

# CALIFORNIA FIRST, LLC

May 11, 2010

VIA HAND DELIVERY,  
EMAIL, & FACSIMILE

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

**Re: Revised 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 April 25, 2010, and based upon our further review of the information and documents provided, this revised 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 first step toward execution of a definitive Purchase and Sale and Lease Agreement ("Contract"). 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 One Hundred Sixty Nine Million Five Hundred Thousand Dollars (**\$2,169,500,000**), 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 consortium of experienced real estate and investment firms **managed by Hines and ACRE, LLC**. The Purchaser's investment consortium, described below, has collectively executed transactions with a combined value in excess of \$75 billion. The Purchaser, through its investment partners, currently has in excess of \$2.7 billion of deployable capital.

***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

## Revised Proposal Letter – Golden State Portfolio

May 11, 2010

Page 2 of 4

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.***

### Structure & Time for Transaction:

Based upon the terms and conditions of the Operating Leases proposed by the Seller, this transaction will be executed through a debt/equity structure involving the placement of debt of 60% to 70% of total asset value. ***California First is in discussions with J.P. Morgan to provide financing assistance for the acquisition of the Golden State Portfolio.*** California First and J.P. Morgan's capabilities and experience will ensure the most expeditious due diligence and closing timeline for the State.

### Equity Investors:

In addition to Hines and ACRE, LLC, the Purchaser has assembled a consortium of established investors with deployable capital sufficient to execute this transaction. The investors include:

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

### Earnest Money Deposit:

Within three (3) days after this Proposal Letter is fully executed by Seller and Purchaser, Purchaser would deposit Five Million Dollars (**\$5,000,000**) (the "Earnest Money Deposit") as an earnest money deposit with Fidelity National Title Insurance Company (the "Title Company") pursuant to a mutually acceptable escrow agreement. ***The Earnest Money Deposit amount shall become non-refundable upon completion of Purchaser's Due Diligence and execution of a mutually acceptable definitive Contract, and shall be fully applied to the Purchase Price at Closing.***

### Operating Leases:

We have reviewed 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 recommend "minor" revisions to the lease form(s), attached hereto as Exhibit A. 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).

## **Revised Proposal Letter – Golden State Portfolio**

May 11, 2010

Page 3 of 4

- 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.
- Access, Information & Due Diligence:** The Seller shall provide Purchaser with access to the Properties and all pertinent information in Seller's possession or control within two (2) business days after Seller's execution of this Proposal Letter. Purchaser shall have ten (10) business days from receipt of all such information to perform due diligence and negotiate a definitive Contract with the Seller.
- Closing:** Purchaser understands that the Seller is desirous of an expeditious closing of this purchase. In that regard, Purchaser will use it commercially reasonable efforts to close within thirty (30) days following execution of the definitive Contract, subject to the Seller's schedule for disposition of the Properties and other requirements.
- Title Company:** The closing would take place through escrow at Fidelity National Title Company.
- Title Policy:** The Seller would provide the Purchaser with absolute ownership of the fee simple interest of the properties described herein; free and clear of all liens, encumbrances, etc., except for Purchaser approved exceptions to title.
- 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

**Revised Proposal Letter – Golden State Portfolio**

May 11, 2010

Page 4 of 4

Contract shall be entered into unless it is satisfactory to both Purchaser and Seller, in their respective sole discretion.

In consideration of Purchaser's continued evaluation of the potential purchase of the Properties, during the Exclusivity Period (as defined below), the Seller will not, and will cause its affiliates, directors, officers, brokers and counsel (collectively "Representatives") not to, take any action to, directly or indirectly, encourage, initiate, solicit, or engage in discussions or negotiations with, or provide any information to, any entity or person other than Purchaser (and its Representatives) concerning any Alternate Transaction (as defined below). For purposes hereof, an "Alternate Transaction" shall mean (a) any sale of all or any portion of the Properties or (b) any other transaction or series of transactions which has substantially similar economic effects. For purposes hereof, the "Exclusivity Period" shall mean the period commencing on the date hereof and ending on the earliest to occur of (a) the date of the mutual execution and delivery of a definitive Contract and ancillary documentation with respect to the Transaction, (b) July 31, 2010 and (c) delivery of a written notice by Purchaser to the Seller indicating that it is no longer interested in proceeding with a possible Transaction with Purchaser.

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:

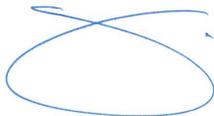
Rich Mayo (M: 310-413-5405; [rmayo@antarcticacapital.com](mailto:rmayo@antarcticacapital.com))

Grover L McKean (M: 323-661-6655; [GLMcKean@antarcticacapital.com](mailto:GLMcKean@antarcticacapital.com))

Chandra R. Patel (M: 917-593-8387; [crpatel@antarcticacapital.com](mailto:crpatel@antarcticacapital.com)).

Sincerely,

**California First, LLC**



Richard Mayo  
Managing Partner

**ACCEPTED AND AGREED TO:**

**State of California**

Date: \_\_\_\_\_, 2010

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Its: \_\_\_\_\_

## EXHIBIT A

Below please find our requested revisions to the gross lease, and, to the extent the triple-net lease contains the same provisions, such requested revisions are applicable to the corresponding sections of the triple-net lease as well.

1. Section 7 of the Lease. Lessor's notice addresses are as follows:

To the Lessor:

**RICHARD M. MAYO  
C/O ACRE, LLC  
18401 VON KARMAN AVENUE, SUITE 260  
IRVINE, CALIFORNIA 92612  
Phone No. (949 ) 502-2905  
FAX No. (949 ) 502-2997**

**With A Copy To:**

**ALLEN MATKINS LECK GAMBLE MALLORY & NATSIS LLP  
1901 AVENUE OF THE STARS, SUITE 1800  
LOS ANGELES, CALIFORNIA 90067  
ATTENTION: ANTON N. NATSIS, ESQ.  
PHONE NO. (310) 788-2400  
FAX NO. (310) 788-2410**

2. Section 10 of the Lease. In order for this Lease to be financeable, Lessor requests a notice and cure right before State can invoke its self-help right regarding Lessor-provided services. Please see our suggested language below, which is redlined against the Lease language.

"In the event of failure by the Lessor to furnish any of the above services or supplies in a satisfactory manner, State shall provide written notice thereof to Lessor and Lessor's lender to the extent State has notice of such lender and its address (except in the event of an emergency constituting a hazard to the health or safety of the State's employees, property, or invitees, in which case no notice shall be required). If Lessor, or Lessor's lender on behalf of Lessor, fails to commence corrective action within a reasonable period of time, given the circumstances, after receipt of such notice (but in no event later than 30 days after receipt of such notice), as applicable, and thereafter diligently pursue such action to completion, then the State may furnish the same at its own cost; and, in addition to any other remedy the State may have, may deduct the amount thereof, including State's administrative costs, from the rent that may then be, or thereafter become due hereunder."

3. Section 11(e) of the Lease. In order for this Lease to be financeable, Lessor requests a notice and cure right before State can invoke its self-help right regarding Lessor's repair

and maintenance obligations. Please see our suggested language below, which is redlined against the Lease language.

"In case Lessor (or Lessor's lender, on behalf of Lessor), after notice in writing (which written notice shall be given concurrently to Lessor's lender to the extent State has notice of such lender and its address) from the State requiring Lessor to comply with the requirements of this Section 11 in regard to a specified condition, shall fail, refuse or neglect to comply with such notice within a reasonable period of time, given the circumstances, after receipt of such notice (but in no event later than 30 days after receipt of such notice), as applicable, and thereafter diligently pursue such action to completion, or in the event of an emergency constituting a hazard to the health or safety of the State's employees, property, or invitees, the State may, perform such maintenance or make such repair at its own cost and, in addition to any other remedy the State may have, may withhold rent due and deduct the amount thereof, including necessary costs incurred by the State required for the administration of such maintenance and repairs, from the rent that may then be or thereafter become due hereunder."

4. Section 13 of the Lease – First Paragraph. Given the State's ability to install alterations without Lessor approval, Lessor requests approval over those alterations which may be reasonably anticipated to have a material and adverse affect on building systems and equipment. Please see our suggested language below, which is redlined against the Lease language.

"The State shall have the right during the existence of this lease to make alterations; attach fixtures; and erect additions, structures, or signs in or upon the Leased Premises except (i) structural alterations, and (ii) alterations which may be reasonably anticipated to have a material and adverse affect on the systems and equipment serving the Leased Premises, each of which must have Lessor's prior written approval, which shall not be unreasonably withheld, conditioned or delayed."

5. Section 13 of the Lease – Second Paragraph. In order for the Lease to be financeable, if State elects for Lessor to perform any State-requested alterations, Lessor requests to not have the obligation to supply the money for such alterations and then be reimbursed once the same are complete. Please see our suggested language below, which is redlined against the Lease language.

"In the event alterations, fixtures, additions, structures, or signs in or upon the Leased Premises are desired by State and State elects not to perform the work, any such work, when authorized in writing by the State shall be performed by the Lessor in accordance with plans and specifications provided by State. Lessor agrees to obtain competitive bids from at least three licensed contractors and to contract with the lowest responsible bidder unless otherwise designated by State. Lessor further agrees that the overhead and profit for the work shall not exceed fifteen percent (15%) total for Lessor and any general contractor combined. Lessor shall render bills to State thirty (30) days prior to the date any payments related to the alterations are due (and State shall pay such amount to Lessor at least five (5) business days prior to the date such payments are due), during construction of the alterations, so as to enable Lessor to pay the architects, engineers,

general contractor, subcontractors, materialmen, suppliers, and any other vendors (including the overhead and profit percentage payable to Lessor and any general contractor pursuant to the immediately preceding sentence) in connection with such alterations without advancing Lessor's own funds. Within forty five (45) days after receiving Lessor's notice of completion of the requested work and an invoice requesting payment therefor, together with a complete detailed accounting of all costs for each trade, State agrees to reimburse Lessor by a single total payment for the cost of such work."

6. Section 30 of the Lease. In order for the Lease to be financeable, Lessor requests that the estoppel certificate provision to be expanded to include commercially reasonable estoppel categories. Please see our suggested language below, which is redlined against the Lease language.

"Upon Lessor's written request, State shall deliver, within 10 days of such request, to Lessor or to any prospective purchaser or lender a written statement (Estoppel Certificate form attached as Exhibit "D" hereto) consisting of the following information:

(a) The status of the lease.

(b) An explanation of any default claims State may have against Lessor.

(c) The term of the lease.

(d) The monthly rental payable.

(e) Any other information reasonably requested by Lessor or such prospective purchaser or lender.

Any such certificate may be relied upon by any prospective purchaser or lender of all or any portion of the Leased Premises."

7. Section 31 of the Lease. As a practical matter, Lessor requests that it be permitted to carry its insurance policies under blanket policies. Please see our suggested language below, which is redlined against the Lease language.

"Lessor shall, at its sole cost and expense, furnish to the State a certificate of insurance with the State's Lease Number \_\_\_\_\_ indicated on the face of said certificate, issued to State with evidence of insurance as follows (provided that any or all of Lessor's insurance hereunder may be provided by blanket coverage maintained by Lessor or any affiliate of Lessor under its insurance program for its portfolio of properties):"

8. Section 31(g)(6) of the Lease. In order for this Lease to be financeable, Lessor requests a notice and cure right before State can terminate the Lease due to Lessor's failure to carry insurance. Please see our suggested language below, which is redlined against the Lease language.

" In the event Lessor fails to keep in effect at all times the specified insurance coverage, Tenant shall provide written notice thereof to Lessor and Lessor's lender to the extent

State has notice of such lender and its address. If Lessor, or Lessor's lender, on behalf of Lessor, fails to comply with the terms of this Section 31 within 30 days after receipt of such notice, as applicable, then the State may, in addition to any other remedies it may have, terminate this Lease upon the occurrence of such event, subject to the provisions of this Lease."

9. Section 32 of the Lease. In order for the Lease to be financeable, Lessor requests that the non-disturbance and subordination agreement provision to be expanded to include commercially reasonable changes to the form attached to the Lease as required by the lender. Please see our suggested language below, which is redlined against the Lease language.

" Lessor shall deliver to State, concurrently with the execution of the Lease by Lessor and State, Non-Disturbance and Subordination Agreements, in the Form attached as Exhibit "E" hereto (together with any commercially reasonable modifications thereto required by any lender), from any and all mortgage holders or lien holders ("Lenders") of Lessor then in existence. Any obligation to subordinate State's interest in the Lease to future Lenders shall be conditioned upon State receiving a Non-Disturbance and Subordination Agreement in conformance with the Form attached as Exhibit "E" hereto (together with any commercially reasonable modifications thereto required by any lender)."

10. Section 35(b) of the Lease. We noticed that a clean-up change regarding the timing of State's refusal right needed to be made to the State's benefit. Please see our clean-up change below, which is redlined against the Lease language.

**"Right of First Refusal:** If, at any time which is at least ninety (90) days prior to the then applicable scheduled lease termination date under the Lease term or any extensions thereto, the Lessor receives a bona fide offer from an unaffiliated third party to purchase the Lessor's Interest in the Property that the Lessor wishes to accept, Lessor will, prior to unconditionally accepting such offer, notify the State thereof in a written Offer Notice setting forth in detail the complete terms, provisions, and conditions thereof."

11. Section 35(c) of the Lease. In order for the Lease to be financeable, Lessor requests that an additional exclusion for a lender foreclosure be added to the exclusions to State's right of first offer and right of first refusal. Please see our suggested language below, which is redlined against the Lease language.

**"Exclusions to State's Right of First Offer and Right of First Refusal:** State's Right of First Offer and Right of First Refusal shall not apply in the event (i) Lessor desires to sell the Leased Premises and the property of which it is a part to any existing or future Affiliate of Lessor (An Affiliate which shall mean any entity which controls, is controlled by, or is under common control with Lessor or any entity resulting from a reorganization of or a merger or consolidation with Lessor or any entity which acquires, or will acquire (prior to the closing date of the sale of the Leased Premises and the property of which it is a part) substantially all of the assets of Lessor's business), or (ii) of a foreclosure by any lender which is the beneficiary of a mortgage, deed of trust or other security instrument

which is secured by all or any portion of the Leased Premises (provided that State's Right of First Offer and Right of First Refusal shall apply to any subsequent sale of the Property or to any third-party purchaser of the Property at a foreclosure sale). In the event Lessor intends to implement such a sale or transfer of the Leased Premises and property of which it is a part to such an Affiliate, at least twenty (20) business days prior to the closing of such a sale or transfer to an affiliate, Lessor shall deliver to State a written affidavit, executed by an individual authorized to act on behalf of Lessor in such matters, confirming that that the applicable sale or transfer to an affiliate is in fact not a sale of the Leased Premises and property of which it is a part to an unaffiliated third party.

12. Section 37 of the Lease. Given that LEED certification depends on many different factors and is determined by a third party outside of Lessor's control, Lessor requests that it only be required to use commercially reasonable efforts to achieve and maintain LEED Gold certification. Please see our suggested language below, which is redlined against the Lease language.

"The Lessor, at its sole cost and expense, shall use commercially reasonable efforts to operate and maintain the Leased Premises so that it is certified by the U.S. Green Building Council LEED (LEED) requirements as LEED Gold, and shall use commercially reasonable efforts to be re-commissioned and recertified by Lessor, at Lessor's sole cost and expense, the Leased Premises to LEED Gold or better every five (5) years. Lessor shall use commercially reasonable efforts to cause aAny tenant improvements which are designed and constructed by Lessor ~~will be designed and to be~~ certified to LEED-CI Silver or better standards."

13. Section 2 of Exhibit C attached to the Lease. In order for the Lease to be financeable, if the Lease is terminated as an event of a casualty and State exercises its purchase option, the purchase price cannot be lower than the amount of debt which currently encumbers the Leased Premises (which debt shall be reduced by any insurance proceeds). Please see our suggested language below, which should be inserted following the last paragraph of Section 2 of Exhibit C attached to the Lease.

"Notwithstanding any provision in this Section 2 to the contrary, the value of the Leased Premises shall be at least (i) the total amount of debt which is attributable to and encumbers the Leased Premises, less (ii) the total amount of insurance proceeds attributable to the Leased Premises and actually received by Lessor."