WELLS REAL ESTATE INVESTMENT TRUST INC
Form 8-K
June 10, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of

the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) June 10, 2005

Wells Real Estate Investment Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation)

0-25739	**58-2328421**
(Commission File Number)	**(IRS Employer Identification No.)**

6200 The Corners Parkway, Norcross, Georgia 30092-3365

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code (770) 449-7800

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events

Item 11 of the instructions to Form S-3 requires that financial information incorporated by reference contain updates for, among other things, material dispositions of assets outside the normal course of business, as mentioned below. When such events occur, the financial statements incorporated by reference into the registration statement must be revised to present the disposition as discontinued operations for all periods prior to the event in accordance with Statement of Financial Accounting Standard No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (FAS 144).

On April 13, 2005, Wells Real Estate Investment Trust, Inc. closed on the sale of 27 properties, which it owned directly or through unconsolidated joint ventures (the Portfolio Sale). Thus, in accordance with FAS 144, the accompanying consolidated balance sheets have been revised to reclassify the assets and liabilities sold in connection with the Portfolio Sale as real estate assets and liabilities related to discontinued operations. Further, the accompanying consolidated statements of income have been revised to reclassify the results of operations of the properties sold as income from discontinued operations for all periods presented. See Note 6 to the consolidated financial statements below for additional details regarding the Portfolio Sale and for other revisions to the accompanying consolidated financial statements.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 8-K of Wells Real Estate Investment Trust, Inc. (Wells REIT) other than historical facts may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as applicable by law. Such statements include, in particular, statements about our plans, strategies, and prospects and are subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of our performance in future periods. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as may, will, expect, intend, anticipate, estimate, believe, continue, or other similar Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this report is filed with the Securities and Exchange Commission. We make no representation or warranty (express or implied) about the accuracy of any such forward-looking statements contained in this Form 8-K, and we do not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Any such forward-looking statements are subject to unknown risks, uncertainties, and other factors and are based on a number of assumptions involving judgments with respect to, among other things, future economic, competitive, and market conditions, all of which are difficult or impossible to predict accurately. To the extent that our assumptions differ from actual results, our ability to meet such forward-looking statements, including our ability to generate positive cash flow from operations, provide dividends to stockholders, and maintain the value of our real estate properties, may be significantly hindered. Following are some of the risks and uncertainties, although not all risks and uncertainties, which could cause actual results to differ materially from those presented in our forward-looking statements:

General economic risks

Adverse changes in general economic conditions or local conditions;

Adverse economic conditions affecting the particular industry of one or more of our tenants;

Enterprise risks

Our dependency on Wells Capital, Inc. (Wells Capital) and its affiliates and their key personnel for various administrative services;

Wells Capital s ability to attract and retain high-quality personnel who can provide acceptable service levels and generate economies of scale over time;

Real estate risks

Our ability to achieve appropriate occupancy levels resulting in sufficient rental amounts;

Supply of or demand for similar or competing rentable space, which may impact our ability to retain or obtain new tenants at lease expiration at acceptable rental amounts;

Tenant ability or willingness to satisfy obligations relating to our lease agreements;

Higher than expected property operating expenses, including property taxes, insurance, property management fees, and other costs at our properties;

Our ability to secure adequate insurance at reasonable and appropriate rates to avoid uninsured losses or losses in excess of insured amounts;

Discovery of previously undetected environmentally hazardous or other defects or adverse conditions at our properties;

Our ability to invest stockholder proceeds to acquire properties at appropriate amounts that provide acceptable returns;

Our potential need to fund foreseen and unforeseen capital expenditures, including those related to tenant build-out projects, tenant improvements and lease-up costs, out of operating cash flow;

Our ability to sell a property when desirable at an acceptable return, including the ability of the purchaser to satisfy any continuing obligations to us;

Financing and equity risks

Our continued access to adequate credit facilities or other debt financing and refinancing as appropriate;

Our ability to pay amounts to our lenders before any distributions to our stockholders;

Increases in interest rates related to our variable rate debt;

Lender-required restrictive covenants relating to our operations, and our ability to satisfy such restrictions;

Possible limitations on our ability to borrow funds in the future that may result from our participation in the Section 1031 Exchange Program sponsored by affiliates of Wells Capital;

Future demand for our equity securities through our dividend reinvestment plan;

Potential changes to our share redemption program or dividend reinvestment plan;

The amount of redemptions or prices paid in future periods for redeemed shares under the share redemption program, as approved by our board of directors;

Other operational risks

Our reliance on third parties to appropriately manage our properties;

Our ability to continue to qualify as a REIT for tax purposes;

Higher than expected administrative operating expenses, including expenses associated with operating as a public company;

Our ability to comply with any governmental, tax, real estate, environmental, and zoning laws and regulations, and the related costs of compliance; and

Our ability to generate sufficient cash flow from operations to be able to maintain our dividend yield as a percentage of our stockholders invested capital at its current level.

SELECTED FINANCIAL DATA

The following selected financial data as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002 is derived from the accompanying audited consolidated financial statements included in this Form 8-K filing, whereas the following selected financial data as of December 31, 2002, 2001, and 2000 and for the years ended December 31, 2001 and 2000 is derived from previously issued audited consolidated financial statements, which have been revised in order to classify certain assets and liabilities as assets or liabilities related to discontinued operations and certain revenues and expenses as income from discontinued operations (see Note 6 of the accompanying consolidated financial statements). Except for per share data, selected financial data is presented in thousands:

	2004	2003	2002	2001	2000
Total assets	$ 5,123,689	$ 4,925,292	$ 2,229,727	$ 752,281	$ 398,550
Total stockholders equity	3,686,870	3,962,406	1,835,950	709,343	265,342
Outstanding debt	890,182	612,514	248,195	8,124	127,663
Outstanding long-term debt	888,622	500,167	152,038	469	26,191
Obligations under capital leases related to discontinued operations	64,500	64,500	54,500	22,000	
Total revenues (1)	$ 554,746	$ 322,073	$ 93,965	$ 37,579	$ 13,256
Income from continuing operations (1)	$ 163,576	$ 94,088	$ 43,890	$ 15,570	$ 4,104
Discontinued operations (1)	46,146	26,597	15,964	6,154	4,449
Net income	$ 209,722	$ 120,685	$ 59,854	$ 21,724	$ 8,553
Funds from operations (2)	$ 364,992	$ 240,752	$ 101,798	$ 40,584	$ 17,500
Cash flows from operations	$ 329,178	$ 239,648	$ 111,960	$ 46,588	$ 10,849
Cash flows used in investing activities	(252,700)	(2,220,846)	(1,369,926)	(278,845)	(252,846)
Cash flows provided by (used in) financing activities	(89,548)	1,989,216	1,227,844	303,544	243,365
Dividends paid	(326,372)	(219,121)	(104,996)	(36,737)	(16,971)
Per common share data-basic and diluted:					
Income from continuing operations	$ 0.35	$ 0.29	$ 0.30	$ 0.31	$ 0.19
Income from discontinued operations	0.10	0.08	0.11	0.12	0.21

Net income	$ 0.45	$ 0.37	$ 0.41	$ 0.43	$ 0.40
Funds from operations per share	$ 0.78	$ 0.74	$ 0.70	$ 0.79	$ 0.81
Dividends declared	$ 0.70	$ 0.70	$ 0.76	$ 0.76	$ 0.73

(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 for information regarding why we present funds from operations 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

The following discussion and analysis should be read in conjunction with the Selected Financial Data above, and the accompanying consolidated financial statements and notes thereto, included in this Form 8-K filing.

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. We have no paid employees and are externally advised and managed by Wells Capital and Wells Management Company, Inc. (Wells Management).

During the years ended December 31, 2002 and 2003, we were raising capital through the issuance of common stock and investing the proceeds in income producing commercial real estate properties. In 2002, we raised approximately $1.3 billion and acquired 38 properties for approximately $1.4 billion. In 2003, we raised approximately $2.5 billion and acquired properties for approximately $2.7 billion. Our public offering of common stock ended in December 2003; however, we continued to raise capital though the sale of shares pursuant to our dividend reinvestment plan in 2004 and acquired six properties for approximately $298.8 million and sold one property for net proceeds of $30.6 million.

As of December 31, 2004, we owned and operated 112 properties directly or through joint ventures comprising approximately 25.4 million square feet located in 26 states and the District of Columbia. These properties were approximately 97.4% leased.

As of April 19, 2005, we owned and operated 81 properties directly or through joint ventures comprising approximately 20.5 million square feet located in 23 states and the District of Columbia. These properties were approximately 97.0% leased.

Our results of operations for the years ended December 31, 2004, 2003 and 2002 reflect growing revenues and expenses associated with the increase in the number of properties that we owned during those periods.

General Economic 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 the current environment s effect on the real estate markets in which we operate.

Management believes that the U.S. economy is continuing on the path of slow, but steady recovery. Job growth is improving, with 2.2 million jobs created in 2004, and with another 2.4 to 2.8 million projected to be added in 2005. GDP growth and renewed business confidence are fueling the job growth. However, uncertainty still exists in the economy, primarily due to high oil prices, the war in Iraq, the trade deficit, and other global issues.

The U.S. office real estate market has begun to show modest improvement. The strength of the overall economy is having a positive impact on office real estate fundamentals. Positive absorption of office space combined with a decline in new construction has contributed to the

increase in office occupancy rates for three consecutive quarters. Although occupancy rates have increased, management does not expect that they will rise by more than 200 basis points annually. As a result, management anticipates that it could be a minimum of two to three years before vacancy rates reach the equilibrium level of ten to twelve percent. Average asking rates stabilized in the second half of 2004. Management believes that renewed employment growth should benefit the office market; however, the uncertainty that still exists in the economy is causing many firms to continue to be more cautious with their investment and hiring decisions. Importantly, management believes the pace and strength of the recovery for office real estate will vary by market. Market conditions vary widely by geographical region, metropolitan area, submarket, and property.

The real estate capital transaction market continues to be very active. Capitalization rates (cap rates) have continued to decline in spite of the fact that the Federal Reserve increased the Federal Funds Rate five times in 2004. Management believes that the decline in cap rates is predominately driven by increased capital flows into real estate. The spread between average cap rates and 10-year U.S. Treasuries narrowed in 2004; however, this was primarily due to a drop in cap rates rather than a rise in 10-year U.S. Treasuries. In management s opinion, absent a significant move in interest rates or a significant decrease in the number of parties interested in acquiring real estate, cap rates are not expected to increase significantly from their current levels in 2005.

Liquidity and Capital Resources

From the commencement of our initial public offering in January 1998 through December 31, 2003, 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 expenses, were used primarily for the acquisition of real estate properties and for certain capital expenditures identified at the time of acquiring certain properties. We do not anticipate receiving significant proceeds in the future from the sale of our common stock as all remaining shares under the fourth and final offering were sold during the year ended December 31, 2003. We expect to continue to receive proceeds from the sale of shares issued under our dividend reinvestment plan; however, a significant portion of these funds may be used to fund redemptions of our shares of common stock.

We expect that our primary source of future cash flows will be cash provided by operating activities that are primarily generated from the operations of our properties and distributions from our unconsolidated joint ventures. Additionally, we expect to generate cash through the selective and strategic sale of certain operating properties, as evidenced by the sale of 27 properties owned directly or through unconsolidated joint ventures (the Portfolio Sale) completed on April 13, 2005 and further described in Note 6 of the accompanying consolidated financial statements. The amount of dividends we pay to our stockholders will be dependent upon the amount of cash we generate from operating activities and on our expectations of future cash flows and determination of near term cash needs for capital improvements, tenant re-leasing, share redemptions and debt repayments. However, special dividends will be paid to distribute some or all of the net proceeds from property sales to our stockholders (see Subsequent Events below).

Short Term Liquidity and Capital Resources

During the year ended December 31, 2004, we generated approximately $329.2 million of cash flow from operating activities. This cash was generated primarily from revenues at our properties and cash flow distributions from our unconsolidated joint ventures net of cash paid for direct

property operating expenses, management and advisory fees, general administrative expenses, and interest expense. From cash flows from operating activities, we paid dividends to stockholders of approximately $326.4 million. Other than dividends paid to stockholders, our most significant use of cash during the year ended December 31, 2004 was the purchase of six properties and capital expenditures at existing properties totaling approximately $271.6 million. We funded the purchase of these properties with (1) proceeds from the issuance of common stock under our dividend reinvestment plan, net of commissions and selling expenses and net of amounts used to redeem shares under our share redemption program; (2) net new borrowings under lines of credit and notes payable; and (3) proceeds from the sale of assets.

With respect to the cash generated from issuance of common stock, we raised $194.9 million from the dividend reinvestment plan and paid approximately $32.9 million in commissions and offering costs, a portion of which relates to the payment of fees accrued at December 31, 2003. During the year ended December 31, 2004, we redeemed approximately $96.8 million in shares under the terms of our share redemption program and paid approximately $12.8 million to repurchase shares from an investor in settlement of a pending lawsuit. (See Litigation below.)

With respect to net new borrowings in 2004, we received approximately $1.0 billion in gross proceeds from lines of credit and notes payable, and repaid approximately $825.1 million. Included in the new borrowings were three secured loans. On April 20, 2004, we closed on a $200 million 10-year term loan collateralized by the AON Center Chicago Building; on May 25, 2004, we obtained a $350 million 10-year term loan facility with Morgan Stanley; and on December 9, 2004 we closed on a $35.7 million term loan secured by the 3100 Clarendon Boulevard Building. The $350 million 10-year term loan is non-recourse to Wells REIT and is secured by first priority mortgages against certain properties as discussed in Note 4 of the accompanying notes to our consolidated financial statements. In connection with these three new loans, we paid approximately $10.2 million in fees and expenses associated therewith. We used a substantial portion of the proceeds from the $200 million and $350 million 10-year term loans to repay in full and terminate our existing $500 million credit facility with Bank of America N.A. and reduce our exposure under other lines of credit.

During December 2004, we entered into a new $85 million secured revolving credit facility with SouthTrust Bank, N.A (SouthTrust) at LIBOR plus 1.5% maturing in December 2007. Our other existing secured revolving credit facility is a $50 million facility with Bank of America, N.A. (Bank of America) at LIBOR plus 1.75% maturing in June 2005. Each facility is secured by a pool of properties and the combined capacity on the facilities should provide us with additional financial flexibility to meet future capital needs such as funding of capital expenditures at properties and financing future repurchases of shares under our share redemption program.

In addition, we generated $30.6 million in proceeds from the sale of a four-story office building and 5.2 acres of adjacent land in Tampa, Florida in June 2004. This property was acquired in December 1998 for approximately $21.2 million.

On February 23, 2005, we modified our share redemption program to increase the limitation on the dollar value of share redemptions in 2005 from 3% of the value of weighted average shares outstanding for the previous year to 5%. Of this amount, 15% will be reserved for redemptions upon the death of a stockholder and required minimum distributions under qualified defined contribution plans. Subject to these limitations, we fulfilled all outstanding redemption requests at the end of March 2005. We funded these redemption payments with the use of additional debt, which included obtaining two long-term loans secured by currently unencumbered properties (see more details in Subsequent Events below). As a result of (1) the successful completion of the potential property sale transaction described above, and (2) the use of additional debt to fund redemptions under our share redemption plan, our debt as a percentage of total assets has increased, interest expense will increase during 2005, but shares outstanding will decrease as a result of redemptions under our share redemption program, allowing cash available for dividends per share to increase as the interest expense on the additional debt incurred is expected to be less than the dividends that would have been payable on the redeemed shares.

In March 2005, we obtained debt facilities to repurchase shares pursuant to our share redemption program, as well as extending the maturity of our $50 Million Secured Line of Credit. More detail on these transactions are in the Subsequent Events section below.

On April 13, 2005, we sold 27 properties, some of which are owned jointly with affiliated entities, for a gross sales price of approximately $786.0 million pursuant to a contract with a third-party purchaser. Our share of the $786.0 in gross purchase price is approximately $760.8 million. Subsequent to the transaction closing, the board of directors declared a

special distribution of substantially all of the net sales proceeds to stockholders in the form of a return of invested capital to stockholders of record on June 1, 2005 (see *Subsequent Events* at the end of this section for more detail). As a result of this sale, the amount of cash generated by properties will decrease and the amount available for quarterly dividends will also decrease. We, therefore, expect the gross dollar value of dividends declared per share to decrease in future quarterly periods as compared to the gross dollar value of dividends declared before the sale of properties noted above. However, we currently anticipate that our dividend yield, as a percentage of stockholders remaining investment (after reduction by the amount of such special distribution, once made), will remain at 7% for the foreseeable future. Because we do not anticipate reducing debt with the proceeds of this sale and the amount of assets held will decrease as a result of the sale, our ratio of debt to total assets to increase from approximately 17% as of December 31, 2004 to approximately 24% following the closing of this sale and special distribution of net sales proceeds to our stockholders.

In 2005, we expect to use cash on hand or debt to fund capital expenditures at existing properties as we expect to pay substantially all of our cash generated from operating activities in dividends to stockholders.

Long Term Liquidity and Capital Resources

We expect that our future sources of capital will be derived from net cash flows from property operations, proceeds from secured or unsecured financings from banks and other lenders, shares issued under our dividend reinvestment plan, net of proceeds used for share redemptions, and the selective and strategic sale of properties.

We anticipate our future long-term liquidity requirements will include, but not be limited to, scheduled debt maturities, renovations, expansions and other significant capital improvements at our properties and property acquisitions and investments in real estate ventures.

We expect substantially all net cash from operations will be used to pay dividends. To the extent that capital expenditures at our existing properties exceed excess operating cash flow, we may borrow to fund these capital expenditures. We are currently projecting that capital expenditures necessary at our existing properties will total approximately $304 million, including tenant improvements, leasing commissions, and building capital, over the next five years. To the degree that cash flows provided by operations are lower due to lower returns on properties, dividends paid may be lower. Proceeds raised from sales of shares under our dividend reinvestment plan in

excess of amounts used to fund share redemptions may be utilized for capital improvements or expansion at our properties or to fund or partially fund new property acquisitions. 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 focus placed on relatively high credit quality tenants helps mitigate the risk of tenant bankruptcies. Conversely, economic downturns in general or 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 at expected levels.

The following table summarizes the scheduled aggregate principal repayment obligations, for the five years subsequent to December 31, 2004 (in thousands):

	Amount
2005	$ 1,560
2006	14,593
2007	125,483
2008	34,627
2009	998
Thereafter	712,921
Total	$ 890,182

With respect to maturing obligations, we will evaluate various alternatives and select the best available options based on market conditions at the time. There can be no assurance, however, that the debt or equity capital markets will be favorable in the future.

Results of Operations

As of December 31, 2004, we owned interests in 112 real estate properties that were approximately 97.4% leased. As of April 19, 2005, we owned interests in 81 real estate properties that were approximately 97.0% leased. Our results of continuing operations have changed significantly for each period presented primarily as a result of the additional properties acquired each year from 2001 forward. We expect virtually all components of the statement of income will decrease in future periods as a result of the disposition of properties noted above, offset partially by a full year s operations on assets acquired during the year ended December 31, 2004. However, we do not expect that the operating results of the remaining individual properties will change significantly in the near term as the rental revenues are generally based on long-term leases that do not allow for significant increases in rental income and the majority of our in-place leases do not expire in the near term. Additionally, we generally do not expect a significant increase in operating expenses at the remaining properties, but to the extent that operating expenses do increase, the majority of our in-place leases have clauses that require the tenant to bear the economic burden of such increases.

Comparison of the year ended December 31, 2004 vs. the year ended December 31, 2003

Rental income increased by $177.0 million to $425.7 million from $248.7 million for the year ended December 31, 2004. Of this increase, $175.1 million relates to properties acquired or developed subsequent to December 31, 2002. Tenant reimbursements increased by $48.7 million to $121.1 million from $72.4 million for the year ended December 31, 2004. Substantially all of

this increase relates to properties acquired or developed subsequent to December 31, 2002. Rental income and tenant reimbursements in future periods as compared to historical periods are expected to decrease as a result of the disposition of properties noted above, offset slightly by a full year s benefit from our 2004 property acquisitions.

Lease termination income was $7.9 million for the year ended December 31, 2004 as compared to $1.0 million for the year ended December 31, 2003. The income for the year ended 2004 primarily relates to one transaction, the termination of a portion of the Metris Direct, Inc. lease at the 10900 Wayzata Boulevard Building (f/k/a the Metris Minnesota Building). At the time of the lease termination, a new long-term lease was executed with Siemens Real Estate, Inc. for all of the vacated space. Lease termination income for the year ended 2003 relates primarily to PricewaterhouseCooper s lease termination in the AON Center Chicago Building. Lease termination income for the year ended December 31, 2004 is not expected to be comparable to future periods as such income will be dependent upon the execution of such agreements that are deemed in the best interest of the portfolio over the long-term.

Property operating expenses were $175.9 million and $101.2 million for the years ended December 31, 2004 and 2003, respectively. Substantially all of the $74.7 million increase relates to properties acquired subsequent to December 31, 2002. Property operating costs represented 32% of the sum of the rental income and tenant reimbursements revenue amounts for the years ended December 31, 2004 and 2003. Property operating expenses in future periods as compared to historical periods are expected to decrease as a result of the disposition of properties noted above, offset slightly by a full year s effect from our 2004 property acquisitions.

Asset and property management fees increased by $11.5 million to $23.7 million from $12.2 million for the years ended December 31, 2004 and 2003, respectively. Of this increase, $9.9 million related to properties acquired or developed subsequent to December 31, 2002. The remaining increase was the result of our beginning to pay asset and management fees to Wells Management on buildings having government tenants and third-party management fees that were previously paid by Wells Management. These charges were pursuant to an agreement between Wells Management and us. Asset and property management fees represent approximately 4% of the sum of the rental income and tenant reimbursements revenue amounts in each year. Asset and property management fees in future periods as compared to historical periods are expected to decrease as a result of the disposition of properties noted above, offset slightly by a full year s effect from our 2004 property acquisitions.

General and administrative costs were $16.4 million and $8.7 million for the years ended December 31, 2004 and 2003, respectively, representing approximately 3% of total revenues for the years ended December 31, 2004 and 2003. General and administrative expenses are expected to remain relatively consistent in future periods in total and increase as a percentage of total revenues as a result of the disposition of properties noted above.

Depreciation expense decreased by $4.9 million to $84.7 million from $89.6 million for the years ended December 31, 2004 and 2003, respectively. The decrease is primarily due to that fact that we changed depreciable lives for building assets from 25 years to 40 years effective January 1, 2004, offset by a $45.6 million increase in depreciation expense related to properties acquired or developed subsequent to December 31, 2002. The change in depreciable lives during the year ended December 31, 2004 resulted in approximately $50.0 million less depreciation than if no change in depreciable lives had occurred, as disclosed in Note 3 of the consolidated financial statements. Depreciation expense in future periods as compared to historical periods is expected to decrease as a result of the disposition of properties noted above, offset slightly by a full year s effect from our 2004 property acquisitions. However, depreciation expense as a percentage of rental income should remain relatively consistent.

Amortization increased by $49.9 million to $58.5 million from $8.6 million for the years ended December 31, 2004 and 2003, respectively. The increase is primarily due to acquiring additional properties during 2003 and 2004 after the adoption of Statement of Financial Accounting Standards No. 141, *Business Combinations* (FAS 141), resulting in more acquired assets being classified as intangible lease assets and lease origination assets compared to prior periods resulting in additional amortization expense, as well as the signing of second-generation leases at some of our properties and initial leases at recently developed properties. It is expected that amortization of deferred leasing costs and intangible lease assets will not be affected materially by the disposition of properties noted above, as the majority of the properties were purchased before the adoption of FAS 141. Therefore, we expect amortization of deferred lease costs and intangibles to increase in future periods as compared to the same periods in 2004 as a full period of amortization expense is recognized relating to our 2004 property acquisitions and as more second-generation leases are entered into in future periods.

Interest expense increased by $25.8 million to $38.2 million from $12.4 million for the years ended December 31, 2004 and 2003, respectively, due to significantly higher average amounts of borrowings outstanding during the two periods. Interest expense in the future will be dependent upon the amount of borrowings outstanding, current interest rates, and the deferred financing costs associated with obtaining debt facilities. However, interest expense on debt facilities existing at December 31, 2004 is expected to be comparable in future periods to the three months ended December 31, 2004 as we have entered into certain long-term debt facilities that have fixed interest rates, as compared to variable rate debt that was in place during the first quarter of the year under our lines of credit. Having only a small balance currently outstanding under our lines of credit mitigates our exposure to rising interest rates.

Interest and other income increased by $1.2 million to $2.3 million from $1.1 million for the years ended December 31, 2004 and 2003, respectively. The income in each period primarily represents interest earned on cash generated from operations. The level of interest income in future periods will primarily be dependent upon the amount of operating cash on hand and is not expected to be significant or change significantly from the amount earned during the year ended December 31, 2004. In addition to interest income, during the year ended December 31, 2004, we earned approximately $0.9 million of take-out fees related to our participation in the Advisor s 1031 Program which may not be indicative of amounts earned in future periods as such income is dependent upon the continuation and growth of the program and our continued involvement.

Equity in income of unconsolidated joint ventures increased by $1.8 million to $6.6 million from $4.8 million for the years ended December 31, 2004 and 2003, respectively. This increase of $1.8 million is primarily related to the disposition of two properties held in joint ventures. We would expect the equity in income of joint ventures to fluctuate in future periods as properties are sold, including four properties included in the Portfolio Sale, and proceeds are distributed as opposed to being reinvested in additional real estate assets.

Loss on extinguishment of debt increased by $0.1 million to $2.1 million from $2.0 million for the years ended December 31, 2004 and 2003. In May 2004, we repaid in full and terminated our $500 million credit facility with Bank of America, N.A. and charged $1.7 million in associated unamortized financing costs to earnings. In addition, $0.4 million of unamortized loan costs associated with the Nestle debt was charged to earnings as the debt was repaid in full. In April

2003, we terminated our $110 million credit facility with Bank of America, N.A. and charged $0.5 million in associated unamortized deferred financing costs to earnings. Additionally, we charged $1.5 million in loan assumption fees acquired to earnings as part of the Leo Burnett Building debt refinancing in December 2003. Loss on extinguishment of debt for the years ended December 31, 2004 and 2003 is not expected to be indicative of amounts in future periods as such costs are generally dependent upon altering our financing structure and we have no plans for significantly changing our current financing structure.

Income from discontinued operations was $46.1 million and $26.6 million for the years ended December 31, 2004 and 2003, respectively, and consisted of earnings generated from the operations and disposition of the 5104 Eisenhower Boulevard Building on June 3, 2004 and operations of the properties included in the Portfolio Sale. In accordance with Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144), we reclassified the historical operating results of these properties as discontinued operations in the accompanying consolidated statements of income for all periods presented. The increase in income from discontinued operations generated from operating activities in 2004, as compared to 2003, is primarily related to properties acquired subsequent to December 31, 2002. The gain recognized on the sale of the 5104 Eisenhower Boulevard Building in 2004 was approximately $11.6 million, whereas there were no property dispositions during 2003.

Earnings per share for the year ended December 31, 2004 was $0.45 compared to $0.37 for the year ended December 31, 2003. This increase is primarily a result of the recognition of lease termination income related to the Metris lease termination, and the gain on sale of the 5104 Eisenhower Boulevard Building occurring during the second quarter 2004, which together generated approximately $0.05 net income per share. The remaining increase is attributable to a full year s operations at properties acquired prior to December 31, 2003. Earnings per share for the year ended December 31, 2004 reflects the change in depreciable lives of real estate assets from 25 years to 40 years which resulted in an increase in earnings of approximately $0.12 per share, that was essentially offset by the impact of the increased amortization during the year ended December 31, 2004 as a result of additional property acquisitions after the adoption of FAS 141. Other than these items, our operations remained relatively consistent on a per share basis. However, we expect our earnings per share to decrease in future periods as a result of the disposition of properties noted above.

Comparison of the year ended December 31, 2003 vs. the year ended December 31, 2002

Rental income increased by $171.0 million during the year ended December 31, 2003 to $248.7 million, from $77.7 million for the year ended December 31, 2002. Tenant reimbursements were $72.4 million and $14.8 million for the years ended December 31, 2003 and 2002, respectively, for an increase of $57.6 million. These increases were primarily due to the rental income and tenant reimbursements for properties acquired subsequent to December 31, 2001, which totaled $201.5 million and $58.8 million, respectively, for the year ended December 31, 2003 and $29.3 million and $3.2 million for the year ended December 31, 2002. Tenant reimbursements were equivalent to 71% of the property operating expenses for the years ended December 31, 2003 and 2002.

Property operating expenses were $101.2 million and $20.8 million for the years ended December 31, 2003 and 2002, respectively. The $80.4 million increase in property operating costs was primarily due to the property operating costs associated with the properties acquired subsequent to December 31, 2001, which totaled $83.0 million and $4.9 million for the years ended

December 31, 2003 and 2002, respectively. Property operating costs represented 32% and 23% of the sum of the rental income and tenant reimbursements revenue amounts for the years ended December 31, 2003 and 2002, respectively. The increase in property operating costs as a percentage of the sum of rental income and tenant reimbursements was primarily due to the acquisition of certain full service multi-tenant properties in 2003 that have a significantly higher ratio of property operating costs to revenues.

Asset and property management fees expenses were $12.2 million and $4.4 million for the years ended December 31, 2003, and 2002, respectively, representing approximately 4% and 5%, respectively, of the sum of rental income and tenant reimbursements revenue amounts in each year. The increase in the asset and property management fees was primarily due to the fees associated with properties acquired subsequent to December 31, 2001, which totaled $9.6 million and $1.3 million for the years ended December 31, 2003 and 2002, respectively.

General and administrative costs were $8.7 million and $3.6 million for the years ended December 31, 2003 and 2002, respectively, representing approximately 3% and 4% of total revenues for the years ended December 31, 2003 and 2002, respectively. General and administrative expenses are expected to remain relatively consistent in future periods as a percentage of total revenues.

Depreciation expense was $89.6 million and $28.1 million for the years ended December 31, 2003 and 2002, respectively. The increase of $61.5 million in depreciation expense was primarily due to the acquisition of properties since December 31, 2001. Depreciation expense related to assets acquired after December 31, 2001, was $74.0 million and $12.5 million for the years ended December 31, 2003 and 2002, respectively. Depreciation expense represented 36% of rental income for the years ended December 31, 2003 and 2002.

Amortization was $8.6 million and $0.2 million for the years ended December 31, 2003 and 2002, respectively. The increase was primarily due to the adoption of FAS 141 in 2002, which caused more acquired assets to be classified as intangible lease assets, as compared to prior periods, and resulted in additional amortization expense, as well as the signing of second-generation leases at some of our properties during the year ended December 31, 2003. In 2004, Wells REIT changed the presentation of the amortization of the fair values of in-place leases, including opportunity costs associated with lost rentals that are avoided by acquiring in-place leases and tenant relationships as amortization expense, as opposed to an adjustment to rental income, in the consolidated statements of income. As such, we reclassified such amortization from rental income to amortization expense for all periods presented.

Interest expense, including amortization of deferred financing costs, was $12.4 million and $1.7 million for the years ended December 31, 2003 and 2002, respectively. Interest expense paid to third parties for the year ended December 31, 2003 increased, as compared to the year ended December 31, 2002, due to higher average amounts of borrowings outstanding during 2003 and comparable interest rates during the two years.

Interest and other income was $1.1 million and $4.0 million for the years ended December 31, 2003 and 2002, respectively. Any funds received from stockholders that have not yet been invested in real estate asset investments and cash generated from operations between distribution payments were invested in short-term investments resulting in interest income. At certain times during the year ended December 31, 2002, we held a significant amount of cash on hand that had not been invested in real estate asset investments resulting in a higher amount of interest income.

Equity in income of unconsolidated joint ventures was $4.8 million and $4.7 million for the years ended December 31, 2003 and 2002, respectively. This change was primarily due to the additional investments in the Fund XIII-REIT joint venture in December 2002 and September 2003. These additional investments were partially offset by the sale of one property in September 2003.

Loss on extinguishment of debt was $2.0 million for the year ended December 31, 2003. In April 2003, we terminated our $110 million credit facility with Bank of America, N.A. and charged $0.5 million in associated unamortized deferred financing costs to earnings. Additionally, we charged $1.5 million in loan assumption fees acquired to earnings as part of the Leo Burnett Building debt refinancing in December 2003.

Income from discontinued operations was $26.6 million and $16.0 million for the years ended December 31, 2003 and 2002, respectively, and consisted of earnings generated from the operations and disposition of the 5104 Eisenhower Boulevard Building on June 3, 2004 and operations of the properties included in the Portfolio Sale. In accordance with FAS 144, we reclassified the historical operating results of these properties as discontinued operations in the accompanying consolidated statements of income for all periods presented. The increase in income from discontinued operations generated from operating activities in 2003, as compared to 2002, is primarily related to properties acquired subsequent to December 31, 2001.

Earnings per share for the year ended December 31, 2003 was $0.37 compared to $0.41 for the year ended December 31, 2002. This decrease was primarily a result of the higher cost of investments in the real estate assets we acquired relative to returns on those investments and allocation of purchase consideration to shorter-lived intangible assets, due to the implementation of FAS 141, resulting in lower per share earnings in 2003, as compared to 2002.

Portfolio Information

As of December 31, 2004, we own interests in 112 properties. Of these properties, 93 are wholly-owned and three properties are owned through consolidated joint ventures. All of these properties are included in our consolidated financial statements. The remaining 16 properties are owned through joint ventures with affiliates of Wells Capital. While we have limited industrial warehouse assets in our portfolio, the majority of our assets are commercial office buildings located in 26 states and the District of Columbia. At December 31, 2004, our properties were approximately 97.4% leased with an average lease term remaining of approximately 7.1 years. See Subsequent Events below for more details on portfolio data as of April 13, 2005.

As of December 31, 2004, our five largest geographic concentrations were as follows:

Location	2004 Annualized Gross Base Rents (in thousands)	Rentable Square Feet (in thousands)	Percentage of 2004 Annualized Gross Base Rents
Chicago	$ 130,610	4,640	22%
Washington, D.C.	79,059	2,208	14%
N. New Jersey	38,704	1,617	7%
Minneapolis	33,083	1,230	6%
Detroit	26,257	1,097	5%
	$ 307,713	10,792	54%

As of December 31, 2004, our five largest industry concentrations were as follows:

Location	2004 Annualized Gross Base Rents (in thousands)	Rentable Square Feet (in thousands)	Percentage of 2004 Annualized Gross Base Rents
Business Services	$ 71,454	3,301	12%
Depository Institutions	48,423	1,851	8%
Nondepository Institutions	37,603	1,979	6%
Insurance Carriers	35,399	1,661	6%
Legal Services	34,277	1,068	6%
	$ 227,156	9,860	38%

As of December 31, 2004, our five largest tenants were as follows:

Location	2004 Annualized Gross Base Rents (in thousands)	Percentage of 2004 Annualized Gross Base Rents
BP Corporation	$ 28,890	5%
National Aeronautics and Space Administration	21,685	4%
Leo Burnett USA, Inc.	19,742	3%
US Bancorp Piper Jaffray Companies, Inc.	19,348	3%
Nestle USA, Inc.	15,921	3%
	$ 105,586	18%

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 between other REITs. Our management believes that accounting for real estate assets in accordance with accounting principles generally accepted in the United States (GAAP) implicitly assumes that the value of real estate assets diminishes predictability 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 presentations, provide 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.

We believe that net income, as defined by GAAP, is the most relevant measure of our operating performance. Conversely, we do not believe that FFO should not be viewed as an alternative measurement of our operating performance to net income, as FFO is a non-GAAP financial measure, which includes adjustments that may be deemed subjective by investors.

As presented below, non-cash items such as depreciation, amortization, and gains on the sale of real estate assets 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 non-cash items aforementioned. 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 the accompanying consolidated financial statements (see Note 6 of the accompanying consolidated financial statements). FFO is not adjusted to reflect the cost of capital improvements or any related capitalized interest, and is presented in the following table, in thousands, for the years ended:

	2004	**2003**	**2002**
Net income	$ 209,722	$ 120,685	$ 59,854
Add:			
Depreciation of real estate assets	97,425	107,012	38,780
Amortization of deferred leasing costs	65,314	9,325	303
Depreciation and amortization unconsolidated partnerships	4,160	3,730	2,861
Gain on sale of real estate assets	(11,629)		
FFO	$ 364,992	$ 240,752	$ 101,798
Weighted average shares outstanding	466,061	324,092	145,633

Through 2003, Wells REIT and its unconsolidated joint ventures reported the amortization of the fair values of in-place leases, including opportunity costs associated with lost rentals that are avoided by acquiring in-place leases and tenant relationships, as an adjustment to rental income in the consolidated statements of income. In 2004, Wells REIT began presenting this amortization as amortization expense in the consolidated statements of income, and have reclassified such amortization from rental income to amortization expense for all periods previously presented. The period of amortization continues to be the term of the respective lease and results in no change in previously reported net income, but does result in an increase in FFO of approximately $40.2 million and $5.6 million for the years ended December 31, 2004 and 2003, respectively. The primary purpose of this change is to more closely align our presentation of such costs with similar costs as classified by other companies in the real estate industry.

Set forth below is additional information (often considered in conjunction with FFO) that may be helpful in assessing our operating results:

In accordance with GAAP, we recognized straight-line rental revenue of $28.0 million, $16.2 million and $7.6 million during the years ended December 31, 2004, 2003 and 2002, respectively, portions of which are included in income from discontinued operations in the accompanying consolidated statements of income.

The amortization of deferred financing costs totaled approximately $4.6 million, $4.6 million and $0.8 million for the years ended December 31, 2004, 2003 and 2002, respectively, portions of which are included in income from discontinued operations in the accompanying consolidated statements of income. Additionally, the loss on extinguishment of debt in the accompanying consolidated statements of income totaled approximately $2.1 million and $2.0 million for the years ended December 31, 2004 and 2003, respectively. No loss on extinguishment of debt was incurred during the year ended December 31, 2002.

The amortization of intangible lease assets and intangible lease liabilities recorded as a net increase in revenues totaled approximately $2.8 million and $1.3 million for the years ended December 31, 2004 and 2003, respectively, portions of which are included in income from discontinued operations in the accompanying consolidated statements of income. No amortization of intangible assets or intangible lease liabilities was recorded during the year ended December 31, 2002.

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 ordinary taxable income 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 will be subject to federal income taxes on our taxable income for four years following the year during which qualification is lost, 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 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.

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 would protect us from 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 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 us 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 of directors.

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. All assets are depreciated on a straight line basis. 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	Lease term
Intangible lease assets	Lease term

In the first quarter of 2004, Wells REIT completed a review of its real estate depreciation by performing an analysis of the components of each property type in an effort to determine weighted average composite useful lives of its real estate assets. As a result of this review, Wells REIT changed its estimate of the weighted average composite useful lives for building assets. Effective January 1, 2004, for all building assets, Wells REIT extended the weighted average composite useful life to 40 years from 25 years. The change resulted in an increase to net income of approximately $56.8 million or $0.12 per share for the year ended December 31, 2004. Wells REIT believes the change more appropriately reflects the estimated useful lives of the building assets and is consistent with prevailing industry practice.

In the event that inappropriate useful lives or methods are used for depreciation and amortization, our net income would be misstated.

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of real properties, it is our policy to 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, other value of in-place leases and value of tenant relationships, based in each case on their 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 our 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. In estimating carrying costs, we include real estate taxes, insurance, and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. We also estimate the cost to execute similar leases including leasing commissions, legal and other related costs.

The fair values of above-market and below-market in-place lease values is recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) our estimate of fair market lease rates for the corresponding in-place leases, measured

over a period equal to the remaining non-cancelable term of the lease. The above-market and below-market lease values are capitalized as intangible lease assets and liabilities and amortized as an adjustment of 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 management s consideration of current market costs to execute a similar lease. These direct costs are included in deferred lease costs in the 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 the accompanying consolidated balance sheets and are amortized to expense over the remaining terms of the respective leases. Prior to the nine months ended December 31, 2004, these lease intangibles were amortized as an adjustment to rental income rather than to expense. As such, the related amortization has been reclassified from an adjustment to rental income to expense in the consolidated statements of income for the years ended December 31, 2004 and 2003.

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 could 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, 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 indicate 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 adjust the real estate and related intangible assets to the fair value and recognize an impairment loss.

Projections of expected future cash flows require that we estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, discount rates, 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 use of inappropriate assumptions in the future cash flow analysis would result in an incorrect assessment of the property s future cash flows and fair value, and could result in the misstatement of the carrying value of our real estate and related intangible assets and our net income.

Contractual Commitments and Contingencies

Our contractual obligations (in thousands) as of December 31, 2004 are as follows:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**More than 5 years**
Outstanding debt	$ 890,182	$ 1,560	$ 140,076	$ 35,625	$ 712,921
Capital lease obligations (1)	133,608	4,523	9,046	9,046	110,993
Operating lease obligations (2)	79,837	535	1,070	1,070	77,162
Total	$ 1,103,627	$ 6,618	$ 150,192	$ 45,741	$ 901,076

(1) As discussed in Note 7 to the accompanying consolidated financial statements, these capital lease obligations are related to properties included in the Portfolio Sale. Therefore, such obligations are classified as liabilities related to discontinued operations, net, in the accompanying consolidated balance sheets and were relinquished on April 13, 2005 in connection with the Portfolio Sale.

(2) These operating lease obligations are exclusive of properties included in the Portfolio Sale.

We are subject to certain contingent liabilities with regard to certain transactions as discussed in the following paragraphs.

Take-Out Purchase and Escrow Agreement

Wells Capital and its affiliates have developed a program (the Wells Section 1031 Program) involving the acquisition by a subsidiary of Wells Management (Wells Exchange) of income-producing commercial properties and the formation of a series of single member limited liability companies for the purpose of facilitating the resale of co-tenancy interests in such real estate properties to be owned in co-tenancy arrangements with persons (1031 Participants) who are seeking to invest the proceeds from a sale of real estate held for investment in another real estate investment for purposes of qualifying for like-kind exchange treatment under Section 1031 of the Internal Revenue Service Code. The acquisition of each of the properties acquired by Wells Exchange is generally financed by a combination of permanent first mortgage financing and interim loan financing obtained from institutional lenders.

Following the acquisition of each property, Wells Exchange attempts to sell co-tenancy interests to 1031 Participants, the proceeds of which are used to repay a pro-rata portion of the interim financing. In consideration for the payment of a take-out fee to us and following approval of the potential property acquisition by our board of directors, it is anticipated that we may enter into a take-out purchase and escrow agreement or similar contract providing that, if Wells Exchange is unable to sell all of the co-tenancy interests in that particular property to 1031 Participants, we would be obligated to purchase, at Wells Exchange s cost, any co-tenancy interests remaining unsold at the end of the offering period.

As of December 31, 2004, co-tenancy interests in three programs with which we have previously been involved are still yet to be sold, all with expiration dates in February 2005. If these interests are not sold, or if the programs are not extended, we may have to purchase the unsold co-tenancy interests in the future.

On February 14, 2005, we agreed to an extension of these offering periods through May 2005, in consideration for additional take-out fees of approximately $188,000.

Letters of Credit

At December 31, 2004, Wells REIT had two unused letters of credit totaling approximately $28.4 million from financial institutions. One of these letters of credit in the amount of approximately $400,000 expires in February 2005, and the other letter of credit expired in December 2005. These letters of credit were required by unrelated third parties to ensure completion of Wells REIT s obligations under certain earn-out and related construction agreements.

Commitments Under Existing Lease Agreements

Certain lease agreements include provisions that, at the option of the tenant, may obligate Wells REIT to expand an existing property, construct on adjacent property or provide other expenditures for the benefit of the tenant, in favor of additional rental revenue. At December 31, 2004, no tenants have exercised such options, which have not been fully satisfied as of that date.

Additionally, Wells REIT executed one lease extension with a tenant for the acquisition of an adjacent land parcel and subsequent construction of a surface parking lot. The lease extension provides for additional rental revenue related to the expanded parking. Construction of the parking expansion has not yet begun; however, the land parcel was purchased as of December 31, 2004.

Earn-out Agreements

As part of the acquisition of the 60 Broad Street New York Building, Wells REIT entered into an agreement to pay to the seller an amount for securing a qualifying lease agreement or renewal relating to specified space, which is currently occupied. In the event that the seller is successful in securing a qualifying lease for the specified space, Wells REIT will be required to pay the seller an amount based on the net present value of the rental income over the term of the lease. As of December 31, 2004, no amounts are due under this agreement.

Litigation

Wells REIT is from time to time a party to other legal proceedings which arise in the ordinary course of its business. Wells REIT is not currently involved in any litigation the outcome of which would, in management s judgment based on information currently available, have a material adverse effect on the results of operations or financial condition of Wells REIT, nor is management aware of any such litigation threatened against the Wells REIT.

On October 9, 2003, Stephen L. Flood, the Luzerne County Controller, and the Luzerne County Retirement Board (Luzerne Board) on behalf of the Luzerne County Employee Retirement System (Plan) filed a lawsuit in the U.S. District Court, Middle District of Pennsylvania against 26 separate defendants, including Wells REIT, Wells Investment Securities, Inc., and Wells Real Estate Funds, Inc., (collectively, the Wells

Defendants).

On October 27, 2004, this lawsuit against the Wells Defendants was dismissed with prejudice. The dismissal was the result of a settlement agreement and release between the plaintiffs and the Wells Defendants where the Wells REIT agreed to repurchase from the Plan all of the 1,346,754 shares of its common stock held by the Plan for approximately $12.8 million, the price originally paid for such stock, in exchange for a release by the plaintiffs of all claims and counts against the Wells Defendants. These shares were not repurchased pursuant to Wells REIT s existing share redemption program.

Related Party Transactions and Agreements

We have entered into agreements with Wells Capital, Wells Management and their affiliates, whereby we pay certain fees or reimbursements to Wells Capital, Wells Management and their affiliates for acquisition and advisory fees and acquisition expenses, sales commissions, asset and property management fees, and reimbursement of operating costs. See Notes 11 and 12 to our consolidated financial statements included in this report for a discussion of the various related party transactions, agreements and fees.

Conflicts of Interest

Wells Capital is also a general partner in or advisor to Wells Real Estate Investment Trust II, Inc. (Wells REIT II) and various public real estate limited partnerships sponsored by Wells Capital. As such, there are conflicts of interest where Wells Capital, while serving in the capacity as general partner or advisor for another Wells-sponsored program, may be in competition with us in connection with property acquisitions or for tenants in similar geographic markets. The compensation arrangements between Wells Capital and these other Wells Real Estate Funds could influence its advice to us.

Additionally, certain members of our board of directors also serve on the board of Wells REIT II and may encounter certain conflicts of interest regarding investment and operations decisions.

Subsequent Events

Sale of Portfolio of Real Estate Assets

On April 13, 2005, the Portfolio Sale closed for a gross sales price of $786.0 million, excluding closing costs and brokerage fees, of which approximately $760.8 million is allocable to us. We received net sales proceeds and recognized a gain of approximately $756.2 million and $188.9 million, respectively, as a result of the Portfolio Sale, which are subject to change as additional information becomes available in subsequent periods.

In accordance with the terms of the current Asset Management Advisory Agreement with Wells Management, our Asset Advisor, in the event that Wells Management provides substantial services in connection with the sale of properties, as determined and approved by our board of directors, we may be required to pay Wells Management a subordinated disposition fee equal to the lesser of one-half of the market-based real estate commission or 3.0% of the sale price of such properties, contingent upon our stockholders having first received total dividends in an amount equal to the sum of all of the capital the stockholders have invested in Wells REIT (reduced by prior dividends attributable to net sales proceeds) plus an amount sufficient to provide the stockholders with an annualized, noncumulative return of 8.0% (the Subordinated Conditions). While this fee may be in addition to real estate commissions paid to third parties, the total real estate commissions (including such

disposition fee) may not exceed the lesser of (i) 6.0% of the sales price of the properties or (ii) the level of real estate commissions customarily charged in light of the size, type, and location of the properties.

On February 21, 2005, our board of directors approved a subordinated disposition fee of 0.33% of the gross sale price of the properties sold to be paid to Wells Management as a result of the closing of this transaction. Since the Subordinated Conditions have not been met at this time, this fee will not be paid at closing but will be paid only in the event and at the time that the Subordinated Conditions are satisfied in accordance with the terms of the Asset Management Advisory Agreement.

Properties Involved in Sale

The Portfolio Sale includes 23 wholly-owned properties. Of the $786.0 million gross sale price, approximately $714.9 million relates to these 23 properties, which we originally purchased for an aggregate purchase price of approximately $555.1 million. The names and locations of the properties are listed below.

Property Name	***Property Location***	***Building Square Footage***
Bank of America Orange County	Brea, CA	637,503
Capital One Richmond	Glen Allen, VA	225,220
Daimler Chrysler Dallas	Westlake, TX	130,290
Allstate Indianapolis	Indianapolis, IN	89,956
EDS Des Moines	Des Moines, IA	405,000
Kraft Atlanta	Suwanee, GA	87,219
Kerr-McGee	Houston, TX	101,111
PacifiCare San Antonio	San Antonio, TX	142,500
ISS Atlanta	Atlanta, GA	289,000
Experian/TRW	Allen, TX	292,700
Travelers Express Denver	Lakewood, CO	68,165
Dana Kalamazoo	Kalamazoo, MI	150,945
Dana Detroit	Farmington Hills, MI	112,480
Transocean Houston	Houston, TX	155,991
Lucent	Cary, NC	120,000
Ingram Micro	Millington, TN	701,819
Nissan	Irving, TX	268,445
IKON	Houston, TX	157,790
ASML	Tempe, AZ	95,133
Dial	Scottsdale, AZ	129,689
Metris Tulsa	Tulsa, OK	101,100
Alstom Power Richmond	Midlothian, VA	99,057
AT&T Pennsylvania	Harrisburg, PA	81,859

In addition, the Portfolio Sale includes four properties that are owned through joint ventures with affiliates. Approximately $71.1 million of the $786.0 million gross sale price relates to these four properties, which were originally purchased for an aggregate purchase price of approximately $54.6 million. Our share of the approximately $71.1 million of gross sale price attributable to these four properties is approximately $45.4 million. Our share of the approximately $54.6 million original purchase price for these four properties was approximately $32.0 million. The names and locations of these four properties, along with the name of the joint venture affiliate and the percentage ownership of Wells REIT in each of these properties are listed below.

Property Name	*Property Location*	*% Owned*	*Joint Venture Affiliate*	*Building Square Footage*
John Wiley Indianapolis	Fishers, IN	71.9%	Wells Real Estate Fund XIII, L.P.	141,047
AmeriCredit	Orange Park, FL	71.9%	Wells Real Estate Fund XIII, L.P.	85,000
AT&T Oklahoma	Oklahoma City, OK	55.0%	Wells Real Estate Fund XII, L.P.	128,500
Gartner	Ft. Myers, FL	56.8%	Wells Real Estate Fund XI, L.P. Wells Real Estate Fund XII, L.P.	62,400

Effects of the Property Sale on the Diversification of our Portfolio

The following information discloses the effects of the potential property sale on the diversification of our portfolio.

As of December 31, 2004, we owned interests in 112 buildings either directly or through joint ventures. Of these buildings, 93 buildings are wholly owned and 19 buildings are owned through joint ventures with affiliates and others. While we have limited industrial warehouse assets in our portfolio, the majority of assets are commercial office buildings located in 26 states and the District of Columbia. As of April 19, 2005, we will own interests in 82 buildings either directly or through joint ventures. Of these buildings, 67 buildings are wholly owned, and 15 buildings are owned through joint ventures with affiliates and others.

As of December 31, 2004, our properties are approximately 97% leased with an average lease term remaining of approximately 7.1 years. As of April 19, 2005, our properties will be approximately 97% leased with an average lease term remaining of approximately 6.9 years.

Lease Expirations Portfolio as of December 31, 2004

The following table shows the lease expirations of our current portfolio as of December 31, 2004, during each of the next ten years and thereafter, assuming no exercise of renewal options or termination rights.

Year of Lease Expiration	2004 Annualized Gross Base Rent (in thousands)	Percentage of 2004 Annualized Gross Base Rent	Rentable Square Feet Expiring (in thousands)
Vacant	$ 0	0%	675
2005	17,179	3%	655
2006	30,643	5%	942
2007	31,169	5%	1,117
2008	27,810	5%	1,124
2009	45,210	8%	1,688
2010	84,112	14%	3,776
2011	83,698	14%	4,839
2012	89,860	15%	3,686
2013	71,568	12%	2,724
2014	31,910	5%	1,230
Thereafter	67,859	14%	2,916
	$ 581,018	100%	25,372

Lease Expirations Post-Closing of the Portfolio Sale as of April 13, 2005

The following table shows lease expirations of our remaining portfolio following the completed sale transaction, during each of the next ten years and thereafter, assuming no exercise of renewal options or termination rights.

Year of Lease Expiration	2004 Annualized Gross Base Rent (in thousands)	Percentage of 2004 Annualized Gross Base Rent	Rentable Square Feet Expiring (in thousands)
Vacant	$ 0	0%	675
2005	16,889	3%	642
2006	29,186	6%	865
2007	31,169	6%	1,117
2008	24,734	5%	898
2009	42,357	8%	1,546
2010	73,168	14%	3,034
2011	73,036	14%	3,722
2012	75,495	15%	2,412
2013	55,027	11%	1,878
2014	27,604	5%	1,029
Thereafter	63,484	13%	2,642
	$ 512,149	100%	20,460

Geographic Diversification Current Portfolio as of December 31, 2004

The following table shows the geographic diversification of our current portfolio as of December 31, 2004.

Location	2004 Annualized Gross Base Rents (in thousands)	Percentage of 2004 Annualized Gross Base Rents	Rentable Square Feet (in thousands)
Chicago	$ 130,610	22%	4,640
Washington, D.C.	79,059	14%	2,208
N. New Jersey	38,704	7%	1,617
Minneapolis	33,083	6%	1,230
Detroit	26,257	5%	1,097
Dallas	25,967	4%	1,450
New York	25,424	4%	986
Boston	23,964	4%	586
Atlanta	23,767	4%	992
Los Angeles	20,822	4%	682
Orange Co.	18,039	3%	1,089
Other*	135,322	23%	8,795
	$ 581,018	100%	25,372

* None more than 3%

Geographic Diversification Post-Closing of the Portfolio Sale as of April 13, 2005

The following table shows geographic diversification of our remaining portfolio following the completed sale transaction.

Location	2004 Annualized Gross Base Rents (in thousands)	Percentage of 2004 Annualized Gross Base Rents	Rentable Square Feet (in thousands)
Chicago	$ 130,610	26%	4,640
Washington, D.C.	79,059	15%	2,208
N. New Jersey	38,704	8%	1,617
Minneapolis	33,083	6%	1,230
New York	25,424	5%	986
Boston	23,964	5%	586
Detroit	23,927	5%	984
Los Angeles	20,822	4%	682
Dallas	18,196	4%	889
Atlanta	15,552	3%	616
Other*	102,808	19%	6,022

	$ 512,149	100%	20,460

* None more than 3%

Tenant Industry Diversification Current Portfolio as of December 31, 2004

The following table shows the tenant industry diversification of our current portfolio as of December 31, 2004.

Industry	2004 Annualized Gross Base Rent (in thousands)	Percentage of 2004 Annualized Gross Base Rent	Rentable Square Feet (in thousands)
Business Services	$ 71,454	12%	3,301
Depository Institutions	48,423	8%	1,851
Nondepository Institutions	37,603	6%	1,979
Insurance Carriers	35,399	6%	1,661
Legal Services	34,277	6%	1,068
Electronic & Other Electric Equipment	28,174	5%	1,599
Communication	26,995	5%	1,058
Transportation Equipment	22,205	4%	1,011
Administration of Economic Programs	21,879	4%	599
Insurance Agents, Brokers, & Service	21,656	4%	610
Finance, Taxation, & Monetary Policy	20,410	4%	548
Food and Kindred Products	19,065	3%	631
Other*	193,478	33%	9,456
	$ 581,018	100%	25,372

* None more than 3%

Tenant Industry Diversification Post-Closing of the Portfolio Sale as of April 13, 2005

The following table shows tenant industry diversification of our remaining portfolio following the completed sale transaction.

Industry	2004 Annualized Gross Base Rent (in thousands)	Percentage of 2004 Annualized Gross Base Rent	Rentable Square Feet (in thousands)
Business Services	$ 56,456	11%	2,195
Depository Institutions	48,423	9%	1,851
Legal Services	34,277	7%	1,068
Insurance Carriers	31,329	6%	1,429
Electronic & Other Electric Equipment	26,250	5%	1,479
Communication	24,621	5%	920

Administration of Economic Programs	21,879	4%	599
Insurance Agents, Brokers, & Service	21,656	4%	610
Finance, Taxation, & Monetary Policy	20,410	4%	548
Nondepository Institutions	20,162	4%	814
Transportation Equipment	18,032	4%	747
Food and Kindred Products	17,751	3%	558
Other*	170,903	34%	7,642
	$ 512,149	100%	20,460

* None more than 3%

Top 20 Tenants Current Portfolio as of December 31, 2004

The following table shows the top 20 tenants by percentage of annual gross revenues of our current portfolio as of December 31, 2004.

Location	2004 Annualized Gross Base Rent (in thousands)	Percentage of 2004 Annualized Gross Base Rent
BP Amoco	$ 28,890	5%
NASA	21,685	4%
Leo Burnett	19,742	3%
US Bancorp	19,348	3%
Nestle	15,921	3%
OCC	14,547	3%
Independence Blue Cross	12,904	2%
Winston & Strawn	12,761	2%
Kirkland & Ellis	12,304	2%
Nokia	12,243	2%
State of New York	11,041	2%
Aventis	10,299	2%
Zurich	9,693	2%
Cingular	9,208	2%
DDB Needham	8,909	2%
State Street Bank	8,264	1%
US National Park Service	8,236	1%
Caterpillar Financial	8,219	1%
Bank of America	7,574	1%
Lockheed Martin	7,422	1%
Other	321,808	56%
	$ 581,018	100%

Top 20 Tenants Post-Closing of the Portfolio Sale as of April 13, 2005

The following table shows the top 20 tenants by percentage of annual gross revenues of our remaining portfolio following the completed sale transaction.

Location	2004 Annualized Gross Base Rent (in thousands)	Percentage of 2004 Annualized Gross Base Rent
BP Amoco	$ 28,890	6%
NASA	21,685	4%
Leo Burnett	19,742	4%
US Bancorp	19,348	4%
Nestle	15,921	3%
OCC	14,547	3%
Independence Blue Cross	12,904	3%
Winston & Strawn	12,761	2%
Kirkland & Ellis	12,304	2%
Nokia	12,243	2%
State of New York	11,041	2%
Aventis	10,299	2%
Zurich	9,693	2%
Cingular	9,208	2%
DDB Needham	8,909	2%
State Street Bank	8,264	2%
US National Park Service	8,236	2%
Caterpillar Financial	8,219	2%
Lockheed Martin	7,422	1%
Department of Defense	7,028	1%
Other	$ 253,485	49%
	$ 512,149	100%

Revisions to the Dividend Reinvestment Plan

On February 21, 2005, our board of directors approved an amendment to the dividend reinvestment plan effective for dividends declared and paid after March 10, 2005, to clarify that distributions attributable to net sales proceeds will be excluded from dividends which may be reinvested in shares under the dividend reinvestment plan. Accordingly, proceeds attributable to the Portfolio Sale transaction described above which are distributed to stockholders as a special distribution may not be reinvested in shares of Wells REIT pursuant to its dividend reinvestment plan.

On April 19, 2005, our board of directors elected to amend our dividend reinvestment plan effective for shares acquired with dividends declared and paid beginning in June 2005 to lower the purchase price of shares purchased pursuant to our dividend reinvestment plan to $8.00 per share.

Revisions to the Share Redemption Program

On February 23, 2005, our board of directors approved the following revisions to the current share redemption program effective for redemptions of shares beginning in March 2005: (i) an increase to the limit of the number of shares that can be redeemed in 2005 from 3.0% of the weighted-average number of shares outstanding during the prior calendar year to 5.0% of the weighted-average number of shares outstanding during the prior calendar year; (ii) a decrease in the percentage of funds to be reserved in calendar year 2005 for (a) redemptions upon the death of a stockholder, and (b) redemptions for certain stockholders to satisfy required minimum distribution requirements as set forth under Sections 401(a)(9), 403(b)(10), 408(a)(6), 408(b)(3),

and 408(A)(c)(5) of the Internal Revenue Code from 20% to 15% of the amount available for redemption; and (iii) the price at which shares will be redeemed will be reduced by any amounts previously distributed to stockholders which were attributable to net sales proceeds from the sale of our properties.

Extension of Line of Credit

On March 4, 2005, we extended our $50 Million Secured Line of Credit, originally maturing in June 2005, through June 2006. In addition to extending the maturity of the facility, the borrowing base properties (Experian/TRW Building, Kraft Atlanta Building, and IKON Building) were replaced by the Cingular Atlanta Building. All other material terms of the facility, such as interest rate and covenant restrictions, remain unchanged from the terms of the facility at December 31, 2004.

Dividend Declaration

On March 9, 2005, our board of directors declared dividends for the first quarter of 2005 in the amount of $0.175 (17.5 cents) per share on our outstanding common stock to all stockholders of record of such shares as shown on our books at the close of business on March 15, 2005.

Debt Facilities used for Share Repurchases pursuant to Share Redemption Program

On March 28, 2005, we entered into a $105.0 Million Promissory Note (the $105.0 Million Promissory Note) with Wachovia Bank, N.A. secured by a property at 800 Nicollet Mall in Minneapolis, Minn. (the US Bancorp Building). Borrowings under the loan bear interest at a variable per annum rate equal to the London InterBank Offered Rate (LIBOR) for a 30-day period plus 0.75% (3.62% at March 31, 2005). The loan requires monthly payments of interest only and matures on June 1, 2005. We may prepay the outstanding principal balance, or any part thereof, at any time without penalty, and may extend the term of the loan for up to an additional 30 days by providing written notice to the lender.

On March 30, 2005, we entered into a $45.0 Million Term Loan Agreement (the $45.0 Million Term Loan) with JP Morgan Chase Bank, N.A. Under the terms of the loan agreement, the lender agrees to make a single disbursement of the loan, consisting of one or more LIBOR Advances and/or one or more Alternative Base Rate Advances, as elected by us. LIBOR Advances under the loan will bear interest at a variable per annum rate equal to the sum of (a) LIBOR for the relevant one-, two-, or three-month LIBOR interest period, divided by (b) one minus the reserve requirement, plus 0.75%. The reserve requirement means the maximum aggregate reserve requirement that is imposed under Regulation D on Eurocurrency liabilities. Alternative Base Rate Advances under the loan will bear interest at a variable per annum rate equal to the higher of (i) the prime rate or (ii) the sum of the federal funds effective rate plus 0.50%. The prime rate means the prime rate of interest announced from time to time by lending institutions. The federal funds effective rate means the interest rate equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System. The loan matures on July 29, 2005. We may extend the term of the loan for up to two additional 30-day periods by providing written notice to the lender. Interest only payments on each LIBOR Advance are payable on the last day of the applicable interest period. Interest only payments on each Alternative Base Rate Advance are payable on the first day of each calendar month. The $45.0 million draw under the loan in March 2005 was a 30-day LIBOR Advance; therefore, the interest rate is calculated using the 30-day LIBOR rate divided by one minus the reserve requirement, plus 0.75% (3.625% at March 31, 2005). The proceeds of the $45.0 Million Term Loan and the $105.0 Million Promissory Note (mentioned above) were used to redeem shares pursuant to the share redemption program.

On May 5, 2005, we refinanced the amount outstanding under the $105.0 Million Promissory Note (mentioned above) by obtaining a $105.0 Million long-term, fixed-rate loan from the same lender, Wachovia Bank, N.A. (the $105.0 Million Fixed-Rate Loan). At closing, we obtained the full principal amount of this loan. The $105.0 Million Fixed-Rate Loan matures on May 11, 2015, and requires payments of interest only each month at a rate of 5.29% per annum, with all principal and any unpaid interest due on the maturity date. The $105.0 Million Fixed-Rate Loan may not be prepaid before maturity without incurring a prepayment penalty. If we prepay the $105.0 Million Fixed-Rate Loan prior to maturity, the lender is entitled to a prepayment penalty in an amount equal to the greater of (A) two percent (2.0%) of the principal amount being prepaid, or (B) the present value of a series of payments payable on each payment date from the prepayment date until the maturity date, such payments will be equal to 5.29% per annum minus the lesser of (i) the yield on the U.S. Treasury issue (primary issue) with a maturity date closest to the maturity date, or (ii) the yield on the U.S. Treasury issue (primary issue) with a term equal to the remaining average life of the indebtedness; divided by twelve and multiplied by the principal due after application of the constant monthly payment due under the note on the date of such prepayment. In addition to the amounts described in the preceding sentence, in the event of a prepayment occurring on or prior to the first anniversary of the date of the $105.0 Million Fixed-Rate Loan, an additional prepayment fee equal to three percent (3%) of the principal balance will also be immediately due and payable. The fixed-rate loan is secured by the US Bancorp Building, a 32-story office building containing approximately 930,000 rentable square feet located at 800 Nicollet Mall in Minneapolis, Minnesota. By obtaining the $105.0 Million Fixed-Rate Loan, we fully repaid and satisfied the $105.0 Million Promissory Note outstanding at March 31, 2005.

On May 4, 2005, we refinanced the amount outstanding under the unsecured $45.0 Million Term Loan Agreement (mentioned above) by obtaining a long-term, fixed-rate loan from the same lender, JP Morgan Chase Bank, N.A. (the $45.0 Million Fixed-Rate Loan). The $45.0 Million Fixed-Rate Loan matures on June 1, 2012, and requires payments of interest only each month at a rate of 5.195% per annum, with all principal and any unpaid interest due on the maturity date. The $45.0 Million Fixed-Rate Loan may not be prepaid before maturity without incurring a prepayment penalty. If we prepay the $45.0 Million Fixed-Rate Loan prior to maturity, the lender is entitled to a prepayment penalty equal to the greater of (A) one percent (1%) of the outstanding principal balance of the loan at the time such payment is received, or (B) the present value as of the date such payment is received of the remaining scheduled payments of principal and interest from the date such payment is received through the maturity date, less the payment received. The $45.0 Million Fixed-Rate Loan is secured by the 4250 N. Fairfax Building, a 14-story office building containing approximately 304,000 aggregate rentable square feet located at 4250 North Fairfax Street in Arlington, Virginia. By obtaining the $45.0 Million Fixed-Rate Loan, we fully repaid and satisfied the $45.0 Million Term Loan agreement outstanding at March 31, 2005.

Declaration of Special Distribution

On April 19, 2005, our board of directors declared a special distribution of $1.62 per share to stockholders of record as of June 1, 2005, representing substantially all of the net sales proceeds received from the disposition mentioned above. Net sales proceeds is defined as total proceeds received from the sale less closing costs associated with the sale. This special distribution will be considered a return of a portion of the stockholders invested capital and, as such, will reduce their remaining investment in our common stock by $1.62 per share.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Wells Real Estate Investment Trust, Inc.

We have audited the accompanying consolidated balance sheets of Wells Real Estate Investment Trust, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the accompanying financial statement schedules. These financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wells Real Estate Investment Trust, Inc. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Wells Real Estate Investment Trust, Inc. s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2005 expressed an unqualified opinion thereon.

In 2002, the Company adopted Statement of Financial Accounting Standards No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets .

/S/ ERNST & YOUNG LLP

Atlanta, Georgia

April 19, 2005

WELLS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	December 31,	
	2004	**2003**
Assets:		
Real estate assets, at cost:		
Land	$ 619,319	$ 580,045
Buildings and improvements, less accumulated depreciation of $219,718 and $133,424 at December 31, 2004 and 2003, respectively	3,156,291	3,030,244
Intangible lease assets, less accumulated amortization of $56,922 and $9,736 at December 31, 2004 and 2003, respectively	287,481	267,108
Construction in progress	27,916	2,568
Assets related to discontinued operations, net	517,222	553,436
Total real estate assets	4,608,229	4,433,401
Investments in unconsolidated joint ventures	93,979	102,832
Cash and cash equivalents	40,412	53,482
Tenant receivables, net of allowance for doubtful accounts of $1,043 and $444 at December 31, 2004 and 2003, respectively	83,895	49,235
Due from affiliates	1,479	3,072
Prepaid expenses and other assets	13,503	16,673
Deferred financing costs, less accumulated amortization of $3,317 and $3,475 at December 31, 2004 and 2003, respectively	11,077	5,472
Deferred lease costs, less accumulated amortization of $26,541 and $3,695 at December 31, 2004 and 2003, respectively	184,260	175,055
Other assets related to discontinued operations, net	86,855	86,070
Total assets	$ 5,123,689	$ 4,925,292
Liabilities and Stockholders Equity:		
Lines of credit and notes payable	$ 890,182	$ 612,514
Intangible lease liabilities, less accumulated amortization of $20,474 and $5,998 at December 31, 2004 and 2003, respectively	120,171	132,134
Accounts payable and accrued expenses	82,298	74,375
Due to affiliates	3,274	32,645
Dividends payable	12,730	13,562
Deferred rental income	32,468	28,025
Liabilities related to discontinued operations, net	64,780	64,830
Total liabilities	1,205,903	958,085
Commitments and Contingencies		
Minority Interest	4,961	4,801
Redeemable common shares	225,955	
Stockholders Equity:		
Preferred stock, $.01 par value; 100,000,000 shares authorized; none outstanding		
Common stock, $.01 par value; 900,000,000 shares authorized; 473,486,397 and 465,049,864 shares issued and outstanding at December 31, 2004 and 2003, respectively	4,735	4,650

Additional paid-in capital	4,203,918	4,138,017
Cumulative distributions in excess of earnings	(295,914)	(180,261)
Redeemable common shares	(225,955)	
Other comprehensive loss	86	
Total stockholders equity	3,686,870	3,962,406
Total liabilities and stockholders equity	$ 5,123,689	$ 4,925,292

See accompanying notes

WELLS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Years Ended December 31,		
	2004	**2003**	**2002**
Revenues:			
Rental income	**$ 425,703**	$ 248,740	$ 77,745
Tenant reimbursements	**121,102**	72,352	14,811
Lease termination income	**7,941**	981	1,409
	554,746	322,073	93,965
Expenses:			
Property operating costs	**175,936**	101,219	20,837
Asset and property management fees:			
Related party	**18,759**	8,830	3,522
Other	**4,925**	3,396	837
General and administrative expense	**16,426**	8,718	3,629
Depreciation	**84,736**	89,552	28,072
Amortization	**58,471**	8,649	167
	359,253	220,364	57,064
Real estate operating income	**195,493**	101,709	36,901
Other income (expense):			
Interest expense	**(38,155)**	(12,390)	(1,748)
Interest and other income	**2,277**	1,132	4,037
Equity in income of unconsolidated joint ventures	**6,634**	4,751	4,700
Loss on extinguishment of debt	**(2,101)**	(1,956)	
	(31,345)	(8,463)	6,989
Income from continuing operations before minority interest	**164,148**	93,246	43,890
Minority interest in earnings of consolidated entities	**(572)**	842	
Income from continuing operations	**163,576**	94,088	43,890
Discontinued operations:			
Income from operations	**34,517**	26,597	15,964
Gain on sale	**11,629**		
Income from discontinued operations	**46,146**	26,597	15,964
Net income	**$ 209,722**	$ 120,685	$ 59,854
Per common share data-basic and diluted			
Income from continuing operations	**$ 0.35**	$ 0.29	$ 0.30
Income from discontinued operations	**0.10**	0.08	0.11

Net income	**$ 0.45**	$ 0.37	$ 0.41
Weighted-average shares outstanding-basic and diluted	**466,061**	324,092	145,633

See accompanying notes.

WELLS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands, except per share amounts)

	Common Stock		Additional Paid-In	Cumulative Distributions in Excess	Redeemable Common	Other Comprehensive	Total Stockholders
	Shares	Amount	Capital	of Earnings	Shares	Income	Equity
Balance, December 31, 2001	83,206	$ 832	$ 732,692	$ (24,181)	$	$	$ 709,343
Issuance of common stock	134,030	1,340	1,338,953				1,340,293
Redemptions of common stock	(1,536)	(15)	(15,347)				(15,362)
Dividends ($0.76 per share)				(109,983)			(109,983)
Commissions on stock sales and related dealer manager fees			(127,332)				(127,332)
Other offering costs			(20,476)				(20,476)
Components of comprehensive income:							
Net income				59,854			59,854
Change in value of interest rate swap						(387)	(387)
Comprehensive income							59,467
Balance, December 31, 2002	215,700	2,157	1,908,490	(74,310)		(387)	1,835,950
Issuance of common stock	253,719	2,537	2,534,655				2,537,192
Redemptions of common stock	(4,369)	(44)	(43,646)				(43,690)
Dividends ($0.70 per share)				(226,636)			(226,636)
Commissions on stock sales and related dealer manager fees			(239,949)				(239,949)
Other offering costs			(21,533)				(21,533)
Components of comprehensive income:							
Net income				120,685			120,685
Change in value of interest rate swap						387	387
Comprehensive income							121,072
Balance, December 31, 2003	465,050	4,650	4,138,017	(180,261)			3,962,406
Issuance of common stock	**19,494**	**195**	**194,747**				**194,942**
Redemptions of common stock	**(9,711)**	**(97)**	**(97,018)**				**(97,115)**
Dividends ($0.70 per share)				**(325,375)**			**(325,375)**
Commissions on stock sales and related dealer manager fees			**(17,617)**				**(17,617)**
Other offering costs			**(757)**				**(757)**
Redeemable common shares					**(225,955)**		**(225,955)**
Shares repurchased upon settlement	**(1,347)**	**(13)**	**(13,454)**				**(13,467)**
Components of comprehensive income:							
Net income				**209,722**			**209,722**
Change in value of interest rate swap						**86**	**86**
Comprehensive income							**209,808**
Balance, December 31, 2004	**473,486**	**$ 4,735**	**$ 4,203,918**	**$ (295,914)**	**$ (225,955)**	**$ 86**	**$ 3,686,870**

See accompanying notes.

WELLS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31,		
	2004	**2003**	**2002**
Cash Flows from Operating Activities:			
Income from continuing operations	**$ 163,576**	$ 94,088	$ 43,890
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Equity in income of unconsolidated joint ventures	**(6,634)**	(4,751)	(4,700)
Minority interest in earnings of consolidated entities	**572**	(842)	
Depreciation	**84,736**	89,552	28,072
Amortization	**57,179**	9,695	1,003
Loss on extinguishment of debt	**2,101**	1,956	
Land received in lease termination			(430)
Changes in assets and liabilities:			
Tenant receivables, net	**(34,765)**	(17,919)	(10,003)
Due to/from affiliates	**409**	(484)	(289)
Prepaid expenses and other assets	**2,729**	(9,725)	(3,624)
Accounts payable and accrued expenses	**(8,769)**	10,510	12,708
Deferred rental income	**7,750**	16,441	10,922
Distributions received from unconsolidated joint ventures	**9,586**	10,096	7,388
Total adjustments	**114,894**	104,529	41,047
Net cash provided by continuing operations	**278,470**	198,617	84,937
Net cash provided by discontinued operations	**50,708**	41,031	27,023
Net cash provided by operating activities	**329,178**	239,648	111,960
Cash Flows from Investing Activities:			
Investment in real estate and related assets	**(271,568)**	(2,094,772)	(1,321,219)
Investment in tenant improvement escrows	**(33)**	(3,404)	
Contributions to unconsolidated joint ventures	**(395)**	(24,059)	(8,910)
Other assets acquired upon business acquisition		(12,811)	
Acquisition and advisory fees paid	**(21,210)**	(75,800)	(39,797)
Proceeds from sale	**40,506**		
Investment in bonds		(10,000)	
Net cash used in investing activities	**(252,700)**	(2,220,846)	(1,369,926)
Cash Flows from Financing Activities:			
Proceeds from lines of credit and notes payable	**1,019,952**	915,601	212,906
Repayments of lines of credit and notes payable	**(825,072)**	(941,647)	(62,835)
Issuance of bonds		10,000	
Dividends paid to stockholders	**(326,372)**	(219,121)	(104,996)
Issuance of common stock	**194,942**	2,537,192	1,340,293
Redemptions of common stock	**(96,806)**	(43,690)	(15,362)
Sales commissions and dealer manager fees paid	**(18,795)**	(244,310)	(127,332)
Other offering costs paid	**(14,082)**	(16,463)	(13,156)
Repurchase of shares upon settlement	**(12,842)**		
Deferred financing costs paid	**(10,227)**	(8,346)	(1,674)

Other	**(246)**		
Net cash provided by (used in) financing activities	**(89,548)**	1,989,216	1,227,844
Net (decrease) increase in cash and cash equivalents	**(13,070)**	8,018	(30,122)
Cash and cash equivalents, beginning of year	**53,482**	45,464	75,586
Cash and cash equivalents, end of year	**$ 40,412**	$ 53,482	$ 45,464

See accompanying notes.

WELLS REAL ESTATE INVESTMENT TRUST, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004, 2003 AND 2002

1. REVISIONS TO PREVIOUSLY ISSUED FINANCIAL STATEMENTS

On April 13, 2005, Wells Real Estate Investment Trust, Inc. (Wells REIT) closed on the sale of 27 properties, which it owned directly or through unconsolidated joint ventures (the Portfolio Sale). In accordance with Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144), the accompanying consolidated balance sheets have been revised to reclassify the assets and liabilities sold in connection with the Portfolio Sale as real estate assets and liabilities related to discontinued operations. Further, the accompanying consolidated statements of income have been revised to reclassify the results of operations of the properties sold as income from discontinued operations for all periods presented. See Note 6 for additional details regarding the Portfolio Sale and revisions to the accompanying consolidated financial statements.

2. ORGANIZATION

Wells REIT is a Maryland corporation that engages in the acquisition and ownership of commercial real estate properties throughout the United States, including properties that are under construction, are newly constructed, or have operating histories. Wells REIT was incorporated in 1997, commenced operations on June 5, 1998, and qualifies as a real estate investment trust (REIT) for federal income tax purposes. Wells REIT conducts business primarily through Wells Operating Partnership, L.P. (Wells OP), a Delaware limited partnership, or through Wells OP s subsidiaries. Wells REIT is the sole general partner of Wells OP and Wells Capital, Inc. (Wells Capital) is the sole limited partner of Wells OP. See Note 11 included herein for a further discussion of Wells Capital. Wells OP owns properties directly or through wholly owned subsidiaries and has also entered into certain joint ventures with real estate limited partnerships sponsored by Wells Capital, as well as certain joint ventures with parties not otherwise affiliated with Wells REIT or Wells Capital. References to Wells REIT herein include all subsidiaries of Wells REIT, including Wells OP, its subsidiaries and any consolidated joint ventures.

Since its inception, Wells REIT has completed four public offerings of common stock at $10 per share. Combined with the dividend reinvestment program, such offerings have provided approximately $4.9 billion in total offering proceeds. Out of these proceeds, Wells REIT incurred costs associated with the offerings of (1) approximately $166.5 million in acquisition and advisory fees and acquisition expenses, (2) approximately $463.9 million in selling commissions and dealer manager fees, and (3) approximately $62.3 million in organization and other offering costs. In addition, Wells REIT used approximately $175.2 million to redeem shares pursuant to Wells REIT s share redemption program. The remaining offering proceeds of approximately $4.0 billion were primarily used to fund the purchase of real estate assets. As of July 25, 2004, no additional shares will be sold under these four prior public offerings.

Wells REIT registered 100 million shares of common stock with the Securities and Exchange Commission (the SEC) for issuances pursuant to its dividend reinvestment plan under a Registration Statement on Form S-3 (Commission File No. 333-114212), which was filed and became effective with the SEC on April 5, 2004.

Wells REIT s stock is not listed on a national exchange. Wells REIT s articles of incorporation currently require Wells REIT to begin the process of liquidating its investments and distributing the resulting proceeds to its stockholders if its shares are not listed on a national exchange by January 30, 2008. Wells REIT s articles of incorporation can only be amended by a proxy vote of Wells REIT s stockholders.

At December 31, 2004, Wells REIT owned interests in 112 properties either directly or through joint ventures comprising approximately 25.4 million square feet of commercial office and industrial space located in 26 states and the District of Columbia. At December 31, 2004, these properties were approximately 97.4% leased.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Wells REIT, Wells OP and any other entities for which Wells REIT or Wells OP has a controlling financial interest or is deemed to be the primary beneficiary. In determining whether a controlling financial interest exists, Wells REIT considers ownership of voting interests, protective rights and participatory rights of the investors. Any intercompany balances and transactions are eliminated upon consolidation. Financial statements of consolidated entities are prepared using accounting policies consistent with Wells REIT.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Investments in Unconsolidated Joint Ventures

Wells REIT accounts for its investments in joint ventures in which it exercises significant influence, but not control, using the equity method of accounting. Under the equity method of accounting, original investments are recorded at cost, and are subsequently adjusted for contributions, distributions, and the investor s share of income or losses of the joint ventures. Allocations of income and loss and distributions by the joint ventures are made in accordance with the terms of the individual joint venture agreements. These items are allocated in proportion to the partners respective ownership interests, which approximates economic ownership. Generally, cash distributions are made from the joint ventures to the investor on a quarterly basis.

Real Estate Assets

Real estate assets are stated at cost, less accumulated depreciation. Amounts capitalized to real estate assets consist of the cost of acquisition or construction, application of acquisition and advisory fees incurred, and any tenant improvements or major improvements and betterments,

which extend the useful life of the related asset. All repairs and maintenance are expensed as incurred. Additionally, Wells REIT capitalizes interest when development of a real estate asset is in progress. Approximately $89,000, $728,000, and $809,000 of interest was capitalized for the years ended December 31, 2004, 2003 and 2002, respectively.

Wells REIT s real estate assets are depreciated using the straight-line method over the useful lives of the assets by class as follows:

Buildings	40 years
Building improvements	5-25 years
Land improvements	20-25 years
Tenant improvements	Lease term
Intangible lease assets	Lease term

The related depreciation and amortization is recorded in the consolidated statements of income, including the depreciation related to assets subject to capital lease obligations.

Management continually monitors events and changes in circumstances that could indicate that carrying amounts of real estate and related intangible assets may not be recoverable. When indicators of potential impairment are present, management assesses the recoverability of the assets by determining whether the carrying value of the real estate and related intangible assets will be recovered through the undiscounted future cash flows expected from the use and eventual disposition of the asset. In the event the expected undiscounted future cash flows do not exceed the carrying value, management adjusts the real estate and intangible assets to the fair value and recognizes an impairment loss. Management has determined that there has been no impairment in the carrying value of real estate assets held by Wells REIT or any unconsolidated joint ventures during the years ended December 31, 2004, 2003, and 2002.

In the first quarter of 2004, Wells REIT completed a review of its real estate depreciation by performing an analysis of the components of each property type in an effort to determine weighted average composite useful lives of its real estate assets. As a result of this review, Wells REIT changed its estimate of the weighted average composite useful lives for building assets. Effective January 1, 2004, for all building assets, Wells REIT extended the weighted average composite useful life to 40 years from 25 years. The change resulted in an increase to net income of approximately $56.8 million or $0.12 per share for the year ended December 31, 2004. Wells REIT believes the change more appropriately reflects the estimated useful lives of the building assets and is consistent with prevailing industry practice.

Cash and Cash Equivalents

Wells REIT considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include cash and short-term investments. Short-term investments are stated at cost, which approximates fair value, and consist of investments in money market accounts.

Tenant Receivables

Tenant accounts receivable are recognized and carried at original amount earned less an allowance for any uncollectible amounts, which approximates fair value. The allowance for doubtful accounts is adjusted based upon management s judgment about the collectibility of individual account balances. Wells REIT recorded a provision for bad debts of $658,000 and $383,000 for the years ended December 31, 2004

and 2003, respectively, portions of which are included in income from discontinued operations.

Tenant receivables also includes notes receivable from tenants to fund certain expenditures related to the property and are recorded at the face amount, less any principal payments through the date of the consolidated balance sheet. These notes bear interest at rates comparable to tenants with similar borrowing characteristics; therefore, the carrying amount approximates the fair value of the notes as of the date of the consolidated balance sheets.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets are primarily comprised of prepaid taxes, insurance and operating costs, escrow accounts held by lenders to pay future real estate taxes, insurance and tenant improvements, earnest money paid in connection with future acquisitions, and capitalized acquisition fees that have not yet been applied to investments in real estate assets. Prepaid expenses and other assets will be expensed as incurred or reclassified to other asset accounts upon being placed into service in future periods. Balances without a future economic benefit are written off as they are identified.

Deferred Financing Costs

Deferred financing costs are capitalized and amortized to interest expense on a straight-line basis over the terms of the related financing arrangement. Amortization of deferred financing costs for the years ended December 31, 2004, 2003 and 2002 was approximately $2.5 million, $2.6 million and $845,000, respectively, portions of which are included in income from discontinued operations. Amortization of deferred financing costs is recorded in interest expense on the consolidated statements of income.

Deferred Lease Costs

Costs incurred to acquire operating leases, including those identified as part of the purchase price allocation process, are capitalized and amortized on a straight-line basis over the terms of the related lease. Amortization of deferred lease costs was approximately $24.9 million, $3.9 million, and $303,000 for the years ended December 31, 2004, 2003, and 2002, respectively, portions of which are included in income from discontinued operations (Note 6).

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of real properties, Wells REIT allocates 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. Management determines the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors considered by management 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, management includes real estate taxes, insurance, and other operating expenses during the expected lease-up periods based on current market demand.

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 (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s 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 management s consideration of current market costs to execute a similar lease. These direct costs are included in deferred lease costs in the 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 the accompanying consolidated balance sheets and are amortized to expense over the remaining terms of the respective leases. Prior to the nine months ended December 31, 2004, these lease intangibles were amortized as an adjustment to rental income rather than to expense. As such, the related amortization has been reclassified from an adjustment to rental income to expense in the consolidated statements of income for the years ended December 31, 2004 and 2003.

As of December 31, 2004, approximately $81.2 million and approximately $263.2 million was recognized as the gross value of above-market in-place leases and intangible absorption period costs for properties related to continuing operations, respectively, and are included in real estate assets in the consolidated balance sheets as intangible lease assets, net. As of December 31, 2004, approximately $140.6 million was recognized as the gross value of below-market in-place leases for properties related to continuing operations and are presented in the consolidated balance sheets as intangible lease liabilities, net, and approximately $194.4 million was recognized as the gross value of intangible lease origination costs for properties related to continuing operations and are included in deferred lease costs in the consolidated balance sheets.

As of December 31, 2004, approximately $4.6 million and approximately $27.2 million was recognized as the gross value of above-market in-place leases and intangible absorption period costs related to properties included in the Portfolio Sale, respectively, and are included in real estate assets related to discontinued operations, net, in the consolidated balance sheets. As of December 31, 2004, approximately $0.3 million was recognized as the gross value of below-market in-place leases related to properties included in the Portfolio Sale, and are presented in the consolidated balance sheets as liabilities related to discontinued operations, net, and approximately $6.8 million was recognized as the gross value of intangible lease origination costs and included in other assets related to discontinued operations, net, in the consolidated balance sheets.

During the year ended December 31, 2004, Wells REIT recorded approximately $63.6 million in amortization related to intangible lease origination costs and intangible absorption period costs as