



Vincent E. Pellerito
Chief Executive Officer

May 21, 2010

Mr. Kevin Shannon
Vice Chairman
Mr. Robert Gilley
Executive Vice President
Mr. Randy Gertz
Executive Vice President
Mr. Randy Pereira
Senior Vice President
CB Richard Ellis
990 W. 190th Street
Torrance, California 90502

Re: **“Best and Final” Round Two Offer (“Offer”)**

Gentlemen:

Thank you for your letter on May 17, 2010 notifying National Financial Realty, Inc. (“National Financial Realty”) of its selection as a finalist to acquire the Golden State Portfolio (“Portfolio”) from the State of California (“State”). Based on the State’s objectives and concerns of this transaction expressed to us, it is important to point out two important distinguishing factors of our Offer:

1. **Politically Attractive.** Our Offer provides a very positive and responsible financial outcome for the State. With the buildings reverting back to the State at the end of the lease term, public perceptions of a “developer and/or investor” (domestic or foreign) reaping windfall profits at the State’s expense, today or in the future, are avoided.
2. **Execution Certainty.** Given the complexity and required timing of this transaction, bond execution is critical. We understand the importance of closing certainty for all participants.

Therefore, it’s important to note that our underwriting team has executed over 21 California-based bond issuances (taxable and non-taxable) in excess of \$1 billion (each issuance), over the past ten years exceeding \$55 billion.

Wells Fargo Securities has recently been selected as a co-underwriter to our team (see below) to support Bank of America Merrill Lynch’s lead efforts. With two of the largest

commercial banks in the world on our team, we are highly confident that our execution ability is unsurpassed. Our complete execution team includes:

Transaction Leader/Asset Manager
National Financial Realty

Lead Underwriter
Bank of America Merrill Lynch

Underwriters
Wells Fargo Securities
Wedbush Securities

Legal Counsel
Orrick, Herrington & Sutcliffe
Paul, Hastings, Janofsky & Walker
Squire Sanders & Dempsey

Lessor/Issuer/Purchaser
California Municipal Finance Authority

Summary of Offer

We have reviewed the purchase and sale agreement, leases and title as requested and we anticipate no material issues. It should be noted that Lessor shall have no responsibility under the purchase agreement or lease for hazardous materials liability or problems caused by the State at any time.

Based on our Offer, the State of California receives: (i) a Purchase Price of \$2,150,000,000; (ii) an expedited closing targeted to occur on or before August 31, 2010; (iii) surety of execution and close; (iv) reversion of Portfolio ownership at the end of lease term to the State; (v) exclusion from property and taxes; and (vi) operating lease treatment for accounting purposes.

Once National Financial Realty is selected as the finalist to acquire the Portfolio, our plan of action will be:

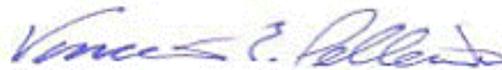
1. National Financial Realty and the State identify and select a California joint powers authority or, alternatively, a 501(c)(3) corporation (“Lessor”);
 - a. California Municipal Finance Authority (“CMFA”) has agreed to participate as the Lessor, however, we remain flexible to working with any group recommended by the State;
2. State leases the land on which the Portfolio buildings are located to Lessor under a “Ground Lease” for a 50, or if the State prefers, 40-year term;
3. Lessor purchases the Portfolio buildings from the State for a purchase price of \$2,150,000,000;
4. Lessor enters into an asset management contract with National Financial Realty:
 - a. A nationally recognized, institutional quality property management firm will be retained;
5. Lessor leases the Portfolio to the State under a 20-year lease with renewal options;
6. Lessor issues tax-exempt bonds underwritten by Bank of America Merrill Lynch, Wells Fargo Securities and Wedbush Securities; and
7. At no cost to the State, ownership of the Portfolio reverts back to the State at the expiration of the Ground Lease term.

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A comprehensive Term Sheet is attached for your review that further describes the economic terms and conditions required to achieve the above objectives. This "Best and Final" offer is non-binding on the State, National Financial Realty and its advisors and consultants until such time as a binding offer has been executed and delivered by all involved parties. This offer shall expire on May 25, 2010 at 5:00 PM Pacific Standard Time.

On behalf of National Financial Realty and its entire team, we look forward to the opportunity of working with you, CBRE and the State to conclude this important transaction in the most efficient and timely manner possible.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Vincent E. Pelletier".

cc: Bank of America Merrill Lynch Investment Banking
Wells Fargo Securities
Wedbush Securities
Orrick, Herrington & Sutcliffe, LLP
Paul, Hastings, Janofsky & Walker, LLP

Attachments

Term Sheet Golden State Portfolio

May 21, 2010

National Financial Realty is pleased to present this Term Sheet to acquire the Golden State Portfolio below based on a tax-exempt bond issuance.

1. Golden State Portfolio

The Golden State Portfolio consists of 11 individual building sites (each a “Site”) and the buildings thereon (each a “Building”) totaling 7,311,158 rentable square feet as described in Exhibit A.

2. Lessor

The State of California (the “State”) and National Financial Realty will identify and select a California joint powers authority or, alternatively, a 501(c)(3) corporation (the “Lessor”).

In this regard, we recommend California Municipal Finance Authority, and they have agreed to be part of our transaction team, but we will agree to work with the State’s preferred entity.

3. Purchase of Buildings

The Lessor shall purchase the Buildings from the State for a Purchase Price of \$2,150,000,000. The Purchase Price is based on NOT modifying the State’s proposed lease form.

4. Ground Lease

The Lessor and the State will enter into a ground lease (“Ground Lease”), pursuant to which the State will lease the Sites to the Lessor. The term of the Ground Lease will be 50 years or, if the State prefers, 40 years.

Annual ground rent under the Ground Lease during the concurrent terms of the Ground Lease and Lease (defined below) will be \$1.00; if the State does not renew the Lease at any future date, the ground rent will be set at Fair Market Value.

At the conclusion of the Ground Lease term, title to the Sites and Buildings will revert to the State by operation of law, free and clear of any debt encumbrance.

5. Lease

The Lessor and the State will enter into a lease (the “Lease”), pursuant to which the Lessor will lease the Sites and the Buildings to the State. The term of the Lease will be 20 years with six, five-year lease renewals. Alternatively, if the State determines

that it would be economically advantageous to the State, the Lease could be structured with four, five-year renewals (and the term of the Ground Lease would be correspondingly shortened to 40 years).

Subject to the CBRE offering materials, National Financial Realty agrees to the economic terms and conditions contained in the leases as proposed in such offering materials.

At the end of the Lease term (and any renewals thereof), the State may, at its sole election, either:

- a) Renew the Lease for an additional term, as described above;
- b) Vacate and surrender the Sites and Buildings to the Lessor; or
- c) Make a Purchase Offer, as described below.

6. Purchase Offer Rejectable Right and Right of First Refusal

The State may make an offer (a "Purchase Offer"), at any time during the Lease term or any renewal terms thereafter, to acquire all (but not less than all) of the Lessor's interest in the property (the "Lessor's Interest"), by giving written notice thereof to the Lessor setting forth the proposed cash purchase price ("Purchase Price") that the State is willing to pay therefor. The Lessor may freely reject any such Purchase Offer, and will be deemed to have done so if it does not affirmatively accept the Purchase Offer within 30 days.

If, at any time which is 90 days prior to the end of the Lease term or any renewal terms thereafter, the Lessor receives a bona fide offer from an unaffiliated third party to purchase the Lessor's Interest in the Property, it will, prior to unconditionally accepting such offer, notify the State thereof in writing setting forth in detail the complete terms, provisions, and conditions thereof (the "Offer Notice"). The State will have 60 days from receipt of the Offer Notice in which to elect to acquire the Lessor's Interest under the terms, provisions, and conditions set forth in the Offer Notice. If the State does not exercise its right to acquire the Lessor's Interest, then the Lessor will be free to sell the same under terms, provisions, and conditions that, in general, are no less favorable to the Lessor than those set forth in the Offer Notice. If the Lessor does not consummate such a sale during a period of 180 days following the end of such 60-day period, then the Lessor may not affect such a sale without again complying with the provisions described above by delivering another Offer Notice to the State.

7. Portfolio Management

National Financial Realty will provide asset management for the Portfolio at no cost to the State. As asset manager, National Financial Realty will retain a third party, nationally recognized, institutional quality property management firm to provide daily services to the State.

8. The Bonds

The source of funds for the Purchase Price of the Buildings will be the proceeds of tax-exempt bonds ("Bonds") issued by the Lessor and underwritten by Bank of America Merrill Lynch, Wells Fargo Securities and Wedbush Securities.

Bank of America Merrill Lynch will be the lead underwriter and will provide execution certainty and timeliness.

The Bonds will be payable from the Base Rent payments received by the Lessor pursuant to the Lease. The Bonds will be secured by a mortgage on the Sites (leasehold) and Buildings (fee), subordinate to the Ground Lease.

9. Transaction Closing

Anticipated closing would occur on or before August 31, 2010.

10. Reports Reviewed/Reconciled Items

Understanding the importance of contract price ultimately becoming the closing price, we understand that Portfolio will be delivered "As-Is." Furthermore, the following items have been reviewed and reconciled:

- a) Mark Okubo Property Condition Report;
- b) Kleinfelder Phase I Environmental Reports;
- c) ALTA Survey;
- d) ADA Survey;
- e) Revised Year One Operating Budgets;
- f) Revised Argus Models; and
- g) Building, Floor, Site Plans and Specifications.

11. Earnest Money Deposit

An appropriate Earnest Money Deposit will be determined by both the State and National Financial Realty prior to the State's selection of National Financial Realty as the Portfolio finalist.

12. Escrow and Transaction Costs

All closing costs in connection with the transaction will be paid from Bond proceeds at no cost to the State.

CBRE's brokerage fee will be paid by the State. National Financial Realty acknowledges that it is not represented by any broker and has dealt with no broker in connection with this transaction.

13. Non-Binding

This Term Sheet is a nonbinding letter of intent, and shall not evidence or create any binding obligation on the part of either National Financial Realty or the State. Neither party shall have any obligation to the other until the full execution of definitive documents and neither party shall be entitled to detrimentally rely (or assert any detrimental reliance) on any matter contained herein.

Exhibit A

Golden State Portfolio

<u>Building & Location</u>	<u>Rentable Square Feet</u>
Public Utilities Commission Building 505 Van Ness Avenue San Francisco	279,768
San Francisco Civic Center 350 McAllister Avenue 455 Golden Gate Avenue San Francisco	912,387
Elihu Harris Building 1515 Clay Street Oakland	700,589
Judge Rattigan Building 50 D Street Santa Rosa	92,368
Junipero Serra State Building 320 West 4 th Street Los Angeles	431,856
Ronald Regan State Building 300 South Spring Street Los Angeles	739,158

Golden State Portfolio

<u>Building & Location</u>	<u>Rentable Square Feet</u>
Attorney General Building 1300 I Street Sacramento	376,866
Capital Area East End Complex 1430 N Street 1500, 1501, 1615 and 1616 Capitol Avenue Sacramento	1,474,705
Department of Justice Building 4949 Broadway Sacramento	381,718
Franchise Tax Board Complex 9645 Butterfield Way Sacramento	1,814,056
California EMA Headquarters 3650 Schriever Avenue Rancho Cordova	116,687