WELLS REAL ESTATE INVESTMENT TRUST INC
Form PREM14A
February 14, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x   Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to § 240.14a-12

WELLS REAL ESTATE INVESTMENT TRUST, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box)

¨ No fee required

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Common stock, par value $0.01 per share of Wells Real Estate Investment Trust, Inc.

(2) Aggregate number of securities to which transaction applies:
19,568,641 shares of common stock of Wells Real Estate Investment Trust, Inc.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
The filling fee is based on (i) $8.9531, the negotiated per-share price for common stock of Wells Real Estate Investment Trust, Inc., multiplied by (ii) 19,568,641, the number of shares of common stock of Wells Real Estate Investment Trust, Inc. to be issued, multiplied by (iii) 0.000107, the merger consideration multiplier in accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended.

(4) Proposed maximum aggregate value of transaction:
$175,200,000

(5) Total fee paid:
$18,746.40

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration No.:

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(3) Filing Party:

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(4) Date Filed:

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Preliminary Copy

WELLS REAL ESTATE INVESTMENT TRUST, INC.

6200 The Corners Parkway

Norcross, Georgia 30092-3365

_________, 2007

Dear Stockholder:

On February 5, 2007, we sent you a letter that addressed a number of important matters. Included in these matters was an agreement to acquire or internalize our third-party advisor companies which provide the day-to-day operations for Wells REIT.

Enclosed is a letter from the Chairman of the Special Committee of our Board of Directors, a proxy statement that explains these matters in detail, a notice of a special stockholders meeting, and a proxy card so that you may vote on four important proposals.

We encourage you to read all of these documents carefully and to vote on these four proposals as soon as possible. The deadline for receiving your vote is __________________, 2007. Remember, your individual vote is very important.

For more information and to hear directly from Donald Moss, one of the independent directors of our Board, please visit our Web site at www.wellsreit.com. As always, if you have questions, please contact your financial representative or the Wells Client Services Department at 800-557-4830 or send an e-mail to investor.services@wellsref.com.

Thank you for your continued trust and confidence as a Wells REIT investor.

Sincerely,

Leo F. Wells, III

Chairman of the Board of Directors

Wells Real Estate Investment Trust, Inc.

Enclosures

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WELLS REAL ESTATE INVESTMENT TRUST, INC.

6200 The Corners Parkway

Norcross, Georgia 30092-3365

To Our Stockholders:

You are cordially invited to attend the Special Meeting of Stockholders of Wells Real Estate Investment Trust, Inc. to be held on ___________, 2007, at The Atlanta Athletic Club, 1930 Bobby Jones Drive, Duluth, Georgia 30097 at 1:30 p.m. Eastern time (such meeting, and any adjournments or postponements thereof, the Special Meeting). Our board of directors (the Board) and officers look forward to greeting you personally. Enclosed for your review are the proxy card, proxy statement, and notice setting forth the business to come before the Special Meeting.

At the Special Meeting, you are being asked to consider and vote on the following four proposals:

The Internalization Proposal. A proposal to approve the internalization of the Advisor (defined below) with and into Wells Real Estate Investment Trust, Inc. (which we refer to in the accompanying proxy statement as the Internalization Proposal) by approving the Definitive Merger Agreement (defined below) and the transactions contemplated thereby (which we refer to in the proxy statement as both the Internalization and the Internalization Transaction). Since we commenced operations in 1998, our day-to-day operations, including investment analysis, acquisitions, financings, development, due diligence, asset management, property management and certain administrative services, such as financial, tax and regulatory compliance reporting, have been provided by Wells Capital, Inc. (Wells Capital) and Wells Management Company, Inc. (Wells Management), both of which are wholly owned subsidiaries of Wells Real Estate Funds, Inc. (Wells REF), pursuant to certain advisory, asset management and property management agreements. Such advisory, asset management and property management agreements have since been transferred and contributed to Wells Real Estate Advisory Services, Inc. (WREAS), and WREAS is currently responsible for providing the services formerly rendered to us by Wells Management and Wells Capital. In addition, certain of our properties having primarily government tenants are being managed by Wells Government Services, Inc. (WGS). WREAS and WGS are both wholly-owned subsidiaries of Wells Advisory Services I, LLC (WASI) (references to the Advisor in the accompanying proxy statement include, collectively, WREAS, WGS and their predecessors, as applicable, including those portions of the operations of Wells Capital and Wells Management which previously provided advisory and management services to us under such advisory, asset management and property management agreements). In the Internalization, all of the outstanding shares of the capital stock of WREAS and WGS will be exchanged for a total consideration of $175 million, comprised entirely of 19,546,302 shares of our common stock (the Internalization Consideration), which constitutes approximately 4.2% of our currently outstanding common stock. Wells Capital will also exchange its 20,000 limited partnership units in Wells OP for 22,339 shares of our common stock as part of the Internalization Transaction. Upon consummation of the Internalization, WREAS and WGS will be our wholly-owned subsidiaries, and the Advisor s employees will become our employees. In connection with the Internalization, we will no longer pay the fees and expense reimbursements associated with our existing advisory and asset management agreements and certain of our property management agreements to our external advisors, and we will become self-advised. Our executive officers and certain of our directors, including our new Chief Executive Officer and President, Donald A. Miller, CFA, and another individual currently affiliated with Wells REF who may become one of our executive officers collectively own economic interests in WASI, which is the sole stockholder of WREAS and WGS, and will

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indirectly receive as a result of the Internalization an aggregate of approximately $168 million in shares of our common stock valued at the same per-share amount used to determine the amount of shares to be issued to WASI as the Internalization Consideration. Even if approved by our stockholders, the Internalization Proposal will not be implemented unless other conditions to the Internalization are satisfied. We may waive certain of these conditions in our sole discretion;

The Pre-Listing Charter Amendment Proposal. Approval of an amendment and restatement of our articles of incorporation (the Articles), in order to modify certain provisions to reflect that we have become self-advised (the Pre-Listing Charter Amendment Proposal). Even if approved by our stockholders, this proposal will not be implemented unless the Internalization occurs;

The Post-Listing Charter Amendment Proposal. Approval of a further amendment and restatement of our Articles, which will become effective in the event of a future listing of our common stock, if any, on a national securities exchange or quotation of our common stock by The NASDAQ Stock Market, Inc. or an over-the-counter market (the Listing), to modify certain provisions to conform more closely to the charters of other real estate investment trusts (REITs) whose securities are publicly traded and listed (Listed REITs) (the Post-Listing Charter Amendment Proposal). There can be no assurance that we will determine to list our common stock or, if we make such determination, that we will successfully list our common stock. Even if approved by our stockholders, this proposal will not be implemented unless the Internalization occurs and until shortly before a Listing, if any, of our common stock;

The Incentive Plan Proposal. Approval and adoption of our 2007 Omnibus Incentive Plan (the Incentive Plan Proposal). If approved, this proposal will be implemented regardless of whether the other proposals being considered at the Special Meeting are approved by our stockholders; and

Other Proposals. Any other matters that properly may be presented at the Special Meeting including proposals to adjourn the Special Meeting with respect to proposals for which insufficient votes to approve were cast and, with respect to any such proposals, to permit further solicitation of additional proxies by our Board.

The accompanying proxy statement contains a more complete description of the Internalization Proposal, certain potential conflicts of interest that may exist among us, our executive officers and some of our directors, and the Advisor and its stockholders, and each of the other proposals described above. A copy of the merger agreement dated as of February 2, 2007 by and among us and WASI, Wells Capital, Wells Management, Wells REF, WREAS, WGS, and our wholly-owned subsidiaries, WRT Acquisition Company, LLC and WGS Acquisition Company, LLC (the Definitive Merger Agreement), the operative document which describes the material terms of the Internalization, is attached as **Appendix A** to the accompanying proxy statement. We urge you to carefully review the accompanying proxy statement and appendices, which discuss each of the proposals in more detail.

Benefits of Internalization and Potential Listing

We believe that converting from our current externally advised structure to a self-advised or internally advised management structure would result in many important benefits, including:

Improving our financial operations based upon our belief that an Internalization Transaction would be accretive over time to our earnings per share and our funds from operations (FFO) per share as a result of the reduction in operating costs that will result from us no longer having to pay advisory, property management and other fees and expense reimbursements to our external advisors under our existing advisory and asset management agreements and certain of

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our property management agreements (FFO generally means the amount of a company s net earnings after taxes adjusted to include real estate depreciation and amortization for a specified period of time). No assurances can be given, however, that any such accretion in our earnings per share or FFO per share would actually occur;

Establishing an internal management team which would be fully dedicated and solely focused on our Company s strategic plans for enhancing stockholder value;

Better positioning us for a future Listing, partially based on our belief that there is a perception in the marketplace that an internalized structure, among other things, achieves a better alignment of interests between management and the stockholders and eliminates certain conflicts of interest associated with having an external advisor. No assurances can be given, however, that a Listing will actually occur or, if it did occur, that being self-advised would result in a more successful Listing; and

Improving retention of our key management personnel, as we anticipate that our key management personnel will have an equity stake in our company.

In connection with considering a potential Internalization Transaction, our Board also considered the benefits of a potential Listing, including, among other things, creating significantly greater liquidity for our stockholders, increasing our stockholders autonomy in connection with the management of their cash and tax positions, allowing us greater access to capital markets to fund our future growth, and enabling us to pursue certain growth strategies. In addition, our current Articles require that, in the event a Listing does not occur on or before January 30, 2008, we are required to immediately undertake an orderly liquidation and sale of our assets and distribute the net sales proceeds from such liquidation to our stockholders. Based on these factors, we intend to consider a Listing following the consummation of the Internalization Transaction, if and when market conditions and other circumstances make it desirable or it is otherwise in the best interests of our stockholders to do so. No assurance can be given that, if a determination is made to List, we will be able to successfully implement a Listing or that market conditions existing in the future will make it desirable for us to do so. While we believe that the Internalization Transaction should help facilitate a Listing, the Internalization Transaction we are proposing is not contingent upon the completion of a Listing. Even if a Listing does occur, an active trading market for our common stock may not develop or, if it does develop initially, may not be sustained. Further, the price at which our common stock may trade in the future is unknown.

We believe any future Listing will be more likely to be successful if we are self-advised. A vast majority of Listed REITs, including REITs like us that own predominantly office and industrial commercial properties, are self-advised. We believe the prevalence of the self-advised model reflects a marketplace preference for Listed REITs that are self-advised and that, if our common stock were Listed, investors and market analysts would view us more favorably if we were self-advised, as opposed to being externally advised. If the Board elects to pursue a Listing, no further stockholder action would be required to do so.

The Internalization, which our Board is recommending for your approval, will be effectuated pursuant to the Definitive Merger Agreement. In connection with the Internalization, we have entered into an employment agreement with Donald A. Miller, CFA, our new Chief Executive Officer and President, and may enter into other employment agreements with one or more other individuals associated with the Advisor or its affiliates, including an individual currently affiliated with Wells REF who may become one of our executive officers.

Our executive officers and certain of our directors are affiliates of the Advisor and own interests in WASI, the parent of WREAS and WGS. These relationships result in those officers and directors having material financial interests in the Internalization. In part, to address these potential conflicts of interest and to satisfy certain requirements contained in our Articles, our Board formed a special committee consisting of four of our independent directors, who are not our officers and who have no financial interest in the Advisor or in the consideration paid in connection with the Internalization (the Special Committee). The Special Committee was authorized, among other things: to evaluate and investigate certain future strategic alternatives available to us, including, among other things, potentially becoming internally advised via the acquisition of, or merger with, certain of the real estate acquisition, disposition, property and asset management and support businesses currently conducted and provided to us by Wells REF and its affiliates; to consider and negotiate the terms of any such transaction; and to make a recommendation to the Board on whether to pursue any such transaction. In evaluating the Internalization, the Special Committee engaged and consulted with its own legal and financial advisors and considered various factors which are more fully described in the accompanying proxy statement.

In anticipation of the Internalization, we are proposing to amend and restate our Articles to reflect that we will be self-advised effective on the closing of the Internalization. To facilitate a possible future Listing, we are proposing a second set of amendments to our Articles that would become effective only upon consummation of a Listing, to conform more closely with the charters of other Listed REITs. In connection with these amendments to our Articles, we also will amend our bylaws (the Bylaws) in order to make certain conforming and other changes; however, such changes to our Bylaws will not require action by our stockholders.

Additionally, in anticipation of the Internalization, our Board has authorized, and is recommending that you approve, the adoption of a 2007 Omnibus Incentive Plan. This plan was established by the Special Committee and our newly established compensation committee, which worked with an employment compensation consultant to survey and study the market compensation ranges of our competitors, and is designed to help us to attract, retain and motivate highly qualified individuals and more directly align the interests of our management with those of our stockholders. Certain employment agreements with our senior management following the Internalization will provide, among other things, for long-term incentive compensation awards that will be paid pursuant to the plan we are proposing for adoption. If the 2007 Omnibus Incentive Plan is not approved by our stockholders, it could materially adversely affect our ability to retain senior management and attract qualified replacements and other personnel.

Our Board recommends that you vote **FOR** each of the proposals to be considered and voted on at the Special Meeting (Messrs. Leo F. Wells, III and Douglas P. Williams, who have material financial interests in the Internalization, recused themselves from consideration of the Board s recommendation with respect to the Internalization Proposal).

Your vote is very important. Regardless of the number of shares of our common stock that you own, it is very important that your shares be represented at the Special Meeting. You may authorize your proxy over the Internet, as well as by telephone or by mailing a proxy card. Authorizing your proxy over the Internet, by telephone, or by written proxy will ensure your representation at the Special Meeting if you choose not to attend in person. Please complete the proxy card and return it in the accompanying postage-paid envelope or grant your proxy by telephone or over the Internet, even if you plan to attend the Special Meeting. If you attend the Special Meeting in person, you may, if you wish, withdraw your proxy and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS

W. Wayne Woody
Independent Director of Wells Real Estate Investment Trust, Inc.
Chairman of the Special Committee

Atlanta, Georgia

___________, 2007

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NOTICE OF SPECIAL MEETING

WELLS REAL ESTATE INVESTMENT TRUST, INC.

6200 The Corners Parkway

Norcross, Georgia 30092-3365

Proxy Statement and

Notice of Special Meeting of Stockholders

To Be Held ____________, 2007

To Our Stockholders:

You are cordially invited to attend the Special Meeting of Stockholders of Wells Real Estate Investment Trust, Inc. to be held on ____________, 2007, at The Atlanta Athletic Club, 1930 Bobby Jones Drive, Duluth, Georgia 30097 at 1:30 p.m. Eastern time (such meeting, and any adjournments or postponements thereof, the Special Meeting).

At the Special Meeting, you are being asked to consider and vote on the following four proposals:

The Internalization Proposal. A proposal to approve the internalization of the Advisor (defined in the proxy statement) with and into Wells Real Estate Investment Trust, Inc. (which we refer to in the accompanying proxy statement as the Internalization Proposal) by approving the Definitive Merger Agreement (defined in the proxy statement) and the transactions contemplated thereby (which we refer to as both the Internalization and the Internalization Transaction). In the Internalization, all of the outstanding shares of capital stock of WREAS and WGS (as each is defined in the proxy statement) will be exchanged for a total consideration of $175 million, comprised entirely of 19,546,302 shares of our common stock (the Internalization Consideration). Upon consummation of the Internalization, WREAS and WGS will be our wholly-owned subsidiaries, and we will become self-advised. Pursuant to the terms of the Definitive Merger Agreement, approval of this proposal requires the affirmative vote of the holders of at least a majority of our outstanding shares of common stock entitled to vote thereon (excluding for this purpose shares of common stock beneficially owned by any affiliates of Wells Real Estate Funds, Inc., Wells Capital, Inc., Wells Management Company, Inc. or Wells Advisory Services I, LLC). Even if approved by our stockholders, the Internalization Proposal will not be implemented unless other conditions to the Internalization are satisfied. We may waive certain of these conditions in our sole discretion;

The Pre-Listing Charter Amendment Proposal. Approval of an amendment and restatement of our articles of incorporation (the Articles), in order to modify certain provisions to reflect that we have become self-managed and self-advised (the Pre-Listing Charter Amendment Proposal). Approval of this proposal requires the affirmative vote of the holders of at least a majority of our outstanding shares of common stock entitled to vote thereon. Even if approved by our stockholders, this proposal will not be implemented unless the Internalization occurs;

The Post-Listing Charter Amendment Proposal. Approval of a further amendment and restatement of our Articles, which will become effective in the event of a future listing of our common stock, if any, on a national securities exchange or quotation of our common stock by The NASDAQ Stock Market, Inc. or an over-the-counter market (the Listing), to modify certain provisions to conform more closely to the charters of other real estate investment trusts whose securities are publicly traded and listed (the Post-Listing Charter Amendment Proposal). Approval of this proposal requires the affirmative vote of the holders of at least a majority of our

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outstanding shares of common stock entitled to vote thereon. There can be no assurance that we will determine to list our common stock or, if we make such determination, that we will successfully list our common stock. Even if approved by our stockholders, this proposal will not be implemented unless the Internalization occurs and until shortly before a Listing, if any, of our common stock;

The Incentive Plan Proposal. Approval and adoption of our 2007 Omnibus Incentive Plan (the Incentive Plan Proposal). Approval of this proposal requires the affirmative vote of the holders of at least a majority of our outstanding shares of common stock represented in person or by proxy at the Special Meeting and actually voted on the matter (a majority of votes cast), so long as the total votes cast represent at least 50% of the shares entitled to vote at the Special Meeting. If approved, this proposal will be implemented regardless of whether the other proposals being considered at the Special Meeting are approved by our stockholders; and

Other Proposals. Any other matters that properly may be presented at the Special Meeting including proposals to adjourn the Special Meeting with respect to proposals for which insufficient votes to approve were cast and, with respect to any such proposals, to permit further solicitation of additional proxies by our Board.

These items of business are described for you in detail in the accompanying proxy statement. We encourage you to read the proxy statement, and the documents attached as appendices to the proxy statement, carefully and in their entirety. Only holders of record of our shares of common stock at the close of business on ____________, 2007 will be entitled to receive notice of, and to vote at, the Special Meeting or at any adjournments or postponements thereof.

You are cordially invited to attend the Special Meeting in person. All stockholders, whether or not they plan to attend the Special Meeting, are requested to complete, date and sign the enclosed proxy card and return it promptly in the envelope provided. You also may authorize your proxy by telephone or via the Internet by following the instructions on the proxy card. **It is important that your shares be voted.** By returning your proxy promptly, you can help us avoid additional expenses by helping to ensure that a quorum is met so the Special Meeting can be held. If you decide to attend the Special Meeting, you may revoke your proxy and vote your shares of common stock in person.

BY ORDER OF THE BOARD OF DIRECTORS

Leo F. Wells, III
Chairman

Atlanta, Georgia

____________, 2007

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WELLS REAL ESTATE INVESTMENT TRUST, INC.

6200 The Corners Parkway

Norcross, Georgia 30092-3365

PROXY STATEMENT

General Information

This proxy statement is furnished by the board of directors (the Board) of Wells Real Estate Investment Trust, Inc., a Maryland corporation, in connection with the solicitation by our Board of proxies to be voted at the Special Meeting of Stockholders to be held on ____________, 2007, at The Atlanta Athletic Club, 1930 Bobby Jones Drive, Duluth, Georgia 30097 at 1:30 p.m. Eastern time (such meeting, and any adjournments or postponements thereof, the Special Meeting) for the purposes set forth herein and in the accompanying Notice of Special Meeting of Stockholders. Only holders of record of our shares of common stock, par value $0.01 per share (our shares of common stock), at the close of business on ____________, 2007 (the Record Date) will be entitled to receive notice of, and to vote at, the Special Meeting. This proxy statement and the proxy card are first being mailed on or about ____________, 2007 to stockholders of record as of the Record Date.

As of the Record Date, ____________ of our shares of common stock were outstanding and entitled to vote. Each share of common stock entitles the holder thereof to one vote on each of the matters to be voted upon at the Special Meeting. Pursuant to our charter (the Articles), our directors and officers and their respective affiliates will be prohibited from voting on the Internalization Proposal (as defined below).

Proxy and Voting Procedures

Any proxy, if received in time, properly signed and not revoked, will be voted at the Special Meeting in accordance with the directions of the stockholder granting the proxy. If no directions are specified, the proxy will be voted **FOR**:

The Internalization Proposal. A proposal to approve the internalization of the Advisor (defined below) with and into Wells Real Estate Investment Trust, Inc. (which we refer to as the Internalization Proposal). Since we commenced operations in 1998, our day-to-day operations, including investment analysis, acquisitions, financings, development, due diligence, asset management, property management and certain administrative services, such as financial, tax and regulatory compliance reporting, have been provided by Wells Capital, Inc. (Wells Capital) and Wells Management Company, Inc. (Wells Management), both of which are wholly owned subsidiaries of Wells Real Estate Funds, Inc. (Wells REF), pursuant to certain advisory, asset management and property management agreements. Such advisory, asset management and property management agreements have since been transferred and contributed to Wells Real Estate Advisory Services, Inc. (WREAS), and WREAS is currently responsible for providing the services formerly rendered to us by Wells Management and Wells Capital. In addition, certain of our properties having primarily government tenants are being managed by Wells Government Services, Inc. (WGS). WREAS and WGS are both wholly-owned subsidiaries of Wells Advisory Services I, LLC (WASI) (references to the Advisor in this proxy statement include, collectively, WREAS, WGS and their predecessors, as applicable, including those portions of the operations of Wells Capital and Wells Management which previously provided advisory and management services to us under such advisory, asset management and property management agreements). In the Internalization, all of the outstanding shares of the capital stock of WREAS and WGS will be exchanged for a total consideration of $175 million, comprised entirely of 19,546,302 shares of our common stock (the Internalization Consideration), which constitutes approximately 4.2% of our currently outstanding common stock. In connection with the Internalization, Wells Capital will also exchange its 20,000 limited partnership units in our operating partnership, Wells Operating Partnership, L.P. (Wells OP), for 22,339 shares of our common stock. Upon consummation of the Internalization, WREAS and WGS will be our wholly-owned subsidiaries, and the Advisor s employees will become our employees. In connection with the Internalization, we will no longer pay the fees and expense reimbursements associated with our existing advisory and asset management agreements and certain of our property management agreements to our external advisors, and we will become self-advised. Our executive officers and certain of our directors, including our new Chief Executive Officer and President, and another individual currently affiliated with Wells REF who may become one of our executive officers, through their ownership of economic interests in WASI, collectively own economic interests in the Advisor and will indirectly receive as a result of the Internalization an aggregate of approximately $168 million in shares of our common stock valued at the same per-share amount used to determine the amount of shares to be issued to WASI as Internalization Consideration. Even if approved by our stockholders, the Internalization Proposal will not be implemented unless other conditions to the Internalization are satisfied. We may waive certain of these conditions in our sole discretion;

The Pre-Listing Charter Amendment Proposal. Approval of an amendment and restatement of our Articles, which will become effective upon consummation of the Internalization, to modify certain provisions to reflect that we have become self-managed and self-advised (the Pre-Listing Charter Amendment Proposal). Even if approved by our stockholders, this proposal will not be implemented unless the Internalization occurs. Further, our Board reserves the right not to implement the Pre-Listing Charter Amendment Proposal even if it is approved by our stockholders if, prior to such implementation, our Board determines that the implementation of the Pre-Listing Charter Amendment Proposal is not in our best interest;

The Post-Listing Charter Amendment Proposal. Approval of a further amendment and restatement of our Articles, which will only become effective in the event of a future listing of our common stock, if any, on a national securities exchange, including the New York Stock Exchange, Inc. (the NYSE), or quotation of our common stock by The NASDAQ Stock Market, Inc. (the NASDAQ) or an over-the-counter market (the Listing) to modify certain provisions to conform more closely to the charters of other real estate investment trusts (REITs) whose securities are publicly traded and listed (Listed REITs) (the Post-Listing Charter Amendment Proposal). There can be no assurance that we will determine to list our common stock or, if we make such determination, that we will successfully list our common stock. Even if approved by our stockholders, this proposal will not be implemented unless the Internalization occurs and until shortly before a Listing, if any, of our common stock. Further, our Board reserves the right not to implement the Post-Listing Charter Amendment Proposal even if it is approved by our stockholders if, prior to such implementation, our Board determines that the implementation of the Post-Listing Charter Amendment Proposal is not in our best interest; and

The Incentive Plan Proposal. Approval and adoption of our 2007 Omnibus Incentive Plan (the Incentive Plan Proposal). If approved, this proposal will be implemented regardless of whether the other proposals being considered at the Special Meeting are approved by our stockholders.

Unless otherwise specified, a proxy also will confer authority on the persons named therein to vote in their discretion on any other matters that properly may be presented at the Special Meeting, including proposals to adjourn the Special Meeting in respect of proposals for which insufficient votes to

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approve were cast in order to permit solicitation of additional proxies by our Board in respect of those proposals.

Our Board unanimously recommends that you vote **FOR** each of the proposals to be considered and voted on at the Special Meeting (Messrs. Leo F. Wells, III and Douglas P. Williams, who have material financial interests in the Internalization, recused themselves from consideration of the Board s recommendation with respect to the Internalization Proposal).

Appraisal Rights

Under Maryland law and our Articles, you will not be entitled to rights of appraisal with respect to the Internalization Proposal. Accordingly, to the extent that you object to the Internalization Proposal, you will not have the right to have a court judicially determine (and you will not receive) the fair value for your shares of common stock under the provisions of Maryland law governing appraisal rights. However, if you do not vote in favor of Pre-Listing Charter Amendment Proposal or the Post-Listing Charter Amendment Proposal and otherwise comply with the relevant statutory provisions of Maryland law governing appraisal rights, you may be entitled to rights of appraisal under Maryland law with respect to the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal. Because we are not aware of any applicable authority as to whether amendments to our Articles such as those contemplated by the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal would be deemed to substantially adversely affect your rights as a stockholder, in the event you wish to make your own determination of whether you have rights of appraisal with respect to the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal, we encourage you to consider applicable Maryland law and to consider engaging Maryland counsel. We reserve the right to challenge your determination, if any, as to whether rights of appraisal exist in connection with the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal. For a discussion regarding your appraisal rights under Maryland law, see Explanation of Maryland Appraisal Rights Statute. See also **Appendix G** hereto, which sets forth the relevant statutory provisions.

Proxies

You can revoke any proxy you previously gave at any time before votes are tabulated at the Special Meeting (1) by delivering a written statement to Douglas P. Williams, our secretary (the Secretary), expressly stating that the proxy is revoked, (2) by completing and properly executing a new proxy card that is dated later than the date of your prior proxy card and delivering it to our Secretary at or before the Special Meeting, or (3) by attending the Special Meeting and voting in person. Attendance at the Special Meeting will not, in and of itself, constitute revocation of a proxy.

A proxy card is enclosed for your use. The proxy card contains instructions for responding either by telephone, by Internet or by mail. Votes cast in person or by proxy at the Special Meeting will be tabulated and a determination will be made as to whether or not a quorum is present by the inspectors of election appointed for the Special Meeting. The presence, in person or by proxy, of stockholders entitled to cast at least 50% of the votes entitled to be cast by all stockholders as of ____________, 2007 will constitute a quorum for the transaction of business at the Special Meeting.

We will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence or absence of a quorum. With respect to the Internalization Proposal, the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal, abstentions will have the effect of a vote cast against the proposal. With respect to the Incentive Plan Proposal, abstentions will have no effect, provided that the total votes cast represent at least 50% of the shares

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entitled to vote. If the total votes cast on the Incentive Plan Proposal represent less than 50% of the shares entitled to vote, abstentions would have the effect of a vote against the Incentive Plan Proposal.

If a broker returns an executed proxy card, but marks the card to reflect a withholding of voting authority on matters as to which the broker is not permitted to vote (a broker non-vote), the holder of the shares of common stock covered by the proxy card will be treated as present for quorum purposes. The effect of broker non-votes on voting will be as follows: (1) with respect to the Internalization Proposal, the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal, broker non-votes will have the effect of a vote cast against the proposal; and (2) with respect to the Incentive Plan Proposal, broker non-votes will have no effect, provided that the total votes cast represent at least 50% of the shares entitled to vote at the Special Meeting, but if the total votes cast represent less than 50% of the shares entitled to vote at the Special Meeting, then broker non-votes would have the effect of a vote against the Incentive Plan Proposal. If a broker returns a properly executed proxy card, but does not provide voting instructions or an intent to abstain as to any matter, the shares represented by that proxy card will be considered present for quorum purposes and those shares will be voted on such matters in accordance with the recommendations of our Board or, in the absence of such a recommendation, in the proxy holder s discretion.

Our Special Meeting may be adjourned with respect to proposals for which insufficient votes to approve were cast. With respect to proposals for which an insufficient number of votes to approve are received, our Board may continue to solicit proxies. For those proposals for which sufficient votes to approve have been received, we may take such action contained therein.

Solicitation Expenses

We will pay all the costs of soliciting these proxies. In addition to these mailed proxy materials, employees of our affiliates and The Bank of New York, our proxy solicitor, may also solicit proxies in person, by telephone, or by other means of communication. Employees of affiliates will not be paid any additional compensation for soliciting proxies, and The Bank of New York will be paid an administrative fee of approximately $4,000 and $0.22 per phone vote and $0.07 per Internet vote, plus out-of-pocket expenses for its basic solicitation services, which include review of proxy materials, dissemination of brokers search cards, distribution of proxy materials, solicitation of brokers, banks, and institutional holders, and delivery of executed proxies. We may also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to beneficial owners.

Where to Obtain More Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). We file reports, proxy statements and other information with the SEC. You may read and copy these reports, proxy statements and other information at the SEC s Public Reference Section at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website, located at www.sec.gov, that contains reports, proxy statements and other information regarding companies and individuals that file electronically with the SEC.

The information contained in this proxy statement speaks only as of the date indicated on the cover of this proxy statement unless the information specifically indicates that another date applies. The information that we later file with the SEC may update and supersede the information in this proxy statement.

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Important Note

No person is authorized to make any representation with respect to the matters described in this proxy statement other than those contained herein and, if given or made, such representation must not be relied upon as having been authorized by us, the Advisor or any other person or entity. This proxy statement provides you with detailed information about the proposals to be considered and voted upon at the Special Meeting. The information in this proxy statement is current as of the date of this proxy statement. Stockholders are urged to carefully review this proxy statement, including the accompanying appendices, which discuss each of the proposals to be considered and voted upon at the Special Meeting in more detail.

We encourage you to carefully review the section of this proxy statement captioned Risk Factors beginning on page 27, which describes certain factors which should be considered in evaluating the Internalization Proposal and the other proposals to be voted on at the Special Meeting.

The date of this proxy statement is ____________, 2007.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING

We are providing you with this proxy statement, which contains information about the items to be voted upon at our special stockholders meeting on ____________, 2007 (the Special Meeting). To make this information easier to understand, we have presented some of the information below in a question and answer format. Except where otherwise noted, references to Wells REIT, the Company, we, us, or our herein shall refer to Wells Real Estate Investment Trust, Inc., its operating partnership, Wells Operating Partnership, L.P. (Wells OP), and their consolidated joint ventures.

Q: Why did you send me this proxy statement?

A: We sent you this proxy statement and the enclosed proxy card because our board of directors (our Board) is soliciting your proxy to vote your shares at the Special Meeting. This proxy statement summarizes information that we are required to provide to you under the rules of the Securities and Exchange Commission (SEC) and which is designed to assist you in voting.

Q: What is a proxy?

A: A proxy is a person who votes the shares of stock of another person who could not attend a meeting. The term proxy also refers to the proxy card. When you return the enclosed proxy card, you are giving us your permission to vote your shares of common stock at the Special Meeting. The people who will vote your shares of common stock at the Special Meeting are Donald A. Miller, CFA, Douglas P. Williams or Randall D. Fretz, each of whom is an officer of Wells REIT. They will vote your shares of common stock as you instruct, unless you return the proxy card and give no instructions. In this case, they will vote FOR all of the proposals and in accordance with the recommendation of our Board or, in the absence of such a recommendation, in their discretion, for any other proposals to be voted upon. They will not vote your shares of common stock, if you do not return the enclosed proxy card. This is why it is important for you to return the proxy card to us (or otherwise vote your shares) as soon as possible whether or not you plan on attending the meeting in person.

Q: When is the Special Meeting and where will it be held?

A: The Special Meeting will be held on ____________, 2007, at 1:30 p.m. at The Atlanta Athletic Club, 1930 Bobby Jones Drive, Duluth, Georgia 30097.

Q: Who is soliciting my proxy?

A: This proxy is being solicited by the board of directors of Wells Real Estate Investment Trust, Inc.

Q: How many shares of common stock can vote?

A: As of __________, 2007, there were ______ shares of our common stock issued and outstanding. Every stockholder is entitled to one vote for each share of common stock held.

Q: What is a quorum ?

A: A quorum consists of the presence in person or by proxy of stockholders holding at least 50% of the outstanding shares. There must be a quorum present in order for the Special Meeting to be a duly held meeting at which business can be conducted. If you submit a properly executed proxy card, even if you abstain from voting, then you will at least be considered part of the quorum.

Q: What may I vote on?

A: You may vote on the following:

The Internalization Proposal: the approval of the internalization of the Advisor by approving the Definitive Merger Agreement and transactions contemplated thereby (referred to herein as both the Internalization and the Internalization Transaction);

The Pre-Listing Charter Amendment Proposal: the approval of an amendment and restatement of our Articles, which will become effective upon consummation of the Internalization, to modify certain provisions to reflect that we have become self-advised;

The Post-Listing Charter Amendment Proposal: the approval of a further amendment and restatement of our Articles, which will become effective shortly before a Listing of our common stock, if any, to modify certain provisions to conform more closely to the charters of Listed REITs;

The Incentive Plan Proposal: the approval of our new 2007 Omnibus Incentive Plan; and

Other Proposals: Any other matters that may properly be presented at the Special Meeting or any adjournments or postponements of the Special Meeting, including proposals to adjourn the Special Meeting with respect to proposals for which insufficient votes to approve were cast and, with respect to any such proposals, to permit further solicitation of additional proxies by our Board.

Q: How does the Board recommend I vote on the proposals?

A: Our Board unanimously recommends a vote FOR each of the proposals listed in this proxy statement. Messrs. Leo F. Wells, III and Douglas P. Williams, who have material financial interests in the Internalization, recused themselves from consideration of the Board s recommendation with respect to the Internalization Proposal.

Q: Why has the Internalization been proposed?

A: Because at the time we commenced operations in 1998 the size and scope of our business operations were insufficient to support the overhead costs associated with a self-advised structure, we contracted with outside advisors to provide all personnel, accounting, administrative and other support services and resources necessary for our business operations. Since then, we have grown rapidly, however, and currently have over $5 billion in assets based upon the most recent valuation of our real estate portfolio. Based upon our current size and the scope of our operations, we believe that we comfortably exceed the critical mass required to support a self-advised structure. Prior to the closing of the Internalization Transaction (the Closing), the Advisor is required under the Definitive Merger Agreement to hire various individuals associated with Wells Capital, Wells Management and their affiliates, who have previously provided various advisory and management services to us, and who will become our employees upon Internalization. In addition, if we consummate the Internalization, we may hire other individuals from unaffiliated companies. We anticipate that, subject to the discretion of our compensation committee, we will issue stock options or other deferred equity awards to our employees pursuant to our 2007 Omnibus Incentive Plan, if such plan is approved by our stockholders. We believe the Internalization will provide us with an experienced management team with industry expertise, management capabilities and a unique knowledge of our assets and business strategies.

We believe that converting from our current externally advised structure to a self-advised or internally advised management structure would result in many important benefits, including:

That an Internalization Transaction would be accretive over time to our earnings per share and our funds from operations (FFO) per share as a result of the reduction in operating costs that will result from us no longer having to pay advisory, property management and other fees and expense reimbursements to our external advisors under our existing advisory and asset management agreements and certain of our property management agreements (FFO generally means the amount of a company s net earnings after taxes adjusted to include real estate depreciation and amortization for a specified period of time). No assurances can be given, however, that any such accretion in our earnings per share or FFO per share would actually occur;

That establishing an internal management team which would be fully dedicated and solely focused on our operations and strategic plans would enhance stockholder value;

That, if the Board determines that a Listing is in our best interests, a self-advised or internally advised management structure would better position us for a future Listing, partially based on our belief that there is a perception in the marketplace that an internalized structure, among other things, achieves a better alignment of interests between management and the stockholders and eliminates certain conflicts of interest associated with having an external advisor. No assurances can be given, however, that a Listing will actually occur or, if it did occur, that being self-advised would result in a more successful Listing; and

That an internalized management structure may have a positive impact on the retention of key management personnel, as we anticipate that our key management personnel will have an equity stake in our Company.

In connection with considering a potential Internalization Transaction, our Board also considered the benefits of a potential Listing, including, among other things, creating significantly greater liquidity for our stockholders, increasing our stockholders autonomy in connection with the management of their cash and tax positions, allowing us greater access to capital markets to fund our future growth, and enabling us to pursue certain growth strategies. In addition, our Articles require that, in the event a Listing does not occur on or before January 30, 2008, we are required to immediately undertake an orderly liquidation and sale of our assets and distribute the net sales proceeds from such liquidation to our stockholders. Based on these factors, we intend to consider a Listing following the consummation of the Internalization Transaction, if and when market conditions and other circumstances make it desirable or it is otherwise in the best interests of our stockholders to do so. No assurance can be given that, if a determination is made to List, we will be able to successfully implement a Listing or that market conditions existing in the future will make it desirable for us to do so. While we believe that the Internalization Transaction should help facilitate a Listing, the Internalization Transaction we are proposing is not contingent upon the completion of a Listing. Even if a Listing does occur, an active trading market for our common stock may not develop or, if it does develop initially, may not be sustained. Further, the price at which our common stock may trade in the future is unknown.

We believe any future Listing will be more likely to be successful if we are self-advised. A vast majority of Listed REITs, including REITs like us that own predominantly office and industrial commercial properties, are self-advised. We believe the prevalence of the self-advised model reflects a marketplace preference for

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Listed REITs that are self-advised and that, if our common stock were Listed, investors and market analysts would view us more favorably if we were self-advised, as opposed to being externally advised. If the Board elects to pursue a Listing, no further stockholder action would be required to do so.

Notwithstanding corporate governance mechanisms implemented to resolve potential conflicts of interest and protect our stockholders, we believe there may be a negative perception of externally-advised Listed REITs in the marketplace. We believe that the relationship between externally-advised REITs and their outside advisors is susceptible to, or is at least generally viewed as susceptible to, conflicts of interest, many of which can be avoided by being self-advised.

In addition, we believe that remaining externally-advised could have a negative effect on the price of our common stock in the future in the event we become Listed. As a result, we believe the internalization of the Advisor through the Internalization in advance of a potential Listing is an important step in the process of becoming a Listed REIT.

After due deliberation and consideration of various factors, including those described above, and upon the recommendation of the Special Committee, our Board determined that it would be fair and reasonable to us and advisable and in the best interests of our Company and our stockholders to become self-advised. We propose to accomplish this by acquiring the Advisor and thereby internalizing the operations of the Advisor.

For additional reasons why the Internalization has been proposed, please see Proposal I The Internalization Proposal Reasons for Internalization and Potential Listing, Negotiation of the Internalization Transaction and Recommendations of the Special Committee and Our Board of Directors in this proxy statement.

Q: Why don t we terminate the existing advisory, asset management and property management agreements with the Advisor and hire another external advisor instead of pursuing the Internalization?

A: Under the terms of the current advisory, asset management and property management agreements currently in effect (the Acquisition Advisory Agreement, the Asset Management Advisory Agreement and the Master Property Management Agreement, respectively), the Advisor has responsibility for our day-to-day operations subject to the supervision of our Board, including providing the management of our day-to-day operations; serving as our investment and financial advisor; formulating and overseeing the implementation of strategies for the administration, promotion, management, operation, maintenance, improvement, financing and refinancing, leasing and disposition of properties on an overall portfolio basis; maintaining and preserving our books and records, including stock records; administering, managing and maintaining stock transfers; managing communications with our stockholders; establishing technology infrastructure for stockholder support and service; performing property management functions for a number of our properties and overseeing the performance of our third-party property managers; reviewing and analyzing operating budgets, capital budgets and leasing plans of each of our properties; managing and supervising any offering of our securities, including the preparation of all related registrations and documents and other matters related to the offering process; consulting with the Board in evaluating and obtaining adequate insurance coverage based upon risk management determinations; reviewing and analyzing the on-going financial information pertaining to each of our properties and the overall portfolio of our properties; recommending the disposal of, reinvestment of the proceeds from the sale of, or otherwise dealing with our investments in properties; maintaining accounting systems, records and data and any other information requested concerning our activities as required and preparing and filing periodic financial reports and returns required to be filed with the SEC and any other regulatory agency, including annual financial statements; providing tax and compliance services and coordinating with our independent accountants and other consultants, on related tax matters; and performing all reporting, record keeping, internal controls and similar matters in a manner to allow us to comply with applicable law including the Sarbanes-Oxley Act of 2002.

We believe that if we were to terminate the Acquisition Advisory Agreement, the Asset Management Advisory Agreement and the Master Property Management Agreement, as opposed to pursuing the Internalization, we would forego all the intended benefits of the Internalization described above. In addition, we believe that a termination of the Acquisition Advisory Agreement, the Asset Management Advisory Agreement and the Master Property Management Agreement would cause a significant disruption to our business affairs. If we were to terminate the Acquisition Advisory Agreement, the Asset Management Advisory Agreement and the Master Property Management Agreement, we would need to either (1) identify and hire another qualified advisor and there is no assurance that the fees or expenses that we would incur with any such other advisor would be less than those we currently pay, or (2) identify and hire a full staff of our own employees to perform all of the services currently provided by the Advisor, and it would likely require significant effort and expense over a considerable period of time to find another qualified advisor or to fill all of these positions. There is no assurance that any significant number of the Advisor s or its affiliates employees would become our employees if we were to terminate the Acquisition Advisory Agreement, the Asset Management Advisory Agreement or the Master Property Management Agreement and then offer to hire them. Even if we were able to hire new employees, these employees would not have the same level of experience and familiarity with our business as the Advisor s or its affiliates personnel. Moreover, such new employees would lack the experience of having advised us since our inception, and would not have the knowledge of our portfolio or the close business relationships with our tenants, lenders or third-party property management companies that the Advisor s or its affiliates personnel have developed. We are unable to quantify the impact of the loss of the employees, relationships and proprietary assets provided by the Advisor or its affiliates. By acquiring the Advisor, we believe that we would reduce any disruptions to our business affairs, because certain of the Advisor s personnel who have been, or are expected to be, instrumental in our growth and continued operations will become our employees upon the closing of the Internalization. In addition, we would avoid the requirement to pay the subordinated performance fee which would otherwise be due to Wells Management upon a termination of the Asset Management Advisory Agreement.

For a detailed discussion concerning the Advisor and the Acquisition Advisory Agreement, the Asset Management Advisory Agreement and the Master Property Management Agreement, please see Proposal I The Internalization Proposal Our Existing Advisory and Property Management Agreements in this proxy statement.

Q: What is the effect of the Internalization?

A: If the conditions to consummation of the Internalization specified in the Definitive Merger Agreement are satisfied or (to the extent permissible) waived, as a result of the Internalization, the common stock of the WREAS and WGS, which is held by Wells Advisory Services I, LLC (WASI), will be converted into 19,546,302 shares of our common stock (the Internalization Consideration). In addition, in connection with the Internalization, Wells Capital will exchange its 20,000 limited partnership units of Wells OP in exchange for 22,339 shares of our common stock. The conditions to our performance obligations under the Definitive Merger Agreement include, among other things, receipt of the approval of our stockholders and may be waived by us in our sole discretion. Upon completion of the Internalization, WREAS and WGS will become our wholly-owned subsidiaries, and we will become self-managed and self-advised. After that time, we no longer will bear the cost of the advisory and property management fees and expense reimbursements currently payable to our external advisors under the Asset Management Advisory Agreement, the Acquisition Advisory Agreement and the Master Property Management Agreement. We will, however, be obligated to pay the salaries, other compensation and benefits of our employees and our other operating expenses, along with certain amounts under two service agreements to be entered into between the Advisor and Wells REF. See Proposal I Description of the Internalization Transaction Closing.

Further, as a result of the Internalization, our executive officers and certain of our directors, including our new Chief Executive Officer and President, who own membership interests in WASI will benefit, through their interests in WASI, in the Internalization Consideration.

Upon completion of the Internalization, your ownership of our shares of common stock will be diluted as a result of the new issuance of the 19,546,302 shares of common stock constituting the Internalization Consideration, in addition to the 22,339 shares of our common stock to be issued to Wells Capital in exchange for its limited partnership units in Wells OP, which in the aggregate represents approximately 4.2% of our currently outstanding common stock. Simultaneously with the execution of the Definitive Merger Agreement, we entered into an employment agreement with Donald A. Miller, CFA, who was elected by our Board as our new Chief Executive Officer and President. In addition, we may enter into other employment agreements with various individuals prior to the closing date of the Internalization. Pursuant to any such employment agreements, we may issue long-term incentive compensation awards in the form of share, option or other equity grants under the 2007 Omnibus Incentive Plan, if that plan is approved by our stockholders at the Special Meeting. Those awards potentially will result in additional dilution of your share ownership. See Proposal I The Internalization Proposal Description of the Internalization Transaction Employment Agreements and Proposal IV The Incentive Plan Proposal.

Q: What was the process used to determine the amount of the Internalization Consideration?

A: The Internalization Consideration was determined based upon negotiations between the Special Committee (which is described below) and Wells Real Estate Funds, Inc. (Wells REF), in consultation with their respective legal and financial advisors. Our executive officers and certain of our directors, also serve, or during such negotiations served, as officers and directors of Wells REF and hold in the aggregate approximately 95% of the economic interests in WASI, the parent of WREAS and WGS. These relationships result in such directors and our current executive officers having material financial interests in the Internalization. In part, in order to address these potential conflicts of interest and in order to satisfy certain requirements contained in our Articles, our Board established a special committee (the Special Committee) consisting of Messrs. W. Wayne Woody, Michael R. Buchanan, Richard W. Carpenter and William H. Keogler, Jr., each of whom is an Independent Director. The members of the Special Committee have no economic interest in the consummation of the Internalization that differs from those of our other stockholders. The Special Committee was authorized, among other things: to evaluate and investigate certain future strategic alternatives available to us, including, among other things, a potential transaction involving the restructuring of our operations to an internally advised structure via the acquisition of, or merger with, certain of the real estate acquisition, disposition, property and asset management and support businesses currently conducted and provided to us by Wells REF and its affiliates; to consider and negotiate the terms of any such transaction; and to make a recommendation to the Board on whether to pursue any such transaction.

Pursuant to this authority, the Special Committee retained its own legal counsel and Robert A. Stanger & Co., Inc. to act as its financial advisor. Pursuant to extensive negotiations that occurred between the Special Committee and the representatives of Wells REF, in consultation with their respective legal and financial advisors, the parties agreed to $175 million (the Internalization Consideration) as the amount we would pay to acquire the Advisor and that the Internalization Consideration would be paid by issuing 19,546,302 shares of our common stock to WASI. In addition, in connection with the Internalization, Wells Capital will exchange the 20,000 limited partnership units it currently owns in Wells OP for 22,339 shares of our common stock. In connection with its evaluation of the Internalization, the Special Committee and our

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Board received a written opinion dated January 31, 2007 of Houlihan Lokey Howard & Zukin Financial Advisors, Inc. (Houlihan Lokey) as to the fairness, from a financial point of view and as of the date of the opinion, to us of the consideration to be paid by us in the Internalization.

After due deliberation and consideration of various factors, the Special Committee unanimously recommended to our Board that it approve the Definitive Merger Agreement, the Internalization and the other documents and transactions expressly contemplated by the Definitive Merger Agreement. After careful consideration and upon the recommendation of the Special Committee, our Board (other than Messrs. Wells and Williams, who have material financial interests in the Internalization and who recused themselves from consideration of and the vote on this matter) approved the Definitive Merger Agreement, the Internalization and the other transactions expressly contemplated by the Definitive Merger Agreement. Our Board and the Special Committee believe that the terms of the Definitive Merger Agreement, the Internalization and the documents and other transactions expressly contemplated by the Definitive Merger Agreement are fair and reasonable to us and are advisable and in the best interests of us and our stockholders.

Q: How did you determine who is an Independent Director for purposes of serving on the Special Committee?

A: Our Articles require that certain activities related to our Advisor must be approved by a majority of our Independent Directors. Independent Director is defined in our Articles to mean a director who is not, and within the last two years has not been, directly or indirectly associated with the Advisor by virtue of:

- ownership of an interest in the Advisor or its Affiliates (as defined below),
- employment by the Advisor or its Affiliates,
- service as an officer or director of the Advisor or its Affiliates,
- performance of services for us, other than as a director,
- service as a director or trustee of more than three REITs advised by the Advisor, or
- maintenance of a material business or professional relationship with the Advisor or any of its Affiliates.

An indirect relationship includes circumstances in which a director s spouse, parents, children, siblings, mothers- or fathers-in-law, sons- or daughters-in-law, or brothers- or sisters-in-law are or have been associated with the Advisor, any of its Affiliates or us. A business or professional relationship is considered material if the gross revenue derived by the director from the Advisor and its Affiliates exceeds 5% of either the director s annual gross revenue during either of the last two years or the director s net worth on a fair-market-value basis.

The term Affiliate, for this purpose, means:

- any person or entity directly or indirectly through one or more intermediaries controlling, controlled by, or under common control with another person or entity;
- any person or entity directly or indirectly owning, controlling, or holding with power to vote 10% or more of the outstanding voting securities of another person or entity;

any officer, director, general partner, or trustee of such person or entity;

any person 10% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held, with power to vote, by such other person; and

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if such other person or entity is an officer, director, general partner, or trustee of a person or entity, the person or entity for which such person or entity acts in any such capacity.

The members of the Special Committee each qualify as Independent Directors. In addition, none of them has any economic interest in the Internalization (except to the extent they own shares of our common stock or options or warrants to acquire shares of our common stock, none of which represent more than 0.005% of our outstanding shares in the aggregate). See Proposal I Description of the Internalization Transaction Common Share Ownership of Certain Beneficial Owners and Management.

Q: What rights will I have if I oppose the Internalization?

A: You can vote against the Internalization by indicating a vote against the Internalization Proposal on your proxy card and by signing and mailing your proxy card, by authorizing your proxy over the Internet (pursuant to the instructions on the proxy card), by telephone, or by voting against the Internalization in person at the Special Meeting.

Stockholders will not have appraisal rights with respect to the Internalization Proposal or the Incentive Plan Proposal; however, you may have appraisal rights if the Pre-Listing Charter Amendment Proposal or the Post-Listing Charter Amendment Proposal is approved. Because we are not aware of any applicable authority as to whether such is the case, in the event you wish to make your own determination of whether you have rights of appraisal with respect to the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal, we encourage you to consider applicable Maryland law and to consider engaging Maryland counsel. **For a discussion regarding your appraisal rights, see Proposal I The Internalization Proposal No Appraisal Rights in Connection with the Internalization Proposal, Proposal II The Pre-Listing Charter Amendment Proposal Appraisal Rights, Proposal III The Post-Listing Charter Amendment Proposal Appraisal Rights and Proposal IV The Incentive Plan Proposal Appraisal Rights. See also Explanation of Maryland Appraisal Rights Statute and Appendix G attached hereto, which sets forth the relevant statutory provisions.**

Q: When do you expect the Internalization to be consummated?

A: Assuming all conditions to the Internalization are satisfied or waived, we expect to consummate the Internalization on the third business day following the satisfaction or waiver of all such conditions or on such other date as may be agreed upon by us and the Advisor.

Pursuant to the Definitive Merger Agreement, the Internalization must be consummated on or before August 1, 2007. If the Internalization is not consummated within the applicable period described above, the Definitive Merger Agreement may be terminated by either us or the Advisor.

Q: Why is our Board recommending that our Articles be amended and restated to modify certain provisions to reflect, if the Internalization Proposal is approved and the Internalization is consummated, that we have become self-advised and to conform more closely to the charters of Listed REITs?

A: Our Articles contain a number of guidelines for transactions between us and the Advisor and our and its respective Affiliates. As discussed elsewhere in this proxy statement, if the Internalization is consummated, WREAS and WGS will become our wholly-owned subsidiaries, their operations will therefore become part of our business, and we will become self-advised. Accordingly, if the Internalization is consummated, the provisions in our Articles relating to the Advisor, its Affiliates and to transactions and relations between us

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and the Advisor and its Affiliates will no longer be applicable to our situation. One of the main purposes of the Pre-Listing Charter Amendment Proposal is to remove these inapplicable provisions effective upon the completion of the Internalization.

In addition, if a Listing occurs, it will be possible to remove a number of the limitations and restrictions that are included in our existing Articles, but which our Board believes restrict and could possibly prevent us from pursuing favorable investment opportunities. These restrictions were mandated by the Statement of Policy Regarding Real Estate Investment Trusts published by the North American Securities Administrators Association (the NASAA REIT Guidelines) and were applicable because we previously raised funds through public offerings of our common stock without listing our securities on a national securities exchange. If our securities are Listed, those restrictions no longer will be required because the NASAA REIT Guidelines do not apply to offerings of shares that are Listed. The charters of most Listed REITs do not contain these kinds of limitations and restrictions, and accordingly, if we did not eliminate these restrictions effective upon the completion of a Listing, these restrictions could impair our ability to compete effectively for investments and management talent. Our Board believes that these limitations and restrictions should be removed so that we can be governed by a charter that is more similar to the charters of Listed REITs. The Post-Listing Charter Amendment Proposal also broadens the indemnification provisions applicable to our current and former directors and officers to the maximum extent permitted by Maryland law. We believe that these provisions are similar to the provisions customarily provided by many other publicly traded companies and will facilitate our ability to attract and retain qualified director and officer candidates. In addition, if the Post-Listing Charter Amendment Proposal is approved, certain stockholder voting provisions contained in our Articles will be eliminated. Although the amendments to our Articles contained in the Post-Listing Charter Amendment Proposal reduce or otherwise eliminate certain voting rights that you currently have, we are of the view that these proposed amendments will provide greater flexibility with respect to the implementation of our business plan and will make us more competitive with Listed REITs. If the two proposed charter amendments take effect, our Board will amend our Bylaws to eliminate inconsistencies resulting from the proposed amendments to our Articles and to make certain other changes to our Bylaws.

If approved by our stockholders at the Special Meeting, the Pre-Listing Charter Amendment Proposal will be implemented regardless of whether a Listing occurs, as long as the Internalization Proposal is approved and the Internalization is consummated. Any or all of the closing conditions to our performance obligations under the Definitive Merger Agreement may be waived by us in our sole discretion. Further, if the Post-Listing Charter Amendment Proposal is approved, it will not be implemented unless the Internalization Proposal is approved and the Internalization is consummated and until shortly before a Listing, if any, of our common stock.

Q: Why is our Board recommending that we approve and adopt the 2007 Omnibus Incentive Plan?

A: Our Board believes that the ability to offer incentive compensation pursuant to the 2007 Omnibus Incentive Plan described herein will help us attract, retain and motivate highly qualified individuals and more directly align the interests of our management with those of our stockholders. Many of our competitors currently have incentive compensation plans. Our Board believes that if we do not adopt plans which provide adequate incentives to our management and other employees, in line with the plans of our competitors, we will be at a competitive disadvantage in our ability to attract and retain highly qualified employees. In establishing the 2007 Omnibus Incentive Plan, our newly established compensation committee worked with its employment compensation consultant to survey and study the market compensation ranges of our competitors. Furthermore, our Board believes that issuing shares of common stock to management and other employees pursuant to the 2007 Omnibus Incentive Plan, under appropriate circumstances, will more directly align their interests with those of our stockholders and can be used as an effective motivational tool.

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If approved by our stockholders at the Special Meeting, the Incentive Plan Proposal will be implemented regardless of whether the other proposals being considered at the Special Meeting are approved by our stockholders.

Q: Will the composition of our Board change as a result of the Internalization Transaction?

A: Yes. In connection with execution of the Definitive Merger Agreement, Donald A. Miller, CFA, was elected by our Board as one of our directors to fill the current vacancy on our Board. In addition, in connection with the Board approving the Internalization Transaction, members of the Board agreed to take several actions to discontinue having directors (other than Leo F. Wells, III) serve on both our Board and a board of directors of a Wells REF related entity that may compete with us. Three of our Independent Directors, Richard W. Carpenter, Bud Carter and Neil H. Strickland, and Douglas P. Williams, our current Executive Vice President, Secretary and Treasurer and a director, each of whom also serves on the board of directors of Wells Real Estate Investment Trust II, Inc. (Wells REIT II), have agreed to resign as our directors, effective and conditioned upon the closing of the Internalization Transaction, and Donald S. Moss and W. Wayne Woody, two of our Independent Directors, have agreed to resign from the board of directors of Wells REIT II, also effective and conditioned upon the closing of the Internalization Transaction. Accordingly, we currently anticipate that, at the time of the closing of the Internalization Transaction, our Board will be comprised of Leo F. Wells, III, Donald A. Miller, CFA, Michael R. Buchanan, William H. Keogler, Jr., Donald S. Moss, and W. Wayne Woody. Further, Mr. Wells has agreed to resign as a director at the time of a Listing of our common stock, should that occur, unless a majority of certain designated Independent Directors determines at that time that it is in our best interest that he remain a director, and upon Mr. Wells resignation as a director, for a period ending the earlier of (1) two years after a Listing of our common stock, should that occur, or (2) the first date on which Mr. Wells does not beneficially own at least 1% of our outstanding common stock, he will be entitled to designate an individual to be appointed to fill the vacancy created by such resignation and to be nominated for election to our Board at any annual meeting where directors are elected during such period, provided that such individual is reasonably acceptable to our Board and is not on the board of directors of any Wells REF related entity that may compete with us. See Proposal I The Internalization Proposal Description of the Internalization Transaction Changes to our Board and Resolution of Certain Conflicts of Interest on our Board.

Q: Who is entitled to vote?

A: All stockholders who own shares of our common stock at the close of business on ____________, 2007, the record date, will be entitled to vote at the Special Meeting.

Q: How do I vote?

A: You may vote your shares of common stock either in person or by proxy. Whether you plan to attend the meeting and vote in person or not, we urge you to have your vote recorded. **Stockholders have the following three options for submitting their votes by proxy: (1) via the Internet; (2) by telephone; or (3) by mail, using the enclosed proxy card.** If you have Internet access, we encourage you to record your vote on the Internet. It is convenient, and it saves Wells REIT significant postage and processing costs. In addition, when you vote via the Internet or by phone prior to the meeting date, your vote is recorded immediately and there is no risk that postal delays will cause your vote to arrive late and, therefore, not be counted. For further instructions on voting, see your enclosed proxy card in this proxy statement. If you attend the Special Meeting, you may also submit your vote in person, and any previous votes that you submitted, whether by Internet, phone or mail, will be superseded by the vote that you cast at the Special Meeting. If you return your signed proxy card but do not mark the boxes showing how you wish to vote,

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your shares of common stock will be voted FOR each of the proposals and in accordance with the recommendation of the Board or, in the absence of such a recommendation, in their discretion, for each of the other proposals to be voted upon at the Special Meeting.

Q: Will my vote make a difference?

A: Yes. Your vote is needed to ensure that the proposals can be acted upon. Because we are a widely-held REIT (with more than 100,000 stockholders and, unlike most other public companies, no large brokerage houses own substantial blocks of our shares), **YOUR VOTE IS VERY IMPORTANT! Your immediate response will help avoid potential delays and may save Wells REIT significant additional expenses associated with soliciting stockholder votes.** We encourage you to participate in the governance of Wells REIT.

Q: What if I return my proxy card and then change my mind?

A: You have the right to revoke your proxy at any time before the meeting by:

(1) notifying Douglas P. Williams, our Secretary;

(2) attending the meeting and voting in person; or

(3) returning another proxy card dated after your first proxy card which is received before the Special Meeting date.

Q: How will the proxies be voted?

A: Any proxy, if it is received in time, is properly signed and is not revoked, will be voted at the Special Meeting in accordance with the directions of the stockholder signing the proxy. If no directions are specified as to the applicable proposal, the proxy will be voted **FOR**:

the approval of the Internalization Proposal;

the approval of the Pre-Listing Charter Amendment Proposal;

the approval of the Post-Listing Charter Amendment Proposal; and

the approval of the Incentive Plan Proposal.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will not be able to vote your shares without instructions from you on any of the proposals to be considered at the Special Meeting. For all proposals, your broker will vote your shares only if you provide instructions to your broker on how to vote your shares. If you want to vote on these proposals, you should contact your broker and ask what directions your broker will need from you.

Q: What is the effect of abstentions and broker non-votes?

A: We will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence or absence of a quorum. With respect to the Internalization Proposal, the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal, abstentions will have the effect of a vote cast against the proposal. With respect to the Incentive Plan Proposal, abstentions will have no effect, provided that the total votes cast represent at least 50% of the shares entitled to vote. If the total votes cast represent less than 50% of the shares entitled to vote, abstentions would have the effect of a vote against the Incentive Plan Proposal.

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If a broker returns an executed proxy card, but marks the card to reflect a withholding of voting authority on matters as to which the broker is not permitted to vote (a broker non-vote), the holder of the shares of common stock covered by the proxy card will be treated as present for quorum purposes, and the effect on voting will be as follows: (1) with respect to the Internalization Proposal, the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal, broker non-votes will have the effect of a vote cast against the proposal; and (2) with respect to the Incentive Plan Proposal, broker non-votes will have no effect, provided that the total votes cast represent at least 50% of the shares entitled to vote; however, if the total votes cast represent less than 50% of the shares entitled to vote, then broker non-votes would have the effect of a vote against the Incentive Plan Proposal. If a broker returns a properly executed proxy card, but as to any matter does not provide voting instruction or an intent to abstain, the shares represented by that proxy card will be considered present for quorum purposes and those shares will be voted on the matter in the proxy holder s discretion.

Q: How will voting on any other business be conducted?

A: Although we do not know of any business to be considered at the Special Meeting other than the proposals discussed above, if any other business is properly presented at the Special Meeting, your signed proxy card gives authority to Donald A. Miller, CFA, our new President, Douglas P. Williams, our Executive Vice President and Secretary, or Randall D. Fretz, our Senior Vice President, or any of them, to vote on such matters in accordance with the recommendation of the Board or, in the absence of such a recommendation, in their discretion.

Q: When are the stockholder proposals for the next annual meeting of stockholders due?

A: In order to be eligible for inclusion in the proxy solicitation materials for our next annual meeting of stockholders in 2007, any director nominations and other stockholder proposals must have been received by our Secretary, Mr. Douglas P. Williams, at Wells Real Estate Investment Trust, Inc., 6200 The Corners Parkway, Norcross, Georgia 30092-3365 no later than December 29, 2006. In order to be eligible for presentation at our 2007 annual meeting, our Bylaws require that written notice of any director nominations or other stockholder proposals must be received by our Secretary no later than May 19, 2007, but any such director nominations or stockholder proposals received after December 29, 2006 will not be included in our proxy solicitation materials.

Q: Who pays the cost of this proxy solicitation?

A: We will pay all the costs of soliciting these proxies. In addition to these mailed proxy materials, employees of our affiliates and The Bank of New York, our proxy solicitor, may also solicit proxies in person, by telephone, or by other means of communication. Employees of affiliates will not be paid any additional compensation for soliciting proxies, and The Bank of New York will be paid an administrative fee of approximately $4,000 and $0.22 per phone vote and $0.07 per Internet vote, plus out-of-pocket expenses for its basic solicitation services, which include review of proxy materials, dissemination of brokers search cards, distribution of proxy materials, solicitation of brokers, banks, and institutional holders, and delivery of executed proxies. We may also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to beneficial owners.

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Q: Is this proxy statement the only way that proxies are being solicited?

A: No. In addition to mailing proxy solicitation material, our directors and employees of Wells REF, as well as third party proxy service companies we retain, may also solicit proxies in person, via the Internet, by telephone or by any other electronic means of communication we deem appropriate.

Q: If I share my residence with another Wells REIT stockholder, how many copies of the Proxy Statement should I receive?

A: The Securities and Exchange Commission (SEC) has adopted a rule concerning the delivery of disclosure documents. The rule allows us to send a single set of any annual report, proxy statement, proxy statement combined with a prospectus, or information statement to any household at which two or more stockholders reside if they share the same last name or we reasonably believe they are members of the same family. This procedure is referred to as Householding. This rule benefits both you and Wells REIT. It reduces the volume of duplicate information received at your household and helps Wells REIT reduce expenses. Each stockholder subject to Householding will continue to receive a separate proxy card or voting instruction card.

Wells REIT will deliver promptly, upon written or oral request, a separate copy of the Proxy Statement to a stockholder at a shared address to which a single copy of the document was previously delivered. If you received a single set of disclosure documents for this year, but you would prefer to receive your own copy, you may direct requests for separate copies to the following address: Client Services Department at P.O. Box 2828, Norcross, Georgia 30091-2828, or call us at 1-800-557-4830. If you are a stockholder that receives multiple copies of our proxy materials, you may request Householding by contacting us in the same manner and requesting a Householding consent.

Q: What should I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive. You may also follow the instructions on the proxy cards for telephonic or internet proxy authorization for each proxy card that you receive.

Q: What if I consent to have one set of materials mailed now, but change my mind later?

A: Call or write Wells REIT to cancel the Householding instructions for yourself. You will then be sent a separate proxy statement within 30 days of receipt of your instruction.

Q: The reason I receive multiple sets of materials is because some of the stock belongs to my children. What happens when they move out and no longer live in my household?

A: When there is an address change for one of the members of the household, materials will be sent directly to the stockholder at his/her new address.

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Q: If I plan to attend the Special Meeting in person, should I notify anyone?

A: While you are not required to notify anyone in order to attend the Special Meeting, if you do plan to attend the meeting, we would appreciate it if you would mark the appropriate box on the enclosed proxy card to let us know how many stockholders will be attending the meeting so that we will be able to prepare a suitable meeting room for the attendees. **Even if you plan to attend the Special Meeting, we recommend that you also submit your proxy or voting instructions as described above so that your vote will be counted if you later decide not to attend the Special Meeting.**

Q: Where can I find out more information about you?

A: We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). We file reports, proxy statements and other information with the SEC. You may read and copy these reports, proxy statements and other information at the SEC s Public Reference Section at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Section by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website, located at www.sec.gov, that contains reports, proxy statements and other information regarding companies and individuals that file electronically with the SEC.

The information contained in this proxy statement speaks only as of the date indicated on the cover of this proxy statement unless the information specifically indicates that another date applies. The information that we later file with the SEC may update and supersede the information in this proxy statement. Requests for copies of our filings should be directed to Client Services Department at P.O. Box 2828, Norcross, Georgia 30091-2828, or call us at 1-800-557-4830.

Q: How can I get additional copies of this proxy statement or other information filed with the SEC relating to this solicitation?

A: You may obtain additional copies of this proxy statement and all other relevant documents filed by us with the SEC free of charge at the SEC s website located at www.sec.gov, from our website at www.wellsreit.com, or by calling our Client Services Department at 1-800-557-4830.

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SUMMARY OF THE INTERNALIZATION PROPOSAL

The following is a summary of the material terms of the Internalization Proposal as described in this proxy statement. You should carefully read this entire document as well as the additional documents to which it refers for a more complete description of the Internalization Proposal. See Proposal I The Internalization Proposal Description of the Internalization Transaction.

The Internalization Proposal	At the Special Meeting, you will be asked to consider and vote upon a proposal to approve the Internalization, whereby WREAS and WGS will become our wholly-owned subsidiaries. See Proposal I The Internalization Proposal.
Parties to the Internalization	**Wells Real Estate Investment Trust, Inc.**, a Maryland corporation (Wells REIT), was incorporated on July 3, 1997, commenced active operations on June 5, 1998, and qualifies as a real estate investment trust for federal income tax purposes. Substantially all of our business is conducted through Wells Operating Partnership, L.P. (Wells OP), a Delaware limited partnership, or subsidiaries of Wells OP. We are the sole general partner of Wells OP, and Wells Capital, Inc. (Wells Capital) is currently the sole limited partner of Wells OP but, as described elsewhere in this proxy statement, will exchange its limited partnership units in Wells OP for shares of our common stock as a part of the Internalization Transaction. Wells OP owns properties directly, through wholly owned subsidiaries, through certain joint ventures with unaffiliated parties, and through certain joint ventures with real estate limited partnerships sponsored by Wells Capital. Prior to the closing of the Internalization, we intend to form a wholly-owned subsidiary that will be admitted as a limited partner to Wells OP and will be issued limited partnership units equal to an approximately 0.01% interest in Wells OP. See Wells Real Estate Investment Trust, Inc. Business.
	WRT Acquisition Company, LLC, a Georgia limited liability company (WRT Acquisition), was formed on January 19, 2007 and is a wholly-owned subsidiary of Wells REIT. See Proposal I The Internalization Proposal Description of the Internalization Transaction.
	WGS Acquisition Company, LLC, a Georgia limited liability company (WGS Acquisition), was formed on January 19, 2007 and is a wholly-owned subsidiary of Wells REIT. See Proposal I The Internalization Proposal Description of the Internalization Transaction.
	Wells Real Estate Funds, Inc., a Georgia corporation (Wells REF), was incorporated on February 17, 1997 and is wholly-owned by Leo F. Wells, III, our former President, and current Chairman and director. Wells REF is the sole shareholder of Wells Management and Wells Capital. See Proposal I The Internalization Proposal Formation of Wells Real Estate Advisory Services, Inc. and Assignment and Valuation of the Existing Advisory and Master Property Management Agreements.
	Wells Capital, Inc., a Georgia corporation (Wells Capital), was incorporated on April 20, 1984 and is a wholly-owned subsidiary of Wells REF, which is wholly-owned by Leo F. Wells, III, our former President and current Chairman and director. Wells Capital has been one of our advisors since 1998 and is also the advisor to Wells REIT II, Wells Timberland REIT, Inc. and Institutional

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REIT, Inc., three publicly registered, non-listed REITs sponsored by affiliates of the Advisor, and a general partner or sponsor of 15 public real estate limited partnerships and various private real estate programs. As part of the capitalization of WASI described below, Wells Capital transferred and assigned its interest in the Acquisition Advisory Agreement to WASI. See Proposal I The Internalization Proposal Formation of Wells Real Estate Advisory Services, Inc. and Assignment and Valuation of the Existing Advisory and Master Property Management Agreements.

Wells Management Company, Inc., a Georgia corporation (Wells Management), was incorporated on February 17, 1983 and is a wholly-owned subsidiary of Wells REF, which is wholly-owned by Leo F. Wells, III, our former President and our current Chairman and director. Wells Management has also been one of our advisors and our property manager since 1998, and is currently also a property manager for Wells REIT II, Institutional REIT, Inc., along with the 15 public real estate limited partnerships and private real estate programs referred to above. Wells Management formed both WREAS and WGS as described below. Wells Management (and other affiliates) then formed WASI and transferred and contributed its interests in the Asset Management Advisory Agreement and the Master Property Management Agreement to WASI in the manner described below. See Proposal I The Internalization Proposal Formation of Wells Real Estate Advisory Services, Inc. and Assignment and Valuation of the Existing Advisory and Master Property Management Agreements.

Wells Advisory Services I, LLC, a Georgia limited liability company (WASI), was formed on December 21, 2005, and is owned by Wells Management, Wells Capital and by eight executives of Wells REF, each of whom own an approximately 1% economic interest in WASI, including Douglas P. Williams, our current Executive Vice President, Secretary, Treasurer and one of our directors, Randall D. Fretz, our current Senior Vice President, Donald A. Miller, CFA, our new Chief Executive Officer and President and one of our directors, and another individual currently affiliated with Wells REF who may become one of our executive officers. Wells Management and Wells Capital are wholly-owned subsidiaries of Wells REF, which is wholly-owned by Leo F. Wells, III, our former President and our current Chairman and director. As part of the formation of WASI, Wells Management transferred and assigned to WASI its interest in the Asset Management Advisory Agreement and transferred and assigned all of the issued and outstanding common stock of WREAS to WASI; Wells Capital transferred and assigned its interest in the Acquisition Advisory Agreement to WASI; and each of the eight executives made cash capital contributions to WASI. As a result, WREAS became a wholly-owned subsidiary of WASI. Wells Management then made an additional capital contribution to WASI on February 15, 2006 by transferring and assigning its interest in the Master Property Management Agreement to WASI. In addition, as set forth below, Wells Management also transferred and assigned all of the issued and outstanding stock of Wells Government Services, Inc. (WGS) to WASI, and as a result, WGS also became a

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wholly-owned subsidiary of WASI. See Proposal I The Internalization Proposal Formation of Wells Real Estate Advisory Services, Inc. and Assignment and Valuation of the Existing Advisory and Property Management Agreements.

Wells Real Estate Advisory Services, Inc., a Georgia corporation (WREAS), was incorporated on December 30, 2004 as a wholly-owned subsidiary of Wells Management. As set forth above, Wells Management and Wells Capital, along with eight executives of Wells REF, subsequently formed WASI; Wells Management transferred and assigned all of the issued and outstanding stock of WREAS to WASI; and WREAS became a wholly-owned subsidiary of WASI. WASI subsequently transferred and assigned its interests in the Asset Management Advisory Agreement, the Acquisition Advisory Agreement and the Master Property Management Agreement to its wholly-owned subsidiary, WREAS. See Proposal I The Internalization Proposal Formation of Wells Real Estate Advisory Services, Inc. and Assignment and Valuation of the Existing Advisory and Master Property Management Agreements. WREAS is currently a party to certain support services agreements pursuant to which WREAS receives various support services and personnel from Wells REF and its affiliates.

Wells Government Services, Inc., a Georgia corporation (WGS), was incorporated on June 1, 2004 as a wholly-owned subsidiary of Wells Management. WGS is the property manager for 12 office buildings we own in the Washington D.C. area, most of which are leased primarily to government tenants. As set forth above, in January 2007, Wells Management transferred and assigned all of the issued and outstanding common stock of WGS to WASI, and as a result, WGS also became a wholly-owned subsidiary of WASI.

References to the **Advisor** in this proxy statement include, collectively, WREAS, WGS and their predecessors, as applicable, including those portions of the operations of Wells Capital and Wells Management which previously provided advisory and management services to us under the Asset Management Advisory Agreement, the Acquisition Advisory Agreement and the Master Property Management Agreement.

Consideration to be Paid in the Internalization

The Definitive Merger Agreement provides that upon the consummation of the Internalization, all of the common stock of WREAS and WGS currently held by WASI will be converted into 19,546,302 shares of our common stock (the Internalization Consideration), which constitutes approximately 4.2% of our currently outstanding common stock. In addition, in connection with the Internalization, Wells Capital will exchange the 20,000 limited partnership units it currently owns in Wells OP for 22,339 shares of our common stock. For the purposes of the Internalization Consideration and the number of shares to be issued to Wells Capital for its limited partnership units in Wells OP, shares of our common stock have been valued at a per-share price of $8.9531. This per-share price was primarily based on the $8.93 estimated net asset value per share resulting from a valuation recently performed on our properties as of September 30, 2006, subject to the adjustment as described below. The valuation was provided by an independent third party which based its estimate upon (1) the appraised value of our real estate assets as of September 30, 2006, and (2) consideration of the current value of the other assets and liabilities of Wells REIT as of September 30, 2006 (including the contingent liability for the subordinated disposition fee described below). This estimated net asset value per share is only an estimate, and is based upon a number of assumptions and estimates, which may not be accurate or complete. There were no liquidity discounts applied to this estimated valuation or discounts relating to the fact that we are currently externally managed, and no attempt was made to value the Company as an enterprise. Further, this should not be viewed as the amount a stockholder would receive in the event that we were to list our shares in the future or to liquidate our assets and distribute the proceeds to our stockholders since, among other things, this valuation was not reduced by potential real estate brokerage commissions or other costs of sale. The Special Committee used this valuation to determine the amount of shares of our common stock to issue to WASI as the Internalization Consideration; however, since the estimated net asset valuation took into account an approximately $12.4 million subordinated disposition fee otherwise payable to the Advisor upon a liquidation of our properties at their September 30, 2006 appraised values, and the obligation to pay this contingent liability would be extinguished upon the acquisition of the Advisor, the parties agreed in the Definitive Merger Agreement to use a per-share value of $8.9531 (calculated by excluding the potential liability for the subordinated disposition fee) to determine the number of shares paid to WASI as the Internalization Consideration and the number of shares to be issued to Wells Capital for its limited partnership units in Wells OP. See Proposal I The Internalization Proposal Description of the Internalization Transaction Payment of Internalization Consideration, and Market For Wells REIT s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Background of the Internalization

Our Board has been evaluating whether we should convert from our current external advisory structure to a self-advised structure in order to obtain the financial and other benefits described elsewhere in this proxy statement. Since our inception, our day-to-day operations have been managed by the Advisor under the supervision of our Board, pursuant to the terms and conditions of our advisory and property management agreements with the Advisor. We have grown rapidly since our inception, however, and now have over $5 billion in assets based upon the most recent valuation of our real estate portfolio. Based upon our current size and the scope of our operations, we believe that we comfortably exceed the critical mass required to support a self-advised structure. If we consummate the Internalization, we expect to employ various individuals associated with the Advisor or its affiliates who have been, and are expected to continue to be, instrumental in our growth and continued operations. We believe the Internalization will provide us with an experienced management team with industry expertise, management capabilities and a unique knowledge of our assets and business strategies. Our Board also has been considering whether we should effect a Listing and how best to position ourselves for such a Listing. We believe any future Listing will be more successful if we are self-managed and self-advised. Among other things, a Listing would create greater liquidity for our stockholders, who at present have only very limited opportunities to sell their shares of common stock if and when they wish to do so. A Listing also could allow us greater access to capital to fund our future growth. We believe that completing the Internalization would better position us for a future Listing; however, we expect that the Internalization will be beneficial to us on a going forward basis even if we do not complete a Listing. See Proposal I The Internalization Proposal Negotiation of the Internalization Transaction.

Principal Reasons for the Internalization

We believe that a self-advised structure will have several advantages, including the following:

That an Internalization Transaction would be accretive over time to our earnings per share and our FFO per share as a result of the reduction in operating costs that will result from us no longer having to pay advisory, property management and other fees and expense reimbursements to our external advisors under our existing advisory and asset management agreements and certain of our property management agreements. No assurances can be given, however, that any such accretion in our earnings per share or FFO per share would actually occur;

That establishing an internal management team which would be fully dedicated and solely focused on our operations and strategic plans would enhance stockholder value;

That, if the Board determines that a Listing is in our best interests, a self-advised or internally advised management structure would better position us for a future Listing, partially based on our belief that there is a perception in the marketplace that an internalized structure, among other things, achieves a better alignment of interests between management and the stockholders and eliminates certain conflicts of interest associated with having an external advisor. No assurance can be given, however, that a Listing will actually occur or, if it did occur, that being self-advised would result in a more successful Listing; and

That an internalized management structure may have a positive impact on the retention of key management personnel, as we anticipate that our key management personnel will have an equity stake in our success.

See Proposal I The Internalization Proposal Reasons for Internalization and Potential Listing ; Negotiation of the Internalization Transaction.

Certain Changes to our Charter

We are proposing various amendments to our current Charter in the Pre-Listing and Post-Listing Charter Amendment Proposals.

The Pre-Listing Charter Amendment Proposal contains various amendments necessary to reflect that we will become self-advised should the Internalization Proposal be approved. These amendments remove various provisions in our Charter related to the Advisor since these provisions will no longer be applicable once we internalize the Advisor. If this proposal is approved by our stockholders, it would become effective upon the Closing. Even if approved by our stockholders, this proposal will not be implemented unless the Internalization occurs. Further, our Board reserves the right not to implement the Pre-Listing Charter Amendment Proposal even if it is approved by our stockholders if, prior to such implementation, our Board determines that the implementation of the Pre-Listing Charter Amendment Proposal is not in our best interest. **See Proposal II The Pre-Listing Charter Amendment Proposal**

The Post-Listing Charter Amendment Proposal contains various amendments necessary for our Charter to conform more closely to the charters of most other Listed REITs. The Post-Listing Charter Amendment Proposal would remove many restrictions that are mandated by state securities administrators but will no longer be required if a Listing occurs, and to make various other changes that our Board believes are appropriate for a Listed REIT. These restrictions are not typically found in the charters of Listed REITs and, if not removed, we believe would put us at a competitive disadvantage should a Listing occur. Even if approved by our stockholders, this proposal will not be implemented unless the Internalization occurs and until shortly before a Listing, if any, of our common stock. Further, our Board reserves the right not to implement the Post-Listing Charter Amendment Proposal even if it is approved by our stockholders if, prior to such implementation, our Board determines that the implementation of the Post-Listing Charter Amendment Proposal is not in our best interest. **See Proposal III The Post-Listing Charter Amendment Proposal.**

Opinion of Houlihan Lokey

In connection with the Internalization, Houlihan Lokey Howard & Zukin Financial Advisors, Inc. (Houlihan Lokey) delivered a written opinion dated January 31, 2007 to the Special Committee and our Board as to the fairness, from a financial point of view and as of the date of Houlihan Lokey s opinion, to us of the consideration to be paid by us in the Internalization Transaction. The full text of the written opinion of Houlihan Lokey dated January 31, 2007, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as **Appendix B** to this proxy statement and is incorporated by reference in its entirety into this document. You are encouraged to read the opinion carefully in its entirety. **Houlihan Lokey provided its opinion to the Special Committee and our Board to assist the Special Committee and our Board in their evaluation, from a**

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	financial point of view, of the consideration provided for in the Definitive Merger Agreement. Houlihan Lokey s opinion does not address any other aspect of the Internalization and does not constitute a recommendation as to how you should vote or act in connection with the proposed Internalization. See Proposal I The Internalization Proposal Opinion of Houlihan Lokey.
Interests of Certain of Our Directors and Officers	Our executive officers and certain of our directors have material financial interests in the Internalization. In particular, Messrs. Leo F. Wells, III, Douglas P. Williams and Randall D. Fretz are also affiliates of the Advisor and own economic interests in the Advisor or its affiliates. Accordingly, the Internalization will result in Messrs. Wells, Williams and Fretz collectively receiving beneficial economic interests in approximately 18,373,524 shares of our common stock. Mr. Wells, our former President, our Chairman and one of our directors, will receive an indirect beneficial economic interest in our stock through his ownership of Wells REF, which is the sole shareholder of Wells Capital and Wells Management, which together own in the aggregate approximately 92% of the economic interests in WASI. In addition, Douglas P. Williams, our current Executive Vice President, Secretary, Treasurer and one of our directors, Randall D. Fretz, our current Senior Vice President, and Donald A. Miller, CFA, our new Chief Executive Officer and President and one of our directors, will each receive a beneficial economic interest in our stock through each of their individual approximately 1% economic interest in WASI. We also may hire one or more other individuals currently affiliated with Wells REF to become our executive officers in connection with the Closing of the Internalization Transaction, one of whom also holds an approximately 1% economic interest in WASI. As a result, we anticipate that such individuals will indirectly receive as a result of the Internalization an aggregate of approximately $168 million in shares of our common stock valued at the same per-share amount used to determine the amount of shares to be issued to WASI as Internalization Consideration. In addition, in connection with the Internalization, Wells Capital will exchange its 20,000 limited partnership units of Wells OP for 22,339 shares of our common stock. See Proposal I The Internalization Proposal Our Company Interest of our officers and directors in the Advisor and certain of its Affiliates ; and Description of the Internalization Transaction Common Share Ownership of Certain Beneficial Owners and Management.
Our Management Following the Internalization	Upon the execution of the Definitive Merger Agreement, Leo F. Wells, III, resigned as our President, and Donald A. Miller, CFA, was elected by our Board as our Chief Executive Officer and President. Mr. Miller was previously a Vice President of Wells REF and a Senior Vice President of Wells Capital and, in such capacities, was responsible for directing all aspects of the acquisitions, dispositions, property management, construction and leasing groups for Wells REF, Wells Capital and their affiliates, and in connection with these entities, for

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	providing services to us under our existing advisory, asset management and property management agreements. While Mr. Miller has extensive real estate experience and we have confidence that he will be successful in his new position as our new Chief Executive Officer and President, Mr. Miller has no prior experience as a chief executive officer of a public company. Further, Douglas P. Williams, our current Executive Vice President, Secretary, Treasurer and a director, and Randall D. Fretz, our current Senior Vice President, have advised our Board that they intend to resign their respective positions as our executive officers effective as of the closing of the Internalization Transaction. See Proposal I The Internalization Proposal Description of the Internalization Transaction Employment Agreements.
Our Board Following Internalization	Effective on February 2, 2007, Mr. Miller was elected as a member of our Board. In addition, in connection with the Board approving the Internalization Transaction, members of the Board agreed to take several actions to avoid having directors (other than Leo F. Wells, III) serve on both our Board and a board of directors of a Wells REF related entity that may compete with us, three of our Independent Directors, Richard W. Carpenter, Bud Carter and Neil H. Strickland, and Douglas P. Williams, each of whom also serves on the board of directors of Wells REIT II, have agreed to resign as our directors, effective and conditioned upon the closing of the Internalization Transaction, and Donald S. Moss and W. Wayne Woody, two of our Independent Directors, have agreed to resign from the board of directors of Wells REIT II, also effective and conditioned upon the closing of the Internalization Transaction. In addition, we anticipate that, at least in the short-term, Mr. Wells will remain our Chairman and a director, although upon a potential Listing, absent certain special circumstances, he has also agreed to resign as one of our directors at the time of any such potential Listing. See Proposal I The Internalization Proposal Description of the Internalization Transaction Changes to our Board and Resolution of Certain Conflicts of Interest on our Board.
Employment Agreements	Upon the execution of the Definitive Merger Agreement, we entered into an employment agreement with Donald A. Miller, CFA, and we may enter into employment agreements with other executive officers, including a new Chief Financial Officer, prior to the Closing Date. See Proposal I The Internalization Proposal Description of the Internalization Transaction Employment Agreements.

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Registration Rights Agreement	We have granted registration rights to WASI and Wells Capital, and to their permitted transferees, with respect to the registration of the shares of our common stock issued in the Internalization, which will require us, under certain circumstances, to register those shares under the Securities Act of 1933, as amended (the Securities Act). See Proposal I The Internalization Proposal Description of the Internalization Transaction Registration Rights Agreement.
Additional New Agreements with Wells REIT Affiliated Companies	The Advisor is currently a party to certain support services agreements pursuant to which the Advisor receives various support services and personnel from Wells REF and its affiliates. The Definitive Merger Agreement provides that, upon or prior to the closing of the Internalization, the Advisor will enter into new agreements, including the Transition Services Agreement and the Support Services Agreement with Wells REF, and certain other agreements.
	Pursuant to the Transition Services Agreement, we will receive certain enumerated services necessary to operate the Advisor s business until we are able to arrange to internally provide such services or to outsource such services to third-party service providers. These consist primarily of services we believe we will need to continue to obtain from Wells REF at least until a potential Listing, including primarily investor relations support services, transfer agent related services, and investor communication support.
	The Support Services Agreement with Wells REF will provide the Advisor and us with certain support services, including payroll and benefits administration services and information technology services.
	At or prior to the Closing, one of our subsidiaries will enter into the Headquarters Sublease Agreement with Wells REF which will provide us with approximately 13,000 square feet on the fifth floor of the office building located at 6200 The Corners Parkway in Norcross, Georgia, which is owned by an affiliate of, and primarily occupied by, Wells REF and its affiliates.
	The projected costs of these various agreements were taken into account in calculating the projected contribution to our earnings from the Advisor as a result of the Internalization.
	See Proposal I The Internalization Proposal Description of the Internalization Transaction Ancillary Agreements Related to Internalization.
Indemnification	In the Definitive Merger Agreement, we and Wells REF, WASI and their affiliates have agreed to indemnification obligations covering damages arising from certain matters following the Closing of the Internalization. See Proposal I The Internalization Proposal Description of the Internalization Transaction Indemnification.

Closing	The Closing will occur three business days following the satisfaction or waiver of the conditions to the Internalization set forth in the Definitive Merger Agreement (other than conditions that by their nature are to be satisfied at the closing of the Internalization), or on such other date as we and WASI may mutually agree (the Closing Date). See Proposal I The Internalization Proposal Description of the Internalization Transaction Closing.
Business of the Advisor Pending the Internalization	The Definitive Merger Agreement requires that until the Closing, subject only to specified exceptions, WASI, Wells Capital, Wells Management and Wells REF (1) shall, and shall cause the Advisor to, conduct the Advisor's business in the ordinary course consistent with past practice, (2) shall use commercially reasonable efforts to preserve substantially intact the present organization of the Advisor, (3) shall use commercially reasonable efforts to keep available the services of the present officers and employees of WASI, Wells Capital, Wells Management and Wells REF and all other persons who provide material services to us and any employees identified to provide services to us after Closing, (4) shall use commercially reasonable efforts to preserve WASI, Wells Capital, Wells Management and Wells REF's relationships with others having business dealings with them that relate to the Advisor's business, and (5) shall not and shall not cause the Advisor to engage in certain actions specified in the Definitive Merger Agreement. See Proposal I The Internalization Proposal Description of the Internalization Transaction Conduct of Business Prior to Closing.
Conditions of the Internalization	The Internalization is subject to the satisfaction or waiver on or prior to the Closing Date of certain conditions set forth in the Definitive Merger Agreement including, but not limited to, the approval by our stockholders of the Internalization Proposal, the Pre-Listing Charter Amendment Proposal, the Post-Listing Charter Amendment Proposal and the Incentive Plan Proposal. Any or all of the closing conditions to our performance obligations under the Definitive Merger Agreement may be waived by us in our sole discretion. See Proposal I The Internalization Proposal Description of the Internalization Transaction Conditions to Closing.
Termination	The Definitive Merger Agreement may be terminated at any time prior to the Closing, by mutual written consent of the parties before or after approval of the Internalization Proposal by our stockholders, or by either us or WASI and its affiliates under certain circumstances set forth in the Definitive Merger Agreement. Further, the Definitive Merger Agreement may be terminated by either us or WASI, Wells Capital, Wells Management, and Wells REF if the Closing shall not have occurred on or before August 1, 2007, although under certain circumstances, relating to our receipt of a superior offer from a third-party, we may be responsible for a payment to Wells REF of a $3.5 million termination fee if we terminate the Definitive Merger Agreement. See Proposal I The Internalization Proposal Description of the Internalization Transaction Amendment; Waiver; Assignment; Termination.

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Regulatory Matters	No material regulatory approvals or filings are required in order to effect the Internalization. See Proposal I The Internalization Proposal Description of the Internalization Transaction Regulatory Matters.
No Appraisal Rights with Respect to the Internalization	You will not be entitled to appraisal rights with respect to the Internalization. However, if you do not vote in favor of Pre-Listing Charter Amendment Proposal or the Post-Listing Charter Amendment Proposal and otherwise comply with the relevant statutory provisions of Maryland law governing appraisal rights, you may be entitled to rights of appraisal under Maryland law with respect to the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal. While we are not aware of any direct authority as to whether amendments to our Articles such as those contemplated by the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal would be deemed to substantially adversely affect your rights as a stockholder, in the event you wish to make your own determination of whether you have rights of appraisal with respect to the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal, we encourage you to consider applicable Maryland law and to consider engaging Maryland counsel. We reserve the right to challenge your determination, if any, as to whether rights of appraisal exist in connection with the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal. See Proposal I The Internalization Proposal Description of the Internalization Transaction No Appraisal Rights in Connection with the Internalization Proposal. For a discussion regarding your appraisal rights under Maryland law, see Explanation of Maryland Appraisal Rights Statute. See also **Appendix G** hereto, which sets forth the relevant statutory provisions.
U.S. Federal Income Tax Considerations	The Internalization will not result in the recognition of taxable income by us or our stockholders for U.S. federal income tax purposes and will not affect our qualification as a REIT. See Proposal I The Internalization Proposal Description of the Internalization Transaction Certain Financial and Other Information Regarding the Internalization Certain U.S. Federal Income Tax Considerations.
Accounting Treatment	We intend to account for the Internalization Transaction as the consummation of a business combination between parties with a pre-existing relationship. We intend to allocate the Internalization Consideration to identifiable tangible and intangible assets, with the remainder allocated to goodwill. No portion of the Internalization Consideration was deemed to be related to the settlement of contracts with the Advisor. See Proposal I The Internalization Proposal Description of the Internalization Transaction Certain Financial and Other Information Regarding the Internalization Accounting Treatment.

Risk Factors	There are a number of risks associated with the Internalization that you should consider before returning your proxy. See Risk Factors.
Board Recommendations	After careful consideration, including consideration of the unanimous recommendation of the Special Committee, our Board has unanimously approved (other than Messrs. Wells and Williams, who have material financial interests in the Internalization and who recused themselves from consideration of and the vote on this matter) the Definitive Merger Agreement, the Internalization and the other transactions expressly contemplated by the Definitive Merger Agreement. Our Board and the Special Committee believe that the terms of the Internalization are fair and reasonable to us and are advisable and in the best interests of us and our stockholders. See Proposal I The Internalization Proposal Recommendations of the Special Committee and Our Board of Directors. **The Board recommends that you vote FOR the Internalization Proposal (Messrs. Wells and Williams, who have a material financial interest in the Internalization, recused themselves from consideration of and the vote on this matter).**
	Our Board and the Special Committee deemed it advisable and in the best interests of us and our stockholders to approve the Pre-Listing Charter Amendment Proposal, and our Board has recommended it to our stockholders for their approval. **Our Board unanimously approved the form of the Pre-Listing Restated Articles and recommends that you vote FOR the Pre-Listing Charter Amendment Proposal.**
	Our Board and the Special Committee deemed it advisable and in the best interests of us and our stockholders to approve the Post-Listing Charter Amendment Proposal, and our Board has recommended it to our stockholders for their approval. **Our Board unanimously approved the form of the Post-Listing Restated Articles and recommends that you vote FOR the Post-Listing Charter Amendment Proposal.**
	Our Board has determined it advisable and in the best interests of us and our stockholders to approve the Incentive Plan Proposal, and our Board has recommended it to our stockholders for their approval. **Our Board unanimously approved the form of the 2007 Omnibus Incentive Plan and recommends that you vote FOR the Incentive Plan Proposal.**

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RISK FACTORS

This proxy statement contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, statements regarding our near-term objectives and long-term strategies, the expected Closing and certain other transactions, the possible effects of the adoption or failure to adopt the Pre-Listing Charter Amendment Proposal or the Post-Listing Charter Amendment Proposal, the anticipated benefits of the Internalization, our ability to hire executive officers, the potential Listing of our common stock, expectations of short-term and long-term liquidity requirements and needs, future stock redemptions, the declaration or payment of distributions, stock issuances under our distribution reinvestment plan (the DRP) and other statements that are not historical facts, and/or statements containing words such as anticipate(s), expect(s), intend(s), plan(s), target(s), project(s), will, believe(s), may, woul estimate(s) and similar expressions. These statements are based on management s current expectations, beliefs and assumptions and are subject to a number of known and unknown risks, uncertainties and other factors that could lead to actual results materially different from those described in the forward-looking statements. We can give no assurance that our expectations will be attained. Factors that could adversely affect our operations and prospects or which could cause actual results to differ materially from our expectations include, but are not limited to:

changes in local and national real estate market conditions and general economic conditions, including extended U.S. military combat operations abroad, the occurrence of or potential for terrorist attacks and the occurrence or perceived likelihood of the occurrence of contagious diseases or pandemics;

availability of capital from short-term borrowings or future equity offerings;

our ability to obtain additional long-term financing on satisfactory terms;

changes in interest rates and financial and capital markets;

our ability to continue to identify and acquire suitable investments;

our ability to consummate the transactions contemplated under the Definitive Merger Agreement, or other existing and future agreements;

failure of closing conditions to be satisfied and/or to secure certain third-party consents in connection with certain transactions;

changes in the structure of pending transactions;

whether the Pre-Listing Charter Amendment Proposal, Post-Listing Charter Amendment Proposal and the Internalization Proposal are approved by our stockholders and whether the Internalization is consummated;

legislative or regulation developments that could have the effect of delaying or preventing the Internalization;

the effect of the announcement of the Internalization on our existing relationships, operating results and business generally;

our ability to successfully operate as an internally advised or self-advised REIT;

our ability to retain our employees or employees of the Advisor;

our ability to List;

changes in valuations of publicly traded REIT securities, if we are able to List;

changes in generally accepted accounting principles, policies and guidelines and/or their application to us;

our ability to continue to qualify as a REIT and to make payments which are necessary, including distributions to our stockholders, to maintain such qualification;

legislative or regulatory changes, including changes to laws governing the taxation of REITs;

- such other risk factors as may be discussed herein and in other reports on file or subsequently filed with the SEC, including Item 1A. Risk Factors in our Annual Report on Form 10-K for our fiscal year ended December 31, 2005. See Where can I find more information about you? on page 14; and

- additional risks and uncertainties not presently known to us or that we currently deem immaterial.

Such forward-looking statements speak only as of the date of this proxy statement. We expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based, except as required by law.

Certain of our current and future directors and officers have potential conflicts of interest due to their financial interests in the Internalization.

All of our current executive officers and certain of our directors have material financial interests in the Internalization. In particular, Messrs. Wells, Williams and Fretz are also officers and members of the Advisor or its affiliates and, through their ownership of membership interests in WASI, own indirect economic interests in WREAS and WGS. Messrs. Wells, Williams and Fretz will collectively receive beneficial economic interests in approximately 18,373,524 shares of our common stock as a result of the Internalization. Mr. Wells will receive an indirect beneficial economic interest in our stock through his ownership of Wells REF, which is the sole shareholder of Wells Capital and Wells Management, which together own in the aggregate approximately 92% of the economic interests in WASI. Messrs. Williams and Fretz will each receive a beneficial economic interest in approximately 195,463 shares of our common stock through each of their individual approximately 1% economic ownership interest in WASI. Further, Donald A. Miller, CFA, our new Chief Executive Officer and President, and another individual currently affiliated with Wells REF who may become one of our executive officers, will each receive a beneficial economic interest in approximately 195,463 shares of our common stock through their individual approximately 1% economic ownership interests in WASI. In addition, as part of the Internalization, Wells Capital, a wholly-owned subsidiary of Wells REF, which is wholly-owned by Mr. Wells, will exchange its 20,000 limited partnership units of Wells OP for an additional 22,339 shares of our common stock.

Our new Chief Executive Officer will be subject to certain conflicts of interest with regard to enforcing the indemnification provisions contained in the Definitive Merger Agreement and enforcing some of the ancillary agreements to be entered into by us in connection with the Internalization Transaction.

As discussed throughout this proxy statement, Donald A. Miller, CFA, our new Chief Executive Officer, President and a director, will receive a beneficial economic interest in our common stock through his approximately 1% ownership interest in WASI, which will receive 19,546,302 in shares of our common stock (valued at approximately $175 million) as a result of the Internalization Transaction. Certain provisions of the Definitive Merger Agreement and many of the ancillary agreements which will be executed in connection with the Internalization Transaction have significant financial impacts on WASI. In particular, Mr. Miller will be subject to conflicts of interest in connection with the enforcement against WASI of indemnification obligations under the Definitive Merger Agreement, the enforcement of the Pledge and Security Agreement, and the release of escrowed shares of our common stock issued to WASI under the Escrow Agreement, each of which could have a negative effect on the number of shares actually issued to WASI in the Internalization Transaction and, accordingly, the number of shares in which Mr. Miller will have an economic interest and, thus, directly impact his personal financial interests.

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Future sales of shares of our Common Stock by the owners of the Advisor may adversely affect the fair market value of our shares of Common Stock.

While the shares WASI acquires in the Internalization as Internalization Consideration will be subject to a lock-up provision pursuant to the terms of the Pledge and Security Agreement, sales of a substantial number of shares of our common stock by the owners of the Advisor after the expiration of the lock-up period, or the perception that these sales could occur, could adversely affect the prices of our common stock if a Listing has occurred. In addition, these sales might make it more difficult for us to sell equity securities in the future at a time and price we deem appropriate.

Leo F. Wells, III will face conflicts of interest relating to the positions he holds with entities affiliated with Wells REF.

Leo F. Wells, III, our former President and current Chairman and director, who we anticipate will remain as our Chairman and one of our directors at least through a possible Listing, is also an executive officer and the chairman of the board of directors of Wells REIT II, Institutional REIT, Inc., and Wells Timberland REIT, Inc. As such, Mr. Wells owes fiduciary duties to these entities and their stockholders. Such fiduciary duties may from time to time conflict with the fiduciary duties owed to us and our stockholders. Therefore, Mr. Wells could take actions that are more favorable to these other entities than to us. Some of such conflicts may include the following:

- decisions to purchase or sell certain properties which may also be purchased or sold by Wells REIT II or Institutional REIT, Inc.

- decisions related to properties we may own in the same geographic areas as those owned by Wells REIT II or Institutional REIT, Inc. In those cases, a conflict could arise in the leasing of properties if we and these entities were to compete for the same tenants in negotiating leases, or a conflict could arise in connection with the resale of properties in the event that we and these entities were to attempt to sell similar properties at the same time.

- decisions to enter into transactions with Wells REIT II or Institutional REIT, Inc., such as property acquisitions, joint ventures or financing arrangements.

- decisions regarding the timing of property sales could be influenced by concerns that the sales would compete with those of Wells REIT II or Institutional REIT, Inc.

- decisions regarding the timing of an offering of our common stock which could be influenced by concerns that the offering would compete with an offering of Wells REIT II, Institutional REIT, Inc. or Wells Timberland REIT, Inc.

See Proposal I The Internalization Proposal Description of the Internalization Transaction Changes to our Board and Resolution of Certain Conflicts of Interest on our Board.

Leo F. Wells, III and our other directors will face competing demands on their time relating to the positions they hold with other entities affiliated with Wells REF.

As discussed above, Leo F. Wells, III, is also an executive officer and the chairman of the board of directors of Wells REIT II, Institutional REIT, Inc., and Wells Timberland REIT, Inc. Mr. Wells also holds positions in various affiliates of Wells REF. Specifically, Mr. Wells is also the sole stockholder, sole director, President and Treasurer of Wells REF, which, through Wells Capital and other affiliates, provides advisory services to Wells REIT II, Institutional REIT, Inc., and Wells Timberland REIT, Inc. and has sponsored and/or serves as general partner of 15 public real estate limited partnerships and various private real estate programs. Mr. Wells is also the sole director, President and Treasurer of both Wells Management and Wells Capital. In addition, Donald S. Moss, one of our Independent Directors, is also a director of Wells Timberland REIT, Inc., and all of our current Independent Directors and Mr. Wells are trustees of the Wells Family of Real Estate Funds, an open-end management company organized as an Ohio business trust, which includes as one of its series the Wells S&P REIT Index Fund. As such, all of these individuals have competing demands on their time and will not devote their full attention to us.

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After Internalization, we may have to compete with Wells REF and its affiliates for properties and tenants.

We have not and will not enter into any non-competition agreements with Wells REF or any of its affiliates in connection with the Internalization. Currently, Wells REF and its affiliates sponsor several public and private real estate programs, many of which invest in commercial properties similar to the properties in which we currently invest, or in which we may invest in the future. Therefore, due to the lack of any non-competition agreements, Wells REF and its affiliates may compete freely with us for certain properties or certain tenants at properties, which may have an adverse effect on our operating results, or may adversely affect the value of our shares if we List our shares in the future.

We may continue to invest with affiliates of Wells REF.

We have in the past invested in joint ventures with other programs sponsored by affiliates of Wells REF and currently own a number of properties in joint ventures with programs sponsored by affiliates of Wells REF. We may continue to invest in joint ventures with other programs sponsored by affiliates of Wells REF following the Internalization.

Our net income per share and FFO per share may decrease in the near term as a result of the Internalization.

Our net income and funds from operation (FFO) may decrease as a result of the Internalization. While we will no longer bear the costs of the various fees and expense reimbursements previously paid to our external advisors if and after we become self-advised, our expenses will include the compensation and benefits of our officers, employees and consultants, as well as overhead previously paid by our external advisors or their affiliates. Furthermore, these employees will be providing us services historically provided by our external advisors. There are no assurances that, following the Internalization Transaction, we will be able to provide those services at the same level or for the same costs as were previously provided to us under the Asset Management Advisory Agreement, the Acquisition Advisory Agreement and the Master Property Management Agreement, and there may be unforeseen costs, expenses and difficulties associated with providing those services on a self-advised basis. If the expenses we assume as a result of the Internalization are higher than we anticipate, our net income and FFO may be lower as a result of the Internalization than it otherwise would have been. In addition, 19,546,302 shares of our common stock will be issued as consideration for the Internalization and 22,339 shares of our common stock will be issued in exchange for Wells Capital s 20,000 limited partnership units in Wells OP in connection with the Internalization, thereby increasing the number of our outstanding shares of common stock by 19,586,641, and potentially causing our net income per share and FFO per share to decrease.

We may be exposed to risks to which we have not historically been exposed.

The Internalization will expose us to risks to which we have not historically been exposed. Excluding the effect of the eliminated asset management fees, our direct overhead, on a consolidated basis, will increase as a result of becoming self-advised. Under the current Acquisition Advisory Agreement, the Asset Management Advisory Agreement and the Master Property Management Agreement, the responsibility for such overhead is borne by the Advisor and its affiliates. In our current externally-advised structure, we do not directly employ any employees. As a result of the Internalization, we will directly employ persons who are currently associated with the Advisor or its affiliates and others currently employed by unaffiliated companies and will establish a new defined contribution retirement plan for our employees. We currently anticipate that we will have approximately 100 to 110 employees following the Internalization. As their employer, we will be subject to those potential liabilities that are commonly faced by employers, such as workers disability and compensation claims, potential labor disputes and other employee-related liabilities and grievances and we will bear the costs of the establishment and maintenance of such plans. Furthermore, these employees will be providing us services historically provided by our external Advisor with the support of the Support Services Agreement and the Transition Services Agreement. There are no assurances that the Advisor we will be acquiring in the Internalization, its management or employees will be able to provide us with the same level of services when we are self-advised as were previously provided to us under the Asset Management Advisory Agreement, the Acquisition Advisory Agreement and the Master Property Management Agreement, and there may be unforeseen costs, expenses and difficulties associated with the internalized Advisor providing services to us.

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We have not yet hired all of our executive officers, including our Chief Financial Officer, and there is no assurance we will be able hire these individuals in the near future.

We have currently only hired one of our top executive officers who will run our day-to-day operations if the Internalization is approved. The only executive officer we have hired to date is Donald A. Miller, CFA, who is our new Chief Executive Officer, President and a member of our Board. Although the Advisor we are acquiring is obligated under the Definitive Merger Agreement to hire certain individuals who will become our employees as a result of the Internalization and our compensation committee is in preliminary negotiations with certain individuals, we have not yet hired any other of our executive officers including our Chief Financial Officer. If we fail to hire qualified individuals for these key positions prior to the Closing Date, our operations and financial results could suffer. We can not assure you that we will be able to hire such individuals prior to or immediately after the Closing Date. Additionally, if we are unable to hire, or delayed in hiring, qualified individuals for these positions, it may delay our ability to List our common stock in the future.

After the Internalization, we will be dependent on our own executive officers and employees.

We will rely on a small number of persons, particularly Donald A. Miller, CFA, to carry out our business and investment strategies. Any of our senior management, including Mr. Miller, may cease to provide services to us at any time. In addition, Leo F. Wells, III, has resigned as our President, and Douglas P. Williams, our current Executive Vice President, Secretary, Treasurer and a director, and Randall D. Fretz, our current Senior Vice President, have advised our Board that they intend to resign their executive officer positions effective as of the closing of the Internalization Transaction. Therefore, none of our previous executive officers will remain involved in the day-to-day operations of Wells REIT after Internalization. The loss of the services of any of our key management personnel, or our inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business and financial results. As we expand, we will continue to need to try to attract and retain qualified additional senior management, but may not be able to do so on acceptable terms.

The failure of our stockholders to approve the Incentive Plan Proposal could have a material adverse effect on our business and financial results.

We have entered into an employment agreement with Donald A. Miller, CFA, our Chief Executive Officer and President, and may enter into the employment agreements with other individuals associated with the Advisor or its affiliates and others that we may hire. Such employment agreements will be with persons who will constitute our senior management following the Internalization. Our employment agreement with Mr. Miller does, and we anticipate that these other agreements will, provide, among other things, for incentive compensation awards and target bonuses that will be paid pursuant to the 2007 Omnibus Incentive Plan if such plan is approved. If the 2007 Omnibus Incentive Plan or a similar plan is not approved by our stockholders, and we do not otherwise provide bonuses and other equity based incentive awards to Mr. Miller or other members of our management team with whom we may enter into employment agreements in the future, Mr. Miller will be entitled to terminate his employment agreement and other such executives may be entitled to terminate their respective agreements. Further, if the 2007 Omnibus Incentive Plan is not approved by our stockholders, it could materially adversely affect us because we could be deprived of the services of our senior management and the ability to provide the incentives necessary to attract qualified replacements and other personnel.

The share price of $8.9531 agreed to by the parties to the Definitive Merger Agreement in their negotiation of the terms of the Internalization may not reflect the fair market value of our shares of common stock.

We recently engaged an independent appraisal firm to perform a valuation of our properties as of September 30, 2006. As a result of this valuation, our Board determined that the estimated net asset value of our shares of common stock, based primarily on the estimated net asset value of our real estate portfolio, was $8.93 per share. The $8.93 estimated net asset value per share was provided by an independent third party which based its estimate upon (1) the appraised value of our real estate assets as of September 30, 2006, and (2) consideration of the current value of our other assets and liabilities as of September 30, 2006 (including the contingent liability for the subordinated disposition fee described below). This estimated net asset value per share is only an estimate, and is based upon a number of assumptions and estimates, which may not be accurate or complete. There were no liquidity discounts applied to this estimated valuation or discounts relating to the fact that we are currently externally managed, and no attempt was made to value the Company as an enterprise. Further, this should not be viewed as the amount a stockholder would receive in the event that we were to list our shares in the future or to liquidate our assets and distribute the proceeds to our stockholders since, among other things, this valuation was not reduced by potential real estate brokerage commissions or other costs of sale. As described elsewhere in this proxy statement, the Special Committee negotiated the amount of the Internalization consideration by negotiating an aggregate price expressed in dollars ($175 million) and agreeing to use the September 30, 2006 estimated net asset valuation as a basis for determining the number of shares that would represent $175 million in value; however, since the estimated net asset valuation took into account an approximately $12.4 million subordinated disposition fee otherwise payable to the Advisor upon a liquidation of our properties at their September 30, 2006 appraised values, and the obligation to pay this contingent liability would be extinguished upon the acquisition of the Advisor, the parties agreed in the Definitive Merger Agreement to use a per-share value of $8.9531 (calculated by excluding the potential liability for the subordinated disposition fee) to determine the amount of shares paid as Internalization Consideration and to Wells Capital in the Internalization Transaction. Since at present there is no active trading market for our shares of common stock, there is no objective way to precisely value the shares that WASI will receive in the Internalization. If we complete a Listing in the future, the prices at which our common stock trade following the Listing will provide a more objective indication of the value of each share received by WASI. If the fair market value of the 19,546,302 shares to be received by WASI in the Internalization turns out to be greater than $8.9531 per share, WASI will have received consideration worth more than $175 million for the Internalization. Conversely, if the fair market value of those shares turns out to be less than $8.9531 per share, WASI will have received consideration worth less than $175 million. Neither party has the right to terminate the Definitive Merger Agreement due to any change in the fair market value of our common stock. If we pursue and complete a Listing, our common stock may trade in the public market at prices higher or lower than $8.9531 per share.

Our organizational documents contain provisions which may discourage a takeover of us and could depress the price of our shares of Common Stock.

Our organizational documents contain provisions which may discourage a takeover of us and could depress the price of our common stock. Upon completion of the Internalization, approval and implementation of the Post-Listing Charter Amendment Proposal and the implementation of anticipated amendments to our existing Bylaws, our organizational documents will contain provisions which may have an anti-takeover effect, inhibit a change of our management, or inhibit in certain circumstances tender offers for our common stock or proxy contests to change our Board. These provisions include: directors may only be removed for cause; the stockholders are restricted from altering the number of directors; ownership limits and restrictions on transferability that are intended to enable us to continue to qualify as a REIT; broad discretion to our Board to take action, without stockholder approval, to issue new classes of securities that may discourage a third party from acquiring us; the ability, through board action or bylaw amendment to opt-in to certain provisions of Maryland law that may impede efforts to effect a change in control of us; advance notice requirements for stockholder proposals and stockholder nominations of directors; and the absence of cumulative voting rights. In addition, the employment agreement with Donald A. Miller, CFA, contains, and the terms of other of our employment agreements and grants under the 2007 Omnibus Incentive Plan may contain, change-in-control provisions that might similarly have an anti-takeover effect, inhibit a change of our management, or inhibit in certain circumstances tender offers for our common stock or proxy contests to change our Board.

We may not be successful in executing potential growth strategies or other investment or operational strategies.

As set forth in the Proposal I The Internalization Proposal Negotiation of the Internalization Transaction section of this proxy statement, at a meeting of our Independent Directors held on January 31, 2007, certain representatives of Wells REF made a presentation involving, among other things, certain growth strategies following the Internalization Transaction, including the strategy of establishing property management offices, proposals to increase our leverage and to engage in significant property acquisitions, strategies involving engaging in certain joint venture transactions, and other growth strategies over the next few years, as well as other potential investment and operational strategies. Incurring increased levels of debt will result in increased interest expenses which could increase the risk

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associated with our real estate portfolio. In addition, there are no assurances that we will be able to successfully execute strategies relating to additional property acquisitions, other growth strategies or other investment or operational strategies following Internalization.

We may not maintain our current level of dividends.

There are many factors that can affect the availability and timing of dividends to our stockholders, including but not limited to, the availability of cash flows from operations, our short-term and long-term liquidity requirements and needs, the level of reserves we establish for future capital expenditures, as well as the impact of pursuing potential growth strategies or other investment or operational strategies as described above. Further, if we List our common stock in the future, our board of directors would also consider additional factors in determining the amount and timing of dividends, such as the level of dividends paid by comparable Listed REITs. If we List our common stock, we believe it is probable that our dividend policy would change, likely resulting in the establishment of additional reserves for capital improvements and a reduction in our dividends consistent with dividends paid by comparable Listed REITs. However, the amount of this change is indeterminable at this time. In addition, there is no assurance that we would not decide to establish additional reserves for capital improvements or otherwise reduce our current level of dividends in the event we determine not to implement a Listing. For these reasons, among others, we may not maintain our current level of dividends.

The Internalization may have a negative effect on our REIT status for tax purposes.

In order to maintain our status as a REIT for federal income tax purposes, we are not permitted to have current or accumulated earnings and profits carried over from the Advisor. Under the Definitive Merger Agreement, WREAS and WGS have agreed that, prior to the execution of the Definitive Merger Agreement, each will adopt resolutions declaring dividends to WASI so as to ensure that WREAS and WGS do not have any current or accumulated earnings and profits (as determined for federal income tax purposes) as of the Closing Date and that such dividends shall be paid prior to the Closing Date. Additionally, it is a condition of closing that we, WREAS and WGS receive written comfort from our accountants that neither WREAS nor WGS will have any current or accumulated earnings and profits as of the Closing Date of the Internalization. Nevertheless, if the IRS were to successfully assert that we did acquire current or accumulated earnings and profits from the Advisor and failed to distribute, during our taxable year in which the Internalization occurs, all of such earnings and profits, we would lose our REIT qualification for the year of the Internalization, any other taxable years during which we held such acquired earnings and profits and the four taxable years following any such year, unless, in the year of such determination, we make an additional distribution of the amount of earnings and profits determined to be acquired from the Advisor plus any required interest charge. In order to make such an additional distribution, we could be required to borrow funds or sell assets even if prevailing market conditions were not generally favorable.

In addition, as described in the Certain U.S. Federal Income Tax Considerations section of this proxy statement, it is not entirely clear how the assets to be acquired from the Advisor in the proposed Internalization will be classified for purposes of the Asset Tests and Income Tests applicable for REIT qualification purposes. For any taxable year that we fail to qualify as a REIT for any reason, we would not be entitled to a deduction for dividends paid to our stockholders in calculating our taxable income. Consequently, our net assets, our earnings, and our distributions to our stockholders would be substantially reduced because of our increased tax liability.

If the Internalization is approved by our stockholders, we may face additional risks and costs associated with directly managing properties with government tenants.

We currently own nine properties where some or all of the tenants at such properties are federal government agencies. Because federal government agencies are the tenants at these properties, the lease agreements contain certain provisions required by federal law. The provisions of these leases require, among other things, that the contractor, which is the lessor or the owner of the property, agree to comply with certain rules and regulations, including but not limited to, rules and regulations related to anti-kickback procedures, examination of records, audits and records, equal opportunity provisions, prohibition against segregated facilities, certain executive orders, subcontractor cost or pricing data, and certain provisions intending to assist small businesses. Six of these properties are currently being managed by WGS,

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which is currently a wholly-owned subsidiary of WASI. As part of the Internalization, we will acquire WGS, which will be merged into and become WGS Acquisition, our wholly-owned subsidiary. As a result, after Internalization, we, through our wholly-owned subsidiary, will be directly managing these properties having federal government agencies as tenants. As a direct manager for these properties, we will be subject to additional risks associated with compliance with all such federal rules and regulations. In addition, there are certain additional requirements relating to the potential application of certain equal opportunity provisions and the related requirement to prepare written affirmative action plans applicable to government contractors and subcontractors. Some of the factors used to determine whether such requirements apply to a company which is affiliated with the actual government contractor, the legal entity which is the lessor under a lease with a federal government agency, include whether such company and the government contractor are under common ownership, have common management and are under common control. Prior to the Internalization, the entities which were the lessors under these leases with federal government agencies, the government contractor in each case, were our wholly-owned subsidiaries and, as set forth above, the leasing of these properties was being handled by WGS, which was not under common ownership, common management or common control with us or our wholly-owned subsidiaries; however, after Internalization, we will own both the entities which are the government contractors and the property manager, WGS, increasing the risk that such equal opportunity requirements and requirements to prepare affirmative action plans pursuant to the applicable executive order may be determined to be applicable to us.

SELECTED FINANCIAL DATA OF THE ADVISOR

As set forth elsewhere in this proxy statement, when we refer to the Advisor, we are referring to WREAS and WGS and their predecessors, as applicable, including those portions of the operations of WASI, Wells Management and Wells Capital, which previously provided advisory and management services to us under the Asset Management Advisory Agreement, the Acquisition Advisory Agreement and the Master Property Management Agreement. Please read the following selected financial data of the Advisor in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of the Advisor and the financial statements and related notes of the Advisor included elsewhere in this proxy statement (in thousands, except for share data):

The following table sets forth selected financial data relating to the Advisor s historical financial condition and results of operations for the years ended December 31, 2005, 2004, 2003, 2002 and 2001, and for the nine months ended September 30, 2006. Please read the following selected financial data of the Advisor in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of the Advisor and the Advisor s (1) unaudited balance sheet as of September 30, 2006, and the related unaudited statements of income, changes in owner s deficit, and cash flows for the nine months then ended, together with the related notes thereto, (2) audited balance sheet as of December 31, 2005, and the related audited statements of income, changes in owner s deficit, and cash flows for the year then ended, together with the related notes thereto, and (3) unaudited balance sheets as of December 31, 2004 and 2003, and the related unaudited statements of income, changes in owner s deficit, and cash flows for the years then ended, together with the related notes thereto, in each case included elsewhere in this proxy statement.

	(thousands) For the Nine Months Ended September 30,	(thousands) For the Years Ended December 31,				
	2006	2005	2004	2003	2002	2001
Total assets	$ 912	$ 2,752	$ 3,302	$ 32,520	$ 15,975	$ 2,166
Owner s equity (deficit)	$ (6,125)	$ (5,317)	$ (6,741)	$ (1,811)	$ (2,430)	$ (4,316)
Total revenues	$ 25,157	$ 35,263	$ 36,829	$ 127,432	$ 73,687	$ 31,079
Net income	$ 9,247	$ 11,606	$ 14,314	$ 54,636	$ 29,290	$ 10,317
Cash flows from operations	$ 10,055	$ 10,182	$ 19,244	$ 54,017	$ 27,404	$ 14,633
Cash flows used in financing activities	$ (10,055)	$ (10,182)	$ (19,244)	$ (54,017)	$ (27,404)	$ (14,633)

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE ADVISOR

The management s discussion and analysis of financial condition and results operations of the Advisor consists of analyses and comparisons of the operating results of the Advisor for the nine months ended September 30, 2006, and the years ended December 31, 2005, 2004 and 2003.

The following discussion and analysis of the Advisor s financial condition and results of operations should be read in conjunction with Selected Financial Data of the Advisor and the audited financial statements and notes thereto. This discussion and analysis contains certain forward-looking statements. When used in this discussion and analysis, the words may, will, expect, anticipate, continue, estimate, proje intend, believe, and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. There are various factors that could cause actual results to differ materially from those which are expressed in, or implied by such forward-looking statements. Such factors include, but are not limited to, changes in general economic conditions, changes in real estate conditions, changes in our ability to acquire and lease properties on favorable terms and changes in our ability to satisfy fees and expense reimbursements due to the Advisor. Readers of this report are cautioned to consider these uncertainties in connection with all forward-looking statements.

Overview

The Advisor provides various services to us, including acquisition services, asset and property management services and other services related to raising capital in our public equity offerings. We are considered an affiliate of the Advisor, as certain of our officers and directors also serve as officers of and/or own interests in WREAS, Wells Management or Wells Capital. The Advisor s success depends upon its ability to continue its relationship with us and therefore, ultimately, the Advisor s success is dependent on our success. Due to the Advisor s dependence on us, the general trends of real estate prices and costs will have a natural bearing on the Advisor s ability to generate revenue and cash flows.

Critical Accounting Policies

General

The discussion and analysis of the Advisor s financial condition and results of operations is based upon its financial statements, which have been prepared in accordance with United States generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosures. These estimates are based on judgment and historical experience, and are believed to be reasonable based on current circumstances. The Advisor s management evaluates these estimates and assumptions on an ongoing basis.

While management of the Advisor does not believe that the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates under different assumptions or conditions. The following represent certain critical accounting policies that require the use of business judgment or significant estimates to be made.

Revenue Recognition

Revenues primarily include fees earned for providing asset management services and acquisition and advisory services to us. Asset management fees are earned as services are performed and are calculated as a percentage of the fair market value of all properties owned directly by us and of our interest in properties held through joint ventures. Acquisition and advisory fees are earned as we raise capital based on a percentage of gross equity proceeds raised for services related to investing those capital proceeds in real estate assets.

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In addition, the Advisor earns reimbursement income for certain general and administrative costs and organization and offering costs paid on behalf of us, subject to certain limitations. The Advisor charges us for reimbursements of administrative costs based on management s estimate of the time spent and services used by us. In the opinion of management, these allocations provide a reasonable estimate of such expenses. The Advisor earns organization and offering cost reimbursements as capital is raised equal to the lesser of 3% of gross offering proceeds or actual costs incurred.

Liquidity and Capital Resources

Management expects that the Advisor s principal source of working capital and funding for distributions to owners will be cash flow provided by operations, including amounts due from affiliates. Over the short-term, management believes that this source of capital will continue to be adequate to meet the Advisor s liquidity requirements and capital commitments. These liquidity and capital requirements and commitments primarily include operating expenses associated with the Asset Management Advisory Agreement, Acquisition Advisory Agreement and Master Property Management Agreement.

Cash Flows for the Nine Months Ended September 30, 2006

The Advisor generated operating cash flows of approximately $10.1 million during the nine months ended September 30, 2006 due to generating revenues in excess of expenses during this period as is further explained in the Results of Operations section below for this period.

Cash Flows for the Year Ended December 31, 2005

The Advisor generated operating cash flows of approximately $10.2 million during the year ended December 31, 2005 due to generating revenues in excess of expenses during this period as is further explained in the Results of Operations section below for this period.

Cash Flows for the Year Ended December 31, 2004

The Advisor generated operating cash flows of approximately $19.2 million during the year ended December 31, 2004 due to generating revenues in excess of expenses during this period as is further explained in the Results of Operations section below for this period.

Cash Flows for the Year Ended December 31, 2003

The Advisor generated operating cash flows of approximately $54.0 million during the year ended December 31, 2003 due to generating revenues in excess of expenses during this period as is further explained in the Results of Operations section below for this period.

Results of Operations

Comparison of Nine Months Ended September 30, 2006 to the Year Ended December 31, 2005

The Advisor earned total revenues of approximately $25.2 million for the nine months ended September 30, 2006, primarily related to asset and property management fees of approximately $18.1 million (or 72.1% of total revenues), salaries and benefits reimbursements of approximately $5.5 million (or 21.8% of total revenues), and acquisition and advisory fees of approximately $1.3 million (or 5.3% of total revenues). The Advisor earned total revenues of approximately $35.3 million for the year ended December 31, 2005, primarily related to asset and property management fees of approximately $22.5 million (or 63.7% of total revenues), salaries and benefits reimbursements of approximately

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$8.7 million (or 24.6% of total revenues), and acquisition and advisory fees of approximately $3.3 million (or 9.4% of total revenues). The percentage of total revenues represented by asset and property management fees increased during the nine months ended September 30, 2006, as compared to the year ended December 31, 2005, primarily as a result of eliminating acquisition and advisory fees payable in connection with sales of our common stock pursuant to our dividend reinvestment plan beginning in July 2006.

The Advisor incurred total expenses of approximately $10.1 million for the nine months ended September 30, 2006, primarily related to salaries, bonuses and benefits of approximately $7.7 million (or 75.9% of total expenses) and general and administrative expenses of approximately $2.4 million (or 24.1% of total expenses). The Advisor incurred total expenses of approximately $16.4 million for the year ended December 31, 2005, primarily related to salaries, bonuses and benefits of approximately $12.3 million (or 75.2% of total expenses) and general and administrative expenses of approximately $4.1 million (or 24.8% of total expenses). As compared to the year ended December 31, 2005, the Advisor incurred less salaries, bonuses and benefits during the nine months ended September 30, 2006 on an annualized basis, primarily as a result of declaring and paying bonuses semi-annually and, as a result, recognizing bonuses for 12 months during the year ended December 31, 2006, as compared to recognizing bonuses for six months during the nine months ended September 30, 2006.

Comparison of Year Ended December 31, 2005 to the Year Ended December 31, 2004

The Advisor s total revenues decreased from approximately $36.8 million for the year ended December 31, 2004 to approximately $35.3 million for the year ended December 31, 2005, primarily due to earning less in asset and property management fees as a result of changing the terms under which such fees are calculated from a percentage of our revenues in 2004 to a percentage of the estimated fair market value of our properties in 2005, and the decrease in the size of our portfolio following the April 2005 27-property sale.

The Advisor s total expenses increased from approximately $13.5 million for the year ended December 31, 2004 to approximately $16.4 million for the year ended December 31, 2005, primarily due to declaring and paying bonuses of approximately $3.2 million during 2005, as compared to $0 during 2004, partially offset by a decrease in salary and benefits expenses of approximately $0.4 million commensurate with the decrease in the size of our real estate portfolio following the April 2005 27-property sale.

Comparison of Year Ended December 31, 2004 to the Year Ended December 31, 2003

The Advisor s total revenues decreased from approximately $127.4 million for the year ended December 31, 2003 to approximately $36.8 million for the year ended December 31, 2004, primarily due to earning approximately $83.5 million less in acquisition and advisory fees and approximately $21.1 million less in organization and offering cost reimbursements as a result of the closing of our public equity offering at the end of 2003, partially offset by earning additional asset and property management fees of approximately $9.8 million as a result of acquiring and placing additional properties into service during 2003 and 2004.

The Advisor s total expenses decreased from approximately $38.5 million for the year ended December 31, 2003 to approximately $13.5 million for the year ended December 31, 2004, primarily due to incurring approximately $21.1 million less in organization and offering costs and approximately $3.9 million less in salaries, bonuses and benefits as a result of the closing of our public equity offering at the end of 2003.

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COMPARATIVE PER-SHARE DATA OF THE COMPANY AND THE ADVISOR

The following tabulation reflects (a) the historical net income or (loss) from continuing operations and book value per share of our common stock in comparison with the pro forma net income or (loss) from continuing operations and book value per share after giving effect to the property acquisitions and dispositions and the Internalization, as described on pages F-4 through F-7; (b) the historical net income or (loss) from continuing operations in comparison with the equivalent pro forma net income or (loss) from continuing operations and book value per share attributable to 19,546,302 shares of our common stock (the aggregate number of shares of our common stock into which the shares of common stock of WREAS and WGS will be converted in the Internalization based on the per-share price) (the Conversion Ratio); and (c) the actual cash dividends per share compared with the equivalent pro forma of the cash dividend paid based on the Conversion Ratio. The information presented in this tabulation should be read in conjunction with the pro forma consolidated financial statements and the separate financial statements of the respective companies and the notes thereto included elsewhere in this proxy statement (in thousands, except per-share amounts).

	Nine Months Ended September 30, 2006	Year Ended December 31, 2005
Wells REIT:		
Net Income		
Historical	$ 0.20	$ 0.30
Pro Forma	$ 0.21	$ 0.27
Distributions		
Historical	$ 0.44	$ 0.61
Pro Forma	$ 0.44	$ 0.61
Book Value		
Historical	$ 6.27	$ 6.41
Pro Forma	$ 6.41	$ 6.34
The Advisor:		
Net Income		
Historical	$ 4,624	$ 5,803
Pro Forma	$ 2,052	$ 2,639
Distributions		
Historical	$ 5,028	$ 5,091
Pro Forma	$ 4,300	$ 5,962
Book Value		
Historical	$ (3,063)	$ (2,659)
Pro Forma	$ 62,604	$ 61,994

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PROPOSAL I:

THE INTERNALIZATION PROPOSAL

Our Company

Wells Real Estate Investment Trust, Inc. (Wells REIT or Company) is a Maryland corporation formed on July 3, 1997, which commenced active operations on June 5, 1998 and which qualifies as a real estate investment trust (REIT) for federal income tax purposes. Substantially all of our business is conducted through our operating partnership, Wells Operating Partnership, L.P. (Wells OP), a Delaware limited partnership, or subsidiaries of Wells OP. Wells REIT is the sole general partner, and Wells Capital, Inc. (Wells Capital) is currently the sole limited partner of Wells OP. Wells OP owns properties directly, through wholly owned subsidiaries, through certain joint ventures with unaffiliated parties, and through certain joint ventures with real estate limited partnerships sponsored by Wells Capital. We have a controlling interest in the unaffiliated joint ventures and, accordingly, consolidate the accounts of these entities. Conversely, we do not have a controlling interest in the joint ventures with affiliates of Wells Capital and, accordingly, do not consolidate the accounts of these entities.

We engage in the acquisition and ownership of commercial real estate properties, including properties that are under construction, newly constructed, or have operating histories. Our portfolio consists primarily of high-grade office and industrial buildings leased to large corporate tenants located throughout the United States. As of September 30, 2006, all properties currently owned by us are office buildings, warehouses, and manufacturing facilities or some combination thereof; however, we are not limited to such investments.

Our stock is not listed on a national exchange. However, our articles of incorporation currently require that we begin the process of liquidating our investments and distributing the resulting proceeds to our stockholders if our shares are not listed on a national exchange or over-the-counter market by January 30, 2008. This provision of our articles of incorporation can only be amended by a vote of our stockholders.

Ownership of Wells Capital in Wells OP

Wells Capital currently owns 20,000 limited partnership units of Wells OP for which it contributed $200,000 and which constitutes 100% of the limited partner units of Wells OP outstanding at this time. Wells Capital may not sell any of these units during the period it serves as our advisor. In connection with the Internalization Transaction, Wells Capital will exchange its 20,000 limited partnership units of Wells OP for 22,339 shares of our common stock.

Interest of our officers and directors in the Advisor and certain of its Affiliates

Two of our directors, our Chairman, Leo F. Wells, III, and Douglas P. Williams, and two of our current executive officers, Mr. Williams and Randall D. Fretz, are also executive officers of Wells Capital, one of our external advisors, and Leo F. Wells, III is an executive officer of Wells Management, another of our external advisors and our property manager. Wells Capital and Wells Management are wholly-owned subsidiaries of Wells REF. Mr. Wells, who is also one of our directors, is the sole shareholder, sole director and President of Wells REF, and the President and sole director of Wells Capital and Wells Management, our former advisors and property manager. Mr. Williams, who is also our current Executive Vice President, Secretary, Treasurer and one of our directors, is a Vice President of Wells REF and Senior Vice President of Wells Capital. Mr. Fretz, who is our current Senior Vice President, is also Vice President of Wells REF and Senior Vice President of Wells Capital. In addition, Messrs. Fretz and Williams are both executive officers and directors of Wells Investment Securities, Inc., the dealer manager of the offering of shares of our common stock.

WASI, as the sole stockholder of both WREAS and WGS, will be the recipient of the Internalization Consideration in connection with this transaction. As set forth in the Formation of Wells Real Estate Advisory Services,

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Inc. and Assignment and Valuation of the Existing Advisory and Property Management Agreements section of this proxy statement, WASI was formed on December 21, 2005 by Wells Management and Wells Capital (the majority members), along with eight executives of Wells REF (the minority members), including Douglas P. Williams, our current Executive Vice President, Secretary, Treasurer and one of our directors, Randall D. Fretz, our current Senior Vice President, Donald A. Miller, CFA, our new Chief Executive Officer, President and one of our directors, and another individual currently affiliated with Wells REF who may become one of our executive officers, with each of the minority members owning an approximately 1% economic interest in WASI.

The operating agreement of WASI allocates the shares of our common stock to be received by WASI as the Internalization Consideration approximately 92% in the aggregate to Wells Management and Wells Capital and approximately 1% to each of the minority members (including Messrs. Williams, Fretz and Miller). As set forth above, both Wells Management and Wells Capital are wholly-owned subsidiaries of Wells REF, and Leo F. Wells, III, our Chairman, one of our directors and our former President, is the sole shareholder of Wells REF.

Our Existing Advisory and Property Management Agreements

We currently have three agreements pursuant to which advisory and property management services are provided to us: the Asset Management Advisory Agreement, the Acquisition Advisory Agreement, and the Master Property Management Agreement (each of which is described below).

Asset Management Advisory Agreement

We are currently a party to the Asset Management Advisory Agreement (the Asset Management Advisory Agreement), originally between us and Wells Management, which has been assigned by Wells Management to WASI and then by WASI to WREAS. Under the terms of the Asset Management Advisory Agreement, we incur asset management advisory fees payable to Wells Management for, among other things:

- serving as our investment and financial advisor;
- managing our day-to-day operations;
- formulating and implementing strategies to administer, promote, manage, operate, maintain, improve, finance and refinance, market, lease, and dispose of properties; and
- providing us certain accounting, compliance, and other administrative services.

The fees for these services are payable monthly in an amount equal to one-twelfth of 0.5% of the fair market value of all properties we own directly, plus our interest in properties held through joint ventures. This fee is reduced by (1) tenant-reimbursed property management fees paid to Wells Management, and (2) in the event that Wells Management retains an independent third-party property manager to manage one or more properties currently being managed by Wells Management, the amount of property management fees paid to such third-party property managers. At the option of Wells Management, up to 10% of such monthly fee may be paid in shares of our common stock. We incurred such fees of approximately $6.2 million and $5.3 million for the three months ended September 30, 2006 and 2005, respectively, and approximately $18.0 million and $16.5 million of such fees for the nine months ended September 30, 2006 and 2005, respectively, which are recorded as asset and property management fees-related party. We incurred such fees of $0 for the three months ended September 30, 2006 and 2005, and $0 and $0.4 million for the nine months ended September 30, 2006 and 2005, respectively, which are recorded within income from discontinued operations.

Additionally, pursuant to the Asset Management Advisory Agreement, if the Internalization is not consummated, Wells Management is entitled to earn the following disposition and incentive fees, which are similar in nature to previous agreements:

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For any property we sell, a disposition fee of the lesser of 50% of a competitive real estate commission or 3.0% of the sales price of the property, subordinated to the payment of distributions to stockholders equal to the sum of the stockholders invested capital plus an 8% return on invested capital;

Incentive fee of 10% of net sales proceeds remaining after stockholders have received distributions equal to the sum of the stockholders invested capital plus an 8% return on invested capital; or

Listing fee of 10% of the excess by which the market value of our common stock plus distributions paid prior to listing exceeds the sum of 100% of the stockholders invested capital plus an 8% return on invested capital.

We incurred no disposition, incentive, or listing fees during the nine months ended September 30, 2006. However, on February 21, 2005, our Board approved a subordinated disposition fee of 0.33% of the gross sale price of the properties sold as part of the April 2005 27-property sale to be paid to Wells Management as a result of the closing of this transaction. Since the above conditions have not been met at this time, this fee was not paid at the closing of the property sale and will be paid only in the event and at the time that the conditions are met.

The Asset Management Advisory Agreement has a one-year term and automatically renews unless either side gives notice of its intent to not renew. In addition, either party may terminate the Asset Management Advisory Agreement upon 60 days written notice. If we terminate the Asset Management Advisory Agreement, we are required to pay Wells Management a subordinated performance fee. In such event, the subordinated performance fee that we would be required to pay to Wells Management is equal to (1) 10% of the amount, if any, by which (a) the appraised value of our properties at the termination date, less the amount of all indebtedness secured by such properties, plus total dividends distributed to our stockholders through the termination date, exceeds the sum of (b) all of the capital the stockholders have invested in our common stock, plus the amount that would be required to be paid to the stockholders to provide an annualized, non-cumulative return of 8.0% from inception through the termination date, less (2) any prior payments to Wells Management of its subordinated share of net sales proceeds.

Acquisition Advisory Agreement

We are currently a party to the Acquisition Advisory Agreement, originally between us and Wells Capital, which has been assigned by Wells Capital to WASI and then by WASI to WREAS. Under the terms of the Acquisition Advisory Agreement, we are obligated to pay a fee to Wells Capital for services relating to, among other things, capital-raising functions; the investigation, selection, and acquisition of properties; and certain transfer agent and stockholder communication functions. The fee payable to Wells Capital under the Acquisition Advisory Agreement is 3.5% of aggregate gross proceeds raised from the sale of our shares, exclusive of proceeds received from our dividend reinvestment plan used to fund repurchases of shares of common stock pursuant to our share redemption program. On November 15, 2005, our Board approved an amendment to the dividend reinvestment plan to, among other things, eliminate acquisition and advisory fees on shares sold under this plan beginning in September 2006. We incurred the following acquisition and advisory fees and reimbursement of acquisition expenses for the three months and nine months ended September 31, 2006 and 2005, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Acquisition and advisory fees and reimbursement of acquisition expenses:	**$ 0**	$ 562	**$ 1,328**	$ 2,149

Master Property Management Agreement

We are currently a party to the Master Property Management, Leasing, and Construction Management Agreement (the Master Property Management Agreement), originally between us and Wells Management, which has been assigned by Wells Management to WASI and then by WASI to WREAS. Under the Master Property Management Agreement, we retained Wells Management to manage, coordinate the leasing of, and manage construction activities related to certain of

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our properties. Any amounts currently paid under the Master Property Management Agreement for properties that were managed by Wells Management under its prior Asset/Master Property Management Agreement (the Existing Portfolio Properties) have the economic effect of reducing amounts payable for asset advisory services by being credited against amounts otherwise due under the Asset Management Advisory Agreement with respect to such properties. Management and leasing fees payable to Wells Management for properties to be acquired in the future are required to be specified in an amendment to the Master Property Management Agreement, which must be approved by our Board and will be payable in addition to fees payable pursuant to the Asset Management Advisory Agreement. Our current fees for the management and leasing of our properties, other than Existing Portfolio Properties, are generally consistent with the descriptions set forth below:

For properties for which Wells Management will provide property management services, we anticipate that we will pay Wells Management a market-based property management fee generally based on gross monthly income of the property.

For properties for which Wells Management provides leasing agent services, we anticipate that we will pay (1) a one-time initial lease-up fee in an amount not to exceed one-month s rent for the initial rent-up of a newly constructed building; (2) a market-based commission based on the net rent payable during the term of a new lease (not to exceed ten years); (3) a market-based commission based on the net rent payable during the term of any renewal or extension of any tenant lease; and (4) a market-based commission based on the net rent payable with respect to expansion space for the remaining portion of the initial lease term.

For properties for which Wells Management provides construction management services, we anticipate that we will pay (1) for planning and coordinating the construction of tenant-directed improvements, that portion of lease concessions for tenant-directed improvements as is specified in the lease or lease renewal, subject to a limit of 5% of such lease concessions; and (2) for other construction management services, a construction management fee to be determined and agreed to in an appropriate contract amendment.

The Master Property Management Agreement has a one-year term and automatically renews unless either party gives notice of its intent not to renew. In addition, either party may terminate the Master Property Management Agreement upon 60 days written notice.

Under the Asset Management Advisory Agreement, the Acquisition Advisory Agreement and the Master Property Management Agreement, we are required to reimburse each service provider for various costs and expenses incurred in connection with the performance of its duties under such agreements, including reasonable wages and salaries and other employee related expenses such as taxes, insurance and benefits, of employees of the service provider who are directly engaged in providing services for or on behalf of Wells REIT. Under these agreements, reimbursements for such employee related expenses are capped at $8,240,000 in the aggregate during any fiscal year, unless otherwise approved by a majority of our Independent Directors.

In addition, 13 office buildings currently owned by us which are located in the Washington, D.C. area, many of which are leased primarily to government tenants, are currently being managed by WGS pursuant to separate property management agreements between WGS and us or our wholly-owned subsidiaries owning such properties. Such property management agreements provide for property management fees payable to WGS ranging from 0.9% to 1.8% of gross rental income. WGS also manages one property in Washington, D.C. area that is owned by Wells REIT II.

Property Management Offices

While Wells Management maintains its principal office in Atlanta, Georgia, Wells Management and WGS also currently operate property management offices in Minneapolis, Tampa, Detroit, Dallas and Washington, D.C., out of which they currently manage properties owned by us as well as properties owned by other Wells REF affiliates. Although we are still in the process of hiring additional personnel and assuming property management of additional properties, a summary of the current operations of each of such offices is as follows:

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Property Management Office	Number of Employees	Total Number of Properties Managed	Number of Properties Owned by Us
Minneapolis	9	10	3
Tampa	3	8	3
Detroit	1	6	5
Dallas	2	1	1
Washington, D.C.	10	14	13

Pursuant to the terms of the Definitive Merger Agreement, we will acquire the property management offices listed above as part of the Internalization Transaction. In addition, Wells Management s business strategy is to continue to open additional property management offices in various cities around the country to provide property management services for us, certain Wells REF affiliates, and potentially other unaffiliated property owners. Wells Management intends to open additional property management offices in Los Angeles and Chicago prior to the closing of the transaction, and under the Definitive Merger Agreement we will also acquire those offices as part of the Internalization Transaction.

It is anticipated that, Wells Management will retain or establish property management offices in certain cities or regions where we will not initially have property management offices, out of which we anticipate that Wells Management will at least initially manage certain of our properties. In order to implement this, we intend to enter into new property management agreements with Wells Management for the management of such properties prior to the closing of the Internalization Transaction.

Formation of Wells Real Estate Advisory Services, Inc. and Assignment and Valuation of the Existing Advisory and Property Management Agreements

WREAS was incorporated on December 30, 2004 as a wholly-owned subsidiary of Wells Management. On December 21, 2005, Wells Management and Wells Capital, along with eight executives of Wells REF, including Douglas P. Williams, our current Executive Vice President, Secretary, Treasurer and one of our directors, Randall D. Fretz, our current Senior Vice President, Donald A. Miller, CFA, our new Chief Executive Officer and President and one of our directors, and five other executives of Wells REF, formed WASI, a Georgia limited liability company. As their initial capital contributions, Wells Management contributed and assigned to WASI its interest in the Asset Management Advisory Agreement and all of the issued and outstanding common stock of WREAS, resulted in WREAS becoming a wholly-owned subsidiary of WASI; Wells Capital contributed and assigned to WASI its interest in the Acquisition Advisory Agreement; and each of the eight executives of Wells REF made cash capital contributions to WASI. Subsequently, Wells Management made an additional capital contribution by assigning its interest in the Master Property Management Agreement to WASI. Following these assignments, the payments we made under these three contracts were made to WASI, although Wells REF and its affiliates continued to provide certain of the services required under the contracts pursuant to the terms of certain support service agreements.

As a part of determining the relative values of the capital contributions made by Wells Management, Wells Capital and the eight executives of Wells REF (the minority members) to WASI, Wells REF, the parent company of Wells Management and Wells Capital, engaged an independent third party to determine the estimated fair market values of the Asset Management Advisory Agreement, the Acquisition Advisory Agreement and the Master Property Management Agreement as of the date such contracts were contributed to WASI to be used solely for such purposes. The valuation estimated the fair market value of each such contract using a discounted cash flow income approach commonly utilized in estimating the fair market value of intangible assets. As such, the valuation projected the after-tax cash flows associated with each of the contracts over an assumed finite period of time. In addition, different potential disposition scenarios including the continued existence of the contracts, the termination of the various contracts as a result of an orderly liquidation of our assets, and a Listing of our common stock were analyzed and probability weighted by management of Wells REF. Based upon such procedures, the estimated fair market values of the Asset

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Management Advisory Agreement, the Acquisition Advisory Agreement and the Master Property Management Agreement were determined to be $71,734,000, $3,942,000 and $1,762,000, respectively, as of their applicable assignment dates, with the aggregate value of all three of the contracts totaling approximately $77.5 million. Discounts for lack of marketability, lack of control, and uncertainties resulting from the subordination of the economic interests of the minority members and Wells Capital were then applied to the valuations, and the proportionate percentage of equity attributable to Wells Management, Wells Capital and the minority members was calculated and agreed to by the members of WASI. Subsequently, WASI assigned its interests in the Asset Management Advisory Agreement, the Acquisition Advisory Agreement and the Master Property Management Agreement to its wholly-owned subsidiary, WREAS. For a description of the allocation of the shares of our common stock to be received by WASI as a result of the Internalization Transaction under WASI s operating agreement, please see Proposal I The Internalization Proposal Our Company Interest of our officers and directors in the Advisor and certain of its Affiliates.

Reasons for Internalization and Potential Listing

Because when we commenced operations in 1998, the size and scope of our business operations were insufficient to support the overhead costs associated with a self-advised structure, we contracted with the Advisor to provide all personnel, accounting, administrative and other support services and resources necessary for our business operations. Since then, we have grown rapidly, however, and now have over $5 billion in assets based upon the most recent valuation of our real estate portfolio. Based upon our current size and the scope of our operations, we believe that we now comfortably exceed the critical mass required to support a self-advised structure. If we consummate the Internalization, we will acquire certain of the employees of the Advisor who have been, and are expected to continue to be, instrumental in our growth and continued operations. We believe the Internalization will provide us with an experienced management team with industry expertise, management capabilities and a unique knowledge of our assets and business strategies.

We believe that converting from our current externally advised structure to a self-advised or internally advised management structure would result in many important benefits, including:

- That an Internalization Transaction would be accretive over time to our earnings per share and our FFO per share as a result of the reduction in operating costs that will result from us no longer having to pay advisory, property management and other fees and expense reimbursements to our external advisors under our existing advisory and asset management agreements and certain of our property management agreements. No assurances can be given, however, that any such accretion in our earnings per share or FFO per share would actually occur;

- That establishing an internal management team which would be fully dedicated and solely focused on our operations and strategic plans would enhance stockholder value;

- That, if the Board determines that a Listing is in our best interests, a self-advised or internally advised management structure would better position us for a future Listing, partially based on our belief that there is a perception in the marketplace that an internalized structure, among other things, achieves a better alignment of interests between management and the stockholders and eliminates certain conflicts of interest associated with having an external advisor. No assurances can be given, however, that a Listing will actually occur or, if it did occur, that being self-advised would result in a more successful Listing; and

- That an internalized management structure may have a positive impact on the retention of key management personnel, as we anticipate that our key management personnel will have an equity stake in our Company.

In connection with considering a potential Internalization Transaction, our Board also considered the benefits of a potential Listing, including, among other things, creating significantly greater liquidity for our stockholders, increasing our stockholders autonomy in connection with the management of their cash and tax positions, allowing us greater access to capital markets to fund our future growth, and enabling us to pursue certain growth strategies. In addition, our Articles require that, in the event a Listing does not occur on or before January 30, 2008, we are required to immediately undertake an orderly liquidation and sale of our assets and distribute the net sales proceeds from such liquidation to our stockholders. Based on these factors, we intend to consider a Listing following the consummation of the Internalization Transaction, if and when market conditions and other circumstances make it desirable or it is otherwise in the best interests of our stockholders to do so. No assurance can be given that, if a determination is made to List, we will be able to successfully implement a Listing or that market conditions existing in the future will make it desirable for us to do so. While we believe that the Internalization Transaction should help facilitate a Listing, the Internalization Transaction we are proposing is not contingent upon the completion of a Listing. Even if a Listing does occur, an active trading market for our common stock may not develop or, if it does develop initially, may not be sustained. Further, the price at which our common stock may trade in the future is unknown.

We believe any future Listing will be more likely to be successful if we are self-advised. A vast majority of Listed REITs, including REITs like us that own predominantly office and industrial commercial properties, are self-advised. We believe the prevalence of the self-advised model reflects a marketplace preference for Listed REITs that are self-advised and that, if our common stock were Listed, investors and market analysts would view us more favorably if we were self-advised, as opposed to being externally advised. If the Board elects to pursue a Listing, no further stockholder action would be required to do so.

Notwithstanding corporate governance mechanisms implemented to resolve potential conflicts of interest and protect our stockholders, we believe there may be a negative perception of externally-advised Listed REITs in the marketplace. We believe that the relationship between externally-advised REITs and their outside advisors is susceptible to, or is at least generally viewed as susceptible to, conflicts of interest, many of which can be avoided by being self-advised.

In addition, we believe that remaining externally-advised could have a negative effect on the price of our common stock in the future in the event we become Listed. As a result, we believe the internalization of the Advisor through the Internalization in advance of a potential Listing is an important step in the process of becoming a Listed REIT.

We have made approval of the Internalization Proposal a condition to closing under the Definitive Merger Agreement. We are seeking your approval of the Internalization Proposal because we believe it is appropriate to request our stockholders to approve the Internalization Proposal in light of the importance of the Internalization and because our executive officers and certain of our directors have material financial interests in the Internalization.

For additional reasons why the Internalization has been proposed, please see Negotiation of the Internalization Transaction and Recommendations of the Special Committee and Our Board of Directors below.

Negotiation of the Internalization Transaction

As set forth above, our articles of incorporation require that, unless we become a Listed REIT by January 30, 2008, we must commence the process of liquidating our properties. Accordingly, from time to time, our Board has discussed and considered various strategic alternatives, including potentially continuing as a going concern under our current business plan, a potential liquidation of our assets either through a sale of the Company or through a sale of our individual properties, and the possibility of a potential Listing of our common stock. While we believe that our externally advised structure was appropriate for our original operations, we believe that we comfortably exceed the critical mass required to support a self-advised structure and that such a structure is more common for a Listed REIT, and therefore, our Board discussed the possibility of internalizing certain of the property management and advisory operations currently being provided to us by Wells REF and its affiliates into our operations as it would better position us for a possible Listing and provide the other benefits described above.

In connection with such discussions, in December of 2004, Robert A. Stanger & Co., Inc. (Stanger), an investment banking firm specializing in providing financial advisory services to REITs and other real estate companies, provided the Board an overview of internalization transactions, including a review of prior transactions and alternative structures of a potential internalization.

In order to further facilitate its consideration of our strategic alternatives, our Board appointed a special committee (the Special Committee) consisting of Messrs. W. Wayne Woody, Michael R. Buchanan, Richard W. Carpenter and William H. Keogler, Jr., each of whom is an Independent Director, to evaluate and investigate certain strategic alternatives available to us, including, among other things, potentially becoming internally advised via the acquisition of the real estate acquisition, disposition, property and asset management and support businesses (the Management Businesses) currently conducted and provided to us by the Advisor and its affiliates (the Internalization Transaction), to consider and negotiate the terms of any such transaction, and to make a recommendation to our Board on whether to pursue any such transaction. Mr. Woody was appointed as the Chairman of the Special Committee, and Rogers & Hardin LLP (Rogers & Hardin) was retained as legal counsel to the Special Committee.

In January 2005 and February 2005, the Special Committee met and discussed, with input from representatives of Rogers & Hardin, the process by which the Special Committee would evaluate and investigate the strategic alternatives available to us, the legal duties of the Special Committee, and the issues which the Special Committee should address in connection with such an evaluation and investigation. The Special Committee also discussed generally a possible Internalization Transaction, including the possible benefits and disadvantages to us, the various executive, administrative, financial and other functions that might be included in such a transaction, as well strategic alternatives to such a transaction. Further, the Special Committee discussed its need for a financial advisor in connection with evaluating these issues.

During these discussions, the Special Committee determined that it would be beneficial to its evaluation and investigation of a potential Internalization Transaction to obtain from Wells REF certain preliminary information regarding its views of such a transaction. The Special Committee requested such information from Wells REF and Stanger was engaged by the Advisor to assist in responding to the Special Committee s requests regarding the structuring of possible functions and services to be internalized, the methods of formulating pro forma financial statements reflecting such internalized structure and the methods of valuing management companies. At a meeting of the Special Committee on July 18, 2005, Wells REF s management presented to the Special Committee information regarding Wells REF s view of the basic terms of a potential Internalization Transaction, including the management, financial and other functions that Wells REF would propose to internalize, its proposed organizational structure for us following such a transaction, and the potential financial benefits to us as a result of such a transaction, including the potential cost savings and projected financial benefits.

On August 30, 2005, at the request of the Special Committee, Stanger presented to the Special Committee an overview of current real estate market conditions and certain of the strategic alternatives available to us, including potentially maintaining the status quo, a potential liquidation of our assets and a possible Internalization Transaction and potential subsequent Listing. Stanger s presentation included a discussion of the possible strategic alternatives, certain potential advantages and disadvantages of such alternatives, a preliminary review of the financial impact on us and our stockholders of such alternatives and information regarding the experiences of other comparable REITs with respect to internalization and other alternatives.

Following this presentation, the Special Committee had discussions and determined to engage Stanger as the Special Committee s financial advisor, subject to reaching an agreement with Stanger regarding its fees and the services to be provided by Stanger. Following this meeting, the Special Committee, with input from its legal counsel, negotiated with Stanger with respect to the services to be provided by Stanger in its capacity as the financial advisor to the Special Committee and Stanger s compensation for such services.

At a meeting held on September 23, 2005, representatives of Stanger presented to our Board a summary of Stanger s proposed services and compensation. At such meeting, our Board authorized the Special Committee to retain Stanger as a financial advisor to the Special Committee. Thereafter, we entered into an agreement with Stanger to act as a financial advisor to the Special Committee in connection with evaluating the strategic alternatives available to us, including, among other things, continuing as a going concern under our then current business plan, a liquidation of assets and a potential Internalization Transaction and potential subsequent Listing, and providing financial advisory services with respect to the evaluation and, if appropriate, negotiation of a potential Internalization Transaction.

From October 2005 through March 2006, at the direction of the Special Committee, representatives of Stanger requested additional information from Wells REF regarding a proposed Internalization Transaction, including information with respect to structure, personnel and finances. From time to time during this period, representatives of Stanger met with Wells REF s management to discuss the information requested and the materials provided by Wells REF in response to such requests. During this time, representatives of Stanger also updated the Special Committee regarding their discussions with Wells REF s management and discussed with the Special Committee the information Stanger had received from Wells REF and Stanger s analysis of such information, including that certain additional aspects of a proposed Internalization Transaction needed to be addressed by Wells REF. Based on the information provided by Wells REF, Stanger s analysis of such information and a commitment by the management of Wells REF to address the additional aspects of a potential transaction identified by Stanger, the Special Committee requested that Wells REF submit to the Special Committee a formal proposal for an Internalization Transaction.

On April 3, 2006, in response to the request from the Special Committee, Wells REF submitted a detailed proposal (the Initial Proposal) to the Special Committee regarding a proposed Internalization Transaction which included, among other things, a description of the core services of the Management Businesses and the positions necessary to fulfill the core services to be offered in the transaction, projected financial benefits and opportunities for value to us resulting from the transaction, a description of the proposed services that would continue to be provided by Wells REF and its affiliates after a transaction via service agreements, and the proposed consideration for the internalized management structure. The consideration for the acquisition of the Management Businesses which would result in an internalized management structure proposed by Wells REF in the Initial Proposal was 31,600,000 shares of the Company s common stock (approximately $275 million in value at a proposed estimated share value of $8.70 per share).

On April 7, 2006, the Special Committee met and discussed with representatives of Stanger and representatives from Rogers & Hardin the Initial Proposal and requested that Stanger conduct an analysis of such proposal on behalf of the Special Committee.

On May 17, 2006, at a meeting of the Special Committee, representatives of Stanger presented to the Special Committee Stanger s preliminary analysis of the Initial Proposal, including its analysis of the strategic alternatives available to us, the functional capabilities and staffing provisions contained in the Initial Proposal, the proposed consideration to be paid by us and the projected 2007 pro forma earnings contribution from the Management Business assuming completion of the proposed Internalization Transaction (the Projected Earnings) as contemplated by the Initial Proposal. Representatives of Stanger also presented to the Special Committee Stanger s proposed revisions to certain of the financial terms of the Initial Proposal. The Special Committee, with input from representatives of Stanger and Rogers & Hardin, discussed the terms of the Initial Proposal, including Stanger s analysis and proposed revisions, and the possible responses to the Initial Proposal. After such discussions, and based upon the input from and further due diligence to be conducted by Stanger, the Special Committee determined that it would obtain further information from Wells REF and then develop a formal response to the Initial Proposal.

In June and July 2006, at the direction of the Special Committee, Stanger requested further financial information from Wells REF and discussed with the management of Wells REF the terms of the Initial Proposal, Stanger s analysis of the Initial Proposal and other alternatives available to us. During this period, the Special Committee met on June 26, 2006 and July 10, 17 and 18, 2006. At these meetings, representatives of Stanger updated the Special Committee regarding their discussions with the management of Wells REF and Stanger s analysis of additional information provided to Stanger by Wells REF. The Special Committee, with input from representatives of Stanger and Rogers & Hardin, discussed the issues raised by the Initial Proposal and discussed and formulated a proposed response to the Initial Proposal.

At the July 18, 2006 meeting, the Special Committee, together with representatives of Stanger and Rogers & Hardin, met with the other Independent Directors and discussed the status and process of negotiations with Wells REF, the issues identified by the Special Committee regarding the Initial Proposal and the Special Committee s intended response to the Initial Proposal. Following this meeting, the Chairman of the Special Committee and a representative of Stanger met with Mr. Wells and outlined the Special Committee s response to the Initial Proposal. Mr. Wells requested that the Special Committee respond to the Initial Proposal in writing.

On July 24, 2006, the Special Committee submitted a written response to the Initial Proposal and advised Wells REF that it was prepared to recommend that our Board continue consideration of an internalization strategy in an effort to determine if a mutually acceptable transaction structure could be formulated for the acquisition of certain advisory, management and service capabilities from the Advisor at an anticipated price range of between $140 million and $160 million, to be paid primarily in the form of shares of our common stock, based on certain conditions, including (1) confirmation by an independent accounting firm of the projected increase in our earnings in the first year following an Internalization Transaction; (2) substantial completion by Wells REF of its business plan to establish property management capabilities and assume property management functions for certain properties which were then being conducted by third-party property managers; (3) Wells REF s agreement to allow Donald A. Miller, CFA, to become an employee of the Company and to negotiate and enter into a mutually acceptable multi-year employment agreement with the Company to serve as our Chief Executive Officer and President; (4) the identification of other key executives and personnel to be transferred to the Company as part of the Internalization Transactions; (5) reaching agreement on the terms under which Wells REF would provide certain transition and support services to the Company following the Internalization Transaction; and (6) consideration of the Company s growth strategies in the event an Internalization Transaction was pursued and consummated.

On July 28, 2006, Wells REF submitted its response to Special Committee s July 24, 2006 letter and advised the Special Committee: (1) that Wells REF was ready to work with the Special Committee s independent accounting firm with regard to its review of the Projected Earnings; (2) that it understood the necessity of providing a substantially complete business plan to establish property management capabilities and assume property management functions for certain properties which were then being managed by third-party property managers, consistent with the Projected Earnings; (3) that it would agree to Mr. Miller becoming an employee of the Company, who it was anticipated would enter into a mutually acceptable multi-year employment agreement with the Company to serve as the Company s Chief Executive Officer and President; (4) that it agreed to cooperate with us in identifying other key executives and personnel; (5) that it agreed to provide additional detail regarding the transition and support services to the Company; (6) that it offered to assist with the review and consideration of growth strategies for us following the Internalization; and (7) that it was proposing a price in the range of $230 million to $245 million dollars as consideration for the acquisition of the Management Businesses.

At a meeting of the Special Committee on August 1, 2006, the Special Committee, with input from representatives of Stanger and Rogers & Hardin, reviewed and discussed the terms of Wells REF s July 28, 2006 letter. The Special Committee determined that, although Wells REF s July 28, 2006 letter reflected constructive steps by Wells REF with regard to the pricing and non-financial concerns of the Special Committee, the difference in the price range proposed by Wells REF and the price range supported by the Special Committee s analysis created doubt as to whether an agreement with respect to the proposed Internalization Transaction could be achieved.

In a letter to Wells REF dated August 1, 2006, the Special Committee advised Wells REF that the Special Committee was not able to accept the price of $230 million to $245 million proposed by Wells REF in its July 28, 2006 letter. On August 8, 2006, Wells REF responded to the Special Committee s August 1, 2006 letter by proposing a price of $195 million for the Management Businesses in connection with the proposed Internalization Transaction after studying the options available to maximize both the return and the flexibility to our stockholders and in an attempt to move discussions forward.

At a meeting of the Special Committee on August 17, 2006, the Special Committee, with input from representatives of Stanger and Rogers & Hardin, reviewed and discussed the terms of Wells REF s August 8, 2006 letter, which included a discussion of the Projected Earnings, and formulated the Special Committee s response to such letter. The

Special Committee also discussed the need to have the calculation of the Projected Earnings evaluated and tested as a condition of any Internalization Transaction. Furthermore, the Special Committee discussed the possibility of retaining an executive compensation consultant to advise the Special Committee with respect to compensation issues relating to the employment and retention of personnel by us relating to such a transaction.

On August 23, 2006, the Special Committee submitted a response to Wells REF s August 8, 2006 letter increasing the anticipated range of consideration for continuing negotiations of an Internalization Transaction to between $150 million and $168 million, conditioned upon, among other things, the verification of the Projected Earnings, substantial completion of the establishment of certain property management offices prior to the Closing of the Internalization, the satisfactory resolution of transition and support services agreements, the identification of key executives and other personnel to be transferred to the Company and related issues.

Between August 23, 2006 and September 1, 2006, representatives of Stanger and management of Wells REF had several telephone conferences in which they continued to discuss the unresolved terms of the proposed transaction.

At a meeting of the Special Committee held on August 25, 2006, the Special Committee, with input from representatives of Stanger and Rogers & Hardin, discussed the negotiations with Wells REF and alternatives to the proposed Internalization Transaction.

In response to the Special Committee s letter dated August 23, 2006, Wells REF responded in a letter to the Special Committee dated September 1, 2006, in which it advised the Special Committee, among other things, that it was having difficulty evaluating and responding to proposed consideration presented as a range of consideration, and the letter also identified timeframes in which Wells REF anticipated opening additional property management offices. The letter also presented Wells REF s assessment of favorable conditions in the public real estate market and the advantages of a potential Listing, and identified certain growth opportunities for us.

At a meeting of the Special Committee held on September 12, 2006, the Special Committee, with input from representatives of Stanger and Rogers & Hardin, reviewed and discussed the terms of Wells REF s September 1, 2006 letter and formulated the Special Committee s response to such letter.

On September 13, 2006, the Special Committee responded to Wells REF s letter and proposed consideration for the acquisition of the Management Businesses in an Internalization Transaction of $160 million, conditioned upon, among other things, the verification by our independent accounting firm of the Projected Earnings, substantial completion of the establishment of property management offices, the identification of key executives anticipated to be included in a transaction and the determination of the number of shares to be issued in a proposed Internalization Transaction to be based upon the Company s most current net asset value per share as of the closing date of an Internalization Transaction.

At a meeting of the Special Committee held on September 14, 2006, the Special Committee discussed with representatives of Stanger their recent conversations with the management of Wells REF regarding the letter from the Special Committee dated September 13, 2006. The Special Committee also discussed, with input from representatives of Stanger and Rogers & Hardin, how to proceed with the negotiations with Wells REF.

On September 19, 2006, Wells REF responded to the Special Committee s September 13, 2006 letter in a letter in which Wells REF proposed $192 million as consideration for the Internalization Transaction, with the shares of our common stock to be issued in the proposed Internalization Transaction to be valued at the Company s then current estimated net asset value per share of $8.70. The letter also noted that the Projected Earnings did not include certain potential contributions to our earnings as a result of implementing certain growth strategies following an Internalization Transaction. Wells REF also agreed that any support services would be provided to us following an Internalization Transaction at the lesser of the costs incurred by Wells REF or at prices charged for comparable-level services by independent third parties.

At a meeting of the Special Committee held on September 26, 2006 to consider Wells REF s September 19, 2006 letter, the Special Committee, with input from representatives of Stanger and Rogers & Hardin, discussed (1) the method of determining the Projected Earnings; (2) the effect of certain property appraisals of the Company s real estate assets, which were currently being conducted, on the Company s estimated net asset value and the calculation of the number of shares to be issued in the proposed Internalization Transaction; and (3) the possibility of holding a number of shares of our common stock constituting a portion of the purchase price in escrow to be returned to the Company in the event that the property management revenues included in the Projected Earnings were not realized. Based on these discussions, the Special Committee determined to increase the proposed consideration for the Internalization Transaction to $170 million. At the request of the Special Committee, the remaining Independent Directors joined the meeting, and the Special Committee, with input from representatives of Stanger and Rogers & Hardin, updated the Independent Directors regarding the status of the negotiations and the financial due diligence review being conducted by Stanger.

On September 27, 2006 representatives of Stanger met with representatives of Wells REF to obtain clarification of certain aspects of Wells REF s response of September 19, and to continue negotiations of certain additional terms of the proposed Internalization Transaction, including the potential escrow of a portion of the consideration to be paid in a transaction.

On October 4, 2006, the Special Committee responded to Wells REF s September 19, 2006 letter in a letter to Wells REF in which the Special Committee, among other things, proposed consideration for acquisition of the Management Businesses in the Internalization Transaction of $170 million, proposed that the form of consideration be shares of our common stock valued at the estimated net asset value per share based upon the updated 2006 property appraisals, and proposed that, upon the closing of the Internalization Transaction, shares of our common stock be escrowed relating to property management revenues included in the Projected Earnings for properties not managed by us as of the closing that are anticipated to be managed by us prior to December 31, 2007.

On October 6, 2006, Wells REF responded to the Special Committee s October 4, 2006 letter by accepting the proposals of the Special Committee with respect to the form of consideration, the valuation of the shares to be issued, and the concept of escrowing shares at closing. In addition, Wells REF proposed consideration for the acquisition of the Management Businesses in the Internalization Transaction in the amount of $180 million.

Following October 6, 2006, various discussions were held among representatives of Stanger and the management of Wells REF concerning the proposed consideration for the Internalization Transaction and other proposed terms of such transaction.

At a meeting of the Special Committee held on October 10, 2006, the Special Committee, with input from representatives of Stanger and Rogers & Hardin, reviewed and discussed the terms of Wells REF s October 6, 2006 letter, Stanger s subsequent conversations with the management of Wells REF, the progress of the negotiations and the unresolved issues relating to the proposed Internalization Transaction. Based on these discussions, the Special Committee determined not to increase the proposed consideration for the Internalization Transaction from $170 million and instructed representatives of Stanger to advise the management of Wells REF of this determination.

At a meeting of the Special Committee held on October 12, 2006, representatives of Stanger updated the Special Committee concerning their conversations with the management of Wells REF regarding the Special Committee s determination not to increase the proposed consideration for the Management Businesses in the Internalization Transaction from $170 million and conveyed that the management of Wells REF had indicated to Stanger that Wells REF would be willing to reduce the proposed consideration for the Management Businesses in the Internalization Transaction to $175 million. The Special Committee then discussed, with input from representatives of Stanger and Rogers & Hardin, the consideration for the Management Businesses in the Internalization Transaction of $170 million proposed by the Special Committee and $175 million proposed by Wells REF, the concessions made by Wells REF during the negotiations, the Projected Earnings, the escrow of a portion of the shares to be issued in a transaction, and the additional issues to be negotiated in connection with the preparation of the definitive agreements. Based upon the foregoing, the

Special Committee agreed that its Chairman should contact management of Wells REF to confirm that Wells REF would agree to consideration of $175 million and, if so, to advise Wells REF that the Special Committee was prepared to negotiate definitive agreements for the Internalization Transaction based on consideration of $175 million and the other conditions previously agreed to by Wells REF.

On October 13, 2006, the Chairman of the Special Committee spoke with management of Wells REF who confirmed Wells REF s agreement to consideration of $175 million for the Management Businesses in the Internalization Transaction and requested that the Special Committee provide a letter to Wells REF to that effect.

As a result, the Special Committee sent a letter to Wells REF on October 19, 2006 confirming the understanding of the Special Committee that the consideration to be paid to Wells REF in connection with the acquisition of the Management Businesses in a potential Internalization Transaction would be $175 million and confirming that the Special Committee was prepared to move forward in the negotiation of a proposed transaction subject to a number of conditions, including the negotiation of an employment agreement with Mr. Miller to serve as our Chief Executive Officer and President, the identification of other key employees acceptable to us anticipated to be included in the transaction, the performance by our independent accounting firm of certain agreed-upon procedures associated with certain historical financial data of the Advisor to assist the Special Committee in evaluating the Projected Earnings, the negotiation of an acceptable definitive merger agreement between Wells REF and the Company and a final decision by the Special Committee and our Board as to whether to proceed with an Internalization Transaction.

On October 24, 2006, Wells REF submitted a letter to the Special Committee in response to its October 19, 2006 letter confirming Wells REF s acceptance of the proposed consideration of $175 million for the Internalization Transaction and identifying remaining open issues including: (1) negotiation of an employment agreement with Donald A. Miller, CFA; (2) identifying a candidate for Chief Financial Officer; (3) completing due diligence; (4) documentation of the Definitive Merger Agreement; (5) review of the Projected Earnings by our accountants and other financial due diligence; and (6) negotiation of the support services agreements.

On November 1, 2006, representatives of Wells REF, Stanger, the Company s accountants, and the Special Committee s, the Company s, and Wells REF s respective legal counsel met to discuss the process relating to (1) negotiation of definitive agreements; (2) completion of legal, financial and accounting due diligence; (3) the status of the property appraisals; (4) preparation of the necessary financial statements; and (5) other matters necessary to complete the negotiation of the Internalization Transaction.

During November 2006, the Special Committee met four times. At these meetings, the Special Committee discussed hiring an investment banking firm to render a fairness opinion with respect to the Internalization Transaction, interviewed and reviewed presentations from four investment banking firms regarding their experience and qualifications in transactions such as the Internalization Transaction, and determined to engage Houlihan Lokey Howard & Zukin Financial Advisors, Inc. (Houlihan Lokey) to render such opinion. The Special Committee, with the assistance of Rogers & Hardin, negotiated the terms of an engagement letter with representatives of Houlihan Lokey and, on December 9, 2006, engaged Houlihan Lokey to evaluate the fairness of the Internalization Transaction and render a fairness opinion with respect to the Internalization Transaction.

The Special Committee further discussed hiring a compensation consultant in connection with evaluating the compensation issues associated with the Internalization Transaction, including the negotiation of an employment agreement with Mr. Miller to serve as our Chief Executive Officer and President. With the assistance of representatives of Stanger, on November 7, 2006, the Special Committee engaged FPL Associates as the Special Committee s compensation consultant.

Also during November 2006, Rogers & Hardin prepared a draft of the Definitive Merger Agreement based on discussions with the Special Committee during their November meetings and input from Stanger. On November 17, 2006, Rogers & Hardin provided a draft of the Definitive Merger Agreement to Wells REF s counsel. Thereafter through

January 15, 2007, there ensued a series of meetings, negotiations and telephone calls between Rogers & Hardin and counsel for Wells REF negotiating the terms of the Definitive Merger Agreement and the ancillary documents.

During November and December 2006, representatives of Stanger participated in numerous conference calls and meetings with Wells REF s management regarding, among other things, the status of the property appraisals, the determination of the revised estimated net asset value based upon such appraisals, Stanger s review of the Projected Earnings and other due diligence matters. In addition, during said time period, representatives of Rogers & Hardin conducted legal due diligence.

On December 11, 2006, management of Wells REF informed Mr. Woody and representatives of Stanger that Wells REF had determined there was a difference of opinion regarding the method of determining the Projected Earnings. On December 12, 2006, at a meeting of the Special Committee, the Special Committee agreed that it was the position of the Special Committee that, upon the consummation of the proposed Internalization Transaction, the Company was to have fully functioning management and advisory capabilities, including having all requisite personnel necessary to manage our business, and that the calculation of the Projected Earnings should reflect all expenses associated with operating the Company in such a manner. The Special Committee then sent a letter to Wells REF to that effect. The following day Wells REF s management met with members of the Special Committee and advised the Special Committee that Wells REF accepted the positions outlined by the Special Committee.

Also, in December 2006, the Special Committee, with the assistance of Stanger, retained Ernst & Young LLP (Ernst & Young) to perform certain agreed-upon procedures with respect to reviewing the historical financial data of the Advisor to assist the Special Committee in testing and evaluating the Projected Earnings. During the end of December 2006 and the beginning of January 2007, Ernst & Young performed its procedures with respect to its engagement. On January 26, 2007, Ernst & Young delivered its report to the Special Committee which set forth the results of Ernst & Young s performance of the agreed-upon procedures.

The Special Committee also met on December 8 and 21, 2006 and January 9, 2007 to discuss the Internalization Transaction and the Definitive Merger Agreement and ancillary documents. At such meetings, representatives of Rogers & Hardin discussed with the Special Committee the terms and conditions of the recent drafts of the Definitive Merger Agreement and ancillary documents, along with counterproposals made by Wells REF on various provisions of the Definitive Merger Agreement and the ancillary documents. In addition, at such meetings, representatives of Stanger summarized the status of the financial and other due diligence being conducted on behalf of the Special Committee and discussed, among other things, its review of the property appraisals and the related estimated net asset value determination and its review of the Projected Earnings.

During this period, the Special Committee, along with the Special Committee s compensation consultant, began negotiations with Mr. Miller on the terms of his employment agreement with us as our new Chief Executive Officer and President.

On January 15, 2007, the Special Committee, together with the other Independent Directors, held a series of meetings at which representatives of Stanger and Rogers & Hardin updated the Independent Directors with respect to the terms of the proposed Definitive Merger Agreement and the ancillary documents and discussed the unresolved issues relating to the transaction. Stanger also provided an update with respect to its financial due diligence involving the Advisor, and Stanger s review of the Projected Earnings. During the course of the day on January 15, 2007, the Special Committee, through representatives of Rogers & Hardin, negotiated with Wells REF and its counsel the resolution of a substantial portion of the remaining issues with respect to the Definitive Merger Agreement, including the terms and amount of a termination fee, the estimated net asset value per share to be used to value the shares to be issued to WASI, and the terms by which Wells REF would guaranty to us certain property management fees from properties owned by entities for which Wells REF provides advisory services.

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Following the January 15, 2007 meeting and through January 31, 2007, Rogers & Hardin and counsel to Wells REF exchanged several drafts of the Definitive Merger Agreement and ancillary documents and further negotiated their terms.

On January 22, 2007, our Board met and appointed Donald S. Moss, Bud Carter, William H. Keogler, Jr. and Neil H. Strickland to serve as our compensation committee, and it was agreed that the compensation committee would, among other things, complete the negotiations with Mr. Miller regarding his employment agreement.

Following the January 22, 2007 Board meeting, the Special Committee met to discuss the negotiations relating to the agreements and to receive an update from representatives of Stanger. In addition, at this meeting, representatives of Houlihan Lokey discussed the process undertaken by Houlihan Lokey to review the fairness of the Internalization Consideration and the methodologies conducted by Houlihan Lokey and provided an update of the status of their due diligence review and analysis.

The Special Committee (with the other Independent Directors present) also met on January 26, 2007 to discuss the open issues relating to the Definitive Merger Agreement and ancillary documents, to receive a report from the compensation committee with respect to the status of Mr. Miller s employment agreement and to discuss certain Board composition and corporate governance matters following an Internalization Transaction and in the event of any Listing. On January 29, 2007, the Special Committee and the other Independent Directors met twice to continue their discussion of the Board composition following an Internalization Transaction. In addition to these Special Committee meetings, several of the directors had various conversations with Mr. Wells, with other Independent Directors and with counsel regarding the Board composition and related issues from January 29, 2007 through January 31, 2007.

On January 31, 2007, the Special Committee, the other Independent Directors and Messrs. Wells and Williams, with input from counsel, discussed the appropriate composition of the Board in light of potential conflicts and that existing protocols for dealing with conflicts among Wells REF advised and managed entities would not address conflicts issues after the closing of the Internalization Transaction. Accordingly, our Board reached an agreement on certain matters involving the composition of our Board and other conflict resolution matters, as follows (1) in order to discontinue having directors (other than Mr. Wells) serve on both our Board and a board of directors of a Wells REF related entity that may compete with us following the closing of the Internalization Transaction, three of our Independent Directors (Richard W. Carpenter, Bud Carter and Neil H. Strickland) and Douglas P. Williams, agreed to resign as our directors, effective and conditioned upon the closing of the Internalization Transaction, and two of our Independent Directors (Donald S. Moss and W. Wayne Woody) agreed to resign as directors of Wells REIT II, also effective and conditioned upon the closing of the Internalization Transaction, (2) Leo F. Wells, III agreed that he would resign as a director upon any Listing, unless a majority of certain designated Independent Directors determines that it is in our best interest that he remain a director, and upon Mr. Wells resignation as a director, for a period ending the earlier of (A) two years after a Listing of our common stock, should that occur, or (B) the first date on which Mr. Wells does not beneficially own at least 1% of our outstanding common stock, he will be entitled to designate an individual to be appointed to fill the vacancy created by such resignation and to be nominated for election to our Board at any annual meeting where directors are elected during such period, provided that such individual is reasonably acceptable to our Board and is not on the board of directors of Wells REIT II, Institutional REIT, Inc. or any other Wells REF related entity that may compete with us or any of our subsidiaries, (3) the Board agreed to establish a conflicts committee upon Internalization to handle business conflicts which may arise relating to Mr. Wells involvement with Wells REF related entities that may compete with us, and (4) the Board agreed that a majority of Independent Directors will be required to approve any new directors to be appointed or nominated by our Board, and that Donald A. Miller, CFA, would be elected to fill a vacancy on our Board effective upon the execution of by his employment agreement (the Board Composition Matters). See Proposal I The Internalization Proposal Description of the Internalization Transaction Changes to our Board and Resolution of Certain Conflicts of Interest on our Board.

On January 31, 2007, the Special Committee held a meeting with our Independent Directors. At this meeting, representatives of Rogers & Hardin presented summaries of the terms and conditions of the Definitive Merger Agreement and all of the ancillary documents and reviewed the directors legal duties. In addition, at this meeting, representatives of

Stanger made a financial presentation to the Special Committee and our other Independent Directors; the Special Committee and our other Independent Directors reviewed the report of Ernst & Young regarding the agreed-upon procedures performed by it on the historical financial data of the Advisor to assist in evaluating the Projected Earnings; Mr. Miller made a presentation on behalf of the management of Wells REF involving, among other things, certain growth strategies for us following the Internalization Transaction, including the strategy of establishing property management offices, proposals to increase our leverage and to engage in significant property acquisitions, strategies involving engaging in certain joint venture transactions, and other growth strategies over the next few years, as well as other potential investment and operational strategies; representatives of Houlihan Lokey reviewed and presented Houlihan Lokey s fairness opinion; and our compensation committee discussed and recommended approval of the employment agreement with Mr. Miller. Following these presentations, and after each member of our Board agreed to the foregoing Board Composition Matters, the Special Committee unanimously voted to recommend to our Board that it approve the Internalization Transaction and the terms and conditions of the Definitive Merger Agreement and ancillary documents.

At a meeting of our full Board held immediately following the meeting of the Special Committee and Independent Directors on January 31, 2007, based on the unanimous vote and recommendation of the Special Committee and the other factors listed below under Recommendations of the Special Committee and Our Board of Directors, our Board (with Messrs. Wells and Williams recusing themselves) determined that the Definitive Merger Agreement, the Internalization Transaction and the other transactions contemplated by the Definitive Merger Agreement were fair and reasonable and were advisable and in the best interests of us and our stockholders. Accordingly, after due consideration and upon the recommendation of the Special Committee, the Board (with Messrs. Wells and Williams recusing themselves from consideration and the vote) approved the Definitive Merger Agreement and the Internalization Transaction and the other transactions contemplated by the Definitive Merger Agreement, together with the Board Composition Matters, by a vote which included the affirmative vote of all of the Independent Directors. In addition, the Board approved the Pre-Listing Restated Articles (defined below), the Post-Listing Restated Articles (defined below), and the 2007 Omnibus Incentive Plan, all subject to the approval of our stockholders. At such meeting, the Board also accepted the resignation of Leo F. Wells, III as our President, effective upon the execution of an employment agreement with Donald A. Miller, CFA, and elected Mr. Miller as our Chief Executive Officer and President and as a director, also effective upon the execution of his employment agreement.

On February 1, 2007, in connection with the execution of the Definitive Merger Agreement, Mr. Wells executed an agreement with us reflecting his agreement to resign as a director upon any Listing unless, prior to that time, majority of certain designated Independent Directors, after consulting with legal and financial advisors, determines that it is in our best interest for him to remain on our Board for a period of time after Listing. At the time of such resignation and for a period ending on the earlier of (1) two years following the Listing or (2) such time as Mr. Wells is no longer the beneficial owner of at least 1% of our outstanding common stock, Mr. Wells shall have the right to designate an individual (other than Mr. Wells) to be appointed to fill the vacancy created by his resignation and to be nominated for election to our Board at a meeting of our stockholders held for the purpose of electing directors during such period, provided that such individual is reasonably acceptable to the Board and is not on the board of directors of any Wells REF related entity which competes with us or any of our subsidiaries.

On February 2, 2007, the Board met and approved certain modifications to Mr. Miller s employment agreement which were recommended by the compensation committee. Following this meeting, Mr. Miller s employment agreement was finalized, and the Definitive Merger Agreement and Mr. Miller s employment agreement were executed and delivered by the respective parties thereto.

Recommendations of the Special Committee and Our Board of Directors

Special Committee Recommendation; Reasons for Recommendation

In reaching its conclusion to unanimously recommend that our Board approve the Definitive Merger Agreement, the Internalization Transaction and the other transactions expressly contemplated by the Definitive Merger Agreement, the Special Committee took into account the following factors (without assigning relative weights) which the Special Committee believes weigh in favor of the Internalization Transaction:

the requirement under our charter that, by January 30, 2008, we either List our common stock on a national securities exchange or over-the-counter market or begin to liquidate our properties;

the belief of the Special Committee that, if we are able to List our common stock, our common stock would be viewed more favorably if we became self-advised instead of remaining externally advised;

the benefits of a potential Listing including, among other things, creating significantly greater liquidity for our stockholders and increasing our stockholders ability to manage their cash and tax positions;

the belief of the Special Committee that the Internalization Transaction could ultimately be accretive to our net earnings per share and FFO per share;

the proposed business plan for the Company which proposes to utilize growth strategies (including increased leverage) that are intended to be accretive over time to our net earnings per share and FFO per share;

the belief of the Special Committee that the Internalization Transaction would enable us to realize certain efficiencies arising from a self-advised structure in that we will pay for advisory and management services directly rather than paying a third-party fee for such services, thereby enabling us to eliminate the profits that were previously being realized by the Advisor for providing such services;

the terms and conditions of the Definitive Merger Agreement, the Transitional Services Agreement, the Support Services Agreement, the Headquarters Sublease, the Pledge Agreement, the Registration Rights Agreement and the Employment Agreement with Mr. Miller, including, among other things, (1) the type and amount of consideration to be paid in the Internalization Transaction, (2) the indemnities and the pledge and security obtained, and (3) certain conditions to our obligation to consummate the Internalization, including approval by our stockholders of the Internalization Transaction;

the agreement by Wells REF to escrow a portion of the shares of our common stock constituting the Internalization Consideration relating to the value of property management contracts anticipated to be acquired after the closing of the Internalization Transaction;

the retention of Mr. Miller as our Chief Executive Officer and President in connection with the Internalization Transaction;

the financial presentation of Houlihan Lokey, including its opinion dated January 31, 2007, to the Special Committee as to the fairness, from a financial point of view and as of the date of the opinion, to us of the consideration to be paid by us pursuant to the Internalization Transaction, as more fully described in the section entitled Opinion of Houlihan Lokey below;

the review by Stanger of the Projected Earnings and the other financial due diligence conducted by Stanger with respect to the Advisor s business;

the report of Ernst & Young to the Special Committee reporting the results of Ernst & Young s application of certain agreed-upon procedures on the historical financial data of the Advisor to assist the Special Committee and Stanger in their evaluation of the Projected Earnings;

the determination to value our shares of common stock for purposes of the Internalization Transaction using a revised net asset value determination based upon updated appraisals of our properties and the review by Stanger of such appraisals and estimated net asset value determination;

the possibility that a Listing may improve our access to public debt and equity capital;

our ability, through the Internalization Transaction, to control key functions that are important to the growth of our business;

- the belief of the Special Committee that the beneficial ownership of our common stock by certain of our officers and directors would more directly align the interests of such officers and directors with those of our current stockholders and improve our ability to retain key personnel;

- the proven expertise and substantial experience of the employees of the Advisor or its affiliates who would become our employees in connection with the Internalization Transaction;

- the benefit of an internal management team which would be fully dedicated and solely focused on our strategic plans for enhancing stockholder value;

- the ability of our Board to terminate the Definitive Merger Agreement upon the payment of a termination fee in the event of a Superior Proposal (defined below) as described in the Definitive Merger Agreement;

- the conditions of our obligation to close the Internalization Transaction, including the approval of our stockholders; and

- the potential for increases in external advisor fees in the future in the event we do not complete an Internalization Transaction.

The Special Committee also took into account, without assigning relative weights to, the following factors. Although the Special Committee viewed these as potentially negative factors with respect to the Internalization Transaction, the Special Committee believed these factors were outweighed by the positive factors set forth above:

- existing potential conflicts of interest between us and the Advisor, including the respective positions of our management team and certain of our directors with us and the Advisor and the compensation and/or other benefits to be indirectly received by such persons as a result of the Internalization Transaction, as well as the fact that: (i) Mr. Wells, our Chairman and a director, has indirect economic interest in approximately 92% of WASI, which will result in Mr. Wells receiving indirect economic interest in approximately 17,982,598 shares of our common stock; and (ii) Messrs. Williams, Miller, Fretz and another individual affiliated with Wells REF who may become one of our executive officers each having a beneficial economic interest in approximately 1% in WASI which will result in each of them receiving an economic interest in approximately 195,463 shares of our common stock;

- the risk factors associated with the Internalization Transaction as more fully described in the section entitled Risk Factors , including the potential conflicts of interest that will continue after consummation of the Internalization Transaction. See Risk Factors Certain of our current and future directors and officers have potential conflicts of interest due to their financial interests in the Internalization, Leo F. Wells, III will face conflicts of interest relating to the positions he holds with entities affiliated with Wells REF, Leo F. Wells, III and our other directors will face competing demands on their time relating to the positions they hold with other entities affiliated with Wells REF and Our new Chief Executive Officer will be subject to certain conflicts of interest with regard to enforcing the indemnification provisions contained in the Definitive Merger Agreement and some of the ancillary agreements to be entered into by us in connection with the Internalization Transaction ;

- the potential liabilities associated with the direct employment of personnel, including the compensation which will be payable under Mr. Miller s Employment Agreement, workers disability and compensation claims, labor disputes and other employee-related grievances;

- the potential liabilities that we may inherit from the Advisor as a result of the Internalization Transaction that would not be covered by the indemnities in the Definitive Merger Agreement;

the additional general and administrative expenses associated with being self-advised;

the uncertainty of initial pricing and the potential for price volatility following a potential Listing;

the risk that we will not be able to execute our proposed growth strategies;

- the fact that our stockholders would receive a cash distribution upon a liquidation of our real estate portfolio; and

- the potential adverse effect on future sales of our common stock by management or WASI.

The Special Committee determined that, in light of all the factors that it considered, the Definitive Merger Agreement, the Internalization Transaction and the transactions expressly contemplated by the Definitive Merger Agreement are fair and reasonable and are advisable and in our best interests and in the best interests of our stockholders. Accordingly, the Special Committee **unanimously** recommended that our Board approve the Definitive Merger Agreement and the Internalization Transaction.

Board of Directors Recommendation

Our Board (other than Messrs. Wells and Williams, who have material financial interests in the Internalization and who recused themselves from consideration of and the vote on the approval of the Definitive Merger Agreement) has approved the Definitive Merger Agreement, the Internalization and the other transactions contemplated by the Definitive Merger Agreement, having determined that the Definitive Merger Agreement, the Internalization and the transactions contemplated by the Definitive Merger Agreement and are fair and reasonable to Wells REIT and are advisable and in the best interests of us and our stockholders. **Accordingly, our Board (excluding Messrs. Wells and Williams, who have material financial interests in the Internalization and, accordingly, recused themselves from consideration of our Board s recommendation) recommends that stockholders vote FOR the Internalization Proposal.**

Our Board based its determination that the Internalization is advisable and in our best interests and in the best interests of our stockholders primarily on:

- the factors considered and conclusions of the Special Committee; and

- the extensive negotiations of the Special Committee with representatives of Wells REF.

Our Board did not find it practical to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determination.

Opinion of Houlihan Lokey

The Special Committee retained Houlihan Lokey Howard & Zukin Financial Advisors, Inc. (Houlihan Lokey) to issue a fairness opinion to the Special Committee and our Board in connection with the Internalization. Houlihan Lokey is an internationally recognized investment banking firm which is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. The Special Committee selected Houlihan Lokey to issue the fairness opinion in connection with the Internalization based in part on Houlihan Lokey s experience in transactions similar to the Internalization and its reputation in the REIT sector and investment community.

On January 31, 2007, at a meeting of the Special Committee and the Independent Directors of our Board held to evaluate the Internalization Transaction, Houlihan Lokey delivered its oral opinion, which was confirmed by delivery of a written opinion to the Special Committee and our Board dated January 31, 2007, to the effect that, as of the date of the opinion and based on and subject to various assumptions and limitations described in its opinion, the consideration to be paid by us in the Internalization Transaction is fair to us from a financial point of view. For purposes of this section, such consideration is referred to as the Consideration.

The full text of Houlihan Lokey s written opinion to the Special Committee, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Appendix B to this proxy statement and is incorporated by reference in its entirety into this document. You are encouraged to read the Houlihan Lokey s opinion carefully in its entirety. The following summary of the

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opinion is qualified in its entirety by reference to the full text of Houlihan Lokey s opinion. Houlihan Lokey provided its opinion to the Special Committee and our Board to assist the Special Committee and our Board in their evaluation of the Consideration from a financial point of view. Houlihan Lokey s opinion does not address any other aspect of the Internalization and does not constitute a recommendation as to how you should vote or act in connection with the proposed Internalization.

In connection with its opinion, Houlihan Lokey made such reviews, analyses and inquiries as it deemed necessary and appropriate under the circumstances. Among other things, they have:

- reviewed our annual report to stockholders on Form 10-K for the fiscal year ended December 31, 2005, and our quarterly report on Form 10-Q for the quarter ended September 30, 2006;
- reviewed audited financial statements of the Advisor for the fiscal year ended December 31, 2005, and unaudited financial statements for the period ended December 31, 2004 and interim financial statements for the nine months ended September 30, 2006;
- held discussions with the Special Committee, representatives of Stanger and counsel regarding us, the Internalization Transaction, and related matters;
- held discussions with certain members of the management of Wells REF regarding the operations, financial condition, future prospects and projected operations and performance of the Advisor and regarding the Internalization Transaction;
- reviewed the following agreements and documents:
  - the draft Definitive Merger Agreement dated January 30, 2007 and the Advisor Disclosure Schedule thereto, the Escrow Agreement and the Pledge and Security Agreement;
  - the draft Preliminary Proxy Statement for the Internalization Transaction dated January 25, 2007;
- reviewed, but did not rely upon, a report on applying agreed-upon procedures prepared by the independent accountants dated January 13, 2007;
- reviewed financial forecasts and projections prepared by the management of Wells REF with respect to the Advisor for the fiscal years ending December 31, 2006 and 2007;
- reviewed the property appraisals for our properties dated as of September 30, 2006;
- reviewed the report from a third party related to the estimated net asset value per share of our common stock as of September 30, 2006;
- reviewed certain other publicly available financial data for certain companies that Houlihan Lokey deemed relevant and publicly available transaction prices and premiums paid in other change of control transactions that Houlihan Lokey deemed relevant for

companies in related industries to us and the Advisor; and

conducted such other financial studies, analyses and inquiries as Houlihan Lokey deemed appropriate.

Material Assumptions Made and Qualifications and Limitations on the Review Undertaken

Houlihan Lokey relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished, or otherwise made available, to Houlihan Lokey, discussed with or reviewed by Houlihan Lokey, or publicly available, and did not assume any responsibility with respect to such data, material and other information. Further, based upon its due diligence with the management of Wells REF, Houlihan Lokey assumed that the Company does not currently intend to (1) liquidate or (2) sell all or substantially all of the assets of the Company, or all or substantially all of the ownership interests in the Company, in one or several transactions, except for minority equity sales amongst the Company s stockholders and/or a potential listing of the Company s common shares on a national securities exchange or over-the-counter market. In addition, the management of Wells REF advised Houlihan Lokey, and Houlihan Lokey assumed, that the financial forecasts and projections were reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of Wells REF as to the future financial results and condition of Wells REIT and the Advisor. Houlihan Lokey expressed no opinion with respect to such forecasts and projections or the assumptions on which they were based. Houlihan Lokey relied upon and assumed, without independent verification, that there had been no material change in the assets, liabilities, financial condition, results of operations, business or prospects of Wells REIT or the Advisor since the date of the most recent financial statements provided, and that there was no information or facts that would make any of the information reviewed incomplete or misleading. Houlihan Lokey did not consider any aspect or implication of any transaction to which we or the Advisor were a party other than the Internalization Transaction.

Houlihan Lokey relied upon and assumed, without independent verification, that (a) the representations and warranties of all parties to the agreements identified above and all other related documents referred to therein were true and correct, (b) each party to all such agreements will fully and timely perform all of the covenants and agreements required to be performed by such party, (c) all conditions to the consummation of the Internalization Transaction will be satisfied without waiver thereof, and (d) the Internalization Transaction will be consummated in a timely manner in accordance with the terms described in the agreements provided to Houlihan Lokey, without any amendments or modifications thereto or any adjustment to the aggregate consideration (through offset, reduction, indemnity claims, post-closing purchase price adjustments or otherwise). Houlihan Lokey also relied upon and assumed, without independent verification, that (1) the Internalization Transaction will be consummated in a manner that complies in all respects with all applicable federal and state statutes, rules and regulations, and (2) any governmental, regulatory, and other consents and approvals necessary for the consummation of the Internalization Transaction will be obtained and that no delay, limitations, restrictions or conditions will be imposed or amendments, modifications or waivers made that would result in the disposition of any material portion of our assets or assets of the Advisor, or otherwise have an adverse effect on us or the Advisor or any expected benefits of the Internalization Transaction. In addition, Houlihan Lokey relied upon and assumed, without independent verification, that the final forms of the draft documents identified above would not differ in any material respect from such draft documents.

Houlihan Lokey, other than as set forth above, was not requested to make, and did not make, any physical inspection or independent appraisal or evaluation of any of the assets, properties or liabilities (fixed, contingent or otherwise) of Wells REIT, the Advisor or any other party. Houlihan Lokey expressed no opinion regarding the liquidation value of any entity. Houlihan Lokey did not undertake any independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which we or the Advisor is or may be a party or is or may be subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which we or the Advisor is or may be a party or is or may be subject. Houlihan Lokey s opinion made no assumption concerning, and therefore did not consider, the possible assertion of claims, outcomes or damages arising out of any such matters.

Houlihan Lokey was not requested to, and did not, (a) initiate any discussions with, or solicit any indications of interest from, third parties with respect to the Internalization Transaction or any alternatives to the Internalization Transaction, (b) negotiate the terms of the Internalization Transaction, or (c) advise the Special Committee, our Board or any other party with respect to alternatives to the Internalization Transaction or the potential value of our common stock, or proceeds to our common stockholders, that may be realized from such alternatives. Houlihan Lokey s opinion was based on financial, economic, market and other conditions as in effect on, and the information made available to Houlihan Lokey as of January 31, 2007. Houlihan Lokey did not undertake, and is under no obligation, to update, revise, reaffirm or withdraw its opinion (except to the extent that we request Houlihan Lokey to update its opinion within 90 days of its issuance), or otherwise comment on or consider events occurring after the date of its opinion. Houlihan Lokey did not consider, nor did it express any opinion with respect to, the current price of our common stock or the price that our common stock may trade at any time.

Houlihan Lokey s opinion was furnished for the use and benefit of the Special Committee and our Board in connection with their consideration of the Internalization Transaction and was not intended to, and does not, confer any rights or remedies upon any other person, and was not intended to be used, and may not be used, for any other purpose, without Houlihan Lokey s express, prior written consent. Houlihan Lokey s opinion should not be construed as creating any fiduciary duty on Houlihan Lokey s part to any party. Houlihan Lokey s opinion was not intended to be, and does not constitute, a recommendation to any security holder or any other person as to how such person should act or vote with respect to the Internalization Transaction.

Houlihan Lokey was not requested to opine as to, and its opinion does not address: (1) the underlying business decision of the Special Committee, Wells REIT, the Advisor, their respective security holders or any other party to proceed with or effect the Internalization Transaction, (2) the terms of any agreements or documents related to, or the form or any other portion or aspect of, the Internalization Transaction, except as addressed in the opinion, (3) the fairness of any portion or aspect of the Internalization Transaction to the holders of any class of securities, creditors or other constituencies of Wells REIT, or the Advisor, or any other party other than those set forth in Houlihan Lokey s opinion, (4) the relative merits of the Internalization Transaction as compared to any alternative business strategies that might exist for us, the Advisor or any other party or the effect of any other transaction in which we, the Advisor or any other party might engage, (5) the tax or legal consequences of the Internalization Transaction to either us or the Advisor, our respective security holders, or any other party, (6) the fairness of any portion or aspect of the Internalization Transaction to any one class or group of ours or any other party s security holders vis-à-vis any other class or group of ours or such other party s security holders (including without limitation the allocation of any consideration amongst such classes or groups of security holders), (7) whether or not Wells REIT, the Advisor, our respective security holders or any other party is receiving or paying reasonably equivalent value in the Internalization Transaction, or (8) the solvency, creditworthiness or fair value of Wells REIT, the Advisor or any other participant in the Internalization Transaction under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters. Houlihan Lokey did not provide any opinion, counsel or interpretation as to matters that required legal, regulatory, accounting, insurance, tax or other similar professional advice. Houlihan Lokey assumed that such opinions, counsel or interpretations were or will be obtained from the appropriate professional sources. Houlihan Lokey relied on the assessment by the Special Committee, Wells REIT and the Advisor and their respective advisers, as to all legal, regulatory, accounting, insurance and tax matters with respect to Wells REIT, the Advisor and the Internalization Transaction.

Summary of Analyses

In preparing its opinion to the Special Committee and our Board, Houlihan Lokey performed a variety of analyses, including those described below. The preparation of a fairness opinion is a complex process involving various quantitative and qualitative judgments and determinations with respect to the financial, comparative and other analytic methods employed and the adaptation and application of these methods to the unique facts and circumstances presented. As a consequence, neither a fairness opinion nor its underlying analyses is readily susceptible to partial analysis or summary description. Houlihan Lokey arrived at its opinion based on the results of all analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any individual analysis, analytic method or factor. Houlihan Lokey made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. Accordingly, Houlihan Lokey believes that its analyses must be considered as a whole and selecting portions of Houlihan Lokey s analyses, analytic methods and factors or focusing on information presented in tabular format, without considering the narrative description of the analyses, the underlying methodologies and the assumptions, qualifications and limitations affecting each analysis would create a misleading or incomplete view of the processes underlying its opinion. Houlihan Lokey did not assign specific weights to any particular analyses.

No company or business used in Houlihan Lokey s analyses for comparative purposes is identical to us or the Advisor, and no transaction used in Houlihan Lokey s analyses for comparative purposes is identical to the Internalization Transaction. The estimates contained in Houlihan Lokey s analyses and the reference valuation ranges indicated by any particular analysis are illustrative and not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, the analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or

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securities actually may be purchased or sold, which may depend on a variety of factors, many of which are beyond our control and the control of Houlihan Lokey. Much of the information used in, and accordingly the results of, Houlihan Lokey s analyses are inherently subject to substantial uncertainty and, therefore, none of Wells REIT, Houlihan Lokey or any other person assumes any responsibility if future results are materially different from those estimated or indicated.

Houlihan Lokey s opinion was provided to the Special Committee and our Board in connection with the Special Committee s and our Board s consideration of the Internalization and was one of many factors considered by the Special Committee and our Board in evaluating the Internalization. Neither Houlihan Lokey s opinion nor its analyses were determinative of the Consideration or of the views of the Special Committee and our Board with respect to the Internalization.

The following is a summary of the material valuation analyses prepared in connection with Houlihan Lokey s opinion rendered on January 31, 2007.

For purposes of its analyses, Houlihan Lokey reviewed a number of financial metrics including:

Enterprise Value the value of the relevant company s outstanding equity securities (taking into account its outstanding warrants and other convertible securities) plus the value of its net debt (the value of its outstanding indebtedness, preferred stock and capital lease obligations less the amount of cash on its balance sheet) and minority interests as of a specified date.

Net Operating Income or NOI the amount of the relevant company s earnings from operations after operating expenses, but before corporate selling, general, and administrative expenses for a specified time period.

EBITDA the amount of the relevant company s earnings before interest, taxes, depreciation, and amortization for a specified time period.

Funds From Operations or FFO the amount of the relevant company s net earnings after taxes adjusted to include real estate depreciation and amortization for a specified period of time.

Assets Under Management the market value of assets an investment company manages on behalf of investors.

Capitalization Rate or Cap Rate a percentage equal to the relevant company s NOI for a twelve-month period divided by the relevant company s enterprise value.

Payout Ratios the percentage of the relevant company s FFO that is paid out to stockholders as dividends.

Dividend Yield the amount of the relevant company s dividends paid out to stockholders over a twelve-month period divided by the relevant company s stock price.

Unless the context indicates otherwise, enterprise and per share equity values used in the selected companies analysis described below were calculated using the closing price of the common stock of the selected companies listed below as of January 29, 2007 and the enterprise values for the target companies used in the selected transactions analysis described below were calculated as of the announcement date of the relevant transaction based on the purchase prices paid in the selected transactions.

Advisor Valuation Analyses

Precedent Transactions Analysis. Houlihan Lokey calculated enterprise value as a multiple of EBITDA based on the purchase prices paid in selected transactions involving companies providing real estate services.

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The selected precedent transactions were:

Target	Acquiror	Transaction Announced
Trammell Crow Company	CB Richard Ellis Group, Inc.	10/30/2006
Dividend Capital Advisors LLC	DCT Industrial Trust, Inc.	09/05/2006
CNL Retirement Properties, Inc.	Health Care Property Investors Inc.	05/02/2006
Colliers International Property Consultants, Inc. / Spaulding & Slye	Jones Lang LaSalle, Inc.	11/28/2005
Dalgleish & Co. Limited	CB Richard Ellis Group, Inc.	10/31/2005
CMN International, Inc.	First Service Corp.	10/14/2004
Property Fund Management PLC	Teesland PLC	09/24/2004
Inland Retail Real Estate Advisory Services Inc.	Inland Retail Real Estate Trust, Inc.	09/10/2004
Sotheby s Holdings, Inc./ Sotheby s International Realty, Inc.	Cendant Corporation	02/17/2004

The selected precedent transactions analysis indicated the following:

Selected Transactions	Enterprise Value as a multiple of EBITDA
High	27.5x
Low	5.9x
Mean	13.5x
Median	8.1x

Houlihan Lokey applied a range of multiples based on the selected precedent transactions to the Advisor s estimated 2006 EBITDA. In performing its analysis, Houlihan Lokey took into account the Advisor s size, historical financial performance, prospects, revenue mix and customer base relative to the selected precedent transactions. The precedent transactions analysis indicated an implied enterprise value range for the Advisor of $160,000,000 to $180,000,000, as compared to the Internalization Consideration of $175,000,000.

Assets Under Management Analysis. Houlihan Lokey calculated the enterprise value as a percentage of assets under management for selected companies engaged in asset management activities, such as mutual funds and investment funds.

The selected companies were:

Affiliated Managers Group Inc.	Blackrock, Inc.
Eaton Vance Corp.	Franklin Resources, Inc.
GAMCO Investors, Inc.	Janus Capital Group Inc.
Nuveen Investments	Price (T. Rowe) Group
Waddell & Reed Financial Inc.	Cohen & Steers, Inc.

The assets under management analysis indicated the following:

Selected Companies	Enterprise Value as a percentage of assets under management
Low	2.21%
High	6.49%
Mean	3.96%
Median	3.62%

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Houlihan Lokey applied a range of percentages to the fair market value of the assets under management of the Advisor, which were based on internal estimates provided by Wells REF management and the Appraisals. In performing its analysis, Houlihan Lokey took into account the Advisor s size, historical financial performance, prospects, revenue mix and customer base relative to the selected asset management companies. The assets under management analysis indicated an implied enterprise value range for the Advisor of $162,000,000 to $216,000,000, as compared to the Internalization Consideration of $175,000,000.

Selected Companies Analysis. Houlihan Lokey calculated enterprise value as a multiple of estimated EBITDA for selected real estate advisory companies and financial advisory companies.

The selected companies were:

Company	Type
CB Richard Ellis Group, Inc.	Real Estate Advisory Company
Grubb & Ellis Company	Real Estate Advisory Company
Jones Lang LaSalle Inc.	Real Estate Advisory Company
Franklin Resources, Inc.	Financial Advisory Company
Nuveen Investments, Inc.	Financial Advisory Company
Marsh & McLennan Companies Inc.	Financial Advisory Company
T. Rowe Prices Group, Inc.	Financial Advisory Company

The selected market multiple analysis indicated the following:

Enterprise Value as a Multiple of EBITDA

Selected Companies	Real Estate Advisory Companies		Financial Advisory Companies	
	2006(E)	*2007(E)*	*2006(E)*	*2007(E)*
Low	13.5x	10.1x	10.9x	9.5x
High	16.2x	17.7x	15.1x	12.7x
Mean	14.8x	13.9x	13.6x	11.7x
Median	14.8x	13.8x	14.2x	12.2x

Houlihan Lokey applied a range of multiples based on the selected companies analysis to the Advisor s estimated 2006 and 2007 EBITDA. In performing its analysis, Houlihan Lokey took into account the Advisor s size, historical financial performance, prospects, revenue mix and customer base relative to the selected companies. Estimated financial data for the selected companies was derived from a review of publicly available research analyst estimates and reports and other information regarding the selected real estate advisory and financial advisory companies. The selected companies analysis indicated an implied enterprise value range for the Advisor of $165,000,000 to $185,000,000, as compared to the Internalization Consideration of $175,000,000.

Consideration Paid as a Percentage of Acquiror s Total Stock Analysis. Houlihan Lokey calculated aggregate stock consideration paid to target companies as a percentage of the acquiror s total number of shares outstanding (immediately prior to the acquisition) in selected transactions involving companies providing real estate and financial advisory services.

The selected precedent transactions were:

Target	Acquiror	Transaction Announced
Dividend Capital Advisors LLC	DCT Industrial Trust, Inc.	10/06/2006
CNL Retirement Properties, Inc.	Health Care Property Investors Inc.	05/02/2006
Inland Retail Real Estate Advisory Services Inc.	Inland Retail Real Estate Trust, Inc.	09/10/2004
Related Capital Company	CharterMac	11/07/2003
Cedar Bay Realty Advisors, Inc.	Cedar Shopping Centers, Inc.	10/01/2003

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Target	**Acquiror**	**Transaction Announced**
Carey Management LLC	W.P. Carey & Co., Inc.	06/28/2000
Inland Real Estate Advisory Services, Inc.	Inland Real Estate Corporation	03/31/2000
Starwood Financial Advisers	Starwood Financial Trust	06/16/1999
Captec Net Lease Realty Advisors, Inc.	Captec Net Lease Realty, Inc.	11/14/1997
Security Capital Group Incorporated	Prologis	09/09/1997
Security Capital Group Incorporated	Archstone Communities Trust	09/09/1997
Financial Asset Management LLC	Asset Investors Corporation	09/09/1997
Countrywide Asset Management Corp.	IndyMac Mortgage Holdings, Inc.	07/01/1997
CNL Realty Advisors	Commercial Net Lease Realty, Inc.	05/15/1997
QSV Properties, Inc.	U.S. Restaurant Properties Master L.P.	05/14/1997
Berkshire Realty Advisors	Berkshire Realty Company, Inc.	02/28/1997
Lexford Properties	Cardinal Realty Services Inc	08/01/1996
R.I.C. Advisors	Realty Income Corp	08/17/1995
R.M. Bradley & Co., Inc.	Bradley Real Estate, Inc.	01/01/1995

The consideration paid as a percentage of acquiror s total stock analysis indicated the following:

Selected Transactions	**Aggregate Stock Consideration Paid to Target as a Percentage of Acquiror s Total Shares Outstanding**
Low	3.2%
High	23.7%
Mean	8.6%
Median	6.2%

The consideration paid as a percentage of acquiror s total stock analysis, based on the selected transactions outlined above, was compared to the percentage of Wells REIT s outstanding stock being paid in its acquisition of Advisor of 4.2%, which is within the range of the percentages in the selected transactions and below the mean and the median.

Wells REIT Valuation

Selected Companies Analysis. Houlihan Lokey calculated enterprise value as multiples of EBITDA and FFO, and as a percentage of NOI, taking into consideration net debt, for selected real estate investment trusts for the latest 12-month period and estimates for 2006 and 2007.

The selected companies were:

Boston Properties, Inc.	Kilroy Realty Corporation	Crescent RE Equities Inc
Hrpt Properties Trust	Mack-Cali Realty Corporation	SL Green Realty Corp.
Highwoods Properties Inc.	Vornado Realty Trust	Brookfield Properties Corp

The selected companies analysis indicated the following:

	Enterprise Value of a REIT as a Capitalization Rate		
Selected Companies	***LTM***	***2006(E)***	***2007(E)***
Low	4.4%	4.8%	5.1%
High	8.9%	9.2%	9.7%
Mean	5.9%	6.0%	6.4%
Median	5.6%	5.6%	6.0%

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Selected Companies	Enterprise Value of a REIT as a Multiple of EBITDA LTM	2006(E)	2007(E)
Low	12.0x	12.2x	11.6x
High	25.7x	24.8x	23.0x
Mean	20.3x	19.1x	18.3x
Median	19.6x	19.3x	18.5x

Selected Companies	Enterprise Value of a REIT as a Multiple of FFO LTM	2006(E)	2007(E)
Low	8.9x	9.6x	10.2x
High	36.7x	25.6x	31.0x
Mean	20.5x	18.3x	20.0x
Median	18.1x	18.7x	20.6x

Houlihan Lokey applied capitalization rate and multiple ranges based on the selected companies analysis to corresponding financial data for Wells REIT, including estimates with respect to Wells REIT s future financial performance provided by Wells REF management. Estimated financial data for the selected companies was derived from a review of publicly available research analyst estimates and reports and other information for the selected real estate investment trusts. The selected companies analysis gave an overall indicated reference range value per share for Wells REIT s common stock of $8.16 to $9.39, as compared to the per share value of $8.9531 for Wells REIT s common stock that is being used to determine the number of shares to be issued as the Consideration.

Precedent Transactions Analysis. Houlihan Lokey calculated enterprise value as a multiple of EBITDA and the implied capitalization rate, based on purchase prices paid in selected transactions involving real estate investment trusts.

The selected precedent transactions were:

Target	Acquiror	Transaction Announced
Equity Office Properties Trust	Blackstone Real Estate Advisors	11/19/2006
Reckson Associates Realty Corp.	Rome Acquisition Limited Partnership (Macklowe and Carl Icahn)	11/16/2006
Glenborough Realty Trust, Incorporated	Morgan Stanley Real Estate	08/20/2006
Reckson Associates Realty Corp.	SL Green Realty Corp.	08/03/2006
Trizec Canada, Inc.	Brookfield Properties Corp./Blackstone Group	06/05/2006
Trizec Properties Inc.	Brookfield Properties Corp./Blackstone Group	06/05/2006
CarrAmerica Realty Corporation	Blackstone Real Estate Advisors	03/05/2006
Bedford Property Investors, Inc.	LBA Realty LLC	02/10/2006
Arden Realty, Inc.	GE Real Estate	12/22/2005
Prentiss Properties Trust	Brandywine Realty Trust	10/03/2005
CRT Properties, Inc.	DRA Advisors, LLC	06/17/2005

The selected precedent transactions analysis indicated the following:

Selected Transactions	Enterprise Value as a Multiple of EBITDA	Enterprise Value as a Capitalization Rate
Low	14.5x	5.5%
High	20.2x	7.8%
Mean	16.9x	6.6%
Median	16.7x	6.7%

Houlihan Lokey applied a range of multiples and capitalization rates based on the selected transactions analysis to Wells REIT s LTM, EBITDA and NOI, respectively. The selected precedent transactions analysis gave an overall indicated reference range value per share for Wells REIT s common stock of $8.59 to $9.82, as compared to the per share value of $8.9531 for Wells REIT s common stock that is being used to determine the number of shares to be issued as the Consideration.

Yield Analysis. Houlihan Lokey also calculated the payout ratios and dividend yields for the companies identified in the selected companies analysis, as well as for other real estate partnerships, and applied the payout ratios and dividend yields indicated by that analysis to corresponding data for Wells REIT. The yield analysis indicated an implied reference range value per share of Wells REIT s common stock of $8.38 to $9.03, as compared to the per share value of $8.9531 for Wells REIT s common stock that is being used to determine the number of shares to be issued as the Consideration.

Other Matters

The type and amount of consideration payable in the Internalization were determined through negotiations between the Special Committee and Wells REF, rather than by any financial advisor, and were approved by the Special Committee. The decision to enter into the Definitive Merger Agreement was solely that of the Special Committee and the Board. As described above, Houlihan Lokey s opinion and analyses were one of many factors considered by the Special Committee in its evaluation of the Internalization and should not be viewed as solely determinative of the views of the Special Committee, or our Board with respect to the Internalization or the Consideration.

We hired Houlihan Lokey to render an opinion to the Special Committee and our Board based on Houlihan Lokey s experience and reputation. Houlihan Lokey is regularly engaged to render financial opinions in connection with mergers and acquisitions, financial restructuring, tax matters, ESOP and ERISA matters, corporate planning, and for other purposes. We have agreed to pay Houlihan Lokey for its services in connection with the Internalization an aggregate fee of $500,000, one-half of which was payable at the time of Houlihan Lokey s engagement and one-half of which was payable upon the rendering of its opinion. No portion of Houlihan Lokey s fee was contingent upon the consummation of the Internalization Transaction or the conclusions set forth in Houlihan Lokey s opinion. We also have agreed to reimburse Houlihan Lokey for certain expenses, including attorneys fees and disbursements and indemnify Houlihan Lokey, any controlling person of Houlihan Lokey and each of their respective directors, officers, employees, agents, affiliates and representatives against specified liabilities, including liabilities under the federal securities laws.

In the ordinary course of business, certain of Houlihan Lokey s affiliates may acquire, hold or sell, long or short positions, or trade or otherwise effect transactions, in debt, equity, and other securities and financial instruments (including bank loans and other obligations) of Wells REIT and any other party that may be involved in the Internalization Transaction.

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DESCRIPTION OF THE INTERNALIZATION TRANSACTION

Set forth below is a summary of the material terms of the Internalization. The Definitive Merger Agreement, a copy of which is attached hereto as ***Appendix A,*** *contains a more extensive description of the terms of the Internalization. The summary set forth below is qualified in its entirety by reference to the Definitive Merger Agreement.*

General

Subject to the approval thereof by our stockholders and subject to the satisfaction of certain other conditions, the Definitive Merger Agreement provides for the simultaneous occurrence of the following: (1) WREAS will be merged into our wholly-owned subsidiary, WRT Acquisition, with WRT Acquisition being the surviving entity; (2) WGS will be merged into our wholly-owned subsidiary, WGS Acquisition, with WGS Acquisition being the surviving entity; and (3) the shares of common stock of WREAS and WGS currently held by WASI will be converted into 19,546,302 shares of our common stock in the aggregate, subject to certain escrow and other conditions. As a result of the Internalization Transaction, each of WREAS and WGS will be merged into and will become our wholly-owned subsidiaries, and we will become self-advised. We currently anticipate that we will have a total of approximately 100 to 110 employees following the Internalization. We anticipate that the Advisor will have approximately 80 to 90 employees who will become our employees as a result of the Internalization Transaction, that we will hire an additional approximately 15 to 30 employees shortly after Closing. We anticipate that, subject to the discretion of our compensation committee, we will issue stock options or other deferred equity awards pursuant to our 2007 Omnibus Incentive Plan to certain of our employees. In addition, we will hire and enter into the employment agreements with certain individuals associated with the Advisor or its affiliates and, as of the Closing Date, those individuals will also become our employees.

Under Maryland law and our existing Articles, holders of shares of our common stock will not be entitled to rights of appraisal with respect to the Internalization.

Determination of Estimated Net Asset Value of Our Shares of Common Stock

We recently engaged an independent appraisal firm to perform a valuation of our properties as of September 30, 2006. As a result of this valuation, on January 3, 2007, our Board determined that the estimated net asset value of our shares of common stock, based primarily on the estimated net asset value of our real estate portfolio, was $8.93 per share. The $8.93 estimated net asset value per share was provided by an independent third party which based its estimate upon (1) the appraised value of our real estate assets as of September 30, 2006, and (2) consideration of the current value of our other assets and liabilities as of September 30, 2006 (including the contingent liability for the subordinated disposition fee described below). This estimated net asset value per share is only an estimate, and is based upon a number of assumptions and estimates, which may not be accurate or complete. There were no liquidity discounts applied to this estimated valuation or discounts relating to the fact that we are currently externally managed, and no attempt was made to value the company as an enterprise. Further, this should not be viewed as the amount a stockholder would receive in the event that we were to list our shares in the future or to liquidate our assets and distribute the proceeds to our stockholders since, among other things, this valuation was not reduced by potential real estate brokerage commissions or other costs of sale.

Payment of Internalization Consideration

In the Internalization, we have agreed to pay the Internalization Consideration of $175 million in shares of our common stock and agreed to use the foregoing September 30, 2006 estimated net asset valuation as a basis for determining the number of shares that would represent the $175 million in value; however, since the estimated net asset valuation took into account an approximately $12.4 million subordinated disposition fee otherwise payable to the Advisor upon a liquidation of our properties at their September 30, 2006 appraised values, and the obligation to pay this contingent liability would be extinguished upon the acquisition of the Advisor, the parties agreed in the Definitive Merger Agreement to use a per-share value of $8.9531 (calculated by excluding the potential liability for the subordinated disposition fee) to determine the amount of shares paid as Internalization Consideration. As a result of the Internalization, all of the outstanding common stock of WREAS and WGS currently to be held by WASI, the parent of both WREAS and WGS, will be converted into 19,546,302 shares of our common stock (which represents approximately 4.2% of our currently outstanding common stock), reflecting the agreed-to Internalization Consideration of $175 million. Additionally our executive officers and certain of our directors, including our new Chief Executive Officer and President, Donald A. Miller, CFA, and another individual currently affiliated with Wells REF who may become one of our executive officers have beneficial economic interests in WASI and, as a result of the Internalization, will collectively receive beneficial economic interests in approximately 18,764,450 shares of our common stock, which will represent approximately $168 million in value (if valued at $8.9531 per share). In addition, in connection with the Internalization Transaction, Wells Capital will transfer its 20,000 limited partnership units of Wells OP to us or one of our subsidiaries in exchange for 22,339 shares of our common stock. See Internalization Proposal Interest of our officers and directors in the Advisor and certain of its Affiliates.

Closing

The Definitive Merger Agreement provides that the Internalization will be consummated on the Closing Date, which will be within three business days following the satisfaction or waiver of the conditions to the Internalization set forth in the Definitive Merger Agreement (other than conditions that by their nature are to be satisfied at the Closing), or on such other date as we and WASI may mutually agree.

Escrow of Certain Shares of Our Common Stock at Closing

As set forth above in the Negotiation of the Internalization Transaction section of this proxy statement, the $175 million of Internalization Consideration was determined and agreed to, in part, based upon a certain minimum level of Projected Earnings (the Incremental EBITDA Contribution). However, since we anticipate that not all of the properties for which property management fee income that was included in the Incremental EBITDA Contribution will be managed by the Advisor as of the Closing Date, the parties have agreed that, out of the total of 19,546,302 shares of our common stock to be issued to WASI as Internalization Consideration, a certain number of such shares of our common stock will be placed in escrow at closing (the Escrowed Shares) subject to our receipt during 2007 of the benefit of the additional property management fee income relating to properties not under management as of the Closing which was included in the Incremental EBITDA Contribution. The mechanics of determining the number of Escrowed Shares to be placed in escrow at closing have been agreed to by WASI and us, and are set forth on certain schedules to the Definitive Merger Agreement. Such schedules provide that the number shares of our common stock constituting the Internalization Consideration which represents that portion of the Incremental EBITDA Contribution relating to properties that will not be managed by us as of the Closing but that are proposed to be under our management by the end of 2007 will be treated as Escrowed Shares to be held and disbursed to WASI or us pursuant to the terms of the Escrow Agreement. All shares issued to WASI at closing or after the closing out of the Escrowed Shares will be issued and held under the Pledge and Security Agreement. For a detailed discussion regarding the escrow of shares at closing and how the Escrowed Shares will be disbursed under the Escrow Agreement and the Pledge and Security Agreement, please see the Escrow Agreement and the Pledge and Security Agreement sections of this proxy statement below and the Definitive Merger Agreement attached as **Appendix A**.

Acquisition of Property Management Offices and Property Management Agreements

As set forth above in the Property Management Offices section of this proxy statement, Wells REF has agreed in the Definitive Merger Agreement that as part of the Internalization Transaction we will acquire the property management offices located in or being established in the cities of Washington, D.C., Minneapolis, Tampa, Los Angeles, Chicago, Detroit and Dallas, out of which we will manage certain of our properties and certain properties owned by other programs sponsored by Wells REF and its affiliates. In connection with our acquisition of these property management offices, we will also acquire the property management agreements for the properties currently managed by Wells Management or WGS out of these offices as a part of the Internalization Transaction. In addition, as also described in the

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Property Management Offices section of this proxy statement, Wells Management will retain or establish property management offices in certain cities or regions where we will not initially have property management offices, out of which we anticipate that Wells Management will at least initially manage certain of our properties.

WGS has a lease for the office space it currently occupies in Washington, D.C., and leases for the office space currently occupied by Wells Management in the cities of Minneapolis, Tampa, Detroit and Dallas will be assigned to WREAS prior to the Closing Date. Pursuant to the Definitive Merger Agreement, Wells REF has agreed to cause the property management offices being established in the cities of Los Angeles and Chicago to be transferred to WREAS prior to the Closing Date and to pay all start up costs and expenses necessary for such property management offices to be fully operational. In addition, Wells REF and its affiliates have agreed in the Definitive Merger Agreement to use commercially reasonable efforts following the Closing Date to cause property management contracts relating to properties owned by us that are presently managed by third parties, but are projected to be transferred to us as a part of the Internalization Transaction, to be transferred to us.

Since a portion of our property management fee income, relating to both property management agreements in place and acquired by us at closing and property management agreements to be assigned to us or entered into by us after closing, will be generated from property management agreements for properties owned by other programs sponsored by Wells REF and its affiliates, there are no assurances that such entities will not cancel such property management agreements after closing, or that any such properties will not be sold after closing, resulting in a reduction in the level of our anticipated property management fee income. In order to protect us against such risks, however, Wells REF has agreed in the Definitive Merger Agreement to pay us in each year of its guaranty an amount equal to the projected amount of property management fees and property expense reimbursements lost as a result of the termination of property management agreements relating to properties owned by entities other than us which were included in the Incremental EBITDA Contribution, less any actual property management fees and property expense reimbursements from other properties not owned by us, the management of which Wells REF transfers to us and we assume after Closing. Such guarantee will terminate upon the earlier to occur (1) four years after the closing of the Internalization Transaction, or (2) at such time as at least 75% of the properties owned by us which continue to be managed by Wells Management after the closing of the Internalization Transaction become managed by us. In addition, Wells REF has agreed that, as long as it or its affiliates have the right to manage or to designate a property manager for a property managed by us which is not owned by us, it shall not cause the management of such property to be terminated without our consent, except as a result of a material, uncured default by us pursuant to the terms of the applicable property management agreement.

In addition, property management fee income from properties owned by entities other than us does not constitute qualified income under the 95% income test described in the Certain U.S. Federal Income Tax Considerations section of this proxy statement. However, as also described in the Certain U.S. Federal Income Tax Considerations section of this proxy statement, in order to adversely affect our REIT tax status, the level of all income that does not qualify as qualified income must exceed 5% of our total gross income, and it is currently anticipated that, even if we were able to acquire property management agreements for 100% of the properties owned by entities other than us which are included in the Incremental EBITDA Contribution, the level of property management fee income from all properties owned by entities other than us would not be expected to exceed 0.5% of our currently projected gross income after closing. See Internalization Proposal The Internalization Transaction Certain U.S. Federal Income Tax Considerations Income Tests.

Conduct of Business Prior to Closing

WASI, Wells Capital, Wells Management and Wells REF have agreed, among other things, that, except to the extent provided in the Definitive Merger Agreement, until the Closing, they:

shall, and shall cause the Advisor to conduct the Advisor s business in the ordinary course consistent with past practice and consistent with the requirements of the Asset Management Advisory Agreement, the Acquisition Advisory Agreement and the Master Property Management Agreement, and consistent with the assumptions underlying the projected earnings before deduction of interest, taxes, depreciation and amortization

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(Projected EBITDA) for the period January 1, 2007 through December 31, 2007 prepared by WASI, Wells Capital, Wells Management and Wells REF;

shall use commercially reasonable efforts to preserve substantially intact the present organization of the Advisor;

shall use commercially reasonable efforts to keep available the services of the present officers and employees of WASI, Wells Capital, Wells Management and Wells REF and all other persons who provide material services to us and any employees identified to provide services to us after Closing; and

shall use commercially reasonable efforts to preserve WASI, Wells Capital, Wells Management, Wells REF, WREAS and WGS s relationships with others having business dealings with them that relate to the Advisor s business.

WASI, Wells Capital, Wells Management, WREAS, WGS and Well REF have also agreed, without limiting the generality of the foregoing, that until the Closing, that they will not permit the Advisor to:

sell, lease, encumber, transfer or dispose of any of the assets, contracts or intellectual property that are being transferred to us in the Internalization Transaction, including by relinquishing any rights under any contract material to the Advisor, in each case except in the ordinary course of business;

fail to timely pay any account payable in the ordinary course of business other than amounts that are subject to dispute in good faith;

take any action that would adversely affect our qualification as a REIT;

enter into any material commitment or transaction related to the Advisor s business except in the ordinary course of business;

enter into any agreement providing for management services to be provided by the Advisor to a third party;

incur, create, assume or guarantee any indebtedness of or by WREAS or WGS;

change (or permit to be changed) any accounting or tax procedure or practice (including any method of accounting for tax purposes), make (or permit to be made) any tax election or settle or compromise any tax liability but only to the extent that such procedure or practice, election or compromise relates to the Advisor s business or to any tax liability of the Advisor or taxes of the Advisor as a separate entity;

other than nominal increases consistent with past practices, enter into, adopt, amend, terminate or waive any right under any employee benefit plan (including any employment or consulting arrangement), increase in any manner the compensation or benefits of any officer, employee or consultant of the Advisor or pay or otherwise grant any benefit not required by any employee benefit plan of the Advisor, or enter into any contract to do any of the foregoing;

commit WREAS or WGS to any single capital expenditure or commitment in excess of $25,000 or make aggregate capital expenditures and commitments in excess of $75,000 (on a consolidated basis);

cancel any debts or waive any claims or rights of substantial value relating to the Advisor or its business;

enter into, amend or terminate any contract of a type that, if in effect at the date of the Definitive Merger Agreement, would be required to be disclosed as a material contract in the Definitive Merger Agreement or, except in the ordinary course of business consistent with past practice, enter into, amend or terminate any other contract relating to the Advisor s business to which WREAS or WGS is a party;

issue, sell or grant any equity interests of WREAS or WGS, or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for any equity interests of WREAS or WGS, or any rights, warrants, options, calls, commitments or any other agreements of any character to purchase or acquire any equity interests of WREAS or WGS or any securities or rights convertible into, exchangeable for, or evidencing the right to subscribe for, any equity interests of WREAS or WGS or any other securities in respect of, in lieu of, or in substitution for, the shares of the common stock outstanding as of the date of the Definitive Merger Agreement;

settle or compromise any material claim, action, suit or proceeding pending or threatened against WREAS or WGS or relating to the Advisor s business;

except as permitted under the Definitive Merger Agreement or related transaction documents, enter into any transaction or any contract with any of the Advisor or its affiliate s officers, directors, consultants, or employees;

make or authorize any change in the articles of incorporation or bylaws of WREAS or WGS; or

take, or agree or otherwise commit to take, any of the foregoing actions or any other action that if taken would reasonably be expected to prevent the satisfaction of any of the closing conditions or post-closing tax matters set forth in the Definitive Merger Agreement.

Certain Pre-Closing Covenants

Pursuant to the Definitive Merger Agreement WASI, Wells Capital, Wells Management and Wells REF have agreed to certain covenants, among others, as described below.

WASI, Wells Capital, Wells Management and Wells REF have agreed:

to provide us with reasonable access upon reasonable prior notice to all personnel, officers, employees, agents, accountants, properties and facilities of WASI, Wells Capital, Wells Management, Wells REF, and the Advisor and the books and records relating to WASI, Wells Capital, Wells Management, Wells REF and the Advisor;

to furnish us with all such information and data (including copies of contracts, plans and other books and records) concerning WASI, Wells Capital, Wells Management, Wells REF and the Advisor or its business, and operations of WASI, Wells Capital, Wells Management, Wells REF and the Advisor or its business as we may reasonably request in connection with such investigation;

to assist in the preparation of the proxy statement to be filed by us with the SEC, including the preparation of any amendments or supplements thereto;

(a) to notify us in writing of any information obtained after the date of the Definitive Merger Agreement that was required to be, but was not, disclosed pursuant to the Definitive Merger Agreement, or that was necessary to complete or correct any such disclosure or any representation or warranty of WASI, Wells Capital, Wells Management and Wells REF; (b) to promptly inform us of any claim by any third party that a consent would be required as a result of the transactions contemplated by the Definitive Merger Agreement under the terms of any material contract or law; (c) to notify us promptly after becoming aware of the occurrence or non-occurrence of any event after the date of the Definitive Merger Agreement that would be likely to cause either any representation or warranty in the Definitive Merger Agreement to be breached in any material respect if it was made as of the Closing Date if then made or any of the closing conditions set forth in the Definitive Merger Agreement to be unsatisfied on the Closing Date; and (d) to notify us promptly after becoming aware of any material failure by WASI, Wells Capital, Wells Management or Wells REF to comply with or satisfy any covenant, condition or agreement applicable to it;

that all transfer, registration, stamp, documentary, sales, use and similar taxes (including all applicable real estate transfer or gains taxes and transfer taxes), any penalties, interest and additions to tax, and fees incurred in connection with the transactions contemplated by Definitive Merger Agreement shall be the responsibility of, and be timely paid by WAS I (with our cooperation and that of Wells Capital, Wells Management, Wells REF and the Advisor);

to promptly provide us (not later than the 20 days after the end of each period), with copies of Advisor s unaudited consolidated balance sheet and related statements of income prepared in accordance with GAAP;

to take such actions as are necessary to locate the employees and assets that are part of the Advisor s business to our headquarters;

to deliver an estoppel certificate from the owner of our headquarters that is reasonably acceptable to us;

to cause, prior to the Closing Date, Advisor to establish or cause to be established insurance policies providing insurance coverage to Advisor and us following the Closing, which insurance policies shall be no less beneficial in the aggregate than those disclosed by Advisor in the Definitive Merger Agreement (or, to the extent such coverage is not then reasonably available, as close as practicable to existing coverage terms consistent with prevailing insurance market conditions);

to (1) cause the property management offices and property management agreements which were included in the Projected EBITDA to be transferred to the Advisor prior to closing, and (2) pay all start up costs and expenses necessary for such property management offices to be fully operational;

to contribute, transfer to or otherwise cause Advisor to obtain the assets, personnel, contract rights, leaseholds, intellectual property and other resources necessary to conduct the Advisor s business and provide the services to us in substantially the same manner as they are presently conducted and provided after the Closing and to take all actions necessary to implement the transfer of the business to the Advisor such that the Advisor is fully operational and is able to conduct the business and provide the services as a stand-alone entity as of the Closing; and

(a) to take all actions necessary to transfer the employees used in Advisor s business (or if an employee s employment terminates, use commercially reasonable efforts to recruit and hire a suitable replacement acceptable to us), to WREAS (except to the extent that they are employees of WGS), (b) to cause WREAS to adopt employee benefit plans, programs and arrangements that are comparable to those plans provided to such employees as of the Closing Date, to the extent practicable, and (c) to use commercially reasonable efforts to recruit a chief financial officer reasonably acceptable to us and to recruit and hire employees to fill certain other positions reasonably acceptable to us (all such costs of recruiting and hiring to be paid by WASI, Wells Capital, Wells Management and Wells REF).

We have agreed:

to conduct our business in the ordinary course consistent with past practice;

to not intentionally take any action that would adversely affect our qualification as a REIT;

to operate in material compliance with the terms and conditions of our current contracts;

to prepare and file, with the assistance of WASI, Wells Capital, Wells Management and Wells REF, a proxy statement in preliminary form with the SEC;

to use commercially reasonable efforts to resolve with the SEC any comments that the SEC issues with respect to the proxy statement and to cause the proxy statement to be mailed to our stockholders;

to notify WASI, Wells Capital, Wells Management, Wells REF, WREAS and WGS promptly after becoming aware of the occurrence or non-occurrence of any event after the date of the Definitive Merger Agreement

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that would be likely to cause either any representation or warranty in the Definitive Merger Agreement to be breached in any material respect if it was made as of the Closing Date if then made or any of the closing conditions set forth in the Definitive Merger Agreement to be unsatisfied on the Closing Date;

acting through our Board, to establish a record date for and cause a meeting of our stockholders to be duly called and held as soon as reasonably practicable (after taking into account the requirements relating to the filing and distribution of the proxy statement) for the purpose of obtaining our stockholder approval of the Internalization Proposal, the Pre-Listing Charter Amendment Proposal, the Post-Listing Charter Amendment Proposal and the Incentive Plan Proposal;

in connection with the meeting of our stockholders, acting through our Board, and subject to our Board s rights upon the receipt by us of a Superior Offer (as defined in the Termination section below), (1) to recommend the approval of the Definitive Merger Agreement, the approval of the amendments to our Articles and the approval of the 2007 Omnibus Incentive Plan and (2) to otherwise comply in all material respects with all laws applicable to such meeting;

to maintain employee benefit plans, programs and arrangements that are comparable in the aggregate to those plans provided to such employees as of the Closing Date, until one year after the Closing Date; and

to adopt the 2007 Omnibus Incentive Plan promptly upon receiving stockholder approval and to maintain such a plan or a substantially comparable plan for one year after the Closing Date.

Covenants Relating to Dividends

To ensure that neither WREAS nor WGS has current or accumulated earnings and profits as of the time the mergers contemplated by the Internalization become effective, WASI has agreed that, prior to the execution and delivery of the Definitive Merger Agreement, (1) the board of directors of WASI and WREAS are required to adopt resolutions declaring a dividend to WASI in such amount as is ultimately determined by WREAS prior to Closing, and such dividend (if any) is required to be paid prior to the Closing Date based on the comfort letter to be obtained from Ernst & Young LLP so as to ensure that WREAS does not have current or accumulated earnings and profits, and (2) the board of directors of WASI and WGS are required to adopt resolutions declaring a dividend to WASI in such amount as is ultimately determined by WGS prior to Closing, and such dividend (if any) is required to be paid prior to the Closing Date based on the comfort letter to be obtained from Ernst & Young LLP so as to ensure that WGS does not have current or accumulated earnings and profits.

Covenants Concerning Post-Closing Employment Arrangements

WASI and the Advisor have agreed, at or prior to the Closing, to have entered into agreements or arrangements in form and substance satisfactory to the Special Committee, acting on our behalf, in its sole discretion, for the continuation and/or substitution of benefits to employees of the Advisor following the Internalization.

Post-Closing Covenants

Restrictions on Sale of Our Shares; Maintenance of Assets

Pursuant to the Definitive Merger Agreement WASI has agreed to certain post-closing covenants, among others, as described below:

to not, without our prior written consent, offer, sell, contract to sell, pledge, encumber or otherwise transfer or dispose of any of our shares of common stock that it receives pursuant to the Definitive Merger Agreement or securities convertible or exchangeable for any of such shares, or enter into any swap, hedge, or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such shares for a period of 18 months commencing on the Closing Date (the Lock-Up Period);

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to hold, for a period of 6 months following the end of the Lock-Up Period (the Follow-On Period), assets (net of liabilities) having a fair market value measured as of the last day of the Lock-Up Period of not less than the sum of $20 million plus an amount reasonably sufficient to cover any indemnity claims asserted in good faith in accordance with Definitive Merger Agreement against any of WASI, Wells Capital, Wells Management and Wells REF before the end of the Follow-On Period to the extent those claims remain unresolved; and

to hold, following the end of the Follow-On Period, assets having a fair market value measured as of the last day of the Follow-On Period of not less than an amount reasonably sufficient to cover any indemnity claims asserted in good faith in accordance with the Definitive Merger Agreement against any of WASI, Wells Capital, Wells Management and Wells REF before the end of the Follow-On Period, to the extent those claims remain unresolved.

Confidentiality

WASI, Wells Capital, Wells Management, Wells REF and we have also agreed, for a period of five years after the Closing Date, not to disclose to any third party any confidential or non-public information relating to any party to the Definitive Merger agreement, and will not use any confidential information, directly or indirectly, for any purpose other than in connection with the Definitive Merger Agreement and the transactions contemplated thereby or services provided pursuant to services agreements entered into in connection with the Definitive Merger Agreement (except that we are not restricted with respect to our use of confidential information relating to the Advisor following Closing).

Taxes

Without our prior written consent, none of WASI, Wells Capital, Wells Management, Wells REF, WREAS or WGS will, to the extent it may affect or relate to the Advisor, (1) make or change any tax election, (2) change any annual tax accounting period, (3) adopt or change any method of tax accounting, (4) file any amended tax return, (5) enter into any closing agreement related to any taxes, (6) settle any tax claim or assessment, (7) surrender any right to claim a tax refund, (8) offset or effect any other reduction in tax liability, (9) consent to any extension or waiver of the limitations period applicable to any tax claim or assessment or (10) take or omit to take any other action, if any such action or omission would have the effect of increasing the tax liability or reducing any tax asset of the Advisor.

WASI, Wells Capital, Wells Management, Wells REF and we have also agreed to cooperate fully, as and to the extent reasonably requested by the other party, in connection with the preparation and filing of any tax return and any audit or other proceeding with respect to taxes.

Employee Matters

After the Closing Date, each of WASI, Wells Capital, Wells Management, and Wells REF are required to continue to be responsible for any and all liabilities to or in respect of any of its employees, including any employee used and continuing in the Advisor s business, relating to or arising in connection with any and all claims for workers compensation benefits arising in connection with any occupational injury or disease occurring prior to the Closing Date in accordance with the plans of WASI, Wells Capital, Wells Management and Wells REF. After the Closing Date, each of WASI, Wells Capital, Wells Management and Wells REF are required to continue to be responsible for any and all liabilities to or in respect of any of its employees, including any employee used and continuing in the Advisor s business, relating to or arising in connection with any and all claims for short-term or long-term disability benefits arising in connection with any injury or disease occurring or existing on or prior to the Closing Date whether reported before or after the Closing Date in accordance with the plans of WASI, Wells Capital, Wells Management and Wells REF.

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Insurance Claims

After the Closing Date, (1) each of WASI, Wells Capital, Wells Management and Wells REF will use its commercially reasonable efforts to preserve any rights that we or the Advisor may have to make claims under the insurance policies disclosed pursuant to the Definitive Merger Agreement for claims arising out of occurrences prior to the Closing Date and (2) we and WASI, Wells Capital, Wells Management and Wells REF will cooperate with and assist each other in issuing notices of claims by us or the Advisor under such insurance policies, presenting such claims for payment and collecting insurance proceeds related thereto.

Non-Solicitation/No Hire

Each of WASI, Wells Capital, Wells Management and Wells REF have agreed that, for a period of five years after the Closing Date, it shall not, and shall cause its affiliates not to, directly or indirectly, hire (as an employee, consultant or otherwise) or solicit to perform services (as an employee, consultant or otherwise) or take any actions which are intended to persuade any termination of association of any employee used and continuing in the Advisor s business with us or the Advisor (or our affiliates). We have agreed that, for a period of five years after the Closing Date, we shall not, and shall cause our affiliates not to, directly or indirectly, hire (as an employee, consultant or otherwise) or solicit to perform services (as an employee, consultant or otherwise) or take any actions which are intended to persuade any termination of association of any employee of WASI, Wells Capital, Wells Management and Wells REF (or their affiliates).

Property Management Contracts

WASI, Wells Capital, Wells Management and Wells REF agree to use commercially reasonable efforts following the Closing Date to cause property management contracts relating to properties owned by us that are presently managed by third parties, but are projected to be transferred to the Advisor in connection with the Internalization Transaction, to be transferred to us.

Directors and Officers Insurance

For a period of six years after the Closing Date, we are required to maintain the same policies of directors and officers liability insurance maintained as of the date of execution of the Definitive Merger Agreement to the extent such policies cover WASI, Wells Capital, Wells Management and Wells REF and their respective officers, members and managers or policies of at least the same coverage and amounts containing terms and conditions which are not materially less advantageous with respect to claims arising out of or relating to events that occurred on or prior to the Closing Date.

Status of the Internalization Transaction as a Reorganization under the Code

Following the Closing Date, we, WASI, Wells Capital, Wells Management and Wells REF agree not to take any action that would be reasonably likely to cause any of the mergers contemplated by the Internalization to fail to qualify as a reorganization under Code Section 368(a). Further we, WASI, Wells Capital, Wells Management and Wells REF agree that the federal, state and local tax returns for the taxable years in which the mergers occur will be prepared and filed consistent with treating the mergers as reorganizations under Code Section 368(a)(1)(A).

Conditions to Closing

Conditions to Each Party s Obligations

The respective obligations of WASI, Wells Capital, Wells Management, Wells REF and us to effect the Closing are subject to the satisfaction or waiver at or prior to the Closing of the following conditions:

all necessary consents and approvals of any governmental authority required for the consummation of the transactions contemplated by the Definitive Merger Agreement shall have been obtained;

no statute, rule, regulation, order, decree or injunction shall have been enacted, entered, promulgated or enforced by a governmental authority that prohibits the consummation of the transactions contemplated by the Definitive Merger Agreement or related transaction documents shall be in effect and no action, suit or proceeding shall be pending before any governmental authority seeking an injunction, judgment, order, decree or ruling that would (1) prevent the consummation of the Internalization, (2) cause the Internalization to be rescinded following its consummation or (3) materially adversely affect the right of the Advisor to own its assets or operate its business;

we shall have obtained our stockholders approval of the Internalization and the other proposals contained in this proxy statement; and

WREAS, WGS and we shall have received written comfort from Ernst & Young LLP that the WREAS and WGS will not have any current or accumulated earnings and profits at Closing.

Conditions to Our Obligations

Our obligations, WRT Acquisition s obligations and WGS Acquisition s obligations to effect the Closing of the Internalization are further subject to the satisfaction or waiver at or prior to the Closing of the following conditions:

each of the representations and warranties made by WASI, Wells Capital, Wells Management and Wells REF in the Definitive Merger Agreement that is qualified by reference to materiality or a material adverse effect shall be true and correct, and each of the other representations and warranties made by WASI, Wells Capital, Wells Management and Wells REF in the Definitive Merger Agreement shall be true and correct in all material respects, in each case as of the date of the Definitive Merger Agreement and at and as of the Closing Date as if made on that date (except in any case that representations and warranties that speak as of a specified date or time need only be true and correct as of such specified date or time);

WASI, Wells Capital, Wells Management, Wells REF and the Advisor shall have performed and complied in all material respects with each agreement, covenant and obligation required by the Definitive Merger Agreement to be so performed or complied with by them at or before the Closing;

since the date of the Definitive Merger Agreement, no event, circumstance or change shall have occurred, that individually or in the aggregate with one or more other events, circumstances or changes, have had or reasonably would be expected to have, a material adverse effect with respect to the Advisor or its business;

all consents or approvals disclosed pursuant to the Definitive Merger Agreement, and any other consents or approvals, the absence of which reasonably would be expected to have a material adverse effect on the Advisor or its business, shall have been obtained, and we shall have received copies of such consents in form and substance reasonably satisfactory to us;

each of WASI, Wells Capital, Wells Management, Wells REF, WREAS and WGS shall have delivered to us a certificate, dated the Closing Date and duly executed by Leo F. Wells, III and each entity s chief executive officer and chief financial officer, as authorized signatories of such entity, in form and substance reasonably satisfactory to us, certifying the satisfaction of specified closing conditions;

we shall have entered into a definitive employment agreement with Donald A. Miller, CFA, and such employment agreement shall remain in full force and effect;

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any of WASI, Wells Capital, Wells Management or Wells REF that is party to the services agreements (to be executed in connection with Definitive Merger Agreement) shall have executed and delivered such services agreements to us;

WASI, Wells Capital, Wells Management and Wells REF and the escrow agent shall have executed and delivered the escrow agreement (to be executed in connection with Definitive Merger Agreement) to us;

WASI, Wells Capital, Wells Management and Wells REF shall have executed and delivered the pledge agreement (to be executed in connection with Definitive Merger Agreement) to us;

WASI and Wells Capital shall have executed and delivered the registration rights agreement (to be executed in connection with Definitive Merger Agreement) to us;

Wells REF shall have executed and delivered the headquarters sublease (to be executed in connection with Definitive Merger Agreement) to us or one of our subsidiaries;

Wells Management and WGS shall have delivered executed assignments of the regional property management subleases (to be executed in connection with Definitive Merger Agreement) to us;

we shall have received an opinion of Holland & Knight LLP (in form reasonably acceptable to us) that (1) the mergers to be effected in connection with the Internalization Transaction will not result in any income tax liability to us, WRT Acquisition or WGS Acquisition; and (2) the mergers to be effected in connection with the Internalization Transaction will not adversely affect our status as a real estate investment trust for federal income tax purposes;

we shall have received an opinion of King & Spalding LLP concerning certain corporate-related matters with respect to WASI, Wells Capital, Wells Management, Wells REF, WREAS and WGS, substantially in the form required by the Definitive Merger Agreement;

Houlihan Lokey shall not have withdrawn its fairness opinion issued in connection with the Internalization and, if requested by our Special Committee, shall have issued an updated opinion dated as of the Closing Date;

we shall have received a certificate executed by the secretary of each of WASI, Wells Capital, Wells Management, Wells REF, WREAS and WGS certifying as of the Closing Date: (1) all board and stockholder or manager or member resolutions, as applicable, fully and properly executed, evidencing such entity s authorization to execute, deliver and perform the Definitive Merger Agreement and related transaction documents to which such entity is a party; (2) a true and complete copy of the articles of incorporation or organization, as applicable, and bylaws or operating agreement, as applicable, of such entity; and (3) incumbency matters with respect to such entity;

we shall have received certificates issued by the secretaries of state of the respective states of incorporation or organization, as applicable, of each of WASI, Wells Capital, Wells Management, Wells REF, WREAS and WGS certifying the good standing of such entity in such state as of a date within ten days prior to the Closing Date;

holders of an aggregate of 10% or more of our outstanding shares of common stock as of the date of the Special Meeting shall not have purported to exercise appraisal or dissenters rights under applicable provisions of the Maryland General Corporation Law with respect to the proposed amendments to our articles of incorporation by taking such actions as are required to be taken in order to exercise such rights (if any) under the Maryland General Corporation Law; and

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we shall have received a duly executed certification, in the form and manner set forth in U.S. Treasury Regulations Section 1.1445-(2)(b)(2), of WASI s non-foreign status.

Conditions to the Obligations of WASI, Wells Capital, Wells Management and Wells REF

The obligations of WASI, Wells Capital, Wells Management and Wells REF to effect the Closing are further subject to the satisfaction or waiver at or prior to the closing of the following conditions:

each of the representations and warranties made by us in the Definitive Merger Agreement that is qualified by reference to materiality or a material adverse effect shall be true and correct, and each of the other representations and warranties made by us in the Definitive Merger Agreement shall be true and correct in all material respects, in each case as of the date of the Definitive Merger Agreement and at and as of the Closing Date as if made on that date (except in any case that representations and warranties that speak as of a specified date or time need only be true and correct as of such specified date or time);

we shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by the Definitive Merger Agreement to be so performed or complied with by us or it at or before the Closing;

since the execution of the Definitive Merger Agreement, no event, circumstance or change shall have occurred that, have had or reasonably would be expected to have a material adverse effect on us;

we shall have delivered to WASI, Wells Capital, Wells Management and Wells REF a certificate, dated the Closing Date and duly executed by our Chief Executive Officer or Chief Financial Officer, in form and substance reasonably satisfactory to WASI, Wells Capital, Wells Management and Wells REF, certifying the satisfaction of specified closing conditions;

we shall have executed and delivered the Registration Rights Agreement, the Escrow Agreement, the Transition Services Agreement, the Support Services Agreement, and the Pledge and Security Agreement, all as contemplated by the Definitive Merger Agreement; and

WASI, Wells Capital, Wells Management and Wells REF shall have received a certificate executed by our secretary and the secretary, member or other executive officer of WRT Acquisition and WGS Acquisition certifying that as of the Closing Date: (1) all board, member and stockholder resolutions, as applicable, fully and properly executed evidencing our authorization and WRT Acquisition and WGS Acquisition s authorization to execute, deliver and perform the Definitive Merger Agreement and related transaction documents to which we, WRT Acquisition and WGS Acquisition are a party; (2) a true and complete copy of our organizational documents and WRT Acquisition and WGS Acquisition s organizational documents; and (3) incumbency matters with respect to us, WRT Acquisition and WGS Acquisition.

Representations and Warranties

Representations and Warranties of WASI, Wells Capital, Wells Management and Wells REF

The Definitive Merger Agreement includes various representations and warranties of WASI, Wells Capital, Wells Management and Wells REF as to, among other things (as applicable):

the corporate or limited liability company organization of WASI, Wells Capital, Wells Management and Wells REF;

the corporate organization and qualification of WREAS and WGS;

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the power and authority of each of WASI, Wells Capital, Wells Management and Wells REF to enter into the Definitive Merger Agreement and related transaction documents to which each is a party and perform the transactions contemplated thereby;

the approval of the execution and delivery of the Definitive Merger Agreement and related transaction documents by the managers and members of WASI;

the approval of the execution and delivery of the Definitive Merger Agreement and related transaction documents by the boards of directors and stockholders of each of Wells Capital, Wells Management, Wells REF, WREAS and WGS;

the Definitive Merger Agreement s and related transaction documents non-contravention of any organizational document, any contract or instrument of any kind, or any judgment, law or regulation binding upon or applicable to WASI, Wells Capital, Wells Management, Wells REF, WREAS or WGS;

having no requirement to obtain certain approvals relating to the Internalization other than filings required by the SEC, state blue sky laws , and the Secretary of State of the State of Georgia;

WASI s ownership of WREAS and WGS;

WREAS and WGS s capitalization;

the absence of subsidiaries of, and equity investments by WREAS and WGS;

the absence of any outstanding rights, privileges (whether preemptive or contractual), or agreements relating to equity interests of WREAS and WGS;

the completeness and accuracy of the financial statements relating to the Advisor s business;

the design and operation of internal controls of the Advisor s business;

the absence of fraud involving management or employees of WASI, Wells Capital, Wells Management, Wells REF, WREAS or WGS with respect to the Advisor s business;

the absence of significant changes in the internal controls of WASI, Wells Capital, Wells Management and Wells REF that relate to the Advisor s business and could affect WREAS, WGS or the Advisor s business;

the preparation by WASI, Wells Capital, Wells Management and Wells REF of Projected EBITDA of the Advisor s business for the period January 1, 2007 through December 31, 2007;

the absence of undisclosed liabilities relating to the Advisor s business or assets;

the absence of certain material adverse changes or events respecting the Advisor and its business;

the completeness and accuracy of the books and records of the Advisor;

tax matters;

compliance with the Employee Retirement Income Security Act of 1974, as amended (ERISA), with respect to employee benefit plans;

employment matters;

labor relations;

the absence of litigation affecting WASI, Wells Capital, Wells Management, Wells REF, WREAS or WGS, or relating to the Advisor s employees, assets, or contracts;

the absence of material violations of law by WASI, Wells Capital, Wells Management, Wells REF, WREAS or WGS relating to the Advisor s business, employees or assets;

the Advisor s title to its assets and the absence of encumbrances with respect thereto;

the sufficiency of the Advisor s assets to conduct the Advisor s business;

insurance matters;

the Advisor s advisory and management contracts and other material agreements;

the sufficiency of the Advisor s intellectual property to conduct the Advisor s business;

the Advisor s real property interests;

environmental, health and safety matters;

the Advisor s bank accounts;

the absence of other clients of the Advisor;

the Advisor s licenses and permits;

the absence of powers of attorney executed on behalf of the Advisor;

the absence of related party transactions, except as otherwise disclosed;

the absence of fees or commissions payable to brokers in connection with the Internalization;

the completeness and accuracy of information supplied by WASI, Wells Capital, Wells Management, Wells REF, WREAS and WGS for inclusion in this proxy statement;

property appraisals, net asset value determinations, and previous third party offers relating to us and our assets;

the Advisor s anticipated fees and expenses payable by us;

certain securities laws matters relating to acquisition by WASI of unregistered shares of our common stock;

the non-foreign status of WASI, Wells Capital, Wells Management, Wells REF, WREAS and WGS;

the projected management revenues and expenses related to in-house property management;

the knowledge of WASI, Wells Capital, Wells Management and Wells REF regarding the accuracy of our representations; and

government properties compliance.

Certain of these representations and warranties are limited to knowledge or have other materiality qualifiers. These representations and warranties generally survive until 18 months after the Closing Date; provided that (1) the representations and warranties relating to (A) tax matters, (B) ERISA and employee benefits matters, (C) no violation of law, (D) title to assets, (E) environmental and health and safety matters, and (F) brokers survive until the later of 18 months after the Closing Date or 30 days after the expiration of the applicable statute of limitations with respect to the matters addressed in such sections, and (2) the representations and warranties relating to (A) the corporate organization and qualification of WASI, Wells Capital, Wells Management and Wells REF, (B) the power and authority of WASI, Wells Capital, Wells Management and Wells REF to enter into the Definitive Merger Agreement and related transaction documents and perform the transactions contemplated thereby, (C) the corporate organization and power and authority of WREAS and WGS, and (D) WREAS and WGS s capitalization survive indefinitely with respect to the matters addressed in such sections.

In addition, WASI, Wells Capital, Wells Management and Wells REF have represented to us that, to their knowledge, the representations made by us in the Definitive Merger Agreement are true and correct in all material respects.

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Our Representations and Warranties

The Definitive Merger Agreement also includes customary representations and warranties to be made by us as to, among other things:

- our incorporation and the organization of WRT Acquisition and WGS Acquisition;
- our power and authority and WRT Acquisition and WGS Acquisition s power and authority to enter into the Definitive Merger Agreement and related transaction documents and perform the transactions contemplated thereby;
- the approval of the execution and delivery of the Definitive Merger Agreement and related transaction documents by our Board on our behalf;
- the approval of the execution and delivery of the Definitive Merger Agreement and related transaction documents by our Board as the sole member for each of WRT Acquisition and WGS Acquisition;
- the Definitive Merger Agreement and related transaction documents non-contravention of any organizational documents, or any judgment, law or regulation that is binding upon, or applicable to us, WRT Acquisition or WGS Acquisition;
- having no requirements to obtain approvals relating to the Internalization;
- our capitalization and the capitalization of WRT Acquisition and WGS Acquisition;
- the absence of fees or commissions payable to brokers in connection with the Internalization;
- disclosures in the proxy statement; and
- the absence of certain material adverse changes or events respecting us and our business.

Certain of these representations and warranties are limited to knowledge or have other materiality qualifiers. These representations and warranties generally survive until the date that is 18 months after the Closing Date; provided that the representations and warranties relating to (1) our power and authority and WRT Acquisition and WGS Acquisition s power and authority to enter into the Definitive Merger Agreement and related transaction documents and perform the transactions contemplated thereby, (2) our capitalization and the capitalization of WRT Acquisition and WGS Acquisition, and (3) brokers survive indefinitely with respect to the matters addressed in such sections.

Indemnification

General

Subject to the qualifications and limitations described below, WASI and Wells REF have agreed to jointly and severally indemnify and hold harmless us and our subsidiaries and their respective successors and the respective shareholders, directors, officers, employees and agents of each such indemnified person (collectively, the Wells REIT Indemnified Parties) from and against any and all losses that may be asserted against, or paid, suffered or incurred by any Wells REIT Indemnified Party to the extent they arise out of, result from, are based upon or relate to:

any breach, as of the date of the Definitive Merger Agreement or the Closing Date, of any representation and warranty made by WASI, Wells Capital, Wells Management and Wells REF in the Definitive Merger Agreement, related transaction documents, or certificates delivered by WASI, Wells Capital, Wells Management and Wells REF pursuant to the Definitive Merger Agreement and related transaction documents;

any failure by WASI, Wells Capital, Wells Management and Wells REF duly and timely to perform or fulfill any of their covenants or agreements required to be performed by them under the Definitive Merger Agreement or related transaction documents; and

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any act, omission or state of affairs for which Wells Capital, Wells Management or WREAS would be liable to us or would be required to provide indemnity to us or our subsidiaries under the Acquisition Advisory Agreement, the Asset Management Advisory Agreement and the Master Property Management Agreement (and regardless of whether the foregoing agreements remain in effect) or under our articles of incorporation, to the extent such an act, omission or state of affairs preceded the Closing;

provided, that indemnification by WASI and Wells REF for certain breaches of representations and warranties will be subject to further limitations set forth in the Definitive Merger Agreement.

We have agreed to indemnify and hold harmless WASI, Wells Capital, Wells Management, Wells REF and their respective successors (and their respective shareholders, members, partners, directors, officers, managers, employees and agents) (collectively the Advisor Indemnified Parties) from and against any and all losses that may be asserted against, or paid, suffered or incurred by any Advisor Indemnified Party to the extent they arise out of, result from, are based upon or relate to (1) any breach as of the date of the Definitive Agreement or the Closing Date, of any representation or warranty made by us in the Definitive Merger Agreement or related transaction documents or in the certificate delivered by us to WASI, Wells Capital, Wells Management, and Wells REF pursuant to the Definitive Merger Agreement; or (2) any failure by us to perform any of our covenants or agreements required to be performed under the Definitive Merger Agreement or any of the related transaction documents.

No amounts of indemnity will be payable by WASI, Wells Capital, Wells Management or Wells REF with respect to any claim relating to a breach or alleged breach of a representation or warranty unless and until the Wells REIT Indemnified Parties have paid, suffered or incurred losses in excess of $350,000 in the aggregate, in which case the Wells REIT Indemnified Parties may bring a claim for all losses in excess of such amount; provided, no such limitation exists with respect to certain specified representations. In addition, the maximum aggregate liability of WASI, Wells Capital, Wells Management or Wells REF with respect to any claim relating to a breach of a representation or warranty cannot exceed $175 million (the Maximum Indemnity Amount).

No amounts of indemnity will be payable by us unless and until the Advisor Indemnified Parties have paid, suffered, incurred, sustained or become subject to losses in excess of $350,000 in the aggregate, in which case the Advisor Indemnified Parties may bring a claim for all losses in excess of such amount; provided, that no such limitation exists with respect to certain specified representations and warranties. In addition, our maximum aggregate liability cannot exceed the Maximum Indemnity Amount.

Notwithstanding the foregoing, the limitations on liability described above will not apply to any claim for indemnity based on:

- the representations and warranties of WASI, Wells Capital, Wells Management and Wells REF regarding:
  - the power and authority of WASI, Wells Capital, Wells Management and Wells REF to enter into the Definitive Merger Agreement and related transaction documents and perform the transactions contemplated thereby;
  - WASI s ownership of the common stock of WREAS and WGS;
  - the corporate organization, qualification, and power and authority of WREAS and WGS;
  - WREAS and WGS s capitalization;
  - tax matters;
  - ERISA and employee benefit matters; and

the absence of fees or commissions payable to brokers or finders in connection with the Internalization; or

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our representations and warranties regarding:

- our corporate organization;
- our power and authority to enter into the Definitive Merger Agreement and related transaction documents and perform the transactions contemplated thereby;
- our capitalization; and
- the absence of fees or commissions payable to brokers or finders in connection with the Internalization.

The parties agree that any indemnification payments made with respect to this Agreement will be treated for all tax purposes as an adjustment to the consideration paid by REIT for WREAS and WGS, unless otherwise required by law (including, without limitation, by a determination of a tax authority that, under applicable law, is not subject to further review or appeal).

Except for claims based on fraud, following the Closing, the rights of the parties for indemnification relating to breaches of the Definitive Merger Agreement are limited to those contained in the Definitive Merger Agreement and such indemnification rights are the exclusive remedies of the parties with respect to breaches of this Agreement. For a discussion of potential conflicts of interest related to enforcement against WASI and Wells REF of the indemnification provisions contained in the Definitive Merger Agreement, see the Risk Factors Our new Chief Executive Officer will be subject to certain conflicts of interest with regard to enforcing the indemnification provisions contained in the Definitive Merger Agreement and enforcing some of the ancillary agreements to be entered into by us in connection with the Internalization Transaction.

Tax-Related Matters

WASI, Wells Capital, Wells Management and Wells REF have agreed to indemnify and hold us, (including WRT Acquisition and WGS Acquisition), harmless against any:

- taxes of the Advisor attributable to a tax period ending on or before the Closing Date or to the portion of any tax period beginning, but not ending, on or before the Closing Date that occurs prior to the Closing Date (but not including any tax liability that arises as the result of the failure of either of the mergers contemplated by the Internalization to qualify as a reorganization under Code Section 368(a));
- without duplication, losses or damages resulting from a breach of the (1) representations and warranties as to tax matters, (2) any liability for taxes of others which results from the Advisor having been a disregarded entity (within the meaning of U.S. Treasury Regulation Section 301.7701-3) of WASI, Wells Capital, Wells Management and Wells REF or which is imposed by law or as a result of any agreement or transaction that the Advisor was a party to or subject to prior to the Closing Date; and
- without duplication, liabilities, costs, expenses (including, without limitation, reasonable expenses of investigation and reasonable attorneys fees and expenses), losses, damages, assessments, settlements or judgments arising out of or incident to the imposition, assessment or assertion of any tax described in the bullets above (the sum of which being referred to as a Tax Loss); provided, that the amount otherwise recoverable for any Tax Loss will be reduced by the amount, if any, of Tax Loss set forth as a current liability on the balance sheet of the Advisor as of the Closing Date as finally determined pursuant to the Definitive Merger Agreement.

In addition, WASI, Wells Capital, Wells Management and Wells REF have agreed to (1) file or cause to be filed, in a manner consistent with past practices unless otherwise required by applicable law, all tax returns that are required to be filed by the Advisor prior to the Closing Date and pay any taxes due pursuant to such tax returns, and (2) cause Wells Management to include the income of WGS on Wells Management s consolidated federal income tax returns and any

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state and local tax returns filed on a consolidated basis consistent with past practices for all periods through the closing Date and pay any taxes attributable to such income. In the case of any tax return required to be filed after the date of the Definitive Merger Agreement, WASI will, within 30 days before the filing due date for that tax return, provide us with the opportunity to review a draft copy of the return.

Amendment; Waiver; Assignment; Termination

Amendments and Waivers

The Definitive Merger Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party to the Definitive Merger Agreement. In addition, any term or condition of the Definitive Merger Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver will be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition.

Assignment

Neither the Definitive Merger Agreement nor any right, interest or obligation thereunder may be assigned by any party by operation of law or otherwise without the prior written consent of the other parties to the Definitive Merger Agreement and any attempt to do so will be void.

Termination

The Definitive Merger Agreement may be terminated and the transactions contemplated by the Definitive Merger Agreement may be abandoned at any time prior to the Closing, before or after the approval by our stockholders, by mutual written consent of us and WASI, Wells Capital, Wells Management, and Wells REF. In addition, the Definitive Merger Agreement may be terminated by:

- either WASI, Wells Capital, Wells Management, Wells REF or us, if any court of competent jurisdiction or other competent governmental authority issues a statute, rule, regulation, order, decree or injunction or taken any other action prohibiting all or any portion of the transactions contemplated by the Definitive Merger Agreement and such statute, rule, regulation, order, decree, injunction or other action becomes final and non-appealable; or

- either WASI, Wells Capital, Wells Management, Wells REF or us, in the event (1) of a material breach of the Definitive Merger Agreement by the non-terminating party if such non-terminating party fails to cure such breach within 30 days following notification thereof by the terminating party or (2) the satisfaction of any condition to the terminating party s obligations under the Definitive Merger Agreement becomes impossible, but only if the failure of such condition to be satisfied is not caused by a breach of the Definitive Merger Agreement by the terminating party or its affiliates (a Material Breach Termination);

- either WASI, Wells Capital, Wells Management, Wells REF or us if the Closing does not occur on or before August 1, 2007 (an Expired Deadline Termination);

- either WASI, Wells Capital, Wells Management, Wells REF or us if this Definitive Merger Agreement has been submitted to our stockholders for approval at a duly convened stockholders meeting (or adjournments or postponements thereof) and our stockholder approval is not obtained (a Failure to Obtain Approval Termination); or

- by us if a majority of our Independent Directors determines to withdraw, modify or change the recommendation that our stockholders approve the Internalization Transaction due to a good faith determination by our Independent Directors that the failure to withdraw, modify or change such recommendation would be inconsistent with their fiduciary duties to our stockholders as a result of us

receiving a Superior Offer (a Director Determination Termination). A Superior Offer is defined in the Definitive Merger Agreement as a bona fide proposal from a third-party for (1) the acquisition of 50% or more of our assets, (2) a tender offer or exchange offer for 50% or more of our outstanding common stock or the outstanding interest in our operating partnership, or (3) a merger, consolidation, business combination or similar transaction; and a majority of our Independent Directors, in their discretion, determine in good faith that such proposal may result in a transaction that is reasonably likely to be more favorable to our stockholders from a financial point of view than the Internalization.

Any termination of the Definitive Merger Agreement will relieve all parties of any liability or further obligation to any party under the Definitive Merger Agreement, except that nothing will relieve any party from liability for any willful breach of the Amended Merger Agreement. If a majority of our Independent Directors determines to withdraw, modify or change the recommendation to proceed with the Internalization as a result of our receipt of a Superior Offer and the Definitive Merger Agreement is subsequently terminated by us due to a Material Breach Termination, an Expired Deadline Termination, or a Director Determination Termination, or by any party as a result of a Failure to Obtain Approval Termination, we are required to pay to Wells REF a $3.5 million termination fee within five 5 days of such termination in full satisfaction of all obligations to WASI, Wells Capital, Wells Management and Wells REF, and WASI, Wells Capital, Wells Management and Wells REF are not entitled to any other payments or reimbursements relating to any such termination.

Expenses

Except as otherwise provided in the Definitive Merger Agreement, whether or not the transactions contemplated by the Definitive Merger Agreement are consummated, each party will pay its own costs and expenses incurred in connection with the negotiation, execution and closing of the Definitive Merger Agreement and the related transaction documents and the transactions contemplated thereby.

Temporary License to use the Name Wells

Under the Definitive Merger Agreement, Wells REF has granted us a non-transferable, non-sublicenseable, non-exclusive, royalty-free right and license to use the name Wells as well as certain registered trademarks and trademark applications for registration (collectively, the Marks) solely in connection with our business from the date of the Definitive Merger Agreement through the latter of (1) the listing of shares of our common stock on a national exchange or (2) 18 months after the Closing Date in a manner substantially consistent with the use of the Marks prior to the date of the Definitive Merger Agreement. Wells REF may, at its option, upon 30 days written notice to us, terminate the license granted if we or our subsidiaries fail to comply with the requirements relating to the Marks under the Definitive Merger Agreement. The result of this temporary license is that upon the expiration of our temporary license including any potential renewals or extensions of such license to use the name Wells, we will be required to change our name and, accordingly, would lose any value, or perceived value, associated with the use of the name Wells.

Changes to our Board and Resolution of Certain Conflicts of Interest on our Board

Historically, we have been externally advised and have had in place certain allocation protocols and processes to address potential conflicts of interest between us and other Wells REF affiliates. In connection with approving the Internalization Transaction, our Board has reviewed potential conflicts of interest and the possibility that those protocols and processes that address potential conflicts of interest among Wells REF advised or managed entities would no longer address the conflicts of interest we might face once we become self-advised and self-managed. As a result, in connection with our Board s approval of the Internalization Transaction, the members of the Board agreed to take several actions to discontinue having directors (other than Mr. Wells) serve on both our Board and a board of directors of a Wells REF related entity that may compete with us. Three of our Independent Directors, Richard W. Carpenter, Bud Carter and Neil H. Strickland, and Douglas P. Williams, each of whom also serves on the board of directors of Wells REIT II, have agreed to resign as our directors, effective and conditioned upon the closing of the Internalization Transaction, and Donald S. Moss

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and W. Wayne Woody, two of our Independent Directors, have agreed to resign from the board of directors of Wells REIT II, also effective and conditioned upon the closing of the Internalization Transaction.

In anticipation of potential conflicts of interest relating to Mr. Wells while he remains one of our directors, upon the closing of the Internalization Transaction, our Board will establish a conflicts committee to specifically address any business related conflicts of interest that may occur due to Mr. Wells other positions with various Wells REF related entities. For a description of certain of these potential conflicts of interest, see Risk Factors Leo F. Wells, III will face conflicts of interest relating to the positions he holds with entities affiliated with Wells REF.

In addition, we and Mr. Wells have agreed that he will resign as a director at the time of a Listing of our common stock, should that occur, unless a majority of certain designated Independent Directors determines at that time that it is in our best interest that he remain a director, and upon Mr. Wells resignation as a director, for a period ending the earlier of (1) two years after a Listing of our common stock, should that occur, or (2) the first date on which Mr. Wells does not beneficially own at least 1% of our outstanding common stock, he will be entitled to designate an individual to be appointed to fill the vacancy created by such resignation and to be nominated for election to our Board at any annual meeting where directors are elected during such period, provided that such individual is reasonably acceptable to our Board and is not on the board of directors of Wells REIT II, Institutional REIT, Inc. or any other Wells REF related entity that may compete with us or any of our subsidiaries.

In connection with the execution of the Definitive Merger Agreement, Donald A. Miller, CFA, was elected by our Board as our Chief Executive Officer and President and as one of our directors.

Ancillary Agreements Related to Internalization

In connection with the Internalization, we have entered and will enter into new agreements with affiliates of the Advisor, including the following:

Escrow Agreement

Pursuant to the Definitive Merger Agreement, at or prior to the Closing Date of the Internalization, we will enter into an escrow agreement with WASI and a third-party escrow agent, (the Escrow Agreement). Upon execution of the Escrow Agreement, we will issue the Escrowed Shares to the escrow agent to secure the payment to us of the additional property management revenues which is included in the Incremental EBITDA Contribution but relates to the management of properties that are not managed by WREAS or WGS as of the Closing Date but that are projected to be managed by us after the Closing Date and before December 31, 2007. For so long as the Escrowed Shares remain in escrow, all distributions, dividends, returns of capital on other payments (Earnings) with respect thereto shall be held by the Escrow Agent (except that in certain circumstances a portion of the Earnings sufficient to cover certain tax obligations may be released). Following the end of fiscal year 2007, WASI and we will determine the amount of Escrowed Shares to be distributed to WASI based upon the application of a formula that is tied to EBITDA for the period between Closing and December 31, 2007 for the properties that are brought under our management by property management offices acquired by us at Closing, excluding any new properties acquired by us that become managed by us. The determination of EBITDA for such properties is based on an agreed formula in which total management fees actually received from such properties are multiplied by an agreed-to EBITDA margin. Escrowed Shares to be issued to WASI under the Escrow Agreement will be issued and held under the Pledge and Security Agreement described below. Pursuant to the Escrow Agreement, Escrowed Shares not distributed to WASI will be released to us.

Notwithstanding the foregoing, during the Lock-Up Period, (1) all shares of common stock which would otherwise be released to WASI will be held by the escrow agent in accordance with the Pledge and Security Agreement; (2) if the Earnings with respect to shares which would otherwise be released to WASI would not have been payable to WASI under the Pledge and Security Agreement had such Escrowed Shares been collateral under the Pledge and Security Agreement at such time, all such Earnings will be held by us or the escrow agent in accordance with the terms of the

Pledge and Security Agreement; and (3) upon the occurrence and during the continuance of an event of default under the Pledge and Security Agreement, all Earnings which are otherwise to be released to WASI will be delivered to us to be held in accordance with the Pledge and Security Agreement. The escrow agent will promptly release to WASI all of the Escrowed Shares, with all Earnings with respect thereto, in the event that we undergo a change in control on or before December 31, 2007. So long as the Escrowed Shares are held by the escrow agent, WASI is entitled (1) to receive, to the extent that there are any cash dividends or distributions payable on the Escrowed Shares that constitute a return of capital for federal or state income tax purposes, the portion of such cash dividends or distributions which is sufficient to pay any federal or state taxes with respect to such cash dividends or distributions, and (2) to exercise any and all voting and/or consensual rights and powers relating or pertaining to the Escrowed Shares, except as otherwise provided in the Pledge and Security Agreement.

The Escrow Agreement will terminate upon the earlier to occur of (1) the mutual written consent of WASI and us, or (2) disbursement of all of the Escrowed Shares (and any other amounts deposited into escrow with respect thereto). WASI and we have agreed to pay one-half of all fees, costs and expenses of the escrow agent. WASI and we have agreed to jointly and severally indemnify and hold harmless the escrow agent, and all directors, officers, employees, attorneys, agents and affiliates of the escrow agent (the Escrow Indemnified Parties) against any and all actions, claims, losses, damages liabilities, costs and expenses incurred by the Escrow Indemnified Parties from the date of the Escrow Agreement, arising from or in connection with the negotiation, preparation, execution, performance or failure of performance of the Escrow Agreement or any transactions contemplated therein, except for any liability finally determined by a court of competent jurisdiction, subject to no further appeal, to have resulted from the gross negligence or willful misconduct of the Escrow Indemnified Parties. The Escrow Indemnified Parties may employ their own counsel, provided that such counsel be reasonably acceptable to WASI and us. Any obligation for indemnification is required to be borne by WASI and us in proportion to each party s respective responsibility; provided, however, that if neither WASI nor we are determined to be responsible for such indemnification, any obligation for indemnification is required to be borne equally between WASI and us. For a discussion of potential conflicts of interest related to the enforcement of the Escrow Agreement against WASI, see the Risk Factors Our new Chief Executive Officer will be subject to certain conflicts of interest with regard to enforcing the indemnification provisions contained in the Definitive Merger Agreement and enforcing some of the ancillary agreements to be entered into by us in connection with the Internalization Transaction.

Pledge and Security Agreement

Pursuant to the Definitive Merger Agreement, WASI agreed to secure its indemnification obligations under the Definitive Merger Agreement by entering into a pledge and security agreement (the Pledge and Security Agreement) with us. Pursuant to the Pledge and Security Agreement, WASI will pledge in our favor the following (or any substituted collateral permitted pursuant to the Pledge and Security Agreement): (a) for a period of 18 months from the date of the Pledge and Security Agreement (the Lock-Up Period), all of our shares of common stock issued as Internalization Consideration; (b) for a period of 6 months after the end of the Lock-Up Period (the Follow-On Period), assets having a fair market value of not less than the sum of $20 million plus an amount reasonably sufficient to cover any unresolved or unpaid indemnification claims arising under the Definitive Merger Agreement (the Follow-On Collateral); and (c) following the end of the Follow-On Period, assets having a fair market value of not less than an amount sufficient to cover any unresolved or unpaid indemnification claims (the Remaining Collateral). In addition to the foregoing collateral, WASI will pledge in our favor certain property related to such collateral, including: (1) dividends or distributions made on or with respect to any pledged collateral, except as set forth in the Pledge and Security Agreement; (2) any money or property paid to us as a result of WASI s default under the Pledge and Security Agreement; (3) any substituted collateral which is satisfactory to us, in our sole judgment, (4) all new, substituted and/or additional shares or other securities issued upon conversion or exchange of or by reason of any stock dividend, reclassification, readjustment, stock split or other change declared or made with respect to the collateral referenced above, or any warrants or any other rights, options or securities issued in respect of such collateral; and (5) all proceeds relating to the pledged collateral; provided, however, the pledged collateral will not include the 22,339 shares of our common stock issued by us to Wells Capital. We will hold a security interest in all of the pledged collateral.

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So long as no event of default has occurred and is continuing, WASI is entitled to, (1) exercise any and all voting and/or consensual rights and powers relating to the collateral; and (2) receive and retain all regular periodic cash dividends or distributions payable on the collateral and an amount equal to the federal and state taxes owed on any other cash dividend constituting a return of capital; provided, however, that all other dividends or distributions, and any and all cash and other property received in exchange for or redemption of any of the collateral will be retained by us and will be considered as part of the collateral.

We or the escrow agent, as applicable, have agreed to return all collateral which exceeds an amount equal to the Follow-On Collateral to WASI following the Lock-Up Period, and we have agreed to release our security interest in such collateral. We or the escrow agent, as applicable, have agreed to return all collateral which exceeds an amount equal to the Remaining Collateral to WASI following the Follow-On Period, and we have agreed to release our security interest in such collateral. We or the escrow agent, as applicable, have agreed to return all remaining collateral to WASI and we have agreed to release our security interest in such collateral following (1) the expiration of both the Lock-Up Period and the Follow-On Period; (2) the final resolution of all indemnification claims; and (3) the irrevocable payment in full to us of all secured obligations. Hold-Over Collateral is that portion of the Remaining Collateral and any Follow-On Collateral that causes the aggregate value of the Follow-On Collateral to exceed $20 million, and is held to cover indemnification disputes under the Definitive Merger Agreement that remain unresolved as of the expiration of the Lock-Up Period or the Follow-On Period. Upon final resolution in accordance with the Definitive Merger Agreement of the dispute or disputes in respect of which the Hold-Over Collateral was required to be held, the escrow agent has agreed to deliver to us the amount specified in either joint written instructions by WASI and us, or by order of an arbitration ruling or a court of competent jurisdiction that becomes final and nonappealable. To the extent the resolution of the dispute results in a payment to us of less than the amount of the Hold-Over Collateral that was allocated to that dispute, escrow agent and we have agreed to release the remainder of the Hold-Over Collateral allocated to that dispute to WASI, and we have agreed to release our security interest in such Collateral. In the event that we undergo a change in control, the escrow agent has agreed to promptly return to WASI all Remaining Collateral, and we have agreed to release our security interest in such collateral.

WASI and we each have agreed to pay one-half of all fees, costs and expenses of the escrow agent. WASI and we have agreed to jointly and severally indemnify and hold harmless the escrow agent, and all directors, officers, employees, attorneys, agents and affiliates of the escrow agent (the Pledge Indemnified Parties) against any and all actions, claims, losses, damages, liabilities, costs and expenses incurred by the Pledge Indemnified Parties from the date of the Pledge and Security Agreement, arising from or in connection with the negotiation, preparation, execution, performance or failure of performance of the Pledge and Security Agreement or any transactions contemplated therein, except for any liability finally determined by a court of competent jurisdiction, subject to no further appeal, to have resulted from the gross negligence or willful misconduct of the Pledge Indemnified Parties. The Pledge Indemnified Parties may employ their own counsel, provided that such counsel be reasonably acceptable to WASI and us. Any obligation for indemnification will be borne by WASI and us in proportion to each parties respective responsibility; provided, however, that if neither WASI nor we are determined to be responsible for such indemnification, any obligation for indemnification will be borne equally between WASI and us. For a discussion of potential conflicts of interest related to enforcement of the Pledge and Security Agreement against WASI see the Risk Factors Our new Chief Executive Officer will be subject to certain conflicts of interest with regard to enforcing the indemnification provisions contained in the Definitive Merger Agreement and enforcing some of the ancillary agreements to be entered into by us in connection with the Internalization Transaction.

Transition Services Agreement

Prior to the Closing of the Internalization, WREAS will enter into the Transition Services Agreement with Wells REF which will provide WREAS and us with certain transitional services which consist primarily of services we believe we will need to continue to obtain from Wells REF at least until a potential Listing, including primarily investor relations support services, transfer agent related services, and investor communication support. Specifically, Wells REF will, among other things:

- manage our communications with stockholders, including answering phone calls, emails, facsimiles, voice mails, and written inquiries, as well as initiating contact with stockholders when appropriate;
- handle proxy communications, including providing assistance with the coordination of proxy statements and any householding issues.
- provide support for our client relations department, including the responsibility for certain securities brokerage accounts, employee and employee-related accounts, as well as assistance in the monitoring and supervising of regulatory activities;
- process and pay stockholders who request share redemptions;
- calculate and pay quarterly dividends to stockholders;
- process our tax returns;
- draft and coordinate the circulation of quarterly dividend press releases and all property-related announcements;
- serve as our primary contact for all general media inquiries;
- serve as our primary contact for broker dealers and financial advisors;
- coordinate quarterly financial advisor conferences;
- provide us with research and other support relating to the preparation of responses to any subpoenas;
- perform data research and general industry research;
- handle any escheatment issues;
- coordinate certain IRA related services;
- create and maintain all marketing communications;

- coordinate the placing of materials on our website and identify and implement improvements to our website; and

- provide us with assistance with the design and printing of quarterly stockholder statements.

The initial term of the Transition Services Agreement commences on the date of execution and continues for the lesser of one year or the period ending 90 days after a Listing, and is renewable by us for an additional one-year period. Thereafter, the Transition Services Agreement is automatically renewed for successive 180 day periods unless otherwise terminated. The Transition Services Agreement may terminate upon the mutual written agreement of the parties. In addition, WREAS may terminate the Transition Services Agreement in the event of an uncured material default by Wells REF upon 30 days prior written notice to Wells REF, and Wells REF may terminate the agreement, as to the entire agreement or with respect to any service, upon the occurrence of an uncured failure to pay for services as required under the Transition Services Agreement. Further, Wells REF may terminate the Transition Services Agreement with respect to any service upon 120 days written notice to WREAS, if Wells REF no longer provides such service to itself or any of its affiliates, and WREAS may terminate the agreement with respect to any individual service it no longer requires upon at least 30 days written notice, and the specified service will discontinue as of the date stated in such notice. In connection with the termination of the Transition Services Agreement, either (1) by non-renewal of the initial term or any renewal term or (2) pursuant to the Transition Services Agreement s termination provisions, Wells REF has agreed to use commercially reasonable efforts to accomplish an orderly transition of the services to WREAS or a third party service provider designated by WREAS without material interruption of the services and has agreed to cooperate with WREAS in effectuating such transition both prior to and for a reasonable period of time after such termination.

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During the initial term of the Transition Services Agreement, we have agreed to pay to Wells REF the following fees and reimbursements:

- for investor relations related services, $66,667 per month for up to 144,000 annual contacts with stockholders, with all contacts in excess of 144,000 to be billed at $5.56 per contact;
- for transfer agent related services of the type previously provided to us, $75,000 per month, and any special transfer agent services will be billed at $75 per hour;
- for investor communication support, $41,667 per month; and
- reimbursement for any out-of-pocket payments, costs or expenses incurred in connection with the termination of the services or the transfer of such services.

During the first renewal term of the Transition Services Agreement, we will be required to pay Wells REF 105% of the rates listed above; provided, however, that if the first renewal term commences prior to January 1, 2008, the rates for the first renewal term will not increase until January 1, 2008. Prior to any subsequent term of the Transition Services Agreement, we will be required to pay in such subsequent term to Wells REF certain rate adjustments to those fees listed above; however, such adjustments shall not exceed 130% of the then current rates and is also subject to the reasonable approval of WREAS; provided that if WREAS does not agree to such adjustments, the Transition Services Agreement shall terminate at the end of the then-current term.

Wells REF has represented and warranted in the Transition Services Agreement that the rates charged under the Transition Services Agreement do not exceed Wells REF s good faith estimate of its actual cost and do not exceed the rates that could reasonably be expected to be charged by a third party. Additional services not listed in the Transition Services Agreement may be performed upon a written request and will be billed at rates as set forth in the Transition Services Agreement. Wells REF will not be liable for any claims, liabilities, damages, losses, costs, expenses, fine and penalties arising out of or relating to any actual or alleged injury, loss or damage (Losses) relating to its provision of services, except to the extent the Losses result from Wells REF s gross negligence or willful misconduct, or a material breach of the Transition Services Agreement by Wells REF. WREAS and we, after the Internalization, have agreed to indemnify, defend, and hold Wells REF harmless against any and all Losses arising out of or relating to claims by third parties arising out of or relating to the providing of services by Wells REF, except to the extent the Losses result from the gross negligence or willful misconduct of the personnel of Wells REF or a material breach of the agreement by Wells REF.

Support Services Agreement

Prior to the Closing of the Internalization, WREAS will enter into the Support Services Agreement with Wells REF which will provide WREAS and us with certain support services, including human resources services and information technology services. Specifically, Wells REF agrees to, among other things:

- handle all payroll administration duties;
- coordinate retirement and other employee savings benefit plans;
- administer, manage and maintain employee health and wellness plans, as well as all other applicable plans, including any supplemental plans; and
- provide information technology services.

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The initial term of the Support Services Agreement commences on the date of execution and continues for a two-year period, and we have the right to renew the Support Services Agreement for an additional two-year period. Thereafter, the agreement will automatically renew for successive one-year periods unless otherwise terminated. The Support Services Agreement may terminate upon the mutual written agreement of the parties. In addition, WREAS may terminate the Support Services Agreement in the event of an uncured material default by Wells REF upon 30 days prior written notice to Wells REF, and Wells REF may terminate the agreement, as to the entire agreement or with respect to any service, upon the occurrence of an uncured failure to pay for services as required under the Support Services Agreement. Further, Wells REF may terminate the Support Services Agreement with respect to any service upon 120 days written notice to WREAS, if Wells REF no longer provides such service to itself or any of its affiliates, and WREAS may terminate the agreement with respect to any individual service it no longer requires upon at least 60 days written notice, and the specified service will discontinue as of the date stated in such notice. In connection with the termination of the Support Services Agreement, either (1) by non-renewal of the initial term or any renewal term or (2) pursuant to the Support Services Agreement s termination provisions, Wells REF has agreed to use commercially reasonable efforts to accomplish an orderly transition of the services to WREAS or a third party service provider designated by WREAS without material interruption of the services and has agreed to cooperate with WREAS in effectuating such transition both prior to and for a reasonable period of time after such termination.

During the initial term of the Support Services Agreement, we have agreed to pay to Wells REF the following fees and reimbursements:

- $38.00 per employee per month for administration of payroll, retirement and savings benefits, health and wellness, supplemental plans, and other plans;

- $64,167 per month for information technology services; and

- Reimbursement for any out-of-pocket expenses and reasonable third party costs incurred in connection with the termination of the services or the transfer of such services.

Wells REF has represented and warranted in the Support Services Agreement that the initial rates charged do not exceed Wells REF s good faith estimate of its actual cost and do not exceed the rates that could reasonably be expected to be charged by a third party.

During the first renewal term of the Support Services Agreement, in the event we elect to renew such agreement, we will be required to pay Wells REF 110% of the rates listed above. Prior to any subsequent term of the Support Services Agreement after the first renewal term, we will be required to pay in such subsequent term to Wells REF certain rate adjustments to those fees listed above; however, such adjustments shall not exceed 130% of the then current rates and is also subject to the reasonable approval of WREAS; provided that if WREAS does not agree to such adjustments, the Support Services Agreement shall terminate at the end of the then-current term.

Wells REF is not liable for any claims, liabilities, damages, losses, costs, expenses, fine and penalties arising out of or relating to any actual or alleged injury, loss or damage (Losses) relating to its provision of services, except to the extent the Losses result from Wells REF s gross negligence or willful misconduct, or a material breach of the Support Services Agreement by Wells REF. WREAS and we, after the Internalization, have agreed to indemnify, defend and hold Wells REF harmless against any and all Losses arising out of or relating to claims by third parties arising out of or relating to the providing of services by Wells REF, except to the extent the Losses result from the gross negligence or willful misconduct of the personnel of Wells REF or a material breach of the agreement by Wells REF.

Registration Rights Agreement

In the Definitive Merger Agreement, we agreed that at the Closing, we will enter into the Registration Rights Agreement with WASI and Wells Capital with respect to the shares of our common stock acquired by WASI and Wells

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Capital in connection with the Internalization (collectively, the Registrable Shares). The Registration Rights Agreement requires us, on up to two occasions, on demand of WASI, Wells Capital and their permitted transferees as a group (the Holders), to prepare and file a registration statement within 60 days of the demand that covers the resale of the Registrable Shares specified in the demand, and to use our commercially reasonable efforts to cause the registration statement to become and remain effective as promptly as reasonably practicable. We are not required to file a registration statement covering Registrable Shares with anticipated gross proceeds of less than $25 million (unless the registration statement covers all remaining Registrable Shares). This demand registration right is exercisable any time after the date that is 18 months following the date of the Registration Rights Agreement (subject to extension). We have agreed that we will use commercially reasonable efforts to keep the registration statements effective for up to 180 days; provided that we have agreed to keep one registration statement that is a shelf registration effective for up to one year, subject to certain conditions. In addition to the two demand registration rights described above, WASI has the one-time right, exercisable at any time after the date that is 18 months following the date of the Registration Rights Agreement, to require us to register a specified number of Registrable Shares to be distributed by WASI to current employees or former employees or directors of WASI or its affiliates or their respective heirs and successors.

Notwithstanding the demand registration rights, if the managing underwriter of a firm commitment underwritten offering (undertaken in connection with a demand registration) advises us that the total amount of securities requested to be included in such offering exceeds the amount which can be sold in such offering without materially delaying or jeopardizing the success of such offering, then the number of our shares of common stock requested to be included by us in the offering will be reduced and included on pro-rata basis with the securities of the other holders that requested the inclusion of their securities in such offering. The foregoing rights are subject to our right, under certain circumstances, to postpone the filing of any registration statement we may file, or suspend the use of an effective registration statement we have filed, pursuant to the Registration Rights Agreement, for a reasonable period of time, but not in excess of 60 days, or in excess of 90 days in the aggregate in any consecutive 12-month period under certain conditions (the Delay Period). The aggregate number of days in any such delays or postponements will extend for an equal period of time the time period for which we are required to maintain the effectiveness of any registration statement pursuant to the Registration Rights Agreement. Also, should an event occur that requires the making of any changes in a registration statement, prospectus or related documents so that such offering documents will not contain any untrue statement of material fact required to be stated therein or necessary to make statements therein not misleading, then the Holders will discontinue disposition of any Registrable Shares covered by such offering documents until such offering documents have been adequately supplemented and disseminated to the Holders, or we give notice to the Holders that disposition of the Registrable Shares pursuant to the offering documents may resume (the Interruption Period). In no event shall an Interruption Period exceed 90 days from the date of notice of such interruption from us and the aggregate number of days included in all Delay Periods and Interruption Periods during any consecutive 12 month period will not exceed a total of 120 days.

In addition, if at any time after the date that is 18 months following the date of the Registration Rights Agreement (subject to extension), we propose to file a registration statement with respect to a public offering of securities of the same type as the Registrable Shares pursuant to a firm commitment underwritten offering for our own account or for the account of any holder of shares of common stock subject to certain exceptions, we must give notice of the proposed filing to the Holders, at least 10 days before the anticipated filing date and offer the Holders the opportunity to include in the registration statement such amount of Registrable Shares as they may request, subject to customary underwriter cutback provisions pursuant to which we will have priority, if the registration statement is being filed for our account.

This piggyback registration right does not apply to registration statements filed in connection with employee stock option or purchase plans, relating to a transaction requiring registration pursuant to Rule 145 of the Securities Act, relating solely to a dividend or distribution reinvestment plan, or on Form S-8, Form S-4 or any successor form thereto. In addition, if the managing underwriter of a firm commitment underwritten offering (undertaken in connection with a piggyback registration) advises us that the total amount of securities requested to be included in an offering exceeds the amount which can be sold in such offering without materially delaying or jeopardizing the success of that offering, then the number of Registrable Shares requested to be included by one or more of the Holders in the offering pursuant to their piggyback registration rights will be reduced and included on pro-rata basis with the securities of the other holders that requested the inclusion of their securities in such offering.

In the event of an underwritten public offering of our common stock, the Holders may be required to hold back from selling or distributing their Registrable Shares, during the 5 days prior to the pricing of such offering and until the earlier of (1) the expiration of any holdback period agreed to by the underwriters at time of pricing (provided that the holdback period for a public offering in connection with a Listing shall be 180 days from the effective date of the registration statement), or (2) the abandonment of the offering by us.

We will pay all costs, fees and expenses incident to our obligations under the Registration Rights Agreement, (excluding the fees and expenses of any persons retained by the Holders and any transfer taxes relating to the disposition of the Registrable Shares by the Holder), including, among other fees and expenses, all registration and filing fees, printing expenses, our legal and accounting fees and expenses, and fees or premiums related to liability insurance. Under certain circumstances, the Holders may request in writing that their Registrable Shares be sold pursuant to a firm commitment underwriting, in which case we will use our reasonable best efforts to ensure that such firm commitment underwriting occurs.

Further, we have agreed to indemnify and hold harmless each Holder and its affiliates from and against any and all losses, claims, damages, liabilities, judgments and expenses as incurred, arising out of or based upon any untrue or alleged untrue statement of material fact contained in, or related to, any filings with the SEC during the registration process. Each Holder has agreed, severally and not jointly with any other Holder, to indemnify us from and against any and all losses, claims, damages, liabilities, judgments and expenses as incurred, to the extent arising out of or based upon any untrue or alleged untrue statement of material fact provided to us by any Holder for use in the registration statement.

Under the Registration Rights Agreement, we are required to use commercially reasonable efforts to keep public information available, to timely file all reports and other documents required by the Exchange Act, and to furnish to any Holder, upon written request, a statement, if true, that we have complied with the reporting requirements of Rule 144 of the Securities Act, as well as any reports or documents filed with the SEC that are not yet available on the SEC s website. We have also agreed that any Holder may transfer the registration rights with respect to the Registrable Shares, in accordance with applicable securities laws and the provisions of the Definitive Merger Agreement, the Pledge and Security Agreement, and the Escrow Agreement, so long as the transferee acquires at least 15% of the shares as of the date of the Registration Rights Agreement and the transferee is (1) an affiliate of the stockholder or (2) a Holder s family member or trust; and provided that such transferring Holder gives us 10 days notice prior to the transfer and the transferee agrees in writing to be bound as a stockholder to the provisions of the Registration Rights Agreement.

The Registration Rights Agreement will terminate when all of shares covered under the agreement are no longer registrable either because all such shares (1) have become effectively registered, (2) have been transferred or sold pursuant to Rule 144, or (3) are eligible to be sold pursuant to Rule 144(k).

Headquarters Sublease Agreement

At or prior to the Closing of the Internalization, one of our subsidiaries will enter into the Headquarters Sublease Agreement with Wells REF which will provide us with approximately 13,000 square feet of office space comprising approximately 57% of the fifth floor of the office building located at 6200 The Corners Parkway in Norcross, Georgia (the Building), together with the furniture, fixtures and equipment listed in an exhibit to the Headquarters Sublease Agreement (the Subleased Premises). Wells REF is responsible for the construction and installation of certain leasehold improvements to the Subleased Premises which are identified in an exhibit to the Headquarters Sublease Agreement and which are to be completed prior to the closing of the Internalization (the Commencement Date). Under the Headquarters Sublease Agreement, we will pay Wells REF approximately $25,450 monthly for base rent and various space related services. If the leasehold improvements are not completed by the Commencement Date then we are entitled to complete the leasehold improvements and deduct the cost of completion from our monthly rent payments. Also if we discover any material defects to the leasehold improvements within one year after the Commencement Date then Wells REF is required to correct such defects within 15 days after receiving notice of such defects, upon the failure of which we may take corrective action and deduct the reasonable out-of-pocket cost thereof from our monthly rent payments.

The portion of the fifth floor of the Building which is not included in the Subleased Premises is currently vacant. So long as that tenant space remains vacant and not subject to a sublease, we will have the option to sublease all or a portion of such vacant space (the Expansion Space), by notice to Wells REF, at the same rental rate per square foot and on the same terms as the Subleased Premises. The location and size of the Expansion Space is subject to the approval of Wells REF, which approval shall not be unreasonably withheld or delayed. In addition, we will have a right of first refusal to sublease all or any portion of the Expansion Space which is not subject to a sublease on the same terms as the Subleased Premises prior to Wells REF being allowed to lease such Expansion Space to a third party. If we elect not to exercise such right of first refusal then prior to subleasing such Expansion Space to such third party, Wells REF must submit to us for our approval (which approval shall not be unreasonably withheld or delayed) the plans and specifications for the proposed alterations to the Expansion Space which must include the plans for separating the Subleased Premises from the portion of the Expansion Space to be leased to such third party as well as plans showing our continued access to elevators, bathrooms and other common facilities.

The Headquarters Sublease Agreement will be subject to and subordinate to the Master Lease Agreement dated December 15, 2005 (the Master Lease) between Wells REF 6200 The Corners Parkway Owner, LLC, a Delaware limited liability company which is beneficially owned by Wells REF (the Master Landlord), and Wells REF. Under the Headquarters Sublease Agreement, we must comply with all of the terms and conditions of the Master Lease Agreement which are applicable to the Subleased Premises except that we will not be required to pay any portion of the Additional Rent payable by Wells REF to the Master Landlord pursuant to the Master Lease and must, at our own cost and expense, maintain and keep in good repair all portions of the Subleased Premises, except for building systems which include the HVAC, electrical and plumbing systems servicing the Subleased Premises. We may not make any material alterations, improvements or installations to the Subleased Premises without the prior written consent of both Wells REF and the Master Landlord. We will be permitted to install exterior signage, subject to Wells REF s review and approval, identifying us as an occupant of the Building. If the Master Lease expires or terminates for any reason other than by condemnation or destruction by fire or other casualty, or if Wells REF surrenders the Master Lease to the Master Landlord during the term of the Headquarters Sublease Agreement, the Master Landlord may elect, in its sole discretion, to continue to lease the Subleased Premises to us under a direct lease. We will not be able to assign any of our rights or obligations under the Headquarters Sublease Agreement or sublet any portion of the Subleased Premises without the prior written consent of Wells REF and the Master Landlord, both of whom may withhold their consent in their own discretion. If as a result of condemnation or casualty loss the Master Lease is terminated, the Headquarters Sublease Agreement will automatically terminate as of the same date.

The initial term of the Headquarters Sublease Agreement will commence on the Commencement Date and continue for a two-year period. We may renew the Headquarters Sublease Agreement for up to two additional two-year periods by providing Wells REF with 180 days written notice prior to the end of the initial term or the first extension term. The Headquarters Sublease Agreement may be terminated at any time upon 180 day prior written notice by us, in which case we must pay Wells REF a termination fee equal to one-half of the rent for the balance of the then-current term.

The provisions of the Master Lease pursuant to which the Master Landlord is to provide parking, heating, air conditioning and electrical services, janitorial services, common area maintenance, water, elevator service and building security are carried over into the Headquarters Lease Agreement with respect to the Subleased Premises, except that we will have no recourse against Wells REF for any defaults of the Master Landlord under the Master Lease so long as Wells REF is enforcing the provisions of the Master Lease. In addition, we will not have any right to use Wells REF s satellite receiving system located at the Building without the prior written consent of Wells REF. We will be required to carry the same insurance coverages on the Subleased Premises as Wells REF is required to carry under the Master Lease.

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Our failure to pay rent on a timely basis or to perform our other obligations under the Headquarters Sublease Agreement or the commencement of bankruptcy or other insolvency proceedings by or against us or our failure to discharge a lien against the Building caused by us within 30 days after the filing thereof will each constitute a default (subject to certain notice and right to cure provisions) under the Headquarters Sublease Agreement and will entitle Wells REF to exercise remedies which are typical of commercial leases including termination of our right to possession of the Subleased Premises and, at the election of Wells REF, termination of the Headquarters Sublease Agreement.

It is not anticipated that we will enter into any subordination and attornment agreement with any mortgage lender which may have a lien on the Building which means that, in the event of a foreclosure by any such mortgage lender, the Headquarters Sublease Agreement could be terminated even though we were not in default under the Headquarter Sublease Agreement.

Under the Headquarters Sublease Agreement, Wells REF will indemnify and hold us harmless against all claims for damaged persons or property that occur anywhere in the Building caused by the negligence or willful misconduct of Wells REF, its agents and employees or arising out of a default under the Master Lease not caused by us or which occur in or arise out of actions in the Building other than the Subleased Premises. Similarly, we will indemnify and hold harmless Wells REF and the Master Landlord against all claims for damages to persons or property which are caused by the negligence or willful misconduct of us, our agents or employees or arising out of a default under the Master Lease caused by us or which occur in the Subleased Premises (or arise out of actions in the Subleased Premises) unless the damage is caused by the negligence or willful misconduct of Wells REF or the Master Landlord or their respective agents or employees.

Our New Chief Executive Officer and President

Donald A. Miller, CFA, Chief Executive Officer and President

Donald A. Miller, CFA, has become our new Chief Executive Officer, President and a member of our Board. Mr. Miller, age 44, was formerly a Vice President of Wells REF and a Senior Vice President of Wells Capital and, in such capacities, was previously responsible for directing all aspects of the acquisitions, dispositions, property management, construction and leasing groups for Wells REF, Wells Capital and their affiliates, in connection with these entities providing services to us under our existing advisory, asset management and property management agreements. Prior to joining Wells REF and Wells Capital in 2003, Mr. Miller headed Lend Lease s U.S. equity real estate operations, including acquisitions, dispositions, financing and investment management. Prior to joining Lend Lease in 1994, Mr. Miller was responsible for regional acquisitions for Prentiss Properties Realty Advisors, a predecessor entity to the publicly traded Prentiss Properties REIT. Earlier in his career, Mr. Miller worked in the pension investment management department of Delta Air Lines and was responsible for real estate and international equity investment programs. Mr. Miller is a Chartered Financial Analyst and holds a Georgia real estate license. He received a B.A. from Furman University in Greenville, South Carolina. While Mr. Miller has extensive real estate experience and we have confidence that he will be successful in his position as our new Chief Executive Officer and President, Mr. Miller has no prior experience as a chief executive officer of a public company. As described elsewhere in this proxy statement, Mr. Miller owns an approximately 1% economic interest in WASI and, accordingly, will acquire a significant ownership interest in our common stock as a result of the Internalization. For a discussion of potential conflicts of interest as a result of Mr. Miller s ownership interest in WASI, see Risk Factors Our new Chief Executive Officer will be subject to certain conflicts of interest with regard to enforcing the indemnification provisions contained in the Definitive Merger Agreement and enforcing some of the ancillary agreements to be entered into by us in connection with the Internalization Transaction.

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Employment Agreements

We entered into an employment agreement with Mr. Miller and may enter into employment agreements with other executive officers, including our new Chief Financial Officer prior to the Closing Date.

Donald A. Miller, CFA, Employment Agreement

On February 2, 2007, we entered into an employment agreement with Donald A. Miller, CFA, (the Miller Employment Agreement). The Miller Employment Agreement took effect on the date we executed the Definitive Merger Agreement, February 2, 2007, and the initial period will end on December 31, 2009, unless terminated earlier in accordance with the termination provisions of the Miller Employment Agreement. The Miller Employment Agreement will automatically extend for successive one-year periods, unless Mr. Miller or we give 90 days written notice prior to the end of the initial term or any renewal term, or his employment otherwise terminates in accordance with the terms of the Miller Employment Agreement. Mr. Miller will serve as our Chief Executive Officer and our President. The Miller Employment Agreement also provides that, subject to the discretion of our Board s nominating and corporate governance committee and the vote of our stockholders, Mr. Miller will also serve as a member of our Board. The Miller Employment Agreement provides for an initial annual base salary of $600,000, an initial $200,000 bonus payable within 15 days of execution of the Miller Employment Agreement, and an annual target cash bonus in the first year of $400,000 based on certain criteria agreed to by Mr. Miller and by our compensation committee. In addition, after the initial year of the Miller Employment Agreement, Mr. Miller will be eligible to earn an annual cash bonus of up to 175% of his annual base salary based on satisfying performance criteria determined by our compensation committee. Mr. Miller will also be eligible to participate in our 2007 Omnibus Incentive Plan, as determined in the discretion of our compensation committee if such plan is approved by our stockholders.

If Mr. Miller resigns without good reason, or if we terminate Mr. Miller for cause, he is only entitled to receive any unpaid annual salary which has accrued, payment for unused vacation, any earned but unpaid annual bonus for the previous year, unreimbursed expenses, and any rights granted to Mr. Miller pursuant to our 2007 Omnibus Incentive Plan (Accrued Rights). If Mr. Miller resigns with good reason, or we terminate Mr. Miller without cause, in addition to the Accrued Rights, he is also entitled to a pro-rated annual bonus for the then-current year, and upon execution of a release of any claims by him, an amount equal to two times the sum of (1) his annual salary, and (2) the average of his annual bonus for the three years prior to the year of termination (Average Bonus); and two years of continuing medical benefits. The Miller Employment Agreement also provides that, in the event of a termination of employment resulting from a change of control event, previously issued equity grants subject to time based vesting conditions shall immediately become vested. In addition, if Mr. Miller s employment is terminated as a result of a change of control event occurring prior to his receipt of an initial equity grant under our 2007 Omnibus Incentive Plan or otherwise in the amount of at least $1.7 million, Mr. Miller will be entitled to receive an additional $1.7 million payment. In the event that any portion of the $1.7 million payment constitutes an excess parachute payment subject to an excise tax under the Code, we have agreed to pay Mr. Miller an amount equal to one-half of such excise tax. If we notify Mr. Miller that we are not renewing the initial term of the Miller Employment Agreement, or any renewal term, he is entitled to receive the Accrued Rights, and, upon execution of a release of any claims by him, an amount equal to two times the sum of (1) his annual salary, and (2) the average of his annual bonus for the three years prior to the year of termination; and one year of continuing medical benefits. If Mr. Miller notifies us that he is not renewing the initial term of the Miller Employment Agreement, or any renewal term, he is not entitled to receive any severance pay or benefits. If he continues to be employed by us after either of us give 90 days prior written notice of non-renewal, his employment will be at-will, and the Miller Employment Agreement shall terminate, except for certain provisions which survive the Miller Employment Agreement. If Mr. Miller s employment terminates upon his death or disability (1) his estate or legal representative is entitled to receive the Accrued Rights, and an amount equal to the pro-rated annual bonus for the then-current year; and one year of continuing medical benefits; (2) any grants made to Mr. Miller which are subject to a time based vesting condition, shall become vested; and (3) his estate or legal representative, upon execution of a release is entitled to an amount equal to two times the sum of (A) his annual salary and (B) his Average Bonus. Upon termination of Mr. Miller s employment for any

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reason, Mr. Miller shall be deemed to have resigned all of his positions with us, and in such event, Mr. Miller is required to confirm such resignations to us in writing.

Under the Miller Employment Agreement, Mr. Miller is subject to a number of restrictive covenants, including a one-year non-competition provision, and non-solicitation, non-interference and confidentiality provisions. Mr. Miller is entitled to the same rights to indemnification in connection with the performance of his duties under the Miller Employment Agreement as other persons with the same duties as Mr. Miller employed by us.

Certain Financial and Other Information Regarding the Internalization

Financial Information

Attached on pages F-1 through F-61 of this proxy statement is certain pro forma and other financial information with respect to us and the Advisor.

Accounting Treatment

We intend to account for the Internalization Transaction as the consummation of a business combination between parties with a pre-existing relationship. We intend to allocate the Internalization Consideration to identifiable tangible and intangible assets, with the remainder allocated to goodwill. No portion of the Internalization Consideration was deemed to be related to the settlement of contracts with the Advisor.

Certain U.S. Federal Income Tax Considerations

The following discussion is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding U.S. federal income tax penalties, and was written to support the promotion or marketing (within the meaning of Internal Revenue Service Circular 230) of the Plan.

The following discussion summarizes certain material U.S. federal income tax consequences of the Internalization to us and our stockholders. This summary is intended to address only certain U.S. federal income tax consequences of the Internalization and may not contain all of the information that may be important to you. As you review this discussion, you should keep in mind that the tax consequences to you may vary depending on your particular tax situation, and that this summary does not address the U.S. federal income tax consequences of the Internalization to stockholders subject to special rules (including tax-exempt organizations, broker-dealers, stockholders who elect to mark to market, stockholders who hold shares of our common stock as part of a hedge, straddle or conversion transaction, stockholders who acquire shares of our common stock pursuant to the exercise of employee stock options or otherwise as compensation, stockholders who do not hold shares of our common stock as a capital asset, stockholders who are a non-U.S. corporation, non-U.S. partnership, non-U.S. trust, non-U.S. estate, or individual who is not taxed as a citizen or resident of the United States, or stockholders otherwise subject to special tax treatment under the Code). In addition, this summary does not address state, local or foreign tax considerations.

The information in this summary is based upon the current Code, current, temporary and proposed Treasury Regulations, the legislative history of the Code, current administrative interpretations and practices of the Internal Revenue Service (the IRS), including its practices and policies as endorsed in private letter rulings, which are not binding on the IRS, and existing court decisions. Future legislation, regulations, administrative interpretations and court decisions could change current law or adversely affect interpretations of current law, possibly on a retroactive basis. We have not requested, and do not plan to request, any rulings from the IRS concerning the tax treatment of the Internalization. It is possible that the IRS could challenge any of the statements in this summary, which do not bind the IRS or the courts, and that a court could agree with the IRS.

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Stockholders are urged to consult their tax advisors with regard to the U.S. federal, state, local and foreign tax consequences to them of the Internalization and the U.S. federal, state, local and foreign tax consequences of acquiring, owning and disposing of shares in an entity that has elected to be treated as a REIT for U.S. federal income tax purposes.

General

We believe that we currently qualify to be taxed as a REIT for U.S. federal income tax purposes, and we expect that we will continue to operate in such a manner so as to continue to qualify as a REIT for such purposes following Internalization. No assurance, however, can be given that we currently qualify or will continue to operate in a manner so as to remain qualified as a REIT.

In the opinion of our counsel, assuming the assumptions and representations referred to below are true upon and following the Internalization, the Internalization will not adversely affect our status as a REIT for U.S. federal income tax purposes. This opinion is based on certain representations and assumptions relating to our past, current and future organization and operation and the past, current and future organization and operation of the Advisor. It is conditioned upon certain representations made by us and the Advisor as to certain factual matters, including matters relating to Internalization and the intended manner of our operations after Internalization, and representations regarding limits on our non-qualifying assets and non-qualifying income for purposes of the Asset Tests and Income Tests described below. Unlike a private letter ruling, an opinion of counsel is not binding on the IRS, and no assurance can be given that the IRS will not challenge our status as a REIT for U.S. federal income tax purposes. Our qualification and taxation as a REIT has depended and will depend upon, among other things, our ability to meet on a continuing basis highly technical and complex qualification tests imposed under the Code, including without limitation qualification tests regarding our ownership of assets, our actual annual operating results, our receipt of qualifying real estate income, our distribution levels and the diversity of our stock ownership.

Asset Tests

As of the close of each calendar quarter, we must meet certain tests related to the nature of our assets, as set forth in the Code. We believe that more than 75% of our assets are, and anticipate that more than 75% of our assets will continue to be, real estate assets, as required by the Code. In addition, we do not expect to hold (1) securities representing more than ten percent of the value or vote of any one issuer s securities other than the Advisor, any other qualified REIT subsidiary, any other taxable REIT subsidiary or any other REIT, nor (2) securities of any one issuer exceeding 5% of the value of our gross assets (value, for purposes of this sentence, being determined in accordance with generally accepted accounting principles). These asset tests must be satisfied with respect to any assets or securities owned by us for all calendar quarters, not just as of the close of any calendar quarter during which we increase ownership of such assets or securities. Under the asset tests, we would not, however, lose our status as a REIT solely as a result of changes to our asset values in a subsequent quarter. If the failure to satisfy the asset tests results wholly or partly from an acquisition of securities or other property during the quarter, the failure can be cured by our disposition of sufficient non-qualifying assets within 30 days after the close of such quarter, as may be required to cure any such failure. There can be no assurance, however, that even if such steps are taken, they will always be successful.

Although it is not entirely clear how the assets of the Advisor to be acquired in the proposed Internalization will be classified for REIT asset test purposes, such assets may be deemed to consist, in whole or in part, of assets that do not qualify as real estate assets for purposes of such tests. The acquisition of such assets will permit us to be self-managed and self-advised following the acquisition, so the acquired assets may be viewed as being associated with, and comprising part of, the value of our real estate portfolio and thus may be classified as qualifying real estate assets ; however, the IRS could take the position that all or a part of such assets are in the nature of goodwill or other intangibles that are separate and apart from our real properties and thus do not constitute qualifying assets for purposes of the REIT asset test. Even if such assets were viewed in their entirety as nonqualifying assets, however, we believe that, as of the close of the quarter in which Internalization will occur, taking into consideration the fair market values of all of the assets formerly owned by the

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Advisor that we will have acquired as a result of Internalization (determined as set forth in the applicable Code and Treasury Regulations provisions), we will continue to satisfy all such asset tests. To the extent that all or a portion of the acquired assets are viewed as nonqualifying assets, however, our ability to acquire additional properties where a significant amount of the value of such property is attributable to nonqualified real estate assets, or our ability to dispose of properties consisting primarily of qualified real estate assets, could be limited.

Income Tests

Each year, we must meet two income-based tests, as set forth in the Code. At least 75% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be from rents from real property, interest and certain other income earned from mortgages on real property, gain from the sale of real property or mortgages (other than in prohibited transactions) or income from qualified types of temporary investments. At least 95% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived from the same items that qualify under the 75% income test or from dividends, interest and gain from the sale or disposition of stock or securities, or from any combination of the foregoing. We believe, in this regard, that more than 95% of our gross income is, currently, derived from rents from real property, gains from the sale or other disposition of real property, dividends and other types of qualified income. While, as set forth in the Acquisition of Property Management Offices and Property Management Agreements section of this proxy statement, we intend to manage certain properties which are not owned by us which will result in a certain level of non-qualified income, we anticipate that more than 95% of our gross income in the future will consist of qualifying income. Furthermore, we believe that our sources of gross income also satisfy the 75% income test set forth in the Code, and will continue to do so in the future.

As a result of the proposed Internalization, we anticipate deriving some income from the Advisor s activities, primarily as a result of the management of real properties not owned by us or Wells OP, which will not be qualified income. We believe, however, that the level of non-qualified income generated from such activities after the Internalization will not cause us to fail to meet either of the income tests set forth in the Code. The failure to meet either of the income tests set forth in the Code could cause our disqualification from REIT status unless we are able to demonstrate to the IRS that any such failure was due to reasonable cause and not due to willful neglect or fraud. It is impossible to predict whether we would be entitled to the benefit of these relief provisions in all cases and, even if we were so entitled, a tax equal to 100% of the amount by which we fail to meet an income test would be imposed. The payment of such taxes at the corporate level could limit our ability to make required distributions to our stockholders or cause us to borrow the funds necessary to make such distributions.

To the extent we engage in a sale of all or part of our properties, and such transaction is properly characterized for U.S. federal income tax purposes as a taxable sale of all or a part of the assets acquired in the Internalization, it is uncertain how any gain attributable to such assets would be characterized for purposes of the REIT gross income tests. As discussed above, the assets acquired in the Internalization may be viewed as a part of our real estate portfolio, in which case such gain may be treated in the same manner as gain from the sale of real property and treated as qualifying income for purposes of both the 95% and 75% gross income tests. Alternatively, as discussed above, the IRS could take the position that all or a part of the assets acquired in the Internalization are in the nature of goodwill or other intangibles that are separate and apart from our real estate portfolio and that any gain attributable to such intangible assets is not qualifying income.

Other REIT Qualification Requirements

One of the requirements for qualification as a REIT in any year is that at the end of the year the REIT shall have no accumulated earnings and profits from a prior non-REIT year. In a corporate reorganization qualifying as a nontaxable merger, the acquired corporation s earnings and profits are carried over to the surviving corporation, and any earnings and profits treated as having been acquired by a REIT through such a merger will be treated as accumulated earnings and profits of the REIT attributable to a non-REIT year. Accordingly, we will succeed to any earnings and profits of the Advisor which may exist at the time of Internalization. Under the Definitive Merger Agreement, WREAS and WGS have

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agreed that, prior to the execution of the Definitive Merger Agreement, they will have adopted resolutions declaring a dividend to WASI so as to ensure that WREAS and WGS do not have any current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) as of the Closing Date and that such dividends shall be paid prior to the Closing Date. Additionally, we will receive written confirmation from our accountants that the Advisor will not have any current or accumulated earnings and profits as of the effective time of the Internalization. Nevertheless, if the IRS were to successfully assert that we did acquire current or accumulated earnings and profits from the Advisor and failed to distribute, during our taxable year in which the Internalization occurs, all of such earnings and profits, we would lose our REIT qualification for the year of the Internalization, any other taxable years during which we held such acquired earnings and profits and the four taxable years following any such year, unless, in the year of such determination, we make an additional distribution of the amount of earnings and profits determined to be acquired from the Advisor plus any required interest charge. In order to make such an additional distribution, we could be required to borrow funds or sell assets even if prevailing market conditions were not generally favorable. Further, distributions made to divest any earnings and profits acquired by us from the Advisor would not be deductible in determining our REIT taxable income, which, in turn, would raise the amount required to be distributed by us to maintain our REIT qualification, thereby putting additional pressure on our ability to make distributions without borrowing or selling off assets. For any taxable year that we fail to qualify as a REIT, we would not be entitled to a deduction for dividends paid to our stockholders in calculating our taxable income. Consequently, our net assets, our earnings, and our distributions to our stockholders could be substantially reduced because of our increased tax liability.

Failure to Qualify

If we fail to qualify for taxation as a REIT in any taxable year and certain relief provisions do not apply, we will be subject to tax (including any applicable corporate alternative minimum tax) on our taxable income at regular corporate rates. In any year in which we fail to qualify as a REIT, we will not be able to deduct, nor will we be required to be make, any distributions to stockholders. In such event, to the extent of current and accumulated earnings and profits, all distributions to stockholders will be taxable to them as ordinary income, and, subject to certain limitations of the Code, corporate distributees may be eligible for the dividends received deduction. Unless entitled to relief under specific statutory provisions, we also will be disqualified from electing to be treated as a REIT for the four taxable years following the year during which REIT qualification was lost. No assurance can be given that we would be entitled to such statutory relief.

U.S. Federal Income Tax Consequences of the Internalization

The Internalization has been structured as a nontaxable merger so that it will not result in the recognition of taxable income by us or our stockholders for U.S. federal income tax purposes. In addition, based on the representations made and the projections of our future operations after Internalization, the Internalization will not adversely affect our qualification as a REIT for U.S. federal income tax purposes.

Upon consummation of the Internalization, we will be subject to a corporate-level tax if we dispose of any of the assets acquired from the Advisor during the 10 year period commencing on the closing date of the merger. The tax would be imposed at the maximum corporate rate (currently 35%) on the excess of (1) the lesser of (a) the fair market value of the assets disposed as of the closing date of the Internalization, and (b) the selling price of such assets, over (2) our adjusted basis in such assets as of the closing date. We currently have no plans to dispose of any of the assets acquired from the Advisor during such 10 year period.

Regulatory Matters

We and the Advisor are not aware of any license or regulatory permit which is material to the business of us or the Advisor and which is likely to be adversely affected by the consummation of the Internalization or of any material approval or other action by any state, federal or foreign government agency that would be required prior to the consummation of the Internalization.

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Common Share Ownership of Certain Beneficial Owners and Management

The following table presents certain information regarding beneficial ownership of our shares of common stock by our directors, each of our executive officers, including Donald A. Miller, CFA, who is our new Chief Executive Officer and President and a director, and all directors and executive officers as a group, on a historical and *pro forma* basis, in each case as of December 31, 2006, assuming that all of the 19,546,302 shares of common stock which make up the Internalization Consideration are issued to WASI, and that the 22,339 shares of our common stock are issued to Wells Capital in exchange for transferring its 20,000 limited partnership units in Wells OP to us or one of our subsidiaries. As of December 31, 2006, there were 465,856,546 shares of our common stock outstanding.

As of December 31, 2006, no stockholder held 5% or more of our shares of common stock. Unless otherwise listed, the address of each of the stockholders below is c/o Wells Real Estate Investment Trust, Inc., 6200 The Corners Parkway, Norcross, Georgia 30092-3365.

Name of Beneficial Owner	Shares Beneficially Owned	Percentage	Pro Forma Shares Beneficially Owned	Percentage
Leo F. Wells, III	3,447	*	19,572,088(1)	4.0%
Donald A. Miller	12,717	*	12,717(2)	*
Douglas P. Williams	1,124	*	1,124(2)	*
Randall D. Fretz	8,470	*	8,470(2)	*
Michael R. Buchanan (3)	4,500	*	4,500	*
Richard W. Carpenter (4)	7,500	*	7,500	*
Bud Carter (4) (7)	27,950	*	27,950	*
William H. Keogler, Jr. (4)	7,500	*	7,500	*
Donald S. Moss (4) (8)	113,041	*	113,041	*
Neil H. Strickland (4) (9)	8,882	*	8,882	*
W. Wayne Woody (5)	3,000	*	3,000	*
All officers and directors as a group (6) (10)	198,131	*	19,766,772	4.1%

* Less than 1% of the outstanding common stock.

(1) Includes (a) 19,546,302 shares to be issued to WASI, which has Wells Management and Wells Capital as its majority members, both of which are wholly-owned subsidiaries of Wells REF, which is wholly-owned by Leo F. Wells, III, and (b) 22,339 shares to be issued to Wells Capital in exchange for transferring its limited partnership units in Wells OP.

(2) Does not include his economic interest in 195,463 shares to be issued to WASI, in which each of Messrs. Miller, Williams and Fretz own an approximately 1% economic interest.

(3) Includes options to purchase up to 4,500 shares of common stock, which are exercisable within 60 days of December 31, 2006.

(4) Includes options to purchase up to 7,500 shares of common stock, which are exercisable within 60 days of December 31, 2006.

(5) Includes options to purchase up to 3,000 shares of common stock, which are exercisable within 60 days of December 31, 2006.

(6) Includes options to purchase an aggregate of up to 45,000 shares of common stock, which are exercisable within 60 days of December 31, 2006.

(7) Includes warrants to purchase up to 787 shares of common stock, which are exercisable within 60 days of December 31, 2006.

(8) Includes warrants to purchase up to 3,619 shares of common stock, which are exercisable within 60 days of December 31, 2006.

(9) Includes warrants to purchase up to 53 shares of common stock, which are exercisable within 60 days of December 31, 2006.

(10) Includes warrants to purchase an aggregate of up to 4,459 shares of common stock, which are exercisable within 60 days of December 31, 2006.

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No Appraisal Rights in Connection with the Internalization Proposal

Under Maryland law and our existing Articles, holders of shares of our common stock will not be entitled to rights of appraisal with respect to the Internalization because the Internalization Transaction.

Vote Required to Approve the Internalization Proposal

Pursuant to Maryland law, transactions in which directors have a material financial interest are not void or voidable solely because of such fact if, among other things, disinterested director approval or ratification occurs, stockholder approval or ratification is obtained or the transaction is otherwise fair and reasonable. The Internalization was unanimously approved by all of our Independent Directors, four of whom served on our Special Committee which retained its own legal and financial advisors. In reaching its conclusion to unanimously approve the Internalization, the Special Committee determined the Internalization was fair and reasonable to us, taking into account the factors described under the section titled Proposal I: The Internalization Proposal Recommendations of the Special Committee and Our Board of Directors Special Committee Recommendation; Reasons for Recommendation, which factors should be read in their entirety. Because the Internalization involves a transaction in which some of our directors and our officers have a material financial interest, we have determined to solicit stockholder approval of the Internalization so as to empower our stockholders with respect to whether the Internalization should occur. In addition, under the Definitive Merger Agreement, the Internalization Proposal is required to be approved by the affirmative vote of holders of at least a majority of our outstanding shares of common stock entitled to vote on the Internalization (excluding for this purpose shares of common stock beneficially owned by any of Wells REF, Wells Capital, Wells Management, WASI or their affiliates). If the required stockholder approval is not received, then the Internalization will not be consummated.

Our directors and officers and their affiliates collectively currently own less than 0.05% of our outstanding shares of common stock. Our Articles provide that neither the Advisor, our directors nor any of their affiliates may vote their shares of common stock on matters submitted to our stockholders regarding, among other things, transactions between us and any affiliate of the Advisor. Therefore, the shares of common stock owned by them will not be considered to be shares of common stock entitled to vote at the Special Meeting for purposes of determining whether the Internalization has been approved.

Consequences of Failure to Approve the Internalization or if the Internalization Otherwise Does Not Occur

If the Internalization Proposal is not approved, or the Internalization otherwise does not occur, we would not expect to attempt to List our common stock in the near term, although pursuant to our current Articles, we are required to either effect a Listing by January 30, 2008 or begin a liquidation of our assets in an orderly fashion. If the Internalization Proposal is approved and the Board elects to pursue a Listing, no further stockholder action will be required to do so. If the Internalization Proposal is not approved, or the Internalization otherwise does not occur, we intend to continue to conduct our business generally in a manner consistent with past practices, subject to our requirement to begin an orderly liquidation of our assets if we have not listed our common stock by January 30, 2008, or we could seek to amend the provisions in our existing Articles which require us to List or liquidate by January 30, 2008 (which amendment would require the approval of our stockholders). We have not made a decision as to how we would proceed if the Internalization Proposal is not approved, and we are unable to predict any other consequences that a rejection of the Internalization Proposal would have. The Advisor currently provides certain advisory services to us. Although there can be no assurance, if the Internalization Proposal is not approved, we expect that we will continue to be able to obtain such services from the Advisor in the future. Even if the Internalization Proposal is approved, there is no assurance that the Internalization will be consummated because there may be a failure to satisfy one or more of the conditions to closing. See Proposal I The Internalization Proposal Description of the Internalization Transaction Conditions to Closing.

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PROPOSAL II:

THE PRE-LISTING CHARTER AMENDMENT PROPOSAL

Introduction

Upon unanimous vote by our Board, the following proposal is hereby submitted to the stockholders for their approval. The Board believes it is advisable to amend and restate our existing Articles in order to reflect that we will become self-advised should the Internalization Proposal be approved. The full text of these amendments is set forth in the proposed Second Articles of Amendment and Restatement, which is referred to as the Pre-Listing Restated Articles and which are attached hereto as **Appendix C.**

The discussion below is a summary of certain changes effected by the Pre-Listing Restated Articles and does not identify or provide information on every proposed change. Please see the marked version of our existing Articles attached hereto as **Appendix D**, which reflects all of the proposed changes to our Articles.

Amendments to Our Existing Articles to Reflect That We Will Become Self-Advised if the Internalization Proposal Is Approved

As discussed in the Internalization Proposal, if the Internalization Proposal is approved by our stockholders at the Special Meeting, we will become self-advised. Currently, our Advisor is entitled to various fees for providing us services, fees that are based, in part, on the fair market value of our assets. Upon consummation of the Internalization, WREAS and WGS will become our wholly-owned subsidiaries, and we will no longer bear the costs of the advisory fees and expense reimbursements payable to the Advisor.

Provisions Regarding the Advisor or its Affiliates. Our existing Articles contain a number of provisions that impose guidelines on transactions between us and the Advisor or its Affiliates. If the Internalization is approved and WREAS and WGS becomes our wholly-owned subsidiaries, any provisions referencing transactions and relations between us and the Advisor will no longer be applicable. One of the primary purposes of the Pre-Listing Charter Amendment Proposal is to remove these unnecessary provisions effective upon the completion of the Internalization.

In addition, our existing Articles contain a number of provisions that impose guidelines on transactions between us and our Sponsor or its Affiliates. The term Sponsor is defined in our Articles to mean any person who is directly or indirectly instrumental in organizing, wholly or in part, our company or any person who will control, manage or participate in the management of our company, and any Affiliate of such person. Since our Sponsor is an affiliate of the Advisor, the provisions in our existing Articles referencing transactions and relations between us and the Sponsor will similarly no longer be applicable and have, therefore, been eliminated from the proposed Pre-Listing Restated Articles.

Independent Director Requirements. Section 1.5 of our existing Articles defines the term Independent Director pursuant to applicable provisions of the NASAA REIT Guidelines (see Proposal III The Post-Listing Charter Amendment Proposal Amendments to Our Articles to Conform More Closely to Charters of Listed REITs References to NASAA REIT Guidelines). The definition is primarily directed to the relationship of a director with the Advisor. Because we will be self-advised following the consummation of the Internalization, the Board proposes the elimination of the following prohibitions from the definition of the term Independent Director, all of which derive solely from the presence of an Advisor:

- ownership of an interest in the Advisor or its Affiliates,
- employment by the Advisor or its Affiliates,
- service as an officer or director of the Advisor or its Affiliates,

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- performance of a service (other than as a director) for our company,
- service as a director of more than three real estate investment trusts advised by the Advisor, and
- maintenance of a material business or professional relationship with the Advisor or any of its Affiliates.

The provisions specifying that a director will not be considered an Independent Director if the director is performing or has performed within the past two years, services for us, other than as a director of our company, will be retained.

Provisions Relating to Advisor Services and Fees. Article IV of our existing Articles currently contains provisions governing the relationship between us and the Advisor. These provisions include guidelines for supervision of the Advisor by our Board, provisions relating to the termination of the Advisor, restrictions on the types and amount of fees which may be payable by us to the Advisor for services provided, and limitations on reimbursement of expenses incurred by the Advisor in performing such services. Because upon Internalization Article IV of our existing Articles will no longer be applicable to our operations, our Board proposes to eliminate it in its entirety.

Restrictions on Affiliated Transactions. Various provisions of our existing Articles limit our ability to engage in transactions with, among other persons, the Advisor, the Sponsor or their respective Affiliates. In general, these provisions require that such transactions (which are referred to herein as affiliated transactions) be approved by a majority of disinterested directors (including a majority of the Independent Directors). They also contain limitations on the substantive aspects of the affiliated transactions themselves, such as restrictions on the consideration to be paid for services provided or assets acquired from or sold to such persons. These provisions address a number of transactions including joint ventures, sales and leases to and from us, and loans to and from us, as well as general restrictions on affiliated transactions with the Advisor and its Affiliates.

Sections 6.3(i) and 6.4 are eliminated in the Pre-Listing Restated Articles, which include (a) guidelines on how to resolve conflicts when an investment opportunity becomes available which is suitable for us and a public or private entity with which the Advisor or its Affiliates are affiliated (Section 6.4) and (b) restrictions on the provision of goods or services to us by the Advisor or its Affiliates (Section 6.3(i)). Furthermore, Section 6.3(ii) restricts our company from making any loans to the Advisor or its Affiliates, and all references to the Advisor and the Sponsor in Section 6.3(ii) have been eliminated.

Because upon Internalization WREAS and WGS will become our wholly-owned subsidiaries and we will have become self-advised, the provisions containing restrictions on transactions between the Company and Advisor, the Sponsor, or their Affiliates have been eliminated in the Pre-Listing Restated Articles.

Voting Restrictions. Section 8.3 of our existing Articles prohibits the Advisor from voting on or consenting to matters submitted to our stockholders regarding any transaction between us and the Advisor. The reference to the Advisor in this provision will no longer be necessary after we acquire the Advisor upon consummation of the Internalization.

Indemnification. Under Section 9.2 of our existing Articles, we are required to indemnify the Advisor under certain circumstances. The reference to the Advisor in this provision will no longer be necessary after we become self-advised in connection with the Internalization. We have also expanded the coverage of the indemnification provisions of Section 9.2 to cover our officers. We believe that expanding the coverage of our indemnification provisions to cover our officers may facilitate our ability to attract and retain qualified officer candidates following Internalization.

Amendments to Our Existing Articles Relating to Amendments

Section 10.1 of our existing Articles is being amended in the Pre-Listing Restated Articles to clarify that we reserve the right to make any amendment to our Articles authorized by law. These amendments include any that may alter the terms or contract rights, as set forth in our Articles, of any shares of outstanding stock, and any that may alter the

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rights and powers conferred by our Articles on stockholders, directors and officers. In addition, Section 10.1, as revised in the Pre-Listing Restated Articles, will provide that no appraisal rights will be available to our stockholders with respect to any future amendments to our Articles.

Conforming Changes and Other Ministerial Modifications

The Pre-Listing Restated Articles reflect a number of changes to the Articles and other modifications of a ministerial nature that are consistent with the changes being proposed. These changes and modifications include, among other things, deletion and revision of definitions, references and cross-references and other provisions which are no longer applicable to our Company or which need to be updated, and the necessary re-numbering and lettering of remaining provisions.

If approved by our stockholders at the Special Meeting, the amendments reflected in the Pre-Listing Restated Articles will be effected by our filing of the Pre-Listing Restated Articles with the State Department of Assessment and Taxation of the State of Maryland (the SDAT), and will become effective upon filing and acceptance for record by the SDAT. We plan to file the Pre-Listing Restated Articles following the stockholder vote on the Pre-Listing Restated Articles and immediately after the closing of the Internalization. The text of the proposed Pre-Listing Restated Articles is attached hereto as **Appendix C** and a marked version thereof against our existing Articles, which shows the modifications proposed to be made, is attached hereto as **Appendix D**.

Even if approved by our stockholders at the Special Meeting, the Pre-Listing Charter Amendment Proposal will not be effected unless the Internalization Proposal is approved by our stockholders and the Internalization is consummated. Further, our Board reserves the right not to implement the Pre-Listing Charter Amendment Proposal even if it is approved by our stockholders if, prior to such implementation, our Board determines that the implementation of the Pre-Listing Charter Amendment Proposal is not in our best interest.

Appraisal Rights

If you do not vote in favor of Pre-Listing Charter Amendment Proposal and otherwise comply with the relevant statutory provisions of Maryland law governing appraisal rights, you may be entitled to rights of appraisal under Maryland law with respect to the Pre-Listing Charter Amendment Proposal. However, while we are not aware of any direct authority as to whether amendments to our Articles such as those contemplated by the Pre-Listing Charter Amendment Proposal would be deemed to substantially adversely affect your rights as a stockholder, in the event you wish to make your own determination of whether you have rights of appraisal with respect to the Pre-Listing Charter Amendment Proposal, we encourage you to consider applicable Maryland law and to consider engaging Maryland counsel. We reserve the right to challenge your determination, if any, as to whether rights of appraisal exist in connection with the Pre-Listing Charter Amendment Proposal. One of the conditions to our obligation to close the Internalization Transaction under the Definitive Merger Agreement is that holders of 10% or more of our shares of common stock outstanding as of the date of the Special Meeting shall not have purported to exercise appraisal or dissenters rights with respect to the Pre-Listing Charter Amendment Proposal. Accordingly, if holders of 10% or more of our common stock purport to exercise appraisal or dissenters rights, the Internalization Transaction may not be completed. Further, if a significant number of our stockholders purport to exercise appraisal or dissenters rights with respect to the Pre-Listing Charter Amendment Proposal or for any other reason our Board determines that the implementation of the Pre-Listing Charter Amendment Proposal is not in our best interest, we reserve the right not to implement the Pre-Listing Charter Amendment Proposal. For a discussion regarding appraisal rights, see Explanation of Maryland Appraisal Rights Statute. See also **Appendix G** hereto, which sets forth the relevant statutory provisions.

Vote Required

Approval of this proposal to amend our existing Articles requires the affirmative vote of the holders of at least a majority of our outstanding shares of common stock entitled to vote thereon. Proxies received will be voted for approval of this proposal unless stockholders designate otherwise.

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It is intended that, even if approved by our stockholders at the Special Meeting, this proposal will not be effected until immediately after the closing of the Internalization.

Our Board has deemed it advisable and in the best interests of us and our stockholders to approve the Pre-Listing Charter Amendment Proposal and has recommended it to our stockholders for their approval. Our Board unanimously approved the form of the Pre-Listing Restated Articles and recommends that you vote FOR the Pre-Listing Charter Amendment Proposal.

Consequences of Failure to Approve the Pre-Listing Charter Amendment Proposal

If the Pre-Listing Charter Amendment Proposal is not approved, we would not be able to complete the Internalization unless the closing conditions related to the stockholder approval of the Pre-Listing Charter Amendment Proposal are waived. If those conditions are not waived, we would not expect to attempt to List our common stock in the near term, although pursuant to our current Articles, we are required to either effect a Listing by January 30, 2008 or begin a liquidation of our assets in an orderly fashion. If the Pre-Listing Charter Amendment Proposal is not approved, and the Internalization otherwise does not occur, we intend to continue to conduct our business generally in a manner consistent with past practices, subject to our requirement to begin an orderly liquidation of our assets if we have not Listed our common stock by January 30, 2008, or we could seek to amend the provisions in our existing Articles which require us to List or liquidate by January 30, 2008 (which amendment would require the approval of our stockholders). We have not made a decision as to how we would proceed if the Pre-Listing Charter Amendment Proposal is not approved, and we are unable to predict any other consequences that a rejection of the Pre-Listing Charter Amendment Proposal would have.

PROPOSAL III:

THE POST-LISTING CHARTER AMENDMENT PROPOSAL

Introduction

In addition to amending and restating our existing Articles in order to reflect that we will become self-advised if the Internalization is approved, as reflected by the Pre-Listing Charter Amendment Proposal, the Board proposes to further amend and restate the Articles in order to conform more closely to the charters of most other Listed REITs. The Post-Listing Charter Amendment Proposal would remove many restrictions that are mandated by state securities administrators but will no longer be required if the Listing occurs, and to make various other changes that our Board believes are appropriate for a Listed REIT. These restrictions are not typically found in the charters of Listed REITs and, if not removed, we believe could put us at a competitive disadvantage should a Listing occur. Accordingly, we are proposing that our existing Articles be amended as discussed below. The full text of these amendments is set forth in our proposed Third Articles of Amendment and Restatement, which we refer to as our Post-Listing Restated Articles and which are attached hereto as **Appendix E**.

The discussion below is a summary of certain changes proposed to be effected by the Post-Listing Restated Articles and does not identify or provide information on every single proposed change. Please see the marked version of our existing Articles attached hereto as **Appendix F,** which reflects all of the proposed changes to our Articles.

Amendments to Our Articles to Conform More Closely to Charters of Listed REITs

Our Board has unanimously approved and directed that there be submitted to our stockholders for their approval:

- an amendment to Section 2.1 of our existing Articles to eliminate the ability of our stockholders to remove members of our Board without cause;

- an amendment to Section 2.4 of our existing Articles to provide a director may be removed for cause, as defined therein, by stockholders holding two-thirds of the votes entitled to be cast;

- an amendment to Section 3.2(xxii) of our existing Articles to provide that in the future our Board will have the exclusive power to amend our Bylaws;

- an amendment to the definition of Common Share Ownership Limit in Section 7.7 of our existing Articles to clarify that the restriction on ownership by one person of more than 9.8% of our shares of common stock is calculated with respect to either the value or number of shares of our common stock that such person holds, whichever is more restrictive;

- the deletion of Section 8.1 of our existing Articles to, among other things, delete the percentage of stockholders necessary to call a special meeting of stockholders from 10% (which was a requirement of the NASAA REIT Guidelines), which we intend to increase to 50% through a future amendment to our Bylaws;

- the deletion of Sections 8.5 and 8.6 of our existing Articles in order to conform stockholder inspection rights to those rights set forth in the Maryland General Corporation Law (the MGCL);

- an amendment to delete all of Section 10.2 and a portion of Section 10.3 of our existing Articles to remove certain restrictions on transactions involving an Affiliate of us or the Advisor as required by the NASAA REIT Guidelines and to permit the rules under the MGCL and the NYSE (in the event that we list on the NYSE) to govern interested party transactions; and other amendments to delete certain sections from, modify other sections of, and add new sections to our existing Articles, to conform more closely with the charters of Listed REITs.

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In addition, certain provisions in our existing Articles were required under state securities offering regulations in connection with the initial and subsequent public offerings of our common stock because our shares were not listed on a national securities exchange. These provisions are not required and are typically not used by Listed REITs. Following a Listing, these provisions will no longer be required because we will be subject to the rules of the national securities exchange or over-the-counter market on which our common stock is listed or quoted. We believe that many of the limitations and restrictions that were included in our existing Articles are restrictive and could prevent us from pursuing favorable investment opportunities which could enhance stockholder value. In addition, these provisions could impair our ability to compete effectively for investments and management talent with other Listed REITs that are not subject to these provisions. We believe that such limitations and restrictions should be modified so that we will be able to more freely implement our business strategy and be more competitive with other Listed REITs. The proposed Post-Listing Restated Articles reflect the modifications that we believe should be made to our existing Articles.

References to NASAA REIT Guidelines. Several provisions of our existing Articles reference the NASAA REIT Guidelines. The NASAA REIT Guidelines, which contain a number of substantive restrictions on the operations of a REIT, are applicable to a REIT that is making a public offering of securities which are not listed for trading on a national securities exchange or designated for quotation on an over-the-counter market. Our existing Articles also contain provisions that, while they do not specifically reference the NASAA REIT Guidelines, were included to comply with those Guidelines or were included to be consistent with provisions contained in the charters of REITs that are subject to those Guidelines. The Post-Listing Charter Amendment Proposal will only take effect if and when our common stock is listed on a national securities exchange or quoted on an over-the-counter market. Because the NASAA REIT Guidelines are inapplicable to a Listed REIT, the NASAA REIT Guidelines references and the provisions that were included to comply with the NASAA REIT Guidelines have been modified or eliminated in the Post-Listing Restated Articles. We believe that these changes will conform our Articles more closely to the charters of other Listed REITs. We anticipate that the elimination in our existing Articles of the restrictions contained in the NASAA REIT Guidelines will better enable us to take advantage of favorable investment opportunities and to operate in a more comparable fashion to other Listed REITs. No assurance can be given, however, that a Listing will actually occur.

Independent Director Requirements. Section 1.5 of our existing Articles defines the term Independent Director in accordance with the NASAA REIT Guidelines, and such definition is primarily directed to the relationship of a director with the Advisor. Because we will be self-advised immediately following the consummation of the Internalization, and the NASAA REIT Guidelines will not apply after our common stock is Listed, this definition has been deleted from the Post-Listing Restated Articles. Instead, our Board will apply the definition of Independent Director under the rules of the NYSE or any other exchange or over-the-counter market on which our common stock is listed or quoted. Accordingly, it is possible that a person who would be considered an Independent Director under such rules might not have been considered independent under our existing Articles and vice versa.

The Post-Listing Restated Articles also eliminate any provisions of our existing Articles that relate to the requirements or duties of our Independent Directors. These include, among other things, Section 1.5 of our existing Articles defining Independent Director, Section 2.2 of our existing Articles concerning director experience, Section 2.3 of our existing Articles requiring that a majority of the members of Board committees be Independent Directors, Section 2.6 of our existing Articles requiring that our Independent Directors approve certain enumerated matters, and Section 5.2 of our existing Articles requiring our Independent Directors to conduct an annual review of our investment policies. These provisions will no longer be relevant because the Post-Listing Restated Articles will not contain a definition of independent directors under the NASAA REIT Guidelines to which all of these provisions related. Instead, governance matters such as these will be governed by NYSE rules and interpretations, or the rules of any other exchange or over-the-counter market on which our common stock is listed or quoted.

It is possible that the elimination of these provisions would allow individuals to serve as directors who would not be able to serve as directors under our existing Articles or certain actions to be taken that could not be taken under our existing Articles. If we effect a Listing, we will operate under the rules of the NYSE or any other exchange or over-the-counter market on which our common stock is listed or quoted, under Maryland law and in accordance with our Post-

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Listing Restated Articles and Bylaws. **For your information, should we become Listed on the NYSE, we would still be required to have a majority of independent directors on our Board under the rules of the NYSE.**

Although some of the amendments to our Articles contained in this Proposal III reduce or otherwise eliminate certain voting rights that you currently have, we are of the view that these proposed amendments reflected in the Post-Listing Restated Articles will provide us greater flexibility with respect to the implementation of our business plan and will make us more competitive with other Listed REITs.

Experience of Directors. Our existing Articles contain provisions requiring a director to have at least three years of relevant experience demonstrating the knowledge and experience required to successfully acquire and manage the type of assets being acquired by the Company. Our existing Articles also provide that at least one of our Independent Directors is required to have at least three years of relevant real estate experience. Both of these provisions were required by the NASAA REIT Guidelines. Given our growth and the fact that the NYSE rules, the SEC proxy rules, and good governance principles for public companies typically provide that a nominating committee comprised exclusively of independent directors operate under written charters and with public disclosures about nominating procedures, the Board does not believe that maintaining these director experience requirements following a Listing will aid the good governance of our company. Indeed, the current experience requirements may inadvertently exclude certain potential director candidates who could be beneficial to us and our stockholders. Accordingly, the effect of this proposed change is that candidates for our Board will include a broader range of qualified individuals; however, it is possible that no Independent Director will have three years of commercial real estate experience.

Appraisal Rights. Pursuant to Maryland law, upon a Listing of our common stock, our stockholders would not have future stockholder appraisal rights as long as we remain Listed. In addition, the Post-Listing Restated Articles provide that holders of our shares of common stock will not be entitled to exercise any rights of an objecting stockholder provided under Maryland law for unless our Board determines that such rights apply, with respect to any classes or series of stock classified or reclassified in the future.

Investment Limitations. Our existing Articles contain a number of limitations and restrictions on our ability to make certain types of investments in real estate, real estate-related instruments, and equity securities, as well as our ability to borrow and incur indebtedness. These investment limitations and restrictions are contained in our existing Articles because, as described above, they were required by the NASAA REIT Guidelines. These limitations and restrictions are contained in Sections 5.3 and 5.4 of our current Articles. Consistent with the governance practices of many other Listed REITs, the Post-Listing Charter Amendment Proposal eliminates these limitations and restrictions. Instead, our Board will adopt investment policies and monitor management compliance with these policies. These investment policies will take into account, among other things, the complex rules and interpretations required to maintain REIT status under the Code. However, the elimination of certain of these restrictions may expose us to greater risks, for example by allowing us to borrow a greater amount of money, relative to our asset base, than we are permitted to borrow under our existing Articles or by allowing us to lend money in situations in which we would not have been able to lend money under our existing Articles. Our Board and our management would be responsible for evaluating and determining whether to make these types of investments. Our Board believes that the elimination of these restrictions is desirable, will give us greater flexibility in our operations, and will allow us to expand our investment and capital market opportunities. For the foregoing reasons, our Board proposes the elimination of the investment limitations and restrictions summarized below.

Limitations on Investments, Borrowing and Indebtedness. For the reasons outlined above, the Post-Listing Restated Articles eliminate the investment limitations in Section 5.4 of our existing Articles, including provisions that prohibit us from: (1) investing more than 10% of our total assets in unimproved real property (Section 5.4(i)); (2) investing in commodities or commodity future contracts (Section 5.4(ii)); (3) investing in or making mortgage loans unless an appraisal is obtained concerning the property and certain other conditions are met (Sections 5.4(iii), (iv), (v) and (viii)); (4) investing in indebtedness secured by a mortgage on real property which is subordinate to the lien of other indebtedness (Section 5.4(vi)); (5) engaging in underwriting securities of other issuers, or investing in equity securities of those issuers other than under certain limited circumstances (Section 5.4(ix)); (6) except under specified circumstances,

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issuing (A) equity securities redeemable solely at the option of the holder, (B) debt securities, (C) common or preferred shares on a deferred payment basis or under similar arrangements, (D) non-assessable securities and (E) options, warrants, or similar evidences of right to buy our securities (Section 5.4(x)); (7) acquiring a property unless the consideration to be paid for each such property is authorized by our Board based upon fair market value (Section 5.4(xii)); (8) making investments that we believe will be inconsistent with our objective of continuing to qualify as a REIT (Section 5.4(xviii)); and (9) investing in contracts for the sale of real estate unless they are in recordable form and appropriately recorded in the chain of title (Section 5.4(xix)).

In connection with acquiring and developing properties, we have borrowed funds both on a short-term basis and on a longer-term basis, as appropriate. Because of the NASAA REIT Guidelines requirements, Section 5.4(xiv) of our existing Articles restricts our total indebtedness to no more than 50% of the aggregate value of our assets. Although it has no current intent to exceed that level of indebtedness, our Board believes that such an absolute limit on our borrowings could impair our ability to engage in potentially advantageous transactions and investment opportunities, and we believe that such decisions should be left to our experienced management and Board. Accordingly, the Post-Listing Restated Articles do not contain any limitation on the amount or percentage of indebtedness that we may incur in the future, and therefore, we could become more highly leveraged, resulting in an increase in the amount of debt repayment. This, in turn, could increase our risk of default on our obligations and adversely affect our results of operations and our ability to make distributions to our stockholders. Nonetheless, our Board believes that this change will give us greater flexibility to allow us to expand our investment and capital market opportunities.

Limitations on Investment in Equity Securities. The Post-Listing Restated Articles also eliminate the restrictions in Sections 5.3(iii) and 5.4(ix) of our existing Articles related to investments by us in equity securities. Under Section 5.3(iii) and 5.4(ix) of our existing Articles, we may invest in equity securities so long as a majority of disinterested directors (including a majority of our Independent Directors) approve the investment as being fair, competitive and commercially reasonable. In the Post-Listing Restated Articles, decisions concerning investment in equity securities will be made by the entire Board, using the standards applicable to all director decisions.

Restrictions on Affiliated Transactions. Various provisions of our existing Articles limit our ability to engage in certain transactions with, among other persons, the Advisor, our directors, or their Affiliates. These restrictions are found in Sections 5.3, 5.4, 6.1, 6.2, 6.3, and 9.5 of our current Articles. Under Maryland corporate law, transactions between us and our directors or entities in which one or more of our directors have a material financial interest are not void or voidable on account of such interest if the transaction is disclosed and the transaction is approved or ratified by a majority of disinterested directors or a majority of the stockholders or the transaction is fair and reasonable to us. Many of these types of transactions require prompt public disclosure under SEC rules and in some circumstances require stockholder ratification under NYSE Rules. The Board believes that by relying on established Maryland law, NYSE rules, and appropriate governance mechanisms, combined with the transparency afforded under public company disclosure requirements, the Board will be able to effectively regulate related party transactions without the detailed, substantive restrictions contained in the current Articles.

The affiliated transaction provisions that are proposed to be eliminated in the Post-Listing Restated Articles include:

- formation of certain joint ventures (Section 5.3(ii));
- loans to and from our company (Sections 5.4(xv) and 6.3(ii));
- purchases or leases of properties held by affiliates (Section 6.1);
- sales and leases of assets to and from our company (Section 6.2);
- a general requirement under Section 9.5 that all transactions with affiliates are made on the basis of an appraisal;
- broad restrictions on compensation for any services rendered by affiliates (Section 9.5); and

extensive conditions on conducting transactions with affiliates (Section 9.5).

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Voting Restrictions. The Post-Listing Restated Articles eliminates Section 8.3 of our existing Articles which prohibits the Advisor, our directors, and their respective Affiliates from voting on or consenting to matters submitted to our stockholders regarding the removal of the Advisor, our directors or any of their Affiliates or any transaction between us and them. This provision was included in our existing Articles in accordance with the NASAA REIT Guidelines. We believe that voting on affiliated transactions should be governed by state law, as is customarily the case for Listed REITs.

Indemnification. Under Section 9.2 of our existing Articles, we are required to indemnify and hold harmless the Advisor, our directors and their respective Affiliates for losses or liabilities incurred by any of them, each referred to therein as an indemnitee, in connection with our business. Section 9.2 contains a number of limitations on indemnification, which were required by the NASAA REIT Guidelines, that result in more restrictive indemnification than is permitted by Maryland law or that is customary for directors of many Listed REITS formed in Maryland.

The Post-Listing Restated Articles modify the indemnification provisions consistent with Maryland law to provide that we shall indemnify (and pay or reimburse reasonable expenses in advance of a final disposition of a proceeding) our current and former directors and officers to the maximum extent permitted by Maryland law. In addition, we may, subject to approval of our Board, indemnify (and advance expenses to) our current and former employees and agents and former officers and directors of any of our predecessors to the maximum extent permitted by Maryland law. Accordingly, the indemnification for both unaffiliated and affiliated persons will be broader than the provisions under our existing Articles and could cost us additional monies. The Post-Listing Restated Articles also add a provision limiting the liability of our directors and officers to us for money damages to the maximum extent permitted by Maryland law. Our Board believes that these provisions will facilitate our ability to attract and retain qualified director and officer candidates and may aid in our obtaining director and officer liability insurance and controlling insurance costs. We believe that provisions of this nature are similar to the provisions provided by many other publicly traded companies and, thus, will allow us to compete with those companies for the most qualified candidates.

Miscellaneous Modifications

Under Maryland law, a Maryland corporation generally may not amend its charter, merge, sell all or substantially all of its assets, or engage in similar transactions (each, an extraordinary matter) outside the ordinary course of business, unless approved by the affirmative vote of stockholders holding at least two-thirds of the equity shares entitled to vote on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our existing Articles provide for approval of these matters by a majority of all the votes entitled to be cast. Our Post-Listing Restated Articles provide that we may continue to, in all instances, consummate an extraordinary matter upon the affirmative vote of stockholders holding not less than a majority of our equity shares then outstanding and entitled to vote.

Certain provisions of our existing Articles exempt us from the application of Maryland s Business Combination Act and Control Share Acquisition Act. Our exemption from the application of these statutes may have the effect of facilitating: (1) business combinations (which is broadly defined) between us and beneficial owners of 10% or more of the voting power of our outstanding voting stock; and (2) the acquisition by any person of shares entitled to exercise or direct the exercise of specified percentages of our total voting power. Further, our exemption from these provisions of the Business Combination Act and the Control Share Acquisition Act may make it more difficult for our Board or our stockholders to prevent or delay coercive proposals of large stockholders to affect ownership or control of our company and may remove any disincentive these provisions have on future acquisition offers.

We have proposed to delete these exemptions from the Post-Listing Restated Articles and, alternatively, to effect an exemption from the Business Combination Statute by Board resolution and to include the exemption from the Control Share Acquisition Statute in our Bylaws. Accordingly, if this proposal is approved and these provisions are deleted from our existing Articles, we would continue to be subject to these exemptions; however, the net effect of this change will be that our Board will, without stockholder approval, be able to opt in and out of these exemptions by way of Board resolution or an amendment to our Bylaws.

Conforming Changes and Other Ministerial Modifications

The Post-Listing Restated Articles reflect a number of changes and other modifications of a ministerial nature that are necessary in view of the changes being proposed. These changes and modifications include, among other things, deletion and revision of definitions, references and cross-references and other provisions which are no longer applicable to us or which need to be updated, and the necessary re-numbering and lettering of remaining provisions. A number of the provisions in our existing Articles are being amended to adequately reflect our operations as a self-advised and Listed REIT. The text of the Post-Listing Restated Articles is attached hereto as **Appendix E** and a marked version against our existing Articles, which shows the modifications proposed to be made, is attached hereto as **Appendix F**. In addition, we will also amend and restate our Bylaws, in order to make certain conforming changes and other changes to our Bylaws, but such changes to the Bylaws will not require action by our stockholders.

If approved by our stockholders at the Special Meeting, the amendments reflected in the Post-Listing Restated Articles will be effected by our filing of the Post-Listing Restated Articles with the SDAT, and will become effective on the date of such filing and upon acceptance for record by the SDAT. The amendment of our existing Articles is divided into two separate, independent proposals. Because the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal will be voted upon separately, one of these proposals may be approved by our stockholders at the Special Meeting while the other proposal may not. In the event that the Pre-Listing Charter Amendment Proposal is not approved by our stockholders at the Special Meeting, we will not file the Pre-Listing Restated Articles with the SDAT, but retain the right to file the Post-Listing Restated articles with the SDAT if the Post-Listing Charter Amendment Proposal is approved by our stockholders and the Internalization Proposal is also approved and the Internalization is consummated. If neither the Pre-Listing Charter Amendment Proposal nor the Post-Listing Charter Amendment Proposal is adopted by our stockholders at the Special Meeting, we will not file either the Pre-Listing Restated Articles or the Post-Listing Restated Articles with the SDAT, and our existing Articles will remain unchanged until such time as they may be amended in the future in accordance with Maryland law and the provisions of our existing Articles and Bylaws.

Even if approved by our stockholders at the Special Meeting, the Post-Listing Charter Amendment Proposal will not be effected unless the Internalization Proposal is approved by our stockholders and the Internalization is consummated and until immediately prior to a Listing, if any, of our common stock.

Appraisal Rights

If you do not vote in favor of Post-Listing Charter Amendment Proposal and otherwise comply with the relevant statutory provisions of Maryland law governing appraisal rights, you may be entitled to rights of appraisal under Maryland law with respect to the Post-Listing Charter Amendment Proposal. However, while we are not aware of any direct authority as to whether amendments to our Articles such as those contemplated by the Post-Listing Charter Amendment Proposal would be deemed to substantially adversely affect your rights as a stockholder, in the event you wish to make your own determination of whether you have rights of appraisal with respect to the Post-Listing Charter Amendment Proposal, we encourage you to consider applicable Maryland law and to consider engaging Maryland counsel. We reserve the right to challenge your determination, if any, as to whether rights of appraisal exist in connection with the Post-Listing Charter Amendment Proposal. One of the conditions to our obligation to close the Internalization Transaction under the Definitive Merger Agreement is that holders of 10% or more of our shares of common stock outstanding as of the date of the Special Meeting shall not have purported to exercise appraisal or dissenters rights with respect to the Post-Listing Charter Amendment Proposal. Accordingly, if holders of 10% or more of our common stock purport to exercise appraisal or dissenters rights, the Internalization Transaction may not be completed. Further, if a significant number of our stockholders purport to exercise appraisal or dissenters rights with respect to the Post-Listing Charter Amendment Proposal or for any other reason our Board determines that the implementation of the Post-Listing Charter Amendment Proposal is not in our best interest, and we reserve the right not to implement the Post-Listing Charter Amendment Proposal. For a discussion regarding appraisal rights, see Explanation of Maryland Appraisal Rights Statute. See also **Appendix G** hereto, which sets forth the relevant statutory provisions.

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Conforming Amendments to Our Bylaws

In connection with the amendment and restatement of our Articles contemplated by the Post-Listing Charter Amendment Proposal, we will amend and restate our Bylaws to make certain conforming changes and other changes to our Bylaws, but such changes to the Bylaws will not require action by our stockholders.

We anticipate that, in the event that the Post-Listing Charter Amendment Proposal is approved by our stockholders, our Board will consider and may approve certain conforming and other amendments to our Bylaws such as the following:

- an amendment to our existing Bylaws to increase the threshold necessary for our stockholders to call a special meeting from 10% of the shares then outstanding and entitled to vote to a majority of the shares then outstanding and entitled to a vote;
- an amendment to our existing Bylaws to set forth certain notice and informational requirements with respect to nominations of directors and other stockholder proposals;
- an amendment to our existing Bylaws to decrease the threshold necessary to establish, decrease or increase the number of our directors from 80% of our directors to a majority of our directors; and
- an amendment to our existing Bylaws to provide that the rules and standards of the NYSE will be applied in determining the independence of our directors.

Reverse Stock Split

Pursuant to the MGCL, unless otherwise provided in the charter, the board of directors of a corporation with a class of equity securities registered under the Exchange Act may amend the corporation s charter, with the approval of a majority of the board and without stockholder action, to effect a reverse stock split under certain circumstances. Neither the Pre-Listing Restated Articles nor the Post-Listing Restated Articles, if approved and implemented, will contain any provisions that will restrict our Board s ability to amend our Articles to effect a reverse stock split without stockholder action. In connection with a possible Listing, our Board may desire to amend the Pre-Listing Restated Articles or the Post-Listing Restated Articles to implement a reverse stock split whereby two (or more) whole outstanding shares of common stock would be combined into one common share (a Reverse Stock Split) and, if so, would file such an amendment to our Articles to implement such transaction, as determined by our Board.

Our Board may determine that implementation of this strategy, if a possible Listing occurs or is anticipated to occur, would increase the per-share price of our shares of common stock, reduce the number of outstanding shares to a level more consistent with other public companies with a similar market capitalization and provide us with additional flexibility to issue additional shares to facilitate future acquisitions and financing transactions. Our Board believes that having the ability to implement a Reverse Stock Split may provide our Board with appropriate flexibility to implement our business plan, and to act in the best interests of us and our stockholders.

Vote Required

Approval of this proposal to amend our existing Articles requires the affirmative vote of the holders of at least a majority of our outstanding shares of common stock entitled to vote thereon. Proxies received will be voted for approval of each of these proposals unless stockholders indicate otherwise.

It is intended that, even if approved by our stockholders at the Special Meeting, this proposal will not be effected unless and until our Board determines to effect a Listing and then only shortly before a Listing.

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Our Board has deemed it advisable and in the best interests of us and our stockholders to approve the Post-Listing Charter Amendment Proposal and has recommended it to our stockholders for their approval. Our Board unanimously approved the Post-Listing Restated Articles and recommends that you vote FOR the Post-Listing Charter Amendment Proposal.

Consequences of Failure to Approve the Post-Listing Charter Amendment Proposal

If the Post-Listing Charter Amendment Proposal is not approved, we may not be able to complete the Internalization Transaction, since the approval of this proposal by our stockholders is a closing condition in the Definitive Merger Agreement. Further, if the Post-Listing Charter Amendment Proposal is not approved, we might make a determination not to List our common stock, although pursuant to our current Articles we are required to either effect a Listing by January 30, 2008 or begin an orderly liquidation of our assets. Even if we were to decide to List our common stock, we believe that we would be at a competitive disadvantage to other traded REITs if the Post-Listing Charter Amendment Proposal is not approved. If the Post-Listing Charter Amendment Proposal is not approved, we intend to continue to conduct our business generally in a manner consistent with past practices, subject to our requirement to begin an orderly liquidation of our assets if we have not listed our common stock by January 30, 2008, or we could seek to amend the provisions in our existing Articles which require us to List or liquidate by January 30, 2008 (which amendment would require the approval of our stockholders). We have not made a decision as to how we would proceed if the Post-Listing Charter Amendment Proposal is not approved, and we are unable to predict any other consequences that a rejection of the Post-Listing Charter Amendment Proposal would have.

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PROPOSAL IV:

THE INCENTIVE PLAN PROPOSAL

Summary of the Plan

We propose that the 2007 Omnibus Incentive Plan be adopted. A copy of the 2007 Omnibus Incentive Plan is attached hereto as **Appendix H**. This summary of the provisions of the 2007 Omnibus Incentive Plan is qualified in its entirety by reference to the full text of the 2007 Omnibus Incentive Plan. To the extent that there is a conflict between this summary and the 2007 Omnibus Incentive Plan, the 2007 Omnibus Incentive Plan will govern. Capitalized terms used but not defined herein will have the meanings ascribed to them in the 2007 Omnibus Incentive Plan. The adoption of the 2007 Omnibus Incentive Plan is subject to stockholder approval.

Background and Purpose

The 2007 Omnibus Incentive Plan was established by the Board, which consulted with its legal advisors and an employment compensation consultant to survey and study the market compensation ranges of our competitors. The purpose of the 2007 Omnibus Incentive Plan is to provide us with the flexibility to offer performance-based compensation, including stock-based and incentive cash awards as part of an overall compensation package to attract and retain qualified personnel. Certain officers, key employees, non-employee directors, or consultants of ours and our subsidiaries would be eligible to be granted cash awards, stock options, stock appreciation rights, restricted stock, deferred stock awards, other stock-based awards, dividend equivalent rights, and performance-based awards under the 2007 Omnibus Incentive Plan. We anticipate that providing such persons with interests and awards of this nature will result in a closer identification of their interests with our own interests and those of our stockholders, thereby stimulating their efforts on our behalf and strengthening their desire to remain with us.

In addition, we have entered an employment agreement with Donald A. Miller, CFA, and may enter into employment agreements with other individuals, some of whom may also be affiliated with Wells REF, including a Chief Financial Officer. Any such employment agreements will likely be with the persons who will constitute our senior management following the Internalization. These agreements provide or may provide, among other things, for incentive compensation awards and performance bonuses that will be paid pursuant to the 2007 Omnibus Incentive Plan. If the 2007 Omnibus Incentive Plan is not approved by our stockholders, it could materially adversely affect us because we could be deprived of the services of our senior management and the ability to provide the incentives necessary to attract qualified replacements and other personnel.

Administration

The 2007 Omnibus Incentive Plan is administered by a compensation committee of our Board. Our compensation committee, appointed by our Board, will have the power and authority to administer and interpret the 2007 Omnibus Incentive Plan, including the power and authority: (1) to authorize the granting of awards; (2) to determine the eligibility of officers, key employees, directors, or consultants of ours to receive an award; (3) to determine the number of shares of common stock to be covered by each stock-based award (subject to the individual participant limitations provided in the 2007 Omnibus Incentive Plan); (4) to determine the terms, conditions and restrictions of each award, including setting applicable performance criteria (which may not be inconsistent with the terms of the 2007 Omnibus Incentive Plan); (5) to accelerate the exercisability or vesting of the awards; (6) to extend the time period for exercising stock options; and (7) to take any other actions and make all other determinations that it deems necessary or appropriate in connection with the 2007 Omnibus Incentive Plan or the administration or interpretation thereof. In connection with this authority, our compensation committee may, among other things, establish performance goals that must be met in order for awards to be granted or to vest, or for the restrictions on any such awards to lapse. The 2007 Omnibus Incentive Plan will be

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administered by a compensation or other committee consisting of at least two individuals, each of whom shall be a non-employee director as defined under Rule 16b-3 under the Exchange Act, and will, at such times as we are subject to Section 162(m) of the Code, qualify as an outside director for purposes of Section 162(m) of the Code, or, if no committee is designated by our Board to act for these purposes, our Board. References below to our compensation committee include a reference to our Board for those periods in which our Board is administering the 2007 Omnibus Incentive Plan. In addition, our compensation committee may, in its discretion, delegate to our Chief Executive Officer, or his or her delegate, all or part of the Committee s authority and duties with respect to awards (where relief from the limitations of Section 162(m) of the Code is not sought). The 2007 Omnibus Incentive Plan also has certain limitations of liability for our compensation committee and Board members as long as such members are not acting in bad faith or committing fraud.

Eligibility and Types of Awards

Certain of our officers, key employees, non-employee directors and consultants are eligible to be granted cash awards, stock options, stock appreciation rights, restricted stock, deferred stock, dividend equivalent rights and other stock-based awards and performance based awards under the 2007 Omnibus Incentive Plan. Eligibility for awards under the 2007 Omnibus Incentive Plan will be determined by our compensation committee. No new award may be granted under the 2007 Omnibus Incentive Plan after the 10th anniversary of the date that such plan is initially approved by our stockholders.

Available Shares

Subject to adjustment upon certain corporate transactions or events, the total number of shares of our common stock subject to awards of stock options, shares of restricted stock, deferred stock awards, other stock-based awards and dividend equivalent rights under the 2007 Omnibus Incentive Plan may not exceed 14,000,000. Subject to potential adjustments upon the occurrence of certain corporate transactions or events, award grants will be subject to the following limitations: (1) the maximum number of shares of common stock subject to stock options or stock appreciation rights that can be awarded under the 2007 Omnibus Incentive Plan to any person eligible for an award is 3,500,000 per calendar year; and (2) the maximum number of shares of common stock that can be awarded in an award under the 2007 Omnibus Incentive Plan, other than pursuant to stock options or stock appreciation rights, to any person eligible for an award is 1,000,000 per calendar year. If a share, option or other equity award granted under the 2007 Omnibus Incentive Plan expires or terminates, the shares subject to any portion of the award that expires or terminates without having been exercised or paid, as the case may be, will again become available for the issuance of additional awards.

Awards Under the 2007 Omnibus Incentive Plan

Stock Options

The terms of specific options, including whether options will constitute incentive stock options for purposes of Section 422(b) of the Code, will be determined by our compensation committee. The exercise price of an option will be determined by our compensation committee and reflected in the applicable award agreement. Incentive stock options will only be granted to our key employees or a subsidiary corporation within the meaning of Section 424(f) of the Code. The exercise price with respect to incentive stock options may not be less than 100% (or 110% in the case of an incentive stock option granted to a 10% stockholder) of the fair market value of our shares of common stock on the date of grant. Each stock option will be exercisable after the period or periods specified in the award agreement, which will not exceed 10 years from the date of grant (or 5 years from the date of grant in the case of an incentive stock option granted to a 10% stockholder). Options will be exercisable at such times and subject to such terms as determined by our compensation committee. If the aggregate fair market value of all shares of common stock subject to a grantee s incentive stock option which are exercisable for the first time during any calendar year exceeds $100,000, the excess options shall be treated as nonqualified options.

Stock Appreciation Rights

Subject to the requirements of the 2007 Omnibus Incentive Plan, our compensation committee may grant stock appreciation rights in tandem with a stock option or alone and unrelated to a stock option. Stock appreciation rights may be exercised by the delivery to us of a written notice of exercise. The exercise of a stock appreciation right will entitle the grantee to receive shares of common stock having a value equal to the fair market value of a share of common stock on the date of exercise over the exercise price of the stock appreciation right. The exercise price of a stock appreciation right will be no less than the fair market value of the common stock on the date of grant. In its sole discretion, our compensation committee may settle the stock appreciation rights in a combination of shares of common stock and cash, or exclusively with cash.

Restricted Stock

A restricted stock award is an award of shares of common stock that is subject to restrictions on transferability and such other restrictions, if any, as our compensation committee may impose at the date of grant. Grants of restricted stock will be subject to vesting schedules as determined by our compensation committee. The restrictions may lapse separately or in combination at such times, under such circumstances, including, without limitation, a specified period of employment or the satisfaction of pre-established criteria, in such installments or otherwise, as our compensation committee may determine. Except to the extent restricted under the award agreement relating to the restricted stock, a participant granted restricted stock has all of the rights of a stockholder, including, without limitation, the right to vote and the right to receive cash dividends on the restricted stock. Although dividends are paid on all restricted stock, whether or not vested, at the same rate and on the same date as our shares of common stock, such dividends will be held by us and not distributed to participants until the applicable restrictions lapse. Holders of restricted stock are prohibited from selling such shares with certain limited exceptions as provided under the 2007 Omnibus Incentive Plan.

Deferred Stock Awards

A deferred stock award is an award of phantom stock units subject to restrictions and conditions as our compensation committee may determine at the time of the grant. The granting of deferred stock will be contingent on the execution of a deferred stock agreement by the grantee. The terms of such agreements will be determined by our compensation committee and may differ among awards and grantees. A phantom stock unit represents a right to receive the fair market value of a share of our common stock or, if provided by our compensation committee, the right to receive a share of our common stock. Phantom stock units will be settled with a single-sum distribution; however, our compensation committee may, in its discretion and under certain circumstances, permit a participant to receive as settlement of the phantom stock units, installments over a period not to exceed 10 years. Unless otherwise provided in the applicable award agreement, or pursuant to a permissible election, the settlement date with respect to a phantom stock unit generally is the first day of the month to follow the date on which the phantom stock unit vests. During the deferral period, a grantee shall have no rights as a stockholder; however, the grantee may be granted dividend equivalent rights (as described below).

Other Stock-Based Awards

Our 2007 Omnibus Incentive Plan authorizes the granting of other awards based upon (1) the shares of common stock (including the grant of securities convertible into shares of common stock and stock appreciation rights), and subject to terms and conditions established at the time of grant, (2) equity interests in one of our subsidiaries or Wells OP, (3) awards valued by reference to book value, fair value or performance parameters relative to us or any subsidiary or group of subsidiaries, including Wells OP, and (4) any class of profits interest or limited liability company interest created or issued that qualifies as a profits interest within the meaning of IRS Revenue Procedure 93-27. Our compensation committee will determine the specific terms of such awards and the conditions, if any, which will need to be satisfied before the grant will be effective and the conditions, if any, under which the grantee s interest in the other awards will be forfeited. Our compensation committee may also award dividend equivalent rights under these awards.

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Dividend Equivalent Rights

A dividend equivalent right is an award entitling the grantee credits based on the amount of cash dividends declared on shares of common stock specified in the dividend equivalent right (or other award to which it relates) in the same manner as if such shares had been issued to and held by the grantee. Our compensation committee may provide that amounts payable with respect to dividend equivalents will be converted into cash or additional shares of common stock. Our compensation committee will establish all other limitations and conditions of awards of dividend equivalents as it deems appropriate.

Performance Goals

Our compensation committee may, in its discretion, in the case of awards intended to qualify for an exception from the limitation imposed by Section 162(m) of the Code or otherwise, establish one or more performance goals as a precondition to the issuance or vesting of awards, and provide, in connection with the establishment of the performance goals, for predetermined awards to those participants with respect to whom the applicable performance goals are satisfied. The performance goals will be based upon one or more of the following criteria, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group and any of which may be measured on an aggregate or per share basis: earnings before any one or more of the following items: interest, taxes, depreciation or amortization for the applicable period, as reflected in our financial reports for the applicable period; net income either before or after interest, taxes, depreciation and/or amortization; changes (or the absence of changes) in the per share or aggregate market price of our common stock; economic value-added; FFO or similar measure; sales or revenues; acquisitions or strategic transactions; operating income; cash flow; return on capital, assets, equity or investment; total return to stockholders; various non-GAAP financial measures customarily used in evaluating the performance of REITs; return on sales; gross or net profit levels; productivity; expense levels or management; margins; operating efficiency; customer tenant satisfaction; working capital; earnings per share of stock; revenue or earnings growth; number of securities sold; our ranking against selected peer groups; same store performance from period to period; leasing or occupancy rates; objectively determinable capital deployment; objectively determinable expense management; sales or market shares; number of customers; and establishment of a trading market for our stock. Performance goals are to be established no later than 90 days after the beginning of any applicable performance cycle or at such other date as may be required or permitted for performance-based compensation under Section 162(m) of the Code. In the discretion of the compensation committee, settlement of performance awards shall be in cash, common stock, stock options, stock appreciation rights, deferred stock awards, restricted stock awards, other stock-based awards, dividend equivalent rights, or property. Subject to potential adjustments upon the occurrence of certain corporate transactions or events, the maximum value that any grantee may receive with respect to any fiscal year included in the applicable performance period shall be $10 million.

Adjustments in General; Certain Change-in-Control Provisions

In the event of certain corporate reorganizations or other events, our compensation committee will generally make certain adjustments in its discretion to the manner in which the 2007 Omnibus Incentive Plan operates (including, for example, to the number of shares available under the Plan), and may otherwise take actions which, in its judgment, are necessary to preserve the rights of Plan participants.

Adjustment upon Changes in Capitalization

In the event of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or similar change in the shares of our common stock or our other securities, as determined by our compensation committee, pursuant to which outstanding shares of common stock are increased, decreased or exchanged for a different kind or number of securities, our compensation committee shall make an appropriate or proportionate adjustment in (1) the maximum number of shares reserved for issuance under the 2007 Omnibus Incentive Plan, (2) the maximum number of stock options or stock appreciation rights that can be granted to any one individual grantee and the maximum

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number of shares that can be granted under a performance based award, (3) the number and kind of shares or other securities subject to any then outstanding awards under the 2007 Omnibus Incentive Plan, (4) the repurchase price, if any, per share subject to each outstanding restricted stock award, and (5) the price for each share subject to any then outstanding stock options and stock appreciation rights under the 2007 Omnibus Incentive Plan, without changing the aggregate exercise price as to which such stock options and stock appreciation rights remain exercisable. Our compensation committee may also adjust the number of shares subject to outstanding awards and the exercise price and the terms of outstanding awards to take into consideration extraordinary dividends, acquisitions or dispositions of stock or property or any other similar corporate event to the extent necessary to avoid a material distortion in the value of the awards.

Change in Control or Merger

In the event of certain mergers, consolidations, the sale of substantially all of our assets, our reorganization or a liquidation, or change of control as defined in the 2007 Omnibus Incentive Plan, our compensation committee may, in lieu of making the adjustments described above, provide that all outstanding awards shall terminate as of consummation of such event, and (1) accelerate the exercisability of, or cause all vesting restrictions to lapse on, all outstanding awards to a date that is at least ten days but no earlier than 60 days prior to such date, and/or (2) provide that holders of awards will receive a payment in respect of cancellation of their awards based on the amount of the per share consideration being paid for our common stock in connection with such event, subject to various restrictions and other determinations of value.

Amendment and Termination

Our Board may at any time amend or terminate the 2007 Omnibus Incentive Plan; however, we must obtain stockholder approval of any amendment to the 2007 Omnibus Incentive Plan (other than amendments that curtail the scope of the plan) that would materially amend the 2007 Omnibus Incentive Plan, including any amendment that would:

- increase the maximum number of shares of common stock that may be issued under the 2007 Omnibus Incentive Plan;
- expand the types of awards available under, materially expand the eligibility to participate in, or materially extend the term of the 2007 Omnibus Incentive Plan; or
- materially change the method of determining the fair market value of shares on the date of grant of an option or stock appreciation right.

The compensation committee may at any time amend or cancel any previously granted award under the 2007 Omnibus Incentive Plan for the purpose of satisfying changes in law or for any other lawful purpose, but no such action may adversely affect the rights under an previously granted award without the consent of the grantee. Notwithstanding the above, any amendment to an award or other action by the compensation committee that constitutes the repricing of the exercise price or base value of an option, stock appreciation right, or any other award granted under the 2007 Omnibus Incentive Plan will be subject to the approval of our stockholders.

If adopted by our stockholders, the 2007 Omnibus Incentive Plan shall terminate ten years after the effective date of the plan. Any awards outstanding under the 2007 Omnibus Incentive Plan at the time of its termination shall remain outstanding until they expire by their terms.

Certain U.S. Federal Income Tax Consequences

The following discussion is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding U.S. federal income tax penalties, and was written to support the promotion or marketing (within the meaning of Internal Revenue Service Circular 230) of the Plan.

Non-Qualified Stock Options

No income will be recognized by an option holder at the time a non-qualified stock option is granted. At the time a non-qualified stock option is exercised, however, ordinary income will generally be recognized by an option holder in an amount equal to the excess of the fair market value of the underlying shares of common stock on the exercise date over the exercise price of the option. We will generally be entitled to a deduction for U.S. federal income tax purposes in the same amount as the amount included in ordinary income by the option holder with respect to his or her non-qualified stock option. Gain or loss on a subsequent sale or other disposition of the shares acquired upon the exercise of a non-qualified stock option will be measured by the difference between the amount realized on the disposition and the tax basis of such shares, and will generally be long-term or short-term capital gain depending on the holding period involved. The tax basis of the shares acquired upon the exercise of any non-qualified stock option will be equal to the sum of the exercise price of the non-qualified stock option and the amount included in income with respect to the option. Notwithstanding the foregoing, in the event that exercise of the option is permitted other than pursuant to a cash payment of the exercise price, various special tax rules may apply.

Incentive Stock Options

In general, neither the grant nor the exercise of an incentive stock option will result in taxable income to an option holder or a deduction for us. To receive this tax treatment, however, shares acquired upon the exercise of an incentive stock option, must not be disposed of within two years after the incentive stock option is granted nor within one year after the transfer of the shares to the option holder pursuant to his or her exercise of the option. In addition, the option holder must be an employee of us or a qualified subsidiary at all times between the date of grant and the date which is three months (one year in the case of disability) before exercise of the option. (Special rules apply in the case of the death of the option holder.) Incentive stock option treatment under the Code generally allows the sale of our shares of common stock received upon the exercise of an incentive stock option to result in any gain being treated as a capital gain to the option holder, and we will not be entitled to a tax deduction. The exercise of an incentive stock option (if the holding period rules described in this paragraph are satisfied), however, will give rise to income includable by the option holder in his or her alternative minimum taxable income for purposes of the alternative minimum tax in an amount equal to the excess of the fair market value of the stock acquired on the date of the exercise of the option over the exercise price.

If the holding period rules noted above are not satisfied, gain recognized on the disposition of the shares acquired upon the exercise of an incentive stock option will be characterized as ordinary income. This gain will be equal to the difference between the exercise price and the fair market value of the shares at the time of exercise. (Special rules may apply to disqualifying dispositions where the amount realized is less than the value at exercise.) We would generally then be entitled to a deduction equal to the amount of such gain included by an option holder as ordinary income. Any excess realized upon such a disposition over the fair market value at the date of exercise will generally be long-term or short-term capital gain depending on the holding period involved. Notwithstanding the foregoing, in the event that exercise of the option is permitted other than pursuant to a cash payment of the exercise price, various special tax rules may apply.

Restricted Stock

Unless a holder of restricted stock makes an 83(b) election (as discussed below), there generally will be no tax consequences as a result of a grant of restricted stock until the restricted stock is either no longer subject to a substantial risk of forfeiture or is transferable (free of the risk). Dividends paid on unvested shares, if retained by the grantee, will generally be treated as compensation income for U.S. federal income tax purposes (unless an 83(b) election has been made, as discussed below). Generally, when the restrictions are lifted, the holder will recognize ordinary income, and we will be entitled to a deduction, equal to the difference between the fair market value of the stock at that time and the amount, if any, paid by the holder for the restricted stock. Subsequently realized changes in the value of the stock generally will be treated as long-term or short-term capital gain or loss, depending on the length of time the shares are held prior to disposition of the shares. In general terms, if a holder makes an 83(b) election (under Section 83(b) of the Code) upon the award of restricted stock, the holder will recognize ordinary income on the date of the award of restricted stock, and we will be entitled to a deduction, equal to (1) the fair market value of the restricted stock as though the stock were (A) not subject to a substantial risk of forfeiture or (B) not transferable, minus (2) the amount, if any, paid for the restricted stock. If an 83(b) election is made, there will generally be no tax consequences to the holder upon the lifting of restrictions, and all subsequent appreciation in the restricted stock generally would be eligible for capital gains treatment. In the event of a forfeiture after an 83(b) election is made, no deduction or loss will be available, other than with respect to amounts actually paid for the stock.

Dividend Equivalents

There generally will be no tax consequences as a result of the award of a dividend equivalent. When payment is made, the holder of the dividend equivalent generally will recognize ordinary income, and we will be entitled to a deduction, equal to the amount received in respect of the dividend equivalent.

Other Tax Consequences

Section 162(m) of the Code contains special rules regarding the federal income tax deductibility of compensation paid to our chief executive officer and to each of our other four most highly compensated executive officers. The general rule is that annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed $1,000,000. The 2007 Omnibus Incentive Plan includes provisions that may permit certain types of awards to qualify for exceptions to the compensation deduction limit.

The foregoing is only a summary of the effect of federal income taxation on the grantee and us with respect to the grant and exercise of awards made under the 2007 Omnibus Incentive Plan, does not purport to be complete, and does not discuss the tax consequences of the grantee s death or the income tax laws of any municipality, state or foreign country in which a grantee may reside.

No Appraisal Rights in Connection with the Incentive Plan Proposal

Under Maryland law stockholders will not have appraisal rights in connection with the Incentive Plan Proposal.

Vote Required

Approval of the Incentive Plan Proposal requires the affirmative vote of the holders of at least a majority of our outstanding shares of common stock represented in person or by proxy at the Special Meeting and actually voted on the matter (a majority of votes cast), so long as the total votes cast represents at least 50% of the shares entitled to vote at the Special Meeting. Proxies received will be voted for approval of this proposal unless stockholders designate otherwise.

Our Board has determined it to be advisable and in the best interests of us and our stockholders to approve the Incentive Plan Proposal. Our Board unanimously approved the form of the 2007 Omnibus Incentive Plan and recommends that you vote FOR the Incentive Plan Proposal.

Consequences of Failure to Approve the Incentive Plan Proposal

If the Incentive Plan Proposal is not approved by our stockholders, it could materially adversely affect us because we could be deprived of the services of our senior management and the ability to provide the incentives necessary to attract qualified replacements and other personnel.

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Compensation of Our Executive Officers and Directors

Compensation of Our Executive Officers

Prior to February 2, 2007, none of our executive officers received any compensation directly from us for services rendered to us and, accordingly, no compensation had been awarded to, earned by, or paid to any of our executive officers prior to February 2, 2007. Except for Donald A. Miller, CFA, who was hired as our Chief Executive Officer and President on February 2, 2007, our executive officers are also officers of Wells Capital and its affiliates and have been compensated by these entities, in part, for certain services previously provided to us under our existing advisory and management agreements. Please see the discussion of our relationship with these entities and the services provided under our existing advisory and management agreements under Proposal I The Internalization Proposal Our Company; and Our Existing Advisory and Property Management Agreements. Effective February 2, 2007, Donald A. Miller, CFA, was hired as our Chief Executive Officer and President and, from and after that date, will be compensated by us. See Proposal I The Internalization Proposal Description of the Internalization Transaction Employment Agreements.

Compensation Committee

During 2006, the members of our compensation committee were Richard W. Carpenter, Bud Carter, William H. Keogler, Jr., Donald S. Moss, and Neil H. Strickland, all of whom are Independent Directors. The primary function of our compensation committee has historically been to administer the granting of stock options to selected employees of Wells Capital and Wells Management, our current external advisors, based upon recommendations from management of these entities, and to set the terms and conditions of such options in accordance with our 2000 employee stock option plan; however, no employee stock options have ever been issued under our 2000 employee stock option plan. During 2006, our compensation committee did not hold any meetings, and no stock options were issued under our 2000 employee stock option plan. We currently anticipate that, if the 2007 Omnibus Incentive Plan is approved by our stockholders and adopted by our Board, our Board will terminate our 2000 employee stock option plan, which covers only employees of Wells Capital and Wells Management and, accordingly, will no longer be necessary.

Prior to January 22, 2007, the Special Committee, with the advice of its legal counsel and employment compensation consultant, conducted the initial negotiations of the terms of the employment agreement with Donald A. Miller, CFA,. On January 22, 2007, our Board reconstituted our compensation committee and appointed Bud Carter, William H. Keogler, Jr., Donald S. Moss and Neil H. Strickland, all of whom are Independent Directors, as our new compensation committee. The primary responsibilities of our compensation committee will be to (1) review and approve corporate goals and objectives relevant to the compensation of our Chief Executive Officer, evaluate the Chief Executive Officer s performance in light of those goals and objectives and, either as a committee or together with the other Independent Directors, determine and approve the Chief Executive Officer s compensation; (2) make recommendations to our Board with respect to the compensation of other executive officers, and incentive-compensation and equity-based plans and awards to our executive officers and other employees; (3) administer our 2007 Omnibus Incentive Plan, in the event such plan is approved by our stockholders, and (4) prepare a compensation committee report on executive officer compensation as required by applicable SEC or stock exchange rules to be included in our annual proxy statement or annual report on Form 10-K. Following January 22, 2007, our compensation committee completed the negotiations of the employment agreement with Donald A. Miller, CFA, and recommended to our Board that we enter into the employment agreement with Mr. Miller. On February 2, 2007, the employment agreement with Donald A. Miller, CFA, was finalized, was approved by our Board, was executed by the parties and became effective. See Proposal I The Internalization Proposal Description of the Internalization Transaction Employment Agreements. Our compensation committee does not currently have a written charter.

Compensation Committee Interlocks and Insider Participation

For a description of the Compensation Committee Interlocks, see Certain Relationships with our Independent Directors immediately below.

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Certain Relationships with our Independent Directors

The following Independent Directors of Wells REIT also serve as independent directors of Wells REIT II: Richard W. Carpenter, Bud Carter, Donald S. Moss, Neil H. Strickland, and W. Wayne Woody. Mr. Moss also serves as an independent director of Wells Timberland REIT, Inc. Further, all of our Independent Directors serve as trustees of the Wells Family of Real Estate Funds, an open-end management company organized as an Ohio business trust, which includes as one of its series the Wells S&P REIT Index Fund.

In addition, Mr. Carter serves as a chairman for TEC International, an organization designed to aid corporate executives in the sharing of ideas on ways to improve the management and profitability of their respective companies. As a chairman, Mr. Carter facilitates monthly meetings for groups of executives and meets individually with each member of the group on a monthly basis. Four executives of Wells REF and its affiliates, including Messrs. Wells and Fretz, are members in groups chaired by Mr. Carter. While Mr. Carter has no equity interest in TEC International, he is compensated by TEC International for such services. Wells Capital paid TEC International fees of approximately $11,400, $21,000 and $37,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Compensation of Our Directors

Name	Fees Earned or Paid in Cash in 2006 ($) (1)	Stock Awards in 2006 ($)	Option Awards in 2006 ($) (2) (3)	Non-Equity Incentive Plan Compensation in 2006 ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other 2006 Compensation ($) (4)	Total 2006 Compensation ($)
Leo F. Wells, III	None	None	None	None	None	None	$ 0
Douglas P. Williams	None	None	None	None	None	None	$ 0
Michael R. Buchanan	$ 73,500(5)	None	$ 0	None	None	None	$ 73,500(5)
Richard W. Carpenter	$ 70,500(5)	None	$ 0	None	None	None	$ 70,500(5)
Bud Carter	$ 53,500	None	$ 0	None	None	None	$ 53,500
William H. Keogler, Jr.	$ 79,000(5)	None	$ 0	None	None	None	$ 79,000(5)
Donald S. Moss	$ 66,000	None	$ 0	None	None	None	$ 66,000
Neil H. Strickland	$ 60,750	None	$ 0	None	None	None	$ 60,750
W. Wayne Woody	$ 93,000(5)	None	$ 0	None	None	None	$ 93,000(5)

(1) We pay each of our Independent Directors an annual retainer of $18,000 (increased from $12,000 on July 1, 2006), $2,500 per regularly scheduled board meeting attended, $1,500 per regularly scheduled committee meeting attended, including the meetings of the Special Committee (committee chairpersons receive an additional $500 per committee meeting for serving in that capacity), and $250 per special board meeting attended whether held in person or by telephone conference. Members of our audit committee are paid $2,500 per meeting attended for each of the four meetings necessary to review our quarterly and annual financial statements. If one of our directors is also an officer, we do not pay separate compensation for services rendered as a director. All directors receive reimbursement of reasonable out-of-pocket expenses incurred in connection with attendance at meetings of the board of directors.

(2) In 2006, Messrs. Buchanan and Woody received options to purchase up to 1,500 shares of our common stock and Messrs. Carpenter, Carter, Keogler, Moss and Strickland received options to purchase up to 1,000 shares of our common stock pursuant to our Independent Director Stock Option Plan (described below). Further, in 2006, Mr. Carter received warrants to purchase up to 53 shares of our common stock, Mr. Moss received warrants to purchase up to 209 shares of our common stock, and Mr. Strickland received warrants to purchase up to 4 shares of our common stock pursuant to our Independent Director Warrant Plan (described below). The aggregate grant date fair value of these option awards and warrants determined in accordance with FAS 123R was determined to be zero.

(3) As of December 31, 2006, Mr. Buchanan held, in the aggregate, options to purchase up to 4,500 shares of our common stock; Mr. Woody held, in the aggregate, options to purchase up to 3,000 shares of our common stock; and Messrs. Carpenter, Carter, Keogler, Moss and Strickland held, in the aggregate, options to purchase up to 7,500 shares of our common stock pursuant to our Independent Director Stock Option Plan (described below). Further, as of December 31, 2006, Mr. Carter held, in the aggregate, warrants to purchase up to 787 shares of our common stock; Mr. Moss held, in the aggregate, warrants to purchase up to 3,619 shares of our common stock; and Mr. Strickland held, in the aggregate, warrants to purchase up to 53 shares of our common stock pursuant to our Independent Director Warrant Plan (described below).

(4) During 2006, none of our directors received additional compensation required to be disclosed under this column.

(5) Includes $20,000 for Mr. Buchanan, $18,500 for Mr. Carpenter, $17,000 for Mr. Keogler, and $27,500 for Mr. Woody for attendance at meetings of the Special Committee.

Independent Director Stock Option Plan

We have reserved 100,000 shares of common stock for future issuance upon the exercise of stock options granted to the Independent Directors pursuant to our Independent Director Stock Option Plan (Independent Director Option Plan) which was approved by our stockholders at the annual stockholders meeting held on June 16, 1999. We have issued non-qualified stock options to purchase 2,500 shares (Initial Options) to each of our Independent Directors pursuant to our Independent Director Option Plan. In addition, we issued options to purchase 1,000 shares to each Independent Director then in office in connection with the 2000 through 2005 annual meetings of stockholders and will continue to issue options to purchase 1,000 shares (Subsequent Options) to each independent director then in office on the date of each of our annual stockholders meetings. The Initial Options and the Subsequent Options are collectively referred to as the Independent Director Options. Independent Director Options may not be granted at any time when the grant, along with grants to other Independent Directors, would exceed 10% of our issued and outstanding shares.

The exercise price for the Initial Options is currently $12.00 per share. The exercise price for the Subsequent Options is currently the greater of (1) $12.00 per share or (2) the fair market value of the shares on the date they are granted. One-fifth of the Initial Options became exercisable beginning on the date of grant, and one-fifth of the Initial Options become exercisable on each anniversary of the date of grant such that all Initial Options become exercisable on the fourth anniversary of the date of grant. Subsequent Options granted under the Independent Director Option Plan become exercisable on the second anniversary of the date of grant.

If the number of outstanding shares is changed into a different number or kind of shares or securities through a reorganization or merger in which we are the surviving entity, or through a combination, recapitalization or otherwise, an appropriate adjustment will be made in the number and kind of shares that may be issued pursuant to exercise of the Independent Director Options. A corresponding adjustment to the exercise price of the Independent Director Options granted prior to any change will also be made. Any such adjustment, however, will not change the total payment, if any, applicable to the portion of the Independent Director Options not exercised, but will change only the exercise price for each share.

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Independent Director Warrant Plan

We have reserved 500,000 shares for future issuance upon the exercise of warrants to be granted to the Independent Directors pursuant to our Independent Director Warrant Plan (Independent Director Warrant Plan) which was approved by our stockholders at the annual stockholders meeting held on June 28, 2000. Our Independent Director Warrant Plan provides for the issuance of warrants to purchase shares of our common stock (Warrants) to our Independent Directors based on the number of shares of common stock that they purchase. The purpose of the Independent Director Warrant Plan is to encourage our Independent Directors to purchase shares of our common stock. Beginning on the effective date of the Independent Director Warrant Plan and continuing until the earlier to occur of (1) the termination of the Independent Director Warrant Plan by action of the board of directors or otherwise, or (2) 5:00 p.m. EST on the date of listing of our shares on a national securities exchange, each independent director will receive one Warrant for every 25 shares of common stock he purchases. The exercise price for the Warrants is currently $12.00 per share.

Equity Compensation Plan Information

We have reserved 750,000 shares of common stock for issuance under our 2000 employee stock option plan, 100,000 shares of common stock under the Independent Director Stock Option Plan, and 500,000 shares of common stock under the Independent Director Warrant Plan. The following table provides summary information about securities issuable under our equity compensation plans, as of December 31, 2006.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	63,959	$ 12.00	1,286,041
Equity compensation plans not approved by security holders			
Total	**63,959**	**$ 12.00**	**1,286,041**

Ownership of Shares By Directors and Executive Officers

As of December 31, 2006, our current directors and executive officers beneficially owned the following shares:

Name of Beneficial Owner	Shares Beneficially Owned	Percentage
Leo F. Wells, III	3,447	*
Donald A. Miller	12,717	*
Douglas P. Williams	1,124	*
Randall D. Fretz	8,470	*
Michael R. Buchanan (1)	4,500	*
Richard W. Carpenter (2)	7,500	*
Bud Carter (2) (5)	27,950	*
William H. Keogler, Jr. (2)	7,500	*
Donald S. Moss (2) (6)	113,041	*
Neil H. Strickland (2) (7)	8,882	*
W. Wayne Woody (3)	3,000	*

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Name of Beneficial Owner	Shares Beneficially Owned	Percentage
All officers and directors as a group (4) (8)	198,131	*

* Less than 1% of the outstanding common stock.
(1) Includes options to purchase up to 4,500 shares of common stock, which are exercisable within 60 days of December 31, 2006.
(2) Includes options to purchase up to 7,500 shares of common stock, which are exercisable within 60 days of December 31, 2006.
(3) Includes options to purchase up to 3,000 shares of common stock, which are exercisable within 60 days of December 31, 2006.
(4) Includes options to purchase an aggregate of up to 45,000 shares of common stock, which are exercisable within 60 days of December 31, 2006.
(5) Includes warrants to purchase up to 787 shares of common stock, which are exercisable within 60 days of December 31, 2006.
(6) Includes warrants to purchase up to 3,619 shares of common stock, which are exercisable within 60 days of December 31, 2006.
(7) Includes warrants to purchase up to 53 shares of common stock, which are exercisable within 60 days of December 31, 2006.
(8) Includes warrants to purchase an aggregate of up to 4,459 shares of common stock, which are exercisable within 60 days of December 31, 2006.

Outstanding Soliciting Dealer Warrants

Pursuant to the terms of the fourth public offering of shares of our common stock which commenced on July 26, 2002, for every 50 shares of common stock sold to the public or issued to stockholders pursuant to our dividend reinvestment plan during the fourth offering period, we, through our dealer manager, awarded one soliciting dealer warrant to the broker-dealers who sold our common stock in our fourth offering. Under the terms of such warrants, the holder of a soliciting dealer warrant is entitled to purchase one share of our common stock at a price of $12 per share during the period beginning on the first anniversary date of the effective date of the offering (July 26, 2003), and ending five years after the effective date of the fourth offering, which is July 26, 2007. As of December 31, 2006, there were a total of 5,860,964 issued and outstanding soliciting dealer warrants.

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WELLS REAL ESTATE INVESTMENT TRUST, INC.

BUSINESS

General

Wells REIT is a Maryland corporation formed on July 3, 1997, which commenced active operations on June 5, 1998 and which qualifies as a REIT for federal income tax purposes. Substantially all of our business is conducted through Wells OP, a Delaware limited partnership, or subsidiaries of Wells OP. Wells REIT is the sole general partner and Wells Capital is the sole limited partner of Wells OP. Wells OP owns properties directly, through wholly owned subsidiaries, through certain joint ventures with unaffiliated parties, and through certain joint ventures with real estate limited partnerships sponsored by Wells Capital. We have a controlling interest in the unaffiliated joint ventures and, accordingly, consolidate the accounts of these entities. Conversely, we do not have a controlling interest in the joint ventures with affiliates of Wells Capital and, accordingly, do not consolidate the accounts of these entities.

We engage in the acquisition and ownership of commercial real estate properties, including properties that are under construction, newly constructed, or have operating histories. Our portfolio consists primarily of high-grade office and industrial buildings leased to large corporate tenants located throughout the United States. As of December 31, 2006, all properties currently owned by us were office buildings, warehouses, and manufacturing facilities or some combination thereof; however, we are not limited to such investments.

Our stock is not listed on a national exchange. However, our articles of incorporation currently require that we begin the process of liquidating our investments and distributing the resulting proceeds to our stockholders if our common stock is not listed on a national exchange or over-the-counter market by January 30, 2008. This provision of our articles can only be amended by a vote of our stockholders.

Real Estate Investment Objectives

Our primary investment objectives are to maximize cash dividends paid to our investors; to preserve, protect, and return our investors capital contributions; and to realize growth in the value of our properties upon our ultimate sale of such properties or from a listing of our common stock on a national exchange or over-the-counter market.

In determining the appropriateness of an investment in real estate, we consider the creditworthiness of the tenants, the location of the property, its appropriateness for any development contemplated or in progress, its income-producing capacity, the prospects for long-range appreciation, and liquidity and tax considerations. We also consider the impact of the acquisition on our portfolio as a whole with regard to diversification by geography, tenants, industry group of tenants, and timing of lease expirations.

We have developed specific standards for determining creditworthiness of tenants of buildings being considered for acquisition or at the time of signing a new lease at an existing building. Creditworthy tenants of the type we target have become more highly valued in the marketplace and, consequently, there is increased competition for acquiring properties leased to such creditworthy tenants. As a result, the purchase prices for properties have increased and capitalization rates (cap rates), or first-year returns on real estate investments, have declined. We remain committed to invest in quality properties that will produce quality income.

Our investment philosophy emphasizes diversification of our portfolio for geographic locations, tenants, industry group of tenants, and timing of lease expirations. Prior to acquisition, we perform an assessment to ensure that our portfolio is diversified with regard to these criteria to minimize the impact on our portfolio of significant factors affecting a single geographic area, type of property or industry group of tenants. Additionally, we analyze annual lease expirations

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in an attempt to minimize the impact on the cash flows from operations of the portfolio as a whole for properties that may be vacant until re-leased.

We anticipate that in future periods we will continue to acquire additional properties which meet our investment objectives with regard to quality and dispose of certain properties in order to continue to position the portfolio at an acceptable range of diversification; however, the number and mix of properties we acquire will largely depend upon the real estate and market conditions and other circumstances existing at the time we acquire the properties. We anticipate that future funds for acquisitions may come from a variety of sources, including operating cash flow, investor proceeds received from the sale of common stock pursuant to our dividend reinvestment plan, net proceeds from property dispositions, future equity and debt offerings and additional borrowings.

Generally, we are responsible for the replacement of specific structural components of a property such as the roof of the building or the parking lot. However, the majority of our leases include reimbursement provisions that require the tenant to pay, as additional rent, all or a portion of real estate taxes; sales and use taxes; special assessments; utilities; insurance; building repairs; and other building operation and management costs. Such reimbursement provisions mitigate the risks related to rising costs. Upon the expiration of leases at our properties, our objective is to negotiate leases that contain similar reimbursement provisions; however, the conditions in each of our markets could dictate different outcomes and may result in less favorable reimbursement provisions.

Financing Objectives

To date, we have financed our acquisitions through a combination of equity raised in our public offerings and debt incurred or assumed upon the acquisition of certain properties. We anticipate that future acquisitions will be funded primarily through existing or future debt arrangements, proceeds we raise pursuant to our dividend reinvestment plan, and net proceeds we receive from the sale of existing properties. In addition, we have obtained certain long-term debt facilities which were used to fund the accumulated redemption requests pursuant to our share redemption program. As of December 31, 2006, our debt leverage ratio (the ratio of our outstanding debt to the aggregate cost of our real estate assets) was approximately 26.9%.

Operating Objectives

As our initial capital raising and acquisition phase is complete, we are currently focusing primarily on the operational performance of the portfolio. In connection therewith, we will continue to focus on a number of key operating initiatives, including the following:

- Negotiating strategic renewals or lease extensions that expire in either the next few years or at times in which we believe it is important to make adjustments to our lease expiration exposure;

- Ensuring that we enter into leases at market terms, upon lease expiration or with regard to currently vacant space at our properties, in order to maximize returns on our properties as permitted by the market;

- Considering appropriate actions for future lease expirations to ensure that we can position the property appropriately to retain the existing tenants or negotiate lease amendments now, which will lengthen the term of the lease, resulting in the receipt of increased rents over the long term as allowed by the market;

- Controlling operating expenses as a percentage of revenues as we attempt to take advantage of certain economies of scale; and

- Evaluating selective property dispositions that will improve the overall quality and economic performance of our portfolio over the long term.

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Employees

We currently have no direct employees. Under the terms of various agreements, the Advisor and its affiliates invoice us for the services provided to us by their employees based on estimates of the time spent to perform a variety of services outlined in such agreements. These expenses are included in general and administrative expenses in the accompanying consolidated statements of income. These expenses, after reduction for amounts reimbursed by tenants, totaled approximately $6.7 million, $7.8 million, $8.4 million, and $3.9 million for the years ended December 31, 2006, 2005, 2004, and 2003, respectively.

Insurance

We believe that our properties are adequately insured.

Competition

As the leasing of real estate is highly competitive, we will experience competition for tenants from owners and managers of competing projects. As a result, we may be required to provide rent concessions, incur charges for tenant improvements and other inducements, or we may not be able to timely lease vacant space, all of which would adversely impact our results of operations. At the time we elect to acquire additional properties, we will compete with other buyers who are interested in the property, which may result in an increase in the amount that we pay for the property or may result in us ultimately not being able to acquire the property. At the time we elect to dispose of one or more of our properties, we will be in competition with sellers of similar properties to locate suitable purchasers for properties, which may result in us receiving lower proceeds from the disposal or which may result in us not being able to dispose of the property due to the lack of an acceptable return.

Litigation Against Related Parties

During early 2004, a putative class action complaint was filed against, among others, Leo. F. Wells, III, the President and a director of Wells REIT, Wells Capital, and Wells Management (*Hendry et al. v. Leo F. Wells, III et al.*, Superior Court of Gwinnett County, Georgia, Civil Action No. 04-A-2791-2). The Court granted the plaintiffs motion to permit voluntary dismissal of this suit, and the case was subsequently dismissed without prejudice. In November 2004, the same plaintiffs filed a second putative class action complaint against, among others, Mr. Wells, Wells Capital, and Wells Management (*Hendry et al. v. Leo F. Wells, III et al.*, Superior Court of Gwinnett County, Georgia Civil Action No. 04A-13051-6). The second action alleges, among other things, that: (1) Mr. Wells and Wells Capital breached their fiduciary duties to the limited partners of Wells Real Estate Fund I (Fund I), a previously syndicated real estate partnership sponsored by Wells Capital and Mr. Wells, in connection with certain disclosures and prior actions relating to the distribution of net sale proceeds, (2) the defendants breached an alleged contract arising out of a June 2000 consent solicitation to the limited partners of Fund I relating to an alleged waiver of deferred management fees, and (3) certain misrepresentations and omissions in an April 2002 consent solicitation to the limited partners of Fund I caused that consent solicitation to be materially misleading. The plaintiffs seek, among other remedies, judgment against Mr. Wells and Wells Capital, jointly and severally, in an amount to be proven at trial; punitive damages; disgorgement of fees earned by the general partners of Fund I; enforcement of the alleged contract relating to the alleged waiver of deferred management fees; and an award to the plaintiffs of their attorneys fees, costs, and expenses. On January 28, 2005, the defendants filed motions for summary judgment and motions to dismiss the plaintiffs claims. Pursuant to orders entered July 1, 2005, the Court granted the defendants motions to dismiss and for summary judgment on all counts in the complaint. Thus, this action has now been dismissed, subject to the plaintiffs right to file a notice of appeal within the required time period. On August 3, 2005, the plaintiffs filed a motion requesting the Court to vacate and re-enter the orders to give the plaintiffs an opportunity to file a motion for reconsideration or notice of appeal. On February 15, 2006, the Court heard argument on the plaintiffs motion to vacate and to re-enter the judgments previously entered on July 1, 2005. On April 20, 2006, the Court held a hearing addressing only the liability aspects on the defendants and plaintiffs motions for attorneys fees and expenses. By Orders entered May 24, 2006, the Court denied the plaintiffs and the defendants motions to recover attorneys fees and expenses of litigation. Also by Orders entered May 24, 2006, the Court re-entered its July 1, 2005 judgments granting the defendants motions to dismiss and for summary judgment on all counts in the complaint, so as to allow the plaintiffs 30 days within which to file a notice of appeal. On or about June 21, 2006, the plaintiffs filed a notice of appeal with respect to the Court s Order granting the defendants motions to dismiss and for summary judgment. On July 5, 2006, the defendants filed a notice of cross appeal with respect to the Court s Order denying the defendants motion for attorneys fees and expenses of litigation. On August 18, 2006, the appeal and cross appeal were docketed in the Georgia Court of Appeals. It is not known when the Court of Appeals will rule on the appeal and cross appeal.

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PROPERTIES

Overview

As of December 31, 2005, we owned interests in 83 properties. Of these properties, 69 were wholly owned and three properties were owned through consolidated joint ventures. The remaining 11 properties were owned through joint ventures with affiliates of Wells Capital. All of these properties are included in our accompanying consolidated financial statements for the year ended December 31, 2005. The majority of assets are commercial office buildings located in 23 states and the District of Columbia.

As of December 31, 2006, we owned interests in 83 properties which were approximately 95% leased with an average lease term remaining of approximately 6.7 years.

Property Statistics

The tables below include statistics for properties that we own directly and through our consolidated joint ventures, as well as for our respective ownership interests in properties that we own through our unconsolidated joint ventures. The following table shows lease expirations of our portfolio as of December 31, 2006, during each of the next ten years and thereafter, assuming no exercise of renewal options or termination rights.

Year of Lease Expiration	Annualized Gross Base Rent (in thousands)	Rentable Square Feet Expiring (in thousands)	Percentage of Annualized Gross Base Rent
Vacant	$ 3,119	1,168	5%
2007	$ 34,758	1,022	5%
2008	$ 22,376	797	4%
2009	$ 30,620	1,265	6%
2010	$ 64,555	2,680	12%
2011	$ 87,045	4,021	19%
2012	$ 70,367	2,220	10%
2013	$ 56,594	1,776	8%
2014	$ 30,240	1,118	5%
2015	$ 28,918	889	4%
2016	$ 20,463	944	4%
Thereafter	$ 93,368	3,560	17%
	$ 542,422	21,459	100%

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The following table shows the geographic diversification of our portfolio as of December 31, 2006.

Location	2006 Annualized Gross Base Rents (in thousands)	Rentable Square Feet (in thousands)	Percentage of 2006 Annualized Gross Base Rents
Chicago	$ 143,286	5,076	26%
Washington, D.C.	$ 81,654	2,169	15%
N. New Jersey	$ 49,163	2,039	9%
New York	$ 33,201	987	6%
Minneapolis	$ 30,023	1,230	6%
Boston	$ 25,412	587	5%
Dallas	$ 24,310	1,275	4%
Los Angeles	$ 23,138	679	4%
Detroit	$ 21,778	972	4%
Atlanta	$ 14,883	616	3%
Philadelphia	$ 13,055	761	2%
Nashville	$ 10,467	423	2%
Orange County	$ 10,385	451	2%
Other*	$ 61,669	4,195	11%
	$ 542,422	21,458,514	100%

* None more than 2%.

The following table shows the tenant industry diversification of our portfolio as of December 31, 2006.

Industry	2006 Annualized Gross Base Rent (in thousands)	Rentable Square Feet (in thousands)	Percentage of 2006 Annualized Gross Base Rent
Business Services	$ 64,564	2,222	12%
Depository Institutions	$ 51,905	2,010	10%
Legal Services	$ 41,035	1,185	8%
Insurance Carriers	$ 32,615	1,405	6%

Industry	2006 Annualized Gross Base Rent (in thousands)	Rentable Square Feet (in thousands)	Percentage of 2006 Annualized Gross Base Rent
Communication	$ 26,069	964	5%
Insurance Agents, Brokers, and Service	$ 25,976	891	5%
Nondepository Institutions	$ 22,899	1,022	4%
Administration of Economic Programs	$ 22,889	587	4%
Chemicals and Allied Products	$ 22,154	718	4%
Electronic & Other Electric Equipment	$ 21,678	1,203	4%
Food and Kindred Products	$ 17,705	505	3%

Finance, Taxation, & Monetary Policy	$	17,610	420	3%
Administration of Human Resources	$	17,177	578	3%
Environmental Quality and Housing	$	14,829	444	3%
Engineering & Management Services	$	13,216	475	2%
Other*	$	130,101	6,830	24%
	$	542,422	21,459	100%

* None more than 2%.

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The following table shows the tenant diversification of our portfolio as of December 31, 2006.

Location	2006 Annualized Gross Base Rent (in thousands)	Percentage of 2006 Annualized Gross Base Rent
BP Amoco	29,971	6%
Leo Burnett	26,367	5%
NASA	22,410	4%
US Bancorp	18,826	3%
Nestle	17,705	3%
Winston & Strawn	17,682	3%
Sanofi-Aventis	15,723	3%
OCC	14,773	3%
Kirkland & Ellis	14,443	3%
State of New York	14,030	3%
Independence Blue Cross	13,055	2%
Nokia	9,696	2%
Cingular	9,689	2%
Zurich	9,447	2%
Caterpillar Financial	9,114	2%
DDB Needham	8,932	2%
US National Park Service	8,630	2%
Lockheed Martin	8,202	2%
State Street Bank	8,088	1%
Department of Defense	7,157	1%
Other*	258,482	46%
	542,422	100%

* None more than 1%.

Certain Restrictions Related to our Properties

Control of certain properties is limited to a certain extent because the properties are owned through joint ventures with affiliates of Wells Capital or others not otherwise affiliated with Wells Capital or us. Refer to the sections below discussing the joint ventures for restrictions related to the operations and other investment decisions.

In addition, certain of our properties are subject to ground leases, and certain properties are held as collateral for debt facilities. Please refer to Schedule III of our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003, which details properties subject to ground leases and held as collateral for debt facilities as of December 31, 2005.

Unconsolidated Joint Ventures With Affiliates of Wells Capital

As of December 31, 2006, through our ownership in Wells OP, we own interests in certain properties through unconsolidated joint ventures with affiliates of Wells Capital as outlined below:

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Joint Venture	Joint Venture Partners	Our Ownership Percentage	Properties Held by Joint Venture
Fund XIII-REIT Joint Venture	Wells OP		ADIC Building
	Wells Real Estate Fund XIII, L.P.	72%	AIU Chicago Building
Fund XII-REIT Joint Venture	Wells OP		Siemens Building
	Wells Real Estate Fund XII, L.P.	55%	Comdata Building
Fund XI-XII-REIT Joint Venture	Wells OP		
	Wells Real Estate Fund XI, L.P.		111 Southchase Boulevard Building
	Wells Real Estate Fund XII, L.P.	57%	20/20 Building
Fund IX-X-XI-REIT Joint Venture	Wells OP		
	Wells Real Estate Fund IX, L.P.		360 Interlocken Building
	Wells Real Estate Fund X, L.P.		Avaya Building
	Wells Real Estate Fund XI, L.P.	4%	Iomega Building[(1)]
Wells/Fremont Associates Joint Venture	Wells OP		
	Fund X-XI Joint Venture	78%	47320 Kato Road Building

(1) On January 31, 2007, Fund IX-X-XI-REIT Joint Venture sold its interest in the Iomega Building for approximately $4.9 million excluding closing costs. As a result of the sale, a gain of approximately $7,000 was allocated to us.

Through Wells OP, we serve as the initial administrative venturer, as defined in the respective joint venture partnership agreements, for each of the above joint ventures. Accordingly, we are responsible for establishing policies and operating procedures with respect to the business and affairs of each of the above joint ventures. However, approval of the other joint venture partners is required for any major decision or any action that materially affects these joint ventures or their real property investments.

Lines of Credit and Notes Payable

As of December 31, 2006 and December 31, 2005, we had lines of credit and notes payable outstanding as follows (in thousands):

	December 31, 2006	December 31, 2005
Secured Pooled Facility	$ 350,000	$ 350,000
Aon Center Chicago Mortgage Notes	225,000	200,000
$125.0 Million Fixed-Rate Loan	125,000	
Leo Burnett Building Mortgage Note	120,000	120,000
WDC Mortgage Note	115,167	115,167
$105.0 Million Fixed-Rate Loan	105,000	105,000
$45.0 Million Fixed-Rate Loan	45,000	45,000
Las Colinas Corporate Center Mortgage Note	42,525	
$50.0 Million Secured Lined of Credit	38,000	
3100 Clarendon Boulevard Building Mortgage Note	34,502	35,110
One Brattle Square Building Mortgage Note	27,484	28,827
1075 West Entrance Building Mortgage Note	15,525	16,108
Merck Construction Loan		21,100
	$ 1,243,203	$ 1,036,312

For additional information on our lines of credit, see Note 5 to our accompanying consolidated financial statements of Wells REIT for the nine months ended September 30, 2006 and Note 5 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003.

LEGAL PROCEEDINGS

We are from time to time a party to legal proceedings, which arise in the ordinary course of our business. We are not currently involved in any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on our results of operations or financial condition. We are not aware of any such legal proceedings contemplated by governmental authorities. In addition, no legal proceedings were terminated during the fourth quarter of 2006.

MARKET FOR WELLS REIT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Overview

As of December 31, 2006, we had 465,856,546 million shares of common stock outstanding held by a total of approximately 109,000 stockholders. The number of stockholders is based on the records of Wells Capital, who serves as our registrar and transfer agent. Under our articles of incorporation, certain restrictions are imposed on the ownership and transfer of our shares.

We recently engaged an independent appraisal firm to perform a valuation of our properties as of September 30, 2006. As a result of this valuation, on January 3, 2007, our Board determined that the estimated net asset value of our shares of common stock, based primarily on the net asset value of our real estate portfolio, was $8.93 per share. The $8.93 estimated net asset value per share was provided by an independent third party which based its estimate upon (1) the appraised value of our real estate assets as of September 30, 2006, and (2) consideration of the current value of our other assets and liabilities as of September 30, 2006. This estimated net asset value per share is only an estimate, and is based upon a number of assumptions and estimates, which may not be accurate or complete. There were no liquidity discounts applied to this estimated valuation or discounts relating to the fact that we are currently externally managed, and no attempt was made to value the company as an enterprise. Further, this should not be viewed as the amount a stockholder would receive in the event that we were to list our shares in the future or to liquidate our assets and distribute the proceeds to our stockholders since, among other things, this valuation was not reduced by potential real estate brokerage commissions or other costs of sale. An investment in shares of Wells REIT is illiquid because there is no current public market for the shares and, therefore, it can be difficult to sell the shares. In addition, the price received for any shares sold would likely be less than this estimated share value. Further, real estate markets fluctuate, and real estate values can decline in the future. For these reasons, our stockholders should not assume that they will be able to obtain this estimated share value for their shares, either currently or at any time in the future.

As our stock is currently not listed on a national exchange, there is no significant public trading market for our stock. Consequently, there is the risk that a stockholder may not be able to sell our stock at a time or price acceptable to the stockholder. Our Board has authorized a share redemption program for investors who have held their shares for more than one year, subject to the limitation that (1) during any calendar year, we will not redeem in excess of 5% of the weighted-average shares of common stock outstanding during the prior calendar year, and (2) in no event shall the aggregate amount of redemptions under our share redemption program exceed aggregate proceeds received from the sale of shares pursuant to our dividend reinvestment plan. Any shares we redeem pursuant to our share redemption program are purchased at the original purchase price paid by the stockholder less any amounts previously distributed to the stockholder which were attributable to net sales proceeds from the sale of our properties. We are under no obligation to redeem shares under our share redemption program, and our Board may amend, suspend, or terminate the share redemption program at any time upon 30 days written notice; provided that in the event that our Board concludes in good faith that Wells REIT is in possession of undisclosed material information at a time when it also has outstanding redemption requests pending, the Board may in its sole discretion suspend the share redemption program without advance notice for such temporary period of time as may be determined by the Board in its sole discretion in order to allow Wells REIT sufficient time to provide disclosure of such information to the stockholders.

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In accordance with the foregoing provisions, effective January 29, 2007, our Board temporarily suspended our share redemption program until the end of March 2007.

Distributions

We intend to make distributions each taxable year (not including a return of capital for federal income tax purposes) equal to at least 90% of our taxable income. We intend to pay regular quarterly dividend distributions to our stockholders. Dividends will be made to those stockholders who are stockholders as of the dividend record dates.

Quarterly dividend distributions made to stockholders during 2004, 2005 and 2006 were as follows:

			2004		
	First	**Second**	**Third**	**Fourth**	**Total**
Total Cash Distributed (in thousands)	$ 81,400	$ 81,300	$ 81,573	$ 82,099	$ 326,372
Per Share Investment Income	$ 0.123	$ 0.123	$ 0.123	$ 0.123	$ 0.492
Per Share Return of Capital	$ 0.047	$ 0.047	$ 0.047	$ 0.047	$ 0.188
Per Share Capital Gains	$ 0.005	$ 0.005	$ 0.005	$ 0.005	$ 0.020
Total Per Share Distribution	$ 0.175	$ 0.175	$ 0.175	$ 0.175	$ 0.700

			2005		
	First	**Second**	**Third**	**Fourth**	**Total**
Total Cash Distributed (in thousands)	$ 82,955	$ 67,792	$ 67,671	$ 68,225	$ 286,643
Per Share Investment Income	$ 0.033	$ 0.028	$ 0.028	$ 0.028	$ 0.117
Per Share Return of Capital	$ 0.112	$ 0.094	$ 0.094	$ 0.093	$ 0.393
Per Share Capital Gains	$ 0.030	$ 0.025	$ 0.025	$ 0.024	$ 0.104
Total Per Share Distribution	$ 0.175	$ 0.147	$ 0.147	$ 0.145	$ 0.614

Additionally, in June 2005 a special distribution of approximately $748.5 million was distributed in June 2005 as a return of invested capital related to the 27-property disposition which closed in April 2005. Approximately 19%, 70%, and 70% of the dividends paid during the years ended December 31, 2005, 2004, and 2003, respectively, were taxable to the investor as ordinary taxable income, and approximately 17%, 3%, and 0% of the dividends paid during the years ended December 31, 2005, 2004, and 2003, respectively, were taxable to the investor as capital gains, with the remaining amount characterized as a tax deferred return of capital.

			2006		
	First	**Second**	**Third**	**Fourth**	**Total**
Total Cash Distributed (in thousands)	$ 67,439	$ 67,264	$ 67,153	$ 67,719	$ 269,575
Total Per Share Distribution	$ 0.147	$ 0.147	$ 0.147	$ 0.147	$ 0.588

The amount of dividends paid and taxable portion of such dividends in prior periods are not necessarily indicative or predictive of amounts anticipated in future periods.

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Redemptions

During 2006, we redeemed shares pursuant to our share redemption program as follows (in thousands, except per share data):

Period	Approximate Number of Shares Redeemed	Approximate Average Price Paid per Share	Maximum Approximate Dollar Value of Shares Available That May Yet Be Redeemed in Calendar Year 2006 Under the Plan(1)
January 2006	7,815	$ 8.38	$ 129,882
February 2006	1,930	$ 8.38	$ 113,706
March 2006	1,643	$ 8.38	$ 99,938
April 2006	1,493	$ 8.38	$ 87,426
May 2006	2,634	$ 8.38	$ 65,352
June 2006	2,334	$ 8.38	$ 45,794
July 2006	1,336	$ 8.38	$ 34,595
August 2006	1,581	$ 8.38	$ 21,345
September 2006	137	$ 8.38	$ 20,198
October 2006	247	$ 8.38	$ 18,130
November 2006	286	$ 8.38	$ 15,735
December 2006	227	$ 8.38	$ 13,833

(1) The maximum dollar amount remaining as of December 31, 2006 for redemptions pursuant to our share redemption program in future periods is approximately $135.9 million, as life-to-date redemptions may not exceed life-to-date proceeds received under our dividend reinvestment plan. However, due to additional program restrictions, the pool of shares available for all redemptions in each calendar year (ordinary, redemptions upon death, and required minimum distribution redemptions) is recalculated on January 1st of each year. As a result of this annual calculation, the total shares available for redemptions during the period January 1, 2007 to December 31, 2007 is approximately 23.1 million shares, which we currently anticipate will be redeemed at a price equal to the lesser of (a) $10 per share or (b) the purchase price per share actually paid, less in both instances any amounts previously distributed to stockholders attributable to net sales proceeds from the sale of our properties (currently $1.62 per share); however, effective January 29, 2007, our Board temporarily suspended our share redemption program until the end of March 2007.

SELECTED FINANCIAL DATA

The following sets forth a summary of our selected financial data as of and for the years ended December 31, 2005, 2004, 2003, 2002, and 2001 (in thousands except for per share data).

	(unaudited) Nine Months Ended September 30, 2006	2005	2005	2004	2003	2002	2001
Total assets	$ 4,429,794	$ 4,414,927	$ 4,398,565	$ 5,123,689	$ 4,925,292	$ 2,229,727	$ 752,281
Total stockholders equity	$ 2,893,050	$ 3,030,578	$ 2,989,147	$ 3,699,600	$ 3,962,406	$ 1,835,950	$ 709,343
Outstanding debt	$ 1,234,519	$ 1,036,940	$ 1,036,312	$ 890,182	$ 612,514	$ 248,195	$ 8,124
Outstanding long-term debt	$ 1,163,319	$ 1,015,840	$ 1,012,654	$ 888,622	$ 500,167	$ 152,038	$ 469
Obligations under capital leases				$ 64,500	$ 64,500	$ 54,500	$ 22,000
Total revenues(1)	$ 439,799	$ 427,358	$ 568,383	$ 551,796	$ 318,298	$ 91,712	$ 37,579

Income from continuing operations	$	91,630	$	108,804	$	136,401	$	161,848	$	93,138	$	42,649	$	15,570
Discontinued operations[(1)]	$	16,359	$	191,621	$	192,734	$	47,874	$	27,547	$	17,205	$	6,154
Net income	$	107,989	$	300,425	$	329,135	$	209,722	$	120,685	$	59,854	$	21,724
Funds from operations[(2)]	$	217,769	$	233,033	$	301,120	$	363,290	$	240,917	$	101,798	$	40,584

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	(unaudited) Nine Months Ended September 30, 2006	2005	2005	2004	2003	2002	2001
Cash flows from operations	$ 200,512	$ 202,734	$ 271,494	$ 329,818	$ 237,238	$ 111,960	$ 46,588
Cash flows used in investing activities	$ (143,538)	$ 716,502	$ 691,690	$ (253,342)	$ (2,208,437)	$ (1,369,926)	$ (278,845)
Cash flows provided by (used in) financing activities	$ (68,679)	$ (167,126)	$ (205,354)	$ (90,074)	$ 1,979,216	$ 1,227,844	$ 303,544
Special distribution		$ (748,526)	$ (748,526)				
Dividends paid	$ (201,856)	$ (218,418)	$ (286,643)	$ (326,372)	(219,121)	$ (104,996)	$ (36,737)
Per share data:							
Earnings per share - basic and diluted	$ 0.23	$ 0.64	$ 0.71	$ 0.45	$ 0.37	$ 0.41	$ 0.43
Funds from operations per share	$ 0.47	$ 0.50	$ 0.65	$ 0.78	$ 0.74	$ 0.70	$ 0.79
Dividends declared	$ 0.44	$ 0.47	$ 0.61	$ 0.67	$ 0.70	$ 0.76	$ 0.76

(1) Prior period amounts adjusted to conform with current income statement groupings, including the presentation of revenues and income from properties sold and properties related to discontinued operations as income from discontinued operations, for all periods presented.

(2) Refer to Management s Discussion and Analysis of Financial Condition and Results of Operations of Wells Real Estate Investment Trust, Inc. for information regarding how we use funds from operations to evaluate our operations, the reasons why we believe that the presentation of funds from operations provides useful information to our stockholders, and for a reconciliation of this non-GAAP financial measure to net income.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF WELLS REAL ESTATE INVESTMENT TRUST, INC.

The following discussion and analysis should be read in conjunction with the Selected Financial Data and our accompanying consolidated financial statements for the nine months ended September, 30, 2006 and the years ended December 31, 2005, 2004 and 2003, and the notes thereto. See also Risk Factors, as well as the notes to our consolidated financial statements.

Overview

We are a real estate investment company engaged in the investment and management of commercial real estate located throughout the United States. We operate as a real estate investment trust for federal income tax purposes. As of September 30, 2006, we had no paid employees and are externally advised and managed by Wells Capital and Wells Management.

From 1998 through 2003, we raised capital through the issuance of common stock under four public offerings and invested the capital proceeds in income producing commercial real estate properties. During 2004 and 2005, we continued to raise additional capital, through the sale of shares under our dividend reinvestment plan, and acquired or constructed certain additional real estate properties.

During 2005, we sold 27 properties in which we held whole or partial interests, as part of a sale to an unrelated third party, and distributed substantially all of the net sale proceeds of approximately $756.8 million to investors in the form of a return of invested capital. Also during 2005, we completed construction and placed into service two build-to-suit properties with total capitalized costs of approximately $45.1 million.

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As of September 30, 2006, we owned and operated 84 properties, directly or through joint ventures, comprising approximately 20.8 million square feet, located in 23 states and the District of Columbia. As of September 30, 2006, the properties in our portfolio were approximately 95% leased.

Our results of operations for the years ended December 31, 2005, 2004, and 2003 reflect growing revenues and expenses associated with the acquisition of properties in 2004 and 2003.

General Economic Conditions and Real Estate Market Commentary

Management reviews a number of economic forecasts and market commentaries in order to evaluate general economic conditions and formulate a view of the current environment s effect on the real estate markets in which we operate.

The U.S. economy grew at a rate of approximately 3% in 2006 which in the view of many economists is the average long-term rate for the U.S. economy. The economy grew at a 2.2% annual pace in the third quarter of 2006 which is slightly faster than the 1.6% initially estimated but still down from 2.6% in the second quarter. This slowdown in third quarter gross domestic product was primarily attributable to housing with residential investment falling by approximately 18%, the worst decrease in over a decade. On the positive side, this loss in housing did not affect consumer spending which increased by approximately 2.9% in the third quarter 2006, up from approximately 2.6% in the second quarter. The Federal Reserve has given no indication that it will lower interest rates in the near future due to the continued risks of inflation. Gross domestic product growth for 2007 is expected to be approximately 2.9% with inflation estimated to be approximately 2.6%.

The U.S. office real estate market continued to display strong growth through the fourth quarter of 2006 with steady declines in vacancy, positive absorption rates and moderate construction. These conditions are resulting in acceleration in rent growth across most markets. National vacancy rates continued to trend downward with third quarter of 2006 vacancy at 12.9%, 20 basis point lower than the second quarter and 120 basis points lower than the prior year. Many markets are performing well due to job growth in the service-sector and a restraint on new supply of office properties. There does not appear to be any improved job-growth across most job sectors, however, with coastal and energy markets doing well and the Midwest region of the United States slightly lagging in growth. Job growth has remained approximately 2.5% since mid-year 2005, which is reflected in steady positive absorption. Looking forward to the near-term, many economists anticipate that there may be a slowing in the economy due to a correction in the housing market causing weaker employment growth and a downturn in demand for consumer goods and consumer-related finance.

The real estate capital transactions market remains relatively stable. Total office property sales through October 2006 totaled $105 billion, 31% ahead of 2005. Cap rates for central business district properties are at an all-time low due to strong investor demand. Demand for office properties continues to be well distributed across the capital sector with equity funds, institutions, REITs and foreign investors being the most competitive bidders for office properties. A different capital sector has lead acquisitions for each of the past four years, a further indication of the diversity of demand. So far in 2006, equity funds have replaced institutions as the largest purchaser of office properties. The spread between average cap rates and 10-year U.S. Treasuries continues to tighten as cap rates compress and the US Treasury rates increase from their 2002 lows. In the medium-term, the combination of higher interest rates and slower rent growth could lead to an end of the cap rate compression with cap rates generally expected to increase slightly over the next 3 years.

Impact of Economic Conditions on our Portfolio

While some of the market conditions noted above may indicate an expected increase in rental rates, the extent to which our portfolio may benefit from this growth is dependent upon the contractual rental rates currently contained in existing leases at the properties we own. Since the majority of our in-place leases are at properties that were acquired at times during which the market demanded higher rental rates, as compared with today s rental rates, new leasing activities could actually result in a decrease in future rental rates at our properties.

Liquidity and Capital Resources

Overview

From January 1998 through July 2004, we raised significant funds through the sale of our common stock in four public offerings. Proceeds from these sales of common stock, net of offering costs and other expenses, were used primarily to fund the acquisition of real estate properties and certain capital expenditures identified at the time of acquisition. While our fourth public offering closed in July 2004, we may make additional public offerings in the future pursuant to which we would receive proceeds from the sale of our common stock. While we expect to continue to receive proceeds from the sale of shares issued under our dividend reinvestment plan, we expect to use a significant portion of those proceeds to fund redemptions of our common stock under our share redemption program.

We anticipate cash flows generated from operations to remain relatively consistent with operations after the 27-property disposition. Our primary source of future cash flows is expected to be cash generated from the operations of our properties and additional distributions received from our unconsolidated joint ventures. The amount of future dividends to be paid to our stockholders will be largely dependent upon the amount of cash generated from our operating activities, our expectations of future cash flows and our determination of near-term cash needs for capital improvements, tenant re-leasing, share redemptions and debt repayments. Further, we anticipate that we may be able to generate additional cash flow through the selective and strategic sale of certain of our operating properties and, from time to time, may return net proceeds from the sale of such properties to our stockholders in the form of special distributions.

Short Term Liquidity and Capital Resources

During the nine months ended September 30, 2006, we generated net cash flows from operating activities of approximately $200.5 million, which is primarily comprised of receipts of rental income less payments for property operating costs, asset and property management fees, general and administrative expenses, and interest expense. From such net cash flows from operating activities and cash on hand, we paid dividends to stockholders of approximately $201.9 million. During the nine months ended September 30, 2006, net cash outflows from investing activities were approximately $143.5 million, primarily as a result of using approximately $169.3 million to acquire the 400 Bridgewater Building and Las Colinas Corporate Center and invest in capital expenditures at other buildings and approximately $20.7 million to pay leasing costs related to lease extensions, partially offset by net sales proceeds generated from the sale of the IRS Daycare Building and the Northrop Grumman Building of approximately $48.3 million.

During the nine months ended September 30, 2006, net cash outflows from financing activities were approximately $68.7 million, primarily as a result of paying dividends of approximately $201.9 million and redeeming common stock for approximately $173.6 million, partially offset by net new borrowings under our lines of credit and notes payable of $198.7 million and raising proceeds from the issuance of common stock under our dividend reinvestment plan of approximately $112.8 million. In addition, on October 2, 2006, we obtained long-term, fixed-rate debt of $42.5 million, the proceeds of which were used to repay draws made on our lines of credit to fund the acquisition of Las Colinas Corporate Center (see Note 5 to our accompanying consolidated financial statements for the nine months ended September 30, 2006).

Due to certain annual limitations in our share redemption program, the pool of shares available for redemptions during 2005 was exhausted in June 2005. Accordingly, approximately $48.8 million of shares tendered for ordinary redemptions throughout the remainder of 2005 were not redeemed until January 2006 due to program restrictions. The approximately $48.8 million of share redemptions were funded with proceeds drawn on our $85.0 million secured line of credit. Further, on March 8, 2006 we obtained an additional fixed-rate debt facility of $150.0 million and used or intend to use the proceeds primarily for the following items: (1) repaying amounts outstanding under our line of credit facility; (2) funding the acquisition of an 8-story office building located in Bridgewater, New Jersey for approximately $93.0 million, exclusive of closing costs; and (3) funding the redemption of additional shares of our common stock tendered for redemption in 2006.

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During 2005, we generated net cash flow from operating activities of approximately $271.5 million, primarily from rental income and tenant reimbursements, less payments for property operating costs, asset and property management fees, general administrative expenses, and interest expense. From cash flows from operating activities and cash on hand, we paid dividends to stockholders of approximately $286.6 million in 2005. Other than dividends paid to stockholders, our most significant recurring use of cash during the year ended December 31, 2005 was the redemption of our common stock pursuant to our share redemption program for approximately $215.0 million, of which approximately $128.4 million related to requested but unredeemed shares as of December 31, 2004 which were unable to be redeemed until first quarter 2005 due to certain program restrictions and first quarter 2005 redemptions. These redemptions were funded with (1) borrowings drawn under new long-term, fixed-rate debt facilities obtained in the second quarter of 2005, and (2) investor proceeds raised from the issuance of common stock under our dividend reinvestment plan, net of commissions and selling expenses.

During 2005, we generated net debt proceeds of approximately $146.1 million through additional borrowings under lines of credit and notes payable of approximately $307.1 million, reduced by repayments of approximately $161.0 million. The remaining debt outstanding after repayments of lines of credit was a 7-year term loan secured by the 4250 N. Fairfax Building in the amount of $45.0 million and a 10-year loan secured by the U.S. Bancorp Building in the amount of $105.0 million. Further, during 2005, we generated investor proceeds from the issuance of common stock under our dividend reinvestment plan of approximately $159.5 million. During 2005, we also invested in capital expenditures and deferred leasing costs of approximately $61.0 million related to (1) the construction of two build-to-suit properties, with total capital costs of approximately $45.1 million, which were placed in service during the year, and (2) funding costs related to our lease renewal and asset management strategy for our current portfolio of properties.

In addition, as a result of selling 27 properties in which we owned whole or partial interests in April 2005, we generated net proceeds of approximately $756.8 million, of which approximately $44.9 million related to our partial interest in four properties owned by unconsolidated joint ventures during 2005. We subsequently distributed substantially all of the net sales proceeds from this disposition to investors in the form of a return of invested capital special distribution in June 2005.

As a result of this aforementioned 27-property sale in April 2005, the gross amount of cash generated by properties and cash available for dividends has decreased as compared to prior periods; however, our dividends as a percent of invested capital have remained consistent. In addition, primarily as a result of distributing substantially all of the net sale proceeds generated from the portfolio sale to investors in the form of a return of invested capital special distribution, the gross amount of dividends declared per share has decreased as compared to prior periods. Future dividend levels will be dependent upon the amount of cash generated from operating activities, our expectations of future cash flows and our determination of near-term cash needs for capital improvements, tenant releasing, share redemptions, and debt repayments. In addition, due to differences in the timing of cash receipts and cash payments for operations, we may periodically be required to borrow funds on a short-term basis to meet our dividend payment schedule. Because (1) we did not reduce existing debt with the net proceeds received from the portfolio disposition, (2) the amount of assets held decreased as a result of the portfolio sale, and (3) we obtained additional borrowings of approximately $150.0 million during 2005 to fund share redemption requests, our debt leverage ratio (the ratio of our outstanding debt to the aggregate cost of our real estate assets) increased from approximately 17% as of December 31, 2004 to approximately 23% as of December 31, 2005.

We believe that cash on hand and tenant receivables are sufficient to cover our working capital needs, including accounts payable and accrued expenses, accrued capital expenditures, and cash due to affiliates of approximately $74.6 million as of September 30, 2006. We expect to use substantially all of our future operating cash flows to pay dividends to stockholders and to use cash on hand and third-party borrowings to fund capital expenditures.

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Long Term Liquidity and Capital Resources

We expect that our primary future sources of capital will be derived from net cash flows generated from property operations, from proceeds received from future equity or debt offerings, from proceeds received from secured or unsecured borrowings from third-party lenders, from shares issued under our dividend reinvestment plan, net of proceeds used to redeem shares under our share redemption program, and from the selective and strategic sale of properties.

We anticipate that our primary future long-term liquidity requirements will include, but not be limited to, making scheduled debt service payments, and funding renovations, expansions and other significant capital improvements for our properties. Specifically, over the next five years beginning with October 1, 2006, we currently estimate funding capital expenditures necessary for the properties currently in our portfolio of approximately $380.7 million, including building improvements, tenant improvements, and leasing commissions.

We expect to use substantially all future net cash flow generated from operations to pay dividends and, therefore, expect to fund future capital expenditures for the properties currently in our portfolio primarily with proceeds from third-party borrowings. Proceeds raised from the sale of shares under our dividend reinvestment plan, in excess of amounts used to fund share redemptions, may also be utilized for capital improvements or expansion at our properties, or to fund or partially fund new property acquisitions.

While we do not believe that future cash flows provided by operations will be lower due to lower returns on properties, future dividends paid at current levels are not guaranteed. Our cash flow from operations depends significantly on market rents and the ability of tenants to make rental payments. We believe that the diversity of our tenant base and the concentration in our portfolio of highly creditworthy tenants helps to mitigate the risk of tenants defaulting on leases. However, general economic downturns, or downturns in one or more of our core markets, could adversely impact the ability of our tenants to make lease payments and our ability to re-lease space on favorable terms when leases expire. In the event of either situation, our cash flow and consequently our ability to meet capital needs, could adversely affect our ability to pay dividends in the future.

Contractual Commitments and Contingencies

As of December 31, 2005, our contractual obligations were as follows (in thousands):

	Payments Due During the Years Ending December 31,				
	Total	**Remainder of 2006**	**2007-2008**	**2009-2010**	**Thereafter**
Outstanding debt obligations[1]	$ 1,234,519	$ 641	$ 224,487	$ 2,783	$ 1,006,608
Operating lease obligations	65,066	141	1,127	1,193	62,605
Tenant/building improvements and lease commission obligations[2]	68,901	5,150	42,425	12,336	8,990
Total	$ 1,368,486	$ 5,932	$ 268,039	$ 16,312	$ 1,078,203

(1) Amounts include principal payments only. We made interest payments of $43.7 million during the nine months ended September 30, 2006 and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed herein and in our Annual Report on Form 10-K for the year ended December 31, 2005.

(2) Certain lease agreements include provisions that, at the option of the tenant, may obligate us to expend certain amounts of capital to expand an existing property, to construct on adjacent property, or to provide other expenditures for the benefit of the tenant (see Note 8 to our accompanying consolidated financial statements for the nine months ended September 30, 2006). As of December 31, 2005, our contractual obligations were as follows (in thousands):

As of December 31, 2005, our contractual obligations were as follows (in thousands):

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Outstanding debt	$ 1,036,312	$ 23,658	$ 153,263	$ 2,783	$ 856,608
Operating lease obligations	65,488	563	1,126	1,192	62,607
Purchase Obligations[1]	87,963	87,963			
Total	$ 1,189,763	$ 112,184	$ 154,389	$ 3,975	$ 919,215

(1) Contract price. Does not include price adjustments, closing costs, or earnest money paid as of December 31, 2005 of approximately $5.0 million.

Results of Operations

Overview

As of September 30, 2006, we owned interests in 84 real estate properties that were approximately 95% leased. The operations of properties that have been sold are classified as discontinued operations in our accompanying consolidated statements of income for each of the periods presented (see Note 4 to our accompanying consolidated financial statements for the nine months ended September 30, 2006). Real estate operating income has increased slightly from the prior year, primarily as a result of acquiring properties and placing constructed properties into service in 2005 and 2006. Real estate operating income generated from properties owned as of the beginning of the periods presented has not changed significantly from 2005, primarily as a result of the stable nature of our portfolio. Rental revenues are generally based on long-term leases that do not allow for significant increases in rental income and do not expire in the near-term. Additionally, while we do not expect a significant increase in operating expenses at our properties, to the extent that operating expenses do increase, the majority of our in-place leases have clauses that require the tenants to bear the majority of the burden of any such increases. Absent significant changes in our financing structure or the size of our portfolio, we expect income from real estate operations to be comparable in future periods, as compared to the nine months ended September 30, 2006.

As of December 31, 2005, we owned interests in 83 real estate properties that were approximately 95.5% leased. Our results of continuing operations increased significantly from 2003 to 2004 primarily as a result of acquiring properties during 2003 and 2004 with investor proceeds raised in the fourth public offering of our common stock. Our results of operations increased to a lesser extent from 2004 to 2005 as a result of acquiring fewer properties following the close of our fourth public offering of our common stock in July 2004. We do not expect future income from continuing operations to change significantly in the near-term, as the majority of our rental revenues are generated from long-term leases that do not allow for significant changes in rental payments and which do not expire in the near-term. Further, while, we do not expect significant increases in future property operating costs, if such increases were to occur, the majority of our in-place leases have clauses that require the tenant to bear the economic burden of such increases to the extent that they occur.

The operations of 23 wholly owned properties sold in connection with the 27-property disposition in April 2005 are classified as discontinued operations in our accompanying consolidated statements of income for each of the years presented (see Note 9 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 for more information).

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Comparison of the three months ended September 30, 2005 versus the three months ended September 30, 2006

Continuing Operations

Rental income increased from $108.4 million for the three months ended September 30, 2005 to $112.0 million for the three months ended September 30, 2006. Substantially all of this increase relates to properties acquired or developed subsequent to June 30, 2005. Tenant reimbursements remained relatively stable at $32.1 million for the three months ended September 30, 2005, as compared to $34.2 million for the three months ended September 30, 2006.

Lease termination income increased from $0 for the three months ended September 30, 2005 to approximately $8.4 million for the three months ended September 30, 2006. Lease termination income for the three months ended September 30, 2006 relates mainly to consideration received as a result of the Nokia lease terminated at the Nokia property and the HSBC Card Services lease terminated at the 10900 Wayzata Building. Lease termination income for the three months ended September 30, 2006 is not expected to be comparable to future periods, as such income will be dependent upon the execution of lease termination and/or modification agreements that are deemed to be in the best interest of the portfolio over the long-term.

Property operating expenses increased from $47.4 million for the three months ended September 30, 2005 to $50.5 million for the three months ended September 30, 2006. This increase relates primarily to increases in certain reimbursable expenses, including utilities, property taxes, and tenant-requested services, and additional costs related to properties acquired or developed subsequent to June 30, 2005. Tenant reimbursement income did not fluctuate commensurate with the increase in property operating costs, primarily due to changes in the amount of reimbursements for nonrecurring tenant-requested services and limitations and/or conditions under which such costs are reimbursable pursuant to the affected leases. Property operating costs represented approximately 34% and 35% of total rental income and tenant reimbursements for the three months ended September 30, 2005 and 2006, respectively.

Asset and property management fees increased from $6.7 million for the three months ended September 30, 2005 to $7.4 million for the three months ended September 30, 2006. This increase is primarily attributable to a change in the basis on which asset management fees are calculated, partially offset by an annualized reduction of $1.2 million for 2006 that was negotiated in connection with the renewal of our Asset Management Advisory Agreement in the second quarter of 2006 (see Note 7 to our accompanying consolidated financial statements for the period ended September 30, 2006). Asset management fees have been calculated for 2006 based on a fixed percentage of the fair market value, as defined, of Wells REIT s properties according to a net asset valuation performed as of September 30, 2005, as compared to the original purchase prices of such assets on which the asset management fees were based prior to 2006. Asset and property management fees as a percentage of total rental income and tenant reimbursements were approximately 5% for the three months ended September 30, 2005 and 2006.

Lease termination expense increased from approximately $0.06 million for the three months ended September 30, 2005 to approximately $2.7 million for the three months ended September 30, 2006, and represents the write-off of lease-related assets and liabilities associated with the lease terminations described above. We do not expect these charges to be comparable in future periods, as this expense will be dependent upon the execution of any such future agreements.

Depreciation expense increased from $22.0 million for the three months ended September 30, 2005 to $23.3 million for the three months ended September 30, 2006. Substantially all of this increase relates to properties acquired or developed subsequent to June 30, 2005. Depreciation expense represented approximately 16% of rental income and tenant reimbursements for the three months ended September 30, 2005 and 2006. Absent changes in the size or composition of our portfolio, we do not expect future depreciation expense to fluctuate significantly.

Amortization expense increased from $16.2 million for the three months ended September 30, 2005 to $16.7 million for the three months ended September 30, 2006. Substantially all of this increase relates to recognizing a full period of amortization for assets recorded in connection with properties acquired and re-leased during the periods presented. Absent changes in the composition of our leases with tenants, we do not expect future amortization expense to fluctuate significantly.

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General and administrative expenses increased from $3.4 million for the three months ended September 30, 2005 to $5.0 million for the three months ended September 30, 2006. The increase in general and administrative expense was primarily attributable to Tennessee excise taxes (see Note 8 to our accompanying consolidated financial statements for the nine months ended September 30, 2006), as well as an increase in bad debt expense, net of recoveries, the majority of which was related to certain tenants at the 60 Broad Street New York Building. General and administrative expense represents approximately 2% and 3% of total rental and tenant reimbursement income for the three months ended September 30, 2005 and 2006, respectively.

Interest expense increased from $13.1 million for the three months ended September 30, 2005 to $15.6 million for the three months ended September 30, 2006 due to higher average borrowings outstanding and higher weighted-average interest rates during the third quarter of 2006, as compared to the third quarter of 2005. Absent additional borrowings or other changes to our financing structure, we expect that a significant portion of our future interest expense will be comparable to current amounts, as the majority of our borrowings are under long-term, fixed-rate debt facilities. As of September 30, 2006, $71.2 million, or 6% of our outstanding debt, includes variable-rate lines of credit, which have exposure to rising interest rates.

Interest and other income increased from $0.6 million for the three months ended September 30, 2005 to $0.9 million for the three months ended September 30, 2006. Interest income was greater for the three months ended 2006 primarily due to holding higher average cash balances as a result of withholding distributions to owners of the 35 West Wacker Building to fund near-term re-leasing costs (see Note 8 to our accompanying consolidated financial statements for the nine months ended September 30, 2006). The level of interest income in future periods will be primarily dependent upon the amount of operating cash on hand and is not expected to be consistent with the amount earned during the three months ended September 30, 2006.

Equity in income of unconsolidated joint ventures remained stable at $0.5 million for the three months ended September 30, 2005 and for the three months ended September 30, 2006. Absent future dispositions or unexpected changes in the operations of the underlying properties, we expect future equity in income of unconsolidated joint ventures to be comparable to equity in income of unconsolidated joint ventures recognized for the three months ended September 30, 2006.

Income from continuing operations per share remained relatively stable at $0.07 for the three months ended September 30, 2005 and 2006. Absent significant changes to our tenant base, credit quality, financing structure, or weighted-average shares of common stock outstanding, we do not expect net income from continuing operations to fluctuate significantly in the near-term.

Discontinued Operations

We have classified the operations of properties sold as discontinued operations for all periods presented. Income from discontinued operations was approximately $0.8 million and $13.6 million for the three months ended September 30, 2005 and 2006, respectively, and represents operating activity generated prior to sale and the gain recognized on the sale of the Northrop Grumman Building (see Note 4 to our accompanying consolidated financial statements for the nine months ended September 30, 2006). We do not expect that income from discontinued operations will be comparable to future periods, as such income is subject to the timing and completion of future property dispositions.

Comparison of the nine months ended September 30, 2005 versus the nine months ended September 30, 2006

Continuing Operations

Rental income increased from $327.3 million for the nine months ended September 30, 2005 to $332.4 million for the nine months ended December 31, 2004. Substantially all of this increase relates to properties acquired or developed subsequent to December 31, 2005. Tenant reimbursements remained relatively stable at $95.8 million for the nine months ended September 30, 2005, as compared to $97.6 million for the nine months ended September 30, 2006.

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Lease termination income increased from approximately $4.3 million for the nine months ended September 30, 2005, to approximately $9.8 million for the nine months ended September 30, 2006. Lease termination income for the nine months ended September 30, 2005 relates primarily to the termination of the Novartis lease at the Novartis Atlanta Building and the termination of the Motorola, Inc. lease at the River Corporate Center Building. Lease termination income for the nine months ended September 30, 2006 relates primarily to the termination of the Nokia lease at the Nokia property, the termination of the HSBC Card Services lease at the 10900 Wayzata Building, and the reduction of leased space at the Agilent Atlanta Building. Lease termination income for the nine months ended September 30, 2006 is not expected to be comparable to future periods, as such income will be dependent upon the execution of lease termination and/or modification agreements that are deemed to be in the best interest of the portfolio over the long-term.

Property operating expenses increased from $137.2 million for the nine months ended September 30, 2005 to $146.1 million for the nine months ended September 30, 2006. This increase relates primarily to increases in certain reimbursable expenses, including utilities, property taxes, and tenant-requested services, and additional costs related to properties acquired or developed subsequent to December 31, 2004. Tenant reimbursement income did not fluctuate commensurate with the increase in property operating costs, primarily due to changes in the amount of reimbursements for nonrecurring tenant requested services and limitations, and/or conditions under which such costs are reimbursable pursuant to the affected leases. Property operating costs represented approximately 32% and 34% of total rental income and tenant reimbursements for the nine months ended September 30, 2005 and 2006, respectively.

Asset and property management fees increased from $20.6 million for the nine months ended September 30, 2005 to $22.0 million for the nine months ended September 30, 2006. This increase is primarily attributable to a change in the basis on which asset management fees are calculated, partially offset by an annualized reduction of $1.2 million for 2006 that was negotiated in connection with the renewal of the Asset Management Advisory Agreement with Wells Management in the second quarter of 2006 (see Note 7 to our accompanying consolidated financial statements for the nine months ended September 30, 2006). Asset management fees have been calculated for 2006 based on a fixed percentage of the fair market value, as defined, of our properties according to a net asset valuation performed as of September 30, 2005, as compared to the original purchase prices of such assets on which the asset management fees were based prior to 2006. Asset and property management fees as a percentage of total rental and tenant reimbursement income were approximately 5% for the nine months ended September 30, 2005 and 2006.

Lease termination expense increased from approximately $1.2 million for the nine months ended September 30, 2005 to approximately $4.2 million for the nine months ended September 30, 2006 and represents the write-off of lease-related assets and liabilities associated with the lease terminations described above. We do not expect these charges to be comparable in future periods, as this expense will be dependent upon the execution of any such future agreements.

Depreciation expense increased from $65.7 million for the nine months ended September 30, 2005 to $68.9 million for the nine months ended September 30, 2006. Substantially all of this increase relates to properties acquired or developed subsequent to December 31, 2004. Depreciation expense represented approximately 16% of rental income and tenant reimbursements for the nine months ended September 30, 2005 and 2006.

Amortization expense increased from $48.4 million for the nine months ended September 30, 2005 to $51.1 million for the nine months ended September 30, 2006. Substantially all of this increase relates to recognizing a full period of amortization for assets recorded in connection with properties acquired and re-leased during the periods presented. Absent changes in the composition of our leases with tenants, we do not expect future amortization expense to fluctuate significantly.

General and administrative expenses increased from $12.3 million for the nine months ended September 30, 2005 to $13.7 million for the nine months ended September 30, 2006. The increase in general and administrative expense was primarily attributable to Tennessee excise taxes (see Note 8 to our accompanying consolidated financial statements for the nine months ended September 30, 2006), as well as an increase in bad debt expense, net of recoveries, the majority of which was related to certain tenants at the 60 Broad Street New York Building. General and administrative expense represents approximately 3% of total rental and tenant reimbursement income for the nine months ended September 30, 2005 and 2006.

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During the nine months ended September 30, 2005, we recognized an impairment loss of approximately $16.1 million as a result of reducing the intended holding period for the IRS Long Island Building. The decision to reduce the holding period was prompted by the loss of a prospective replacement tenant during the year ended June 30, 2005 for approximately all of the space that became available in July 2005, and the assessment of the leasing assumptions for this building, including market rents and the related costs and downtime necessary to complete the re-leasing. During the nine months ended September 30, 2006, we recognized a casualty loss of approximately $0.1 million, which represents the unrecoverable costs associated with fire damage at the 4250 North Fairfax Arlington Building.

Interest expense increased from $36.1 million for the nine months ended September 30, 2005 to $45.1 million for the nine months ended September 30, 2006 due to higher average borrowings outstanding and higher weighted-average interest rates during the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005. Absent additional borrowings or other changes to our financing structure, we expect that a significant portion of our future interest expense will be comparable to current amounts, as the majority of our borrowings are under long-term, fixed-rate debt facilities. As of September 30, 2006, $71.2 million, or 6% of our outstanding debt, includes variable-rate lines of credit, which have exposure to rising interest rates.

Interest and other income decreased from $5.1 million for the nine months ended September 30, 2005 to $1.9 million for the nine months ended September 30, 2006. Cash on hand was significantly greater during the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2006, due to holding net proceeds generated from the April 2005 27-property sale, which were distributed to our stockholders on June 14, 2005. The level of interest income in future periods will be primarily dependent upon the amount of operating cash on hand and is not expected to be consistent with the amount earned during the nine months ended September 30, 2005.

Equity in income of unconsolidated joint ventures decreased from $14.4 million for the nine months ended September 30, 2005 to $1.6 million for the nine months ended September 30, 2006. This decrease is primarily attributable to gains recognized on the sale of four unconsolidated joint ventures as a result of the April 2005 27-property sale during the six months ended June 30, 2005. Absent future dispositions or unexpected changes in the operations of the underlying properties, we expect future equity in income of unconsolidated joint ventures to be comparable to equity in income of unconsolidated joint ventures recognized for the nine months ended September 30, 2006.

Income from continuing operations per share was $0.23 and $0.20 for the nine months ended September 30, 2005 and 2006, respectively. The decrease is primarily attributable to the gain recognized on the sale of properties owned through unconsolidated joint ventures included in the April 2005 27-property sale, the increase in interest expense, and the decrease in interest income described above, partially offset by the impairment loss recognized on the IRS Long Island Building in 2005. Absent significant changes to our tenant base, credit quality, financing structure, or weighted-average shares of common stock outstanding, we do not expect net income from continuing operations to fluctuate significantly in the near-term.

Discontinued Operations

We have classified the operations of properties sold as discontinued operations for all periods presented. Income from discontinued operations was approximately $191.6 million and $16.4 million for the nine months ended September 30, 2005 and 2006, respectively, and represents operating activity generated prior to sale and gains recognized from the sales of the 23 wholly owned properties included in the April 2005 27-property sale, the IRS Daycare Building (sold in April 2006), and the Northrop Grumman Building (sold in July 2006) (see Note 4 to our accompanying consolidated financial statements for the nine months ended September 30, 2006). We do not expect that income from discontinued operations will be comparable to future periods, as such income is subject to the timing and completion of future property dispositions.

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Comparison of the year ended December 31, 2005 vs. the year ended December 31, 2004

Continuing Operations

Rental income and tenant reimbursements increased from approximately $422.1 million and $120.7 million, respectively, for the year ended December 31, 2004 to approximately $435.2 million and $128.3 million, respectively, for the year ended December 31, 2005, substantially all of which relates to properties acquired or developed during 2003, 2004 and 2005. Tenant reimbursements increased at a faster rate than rental income primarily due to the additional increase in recoverable property operating costs, as described below, that are reimbursable by tenants under the terms of the related leases. Rental income and tenant reimbursements are expected to increase in future periods, as compared to prior periods, as a result of income earned for a full period from the properties acquired and put into service during 2005.

Lease termination income decreased from approximately $8.7 million for the year ended December 31, 2004 to approximately $4.9 million for the year ended December 31, 2005. Unlike the majority of our rental income, lease termination income is not recognized ratably over long-term contracts and, therefore, fluctuates based on the level of lease terminations and restructuring activities that occur in each period. Lease termination income recognized during 2005 relates primarily to the terminations of the following leases: (a) the Novartis lease at the 11695 Johns Creek Parkway Building (formerly known as the Novartis Atlanta Building); (b) the Motorola, Inc. lease at the River Corporate Center Building; and (c) the Westhill Partners, Inc. lease at the 60 Broad Street Building. As of February 2006, the spaces previously leased by Motorola, Inc. and Westhill Partners, Inc. have been re-leased to new tenants, while the space previously leased by Novartis has been partially re-leased. Lease termination income recognized during 2004 primarily relates to the termination of a portion of the Metris Direct, Inc. lease at the 10900 Wayzata Boulevard Building (formerly known as the Metris Minnesota Building). Lease termination income is not expected to be comparable in future periods, as such income will be dependent upon the volume of future termination agreements executed and the terms of such agreements, based on what is deemed to be in the best interests of the portfolio over the long-term.

Property operating costs increased from approximately $173.7 million for the year ended December 31, 2004 to approximately $187.3 million for the year ended December 31, 2005. Of this increase, approximately $3.8 million relates to properties acquired or developed during 2003, 2004 and 2005, and the remainder relates primarily to an increase in the cost for energy utilities during 2005. Property operating costs represents approximately 32% and 33% of the sum of the rental income and tenant reimbursement revenues for the years ended December 31, 2004 and 2005, respectively. Property operating costs are expected to increase in future periods as a result of expenses incurred for a full period from the properties acquired and put into service during 2005.

Asset and property management fees increased from approximately $23.5 million for the year ended December 31, 2004 to approximately $27.3 million for the year ended December 31, 2005. This increase relates primarily to the addition of asset and property management fees related to certain properties occupied by government tenants effective July 1, 2004, and the fact that third-party management fees reimbursable by tenants are no longer considered a reduction of management fees payable to Wells Management effective July 1, 2004. Asset and property management fees represent approximately 4% and 5% of the sum of rental income and tenant reimbursement revenues for the years ended December 31, 2004 and 2005, respectively.

Depreciation increased from approximately $83.3 million for the year ended December 31, 2004 to approximately $88.1 million for the year ended December 31, 2005. This increase is primarily due to incurring additional depreciation for properties acquired or developed during 2003, 2004 and 2005. Depreciation expense represents approximately 15% and 16% of the sum of rental income and tenant reimbursement revenues for the years ended December 31, 2004 and 2005, respectively.

Amortization increased from approximately $58.5 million for the year ended December 31, 2004 to approximately $64.5 million for the year ended December 31, 2005. Substantially all of this increase is related to recognizing additional amortization of intangible lease assets related to properties acquired in 2003 and 2004 for a full period during the year ended December 31, 2005. Amortization increased at a higher rate than depreciation because the period of amortization for intangible lease assets is the respective tenant lease term, which is generally shorter than the useful life over which real estate assets are depreciated.

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Lease termination expense increased from approximately $0.7 million for the year ended December 31, 2004 to approximately $1.3 million for the year ended December 31, 2005. Lease termination expense represents the write-off of unamortized balances of tenant-specific deferred costs, included deferred rent receivables, deferred leasing costs and intangible lease assets, in connection with lease terminations. Accordingly, lease termination expense recognized during 2004 relates primarily to the write-off of tenant-specific assets related to a lease with Metris Direct, Inc. Lease termination expense recognized during 2005 relates primarily to the write-off of tenant-specific assets related to leases with Novartis and Westhill Partners, Inc. and Aon Corporation in the 1901 Main Street Irvine Building. Lease termination expense is not expected to be comparable in future periods, as such expense will be dependent upon the volume of future termination agreements executed and the terms of such agreements, based on what is deemed to be in the best interests of the portfolio over the long-term.

During the year ended December 31, 2005, we recognized an impairment loss of approximately $16.1 million as a result of reducing the intended holding period for the IRS Long Island Building. The decision to reduce the holding period was prompted by the loss of a prospective replacement tenant during the quarter ended June 30, 2005 and a reassessment of leasing assumptions for this building, which entailed, among other things, evaluating market rents, leasing costs and the downtime necessary to complete the necessary releasing activities (See Note 3 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 for further details).

General and administrative expenses remained relatively stable at approximately $18.0 for the years ended December 31, 2004 and 2005, respectively. Accordingly, general and administrative expense represents approximately 3% of the sum of the rental income and tenant reimbursement revenues for the years ended December 31, 2004 and 2005.

Interest expense increased from approximately $38.4 million for the year ended December 31, 2004 to approximately $49.3 million for the year ended December 31, 2005, primarily due to an increase in the level of outstanding borrowings during 2005. This increase is largely attributable to net additional borrowings of approximately $150 million under long-term, fixed-rate facilities in March 2005. Future levels of interest expense will be dependent upon the amount of borrowings outstanding, current interest rates, and the deferred financing costs associated with obtaining debt facilities. We expect future interest expense to increase as a result of taking out an additional fixed-rate debt facility of $150.0 million in March 2006.

Interest and other income increased from approximately $2.2 million for the year ended December 31, 2004 to approximately $5.8 million for the year ended December 31, 2005. The majority of this increase is due to having higher average cash balances during 2005 as a result of holding net proceeds from the sale of 23 wholly owned properties included in the April 2005 27-property sale of approximately $711.9 million from April 13, 2005 until the majority of such proceeds were distributed to stockholders on June 14, 2005. Future levels of interest income will be largely dependent upon the level of cash on hand. In addition, we earned approximately $0.2 million of take-out fees related to our participation in Wells Capital s Section 1031 exchange program, which is not expected to be indicative of amounts earned in future periods, as we are no longer involved in this program. We expect future interest income to decrease as a result of the nonrecurring interest earned on net sale proceeds during 2005.

Equity in income of unconsolidated joint ventures increased from approximately $6.6 million during the year ended December 31, 2004 to approximately $14.8 million for the year ended December 31, 2005. This increase is primarily related to the gains recognized on the sale of four properties owned by unconsolidated joint ventures and included in the April 2005 27-property sale. Accordingly, we expect future equity in income of unconsolidated joint ventures to decrease as a result of the nonrecurring gains recognized and forgone future operating income related to the properties sold in 2005.

We recognized a loss on extinguishment of debt of approximately $2.1 million during the year ended December 31, 2004. In May 2004, we repaid in full and terminated our $500 million credit facility with Bank of America, N.A., and recognized a $1.7 million write-off of related deferred financing costs. In addition, $0.4 million of unamortized loan costs related to debt secured by the Nestle property were written off in 2004, as this debt was repaid in full during the first quarter of 2004. Loss on extinguishment of debt is not expected to be indicative of amounts in future periods, as such costs are generally dependent upon altering our financing structure, and we do not expect to make significant changes to our current financing structure in the near-term.

Income from continuing operations decreased from $0.35 per share for the year ended December 31, 2004 to $0.30 per share for the year ended December 31, 2005, primarily as a result of the impairment loss recognized on the IRS Long Island building, partially offset by an increase in interest income earned as a result of holding net proceeds from the 27-property sale during a portion of 2005. Absent any significant additional dispositions, changes to our tenant base, credit quality, or weighted-average shares of common stock outstanding, we do not expect net income from continuing operations to fluctuate significantly in the near-term.

Discontinued Operations

In accordance with SFAS No. 144, we have classified the operations of properties sold as discontinued operations for all periods presented. Income from discontinued operations increased from approximately $47.9 million for the year ended December 31, 2004 to approximately $192.7 million for the year ended December 31, 2005, primarily as a result of recognizing the gain on the 27-property sale in 2005. These amounts consist entirely of the operations and gains on sale of the Eisenhower Boulevard Building (sold in June 2004) and the 23 wholly owned properties included in the 27-property sale (sold in April 2005). We do not expect future income from discontinued operations to be comparable with prior periods, as such income is subject to existence and timing of future property dispositions.

Comparison of the year ended December 31, 2004 vs. the year ended December 31, 2003

Continuing Operations

Rental income and tenant reimbursements increased from approximately $245.3 million and $72.0 million, respectively, for the year ended December 31, 2003 to approximately $422.1 million and $120.7 million, respectively, for the year ended December 31, 2004, substantially all of which relates to properties acquired or developed during 2003 and 2004. Tenant reimbursements represented approximately 72% and 70% of the property operating costs for the years ended December 31, 2003 and 2004, respectively.

Lease termination income increased from approximately $1.0 million for the year ended December 31, 2003 to approximately $8.7 million for the year ended December 31, 2004. Unlike the majority of our rental income, lease termination income is not recognized ratably over long term contracts and, therefore, fluctuates based on the level of lease termination and restructuring activities that occur in each period. Accordingly, lease termination income recognized during 2003 primarily relates to the termination of the PricewaterhouseCoopers lease in the Aon Center Chicago Building. Lease termination income recognized during 2004 primarily relates to the termination of a portion of the Metris Direct, Inc. lease at the 10900 Wayzata Boulevard Building (formerly known as the Metris Minnesota Building), which was re-leased to a new tenant commensurate with the related termination.

Property operating costs increased from approximately $100.4 million from the year ended December 31, 2003 to approximately $173.7 million for the year ended December 31, 2004. Substantially all of the increase relates to properties acquired during 2003 and 2004. Property operating costs represented 32% of the sum of the rental income and tenant reimbursement revenues for the years ended December 31, 2003 and 2004, respectively.

Asset and property management fees increased from approximately $12.0 million for the year ended December 31, 2003 to approximately $23.5 million for the year ended December 31, 2004. The majority of this increase is a result of incurring additional fees for properties acquired during 2003 and 2004. Asset and property management fees represent approximately 4% of the sum of rental income and tenant reimbursement revenues for the years ended December 31, 2003 and 2004.

Depreciation decreased from approximately $87.4 million for the year ended December 31, 2003 to approximately $83.3 million for the year ended December 31, 2004. This decrease is primarily attributable to changing depreciable lives for building assets from 25 years to 40 years effective January 1, 2004, (see Note 2 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003) partially offset by an increase in depreciation expense related to properties acquired or developed during 2003 and 2004.

Amortization increased from approximately $8.6 million for the year ended December 31, 2003 to approximately $58.5 million for the year ended December 31, 2004. Substantially all of this increase is related to recognizing additional amortization of intangible lease assets related to properties acquired in 2003 for a full period, and properties acquired in 2004 for a partial period, during the year ended December 31, 2004. Amortization increased at a higher rate than depreciation because the period of amortization for intangible lease assets is the respective tenant lease term, which is generally shorter than the useful life over which real estate assets are depreciated.

Lease termination expense increased from approximately $54,000 for the year ended December 31, 2003 to approximately $732,000 for the year ended December 31, 2004. Lease termination expense represents the write-off of unamortized balances of tenant-specific deferred costs, included deferred rent receivables, deferred leasing costs and intangible lease assets in connection with lease terminations and, as such, is not expected to be comparable in future periods. Accordingly, lease termination expense recognized during 2003 and 2004 relates primarily to the write-off of tenant specific assets related to the leases previously with PricewaterhouseCoopers and Metris Direct, Inc, respectively.

General and administrative expenses increased from approximately $9.1 million for the year ended December 31, 2003 to approximately $18.0 million for the year ended December 31, 2004, primarily as a result of the growth in our portfolio of properties. General and administrative expenses represent approximately 3% of total revenues for the years ended December 31, 2003 and 2004.

Interest expense increased from approximately $12.3 million for the year ended December 31, 2003 to approximately $38.4 million for the year ended December 31, 2004, primarily due to an increase in the level of outstanding borrowings during 2004 as a result of the growth in our portfolio properties, including properties encumbered with borrowings at acquisition.

Interest and other income increased from approximately $1.1 million for the year ended December 31, 2003 to approximately $2.2 million for the year ended December 31, 2004, primarily as a result earning take-out fees related to our participation in the Wells Capital s Section 1031 exchange program of approximately $0.9 million, which is not expected to be indicative of amounts earned in future periods as we are no longer involved in this program.

Equity in income of unconsolidated joint ventures increased from approximately $4.8 million for the year ended December 31, 2003 to approximately $6.6 million for the year ended December 31, 2004. This increase is primarily related to recognizing additional gains resulting from the sale of two properties in 2004, as compared to the sale of one property in 2003.

Loss on extinguishment of debt remained relatively stable at approximately $2.0 million for the year ended December 31, 2003 and approximately $2.1 million for the years ended December 31, 2004. In April 2003, we terminated our $110 million credit facility with Bank of America, N.A. and recognized approximately $0.5 million in associated unamortized deferred financing costs. Additionally, we recognized approximately $1.5 million in loan assumption fees incurred as part of the Leo Burnett Building debt refinancing in December 2003. In May 2004, we repaid in full and terminated our $500 million credit facility with Bank of America, N.A. and recognized approximately $1.7 million in associated unamortized financing costs. In addition, approximately $0.4 million of unamortized loan costs associated with the Nestle debt were recognized as the debt was repaid in full.

Income from continuing operations increased from $0.29 per share for the year ended December 31, 2003 to $0.35 per share for the year ended December 31, 2004, primarily as a result of recognizing lease termination income related to the Metris lease termination. In addition, income from continuing operations per share increased as a result of the increase in the useful life of buildings from 25 years to 40 years, offset by the impact of the additional amortization expense incurred during the year ended December 31, 2004.

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Discontinued Operations

In accordance with SFAS No. 144, we have classified the operations of properties sold as discontinued operations for all periods presented. Income from discontinued operations increased from approximately $27.5 million for the year ended December 31, 2003 to approximately $47.9 million for the year ended December 31, 2004, primarily as a result of recognizing the gain on the sale of the Eisenhower Boulevard Building in 2004 and operations for certain of the 23 wholly owned properties sold in 2005 for a full period in 2004 for the first time, as certain of those properties were acquired in 2003.

Funds from Operations

We believe that funds from operations (FFO) is a beneficial indicator of the performance of any equity REIT. Because FFO calculations exclude such factors as depreciation and amortization of real estate assets and gains or losses from sales of operating real estate assets (which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates), they facilitate comparisons of operating performance between periods and with other REITs. Our management believes that accounting for real estate assets in accordance with U.S generally accepted accounting principles (GAAP) implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentation, provides a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities. Other REITs may not define FFO in accordance with the current National Association of Real Estate Investment Trust s (NAREIT) definition (as we do) or may interpret the current NAREIT definition differently than we do.

FFO is a non-GAAP financial measure and does not represent net income determined in accordance with GAAP. We believe that net income determined in accordance with GAAP is the most relevant measure of our operating performance and, accordingly, believe that FFO should not be viewed as an alternative measurement of our operating performance to net income.

As presented below, certain noncash items such as depreciation, amortization, and gains on the sale of real estate assets (for both wholly owned and unconsolidated joint ventures) are excluded from our calculation of FFO. Income from discontinued operations is included in FFO except for the components of income from discontinued operations resulting from the noncash items mentioned above. Thus, a portion of the depreciation of real estate assets and amortization of deferred leasing costs adjustments below are classified as income from discontinued operations in our accompanying consolidated financial statements (see Note 4 to our accompanying consolidated financial statements for the nine months ended September 30, 2006). FFO is not adjusted to reflect impairment losses, the cost of capital improvements or any related capitalized interest, and is presented in the following table (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Net income	$ 48,248	$ 33,550	$ 107,989	$ 300,425
Add:				
Depreciation of real assets wholly owned	23,311	22,522	69,632	68,836
Depreciation unconsolidated partnerships	363	356	1,081	1,187
Amortization of lease-related costs wholly owned	18,036	16,242	52,867	50,978
Amortization unconsolidated partnerships	283	295	818	937

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	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Subtract:				
Gain on sale of properties wholly owned	(13,434)		(14,618)	(177,386)
Gain on sale of properties unconsolidated partnerships		8		(11,944)
FFO	$ 76,807	$ 72,973	$ 217,769	$ 233,033
Weighted-average shares outstanding	459,656	461,657	461,554	466,482

Set forth below is additional information related to certain significant cash and noncash items included in or excluded from net income above, which may be helpful in assessing our operating results. In addition, cash flows generated from FFO may be used to fund all or a portion of certain capitalizable items that are excluded from FFO, such as capitalized interest, tenant improvements, building improvements, and deferred lease costs. Please see our accompanying consolidated statements of cash flows for details of our operating, investing, and financing cash activities.

Noncash Items Included in Net Income:

In accordance with the NAREIT definition, nonrecurring charges that are not classified as extraordinary items, such as impairment losses, are included in the calculation of FFO. As such, the impairment loss on real estate assets of approximately $16.1 million, recognized in the second quarter of 2005 related to the IRS Long Island Building, is included in net income as well as FFO for the respective periods above. Impairment losses are noncash expenses and, accordingly, do not impact cash flows available for operating activities;

In accordance with GAAP, we recognized straight-line rental revenues of approximately $4.1 million and $5.0 million during the three months ended September 30, 2006 and 2005, respectively, and $10.6 million and $15.0 million for the nine months ended September 30, 2006 and 2005, respectively;

The amortization of deferred financing costs totaled approximately $0.4 million and $0.5 million for the three months ended September 30, 2006 and 2005, respectively, and $1.4 million and $1.4 million for the nine months ended September 30, 2006 and 2005, respectively; and

The amortization of above-market and below-market in-place leases recorded as a net increase/(decrease) to revenues in our accompanying consolidated statements of income totaled approximately ($0.5) million and $0.6 million for the three months ended September 30, 2006 and 2005, respectively, and $0.4 million and $1.1 million for the nine months ended September 30, 2006 and 2005, respectively.

Cash Item Excluded from Net Income:

Master lease payments under various lease arrangements are not reflected in our net income. Such payments of approximately $0.2 million and $1.0 million were received for the three months and nine months ended September 30, 2006, respectively, related to a property acquired during first quarter 2006 (see Note 2 to our accompanying consolidated financial statements for the nine months ended September 30, 2006). No master lease proceeds or agreements existed during calendar year 2005. Master lease proceeds are recorded as an adjustment to the basis of real estate assets during the period acquired and, accordingly, are not included in net income or FFO. We consider master lease proceeds when determining cash available for dividends to our stockholders.

FFO for the years ended December 31, 2005, 2004, and 2003 is presented below. Certain noncash items such as depreciation, amortization, and gains on the sale of real estate assets (for both wholly owned and unconsolidated joint ventures) are excluded from our calculation of FFO. Income from discontinued operations is included in FFO except for the components of income from discontinued operations resulting from the noncash items mentioned above. Thus, a portion of the depreciation of real estate assets and amortization of deferred leasing costs adjustments below are classified as income from discontinued operations in our accompanying consolidated financial statements (see Note 9 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003). FFO is not adjusted to reflect impairment losses, the cost of capital improvements or any related capitalized interest, and is presented in the following table (in thousands):

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	For the year ended December 31, 2005	2004	2003
Net income	$ 329,135	$ 209,722	$ 120,685
Add:			
Depreciation of real assets wholly owned	91,713	97,425	107,012
Depreciation unconsolidated partnerships	1,544	2,918	3,399
Amortization of deferred leasing costs wholly owned	67,114	65,314	9,325
Amortization -unconsolidated partnerships	1,233	1,242	331
Subtract:			
Gain on sale of properties wholly owned	(177,678)	(11,489)	
(Gain) loss on sale of properties unconsolidated partnerships	(11,941)	(1,842)	165
FFO	$ 301,120	$ 363,290	$ 240,917
Weighted-average shares outstanding	466,285	466,061	324,092

Set forth below is additional information related to certain significant cash and noncash items included in or excluded from net income above, which may be helpful in assessing our operating results. In addition, cash flows generated from FFO may be used to fund all or a portion of certain capitalizable items that are excluded from FFO, such as capitalized interest, tenant improvements, building improvements, and deferred lease costs. Please see our accompanying consolidated statements of cash flows for details of our operating, investing, and financing cash activities:

In accordance with the definition provided by NAREIT, nonrecurring charges not classified as extraordinary items should be included in the calculation of FFO. An impairment charge of approximately $16.1 million was recognized in 2005 (see Note 3 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003);

Straight-line rental revenue of approximately $18.4 million, $28.0 million, and $16.2 million was recognized for the years ended December 31, 2005, 2004, and 2003, respectively;

Amortization of deferred financing costs of approximately $1.8 million, $2.5 million, and $2.6 million was recognized as interest expense for the years ended December 31, 2005, 2004, and 2003, respectively;

Losses on extinguishment of debt of approximately $0, $2.1 million, and $2.0 million was recognized for the years ended December 31, 2005, 2004, and 2003, respectively; and

Amortization of intangible lease assets and intangible lease liabilities of approximately $1.8 million, $2.8 million, and $1.3 million was recognized as net increases to rental revenues for the years ended December 31, 2005, 2004, and 2003, respectively.

Election as a REIT

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, and have operated as such beginning with our taxable year ended December 31, 1998. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our REIT taxable income, computed without regard to the dividends-paid deduction and by excluding net capital gains attributable to our stockholders. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we may be subject to federal income taxes on our taxable income and/or penalties, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT and intend to continue to operate in the foreseeable future in such a manner that we will remain qualified as a REIT for federal income tax purposes. No provision for federal income taxes has been made in our accompanying consolidated financial statements, as we made distributions in excess of taxable income for the periods presented. We are subject to certain state and local taxes related to the operations of properties in certain locations, which have been provided for in our accompanying consolidated financial statements.

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Inflation

We are exposed to inflation risk as income from long-term leases is the primary source of our cash flows from operations. There are provisions in the majority of our tenant leases that are intended to protect us from, and mitigate the risk of, the impact of inflation. These provisions include rent steps, reimbursement billings for operating expense pass-through charges, real estate tax and insurance reimbursements on a per square-foot basis, or in some cases, annual reimbursement of operating expenses above a certain per square-foot allowance. However, due to the long-term nature of the leases, the leases may not readjust their reimbursement rates frequently enough to fully cover inflation.

Application of Critical Accounting Policies

Our accounting policies have been established to conform with GAAP. The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied, thus, resulting in a different presentation of the financial statements. Additionally, other companies may utilize different estimates that may impact comparability of our results of operations to those of companies in similar businesses.

The critical accounting policies outlined below have been discussed with members of the audit committee of the Board.

Investment in Real Estate Assets

We are required to make subjective assessments as to the useful lives of our depreciable assets. We consider the period of future benefit of the asset to determine the appropriate useful lives. These assessments have a direct impact on net income. The estimated useful lives of our assets by class are as follows:

Buildings	40 years
Building improvements	5-25 years
Land improvements	20-25 years
Tenant improvements	Shorter of economic life or lease term
Intangible lease assets	Lease term

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of real properties, we allocate the purchase price of properties to acquired tangible assets, consisting of land and building, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and the value of in-place leases, based in each case on their estimated fair values.

The fair values of the tangible assets of an acquired property (which includes land and building) are determined by valuing the property as if it were vacant, and the as-if-vacant value is then allocated to land and building based on management s determination of the relative fair value of these assets. We determine the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors considered by us in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases, including leasing commissions and other related costs. In estimating carrying costs, we include real estate taxes, insurance, and other operating expenses during the expected lease-up periods based on current market conditions.

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The fair values of above-market and below-market in-place leases are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (a) the contractual amounts to be paid pursuant to the in-place leases and (b) our estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining terms of the leases. The capitalized above-market and below-market lease values are recorded as intangible lease assets or liabilities and amortized as an adjustment to rental income over the remaining terms of the respective leases.

The fair values of in-place leases include direct costs associated with obtaining a new tenant, opportunity costs associated with lost rentals that are avoided by acquiring an in-place lease, and tenant relationships. Direct costs associated with obtaining a new tenant include commissions, tenant improvements and other direct costs and are estimated based on our consideration of current market costs to execute a similar lease. These direct costs are included in deferred lease costs in our accompanying consolidated balance sheets and are amortized to expense over the remaining terms of the respective leases. The value of opportunity costs is calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. Customer relationships are valued based on expected renewal of a lease or the likelihood of obtaining a particular tenant for other locations. These lease intangibles are included in intangible lease assets in our accompanying consolidated balance sheets and are amortized to expense over the remaining terms of the respective leases.

Estimates of the fair values of the tangible and intangible assets require us to estimate market lease rates, property operating expenses, carrying costs during lease-up periods, discount rates, market absorption periods, and the number of years the property is held for investment. The use of inappropriate estimates would result in an incorrect assessment of our purchase price allocations, which would impact the amount of our reported net income.

Valuation of Real Estate Assets

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of the real estate and related intangible assets, of both operating properties and properties under construction in which we have an ownership interest, either directly or through investments in joint ventures, may not be recoverable. When indicators of potential impairment are present which suggest that the carrying amounts of real estate and related intangible assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we decrease the carrying value of the real estate and related intangible assets to the estimated fair values, as defined by Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and recognize an impairment loss. Estimated fair values are calculated based on the following information in order of preference, dependent upon availability: (1) recently quoted market prices, (2) market prices for comparable properties, or (3) the present value of undiscounted cash flows, including estimated salvage value. We have determined that there has been no impairment in the carrying value of real estate assets held by us or any unconsolidated joint ventures at December 31, 2005 or 2004, respectively, except for the impairment charge of approximately $16.1 million related to the Long Island Building recognized in second quarter 2005.

Projections of expected future operating cash flows require that we estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, the number of months it takes to re-lease the property and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the property s fair value and could result in the misstatement of the carrying value of our real estate and related intangible assets and net income.

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Related-Party Transactions and Agreements

We have entered into agreements with our advisors, Wells Capital and Wells Management, whereby we pay certain fees or reimbursements to Wells Capital and Wells Management, or their affiliates, for asset advisory fees, acquisition and advisory fees, sales commissions, dealer-manager fees, and reimbursement of operating costs. See Note 11 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 included herein for a discussion of the various related-party transactions, agreements and fees.

Commitments and Contingencies

We are subject to certain contingencies and commitments with regard to certain transactions. Refer to Notes 6 and 11 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 and Note 8 to our accompanying consolidated financial statements for the nine months ended September 30, 2006 for further explanation. Examples of such commitments and contingencies include:

- Letter of credit (Note 6 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003);
- Properties under contract (Note 6 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003);
- Property under construction (Note 6 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003);
- Commitments under existing leasing agreements (Note 6 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003, and Note 8 to our accompanying consolidated financial statements for the nine months ended September 30, 2006);
- Obligations under operating leases (Note 6 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003);
- Litigation against Wells Capital and its affiliates (Note 11 to our accompanying consolidated financial statements for the years ended December 31, 2005, 2004 and 2003); and
- Tennessee Excise Taxes (Note 8 to our accompanying consolidated financial statements for the nine months ended September 30, 2006).

Subsequent Events

September 30, 2006 Estimated Net Asset Valuation

We recently engaged an independent appraisal firm to perform a valuation of our properties as of September 30, 2006. As a result of this valuation, on January 3, 2007, our Board determined that the estimated net asset value of our shares of common stock, based primarily on the net asset value of our real estate portfolio, was $8.93 per share. The $8.93 estimated net asset value per share was provided by an independent third party which based its estimate upon (1) the appraised value of our real estate assets as of September 30, 2006, and (2) consideration of the current value of our other assets and liabilities as of September 30, 2006. This estimated net asset value per share is only an estimate, and is based upon a number of assumptions and estimates, which may not be accurate or complete. There were no liquidity discounts applied to this estimated valuation or discounts relating to the fact that we are currently externally managed, and no attempt was made to value the company as an enterprise. Further, this should not be viewed as the amount a stockholder would receive in the event that we were to list our shares in the future or to liquidate our assets and distribute the proceeds to our stockholders since, among other things, this valuation was not reduced by potential real estate brokerage commissions or other costs of sale.

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Frank Russell Disposition

On December 15, 2006, we sold the Frank Russell Building for a gross sale price of approximately $63.7 million, exclusive of closing costs, to an unaffiliated third party. As a result of this sale, we recognized a gain of approximately $13.1 million, which is subject to change as additional information becomes available in subsequent periods.

Changes to our Share Redemption Program

On December 14, 2006, our Board amended our current share redemption program to reserve the right to suspend the share redemption program without advance notice in the event that our Board concludes in good faith that we are in possession of undisclosed material information at a time when it also has outstanding redemption requests pending, for such temporary period of time as may be determined by our Board in order to allow us sufficient time to provide disclosure of such information to our stockholders. Further, in accordance with this amendment, effective January 29, 2007, our Board temporarily suspended our share redemption program until March 2007, so that stockholders could be provided material information related to the Internalization Transaction.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

As a result of our debt facilities, we are exposed to interest rate changes. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flow primarily through a low-to-moderate level of overall borrowings. Currently, a significant portion of our debt is based on fixed interest rates to hedge against an anticipated rising interest rate environment.

Additionally, we may enter into interest swaps or other arrangements in order to mitigate our interest rate risk on a related financial instrument. We do not enter into derivative or interest rate transactions for speculative purposes. Our financial instruments consist of both fixed- and variable-rate debt.

As of December 31, 2006, our consolidated debt consisted of the following:

	2007	2008	2009	2010	2011	Thereafter	Total
Maturing debt:							
Variable rate	$	38,000					$ 38,000
Fixed rate	$ 117,908	35,379	1,321	1,407	1,502	1,047,686	$ 1,205,203
Average interest rate:							
Variable rate		6.83%					
Fixed rate	4.43%	6.45%	8.34%	8.34%	8.34%	5.19%	5.16%

As of December 31, 2005, our consolidated debt consisted of the following:

	2006	2007	2008	2009	2010	Thereafter	Total
Maturing debt:							
Variable rate	$ 21,100						$ 21,100
Fixed rate	$ 2,558	117,932	35,331	1,321	1,462	856,608	$ 1,015,212
Average interest rate:							
Variable rate	5.24%						
Fixed rate	8.37%	4.43%	6.45%	8.34%	8.34%	5.11%	5.08%

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As of December 31, 2004, our consolidated debt consisted of the following:

	2005	2006	2007	2008	2009	Thereafter	Total
Maturing debt:							
Variable rate	$	12,984	9,500				$ 22,484
Fixed rate	$ 2,485	2,558	117,932	35,331	1,321	708,071	$ 867,698
Average interest rate:							
Variable rate		3.26%	3.91%				
Fixed rate	8.37%	8.37%	4.43%	6.45%	8.34%	5.08%	5.06%

As of December 31, 2005 and 2004, the estimated fair value of lines of credit and notes payable above was $1.0 billion and $881.7 million, respectively.

The variable-rate debt is based on LIBOR plus a specified margin or prime as elected by us at certain intervals. An increase in the variable interest rate on the variable-rate facilities constitutes a market risk, as a change in rates would increase or decrease interest incurred and therefore cash flows available for distribution to stockholders.

A change in the interest rate on the fixed portion of our debt portfolio impacts the net financial instrument position but has no impact on interest incurred or cash flows.

As of December 31, 2005, a 1% increase in interest rates would result in additional interest expense of approximately $10.3 million per year with a 1% decrease in interest rates resulting in a decrease in interest expense of approximately $10.3 million per year.

During 2006, we entered into new financing consisting of long-term, fixed-rate debt facilities to repurchase shares pursuant to our share redemption program to hedge against an anticipated rising interest rate environment, while freeing capacity under our smaller variable-rate lines of credit to fund our short-term working capital needs. The increased percentage of fixed-rate debt may result in above-market interest rates in periods of falling interest rates, but will decrease our exposure to potential increases in interest rates over the next several years.

As of September 30, 2006, substantially all of our outstanding debt was subject to fixed interest rates. Our total outstanding debt, including draws under our line of credit mentioned below, has an average interest rate of approximately 5.24% per annum with expirations ranging from 2007 to 2028. A change in the market interest rate impacts the net financial instrument position of our fixed-rate debt portfolio but has no impact on interest incurred or cash flows. Such agreements may result in higher fixed interest rates in certain periods of lower variable interest rates, but are intended to decrease our exposure to potential increases in interest rates.

As of September 30, 2006, the draws outstanding under our $85 Million Secured Line of Credit and our $50.0 Million Secured Line of Credit are based on variable interest rates. As of September 30, 2006, the amounts outstanding under the lines of credit are $71.2 million and $0, respectively, and both facilities have a stated variable interest rate of LIBOR plus 1.5% per annum. To the extent that we borrow funds in the future under our variable-rate lines of credit, we would have exposure to increases in interest rates, which would potentially increase our cost of debt.

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EXPLANATION OF MARYLAND APPRAISAL RIGHTS STATUTE

You may be entitled to appraisal rights under the Maryland General Corporation Law (the MGCL) in connection with the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal. The preservation and exercise of appraisal rights are conditioned on strict adherence to the applicable provisions of the MGCL. Each stockholder desiring to exercise appraisal rights should refer to Title 3, Subtitle 2, of the MGCL, a copy of which is attached as **Appendix G** to this proxy statement, for a complete statement of their rights and the steps which must be followed in connection with the exercise of those rights. The following summary of the rights of objecting stockholders does not purport to be a complete statement of the procedures to be followed by our stockholders desiring to exercise their appraisal rights.

Under the MGCL, you will be entitled to demand and receive payment of the fair value of your shares of our shares of common stock in connection with the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal if one or both of such proposals are deemed to substantially adversely affect your rights as a stockholder. However, if you who want to receive fair value for your shares you must follow specific procedures. These procedures are:

- before or at the Special Meeting at which the Pre-Listing Charter Amendment Proposal and the Post-Listing Charter Amendment Proposal will be considered, you must file with us a written objection to the Pre-Listing Charter Amendment Proposal or the Post-Listing Charter Amendment Proposal;

- you must not vote in favor of the Pre-Listing Charter Amendment Proposal or the Post-Listing Charter Amendment Proposal, as the case may be; and

- you must make written demand on us stating the number and class of shares for which you demand payment, within 20 days after the Pre-Listing Amended and Restated Articles or the Post-Listing Amended and Restated Articles, as the case may be, have been accepted for record by the SDAT.

If you fail to comply with the requirements described above, you will be bound by the terms of the Pre-Listing Amended and Restated Articles or the Post-Listing Amended and Restated Articles, as the case may be.

If you object, we are required to promptly notify you in writing of the date of acceptance of the Pre-Listing Amended and Restated Articles or the Post-Listing Amended and Restated Articles, as the case may be, for record by the SDAT. We may send a written offer to you to pay for your shares of our common stock at what we consider to be the fair value thereof. Within 50 days after the SDAT accepts the Pre-Listing Amended and Restated Articles or the Post-Listing Amended and Restated Articles, as the case may be, for record, either we or any objecting stockholder who has not received payment for its shares may petition a court of equity in the appropriate county in Maryland for an appraisal to determine the fair value of the shares.

We do not presently intend to file an appraisal petition and if you seek to exercise appraisal rights, you should not assume that we will file such a petition or that we will initiate any negotiations with respect to the fair value of such shares. Accordingly, if you desire to have your shares appraised, you should initiate any petitions necessary for the perfection of your appraisal rights within the time periods and in the manner prescribed in the MGCL.

If the court finds that an objecting stockholder is entitled to an appraisal of its shares of our shares of common stock, the court is required to appoint three disinterested appraisers to determine the fair value of the shares on terms and conditions the court determines proper. The appraisers must, within 60 days after appointment (or such longer period as the court may direct), file with the court and mail to each party to the proceeding their report stating their conclusion as to the fair value of such shares.

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Fair value is determined as of the close of business on the day the stockholders vote on the Pre-Listing Charter Amendment Proposal or the Post-Listing Charter Amendment Proposal, as the case may be, and may not include any appreciation or depreciation which directly or indirectly results from the Pre-Listing Charter Amendment Proposal or the Post-Listing Charter Amendment Proposal, as the case may be.

Within 15 days after the filing of the report, any party may object to such report and request a hearing on it. The court must, upon motion of any party, enter an order either confirming, modifying or rejecting such report and, if confirmed or modified, enter judgment for the appraised value of the shares of our shares of common stock. If the appraisers report is rejected, the court may determine the fair value of the shares of the objecting stockholders or may remit the proceeding to the same or other appraisers. Any judgment entered pursuant to a court proceeding shall include interest from the date of the stockholders vote on the action to which objection was made. Costs of the proceeding will be determined by the court and may be assessed against us or, if the court finds that your failure to accept an offer was arbitrary and vexatious or not in good faith, you, if you are an objecting stockholder, or both.

At any time after the filing of a petition for appraisal, the court may require objecting stockholders to submit their certificates representing the shares to the clerk of the court for notation of the pendency of the appraisal proceeding.

If you are an objecting stockholder, you will cease to have the right to receive any dividends or distributions payable to stockholders of record after the close of business on the date of the stockholders vote on the Pre-Listing Charter Amendment Proposal or the Post-Listing Charter Amendment Proposal, as the case may be, and will cease to have any right as our stockholder with respect to such shares except the right to receive payment of the fair value thereof.

IMPORTANT NOTICE REGARDING DELIVERY OF SECURITY HOLDER DOCUMENTS

The SEC now permits corporations to send a single set of annual disclosure documents to any household at which two or more stockholders reside, unless contrary instructions have been received, but only if the corporation provides advance notice and follows certain procedures. In such cases, each stockholder continues to receive a separate notice of the meeting and proxy card. This householding process reduces the volume of duplicate information and reduces printing and mailing expenses. If your family has multiple accounts holding shares of common stock of Wells REIT, you should have already received a householding notification from Wells REIT. Please contact us directly if you have any questions or require additional copies of the annual disclosure documents. We will arrange for delivery of a separate copy of this Proxy Statement promptly upon your written or oral request. You may decide at any time to revoke your decision to household, and thereby receive multiple copies.

STOCKHOLDER PROPOSALS

Stockholders interested in nominating a person as a director or presenting any other business for consideration at our annual meeting of stockholders in 2007 may do so by following the procedures prescribed in our current Articles and Bylaws and Rule 14a-8 under the Exchange Act. In order to be eligible for inclusion in the proxy solicitation materials for our next annual meeting of stockholders in 2007, any director nominations and other stockholder proposals must have been received by our Secretary, Mr. Douglas P. Williams, at Wells Real Estate Investment Trust, Inc., 6200 The Corners Parkway, Norcross, Georgia 30092-3365 no later than December 29, 2006. In order to be eligible for presentation at our 2007 annual meeting, our Bylaws require that written notice of any director nominations or other stockholder proposals must be received by our Secretary no later than May 19, 2007, but any such director nominations or stockholder proposals received after December 29, 2006 will not be included in our proxy solicitation materials.

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Introductory Note

Pro Forma Condensed Consolidated Financial Information

(Unaudited)

The following unaudited pro forma consolidated financial statements have been prepared to give effect to the proposed acquisition of Wells Real Estate Advisory Services, Inc. (WREAS) and Wells Government Services, Inc. (WGS), wholly owned subsidiaries of Wells Advisory Services I, LLC (WASI), an entity controlled by Wells Real Estate Funds, Inc. (WREF). Within the following unaudited pro forma consolidated financial statements and accompanying notes, references to the Advisor shall include WREAS and WGS and their predecessors including those portions of the operations of WASI, Wells Management and Wells Capital which previously provided advisory and management services to Wells REIT under related management and business advisory agreements (the Agreements). In exchange for acquiring all of the outstanding interests in WREAS and WGS, Wells Real Estate Investment Trust, Inc. (Wells REIT) intends to issue 19,546,302 shares of its common stock (Wells REIT shares) to WASI (this transaction is referred to as the Internalization). Following the Internalization, Wells REIT intends to perform certain of the services previously performed by WREF for Wells REIT under the Agreements internally and to engage WREF to perform the remainder of those services on a temporary basis under separate transitional and/or support agreements.

The accompanying unaudited pro forma consolidated balance sheet as of September 30, 2006 has been prepared to adjust Wells REIT s historical balance sheet to give effect to (i) the Internalization and (ii) a property acquisition and a property disposition, including related financing activities as if each transaction occurred on that date.

The accompanying unaudited pro forma consolidated statements of operations for the nine months ended September 30, 2006 and for the year ended December 31, 2005 have been prepared to give effect to the following items as if each of the related transactions had occurred on January 1, 2005: (i) in connection with the Internalization, the issuance of the Wells REIT shares, the inclusion of the historical operations of the Advisor and the elimination of certain related-party transactions, (ii) the acquisition of all properties, including the related financing activities, made subsequent to December 31, 2004, and (iii) the disposition of properties owned through unconsolidated joint ventures that were made subsequent to December 31, 2004.

The accompanying pro forma consolidated financial statements should be read in conjunction with Wells REIT s historical financial statements included in our previous filings with the Securities and Exchange Commission, such as our 2005 Annual Report on Form 10-K filed on March 28, 2006 and our Quarterly Report on Form 10-Q filed on November 8, 2006. The accompanying pro forma consolidated financial statements exclude pro forma adjustments for items or events that are probable of occurring, however, for which the amounts of such pro forma adjustments were not factually supportable at the time at which these pro forma financial statements were prepared, such as additional general and administrative expenses related to, among other things, long-term incentive compensation plans and non-compete agreements. Upon consummation of this transaction and completion of our allocation of the purchase price, we may attribute value to certain other intangible assets. Any value determined to be attributable to such assets would reduce the amount currently allocated to goodwill.

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Pro Forma Consolidated Balance Sheet

As of September 30, 2006

(in thousands, except for share and per share amounts)

(unaudited)

	Wells REIT Historical(a)	**Pro Forma Adjustments for Property Acquisitions (Dispositions)(b)**	**Pro Forma Subtotal before the Internalization**	**The Internalization: The Advisor Historical(c)**	**The Internalization: Pro Forma Adjustments**	**Pro Forma Total**
Assets:						
Real estate assets, at cost:						
Land	$ 637,069	$ 1,664	$ 638,733	$	$	$ 638,733
Buildings and improvements, less accumulated depreciation of $372,462 and $303,552 as of September 30, 2006 and December 31, 2005, respectively	3,117,422	26,971	3,144,393			3,144,393
Intangible lease assets, less accumulated amortization of $131,436 and $104,299 as of September 30, 2006 and December 31, 2005, respectively	225,728	12,506	238,234			238,234
Construction in progress	30,435		30,435			30,435
Total real estate assets	4,010,654	41,141	4,051,795			4,051,795
Investments in unconsolidated joint ventures	57,231		57,231			57,231
Cash and cash equivalents	37,268	58,959	96,227		(738)(d)	95,489
Due from unconsolidated joint ventures	950		950			950
Due from affiliate	180		180	580	(180)(d)	
					(580)(e)	
Tenant receivables, net of allowance for doubtful accounts of $1,518 and $689 as of September 30, 2006 and December 31, 2005, respectively	108,937	(827)	108,110			108,110
Prepaid expenses and other assets	19,775	(4)	19,771	332		20,103
Deferred financing costs, less accumulated amortization of $6,460 and $5,099 as of September 30, 2006 and December 31, 2005, respectively	9,816		9,816			9,816
Deferred lease costs, less accumulated amortization of $72,125 and $51,786 as of September 30, 2006 and December 31, 2005, respectively	184,983	(697)	184,286			184,286
Goodwill					177,000(f)	177,000
Total assets	$ 4,429,794	$ 98,572	$ 4,528,366	$ 912	$ 175,502	$ 4,704,780
Liabilities:						
Lines of credit and notes payable	$ 1,234,519	$ 86,000	$ 1,320,519	$	$	$ 1,320,519
Accounts payable, accrued expenses, and accrued capital expenditures	73,686	5	73,691	7,037	(5,810)(h)	74,918
Due to affiliates	918		918		(918)(d)	-

Deferred income	21,597		21,597			21,597
Intangible lease liabilities, less accumulated amortization of $39,807 and $34,431 as of September 30, 2006 and December 31, 2005, respectively	95,419	(13)	95,406			95,406
Total liabilities	1,426,139	85,992	1,512,131	7,037	(6,728)	1,512,440
Commitments and Contingencies						
Minority Interest	5,892		5,892		(200)(i)	5,692
Redeemable Common Stock	104,713		104,713			104,713
Stockholders Equity:						
Common stock, $0.01 par value; 900,000,000 shares authorized; 462,093,513 shares issued and outstanding as of September 30, 2006; and 469,423,177 shares issued and outstanding as of December 31, 2005	4,621		4,621		22(i)	
					195(j)	4,838
Additional paid-in capital	3,327,530		3,327,530		178(i)	
					174,805(j)	3,502,513
Cumulative distributions in excess of earnings	(334,388)	12,580	(321,808)	(6,125)	7,230	(320,703)
Redeemable common stock	(104,713)		(104,713)			(104,713)
Total stockholders equity	2,893,050	12,580	2,905,630	(6,125)	182,430	3,081,935
Total liabilities, minority interest, redeemable common stock, and stockholders equity	$ 4,429,794	$ 98,572	$ 4,528,366	$ 912	$ 175,502	$ 4,704,780

See accompanying notes.

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Notes to Unaudited Pro Forma Consolidated Balance Sheet

As of September 30, 2006

(a) Historical balances were extracted from Wells REIT s unaudited consolidated balance sheet as of September 30, 2006, which is included herein on page F-8.

(b) Reflects adjustments to assets and liabilities resulting property acquisitions and dispositions executed from October 1, 2006 through the date of this filing as if such transactions occurred on September 30, 2006.

(c) Historical balances were extracted from the Advisor s unaudited combined balance sheet as of September 30, 2006, which is included herein on page F-53.

(d) Reflects settlement of amounts due from and due to related-parties in connection with the Internalization.

(e) Reflects the elimination of amounts due from Wells REIT to the Advisor in connection with the Internalization.

(f) The internalization transaction will be accounted for as the consummation of a business combination between parties with a pre-existing relationship. The purchase consideration has been allocated to identifiable tangible and intangible assets, with the remainder recognized as goodwill. No amounts were deemed related to the settlement of contracts with the Advisor. Assuming the transaction was consummated on September 30, 2006, the estimated consideration for the Internalization follows (in millions):

Wells REIT shares issued as consideration (19,546,302 shares to be issued at $8.9531 per share (g))	$ 175.0
Acquisition costs and fees	2.0
Total cost	$ 177.0

(g) Reflects an estimated net asset value per share as of September 30, 2006 of $8.93, adjusted for the estimated subordinated disposition fees due from Wells REIT to WREF of approximately $0.02 per share that will be eliminated in connection with the Internalization.

(h) Reflects an income tax liability of the Advisor, which will be settled by the Advisor and not acquired by Wells REIT.

(i) Reflects the return of initial invested capital of $200,000 to an affiliate of WREF through the issuance of 22,339 shares of common stock.

(j) Reflects the issuance of 19,546,302 shares of common stock in conjunction with the Internalization.

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Pro Forma Consolidated Statement of Operations

For the Nine Months Ended September 30, 2006

(in thousands, except for share and per share amounts)

(unaudited)

	Wells REIT Historical(a)	Pro Forma Adjustments for Property Operations(b)	Pro Forma Subtotal before the Internalization	The Internalization: The Advisor Historical(c)	The Internalization: Pro Forma Adjustments	Pro Forma Total
Revenues:						
Rental income	$ 332,449	$ 7,286	$ 339,735	$	$	$ 339,735
Tenant reimbursements	97,566	3,801	101,367			101,367
Lease termination income	9,784		9,784			9,784
	439,799	11,087	450,886			450,886
Expenses:						
Property operating costs	146,109	6,302	152,411			152,411
Asset and property management fees:						
Related-party	18,028	588	18,616		(18,616)(d)	
Other	3,945		3,945			3,945
Depreciation	68,910	1,202	70,112			70,112
Amortization	51,141	2,496	53,637			53,637
Lease termination expense	4,170		4,170			4,170
General and administrative	13,707	(21)	13,686	15,910	(5,702)(d)	
					(5,810)(e)	
					229(f)	18,313(g)
Casualty and impairment losses on real estate assets	100		100			100
	306,110	10,567	316,677	15,910	(29,899)	302,688
Real estate operating income	133,689	520	134,209	(15,910)	29,899	148,198
Other income (expense):						
Interest expense	(45,120)	(3,108)	(48,228)			(48,228)
Interest and other income	1,930	279	2,209	25,157	(25,157)(d)	2,209
Equity in income of unconsolidated joint ventures	1,623	(38)	1,585			1,585