

Wells Timber Real Estate Investment Trust, Inc.

Form S-11/A

July 24, 2006

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As filed with the Securities and Exchange Commission on July 24, 2006

Registration No. 333-129651

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Amendment No. 3
to
Form S-11
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

Wells Timber Real Estate Investment Trust, Inc.
(Exact name of registrant as specified in its governing instruments)

**6200 The Corners Parkway
Norcross, Georgia 30092-3365
(770) 449-7800**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Leo F. Wells, III
President
Wells Timber Real Estate Investment Trust, Inc.
6200 The Corners Parkway
Norcross, Georgia 30092-3365
(770) 449-7800**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

**Copy to:
Rosemarie A. Thurston
Lesley H. Solomon
Alston & Bird LLP
1201 West Peachtree Street
Atlanta, Georgia 30309
(404) 881-7000**

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

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

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

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

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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

SUBJECT TO COMPLETION, DATED JULY 24, 2006
WELLS TIMBER REAL ESTATE INVESTMENT TRUST, INC.
Maximum Offering of 85,000,000 Shares of Common Stock
Minimum Offering of 200,000 Shares of Common Stock

Wells Timber Real Estate Investment Trust, Inc. is a newly organized Maryland corporation formed primarily for the purpose of acquiring timberland properties in the timber-producing regions of the United States and, to a lesser extent, in timber-producing regions outside the United States. We were incorporated in the State of Maryland in September 2005 and intend to qualify as a REIT under the Internal Revenue Code of 1986, as amended, beginning with the taxable year that will end December 31, 2006. Because we have not yet identified any specific properties to purchase, we are considered to be a blind pool.

We are offering up to 75,000,000 shares of common stock in our primary offering for \$10.00 per share, with volume discounts available to investors who purchase more than 50,000 shares at any one time. Discounts are also available for other categories of purchasers as described in Plan of Distribution. We are also offering up to 10,000,000 shares to be issued pursuant to our distribution reinvestment plan at a purchase price equal to \$9.55 per share during our primary offering. We reserve the right to reallocate the shares of common stock we are offering between the primary offering and the distribution reinvestment plan.

This investment involves a high degree of risk. You should purchase these securities only if you can afford the complete loss of your investment. See Risk Factors beginning on page 15 to read about risks you should consider before buying shares of our common stock. These risks include the following:

There is no public trading market for our common stock. If you are able to sell your shares, you would likely have to sell them at a substantial discount from their public offering price.

We have no operating history, do not currently own any properties and have not identified any properties to acquire with the proceeds from this offering, which make our future performance and the performance of your investment difficult to predict.

If we raise substantially less than the maximum offering proceeds, we may not be able to invest in a diverse portfolio of properties, and the value of your investment may vary more widely with the performance of specific properties.

Our charter limits a person from owning more than 9.8% of our common stock without prior approval of our board of directors.

We are dependent upon our advisor and its affiliates to conduct our operations and this offering. Adverse changes in the financial health of our advisor or its affiliates or our relationship with them could cause our operations to suffer.

We will pay substantial fees and expenses to our advisor, its affiliates and participating broker/ dealers, which payments increase the risk that you will not earn a profit on your investment.

Our advisor and its affiliates will face conflicts of interest, including significant conflicts in allocating time among us and similar programs sponsored by our advisor.

Our failure to qualify as a REIT for federal income tax purposes would limit our ability to make distributions to our stockholders.

Neither the Securities and Exchange Commission, the Attorney General of the State of New York nor any other state securities regulator has approved or disapproved of our common stock, determined if this prospectus is truthful or complete or passed on or endorsed the merits of this offering. Any representation to the contrary is a criminal offense. The use of projections or forecasts in this offering is prohibited. No one is permitted to make any oral or written predictions about the cash benefits or tax consequences you will receive from your investment.

| | Price to Public* | Selling Commissions* | Dealer- Manager Fee* | Net Proceeds (Before Expenses) |
|--------------------------------|---------------------|-------------------------|----------------------------|--------------------------------------|
| Primary Offering | | | | |
| Per Share | \$ 10.00 | \$ 0.70 | \$ 0.18 | \$ 9.12 |
| Total Minimum | 2,000,000 | 140,000 | 36,000 | 1,824,000 |
| Total Maximum | \$ 750,000,000 | \$ 52,500,000 | \$ 13,500,000 | \$ 684,000,000 |
| Distribution Reinvestment Plan | | | | |
| Per Share | 9.55 | | | 9.55 |
| Total Maximum | \$ 95,500,000 | \$ | \$ | \$ 95,500,000 |

* The selling commissions and all or a portion of the dealer-manager fee will not be charged with regard to shares sold in our primary offering to or for the account of certain categories of purchasers. The reduction in these fees will be accompanied by a corresponding reduction in the per share purchase price. See Plan of Distribution.

The dealer-manager of this offering, Wells Investment Securities, Inc., which is our affiliate, is not required to sell any specific number or dollar amount of shares but will use its best efforts to sell the shares offered. The minimum permitted purchase is generally \$5,000. We will not sell any shares unless we raise a minimum of \$2,000,000 of gross offering proceeds by _____, 2007 (one year from the date of this prospectus). Pending satisfaction of the minimum offering threshold, all subscription payments will be placed in an escrow account held by the escrow agent, U.S. Bank, National Association, in trust for the subscribers benefit, pending release to us. If we do not raise at least \$2,000,000 by _____, 2007, we will return all funds in the escrow account (including interest) and we will stop selling shares. This offering will terminate no later than _____, 2008.

WELLS INVESTMENT SECURITIES, INC.

, 2006

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SUITABILITY STANDARDS

The shares we are offering are suitable only as a long-term investment. Because there is no public market for the shares, you will have difficulty selling your shares. In consideration of these factors, we require initial stockholders and subsequent purchasers to have either:

a net worth of at least \$150,000; or

gross annual income of at least \$45,000 and a net worth of at least \$45,000.

In addition, we will not sell shares to investors in the states named below unless they meet special suitability standards.

Arizona, California, Iowa, Kansas, Michigan, Missouri, North Carolina, Tennessee and Texas Investors must have either (1) a net worth of at least \$225,000, or (2) gross annual income of at least \$60,000 and a net worth of at least \$60,000.

Kansas In addition to the suitability requirements described above for the state of Kansas, the state of Kansas recommends that your aggregate investment in us and similar direct participation investments should not exceed 10% of your liquid net worth, which is defined as that portion of net worth which consists of cash, cash equivalents and readily marketable securities.

Maine Investors must have either (1) a net worth of at least \$200,000 or (2) a net worth of at least \$50,000 and an annual gross income of at least \$50,000.

Massachusetts and Ohio Investors must have either (1) a net worth of at least \$250,000 or (2) a net annual income of at least \$70,000 and net worth of at least \$70,000. In either case, your investment in us may not exceed 10% of your liquid net worth.

Pennsylvania In addition to our suitability requirements, investors must have a net worth of at least 10 times their investment in us.

For purposes of determining suitability of an investor, net worth in all cases should be calculated excluding the value of an investor's home, furnishings and automobiles. In the case of sales to fiduciary accounts, these suitability standards must be met by the fiduciary account, by the person who directly or indirectly supplied the funds for the purchase of the shares if such person is the fiduciary or by the beneficiary of the account.

Those selling shares on our behalf must make every reasonable effort to determine that the purchase of shares in this offering is a suitable and appropriate investment for each stockholder based on information provided by the stockholder regarding the stockholder's financial situation and investment objectives. See Plan of Distribution Stockholder Suitability for a detailed discussion of the determinations regarding suitability that we require of all those selling shares on our behalf.

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| <u>Our advisor has very limited experience acquiring, owning and managing timberland</u> | 16 |
| <u>We expect our real estate investments to be concentrated in timberland properties, making us more vulnerable economically than if our investments were diversified</u> | 16 |
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| <u>Our operating performance could suffer if Wells Capital incurs significant losses, including those losses that may result from being the general partner of other entities</u> | 18 |
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| <u>Wells Capital and its affiliates, including our officers and two of our directors, will face conflicts of interest caused by compensation arrangements with us and other Wells-sponsored programs, which could result in actions that are not in the long-term best interests of our stockholders. The amounts payable to Wells Capital upon termination of the advisory agreement may also influence decisions about terminating Wells Capital or our acquisition or disposition of investments.</u> | 19 |
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PROSPECTUS SUMMARY

This summary highlights material information contained elsewhere in this prospectus. Because it is a summary, it may not contain all of the information that is important to you. To understand this offering fully, you should read the entire prospectus carefully, including the Risk Factors section, before making a decision to invest in our common stock.

Wells Timber Real Estate Investment Trust, Inc.

Wells Timber Real Estate Investment Trust, Inc. is a newly organized Maryland corporation formed for the purpose of acquiring timberland properties in the timber-producing regions of the United States. Our portfolio may also include, to a limited extent, investments in timberland located in other countries.

We intend to generate a substantial majority of our revenue and income by selling to third parties the right to access our land and harvest our timber, primarily pursuant to supply agreements and through open market sales. We also anticipate generating revenue and income from selling timberland considered by third parties to have a higher and better use, leasing land-use rights, and permitting others to extract natural resources other than timber.

We were incorporated in Maryland on September 27, 2005 and intend to qualify as a real estate investment trust, or REIT, commencing with the taxable year ending December 31, 2006. We have no paid employees and are externally advised and managed by Wells Capital, Inc., which we refer to as our advisor.

Our Advisor

Wells Capital is our advisor. Since its incorporation in Georgia on April 20, 1984, Wells Capital has sponsored or advised public real estate programs on an unspecified property, or blind pool basis, that have raised approximately \$8.0 billion of equity from approximately 223,000 investors.

We have entered into an advisory agreement with Wells Capital under which Wells Capital will manage our daily affairs and make recommendations to our board of directors on all property acquisitions. Leo F. Wells, III, Douglas P. Williams, Randall D. Fretz, Donald A. Miller and Robert E. Bowers, as officers of our advisor, will make most of the decisions regarding which investments will be recommended for us. Our board of directors must approve or reject all proposed property acquisitions. Wells Capital will also provide asset management, marketing, investor relations and other administrative services on our behalf. Wells Capital and Leo F. Wells, III, who controls Wells Capital, are our sponsors.

Investment Objectives

Our primary investment objectives are:

to provide current income to you through the payment of cash distributions;

to preserve and return your capital contributions; and

to realize capital appreciation upon the ultimate sale of our assets.

See the Business and Policies section of this prospectus for a more complete description of our investment policies and the investment restrictions imposed by our charter.

Summary Risk Factors

An investment in our shares involves significant risk, including the following:

There is no public trading market for our common stock. If you are able to sell your shares, you would likely have to sell them at a substantial discount from their public offering price.

We have no operating history, do not currently own any properties, and have not identified any properties to acquire with the proceeds from this offering. In addition, neither we nor our advisor

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has substantial experience investing in timberland properties. These factors make our future performance and the performance of your investment difficult to predict.

If we raise substantially less than the maximum offering proceeds, we may not be able to invest in a diverse portfolio of properties, and the value of your investment may vary more widely with the performance of specific properties.

We are dependent upon our advisor and our dealer-manager to conduct our operations and this offering. Adverse changes in the financial health of our advisor or dealer-manager, or our relationship with them could cause our operations to suffer.

We will pay substantial fees and expenses to our advisor, its affiliates and participating broker/ dealers, which payments increase the risk that you will not earn a profit on your investment. The fees payable to our advisor during our operational stage are not based on the performance of our investments.

Our advisory agreement was not negotiated on an arm's-length basis and it is possible that an unaffiliated third party would provide similar services at a lower cost. Because our advisory agreement must be renewed on an annual basis, the fees and expenses that we pay to our advisor may be increased in future renewals.

Our advisor and its affiliates will face conflicts of interest relating to (1) allocating time among us and other programs sponsored by our advisor, and (2) the compensation arrangements between our advisor and other Wells programs which may incent our advisor to act other than in our best interest.

Our failure to qualify as a REIT for federal income tax purposes would limit our ability to make distributions to our stockholders.

Our Corporate Structure

We expect to own substantially all of our properties and other investments through our operating partnership, Wells Timber Operating Partnership, L.P. (Wells Timber OP). Wells Timber OP was formed in November 2005 to acquire properties on our behalf. We are the sole general partner of Wells Timber OP and own 99% of its common units. Wells Capital is the sole limited partner of Wells Timber OP and owns the remaining 1% of the common units. As a result of this structure, we are considered an UPREIT, or Umbrella Partnership Real Estate Investment Trust.

The UPREIT structure is used because a sale of property directly to the REIT is generally a taxable transaction to the selling property owner. In an UPREIT structure, a seller of a property who desires to defer taxable gain on the sale of his property may transfer the property to the UPREIT in exchange for common units in the UPREIT and defer taxation of gain until the seller later sells or exchanges his common units. Using an UPREIT structure may give us an advantage in acquiring desired properties from persons who may not otherwise sell their properties because of unfavorable tax results. At present, we have no plans to acquire any specific properties in exchange for common units of Wells Timber OP.

Wells Capital also owns 100 special units in Wells Timber OP, representing 100% of this class of limited partnership interest. The special units entitle Wells Capital to receive certain distributions and redemption payments described under Compensation of our Advisor and its Affiliates only in the event that certain performance-based conditions are satisfied at the time such amounts become payable. The special units do not entitle the holder to any of the rights of a holder of common units, including the right to regular distributions from operations.

Wells Timber TRS, Inc. is a wholly owned subsidiary of Wells Timber OP. We have elected for Wells Timber TRS to be a taxable REIT subsidiary, or TRS. A TRS is a fully taxable corporation that may earn income that would not be qualifying REIT income if earned directly by us. Our use of a TRS will enable us to engage in non-REIT qualifying business activities, such as the sale of higher and better

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use properties. We do not anticipate that a substantial portion, if any, of our income will be earned by our TRS.

The following chart shows the relationship among us and our subsidiaries and the ownership structure of the Wells entities that perform important services for us.

Conflicts of Interest

Wells Capital, as our advisor, will experience conflicts of interest in connection with the management of our business affairs, including the following:

Wells Capital and its affiliates will have to allocate their time between us and other real estate programs and activities in which they are involved;

Wells Capital and its affiliates will receive fees regardless of the quality or performance of the investments acquired or the services provided to us;

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The compensation arrangements between Wells Capital and its affiliates and other Wells programs may incent our advisor and its affiliates to act other than in our best interest; and

The advisory agreement between Wells Capital and us was not negotiated on an arm's-length basis and it is possible that an unaffiliated third party would provide similar services at a lower cost.

Because our advisory agreement must be renewed on an annual basis, the fees and expenses that we pay may be increased in future renewals.

All of our officers and two of our directors, Leo F. Wells, III and Douglas P. Williams, will also face these conflicts because of their affiliation with Wells Capital. Wells Real Estate Investment Trust, Inc., which we refer to as Wells REIT I, and Wells Real Estate Investment Trust II, Inc., which we refer to as Wells REIT II, are separate REITs from us. However, Wells Capital, Inc., serves as our advisor as well as the advisor to Wells REIT I and Wells REIT II. In addition, all of our officers serve as officers of Wells REIT I and Wells REIT II, and three of our directors, including Donald S. Moss one of our independent directors, serve as directors of Wells REIT I and Wells REIT II. See the **Conflicts of Interest** section of this prospectus for a detailed discussion of the various conflicts of interest relating to your investment, as well as the procedures that we have established to mitigate a number of these potential conflicts.

Table of Contents**Compensation of the Advisor and its Affiliates**

Wells Capital and its affiliates will receive compensation and reimbursement for services relating to this offering and the investment and management of our assets. In addition, Wells Capital has received partnership units in our operating partnership, Wells Timber OP, constituting a separate series of partnership interests with special distribution and redemption rights, which we refer to as the special units. The most significant items of compensation, fees, expenses and other payments that we expect to pay to Wells Capital and its affiliates are included in the table below. The selling commissions and dealer-manager fee may vary for different categories of purchasers. See Plan of Distribution. This table assumes the shares are sold through distribution channels associated with the highest possible selling commissions and dealer-manager fees and assumes a \$9.55 price for each share sold through our distribution reinvestment plan, which is the price at which the shares will be sold during this offering.

| Type of Compensation | Determination of Amount | Estimated Amount for Maximum Offering (85,000,000 Shares) |
|--|---|--|
| | <i>Offering Stage</i> | |
| Selling Commissions | 7.0% of gross offering proceeds from the primary offering; all selling commissions will be reallocated to participating broker/dealers. | \$52,500,000 |
| Dealer-Manager Fee | Up to 1.8% of gross offering proceeds from the primary offering; a portion of the dealer-manager fee will be reallocated to participating broker/dealers. | \$13,500,000 |
| Other Organization and Offering Expenses | Up to 1.2% of gross offering proceeds from the primary offering. Wells Capital will incur or pay our organization and offering expenses (excluding selling commissions and the dealer-manager fee). We will then reimburse Wells Capital for these amounts up to 1.2% of gross offering proceeds from the primary offering. | \$9,000,000 |
| | <i>Operational Stage</i> | |
| Asset Management Fees | Monthly fee equal to one-twelfth of 1.25% of the greater of the cost or value of investments. | Actual amounts are dependent upon the total equity capital we raise and the results of our operations; we cannot determine these amounts at this time. |
| Other Operating Expenses | Reimbursement of our advisor's cost of providing services to us other than personnel costs relating to services for which our advisor | Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at |

| | | |
|------------------------------|---|---|
| Real Estate Disposition Fees | <p>earns real estate disposition fees.</p> <p><i>Liquidity Stage</i></p> <p>Up to 2.0% of the contract price for any property sold for \$20.0 million or less and up to 1.0% of the contract price for any property sold for more than \$20.0 million, in each case as determined by our board of directors (including a majority of our independent directors) based on market norms for the services provided.</p> | <p>this time.</p> <p>Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time.</p> |
|------------------------------|---|---|

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| Type of Compensation | Determination of Amount | Estimated Amount for Maximum Offering (85,000,000 Shares) |
|--|---|---|
| Special Unit Distribution of Net Sales Proceeds | <p>After we have made distributions to our stockholders (including amounts paid to redeem shares pursuant to our share redemption plan) equal to, in the aggregate, a return of the total amount of capital raised from stockholders plus a cumulative, noncompounded return on the average invested capital of 7.0% per year, then Wells Capital is entitled to receive a distribution equal to the difference between (1) 10% of the aggregate net sales proceeds through the date of distribution and (2) the total amount of all prior distributions of net sales proceeds paid to Wells Capital.</p> <p>Notwithstanding the foregoing, after we have made distributions to our stockholders (including amounts paid to redeem shares pursuant to our share redemption plan) equal to, in the aggregate, a return of the total amount of capital raised from stockholders plus a cumulative, noncompounded return on the average invested capital of at least 8.0% per year, then Wells Capital is entitled to receive a distribution equal to the difference between (1) 20% of the aggregate net sales proceeds through the date of distribution and (2) the total amount of all prior distributions of net sales proceeds paid to Wells Capital.</p> | <p>Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time.</p> |
| Special Unit Redemption Payment Due Upon Listing (payable only if our shares are listed on a national securities exchange) | <p>Upon the listing of our shares on a national securities exchange, the special units will be redeemed for cash or shares of our common stock, at our election. If (1) the market value of our outstanding common stock at listing plus the</p> | <p>Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time.</p> |

total distributions paid to stockholders prior to listing exceeds (2) the sum of the total amount of capital raised from stockholders (less amounts paid to redeem shares pursuant to our share redemption plan) and an amount of cash that, if distributed to the stockholders as of the date of listing, would have provided them with a cumulative, noncompounded return on the average invested capital equal to 7.0% per year, then the redemption payment will equal 10% of such excess amount.

Notwithstanding the foregoing, if (1) the market value of our common stock at listing plus the total distributions paid to stockholders prior to listing exceeds (2) the sum of the

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| Type of Compensation | Determination of Amount | Estimated Amount for Maximum Offering (85,000,000 Shares) |
|----------------------|--|---|
| | total amount of capital raised from stockholders (less amounts paid to redeem shares pursuant to our share redemption plan) and an amount of cash that, if distributed to the stockholders as of the date of listing, would have provided them with a cumulative, noncompounded return on the average invested capital equal to 8.0% per year, then the redemption payment will equal 20% of such excess amount. | |

Upon termination of the advisory agreement without cause, Wells Capital may also be entitled to a redemption payment similar to the special unit redemption payment due upon listing above. In the event that Wells Capital receives a special unit redemption payment in connection with a listing, it will no longer be eligible to receive the special unit redemption payment due upon termination or the special unit distribution of net sales proceeds. Similarly, in the event that Wells Capital receives a redemption payment in connection with the termination of the advisory agreement without cause, it will no longer be eligible to receive the special unit redemption payment due upon listing or the special unit distribution of net sales proceeds. The fees payable to our advisor during our operational stage are not based on the performance of our investments. See Management Compensation, The Operating Partnership Agreement, Plan of Distribution and Conflicts of Interest for a more detailed description of the fees and expenses payable to our advisor, our dealer-manager and their affiliates and conflicts of interest related to these arrangements.

Description of Investments

We currently do not own any properties. We expect to use substantially all of the net proceeds from this offering to acquire timberland properties in the timber-producing regions of the United States, which include the states in the Appalachian, Great Lakes, Northeastern, Northwestern and Southeastern regions. Our portfolio may also include, to a limited extent, investments in timberland located in other countries. We may also invest in entities that own timberland and make or acquire other types of real estate investments, provided that such other investments are consistent with the preservation of our status as a REIT. Because we have not yet identified any specific properties to purchase, we are considered to be a blind pool.

Our advisor will strive to diversify our portfolio by maturity of the growth stages of the forest. In order to achieve our income objective, the timberland portfolio will, at least initially, be weighted heavily towards more mature forests with a smaller weighting to younger forests. The portfolio also will be diversified geographically, by timber species, by hardwood/softwood and by milling sub-market. We may also attempt to diversify our portfolio of timberland properties by investing in joint ventures with entities that have complementary investment objectives.

Timber Managers

Although our advisor may directly select our investments in timberland, our advisor intends, but is not required, to engage experienced timber management companies (which we refer to collectively as timber managers), including those affiliated with our advisor, to advise it with respect to selection of our timberland investments, and to perform certain management services for our timberland investments on behalf of our advisor. These timber managers will perform their duties pursuant to contracts with our advisor. Our advisor will pay the timber managers all of the fees and expense reimbursements to which they are entitled under their contracts with the advisor. We will not be obligated

to pay any fees or expense reimbursements to the timber managers.

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Sources of Income

We intend to generate income primarily by selling to third parties the right to access our land and harvest our timber primarily pursuant to supply agreements and through open market sales. We also anticipate generating revenue by leasing our timberland for certain activities such as extracting underground natural resources, pine straw collection, recreational uses (hunting, fishing, etc.) and other land use rights. In addition, we will continually review our timberland portfolio to identify properties to sell that may have higher and better uses than as commercial timberland. We do not expect that our higher and better use property sales will generate a substantial portion of our revenue and income.

Board of Directors and Executive Officers

We have a six-member board of directors, four of whom are independent of Wells Capital. All of our officers and two of our directors, Leo F. Wells, III and Douglas P. Williams, are affiliated with Wells Capital, and one of our independent directors, Donald S. Moss, serves on the boards of other Wells-sponsored programs. Our charter, which requires that a majority of our directors be independent of Wells Capital, provides that our board may establish committees consisting of at least a majority of our independent directors. Our board of directors is responsible for reviewing the performance of Wells Capital and must approve other matters set forth in our charter. See [Conflicts of Interest](#) [Certain Conflict Resolution Procedures](#). Our directors are elected annually by the stockholders. See [Management](#) [Executive Officers and Directors](#) for a description of the experience of each of our current executive officers and directors.

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QUESTIONS AND ANSWERS ABOUT THE OFFERING

What is a REIT?

In general, a REIT is a company that:

combines the capital of many investors to acquire or provide financing for real estate properties;

allows individual investors to invest in a large-scale diversified real estate portfolio through the purchase of interests, typically shares, in the REIT;

is required to pay distributions to investors of at least 90% of its annual REIT taxable income (computed without regard to the dividends paid deduction and excluding net capital gain); and

avoids the double taxation treatment of income that would normally result from investments in a corporation because a REIT does not generally pay federal corporate income taxes on the net income it distributes, provided certain income tax requirements are satisfied.

However, REITs are subject to numerous organizational and operational requirements. If we fail to qualify for taxation as a REIT in any year, our income will be taxed at regular corporate rates, and we may be precluded from qualifying for treatment as a REIT for the four-year period following our failure to qualify. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

What will you do with the money raised in this offering?

We intend to use substantially all of the net proceeds from this offering to acquire timberland properties in the timber-producing regions of the United States. Our portfolio also may include investments in timberland located in other countries. Depending primarily upon the number of shares we sell in this offering and assuming a \$9.55 per share price for shares sold under our distribution reinvestment plan, we estimate for each share sold in this offering that between \$9.00 and \$9.11 per share will be available for our investments and the repurchase of shares under our proposed share redemption program. We will use the remainder of the offering proceeds to pay the costs of the offering, including selling commissions and the dealer-manager fee, and to pay a fee to our advisor for its services in connection with the selection, acquisition and management of properties. We expect to use substantially all of the net offering proceeds from the sale of shares under our distribution reinvestment plan to repurchase our common stock pursuant to our proposed share redemption program.

Until we invest the proceeds of this offering in real estate assets, we may invest in short-term, highly liquid or other authorized investments. Such short-term investments will not earn as high a return as we expect to earn on our real estate investments, and we may be not be able to invest the proceeds in real estate assets promptly.

What kind of offering is this?

We are offering up to 85,000,000 shares of common stock on a best efforts basis. We are offering up to 75,000,000 shares of our common stock in our primary offering at \$10.00 per share, with discounts available for certain categories of purchasers as described in Plan of Distribution below. We are also offering 10,000,000 shares of common stock under our distribution reinvestment plan at \$9.55 per share during the primary offering. We may reallocate the total number of shares we are offering between the primary offering and the distribution reinvestment plan.

If we achieve the \$2,000,000 minimum offering by selling 200,000 shares at \$10.00 per share, the shares sold in this offering would represent 90.9% of our outstanding shares. If we sell the maximum offering of 85,000,000 shares, including the shares offered pursuant to our distribution reinvestment plan, the shares sold in this offering would represent 99.976% of our outstanding shares.

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How does a best efforts offering work?

When shares are offered on a best efforts basis, the broker/ dealers participating in the offering are only required to use their best efforts to sell the shares and have no firm commitment or obligation to purchase any of the shares.

Therefore, we may not sell all or any of the shares that we are offering.

How long will this offering last?

This offering will not last beyond _____, 2008 (two years from the date of this prospectus). However, we may continue to offer shares under our distribution reinvestment plan beyond that date and until we have sold the shares allocated pursuant to this offering for purchase pursuant to the plan. In some states, we may not be able to continue the offering for these periods without renewing the registration statement or filing a new registration statement. We may terminate this offering at any time.

Who can buy shares?

Generally, you can buy shares only pursuant to this prospectus if you have either (1) a net worth of at least \$45,000 and an annual gross income of at least \$45,000, or (2) a net worth of at least \$150,000. For this purpose, net worth does not include your home, home furnishings or personal automobiles. These minimum levels are higher in certain states, so you should carefully read the more detailed description under Suitability Standards on page i of this prospectus.

For whom is an investment in our shares recommended?

An investment in our shares may be appropriate for you if you meet the minimum suitability standards mentioned above, seek to diversify your personal portfolio with a real estate based investment, seek to receive current income through our payment of distributions, seek to preserve your capital contribution, wish to obtain the benefits of potential long-term capital appreciation and are able to hold your investment for a time period consistent with our liquidity plans. We cannot guarantee that we will achieve any of these objectives.

Are there any special restrictions on the ownership or transfer of shares?

Yes. Our charter contains restrictions on the ownership of our shares that prevent any one person from owning more than 9.8% in value of the aggregate of our outstanding shares, or more than 9.8% (in value or in number of shares, whichever is more restrictive) of the aggregate of our outstanding common shares, unless exempted by our board of directors. See Description of Shares Restriction on Ownership of Shares. Our charter also limits your ability to transfer your shares to prospective stockholders unless (i) they meet suitability standards regarding income or net worth, which is described under Suitability Standards on page i of this prospectus, and (ii) the transfer complies with minimum purchase requirements, which are described at Plan of Distribution Minimum Purchase Requirements.

Are there any special considerations that apply to employee benefit plans subject to ERISA or other retirement plans that are investing in shares?

Yes. The section of this prospectus entitled ERISA Considerations describes the effect the purchase of shares will have on individual retirement accounts and retirement plans subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Internal Revenue Code. ERISA is a federal law that regulates the operation of certain tax-advantaged retirement plans. Any retirement plan trustee or individual considering purchasing shares for a retirement plan or an individual retirement account should read this section of the prospectus very carefully.

Is there any minimum investment required?

Yes. For your initial purchase of our shares, you must generally invest at least \$5,000. Once you have satisfied the minimum purchase requirement, any additional purchases of our shares must be in amounts

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of at least \$100, except for additional purchases pursuant to our distribution reinvestment plan. The minimum investment levels may be higher in certain states, so you should carefully read the more detailed description under Plan of Distribution Minimum Purchase Requirements.

How do I subscribe for shares?

If you choose to purchase shares in this offering, you will need to fill out a subscription agreement, like the one contained in this prospectus as Appendix A, for a specific number of shares and pay for the shares at the time you subscribe.

What happens if you do not raise a minimum of \$2,000,000 in this offering?

We will not sell any shares unless we raise a minimum of \$2,000,000 of gross offering proceeds by _____, 2007 (one year from the date of this prospectus). Purchases by our directors, our officers, our advisor or their affiliates will not count toward meeting this minimum threshold. Also, because of the higher minimum offering requirement for Pennsylvania investors (described below), subscription payments made by Pennsylvania investors will not count toward the \$2,000,000 minimum offering for all other jurisdictions. Pending satisfaction of the minimum offering threshold, all subscription payments will be placed in an escrow account held by the escrow agent, U.S. Bank National Association, for subscribers benefit, pending release to us. If we do not raise a minimum of \$2,000,000 in this offering before _____, 2007, we will terminate the offering and stop selling shares. In such event, the escrow agent will promptly return your funds, including interest. Funds in escrow will be invested in short-term investments that mature in three months or less.

Notwithstanding our minimum offering of \$2,000,000 in gross offering proceeds, we will not sell any shares to Pennsylvania investors unless we raise a minimum of \$37,500,000 in gross offering proceeds (including sales made to residents of other jurisdictions). Pending satisfaction of this condition, all Pennsylvania subscription payments will be placed in an account held by the escrow agent, U.S. Bank National Association, in trust for Pennsylvania subscribers benefit, pending release to us. If we have not reached this \$37,500,000 threshold within 120 days of the date that we first accept a subscription payment from a Pennsylvania investor, we will, within 10 days of the end of that 120-day period, notify Pennsylvania investors in writing of their right to receive refund with interest and without deductions for expenses. If you request a refund within 10 days of receiving that notice, we will arrange for the escrow agent to return promptly by check the funds deposited in the Pennsylvania escrow account and any interest to you. Amounts held in the Pennsylvania escrow account from Pennsylvania investors not requesting a refund will continue to be held for subsequent 120-day periods until we raise at least \$37,500,000 or until the end of the subsequent escrow periods. At the end of each subsequent escrow period, we will again notify you of your right to receive refunds with interest and without deductions for expenses from the day after the expiration of the initial 120-day period.

What are your exit strategies?

We presently intend to effect a transaction that will provide liquidity to all of our holders of common stock within five to seven years from the completion of our offering stage, which we will view as complete upon the termination of our last public equity offering prior to the listing of our shares on a national securities exchange. However, there can be no assurance that we will effect such a liquidity event within this period or at all. Our board of directors expects to make a preliminary determination regarding our liquidity event no later than five years after the completion of our offering stage. The board's decision regarding when, and if we effect a liquidity event may include, but is not limited to:

listing our common stock on a national securities exchange; or

sale or merger in a transaction that provides our stockholders with cash and/or securities of a publicly traded company.

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In making the decision as to which exit strategy to pursue, our board of directors will try to determine which transaction would result in greater long-term value for our stockholders. We cannot determine at this time the circumstances, if any, under which our board of directors will determine to list our shares on a national securities exchange. However, if we do not list our shares of common stock on a national securities exchange by _____, 2018 (10 years from the currently anticipated date of completion of our offering stage), our charter requires that we either:

seek stockholder approval of an extension or amendment of this listing deadline; or

commence an orderly liquidation.

If our shares are not listed before _____, 2018, we are under no obligation to actually sell our portfolio within a specified period of time since the precise timing of the sale will depend upon real estate and financial markets, economic conditions of the areas in which the properties are located, and U.S. federal income tax effects on stockholders that may be applicable in the future. Furthermore, we cannot assure you that we will be able to liquidate our assets, and it should be noted that we will continue in existence until all of our assets are liquidated.

If I buy shares in this offering, how may I later sell them?

At the time you purchase the shares, they will not be listed for trading on a national securities exchange. In fact, there will not be any public market for the shares when you purchase them, and we cannot be sure if one will ever develop. In addition, our charter imposes restrictions on the ownership of our common stock, which will apply to potential purchasers of your stock. As a result, you may find it difficult to find a buyer for your shares and realize a return on your investment. See Description of Shares Restriction on Ownership of Shares.

After you have held your shares for at least one year, you may be able to have your shares repurchased by us pursuant to our proposed share redemption plan. For at least the first 12 months following this offering, the redemption price would generally be \$9.10. (The terms of our proposed redemption plan may be more generous upon the death or qualifying disability of a stockholder.) We do not intend to implement the proposed share redemption plan during this or any other primary offering unless the Securities and Exchange Commission (SEC) grants us an exemption from its restrictions on issuers purchasing their securities during a distribution. Without this exemptive relief, the earliest that we could implement the proposed share redemption plan would be after the completion of our primary offering. Even if implemented, we could later amend or terminate the plan. See Description of Shares Proposed Share Redemption Plan.

We may return all or a portion of your capital contribution in connection with a sale of our company or the properties we will acquire. Alternatively, you may be able to obtain a return of all or a portion of your capital contribution in connection with the sale of your shares if we list our common stock on a national securities exchange.

If I buy shares, will I receive distributions and how often?

To qualify as a REIT, we are required to make aggregate annual distributions to our stockholders of at least 90% of our REIT taxable income. Our REIT taxable income is computed without regard to the distributions paid deduction, excludes net capital gain, and does not necessarily equal net income as calculated in accordance with accounting principles generally accepted in the United States (GAAP). Except with respect to the first year following our acquisition of a timberland property, as a result of tax treatment provided to certain timber sale contracts under the Internal Revenue Code, substantially all of the income we generate from harvesting timber on that property will constitute net capital gain for federal tax purposes. Unlike most existing REITs, therefore, we do not anticipate, once we have held our timberland properties for more than one year, that the 90% distribution requirement applicable to REITs will require us to distribute any material amounts of cash in order to remain qualified as a REIT. Notwithstanding the lack of any federal income tax requirement that we do so, we intend to make regular

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cash distributions to our stockholders typically on a quarterly basis. The actual amount and timing of distributions, if any, will be at the discretion of our board of directors and will depend upon a number of factors discussed in the section Description of Shares Distributions, including:

our actual results of operations;

the timing of the investment of the net proceeds of this offering; and

whether the income from our harvesting activities is ordinary income or capital gains.

Our board of directors may authorize distributions in excess of those required for us to maintain REIT status depending on our financial condition and such other factors as our board of directors deems relevant. We have not established a minimum distribution level.

How will you calculate the payment of distributions to stockholders?

We expect to calculate our quarterly distributions based upon daily record dates so that investors may be entitled to distributions immediately upon purchasing our shares.

May I reinvest my distributions in shares of Wells Timber REIT?

Yes. You may participate in our distribution reinvestment plan by checking the appropriate box on your subscription agreement or by filling out an enrollment form we will provide to you at your request. The purchase price for shares purchased under this plan will be equal to (1) \$9.55 per share during this offering; (2) 95.5% of the offering price in any subsequent public equity offering during such offering; and (3) 95.5% of the most recent offering price for the first 12 months subsequent to the close of our last public equity offering prior to the listing of our shares on a national securities exchange. After that 12-month period, we will publish a per share valuation determined by our advisor or another firm chosen for that purpose, and distributions will be reinvested at the price determined by the valuation process. This valuation may bear little relationship to, and will likely exceed, what you might receive for your shares if you tried to sell them or if we liquidated the portfolio. We will not pay any selling commissions or dealer-manager fees in connection with the sale of shares pursuant to our distribution reinvestment plan, and our advisor will not be entitled to any expense reimbursements from the proceeds of these sales.

We may terminate our distribution reinvestment plan at our discretion at any time upon 10 days prior written notice to you. For more information regarding the distribution reinvestment plan, see Description of Shares Distribution Reinvestment Plan.

Will the distributions I receive be taxable as ordinary income?

As a result of the tax treatment provided to certain timber sale contracts under the Internal Revenue Code, we expect that most of our income will be long-term capital gains, except income with respect to any timberland property in the first year following our acquisition of the property. We also expect that a significant portion of our distributions to our stockholders will be taxed at capital gains rates, which are currently lower for noncorporate U.S. taxpayers than the rates for ordinary income. The distributions that most REITs and corporations pay to their investors are typically treated as ordinary income for federal income tax purposes. Consequently, we believe that our business is particularly well-suited to the REIT structure, and intend to make an election to be taxed as a REIT under the Internal Revenue Code, commencing with our taxable year ending on December 31, 2006. The following chart shows the federal

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income tax advantages under current federal income tax laws for noncorporate U.S. stockholders of a timber REIT, versus a traditional corporation and traditional REIT:

| | Timber REIT | Traditional REIT | C Corporation |
|----------------------------------|------------------------|-----------------------------|--------------------------|
| Pre-Tax Cash Flow | \$ 100 | \$ 100 | \$ 100 |
| Corporate Taxes* | | | 35 |
| Cash Available for Distributions | 100 | 100 | 65 |
| Taxes Paid by Stockholders* | 15 | 35 | 10 |
| Net Cash to Stockholders | \$ 85 | \$ 65 | \$ 55 |

* Illustrates distributions of income from timber-cutting contracts for timberland properties held more than one year and assumes (1) a 35% corporate tax rate, a 35% ordinary income tax rate for individuals and a 15% capital gains and qualified dividend income tax rate for individuals; (2) that our cash flow will equal our taxable income; (3) that our distributions qualify as dividends for federal income tax purposes and not as a return of capital; and (4) that no foreign, state or local taxes apply. The 15% rates for capital gains and qualified dividend income will apply only through 2010 unless legislation extending the favorable rates is enacted.

See Federal Income Tax Considerations for a more detailed discussion of the federal tax considerations related to an investment in our common stock.

Will I be notified of how the company and my investment are performing?

Yes, we will provide you with periodic updates on the performance of our company and your investment in us, including:

Four quarterly investor statements, which will generally include a summary of the amount you have invested, the quarterly distributions declared, and the amount of distributions reinvested under our distribution reinvestment plan, if applicable;

An annual report; and

An annual IRS Form 1099-DIV, if required.

We will provide this information to you via U.S. mail or courier. However, with your permission, we may furnish this information to you by electronic delivery, including, with respect to our annual report, by notice of the posting of our annual report on our affiliated Web site, which is www.wellsref.com. We also will include on this Web site access to our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, our proxy statement and other filings we make with the SEC, which filings will provide you with periodic updates on our company's performance and the performance of your investment.

When will I get my detailed tax information?

Your Form 1099-DIV tax information, if required, will be mailed by January 31 of each year.

Who can help answer my questions?

If you have more questions about the offering, or if you would like additional copies of this prospectus, you should contact your registered representative or contact our dealer-manager:

Client Services Department
Wells Investment Securities, Inc.
6200 The Corners Parkway
Norcross, Georgia 30092-3365

Telephone: (800) 557-4830 or (770) 243-8282

Fax: (770) 243-8198

E-mail: clientservices@wellsref.com

One of our affiliates also maintains an Internet site at www.wellsref.com at which there is additional information about us and our affiliates. The contents of that site are not incorporated by reference in, or otherwise a part of, this prospectus.

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RISK FACTORS

An investment in our common stock involves various risks and uncertainties. You should carefully consider the following risk factors in conjunction with the other information contained in this prospectus before purchasing our common stock.

Risks Related to Investing in this Offering

There is no public trading market for your shares; therefore, it will be difficult for you to sell your shares.

There is no current public trading market for our shares and we have no current plans to apply for listing on any public securities market. Our charter also prohibits the ownership of more than 9.8% in value of our outstanding shares, or more than 9.8% (in value or in number of shares, whichever is more restrictive) of the aggregate of our outstanding common shares, unless exempted by our board of directors, which may inhibit large investors from desiring to purchase your shares. Moreover, our proposed share redemption plan will not become effective until the earlier of (1) the completion of this primary offering, which may last until _____, 2008 (two years from the date of this prospectus), or (2) the receipt by us of SEC exemptive relief from rules restricting issuer purchases during the period in which the issuer is engaged in a distribution of its shares, which relief we may not be able to obtain. Even when one of these conditions is met, our board of directors could change the terms of the plan prior to its implementation. Our board also is free to amend or terminate the plan upon 30 days' notice after its implementation. In addition, the proposed share redemption plan includes numerous restrictions that would limit your ability to sell your shares. We describe these restrictions in detail under "Description of Shares" Proposed Share Redemption Plan. Therefore, it will be difficult for you to sell your shares promptly or at all. If you are able to sell your shares, you would likely have to sell them at a substantial discount to their public offering price. It is also likely that your shares would not be accepted as the primary collateral for a loan. You should purchase our shares only as a long-term investment because of the illiquid nature of the shares.

If we are unable to find suitable investments, we may not be able to achieve our investment objectives or pay distributions.

While we are investing the proceeds of this offering, the continuing high demand for the type of properties we desire to acquire may cause our distributions and the long-term returns of our investors to be lower than they otherwise would. We believe the current market for timberland properties is extremely competitive. We will be competing for these timberland investments with other REITs; forestry products companies; real estate limited partnerships; pension funds and their advisors; bank and insurance company investment accounts; individuals; and other entities. Many of our competitors have more experience, greater financial resources, and a greater ability to borrow funds to acquire properties than we do. The greater the number of entities and resources competing for timberland properties, the higher the acquisition prices of these properties will be, which could reduce our profitability and our ability to pay distributions to you. We cannot be sure that our advisor, working with or without timber managers, will be successful in obtaining suitable investments on financially attractive terms or that, if our advisor makes investments on our behalf, our objectives will be achieved. The more money we raise in this offering, the greater will be our challenge to invest all of the net offering proceeds on attractive terms. If we, through our advisor, are unable to find suitable investments in properties promptly, we will hold the proceeds from this offering in an interest-bearing account or invest the proceeds in short-term, investment-grade investments and may, ultimately, liquidate. Delays we encounter in the selection and acquisition of properties would likely limit our ability to pay distributions to our stockholders and reduce our stockholders' overall returns.

We have not yet identified any of the properties that we will purchase with the proceeds of this offering, which makes your investment more speculative.

We have not yet identified any of the investments that we will make with the proceeds of this offering. Our ability to identify well-performing properties and achieve our investment objectives depends upon the

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performance of our advisor in the acquisition of our investments and the determination of any financing arrangements. The large size of this offering increases the challenges that our advisor will face in investing our net offering proceeds promptly in attractive properties, and the continuing high demand for the type of properties we desire to purchase increases the risk that we may pay too much for the properties that we do purchase. Because of the illiquid nature of our shares, even if we disclose information about our potential investments before we make them, it will be difficult for you to sell your shares promptly or at all.

If we are unable to raise substantial funds, we will be limited in the number and type of investments we may make, and the value of your investment in us will fluctuate with the performance of the specific properties we acquire.

This offering is being made on a best efforts basis, whereby the brokers participating in the offering are only required to use their best efforts to sell our shares and have no firm commitment or obligation to purchase any of the shares. As a result, the amount of proceeds we raise in this offering may be substantially less than the amount we would need to achieve a broadly diversified timberland property portfolio. If we only raise the minimum offering amount, we will not be able to achieve a diversified portfolio. If we are unable to raise substantially more than the minimum offering amount, we will make fewer investments resulting in less diversification in terms of the number of investments owned, the geographic regions in which our properties are located, and the species and age of the timber located on those properties. In that case, the likelihood of our profitability being affected by the performance of any one of our properties will increase. Additionally, we are not limited in the number or size of our properties or the percentage of net proceeds we may dedicate to a single property. Your investment in our shares will be subject to greater risk to the extent that we lack a diversified portfolio of timberland properties.

We have no operating history, which makes our future performance and the performance of your investment difficult to predict.

We have no operating history. We were incorporated in September 2005, and as of the date of this prospectus, we have not made any investments in timberland or otherwise. You should not rely upon the past performance of other Wells-sponsored real estate programs. Such past performance was not related to the ownership of timberland property and would not predict our future results. Our lack of operating history significantly increases the risk and uncertainty you face in making an investment in our shares.

Our advisor has very limited experience acquiring, owning and managing timberland.

We are externally advised and managed by our advisor, Wells Capital. Prior to this offering, Wells Capital has had very limited experience acquiring, owning or managing timberland properties. Although our advisor has experience acquiring and managing a variety of other types of commercial real estate, timberland investments present unique acquisition, ownership and management challenges and opportunities. As a result, our advisor must either hire personnel with experience acquiring and managing timberland properties or rely on timber managers, including those affiliated with our advisor, for timberland investment and management expertise. Our advisor is not required to engage any timber managers and may make timberland investments on our behalf and manage our timberland assets without the services of a timber manager. The ownership of timberland properties involves risks not present in commercial property ownership generally, as described in the risk factors below. You should be cautious when considering our advisor's prior performance in evaluating the ability of our advisor to successfully execute our business plan. Our lack of experience in acquiring and owning timberland properties may result in our timberland investments failing to produce returns or incurring losses, either of which would reduce our ability to make distributions to our stockholders.

We expect our real estate investments to be concentrated in timberland properties, making us more vulnerable economically than if our investments were diversified.

We expect to qualify as a REIT, and, accordingly, as a REIT, we will invest primarily in real estate. Within the real estate industry, we intend to acquire and own timberland properties. We are subject to

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risks inherent in concentrating investments in real estate. The risks resulting from a lack of diversification become even greater as a result of our current business strategy to invest primarily, if not exclusively, in timberland properties. A downturn in the real estate industry generally or the timber or forest products industries specifically could reduce the value of our properties. A downturn in the timber or forest products industries also could prevent our customers from making payments to us and, consequently, would prevent us from meeting debt service obligations or making distributions to our stockholders. The risks we face may be more pronounced than if we diversified our investments outside real estate or outside timberland properties.

We expect the majority of our income to qualify as capital gains income and, as a result, we may not be required to make substantial distributions.

REITs are required to distribute 90% of their net taxable REIT ordinary income. However, unlike ordinary income such as rent, the Internal Revenue Code does not require REITs to distribute capital gains income. Accordingly, except with respect to income generated from a timberland property during the first year following our acquisition of that property, we do not believe that the Internal Revenue Code will require us to distribute any material amounts of cash to maintain our REIT status, given that we expect the majority of our income to come from timber sales and generally to be treated as a capital gain.

Our cash distributions are not guaranteed and may fluctuate.

The actual amount and timing of distributions will be determined by our board of directors in its discretion and typically will depend upon the amount of funds available for distribution, which will depend on items such as current and projected cash requirements and tax considerations. As a result, our distribution rate and payment frequency may vary from time to time. Our long-term strategy is to fund the payment of quarterly distributions to our stockholders entirely from our funds from operations. However, during the early stages of our operations, we may need to borrow funds to make cash distributions. In the event that we are unable to consistently fund quarterly distributions to stockholders entirely from our funds from operations, the value of your shares upon the possible listing of our stock, the sale of our assets or any other liquidity event may be reduced. Further, if the aggregate amount of cash distributed in any given year exceeds the amount of our REIT taxable income generated during the year, the excess amount will be deemed a return of capital.

Our loss of or inability to obtain key personnel could delay or hinder implementation of our investment strategies, which could limit our ability to make distributions and decrease the value of your investment.

Our success depends to a significant degree upon the contributions of Leo F. Wells, III, Douglas P. Williams and Randall D. Fretz, each of whom would be difficult to replace. We do not have employment agreements with Messrs. Wells, Williams or Fretz, and we cannot guarantee that such persons will remain affiliated with us. Although Messrs. Wells, Williams and Fretz have entered into employment agreements with Wells Capital, these agreements are terminable at will by either party; thus, such persons may not remain affiliated with Wells Capital or us. If any of our key personnel were to cease their affiliation with us, we may be unable to find suitable replacement personnel, and our operating results could suffer. We do not intend to maintain key-person life insurance on any person. Because our advisor does not currently have any management personnel with significant experience selecting, acquiring and managing timberland investments, we believe that it will be necessary for our advisor to hire personnel with this experience in order for us to be successful. In addition, we believe that our future success depends, in large part, upon our advisor's ability to retain highly skilled managerial, operational and marketing personnel. Competition for the personnel we intend to hire and for retention of our existing skilled personnel is intense, and our advisor may be unsuccessful in attracting and retaining such skilled personnel. Further, we intend to establish strategic relationships with firms that have special expertise in certain services or as to timberland properties in certain geographic regions. Maintaining such relationships will be important for us to effectively compete with other investors for properties in such regions. We may be unsuccessful in attracting and retaining such relationships. If we lose or are unable to obtain the services of highly skilled

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personnel or do not establish or maintain appropriate strategic relationships, our ability to implement our investment strategies could be delayed or hindered, and the value of your investment may decline.

Our operating performance could suffer if Wells Capital incurs significant losses, including those losses that may result from being the general partner of other entities.

We are dependent on Wells Capital, our advisor, to select our investments and conduct our operations; thus, adverse changes in the financial health of Wells Capital or our relationship with Wells Capital could hinder its ability to successfully manage our operations and our portfolio of investments. As a general partner to many Wells-sponsored programs, Wells Capital may have contingent liability for the obligations of such partnerships. Enforcement of such obligations against Wells Capital could result in a substantial reduction of its net worth. If such liabilities affected the level of services that Wells Capital could provide, our operations and financial performance could suffer as well, which would limit our ability to make distributions and decrease the value of your investment.

Our rights and the rights of our stockholders to recover claims against our independent directors are limited, which could reduce your and our recovery against them if they negligently cause us to incur losses.

Maryland law provides that a director has no liability in that capacity if he performs his duties in good faith, in a manner he reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter provides generally that no independent director will be liable to us or our stockholders for monetary damages and that we will indemnify them for losses unless they are grossly negligent or engage in willful misconduct. We will also indemnify our independent directors for losses related to alleged state or federal securities laws violations unless the allegations are not successfully adjudicated or dismissed with prejudice or unless a properly informed court of competent jurisdiction has not otherwise determined that indemnification should be made. As a result, you and we may have more limited rights against our independent directors than might otherwise exist under common law, which could reduce your and our recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our independent directors (as well as by our other directors, officers, employees and agents) in some cases, which would decrease the cash otherwise available for distribution to you.

Risks Related to Conflicts of Interest

Wells Capital, its affiliates and our officers will face competing demands on their time, and this may cause our operations and your investment to suffer.

We rely on Wells Capital and its affiliates for the day-to-day operation of our business. Wells Capital and its affiliates, including Leo F. Wells, III, our President and a director and the President of Wells Capital, Douglas P. Williams, our Executive Vice President and a director and the Executive Vice President of Wells Capital and Randall D. Fretz, our Senior Vice President and the Senior Vice President of Wells Capital, have interests in other Wells programs and engage in other business activities, including providing advisory services to Wells REIT I and Wells REIT II and other Wells-sponsored real estate programs. As a result, they will have conflicts of interest in allocating their time among us and other Wells programs and activities in which they are involved. During times of intense activity in other programs and ventures, they may devote less time and fewer resources to our business than are necessary or appropriate to manage our business. If this occurs, the returns on our investments, and the value of your investment, may decline.

Our officers and some of our directors face conflicts of interest related to the positions they hold with Wells Capital, its affiliates and other Wells-sponsored programs, which could hinder our ability to successfully implement our business strategy and to generate returns to you.

Our executive officers and two of our directors, Leo F. Wells, III and Douglas P. Williams, are also officers and directors of our advisor, our dealer-manager and other affiliated entities and Wells-sponsored programs, and one of our independent directors, Donald S. Moss, serves on the boards of other Wells-

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sponsored programs. As a result, they owe fiduciary duties to these various entities and their stockholders and limited partners, which fiduciary duties may from time to time conflict with the fiduciary duties that they owe to us and our stockholders. Their loyalties to these other entities could result in actions or inactions that are detrimental to our business, which could hinder the implementation of our business strategy and our investment and operational opportunities. If we do not successfully implement our business strategy, we may be unable to generate the cash needed to make distributions to you and to maintain or increase the value of our assets. See Management for more information regarding our executive officers and directors.

Wells Capital and its affiliates, including our officers and two of our directors, will face conflicts of interest caused by compensation arrangements with us and other Wells-sponsored programs, which could result in actions that are not in the long-term best interests of our stockholders. The amounts payable to Wells Capital upon termination of the advisory agreement may also influence decisions about terminating Wells Capital or our acquisition or disposition of investments.

Under the advisory agreement between us, Wells Timber OP and Wells Capital and pursuant to the terms of the special units Wells Capital owns in Wells Timber OP, Wells Capital is entitled to fees and other payments from us and Wells Timber OP that are structured in a manner intended to provide incentives to Wells Capital to perform in our best interest and in the best interest of our stockholders. However, because Wells Capital does not maintain a significant equity interest in us and is entitled to receive substantial minimum compensation regardless of performance, its interests are not wholly aligned with those of our stockholders. As a result, these compensation arrangements could influence our advisor's advice to us, as well as the judgment of the affiliates of Wells Capital who serve as our officers or directors. Among other matters, the compensation arrangements could affect their judgment with respect to:

the continuation, renewal or enforcement of our agreements with Wells Capital and its affiliates, including the advisory agreement and the dealer-manager agreement;

public offerings of equity by us, which entitle Wells Investment Securities to dealer-manager fees and entitle Wells Capital to increased asset management fees;

property sales, which entitle Wells Capital to real estate commissions and possible success-based sale fees;

the valuation of our timberland properties, which determines the amount of the asset management fee payable to Wells Capital and affects the likelihood of any success-based fees;

property acquisitions from third parties, which utilize proceeds from our public offerings, thereby increasing the likelihood of continued equity offerings and related fee income for Wells Investment Securities and Wells Capital;

whether and when we seek to list our common stock on a national securities exchange, which listing could entitle Wells Capital to a success-based listing fee but could also hinder its sales efforts for other programs if the price at which our shares trade is lower than the price at which we offered shares to the public; and

whether and when we seek to sell the company or our assets, which sale could entitle Wells Capital to a success-based payment from Wells Timber OP but could also hinder its sales efforts for other programs if the sales price for the company or its assets results in proceeds less than the amount needed to preserve our stockholders' capital.

Wells Capital will have considerable discretion with respect to the terms and timing of acquisition and disposition transactions. Considerations relating to its compensation from other programs could result in decisions that are not in the best interests of our stockholders, which could hurt our ability to pay you distributions or result in a decline in the value of your investment.

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The fees we pay Wells Capital under the advisory agreement and the amounts payable to Wells Capital under the Wells Timber OP partnership agreement were not determined on an arm's-length basis and therefore may not be on the same terms as those we could negotiate with a third party. Because the advisory agreement must be renewed annually, the fees and other amounts that we pay to Wells Capital may increase in future renewals.

Our independent directors rely on information and recommendations provided by Wells Capital to determine the fees and other amounts payable to Wells Capital and its affiliates pursuant to the terms of the advisory agreement and the special units in Wells Timber OP. As a result, these fees and payments cannot be viewed as having been determined on an arm's-length basis and we cannot assure you that an unaffiliated third party would not be willing and able to provide to us similar services at a lower price. Please see Management Compensation for a description of the fees and other amounts payable to Wells Capital and its affiliates. Because the advisory agreement must be renewed on an annual basis, beginning one year from the date of this prospectus, our independent directors may increase the fees and other amounts payable to Wells Capital in future renewals. If the fees and other amounts we pay Wells Capital are increased, our ability to pay distributions to our stockholders and make investments will be reduced.

Risks Related to Our Corporate Structure

Our charter limits the number of shares a person may own, which may discourage a takeover that could otherwise result in a premium price to our stockholders.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 9.8% in value of the aggregate of our outstanding shares, or more than 9.8% (in value or in number of shares, whichever is more restrictive) of the aggregate of our outstanding common shares. This restriction may have the effect of delaying, deferring or preventing a change in control of our company, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our common stock.

Our charter permits our board of directors to issue stock with terms that may subordinate the rights of our common stockholders or discourage a third party from acquiring our company in a manner that could result in a premium price to our stockholders.

Our board of directors may classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms or conditions of redemption of any such stock. Thus, our board of directors could authorize the issuance of preferred stock with terms and conditions that could have priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock could also have the effect of delaying, deferring or preventing a change in control of our company, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price to holders of our common stock.

Your investment return may be reduced if we are required to register as an investment company under the Investment Company Act; if we become an unregistered investment company, we could not continue our business.

We do not intend to register as an investment company under the Investment Company Act of 1940, as amended. If we were obligated to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act that impose, among other things:

limitations on capital structure;

restrictions on specified investments;

prohibitions on transactions with affiliates; and

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compliance with reporting, record-keeping, voting, proxy disclosure and other rules and regulations that would significantly increase our operating expenses.

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

To maintain compliance with the Investment Company Act exemption, we may be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. In addition, we may have to acquire additional income- or loss-generating assets that we might not otherwise have acquired or may have to forego opportunities to acquire interests in companies that we would otherwise want to acquire and which would be important to our investment strategy. If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

You will have limited control over changes in our policies and operations, which increases the uncertainty and risks you face as a stockholder.

Our board of directors determines our major policies, including our policies regarding financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under the Maryland General Corporation Law and our charter, our stockholders have a right to vote only on limited matters. Our board's broad discretion in setting policies and our stockholders' inability to exert control over those policies increases the uncertainty and risks you face as a stockholder. For more information, see Description of Shares Meetings and Special Voting Requirements.

You may not be able to sell your shares under the proposed share redemption plan and, if you are able to sell your shares under the plan, you may not be able to recover the amount of your investment in our shares.

Our proposed share redemption plan will not become effective until the earlier of (1) the completion of this primary offering, which may last until _____, 2008, or (2) the receipt by us of SEC exemptive relief from rules restricting issuer purchases during the period in which the issuer is engaged in distributions, which relief we may never obtain. Even when one of these conditions is met, our board of directors could change the terms of the plan without stockholder approval. Our board would also be free to amend or terminate the plan upon 30 days' notice. In addition, the proposed share redemption plan includes numerous restrictions that would limit your ability to sell your shares.

Generally, you would have to have held your shares for at least one year in order to participate in our proposed share redemption plan. We would limit the number of shares redeemed pursuant to our proposed share redemption plan as follows: (1) during any calendar year, we would not redeem in excess of 5% of the weighted-average number of shares outstanding during the prior calendar year; and (2) we may not redeem shares on any redemption date to the extent that such redemptions would cause the amount paid for redemptions (other than those following an investor's death or qualifying disability) since the beginning of the then-current calendar year to exceed the sum of (x) the net proceeds from the sale of shares under our distribution reinvestment plan during such period and (y) any additional amounts reserved for such purpose by our board of directors. These limits might prevent us from accommodating all redemption requests made in any year. For the first 12 months following this offering, we would repurchase shares under the proposed share redemption plan at a per share price of \$9.10. During any subsequent public offering of common stock, shares would be redeemed at a per share price equal to 91% of the per share price in such subsequent offering. After 12 months subsequent to the close of our last public offering of common stock prior to the listing of our shares on a national securities exchange, we would publish a per

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share valuation determined by our advisor or another firm chosen for that purpose, and shares would be redeemed at a price equal to 91% of the per share value set through such valuation process. These restrictions would severely limit your ability to sell your shares should you require liquidity and would limit your ability to recover the value you invested. See Description of Shares Proposed Share Redemption Plan for more information about the proposed share redemption plan.

The offering price was not established on an independent basis; the actual value of your investment may be substantially less than what you pay.

The offering price of the shares bears no relationship to our book or asset values or to any other established criteria for valuing shares. The board of directors considered the following factors in determining the offering price:

the range of offering prices of comparable unlisted REITs; and

the recommendation of our dealer-manager.

Because the offering price is not based upon any independent valuation, the offering price may not be indicative of the proceeds that you would receive upon liquidation. Further, the offering price may be significantly more than the price at which the shares would trade if they were to be listed on an exchange or actively traded by broker/ dealers.

Because the dealer-manager is one of our affiliates, you will not have the benefit of an independent review of our company or the prospectus customarily undertaken in underwritten offerings; the absence of an independent due diligence review increases the risks and uncertainty you face as a stockholder.

The dealer-manager, Wells Investment Securities, is one of our affiliates and will not make an independent review of our company or the offering. Accordingly, you do not have the benefit of an independent review of the terms of this offering. Further, the due diligence investigation of our company by the dealer-manager cannot be considered to be an independent review and, therefore, may not be as meaningful as a review conducted by an unaffiliated broker/ dealer.

Your interest in us will be diluted if we issue additional shares, which could reduce the overall value of your investment.

Potential investors in this offering do not have preemptive rights to any shares we issue in the future. Our charter authorizes us to issue one billion shares of stock, of which 900 million shares are designated as common stock and 100 million are designated as preferred stock. Our board of directors may amend our charter to increase the number of authorized shares of stock without stockholder approval. After your purchase in this offering, our board may elect to (1) sell additional shares in this or future public offerings; (2) issue equity interests in private offerings; (3) issue shares of our common stock upon the exercise of the options we may grant to our independent directors or to Wells Capital employees; (4) issue shares to our advisor, its successors or assigns, in payment of an outstanding fee obligation; or (5) issue shares of our common stock to sellers of properties we acquire in connection with an exchange of limited partnership interests of Wells Timber OP. To the extent we issue additional equity interests after your purchase in this offering, your percentage ownership interest in us will be diluted. Further, depending upon the terms of such transactions, most notably the offering price per share, which may be less than the price paid per share in any offering under this prospectus, and the value of our properties, existing stockholders also may experience a dilution in the book value of their investment in us.

Payment of fees to Wells Capital and its affiliates will reduce cash available for investment and distribution and increases the risk that you will not be able to recover the amount of your investment in our shares.

Wells Capital and its affiliates will perform services for us in connection with the offer and sale of our shares, the selection and acquisition of our investments, the management of our properties and the

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administration of our other investments. We will pay Wells Capital and its affiliates substantial fees for these services. Payment of these fees will result in immediate dilution to the value of your investment and will reduce the amount of cash available for investment in properties or distribution to stockholders. As a result of these substantial fees, we expect that for each share sold in this offering no more than \$9.11 per share will be available for the purchase of properties, depending primarily upon the number of shares we sell and assuming all shares sold under our distribution reinvestment plan are sold for \$9.55 per share. Wells Capital, as the holder of the special units, also may be entitled to receive a distribution upon the sale of our properties and/or a payment in connection with the redemption of the special units upon the earlier to occur of specified events, including the listing of our shares on a national securities exchange or the termination of the advisory agreement. See Management Compensation. These payments to Wells Capital increase the risk that the amount available for distribution to stockholders upon a liquidation of our portfolio would be less than the purchase price of the shares in this offering. Substantial up-front fees also increase the risk that you will not be able to resell your shares at a profit, even if our shares are listed on a national securities exchange.

You may be more likely to sustain a loss on your investment because our sponsor does not have as strong an economic incentive to avoid losses as do sponsors who have made more significant equity investments in the companies they organize.

As of May 31, 2006, our sponsor had invested approximately \$203,000 in us, primarily by our advisor purchasing (1) 20,000 shares of our common stock at a price of \$10.00 per share; (2) 200 common units in Wells Timber OP at \$10.00 per unit; and (3) 100 special units in Wells Timber OP at \$10.00 per unit. If we are successful in raising enough proceeds to be able to reimburse our sponsor for the significant organization and offering expenses of this offering, our sponsor has little exposure to loss. Without this exposure, our investors may be at a greater risk of loss because our sponsor does not have as much to lose from a decrease in the value of our shares as do those sponsors who make more significant equity investments in the companies they organize.

Risks Related to Investments in Timberland

Following the acquisition of timberland properties, we expect that our revenues will depend primarily on our supply agreements with loggers, sawmills and forest products companies. These contracts may preclude us from taking advantage of market opportunities, which could reduce the value of your investment.

Following the acquisition of timberland properties using the net proceeds of this offering, we expect that we will receive our revenue primarily from the sale of our timber to loggers, local sawmills and forest products companies under supply agreements we enter into with these parties. We intend to use supply agreements that generally are standard for the timber industry. These contracts will generally provide for harvesting of our timber in an agreed-upon volume at a fixed price, and generally will not be terminable by either party during the term of the agreement. The term of these agreements can range from a period of months to a period of several years. As such, we may not be able to quickly take advantage of increases in the price of logs or wood products with respect to the timberland properties to which these contracts apply. As a result of our inability to promptly respond to changing market conditions, our profitability could be reduced and you could experience a lower return on your investment.

We will be subject to the credit risk of our anticipated customers. The failure of any of our anticipated customers to make payments due to us under our supply agreements could reduce our distributions to our stockholders.

We anticipate that our customers will range in credit quality from high to low. We will assume the full credit risk of these parties, as we will have no payment guarantees under the contract or insurance if one of these parties fails to make payments to us. While we intend to acquire timberland properties in well-developed and active timber markets with access to numerous customers, we may not be successful in this endeavor. Depending upon the location of the timberland properties we acquire and the supply agreements we enter into, our supply agreements may be concentrated among a small number of

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customers. Even though we may have legal recourse under our contracts, we may not have any practical recourse to recover payments from some of our customers if they default on their obligations to us. Any bankruptcy or insolvency of our customers, or failure or delay by these parties to make payments to us under our agreements, would cause us to lose the revenue associated with these payments and could cause us to reduce the amount of distributions to our stockholders.

Our business will depend in part on the health and strength of the milling and manufacturing markets that our timberlands serve, and any downturns in those markets could reduce our profits and limit our ability to make distributions to our stockholders.

Our business will depend significantly on the health and strength of the milling and manufacturing markets that our timberlands serve. Because high transportation costs limit the distance we can cost-effectively transport timber from our anticipated timberlands, if the mills or manufacturing operations that our targeted timberlands serve close, or if milling markets shift away from the locations of our timberlands, our profitability may decrease and the amount of distributions payable to our stockholders could be reduced.

Changes in demand for higher and better use property may reduce our anticipated land sale revenues.

We anticipate that we will sell portions of our timberland property base from time to time in the event that we determine that certain properties have become more valuable for development, recreation or conservation than for growing timber, which we refer to as higher and better use property. A number of factors, including a slow-down in commercial or residential real estate development or a reduction in the availability of public funding for conservation projects, could reduce the demand for these properties and reduce any revenues that we could realize from our land sale program.

Large-scale increases in the supply of timber may affect timber prices and reduce our revenues.

Some governmental agencies, principally the U.S.D.A. Forest Service and the U.S. Department of the Interior's Bureau of Land Management, own large amounts of timberland. If these agencies choose to sell more timber from their timberland holdings than they have been selling in recent years, timber prices could fall and our revenues could be reduced. Any large reduction in the revenues we expect to earn from our timberland investments may reduce the returns, if any, we are able to achieve for our stockholders.

The cyclical nature of the forest products industry could impair our ability to make distributions to our stockholders.

Our operating results will be affected by the cyclical nature of the forest products industry. Unlike many other REITs that are parties to leases and other contracts providing for relatively stable payments over a period of years, our operating results will depend on prices for timber that can experience significant variation and have been historically volatile. Like other participants in the forest products industry, we have limited direct influence over the timing and extent of price changes for absorbent materials, timber and wood products. Although some of the supply agreements we will enter into fix the price of our harvested timber for a period of time, these contracts may not protect us from the long-term effects of price declines and may restrict our ability to take advantage of price increases.

The demand for timber and wood products is affected primarily by the level of new residential construction activity, the supply of manufactured timber products including imports of timber products and, to a lesser extent, repair and remodeling activity and other commercial and industrial uses. The demand for timber also is affected by the demand for wood chips in the pulp and paper markets and for hardwood in the furniture and other hardwood industries. The demand for absorbent materials is related to the demand for disposable products such as diapers and feminine hygiene products. These activities are, in turn, subject to fluctuations due to, among other factors:

changes in domestic and international economic conditions;

interest and currency rates;

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population growth and changing demographics; and

seasonal weather cycles (for example, dry summers and wet winters).

Decreases in the level of residential construction activity generally reduce demand for logs and wood products. This can result in lower revenues, profits and cash flows. In addition, increases in the supply of logs and wood products, at both the local and national level, during favorable price environments also can lead to downward pressure on prices. Timber owners generally increase production volumes for logs and wood products during favorable price environments. Such increased production, however, when coupled with even modest declines in demand for these products in general, could lead to oversupply and lower prices. For example, the federal government owns a large amount of timberland. If the federal government chooses to sell more timber than it has been selling in recent years, then timber prices could fall. Additionally, wood products are subject to increasing competition from a variety of substitute products, including nonwood and engineered wood products. Oversupply can result in lower revenues, profits and cash flows to us and could impair our ability to make distributions to our stockholders.

Our due diligence may not reveal all of the liabilities or weaknesses of a targeted timberland property acquisition, which could increase our costs, reduce our profitability and limit our cash distributions to our stockholders.

Before making an investment in a timberland property, our advisor will assess the profitability of the property and other factors that it believes will determine the success of the investment. In making the assessment and otherwise conducting customary due diligence, our advisor will rely on the timber manager and, in some cases, an investigation by other third parties. This process is particularly important and subjective with respect to properties owned by newly organized entities, because there may be little or no information publicly available about these properties. However, our due diligence processes may not uncover all relevant facts, and our investments may not be successful. A failure to reveal a liability or weakness of a timberland property that we acquire could increase our costs, decrease our profitability and limit the amount of cash available for distribution to our stockholders.

Uninsured losses relating to the timberland properties we acquire may reduce our stockholders' returns.

The volume and value of timber that can be harvested from the timberlands we acquire may be limited by natural disasters such as fire, hurricane, earthquake, insect infestation, drought, disease, ice storms, windstorms, flooding and other weather conditions and natural disasters, as well as other causes such as theft, trespass, condemnation or other casualty. We do not intend to maintain insurance for any loss to our standing timber from natural disasters or other causes. Any funds used for such losses may reduce cash available for distributions to our stockholders.

The forest products industry and the market for timberland properties are highly competitive, which could force us to pay higher prices for our properties or limit the amount of suitable timberland investments we are able to acquire and thereby reduce our profitability and the return on your investment.

The forest products industry is highly competitive in terms of price and quality. We are a newly organized company with limited resources and we do not currently own any timberland. Many of our competitors, both domestic and international, have substantially greater financial and operating resources and are better able to absorb the risks of timberland investing. In recent years, the timberland investment business has experienced increasing competition for the purchase of timberland properties from both commercial and residential real estate developers as a result of urban and suburban expansion. We expect this trend to continue. Many real estate developers have substantially greater financial resources than our company. In addition, many developers tend to use high relative amounts of leverage to acquire development parcels, which we may not be willing or able to incur. Purchases of timberland parcels for development not only reduce the amount of suitable timberland investment properties, but also tend to separate larger, existing timberland properties into smaller units, which have reduced economies of scale and are less desirable for harvesting and the future marketability of the property for timber harvesting or

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other uses. Competition from real estate developers and others limits the amount of our potential, suitable timberland investments, and any increase in the prices we expect to pay for timberland may reduce the returns, if any, we are able to achieve for our stockholders.

Harvesting our timber may be subject to limitations which could impair our ability to receive income and make distributions to our stockholders.

Weather conditions, timber growth cycles, property access limitations and regulatory requirements associated with the protection of wildlife and water resources may restrict harvesting of timberlands as may other factors, including damage by fire, hurricane, earthquake, insect infestation, disease, prolonged drought and other natural disasters. Furthermore, we may choose to invest in timberlands that are intermingled with sections of federal land managed by the U.S.D.A. Forest Service or other private owners. In many cases, access might be achieved only through a road or roads built across adjacent federal or private land. In order to access these intermingled timberlands, we would need to obtain from time to time either temporary or permanent access rights across these lands. Our revenue, net income and cash flow from our operations will be dependent to a significant extent on the continued ability to harvest timber on our timberland at adequate levels and in a timely manner.

We face possible liability for environmental clean up costs and damages related to the timberland properties we acquire, which could increase our costs and reduce our profitability and cash distributions to our stockholders.

We will be subject to regulation under, among other laws, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act of 1980, the National Environmental Policy Act, and the Endangered Species Act, as well as comparable state laws and regulations. Violations of various statutory and regulatory programs that apply to our operations could result in civil penalties; damages, including natural resource damages; remediation expenses; potential injunctions; cease-and-desist orders; and criminal penalties.

We may engage in the following activities that are subject to regulation:

forestry activities, including harvesting, planting and road building, use and maintenance;

the generation of air emissions;

the discharge of industrial wastewater and storm water; and

the generation and disposal of both hazardous and nonhazardous wastes.

Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Some environmental statutes impose strict liability, rendering a person liable for environmental damage without regard to the person's negligence or fault. While timberland properties do not generally carry as high a risk of environmental contamination as certain other real estate assets such as industrial properties, we may acquire timberlands subject to environmental liabilities, such as cleanup of hazardous substance contamination and other existing or potential liabilities of which we are not currently aware, even after investigations of the properties. We may not be able to recover any of these liabilities from the sellers of these properties. The cost of these cleanups could therefore increase our operating costs and reduce our profitability and cash available to make distributions to our stockholders. The existence of contamination or liability also may materially impair our ability to use or sell an affected timberland property.

The Endangered Species Act and comparable state laws protect species threatened with possible extinction. A number of species present on timberlands in the United States have been, and in the future may be, protected under these laws, including the northern spotted owl, marbled murrelet, bald eagle, several trout and salmon species in the Northwest; and the red-cockaded woodpecker, bald eagle, wood stork, red hill salamander and flatwoods salamander in the South. Protection of threatened and endangered species may include restrictions on timber harvesting, road building and other forest practices on private,

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federal and state land containing the affected species. The size of the area subject to restriction will vary depending on the protected species at issue, the time of year and other factors, but can range from less than one to several thousand acres.

We expect that environmental groups and interested individuals will intervene with increasing frequency in the regulatory processes in the states where we intend to seek to acquire timberland properties with the proceeds of this offering. For example, if we acquire timberland property in Washington state, we would be required to file a Forest Practice Application for each unit of timber to be harvested. These applications may be denied or restricted by the regulatory agency or appealed by other parties, including citizens groups. Environmental groups and interested individuals may also appeal individual forest practice applications or file petitions with the Forest Practices Board to challenge the regulations under which forest practices are approved. Appeals or actions of the regulatory agencies could delay or restrict timber harvest activities pursuant to these permits, and delays or harvest restrictions on a significant number of applications could result in increased costs. In addition to intervention in regulatory proceedings, interested groups and individuals may file or threaten to file lawsuits that seek to prevent us from implementing our operating plans. Any lawsuit or even a threatened lawsuit could delay harvesting on our timberlands. Among the remedies that could be enforced in a lawsuit is a judgment entirely preventing or restricting harvesting on a part of our targeted timberland properties.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and reduce distributions to our stockholders.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more timberland properties in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors that are beyond our control, including:

changes in international, national, regional and local economic and market conditions;

changes in interest rates and in the availability, cost and terms of debt financing;

changes in governmental laws and regulations, fiscal policies and zoning ordinances, and the related costs of compliance with laws and regulations, fiscal policies and ordinances;

forestry costs associated with maintaining and managing timberland properties;

changes in operating expenses; and

fires, hurricanes, earthquakes, floods and other natural disasters as well as civil unrest, acts of war and terrorism, each of which may result in uninsured losses.

As part of our business plan and as necessary, we intend to sell portions of our timberland property holdings during opportunistic times. We plan on selling timberland to third parties who intend to put the timberland to a higher and better use and therefore may be willing to compensate us for the land in excess of prices we would typically receive if the land remained as timber-producing property. In acquiring a timberland property, however, and in entering into long-term supply agreements, we may agree to lock-out provisions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These factors and any others that would impede our ability to respond to market opportunities could result in lower distributions to our stockholders than would be available if we were able to quickly respond to such market opportunities.

If we sell properties and provide financing to purchasers, defaults by the purchasers would decrease our cash flows and limit our ability to make distributions to our stockholders.

In some instances we may sell our properties by providing financing to purchasers. When we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our cash distributions to stockholders. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our

stockholders, or their reinvestment in other assets, will be delayed until the

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promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of.

Our international investments will be subject to changes in global market trends that could adversely impact our ability to make distributions to our stockholders.

A portion of our timberland portfolio may consist of properties located in timber-producing regions outside of the U.S. These international investments could cause our business to be subject to unexpected, uncontrollable and rapidly changing events and circumstances in addition to those experienced in U.S. locations. Adverse changes in the following factors, among others, could have a negative impact on our business, results of operations and ability to make distributions to our stockholders:

effects of exposure to currency other than United States dollars, due to having non-U.S. customers and foreign operations;

regulatory, social, political, labor or economic conditions in a specific country or region; and

trade protection laws, policies and measures, and other regulatory requirements affecting trade and investment, including loss or modification of exemptions for taxes and tariffs, and import and export licensing requirements.

Risks Associated with Debt Financing

We are likely to incur mortgage and other indebtedness, which may increase our business risks and may reduce the value of your investment.

We may, in some instances, acquire real properties by borrowing funds. In addition, we may incur mortgage debt and pledge some or all of our real properties as security for that debt to obtain funds to acquire additional real properties. We may borrow if we need funds to satisfy the REIT tax qualification requirement that we distribute at least 90% of our annual REIT taxable income to our stockholders. We may also borrow if we otherwise deem it necessary or advisable to ensure that we maintain our qualification as a REIT for federal income tax purposes.

Significant borrowings by us increase the risks of your investment. If there is a shortfall between the cash flow from properties and the cash flow needed to service our indebtedness, then the amount available for distributions to stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default, thus reducing the value of your investment. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt on behalf of the entities that own our properties. When we give a guaranty on behalf of an entity that owns one of our properties, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages or other indebtedness contains cross-collateralization or cross-default provisions, a default on a single loan could affect multiple properties.

High mortgage rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our net income and the amount of cash distributions we can make.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans become due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance the properties, our income could be reduced. We may be unable to refinance properties. If any of these events occurs, our cash flow would be reduced. This, in turn, would reduce cash

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available for distribution to you and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

When providing financing, a lender may impose restrictions on us that affect our distribution and operating policies and our ability to incur additional debt. Loan documents we enter into may contain covenants that limit our ability to further mortgage the property, discontinue any insurance coverage that we may have, or replace our advisor. These or other limitations may limit our flexibility and our ability to achieve our operating plans.

Increases in interest rates could increase the amount of our debt payments and limit our ability to pay distributions to our stockholders.

We expect that we will incur indebtedness in the future. Interest we pay could reduce our cash available for distributions. Additionally, if we incur variable-rate debt, increases in interest rates would increase our interest cost, which would reduce our cash flows and our ability to pay distributions to you. In addition, if we need to repay existing debt during periods of high interest rates, we could be required to sell one or more of our investments in order to repay the debt, which sale at that time might not permit realization of the maximum return on such investments.

We have broad authority to incur debt, and high debt levels could hinder our ability to make distributions and could decrease the value of your investment.

Our charter does not limit us from incurring debt until our aggregate debt would exceed 300% of our net assets (generally expected to approximate 75% of the cost of our assets before noncash reserves and depreciation), though we may exceed this limit under some circumstances. High debt levels would cause us to incur higher interest charges, would result in higher debt service payments, and could be accompanied by restrictive covenants. These factors could limit the amount of cash we have available to distribute and could result in a decline in the value of your investment.

Actions of our joint venture partners could reduce the returns on our joint venture investments and decrease your overall return.

We may enter into joint ventures with third parties to acquire properties. We may also purchase properties in joint ventures or in partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present with other methods of investment in real estate, including, for example:

the possibility that our co-venturer, co-tenant or partner in an investment might become bankrupt;

that such co-venturer, co-tenant or partner may at any time have economic or business interests or goals that are or that become inconsistent with our business interests or goals; or

that such co-venturer, co-tenant or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives.

Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce your returns.

Federal Income Tax Risks

Failure to qualify as a REIT would reduce our net income and cash available for distributions.

Alston & Bird LLP, our legal counsel, has rendered an opinion to us in connection with this offering that we will qualify as a REIT, based upon our representations as to the manner in which we are and will be owned, invest in assets and operate, among other things. However, our qualification as a REIT will

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depend upon our ability to meet, on an ongoing basis, requirements regarding our organization and ownership, distributions of our income, the nature and diversification of our income and assets, and other tests imposed by the Internal Revenue Code. Alston & Bird has not reviewed our compliance with the REIT qualification standards on an ongoing basis. This means that we may fail to satisfy the REIT requirements in the future. Also, this opinion represents Alston & Bird's legal judgment based on the law in effect as of the date of this prospectus. Alston & Bird's opinion is not binding on the Internal Revenue Service or the courts. Future legislative, judicial or administrative changes to the federal income tax laws could be applied retroactively, which could result in our disqualification as a REIT.

If we fail to qualify as a REIT for any taxable year, we will be subject to federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT status. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the dividends paid deduction, and we would no longer be required to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

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

If you participate in our distribution reinvestment plan, you will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in shares of our common stock to the extent the amount reinvested was not a tax-free return of capital. In addition, you will be treated for tax purposes as having received an additional distribution to the extent the shares are purchased at a discount to fair market value. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of the shares of common stock received. See Description of Shares Distribution Reinvestment Plan Tax Consequences of Participation.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to other tax liabilities that reduce our cash flow and our ability to make distributions to you.

Even if we remain qualified as a REIT for federal income tax purposes, we may be subject to some federal, state and local taxes on our income or property. For example:

In order to qualify as a REIT, we must distribute annually at least 90% of our REIT taxable income to our stockholders (which is determined without regard to the dividends paid deduction or net capital gain). To the extent that we satisfy the distribution requirement but distribute less than 100% of our REIT taxable income, we will be subject to federal corporate income tax on the undistributed income.

We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.

If we have net income from the sale of foreclosure property that we hold primarily for sale to customers in the ordinary course of business or other nonqualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.

If we sell a property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% prohibited transaction tax.

Our taxable REIT subsidiaries will be subject to tax on their taxable income.

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To maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions to make distributions to our stockholders, which could increase our operating costs and decrease the value of your investment.

To qualify as a REIT, we must distribute to our stockholders each year 90% of our REIT taxable income (which is determined without regard to the dividends paid deduction or net capital gain). At times, we may not have sufficient funds to satisfy these distribution requirements and may need to borrow funds to maintain our REIT status and avoid the payment of income and excise taxes. These borrowing needs could result from (1) differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes, (2) the effect of nondeductible capital expenditures, or (3) the creation of reserves. We may need to borrow funds at times when the market conditions are unfavorable. Such borrowings could increase our costs and reduce the value of our common stock.

To maintain our REIT status, we may be forced to forego otherwise attractive opportunities, which could delay or hinder our ability to meet our investment objectives and lower the return on your investment.

To qualify as a REIT, we must satisfy tests on an ongoing basis concerning, among other things, the sources of our income, nature of our assets and the amounts we distribute to our stockholders. We may be required to make distributions to stockholders at times when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

The extent of our use of taxable REIT subsidiaries may affect the value of our common stock relative to the share price of other REITs.

We intend to conduct a portion of our business activities through one or more taxable REIT subsidiaries, or TRSs. A TRS is a fully taxable corporation that may earn income that would not be qualifying REIT income if earned directly by us. Our use of TRSs will enable us to engage in non-REIT qualifying business activities, such as the sale of higher and better use properties. However, under the Internal Revenue Code, no more than 20% of the value of the assets of a REIT may be represented by securities of one or more TRSs. This limitation may affect our ability to increase the size of our non-REIT qualifying operations. Furthermore, because the income earned by our TRSs will be subject to corporate income tax and will not be subject to the requirement to distribute annually at least 90% of our REIT taxable income to our stockholders, our use of TRSs may cause our common stock to be valued differently than the shares of other REITs that do not use TRSs as extensively as we expect to use them.

Certain of our business activities are potentially subject to the prohibited transaction tax, which could reduce the return on your investment.

As a REIT, we will be subject to a 100% tax on any net income from prohibited transactions. In general, prohibited transactions are sales or other dispositions of property to customers in the ordinary course of business. Sales by us of higher and better use property at the REIT level could, in certain circumstances, constitute prohibited transactions.

We intend to avoid the 100% prohibited transaction tax by conducting activities that would be prohibited transactions through one or more TRSs. We may not, however, always be able to identify properties that will become part of our dealer land sales business. Therefore, if we sell any higher and better use properties at the REIT level that we incorrectly identify as property not held for sale to customers in the ordinary course of business or that subsequently become properties held for sale to customers in the ordinary course of business, we may be subject to the 100% prohibited transactions tax.

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Retirement Plan Risks

If you fail to meet the fiduciary and other standards under ERISA or the Internal Revenue Code as a result of an investment in our stock, you could be subject to criminal and civil penalties.

There are special considerations that apply to pension, profit-sharing trusts or IRAs investing in our shares. If you are investing the assets of a pension, profit-sharing, 401(k), Keogh or other qualified retirement plan or the assets of an IRA in our common stock, you should satisfy yourself that:

your investment is consistent with your fiduciary obligations under ERISA and the Internal Revenue Code;

your investment is made in accordance with the documents and instruments governing your plan or IRA, including your plan's investment policy;

your investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA and other applicable provisions of ERISA and the Internal Revenue Code;

your investment will not impair the liquidity of the plan or IRA;

your investment will not produce unrelated business taxable income for the plan or IRA;

you will be able to value the assets of the plan annually in accordance with ERISA requirements and applicable provisions of the plan or IRA; and

your investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.

Failure to satisfy the fiduciary standards of conduct and other applicable requirements of ERISA and the Internal Revenue Code may result in the imposition of civil and criminal penalties, and can subject the fiduciary to equitable remedies. In addition, if an investment in our shares constitutes a prohibited transaction under ERISA or the Internal Revenue Code, the fiduciary who authorized or directed the investment may be subject to the imposition of excise taxes with respect to the amount invested.

The annual statement of value that we will send to stockholders subject to ERISA and to certain other plan stockholders is only an estimate and may not reflect the actual value of our shares.

The annual statement of value will report the estimated value of each share of common stock as of the close of our fiscal year. Our advisor or another firm we choose for this purpose will prepare this annual estimated value of our shares based on the estimated amount that would be received if our assets were sold as of the close of the fiscal year and if the proceeds, together with our other funds, were distributed pursuant to a liquidation. For 12 months after the completion of our last public equity offering prior to the listing of our shares on a national securities exchange, our advisor will use the most recent price paid to acquire a share in that offering (ignoring purchase price discounts for certain categories of purchasers) as its estimated per share value of our shares. After that time, we would publish a per share valuation determined by our advisor or another firm chosen for that purpose. No independent appraisals of our assets will be required during the initial period or at any time thereafter. You should be aware that:

a value included in the annual statement may not actually be realized by us or by our stockholders upon liquidation;

stockholders may not realize that value if they attempted to sell their shares; and

using the estimated statement of value, or the method used to establish the value, may not comply with any reporting and disclosure or annual valuation requirements under ERISA or other applicable law.

We will stop providing annual statements of value if our common stock becomes listed for trading on a national securities exchange. See **ERISA Considerations** **Annual Valuation** for additional discussion regarding the annual

statement of value.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this prospectus may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects. You can generally identify forward-looking statements by our use of forward-looking terminology such as may, expect, intend, anticipate, estimate, believe, continue, and similar words. You should not rely on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control.

These forward-looking statements are subject to various risks and uncertainties, including those discussed above under Risk Factors, that could cause our actual results to differ materially from those projected in any forward-looking statement we make. We do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents**ESTIMATED USE OF PROCEEDS**

The following tables set forth information about how we intend to use the gross proceeds raised in this offering assuming that we sell a minimum of 200,000 shares, at \$10.00 per share, and the maximum of 85 million shares, respectively, of common stock. Many of the figures set forth below represent management's best estimate since they cannot be precisely calculated at this time. Depending primarily on the number of shares we sell in this offering and assuming a \$9.55 purchase price for shares sold under our distribution reinvestment plan, we estimate that 90% to 91.1% of our gross offering proceeds, or between \$9.00 and \$9.11 per share, will be used for investments and the repurchase of shares under our proposed share redemption program, while the remainder will be used to pay offering expenses, including selling commissions and the dealer-manager fee, and to pay a fee to our advisor for its services in connection with the selection, acquisition, and management of our properties. We expect to meet all of our working capital needs out of cash flow from operations. However, to the extent that we have insufficient funds to meet our needs for working capital, we may establish reserves from gross offering proceeds. The allocation of shares sold pursuant to the primary offering and pursuant to the distribution reinvestment plan will affect our gross proceeds and the amount available for investment. We have not given effect to any special sales or volume discounts that could reduce the amount of selling commissions shown below. The figures below reflect that we will not pay commissions or dealer-manager fees in connection with shares issued through our distribution reinvestment plan.

| | Minimum Offering (200,000 Shares at \$10.00 per Share) | | Maximum Offering (75 Million Shares at \$10.00 per Share; 10 Million Shares at \$9.55 per Share) | |
|--|---|----------------|---|----------------|
| | Amount | Percent | Amount | Percent |
| Gross Offering Proceeds | \$ 2,000,000 | 100.0% | \$ 845,500,000 | 100.0% |
| Selling Commissions | 140,000 | 7.0 | 52,500,000 | 6.2 |
| Dealer-Manager Fee | 36,000 | 1.8 | 13,500,000 | 1.6 |
| Other Organization and Offering Expenses ⁽¹⁾ | 24,000 | 1.2 | 9,000,000 | 1.1 |
| Estimated Amount to be Invested⁽²⁾⁽³⁾ | \$ 1,800,000 | 90.0% | \$ 770,500,000 | 91.1% |

- (1) Includes all expenses (other than selling commissions and the dealer-manager fee) to be paid by us in connection with the offering, including our legal, accounting, printing, mailing and filing fees, reimbursing the due diligence expenses of broker/ dealers, and amounts to reimburse Wells Capital for the salaries of its employees and other costs in connection with preparing supplemental sales materials, holding educational conferences and attending retail seminars conducted by broker/ dealers. Wells Capital has agreed to reimburse us to the extent organizational and offering expenses incurred by us, other than selling commissions and the dealer-manager fee, exceed 1.2% of the aggregate gross offering proceeds from our primary offering. We will not reimburse Wells Capital for any organization and offering expenses from proceeds of sales pursuant to our distribution reinvestment plan.
- (2) Amount available for investment will include customary third-party acquisition expenses, such as legal fees and expenses, costs of appraisals, accounting fees and expenses, title insurance premiums, and other closing costs and miscellaneous expenses relating to the acquisition of real estate. We estimate that these third-party costs would average 0.5% of the contract purchase prices of property acquisitions.

- (3) Although it is possible that the net proceeds from the sale of shares under our distribution reinvestment plan will be available for investment, we expect that all of these proceeds will instead be used to repurchase shares of our common stock under the proposed share redemption program. See Description of Shares Proposed Share Redemption Program. Until required in connection with the acquisition and development of properties, substantially all of the net proceeds of the offering and, thereafter, our working capital reserves, may be invested in short-term, highly liquid investments including government obligations, bank certificates of deposit, short-term debt obligations and interest-bearing accounts or other authorized investments as determined by our board of directors.

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MANAGEMENT

Board of Directors

We operate under the direction of our board of directors. The board is responsible for the management and control of our affairs. The board has retained Wells Capital to manage our day-to-day affairs and the acquisition and disposition of our investments, subject to the board's supervision. Because of the numerous conflicts of interest created by the relationships among us, Wells Capital and various affiliates, many of the actions taken by the board require the approval of a majority of our independent directors. See Conflicts of Interest.

We have a six-member board of directors, two of whom, Leo F. Wells, III and Douglas P. Williams, are affiliated with Wells Capital and its affiliates, and the four remaining directors qualify as independent directors. Our board may change the size of the board, but not to fewer than three board seats. Our charter provides that a majority of the directors must be independent directors, which is defined in our charter pursuant to the requirements of the North American Securities Administrators Association's Statement of Policy Regarding Real Estate Investment Trusts. An independent director is a person who is not one of our officers or employees or an officer or employee of Wells Capital or its affiliates and has not been so for the previous two years. Serving as a director of, or having an ownership interest in, another Wells-sponsored program will not, by itself, preclude independent director status. One of our independent directors, Donald S. Moss, may face conflicts of interest because of his affiliations with other programs sponsored by Wells Capital and its affiliates.

Each director will serve until the next annual meeting of stockholders and until his or her successor is duly elected. Although the number of directors may be increased or decreased, a decrease will not have the effect of shortening the term of any incumbent director. Any director may resign at any time and may be removed with or without cause by the stockholders upon the affirmative vote of at least a majority of all the votes entitled to be cast at a meeting called for the purpose of the proposed removal. The notice of the meeting shall indicate that the purpose, or one of the purposes, of the meeting is to determine if the director shall be removed.

A vacancy created by an increase in the number of directors or the death, resignation, removal, adjudicated incompetence or other incapacity of a director may be filled only by a vote of a majority of the remaining directors. As provided in our charter, nominations of individuals to fill the vacancy of a board seat previously filled by an independent director will be made by the remaining independent directors.

Our directors and officers are not required to devote all of their time to our business and are only required to devote the time to our affairs as required by their fiduciary duties to us and as necessary to respond to relevant business conditions. In addition to meetings of the various committees of the board, which committees we describe below, we expect to hold regular board meetings at least quarterly. We do not expect that our directors will be required to devote a substantial portion of their time in discharging their duties. Our board is empowered to fix the compensation of all officers that it selects and may pay compensation to directors for services rendered to us in any other capacity.

Our general investment and borrowing policies are set forth in this prospectus. Our directors may establish further written policies on investments and borrowings and shall monitor our administrative procedures, investment operations and performance to ensure that the policies are fulfilled and are in the best interest of the stockholders. We will follow the policies on investments and borrowings set forth in this prospectus unless they are modified by our directors.

Committees of the Board of Directors

Many of the powers of the board of directors may be delegated to one or more committees. Our charter requires that each committee consist of at least a majority of independent directors.

Table of Contents**Audit Committee**

The audit committee selects the independent public accountants to audit our annual financial statements, reviews with the independent public accountants the plans and results of the audit engagement, approves the audit and nonaudit services provided by the independent public accountants, reviews the independence of the independent public accountants, considers the range of audit and non-audit fees, and reviews the adequacy of our internal accounting controls. Our audit committee currently consists of E. Nelson Mills, Donald S. Moss and Willis J. Potts, Jr.

Nominating and Corporate Governance Committee

The primary functions of the nominating and corporate governance committee are: (1) identifying individuals qualified to serve on the board of directors and recommending that the board of directors select a slate of director nominees for election by the stockholders at the annual meeting; (2) developing and recommending to the board of directors a set of corporate governance policies and principles and periodically re-evaluating such policies and guidelines for the purpose of suggesting amendments to them if appropriate; and (3) overseeing an annual evaluation of the board of directors and each of the committees of the board of directors. Currently, all of the members of the nominating and corporate governance committee are independent directors.

Executive Officers and Directors

We have provided below certain information about our executive officers and directors.

| Name | Age | Positions |
|----------------------|------------|---|
| Leo F. Wells, III | 62 | President and Director |
| Douglas P. Williams | 55 | Executive Vice President, Secretary, Treasurer and Director |
| Randall D. Fretz | 53 | Senior Vice President |
| Michael P. McCollum | 50 | Independent Director |
| E. Nelson Mills | 45 | Independent Director |
| Donald S. Moss | 68 | Independent Director |
| Willis J. Potts, Jr. | 59 | Independent Director |

Leo F. Wells, III. Since our inception in September 2005, Mr. Wells has been our President and one of our directors. He has also been the President and a director of Wells REIT I since 1997 and the President and a director of Wells REIT II since 2003. He has also been the sole stockholder, sole director, President and Treasurer of Wells Real Estate Funds, Inc. since 1997, which directly or indirectly owns Wells Capital, Wells Management, Wells Investment Securities, Wells & Associates, Inc., Wells Development Corporation, Wells Asset Management, Inc. and Wells Real Estate Advisory Services, Inc. He has also been the President, Treasurer and sole director of Wells Capital since 1984; Wells Management since 1983; Wells Development Corporation since it was organized in 1997 to develop real estate properties; and Wells Asset Management, Inc. since it was organized in 1997 to serve as an investment advisor to the Wells Family of Real Estate Funds. Since 1997, Mr. Wells has been a trustee of the Wells Family of Real Estate Funds, an open-end management company organized as an Ohio business trust, which includes as one of its series the Wells S&P REIT Index Fund. Since 2004 he has been President and sole director of Wells Real Estate Advisory Services, Inc. He has been the President, Treasurer and a director of Wells & Associates, Inc., a real estate brokerage and investment company, since it was incorporated in 1978. Mr. Wells serves as the principal broker for Wells & Associates, Inc.

Mr. Wells was a real estate salesman and property manager from 1970 to 1973 for Roy D. Warren & Company, an Atlanta-based real estate company, and he was associated from 1973 to 1976 with Sax Gaskin Real Estate Company, during which time he became a Life Member of the Atlanta Board of Realtors Million Dollar Club. From 1980 to February 1985 he served as Vice President of Hill-Johnson, Inc., a Georgia corporation engaged in the construction business. Mr. Wells holds a Bachelor of Business Administration degree in economics from the University of Georgia. Mr. Wells is a member of the Financial Planning Association (FPA).

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On August 26, 2003, Mr. Wells and Wells Investment Securities entered into a Letter of Acceptance, Waiver and Consent (AWC) with the NASD relating to alleged rule violations. The AWC set forth the NASD's findings that Wells Investment Securities and Mr. Wells had violated conduct rules relating to the provision of noncash compensation of more than \$100 to associated persons of NASD member firms in connection with their attendance at the annual educational and due diligence conferences sponsored by Wells Investment Securities in 2001 and 2002. Without admitting or denying the allegations and findings against them, Wells Investment Securities and Mr. Wells consented in the AWC to various findings by the NASD that are summarized in the following paragraph:

In 2001 and 2002, Wells Investment Securities sponsored conferences attended by registered representatives who sold its real estate investment products. Wells Investment Securities also paid for certain expenses of guests of the registered representatives who attended the conferences. In 2001, Wells Investment Securities paid the costs of travel to the conference and meals for many of the guests and paid the costs of playing golf for some of the registered representatives and their guests. Wells Investment Securities later invoiced registered representatives for the cost of golf and for travel expenses of guests, but was not fully reimbursed for such. In 2002, Wells Investment Securities paid for meals for the guests. Wells Investment Securities also conditioned most of the 2001 conference invitations on attainment by the registered representatives of a predetermined sales goal for Wells Investment Securities products. This conduct violated the prohibitions against payment and receipt of noncash compensation in connection with the sales of these products contained in NASD's Conduct Rules 2710, 2810 and 3060. In addition, Wells Investment Securities and Mr. Wells failed to adhere to all of the terms of their written undertaking made in March 2001 not to engage in the conduct described above, and thereby failing to observe high standards of commercial honor and just and equitable principles of trade in violation of NASD Conduct Rule 2110.

Wells Investment Securities consented to a censure, and Mr. Wells consented to suspension from acting in a principal capacity with an NASD member firm for one year. Wells Investment Securities and Mr. Wells also agreed to the imposition of a joint and several fine in the amount of \$150,000. Mr. Wells' one-year suspension from acting in a principal capacity with Wells Investment Securities ended on October 6, 2004.

Douglas P. Williams. Since our inception in September 2005, Mr. Williams has been our Executive Vice President, Secretary and Treasurer and one of our directors. Since 1999, he has also served as Executive Vice President, Secretary and Treasurer and a director of Wells REIT I. Since 2003, he has served as Executive Vice President, Secretary and Treasurer and a director of Wells REIT II. Since 1999, Mr. Williams has also been a Senior Vice President of our advisor and a Vice President, Chief Financial Officer, Treasurer and a director of Wells Investment Securities, our dealer-manager. He has also been a Vice President of Wells Real Estate Funds, Inc. and Wells Asset Management, Inc. since 1999.

From 1996 to 1999, Mr. Williams served as Vice President and Controller of OneSource, Inc., a leading supplier of janitorial and landscape services, where he was responsible for corporate-wide accounting activities and financial analysis. Mr. Williams was employed by ECC International Inc., a supplier to the paper industry and to the paint, rubber and plastic industries, from 1982 to 1995. While at ECC, Mr. Williams served in a number of key accounting positions, including: Corporate Accounting Manager, U.S. Operations; Division Controller, Americas Region; and Corporate Controller, America/ Pacific Division. Prior to joining ECC and for one year after leaving ECC, Mr. Williams was employed by Lithonia Lighting, a manufacturer of lighting fixtures, as a Cost and General Accounting Manager and Director of Planning and Control. Mr. Williams started his professional career as an auditor for a predecessor firm of KPMG Peat Marwick LLP. Mr. Williams is a member of the American Institute of Certified Public Accountants and the Georgia Society of Certified Public Accountants and is licensed with the NASD as a financial and operations principal. Mr. Williams received a Bachelor of Arts degree from Dartmouth College and a Master's of Business Administration degree from Amos Tuck School of Graduate Business Administration at Dartmouth College.

Randall D. Fretz. Since our inception in September 2005, Mr. Fretz has been our Senior Vice President. He has also been a Senior Vice President of Wells Capital since 2002. He has also been the Chief of Staff

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and a Vice President of Wells Real Estate Funds, Inc. since 2002, a Senior Vice President of Wells REIT I since 2002, a Senior Vice President of Wells REIT II since 2003, and a director of Wells Investment Securities since 2002.

Mr. Fretz is primarily responsible for corporate strategy and planning, advising and coordinating the executive officers of Wells Capital on corporate matters and special projects. Prior to joining Wells Capital in 2002, Mr. Fretz served for seven years as President of U.S. and Canada operations for Larson-Juhl, a world leader in custom art and picture-framing home decor. Mr. Fretz was previously a Division Director at Bausch & Lomb, a manufacturer of optical equipment and products, and also held various senior positions at Tandem International and Lever Brothers. Mr. Fretz holds a Bachelor of Arts degree in each of Sociology and Physical Education from McMaster University in Hamilton, Ontario. He also earned a Master's of Business Administration degree from the Ivey School of Business in London, Ontario.

Michael P. McCollum, Ph.D. Dr. McCollum is one of our independent directors. He has worked in the forest products industry for the past 25 years. From June 1996 until his retirement in December 2005, Dr. McCollum led the Wood and Fiber Supply Division of Georgia-Pacific Corporation, one of the world's leading manufacturers and distributors of tissue, pulp, paper, packaging, building products and related chemicals, and in January 2001 he became President of the Division. From July 1992 to June 1996, Dr. McCollum served in positions of increasing responsibility at Georgia-Pacific in the areas of forest management, wood and fiber supply, technical support and strategic planning. From February 1984 to July 1992, Dr. McCollum served in various positions at Temple-Inland Inc., a major forest products corporation. From January 1981 to February 1984, Dr. McCollum worked in the Wood Products Division of Manville Forest Products Corporation, a subsidiary of Johns Manville, a Berkshire Hathaway company and a leading manufacturer and marketer of premium-quality building and specialty products. Dr. McCollum received his Bachelor of Science degree in Forestry from the University of Arkansas and received a Ph.D. in Forest Science from Texas A&M University. Dr. McCollum is a member of the Society of American Foresters and has served on the boards of several industry and conservation associations.

E. Nelson Mills. Mr. Mills is one of our independent directors. Since December 2004, Mr. Mills has served as the chief financial officer and chief operations officer of Williams Realty Advisors, where he is responsible for financial strategy, design, formation and operation of real estate investment funds. From April 2004 to December 2004, Mr. Mills was a consultant to and the chief financial officer of Timbervest, LLC, an investment manager specializing in timberland investment planning. From September 2000 to April 2004, Mr. Mills served as chief financial officer of Lend Lease Real Estate Investments, Inc. and from August 1998 to August 2000 served as a senior vice president of Lend Lease with responsibility for tax and acquisition planning and administration. Mr. Mills was a tax partner with KPMG LLP from January 1987 to August 1998. Mr. Mills received a Bachelor of Science degree in Business Administration from the University of Tennessee and a Master's of Business Administration degree from the University of Georgia. Mr. Mills is also a Certified Public Accountant.

Donald S. Moss. Mr. Moss is one of our independent directors. He is also an independent director of Wells REIT I and Wells REIT II and a trustee of the Wells Family of Real Estate Funds. He was employed by Avon Products, Inc. from 1957 until his retirement in 1986. While at Avon, Mr. Moss served in a number of key positions, including Vice President and Controller from 1973 to 1976, Group Vice President of Operations Worldwide from 1976 to 1979, Group Vice President of Sales Worldwide from 1979 to 1980, Senior Vice President International from 1980 to 1983 and Group Vice President Human Resources and Administration from 1983 until his retirement in 1986. Mr. Moss was also a member of the board of directors of Avon Canada, Avon Japan, Avon Thailand, and Avon Malaysia from 1980 to 1983. He formerly was a director of The Atlanta Athletic Club and the National Treasurer and a director of the Girls Clubs of America from 1973 to 1976. Mr. Moss graduated from the University of Illinois where he received a Bachelor of Science degree in business.

Willis J. Potts, Jr. Mr. Potts is one of our independent directors. From June 1999 until his retirement in June 2004, Mr. Potts served as vice president and general manager of Temple-Inland Inc., a major forest products corporation, where he was responsible for all aspects of the management of a major production facility, including timber acquisition, community relations and governmental affairs. From

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November 1994 to June 1999, Mr. Potts was senior vice president of Union Camp Corporation, where he was responsible for all activities of an international business unit, with revenues of approximately \$1 billion per year including supervision of acquisitions and dispositions of timber and timberland, controllership functions and manufacturing. Mr. Potts is currently the chairman of the board of directors of the Technical Association of the Pulp and Paper Industry (TAPPI), the largest technical association serving the pulp, paper and converting industry, where he is responsible for guiding the development of TAPPI's long-term plans and short-term goals and objectives, including those related to the forest products industry. In 2006, Mr. Potts was appointed to the Board of Regents of The University System of Georgia. Mr. Potts received a Bachelor of Science degree in industrial engineering from the Georgia Institute of Technology. He also completed the Executive Program at the University of Virginia.

Compensation of Directors

We do not provide compensation for service on our board of directors to any member of our board who is not an independent director. Our independent directors will receive an annual retainer of \$18,000. In addition, independent directors will receive fees for attending board and committee meetings as follows:

\$2,000 per in-person board meeting;

\$1,500 per in-person committee meeting;

\$250 per telephonic board or committee meeting; and

an additional \$500 to a committee chair for each in-person committee meeting.

However, when a committee meeting occurs on the same day as a board meeting, an additional fee will not be paid for attending the committee meeting.

All directors will receive reimbursement of reasonable travel expenses incurred in connection with attendance at meetings of the board of directors. In addition to cash compensation, upon his or her initial appointment to our board, each independent director receives a grant of options to purchase 2,500 shares of our common stock. One-third of the options are immediately exercisable on the date of grant, one-third will become exercisable on the first anniversary of the date of grant and the remaining one-third will become exercisable on the second anniversary of the date of grant. The initial grant of options was anti-dilutive with an exercise price of \$10.00 per share.

Upon each subsequent re-election of the independent director to the board, he or she will receive a subsequent grant of options to purchase 1,000 shares of our common stock. The exercise price for the subsequent options will be the greater of (1) \$10.00 per share or (2) the fair market value of the shares on the date of grant.

All stock options granted to our independent directors will be granted pursuant to our long-term incentive plan, and will be governed by the terms of such plan. The stock options will lapse on the first to occur of (1) the tenth anniversary of the date of grant, or (2) the removal for cause of the independent director as a member of the board of directors. Options are generally exercisable in the case of death or disability for a period of one year after death or the termination by reason of disability. No option issued may be exercised if such exercise would jeopardize our status as a REIT under the Internal Revenue Code. The independent directors may not sell, pledge, assign or transfer their options other than by will or the laws of descent or distribution.

2005 Long-Term Incentive Plan

We have adopted a long-term incentive plan. This incentive plan is intended to attract and retain qualified independent directors, advisors and consultants considered essential to our long-range success by offering these individuals an opportunity to participate in our growth through awards in the form of, or based on, our common stock. Although we do not currently intend to hire any employees, any employees

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we may hire in the future would also be eligible to participate in our long-term incentive plan. The incentive plan authorizes the granting of awards to participants in the following forms:

options to purchase shares of our common stock, which may be nonstatutory stock options or incentive stock options under the Internal Revenue Code;

stock appreciation rights, which give the holder the right to receive the difference between the fair market value per share on the date of exercise over the grant price;

performance awards, which are payable in cash or stock upon the attainment of specified performance goals;

restricted stock, which is subject to restrictions on transferability and other restrictions set by the board of directors, or a committee of its independent directors;

restricted stock units, which give the holder the right to receive shares of stock, or the equivalent value in cash or other property, in the future;

deferred stock units, which give the holder the right to receive shares of stock, or the equivalent value in cash or other property, at a future time;

dividend equivalents, which entitle the participant to payments equal to any dividends paid on the shares of stock underlying an award; and

other stock-based awards at the discretion of the board of directors or a committee of its independent directors, including unrestricted stock grants.

All awards must be evidenced by a written agreement with the participant, which will include the provisions specified by the board of directors or a committee of its independent directors. The maximum number of shares of common stock that may be issued upon the exercise or grant of an award shall not exceed in the aggregate an amount equal to 10% of the outstanding shares of our common stock on the date of grant of any such award. The exercise price of any award shall not be less than the fair market value of our common stock on the date of the grant.

Our board of directors, or a committee of its independent directors, administers the incentive plan, with sole authority (following consultation with the advisor) to select participants, determine the types of awards to be granted, and all of the terms and conditions of the awards, including whether the grant, vesting or settlement of awards may be subject to the attainment of one or more performance goals. No awards will be granted under the plan if the grant, vesting and/or exercise of the awards would jeopardize our status as a REIT under the Internal Revenue Code or otherwise violate the ownership and transfer restrictions imposed under our charter. Unless determined by our board of directors, or a committee of its independent directors, no award granted under the long-term incentive plan will be transferable except through the laws of descent and distribution.

We have established 500,000 shares as the aggregate maximum number of shares to be reserved and available for issuance under the incentive plan, as well as limits on the aggregate maximum number of shares that may be subject to certain awards and the maximum number of shares with respect to awards to be made to certain individuals. In the event of a corporate transaction that affects our common stock, such as a reorganization, recapitalization, merger, spin-off, split-off, stock dividend, or extraordinary distribution, the share authorization limits of the incentive plan will be adjusted proportionately, and our board of directors, or a committee of its independent directors, will have the sole authority to determine whether and in what manner to equitably adjust the number and type of shares and the exercise prices applicable to outstanding awards under the plan, the number and type of shares reserved for future issuance under the plan, and, if applicable, performance goals applicable to outstanding awards under the plan.

The incentive plan contains provisions concerning the treatment of awards granted under the plan in the event of a participant's death or disability, or upon the occurrence of a change in control of our company. The incentive plan will

automatically expire on the tenth anniversary of the date on which it is

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adopted, unless extended or earlier terminated by the board of directors. The board of directors may terminate the incentive plan at any time, but termination will have no adverse impact on any award that is outstanding at the time of the termination. The board of directors may amend the incentive plan at any time, but any amendment would be subject to stockholder approval if, in the reasonable judgment of the board, such approval would be required by any law, regulation or rule applicable to the incentive plan. No termination or amendment of plan may, without the written consent of the participant, reduce or diminish the value of an outstanding award determined as if the award had been exercised, vested, cashed in or otherwise settled on the date of such amendment or termination. The board may amend or terminate outstanding awards, but those amendments may require consent of the participant and, unless approved by the stockholders or otherwise permitted by the anti-dilution provisions of the plan, the exercise price of an outstanding option may not be reduced, directly or indirectly, and the original term of an option may not be extended.

Under section 162(m) of the Internal Revenue Code, a public company generally may not deduct compensation in excess of \$1 million paid to its chief executive officer and the four next most highly compensated executive officers. In order for awards granted in excess of this limit to be exempt from the deduction limits of section 162(m), the incentive plan would have to be amended to comply with the exemption conditions and be resubmitted for approval by our stockholders.

Limited Liability and Indemnification of Directors, Officers, Employees and Other Agents

Our charter limits the liability of our directors and officers to us and our stockholders for monetary damages and requires us to indemnify our directors, our officers, Wells Capital and its affiliates for losses they may incur by reason of their service in that capacity. However, we may not indemnify our directors, Wells Capital or its affiliates unless all of the following conditions are met:

the party seeking exculpation or indemnification has determined, in good faith, that the course of conduct that caused the loss or liability was in our best interest;

the party seeking exculpation or indemnification was acting on our behalf or performing services for us;

in the case of an independent director, the liability or loss was not the result of gross negligence or willful misconduct by the independent director;

in the case of a nonindependent director, Wells Capital or one of its affiliates, the liability or loss was not the result of negligence or misconduct by the party seeking indemnification or exculpation; and

the indemnification is recoverable only out of our net assets and not from the stockholders.

The SEC takes the position that indemnification against liabilities arising under the Securities Act of 1933 is against public policy and unenforceable. Furthermore, our charter prohibits the indemnification of our directors, Wells Capital or its affiliates or broker/ dealers for liabilities arising from or out of a violation of state or federal securities laws, unless one or more of the following conditions are met:

there has been a successful adjudication on the merits of each count involving alleged securities law violations;

such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction; or

a court of competent jurisdiction approves a settlement of the claims against the indemnitee and finds that indemnification of the settlement and the related costs should be made, and the court considering the request for indemnification has been advised of the position of the SEC and of the published position of any state securities regulatory authority in which the securities were offered or sold as to indemnification for violations of securities laws.

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Our charter further provides that the advancement of funds to our directors and to Wells Capital and its affiliates for reasonable legal expenses and other costs incurred in advance of the final disposition of a proceeding for which indemnification is being sought is permissible only if all of the following conditions are satisfied:

the proceeding relates to acts or omissions with respect to the performance of duties or services on our behalf;

such person provides us with written affirmation of his good faith belief that he has met the standard of conduct necessary for indemnification;

the legal proceeding was initiated by a third party who is not a stockholder or, if by a stockholder acting in his or her capacity as such, a court of competent jurisdiction approves the advancement; and

the person seeking the advancement undertakes to repay the amount paid or reimbursed by us, together with the applicable legal rate of interest thereon, if it is ultimately determined that such person is not entitled to indemnification.

We also purchase and maintain insurance on behalf of all of our directors and executive officers against liability asserted against or incurred by them in their official capacities with us, whether or not we are required or have the power to indemnify them against the same liability.

The Advisor

Our advisor is Wells Capital. Since its incorporation in Georgia on April 20, 1984, Wells Capital has sponsored or advised public real estate programs on an unspecified property, or blind pool basis, that have raised approximately \$8.0 billion of equity from approximately 223,000 investors. Wells Capital has contractual and fiduciary responsibilities to us and our stockholders. Some of our officers and directors are also officers and directors of Wells Capital.

The directors and executive officers of Wells Capital are as follows:

| Name | Age | Positions |
|---------------------|------------|---|
| Leo F. Wells, III | 62 | President, Treasurer and sole Director |
| Douglas P. Williams | 55 | Senior Vice President and Assistant Secretary |
| Stephen G. Franklin | 58 | Senior Vice President |
| Randall D. Fretz | 53 | Senior Vice President |
| Donald A. Miller | 44 | Senior Vice President |
| Robert E. Bowers | 49 | Senior Vice President |

The backgrounds of Messrs. Wells, Williams and Fretz are described in the Management Executive Officers and Directors section of this prospectus. Below is a brief description of the other executive officers of Wells Capital.

Stephen G. Franklin, Ph.D. Since 1999, Mr. Franklin has served as a Senior Vice President of Wells Capital. Mr. Franklin is responsible for marketing, sales and coordination of broker/ dealer relations. Mr. Franklin also serves as Vice President of Wells Real Estate Funds, Inc. Prior to joining Wells Capital Mr. Franklin served as President of Global Access Learning, an international executive education and management development firm. From 1997 to 1999, Mr. Franklin served as President, Chief Academic Officer and Director of EduTrek International, a publicly traded provider of international post-secondary education that owns American InterContinental University, with campuses in Atlanta, Ft. Lauderdale, Los Angeles, Washington, D.C., London and Dubai. While at EduTrek, he was instrumental in developing the Master's and Bachelor's of Information Technology, International M.B.A. and Adult Evening B.B.A.

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programs. Prior to joining EduTrek, Mr. Franklin was Associate Dean of the Goizueta Business School at Emory University and a former tenured Associate Professor of Business Administration. He served on the founding Executive M.B.A. faculty and has taught graduate, undergraduate and executive courses in management and organizational behavior, human resources management and entrepreneurship. He also is co-founder and Director of the Center for Healthcare Leadership in the Emory University School of Medicine. Mr. Franklin was a frequent guest lecturer at universities throughout North America, Europe and South Africa.

From 1984 to 1986, Mr. Franklin took a sabbatical from Emory University and became Executive Vice President and a principal stockholder of Financial Service Corporation (FSC), an independent financial planning broker/ dealer. Mr. Franklin and the other stockholders of FSC later sold their interests in FSC to Mutual of New York Life Insurance Company.

Donald A. Miller. Since 2003, Mr. Miller has been a Senior Vice President of Wells Capital. Mr. Miller is responsible for directing all aspects of the acquisitions, dispositions, property management, construction and leasing groups of our advisor and its affiliates. Prior to joining Wells in 2003, Mr. Miller headed Lend Lease's U.S. real estate operations, including acquisitions, dispositions, financing and investment management. Prior to joining Lend Lease (The Yarmouth Group) in 1994, Mr. Miller was responsible for regional acquisitions for Prentiss Properties Realty Advisors, a predecessor entity to the publicly traded Prentiss REIT. Earlier in his career, Mr. Miller worked in the pension investment management department of Delta Air Lines and was responsible for real estate and international equity investment programs. Mr. Miller is a Chartered Financial Analyst (CFA) and holds multiple broker/ dealer and real estate licenses. He received a Bachelor of Arts degree from Furman University in Greenville, South Carolina.

Robert E. Bowers. Since 2004, Mr. Bowers has been a Senior Vice President of Wells Capital. Mr. Bowers also serves as Chief Financial Officer and Vice President of Wells Real Estate Funds, Inc. A 20-year veteran of the financial services industry, Mr. Bowers' experience includes investor relations, debt and capital infusion, IPO structuring, budgeting and forecasting, financial management and strategic planning. Prior to joining Wells in 2004, Mr. Bowers served as a business financial consultant, communicating regularly with the SEC and providing strategic financial counsel to a range of organizations, including the University System of Georgia, venture capital funds and public corporations such as NetBank, Inc., a publicly held online bank. From 1997 to 2002, Mr. Bowers was CFO of NetBank, Inc., the first profitable Internet bank. While at NetBank, he participated in the company's successful initial public offering and subsequent secondary offerings, directing all SEC and regulatory reporting and compliance. Prior to joining NetBank, Mr. Bowers was CFO and Director of Stockholder Systems, Inc., a Norcross, Georgia-based financial applications company, for 12 years. When CheckFree Corporation, a pioneer in the electronic bill payment industry, acquired Stockholder Systems in 1995, he headed the merger negotiation team and became CFO of the combined organization. Mr. Bowers began his career in 1978 as an audit manager for Arthur Andersen & Company in Atlanta. Mr. Bowers earned a Bachelor of Science degree in Accounting from Auburn University. He is a licensed Certified Public Accountant and serves on the boards of various venture capital and Atlanta area non-profit organizations, including Woodward Academy, Hope House Children's Respite and Southwest Christian Hospice.

In addition to the directors and executive officers listed above, Wells Capital employs personnel who have extensive experience in the types of services that Wells Capital will be providing to us, including arranging financing for the acquisition of properties, negotiating contracts, and preparing and overseeing budgets.

The Advisory Agreement

As a newly formed entity, we do not believe our asset base or the income generated by these assets will initially be large enough to support a fully integrated staff of employees. As a result, we would either have to incur operating losses until our assets and income grew to the size needed to support a fully

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integrated staff, do without certain services or retain a third party to provide management services. Our board of directors has elected the third option. We have entered into an advisory agreement with Wells Capital to serve as our advisor with responsibility to oversee and manage our day-to-day operations and to perform other duties including the following:

find, present and recommend to our board of directors real estate investment opportunities consistent with our investment policies and objectives;

structure the terms and conditions of our real estate acquisitions, sales or joint ventures;

at the direction of our management, prepare all reports and regulatory filings, including those required by federal and state securities laws;

arrange for financing and refinancing of properties;

enter into supply agreements, service contracts and leases for our properties;

oversee the performance of any third-party timber managers engaged to manage our properties or assets;

review and analyze the properties' operating and capital budgets;

generate an annual budget for us;

review and analyze financial information for each property and the overall portfolio;

if a transaction requires approval by the board of directors, deliver to the board of directors all documents requested by the board in its evaluation of the proposed transaction;

actively oversee the management of our properties for purposes of meeting our investment objectives;

perform cash management services;

perform transfer agent functions; and

engage our agents.

The fees payable to Wells Capital under the advisory agreement are described in detail at Management Compensation below. We also describe in that section (1) our obligation to reimburse Wells Capital for organization and offering expenses, administrative and management services, and payments made by Wells Capital to third parties in connection with potential acquisitions and (2) Wells Capital's obligation to reimburse us for any operating expenses incurred in excess of certain limitations set forth in our charter.

The term of the current advisory agreement ends after one year from the date of this prospectus and may be renewed for an unlimited number of successive one-year periods upon mutual consent of Wells Capital and us. As a result, the amount of compensation and other fees payable to the advisor may be increased or decreased in future renewals of the advisory agreement. See Conflicts of Interest Certain Conflict Resolution Procedures.

The advisory agreement may be terminated without cause by a majority of our independent directors or by Wells Capital upon 60 days' written notice. In the event that the advisory agreement between us and Wells Capital is terminated, Wells Capital will be required to cooperate with us and take all reasonable steps requested by our board of directors to provide for the orderly transition of advisory services to a successor advisor. Upon a termination of the advisory agreement with Wells Capital, our board of directors will select a successor advisor that the board of

directors has determined possesses sufficient qualifications to perform the advisory services and will be required to determine that the compensation that we will pay the successor advisor is reasonable in relation to the nature and quality of the services to be performed for us and within the limits prescribed in our charter.

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Wells Capital and its affiliates expect to engage in other business ventures and, as a result, their resources will not be dedicated exclusively to our business. However, pursuant to the advisory agreement, Wells Capital must devote sufficient resources to our administration to discharge its obligations. Wells Capital may assign the advisory agreement to an affiliate upon our approval. We may assign or transfer the advisory agreement to a successor entity.

Initial Investment by Our Advisor

Wells Capital has purchased 20,000 shares of our common stock for \$200,000, constituting 100% of our outstanding capital stock. Wells Capital may not sell any of these shares during the period it serves as our advisor. Although Wells Capital and its affiliates are not prohibited from acquiring additional shares of our common stock, Wells Capital currently has no options or warrants to acquire any shares. Wells Capital has purchased 200 common units in Wells Timber OP at a purchase price of \$10.00 per unit and holds a 1% limited partner interest. Wells Capital also owns 100 special units for which it paid \$10.00 per unit. Wells Capital has agreed to abstain from voting any shares it owns in any vote for the election of directors or any vote regarding the approval or termination of any contract with Wells Capital or any of its affiliates.

Dealer-Manager

Wells Investment Securities, Inc., our dealer-manager, is a member firm of the NASD. Wells Investment Securities was organized in May 1984 for the purpose of participating in and facilitating the distribution of securities of Wells programs.

Wells Investment Securities will provide wholesaling, sales promotion and marketing assistance services to us in connection with the distribution of the shares offered pursuant to this prospectus. It may also sell shares at the retail level.

Wells Real Estate Funds, Inc. is the sole stockholder of Wells Investment Securities. The current directors and executive officers of Wells Investment Securities are:

| Name | Age | Positions |
|---------------------|------------|---|
| Thomas E. Larkin | 48 | President and Director |
| Douglas P. Williams | 55 | Vice President, CFO, Treasurer and Director |
| Randall D. Fretz | 53 | Director |

The backgrounds of Messrs. Williams and Fretz are described in the Management Executive Officers and Directors section of this prospectus.

Thomas E. Larkin. Mr. Larkin is President and a director of Wells Investment Securities, Inc. Mr. Larkin joined Wells in 2003 and directs the national sales effort. Prior to joining Wells, Mr. Larkin was an Executive Vice President of Ronald Blue & Co., where he was responsible for supervising approximately 80 financial professionals. In this capacity, he significantly increased both corporate revenue and assets under management. Mr. Larkin began his career at Ronald Blue in 1994 as a Branch Manager and Recruiter and progressively held positions of greater responsibility in sales management during his tenure with the Company. From 1986 to 1994, Mr. Larkin was with Advanced Cardiovascular Systems Inc., where he served as Sales Representative, Southeastern Sales Manager, and eventually Director of Sales. Mr. Larkin received his Bachelor of Science degree in biology from Valparaiso University. He holds the Series 2, 7, 24, 63, and 65 securities licenses.

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Management Decisions

The primary responsibility for the management decisions of Wells Capital and its affiliates, including the selection of investment properties to be recommended to our board of directors, the negotiation for these investments, asset-management decisions and property dispositions, will reside in Leo F. Wells, III, Douglas P. Williams, Randall D. Fretz, Donald A. Miller and Robert E. Bowers. Our board of directors, including a majority of the independent directors, must approve all real property acquisitions and dispositions, as well as the financing of any such acquisitions. We expect that the board of directors will form an investment committee to which it will delegate the authority to approve all real property acquisitions and dispositions with a purchase or sale price below a certain amount, including the financing of any such acquisitions, other than any transaction with an affiliate of our advisor. Any such investment committee will be comprised of at least a majority of independent directors.

Table of Contents**MANAGEMENT COMPENSATION**

We have no paid employees. Wells Capital, our advisor, and its affiliates are responsible for the management of our day-to-day affairs. The following table summarizes all of the compensation and fees payable to Wells Capital and its affiliates, including amounts to reimburse their costs in providing services. The compensation payable to any timber managers our advisor may engage is not included in this table, since it would be paid by our advisor and not by us. The selling commissions and dealer-manager fee may vary for different categories of purchasers. See Plan of Distribution. The compensation and fees payable to Wells Capital are subject to the terms and conditions of our advisory agreement, which must be renewed on an annual basis. As a result, the compensation and fees payable to Wells Capital may be increased or decreased in future renewals of the advisory agreement. See Conflicts of Interest Certain Conflict Resolution Procedures Other Charter Provisions Relating to Conflicts of Interest. This table assumes the shares are sold through distribution channels associated with the highest possible selling commissions and dealer-manager fees and a \$9.55 purchase price for shares sold under our distribution reinvestment plan.

| Form of Compensation and Entity Receiving | Determination of Amount | Estimated Amount for Maximum Offering⁽¹⁾ |
|--|--|---|
| <i>Organization and Offering Stage</i> | | |
| Selling Commissions Wells Investment Securities ⁽²⁾ | 7.0% of gross offering proceeds from the primary offering, before reallocation of commissions earned by participating broker/dealers. Wells Investment Securities, our dealer-manager, will reallocate 100% of commissions earned to participating broker/dealers. | \$52,500,000 |
| Dealer-Manager Fee Wells Investment Securities ⁽²⁾ | 1.8% of gross offering proceeds from the primary offering, before reallocation to participating broker/dealers. Wells Investment Securities will reallocate a portion of its dealer-manager fee to participating broker/dealers. See Plan of Distribution. | \$13,500,000 |
| Reimbursement of Organization and Offering Expenses Wells Capital ⁽³⁾ | Up to 1.2% of gross offering proceeds from the primary offering. Wells Capital will incur or pay our organization and offering expenses (excluding selling commissions and the dealer-manager fee). We will then reimburse Wells Capital for these amounts up to 1.2% gross offering proceeds from the primary offering. | \$9,000,000 |
| <i>Acquisition and Development Stage</i> | | |
| Asset Management Fee Wells Capital ⁽⁴⁾ | Monthly fee equal to one-twelfth of 1.25% of the greater of cost or value of investments. | Actual amounts are dependent upon total equity and debt capital we raise and results of operations and therefore cannot be determined at this time. |
| Other Operating Expenses ⁽⁵⁾ | We will reimburse the expenses incurred by Wells Capital in connection with its provision of services, including related personnel, rent, utilities and information technology costs. We | Actual amounts are dependent upon results of operations and therefore cannot be determined at this time. |

will not reimburse for personnel costs in connection with services for which Wells Capital receives real estate disposition fees, or costs associated with hiring or retaining timber managers.

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| Form of Compensation and Entity Receiving | Determination of Amount | Estimated Amount for Maximum Offering⁽¹⁾ |
|---|--|--|
| | <i>Liquidity Stage</i> | |
| Real Estate Disposition Fees Wells Capital or its Affiliates ⁽⁶⁾ | For substantial assistance in connection with the sale of properties, we will pay Wells Capital or its affiliates an amount as determined by our board of directors to be appropriate based on market norms and not to exceed (1) for any property sold for \$20.0 million or less, 2.0% of the contract price of the property sold and (2) for any property sold for more than \$20.0 million, 1.0% of the contract price of the property sold; provided, however, in no event may the real estate commissions paid to Wells Capital, its affiliates and unaffiliated third parties exceed 6.0% of the contract sales price. | Actual amounts are dependent upon results of operations and therefore cannot be determined at this time. |
| Special Unit Distribution of Net Sales Proceeds Wells Capital ⁽⁷⁾⁽⁸⁾ | After we have made distributions to our stockholders (including amounts paid to redeem shares pursuant to our share redemption plan) equal to, in the aggregate, a return of the total amount of capital raised from stockholders plus a cumulative, noncompounded return on the average invested capital of 7.0% per year, Wells Capital is entitled to receive a cash distribution from Wells Timber OP equal to the difference between (1) 10% of the aggregate net proceeds from all sales of our properties and real estate related investments through the date of the distribution and (2) the total amount of all prior distributions of net sales proceeds paid to Wells Capital. Notwithstanding the foregoing, after we have made distributions to our stockholders (including amounts paid to redeem shares pursuant to our share redemption plan) equal to, in the aggregate, a return of the total amount of capital raised from stockholders plus a cumulative, noncompounded return on the average invested capital of at least 8.0% per year, Wells Capital is entitled to receive a cash distribution from Wells Timber OP equal to the difference between (1) 20% of the aggregate net proceeds from all sales of our properties and real estate related investments through the date of the distribution and (2) the total amount of all prior distributions of net sales proceeds paid to Wells Capital. | Actual amounts are dependent upon results of operations and therefore cannot be determined at this time. |

Each individual stockholder may receive more or less than the annual 7.0% or 8.0% cumulative, noncompounded pre-tax return on their invested capital prior to the commencement of distributions to Wells Capital.

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| Form of Compensation and Entity Receiving | Determination of Amount | Estimated Amount for Maximum Offering⁽¹⁾ |
|---|--|--|
| Special Unit Redemption Payment Due Upon Listing Wells Capital ⁽⁷⁾⁽⁸⁾⁽⁹⁾ | <p>Upon the listing of our shares on a national securities exchange, Wells Capital will be entitled to receive a payment for the redemption of the special units in the form of cash or shares of common stock, at our election. If (1) the market value of our outstanding common stock at listing plus the total distributions paid to stockholders prior to listing exceeds (2) the sum of the total amount of capital raised from stockholders (less amounts paid to redeem shares pursuant to our share redemption plan) and an amount of cash that, if distributed to the stockholders as of the date of listing, would have provided them with a cumulative, noncompounded return on the average invested capital equal to 7.0% per year, then the redemption payment will equal 10% of such excess amount.</p> <p>Notwithstanding the foregoing, if (1) the market value of our outstanding common stock at listing plus the total distributions paid to stockholders prior to listing exceeds (2) the sum of the total amount of capital raised from stockholders (less amounts paid to redeem shares pursuant to our share redemption plan) and an amount of cash that, if distributed to the stockholders as of the date of listing, would have provided them with a cumulative, noncompounded return on the average invested capital equal to 8.0% per year, then the redemption payment will equal 20% of such excess amount.</p> | Actual amounts are dependent upon results of operations and therefore cannot be determined at this time. |

- (1) The estimated maximum dollar amounts are based on the sale of the maximum of 85 million shares to the public, including 10 million shares through our distribution reinvestment plan.
- (2) Selling commissions and, in some cases, all or a portion of the dealer-manager fee will not be charged with regard to shares sold to or for the account of certain categories of purchasers. See Plan of Distribution.
- (3) These organization and offering expenses include all expenses (other than selling commissions and the dealer-manager fee) to be paid by us in connection with the offering, including our legal, accounting, printing, mailing and filing fees, due diligence expense reimbursements to broker/dealers and amounts to reimburse Wells Capital for the salaries of its employees and other costs in connection with preparing supplemental sales

materials, the cost of educational conferences held by us (including travel, meal and lodging costs of registered representatives of broker/dealers) and certain of the attendance fees and cost reimbursements for representatives of our dealer-manager and our advisor to attend retail seminars conducted by broker/dealers. The portion of these organization and offering expenses for which we (as opposed to Wells Capital) would be responsible could not be increased above 1.2% of our gross offering proceeds without entering into a new or an amended advisory agreement, which under our charter would require the approval of a majority of our independent directors. We will not reimburse Wells Capital for any organization and offering expenses from proceeds of sales pursuant to our distribution reinvestment plan.

- (4) The asset management fee is based on the actual amount invested on our behalf in properties, including any incurred or assumed indebtedness related to the properties, plus, with respect to joint ventures, the actual amount invested on our behalf in the joint venture plus our share of capital improvements, if applicable, made by the joint venture from cash flows generated by the joint venture, until such time as our advisor has estimated the value of all interests we hold in properties or joint ventures for ERISA reporting purposes. After such time, our asset management fee will be based on

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the greater of the amount as calculated above or the aggregate value of our interest in properties and joint ventures as established in connection with the most recent estimated valuation for ERISA fiduciaries. In performing the valuation, our advisor, or an unaffiliated appraiser chosen by our advisor, will consider the volume of timber on the timberland when it was originally acquired, subsequent biological growth of the timber, any timber losses from harvesting or otherwise, and the market value of timber then current at the time of the valuation. The asset management fee is payable, at the election of our advisor, either in cash or, subject to the ownership limitations in our charter, in shares of our common stock. If the fee is paid in shares, the shares will be valued at a price equal to the average closing price of the shares over the 10 trading days immediately preceding the date of such election, if the shares are then listed on a national securities exchange at such time. If the shares are not listed on a national securities exchange at such time, then the shares will be valued at a price equal to the fair market value for the shares on the date of the advisor's election to receive the fee in the form of shares as determined in good faith by our board of directors, including a majority of our independent directors.

- (5) Wells Capital must reimburse us the amount by which our aggregate annual total operating expenses exceed the greater of 2% of our average invested assets or 25% of our net income unless a majority of our independent directors has determined that such excess expenses were justified based on unusual and nonrecurring factors. Average invested assets means the average monthly book value of our assets for a specified period before deducting depreciation, bad debts or other noncash reserves. Total operating expenses means all costs and expenses paid or incurred by us, as determined under GAAP, that are in any way related to our operation, including advisory fees, but excluding (a) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses, and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (b) interest payments; (c) taxes; (d) noncash expenditures such as depreciation, amortization and bad debt reserves; (e) reasonable incentive fees based on the gain from the sale of our assets; and (f) acquisition fees, acquisition expenses (including expenses relating to potential acquisitions that we do not close), real estate disposition fees on the resale of property and other expenses connected with the acquisition, disposition, management and ownership of real estate interests or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property). Within 60 days after the end of any of our fiscal quarters for which total operating expenses for the 12 months then-ended exceeded the limitation, we will send to our stockholders a written disclosure, together with an explanation of the factors the independent directors considered in arriving at the conclusion that the excess expenses were justified.
- (6) Although we are most likely to pay real estate disposition fees to Wells Capital or an affiliate in the event of our liquidation, these fees also may be earned during our operational stage.
- (7) Upon termination of the advisory agreement without cause, Wells Capital may be entitled to a similar redemption payment if Wells Capital would have been entitled to a special unit distribution of net sales proceeds had the portfolio been liquidated (based on an independent appraised value of the portfolio) and all liabilities satisfied on the date of termination. Under our charter, we could not amend Wells Timber OP's partnership agreement to increase these success-based payments without the approval of a majority of our independent directors, and any increase in the special unit distribution of net sales proceeds or redemption payments upon listing or termination would have to be reasonable. Our charter provides that such payments are presumptively reasonable if the amount does not exceed 15% of the balance of such net proceeds remaining after investors have received a return of their net capital contributions and a 6.0% per year cumulative, noncompounded return.
- (8) For purposes of calculating the special unit distribution of net sales proceeds or the redemption payment due upon listing or upon termination of the advisory agreement without cause, average invested capital is, for a specified period, the average daily amount during such period of (a) the aggregate issue price of shares purchased by our

stockholders, reduced by (b) any amounts paid to stockholders to redeem shares pursuant to our share redemption plan.

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- (9) If at any time our shares become listed on a national securities exchange, we will negotiate in good faith with Wells Capital a fee structure appropriate for an entity with a perpetual life. A majority of our independent directors must approve the new fee structure negotiated with Wells Capital. In negotiating a new fee structure, our independent directors must consider all of the factors these directors deem relevant, including but not limited to:
- the size of the advisory fee in relation to the size, composition and profitability of our portfolio;
 - the success of Wells Capital in generating opportunities that meet our investment objectives;
 - the rates charged to other REITs and to investors other than REITs by advisors performing similar services;
 - additional revenues realized by Wells Capital through its relationship with us;
 - the quality and extent of service and advice furnished by Wells Capital;
 - the performance of our investment portfolio, including income, conservation or appreciation of capital, frequency of problem investments and competence in dealing with distress situations; and
 - the quality of our portfolio in relationship to the investments generated by Wells Capital for the account of other clients.

In the event that we elect to pay the redemption payment due upon listing in the form of shares of our common stock, the number of shares to be issued in payment of the fee will be based on the market value of our outstanding common stock (defined as the average market value of the shares issued and outstanding at listing over the 30 trading days beginning 180 days after the shares are first listed). The redemption payment due upon listing is subject to the limit on total operating expenses as described in footnote (5). In the event the special unit redemption payment due upon listing is earned by Wells Capital, Wells Capital will not be eligible to receive any further special unit distributions of net sales proceeds or the special unit redemption payment due upon termination described in footnote (7). Similarly, in the event the special unit redemption payment due upon termination is earned by Wells Capital, Wells Capital will not be eligible to receive any further special unit distributions of net sales proceeds or the special unit redemption payment due upon listing.

Table of Contents**STOCK OWNERSHIP**

The following table sets forth the beneficial ownership of our common stock as of May 31, 2006 (unless otherwise indicated) by (1) any person who is known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock, (2) our directors, (3) our executive officers and (4) all of our directors and executive officers as a group.

| Name of Beneficial Owners | Shares Beneficially Owned | |
|--|---------------------------|------------|
| | Shares | Percentage |
| Wells Capital, Inc. ⁽¹⁾ | 20,000 | 100% |
| Leo F. Wells, III, President and Director ⁽¹⁾ | 20,000 | 100% |
| Douglas P. Williams, Executive Vice President, Secretary, Treasurer and Director | | |
| Randall D. Fretz, Senior Vice President | | |
| Michael P. McCollum ⁽²⁾ | 833 | 4.0% |
| E. Nelson Mills ⁽²⁾ | 833 | 4.0% |
| Donald S. Moss ⁽²⁾ | 833 | 4.0% |
| Willis J. Potts, Jr. ⁽²⁾ | 833 | 4.0% |
| All directors and executive officers as a group (7 persons) | 23,332 | 100% |

(1) As the sole stockholder of Wells Real Estate Funds, Inc., which directly or indirectly owns Wells Capital, Inc., Mr. Wells may be deemed the beneficial owner of the shares held by Wells Capital, Inc. Wells Capital, Inc. also holds 200 common units in Wells Timber OP and 100 special units in Wells Timber OP.

(2) Includes shares issuable upon the exercise of options which are immediately exercisable.

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CONFLICTS OF INTEREST

We are subject to various conflicts of interest arising out of our relationship with Wells Capital and its affiliates, some of whom serve as our officers and directors. We discuss these conflicts below and conclude this section with a discussion of the corporate governance measures we adopted to ameliorate some of the risks posed by these conflicts.

Our Advisor s Interests in Other Wells Real Estate Programs

General

Wells Capital and its affiliates are general partners and advisors of other Wells programs, including programs that have investment objectives similar to ours, and we expect that they will organize other such partnerships and programs in the future. None of these programs, however, have invested in timberland. Wells Capital and such affiliates have legal and financial obligations with respect to these programs that are similar to their obligations to us.

Wells Capital and its affiliates have sponsored the following 17 public real estate programs with substantially identical investment objectives as ours:

1. Wells Real Estate Fund I
2. Wells Real Estate Fund II
3. Wells Real Estate Fund II-OW
4. Wells Real Estate Fund III, L.P.
5. Wells Real Estate Fund IV, L.P.
6. Wells Real Estate Fund V, L.P.
7. Wells Real Estate Fund VI, L.P.
8. Wells Real Estate Fund VII, L.P.
9. Wells Real Estate Fund VIII, L.P.
10. Wells Real Estate Fund IX, L.P.
11. Wells Real Estate Fund X, L.P.
12. Wells Real Estate Fund XI, L.P.
13. Wells Real Estate Fund XII, L.P.
14. Wells Real Estate Fund XIII, L.P.
15. Wells Real Estate Fund XIV, L.P.
16. Wells Real Estate Investment Trust, Inc.
17. Wells Real Estate Investment Trust II, Inc.

Allocation of Advisor s Time

We rely on Wells Capital and its affiliates for the day-to-day operation of our business. As a result of its interests in other Wells programs and the fact that it has also engaged and will continue to engage in other business activities,

Wells Capital and its affiliates will have conflicts of interest in allocating their time between us and other Wells programs and activities in which they are involved. However, Wells Capital believes that it and its affiliates have sufficient personnel to discharge fully their responsibilities to all of the Wells programs and ventures in which they are involved.

Receipt of Fees and Other Compensation by Wells Capital and its Affiliates

Wells Capital and its affiliates will receive substantial fees and other payments from us. During the offering stage, a significant portion of the fees and payments will be payable directly out of offering proceeds. These compensation arrangements could influence our advisor's advice to us, as well as the

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judgment of the affiliates of Wells Capital who serve as our officers or directors. Among other matters, the compensation arrangements could affect their judgment with respect to:

the continuation, renewal or enforcement of our agreements with Wells Capital and its affiliates, including the advisory agreement and the dealer-manager agreement;

public offerings of equity by us, which entitle Wells Investment Securities to dealer-manager fees and entitle Wells Capital to increased asset management fees;

the valuation of our timberland properties, which determines the amount of the asset management fee payable to Wells Capital and affects the likelihood of any success-based fees;

property sales, which entitle Wells Capital to real estate disposition fees and possible success-based sale fees;

property acquisitions from other Wells-sponsored programs, which might entitle Wells Capital to real estate disposition fees and possible success-based sale fees in connection with its services for the seller;

property acquisitions from third parties, which utilize proceeds from our public offerings, thereby increasing the likelihood of continued equity offerings and related fee income for Wells Investment Securities and Wells Capital;

whether and when we apply to list our common shares on a national securities exchange, which listing could entitle Wells Capital to a success-based payment upon the redemption of the special units of Wells Timber OP that it holds, which is due upon listing, but also could adversely affect its sales efforts for other programs depending on the price at which the shares trade; and

whether and when we seek to sell our company or our assets, which sale could entitle Wells Capital to a success-based distribution on the special units of Wells Timber OP that it holds, but could also adversely affect its sales efforts for other programs depending upon the sales price for our company or our assets.

Wells Capital, however, has a fiduciary duty to us. If Wells Capital fails to act in our best interest, it will have violated its fiduciary duty to us.

The advisory fees paid to Wells Capital will be paid irrespective of the quality or performance of the investments acquired or the services provided during the term of the advisory agreement. See Certain Conflict Resolution Procedures.

Fiduciary Duties Owed by Some of Our Affiliates to Our Advisor and Our Advisor's Affiliates

Our executive officers and two of our directors, Leo F. Wells, III and Douglas P. Williams, also are officers and directors of:

Wells REIT I and Wells REIT II;

Wells Capital, our advisor and the general partner of the various real estate programs sponsored by Wells Capital (described above); and

Wells Investment Securities, our dealer-manager.

In addition, one of our independent directors, Donald S. Moss, is a director of Wells REIT I and Wells REIT II, and is also a trustee of Wells Family of Real Estate Funds, a mutual fund registered under the Investment Company Act of 1940, as amended.

As a result, these persons owe fiduciary duties to these various entities and their stockholders and limited partners, which fiduciary duties may from time to time conflict with the fiduciary duties they owe to us. See

Management Executive Officers and Directors.

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Affiliated Dealer-Manager

Since Wells Investment Securities, our dealer-manager, is an affiliate of Wells Capital, you will not have the benefit of an independent due diligence review and investigation of the type normally performed by an independent underwriter in connection with the offering of securities. See Plan of Distribution.

Certain Conflict Resolution Procedures

Independent Directors

Our independent directors are empowered to resolve potential conflicts of interest. Serving on the board of, or owning an interest in, another Wells-sponsored program will not, by itself, preclude a person from being named an independent director. The independent directors, who are authorized to retain their own legal advisor and financial advisor, are empowered to act on any matter permitted under Maryland law if the matter at issue is such that the exercise of independent judgment by Wells Capital affiliates could reasonably be compromised. Those conflict-of-interest matters that the board cannot delegate to a committee under Maryland law must be acted upon by both the board of directors and a majority of our independent directors. Among the matters we expect our independent directors to act upon are:

the continuation, renewal or enforcement of our agreements with Wells Capital and its affiliates, including the advisory agreement and the dealer-manager agreement;

public offerings of securities;

transactions with affiliates;

compensation of our officers and directors who are affiliated with our advisor;

whether and when we apply to list our shares of common stock on a national securities exchange; and

whether and when we seek to sell the company or its assets.

Other Charter Provisions Relating to Conflicts of Interest

In addition to providing for our independent directors to act together to resolve potential conflicts, our charter contains many other restrictions relating to conflicts of interest including the following:

Advisor Compensation. The independent directors evaluate at least annually whether the compensation that we contract to pay to Wells Capital and its affiliates is reasonable in relation to the nature and quality of services performed and that such compensation is within the limits prescribed by our charter. The independent directors supervise the performance of Wells Capital and its affiliates to determine that the provisions of our compensation arrangements are being carried out, and whether or not to increase or decrease the amount of compensation payable to Wells Capital. The independent directors base their evaluation of Wells Capital on the factors set forth below as well as any other factors that they deem relevant:

the amount of the fees paid to Wells Capital and its affiliates in relation to the size, composition and performance of our investments;

the success of Wells Capital in generating appropriate investment opportunities;

the rates charged to other REITs and others by advisors performing similar services;

additional revenues realized by Wells Capital and its affiliates through their relationship with us, including whether we pay them or they are paid by others with whom we do business;

the quality and extent of service and advice furnished by Wells Capital and its affiliates;

the performance of our investment portfolio; and

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the quality of our portfolio relative to the investments generated by Wells Capital for its own account and for its other clients.

We can pay Wells Capital only a real estate disposition fee in connection with the sale of a property if it provides a substantial amount of the services in the effort to sell the property. If Wells Capital does provide substantial assistance, we will pay it or its affiliates an amount as determined by our board of directors, including a majority of our independent directors, to be appropriate based on market norms and not to exceed (i) for any property sold at a price of \$20.0 million or less, 2% of the contract price of the property sold and (ii) for any property sold at a price greater than \$20.0 million, 1% of the contract price of the property sold. However, in no event may the aggregate real estate disposition fees paid to Wells Capital, its affiliates and unaffiliated third parties exceed 6% of the contract sales price.

Term of Advisory Agreement. Each contract for the services of our advisor may not exceed one year, although there is no limit on the number of times that the contract with a particular advisor may be renewed. Either a majority of our independent directors or our advisor may terminate our advisory agreement with Wells Capital without cause or penalty on 60 days written notice. In the event our advisory agreement with Wells Capital is terminated and a successor advisor is appointed, our board of directors must determine that the successor advisor possesses sufficient qualifications to perform the services described in the advisory agreement and that the compensation we will pay to the successor advisor will be reasonable in relation to the services provided. For information regarding the redemption payment that may be payable by Wells Timber OP to our advisor upon termination of the advisory agreement in connection with the redemption of special units held by our advisor, see note (7) to the compensation table under Management Compensation.

Our Acquisitions, Dispositions and Leases. We will not purchase or lease properties in which Wells Capital, our directors or officers or any of their affiliates have an interest without a determination by a majority of our independent directors that such transaction is fair and reasonable to us and at a price to us no greater than the cost of the property to the affiliated seller or lessor unless there is substantial justification for the excess amount. In no event will we acquire any such property at an amount in excess of its current appraised value as determined by an independent expert selected by our independent directors not otherwise interested in the transaction. In addition, we will not sell or lease properties to Wells Capital, our directors or officers or any of their affiliates unless a majority of our independent directors determine that the transaction is fair and reasonable to us.

Other Transactions Involving Affiliates. A majority of our independent directors must conclude that all other transactions, including joint ventures, between us and Wells Capital, our officers or directors or any of their affiliates are fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

No Limitation on Other Business Activities. Our charter does not prohibit Wells Capital, our directors or officers or any of their affiliates from engaging, directly or indirectly, in any other business or from owning interests in any other business ventures, including business ventures involved in the acquisition, ownership, management, or sale of timberland or other types of properties.

Limitation on Operating Expenses. Wells Capital must reimburse us the amount by which our aggregate annual total operating expenses exceed the greater of 2% of our average invested assets or 25% of our net income unless our independent directors have determined that such excess expenses were justified based on unusual and nonrecurring factors. Within 60 days after the end of any of our fiscal quarters for which total operating expenses for the 12 months then-ended exceeded the limitation, we will send to our stockholders a written disclosure, together with an explanation of the factors the independent directors considered in arriving at the conclusion that the excess expenses were justified. Average invested assets means the average monthly book value of our assets for a specified period before deducting depreciation, bad debts or other noncash reserves. Total operating expenses means all costs and expenses paid or incurred by us, as determined under GAAP, that are in any way related to our operation, including advisory fees, but excluding (a) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such

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expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (b) interest payments; (c) taxes; (d) noncash expenditures such as depreciation, amortization and bad debt reserves; (e) reasonable incentive fees based on the gain from the sale of our assets; and (f) acquisition fees, acquisition expenses, real estate disposition fees on the resale of property and other expenses connected with the acquisition, disposition, management and ownership of real estate interests or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property).

Issuance of Options and Warrants to Certain Affiliates. Our charter prohibits the issuance of options or warrants to purchase our capital stock to Wells Capital, our directors or officers or any of their affiliates (a) on terms more favorable than we offer such options or warrants to the general public or (b) in excess of an amount equal to 10% of our outstanding capital stock on the date of grant.

Repurchase of Our Shares. Our charter prohibits us from paying a fee to Wells Capital or our directors or officers or any of their affiliates in connection with our repurchase of our capital stock.

Loans. We will not make any loans to Wells Capital or to our directors or officers or any of their affiliates. In addition, we will not borrow from these affiliates unless a majority of our independent directors approve the transaction as being fair, competitive and commercially reasonable, and no less favorable to us than comparable loans between unaffiliated parties. These restrictions on loans will apply only to advances of cash that are commonly viewed as loans, as determined by the board of directors. By way of example only, the prohibition on loans would not restrict advances of cash for legal expenses or other costs incurred as a result of any legal action for which indemnification is being sought, nor would the prohibition limit our ability to advance reimbursable expenses incurred by directors or officers or Wells Capital or its affiliates.

Reports to Stockholders. Our charter requires that we prepare an annual report and deliver it to our stockholders within 120 days after the end of each fiscal year. Among the matters that must be included in the annual report are:

the ratio of the costs of raising capital during the year to the capital raised;

the aggregate amount of advisory fees and the aggregate amount of other fees paid to Wells Capital and any affiliate of Wells Capital by us or third parties doing business with us during the year;

our total operating expenses for the year, stated as a percentage of our average invested assets and as a percentage of our net income;

a report from our independent directors that our policies are in the best interests of our stockholders and the basis for such determination; and

separately stated, full disclosure of all material terms, factors and circumstances surrounding any and all transactions involving us and our advisor, a director or any affiliate thereof during the year, including commentary by our independent directors following the independent directors' examination of these matters regarding the fairness of the transactions.

Voting of Shares Owned by Affiliates. Before becoming a stockholder, Wells Capital or a director or officer or any of their affiliates must agree not to vote their shares regarding (i) the removal of any of these affiliates or (ii) any transaction between them and us.

Ratification of Charter Provisions. Our board of directors, including a majority of our independent directors, has reviewed and ratified our charter by the vote of a majority of their respective members, as required by our charter.

Allocation of Investment Opportunities

When Wells Capital presents an investment opportunity to a Wells-sponsored program, it will offer the opportunity to the program for which the investment opportunity is most suitable. This determination is made by Wells Capital. However, our advisory agreement with Wells Capital requires that Wells Capital

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make this determination in a manner that is fair without favoring any other Wells-sponsored program. In determining the Wells-sponsored program for which an investment opportunity would be most suitable, Wells Capital will consider the following factors:

the investment objectives and criteria of each program;

the cash requirements of each program;

the effect of the acquisition both on diversification of each program's investments by type of property and geographic area and, if applicable, on diversification of the lessees of its properties;

the policy of each program relating to leverage of properties;

the anticipated cash flow of each program;

the income tax effects of the purchase on each program;

the size of the investment; and

the amount of funds available to each program and the length of time such funds have been available for investment.

Since our company is the only Wells program to date formed for the purpose of investing primarily in timberland, we do not expect that Wells Capital will face substantial conflicts in allocating investment opportunities that are suitable for us, among us and other Wells programs, at least until such time, if ever, as another Wells program is formed for the purpose of investing in timberland. In the event that an investment opportunity becomes available that is equally suitable for us and one or more other Wells programs, then Wells Capital will offer the investment opportunity to the entity that has had the longest period of time elapsed since it was offered an investment opportunity. If a subsequent event or development, such as a delay in the closing of a property or a delay in the construction of a property, causes any such investment, in the opinion of Wells Capital, to be more appropriate for another Wells program, Wells Capital may offer the investment to another Wells program.

Our advisory agreement with Wells Capital requires that Wells Capital periodically inform our independent directors of the investment opportunities it has offered to other Wells programs so that the independent directors can evaluate whether we are receiving our fair share of opportunities. Wells Capital is to inform our independent directors of such investment opportunities quarterly. Wells Capital's success in generating investment opportunities for us and its fair allocation of opportunities among Wells programs are important criteria in our independent directors' determination to continue or renew our arrangements with Wells Capital and its affiliates. Our independent directors have a duty to ensure that Wells Capital fairly applies its method for allocating investment opportunities among the Wells-sponsored programs.

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INDUSTRY OVERVIEW

General

The timber industry provides raw material and conducts resource management activities for the paper and forest products industry, including the planting, fertilizing, thinning, and cutting of trees and the marketing of logs. Logs are marketed and sold either as saw logs to lumber and other wood products manufacturers or as pulp logs to pulp and paper manufacturers. The timber industry possesses several unique characteristics that distinguish it from the broader paper and forest products industry, which we believe make timber an attractive asset class, including the following:

Renewable Resource. Timber is a growing and renewable resource that, if properly managed, increases in value as it grows and regenerates over time. Larger-diameter trees are more valuable than smaller trees because they may be converted to higher-value end-use products such as lumber and plywood.

Predictable and Improving Growth Rates. Predictable biological growth is an attractive feature of timberland assets because it contributes to predictable, long-term harvest planning. The development and application of intensive forest management practices continue to improve biological growth rates.

Harvest Flexibility. Timberland owners have flexibility to increase their harvests when prices are high and decrease their harvests when prices are low, allowing timberland owners to maximize the long-term value of their growing resource base.

Historical Real Price Appreciation. Historically, real prices for timber have exhibited positive annual growth rates. Due to growing demand combined with limitations on supply caused by environmental restrictions, urban sprawl, international demand and overcutting, prices for Douglas fir and southern yellow pine timber have exhibited a compound annual growth rate of approximately 4% and 3.1% from 1975 through 2001. Real prices for timber generally increase with increases in the Consumer Price Index, and tend to be correlated over the long term with lumber prices, the largest end-use for timber.

Supply and Demand Dynamics

There are five primary end-markets for most of the timber harvested in the United States:

products used in new housing construction;

products used in the repair and remodeling of existing housing;

products for industrial uses;

raw material for the manufacture of pulp and paper; and

logs for export.

Supply. The supply of timber is limited, to some extent, by the availability of timberland. The availability of timberland, in turn, is limited by several factors, including government restrictions, alternate uses such as agriculture, and loss to urban or suburban real estate development. The large amounts of capital and time required to create new timberlands also limits timber supply.

Tree growth rates vary from region to region because of differences in weather, climate and soil conditions. Consequently, the development of new timberlands in the United States is not commonplace. Instead, it is more cost-effective to convert existing natural growth stands to forestry plantations by applying modern forestry techniques to efficiently increase tree growth and harvest levels.

Demand. The demand for timber is directly related to the underlying demand for pulp, paper, lumber, panel and other forest products. The demand for pulp and paper is largely driven by population growth and per-capita income levels. The demand for lumber and manufactured wood products is primarily affected by the level of new residential construction activity and repair and remodeling activity, which, in turn, is impacted by changes in general economic

and demographic factors, including interest rates for home mortgages and construction loans.

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Stages of Biological Growth

The fact that forests can be acquired at different ages and in different regions, provides us with the opportunity to build a well-diversified, attractive risk-adjusted return portfolio.

New Forestry. New forestry is the process of planting trees following the harvest of mature growth, through the use of genetically improved seedlings, to create fast-growing timber stands. New forestry also may emerge after harvesting hardwood stands but selectively leaving mature trees to naturally re-seed the surrounding areas.

Emerging Growth. The primary definition of emerging growth is a forest that has not yet reached merchantability, but is in a period during which its biological growth rate is fastest. However, what constitutes a merchantable tree is a function of local timber markets. The variety of tree species, market requirements and the different growth regions affect when trees become merchantable. During the emerging growth stage, liquidity is very limited because the timber has no immediate commercial value.

Established Growth. Emerging-growth forests transition into established growth when they first become merchantable. Thinning operations, which entail the removal of trees to provide for more rapid growth of the remaining trees, often occurs during this stage and produces some revenue for the owner of the timberland. Generally, the smallest merchantable trees are sold for pulpwood, which is used to make paper, and has the lowest value per-unit volume. Near the midpoint of the established growth stage, biological growth begins to slow, but trees start to become large enough to be sold for higher-value small saw timber grades. As the forest gets older it becomes increasingly liquid because even though the biological growth rate begins to slow, the rate of value growth, as described below, increases. With increasing liquidity, timberland owners may achieve greater return potential and moderate volatility.

Mature Growth. When a forest enters the mature-growth stage, the rate of biological growth slows further and contributes little added value. During this stage, however, trees reach a size where they become merchantable for the highest-value, large saw timber grades. Mature timberland possesses the most valuable end-use potential; it also commands the highest per-unit prices with the greatest level of liquidity. Therefore, the investment value of mature growth timberland is predominantly a function of the price of lumber.

Prime Growth. Prime growth is a special case of mature growth and is not found in all market areas, so mature growth may be the last growth stage reached in those areas. Prime growth differs from mature growth in that it is capable of producing unusually valuable niche products. Prime growth also tends to have lower volatility than mature growth for two reasons. First, its value as a niche product means its linkage to the construction market is weaker. Second, since by definition it produces a unique product, demand tends to be steady.

Biological Growth Compared to Value Growth

Biological growth and value growth are the primary drivers of timber investment returns. Biological growth, as described above, is simply the natural growth rates and cycles of any living organism. Like all living things, timber's rate of biological growth decreases over time. However, while the biological rate of growth slows as timber matures, the timber continues to steadily produce additional amounts of wood fiber until it is fully mature.

Value growth is a function of biomass multiplied by price, at any given time in the life cycle of timber. Value growth in timber is driven by the increase in value per ton as the timber mix moves from lower-priced pulpwood to higher-priced saw timber. Value growth begins as timber reaches merchantability (pulpwood) and constantly increases as timber becomes suitable for saw timber. As timber reaches maturity (pulpwood to saw timber), the growth in value of the wood fiber starts to exceed the biological (physical or volume) growth rate. In other words, as trees reach specific market threshold diameters, their per-ton value goes up much faster than the biological growth rate. The investment value of established growth timberland progressively becomes more a function of price for end products and less a function of biological growth.

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We believe that the biological growth inherent in timber creates a natural hedge against periods of low pricing. During periods of depressed prices, our advisor can decide to reduce the amount of timber we sell until the market prices rebound. While timber is subject to destruction from disease, catastrophe and other causes, unlike other farm commodities, timber for the most part is nonperishable and becomes more valuable on a per-unit basis over time.

Market Opportunity

We believe the following favorable market conditions and trends in the timber industry create a significant opportunity for independent timber investment companies:

Restructuring of the Forest and Paper Products Industry. There is currently a significant restructuring of the forest and paper products industry propelled by the capital-intensive requirements of certain manufacturing processes and the need to more efficiently deploy capital resources. We believe that a substantial part of this trend results from forest and paper products companies seeking to sell their timberland holdings in order to strengthen deteriorating balance sheets damaged by both the weak economy and by debt-financed acquisitions. These integrated companies appear to be focusing their capital resources on their core operations in an attempt to increase operational flexibility. While these integrated companies have historically owned their own timberland and manufacturing operations, we believe they, along with other millers and manufacturers, are now embracing a strategy of purchasing timber as needed from third-party owners whom they believe will provide them with an uninterrupted supply of high-quality timber. As a result, we believe the opportunity exists for an independent company to become the supplier of choice for many forest and paper products companies seeking reliable long-term partners to supply the timber used in their manufacturing operations.

Highly Fragmented Market. The majority of timberland in the United States is owned by private individuals, and no single timberland owner owns more than 3% of the identified timberland. We believe that owners of a small number of tracts of timberland as well as those with diverse operations cannot fully benefit from the economies of scale that are available to owners of a large number of tracts of timberland who exclusively focus on active timberland management. We believe that if this offering is successful, we will be well-positioned to acquire a large number of tracts of timberland and benefit from the corresponding economies of scale.

Advances in Forest Management Techniques. Advances in forest management and techniques for growing and tending of trees in recent years have markedly improved the ability to grow, harvest and regenerate high-quality timber. While many owners of timberland have passively grown timber with the goal of realizing a favorable return on their investment, application of advanced forest management techniques by experienced personnel is a necessary part of realizing the highest possible returns on timberland.

Timber and Timberland Prices. Historically, timber prices have increased over the long term. However, timber prices have declined over the short term relative to long-term levels, and since the price of timberland correlates closely with prices for timber, we believe this creates a timberland buying opportunity.

Demand for Higher and Better Use Land. Land values are related to local supply-and-demand conditions, and vary from market to market. Historically, demand for recreational land, land for commercial and residential development, and land for conservation has increased over the long term. We expect that this demand will continue to increase over the long term, creating opportunities to sell timberland having a higher and better use at attractive prices relative to its long-term value as timberland.

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BUSINESS AND POLICIES

Our Business

We intend to generate our revenue and income primarily by selling to third parties the right to access our land and harvest our timber primarily pursuant to supply agreements and through open market sales. We also anticipate generating revenue and income from selling timberland considered by third parties to have a higher and better use, leasing land-use rights (hunting, fishing, etc.), permitting others to extract natural resources other than timber and permitting pine straw collection. We also may invest in entities that own timberland and purchase other types of real estate investments.

We have observed a trend among integrated forest and paper products companies to restructure their operations and divest themselves of significant portions of their timberland holdings in an attempt to strengthen their financial position and more effectively deploy capital to their core operations. In addition, while timberland management benefits from economies of scale, timberland ownership is generally highly fragmented outside the integrated forest and paper products industry, resulting in operational inefficiencies. As a timberland investment company that is independent from integrated forest and paper products companies, we believe that we will be able to acquire large tracts of timberland, utilize experienced timber managers, benefit from economies of scale and establish ourselves as a preferred provider of timber to numerous timber end-users.

Investment Objectives

Our primary investment objectives are:

to provide current income for you through the payment of cash distributions;

to preserve and return your capital contribution; and

to realize capital appreciation upon the ultimate sale of our assets.

Investment Strategy

We intend to invest primarily in timberland properties located in the timber-producing regions of the United States, which include the states in the Appalachian, Great Lakes, Northeastern, Northwestern and Southeastern regions. We also plan to invest, to a lesser extent, in timber-producing regions outside the United States. Generally, we will hold fee title or a long-term leasehold estate in the properties we acquire.

Wells Capital will strive to diversify our portfolio by maturity of the growth stages of the forest. In order to achieve our income objective, the timberland portfolio will, at least initially, be weighted heavily toward more mature forests with a smaller weighting to younger forests. The portfolio also will be diversified geographically, by timber species, by hardwood/softwood and by milling submarket. We are not limited as to the geographic area where we may conduct our operations, and we currently intend to seek to invest in properties located in each of the timber-producing regions of the United States. We may also invest, to a lesser extent, in properties located in international timber-producing regions such as Canada and certain South American countries. We will strive to diversify our portfolio so that following the investment of the net proceeds raised during our offering stage, no more than 30% of the fair market value of the assets in our portfolio will be represented by investments outside the United States. We currently anticipate that the actual amount invested outside the United States will not exceed 20% of the fair market value of the portfolio we acquire with the net proceeds raised during our offering stage.

Our portfolio investment strategy includes:

identifying prospective timberland acquisitions that provide geographic, species and age diversity to our portfolio consistent with strong and sustainable projected cash flows;

applying sophisticated financial analysis to timberland investments;

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educating forest and paper products companies as to our ability to become a preferred partner for dispositions and a reliable source for their future inventory needs;

acquiring timberland in timber milling markets that are competitive and well developed;

using targeted levels of leverage to increase our ability to acquire our timberland portfolio and enhance our return on equity (higher amounts during our initial portfolio acquisition phase and low-to-moderate levels thereafter);

targeting opportunities for a seller to divest property in a tax-efficient manner by receiving units of limited partnership interest in our operating partnership in exchange for their property, giving the sellers the ability to defer some or all of the taxes otherwise payable upon sale; and

maintaining the flexibility to invest in any other type of property that our board of directors deems appropriate and desirable in order to satisfy our investment objectives.

Other Possible Investments

Although we expect that most of our property acquisitions will be of the type described above, we may make other investments. For example, we may purchase saw mills, warehouse and distribution facilities, manufacturing facilities, undeveloped land, options to purchase a particular property or other properties that are complementary to our timberland investments. In fact, we may make any investments that our board of directors deems appropriate and consistent with our status as a REIT. Moreover, we are not limited in the number or size of properties we may acquire or as to the percentage of net proceeds of this offering that we may invest in a single property.

Our charter limits our ability to make certain types of investments. Unless our charter is amended, we will not: invest in commodities or commodity futures contracts, except for futures contracts used solely for the purpose of hedging in connection with our ordinary business of investing in real estate assets and mortgages;

invest in real estate contracts of sale, otherwise known as land sale contracts, unless the contract is in recordable form and is appropriately recorded in the chain of title; or

invest in equity securities unless a majority of our independent directors approves such investment as being fair, competitive and commercially reasonable.

In addition, we do not intend to underwrite securities of other issuers or to operate in such a manner as to be classified as an investment company for purposes of the Investment Company Act.

Investment Decisions

Wells Capital will have substantial discretion with respect to the selection of specific investments and the purchase and sale of our properties, subject to the approval of our board of directors. The consideration for each investment must be authorized by majority of our directors or a duly authorized committee of our board, ordinarily based on the fair market value of the investment. If the majority of our independent directors or a duly authorized committee of our board so determines, or if the investment is to be acquired from an affiliate, the fair market value determination will be supported by an appraisal obtained from a qualified, independent appraiser selected by a majority of our independent directors.

In pursuing our investment objectives and making investment decisions for us, Wells Capital may consider the recommendation of a timber manager and will review all supporting documentation provided in connection with the proposed acquisition, including the following:

relevant real estate property and financial factors;

the creditworthiness of parties to any harvesting contracts;

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supply contracts and leases related to the property;

the location of the property;

suitability for any development contemplated or in progress;

the property's income-producing capacity and potential for future sale as a higher and better use property;

prospects for long-range appreciation; and

liquidity and tax considerations.

Moreover, to the extent feasible, Wells Capital will strive to invest for us in a diversified portfolio of properties based on the growth stage of trees, species of tree and geography, although the number and mix of properties we acquire will largely depend upon real estate and market conditions and other circumstances existing at the time we are acquiring our properties and the amount of proceeds we raise in this offering.

To find properties that best meet our selection criteria for investment, Wells Capital will study regional growing conditions and timberland market conditions and interview local forest managers to gain the practical knowledge. Environmental engineers will inspect properties for environmental soundness to ensure that each property meets our environmental specifications. Wells Capital may also engage timber managers to assist it in its evaluation of timberland properties.

Operational Strategy

We intend to maximize the return generated from our timberland properties by implementing the following operating strategies, among others:

strategically using various sales methods that generate qualifying income for purposes of maintaining our REIT status and to maximize the value of harvesting, achieve stable cash flows and mitigate local market risks;

implementing advanced forest management and silviculture practices to maximize the growth and value of timber stands, including the utilization of genetically improved seedlings, forest management practices such as thinning and fertilization, and the conversion of natural forests to actively managed timberland;

closely monitoring and taking advantage of local timber market price fluctuations;

benefiting from other sources of value, including leasing land-use rights, and permitting others to extract natural resources other than timber.

taking advantage of profit opportunities for property sales where the market for the property has shifted to a higher and better use; and

capitalizing on the experience and extensive relationships of our board of directors in the integrated forest and paper products industry.

In general, timberland investing is not a highly capital-intensive investment. However, in order to maximize the return on our timber, we may expend significant working capital on soil preparation and re-planting; biometric research; genetic research; fertilization; thinning; weed suppression; fire mitigation; and maintenance of timber roads, bridges and gates. The practice of thinning enables healthier trees to grow more rapidly. As trees grow larger and add wood volume, they become more valuable since they can be used in higher-value applications such as high-grade lumber, plywood, and furniture. The early and mid-rotation applications of fertilizers and chemicals to control plant competition also increase forest productivity. We intend to practice environmentally responsible timberland management, which may include the following:

providing for the post-harvesting regeneration of timber;

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taking steps to protect the timberland from fire, infestation, disease and pollution; and

maintaining the biological diversity of the timberland and bodies of water found in or adjacent to the timberland.

Our Higher and Better Use Land Sales

We will continually review our timberland portfolio to identify properties to sell that may have higher and better uses than as commercial timberland. Higher and better use land sales are sales of timberland that are effected after a determination that the property would be more valuable if sold for use other than as timberland. Our ongoing review process will evaluate properties based on a number of factors, such as proximity to population centers and major transportation routes and the presence of special ecological features. We also may occasionally exchange timberlands that have high environmental or other public values for lands of equal value that are more suitable for commercial timber management, and, from time to time, sell less strategic timberlands.

Joint Venture Investments

In order to diversify our portfolio of assets, we may enter into joint ventures, partnerships, co-tenancies and other co-ownership arrangements or participations with other timberland investors for the purpose of owning and managing timberland. In determining whether to invest in a particular joint venture, Wells Capital will evaluate the timberland property that the joint venture owns or is being formed to own under the same criteria described elsewhere in this prospectus for the selection of our real estate property investments. We may enter into joint ventures only with other Wells programs if our independent directors approve the transaction as being fair and reasonable to us.

Our policy is to invest in joint ventures only when we will have a right of first refusal to purchase the co-venturer's interest in the joint venture if the co-venturer elects to sell such interest. In the event that the co-venturer elects to sell property held in any such joint venture, however, we may not have sufficient funds to exercise our right of first refusal to buy the other co-venturer's interest in the property held by the joint venture. In the event that any joint venture with an affiliated entity holds interests in more than one property, the interest in each such property may be specially allocated based upon the respective proportion of funds invested by each co-venturer in each such property.

Borrowing Policies

We may borrow funds to make investments and we intend to do so as necessary to facilitate their purchase, subject to certain limitations described below. By operating on a leveraged basis, we expect that we will have more funds available for investments. This will generally allow us to make more investments than would otherwise be possible, potentially resulting in enhanced investment returns and a more diversified portfolio. However, our use of leverage increases the risk of default on loan payments and the resulting foreclosure on a particular property. In addition, lenders may have recourse to assets other than those specifically securing the repayment of the indebtedness.

We intend to employ greater amounts of leverage during the initial phase of this offering in order to enable us to purchase properties more quickly and therefore generate distributions for our investors sooner. Following this initial phase, we intend to use subsequent proceeds raised in this offering to significantly reduce our overall leverage. Our policies do not limit the amount we may borrow with respect to any individual property. We currently anticipate that after we have raised at least \$500 million of gross offering proceeds, our overall leverage will not exceed 30% of the fair market value of our assets.

Under our charter, we have a limitation on borrowing that precludes us from borrowing in excess of 300% of the value of our net assets, which we refer to as our net assets limitation. Net assets for purposes of this calculation is defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other noncash reserves, less total liabilities, calculated quarterly by us on a basis consistently applied. Our net assets limitation is generally expected to limit our

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borrowing to approximately 75% of the cost of our properties before noncash reserves and depreciation. However, we may temporarily borrow in excess of our net assets limitation if such excess is approved by a majority of our independent directors and disclosed to stockholders in our next quarterly report, along with an explanation for such excess.

Our advisor will use its best efforts to obtain financing on the most favorable terms available to us and will seek to refinance properties during the term of a loan only in limited circumstances, such as when a decline in interest rates makes it beneficial to prepay an existing loan, when an existing loan matures, or if an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment. The benefits of any such refinancing may include an increased cash flow resulting from reduced debt service requirements, an increase in distributions from proceeds of the refinancing and an increase in diversification and assets owned if all or a portion of the refinancing proceeds are reinvested.

Disposition Policies

We intend to hold each property we acquire for an extended period. However, circumstances might arise that could result in the early sale of some properties. For example, we may sell properties that are perceived to have a higher and better use than commercial timberland. See *Our Higher and Better Use Land Sales* above. We expect our board of directors to make the determination with respect to whether we should sell or dispose of a particular property based on its determination that the sale of the property would be in the best interest of our stockholders.

The determination of whether a particular property should be sold or otherwise disposed of before the end of the expected holding period for the property will be made after consideration of relevant factors (including prevailing economic conditions, the performance or projected performance and appreciation of the property) with a view to achieving maximum capital appreciation. We cannot assure you that this objective will be realized.

We may reinvest the proceeds of property sales in investments that we believe are consistent with our investment objectives. See *Investment Objectives* above.

Investment Limitations

Our charter places numerous limitations on us with respect to the manner in which we may invest our funds or issue securities. These limitations cannot be changed unless our charter is amended, which requires approval of our stockholders. Until our shares are listed, unless our charter is amended, we will not:

borrow in excess of our net assets limitation (described in *Borrowing Policies* above), which is generally expected to approximate 75% of the cost of our properties before noncash reserves and depreciation, unless approved by a majority of our independent directors;

make investments in unimproved property or mortgage loans on unimproved property in excess of 10% of our total assets;

make or invest in mortgage loans unless an appraisal is obtained concerning the underlying property, except for those mortgage loans insured or guaranteed by a government or government agency;

make or invest in mortgage loans on any one property if the aggregate amount of all mortgage loans on such property would exceed an amount equal to 85% of the appraised value of such property as determined by an appraisal, unless substantial justification exists for exceeding such limit because of the presence of other underwriting criteria;

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invest in equity securities unless a majority of our independent directors approves such investment as being fair, competitive and commercially reasonable;

invest in real estate contracts of sale, otherwise known as land sale contracts, unless the contract is in recordable form and is appropriately recorded in the chain of title;

invest in commodities or commodity futures contracts, except for futures contracts used solely for the purpose of hedging in connection with our ordinary business of investing in real estate assets and mortgages;

issue equity securities on a deferred payment basis or other similar arrangement;

issue debt securities in the absence of adequate cash flow to cover debt service;

issue equity securities redeemable solely at the option of the holder, which restriction has no effect on our proposed share redemption plan or the ability of our operating partnership to issue redeemable partnership interests;

issue options or warrants to Wells Capital, our directors, our sponsor, or any of their affiliates except on the same terms as such options or warrants are sold to the general public;

pay acquisition fees and acquisition expenses which aggregate in excess of 6% of the contract purchase price of any investment in real property, or, in the case of a mortgage, 6% of the funds advanced, unless a majority of our directors (including a majority of our independent directors) not otherwise interested in the transaction approve fees and expenses in excess of this limit following a determination that the transaction is commercially competitive, fair and reasonable to us; or

make any investment that we believe will be inconsistent with our objectives of qualifying and remaining qualified as a REIT, unless our board of directors determines that REIT qualification is not in our best interest.

In addition, our charter includes many other investment limitations in connection with conflict-of-interest transactions, which limitations are described above under **Conflicts of Interest**. Our charter also includes restrictions on roll-up transactions, which are described under **Description of Shares** below.

Changes in Investment Objectives and Limitations

Our charter requires that the independent directors review our investment policies at least annually to determine that the policies we are following are in the best interests of our stockholders. Each determination and the basis therefor are required to be set forth in the minutes of the meetings of our directors and in an annual report delivered to our stockholders. The methods of implementing our investment policies also may vary as new investment techniques are developed. The methods of implementing our investment objectives and policies, except as otherwise provided in our organizational documents, may be altered by a majority of our directors, including a majority of the independent directors, without the approval of the stockholders. Our investment objectives themselves and the other investment policies and limitations specifically set forth in our charter, however, may only be amended by a vote of the stockholders holding a majority of our outstanding shares.

Issuing Securities for Property

Subject to limitations contained in our charter and other organizational documents, we may issue, or cause to be issued, shares of our stock or limited partnership units in Wells Timber OP in any manner (and on such terms and for such consideration) in exchange for property. The Issuer does not intend that shares issued in exchange for property will be registered as part of this offering but may be registered at a future date. Existing stockholders have no preemptive rights to purchase shares or limited partnership units in any such offering, and any such offering might cause a dilution of a stockholder's initial investment.

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Acquisitions of Our Common Stock

We have authority to purchase or otherwise reacquire our shares of our common stock or any of our other securities. We have no present intention of repurchasing any of our shares except pursuant to our proposed share redemption program, and we would only take such action in conformity with applicable federal and state laws and the requirements for qualifying as a REIT under the Internal Revenue Code.

Liquidity Event

We presently intend to effect a transaction that will provide liquidity to all of our holders of common stock within five to seven years from the completion of our offering stage, which we will view as complete upon the termination of our last public equity offering prior to the listing of our shares on a national securities exchange. However, there can be no assurance that we will effect such a liquidity event within this period or at all. Our board of directors expects to make a preliminary determination regarding when to pursue our liquidity event and the type of transaction to pursue no later than five years after the termination of our offering stage. We expect that our liquidity event will be, but it is not limited to, one of the following types of transactions:

listing our common stock on a national securities exchange; or

a sale or merger of our company in a transaction that provides our stockholders with cash and/or securities of a publicly traded company.

In making the decision as to which exit strategy to pursue, our board of directors will try to determine which transaction would result in greater long-term value for our stockholders. We cannot determine at this time the circumstances, if any, under which our board of directors will determine to list our shares. However, if we do not list our shares of common stock on a national securities exchange by _____, 2018 (10 years from the currently anticipated date of completion of our offering stage), our charter requires that we either:

seek stockholder approval of an extension or amendment of this listing deadline; or

commence an orderly liquidation.

If our shares are not listed before _____, 2018, we are under no obligation to actually sell our portfolio within a specified time period since the precise timing will depend upon real estate and financial markets, economic conditions of the areas in which the properties are located, and U.S. federal income tax effects on stockholders, which may be applicable in the future. Furthermore, we cannot assure you that we will be able to liquidate our assets, and it should be noted that we will continue in existence until all of our assets are liquidated.

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PLAN OF OPERATION

General

As of the date of this prospectus, we have not commenced operations. After the minimum subscription of \$2 million is achieved, subscription proceeds will be released to us (except for subscriptions from Pennsylvania investors see Plan of Distribution Special Notice to Pennsylvania Investors) and applied to investments in properties and other assets and the payment or reimbursement of selling commissions and other organization and offering expenses. See Estimated Use of Proceeds. We will experience a relative increase in liquidity as additional subscriptions for shares are received and a relative decrease in liquidity as net offering proceeds are expended in connection with the acquisition, development and operation of properties.

We have not entered into any arrangements to acquire any specific properties with the net proceeds from this offering. The number of properties we may acquire will depend upon the number of shares sold and the resulting amount of the net proceeds available for investment in properties. If we do not raise substantially more than the minimum threshold of \$2 million, our ability to purchase properties will be negatively affected and we would most likely be unable to purchase a portfolio of timberland that is diversified geographically and by species of tree. We would likely also need to utilize a significant amount of leverage in order to make investments, conduct our operations and pay distributions to our investors. See Risk Factors Risks Related to Investing in this Offering If we are unable to raise substantial funds we will be limited in the number and type of investments we may make, and the value of your investment in us will fluctuate with the performance of the specific properties we acquire.

We are not aware of any material trends or uncertainties, favorable or unfavorable, other than national economic conditions affecting investments in timberland and real estate generally, that may be reasonably anticipated to have a material impact on either capital resources or the revenues or income to be derived from the acquisition and operation of the properties we intend to acquire, other than those referred to in this prospectus.

Our advisor also may, but is not required to, establish reserves from gross offering proceeds, out of cash flow generated by operating properties or out of nonliquidating net sales proceeds from the sale of our properties. Working capital reserves are typically utilized for nonoperating expenses. Alternatively, a lender may require its own formula for escrow of working capital reserves.

The net proceeds of this offering will provide funds to enable us to purchase properties. In addition, we intend to borrow funds to purchase properties. We may acquire some properties free and clear of permanent mortgage indebtedness by paying the entire purchase price of each property in cash or for equity securities, or a combination thereof. We also may selectively encumber all or certain properties following acquisition, if favorable financing terms are available. The proceeds from such loans will be used to acquire additional properties or increase cash flow. In the event that this offering is not fully sold, our ability to diversify our investments may be diminished.

We intend to make an election under Section 856(c) of the Internal Revenue Code to be taxed as a REIT under the Internal Revenue Code, beginning with the taxable year ending December 31, 2006. If we qualify as a REIT for federal income tax purposes, we generally will not be subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate rates and may not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which our qualification is denied. Such an event could materially and adversely affect our net income. However, we believe that we are organized and operate in a manner that will enable us to qualify for treatment as a REIT for federal income tax purposes during the year ending December 31, 2006, and we intend to continue to operate so as to remain qualified as a REIT for federal income tax purposes.

We will monitor the various qualification tests that we must meet to maintain our status as a REIT. Ownership of our shares will be monitored to ensure that no more than 50% in value of our outstanding

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shares is owned, directly or indirectly, by five or fewer individuals at any time after the first taxable year for which we make an election to be taxed as a REIT. We will also determine, on a quarterly basis, that the gross income, asset and distribution tests as described in the section of this prospectus entitled "Federal Income Tax Considerations Requirements for Qualification" are met.

Liquidity and Capital Resources

Our principal demands for funds will be for property acquisitions, either directly or through investment interests, for the payment of operating expenses and distributions, and for the payment of interest on our outstanding indebtedness. Generally, cash needs for items other than property acquisitions will be met from operations, and cash needs for property acquisitions will be funded by public offerings of our shares and debt. However, there may be a delay between the sale of our shares and our purchase of properties, which could result in a delay in the benefits to our stockholders, if any, of returns generated from our investment operations. In an attempt to avoid this delay, we have been in discussions with potential lenders to arrange a bridge financing facility. Our advisor will evaluate potential property acquisitions and engage in negotiations with sellers and lenders on our behalf. After a purchase contract is executed that contains specific terms, the property will not be purchased until the successful completion of due diligence, which includes review of the title insurance commitment, an appraisal and an environmental analysis. In some instances, the proposed acquisition will require the negotiation of final binding agreements, which may include financing documents. During this period, we may decide to temporarily invest any unused proceeds from the offering in certain investments that could yield lower returns than the properties. These lower returns may affect our ability to make distributions.

Potential future sources of capital include proceeds from secured or unsecured financings from banks or other lenders, proceeds from the sale of properties and undistributed funds from operations. If necessary, we may use financings or other sources of capital in the event of unforeseen significant capital expenditures. Other than the potential bridge facility, we have not identified sources of such financing currently.

Our charter does not limit us from incurring debt until our aggregate debt would exceed 300% of our net assets (generally expected to approximate 75% of the cost of our assets before noncash reserves and depreciation), though we may exceed this limit if the excess is approved by a majority of our independent directors and disclosed to stockholders in our next quarterly report, along with an explanation for the excess. High debt levels would cause us to incur higher interest charges, would result in higher debt service payments, and could be accompanied by restrictive covenants. These factors could limit the amount of cash we have available to distribute and could result in a decline in the value of your investment.

Results of Operations

As of the date of this prospectus, we have commenced no significant operations because we are in our organizational and development stage. No operations will commence until we have raised at least \$2 million of gross offering proceeds from the sale of shares of our common stock to the public in this offering. Our management is not aware of any material trends or uncertainties, other than national economic conditions affecting real estate generally, that may reasonably be expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition and operations of real properties, other than those referred to in this prospectus.

Inflation

The price of timber has generally increased with increases in inflation.

Critical Accounting Policies

Our accounting policies have been established to conform with GAAP. The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported

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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 management's 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 or different amounts of assets, liabilities, revenues and expenses would have been recorded, thus resulting in a different presentation of the financial statements or different amounts reported in 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.

Below is a discussion of the accounting policies that management considers to be critical, once we commence operations, since they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Merchantable inventory and depletion costs as determined by forestry timber harvest models

Significant assumptions and estimates are used in the recording of timberland inventory cost and depletion. Merchantable standing timber inventory will be estimated annually, using industry-standard computer software. The inventory calculation will take into account growth, in-growth (annual transfer of oldest pre-merchantable age class into the merchantable inventory), timberland sales and the annual harvest.

The age at which timber is considered merchantable will be reviewed periodically and updated for changing harvest practices, future harvest age profiles and biological growth factors. An annual depletion rate will be established by dividing merchantable inventory book cost by standing merchantable inventory. Pre-merchantable records will be maintained for each planted year age class, recording acres planted, stems per acre, and costs of planting and tending. Changes in the assumptions and/or estimations used in these calculations may affect our results, in particular, timber inventory and depletion costs. Factors that can impact timber volume include weather changes, losses due to natural causes, differences in actual versus estimated growth rates and changes in the age when timber is considered merchantable.

Impairment of Long-Lived Assets

We evaluate our ability to recover our net investment in long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 requires recognition of an impairment loss in connection with long-lived assets used in a business when the carrying value (net book value) of such assets exceeds the estimated future undiscounted cash flows attributable to such assets over their expected useful life. Impairment losses are measured by the extent to which the carrying value of a group of assets exceeds the fair value of such assets at a given point in time. When the fair values of the assets are not available, we estimate the fair values by using the discounted expected future cash flows attributable to the assets. The cash flows are discounted at the risk-free rates of interest. Future cash flow estimates are based on probability-weighted projections for a range of possible outcomes. Furthermore, SFAS No. 144 requires recognition of an impairment loss in connection with long-lived assets held for sale when the carrying value of such assets exceeds an amount equal to their fair value less selling costs.

Our assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable through future operations. SFAS No. 144 requires that long-lived assets be grouped and evaluated for impairment at the lowest level for which there are independent cash flows, as discussed below.

(1) *Timber and Timberlands Used in Our Business*. SFAS No. 144 provides that for assets used in a business, an impairment loss is recorded only when the carrying value of such assets is not recoverable through future operations. The recoverability test is based on undiscounted future cash flows over the expected life of the assets. We intend to use one harvest cycle for evaluating the recoverability of our timber and timberlands.

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(2) *Timber and Timberlands Held for Sale*. SFAS No. 144 provides that an impairment loss is recognized for long-lived assets held for sale when the carrying value of such asset exceeds an amount equal to its fair value less selling costs. An asset is generally considered to be held for sale when we have committed to plan to sell the asset, the asset is available for immediate sale in its present condition, we have initiated an active program to locate a buyer, and the sale is expected to close within one year.

Realizability of both recorded and unrecorded tax assets and liabilities

To realize tax benefits associated with our status as a REIT will require extensive tax planning and in many cases will depend upon events in the future and our strategy in structuring transactional terms and conditions. As a result, the effective tax rate and amount of taxes paid during various fiscal periods may vary greatly.

As a REIT, if certain requirements are met, only the taxable REIT subsidiaries will be subject to corporate income taxes.

Revenue recognition

Revenue from the sale of timber is recognized when the following criteria are met: (1) persuasive evidence of an agreement exists, (2) delivery has occurred, (3) our price to the buyer is fixed and determinable, and (4) collectibility is reasonably assured.

Real estate sales of timberland will be recorded when title passes and full payment or a minimum down payment, generally defined as 25.0% of the gross sale price, is received and full collectibility is assured. If a down payment of less than the minimum down payment is received at closing, we will record revenue based on the installment method.

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PRIOR PERFORMANCE SUMMARY

The information presented in this section represents the historical experience of real estate programs managed by Wells Capital, our advisor, and its affiliates in the last 10 years. Investors should not assume that they will experience returns, if any, comparable to those experienced by investors in such prior Wells real estate programs.

The Prior Performance Tables contained in this prospectus, beginning on page F-14, set forth information as of the dates indicated regarding certain of these Wells public programs as to: (1) experience in raising and investing funds (Table I); (2) compensation to sponsor (Table II); (3) annual operating results of prior programs (Table III); and (4) sales or disposals of properties (Table V).

Prior Public Programs

Our advisor, Wells Capital, has served as a general partner of a total of 15 completed publicly offered real estate limited partnerships, seven of which completed their public offerings in the last 10 years. These seven limited partnerships and the year in which each of their offerings was completed are:

1. Wells Real Estate Fund VIII, L.P. (1996)
2. Wells Real Estate Fund IX, L.P. (1996)
3. Wells Real Estate Fund X, L.P. (1997)
4. Wells Real Estate Fund XI, L.P. (1998)