

INLAND WESTERN RETAIL REAL ESTATE TRUST INC
Form S-11/A
December 21, 2004

As filed with the Securities and Exchange Commission on December 21, 2004
Registration No. 333-118860

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 2 TO
FORM S-11
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(Exact name of registrant as specified in governing instruments)

2901 Butterfield Road
Oak Brook, Illinois 60523
(Address of principal executive offices)

Robert H. Baum, Esq.
Vice Chairman, Executive Vice President and General Counsel
The Inland Group, Inc.
2901 Butterfield Road
Oak Brook, Illinois 60523
(630) 218-8000
(Name, address, including zip code and telephone number,
including area code of agent for service)

With a copy to:
David J. Kaufman, Esq.
Duane Morris LLP
227 West Monroe Street
Suite 3400
Chicago, Illinois 60606
(312) 499-6700

Approximate date of commencement of proposed sale to the public: As soon as practicable after the registration statement becomes effective.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

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If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. _____

CALCULATION OF REGISTRATION FEE

| Title of Each Class of Securities Being Registered | Amount Being Registered | Proposed Maximum Offering Price Per Share | Proposed Maximum Aggregate Offering Price | Am Registr |
|--|-------------------------|---|---|---------------|
| Common Stock, \$.001 par value..... | 250,000,000 | \$ 10.00 | \$ 2,500,000,000 | \$ |
| Common Stock, \$.001 par value(1)..... | 20,000,000 | 9.50 | 190,000,000 | \$ |
| | | | ----- | \$ |
| | | | ===== | ===== |

(1)Represents shares issuable pursuant to the registrant's distribution reinvestment program.
*Previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

[INLAND WESTERN RETAIL REAL ESTATE TRUST, INC. LOGO]

PROSPECTUS
270,000,000 shares of common stock

\$10.00 per share: Minimum Initial Purchase - 300 shares (100 shares for Tax-Exempt Entities)

We are a real estate investment trust or a REIT. We were formed in 2003 to

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acquire and manage properties which are located primarily in states west of the Mississippi River. As of December 7, 2004, we owned 91 properties which have an aggregate gross leasable area of approximately 16.1 million square feet. No public market currently exists for our shares of common stock and our shares cannot be readily sold.

We are offering 250,000,000 shares to investors who meet our suitability standards; and up to 20,000,000 shares to participants in our reinvestment plan (at \$9.50 per share). The common stock will be issued in book entry form only.

The managing dealer of the offering, Inland Securities Corporation, is our affiliate. The managing dealer is not required to sell any specific number or dollar amount of shares but will use its best efforts to sell 250,000,000 of our shares. Your subscription payments will be placed in an escrow account held by the escrow agent, LaSalle Bank National Association, and will be held in trust for your benefit, pending release to us. Subscription proceeds are expected to be released to us as subscriptions are accepted. This offering will end no later than December [.] , 2005, unless we elect to extend it to a date no later than December [.] , 2006 in states that permit us to make this extension.

INVESTING IN OUR COMPANY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 12 FOR A DISCUSSION OF THE MATERIAL RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH YOUR INVESTMENT IN OUR COMMON STOCK. THESE RISKS INCLUDE:

- our common stock is not currently listed or traded on an exchange and cannot be readily sold (and sales by stockholders may be made at a loss);
- we have no ownership in our business manager/advisor and the business manager/advisor is owned by our sponsor or their affiliates;
- our business manager/advisor and its affiliates will receive substantial fees, including participation in proceeds from the sale, refinancing or liquidation of our assets
- our business manager/advisor, property managers and two of our directors are subject to conflicts of interest as a result of their affiliation with The Inland Group;
- there are limits on ownership and redemption of shares;
- risks that the incentive structure of the offering to our business manager/advisor may encourage our business manager/advisor to make investments that have great potential for higher fees; and
- although we anticipate that the offering will not exceed 55% of the value of our properties, our limitation on our borrowing is based on net assets and there are risks of a high amount of leverage.

The use of forecasts in this offering is prohibited. Any representations to the contrary and any predictions, written or oral, as to the amount or certainty of any present or future cash benefit or tax consequence which may flow from an investment in this program is not permitted. Any stockholder loss of capital will be limited to the amount of their investment. You should purchase these securities only if you can afford a complete loss of your investment.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

| | Per Share | Max. Offering |
|--|-----------|------------------|
| Public offering price, primary shares (1)..... | \$ 10.00 | \$ 2,500,000,000 |
| Public offering price, distribution reinvestment program | \$ 9.50 | \$ 190,000,000 |
| Selling commissions (1)..... | \$ 1.05 | \$ 262,500,000 |

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Proceeds, before expenses, to us..... \$ 8.95 \$ 2,427,500,000

(1) The selling commission only applies to sales of primary shares and is composed of a 7.5% selling commission (7.0% of which is reallowable), 2.5% marketing allowance and .5% due diligence expense allowance.

The date of this Prospectus is [-], 2004.

FOR RESIDENTS OF MICHIGAN ONLY:

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE DEPARTMENT OF CONSUMER & INDUSTRY SERVICES, MICHIGAN OFFICE OF FINANCIAL AND INSURANCE SERVICES. THE DEPARTMENT HAS NOT UNDERTAKEN TO PASS UPON THE VALUE OF THESE SECURITIES NOR TO MAKE ANY RECOMMENDATIONS AS TO THEIR PURCHASE.

THE USE OF THIS PROSPECTUS IS CONDITIONED UPON ITS CONTAINING ALL MATERIAL FACTS AND THAT ALL STATEMENTS CONTAINED THEREIN ARE TRUE AND CAN BE SUBSTANTIATED. THE DEPARTMENT HAS NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.

NO BROKER-DEALER, SALESMAN, AGENT OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE OFFERING HEREBY MADE OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS OR EFFECTIVE LITERATURE.

THIS IS A BEST EFFORTS OFFERING, AND WE RESERVE THE RIGHT TO ACCEPT OR REJECT ANY SUBSCRIPTION AND WILL PROMPTLY NOTIFY THE SUBSCRIBER OF ACCEPTANCE OR REJECTION. THERE IS NO ASSURANCE THAT THIS OFFERING WILL ALL BE SOLD. THERE ARE NO ASSURANCES AS TO WHAT SIZE WE MAY REACH.

THERE IS NO ASSURANCE THAT OUR OPERATIONS WILL BE PROFITABLE OR THAT LOSSES WILL NOT OCCUR.

IT IS NOT OUR POLICY TO REDEEM OUR STOCK (EXCEPT AS PROVIDED IN THIS OFFERING).

ANY REPRESENTATIONS CONTRARY TO ANY OF THE FOREGOING SHOULD BE REPORTED FORTHWITH TO THE OFFICE OF FINANCIAL AND INSURANCE SERVICE AT 611 West Ottawa Street, 2nd Floor Ottawa Building, P.O. Box 30701, Lansing, MI 48909-8201, or Telephone (877) 999-6442.

WHO MAY INVEST

In order to purchase shares, you must:

- Meet the financial suitability standards, and
- Purchase a minimum number of shares.

SUITABILITY STANDARDS

Because an investment in our common stock is risky and is a long-term investment, it is suitable for you only if you have adequate financial means, you have no immediate need for liquidity in your investment and you can bear the complete loss of your investment.

We have established financial suitability standards for investors who purchase shares of our common stock. In addition, residents of some states must meet higher suitability standards under state law. These standards require you to meet the applicable criteria below. In determining your net worth, do not include your home, home furnishings or your automobile. INVESTORS WITH

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INVESTMENT DISCRETION

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OVER ASSETS OF AN EMPLOYEE BENEFIT PLAN COVERED BY ERISA SHOULD CAREFULLY REVIEW THE INFORMATION IN THE SECTION ENTITLED, "ERISA CONSIDERATIONS."

GENERAL STANDARDS FOR ALL INVESTORS

- Minimum net worth of at least \$150,000; or
- Minimum annual gross income of at least \$45,000 and net worth of at least \$45,000.

Standards for Maine Residents

- Minimum net worth of \$200,000, or
- Minimum annual gross income of \$50,000 and a minimum net worth of \$50,000.

Standards for Arizona, California, Iowa, Massachusetts, Michigan, Missouri, Oregon or Tennessee Residents

- Minimum net worth of \$225,000, or
- Minimum annual gross income of \$60,000 and a minimum net worth of \$60,000.

Standards for Kansas, Missouri, Ohio and Pennsylvania Residents

- In addition to meeting the general standards for all investors, your investment may not exceed 10% of your liquid net worth.

In the case of sales to fiduciary accounts, these minimum standards must be met by the beneficiary, the fiduciary account, or by the donor or grantor who directly or indirectly supplies the funds to purchase the common stock if the donor or the grantor is the fiduciary. INVESTORS WITH INVESTMENT DISCRETION OVER ASSETS OF AN EMPLOYEE BENEFIT PLAN COVERED UNDER ERISA SHOULD CAREFULLY REVIEW THE INFORMATION ENTITLED "ERISA CONSIDERATIONS."

In the case of gifts to minors, the suitability standards must be met by the custodian account or by the donor.

MINIMUM PURCHASE

Subject to the restrictions imposed by state law, we will sell shares of our common stock only to investors who initially purchase a minimum of 300 shares of common stock for a total purchase price of \$3,000, or tax-exempt entities which purchase a minimum of 100 shares of common stock for a total purchase price of \$1,000. For investors living in Iowa, the minimum investment for IRAs will be 300 shares of common stock for a total purchase price of \$3,000, and for investors living in Minnesota, the minimum investment for IRAs and qualified plan accounts will be 200 shares of common stock for a total purchase price of \$2,000. Tax-exempt entities are generally any investor that is exempt from federal income taxation, including:

- a pension, profit-sharing, retirement, IRA or other employee benefit plan which satisfies the requirements for qualification under Section 401(a), 414(d) or 414(e) of the Internal Revenue Code;

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- a pension, profit-sharing, retirement, IRA or other employee benefit plan which meets the requirements of Section 457 of the Internal Revenue Code;
- trusts that are otherwise exempt under Section 501(a) of the Internal Revenue Code;
- a voluntary employees' beneficiary association under Section 501(c) (9) of the Internal Revenue Code; or
- an IRA which meets the requirements of Section 408 of the Internal Revenue Code.

The term "plan" includes plans subject to Title I of ERISA, other employee benefit plans and IRAs subject to the prohibited transaction provisions of Section 4975 of the Internal Revenue Code, governmental or church plans that are exempt from ERISA and Section 4975 of the Internal Revenue Code, but that may be subject to state law requirements, or other employee benefit plans.

Subject to any restrictions imposed by state law, subsequent additional investments by current investors require a minimum investment of \$25. This limitation does not apply to the purchase of shares through the dividend reinvestment provision.

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Our common stock is not currently listed on an exchange or trading market and cannot be readily sold.....
The price of our common stock is subjective and may not bear any relationship to what a stock could receive if it was sold.....
You do not know what real properties and other assets we may acquire in the future, and must on our business manager/advisor, our board and officers to select them and stockholders will not participate in these decisions.....
Competition with third parties in acquiring properties will reduce our profitability and the return on your investment.....
We will compete with real estate investment programs sponsored by companies affiliated with us for the acquisition of properties and for the time and services of personnel.....

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We plan to incur mortgage indebtedness and other borrowings, which may reduce the funds available for distribution, may increase the risk of loss since defaults may result in foreclosures and mortgages may include cross-collateralization or cross-default provisions that increase the risk that more than one property may be affected by a default.....
If we have insufficient working capital reserves, we will have to obtain financing from other sources.....
The types of properties which we intend to acquire and the area in which we may acquire retail centers is limited.....
The aggregate amount we may borrow is limited under our articles of incorporation.....
Because of the way we are organized, we would be a difficult takeover target. This could depress the price of our stock and inhibit a management change.....
Your investment return may be reduced if we are required to register as an investment company under the Investment Company Act.....
There are many factors which can affect distributions to stockholders.....
Our derivative financial instruments used to hedge against interest rate fluctuations could reduce the overall returns on your investment.....
We could issue more shares in the future, which could reduce the market price of our outstanding shares.....
Our share repurchase program is limited to 5% of the weighted average number of shares of our stock outstanding during the prior calendar year and may be changed or terminated by us, thereby reducing the potential liquidity of your investment.....

Stockholders have limited control over changes in our policies.....

If we invest in joint ventures, the objectives of our partners may conflict with our objectives.....

If we sell properties by providing financing to purchasers, we will bear the risk of default by the purchaser.....

Delays in acquisitions of properties may have an adverse effect.....

We may not be able to immediately invest proceeds in real estate, which will harm your returns.....

We depend on our board of directors, business manager/advisor and property managers and loss of those relationships could negatively affect our operations.....

There are conflicts of interest between us and our affiliates.....

We cannot predict the amounts of compensation to be paid to our business manager/advisor and other affiliates.....

The managing dealer has not made an independent review of us or the prospectus.....

Our rights and the rights of our stockholders to take action against our directors and officers and the business manager/advisor are limited.....

The business of our business manager/advisor and our property managers may be acquired by us without further action of our stockholders.....

Your percentage of ownership may become diluted if we issue new shares of stock.....

There are inherent risks with real estate investments.....

Adverse economic conditions in our primary geographic region and in the market for retail space could reduce our income and distributions to you.....

Rising expenses could reduce cash flow and funds available for future acquisitions.....

If our tenants are unable to make rental payments, if their rental payments are reduced, or if they terminate a lease, our financial condition and ability to pay distributions will be adversely affected.....

Our financial condition and ability to make distributions may be adversely affected by the bankruptcy or insolvency, a downturn in the business, or a lease termination of a tenant that occupies a large area of the retail center or an anchor tenant.....

If a tenant claims bankruptcy, we may be unable to collect balances due under relevant leases.....

We may incur additional costs in acquiring or re-leasing retail properties.....

Our properties will be subject to competition for tenants and customers.....

Our properties will face competition which may affect tenants' ability to pay rent and the amount of rent paid to us and in turn affect the cash available for distributions and the amount of distributions.....

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We may be restricted from re-leasing space.....

We may be unable to sell a property if or when we decide to do so.....

If we suffer losses that are not covered by insurance or that are in excess of insurance coverage we could lose invested capital and anticipated profits.....

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of violence or war may affect the markets in which we operate, our operations and our profitability.....

Real estate related taxes may increase and if these increases are not passed on to tenants, our income will be reduced.....

Revenue from our properties depends on the amount of our tenants' retail revenue, making us vulnerable to general economic downturns and other conditions affecting the retail industry.....

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The costs of compliance with environmental laws and other governmental laws and regulations may adversely affect our income and the cash available for any distributions.....

Our costs associated with complying with the Americans with Disabilities Act may affect cash available for distributions.....

If a sale or leaseback transaction is recharacterized, our financial condition could be adversely affected.....

We may incur additional costs in acquiring newly constructed properties which may adversely affect cash available for distributions to you.....

Our investments in unimproved real property may result in additional cost to us to comply with re-zoning restrictions or environmental regulations.....

Construction and development activities will expose us to risks such as cost overruns, carryover costs of projects under construction or development, availability and costs of materials and labor, weather conditions and government regulation.....

We may acquire or finance properties with lock-out provisions which may prohibit us from selling a property, or may require us to maintain specified debt levels for a period of years on some properties.....

Your investment has various federal income tax risks.....

If we fail to maintain our REIT status, our dividends will not be deductible to us and our income will be subject to taxation.....

You may have tax liability on distributions you elect to reinvest in common stock.....

The opinion of Duane Morris LLP regarding our status as a REIT does not guarantee our ability to remain a REIT.....

Even REITS are subject to federal and state income taxes.....

An investment in our common stock may not be suitable for every employee benefit plan.....

The annual statement of value that we will be sending to stockholders subject to ERISA and to

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PROSPECTUS SUMMARY

This summary highlights all of the material information in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read this entire prospectus and its appendices carefully before you decide to invest in our shares of common stock.

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

We are a Maryland corporation formed in March 2003 and we operate as a real estate investment trust, or a REIT, for federal and state income tax purposes. Our company owns all of our assets, either directly or indirectly.

Our principal executive offices are located at 2901 Butterfield Road, Oak Brook, Illinois 60523 and our telephone number is (630) 218-8000.

THE TYPES OF REAL ESTATE THAT WE MAY ACQUIRE AND MANAGE

Our business manager/advisor is experienced in acquiring and managing real estate, particularly retail focused shopping centers. We acquire and manage a diversified (by geographical location and by type and size of retail centers) portfolio of real estate primarily improved for use as retail establishments, principally multi-tenant shopping centers. Our portfolio does and will consist predominantly of grocery and discount store anchored retail, including net lease retail. We may acquire certain mixed use properties that may include lodging, office and/or multi-family residential if they are part of a retail center. And, we may also acquire other types of retail shopping centers, such as enclosed malls, outlet malls and power centers. We also anticipate acquiring real estate improved with other commercial facilities which provide goods and services as well as double or triple net leased properties, which are either commercial or

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retail, including properties acquired in sale and leaseback transactions. A triple-net leased property is one which is leased to a tenant who is responsible for the base rent and all costs and expenses associated with their occupancy, including property taxes, insurance, repairs and maintenance.

The geographic focus of our portfolio continues to be western U.S. markets; yet, at the present time, we believe that properties available for sale east of the Mississippi River are offering more favorable investment returns. Our objective continues to be to acquire quality properties primarily for income as distinguished from primarily for capital gain. As a result, many of our recently acquired properties and properties that we currently have under contract for purchase are located in eastern U.S. markets. However, over the long-term, we expect the portfolio to consist of properties located primarily west of the Mississippi River. Where feasible, we will endeavor to acquire multiple properties within the same major metropolitan markets where the acquisitions result in efficient property management operations with the potential to achieve market dominance. As a result, we may have clusters of properties east of the Mississippi.

We do not intend to invest in real estate properties that are primarily:

- farms;
- health care facilities;
- industrial properties;
- leisure home sites;
- manufacturing facilities;
- mining properties;
- ranches;
- single-family residential properties;

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- timberlands; or
- unimproved properties not intended to be developed (vacant land).

Subject to compliance with the applicable requirements under the federal income tax laws, we may also undertake construction and development activities and render services in connection with such activities.

OUR SPONSOR, OUR BUSINESS MANAGER/ADVISOR AND THE INLAND GROUP

Our sponsor is Inland Real Estate Investment Corporation, which is owned by The Inland Group, Inc. The Inland Group, together with its subsidiaries and affiliates, is a fully-integrated group of legally and financially separate companies that have been engaged in diverse facets of real estate for over 35 years providing property management, leasing, marketing, acquisition, disposition, development, redevelopment, syndication, renovation, construction, finance and other related services. Inland Western Retail Real Estate Advisory Services, Inc., is a wholly owned subsidiary of our sponsor and is our business manager/advisor. Inland Securities Corporation, another affiliate of The Inland Group, is the managing dealer of this offering. Inland US Management LLC, Inland Southwest Management LLC and Inland Pacific Management LLC, our property managers, are entities owned principally by individuals who are affiliates of The Inland Group. The principal executive offices of The Inland Group, our sponsor, and our business manager/advisor are located at 2901 Butterfield Road, Oak Brook, Illinois 60523 and their telephone number is (630) 218-8000. The principal executive offices of our property managers are located at 2907 Butterfield Road, Oak Brook, Illinois 60523 and their telephone number is (630) 218-8000.

The following organizational chart depicts the services that affiliates or

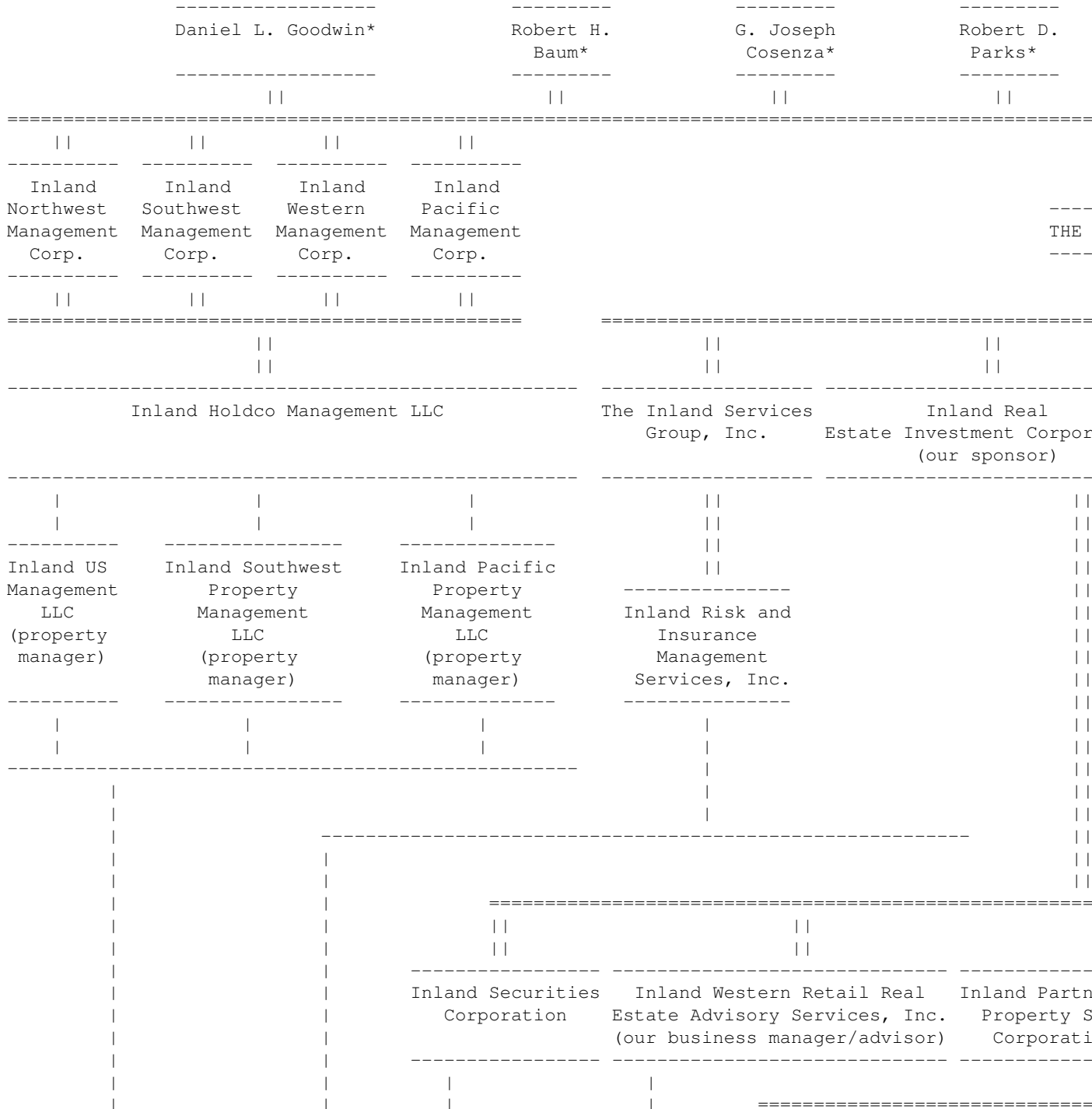
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our sponsor will render to us and our organizational structure.

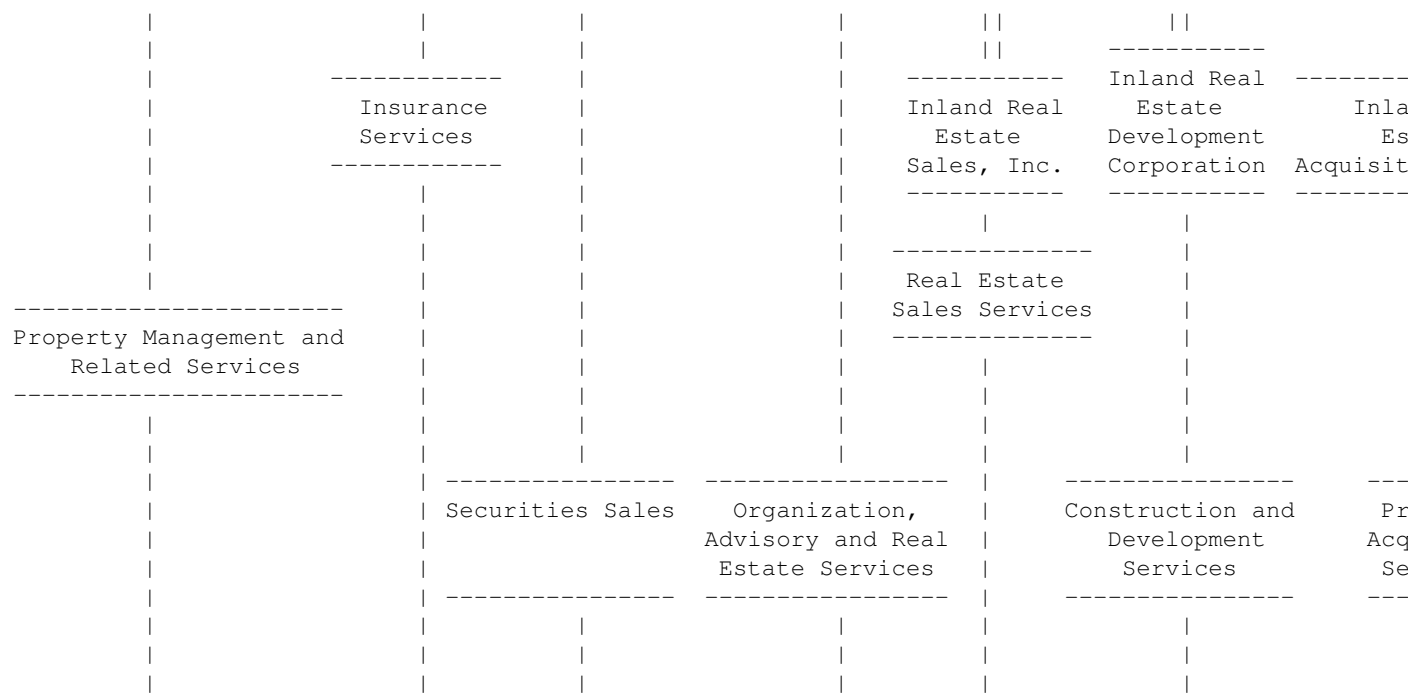
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The following organizational chart depicts the services that affiliates of our sponsor will render to us and our organizational structure.

ORGANIZATIONAL CHART



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Inland Western Retail Real Estate Trust, Inc.
 We are principally owned by public investors. Ownership is represented by shares

Solid lines indicate 100% ownership. Broken lines indicate service.

* The four indicated individuals control The Inland Group, Inc. and own substantially all of its stock.

Investment in shares of our common stock involves risks. If we are unable to effectively manage the impact of these risks, we may not meet our investment objectives and, therefore, you may lose some or all of your investment. The following is a summary of the material risks which we believe are most relevant to an investment in the shares. These risks are generally listed in the order of priority.

- our common stock is not currently listed or traded on an exchange and cannot be readily sold (and sales by stockholders may be made at a loss);
- although we anticipate that aggregate borrowings will not exceed 55% of the combined fair market value of our properties, our charter imposes a limitation on our borrowings of less than 300% of net assets and there are risks associated with a high amount of leverage;
- we have no ownership in our business manager/advisor and the business manager/advisor is owned by our sponsor or their affiliates;
- our business manager/advisor and its affiliates will receive substantial fees, including participation in proceeds from the sale, refinancing or liquidation of our assets;
- our business manager/advisor, property managers and two of our

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directors are subject to conflicts of interest as a result of their affiliation with The Inland Group, including conflicts of interest relating to:

- the negotiation of the terms of the advisor and property management agreements;
 - the allocation of their time between us and their other business ventures;
 - decisions whether to acquire and dispose of properties;
 - the purchase and sale of properties to or from the business manager/advisor and our affiliates; and
 - the allocation of investment opportunities between us and their other business ventures.
-
- we may make distributions that include a return of principal for federal tax purposes;
 - there are limits on ownership, transferability and redemption of shares;
 - our investment policies and strategies may be changed without stockholder consent;
 - our investments will lack geographic diversification; and
 - risks that incentive structure of fees payable to our business manager/advisor and its affiliates may encourage our business manager/advisor to make investments that have greater risks to generate higher fees.

CONFLICTS OF INTEREST

CONFLICTS OF INTEREST EXIST BETWEEN US AND SOME OF OUR AFFILIATES, INCLUDING OUR BUSINESS MANAGER/ADVISOR. THESE AFFILIATES INCLUDE INLAND REAL ESTATE CORPORATION, INLAND RETAIL REAL ESTATE TRUST, INC. AND INLAND REAL ESTATE EXCHANGE CORPORATION. INLAND REAL ESTATE CORPORATION IS A PUBLICLY TRADED REIT THAT IS SELF-ADMINISTERED AND IS NO LONGER AFFILIATED WITH THE INLAND GROUP. INLAND REAL ESTATE CORPORATION PURCHASES SHOPPING CENTERS LOCATED IN THE MIDWEST. INLAND RETAIL REAL ESTATE TRUST, INC. IS AFFILIATED WITH THE INLAND GROUP. INLAND RETAIL REAL ESTATE TRUST, INC. GENERALLY PURCHASES SHOPPING CENTERS LOCATED EAST OF THE MISSISSIPPI RIVER. INLAND REAL

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ESTATE EXCHANGE CORPORATION IS A SUBSIDIARY OF INLAND REAL ESTATE INVESTMENT CORPORATION. INLAND REAL ESTATE EXCHANGE CORPORATION PROVIDES REPLACEMENT PROPERTIES FOR PEOPLE WISHING TO COMPLETE AN IRS SECTION 1031 REAL ESTATE EXCHANGE. Midwest Real Estate Equities, Inc. is not a subsidiary of The Inland Group, Inc or its affiliates but does have some of the same shareholders as The Inland Group, Inc. Midwest Real Estate Equities buys, manages and sells commercial and multi-family property.

Some of these conflicts include:

- competition for the time and services of personnel that work for us and our affiliates, including such persons as Daniel L. Goodwin, Robert H. Baum, G. Joseph Cosenza, Robert D. Parks, Thomas P. McGuinness, Roberta S. Matlin and Brenda G. Gujral, which may limit the amount of time these people may spend on our business matters;
- substantial compensation payable by us to Inland Securities

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Corporation, Inland Western Retail Real Estate Advisory Services, Inc., Inland US Management LLC, Inland Southwest Management LLC and Inland Pacific Management LLC for their various services which may not be on market terms and is payable, in most cases, whether or not our stockholders receive distributions;

- competition for properties, although our affiliates are governed by the Property Acquisition Service Agreement which, with certain limitations, gives us a right of first refusal for certain properties west of the Mississippi River; and
- the possibility that we may do business with entities that have pre-existing relationships with our affiliates which may result in a conflict between our business and the ongoing business relationships our affiliates have with each other.

Conflicts of interest may also arise in connection with the potential sale or refinancing of our properties or the enforcement of agreements.

We have an option to acquire or consolidate into us the business conducted by our business manager/advisor and/or our property managers for shares of common stock.

COMPENSATION TO BE PAID TO OUR BUSINESS MANAGER/ADVISOR AND AFFILIATES

We pay our business manager/advisor and affiliates substantial fees for managing our business.

We will also pay the business manager/advisor and other affiliates of our sponsor a number of other fees for services or expense reimbursements during our offering, operational and liquidation stage.

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Set forth below is a tabular summary of fees and compensation payable to our business manager/advisor and other affiliates.

Type of Compensation

Nonsubordinated payments:

Offering stage:

| | |
|---|---|
| Selling commissions | 7.5% of the sale price for each share Estimated maximum: \$187,500,000. Through September 30, 2004, we have incurred \$135,587,028 in selling commissions in connection with our initial public offering. In our initial public offering, we intend to sell 250,000,000 shares of our common stock at \$10.00 per share. |
| Marketing allowance and due diligence expense allowance | 2.5% of the gross offering proceeds for marketing allowance and 0.5% of the gross offering proceeds for due diligence expense allowance. Through September 30, 2004, we have incurred \$16,811,558 in marketing allowance and due diligence expense allowance in |

connection with our initial public offering. The actual amount of marketing allowance and due diligence expense allowance in connection with this offering will depend on the number of shares sold. If there are no special sales, and we sell the maximum number of shares offered, approximately \$75,000,000 will be paid for the marketing allowance and the due diligence expense allowance.

Reimbursable expenses and other expenses of issuance

Estimated amount: \$14,684,000. Through September 30, 2004, we have incurred \$969,524 of reimbursable expenses to our business manager/advisor in connection with our initial public offering. In addition, in connection with our initial public offering, as of December 31, 2003, our business manager/advisor had advanced an aggregate of approximately \$1,763,306 for the payment of offering expenses to non-affiliated third parties, all of which has been repaid. Our sponsor has not advanced any reimbursable expenses in connection with this offering. We may reimburse up to \$14,684,000 for offering expenses advanced if we sell the maximum number of shares offered.

If the offering is not successful, then our sponsor will be solely responsible for the offering expenses to the extent it has not been reimbursed.

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Acquisition stage:

Acquisition expenses

We will reimburse Inland Real Estate Acquisitions, Inc. for costs incurred, on our behalf, in connection with the acquisition of properties. We will pay an amount, estimated to be up to 0.5% of the total of (1) the gross offering proceeds from the sale of 250,000,000 shares and (2) the gross proceeds from the sale of up to 20,000,000 shares pursuant to the distribution reinvestment programs. The acquisition expenses for any particular property will not exceed 6% of the gross purchase price of the property.

Operational stage:

Property management fee
This fee terminates upon a business combination with our property managers.

4.5% of the gross income from the properties. (cannot exceed 90% of the fee which would be payable to an unrelated third party). We will pay the

fee for services in connection with the rental, leasing, operation and management of the properties. For the year ended December 31, 2003, and the nine months ended September 30, 2004, we have incurred and paid property management fees of \$16,627 and \$2,847,427, of which \$16,627 and \$2,847,427 were retained by Inland US Management LLC, Inland Southwest Management LLC and Inland Pacific Management LLC. Actual amounts we will incur in the future cannot be determined at the present time.

Loan servicing fee and mortgage brokerage fee

0.08% of the total principal amount of the loans being serviced for each full year, up to the first \$100 million and a lesser percentage on a sliding scale thereafter. For the year ended December 31, 2003, and the nine months ended September 30, 2004, we have incurred and paid \$328 and \$63,978 to Inland Mortgage Servicing Corporation. For the year ended December 31, 2003, and the nine months ended September 30, 2004, we have incurred and paid \$59,523 and \$2,241,986 to Inland Mortgage Investment Corporation.

Reimbursable expenses relating to administrative services

The compensation and reimbursements to our business manager/advisor and its affiliates will be approved by a majority of our directors. Actual amounts cannot be determined at the present time. These may include cost of goods and services and non-supervisory services performed directly for us by independent parties.

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Liquidation stage:

Property disposition fee
This fee terminates upon a business combination with our business manager/advisor.

Lesser of 3% of sales price or 50% of the customary commission which would be paid to a third party. Actual amounts cannot be determined at the present time.

Subordinated payments:

Operational stage:

Advisor asset management fee
This fee terminates upon a business combination with our business manager/advisor.

Not more than 1% per annum of our average assets; subordinated to a non-cumulative, non-compounded return, equal to 6% per annum. Actual amounts cannot be determined at the present time. We will pay the fee for services in connection with our day-to-day

operations, including administering our bookkeeping and accounting functions, services as our consultant in connection with policy decisions made by our board, managing our properties or causing them to be managed by another party and providing other services as our board deems appropriate. As of September 30, 2004, we have not paid or accrued any advisor asset management fees. Actual amounts we will incur in the future cannot be determined at the present time.

Liquidation stage:

Incentive advisory fee
This fee terminates upon a business combination with the business manager/advisor.

After our stockholders have first received a 10% cumulative, non-compounded return and a return of their net investment, an incentive advisory fee equal to 15% on net proceeds from the sale of a property will be paid to our business manager/advisor.

PRIMARY BUSINESS OBJECTIVE AND STRATEGIES

Our primary business objective is to enhance the performance and value of our properties through active management. Key elements of our strategy are:

Acquisitions:

- To selectively acquire real properties that are diversified types and well-located.
- To selectively acquire properties on an all-cash basis if necessary to provide us with a competitive advantage over potential purchasers who must secure financing. We may, however, acquire properties subject to existing indebtedness if we believe this is in our best interest. We may acquire properties free and clear of permanent mortgage debt by paying the entire purchase price of each property in cash or for shares, interests in entities that own one or more of our properties or a combination of these. However, as of the date of this

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prospectus, we had not paid the purchase price of any properties using shares or interests in entities that will own our properties.

- To diversify geographically within the states west of the Mississippi by acquiring properties primarily located in major metropolitan areas to minimize the potential adverse impact of economic downturns in local markets.

Operations:

- We intend to continue to actively manage costs and minimize operating expenses by centralizing all management, leasing, marketing, financing, accounting, renovation and data processing activities.
- We intend to improve rental income and cash flow by aggressively

marketing rentable space.

- We intend to continue to emphasize regular maintenance and periodic renovation to meet the needs of tenants and to maximize long-term returns.
- We intend to continue to maintain a diversified tenant base at our retail centers, consisting primarily of retail tenants providing consumer goods and services.

TERMS OF THE OFFERING

If we sell the maximum amount of shares under the offering, we will have sold a total of 500,020,000 shares, assuming that we sell all of the 250,000,000 shares offered in our initial public offering which began September 2003. These numbers do not include shares issued upon exercise of options granted and which may be granted under our independent director stock option plan, nor do they include shares issued pursuant to our existing distribution reinvestment program.

We are offering a maximum of 250,000,000 shares on a best efforts basis through the managing dealer at \$10.00 per share, subject to discounts in some cases. An offering on a best efforts basis is one in which the securities dealers participating in the offering are under no obligation to purchase any of the securities being offered and, therefore, no specified number of securities are guaranteed to be sold and no specified amount of money is guaranteed to be raised from the offering.

We are also offering up to 20,000,000 shares at a purchase price of \$9.50 per share to stockholders who elect to participate in our distribution reinvestment program.

The offering price of our shares is subjective and was determined by our board of directors. Our board of directors determined the offering price based upon the offering price in our initial public offering in September 2003, the offering price of earlier REITs organized by our sponsor, the range of other REITs that do not have a public trading market and the recommendation of the managing dealer based on its consultations with likely soliciting dealers.

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IS AN INVESTMENT IN US APPROPRIATE FOR YOU?

An investment in us might be appropriate as part of your investment portfolio if:

- You are looking for regular distributions. We intend to pay regular monthly distributions to our domestic stockholders and regular quarterly distributions to our foreign stockholders. We have paid regular distributions to our domestic and foreign stockholders for the past nine months and the past three quarters. The maximum time that you should have to wait to receive the first distribution is 45 days from the date in which we accept your subscription.
- You are looking for a hedge against inflation. We have, and intend to continue to hedge against inflation by entering into leases with tenants which provide for scheduled rent escalations or participation in the growth of tenant sales. This is designed to provide increased distributions and capital appreciation.
- You are looking for capital preservation and appreciation. We intend

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to acquire, a portfolio of diverse properties, usually on an all cash basis, that are well located. After acquiring these properties, we may finance them, but we anticipate that aggregate borrowings secured by our properties will not exceed 55% of their combined fair market value. Currently, our aggregate borrowings secured by our properties is approximately 55% of their combined fair market value.

WE CANNOT GUARANTEE THAT WE WILL ACHIEVE THESE OBJECTIVES.

DISTRIBUTIONS

We have and intend to continue to pay regular monthly distributions to our domestic stockholders and regular quarterly distributions to our foreign stockholders. The maximum time that you should have to wait to receive the first distribution is 45 days from the date in which we accept your subscription.

In order to maintain our REIT status under federal income tax laws, we intend to distribute at least 90% of our taxable income to our stockholders. For federal income tax purposes only, we may make distributions that include a return of principal or an amount in excess of 95% of cash available to us.

REAL PROPERTY INVESTMENTS

As of December 7, 2004, our real estate portfolio was comprised of 91 properties containing approximately 16.1 million square feet of gross leasable area. The 91 properties consist of 42 retail shopping centers, 26 neighborhood and community shopping center properties, 18 single-user facilities and five joint venture retail shopping centers that we have operating control of, located in 25 states.

SHARE REPURCHASE PROGRAM

We have instituted a share repurchase program. Our share repurchase program provides eligible stockholders with limited interim liquidity by enabling them to sell shares back to us. The prices at which shares may be sold back to us will be one year from the purchase date at \$9.25 per share; two years from the purchase date at \$9.50 per share; three years from the purchase date at \$9.75 per share; and four years from the purchase date at the greater of \$10.00 per share or a price equal to ten times our "funds available for distribution" per weighted average share outstanding for the prior calendar year. We may terminate, reduce or otherwise change the above share repurchase program.

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ESTIMATED USE OF PROCEEDS

The amounts listed in the table below represent our current estimates concerning the use of the offering proceeds. Since these are estimates, they may not accurately reflect the actual receipt or application of the offering proceeds. The amounts set forth below assume:

- we sell the maximum of 250,000,000 shares in this offering at \$10 per share; and
- we sell the maximum of 20,000,000 shares in our distribution reinvestment program at \$9.50 per share.

We have not given effect to any special sales or volume discounts which could reduce selling commissions.

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| | MAXIMUM OFFERING (INCLUDING SHARES SOLD UN DISTRIBUTION REINVESTMENT | |
|--------------------------------------|--|--------|
| | AMOUNT | PERCE |
| Gross proceeds..... | \$ 2,690,000,000 | 100.00 |
| Less expenses: | | |
| Selling commissions..... | 187,500,000 | 6.97 |
| Marketing allowance..... | 62,500,000 | 2.32 |
| Due diligence expense allowance..... | 12,500,000 | 0.46 |
| Organization and offering..... | 14,684,000 | .55 |
| Total expenses..... | 277,184,000 | 10.30 |
| Gross amount available..... | 2,412,816,000 | 89.70 |
| Less | | |
| Acquisition expenses..... | 13,450,000 | 0.50 |
| Working capital reserve..... | 26,900,000 | 1.00 |
| Net cash available..... | \$ 2,372,466,000 | 88.20 |

We will pay the managing dealer cash selling commissions of up to 7.5% on all of the 250,000,000 shares of common stock sold on a best-efforts basis. No selling commission is paid on shares sold through our distribution reinvestment program.

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RISK FACTORS

An investment in our shares involves significant risks and therefore is suitable only for those persons who understand those risks and the consequences of their investment and who are able to bear the risk of loss of their entire investment. You should consider the following material risks in addition to other information set forth elsewhere in this prospectus before making your investment decisions.

OUR COMMON STOCK IS NOT CURRENTLY LISTED ON AN EXCHANGE OR TRADING MARKET AND CANNOT BE READILY SOLD. There is currently no public trading market for the shares and we cannot assure you that one will develop. We may never list the shares for trading on a national stock exchange or include the shares for quotation on a national market system. The absence of an active public market for our shares could impair your ability to sell our stock at a profit or at all. By September 15, 2008 our board of directors will determine whether it is in our best interests to apply to have the shares listed on a national stock exchange or included for quotation on a national market system if we meet the applicable listing requirements at that time.

THE PRICE OF OUR COMMON STOCK IS SUBJECTIVE AND MAY NOT BEAR ANY RELATIONSHIP TO WHAT A STOCKHOLDER COULD RECEIVE IF IT WAS SOLD. Our board of directors determined the offering price of our shares of common stock based on the following factors:

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- the offering price of our common stock in our initial public offering in September 2003;
- the offering price of the earlier REITs organized by our sponsor;
- the range of offering prices of other REITs that do not have a public trading market; and
- the recommendation of the managing dealer based on its consultations with likely soliciting dealers.

However, the offering price of our shares of common stock may not be the same as the price at which the shares may trade if they were listed on an exchange or actively traded by brokers, nor of the proceeds that a stockholder may receive if we were liquidated or dissolved. As such, any sales may be made at a loss.

YOU DO NOT KNOW WHAT REAL PROPERTIES AND OTHER ASSETS WE MAY ACQUIRE IN THE FUTURE, AND MUST RELY ON OUR BUSINESS MANAGER/ADVISOR, OUR BOARD AND OFFICERS TO SELECT THEM AND STOCKHOLDERS WILL NOT PARTICIPATE IN THESE DECISIONS. We intend to acquire commercial retail properties. Although we have already acquired 91 properties, and we are considering acquiring others, no information is available as to the identification, location, operating histories, lease terms or other relevant economic and financial data of any other properties or other assets we may purchase in the future. As a result, you must rely on us to locate and acquire additional suitable investment properties. In addition, our board of directors may approve future equity offerings or obtain financing, the proceeds of which may be invested in additional properties; therefore, you will not have an opportunity to evaluate all of the properties that will be in our portfolio. Stockholders will not participate in evaluating these investment opportunities. Nonetheless, you will be unable to evaluate the manner in which we invest the proceeds of this offering or the economic merit of particular properties prior to their acquisition. This prospectus only describes the parameters we will use to acquire additional real properties and other assets.

COMPETITION WITH THIRD PARTIES IN ACQUIRING PROPERTIES WILL REDUCE OUR PROFITABILITY AND THE RETURN ON YOUR INVESTMENT. We compete with many other entities engaged in real estate investment activities, many of which have greater resources than we do. Larger REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced

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operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This will result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for properties, our profitability is reduced and you will experience a lower return on your investment.

WE WILL COMPETE WITH REAL ESTATE INVESTMENT PROGRAMS SPONSORED BY COMPANIES AFFILIATED WITH US FOR THE ACQUISITION OF PROPERTIES AND FOR THE TIME AND SERVICES OF PERSONNEL. Affiliated companies have previously sponsored other REITs, private real estate equity programs and private placement mortgage and note programs, and affiliated companies in the future may sponsor other real estate investment programs. These affiliated companies include Inland Real Estate Corporation, Inland Retail Real Estate Trust, Inc., Inland Real Estate Exchange Corporation and other entities to be formed by The Inland Group, Inc. We will compete with these existing and future real estate investment programs for the acquisition of properties of a type suitable for our investment, for the time and services of personnel of our business manager/advisor and affiliates of

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our business manager/advisor in connection with our operation and the management of our assets, and for obtaining and retaining investors for our common stock. We will generally be acquiring properties that are located primarily west of the Mississippi River and single user net lease properties located anywhere in the United States and therefore our geographic diversity may be limited.

WE PLAN TO INCUR MORTGAGE INDEBTEDNESS AND OTHER BORROWINGS, WHICH MAY REDUCE THE FUNDS AVAILABLE FOR DISTRIBUTION, MAY INCREASE THE RISK OF LOSS SINCE DEFAULTS MAY RESULT IN FORECLOSURE AND MORTGAGES MAY INCLUDE CROSS-COLLATERALIZATION OR CROSS-DEFAULT PROVISIONS THAT INCREASE THE RISK THAT MORE THAN ONE PROPERTY MAY BE AFFECTED BY A DEFAULT. We may, in some instances, use either existing financing or borrow new funds to acquire properties. We intend to incur or increase our mortgage debt by obtaining loans secured by selected or all of the real properties to obtain funds to acquire additional real properties. We may also borrow funds if necessary to satisfy the requirement that we distribute to stockholders as dividends at least 90% of our annual REIT taxable income, or otherwise as is necessary or advisable to assure that we maintain our qualification as a REIT for federal income tax purposes. Currently, our aggregate borrowings secured by our properties is approximately 55% of their combined fair market value.

We may incur mortgage debt on a particular real property if we believe the property's projected cash flow is sufficient to service the mortgage debt. However, if there is a shortfall in cash flow, then the amount available for distributions to stockholders may be affected. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and our loss of the property securing the loan which is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt to the entity that owns our properties. In such cases, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one real property may be affected by a default.

If mortgage debt is unavailable at reasonable rates, we will not be able to place financing on the properties, which could reduce distributions per share. If we place mortgage debt on the properties, we run the risk of being unable to refinance the properties when the loans come due, or of being unable to refinance on favorable terms. If interest rates are higher when the properties are refinanced, our net income could be reduced, which would reduce cash available for distribution to stockholders and may prevent us from raising capital by issuing more stock and may prevent us from borrowing more money.

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IF WE HAVE INSUFFICIENT WORKING CAPITAL RESERVES, WE WILL HAVE TO OBTAIN FINANCING FROM OTHER SOURCES. We have established working capital reserves which we believe are adequate to cover our cash needs. However, if these reserves are insufficient to meet our cash needs, we may have to obtain financing from either affiliated or unaffiliated sources to fund our cash requirements. We cannot assure you that sufficient financing will be available or, if available, will be available on economically feasible terms or on terms acceptable to us. Additional borrowing for working capital purposes will increase our interest expense and therefore, our financial condition and our ability to pay distributions may be adversely affected.

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THE TYPES OF PROPERTIES WHICH WE INTEND TO ACQUIRE AND THE AREA IN WHICH WE MAY ACQUIRE RETAIL CENTERS IS LIMITED. We primarily acquire and manage retail centers. We intend to acquire retail centers primarily in the states west of the Mississippi River. Adverse economic conditions affecting that area could adversely affect our profitability to a greater degree than if we had diversified our investments to include other types of real estate over a larger geographic region.

THE AGGREGATE AMOUNT WE MAY BORROW IS LIMITED UNDER OUR ARTICLES OF INCORPORATION. Our articles of incorporation limit the aggregate amount we may borrow, secured and unsecured, to 300% of our net assets, absent a satisfactory showing that a higher level is appropriate. Currently, our aggregate borrowings are approximately 164% of our net assets. That limitation could have adverse consequences on our business, including:

- freezing our ability to purchase properties;
- causing us to lose our REIT status if borrowing was necessary to distribute the required minimum amount of cash to our stockholders for us to qualify as a REIT;
- causing operational problems if there are cash flow shortfalls for working capital purposes; and
- resulting in the loss of a property if, for example, financing was necessary to cure a default on a mortgage.

In order to change this limitation, we must obtain approval by a majority of our independent directors and by a majority of our stockholders. There will be a delay before approval can be obtained, if it can be obtained at all. It is possible that even if the required approval is obtained, it may not be obtained in sufficient time to avoid the adverse consequences of not having the additional funding when it is needed.

BECAUSE OF THE WAY WE ARE ORGANIZED, WE WOULD BE A DIFFICULT TAKEOVER TARGET. THIS COULD DEPRESS THE PRICE OF OUR STOCK AND INHIBIT A MANAGEMENT CHANGE. Provisions which may have an anti-takeover effect and inhibit a change in our management include:

- THERE ARE OWNERSHIP LIMITS AND RESTRICTIONS ON TRANSFERABILITY AND OWNERSHIP IN OUR ARTICLES OF INCORPORATION. In order for us to qualify as a REIT, no more than 50% of the outstanding shares of our stock may be beneficially owned, directly or indirectly, by five or fewer individuals at any time during the last half of each taxable year. To assure that we will not fail to qualify as a REIT under this test, our articles of incorporation provide that, subject to some exceptions, no person may beneficially own more than 9.8% of our common stock.

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This restriction may:

- have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might involve a premium price for holders of our common stock; or
- compel a stockholder who had acquired more than 9.8% of our stock to dispose of the additional shares and, as a result, to forfeit the benefits of owning the additional shares.

- OUR ARTICLES OF INCORPORATION PERMIT OUR BOARD OF DIRECTORS TO ISSUE PREFERRED STOCK WITH TERMS THAT MAY DISCOURAGE A THIRD PARTY FROM ACQUIRING US. Our articles of incorporation permit our board of directors to issue, without stockholder approval, up to 10 million shares of preferred stock. The board may classify or reclassify any unissued preferred stock and establish preferences, conversion or other rights, voting power, restrictions, limitations as to dividends and other distributions, qualifications, or terms or conditions of redemption, of any preferred stock. Thus, our board could authorize, without the approval by our stockholders, the issuance of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as merger, tender offer or sale of all or substantially all of our assets) that might provide a premium for holders of our common stock.

- MARYLAND LAW MAY DISCOURAGE A THIRD PARTY FROM ACQUIRING US. Maryland law restricts mergers and other business combinations between us and an interested stockholder. Under the Maryland Business Combination Act, an anti-takeover statute, for a period of five years after the most recent acquisition of stock by an interested stockholder, we may not engage in any merger or other business combination with that interested stockholder or any affiliate of that interested stockholder. After the five-year period, any merger or other business combination must be approved by our board of directors and by at least 80% of all the votes entitled to be cast by holders of outstanding shares of our voting stock and two-thirds of all the votes entitled to be cast by holders of outstanding shares of our voting stock other than the interested stockholder with whom the business combination is to be effected. The votes cited in the previous sentence would not apply if, among other things, the stockholders of the company receive in the business combination a minimum consideration for their common stock equal to the highest price paid by the interested stockholder for its common stock. However, as permitted by the Maryland Business Combination Act, our articles of incorporation provide that the business combination provisions of Maryland law do not apply to any business combination involving us and our affiliates. As a result, the five-year prohibition and the super-majority stockholder vote requirements will not apply to any business combinations between us and our affiliates. The Maryland Business Combination Act could have the effect of discouraging offers from third parties to acquire us and of increasing the difficulty of successfully completing a business combination. See "Description of Securities - Provisions of Maryland Law and our Articles of Incorporation and Bylaws."

- MARYLAND LAW ALSO LIMITS THE ABILITY OF A THIRD PARTY TO BUY A LARGE STAKE IN US AND EXERCISE VOTING POWER IN ELECTING DIRECTORS. Maryland law provides a second anti-takeover statute, its Control Share Acquisition Act, which provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by the corporation's disinterested stockholders by a vote of two-thirds of the votes entitled to be cast on the matter; shares of stock owned by interested stockholders, that

is, by the acquirer, by officers or by directors who are employees of the corporation, are not entitled to be cast on the matter. "Control shares" are voting shares of stock which would entitle the acquirer to

exercise voting power in electing directors within specified ranges of voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares. The control share acquisition statute does not apply (i) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (ii) to acquisitions approved or exempted by the articles of incorporation or bylaws of the corporation. As permitted by the Maryland Control Share Acquisition Act, our bylaws exempt our affiliates from the Maryland control share acquisition statute. This statute could have the effect of discouraging offers from third parties to acquire us and increasing the difficulty of successfully completing this type of offer by anyone other than our affiliates or any of their affiliates. See "Description of Securities - Provisions of Maryland Law and our Articles of Incorporation and Bylaws - Control Share Acquisition."

YOUR INVESTMENT RETURN MAY BE REDUCED IF WE ARE REQUIRED TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT. We are not registered as an investment company under the Investment Company Act of 1940. If we were obligated to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act. These requirements include:

- limitations on capital structure;
- restrictions on specified investments;
- prohibitions on transactions with affiliates; and
- compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

In order to maintain our exemption from regulation under the Investment Company Act of 1940, we must engage primarily in the business of buying real estate, and these investments must be made within a year after the offering ends. If we are unable to invest a significant portion of the proceeds of this offering in properties within one year of the termination of the offering, we may avoid being required to register as an investment company by temporarily investing any unused proceeds in government securities with low returns. This would reduce the cash available for distribution to investors and possibly lower your returns.

To maintain compliance with the Investment Company Act exemption, we may be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. In addition, we may have to acquire additional income or loss generating assets that we might not otherwise have acquired or may have to forgo opportunities to acquire interests in companies that we would otherwise want to acquire and would be important to our strategy.

If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court were to require enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

THERE ARE MANY FACTORS WHICH CAN AFFECT DISTRIBUTIONS TO STOCKHOLDERS. Distributions will be based principally on cash available from our properties, real estate securities, and other investments. The

amount of cash available for distributions will be affected by many factors, such as our ability to buy properties as offering proceeds become available, the yields on securities of other REITs which we invest in, and our operating expense levels, as well as many other variables. Actual cash available for distributions may vary substantially from estimates. We can give no assurance that we will be able to pay or maintain distributions or that distributions will increase over time. Nor can we give any assurance that rents from the properties will increase, that the securities we buy will increase in value or provide increased dividends over time, or that future acquisitions of real properties or our investments in securities will increase our cash available for distributions to stockholders. Our actual results may differ from the assumptions used by our board of directors in establishing the initial distribution rate to stockholders. Some of these factors are beyond our control, and a change in any one factor could adversely affect our ability to pay future distributions:

- If one or more tenants defaults or terminates their lease, there could be a decrease or cessation of rental payments which would mean less cash available for distributions.
- Cash available for distributions may be reduced if we are required to spend money to correct defects or to make improvements to properties.
- Cash available to make distributions may decrease if the assets we acquire have lower yields than expected.
- There may be a delay between the sale of the common stock and our purchase of real properties. During that time, we may invest in lower yielding short term instruments, which could result in a lower yield on your investment.
- Federal income tax laws require REITs to distribute at least 90% of their taxable income to stockholders. This limits the earnings which we may retain for corporate growth, such as property acquisition, development or expansion and makes us more dependent upon additional debt or equity financing than corporations which are not REITs. If we borrow more funds in the future, more of our operating cash will be needed to make debt payments and cash available for distributions may therefore decrease.
- In connection with future property acquisitions, we may issue additional shares of common stock or interests in other entities that own our properties. We cannot predict the number of shares of common stock, units or interests which we may issue, or the effect that these additional shares might have on cash available for distributions to you. If we issue additional shares, they could reduce the cash available for distributions to you.
- We make distributions to our stockholders to comply with the distribution requirements of the Internal Revenue Code and to eliminate, or at least minimize, exposure to federal income taxes and the nondeductible REIT excise tax. Differences in timing between the receipt of income and the payment of expenses and the effect of required debt payments could require us to borrow funds on a short term basis to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT.

OUR DERIVATIVE FINANCIAL INSTRUMENTS USED TO HEDGE AGAINST INTEREST RATE FLUCTUATIONS COULD REDUCE THE OVERALL RETURNS ON YOUR INVESTMENT. We may use derivative financial instruments to hedge exposures to changes in interest rates

on loans secured by our properties. To the extent we do, we are exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty

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owes us, which creates credit risk for us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, it does not possess credit risk.

Our hedging strategy and use of derivative financial instruments may reduce the overall returns on your investments. We have had limited experience with derivative financial instruments and so far we have recognized losses in our use of derivative financial instruments.

WE COULD ISSUE MORE SHARES IN THE FUTURE, WHICH COULD REDUCE THE MARKET PRICE OF OUR OUTSTANDING SHARES. We have the power to issue more shares of our common stock in the future. We cannot predict the effect on the market price of our outstanding common stock, if any, of future sales by us of shares of our common stock, or the availability of shares for future sales through the exercise of options granted to independent directors under our independent director stock option plan. The issuance of these additional shares, or the perception that these shares could be issued, could adversely affect the prevailing market prices, if any, for our common stock.

OUR SHARE REPURCHASE PROGRAM IS LIMITED TO 5% OF THE WEIGHTED AVERAGE NUMBER OF SHARES OF OUR STOCK OUTSTANDING DURING THE PRIOR CALENDAR YEAR AND MAY BE CHANGED OR TERMINATED BY US, THEREBY REDUCING THE POTENTIAL LIQUIDITY OF YOUR INVESTMENT. In accordance with our share repurchase program, a maximum of 5% of the weighed average number of shares of our stock outstanding during the prior calendar year may be repurchased by us. This standard limits the number of shares we can purchase. Our board also has the ability to change or terminate, at any time, our share repurchase program. If we terminate or modify our share repurchase program or if we do not have sufficient funds available to repurchase all shares that our stockholders request to repurchase, then our stockholders' ability to liquidate their shares will be diminished.

STOCKHOLDERS HAVE LIMITED CONTROL OVER CHANGES IN OUR POLICIES. Our board of directors determines our major policies, including our investment objectives, financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. This means that stockholders will have limited control over changes in our policies.

IF WE INVEST IN JOINT VENTURES, THE OBJECTIVES OF OUR PARTNERS MAY CONFLICT WITH OUR OBJECTIVES. We may make investments in joint ventures or other partnership arrangements between us and affiliates of our sponsor or with unaffiliated third parties. Investments in joint ventures which own real properties may involve risks otherwise not present when we purchase real properties directly. For example, our co-venturer may file for bankruptcy protection, may have economic or business interests or goals which are inconsistent with our interests or goals, or may take actions contrary to our instructions, requests, policies or objectives. Among other things, actions by a co-venturer might subject real properties owned by the joint venture to liabilities greater than those contemplated by the terms of the joint venture or other adverse consequences.

IF WE SELL PROPERTIES BY PROVIDING FINANCING TO PURCHASERS, WE WILL BEAR THE RISK OF DEFAULT BY THE PURCHASER. If we decide to sell any of our properties, we will use our best efforts to sell for cash. However, we may sell

our properties by providing financing to purchasers. When we provide financing to purchasers, we will bear the risk of default by the purchaser and will be subject to remedies provided by law. There are no limitations or restrictions on our ability to take purchase money obligations. We may therefore take a purchase money obligation secured by a mortgage as part payment for the purchase price. The terms of payment to us will be affected by custom in the area where the property being sold is located and the then-prevailing economic conditions. If we receive promissory notes or other property in lieu of cash from property sales, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other properties, will be delayed until the promissory notes or other property are actually paid, sold, refinanced or otherwise disposed of. In some cases, we may receive initial down payments in

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cash and other property in the year of sale in an amount less than the selling price and subsequent payments will be spread over a number of years.

DELAYS IN ACQUISITIONS OF PROPERTIES MAY HAVE AN ADVERSE EFFECT. Delays we encounter in the selection, acquisition and development of properties could adversely affect your returns and distributions on your investment. Where we acquire properties prior to the start of construction or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, you could suffer delays in your distributions attributable to those particular properties. In addition, it takes a certain amount of time to locate, negotiate an acceptable purchase contract, conduct due diligence and ultimately acquire a property. If we are unable to invest our offering proceeds in income producing real properties in a timely manner, this may adversely affect the funds available for distribution.

WE MAY NOT BE ABLE TO IMMEDIATELY INVEST PROCEEDS IN REAL ESTATE, WHICH WILL HARM YOUR RETURNS. Until we invest the proceeds of this offering in real estate investments, we may invest in short-term, highly liquid or other authorized investments. Such short-term investments are not likely to earn as high a return as we expect to earn on our real estate investments, and we cannot guarantee how long it will take us to fully invest the proceeds of this offering in real estate investments. If we are unable to locate and close on real estate investments promptly, or in a manner consistent with the capital we raise, the funds available for your distributions could be reduced.

WE DEPEND ON OUR BOARD OF DIRECTORS, BUSINESS MANAGER/ADVISOR AND PROPERTY MANAGERS AND LOSING THOSE RELATIONSHIPS COULD NEGATIVELY AFFECT OUR OPERATIONS. Our board of directors has supervisory control over all aspects of our operations. Our ability to achieve our investment objectives will depend to a large extent on the board's ability to oversee, and the quality of, the management provided by the business manager/advisor, the property managers, their affiliates and employees for day-to-day operations. Therefore, we depend heavily on the ability of the business manager/advisor and its affiliates to retain the services of each of its executive officers and key employees. However, none of these individuals has an employment agreement with the business manager/advisor or its affiliates. The loss of any of these individuals could have a material adverse effect on us. These individuals include Daniel L. Goodwin, Robert H. Baum, G. Joseph Cosenza, Robert D. Parks, Thomas P. McGuinness, Roberta S. Matlin and Brenda G. Gujral.

Our business manager/advisor must reimburse us for certain operational stage expenses exceeding 15% of the gross offering proceeds. If the business manager/advisor's net worth or cash flow is not sufficient to cover these expenses, we will not be reimbursed.

THERE ARE CONFLICTS OF INTEREST BETWEEN US AND OUR AFFILIATES. Our

operation and management may be influenced or affected by conflicts of interest arising out of our relationship with our affiliates. Our business manager/advisor and its affiliates are or will be engaged in other activities that will result in potential conflicts of interest with the services that the business manager/advisor and affiliates will provide to us. Those affiliates could take actions that are more favorable to other entities than to us. The resolution of conflicts in favor of other entities could have a negative impact on our financial performance. These affiliates include Inland Retail Real Estate Trust, Inc., Inland Western Retail Real Estate Advisory Services, Inc., our business manager/advisor, Inland Real Estate Corporation, Inland Real Estate Exchange Corporation and entities to be formed by The Inland Group, Inc. Inland Real Estate Corporation is a publicly traded REIT that is self-administered and is no longer affiliated with The Inland Group. Inland Real Estate Corporation generally purchases shopping centers located in the Midwest. Inland Retail Real Estate Trust, Inc. is affiliated with The Inland Group, Inc. Inland Retail Real Estate Trust, Inc. purchases shopping centers located east of the Mississippi River. Inland Real Estate Exchange

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Corporation is a subsidiary of Inland Real Estate Investment Corporation. Inland Real Estate Exchange Corporation provides replacement properties for people wishing to complete an IRS Section 1031 real estate exchange. Our business manager/advisor receives fees based on the book value including acquired intangibles of the properties under management. Specific conflicts of interest between us and our affiliates include:

- WE MAY ACQUIRE PROPERTIES FROM AFFILIATES OF OUR SPONSOR IN TRANSACTIONS IN WHICH THE PRICE WILL NOT BE THE RESULT OF ARM'S LENGTH NEGOTIATIONS. The prices we pay to affiliates of our sponsor for our properties will be equal to the prices paid by them, plus the costs incurred by them relating to the acquisition and financing of the properties. These prices will not be the subject of arm's length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated in an arm's-length transaction. The result of these transactions could cause us to pay more for particular properties than we would have in an arm's length transaction and therefore, adversely affect our cash flow and our ability to pay your distributions.
- WE MAY PURCHASE REAL PROPERTIES FROM PERSONS WITH WHOM OUR BUSINESS MANAGER/ADVISOR OR ITS AFFILIATES HAVE PRIOR BUSINESS RELATIONSHIPS AND OUR INTERESTS IN THESE BUSINESS RELATIONSHIPS MAY BE DIFFERENT FROM THE INTERESTS OF OUR BUSINESS MANAGER/ADVISOR OR ITS AFFILIATES IN THESE BUSINESS RELATIONSHIPS. We may purchase properties from third parties who have sold properties in the past, or who may sell properties in the future, to our business manager/advisor or its affiliates. If we purchase properties from these third parties, our business manager/advisor will experience a conflict between our current interests and its interest in preserving any ongoing business relationship with these sellers. This could result in our business manager/advisor or its affiliates recommending properties that may be in the best interest of the third party seller, but not our best interest. This could adversely impact our portfolio by causing us to invest in properties that are not necessarily in our best interest.
- OUR BUSINESS MANAGER/ADVISOR AND ITS AFFILIATES RECEIVE COMMISSIONS, FEES AND OTHER COMPENSATION BASED UPON OUR INVESTMENTS AND THEREFORE OUR BUSINESS MANAGER/ADVISOR AND ITS AFFILIATES MAY RECOMMEND THAT WE MAKE INVESTMENTS IN ORDER TO INCREASE THEIR COMPENSATION. Our business manager/advisor and its affiliates receive commissions, fees and other

compensation based upon our investments. They benefit by us retaining ownership of our assets and leveraging our assets, while you may be better served by sale or disposition or not leveraging the assets. In addition, our business manager/advisor's ability to receive fees and reimbursements depends on our continued investment in properties and in other assets which generate fees. Our business manager/advisor receives fees based on the book value including acquired intangibles of the properties under management. Our property managers receive fees based on the income from properties under management. Therefore, our business manager/advisor and/or property managers may recommend that we purchase properties that generate fees for our business manager/advisor and property managers, but are not necessarily the most suitable investment for our portfolio. In addition, our affiliates, who receive fees, including our business manager/advisor, may recommend that we acquire properties, which may result in our incurring substantive amounts of indebtedness. Therefore, the interest of our business manager/advisor and its affiliates in receiving fees may conflict with our ability to earn income and may result in our incurring substantive amounts of indebtedness. The resolution of this conflict of interest may adversely impact our cash flow and our ability to pay your distributions.

- OUR BUSINESS MANAGER/ADVISOR MAY HAVE CONFLICTING FIDUCIARY OBLIGATIONS IF WE ACQUIRE PROPERTIES WITH ITS AFFILIATES. Our business manager/advisor may cause us to acquire an

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interest in a property through a joint venture with its affiliates. In these circumstances, our business manager/advisor will have a fiduciary duty to both us and its affiliates participating in the joint venture. The resolution of this conflict of interest may cause the business manager/advisor to sacrifice our best interest in favor of the seller of the property and therefore, we may enter into a transaction that is not in our best interest. The resolution of this conflict of interest may negatively impact our financial performance.

- THERE IS COMPETITION FOR THE TIME AND SERVICES OF OUR BUSINESS MANAGER/ADVISOR AND OUR BUSINESS MANAGER/ADVISOR MAY NOT DEDICATE THE TIME NECESSARY TO MANAGER OUR BUSINESS. We rely on our business manager/advisor and its affiliates for our daily operation and the management of our assets. Our officers and other personnel of our business manager/advisor and its affiliates have conflicts in allocating their management time, services and functions among the real estate investment programs they currently service and any future real estate investment programs or other business ventures which they may organize or serve. Those personnel could take actions that are more favorable to other entities than to us. The resolution of conflicts in favor of other entities could have a negative impact on our financial performance.
- INLAND SECURITIES CORPORATION IS PARTICIPATING AS MANAGING DEALER IN THE SALE OF THE SHARES. Inland Securities Corporation is our managing dealer of this offering and is affiliated with The Inland Group. Our managing dealer is entitled to selling commissions and reimbursement for marketing and due diligence expenses. Our managing dealer may be subject to a conflict