

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

Filing Date: **1997-12-18** | Period of Report: **1997-09-10**
SEC Accession No. **0000892569-97-003496**

([HTML Version](#) on secdatabase.com)

FILER

PACIFIC GULF PROPERTIES INC

CIK: **912597** | IRS No.: **330577520** | State of Incorpor.: **MD** | Fiscal Year End: **1231**
Type: **8-K** | Act: **34** | File No.: **001-12768** | Film No.: **97740129**
SIC: **6798** Real estate investment trusts

Mailing Address
4220 VON KARMAN
SECOND FLOOR
NEWPORT BEACH CA
92660-2002

Business Address
4220 VON KARMAN
SECOND FLOOR
NEWPORT BEACH CA
92660-2002
7147212700

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) September 10, 1997

Commission File Number: 1-12546

PACIFIC GULF PROPERTIES INC.
(Exact name of Registrant as specified in its Charter)

MARYLAND
(State of Incorporation)

33-0577520
(I.R.S. Employer Identification No.)

4220 VON KARMAN, 2ND FLOOR, NEWPORT BEACH, CALIFORNIA, 92660-2002
(Address of principal executive offices, including zip code)

714-223-5000
(Registrant's telephone number, including area code)

ITEM 2. ACQUISITION OF ASSETS.

Pacific Gulf Properties Inc. (the "Company") anticipates completing the following property acquisitions. Each of the properties is located within a region where the Company currently maintains a regional office:

PROBABLE ACQUISITIONS

CALIFORNIA COMMERCE PARKS PORTFOLIO

On September 10, 1997, the Company entered into agreements to purchase the following four industrial properties (collectively referred to as the "California Commerce Parks Portfolio") for an estimated purchase price of \$57,600,000:

<TABLE>
<CAPTION>

Property Name	Location	Leasable Square Feet
<S>	<C>	<C>
Sacramento Business Park	Sacramento, CA	269,146
Anaheim Business Park	Anaheim, CA	145,745
Santa Clara Business Park	Santa Clara, CA	188,777
Sunnyvale Business Park	Sunnyvale, CA	129,513

		733,181
		=====

</TABLE>

The Company contracted to acquire these four industrial properties from KIP Properties, a real estate investor. The Company plans to spend an aggregate of \$2,130,000 in capital expenditures to rehabilitate these properties.

BRADSHAW BUSINESS CENTRE

On October 29, 1997, the Company executed a letter of intent to purchase a warehouse/distribution business center containing

approximately 114,400 leasable square feet located in Sacramento, California (the "Bradshaw Business Centre"). The Company contracted to purchase Bradshaw Business Centre from Sammis Sacramento Associates, a real estate partnership, for a total cash consideration of \$8,700,000. The Company plans to spend approximately \$155,000 in capital expenditures to rehabilitate this property.

HORN ROAD BUSINESS COMPLEX

On October 30, 1997, the Company entered into an agreement to purchase a business complex consisting of 14 industrial buildings containing approximately 221,300 leasable square feet located in Sacramento, California (the "Horn Road Business Complex"). The Company contracted to purchase Horn Road Business Complex from JPI XI, LP, a California limited partnership controlled by Jackson Properties (an industrial developer), for a total cash consideration of \$9,500,000. In connection with this acquisition, the Company is assuming an existing loan with an outstanding balance of \$2,890,000 which is secured by this property. This loan bears interest at a fixed rate of 7.95% and matures in February 2006. The Company plans to spend approximately \$210,000 in capital expenditures to rehabilitate this property.

-1-

3

FULLERTON BUSINESS CENTER

On December 10, 1997, the Company entered into an agreement to purchase a warehouse/ distribution business park consisting of 8 multi-tenant buildings containing approximately 110,900 leasable square feet located in Fullerton, California ("Fullerton Business Center"). The Company contracted to purchase Fullerton Business Center from Fullerton Business Center, 1976, a California limited partnership controlled by Meyer Asset Management (a real estate investment and asset management company), for a total cash consideration of \$5,500,000. The Company plans to spend approximately \$112,000 in capital expenditures to rehabilitate this property.

NORWOOD INDUSTRIAL PARKS

On December 10, 1997, the Company entered into an agreement to purchase a multi-tenant industrial parks consisting of four building containing approximately 168,300 leasable square feet located in Sacramento, California ("Norwood Industrial Parks"). The Company contracted to purchase Norwood Industrial Parks from PMRA III, a group trust controlled by PM Realty Advisors, a pension fund advisor, for a total cash consideration of \$4,700,000. The Company plans to spend approximately \$427,000 in capital expenditures to rehabilitate this property.

The California Commerce Parks Portfolio, the Bradshaw Business Centre, the Horn Road Business Complex, the Fullerton Business Center and the Norwood Industrial Parks are collectively referred to herein as the "Probable Acquisitions."

The Company anticipates completing these acquisitions with proceeds from an additional issuance of shares of Class A and B Senior Cumulative Convertible Preferred Stock which the Company remains obligated to issue prior to January 1, 1998, pursuant to certain agreements and borrowings under its \$65,000,000 revolving line of credit or other capital transactions.

All Probable Acquisitions remain subject to certain conditions to closing. Accordingly, there can be no assurance that the Probable Acquisitions will be consummated.

-2-

4

ITEM 5. OTHER INFORMATION.

POSSIBLE ACQUISITIONS

The Company has entered into agreements with Northwestern Mutual Life, a life insurance company, to acquire the properties listed below for an estimated purchase price of \$23,500,000. The Company has not yet completed sufficient due diligence to determine the probability of these acquisitions and as a result has not included the effect of such

acquisitions in the accompanying pro forma financial information.

<TABLE>
<CAPTION>

Property Name	Location	Leasable Square Feet
<S>	<C>	<C>
Business Park Portfolio		
Business Park	Anaheim, CA	91,200
Business Park	Montebello, CA	143,391
Business Park	Cerritos, CA	213,755
Business Park	Irvine, CA	170,305

		618,651
		=====

</TABLE>

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) See Index to Financial Statements attached hereto.

(b) Exhibits

Acquisition Agreements

10.1 Purchase and Sale Agreement between Pacific Gulf Properties Inc. and KIP Properties for the acquisition of the California Commerce Parks Portfolio.

10.2 Purchase and Sale Agreement between Pacific Gulf Properties Inc. and Sammis Sacramento Associates for the acquisition of the Bradshaw Business Centre.

10.3 Purchase and Sale Agreement and Escrow Instructions between Pacific Gulf Properties Inc. and Fullerton Business Center, 1976, a California limited partnership for the acquisition of the Fullerton Business Center.

10.4 Agreement of Purchase and Sale and Joint Escrow Instructions between Pacific Gulf Properties Inc. and PMRA III, a group trust, for the acquisition of the Norwood Industrial Parks.

10.5 Real Estate Purchase Contract between Pacific Gulf Properties Inc. and JPI XI, LP, a California limited partnership for the acquisition of the Horn Road Business Complex.

23.1 Consent of Independent Auditors.

99.1 Pacific Gulf Properties Inc. Press Release dated December 11, 1997 announcing the adoption of a stockholder rights plan

99.2 Form of Pacific Gulf Properties Inc. Press Release dated December __, 1997 announcing the change of the record date for the distribution of the rights under the stockholder rights plan to December 29, 1997

99.3 Form of Letter to Stockholders regarding the adoption of a stockholder rights plan and transmitting a summary of the rights

99.4 Summary of the Rights issued pursuant to the Rights Agreement

99.5 Rights Agreement, dated as of December 11, 1997, between Pacific Gulf Properties Inc. and Harris Trust Company of California, as Rights Agent (incorporated by reference to Pacific Gulf Properties Inc.'s registration statement on Form 8-A (commission file no. 1-12546) filed December 17, 1997)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PACIFIC GULF PROPERTIES INC.

/s/Donald G. Herrman

Donald G. Herrman
Executive Vice President,
Chief Financial Officer and Secretary

DATED: December 18, 1997

-4-

6
Other Exhibits

- 99.1 Pacific Gulf Properties Inc. Press Release dated December 11, 1997 announcing the adoption of a stockholder rights plan
- 99.2 Pacific Gulf Properties Inc. Press Release dated December 17, 1997 announcing the change of the record date for the distribution of the rights under the stockholder rights plan to December 29, 1997
- 99.3 Form of Letter to Stockholders regarding the adoption of a stockholder rights plan and transmitting a summary of the rights*
- 99.4 Summary of the Rights issued pursuant to the Rights Agreement*
- 99.5 Rights Agreement, dated as of December 11, 1997, between Pacific Gulf Properties Inc. and Harris Trust Company of California, as Rights Agent (incorporated by reference to Pacific Gulf Properties Inc.'s registration statement on Form 8-A (commission file no. 1-12546) filed December __, 1997)

* To be filed by amendment

7

PACIFIC GULF PROPERTIES INC.

INDEX TO FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

	Page

<S>	<C>
PRO FORMA FINANCIAL INFORMATION (UNAUDITED)	5
Pro Forma Condensed Consolidated Balance Sheet as of September 30, 1997	6
Pro Forma Condensed Consolidated Statement of Operations for the Nine Months Ended September 30, 1997	7
Pro Forma Condensed Consolidated Statement of Operations for the Year Ended December 31, 1996	8
Notes to Pro Forma Condensed Consolidated Financial Statements	9
CALIFORNIA COMMERCE PARKS PORTFOLIO	
Report of Independent Auditors	29
Combined Statement of Revenues and Certain Expenses for the Year Ended December 31, 1996 and the Nine Months Ended September 30, 1997 (Unaudited)	30
Notes to Combined Statement of Revenues and Certain Expenses	31
</TABLE>	

PACIFIC GULF PROPERTIES INC.
PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1997
(UNAUDITED)
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	COMPANY HISTORICAL	ADJUSTMENTS	AS ADJUSTED BEFORE PROBABLE ACQUISITIONS	PROBABLE ACQUISITIONS	COMPANY PRO FORMA
<S>	<C>	<C>	<C>	<C>	<C>
ASSETS					
Real estate, net					
Operating properties	\$ 486,922	\$ 58,000 (A)	\$ 544,922	\$ 86,000 (F)	\$ 630,922
Properties under development	43,328	--	43,328	--	43,328
Cash and cash equivalents	1,258	22,958 (B)	24,216	(22,685) (F)	1,531
Accounts receivable	2,501	--	2,501	--	2,501
Other assets	14,567	670 (A)	15,237	(550) (F)	14,687
	-----	-----	-----	-----	-----
	\$ 548,576	\$ 81,628	\$ 630,204	62,765	\$ 692,969
	=====	=====	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY					
Loans payable	\$ 211,638	\$ 45,840 (C)	\$ 257,478	\$ 2,890 (F)	\$ 260,368
Line of credit	32,120	9,300 (A) (B)	--	24,002 (F)	24,002
		(41,420) (D)			
Acquisition facility	33,625	(33,625) (C)	--	--	--
Accounts payable and accrued liabilities	8,711	292 (A)	9,003	873 (F)	9,876
Dividends payable	6,139	--	6,139	--	6,139
Convertible subordinated debentures	12,652	--	12,652	--	12,652
	-----	-----	-----	-----	-----
Total liabilities	304,885	(19,613)	285,272	27,765	313,037
Minority interest in consolidated partnerships	8,465	2,869 (A)	11,334	--	11,334
Shareholders' equity					
Preferred stock	7	2 (E)	9	18 (G)	27
Common shares	143	48 (E)	191	--	191
Outstanding restricted stock	(865)	--	(865)	--	(865)
Additional paid-in capital	259,558	98,322 (E)	357,880	34,982 (G)	392,862
Distributions in excess of earnings	(23,617)	--	(23,617)	--	(23,617)
	-----	-----	-----	-----	-----
	235,226	98,372 (E)	333,598	35,000 (G)	368,598
	-----	-----	-----	-----	-----
	\$ 548,576	\$ 81,628	\$ 630,204	\$ 62,765	\$ 692,969
	=====	=====	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of the pro forma condensed consolidated financial statements.

PACIFIC GULF PROPERTIES INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>

<CAPTION>

	COMPANY HISTORICAL	ADJUSTMENTS	AS ADJUSTED BEFORE PROBABLE ACQUISITIONS	PROBABLE ACQUISITIONS	COMPANY PRO FORMA
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES					
Rental income					
Industrial properties	\$ 24,850	\$ 9,633 (H)	\$ 34,483	\$ 7,625 (R)	\$ 42,108
Multifamily properties	24,339	1,665 (H)	26,004	-- (R)	26,004
	49,189	11,298	60,487	7,625	68,112
EXPENSES					
Rental property expenses					
Industrial properties	5,864	1,937 (H)	7,801	2,819 (R)	10,620
Multifamily properties	9,421	583 (H)	10,004	-- (R)	10,004
	15,285	2,520	17,805	2,819	20,624
Depreciation	8,073	2,447 (I)	10,520	1,292 (S)	11,812
Interest	12,621	4,559 (J) (197) (K) (2,369) (L)	14,614	1,548 (T)	16,162
General and administrative	2,238	--	2,238	--	2,238
Minority interest in earnings of consolidated partnerships	114	507 (M)	621	--	621
NET INCOME (Y)	10,858	3,831	14,689	1,966	16,655
Preferred dividends requirements	(390)	(855) (N)	(1,245)	(2,277) (U)	(3,522)
INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 10,468	2,976	\$ 13,444	\$ (311)	\$ 13,133
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (W)	12,843,805				19,025,283
NET INCOME PER COMMON SHARE (Y)	\$ 0.82				\$ 0.69

</TABLE>

The accompanying notes are an integral part of the pro forma financial statements.

-7-

10

PACIFIC GULF PROPERTIES INC.
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	COMPANY HISTORICAL	ADJUSTMENTS	AS ADJUSTED BEFORE PROBABLE ACQUISITIONS	PROBABLE ACQUISITIONS	COMPANY PRO FORMA
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES					
Rental income					
Industrial properties	\$ 20,783	\$ 22,683 (H)	\$ 43,466	\$ 9,832 (R)	\$ 53,298

Multifamily properties	29,104	4,470 (H)	33,574	-- (R)	33,574
	49,887	27,153	77,040	9,832	86,872
EXPENSES					
Rental property expenses					
Industrial properties	5,308	5,124 (H)	10,432	3,829 (R)	14,261
Multifamily properties	11,554	1,885 (H)	13,439	-- (R)	13,439
	16,862	7,009	23,871	3,829	27,700
Depreciation	8,236	5,240 (O)	13,476	1,720 (S)	15,196
Interest	18,411	(648) (K)	21,267	2,063 (T)	23,330
		3,158 (L)			
		10,554 (P)			
		(3,892) (Q)			
General and administrative	2,974	--	2,974	--	2,974
Minority interest in earnings in consolidated partnerships	--	676 (M)	676	--	676
NET INCOME (V) (X)	3,404	11,372	14,776	2,220	16,996
Preferred dividends requirements	--	(1,659) (N)	(1,659)	(3,038) (U)	(4,697)
INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 3,404	\$ 9,713	\$ 13,117	\$ (818)	\$ 12,299
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING (W)	6,340,748				18,954,225
NET INCOME PER COMMON SHARE (V) (X)	\$ 0.54				\$ 0.65

</TABLE>

The accompanying notes are an integral part of the pro forma financial statements.

-8-

11

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 1 - BASIS OF PRESENTATION

Pacific Gulf Properties Inc. (the "Company") was formed in 1993 and completed its initial public offering in February 1994.

The Company anticipates purchasing the following industrial properties which are collectively referred to as the "Probable Acquisitions": (i) a portfolio of four properties containing approximately 733,181 square feet of industrial space located in California ("California Commerce Parks Portfolio"); (ii) a warehouse/distribution business center containing approximately 114,400 leasable square feet located in Sacramento, California ("Bradshaw Business Center"); (iii) a business complex consisting of 14 industrial buildings containing approximately 221,300 leasable square feet located in Sacramento, California ("Horn Road Business Complex"); (iv) a warehouse/distribution business park consisting of eight multi-tenant buildings containing approximately 110,900 leasable square feet located in Fullerton, California ("Fullerton Business Center"); and (v) two multi-tenant industrial parks consisting of four buildings containing approximately 168,300 leasable square feet located in Sacramento, California ("Norwood Industrial Parks"). The Company anticipates completing the purchase of the Probable Acquisitions with proceeds from the issuance of additional shares of Class A and Class B Senior Cumulative Convertible Preferred Stock which the Company is obligated to issue prior to January 1, 1998 pursuant to certain agreements and borrowings under its \$65,000,000 revolving line of

credit or other capital transactions.

The pro forma consolidated financial statements of the Company have been adjusted to reflect the effect of purchasing the Probable Acquisitions. Further, the pro forma consolidated financial statements have also been adjusted to reflect the effect of certain transactions which the Company completed or will complete subsequent to September 30, 1997 as if those transactions occurred as of the beginning of the periods indicated.

Pro Forma Consolidated Balance Sheet

The Company's pro forma condensed consolidated balance sheet, presented as of September 30, 1997, is based on the unaudited historical financial statements of the Company included in the Company's Quarterly Report on Form 10-Q, and has been adjusted to reflect the following transactions completed subsequent to September 30, 1997:

- (i) the acquisition in October 1997 of a controlling general partner interest in PGP Northern Industrial, LP, a California limited partnership to which the previous owners contributed two industrial properties containing approximately 500,739 leasable square feet ("Eden Plaza/Eden Industrial");

-9-

12

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 1 - BASIS OF PRESENTATION (continued)

- (ii) the borrowings in October 1997 under the Company's revolving line of credit to complete the purchase of Eden Plaza/Eden Industrial and to repay a maturing loan payable and the borrowings under the Company's \$35,000 credit facility established with a bank for acquisition purposes (the "Acquisition Facility") to pay certain pre-acquisition costs related to a portfolio of industrial properties containing an aggregate of 843,215 leasable square feet located in California and Las Vegas, Nevada (the "Industrial Portfolio Acquisition Properties") (see also the Company's Current Report on Form 8-K/A dated November 21, 1997);
- (iii) the issuance in November 1997 of 4,776,300 shares of the Company's Common Stock, including 526,300 shares of Common Stock pursuant to the exercise of an overallotment option granted to the underwriter (the "November 1997 Common Stock Offering"); and
- (iv) the acquisition of the four Industrial Portfolio Acquisition Properties, three of which were acquired in December 1997.

The pro forma condensed consolidated balance sheet of the Company as of September 30, 1997 has been further adjusted to reflect the pro forma effect of purchasing the Probable Acquisitions as if such purchases had occurred on September 30, 1997.

Pro Forma Consolidated Statement of Operations for the Year Ended December 31, 1996

The pro forma condensed consolidated statement of operations of the Company for the year ended December 31, 1996 is based on the historical financial statements of the Company and has been adjusted to reflect the effect of the following transactions completed by the Company within the periods reported herein or subsequent to September 30, 1997, as if these transactions had occurred as of the beginning of the period:

- (i) the purchase in March 1996 of an industrial property containing approximately 189,000 leasable square feet located in Garden Grove, California (the "Pacific Gulf Business Park");
- (ii) the purchase in June and July 1996 of nine industrial properties containing approximately 1,400,000 leasable square feet located in California (the "1996 Industrial Acquisitions") utilizing proceeds from a public offering of 2,435,481 shares of the Company's Common Stock consummated in May 1996 (the "May 1996 Common Stock Offering");
- (iii) the completion of the May 1996 Common Stock Offering and the application

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997

AND THE YEAR ENDED DECEMBER 31, 1996

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 1 - BASIS OF PRESENTATION (continued)

- (iv) the sale of a 14.3-acre parcel and an industrial building containing approximately 56,000 leasable square feet in August 1996 to an existing tenant at the Company's Baldwin Industrial Park property pursuant to purchase options contained in the existing tenant's lease (the "Tenant Sale");
- (v) the exchange in December 1996 of \$42,069 aggregate principal amount of the Company's 8.375% Convertible Subordinated Debentures due 2001 (the "Debentures") for 2,440,002 shares of the Company's Common Stock pursuant to a tender offer to exchange such Debentures as more fully described in a registration statement filed with the Securities and Exchange Commission (the "Debenture-for-Stock Exchange");
- (vi) the acquisition of two additional properties in late 1996: (a) an industrial property containing approximately 186,000 square feet located in San Diego, California in October 1996 (Miramar Business Park), and (b) a 165-unit multifamily community located in Ontario, California (Raintree Apartments) in November 1996 (collectively, the "Other 1996 Acquisitions");
- (vii) the purchase in January and February 1997 of three warehouse/distribution facilities containing an aggregate of 521,000 leasable square feet located in Washington and California ("1997 Industrial Acquisitions") with proceeds from a public offering of 2,300,000 shares of the Company's Common Stock consummated in January 1997 (the "January 1997 Common Stock Offering");
- (viii) the completion of the January 1997 Common Stock Offering and the application of net proceeds thereof as more fully described in a Prospectus Supplement filed with the Securities and Exchange Commission;
- (ix) the purchase of a warehouse/distribution facility in March 1997 containing approximately 570,000 leasable square feet located in Woodland, California ("Woodland Distribution Center");
- (x) the repayment in April 1997 of certain indebtedness totaling \$7,000 with proceeds from the issuance of 270,270 shares of Class A Senior Cumulative Convertible Preferred Stock (the "Class A Preferred Stock");

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997

AND THE YEAR ENDED DECEMBER 31, 1996

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 1 - BASIS OF PRESENTATION (continued)

- (xi) the purchase of the following properties utilizing proceeds from a public offering of 2,131,700 shares of the Company's Common Stock consummated in June 1997 (the "June 1997 Common Stock Offering"): (a) Algona Distribution Center, a warehouse/distribution facility containing approximately 250,000 leasable square feet located in Algona, Washington purchased for redevelopment purposes in January 1997; (b) a 12.8-acre land parcel located in Lake Forest, California purchased in May 1997, currently being developed as a multi-tenant industrial complex that will contain approximately 203,500 leasable square feet (the "Lake Forest

Land Parcel"); (c) a 17.1-acre land parcel located within the Spectrum master-planned business community located in Irvine, California, currently being developed as a warehouse/distribution business park that will contain approximately 235,000 leasable square feet (the "Pacific Gulf Spectrum Land"); (d) a warehouse/ distribution center purchased in August 1997 containing approximately 360,000 leasable square feet of industrial space which the Company redeveloped for multi-tenant use (the "Vons Distribution Center" which together with the "Algona Distribution Center," the "Lake Forest Land Parcel," and the "Pacific Gulf Spectrum Land" are collectively referred to as the "Properties Under Development"); and (e) a controlling general partner interest in two partnerships that own two "active senior" apartment communities consisting of 551 apartment units located in Escondido, California (the "Senior Apartments");

- (xii) the completion of the June 1997 Common Stock Offering and the application of the net proceeds thereof as more fully described in a Prospectus Supplement filed with the Securities and Exchange Commission;
- (xiii) the purchase in July 1997 of an industrial portfolio of five industrial properties containing approximately 1,532,000 leasable square feet located in California (the "AEW/Lincoln Properties") utilizing borrowings under the Acquisition Facility and proceeds from the issuance of 470,588 shares of Class B Senior Cumulative Convertible Preferred Stock (the "Class B Preferred Stock");
- (xiv) the purchase in September 1997 of an industrial park containing approximately 142,000 leasable square feet located in Concord, California (the "Concord Industrial Park");
- (xv) the purchase in October 1997 of a controlling general partner interest in the partnership that owns Eden Plaza/Eden Industrial Park;
- (xvi) the borrowings in October 1997 under the Company's revolving line of credit to repay a maturing loan payable and the borrowings under the Acquisition Facility to pay certain preacquisition costs (primarily refundable deposits) of the Industrial Portfolio Acquisition Properties;

-12-

15

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 1 - BASIS OF PRESENTATION (continued)

- (xvii) the repayment in October 1997 of outstanding balances under the Acquisition Facility with proceeds from a \$34,000,000 term loan;
- (xviii) The issuance in October 1997 of an additional 235,294 shares of Class B Preferred Stock;
- (xix) the completion of the November 1997 Common Stock Offering and the application of the net proceeds thereof as more fully described in a Prospectus Supplement filed with the Securities and Exchange Commission; and
- (xx) the purchase of Industrial Portfolio Acquisition Properties as more fully described in the Company's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on November 21, 1997.

The pro forma condensed consolidated financial statements of the Company for the year ended December 31, 1996 has been further adjusted to reflect the pro forma effect of purchasing the Probable Acquisitions as if such purchases had occurred as of the beginning of the period.

Pro Forma Consolidated Statement of Operations for the Nine Months Ended September 30, 1997

The pro forma condensed consolidated statement of operations of the Company for the nine months ended September 30, 1997 is based on the unaudited historical financial statements included in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, and has been adjusted to reflect the effect of the following transactions completed by the Company during the periods reported herein or subsequent to September 30, 1997, as if the transactions had occurred as of the beginning of the period:

- (i) the purchase in January and February 1997 of the 1997 Industrial Acquisitions;
- (ii) the completion of the January 1997 Common Stock Offering and the application of net proceeds thereof as more fully described in a Prospectus Supplement filed with the Securities and Exchange Commission;
- (iii) the purchase in March 1997 of the Woodland Distribution Center;
- (iv) the repayment of certain indebtedness totaling \$7,000 in April 1997 with proceeds from the issuance of 270,270 shares of Class A Preferred Stock;
- (v) the purchase of the Properties Under Development and the Senior Apartments completed by the Company during the second quarter of 1997 and June 1997, respectively;

-13-

16

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 1 - BASIS OF PRESENTATION (continued)

- (vi) the completion of the June 1997 Common Stock Offering and the application of net proceeds thereof as more fully described in a Prospectus Supplement filed with the Securities and Exchange Commission;
- (vii) the purchase in July 1997 of the AEW/Lincoln Properties with funds from borrowings under the Acquisition Facility and the issuance of 470,288 shares of Class B Preferred Stock;
- (viii) the purchase in September 1997 of the Concord Business Center;
- (ix) the purchase in October 1997 of a controlling general partner interest in the partnership that owns the Eden Plaza/Eden Industrial Park Properties;
- (x) the borrowings in October 1997 under the Company's revolving line of credit to repay a maturing loan payable and the borrowings under the Acquisition Facility to pay certain preacquisition costs (primarily refundable deposits) of the Industrial Portfolio Acquisition Properties;
- (xi) the repayment in October 1997 of outstanding balances under the Acquisition Facility with proceeds from a \$34,000,000 term loan;
- (xii) the issuance in October 1997 of an additional 235,294 shares of Class B Preferred Stock;
- (xiii) the completion of the November 1997 Common Stock Offering and the application of the net proceeds thereof as more fully described in a Prospectus Supplement filed with the Securities and Exchange Commission; and
- (xiv) the purchase of Industrial Portfolio Acquisition Properties as more fully described in the Company's Current Report on Form 8-K/A filed with the Securities and Exchange Commission on November 21, 1997.

The pro forma condensed consolidated financial statements of the Company for the nine months ended September 30, 1997 have been further adjusted to reflect the pro forma effect of purchasing the Probable Acquisitions as if such purchase had occurred as of the beginning of the periods presented.

-14-

17

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION (continued)

The pro forma condensed consolidated financial statements of the Company are not necessarily indicative of what the Company's financial position or results of operations would have been assuming the completion of the described transactions as of the beginning of the periods indicated, nor does it purport to project the Company's financial position or results of operations at any future date or for any future period. In addition, the historical operating results for the nine months ended September 30, 1997 are not necessarily indicative of the results to be obtained by the Company for the year ending December 31, 1997. The following pro forma information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and all of the financial statements and notes thereto contained in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

NOTE 2 - PRO FORMA ADJUSTMENTS

- (A) Includes the following purchases by the Company totaling \$58,000 which occurred or will occur subsequent to September 30, 1997:
- (i) Purchase of a controlling general partner interest in PGP Northern Industrial, L.P., a California limited partnership (the "Partnership") that owns the Eden Plaza/Eden Industrial Properties. The properties were contributed to the Partnership by the previous owners at an agreed-upon value of \$19,000 subject to approximately \$15,641 of existing indebtedness and \$154 of security deposits. In connection with the Eden Plaza/Eden Industrial transaction, the Company became the sole general partner in the Partnership with an ownership interest of 63% in exchange for its cash contribution of \$3,977. The previous owners became limited partners in the Partnership and received approximately 144,016 limited partnership units in exchange for their \$2,869 minority equity interest. Proceeds for the Company's acquisition were borrowed under the Company's revolving line of credit (\$3,977) and then contributed to the Partnership to reduce the properties' existing indebtedness balance from \$15,641 to \$12,000 and pay certain closing and other costs. Capitalizable financing costs totaling \$120 were incurred in connection with such refinancing.

-15-

18

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

- (ii) Purchase of the Industrial Portfolio Acquisition Properties as follows:

<TABLE>

<CAPTION>

Property Name	Date of Acquisition	Location	Leasable Square Feet	Purchase Price
<S>	<C>	<C>	<C>	<C>
Industrial Portfolio Acquisition Properties				
Tower Park	December 1997	Anaheim, CA	205,238	\$ 8,900
611 Cerritos	December 1997	Fullerton, CA	202,551	6,100
Acacia Business Center	December 1997	Anaheim, CA	129,426	9,900
Valley View Business Center	Pending	Las Vegas, NV	300,000	14,100
			837,219	\$39,000
			=====	=====

</TABLE>

The Company has completed or anticipates completing these purchases with proceeds from the November 1997 Common Stock Offering (see Note E). In connection with these purchases, the Company will assume a \$4,448 existing loan encumbering the Valley View Business Center property. In addition, the Company received credit through escrow for the assumption of tenant security deposits related to these properties totaling approximately \$138. The purchases

which are currently pending remain subject to certain conditions to closing, thus, there can be no assurance that these purchases will be consummated.

In addition to the above acquisitions, the Company paid \$550 of pre-acquisition costs related to the purchase of the Probable Acquisitions.

(B) Includes the effect of the following transactions:

- (i) Net proceeds of \$6,620 remaining from the November 1997 Common Offering (see Note E) after the purchase of the Industrial Portfolio Acquisition Properties and the repayment of outstanding balances under the Company's revolving line of credit and the Acquisition Facility.
- (ii) \$10,368 of proceeds resulting from the issuance of 526,300 shares of \$.01 par value Common Stock at \$20.75 per share (net of underwriting discounts and commission and offering costs) pursuant to the exercise of an overallotment option granted to the underwriter under the November 1997 Common Stock Offering;
- (iii) \$5,000 of net proceeds resulting from the issuance of 235,294 shares of \$.01 par value Class B Preferred Stock at \$21.25 per share in October 1997 (see Note N);

-16-

19

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

- (iv) \$375 in proceeds remaining after from the repayment of outstanding balances under the Company's Acquisition Facility (\$33,625) from borrowings under new loan payable which bears interest at a fixed rate of 7.11% and matures in ten years (\$34,000 - Note C);
- (v) \$715 in net proceeds remaining after the repayment of a maturing loan payable (\$4,608) with borrowings under the Company's line of credit (\$5,323);
- (vi) Payment of \$120 for capitalizable financing costs related to the refinancing of indebtedness encumbering the Eden Plaza/Eden Industrial properties (see Note A above)

(C) Includes the following loans payable transactions completed subsequent to September 30, 1997:

- (i) Assumption of \$12,000 existing mortgage loan payable encumbering the Eden Plaza/Eden Industrial properties (see Note A).
- (ii) Borrowings under a \$34,000 new loan obtained by the Company in October 1997 for the purpose of repaying outstanding balances under the Company's Acquisition Facility. The loan bears interest at a fixed rate of 7.11% and matures in ten years.
- (iii) Assumption of a \$4,448 existing loan related to the purchase of the Industrial Portfolio Acquisition Properties (see Note A).
- (iv) Repayment of a \$4,608 maturing loan payable with borrowings under the Company's revolving line of credit.

(D) Repayment of the Company's revolving line of credit with net proceeds from the November 1997 Common Stock Offering (\$41,420).

-17-

20

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

(E) Includes the following capital transactions completed by the Company subsequent to September 30, 1997:

- (i) Issuance of 4,250,000 shares of \$.01 par value Common Stock at \$20.75 per share as part of the November 1997 Common Stock Offering, net of underwriting discounts and commissions and offering costs (\$83,004);
- (ii) Issuance of 576,300 shares of \$.01 par value Common Stock at \$20.75 per share pursuant to the exercise of an overallotment option granted to the underwriter under the November 1997 Common Stock Offering, net of underwriting discounts and commissions and offering costs (\$10,368);
- (iii) Issuance of 235,294 shares of \$.01 par value Class B Preferred Stock at \$21.25 per share in October 1997 (\$5,000).

(F) Purchase of the Probable Acquisitions currently under contract:

<TABLE>

<CAPTION>

Property Name	Location	Leasable Square Feet	Purchase Price
<S>	<C>	<C>	<C>
California Commerce Parks Portfolio			\$ 57,600
Sacramento Business Park	Sacramento, CA	269,146	
Anaheim Business Park	Anaheim, CA	145,745	
Santa Clara Business Park	Santa Clara, CA	188,777	
Sunnyvale Business Park	Sunnyvale, CA	129,513	
Bradshaw Business Centre	Sacramento, CA	114,400	8,700
Horn Road Business Complex	Sacramento, CA	221,300	9,500
Fullerton Business Center	Fullerton, CA	110,900	5,500
Norwood Industrial Parks	Sacramento, CA	168,300	4,700
		-----	-----
		1,348,081	\$ 86,000
		=====	=====

</TABLE>

The Company completed or anticipates completing the purchase of the Probable Acquisitions with proceeds from additional issuances of shares of Class A and Class B Preferred Stock (\$35,000), the assumption of an existing loan encumbering the Horn Road Business Complex property (\$2,890), borrowings under its \$65,000 revolving line of credit (\$24,002), certain preacquisition costs (\$550) and available cash (\$22,685). The existing loan encumbering the Horn Road Business Complex property bears interest at a fixed rate of 7.95% and matures in February 2006. In addition, the Company will receive credits through escrow for the assumption of tenant security deposits related to these properties totaling \$873.

-18-

21

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

The Probable Acquisitions remain subject to certain conditions to closing, thus, there can be no assurance that these acquisitions will be consummated.

- (G) Issuance of 1,081,081 shares of \$.01 par value Class A Preferred Stock at \$18.50 per share (\$20,000) and 705,882 shares of \$.01 par value Class B Preferred Stock at \$21.25 per share (\$15,000), which the Company remains obligated to issue prior to January 1, 1998 pursuant to certain

agreements entered during 1997.

(H) Revenues and certain expenses of the following properties acquired by the Company in 1996 and 1997 for the period prior to their acquisition (adjusted to reflect increased property taxes based on the properties' acquisition cost and current property tax rates):

<TABLE>
<CAPTION>

For the Nine Months Ended September 30, 1997								
	1997 Industrial Acquisitions	Woodland Distribution Center	Senior Apartments	AEW/Lincoln Properties	Concord Industrial Park	Eden Plaza/ Eden Industrial	Industrial Portfolio Acquisition Properties	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Rental Income								
Industrial Properties	\$ 183	\$ 60	\$ --	\$ 3,753	\$ 797	\$ 1,745	\$ 3,095	\$ 9,633
Multifamily Properties	--	--	1,665	--	--	--	--	1,665
	-----	-----	-----	-----	-----	-----	-----	-----
	183	60	1,665	3,753	797	1,790	3,095	11,298
Rental Property Expenses								
Industrial Properties	59	27	--	737	129	413	578	1,937
Multifamily Properties	--	--	583	--	--	--	--	583
	-----	-----	-----	-----	-----	-----	-----	-----
	59	27	583	737	129	413	578	2,520
	\$ 124	\$ 33	\$ 1,082	\$ 3,016	\$ 668	\$ 1,332	\$ 2,517	\$ 8,778
	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

<TABLE>
<CAPTION>

For the Year Ended December 31, 1996								
	Pacific Gulf Business Park	1996 Industrial Acquisitions	Other 1996 Acquisitions	1997 Industrial Acquisitions	Woodland Distribution Center	Senior Apartments	AEW/ Lincoln Properties	Concord Industrial Park
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Rental Income								
Industrial Properties	\$ 195	\$ 3,217	\$ 1,228	\$ 2,703	\$ 1,432	\$ --	\$ 6,811	\$ 1,020
Multifamily Properties	--	--	918	--	--	3,552	--	--
	-----	-----	-----	-----	-----	-----	-----	-----
	195	3,217	2,146	2,703	1,432	3,522	6,811	1,020
Rental Property Expenses								
Industrial Properties	72	809	455	864	160	--	1,332	174
Multifamily Properties	--	--	542	--	--	1,343	--	--
	-----	-----	-----	-----	-----	-----	-----	-----
	72	809	997	864	160	1,343	1,332	2,174
	\$ 123	\$ 2,408	\$ 1,149	\$ 1,839	\$ 1,272	\$ 2,209	\$ 5,479	\$ 846
	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

<TABLE>

<CAPTION>

For the Year Ended December 31, 1996

	Eden Plaza/ Eden Industrial	Industrial Portfolio Acquisition Properties	Tenant Sale	Total
<S>	<C>	<C>	<C>	<C>
Rental Income				
Industrial Properties	\$ 2,397	\$ 4,371	\$ (691)	\$ 22,683
Multifamily Properties	--	--	--	4,470
	2,397	4,371	(691)	27,153
Rental Property Expenses				
Industrial Properties	546	744	(32)	5,124
Multifamily Properties	--	--	--	1,885
	546	744	(32)	7,009
	\$ 1,851	\$ 3,627	\$ 659	\$ 20,144

</TABLE>

-19-

22

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)\

(I) Depreciation expense of \$2,447 during the nine months ended September 30, 1997 relating to the purchase of the 1997 Industrial Acquisitions, Woodland Distribution Center, the Senior Apartments, the AEW/Lincoln Properties, Concord Industrial Park, Eden Plaza/Eden Industrial and the Industrial Portfolio Acquisition Properties. The depreciation expense relative to the purchase of these properties for the period prior to their acquisition was calculated utilizing estimated remaining useful lives of 40 years and the depreciable basis of the properties as follows:

<TABLE>

<CAPTION>

Property Name	Purchase Price	Depreciable Basis	Depreciation Expense
<S>	<C>	<C>	<C>
1997 Industrial Acquisitions			
Algona Warehouse	\$ 9,450	\$ 7,640	\$ 11
Harbor Business Park/Harbor Warner Business Park	14,600	12,160	22
Woodland Distribution Center	12,875	10,923	46
Senior Apartments			
Terrace Gardens Apartments	10,000	7,950	91
Morning View Terrace Apartments	15,000	10,109	116
AEW/Lincoln Properties	67,308	53,512	966
Concord Industrial Park	7,645	6,051	135
Eden Plaza/Eden Industrial	19,000	15,200	380
Industrial Portfolio Acquisition Properties			
Tower Park	8,900	7,120	178
611 Cerritos	6,100	4,880	92
Acacia Business Center	9,900	7,920	198
Valley View Business Center	14,100	11,280	212
			\$ 2,447

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

(J) Interest expense of \$4,559 relating to the purchase of Woodland Distribution Center, the Senior Apartments, the AEW/Lincoln Properties, Concord Industrial Park and Eden Plaza/Eden Industrial and the Industrial Portfolio Acquisition Properties. The interest expense associated with the borrowings used to finance the purchase of these properties for the period prior to these acquisitions is based on the actual interest rate on the related debt, as follows:

<TABLE>
<CAPTION>

Property Name	Debt	Interest Rate	Pro Forma Interest Expense
<S>	<C>	<C>	<C>
Woodland Distribution Center			
Revolving line of credit	\$12,483	8.50%	\$ 177
Senior Apartments			
Terrace Garden Apartments			
Loan payable	8,100	6.60%	245
Morning View Terrace Apartments			
Loan payable	11,000	6.60%	333
AEW/Lincoln Properties			
Revolving line of credit	12,000	7.25%	471
Acquisition Facility	41,625	7.50%	1,691
Concord Industrial Park			
Loan payable	4,625	8.50%	262
Revolving line of credit	2,870	9.00%	172
Eden Plaza/Eden Industrial			
Loan payable	12,000	7.05%	635
Revolving line of credit	3,977	7.63%	227
Industrial Portfolio Acquisition Properties			
Loan Payable	4,448	8.38%	279
Amortization of financing costs			67

			\$ 4,559
			=====

</TABLE>

(K) Represents the net decrease in interest expense resulting from the debt repayments and refinancings completed by the Company in October 1997, prior to the November 1997 Common Stock Offering.

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

(L) Represents interest savings associated with the repayment of outstanding balances on the Company's revolving line of credit (\$41,420), including October 1997 borrowings (\$9,300) bearing interest at 7.625% (the

effective rate on the line) with net proceeds from the November 1997 Common Stock Offering.

- (M) Represents minority equity interest in earnings of the two partnerships that own the Senior Apartments and the Partnership that owns the Eden Plaza/Eden Industrial properties. Profits and losses are allocated between the Company and the limited partners based on the relative balances of their respective capital accounts. In connection with these partnerships which are controlled by the Company, the limited partners are entitled to cash distributions on their limited partnership units to the extent of available cash flow up to an amount on each unit equal to the dividend payable on the Company's Common Stock.
- (N) Represents the preferred stock dividend requirements of \$0.425 per share per quarter related to 270,270 shares of Class A Preferred Stock issued by the Company in April 1997, 470,588 shares of Class B Preferred Stock issued in July 1997 and 235,294 shares of Class B Preferred Stock issued in October 1997.

The 270,270 shares of \$.01 par value Class A Preferred Stock were issued pursuant to an agreement to issue up to 1,351,351 shares executed by the Company on December 31, 1996. The 705,882 shares of \$.01 par value Class B Preferred Stock were issued pursuant to an agreement to issue up to 1,411,765 shares executed by the Company in May 1997. Pursuant to the agreements entered by the Company, the Class A Preferred Stock, which will be issued in up to three installments prior to January 1, 1998 at a price of \$18.50 per share and the Class B Preferred Stock shares which will be issued in up to three separate issuances prior to January 1, 1998 at \$21.25 per share, are redeemable by the Company in whole or part, five years from the date of issuance and are convertible into shares of Common Stock, at any time, at the option of the holders based on an initial conversion ratio of one-to-one, subject to adjustment under certain circumstances.

-22-

25

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

- (O) Depreciation expense of \$5,240 relating to the following properties acquired by the Company: Pacific Gulf Business Park, the 1996 Industrial Acquisitions, the Other 1996 Acquisitions, the 1997 Industrial Acquisitions, Woodland Distribution Center, the Senior Apartments, the AEW/Lincoln Properties, Concord Industrial Park and Eden Plaza/Eden Industrial, the Industrial Portfolio Acquisition Properties and Woodland Distribution Center II, net of \$328 depreciation reduction from the Tenant Sale (the actual depreciation relating to the Tenant Sale during the year ended December 31, 1996). The depreciation expense relating to these properties, for the period prior to their purchase, was computed utilizing the estimated remaining useful lives and depreciable basis of the properties follows:

<TABLE>

<CAPTION>

Property Name	Purchase Price	Depreciable Basis	Depreciation Expense
<S>	<C>	<C>	<C>
Pacific Gulf Business Park	\$ 6,800	\$ 3,009	\$ 16
1996 Industrial Acquisitions			
Eden Landing Commerce Park	7,300	5,460	--
Riverview Industrial Park	6,442	5,281	66
Bay San Marcos Industrial Center	4,678	2,942	32
Escondido Business Center	10,372	6,523	70
Bell Ranch Industrial Park	3,750	3,000	35
North County Business Park	6,350	3,169	35
San Marcos Commerce Center	2,710	1,871	20
Pacific Park	6,900	3,001	28
La Mirada Business Center	3,600	2,453	26
Other 1996 Acquisitions			
Miramar Business Park	7,242	7,242	181
Raintree Apartments	6,259	4,511	113

1997 Industrial Acquisitions			
Algona Warehouse	9,450	7,640	191
Harbor Business Park/Harbor Warner Business Park	14,600	12,160	304
Woodland Distribution Center Senior Apartments	12,875	10,923	273
Terrace Garden Apartments	10,000	7,950	199
Morning View Apartments	15,000	10,109	253
AEW/Lincoln Properties	67,308	53,512	1,784
Concord Industrial Park	7,645	6,051	202
Eden Plaza/Eden Industrial	19,000	15,200	507

-23-

26

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997

AND THE YEAR ENDED DECEMBER 31, 1996

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

<TABLE>
<CAPTION>

Property Name	Purchase Price	Depreciable Basis	Depreciation Expense
<S>	<C>	<C>	<C>
Industrial Portfolio Acquisition Properties			
Tower Park	8,900	7,120	237
611 Cerritos	6,100	4,880	122
Acacia Business Center	9,900	7,920	264
Valley View Business Center	14,100	11,280	282

			\$5,240
			=====

</TABLE>

(P) Interest expense of \$10,554 relating to the purchase of Pacific Gulf Business Park, the 1996 Industrial Acquisitions, the Other 1996 Acquisitions, the 1997 Industrial Acquisitions, Woodland Distribution Center, the Development Properties, the Senior Apartments, the AEW/Lincoln Properties, Concord Industrial Park and Eden Plaza/Eden Industrial, less reduction of interest expense resulting from the Tenant Sale of \$567 (the actual interest relating to the Tenant Sale during the year ended December 31, 1996). Interest expense associated with the borrowings used to finance the purchase of these properties for the period prior to these acquisitions is based on the actual interest rates on the related debt, as follows:

<TABLE>
<CAPTION>

Property Name	Debt	Interest Rate	Pro Forma Interest Expense
<S>	<C>	<C>	<C>
Pacific Gulf Business Park			
Loan payable	\$ 8,000	7.30%	\$ 124
1996 Industrial Acquisitions			
Acquisition facility	19,475	7.50%	997
Other 1996 Acquisitions			
Miramar Business Park			
Revolving line of credit	7,100	7.13%	370
Raintree Apartments			
Revolving line of credit	6,200	8.40%	437
Woodland Distribution Center			
Revolving line of credit	12,483	8.50%	1,061
Senior Apartments			
Terrace Garden Apartments			
Loan payable	8,100	6.60%	535

</TABLE>

-24-

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

<TABLE>

<CAPTION>

Property Name	Debt	Interest Rate	Pro Forma Interest Expense
<S>	<C>	<C>	<C>
Morning View Apartments Loan payable	11,000	6.60%	726
AEW/Lincoln Properties Revolving line of credit	12,000	7.25%	870
Acquisition facility	41,625	7.50%	3,121
Concord Industrial Park Loan payable	4,625	8.50%	393
Revolving line of credit	2,870	9.00%	258
Eden Plaza/Eden Industrial Loan payable	12,000	7.05%	846
Acquisition facility	3,977	7.63%	302
Industrial Portfolio Acquisition Properties Loan payable	4,448	8.38%	373
Amortization of Financing Costs			141

			\$10,554
			=====

</TABLE>

The interest expense on the Company's revolving line of credit borrowings and on borrowings under the Company's Acquisition Facility is calculated for the period indicated at an interest rate of LIBOR + 1.75% and LIBOR + 2.0%, respectively. The interest rates reflected above represent the actual rates on the date of the borrowings. A 0.125% change in the interest rate on all of the Company's variable rate indebtedness would increase the Company's pro forma interest expense by \$99 for the nine months ended September 30, 1997 and \$132 for the year ended December 31, 1996.

- (Q) Reduction in interest expense, resulting from the exchange of the Debentures into 2,440,002 shares of the Company's Common Stock as of the beginning of the period presented (including the related amortization of debenture discount and costs of \$417 for the year ended December 31, 1996).

-25-

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

- (R) Revenues and certain expenses of the industrial properties comprising the Probable Acquisitions, for the period prior to their acquisition by the Company (adjusted to reflect increased property taxes based on the properties' acquisition cost and current property tax rates):

<TABLE>

<CAPTION>

Nine Months Ended September 30, 1997

	California Commerce Parks Portfolio	Bradshaw Business Centre	Horn Road Business Complex	Fullerton Business Center	Norwood Industrial Parks	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Rental income	\$ 5,217	\$ 861	\$ 645	\$ 446	\$ 456	\$7,625
Rental property expenses	2,067	208	269	131	144	2,819
	\$3,150	\$ 653	\$ 376	\$ 315	\$ 312	\$4,806

Year Ended December 31, 1996

	California Commerce Parks Portfolio	Bradshaw Business Centre	Horn Road Business Complex	Fullerton Business Center	Norwood Industrial Parks	Total
Rental income	\$6,693	\$1,146	\$ 850	\$ 545	\$ 598	\$9,832
Rental property expenses	2,762	287	370	196	214	3,829
	\$3,931	\$ 859	\$ 480	\$ 349	\$ 384	\$6,003

</TABLE>

(S) Depreciation expense relating to the purchase of the Probable Acquisitions for the period prior to their acquisition, was calculated utilizing estimated remaining useful lives and the depreciable basis of the properties as follows:

<TABLE>
<CAPTION>

Property Name	Purchase Price	Depreciable Basis	Pro Forma Depreciation Expense	
			Nine Months	
			Ended September 30, 1997	Year Ended December 31, 1996
<S>	<C>	<C>	<C>	<C>
California Commerce Parks Portfolio	\$ 57,600	\$ 46,080	\$ 864	\$ 1,152
Bradshaw Business Centre	8,700	6,960	131	174
Horn Road Business Complex	9,500	7,600	143	190
Fullerton Business Center	5,500	4,400	83	110
Norwood Industrial Parks	4,700	3,760	71	94
			\$ 1,292	\$ 1,720

</TABLE>

-26

29

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997
AND THE YEAR ENDED DECEMBER 31, 1996
(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

(T) Interest expense relating to the purchase of the Probable Acquisitions. The interest expense associated with the borrowings used to finance the purchase of these properties for the period prior to these acquisitions is based on the actual interest rate on the related debt, as follows:

<TABLE>
<CAPTION>

Interest	Pro Forma Interest Expense	
	Nine Months	
	Ended September 30,	Year Ended December 31,

Property Name	Debt	Rate	1997	1996
<S>	<C>	<C>	<C>	<C>
California Commerce Parks Portfolio				
Revolving Line of Credit	\$ 24,002	7.63%	\$ 1,373	\$ 1,830
Horn Road Business Complex				
Loan Payable	2,890	7.95%	175	233
			-----	-----
			\$ 1,548	\$ 2,063
			=====	=====

</TABLE>

- (U) Represents the preferred stock dividend requirements of \$0.425 per share per quarter related to the issuance of 1,081,081 shares of \$.01 par value Class A Preferred Stock and 705,883 shares of \$.01 par value Class B Preferred Stock to fund the Probable Acquisitions. The Company is obligated to issue such shares prior to January 1, 1998 (see Note G).
- (V) Excludes the effect of a \$74 nonrecurring gain from the sale of land and buildings comprising the Tenant Sale in August 1996.
- (W) Represents the weighted average of common shares and common stock equivalents outstanding during the period indicated. Common Stock equivalents include stock options which are considered dilutive for purposes of computing primary earnings per common share. Pro forma weighted average common shares include 2,435,581 shares of Common Stock issued by the Company in conjunction with its May 1996 Common Stock Offering, 2,440,002 shares of Common Stock issued as part of the Debenture-for-Stock Exchange, 2,300,000 shares issued as part of the January 1997 Common Stock Offering, 2,131,700 shares issued as part of the June 1997 Common Stock Offering and 4,776,300 shares (including 526,300 shares pursuant to the underwriter's exercise of the Over-Allotment Option) issued as part of the November 1997 Common Stock Offering.

-27-

30

PACIFIC GULF PROPERTIES INC.

NOTES TO PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997

AND THE YEAR ENDED DECEMBER 31, 1996

(UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA) (continued)

NOTE 2 - PRO FORMA ADJUSTMENTS (continued)

- (X) Excludes the effect of the loss of \$3,596 on the December 31, 1996 Debenture-for-Stock Exchange resulting from the issuance of 180,956 excess common shares at \$19.875 per share (the closing price per share on December 26, 1996, the date of the exchange). These shares represent the additional shares issued at the exchange rate of 58 shares of Common Stock per each \$1 principal amount of Debentures, representing 4.3014 additional shares over the original conversion rate of 53.6986 shares.
- (Y) Excludes the effect of a \$111 nonrecurring loss on the sale of the Company's corporate headquarters during the second quarter of 1997.

-28-

31

Report of Independent Auditors

To the Shareholders and Board of Directors
Pacific Gulf Properties Inc.

We have audited the accompanying combined statement of revenues and certain expenses of Sacramento Business Park, Anaheim Business Park, Santa Clara Business Park and Sunnyvale Business Park, four commercial properties to be acquired by Pacific Gulf Properties Inc. from KIP Properties (collectively referred to as the "California Commerce Parks Portfolio") for the year ended December 31, 1996. The statement is the responsibility of management. Our

responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the combined statement. We believe that our audit provides a reasonable basis for our opinion.

The accompanying combined statement was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion in a Form 8-K filing) as described in Note 2 to the combined statement and is not intended to be a complete presentation of the revenues and expenses of the California Commerce Parks Portfolio.

In our opinion, the statement referred to above presents fairly, in all material respects, the combined revenues and certain expenses, as defined above, of the California Commerce Parks Portfolio for the year ended December 31, 1996, in conformity with generally accepted accounting principles.

\S\ ERNST & YOUNG LLP

Newport Beach, California
December 10, 1997

-29-

32

CALIFORNIA COMMERCE PARKS PORTFOLIO

Combined Statement of Revenues and Certain Expenses

<TABLE>
<CAPTION>

	Year Ended December 31, 1996	Nine Months Ended September 30, 1997 (Unaudited)
<S>	<C>	<C>
REVENUES		
Rental and other income (Notes 2 and 3)	\$ 6,693,000	\$ 5,217,000
CERTAIN EXPENSES		
Property operating and maintenance (Note 2)	2,060,000	1,518,000
Real estate taxes	235,000	164,000
Management fees (Note 4)	300,000	234,000
REVENUES IN EXCESS OF CERTAIN EXPENSES	\$ 4,098,000	\$ 3,301,000

</TABLE>

See accompanying notes.

-30-

33

CALIFORNIA COMMERCE PARKS PORTFOLIO

Notes to Combined Statement of Revenues and Certain Expenses

For the Year Ended December 31, 1996 and the
Nine Months Ended September 30, 1997 (Unaudited)

1. DESCRIPTION OF THE TRANSACTION

Pacific Gulf Properties Inc. (the "Company") has contracted to acquire Sacramento Business Park, Anaheim Business Park, Santa Clara Business Park and Sunnyvale Business Park, four commercial properties containing over 733,000

square feet of industrial space located in California (the "California Commerce Parks Portfolio"). The Company has entered into an agreement to acquire the California Commerce Parks Portfolio from KIP Properties, a real estate investor.

2. BASIS OF PRESENTATION

The combined statement of revenues and certain expenses presents the operations of the California Commerce Parks Portfolio, as defined above, for the year ended December 31, 1996 and for the nine months ended September 30, 1997 (unaudited). The combined statement has been prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion in a Form 8-K filing).

Certain expenses that are dependent on the property owner and the cost basis of the California Commerce Parks Portfolio have been excluded from the combined statement. The excluded expenses consist primarily of depreciation, interest, and loan fee amortization. Consequently, the revenues in excess of certain expenses as presented in the combined statement are not intended to be a complete presentation of the California Commerce Parks Portfolio's revenues and expenses nor is it intended to be comparable to the proposed future operations of the California Commerce Parks Portfolio.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The California Commerce Parks Portfolio is generally leased to tenants with lease terms which exceed one year and are accounted for as operating leases. Revenues from leases are recognized on a straight-line basis over the term of the related leases. Cost recoveries from tenants are recognized as income in the period the related costs are accrued.

-31-

34

CALIFORNIA COMMERCE PARKS PORTFOLIO

Notes to Combined Statement of Revenues and Certain Expenses (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalization Policy

Recurring repair and maintenance costs are expensed as incurred. Replacements and betterments are capitalized and depreciated over their useful lives.

Use of Estimates

The preparation of the combined statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the combined statement. Actual results could differ from these estimates in the near term.

4. MANAGEMENT FEES

The California Commerce Parks Portfolio is managed by R&B Commercial Real Estate Services. Management fees are 4.5% of total income, as defined. For the year ended December 31, 1996 and the nine months ended September 30, 1997, the properties incurred \$300,000 and \$234,000, respectively, in management fees.

R&B Commercial Real Estate Services' role as the property manager of the California Commerce Parks Portfolio will terminate upon the Company's acquisition of the portfolio of the Company.

5. FUTURE MINIMUM LEASE PAYMENTS

The California Commerce Parks Portfolio is leased to tenants under leases which expire at various dates and contain provisions for rent increases based on cost of living indices. Certain leases also contain renewal options. The minimum future lease payments to be received under the terms of these operating leases for each of the next five years ending December 31, are as follows:

<TABLE>

<CAPTION>

<S>	<C>
1997	\$ 6,808,000
1998	5,726,000
1999	3,255,000
2000	1,526,000
2001	467,000
2002 and thereafter	393,000

</TABLE>

AGREEMENT OF PURCHASE AND SALE

AND JOINT ESCROW INSTRUCTIONS

by and between

KIP PROPERTIES LLC, A CALIFORNIA LIMITED LIABILITY COMPANY,
as Seller

and

PACIFIC GULF PROPERTIES, INC,

as Buyer

dated
September 10, 1997

TABLE OF CONTENTS

<TABLE>
<CAPTION>

	PAGE

<S>	<C>
AGREEMENT OF PURCHASE AND SALE AND JOINT ESCROW INSTRUCTIONS	1
1. Purchase and Sale	2
2. Purchase Price	2
2.1 Initial Deposit	2
2.2 Additional Deposit.....	2
2.3 Closing Funds.....	3
2.4 Interest on Deposits.....	3
3. Escrow.....	3
3.1 Opening of Escrow.....	3
3.2 Closing.....	4
4. Extension of Original Closing Date.....	4
5. Buyer's Examination/Reviews/Inspections.....	4
5.1 Buyer's Approvals.....	4
(a) Title Examination.....	4
(b) Buyer's Reviews.....	5

(c)	Buyer's Inspection.....	6
5.2	Funding Approval.....	7
5.3	Termination.....	7
5.4	Allocation of Purchase Price.....	8
5.5	NO OBLIGATION BY SELLER TO CORRECT DEFECTS.....	8
6.	Deposits by Seller.....	8
7.	Deposits by Buyer.....	9
8.	Conditions of Closing.....	9
8.1	Buyer's Conditions.....	9
8.1.1	Title Insurance.....	9
8.1.2	Delivery of Documents by Seller.....	9
8.1.3	Tenant Estoppel Certificates.....	9
8.2	Seller's Condition.....	10
9.	Damage or Condemnation Prior to Closing.....	11
9.1	Condemnation.....	11
9.2	Casualty Loss.....	11
9.2.1	Casualty Over \$1,000,000.....	11
9.2.2	Casualty Under \$1,000,000.....	11
9.2.3	Cost of Repair.....	12
9.2.4	Insurance.....	12

</TABLE>

<TABLE>

<S>

10.	Costs and Expenses.....	12
10.1	Seller's Costs.....	12
10.2	Buyer's Costs.....	12
11.	Prorations; Credits.....	12
12.	Disbursements and Other Actions by Escrow Holder.....	14
12.1	Closing.....	14
12.2	Deliveries.....	15
13.	Operations During Escrow.....	15
14.	Conduct of Rental Activity Prior to Closing.....	15
14.1	Rental Activity Prior to the Contingency Date.....	15
14.2	Rental Activity After the Contingency Date.....	15
14.3	Certain Definitions.....	16
(a)	Approved New Lease.....	16
(b)	New Lease Commission.....	16
(c)	Tenant Improvement Costs.....	16
(d)	Approved New Lease Costs.....	17
(e)	Approved New Lease Term.....	17
(f)	Buyer's Share.....	17
(g)	Buyer's Share of Approved New Lease Costs.....	17

<C>

(h) Buyer's Total Share of Approved New Lease Costs..... 17

14.4 Credit to Seller for Buyer's Total Share of Approved
New Lease Costs..... 17

15. Representations and Warranties..... 17

15.1 Seller's Representations..... 17

15.1.1 Authority; Binding On Seller; Enforceability..... 17

15.1.2 Conflict with Existing Laws or Contracts..... 17

15.2 Buyer's Representation..... 18

15.2.1 Authority; Enforceability..... 18

15.2.2 Conflict with Existing Laws or Contracts..... 18

15.2.3 Decision to Purchase..... 18

15.2.4 Information Furnished to Seller..... 18

16. Hazardous Material..... 18

16.1 Definition of Hazardous Material..... 18

16.2 Presence of Hazardous Material..... 19

16.3 Indemnification..... 19

17. Disclaimer/As Is Sale/Release..... 19

17.1 AS IS..... 19

17.2 BUYER'S INDEPENDENT DUE DILIGENCE..... 21

17.2.1 PHYSICAL INSPECTION..... 21

17.2.2 REVIEW OF RECORDS..... 21

17.2.3 PURCHASE FOR BUYER'S ACCOUNT..... 22

17.3 Release 22

17.4 Waiver 22

</TABLE>

<TABLE>

<S>

17.5 Certain Obligations Not Released..... 23

18. Legal Fees..... 23

19. Notices..... 24

20. Brokers..... 25

21. No Survival..... 25

22. Tax-Deferred Exchange..... 25

23. No Offer..... 26

24. Time of Essence..... 26

25. Counterparts..... 26

26. Captions..... 26

<C>

27.	No Obligations to Third Parties.....	26
28.	Exhibits.....	26
29.	Amendment to this Agreement.....	26
30.	Waiver.....	26
31.	Applicable Law.....	27
32.	Entire Agreement.....	27
33.	Successors and Assigns.....	27
34.	CERTAIN REMEDIES.....	27
34.1	LIQUIDATED DAMAGES.....	27
34.2	LIMITATION ON LIABILITY.....	27
35.	No Third Party Beneficiaries	28
36.	Interpretation; Computation of Periods.....	28
37.	Confidentiality.....	28
38.	AGENCY RELATIONSHIP.....	29
39.	WAIVER OF TRIAL BY JURY.....	29
40.	REVIEW WITH INDEPENDENT COUNSEL.....	29

</TABLE>

AGREEMENT OF PURCHASE AND SALE
AND JOINT ESCROW INSTRUCTIONS

THIS AGREEMENT OF PURCHASE AND SALE AND JOINT ESCROW INSTRUCTIONS ("AGREEMENT"), dated September 10, 1997 for reference purposes only, constitutes an agreement by which _____ ("BUYER"), agrees to purchase, and KIP PROPERTIES LLC, a California limited liability company ("SELLER"), agrees to sell the following described real and personal property:

A. That certain improved real property located in the City of Anaheim, County of Orange, State of California, commonly known as Commerce Park - Anaheim, 1440 South State College Boulevard, Anaheim, California, consisting of (i) that certain real property more particularly described in EXHIBIT "A-1" attached hereto (the "ANAHEIM LAND"), (ii) any and all improvements owned by Seller and located on the Anaheim Land (the "ANAHEIM IMPROVEMENTS"), and (iii) the personal property owned by Seller and located on the Anaheim Land listed on EXHIBIT "A-2" attached hereto (collectively, the "ANAHEIM PERSONAL PROPERTY").

The Anaheim Land, Anaheim Improvements, and Anaheim Personal Property are herein referred to collectively as the "ANAHEIM PROPERTY."

B. That certain improved real property located in the City of Sunnyvale, County of Santa Clara, State of California, commonly known as Commerce Park - Sunnyvale, 1095 East Duane Avenue, Sunnyvale, California, consisting of (i) that certain real property more particularly described in EXHIBIT "B-1" attached hereto (the "SUNNYVALE LAND"), (ii) any and all improvements owned by Seller and located on the Sunnyvale Land (the "SUNNYVALE IMPROVEMENTS"), and (iii) the personal property owned by Seller and located on the Sunnyvale Land listed on EXHIBIT "B-2" attached hereto (collectively, the "SUNNYVALE PERSONAL PROPERTY"). The Sunnyvale Land, Sunnyvale Improvements, and Sunnyvale Personal Property are herein referred to collectively as the "SUNNYVALE PROPERTY."

C. That certain improved real property located in the City of Santa Clara, County of Santa Clara, State of California, commonly known as Commerce Park - San Tomas, 3000 Scott Boulevard, Santa Clara, California, consisting of (i) that certain real property more particularly described in EXHIBIT "C-1" attached hereto (the "SAN TOMAS LAND"), (ii) any and all improvements owned by Seller and located on the San Tomas Land (the "SAN TOMAS IMPROVEMENTS"), and (iii) the personal property owned by Seller and located on the San Tomas Land listed on EXHIBIT "C-2" attached hereto (collectively, the "SAN TOMAS PERSONAL PROPERTY"). The San Tomas Land, San Tomas Improvements, and San Tomas Personal Property are herein referred to collectively as the "SAN TOMAS PROPERTY."

D. That certain improved real property located in the City of Sacramento, County of Sacramento, State of California, commonly known as Commerce Park - Sacramento, 1787 Tribute Road, Sacramento, California, consisting of (i) that certain real property more particularly described in EXHIBIT "D-1" attached hereto (the "SACRAMENTO LAND"), (ii) any and all improvements owned by Seller and located on the Sacramento Land (the "SACRAMENTO IMPROVEMENTS"), and (iii) the personal property owned by Seller and located on the Sacramento Land and listed on EXHIBIT "D-2" attached hereto (collectively,

1

6

the "SACRAMENTO PERSONAL PROPERTY"). The Sacramento Land, Sacramento Improvements, and Sacramento Personal Property are herein referred to collectively as the "SACRAMENTO PROPERTY."

The Anaheim Land, Sunnyvale Land, San Tomas Land and Sacramento Land are sometimes hereinafter referred to collectively as the "LAND" and individually as a "REAL PROPERTY SITE." The Anaheim Improvements, Sunnyvale Improvements, San Tomas Improvements and Sacramento Improvements are sometimes hereinafter referred to collectively as the "IMPROVEMENTS." The Anaheim Personal Property, Sunnyvale Personal Property, San Tomas Personal Property and Sacramento Personal Property are sometimes hereinafter referred to collectively as the "PERSONAL PROPERTY." The Anaheim Property, Sunnyvale Property, San Tomas Property and Sacramento Property are sometimes hereinafter referred to collectively as the "PROPERTY" or "PROPERTIES" and individually as a "PROJECT SITE."

The terms and conditions of this Agreement and the instructions to Chicago Title Insurance Company ("ESCROW HOLDER") with regard to the escrow ("ESCROW") created pursuant hereto are as follows:

1. PURCHASE AND SALE. FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, Seller agrees to sell the Property to Buyer, and Buyer agrees to purchase the Property from Seller, upon the terms and conditions set forth in this Agreement.

2. PURCHASE PRICE. The purchase price for the Property shall be Fifty-seven million-six-hundred thousand Dollars (\$57,600,000) ("PURCHASE PRICE"), payable as set forth in this Section 2.

2.1 Initial Deposit. Concurrent with Buyers execution and delivery of this Agreement to Seller, Buyer shall deposit or cause to be deposited with Escrow Holder in good and immediately available federal funds, the sum of Six Hundred Twenty-Five Thousand Dollars (\$625,000.00) ("INITIAL DEPOSIT"), which Initial Deposit (together with all accrued interest thereon) shall be applied toward payment of the Purchase Price upon the Close of Escrow (as hereafter defined). If Buyer fails to timely deliver the Initial Deposit in accordance with this Section, Seller shall have the unilateral right at any time to terminate this Agreement by delivery of written termination notice to Buyer and Escrow Holder. On the Contingency Date (as defined in Section 5.2 hereof), unless Buyer has timely elected to terminate this Agreement and the Escrow pursuant to and in accordance with Section 5 hereof, Escrow Holder is irrevocably authorized and instructed, without further instructions from Buyer, to immediately release the Initial Deposit to Seller. Buyer acknowledges that the Initial Deposit shall be released to Seller prior to the Closing, and Buyer releases the Escrow Holder from all liabilities and claims arising out of Escrow Holder's compliance with the terms of this Section 2.1.

2.2 Additional Deposit.

(a) On the Contingency Date (as defined in Section 5.2 hereof), unless Buyer has timely elected to terminate this Agreement and the Escrow pursuant to and in accordance with Section 5 hereof, Buyer shall deposit with Escrow Holder in good and immediately available federal funds the additional amount of One Million Two

Hundred Fifty Thousand Dollars (\$1,250,000.00) (the "ADDITIONAL DEPOSIT"), and Escrow Holder is irrevocably authorized and instructed, without further instructions from Buyer, to immediately upon receipt release the Additional Deposit to Seller. Buyer acknowledges that the Additional Deposit shall be released to Seller prior to the Closing, and Buyer releases the Escrow Holder from all liabilities and claims arising out of Escrow Holder's compliance with the terms of this Section 2.2. The Additional Deposit and the Initial Deposit totaling One Million Eight Hundred Seventy-Five Thousand Dollars (\$1,875,000) are collectively referred to herein as the "DEPOSIT," and the term Deposit shall include and refer to both the Initial Deposit and, from and after the

Contingency Date, the Additional Deposit. The Additional Deposit shall for all purposes be treated the same as the Initial Deposit.

(b) If Buyer fails to timely deliver the Additional Deposit in accordance with this Section, Seller shall have the unilateral right to terminate this Agreement and the Escrow by delivering written termination notice to Buyer and Escrow Holder at any time. In the event Seller terminates this Agreement and the Escrow pursuant to this Section, the Initial Deposit shall be released to Seller in accordance with Section 2.1 above on the Contingency Date (if not already released) and retained by Seller in accordance with Section 34 of this Agreement as Seller's sole remedy for Buyer's breach of this Section.

2.3 CLOSING FUNDS. Not later than 10:00 a.m. Pacific Time one (1) Business Day prior to the Close of Escrow, Buyer shall deposit or cause to be deposited with Escrow Holder, in the form of a confirmed wire transfer of immediately available federal funds, the balance of the Purchase Price, plus such amounts, if any, in immediately available funds as may be required to pay Buyer's share of prorations and closing costs as hereinafter set forth.

2.4 INTEREST ON DEPOSITS. Pending the release of the Initial Deposit to Seller, all funds received from Buyer shall be deposited by Escrow Holder in an interest-bearing account with a federally-insured state or national bank or savings and loan association (the "Account"). All interest on funds in the Account shall accrue for the benefit of Buyer (provided that Buyer provides an acceptable Form 1099 to Escrow Holder) and shall be held in Escrow as part of the Initial Deposit. Seller shall have no obligation to pay or credit Buyer with any interest on the Initial Deposit or the Additional Deposit whether or not released to Seller, except that Buyer shall receive a credit for interest on the Initial Deposit held in the Account which accrues prior to the release of such funds to Seller pursuant to Section 2.1 above.

3. Escrow.

3.1 OPENING OF ESCROW. By not later than 5:00 p.m. Pacific Time on the first (1st) Business Day after this Agreement is executed by Buyer and Seller, Buyer and Seller shall open the Escrow with Escrow Holder by delivering or causing to be delivered to Escrow Holder (a) a fully executed original of this Agreement (or executed original counterparts of this Agreement); and (b) Escrow Holder's standard escrow provisions in the form attached hereto as EXHIBIT "3.1" (the "STANDARD PROVISIONS"). Provided the Escrow Holder has received the Initial Deposit in accordance with Section 2.1 above, the deposit with Escrow Holder of the documents described in the preceding sentence shall constitute the opening of Escrow (the "OPENING OF ESCROW") and authorization to Escrow Holder to act in accordance with the terms of this Agreement. In the event of any inconsistencies between

the terms and conditions of the Standard Provisions and the terms of this Agreement, the terms of this Agreement shall control.

3.2 CLOSING. For purposes of this Agreement, the "CLOSING" or "CLOSE

OF ESCROW" shall be defined as the date that the Grant Deeds, the form of which are attached hereto as EXHIBIT "3.2" ("DEEDS"), conveying the Land and Improvements to Buyer, are recorded in the Official Records of Orange County, Santa Clara County and Sacramento County, respectively, State of California and the Purchase Price is received by Seller. This Escrow shall close on the following date (the "Original Closing Date") (a) January 6, 1998; or (b) such earlier date as Buyer and Seller may agree upon in writing. Not later than two (2) Business Days before the Closing Date (as defined in Section 4 below), Seller shall prepare and submit to Escrow Holder and Buyer a proforma closing statement setting forth the estimated adjustments and prorations; as of the scheduled Closing Date (the "PRORATION SCHEDULE", which adjustments and proration shall be calculated in accordance with Section 11 below. Escrow Holder is authorized and instructed to base its final adjustments and prorations on the Proration Schedule.

4. EXTENSION OF ORIGINAL CLOSING DATE. Seller, at its option but without any obligation to do so, shall have the right to extend the Original Closing Date for three (3) consecutive periods of up to thirty (30) days each (collectively, the "EXTENSION OPTIONS"). If Seller elects to exercise an Extension Option, Seller shall do so by delivering written notice (the "EXTENSION NOTICE") of Seller's election to exercise such Extension Option to Buyer and Escrow Holder not later than five (5) Business Days prior to the Original Closing Date or the then existing Closing Date, as applicable. The Extension Notice shall specify the new Closing Date. For purposes of this Agreement, the term "CLOSING DATE" shall mean the Original Closing Date, as the same may be extended in accordance with this Section 4. Notwithstanding anything to the contrary contained in this Agreement, Seller shall have no obligation to exercise any or ail of the Extension Options, and the Extension Options may be exercised by Seller in its discretion.

5. BUYER'S EXAMINATION/REVIEWS/INSPECTIONS.

5.1 BUYER'S APPROVALS. The Close of Escrow is subject to and contingent on the satisfaction of the following conditions within the applicable time periods set forth in this Section 5 for the satisfaction of such conditions:

(a) TITLE EXAMINATION. Buyer's approval of preliminary title reports issued by Chicago Title Insurance Company ("TITLE COMPANY") for the Real Property Sites together with copies of all exceptions set forth therein (collectively, the "REPORTS"). Escrow Holder is authorized and instructed to cause the Reports to be delivered to Buyer within ten (10) Business Days after the Opening of Escrow. If, on or before fifteen (15) days following Buyer's receipt of the Reports, Buyer delivers to Seller written notice disapproving any items therein described (other than the Title Company's standard exceptions), Seller shall thereafter have the right, in its discretion but without any obligation to do so, to elect to attempt to cure such matters as Buyer shall have so disapproved on or before thirty (30) days following Seller's receipt of Buyer's written disapproval notice. Seller shall give a written notice to Buyer within said thirty (30) day period stating whether or not Seller elects to attempt to cure said disapproved matters. If Seller fails to give written notice within such thirty (30) day period that Seller elects to attempt to cure such disapproved matters, Seller shall be deemed to have elected not to attempt to cure such matters. If Seller notifies (or is

deemed to have notified) Buyer that it elects not to attempt to cure any such disapproved matters, Buyer shall have the right, by a writing delivered to Seller and Escrow Holder on or before the date which is three (3) Business Days following the date Buyer receives Seller's notice electing not to cure or the date on which Seller is deemed to have elected not to cure if Seller provides no notice, whichever occurs first, to terminate the Escrow and this Agreement by giving written notice of such termination to Seller and Escrow Holder within such three (3) Business Day period. If Seller notifies Buyer that Seller elects to attempt to cure any such disapproved matter, and Seller thereafter determines in its discretion that it is unable or unwilling to continue to attempt to cure any such matter, Seller shall notify Buyer of such fact (the "Cure Cessation Notice") not later than seven (7) Business Days before the Closing Date, Buyer's sole and exclusive right in the event that Seller so notifies Buyer is to terminate the Escrow and this Agreement by giving written notice to Seller and Escrow Holder on or before the date which is three (3) Business Days following the date Buyer receives the Cure Cessation Notice. Buyer's failure to timely give any written disapproval in accordance with this Section 5.1 conclusively shall be deemed Buyer's approval of all matters set forth on the Reports, other than delinquent taxes and Seller's mortgages which Seller shall remove on or before the Closing Date, and Buyer's failure to timely deliver a written termination notice following (i) Seller's election not to attempt to cure any disapproved items, or (ii) Seller's delivery to Buyer of the Cure Cessation Notice, conclusively shall be deemed Buyer's waiver and approval of all such previously disapproved matters in accordance with this Section.

(b) BUYER'S REVIEWS. Buyer's approval of the documents and items set forth in this Section 5.1 (b) ("REVIEW MATTERS") by no later than 5:00 p.m. Pacific Time on November 20th, 1997 (the "CONTINGENCY DATE"). Seller shall make the Review Matters available to Buyer within five (5) days after the Opening of Escrow; provided, however, that the Review Matters shall only be available to the extent such items exist (either copies or originals) and are located either at Seller's property management office at the Improvements or at the Seller's office at 2222 Corinth, Second Floor, Los Angeles California ("REVIEW LOCATIONS"). Further, the Review Matters shall only be available at the Review Locations for copying and inspection by Buyer at Buyer's expense and upon prior reasonable notice to Seller, and the Review Matters may not be removed from such locations. If Buyer, on or before the Contingency Date, fails to disapprove, in a writing delivered to Seller and Escrow Holder, any of the following Review Matters, Buyer conclusively shall have been deemed to have approved all such Review Matters and all information contained or referred to therein:

(i) All existing leases and amendments thereto currently affecting the Land and Improvements ("LEASES");

(ii) Plans and specifications for the Improvements;

(iii) All existing service agreements, maintenance agreements, brokerage contracts, and listing agreements currently affecting the Land and Improvement which will survive the Closing Date, all of which the Property shall be subject to when the Property is transferred to Buyer on the

Closing Date (collectively, the "CONTRACTS");

(iv) A schedule or schedules ("Rent Roll") prepared by Seller containing (A) the names of the tenants, identification of the premises, and current rental income payable under each of the Leases; (B) expiration date of each of the Leases;

5

10

and (C) the amount of any security deposits currently held by Seller under each of the Leases (the "Tenant Security Deposits"); and

(v) The most recent real property tax statements for the Land and Improvements;

(vi) A general description of the Personal Property, if Exhibits A-2, B-2, C-2 and D-2 indicate that the description of the Personal Property is to be provided by Seller after the date of this Agreement;

(vii) Operating statements for the Property prepared by or for Seller in the ordinary course of business for the eighteen (18) month period preceding the date of the Opening of Escrow; and

(viii) Such other books, records, documents, and other information relating to the Property which Seller makes available at the Review Locations for Buyer's examination or which Seller has otherwise delivered or caused to be delivered to Buyer.

Seller makes no representations or warranties of any kind, either express or implied, including without limitation as to the accuracy and/or content, with regard to any of the foregoing Review Matters. Buyer agrees and acknowledges that each and all of the Review Matters are confidential, and Buyer covenants and agrees not to report, publish, share, circulate, disseminate or otherwise reveal or cause or permit to be reported, published, shared, circulated, disseminated or otherwise revealed, to any party, person or entity any or all of the Review Matters or any information therein or item or circumstance relating thereto, except to Buyer's contractors and advisors as and only to the extent necessary for this transaction. Further, prior to delivery of any of the foregoing to such contractors and advisors, Buyer (i) shall inform each and every such party that such information is confidential and is subject to a prohibition on further dissemination or circulation by any means and may only be used as necessary for Buyer's review purposes pursuant to this Section 5.1 (b) relating to this transaction; and (ii) shall obtain such party's agreement to maintain the confidentiality of the Review Matters in accordance with the terms of this Agreement. In the event this Agreement terminates for any reason, and as a condition to the release of the Deposit to Buyer if Buyer is otherwise entitled to such release under this Agreement, Buyer shall return to Seller all Review Matters previously provided to or obtained by or on behalf of Buyer or any of its agents from or at Seller's direction, without Buyer maintaining any copies thereof. Buyer agrees that if the confidentiality provisions contained in this Section 5.1(b) are breached, the remedy at law may be inadequate and, therefore, without limiting any other remedy available at law or equity, an injunction, specific performance or other forms of equitable relief, or any

combination thereof, shall be available to Seller.

(c) BUYER'S INSPECTION. Buyer's approval of a physical inspection of the Property on or before the Contingency Date, including all conditions relating to the presence, existence, or use of Hazardous Materials (as such term is defined in Section 16 below) on or under the Property. Buyer and its agents shall have the right to make up to three (3) visits of no more than two (2) consecutive days each to each Project Site during normal business hours at a time mutually acceptable to Buyer and Seller and upon not less than forty-eight (48) hours prior written request to Seller, to make, at Buyer's sole cost and

6

11

expense, those inspections and surveys of the Property as Buyer may desire; provided, however, that without Seller's prior written consent (which consent may be withheld in Seller's discretion), Buyer shall not be entitled (1) to perform or cause to be performed any invasive or destructive actions, punctures or drilling of any kind; and (2) to initiate any inquiry or request (including any inquiry or request relating to any zoning variance, zone change, or conditional use permit) directed at any governmental official with respect to the Property; provided, however, that nothing in this clause (2) shall be deemed to prevent Buyer from inspecting or reviewing any or all records of any federal, state, or local governmental authority. Buyer shall not be entitled to enter the Property without being accompanied by a designated representative of Seller. Buyer shall use all due care and consideration in connection with its inspections and shall comply with all applicable laws. Buyer shall immediately repair any and all damage resulting from the acts or omissions of Buyer or Buyer's agents, employees, contractors, representatives or subcontractors relating to the whole or any part of the Property. Buyer shall indemnify, defend and hold Seller harmless from and against any and all expenses, costs, fees, suits, actions, obligations, liabilities and damages (including attorneys' fees and costs) directly or indirectly resulting from such entry, acts or omissions by Buyer, its agents, employees, representatives, contractors or subcontractors. Buyer shall not cause or permit in any way any liens or encumbrances upon or relating to any Property or any interest therein as a result of Buyer's or Buyer's agents', employees', contractors', subcontractors' or representatives' acts or omissions with regard to the Property. Buyer may, not later than the Contingency Date, give a written termination notice to Seller disapproving (with specific detail) the results of any such surveys and inspections. If Buyer does not timely give notice of disapproval as aforesaid, then Buyer conclusively shall be deemed to have approved the results of the inspections and the condition of the Property. Any qualified or conditional approval of any of the matters set forth in this Section 5.1(c) shall conclusively be deemed to constitute Buyer's disapproval of such matter. Commencing with Buyer's execution of this Agreement and at all times prior to the Close of Escrow, Buyer shall have in effect workers compensation and employer's liability insurance with statutory limits of coverage as required by law, and with a limit of liability for coverage B of at least \$1,000,000 each occurrence/aggregate, and commercial general liability insurance naming Seller as an additional insured, with (i) commercially reasonable coverage; (ii) waiver of subrogation; and (iii) limits of not less than \$1,000,000 combined single limit for bodily and personal injury and property damage. Prior to entering the Property, Buyer shall deliver to Seller certificates of insurance evidencing such coverage and further evidencing

that such coverage may only be terminated or modified upon thirty (30) day's prior written notice to Seller. Buyer's indemnity, defense and other obligations and covenants in this Section shall survive any termination of this Agreement or the Closing, as applicable.

5.2 FUNDING APPROVAL. The obligations of Buyer under this Agreement are not subject to or contingent upon in any way Buyers receipt of approval of funding or obtaining any financing from any source, and Buyer covenants and agrees to pay the Purchase Price in all cash regardless of any financing arrangements Buyer may pursue.

5.3 TERMINATION. This Agreement and the Escrow shall terminate upon (a) Buyer's disapproval of any of the matters described in Sections 5.1(a) (subject to Seller's right to cure disapproved title matters), 5.1(b) or 5.1(c) above or Section 14.1, below within the applicable time periods set forth in such Sections; or (b) failure of the condition set forth in Section 8.1.3 below to occur within the applicable time period set forth in such Section, and Buyer's failure to waive such condition. Upon any termination of this Agreement

7

12

pursuant to this Section 5.3, or pursuant to Section 9 below, (i) each party shall execute such documents as Escrow Holder may reasonably require to evidence such termination, (ii) Escrow Holder shall return all documents to the party who deposited them, (iii) Escrow Holder shall return to Buyer all funds held in Escrow previously deposited in Escrow by Buyer (plus any accrued interest to which Buyer is entitled), less Escrow Holder's, termination fees and the Title Company's cancellation fees, (iv) Buyer shall return to Seller all documents delivered to it by Seller relating to the Property, (v) Seller shall return to Buyer any portion of the Deposit previously delivered to Seller, and (vi) except as specifically set forth in this Agreement, all of the respective obligations of Buyer and Seller relating to this Agreement and the Property shall terminate.

5.4 ALLOCATION OF PURCHASE PRICE. Not later than ten (10) Business Days prior to the Contingency Date, Seller shall have the right to provide Buyer with a written statement showing Seller's allocation of the Purchase Price among each of the Properties (the "Allocation Schedule"). If Seller elects to provide the Allocation Schedule to Buyer, then Buyer shall report the transactions contemplated by this Agreement for state and federal tax purposes in a manner consistent with the allocation of the Purchase Price shown in the Allocation Schedule.

5.5 NO OBLIGATION BY SELLER TO CORRECT DEFECTS. WITHOUT LIMITING ANY OF THE OTHER TERMS OF THIS AGREEMENT, BUYER ACKNOWLEDGES AND AGREES THAT SELLER SHALL HAVE NO OBLIGATION OF ANY KIND TO CORRECT OR OTHERWISE ADDRESS ANY DEFICIENCY OR DEFECT OF ANY KIND WHICH BUYER CLAIMS TO EXIST BASED UPON BUYER'S INSPECTION OR REVIEW OF ANY OR ALL OF THE MATTERS WHICH ARE THE SUBJECT OF THIS SECTION 5.

6. DEPOSITS BY SELLER. Seller shall execute and acknowledge (where appropriate), and deposit with Escrow Holder not later than 2:00 p.m. Pacific Time one Business Day prior to the Closing Date for delivery to Buyer upon the

Closing Date or, if applicable, for recordation upon the Closing Date the following documents and instruments:

(a) The Deeds conveying the Land and Improvements to Buyer;

(b) An Assignment of Leases ("ASSIGNMENT OF LEASES"), the form of which is attached hereto as EXHIBIT "6(b)", pursuant to which (i) Seller assigns to Buyer all of Seller's right, title and interest in and to the Leases; and (ii) Buyer assumes Seller's obligations under the Leases as of the Closing Date;

(c) The Contracts;

(d) An Assignment of Contracts ("ASSIGNMENT OF CONTRACTS"), the form of which is attached hereto as EXHIBIT "6(d)", pursuant to which (i) Seller assigns to Buyer all of Seller's right, title and interest in and to the Contracts; and (ii) Buyer assumes all of Seller's obligations under such Contracts as of the Closing Date;

(e) A Bill of Sale ("BILL OF SALE"), the form of which is attached hereto as EXHIBIT "6(e)", conveying all of Seller's right, title and interest in and to any and all Personal Property; and

8

13

(f) A Certification of Non-Foreign Status, executed by Seller pursuant to Section 1445 et seq. of the Internal Revenue Code of 1986, as amended, the form of which is attached hereto as EXHIBIT "6(f)".

7. DEPOSITS BY BUYER. Buyer shall deposit or cause to be deposited with Escrow Holder the funds which are to be applied towards the payment of the Purchase Price in the manner and in the amounts and at the times designated in Section 2 above, less the aggregate of all unapplied Tenant Security Deposits and increased or decreased by such other adjustments resulting from the prorations conducted pursuant to this Agreement and reflected on the Proration Schedule. In addition, Buyer shall execute and acknowledge where appropriate and deposit with Escrow Holder not later than one (1) Business Day prior to the Closing Date for delivery to Seller upon the Closing Date counterparts of (i) the Assignment of Leases, and (ii) the Assignment of Contracts.

8. CONDITIONS OF CLOSING.

8.1 BUYER'S CONDITIONS. In addition to the other terms and provisions of this Agreement which give Buyer the express right to terminate this Agreement and the Escrow created pursuant to this Agreement, Buyer's obligation to purchase the Property from Seller at the Close of Escrow shall be subject to the satisfaction of the following conditions (or Buyer's written waiver thereof, it being agreed that Buyer may waive any or all of such conditions) within the applicable periods set forth in this Agreement for the satisfaction of such conditions:

8.1.1 TITLE INSURANCE. It shall be a condition to Buyer's obligation to purchase the Property at the Close of Escrow that, on the Closing Date, the Title Company be prepared and committed to issue to Buyer a CLTA

Standard Coverage Owner's Title Insurance Policy for each of the Real Property Sites (collectively "TITLE POLICIES" and individually "TITLE POLICY"), each written with liability in the amount of that portion of the Purchase Price allocated to the applicable Project Site pursuant to Section 5.4 above, showing fee title vested in Buyer, subject only to (i) liens to secure payment of general and special property taxes, not delinquent, (ii) supplemental taxes, if any, assessed pursuant to the provisions of Part 0.5, Chapter 3.5 or Part 2, Chapter 3, Articles 3 and 4, respectively (commencing with Section 75) of the California Revenue and Taxation Code; (iii) the Title Company's standard and customary exceptions set forth in said Title Policy, (iv) matters affecting the condition of title created by, with the consent of, or which attach through Buyer or as a result of Buyer's or Buyer's agents', employees', contractors' or representatives' activities, (v) the Leases and all matters relating to tenants-in-possession under the Leases, (vi) the Contracts, and (vii) those title matters approved or waived (or deemed approved or waived) by Buyer pursuant to Section 5 above;

8.1.2 DELIVERY OF DOCUMENTS BY SELLER. Seller shall have delivered or caused to be delivered to the Escrow Holder all of the documents described in Section 6 above; and

8.1.3 TENANT ESTOPPEL CERTIFICATES. Buyer shall have received tenant estoppel certificates substantially in the form of EXHIBIT "8.1.3" attached hereto or in a form containing information substantially comparable to the information contained in EXHIBIT "8.1.3" attached hereto (collectively, the "ESTOPPEL CERTIFICATES") from tenants under the Leases (collectively, the "TENANTS") who, collectively, occupy a total of at

least sixty percent (60%) of the total rentable square footage in the Improvements occupied by all Tenants as of the Opening of Escrow (the "TARGET PERCENTAGE"). Seller shall use its reasonable efforts to deliver the Target Percentage of completed Estoppel Certificates to Buyer on or before the date which is ten (10) days prior to the Closing Date (the "ESTOPPEL DELIVERY DATE"); provided, however, that (i) Seller conclusively shall be deemed to have used its reasonable efforts to deliver the Target Percentage of Estoppel Certificates to Buyer in accordance with this Section if Seller has submitted a written request to Tenants who, collectively, occupy at least sixty percent (60%) of the total rentable square footage in the Improvements occupied by Tenants as of the Opening of Escrow requesting that each of such Tenants complete, sign and return an Estoppel Certificate to Seller not later than one (1) day before the Estoppel Delivery Date; and (ii) Seller shall have no liability of any kind to Buyer as a result of Seller's failure for any reason to obtain or deliver any or all of the Estoppel Certificates to Buyer pursuant to this Section, as long as (A) Seller has complied with clause (i) of this Section 8.1.3; and [B] Seller delivers to Buyer all signed and completed Estoppel Certificates actually received by Seller from the Tenants as of the last Business Day prior to the Estoppel Delivery Date. If Seller determines that it is unable to obtain an Estoppel Certificate from one or more Tenants, Seller, in its discretion but without any obligation to do so, shall have the right to deliver to Buyer on or before the Estoppel Delivery Date Seller's written certification as to the truth and accuracy of the matters set forth in the

Estoppel Certificate for any or all Tenants who have not executed an Estoppel Certificate (such certification by Seller is referred to as a "Substitute Estoppel Certificate"), and any such Substitute Estoppel Certificates shall be accepted by Buyer in lieu of Estoppel Certificates, signed by the applicable Tenants, provided that the information contained in such Substitute Estoppel Certificates is consistent with the information in the applicable Leases which have been approved by Buyer. Nothing contained in this Section shall be deemed to obligate Seller to make any monetary payment or pay any other consideration of any kind to a Tenant in order to obtain an Estoppel Certificate from such Tenant. If Seller fails to deliver the Target Percentage of Estoppel Certificates (including any Substitute Estoppel Certificates) to Buyer by the Estoppel Delivery Date (the delivery of the Target Percentage of Estoppel Certificates (including any Substitute Estoppel Certificates) is referred to as the "ESTOPPEL CONDITION"), Buyer may give written notice to Seller and Escrow Holder on or before 5:00 p.m. Pacific Time on the day which is two (2) Business Days after the Estoppel Delivery Date (the "ESTOPPEL NOTICE DATE") of Buyer's election to terminate this Agreement based on the failure to satisfy the Estoppel Condition. Upon such notification by Buyer, this Agreement and the Escrow shall terminate, subject to the remaining terms of this Section. Buyer's failure to notify Seller and Escrow Holder that the Estoppel Condition has not been satisfied within the time period described in this Section conclusively shall be deemed to constitute Buyer's waiver of the Estoppel Condition. Buyer's sole and exclusive right in the event that the Estoppel Condition is not satisfied shall be to terminate this Agreement in accordance with this Section. If the Estoppel Condition is not satisfied and Buyer elects to terminate this Agreement, then notwithstanding anything to the contrary contained in this Agreement, this Agreement and the Escrow shall not terminate and shall remain in full force and effect, and the Estoppel Condition shall be deemed to be satisfied, if (1) within two (2) Business Days after the Estoppel Notice Date, Seller, in its discretion but without any obligation to do so, delivers to Buyer Substitute Estoppel Certificates which, when considered together with the signed Estoppel Certificates and any other Substitute Estoppel Certificates previously delivered to Buyer, will result in Buyer having received the Target Percentage of Estoppel Certificates (including any Substitutes Estoppel Certificates); and (2) the information contained in such Substitute Estoppel Certificates is consistent with the information in the applicable Leases which have been approved by Buyer. The certifications by Seller

10

15

contained in any and all Substitute Estoppel Certificates shall expire and terminate upon Buyer's subsequent receipt of an Estoppel Certificate signed by the applicable Tenant containing information which is consistent with Seller's certifications. Nothing contained in this Section shall be deemed to obligate Seller to provide Buyer with any Substitute Estoppel Certificate or other certification with respect to any unsigned Estoppel Certificate, and Seller may decline to provide any such Substitute Estoppel Certificate or certification to Buyer in Seller's discretion.

If any of the foregoing are not timely satisfied or waived by Buyer, Buyer shall have the right to terminate this Agreement on the Closing Date by delivering written termination notice to Seller.

8.2 SELLER'S CONDITION. In addition to the other terms and provisions of this Agreement which give Seller the right to terminate this Agreement and the Escrow created pursuant hereto, Seller's obligation to sell the Property to Buyer shall be subject to the satisfaction of the following condition (or Seller's written waiver thereof, it being agreed that Seller may waive such condition): As of the Closing Date, Buyer shall have delivered or caused to be delivered to the Escrow Holder all of the documents and funds described in Sections 2 and 7 above, including the full Purchase Price. If the foregoing is not timely satisfied or waived by Seller, Seller shall have the right to terminate this Agreement on the Closing Date by delivering written termination notice to Buyer.

9. DAMAGE OR CONDEMNATION PRIOR TO CLOSING. This Agreement is subject to the provisions of California Civil Code Sections 1662 (the "Statute").

9.1 CONDEMNATION. For the purposes of the Statute, a taking by eminent domain of a portion of the Property shall be deemed to affect a "material part" of the Property if (a) the taking would result in the inability to occupy any or all of the rentable space in the Improvements; (b) the taking would materially interfere with access to the Property; or (c) the taking would reduce the number of parking spaces now located on the Property. In the event of a taking of a "material part" of the Property prior to the Closing Date, Buyer and Seller shall each have the right to terminate this Agreement by giving written notice to Escrow Holder and the other party within three (3) Business Days after the party giving such notice learns of such taking. In the event of a taking by eminent domain of less than a "material part" of the Property, this Agreement shall remain in full force and effect, and Buyer and Seller shall proceed to the Close of Escrow without reduction or abatement of the Purchase Price, except that Seller shall assign to Buyer all of Seller's rights against the condemning authority at the Close of Escrow. Seller shall execute such documents or instruments as may reasonably be required to effect such an assignment. Any such assignment shall be without representation or warranty by, or recourse to, Seller.

9.2 CASUALTY LOSS.

9.2.1 CASUALTY OVER \$1,000,000. For the purposes of the Statute, a casualty shall be deemed to be "material" if the estimated cost of repair of such casualty exceeds \$1,000,000. In the event of any casualty to the Property prior to the Close of Escrow having an estimated cost of repair which equals or exceeds \$1,000,000, Buyer and Seller shall each have the right to terminate this Agreement by giving written notice to Escrow Holder and the other party within three (3) Business Days after the party giving such notice learns of such casualty and the estimated cost of repair thereof. In the event Buyer or

Seller terminates this Agreement because of such casualty, the Escrow shall terminate in accordance with Section 5.6 above. If neither Buyer nor Seller elects to terminate this Agreement, then this Agreement shall remain in full force and effect and there shall be no reduction or abatement in the Purchase Price of the Property, except that Seller shall, at the Close of Escrow, assign

to Buyer all insurance proceeds payable with respect to such casualty under the policies of insurance maintained by Seller and credit Buyer with the lesser of (i) the amount of any applicable deductible under such policies; or (ii) an amount equal to the estimated cost of repair of such casualty. Any such assignment shall be without representation or warranty by, or recourse to, Seller.

9.2.2 CASUALTY UNDER \$1,000,000. In the event of a casualty to the Property prior to the Close of Escrow having an estimated cost of repair which is less than \$1,000,000, this Agreement shall remain in full force and effect and there shall be no reduction or abatement in the Purchase Price of the Property, except that Seller shall, at the Close of Escrow, assign to Buyer all insurance proceeds payable with respect to such casualty under the policies of insurance maintained by Seller and credit Buyer with the lesser of ((a) the amount of any applicable deductible under such policies; or (b) an amount equal to the estimated cost of repair of such casualty. Any such assignment shall be without representation or warranty by, or recourse to, Seller.

9.2.3 COST OF REPAIR. For purposes of this Section 9.2, the phrase "estimated cost of repair" shall mean an estimate obtained from a reputable independent contractor selected by Seller and approved by Buyer, which approval Buyer agrees not to unreasonably withhold or delay. In the event of a casualty to the Property prior to the Close of Escrow, the Closing Date shall automatically be extended by a period equal to five (5) Business Days plus the period of time reasonably required for Seller to obtain an estimate of the cost of repair of such casualty (which period of time shall not exceed thirty (30) days).

9.2.4 INSURANCE. Pending the Close of Escrow, Seller, at its expense, shall maintain the existing standard fire and extended coverage insurance policies or maintain comparable casualty insurance coverage; provided, however, that Seller shall have no obligation to modify or supplement any existing insurance policies.

10. COSTS AND EXPENSES.

10.1 SELLER'S COSTS. Seller shall pay (a) one-half of Escrow Holder's fees (except upon termination of this Agreement pursuant to Section 5 above, in which case Escrow Holder's cancellation fee shall be paid by Buyer); (b) one-half of the county documentary transfer taxes for the Deeds; (c) one-half of any city documentary transfer taxes; (d) the cost of the Title Policies; and (e) any other closing costs customarily charged to sellers for recording documents.

10.2 BUYER'S COSTS. Buyer shall pay (a) one-half of Escrow Holder's fees (except upon termination of this Agreement pursuant to Section 5 above, in which case Escrow Holder's cancellation fee shall be paid by Buyer); (b) any other closing costs customarily charged to buyers for document preparation, recording documents, and miscellaneous items; (c) Buyer's pro rata portion of taxes and other items pursuant to the prorations described in Section 11 of this Agreement; (d) one-half of the county documentary transfer taxes for the Deeds; (e) one-half of any city documentary transfer taxes; and (f) the

cost of any endorsements to the Title Policy requested by Buyer and the additional cost of ALTA owner's policies of title insurance, if Buyer desires to obtain such a policies in place of the Title Policies; provided, however, that the issuance of any such endorsements and the issuance of ALTA owner's policies of title insurance shall not constitute conditions or contingencies to the Close of Escrow or delay the Closing Date.

11. PRORATIONS CREDITS. All prorations under this Section (i) shall be made as of 12:00 midnight on the day immediately preceding the Close of Escrow (the "Proration Cutoff"); and (ii) shall be made on the basis of a thirty (30) day month. The following items shall be credited to the parties or shall be prorated by the parties as of the Close of Escrow, as applicable, with the Seller responsible for expenses and entitled to revenues accruing prior to the Proration Cutoff, and Buyer responsible for expenses and entitled to revenues accruing after the Proration Cutoff:

(a) Escrow Holder shall prorate the real estate taxes with respect to the Land and Improvements for the current fiscal year as of the Close of Escrow based upon the most current real estate tax information available:

(b) Buyer and Seller acknowledge that if there has been completion of construction of improvements to the Property, additional or supplemental taxes ("Supplemental Taxes") may be assessed against the Property pursuant to Chapter 498, Statutes of 1983, of the State of California. Any bill for Supplemental Taxes which is not provided to Escrow Holder or which is issued after the Close of Escrow shall be prorated between Buyer and Seller outside of Escrow after the Close of Escrow, and Escrow Holder shall have no liability or responsibility whatsoever with respect to such Supplemental Taxes. Buyer shall remit its pro rata share of any such Supplemental Taxes, as reasonably determined by Seller, to Seller outside of Escrow within ten (10) days after Buyer's receipt of a copy of the bill for such Supplemental Taxes;

(c) Rents and other receivables under the Leases (collectively, "Rents") shall be prorated based on the Proration Schedule delivered to the Escrow Holder. If Seller collects any Rents after the Closing which are attributable to any period of time from and after the Closing Date, Seller shall remit such Rents directly to Buyer. If Buyer collects any Rents after the Close of Escrow which are attributable to any period of time prior to the Close of Escrow, Buyer shall promptly remit such Rents directly to Seller. If Seller has been unable to collect all Rents due and owing for periods preceding the Close of Escrow, Buyer shall use its reasonable efforts (without obligation to institute or prosecute any litigation) to collect such amounts from the applicable Tenants which are in occupancy as of the Close of Escrow and upon collection thereof shall remit the same to Seller (net of all reasonable costs of collection incurred by Buyer);

(d) Utilities, services, operating and all other expenses with respect to the Property shall be prorated based upon the latest available information, such that Seller shall be responsible for all such costs and expenses relating to the period up to and including the day prior to the Closing Date and Buyer shall be responsible for all such costs and expenses relating to the period from and after the day prior to the Closing Date. Seller shall endeavor to have all meters read for all utilities servicing the Property including, without limitation, water, sewer, gas and electricity for the period

to and including the day prior to the Closing Date and shall pay all bills rendered on the basis of such readings (provided, however, Buyer shall be responsible for any and all fees and charges relating to the

18

changeover of all such services and utilities). If, on the Closing Date, Seller is unable to have any utility meters read, Buyer and Seller shall estimate the amount of such bills based on the immediately preceding utility bills. Premiums for casualty and liability insurance shall not be prorated as Buyer will be obtaining its own such insurance upon the Closing Date;

(e) Buyer shall be credited and Seller shall be charged with any Tenant Security Deposits (not actually applied by Seller in accordance with the Leases prior to the Closing Date in the ordinary course of business) made by the Tenants under the Leases;

(f) Seller will receive a credit for all prepaid amounts of any type relating to the Property and refundable deposits, if any, from utilities, governmental agencies or others relating to or arising from the Property;

(g) Seller shall be responsible for insurance provided up to the Closing Date;

(h) Income and expenses under the Contracts and all other expenses of operating the Property which relate to the period prior to the Close of Escrow shall accrue to or be paid by Seller, as applicable. Income and expenses under the Contracts and all other expenses of operating the Property which relate to the period from and after the Close of Escrow shall accrue to or be paid by Buyer, as applicable; and

(i) Seller shall be credited and Buyer shall be charged with "Buyer's Total Share of Approved New Lease Costs" (as such term is defined in Section 14.4 below).

If any errors or omissions are made regarding adjustments and prorations as aforesaid, the parties shall make the appropriate corrections promptly upon the discovery thereof, provided that the party entitled to the correction makes a written request for such correction to the other party (accompanied by reasonably detailed information which substantiates the error) within one hundred twenty (120) days after the Closing Date. If any estimations are made at the Closing Date regarding adjustments or prorations (including any with respect to utility charges, and operating costs and expenses relating to the Property), the parties shall make the appropriate correction on a mutually acceptable date which is approximately one hundred twenty (120) days after the Closing Date. Notwithstanding the previous sentence to the contrary, any adjustment required with respect to Supplemental Taxes shall be made pursuant to Section 11(b) above without regard to the time limitations contained in this Section. Any mutually agreed upon corrected adjustment or proration shall be paid in cash to the party entitled thereto promptly upon demand.

12. DISBURSEMENTS AND OTHER ACTIONS BY ESCROW HOLDER.

12.1 CLOSING. Upon the Closing Date, Escrow Holder shall promptly undertake all of the following in the manner indicated:

(a) Disburse to Seller all funds deposited with Escrow Holder by Buyer towards payment of the Purchase Price for the Property as follows:

(i) Deduct therefrom all items chargeable to the account of Seller pursuant hereto;

14

19

(ii) The remaining balance of the funds so deposited by Buyer towards payment of the Purchase Price shall be disbursed to Seller or as Seller may direct;

(b) Cause the Deeds and any other documents which the parties hereto may mutually direct, to be recorded in the Official Records of Orange County, Santa Clara County and Sacramento County, respectively, State of California;

(c) Disburse from funds deposited by Buyer with Escrow Holder towards payment of all closing costs chargeable to the account of Buyer pursuant hereto such monies as are necessary to pay all said closing costs of Buyer, and disburse the balance of such funds, if any, to Buyer;

(d) Deliver the Title Policies to Buyer.

12.2 DELIVERIES. Upon confirmation of recordation of the Deeds, Escrow Holder shall:

(a) Deliver to Buyer the counterparts of the Bill of Sale, Assignment of Leases, and Assignment of Contracts executed by Seller;

(b) Deliver to Seller counterparts of the Bill of Sale, Assignment of Leases and Assignment of Contracts executed by Buyer, and

(c) Deliver to both Buyer and Seller copies of all documents delivered to Escrow Holder or recorded pursuant to this Agreement.

13. OPERATIONS DURING ESCROW. Seller shall (and Seller shall so instruct the Property Manager to) operate and maintain the Property from and after the date hereof until the Closing Date in the ordinary course in substantially the same manner and fashion (other than as may be required as a result of the sale of the Property) as prior to this Agreement. Notwithstanding anything to the contrary in this Agreement, from and after the Contingency Date Seller agrees that it will not (and Seller will instruct the Property Manager not to) without the prior written consent of the Buyer: (i) enter into any new contract (except automatic renewals) which affects the Property or goods or services provided to the Land or Improvements or its tenants ("Operating Contract") having a term that extends beyond the Closing Date, except for Operating Contracts terminable by Buyer on not more than thirty (30) days' notice to the respective vendor or contractor without penalty to Buyer. Buyer will be deemed to have approved matters submitted to Buyer under this Section 13 for approval if within three

(3) Business Days of notice and request for approval Buyer has not objected to the proposed action.

14. CONDUCT OF RENTAL ACTIVITY PRIOR TO CLOSING.

14.1 RENTAL ACTIVITY PRIOR TO THE CONTINGENCY DATE. On or before the Contingency Date, Seller shall have the right to enter into (a) any new Lease for space in the Improvements ("New Lease"); and (b) any modification or supplement to any existing lease ("Lease Modification") without Buyer's prior approval. Within three (3) Business Days after executing any New Lease or Lease Modification, Seller shall provide Buyer with a copy of such New Lease or Lease Modification. Buyer shall have the right to approve or

15

20

disapprove such documents as part of the Review Matters by notice given to Seller and Escrow Holder prior to the later of (i) three (3) Business Days after Buyer's receipt of such documents; or (ii) the Contingency Date. Buyer's failure to disapprove any of such documents in the manner described in this Section within the applicable time period shall conclusively be deemed to constitute Buyer's approval of such documents. Any conditional or qualified approval by Buyer of any of such documents shall be deemed to constitute Buyer's approval of such documents. This Agreement and the Escrow shall terminate upon Buyer's disapproval of any of such documents within the applicable time period set forth in this Section.

14.2 RENTAL ACTIVITY AFTER THE CONTINGENCY DATE. Provided that Buyer is not in default under this Agreement and this Agreement has not been terminated pursuant to any of the terms of this Agreement, and except as otherwise provided in this Section, between the Contingency Date and the Closing Date Seller shall not enter into any New Lease or Lease Modification without Buyer's approval, which approval shall not be unreasonably withheld. Notwithstanding the immediately preceding sentence, Seller shall be entitled to enter into any New Lease or Lease Modification without Buyer's approval, provided that (a) in the case of a New Lease, the (i) New Lease is prepared on Seller's standard form of lease agreement, with only such modifications as are commercially reasonable or not material in nature; (ii) the rental rate for such New Lease is not less than ninety-five percent (95%) of the asking rental rate as shown on a pro forma rental rate schedule delivered by Seller to Buyer not later than five (5) Business Days prior to the Contingency Date (such schedule is referred to as the "Pro Forma Leasing Schedule"); (iii) the allowance for costs of tenant improvements to be completed or paid for by Seller under the New Lease does not exceed the pro forma tenant improvement allowance shown in the Pro Forma Leasing Schedule; and (iv) the leasing commission payable by Seller in connection with the New Lease does not exceed the pro forma leasing commission shown in the Pro Forma Leasing Schedule; and (b) in the case of a Lease Modification, the Lease Modification is not material in nature. For purposes of this Section, a Lease Modification which is not material in nature shall be deemed to include, without limitation, an existing Lease which is renewed or extended on a month-to-month basis or renewal or extension of an existing Lease pursuant to the terms of such Lease or notices of renewal or extension given pursuant to the terms of such Lease. With respect to any New Lease or Lease Modification which requires Buyer's approval under the terms of this Section,

Buyer shall notify Seller in writing of Buyer's approval or disapproval of each such New Lease or Lease Modification submitted to Buyer within three (3) Business Days after Buyer's receipt thereof. Buyer's failure to disapprove any New Lease or Lease Modification in accordance with the procedure and within the three-day period specified in this Section shall conclusively be deemed to constitute Buyer's approval of such New Lease or Lease Modification. Any notice of disapproval of a New Lease or Lease Modification by Buyer shall set forth Buyer's specific objections thereto. Any conditional or qualified approval by Buyer of any New Lease shall be deemed to constitute Buyer's approval of such New Lease or Lease Modification. Seller shall have the right to submit a New Lease or Lease Modification to Buyer for approval after Seller's execution thereof, provided that the New Lease or Lease Modification contains appropriate conditions regarding Buyer's approval of the New Lease or Lease Modification.

14.3 CERTAIN DEFINITIONS. For purposes of this Section 14, the following terms shall have the following definitions:

16

21

(a) APPROVED NEW LEASE. "Approved New Lease" means a New Lease which (i) has been approved or deemed approved by Buyer pursuant to either Section 14.1 or 14.2 above; or (ii) which Seller is entitled to enter into without Buyer's approval pursuant to Section 14.2 above.

(b) NEW LEASE COMMISSION. "New Lease Commission" means, with respect to an Approved New Lease, the total of all leasing commissions paid or payable by Seller in connection with such Approved New Lease.

(c) TENANT IMPROVEMENT COSTS. "Tenant Improvement Costs" means, with respect to an Approved New Lease, the total of all tenant improvement costs paid or payable by Seller in connection with such Approved New Lease.

(d) APPROVED NEW LEASE COSTS. "Approved New Lease Costs" means, with respect to an Approved New Lease, the total of (i) the New Lease Commission payable in connection with such Approved New Lease; and (ii) the Tenant Improvement Costs payable in connection with such Approved New Lease.

(e) APPROVED NEW LEASE TERM. "Approved New Lease Term" means, with respect to an Approved New Lease, the original term of such Approved New Lease, expressed in the form of the number of calendar days included in such original term.

(f) BUYER'S SHARE. "Buyer's Share" means, with respect to an Approved New Lease, a fraction, (i) the numerator of which is the number of calendar days in the Approved New Lease Term measured from the Close of Escrow to the end of the Approved New Lease term; and (ii) the denominator of which is the Approved New Lease Term.

(g) BUYER'S SHARE OF APPROVED NEW LEASE COSTS. "Buyer's Share of Approved New Lease Costs" means, with respect to an Approved New Lease, (i) Buyer's Share (calculated based on the Approved New Lease Term for such Approved New Lease), multiplied by (ii) the Approved New Lease Costs for such Approved New Lease.

(h) BUYER'S TOTAL SHARE OF APPROVED NEW LEASE COSTS. "Buyer's Total Share of Approved New Lease Costs" means to total of Buyer's Share of Approved New Lease Costs for all Approved New Leases.

14.4 CREDIT TO SELLER FOR BUYER'S TOTAL SHARE OF APPROVED NEW LEASE COSTS. At the Close of Escrow, Seller shall receive a credit and Buyer shall be charged for Buyer's Total Share of Approved New Lease Costs.

15. REPRESENTATIONS AND WARRANTIES.

15.1 SELLER'S REPRESENTATIONS. Seller makes the following representations and warranties, each and all of which are expressly subject to any and all matters contained or referred to in any or all of the Review Matters and matters discovered during Buyer's inspections:

17

22

15.1.1 AUTHORITY; BINDING ON SELLER; ENFORCEABILITY. Seller is a limited liability company and is duly organized, validly existing and in good standing under the laws of California. Seller has taken all necessary action to authorize its execution, delivery and performance of, and has the power and authority to execute, deliver and perform its obligations under, this Agreement and all related documents executed by Seller in connection herewith and to consummate all the transactions contemplated hereby and thereby, including the power and authority to sell, assign and transfer the Property in accordance with this Agreement.

15.1.2 CONFLICT WITH EXISTING LAWS OR CONTRACTS. The execution and delivery of this Agreement does not, and the performance by Seller of its obligations hereunder will not, to Seller's actual knowledge, conflict with any provision of any law or regulation to which Seller is subject or conflict with or result in a material breach of or constitute a material default under any of the terms, conditions or provisions of any enforceable agreement or instrument to which Seller is a party or which is known to Seller and by which it is bound or any order or decree applicable and known to Seller, nor will such execution, delivery and performance result in the creation or imposition of any lien on any of Seller's assets or properties that could materially and adversely affect the ability of Seller to discharge its obligations under and complete the transactions contemplated by this Agreement.

15.2 BUYER'S REPRESENTATION. Buyer makes the following representations and warranties:

15.2.1 AUTHORITY; ENFORCEABILITY. Buyer is a Maryland corporation and is duly organized, validly existing and in good standing under the laws of the state in which Buyer was organized. Buyer has taken all necessary action to authorize its execution, delivery and performance of, and has the power and authority to execute, deliver and perform its obligations under, this Agreement and all related documents and all the transactions contemplated hereby and thereby.

15.2.2 CONFLICT WITH EXISTING LAWS OR CONTRACTS. The execution

and delivery of this Agreement does not, and the performance by Buyer of its obligations hereunder will not, to Buyer's actual knowledge, conflict with any provision of any law or regulation to which Buyer is subject or conflict with or result in a material breach of or constitute a material default under any of the terms, conditions or provisions of any enforceable agreement or instrument to which Buyer is a party or which is known to Buyer and by which it is bound, or any order or decree applicable and known to Buyer, or result in the creation of imposition of any lien on any of its assets or property which could materially and adversely affect the ability of Buyer to discharge its obligations under and complete the transactions contemplated by this Agreement.

15.2.3 DECISION TO PURCHASE. Buyer is a sophisticated investor, and Buyer's offer and decision to purchase the Property are based upon its own independent expert evaluations of the Property, the Review Matters, and other materials deemed relevant by Buyer and its agents. In entering into this Agreement, Buyer has not relied upon any oral or written information from Seller, or any of its respective employees, affiliates, brokers, agents, legal counsel or other representatives, other than the representations and warranties set forth in Section 15.1 of this Agreement (subject, however, to the limitations set forth in Section 21 below). Buyer further acknowledges that no

18

23

employee, agent, broker, legal counsel or other representative of Seller has been authorized to make, and that Buyer has not relied upon, any statements or representations other than those specifically contained in Section 15.1 of this Agreement.

15.2.4 INFORMATION FURNISHED TO SELLER. All information submitted by or on behalf of Buyer to Seller or Seller's agents in connection with Buyer's purchase of the Property, including any financial information submitted in connection with any bids submitted by Buyer to Seller, is true and correct in all material respects.

16. HAZARDOUS MATERIAL.

16.1 DEFINITION OF HAZARDOUS MATERIAL. As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material, or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government. The term "Hazardous Material" includes, without limitation, any material or substance which is (i) defined as "hazardous waste," "extremely hazardous waste," or "restricted hazardous waste" under Sections 25115, 25117 or 25122.7, or listed pursuant to Section 25140, of the California Health and Safety Code, Division 20, Chapter 6.5 (Hazardous Waste Control Law), (ii) defined as a "hazardous substance" under Section 25316 of the California Health and Safety Code, Division 20, Chapter 6.8 (Carpenter-Presley-Tanner Hazardous Substance Account Act), (iii) defined as a "hazardous material," "Hazardous substance," or "hazardous waste" under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Materials Release Response Plans and Inventory), (iv) defined as a "hazardous substance" under Section 25281 of the California Health and Safety Code, Division 20, Chapter 6.7 (Underground Storage of Hazardous Substances), (v) petroleum, (vi) asbestos, (vii) listed under Article 9 or defined as

"hazardous" or "extremely hazardous" pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (viii) defined as a "hazardous waste," "hazardous substance" or similar term under the Federal Water Pollution Control Act (33 U.S.C. ss.1317), (ix) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. ss.6901 et seq. (42 U.S.C. ss.6903), or (x) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. ss.9601 et seq. (42 U.S.C. ss.9601).

16.2 PRESENCE OF HAZARDOUS MATERIAL. Buyer acknowledges that the Property may or may not contain certain Hazardous Materials and that Seller makes no representation or warranty to Buyer regarding the presence or absence of any Hazardous Materials on or under the Property. It shall be Buyer's responsibility under Sections 5.1(b) and 5.1(c) above to examine the Property and to review such reports or other documents it deems necessary to satisfy itself as to the presence or absence of any Hazardous Materials.

16.3 INDEMNIFICATION. If following Buyer's inspection of the Property, the parties proceed to the Close of Escrow, Buyer shall indemnify, defend and hold Seller harmless from any and all claims, demands (including demands by any governmental agency), liabilities, costs, expenses, penalties, damages, losses and liens, including without limitation reasonable attorneys' fees, arising out of or with respect to (1) Hazardous Material on or under the Property at the Close of Escrow or released on or under the Property subsequent thereto, and (2) any clean-up of any and all Hazardous Material which might

19

24

remain or subsequently be placed on or under the Property. The indemnity provided for herein shall survive the Close of Escrow hereunder and shall not be merged into the Deeds.

17. DISCLAIMER/AS IS SALE/RELEASE.

17.1 AS IS. AS A MATERIAL INDUCEMENT TO AND PART CONSIDERATION FOR THE EXECUTION AND DELIVERY OF THIS AGREEMENT BY SELLER AND THE PERFORMANCE BY SELLER OF ITS DUTIES AND OBLIGATIONS HEREUNDER, AND NOTWITHSTANDING ANY CONTRARY TERM OR PROVISION OF THIS AGREEMENT OR OTHERWISE, BUYER DOES HEREBY EXPRESSLY ACKNOWLEDGE, REPRESENT, WARRANT AND AGREE, TO AND WITH SELLER, THAT: (i) BUYER IS PURCHASING THE PROPERTY IN ITS "AS IS" CONDITION, WITH ALL FAULTS, AS OF THE CLOSE OF ESCROW WITH RESPECT TO ANY AND ALL KNOWN OR UNKNOWN FACTS, CIRCUMSTANCES, CONDITIONS AND DEFECTS, SPECIFICALLY AND EXPRESSLY WITHOUT ANY WARRANTIES, REPRESENTATIONS OR GUARANTIES, EITHER EXPRESS OR IMPLIED, ORAL OR WRITTEN, OF ANY KIND, NATURE OR TYPE WHATSOEVER FROM OR ON BEHALF OF SELLER OR ANYONE PURPORTING TO ACT ON BEHALF OF OR FOR OR AT THE DIRECTION OF SELLER, INCLUDING, BUT IN NO WAY LIMITED TO, ANY WARRANTY OF CONDITION, MERCHANTABILITY, HABITABILITY OR FITNESS FOR A PARTICULAR USE OR PURPOSE OR THE VALUE, ACCURACY OF INFORMATION, MARKETABILITY, PROSPECTS FOR FUTURE DEVELOPMENT, USE OR OCCUPANCY OR MATTERS AFFECTING SAME, AND BUYER HEREBY WAIVES ANY SUCH IMPLIED WARRANTIES OR REPRESENTATIONS RELATING TO THE PROPERTY, THE LEASES OR ANY OTHER MATTER AFFECTING THE PROPERTY, INCLUDING BUT NOT LIMITED TO, THE VALUE OF THE PROPERTY OR FUTURE INCOME OR EXPENSES FOR THE PROPERTY; (ii) SELLER HAS NO OBLIGATION TO REPAIR OR CORRECT ANY SUCH FACTS, CIRCUMSTANCES, CONDITIONS OR

DEFECTS OR COMPENSATE BUYER FOR SAME; (iii) BUYER HAS HERETOFORE UNDERTAKEN AND WILL AS OF THE CLOSING DATE HAVE MADE ALL SUCH INQUIRIES AND INVESTIGATIONS REGARDING THE PROPERTY AND ALL MATTERS RELATING THERETO AS BUYER DEEMS NECESSARY OR APPROPRIATE UNDER THE CIRCUMSTANCES, AND THAT BASED UPON THE SAME, BUYER WILL BE RELYING STRICTLY AND SOLELY UPON SUCH INQUIRIES AND THE ADVICE AND COUNSEL OF ITS OWN AGENTS AND NOT ON ANY INFORMATION OR MATERIAL SUPPLIED BY OR ON BEHALF OF SELLER, AND BUYER IS AND WILL BE FULLY SATISFIED THAT THE PURCHASE PRICE IS FAIR AND ADEQUATE CONSIDERATION FOR THE PROPERTY; (iv) SELLER IS NOT MAKING AND HAS NOT MADE AND HEREBY DISCLAIMS ANY AND ALL WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE CONDITION OR USE OF OR OTHERWISE RELATING TO ALL OR ANY PART OF THE PROPERTY; AND (v) BY REASON OF ALL OF THE FOREGOING, BUYER SHALL ASSUME THE FULL RISK OF ANY LOSS OR DAMAGE OCCASIONED BY ANY FACT, CIRCUMSTANCE, CONDITION OR DEFECT PERTAINING TO THE CONDITION OR USE OF ALL OR ANY PART OF THE PROPERTY WHETHER KNOWN OR UNKNOWN. SELLER HEREBY EXPRESSLY DISCLAIMS ANY AND ALL RESPONSIBILITY FOR ANY AND ALL LOSSES, CLAIMS, EXPENSES, DAMAGES, SUITS, ACTIONS, JUDGMENTS, COSTS, OBLIGATIONS AND LIABILITIES OF ANY KIND, WHETHER FORESEEABLE OR UNFORESEEABLE, CONSEQUENTIAL OR OTHERWISE, WITH RESPECT TO OR IN ANY WAY RELATING TO OR INDIRECTLY OR DIRECTLY ARISING OUT OF THE PROPERTY, OR ANY PART THEREOF OR ANY MATTER RELATING THERETO. THE PURCHASE PRICE AND OTHER TERMS AND CONDITIONS CONTAINED IN THIS AGREEMENT ARE THE RESULT OF ARM'S-LENGTH

20

25

NEGOTIATIONS BETWEEN PARTIES FAMILIAR WITH TRANSACTIONS OF THIS KIND, AND THE PURCHASE PRICE AND OTHER TERMS AND CONDITIONS CONTAINED IN THIS AGREEMENT TAKE INTO ACCOUNT THE FACT THAT BUYER IS NOT ENTITLED TO RELY ON ANY INFORMATION PROVIDED BY SELLER, ANY OF ITS AGENTS, OR ANY OTHER PERSON ACTING FOR OR ON BEHALF OF SELLER. ALL INFORMATION, WHETHER WRITTEN OR ORAL, PREVIOUSLY, NOW, OR HEREAFTER MADE AVAILABLE TO BUYER BY SELLER, ITS AGENTS, OR ANY OTHER PERSON ACTING FOR OR ON BEHALF OF SELLER, WHETHER IN THE FORM OF APPRAISALS, OFFERING MATERIALS (INCLUDING THE INVESTMENT PROPERTY OFFERINGS DATED JUNE 1997 AND JULY 1997, RESPECTIVELY, PREPARED BY OR DISTRIBUTED THROUGH J.B. GRANT REALTY ADVISORS AND PM REALTY GROUP), BROCHURES, MAPS, SURVEYS, SOIL REPORTS, ENGINEERING STUDIES, ENVIRONMENTAL STUDIES, INSPECTION REPORTS, PLANS AND SPECIFICATIONS, AND ALL OTHER REVIEW MATTERS HAVE BEEN OR WILL BE FURNISHED BY SELLER TO BUYER SOLELY AS A COURTESY, AND NEITHER SELLER NOR ITS AGENTS HAS VERIFIED THE ACCURACY OF SUCH INFORMATION OR THE QUALIFICATIONS OF THE PERSONS PREPARING SUCH INFORMATION, AND BUYER IS NOT RELYING ON, AND SHALL NOT BE ENTITLED TO RELY ON, SUCH INFORMATION IN ENTERING INTO THIS AGREEMENT AND COMPLETING ITS PURCHASE OF THE PROPERTY PURSUANT TO THIS AGREEMENT.

17.2 BUYER'S INDEPENDENT DUE DILIGENCE. BY ENTERING INTO THIS AGREEMENT, BUYER HAS AGREED TO PERFORM (AND BUYER REPRESENTS AND WARRANTS TO SELLER THAT BUYER IS CAPABLE OF PERFORMING) A SOPHISTICATED, EXPERT, THOROUGH, AND INDEPENDENT INVESTIGATION, ANALYSIS AND EVALUATION OF THE PROPERTY AND ALL OTHER ASPECTS OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, AND BUYER AGREES THAT BUYER SHALL BE CHARGED WITH KNOWLEDGE OF ALL INFORMATION WHICH IS ACQUIRED BY BUYER AS A RESULT OF SUCH AN INVESTIGATION, ANALYSIS, AND EVALUATION OR WHICH WOULD OR SHOULD HAVE BEEN ACQUIRED BY BUYER AS A RESULT OF SUCH AN INVESTIGATION, ANALYSIS, AND EVALUATION. AS A MATERIAL INDUCEMENT TO AND PART CONSIDERATION FOR THE EXECUTION AND DELIVERY OF THIS AGREEMENT BY SELLER AND THE PERFORMANCE BY SELLER OF ITS DUTIES AND OBLIGATIONS HEREUNDER, NOTWITHSTANDING ANY CONTRARY TERM OR PROVISION OF THIS AGREEMENT OR OTHERWISE, AND WITHOUT

LIMITING THE GENERALITY OF THIS SECTION OR ANY OTHER PROVISION OF THIS AGREEMENT, BUYER WARRANTS AND REPRESENTS TO SELLER AND AGREES AS FOLLOWS:

17.2.1 PHYSICAL INSPECTION. PRIOR TO THE CONTINGENCY DATE, BUYER WILL HAVE CONDUCTED ITS OWN EXPERT, THOROUGH, AND INDEPENDENT INSPECTION, INVESTIGATION, ANALYSIS AND EVALUATION OF THE PROPERTY AND WILL HAVE DETERMINED SOLELY IN RELIANCE THEREON THAT THE PHYSICAL CONDITION OF THE PROPERTY IS ACCEPTABLE TO BUYER, INCLUDING (1) ALL STRUCTURAL ELEMENTS OF THE IMPROVEMENTS AND ALL MECHANICAL, ELECTRICAL, HEATING, AIR CONDITIONING, VENTILATION, FIRE SAFETY, SECURITY, PLUMBING AND OTHER SYSTEMS IN THE IMPROVEMENTS OR ON OR UNDER THE LAND; (2) ALL SOIL AND GEOLOGICAL CONDITIONS OF THE LAND; AND (3) THE PRESENCE OR ABSENCE OF ANY HAZARDOUS MATERIALS IN, ON, UNDER OR AROUND ANY OR ALL OF THE PROPERTIES. IF THE PHYSICAL CONDITION OF THE PROPERTY IS NOT ACCEPTABLE TO BUYER, BUYER'S SOLE AND

21

26

EXCLUSIVE REMEDY SHALL BE TO TERMINATE THIS AGREEMENT IN ACCORDANCE WITH SECTION 5.1(c) ABOVE.

17.2.2 REVIEW OF RECORDS. PRIOR TO THE CONTINGENCY DATE, BUYER WILL HAVE HAD ACCESS TO AND WILL HAVE CONDUCTED ITS OWN EXPERT, THOROUGH, AND INDEPENDENT INSPECTION, INVESTIGATION, ANALYSIS AND EVALUATION OF ALL INSTRUMENTS, RECORDS AND DOCUMENTS WHICH BUYER HAS DETERMINED TO BE APPROPRIATE OR ADVISABLE TO REVIEW IN CONNECTION WITH BUYER'S PURCHASE OF THE PROPERTY AND THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT, INCLUDING THOSE RELATING TO ALL ZONING REGULATIONS AND OTHER GOVERNMENTAL REQUIREMENTS, SITE AND PHYSICAL CONDITIONS, TITLE MATTERS, AND ALL OTHER MATTERS AFFECTING THE USE, OCCUPANCY, VALUE, AND CONDITION OF THE PROPERTY, AND BUYER WILL HAVE DETERMINED SOLELY IN RELIANCE THEREON THAT THE INFORMATION AND DATA CONTAINED THEREIN OR EVIDENCED THEREBY IS SATISFACTORY TO BUYER. BUYER SPECIFICALLY ACKNOWLEDGES THAT BUYER IS NOT RELYING ON SELLER TO INDICATE THE RELATIVE IMPORTANCE OR MATERIALITY OF ANY OF THE INSTRUMENTS, RECORDS, DOCUMENTS AND OTHER INFORMATION MADE AVAILABLE TO BUYER FOR REVIEW AND BUYER SHALL MAKE ITS OWN DETERMINATION AS TO THE LEVEL OF SCRUTINY IT APPLIES TO SUCH INSTRUMENTS, RECORDS AND DOCUMENTS MADE AVAILABLE TO BUYER. WITHOUT LIMITING THE GENERALITY OF THE IMMEDIATELY PRECEDING SENTENCE, IF AND TO THE EXTENT THAT ANY REVIEW MATTERS MADE AVAILABLE TO BUYER INCLUDE A DISCLOSURE OF ANY POSSIBLE DEFECTS, DEFICIENCIES, OR SIMILAR MATTERS RELATING TO THE PROPERTY, SUCH DISCLOSURE DOES NOT CONSTITUTE A COMPLETE STATEMENT OF ALL SUCH MATTERS RELATING TO THE PROPERTY, AND BUYER ASSUMES FULL AND COMPLETE RESPONSIBILITY FOR DETERMINING THE PRESENCE OR ABSENCE, AND NATURE AND EXTENT OF, ANY AND ALL DEFECTS, DEFICIENCIES, OR SIMILAR MATTERS RELATING TO THE PROPERTY AS PART OF BUYER'S INSPECTIONS AND REVIEWS UNDER SECTION 5.1 ABOVE. IF BUYER IS NOT SATISFIED WITH ITS REVIEW OF ANY OF THE REVIEW MATTERS OR TITLE MATTERS RELATING TO THE PROPERTY, BUYER'S SOLE AND EXCLUSIVE REMEDY SHALL BE TO TERMINATE THIS AGREEMENT IN ACCORDANCE WITH THE PROVISIONS OF SECTION 5.1(a) OR 5.1(b) ABOVE, AS APPLICABLE.

17.2.3 PURCHASE FOR BUYER'S ACCOUNT. BUYER IS PURCHASING THE PROPERTY FOR ITS OWN ACCOUNT; PROVIDED, HOWEVER, THAT BUYER SHALL NOT BE DEEMED TO BE IN BREACH OF THIS SECTION IF AN AUTHORIZED INVESTMENT ADVISOR OR REPRESENTATIVE OF BUYER HAS ACTED AS AGENT FOR AND ON BEHALF OF BUYER IN THIS TRANSACTION.

17.3 RELEASE. As a material inducement to and part consideration for the execution and delivery of this Agreement by Seller and the performance by Seller of its duties and obligations under this Agreement, and effective as of the date set forth in Section 17.5 below, Buyer, on behalf of Buyer and Buyer's partners, officers, directors, predecessors, successors and assigns, hereby expressly, fully and forever releases and discharges (which release and discharge shall be continuing and shall survive the Closing and the transfer of the Property and/or any termination of this Agreement) Seller, its members, managers, employees, officers, consultants, attorneys, and agents, from any and all losses, expenses, claims, costs, damages, rights of subrogation, debts, attorneys' fees,

22

27

actions, suits, judgments, awards, obligations and/or liabilities of any kind, whether foreseeable or unforeseeable, known or unknown, or suspected or unsuspected, with respect to or in any way relating to or indirectly or directly arising out of (1) the whole or any part of the Property, Leases, and/or Contracts or any fact, event, circumstance, omission, occurrence of any kind or nature relating thereto, based on any theory of law, equity or tort now existing or coming into existence in the future, (2) any Hazardous Material on or under the Property at the Close of Escrow or released on or under the Property subsequent thereto, and (3) any required clean-up of any and all Hazardous Material which might remain or subsequently be placed on or under the Property, including without limitation any personal injuries suffered by any person or persons.

17.4 WAIVER. Buyer and its successors, assigns, heirs, devisees and executors, agrees, represents and warrants that the matters released in Section 17.3 hereof are not limited to matters which are known or disclosed, and hereby waives any and all rights and benefits which it now has, or in the future may have, conferred upon it by virtue of the provisions of Section 1542 of the Civil Code of the State of California which provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

Buyer, on its behalf and on behalf of its officers, directors, partners and their respective predecessors, successors and assigns, hereby knowingly and voluntarily waives and relinquishes all rights and benefits afforded by Section 1542 of the California Civil Code as set forth hereinabove, or any comparable, equivalent or similar statutes and principles of common law of all the states of the United States, and of the United States, if applicable, and of any foreign country, if applicable. Buyer, on its behalf and on behalf of its officers, directors, partners and their respective predecessors, successors and assigns, understands that the facts in respect of which the releases in this Section 17 are given may hereafter turn out to be other than or different from the facts in that connection now known or believed by Buyer to be true or that Buyer may hereafter discover facts or documents in addition to or different from those which Buyer now knows or believes to be true or exist with respect to any matter

covered by this release, and Buyer, on its behalf and on behalf of its officers, directors, partners and their respective predecessors, successors and assigns, accepts and assumes the risk of the facts turning out to be different and no party or person being released by this release shall have any duty to disclose or provide any such facts or documents (whether material or immaterial, known or unknown, or suspected or unsuspected), and that this release shall be and remain in all respects effective and not subject to termination or rescission by virtue of any such difference in facts, even if any facts were not disclosed.

17.5 CERTAIN OBLIGATIONS NOT RELEASED. Notwithstanding anything to the contrary contained in Sections 17.3 or 17.4 above, the release contained in this Section 17:

28

(i) shall become effectively only on the Close of Escrow; and

(ii) shall not be deemed to release the Seller from or otherwise affect its representations, warranties, and obligations under this Agreement or any of the documents executed by Seller in connection with this Agreement.

The provisions of this Section 17, including the release set forth herein, shall survive the Closing Date and the transfer of the Property from Seller to Buyer and any termination of the Agreement and shall not be merged into the grant deed.

18. LEGAL FEES. In the event of the bringing of any action or suit by a party hereto against another party hereunder by reason of any breach of any of the obligations, covenants or agreements or any inaccuracies in any of the representations and warranties on the part of the other party arising out of this Agreement, then in that event, the prevailing party in such action shall be entitled to have and recover from the other party all costs and expenses of suit including actual attorneys' fees as directed by the court.

19. NOTICES. All notices or other communications required or permitted hereunder shall be in writing and shall be personally delivered or sent by registered or certified mail, postage prepaid, return receipt requested, delivered or sent by telex, telecopy, cable or via a reliable overnight courier, and shall be deemed received upon the earliest of (i) if personally delivered or via overnight courier, the date of delivery to the person to receive such notice; (ii) if mailed, upon the date of receipt as disclosed on the return receipt; or (iii) if given by telecopy then on the day sent unless after normal business hours in which event it shall be the next business day; provided, however, that any notice, request, demand, direction or other communication sent by telecopy must be confirmed within twenty-four (24) hours by registered or certified letter mailed or delivered in accordance with the foregoing:

To Buyer:

Attention: _____
Phone: (____) _____

Telecopy: (____) _____

With a copy to: _____

Attentionn: _____

Phone: (____) _____

Telecopy: (____) _____

To Seller:

KIP Properties LLC
c/o R & B Realty Group
2222 Corinth Avenue
Los Angeles, California 90064
Attention: Ms. Maria Stamolis
Phone: 310/ 478-1021
Telecopy: 310/ 479-1451

With a Copy to:

KIP Properties LLC
c/o R & B Realty Group
2222 Corinth Avenue
Los Angeles, California 90064
Attention: Mr. Darby T. Keen
Phone: 310/ 444-2241
Telecopy: 310/ 479-1451

With a copy to:

William S. Small, Esq.
Alschuler Grossman & Pines LLP
2049 Century Park East, 39th Floor
Los Angeles, California 90067-3213
Phone: 310/ 277-1226
Telecopy: 310/ 552-6077

With a copy to:

Steven Thomas, Esq.
Irell & Manella LLP
1800 Avenue of the Stars
Los Angeles, California 90067
Escrow Officer: _____

Phone: 310/ 203-7694
Telecopy: 310/ 203-7199

To Escrow Holder: Chicago Title Insurance Company
Escrow Department
700 South Flower Street, Suite 900
Los Angeles, California 90017
Escrow Officer: _____
Phone: 213/ 488-4300
Telecopy: 213/ 488-4384

Notice of change of address shall be given by written notice in the manner detailed in this Section. Refusal to accept or the inability to deliver because of changed address of which no notice was given shall be deemed to constitute receipt of the notice, demand, request or communication sent.

20. Brokers. Except for (a) the commission payable upon the Close of Escrow to J.B. Grant Realty Advisors ("Seller's Broker"), as Seller's broker, pursuant to a separate written listing agreement between Seller and Seller's Broker, which listing agreement may authorize Seller's Broker to utilize the services of PM Realty Group; and (b) the finder's fee or brokerage fee payable to R & B Realty Group ("R & B Realty") pursuant to a separate written agreement between Seller and R & B Realty, each party warrants and represents to the other that no broker, salesman, or finder has been engaged by it in connection with the transaction contemplated by this Agreement. Buyer shall indemnify, hold harmless and defend Seller against each and every claim for any such fees, commissions or other amounts, if such claims are based upon any statement or representation or agreement of Buyer or if such claimant is claiming by, through or under Buyer. Seller shall indemnify, hold harmless and defend Buyer against each and every claim for any such fees, commissions or other amounts if such claims are based upon any statement or representations or agreement of Seller or if such claimant is claiming by, through or under

Seller. The foregoing indemnities shall survive the Closing Date or any termination of this Agreement.

21. NO SURVIVAL. The representations and warranties of both Buyer and Seller set forth in this Agreement shall, unless expressly stated otherwise herein to the contrary, not survive the Closing Date; provided, however, all of the representations and warranties of the Seller and Buyer made in Section 15 are and will be continuous and continuing and all of the same shall remain true and correct in all material respects through the Closing.

22. TAX-DEFERRED EXCHANGE. Buyer acknowledges and agrees that Seller may transfer the Property to Buyer as part of a tax-deferred exchange by Seller pursuant to Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"), and that Seller has the right to restructure all or part of the transaction contemplated by this Agreement as provided in Section 1031 of the Code as a concurrent or delayed (non-simultaneous) tax deferred exchange for the benefit of Seller. Buyer shall cooperate with Seller if Seller elects to convey the Property in connection with a tax-deferred exchange within the meaning of Section 1031 of the Code and, if requested by Seller, to accommodate Seller in any such exchange, provided that Seller's election to effect a tax-deferred exchange shall not create any additional conditions to the Close of Escrow or extend the Closing Date. Seller, in electing to structure the sale as an exchange, shall have the right to substitute, assign, or delegate its rights and duties to one or more entities or persons who will be Seller's accommodator as seller in the Escrow in Seller's place and stead. Any such exchange shall be accomplished by supplemental instructions reasonably acceptable to both parties (the "Exchange Instructions"), including any exchange documents and instructions with an exchange accommodator. Buyer shall execute and deliver to Seller or Escrow Holder any and all Exchange Instructions provided to Buyer by Seller within three (3) Business Days after Buyer's receipt of such Exchange Instructions. Each party shall bear its own costs and expenses (including attorneys' fees and costs) incurred in connection with the preparation and review of the Exchange Instructions.

23. NO OFFER. Submission of this Agreement for examination or signature by Buyer is not effective as an agreement to sell the Property or otherwise until execution by and delivery to both Buyer and Seller of an original of this Agreement.

24. TIME OF ESSENCE. Notwithstanding anything to the contrary contained in the Standard Provisions, time is of the essence of each and every term, condition, obligation and provision hereof.

25. COUNTERPARTS. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which, together, shall constitute one and the same instrument.

26. CAPTIONS. Any captions to, or headings of, the paragraphs or subparagraphs of this Agreement are solely for the convenience of the parties hereto, are not a part of this Agreement, and shall not be used for the interpretation or determination of the validity of this Agreement or any provision hereof.

27. NO OBLIGATIONS TO THIRD PARTIES. The execution and delivery of this Agreement shall not be deemed to confer any rights upon, nor obligate any of the parties thereto, to any person or entity other than the parties hereto.

28. EXHIBITS. The Exhibits and Schedules attached hereto are hereby incorporated herein by this reference.

29. AMENDMENT TO THIS AGREEMENT. The terms of this Agreement may not be modified or amended except by an instrument in writing executed by each of the parties hereto.

30. WAIVER. The waiver or failure to enforce any provision of this Agreement shall not operate as a waiver of any future breach of any such provision or any other provision hereof. Except as otherwise expressly provided in this Agreement (including matters which may be deemed approved by Buyer under Section 5 above), no waiver by Buyer or Seller of any of the terms or conditions of this Agreement or any of their respective rights hereunder shall be effective unless such waiver is in writing and signed by the party charged with the waiver.

31. APPLICABLE LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

32. ENTIRE AGREEMENT. This Agreement and attached Schedules and Exhibits together supersede any prior agreement, negotiations and communications, oral or written, and contains the entire agreement between Buyer and Seller as to the subject matter hereof. No subsequent agreement, representation, or promise made by either party hereto, or by or to an employee, officer, agent or representative of either party shall be of any effect unless it is in writing and executed by the party to be bound thereby.

33. SUCCESSORS AND ASSIGNS. This Agreement and all of the terms, conditions and provisions hereof shall inure to the benefit of and be binding upon the respective permitted successors and assigns of the parties hereto. Without Seller's prior written consent, which consent may be withheld by Seller in its discretion, Buyer shall not (a) assign any of Buyer's rights or delegate any of Buyer's duties under this Agreement; or (b) enter into any agreement or escrow for the resale of the Property. If Buyer attempts or purports to enter into any assignment, agreement or escrow in violation of this Section, Seller, at its option, shall have the right to immediately terminate this Agreement.

34. CERTAIN REMEDIES.

34.1 LIQUIDATED DAMAGES. NOTWITHSTANDING ANY OTHER PROVISION CONTAINED IN THIS AGREEMENT, IF THE SALE OF THE PROPERTY IS NOT CONSUMMATED BY REASON OF ANY DEFAULT BY BUYER UNDER THIS AGREEMENT, THEN SELLER SHALL BE ENTITLED TO RETAIN BUYER'S INITIAL DEPOSIT IN THE AMOUNT OF \$625,000 AND BUYER'S ADDITIONAL DEPOSIT IN THE AMOUNT OF \$1,250,000 AS SELLER'S LIQUIDATED DAMAGES. BUYER AND SELLER AGREE THAT SELLER'S DAMAGES WHICH WOULD RESULT FROM BUYER'S FAILURE TO ACQUIRE THE PROPERTY FOR ANY REASON ARE IMPRACTICABLE AND EXTREMELY DIFFICULT TO ASCERTAIN, AND THAT UNDER THE CIRCUMSTANCES EXISTING AS OF THE DATE OF THIS AGREEMENT, THE LIQUIDATED DAMAGES IN THE

AMOUNT OF THE DEPOSIT REPRESENTS A REASONABLE ESTIMATE OF SUCH DAMAGES. THE PAYMENT OF SUCH AMOUNT AS LIQUIDATED DAMAGES FOR THE BREACH OF BUYER'S OBLIGATION TO PURCHASE THE PROPERTY UNDER THIS AGREEMENT IS NOT INTENDED AS A FORFEITURE OR PENALTY WITHIN THE MEANING OF CALIFORNIA CIVIL CODE SECTIONS 3275 OR 3369, BUT IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER PURSUANT TO CALIFORNIA CIVIL CODE SECTIONS 1671, 1676 AND 1677. THE PARTIES HAVE SET FORTH THEIR INITIALS BELOW TO INDICATE THEIR AGREEMENT WITH THE LIQUIDATED DAMAGES PROVISION CONTAINED IN THIS SECTION.

SELLER'S INITIALS

BUYER'S INITIALS

[SIG]

34.2 LIMITATION ON LIABILITY. BUYER AGREES THAT, IN THE EVENT OF ANY DEFAULT BY SELLER HEREUNDER, BUYER'S SOLE AND EXCLUSIVE REMEDY SHALL BE AN ACTION AT LAW FOR DAMAGES (PROVIDED, HOWEVER, BUYER SHALL NOT BE ENTITLED TO, AND BUYER HEREBY WAIVES, ANY AND ALL PUNITIVE, INCIDENTAL, SPECULATIVE AND CONSEQUENTIAL DAMAGES AND DAMAGES FOR BUYER'S LOSS OF ITS BARGAIN). ACCORDINGLY, BUYER AGREES THAT, IN THE EVENT OF ANY SUCH DEFAULT BY SELLER, BUYER HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVES AND SHALL HAVE NO RIGHT TO (A) SPECIFIC PERFORMANCE OR ANY OTHER EQUITABLE REMEDY; (B) RECORD OR FILE A LIS PENDENS OR ANY OTHER MATTER AFFECTING TITLE TO THE PROPERTY; OR (C) CLAIM A VENDEE'S LIEN OR ANY OTHER LIEN UPON THE PROPERTY. THE OBLIGATIONS OF SELLER UNDER THIS AGREEMENT DO NOT CONSTITUTE PERSONAL OBLIGATIONS OF THE MEMBER'S, PARTNERS, DIRECTORS, OFFICERS OR SHAREHOLDERS OF SELLER, AND BUYER SHALL NOT SEEK RECOURSE AGAINST THE MEMBERS, PARTNERS, DIRECTORS, OFFICERS, OR SHAREHOLDERS OF SELLER OR ANY OF THEIR PERSONAL ASSETS FOR SATISFACTION OF ANY LIABILITY IN RESPECT TO THIS AGREEMENT. THE PROVISIONS OF THIS SECTION ARE A MATERIAL INDUCEMENT TO SELLER TO EXECUTE THIS AGREEMENT, WITHOUT WHICH SELLER WOULD NOT HAVE BEEN WILLING TO EXECUTE THIS AGREEMENT. BUYER AND SELLER SHALL INITIAL BELOW THIS SECTION INDICATING THEIR SPECIFIC AGREEMENT TO THIS PROVISION.

SELLER'S INITIALS

BUYER'S INITIALS

[SIG]

35. NO THIRD PARTY BENEFICIARIES. Nothing contained in this Agreement, express or implied, is intended to confer upon any person other than the parties hereto and their permitted successors and assigns any rights or remedies under or by reason of this Agreement.

36. INTERPRETATION; COMPUTATION OF PERIODS. All periods of time

referred to in this Agreement shall include all Saturdays, Sundays, and California or national holidays, unless the period of time specifies Business Days, provided that if the date or last date to

perform any act or give a notice with respect to this Agreement shall fall on a Saturday, Sunday or a California or national holiday, such act or notice may be timely performed or given on the next succeeding day which is not a Saturday, Sunday or a California or national holiday. Whenever the context of this Agreement reasonably requires, all words used in the singular shall be deemed to have been used in the plural, and the neuter gender shall be deemed to include the masculine and feminine gender, and vice versa. This Agreement (including the Exhibits attached hereto) has been drafted through a joint effort of the parties and their respective counsel and, therefore, shall not be construed in favor of or against any of the parties as the person who prepared this Agreement and such Exhibits. For purposes of this Agreement, (a) the term "including" shall be deemed to mean "including without limitation;" (b) the term "Business Day" means any day other than a Saturday, a Sunday, or a federal or California State holiday; (c) the term "Pacific Time" means Pacific Standard Time or Pacific Daylight Savings Time, whichever is then applicable in Los Angeles, California on the date in question; (d) the term "discretion" means sole and absolute discretion; and (e) the phrase "to Seller's actual knowledge," as used in this Agreement, shall mean the present actual knowledge, without duty of inquiry or investigation, of the managing members of Seller.

37. CONFIDENTIALITY. Seller and Buyer each shall keep the terms and conditions of this Agreement confidential, except for (a) such disclosures to third persons as may be reasonably necessary in order to consummate the transactions contemplated by this Agreement; (b) privileged communications by the respective parties, including communications with the parties' respective counsel and advisors; (c) such disclosures as may be necessary or required by those governmental agencies, authorities, or examiners having jurisdiction over Seller and Buyer, respectively; and (d) such disclosures as may be required by subpoena or any other similar court order or discovery request in any civil or criminal proceeding or investigation. With respect to any disclosures otherwise permitted under this Section 37(a) and (b), prior to any such disclosures or communications, the party making such disclosure or communication shall (1) inform each and every such receiving party that such information is confidential and is subject to a prohibition on further dissemination or circulation by any means, and (2) shall obtain such receiving party's agreement to maintain the confidentiality of this Agreement in accordance with the terms herein. This Section shall survive the Close of Escrow and any termination of this Agreement.

38. AGENCY RELATIONSHIP. Buyer acknowledges and agrees that (a) R & B Realty is affiliated, directly or indirectly, with Seller and one or more of Seller's members and is also acting as a broker or finder with respect to Seller; and (b) R & B Realty is only acting for or representing Seller in the transactions contemplated by this Agreement, and has no duty of any kind to Buyer.

39. WAIVER OF TRIAL BY JURY. SELLER AND BUYER KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE (TO THE EXTENT PERMITTED BY APPLICABLE LAW) ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY OF ANY DISPUTE ARISING UNDER OR RELATING TO THIS AGREEMENT, AND THE PARTIES AGREE THAT ANY SUCH DISPUTE SHALL BE TRIED BEFORE A JUDGE SITTING WITHOUT A JURY.

40. REVIEW WITH INDEPENDENT COUNSEL. EACH OF THE PARTIES ACKNOWLEDGES AND AGREES THAT (A) IT HAS CAREFULLY READ AND UNDERSTANDS ALL OF THE TERMS OF THIS AGREEMENT; (B) IT HAS ENTERED INTO

THIS AGREEMENT FREELY AND VOLUNTARILY, AFTER HAVING CONSULTED WITH ITS OWN INDEPENDENT LEGAL COUNSEL; (C) EACH OF THE WAIVERS AND RELEASES CONTAINED IN THIS AGREEMENT IS REASONABLE, NOT CONTRARY TO PUBLIC POLICY OR LAW, AND HAS BEEN INTENTIONALLY, KNOWINGLY, AND VOLUNTARILY AGREED TO BY THE PARTIES; AND (D) EACH OF THE WAIVERS AND RELEASES CONTAINED IN THIS AGREEMENT HAS BEEN AGREED TO BY SUCH PARTY WITH FULL KNOWLEDGE OF ITS SIGNIFICANCE AND CONSEQUENCES.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

"Buyer"

PACIFIC GULF PROPERTIES

By: [SIG]

Its: President - CEO

By: [SIG]

Its: Senior Vice President

"Seller"

KIP PROPERTIES LLC, a California
limited liability company

By: _____

Its: _____

By: _____

Its: _____

ACKNOWLEDGMENT OF RECEIPT AND ACCEPTANCE BY ESCROW HOLDER

The undersigned Escrow Holder hereby agrees to act as Escrow Holder pursuant to the terms and conditions set forth in this Agreement.

Dated: September __, 1997.

CHICAGO TITLE INSURANCE COMPANY

By: _____

Its: _____

AGREEMENT OF PURCHASE AND SALE

AND JOINT ESCROW INSTRUCTIONS

SCHEDULE OF EXHIBITS

LEGAL DESCRIPTION ANAHEIM PROPERTY	Exhibit A-1
DESCRIPTION ANAHEIM PERSONAL PROPERTY	Exhibit A-2
LEGAL DESCRIPTION SUNNYVALE PROPERTY	Exhibit B-1
DESCRIPTION SUNNYVALE PERSONAL PROPERTY	Exhibit B-2
LEGAL DESCRIPTION SAN TOMAS PROPERTY	Exhibit C-1
DESCRIPTION SAN TOMAS PERSONAL PROPERTY	Exhibit C-2
LEGAL DESCRIPTION SACRAMENTO PROPERTY	Exhibit D-1
DESCRIPTION SACRAMENTO PERSONAL PROPERTY	Exhibit D-2
STANDARD ESCROW PROVISIONS	Exhibit 3.1

FORM OF GRANT DEED	Exhibit 3.2
ASSIGNMENT OF LEASES	Exhibit 6(b)
ASSIGNMENT OF CONTRACTS	Exhibit 6(d)
BILL OF SALE AND ASSIGNMENT OF PERSONAL PROPERTY	Exhibit 6(e)
TRANSFEROR'S CERTIFICATE OF NON-FOREIGN STATUS	Exhibit 6(f)
TENANT ESTOPPEL CERTIFICATE	Exhibit 8.1.3

AGREEMENT OF PURCHASE AND SALE

 AND JOINT ESCROW INSTRUCTIONS

EXHIBIT "A-1"

LEGAL DESCRIPTION OF ANAHEIM PROPERTY

All of that certain real property in the City of Anaheim, County of Orange, State of California, described as follows:

PARCEL 1:

The West 10.00 acres of the South half of the Southwest quarter of the Northwest quarter of Section 24, Township 4 South, Range 10 West, in the Rancho San Juan Cajon de Santa Ana, City of Anaheim, County of Orange, State of California, as per map recorded in Book 51, Page 10 of Miscellaneous Maps, in the Office of the County Recorder of said County.

Except the North 320.00 feet thereof.

PARCEL 2:

The North 320.00 feet of the West 10.00 acres of the South half of the Southwest quarter of the Northwest quarter of Section 24, Township 4 South, Range 10 West, in the Rancho San Juan Cajon de Santa Ana, City of Anaheim, County of Orange, State of California, as per map recorded in Book 51, Page 10 of Miscellaneous

38

AGREEMENT OF PURCHASE AND SALE

AND JOINT ESCROW INSTRUCTIONS

EXHIBIT "A-2"

DESCRIPTION OF ANAHEIM PERSONAL PROPERTY

Description to be provided pursuant to Section 5.1(b) as part of "Review Matters."

39

AGREEMENT OF PURCHASE AND SALE

AND JOINT ESCROW INSTRUCTIONS

EXHIBIT "B-1"

LEGAL DESCRIPTION OF SUNNYVALE PROPERTY

All of that certain real property in the City of Sunnyvale, County of Santa Clara, State of California, described as follows:

All that certain real property in Section 29, Township 6 South, Range 1 West, Mount Diablo Base and Meridian, in the City of Sunnyvale, County of Santa Clara, State of California; being a portion of that certain 7.642 acre parcel shown on the Record of Survey Map recorded in Book 263 of Maps at Page 30, Santa Clara County Records, said portion being more particularly described as follows:

Beginning at a Northwesterly corner of said 7.642 acre parcel, from which corner the intersection of the center line of Duane Court and the "Q" line in Lawrence Expressway, as shown on said Map, bears North 88 deg. 18 degrees 10" East 767.67 feet; thence from said point of beginning, along a boundary of said Parcel, South 1 degree 41' 50" East, 20.00 feet to the true point of commencement, along the boundaries of said 7.642 acre parcel, on the following courses: Westerly, along a curve with a radius of 55.00 feet, deflecting to the left from a tangent bearing South 88 deg. 18 degrees 10: West, through a central angle of 59 deg. 50' 23" an arc distance of 57.44 feet to a point of compound curve; thence from said point of compound curve, Southerly along a curve with a radius of 110.00 feet, deflecting to the left from a tangent bearing 28 deg. 27 degrees 47" West, through a central angle of 59 deg. 37', 07", an arc distance of 114.46 feet to a point of tangency on the Northeasterly boundary of East Duane Avenue, as shown on said Map; thence along said Northeasterly boundary South 31 deg. 09' 20" East 320.51 feet; thence Southeasterly along a tangent curve to the left, having a radius of 307.00 feet through a central angle of 66 deg. 26 degrees 17", an arc distance of 355.99 feet to the point of tangency; thence North 82 deg. 24' 23" East 35.38 feet 190.00 feet to the Westerly line of Lawrence Expressway as shown on said Map; thence along said line of Lawrence Expressway, North 0 deg. 20' 51" West 218.05 feet; thence North 0 deg. 02'00" East 108.16 feet; thence along a tangent curve to the left, having a radius of 60.00 feet, through a central angle of 47 deg. 32' 37", an arc distance of 49.79 feet to a point of CUSP with a circular curve which has a radius of 61.00 feet; thence leaving said boundaries of said 7.642 acre parcel, Westerly along last said curve, deflecting to the right from a tangent bearing South 47 deg. 12 degrees 51" West, through a central angle of 98 deg. 53 degrees 39: an arc length of 105.29 feet to a point of reverse curvature; thence Westerly along a curve which has A radius of 61.00 feet, deflecting to the left, from a tangent bearing North 33 degrees 53' 30" West through a central angle of 57 deg. 48' 20 an arc length of 61.54 feet to the point of tangency on the Southerly boundary of Duane Court, as shown on said Map; thence along said Southerly boundary South 88 deg. 18 degrees 10" West 517.93 feet to the true point of commencement.

AND JOINT ESCROW INSTRUCTIONS

EXHIBIT "B-2"

DESCRIPTION OF SUNNYVALE PERSONAL PROPERTY

Description to be provided pursuant to Section 5.1(b) as part of "Review Matters."

41

AGREEMENT OF PURCHASE AND SALE

AND JOINT ESCROW INSTRUCTIONS

EXHIBIT "C-1"

LEGAL DESCRIPTION OF SAN TOMAS PROPERTY

All that certain real property in the City of Santa Clara, County of Santa Clara, State of California, described as follows:

All of Parcel A, as shown upon that certain Map entitled, "Parcel Map Lots 1-4

of Tract 2971 City of Santa Clara, California for Don Koll Co., Inc.," which Map was filed for record in the Office of the Recorder of the County of Santa Clara, State of California, on August 7, 1970 in Book 271 of Maps, at Page 22.

42

AGREEMENT OF PURCHASE AND SALE

AND JOINT ESCROW INSTRUCTIONS

EXHIBIT "C-2"

DESCRIPTION OF SAN TOMAS PERSONAL PROPERTY

Description to be provided pursuant to Section 5.1(b) as part of "Review Matters."

AGREEMENT OF PURCHASE AND SALE

AND JOINT ESCROW INSTRUCTIONS

EXHIBIT "D-1"

LEGAL DESCRIPTION OF SACRAMENTO PROPERTY

All of that certain real property in the City of Sacramento, County of Sacramento, State of California, described as follows:

PARCEL NO. 1:

All that portion of Parcel F, as said Parcel is shown on the "Plat of Point West," recorded in Book 82 of Maps, Map No. 17, Records of Sacramento County, described as follows:

Beginning at the most Southerly corner of said Parcel F, thence from said point of beginning along the Westerly boundary of said Parcel F the following six (6) courses and distances: (1) North 12 degrees 20' 00" West 211.45 feet (2) Northeasterly, curving to the left on arc of 70.00 feet radius, said arc being subtended by a chord bearing North 48 degrees 55" 25" East 67.32 feet, (3) continuing on a curve to the left on an arc of 70.00 feet radius, said arc being subtended by a chord bearing North 57 degrees 58' 44" West 137.03 feet (4) curving to the right on an arc of 70.00 feet radius, said arc being subtended by a chord bearing South 71 degrees 11' 53" West 64.27 feet (5) North 15 degrees 38' 13" East 90.00 feet and (6) North 74 degrees 21' 47" West 20.00 feet to a point located on the Northerly line of a 5.00 foot public utility easement as shown on the Official Plan of said point West; thence along said North line the following four (4) courses and distances: (1) North Easterly, curving to the right of an arc of 2950.00 feet radius, said arc being subtended by a chord bearing North 86 degrees 35' 56" East 202.19 feet (3) North 88 DG 33' 46" East 158.76 feet and (4) North 00 degrees 17' 32" West 11.83 feet to a point located

on the Northerly boundary of said Parcel F; thence along said Northerly boundary North 89 degrees 42' 28" East 685.63 feet to the most easterly corner of said Parcel F, thence along the Southerly boundary of said Parcel F the following four (4) courses and distances: (1) South 51 degrees 42' 50" West 631.04 feet (2) curving to the right of an arc of 450.00 feet radius, said arc being subtended by a chord bearing North 61 degrees 29' 34" East 353.71 feet (2) curving to the right on an arc of 420.00 feet radius, said arc being subtended by a chord bearing South 69 degrees 29' 00" West 254.26 feet (3) South 86 degrees 57' 09" West 199.81 feet and (4) curving to the left on an arc of 430.00 feet radius said arc being subtended by a chord bearing South 68 degrees 06' 27" West 277.79 feet to the point of beginning.

Excepting therefrom all deposits of minerals, including oil and gas, lying below the depth of 500 feet, without however, the right to drill or mine through the surface thereof as excepted in the quitclaim deed recorded in Book 71-06-30, Page 525, Official Records.

Assessor's Parcel Number 277-0282-005-0000

44

PARCEL NO. 2:

Parcel 1, as shown on the Official Plat of point West, as recorded in the Office of the County Recorder of Sacramento County, June 20, 1968, in Book 82 of Maps, Map No. 17.

Excepting therefrom all deposits of minerals, including oil and gas, lying below the depth of five hundred feet, without however, the right to drill through the surface thereof, as excepted in quitclaim deed executed by the State of California, recorded June 30, 1971, in Book 71-06-30, Page 525, Official Records.

Assessor's Parcel Number 277-0284-001-0000.

AGREEMENT OF PURCHASE AND SALE
AND JOINT ESCROW INSTRUCTIONS
EXHIBIT "D-2"
DESCRIPTION OF SACRAMENTO PERSONAL PROPERTY

Description to be provided pursuant to Section 5.1(b) as part of "Review Matters."

AGREEMENT OF PURCHASE AND SALE
AND JOINT ESCROW INSTRUCTIONS
EXHIBIT "3.1"
FORM OF STANDARD ESCROW PROVISIONS

1. The phrase "close of escrow" (or COE) as used in this escrow means the

date on which documents are recorded, unless otherwise specified.

2. Recordation of any instruments delivered through this escrow, if necessary or proper for the issuance of the policy of title insurance called for, is authorized.
3. No examination or insurance as to the amount or payment of personal property taxes is required unless specifically requested.
4. You and any of your affiliates or employees are authorized to use the information and documents in this escrow for any purpose. You are further authorized to furnish to any broker or lender identified with this transaction or anyone acting on behalf of such broker or lender, any instructions, amendments, statements, or notices of cancellation given in connection with this escrow.
5. All written notices, communications, change of instructions and documents are required to be delivered timely at the office of Chicago Title Company as set forth herein.
6. All funds received in this escrow shall be deposited with other escrow funds in one or more escrow (demand) accounts of Chicago Title Company in any state or national bank. The parties to this escrow understand that the escrow accounts you maintain with the depository institutions contribute to your value as a customer of these institutions which, in turn, may make available to Chicago Title Company an array of bank services, accommodations or other benefits. You shall have no obligation to account for the value realized by Chicago Title Company from these services, accommodations or other benefits. All disbursements shall be made by your check, unless otherwise instructed. You shall not be responsible for any delay in closing if funds received by escrow are not available for immediate withdrawal. Chicago Title Company may, at its option, require concurrent instructions from all principals prior to release of any funds on deposit in this escrow.
7. If demand to cancel is submitted after the Time Limit Date, any principal so requesting you to cancel this escrow shall file notice of demand to cancel in your office in writing. You shall within three (3) working days thereafter mail by certified mail one copy of such notice to each of the other principals at the address stated in this escrow. Unless written objection thereto is filed in your office by a principal within fifteen (15) calendar days after the date of such mailing, you are instructed to cancel this escrow.

If this is a sale escrow, you may return the lender's papers and/or funds upon lender's demand.

8. In the event that this escrow is canceled, any fees or charges due Chicago Title Company including cancellation fees and any expenditures incurred or authorized shall be paid from funds on deposit unless otherwise specifically agreed to or determined by a court of competent jurisdiction. Upon payment thereof, return documents and monies to the respective parties depositing same, or as ordered by the court, and void any executed instruments.
9. If there is no written activity by a principal to this escrow within any six-month period after the Time Limit Date set forth herein, Chicago Title Company may, at its option, terminate its agency obligation and cancel this escrow, returning all documents, monies or other items held, to the respective parties entitled thereto, less any fees and charges as provided herein.
10. If for any reason, funds are retained or remain in escrow after the closing date, you may deduct therefrom a reasonable charge as custodian, of not less than \$25.00 per month, unless otherwise specified.
11. In the event that you should receive or become aware of conflicting demands or claims with respect to this escrow, or the rights of any of the parties hereto, or any money or property deposited herein, you shall have the absolute right at your option to discontinue any or all further acts until such conflict is resolved to your satisfaction.
12. You are released from and shall have no liability, obligation or responsibility with respect to (a) withholding funds pursuant to Section 1445 of the Internal Revenue Code of 1986 as amended, and to Sections 18662 and 18668 of the California Revenue and Taxation Code, (b) advising the parties as to the requirements of said Section 1445, (c) determining whether the transferor is a foreign person or a non-resident under such Section, nor (d) obtaining a non-foreign affidavit or other exemption from withholding under said Sections nor otherwise making any inquiry concerning compliance with such Sections by any party to the transaction.
13. The parties hereto, by execution of these instructions, acknowledge that the escrow holder assume no responsibility or liability whatsoever for the supervision of any act or the performance of any condition which is a condition subsequent to the closing of this escrow.
14. In the absence of instructions to the contrary, you are hereby authorized to utilize wire services, overnight, next day, or other expedited delivery services (as opposed to the regular U.S. Mail) and to charge the respective party's account accordingly.
15. If you pay a demand to reconvey line of credit or equityline deed of trust, you are hereby instructed on my behalf and for my benefit, to request that the lender issuing said demand cancel said revolving line or equityline of credit.
16. You are authorized to destroy or otherwise dispose of any and all documents, papers, instructions, correspondence and other material pertaining to this escrow at the expiration of six (6) years from the close of escrow or cancellation thereof, without liability and without further notice.

IMPORTANT NOTICE

Except for wire transfer, funds remitted to this escrow are subject to availability requirements imposed by Section 12413.1 of the California Insurance Code. CASHIER'S, CERTIFIED or TELLER'S checks, payable to CHICAGO TITLE COMPANY are generally available for disbursement on the next business day following the date of deposit.

Other forms of payment may cause extended delays in the closing of your transaction pursuant to the requirements imposed by State Law.

(Wire transfer information available upon request)

ALL PARTIES TO THIS ESCROW ACKNOWLEDGE THAT CHICAGO TITLE COMPANY DOES NOT PROVIDE LEGAL ADVICE NOR HAS IT MADE ANY INVESTIGATION, REPRESENTATIONS OR ASSURANCES WHATSOEVER REGARDING THE LEGAL ASPECTS OR COMPLIANCE OF THIS TRANSACTION WITH ANY TAX, SECURITIES OR ANY OTHER STATE OR FEDERAL LAWS. IT IS RECOMMENDED THAT THE PARTIES OBTAIN INDEPENDENT LEGAL COUNSEL AS TO SUCH MATTERS.

IN THE EVENT OF ANY INCONSISTENCY BETWEEN THESE STANDARD PROVISIONS AND THE TERMS OF THE AGREEMENT TO WHICH THIS EXHIBIT "3.1" IS ATTACHED, THE TERMS OF SUCH AGREEMENT SHALL CONTROL.

AGREEMENT OF PURCHASE AND SALE

AND JOINT ESCROW INSTRUCTIONS

EXHIBIT "3.2"

FORM OF GRANT DEED

RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO:

SPACE ABOVE THIS LINE FOR RECORDERS USE

DOCUMENTARY TRANSFER TAX

\$ _____

...Computed on the consideration or value of
property conveyed; OR
...Computed on the consideration or value less
liens or encumbrances remaining at time of sale

Signature of Declarant or
Agent determining tax -
Firm Name

LIMITED LIABILITY COMPANY GRANT DEED

FOR A VALUABLE CONSIDERATION, receipt of which is hereby acknowledged,

KIP PROPERTIES LLC,

a limited liability company organized under the laws of the State of California,
does hereby GRANT to

_____,'

the real property in the City of _____, County of _____, State
of California, described as:

See Exhibit "1" attached hereto and incorporated herein by reference.

The foregoing grant of real property is subject to non-delinquent taxes, all
easements, covenants, conditions and restrictions, and all other matters of
record affecting all or part of the real property which is described in this
Grant Deed and any matters that would be disclosed by a survey of the real
property which is described in this Grant Deed.

Dated: _____

STATE OF CALIFORNIA }
COUNTY OF _____ } ss

, Managing Member

On _____ before
me, _____,
personally appeared _____,
personally known to me (or proved to me
on the basis of satisfactory evidence)
to be the person(s) whose name(s) is/are
subscribed to the within instrument and
acknowledged to me that he/she/they
executed the same in his/her/their
authorized capacity(ies), and that by
his/her/their signature(s) on the
instrument the person(s) or the entity
upon behalf of which the person(s)
acted, executed the instrument.

, Managing Member

WITNESS my hand and official seal.

Signature

(This area for official notarial seal)

MAIL TAX STATEMENTS TO:

FORM OF GRANT DEED

EXHIBIT "1"

LEGAL DESCRIPTION

AGREEMENT OF PURCHASE AND SALE

AND JOINT ESCROW INSTRUCTIONS

EXHIBIT "6(B)"

ASSIGNMENT OF LEASES

This Assignment of Leases (the "Assignment") is executed by KIP Properties LLC, a California limited liability company ("Seller"), in favor of _____ (the "Buyer"), with reference to the following facts:

A. Seller and Buyer have entered into that certain Agreement of Purchase and Sale and Joint Escrow Instructions dated September 10, 1997 (the "Purchase Agreement") in which Seller has agreed to sell and Buyer has agreed to purchase the real property described in Exhibit "1" attached hereto and the improvements located thereon (collectively, the "Project").

B. Pursuant to the Purchase Agreement, Seller has agreed to assign to Buyer all of Seller's right, title and interest in and to all leases of space in the Project (collectively, the "Leases"). THEREFORE, for valuable consideration, the parties agree as follows:

1. Assignment. Subject to the terms of the Purchase Agreement, Seller assigns and transfers to Buyer all of Seller's right, title and interest in and to the Leases effective as of the Close of Escrow (as defined in the Purchase Agreement). Such assignment is without representation or warranty by, or recourse to, Seller.

2. Assumption by Buyer. Buyer assumes and agrees to perform all obligations of the landlord under the Leases arising or accruing from and after the Close of Escrow (as defined in the Purchase Agreement).

3. Counterparts. This Assignment may be executed in counterparts, each

of which shall be deemed an original, and both of which together shall constitute one and the same instrument.

4. Miscellaneous. This Assignment shall be binding on the parties and their respective successors and assigns. The headings to sections of this Assignment are for convenient reference only and shall not be used in interpreting this Assignment.

5. Attorneys' Fees. If any action or proceeding is commenced by either party to enforce its rights under this Assignment, the prevailing party in such action or proceeding shall be entitled to recover all reasonable costs and expenses incurred in such action or proceeding, including reasonable attorneys' fees and costs, in addition to any other relief awarded by the court.

53

6. Indemnification. Buyer agrees to and shall indemnify, defend and hold Seller harmless from and against any and all claims, costs, demands, losses, damages, liabilities, lawsuits, actions and other proceedings in law or in equity or otherwise, judgments, awards and expenses of every kind and nature whatsoever, including without limitation, attorneys' fees, arising out of or relating to, directly or indirectly, in whole or in part, the Leases, arising, occurring and/or relating to the period from and after the Close of Escrow (as defined in the Purchase Agreement).

7. California Law. This Assignment shall be governed by and interpreted in accordance with the laws of the State of California.

Dated: _____, 1997.

BUYER:

SELLER:

KIP PROPERTIES LLC,
a California limited liability company

By: _____

Title: _____

ASSIGNMENT OF LEASES

EXHIBIT "1"

LEGAL DESCRIPTION

All of that certain real property in the City of _____, County of _____, State of California, described as follows:

AGREEMENT OF PURCHASE AND SALE

AND JOINT ESCROW INSTRUCTIONS

EXHIBIT "6(d)"

ASSIGNMENT OF CONTRACTS

This Assignment of Contracts (this "Assignment") is executed by KIP Properties LLC, a California limited liability company (the "Assignor"), in favor of _____ (the "Assignee"), with reference to the following facts:

A. Seller and Buyer have entered into that certain Agreement of Purchase and Sale and Joint Escrow Instructions dated September 10, 1997 (the

"Purchase Agreement") in which Seller has agreed to sell and Buyer has agreed to purchase the real property and improvements more particularly described in the Purchase Agreement (collectively, the "Project").

B. Pursuant to the Purchase Agreement, Seller has agreed to assign to Buyer those certain service agreements, maintenance agreements, and other contracts listed on Exhibit "1" attached hereto (collectively, the "Contracts").

THEREFORE, for valuable consideration, the parties agree as follows:

1. Assignment. Subject to the terms of the Purchase Agreement, Assignor hereby assigns and transfers to Assignee, effective as of the Close of Escrow (as defined in the Purchase Agreement), all of Assignor's right, title and interest in each of the Contracts effective as of the Close of Escrow (as defined in the Purchase Agreement). Such assignment is without representation or warranty by, or recourse to, Seller.

2. Assumption. Assignee hereby agrees to and accepts the assignment of Assignor's rights under each of the Contracts as provided in Section 1 above, and Assignee assumes and agrees to perform all obligations required to be kept and performed by Assignor under each of the Contracts arising or accruing from and after the Close of Escrow (as defined in the Purchase Agreement).

3. Counterparts. This Assignment may be executed in counterparts, each of which shall be deemed an original, and both of which together shall constitute one and the same instrument.

4. Miscellaneous. This Assignment shall be binding on the parties and their respective successors and assigns. The headings to sections of this Assignment are for convenient reference only and shall not be used in interpreting this Assignment.

5. Indemnification. Assignee agrees to and shall indemnify, defend and hold Assignor harmless from and against any and all claims, costs, demands, losses, damages, liabilities, lawsuits, actions and other proceedings in law or in equity or otherwise, judgments, awards and expenses of every kind and nature whatsoever, including without limitation, attorneys' fees, arising out of or relating to, directly or indirectly, in whole or in part, the Contracts, arising, occurring and/or relating to the period from and after the Close of

Escrow (as defined in the Purchase Agreement).

6. Attorneys' Fees. If any action or proceeding is commenced by either party to enforce its rights under this Assignment, the prevailing party in such action or proceeding shall be entitled to recover all reasonable costs and expenses incurred in such action or proceeding, including reasonable attorneys' fees and costs, in addition to any other relief awarded by the court.

Dated: _____, 1997.

ASSIGNOR:

KIP PROPERTIES LLC, a California limited liability company

By: _____

Title: _____

ASSIGNEE:

By: _____

Title: _____

ASSIGNMENT OF CONTRACTS

EXHIBIT "1"

CONTRACTS

AGREEMENT OF PURCHASE AND SALE
AND JOINT ESCROW INSTRUCTIONS
EXHIBIT "6(e)"

BILL OF SALE AND ASSIGNMENT OF PERSONAL PROPERTY

This Bill of Sale and Assignment of Personal Property (the "Assignment") is executed by KIP Properties LLC, a California limited liability company (the "Seller"), in favor of _____ (the "Buyer"), with reference to the following facts:

A. Seller and Buyer have entered into that certain Agreement of Purchase and Sale and Joint Escrow Instructions dated September 10, 1997 (the "Purchase Agreement") in which Seller has agreed to sell and Buyer has agreed to purchase the real property and improvements more particularly described in the Purchase Agreement (collectively, the "Project").

B. Pursuant to the Purchase Agreement, Seller has agreed to sell and assign to Buyer all of Seller's right, title and interest in and to the personal property described in Exhibit "1" attached hereto (the "Personal Property").

THEREFORE, for valuable consideration, Seller agrees as follows:

1. Assignment. Subject to the terms of the Purchase Agreement, Seller assigns, sells and transfers to Buyer all of Seller's right, title and interest in and to the Personal Property effective as of the Close of Escrow (as defined in the Purchase Agreement). Such assignment, sale and transfer are without representation or warranty by, or recourse to, Seller.
2. Counterparts. This Assignment may be executed in counterparts, each of which shall be deemed an original, and both of which together shall constitute one and the same instrument.
3. Miscellaneous. This Assignment shall be binding on the parties and their respective successors and assigns. The headings to sections of this

Assignment are for convenient reference only and shall not be used in interpreting this Assignment.

4. Attorneys' Fees. If any action or proceeding is commenced by either party to enforce its rights under this Assignment, the prevailing party in such action or proceeding shall be entitled to recover all reasonable costs and expenses incurred in such action or proceeding, including reasonable attorneys' fees and costs, in addition to any other relief awarded by the court.

59

5. California Law. This Assignment shall be governed by and interpreted in accordance with the laws of the State of California.

Dated: _____, 1997.

SELLER:
KIP PROPERTIES LLC,
a California limited liability company

By: _____

Title: _____

Accepted and Agreed:

BUYER:

By: _____

Title: _____

AGREEMENT OF PURCHASE AND SALE

AND JOINT ESCROW INSTRUCTIONS

EXHIBIT "6(F)"

TRANSFEROR'S CERTIFICATION OF NON-FOREIGN STATUS

To inform _____ ("Transferee"), that withholding of tax under Section 1445 of the Internal Revenue Code (the "Code") will not be required upon the transfer of certain real property to the Transferee by KIP Properties LLC, a California limited liability company ("Transferor"), the undersigned hereby certifies the following on behalf of the Transferor:

1. The Transferor is not a foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Code and the Income Tax Regulations promulgated thereunder);

2. The Transferor's U.S. tax identification number is _____ ; and

3 .The Transferor's office address is 2222 Corinth Avenue, Los Angeles, California 90064.

The Transferor understands that this Certification may be disclosed to the Internal Revenue Service by the Transferee and that any false statement contained herein could be punished by fine, imprisonment, or both.

The Transferor understands that the Transferee is relying on this Certification in determining whether withholding is required upon said transfer.

Under penalty of perjury I declare that I have examined this Certification and to the best of my knowledge and belief it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of the Transferor.

Dated: _____, 1997.

KIP PROPERTIES LLC,
a California limited liability company

By: _____

Title: _____

AGREEMENT OF PURCHASE AND SALE
AND JOINT ESCROW INSTRUCTIONS
EXHIBIT "8.1.3"
TENANT ESTOPPEL CERTIFICATE

TO WHOM IT MAY CONCERN:

The undersigned certifies and confirms that as of the date of this Certificate:

1 The undersigned is the tenant under that certain lease dated _____, 19____, as modified by amendments dated _____ (collectively, the "Lease") by and between KIP Properties LLC, a California limited liability company ("Landlord"), as the successor-in-interest to the original landlord under the Lease if the original landlord was not Landlord, and _____ ("Tenant") covering those certain premises commonly known and designated as _____ California (the "Premises"), and located in the building or improvements (the "Building") on the real property commonly known as _____ (the "Real Property"). The Building and Real Property are referred to collectively as the "Property".

2. The following information regarding the Lease is true and correct:

- (a) Lease term expiration date: _____, 19__
- (b) Current minimum monthly base rent: \$ _____
- (c) Minimum monthly base rent is paid to and including: _____, 19__
- (d) Additional rent or monthly charges are being paid to Landlord for, among other things, operating expenses, common area maintenance and real property taxes, in the following amount per month: \$ _____
- (e) Amount of security deposit held by Landlord under the Lease: \$ _____

3. Tenant has unexercised options to extend or renew the Lease term

for a total of _____ years [if no options exist, insert "None"].

4. The Lease represents the entire agreement between Tenant and Landlord regarding the Premises. The Lease has not been modified in any respect, except for the amendments which are part of the Lease as noted in Section 1 above.

5. The Lease is in full force and effect and to Tenant's knowledge, there are no uncured defaults on the part of Landlord, or events or conditions that with the passage of time, the giving of notice, or both, would constitute a default by Landlord under the Lease.

62

6. Tenant acknowledges and agrees that this certificate may be relied upon by (a) any prospective purchaser of the Property in connection with such purchaser's acquisition of the Property from Landlord; and (b) any lender financing such purchaser's acquisition of the Property.

Dated: _____, 1997.

TENANT:

By: _____

Title: _____

AGREEMENT FOR PURCHASE AND SALE
OF SACRAMENTO PROPERTIES

THIS AGREEMENT FOR PURCHASE AND SALE (this "Agreement") is made and entered into as of November 24, 1997, by and between Sammis Sacramento Associates, a California general partnership ("Seller"), and Pacific Gulf Properties Inc., a Maryland corporation ("Buyer").

RECITALS

A. Seller is the owner of certain improved real property consisting generally of the business parks situated in Sacramento, California at 9912, 9940 and 9960 Business Park Drive, commonly known as Highway 50 Business Center, and 9828 Business Park Drive, commonly known as Bradshaw Business Center (each separately, a "Property", and the Properties collectively and as more specifically described below, the "Sacto Portfolio").

B. Buyer desires to purchase the Sacto Portfolio from Seller and Seller desires to sell the Sacto Portfolio to Buyer, subject to the terms and conditions contained in this Agreement.

AGREEMENT

NOW, THEREFORE, Buyer and Seller do hereby agree as follows:

ARTICLE I
BASIC DEFINITIONS

Closing Date: The term "Closing Date" shall mean the earliest of (a) the date that is fifteen (15) days following the expiration or earlier termination of the Inspection Period, (b) any earlier date approved in writing by Buyer and Seller for the close of escrow with respect to the purchase and sale of the Sacto Portfolio or (c) December 31, 1997.

Code. The term "Code" shall mean the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

TABLE OF CONTENTS

<TABLE>
<CAPTION>

<S>	<C>
ARTICLE I BASIC DEFINITIONS.....	1
ARTICLE II PURCHASE AND SALE.....	3
ARTICLE III CONDITIONS PRECEDENT.....	7
ARTICLE IV COVENANTS, WARRANTIES AND REPRESENTATIONS.....	9
ARTICLE V DEPOSIT.....	14
ARTICLE VI ESCROW AND CLOSING.....	15
ARTICLE VII MISCELLANEOUS.....	19

EXHIBIT A DISCLOSURE STATEMENT

EXHIBIT B INSPECTION LETTER

EXHIBIT C LEGAL DESCRIPTION OF LAND

EXHIBIT D LIST OF TENANT LEASES

EXHIBIT E LIST OF CONTRACTS

EXHIBIT F FORM OF GRANT DEED

EXHIBIT G FORM OF BILL OF SALE

EXHIBIT H FORM OF ASSIGNMENT AND ASSUMPTION OF INTANGIBLE PROPERTY
</TABLE>

i

3

Contract Period. The term "Contract Period" shall mean the period from the date of this Agreement through and including the Closing Date.

Contracts. The term "Contracts" shall mean all maintenance, service and other operating contracts, equipment leases and other arrangements or agreements to which Seller is a party affecting the ownership, repair, maintenance, management, leasing or operation of the Sacto Portfolio.

Disclosure Statement. The term "Disclosure Statement" shall mean the statement attached to this Agreement as Exhibit A.

Escrow Company. The term "Escrow Company" shall mean Commonwealth Land Title Insurance Company, 50 Federal Street, Boston, Massachusetts 02110; Attn: Mr. Terrance Miklis (telephone no. 617-695-0042).

Improvements. The term "Improvements" shall mean all buildings, structures and other improvements located on the Land.

Inspection Letter. The term "Inspection Letter" shall mean a letter in the form attached as Exhibit B to this Agreement, to be delivered by Buyer to Seller on or prior to the close of the Inspection Period pursuant to Section 2.5 below.

Inspection Period. The term "Inspection Period" shall mean the period commencing on the date of this Agreement, and expiring at 5:00 p.m. Pacific Time on December 3, 1997, provided that the Inspection Period may end earlier at Buyer's election upon delivery by Buyer to Seller of the Inspection Letter (representing the conclusive waiver by Buyer of any further Inspection Period).

Intangible Property. The term "Intangible Property" shall mean Seller's rights and interests, if any, in: (a) the Tenant Leases, (b) the Contracts; (c) any and all transferable or assignable permits, building plans and specifications, certificates of occupancy, operating permits, sign permits, development rights and approvals, certificates, licenses, warranties and guarantees, trade names, service marks, engineering, soils, pest control and other reports relating to the Sacto Portfolio, tenant lists, advertising materials, and telephone exchange numbers identified with the Sacto Portfolio; and (d) all other transferable intangible property, miscellaneous rights, benefits or privileges of any kind or character with respect to the Sacto Portfolio, including, without limitation, the right to use the names "Highway 50 Business Center," "Bradshaw Business Center" and any other trade name now used in connection with any Property.

Land. The term "Land" shall mean, collectively, the several parcels of land described on Exhibit C to this Agreement, together with all of Seller's rights, if any (including mineral, air and water rights), privileges and easements appurtenant to or used in connection with the beneficial use and enjoyment of

said parcels of land, and all of

-2-

4

Seller's right, title and interest, if any, in and to all roads, easements, rights of way and alleys adjoining or servicing said parcels of land.

Sacto Portfolio. The term "Sacto Portfolio" shall mean all of Seller's right, title and interest in and to the Real Property, the Personal Property and the Intangible Property.

Personal Property. The term "Personal Property" shall mean all furniture, furnishings, trade fixtures, building systems and equipment (including, without limitation, HVAC, security and life safety systems) and other tangible personal property owned by Seller that is located at and used in connection with the operation of the Real Property.

Property. The term "Property" shall have the meaning set forth in Recital A above.

Real Property. The term "Real Property" shall mean, collectively, the Land and the Improvements.

Seller's Knowledge. The term "Seller's knowledge" shall have the meaning set forth in Section 4.1 below.

Tenant Leases. The term "Tenant Leases" shall mean all leases, rental agreements or other agreements (including all amendments or modifications thereto and guaranties thereof) to which Seller is a party or the successor-in-interest of a party which entitle any person to the occupancy or use of any portion of the Real Property.

Title Company. The term "Title Company" shall mean Commonwealth Land Title Company, 50 Federal Street, Boston, Massachusetts 02110; Attn: Mr. Terrance Miklis (telephone no. 617-695-0042).

ARTICLE 11
PURCHASE AND SALE

Section 2.1 Purchase and Sale. Seller agrees to sell the Sacto Portfolio to Buyer, and Buyer agrees to purchase the Sacto Portfolio upon all of the terms, covenants and conditions set forth in this Agreement.

Section 2.2 Purchase Price. The aggregate purchase price for the Sacto Portfolio (the "Purchase Price") shall be the sum of Eight Million Seven Hundred Thousand Dollars (\$8,700,000). The entire amount of the Purchase Price (less the Deposit delivered pursuant to Article V below) shall be payable by Buyer to Seller in cash on the Closing Date through the escrow described in Section 6.1 below.

Section 2.3 Buyer's Review and Seller's Disclaimer.

-3-

5

(a) Subject to the provisions of subsection 2.3(c) below, during the Inspection Period Buyer shall be permitted to make a complete review and inspection of the physical, legal, economic and environmental condition of the Sacto Portfolio, including, without limitation, any Tenant Leases and Contracts, books and records maintained by Seller or its agents relating to the Sacto Portfolio, boundary and other survey-related issues relating to the Real Property, pest control matters, soil condition, asbestos, PCB, hazardous waste, toxic substance or other environmental matters, compliance with building,

health, safety, land use and zoning laws, regulations and orders, plans and specifications, structural, life safety, HVAC and other building system and engineering characteristics, traffic patterns and all other information pertaining to the Sacto Portfolio. Without representation or warranty, except as expressly set forth in Section 4.1 below, Seller shall cooperate in Buyer's review and provide Buyer with the opportunity to review books and records maintained by Seller or its agents relating to the Sacto Portfolio, leases, financial reports, surveys and other third-party inspection reports and similar non-proprietary or confidential materials in Seller's possession relating to the Sacto Portfolio (the "Seller's Records"). In addition, Seller shall exercise reasonable efforts to obtain 3 days prior to the close of the Inspection Period any tenant estoppel certificates and subordination agreements that Buyer and its lender may reasonably request. Buyer acknowledges (i) that Seller played no role in the development or construction of any of the Properties comprising the Sacto Portfolio, (ii) that Buyer has entered into this Agreement with the intention of making and relying upon its own investigation of the physical, environmental, economic and legal condition of the Sacto Portfolio, and (iii) that Buyer is not relying upon any representations and warranties, other than those specifically set forth in Section 4.1 below, made by Seller or anyone acting or claiming to act on Seller's behalf concerning the Sacto Portfolio. Buyer further acknowledges that it has not received from Seller any accounting, tax, legal, architectural, engineering, property management or other advice with respect to this transaction and is relying solely upon the advice of its own accounting, tax, legal, architectural, engineering, property management and other advisors. Buyer specifically undertakes and assumes all risks associated with the matters disclosed by Seller on the Disclosure Statement. Subject to the provisions of Section 4.1 of this Agreement, Buyer shall purchase the Sacto Portfolio in its "as is" condition on the Closing Date and assumes the risk that adverse physical, environmental, economic or legal conditions may not have been revealed by its investigation. Without limiting the generality of the foregoing, if Seller has not already done so, then within three (3) days after the date of this Agreement, Seller shall deliver or cause to be delivered to Buyer, or otherwise make available for review by Buyer at the applicable property manager's offices in Sacramento, California, to the extent available from Seller's Records, and in the possession or control of Seller, the following:

(i) Survey. Any existing, most recent survey of the Real Property.

-4-

6

(ii) Tax Bills. Copies of the most recent property tax bills and assessments of the Property.

(iii) Leases. Copies of all Tenant Leases and tenant files.

(iv) Contracts. Copies of all Contracts.

(v) All third party generated reports relating to the condition of the Sacto Portfolio, including environmental reports, environmental audits, soils reports, physical and engineering reports, building and improvement plans, and structural calculations.

(vi) Operating Statements. All income and expense statements, year-end financial and monthly operating statements and maintenance records for the three (3) most recent calendar years prior to the Closing Date and, to the extent available, the current calendar year to date. Buyer shall have the right, during the Inspection Period, to audit Seller's Records for these time periods, following reasonable notice and during normal business hours.

(vii) Rent Roll. A current rent roll, together with a rent delinquency report (the "Rent Roll").

(viii) Permits All government permits and approvals relating to the Sacto Portfolio (the "Permits").

(b) Except with respect to any claims arising out of any breach of this Agreement, including, without limitation, covenants, representations or

warranties set forth in Section 4.1 below, Buyer, for itself and its agents, affiliates, successors and assigns, hereby releases and forever discharges Seller, ITS agents, affiliates, successors and assigns from any and all rights, claims and demands at law or in equity, whether known or unknown at the time of this Agreement, which Buyer has or may have in the future, arising out of the physical, environmental, economic or legal condition of the Sacto Portfolio (or any individual Property), including, without limitation, any claim for indemnification or contribution arising under the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. Section 9601, et. seq.) or any similar federal, state or local statute, rule or ordinance relating to liability of property owners for environmental matters.

Buyer hereby specifically acknowledges that Buyer has carefully reviewed this subsection and discussed its import with legal counsel and that the provisions of this subsection are a material part of this Agreement.

Buyer

-5-

7

(c) Seller shall cause its agents to cooperate reasonably with Buyer to facilitate Buyer's exercise of the rights of review and inspection set forth in subsection (a) above, and Buyer acknowledges and agrees that its exercise of such rights shall be subject to the following limitations: (i) any entry onto the Real Property by Buyer, its agents or representatives, shall be during normal business hours, following reasonable prior notice to Seller and delivery to Seller of satisfactory evidence of Buyer's general liability insurance, and, at Seller's discretion, accompanied by a representative of Seller; (ii) Buyer shall not conduct any drilling, test borings or other disturbance of the Real Property for review of soils, compaction, environmental, structural or other conditions without Seller's prior written consent; (iii) any discussions or 'interviews with any tenants of the Real Property or their personnel shall be conducted in the presence of Seller or its representatives; (iv) Buyer shall exercise reasonable diligence not to disturb the use or occupancy of any occupant of any Property; and (v) Buyer shall indemnify, defend and hold Seller harmless from all loss, cost, and expense resulting from any entry or inspections performed by Buyer, its agents or representatives. The provisions of Section 2.3(c)(v) shall survive any termination of this Agreement, but only for a period of 24 months after such termination.

Section 2.4 Permitted Title Exceptions. Seller has previously obtained from Title Company and delivered to Buyer for its review a current preliminary title report with respect to each Property (collectively, the "Title Reports"), together with all documents and information pertaining to the exceptions to title listed in the Title Reports. Buyer shall, at its expense, obtain during the Inspection Period any surveys of the Real Property desired by Buyer or required by Title Company as a condition to the issuance of the Title Policies described in Section 3.1(a)(iii) below (collectively, the "Surveys"). Seller shall have no obligation to pay the fees or costs of the Surveys. The foregoing obligation of Buyer shall survive any termination of this Agreement. Buyer may advise Seller in writing and in reasonable detail, preferably not later than ten business days prior to the close of the Inspection Period, what exceptions to title, if any, listed in the then-current Title Reports or disclosed on the Surveys are not acceptable to Buyer (the "Title Objections"). Buyer shall not, however, unreasonably express disapproval of any exceptions to title and, prior to notifying Seller of any Title Objections, shall endeavor in good faith to cause Title Company to modify and update the Title Reports to reflect requested corrections and revisions. Seller shall have the remaining period of the Inspection Period, if any, to give Buyer notice that (a) Seller will remove any Title Objections from title (or afford the Title Company necessary information or certifications to permit it to insure over such exceptions), or (b) Seller elects not to cause such exceptions to be removed. Seller's failure to provide notice to Buyer prior to the expiration of the Inspection Period as to any Title Objection shall be deemed an election by Seller not to remove the Title

Objection. If Seller so notifies or is deemed to have notified Buyer that Seller shall not remove any or all of the Title Objections, Buyer shall have until the close of the Inspection Period to determine whether (i) to proceed with the

-6-

8

purchase and take the Sacto Portfolio subject to such exceptions or (ii) to terminate this Agreement. Buyer's delivery of the Inspection Letter shall constitute Buyer's conclusive agreement to accept the Sacto Portfolio subject to the Permitted Exceptions. "Permitted Exceptions" shall include and refer to (x) any and all exceptions to title disclosed by the Title Reports or the Surveys, excepting solely Title Objections timely identified by Buyer which Seller has notified Buyer pursuant to this Section that Seller is willing to remove, and (y) any other exceptions to title approved by or resulting from the acts, omissions or status of Buyer. Anything contained herein to the contrary notwithstanding and notwithstanding any approval or deemed approval given by Buyer hereunder, except for real estate taxes not yet due or payable, Seller shall cause all mortgages, deeds of trust and other monetary encumbrances, including without limitation all mechanics' liens, to be released and reconveyed from the Property on or prior to the Closing Date. Nothing contained in this paragraph shall be understood to require Buyer to make any decision with respect to the condition of title to any Property prior to the expiration of the Inspection Period, nor to require Seller to respond to any notice from Buyer of Title Objections.

Section 2.5 Inspection Letter. At any time on or prior to the close of the Inspection Period and if and when Buyer has completed to its satisfaction the inspection and review contemplated by Sections 2.3 and 2.4 hereof, Buyer shall deliver to Seller an executed Inspection Letter in the form attached hereto as Exhibit B. Buyer's delivery of the executed Inspection Letter shall (i) confirm satisfaction of the conditions precedent described in Sections 3.1(a)(i) and 3.1(a)(ii) below, (ii) represent the conclusive waiver by Buyer of any further Inspection Period, (iii) constitute Buyer's conclusive agreement to accept the Sacto Portfolio subject to any Permitted Exceptions and (iv) constitute Buyer's conclusive agreement to accept or waive any matters disclosed to Buyer in writing prior to the close of the Inspection Period.

Section 2.6 Adequate Consideration. Notwithstanding anything in this Agreement to the contrary, to induce Buyer to enter into this Agreement and to expend the time and resources necessary to evaluate the Sacto Portfolio and possibly forego other opportunities while doing so, Seller hereby grants to Buyer the rights to terminate this Agreement that are expressly provided in this Agreement. Such expenditures of time and resources and possible loss of opportunity by Buyer constitute adequate consideration for Seller's remaining bound by this Agreement, notwithstanding such termination rights in Buyer.

ARTICLE III CONDITIONS PRECEDENT

Section 3.1 Conditions.

-7-

9

(a) Notwithstanding anything in this Agreement to the contrary, Buyer's obligation to purchase the Sacto Portfolio shall be subject to and contingent upon the satisfaction or waiver of the following conditions precedent:

(i) Buyer's inspection and approval, within the Inspection Period, of all physical, environmental, economic and legal matters relating to the Sacto Portfolio, pursuant to Sections 2.3 and 2.4 above;

(ii) Buyer's receipt and approval, within the Inspection Period, of such tenant estoppel certificates and subordination agreements as Buyer and its lender may deem necessary;

(iii) The willingness of Title Company to issue for each of the Properties constituting the Sacto Portfolio, upon the sole condition of the payment of its regularly scheduled premium, its American Land Title Association extended coverage Owner's Policy of Title Insurance [1970 Form] (the "Title Policy", or if separate policies are obtained for individual Properties, the "Title Policies"), with such endorsements as may have been requested by Buyer and agreed to by Title Company during the Inspection Period (collectively, the "Endorsements"), with such Title Policy insuring Buyer in the amount of the Purchase Price (or, in the case of individual policies, in the amount of the portion of the Purchase Price allocated to the applicable Property), that fee simple title to the Real Property is vested of record in Buyer on the Closing Date subject only to the printed conditions and exceptions of such policy and the Permitted Exceptions; and

(iv) Seller's performance or tender of performance of all material obligations under this Agreement and the material truth and accuracy of Seller's express representations and warranties as of the date of this Agreement, as updated under the provision of Section 4.5 hereof.

(b) Notwithstanding anything in this Agreement to the contrary, Seller's obligation to sell the Sacto Portfolio shall be subject to and contingent upon the satisfaction or waiver of the following conditions precedent:

(i) Buyer's performance or tender of performance of all material obligations under this Agreement and the material truth and accuracy of Buyer's express representations and warranties as of the date of this Agreement and as of the Closing Date; and

(ii) The satisfaction or Buyer's written waiver of the conditions set forth in subparagraphs (a)(i), (ii), (iii) and (iv) above.

Section 3.2 Portfolio Acquisition. Except as expressly provided in Section 7.1 below, the satisfaction or Buyer's waiver of the conditions precedent to Buyer's obligation to purchase the Sacto Portfolio shall be determined with respect to the

-8-

10

Sacto Portfolio as a whole, rather than with respect to any individual Property, and Buyer shall not have the right to acquire less than all of the Properties.

Section 3.3 Failure or Waiver of Conditions Precedent. In the event any of the conditions set forth in Section 3.1 are not fulfilled or waived, the party benefited by such condition may, by written notice to the other party, terminate this Agreement, whereupon all rights and obligations hereunder of each party shall be at an end. Either party may, at its election, at any time or times on or before the date specified for the satisfaction of the condition, waive in writing the benefit of any of the conditions set forth in Section 3.1(a) and 3.1(b) above. Notwithstanding the foregoing, Buyer's failure to deliver to Seller on or prior to the close of the Inspection Period an executed Inspection Letter in the form attached as Exhibit B, without modification or qualification in any manner whatsoever, shall be deemed a failure of the condition set forth in Section 3.1(a)(i) above. In the event this Agreement is terminated as a result of the failure of any condition set forth in Section 3.1(a), Seller shall return the full amount of the Deposit to Buyer. In any event, Buyer's consent to the close of escrow pursuant to this Agreement shall waive any remaining unfulfilled conditions.

ARTICLE IV COVENANTS, WARRANTIES AND REPRESENTATIONS

Section 4.1 Seller's Warranties and Representations. Seller hereby makes the following representations and warranties to Buyer as of the date of this Agreement; provided that each of such representations and warranties shall be deemed to be modified by any contrary or qualifying information contained in any reports, schedules or other informational materials delivered or made

available to Buyer on or before the date of this Agreement or set forth in the Disclosure Statement:

(a) Seller has full power and lawful authority to enter into and carry out the terms and provisions of this Agreement and to execute and deliver all documents which are contemplated by this Agreement, and all actions of Seller necessary to confer such power and authority upon the persons executing this Agreement (and all documents which are contemplated by this Agreement) on behalf of Seller have been taken;

(b) To Seller's knowledge, the Tenant Leases listed on the attached Exhibit D constitute all of the leases and rental agreements presently in effect with respect to the Real Property;

(c) To Seller's knowledge, the copies of the Tenant Leases which Seller has delivered or made available to Buyer pursuant to this Agreement are true, correct and complete in all material respects;

-9-

11

(d) To Seller's knowledge, the Rent Roll, including the rent delinquency report, is complete and accurate. To Seller's knowledge, Seller has not received written notice (i) of any default by the tenant or Seller under any of the Tenant Leases, or (ii) that any tenant intends to terminate its Tenant Lease prior to the expiration of its scheduled term;

(e) To Seller's knowledge, Seller has received no written notice from any governmental authority that any of the improvements located on the Real Property are presently in violation of any applicable building codes, zoning or land use laws, or other law, order, ordinance, rule or regulation affecting the Real Property (collectively, "Applicable Laws");

(f) To Seller's knowledge, (i) the Contracts listed on the attached Exhibit E constitute all of the service and equipment contracts affecting the Sacto Portfolio which may be binding upon Buyer following the Closing Date, (ii) the copies of all such Contracts which Seller has delivered or made available to Buyer pursuant to this Agreement are true, correct and complete in all material respects; and (iii) there exists no material default by Seller or any other party to any Contract;

(g) To Seller's knowledge, there are no pending condemnation proceedings against the Real Property, and Seller has received no written notice from any governmental authorities that any such proceedings are threatened;

(h) To Seller's knowledge, there is no pending litigation, and Seller has received no written notice of any threatened litigation, (i) affecting any of the Sacto Portfolio (other than litigation arising in the ordinary course of the operation of the Properties and fully covered by insurance, all of which ordinary course and fully insured litigation, to Seller's knowledge, is set forth on the Disclosure Statement) or (ii) against Seller which would materially and adversely affect Seller's capacity to perform under this Agreement,

(i) Seller is not a "foreign person" within the meaning of Section 1445(f)(3) of the Code; and

(j) To Seller's knowledge, there are no underground or other storage tanks situated on the Real Property, and Seller has received no written notice of the existence of any Hazardous Materials at the Real Property in violation of Applicable Laws. For purposes of this Agreement, "Hazardous Materials" shall mean inflammable explosives, radioactive materials, asbestos, polychlorinated biphenyls, hazardous materials, hazardous wastes, hazardous or toxic substances, oil, or related materials, which are listed in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Resource Conservation and Recovery Act, the Clean Water Act, the Clean Air Act, the Toxic Substances Control Act, the Safe Drinking Water Act or California's

12

Hazardous Waste Control Law, Safe Drinking Water and Toxic Enforcement Act of 1986, or in the regulations adopted and publications promulgated pursuant thereto, or in any other federal, state or local environmental law, ordinance, rule or regulation.

As used herein, the term "Seller's knowledge" or words of similar effect shall mean the current actual, subjective knowledge of Mr. Jeffrey Donnelly and Ms. Cindy Zimmerman after inquiry of the property managers of each Property. Buyer acknowledges, however, that such property managers may fail to respond or respond inaccurately to such inquiry and that Seller shall bear no responsibility based upon such non response or inaccurate response. Neither Mr. Donnelly, Ms. Zimmerman nor any property manager or any party other than Seller shall bear responsibility for any breach of representation. Seller, however, represents and warrants that Mr. Donnelly and Ms. Zimmerman are the individuals within Seller's investment advisory organization with principal administrative and oversight responsibility, respectively, for the disposition of the Sacto Portfolio and the asset management of the Sacto Portfolio.

Section 4.2 Seller's Covenants. Seller hereby covenants and agrees as follows:

(a) during the Contract Period, Seller shall ensure that the Sacto Portfolio is operated and maintained in a manner consistent with past practices and maintain reasonable and customary levels and coverages of insurance and Seller shall not create or acquiesce in the creation of liens or exceptions to title other than the Permitted Exceptions or voluntarily take any action (other than as may be permitted pursuant to subparagraph (b) of this Section 4.2) to render any of the representations or warranties of Seller set forth in Section 4.1 materially incorrect; and

(b) during the Contract Period, Seller will not execute or modify any Tenant Leases or Contracts, (i) without promptly notifying Buyer thereof and providing Buyer with copies of the relevant contract documents, and (ii) as to any Tenant Lease or Contract (or modification thereof) executed during the period between the expiration of the Inspection Period and the Closing Date, without Buyer's prior approval, which approval shall not be unreasonably withheld and shall be deemed given if Buyer should fail to approve or disapprove any such matter in writing within 5 days following Seller's request for such action.

(c) Seller shall terminate on or before the Closing Date, at no cost or expense to Buyer, any and all Contracts that are not approved by Buyer prior to the expiration of the Inspection Period. In particular, Buyer will not retain the existing management agents of Seller for the Sacto Portfolio, and, accordingly, on the Closing Date, Seller shall (i) cause all management agreements respecting the Sacto Portfolio to be terminated, and deliver evidence of such termination to Buyer, and (ii) remove all management personnel from the Real Property.

13

Section 4.3 Buyer's Warranties and Representations. Buyer hereby represents and warrants to Seller that (a) Buyer has and as of the Closing Date shall have, full power and lawful authority to enter into and carry out the terms and conditions of this Agreement and to execute and deliver all documents which are contemplated by this Agreement, (b) all actions necessary to confer such power and authority upon the persons executing this Agreement and all documents which are contemplated by this Agreement to be executed on behalf of Buyer or its assignee have been taken, and (c) Buyer has received no written notice of any

threatened or pending litigation which would materially and adversely affect Buyer's capacity to perform under this Agreement.

Section 4.4 Limitations. The parties agree that (a) Seller's indemnification obligations, warranties and representations contained in this Agreement and in any document executed by Seller pursuant to this Agreement shall survive Buyer's purchase of the Sacto Portfolio only for a period of 12 months after the Closing Date (the "Limitation Period"), (b) Seller shall be liable solely for claims arising out of such representations and warranties if such claims have reached an aggregate \$20,000 (i.e., Seller shall be liable for the first dollar of such claims if the aggregate reaches the \$20,000 figure), (c) Seller's aggregate liability for claims arising out of such representations and warranties shall not exceed \$400,000, and (d) Buyer shall provide actual written notice to Seller of any breach of such warranties or representations and shall allow Seller 30 days within which to cure such breach, or, if such breach cannot reasonably be cured within 30 days, an additional reasonable time period, so long as such cure has been commenced within such 30 days and thereafter is diligently pursued to completion. If Seller fails to cure such breach after actual written notice and within such cure period, Buyer's sole remedy shall be an action at law for damages as a consequence thereof, which must be commenced, if at all, within the Limitation Period; provided however, that if within the Limitation Period Buyer gives Seller written notice of such a breach and Seller refuses to cure or commences to cure and thereafter terminates such cure effort, Buyer shall have an additional 30 days from the date Buyer receives written notice from Seller of such refusal or termination within which to commence an action at law for damages as a consequence of Seller's failure to cure, in which case any representation or warranty that is expressly set forth in the notice delivered pursuant to clause (c) immediately above and is material to such litigation shall survive until all liabilities arising out of the alleged breach have been finally determined. The Limitation Period referred to herein shall apply to known as well as unknown breaches of such warranties or representations. EXCEPT AS EXPRESSLY SET FORTH IN SECTION 4.1 OF THIS AGREEMENT, BUYER ACKNOWLEDGES THAT BUYER IS ACQUIRING THE SACTO PORTFOLIO SOLELY IN RELIANCE ON BUYER'S OWN INVESTIGATION AND "AS IS," "WHERE IS" AND WITH ALL FAULTS AND DEFECTS, LATENT OR OTHERWISE. BUYER EXPRESSLY ACKNOWLEDGES THAT, IN CONSIDERATION OF THE AGREEMENT OF SELLER TO PERFORM AS SET FORTH IN THIS AGREEMENT, SELLER MAKES AND HAS MADE NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, OR ARISING BY

-12-

14

OPERATION OF LAW, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTY AS TO TITLE, LAND USE CLASSIFICATION OR ENTITLEMENT, ENVIRONMENTAL OR OTHER CONDITION, MERCHANTABILITY OF FITNESS FOR ANY PARTICULAR USE OR PURPOSE, WITH RESPECT TO THE SACTO PORTFOLIO OR ANY MATTER RELATED THERETO, EXCEPT AS EXPRESSLY OTHERWISE SET FORTH IN SECTION 4.1 HEREOF. IF BUYER OBTAINS ANY KNOWLEDGE, WHETHER PURSUANT TO THE PROVISIONS OF THIS AGREEMENT OR OTHERWISE, PRIOR TO THE CLOSING DATE, THAT REASONABLY INDICATES THAT ANY WARRANTY SET FORTH HEREIN HAS BEEN BREACHED, ANY REPRESENTATION SET FORTH HEREIN IS NOT ACCURATE, OR THAT THERE ARE ANY PHYSICAL, TITLE OR OTHER DEFECTS IN OR ADVERSE CONDITIONS RELATING TO ANY PROPERTY, YET BUYER ELECTS TO CLOSE THE TRANSACTION CONTEMPLATED BY THIS AGREEMENT WITH RESPECT TO SUCH PROPERTY (NOTWITHSTANDING SUCH KNOWLEDGE), SELLER SHALL HAVE NO LIABILITY FOR ANY SUCH BREACH, INACCURACY, DEFECT OR ADVERSE CONDITION, AND BUYER SHALL BE DEEMED TO HAVE WAIVED SUCH BREACH, INACCURACY, DEFECT OR ADVERSE CONDITION.

Section 4.5 Seller's Certificate. Seller shall deliver to Buyer on the Closing Date a certificate (the "Seller's Certificate") updating the representations and warranties of Seller set forth in Section 4.1 through the Closing Date; provided, however, that if Seller becomes aware during the Contract Period of any matters which make any of such representations or warranties untrue, Seller shall disclose such matters in the Seller's Certificate. In the event the Seller's Certificate discloses any matters which make any of Seller's representations or warranties untrue as of the date of such Certificate in any respect or in the event that Buyer otherwise becomes aware during the Contract Period of any matters which make any of Seller's

representations or warranties materially untrue in any material respect, Seller shall bear no liability for such matters (provided that Seller has not breached an express covenant set forth in this Agreement), but Buyer shall have the right to elect in writing on or before the Closing Date, (a) to waive such matters and complete the purchase of the Sacto Portfolio in accordance with the terms of this Agreement, or (b) as to any matters disclosed or discovered following the expiration of the Inspection Period, to terminate this Agreement. Buyer's delivery of the Inspection Letter shall constitute Buyer's conclusive agreement to accept or waive any such matters disclosed to Buyer in writing prior to the close of the Inspection Period.

Section 4.6. Indemnifications. Subject to the foregoing limitations and the provisions of Sections 6.3, 6.4 and 7.12:

(a) Seller shall indemnify and defend Buyer against and hold Buyer harmless from any and all claims, liabilities, losses, damage, costs and expenses, including, without limitation, all reasonable attorneys' fees, asserted against or suffered

-13-

15

by Buyer resulting from (i) any breach by Seller of this Agreement, (ii) the untruth, inaccuracy or breach of any of the representations and warranties made by Seller pursuant to this Agreement and (iii) any liability or obligation arising in connection with the Sacto Portfolio accruing prior to the Closing Date. The survival of Seller's obligations under this Section 4.6(a) shall be governed by Section 4.4 above.

(b) Buyer shall indemnify and defend Seller against and hold Seller harmless from any claim, loss, damage, or expense, including any reasonable attorneys' fees, asserted against or suffered by Seller resulting from (i) any breach by Buyer of this Agreement, (ii) the untruth, inaccuracy or breach of any of the representations or warranties made by Buyer pursuant to this Agreement and (iii) any liability or obligation arising in connection with the Sacto Portfolio accruing following the Closing Date. Buyer's obligations under this Section 4.6(b) shall survive the Closing Date for a period of twelve (12) months, but not thereafter.

ARTICLE V
DEPOSIT

Upon execution of this Agreement, Buyer shall deliver to Escrow Company, for deposit into the escrow described in Section 6.1 below, an amount equal to \$100,000 (the "Initial Deposit"). At the close of the Inspection Period, if Buyer has not then elected to terminate this Agreement as provided herein, Buyer shall deliver to Title Company, for deposit into the escrow described in Section 6.1 below, the additional sum of \$100,000 (which amount, together with the Initial Deposit and any interest that may accrue thereon in escrow, referred to herein as the "Deposit"). In the event that this transaction is consummated as contemplated by this Agreement, then the entire amount of the Deposit shall be credited against the Purchase Price. The entire amount of the Deposit shall be returned immediately to Buyer in the event of the failure of any of the conditions precedent set forth in Section 3.1(a) above or in the event that (a) the conditions precedent set forth in Section 3.1(b) shall have been satisfied or waived, (b) Buyer shall have performed fully or tendered performance of its obligations hereunder and (c) Seller shall be unable or fail to perform its obligations under this Agreement. IN ALL OTHER EVENTS, THE ENTIRE AMOUNT OF THE DEPOSIT SHALL BE RETAINED BY SELLER AS LIQUIDATED DAMAGES. BUYER AND SELLER HEREBY ACKNOWLEDGE AND AGREE THAT SELLER'S DAMAGES IN THE EVENT OF SUCH A BREACH OF THIS AGREEMENT BY BUYER WOULD BE DIFFICULT OR IMPOSSIBLE TO DETERMINE, THAT THE AMOUNT OF THE DEPOSIT IS THE PARTIES' BEST AND MOST ACCURATE ESTIMATE OF THE DAMAGES SELLER WOULD SUFFER IN THE EVENT THE TRANSACTION PROVIDED FOR IN THIS AGREEMENT FAILS TO CLOSE, AND THAT SUCH ESTIMATE IS REASONABLE UNDER THE CIRCUMSTANCES EXISTING ON THE DATE OF THIS AGREEMENT. BUYER AND SELLER AGREE THAT SELLER'S

RIGHT TO RETAIN THE DEPOSIT SHALL BE THE SOLE REMEDY OF SELLER AT LAW IN THE EVENT OF A BREACH OF THIS AGREEMENT BY BUYER. THE FOREGOING SHALL NOT BE UNDERSTOOD TO LIMIT BUYER'S OBLIGATIONS TO SELLER UNDER THE PROVISIONS OF SECTION 2.3(c) (v) OF THIS AGREEMENT OR BUYER'S OBLIGATION TO REIMBURSE SELLER FOR ATTORNEYS' FEES UNDER THE PROVISIONS OF SECTION 7.9 OF THIS AGREEMENT TO THE EXTENT INCURRED TO SECURE THE RELEASE OF THE DEPOSIT TO SELLER.

ACCEPTED AND AGREED TO:

Seller Buyer

ARTICLE VI
ESCROW AND CLOSING

Section 6.1 Escrow Arrangements. An escrow for the purchase and sale contemplated by this Agreement has been opened by Buyer and Seller with Escrow Company. At least one business day prior to the Closing Date, Seller and Buyer shall each deliver escrow instructions to Escrow Company consistent with this Article VI, and designating Escrow Company as the "Reporting Person" for the transaction pursuant to Section 6045(e) of the Code. In addition, the parties shall deposit in escrow, at least one business day prior to the Closing Date (unless otherwise provided below in this Section 6.1) the funds and documents described below:

(a) Seller shall deposit (or cause to be deposited):

(i) a duly executed and acknowledged grant deed pertaining to the Real Property portion of each of the Properties constituting the Sacto Portfolio, each in the form attached to this Agreement as Exhibit F (collectively, the "Deeds");

(ii) a duly executed bill of sale pertaining to the Personal Property portion of each of the Properties constituting the Sacto Portfolio, each in the form attached to this Agreement as Exhibit G (collectively, the "Bills of Sale");

(iii) a duly executed counterpart assignment and assumption pertaining to the Intangible Property portion of each of the Properties constituting the Sacto Portfolio, each in the form attached to this Agreement as Exhibit H (collectively, the "Assignments and Assumption of Intangible Property");

(iv) the duly executed Seller's Certificate described in Section 4.1;

(v) a certificate from Seller certifying the information required by Section 18660 of the California Revenue and Taxation Code and the regulations issued thereunder to establish that the transaction contemplated by this Agreement is exempt from the tax withholding requirements of such provisions (the "California Certificate"); and

(vi) a certificate from Seller certifying the information required by Section 1445 of the Code to establish, for the purposes of avoiding Buyer's tax withholding obligations, that Seller is not a "foreign person" as defined in Section 1445(f) (3) of the Code (the "FIRPTA Certificate").

In addition, Seller shall deliver to Buyer on the Closing Date, outside of escrow, to the extent in Seller's possession or control, the originals of all Tenant Leases and tenant files and all keys to the Property.

(b) Buyer shall deposit:

(i) at or before 11:30 a.m. (Pacific Time) on the Closing Date, immediately available funds sufficient to pay the balance of the Purchase Price, plus sufficient additional cash to pay Buyer's share of all escrow costs and closing expenses;

(ii) a duly executed counterpart for each of the Assignments and Assumption of Intangible Property; and

(iii) a certificate duly executed by Buyer in favor of Seller confirming the waivers and acknowledgments set forth in Sections 2.3(a) and (b) above.

Section 6.2 Closing. Escrow Company shall close escrow on the Closing Date by:

(a) recording the Deeds;

(b) causing Title Company to issue the Title Policies to Buyer;

(c) delivering to Buyer the Bills of Sale, the Seller's Certificate, the FIRPTA Certificate, the California Certificate, and a counterpart for each of the Assignments and Assumption of Intangible Property executed by Seller; and

(d) delivering to Seller (i) a counterpart for each of the Assignments and Assumption of Intangible Property executed by Buyer, (ii) the certificate described in Section 6.1(b)(iii) above, and (iii) funds in the amount of the Purchase Price, as adjusted for credits, prorations and closing costs in accordance with this Article VI.

-16-

18

Section 6.3 Prorations.

(a) Real estate taxes and assessments, personal property taxes, if any, rental income and all other items of income and expense with respect to the Sacto Portfolio shall be prorated between Seller and Buyer as of the Closing Date. Income and expenses shall be prorated on the basis of a 30-day month and on a cash basis (except for items of income and expense that are payable less frequently than monthly, which shall be prorated on an accrual basis). All such items attributable to the period prior to the Closing Date shall be credited to Seller; all such items attributable to the period on and following the Closing Date shall be credited to Buyer. Buyer shall be credited in escrow with (a) any portion of rental agreement or lease deposits in Seller's possession with respect to the Sacto Portfolio which are refundable to the tenants and (b) rent prepaid beyond the Closing Date. Buyer shall not be entitled to any interest on rental agreement or lease deposits or prepaid rent accrued on or before the Closing Date, except to the extent any such amount of interest is refundable or payable to any tenant under a Lease. Seller shall be credited in escrow with any refundable deposits or bonds held by any utility, governmental agency or service contractor with respect to the Sacto Portfolio, to the extent such deposits or bonds are assigned to and accepted by Buyer on the Closing Date. In addition, Seller shall be credited in escrow with any leasing commissions, free rental periods or tenant improvement or other allowances paid or endured by Seller during the portion of the Contract Period after the expiration of the Inspection Period to the extent such relate to Tenant Leases executed after the expiration of the Inspection Period and are equitably allocable to that portion of the stabilized term (i.e. the term following the tenant's entry into occupancy and

commencement of unabated rental obligations) of any such Tenant Lease of the Sacto Portfolio following the Closing Date. To the extent approved by Buyer or applicable under any Tenant Lease with respect to any extension term or expansion of premises that is exercised after the expiration of the Inspection Period, Buyer shall assume all obligations for any such leasing commissions, free rental periods or tenant improvement or other allowances payable following the Closing Date. Buyer shall be credited in escrow with any leasing commissions, free rental periods or tenant improvements or other allowances to be paid or endured by Buyer on or after the Closing Date with respect to the current term of any Tenant Lease executed, or any extension term or expansion of premises exercised, in each case, prior to the expiration of the Inspection Period, and Seller shall pay on or before the Closing Date all such items payable prior to the Closing Date.

(b) Buyer and Seller shall cooperate to produce prior to the Closing Date a schedule of prorations to be made on and after the Closing Date as complete and accurate as reasonably possible. With respect to taxes or other expenses payable or reimbursable by the tenants of the Sacto Portfolio, the amounts prorated between Buyer and Seller shall be the net amounts (if any) not subject to payment or reimbursement by or to the tenants. All prorations which can be liquidated accurately or reasonably estimated as of the Closing Date shall be made in escrow on the Closing Date. All other

-17-

19

prorations, and adjustments to initial estimated prorations, shall be made by the parties with due diligence and cooperation within 30 days following the Closing Date, or such later time as may be required to obtain necessary information for proration, by immediate cash payment to the party yielding a net credit from such prorations from the other party.

(c) Buyer shall, consistent with reasonable business judgment, exert its best efforts to collect for Seller following the Closing Date all rental income which is delinquent on the Closing Date; provided, however, that Buyer shall not be required to commence legal proceedings to collect such rents. Notwithstanding the foregoing proviso, Seller reserves the right to pursue any remedy Seller may have against any tenant with respect to such delinquent rents; provided, however, that Buyer shall not incur any cost, expense or liability in connection therewith, and provided further that Seller shall not commence any legal or equitable proceedings in the nature of an unlawful detainer, eviction or other proceeding which would have the effect of interfering with any tenant's quiet enjoyment of its leased premises or result in a lien or encumbrance on such leased premises. Any sums collected on account of rents after the Closing Date shall be successively applied to the payment of (i) rent due and payable in the months succeeding the month in which the closing occurs, (ii) rent due and payable in the month in which the closing occurs, and (iii) rent due and payable in the months preceding the month in which the closing occurs.

Section 6.4 Other Closing Costs.

(a) Buyer shall pay (i) any sales or use taxes determined to be payable in connection with this transaction, (ii) all fees and expenses of Buyer's legal counsel and other third party consultants engaged by or on behalf of Buyer in connection with this transaction, (iii) any excess portion of the premium for any Title Policy beyond that which would have been required had the Title Policy been a CLTA standard coverage policy of title insurance without any endorsements, (iv) 50% of any Sacramento city documentary transfer tax and (v) 50% of any escrow charges or other fees or costs charged by or reimbursable to Escrow Company or Title Company and recording fees.

(b) Seller shall pay (i) all fees and expenses of Seller's legal counsel and other third party consultants engaged by or on behalf of Seller in connection with this transaction, (ii) any Sacramento County documentary transfer tax, (iii) 50% of any Sacramento city documentary transfer tax, (iii) 50% of any escrow charges or other fees or costs charged by or reimbursable to

Escrow Company or Title Company and recording fees, (iv) the premium for any Title Policy that would have been charged had such Title Policy been a CLTA standard coverage owners' policy of title insurance without any endorsements and (v) any prepayment fee or other charge in connection with the payoff of any monetary encumbrance.

-18-

20

(c) Any costs and expenses of closing that are not expressly identified in subparagraph (a) or (b) above shall be allocated between the parties in accordance with prevailing custom in the county in which the Property to which the costs and expenses are attributable is located, or if such costs and expenses are not attributable to any particular Property, then such costs or expenses shall be allocated equally between Buyer and Seller.

Section 6.5 Further Documentation. Promptly after the close of escrow, Buyer and Seller shall deliver to each tenant of the Real Property written notice advising the tenant of the sale of the Real Property by Seller to Buyer, and otherwise complying with the provisions of California Civil Code Section 1950.7(d)(1). Each such notice shall be delivered in the manner set forth in such Section of the Civil Code. At or following the close of escrow, Buyer and Seller each shall execute any certificate or other instruments required by law or local custom or otherwise reasonably requested by the other party to effect the transaction contemplated by this Agreement.

ARTICLE VII MISCELLANEOUS

Section 7.1 Cooperation in Exchange. Buyer acknowledges and agrees that Seller may assign its interest in this Agreement to an exchange facilitator for the purpose of completing an exchange of the Real Property in a transaction which will qualify for treatment as a tax deferred exchange pursuant to the provisions of Section 1031 of the Internal Revenue Code of 1986 and applicable state revenue and taxation code sections (a "1031 Exchange"). Buyer agrees to cooperate with the Seller in implementing any such assignment and 1031 Exchange provided that such cooperation shall not entail any additional expense to Buyer or cause Buyer any liability whatsoever beyond its existing obligations under this Agreement. No such assignment by Seller shall relieve it from any of its obligations hereunder, nor shall Seller's ability to consummate a tax deferred exchange be a condition to the performance of Seller's obligations under this Agreement.

Section 7.2 Damage or Destruction.

(a) Buyer shall be bound to purchase each of the Properties within the Sacto Portfolio for the Purchase Price as required by the terms of this Agreement without regard to the occurrence or effect of any damage to or destruction of any of the Properties or condemnation of any Property by right of eminent domain, provided that the occurrence of any damage or destruction involves repair costs of \$250,000 or less, and any condemnation does not affect a material portion for each affected Property. If Buyer is so bound to purchase a Property notwithstanding the occurrence of damage, destruction or condemnation, then upon the close of escrow: (A) in the event of damage covered by insurance or an immaterial condemnation, Buyer shall receive a credit against the

-19-

21

Purchase Price in the amount (net of collection costs and costs of repair reasonably incurred by Seller and not then reimbursed) of any insurance proceeds or condemnation award collected and retained by Seller as a result of any such

damage or destruction or condemnation plus (in the case of damage) the amount of the deductible portion of Seller's insurance policy, and Seller shall assign to Buyer all rights to such net insurance proceeds or condemnation awards as shall not have been collected prior to the close of escrow; and (B) in the event of damage not covered by insurance, Buyer shall receive a credit (not to exceed \$250,000 for each affected Property) in the amount of the estimated cost to repair the damage.

(b) In the event that any Property suffers damage or destruction or condemnation prior to the Closing Date that involves repair costs in excess of \$250,000 or, in the case of condemnation, a material portion of the affected Property, then either Buyer or Seller may elect to terminate this Agreement by giving written notice of such election to the other party promptly following the event of damage or destruction.

Section 7.3 Brokerage-Commissions and Finder's Fees.

(a) Each party to this Agreement warrants to the other that, except as otherwise provided in subparagraph (b) below, no person or entity can properly claim a right to a real estate commission, real estate finder's fee, real estate acquisition fee or other real estate brokerage-type compensation (collectively, "Real Estate Compensation") based upon the acts of that party with respect to the transaction contemplated by this Agreement. Each party hereby agrees to indemnify and defend the other against and to hold the other harmless from any and all loss, cost, liability or expense (including but not limited to attorneys' fees and returned commissions) resulting from any claim for Real Estate Compensation by any person or entity based upon such acts.

(b) The parties hereby acknowledge that CB Commercial ("Broker") has acted as a broker in connection with this transaction. Seller shall be responsible for paying any commission due to Broker in connection with this transaction pursuant to their separate written agreement.

Section 7.4 Successors and Assigns. Buyer may not assign any of Buyer's rights or duties hereunder without the prior written consent of Seller. No assignment by Buyer shall relieve Buyer of its obligations under this Agreement. Subject to the limitations on assignment expressed in this Section 7.3, this Agreement shall be binding upon, and inure to the benefit of, Buyer and Seller and their respective successors and assigns.

Section 7.5 Notices. All notices or other communications required or provided to be sent by either party shall be in writing and shall be sent by United States Postal Service, postage prepaid, registered or certified mail, return receipt requested, by

-20-

22

any nationally known overnight delivery service, by courier, in person or by telecopy, with an electronic confirmation of receipt. All notices shall be deemed to have been given forty-eight (48) hours following deposit in the United States Postal Service or upon personal delivery if sent by overnight delivery service, telecopy, courier or personally delivered; provided, however, that any notice or other communication delivered other than during normal business hours shall be deemed delivered on the next following business day. All notices shall be addressed to the party at the address or telecopier number below:

To Seller:

c/o AEW Capital Management, L.P.
225 Franklin Street
Boston, Massachusetts 02110
Attn: General Counsel
Telecopy No.: (617) 261-9555
Telephone No.: (617) 261-9000

with a copy to: Mr. Jeffrey Donnelly
AEW Capital Management, L.P.
225 Franklin Street
Boston, Massachusetts 02110
Telecopy No.: (617) 261-9555
Telephone No.: (617) 261-9000

with a copy to: Heller Ehrman White & McAuliffe
333 Bush Street
San Francisco, California 94104
Attn: Brian Smith, Esq.
Telecopy No.: (415) 772-6268
Telephone No.: (415) 772-6000

To Buyer: Pacific Gulf Properties Inc.
4220 Von Karman, 2nd Floor
Newport Beach, California 92660
Attn: Mr. Lonnie P. Nadal
Telecopy No.: (714) 223-5033
Telephone No.: (714) 223-5000

with a copy to: John H. Kuhl, Esq.
Cox, Castle & Nicholson LLP
2049 Century Park East, 28th Floor
Los Angeles, California 90067
Telecopy No.: (310) 277-7889
Telephone No.: (310) 277-4222

-21-

23

Any address, telecopy number or name specified above may be changed by notice given to the addressee by the other party in accordance with this Section 7.4. The inability to deliver because of a changed address or telecopy number of which no notice was given, or rejection or other refusal to accept any notice, shall be deemed to be the receipt of the notice as of the date of such inability to deliver or rejection or refusal to accept. Any notice to be given by any party hereto may be given by the counsel for such party.

Section 7.6 Time. Time is of the essence of every provision contained in this Agreement.

Section 7.7 Possession. The rights of possession of the Real Property (subject to the Tenant Leases and the Permitted Exceptions) shall be delivered by Seller to Buyer on the Closing Date.

Section 7.8 Incorporation by Reference. All of the exhibits attached to this Agreement or referred to herein and all documents in the nature of such exhibits, when executed, are by this reference incorporated in and made a part of this Agreement.

Section 7.9 No Deductions or Off-Sets. Buyer acknowledges that the Purchase Price to be paid for the Sacto Portfolio pursuant to this Agreement is a net amount and shall not be subject to any off-sets or deductions.

Section 7.10 Attorneys' Fees. In the event any dispute between Buyer and Seller should result in litigation, the prevailing party shall be reimbursed for all reasonable costs incurred in connection with such litigation, including, without limitation, reasonable attorneys' fees, court costs and fees of experts.

Section 7.11 Construction. The parties acknowledge that each party and its counsel have reviewed and revised this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto.

Section 7.12 Governing Law. This Agreement shall be construed and

interpreted in accordance with and shall be governed and enforced in all respects according to the laws of the State of California.

Section 7.13 Damages. Buyer agrees that any liability of Seller under any claim brought prior to the Closing Date pursuant to this Agreement or any document or instrument delivered simultaneously or in connection with, or pursuant to this Agreement, shall be limited solely to its interest in the Sacto Portfolio, and no other assets of Seller shall be subject to levy or execution. With respect to any such claim brought following the Closing Date, any liability of Seller shall be limited solely to the assets of Seller. In

-22-

24

no event shall Buyer seek satisfaction for any such obligation from any of Seller's trustees, beneficiaries, shareholders, officers, directors, employees, agents, legal representatives or successors or assigns (or from any of their trustees, beneficiaries, shareholders, officers, directors, employees, agents, legal representatives, successors or assigns), nor shall any such person or entity have any personal liability for any such obligations of Seller.

Section 7.14 Confidentiality. The parties hereby acknowledge and agree that, prior to the Closing Date, the existence of this Agreement, the terms and conditions set forth herein, and any materials delivered in connection with this transaction are to be kept strictly confidential. Accordingly, except (a) for the Title and Escrow Companies, (b) in connection with the enforcement of any rights hereunder, (c) for the delivery and recordation of instruments, notices or other documents to implement this Agreement, and (d) as may in good faith be believed to be required by law or court order, neither party shall, without the prior written consent of the other, release, publish or otherwise distribute (and shall not authorize or permit any other person or entity to release, publish or otherwise distribute) any information concerning this Agreement or the transaction contemplated herein, or any materials so delivered, to any person or entity other than Buyer's prospective lenders, such party's legal, accounting and financial advisors, Seller's property managers and Buyer's due diligence consultants, each of whom shall agree to hold such information or materials strictly confidential as if such persons were bound by the provisions of this Section 7.13. Following the Closing Date, either party may make reasonable and customary announcements and press releases regarding the transaction.

Section 7.15 Counterparts. This Agreement may be executed in one or more counterparts. All counterparts so executed shall constitute one contract, binding on all parties, even though all parties are not signatory to the same counterpart.

Section 7.16 Entire Agreement. This Agreement and the attached exhibits, which are by this reference incorporated herein, and all documents in the nature of such

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

-23-

25

exhibits, when executed, contain the entire understanding of the parties and supersede any and all other written or oral understanding.

IN WITNESS WHEREOF, Seller and Buyer have executed this Agreement as of the day and year first written above.

SELLER:

SAMMIS SACRAMENTO ASSOCIATES, a California general partnership

By: METROPOLITAN LIFE INSURANCE COMPANY, a New York corporation
(successor by merger to New England Mutual Life Insurance
Company, a Massachusetts corporation), on behalf of its
Developmental Properties Account ("DPA"), Managing Partner

By: AEW Real Estate Advisors, Inc., a Massachusetts corporation
(formerly known as Copley Real Estate Advisors, Inc.), its asset
manager and advisor hereunto duly authorized

By:

Name:
Title:

BUYER:

Pacific Gulf Properties Inc., a Maryland corporation

By:

Name:

Its:

By:

Name:

Its:

EXHIBIT A

DISCLOSURE STATEMENT

Any additions to the attached form of Disclosure
Statement to be provided by 5:00 P.M. Los Angeles
time on November 26, 1997.

EXHIBIT A

DISCLOSURE STATEMENT

All capitalized terms used herein but not otherwise defined shall have the
meanings given them in the Agreement.

1. Matters disclosed by the environmental reports and audits and the structural reports and other physical inspection reports delivered to Buyer prior to the end of the Inspection Period or included in the materials delivered to or made available to Buyer pursuant to Section 2.3 of the Agreement.
2. The applicable Personal Property and the improvements, located on the Real Property, and their structural components, the building systems and other mechanical systems, and the parking and loading areas are, and have been, subject to normal wear and tear and obsolescence as the result of the age

of such items.

- 3. All the matters set forth on this Disclosure Statement are limited to Seller's Knowledge. Seller does not make any representations or warranties, other than as expressly set forth in Section 4.1 of the Agreement, regarding the scope or content of the matters referenced in this Disclosure Statement. Neither the foregoing list nor the materials referred to therein are intended to be an exhaustive enumeration of issues relevant to the Sacto Portfolio, nor are they intended to fully inform you of any particular issue or its ramifications. Rather this Disclosure Statement is presented to you pursuant to Section 4.1 of the Agreement and is merely intended to assist you with your investigation of the Sacto Portfolio by flagging for you those matters which, to Seller's Knowledge, may affect the Sacto Portfolio or Seller's warranties and representations set forth in Section 4.1 of the Agreement.

28

EXHIBIT B

INSPECTION LETTER

_____, 1997

Sammis Sacramento Associates
 c/o AEW Capital Management, L.P.
 225 Franklin Street
 Boston, Massachusetts 02110
 Attn: General Counsel

Re: Agreement for Purchase and Sale of the Sacramento Properties,
 dated November __, 1997 (the "Purchase Agreement") between Sammis
 Sacramento Associates ("Seller") and Pacific Gulf Properties Inc.
 ("Buyer")

Gentlemen & Ladies:

This letter constitutes the Inspection Letter contemplated by the above-referenced Purchase Agreement and is delivered to confirm the satisfaction of the conditions precedent described in Sections 3.1(a)(i) and 3.1(a)(ii) of the Purchase Agreement.

Buyer hereby expressly confirms to Seller (and to its officers, directors, shareholders, trustees and beneficiaries and their respective agents, employees, successors and assigns) that Buyer has completed to its satisfaction the inspection and review contemplated by Sections 2.3 and 2.4 of the Purchase Agreement. Buyer, moreover, hereby ratifies and affirms all of the acknowledgments, waivers and releases set forth in Section 2.3.

Accordingly, based on its inspection and review of the Sacto Portfolio, Buyer is prepared to proceed with the purchase of the Sacto Portfolio in accordance with the terms of the Purchase Agreement subject only to the satisfaction of the conditions described in Sections 3.1(a)(iii) and 3.1(a)(iv) of the Purchase Agreement.

Very truly yours,
 Pacific Gulf Properties Inc.

By: _____
 Its _____

EXHIBIT C

LEGAL DESCRIPTION OF LAND

PARCEL ONE:

All that portion of Parcel "C" as shown on the parcel map entitled "Folsom Industrial Park being a portion of Rancho Rio de los Americanos in projected Township 8 North, Range 6 East, M.D.M.", recorded in the office of the County Recorder of Sacramento County on April 29, 1976 in Book 26 of Parcel Maps, at Page 3, described as follows:

COMMENCING at the Southeasterly corner of said Parcel "C", thence South 57 degrees 34'12" West along the Southerly line of said Parcel "C" 1.05 feet; thence South 58 degrees 43'14" West 298.95 feet to the point of beginning, thence South 58 degrees 43'14" West continuing along the Southerly line of said Parcel "C" 199.12 feet; thence South 57 degrees 34'12" West 100.88 feet; thence North 32 degrees 25'48" West 315.00 feet; thence North 57 degrees 34'13" East 187.77 feet; thence along the arc of a curve to the left, with a radius of 530.00 feet and a central angle of 12 degrees 13'14" the chord of which bears North 51 degrees 27'34" East 112.83 feet; thence South 32 degrees 25'48" East 331.01 feet to the point of beginning, and being the same as Parcel 11, described in that certain "Certificate of Compliance", recorded in Book 77-09-08, Page 1302 of Official Records.

Assessor's Parcel Number: 068-0160-058-0000

PARCEL TWO:

Parcels 14 thru 19, as shown on the Parcel Map entitled "All that portion of Parcel C as shown on the Parcel Map entitled Folsom Industrial Park, filed in Book 26 of Parcel Maps, Page 3", recorded in Book 52 of Parcel Maps, at page 15, records of said County.

EXCEPTING FROM the above described Parcels 1, 2, 3 and 4, one-half of all mineral rights in and to the herein described land, as reserved in deed from the Federal Land Bank of Berkeley to Vesper C. Utterback, et ux, recorded January 10, 1941 in Book 862, Page 202 of Official Records. By Quitclaim Deed recorded March 7, 1969, in Book 6903-07, Page 746 of Official Records, The Federal Land Bank of Berkeley, a corporation, quitclaimed their interest "in, upon and to a depth of 500 feet below the surface" of the herein described land.

Portion of Assessor's Parcel Number: 068-0530-020-0000

30

PARCEL THREE:

All that real property situated in the County of Sacramento, State of California and being all of Parcel 3 as said Parcel is described in that certain Grant Deed to the County of Sacramento, a political subdivision of the State of California, recorded in Book 6611-21, Official Records, Pages 146 and 147, more particularly described as follows:

All that portion of the subdivision designated "Wm. Crites No. 2, 156.56 A: of Rancho Rio De Los Americanos, the official plat of which is recorded in the office of the Recorder of Sacramento County in Book 1 of Maps, Map No. 2, described as follows:

BEGINNING at a point located on the Northerly boundary of Silva Vineyards, the official plat of which is recorded in said Recorder's Office in Book 19 of Maps, Map No. 29, from which the Northwest corner thereof bears North 89 degree 52'43" West 29.98 feet, thence from said point of beginning, Northerly curving to the

right of an arc of 136.00 feet radius, said arc being subtended by a chord bearing North 03 degrees 34'21" West 16.37 feet; thence North 89 degrees 52'48" East 8.00 feet; thence North 00 degrees 07'12" West 1296.25 feet; thence North 00 degrees 12'10" East 496.03 feet; thence curving to the left on an arc of 85.93 feet radius, said arc being subtended by a chord bearing North 16 degrees 21'02" West 48.96 feet; thence North 32 degrees 54'15" West 40.05 feet to a point located on the Southeasterly right of way line of the Southern Pacific Railroad Company; thence along said right of way line South 57 degrees 11'57" West 1.43 feet to the Northwesterly corner of that certain Parcel No. I described in Deed to Walker and Donant, a partnership, recorded in said Recorder's Office on August 9, 1956, in Book 3135, Page 90; thence along the Westerly line of said parcel South 00 degrees 12'10" West 575.78 feet and South 00 degrees 07'12" East 1312.56 feet to the said Northwest corner of said Silva Vineyards; thence North 89 degrees 52'43" East 29.98 feet along the said Northerly boundary of Silva Vineyards to the point of beginning.

EXCEPTING THEREFROM all that portion of said Parcel 3 described hereinabove lying North of the Easterly prolongation of the South line of Parcel 20 as said Parcel is shown and so designated on that certain Parcel Map entitled "All that portion of Parcel "C" as shown on Parcel Map entitled 'Folsom Industrial Park' filed in Book 26 of Parcel Maps, Page 3 and being a portion of Rancho Rio De Los Americanos 1 BM 2", filed in said Recorder's Office in Book 52 of Parcel Maps, Page 15.

ALSO EXCEPTING THEREFROM all that portion of said Parcel 3 described hereinabove lying South of the Easterly prolongation of the South line of Parcel 14 as said Parcel is shown and so designated on said Parcel Map.

Balance of Assessor's Parcel Number: 068-0530-020-0000

EXHIBIT D

TENANT LIST

<TABLE>
<CAPTION>

TENANT -----	ADDRESS -----	SUITE -----	SQUARE FEET -----
<S>	<C>	<C>	<C>
1. Imbsen & Associates	9912 Business Park Dr.	130/2	11,566
2. Imbsen & Associates	9912 Business Park Dr.	145	3,232
3. Mercy Home Health	9912 Business Park Dr.	170/1	11,540
4. Product Development Corp.	9912 Business Park Dr.	180/1	1,920
5. Guerrilla Graphics	9912 Business Park Dr.	185/2	1,920
6. Landgraf, Gierke, et al	9912 Business Park Dr.	195/1	2,560
7. Zimmer Samudio	9940 Business Park Dr.	125/3	2,241
8. Brown & Mills, Inc.	9940 Business Park Dr.	140/2	1,560
9. Integrated Electronics	9940 Business Park Dr.	145/1	1,560
10. Monroe Systems for Bus	9940 Business Park Dr.	150/3	1,496
11. Innovative Imaging	9940 Business Park Dr.	155/1	1,496
12. Mercy Hospice	9940 Business Park Dr.	165/2	6,420

13. William Chesam	9940 Business Park Dr.	185/2	1,440
14. Assured Processing	9960 Business Park Dr.	100	3,378
15. Pinkerton Security	9960 Business Park Dr.	110/2	1,800
16. Marketing Works	9960 Business Park Dr.	120/1	2,400
17. Donald Celli & Associates	9960 Business Park Dr.	140/1	1,643
18. Master Computer Systems	9960 Business Park Dr.	150/1	3,120

</TABLE>

32

EXHIBIT E

VENDORS

<TABLE>
<CAPTION>

WHO	BLDG ADDRESS	SERVICE	DATE OF AGREEMENT
<S> Pestnet (sold to Terminex)	<C> 9912, 9940, 9960 Business Park Dr.	<C> Pest Control	<C> 6/26/96
Progressive Bldg Maintenance	9912, 9940, 9960 Business Park Dr.	Window Cleaning	2/6/97
Sares-Regis	9912, 9940, 9960 Business Park Dr.	Property Manager	1/16/96
Procida Landscape	9912, 9940, 9960 Business Park Dr.	Landscape Service	No contract
Sac-Val	9912, 9940, 9960 Business Park Dr.	Trash Removal	No contract
Pinkerton Security	9912, 9940, 9960 Business Park Dr.	Security Patrol	No contract
Sacramento Control System	9912, 9940, 9960 Business Park Dr.	Fire/Life Monitoring	No contract
Capitol Sweep Service	9912, 9940, 9960 Business Park Dr.	Puking Lot Sweep	No contract
Universal Building Maintenance	9912, 9940, 9960 Business Park Dr.	Janitorial	No contract
Indoor Environmental Services	9912, 9940, 9960 Business Park Dr.	HVAC	No contract
Madsen Roofing	9912, 9940, 9960 Business Park Dr.	Roof Repairs	No contract
Diversified Plumbing	9912, 9940, 9960 Business Park Dr.	Plumbing Repairs	No contract
Joel Lackner Painting	9912, 9940, 9960 Business Park Dr.	Painting	No contract
Tonda Sales	9912, 9940, 9960 Business Park Dr.	Flooring Contractor	No contract
Wiedner House of Signs	9912, 9940, 9960 Business Park Dr.	Signage	No contract
Pride Industries	9912, 9940, 9960 Business Park Dr.	Dayporter	No contract
Reliable Glass	9912, 9940, 9960 Business Park Dr.	Glass	No contract
Delta Lighting Services	9912, 9940, 9960 Business Park Dr.	Electrical	No contract

EXHIBIT G
FORM OF BILL OF SALE

THIS BILL OF SALE (this "Bill of Sale") is made this _____ day of _____, 1997 by Sammis Sacramento Associates ("Seller") in favor of Pacific Gulf Properties Inc. ("Buyer").

Seller and Buyer entered into that certain Agreement for Purchase and Sale dated as of November __, 1997 (the "Agreement") respecting the sale of certain real property, described on Exhibit C attached to the Agreement (the "Real Property").

Under the Agreement, Seller is obligated to transfer to Buyer any and all of its right, title and interest in and to any and all equipment, appliances, tools, machinery, supplies, building materials and other personal property of every kind and character owned by Seller and attached to, appurtenant to, located in or used in connection with the operation of the improvements ("Improvements") located on the Real Property (the "Personal Property").

NOW, THEREFORE, for good and valuable consideration, the receipt of which are hereby acknowledged, Seller does hereby absolutely and unconditionally give, grant, bargain, sell, transfer, set over, assign, convey, release, confirm and deliver to Buyer all of the Seller's right, title and interest in and to the Personal Property, WITHOUT WARRANTY, EXPRESS OR IMPLIED, except for the covenants, representations and warranties of the Seller with respect to the Personal Property as set forth in the applicable provisions of the Agreement, all of which are hereby deemed to be incorporated by reference the same as those set forth in full herein.

Seller hereby covenants that Seller will, at any time and from time to time upon written request therefor, execute and deliver to Buyer, Buyer's successors, nominees or assigns, such documents as Buyer or they may reasonably request in order to fully assign and transfer to and vest in Buyer or Buyer's successors, nominees and assigns, and protect Buyer's or their right, title and interest in and to all of the Personal Property and rights of Seller intended to be transferred and assigned hereby, or to enable Buyer, Buyer's successors, nominees and assigns to realize upon or otherwise enjoy such rights and property.

All defined terms used herein shall have the same meaning as set forth in the Agreement, and are hereby incorporated herein by reference.

This Bill of Sale shall be binding upon and inure to the benefit of the successors, assigns, personal representatives, heirs and legatees of Buyer and Seller,

This Bill of Sale shall be governed by, interpreted under, and construed and enforceable in accordance with, the laws of the State of California.

This Bill of Sale is intended to supplement the terms and provisions of the Agreement and shall be construed as consistent therewith to the greatest extent possible. This Bill of Sale shall not be deemed to modify or amend the Agreement. In the event of an irreconcilable conflict between the provisions of the Agreement and this Bill of Sale, the provisions of the Agreement shall prevail.

IN WITNESS WHEREOF, Seller has executed this Bill of Sale as of the date first set forth above.

SELLER:

Sammis Sacramento Associates

By

Its

-2-

37

EXHIBIT H

FORM OF ASSIGNMENT AND ASSUMPTION OF INTANGIBLE PROPERTY

THIS ASSIGNMENT AND ASSUMPTION OF INTANGIBLE PROPERTY (this "Assignment") is made this day of , 1997 by and between Sammis Sacramento Associates ("Assignor") and Pacific Gulf Properties Inc. ("Assignee").

Assignor and Assignee entered into that certain Agreement for Purchase and Sale dated as of November , 1997 ("Agreement") respecting the sale of certain real property described in Exhibit "C" attached to the Agreement (the "Real Property") and the improvements located thereon (the "Improvements").

Under the Agreement, Assignor is obligated to assign to Assignee any and all of its right, title and interest in and to the Intangible Property (as defined in the Agreement), which Intangible Property includes:

(a) the Tenant Leases (as defined in the Agreement);

(b) certain service agreements, maintenance contracts, warranties, guarantees, management contracts and bonds, together with all supplements, amendments and modifications thereto, relating to the Real Property (the "Service Contracts");

(c) any interest of Seller in the licenses, permits, certificates of occupancy, approvals, dedications, subdivision maps and entitlement issued, approved or granted by governmental authorities or otherwise in connection with the Real Property, trade names, trademarks, and logos used by Assignor in the operation and identification of the Improvements and/or the Real Property, including, without limitation, the right to use the names "Highway 50 Business Center," "Bradshaw Business Center" and any other trade name now used in connection with the Real Property, any and all development rights and other intangible rights, titles, interests, privileges and appurtenances owned by Assignor and in any way related to or used in connection with the Real Property and its operation, and all licenses, consents, easements, rights of way and approvals required from private parties to make use of utilities and to insure vehicular and pedestrian ingress and egress to the Real Property and the Improvements ("Licenses and Permits"); and

(d) all non-confidential books and records maintained by Seller in connection with the operation of the Real Property, all preliminary, final and proposed building plans and specifications (including "as built" drawings) respecting Improvements, and all structural reviews, architectural drawings and engineering, soils, seismic, geological and architectural reports, studies and certificates and other documents pertaining to the Property which are within the possession of, under the control of or reasonably available to Assignor and such additional books, records, plans, specifications,

38

reports, studies and other documents maintained or prepared after the date of

the Agreement ("Records and Plans").

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor hereby assigns, sells, transfers, sets over and delivers unto Assignee all of Assignor's estate, rights, title and interest in and to the Intangible Property and Assignee hereby accepts such assignment, subject to the covenants, representations and warranties of Seller (and all limitations thereof) with respect to the Intangible Property as set forth in the applicable provisions of the Agreement, all of which are hereby deemed to be incorporated by reference the same as those set forth in full herein.

Assignor hereby covenants that Assignor will, at any time and from time to time upon written request therefrom, execute and deliver to Assignee, Assignee's successors, nominees and assigns, any new or confirmatory instruments which Assignee, Assignee's successors, nominees, and assigns may reasonably request in order to fully assign and transfer to and vest in Assignee, or Assignee's successors, nominees and assigns, and protect Assignee's or Assignee's successors, nominees and assigns right, title and interest in and to the Intangible Property or to otherwise realize upon or enjoy such rights in and to the Intangible Property.

Assignee hereby assumes the performance of all of the terms, covenants and conditions imposed upon Assignor under the Intangible Property (including the obligations of the landlord under the Tenant Leases) accruing or arising on or after the date of this Agreement.

Subject to the limitations on Assignee's liability set forth in the Agreement, Assignee hereby agrees to indemnify and hold harmless Assignor, Assignor's agents and their respective successors and assigns from and against any and all claims, losses, liabilities and expenses, including reasonable attorneys' fees, suffered or incurred by Assignor by reason of any breach or alleged breach by Assignee from and after the Closing Date (as defined in the Agreement) of any of Assignee's obligations under the Tenant Leases, Service Contracts, Licenses and Permits or Records and Plans.

Subject to the limitations on Assignor's liability set forth in the Agreement, Assignor hereby agrees to indemnify and hold harmless Assignee, Assignee's agents and their respective successors and assigns from and against any and all claims, losses, liabilities and expenses, including reasonable attorneys' fees, suffered or incurred by Assignee by reason of any breach or alleged breach by Assignor prior to the Closing Date of any of Assignor's obligations under the Tenant Leases, Service Contracts, Licenses and Permits or Records and Plans.

In the event of the bringing of any action or suit by a party hereto against another party hereunder by reason of any breach of any of the covenants, conditions, agreements or provisions on the part of the other party arising out of this Assignment,

39

then in that event the prevailing party shall be entitled to have and recover of and from the other party all costs and expenses of the action or suit including reasonable attorneys' fees, court costs and fees of experts.

All defined terms used herein shall have meanings given such terms in the Agreement, and are hereby incorporated herein by reference.

This Assignment may be executed in counterparts, each of which shall be deemed an original, but all of which, together, shall constitute on and the same instrument.

This Assignment shall be binding upon and inure to the benefit of the successors, assignees, personal representatives, heirs and legatees of all of the respective parties hereto.

This Assignment shall be governed by, interpreted under, and

construed and enforceable in accordance with, the laws of the State of California.

This Assignment is intended to supplement the terms and provisions of the Agreement and shall be construed as consistent therewith to the greatest extent possible. This Assignment shall not be deemed to modify or amend the Agreement. In the event of an irreconcilable conflict between the provisions of the Agreement and this Assignment, the provisions of the Agreement shall prevail.

IN WITNESS WHEREOF, Assignor and Assignee have executed this Assignment and Assumption of Intangible Property as of the date first written above.

ASSIGNOR: Sammis Sacramento Associates,

By: _____
Its: _____

[SIGNATURES CONTINUED ON FOLLOWING PAGE]

40

ASSIGNEE: Pacific Gulf Properties Inc., a Maryland corporation

By: _____

Its: _____

By: _____

Its: _____

PURCHASE AND SALE AGREEMENT AND ESCROW INSTRUCTIONS

THIS PURCHASE AND SALE AGREEMENT AND ESCROW INSTRUCTIONS (this "Agreement"), dated December 10, 1997 for reference purposes, is entered into by and between PACIFIC GULF PROPERTIES INC., a Maryland corporation, or its nominee ("Buyer"), and FULLERTON BUSINESS CENTER, 1976, a California limited partnership ("Seller").

IN CONSIDERATION of the respective agreements hereinafter set forth, Seller and Buyer hereby agree as follows:

1. Property. Seller hereby agrees to sell and convey to Buyer, and Buyer hereby agrees to purchase from Seller, subject to the terms and conditions set forth herein, the following:

(a) that certain real property located at 4010-4080 N. Palm Street, in the City of Fullerton, County of Orange, State of California, more particularly described in Schedule 1 to the "Deed" (as hereinafter defined) attached hereto as Exhibit A and consisting of approximately 6.86 acres (the "Land");

(b) all rights, privileges and easements appurtenant to the Land, including, without limitation, all minerals, oil, gas and other hydrocarbon substances, as well as all development rights, land use entitlements, building permits, licenses, permits and certificates, utilities commitments, air rights, water, water rights, riparian rights, and water stock relating to the Land, and any rights-of-way or other appurtenances used in connection with the beneficial use and enjoyment of the Land and all of Seller's right, title and interest in and to all roads, easements, rights of way and alleys adjoining or servicing the Land (collectively, the "Appurtenances");

(c) all improvements and fixtures located on the Land and Appurtenances, including, without limitation, the building(s) located on the Land, consisting of eight (8) separate industrial buildings containing approximately 110,900 rentable square feet, and all apparatus, equipment and appliances used in connection with the operation or occupancy of the Land and Appurtenances, and along with all on-site parking (collectively, the "Improvements", and together with the Land and Appurtenances, the "Real Property");

(d) all tangible personal property owned by Seller located on or in or used in connection with the Real Property as of the date hereof and as of the "Closing Date" (as hereinafter defined) (collectively, the "Tangible Personal Property"); and

(e) all lease rights (including, without limitation, the lessor's interest in and to all tenant leases, rental agreements, subleases and tenancies, including all amendments, modifications, agreements, records, substantive correspondence, and other documents affecting in any way a right to occupy any portion of the Real Property (individually and collectively, the "Leases"), and Seller's interest in all security deposits and prepaid rent, if any, under the Leases and any and all guaranties of the Leases, and, to the extent approved by Buyer pursuant to this Agreement, all "Service Contracts" (as hereinafter defined), and any intangible personal property now or hereafter owned by Seller and used in the ownership, use or operation or development of the Real Property, and Tangible Personal Property, including, without limitation, the right to use the name "Fullerton Business Center" and any other trade name now used in connection with the Real Property (collectively, the "Intangible Property", and together with the Tangible Personal Property, the "Personal Property").

All of the items referred to in Subparagraphs (a), (b), (c), (d), (e) and (f) above are collectively referred to herein as the "Property".

2

2. Purchase Price.

(a) The purchase price of the Property is \$5,500,000 (the "Purchase Price").

(b) The Purchase Price shall be paid through "Escrow" (as hereinafter defined) as follows:

(i) Concurrently with the execution and delivery of this Agreement by Buyer, Seller and Fidelity National Title Insurance Company (the "Escrow Holder") an escrow in connection herewith (the "Escrow"), shall be opened at the Escrow Holder. Within three (3) business days of the opening of Escrow, Buyer shall deposit into Escrow cash in the amount of \$50,000 (the

"Deposit"). The Deposit shall be held by Escrow Holder in an interest-bearing account.

(ii) The Deposit and all interest accrued thereon shall either (1) be released to Seller and applied towards the Purchase Price at the "Closing" (as hereinafter defined); (2) be returned to the Buyer if the Closing fails to occur for any reason other than the Buyer's default; or (3) be disbursed to Seller as liquidated damages in the event of Buyer's default pursuant to the provisions of Paragraph 7 below. Interest earned on the Deposit shall follow and become a part of the Deposit in all events be paid to or for the account of Buyer.

(iii) On or before the Closing, if this Agreement has not been earlier terminated, Buyer shall deposit into Escrow cash or other immediately available funds in the amount of the balance of the Purchase Price, adjusted for the prorations and any other adjustments provided elsewhere in this Agreement (the "Closing Amount").

3. Title to the Property.

(a) At the Closing, Seller shall convey to Buyer fee simple title to the Real Property and Improvements, by a duly executed and acknowledged grant deed substantially in the form attached hereto as Exhibit A (the "Deed"). A condition to Buyer's obligations under this Agreement shall be the issuance by Fidelity National Title Insurance Company (the "Title Company") to Buyer of an ALTA extended coverage Owner's Policy of Title Insurance (Form B, rev. 10/17/70 with Endorsement Form 1 coverage) in the amount of the Purchase Price, insuring fee simple title to the Real Property and Improvements in Buyer, subject only to such exceptions as Buyer shall have approved pursuant to Paragraph 4 below (the "Approved Title Exceptions") and without boundary, encroachment or survey exceptions (the "Title Policy"). The Title Policy shall provide full coverage against mechanics' and materialmen's liens and shall contain, to the extent required by Buyer, the CLTA 100 (modified for an owner), 101.4, 103.7, 116, 116.1, 116.4, 116.7 and such other special endorsements as Buyer may reasonably require upon completion of review of the preliminary title report, including, without limitation, any endorsements required as a condition to Buyer's approval of any title exceptions pursuant to Paragraph 4 below (the "Endorsements").

(b) At the Closing (i) Seller shall transfer title to the Tangible Personal Property by bill of sale in the form attached hereto as Exhibit B (the "Bill of Sale"); (ii) Seller shall transfer title to the Intangible Property, the "Assigned Contracts" (as hereinafter defined) and the "Permits" (as hereinafter defined) by assignment of intangible property in the form attached hereto as Exhibit C (the "Assignment of Intangibles"); and (iii) Seller shall transfer title to the Leases by assignment of Leases in the form attached hereto as Exhibit D (the "Assignment of Leases"), such title in each case to be free of any liens, encumbrances or interests.

(c) Anything contained herein to the contrary notwithstanding and notwithstanding any approval or consent given by Buyer hereunder, except for real estate taxes not yet due or payable, Seller shall cause all mortgages,

deeds of trust and other monetary encumbrances, including without limitation all mechanics' liens, to be released and reconveyed from the Property on or prior to

-2-

3

the Closing and shall cause the Title Company to insure title to the Property as vested in Buyer without any exception for such matters.

4. Due Diligence.

(a) As used herein, the term "Due Diligence Period" shall refer to a period of time to expire at 5:00 p.m. on December 11, 1997.

(b) Buyer may elect, by written notice to Seller at any time prior to the expiration of the Due Diligence Period, to terminate this Agreement, which election shall be in Buyer's sole and absolute discretion. If Buyer desires to proceed with the purchase of the Property subject to the remaining conditions set forth in this Agreement (including, without limitation, pursuant to Paragraph 6 below), then on or before the expiration of the Due Diligence Period, Buyer shall deliver written notice to Seller of such election to proceed (the "Buyer's Notice to Proceed"), electing to waive Buyer's right of termination pursuant to this Paragraph 4(b) and proceed with the Closing subject to the remaining conditions set forth in this Agreement; provided, however, that, notwithstanding any such election to proceed, Seller must comply with all of Seller's other obligations and duties under this Agreement. Buyer's Notice to Proceed shall specify in writing the requirements for the Title Policy (including, without limitation, the Approved Title Exceptions and any required Endorsements). If Buyer fails to deliver Buyer's Notice to Proceed to Seller prior to the expiration of the Due Diligence Period electing to waive Buyer's right of termination pursuant to this Paragraph 4(b), then Buyer shall be deemed to have elected to terminate this Agreement.

(c) In the event of the termination of this Agreement pursuant to this Paragraph 4, the Deposit shall be returned to Buyer and neither party shall have any further obligations to the other hereunder (except under provisions of this Agreement which specifically state that they survive termination).

(d) Notwithstanding anything in this Agreement to the contrary, to induce Buyer to enter into this Agreement and to expend the time and

resources necessary to evaluate the Property and possibly forego other opportunities while doing so, Seller hereby grants to Buyer the rights to terminate this Agreement provided herein. Such expenditures of time and resources and possible loss of opportunity by Buyer constitute adequate consideration for Seller's remaining bound by this Agreement notwithstanding such termination rights in Buyer.

5. Seller's Deliveries. To the extent the following materials are in the Seller's possession or control, Seller shall deliver or cause to be delivered to Buyer (collectively, the "Due Diligence Materials") at Seller's sole cost and expense:

(a) Surveys. Any existing surveys of the Property.

(b) Tax Bills. Copies of the most recent property tax bills and assessments for the Property.

(c) Warranties. All presently effective warranties or guaranties from any contractors, subcontractors, suppliers, servicemen or materialmen in connection with any of the Tangible Personal Property or any construction, renovation, repairs or alterations of the Improvements or any tenant improvements (collectively, the "Warranties").

(d) Service Contracts. A schedule (the "Schedule of Agreements") setting forth a list of all of the service contracts, utility contracts, maintenance contracts, management contracts, leasing contracts, equipment leases, brokerage and leasing commission agreements and other agreements or rights related to the ownership, use or operation of the Property (collectively, the "Service Contracts"). From this Schedule of Agreements, Buyer shall designate those contracts that Seller shall assign to Buyer and that Buyer shall assume as of Closing (such designated Service Contracts together with the Warranties are collectively referred to herein as the "Assigned Contracts").

(e) Plans. Copies of all as-built plans and specifications for

the Improvements, including without limitation the plans and specifications for and a complete description of all existing renovations and improvements to the Real Property and all rentable space therein, and as-built drawings for all underground utilities.

(f) Reports. All reports in Seller's possession or control relating to the Property, including environmental reports, environmental audits, soils reports, site plans, engineering reports and plans, landscape plans, structural calculations, floor plans, construction contracts, a current inspection report by a licensed Structural Pest Control Operator, and other reports or documents of significance to the Property.

(g) Inventory. A complete inventory of all Tangible personal Property used at or in connection with the Property.

(h) Operating Statements. All income and expense statements, year-end financial and monthly operating statements and year to date statements for the two (2) most recent calendar years prior to Closing and, to the extent available, the current year, all of which shall be certified by Seller's Property Manager, as true and correct and an accurate representation of the financial condition of the Property.

(i) Budget. A copy of the budget for the Property for the current year.

(j) Rent Roll. A current rent roll certified by Seller to be accurate and complete, listing for each tenant (i) the tenant's name, and location of leased premises, (ii) the commencement and expiration dates of each lease, (iii) rent and rent escalation clauses, if any, (iv) the date on which rent is payable, (v) the last date on which rent has been paid, (vi) the amount of any security deposit, prepaid rent, and whether landlord is obligated to pay interest on the same, (vii) any extension options, any options to terminate or lease additional space and any rights of first refusal, and the business terms of the foregoing, and (viii) a description of any uncured defaults (the "Rent Roll").

(k) Leases. All (i) copies of existing and pending Leases, lease files and tenant correspondence; (ii) copies of tenant financial statements; (iii) a schedule of leasing commissions on a space by space basis; and (iv) a copy of the current standard lease form.

(l) Permits. To the extent that the following are in the Seller's possession or control, all governmental permits and approvals relating to the construction, operation, use or occupancy of the Property, including without limitation, all building permits, certificates of completion, certificates of occupancy, environmental permits and licenses (including, without limitation, permits relating to the existence or removal of underground storage tanks), and sign permits (individually and collectively "Permits").

(m) Deposits. A list of all deposits and bonds posted by Seller with utility providers, sureties, governmental agencies or others in connection

with the Property (the "Seller Deposits and Bonds").

6. Conditions Precedent to Closing.

(a) Buyer's conditions. The following are conditions precedent to Buyer's obligations under this Agreement (the "Buyer Conditions Precedent"). The Buyer Conditions Precedent are intended solely for the benefit of Buyer and may be waived only by Buyer in writing. In the event any Buyer Condition Precedent is not satisfied, Buyer may, in its sole and absolute discretion, terminate this Agreement, and, subject to the provisions of Paragraph 7, all obligations of Buyer and Seller hereunder (except provisions of this Agreement which recite that they survive termination) shall terminate and be of no further force or effect.

-4-

5

(i) Buyer's inspection, review and approval, within the Due Diligence Period, of all aspects of the Property.

(ii) The issuance by the Title Company to Buyer of the Title Policy subject only to the Approved Title Exceptions and including the Endorsements.

(iii) All of Seller's representations and warranties contained in or made pursuant to this Agreement shall have been true and correct when made and shall be true and correct as of the Closing Date.

(iv) Seller shall have fully complied with all of Seller's duties and obligations contained in this Agreement.

(v) As of the Closing Date, there shall be no litigation or administrative agency or other governmental proceeding pending or threatened, which after Closing would, materially adversely affect the value of the Property or the ability of Buyer to operate the Property in the manner in which it is currently being operated, and no proceedings shall be pending or threatened which would cause the redesignation or other modification of the zoning classification of, or of any building or environmental code requirements applicable to, any of the Property.

(vi) Seller shall have provided Buyer with an updated Rent Roll three (3) business days prior to Closing, which updated Rent Roll must not indicate any material adverse change from the Rent Roll last approved by Buyer. Seller shall specifically identify any changes from the most recently approved Rent Roll, and Buyer shall have performed a closing audit which confirms the updated Rent Roll.

(vii) Prior to Closing, Buyer shall provide Seller a list of Service Contracts that Buyer wishes to make Assigned Contracts. Within 30 days of receiving said list, Seller shall terminate, at no cost or expense to Buyer, any and all Service Contracts affecting the Property that are not Assigned Contracts.

(viii) There shall have been no material adverse change in or addition to the information or items reviewed and approved by Buyer during the Due Diligence Period.

(ix) Buyer's review and approval of estoppel certificates covering all rentable space within the Property. Seller shall use reasonable efforts to obtain and deliver to Buyer by no later than December 10, 1997, tenant estoppel certificates in form and substance satisfactory to Buyer representing no less than seventy-five percent (75%) of the rentable square footage of space occupied by tenants (collectively, "Tenants"), provided, however, Seller shall include in the 75% requirement, any Tenant who independently leases five thousand (5000) or more rentable square feet of the Property. Certificates substantially in the form attached hereto as Exhibit E (as modified to address specific reasonable concerns arising as a result of Buyer's review of the Leases) shall be deemed acceptable to Buyer. For any Tenant that Seller is not able to deliver a Tenant estoppel certificate, Seller shall deliver to Buyer a landlord's estoppel certificate covering the information which would otherwise have been included in the Tenant's estoppel certificate; provided, however, that Buyer shall not be obligated to accept or approve any estoppel provided by Seller if Buyer has reason to believe any statement contained therein would be disputed or denied by the applicable Tenant; and provided further that Buyer shall not be obligated to accept or approve estoppels provided by Seller representing more than 25% of the rentable square footage of space occupied by Tenants, or representing a Tenant who leases 5000 or more rentable square feet. Said certificates shall be delivered at least five (5) days prior to the Closing and shall be dated no earlier than fifteen (15) days prior to the Closing Date.

6

(x) Except as set forth in the Leases, as of the Closing Date, there be no free rent, abatements or other unexpired concessions that apply to any period after Closing;

(xi) Buyer's receipt of a Certificate from the California Secretary of State indicating that, as of the Closing Date, there are no filings against Seller under the California Uniform Commercial Code which would be a lien on any of the Personal Property (other than any filings as to which Buyer is given satisfactory evidence that such filings are being released as of the Closing);

(xii) if any agreement for leasing commissions and/or locator fees payable on any Lease shows a commission or locator fee which would be due or payable after the Closing Date, an executed release from the broker or finder releasing Buyer and its successors and assigns from any obligation to pay such commission or locator fee and agreeing to look solely to Seller for payment;

(xiii) notwithstanding anything to the contrary contained in this Agreement, Buyer's obligation to purchase the Property is conditioned upon the approval by Buyer's Executive Committee during the Due Diligence Period of the transactions contemplated by this Agreement.

(b) Seller's Conditions. The following are conditions precedent to Seller's obligations under this Agreement (the "Seller Conditions Precedent"). The Seller Conditions Precedent are intended solely for the benefit of Seller and may be waived only by Seller in writing. In the event any Seller Condition Precedent is not satisfied, Seller may, in its sole and absolute discretion, terminate this Agreement, and, subject to the provisions of Paragraph 7, all obligations of Buyer and Seller hereunder (except provisions of this Agreement which recite that they survive termination) shall terminate and be of no further force or effect.

(i) All of Buyer's representations and warranties contained in or made pursuant to this Agreement shall have been true and correct when made and shall be true and correct as of the Closing Date.

(ii) Buyer shall have fully complied with all of Buyer's duties and obligations contained in this Agreement.

7. REMEDIES. IN THE EVENT THE SALE OF THE PROPERTY IS NOT CONSUMMATED BECAUSE OF THE FAILURE OF ANY CONDITION OR ANY OTHER REASON EXCEPT A DEFAULT UNDER THIS AGREEMENT SOLELY ON THE PART OF BUYER, THE DEPOSIT SHALL IMMEDIATELY BE RETURNED TO BUYER. IF SAID SALE IS NOT CONSUMMATED SOLELY BECAUSE OF A

except for the Deposit, which shall be dealt with pursuant to section 2(b)(ii). Any such return shall not, however, relieve either party of any liability it may have for its wrongful failure to Close.

(c) Seller Deliveries. At or before the Closing, Seller shall deliver to Escrow Holder or Buyer the following:

(i) the duly executed and acknowledged Deed;

(ii) the duly executed Bill of Sale;

(iii) originals of the Assigned Contracts and duly executed Assignment of Intangibles, together with evidence of termination of any Service Contracts and Other Agreements that are not Assigned Contracts;

(iv) originals of all Leases and tenant files and the duly executed and acknowledged Assignment of Leases;

(v) duly executed Tenant Estoppel Certificates and, if applicable, Seller estoppel certificates;

(vi) notices to the Tenants of the occurrence of the sale of the Property in the form attached hereto as Exhibit F;

(vii) a duly executed affidavit that Seller is not a "foreign person" within the meaning of Section 1445(e)(3) of the Internal Revenue Code of 1986 in the form attached hereto as Exhibit G together with a duly executed California Franchise Tax Board Form 590;

(viii) a closing statement in form and content satisfactory to Buyer and Seller (the "Closing Statement") duly executed by Seller;

(ix) originals of the building permits and certificates of occupancy for the Improvements and all tenant-occupied space included within the Improvements;

(x) all keys to the Property;

(xi) a full release and reconveyance of all monetary encumbrances affecting the Property and any mechanics' liens;

(xii) any other documents or agreements required by the Title Company to issue the Title Policy in the form required by this Agreement;

(xiii) any other instruments, records or correspondence called for hereunder to be delivered by Seller which have not previously been delivered.

Buyer may waive compliance on Seller's part under any of the foregoing items by an instrument in writing.

(d) Buyer Deliveries. At or before the Closing, Buyer shall deliver to Escrow Holder or Seller the following:

-7-

8

- (i) the duly executed Assignment of Leases;
- (ii) the duly executed Assignment of Intangibles;
- (iii) the Closing Statement, duly executed by Buyer;
- (iv) the Closing Amount; and

(v) any other instruments, records or correspondence called for hereunder to be delivered by Buyer which have not previously been delivered.

Seller may waive compliance on Buyer's part under any of the foregoing items by an instrument in writing.

(e) Additional Documents. Seller and Buyer shall each deposit such other instruments as are reasonably required by Escrow Holder or the Title Company or otherwise required to close the escrow and consummate the purchase of the Property in accordance with the terms hereof.

(f) Prorations. The following are to be apportioned as of the Closing Date, with Buyer receiving credit for or charged with the entire day of the Closing, as follows:

(i) Rent. Rent under the Leases shall be apportioned as of the Closing Date. With respect to any rent arrearages existing at the Closing, after Closing Buyer shall pay to Seller any rent actually collected which is applicable to the period preceding the Closing Date; provided, however, that all rent collected by Buyer shall be applied first to all unpaid rent accruing after the Closing Date, and then to unpaid rent accruing prior to the Closing Date. Buyer shall take reasonable steps to recover any rent arrearages; provided, however, that Buyer shall have no obligation to commence any legal or equitable proceedings to recover rent arrearages, and provided further that Buyer shall not incur any, and Seller shall indemnify Buyer against all, cost, expense or

liability in connection with Buyer's reasonable efforts to recover rent arrearages. Seller shall be permitted to pursue collection of any rent arrearages applicable to the period prior to the Closing, provided that Buyer shall not incur any, and Seller shall indemnify Buyer against all, cost, expense or liability in connection therewith, and provided further that Seller shall not commence any legal or equitable proceedings in the nature of an unlawful detainer, eviction or other proceeding which would have the effect of interfering with any tenant's quiet enjoyment of its leased premises or result in a lien or encumbrance on such leased premises.

(ii) Leasing Costs; Free Rent. Seller shall pay prior to Closing all leasing commission and tenant improvement costs or allowances due or payable at or prior to Closing, if any, in connection with any Lease executed on or before the Closing that are or will become due and payable as of the Closing. Buyer shall be entitled to a credit against the Purchase Price for any such unpaid commissions, costs or allowances due after the Closing but incurred in connection with any lease executed on or before the Closing, and for any free rent, rent abatements or other unexpired concessions that apply to any period after Closing; provided, however, Buyer shall accept and receive no credit for free rent provisions contained in the lease of Walters Wholesale Electric Company, tenant of Suite 101 at 4010 N. Palm Street, to the extent that such free rent provision (s) do not exceed the amount of \$4050.00 per month, and shall apply only to the months of January and February, 1998.

(iii) Security Deposits. Buyer shall be entitled to a credit against the Purchase Price for the total sum of all security and other deposits provided for in the Leases, and any interest earned thereon which by law or the terms of the Leases could be required to be refunded to tenants.

(iv) Utility Charges. Seller shall cause all the utility meters to be read on the Closing Date, and will be responsible for the cost of

-8-

9

all utilities used prior to the Closing Date, except to the extent such utility charges are billed to and paid by tenants directly.

(v) Real Estate Taxes and Special Assessments. Seller shall pay prior to Closing any and all delinquent real estate taxes and assessments with respect to the Property. General real estate taxes and assessments payable for the fiscal year in which the Closing occurs shall be prorated as of the Closing Date.

(vi) Seller Deposits and Bonds. At Buyer's election, Seller shall either receive credit for Seller Deposits and Bonds, in which case all such Seller Deposits and Bonds for which Seller receives credit shall remain in

place for the benefit of the Buyer and Seller shall execute and deliver such documents as shall be necessary to assign such Seller Deposits and Bonds to Buyer and Seller shall execute and deliver such documentation as shall be necessary to assign such Seller and Bonds to Buyer, or not receive credit for Seller Deposits and Bonds, in which case Seller may obtain a return or refund of any Seller Deposits and Bonds for which Seller does not receive credit, but only after the Closing.

(vii) Other Apportionments. Amounts payable under the Assigned Contracts, annual or periodic permit and/or inspection fees (calculated on the basis of the period covered), and liability for other Property operation and maintenance expenses and other recurring costs shall be apportioned as of the Closing Date.

(viii) Preliminary Closing Statement. Seller and Buyer shall jointly prepare and approve a preliminary Closing Statement on the basis of the Leases and other sources of income and expenses, and shall deliver such computation to Escrow Holder prior to Closing.

(ix) Post-Closing Reconciliation. If any of the aforesaid prorations cannot be definitely calculated on the Closing Date, then they shall be estimated at the Closing and definitely calculated as soon after the Closing Date as feasible. As soon as the necessary information is available, Buyer shall conduct a post-Closing audit to determine the accuracy of all prorations made to the Purchase Price (the "Post-Closing Audit"). Either party owing the other party a sum of money based on such subsequent proration(s) or the Post-Closing Audit shall promptly pay said sum to the other party, together with interest thereon at the rate of two percent over the "prime rate" (as announced from time to time in the Wall Street Journal) per annum from the Closing Date to the date of payment if payment is not made within ten (10) days after delivery of a bill therefor.

(g) Closing-costs. Seller shall pay for the portion of the premium for the Title Policy equal to the premium that would be charged for a CLTA Policy, any sales taxes, any transfer taxes applicable to the sale and recording fees for recording of the Deed. In addition, Seller shall be liable for any prepayment fee or other charge payable in connection with any payoff of monetary encumbrances. Buyer shall pay the portion of the premium for the Title Policy not paid by Seller and for any Endorsements. Buyer shall also pay the cost of any survey Buyer elects to have performed. Any escrow fees shall be paid fifty percent (50%) by Buyer and fifty percent (50%) by Seller. All other costs and charges of the Escrow not otherwise provided for in this Agreement shall be allocated in accordance with the closing customs for the County where the Property is located. Buyer and Seller shall each be responsible for their respective legal fees to negotiate and execute this Agreement.

(h) Reporting Requirements. The Escrow Holder shall comply with all applicable federal, state and local reporting and withholding requirements relating to the close of the transactions contemplated herein. Without limiting the generality of the foregoing, to the extent the transactions contemplated by this Agreement involve a real estate transaction within the purview of Section

requirements of Section 6045 of the Internal Revenue Code (and any similar requirements imposed by state or local law). For purposes hereof, Seller's tax identification number is 95-3709408. Escrow Holder shall hold Buyer, seller and their counsel free and harmless from and against any and all liability, claims" demands, damages and costs, including reasonable attorney's fees and other litigation expenses, arising or resulting from the failure or refusal of Escrow Holder to comply with such reporting requirements.

9. Representations, Warranties and Covenants of Seller. As used in this Agreement, the phrase "Seller's knowledge" (or words of similar import) means the actual knowledge of any of Richard J. Meyer, Robert E. Meyer or Mary Novikoff. As of the date hereof and again as of Closing, Seller represents and warrants to, and covenants with, Buyer as follows:

(a) To Seller's knowledge, (i) there are no material physical or mechanical defects in, or shortage or deficiency in utilities supplied to, the Property, (ii) the Property and its current use and operation are in compliance with applicable laws, rules, permits and regulations as well as private covenants, conditions and restrictions, (iii) all licenses, permits, variances, easements and approvals, including without limitation final certificates of occupancy (or the equivalent) necessary for the current use, operation and occupancy of the Property have been issued and are in effect, and (iv) the Property is not dependent on any other property for compliance with zoning or other land use regulations.

(b) To Seller's knowledge, all documents delivered by Seller to Buyer, or made available to Buyer for review, including without limitation the Due Diligence Materials, are true and complete copies of all documents related to the Property in Seller's possession or control. With the exception of insurance policies related to the Property, all of Seller's books, files and records related to the Property were delivered to or made available to Buyer for Buyer's review.

(c) To Seller's knowledge, there are no (i) condemnation, environmental, zoning or other land-use proceedings, instituted or to Seller's knowledge threatened against the Property, (ii) special assessment proceedings affecting the Property, or (iii) existing or proposed easements, covenants, restrictions, agreements or other documents which affect title to the Property and which are not reflected on title.

(d) To Seller's knowledge, there are no litigation, arbitration

or reference proceedings pending or threatened against the Property or against Seller with respect to the Property.

(e) On the Closing Date there will be no outstanding written or oral contracts made for any improvements to the Property, or for offsite improvements related to the Property, which have not been fully completed and paid for. Seller shall cause to be discharged all mechanics' and materialmen's liens arising from any labor or materials furnished to the Property prior to the Close of Escrow.

(f) To Seller's knowledge, except as disclosed by that certain environmental report dated September 4, 1997, completed by Remediation Technology Inc., Retet Project No. CO.CAR.03903, and disclosed and turned over to Buyer, and any environmental report with respect to the Property obtained by the Buyer and disclosed to Seller, (i) no hazardous or toxic substance, waste or material (including without limitation PCB's, petroleum, petroleum products and fractions thereof) has existed or currently exists in, on or under, or has been or is being disposed of or released from, the Property or any property adjacent to the Property except in compliance with applicable laws, orders, rules and regulations; and (ii) no underground storage tanks (whether existing or abandoned) exist or have existed on or under the Property or on or under any property adjacent to the Property.

-10-

11

(g) Neither Seller nor, to Seller's knowledge, any tenant of the Property has either filed or been the subject of any filing of a petition under any federal or state bankruptcy or insolvency laws.

(h) The Rent Roll attached hereto as Exhibit H is complete and accurate as of the date of this Agreement. The most current Rent Roll provided to Buyer is complete and accurate as of the date provided. To Seller's knowledge, except as disclosed on Exhibit I, attached hereto, there are no unpaid leasing costs or obligations, including, without limitation, broker's commissions and costs in connection with tenant improvements. Seller has provided to Buyer complete and accurate copies of all Leases.

(i) To Seller's knowledge, there exists no defaults or events which, with the giving of notice or passage of time, or both, would constitute a default by Seller or any of the tenants under any of the Leases.

(j) To Seller's knowledge, the Operating Statements certified by Seller's Property Manager pursuant to paragraph 5 (h) of this Agreement, are true and correct and an accurate representation of the financial condition of the Property.

(k) The Schedule of Agreements is a complete and accurate list of all Service Contracts. Seller has provided to Buyer complete and accurate copies of all Service Contracts. To Seller's knowledge, there exists no defaults or events which, with the giving of notice or passage of time, or both, would constitute a default by Seller or any of the other parties to the Service Contracts under the Service Contracts.

(l) The list of Seller Deposits and Bonds provided to Buyer is a complete and accurate list of all such items. To Seller's knowledge, there exists no defaults or events which, with the giving of notice or passage of time, or both, would constitute under such items.

(m) Seller has (i) completed all obligations with respect to any remodeling, renovating and tenant improvements to be completed by Seller as landlord under the Leases; and (ii) paid all obligations of the landlord pursuant to the Leases, including, without limitation, tenant improvement, remodeling and refurbishment costs, leasing commissions and other concessions.

(n) Seller is a limited partnership, duly organized and validly existing and in good standing under the laws of the State of California and qualified to do business in the State of California; this Agreement and all documents executed by Seller and delivered to Buyer pursuant to this Agreement are and will be duly authorized, executed and delivered by Seller, are and will be legal, valid and binding obligations of Seller enforceable against Seller in accordance with their respective terms, and do not and will not violate any provision of any agreement or judicial order to which Seller or the Property is subject. Seller has obtained all necessary authorizations, approvals and consents to the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby.

(o) Seller is not a "foreign person" within the meaning of Internal Revenue Code Section 1445(f)(3).

(p) Seller has not granted any option or right of first refusal or first opportunity to any party to acquire any interest in any of the Property.

(q) All statements contained in any certificate delivered at any time by Seller or its agents in conjunction with the transactions contemplated hereby shall constitute representations and warranties hereunder.

10. Representations and Warranties of Buyer. Buyer hereby represents and warrants to Seller as follows: Buyer is a corporation duly organized and validly existing and in good standing under the laws of the State of Maryland and qualified to do business in the State of California; this Agreement and all docu-

ments executed by Buyer pursuant to this Agreement are or will be duly authorized, executed and delivered by Buyer, and are or will be legal, valid and binding obligations of Buyer, and do not and will not violate any provisions of any agreement or judicial order to which Buyer is subject.

11. Continuation and Survival. All representations, warranties and covenants by the respective parties contained herein or made in writing pursuant to this Agreement are intended to and shall be deemed made as of the date of this Agreement or such writing and again at the Closing, shall be deemed to be material, and unless expressly provided to the contrary shall survive the execution and delivery of this Agreement, the Deed and the Closing. Notwithstanding the immediately preceding sentence, the representations and warranties of Seller shall only survive for a period of three (3) years after the Closing (the "Survival Period") , except in the case of fraud or willful misrepresentation, in which case such representations and warranties shall survive independent of this limitation; provided, however that for matters as to which Buyer has given Seller written notice within the Survival Period, the representation and warranties of Seller that are related to the matters in such written notice shall survive until all liabilities arising out of the matters described in such written notice have been satisfied.

12. Casualty or Condemnation.

(a) In the event any of the Property is damaged and/or destroyed by fire or other casualty prior to the Closing Date, and the cost to repair and/or restore such damage and/or destruction (which cost, for purposes of this paragraph, shall be deemed to include reasonably anticipated post-Closing rental loss through to completion of such repair and/or restoration) exceeds One Hundred Thousand Dollars (\$100,000), then Buyer shall have the right to terminate this Agreement by written notice to Seller within ten (10) business days after Buyer's first learning of the occurrence of such casualty and the cost of such repair and/or restoration. In the event of any such termination, the Deposit shall be returned to Buyer, Buyer and Seller shall each be liable for one-half of any escrow fees or charges, and neither party shall have any further liability or obligation under this Agreement.

(b) In the event any of the Property is damaged and/or destroyed by fire or other casualty prior to the Closing Date where (i) the cost to repair and/or restore such damage and/or destruction does not exceed One Hundred Thousand Dollars (\$100,000.00) , or (ii) the cost to repair and/or restore such damage and/or destruction exceeds One Hundred Thousand Dollars (\$100,000.00) but this Agreement is not terminated pursuant to (a) above as a result thereof, then the Closing Date shall occur as scheduled notwithstanding such damage; provided, however, that Seller's interest in all proceeds of insurance payable by reason of such casualty shall be assigned to Buyer as of the Closing Date or credited to Buyer if previously received by Seller, and Buyer shall receive a credit toward the Purchase Price for any cost of repair not covered by such insurance

(whether by reason of insurance deductible, co-insurance, uninsured casualty or otherwise).

(c) In the event a governmental entity commences eminent domain proceedings to take any material (in Buyer's reasonable discretion) portion of the Property after the date hereof and prior to the Closing Date, then Buyer shall have the option to terminate this Agreement by written notice to Seller within ten (10) business days after Buyer first learns of such commencement. In the event of any such termination, the Deposit shall be returned to Buyer, Buyer and Seller shall each be liable for one-half of any escrow fees or charges, and neither party shall have any further liability or obligation under this Agreement.

(d) In the event a governmental entity commences eminent domain proceedings to take any part of the Property after the date hereof and prior to the Closing Date and this Agreement is not terminated pursuant to (c) above as a result thereof, then the Closing Date shall occur as scheduled notwithstanding such proceeding; provided, however, that Seller's interest in all awards arising

-12-

13

out of such proceedings shall be assigned to Buyer as of the Closing Date or credited to Buyer if previously received by Seller.

13. Possession. Possession of the Property shall be delivered by Seller to Buyer on the Closing Date, provided, however, that prior to the Closing Date Seller shall afford authorized representatives of Buyer access to the Property (during normal business hours and subject to the rights of the current tenants) for purposes of satisfying Buyer with respect to the representations, warranties and covenants of Seller contained herein and with respect to satisfaction of any Buyer Condition Precedent to the Closing contained herein, including without limitation an environmental investigation. Buyer hereby agrees to indemnify and hold Seller harmless from any damage or injury to persons or property caused by Buyer or its authorized representatives during their entry and investigations prior to Closing.

14. Maintenance of the Property and Property Personnel. Between Seller's execution of this Agreement and the Closing, Seller shall maintain the Property in good order, condition and repair, reasonable wear and tear excepted, shall perform all work required to be performed by the landlord under the terms of any Lease, and shall make all repairs, maintenance and replacements of the Improvements and any Tangible Personal Property and otherwise operate the Property in the same manner as before the making of this Agreement, as if Seller were retaining the Property. After full execution of this Agreement and until the Closing, Seller shall maintain all existing personnel on the Property in

their current employment positions at not less than their current rate of compensation. Without limiting the effectiveness of the foregoing provisions or the other provisions of this Agreement with respect to such Service Contracts, in the event of the Closing of the purchase of the Property, Buyer shall not retain the existing employees and management agents of Seller for the Property, and, accordingly, on the Closing, Seller shall (i) cause all employment and management agreements respecting the Property to be terminated, and deliver evidence of such termination to Buyer, and (ii) remove all employees and management personnel from the Property.

15. Leasing; Buyer's Consent to New Contracts Affecting the Property; Termination of Existing Contracts. Seller shall use, or cause the Property's manager to use, commercially reasonable efforts until Closing to lease any vacant space, or space becoming vacant, in the Real Property to creditworthy tenants at current market rents and terms. Seller shall not, after the date of this Agreement, enter into any lease or contract affecting the Property, or any amendment thereof, or permit any tenant to enter into any sublease, assignment or agreement pertaining to the Property (except as expressly authorized by such tenant's Lease), or waive, compromise or settle any rights of Seller under any contract or Lease, or agree to return any security deposit, or modify, amend, or terminate any Assigned Contract, without in each case obtaining Buyer's prior written consent thereto. Seller shall terminate prior to the Closing, at no cost or expense to Buyer, any and all Service Contracts that are not Assigned Contracts.

16. Insurance. Through the Closing Date, Seller shall maintain or cause to be maintained, at Seller's sole cost and expense- and each in the amount and form maintained by Seller prior to the date of this Agreement:

(a) a policy or policies of insurance (subject only to commercially reasonable deductibles) insuring the Improvements and Tangible Personal Property against all insurable risks customarily covered by casualty insurance and the costs of demolition and debris removal; and

(b) a policy or policies of workers' compensation and employers' liability insurance, commercial general liability insurance, and automobile liability insurance.

17. Cooperation with Buyer. Seller's representations and warranties shall not be affected or released by Buyer's waiver or fulfillment of any Buyer Condition Precedent: Seller hereby irrevocably authorizes Buyer and its agents

to make all inquiries with and applications to any third party, including any governmental authority, as Buyer may reasonably require to complete its due

diligence.

18. Brokers and Finders. Neither party has had any contact or dealings regarding the Property, or any communication in connection with the subject matter of this transaction, through any real estate broker or other person who can claim a right to a commission or finder's fee in connection with the sale contemplated herein except for CB Commercial ("Broker"), whose entire commission shall be the responsibility of Seller. In the event that any other broker or finder claims a commission or finder's fee based upon any contact, dealings or communication, the party through whom the broker or finder makes its claim shall be responsible for said commission or fee and all costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by the other party in defending against the same. The party through whom any other broker or finder makes a claim shall hold harmless, indemnify and defend the other party hereto, its successors and assigns, agents, employees, officers and directors, and the Property from and against any and all obligations, liabilities, claims, demands, liens, encumbrances and losses (including, without limitation, attorneys' fees), whether direct, contingent or consequential, arising out of, based on, or incurred as a result of such claim. The provisions of this Paragraph shall survive the termination of this Agreement.

19. REIT. Buyer hereby advises Seller that Buyer is qualified as a real estate investment trust under the provisions of the Internal Revenue Code of 1986, as amended, and that, by reason thereof, the maintaining of such status and the avoiding of any activity which might cause a penalty tax to be applied is of material concern to Buyer. Accordingly, Seller agrees to make any modifications or amendments to this Agreement requested by Buyer prior to the expiration of the Due Diligence Period that may be necessary for Buyer to maintain its status as a real estate investment trust or in order for it to avoid a penalty tax; provided, however, that Seller shall have no obligation to enter into any such modification or amendment that would materially alter or affect, in Seller's sole judgment, Seller's rights, duties, or obligations under this Agreement, or would cause Seller to incur any material costs.

20. Miscellaneous.

(a) Notices. Any notice, consent or approval required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given upon (i) hand delivery or facsimile transmission, (ii) one business day after being deposited with Federal Express or another reliable overnight courier service for next day delivery, or (iii) the date of receipt or refusal of delivery if deposited in the United States mail, registered or certified mail, postage prepaid, return receipt required, and addressed as follows:

If to Seller:

c/o Meyer Asset Management, Inc.
4040 North Palm Street, Suite 401
Fullerton, California 92835
Attention: Mary Novikoff
Phone: (714) 578-2670
Fax: (714) 773-9212

with a copy to:

Sonnenschein, Nath & Rosenthal
601 South Figueroa Street,
Suite 1500
Los Angeles, California 90017
Attention: Charles R. Campbell
Phone: (213) 623-9300
Fax: (213) 623-9924

-14-

15

If to Buyer:

Pacific Gulf Properties Inc.
4220 Von Karman, Second Floor
Newport Beach, CA 92660
Attention: Mr. Lonnie Nadal
Phone: (714) 223-5000
Fax: (714) 223-5033

With a copy to:

Cox, Castle & Nicholson LLP
2049 Century Park East
Suite 2800
Los Angeles, CA 90067
Attention: John H. Kuhl
Phone: (310) 284-2267
Fax: (310) 277-7889

If to Escrow
Holder:

Janelle Cowan
Fidelity National Title Insurance Company
17911 Von Karman, Suite 540
Phone: (714) 622-4925
Fax: (714) 477-6814

or such other address as either party may from time to time specify in writing to the other.

(b) Successors and Assigns. Buyer shall not have the right to assign this Agreement without the consent or approval of Seller except to a person or entity affiliated with Buyer. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors, heirs, administrators and assigns.

(c) Amendments. Except as otherwise provided herein, this Agreement may be amended or modified only by a written instrument executed by Seller and Buyer.

(d) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

(e) Merger of Prior Agreements. This Agreement and the exhibits hereto constitute the entire agreement between the parties and supersede all prior agreements and understandings between the parties relating to the subject matter hereof, including without limitation any letter of intent which shall be of no further force or effect upon execution of this Agreement by Buyer and Seller.

(f) Timing. For purposes of this Agreement "business day" shall mean any day other than a Saturday, Sunday, California State or national holiday or other day on which commercial bankers in California are generally not open for business.

(g) Severability. If any provision of this Agreement, or the application thereof to any person, place, or circumstance, shall be held by a court of competent jurisdiction to be invalid, unenforceable or void, the remainder of this Agreement and such provisions as applied to other persons, places and circumstances shall remain in full force and effect.

(h) Counterparts. This Agreement, and any document executed in connection with this Agreement, may be executed in any number of counterparts each of which shall be deemed an original and all of which shall constitute one and the same agreement with the same effect as if all parties had signed the same signature page. It shall not be necessary that the signatures of, or on behalf of, each party, or that the signatures of all persons required to bind any party, appear on a single counterpart, but it shall be sufficient that the signature of, or on behalf of, each party, appear on one or more of the counterparts. Any signature page of this Agreement, and any document executed in connection with this Agreement, may be detached from any counterpart of this Agreement or such other document and reattached to any other counterpart of this Agreement or such

-15-

16

other document identical in form hereto or thereto but having attached to it one or more additional signature pages. This Agreement, and any document executed in connection with this Agreement (except for the Deed or any other document to be recorded), shall be deemed executed and delivered upon each party's delivery of executed signature pages of this Agreement or such other document, which signature pages may be delivered by facsimile with the same effect as delivery of the originals.

(i) No Waiver. Except with respect to items which must be

approved or disapproved by Buyer prior to the expiration of the Due Diligence period, no delay or failure on the part of any party hereto in exercising any right, power or privilege under this Agreement or under any other instrument or document given in connection with or pursuant to this Agreement shall impair any such right, power or privilege or be construed as a waiver of any default or any acquiescence therein. No single or partial exercise of any such right, power or privilege shall preclude the further exercise of such right, power or privilege. No waiver shall be valid against any party hereto unless made in writing and signed by the party against whom enforcement of such waiver is sought and then only to the extent expressly specified herein.

(j) Legal Representation. Each party has been represented by legal counsel in connection with the negotiation of the transactions herein contemplated and the drafting and negotiation of this Agreement. Each party and its counsel has had an opportunity to review and suggest revisions to the language of this Agreement. Accordingly, no provision of this Agreement shall be construed for or against or interpreted to the benefit or disadvantage of any party by reason of any party having or being deemed to have structured or drafted such provision.

(k) Enforcement. In the event a dispute arises concerning the performance, meaning or interpretation of any provision of this Agreement, the defaulting party or the party not prevailing in such dispute shall pay any and all costs and expenses incurred by the other party in enforcing or establishing its rights hereunder, including, without limitation, court costs and attorneys' fees. In addition to the foregoing award of attorneys' fees to the prevailing party, the prevailing party in any lawsuit on this Agreement shall be entitled to its attorneys' fees incurred in any post judgment proceedings to collect or enforce the judgment. This provision is separate and several and shall survive the merger of this Agreement into any judgment on this Agreement.

(l) Exhibits. All exhibits attached hereto are incorporated herein as though fully set forth herein.

[rest of page left intentionally blank)

-16-

17

(m) Joint and Several Liability. All entities constituting "Seller" hereunder shall be jointly and severally liable for the faithful performance of the terms and conditions hereof, and of any other document executed in connection herewith, to be performed by Seller.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

BUYER:

PACIFIC GULF PROPERTIES INC.,
a Maryland corporation

By:

(Print Name and Title)

By: [SIG]

LO Nadal, S.V.P.

(Print Name and Title)

SELLER:

FULLERTON BUSINESS CENTER, 1976, a
California limited partnership

By: MEYER INDUSTRIAL PROPERTIES -
FULLERTON 1976, a California general
partnership, general partner

By:

Richard J. Meyer, General Partner

By:

Robert E. Meyer, General Partner

[BUYER AND SELLER TO INITIAL PARAGRAPH 7]

Fidelity National Title Insurance Company agrees to act as Escrow Holder in
accordance with the terms of this Agreement.

FIDELITY NATIONAL TITLE INSURANCE COMPANY

By:

(Print Name and Title)

-17-

18

EXHIBIT A

RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO:

Pacific Gulf Properties Inc.
4220 Von Karman, Second Floor
Newport Beach, California 92660-2002
Attention: Mr. Lonnie Nadal

MAIL TAX STATEMENT TO:

Pacific Gulf Properties Inc.

to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/ their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s) , or the entity upon behalf of which the person(s) acted, executed the within instrument.

WITNESS my hand and official seal.

Notary Public

STATE OF CALIFORNIA)
) ss.
COUNTY OF)

On _____, 1997, before me, the undersigned, a Notary Public in and for said County and State, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s) , or the entity upon behalf of which the person(s) acted, executed the within instrument.

WITNESS my hand and official seal.

Notary Public

20

SCHEDULE 1 TO DEED
LEGAL DESCRIPTION

21

DECLARATION OF DOCUMENTARY TRANSFER TAX

DO NOT RECORD

County Recorder
Orange County, California

It is hereby requested that this Declaration of Documentary Transfer Tax not be recorded with the attached Grant Deed, but be affixed to the Grant Deed after it is recorded and before it is returned.

The Grant Deed names FULLERTON BUSINESS CENTER, 1976, as Grantor, and PACIFIC GULF PROPERTIES INC., as Grantee. The property being transferred is located in the City of Fullerton, County of Orange, State of California. The Assessor's Parcel No. is _____.

The undersigned Grantor hereby declares that the amount of Documentary Transfer Tax due on the attached Grant Deed is \$_____, computed on the full value of the interest or property conveyed.

I declare under penalty of perjury that the foregoing is true and correct.

FULLERTON BUSINESS CENTER, 1976, a California limited partnership

By: MEYER INDUSTRIAL PROPERTIES - FULLERTON 1976, a California general partnership, general partner

By:

Richard J. Meyer, General Partner

By:

Robert E. Meyer, General Partner

EXHIBIT B

BILL OF SALE
(Fullerton)

FOR VALUE RECEIVED, FULLERTON BUSINESS CENTER, 1976, ("Seller") hereby sells, conveys and assigns to PACIFIC GULF PROPERTIES INC., a Maryland corporation, all of Seller's right, title and interest in and to any personal property located upon or used in the ownership, operation, management, maintenance and/or repair of that certain real property commonly known as "Fullerton Business Center" and described in Schedule 1 attached hereto and incorporated herein by this reference and the improvements thereon (collectively, the "Personal Property").

TO HAVE AND TO HOLD the Personal Property unto the grantee and its successors and assigns forever.

Seller warrants that it owns good and marketable title to the Personal Property and will defend title to the Personal Property against all persons claiming a prior right thereto to the extent that such prior right is alleged to exist on or before the date of this Bill of Sale.

All entities constituting Seller shall be jointly and severally liable for the faithful performance of the terms and conditions hereof to be performed by Seller.

IN WITNESS WHEREOF, Seller has executed this Bill of Sale on this ____ day of _____, 1997.

FULLERTON BUSINESS CENTER, 1976, a California limited partnership

By: MEYER INDUSTRIAL PROPERTIES - FULLERTON 1976, a California general partnership, general partner

By:

Richard J. Meyer, General Partner

By:

Robert E. Meyer, General Partner

23

LEGAL DESCRIPTION OF THE PROPERTY

24

EXHIBIT C

ASSIGNMENT OF SERVICE CONTRACTS, WARRANTIES,
GUARANTIES, PERMITS AND OTHER INTANGIBLE PROPERTY
(Fullerton)

THIS ASSIGNMENT OF SERVICE CONTRACTS, WARRANTIES, GUARANTIES AND OTHER

INTANGIBLE PROPERTY (this "Assignment") is made as of _____
1997, by FULLERTON BUSINESS CENTER, 1976, a California limited partnership
("Assignor"), to PACIFIC GULF PROPERTIES INC., a Maryland corporation
("Assignee").

WITNESSETH:

WHEREAS, Assignor is contemporaneously herewith selling pursuant to that certain Purchase and Sale Agreement and Escrow Instructions dated as of _____, 1997, by and between Assignor and Assignee (the "Purchase Agreement") that certain real property and improvements thereon located in the City of Fullerton, County of Orange, State of California, the real property of which is more particularly described on Schedule 1 attached hereto and incorporated herein by this reference. Terms used in this Assignment and not otherwise defined shall be given the meanings defined in the Purchase Agreement.

WHEREAS, Assignor desires to assign its interest in and to the following to Assignee as of the date on which title to the Real Property is vested in Assignee (the "Transfer Date"):

All service contracts described in Schedule 2 attached hereto and incorporated herein by this reference (the "Contracts");

- a) All "Warranties and Guaranties" (hereinafter defined);
- b) All "Names and Marks" (hereinafter defined);
- c) All "Intangible Property" (hereinafter defined); and
- d) All "Permits" (hereinafter defined).

NOW, THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1) As of the Transfer Date, Assignor hereby assigns and transfers unto Assignee all of its right, title, claim and interest in, to and under the (a) Contracts; (b) Warranties and Guarantees; (c) Names and Marks; (d) Intangible Property and (e) Permits (collectively the "Assigned Interests") .

2) The following terms shall have the following meanings:

(A) The term "Warranties and Guaranties" as used herein shall mean and include all warranties and guarantees to the extent assignable, whether or not written, for all or any portion of the Property, including without limitation the Improvements and the Tangible Personal Property, including without limitation construction warranties from contractors and subcontractors.

(B) The term "Names and Marks" as used herein shall mean and include all patents, licenses, trademarks, service marks and names used in connection with the operation of the Property, and all symbols, emblems and logos used in connection with the ownership or operation of the Property, whether in black and

white or in color, and irrespective of size, and all of Assignor's right, title and interest in and to all goodwill associated therewith, including, without limitation the name "Fullerton Business Center".

(C) The term "Intangible Property" as used herein shall mean and include all intangible property relating to or used in connection with the Property, as defined in the Purchase Agreement.

25

(D) The term "Permits" as used herein shall mean and include all governmental permits and approvals relating to the construction, operation, use or occupancy of the Property.

3) In the event of any litigation between Assignor and Assignee arising out of the obligations of the parties under this Assignment or concerning the meaning or interpretation of any provision contained herein, the losing party shall pay the prevailing party's costs and expenses in such litigation, including, without limitation, reasonable attorneys' fees and expenses. In addition to the foregoing award of attorneys' fees to the prevailing party, the prevailing party in any lawsuit on this Agreement shall be entitled to its reasonable attorneys' fees incurred in any post judgment proceedings to collect or enforce the judgment. This provision is separate and several and shall survive the merger of this Assignment into any judgment on this Assignment.

4) This Assignment shall be binding on and inure to the benefit of Assignee and Assignor, and their respective heirs, executors, administrators, successors-in-interest and assigns.

5) This Assignment shall be governed by and construed in accordance with the laws of the State of California.

[rest of page left intentionally blank]

26

6) Nothing contained herein shall be deemed or construed as relieving the Assignor or Assignee of their respective duties and obligations under the Purchase Agreement.

IN WITNESS WHEREOF, Assignor has executed this Assignment as of the date first above written.

ASSIGNOR: FULLERTON BUSINESS CENTER, 1976, a California limited partnership

By: MEYER INDUSTRIAL PROPERTIES - FULLERTON 1976, a California general partnership, general partner

By:

Richard J. Meyer, General Partner

By:

Robert E. Meyer, General Partner

ASSIGNEE: PACIFIC GULF PROPERTIES INC.,
a Maryland corporation

By: [SIG]

(Name) Vice President

(Print Name and/Title)

By: [SIG]

(Name) S.V.P.

(Print Name and Title)

27

Schedule 1
LEGAL DESCRIPTION OF REAL PROPERTY

28

Schedule 2
DESCRIPTION OF THE CONTRACTS

EXHIBIT D

ASSIGNMENT OF LEASES
(Fullerton)

THIS ASSIGNMENT OF LEASES (this "Assignment") dated as of _____, 1997, is made by FULLERTON BUSINESS CENTER, 1976, a California limited partnership ("Assignor"), to PACIFIC GULF PROPERTIES INC., a Maryland corporation ("Assignee").

WITNESSETH:

WHEREAS, Assignor is the lessor under certain leases executed with respect to that certain real property located in the City of Fullerton, County of Orange, State of California (the "Property") more particularly described on Schedule 1 attached hereto and incorporated herein by this reference, which leases are described in Schedule 2 attached hereto and incorporated herein by this reference (the "Leases").

WHEREAS, Assignor is contemporaneously herewith selling the Property to Assignee pursuant to that certain Purchase and Sale Agreement and Escrow Instructions dated as of _____, 1997, by and between Assignor and Assignee (the "Purchase Agreement").

WHEREAS, Assignor desires to assign its interest in and to the Leases to Assignee as of the date on which title to the Property is vested in Assignee (the "Transfer Date").

NOW, THEREFORE, in consideration of the covenants and agreements contained herein, the parties hereby agree as follows:

1. As of the Transfer Date, Assignor hereby assigns to Assignee all of its right, title and interest in and to the Leases.
2. Assignor warrants and represents that as of the Transfer Date, the attached Schedule 2 includes all of the Leases affecting the Property and there are no assignments of or agreements to assign the Leases to any other party.
3. In the event of any litigation between Assignor and Assignee arising out of the obligations of the parties under this Assignment or concerning the meaning or interpretation of any provision contained herein, the losing party shall pay the prevailing party's costs and expenses in such litigation, including, without limitation, reasonable attorneys' fees and expenses. In addition to the foregoing award of attorneys' fees to the prevailing party, the prevailing party in any lawsuit on this Agreement shall be entitled to its reasonable attorneys' fees incurred in any post judgment proceedings to collect or enforce the judgment. This provision is separate and several and shall

survive the merger of this Assignment into any judgment on this Assignment.

4. This Assignment shall be binding on and inure to the benefit of the Assignee and Assignor and their respective heirs, executors, administrators, successors-in-interest and assigns.

5. This Assignment shall be governed by and construed in accordance with the laws of the State of California.

30

6. Nothing contained herein shall be deemed or construed as relieving the Assignor or Assignee of their respective duties and obligations under the Purchase Agreement.

IN WITNESS WHEREOF, Assignor has executed this Assignment as of the date first above written.

ASSIGNOR: FULLERTON BUSINESS CENTER, 1976, a California limited partnership

By: MEYER INDUSTRIAL PROPERTIES - FULLERTON 1976, a California general partnership, general partner

By:

Richard J. Meyer, General Partner

By:

Robert E. Meyer, General Partner

ASSIGNEE: PACIFIC GULF PROPERTIES INC.,
a Maryland corporation

By: [SIG]

(Name) Vice President

(Print Name and/Title)

By: [SIG]

(Name) S.V.P.

(Print Name and Title)

31

Schedule 1
LEGAL DESCRIPTION OF REAL PROPERTY

32

Schedule 2
DESCRIPTION OF THE LEASES

33

EXHIBIT E
ESTOPPEL CERTIFICATE

Tenant: _____
Date: _____, 1997
Address: _____

Lease Date: _____
Commencement Date: _____
Square Footage: _____
Expiration Date: _____
Term In Years: _____
Current Monthly Payments: \$ _____
Base Rental: \$ _____
Operating Expenses: \$ _____
Rent & OE Pmts Are Due: _____
Tax Pmts Are Due: _____
Taxes: \$ _____
Security Deposit: _____

OPTIONS

Check appropriate box below

- Extension option
- Expansion option
- Termination Option
- Purchase Option
and provide details in Paragraph 7 below
- None
- Check here if you have rental escalations and provide details in Paragraph 4 below.

Tenants Proportionate Share Of Taxes And Operating Expenses _____%

=====

THE UNDERSIGNED, AS TENANT UNDER THE LEASE OF THE ABOVE REFERENCED PREMISES ("PREMISES") EXECUTED BY _____ ("LANDLORD"), AS LANDLORD, AND TENANT ON THE ABOVE-REFERENCED LEASE DATE, DOES HEREBY STATE, DECLARE, REPRESENT AND WARRANT TO PACIFIC GULF PROPERTIES INC. ("BUYER") AND ITS ASSIGNEES AS FOLLOWS:

1. Accuracy. That the information contained in this Tenant's Estoppel Certificate is true and correct as of the date above written.

2. Lease. That the copy of the Lease attached hereto as Schedule 1 is a true and correct copy of the Lease which is in full force and effect and which has not been amended, supplemented or changed by letter agreement or otherwise, except as follows [if none, indicate so by writing "NONE" below]:

3. Completion of Premises/No Disputes. Tenant has accepted possession of the Premises, and all conditions to be satisfied by Landlord under the Lease have been completed pursuant to the terms of the Lease, including, but not limited to, completion of construction of the Premises (and all other improvements required under the Lease) in accordance with applicable plans and specifications and within the time periods set forth in the Lease; there are no unreimbursed expenses (except the annual operating expense and tax expense adjustment) including, but not limited to, capital expenses reimbursements; and Tenant has no complaints or disputes with Landlord regarding the overall operation,

maintenance or condition of the Premises or the property within which the Premises is located (the "Property"), or otherwise.

4. Rental Escalation. Base Rental is subject to the following escalation adjustments (if none, indicate so by writing "NONE" below):

5. No Defaults/Claims. Neither Tenant nor, to Tenant's knowledge, Landlord under the Lease is in default under any terms of the Lease nor has any event occurred which with the passage of time (after notice, if any, required by the Lease) would become an event of default under the Lease. Tenant has no claims, counterclaims, defenses or setoffs against Landlord arising from the Lease, the Premises or the Property, nor is Tenant entitled to any concession, rebate, allowance or free rent for any period after this certification.

6. No Advance Payments. No rent has been paid more than one (1) month in advance by Tenant except for the current month's rent, and no security (other than a security deposit in the amount of \$ _____ has been deposited with Landlord.

7. No Options/Purchase Rights. Tenant has no right of first refusal to purchase the Property or any interest therein and no right to cancel or terminate the Lease except as follows [if none, indicate so by writing "NONE" below]:

8. No modification of Lease. From the date of this Estoppel Certificate through _____, 19__, no modification or amendment to the Lease, forgiveness of payment of rent or other amount due under the Lease, grant of extension or option, or prepayment of rents may be made except upon the written consent thereto executed by Buyer, which consent may be unreasonably withheld if not otherwise provided in the Lease.

9. Parking. The number of parking spaces allotted to Tenant under the terms of the Lease, for the use of its employees, agents, invitees and licensees is _____; of these spaces, _____ are reserved for Tenant's exclusive use.

10. No Sublease/Assignment. Tenant has not entered into any sublease, assignment or any other agreement transferring any of its interest in the Lease or the Premises, except as follows:

11. No Notice. Tenant has not received written notice of any assignment, hypothecation, mortgage, or pledge of Landlord's interest in the Lease or the rents or other amounts payable thereunder, except those listed below.

12. Hazardous Materials. No hazardous or toxic substance (including without limitation PCB's, petroleum, petroleum products and fractions thereof) has been used, treated, stored or disposed of on the Premises or Property in violation of environmental laws by Tenant or, to Tenant's knowledge, any other party. No underground storage tanks exist or, to Tenant's knowledge, have existed on or under the Property. Tenant does not have any permits or identification numbers

issued by any environmental or governmental agency with respect to its operations on the Premises, except those listed below.

35

13. Reliance. Tenant recognizes and acknowledges it is making these representations to Buyer with the intent that Buyer and any assigns of Buyer will fully rely on Tenant's representations.

14. Binding. The provisions hereof shall be binding upon and inure to the benefit of the successors, assigns, personal representatives and heirs of Tenant and Buyer.

EXECUTED BY TENANT, IF TENANT IS A SOLE PROPRIETOR OR A GENERAL PARTNERSHIP, OR BY AN OFFICER OF TENANT, IF TENANT IS A CORPORATION, ON THE DATE FIRST WRITTEN ABOVE.

BY:

a

BY:

NAME:

TITLE:

36

Schedule 1 to Estoppel Certificate
LEASE

EXHIBIT F

FORM OF NOTICE TO TENANTS

_____, 1997

To: _____

RE: Notice of Lease Assignment

This letter is to notify you that the property commonly known as the _____ ("Property") has this date been sold and ownership transferred.

In connection with this sale, all of the interest of the lessor under your lease of space in the Property has been transferred. You are hereby notified that, from and after the date hereof and until further notice, all future payments under your lease should be made payable to " _____ " (the "Property manager") and mailed to the Property Manager, whose address is _____ . In addition, all questions or other matters regarding your lease should be directed to the Property Manager at (____) _____ .

Also in connection with this sale, if you have paid a security deposit in connection with your lease, it has been transferred to the Property Manager. The return of any such security deposit will be conditioned upon and subject to the terms and conditions of the lease and the legal requirements of the State of California. All future inquiries regarding security deposits are to be directed to the Property Manager.

Thank you for your cooperation.

Very truly yours,

EXHIBIT G
TRANSFEROR'S CERTIFICATION OF NON-FOREIGN STATUS

To inform PACIFIC GULF PROPERTIES INC., a Maryland corporation ("Transferee"), that withholding of tax under Section 1445 of the Internal Revenue Code of 1986, as amended ("Code"), will not be required upon the transfer of certain real property to the Transferee by FULLERTON BUSINESS CENTER, 1976 ("Transferor"), the undersigned hereby certifies the following on behalf of the Transferor:

1. The Transferor is not a foreign corporation, foreign partnership, foreign trust, foreign estate or foreign person (as those terms are defined in the Code and the Income Tax Regulations promulgated thereunder);

2. The Transferor's U.S. employer or tax (social security) identification number is 95-3709408;

The Transferor understands that this Certification may be disclosed to the Internal Revenue Service by the Transferee and that any false statement contained herein could be punished by fine, imprisonment, or both.

The Transferor understands that the Transferee is relying on this Certification in determining whether withholding is required upon said transfer.

The Transferor hereby agrees to indemnify, defend and hold the Transferee harmless from and against any and all obligations, liabilities, claims, losses, actions, causes of action, rights, demands, damages, costs and expenses of every kind, nature or character whatsoever (including, without limitation, reasonable attorneys' fees and court costs) incurred by the Transferee as a result of: (i) the Transferor's failure to pay U. S. Federal income tax which the Transferor is required to pay under applicable U.S. law; or (ii) any false or misleading statement contained herein.

Under penalty of perjury I declare that I have examined this Certification and to the best of my knowledge and belief it is true and correct and complete, and I further declare that I have authority to sign this document on behalf of the Transferor.

Date: _____, 1997

FULLERTON BUSINESS CENTER, 1976, a California limited partnership

By: MEYER INDUSTRIAL PROPERTIES - FULLERTON 1976, a California general partnership, general partner

By:

Richard J. Meyer, General Partner

By:

Robert E. Meyer, General Partner

39

EXHIBIT H
RENT ROLL

40

EXHIBIT I
DISCLOSURE OF UNPAID COSTS AND OBLIGATIONS

AGREEMENT OF PURCHASE AND SALE
AND JOINT ESCROW INSTRUCTIONS
(Norwood Industrial Park Disposition)

THIS AGREEMENT OF PURCHASE AND SALE AND JOINT ESCROW INSTRUCTIONS ("Agreement") is made and entered into as of this 10 day of December, 1997 ("Execution Date"), by and between PMRA III, a group trust ("Seller") and PACIFIC GULF PROPERTIES INC., a Maryland corporation ("Buyer"), with respect to the following.

RECITALS

A. WHEREAS, Seller owns certain improved real property, which is commonly known as Norwood Industrial Parks I and II, located at 251, 261 and 271 Opportunity Street, 3950 Development Drive and 3951 Research Drive in the city of Sacramento ("City"), county of Sacramento ("County"), state of California ("State"), which is more particularly described on Exhibit "A" attached hereto (the "Land"), together with (i) the building and all other improvements located on the Land (the "Improvements") (ii) all rights, easements, and appurtenances pertaining to the Real Property, including any right, title and interest of Seller in and to adjacent streets, roads, alleys and rights of way; (iii) all the personal property owned by Seller, if any, located upon or in the Real Property and the Improvements and used exclusively in connection with the operation thereof ("Personal Property"); (iv) all of Seller's right, title and interest in and to any rental agreements with occupants, tenants and leases of the Improvements and/or the Real Property, including, but not limited to, all refundable and nonrefundable security, rental and cleaning deposits, and prepaid rent held by Seller (hereinafter collectively referred to as "Tenant Leases"; all tenants under such Tenant Leases are hereinafter collectively referred to as "Tenants"); and (v) such other rights, interests, and properties as may be specified in this Agreement to be sold, transferred, assigned, or conveyed by Seller to Buyer.

B. WHEREAS, the Real Property, together with the Improvements, Personal Property, Tenant Leases and other rights, interests, easement, appurtenances, and properties described in this Agreement, are hereinafter collectively called the "Property."

C. WHEREAS, Seller desires to sell the Property to Buyer, and Buyer desires to purchase the Property from Seller, upon the terms and conditions set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, incorporating the foregoing recitals, and in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer agree that the terms and conditions of this Agreement and the instructions to Chicago Title

Insurance Company ("Escrow Holder"), with regard to the escrow ("Escrow") created pursuant hereto are as follows.

1. Purchase and Sale. Seller hereby agrees to sell the Property to Buyer, and Buyer hereby agrees to purchase the Property from Seller, upon the terms and conditions set forth in this Agreement.

2. Purchase Price. The purchase price ("Purchase Price") for the Property shall be Four Million Seven Hundred Thousand Dollars (\$4,700,000.00), which shall be paid in accordance with the terms of Paragraph 3 below.

3. Payment of Purchase Price. The Purchase Price for the Property shall be paid by Buyer as set forth below in this Paragraph 3.

3.1 Deposit. Within one (1) day after the "Opening of Escrow" (as defined below in Paragraph 4.1), Buyer shall deposit, or cause to be deposited, with Escrow Holder the sum of One Hundred Thousand and No/100 Dollars (\$100,000.00) in immediately available funds (the "Initial Deposit"). Until 5:00 p.m. Pacific Standard time on December 17, 1997 ("Contingency Date"), the Initial Deposit shall remain immediately refundable to Buyer upon demand if the transaction contemplated by this Agreement is not consummated for any reason whatsoever. If this Agreement has not previously terminated, then within one (1) business day after the Contingency Date, Buyer shall deposit, or cause to be deposited, with Escrow Holder the additional sum of One Hundred Thousand and No/100 Dollars (\$100,000.00) ("Additional Deposit") (together with any interest which accrues thereon, the Initial Deposit and the Additional Deposit are hereinafter collectively referred to as the "Deposit"). Escrow Holder shall immediately invest the Deposit in a federally-insured, interest-bearing account and all interest accruing thereon shall be credited to Buyer. From and after the Contingency Date, the Deposit shall not be refundable unless the transaction contemplated by this Agreement is not consummated solely as the result of Seller's default or the failure of a condition precedent to the Close of Escrow for the benefit of Buyer. Upon the "Close of Escrow" (as defined below in Paragraph 4.2), the Deposit shall be credited toward payment of the Purchase Price.

3.2 Cash Balance. Not later than 11:00 a.m. Pacific Standard time on the Closing Date, Buyer shall deposit or cause to be deposited, with Escrow Holder, in immediately available funds, the balance of the Purchase Price, plus or minus Buyer's share of closing costs and charges set forth in Paragraph 10 below and Buyer's share of prorations set forth on the Proration and Expense Schedule (as defined below in paragraph 11) payable pursuant to this Agreement.

4. Escrow.

4.1 Opening of Escrow. For the purposes of this Agreement, the Escrow shall be deemed opened ("Opening of Escrow") on the date Escrow Holder receives an original of this Agreement fully executed by Buyer and Seller, which shall

-2-

3

occur no later than December 10, 1997, or such later date as the parties may agree in writing, or this Agreement shall automatically and irrevocably terminate. Escrow Holder shall promptly notify Buyer and Seller in writing of the Opening of Escrow. Buyer and Seller agree to execute, deliver and be bound by any reasonable or customary supplemental escrow instructions or other instruments reasonably required by Escrow Holder to consummate the transaction contemplated by this Agreement; provided, however, that no such instruments shall be

inconsistent or in conflict with, amend or supersede any portion of this Agreement. If there is any conflict or inconsistency between the terms of such instruments and the terms of this Agreement, then the terms of this Agreement shall control.

4.2 Close of Escrow. For purposes of this Agreement, the "Close of Escrow" shall be the date that the Deed (as defined below in Paragraph 9.1.1) is recorded in the Official Records of the County (the "Official Records"). Unless changed in writing by Buyer and Seller, the Close of Escrow shall occur on or before December 23, 1997 (the "Closing Date").

4.3 Delivery and Possession. At the Close of Escrow, Seller shall deliver to Buyer (a) possession of the Property, subject to all title-matters of record or apparent, including, without limitation, all Approved Title Conditions (as defined below in Paragraph 5), and (b) all keys to the Improvements in Seller's possession or control (which Seller may cause to occur through its property manager).

5. Condition of Title. As a condition precedent to the Close of Escrow for Buyer's benefit, title to the Property shall be conveyed to Buyer by Seller by the Deed subject only to the following approved conditions of title (collectively, the "Approved Title Conditions").

5.1 Taxes. A lien to secure payment of real estate taxes not delinquent shall constitute an Approved Title Condition.

5.2 Approved Matters. Matters affecting the Property created by or with the written consent of Buyer shall constitute Approved Title Conditions.

5.3 Additional Matters. Exceptions which are disclosed by the Report (as defined below in Paragraph 7.1) and which are approved or deemed approved by Buyer in accordance with the terms of Paragraph 7.1 shall constitute Approved Title Conditions.

5.4 Monetary Encumbrances. Notwithstanding anything to the contrary contained herein and notwithstanding any approval or consent given by Buyer hereunder, Seller shall use good faith efforts to cause all mortgages, deeds of trust and other monetary encumbrances caused by Seller, including, without limitation, all mechanics' liens, but excluding non-delinquent real property taxes, to be released and reconveyed from the Property on or prior to the Closing Date.

-3-

4

6. Buyer's Title Policy. Provided that Buyer has timely obtained and delivered to Title Company (as defined below in Section 7.1) an ALTA survey of the Land ("Survey"), at Buyer's sole expense, in form and substance satisfactory to Title Company and in time for Title Company to confirm, by the Contingency Date, its willingness to issue an ALTA Owner's Policy of Title Insurance (Form B, rev. 10/17/70, with Endorsement Form 1 coverage) in the amount of the Purchase Price showing title to the Real Property vested in Buyer subject only to the Approved Title Conditions and with CLTA endorsement nos. 100 (modified for an owner), 101.4, 103.7, 116, 116.1 and 116.7, then as a condition precedent to Buyer's obligations under this Agreement, Title Company shall issue the Title Policy in such form upon the Close of Escrow. If Buyer fails to timely deliver the Survey to Title Company, then Title Company's willingness to issue an ALTA Owner's Policy of Title Insurance, but with a general survey exception, shall constitute satisfaction of this condition precedent to Buyer's obligations under this Agreement with respect to matters of title to the Real Property (as applicable, the "Title Policy"). To facilitate the process of procuring the Survey, Seller shall deliver to Buyer the most recent ALTA survey of the Property in Seller's possession within two (2) business days after the

7. Conditions Precedent to the Close of Escrow for the Benefit of Buyer. The Close of Escrow and Buyer's obligation to consummate the transaction contemplated by this Agreement are subject to the timely satisfaction or written waiver of the following conditions precedent for Buyer's benefit by the dates designated below. Unless otherwise specified below, Buyer's failure to timely deliver written notice of its disapproval of the matter(s) set forth below in this Paragraph 7 shall be deemed to constitute Buyer's irrevocable approval thereof

7.1 Title. Buyer shall have approved the legal description of the Land and any matters of title disclosed by the following documents (collectively, the "Title Documents") prepared and delivered to Buyer by Chicago Title Insurance Company, National Business Unit (Mr. John Premac) (the "Title Company"): (A) a standard preliminary title report issued by the Title Company with respect to the Property (the "Report"); and (B) copies of all recorded documents referred to in the Report. Buyer shall have until 5:00 p.m. Pacific Standard time on the Contingency Date, to deliver to Seller written notice ("Buyer's Title Notice") of Buyer's disapproval or conditional approval of any matters shown in or disclosed by the Title Documents or the survey, if Buyer obtains a survey of the Property in a timely manner. Buyer's failure to timely deliver Buyer's Title Notice shall be deemed to constitute Buyer's disapproval of all matters of title. Upon the Closing Date, the Title Company shall be prepared to issue to Buyer the Buyer's Title Policy in the form and substance required by the provisions of Paragraph 6, subject only to the Approved Title Conditions.

7.2 Physical Inspections and Studies. Buyer shall have the right to approve or disapprove, in Buyer's sole discretion, the results of Buyer's inspections, investigations, tests and studies, including, without limitation, investigations with regard to zoning, building codes and other governmental regulations, architectural inspections, engineering tests, and soils, seismic and geologic reports with respect to the Property, inspections of all or any portion of the Improvements (including, without limitation,

-4-

5

structural, mechanical and electrical systems, roofs, pavement, landscaping and public utilities), and any other physical inspections and/or investigations as Buyer may elect to make or obtain (collectively, the "Tests") by delivering written notice thereof to Seller and Escrow Holder by the Contingency Date. Buyer's failure to timely approve in writing the results of the Tests shall be deemed to constitute Buyer's disapproval thereof

7.3 Seller's Deliveries. At least one (1) business day prior to the Closing Date, Seller shall have delivered to Escrow Holder the documents described in Paragraph 9.1.

7.4 Representations and Warranties. All representations and warranties of Seller contained in this Agreement shall be true and correct as of the date made and as of the Close of Escrow with the same effect as if those representations and warranties were made at and as of the Close of Escrow.

7.5 Covenants. By the Closing Date, Seller shall not be in default in the performance of any covenant or agreement to be performed by Seller under this Agreement.

7.6 Tenant Estoppels. As a condition precedent to Buyer's obligation to close this transaction, Seller shall obtain and deliver to Buyer, by

December 16, 1997, Tenant Estoppel Certificates in the form attached hereto as Exhibit "G" executed by all Tenants of the Property as of the Execution Date, which Buyer shall have the right to disapprove only if a Tenant Estoppel Certificate discloses (A) a material default of the landlord or Tenant under the applicable Tenant Lease, or (B) a material discrepancy with the corresponding Tenant Lease. Seller shall have the right, but not the obligation, to satisfy the foregoing requirement for Tenant's occupying, in the aggregate, up to, but not more than, 30% of the leased area of the Improvements, by executing Tenant Estoppel Certificates, modified as follows ("Landlord Estoppel Certificate"): (X) qualified to Seller's actual knowledge (as defined in this Agreement), and (Y) to survive only until the expiration of the representations and warranties in this Agreement or the earlier receipt by Buyer of a Tenant Estoppel Certificate for the corresponding Tenant Lease to the extent that such Tenant Estoppel Certificate does not materially deviate from the matters set forth in the corresponding Landlord Estoppel Certificate. Notwithstanding anything to the contrary contained herein, the failure of the condition precedent set forth in this Paragraph 7.6 shall not be deemed to constitute a default by Seller under this Agreement.

7.7 New Matters. If, after the Contingency Date, there shall come to exist or if Seller or Buyer shall then learn, discover or become aware of the disposal or discharge after the end of the Due Diligence Period on the Property of any hazardous or toxic materials or wastes (as such terms are defined under federal, State or local law) or of any new, changed, or additional item, matter, fact or circumstance affecting title to the Property or rendering a representation and/or warranty by Seller hereunder untrue (collectively, "New Matter"), then the party who has learned, discovered, or become aware of such New Matter shall promptly give written notice to the other of same. Buyer shall have two (2) business days after (a) receipt of notice from Seller, or (b) delivery of Buyer's notice to Seller, of a New Matter within which to disapprove such New

-5-

6

Matter by delivering written notice to Seller. Buyer's failure to timely disapprove any New Matter shall be deemed to constitute Buyer's approval thereof. If Buyer disapproves or is deemed to disapprove a New Matter in accordance with this Section 7.7, then within two (2) business days thereafter, Seller shall have the right to either (i) accept Buyer's disapproval by delivering written notice thereof to Buyer (or failing to provide timely written notice of item (ii) below), whereupon this Agreement shall terminate, the Deposit shall be promptly refunded by Escrow Holder to Buyer and neither party shall have any further rights or obligations hereunder, except to the extent that such matters expressly survive the termination of this Agreement, or (ii) notify Buyer that it has elected to extend the Close of Escrow for a period of up to thirty (30) days within which Seller may pursue cure of the New Matter by delivering written notice thereof to Buyer. If Seller exercises its right to delay the Close of Escrow and does not cure the New Matter by the delayed Closing Date, then a condition precedent to Buyer's obligations under this Agreement shall be deemed to have failed, Seller shall not be deemed to have defaulted under this Agreement, and this Agreement shall terminate as described above in subsection (i).

8. Conditions Precedent to the Close of Escrow for the Benefit of Seller. The Close of Escrow and Seller's obligations with respect to the transaction contemplated by this Agreement are subject to the timely satisfaction or written waiver of the following conditions precedent for Seller's benefit by the dates designated below.

8.1 Buyer's Deliveries. At least one (1) business day prior to the Closing Date, Buyer shall have delivered to Escrow Holder the documents described in Paragraph 9.2.

8.2 Representations and Warranties. All representations and warranties of Buyer contained in this Agreement shall be true and correct as of the date made and as of the Close of Escrow with the same effect as if those representations and warranties were made at and as of the Close of Escrow.

8.3 Covenants. By the Closing Date, Buyer shall not be in default in the performance of any covenant or agreement to be performed by Buyer under this Agreement.

9. Deliveries to Escrow Holder.

9.1 Deliveries by Seller. At least one (1) business day prior to the Close of Escrow, Seller shall deposit or cause to be deposited with Escrow Holder the following documents and instruments.

9.1.1 Deed. Seller shall deliver to Escrow Holder a grant deed in the form attached hereto as Exhibit "B", duly executed by Seller and acknowledged ("Deed").

9.1.2 FIRPTA. Seller shall deliver to Escrow Holder an executed Transferor's Certification of Non-Foreign Status and an executed California Real Estate Withholding Exemption (Form 590), in the forms attached hereto,

-6-

7

respectively, as Exhibits "C-1" and "C-2", duly executed by Seller (collectively, "FIRPTA Certificates").

9.1.3 Lease Assignment. Seller shall deliver to Escrow Holder four (4) original counterparts of the Assignment and Assumption of Leases in the form attached hereto as Exhibit "D" ("Lease Assignment"), duly executed by Seller.

9.1.4 General Assignment. Seller shall deliver to Escrow Holder four (4) original counterparts of the General Assignment and Bill of Sale in the form attached hereto as Exhibit "E" ("General Assignment"), duly executed by Seller.

9.1.5 Notices to Tenants. Seller shall deliver to Escrow Holder notices to the Tenants of the Property in the form attached hereto as Exhibit "F" ("Tenant Notices"), executed by Seller.

9.2 Deliveries by Buyer. Unless otherwise provided, at least one (1) business day prior to the Close of Escrow, Buyer shall deposit or cause to be deposited with Escrow Holder the following.

9.2.1 Funds. Prior to the Close of Escrow, Buyer shall deliver to Escrow Holder funds which are to be applied toward payment of the Purchase Price in the amounts and at the times designated above in Paragraph 3 (as adjusted by the Proration and Expense Schedule).

9.2.2 Lease Assignment. Buyer shall deliver to Escrow Holder four (4) original counterparts of the Lease Assignment duly executed by Buyer.

9.2.3 General Assignment. Buyer shall deliver to Escrow Holder four (4) original counterparts of the General Assignment duly executed by Buyer.

10. Costs and Expenses. If the transaction contemplated by this Agreement is consummated, then Seller shall bear the following costs and expenses: (A) one-half (1/2) of Escrow Holder's fees, (B) County and City documentary transfer taxes, (C) the premium for the Title Policy attributable to the CLTA coverage only, and (D) Seller's share of prorations. If the transaction contemplated by this Agreement is consummated, then Buyer shall bear the following costs and expenses: (i) the cost of the Title Policy in excess of the CLTA premium, including the cost of all endorsements, any premium attributable to ALTA coverage, if any, and the cost of any survey, (ii) document recording fees relating to documents conveying title or property interests to Buyer, (iii) one-half (1/2) of Escrow Holder's fee, and (iv) Buyer's share of prorations. Buyer and Seller shall pay, respectively, the Escrow Holder's customary charges to buyers and sellers for document drafting, recording and miscellaneous charges. If, as a result of no fault of Buyer or Seller, Escrow fails to close, Buyer and Seller shall share equally all of Escrow Holder's fees and charges; however, if the transaction fails to close as the result of the default of either party, then such defaulting party shall bear all Escrow Holder's fees and expenses. Subject to the provisions

-7-

8

of Paragraph 19 below, each party shall bear the cost of its own attorneys and consultants. All other costs and expenses shall be allocated between Buyer and Seller in accordance with the customary practice of the City and County.

11. Prorations. All revenues and expenses relating to the Property, including without limitation, real property taxes and assessments. utility charges, insurance premiums and the like, shall be prorated on a cash basis as of the Close of Escrow. If the parties are unable to obtain final meter readings from all applicable meters as of the Close of Escrow, such expenses shall be reasonably estimated as of the Close of Escrow on the basis of the prior operating history of the Property. Notwithstanding anything to the contrary contained herein, rentals or other amounts due by the Tenants pursuant to the terms of the Tenant Leases which are delinquent as of the Closing Date shall be prorated between Buyer and Seller as of the Closing Date but only upon receipt by Buyer. Buyer shall use commercially reasonable efforts to collect any delinquent rentals, including sending invoices to Tenants for delinquent rent disclosed to Buyer by Seller, on a monthly basis for six (6) months following the Closing Date. However, Buyer shall not be obligated to commence any legal action or incur any cost or expense (other than the delivery of such notices) to collect any delinquent rent. Seller shall be permitted to pursue collection of any rent arrearages applicable to the period prior to the Closing Date, provided that Buyer shall not incur any, and Seller shall indemnify Buyer against all cost, expense or liability in connection therewith, and provided further that Seller shall not commence any legal or equitable proceedings in the nature of an unlawful detainer, eviction or other proceeding, which would have the effect of interfering with any tenant's quiet enjoyment of its leased premises or result in a lien or encumbrance on such leased premises. Delinquent rentals and other amounts collected by Buyer, net of the actual, documented, third-party costs of collection incurred by Buyer, shall be applied first to amounts currently due and then to amounts most recently overdue. In addition, operating cost pass-throughs, percentage rentals, additional rentals, other retroactive rental escalations, sums, charges payable by Tenants ("Additional Rentals"), shall be prorated on a cash basis as of the Close of Escrow. If, at the Close of Escrow, it is determined that Seller has collected Additional Rentals in excess of amounts actually owed by Tenants, Buyer shall be credited for such excess.

Payments of Additional Rentals collected by Buyer and due Seller shall be made to Seller promptly following receipt and shall be accompanied by a report showing how same was calculated and such supporting documentation as Seller reasonably requests. In addition, Buyer shall be credited and Seller shall be debited with (or, if a deposit is not a cash deposit then Seller shall transfer such instrument to Buyer) an amount equal to the Tenant deposits listed on the Rent Roll (as defined below in Paragraph 13.1.11) (together with any interest accrued for the benefit of any tenant pursuant to its Lease) and any prepaid rent actually received by Seller. In addition, Seller shall be responsible for obtaining a refund of all refundable deposits, retentions, holdbacks being held by any governmental entity, any utility company, or other third party under contract and Buyer shall be responsible for initiating any utility service with respect to the Property, and posting deposits or other funds required in connection therewith or in connection with any other contract. Not less than one (1) business day prior to the Close of Escrow, Seller shall deliver to Buyer a tentative schedule of expenses and prorations ("Proration and Expense Schedule") for Buyer's approval, which approval shall not be unreasonably withheld. If any prorations, apportionments or computations made under this Paragraph 11 shall require final adjustment, then the parties shall make the appropriate adjustments promptly when accurate information becomes

-8-

9

available and either party hereto shall be entitled to an adjustment to correct the same. Any corrected adjustment or proration shall be paid promptly in cash to the party entitled thereto. Notwithstanding any other provision of this Agreement to the contrary, the parties hereto hereby agree that if any new Tenant Leases are executed after the Execution Date pursuant to the provisions of Paragraph 23 of this Agreement, then Buyer shall bear all leasing commission costs, tenant improvement costs, free rent or other landlord concession expenses under such Tenant Lease without contribution from Seller regardless of when such expenses arise.

12. Disbursements and Other Actions by Escrow Holder. Upon the Close of Escrow, Escrow Holder shall promptly undertake all of the following in the manner and order set forth.

12.1 Disburse Funds. Escrow Holder shall credit all matters addressed in Paragraphs 3 and 10 and prorate all matters addressed in Paragraph 11 based upon the Proration and Expense Schedule and disburse the balance of the Purchase Price to Seller promptly upon the Close of Escrow and remaining funds, if any, to Buyer.

12.2 Recording. Escrow Holder shall cause the Deed, and any other documents which the parties hereto may mutually direct, to be recorded in the Official Records and obtain conformed copies thereof for distribution to Buyer and Seller.

12.3 Documents to Seller. Escrow Holder shall disburse to Seller two (2) original Lease Assignments and General Assignment and conformed copies of the Deed.

12.4 Documents to Buyer. Escrow Holder shall deliver to Buyer the original FIRPTA Certificates, the original Tenant Notices and two (2) originals of the Lease Assignment and the General Assignment and each other document (or copies thereof) deposited into Escrow by Seller pursuant hereto and a conformed copy of the Deed.

12.5 Title Company. Escrow Holder shall direct the Title Company to issue the Title Policy to Buyer.

13. Representations and Warranties.

13.1 Seller's Representations and Warranties. In consideration of Buyer entering into this Agreement and as an inducement to Buyer to purchase the Property, Seller makes the following representations and warranties, each of which is material and is being relied upon by Buyer (and the truth and accuracy of which shall constitute a condition precedent to Buyer's obligations hereunder, subject to the provisions of Paragraph 7.7 and the provisions set forth below in Paragraph 13.1 and 14.2).

13.1.1 Power. Seller has the legal power, right and authority to enter into this Agreement and the instruments referenced herein, and to consummate the transaction contemplated hereby.

-9-

10

13.1.2 Requisite Action. AU requisite action (corporate, trust, partnership or otherwise) has been taken by Seller in connection with entering into this Agreement, the instruments referenced herein, and the consummation of the transaction contemplated hereby. No consent of any partner, shareholder, trustee, trustor, beneficiary, creditor, investor, judicial or administrative body, governmental authority or other party is required for Seller to consummate the transaction contemplated by this Agreement.

13.1.3 Individual Authority. The individuals executing this Agreement and the instruments referenced herein on behalf of Seller and the partners of Seller, if any, have the legal power, right, and actual authority to bind Seller to the terms and conditions hereof and thereof.

13.1.4 No Conflict. Neither the execution and delivery of this Agreement and the documents and instruments referenced herein, nor the incurrence of the obligations set forth herein, nor the consummation of the transaction contemplated herein, nor compliance with the terms of this Agreement and the documents and instruments referenced herein conflict with or result in the material breach of any terms, conditions or provisions of, or constitute a default under, any bond, note, or other evidence of indebtedness or any contract, indenture, mortgage, deed of trust, loan, partnership agreement, lease or other agreement or instrument to which Seller is a party or affecting the Property.

13.1.5 Litigation. Except as otherwise disclosed in writing by Seller to Buyer, or as may be disclosed in the due diligence documents made available to Buyer pursuant to this Agreement ("Due Diligence Documents"), Seller has not received written notice of any pending legal proceedings or administrative actions of any kind or character adversely affecting the Property or Seller's interest therein.

13.1.6 Government Notices. Except as set forth in the Due Diligence Documents or otherwise disclosed in writing by Seller, Seller has received no written notice from any City, County, State or any government authority of any order or directive requiring any work of repair, maintenance or improvement to be performed on the Property which has not been performed.

13.1.7 Hazardous Materials. Except as set forth in the Due Diligence Documents, or as otherwise disclosed in writing by Seller to Buyer, Seller has received no written notice that the Property is in violation of any federal, state or local laws, ordinances and regulations applicable to the Property with respect to hazardous or

toxic substances or industrial hygiene (collectively, "Environmental Laws"), which violation has not been corrected.

13.1.8 Insolvency. To Seller's actual knowledge, there are no actions or proceedings pending to liquidate or reorganize under any bankruptcy or insolvency law or to appoint a receiver for Seller, and, except as set forth in the

-10-

11

Due Diligence Documents, or as otherwise disclosed in writing by Seller to Buyer, Seller has received no written notice of any bankruptcy of any Tenant.

13.1.9 Violations. Except as set forth in the Due Diligence Documents, or as otherwise described in writing by Seller to Buyer, Seller has not received any written notice that the Property, or its current use and operation, is in violation of any laws, rules, permits or regulations applicable thereto.

13.1.10 No Notice. Except as set forth in the Due Diligence Documents, or as otherwise described in writing by Seller to Buyer, Seller has not received any written notice of any condemnation, environmental, zoning or other land use proceedings instituted or to be instituted against the Property, nor has Seller received written notice of any special assessment proceedings affecting the Property (other than as set forth in the Report).

13.1.11. Rent Roll. To Seller's actual knowledge, the rent roll attached hereto as Exhibit "H" ("Rent Roll") is accurate.

13.1.12 Notices of Default. To Seller's actual knowledge, other than as noted on the Rent Roll or as disclosed in the Due Diligence Documents, and other than rent which is less than thirty (30) days overdue, Seller has not given any uncured written notice of default to any Tenant.

13.1.13 Arm's Length. Seller has negotiated and determined the terms of the transaction contemplated hereunder at arm's length as such terms would be negotiated and determined by Seller with unrelated parties.

For purposes of this Section 13.1, "to Seller's actual knowledge" and all such similar phrases shall mean the actual, present knowledge of Patrick Scruggs, without any duty of investigation or inquiry in connection with this transaction beyond exercising his ordinary duties as Seller's asset manager of the Property. Additionally, as used in this Agreement, the phrase "Seller has not received any written notice" shall mean that Patrick Scruggs does not have actual knowledge of receiving the subject written notice. Seller hereby represents that Patrick Scruggs is the employee of Seller's investment manager, PMRealty Advisors, Inc. ("PM"), who is primarily responsible for the management of the Property and is charged with primary responsibility of the operation and maintenance of the Property and, as such, is the individual employed by PM most likely to have acquired knowledge about the Property. The representations and warranties of Seller set forth in this Section 13.1 shall not merge with the Deed and shall survive the Closing Date for a period of nine (9) months after the Closing Date, and shall thereupon expire except with respect to claims for which Buyer, on or before the expiration of such nine (9)- month period, had commenced legal action for such "Representation Matter" as defined below;

provided, however, that in the case of fraud or willful misrepresentation only, such representations and warranties shall survive the Closing Date independent of this limitation. Notwithstanding the foregoing, if, prior to the Closing Date, Buyer or Seller should learn, discover or become aware of any existing or new item, fact or circumstance which renders a representation or warranty of Seller set forth herein incorrect or untrue in any material respect (collectively, the "Representation

-11-

12

Matter"), then the party who has learned, discovered or become aware of such Representation Matter shall promptly give written notice thereof to the other party and Seller's representations and warranties shall be automatically limited to account for the Representation Matter. If, prior to the Closing Date, Buyer discovers or is notified of a Representation Matter, then Buyer shall have the right to terminate this Agreement and obtain a refund of the Deposit by providing written notice thereof to Seller no later than ten (10) business days after Buyer learns or is notified of such Representation Matter. Upon such termination, neither party hereunder shall have any further obligations or liabilities under this Agreement except as specifically set forth herein. If Buyer proceeds to the Closing after discovering or being notified of a Representation Matter, then Seller's representations and warranties shall be automatically limited to account for the Representation Matter, Buyer shall be deemed to have waived Buyer's right to pursue any remedy for breach of the representation or warranty made untrue on account of such Representation Matter.

13.2 Buyer's Representations and Warranties. In consideration of Seller entering into this Agreement and as an inducement to Seller to sell the Property, Buyer makes the following representations and warranties, each of which is material and is being relied upon by Seller (and the truth and accuracy of which shall constitute a condition precedent to Seller's obligations hereunder).

13.2.1 Power. Buyer has the legal power, right and authority to enter into this Agreement and the instruments referenced herein, and to consummate the transaction contemplated hereby.

13.2.2 Requisite Action. All requisite action (corporate, trust, partnership or otherwise) has been taken by Buyer in connection with entering into this Agreement and the instruments referenced herein; and, by the Close of Escrow all such necessary action will have been taken to authorize the consummation of the transaction contemplated hereby. By the Close of Escrow no additional consent of any partner, shareholder, trustee, trustor, beneficiary, creditor, investor, judicial or administrative body, governmental authority or other party shall be required for Buyer to consummate the transaction contemplated by this Agreement.

13.2.3 Individual Authority. The individuals executing this Agreement and the instruments referenced herein on behalf of Buyer have the legal power, right, and actual authority to bind Buyer to the terms and conditions hereof and thereof.

13.2.4 No Conflict. Neither the execution and delivery of this Agreement and the documents and instruments referenced herein, nor the incurrence of the obligations set forth herein, nor the consummation of the transaction contemplated herein, nor compliance with the terms of this Agreement and the documents and instruments referenced herein conflict with or result in the material breach of any terms, conditions or provisions of, or constitute a default under, any

indenture, mortgage, deed of trust, loan, partnership agreement, lease or other agreement or instrument to which Buyer is a party.

13.2.5 ERISA. Buyer represents and warrants to Seller, to comply with (A) the Employee Retirement Income Security Act of 1974, as amended and (B) state statutes regulating investments of and fiduciary obligations with respect to governmental plans, that: (i) neither Buyer nor any of its affiliates has, or during the immediately preceding year has exercised, the authority to: (A) appoint or terminate Seller as an investment manager of the employee benefit plans that have been identified by Seller to Buyer and Buyer's counsel as having an interest in the Separate Account on whose behalf the purchase is being made, and whose funds are being used to effectuate the transaction contemplated in this Agreement; or (B) negotiate the terms of any management agreement with Seller on behalf of any such plan; and (ii) Buyer has negotiated and determined the terms of the transaction contemplated hereunder at arm's length as such terms would be negotiated and determined by Buyer with unrelated parties.

13.3 As-Is. As a material inducement to the execution and delivery of this Agreement by Seller and the performance by Seller of its duties and obligations hereunder, Buyer does hereby acknowledge, represent, warrant and agree, to and with the Seller that except as expressly provided in Paragraph 13.1, and for the duration set forth in Paragraph 13.1 (i) Buyer is purchasing the Property in an "AS-IS" condition as of the date of the Close of Escrow with respect to any facts, circumstances, conditions and defects; ii) Seller has no obligation to repair or correct any such facts, circumstances, conditions or defects or compensate Buyer for same; (iii) by the Close of Escrow, Buyer shall have undertaken all such physical inspections and examinations of the Property as Buyer deems necessary or appropriate under the circumstances, and that based upon same, Buyer is and will be relying strictly and solely upon such inspections and examinations and the advice and counsel of its agents and officers, and Buyer is and will be fully satisfied that the purchase price is fair and adequate consideration for the Property, (iv) Seller is not making and has not made any warranty or representation with respect to all or any part of the Property (including, but not limited to, any matters contained in documents made available or delivered to Buyer in connection with this Agreement, including, without limitation, the Report) as an inducement to Buyer to enter into this Escrow and thereafter to purchase the Property or for any other purpose; and (v) by reason of all of the foregoing, Buyer shall assume the full risk of any loss or damage occasioned by any fact, circumstance, condition or defect pertaining to the physical and financial condition of the Property, including without limitation the presence of any asbestos containing material, hazardous toxic or radioactive waste, substance or materials in, on, under or about the Property, and Buyer hereby expressly and unconditionally waives and releases Seller and all of its parents, subsidiaries, affiliates and partnerships, and its and their respective officers, directors, shareholders, partners, agents and employees, and their respective successors, heirs and assigns and each of them (individually and collectively, the "Released Parties") from any and all rights and claims against Seller and/or the Released Parties with respect to the condition of the Property, including without limitation any rights of Buyer under the State or Federal Comprehensive Environmental Response, Compensation and Liability

Act, as amended from time to time, or similar laws. Buyer acknowledges and agrees that the foregoing waiver and release includes all rights and claims of Buyer against Seller pertaining to the condition of the Property, whether heretofore or now existing or hereafter arising, or which could, might, or may be claimed to exist, of whatever kind or nature, whether known or unknown, suspected or unsuspected, liquidated or unliquidated, each as though fully set forth herein at length, which in any way arise out of, or are connected with, or relate to, the condition of the Property.

14. Due Diligence.

14.1 Right of Entry. Provided that Buyer is not in default of its obligations under this Agreement, from and after the Opening of Escrow through the earlier of the termination of this Agreement or the Contingency Date, Buyer, its agents, consultants, contractors and subcontractors shall have the right to enter upon the Property to conduct or make any and all inspections and tests as may be necessary or desirable, subject to the rights of any tenants or occupants of the Property and the limitations set forth below in this Paragraph 14. The scope of any environmental analysis which requires physical sampling of all or any part of the Property in excess of a Phase I environmental assessment shall be subject to: (A) the prior approval of Seller, which Seller may withhold or condition in its sole discretion, (B) Seller's receipt of written evidence that Buyer has procured the insurance required pursuant to this Paragraph 14, and (C) the requirement that Buyer dispose of all such test samples in accordance with applicable law and at no cost or liability to Seller. Nothing herein shall authorize any subsurface testing or drilling on the Property by Buyer or its environmental consultant unless specifically approved by Seller, which Seller may condition or deny in its sole discretion. Buyer shall obtain or cause its consultants to obtain, at Buyer's sole cost and expense, prior to commencement of any investigative activities on the Property, a policy of commercial general liability insurance covering any and all liability of Buyer and Seller with respect to or arising out of any investigative activities. Such policy of insurance shall be kept and maintained in force during the term of this Agreement and so long thereafter as necessary to cover any claims of damages suffered by persons or property resulting from any acts or omissions of Buyer, Buyer's employees, agents, contractors, suppliers, consultants or other related parties. Such policy of insurance shall have liability limits of not less than One Million Dollars (\$1,000,000.00) combined single limit per occurrence for bodily injury, personal injury and property damage liability, and shall name Seller as an additional insured.

If this Agreement terminates, then Buyer shall deliver a copy of all tests, reports, analysis and the like, excluding financial analysis, obtained and/or prepared pursuant to the provisions of this Paragraph 14. Buyer shall keep the results of all such inspections, studies, investigations, analysis, reports and the like confidential except as required by law. Buyer hereby indemnifies and holds the Property, Seller and Seller's officers, directors, shareholders, participants, affiliates, employers, representatives, invitees, agents and contractors free and harmless from and against any and all claims, costs, losses, damages or expenses arising out of or resulting from such entry by Buyer, its agents, consultants, contractors and subcontractors. Buyer shall keep the Property free and clear of any mechanics' liens or materialmen's liens related to Buyer's right of

inspection and the activities contemplated in this Paragraph 14. The Buyer's indemnification obligations set forth in this Paragraph 14 shall survive the Close of Escrow and shall not be merged with the Deed, and shall survive the termination of this Agreement and Escrow prior to the Close of Escrow, and shall not be limited by any provision of this Agreement.

14.2 Inquiries. From and after the Execution Date until the Contingency Date and provided that Buyer is not in default of this Agreement, Buyer shall have the right to make reasonable inquiries to the Seller's property manager in writing (with a copy concurrently delivered to Seller) in person or by telephone. In the event of any in-person conversation between Buyer and Seller's property manager related to issues concerning the Property, Buyer shall give Seller reasonable advance telephonic notice of, and Seller shall have the right to participate in, such conversation. Notwithstanding any other provision of this Agreement to the contrary, any information or disclosures made by Seller's property manager and delivered to Buyer pursuant to the provisions of this Paragraph 14.2 shall, to the extent that such disclosures indicate that Seller's representations and warranties are inaccurate in any respect, be deemed a "Representation Matter" pursuant to the last paragraph of Section 13.1. Except as set forth in the foregoing sentence, in no event shall a verbal or written statement by Seller's property manager be deemed a representation or warranty by Seller.

15. Waiver and Release. Except as set forth in Seller's representations and warranties contained in Paragraph 13.1 of this Agreement (and only for the duration thereof), Buyer is relying solely upon Buyer's own knowledge of the Property based on its investigation of the Property and its own inspection of the Property in determining the Property's physical condition. Buyer and anyone claiming by, through or under Buyer hereby waives its right to recover from and fully and irrevocably releases Seller, its employees, officers, directors, property manager, brokers (including, without limitation, Broker), affiliates, parent, subsidiaries, successors and assigns ("Released Parties") from any and all claims that it may now have or hereafter acquire against any of the Released Parties for any claims, costs, loss, liability, damage, expenses, demand, action or cause of action arising from or related to any matters relating to the Property, including, without limitation, construction defects, construction errors, construction omissions or other physical conditions of the Property, latent or otherwise, including environmental matters, affecting the Property, or any portion thereof. Notwithstanding the foregoing, this release shall not apply to any claims which Buyer may now or hereafter have on account of: (i) fraud or willful misrepresentation, or (ii) any claim arising out of a breach or default by Seller under this Agreement which is brought in a timely manner. This release includes claims of which Buyer is presently unaware or which Buyer does not presently suspect to exist which, if known by Buyer, would materially affect Buyer's release to Seller. Buyer specifically waives the provision of California Civil Code Section 1542, which provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR EXPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN TO HIM MUST HAVE MATERIALLY AFFECTED THE SETTLEMENT WITH THE DEBTOR."

-15-

In this connection and to the extent permitted by law, Buyer hereby agrees, represents and warrants, which representation and warranty shall survive the Close of Escrow and not be merged with the Deed, that Buyer realizes and acknowledges that factual matters now unknown to it may have given or may

hereafter give rise to causes of action, claims, demands, debts, controversies, damages, costs, losses and expenses which are presently unknown, unanticipated and unsuspected, and Buyer further agrees, represents and warrants, which representation and warranty shall survive the Close of Escrow and not be merged with the Deed, that the waivers and releases herein have been negotiated and agreed upon in light of that realization and that Buyer nevertheless hereby intends to release, discharge and acquit Seller from any such unknown causes of action, claims, demands, debts, controversies, damages, costs, losses and expenses which might in any way be included as a material portion of the consideration given to Seller by Buyer in exchange for Seller's performance hereunder.

Seller has given Buyer material concessions regarding this transaction in exchange for Buyer agreeing to the provisions of this Paragraph 15. Seller and Buyer have each initialed this Paragraph 15 to further indicate their awareness and acceptance of each and every provision hereof.

[SIG]

SELLER'S INITIALS

BUYER'S INITIALS

16. Enforcement and Legal Fees.

16.1 BUYER'S DEFAULT. BUYER AND SELLER AGREE THAT IT WOULD BE IMPRACTICAL AND EXTREMELY DIFFICULT TO ESTIMATE THE DAMAGES WHICH SELLER MAY SUFFER IN THE EVENT BUYER DEFAULTS HEREUNDER AND FAILS TO COMPLETE THE PURCHASE OF THE PROPERTY AS HEREIN PROVIDED. BUYER AND SELLER THEREFORE AGREE THAT A REASONABLE PRESENT ESTIMATE OF THE NET DETRIMENT THAT SELLER WOULD SUFFER IN THE EVENT OF BUYER'S DEFAULT OR BREACH HEREUNDER IS AN AMOUNT OF MONEY EQUAL TO THE DEPOSIT WHICH SHALL BE THE FULL, AGREED AND LIQUIDATED DAMAGES FOR THE BREACH OF THIS AGREEMENT BY BUYER. THE PAYMENT OF SUCH AMOUNT AS LIQUIDATED DAMAGES IS NOT INTENDED AS A FORFEITURE OR PENALTY WITHIN THE MEANING OF CALIFORNIA CIVIL CODE SECTION 3275 OR 3369 BUT IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER PURSUANT TO CALIFORNIA CIVIL CODE SECTION 1671, 1676 AND 1677. SELLER HEREBY WAIVES THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 3389. UPON DEFAULT SOLELY BY BUYER, THIS AGREEMENT SHALL BE TERMINATED AND NEITHER PARTY SHALL HAVE ANY FURTHER RIGHTS OR OBLIGATIONS HEREUNDER, EACH TO THE OTHER, EXCEPT FOR THE RIGHT OF SELLER TO COLLECT SUCH LIQUIDATED DAMAGES FROM BUYER AND ESCROW HOLDER. THE FOREGOING SHALL NOT LIMIT SELLER'S REMEDIES WITH RESPECT TO THE INDEMNITY PROVIDED BY BUYER PURSUANT TO THE PROVISIONS OF PARAGRAPHS 14 AND 18 OF THIS AGREEMENT.

-16-

17

SELLER'S INITIALS

BUYER'S INITIALS

[SIG]

16.2 SELLER'S DEFAULT. IF SELLER DEFAULTS UNDER THIS AGREEMENT AND FAILS TO COMPLETE THE PURCHASE AS PROVIDED HEREIN, THEN BUYER SHALL BE ENTITLED, AS ITS SOLE AND EXCLUSIVE REMEDY, WHETHER AT LAW OR IN EQUITY, TO TERMINATE THIS AGREEMENT AND RECOVER FROM SELLER ONLY THE AMOUNT OF BUYER'S ACTUAL OUT-OF-POCKET EXPENSES INCURRED AND SUMS PAID IN CONNECTION WITH THE TRANSACTION CONTEMPLATED HEREIN, INCLUDING, WITHOUT LIMITATION, ALL OF THE SUMS ACTUALLY PAID BY BUYER PURSUANT TO PARAGRAPH 3 HEREOF AND BUYER'S REASONABLE ATTORNEYS' FEES; PROVIDED, HOWEVER, THAT IN LIEU OF TERMINATING THE AGREEMENT AND RECOVERING SUCH EXPENSES AND SUMS, BUYER SHALL BE ENTITLED TO PURSUE SPECIFIC PERFORMANCE OF THIS AGREEMENT WITHOUT DAMAGES. FROM AND AFTER THE CLOSING DATE, THIS SECTION 16.2

SHALL NOT LIMIT ANY RIGHT OR REMEDY BUYER MAY HAVE ON ACCOUNT OF ANY BREACH OR DEFAULT UNDER ANY REPRESENTATION OR WARRANTY CONTAINED IN SECTION 13.1 OF THIS AGREEMENT.

SELLER'S INITIALS

BUYER'S INITIALS

[SIG]

17. Notices. All notices or other communications required or permitted hereunder shall be in writing, and shall be personally delivered, sent by overnight mail (Federal Express or the like) or sent by registered or certified mail, postage prepaid, return receipt requested, telegraphed, delivered or sent by telex, telecopy, facsimile, fax or cable and shall be effective upon receipt at the appropriate address.

To Buyer: Pacific Gulf Properties Inc.
4220 Von Karman
Second Floor
Newport Beach, California 92660
Attention: Lonnie P. Nadal
Telephone: (714) 223-5000
Fax No.: (714) 223-5033

-17-

18

<TABLE>

<S>

<C>

With a copy to: Cox, Castle & Nicholson
2049 Century Park East
28th Floor
Los Angeles, California 90067
Attn: John H. Kuhl, Esq.
Phone: (310) 284-2267
Fax No.: (310) 277-7889

To Seller: c/o PMRealty Advisors, Inc.
800 Newport Center Drive, Suite 300
Newport Beach, California 92660
Attention: Ms. Colette Temmink
Phone No. (714) 721-5050
Fax No. (714) 721-5494

With a copy to: Allen, Matkins, Leck, Gamble & Mallory
515 South Figueroa Street, 7th Floor
Los Angeles, California 90017
Attention: Anthony S. Bouza, Esq.
Phone No. (213) 955-5614
Fax No. (213) 620-8816

To Escrow Holder: Chicago Title Insurance Company
2901 "K" Street, Suite 390
Sacramento, California 95816
Attention: Vivian Sellers
Phone No. (916) 444-6470
Fax No. (916) 448-7484
Escrow No. - _____

</TABLE>

Notice of change of address shall be given by written notice in the manner detailed in this Paragraph 17. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given shall be deemed to constitute receipt of the notice, demand, request or communication sent.

18. Brokers. Upon the Close of Escrow, Seller shall pay a real estate brokerage commission to CB Commercial ("Broker") with respect to this transaction in accordance with Seller's separate agreement. Each party hereto agrees to indemnify and hold harmless the other party from and against any and all losses, lien, claims, judgments, liabilities, costs, expenses or damages (including reasonable attorneys' fees and court costs) of any kind of character arising out of or resulting from any agreement, arrangement or understanding alleged to have been made by such party or on its behalf with any broker or finder in connection with this Agreement or transaction contemplated hereby. The foregoing indemnity shall survive the Closing or the earlier termination of this Agreement and shall not be limited by any provision of this Agreement.

-18-

19

19. Legal Fees. If either Buyer or Seller brings any action or suit against the other for any matter relating to or arising out of this Agreement, then the prevailing party in such action or dispute, whether by final judgment or out of court settlement, shall be entitled to recover from the other party all costs and expenses of suit, including actual attorneys' fees. Any judgment or order entered in any final judgment shall contain a specific provision providing for the recovery of all costs and expenses of suit, including actual attorneys' fees incurred in enforcing, perfecting and executing such judgment. For the purposes of this paragraph, such costs shall include, without limitation, in-house or outside attorneys' fees, costs and expenses incurred in the following: (A) postjudgment motions; (B) contempt proceeding; (C) garnishment, levy, and debtor and third party examination; (D) discovery; and (E) bankruptcy litigation.

20. Assignment. Buyer may not assign, transfer or convey its rights or obligations under this Agreement at any time without the prior written consent of Seller, which Seller may withhold in its sole discretion.

21. Miscellaneous.

21.1 Survival. The covenants, representations and warranties of both Buyer and Seller set forth in this Agreement shall survive the recordation of the Deed and the Close of Escrow.

21.2 Required Actions of Buyer and Seller. Buyer and Seller agree to execute such instruments and documents and to diligently undertake such actions as may be required in order to consummate the purchase and sale herein contemplated and shall use their best efforts to accomplish the Close of Escrow in accordance with the provisions hereof.

21.3 Computation of Time Periods. If the date upon which the Contingency Date occurs, the Closing Date occurs or any other date or time period provided for in this Agreement is or ends on a Saturday, Sunday or federal, state or legal holiday, then such date shall automatically be delayed until the next day which is not a Saturday, Sunday or federal, state or legal holiday.

21.4 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all of which, together, shall constitute but one and the same instrument.

21.5 Captions. Any captions to, or headings of, the paragraphs or subparagraphs of this Agreement are solely for the convenience of the parties hereto, are not a part of this Agreement, and shall not be used for the interpretation or determination of the validity of this Agreement or any provision hereof.

21.6 No Obligations to Third Parties. Except as otherwise expressly provided herein, the execution and delivery of this Agreement shall not be deemed to confer any rights upon, nor obligate any of the parties hereto, to any person or entity other than the parties hereto.

-19-

20

21.7 Exhibits and Schedules. The exhibits and schedules attached hereto are hereby incorporated herein by this reference for all purposes.

21.8 Amendment to this Agreement. The terms of this Agreement may not be modified or amended except by an instrument in writing executed by each of the parties hereto.

21.9 Waiver. The waiver or failure to enforce any provision of this Agreement shall not operate as a waiver of any future breach of any such provision or any other provision hereof.

21.10 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, except for any choice-of-law principles which provide for the application of the law's of another jurisdiction.

21.11 Fees and Other Expenses. Except as otherwise expressly provided herein, each of the parties hereto shall pay its own fees and expenses in connection with this Agreement.

21.12 Entire Agreement. This Agreement (including all Exhibits attached hereto) supersedes any prior agreements, negotiations and communications, oral or written, including without limitation Seller's offer letter dated November 6, 1997, and contains the entire agreement between, and the final expression of, Buyer and Seller with respect to the subject matter hereof. No subsequent agreement, representation, or promise made by either party hereto, or by or to an employee, officer, agent or representative of either party hereto shall be of any effect unless it is in writing and executed by the party to be bound thereby.

21.13 Successors and Assigns. Subject to the restrictions set forth in Paragraph 20 hereof, this Agreement shall be binding upon and shall inure to the benefit of the permitted successors and assigns of the parties hereto.

21.14 Construction. The parties hereto hereby acknowledge and agree that (A) each party hereto is of equal bargaining strength, (B) each such party has actively participated in the drafting, preparation and negotiation of this Agreement, (C) each such party has consulted with such party's own, independent counsel, and such other professional advisors as such party has deemed appropriate, relating to any and all matters contemplated under this Agreement, (D) each such party and such party's counsel and advisors have reviewed this Agreement, (E) each such party has agreed to enter into this Agreement following such review and the rendering of such advice, and (F) any rule of construction to the effect that ambiguities are to be resolved against the drafting parties shall not apply in the interpretation of this Agreement, or any portions hereof, or any amendments hereto.

21.15 Limitation of Liability of Trustees, Shareholders and Officers of Seller. BUYER AGREES THAT IT SHALL NOT LOOK TO THE ASSETS OF

SELLER'S TRUSTEES OR ITS INVESTMENT MANAGER FOR THE ENFORCEMENT OF ANY CLAIM AGAINST SELLER.

21.16 Termination. Notwithstanding anything in this Agreement to the contrary, to induce Buyer to enter into this Agreement and to expend the time and resources necessary to evaluate the Property and possibly forego other opportunities while doing so, Seller hereby grants to Buyer the rights to terminate this Agreement specifically provided in this Agreement. Such expenditures of time and resources and possible loss of opportunity by Buyer constitute adequate consideration for Seller remaining bound by this Agreement notwithstanding such termination rights in Buyer.

22. Risk of Loss. In the event any of the Property is damaged or destroyed prior to the Closing Date, and such damage or destruction would cost less than One Hundred Thousand Dollars (\$100,000) to repair or restore, then this Agreement shall remain in full force and effect and Buyer shall acquire the Property upon the terms and conditions set forth herein. In such event, if the damage or loss is insured, then Buyer shall receive a credit against the Purchase Price equal to such deductible amount under Seller's applicable insurance policy, and Seller shall assign to Buyer all of Seller's right, title and interest in and to all proceeds of insurance on account of such damage or destruction. In the event any of the Property is damaged or destroyed prior to the Closing, and such damage or destruction would cost One Hundred Thousand Dollars (\$100,000), or more, to repair or restore, then Buyer shall have the right to terminate this Agreement by delivering written notice to Seller with a copy to the Escrow Holder within five (5) business days after Buyer acquires knowledge of such damage (the Closing shall be extended as necessary to afford Buyer such five (5) business day period). If Buyer timely delivers its termination notice, then Buyer shall be entitled to the return of the Deposit, less one-half (1/2) of the escrow and title cancellation fees, if any, whereupon Buyer and Seller shall each be released from all obligations hereunder, except as set forth in Paragraphs 14 and 18 above. If this Agreement is not so terminated, and if the damage or loss is insured, then Seller shall assign to Buyer all of Seller's right, title and interest in and to all proceeds of insurance, if any, on account of such damage or destruction, and Buyer shall receive a credit toward payment of the Purchase Price in the amount of the deductible under any applicable insurance policy.

23. Seller's Covenants During Contract Period. Between Seller's execution of this Agreement and the Close of Escrow, or earlier termination of this Agreement as permitted hereunder, Seller shall (i) maintain the Property in good order, condition and repair, reasonable wear and tear excepted; (ii) not make any material physical changes to the Improvements except as required by law, insurance carriers or applicable Leases; (iii) continue to manage and lease the Property in the manner its been operated and continue to provide all services previously provided in connection with the Property, (iv) not enter into any contracts or agreements affecting the Property unless such contracts can be completed or terminated prior to the Closing or Buyer, in its sole discretion, agrees to assume such contract or agreement as of the Closing Date, in which case such contracts shall be included within the term "Service Contracts"; (v) use due diligence to keep in full force all Licenses and Permits; (vi) not remove any Personal Property from the Property (unless the Personal Property so removed is simultaneously replaced with Personal Property of similar quality and utility); (vii) notify Buyer of any proposed new Tenant Leases; and (viii) maintain or cause to be maintained, at Seller's sole cost and expense, all insurance coverages

applicable to the Property in the amount and form maintained by Seller prior to the Execution Date. From and after the Execution Date and until the Closing Date or earlier termination of this Agreement, Seller shall not execute any new Leases, and shall not modify, extend, or otherwise change the terms of the Leases without the prior written consent of the Buyer, which consent prior to the Contingency Date shall not be unreasonably withheld and shall be deemed given if not denied, with the reasons therefor, in a written notice delivered to Seller within two (2) business days after a request therefor; after the Contingency Date Buyer may withhold its consent in its sole discretion. Seller shall terminate all Service Contracts upon the Closing Date unless Buyer provides written notice thereof to the contrary to Seller before the Contingency Date.

24. REIT. Buyer hereby represents and warrants to Seller, which representation and warranty shall survive the Close of Escrow, that Buyer is qualified as a real estate investment trust under the provisions of the Internal Revenue Code of 1986, as amended, and that, by reason thereof, maintaining such status and avoiding any activity that might cause a penalty tax to be applied as a result thereof is of material concern to Buyer. Accordingly, Seller agrees to make any modifications or amendments to this Agreement specifically requested by Buyer in writing delivered to Seller before the Contingency Date that may be necessary for Buyer to maintain its status as a real estate investment trust or in order for it to avoid a penalty tax; provided; provided, however, that Seller shall have no obligation to make any such modification or amendment that would alter or affect, in Seller's sole judgment, Buyer's or Seller's rights, duties, or obligations under this Agreement, and Seller's failure to do so shall result in the termination of this Agreement.

25. Reporting Requirements. Escrow Holder shall comply with all applicable federal, state and local reporting and withholding requirements relating to the close of the transactions contemplated herein. Without limiting the generality of the foregoing, to the extent the transactions contemplated by this Agreement involve a real estate transaction within the purview of Section 6045 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), Escrow Holder shall have sole responsibility for complying with the requirements of Section 6045 of the Internal Revenue Code (and any similar requirements imposed by State or local law), which in part requires Escrow Holder to report real estate transactions closing after December 31, 1986 by, among other things, preparing and causing to be filed Internal Revenue Service Form 1099-B and any applicable additional statements in connection therewith. Escrow Holder shall hold Buyer, Seller and their counsel free and harmless from and against any and all liability, claims, demands, damages and costs, including reasonable attorneys' fees and other litigation expenses, arising or resulting from the failure or refusal of Escrow Holder to comply with such reporting requirements.

-22-

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first written above.

"Buyer"

PACIFIC GULF PROPERTIES INC.,
a Maryland corporation

By: [SIG]

Its: Vice President

By: [SIG]

Its: Senior Vice President

"Seller"

PMRA III, a group trust

By: PMRealty Advisors, Inc.,
its investment manager

By: _____

Its: _____

By: _____

Its: _____

-23-

24

Acceptance by Escrow Holder:

Chicago Title Insurance Company hereby acknowledges that it has received a fully executed original or original executed counterparts of the foregoing Agreement of Purchase and Sale and Joint Escrow Instructions and agrees to act as Escrow Holder thereunder and to be bound by and strictly perform the terms thereof as such terms apply to Escrow Holder.

Dated: _____, 1997

Chicago Title Insurance Company

By: _____

Its Authorized Agent

-24-

25

EXHIBIT "A"

LEGAL DESCRIPTION

LOTS 7 THROUGH 9 INCLUSIVE, AS SHOWN ON THE "PLAT OF NORWOOD-TECH BUSINESS PARK", RECORDED IN BOOK 147 OF MAPS, MAP NO. 15, RECORDS OF SACRAMENTO COUNTY, CALIFORNIA.

LOTS 28 THROUGH 32, AS SHOWN ON THE PLAT OF NORWOOD-TECH BUSINESS PARK, FILED IN BOOK 147 OF MAPS, MAP NO. 15, OFFICIAL RECORDS OF SACRAMENTO COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWEST CORNER OF SAID LOT 27; THENCE, FROM SAID POINT OF

BEGINNING, ALONG THE LINE COMMON TO LOTS 27 AND 28, AND ALONG THE LINE COMMON TO LOTS 32 AND 33, SOUTH 00*33'23" WEST 514.03 FEET TO THE SOUTHWEST CORNER OF SAID LOT 33, THENCE, ALONG THE SOUTHERLY LINE OF SAID LOTS 32 AND 31, ALONG THE WESTERLY LINE OF SAID LOTS 31, 30 AND 29, AND ALONG THE NORTHERLY LINE OF SAID LOTS 29 AND 28, THE FOLLOWING SIX (6) COURSES: (1) ALONG THE ARC OF A CURVE TO THE RIGHT, CONCAVE NORTHERLY, HAVING A RADIUS OF 2971.00 FEET, SUBTENDE BY A CHORD BEARING SOUTH 88*44'25" WEST 188.33 FEET; (2) NORTH 89*26'37" WEST 95.91 FEET; (3) ALONG THE ARC OF A TANGENT CURVE TO THE RIGHT, CONCAVE NORTHEASTERLY, HAVING A RADIUS OF 25.00 FEET, SUBTENDE BY A CHORD BEARING NORTH 44*26'37" WEST 35.36 FEET, (4) NORTH 00*33'23" EAST 470.00 FEET; (5) ALONG THE ARC OF A TANGENT CURVE TO THE RIGHT, CONCAVE SOUTHEASTERLY, HAVING A RADIUS OF 25.00 FEET, SUBTENDE BY A CHORD BEARING NORTH 45*33'23" EAST 35.36 FEET; AND (6) SOUTH 89*26'37" EAST 284.14 FEET TO THE POINT OF BEGINNING, AND BEING THE SAME AS "LOT A" IN THAT CERTAIN CERTIFICATE OF COMPLIANCE, RECORDED IN BOOK 84-05-04, AT PAGE 1199, OFFICIAL RECORDS.

LOTS 24 THROUGH 27, TOGETHER WITH LOT 33, AS SHOWN ON THE PLAT OF NORWOOD-TECH BUSINESS PARK, FILED IN BOOK 147 OF MAPS, MAP NO. 15, OFFICIAL RECORDS OF SACRAMENTO COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHWEST CORNER OF SAID LOT 27; THENCE, FROM SAID POINT OF BEGINNING, ALONG THE NORTHERLY LINE OF SAID LOTS 27 AND 26, AND ALONG THE EASTERLY LINE OF SAID LOTS 26, 25 AND 24, AND ALONG THE SOUTHERLY LINE OF SAID LOTS 24 AND 33, THE FOLLOWING SIX (6) COURSES: (1) SOUTH 89*26'37" EAST 285.86 FEET; (2) ALONG THE ARC OF A TANGENT CURVE TO THE RIGHT, CONCAVE SOUTHWESTERLY, HAVING A RADIUS OF 25.00 FEET, SUBTENDE BY A CHORD BEARING SOUTH 44*26'37" EAST 35.36 FEET; (3) SOUTH 00*33'23" WEST 443.61 FEET; (4) ALONG THE ARC OF A TANGENT CURVE TO THE RIGHT, CONCAVE NORTHWESTERLY, HAVING A RADIUS OF 25.00 FEET, SUBTENDE BY A CHORD BEARING SOUTH 44*32'35" WEST 34.72 FEET TO A POINT

* = degree (degrees)

EXHIBIT "A"

26

OF REVERSE CURVATURE; (5) ALONG THE ARC OF A TANGENT CURVE TO THE LEFT, CONCAVE SOUTHERLY, HAVING A RADIUS OF 3029.00 FEET, SUBTENDE BY A CHORD BEARING SOUTH 86*45'34" WEST 187.16 FEET TO A POINT OF REVERSE CURVATURE, AND (6) ALONG THE ARC OF A TANGENT CURVE TO THE RIGHT, CONCAVE NORTHERLY, HAVING A RADIUS OF 2971.00 FEET, SUBTENDE BY A CHORD BEARING SOUTH 85*57'28" WEST 100.32 FEET TO THE SOUTHWEST CORNER OF SAID LOT 33; THENCE, ALONG THE LINE COMMON TO SAID LOTS 33 AND 32, AND ALONG THE LINE COMMON TO SAID LOTS 27 AND 28, NORTH 00*33'23" EAST 514.03 FEET TO THE POINT OF BEGINNING, AND BEING THE SAME AS "LOT B" IN THAT CERTAIN CERTIFICATE OF COMPLIANCE, RECORDED IN BOOK 84-05-04, PAGE 1199, OFFICIAL RECORDS.

* = degree (degrees)

EXHIBIT "A"

27

EXHIBIT "B"

WHEN RECORDED MAIL
TO AND MAIL TAX STATEMENTS TO:

Pacific Gulf Properties Inc.
4220 Von Karman
Second Floor
Newport Beach, California 92660
Attention: Lonnie P. Nadal

(Above Space for Recorder's Use Only)

GRANT DEED

The undersigned grantor declares:

Documentary Transfer Tax not shown pursuant
to Section 11932 of the Revenue and
Taxation Code, as amended

County of Sacramento

FOR VALUABLE CONSIDERATION, receipt of which is hereby acknowledged,
_____, a Delaware corporation, hereby GRANTS to PACIFIC GULF
PROPERTIES INC., a Maryland corporation, that certain real property in the
County of Sacramento, State of California, which is more particularly described
on Schedule "1" ("Property") which is attached hereto, subject to all matters of
record.

EXHIBIT "B"

-1-

28

IN WITNESS WHEREOF, the Grantor has caused this Grant Deed to be
executed as of the day of , 1997.

PMRA III, a group trust

By: PMRealty Advisors, Inc.,
 its investment manager

By: _____
 Its: _____

By: _____
 Its: _____

EXHIBIT "B"

29

STATE OF _____)
) ss.
COUNTY OF _____)

On _____ before me, _____, a
Notary Public in and for said state, personally appeared _____,
personally known to me (or proved to me on the basis of satisfactory evidence)
to be the person whose name is subscribed to the within instrument and
acknowledged to me that he executed the same in his authorized capacity, and
that by his signature on the instrument, the person, or the entity upon behalf
of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Notary Public in and for said State

STATE OF _____)
) ss.
COUNTY OF _____)

On _____ before me, _____, a
Notary Public in and for said state, personally appeared _____,
personally known to me (or proved to me on the basis of satisfactory evidence)
to be the person whose name is subscribed to the within instrument and
acknowledged to me that he executed the same in his authorized capacity, and
that by his signature on the instrument, the person, or the entity upon behalf
of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Notary Public in and for said State

EXHIBIT "B"

30

SCHEDULE "1"

LEGAL DESCRIPTION OF PROPERTY

[TO BE SUPPLIED]

SCHEDULE "1" TO EXHIBIT "B"

EXHIBIT "C-1"

TRANSFEROR'S CERTIFICATION OF NON-FOREIGN STATUS

To inform PACIFIC GULF PROPERTIES INC., a Maryland corporation (the "Transferee") that withholding of tax under Section 1445 of the Internal Revenue Code of 1986, as amended ("Code") will not be required upon the transfer by PMRA III, a group trust, ("Transferor") of certain interests in real property to the Transferee, the undersigned hereby certifies the following on behalf of the Transferor:

1. The Transferor is not a foreign corporation, foreign partnership, foreign trust, foreign estate or foreign person (as those terms are defined in the Code and the Income Tax Regulations promulgated thereunder); and

2. The Transferor's U.S. employer or tax (social security) identification number is _____.

The Transferor understands that this Certification may be disclosed to the Internal Revenue Service by the Transferee and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalty of perjury I declare that I have examined this Certification and to the best of my knowledge and belief it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of the Transferor.

"TRANSFEROR"

PMRA III, a group trust

By: PMRealty Advisors, Inc.,
its investment manager

By:

Its: _____

By:

Its: _____

Dated: _____, 1997

EXHIBIT "C-1"

<TABLE>
<CAPTION>

<S>

File this form with your withholding agent or buyer

<C>

Withholding agent's name

Seller's name

Seller's address (number and street)

Seller's daytime telephone number
()

City

State

Zip code

</TABLE>

Read the following carefully and check the box that applies to the seller:

CERTIFICATE OF RESIDENCY - INDIVIDUALS:

I am a resident of California and I reside at the address shown above.
See Side 2 for the definition of a resident.

CERTIFICATE OF PRINCIPAL RESIDENCE - INDIVIDUALS:

The California real property located at _____
qualifies as my principal residence within the meaning of the Internal
Revenue Code Section 1034. See Side 2 for the definition of a principal
residence.

CORPORATIONS:

The above-named corporation has a permanent place of business in
California at the address shown above or is qualified to do business in
California. See Side 2 for the definition of permanent place of
business.

PARTNERSHIPS:

The above-named entity is a partnership and the recorded title to the
property is in the name of the partnership. The partnership will file a
California return to report the sale and will withhold on foreign and
domestic nonresident partners when required.

LIMITED LIABILITY COMPANIES (LLCs):

The above-named entity is an LLC and the recorded title to the property
is in the name of the LLC. The LLC will file a California return to
report the sale and will withhold on foreign and domestic nonresident
partners when required.

TAX-EXEMPT ENTITIES AND NONPROFIT ORGANIZATIONS:

The above-named entity is exempt from tax under California or federal
law.

IRREVOCABLE TRUSTS:

At least one trustee of the above-named irrevocable trust is a
California resident. The trust will file a California fiduciary return
reporting the sale and will withhold on foreign and domestic nonresident
beneficiaries when required.

CERTIFICATE OF RESIDENCY OF DECEASED PERSON - ESTATES:

I am the executor of the above-named person's estate. The decedent was a
California resident at the time of death. The estate will file a
California fiduciary return reporting the sale and will withhold on
foreign and domestic nonresident beneficiaries when required.

BANK:

The above-named entity is a bank or a bank acting as a fiduciary for a
trust.

CERTIFICATE: Please complete and sign below.

Under penalties of perjury, I hereby certify that the information provided herein is, to the best of my knowledge, true and correct. If conditions change, I will promptly inform the withholding agent.

Sellers name and title (type or print) _____

Seller's social security number, California corporation number, FEIN or California Secretary of State file number _____

(NOTE: Failure to provide your identification number will render this certificate void.)

Seller's signature _____ Date _____

For Privacy Act Notice, see Form FTB 1131 (individuals only).

Form 590-RE C2 (REV. 1996) Side 1

EXHIBIT "C-2"

33

EXHIBIT "D"

ASSIGNMENT AND ASSUMPTION OF LEASES

THIS ASSIGNMENT AND ASSUMPTION OF LEASES ("Assignment") is made this _____ day of _____ 1997, by and between PMRA III, a group trust ("Assignor") and PACIFIC GULF PROPERTIES INC., a Maryland corporation ("Assignee").

WITNESSETH

Assignor and Assignee entered into that certain Agreement of Purchase and Sale and Joint Escrow Instructions, dated as of _____ ("Agreement"), respecting the sale of certain "Property" (as defined in the Agreement). Unless otherwise indicated herein, all capitalized terms in this Assignment shall have the meaning ascribed to them in the Agreement.

Assignor, as Lessor, and those certain tenants listed in Exhibit "A" attached hereto (collectively, the "Tenants") have entered into leases listed in Exhibit "A" attached hereto (collectively, the "Leases") covering certain premises located on the Property.

Under the Agreement, Assignor is obligated to assign to Assignee any and all of its right, title and interest in and to all Leases and Tenants' deposits held by Assignor under the Leases (collectively, "Tenant Deposits").

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows.

Assignor hereby assigns, sells, transfers, sets over and delivers unto Assignee all of Assignor's estate, right, title and interest in and to the Leases and Tenant Deposits and Assignee hereby accepts such assignment. Assignor represents and warrants to Assignee, which shall survive the Closing Date for nine (9) months and any claim therefor must be asserted by Assignee by delivering specific written notice thereof to Assignor within such period, (a) that Assignor is the owner of the lessor's interest in the Leases, (b) that the lessor's interest in the Leases and the Tenant Deposits are

assigned and transferred to Assignee free of all liens, encumbrances and third party interests or claims intentionally caused or created by Assignor, and (c) that Assignor has the lawful right and authority to assign and transfer the lessor's interest in the Leases and the Tenant Deposits to Assignee.

Assignor hereby covenants that Assignor will, at any time and from time to time upon written request therefor, execute and deliver to Assignee, Assignee's successors, nominees or assigns, such documents as Assignee or they may reasonably request in order to fully assign and transfer to and vest in Assignee or Assignee's successors, nominees and assigns, and protect

EXHIBIT "D"

-1-

34

Assignee's or their right, title and interest in and to the Leases and the Tenant Deposits and the rights of Assignor intended to be transferred and assigned hereby, or to enable Assignee, Assignee's successors, nominees and assigns to realize upon or to otherwise enjoy such rights in and to the Leases and the Tenant Deposits. Assignee hereby assumes the performance of all of the terms, covenants and conditions imposed upon Assignor as landlord under the Leases from and after the Closing Date.

Assignee hereby agrees to indemnify, defend and hold harmless Assignor, Assignor's agents and Assignor's and their successors and assigns from and against any and all claims, losses, liabilities and expenses, including reasonable attorneys' fees, suffered or incurred by Assignor by reason of (i) any breach by Assignee, of any of Assignee's obligations under the Leases or with respect to the Tenant Deposits from and after the Closing Date, or (ii) any leasing commissions or tenant improvements with respect to the Leases for which Assignee is responsible pursuant to the Agreement. Notwithstanding anything herein contained to the contrary, Assignee's liability under the foregoing indemnity shall be limited to matters arising or accruing after the Close of Escrow.

Assignor hereby agrees to indemnify, defend and hold harmless Assignee, Assignees, agents and Assignee's, Assignee's and their successors and assigns from and against any and all claims, losses, liabilities and expenses, including reasonable attorneys' fees, suffered or incurred by Assignee by reason of (i) any breach by Assignor, of any Assignor's obligations under the Leases or with respect to the Tenant Deposits prior to the Closing Date, or (ii) any leasing commissions or tenant improvements with respect to the Leases for which Assignor is responsible pursuant to the Agreement. Notwithstanding anything herein contained to the contrary, the liability of Assignor under the foregoing indemnity shall be limited to matters occurring or accruing before the Close of Escrow.

In the event of the bringing of any action or suit by a party hereto against another party hereunder by reason of any breach of any of the covenants, conditions, agreements or provisions on the part of the other party arising out of this Assignment, then in that event the prevailing party shall be entitled to have and recover of and from the other party all costs and expenses of the action or suit, including actual attorneys' fees and costs.

This Assignment may be executed simultaneously in counterparts, each of which shall be deemed an original, but all of which, together, shall constitute one and the same instrument.

This Assignment shall be binding upon and inure to the benefit of the successors, assignees, personal representatives, heirs and legatees of all the respective parties hereto.

EXHIBIT "D"

35

This Assignment shall be governed by, interpreted under, and construed and enforceable in accordance with, the laws of the state of California.

"ASSIGNEE"

"ASSIGNOR"

PACIFIC GULF PROPERTIES INC.,
a Maryland corporation

PMRA III, a group trust

By: PMRealty Advisors, Inc.,
its investment manager

By: _____
Its: _____

By: _____
Its: _____

By: _____
Its: _____

By: _____
Its: _____

EXHIBIT "D"

36

EXHIBIT "A"

LIST OF LEASES AND DEPOSITS

EXHIBIT "A" TO EXHIBIT "D"

37

EXHIBIT "E"

GENERAL ASSIGNMENT AND BILL OF SALE

THIS GENERAL ASSIGNMENT AND BILL OF SALE ("Assignment") is made this _____ day of _____, 19____, by and between PMRA III, a group trust ("Assignor"), and PACIFIC GULF PROPERTIES INC., a Maryland corporation ("Assignee"), with respect to the following matters.

WITNESSETH:

WHEREAS, Assignor and Assignee entered into that certain Agreement of Purchase and Sale and Escrow Instructions dated as of _____ ("Agreement"), respecting the sale of certain "Property" (as described and defined in the Agreement). Unless otherwise indicated herein, all capitalized terms in this Assignment shall have the meanings ascribed to them in the Agreement.

WHEREAS, under the Agreement, Assignor is obligated to assign any and all of its right, title and interest and delegate any and all of its obligations and responsibilities in each of the following to Assignee:

(a) any and all service contracts as are listed on Schedule 1 attached hereto, warranties, guarantees, together with all supplements, amendments and modifications thereto, relating to the Property ("Contract(s)");

(b) any and all (i) licenses, permits and entitlements necessary for the construction, rehabilitation and operation of the Property in accordance with its current use; (ii) right, title and interest of Assignor in and to the use of any and all trade names and logos used by Assignor in the operation and identification of the improvements located on the Property; and (iii) development rights and other intangible rights, titles, interests, privileges and appurtenances owned by Assignor and in any way related to or housed in connection with the Property and its operation (collectively "License(s)"); and

(c) all fixtures, fittings, furniture, furnishings, appliances, apparatus, equipment, machinery, building materials, and other items of tangible personal property owned by Assignor and affixed or attached to the Property (all of such properties and assets being collectively called the "Assigned Properties").

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows.

EXHIBIT "E"

Assignor hereby assigns, sells, transfers, sets over and delivers unto Assignee all of Assignor's estate, right, title and interest in and to the Contracts, Licenses and Assigned Properties and Assignee hereby accepts such assignment. Assignor represents and warrants to Assignee, which shall survive the Closing Date for nine (9) months and any claim therefor must be asserted by Assignee by delivering specific written notice thereof to Assignor within such period, (a) that Assignor is the owner of the owner's interest in the Contracts, (b) that the owner's interest in the Contract has not been previously conveyed or encumbered, and (c) subject to the terms of the applicable Contracts, Assignor has the lawful right and authority to assign and transfer the owner's interest in the Contracts to Assignee.

Assignor hereby covenants that Assignor will, at any time and from time to time, upon written request therefor, execute and deliver to Assignee, Assignee's successors, nominees and assigns, such documents as Assignee, Assignee's successors, nominees and assigns may reasonably request in order to fully assign and transfer to and vest in Assignee, or Assignee's successors, nominees and assigns, and to protect Assignee's or their right, title and interest in and to the Parking Agreement, Contracts, Licenses and Assigned Properties. By accepting this Assignment, Assignee hereby assumes the performance of all of the terms, covenants and conditions imposed upon Assignor in connection with the Contracts, Licenses and/or Assigned Properties from and after the Closing Date.

Assignor hereby agrees to indemnify, defend and hold harmless Assignee, Assignee's agents and Assignee's and Assignee's and their successors and assigns from and against any and all obligations, causes of actions, claims, losses, liabilities and expenses, including reasonable attorneys' fees, suffered or incurred by Assignee by reason of any breach by Assignor of any of its obligations under the Contracts or Licenses prior to the Closing Date. Notwithstanding anything herein contained to the contrary, Assignor's liability under the foregoing indemnity shall be limited to matters arising or accruing before the Close of Escrow.

Assignee hereby agrees to indemnify, defend and hold harmless Assignor, Assignor's agents and Assignor's and their successors and assigns from and against any and all obligations, causes of actions, claims, losses, liabilities and expenses, including reasonable attorneys' fees, suffered or incurred by Assignor by reason of any breach by Assignee of any of its obligations under the Contracts or Licenses from and after the Closing Date. Notwithstanding anything herein contained to the contrary, Assignee's liability under the foregoing indemnity shall be limited to matters arising or accruing after the Close of Escrow. Assignee hereby agrees that it shall not use the Licenses for any project other than the Property.

In the event of the bringing of any action or suit by a party hereto against another party hereunder by reason of any breach of any of the covenants, conditions, agreements or provisions on the part of the other party arising out of this Assignment, then in that event the prevailing party shall be entitled to have and recover of and from the other party all costs and expenses of the action or suit, including reasonable attorneys' fees.

This Assignment shall be binding upon and inure to the benefit of the successors, assignees, personal representatives, heirs and legatees of all the respective parties hereto.

EXHIBIT "E"

-2-

39

This Assignment shall be governed by, interpreted under, and construed and enforceable in accordance with, the laws of the state of California.

This Assignment may be executed in counterparts, each of which shall be deemed an original, but all of which, together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, Assignor and Assignee have executed and delivered this Assignment as of the day and year first above written.

"ASSIGNOR"

"ASSIGNEE"

PMRA III, a group trust

PACIFIC GULF PROPERTIES INC.,
a Maryland corporation

By: PMRealty Advisors, Inc.,
its investment manager

By: _____
Its: _____

By: _____
Its: _____

By: _____

By: _____

Its: _____

Its: _____

EXHIBIT E

-3-

40

EXHIBIT "F"

FORM OF NOTICE TO TENANTS

To: _____

RE: Notice of Lease Assignment

Please be advised that the property commonly known as the _____ ("Property") has been sold today and the ownership has been transferred to Pacific Gulf Properties Inc.

You are hereby notified that, from and after the date hereof, and until further notice, all future payments under your lease should be made payable to "Pacific Gulf Properties Inc." and mailed to: _____

Also, in connection with this sale, your security deposit in the amount of \$ _____ has been transferred to Pacific Gulf Properties. The return of any such security deposit will be conditioned upon and subject to the terms and conditions of the lease and the legal requirements of the State of California.

Henceforth, all questions or other matters regarding your lease or security deposit should be directed to _____, the property manager, at (____) _____.

Thank you for your cooperation.

Very truly yours,

EXHIBIT "F"

41

EXHIBIT "G"

ESTOPPEL CERTIFICATE

The undersigned, the tenant ("Tenant") under a certain lease agreement, a complete, true and correct copy of which is attached hereto as Exhibit "A" ("Lease"), does hereby certify to _____ [Buyer] as purchaser of the property affected by the Lease from PMRA III, ("Landlord") as follows:

1. The Lease is presently in full force and affect and unmodified except as may be evidenced by written instrument attached hereto as part of Exhibit "A". The Lease constitutes the only agreement between the Landlord and Tenant with respect to the premises.

2. The lease term commenced on _____, 199_ and full rental is now accruing thereunder. The Lease term shall end on _____, 199_. The Tenant has the following options to extend the term: None.

3. The Tenant has accepted possession of the leased premises under the Lease and is paying _____ per month as rental under the Lease and monthly installments have been paid through _____, 19___. Tenant's proportionate share is set forth in the Lease.

4. No rent under said lease has been paid more than thirty (30) days in advance of its due date. Landlord is not in default in the performance of the terms and provisions of the Lease, the Tenant has not assigned, transferred, or hypothecated its interest under the Lease.

5. The Tenant, as of the date hereof, has no claim, charge, defense or offset under the Lease against Landlord or against rents or other charges due or to become due thereunder. As of the date hereof, Tenant has not asserted any such offset or credit. To the best of Tenant's knowledge, there are no defaults under the Lease.

6. Tenant has not made any payment to Landlord as a security deposit or rental deposit except any payment expressly provided for in the Lease as follows: \$ _____.

7. All of Landlord's obligations under the Lease which have accrued prior to the date hereof have been performed.

8. The individual executing this Certificate has the authority to do so on behalf of Tenant and to bind Tenant to the terms hereof.

9. Pursuant to the Lease, Tenant is entitled to the use of _____ unreserved parking spaces.

Tenant makes this Certificate with the understanding that Landlord is contemplating selling the premises, and the purchaser of the premises will do so in material reliance on this Certificate.

42

DATED: _____, 1997

By: _____
Name: _____
Title: _____

43

EXHIBIT "A"

EXHIBIT "A" TO EXHIBIT "G"

REAL ESTATE PURCHASE CONTRACT
AND DEPOSIT RECEIPT

1. OFFER TO PURCHASE: Purchaser hereby offers to purchase the Property described below, for the price and upon the terms and conditions set forth herein.
2. PARTIES:
JPI XI, L.P., a California limited partnership, is referred to herein as "Seller." Pacific Gulf Properties Inc. is referred to herein as "Purchaser."
3. PROPERTY DESCRIPTION: That certain property located in the County of Sacramento, and State of California, described as follows: approximately 221,300 square feet of industrial buildings with addresses of 9881 - 9969 Horn Road.

APN Number: 077-0330-052/53/54/55/55/57/63/64/65/66/67/68

The above described property, including all rights, title and interest, remainder easements, development rights, rights of way and other rights appurtenant and/or of benefit thereto, is described herein as the "Property."

The "Property" shall also include (a) all tangible personal property owned by Seller located on or in or used in connection with the Property as of the date hereof and as of closing (the "Tangible Personal Property"); (b) all intangible personal property now or hereafter owned by Seller in connection with the Property, including, without limitation, the right use the name "Horn Road Business Complex" and any other trade name now used in connection with the Property (the "Intangible Personal Property"); (c) all leases, rental agreements and other agreements for the use or occupancy of the Property or any portion thereof (the "Leases"); and (d) to the extent approved by Purchaser all service, utility and other agreements and contracts relating to the use and operation of the Property (the "Assigned Contracts"). The Tangible Personal Property, Intangible Personal Property, Leases and Assigned Contracts are collectively referred to as the "Personal Property".

4. PURCHASE PRICE: The Purchase Price shall equal the difference between Nine Million Five Hundred Thousand and No/100 Dollars (\$9,500,000) and the outstanding principal balance of the Existing Loan (as that term is

defined in Section 6 of this Contract).

5. INITIAL DEPOSIT: This Contract is expressly contingent upon receipt of the Initial Deposit from Purchaser, in the form of a check made payable to First American Title, 1860 Howe Avenue, #120, Sacramento, CA (hereinafter referred to as "Escrow Holder") in the amount of One Hundred Thousand (\$100,000) Dollars, as follows:

_____ hereby received from Purchaser [or]

X shall be delivered to Escrow Holder no later than 5:00 PM three ----- (3) business days from mutual execution of the Contract; and if the deposit is not so delivered, this Contract shall become null and void.

The deposit shall be held by First American Title Insurance Company in an interest bearing account pursuant to separate written instructions from Purchaser. All interest accrued on the deposit shall be for the Purchaser's account alone. The deposit (and such interest thereon as Purchaser may direct), shall be applied toward the purchase price at close of escrow.

6. EXISTING LOAN: This Purchase Contract is expressly conditioned upon Purchaser's assumption of the existing note and the first Deed of Trust and Assignment of Rents in favor of Ameritas Life Insurance Company ("Lender"), the outstanding balance being approximately \$2,890,000.00, payable in monthly installments of \$25,000.00, including interest at the rate of 7.95% (fixed), all due and payable February 1, 2006 (the "Existing Loan"). Within five (5) days of mutual execution of this Contract, Purchaser shall submit to Lender and/or its loan servicing agent (Mason McDuffie Financial Corporation), the information required by Lender to obtain Lender's consent. Any fees or costs associated with the loan assumption shall be Purchaser's obligation.
7. TITLE REPORT AND ESCROW INSTRUCTIONS: Upon mutual execution hereof and delivery of the initial Deposit as set forth herein, Broker shall order a Preliminary Title Report regarding the Property from Escrow Holder and shall establish escrow with Escrow Holder. Upon receipt of the Preliminary Title Report, including full copies of all exceptions set forth therein including but not limited to covenants, conditions and restrictions (CC&Rs), reservations, easements, rights and rights of way of record, liens, and other matters of record, and a current Alta Survey on the Property in a form acceptable to Purchaser, Purchaser shall have thirty (30) calendar days in which to approve or disapprove of said Report and secure a commitment from the title company in a form required by Section 10 of the Contract, including any endorsements reasonably required by Purchaser, provided, that if Purchaser fails to disapprove said Report in writing within such time, then Purchaser shall be conclusively deemed to have approved thereof. The provisions of this Contract shall constitute joint escrow instructions to the escrow holder; provided, that the parties shall execute such further or additional escrow instructions as requested by Escrow Holder not in

conflict with this Contract except as agreed to by Seller and Purchaser.

8. CLOSE OF ESCROW AND DELIVERY OF POSSESSIONS: Closing shall occur within fifteen (15) days after the end of the Due Diligence Period. Time is of the essence of this Contract. Possession of the Property shall be delivered to Purchaser on the date of close of escrow unless otherwise provided herein. On or before close of escrow Seller shall supply to Purchaser keys to all lockable doors, compartments, systems, closets, and alarms on the Property in Seller's possession and to the extent that they are in the Seller's possession, the following: original leases and tenant files and the original of any assigned contract, originals of all licenses, permits and variances, and certificates of occupancy for all occupied space within the property, notices to the tenants of the occurrence of the sale of the property in the form approved by Purchaser. A closing statement as provided by the escrow holder shall also be provided by the escrow holder, which closing statement shall be approved by Seller and Purchaser.
9. ESTOPPEL CERTIFICATES: Not later than five (5) calendar days before close of escrow, Seller shall deliver to Purchaser an executed estoppel certificate in the form attached from the tenants representing a minimum of eighty percent (80%) of the square footage of the improvements, and Seller will provide its own estoppels from any missing tenant estoppel. Purchaser shall have three (3) calendar days after receipt of said tenants' and landlord's estoppels in which to disapprove, in writing, the estoppel certificate; which right may be exercised in Purchaser's reasonable discretion, but only if, the certificate(s) reflect a discrepancy materially affecting the economics of the transaction or a previously undisclosed material breach of the lease(s). Upon such disapproval, this Contract shall be immediately terminated. In the event that Purchaser terminates this Contract pursuant to these terms, Purchaser's deposit(s) shall, upon demand and without further agreement of Seller, be returned to Purchaser in full.

10. TITLE INSURANCE: The Policy of Title Insurance shall be a California Land Title Association (CLTA) Standard Coverage Policy with a liability not exceeding the total purchase price; provided the Purchaser may, at Purchase's option, elect (at Purchaser's own additional cost) an American Land Title Association (ALTA) Policy.

11. COSTS AND FEES:

A. Title Insurance: CLTA title insurance fees shall be paid by Seller, provided that if Purchaser elects an ALTA policy, then the cost difference between an ALTA policy and a CLTA policy shall be paid by Purchaser. Seller shall order and pay for a chain of title search and pay any personal property sales taxes applicable to the sale.

B. Escrow Fees and Recording Costs shall be paid equally by Seller and Purchaser. C. Documentary transfer taxes required by any lawful authority shall be paid by Seller to Purchaser.

12. ASSUMPTION OF BONDS AND ASSESSMENTS: All bonds and assessments which are a lien as of the date of mutual execution of this Contract shall be assumed by Purchaser, to the extent that they are reflected on current tax bills as direct levies.

13. DUE DILIGENCE CONTINGENCY: Purchaser shall have a period of thirty (30) days from mutual execution of this Contract and the delivery of the items to be supplied by Seller under this Paragraph 13, in which to conduct its due diligence investigation of the information provided by Seller and of the Property (which period shall be considered the Due Diligence Period). At any time during the Due Diligence Period, Purchaser may elect to terminate this Contract in the sole and absolute discretion, by delivering written notice thereof to Seller.

Not later than five (5) business days from the date of mutual execution of this Contract, Seller shall deliver to Purchaser the following listed items if existing. If Seller does not have in its possession any of the listed items, or if such item(s) does not exist or is not reasonably obtainable, then Seller shall so notify Purchaser in writing of its unavailability in lieu of production thereof:

A. Any notes and/or security agreements which will or may affect or encumber the Property at close of escrow.

B. All rental agreements, leases, and other written contracts or agreements which will or may affect the Property at close of escrow.

C. All accounting ledgers and operating statements for the prior twelve (12) months to date of mutual execution of this Contract, including all property tax bills (paid or unpaid) for said period.

D. Most recent operating expense invoices and/or billings.

E. Any existing plat maps, surveys, certificates of occupancy, construction plans, tentative or final maps, and other like plans, maps or documentation concerning the Property that is currently existing and in Seller's possession.

F. A form of Estoppel Certificate reasonably acceptable to Purchaser to

be executed by the tenant(s) pursuant to paragraph 9 above.

G. Any existing inspection reports, test results, soils and engineering reports, environmental assessments, Phase I or Phase II reports, or like documents or information in any form or nature currently existing and in Seller's possession, which reflect upon the condition of the Property including, without limitation, the existence or nonexistence of asbestos, PCB transformers, residential lead paint hazards, or other toxic, hazardous or contaminated substances or underground storage tanks in, on, or about the Property (all collectively referred to herein as "Reports").

H. All contracts relating to the operation, maintenance, or management of the Property.

I. True, complete and correct copies of all documents evidencing or securing the Loan.

J. Copies of whatever documents Seller may have regarding the financial condition, business prospects or prospective continued occupancy of any tenant (including, but not limited to, financial statements, credit reports, etc.).

K. All presently effective warranties or guaranties relating to the Property or any portion thereof.

L. Reports of insurance carriers respecting the claims history of the Property. Copies of maintenance records for the Property for 1995, 1996 and year to date 1997 if available.

M. A list of all Personal Property included within the Property.

N. A copy of the Property budget for the current year.

O. A current rent roll certified by the Seller to be accurate and complete in form and content reasonably satisfactory to Purchaser, and copies of all lease files.

P. All licenses, permits, variances and other governmental authorizations relating to the use or occupancy of the Property, and copies of all building and improvement plans relating to the Property.

Q. Annual statements of operations for the Property for 1995, 1996, and year to date 1997. Purchaser shall have the right to audit Seller's records for these periods.

R. A current ALTA/ACSM survey of the Property if one is in existence.

14. PROPERTY INSPECTION: Purchaser shall have the right to inspect books and records concerning the Property including, but not limited to, records of income and expenses; and to conduct, at any time before the

expiration of the Due Diligence Period as described above, at its sole cost and expense, inspections, tests, surveys, and other studies, for the purpose of identifying the existence in, on, or about the Property of asbestos, PCB transformers, other hazardous or contaminated substances, underground storage tanks, residential lead paint hazards, flooding issues, ADA, earthquake standards and other matters concerning any and all aspects of the Property. Seller hereby grants permission for Purchaser to talk with Seller's contractors, tenants, and governmental agencies regarding the Property. Contacts with tenants shall be in the presence of Seller's Property Manager. Seller shall allow Purchaser and Purchaser's agents the right to enter upon the Property at all reasonable times for the purpose of conducting such inspections, tests, surveys and studies; provided, however, that Purchaser shall protect, defend, indemnify and hold Seller harmless from and against any and all expenses and liabilities that may result from such inspections, and shall take no action which may result in the imposition of any liens against the Property. Any claim for indemnity shall be made within six (6) months from the date of said inspections, tests, surveys, or studies and Purchaser's indemnity shall be not to exceed Two Hundred Fifty Thousand Dollars (\$250,000).

15. MATERIAL DAMAGE AND TAKING BY EMINENT DOMAIN: If the improvements on the Property are destroyed or materially damaged prior to the close of escrow, or if a material taking by eminent domain occurs prior to close of escrow, this Contract shall, at Purchaser's election, immediately terminate. In the event any damage or taking does not result in a termination of the Contract, Purchaser shall receive a credit toward the purchase price in an amount equal to the cost of any repairs which are not covered by insurance (due to deductible or otherwise), or the deficiency in any condemnation award. A destruction shall be considered material if the cost of repair or replacement without deduction for

depreciation exceeds Two Hundred Thousand Dollars (\$200,000) of the purchase price, provided that, if applicable building codes or other laws or regulations require work exceeding the repair or replacement of the actual damage, the cost shall be considered to include all the work. A taking by eminent domain is material if the diminution of market value exceeds Two hundred Thousand Dollars (\$200,000) of the purchase price. This Contract shall be governed by the Uniform Vendor and Purchaser Risk Act, California Civil Code Section 1662 in effect at the date of this Contract to the extent said Act is not in conflict with express provisions of this Contract. If Purchaser elects to accept the Property in its then condition, all proceeds of insurance payable to Seller by reason of such damage shall be paid to Purchaser.

16. ATTORNEYS' FEES: In any litigation, arbitration or other legal proceeding which may arise between or among any of the parties hereto, including their Brokers or agents, the prevailing party shall be entitled to recover its costs, including costs of arbitration, and reasonable attorneys' fees in addition to any other relief to which such party may be entitled.

17. REPRESENTATIONS TO THE BEST OF SELLER'S ACTUAL KNOWLEDGE:

A. To the best of Seller's actual knowledge, there is no suit, action or arbitration, proposed bond issuance, proposal for public improvement assessments; pay-back agreement, paving agreement, road expansion or improvement agreement, utility, use, or improvement moratorium; or legal, administrative, or other proceeding or governmental investigation or requirement, formal or informal, pending or threatened that affects the Property or which adversely affects Seller's ability to perform hereunder, or other change or expense upon or related to the Property which has not been disclosed to Purchaser in writing prior to the date of this contract. In addition, to the best of Seller's actual knowledge, there is no suit, action, arbitration, or other proceeding affecting or involving any tenant with respect to the Property.

B. To the best of Seller's actual knowledge, there are no charges or other expenses upon or relating to the Property which have not been disclosed to Purchaser in writing other than those which are reflected in the items to be delivered to Purchaser during Purchaser's Due Diligence Period under paragraph 13 above.

C. To the best of Seller's actual knowledge, there is no asbestos, PCB transformer, residential lead paint hazard, or other toxic, hazardous or contaminated waste or substance, as defined by applicable state, federal or local law, statute, ordinance or regulation, released upon or disposed of onto, stored, or otherwise held on, under or about the Property, and Seller has received no notice of any violation or claimed violation of any law, rule or regulation relating to such hazardous waste. To the best of Seller's knowledge there is no occurrence or condition on any other real property that could cause the Property or any part thereof to be classified as a "Border Zone Property" under the

provisions of California Health and Safety Code Sections 225220, et seq., or any regulation adopted in accordance therewith. Seller's knowledge relies upon the Level I Environmental Assessment prepared by Lush Geosciences dated January 9, 1996.

D. To the best of Seller's actual knowledge, there are no agreements with any taxing authority respecting the imposition or deferment of any taxes or assessments respecting the Property and Seller has no knowledge of any unrecorded taxes, assessments (special, general or otherwise) or bonds of any nature affecting the Property, except as disclosed on the tax bill.

E. To the best of Seller's actual knowledge, the Property and all components thereof (including, but not limited to, parking lots, electrical systems, roofs, heating, ventilating and air conditioning systems) are, and at close of escrow shall be, in good condition and working order and shall perform the work or function for which they were intended. To the best of Seller's actual knowledge the improvements, and all component parts thereof, were constructed in substantial conformance with the plans and specifications as well as documents approved by appropriate public officials and are free of material construction, design and/or structural defects.

F. To the best of Seller's actual knowledge, Seller has not received, nor is aware of any notification from any building department, health department, or such other City, County or State authority having jurisdiction, requiring any work to be done on or affecting the Property. Seller agrees that in the event such notice is received by Seller prior to the close of escrow and Seller is unable to or elects not to perform the work required in said notice, at Seller's sole cost and expense, on or before the close of escrow, said notice shall be submitted to Purchaser for Purchaser's examination and approval. In the event such a notice is submitted to Purchaser, Purchaser shall have a period of five (5) calendar days from delivery in which to disapprove said notice and thereby elect to terminate this Contract. In the event that Purchaser terminates this Contract pursuant to these terms, Purchaser's deposit(s) shall, upon demand and without further agreement of Seller, be returned to Purchaser in full, and neither party shall have any further liability under this Contract.

G. To the best of Seller's actual knowledge, the Property, building, and improvements thereon do not violate any applicable building, zoning, environmental or other statutes or regulations, and Seller is unaware of any material defect in the Property or improvements thereon.

H. All documents delivered by Seller to Purchaser or made available to Purchaser for review, including without limitation the items described in Paragraph 17 of the Contract as supplemented hereby, are true and complete copies of all documents relating to the Property in Seller's possession or control. All of Seller's books, files and records related to the Property were made available to Purchaser for Purchaser's review

at Seller's offices.

I. At the closing, there will be no outstanding written or oral contracts made for any improvements to the Property (including without limitation tenant improvements), or for the offsite improvements related to the Property, which have not been fully completed and paid for, except as described herein or by Seller's files and records. Seller shall cause to be discharged all mechanics' and materialmen's liens arising from any labor or materials furnished to the property prior to the close of escrow. (NOTE: LINE ON COPY UNINTELLIGIBLE)

in connection with tenant improvements, remodeling and renovation and Seller shall cause to be discharged any and all such costs and obligations with respect to all Leases executed prior to Closing unless agreed otherwise between Seller and Purchaser. New leases entered into after the date hereof and before closing shall be agreed upon between Seller and Purchaser. The responsibility for commissions and tenant improvements for any such new leases will be the obligation of Purchaser.

3

4

J. The most current Rent Roll provided to Purchaser is a complete and accurate list of all Leases. There are no (1) free rent, operating expense abatements, incomplete tenant improvements, rebates, allowances, or other unexpired concessions (collectively referred to as "Offsets"), (2) rights of first refusal or rights to purchase the Property, or (3) rights of termination, extension, cancellation or expansion, under any Lease except as specifically set forth on the most current Rent Roll. Seller has provided to Purchaser complete and accurate copies of all Leases. To the best of Seller's actual knowledge, there exists no defaults or events which, with the giving of notice or passage of time, or both, would constitute a default by Seller or any tenant under any Leases.

K. Seller has provided to Purchaser complete and accurate copies of all contracts, bonds and other agreements affecting the Property. To the

best of Seller's actual knowledge, there exists no defaults or events which, with the giving of notice or passage of time, or both, would constitute a default by Seller or any of the other parties to such contracts, bonds or agreements.

L. There is no default or event which, with the giving of notice or passage of time would constitute a default under the loan ("Loan") secured by the Property from Ameritas Life Insurance Company ("Lender") to Seller, as "Borrowers". Seller has delivered to Purchaser true and complete copies of all documents evidencing or securing the Loan. Seller agrees to provide to the Lender all information necessary for the Lender to agree to the assignment of the Loan and the transfer of the Property, and agrees to execute such documentation as may be reasonably required by the Lender in connection with that assignment.

All representations, warranties and covenants contained in this Contract or made in writing pursuant to this Contract are intended to and shall be deemed made as of the date of this Contract and again at the close of escrow and shall survive the execution and delivery of this Contract, the recording of the grant deed and the close of escrow.

18. LIQUIDATED DAMAGES: IF PURCHASER MATERIALLY BREACHES THIS CONTRACT, THE PARTIES AGREE THAT THE SUM OF ONE HUNDRED THOUSAND AND NO/100 (\$100,000) DOLLARS WILL CONSTITUTE LIQUIDATED DAMAGES, WHICH SUM THE PARTIES AGREE IS A REASONABLE SUM CONSIDERING ALL OF THE CIRCUMSTANCES EXISTING ON THE DATE OF THIS CONTRACT, INCLUDING THE RELATIONSHIP OF THE SUM TO THE RANGE OF HARM TO PURCHASER THAT REASONABLY WOULD BE ANTICIPATED AND THE ANTICIPATION THAT PROOF OF ACTUAL DAMAGES WOULD BE COSTLY OR INCONVENIENT. IN PLACING THEIR INITIALS AT THE PLACES PROVIDED, EACH PARTY SPECIFICALLY CONFIRMS THE ACCURACY OF THE STATEMENTS MADE ABOVE AND THE FACT THAT EACH PARTY WAS REPRESENTED BY COUNSEL WHO EXPLAINED THE CONSEQUENCES OF THIS LIQUIDATED DAMAGES PROVISION AT THE TIME THIS CONTRACT WAS MADE.

_____ Purchaser's initials

_____ Seller's initials

19. FIRPTA: Seller shall execute and deliver to Purchaser at the Closing a Certificate of NonForeign Status, and a California Real Estate Withholding Exemption (Form 590) in form approved by Purchaser.
20. SPECIAL EARTHQUAKE STUDIES ZONE: To the best of Seller's knowledge and according to State of California - Department of Conservation-Division of Mines and Geology - Special Publication 42 - "Fault Rupture Hazard Zones", the Property ___ is [or] x is not situated in a Special Studies Zone as designated under the Alquist Priolo Special Earthquake Studies Zone Act, Sections 2621-2630, inclusive, of the California Public Resources Code, and Purchaser acknowledges that any such designation may impact Purchaser's intended use of the Property. Purchaser shall be solely responsible for confirming the above stated earthquake status of

the Property and for investigation of the impact of such status on Purchaser's intended use of the Property.

21. FLOOD HAZARD AREA: To the best of Seller's knowledge and according to Flood Map Panel 060262-0205D Grid E-5 the Property ___ is [or] x is not ---
situated in a Special Flood Hazard Area. federal law requires that as a condition for obtaining federally related financing on most properties located in Special Flood Hazard Areas, banks, savings and loan associations, and some insurance lenders required flood insurance to be carried where the property, real or personal, is security for the loan; this requirement is mandated by the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973. The purpose of the program is to provide flood insurance to property owners at a reasonable cost. Cities or counties participating in the National Flood Insurance Program may have adopted building or zoning restrictions or other measures, as part of their participating in the Program. Purchaser acknowledges that such designation may impact Purchaser's intended use of the Property.
22. AMERICANS WITH DISABILITIES ACT (ADA): Neither Seller nor CB Commercial Real Estate Group, Inc. (hereinafter "Broker") makes any representations concerning the impact or applicability of the Americans with Disabilities Act (the ADA), a Federal law codified at 42 USC Section 12101 et seq. Purchaser acknowledges that the ADA requires owners of "Public accommodations" to remove barriers to access by disabled persons and provide auxiliary aids and services for hearing, vision or speech impaired persons. Purchaser agrees that any modifications to the Property, structural or otherwise, required by the ADA shall be at the sole cost and responsibility of Purchaser.
23. BROKER COMMISSIONS: Seller agrees to pay and hereby irrevocably assigns to CB Commercial ("Broker") a commission equal to three and one-half (3.5%) percent of the gross purchase price as and for a commission for Broker's services rendered in effecting the sale. This commission is earned as of the close of escrow, and escrow holder is hereby irrevocably instructed to pay said commission to broker out of Seller's proceeds upon the close of escrow and through escrow. This instruction shall not be withdrawn or modified without Broker's written consent and Purchaser and Seller agree that broker is a third party beneficiary of the Contract with respect to such commission. Notwithstanding anything to the contrary contained herein, this commission agreement shall not supersede or waive any rights Broker may have under any listing agreement with Seller. Seller and Purchaser each warrant that they have dealt with no other real estate broker in connection with this transaction except CB Commercial Real Estate Group, Inc.

In the event that any other broker or finder claims a commission or finder's fee based upon any contact, dealings or communication, the party through whom the broker or finder makes its claim shall be responsible for said commission or fee and all costs and expenses

(including, without limitation, reasonable attorneys' fees) incurred by the other party in defending against the same. the party through whom any other broker or finder makes a claim shall hold harmless, indemnify and defend the other party hereto, its successors and assigns, agents, employees, officers and directors, and the Property from and against any and all liabilities and losses (including, without limitation, attorneys' fees) arising out of such claim. The provisions of this Section shall survive the termination of this Agreement.

24. INTEGRATION; COUNTERPARTS; TELECOPIED SIGNATURES: This Contract shall constitute the entire Real Estate Purchase Contract between Purchaser and Seller and supersedes any and all agreements between the parties hereto regarding the subject Property. This Contract may be executed in counterpart, each of which shall be deemed an original but all of which when taken together shall constitute one and the same instrument. In order to expedite the transaction contemplated herein, the parties hereto agree that a telecopied signature shall be deemed to constitute an original signature evidencing the signing party's offer or acceptance; provided, however, that each party shall thereafter sign a sufficient number of originals of this Contract, in duplicate, so that each party shall be provided a fully executed original of this Contract. The telecopied signature(s) shall be retained as a part of the Contract in order to establish conclusively the date of mutual execution and commencement of the Due Diligence Period. The undersigned intends to be bound by its signature on the telecopied document is aware that parties will rely on the telecopied signature and hereby waives any defenses to the enforcement of the terms of this Contract based on the transmission of signature by telecopy.
25. PURCHASER'S CONDITIONS TO CLOSING: At least three (3) business days prior to closing, Seller shall execute, where appropriate acknowledge and deliver into escrow for recording and/or delivery to Purchaser as appropriate at the close of escrow a grant deed, a bill of sale, an assignment of intangible property, an assignment of leases and a certificate of non-foreign status (collectively the "Closing Documents"). Purchaser shall also execute and deliver to Seller, through escrow at the closing, the assignment of intangible property and assignment of leases. The form of the Closing Documents shall be prepared by Purchaser and approved by Seller during the Due Diligence Period. In addition, the following are conditions precedent to Purchaser's obligation to purchase the Property. In the event any

condition precedent is not satisfied, Purchaser may, in its sole and absolute discretion, terminate this Contract, whereupon escrow holder is hereby irrevocably instructed to return to Purchaser all funds previously deposited, and the parties shall have any further rights or obligations to each other.

A. The issuance by the Title Company to the Purchaser of an ALTA Extended Coverage Owner's Policy of Title Insurance (Form B, revised 10/17/70, with Endorsement Form 1 Coverage) in the amount of the Purchase Price insuring fee simple title to the Property in Purchaser, subject only to such exceptions as Purchaser shall have approved, and containing such endorsements as Purchaser may specify pursuant to Section 7 of the Contract.

B. At least three (3) and no more than five (5) business days prior to closing, Seller shall provide (and Seller hereby covenants to provide) to Purchaser an updated Rent Roll which updated Rent Roll must not indicate any material adverse change from the Rent Roll last approved by Purchaser, and Purchaser shall have performed a closing audit which confirms the updated Rent Roll. Seller shall certify the Rent Roll as true and complete and shall identify any events which with the passage of time and/or the giving of notice would constitute a tenant default.

C. Seller shall have terminated prior to the closing, at no cost or expense to Purchaser, any and all contracts affecting the Property that are not approved by Purchaser.

D. In Purchaser's reasonable determination, there shall have been no material adverse change in or to the Property or the information or items reviewed and approved by Purchaser during the Due Diligence Period.

E. Receipt by Purchaser of a certificate from the California Secretary of State indicating that, as of the closing, there are no filings against Seller or any of the Personal Property under the California Uniform Commercial Code which would be a lien on any of the Personal property following the closing.

F. Receipt by Purchaser of (i) a Beneficiary Statement from Lender; (ii) an estoppel from Lender confirming that no default exists under the loan; (iii) a Loan assignment and assumption agreement in form and content reasonably satisfactory to Purchaser.

26. ACKNOWLEDGEMENT OF RECEIPT: By execution hereof, each signing party acknowledges receipt of a copy of this Contract.

27. WARRANTY OF AUTHORITY: By execution hereof, each signatory hereto warrants that he/she has the authority to do so and to bind the party on whose behalf he or she has executed this Contract.

28. ACCEPTANCE: By execution hereof, each party approves and accepts the

terms of the foregoing Contract and agrees to the transaction described herein.

29. ACCEPTANCE DEADLINE: Unless both Purchaser and Seller accept this offer to purchase the subject Property by mutual execution and delivery of this Contract to the other on or before 5 PM on October 14, 1997, this offer shall become null and void, and any deposit made herewith shall be immediately returned to Purchaser.
30. RELEASE OF LIENS: Anything contained herein to the contrary notwithstanding, and notwithstanding any approval or consent by Purchaser hereunder, Seller shall cause all mortgages, deeds of trust and other monetary encumbrances, with the exception of the Deed of Trust, Security Contracts, and Assignment of Rents in favor of Ameritas Life Insurance Company including without limitation all mechanics' liens, to be released and reconveyed from the Property on or prior to the close of escrow.
31. PRORATIONS: The following are to be apportioned as of the close of escrow, with Purchaser receiving credit for the entire day of the closing, as follows:
- A. Rent. Rent under the Leases shall be apportioned as of the close of escrow for the current month, regardless of whether or not such rent has been received by Seller. With respect to any rent arrearages arising under the Leases, after closing, Purchaser shall pay to Seller any rent actually collected which is applicable to the period preceding the close of escrow; provided, however, that all rent collected by Purchaser shall be applied first to all unpaid rent accruing after the close of escrow, and then to unpaid rent accruing prior to the close of escrow. Purchaser shall not be obligated to take any steps to recover any rent arrearages. Seller shall take no steps to attempt to collect any delinquent rent following the closing.
- B. LEASING COSTS. Seller shall pay as of the closing of all leasing commission and tenant improvement costs. If any, in connection with any Lease executed on or before the date of this contract that are or will become due and payable as of the closing. Purchaser shall be entitled to a credit against the Purchase Price of any such unpaid commissions or costs due after the closing but incurred in connection with any lease executed on or before the date of this contract.
- C. SECURITY DEPOSITS. Purchaser shall be entitled to a credit against the Purchase Price for the total sum of all security and other deposits paid to Seller by tenants under any Leases, and any interest earned thereon which by law or the terms of the Leases could be required to be refunded to tenants.
- D. FREE RENT, ABATEMENTS OR OTHER UNEXPIRED CONCESSIONS. Purchaser shall be entitled to a credit against the Purchase Price for any free rent, abatements, or other unexpired concessions under any Leases to the

extent they apply to any period after the closing.

E. UTILITY CHARGES. Seller shall use its best efforts to cause all the utility meters to be read on the close of escrow, and will be responsible for the cost of all utilities used prior to the close of escrow, except to the extent such utility charges are billed to and paid by tenants directly.

5

6

F. REAL ESTATE TAXES AND SPECIAL ASSESSMENTS. General real estate taxes payable for the fiscal year in which the closing occurs shall be prorated between Seller and Purchaser as of the close of escrow by the Escrow Holder. Seller shall pay on or before closing the full amount of any bonds or assessments against the Property that are not included in the yearly tax bills including interest payable therewith, including any bonds or assessments that may be payable after the close of escrow as a result of or in relation to the construction or operation of any improvements or any public improvements that took place or for which any assessment was levied prior to the close of escrow which levies are not included in the yearly tax bills as direct levies. Purchaser shall be responsible for the payment of any bonds or assessments that are included in the yearly tax bills or incurred after the close of escrow that are not subject to the immediately preceding sentence.

G. OTHER APPORTIONMENTS. Amounts payable under the Assigned Agreements, annual or periodic permit and/or inspection feed (calculated on the basis of the period covered), and liability for other Property operation and maintenance expenses, amounts payable under the Loan, and other recurring costs shall be apportioned as of the close of escrow.

H. PRELIMINARY CLOSING STATEMENTS. Seller and Purchaser shall jointly prepare and approved a preliminary Closing Statement on the basis of the Leases and other sources of income and expenses, and shall deliver such computation to Escrow Holder prior to closing.

I. POST-CLOSING RECONCILIATION. If any of the aforesaid prorations cannot be definitely calculated on the close of escrow, then they shall be estimated at the closing and definitely calculated as soon after the close of escrow as feasible. As soon as the necessary information is available, Purchaser and Seller shall conduct a post-closing audit to

determine the accuracy of all prorations made to the Purchase Price (the "Post-Closing Audit"). Either party owing the other party a sum of money based on such subsequent proration(s) or the Post-Closing Audit shall promptly pay said sum to the other party, together with interest thereon at the rate of two percent of the "prime rate" (as announced from time to time in the Wall Street Journal) per annum from the close of escrow to the date of payment if payment is not made with ten (10) days after delivery of a bill therefor.

J. EXISTING LOAN. Seller shall pay as of Closing all amounts under the Existing Loan that have accrued on or prior to the Closing Date. Purchaser shall pay all amounts under the Existing Loan, and any costs of assuming the Existing Loan, accruing after the Closing Date.

32. INDEMNITY:

A. Seller shall hold harmless, indemnify and defend Purchase, its successors and assigns and their respective agents, employees, officers and directors, and the Property from and against any and all liability, claims, demands, damages, and costs (including, without limitation, attorneys' fees and expenses), whether direct, contingent or nonconsequential, and no matter how arising ("Liabilities"), in any way (i) related to the Property and arising or occurring prior to the close of escrow; (ii) related to or arising from any act, conduct, omission, contract or commitment of Seller, or (iii) resulting from any material breach of representation or warranty by Seller or resulting from any material breach or default by Seller under this Contract.

B. Except for Liabilities arising directly or indirectly from a breach of any of Seller's representations or warranties, or which shall have arisen out of any of Seller's representations or warranties, or which shall have arisen out of any aspect of the Property, its management or operations with respect to the period prior to the close of escrow, Purchaser shall hold harmless, indemnify and defend Seller, its successors and assigns and their respective agents, employees, officers, directors and partners, from and against any and all liabilities in any way (i) related to the Property and arising or occurring after the close of escrow and during such time as the Purchaser owns or has any interest in the Property; (ii) related to or arising from any act, conduct, omission, contract or commitment of Purchaser; or (iii) resulting from any material breach of representation or warranty by Purchaser or resulting from any material breach or default by Purchaser under this Contract.

33. MAINTENANCE OF THE PROPERTY AND PROPERTY PERSONNEL: Between the date of this Contract and the close of escrow, Seller shall maintain the Property in good order, condition and repair, reasonable wear and tear excepted, shall perform all work required to be performed by the landlord under the terms of any Lease, and shall make all repairs, maintenance and replacements of the Property and otherwise operate the Property in the same manner as before the making of this Contract, as if

Seller were retaining the Property. After full execution of this Contract and until the close of escrow, Seller shall maintain all existing personnel on the Property in their current employment positions at not less than their current rate of compensation. Without limiting the effectiveness of the foregoing provision or the other provision of this Contract with respect to such contacts, unless Purchaser specifically provides Seller with "written notice to the contrary" (as hereinafter defined), Purchaser shall not retain the existing employees and management agents of Seller for the Property, and, accordingly, at the close of escrow, Seller shall cause all employment and management agreements respecting the Property to be terminated, and deliver evidence of such termination to Purchaser and remove all employees and management personnel from the Property. Purchaser's "written notice to the contrary" pursuant hereto shall be made only by delivery to Seller of a copy of a written agreement, lease or letter of employment with or to such employee and/or management agent executed by Purchaser.

34. LEASING; PURCHASER'S CONSENT TO NEW CONTRACTS AFFECTING THE PROPERTY; TERMINATION OF EXISTING CONTRACTS: Seller shall use commercially reasonable efforts until closing to lease any vacant space, or space becoming vacant, in the Property. Seller shall not, after the date of this Contract enter into any lease (other than a lease in accordance with the immediately preceding sentence) or contract affecting the Property, or any amendment thereof, or permit any tenant to enter into any sublease, assignment or agreement pertaining to the Property, or waive, compromise or settle any rights of Seller under any contract or Lease, or agree to return any security deposit, or modify, amend, or terminate any Assigned Contract, without in each case obtaining Purchaser's prior written consent thereto which consent shall not be unreasonably withheld or delayed. Seller shall terminate prior to the closing, at no cost or expense to Purchaser, any and all agreements and contracts affecting the Property that are not Assigned Contracts.
35. INSURANCE. Through the close of escrow, Seller shall maintain or cause to be maintained, at Seller's sole cost and expense:
- A. The existing policy or policies of insurance now covering the Property.
- B. A policy or policies of workers' compensation and employers' liability insurance, commercial general liability insurance, and automobile liability insurance, each in the amount and form maintained by Seller prior to the date of this Contract.
36. MARKETING. After the end of the Due Diligence Period Seller agrees not to market or show the Property to, or solicit offers from, any other prospective purchasers during the remaining term of this Contract.

37. PUBLICITY AND CONFIDENTIALITY: Seller agrees that the terms of the transaction contemplated by this Contract, the identity of the Purchaser and all information made available by Purchaser to Seller or in any way relating to the Purchaser's interest in this transaction, shall be maintained in strict confidence and no disclosure of such information will be made by Seller, whether or not the transaction contemplated by this Contract shall close, except to such attorneys, accountants, investment advisors, lenders, and others as are reasonably required to evaluate and consummate that transaction.

38. ATTORNEYS' FEES: In the event a dispute arises concerning the performance, meaning or interpretation of any provisions of this Contract, the defaulting party or the party not prevailing in such dispute shall pay any and all costs and expenses incurred by the other party in enforcing or establishing its rights hereunder, including, without limitation, court costs and attorneys' fees. In addition to the foregoing award of attorneys' fees to the prevailing party, the prevailing party in any lawsuit on this Contract shall be entitled to its attorneys' fees incurred in any post judgment proceedings to collect or enforce the judgment. This provision is separate and several and shall survive the merger of this Contract into any judgment on this Contract.

CB COMMERCIAL REAL ESTATE GROUP, INC.
 LICENSED REAL ESTATE BROKER
 555 Capitol Mall, Suite 100
 Sacramento, CA 95814
 (916) 446-8274/phone
 (916) 446-8708/fax

SELLER: JPI XI, L.P.,
 A CALIFORNIA LIMITED PARTNERSHIP

By: JACKSON PROPERTIES, INC.

By

 John M. Jackson, Jr., President

By

 Bill Palmer

Title: Managing General Partner

Date: 10-30-97

Address: 5665 Power Inn Road, #140

Sacramento, CA 95824
Phone #: (916) 381-8113
Fax #: (916) 381-3153

PURCHASER: PACIFIC GULF PROPERTIES INC.

By _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

Date: _____

Address: 4220 Von Karman Boulevard,
2nd Floor
Newport Beach, CA 92660

Phone #: (714) 223-5000
Fax #: (714) 223-5033

CONSULT YOUR ADVISORS. It is recommended that both Purchaser and Seller consult with their respective advisors. This document has been prepared for approval by your attorney, and no representation is made by CB Commercial Real Estate Group, Inc. as to the legal sufficiency or tax consequences of this document, or the transaction to which it relates. In any real estate transaction, it is recommended that you consult with a professional, such as a civil engineer, industrial hygienist or other person, with experience in evaluating the condition of the property, including the possible presence of asbestos, hazardous materials and underground storage tanks. No representation is made by CB Commercial Real Estate Group[, Inc. or its agents or employees, as to the legal effect, interpretation, or economic consequences of the National Flood Insurance Program, Alquist- Priolo Special Studies Zone Act, California Public Resources code, Americans with Disabilities Act, or related legislation. THESE ARE QUESTIONS YOU SHOULD ADDRESS WITH YOUR LENDER, ATTORNEY, ACCOUNTANT, ADVISORS, ENGINEERS, AND OTHER QUALIFIED PROFESSIONALS.

Consent of Independent Auditors

We consent to the reference to our firm under the caption "Experts" in the Registration Statement (Form S-3 No. 333-23611) and related Prospectus of Pacific Gulf Properties Inc. for the registration of \$250,000,000 of common stock, preferred stock, debt securities and warrants and in the related Prospectus Supplement dated December 18, 1997 for the registration of 888,889 shares of the Company's common stock. We also consent to the incorporation by reference therein of our report dated February 13, 1997, with respect to the consolidated and combined financial statements and schedule of Pacific Gulf Properties Inc. included in its Annual Report (Form 10-K) for the year ended December 31, 1996 filed with the Securities and Exchange Commission and our report dated December 10, 1997, with respect to the combined statement of revenues and certain expenses of the California Commerce Parks Portfolio for the year ended December 31, 1996, included in the Company's Current Report on Form 8-K dated December 18, 1997, filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

Newport Beach, California
December 18, 1997

[PACIFIC GULF PROPERTIES INC. LETTERHEAD]

CONTACT: Cindy L. Smith
Investor Relations

FOR IMMEDIATE RELEASE

PACIFIC GULF PROPERTIES ANNOUNCES
ADOPTION OF STOCKHOLDER RIGHTS PLAN

NEWPORT BEACH, California (December 11, 1997) -- Pacific Gulf Properties Inc. (NYSE PAG) today announced that its Board of Directors has adopted a Stockholder Rights Plan designed to assure that all of its stockholders would receive fair treatment in the event of any threatened hostile acquisition of the Company.

Glenn L. Carpenter, Chairman of the Board and Chief Executive Officer, stated that "This Plan has been adopted to protect the interests of our shareholders and to assist our Board of Directors in responding properly and effectively in the event of any hostile or coercive takeover attempt of Pacific Gulf Properties. The Plan is not being adopted in response to any takeover attempt; rather, the Plan is an attempt to provide the Board of Directors with adequate time and a full opportunity to consider any and all alternatives to such hostile action."

The Rights Plan provides each stockholder of the Company with one right for each share of common stock held.

Generally, should any person or entity become the beneficial owner of 10% or more of the Company's outstanding common stock (with the exception of those persons who hold 10% or more of the Company's common stock, or securities convertible into 10% or more of the Company's common stock, on December 11, 1997), each right (other than those held by that new 10% stockholder) would be exercisable to purchase that number of shares of the Company's common stock having, at that time, a market value equal to two times the then current exercise price (initially \$100).

-more-

The record date set for distribution of the rights under the Rights Plan is December 22, 1997, after which any shares of common stock traded will automatically be accompanied by the associated rights. The rights expire on December 11, 2007 (unless previously triggered), and are subject to redemption by the Board of Directors of the Company at \$.001 per right at any time prior to the first date upon which they become exercisable.

Pacific Gulf Properties Inc., a self-administered and self-managed equity real estate investment trust, owns, operates, leases, acquires, rehabilitates and develops industrial and multifamily properties located in selected markets within the western United States.

###

December 11, 1997

FORM OF PRESS RELEASE

PACIFIC GULF PROPERTIES
ANNOUNCES CHANGE OF RECORD DATE
FOR DISTRIBUTION RIGHTS

NEWPORT BEACH, Calif., Dec. [__]/PRNewswire/--Pacific Gulf Properties Inc. (NYSE: PAG) today announced that the record date set for distribution of the rights under the previously announced Stockholder Rights Plan has been changed from December 22, 1997 to December 29, 1997. The remaining terms of the previously announced Rights Plan remain unchanged. As previously announced, Pacific Gulf Properties will provide stockholders with further details of the Rights Plan in a letter to be mailed in the next several weeks.

Pacific Gulf Properties Inc., a self-administered and self-managed equity real estate investment trust, owns, operates, leases, acquires, rehabilitates and develops industrial and multifamily properties located in selected markets within the western United States.

SOURCE: Pacific Gulf Properties Inc.

EXHIBIT 2

FORM OF
LETTER TO STOCKHOLDERS

EXHIBIT 99.3

FORM OF LETTER TO STOCKHOLDERS

[PACIFIC GULF PROPERTIES INC. LETTERHEAD]

December __, 1997

Dear Pacific Gulf Stockholder:

The Board of Directors of Pacific Gulf Properties Inc. has adopted a Stockholder Rights Plan intended to help assure that all stockholders would receive fair treatment in the event of any threatened hostile acquisition of the Company. A summary of the Stockholder Rights Plan is enclosed for your information. NO ACTION ON YOUR PART IS REQUIRED AT THIS TIME. YOU WILL BE NOTIFIED IF THE RIGHTS ARE EVER TRIGGERED AND BECOME EXERCISABLE.

The Rights Plan has been adopted to protect the interests of our stockholders and to assist the Board of Directors in responding properly and effectively on behalf of the stockholders in the event of any hostile or coercive takeover attempt of the Company. The Rights Plan is not being adopted in response to any takeover attempt; rather, the Rights Plan is an attempt to provide the Board of Directors with adequate time and a full opportunity to consider any and all alternatives to such hostile action.

It is worth noting that over 1,500 public United States companies and a great many REITs have already adopted comparable rights plans.

The Rights will expire (unless previously triggered) on December 11, 2007 and, in certain circumstances, are subject to amendment or to redemption at \$.001 per Right by the Board. The adoption of the Pacific Gulf Rights Plan does not weaken the financial strength of the current Company or interfere with its business plans. The issuance of the Rights has no current dilutive effect and

will not affect earnings per share or change the way in which you can currently trade the Company's shares.

In adopting the Rights Plan, the Board has expressed its confidence in the Company's future and its determination that our stockholders be given every opportunity to participate fully in that future. As always, our primary obligation is to enhance stockholder values.

We appreciate your continuing support. Thank you.

Sincerely,

GLENN L. CARPENTER
Chairman of the Board,
Chief Executive Officer
and President

Enclosure

EXHIBIT 3

SUMMARY OF THE RIGHTS

EXHIBIT 99.4

SUMMARY OF THE RIGHTS

On December 10, 1997, the Board of Directors of Pacific Gulf Properties Inc. (the "Company") authorized and declared a dividend of one preferred stock purchase right (a "Right") for each share of common stock, par value \$.01 per share, of the Company (the "Common Shares"). The dividend is payable on December 29, 1997 (the "Record Date") to the holders of record of Common Shares as of the close of business on such date.

The following is a brief description of the Rights. It is intended to provide a general description only and is subject to the detailed terms and conditions of the Rights Agreement (the "Rights Agreement") dated as of December 11, 1997 by and between the Company and Harris Trust Company of California, as Rights Agent (the "Rights Agent").

1. COMMON SHARE CERTIFICATES REPRESENTING RIGHTS

Until the Distribution Date (as defined in Section 2 below), (a) the Rights shall not be exercisable, (b) the Rights shall be attached to and trade only together with the Common Shares and (c) the stock certificates representing Common Shares also shall represent the Rights attached to such Common Shares. Common Share certificates issued after the Record Date and prior to the Distribution Date shall contain a notation incorporating the Rights Agreement by reference.

2. DISTRIBUTION DATE

The "Distribution Date" is the earliest of (a) the tenth business day following the date of the first public announcement that any person (other than the Company or certain related entities, and with certain additional exceptions) has become the beneficial owner of 10% or more of the then outstanding Voting Shares (such person is a "10% Stockholder" and the date of such public announcement is the "10% Ownership Date"), (b) the tenth business day (or such later day as shall be designated by the Board of Directors) following the date of the commencement of, or the announcement of an intention

to make, a tender offer or exchange offer, the consummation of which would cause any person to become a 10% Stockholder or (c) the first date, on or after the 10% Ownership Date, upon which the Company is acquired in a merger or other business combination in which the Company is not the surviving corporation or in which the outstanding Common Shares are changed into or exchanged for stock or assets of another person, or upon which 50% or more of the Company's consolidated assets or earning power are sold (other than in transactions in the ordinary course of business). In calculating the percentage of outstanding Voting Shares that are beneficially owned by any person, such person shall be deemed to beneficially own any Voting Shares issuable upon the exercise, exchange or conversion of any options, warrants or other securities beneficially owned by such person; provided, however, that such Voting Shares issuable upon such exercise shall not be deemed outstanding for the purpose of calculating the percentage of Voting Shares that are beneficially owned by any other person.

Upon the close of business of the Distribution Date, the Rights shall separate from the Common Shares, Right certificates shall be issued and the Rights shall become exercisable to purchase Preferred Shares as described in Section 5 below.

3

No Person who is the Beneficial Owner of 10% or more of the outstanding Voting Shares as of December 11, 1997 shall be deemed a 10% Stockholder unless or until such Person shall acquire, without the prior approval of the Board of Directors, Beneficial Ownership of an additional 1% of the Voting Shares then outstanding and, following such acquisition, is the Beneficial Owner of more than 10% of the Voting Shares then outstanding. In addition, any Person (a "Transferee") who purchases Voting Shares from such Person shall not be deemed a 10% Stockholder if, after giving effect to such acquisition, such Transferee holds no more than the sum of the Voting Shares so acquired plus 1% of the Voting Shares then outstanding.

3. ISSUANCE OF RIGHT CERTIFICATES

As soon as practicable following the Distribution Date, separate certificates representing only Rights shall be mailed to the holders of record of Common Shares as of the close of business on the Distribution Date, and such separate Right certificates alone shall represent such Rights from and after the Distribution Date.

4. EXPIRATION OF RIGHTS

The Rights shall expire on December 11, 2007, unless earlier redeemed or exchanged, unless the Distribution Date has previously occurred and the Rights have separated from the Common Shares, in which case the Rights will remain outstanding for ten years.

5. EXERCISE OF RIGHTS

Unless the Rights have expired or been redeemed or exchanged, they may be exercised, at the option of the holders, pursuant to paragraphs (a), (b) or (c) below. No Right may be exercised more than once or pursuant to more than one of such paragraphs. From and after the first event of the type described in paragraphs (b) or (c) below, each Right that is beneficially owned by a 10% Stockholder or that was attached to a Common Share that is subject to an option beneficially owned by a 10% Stockholder shall be void.

(a) Right to Purchase Preferred Shares. From and after the close of business on the Distribution Date, each Right (other than a Right that has become void) shall be exercisable to purchase one one-hundredth of a share of Class C Junior Participating Cumulative Preferred Stock, par value \$.01 per share, of the Company (the "Preferred Shares"), at an exercise price of \$100.00 (One Hundred Dollars) (the "Exercise Price"). Prior to the Distribution Date, the Company may substitute for all or any portion of the Preferred Shares that would otherwise be issuable upon exercise of the Rights, cash, assets or other securities having the same aggregate value as such Preferred Shares. The Preferred Shares are nonredeemable and, unless otherwise provided in connection with the creation of a subsequent series of preferred stock, are subordinate to any other series of the Company's preferred stock whether issued before or after the issuance of the Preferred Shares. The Preferred Shares may not be issued except upon exercise of Rights. The holder of a Preferred Share is entitled to receive when, as and if declared, the greater of (i) cash and non-cash dividends in an amount equal to 100 times the dividends declared on each Common Share or (ii) a preferential annual dividend of \$.01 per Preferred Share (\$.0001 per one one-hundredth of a Preferred Share). In the event of liquidation, the holders of Preferred Shares

4

shall be entitled to receive a liquidation payment in an amount equal to the greater of (1) \$.01 per Preferred Share (\$.0001 per one one-hundredth of a Preferred Share), plus all accrued and unpaid dividends and distributions on the Preferred Shares, or (2) an amount equal to 100 times the aggregate amount to be distributed per Common Share. Each Preferred Share has one (1) vote per share, voting together with the Common Shares. In the event of any merger, consolidation or other transaction in which Common Shares are exchanged, the holder of a Preferred Share shall be entitled to receive 100 times the amount received per Common Share. The rights of the Preferred Shares as to dividends, voting and liquidation preferences are protected by antidilution provisions. It is anticipated that the value of one one-hundredth of a Preferred Share should approximate the value of one Common Share.

(b) Right to Purchase Common Shares of the Company. From and after the close of business on the tenth business day following the 10% Ownership Date, each Right (other than a Right that has become void) shall be exercisable to purchase, at the Exercise Price (initially \$100.00), Common Shares with a market value equal to two times the Exercise Price. If the Company

does not have sufficient Common Shares available for all Rights to be exercised, the Company shall substitute for all or any portion of the Common Shares that would otherwise be issuable upon the exercise of the Rights, cash, assets or other securities having the same aggregate value as such Common Shares.

(c) Right to Purchase Common Stock of a Successor Corporation. If, on or after the 10% Ownership Date, (i) the Company is acquired in a merger or other business combination in which the Company is not the surviving corporation, (ii) the Company is the surviving corporation in a merger or other business combination in which all or part of the outstanding Common Shares are changed into or exchanged for stock or assets of another person or (iii) 50% or more of the Company's consolidated assets or earning power are sold (other than in transactions in the ordinary course of business), then each Right (other than a Right that has become void) shall thereafter be exercisable to purchase, at the Exercise Price (initially \$100.00), shares of common stock of the surviving corporation or purchaser, respectively, with an aggregate market value equal to two times the Exercise Price.

6. ADJUSTMENTS TO PREVENT DILUTION

The Exercise Price, the number of outstanding Rights and the number of Preferred Shares or Common Shares issuable upon exercise of the Rights are subject to adjustment from time to time as set forth in the Rights Agreement in order to prevent dilution. With certain exceptions, no adjustment in the Exercise Price shall be required until cumulative adjustments require an adjustment of at least 1%.

7. CASH PAID INSTEAD OF ISSUING FRACTIONAL SECURITIES

No fractional securities shall be issued upon exercise of a Right (other than fractions of Preferred Shares that are integral multiples of one one-hundredth of a Preferred Share and that may, at the election of the Company, be evidenced by depositary receipts) and in lieu

5

thereof, an adjustment in cash shall be made based on the market price of such securities on the last trading date prior to the date of exercise.

8. REDEMPTION

At any time prior to the earlier of (a) the tenth business day (or such later day as shall be designated by the Board of Directors) following the date of the commencement of, or the announcement of an intention to make, a tender offer or exchange offer, the consummation of which would cause any person to become a 10% Stockholder, (b) the tenth business day after the 10% Ownership Date or (c) the first event of the type giving rise to exercise rights under Section 5(c) above, the Board of Directors may, at its option, direct the Company to redeem the Rights in whole, but not in part, at a price of \$.001 per

Right (the "Redemption Price"), and the Company shall so redeem the Rights. Immediately upon such action by the Board of Directors (the date of such action being the "Redemption Date"), the only right of the holders of Rights thereafter shall be to receive the Redemption Price.

9. EXCHANGE

At any time during the period of 180 days after the 10% Ownership Date, the Board of Directors of the Company may, at its option, authorize and direct the exchange of all, but not less than all, of the then outstanding Rights for Common Shares, one one-hundredths of Preferred Shares, debt securities of the Company, other property or any combination of the foregoing, which, as of the date of the Board of Directors' action, has a current market price equal to the difference between the Exercise Price and the current market price of the shares that would otherwise be issuable upon exercise of a Right on such date (the "Exchange Ratio"), and the Company shall so exchange the Rights. Immediately upon such action by the Board of Directors, the right to exercise Rights shall terminate and the only right of the holders of Rights thereafter shall be to receive a number of Common Shares equal to the Exchange Ratio.

10. NO STOCKHOLDER RIGHTS PRIOR TO EXERCISE

Until a Right is exercised, the holder thereof, as such, shall have no rights as a stockholder of the Company (other than rights resulting from such holder's ownership of Common Shares), including, without limitation, the right to vote or to receive dividends.

11. AMENDMENT OF RIGHTS AGREEMENT

The Board of Directors may, from time to time, without the approval of any holder of Rights, direct the Company and the Rights Agent to supplement or amend any provision of the Rights Agreement in any manner, whether or not such supplement or amendment is adverse to any holder of Rights, and the Company and the Rights Agent shall so supplement or amend such provision; provided, however, that from and after the earliest of (a) the tenth business day (or such later day as shall be designated by the Board of Directors) following the date of the commencement of, or the announcement of an intention to make, a tender offer or exchange offer, the consummation of which would cause any person to become a 10% Stockholder, (b) the 10% Ownership Date, (c) the first event of the type giving rise to exercise rights under

Section 5(c) above or (d) the Redemption Date, the Rights Agreement shall not be supplemented or amended in any manner that would materially and adversely affect any holder of outstanding Rights other than a 10% Stockholder.