



18881 VON KARMAN, SUITE 800
IRVINE, CALIFORNIA 92612

April 14, 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: The purchase price for the complete Portfolio (11 buildings) shall be **Two Billion Four Hundred Seventy Five Million Four Hundred Dollars (\$2,475,400,000.00)**, all cash at the close of escrow, on the terms and conditions outlined herein. Additionally given the structure of the transaction listed below, although not realized up front, there is an additional reversionary value of which the discounted present value is an additional **\$532,333,243** bringing the total value of our offer to **\$3,007,733,243**.

Key Features of the Bid Package

This bid package is composed of a Primary Bid encompassing all 11 of the offered properties and a series of Individual Bids, all of which utilize the same fundamental legal and financial structure.

THE PRIMARY BID

The Estate for Years Structure Provides a Valuable Reversionary Interest to the State. The

Primary Bid 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. This economic benefit, with a present value of over \$500 million, is in addition to the stated amount of the Bid. 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 Primary Bid 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 Taxes Are "Converted" Into A Higher Bid Price. Because the Purchaser is a tax-exempt 501(c)(3) entity, property taxes that would reduce the amount of net operating income under a conventional taxable financing structure are freed-up to support a higher bid price. This "conversion" produces a significant amount of additional unrestricted cash for the State at closing.

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

THE INDIVIDUAL BIDS

The 11 Individual Bids utilize the same basic legal and financial structure as the Primary Bid. However, each Individual Bid must "stand alone" as an investment vehicle and certain economies of scale relating to the financing structure are not available as they are with the Primary Bid. This leads to the anomalous situation whereby the Purchasers are able to offer a higher bid price for the Primary Bid package than they can for the aggregate of the 11 individual properties.

	Purchase Price	PV of Reversion	Total
<u>Aggregate Golden State Portfolio</u>	2,475,400,000	532,333,243	3,007,733,243

Separate Buildings

1	Attorney General Building	142,510,000	24,957,957	167,467,957
2	Cal EMA	45,160,000	7,911,588	53,071,588
3	Capital Area East Building	527,400,000	92,249,979	619,649,979
4	Department of Justice Building	78,860,000	13,797,687	92,657,687
5	Elihu M Harris Building	199,670,000	34,908,379	234,578,379
6	Franchise Tax Board	538,690,000	94,360,107	633,050,107
7	Governor Pat Brown Bldg (PUC)	89,190,000	15,601,607	104,791,607
8	Judge Rattigan Building	16,290,000	2,842,620	19,132,620
9	Junipero Serra Building	104,670,000	18,321,496	122,991,496
10	Ronald Reagan Building	181,070,000	31,700,186	212,770,186
11	San Francisco Civic Center	<u>349,370,000</u>	<u>61,235,769</u>	<u>410,605,769</u>
		2,272,880,000	397,887,376	2,670,767,376

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 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 Chicago Title Company, office of Frank Jansen, Los Angeles, 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 6, 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