WELLS REAL ESTATE INVESTMENT TRUST INC
Form 10-Q
November 08, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2006

OR

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from ______ to ______

Commission file number 0-25739

WELLS REAL ESTATE INVESTMENT TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland	**58-2328421**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

6200 The Corners Parkway

Norcross, Georgia 30092

(Address of principal executive offices)

(Zip Code)

(770) 449-7800

(Registrant s telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one).

Large Accelerated filer ¨ Accelerated filer ¨ Non-Accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Number of shares outstanding of the registrant s

only class of common stock, as of October 31, 2006: 461,846,838 shares

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FORM 10-Q

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-Q of Wells Real Estate Investment Trust, Inc. (Wells REIT or the Registrant) 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 applicable safe harbor provisions for forward-looking statements contained in those acts. 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, anticip estimate, believe, continue, or other similar words. 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 representations or warranties (express or implied) about the accuracy of any such forward-looking statements contained in this Form 10-Q, 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, make distributions to stockholders, and maintain the value of our real estate properties, may be significantly hindered. See Item 1A in Wells REIT s Annual Report on Form 10-K for the year ended December 31, 2005 for a discussion of some of the risks and uncertainties, although not all risks and uncertainties, that could cause actual results to differ materially from those presented in our forward-looking statements.

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PART I. FINANCIAL STATEMENTS

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

The information furnished in the accompanying consolidated balance sheets and related consolidated statements of income, stockholders equity, and cash flows reflects all adjustments, that are, in management s opinion, necessary for a fair and consistent presentation of the aforementioned financial statements.

The accompanying financial statements should be read in conjunction with the notes to Wells REIT s financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this report on Form 10-Q and with Wells REIT s Annual Report on Form 10-K for the year ended December 31, 2005. Wells REIT s results of operations for the three months and nine months ended September 30, 2006 are not necessarily indicative of the operating results expected for the full year.

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WELLS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	(Unaudited) September 30, 2006	December 31, 2005
Assets:		
Real estate assets, at cost:		
Land	**$ 637,069**	$ 619,664
Buildings and improvements, less accumulated depreciation of $372,462 and $309,406 as of September 30, 2006 and December 31, 2005, respectively	**3,117,422**	3,117,247
Intangible lease assets, less accumulated amortization of $131,436 and $104,299 as of September 30, 2006 and December 31, 2005, respectively	**225,728**	235,410
Construction in progress	**30,435**	20,734
Total real estate assets	**4,010,654**	3,993,055
Investments in unconsolidated joint ventures	**57,231**	58,817
Cash and cash equivalents	**37,268**	48,973
Due from unconsolidated joint ventures	**950**	931
Due from affiliate	**180**	215
Tenant receivables, net of allowance for doubtful accounts of $1,518 and $689 as of September 30, 2006 and December 31, 2005, respectively	**108,937**	98,259
Prepaid expenses and other assets	**19,775**	22,124
Deferred financing costs, less accumulated amortization of $6,460 and $5,099 as of September 30, 2006 and December 31, 2005, respectively	**9,816**	10,233
Deferred lease costs, less accumulated amortization of $72,125 and $51,857 as of September 30, 2006 and December 31, 2005, respectively	**184,983**	165,958
Total assets	**$ 4,429,794**	$ 4,398,565
Liabilities:		
Lines of credit and notes payable	**$ 1,234,519**	$ 1,036,312
Accounts payable, accrued expenses, and accrued capital expenditures	**73,686**	68,057
Due to affiliates	**918**	4,167
Deferred income	**21,597**	22,301
Intangible lease liabilities, less accumulated amortization of $39,807 and $34,431 as of September 30, 2006 and December 31, 2005, respectively	**95,419**	106,158
Total liabilities	**1,426,139**	1,236,995
Commitments and Contingencies		
Minority Interest	**5,892**	5,408
Redeemable Common Stock	**104,713**	167,015
Stockholders Equity:		
Common stock, $0.01 par value; 900,000,000 shares authorized; 462,093,513 shares issued and outstanding as of September 30, 2006; and 469,423,177 shares issued and outstanding as of December 31, 2005	**4,621**	4,694
Additional paid-in capital	**3,327,530**	3,391,998

Cumulative distributions in excess of earnings	**(334,388)**	(240,530)
Redeemable common stock	**(104,713)**	(167,015)
Total stockholders equity	**2,893,050**	2,989,147
Total liabilities, minority interest, redeemable common stock, and stockholders equity	**$ 4,429,794**	$ 4,398,565

See accompanying notes.

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WELLS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenues:				
Rental income	**$ 112,004**	$ 108,430	**$ 332,449**	$ 327,298
Tenant reimbursements	**34,171**	32,125	**97,566**	95,752
Lease termination income	**8,439**		**9,784**	4,308
	154,614	140,555	**439,799**	427,358
Expenses:				
Property operating costs	**50,460**	47,430	**146,109**	137,184
Asset and property management fees:				
Related-party	**6,158**	5,285	**18,028**	16,459
Other	**1,202**	1,377	**3,945**	4,176
Depreciation	**23,311**	22,046	**68,910**	65,679
Amortization	**16,687**	16,223	**51,141**	48,374
Lease termination expense	**2,745**	64	**4,170**	1,236
General and administrative	**5,027**	3,358	**13,707**	12,262
Casualty and impairment losses on real estate assets			**100**	16,093
	105,590	95,783	**306,110**	301,463
Real estate operating income	**49,024**	44,772	**133,689**	125,895
Other income (expense):				
Interest expense	**(15,582)**	(13,058)	**(45,120)**	(36,128)
Interest and other income	**949**	604	**1,930**	5,125
Equity in income of unconsolidated joint ventures	**461**	538	**1,623**	14,354
	(14,172)	(11,916)	**(41,567)**	(16,649)
Income from continuing operations before minority interest	**34,852**	32,856	**92,122**	109,246
Minority interest in earnings of consolidated entities	**(158)**	(154)	**(492)**	(442)
Income from continuing operations	**34,694**	32,702	**91,630**	108,804
Discontinued operations:				
Operating income	**120**	848	**1,741**	14,235
Gain on sale of real estate assets	**13,434**		**14,618**	177,386
Income from discontinued operations	**13,554**	848	**16,359**	191,621
Net income	**$ 48,248**	$ 33,550	**$ 107,989**	$ 300,425

Per share information - basic and diluted:								
Income from continuing operations	**$**	**0.07**	$	0.07	**$**	**0.20**	$	0.23
Income from discontinued operations		**0.03**		0.00		**0.03**		0.41
Net income available to common stockholders	**$**	**0.10**	$	0.07	**$**	**0.23**	$	0.64
Weighted-average common shares outstanding basic and diluted		**459,656**		461,657		**461,554**		466,482

See accompanying notes.

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WELLS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2005

AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 (UNAUDITED)

(in thousands, except per share amounts)

	Common Stock		Additional	Cumulative Distributions	Redeemable	Other	Total
	Shares	Amount	Paid-In Capital	in Excess of Earnings	Common Stock	Comprehensive Income	Stockholders Equity
Balance, December 31, 2004	473,486	$ 4,735	$ 4,203,918	$ (283,184)	$ (225,955)	$ 86	$ 3,699,600
Issuance of common stock	18,834	188	165,331				165,519
Redemptions of common stock	(22,897)	(229)	(217,866)				(218,095)
Redeemable common stock					58,940		58,940
Special distribution ($1.62 per share)			(748,526)				(748,526)
Dividends ($0.61 per share)				(286,481)			(286,481)
Commissions and discounts on stock sales			(10,488)				(10,488)
Other offering costs			(371)				(371)
Components of comprehensive income:							
Net income				329,135			329,135
Change in value of interest rate swap						(86)	(86)
Comprehensive income							329,049
Balance, December 31, 2005	469,423	4,694	3,391,998	(240,530)	(167,015)		2,989,147
Issuance of common stock	**13,574**	**136**	**113,617**				**113,753**
Redemptions of common stock	**(20,903)**	**(209)**	**(174,966)**				**(175,175)**
Redeemable common stock					**62,302**		**62,302**
Dividends ($0.44 per share)				**(201,847)**			**(201,847)**
Commissions and discounts on stock sales			**(3,075)**				**(3,075)**
Other offering costs			**(44)**				**(44)**
Net income				**107,989**			**107,989**
Balance, September 30, 2006	**462,094**	**$ 4,621**	**$ 3,327,530**	**$ (334,388)**	**$ (104,713)**	**$**	**$ 2,893,050**

See accompanying notes.

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WELLS REAL ESTATE INVESTMENT TRUST, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	(Unaudited) Nine months ended September 30, 2006	2005
Cash Flows from Operating Activities:		
Net income	**$ 107,989**	$ 300,425
Operating distributions received from unconsolidated joint ventures	**3,474**	4,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**69,632**	68,836
Other amortization	**50,207**	49,253
Lease termination expense	**4,170**	1,236
Casualty and impairment losses on real estate assets	**100**	16,093
Amortization of deferred financing costs and fair market value adjustments on notes payable	**906**	876
Equity in income of unconsolidated joint ventures	**(1,623)**	(14,354)
Minority interest in earnings of consolidated entities	**493**	442
Gain on sale of real estate assets	**(14,618)**	(177,386)
Changes in assets and liabilities:		
Decrease in due from affiliate	**35**	21
Increase in tenant receivables, net	**(12,968)**	(10,453)
Increase in prepaid expenses and other assets	**(11,438)**	(14,904)
Increase (decrease) in accounts payable and accrued expenses	**7,093**	(13,073)
(Decrease) increase in due to affiliates	**(2,091)**	446
Decrease in deferred income	**(849)**	(9,605)
Net cash provided by operating activities	**200,512**	202,734
Cash Flows from Investing Activities:		
Investment in real estate and earnest money paid	**(169,343)**	(32,594)
Proceeds from master leases	**963**	
Net sale proceeds for wholly owned properties	**48,302**	711,816
Net sale proceeds received from unconsolidated joint ventures		44,872
Investments in unconsolidated joint ventures	**(284)**	(439)
Acquisition and advisory fees paid	**(2,485)**	(2,995)
Deferred lease costs paid	**(20,691)**	(4,158)
Net cash (used in) provided by investing activities	**(143,538)**	716,502
Cash Flows from Financing Activities:		
Deferred financing costs paid	**(944)**	(929)
Proceeds from lines of credit and notes payable	**470,360**	307,116
Repayments of lines of credit and notes payable	**(271,698)**	(159,904)
Issuance of common stock	**112,796**	121,157
Redemptions of common stock	**(173,593)**	(209,774)
Dividends paid	**(201,856)**	(218,418)
Special distribution		(748,526)
Commissions on stock sales paid	**(3,700)**	(6,047)
Other offering costs paid	**(44)**	(327)

Net cash used in financing activities		**(68,679)**		(915,652)
Net (decrease) increase in cash and cash equivalents		**(11,705)**		3,584
Cash and cash equivalents, beginning of period		**48,973**		39,669
Cash and cash equivalents, end of period	**$**	**37,268**	$	43,253

See accompanying notes.

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WELLS REAL ESTATE INVESTMENT TRUST, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(unaudited)

1. Organization

Wells Real Estate Investment Trust, Inc. (Wells REIT) is a Maryland corporation that qualifies as a real estate investment trust (REIT) for federal income tax purposes and engages in the acquisition and ownership of commercial real estate properties throughout the United States, including properties that are under construction, newly constructed, or have operating histories. Wells REIT was incorporated in 1997 and commenced operations on June 5, 1998. Wells REIT conducts business primarily through Wells Operating Partnership, L.P. (Wells OP), a Delaware limited partnership. Wells REIT is the sole general partner and possesses full legal control and authority over the operations of Wells OP. Wells Capital, Inc. (Wells Capital) is the sole limited partner of Wells OP. Wells OP owns properties directly, through wholly owned subsidiaries, through certain joint ventures with real estate limited partnerships sponsored by Wells Capital, and through certain joint ventures with parties not affiliated with Wells REIT or Wells Capital. References to Wells REIT herein shall include Wells REIT and all subsidiaries of Wells REIT, including consolidated joint ventures, Wells OP, and Wells OP s subsidiaries. See Note 7 for additional information related to Wells Capital.

As of September 30, 2006, Wells REIT owned interests in 84 properties, either directly or through joint ventures, comprising approximately 21.2 million square feet of commercial office and industrial space located in 23 states and the District of Columbia. As of September 30, 2006, these properties were approximately 95% leased.

Since its inception, Wells REIT has completed four public offerings of common stock at $10 per share. Combined with the dividend reinvestment plan, such offerings have provided approximately $5.2 billion in total net offering proceeds. From these proceeds, Wells REIT has paid costs related to the offerings of (1) approximately $171.1 million in acquisition and advisory fees and acquisition expenses; (2) approximately $477.5 million in commissions on stock sales and related dealer-manager fees; and (3) approximately $62.7 million in organization and other offering costs. In addition, Wells REIT used proceeds from debt and net offering proceeds of approximately $568.5 million to redeem shares pursuant to its share redemption program and, in one instance, to repurchase shares resulting from a legal settlement. The remaining net offering proceeds of approximately $3.9 billion were primarily used to fund the purchase of real estate assets. Wells REIT does not currently anticipate offering additional shares to the public. In addition, on June 14, 2005, Wells REIT distributed approximately $748.5 million of net sales proceeds to stockholders as a return of invested capital.

Wells REIT registered an additional 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 filed on Form S-3 (Commission File No. 333-114212), which became effective on April 5, 2004.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of Wells REIT have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, including the instructions to Form 10-Q and Article 10 of Regulation S-X, and do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, the statements for the unaudited interim periods presented include all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the results for such periods. Results for these interim periods are not necessarily indicative of a full-year s results. Wells REIT s consolidated financial statements include the accounts of Wells REIT, Wells OP, and certain entities in which Wells REIT or Wells OP has a controlling financial interest. For further information, refer to the financial statements and footnotes included in Wells REIT s Annual Report on Form 10-K for the year ended December 31, 2005.

Revenue Recognition

All leases on real estate assets held by Wells REIT are classified as operating leases, and the related base rental income is generally recognized on a straight-line basis over the terms of the respective leases. Tenant reimbursements are recognized as revenue in the

period that the related operating cost is incurred and are billed to tenants pursuant to the terms of the respective leases. Rental income and tenant reimbursements collected in advance are recorded as deferred income in the accompanying consolidated balance sheets. Lease termination income is recognized once the tenant has lost the right to lease the space and Wells REIT has satisfied all obligations under the related lease or lease termination agreement.

In conjunction with a property acquired during the first quarter 2006, Wells REIT entered into a master lease agreement with the seller under which the seller is obligated to pay rent pertaining to certain spaces with near-term rent abatements. This master lease was established in order to mitigate the potential negative effects of lost rental income and expense reimbursements related to these spaces. Wells REIT records payments received under master lease agreements as a reduction of the basis of the underlying property rather than as rental income. Wells REIT received master lease proceeds of approximately $1.0 million during the nine months ended September 30, 2006.

Income Taxes

Wells REIT has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code), and has operated as such beginning with its taxable year ended December 31, 1998. To qualify as a REIT, Wells REIT must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its adjusted REIT taxable income, as defined by the Code, to its stockholders. As a REIT, Wells REIT generally is not subject to income tax on income it distributes to stockholders. Wells REIT is subject to certain state and local taxes related to the operations of properties in certain locations, which have been provided for in the accompanying consolidated financial statements.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period financial statement presentation.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the relevant criteria and approach for the recognition, derecognition, and measurement of uncertain tax positions. FIN 48 will be effective for Wells REIT beginning January 1, 2007. Wells REIT is currently assessing the provisions and evaluating the financial statement impact of FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures required for fair value measurements under GAAP. SFAS No. 157 emphasizes that fair value is a market-based measurement, as opposed to an entity-specific measurement. SFAS No. 157 will be effective for Wells REIT beginning January 1, 2008. Wells REIT is currently assessing provisions and evaluating the financial statement impact of SFAS No. 157 on its consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB No. 108), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 is effective for fiscal years ending after November 15, 2006, and will be effective for Wells REIT beginning December 31, 2006. Wells REIT does not believe the adoption of such guidance will have an impact on its consolidated financial statements.

3. Acquisitions of Real Estate Assets

On August 31, 2006, Wells REIT purchased a two-building office complex constructed in 1997 and 1998 totaling approximately 386,000 aggregate rentable square feet located on a 16.8-acre land parcel in Irving, Texas (Las Colinas Corporate Center). Wells REIT purchased Las Colinas Corporate Center for approximately $60.8 million, exclusive of closing costs, and it is leased to H.D. Vest, Inc. (approximately 21%), Deloitte & Touche USA LLP (approximately 14%), The Feld Group, Inc. (approximately 11%), and various other office tenants (approximately 43%). Approximately 11% of Las Colinas Corporate Center is currently vacant.

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4. Dispositions of Real Estate Assets

Northrop Grumman Building

On July 6, 2006, Wells REIT sold the Northrop Grumman Building to an unaffiliated third party for approximately $45.1 million, exclusive of closing costs, and recognized a gain of approximately $13.4 million, which may be subject to change as additional information becomes available in subsequent periods.

Discontinued Operations

The results of operations for the Northrop Grumman Building (sold in July 2006), the IRS Daycare Building (sold in April 2006), and 23 wholly owned properties included in the April 2005 27-property sale are classified as discontinued operations in the accompanying consolidated statements of income. The details comprising income from discontinued operations are provided below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenues:				
Rental income	**$ 139**	$ 1,363	**$ 2,563**	$ 20,299
Tenant reimbursements	**(153)**	(70)	**86**	2,797
	(14)	1,293	**2,649**	23,096
Expenses:				
Property operating costs	**(145)**	(101)	**109**	3,499
Asset and property management fees:				
Related-party				382
Other		5	**3**	147
Depreciation		476	**722**	3,157
Amortization	**1**	19	**40**	1,907
General and administrative	**10**	46	**34**	245
	(134)	445	**908**	9,337
Real estate operating income	**120**	848	**1,741**	13,759
Other income (expense):				
Interest expense				(1,281)
Interest and other income				1,757
Gain on sale of real estate assets	**13,434**		**14,618**	177,386
	13,434		**14,618**	177,862
Income from discontinued operations	**$ 13,554**	$ 848	**$ 16,359**	$ 191,621

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5. Lines of Credit and Notes Payable

As of September 30, 2006 and December 31, 2005, Wells REIT had lines of credit and notes payable outstanding as follows (in thousands):

	September 30, 2006	December 31, 2005
Secured Pooled Facility	**$ 350,000**	$ 350,000
Aon Center Chicago Mortgage Notes	**225,000**	200,000
$125.0 Million Fixed-Rate Loan	**125,000**	
Leo Burnett Building Mortgage Note	**120,000**	120,000
WDC Mortgage Note	**115,167**	115,167
$105.0 Million Fixed-Rate Loan	**105,000**	105,000
$85.0 Million Secured Line of Credit	**71,200**	
$45.0 Million Fixed-Rate Loan	**45,000**	45,000
3100 Clarendon Boulevard Building Mortgage Note	**34,655**	35,110
One Brattle Square Building Mortgage Note	**27,824**	28,827
1075 West Entrance Building Mortgage Note	**15,673**	16,108
Merck Construction Loan		21,100
	$ 1,234,519	$ 1,036,312

Wells REIT made interest payments, including amounts capitalized, of approximately $43.7 million and $36.5 million for the nine months ended September 30, 2006 and 2005, respectively.

On October 2, 2006, Wells REIT obtained a $42.5 million long-term, fixed-rate loan from Wachovia Bank, N.A. (the $42.5 Million Fixed-Rate Loan), which matures on October 11, 2016, and requires interest-only payments each month at a rate of 5.70% per annum. All principal and any unpaid interest are due on the maturity date. From the commencement date through July 2, 2016, Wells REIT may prepay the $42.5 Million Fixed-Rate Loan with a prepayment penalty fee equal to the greater of an amount calculated to maintain the lender s yield over the term of the loan or 1% of the outstanding principal balance. From July 2, 2016 through the maturity date, Wells REIT may prepay the $42.5 million loan without a prepayment penalty. The $42.5 Million Fixed-Rate Loan is secured by mortgages on the Las Colinas Corporate Center (see Note 3 above). Wells REIT used the proceeds from the $42.5 Million Fixed-Rate Loan primarily to repay draws made on its lines of credit to fund the acquisition of Las Colinas Corporate Center.

6. Supplemental Disclosures of Noncash Investing and Financing Activities

Outlined below are significant noncash investing and financing activities for the nine months ended September 30, 2006 and 2005 (in thousands):

	Nine months ended September 30, (in thousands)	
	2006	2005
Investment in real estate funded with other assets	**$ 5,000**	$
Write-off of fully amortized intangible lease assets	**$ 11,698**	$
Acquisition and advisory fees due to affiliate	**$**	$ 562
Acquisition and advisory fees applied to investments	**$ 1,328**	$ 2,149

Prepaid and other assets assumed upon acquisition of properties	**$**	**74**	$	
Write-off of fully amortized deferred lease costs	**$**	**1,400**	$	
Liabilities assumed upon acquisition of properties	**$**	**1,158**	$	
Accrued capital expenditures and deferred lease costs	**$**	**12,589**	$	1,673
Write-off of fully amortized intangible lease liabilities	**$**	**6,107**	$	
Discounts applied to issuance of common stock	**$**	**957**	$	5,738
Discounts reduced as a result of redemptions of common stock	**$**	**1,582**	$	3,381
Redeemable common stock	**$**	**104,713**	$	133,964

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7. Related-Party Transactions

Asset Advisory Agreement

Effective January 1, 2005, Wells REIT entered into the Asset Management Advisory Agreement (the Asset Advisory Agreement) with Wells Management Company, Inc. (Wells Management). Under the terms of the Asset Advisory Agreement, Wells REIT incurs asset advisory fees payable to Wells Management for, among other things:

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

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

Additionally, per the Asset Advisory Agreement, Wells Management is entitled to earn the following disposition and incentive fees, which are similar in nature to previous agreements:

- For any property sold by Wells REIT, a disposition fee of the lesser of 50% of a competitive real estate commission or 3.0% of the sales price of the property, subordinated to the payment of distributions to stockholders equal to the sum of the stockholders invested capital plus an 8% return on invested capital;
- Incentive fee of 10% of net sales proceeds remaining after stockholders have received distributions equal to the sum of the stockholders invested capital plus an 8% return on invested capital; or
- Listing fee of 10% of the excess by which the market value of the stock plus distributions paid prior to listing exceeds the sum of 100% of the stockholders invested capital plus an 8% return on invested capital.

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

The Asset Advisory Agreement has a one-year term and automatically renews unless either side gives notice of its intent to not renew. In addition, either party may terminate the Asset Advisory Agreement upon 60 days written notice. In April 2006, Wells REIT s board of directors and Wells Management agreed to renew the existing Asset Advisory Agreement for the remainder of calendar year 2006 with stipulations that: (i) the fair market value defined in the Asset Advisory Agreement is to be based on the most recent net asset valuation performed on Wells REIT s properties, and (ii) for 2006, a credit of $1.2 million shall be applied against asset advisory fees otherwise payable under the Asset Advisory Agreement.

Acquisition Advisory Agreement

Effective January 1, 2005, Wells REIT entered into the Acquisition Advisory Agreement with Wells Capital. Under the terms of the Acquisition Advisory Agreement, Wells REIT is obligated to pay a fee to Wells Capital for services relating to, among other things, capital-raising functions; the investigation, selection, and acquisition of properties; and certain transfer agent and stockholder

communication functions. The fee payable to Wells Capital under the Acquisition Advisory Agreement is 3.5% of aggregate gross proceeds raised from the sale of shares of Wells REIT, exclusive of proceeds received from Wells REIT s dividend reinvestment plan used to fund repurchases of shares of common stock pursuant to Wells REIT s share redemption program. On November 15, 2005, the board of directors approved an amendment to the dividend reinvestment plan to, among other things, eliminate acquisition and advisory fees on shares sold under this plan beginning in September 2006. Wells REIT incurred the following acquisition and advisory fees and reimbursement of acquisition expenses for the three months and nine months ended September 31, 2006 and 2005, respectively (in thousands):

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

Property Management Agreement

Effective January 1, 2005, Wells REIT entered into the Master Property Management, Leasing, and Construction Management Agreement (the Property Management Agreement) with Wells Management. Under the Property Management Agreement, Wells REIT has retained Wells Management to manage, coordinate the leasing of, and manage construction activities related to certain properties of Wells REIT. Any amounts currently paid under the Property Management Agreement for properties that were managed by Wells Management on December 31, 2004 under its prior Asset/Property Management Agreement (the Existing Portfolio Properties) have the economic effect of reducing amounts payable for asset advisory services as a credit against amounts otherwise due under the Asset Advisory Agreement with respect to such properties. Management and leasing fees payable to Wells Management for properties to be acquired in the future are required to be specified in an amendment to the Property Management Agreement, which must be approved by Wells REIT s board of directors and will be payable in addition to fees payable pursuant to the Asset Advisory Agreement. Wells REIT anticipates that fees for the management and leasing of properties, other than Existing Portfolio Properties, will be generally consistent with the descriptions set forth below:

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

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

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

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

Salary and Operating Expense Reimbursements

Under the Asset Advisory Agreement, the Acquisition Advisory Agreement, and the Property Management Agreement, Wells REIT is required to reimburse each service provider for various costs and expenses incurred in connection with the performance of its duties under such agreements, including reasonable wages and salaries and other employee-related expenses such as taxes, insurance, and benefits of employees of the service provider who are directly engaged in providing services for or on behalf of Wells REIT. Under these agreements, reimbursements for

such employee-related expenses may not exceed $8.2 million in aggregate during any fiscal year. Wells REIT incurred salary and operating expense reimbursements of approximately $2.1 million and $1.9 million for the three months ended September 30, 2006 and 2005, respectively, and $6.1 million and $7.0 million for the nine months ended September 30, 2006 and 2005, respectively. Other than the portion of salary and operating expense reimbursements recorded within income from discontinued operations (see Note 4), such reimbursements are recorded as general and administrative expenses. The portion of salary

and operating expense reimbursements reimbursable by tenants under the terms of their lease agreements were approximately $0.2 million and $0.2 million for the three months ended September 30, 2006 and 2005, respectively, and approximately $0.6 million and $0.7 million for the nine months ended September 30, 2006 and 2005, respectively.

Dealer-Manager Agreement

Wells REIT maintains a dealer-manager agreement with Wells Investment Securities, Inc. (WIS), an affiliate of Wells Capital and Wells Management, whereby WIS performs dealer-manager services for offerings of Wells REIT shares pursuant to its dividend reinvestment plan. For these services, WIS earns selling commissions of 5% of gross offering proceeds raised pursuant to Wells REIT s dividend reinvestment plan, of which in excess of 99% has been reallowed to participating broker dealers for the periods presented below. On November 15, 2005, the board of directors approved an amendment to the dividend reinvestment plan to, among other things, eliminate selling commissions on shares sold under this plan beginning in September 2006. Wells REIT incurred the following commissions for the three months and nine months ended September 30, 2006 and 2005, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Commissions	**$ 0**	$ 1,871	**$ 3,700**	$ 5,934

Assignment of Related-Party Agreements

On December 21, 2005, Wells Capital and Wells Management assigned their respective rights to receive certain fees and reimbursements under the Asset Advisory Agreement and the Acquisition Advisory Agreement to Wells Advisory Services I, LLC (WASI), an entity affiliated with and controlled by Wells Management and Wells Capital. Effective February 15, 2006, Wells Management further assigned rights to receive certain fees and reimbursements under its Property Management Agreement with Wells REIT to WASI. Accordingly, Wells REIT pays acquisition and advisory fees, asset advisory fees, property management fees, and administrative reimbursements to WASI.

Effective October 25, 2006, WASI assigned its rights to receive certain fees and reimbursements under the Asset Advisory Agreement, the Acquisition Advisory Agreement, and the Property Management Agreement with Wells REIT to Wells Real Estate Advisory Services, Inc. (WREAS), a wholly owned subsidiary of WASI. Accordingly, Wells REIT will begin paying asset advisory fees, property management fees, and administrative reimbursements to WREAS beginning in November 2006.

Due from Affiliate

Due from affiliate is comprised of the following items due from WASI or its affiliates as of September 30, 2006 and December 31, 2005 (in thousands):

	September 30, 2006	December 31, 2005
Property insurance reimbursements	**$ 180**	$ 155
Other		60
	$ 180	$ 215

Due to Affiliates

Due to affiliates is comprised of the following items due to WASI or its affiliates as of September 30, 2006 and December 31, 2005 (in thousands):

	September 30, 2006	December 31, 2005
Asset advisory fees	**$**	$ 1,572
Acquisition and advisory fees		1,157
Salary reimbursements	**566**	1,156
Other operating expense reimbursements	**352**	282
	$ 918	$ 4,167

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Economic Dependency

Wells REIT has engaged WASI and its affiliates, including Wells Capital, Wells Management, and WIS, to provide certain services that are essential to Wells REIT, including asset management services, supervision of the management and leasing of properties owned by Wells REIT, asset acquisition and disposition services, the sale of shares of Wells REIT s common stock pursuant to its dividend reinvestment plan, as well as other administrative responsibilities for Wells REIT including accounting services, stockholder communications, and investor relations. As a result of these relationships, Wells REIT is dependent upon WASI, Wells Capital, Wells Management, and WIS.

Wells Capital, Wells Management, and WIS are all owned and controlled by Wells Real Estate Funds, Inc. (WREF). The operations of Wells Capital, Wells Management, and WIS represent substantially all of the business of WREF. Accordingly, Wells REIT focuses on the financial condition of WREF when assessing the financial condition of Wells Capital, Wells Management, and WIS. In the event that WREF were to become unable to meet its obligations as they become due, Wells REIT might be required to find alternative service providers.

Future net income generated by WREF will be largely dependent upon the amount of fees earned by WASI, Wells Capital, Wells Management, and WIS based on, among other things, the level of investor proceeds raised and the volume of future acquisitions and dispositions of real estate assets by Wells Real Estate Investment Trust II, Inc. (Wells REIT II) and other Wells-sponsored programs. As of September 30, 2006, Wells REIT believes that WREF is generating adequate cash flow from operations and has adequate liquidity available in the form of cash on hand and current receivables necessary to meet its current and future obligations as they become due.

8. Commitments and Contingencies

Commitments Under Existing Lease Agreements

Certain lease agreements include provisions that, at the option of the tenant, may obligate Wells REIT to expend certain amounts of capital to expand an existing property, to construct on adjacent property, or to provide other expenditures for the benefit of the tenant. As of September 30, 2006, no tenants have exercised such options that had not been materially satisfied. Under lease amendments executed during third quarter 2006, Leo Burnett and Winston & Strawn, LLP, the principal tenants at the 35 West Wacker Building, are entitled to landlord-funded tenant improvements, leasing commissions, and building improvements totaling approximately $68.9 million through 2012.

Tennessee Excise Taxes

In June 2006, Wells OP received a notice of assessment from the Tennessee Department of Revenue related to excise taxes due for the calendar years ended December 31, 2002 through 2004. The Tennessee Department of Revenue allows partnerships owned by REITs, such as Wells OP, to deduct income or gains from their taxable income to the extent that such deducted income is included in the federal taxable income of the owner REIT. To be eligible for this deduction, the owner REIT must be subject to and file a franchise and excise tax return in the State of Tennessee. A REIT is subject to excise taxes if, among other things, it meets the requirement for doing business in Tennessee, as provided for in the Tennessee Code Annotation Section 67-4-2004(9)(A). The notice of assessment contends that Wells REIT did not meet this requirement from 2002 through 2004 and, based on this, owes additional taxes and interest of approximately $1.0 million. Accordingly, pursuant to FASB Statement No. 5, a reserve of $1.0 million has been provided for and recorded as general and administrative expenses in the accompanying consolidated financial statements. Effective July 1, 2006, the Tennessee Department of Revenue revoked the option for partnerships owned by REITs to deduct income or gains generated from properties located in the State of Tennessee, subject to certain limitations. As such, Wells REIT will accrue for future Tennessee excise taxes and, accordingly, has recognized additional tax expense of $0.1 million for the quarter ended September 30, 2006.

Consistent with other REITs that received similar notices, Wells REIT believes that it met the requirement for doing business in Tennessee from 2002 through 2004 based on the provisions of the law and by virtue of its general partnership interest in Wells OP, which has ownership in properties and interests in properties located in the State of Tennessee. Negotiations and discussions with the Tennessee Department of Revenue related to the intent and interpretation of the doing business in Tennessee requirement under the Tennessee franchise and excise laws are ongoing.

Litigation

Wells REIT is from time to time a party to legal proceedings, which arise in the ordinary course of its business. Wells REIT is not currently involved in any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on results of operations or financial condition. Wells REIT is not aware of any legal proceedings contemplated by governmental authorities.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our accompanying consolidated financial statements and notes thereto. See also Forward-Looking Statements preceding Part I, as well as the notes to our consolidated financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2005.

Liquidity and Capital Resources

Overview

From January 1998 through July 2004, we raised significant funds through the sale of our common stock in four public offerings. Proceeds from these sales of common stock, net of offering costs and other expenses, were used primarily to fund the acquisition of real estate properties and certain capital expenditures identified at the time of acquisition. Our fourth and final public offering closed in July 2004. Accordingly, we do not currently anticipate receiving significant proceeds from the sale of our common stock in the future. While we expect to continue to receive proceeds from the sale of shares issued under our dividend reinvestment plan, we expect to use a significant portion of those proceeds to fund redemptions of our common stock under our share redemption program.

We expect that our primary source of future cash flows will be cash flows generated from the operations of our properties and additional distributions from our unconsolidated joint ventures. The amount of future dividends to be paid to our stockholders will be largely dependent upon the amount of cash generated from our operating activities, our expectations of future cash flows, and our determination of near-term cash needs for capital improvements, tenant re-leasing, share redemptions, and debt repayments. Due to differences in the timing of cash receipts and cash payments for operations, we may periodically borrow funds on a short-term basis to meet our obligation to pay dividends declared. We also anticipate that we may be able to generate additional cash flows through the selective and strategic sale of certain of our operating properties and, from time to time, may return net proceeds from the sale of such properties to our stockholders in the form of special distributions.

Short-Term Liquidity and Capital Resources

During the nine months ended September 30, 2006, we generated net cash flows from operating activities of approximately $200.5 million, which is primarily comprised of receipts of rental income less payments for property operating costs, asset and property management fees, general and administrative expenses, and interest expense. From such net cash flows from operating activities and cash on hand, we paid dividends to stockholders of approximately $201.9 million. During the nine months ended September 30, 2006, net cash outflows from investing activities were approximately $143.5 million, primarily as a result of using approximately $169.3 million to acquire the 400 Bridgewater Building and Las Colinas Corporate Center and invest in capital expenditures at other buildings and approximately $20.7 million to pay leasing costs related to lease extensions, partially offset by net sales proceeds generated from the sale of the IRS Daycare Building and the Northrop Grumman Building of approximately $48.3 million.

During the nine months ended September 30, 2006, net cash outflows from financing activities were approximately $68.7 million, primarily as a result of paying dividends of approximately $201.9 million and redeeming common stock for approximately $173.6 million, partially offset by net new borrowings under our lines of credit and notes payable of $198.7 million and raising proceeds from the issuance of common stock under our dividend reinvestment plan of approximately $112.8 million. Subsequent to period end, we obtained long-term, fixed-rate debt of $42.5 million, the proceeds from which were used to repay draws made on our lines of credit to fund the acquisition of Las Colinas Corporate Center (see Note 5 to the accompanying consolidated financial statements).

We believe that cash on hand and tenant receivables are sufficient to cover our working capital needs, including accounts payable and accrued expenses, accrued capital expenditures, and cash due to affiliates of approximately $74.6 million. We expect to use substantially all of our future operating cash flows to pay dividends to stockholders and to use cash on hand and third-party borrowings to fund capital expenditures.

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 share redemptions, and the selective and strategic sale of properties.

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We anticipate that our primary future long-term liquidity requirements will include, but not be limited to, making scheduled debt service payments, and funding renovations, expansions, and other significant capital improvements for our properties. Specifically, over the next five years, we currently estimate funding capital expenditures necessary for the properties currently in our portfolio of approximately $380.7 million, which includes tenant improvements, leasing commissions, and building improvements.

We currently expect to use substantially all future net cash flows generated from operations to pay dividends and, therefore, expect to fund future capital expenditures for the properties currently in our portfolio primarily with proceeds from third-party borrowings. Proceeds raised from the sale of shares under our dividend reinvestment plan, in excess of amounts used to fund share redemptions, or from the sale of selected properties also may be utilized for capital improvements or expansion at our properties, or to fund or partially fund new property acquisitions.

While we do not believe that future cash flows provided by operations will be lower as a result of lower returns on properties, future dividends payable at current levels are not guaranteed. Our cash flows from operations depend significantly on market rents and the ability of our tenants to make rental payments. We believe that the diversity of our tenant base and the concentration in our portfolio of highly creditworthy tenants help to mitigate the risk of our tenants defaulting on their leases. However, general economic downturns, or downturns in one or more of our core markets, could adversely impact the ability of our tenants to make their lease payments and our ability to re-lease space on favorable terms when leases expire. In the event of either situation, our cash flows, and consequently our ability to meet capital needs, could adversely affect our ability to pay dividends in the future. As of October 31, 2006, we have approximately $111.4 million of current borrowing capacity under our existing credit facilities.

Contractual Commitments and Contingencies

As of September 30, 2006, our contractual obligations are as follows (in thousands):

	Payments Due During the Years Ending December 31,				
	Total	Remainder of 2006	2007-2008	2009-2010	Thereafter
Outstanding debt obligations[1]	$ 1,234,519	$ 641	$ 224,487	$ 2,783	$ 1,006,608
Operating lease obligations	65,066	141	1,127	1,193	62,605
Tenant/building improvements and lease commission obligations[2]	68,901	5,150	42,425	12,336	8,990
Total	$ 1,368,486	$ 5,932	$ 268,039	$ 16,312	$ 1,078,203

(1) Amounts include principal payments only. We made interest payments of $43.7 million during the nine months ended September 30, 2006 and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed herein and in our Annual Report on Form 10-K for the year ended December 31, 2005.

(2) Certain lease agreements include provisions that, at the option of the tenant, may obligate us to expend certain amounts of capital to expand an existing property, to construct on adjacent property, or to provide other expenditures for the benefit of the tenant (see Note 8 to the accompanying consolidated financial statements).

Results of Operations

Overview

As of September 30, 2006, we owned interests in 84 real estate properties that were approximately 95% leased. The operations of properties that have been sold are classified as discontinued operations in the accompanying consolidated statements of income for each of the periods presented (see Note 4 to the accompanying consolidated financial statements). Real estate operating income has increased slightly from the prior year, primarily as a result of acquiring properties and placing constructed properties into service in 2005 and 2006. Real estate operating income generated from properties owned as of the beginning of the periods presented has not changed significantly from 2005, primarily as a result of the stable nature of our portfolio. Rental revenues are generally based on long-term leases that do not allow for significant increases in rental income and do not expire in the near-term. Additionally, while we do not expect a significant increase in operating expenses at our properties, to the extent that operating expenses do increase, the majority of our in-place leases have clauses that require the tenants to bear the majority of the burden of any such increases. Absent significant changes in our financing structure or the size of our portfolio, we expect income from real estate operations to be comparable in future periods, as compared to the nine months ended September 30, 2006.

Comparison of the three months ended September 30, 2005 versus the three months ended September 30, 2006

Continuing Operations

Rental income increased from $108.4 million for the three months ended September 30, 2005 to $112.0 million for the three months ended September 30, 2006. Substantially all of this increase relates to properties acquired or developed subsequent to June 30, 2005. Tenant reimbursements remained relatively stable at $32.1 million for the three months ended September 30, 2005, as compared to $34.2 million for the three months ended September 30, 2006.

Lease termination income increased from $0 for the three months ended September 30, 2005 to approximately $8.4 million for the three months ended September 30, 2006. Lease termination income for the three months ended September 30, 2006 relates mainly to consideration received as a result of the Nokia lease terminated at the Nokia property and the HSBC Card Services lease terminated at the 10900 Wayzata Building. Lease termination income for the three months ended September 30, 2006 is not expected to be comparable to future periods, as such income will be dependent upon the execution of lease termination and/or modification agreements that are deemed to be in the best interest of the portfolio over the long-term.

Property operating expenses increased from $47.4 million for the three months ended September 30, 2005 to $50.5 million for the three months ended September 30, 2006. This increase relates primarily to increases in certain reimbursable expenses, including utilities, property taxes, and tenant-requested services, and additional costs related to properties acquired or developed subsequent to June 30, 2005. Tenant reimbursement income did not fluctuate commensurate with the increase in property operating costs, primarily due to changes in the amount of reimbursements for nonrecurring tenant-requested services and limitations and/or conditions under which such costs are reimbursable pursuant to the affected leases. Property operating costs represented approximately 34% and 35% of total rental income and tenant reimbursements for the three months ended September 30, 2005 and 2006, respectively.

Asset and property management fees increased from $6.7 million for the three months ended September 30, 2005 to $7.4 million for the three months ended September 30, 2006. This increase is primarily attributable to a change in the basis on which asset management fees are calculated, partially offset by an annualized reduction of $1.2 million for 2006 that was negotiated in connection with the renewal of our Asset Advisory Agreement in the second quarter of 2006 (see Note 7 to the accompanying consolidated financial statements). Asset management fees have been calculated for 2006 based on a fixed percentage of the fair market value, as defined, of Wells REIT s properties according to a net asset valuation performed as of September 30, 2005, as compared to the original purchase prices of such assets on which the asset management fees were based prior to 2006. Asset and property management fees as a percentage of total rental income and tenant reimbursements were approximately 5% for the three months ended September 30, 2005 and 2006. Absent changes in the size of our portfolio, we do not expect future asset and property management fees to fluctuate significantly.

Lease termination expense increased from approximately $0.06 million for the three months ended September 30, 2005 to approximately $2.7 million for the three months ended September 30, 2006, and represents the write-off of lease-related assets and liabilities associated with the lease terminations described above. We do not expect these charges to be comparable in future periods, as this expense will be dependent upon the execution of any such future agreements.

Depreciation expense increased from $22.0 million for the three months ended September 30, 2005 to $23.3 million for the three months ended September 30, 2006. Substantially all of this increase relates to properties acquired or developed subsequent to June 30, 2005. Depreciation expense represented approximately 16% of rental income and tenant reimbursements for the three months ended September 30, 2005 and 2006. Absent changes in the size or composition of our portfolio, we do not expect future depreciation expense to fluctuate significantly.

Amortization expense increased from $16.2 million for the three months ended September 30, 2005 to $16.7 million for the three months ended September 30, 2006. Substantially all of this increase relates to recognizing a full period of amortization for assets recorded in connection with properties acquired and re-leased during the periods presented. Absent changes in the composition of our leases with tenants, we do not expect future amortization expense to fluctuate significantly.

General and administrative expenses increased from $3.4 million for the three months ended September 30, 2005 to $5.0 million for the three months ended September 30, 2006. The increase in general and administrative expense was primarily attributable to Tennessee excise taxes (see Note 8 to the accompanying consolidated financial statements), as well as an increase in bad debt expense, net of recoveries, the majority of which was related to certain tenants at the 60 Broad Street New York Building. General and administrative expense represents approximately 2% and 3% of total rental and tenant reimbursement income for the three months ended September 30, 2005 and 2006, respectively. We do not anticipate that future general and administrative expenses will fluctuate significantly, absent changes to our portfolio size or investor base.

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Interest expense increased from $13.1 million for the three months ended September 30, 2005 to $15.6 million for the three months ended September 30, 2006 due to higher average borrowings outstanding and higher weighted-average interest rates during the third quarter of 2006, as compared to the third quarter of 2005. Absent additional borrowings or other changes to our financing structure, we expect that a significant portion of our future interest expense will be comparable to current amounts, as the majority of our borrowings are under long-term, fixed-rate debt facilities. As of September 30, 2006, $71.2 million, or 6% of our outstanding debt, includes variable-rate lines of credit, which have exposure to rising interest rates.

Interest and other income increased from $0.6 million for the three months ended September 30, 2005 to $0.9 million for the three months ended September 30, 2006. Interest income was greater for the three months ended 2006 primarily due to holding higher average cash balances as a result of withholding distributions to owners of the 35 West Wacker Building to fund near-term re-leasing costs (see Note 8 to the accompanying consolidated financial statements). The level of interest income in future periods will be primarily dependent upon the amount of operating cash on hand and is not expected to be consistent with the amount earned during the three months ended September 30, 2006.

Equity in income of unconsolidated joint ventures remained stable at $0.5 million for the three months ended September 30, 2005 and for the three months ended September 30, 2006. Absent future dispositions or unexpected changes in the operations of the underlying properties, we expect future equity in income of unconsolidated joint ventures to be comparable to equity in income of unconsolidated joint ventures recognized for the three months ended September 30, 2006.

Income from continuing operations per share remained relatively stable at $0.07 for the three months ended September 30, 2005 and 2006. Absent significant changes to our tenant base, credit quality, financing structure, or weighted-average common shares outstanding, we do not expect net income from continuing operations to fluctuate significantly in the near-term.

Discontinued Operations

We have classified the operations of properties sold as discontinued operations for all periods presented. Income from discontinued operations was approximately $0.8 million and $13.6 million for the three months ended September 30, 2005 and 2006, respectively, and represents operating activity generated prior to sale and the gain recognized on the sale of the Northrop Grumman Building (see Note 4 to the accompanying consolidated financial statements). We do not expect that income from discontinued operations will be comparable to future periods, as such income is subject to the timing and completion of future property dispositions.

Comparison of the nine months ended September 30, 2005 versus the nine months ended September 30, 2006

Continuing Operations

Rental income increased from $327.3 million for the nine months ended September 30, 2005 to $332.4 million for the nine months ended December 31, 2004. Substantially all of this increase relates to properties acquired or developed subsequent to December 31, 2005. Tenant reimbursements remained relatively stable at $95.8 million for the nine months ended September 30, 2005, as compared to $97.6 million for the nine months ended September 30, 2006.

Lease termination income increased from approximately $4.3 million for the nine months ended September 30, 2005, to approximately $9.8 million for the nine months ended September 30, 2006. Lease termination income for the nine months ended September 30, 2005 relates primarily to the termination of the Novartis lease at the Novartis Atlanta Building and the termination of the Motorola, Inc. lease at the River Corporate Center Building. Lease termination income for the nine months ended September 30, 2006 relates primarily to the termination of the Nokia lease at the Nokia property, the termination of the HSBC Card Services lease at the 10900 Wayzata Building, and the reduction of leased space at the Agilent Atlanta Building. Lease termination income for the nine months ended September 30, 2006 is not expected to be comparable to future periods, as such income will be dependent upon the execution of lease termination and/or modification agreements that are deemed to be in the best interest of the portfolio over the long-term.

Property operating expenses increased from $137.2 million for the nine months ended September 30, 2005 to $146.1 million for the nine months ended September 30, 2006. This increase relates primarily to increases in certain reimbursable expenses, including utilities, property taxes, and tenant-requested services, and additional costs related to properties acquired or developed subsequent to December 31, 2004. Tenant reimbursement income did not fluctuate commensurate with the increase in property operating costs, primarily due to changes in the amount of reimbursements for nonrecurring tenant requested services and limitations, and/or conditions under which such costs are reimbursable pursuant to the affected leases. Property operating costs represented approximately 32% and 34% of total rental income and tenant reimbursements for the nine months ended September 30, 2005 and 2006, respectively.

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Asset and property management fees increased from $20.6 million for the nine months ended September 30, 2005 to $22.0 million for the nine months ended September 30, 2006. This increase is primarily attributable to a change in the basis on which asset management fees are calculated, partially offset by an annualized reduction of $1.2 million for 2006 that was negotiated in connection with the renewal of the Asset Advisory Agreement with Wells Management in the second quarter of 2006 (see Note 7 to the accompanying consolidated financial statements). Asset management fees have been calculated for 2006 based on a fixed percentage of the fair market value, as defined, of our properties according to a net asset valuation performed as of September 30, 2005, as compared to the original purchase prices of such assets on which the asset management fees were based prior to 2006. Asset and property management fees as a percentage of total rental and tenant reimbursement income were approximately 5% for the nine months ended September 30, 2005 and 2006. Absent changes in the size of our portfolio, we do not expect future asset and property management fees to fluctuate significantly.

Lease termination expense increased from approximately $1.2 million for the nine months ended September 30, 2005 to approximately $4.2 million for the nine months ended September 30, 2006 and represents the write-off of lease-related assets and liabilities associated with the lease terminations described above. We do not expect these charges to be comparable in future periods, as this expense will be dependent upon the execution of any such future agreements.

Depreciation expense increased from $65.7 million for the nine months ended September 30, 2005 to $68.9 million for the nine months ended September 30, 2006. Substantially all of this increase relates to properties acquired or developed subsequent to December 31, 2004. Depreciation expense represented approximately 16% of rental income and tenant reimbursements for the nine months ended September 30, 2005 and 2006. Absent changes in the size or composition of our portfolio, we do not expect future depreciation expense to fluctuate significantly.

Amortization expense increased from $48.4 million for the nine months ended September 30, 2005 to $51.1 million for the nine months ended September 30, 2006. Substantially all of this increase relates to recognizing a full period of amortization for assets recorded in connection with properties acquired and re-leased during the periods presented. Absent changes in the composition of our leases with tenants, we do not expect future amortization expense to fluctuate significantly.

General and administrative expenses increased from $12.3 million for the nine months ended September 30, 2005 to $13.7 million for the nine months ended September 30, 2006. The increase in general and administrative expense was primarily attributable to Tennessee excise taxes (see Note 8 to the accompanying consolidated financial statements), as well as an increase in bad debt expense, net of recoveries, the majority of which was related to certain tenants at the 60 Broad Street New York Building. General and administrative expense represents approximately 3% of total rental and tenant reimbursement income for the nine months ended September 30, 2005 and 2006. We do not anticipate that general and administrative expenses will fluctuate significantly, absent changes to our portfolio size or investor base.

During the nine months ended September 30, 2005, we recognized an impairment loss of approximately $16.1 million as a result of reducing the intended holding period for the IRS Long Island Building. The decision to reduce the holding period was prompted by the loss of a prospective replacement tenant during the year ended June 30, 2005 for approximately all of the space that became available in July 2005, and the assessment of the leasing assumptions for this building, including market rents and the related costs and downtime necessary to complete the re-leasing. During the nine months ended September 30, 2006, we recognized a casualty loss of approximately $0.1 million, which represents the unrecoverable costs associated with fire damage at the 4250 North Fairfax Arlington Building.

Interest expense increased from $36.1 million for the nine months ended September 30, 2005 to $45.1 million for the nine months ended September 30, 2006 due to higher average borrowings outstanding and higher weighted-average interest rates during the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005. Absent additional borrowings or other changes to our financing structure, we expect that a significant portion of our future interest expense will be comparable to current amounts, as the majority of our borrowings are under long-term, fixed-rate debt facilities. As of September 30, 2006, $71.2 million, or 6% of our outstanding debt, includes variable-rate lines of credit, which have exposure to rising interest rates.

Interest and other income decreased from $5.1 million for the nine months ended September 30, 2005 to $1.9 million for the nine months ended September 30, 2006. Cash on hand was significantly greater during the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2006, due to holding net proceeds generated from the April 2005 27-property sale, which were distributed to our stockholders on June 14, 2005. The level of interest income in future periods will be primarily dependent upon the amount of operating cash on hand and is not expected to be consistent with the amount earned during the nine months ended September 30, 2005.

Equity in income of unconsolidated joint ventures decreased from $14.4 million for the nine months ended September 30, 2005 to $1.6 million for the nine months ended September 30, 2006. This decrease is primarily attributable to gains recognized on the sale of four unconsolidated joint ventures as a result of the April 2005 27-property sale during the six months ended June 30, 2005. Absent

future dispositions or unexpected changes in the operations of the underlying properties, we expect future equity in income of unconsolidated joint ventures to be comparable to equity in income of unconsolidated joint ventures recognized for the nine months ended September 30, 2006.

Income from continuing operations per share was $0.23 and $0.20 for the nine months ended September 30, 2005 and 2006, respectively. The decrease is primarily attributable to the gain recognized on the sale of properties owned through unconsolidated joint ventures included in the April 2005 27-property sale, the increase in interest expense, and the decrease in interest income described above, partially offset by the impairment loss recognized on the IRS Long Island Building in 2005. Absent significant changes to our tenant base, credit quality, financing structure, or weighted-average common shares outstanding, we do not expect net income from continuing operations to fluctuate significantly in the near-term.

Discontinued Operations

We have classified the operations of properties sold as discontinued operations for all periods presented. Income from discontinued operations was approximately $191.6 million and $16.4 million for the nine months ended September 30, 2005 and 2006, respectively, and represents operating activity generated prior to sale and gains recognized from the sales of the 23 wholly owned properties included in the April 2005 27-property sale, the IRS Daycare Building (sold in April 2006), and the Northrop Grumman Building (sold in July 2006) (see Note 4 to the accompanying consolidated financial statements). We do not expect that income from discontinued operations will be comparable to future periods, as such income is subject to the timing and completion of future property dispositions.

Funds From Operations

Funds from operations (FFO) is a non-GAAP financial measure and should not be viewed as an alternative measurement of our operating performance to net income. We believe that FFO is a beneficial indicator of the performance of an equity REIT. Specifically, FFO calculations exclude factors such as depreciation and amortization of real estate assets and gains or losses from sales of operating real estate assets. As such factors can vary among owners of identical assets in similar conditions based on historical cost accounting and useful-life estimates, FFO may provide a valuable comparison of operating performance between periods and with other REITs. Management believes that accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the use of FFO, together with the required GAAP presentation, provides a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities. We calculate FFO in accordance with the current National Association of Real Estate Investment Trust (NAREIT) definition. However, other REITs may not define FFO in accordance with the NAREIT definition, or may interpret the current NAREIT definition differently than we do.

As presented below, FFO is adjusted to exclude the impact of certain noncash items, such as depreciation, amortization, and gains on the sale of real estate assets. However, FFO is not adjusted to exclude the impact of impairment losses. Reconciliations of net income to FFO are presented below (in thousands):

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Net income	**$ 48,248**	$ 33,550	**$ 107,989**	$ 300,425
Add:				
Depreciation of real assets wholly owned	**23,311**	22,522	**69,632**	68,836
Depreciation unconsolidated partnerships	**363**	356	**1,081**	1,187
Amortization of lease-related costs	**18,036**	16,242	**52,867**	50,978
Amortization unconsolidated partnerships	**283**	295	**818**	937
Subtract:				
Gain on sale of properties wholly owned	**(13,434)**		**(14,618)**	(177,386)
Gain on sale of properties unconsolidated partnerships		8		(11,944)
FFO	**$ 76,807**	$ 72,973	**$ 217,769**	$ 233,033

Weighted-average shares outstanding	**459,656**	461,657	**461,554**	466,482

Set forth below is additional information related to certain significant cash and noncash items included in or excluded from net income above, which may be helpful in assessing our operating results. In addition, cash flows generated from FFO may be used to fund all

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or a portion of certain capitalizable items that are excluded from FFO, such as capitalized interest, tenant improvements, building improvements, and deferred lease costs. Please see the accompanying consolidated statements of cash flows for details of our operating, investing, and financing cash activities.

Noncash Items Included in Net Income:

In accordance with the NAREIT definition, nonrecurring charges that are not classified as extraordinary items, such as impairment losses, are included in the calculation of FFO. As such, the impairment loss on real estate assets of approximately $16.1 million, recognized in the second quarter of 2005 related to the IRS Long Island Building, is included in net income as well as FFO for the respective periods above. Impairment losses are noncash expenses and, accordingly, do not impact cash flows available for operating activities;

In accordance with GAAP, we recognized straight-line rental revenues of approximately $4.1 million and $5.0 million during the three months ended September 30, 2006 and 2005, respectively, and $10.6 million and $15.0 million for the nine months ended September 30, 2006 and 2005, respectively;

The amortization of deferred financing costs totaled approximately $0.4 million and $0.5 million for the three months ended September 30, 2006 and 2005, respectively, and $1.4 million and $1.4 million for the nine months ended September 30, 2006 and 2005, respectively; and

The amortization of above-market and below-market in-place leases recorded as a net increase/(decrease) to revenues in the accompanying consolidated statements of income totaled approximately ($0.5) million and $0.6 million for the three months ended September 30, 2006 and 2005, respectively, and $0.4 million and $1.1 million for the nine months ended September 30, 2006 and 2005, respectively.

Cash Item Excluded from Net Income:

Master lease payments under various lease arrangements are not reflected in our net income. Such payments of approximately $0.2 million and $1.0 million were received for the three months and nine months ended September 30, 2006, respectively, related to a property acquired during first quarter 2006 (see Note 2 to the accompanying consolidated financial statements). No master lease proceeds or agreements existed during calendar year 2005. Master lease proceeds are recorded as an adjustment to the basis of real estate assets during the period acquired and, accordingly, are not included in net income or FFO. We consider master lease proceeds when determining cash available for dividends to our stockholders.

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 adjusted REIT taxable income, computed without regard to the dividends-paid deduction and by excluding net capital gains attributable to our stockholders, as defined by the Code. As a REIT, we generally will not be subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we may be subject to federal income taxes on our taxable income and/or penalties, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT and intend to continue to operate in the foreseeable future in such a manner that we will remain qualified as a REIT for federal income tax purposes. No provision for federal income taxes has been made in our accompanying consolidated financial statements, as we made distributions in excess of taxable income for the periods presented. We are subject to certain state and local taxes related to the operations of properties in certain locations, which have been provided for in our accompanying consolidated financial statements.

Inflation

We are exposed to inflation risk, as income from long-term leases is the primary source of our cash flows from operations. There are provisions in the majority of our tenant leases that are intended to protect us from, and mitigate the risk of, the impact of inflation. These provisions include rent steps, reimbursement billings for operating expense pass-through charges, real estate tax and insurance reimbursements on a per-square-foot basis, or in some cases, annual reimbursement of operating expenses above a certain per-square-foot allowance. However, due to the long-term nature of the leases, the leases may not readjust their reimbursement rates frequently enough to fully cover inflation.

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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.

Investment in Real Estate Assets

We are required to make subjective assessments as to the useful lives of our depreciable assets. We consider the period of future benefit of the asset to determine the appropriate useful lives. These assessments have a direct impact on net income. The estimated useful lives of our assets by class are as follows:

Buildings	40 years
Building improvements	5-25 years
Land improvements	20-25 years
Tenant improvements	Shorter of economic life or lease term
Intangible lease assets	Lease term

Allocation of Purchase Price of Acquired Assets

Upon the acquisition of real properties, 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 estimated fair values.

The fair values of the tangible assets of an acquired property (which includes land and buildings) 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 are recorded based on the present value (using an interest rate that 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 noncancelable 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.

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.

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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, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the property s fair value and, therefore, could result in the misstatement of the carrying value of our real estate and related intangible assets and our net income. We have determined that there has been no material impairment in the carrying value of real estate assets held by us or any unconsolidated joint ventures at September 30, 2006.

Related-Party Transactions and Agreements

We have entered into agreements with our advisors, Wells Capital and Wells Management, and their affiliates whereby we pay certain fees and reimbursements to Wells Capital, or its affiliates, for asset advisory fees, acquisition and advisory fees, property management and leasing fees, sales commissions, dealer-manager fees, and reimbursement of operating costs. See Note 7 to our accompanying consolidated financial statements included herein for a discussion of the various related-party transactions, agreements, and fees.

Commitments and Contingencies

We are subject to certain commitments and contingencies with regard to certain transactions. Refer to Note 8 to our accompanying consolidated financial statements for further explanation. Examples of such commitments and contingencies include:

- Commitments Under Existing Lease Agreements
- Tennessee Excise Taxes
- Litigation

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on our indebtedness, which could impact our financial condition and results of operations. We manage our exposure to these market risks through our regular operating and financing activities. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flow, primarily through a low-to-moderate level of overall borrowings. Additionally, we manage our ratio of fixed- to floating-rate debt with the objective of achieving the most efficient mix between favorable rates and exposure to rate changes based on anticipated market conditions. We have and may from time to time enter into interest-rate swap agreements or interest-rate cap agreements to hedge our exposure to fluctuating interest rates. We do not anticipate any material changes in our exposure to interest rate fluctuations or in our management thereof. We intend to use derivative financial instruments as risk management tools and not for speculative or trading purposes.

All of our debt was entered into for other than trading purposes, and the fair value of our debt approximates its carrying amount.

As of September 30, 2006, substantially all of our outstanding debt is subject to fixed interest rates. Our total outstanding debt, including draws under our line of credit mentioned below, has an average interest rate of approximately 5.24% per annum with expirations ranging from 2007 to 2028. A change in the market interest rate impacts the net financial instrument position of our fixed-rate debt portfolio but has no impact on interest incurred or cash flows. Such agreements may result in higher fixed interest rates in certain periods of lower variable interest rates, but

are intended to decrease our exposure to potential increases in interest rates.

As of September 30, 2006, the draws outstanding under our $85 Million Secured Line of Credit and our $50.0 Million Secured Line of Credit are based on variable interest rates. As of September 30, 2006, the amounts outstanding under the lines of credit are $71.2 million and $0, respectively, and both facilities have a stated variable interest rate of LIBOR plus 1.5% per annum. To the extent that we borrow funds in the future under our variable-rate lines of credit, we would have exposure to increases in interest rates, which would potentially increase our cost of debt.

ITEM 4. CONTROLS AND PROCEDURES

Management s Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in applicable SEC rules and forms, including providing a reasonable level of assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no identified change in our internal control over financial reporting that occurred during the quarter ended September 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are from time to time a party to other legal proceedings, which arise in the ordinary course of our business. We are 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 our results of operations or financial condition, nor is management aware of any such litigation threatened against us during the quarter ended September 30, 2006 requiring disclosure under Item 103 of Regulation S-K.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) On July 18, 2006, we issued options to purchase 7,000 shares of common stock at an exercise price of $12.00 per share to our independent directors under our Independent Director Stock Option Plan. These options were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933.

(b) The fourth public offering of our common stock was closed on July 25, 2004. The Registration Statement relating to our dividend reinvestment plan (Commission File No. 333-114212) became effective on April 5, 2004. The initial sale of shares of our common stock pursuant to this Registration Statement occurred with respect to dividends declared and paid in September 2004. The net offering proceeds raised pursuant to the dividend reinvestment plan will be used for general corporate purposes, including, but not limited to, the acquisition of interests in additional properties or real estate investments, funding of tenant improvements, leasing commissions and other lease-up costs, repayment of debt, and funding of redemptions under our share redemption program.

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(c) During the quarter ended September 30, 2006, we redeemed shares pursuant to our share redemption program as follows (in thousands, except per-share amounts):

Period	Approximate Number of Shares Redeemed		Approximate Average Price Paid per Share		Maximum Approximate Dollar Value of Shares Available That May Yet Be Redeemed in Calendar Year 2006 Under the Plan
July 2006	1,336	$	8.38	$	34,595
August 2006	1,581	$	8.38	$	21,345
September 2006	137	$	8.38	$	20,198[1]

[1] The maximum dollar amount remaining as of September 30, 2006 for redemptions pursuant to our share redemption program in future periods is approximately $104.7 million, as life-to-date redemptions may not exceed life-to-date proceeds received under our dividend reinvestment plan. The total shares held by investors that are available for redemption during calendar year 2006 is approximately 23.3 million shares, which will be redeemed at a price equal to the lesser of (i) $10 per share or (ii) the purchase price per share actually paid, less in both instances any amounts previously distributed to stockholders attributable to net sales proceeds from the sale of our properties (currently $1.62 per share). Of these total shares available for redemption in calendar year 2006, our board of directors has made the determination that requests would not be fulfilled for ordinary redemptions for the remainder of calendar year 2006 after the completion of August 2006 share redemptions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) There were no defaults with respect to any of our indebtedness during the third quarter of 2006.

(b) Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) On July 18, 2006, we held our annual meeting of stockholders at The Atlanta Athletic Club in Duluth, Georgia.

(b) Our stockholders elected the following individuals to our board of directors: Leo Wells, III; Douglas Williams; Michael Buchanan; Richard Carpenter; Bud Carter; William Keogler; Donald Moss; Neil Strickland; and Wayne Woody. The board of directors also solicited proxies for the re-election of Walter W. Sessoms to the board. Mr. Sessoms passed away prior to the annual stockholders meeting and his name was withdrawn. The board of directors has not made a decision to fill the vacancy on the board.

(c) The above matter was approved by our stockholders at the annual meeting by the casting of the following votes:

Name	Votes For	Votes Withheld
Leo Wells, III	261,247,711	2,022,000
Douglas Williams	261,299,553	1,970,158
Michael Buchanan	261,343,843	1,925,868
Richard Carpenter	261,282,538	1,987,173
Bud Carter	261,265,226	2,004,485

William Keogler	261,295,535	1,974,176
Donald Moss	261,224,389	2,045,322
Neil Strickland	261,247,711	2,011,980
Wayne Woody	261,287,123	1,982,588

ITEM 5. OTHER INFORMATION

(a) During the third quarter of 2006, there was no information required to be disclosed in a report on Form 8-K which was not disclosed in a report on Form 8-K.

(b) There have been no material changes to the procedures by which stockholders may recommend nominees to our board of directors since the filing of our Schedule 14A.

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ITEM 6. EXHIBITS

The Exhibits required to be filed with this report are set forth on the Exhibit Index to Third Quarter Form 10-Q attached hereto.

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SIGNATURES

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

WELLS REAL ESTATE INVESTMENT TRUST, INC.

(Registrant)

Dated: November 7, 2006

By: /s/ DOUGLAS P. WILLIAMS
Douglas P. Williams

Executive Vice President, Director, and

Principal Financial Officer

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EXHIBIT INDEX

TO

THIRD QUARTER FORM 10-Q

OF

WELLS REAL ESTATE INVESTMENT TRUST, INC.

Exhibit Number	Description of Document
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.