



Vincent E. Pellerito
Chief Executive Officer

May 11, 2010

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

Re: “Best and Final” Offer to Purchase the Golden State Portfolio

Gentlemen:

Thank you for your letter on April 25, 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**”). On behalf of National Financial Realty, its affiliates, subsidiaries and advisors we are pleased to present our “Best and Final” offer to the State.

Based in Los Angeles, California, National Financial Realty is a privately held, leading investment firm that specializes in achieving successful outcomes in complex, special situations with difficult circumstances. National Financial Realty’s “Best and Final” offer provides the State tremendous transaction flexibility. There are three primary transaction structures which include a: (i) taxable bond issuance; (ii) tax-exempt bond issuance; and (iii) standard real estate execution. All three structures strictly adhere to the lease terms desired by the State and provided in CBRE’s offering materials. Based on our understanding of the State’s transaction objectives, we believe a taxable bond offering may produce maximum benefits as outlined below. Other structures noted above are contained in the attached Term Sheet.

Under National Financial Realty’s taxable bond issuance, the State of California receives: (i) cash sale proceeds of \$2,150,000,000; (ii) an expedited closing targeted to occur on or before June 30, 2010; (iii) surety of execution and close; (iv) reversion of Portfolio ownership at the end of fifty years to the State; (v) exclusion from property taxes; and (vi) operating lease treatment for accounting purposes.

May 11, 2010

Page 2 of 3

For surety of execution, National Financial Realty has assembled an experienced, proven and highly regarded transaction team consisting of Bank of America Merrill Lynch, Wedbush Securities, Orrick, Herrington & Sutcliffe and Paul, Hastings, Janofsky & Walker. This same team has worked successfully together for several years on similar, complex transactions.

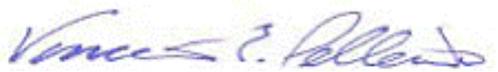
Once National Financial Realty is selected as the finalist to acquire the Portfolio, our plan of action will be:

1. National Financial Realty and the State identify and select a California joint powers authority (“JPA”) or 501(c)(3) corporation (“Lessor”);
2. State leases the Portfolio to Lessor under a “Ground Lease” for a forty year term:
 - a. Lessor makes a one-time lease payment of \$2,150,000,000;
3. Lessor enters into an asset management contract with National Financial Realty:
 - a. A nationally recognized, institutional quality property management firm will be retained;
4. Lessor leases Portfolio buildings to the State under a lease with renewal options;
5. Lessor issues taxable bonds underwritten by Bank of America Merrill Lynch and Wedbush Securities; and
6. At no cost to the State, ownership of the Portfolio buildings reverts back to the State at the expiration of the fifty-year ground lease term.

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.

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.

By:


NATIONAL FINANCIAL REALTY, INC.

May 11, 2010
Page 3 of 3

cc: Bank of America Merrill Lynch Investment Banking
Wedbush Securities
Orrick, Harrington & Sutcliff, LLP
Paul, Hastings, Janofsky & Walker, LLP

Attachments

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

Term Sheet

Golden State Portfolio

National Financial Realty is pleased to present this Term Sheet to acquire the Golden State Portfolio below based on: A) taxable bond issuance; B) tax-exempt bond issuance; and C) traditional real estate purchase.

A. Taxable Bond Issuance

1. Golden State Portfolio

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

2. Ground Lease and Lease

The State of California (the “State”) and National Financial Realty will identify and select a California joint powers authority or 501(c)(3) corporation (the “Lessor”). Lessor shall enter into a ground lease (“Ground Lease”) with the State pursuant to which the State will lease the Sites and Buildings to the Lessor. The Lessor will then lease the Buildings back to the State pursuant to leases in the form specified by the State in the CBRE offering materials.

3. Acquisition Price

Acquisition Price of \$2,150,000,000 paid in the form of a one-time ground lease payment (“Ground Lease Payment”) pursuant to the Ground Lease.

National Financial Realty, subject to verification during due diligence, has assumed property taxes and transfer taxes will be exempt based on the current structure. The present value (using the State’s discount rate of 6.5%) of the savings is \$314,100,000 for the property tax and \$11,500,000 for the transfer tax.

4. Transaction Closing

The transaction shall close on or before June 30, 2010.

5. Source of Funds

The source of funds for the Ground Lease Payment will be the taxable bonds (“Bonds”) issued by the Lessor and underwritten by Bank of America Merrill Lynch and Wedbush Securities.

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

6. Lessor

The Lessor will be a California joint powers authority or 501(c)(3) corporation selected by National Financial Realty and the State.

7. Lessee

The Lessee will be the State.

8. Acceptance of Building Lease Terms

The State will lease the Buildings from Lessor for 20 Years with six (6), five (5) year lease renewals.

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

9. Ground Lease Term

The Sites and Buildings will be ground leased to Lessor for 50 years. 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.

10. Portfolio Annual Base Rental Payments

Lessee shall pay to Lessor \$225,338,642 annually in Base Rent. The Base Rent shall be subject to a two percent (2%) per annum increase for the duration of the Lease Term and any renewal(s).

11. Lease-End Provisions

At the end of the Lease Term and any subsequent Renewal Lease Term, the State may, at its sole election, either:

- a) Renew the Lease for an additional term, as described above,
- b) Vacate and surrender the property to the Lessor, or;
- c) Exercise the Purchase Option described immediately below.

12. Purchase Option

During the Base Term and any Renewal Terms of the Lease, the State will have an option to purchase all, but not less than all, of the Lessor's interest in the Buildings from the Lessor. The purchase option from the State shall only be entertained by the Lessor if such price is equal to the greater of: a) the Fair Market Value of the Lessor's interest in the Buildings as verified by MAI Appraisal when applying a "wasting asset" valuation approach to such leasehold improvements in accordance with common asset valuation practices; or b) the remaining principal balance of the Lessor's project debt plus accrued interest and breakage costs.

13. 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.

14. 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.

15. Escrow and Transaction Costs

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

CBRE's brokerage fee shall 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.

16. Portfolio Management

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

17. Non-Binding

The foregoing 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 purchase agreement documents and neither party shall be entitled to detrimentally rely (or assert any detrimental reliance) on any matter contained herein.

B. Tax-Exempt Bond Issuance

At the State's election, Bank of America Merrill Lynch is able to issue tax-exempt bonds for this transaction under the same terms and conditions above. However, a tax-exempt bond issuance may take more time to orchestrate and could present other concerns such as Proposition 58 issues.

The Acquisition Price will likely yield higher proceeds to the State based on an approximate 200 basis points lower borrowing cost using tax-exempt bonds.

Otherwise, the terms and conditions contained in the tax-exempt bond issuance will be the same as in Section A above.

C. Traditional Real Estate Acquisition

National Financial Realty is prepared to acquire the Portfolio based on a traditional real estate acquisition with the following terms and conditions:

1. Buyer

The Buyer will be National Financial Realty or an affiliated entity.

2. Cash Price

\$2,150,000,000

3. Closing Date

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

4. Leases

National Financial Realty accepts the proposed economic terms set forth in the draft leases presented by CBRE.

5. Source of Equity

Bank of America Merrill Lynch will underwrite securities to qualified institutional investors for the full acquisition price and any related transaction costs. Bank of America Merrill Lynch will agree to acquire the securities in addition to serving as underwriter. Several institutional investors such as PIMCO, Blackrock and Guggenheim, to name a few, have expressed an interest in acquiring the securities.

Under this structure, the “ownership” entity would be the institutional investors who acquire an interest in the securities sold by Bank of America Merrill Lynch, secured by a first trust deed mortgage on the properties. The bond issuance will be no less than 20 years, so that the State would not have multiple building ownerships during its initial 20-year lease term.

National Financial Realty’s structure also eliminates the need to source both “debt and equity” since the issuance of these securities will raise all the needed proceeds.