

Wells Timberland REIT, Inc.

Form 424B3

April 12, 2007

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**Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-129651**

**WELLS TIMBERLAND REIT, INC.**

**Maximum Offering of 85,000,000 Shares of Common Stock**

**Minimum Offering of 200,000 Shares of Common Stock**

Wells Timberland REIT, 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, 2007. 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 16 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 sponsor.

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.**

|                                | <b>Price to<br/>Public*</b> | <b>Selling<br/>Commissions*</b> | <b>Dealer-<br/>Manager<br/>Fee*</b> | <b>Net Proceeds<br/>(Before<br/>Expenses)</b> |
|--------------------------------|-----------------------------|---------------------------------|-------------------------------------|---|
| 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 August 11, 2007 (one year from the date of our initial 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 August 11, 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 August 11, 2008.

**WELLS INVESTMENT SECURITIES, INC.**

April 12, 2007

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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.

**Michigan** In addition to the suitability requirements described above for the state of Michigan, the state of Michigan requires that your aggregate investment in us and similar direct participation investments may not exceed 10% of your 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>We have no operating history, which makes our future performance and the performance of your investment difficult to predict</u>   | 17 |
| <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>   | 17 |
| <u>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.</u>  | 17 |
| <u>Our cash distributions are not guaranteed and may fluctuate</u>  | 17 |
| <u>The loss of or inability to obtain key personnel of our advisor or its manager could delay or hinder implementation of our investment strategies, which could limit our ability to make distributions and decrease the value of your investment</u>  | 18 |
| <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>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</u>  | 19 |
| <u>Wells TIMO 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 TIMO upon termination of the advisory agreement may also influence decisions about terminating Wells TIMO or our acquisition or disposition of investments.</u> | 19 |
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*You will have limited control over changes in our policies and operations, which increases the uncertainty and risks you face as a stockholder*

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| <u>Your interest in us will be diluted if we issue additional shares, which could reduce the overall value of your investment</u>  | 23 |
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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 Timberland REIT, Inc.**

Wells Timberland REIT, 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 income returns in the form of cash flows from harvesting and selling timber, and from pursuing non-timber related revenue sources. When and where we believe that it is appropriate, we also will seek to generate cash flow from the sale of lands that have a higher and better use. We expect to realize additional long-term returns from the appreciation in the value of our timberland and the standing timber on that land upon the ultimate disposition of our properties. We may also invest in other entities that own timberland or form joint ventures with entities that have complementary investment objectives.

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, 2007. We have no paid employees and are externally advised and managed by Wells Timberland Management Organization, LLC, which we refer to as Wells TIMO or our advisor.

**Our Advisor**

We are advised by Wells TIMO, a Georgia limited liability company formed on July 12, 2006 for the purpose of serving as our advisor. Wells TIMO is a wholly owned subsidiary of Wells Capital, Inc., our sponsor. We have entered into an advisory agreement with Wells TIMO under which Wells TIMO will manage our daily affairs and make recommendations to our board of directors on all property acquisitions. Jess E. Jarratt and John C. Iverson, 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.

**Our Sponsor**

Our advisor is managed by our sponsor, Wells Capital, Inc., which we refer to as 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 \$8.3 billion of equity from approximately 242,000 investors.

**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.

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### **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 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 sponsor, and (2) the compensation arrangements between affiliates of our advisor and other Wells programs which may incent our advisor and its affiliates 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 Timberland Operating Partnership, L.P. (Wells Timberland OP). Wells Timberland OP was formed in November 2005 to acquire properties on our behalf. We are the sole general partner of Wells Timberland OP and own 99% of its common units. Wells TIMO is the sole limited partner of Wells Timberland 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 Timberland OP.



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Wells TIMO also owns 100 special units in Wells Timberland OP, representing 100% of this class of limited partnership interest. The special units entitle Wells TIMO 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 Timberland TRS, Inc. is a wholly owned subsidiary of Wells Timberland OP. We have elected for Wells Timberland 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 use properties. We do not anticipate that a substantial portion, if any, of our income will be earned by our TRS.

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

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

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

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

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The advisory agreement between Wells TIMO 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 TIMO. Wells Real Estate Investment Trust, Inc., which we refer to as Wells REIT I, Wells Real Estate Investment Trust II, Inc., which we refer to as Wells REIT II, and Institutional REIT, Inc., which we refer to as Institutional REIT, which are separate REITs from us. However, Wells Capital, Inc., the owner and manager of our advisor, serves as the advisor to Wells REIT I, Wells REIT II and Institutional REIT. In addition, all of our officers serve as officers of Wells REIT I, Wells REIT II and Institutional REIT, three of our directors, including Donald S. Moss who is one of our independent directors, serve as directors of Wells REIT I and Wells REIT II, and three of our directors, including E. Nelson Mills who is one of our independent directors, also serve as directors of Institutional REIT. 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 TIMO 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 TIMO has received partnership units in our operating partnership, Wells Timberland 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 TIMO 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.

| <b>Type of Compensation</b>              | <b>Determination of Amount</b>  | <b>Estimated Amount for<br/>Maximum Offering<br/>(85,000,000 Shares)</b>   |
|--|---|--|
| <b><i>Offering Stage</i></b>             |   |  |
| Selling Commissions                      | 7% 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 TIMO will incur or pay our organization and offering expenses (excluding selling commissions and the dealer-manager fee). We will then reimburse Wells TIMO for these amounts up to 1.2% of gross offering proceeds from the primary offering. | \$9,000,000  |
| <b><i>Operational Stage</i></b>          |   |  |
| Asset Management Fees                    | Monthly fee equal to one-twelfth of 1% 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 earns real estate disposition fees.   | Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time.                                       |

|                              |   |  |
|------------------------------|---|--|
| Real Estate Disposition Fees | <p data-bbox="799 155 992 191"><i><b>Liquidity Stage</b></i></p> <p data-bbox="683 191 1109 541">Up to 2% of the contract price for any property sold for \$20 million or less and up to 1% of the contract price for any property sold for more than \$20 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 data-bbox="1145 191 1516 363">Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time.</p>   |  |

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| <b>Type of Compensation</b> | <b>Determination of Amount</b>   | <b>Estimated Amount for Maximum Offering (85,000,000 Shares)</b>   |
|-----------------------------|--|--|
| Special Units               | Our advisor will be entitled to receive (i) 15% of specified distributions made upon the disposition of Wells Timberland OP's assets, and/ or (ii) a one time payment, in the form of a non interest bearing promissory note or shares of our common stock (as applicable), in conjunction with the redemption of the special units upon the occurrence of certain liquidity events or upon the occurrence of certain events that result in a termination or non-renewal of the advisory agreement, but in each case only after the holders of common units, including us, have received (or have been deemed to have received), in the aggregate, cumulative distributions equal to their capital contributions (less any amounts received in redemption of their common units) plus a 7% cumulative non-compounded annual pre-tax return on their net capital contributions. | Actual amounts are dependent upon the results of our operations; we cannot determine these amounts at this time. |

In the event that Wells TIMO receives a special unit redemption payment in connection with a listing, it will no longer be eligible to receive a special unit redemption payment upon termination or non-renewal of the advisory agreement or a special unit distribution in connection with the disposition of Wells Timberland OP's assets. Similarly, in the event that Wells TIMO receives a redemption payment in connection with the termination or non-renewal of the advisory agreement without cause, it will no longer be eligible to receive a special unit redemption payment upon listing or a special unit distribution in connection with the disposition of Wells Timberland OP's assets. 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 the 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.

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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 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 our advisor. All of our officers and two of our directors, Leo F. Wells, III and Douglas P. Williams, are affiliated with our advisor, and two of our independent directors, E. Nelson Mills and Donald S. Moss, serve on the boards of other Wells-sponsored programs. Our charter, which requires that a majority of our directors be independent of our advisor, 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 our advisor 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 share redemption plan. 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 share redemption plan.

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 99.98% 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 August 11, 2008 (two years from the date of our initial 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 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.

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### **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 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 August 11, 2007 (one year from the date of our initial 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 August 11, 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

our 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 August 11, 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 August 11, 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 sell your shares to us pursuant to our share redemption plan. Initially, we will repurchase shares under the share redemption plan at \$9.10 per share. The initial redemption price will remain fixed until one year after we complete our offering stage. See Description of Shares Share Redemption Plan. Thereafter, we will redeem shares at a price equal to 95% of the estimated per share value of the shares, as estimated by our advisor or another firm chosen for that purpose.

The terms of our share redemption plan are more generous for redemptions sought within two years of a stockholder's death or qualifying disability. See Description of Shares Share Redemption Plan. There are, however, numerous restrictions on your ability to sell your shares to us under the share redemption plan. For example, the dollar amount we pay in connection with all redemptions during any calendar year may not exceed the net proceeds from the sale of shares under the distribution reinvestment plan during the calendar year and any additional amounts reserved for such purpose by our board of directors. In addition, there are other limits on our ability to redeem shares if the redemption is not sought within two years of a stockholder's death or qualifying disability. Our board of directors may amend, suspend or terminate our share redemption plan upon 30 days' notice.

### **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 cash distributions to our stockholders typically on a quarterly basis. The actual amount and timing of

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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 Timberland 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, 2007. 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 REIT that invests in timberland, versus a traditional corporation and traditional REIT:

|                                  | <b>Timberland<br/>REIT</b> | <b>Traditional<br/>REIT</b> | <b>C<br/>Corporation</b> |
|----------------------------------|----------------------------|-----------------------------|--------------------------|
| 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.

We may be subject to federal income tax under certain circumstances. 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](http://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.

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**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](mailto:clientservices@wellsref.com)

One of our affiliates also maintains an Internet site at [www.wellsref.com](http://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. In addition, our share redemption plan includes numerous restrictions that will limit your ability to sell your shares. Our board is also free to amend or terminate the plan upon 30 days' notice after our offering is effective. We describe these restrictions in detail under "Description of Shares—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 will likely have to sell them at a substantial discount to their public offering price. It is also likely that your shares will 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 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 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.



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***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.

***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 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

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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.

***The loss of or inability to obtain key personnel of our advisor or its manager 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, Randall D. Fretz, Jess E. Jarratt and John C. Iverson, each of whom are key personnel of our advisor or Wells Capital, its manager, and would be difficult to replace. We do not have employment agreements with any of these key personnel, 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 these key personnel were to cease their affiliation with our advisor or its manager, our operating results could suffer. We do not intend to maintain key-person life insurance on any person. We believe that our future success depends, in large part, upon the ability of our advisor and its manager to retain highly skilled managerial, operational and marketing personnel. Competition for retention of our advisor's and its manager's existing skilled personnel is intense, and our advisor and its manager 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 our advisor or its manager loses or is unable to obtain the services of highly skilled personnel or does 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.***

Our advisor, Wells TIMO, is a newly formed entity that currently has only two employees and will rely upon the employees of its manager, Wells Capital, to perform many of the services our advisor is required to perform for us. We are dependent on our advisor to select our investments and conduct our operations; thus, adverse changes in the financial health of Wells Capital could hinder our advisor's 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 on behalf of Wells TIMO, 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

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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 TIMO, our advisor, for the day-to-day operation of our business. Wells TIMO is a newly formed entity. Until Wells TIMO hires sufficient personnel of its own, which it may never do, it will rely on the personnel of its manager, Wells Capital, to perform many of the services Wells TIMO is required to perform as our advisor. 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, Wells REIT II and Institutional REIT 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 Wells Capital, our dealer-manager and other affiliated entities and Wells-sponsored programs, and two of our independent directors, E. Nelson Mills and Donald S. Moss, serve on the boards of other Wells-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 TIMO 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 TIMO upon termination of the advisory agreement may also influence decisions about terminating Wells TIMO or our acquisition or disposition of investments.***

Under the advisory agreement between us, Wells Timberland OP and Wells TIMO and pursuant to the terms of the special units Wells TIMO owns in Wells Timberland OP, Wells TIMO is entitled to fees and other payments from us and Wells Timberland OP that are structured in a manner intended to provide incentives to Wells TIMO to perform in our best interest and in the best interest of our stockholders.

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However, because Wells TIMO 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 TIMO 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 TIMO 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 TIMO to increased asset management fees;

property sales, which entitle Wells TIMO to real estate commissions and possible success-based payments;

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

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 TIMO;

whether and when we seek to list our common stock on a national securities exchange, which listing could entitle Wells TIMO to a success-based payment 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 TIMO to a success-based payment from Wells Timberland 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 TIMO will have considerable discretion with respect to the terms and timing of acquisition and disposition transactions. Considerations relating to its affiliates' 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.

***The fees we pay Wells TIMO under the advisory agreement and the amounts payable to Wells TIMO under the Wells Timberland 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 TIMO may increase in future renewals.***

Our independent directors rely on information and recommendations provided by Wells TIMO to determine the fees and other amounts payable to Wells TIMO and its affiliates pursuant to the terms of the advisory agreement and the special units in Wells Timberland 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 TIMO and its affiliates. Because the advisory agreement must be renewed on an annual basis, beginning August 11, 2007, our independent directors may increase the fees and other amounts payable to Wells TIMO in future renewals. If the fees and other amounts we pay Wells TIMO are increased, our ability to pay distributions to our stockholders and make investments will be reduced. See "Conflicts of Interest" and "Certain Conflict Resolution Procedures" under "Other Charter Provisions Relating to Conflicts of Interest" for more information regarding our advisor's compensation.

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### **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

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.



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***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 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 board of directors has adopted a share redemption plan, but there are significant conditions and limitations that would limit your ability to sell your shares under the plan. In addition, our board of directors may amend, suspend or terminate our share redemption plan upon 30 days' notice and without stockholder approval.

Generally, you will have to have held your shares for at least one year in order to participate in our share redemption plan. We will limit the number of shares redeemed pursuant to our share redemption plan as follows: (1) during any calendar year, we will 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. Initially, we will repurchase shares under our share redemption plan at \$9.10 per share. The initial redemption price will remain fixed until one year after we complete our offering stage. See "Description of Shares" "Share Redemption Plan." Thereafter, we will redeem shares at a price equal to 95% of the estimated per share value of the shares, as estimated by our advisor or another firm chosen for that purpose. These restrictions will severely limit your ability to sell your shares should you require liquidity and will limit your ability to recover the value you invested. See "Description of Shares" "Share Redemption Plan" for more information about the 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.

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***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 employees of Wells TIMO or