

CALIFORNIA FIRST, LLC

May 21, 2010

VIA HAND DELIVERY,
EMAIL, & FACSIMILE

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

Re: Best and Final Proposal 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:

Pursuant to your letter of May 17, 2010, and based upon our further review of the information and documents provided, this proposal from California First, LLC (the "Purchaser") describes 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 final step toward execution of a definitive Purchase and Sale and Lease Agreement ("Contract").

It is the primary mission of California First, LLC to provide the State of California:

- ***The highest net proceeds upon sale.***
- ***Certainty of (an expeditious) closing.***
- ***First class management with a nationally and internationally recognized landlord.***

The preliminary terms upon which Purchaser would be willing to acquire the Properties are as follows:

Seller: State of California

Purchase Price: The Purchase Price shall be Two Billion Two Hundred Fifty Million Dollars (**\$2,250,000,000**), all cash at closing for all eleven Properties. The Purchaser's proposal includes an energy efficient retrofit of the Properties.

Purchaser: California First, LLC, is a venture of ***Hines and ACRE, LLC, which will be managed by Hines.***

The Purchaser's investment consortium, described below, has collectively executed transactions with a combined value in excess of \$75 billion, and managed on its own behalf and for third parties, a portfolio of more than 1,500 properties including skyscrapers, corporate headquarters, government facilities, mixed-use centers, industrial parks, medical facilities, and master-planned resort and residential communities.

Transaction Structure: ***The Purchaser, through its investment partners, has sufficient discretionary capital to execute this transaction without a financing contingency.*** Purchaser is arranging debt financing of 60% of total asset

value. To that end, Purchaser is working with several domestic and merchant lenders that have shown qualified interest. Please let us know if you would like to either speak with any of such lenders or review any of the documentation that has been generated with regard to such financing, and we will promptly arrange to provide the same.

Equity Investors:

The Purchaser has assembled a consortium of established investors with deployable capital sufficient to execute this transaction. Purchaser has entered into commitments for equity investments for the transaction with the below investors, and we are materially oversubscribed for this transaction. Please let us know if you would to either speak with any of the below investors or review any of the commitment documentations, and we will promptly arrange to provide the same. The investors include:

- **PRP**
- **Belgravia Capital**
- **Woodmont Capital Partners**
- **Steadfast Companies**
- **Black Equities Group**
- **CityView**
- **AE Capital Advisers**
- **Capital Pacific Holdings, Inc.**
- **The Linc Group**
- **GreenSpace Developments**

Due Diligence:

The Purchaser has completed its due diligence of the Properties, and is prepared to complete this transaction without contingencies. Purchase engaged as counsel the law firms of Allen Matkins Leck Gamble Mallory & Natsis LLP and White and Case LLP to review all legal documents and title. DPPM and Rudolph and Sletten were engaged by Purchaser to perform inspections and physical due diligence of the Properties. Representatives of Purchaser's management team and its consultants have conducted multiple tours of each of the Properties, inspecting the physical plant and interviewing on-site management and engineering personnel. Additionally, the Purchaser has thoroughly reviewed all of the reports and documents provided by the Seller. Purchaser has conducted first class, institutional quality due diligence at the same level that an institutional buyer would conduct in connection with a single property purchase. If Seller desires, Purchaser can provide Seller with a comprehensive, detailed list of each diligence item reviewed by Purchaser.

Purchaser Option and Option Payment:

Purchaser is willing and able to post a non-contingent, hard deposit of Fifty-Five Million Dollars (\$55,000,000.00) in connection with this transaction immediately. However, based on the Seller's governmental process, Purchaser understands that it will not be able to post such deposit for at least 30 days after Seller gives notice of this transaction to the State legislature. Accordingly, in an effort to demonstrate Purchaser's commitment to this transaction, Purchaser will post a deposit pursuant to a separate agreement on the following terms (which includes the right of the Seller to retain the deposit in the event Purchaser fails to perform its obligations thereunder). Immediately upon the finalization of the form of

the "Purchase Agreement", as that term is defined below, and the "Leases", as that term is defined below, Purchaser shall deposit with Seller Five Million Dollars (\$5,000,000), which deposit shall be consideration for Purchaser having an option to purchase the Properties as described in an "Option Agreement" to be executed by Seller and Purchaser immediately after Purchaser is selected by Seller as the "Purchaser" under the Purchase Agreement. If within a reasonable time period after Seller obtains all governmental approvals to sell the Properties to Purchaser, Purchaser fails to mutually execute the Purchase Agreement and Leases, such Five Million Dollars (\$5,000,000) deposit shall become the property of Seller. If on the other hand, Purchaser executes the Purchase Agreement and the Leases, then Seller shall return such Five Million Dollars (\$5,000,000) deposit to Purchaser and Purchaser shall then post the Fifty-Five Million Dollar (\$55,000,000) non-contingent, hard deposit described in the next section. However, if Seller does not, within a reasonable time period, receive all necessary governmental approvals to sell the Properties to Purchaser, Seller shall refund the aforementioned Five Million Dollars (\$5,000,000) deposit to Purchaser.

Earnest Money Deposit:

Upon the full execution of the "Purchase Agreement" as that term is defined below, Purchaser would deposit Fifty-Five Million Dollars (**\$55,000,000**) as an earnest money deposit (the "Earnest Money Deposit") with First American Title and Escrow Company (the "Title Company"), **at which time the entire Earnest Money Deposit amount shall become non-refundable, and shall be fully applied to the Purchase Price at Closing.**

Closing:

Purchaser understands that the Seller is desirous of an expeditious closing of this purchase, and in that regard Seller is anticipating the execution of the Purchase Agreement on or about July 6, 2010. **Purchaser will close within ten (10) days following execution of the Purchase Agreement**, subject to the Seller's necessary governmental approvals and process.

Operating Leases:

We have reviewed the leases (the "Leases") that are in the transaction document center. We agree to adhere to the terms and conditions in the document center and will adhere to the operating leases for the Properties. Pursuant to discussions with the Seller's representative, we have prepared a list of recommended "minor" revisions to the lease form(s), attached hereto as Exhibit A. Please note that the "minor" revisions that appear on Exhibit A are the same "minor" revisions previously submitted to Seller. We confirm that our purchase is intended to comply with the operating lease standards under current FASB/GASB rules governing Operating Lease standards (*i.e.*, FAS 13, FAS 66 and FAS 98).

Purchase and Sale Agreement:

We have reviewed the draft Purchase and Sale Agreement (the "Purchase Agreement") prepared by the Seller, and have provided our comments and proposed "minor" modifications in a "redlined" version attached hereto as Exhibit B.

Interviews

Purchaser is available for the interview scheduled for Sunday, May 23rd.

- Operating Expenses:** We confirm that our proposed purchase price reconciles our analysis, review, and modification (as applicable) of the projected Year One Operating Budgets that are in the document center.
- Property Condition:** We have reviewed the Marx Okubo report.
- Plans and Specifications:** We acknowledge we have reviewed the information in the Building, Floor, Site Plans and Specifications for the Properties in the document center.
- Title Company:** The closing would take place through escrow at First American Title and Escrow Company.
- Title Policy:** Purchaser has reviewed the Preliminary Title Reports and underlying documents and ALTA surveys and there are no unapproved conditions. The Seller shall provide the Purchaser with fee simple ownership of the properties described herein.
- 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 any commission(s) payable to Seller's Broker by Seller under separate agreement(s).
- Expiration of Proposal:** If the Seller has not executed and delivered this Proposal Letter to the Purchaser by 5:00 PM, Pacific Time, Friday, May 28, 2010, this Proposal Letter shall automatically terminate; provided, however, if the Seller extends the timeframe for selection of the potential buyer, then the expiration date of this Proposal Letter may be adjusted by the Purchaser as appropriate.
- Definitive Agreements:** Except for the immediately following paragraph regarding exclusivity (which shall become binding upon the Seller upon its execution and delivery of this Proposal Letter), 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 Proposal 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.

We believe 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 our direct personal experience acting on behalf of the Department of General Services and the State of California in underwriting the bond sales that financed the Properties (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. Furthermore, California First's team is comprised of a number of professionals with extensive experience in structuring

complex municipal finance refunding and defeasance strategies. Given that tax-exempt bonds are not being used to refund the outstanding bonds associated with the Golden State Portfolio, ***our team will be able to assist the State in the development of a variety of defeasance strategies to reduce the negative arbitrage associated with this transaction, thereby producing additional proceeds for the State.***

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

We require that you keep confidential and not discuss the existence or terms of this Proposal Letter or any negotiations between us without our prior written consent.

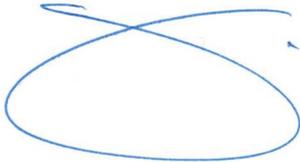
We are confident that these efforts will result in a successful transaction with the State of California, and we look forward to your favorable reply.

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

Rich Mayo (M: 310-413-5405; rmayo@antarcticacapital.com)
Grover L McKean (M: 323-661-6655; GLMcKean@antarcticacapital.com)
Chandra R. Patel (M: 917-593-8387; crpatel@antarcticacapital.com).

Sincerely,

California First, LLC



Richard Mayo
Managing Partner

ACCEPTED AND AGREED TO:

State of California

Date: _____, 2010

By: _____

Print Name: _____

Its: _____