



18881 VON KARMAN, SUITE 800
IRVINE, CALIFORNIA 92612

May 11, 2010

Don Ellwanger
DBA Sperry Van Ness
1832 Tribute Rd. Suite 208
Sacramento, CA. 95815

**Re: Letter of Intent
Golden State Portfolio
Multiple Addresses (See Property Section)
California**

Dear Mr. Ellwanger:

As Buyer's agent, you are hereby authorized and directed to present this letter of intent to the appropriate representative of the State of California. The following is a letter of intent to purchase the above-referenced Portfolio. Buyer's offer is made on the terms and conditions outlined below:

PURCHASE PRICE: SCENARIO 1 (State's Annual Rent Credited by \$26,178,023 Due to Purchaser's Tax-Exempt Status)

Twenty (20) year lease with 10% increases every five years, plus multiple five-year options - The purchase price for the complete Portfolio (11 buildings) shall be **Two Billion Two Hundred Million Six Hundred Twenty Four Thousand Eight Hundred Forty Four Dollars (\$2,200,624,844)**, all cash at the close of escrow, on the terms and conditions outlined herein. Additionally given the structure of the transaction as outlined below, although not realized up front, there is an additional reversionary value of which the discounted present value is an additional **\$538,641,201 (at the end of the Estate of Years)** bringing the total value of our offer to **\$2,739,266,045**.

Twenty-five (25) year lease with 10% increases every five years, plus multiple five-year options - The purchase price for

the complete Portfolio (11 buildings) shall be **Two Billion Three Hundred Seventy Five Million Five Hundred One Thousand Three Hundred Sixty Eight Dollars (\$2,375,501,368)**, all cash at the close of escrow, on the terms and conditions outlined herein. Additionally given the structure of the transaction as outlined below, although not realized up front, there is an additional reversionary value of which the discounted present value is an additional **\$563,514,105** (*at the end of the Estate of Years*) bringing the total value of our offer to **\$2,939,015,473**.

SCENARIO 2 (State's Annual Rent Not Credited by \$26,178,023 Due to Purchaser's Tax-Exempt Status)

Twenty (20) year lease with 10% increases every five years, plus multiple five-year options - The purchase price for the complete Portfolio (11 buildings) shall be **Two Billion Six Hundred Two Million One Hundred Seventeen Thousand Eight Hundred Eighty Five Dollars (\$2,602,117,885)**, all cash at the close of escrow, on the terms and conditions outlined herein. Additionally given the structure of the transaction as outlined below, although not realized up front, there is an additional reversionary value of which the discounted present value is an additional **\$636,798,520** (*at the end of the Estate of Years*) bringing the total value of our offer to **\$3,238,916,405**

Twenty-five (25) year lease with 10% increases every five years, plus multiple five-year options - The purchase price for the complete Portfolio (11 buildings) shall be **Two Billion Eight Hundred Five Million Eight Hundred Ninety Thousand One Hundred Twenty Five Dollars (\$2,805,890,125)**, all cash at the close of escrow, on the terms and conditions outlined herein. Additionally given the structure of the transaction as outlined below, although not realized up front, there is an additional reversionary value of which the discounted present value is an additional **\$666,385,192** (*at the end of the Estate of Years*) bringing the total value of our offer to **\$3,472,275,317**.

Therefore, depending on which option is implemented, the total aggregate value will be between \$2,739,266,045 and \$3,472,275,317.

Please see Exhibit "A" for a more detailed summary of the offering as outlined above.

Key Structure & Underwriting Assumptions

Structure Assumptions:

- The sale-leaseback transaction for
 - tax purposes will be treated as a true sale pursuant to Rev. Rul. 55-540 and Rev Proc. 2001-28
 - accounting purposes will qualify for sale-leaseback accounting pursuant to SFAS 66 and SFAS 98, will be treated as an operating lease pursuant to SFAS 13, and the purchaser-lessor will not be consolidated with the seller-lessee pursuant to the EITF 90-15 or GASB 14
- The purchaser-lessor will
 - acquire only a 50 year, estate of years interest, wherein at the end of 50 years, ownership of all the properties will revert to the State of California free and clear of any indebtedness.
 - be a 501(c)(3) bankruptcy remote entity that, in keeping with its tax-exempt purpose of "lessening the burden of government", will donate all of the surplus revenue on an annual basis to governmental entities in the State of California (e.g. K-12 School Districts). Over the 50 year term of ownership the aggregate amount of donations to such entities is projected to be **\$7,500,000,000-9,500,000,000.**

Financing Assumptions:

- The purchaser-lessor will fund the acquisition with the proceeds of two series of fixed rate tax-exempt bonds issued to make a loan to purchaser-lessor, secured by an assignment of
 - net rental payments from the State
 - a 1st leasehold deed of trust on the underlying properties.
- Our pricing assumptions are as follows:
 - spread over MMD
 - series A - 150 bps
 - series B - 200 bps
 - earnings rate on the DSRF ("debt service reserve fund") - 5.00% per year for series B & 4.00% per year for series A.

- earnings rate on rent paid by the State monthly in arrears (debt service on the bonds is paid semiannually in arrears) - 2.5% per year
- the 50 year residual value of the real estate at the end of the estate of years is calculated by applying a 2.5% annual appreciation rate to the initial purchase price, and discounting that number back to present value utilizing a discount rate that is the purchaser-lessor's "true interest cost" for both series of bonds

Underwriting Assumptions Scenario 1:

- As pertaining to the tax-exempt treatment of the structure out-lined above, the follow changes were made to the Argus cash flow models as prepared by CBRE:
 - Removal of all real estate taxes from the expense line items for all eleven properties
 - Removal of the tax-expense recapture line item under Miscellaneous Revenue
 - Gross rent in Yr 1 reduced by the tax amounts provided by CBRE as outlined in Exhibit "B"
- Additional changes to the underwriting based upon our review of the Property Condition & Environmental Reports:
 - Included below the line deferred maintenance repairs per the "Opinion of Probable Deferred Maintenance and Capital Costs" Schedule for each property. See attached summary in Exhibit "C"
 - Increased the capital reserve line item from \$.15/SF/Yr to \$.25/SF/Yr

Underwriting Assumptions Scenario 2:

- As pertaining to the tax-exempt treatment of the structure out-lined above, the follow changes were made to the Argus cash flow models as prepared by CBRE:
 - Removal of all real estate taxes from the expense line items for all eleven properties
 - Removal of the tax-expense recapture line item under Miscellaneous Revenue
- Additional changes to the underwriting based upon our review of the Property Condition & Environmental Reports:

- Included below the line deferred maintenance repairs per the “Opinion of Probable Deferred Maintenance and Capital Costs” Schedule for each property. See attached summary in Exhibit “C”
- Increased the capital reserve line item from \$.15/SF/Yr to \$.25/SF/Yr

The tax-exempt nature of the offering may allow the sale-leaseback without triggering an optional redemption or defeasance of the existing bonds. This could result in an increase in net proceeds to the State. More attention will be given to this option as we are able to verify the information related to the existing bonds. However, the current offer does not account for these potential savings.

The non-profit nature of the offering allows us to work with the State to maximize the initial sale proceeds and residual value/benefits. It is also important to note that any excess revenues or funds must be donated to governmental entities in the State of California (e.g. K-12 School Districts). We look forward to the opportunity to meet with the State to explore all options which would allow us to further increase our offering. All the numbers in our proposal and ultimately our purchase price itself are conditioned successfully completing a publically offered tax-exempt financing which will require us both to work closely together for the benefit of the State.

Key Features of the Purchase Offer

The Estate for Years Structure. Our offer is based upon the purchaser acquiring an estate for years rather than a fee simple interest. As a result, the State has a reversionary interest at the expiration of the lease term at which time it will hold title to the properties on a free and clear basis. The reversionary interest represents a substantial additional economic benefit to the State. Furthermore, the Estate for Years structure mitigates the concerns about the public policy implications of the State’s proposed sale of these assets.

Tax-Exempt Financing Maximizes the State’s Return on the Transaction. The Purchase Proposal utilizes tax-exempt bond financing as a means of minimizing financing costs. This permits a substantially higher bid price than would be possible utilizing conventional financing. The Purchaser’s team is comprised of recognized experts in the fields of municipal finance and investment banking, able to effectively utilize sophisticated financing techniques to maximize the State’s cash return on the transaction.

Additional Benefits of the Tax-Exempt Structure. At closing, title will reside in a not-for-profit tax-exempt entity whose stated qualifying purpose is “lessening the burdens of government”. Accordingly, after the expiration of the primary lease term, the entity is required to donate its surplus revenue in accordance with its tax-exempt purpose. By law, the not-for-profit entity cannot derive economic benefit from the transaction.

PROPERTY:

All real property, improvements, personal property, leases, appurtenant rights, signs, logos and trade names related to the Golden State Portfolio (Properties listed below).

1. **Attorney General Building** - 1300 I Street, Sacramento – CA
2. **CA Emergency Management Agency** 3650 Schreiver Ave, Sacramento – CA
3. **Capital Area East End Complex** - 1430 N St., 1501,1500, 1615, 1616, 1214 Capitol Ave – Sacramento – CA
4. **Elihu M. Harris Building** – 1515 Clay Street, Oakland – CA
5. **Franchise Tax Board Campus** – 9645 Butterfield Way, Sacramento – CA
6. **Earl Warren / Hiram Johnson Center** – 350 McAllister Ave / 455 Golden Gate Ave, San Francisco – CA
7. **Junipero Serra Building** - 320 West 4th Street, Los Angeles – CA
8. **Justice Building** - 4949 Broadway, Sacramento – CA
9. **Public Utilities Commission Bldg** - 505 Van Ness Avenue, San Francisco – CA
10. **Judge Joseph A. Rattigan Building** - 50 D Street, Santa Rosa – CA
11. **Ronald Reagan Building** - 300 South Spring Street, Los Angeles – CA

BUYER:

The Bidding Consortium

This Bid Package is submitted for your consideration by a consortium of sponsors and advisors consisting of SVN Equities, LLC, Civic Finance Associates, Inc., Janney Montgomery Scott, and Orrick, Herrington & Sutcliffe LLP. The individual members bring to the consortium a unique combination of expertise, experience and financial capability. Together, these entities comprise a collaborative team with expertise in real estate, municipal finance, property management and leasing, together with the practical experience and financial strength to complete the proposed acquisitions with maximum efficiency and according to the scheduling requirements of the State.

PURCHASERS

Sperry Van Ness Equities, LLC is a California based private investment and development company focused on office, industrial, retail and apartment properties throughout the United States. www.svnequities.com

In the past eight years, SVN Equities has acquired more than 65 properties representing a gross investment in excess of \$1 billion.

Civic Finance Associates, Inc. was founded in 1993 to assist state and local governments

and not-for-profit organizations with their financing needs. Since its inception CFA has acquired, developed and financed the acquisition and rehabilitation of over \$1,250,000,000 of property throughout the United States. <http://cfainc.net/>

PURCHASER'S PROFESSIONAL ADVISORS AND COUNCIL

Janney Montgomery Scott, LLC established 1832 is a full-service financial services firm, providing superior debt and equity capital solutions as well as investment banking services to governments, institutions, public finance, taxable & municipal sales & trading, and equity research for corporations, non-profits, public entities, institutional equities and other institutions. Janney has already begun and will continue to reach out to some of the State's traditional investment banking houses as the process progresses. Our goal is to market the bond offering with the strongest syndicate as possible. www.janney.com

Orrick, Herrington & Sutcliffe LLP has been the leading public finance firm in California for many years and consistently ranks No. 1 in public finance related legal work in the United States. In 2009, Orrick served as bond counsel or underwriters' counsel on more than 50 financings aggregating more than \$70 billion. www.orrick.com

COMMISSION:

Buyer shall pay a real estate commission to Don Ellwanger, DBA Sperry Van Ness ("Broker") pursuant to a separate agreement between Buyer and Broker. Buyer and Seller agree to hold each other harmless from any claims for commissions or fees made by any other party in connection with this transaction.

CONDITIONS:

The following shall be conditions to Buyer's purchase:

- a. Buyer shall have the right to complete an inspection and study of the Property, which may include at Buyer's option a determination whether there are any structural or mechanical defects, violations of law, the existence of hazardous waste, or any other conditions which would adversely affect, in any material respect, the value of the Property, all as built plans and any appraisals on the Property.
- b. Buyer's approval of a Preliminary Title Report, and Title Company's agreement to provide Buyer with required title policy.
- c. Buyer's approval of Seller's books and records relating to the Property including real property tax statements, income and expense statements and maintenance charges, taxes, insurance, management reports, and any and all documents in Seller's possession pertaining to the Property.

d. Buyer's approval of all the terms and conditions of the lease and/or rental agreement.

e. Buyer's review and approval of all documentation in connection with reciprocal easement agreements and any land use issues affecting the Property.

If Buyer disapproves or fails to approve in writing prior to the expiration of the Due Diligence Period, all matters or conditions relating to the Property - which approval shall be in Buyer's sole and absolute discretion - the Definitive Agreement shall automatically terminate.

DUE DILIGENCE:

Seller shall deliver all due diligence materials to Buyer within five (5) business days of mutual execution of a formal purchase and sale agreement. Buyer to be granted a Due Diligence Period of Thirty (30) calendar days from the Effective Date to conduct inspections of the Property, review the due diligence materials and all matters or conditions relating to the Property.

REPRESENTATIONS:

Seller to provide reasonable and customary representations to Buyer, which shall survive the closing for a period of one (1) year, including: (i) the absence of hazardous materials on or under the Property, (ii) no pending or threatened claims or litigation against Seller or the Property, (iii) no notices of violations or condemnation (iv) accuracy of rent roll and financial information provided.

CLOSE OF ESCROW:

Escrow shall close Seventy Five (75) days from the date of expiration of the Due Diligence. The opening of escrow shall be defined as the earliest date both Buyer and Seller deliver mutually executed copies of the Definitive Agreement and escrow instructions to Escrow Holder (the "Effective Date").

TITLE MATTERS:

The Property shall be conveyed to Buyer free and clear of all liens, encumbrances and security interest, other than non-delinquent real property taxes and other exceptions which have been approved by Buyer prior to closing. At the time of closing, Buyer, or Buyer's nominee, will be provided with an extended coverage owner's policy of title insurance, in an amount equal to the Purchase Price [issued by Fidelity National Title Company, office of Paul McDonald, Newport Beach, California]. Seller shall pay all title insurance premiums, escrow fees and the cost of updating surveys and any title policy endorsements required by Buyer. Seller shall cooperate with Title Company if reasonably

required to remove standard exceptions such as mechanics liens.

DOCUMENTATION:

Following the acceptance of this letter by Seller, Buyer will prepare and promptly submit to Seller a draft purchase & sale agreement for the Property. Seller and Buyer will thereafter diligently negotiate the terms and conditions of the documents (the "Definitive Agreement").

ADJUSTMENTS:

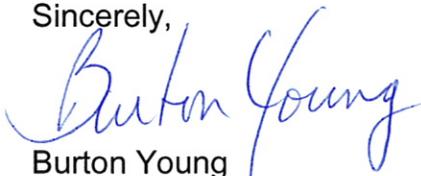
Customary adjustments shall be pro-rata at the close of escrow for such items as rents, utilities, insurance, and real estate taxes. All security deposits to be credited to Buyer at close of escrow. Seller shall pay (i) all transfer taxes, (ii) all costs to remove monetary liens encumbering the Property including any prepayment penalty under any existing loans. All current rents to be prorated as of the close of escrow. All rents received following the close of escrow to first be applied to all post closing amounts owed to Buyer, and only then to pre-closing delinquent rent (if any). Buyer and Seller shall cooperate following the close of escrow, and shall make any necessary adjustments.

ACCEPTANCE:

Time is of the essence. This letter shall expire on May 28, 2010 at 5:00PM, PST unless executed and delivered by Seller prior to such time.

This letter is non-binding upon the parties, and sets forth certain terms and conditions upon which Buyer & Seller will consider entering into a transaction. Neither Buyer nor Seller shall have any obligation under this letter or otherwise unless and until Buyer & Seller execute a written definitive Purchase & Sale Agreement (the "Definitive Agreement") in form and substance satisfactory to both parties in their sole discretion. Upon Seller's execution and delivery of this letter to Buyer, on or before the expiration date, Buyer shall immediately prepare a proposed draft of the Definitive Agreement for review by Seller. The parties agree to proceed promptly and in good faith to conclude arrangements with respect to the proposed transaction, but any legal obligation between the parties shall be only those set forth in the executed formal Definitive Agreement. If for any reason such agreement is not executed, neither party shall be obligated for any expenses of the other party or for any charges or claims whatsoever arising out of this letter.

Sincerely,



Burton Young
President | Principal
SVN Equities, LLC

AGREED AND APPROVED THIS _____ DAY OF _____,
2009.

BY: _____
SELLER

Exhibit A

Golden State Portfolio – Calculations (Revised based on MMD scale 5/7/10)

Scenario 1

20 Year Lease: Series A = 65%, Series B = 35%

First Year's NOI	\$ 137,208,959	50 Year Residual Value to State	
Cap Rate	<u>6.235%</u>	FV: 2.50%	\$7,563,770,191
Sale Price	<u>\$ 2,200,624,844</u>	PV: 5.43%	\$538,641,201

25 Year Lease: Series A = 75%, Series B = 25%

First Year's NOI	\$ 137,208,959	50 Year Residual Value to State	
Cap Rate	<u>5.776%</u>	FV: 2.50%	\$8,164,851,764
Sale Price	<u>\$ 2,375,501,368</u>	PV: 5.49%	\$563,514,105

Scenario 2

20 Year Lease: Series A = 65%, Series B = 35%

First Year's NOI	\$ 163,386,982	50 Year Residual Value to State	
Cap Rate	<u>6.279%</u>	FV: 2.50%	\$8,943,769,342
Sale Price	<u>\$ 2,602,117,885</u>	PV: 5.43%	\$636,798,520

25 Year Lease: Series A = 75%, Series B = 25%

First Year's NOI	\$ 163,386,982	50 Year Residual Value to State	
Cap Rate	<u>5.823%</u>	FV: 2.50%	\$9,644,148,986
Sale Price	<u>\$ 2,805,890,125</u>	PV: 5.49%	\$666,385,192

Exhibit B
Gross Rent Adjusted by Initial Tax Amount

Property	Sq Ft	Pro-rata %	Annual Rent	Yr 1 Taxes	Adjusted Annual Rent
Attorney General Building	376,866			1,648,219	
State of CA	375,366	99.6020%	12,812,298	1,641,659	11,170,639
Mgmt Office (State of CA)	1,500	0.3980%	51,199	6,560	44,639
Cal EMA	116,687			506,050	
Mgmt Office (State of CA)	116,687	100.0000%	3,570,622	506,050	3,064,572
Capital Area East Bldg	1,474,705			6,034,206	
State of CA	1,473,205	99.8983%	49,499,688	6,028,068	43,471,620
Mgmt Office (State of CA)	1,500	0.1017%	50,400	6,138	44,262
Department of Justice Building	381,718			838,053	
State of CA	380,218	99.6070%	9,125,232	834,760	8,290,472
Mgmt Office (State of CA)	1,500	0.3930%	36,000	3,293	32,707
Franchise Tax Board	1,814,056			5,824,813	
State of CA	1,812,556	99.9173%	50,150,000	5,819,997	44,330,003
Mgmt Office (State of CA)	1,500	0.0827%	41,502	4,816	36,686
Harris Building Oakland	700,589			2,737,769	
State of CA	699,089	99.7859%	21,670,124	2,731,907	18,938,217
Mgmt Office (State of CA)	1,500	0.2141%	46,496	5,862	40,634
Judge Rattigan Building	92,368			177,116	
State of CA	90,868	98.3761%	2,126,311	174,240	1,952,071
Mgmt Office (State of CA)	1,500	1.6239%	35,100	2,876	32,224
Junipero Building	431,856			1,244,542	
State of CA	430,356	99.6527%	11,334,998	1,240,219	10,094,779
Mgmt Office (State of CA)	1,500	0.3473%	39,508	4,323	35,185
Public Utilities Building (PUC)	270,768			1,069,504	
State of CA	269,268	99.4460%	9,650,000	1,063,579	8,586,421
Mgmt Office (State of CA)	1,500	0.5540%	53,757	5,925	47,832
Ronald Reagan Building	739,158			2,232,229	
State of CA	737,658	99.7971%	19,374,192	2,227,699	17,146,493
Mgmt Office (State of CA)	1,500	0.2029%	39,397	4,530	34,867
SF Civic Center	912,387			3,865,522	
State of CA	910,887	99.8356%	35,623,555	3,859,167	31,764,388
Mgmt Office (State of CA)	1,500	0.1644%	58,663	6,355	52,308
Total	7,311,158		225,389,042	26,178,023	199,211,019

Exhibit C
Summary of "Opinion of Probable Deferred Maintenance and Capital Costs"

Property	Immediate Repairs	Years 1-3	Years 4-6	Years 7-10	Total
Attorney General Building	600	372,900	-	519,400	892,900
Cal EMA	5,000	310,000	14,000	50,000	379,000
Capital Area East End Bldg 1430 N	-	128,800	-	62,900	191,700
Bldg 1501, 1500, 1615, 1616	-	617,200	340,000	21,500	978,700
Department of Justice Building	-	1,025,200	1,086,800	98,700	2,210,700
Franchise Tax Board	-	2,822,300	135,900	248,600	3,206,800
Harris Building Oakland	600	372,900	-	519,400	892,900
Judge Rattigan Building (PUC)	-	161,300	43,200	118,200	322,700
Junipero Building	-	691,040	193,000	187,000	1,071,040
Public Utilities Building	5,000	3,086,700	396,500	376,000	3,864,200
Ronald Reagan Building	27,600	3,256,900	564,200	1,063,200	4,911,900
SF Civic Center Bldg 350 McAllister	4,000	-	280,000	15,000	299,000
Bldg 455 Golden Gate Avenue	-	782,400	49,500	12,500	844,400
Total	42,800	13,627,640	3,103,100	3,292,400	20,065,940

Same Schedule above followed for Yrs 10 - 20	11-13	14-16	17-20
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