereto, but is intended only to outline the terms and conditions under which both parties would negotiate in good faith to enter into an Agreement of Purchase and Sale for the property. No binding contract or obligation between the parties shall exist until the parties, in their sole discretion, have executed and delivered the Agreement of Purchase and Sale. Said Agreement of Purchase and Sale shall incorporate the general provisions contained herein and such other provisions as may be agreed to by the parties. In consideration of Purchaser's effort and expense in analyzing

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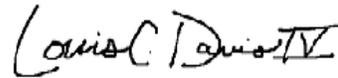
this transaction, Seller agrees that as long as Purchaser is proceeding in good faith, Seller and its representatives, agents, affiliates and employees will not directly or indirectly make, accept, negotiate, entertain or otherwise pursue any offers, or contact or solicit any other entity, to engage in any other transaction regarding the Property other than the transaction contemplated hereby with Purchaser. This transaction is subject to the approval of our internal Investment Committee and Board of Directors, both of which must be received during the inspection period.

We believe that The State of California Portfolio – Public Utilities Commission Building would make fine additions to our portfolio and hope that the proposal outlined above would be acceptable to the Seller as a basis for proceeding further with Wells. If this letter outlines the terms of an acceptable transaction, please have an authorized officer of the Seller execute this Letter of Intent and return it to our office **prior to April 21, 2010**.

Sincerely,



Keith A. Willby
Sr. Vice President
Wells Real Estate Funds



Lou Davis
Associate
Wells Real Estate Funds

Accepted By: _____

Date: _____

cc: Leo F. Wells, III
Don Henry
Joe Oglesby