

# Golden State Asset Acquisition Group

May 21, 2010

CB Richard Ellis  
1840 Century Park East, Suite 700  
Los Angeles, CA 90067-2108  
Attn: Mr. Kevin Shannon

RE: Letter of Intent to Purchase the Golden State Portfolio

Dear Mr. Shannon:

Thank you for your letter of May 17, 2010. The Golden State Asset Acquisition Group (“**Buyer’s Project Team**”) is presenting this “Final Round” offer on behalf of the California Municipal Finance Authority (“**CMFA**”) and its designees (the “**Buyer**”). Buyer is prepared to enter into a long term ground lease with the State of California (the “**Seller**”) on those certain 11 properties that comprise the Golden State Portfolio, totaling 7.3 million square feet, and purchase and acquire all improvements thereon and personal property, including all of Seller’s right, title, and interest in all leases, licenses, trade names, permits, license agreements, easements, parking areas, and rents (the improvements are collectively referred to herein as the “**Properties**”) on the terms and conditions set forth below. Buyer has successfully completed a number of transactions with a similar structure. This Final Round offer is subject to definitive ground leases (the “**Ground Leases**”) and a purchase agreement executed between Buyer and Seller (the “**Purchase and Sale Agreement**”). Buyer intends only to be bound by the execution of the Ground Leases and the Purchase and Sale Agreement. While Buyer is confident that it can close on this transaction using the ground lease structure, Buyer is also prepared to execute a transaction acquiring the entire fee interest in the land and improvements on the same terms, conditions, and schedule as described herein.

1. **Purchase Price:** \$2,150,000,000 cash payable in immediately available funds at closing (the “**Purchase Price**”), which amount is based on the acquisition by Buyer of all Properties in the portfolio. Buyer will acquire the Properties using the proceeds of tax-exempt bonds and/or Build America Bonds (the “**Bonds**”) issued by CMFA. Buyer’s offer is contingent on receipt of an unqualified tax opinion and upon the completion of the bond offering with proceeds sufficient to pay the Purchase Price (as set forth below) and all transaction costs. Buyer’s Project Team has underwritten the transaction within the parameters set forth in Attachment 1 attached hereto and is confident in its ability to successfully close this transaction in accordance with the terms set forth in this letter.

In the context of evaluating this transaction in a manner that would achieve the Seller’s goals of maximizing up front proceeds and recapturing the real estate assets after a stated period, Buyer’s Project Team structured this transaction with the Seller as a long term ground lease coupled with a purchase of the improvements. Buyer would lease the Properties pursuant to long term Ground Leases and then lease back the Properties to Seller

pursuant to the operating leases.

2. **Operating Lease:** Buyer's Project Team understands Seller's desire to treat the leases as operating leases. Buyer's Project Team confirms that its offer is structured around the operating lease characteristics of the leases and that it does not require modifications that would otherwise be required in tax-exempt bond financings, such as a continuing appropriation. The structure proposed by Buyer's Project Team includes the following features to account for the risks inherent in the operating lease structure:

- Two tranches of debt will be issued. The second tranche is designed to isolate the financial risks inherent in the structure, which risks include, but are not limited to, operating costs escalating higher than the stated escalation in the lease and the obligation of Buyer to meet capital obligations.
- Buyer's Project Team has set aside bond reserves and capital reserves to address the obligation of the Buyer and not the Seller to maintain the facilities in working order even in the face of extraordinary damage (*i.e.*, seismic event).
- Buyer's Project Team has toured each facility and has vetted the operating cost numbers in detail, which provides comfort in the Buyer's ability to operate the buildings within the operating budget provided.
- Buyer's Project Team has received insurance quotes that cover seismic, casualty, rental interruption, etc. and have accounted for the estimated costs within the operating budget.

As it pertains to the Seller's ability to treat the proposed lease as an operating lease under current generally accepted accounting principles, the Buyer's Project Team has met with PricewaterhouseCoopers LLP to gain an understanding of the accounting requirements under GASB/FASB Statements 13, 66, and 98. These Statements govern whether a sale-leaseback transaction can be recorded as a sale, and if so, whether the proposed lease can be classified as an operating or capital lease. Based upon these conversations, Buyer's Project Team has completed a review of the proposed leases and believes there are possibly two items that may present issues in the context of recording this transaction as a sale. These include:

- Under subparagraph (f) of the Fire and Casualty section of the proposed lease, the Seller can obtain an option to repurchase damaged buildings in the event of a casualty. It is Buyer's Project Team's understanding that a contingent purchase option such as this could prevent the Seller from being able to record the transaction as a sale because it represents a "seller-lessee obligation or option to repurchase the property" under FASB Statement 98. The Seller should consider removing this provision from the lease.

- The six fixed-rate five-year renewal options contained in the proposed leases could also present the Seller with challenges in recognizing the proposed transaction as a sale. It is Buyer's Project Team's understanding that under current GASB/FASB guidance, it has generally been interpreted that fixed rate renewal options that cover "substantially all" (greater than 90%) of the economic lives of the underlying assets, will preclude sale accounting treatment under FASB Statements 66 and 98 because the buyer-lessor cannot realize future appreciation in assets that are being leased at fixed rates for the majority of their economic lives.

In light of the above, the Seller may need to consider limiting the number of fixed rate renewal options included in the leases to ensure that the base term plus the number of fixed rate renewals remains less than 90% of the remaining economic lives of all of the Properties.

Finally, there are several items in the proposed leases that Buyer's Project Team would like to discuss with the Seller and have language in the lease added or adjusted. These include:

- Addition of default remedies, including, but not limited, to notification and cure periods
- The Seller's assignment rights
- Pre-existing compliance with Exhibit B and Asbestos
- The Seller indemnification with respect to pre-existing conditions
- Funding process in Change Orders & Alterations section
- Clarification of insurance requirements
- Limitation of holdover period
- Confirmation that the leases are valid and binding against the Seller

3. **Earnest Money Deposit:** The Buyer will deposit \$6 million into escrow upon the execution of the Purchase and Sale Agreement.
4. **Time for Transaction:** Buyer's Project Team has already completed the majority of its due diligence, and therefore anticipates that any remaining due diligence items will be completed promptly after its selection as winning bidder and prior to the execution of the Purchase and Sale Agreement. Additional due diligence will not be a condition to the Closing. There is also a process required in order to successfully close a tax-exempt bond issue. Buyer's Project Team has put a significant amount of effort into this process to-date. Buyer's Project Team is fully committed to pursuing the balance of the steps necessary to price the Bonds and close the sale of the Bonds upon successful signing of the Purchase and Sale Agreement. These steps include, but are not limited to, finalizing (a) all third party reports, (b)

ratings, (c) bond documentation, (d) local approvals, and (e) investor commitments. Buyer's Project Team is well positioned to deliver all of this work prior to the signing the Purchase and Sale Agreement. Below is a summary of the status of the major steps in the bond process:

- Approval of transaction from CMFA Host Communities: Presentations and extensive discussions have been completed with all of the Host Cities, with staff and individual elected official support coming from each community following these meetings. The Buyer has already received approvals from three of the six communities with the others scheduled to complete their respective hearing and approval by the first week of June.
- Bond Ratings: The Buyer has had favorable discussions with credit/rating agencies regarding the underwriting and structure of this transaction. The Buyer will have the bonds ratings completed prior to signing of the Purchase and Sale Agreement.
- Marketing of Bonds: Presentations have been made to the potential buyers of the various tranches of the bonds. This includes both the high grade and subordinate portions of the debt structure. The response has been overwhelmingly positive across all segments of the bonds. In structuring this financing, Buyer's Project Team is highly confident of the marketability of the securities to suitable investors.
- Documentation: Third-party appraisals have been completed that reconcile with our offer price. This is necessary to complete the bond issuance. In addition, the bond documentation that includes the form of leasehold mortgages, the trust indenture, the offering circular, among other documents, will be prepared upon our selection and will be completed prior to signing of the Purchase and Sale Agreement.

In summary, Buyer's Project Team will have all but the sale of the Bonds completed prior to signing of the Purchase and Sale Agreement. While Buyer's Project Team has requested 45 days to sell the Bonds after signing the Purchase and Sale Agreement, it is targeting a sale as soon as practicable (1-2 weeks) after the execution of the Purchase and Sale Agreement with a closing 2 weeks afterwards. These efforts all come at a cost of several million dollars that Buyer's Project Team is committed to invest upon selection by the Seller, which is in addition to the significant investment of time and funds that Buyer's Project Team has already made.

5. **Property Conditions:**

AEW Capital Management, L.P. ("AEW"), the asset manager of the properties on behalf of the Buyer, has toured all of the Properties, and has reviewed all of the property condition and environmental reports supplied in the document center. AEW has also engaged an insurance risk manager to complete an earthquake simulation on the Properties in order to underwrite the potential for loss in the event of earthquake. Based on these reviews, the Buyer's offer incorporates substantial reserves to maintain the Properties in marketable condition and to the standards

required in the leases, as well as to cover deductibles and building costs in the event of earthquake loss.

Upon Seller's delivery of satisfactory reliance letters from its technical and environmental consultants, the Buyer is prepared to sign off on all physical, ADA, and environmental due diligence. As the reports available in the document center did not include information about asbestos and lead paint, certain evaluation will need to be done prior to the execution of the Purchase and Sale Agreement. The mitigation of these risks, after examination, will be managed through operations and maintenance plans for the assets.

The Buyer has also reviewed Exhibit B of the leases which outlines maintenance requirements for the Properties with respect to which Buyer would be expected to comply. Based upon Buyer's review of the Properties, the buildings may not currently comply with Exhibit B, but will be operated and managed in compliance with Exhibit B on a go-forward basis.

6. **Allocation of Escrow and Transactional Costs:** The Buyer shall pay all closing costs in connection with this transaction (including, but not limited to, escrow fees, CLTA policy premium, and the ALTA premium). The Buyer has assumed and believes that there will be no city or county transfer taxes nor real property taxes owed in conjunction with the transaction. With respect to transfer taxes, until the Buyer receives definitive confirmation that the transaction is exempt from transfer tax, it will set aside from the Purchase Price an amount equal to the transfer tax amount to be paid to each county at closing. If no transfer taxes are due, the Buyer will release the set-aside funds to the Seller.
7. **Purchase and Sale Agreement:** Buyer's Project Team has reviewed the Purchase and Sale Agreement made available on the data site and has the comments set forth in the mechanically marked version attached to this Letter of Intent as Attachment 2. While Buyer's Project Team's comments are currently reflective of an acquisition by the Buyer of fee title to the Properties, it is the Buyer's intention to enter into the Ground Leases and acquire the improvements thereon. Minor adjustments to the Purchase and Sale Agreement can be made to accommodate the Ground Lease structure.
8. **Buyer Interviews:** Buyer's Project Team looks forward to discussing its offer with Seller and its representatives at 2:00 pm PDT on Sunday, May 23, 2010. Buyer's Project Team will provide a PowerPoint presentation to Seller's representatives to assist in describing Buyer's Project Team's proposed transaction.
9. **Title:** Buyer's Project Team has reviewed the preliminary title reports and the surveys on the document center. Buyer's Project Team will request a number of endorsements and clean-up items from First American Title, none of which will be a condition to Closing. However, Buyer will request, as a condition to Closing, that Seller remove any liens or encumbrances related to the existing leases and bonds, any mechanics' liens, and any delinquent property taxes.

Buyer's Project Team did note that with respect to the Civic Center Complex, the Seller must provide the San Francisco State Building Authority with 90-days prior written notice of its intent to exercise its option to purchase the Civic Center Complex. Buyer's Project Team needs additional comfort that steps have been taken so that the closing of the Civic Center Complex occurs concurrently with the closing on the balance of the Properties.

10. **Additional Information:**

After the Bonds have been retired and other necessary maintenance and operation costs have been provided for, it is assumed that the excess cash flow from the Properties be directed to the local public agencies in which the Properties are located (*i.e.*, Los Angeles, Santa Rosa, County of Alameda, County of Sacramento, Rancho Cordova, and San Francisco (the "**Host Communities**")). However, it is understood that at the end of the terms of the Ground Leases, all improvements will revert back to the Seller without encumbrance.

As stated above, Buyer's Project Team has taken significant steps to further the issuance of the Bonds in order to consummate this transaction.

On April 7, 2010, the Board of Directors of CMFA adopted a resolution expressing its intent to issue the Bonds to acquire the Properties and to appoint Stone & Youngberg LLC ("**S&Y**") to lead the underwriting of and sales efforts for the Bonds. With respect to the Host Communities the following has occurred:

- On May 17, 2010, the City of Rancho Cordova approved, pursuant to a 5-0 vote, a resolution authorizing CMFA to issue bonds to acquire the Emergency Management Agency Building.
- On May 18, 2010, the County of Sacramento approved, pursuant to a 5-0 vote, a resolution authorizing CMFA to issue bonds to acquire the Attorney General Building, the Capital Area East End Complex, and the Franchise Tax Board Complex.
- On May 18, 2010, the City and County of San Francisco approved, pursuant to an 11-0 vote, a resolution authorizing CMFA to issue bonds to acquire the San Francisco Civic Center and the Public Utilities Commission Building.
- The County of Alameda scheduled the hearing for the resolution authorizing CMFA to issue bonds to acquire the Elihu Harris Building for May 25, 2010.
- The City of Santa Rosa scheduled the hearing for the resolution authorizing CMFA to issue bonds to acquire the Judge Rattigan Building for May 25, 2010.
- The City of Los Angeles scheduled the hearing for the resolution authorizing CMFA to issue bonds to acquire the Ronald Reagan Building and Junipero Serra Building for June 1, 2010.

Where resolutions have not yet passed, all discussions at staff and elected official levels in each of these communities have been positive. There has been an expression of support for this transaction and Buyer remains confident that the respective boards will pass the necessary resolutions. Furthermore, these approvals are not generic approvals, but rather they are specific to CMFA.

11. **Brokerage:** Neither Buyer nor Buyer's Project Team has engaged a broker or finder in connection with this transaction. Seller will pay the CB Richard Ellis commission only. Seller shall be responsible for paying CB Richard Ellis a brokerage fee per a separate written agreement.
12. **Confidentiality:** Buyer's Project Team shall keep confidential any confidential information or data received regarding the Properties in accordance with the Confidentiality Agreement.

Buyer's Project Team acknowledges that the Properties will not be taken off of the market, and Seller reserves the right to sell or dispose of the Properties in any way it so determines prior to entering into a written Purchase and Sale Agreement. Buyer's Project Team expressly waives any remedy of specific performance against the Seller in connection with this letter, and any right to proceed with any legal action or to record or file a *lis pendens* or similar notice against the Properties in connection with any alleged default by the Seller arising from this letter.

We look forward to hearing from you on this matter. If you have any questions about this bid, please feel free to contact me at (415) 445-2323 or (415) 264-4927 (cell) or ssollers@syllc.com or Ramiro Albarran at (212) 497-7111 or (203) 219-4455 (cell) or ralbarran@syllc.com. Please also feel free to call Tom Mullahey of AEW Capital Management, L.P., at (213) 312-2610 or (310) 779-5056 (cell) or tmullahey@aew.com.

Sincerely,



Scott C. Sollers  
Authorized Representative  
Golden State Asset Acquisition Group