

INLAND WESTERN RETAIL REAL ESTATE TRUST INC
Form POS AM
March 15, 2004

As filed with the Securities and Exchange Commission on March 15, 2004
Registration No. 333-103799

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 3
TO
FORM S-11
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(Exact name of registrant as specified in governing instruments)

2901 BUTTERFIELD ROAD
OAK BROOK, ILLINOIS 60523
(630) 218-8000
(Address, including zip code, and telephone number,
including, area code of Principal executive offices)

ROBERT H. BAUM, ESQ.
VICE CHAIRMAN, EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL
THE INLAND GROUP, INC.
2901 BUTTERFIELD ROAD
OAK BROOK, ILLINOIS 60523
(630) 218-8000
(Name and address, including zip code, and telephone number,
including area code of agent for service)

WITH A COPY TO:
DAVID J. KAUFMAN, ESQ.
DUANE MORRIS LLP
227 WEST MONROE STREET
SUITE 3400
CHICAGO, ILLINOIS 60606
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This Post-Effective Amendment No. 3 consists of the following:

1. Supplement No. 13 dated March 15, 2004 to the Registrant's Prospectus dated September 15, 2003, included herewith, which will be delivered as an unattached document along with the Prospectus dated September 15, 2003.
2. The Registrant's final form of Prospectus dated September 15, 2003, previously filed pursuant to Rule 424(b)(1) on September 15, 2003 and refiled herewith.
3. Part II, included herewith.
4. Signatures, included herewith.

SUPPLEMENT NO. 13
DATED MARCH 15, 2004
TO THE PROSPECTUS DATED SEPTEMBER 15, 2003
OF INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

We are providing this Supplement No. 13 to you in order to supplement our prospectus. This supplement updates information in the sections of our prospectus noted in the table of contents below. This Supplement No. 13 supplements, modifies or supersedes certain information contained in our prospectus, and prior Supplements No. 1 through 12 (dated October 23, 2003 through March 9, 2004 and must be read in conjunction with our prospectus.

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PROSPECTUS SUMMARY

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COMPENSATION TO BE PAID TO OUR ADVISOR AND AFFILIATES

THE DISCUSSION UNDER THIS SECTION ON THE "ACQUISITION EXPENSES", WHICH STARTS ON PAGE 6 OF OUR PROSPECTUS, SHOULD READ:

We will reimburse Inland Real Estate Acquisitions, Inc. for costs incurred, on our behalf, in connection with the acquisition of properties. We will pay an amount, estimated to be up to 0.5% of the total of (1) the gross offering proceeds from the sale of 250,000,000 shares, (2) the gross proceeds from the sale of up to 20,000,000 shares pursuant to the distribution reinvestment programs. The acquisition expenses for any particular property will not exceed 6% of the gross purchase price of the property.

THE DISCUSSION UNDER THIS SECTION ON THE "INCENTIVE ADVISORY FEE", WHICH STARTS ON PAGE 7 OF OUR PROSPECTUS, SHOULD READ:

After our stockholders have first received a 10% cumulative, non-compounded return and a return of their net investment, an incentive advisory fee equal to 15% on net proceeds from the sale of a property will be paid to our advisor.

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RISK FACTORS

THE LAST SENTENCE OF THE FIRST PARAGRAPH ON PAGE 12, UNDER THIS HEADING, IS MODIFIED TO READ AS FOLLOWS:

We will be acquiring properties that are located primarily west of the Mississippi River and single user net lease properties located anywhere in the United States and therefore our geographic diversity will be limited.

THE SECOND PARAGRAPH ON PAGE 13, UNDER THIS HEADING, IS DELETED.

CONFLICTS OF INTEREST

THE LAST SENTENCE OF THE FOURTH PARAGRAPH ON PAGE 36, UNDER THIS HEADING, IS MODIFIED TO READ AS FOLLOWS:

If Inland Retail Real Estate Trust, Inc. does not purchase the prospective property, it will then be offered to us.

COMPENSATION TABLE

THE DISCUSSION UNDER THIS SECTION "NONSUBORDINATED PAYMENTS - OFFERING STAGE" ON THE MARKETING CONTRIBUTION AND DUE DILIGENCE EXPENSE ALLOWANCE PAID TO THE MANAGING DEALER AND SOLICITING DEALERS, WHICH STARTS ON PAGE 40 OF OUR PROSPECTUS, SHOULD READ AS FOLLOWS:

| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION | ES |
|---|---|--------------------------------|
| Marketing contribution and due diligence expense allowance paid to the managing | We will pay an amount equal to 2.5% of the gross offering proceeds to the | The actual am number of sha |

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dealer and soliciting dealers.

managing dealer, all or a portion of which may be passed on to soliciting dealers, in lieu of reimbursement of specific expenses associated with marketing. We may pay an additional 0.5% of the gross offering proceeds to the managing dealer, which may be passed on to the soliciting dealers, for due diligence expenses. We will not pay the marketing contribution and due diligence expense allowance in connection with any special sales, except those receiving volume discounts and those described in "Plan of Distribution - Volume Discounts."

special sales following marketing contribution and due diligence expenses

- \$60,000 if number of

- \$75,000,000 number of

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THE DISCUSSION UNDER THIS SECTION ON THE "NONSUBORDINATED PAYMENTS - OPERATIONAL STAGE", WHICH STARTS ON PAGE 41 OF OUR PROSPECTUS, IS MODIFIED AS FOLLOWS:

The last entry "Advisor asset management fee" at the bottom of the page is deleted.

THE LAST SENTENCE OF THE DISCUSSION ON "ESTIMATED MAXIMUM DOLLAR AMOUNT" UNDER THIS SECTION ON THE "SUBORDINATED PAYMENTS - OPERATIONAL STAGE", WHICH STARTS ON PAGE 43 OF OUR PROSPECTUS, IS MODIFIED AS FOLLOWS:

If we acquire the advisor, the advisor asset management fee will cease.

PRIOR PERFORMANCE OF OUR AFFILIATES

THE DISCUSSION UNDER THIS SECTION, WHICH STARTS ON PAGE 47 OF OUR PROSPECTUS, IS MODIFIED AND SUPPLEMENTED AS FOLLOWS:

PRIOR INVESTMENT PROGRAMS

During the 10-year period ending December 31, 2003, The Inland Group and its affiliates have sponsored two other REITs, two private placement mortgage and note programs and 17 real estate exchange private placements, which altogether have raised more than \$2,936,000,000 from over 77,000 investors. During that period, Inland Real Estate Corporation and Inland Retail Real Estate Trust, Inc., the other REITs, have raised over \$2,800,000,000 from over 76,000 investors. Inland Real Estate Corporation and Inland Retail Real Estate Trust, Inc. have investment objectives and policies similar to ours and have invested principally in shopping centers that provide sales of convenience goods and personal services to neighboring communities in the Midwest and Southeast areas. However, Inland Real Estate Corporation is now a self-administered REIT and is no longer affiliated with The Inland Group. Our investment objectives and policies are similar to those of several of the other prior investment programs sponsored by our affiliates which have owned and operated retail properties. However, the vast majority of the other investment programs sponsored by our affiliates were dissimilar from our operation in that the prior programs owned apartment properties, pre-development land and whole or partial interests in mortgage loans.

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The information in this section and in the Prior Performance Tables included in the prospectus as APPENDIX A shows relevant summary information concerning real estate programs sponsored by our affiliates. The purpose is to provide information on the prior performance of these programs so that you may evaluate the experience of the affiliated companies in sponsoring similar programs. The following discussion is intended to briefly summarize the objectives and performance of the prior programs and to disclose any material adverse business developments sustained by them. Past performance is not necessarily indicative of future performance.

SUMMARY INFORMATION

The table below provides summarized information concerning prior programs sponsored by our affiliates for the 10-year period ending December 31, 2003, and is qualified in its entirety by reference to the introductory discussion above and the detailed information appearing in the Prior Performance Tables in Appendix A of the prospectus. YOU SHOULD NOT CONSTRUCT INCLUSION OF THE SUCCEEDING TABLES AS IMPLYING IN ANY MANNER THAT WE WILL HAVE RESULTS COMPARABLE TO THOSE REFLECTED IN THE TABLES BECAUSE THE YIELD AND CASH AVAILABLE AND OTHER FACTORS COULD BE SUBSTANTIALLY DIFFERENT FOR OUR PROPERTIES. YOU SHOULD NOTE THAT BY ACQUIRING OUR SHARES, YOU WILL NOT BE ACQUIRING ANY INTERESTS IN ANY PRIOR PROGRAMS.

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| | INLAND RETAIL REAL ESTATE TRUST, INC. REIT PROGRAM AS OF DECEMBER 31, 2003 | INLAND REAL ESTATE CORPORATION REIT PROGRAM AS OF DECEMBER 31, 2003 | PRIOR ESTATE MORTGA PROG DECEMB |
|---|--|---|---|
| Number of programs sponsored | 1 | 1 | |
| Aggregate amount raised from investors | \$ 2,225,959,000 | 686,602,000 | |
| Approximate aggregate number of investors | 58,000 | 18,000 | |
| Number of properties purchased | 258 | 143 | |
| Aggregate cost of properties(1) | \$ 3,834,121,000 | 1,249,000,000 | |
| Number of mortgages/notes | 0 | 0 | |
| Principal amount of mortgages/notes | \$ 0 | 0 | |
| Principal of properties (based on cost) that were: | | | |
| Commercial-- | | | |
| Retail | 90.00% | 79.00% | |
| Single-user retail net-lease | 10.00% | 21.00% | |
| Nursing homes | 0.00% | 0.00% | |
| Offices | 0.00% | 0.00% | |
| Industrial | 0.00% | 0.00% | |
| Health clubs | 0.00% | 0.00% | |
| Mini-storage | 0.00% | 0.00% | |
| Total commercial | 100.00% | 100.00% | |
| Multi-family residential | 0.00% | 0.00% | |
| Land | 0.00% | 0.00% | |

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Percentage of properties (based on cost)
that were:

| | | |
|--|--------|--------|
| Newly constructed (within a year of acquisition) | 50.00% | 39.00% |
| Existing construction | 50.00% | 61.00% |
| Number of properties sold (3) | 0 | 6 |
| Number of properties exchanged | 0 | 0 |
| Number of mortgages/notes repaid | 0 | 0 |

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- (1) Includes purchase price and acquisition fees and expenses.
- (2) On July 1, 2000, the prior REIT program, Inland Real Estate Corporation, became a separate, self-managed entity.
- (3) Number of properties sold in whole or in part.

Of the programs included in the above table, Inland Real Estate Corporation and Inland Retail Real Estate Trust, Inc. have investment objectives similar to ours. Inland Real Estate Corporation and Inland Retail Real Estate Trust, Inc. represent approximately 97% of the aggregate amount raised from investors, approximately 99% of the aggregate number of investors, approximately 95% of the properties purchased, and approximately 95% of the aggregate cost of the properties.

During the three years prior to December 31, 2003, Inland Real Estate Corporation purchased 23 commercial properties and Inland Retail Real Estate Trust, Inc. purchased 246 commercial properties. Upon written request, you may obtain, without charge, a copy of Table VI filed with the Securities and Exchange Commission in Part II of our prospectus. The table provides more information about these acquisitions.

PUBLICLY REGISTERED REITS

INLAND REAL ESTATE CORPORATION. On October 14, 1994, Inland Real Estate Corporation commenced an initial public offering of 5,000,000 shares of common stock at \$10 per share. As of July 24, 1996, it had received subscriptions for a total of 5,000,000 shares, thereby completing the initial offering. On July 24, 1996, it commenced an offering of an additional 10,000,000 shares of common stock at \$10 per share. As of July 10, 1997, it had received subscriptions for a total of 10,000,000 shares, thereby completing its second offering. On July 14, 1997, Inland Real Estate Corporation commenced a third offering of an additional 20,000,000 shares of common stock at \$10 per share. As of March 19, 1998, Inland Real Estate Corporation had received subscriptions for a total of 20,000,000 shares, thereby completing the third offering. On April 7, 1998, Inland Real Estate Corporation commenced a fourth offering of an additional 25,000,000 shares at \$11 per share. Inland Real Estate Corporation elected to terminate the fourth offering as of December 31, 1998, after receiving subscriptions for a total of 16,642,397 shares. In addition, as of December 31, 2003, Inland Real Estate Corporation issued 12,813,974 shares of common stock through its distribution reinvestment program. As of December 31, 2003, Inland Real Estate Corporation repurchased 5,050,999 shares of common stock through its share

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repurchase program for an aggregate amount of \$47,156,348. As a result, Inland Real Estate Corporation's gross offering proceeds totaled approximately \$686,602,000 for all of such offerings, as of December 31, 2003. Inland Real Estate Corporation's objective is to purchase shopping centers that provide convenience goods, personal services, wearing apparel and hardware and appliances located within an approximate 400-mile radius of its headquarters in Oak Brook, Illinois, and to provide, at a minimum, cash distributions on a quarterly basis and a hedge against inflation through capital appreciation. It may also acquire single-user retail properties throughout the United States. As of December 31, 2003, the properties owned by Inland Real Estate Corporation were generating sufficient cash flow to cover operating expenses plus pay an annual cash distribution of \$0.94 per share paid monthly.

As of December 31, 2003, Inland Real Estate Corporation financed approximately \$623,157,000 on 125 of its 137 properties and had \$135,000,000 outstanding through an unsecured line of credit. Inland Real Estate Corporation's 137 properties, a total investment of approximately \$1,249,000,000 at December 31, 2003, were purchased with proceeds received from the above described offerings of shares of its common stock and financings. From December 31, 1995 through December 31, 2003, distributions have totaled \$334,403,908, of which \$251,217,220 was ordinary income distribution from operating cash flow, \$82,283,168 was return of capital for federal income tax purposes from operating cash flow and \$903,520 from capital gain distributions.

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Through December 31, 2003, distributions were as follows:

| | Total Distribution | Ordinary Income | Return of Capital * | Capital Gain Distribution |
|------|-----------------------|--------------------|------------------------|------------------------------|
| 1995 | \$ 736,627 | \$ 694,213 | \$ 42,414 | \$ - |
| 1996 | 3,704,943 | 3,093,525 | 611,418 | - |
| 1997 | 13,127,597 | 9,739,233 | 3,388,364 | - |
| 1998 | 35,443,213 | 27,015,143 | 8,428,070 | - |
| 1999 | 48,379,621 | 35,640,732 | 12,738,889 | - |
| 2000 | 52,964,010 | 40,445,730 | 12,518,280 | - |
| 2001 | 58,791,604 | 45,754,604 | 12,662,414 | 374,586 |
| 2002 | 60,090,685 | 41,579,944 | 18,315,640 | 195,101 |
| 2003 | 61,165,608 | 47,254,096 | 13,577,679 | 333,833 |
| | ----- | ----- | ----- | ----- |
| | \$ 334,403,908 | \$ 251,217,220 | \$ 82,283,168 | \$ 903,520 |
| | ===== | ===== | ===== | ===== |

* Represents a return of capital for federal income tax purposes.

On July 1, 2000, Inland Real Estate Corporation became a self-administered REIT by completing its acquisition of Inland Real Estate Advisory Service, Inc., its advisor, and Inland Commercial Property Management, Inc., its property manager. The acquisition was accomplished by merging its advisor and its property manager into two wholly owned subsidiaries of Inland Real Estate

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Corporation. As a result of the merger, Inland Real Estate Corporation issued to our sponsor, the sole shareholder of the advisor, and The Inland Property Management Group, Inc., the sole shareholder of its property manager, an aggregate of 6,181,818 shares of Inland Real Estate Corporation's common stock at \$11 per share, or approximately 9.008% of its common stock.

INLAND RETAIL REAL ESTATE TRUST, INC. On February 11, 1999, Inland Retail Real Estate Trust, Inc. commenced an initial public offering of 50,000,000 shares of common stock at \$10 per share. As of January 31, 2001, it had sold 13,687,349 shares in its first offering resulting in gross proceeds of \$136,454,948. In addition, it received \$200,000 from its advisor for 20,000 shares. As of January 31, 2001, the first offering terminated. Inland Retail Real Estate Trust, Inc. commenced a second offering on February 1, 2001. As of August 29, 2002, it had sold 50,000,000 shares in its second offering resulting in gross proceeds of \$497,842,917, thereby completing the second offering. Inland Retail Real Estate Trust, Inc. commenced a third offering on June 7, 2002. As of December 31, 2003, it had sold 149,992,000 shares in its third offering, resulting in gross proceeds of \$1,499,720,735. An additional 10,972,192 shares had been sold pursuant to Inland Retail Real Estate Trust, Inc.'s distribution reinvestment program as of December 31, 2003, for which it has received additional net proceeds of \$104,235,844. As of December 31, 2003, Inland Retail Real Estate Trust, Inc. has repurchased 1,324,303 shares through its share repurchase program resulting in disbursements totaling \$12,495,374. As a result, Inland Retail Real Estate Trust, Inc.'s net offering proceeds from all offerings total approximately \$2,225,959,000 as of December 31, 2003, including amounts raised through its distribution reinvestment program, net of shares repurchased through its share repurchase program.

Inland Retail Real Estate Trust, Inc.'s objective is to purchase shopping centers east of the Mississippi River in addition to single-user retail properties in locations throughout the United States, and to provide regular cash distributions and a hedge against inflation through capital appreciation. As of December 31, 2003, the properties owned by Inland Retail Real Estate Trust, Inc. were generating sufficient cash flow to cover operating expenses plus pay an annual cash distribution of \$.83 per share per annum paid monthly. Through December 31, 2003, distributions totaled \$243,915,959. Through December 31, 2003, distributions were as follows:

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| | | Total Distribution | | Ordinary Income | | Return of Capital* |
|------|----|-----------------------|----|--------------------|----|-----------------------|
| | | | | | | |
| 1999 | \$ | 1,396,861 | \$ | 318,484 | \$ | 1,078,377 |
| 2000 | | 6,615,454 | | 3,612,577 | | 3,002,877 |
| 2001 | | 17,491,342 | | 10,538,534 | | 6,952,808 |
| 2002 | | 58,061,491 | | 36,387,136 | | 21,674,355 |
| 2003 | | 160,350,811 | | 97,571,099 | | 62,779,712 |
| | | | | | | |
| | \$ | 243,915,959 | \$ | 148,427,830 | \$ | 95,488,129 |
| | | | | | | |

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*Represents a return of capital for federal income tax purposes.

As of December 31, 2003, Inland Retail Real Estate Trust, Inc. had acquired 258 properties for a total investment of approximately \$3,834,121,000. These properties were purchased with proceeds received from the above described offerings of shares of its common stock and financings. As of December 31, 2003, Inland Retail Real Estate Trust, Inc. financed approximately \$2,027,897,000 on its properties.

PRIVATE PARTNERSHIPS

Since our inception and through December 31, 2003, including the programs described below under "Private Placement Note and Mortgage Program" in this section, our affiliates have sponsored 514 private placement limited partnerships which have raised more than \$524,201,000 from approximately 17,000 investors and invested in properties for an aggregate price of more than \$1 billion in cash and notes. Of the 522 properties purchased, 93% have been in Illinois. Approximately 90% of the funds were invested in apartment buildings, 6% in shopping centers, 2% in office buildings and 2% in other properties. Including sales to affiliates, 323 partnerships have sold their original property investments. Officers and employees of our sponsor and its affiliates invested more than \$17,000,000 in these private placement limited partnerships.

From January 1, 1994 through December 31, 2003, investors in The Inland Group private partnerships have received total distributions in excess of \$290,475,000, consisting of cash flow from partnership operations, interest earnings, sales and refinancing proceeds and cash received during the course of property exchanges.

Following a proposal by the former corporate general partner, which was an affiliate of The Inland Group, investors in 301 private partnerships voted in 1990 to make our sponsor the corporate general partner for those partnerships.

Beginning in December 1993 and continuing into the first quarter of 1994, investors in 101 private limited partnerships for which our sponsor is the general partner received letters from it informing them of the possible opportunity to sell the 66 apartment properties owned by those partnerships to a to-be-formed REIT in which affiliates of our sponsor would receive stock and cash and the limited partners would receive cash. The underwriters of this apartment REIT subsequently advised our sponsor to sell to a third party its management and general partner's interests in those remaining limited partnerships not selling their apartment properties to the apartment REIT. Those not selling their apartment properties constituted approximately 30% of the Inland-sponsored limited partnerships owning apartment buildings. The prospective third-party buyers of our sponsor's interests in the remaining partnerships, however, would make no assurance to support those partnerships financially. As a result, in a March 1994 letter, our sponsor informed investors of its decision not to go forward with the formation of the apartment REIT.

Following this decision, two investors filed a complaint in April 1994 in the Circuit Court of Cook County, Illinois, Chancery Division, purportedly on behalf of a class of other unnamed investors, alleging that our sponsor had breached its fiduciary responsibility to those investors whose partnerships would have sold apartment properties to the apartment REIT. The complaint sought an accounting of information regarding the apartment REIT matter, an unspecified amount of damages and the removal of our sponsor as general partner of the partnerships that would have participated in the sale of properties. In August 1994, the court granted our sponsor's motion to dismiss, finding that the plaintiffs lacked standing to bring the case individually. The plaintiffs were granted leave to file an amended complaint. Thereafter, in August 1994, six investors filed an amended complaint, purportedly on behalf of a class of other

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investors, and derivatively on behalf of six limited partnerships of which our sponsor is the general partner. The derivative counts sought damages from our sponsor for alleged breach of fiduciary duty and breach of contract, and assert a right to an accounting. Our sponsor filed a motion to dismiss in response to the amended complaint. The suit was dismissed in March 1995 with prejudice. The plaintiffs filed an appeal in April 1996. After the parties briefed the issue, arguments were heard by the Appellate Court in February 1997. In September 1997, the Appellate Court affirmed the trial court decision in favor of our sponsor.

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Inland Real Estate Investment Corporation is the general partner of 27 private limited partnerships and one public limited partnership that own interests in 15 buildings that are net leased to Kmart. The 14 Kmart's owned by the private limited partnerships are all cross collateralized. Relating to the Kmart bankruptcy, the status of the 15 is as follows:

- CATEGORY 1 - The leases of nine of the Kmart's are current and have been accepted by Kmart under their Chapter 11 reorganization plan.
- CATEGORY 2 - Kmart assigned its designation rights in one lease to Kohl's; the lease was amended and extended for Kohl's by IREIC, the general partner on behalf of the owners and lender; and Kohl's began paying rent February 12, 2003.
- CATEGORY 3 - Under Kmart's Chapter 11 reorganization plan and upon emergence from bankruptcy on April 22, 2003, Kmart has rejected the remaining four property leases; one of which is subject to a ground lease to Kimco. Kmart ceased paying rent as of May 1, 2003.

IREIC, the General Partner has agreed with the note holders who own the loan to conduct a liquidation of the 14 properties which comprise Categories 1, 2 and 3. The Category 2 property, which is leased by Kohl's was sold on February 19, 2004.

Currently, there are three of the Category 1 properties which are under contract for sale subject to certain contingencies such as a due diligence review period. The General Partner has received offers to purchase 4 additional Category 1 properties.

One of the Category 3 properties is under contract for sale subject to certain contingencies such as a due diligence review period. The General Partner, through third party brokers, continues to market the remaining Kmart properties for sale.

- CATEGORY 4 - Under Kmart's Chapter 11 reorganization, Kmart rejected the lease for the property owned by the public limited partnership and ceased paying rent as of June 29, 2002. The general partner plans to either re-tenant or sell this facility.

PRIVATE PLACEMENT NOTE AND MORTGAGE PROGRAM

IMC NOTE ISSUE #2 1993, offering investments in promissory notes was sponsored by Inland Mortgage Corporation, an Illinois corporation and an affiliate of our sponsor, in July 1993. The offering period for this program began August 25, 1993 and closed on June 13, 1994 after raising \$6,800,000.

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Inland Mortgage Corporation issued notes maturing December 31, 2003, providing for interest at the rate of 8% per annum with 100% return of principal guaranteed by our sponsor. Proceeds of the offering have been used to invest in a mortgage loan secured by an apartment property in Manchester, New Hampshire, owned by an affiliate of our sponsor. Investors may also receive additional income dependent on the future sale of the property. Inland Mortgage Corporation made an initial distribution to investors of escrow interest totaling \$13,685 in November 1993. Cash distributions through October 10, 1993 totaled \$12,416,662, of which \$6,800,000 was a return of capital, \$5,597,209 was interest earnings and \$19,456 was subsidy income from our sponsor pursuant to the guarantee for that program. This program was completed on October 10, 1993. All fees and expenses incurred in connection with the offer and sale of the Notes - including sales commission and due diligence expense to dealer-manager, Inland Securities Corporation, equal to 8.5% (of which 6.5% was re-allowed to soliciting dealers as sales commissions, 0.5% as a marketing fee, and up to 0.5% as reimbursable due diligence expenses) and the costs of the memorandum, tax counseling and advice (which were anticipated to be approximately \$41,000), as well as other costs associated with the refinancing of the property (such as title, surveys, appraisals, recording charges, etc.) were advanced by the sponsor (IREIC) and were not paid from the proceeds of the offering.

INLAND CONDOMINIUM FINANCING FUND, L.P., an Illinois limited partnership offering investment in promissory notes, was sponsored by our sponsor in December 1993. The offering period for this program began December 15, 1993 and closed on June 30, 1994. This partnership offered notes in the principal amount of \$1,031,000 maturing July 1, 2001, with interest at the rate of 10% per annum and 100% return of principal guaranteed by our sponsor. The proceeds of the offering were used to make unsecured loans to limited partnerships which are affiliates of our sponsor, for the purposes of paying expenses relating to the conversion of apartment properties owned by those partnerships to condominiums, and conducting condominium unit sales and other partnership expenses. Cash distributions began in March 1994. Distributions through November 17, 1997 totaled \$1,411,617, of which \$380,617 was interest earnings and \$1,031,000 was a return of capital. There were 36 investors in this partnership. This partnership was completed in 1997. All fees and expenses incurred in connection with the offering - including sales commission and due diligence expense to dealer-manager, Inland Securities Corporation, equal to 8.5% (of which 6.5% was re-allowed to soliciting dealers as sales commissions, 0.5% as a marketing fee and up to 0.5% as reimbursable due diligence expenses) and the costs of the memorandum, tax counseling and advice (which were anticipated to be approximately \$45,000), as well as other costs associated with the funding of the conversion loans were advanced by the sponsor (IREIC) and were not paid from the proceeds of the offering.

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1031 EXCHANGE PRIVATE PLACEMENT OFFERING PROGRAM

In March of 2001, Inland Real Estate Exchange Corporation (IREX) was established as a subsidiary of Inland Real Estate Investment Corporation. The main objective of IREX is to provide replacement properties for people wishing to complete an IRS Section 1031 real estate exchange. Through December 31, 2003, IREX offered the sale of seventeen properties with a total property value of \$206,540,988.

LANDINGS OF SARASOTA DBT. Inland Southern Acquisitions, Inc., a Delaware

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corporation and an affiliate of IREX acquired The Landings, a multi-tenant shopping center located in Sarasota, Florida in December 1997 for \$9,800,000. In August 2001, Inland Southern Acquisitions, Inc. contributed 100% of its interest in the property into Landings of Sarasota DBT, a Delaware business trust, refinanced the property with a loan of \$8,000,000 from Parkway Bank & Trust Co., an Illinois banking corporation, and began offering all of its beneficial interests in the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$12,000,000, which consisted of \$8,000,000 in debt assumption and \$4,000,000 in equity investment. \$200,000 of the offering proceeds were allocated to a property reserve account. The offering was completed in May 2002 when the maximum offering amount was raised. The private placement memorandum projected a first year annualized cash on cash return of 8.00%. Through December 31, 2003, cash distributions to the investors totaled \$642,236, based on the actual holding period of each individual investor. As of December 31, 2003, there were nine investors in this trust.

SENTRY OFFICE BUILDING, DBT, a Delaware business trust, purchased a newly constructed, single-tenant office building in Davenport, Iowa in December 2001 from Ryan Companies US Inc., a Minnesota corporation. The trust financed its acquisition of the property with a \$7,500,000 first mortgage loan from Parkway Bank & Trust Co., an Illinois banking corporation. In January 2002, Sentry Office Building Corporation, a Delaware corporation and the initial beneficiary of the trust, began offering all of its beneficial interests in the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$11,000,000, which consisted of \$7,500,000 in debt assumption and \$3,500,000 in equity investment. \$100,000 of the offering proceeds obtained from the new owners was allocated to a property reserve account. The offering was completed in April 2002 when the maximum offering amount was raised. The private placement memorandum projected a first-year annualized cash on cash return of 8.20%. Through December 31, 2003, cash distributions to the investors totaled \$515,974, based on the actual holding period of each individual investor. As of December 31, 2003, there were six investors in this trust.

PETS BOWIE DELAWARE BUSINESS TRUST purchased a single-tenant retail building leased to PETSMART in Bowie, Maryland in October 2001 from PETSMART, Inc. and Wells Fargo Bank Northwest, N.A. The trust initially financed its acquisition of the property with a temporary loan of \$2,625,305 from Parkway Bank & Trust Co., an Illinois banking corporation, and then replaced this loan with a permanent loan of \$1,300,000 with the same lender. In May 2002, Pets Bowie Delaware Business Trust began offering all of its beneficial interests to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$3,900,000, which consisted of \$1,300,000 in debt assumption and \$2,600,000 in equity investment. \$90,000 of the offering proceeds obtained from the new owners was allocated to a property reserve account. The offering was completed in July 2002 when the maximum offering amount was raised. The private placement memorandum projected a first year annualized cash on cash return of 8.89%. Through December 31, 2003, cash distributions to the investors totaled \$462,536, based on the actual holding period of each individual investor. As of December 31, 2003, there were seven investors in this trust.

1031 CHATTANOOGA DBT, a Delaware business trust, acquired a retail property currently leased to Eckerd in Chattanooga, Tennessee in May 2002. The trust financed the property with a loan of \$1,500,000 from Parkway Bank & Trust Co., an Illinois banking corporation. In July 2002, 1031 Chattanooga, L.L.C., the initial beneficiary of 1031 Chattanooga DBT, began offering all of the beneficial interests of the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$3,400,000, which consisted of \$1,500,000 in debt assumption and \$1,900,000 in equity investment. The offering was completed in May 2003 when the maximum

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offering amount was raised. The private placement memorandum projected a first-year annualized cash on cash return of 8.26%. Through December 31, 2003, cash distributions to the investors totaled \$239,291, based on the actual holding period of each individual investor. As of December 31, 2003, there were 10 investors in this trust.

LANSING SHOPPING CENTER, DBT a Delaware business trust, purchased a newly constructed, multi-tenant retail shopping center in Lansing, Illinois in June 2002 from LaSalle Bank National Association, as trustee under trust agreement dated May 22, 2001 and known as Trust No. 127294. The trust financed its acquisition of the property with a \$5,900,000 first mortgage loan from Parkway Bank & Trust Co., an Illinois banking corporation. In August 2002, Lansing Shopping Center, L.L.C., a Delaware limited liability company and the initial beneficiary of Lansing Shopping Center, DBT, began offering all of the beneficial interests of the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$10,900,000, which consisted of \$5,900,000 in debt assumption and \$5,000,000 in equity investment. \$80,000 of the offering proceeds was allocated to a property reserve account. The offering was completed in September 2002 when the maximum offering amount was raised. The private placement memorandum projected a first year annualized cash on cash return of 8.47%. Through December 31, 2003, cash distributions to the investors totaled \$521,363, based on the actual holding period of each individual investor. As of December 31, 2003, there were five investors in this trust.

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INLAND 220 CELEBRATION PLACE DELAWARE BUSINESS TRUST purchased a single-tenant office building currently leased to Walt Disney World Co., a Florida corporation, in Celebration, Osceola County, Florida, in June 2002 from Walt Disney World Co. in a sale/leaseback transaction. The trust financed its acquisition of the property with an \$18,000,000 first mortgage loan from Bank of America, N.A., a national banking association. In September 2002, Inland 220 Celebration Place, L.L.C., a Delaware limited liability company and the initial beneficiary of Inland 220 Celebration Place Delaware Business Trust, began offering all of the beneficial interests of the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$33,800,000, which consisted of \$18,000,000 in debt assumption and \$15,800,000 in equity investment. \$50,000 of the offering proceeds was allocated to a property reserve account. The offering was completed in September 2003 when the maximum offering amount was raised. The private placement memorandum projected a first year annualized cash on cash return of 8.08%. Through December 31, 2003, cash distributions to the investors totaled \$1,492,663, based on the actual holding period of each individual investor. As of December 31, 2003, there were 35 investors in this trust.

TAUNTON CIRCUIT DELAWARE BUSINESS TRUST acquired a retail property currently leased to Circuit City in Taunton, Massachusetts in July 2002. The Trust financed the property with a first mortgage of \$2,800,000 from MB Financial Bank. In September 2002, Inland Taunton Circuit, L.L.C., the initial beneficiary of Taunton Circuit Delaware Business Trust, offered all of its interest in the trust to a qualified person in need of a replacement property to complete a 1031 tax-deferred exchange. The total price was \$6,550,000, which consisted of \$2,800,000 in debt assumption and \$3,750,000 in equity investment. The offering was completed in September 2002. The private placement memorandum projected a first-year annualized cash on cash return of 8.31%. Through December 31, 2003,

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cash distributions to the investor totaled \$366,850. As of December 31, 2003, there was one investor in this trust.

BROADWAY COMMONS DELAWARE BUSINESS TRUST acquired a multi-tenant retail center located in Rochester, Minnesota, in July 2002. The Trust financed the property with a first mortgage of \$8,850,000 from Parkway Bank & Trust Co., an Illinois banking corporation. In October 2002, Broadway Commons, L.L.C., the initial beneficiary of Broadway Commons Delaware Business Trust, began offering all of its beneficial interests in the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$17,250,000, which consisted of \$8,850,000 in debt assumption and \$8,400,000 in equity investment. \$100,000 of the offering proceeds was allocated to a property reserve account. The offering was completed in December 2003 when the maximum offering amount was raised. The private placement memorandum projected an initial annualized cash on cash return of 8.14%. Through December 31, 2003, cash distributions to the investors totaled \$782,625, based on the actual holding period of each individual investor. As of December 31, 2003, there were 33 investors in this trust.

BELL PLAZA 1031, LLC. Rehab Associates XIII, Inc., an Illinois corporation and an affiliate of IREX acquired Bell Plaza, a multi-tenant shopping center in Oak Lawn, IL on August 28, 1998 for \$1,675,000. In October 2002, Rehab Associates XIII contributed 100% of its interest in the property into Bell Plaza 1031, LLC, a Delaware single member limited liability company, and then offered all of its membership interests in Bell Plaza, LLC to North Forsyth Associates, a North Carolina general partnership, which was in need of a replacement property to complete a 1031 tax-deferred exchange. The total price was \$4,030,000, which consisted of \$3,140,000 in debt assumption and \$890,000 in equity investment. \$25,000 of the offering proceeds was allocated to a property reserve account. The offering was completed in November 2002. The private placement memorandum projected a first-year annualized cash on cash return of 14.30%, calculated based on the total original investment of \$890,000. Through December 31, 2003, cash distributions to the investor totaled \$115,552. As of December 31, 2003, this property was owned by one investor.

INLAND 210 CELEBRATION PLACE DELAWARE BUSINESS TRUST purchased a single-tenant office building, currently leased to Walt Disney World Co., a Florida corporation, in Celebration, Osceola County, Florida, in June 2002 from Walt Disney World Co. in a sale/leaseback transaction. The trust financed its acquisition of the property with a \$5,700,000 first mortgage loan from Bear Stearns Commercial Mortgage, Inc. In January 2003, Inland 210 Celebration Place Delaware Business Trust sold its fee simple interest in 210 Celebration Place to Old Bridge Park Celebration, LLC, a Delaware limited liability company, which was in need of a replacement property to complete a 1031 tax-deferred exchange. The total price was \$12,000,000, which consisted of \$5,700,000 in debt assumption and \$6,300,000 in equity investment. Through December 31, 2003, cash flow to the investor totaled \$460,884. As of December 31, 2003, this property was owned by one investor.

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COMPUSA RETAIL BUILDING. Lombard C-USA, L.L.C., a Delaware limited liability company, purchased a single-tenant retail building leased to CompUSA, Inc. in Lombard, Illinois in January 2003 from an unrelated third party. The L.L.C. financed its acquisition of the property with a \$4,000,000 loan from Bear Stearns Commercial Mortgage, Inc. In April 2003, Lombard C-USA, L.L.C. began

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offering 99% of the undivided tenant in common interests in the real estate and improvements thereon located at 2840 S. Highland Avenue, Lombard, DuPage County, Illinois for \$3,910,500 in cash plus the assumption of the existing indebtedness to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$7,950,000, which consisted of \$4,000,000 in debt assumption and \$3,950,000 in equity investment. As required by the lender, Lombard C-USA, L.L.C. shall retain at least a 1% tenant in common interest, which is included in the \$3,950,000 equity investment. \$75,000 of the offering proceeds was allocated to a property reserve account. As of December 31, 2003, the offering is still in process, with approximately 96.4522% (or \$3,809,863) of the capital raised. The private placement memorandum projected a first-year annualized cash on cash return of 8.05%. Through December 31, 2003, cash distributions to the investors totaled \$179,024, based on the actual holding period of each individual investor. Through December 31, 2003, the property was owned by nine investors.

DEERE DISTRIBUTION FACILITY IN JANESVILLE, WISCONSIN. Janesville 1031, L.L.C., a Delaware limited liability company, purchased a single-tenant, light industrial distribution center leased to Deere & Company, a Delaware corporation, in Janesville, Wisconsin in February 2003 from Ryan Janesville, L.L.C., a Minnesota corporation and an affiliate of Ryan Companies US, Inc. The L.L.C. financed its acquisition of the property with a \$10,450,000 loan from Bear Stearns Commercial Mortgage, Inc. In May 2003, Janesville 1031, L.L.C. began offering 99% of the undivided tenant in common interests in the real estate and improvements thereon located at 2900 Beloit Avenue, Janesville, Rock County, Wisconsin for \$9,949,500 in cash plus the assumption of the existing indebtedness to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price, \$20,500,000, consisted of \$10,450,000 in debt assumption and \$10,050,000 in equity investment, 1% of which was required by the lender to be retained by Janesville 1031, L.L.C. \$100,000 of the offering proceeds was allocated to a property reserve account. As of December 31, 2003, the offering is still in process, with approximately 94.3916% (or \$9,486,360) of the capital raised. The private placement memorandum projected a first-year annualized cash on cash return of 7.23%. Through December 31, 2003, cash distributions to the investors totaled \$245,499, based on the actual holding period of each individual investor. Through December 31, 2003, the property was owned by 23 investors.

FLEET OFFICE BUILDING. Westminster Office 1031, L.L.C., a Delaware limited liability company, purchased a single-tenant office building leased entirely to Fleet National Bank, a national banking association, in Providence, Rhode Island in April 2003 from Fleet National Bank in a sale/leaseback transaction. The L.L.C. financed its acquisition of the property with a \$12,900,000 loan from Bear Stearns Commercial Mortgage, Inc. In June 2003, Westminster Office 1031, L.L.C. began offering 99% of the undivided tenant in common interests in the real estate and improvements thereon located at 111 Westminster Street, Providence, Providence County, Rhode Island for \$9,900,000 in cash plus the assumption of the existing indebtedness to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price, \$22,900,000, consisted of \$12,900,000 in debt assumption and \$10,000,000 in equity investment, 1% of which was required by the lender to be retained by Westminster Office 1031, L.L.C. \$150,000 of the offering proceeds was allocated to a property reserve account. As of December 31, 2003, the offering is still in process, with approximately 94.0708% (or \$9,407,077) of the capital raised. The private placement memorandum projected a first-year annualized cash on cash return of 7.19%. Through December 31, 2003, cash distributions to the investors totaled \$179,783, based on the actual holding period of each individual investor. Through December 31, 2003, the property was owned by 23 investors.

DEERE DISTRIBUTION FACILITY IN DAVENPORT, IOWA. Davenport 1031, L.L.C., a Delaware limited liability company, purchased a single-tenant, light industrial distribution center leased to Quad Cities Consolidation and Distribution, Inc.,

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an Illinois corporation, in Davenport, Iowa in April 2003 from Ryan Companies US, Inc., a Minnesota corporation. The lease is fully guaranteed by Deere & Company, a Delaware corporation. The L.L.C. financed its acquisition of the property with a loan from Bear Stearns Commercial Mortgage, Inc. In August 2003, Davenport 1031, L.L.C. began offering 99% of the undivided tenant in common interests in the real estate and improvements thereon located at 2900 Research Parkway, Davenport, Scott County, Iowa for \$15,543,000 in cash plus the ASSUMPTION OF THE EXISTING INDEBTEDNESS to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price, \$28,200,000, consisted of \$12,500,000 in debt assumption and \$15,700,000 in equity investment, 1% of which was required by the lender to be retained by Davenport 1031, L.L.C. \$100,000 of the offering proceeds was allocated to a property reserve account. As of December 31, 2003, the offering is still in process, with approximately 62.0686% (or \$9,744,776) of the capital raised. The private placement memorandum projected a first-year annualized cash on cash return of 7.36%. Through December 31, 2003, cash distributions to the investors totaled \$97,092, based on the actual holding period of each individual investor. Through December 31, 2003, the property was owned by 18 investors.

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GRAND CHUTE DST, A DELAWARE STATUTORY TRUST, purchased a multi-tenant retail shopping center in Grand Chute, Wisconsin in October 2002 from Continental 56 Fund Limited Partnership. The trust funded the acquisition of the property with cash from the sale of 100% of the beneficial interests in the trust to Grand Chute, L.L.C., a Delaware limited liability company. Subsequent to the acquisition of the property, the trust obtained a \$5,678,350 loan from Bank of America, N.A. and the proceeds of the loan were distributed to Grand Chute, L.L.C. as a partial return of its capital contribution. In January 2003, Grand Chute, L.L.C. began offering all of its beneficial interests in the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$12,048,350 which consisted of \$5,678,350 in debt assumption and \$6,370,000 in equity investment. \$478,350 of the offering proceeds was allocated to four separate property reserve accounts, three of which were required by the lender. In September 2003, certain information in the offering was amended and supplemented through the release of the First Supplement to Private Placement Memorandum. As of December 31, 2003, the offering is still in process, with approximately 51.4653% (or \$3,278,339) of the capital raised. The private placement memorandum projected a first-year annualized cash on cash return of 8.48%. As of December 31, 2003, there were 19 investors in this trust.

MACON OFFICE DST, A DELAWARE STATUTORY TRUST, purchased a single-tenant office complex in Macon, Georgia in October 2002 from UTF Macon, L.L.C. The trust funded the acquisition of the property with cash from the sale of 100% of the beneficial interests in the trust to Macon Office, L.L.C., a Delaware limited liability company. Subsequent to the acquisition of the property, the trust obtained a \$5,560,000 loan from Bank of America, N.A. and the proceeds of the loan were distributed to Macon Office, L.L.C. as a partial return of its capital contribution. In October 2003, Macon Office, L.L.C. began offering all of its beneficial interests in the trust to certain qualified persons seeking a cash investment, in addition to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$12,160,000 which consisted of \$5,560,000 in debt assumption and \$6,600,000 in equity investment. \$100,000 of the offering proceeds was allocated to a property reserve account. As of December 31, 2003, the offering is still in process, with

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approximately 55.7011% (or \$3,676,270) of the capital raised. The private placement memorandum projected a first-year annualized cash on cash return of 8.20%. Through December 31, 2003, cash distributions to the investors totaled \$45,952, based on the actual holding period of each individual investor. As of December 31, 2003, there were 17 investors in this trust.

WHITE SETTLEMENT ROAD INVESTMENT, LLC, A DELAWARE LIMITED LIABILITY COMPANY, acquired a retail property currently leased to Eckerd Corporation in Fort Worth, Texas in July 2003. The LLC funded the acquisition of the property with cash from an affiliate and with a short-term loan from Parkway Bank and Trust Co., an Illinois banking corporation, in the amount of \$2,041,000. In November 2003, Fort Worth Exchange, LLC, a Delaware limited liability company and initial beneficiary of White Settlement Road Investment, LLC, offered its entire membership interest in the LLC to a qualified person in need of a replacement property to complete a 1031 tax-deferred exchange. The total price was \$2,840,000, which consisted of \$1,420,000 in debt assumption and \$1,420,000 in equity investment. The offering was completed in December 2003. Simultaneous with the completion of the offering, the short-term loan with Parkway was converted to a permanent loan and the terms of the loan documents were modified in accordance with a loan commitment from Parkway. The private placement memorandum projected a first-year annualized cash on cash return of 8.34%. As of December 31, 2003, this property was owned by one investor.

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The following summary table describes the fees and expenses incurred by each of our entities in our 1031 Exchange Private Placement Offering Project.

| | Landings of Sarasota | Sentry Office Building | Pets Bowie | 1031 Chattanooga |
|--------------------------------------|-------------------------|------------------------------|-----------------------|---------------------|
| | DBT | DBT | DBT | DBT |
| Commissions & Fees(1) | Up to 8.5% | Up to 8.5% | Up to 8.5% | Up to 8.5% |
| Selling Commission To 3rd Party Reps | 6.00% | 6.00% | 6.00% | 6.00% |
| Due Diligence Fee | 0.50% | 0.50% | 0.50% | 0.50% |
| Marketing Expenses | 1.00% | 1.50% | 1.50% | 1.50% |
| Offering & Organization | 1.00% | 0.50% | 0.50% | 0.50% |
| Mortgage Broker Fee (IMC) (2) | 0.50% | 0.50% | 0.50% | 0.50% |
| Acquisition Fee & Carrying Costs(3) | | | | |
| Acquisition Fee | N/A | 0.71% | 0.77% | 0.90% |
| Bridge Financing Fees | N/A | N/A | 1.49% | 0.50% |
| Total Load(4) | 11.25%-12.75% | 14.23% | 13.68% | 14.30% |
| Asset Management Fees(5) | N/A | 0.75% | 1.00% | 0.50% |
| Property Management Fees(6) | 4.5% | 5.0% | Paid by Asset Mgr. | 5.0% |
| Backend Sales Commission | 3.5% | 3.5% | 3.5% | 3.5% |

Taunton

Broadway

Inland 210

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| | Circuit | Commons | Bell Plaza | Celebratio |
|--------------------------------------|------------|-------------|-------------|------------|
| | DBT | DBT | 1031, LLC | Place DBT |
| Commissions & Fees(1) | Up to 8.0% | Up to 8.77% | Up to 9.19% | Up to 5.2 |
| Selling Commission To 3rd Party Reps | 6.00% | 6.00% | 6.00% | 3.8 |
| Due Diligence Fee | 0.50% | 0.50% | 0.50% | 0.0 |
| Marketing Expenses | 1.00% | 1.00% | 1.00% | 0.5 |
| Offering & Organization | 0.50% | 1.27% | 1.69% | 0.9 |
| Mortgage Broker Fee (IMC) (2) | 0.61% | 0.50% | 0.50% | 0.5 |
| Acquisition Fee & Carrying Costs(3) | | | | |
| Acquisition Fee | 0.69% | 0.75% | N/A | 0.8 |
| Bridge Financing Fees | 0.07% | 0.23% | N/A | 0.2 |
| Total Load(4) | 11.89% | 12.98% | 23.02% | 10.5 |
| Asset Management Fees(5) | 0.57% | N/A | 0.53% | 0.5 |
| Property Management Fees(6) | 4.0% | 5.0% | 5.0% | 4. |
| Backend Sales Commission | N/A | N/A | 3.5% | N/ |

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| | Fleet Office | Davenport Deere Distribution | Grand Chute | Macon Offi |
|--------------------------------------|--------------|------------------------------------|-------------|------------|
| | Building | Facility | DST | DST |
| Commissions & Fees(1) | Up to 8.52% | Up to 8.42% | Up to 8.82% | Up to 8.5 |
| Selling Commission To 3rd Party Reps | 6.00% | 6.00% | 6.00% | 6.0 |
| Due Diligence Fee | 0.50% | 0.50% | 0.50% | 0.5 |
| Marketing Expenses | 1.00% | 1.00% | 1.00% | 1.0 |
| Offering & Organization | 1.02% | 0.92% | 1.32% | 1.0 |
| Mortgage Broker Fee (IMC) (2) | 0.50% | 0.71% | 0.50% | 0.5 |
| Acquisition Fee & Carrying Costs(3) | | | | |
| Acquisition Fee | 0.85% | 0.77% | 0.84% | 0.7 |
| Bridge Financing Fees | 0.35% | 0.72% | 0.13% | 0.8 |
| Total Load(4) | 14.57% | 13.18% | 12.96% | 14.2 |
| Asset Management Fees(5) | 0.49% | 0.50% | 0.66% | 0.6 |
| Property Management Fees(6) | 4.5% | 4.5% | 5.0% | 4. |
| Backend Sales Commission | N/A | NA | NA | N |

(1) Commissions and fees are calculated as a percentage of the equity portion of each deal.

(2) The Mortgage Broker Fee is calculated as a percentage of the debt portion of each deal.

(3) Acquisition & Carrying Costs are calculated as a percentage of the real

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estate acquisition price.

- (4) The Total Load is calculated as a percentage of the equity portion of each deal. The Total Load includes the Commissions & Fees, Mortgage Broker Fee, Acquisition Fee & Carrying Costs, as well as any other non-affiliated third party expenses.
- (5) Asset Management Fees are calculated as a percentage of the value of the assets under management. However, for The Landings and Broadway Commons, which are both Master Lease deals, the Master Tenant Income is the residual cash flow from the Property after payment of the Master Lease Rent. As a result, it is not possible to accurately represent the Master Tenant Income as a percentage of the value of the assets under management.
- (6) Property Management Fees are calculated as a percentage of Gross Income from the property.

Additional Fees (Same for each deal)

- (1) Loan Servicing Fee -
IMSC will be compensated with a monthly fee equal to the outstanding principal balance of the loan at the beginning of every month multiplied by 1/8% then divided by 12. This figure, however, shall never exceed \$10,000 nor be less than \$1,200 monthly.
- (2) Termination Fees -
MASTER LEASE: 8.333% of the last 12 Months of NOI less Rent payments for the same 12 months multiplied by the number of months remaining on the then-current term of the Master Lease.
ASSET & PROPERTY MANAGEMENT AGREEMENTS: The sum of the current monthly AM & PM fees times the number of months remaining on the term.

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MANAGEMENT

OUR ADVISOR

THE DISCUSSION UNDER THIS SECTION, WHICH STARTS ON PAGE 73 OF OUR PROSPECTUS, IS SUPPLEMENTED BY THE FOLLOWING INFORMATION.

LORI FOUST (age 39) joined Inland Western Retail Real Estate Advisory Services, Inc. in November 2003 as our Vice President - Controller. Ms. Foust is responsible for the accounting and preparation of monthly, quarterly and annual financial statements, budgets and financial analysis for us. Prior to joining Inland, Ms. Foust was on the audit staff of Ernst & Young LLP from 1988 through October of 2003 with a majority of her time serving clients in the real estate industry. Ms. Foust holds a MBA and BSBA from the University of Central Florida and is a licensed Certified Public Accountant in the states of Illinois and Florida.

PRINCIPAL STOCKHOLDERS

THE FOLLOWING REPLACES THE INFORMATION CONTAINED ON PAGE 85 OF OUR PROSPECTUS UNDER THE HEADING "PRINCIPAL STOCKHOLDERS".

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The following table provides information as of March 8, 2004 regarding the number and percentage of shares beneficially owned by each director, each executive officer, all directors and executive officers as a group and any person known to us to be the beneficial owner of more than 5% of our outstanding shares. As of March 8, 2004, no stockholder beneficially owned more than 5% of our outstanding shares. As of March 8, 2004, we had approximately 10,800 stockholders of record and approximately 39,047,000 shares of common stock outstanding. Beneficial ownership includes outstanding shares and shares which are not outstanding that any person has the right to acquire within 60 days after the date of this table. However, any such shares which are not outstanding are not deemed to be outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by any other person. Except as indicated, the persons named in the table have sole voting and investing power with respect to all shares beneficially owned by them.

| BENEFICIAL OWNER | NUMBER OF SHARES BENEFICIALLY OWNED | PERCENTAGE |
|--|--|------------|
| Robert D. Parks | 83,342.8466 | (1) |
| Roberta S. Matlin | 167.8001 | |
| Scott W. Wilton | 0 | |
| Kelly E. Tucek | 0 | |
| Brenda G. Gujral | 0 | |
| Frank A. Catalano, Jr. | 1,000 | (2) |
| Kenneth H. Beard | 1,000 | (2) |
| Paul R. Gauvreau | 112,731.8436 | (2) |
| Gerald M. Gorski | 2,124.9717 | (2) |
| Barbara A. Murphy | 1,000 | (2) |
| All directors and executive officers as a group (10 persons) | 201,367.4620 | (1) |

*Less than 1%

- (1) Includes 20,000 shares owned by our advisor. Our advisor is a wholly-owned subsidiary of our sponsor, which is an affiliate of The Inland Group. Mr. Parks is a control person of The Inland Group and disclaims beneficial ownership of these shares owned by our advisor.
- (2) Includes 1,000 shares issuable upon exercise of options granted to each independent director under our independent director stock option plan, to the extent that such options are currently exercisable or will become exercisable within 60 days after the date of this table.

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INVESTMENT OBJECTIVES AND POLICIES

DISTRIBUTIONS

THE DISCUSSION UNDER THIS SECTION, WHICH STARTS ON PAGE 88 OF OUR PROSPECTUS, IS SUPPLEMENTED BY THE FOLLOWING:

Our Board of Directors approved the following distributions payable to holders

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of our common stock:

- \$.30 per share per annum for the stockholders of record on October 31, 2003, payable on November 10, 2003
- \$.50 per share per annum for the stockholders of record on November 30, 2003, payable on December 10, 2003
- \$.70 per share per annum for the stockholders of record on December 31, 2003, payable on January 10, 2004

BORROWING

THE DISCUSSION UNDER THIS SECTION, WHICH STARTS ON PAGE 91 OF OUR PROSPECTUS, IS MODIFIED AND SUPPLEMENTED BY THE FOLLOWING INFORMATION REGARDING OUR BORROWING POLICIES.

Our board of directors adopted a policy to delegate to management the ability to obtain unsecured general financing facilities up to \$100,000,000 without prior approval by the board of directors. These facilities would then be matched with specific properties, which would secure the amounts due under the specific financings.

On February 9, 2004, we entered into a rate lock agreement with Bear Stearns. We paid a rate lock deposit of \$1,200,000 to lock the interest rate at 4.372% for a period of 90 days on \$60,000,000.

On March 5, 2004, we entered into a rate lock agreement with Principal Life Insurance Company. We paid a rate lock deposit of \$500,000 to lock the interest rate at 4.13% for a period of 120 days with four one month extensions on \$50,000,000.

On March 11, 2004, we entered into a rate lock agreement with Principal Life Insurance Company. We paid a rate lock deposit of \$500,000 to lock the interest rate at 4.09% for a period of 120 days with four one month extensions on \$50,000,000.

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REAL PROPERTY INVESTMENTS

THE DISCUSSION UNDER THIS SECTION, WHICH STARTS ON PAGE 98 OF OUR PROSPECTUS, IS MODIFIED AND SUPPLEMENTED BY THE FOLLOWING INFORMATION REGARDING PROPERTIES WE HAVE ACQUIRED OR INTEND TO ACQUIRE.

HERITAGE TOWNE CROSSING, EULESS, TEXAS

On March 5, 2004, we purchased an existing shopping center known as Heritage Towne Crossing containing 73,364 gross leasable square feet. The center is located at Glade Road and State Highway 121 in Euless, Texas.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$16,288,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$222 per square foot of leasable space. A portion of the purchase price will be held in an escrow, to be paid to the seller when the remaining spaces are leased.

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We purchased this property with our own funds. However, we expect to place financing on the property at a later date.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

No individual tenant leases more than 10% of the total gross leasable area of the property.

For federal income tax purposes, the depreciable basis in this property will be approximately \$12,200,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Heritage Towne Crossing was built in 2002. As of March 1, 2004, this property was 88% occupied, with a total 64,808 square feet leased to 27 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|----------------------------|--|------------|--------------------------------|--|
| APB Mortgage | 2,530 | 09/06 | 45,540 | 18.00 |
| Gamestop | 1,371 | 03/07 | 29,400 | 21.44 |
| Mattress Firm | 4,000 | 04/07 | 96,000 | 24.00 |
| All Battery Store | 2,000 | 05/07 | 44,000 | 22.00 |
| Sun Tailors | 1,200 | 05/07 | 20,400 | 17.00 |
| Dapper Dan Cleaners | 2,000 | 06/07 | 38,000 | 19.00 |
| Lava Asian Grill | 3,000 | 07/07 | 51,000 | 17.00 |
| Salon G | 2,800 | 08/07 | 50,400 | 18.00 |
| Ultra Tan | 1,600 | 08/07 | 24,000 | 15.00 |
| Golf USA of Euless | 3,437 | 12/07 | 69,459 | 20.21 |
| Sara Donuts | 1,400 | 04/08 | 23,800 | 17.00 |
| Coppell Spine/Sports Rehab | 2,000 | 04/08 | 38,000 | 19.00 |
| Plato's Closet | 3,000 | 04/08 | 54,000 | 18.00 |

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| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|------------------------|--|------------|--------------------------------|--|
| Village Barber | 1,100 | 04/08 | 23,100 | 21.00 |
| Town & Country Tobacco | 1,800 | 04/08 | 32,400 | 18.00 |
| Parker Uniforms | 3,000 | 05/08 | 42,000 | 14.00 |

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| | | | | |
|--------------------------|-------|-------|--------|-------|
| The Cash Store | 1,300 | 07/08 | 24,700 | 19.00 |
| Art & Frame Warehouse | 2,546 | 07/08 | 39,463 | 15.50 |
| Wings to Go | 2,000 | 09/08 | 32,000 | 16.00 |
| Ultima Fitness | 2,266 | 10/08 | 37,389 | 16.50 |
| Delicious Delights | 1,500 | 11/08 | 27,000 | 18.00 |
| Nails Spa | 3,410 | 01/09 | 61,380 | 18.00 |
| DoubleDave's Pizza Works | 3,308 | 03/09 | 54,582 | 16.50 |
| Panda Express | 2,250 | 04/12 | 47,250 | 21.00 |
| Washington Mutual | 4,000 | 10/12 | 84,000 | 21.00 |
| Pearle Vision | 1,990 | 12/12 | 35,820 | 18.00 |
| The Soccer Corner | 4,000 | 05/13 | 62,600 | 15.65 |
| Whataburger | * | 08/18 | 60,000 | * |
| Taco Bell | * | 10/18 | 51,000 | * |

* ground lease

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

DORMAN CENTER, SPARTANBURG, SOUTH CAROLINA

On March 4, 2004, we purchased a newly constructed shopping center known as Dorman Center containing 350,994 gross leasable square feet (Phase I). We signed an agreement, subject to conditions, to purchase an additional 35,900 gross leasable square feet (Phase II) upon completion in 2004 for approximately \$6,700,000. The center is located at Blackstock Road and W.L. Ezell Road, in Spartanburg, South Carolina.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$43,118,000 for Phase I. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$123 per square foot of leasable space for Phase I.

We purchased this property with our own funds. However, we expect to place financing on the property at a later date.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

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One tenant, Wal-Mart Super Center, leases more than 10% of the total gross leasable area of the Phase I property. The lease with this tenant requires the tenant to pay base annual rent on a monthly basis as follows:

| | |
|-------------|-------------------------|
| Approximate | Base Rent Per Square |
|-------------|-------------------------|

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| Lessee | GLA Leased (Sq. Ft.) | % of Total GLA | Foot Per Annum (\$) | Lease Term Beginning | To |
|-----------------------|-------------------------|-------------------|------------------------|-------------------------|-------|
| Wal-Mart Super Center | 219,622 | 63 | 7.45 | 08/03 | 12/23 |

For federal income tax purposes, the total depreciable basis in this property will be approximately \$25,800,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Dorman Center was built in 2003. As of March 1, 2004, this property was 98% occupied, with a total 345,700 square feet leased to 16 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Current Annual Rent (\$) |
|-----------------------|--|------------|-----------------------------|
| Happy Nails | 2,000 | 12/06 | 38,000 |
| Pilgrim's Pathway | 2,000 | 12/06 | 32,000 |
| Alltell | 2,500 | 12/06 | 45,000 |
| Payless Shoesource | 2,800 | 08/08 | 47,600 |
| Your Dollar Store | 5,000 | 08/08 | 77,500 |
| JD's Fashion | 3,500 | 12/08 | 63,000 |
| Catherine's | 4,000 | 12/08 | 69,000 |
| China King | 6,000 | 12/08 | 78,000 |
| Supertans | 2,500 | 12/08 | 42,500 |
| Lee Jewelers | 1,700 | 12/08 | 33,150 |
| Linens 'n Things | 25,206 | 12/13 | 252,060 |
| Ross Dress for Less | 30,187 | 12/13 | 332,057 |
| Michaels | 23,885 | 12/13 | 250,793 |
| Pier One | 10,800 | 12/13 | 199,800 |
| McAllister's Deli | 4,000 | 12/13 | 66,000 |
| Wal-Mart Super Center | 219,622 | 12/23 | 1,636,184 |

* Lease term information is based on the date the tenant began occupancy and is not currently available.

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

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PEORIA CROSSINGS, PEORIA, ARIZONA

On March 4, 2004, we purchased a newly constructed shopping center known as Peoria Crossings, containing 213,733 gross leasable square feet. The center is

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located at 9350 West Northern Avenue, in Peoria, Arizona.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$37,328,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$175 per square foot of leasable space.

We originally purchased this property with our own funds. On March 5, 2004, we obtained financing in the amount of \$20,497,000. The loan requires interest only payments at an annual rate of 4.09% and matures April 2009.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

Three tenants, Ross Stores, Michael's and Petco, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenant to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per Annum (\$) | Lease Term Beginning | To |
|-------------|--|-------------------|---|-------------------------|-------|
| Ross Stores | 30,171 | 14 | 10.00 | 05/03 | 01/14 |
| Michael's | 24,063 | 11 | 11.00 | 03/03 | 02/12 |
| Kohl's | 88,408 | 41 | 8.79 | 02/03 | 01/24 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$26,200,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Peoria Crossing was built in 2002 and 2003. As of March 1, 2004, this property was 98% occupied, with a total 210,623 square feet leased to 22 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|---------------------|--|------------|--------------------------------|--|
| Supercuts | 1,202 | 12/07 | 33,656 | 28.00 |
| Famous Footwear | 10,030 | 01/08 | 162,988 | 16.25 |
| EB Games | 1,500 | 02/08 | 37,500 | 25.00 |
| Sally Beauty Supply | 1,200 | 02/08 | 26,400 | 22.00 |
| Claire's Boutique | 1,269 | 02/08 | 30,456 | 24.00 |
| Voice Stream | 1,200 | 02/08 | 32,400 | 27.00 |
| Motherlode | 1,412 | 05/08 | 36,712 | 26.00 |

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| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|---------------------|--|------------|--------------------------------|--|
| Cold Stone Creamery | 1,400 | 07/08 | 36,400 | 26.00 |
| Sarpino's Pizzeria | 1,200 | 07/08 | 31,200 | 26.00 |
| Sleep America | 4,500 | 09/08 | 112,500 | 25.00 |
| Julie Nails & Spa | 1,300 | 12/08 | 33,800 | 26.00 |
| Great Clips | 1,405 | 08/09 | 35,125 | 25.00 |
| Michael's | 24,063 | 02/12 | 264,693 | 11.00 |
| Petco | 15,216 | 10/12 | 216,067 | 14.20 |
| Payless Shoes | 4,042 | 01/13 | 80,840 | 20.00 |
| Kohl's | 88,408 | 01/13 | 777,106 | 8.79 |
| Quizno's | 1,400 | 05/13 | 38,500 | 27.50 |
| Panda Express | 2,205 | 06/13 | 59,535 | 27.00 |
| Dress Barn | 8,000 | 06/13 | 140,000 | 17.50 |
| Anna's Linens | 8,000 | 09/13 | 112,000 | 14.00 |
| It's the Bean | 1,500 | 10/13 | 43,645 | 29.10 |
| Ross Stores | 30,171 | 01/14 | 301,710 | 10.00 |

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

PROMENADE AT RED CLIFF, ST. GEORGE, UTAH

On February 13, 2004, we acquired an existing shopping center known as Promenade at Red Cliff containing 94,936 gross leasable square feet. The center is located at 250 N. Red Cliffs Drive in St. George, Utah.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$19,636,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$207 per square foot of leasable space.

We purchased this property with our own funds. However, we expect to place financing on the property at a later date.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

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Three tenants, Old Navy, Staples, and Big 5 Sporting Goods, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenants to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per Annum (\$) | Lease T Beginning |
|----------------------|--|-------------------|---|----------------------|
| Big 5 Sporting Goods | 10,058 | 11 | 11.43 12.46 | 07/97 07/02 |
| Old Navy | 19,317 | 20 | 13.80 | 12/03 |
| Staples | 22,959 | 24 | 11.27 | 06/97 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$14,193,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Promenade at Red Cliff was built in 1998. As of March 1, 2004, this property was 97% occupied, with a total 94,936 square feet leased to 20 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Bas Sq Per |
|--------------------------------|--|------------|--------------------|--------------------------------|------------------|
| Panda Express | 1,513 | 12/04 | 3/5 yr. | 36,312 | |
| Franklin Quest | 1,206 | 12/06 | - | 30,150 | |
| Hollywood Entertainment | 6,200 | 12/06 | 2/4 yr. | 122,328 | |
| Big 5 Sporting Goods | 10,058 | 06/07 | 4/5 yr. | 125,352 | |
| Vitamin World | 1,291 | 06/07 | - | 26,880 | |
| Sally Beauty Supply | 1,204 | 06/07 | - | 22,876 | |
| Gen X Clothing | 7,816 | 06/07 | 1/5 yr. | 128,964 | |
| Cosmo Nails | 1,017 | 07/07 | 1/5 yr. | 24,408 | |
| Papa John's | 1,347 | 12/07 | 1/4 yr. | 35,022 | |
| Durango Grill | 2,693 | 02/08 | 1/5 yr. | 75,404 | |
| Supercuts | 1,030 | 02/08 | - | 24,720 | |
| 9 Months & Beyond Maternity | 500 | 06/08 | 1/5 yr. | 15,550 | |
| Thompson Smokehouse | 1,365 | 07/08 | 1/5 yr. | 39,585 | |
| Cold Stone Creamery | 1,173 | 08/08 | 1/10 yr. | 32,844 | |
| Samuri 21 | 4,057 | 08/08 | 1/5 yr. | 99,315 | |
| Country Clutter | 1,464 | 09/08 | 1/5 yr. | 36,600 | |
| Old Navy | 19,317 | 11/08 | 1/6 yr. | 266,575 | |
| Quiznos | 1,424 | 01/09 | 1/5 yr. | 30,828 | |
| Two Fat Guys | 4,283 | 02/09 | - | 91,074 | |
| Staples | 22,959 | 05/12 | 3/5 yr. | 258,750 | |

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In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

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NEWNAN CROSSING WEST AND PHASE II, NEWNAN, GEORGIA

On February 13, 2004, we acquired an existing shopping center known as Newnan Crossing Phase II containing 153,798 gross leasable square feet for approximately \$22,362,000. This property is adjacent to Newnan Crossing West, which we acquired on December 24, 2003 for approximately \$16,808,000. Newnan Crossing West contains 131,196 gross leasable square feet. The center is located at 591 Bullsboro Drive in Newnan, Georgia.

We purchased the property from an unaffiliated third party. This amount may increase by additional costs which have not been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$145 per square foot, and \$128 per square foot of leasable space for Newnan Crossing Phase II and Newnan Crossing West, respectively. We intend to purchase an additional 28,000 gross leasable square feet for approximately \$4,042,000 in early 2004 when construction has been completed.

We originally purchased this property with our own funds. On February 17, 2004, we obtained financing in the amount of \$21,543,000. The loan requires interest only payments at an annual rate of 4.38% and matures March 1, 2009.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

Three tenants, BJ's Wholesale, TJ Maxx and Office Depot, each lease more than 10% of the combined total gross leasable area of the West and Phase II properties. The leases with these tenants require the tenant to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per Annum (\$) | Lease Beginning |
|--------------|--|-------------------|---|--------------------|
| Office Depot | 30,000 | 11 | 10.75 | 06/99 |
| TJ Maxx | 30,194 | 11 | 7.30 7.95 | 08/99 09/04 |
| BJ's | 115,396 | 41 | 8.75 | 05/03 |

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For federal income tax purposes, the depreciable basis will be approximately \$15,930,000 and \$11,356,000 for Phase II and West, respectively. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Newnan Crossing West and Phase II were built in 1999. As of March 1, 2004, the property was 100% occupied, with a total 284,994 square feet leased to 21 tenants and one ground lease. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Squ Per |
|-------------------|--|------------|--------------------|--------------------------------|--------------------|
| Planet Smoothie | 1,040 | 10/08 | 1/5 yr. | 18,200 | |
| Banana Beach | 1,200 | 10/08 | 1/5 yr. | 21,600 | |
| Cingular Wireless | 1,760 | 10/08 | - | 31,680 | |
| Great Clips | 1,200 | 10/08 | 1/5 yr. | 21,600 | |
| The Corner Tavern | 5,000 | 11/08 | 2/5 yr. | 85,000 | |

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| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Bas Sq Per |
|--------------------------|--|------------|--------------------|--------------------------------|------------------|
| My Friend's Place | 1,600 | 11/08 | - | 28,800 | |
| Ted's Montana Grill | 4,000 | 12/08 | 4/5 yr. | 64,000 | |
| BJ's Wholesale | 115,396 | 01/24 | 4/5 yr. | 1,009,715 | |
| Old Navy | 25,000 | 09/04 | 2/5 yr. | 225,000 | |
| Radio Shack | 3,000 | 08/06 | 2/5 yr. | 51,000 | |
| Stratus Communication | 1,300 | 12/06 | 1/4 yr. | 22,750 | |
| Hibbett's Sporting Goods | 7,000 | 01/07 | 2/5 yr. | 94,500 | |
| Hallmark | 5,000 | 02/07 | 2/5 yr. | 72,500 | |
| Crystal Nails & Tan | 1,300 | 04/07 | 1/5 yr. | 23,400 | |
| Michaels | 23,704 | 02/09 | 3/5 yr. | 213,336 | |
| Rack Room | 7,300 | 07/09 | 3/5 yr. | 116,800 | |
| TJ Maxx | 30,194 | 08/09 | 3/5 yr. | 220,500 | |
| Party City | 12,000 | 10/09 | 2/5 yr. | 156,000 | |
| Payless Shoe Source | 3,000 | 11/09 | 2/5 yr. | 48,000 | |
| Sizes Unlimited | 5,000 | 01/12 | 2/4 yr. | 77,500 | |
| Office Depot | 30,000 | 06/14 | 3/5 yr. | 322,500 | |
| O'Charley's * | * | 02/14 | 3/5 yr. | 66,000 | |

* ground lease

In general, each tenant will pay its proportionate share of real estate taxes,

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insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

MACARTHUR CROSSING, LAS COLINAS (IRVING), TEXAS

On February 5, 2004, we purchased an existing shopping center known as Mac Arthur Crossing containing 110,975 gross leasable square feet. The center is located at Mac Arthur Boulevard and LBJ Freeway in Las Colinas (Irving), Texas.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$23,102,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$208 per square foot of leasable space.

We purchased this property with our own funds. However, we expect to place financing on the property at a later date.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

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One tenant, Stein Mart, leases more than 10% of the total gross leasable area of the property. The lease with this tenant requires the tenant to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per Annum (\$) | Lease Beginning |
|------------|--|-------------------|---|--------------------|
| Stein Mart | 34,000 | 31 | 6.75 7.25 | 07/96 08/06 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$17,340,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Mac Arthur Crossing was built in 1995 and 1996. As of March 1, 2004, this property was 100% occupied, with a total 110,975 square feet leased to 30 tenants. The following table sets forth certain information with respect to those leases:

| | | |
|-------------|---------|-----|
| Approximate | Current | Bas |
|-------------|---------|-----|

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| Lessee | GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Annual Rent (\$) | Sq Per |
|------------------------|-------------------------|------------|--------------------|---------------------|-----------|
| Valley Ranch Vacations | 1,381 | 12/03 | - | 24,858 | |
| Monarch Dental | 3,920 | 12/04 | 1/5 yr. | 66,640 | |
| The UPS Store | 1,260 | 02/06 | 1/5 yr. | 27,720 | |
| Regis Haircutters | 1,500 | 02/06 | 1/5 yr. | 37,500 | |
| Custom Cleaners | 2,100 | 02/06 | 1/5 yr. | 58,800 | |
| Fanci That | 1,996 | 02/06 | - | 35,928 | |
| Radio Shack | 2,000 | 02/06 | 1/5 yr. | 31,000 | |
| Merle Norman | 1,457 | 03/06 | 1/5 yr. | 23,880 | |
| Rice Boxx | 2,101 | 03/06 | - | 52,525 | |
| Starbucks Coffee | 1,604 | 04/06 | 2/5 yr. | 32,080 | |
| Cingular Wireless | 4,000 | 04/06 | 2/5 yr. | 100,000 | |
| Wolf Camera | 1,780 | 04/06 | 1/5 yr. | 35,600 | |
| Sally Beauty | 1,500 | 06/06 | 1/5 yr. | 29,100 | |
| I Fratellis Restaurant | 5,000 | 09/06 | - | 102,500 | |
| Subway | 1,400 | 09/06 | 1/5 yr. | 21,000 | |
| Planet Tan | 4,400 | 10/06 | 1/5 yr. | 70,400 | |
| Blockbuster Video | 6,500 | 01/07 | 4/5 yr. | 127,335 | |
| Flowers For You | 2,100 | 02/07 | - | 42,000 | |
| State Farm Insurance | 2,000 | 03/07 | 1/5 yr. | 34,000 | |
| Isshin Sushi | 4,000 | 03/07 | - | 80,000 | |
| Eyecare 20/20 | 2,000 | 06/07 | 1/5 yr. | 40,000 | |
| GNC | 1,400 | 06/07 | 1/5 yr. | 25,200 | |

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| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Bas Sq Per |
|---------------------------|--|------------|--------------------|--------------------------------|------------------|
| Marshall Message Therapy | 640 | 03/08 | 2/5 yr. | 11,520 | |
| TD Waterhouse | 2,500 | 04/08 | 2/5 yr. | 55,000 | |
| Quizno's | 2,100 | 03/09 | - | 52,500 | |
| Stein Mart | 34,000 | 08/11 | 3/5 yr. | 229,500 | |
| Mi Cocina | 4,964 | 01/12 | 2/5 yr. | 124,100 | |
| Pei Wei | 3,160 | 02/12 | 2/5 yr. | 96,380 | |
| Southwestern Bell Antenna | 1,280 | 07/16 | - | 13,800 | |
| Firestone Tire | 6,932 | 08/16 | 2/5 yr. | 144,996 | |

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

LA PLAZA DEL NORTE, SAN ANTONIO, TEXAS

On January 21, 2004, we purchased an existing shopping center known as La Plaza

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Del Norte, containing 320,067 gross leasable square feet. The center is located at 125 Northwest Loop 410, in San Antonio, Texas.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$59,143,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$185 per square foot of leasable space.

We purchased this property with our own funds. On February 4, 2004, we obtained financing in the amount of \$32,528,000. The loan requires interest only payments at an annual rate of 4.61% and matures March 1, 2010.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

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Two tenants, Oshmans and Best Buy, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenant to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per Annum (\$) | Lease Term Beginning | To |
|----------|--|-------------------|---|-------------------------|-------|
| Oshmans | 65,000 | 20 | 11.11 | 09/96 | 01/02 |
| | | | 11.61 | 02/02 | 02/07 |
| | | | 12.11 | 02/07 | 01/12 |
| | | | 12.61 | 02/12 | 01/17 |
| Best Buy | 58,000 | 18 | 14.00 | 09/96 | 01/02 |
| | | | 14.95 | 02/02 | 01/07 |
| | | | 15.50 | 02/07 | 01/12 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$43,076,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

La Plaza Del Norte was built in 1996 and 1999. As of March 1, 2004, this property was 95% occupied, with a total 297,287 square feet leased to 17 tenants. The following table sets forth certain information with respect to those leases:

| | | | |
|---------------------------|---------|-------------------|------------------------------|
| Approximate GLA Leased | Renewal | Current Annual | Base Rent Per Square Foot |
|---------------------------|---------|-------------------|------------------------------|

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| Lessee | (Sq. Ft.) | Lease Ends | Options | Rent (\$) | Per Annum (\$) |
|-------------------------|-----------|------------|---------|-----------|----------------|
| Half Price Books | 8,000 | 10/04 | 2/5 yr. | 84,000 | 10.50 |
| Lifeway Christian | 6,000 | 11/06 | 2/5 yr. | 132,000 | 22.00 |
| Pearle Vision | 3,500 | 12/06 | 2/5 yr. | 120,750 | 34.50 |
| Ross Dress for Less | 28,160 | 01/07 | 4/5 yr. | 288,640 | 10.25 |
| Office Max | 23,229 | 11/12 | 2/5 yr. | 261,326 | 11.25 |
| DSW | 22,000 | 04/07 | 4/5 yr. | 374,000 | 17.00 |
| All Battery Center | 1,600 | 05/07 | 2/5 yr. | 36,800 | 23.00 |
| Successories | 1,200 | 09/08 | 2/3 yr. | 26,400 | 22.00 |
| Game Stop | 2,006 | 12/08 | - | 52,156 | 26.00 |
| David's Bridal | 12,000 | 11/09 | 2/5 yr. | 186,240 | 15.52 |
| Petco | 13,650 | 11/11 | 3/5 yr. | 278,187 | 20.38 |
| Cost Plus | 18,900 | 01/12 | 3/5 yr. | 302,400 | 16.00 |
| Best Buy | 58,000 | 01/12 | 3/5 yr. | 855,500 | 14.75 |
| Bealls | 29,847 | 01/14 | 2/5 yr. | 194,005 | 6.50 |
| Oshman's Sporting Goods | 65,000 | 01/17 | 4/5 yr. | 754,650 | 11.61 |

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

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METRO SQUARE CENTER (SUPER VALU SHOPPING CENTER), SEVERN, MARYLAND

On January 20, 2004, we purchased an existing shopping center formerly known as Super Valu Shopping Center, containing 61,817 gross leasable square feet. The center is located at 7858 Quarterfield in Severn (Annapolis), Maryland.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$11,031,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$178 per square foot of leasable space.

We purchased this property with our own funds. However, we expect to place financing on the property at a later date.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

One tenant, Shoppers Food Warehouse, leases more than 10% of the total gross leasable area of the property. The lease with this tenant requires the tenant to pay base annual rent on a monthly basis as follows:

| | |
|-------------|-------------------------|
| Approximate | Base Rent Per Square |
|-------------|-------------------------|

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| Lessee | GLA Leased (Sq. Ft.) | % of Total GLA | Foot Per Annum (\$) | Lease Beginning | Term To |
|----------------------------|-------------------------|-------------------|----------------------------------|----------------------------------|----------------------------------|
| Shoppers Food Warehouse | 58,217 | 94 | 14.00 14.50 15.24 16.00 | 09/99 09/04 09/09 09/14 | 08/04 08/09 08/14 01/20 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$8,840,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Super Valu Shopping Center was built in 1999. As of March 1, 2004, this property was 100% occupied, with a total 61,817 square feet leased to three tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|-------------------------|--|------------|--------------------|--------------------------------|--|
| Great Clips | 1,200 | 12/05 | 1/5 yr. | 27,540 | 22.95 |
| AZZ Cleaners | 2,400 | 12/07 | 1/5 yr. | 55,080 | 22.95 |
| Shoppers Food Warehouse | 58,217 | 01/20 | 4/5 yr. | 815,038 | 14.00 |

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

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LARKSPUR LANDING, LARKSPUR, CALIFORNIA

On January 14, 2004, we purchased an existing shopping center known as Larkspur Landing, containing 173,814 gross leasable square feet. The center is located at 2257 Larkspur Landing Circle, in Larkspur, California.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$61,147,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$353 per square foot of leasable space.

We originally purchased this property with our own funds. On January 30, 2004, we obtained financing in the amount of \$33,630,000. The loan requires interest only payments at an annual rate of 4.45% and matures February 1, 2009.

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We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

One tenant, Bed, Bath & Beyond, leases more than 10% of the total gross leasable area of the property. The lease with this tenant requires the tenant to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per Annum (\$) | Lease Beginning | Term To |
|--------------------|--|-------------------|---|--------------------|------------|
| Bed, Bath & Beyond | 42,318 | 24 | 20.50 | 12/02 | 11/06 |
| | | | 21.86 | 12/06 | 11/11 |
| | | | 23.24 | 12/11 | 01/18 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$40,349,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Larkspur Landing was built in 1978 and renovated in 2001. As of March 1, 2004, this property was 88% occupied, with a total 151,704 square feet leased to 34 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|-----------------------------|--|------------|--------------------|--------------------------------|--|
| GNC | 1,698 | 01/04 | - | 33,892 | 19.96 |
| Avanti | 1,115 | 03/04 | - | 28,800 | 25.83 |
| Larkspur Landing Pet Clinic | 1,141 | 04/04 | 1/5 yr. | 33,867 | 29.68 |
| Roadrunner Burrito | 800 | 06/04 | - | 23,957 | 29.95 |
| Marin Visitor Bureau | 720 | 06/04 | - | 12,000 | 16.67 |
| Sushi Ko | 1,709 | 08/04 | - | 51,270 | 30.00 |

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| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|--------|--|------------|--------------------|--------------------------------|--|
|--------|--|------------|--------------------|--------------------------------|--|

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| | | | | | |
|----------------------------|--------|-------|----------|---------|-------|
| Golden Gate Printing | 3,287 | 08/04 | - | 30,010 | 9.13 |
| Allstate Insurance | 405 | 11/04 | - | 13,365 | 33.00 |
| Sportech | 805 | 03/05 | - | 16,503 | 20.50 |
| 24 Hour Fitness | 14,559 | 03/05 | - | 298,464 | 20.50 |
| 24 Hour Fitness | 2,480 | 03/05 | - | 60,462 | 24.38 |
| Asher Clinic | 5,791 | 04/05 | 1/5 yr.- | 152,477 | 26.33 |
| Redhill | 2,688 | 07/05 | - | 69,350 | 25.80 |
| Jaeger | 1,500 | 07/05 | - | 54,732 | 36.49 |
| Oliver Allen Corp. | 9,392 | 09/05 | - | 242,313 | 25.80 |
| Robert Brugger | 880 | 06/06 | - | 18,480 | 21.00 |
| Maxwell Cleaners | 2,748 | 09/06 | - | 103,874 | 37.80 |
| Norman Mahan Jewelers | 1,333 | 01/07 | - | 43,669 | 32.76 |
| Determined Productions | 5,583 | 03/07 | - | 303,491 | 54.36 |
| Determined Productions | 5,602 | 03/07 | - | 304,524 | 54.36 |
| Larkspur Shoes & Repair | 807 | 03/07 | - | 22,661 | 27.00 |
| Ragged Sailor | 1,200 | 04/07 | - | 35,136 | 29.28 |
| Larkspur Landing Optometry | 1,165 | 07/07 | - | 30,243 | 25.96 |
| Bay Area Wireless | 610 | 04/08 | 2/5 yr. | 23,790 | 39.00 |
| American Nails | 745 | 06/08 | - | 23,691 | 31.80 |
| AAA | 5,245 | 07/08 | 2/5 yr. | 169,938 | 32.40 |
| Togo's Eatery | 1,625 | 07/08 | - | 36,205 | 22.28 |
| Timothy Bricca DD | 1,064 | 07/08 | - | 35,112 | 33.00 |
| All California | 3,359 | 07/08 | - | 114,172 | 33.99 |
| Weight Watchers | 1,291 | 07/08 | - | 61,219 | 47.42 |
| Cooper Alley | 2,000 | 11/08 | - | 103,840 | 51.92 |
| Marin Brewing Co. | 5,978 | 03/11 | - | 190,219 | 31.82 |
| Fidelity | 7,232 | 07/11 | - | 459,955 | 63.60 |
| Yogalive | 6,150 | 10/12 | - | 184,500 | 30.00 |
| Bed, Bath & Beyond | 42,318 | 01/18 | 3/5 yr. | 867,519 | 20.50 |
| Noonan's Restaurant | 6,679 | 12/18 | 2/5 yr. | 222,878 | 33.37 |

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

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NORTH RANCH PAVILIONS, THOUSAND OAKS, CALIFORNIA

On January 15, 2004, we purchased an existing shopping center known as North Ranch Pavilions, containing 62,900 gross leasable square feet. The center is located at 1125-85 Lindero Road, in Thousand Oaks, California.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$18,468,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$294 per square foot of leasable space.

We purchased this property with our own funds. On March 3, 2004, we obtained financing in the amount of \$10,157,000. The loan requires interest only payments at an annual rate of 4.12% and matures April 2009.

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We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

One tenant, Savy Salon, leases more than 10% of the total gross leasable area of the property. The lease with this tenant requires the tenant to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent | | |
|------------|--|-------------------|--------------------------------------|--------------------|------------|
| | | | Per Square Foot Per Annum (\$) | Lease Beginning | Term To |
| Savy Salon | 6,500 | 10 | 11.25 | 08/03 | 01/04 |
| | | | 25.20 | 02/04 | 01/06 |
| | | | 26.76 | 02/06 | 01/08 |
| | | | 28.32 | 02/08 | 01/10 |
| | | | 30.00 | 02/10 | 01/12 |
| | | | 31.80 | 02/12 | 01/14 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$8,505,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

North Ranch Pavilions was built in 1992. As of March 1, 2004, this property was 86% occupied, with a total 53,996 square feet leased to 23 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|--------------------|--|------------|--------------------|--------------------------------|--|
| 2 For 1 Photo | 1,068 | 05/04 | - | 23,803 | 22.33 |
| Kay's Nails | 1,028 | 10/04 | 1/3 yr. | 24,178 | 23.52 |
| Prudential Realty | 3,379 | 11/04 | - | 95,287 | 28.20 |
| Ilene's Boutique | 2,105 | 12/04 | - | 51,235 | 24.34 |
| Seta's Shoes | 1,086 | 05/05 | - | 19,548 | 18.00 |
| Walton's Portraits | 1,300 | 08/06 | 1/5 yr. | 28,964 | 22.28 |
| Malibu Gymnastics | 3,040 | 10/08 | 1/5 yr. | 54,720 | 18.00 |
| Dance Trends | 2,338 | 12/06 | 1/5 yr. | 40,190 | 17.19 |
| Bank of America | 4,500 | 12/06 | - | 172,980 | 38.44 |
| Clubhous Cleaners | 1,505 | 12/06 | 1/5 yr. | 43,765 | 29.08 |
| Cookies by Design | 1,353 | 01/07 | 1/5 yr. | 31,822 | 23.52 |

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| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|-----------------------|--|------------|--------------------|--------------------------------|--|
| Andi's Hallmark | 3,740 | 02/07 | 3/3 yr. | 67,320 | 18.00 |
| State Farm Insurance | 1,023 | 03/07 | - | 22,096 | 21.60 |
| Savy Salon | 6,500 | 01/14 | 2/5 yr. | 163,800 | 25.20 |
| Tae Kwon Do Academy | 1,512 | 07/07 | 2/5 yr. | 33,566 | 22.20 |
| Treasured Memories | 3,691 | 08/07 | 1/5 yr. | 44,734 | 12.12 |
| Total Body Fitness | 2,086 | 10/07 | 1/5 yr. | 38,674 | 18.54 |
| Postal Club | 1,086 | 12/07 | 1/5 yr. | 24,369 | 22.44 |
| Rustico Ristorante | 3,495 | 08/11 | 2/5 yr. | 91,673 | 26.23 |
| We Frame It | 1,526 | 09/11 | 1/5 yr. | 34,609 | 22.68 |
| Lamppost Pizza | 3,600 | 11/11 | - | 101,088 | 28.08 |
| Sushi Tei | 1,725 | 01/12 | 2/5 yr. | 52,705 | 30.55 |
| North Ranch Dentistry | 1,306 | 10/13 | 2/5 yr. | 38,396 | 29.40 |
| Sudore Pilates | 1,346 | 01/09 | 1/5 yr. | 36,342 | 27.00 |

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

HICKORY RIDGE SHOPPING CENTER, HICKORY, NORTH CAROLINA

On January 9, 2004, we purchased an existing shopping center known as Hickory Ridge Shopping Center containing 310,360 gross leasable square feet. The center is located at Catawba Valley Road in Hickory, North Carolina.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$41,900,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$135 per square foot of leasable space.

We originally purchased this property with our own funds. On January 23, 2004, we obtained financing in the amount of \$23,650,000. The loan requires interest only payments as an annual rate of 4.531% and matures February 1, 2009.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

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Three tenants, Best Buy, Linens 'N Things and Kohl's, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenants to pay base annual rent on a monthly basis as follows:

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| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per Annum (\$) | Lease Beginning | Term To |
|------------------|--|-------------------|---|-------------------------|-------------------------|
| Best Buy | 45,000 | 14 | 10.75 | 07/99 | 01/14 |
| Linens 'N Things | 35,000 | 11 | 10.50 11.50 12.50 | 07/00 02/06 02/11 | 01/06 01/11 01/15 |
| Kohl's | 86,584 | 28 | 7.00 | 08/99 | 02/20 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$35,068,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Hickory Ridge Shopping Center was built in 1999. As of March 1, 2004, this property was 96% occupied, with a total 298,784 square feet leased to 20 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|-------------------------------|--|------------|--------------------|--------------------------------|--|
| Old Navy | 25,000 | 08/04 | 1/5 yr. | 212,500 | 8.50 |
| Sprint PCS | 2,800 | 10/04 | 1/5 yr. | 50,400 | 18.00 |
| Great Clips | 1,200 | 12/04 | 1/5 yr. | 23,400 | 19.50 |
| Osaka Japanese Cuisine | 2,100 | 01/05 | 1/5 yr. | 40,950 | 19.50 |
| Thai Orchid | 2,800 | 01/05 | 1/5 yr. | 53,200 | 19.00 |
| Tony's Pizza | 2,100 | 01/05 | 1/5 yr. | 45,150 | 21.50 |
| Hallmark | 6,000 | 10/05 | 2/5 yr. | 93,900 | 15.65 |
| Factory Mattress | 3,600 | 11/06 | 1/5 yr. | 66,600 | 18.50 |
| Party City | 12,000 | 06/09 | 2/5 yr. | 150,000 | 12.50 |
| Marshall's | 30,000 | 08/09 | 3/5 yr. | 219,000 | 7.30 |
| Shoe Carnival | 12,000 | 01/10 | 2/5 yr. | 129,000 | 10.75 |
| Family Christian Bookstore | 5,000 | 07/10 | 2/5 yr. | 90,000 | 18.00 |
| The Avenue | 6,600 | 01/13 | 2/5 yr. | 78,012 | 11.82 |
| Best Buy | 45,000 | 01/14 | 3/5 yr. | 483,750 | 10.75 |
| Linens 'N Things | 35,000 | 01/15 | 3/5 yr. | 367,500 | 10.50 |
| A.C. Moore | 21,000 | 12/15 | 3/5 yr. | 248,850 | 11.85 |
| Kohl's | 86,584 | 02/20 | 6/5 yr. | 606,088 | 7.00 |

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| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|----------------------|--|------------|--------------------|--------------------------------|--|
| Pier 1 Imports | 9,976 | 03/12 | 2/5 yr. | 174,580 | 17.50 |
| Dicks Sporting Goods | * | 01/21 | 6/5 yr. | 185,000 | * |
| Babies R Us | * | 01/13 | 6/5 yr. | 126,647 | * |

* ground lease

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

CORWEST PLAZA, NEW BRITAIN, CONNECTICUT

On January 6, 2004, we purchased an existing shopping center known as CorWest Plaza containing 115,011 gross leasable square feet. The center is located at 665 and 687 West Main Street in New Britain, Connecticut.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$33,000,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$287 per square foot of leasable space.

We originally purchased this property with our own funds. On January 7, 2004, we obtained financing in the amount of \$18,150,000. The loan requires interest only payments at an annual rate of 4.56% and matures February 1, 2009.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

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Three tenants, Super Stop and Shop, Liquor Depot and CVS Pharmacy, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenants to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per Annum (\$) | Lease Term Beginning | To |
|-------------------|--|-------------------|---|-------------------------|-------|
| Super Stop & Shop | 68,073 | 59 | 26.00 | 05/03 | 05/08 |

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| | | | | | |
|--------------|--------|----|-------|-------|-------|
| | | | 26.50 | 06/08 | 05/13 |
| | | | 27.00 | 06/13 | 05/18 |
| | | | 27.50 | 06/18 | 05/23 |
| | | | 28.00 | 06/23 | 05/28 |
| CVS Pharmacy | 12,150 | 11 | 26.00 | 07/01 | 01/22 |
| Liquor Depot | 14,000 | 12 | 14.00 | 08/01 | 08/06 |
| | | | 16.00 | 09/06 | 08/11 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$26,101,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Cor West Plaza was built in phases between 1999 to 2003. As of March 1, 2004, this property was 100% occupied, with a total 115,011 square feet leased to 10 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Square Foot Per Annum |
|--|--|------------|--------------------|--------------------------------|---------------------------------------|
| Subway | 1,500 | 08/04 | 4/2 yr. | 18,702 | 12.47 |
| Video One | 3,500 | 09/05 | 2/3 yr. | 47,320 | 13.52 |
| Rent-A-Center | 6,988 | 04/06 | 1/5 yr. | 104,820 | 15.00 |
| Cingular Wireless | 1,553 | 06/06 | 1/5 yr. | 27,954 | 18.00 |
| Webster Bank | 2,147 | 11/05 | 2/5 yr. | 38,646 | 18.00 |
| Papa Gino's | 3,000 | 02/11 | 2/5 yr. | 60,000 | 20.00 |
| Liquor Depot | 14,000 | 08/11 | 2/5 yr. | 196,000 | 14.00 |
| Frazier's Two Cleaners & Laundromat | 2,100 | 10/11 | 2/5 yr. | 37,800 | 18.00 |
| CVS Pharmacy | 12,150 | 01/22 | 4/5 yr. | 315,900 | 26.00 |
| Super Stop & Shop | 68,073 | 05/28 | 6/5 yr. | 1,769,898 | 26.00 |

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

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SHAW'S SUPERMARKET, NEW BRITAIN, CONNECTICUT

On December 31, 2003, we purchased a single user retail center known as Shaw's Supermarket, New Britain, containing 65,658 gross leasable square feet. The property is located in New Britain, Connecticut.

We purchased this property from an unaffiliated third party. Our total

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acquisition cost was approximately \$13,656,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$208 per square foot of leasable space.

We originally purchased this property with our own funds. On January 28, 2004, we obtained financing in the amount of \$6,450,000. The loan requires interest only payments as an annual rate of 4.684% and matures November 1, 2028.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenant would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of its lease.

Shaw's Supermarket was built in 1995. One tenant, Shaw's Supermarket, leases 100% of the total gross leasable area of the property. The lease with this tenant requires the tenant to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Renewal Options | Base Rent Per Annum (\$) | Lease Term Beginning | To |
|-------------------------------------|--|-------------------|--------------------|--|----------------------------------|----------------------------------|
| Shaw's Supermarkets- New Britain | 65,658 | 100 | 6/5 yr. | 1,017,699 1,083,357 1,148,015 1,181,844 | 05/96 03/01 03/06 03/11 | 02/01 02/06 02/11 04/16 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$10,681,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

PAVILION AT KING'S GRANT, CONCORD, NORTH CAROLINA

On December 31, 2003, we purchased a newly constructed shopping center known as Pavilion at King's Grant, containing 79,009 gross leasable square feet (which includes 65,000 square feet of ground lease space). The center is located at 8050 Concord Mills Boulevard in Concord, North Carolina.

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We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$8,151,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. One tenant, Toys 'R Us, is currently paying half rent. When the tenant begins paying full rent, we will pay the balance of the purchase price of approximately \$1,563,000. Our total acquisition cost is expected to be approximately \$123 per square foot of leasable space.

We originally purchased this property with our own funds. On January 28, 2004,

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we obtained financing in the amount of \$6,450,000. The loan requires interest only payments at an annual rate of 4.684% and matures November 1, 2028.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

Two tenants, Toys R Us and Olive Garden, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenants to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per Annum (\$) | Lease Term Beginning | To |
|---------------|--|-------------------|---|-------------------------|----------------|
| Toys 'R Us * | 49,000 | 62 | 5.10 | 10/02 | 10/12 |
| Olive Garden* | 8,500 | 11 | 9.41 10.35 | 04/02 05/07 | 04/07 04/12 |

* ground lease

For federal income tax purposes, the depreciable basis in this property will be approximately \$2,741,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Pavilion at King's Grant was built in 2002 and 2003. As of March 1, 2004, this property was 100% occupied, with a total 79,009 square feet leased to six tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Square Foot Per Annum |
|----------------|--|------------|--------------------|--------------------------------|---------------------------------------|
| Radio Shack | 2,400 | 04/08 | 2/5 yr. | 40,800 | 17 |
| Panera Bread | 5,609 | 10/13 | 2/5 yr. | 109,376 | 19 |
| Jared Jewelers | 6,000 | 01/23 | 2/5 yr. | 220,020 | 36 |
| Toys 'R Us * | 49,000 | 10/12 | 6/5 yr. | 250,000 | 5 |
| Olive Garden * | 8,500 | 04/12 | 4/5 yr. | 80,000 | 9 |
| Red Lobster * | 7,500 | 05/12 | 4/5 yr. | 80,000 | 10 |

* ground lease

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

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ECKERD DRUG STORES

On December 24, 2003, we purchased the following two separate existing freestanding retail properties known as Eckerd Drug Stores, containing a total of 27,637 gross leasable square feet.

| Location ----- | Square Feet ----- | Completion Date ----- | Purchase Price (\$) ----- |
|--|----------------------|--------------------------|------------------------------|
| 33rd Street and Santa Fe Edmond, Oklahoma | 13,813 | 2003 | 3,364,000 |
| 36th and Robinson Norman, Oklahoma | 13,824 | 2003 | 5,288,000 |

We purchased these Eckerd Drug Stores from an unaffiliated third party. Our total acquisition cost was approximately \$8,652,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$313 per square foot of leasable space.

We purchased these properties with our own funds. However, we expect to place financing on the properties at a later date.

One tenant, Eckerd Drug Stores, leases 100% of the total gross leasable area of each property. The leases with this tenant require the tenant to pay base annual rent on a monthly basis as follows:

| Lessee/ Location ----- | Approximate GLA Leased (Sq. Ft.) | % of Total GLA of each Property | Current Annual Rent (\$) | Renewal Options | Base Re Per Squa Foot Pe Annum (|
|--------------------------------------|--|---|--------------------------------|--------------------|---|
| 33rd Street & Santa Fe Edmond, OK | 13,813 | 100 | 289,292 | 4/5 yr. | 20.93 |
| 36th & Robinson Norman, OK | 13,824 | 100 | 454,806 | 4/5 yr. | 32.90 |

A twenty year lease commenced as of the date of acquisition with no increases during the term of the lease. Each lease includes four options, each for a term of five years.

These properties are on triple net leases and the tenant will be responsible for all repairs.

For federal income tax purposes, the depreciable basis in these properties will

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be approximately \$6,770,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

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DARIEN TOWNE CENTRE, DARIEN, ILLINOIS

On December 19, 2003, we purchased an existing shopping center known as Darien Towne Centre containing 217,505 gross leasable square feet. The center is located at 2189 75th Street, in Darien, Illinois.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$30,000,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$138 per square foot of leasable space.

Simultaneously with the purchase this property, we obtained a new loan in the amount of \$16,500,000. The loan requires interest only payments based on a rate of 4.65% per annum and matures June 2010.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

Three tenants, Home Depot, Circuit City and PetSmart, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenants to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent | Lease Term | |
|--------------|--|-------------------|--------------------------------------|------------|-------|
| | | | Per Square Foot Per Annum (\$) | Beginning | To |
| Home Depot | 109,200 | 50 | 7.98 | 05/94 | 04/98 |
| | | | 8.35 | 05/98 | 04/03 |
| | | | 8.60 | 05/03 | 04/08 |
| | | | 9.10 | 05/08 | 04/14 |
| Circuit City | 32,984 | 15 | 10.50 | 05/94 | 01/05 |
| | | | 11.55 | 02/05 | 01/10 |
| | | | 12.71 | 02/10 | 01/15 |
| PetSmart | 25,487 | 12 | 11.20 | 10/94 | 09/04 |
| | | | 11.70 | 10/04 | 09/09 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$22,468,400. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Darien Towne Centre was built in 1994. As of March 1, 2003, this property was 95% occupied, with a total 206,657 square feet was leased to 13 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Square Foot Per Annum |
|------------------------|--|------------|--------------------|--------------------------------|---------------------------------------|
| Jenny Craig | 2,000 | 02/04 | 1/5 yr. | 42,600 | 21 |
| Great Clips | 1,532 | 08/04 | 2/3 yr. | 31,500 | 21 |
| Murray's Discount Auto | 10,000 | 10/04 | 2/5 yr. | 110,000 | 11 |
| Signature Cleaners | 1,500 | 11/04 | - | 37,260 | 24 |
| Gingiss Formalwear | 2,000 | 12/04 | - | 35,010 | 17 |
| Coldwell Banker | 2,468 | 03/05 | - | 44,498 | 18 |
| Deals | 12,000 | 07/07 | 1/5 yr. | 120,000 | 10 |
| PetSmart | 25,487 | 09/09 | 5/5 yr. | 285,454 | 11 |
| Panera Bread | 4,500 | 12/12 | 3/4 yr. | 94,500 | 21 |
| Home Depot | 109,200 | 04/14 | 1/20 yr. | 939,120 | 8 |
| Circuit City | 32,984 | 01/15 | 4/5 yr. | 346,332 | 10 |
| TGI Fridays | * | 05/04 | 4/5 yr. | 72,600 | |

* ground lease

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

STONY CREEK MARKETPLACE, NOBLESVILLE, INDIANA

On December 8, 2003, we purchased a newly constructed shopping center known as Stony Creek Marketplace containing 153,803 gross leasable square feet. The center is located at 1713C Mercantile Boulevard in Noblesville, Indiana.

We purchased this property from an unaffiliated third party. Our total acquisition cost was approximately \$25,750,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost was approximately \$167 per square foot of leasable space.

We originally purchased this property with our own funds. On January 20, 2004, we obtained financing in the amount of \$14,162,000. The loan requires interest only payments at an annual rate of 4.77% and matures January 1, 2011.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

Three tenants, T.J. Maxx, Linens 'N Things and Barnes & Noble, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenants to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per | | Lease Term | |
|------------------|--|-------------------|-------------------------------------|--|------------|-------|
| | | | Annum (\$) | | Beginning | To |
| T.J. Maxx | 30,000 | 20 | 9.50 | | 09/03 | 01/14 |
| | | | 10.00 | | 02/14 | 01/19 |
| Linens 'N Things | 28,445 | 18 | 11.50 | | 09/03 | 01/09 |
| | | | 12.00 | | 02/09 | 01/14 |
| Barnes & Noble | 21,980 | 14 | 13.50 | | 09/03 | 01/16 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$17,564,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Stony Creek Marketplace was built in 2003. As of March 1, 2004, this property was 95% occupied, with a total 146,478 square feet leased to 17 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Square Foot Per Annum |
|--------------------------|--|------------|--------------------|--------------------------------|---------------------------------------|
| Cingular Wireless | 1,487 | 06/08 | 2/5 yr. | 31,227 | 21.00 |
| RJ Fastframe | 1,618 | 06/08 | 1/5 yr. | 33,915 | 20.96 |
| The UPS Store | 1,618 | 08/08 | 1/5 yr. | 33,978 | 21.00 |
| Quizno's Classic Subs | 1,600 | 12/09 | 2/3 yr. | 29,600 | 18.50 |
| Blockbuster Video | 4,892 | 05/11 | 2/5 yr. | 102,732 | 21.00 |
| Today's Bedroom One | 4,890 | 06/11 | 1/5 yr. | 90,465 | 18.50 |
| Panera Bread | 4,200 | 12/12 | 2/4 yr. | 88,200 | 21.00 |
| Maggie Moo's Ice Cream | 1,615 | 03/13 | 2/5 yr. | 33,915 | 21.00 |
| Qdaba Mexican Restaurant | 2,272 | 04/13 | 1/5 yr. | 45,440 | 20.00 |
| Ossip Optometry, P.C. | 3,230 | 04/13 | 2/5 yr. | 60,563 | 18.75 |
| Pier 1 Imports | 9,381 | 06/13 | 2/5 yr. | 160,696 | 17.14 |
| Shoe Carnival | 10,000 | 07/13 | 2/5 yr. | 130,000 | 13.00 |
| T.J. Maxx | 30,000 | 01/19 | 2/5 yr. | 285,000 | 9.50 |
| Linens 'N Things | 28,445 | 01/14 | 3/5 yr. | 327,118 | 11.50 |
| Factory Card Outlet | 11,250 | 01/14 | 2/5 yr. | 160,313 | 14.25 |

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|-------------------|--------|-------|---------|---------|-------|
| Barnes & Noble | 21,980 | 01/16 | 2/5 yr. | 296,730 | 13.50 |
| Logan's Roadhouse | 8,000 | 03/18 | 3/5 yr. | 75,500 | 9.44 |

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

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THE SHOPS AT PARK PLACE, PLANO, TEXAS

On October 31, 2003, we acquired an existing shopping center known as The Shops at Park Place through the purchase of all of the membership interests of the general partner and the membership interest of limited partner of the limited partnership holding title to this center. The center contains 112,478 gross leasable square feet and is located at 6401 W. Plano Parkway in Plano, Texas.

An affiliate of our advisor, Inland Park Place Limited Partnership, acquired this property on September 30, 2003 from CDG Park Place LLC, an unaffiliated third party for \$23,868,000. Inland Park Place Limited Partnership agreed to sell this property to us when we had raised sufficient funds from the sale of shares to acquire this property from them. The affiliate agreed to sell us this property for the price it paid to the unaffiliated third party, plus any actual costs incurred. Our board of directors unanimously approved acquiring this property, including a unanimous vote of the independent directors.

Our total acquisition cost was \$24,000,000, which included \$132,000 of costs incurred by Inland Park Place Limited Partnership. We expect any additional costs to be insignificant. Our acquisition cost is approximately \$213 per square foot of leasable space.

As part of the purchase, title to the property was subject to a loan placed on the property by Inland Park Place Limited Partnership for our benefit. The loan is in the amount of \$13,127,000, requires interest only payments at a rate of 4.71% per annum and matures November 2008. We believe this loan is at least as equal to what we could have obtained from an unaffiliated third party lender.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

Four tenants, Walgreens, Office Max, Michael's and Bed, Bath & Beyond, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenants to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per Annum (\$) | Lease Term Beginning To |
|--------|--|-------------------|---|----------------------------|
|--------|--|-------------------|---|----------------------------|

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| | | | | | |
|--------------------|--------|----|-------|-------|-------|
| Walgreens | 15,120 | 13 | 20.83 | 05/00 | 04/60 |
| Office Max | 23,429 | 21 | 13.50 | 11/01 | 11/11 |
| | | | 14.00 | 12/11 | 11/16 |
| Michaels | 24,133 | 21 | 13.50 | 08/01 | 02/12 |
| Bed, Bath & Beyond | 25,000 | 22 | 11.00 | 10/01 | 01/12 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$13,175,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

The Shops at Park Place was built in 2001. As of March 1, 2004, this property was 100% leased, with a total 112,478 square feet leased to 12 tenants. The following table sets forth certain information with respect to those leases:

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| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Renewal Options | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|--------------------------------|--|------------|--------------------|--------------------------------|--|
| Ebby Halliday Realty | 5,314 | 10/06 | 2/5 yrs. | 154,100 | 29.00 |
| North Dallas Eye Associates | 3,000 | 10/06 | 1/5 yrs. | 90,000 | 30.00 |
| The Nail Club | 1,100 | 10/06 | 1/5 yrs. | 33,000 | 30.00 |
| Oxford Cleaners | 1,042 | 10/06 | 1/5 yrs. | 29,176 | 28.00 |
| Rick's Tailors | 840 | 10/06 | - | 25,200 | 30.00 |
| Carpet Mills of America | 3,500 | 11/06 | 2/5 yrs. | 91,000 | 26.00 |
| Bed, Bath & Beyond | 25,000 | 01/12 | 3/5 yrs. | 275,000 | 11.00 |
| Michael's | 24,133 | 02/12 | 3/5 yrs. | 325,800 | 13.50 |
| Salon Boutique | 10,000 | 02/12 | 2/5 yrs. | 180,000 | 18.00 |
| Chick-Fil-A | * | 10/15 | 3/5 yrs. | 78,500 | * |
| Office Max | 23,429 | 11/16 | 4/5 yrs. | 316,300 | 13.50 |
| Walgreens | 15,120 | 04/60 | - | 315,000 | 20.83 |

* ground lease

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

POTENTIAL PROPERTY ACQUISITIONS

We are currently considering acquiring the properties listed below. Our decision

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to acquire these properties will generally depend upon:

- no material adverse change occurring relating to the properties, the tenants or in the local economic conditions;
- our receipt of sufficient net proceeds from this offering and financing proceeds to make these acquisition; and
- our receipt of satisfactory due diligence information including appraisals, environmental reports and lease information.

Other properties may be identified in the future that we may acquire before or instead of these properties. We cannot guarantee that we will complete these acquisitions.

In evaluating these properties as potential acquisitions and determining the appropriate amount of consideration to be paid for each property, we have considered a variety of factors including, overall valuation of net rental income, location, demographics, quality of tenant, length of lease, price per square foot, occupancy and the fact that overall rental rate at the shopping center is comparable to market rates. We believe that these properties are well located, have acceptable roadway access, are well maintained and have been professionally managed. These properties will be subject to competition from similar shopping centers within their market area, and their economic performance could be affected by changes in local economic conditions. We did not consider any other factors materially relevant to our decision to acquire these properties.

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BLUEBONNET PARC, BATON ROUGE, LOUISIANA

We anticipate purchasing an existing shopping center known as Bluebonnet Parc containing 135,289 gross leasable square feet. The center is located at I-10 and Bluebonnet Road in Baton Rouge, Louisiana.

We anticipate purchasing this property from an unaffiliated third party. Our total acquisition cost is expected to be approximately \$22,000,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost is expected to be approximately \$163 per square foot of leasable space.

We intend to purchase this property with our own funds. However, we expect to place financing on the property at a later date.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

Three tenants, Best Buy Company, Linen's N Things and Cost Plus, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenants to pay base annual rent on a monthly basis as follows:

Base Rent

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| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Per Square Foot Per Annum (\$) | Lease Term | |
|------------------|--|-------------------|--------------------------------------|------------|-------|
| | | | | Beginning | To |
| Best Buy | 45,439 | 34 | 12.99 | 08/02 | 01/17 |
| Linen's N Things | 32,418 | 24 | 11.50 | 10/02 | 01/14 |
| Cost Plus | 18,300 | 14 | 14.00 | 12/02 | 01/13 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$16,500,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Bluebonnet Parc was built in 2002. As of March 1, 2004, this property was 95% occupied, with a total 128,289 square feet leased to seven tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|--------------------------------|--|------------|--------------------------------|--|
| Brook Mays Music | 8,000 | 01/09 | 128,000 | 16.00 |
| David's Bridal | 9,998 | 10/10 | 159,968 | 16.00 |
| Lifeway Christian Bookstore | 9,161 | 12/12 | 141,995 | 15.50 |
| Cost Plus | 18,300 | 01/13 | 256,200 | 14.00 |
| Linen's N Things | 32,418 | 01/14 | 372,807 | 11.50 |
| The Men's Wearhouse | 4,973 | 02/14 | 99,460 | 20.00 |
| Best Buy | 45,439 | 01/17 | 590,408 | 12.99 |

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In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

PLAZA SANTA FE, PHASE II, SANTA FE, NEW MEXICO

We anticipate purchasing an existing shopping center known as Plaza Santa Fe, Phase II, containing 222,411 gross leasable square feet. The center is located at Cerrillos Road and Zafarano Boulevard in Santa Fe, New Mexico.

We anticipate purchasing this property from an unaffiliated third party. Our total acquisition cost is expected to be approximately \$31,250,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost is

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expected to be approximately \$141 per square foot of leasable space.

We intend to purchase this property with our own funds and by assuming the existing financing with a remaining balance of approximately \$17,800,000. The loan requires principal and interest payments based on an interest rate of 6.2% and cannot be prepaid prior to January 2005.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

Three tenants, Best Buy, Linen N Things and TJ Maxx, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenants to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Square Foot Per Annum (\$) | Lease Term Beginning | To |
|------------------|--|-------------------|---|-------------------------|-------|
| Best Buy | 31,226 | 14 | 13.50 | 09/01 | 01/17 |
| Linen's N Things | 31,500 | 14 | 13.50 | 11/00 | 01/16 |
| TJ Maxx | 30,900 | 14 | 10.50 | 11/00 | 11/10 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$23,500,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

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Plaza Santa Fe II was built in 2000 to 2002. As of March 1, 2004, this property was 100% occupied, with a total 222,411 square feet leased to 22 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|---------------------|--|------------|--------------------------------|--|
| State Farm | 1,250 | 02/05 | 27,500 | 22.00 |
| Lady D Bakery | 1,260 | 04/05 | 28,889 | 22.93 |
| Old Navy | 20,115 | 03/06 | 251,438 | 12.50 |
| H & R Block | 1,900 | 10/07 | 37,050 | 19.50 |
| Corral West | 7,450 | 11/07 | 75,543 | 10.14 |
| Cactus Salon | 1,250 | 01/08 | 30,000 | 24.00 |
| Payless Shoe Source | 2,850 | 03/08 | 57,000 | 20.00 |

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|------------------|--------|-------|---------|-------|
| Mens Wearhouse | 4,539 | 05/08 | 83,972 | 18.50 |
| French & French | 3,038 | 11/08 | 69,874 | 23.00 |
| Alltel | 3,932 | 12/08 | 112,612 | 28.64 |
| TJ Maxx | 30,900 | 11/10 | 324,450 | 10.50 |
| Michael's | 20,280 | 03/11 | 253,500 | 12.50 |
| D & A Mattress | 4,710 | 03/11 | 89,490 | 19.00 |
| Clothestime | 3,800 | 04/11 | 76,000 | 20.00 |
| Famous Footwear | 8,000 | 01/12 | 136,000 | 17.00 |
| Super Nails | 1,000 | 03/12 | 30,000 | 30.00 |
| Quizno's | 1,900 | 04/12 | 37,715 | 19.85 |
| Osaka Grill | 6,000 | 09/12 | 150,000 | 25.00 |
| Linen's N Things | 31,500 | 01/16 | 425,250 | 13.50 |
| Best Buy | 31,226 | 01/17 | 421,551 | 13.50 |
| PetSmart | 20,010 | 01/17 | 284,742 | 14.23 |
| Borders | 15,501 | 01/18 | 232,515 | 15.00 |

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

PARADISE VALLEY MARKETPLACE, PHOENIX, ARIZONA

We anticipate purchasing an existing shopping center known as Paradise Valley Marketplace containing 81,256 gross leasable square feet. The center is located at Tatum Boulevard and Shea Boulevard in Phoenix, Arizona.

We anticipate purchasing this property from an unaffiliated third party. Our total acquisition cost is expected to be approximately \$28,510,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost is expected to be approximately \$351 per square foot of leasable space. Included in the purchase price is the land to build an addition 11,000 square feet of retail space.

We intend to purchase this property with our own funds. However, we expect to place financing on the property at a later date.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

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One tenant, Whole Foods Grocery Store, leases more than 10% of the total gross leasable area of the property. The lease with this tenant requires the tenant to pay base annual rent on a monthly basis as follows:

| Approximate GLA Leased | % of Total | Base Rent Per Square Foot Per | Lease Term |
|---------------------------|------------|-------------------------------------|------------|
|---------------------------|------------|-------------------------------------|------------|

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| Lessee | (Sq. Ft.) | GLA | Annum (\$) | Beginning | To |
|-------------|-----------|-----|------------|-----------|-------|
| Whole Foods | 32,000 | 39 | 13.50 | 03/02 | 03/22 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$21,383,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Paradise Valley Marketplace was built in 2002. As of January 20, 2004, this property was 86% occupied, with a total 69,611 square feet leased to 15 tenants. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|----------------------|--|------------|--------------------------------|--|
| Electronics Boutique | 1,013 | 09/05 | 30,390 | 30.00 |
| Beauty Brands | 5,510 | 12/06 | 176,320 | 32.00 |
| Verizon Wireless | 2,047 | 03/07 | 61,410 | 30.00 |
| Ship Rite | 1,340 | 09/07 | 35,510 | 26.50 |
| Soma Restaurant | 3,452 | 10/07 | 103,560 | 30.00 |
| So-Oh | 1,964 | 02/08 | 51,064 | 26.00 |
| Men's Wearhouse | 5,176 | 03/08 | 165,632 | 32.00 |
| Matress Authority | 2,453 | 04/08 | 73,590 | 30.00 |
| Hava Java | 1,587 | 06/08 | 57,132 | 36.00 |
| Kolache Factory | 2,100 | 11/08 | 71,400 | 34.00 |
| Washington Mutual | 4,100 | 01/09 | 131,200 | 32.00 |
| Pick Up Sticks | 1,820 | 12/11 | 64,155 | 35.25 |
| Select Dry Cleaners | 2,505 | 04/12 | 75,150 | 30.00 |
| Baja Fresh | 2,544 | 12/11 | 91,584 | 36.00 |
| Whole Foods | 32,000 | 03/22 | 432,000 | 13.50 |

In general, each tenant will pay its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants may provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

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BILO ARCHDALE COMMONS, CHARLOTTE, NORTH CAROLINA

We anticipate purchasing land for a to be built single user retail center known as BiLo Archdale Commons to contain 46,017 gross leasable square feet. We will acquire the land and will ground lease the land to BiLo, who will build and own a 46,017 square foot building on the site. The land is located at the intersection of South Boulevard and Archdale Drive, Charlotte, North Carolina.

We anticipate purchasing this property from an unaffiliated third party. Our

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total acquisition cost is expected to be approximately \$4,202,000. This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost is expected to be approximately \$91 per square foot of leasable space upon completion of the building.

We intend to purchase this property with our own funds. However, we expect to place financing on the property at a later date.

BiLo Archdale Commons will be completed in 2004. One tenant, BiLo, will lease 100% of the total gross leasable area of the property. The lease with this tenant requires the tenant to pay base annual rent on a monthly basis as follows:

| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent | |
|--------|--|-------------------|-------------------|----------------------------|
| | | | Per Annum (\$) | Lease Term Beginning To |
| BiLo | 46,017 | 100 | 330,000 | * |

* A 20 year ground lease will begin upon our acquisition of the land. We expect the tenant will be responsible for all real estate taxes, insurance and common area maintenance costs.

SHAW'S SUPERMARKET, BRISTOL, CONNECTICUT

We anticipate purchasing a single user retail center known as Shaw's Supermarket - Bristol, containing a total of 54,661 gross leasable square feet. The center is located in Bristol, Connecticut.

We anticipate purchasing this property from an unaffiliated third party. Our total acquisition cost is expected to be approximately \$11,712,000 This amount may increase by additional costs which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost is expected to be approximately \$214 per square foot of leasable space.

We intend to purchase this property with our own funds. However, we expect to place financing on the property at a later date.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenant would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of its lease.

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Shaw's Supermarket - Bristol was built in 1995. One tenant, Shaw's Supermarket, will lease 100% of the total gross leasable area of the property. The lease with this tenant requires the tenant to pay base annual rent on a monthly basis as follows:

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| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent Per Annum (\$) | Lease Term Beginning | To |
|--------------------------------|--|-------------------|--------------------------------|-------------------------|-------|
| Shaw's Supermarket- Bristol | 54,661 | 100 | 929,237 | 05/96 | 04/16 |

For federal income tax purposes, the depreciable basis in this property will be approximately \$8,784,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

TERMINATED CONTRACTS

Our Board of Directors previously approved the acquisition of Albertson's Grocery Store in Loveland, Colorado, Mall 205 and Plaza 205, Portland, Oregon and Eckerd Drug Store at Danforth and Santa Fe in Edmond, Oklahoma. Based on information received during our due diligence process, we have decided not to acquire the properties and have terminated the contracts on these acquisitions.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CERTAIN STATEMENTS IN THIS "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND ELSEWHERE IN THIS ANNUAL REPORT ON FORM 10-K CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE FEDERAL PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE OUR ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS.

OVERVIEW

We were formed to acquire and manage a diversified portfolio of real estate, primarily multi-tenant shopping centers. We have been operating and intend to continue operating as a real estate investment trust or REIT for Federal and state income tax purposes. We have initially focused on acquiring properties in the Western states. We have begun to acquire and plan to continue acquiring properties in the Western states. We may also acquire retail properties in locations throughout the United States. Inland Western Retail Real Estate Advisory Services, Inc. or our advisor has been retained to manage, for a fee, our day-to-day affairs, subject to the supervision of our board of directors.

During 2003, we purchased eight properties, of which five were not located in our primary geographical area of interest. We purchased these five properties because we had the unique opportunity to take advantage of our advisor's mature acquisition pipeline of properties located east of the Mississippi River. Our strategy in purchasing these properties, as these properties were otherwise acceptable acquisition targets, was to deploy stockholder funds promptly and generate income for us as early as possible.

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Our goal is to purchase properties predominately west of the Mississippi River and evaluate potential acquisition opportunities of properties east of the Mississippi River on a property by property basis, taking into consideration investment objectives. As of February 13, 2004 we have purchased five additional properties located in the states of California, Texas, and Utah.

We are in the process of raising offering proceeds and have raised \$187,127,251 as of December 31, 2003.

As of December 31, 2003, we owned a portfolio of eight properties and made one loan totaling \$7,552,155 to an unaffiliated third party secured by a 49% interest in the limited liability company that owns the remaining portion of Newnan Crossing. The properties are located in Connecticut, Georgia, Illinois, Indiana, North Carolina, Oklahoma and Texas, and contain an aggregate of approximately 797,000 square feet of gross leasable area. As of December 31, 2003, approximately 98% of gross leasable area in the properties was leased.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

GENERAL.

The following disclosure pertains to critical accounting policies and estimates we believe are most "critical" to the portrayal of our financial condition and results of operations which require our most difficult, subjective or complex judgments. These judgments often result from the need to make estimates about the effect of matters that are inherently uncertain. Critical accounting policies discussed in this section are not to be confused with accounting principles and methods disclosed in accordance with accounting principles generally accepted in the United States of America or GAAP. GAAP requires information in financial statements about accounting principles, methods used and disclosures pertaining to significant estimates. This discussion addresses our judgment pertaining to trends, events or uncertainties known which were taken into consideration upon the application of those policies and the likelihood that materially different amounts would be reported upon taking into consideration different conditions and assumptions.

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ACQUISITION OF INVESTMENT PROPERTY

We allocate the purchase price of the each acquired investment property between land, building and improvements, acquired above market and below market leases, in-place lease value, and any assumed financing that is determined to be above or below market terms. The allocation of the purchase price is an area that requires judgment and significant estimates. We use the information contained in the independent appraisal obtained at acquisition as the primary basis for the allocation to land and building and improvements. The aggregate value of intangibles is measured based on the difference between the stated price and the property value as if vacant. We determine whether any financing assumed is above or below market based upon comparison to similar financing terms for similar investment properties. We also allocate a portion of the purchase price to the estimated acquired in-place lease costs based on estimated lease execution costs for similar leases and we consider various factors including geographic location and size of leased space. We also evaluate each acquired lease based upon current market rates at the acquisition date and we consider various factors

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including geographical location, size and location of leased space within the investment property, tenant profile, and the credit risk of the tenant in determining whether the acquired lease is above or below market lease costs. After an acquired lease is determined to be above or below market lease costs, we allocate a portion of the purchase price to such above or below acquired lease costs based upon the present value of the difference between the contractual lease rate and the estimated market rate. The determination of the discount rate used in the present value calculation is based upon the "risk free rate." This discount rate is a significant factor in determining the market valuation which requires our judgment of subjective factors such as market knowledge, economic, demographics, location, visibility, location, age and physical condition of the property.

IMPAIRMENT OF LONG-LIVED ASSETS. We conduct an impairment analysis on a quarterly basis in accordance with Statement of Financial Accounting Standards No. 144 or FAS 144 to ensure that the property's carrying value does not exceed its fair value. If this were to occur, we are required to record an impairment loss. Subsequent impairment of investment properties, is a significant estimate that can and does change based on our continuous process of analyzing each property and reviewing assumptions about uncertain inherent factors, as well as the economic condition of the property at a particular point in time.

COST CAPITALIZATION AND DEPRECIATION POLICIES. Our policy is to review all expenses paid and capitalize any items exceeding \$5,000 which are deemed to be an upgrade or a tenant improvement. These costs are capitalized and are included in the investment properties classification as an asset to buildings and improvements.

Buildings and improvements are depreciated on a straight-line basis based upon estimated useful lives of 30 years for buildings and improvements and 15 years for site improvements. The portion of the purchase price allocated to acquired above market costs and acquired below market costs are amortized on a straight-line basis over the life of the related lease as an adjustment to net rental income. Acquired in-place lease costs, other leasing costs, and tenant improvements are amortized on a straight-line basis over the life of the related lease as a component of amortization expense.

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The application of SFAS 141 and SFAS 142 resulted in the recognition upon acquisition of additional intangible assets and liabilities relating to our 2003 real estate acquisitions. The portion of the purchase price allocated to acquired above market lease costs and acquired below market lease costs are amortized on a straight line basis over the life of the related lease as an adjustment to rental income. Amortization pertaining to the above market lease costs of \$5,227 was applied as a reduction to rental income for the period from March 5, 2003 (inception) to December 31, 2003. Amortization pertaining to the below market lease costs of \$15,386 was applied as an increase to rental income for the period from March 5, 2003 (inception) to December 31, 2003. The table below presents the amortization during the next five years related to the acquired above market lease costs and the below market lease costs for properties owned at December 31, 2003:

| | | | | | | |
|------------------|------|------|------|------|------|---|
| Amortization of: | 2004 | 2005 | 2006 | 2007 | 2008 | T |
|------------------|------|------|------|------|------|---|

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| | ----- | ----- | ----- | ----- | ----- |
|--|-----------|-----------|-----------|----------|----------|
| Acquired above market lease costs | (431,185) | (431,185) | (429,043) | (37,016) | (37,016) |
| Acquired below market lease costs | 582,355 | 582,355 | 582,355 | 561,053 | 531,230 |
| Net rental income increase / (decrease) | 151,170 | 151,170 | 153,312 | 524,037 | 494,214 |
| Acquired in place lease intangibles | 963,821 | 963,821 | 963,821 | 963,821 | 963,821 |

The portion of the purchase price allocated to acquired in-place lease costs are amortized on a straight line basis over the life of the related lease. We incurred amortization expense pertaining to acquired in-place lease costs of \$51,773 for the period from March 5, 2003 (inception) to December 31, 2003.

Cost capitalization and the estimate of useful lives requires our judgment and includes significant estimates that can and do change based on our process which periodically analyzes each property and on our assumptions about uncertain inherent factors.

REVENUE RECOGNITION. We recognize rental income on a straight-line basis over the term of each lease. The difference between rental income earned on a straight-line basis and the cash rent due under the provisions of the lease agreements is recorded as deferred rent receivable and is included as a component of accounts and rents receivable in the accompanying consolidated balance sheets. We anticipate collecting these amounts over the terms of the leases as scheduled rent payments are made.

Reimbursements from tenants for recoverable real estate tax and operating expenses are accrued as revenue in the period the applicable expenditures are incurred. We make certain assumptions and judgments in estimating the reimbursements at the end of each reporting period. Should the actual results differ from our judgment, the estimated reimbursement could be negatively effected and would be adjusted appropriately.

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LIQUIDITY AND CAPITAL RESOURCES

GENERAL.

Our principal demands for funds have been for property acquisitions, for the payment of operating expenses and dividends, and for the payment of interest on outstanding indebtedness. Generally, cash needs for items other than property acquisitions have been met from operations, and property acquisitions have been funded by public offerings of our shares of common stock. However, there may be a delay between the sale of the shares and our purchase of properties, which may result in a delay in the benefits to stockholders of returns generated from property operations. The advisor evaluates potential additional property acquisitions and Inland Real Estate Acquisitions, Inc., one of the affiliates of our sponsor, engages in negotiations with sellers on our behalf. After a

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purchase contract is executed which contains specific terms, the property will not be purchased until due diligence, which includes review of the title insurance commitment, an appraisal and an environmental analysis, is successfully completed. In some instances, the proposed acquisition still requires 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 other investments, such as the properties. These lower returns may affect our ability to make distributions.

Potential future sources of capital include proceeds from the public or private offering of our debt or equity securities, secured or unsecured financings from banks or other lenders, proceeds from the sale of properties, as well as undistributed funds from operations. We anticipate that during the current year we will (i) acquire additional existing shopping centers, (ii) develop additional shopping center sites and (iii) continue to pay distributions to stockholders, and each is expected to be funded mainly from proceeds of our public offerings of shares, cash flows from operating activities, financings and other external capital resources available to us.

Our leases typically provide that the tenant bears responsibility for substantially all property costs and expenses associated with ongoing maintenance and operation, including utilities, property taxes and insurance. In addition, in some instances our leases provide that the tenant is responsible for roof and structural repairs. Certain of our properties are subject to leases under which we retain responsibility for certain costs and expenses associated with the property. We anticipate that capital demands to meet obligations related to capital improvements with respect to properties will be minimal for the foreseeable future and can be met with funds from operations and working capital.

If necessary, we may use financings or other sources of capital in the event of unforeseen significant capital expenditures.

We believe that our current capital resources (including cash on hand) and anticipated financings are sufficient to meet our liquidity needs for the foreseeable future.

LIQUIDITY

We were formed to acquire and manage a diversified portfolio of real estate, primarily multi-tenant shopping centers. As of December 31, 2003, subscriptions for a total of 18,718,092 shares had been received from the public, which include the 20,000 shares issued to the advisor. In addition, we distributed 19,049 shares pursuant to the DRP as of December 31, 2003. As a result of such sales, we received a total of \$187,327,251 of gross offering proceeds as of December 31, 2003.

MORTGAGE DEBT.

As of December 31, 2003 we obtained mortgage debt on two properties totaling \$29,627,000 that require monthly payments of interest only and bear interest at a range of 4.65% to 4.71% per annum.

During the period from January 1, 2004 through February 13, 2004 we obtained mortgage financing on six properties that we purchased during 2003 or early 2004 totaling \$128,570,000 that require monthly payments of interest only and bear interest at a range of 4.45% to 4.77% per annum.

On February 9, 2004, we entered into a rate lock agreement with Bear Stearns Commercial Mortgage, Inc. We paid a rate lock deposit of \$1,200,000 to lock the interest rate at 4.372% for a period of 90 days for \$60,000,000 in principal. We

entered into the rate lock to secure the interest on mortgage debt to be identified as debt is placed on properties we currently own or will purchase in the future. The deposit is applied to the mortgage fundings as they occur.

LINE OF CREDIT. On December 24, 2003, we entered into a \$150,000,000 unsecured line of credit arrangement with KeyBank N.A. for a period of one year. The funds from this line of credit will be used to provide liquidity from the time a property is purchased until permanent debt is placed on that property. We are required to pay interest only on the outstanding balance from time to time under the line at the rate equal to the London InterBank Offered Rate or LIBOR plus 175 basis points. We are also required to pay, on a quarterly basis, an amount ranging from .15% to .30%, per annum, on the average daily undrawn funds under this line. The line of credit requires compliance with certain covenants, such as debt service ratios, minimum net worth requirements, distribution limitations and investment restrictions. As of December 31, 2003, we were in compliance with such covenants. In connection with obtaining this line of credit, we paid fees in an amount of approximately \$1,044,000 (which includes a .65% percent commitment fee). The outstanding balance on the line of credit was \$5,000,000 as of December 31, 2003 with an average interest rate of 2.9375% per annum. We have applied for an additional \$75,000,000 to be available under this program which would make a total of \$225,000,000 available on this line. As of February 13, 2004, there is \$70,000,000 outstanding on this line.

STOCKHOLDER LIQUIDITY. We provide the following programs to facilitate investment in the shares and to provide limited liquidity for stockholders until such time as a market for the shares develops:

The DRP allows stockholders who purchase shares pursuant to the offerings to automatically reinvest distributions by purchasing additional shares from us. Such purchases will not be subject to selling commissions or the marketing contribution and due diligence expense allowance and will be sold at a price of \$9.50 per share. As of December 31, 2003, we distributed 19,049 shares pursuant to the DRP for an aggregate of \$180,968.

Subject to certain restrictions, the share repurchase program provides existing stockholders with limited, interim liquidity by enabling them to sell shares back to us at the following prices

- One year from the purchase date, at \$9.25 per share;
- Two years from the purchase date, at \$9.50 per share;
- Three years from the purchase date, at \$9.75 per share; and
- Four years from the purchase date, at \$10.00 per share, or a price equal to 10 times our "funds available for distribution" per weighted average shares outstanding for the prior calendar year.

Shares purchased by us will not be available for resale. As of December 31, 2003, no shares have been repurchased.

CAPITAL RESOURCES

We expect to meet our short-term operating liquidity requirements generally through our net cash provided by property operations. We also expect that our properties will generate sufficient cash flow to cover our operating expenses plus pay a monthly distribution on weighted average shares. Operating cash flows are expected to increase as additional properties are added to our portfolio.

We believe that we should leverage our properties at approximately 50% of their value. We also believe that we can borrow at the lowest overall cost of funds by placing individual financing on each of our properties. Accordingly, mortgage loans will generally have been placed on each property at the time that the property is purchased, or shortly thereafter, with the property solely securing the financing.

During 2003, we closed on mortgage debt with a principal amount of \$29,627,000. The average cost of funds for mortgage debt for 2003 was approximately 4.69%. All of our mortgage loans require monthly payments of interest only and are fixed-rate loans that bear interest at a rate between 4.65% and 4.71% per annum. These loans may be prepaid with a penalty after specific lockout periods.

Although the loans we acquired are generally non-recourse, occasionally, when it is deemed to be advantageous, we may guarantee all or a portion of the debt on a full-recourse basis. Individual decisions regarding interest rates, loan-to-value, fixed versus variable-rate financing, maturity dates and related matters are often based on the condition of the financial markets at the time the debt is incurred, which conditions may vary from time to time.

Distributions are determined by our board of directors and are dependent on a number of factors, including the amount of funds available for distribution, our financial condition, any decision by our board of directors to reinvest funds rather than to distribute the funds, our capital expenditures, the annual distribution required to maintain REIT status under the Internal Revenue Code and other factors the board of directors may deem relevant. We are currently paying a distribution of \$.70 per share per annum.

CASH FLOWS FROM OPERATING ACTIVITIES

Cash flows provided by operating activities were approximately \$723,500 for the period from March 5, 2003 (inception) to December 31, 2003. The net cash provided by operating activities for the period from March 5, 2003 (inception) to December 31, 2003 is due primarily to revenues from property operations during the period from March 5, 2003 (inception) to December 31, 2003.

CASH FLOWS FROM INVESTING ACTIVITIES

Cash flows used in investing activities were approximately \$133,424,000 for the period from March 5, 2003 (inception) to December 31, 2003. The cash flows used in investing activities were primarily used for the acquisition of eight properties for approximately \$127,195,000 and the funding for a note receivable in the amount of approximately \$7,552,000.

As of February 13, 2004, we had approximately \$85,000,000 available for investment in additional properties. As of February 13, 2004 we are considering the acquisition of approximately \$167,000,000 in properties. We are currently in the process of obtaining financings on properties which have been purchased, as well as certain of the properties which we anticipate purchasing. It is our intention to finance each of our acquisitions either at closing or subsequent to closing. As a result of the intended financings and based on our experience in

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raising funds in our current offering, we believe that we will have sufficient resources to acquire these properties.

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CASH FLOWS FROM FINANCING ACTIVITIES

Cash provided by financing activities was approximately \$197,082,000 for the period from March 5, 2003 (inception) to December 31, 2003. We generated proceeds from the sale of shares, net of offering costs paid, of approximately \$166,352,000 for the period from March 5, 2003 (inception) to December 31, 2003. We also generated approximately \$29,627,000 from the issuance of new mortgages secured by two of our properties for the period from March 5, 2003 (inception) to December 31, 2003 and \$5,000,000 from funding on the line of credit. We paid approximately \$4,000,000 for loan fees and approximately \$358,000 in distributions to our stockholders for the period from March 5, 2003 (inception) to December 31, 2003. The sponsor has agreed to advance us amounts to pay these distributions until funds from operations are adequate to cover distributions.

Given the current size of our offering, as of February 13, 2004, we could raise approximately \$2,180,000,000 of additional capital. However, there can be no assurance that we will raise this amount of money or that we will be able to acquire additional attractive properties.

We are exposed to interest rate changes primarily as a result of our long-term debt used to maintain liquidity and fund capital expenditures and expansion of our real estate investment portfolio and operations. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve our objectives we borrow primarily at fixed rates or variable rates with the lowest margins available and, in some cases, with the ability to convert variable rates to current market fixed rates at the time of conversion.

Our interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts and weighted average interest rates by year and expected maturity to evaluate the expected cash flows and sensitivity to interest rate changes.

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|-------------------------------------|-----------|------|------|------|------|
| | ---- | ---- | ---- | ---- | ---- |
| Maturing debt | | | | | |
| Fixed rate debt (mortgage loans) | - | - | - | - | - |
| Variable rate debt (line of credit) | 5,000,000 | - | - | - | - |
| Average interest rate on debt: | | | | | |
| Fixed rate debt (mortgage loans) | - | - | - | - | - |
| Variable rate debt (line of credit) | 2.94% | - | - | - | - |

EFFECTS OF TRANSACTIONS WITH RELATED AND CERTAIN OTHER PARTIES

On October 31, 2003, we acquired an existing shopping center known as The Shops at Park Place through the purchase of all of the membership interests of the

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general partner and the membership interests of the limited partner of the limited partnership holding title to this property. The center contains approximately 116,300 gross leasable square feet and is located in Plano, Texas. An affiliate of our advisor, Inland Park Place Limited Partnership, acquired this property on September 30, 2003 from CDG Park Place LLC, an unaffiliated third party for \$23,868,000. Inland Park Place Limited Partnership agreed to sell this property to us when sufficient funds from the sale of shares to acquire this property were raised by us. Inland Park Place Limited Partnership agreed to sell this property to us for the price the affiliate paid to the unaffiliated third party, plus any actual costs incurred. Our total acquisition cost was \$24,000,000, which included \$132,000 of costs incurred by the affiliate. As part of the purchase, title to the property was subject to a loan placed on the property by Inland Park Place Limited Partnership for our benefit. The loan is in the amount of \$13,127,000, requires interest only payments at a rate of 4.71% per annum and matures November 2008.

SERVICES PROVIDED BY AFFILIATES OF THE ADVISOR As of December 31, 2003, we had incurred \$22,144,814 of offering costs, of which \$16,859,779 was paid or accrued to affiliates. In accordance with the terms of the offerings, the advisor has

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guaranteed payment of all public offering expenses (excluding sales commissions and the marketing contribution and the due diligence expense allowance) in excess of 5.5% of the gross proceeds of the offerings or gross offering proceeds or all organization and offering expenses (including selling commissions) which together exceed 15% of gross offering proceeds. As of December 31, 2003, offering costs did not exceed the 5.5% and 15% limitations. We anticipate that these costs will not exceed these limitations upon completion of the offering. Any excess amounts at the completion of the offering will be reimbursed by the advisor.

The advisor and its affiliates are entitled to reimbursement for salaries and expenses of employees of the advisor and its affiliates relating to the offerings. In addition, an affiliate of the advisor is entitled to receive selling commissions, and the marketing contribution and due diligence expense allowance from us in connection with the offerings. Such costs are offset against the stockholders' equity accounts. Such costs totaled \$16,859,779 for the period from March 5, 2003 (inception) to December 31, 2003, of which \$1,369,366 was unpaid at December 31, 2003.

The advisor and its affiliates are entitled to reimbursement for general and administrative expenses of the advisor and its affiliates relating to our administration. Such costs are included in general and administrative expenses to affiliates, professional services to affiliates, and acquisition cost expenses to affiliates, in addition to costs that were capitalized pertaining to property acquisitions. During the period from March 5, 2003 (inception) to December 31, 2003, we incurred \$194,017 of these costs, of which \$40,703 remained unpaid as of December 31, 2003.

An affiliate of the advisor provides loan servicing to us for an annual fee. Such costs are included in property operating expenses to affiliates. The agreement allows for annual fees totaling .05% of the first \$100,000,000 in mortgage balance outstanding and .03% of the remaining mortgage balance, payable monthly. Such fees totaled \$328 for the period from March 5, 2003 (inception) to December 31, 2003.

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The advisor contributed \$200,000 to our capital for which it received 20,000 shares.

We used the services of an affiliate of the advisor to facilitate the mortgage financing that we obtained on some of the properties purchased. Such costs are capitalized as loan fees and amortized over the respective loan term. During the period from March 5, 2003 (inception) to December 31, 2003, we paid loan fees totaling \$59,523 to this affiliate.

We pay an advisor asset management fee of not more than 1% of our net asset value. Our net asset value is defined as the total book value of our assets invested in equity interests and loans receivable secured by real estate, before reserves for depreciation, reserves for bad debt or other similar non-cash reserves, reduced by any mortgages payable on the respective assets. We compute our net asset value by taking the average of these values at the end of each month for which we are calculating the fee. The fee is payable quarterly in an amount equal to 1/4 of 1% of net asset value as of the last day of the immediately preceding quarter. For any year in which we qualify as a REIT, our advisor must reimburse us for the following amounts if any: (1) the amounts by which our total operating expenses, the sum of the advisor asset management fee plus other operating expenses, paid during the previous fiscal year exceed the greater of: (i) 2% of our average invested assets for that fiscal year. (average invested assets are the average of the total book value of our assets invested in equity interest and loans secured by real estate, before depreciation, reserve for bad debt or other similar non-cash reserves). We will compute the average invested assets by taking the average of these values at the end of each month for which we are calculating the fee), or (ii) 25% of our net income, before any additions to or allowances for reserves, depreciation, amortization, bad debts or other similar non-cash reserves and before any gain from the sale of our assets, for that fiscal year; plus (2) an amount, which will not exceed the advisor asset management fee for that year, equal to any difference between the total amount of distributions to stockholders for that year and a 6% minimum annual return on the net investment of stockholders. For the year ended December 31, 2003, no asset management fees were due.

The property manager, an entity owned principally by individuals who are affiliates of the advisor, is entitled to receive property management fees totaling 4.5% of gross operating income, for management and leasing services. We incurred and paid property management fees of \$16,627 for the period from March 5, 2003 (inception) to December 31, 2003. None remained unpaid as of December 31, 2003.

We established a discount stock purchase policy for our affiliates and affiliates of the advisor that enables the affiliates to purchase shares of common stock at either \$8.95 or \$9.50 a share depending on when the shares are purchased. We sold

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59,497 shares to affiliates and recognized an expense related to these discounts of \$62,472 for the period from March 5, 2003 (inception) to December 31, 2003.

As of December 31, 2003 we were due funds from our affiliates in the amount of \$918,750 which is comprised of \$73,750 due from an affiliate for costs paid by us on their behalf and \$845,000 which is due from our sponsor for reimbursement

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of accrued December distributions paid by us in January. The sponsor has agreed to advance us amounts to pay distributions to our stockholders until funds from operations are adequate to cover the distributions. As of December 31, 2003 we owe funds to the sponsor in the amount of \$1,202,519 for repayment of the funds advanced for payment of distributions.

As of December 31, 2003 we owed funds to an affiliate in the amount of approximately \$2,154,158 which were costs paid by the affiliate on our behalf relating to the acquisition of investment properties or financings. We intend on paying this amount borrowed during the first quarter of 2004.

OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS, LIABILITIES AND CONTRACTS AND COMMITMENTS

The table below presents our obligations and commitments to make future payments under debt obligations, maintenance contracts and lease agreements as of December 31, 2003.

| Contractual Obligations | Payments Due by Period | | | | |
|-------------------------|------------------------|---------------------|-----------|------------|-------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More 5 y |
| Long-Term Debt | \$ 29,627,000 | - | - | 13,127,000 | 16,5 |
| Line of Credit | 5,000,000 | 5,000,000 | - | - | |

CONTRACTS AND COMMITMENTS

On December 10, 2003, in connection with the purchase of Stony Creek Market Place, we entered into an earnout agreement with the seller. The earnout agreement provides that the seller shall retain the right for a 48 month period after the date of purchase, to purchase the development and leasing rights to a vacant 50,000 square foot pad site, included in the purchase of the property. If the seller develops and leases the pad site, we are required to purchase the seller's interest in the leases based on an agreed upon base rent divider. If the base rent divider should fall above or below certain limits, then the seller and we have certain rights to terminate the agreement.

On December 31, 2003, in connection with the purchase of Pavilion at King's Grant, the purchase and sale contract provides that if anytime during the period January 1, 2004 through December 31, 2007 the tenant, Toys R Us, should increase their base rent up to a maximum amount of \$250,000 and no decrease occurs in their requirement to pay for a certain percentage of expenses at the property, then we would be obligated to pay the seller additional funds related to the purchase based on an agreed income capitalization formula.

As part of the purchase and sale agreement for Newnan Crossing, we are obligated to purchase the remaining portion of the shopping center that is currently under construction (approximately 28,000 square feet to be occupied by Linen's N Things) after construction is complete and the tenant has moved in and is paying rent. The purchase price for this portion of the center will be based on an agreed income capitalization formula.

Subsequent to December 31, 2003, we purchased eight properties and an additional phase related to a property that we owned at December 31, 2003 for a purchase price of approximately \$289,700,000. In addition, we are currently considering acquiring seven properties for an estimated purchase price of \$167,000,000. Our decision to acquire each property generally depends upon no material adverse

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change occurring relating to the property, the tenants or in the local economic conditions and our receipt of satisfactory due diligence information including appraisals, environmental reports and lease information prior to purchasing the property.

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RESULTS OF OPERATIONS

GENERAL

The following discussion is based primarily on our consolidated financial statements as of December 31, 2003 and for the period from March 5, 2003 (inception) to December 31, 2003.

| Quarter Ended ----- | Properties Purchased Per Quarter ----- | Square Feet Acquired ----- | Purchase Price ----- |
|------------------------|---|-------------------------------------|-------------------------|
| March 31, 2003 | None | N/A | N/A |
| June 30, 2003 | None | N/A | N/A |
| September 30, 2003 | None | N/A | N/A |
| December 31, 2003 | 8 | 797,490 | \$ 127,195,469 |
| ----- | | | |
| Total | 8 | 797,490 | \$ 127,195,469 |
| ===== | | | |

RENTAL INCOME, REAL ESTATE TAX RECOVERY, COMMON AREA COST RECOVERY AND ADDITIONAL RENTAL INCOME. Rental income consists of basic monthly rent and percentage rental income due pursuant to tenant leases. Real estate tax recovery, common area cost recovery and additional rental income consist of property operating expenses recovered from the tenants including real estate taxes, property management fees and insurance. Rental income was \$606,645 and all additional rental income was \$137,988 for the period from March 5, 2003 (inception) to December 31, 2003. This income is due to the purchase of eight properties purchased during 2003 and the related income from the tenant leases.

INTEREST INCOME. Interest income consists of interest earned from short term investments and notes receivable that are held by us. Interest income was \$37,648 for the period from March 5, 2003 (inception) to December 31, 2003. This results primarily from interest earned on cash and a note receivable funded during 2003 in the amount of approximately \$7.6 million.

PROFESSIONAL SERVICES. Professional services consist of fees to accountants and lawyers. Professional services expense was \$88,058 for the period from March 5, 2003 (inception) to December 31, 2003. This results from professional services required as the business and investor base grows. Accounting fees comprise the majority of the professional services expense.

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GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist of salaries and computerized information services costs reimbursed to affiliates for maintaining our accounting and investor records, affiliates common share purchase discounts, insurance, postage, and printer costs. These expenses were \$232,155 for the period from March 5, 2003 (inception) to December 31, 2003. This results from services required as we acquire properties and grow our portfolio of investment properties and our investor base and salaries reimbursed to affiliates for maintaining our accounting and investor records and affiliates common share purchase discounts account for the majority of the expense.

PROPERTY OPERATING EXPENSES. Property operating expenses consist of property management fees and property operating expenses, including real estate tax, costs of owning and maintaining shopping centers, real estate taxes, insurance, maintenance to the exterior of the buildings and the parking lots. These expenses were \$143,244 for the period from March 5, 2003 (inception) to December 31, 2003. These expenses were incurred on the properties purchased during the period from March 5, 2003 (inception) to December 31, 2003.

MORTGAGE INTEREST. Mortgage interest was \$135,735 for the period from March 5, 2003 (inception) to December 31, 2003 and is due to the financing of two properties during 2003.

DEPRECIATION. Depreciation expense was \$140,497 and is due to depreciation on the properties purchased during the period from March 5, 2003 (inception) to December 31, 2003.

AMORTIZATION. Amortization expense was \$76,608 and is due to the application of SFAS 141 and SFAS 142 resulting in the amortization of intangible assets of approximately \$8.81 million and loan fees of \$1.5 million during the period from March 5, 2003 (inception) to December 31, 2003.

SUBSEQUENT EVENTS

We paid distributions of \$927,539 to our stockholders in January and \$1,337,226 in February 2004.

We issued 12,698,273 shares of common stock from January 1, 2004 through February 13, 2004, resulting in a total of 31,293,003 shares of common stock outstanding. As of February 13, 2004, subscriptions for a total of 12,555,862 shares were received resulting in total gross offering proceeds of \$312,907,390 and an additional 142,411 shares were issued pursuant to the DRP for \$1,352,905 of additional gross proceeds.

We have signed an application to add \$75,000,000 to the line of credit with Key Bank. Fundings under this line of credit, if approved, will require interest only payments.

On February 9, 2004, we entered into a rate lock agreement with Bear Stearns Commercial Mortgage, Inc. We paid a rate lock deposit of \$1,200,000 to lock the interest rate at 4.372% for a period of 90 days for \$60,000,000 in principal we could borrow. We entered into the rate lock to secure the interest on mortgage debt to be identified as debt is placed on properties we currently own or will acquire in the future. The deposit is applied to the mortgage fundings as they occur.

The note receivable in the amount of \$7,552,155 as of December 31, 2003 was

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repaid in full on February 13, 2004 in conjunction with the purchase of Newnan Crossing Phase II.

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We have acquired the following properties during the period January 1 to February 13, 2004. The respective acquisitions are summarized in the table below.

| DATE ACQUIRED ----- | PROPERTY ----- | YEAR BUILT ----- | APPROXIMATE PURCHASE PRICE (\$) ----- | GROSS LEASABLE AREA (SQ. FT.) ----- | MAJOR TENA ----- |
|---------------------------|--|------------------------|--|--|--|
| 01/06/04 | CorWest Plaza New Britain, CT | 2000/ 2001 | 33,000,000 | 115,011 | Stop & Sho CVS Pharma Liquor Dep |
| 01/09/04 | Hickory Ridge Hickory, NC | 1999 | 41,900,000 | 310,360 | Best Buy Kohl's Marshalls Linens N T Old Navy Party City Shoe Carni A.C. Moore |
| 01/14/04 | Larkspur Landing Larkspur, CA | 1978/ 2001 | 61,100,000 | 173,814 | Bed Bath & 24 Hour Fi |
| 01/15/04 | North Ranch Pavilions Thousand Oaks, CA | 1992 | 18,468,000 | 62,812 | Bank of Am |
| 01/20/04 | Metro Square Center Severn, MD | 1999 | 11,031,000 | 61,817 | Shoppers F Warehouse |
| 01/21/04 | La Plaza Del Norte San Antonia, TX | 1996/ 1999 | 59,100,000 | 320,362 | Best Buy Bealls Ross Store Office Max Oshman's S Cost Plus DSW Shoe W David's Br Petco |
| 02/05/04 | MacArthur Crossing Los Colinas, TX | 1995/ 1996 | 23,100,000 | 110,975 | Stein Mart |
| 02/13/04 | Newnan Crossing Phase II Newnan, GA. | 1997 | 22,362,000 | 153,798 | TJ Maxx Office Dep Old Navy Michaels Party City |

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| | | | | | |
|----------|--|---------------|------------|--------|-----------------------------------|
| 02/13/04 | Promenade at Red Cliff St. George, UT | 1999/ 1998 | 19,618,000 | 94,936 | Old Navy Staples Big 5 Spor |
|----------|--|---------------|------------|--------|-----------------------------------|

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The mortgage debt financings obtained subsequent to December 31, 2003, are detailed in the list below.

| DATE FUNDED | MORTGAGE PAYABLE | ANNUAL INTEREST RATE | MATURITY DATE | PRINCIPAL BORROWED (\$) |
|-------------|--|----------------------|---------------|-------------------------|
| 1/05/04 | Stony Creek Marketplace Noblesville, IN | 4.77% | 01/01/11 | 14,162,000 |
| 1/07/04 | CorWest Plaza New Britain, CT | 4.56% | 02/01/09 | 18,150,000 |
| 1/21/04 | Hickory Ridge Hickory, NC | 4.531% | 02/01/09 | 23,650,000 |
| 1/28/04 | Shaw's - New Britain New Britain, CT | 4.684% | 11/01/33 | 6,450,000 |
| 1/30/04 | Larkspur Landing Larkspur, CA | 4.45% | 02/01/09 | 33,630,000 |
| 2/04/04 | La Plaza Del Norte San Antonio, TX | 4.61% | 03/01/10 | 32,528,000 |

In connection with the financing of Shaw's -New Britain on January 28, 2004, the Park Place mortgage debt was modified to be cross-collateralized with Shaw's - New Britain. All other terms of the Park Place debt remained the same.

We are currently considering acquiring seven properties for an estimated purchase price of \$167,000,000. Our decision to acquire each property will generally depend upon no material adverse change occurring relating to the property, the tenants or in the local economic conditions and our receipt of satisfactory due diligence information including appraisals, environmental reports and lease an information prior to purchasing the property.

IMPACT OF ACCOUNTING PRINCIPLES

On May 15, 2003, the Financial Accounting Standards Board issued Statement No. 150, ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY. This statement requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. Generally, this statement is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim

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period beginning after June 15, 2003. We adopted the provisions of this statement on July 1, 2003.

We did not enter into any financial instruments within the scope of this statement during the period from March 5, 2003 (inception) to December 31, 2003. To the extent stockholders request shares to be repurchased by us under the share repurchase program, our obligation to repurchase such shares will be classified as a liability at the redemption amount at the date documentation is complete and accepted by us in accordance with the SRP.

In January 2003, FASB ISSUED INTERPRETATION 46, Consolidation of Variable Interest Entities or Interpretation 46, which addresses the consolidation of certain entities in which a company has a controlling financial interest through means other than voting rights. This interpretation was revised in December 2003. For calendar year companies, Interpretation 46 contains an effective date of December 31, 2003 for special purpose entities and periods ending after March 15, 2004 for all other entities. We do not own interests in special purpose entities and management does not believe that the adoption of Interpretation 46 will have a material impact on our consolidated financial statements.

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INFLATION

For our multi-tenant shopping centers, inflation is likely to increase rental income from leases to new tenants and lease renewals, subject to market conditions. Our rental income and operating expenses for those properties owned, or to be owned and operated under triple-net leases are not likely to be directly affected by future inflation, since rents are or will be fixed under the leases and property expenses are the responsibility of the tenants. The capital appreciation of triple-net leased properties is likely to be influenced by interest rate fluctuations. To the extent that inflation determines interest rates, future inflation may have an effect on the capital appreciation of triple-net leased properties. As of December 31, 2003, we owned three single-user triple-net leased properties.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We may be exposed to interest rate changes primarily as a result of long-term debt used to maintain liquidity and fund capital expenditures and expansion of our real estate investment portfolio and operations. Our interest rate risk management objectives will be to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve our objectives we will borrow primarily at fixed rates or variable rates with the lowest margins available and in some cases, with the ability to convert variable rates to fixed rates.

We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our properties. To the extent we do, we are exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, it does not possess credit risk. It is our policy to enter into these transactions with the same party providing the financing, with the right of offset. In the alternative, we will

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minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. As of December 31, 2003 we did not have any derivative financial instruments.

With regard to variable rate financing, we assess interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. We maintain risk management control systems to monitor interest rate cash flow risk attributable to both of our outstanding or forecasted debt obligations as well as our potential offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on our future cash flows.

While this hedging strategy will have the effect of smoothing out interest rate fluctuations, the result may be to reduce the overall returns on your investment.

The fair value of our debt approximates its carrying amount as of December 31, 2003.

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Our interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts and weighted average interest rates by year and expected maturity to evaluate the expected cash flows and sensitivity to interest rate changes.

| | 2004 ---- | 2005 ---- | 2006 ---- | 2007 ---- |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Maturing debt | | | | |
| Fixed rate debt (mortgage loans) | - | - | - | - |
| Variable rate debt (line of credit) | 5,000,000 | - | - | - |
| Average interest rate on debt: | | | | |
| Fixed rate debt (mortgage loans) | - | - | - | - |
| Variable rate debt (line of credit) | 2.94% | - | - | - |

We have \$5,000,000 of variable rate interest averaging 2.94% as of December 31, 2003. An increase in the variable interest rate on this debt constitutes a market risk. If interest rates increase by 1%, based on debt outstanding as of February 13, 2004, interest expense increases by \$700,000 on an annual basis.

On our behalf, an affiliate of the advisor is currently exploring the purchase of shopping centers from unaffiliated third parties.

STOCKHOLDERS' MEETINGS

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Our board of directors announced the annual meeting of the stockholders will be held on June 8, 2004, at 9:00 a.m., at our offices located at 2901 Butterfield Road, Oak Brook, IL. The meeting will be for shareholders of record as of March 31, 2004.

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PLAN OF DISTRIBUTION

THE FOLLOWING NEW SUBSECTION IS INSERTED AT THE END OF THIS SECTION ON PAGE 148 OUR PROSPECTUS.

UPDATE

The following table updates shares sold in our offerings as of March 8, 2004:

| | Shares | Gross proceeds (\$) | Commission and fees (\$)(1) | pr |
|---|------------|---------------------|-----------------------------|----|
| From our advisor | 20,000 | 200,000 | - | |
| Our first offering began September 15, 2003: | 38,789,752 | 387,864,029 | 39,947,298 | 3 |
| Shares sold pursuant to our distribution reinvestment program | 237,414 | 2,255,437 | - | |
| | 39,047,166 | 390,319,466 | 39,947,298 | 3 |

(1) Inland Securities Corporation serves as dealer manager of this offering and is entitled to receive selling commissions and certain other fees, as discussed further in our prospectus.

HOW TO SUBSCRIBE

THE FIRST SENTENCE OF THE THIRD BULLET POINT ON PAGE 157, UNDER THIS HEADING, IS MODIFIED TO READ AS FOLLOWS:

Deliver a check for the full purchase price of the shares being subscribed for, payable to "LBNA/Escrow Agent for IWRRETI", along with the completed subscription agreement to the soliciting dealer.

EXPERTS

The consolidated balance sheet of Inland Western Retail Real Estate Trust, Inc. as of June 30, 2003 and the historical summary of gross income and direct operating expenses of Shops at Park Place for the year ended December 31, 2002 have all been incorporated by reference herein and in this Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 in reliance upon the reports of KPMG LLP, independent accountants, incorporated by reference

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herein and upon authority of said firm as experts in accounting and auditing.

The consolidated balance sheet of Inland Western Retail Real Estate Trust, Inc. as of December 31, 2003 and the related consolidated statement of operations, stockholders' equity and cash flows for the period from March 5, 2003 (inception) through December 31, 2003 and related financial statement schedule, the historical summary of gross income and direct operating expenses of Darien Towne Center for the year ended December 31, 2002, the historical summary of gross income and direct operating expenses of Properties Acquired from Thomas Enterprises for the year ended December 31, 2003, the historical summary of gross income and direct operating expenses of Hickory Ridge for the year ended December 31, 2003, the historical summary of gross income and direct operating expenses of CorWest Plaza for the period from May 29, 2003 through December 31, 2003, the historical summary of gross income and direct operating expenses of Metro Square Center (SuperValue) for the year ended December 31, 2003, the historical summary of gross income and direct operating expenses of Larkspur Landing for the year ended December 31, 2003, the historical summary of gross income and direct operating expenses of North Ranch Pavilion for the year ended December 31, 2003, the historical summary of gross income and direct operating expenses of La Plaza Del Norte for the year ended December 31, 2003, the historical summary of gross income and direct operating expenses of MacArthur Crossing for the year ended December 31, 2003, the historical summary of gross income and direct operating expenses of Promenade at Red Cliff for the year ended December 31, 2003, the historical summary of gross income and direct operating expenses of Peoria Crossing for the year ended December 31, 2003, the historical summary of gross income and direct operating expenses of Doorman Centre for the year ended December 31, 2003, and the historical summary of gross income and direct operating expenses of Heritage Towne Crossing for the year ended December 31, 2003 have all been included herein in reliance upon the reports of KPMG LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Inland Western Retail Real Estate Trust, Inc.:

We have audited the consolidated financial statements of Inland Western Retail Real Estate Trust, Inc. (the Company) as listed in the accompanying index. In connection with our audit of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inland Western Retail Real Estate Trust, Inc. as of December 31, 2003 and the results of their operations and their cash flows for the period from March 5, 2003 (inception) to December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Chicago, Illinois
February 13, 2004

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

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(A Maryland Corporation)

Consolidated Balance Sheet

December 31, 2003

ASSETS

| | |
|--|----------------|
| Investment properties: | |
| Land | \$ 36,280,244 |
| Building and other improvements | 86,439,670 |
| | ----- |
| | 122,719,914 |
| Less accumulated depreciation | (140,497) |
| | ----- |
| Net investment properties | 122,579,417 |
| Cash and cash equivalents | 64,381,134 |
| Accounts and rents receivable | 1,147,551 |
| Due from affiliates | 918,750 |
| Note receivable | 7,552,155 |
| Acquired in-place lease intangibles (net of accumulated amortization of \$51,773) | 8,753,908 |
| Acquired above market lease intangibles (net of accumulated amortization of \$5,227) | 1,590,446 |
| Loan fees (net of accumulated amortization of \$24,835) | 1,434,160 |
| Other assets | 3,744,642 |
| | ----- |
| Total assets | \$ 212,102,163 |
| | ===== |

See accompanying notes to consolidated financial statements.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

Consolidated Balance Sheet
(continued)

December 31, 2003

LIABILITIES AND STOCKHOLDER'S EQUITY

| | |
|--|------------|
| Liabilities: | |
| Accounts payable | \$ 505,448 |
| Accrued offering costs due to affiliates | 1,369,366 |

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| | |
|---|----------------|
| Accrued real estate taxes | 1,392,069 |
| Distributions payable | 927,539 |
| Security deposits | 108,189 |
| Mortgages payable | 29,627,000 |
| Line of credit | 5,000,000 |
| Prepaid rental and recovery income | 104,756 |
| Advances from sponsor | 1,202,519 |
| Acquired below market lease intangibles (net of accumulated amortization of \$15,386) | 5,910,413 |
| Other liabilities | 71,927 |
| Due to affiliates | 2,154,158 |
| | ----- |
| Total liabilities | 48,373,384 |
| | ----- |
| Stockholders' equity: | |
| Preferred stock, \$.001 par value, 10,000,000 shares authorized, none outstanding | - |
| Common stock, \$.001 par value, 250,000,000 shares authorized, 18,737,141 shares issued and outstanding | 18,737 |
| Additional paid in capital (net of offering costs of \$22,144,814 of which \$1,369,366 was paid or accrued to affiliates) | 165,168,650 |
| Accumulated distributions in excess of net loss | (1,458,608) |
| | ----- |
| Total stockholders' equity | 163,728,779 |
| | ----- |
| Commitments and contingencies (Note 11) | |
| Total liabilities and stockholders' equity | \$ 212,102,163 |
| | ===== |

See accompanying notes to consolidated financial statements.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

Consolidated Statement of Operations

For the period from March 5, 2003 (inception) through December 31, 2003

| | |
|-----------------------------------|------------|
| Income: | |
| Rental income | \$ 606,645 |
| Real estate tax recovery income | 95,654 |
| Common area costs recovery income | 42,334 |
| Interest income | 37,648 |
| | ----- |

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| | |
|---|--------------|
| Total income | 782,281 |
| | ----- |
| Expenses: | |
| Professional services | 88,058 |
| General and administrative expenses to affiliates | 104,259 |
| General and administrative expenses to non-affiliates | 127,896 |
| Property operating expenses to affiliates | 16,627 |
| Property operating expenses to non-affiliates | 30,963 |
| Real estate tax | 95,654 |
| Interest | 135,735 |
| Depreciation | 140,497 |
| Amortization | 76,608 |
| Acquisition cost expenses to affiliates | 7,563 |
| Acquisition cost expenses to non-affiliates | 131,700 |
| | ----- |
| Total expenses | 955,560 |
| | ----- |
| Net loss | \$ (173,279) |
| | ===== |
| Net loss per common share, basic and diluted | \$ (.07) |
| | ===== |
| Weighted average number of common shares outstanding, basic and diluted | 2,520,986 |
| | ===== |

See accompanying notes to consolidated financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

Consolidated Statement of Stockholders' Equity

For the period from March 5, 2003 (inception) to December 31, 2003

| | NUMBER OF SHARES | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL |
|---|---------------------|-----------------|----------------------------------|
| | ----- | ----- | ----- |
| Balance at March 5, 2003 (inception) | - | - | - |
| Net loss | - | - | - |
| Distributions declared (\$.15 per weighted average number of common shares outstanding) | - | - | - |
| Proceeds from offering | 18,718,092 | 18,718 | 187,127,565 |

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| | | | |
|------------------------------|------------|-----------|----------------|
| Offering costs | - | - | (22,144,814) |
| Proceeds from DRP | 19,049 | 19 | 180,949 |
| Common stock option expense | - | - | 4,950 |
| | | | |
| Balance at December 31, 2003 | 18,737,141 | \$ 18,737 | \$ 165,168,650 |
| | | | |

See accompanying notes to consolidated financial statements.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

STATEMENT OF CASH FLOWS

For the period from March 5, 2003 (inception) through December 31, 2003

| | |
|---|---------------|
| Cash flows from operations: | |
| Net loss | \$ (173,279) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | |
| Depreciation | 140,497 |
| Amortization | 76,608 |
| Amortization on acquired above market leases | 5,227 |
| Amortization on acquired below market leases | (15,386) |
| Stock option expense | 4,950 |
| Changes in assets and liabilities: | |
| Accounts and rents receivable | (1,147,551) |
| Accrued real estate taxes | 1,240,567 |
| Accounts payable | 306,996 |
| Prepaid rental and recovery income | 104,756 |
| Other liabilities | 71,927 |
| Security deposits | 108,189 |
| | |
| Net cash flows provided by operating activities | 723,501 |
| | |
| Cash flows from investing activities: | |
| Purchase of investment properties | (122,719,914) |
| Acquired above market leases | (1,595,673) |
| Acquired in place lease intangibles | (8,805,681) |
| Acquired below market leases | 5,925,799 |
| Other assets | (830,697) |
| Funding of note receivable | (7,552,155) |
| Due to affiliates | 2,154,158 |
| | |
| Net cash flows used in investing activities | (133,424,163) |
| | |
| Cash flows from financing activities: | |

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| | |
|---|--------------|
| Proceeds from offering | 187,146,283 |
| Proceeds from the DRP | 180,968 |
| Payment of offering costs | (20,775,448) |
| Loan proceeds | 29,627,000 |
| Proceeds from unsecured line of credit | 5,000,000 |
| Loan fees | (4,022,986) |
| Distributions paid | (357,790) |
| Due from affiliates | (918,750) |
| Advances from sponsor | 1,202,519 |
| | ----- |
| Net cash flows provided by financing activities | 197,081,796 |
| | ----- |

See accompanying notes to financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

STATEMENT OF CASH FLOWS
(continued)

For the period from March 5, 2003 (inception) through December 31, 2003

| | |
|---|---------------|
| Net increase in cash and cash equivalents | \$ 64,381,134 |
| Cash and cash equivalents, at beginning of period | - |
| | ----- |
| Cash and cash equivalents, at end of period | \$ 64,381,134 |
| | ===== |
| Supplement disclosure of cash flow information: | |
| Cash paid for interest | \$ 135,735 |
| | ===== |
| Supplement schedule of non-cash financing activities: | |
| Distributions payable | \$ 927,539 |
| | ===== |
| Accrued offering costs payable | \$ 1,369,366 |
| | ===== |

See accompanying notes to financial statements

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

(1) Organization

Inland Western Retail Real Estate Trust, Inc. (the "Company") was formed on March 5, 2003 to acquire and manage a diversified portfolio of real estate, primarily multi-tenant shopping centers. The Advisory Agreement provides for Inland Western Retail Real Estate Advisory Services, Inc. (the "Advisor"), an Affiliate of the Company, to be the Advisor to the Company. On September 15, 2003, the Company commenced an initial public offering of up to 250,000,000 shares of common stock at \$10 each and the issuance of 20,000,000 shares at \$9.50 each which may be distributed pursuant to the Company's distribution reinvestment program.

The Company is qualified and has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended, for federal income tax purposes commencing with the tax year ending December 31, 2003. Since the Company qualifies for taxation as a REIT, the Company generally will not be subject to federal income tax to the extent it distributes at least 90% of its REIT taxable income to its stockholders. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax on its taxable income at regular corporate tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property and federal income and excise taxes on its undistributed income.

The Company provides the following programs to facilitate investment in the Company's shares and to provide limited liquidity for stockholders.

The Company allows stockholders who purchase shares in the offering to purchase additional shares from the Company by automatically reinvesting distributions through the distribution reinvestment program ("DRP"), subject to certain share ownership restrictions. Such purchases under the DRP are not subject to selling commissions or the marketing contribution and due diligence expense allowance, and are made at a price of \$9.50 per share.

The Company will repurchase shares under the share repurchase program ("SRP"), if requested, at least once quarterly on a first-come, first-served basis, subject to certain restrictions. Subject to funds being available, the Company will limit the number of shares repurchased during any calendar year to 5% of the weighted average number of shares outstanding during the prior calendar year. Funding for the SRP will come exclusively from proceeds that the Company receives from the sale of shares under the DRP and such other operating funds, if any, as the Company's board of directors, at its sole discretion, may reserve for this purpose. The board, at its sole discretion, may choose to terminate the share repurchase program after the end of the offering period, or reduce the number of shares purchased under the program, if it determines that the funds allocated to the SRP are needed for other purposes, such as the acquisition, maintenance or repair of properties, or for use in making a declared distribution. A determination by the board to eliminate or reduce the share repurchase program will require the unanimous affirmative vote of the independent directors. As of December 31, 2003, no shares have been repurchased by the Company.

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The accompanying Consolidated Financial Statements include the accounts of the Company, as well as all wholly owned subsidiaries. Wholly owned subsidiaries generally consist of limited liability companies ("LLC's"). The effects of all significant intercompany transactions have been eliminated.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC. (A Maryland Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2003

(2) Summary of Significant Accounting Policies

The preparation of the financial statements in conformity with accounting principles generally accepted in the United State of America ("GAAP") requires management of the Company to make estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Highly liquid investments with a maturity of three months or less when purchased are classified as cash equivalents.

Costs associated with the offering are deferred and charged against the gross proceeds of the offering upon closing. Formation and organizational costs are expensed as incurred. As of December 31, 2003, \$7,500 of organizational costs were expensed.

The Company applies the fair value method of accounting as prescribed by SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION for its stock options granted. Under this method, the Company will report the value of granted options as a charge against earnings ratably over the vesting period.

Real estate acquisitions are recorded at costs less accumulated depreciation. Ordinary repairs and maintenance are expensed as incurred.

Depreciation expense is computed using the straight line method. Building and improvements are depreciated based upon estimated useful lives of 30 years for building and improvements and 15 years for site improvements.

The Company performed an impairment analysis for its long-lived assets in accordance with Statement of Financial Accounting Standards No. 144 ("SFAS 144") to ensure that the investment property's carrying value does not exceed its fair value. The valuation analysis performed by the Company was based upon many factors which require difficult, complex or subjective judgments to be made. Such assumptions include projecting vacancy rates, rental rates, operating expenses, lease terms, tenant financial strength, economy, demographics, property location, capital expenditures and sales value among other assumptions to be made upon valuing each property. This valuation is sensitive to the actual results of any of these uncertain factors, either individually or taken as a whole. Based upon the Company's judgment, no impairment was warranted as of

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December 31, 2003.

Tenant improvements are amortized on a straight line basis over the life of the related lease as a component of amortization expense.

Leasing fees are amortized on a straight-line basis over the life of the related lease.

Loan fees are amortized on a straight-line basis over the life of the related loans.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

December 31, 2003

The Company allocates the purchase price of the each acquired investment property between land, building and improvements, acquired above market and below market leases, in-place lease value, customer relationship value, and any assumed financing that is determined to be above or below market terms. The allocation of the purchase price is an area that requires judgment and significant estimates. The Company uses the information contained in the independent appraisal obtained at acquisition as the primary basis for the allocation to land and building and improvements. The aggregate value of intangibles is measured based on the difference between the stated price and the property value as if vacant. The Company determines whether any financing assumed is above or below market based upon comparison to similar financing terms for similar investment properties. The Company also allocates a portion of the purchase price to the estimated acquired in-place lease costs based on estimated lease execution costs for similar leases and we consider various factors including geographic location and size of leased space. The Company also evaluates each acquired lease based upon current market rates at the acquisition date and we consider various factors including geographical location, size and location of leased space within the investment property, tenant profile, and the credit risk of the tenant in determining whether the acquired lease is above or below market lease costs. After an acquired lease is determined to be above or below market lease costs, the Company allocates a portion of the purchase price to such above or below acquired lease costs based upon the present value of the difference between the contractual lease rate and the estimated market rate. The determination of the discount rate used in the present value calculation is based upon the "risk free rate." This discount rate is a significant factor in determining the market valuation which requires our judgment of subjective factors such as market knowledge, economic, demographics, location, visibility, location, age and physical condition of the property.

The application of SFAS 141 and SFAS 142 resulted in the recognition upon acquisition of additional intangible assets and liabilities relating to the 2003 real estate acquisitions. The portion of the purchase price allocated to acquired above market lease costs and acquired below market lease costs are amortized on a straight line basis over the life of the related lease as an adjustment to rental income. Amortization pertaining to the above market lease

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costs of \$5,227 was applied as a reduction to rental income for the period from March 5, 2003 (inception) to December 31, 2003. Amortization pertaining to the below market lease costs of \$15,386 was applied as an increase to rental income for the period from March 5, 2003 (inception) to December 31, 2003. The table below presents the amortization during the next five years related to the acquired above market lease costs and the below market lease costs for properties owned at December 31, 2003:

| Amortization of: | 2004 | 2005 | 2006 | 2007 |
|---|-----------|-----------|-----------|----------|
| | ---- | ---- | ---- | ---- |
| Acquired above market lease costs | (431,185) | (431,185) | (429,043) | (37,016) |
| Acquired below market lease costs | 582,355 | 582,355 | 582,355 | 561,053 |
| Net rental income increase / (decrease) | 151,170 | 151,170 | 153,312 | 524,037 |
| Acquired in place lease intangibles | 963,821 | 963,821 | 963,821 | 963,821 |

The portion of the purchase price allocated to acquired in-place lease intangibles are amortized on a straight line basis over the life of the related lease. We incurred amortization expense pertaining to acquired in-place lease intangibles of \$51,773 for the period from March 5, 2003 (inception) to December 31, 2003.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

December 31, 2003

Rental income is recognized on a straight-line basis over the term of each lease. The difference between rental income earned on a straight-line basis and the cash rent due under the provisions of the lease agreements is recorded as deferred rent receivable and is included as a component of accounts and rents receivable in the accompanying consolidated balance sheets.

The carrying amount of the Company's debt approximates fair value. The carrying amount of the Company's other financial instruments approximate fair value because of the relatively short maturity of these instruments.

Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" ("SAB 101"), determined that a lessor should defer recognition of contingent rental income (i.e. percentage/excess rent) until the specified target (i.e. breakpoint) that triggers the contingent rental income is achieved. The Company

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records percentage rental revenue in accordance with the SAB 101.

(3) Transactions with Affiliates

The Advisor contributed \$200,000 to the capital of the Company for which it received 20,000 shares of common stock.

As of December 31, 2003, the Company had incurred \$22,144,814 of offering costs. Pursuant to the terms of the offering, the Advisor has guaranteed payment of all public offering expenses (excluding sales commissions and the marketing contribution and the due diligence expense allowance) in excess of 5.5% of the gross proceeds of the offering or all organization and offering expenses (including selling commissions) which together exceed 15% of gross proceeds. As of December 31, 2003, offering costs did not exceed the 5.5% and 15% limitations. The Company anticipates that these costs will not exceed these limitations upon completion of the offering.

Certain compensation and fees payable to the Advisor for services to be provided to the Company are limited to maximum amounts.

Nonsubordinated payments:

Offering stage:

Selling commissions 7.5% of the sale price for each share

Marketing contribution and due diligence allowance 3.0% of the gross offering proceeds

Reimbursable expenses and other expenses of issuance We will reimburse our sponsor for actual costs incurred on our behalf, in connection with the offering

Acquisition stage:

Acquisition expenses We will reimburse an affiliate of our Advisor for costs incurred on our behalf, in connection with the acquisition of

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

December 31, 2003

Operational stage:

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| | |
|--|--|
| Property management fee THIS FEE TERMINATES UPON A BUSINESS COMBINATION WITH THE PROPERTY MANAGEMENT COMPANY. | 4.5% of the gross income from the properties. (cannot exceed 90% of the fee which would be payable an unrelated third party) |
|--|--|

| | |
|--------------------|--|
| Loan servicing fee | .03% of the total principal amount of the loans being For each full year, up to the first \$100 million and percentage on a sliding scale thereafter |
|--------------------|--|

| | |
|-------------------------------|---|
| Other property level services | Compensation for these services will not exceed 90% would be paid to any third party for such services |
|-------------------------------|---|

| | |
|---|--|
| Reimbursable expenses relating to administrative services | The compensation and reimbursements to our Advisor and its affiliates will be approved by a majority of our |
|---|--|

Liquidation stage:

| | |
|--|--|
| Property disposition fee THIS FEE TERMINATES UPON A BUSINESS COMBINATION WITH THE ADVISOR | Lesser of 3% of sales price or 50% of the customary commission which would be paid to a third party |
|--|--|

Subordinated payments:

Operational stage:

| | |
|--|---|
| Advisor asset management fee THIS FEE TERMINATES UPON A BUSINESS COMBINATION WITH THE ADVISOR | Not more than 1% per annum of our average assets; Subordinated to a non-cumulative, non-compounded return equal to 6% per annum |
|--|---|

Liquidation stage:

| | |
|--|--|
| Incentive advisory fee THIS FEE TERMINATES UPON A BUSINESS COMBINATION WITH THE ADVISOR | After the stockholders have first received a 10% cumulative non-compounded return per year and a return of their an incentive advisory fee equal to 15% on net proceeds from the sale of a property will be paid to the Advisor |
|--|--|

On October 31, 2003, the Company acquired an existing shopping center known as The Shops at Park Place through the purchase of all of the membership interests of the general partner and the membership interests of the limited partner of the limited partnership holding title to this property. The center contains approximately 116,300 gross leasable square feet and is located in Plano, Texas. An affiliate of our Advisor, Inland Park Place Limited Partnership, acquired this property on September 30, 2003 from CDG Park Place LLC, an unaffiliated third party for \$23,868,000. Inland Park Place Limited Partnership agreed to sell this property to the Company when sufficient funds from the sale of shares to acquire

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

December 31, 2003

this property were raised. Inland Park Place Limited Partnership agreed to sell this property to the Company for the price the affiliate paid to the unaffiliated third party, plus any actual costs incurred. The Company's board of directors unanimously approved acquiring this property, including a unanimous vote of the independent directors. The total acquisition cost to the Company was \$24,000,000, which included \$132,000 of costs incurred by the affiliate.

The Advisor and its affiliates are entitled to reimbursement for salaries and expenses of employees of the Advisor and its affiliates relating to the offering. In addition, an affiliate of the Advisor is entitled to receive selling commissions, and the marketing contribution and due diligence expense allowance from the Company in connection with the offering. Such costs are offset against the Stockholders' equity accounts. Such costs totaled \$16,859,779 for the period from March 5, 2003 (inception) to December 31, 2003, of which \$1,369,366 was unpaid at December 31, 2003.

The Advisor and its affiliates are entitled to reimbursement for general and administrative costs of the Advisor and its affiliates relating to our administration. Such costs are included in general and administrative expenses to affiliates, professional services to affiliates, and acquisition cost expenses to affiliates, in addition to costs that were capitalized pertaining to property acquisitions. During the period from March 5, 2003 (inception) to December 31, 2003, the Company incurred \$194,017 of these costs, of which \$40,703 remained unpaid as of December 31, 2003.

An affiliate of the Advisor provides loan servicing to the Company for an annual fee. The agreement allows for annual fees totaling .05% of the first \$100,000,000 in mortgage balance outstanding and .03% of the remaining mortgage balance, payable monthly. Such fees totaled \$328 in the period from March 5, 2003 (inception) to December 31, 2003.

The Company used the services of an affiliate of the Advisor to facilitate the mortgage financing that the Company obtained on some of the properties purchased. Such costs are capitalized as loan fees and amortized over the respective loan term. During the period from March 5, 2003 (inception) to December 31, 2003, the Company paid loan fees totaling \$59,523 to this affiliate.

The property managers, entities owned principally by individuals who are affiliates of the Advisor, are entitled to receive property management fees totaling 4.5% of gross operating income, for management and leasing services. The Company incurred and paid property management fees of \$16,627 for the period from March 5, 2003 (inception) to December 31, 2003. None remained unpaid as of December 31, 2003.

The Company established a discount stock purchase policy for affiliates of the Company and the Advisor that enables the affiliates to purchase shares of common stock at a discount at either \$8.95 or \$9.50 per share depending when the shares are purchased. The Company sold 59,497 shares to affiliates and recognized an expense related to these discounts of \$62,472 for the period from March 5, 2003 (inception) to December 31, 2003.

As of December 31, 2003 the Company was due funds from affiliates in the amount of \$918,750 which is comprised of \$73,750 due from an affiliate for costs paid on their behalf by the Company and \$845,000 which is due from the sponsor for reimbursement of December distributions paid in January by the Company. The

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sponsor has agreed to advance funds to the Company for distributions paid to our shareholders until funds from operations are adequate to cover the distributions. As of December 31, 2003 the Company owed funds to the sponsor in the amount of \$1,202,517 for repayment of these funds.

As of December 31, 2003 the Company owed funds to an affiliate in the amount of \$2,154,158 for the reimbursement of costs paid by the affiliate on behalf of the Company.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC. (A Maryland Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2003

(3) Stock Option Plan

The Company has adopted an Independent Director Stock Option Plan which, subject to certain conditions, provides for the grant to each independent director of an option to acquire 3,000 shares following their becoming a director and for the grant of additional options to acquire 500 shares on the date of each annual stockholders' meeting. The options for the initial 3,000 shares are exercisable as follows: 1,000 shares on the date of grant and 1,000 shares on each of the first and second anniversaries of the date of grant. The subsequent options will be exercisable on the second anniversary of the date of grant. The initial options will be exercisable at \$8.95 per share. The subsequent options will be exercisable at the fair market value of a share on the last business day preceding the annual meeting of stockholders. As of December 31, 2003, we have issued 3,000 options to acquire shares to each of our independent directors, for a total of 15,000 options, of which none have been exercised or expired.

The per share weighted average fair value of options granted was \$0.60 on the date of the grant using the Black Scholes option-pricing model with the following assumptions: expected dividend yield of 8%, risk free interest rate of 2.0%, expected life of five years and expected volatility rate of 18.0%. The Company has recorded \$3,000 as expense for the 5,000 options (1,000 options per director) vesting upon the date of grant as of December 31, 2003 and will record the remaining \$6,000 in expense ratably over the remaining two-year vesting period.

(4) New Accounting Pronouncements

In January 2003, FASB ISSUED INTERPRETATION 46, Consolidation of Variable Interest Entities or Interpretation 46, which addresses the consolidation of certain entities in which a company has a controlling financial interest through means other than voting rights. This interpretation was revised in December 2003. For calendar year companies, Interpretation 46 contains an effective date of December 31, 2003 for special purpose entities and periods ending after March 15, 2004 for all other entities. The Company does not own interests in special purpose entities and management does not believe that the adoption of Interpretation 46 will have a material impact on the Company's financial statements.

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On May 15, 2003, the Financial Accounting Standards Board issued Statement No. 150, ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY. The Statement requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer. Generally, the Statement is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the provisions of the Statement on July 1, 2003.

The Company did not enter into any financial instruments within the scope of the Statement during the period from March 5, 2003 (inception) to December 31, 2003. To the extent stockholders request shares to be repurchased by the Company under the Share Repurchase Program, the Company's obligation to repurchase such shares will be classified as a liability at the redemption amount at the date documentation is complete and accepted by the Company in accordance with the plan documents.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

December 31, 2003

(5) Leases

Minimum lease payments to be received in the future under operating leases, assuming no expiring leases are renewed, are as follows:

| | Minimum Lease Payments |
|------------|---------------------------|
| | ----- |
| 2004 | \$ 10,053,640 |
| 2005 | 9,758,805 |
| 2006 | 9,684,354 |
| 2007 | 9,273,557 |
| 2008 | 9,033,324 |
| Thereafter | 78,836,462 |
| | ----- |
| Total | \$ 126,640,142 |
| | ===== |

The remaining lease terms range from one year to 56 years. Pursuant to the lease agreements, tenants of the property are required to reimburse the Company for some or all of their pro rata share of the real estate taxes, operating expenses and management fees of the properties. Such amounts are included in additional

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rental income.

(6) Note Receivable

The note receivable balance of \$7,552,155 as of December 31 2003 consists of an installment note from Fourth Quarter Properties XIV, LLC (Fourth) that matures on January 15, 2004. This installment note is secured by a 49% interest in Fourth, which owns the remaining portion of the Newnan Crossing shopping center and is also guaranteed personally by the owner of Fourth. Interest only at a rate of 7.6192% per annum is due on the note.

The installment note was advanced to Fourth in contemplation of the Company purchasing the remaining portions of Newnan Crossing. The Company did not call the note on January 15, 2004 and subsequently purchased the property on February 13, 2004 at which time the note was paid in full by Fourth.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

December 31, 2003

(7) Mortgages Payable

Mortgages payable consist of the following at December 31, 2003:

| FIXED RATE MORTGAGES PAYABLE | INTEREST RATE AT | MATURITY DATE | BALANCE AT DECEMBER 31, 2003 |
|------------------------------------|---------------------|------------------|------------------------------------|
| ----- | | | |
| Property as collateral: | | | |
| Darien Commons | 4.65% | 06/01/10 | \$ 16,500,000 |
| Park Place | 4.71% | 11/01/08 | 13,127,000 |
| | | | ----- |
| Total Fixed Rate Mortgages Payable | | | \$ 29,627,000 ===== |

The following table shows the mortgage debt maturing during the next five years as of December 31, 2003.

| | | |
|------|----|---|
| 2004 | \$ | - |
| 2005 | | - |
| 2006 | | - |
| 2007 | | - |

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| | |
|------------|---------------|
| 2008 | 13,127,000 |
| Thereafter | 16,500,000 |
| | ----- |
| | \$ 29,627,000 |
| | ===== |

All of the Company's mortgage loans require monthly payments of interest only. The fixed-rate loans may be prepaid with a penalty after specific lockout periods.

On February 9, 2004, the Company entered into a rate lock agreement with Bear Stearns and paid a rate lock deposit of \$1,200,000 to lock the interest rate at 4.372% for a period of 90 days on \$60,000,000. The rate lock was entered into to secure the interest rate on mortgage debt to be identified as debt is placed on properties the Company currently owns or will acquire in the future.

(8) Line of Credit

On December 24, 2003, the Company entered into a \$150,000,000 unsecured line of credit arrangement with KeyBank N.A. for a period of one year. The funds from this line of credit will be used to provide liquidity from the time a property is purchased until permanent debt is placed on the property. The Company is required to pay interest only on the outstanding balance from time to time under the line at the rate equal to LIBOR plus 175 basis points. The Company is also required to pay, on a quarterly basis, an amount ranging from .15% to .30%, per annum, on the average daily undrawn funds remaining under this line. The line of credit requires compliance with certain covenants, such as debt service ratios, minimum net worth requirements, distribution limitations and investment restrictions. As of December 31, 2003, the Company was in compliance with such covenants. In connection with obtaining this line of credit, the Company paid fees in an amount totaling approximately \$1,044,000 (which includes a .65% commitment fee). The outstanding balance on the line of credit was \$5,000,000 as of December 31, 2003 with an effective interest rate of 2.9375% per annum.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

December 31, 2003

(9) Segment Reporting

The Company owns and seeks to acquire multi-tenant shopping centers primarily in the western United States. All of the Company's shopping centers are currently located in Connecticut, Georgia, Illinois, Indiana, North Carolina, Oklahoma, and Texas. The Company's shopping centers are typically anchored by grocery and drugstores complemented with additional stores providing a wide range of other goods and services to shoppers.

The Company assesses and measures operating results on an individual property

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basis for each of its properties based on net property operations. Since all of the Company's properties exhibit highly similar economic characteristics, cater to the day-to-day living needs of their respective surrounding communities, and offer similar degrees of risk and opportunities for growth, the properties have been aggregated and reported as one operating segment.

Net property operations are summarized in the following table for the period from March 5, 2003 (inception) to December 31, 2003, and a reconciliation to net loss.

| | | |
|--|----|-----------|
| Property rental and additional rental income | \$ | 744,633 |
| Total property operating expenses | | (143,244) |
| Mortgage interest | | (132,471) |
| | | ----- |
| Net property operations | | 468,918 |
| | | ----- |
| Interest income | | 37,648 |
| Less non-property expenses: | | |
| Professional services | | (88,058) |
| General and administrative expenses | | (235,419) |
| Acquisition cost expenses | | (139,263) |
| Depreciation and amortization | | (217,105) |
| | | ----- |
| Net loss | \$ | (173,279) |
| | | ----- |

The following table summarizes property asset information as of December 31, 2003.

| | | |
|--------------------|----|-------------|
| Total assets: | | |
| Shopping centers | \$ | 142,804,128 |
| Non-segment assets | | 69,298,035 |
| | | ----- |
| | \$ | 212,102,163 |
| | | ----- |

The Company does not derive any of its consolidated revenue from foreign countries and does not have any major customer that individually accounts for 10% or more of the Company's consolidated revenues.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

December 31, 2003

(10) Earnings (loss) per Share

Basic and diluted earnings (loss) per share ("EPS") is computed by dividing income by the weighted average number of common shares outstanding for the period (the "common shares"). As a result of the net loss incurred in 2003, diluted weighted average shares outstanding do not give effect to common stock equivalents as to do so would be anti-dilutive.

The basic and diluted weighted average number of common shares outstanding were 2,520,986 for the period from March 5, 2003 (inception) to December 31, 2003.

(11) Commitments and Contingencies

On December 10, 2003, in connection with the purchase of Stony Creek Market Place, the Company entered into an earnout agreement with the seller of the property. The earnout agreement stipulates that the seller shall retain the right, for a 48 month period after the date of purchase, to purchase the development and leasing rights to a vacant 50,000 square foot pad site included in the purchase of the property. If the seller develops and leases the pad site within the 48 month period, the Company is required to purchase the seller's interest in the leases based on an agreed upon base rent divider stipulated in the purchase and sale agreement. If the base rent divider should fall above or below certain limits, then the seller and purchaser have certain rights to terminate this agreement.

On December 31, 2003, in connection with the purchase of Pavilion at King's Grant, the purchase and sale contract stipulates that if anytime during the period from January 1, 2004 through December 31, 2007 the tenant, Toys R Us located in the shopping center, should increase their base rent up to a maximum amount of \$250,000 and no decrease occurs in their requirement to pay for a certain percentage of expenses at the property, then the Company would be obligated to pay the seller additional funds related to the purchase based on an income capitalization formula stipulated in the purchase and sale agreement. After December 31, 2007 the Company is no longer obligated to pay the seller additional funds.

As part of the purchase and sale agreement for Newnan Crossing, the Company is obligated to purchase the remaining portion of the shopping center that is currently under construction (approximately 28,000 square feet to be occupied by Linen's N Things) after construction is complete and the tenant has moved in and is paying rent. The purchase price for this portion of the center will be based on and income capitalization formula.

(12) Subsequent Events

The Company issued 12,698,273 shares of common stock from January 1, 2004 through February 13, 2004 in connection with the offering, resulting in gross proceeds of \$126,917,854.

The Company is currently considering acquiring seven properties for an estimated purchase price of \$167,000,000. Our decision to acquire each property will generally depend upon no material adverse change occurring relating to the property, the tenants or in the local economic conditions and our receipt of satisfactory due diligence information including appraisals, environmental reports and lease an information prior to purchasing the property.

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The Company has signed an application for an addition of \$75,000,000 to the line of credit with Key Bank. Fundings under the line of credit will require interest only payments based on the provisions of the existing line of credit with Key Bank. As of February 13, 2004, the Company's outstanding balance owed on the line of credit is \$70,000,000.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

Notes to Consolidated Financial Statements
(continued)

December 31, 2003

The Company has acquired the following properties during the period January 1 to February 13, 2004. The respective acquisitions are summarized in the table below.

| DATE ACQUIRED ----- | PROPERTY ----- | YEAR BUILT ----- | APPROXIMATE PURCHASE PRICE (\$) ----- | GROSS LEASABLE AREA (SQ. FT.) ----- | MAJOR TENANTS ----- |
|---------------------------|--|------------------------|--|--|--|
| 01/06/04 | CorWest Plaza New Britain, CT | 2000/ 2001 | 33,000,000 | 115,011 | Stop & Shop CVS Pharmacy Liquor Depot |
| 01/09/04 | Hickory Ridge Hickory, NC | 1999 | 41,900,000 | 310,360 | Best Buy Kohl's Marshall's Linens N Things Old Navy Party City Shoe Carnival A.C. Moore |
| 01/14/04 | Larkspur Landing Larkspur, CA | 1978/ 2001 | 61,100,000 | 173,814 | Bed Bath & Beyond 24 Hour Fitness |
| 01/15/04 | North Ranch Pavilions Thousand Oaks, CA | 1992 | 18,468,000 | 62,812 | Bank of America |
| 01/20/04 | Metro Square Center Severn, MD | 1999 | 11,031,000 | 61,817 | Shoppers Food Warehouse |
| 01/21/04 | La Plaza Del Norte San Antonio, TX | 1996/ 1999 | 59,100,000 | 320,362 | Best Buy Bealls Ross Stores Office Max Oshman's Superst Cost Plus DSW Shoe Warehou |

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| | | | | | |
|----------|--|---------------|------------|---------|---|
| | | | | | David's Bridal Petco |
| 02/05/04 | MacArthur Crossing Los Colinas, TX | 1995/ 1996 | 23,100,000 | 110,975 | Stein Mart |
| 02/13/04 | Promenade at Red Cliff St. George, UT | 1999/ 1998 | 19,618,000 | 94,936 | Old Navy Staples Big 5 Sporting G |
| 02/13/04 | Newnan Crossing, Phase II Newnan, GA | 1997 | 22,362,000 | 153,798 | TJ Maxx Office Depot Old Navy Michaels Party City |

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

Notes to Consolidated Financial Statements
(continued)

December 31, 2003

The mortgage debt and financings obtained subsequent to December 31, 2003, are detailed in the list below.

| DATE FUNDED | MORTGAGE PAYABLE | ANNUAL INTEREST RATE | MATURITY DATE | PRINCIPAL BORROWED (\$) |
|-------------|---|----------------------|---------------|-------------------------|
| 2/04/04 | La Plaza Del Norte San Antonio, TX | 4.61% | 03/01/10 | 32,528,000 |
| 1/30/04 | Larkspur Landing Larkspur, CA | 4.45% | 02/01/09 | 33,630,000 |
| 1/28/04 | Shaw's - New Britain (A) New Britain, CT | 4.684% | 11/01/33 | 6,450,000 |
| 1/21/04 | Hickory Ridge Hickory, NC | 4.531% | 02/01/09 | 23,650,000 |
| 1/07/04 | Cor West Plaza New Britain, CT | 4.56% | 02/01/09 | 18,150,000 |
| 1/05/04 | Stony Creek Marketplace Noblesville, IN | 4.77% | 01/01/11 | 14,162,000 |

(A) In connection with the financing of Shaw's - New Britain on January 28,

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2004, the Park Place mortgage debt was modified to be cross-collateralized with the Shaw's - New Britain mortgage debt. All other terms of the Park Place debt generally remained the same.

(13) Supplemental Financial Information (unaudited)

The following represents the results of operations, for the each quarterly period, during 2003.

| | Dec. 31 | Sept. 30 | 2003 June 30 |
|---|------------|----------|-----------------|
| Total income | \$ 782,281 | - | - |
| Net loss | (123,235) | (32,794) | (9,750) |
| Net loss, per common share, basic and diluted: | (.01) | (1.64) | (.49) |
| Weighted average number of common shares outstanding, basic and diluted | 8,319,975 | 20,000 | 20,000 |

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC. (A MARYLAND CORPORATION)

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

DECEMBER 31, 2003

| | Encumbrance | Initial Costs (A) Land | Buildings and Improvements | Gross amount at which Adjustments to Basis |
|-------------------------------|-------------|---------------------------|----------------------------------|---|
| Darien Commons | 16,500,000 | 7,000,000 | 22,468,408 | - |
| Eckerd Drug Store - Edmund | - | 975,000 | 2,400,249 | - |
| Eckerd Drug Store - Norman | - | 932,000 | 4,369,730 | - |
| Newnan Crossing | - | 4,542,244 | 12,188,579 | - |
| Park Place | 13,127,000 | 9,096,000 | 13,174,867 | - |
| Pavilion at King's | | | | |

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| | | | | |
|--------------------------|---------------|---------------|---------------|------|
| Grant | - | 4,300,000 | 2,741,212 | - |
| Shaw's Supermarket | - | 2,700,000 | 11,532,191 | - |
| Stony Creek Market Place | - | 6,735,000 | 17,564,434 | - |
| ----- | | | | |
| Total: | \$ 29,627,000 | \$ 36,280,244 | \$ 86,439,670 | - \$ |
| ===== | | | | |

| | Total (C) | Accumulated Depreciation (D) | Date Constructed | Date Acquired |
|-------------------------------|----------------|------------------------------------|---------------------|------------------|
| | ----- | ----- | ----- | ----- |
| Darien Commons | 29,468,408 | 56,280 | 1994 | 12/03 |
| Eckerd Drug Store - Edmund | 3,375,249 | - | 2003 | 12/03 |
| Eckerd Drug Store - Norman | 5,301,730 | - | 2003 | 12/03 |
| Newnan Crossing | 16,730,823 | 84,217 | 1999 | 12/03 |
| Park Place | 22,270,867 | - | 2001 | 10/03 |
| Pavilion at King's Grant | 7,041,212 | - | 2002/2003 | 12/03 |
| Shaw's Supermarket | 14,232,191 | - | 1995 | 12/03 |
| Stony Creek Market Place | 24,299,434 | - | 2003 | 12/03 |
| ----- | | | | |
| Total: | \$ 122,719,914 | \$ 140,497 | | |
| ===== | | | | |

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
(A Maryland Corporation)

Schedule III (continued)
Real Estate and Accumulated Depreciation

December 31, 2003

Notes:

(A) The initial cost to the Company represents the original purchase price of the property, including amounts incurred subsequent to acquisition which were contemplated at the time the property was acquired.

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(B) The aggregate cost of real estate owned at December 31, 2003 for Federal income tax purposes was approximately \$127,195,000 (unaudited).

(C) Reconciliation of real estate owned:

| | | |
|---|----|-------------|
| Balance at March 5, 2003 (inception) | \$ | - |
| Purchases of property | | 127,195,469 |
| Acquired in-place lease intangibles | | (8,805,681) |
| Acquired above market lease intangibles | | (1,595,673) |
| Acquired below below market lease intangibles | | 5,925,799 |
| | | ----- |
| Balance at December 31, 2003 | \$ | 122,719,914 |
| | | ===== |

(D) Reconciliation of accumulated depreciation:

| | | |
|--------------------------------------|----|---------|
| Balance at March 5, 2003 (inception) | \$ | - |
| Depreciation expense | | 140,497 |
| | | ----- |
| Balance at December 31, 2003 | \$ | 140,497 |
| | | ===== |

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Inland Western Retail Real Estate Trust, Inc.
 Pro Forma Consolidated Balance Sheet
 December 31, 2003
 (unaudited)

The following unaudited Pro Forma Consolidated Balance Sheet is presented as if the acquisitions of the properties indicated in Note B had occurred on December 31, 2003.

This unaudited Pro Forma Consolidated Balance Sheet is not necessarily indicative of what the actual financial position would have been at December 31, 2003, nor does it purport to represent our future financial position. No pro forma adjustments have been made for any potential property acquisitions identified as of March 12, 2004. The Company does not consider these properties as probable under Regulation 3-14 as the Company has not completed the due diligence process on these properties. Additionally, the Company has not received sufficient offering proceeds or obtained firm financing commitments to acquire all of these properties as of March 12, 2004. The Company believes it will have sufficient cash from offering proceeds raised and from additional financing proceeds to acquire these properties if and when the Company is prepared to acquire these properties.

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Inland Western Retail Real Estate Trust, Inc.
 Pro Forma Consolidated Balance Sheet
 December 31, 2003
 (unaudited)

| | Historical (A) | Pro Forma Adjustments |
|--|-----------------------|--------------------------|
| ASSETS | | |
| Net investment properties (B) | \$ 122,579,417 | 359,971,3 |
| Acquired intangibles (B) (D) | 10,344,354 | 32,286,9 |
| Cash and cash equivalents | 64,381,134 | (4,200,0 |
| Accounts and rents receivable | 1,147,551 | |
| Due from affiliates | 918,750 | |
| Note receivable | 7,552,155 | (7,552,1 |
| Other assets | 3,744,642 | (800,0 |
| Loan fees | 1,434,160 | |
| Total assets | \$ 212,102,163 | 379,706,0 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable | 505,448 | |
| Accrued offering costs to affiliates | 1,369,366 | |
| Due to affiliates | 2,154,158 | |
| Accrued real estate taxes | 1,392,069 | |
| Distributions payable | 927,539 | |
| Mortgage payable (B) (E) | 29,627,000 | 180,767,0 |
| Line of credit | 5,000,000 | |
| Acquired intangibles (B) (D) | 5,910,413 | 5,735,2 |
| Advances from advisor | 1,202,519 | |
| Security deposits | 108,189 | |
| Prepaid rental and recovery income | 104,756 | |
| Other liabilities | 71,927 | |
| Total liabilities | 48,373,384 | 186,502,2 |
| Common stock (C) | 18,737 | 21,9 |
| Additional paid-in capital (net of offering costs) (C) | 165,168,650 | 193,181,8 |
| Accumulated distributions in excess of net loss | (1,458,608) | |
| Total stockholders' equity | 163,728,779 | 193,203,8 |
| Total liabilities and stockholders' equity | \$ 212,102,163 | 379,706,0 |

See accompanying notes to pro forma consolidated balance sheet.

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Inland Western Retail Real Estate Trust, Inc.
 Notes to Pro Forma Consolidated Balance Sheet
 December 31, 2003
 (unaudited)

- (A) The historical column represents our Consolidated Balance Sheet as of December 31, 2003 as filed with the Securities Exchange Commission on Form 10-K. As of December 31, 2003, the Company had sold 18,698,092 shares to the public and 19,049 shares were issued pursuant to the Company's distribution reinvestment program. As a result, the Company received \$187,127,250 of gross offering proceeds. In addition, the Company received the Advisor's capital contribution of \$200,000 for which the Advisor was issued 20,000 shares.
- (B) The pro forma adjustments reflect the acquisition of the following properties. The mortgages payable represent mortgages obtained from a third party subsequent to acquisition. No pro forma adjustment has been made for prorations or other closing costs as the amounts are not significant:

| | Acquisition Price | Mortgage Payable |
|--------------------------|----------------------|---------------------|
| | ----- | |
| Hickory Ridge | \$ 41,900,000 | 23,650,000 |
| CorWest Plaza | 33,000,000 | 18,150,000 |
| Metro Square Center | 11,031,000 | - |
| Larkspur Landing | 61,147,000 | 33,630,000 |
| North Ranch Pavilion | 18,468,000 | 10,157,000 |
| La Plaza del Norte | 59,143,000 | 32,528,000 |
| MacArthur Crossing | 23,102,000 | - |
| Newnan Crossing Phase II | 22,362,000 | - |
| Promenade at Red Cliff | 19,636,000 | - |
| Peoria Crossings | 37,328,000 | 20,497,000 |
| Dorman Centre | 43,118,000 | - |
| Heritage Towne Crossing | 16,288,000 | - |
| | ----- | |
| Total | \$ 386,523,000 | 138,612,000 |
| | ===== | |

Allocation of net investments in properties:

| | |
|-------------------------------------|----------------|
| Land | \$ 105,523,512 |
| Building and improvements | 254,447,799 |
| Acquired in-place lease intangibles | 25,200,000 |

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| | |
|---|----------------|
| Acquired above market lease intangibles | 7,086,926 |
| Acquired below market lease intangibles | (5,735,237) |
| | ----- |
| Total | \$ 386,523,000 |
| | ===== |

(C) Additional offering proceeds of \$219,550,000, net of additional offering costs of \$26,346,155 are reflected as received as of December 31, 2003, prior to the purchase of the properties and are limited to offering proceeds necessary to acquire the properties and offering proceeds actually received as of March 12, 2004. Offering costs consist principally of registration costs, printing and selling costs, including commissions.

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Inland Western Retail Real Estate Trust, Inc.
Notes to Pro Forma Consolidated Balance Sheet
December 31, 2003
(unaudited)

- (D) Acquired intangibles represent above and below market leases and the difference between the property valued with the existing in-place leases and the property valued as if vacant. The value of the acquired leases will be amortized over the lease term.
- (E) Additional mortgages payable of \$180,767,000, reflected as funded as of December 31, 2003, includes \$138,612,000 of mortgages payable obtained subsequent to the acquisition of the properties described in (B) and \$42,155,000 of new financing placed on previously acquired properties.
- (F) No pro forma assumptions have been made for the additional payment of distributions resulting from the additional proceeds raised.

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Inland Western Retail Real Estate Trust, Inc.
Pro Forma Consolidated Statement of Operations
For the year ended December 31, 2003
(unaudited)

The following unaudited Pro Forma Consolidated Statement of Operations is presented to give effect the acquisition of the properties indicated in Note B of the Notes to the Pro Forma Consolidated Statement of Operations as though they occurred on January 1, 2003 or the date significant operations commenced. No pro forma adjustments have been made for any potential property acquisitions identified as of March 12, 2004. The Company does not consider these properties as probable under Regulation 3-14 as the Company has not completed the due diligence process on these properties. Additionally, the Company has not

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received sufficient offering proceeds or obtained firm financing commitments to acquire all of these properties as of March 12, 2004. The Company believes it will have sufficient cash from offering proceeds raised and from additional financing proceeds to acquire these properties if and when the Company is prepared to acquire these properties. No pro forma adjustments were made for the Eckerds-Edmond or the Eckerds-Norman, as the properties were completed in 2003 and there were no significant operations prior to our acquisition.

This unaudited Pro Forma Consolidated Statement of Operations is not necessarily indicative of what the actual results of operations would have been for the year ended December 31, 2003, nor does it purport to represent our future results of operations.

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Inland Western Retail Real Estate Trust, Inc.
Pro Forma Consolidated Statement of Operations
For the year ended December 31, 2003 (unaudited)

| | Historical (A) | Pro Forma Adjustments (B) | Pro For Adjustme (C) |
|---|-------------------|---------------------------------|----------------------------|
| | | | |
| Rental income | \$ 606,645 | 31,551,124 | 4,52 |
| Additional rent | 137,988 | 7,417,969 | 1,48 |
| Interest income | 37,648 | - | |
| | | | |
| Total income | 782,281 | 38,969,093 | 6,00 |
| | | | |
| General and administrative expenses | 315,263 | - | |
| Advisor asset management fee (D) | - | - | |
| Property operating expenses | 126,617 | 8,548,616 | 1,66 |
| Management fee (G) | 16,627 | 1,762,894 | 29 |
| Interest expense (I) | 135,735 | 7,397,795 | 1,92 |
| Depreciation (E) | 140,497 | 11,211,549 | 1,81 |
| Amortization (H) | 81,558 | 3,462,543 | 73 |
| Acquisition costs | 139,263 | - | |
| | | | |
| Total expenses | 955,560 | 32,383,397 | 6,43 |
| | | | |
| Net income (loss) | \$ (173,279) | 6,585,696 | (42 |
| | | | |
| Weighted average number of shares of common stock outstanding, basic and diluted (F) | 2,520,986 | | |
| | | | |
| Net income (loss) per share, basic and diluted (F) | (.07) | | |
| | | | |

See accompanying notes to pro forma consolidated statement of operations.

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Inland Western Retail Real Estate Trust, Inc.
Notes to Pro Forma Consolidated Statement of Operations
For the year ended December 31, 2003
(unaudited)

- (A) The historical information represents the historical statement of operations of the Company for the period from March 5, 2003 (inception) to December 31, 2003 as filed with the Securities Exchange Commission on Form 10-K.
- (B) Total pro forma adjustments for acquisitions consummated as of March 12, 2004 are as though the properties were acquired January 1, 2003.

| | Gross Income & Direct Operating Expenses (1) | Pro Forma Adjustments | Total Pro Forma Adjustments |
|------------------------------|---|--------------------------|-----------------------------------|
| Rental income | \$ 31,623,809 | (72,685) | 31,551,124 |
| Additional rental income | 7,417,969 | - | 7,417,969 |
| Total income | 39,041,778 | (72,685) | 38,969,093 |
| Advisor asset management fee | - | - | - |
| Property operating expenses | 8,548,616 | - | 8,548,616 |
| Management fees | - | 1,762,894 | 1,762,894 |
| Interest expense | - | 7,397,795 | 7,397,795 |
| Depreciation | - | 11,211,549 | 11,211,549 |
| Amortization | - | 3,462,543 | 3,462,543 |
| Total expenses | 8,548,616 | 23,834,781 | 32,383,397 |
| Net income (loss) | \$ 30,493,162 | (23,907,466) | 6,585,696 |

- (1) Audited combined gross income and direct operating expenses as prepared in accordance with Rule 3-14 of Regulation S-X for the following properties:

Newnan Crossing Phase I and II, Pavilion at Kings Grant, Hickory Ridge, CorWest Plaza, Metro Square (Super Value) Center, Larkspur Landing, North Ranch Pavilion, La Plaza Del Norte, MacArthur Crossing, Promenade at Red Cliff, Peoria Crossings, Dorman Center and Heritage Towne Crossing

Inland Western Retail Real Estate Trust, Inc.
Notes to Pro Forma Consolidated Statement of Operations
For the year ended December 31, 2003
(unaudited)

- (C) Total pro forma adjustments for acquisitions consummated as of March 12, 2004 are as though the properties were acquired January 1, 2003. No adjustment was made for Eckerdts-Edmond or Eckerdts-Norman as the properties were completed in 2003 and there were no significant operations prior to our acquisition.

| | Gross Income & Direct Operating Expenses (1) | Pro Forma Adjustments | Total Pro Forma Adjustments |
|------------------------------|---|--------------------------|-----------------------------------|
| Rental income | \$ 4,967,738 | (438,241) | 4,529,497 |
| Additional rental income | 1,480,187 | - | 1,480,187 |
| Total income | 6,447,925 | (438,241) | 6,009,684 |
| Advisor asset management fee | - | - | - |
| Property operating expenses | 1,665,613 | - | 1,665,613 |
| Management fees | - | 290,562 | 290,562 |
| Interest expense | - | 1,925,324 | 1,925,324 |
| Depreciation | - | 1,814,712 | 1,814,712 |
| Amortization | - | 739,290 | 739,290 |
| Total expenses | 1,665,613 | 4,769,888 | 6,435,501 |
| Net income (loss) | \$ 4,782,312 | (5,208,129) | (425,817) |

- (1) Unaudited combined gross income and direct operating expenses based on information provided by the Seller for the following properties:

Shops at Park Place, Stony Creek Marketplace, Darien Towne Center, Shaw's Supermarket (New Britain).

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Inland Western Retail Real Estate Trust, Inc.
 Notes to Pro Forma Consolidated Statement of Operations
 For the year ended December 31, 2003
 (unaudited)

- (D) The advisor asset management fee is expected to be subordinated to the shareholders' receipt of a stated return thus no amount is reflected.
- (E) Buildings and improvements will be depreciated on a straight line basis based upon estimated useful lives of 30 years for building and improvements and 15 years for site improvements. That portion of the purchase price that is allocated to above or below lease intangibles will be amortized on a straight line basis over the life of the related leases as an adjustment to rental income. Other leasing costs, tenant improvements and in-place lease intangibles will be amortized on a straight line basis over the life of the related leases as a component of amortization expense.
- (F) The pro forma weighted average shares of common stock outstanding for the year ended December 31, 2003 was calculated using the additional shares sold to purchase each of the properties on a weighted average basis plus the 20,000 shares purchased by the Advisor in connection with our organization.
- (G) Management fees are calculated as 4.5% of gross revenues pursuant to the management agreement.
- (H) The value of the acquired leases will be amortized over the lease term.
- (I) The pro forma adjustments relating to interest expense were based on the following debt terms:

| Property | Principal Balance | Interest Rate (%) | Maturity Date |
|----------------------------------|----------------------|----------------------|------------------|
| ----- | | | |
| Stony Creek | \$ 14,162,000 | 4.770 | 01/11 |
| Shaw's Supermarket (New Britain) | 6,450,000 | 4.684 | 11/28 |
| CorWest Plaza | 18,150,000 | 4.560 | 02/09 |
| Hickory Ridge | 23,650,000 | 4.531 | 02/09 |
| Larkspur Landing | 33,630,000 | 4.450 | 02/09 |
| La Plaza del Norte | 32,528,000 | 4.610 | 03/10 |
| Darien Towne Center | 16,500,000 | 4.650 | 06/10 |
| Shops at Park Place | 13,127,000 | 4.710 | 11/08 |
| Newnan Crossing | 21,543,000 | 4.380 | 03/09 |
| Peoria Crossings | 20,497,000 | 4.090 | 04/09 |
| North Ranch Pavilion | 10,157,000 | 4.120 | 04/09 |

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
 Inland Western Retail Real Estate Trust, Inc.

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We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of Darien Towne Center ("the Property") for the year ended December 31, 2002. This Historical Summary is the responsibility of management. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Form 8-K/A of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of Darien Towne Center for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Los Angeles, California
December 4, 2003

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DARIEN TOWNE CENTER
Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2002
(in thousands)

| | For the year ended December 31, 2002 |
|----------------------------|--|
| | ----- |
| Gross income: | |
| rental income | \$ 2,051 |
| Tenant reimbursements | 449 |
| | ----- |
| Total gross income | 2,500 |
| | ----- |
| Direct operating expenses: | |

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| | | |
|---|----|-------|
| Utilities, maintenance, and repairs | | 201 |
| Real estate taxes | | 344 |
| Insurance | | 35 |
| | | ----- |
| Total direct operating expenses | | 580 |
| | | ----- |
| Excess of gross income over direct operating expenses | \$ | 1,920 |
| | | ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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DARIEN TOWNE CENTER

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2002

(1) Business

Darien Towne Center (the Property) is a shopping center located in Darien, Illinois. The Property consists of 217,505 square feet of gross leasable area and was 95% occupied at December 31, 2002. Approximately 77% of the property's leasable area is leased to three tenants, Home Depot, Circuit City, and PetSmart. Inland Western Retail Real Estate Trust, Inc. (IWRRETI) has signed a purchase and sale agreement for the purchase of the Property from an unaffiliated third-party seller.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Form 8-K/A of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Certain leases contain renewal to options at various periods at various rental rates.

Rental income is recognized using the accrual method based on contractual amounts provided for in the lease agreements. Rental revenue is recognized on a straight-line basis over the term of the respective leases.

The following is a schedule of minimum future rental to be received on

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noncancelable operating leases as of December 31, 2002 (in thousands):

| YEAR | TOTAL |
|------------|-----------|
| 2003 | \$ 2,089 |
| 2004 | 1,938 |
| 2005 | 1,452 |
| 2006 | 1,440 |
| 2007 | 1,390 |
| Thereafter | 9,148 |
| Total | \$ 17,457 |

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DARIEN TOWNE CENTER
Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2002

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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DARIEN TOWNE CENTER
Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003 (unaudited)

| | |
|--|---|
| | For the year ended December 31, 2003 (unaudited) |
| | ----- |
| Gross income: | |
| Base rental income | \$ 2,123,487 |
| Operating expense and real estate tax recoveries | 514,801 |

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| | |
|---|--------------|
| Total gross income | 2,638,288 |
| Direct operating expenses: | |
| Property operating expenses | 628,144 |
| Total direct operating expenses | 628,144 |
| Excess of gross income over direct operating expenses | \$ 2,010,144 |

See accompanying notes to historical summary of gross income and direct operating expense.

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DARIEN TOWNE CENTER
Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003 (unaudited)

1. Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 has been prepared from the operating statements provided by the owners of the property during that period and requires management of Darien Towne Center to make estimates and assumptions that affect the amounts of the revenues and expense during that period. Actual results may differ from those estimates.

All adjustments necessary for a fair presentation have been made to the accompanying unaudited amounts for the year ended December 31, 2003.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Combined Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of the Properties Acquired from Thomas Enterprises ("the Properties") for the year ended December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

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We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Form 8-K/A of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Properties' revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of the Properties Acquired from Thomas Enterprises for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
February 24, 2004

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THE PROPERTIES ACQUIRED FROM THOMAS ENTERPRISES Combined Historical Summary of Gross Income and Direct Operating Expenses For the year ended December 31, 2003

| | For the year ended December 31, 2003 ----- |
|--|---|
| Gross income: | |
| Base rental income | \$ 2,968,855 |
| Operating expense and real estate tax recoveries | 529,344 |
| | ----- |
| Total gross income | 3,498,199 |
| | ----- |
| Direct operating expenses: | |
| Operating expenses | 372,962 |
| Real estate taxes | 217,447 |
| Insurance | 35,600 |
| | ----- |
| Total direct operating expenses | 626,009 |
| | ----- |

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Excess of gross income over direct operating expenses \$ 2,872,190
=====

See accompanying notes to historical summary of gross income and direct operating expense.

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PROPERTIES ACQUIRED FROM THOMAS ENTERPRISES
Notes to Combined Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

(1) Business

The Properties Acquired from Thomas Enterprises ("the Properties") consists of the following:

| Name | Gross Leasable Area (unaudited) | Location | Occupancy at December 31, 2003 (unaudited) |
|--------------------------|--|-------------------------|---|
| Pavilion at King's Grant | 79,909 | Concord, North Carolina | 100% |
| Newnan Crossing I and II | 288,284 | Newnan, Georgia | 100% |

Two tenants account for 41% of the Properties' base rental income.

Inland Western Retail Real Estate Trust, Inc. ("IWRRETI") acquired the Pavilion at King's Grant on December 30, 2003, Newnan Crossing on December 23, 2003 and Newnan Crossing Phase II on February 13, 2004, from Thomas Enterprises, an unaffiliated party. The Historical Summary represents the combination of the Properties described above since the Properties are all owned by Thomas Enterprises.

A portion of Pavilion at King's Grant and Newnan Crossing (representing approximately 71,000 square feet and 275,800 square feet, respectively,) of the Properties' gross leasable area was completed as of December 31, 2002. The remaining portion of the Properties' gross leasable area (representing the remaining approximately 8,000 square feet and 12,400 square feet, respectively,) was under construction and completed during 2003.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Form 8-K/A of IWRRETI and is not intended to be a complete presentation of the Properties' revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Properties to

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make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Properties lease retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Properties are reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal options at various periods at various rental rates. Recognition of contingent rental income is deferred until the target that triggers the contingent rental income is achieved. No contingent rent was earned during the year ended December 31, 2003.

The Properties have five ground leases which are classified as operating leases with terms ranging through February 2014. Total ground lease income was \$363,323 and is included in base rental income in the accompanying Historical Summary for the year ended December 31, 2003.

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PROPERTIES ACQUIRED FROM THOMAS ENTERPRISES
 Notes to Combined Historical Summary of Gross Income and Direct Operating
 Expenses
 For the year ended December 31, 2003

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exists in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$294,000 for the year ended December 31, 2003.

Minimum rents to be received from tenants under operating leases, which terms range from five to twenty years in effect at December 31, 2003, are as follows:

| YEAR | TOTAL |
|------------|---------------|
| ----- | |
| 2004 | \$ 3,537,586 |
| 2005 | 3,396,343 |
| 2006 | 3,351,239 |
| 2007 | 3,155,649 |
| 2008 | 3,124,333 |
| Thereafter | 22,863,275 |
| ----- | |
| Total | \$ 39,428,425 |
| ===== | |

(4) Direct Operating Expenses

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Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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STONY CREEK MARKETPLACE
 Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003 (unaudited)

| | For the year ended December 31, 2003 (unaudited) |
|---|---|
| | ----- |
| Gross income: | |
| Base rental income | \$ 393,702 |
| Operating expense and real estate tax recoveries | 130,140 |
| | ----- |
| Total gross income | 523,842 |
| | ----- |
| Direct operating expenses: | |
| Property operating expenses | 98,974 |
| | ----- |
| Total direct operating expenses | 98,974 |
| | ----- |
| Excess of gross income over direct operating expenses | \$ 424,868 |
| | ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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STONY CREEK MARKETPLACE
 Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003 (unaudited)

1. Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses for the

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year ended December 31, 2003 has been prepared from the operating statements provided by the owners of the property during that period and requires management of Stony Creek Marketplace to make estimates and assumptions that affect the amounts of the revenues and expense during that period. Actual results may differ from those estimates.

All adjustments necessary for a fair presentation have been made to the accompanying unaudited amounts for the year ended December 31, 2003.

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SHOPS AT PARK PLACE
 Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003 (unaudited)

| | For the year ended December 31, 2003 (unaudited) |
|---|---|
| | ----- |
| Gross income: | |
| Base rental income | \$ 1,911,675 |
| Operating expense and real estate tax recoveries | 522,437 |
| | ----- |
| Total gross income | 2,434,112 |
| | ----- |
| Direct operating expenses: | |
| Property operating expenses | 614,295 |
| | ----- |
| Total direct operating expenses | 614,295 |
| | ----- |
| Excess of gross income over direct operating expenses | \$ 1,819,817 |
| | ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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SHOPS AT PARK PLACE
 Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003 (unaudited)

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1. Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 has been prepared from the operating statements provided by the owners of the property during that period and requires management of the Shops at Park Place to make estimates and assumptions that affect the amounts of the revenues and expense during that period. Actual results may differ from those estimates.

All adjustments necessary for a fair presentation have been made to the accompanying unaudited amounts for the year ended December 31, 2003.

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SHAW'S SUPERMARKET (NEW BRITAIN)
 Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003 (unaudited)

| | For the year ended December 31, 2003 (unaudited) ----- |
|---|--|
| Gross income: | |
| Base rental income | \$ 1,083,357 |
| Operating expense and real estate tax recoveries | 460,797 |
| | ----- |
| Total gross income | 1,544,154 |
| | ----- |
| Direct operating expenses: | |
| Property operating expenses | 460,797 |
| | ----- |
| Total direct operating expenses | 460,797 |
| | ----- |
| Excess of gross income over direct operating expenses | \$ 1,083,357 |
| | ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003 (unaudited)

1. Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 has been prepared from the operating statements provided by the owners of the property during that period and requires management of Shaw's Supermarket (New Britain) to make estimates and assumptions that affect the amounts of the revenues and expense during that period. Actual results may differ from those estimates.

All adjustments necessary for a fair presentation have been made to the accompanying unaudited amounts for the year ended December 31, 2003.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of Hickory Ridge ("the Property") for the year ended December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of Hickory Ridge for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
March 2, 2004

HICKORY RIDGE
 Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

| | For the year ended December 31, 2003 ----- |
|---|---|
| Gross income: | |
| Base rental income | \$ 3,633,058 |
| Operating expense and real estate tax recoveries | 447,314 |
| | ----- |
| Total gross income | 4,080,372 |
| | ----- |
| Direct operating expenses: | |
| Operating expenses | 156,997 |
| Real estate taxes | 244,786 |
| Insurance | 59,317 |
| | ----- |
| Total direct operating expenses | 461,100 |
| | ----- |
| Excess of gross income over direct operating expenses | \$ 3,619,272 |
| | ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

HICKORY RIDGE
 Notes to Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

(1) Business

Hickory Ridge (the Property) is located in Hickory, North Carolina. The Property consists of 375,587 square feet of gross leasable area and was 100% occupied at December 31, 2003. The Property is leased to twenty-one tenants of which four tenants account for approximately 51% of base rental revenue for the year ended December 31, 2003. On January 9, 2004, Inland Western Retail Real Estate Trust, Inc. ("IWRRETI") acquired the Property from an unaffiliated third party.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates. Certain of the leases contain provision for contingent rentals. Recognition of contingent rental income is deferred until the target that triggers the contingent rental income is achieved. Contingent rent of \$25,762 was earned during the year ended December 31, 2003.

In addition, rental income includes \$95,959 of rent from one tenant that pays monthly rent based upon a percentage of monthly sales in lieu of minimum rents provided in the lease. The minimum rents schedule below excludes such tenant.

The Property has two ground leases that are classified as operating leases with terms extending through January 2013 and January 2021, respectively. Total ground lease income was \$311,590 and is included in base rental income in the accompanying Historical Summary for the year ended December 31, 2003.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exist in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increase base rental income by \$132,919 for the year ended December 31, 2003.

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HICKORY RIDGE

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

Minimum rents to be received from tenants under operating leases, which terms range from one to seventeen years, in effect at December 31, 2003, are as follows:

| YEAR | TOTAL |
|-------|-------|
| ----- | |

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| | | |
|------------|----|------------|
| 2004 | \$ | 3,393,768 |
| 2005 | | 3,053,077 |
| 2006 | | 3,065,441 |
| 2007 | | 3,016,833 |
| 2008 | | 3,019,568 |
| Thereafter | | 18,476,329 |
| | | ----- |
| Total | \$ | 34,025,016 |
| | | ===== |

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of CorWest Plaza ("the Property") for the period from May 29, 2003 through December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of CorWest Plaza for the period from May 29, 2003 through December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
March 3, 2004

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CORWEST PLAZA
Historical Summary of Gross Income and Direct Operating Expenses
For the period from May 29, 2003 through December 31, 2003

| | For the period from May 29, 2003 through December 31, 2003 ----- |
|---|--|
| Gross income: | |
| Base rental income | \$ 1,425,025 |
| Operating expense and real estate tax recoveries | 424,278 |
| | ----- |
| Total gross income | 1,849,303 |
| | ----- |
| Direct operating expenses: | |
| Operating expenses | 54,893 |
| Real estate taxes | 347,412 |
| Insurance | 16,407 |
| | ----- |
| Total direct operating expenses | 418,712 |
| | ----- |
| Excess of gross income over direct operating expenses | \$ 1,430,591 |
| | ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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CORWEST PLAZA
Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the period from May 29, 2003 through December 31, 2003

(1) Business

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CorWest Plaza (the Property) is located in New Britain, Connecticut. The Property consists of approximately 115,011 square feet of gross leasable area and was 100% occupied at December 31, 2003. The Property is leased to ten tenants of which four tenants account for approximately 90% of base rental revenue for the period from May 29, 2003 through December 31, 2003. On January 6, 2004, Inland Western Retail Real Estate Trust, Inc. ("IWRRETI") acquired the Property from an unaffiliated third party.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates. As the Property was acquired by the seller on May 29, 2003, financial statements were not available prior to such date. As such, the Historical Summary includes only operations for the period from May 29, 2003 through December 31, 2003.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates. Certain of the leases contain provision for contingent rentals. Recognition of contingent rental income is deferred until the target that triggers the contingent rental income is achieved. No contingent rent was earned from the period from May 29, 2003 through December 31, 2003.

The Property has 3 ground leases that are classified as operating leases with terms extending through May 2028. Total ground lease income was \$1,225,693 and is included in base rental income in the accompanying Historical Summary for the period from May 29, 2003 through December 31, 2003.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exists in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$44,806 for the period from May 29, 2003 through December 31, 2003.

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CORWEST PLAZA

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the period from May 29, 2003 through December 31, 2003

Minimum rents to be received from tenants under operating leases, which terms range from 48 months to 25 years, in effect at December 31, 2003, are as

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follows:

| YEAR | TOTAL |
|------------|---------------|
| 2004 | \$ 2,612,698 |
| 2005 | 2,594,038 |
| 2006 | 2,464,015 |
| 2007 | 2,416,598 |
| 2008 | 2,433,616 |
| Thereafter | 40,960,776 |
| Total | \$ 53,481,742 |

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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CORWEST PLAZA
Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003 (unaudited)

| | For the year ended December 31, 2003 (unaudited) |
|---|---|
| Gross income: | |
| Base rental income | \$ 1,925,491 |
| Operating expense and real estate tax recoveries | 535,269 |
| Total gross income | 2,460,760 |
| Direct operating expenses: | |
| Property operating expenses | 690,670 |
| Total direct operating expenses | 690,670 |
| Excess of gross income over direct operating expenses | \$ 1,770,090 |

=====

See accompanying notes to historical summary of gross income and direct operating expense.

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CORWEST PLAZA
Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003 (unaudited)

1. Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 has been prepared from the audited financial statements for the period from May 29, 2003 to December 31, 2003 and estimates for the period from January 1, 2003 to May 28, 2003. Estimates for the period from January 1, 2003 to May 28, 2003 were prepared based on information provided by the owner of the property. Actual results may differ from those estimates.

All adjustments necessary for a fair presentation have been made to the accompanying unaudited amounts for the year ended December 31, 2003.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of Metro Square Center (SuperValue) ("the Property") for the year ended December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for

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inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of Metro Square Center (SuperValue) for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
March 3, 2004

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METRO SQUARE CENTER (SUPERVALUE)
Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

| | For the year ended December 31, 2003 |
|---|--|
| | ----- |
| Gross income: | |
| Base rental income | \$ 949,573 |
| Operating expense and real estate tax recoveries | 125,792 |
| | ----- |
| Total gross income | 1,075,365 |
| | ----- |
| Direct operating expenses: | |
| Operating expenses | 59,440 |
| Real estate taxes | 47,018 |
| Insurance | 18,815 |
| | ----- |
| Total direct operating expenses | 125,273 |
| | ----- |
| Excess of gross income over direct operating expenses | \$ 950,092 |
| | ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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METRO SQUARE CENTER (SUPERVALUE)

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

(1) Business

Metro Square Center (SuperValue) (the Property) is located in Severn, Maryland. The Property consists of approximately 62,000 square feet of gross leasable area and was 100% occupied at December 31, 2003. The Property is leased to three tenants of which one tenant accounts for approximately 91% of base rental revenue for the year ended December 31, 2003. On January 22, 2004, Inland Western Retail Real Estate Trust, Inc. ("IWRRETI") acquired the Property from an unaffiliated third party.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates. Certain of the leases contain provisions for contingent rentals. Recognition of contingent rental income is deferred until the target that triggers the contingent rental income is achieved. No contingent rent was earned during the year ended December 31, 2003.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exists in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$54,197 for the year ended December 31, 2003.

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METRO SQUARE CENTER (SUPERVALUE)

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

Minimum rents to be received from tenants under operating leases, which terms

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range from five to 20 years, in effect at December 31, 2003, are as follows:

| YEAR | TOTAL |
|------------|---------------|
| 2004 | \$ 897,786 |
| 2005 | 922,082 |
| 2006 | 902,574 |
| 2007 | 904,327 |
| 2008 | 844,146 |
| Thereafter | 10,010,898 |
| Total | \$ 14,481,813 |

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of Larkspur Landing, ("the Property") for the year ended December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the

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Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of Larkspur Landing, for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
February 26, 2004

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LARKSPUR LANDING
Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

| | For the year ended December 31, 2003 ----- |
|---|---|
| Gross income: | |
| Base rental income | \$ 4,735,363 |
| Operating expense and real estate tax recoveries | 1,055,794 |
| | ----- |
| Total gross income | 5,791,157 |
| | ----- |
| Direct operating expenses: | |
| Operating expenses | 707,903 |
| Real estate taxes | 336,380 |
| Insurance | 236,462 |
| | ----- |
| Total direct operating expenses | 1,280,745 |
| | ----- |
| Excess of gross income over direct operating expenses | \$ 4,510,412 ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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LARKSPUR LANDING

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

(1) Business

Larkspur Landing, (the Property) is located in Larkspur, California. The Property consists of approximately 173,800 square feet of gross leasable area and was approximately 91% occupied at December 31, 2003. The Property is leased to thirty-seven tenants of which four tenants account for approximately 62% of base rental revenue for the year ended December 31, 2003. On January 14, 2004, Inland Western Retail Real Estate Trust, Inc. ("IWRRETI") acquired the Property from an unaffiliated third party.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates. Certain of the leases contain provisions for contingent rentals. Recognition of contingent rental income is deferred until the target that triggers the contingent rental income is achieved. Contingent rent of \$339,129 was earned during the year ended December 31, 2003.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exists in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$171,513 for the year ended December 31, 2003.

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LARKSPUR LANDING

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

Minimum rents to be received from tenants under operating leases, which terms range from 1 to 15 years, in effect at December 31, 2003, are as follows:

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| YEAR | TOTAL |
|------------|---------------|
| 2004 | \$ 4,305,051 |
| 2005 | 3,779,574 |
| 2006 | 3,409,006 |
| 2007 | 2,769,297 |
| 2008 | 2,410,278 |
| Thereafter | 13,617,128 |
| Total | \$ 30,290,334 |

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of North Ranch Pavilion ("the Property") for the year ended December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in

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note 2 of North Ranch Pavilion for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
February 25, 2004

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NORTH RANCH PAVILION
Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

| | For the year ended December 31, 2003 ----- |
|---|---|
| Gross income: | |
| Base rental income | \$ 1,100,047 |
| Operating expense and real estate tax recoveries | 322,680 |
| | ----- |
| Total gross income | 1,422,727 |
| | ----- |
| Direct operating expenses: | |
| Operating expenses | 210,864 |
| Real estate taxes | 129,164 |
| Insurance | 33,635 |
| | ----- |
| Total direct operating expenses | 373,663 |
| | ----- |
| Excess of gross income over direct operating expenses | \$ 1,049,064 ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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NORTH RANCH PAVILION
Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

(1) Business

North Ranch Pavilion (the Property) is located in Thousand Oaks, California. The Property consists of approximately 63,000 square feet of gross leasable area and was approximately 91% occupied at December 31, 2003. The Property is leased to twenty-seven tenants of which three tenants account for approximately 34% of base rental revenue for the year ended December 31, 2003. On January 15, 2004, Inland Western Retail Real Estate Trust, Inc. ("IWRRETI") acquired the Property from an unaffiliated third party.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates. Certain of the leases contain provision for contingent rentals. Recognition of contingent rental income is deferred until the target that triggers the contingent rental income is achieved. No contingent rent was earned during the year ended December 31, 2003.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exists in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$39,515 for the year ended December 31, 2003.

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NORTH RANCH PAVILION

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

Minimum rents to be received from tenants under operating leases, which terms range from three to 14 years, in effect at December 31, 2003, are as follows:

| YEAR | TOTAL |
|------|-------|
|------|-------|

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| | | |
|------------|----|-----------|
| 2004 | \$ | 1,308,503 |
| 2005 | | 1,187,162 |
| 2006 | | 1,196,362 |
| 2007 | | 768,560 |
| 2008 | | 665,216 |
| Thereafter | | 2,245,095 |
| | | ----- |
| Total | \$ | 7,370,898 |
| | | ===== |

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of La Plaza Del Norte ("the Property") for the year ended December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of La Plaza Del Norte for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
February 26, 2004

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LA PLAZA DEL NORTE
Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

| | For the year ended December 31, 2003 ----- |
|---|---|
| Gross income: | |
| Base rental income | \$ 4,003,605 |
| Operating expense and real estate tax recoveries | 1,421,860 ----- |
| Total gross income | 5,425,465 ----- |
| Direct operating expenses: | |
| Operating expenses | 240,045 |
| Real estate taxes | 1,199,850 |
| Insurance | 84,577 ----- |
| Total direct operating expenses | 1,524,472 ----- |
| Excess of gross income over direct operating expenses | \$ 3,900,993 ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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LA PLAZA DEL NORTE
Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

(1) Business

La Plaza Del Norte (the Property) is located in San Antonio, Texas. The Property

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consists of approximately 320,000 square feet of gross leasable area and was approximately 96% occupied at December 31, 2003. The Property is leased to eighteen tenants of which two tenants account for approximately 41% of base rental revenue for the year ended December 31, 2003. On January 21, 2004, Inland Western Retail Real Estate Trust, Inc. ("IWRRETI") acquired the Property from an unaffiliated third party.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates. Certain of the leases contain provision for contingent rentals. Recognition of contingent rental income is deferred until the target that triggers the contingent rental income is achieved. Contingent rent of \$827 was earned during the year ended December 31, 2003.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exists in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$72,859 for the year ended December 31, 2003.

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LA PLAZA DEL NORTE

Notes to Historical Summary of Gross Income and Direct Operating Expenses For the year ended December 31, 2003

Minimum rents to be received from tenants under operating leases, which terms range from five to twenty years, in effect at December 31, 2003, are as follows:

| YEAR | TOTAL |
|------|--------------|
| 2004 | \$ 4,113,332 |
| 2005 | 4,070,499 |
| 2006 | 3,942,489 |
| 2007 | 3,358,048 |

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| | |
|------------|---------------|
| 2008 | 3,258,479 |
| Thereafter | 14,294,929 |
| | ----- |
| Total | \$ 33,037,776 |
| | ===== |

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of MacArthur Crossing ("the Property") for the year ended December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of MacArthur Crossing for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
March 1, 2004

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MACARTHUR CROSSING
 Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

| | For the year ended December 31, 2003 ----- |
|---|---|
| Gross income: | |
| Base rental income | \$ 1,760,907 |
| Operating expense and real estate tax recoveries | 608,826 |
| | ----- |
| Total gross income | 2,369,733 ----- |
| | |
| Direct operating expenses: | |
| Operating expenses | 249,689 |
| Real estate taxes | 400,391 |
| Insurance | 48,208 |
| | ----- |
| Total direct operating expenses | 698,288 ----- |
| | |
| Excess of gross income over direct operating expenses | \$ 1,671,445 ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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MACARTHUR CROSSING
 Notes to Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

(1) Business

MacArthur Crossing (the Property) is located in Las Colinas, Texas. The Property consists of 111,035 square feet of gross leasable area and was approximately 98% occupied at December 31, 2003. The Property is leased to twenty-nine tenants of which seven tenants account for approximately 54% of base rental revenue for the year ended December 31, 2003. On February 5, 2004, Inland Western Retail Real

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Estate Trust, Inc. ("IWRRETI") acquired the Property from an unaffiliated third party.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates. Certain of the leases contain provision for contingent rentals. Recognition of contingent rental income is deferred until the target that triggers the contingent rental income is achieved. Contingent rent of \$14,807 was earned during the year ended December 31, 2003.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exists in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$4,655 for the year ended December 31, 2003.

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MACARTHUR CROSSING

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

Minimum rents to be received from tenants under operating leases, which terms range from five to twenty years, in effect at December 31, 2003, are as follows:

| YEAR | TOTAL |
|------------|--------------|
| 2004 | \$ 1,771,533 |
| 2005 | 1,713,801 |
| 2006 | 1,290,824 |
| 2007 | 809,370 |
| 2008 | 678,292 |
| Thereafter | 2,761,095 |

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Total \$ 9,024,915
=====

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of Promenade at Red Cliff ("the Property") for the year ended December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of Promenade at Red Cliff for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
March 5, 2004

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PROMENADE AT RED CLIFF
 Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

| | For the year ended December 31, 2003 ----- |
|---|---|
| Gross income: | |
| Base rental income | \$ 1,250,480 |
| Operating expense and real estate tax recoveries | 237,743 ----- |
| Total gross income | 1,488,223 ----- |
| Direct operating expenses: | |
| Operating expenses | 136,724 |
| Real estate taxes | 113,395 |
| Insurance | 38,288 ----- |
| Total direct operating expenses | 288,407 ----- |
| Excess of gross income over direct operating expenses | \$ 1,199,816 ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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PROMENADE AT RED CLIFF
 Notes to Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

(1) Business

Promenade at Red Cliff (the Property) is located in St. George, Utah. The Property consists of 94,947 square feet of gross leasable area and was approximately 97% occupied at December 31, 2003. The Property is leased to twenty-tenants of which four tenants account for approximately 61% of base rental revenue for the year ended December 31, 2003. On February 13, 2004, Inland Western Retail Real Estate Trust, Inc. ("IWRRETI") acquired the Property from an unaffiliated third party.

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(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates. Certain of the leases contain provision for contingent rentals. Recognition of contingent rental income is deferred until the target that triggers the contingent rental income is achieved. Contingent rent of \$21,297 was earned during the year ended December 31, 2003.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exists in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$1,622 for the year ended December 31, 2003.

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PROMENADE AT RED CLIFF

Notes to Historical Summary of Gross Income and Direct Operating Expenses For the year ended December 31, 2003

Minimum rents to be received from tenants under operating leases, which terms range from 10 months to fifteen years, in effect at December 31, 2003, are as follows:

| YEAR | TOTAL |
|------------|--------------|
| ----- | |
| 2004 | \$ 1,468,781 |
| 2005 | 1,513,674 |
| 2006 | 1,526,952 |
| 2007 | 1,149,127 |
| 2008 | 852,421 |
| Thereafter | 921,631 |
| ----- | |
| Total | \$ 7,432,586 |
| ===== | |

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of Peoria Crossings ("the Property") for the year ended December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of Peoria Crossing for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
February 25, 2004

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PEORIA CROSSINGS
 Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

| | For the year ended December 31, 2003 ----- |
|---|---|
| Gross income: | |
| Base rental income | \$ 2,247,654 |
| Operating expense and real estate tax recoveries | 367,902 ----- |
| Total gross income | 2,615,556 ----- |
| Direct operating expenses: | |
| Operating expenses | 158,120 |
| Real estate taxes | 212,946 |
| Insurance | - ----- |
| Total direct operating expenses | 371,066 ----- |
| Excess of gross income over direct operating expenses | \$ 2,244,490 ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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PEORIA CROSSINGS
 Notes to Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

(1) Business

Peoria Crossings (the Property) is located in Peoria, Arizona. The Property consists of approximately 213,500 square feet of gross leasable area and was approximately 97% occupied at December 31, 2003. The Property is leased to twenty-one tenants of which five tenants account for approximately 59% of base rental revenue for the year ended December 31, 2003. Inland Western Retail Real Estate Trust, Inc. ("IWRRETI") has signed a sale and purchase agreement for the purchase of the Property from an unaffiliated third-party ("Seller").

The Property commenced operations in 2002 with a portion of Peoria Crossings (representing approximately 207,500 square feet) of the Properties' gross leasable area complete as of December 31, 2003. The remaining portion of the

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Properties' gross leasable area (representing the remaining approximately 6, 000 square feet) is under construction and scheduled to be completed during 2004.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates. Certain of the leases contain provision for contingent rentals. Recognition of contingent rental income is deferred until the target that triggers the contingent rental income is achieved. No contingent rent was earned during the year ended December 31, 2003.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exists in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$780,986 for the year ended December 31, 2003.

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PEORIA CROSSINGS

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2003

Minimum rents to be received from tenants under operating leases, which terms range from five to twenty-one years, in effect at December 31, 2003, are as follows:

| YEAR | TOTAL |
|------------|--------------|
| 2004 | \$ 2,584,513 |
| 2005 | 2,606,123 |
| 2006 | 2,613,453 |
| 2007 | 2,623,407 |
| 2008 | 2,245,206 |
| Thereafter | 17,152,265 |

Total \$ 29,824,967
=====

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of Dorman Centre ("the Property") for the year ended December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of Dorman Centre for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
February 25, 2004

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DORMAN CENTRE
 Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

| | For the year ended December 31, 2003 ----- |
|---|---|
| Gross income: | |
| Base rental income | \$ 1,195,938 |
| Operating expense and real estate tax recoveries | 83,579 |
| | ----- |
| Total gross income | 1,279,517 |
| | ----- |
| Direct operating expenses: | |
| Operating expenses | 37,886 |
| Real estate taxes | 51,474 |
| Insurance | 9,656 |
| | ----- |
| Total direct operating expenses | 99,016 |
| | ----- |
| Excess of gross income over direct operating expenses | \$ 1,180,501 |
| | ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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DORMAN CENTRE
 Notes to Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

(1) Business

Dorman Centre (the Property) is located in Spartanburg, South Carolina. The Property consists of approximately 388,000 square feet of gross leasable area and was approximately 90% occupied at December 31, 2003. The Property is leased to twenty-one tenants of which four tenants account for approximately 77% of base rental revenue for the year ended December 31, 2003. On March 4, 2004, Inland Western Retail Real Estate Trust, Inc. ("IWRRETI") acquired the Property from an unaffiliated third party.

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The Property commenced operations on July 1, 2003 with a portion of Dorman Center (representing approximately 348,000 square feet) complete as of December 31, 2003. The remaining portion (representing the remaining approximately 40,000 square feet) is under construction and scheduled to be completed during the first quarter of 2004.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates. Certain of the leases contain provision for contingent rentals. Recognition of contingent rental income is deferred until the target that triggers the contingent rental income is achieved. No contingent rent was earned during the year ended December 31, 2003.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exists in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$4,778 for the year ended December 31, 2003.

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DORMAN CENTRE Notes to Historical Summary of Gross Income and Direct Operating Expenses For the year ended December 31, 2003

Minimum rents to be received from tenants under operating leases, which terms range from three to twenty years, in effect at December 31, 2003, are as follows:

| YEAR | TOTAL |
|------|--------------|
| 2004 | \$ 3,504,788 |
| 2005 | 3,540,088 |
| 2006 | 3,513,673 |
| 2007 | 3,430,584 |

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| | |
|------------|---------------|
| 2008 | 3,313,461 |
| Thereafter | 30,804,111 |
| | ----- |
| Total | \$ 48,106,705 |
| | ===== |

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of Heritage Towne Crossing ("the Property") for the year ended December 31, 2003. This Historical Summary is the responsibility of management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of Heritage Towne Crossing for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois

March 3, 2004

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HERITAGE TOWNE CROSSING
 Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

| | For the year ended December 31, 2003 ----- |
|---|---|
| Gross income: | |
| Base rental income | \$ 876,078 |
| Operating expense and real estate tax recoveries | 198,515 ----- |
| Total gross income | 1,074,593 ----- |
| Direct operating expenses: | |
| Operating expenses | 106,131 |
| Real estate taxes | 211,070 |
| Insurance | 21,825 ----- |
| Total direct operating expenses | 339,026 ----- |
| Excess of gross income over direct operating expenses | \$ 735,567 ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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HERITAGE TOWN CROSSING
 Notes to Historical Summary of Gross Income and Direct Operating Expenses
 For the year ended December 31, 2003

(1) Business

Heritage Towne Crossing (the Property) is located in Euless, Texas. The Property consists of 80,730 square feet of gross leasable area and was approximately 81% occupied at December 31, 2003. The Property is leased to twenty-five tenants of which five tenants account for approximately 40% of base rental revenue for the

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year ended December 31, 2003. On March 5, 2004, Inland Western Retail Real Estate Trust, Inc. ("IWRRETI") acquired the Property from an unaffiliated third party.

(2) Basis of Presentation

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in Post-Effective Amendment No. 3 to the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed to tenants pursuant to the lease agreements. Certain leases contain renewal to options at various periods at various rental rates.

The Property has two ground leases that are classified as operating leases with terms extending through September, 2023. Total ground lease income was \$44,417 and is included in base rental income in the accompanying Historical Summary for the year ended December 31, 2003.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exists in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$15,184 for the year ended December 31, 2003.

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HERITAGE TOWNE CROSSING Notes to Historical Summary of Gross Income and Direct Operating Expenses For the year ended December 31, 2003

Minimum rents to be received from tenants under operating leases, which terms range from three to twenty years, in effect at December 31, 2003, are as follows:

| YEAR | TOTAL |
|------|--------------|
| 2004 | \$ 1,289,587 |
| 2005 | 1,300,384 |
| 2006 | 1,292,499 |
| 2007 | 1,069,311 |

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| | |
|------------|--------------|
| 2008 | 653,115 |
| Thereafter | 2,698,001 |
| | ----- |
| Total | \$ 8,302,897 |
| | ===== |

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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PROSPECTUS

270,000,000 shares of common stock - maximum offering
200,000 shares of common stock - minimum offering
Inland Western Retail Real Estate Trust, Inc.
a Real Estate Investment Trust

\$10.00 per share: Minimum Initial Purchase - 300 shares (100 shares for Tax-Exempt Entities)

We intend to operate as a real estate investment trust or a REIT beginning with the tax year ending December 31, 2003. We are not currently qualified as a REIT for federal income tax purposes. We will not be requesting a ruling from the Internal Revenue Service to qualify as a REIT. We were formed in 2003 to acquire and manage properties which are located mainly in states west of the Mississippi River. No public market currently exists for our shares of common stock and our shares cannot be readily sold.

We are offering 250,000,000 shares to investors who meet our suitability standards; and up to 20,000,000 shares to participants in our reinvestment plan (at \$9.50 per share).

A minimum of 200,000 shares of common stock must be sold within one year from the date of this prospectus, unless extended, or we will terminate this offering and we will return your subscription payments, with interest within five business days after termination of this offering. Prior to the sale of the minimum offering, your subscription payments will be placed in an escrow account held by the escrow agent, LaSalle Bank National Association. The managing dealer of the offering, Inland Securities Corporation, is our affiliate. The managing dealer is not required to sell any specific number or dollar amount of shares but will use its best efforts to sell the 250,000,000 of our shares. This offering will end no later than September 15, 2004, unless we elect to extend it to a date no later than September 15, 2005 in states that permit us to make this extension.

INVESTING IN OUR COMPANY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 11 FOR A DISCUSSION OF THE MATERIAL RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH YOUR INVESTMENT IN OUR COMMON STOCK. THESE RISKS INCLUDE:

- our common stock is not currently listed or traded on an exchange and cannot be readily sold (and sales by stockholders may be made at a loss);

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- we have no operating history nor established financing sources;
- we have identified only one property to be purchased with the proceeds of this offering;
- if we raise the minimum amount, we will not have sufficient resources to acquire the identified property. We need to raise in excess of \$26 million to acquire this property;
- we have no ownership in our advisor and the advisor is owned by our sponsor or their affiliates;
- our advisor and its affiliates will receive substantial fees, including participation in proceeds from the sales, refinancing or liquidation of our assets;
- our advisor, property manager and two of our directors are subject to conflicts of interest as a result of their affiliation with The Inland Group;
- there are limits on ownership, transferability and redemption of shares;
- risks that incentive structure of fees payable to our advisor and its affiliates may encourage our advisor to make investments that have greater risks to generate higher fees; and
- although we anticipate that aggregate borrowings will not exceed 55% of the combined fair market value of our properties, our charter imposes a limitation on our borrowings of less than 300% of net assets and there are risks associated with a high amount of leverage.

We are unable to specifically quantify the above risk factors. The use of forecasts in this offering is prohibited. Any representations to the contrary and any predictions, written or oral, as to the amount or certainty of any present or future cash benefit or tax consequence which may flow from an investment in this program is not permitted. Any stockholder loss of capital will be limited to the amount of their investment. You should purchase these securities only if you can afford a complete loss of your investment.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

| | Per Share | Min. Offering | Max. Offer |
|--|-----------|---------------|--------------|
| Public offering price, primary shares (1)..... | \$ 10.00 | \$ 2,000,000 | \$ 2,500,000 |
| Public offering price, distribution reinvestment program..... | \$ 9.50 | \$ 0 | \$ 190,000 |
| Selling commissions (1)..... | \$ 1.05 | \$ 210,000 | \$ 262,500 |
| Proceeds, before expenses, to us.... | \$ 8.95 | \$ 1,790,000 | \$ 2,452,500 |

(1) The selling commission only applies to sales of primary shares and is composed of a 7.5% selling commission (7.0% of which is reallowable), 2.5% marketing allowance and .5% due diligence expense allowance.

The date of this Prospectus is September 15, 2003.

FOR RESIDENTS OF MICHIGAN ONLY:

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE DEPARTMENT OF CONSUMER & INDUSTRY SERVICES, MICHIGAN OFFICE OF FINANCIAL AND INSURANCE SERVICES. THE DEPARTMENT HAS NOT UNDERTAKEN TO PASS UPON THE VALUE OF THESE SECURITIES NOR TO MAKE ANY RECOMMENDATIONS AS TO THEIR PURCHASE.

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THE USE OF THIS PROSPECTUS IS CONDITIONED UPON ITS CONTAINING ALL MATERIAL FACTS AND THAT ALL STATEMENTS CONTAINED THEREIN ARE TRUE AND CAN BE SUBSTANTIATED. THE DEPARTMENT HAS NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.

NO BROKER-DEALER, SALESMAN, AGENT OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE OFFERING HEREBY MADE OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS OR EFFECTIVE LITERATURE.

THIS IS A BEST EFFORTS OFFERING, AND WE RESERVE THE RIGHT TO ACCEPT OR REJECT ANY SUBSCRIPTION AND WILL PROMPTLY NOTIFY THE SUBSCRIBER OF ACCEPTANCE OR REJECTION. THERE IS NO ASSURANCE THAT THIS OFFERING WILL ALL BE SOLD. THERE ARE NO ASSURANCES AS TO WHAT SIZE WE MAY REACH.

THERE IS NO ASSURANCE THAT OUR OPERATIONS WILL BE PROFITABLE OR THAT LOSSES WILL NOT OCCUR.

IT IS NOT OUR POLICY TO REDEEM OUR STOCK (EXCEPT AS PROVIDED IN THIS OFFERING).

ANY REPRESENTATIONS CONTRARY TO ANY OF THE FOREGOING SHOULD BE REPORTED FORTHWITH TO THE OFFICE OF FINANCIAL AND INSURANCE SERVICE AT 611 West Ottawa Street, 2nd Floor Ottawa Building, P.O. Box 30701, Lansing, MI 48909-8201, or Telephone (877) 999-6442.

WHO MAY INVEST

In order to purchase shares, you must:

- Meet the financial suitability standards, and
- Purchase a minimum number of shares.

SUITABILITY STANDARDS

Because an investment in our common stock is risky and is a long-term investment, it is suitable for you only if you have adequate financial means, you have no immediate need for liquidity in your investment and you can bear the complete loss of your investment.

We have established financial suitability standards for investors who purchase shares of our common stock. In addition, residents of some states must meet higher suitability standards under state law. These standards require you to meet the applicable criteria below. In determining your net worth, do not include your home, home furnishings or your automobile. INVESTORS WITH INVESTMENT DISCRETION OVER ASSETS OF AN EMPLOYEE BENEFIT PLAN COVERED BY ERISA SHOULD CAREFULLY REVIEW THE INFORMATION IN THE SECTION ENTITLED, "ERISA CONSIDERATIONS."

GENERAL STANDARDS FOR ALL INVESTORS

- Minimum net worth of at least \$150,000; or
- Minimum annual gross income of at least \$45,000 and net worth of at least \$45,000. Standards for Maine Residents
- Minimum net worth of \$200,000, or
- Minimum annual gross income of \$50,000 and a minimum net worth of \$50,000.

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Standards for Arizona, California, Iowa, Massachusetts, Michigan, Missouri, Oregon or Tennessee Residents

- Minimum net worth of \$225,000, or
- Minimum annual gross income of \$60,000 and a minimum net worth of \$60,000.

Standards for Kansas, Missouri, Ohio and Pennsylvania Residents

- In addition to meeting the actual standard for all investors, your investment may not exceed 10% of your liquid net worth.

In the case of sales to fiduciary accounts, these minimum standards must be met by the beneficiary, the fiduciary account, or by the donor or grantor who directly or indirectly supplies the funds to purchase the common stock if the donor or the grantor is the fiduciary. INVESTORS WITH INVESTMENT DISCRETION OVER ASSETS OF AN EMPLOYEE BENEFIT PLAN COVERED UNDER ERISA SHOULD CAREFULLY REVIEW THE INFORMATION ENTITLED "ERISA CONSIDERATIONS."

In the case of gifts to minors, the suitability standards must be met by the custodian account or by the donor.

MINIMUM PURCHASE

Subject to the restrictions imposed by state law, we will sell shares of our common stock only to investors who initially purchase a minimum of 300 shares of common stock for a total purchase price of \$3,000, or tax-exempt entities which purchase a minimum of 100 shares of common stock for a total purchase price of \$1,000. For investors living in Iowa, the minimum investment for IRAs will be 300 shares of common stock for a total purchase price of \$3,000, and for investors living in Minnesota, the minimum investment for IRAs and qualified plan accounts will be 200 shares of common stock for a total purchase price of \$2,000. Tax-exempt entities are generally any investor that is exempt from federal income taxation, including:

- a pension, profit-sharing, retirement, IRA or other employee benefit plan which satisfies the requirements for qualification under Section 401(a), 414(d) or 414(e) of the Internal Revenue Code;
- a pension, profit-sharing, retirement, IRA or other employee benefit plan which meets the requirements of Section 457 of the Internal Revenue Code;
- trusts that are otherwise exempt under Section 501(a) of the Internal Revenue Code;
- a voluntary employees' beneficiary association under Section 501(c)(9) of the Internal Revenue Code; or
- an IRA which meets the requirements of Section 408 of the Internal Revenue Code.

The term "plan" includes plans subject to Title I of ERISA, other employee benefit plans and IRAs subject to the prohibited transaction provisions of Section 4975 of the Internal Revenue Code, governmental or church plans that are exempt from ERISA and Section 4975 of the Internal Revenue Code, but that may be subject to state law requirements, or other employee benefit plans.

Subject to any restrictions imposed by state law, subsequent additional

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investments by current investors require a minimum investment of \$25. This limitation does not apply to the purchase of shares through the dividend reinvestment provision.

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| Our common stock is not currently listed on an exchange or trading market and cannot be readily sold | |
| You do not know what real properties and other assets we may acquire in the future, and rely on our advisor, our board and officers to select them and stockholders will not participate in these decisions | |
| Competition with third parties in acquiring properties will reduce our profitability and return on your investment | |
| We will compete with real estate investment programs sponsored by companies affiliated with us for the acquisition of properties and for the time and services of personnel .. | |
| We plan to incur mortgage indebtedness and other borrowings, which may reduce the funds available for distribution, may increase the risk of loss since defaults may result in foreclosure and mortgages may include cross-collateralization or cross-default provisions that increase the risk that more than one property may be affected by a default .. | |
| If we have insufficient working capital reserves, we will have to obtain financing from other sources | |
| The types of properties which we intend to acquire and the area in which we may acquire retail centers is limited | |
| The aggregate amount we may borrow is limited under our articles of incorporation | |
| We have no operating history, and so we have no history of earnings upon which you could evaluate our business | |
| Because of the way we are organized, we would be a difficult takeover target. This could depress the price of our stock and inhibit a management change | |
| Your investment return may be reduced if we are required to register as an investment company under the Investment Company Act | |
| There are many factors which can affect distributions to stockholders | |
| Our derivative financial instruments used to hedge against interest rate fluctuations could reduce the overall returns on your investment | |
| We could issue more shares in the future, which could reduce the market price of our outstanding shares | |

Our share repurchase program is limited to .50% of the weighted average number of shares of our stock outstanding during the prior calendar year and may be changed or terminated thereby reducing the potential liquidity of your investment

Stockholders have limited control over changes in our policies

If we invest in joint ventures, the objectives of our partners may conflict with our objectives

If we sell properties by providing financing to purchasers, we will bear the risk of default by the purchaser

If we do not raise sufficient funds, we may not fulfill our investment objectives, including asset diversification

Delays in acquisitions of properties may have an adverse effect

We may not be able to immediately invest proceeds in real estate, which will harm our returns

We depend on our board of directors, advisor and property manager and losing those relationships could negatively affect our operations

There are conflicts of interest between us and our affiliates

We cannot predict the amounts of compensation to be paid to our advisor and our other affiliates

The managing dealer has not made an independent review of us or the prospectus

Our rights and the rights of our stockholders to take action against our directors and officers and the advisor are limited

The business of our advisor and our property manager may be acquired by us without the informed action of our stockholders

Your percentage of ownership may become diluted if we issue new shares of stock

There are inherent risks with real estate investments

Adverse economic conditions in our primary geographic region and in the market for retail space could reduce our income and distributions to you

Rising expenses could reduce cash flow and funds available for future acquisitions

If our tenants are unable to make rental payments, if their rental payments are reduced or if they terminate a lease, our financial condition and ability to pay distributions may be adversely affected

Our financial condition and ability to make distributions may be adversely affected by the bankruptcy or insolvency, a downturn in the business, or a lease termination of a tenant that occupies a large area of the retail center or an anchor tenant

If a tenant claims bankruptcy, we may be unable to collect balances due under relevant leases

We may incur additional costs in acquiring or re-leasing retail properties

Our properties will be subject to competition for tenants and customers

Our properties will face competition which may affect tenants' ability to pay rent and the amount of rent paid to us and in turn affect the cash available for distributions and the amount of distributions

We may be restricted from re-leasing space

We may be unable to sell a property if or when we decide to do so

If we suffer losses that are not covered by insurance or that are in excess of insurance coverage, we could lose invested capital and anticipated profits

Terrorist attacks, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of violence or war may affect the markets in which we operate, our operations and our profitability

Real estate related taxes may increase and if these increases are not passed on to tenants, our income will be reduced

Revenue from our properties depends on the amount of our tenants' retail revenue, making it vulnerable to general economic downturns and other conditions affecting the retail

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| The costs of compliance with environmental laws and other governmental laws and regulations may adversely affect our income and the cash available for any distributions | |
| Our costs associated with complying with the Americans with Disabilities Act may affect available for distributions | |
| If a sale or leaseback transaction is recharacterized, our financial condition could be adversely affected..... | |
| We may incur additional costs in acquiring newly constructed properties which may adversely affect cash available for distributions to you | |
| Our investments in unimproved real property may result in additional cost to us to comply with re-zoning restrictions or environmental regulations | |
| Construction and development activities will expose us to risks such as cost overruns, carrying costs of projects under construction or development, availability and cost of materials and labor, weather conditions and government regulation | |
| We may acquire or finance properties with lock-out provisions which may prohibit us from selling a property, or may require us to maintain specified debt levels for a period of years on some properties | |
| Your investment has various federal income tax risks | |
| If we fail to qualify as a REIT or to maintain our REIT status, our dividends will not be deductible to us, and our income will be subject to taxation | |
| You may have tax liability on distributions you elect to reinvest in common stock | |
| The opinion of Duane Morris LLP regarding our status as a REIT does not guarantee our ability to remain a REIT | |
| Even REITs are subject to federal and state income taxes | |
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PROSPECTUS SUMMARY

This summary highlights all of the material information in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read this entire prospectus and its appendices carefully before you decide to invest in our shares of common stock.

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

We are a Maryland corporation formed in March 2003. We intend to operate as a real estate investment trust, or a REIT, for federal and state income tax purposes beginning with the tax year ending December 31, 2003. We intend that our company will own all of our assets, either directly or indirectly. We currently have one stockholder, our advisor, Inland Western Retail Real Estate Advisory Services, Inc. In March 2003, our advisor purchased from us 20,000 shares for \$10 per share for an aggregate purchase price of \$200,000 in connection with our organization.

Our principal executive offices are located at 2901 Butterfield Road, Oak Brook, Illinois 60523 and our telephone number is (630) 218-8000.

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THE TYPES OF REAL ESTATE THAT WE MAY ACQUIRE AND MANAGE

Our advisor is experienced in acquiring and managing real estate, particularly retail focused shopping centers. We intend to acquire and manage a diversified (by geographical location and by type and size of retail centers) portfolio of real estate primarily improved for use as retail establishments, principally multi-tenant shopping centers. Our portfolio will consist predominantly of grocery and discount store anchored retail, including net lease retail. We may acquire certain mixed use properties that may include lodging, office and/or multi-family residential if they are part of a retail center. And, we may also acquire other types of retail shopping centers, such as enclosed malls, outlet malls and power centers. We also anticipate acquiring real estate improved with other commercial facilities which provide goods and services as well as double or triple net leased properties, which are either commercial or retail, including properties acquired in sale and leaseback transactions. A triple-net leased property is one which is leased to a tenant who is responsible for the base rent and all costs and expenses associated with their occupancy, including property taxes, insurance, repairs and maintenance. We have, however, only identified one property in Phoenix, Arizona, to purchase from the proceeds of this offering.

The retail centers we intend to acquire would be located primarily in states west of the Mississippi River in the United States. Where feasible, we will endeavor to acquire multiple properties within the same major metropolitan markets where the acquisitions result in efficient property management operations with the potential to achieve market dominance.

We do not intend to invest in real estate properties that are primarily:

- farms;
- health care facilities;
- industrial properties;
- leisure home sites;
- manufacturing facilities;
- mining properties;

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- ranches;
- single-family residential properties;
- timberlands; or
- unimproved properties not intended to be developed (vacant land).

Subject to compliance with the applicable requirement under the federal income tax laws, we may also undertake construction and development activities and render services in connection with such activities.

OUR SPONSOR, OUR ADVISOR AND THE INLAND GROUP

Our sponsor is Inland Real Estate Investment Corporation, which is owned by The Inland Group, Inc. The Inland Group, together with its subsidiaries and affiliates, is a fully-integrated group of legally and financially separate companies that have been engaged in diverse facets of real estate for over 35

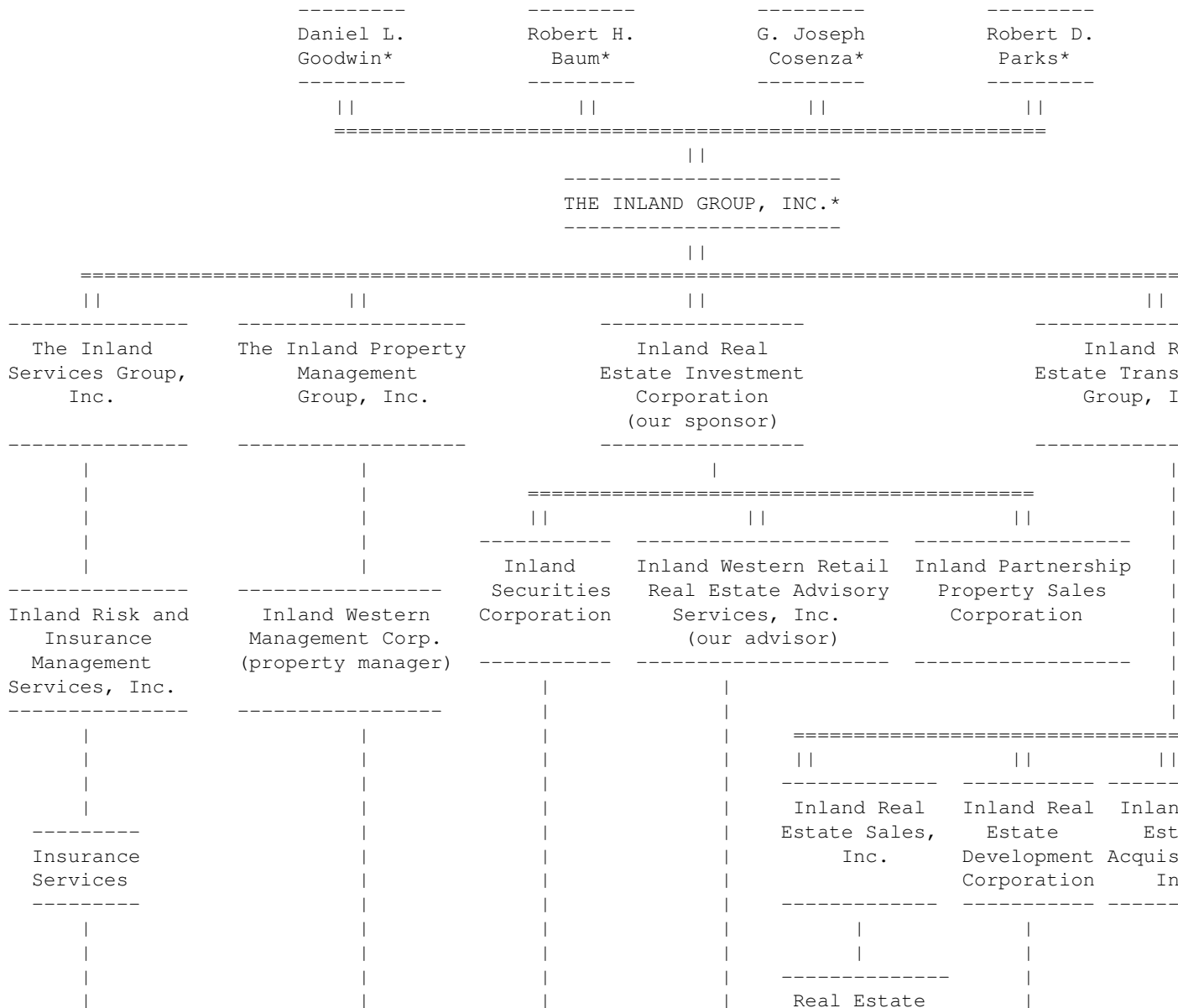
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years providing property management, leasing, marketing, acquisition, disposition, development, redevelopment, syndication, renovation, construction, finance and other related services. Inland Western Retail Real Estate Advisory Services, Inc., is a wholly owned subsidiary of our sponsor and is our advisor. Inland Securities Corporation, another affiliate of The Inland Group, is the managing dealer of this offering. Inland Western Management Corp., our property manager, is an entity owned principally by individuals who are affiliates of The Inland Group. The principal executive offices of The Inland Group, our sponsor, our advisor and our property manager are located at 2901 Butterfield Road, Oak Brook, Illinois 60523 and their telephone number is (630) 218-8000.

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The following organizational chart depicts the services that affiliates or our sponsor will render to us and our organizational structure.

ORGANIZATIONAL CHART



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|--|---|---------------------|--|---|---------------|
| | | | | Sales Services | |
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| | ----- | ----- | ----- | ----- | ----- |
| | Property Management and Related Services | Securities Sales | Organization, Advisory and Real Estate Services | Construction and Development Services | P Acq S |
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Inland Western Retail Real Estate Trust, Inc.
We will be principally owned by public investors. Ownership is represented

Solid lines indicate 100% ownership.

Broken lines indicate service.

* The four indicated individuals control The Inland Group, Inc. and own substantially all of its stock.

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Investment in shares of our common stock involves risks. If we are unable to effectively manage the impact of these risks, we may not meet our investment objectives and, therefore, you may lose some or all of your investment. The following is a summary of the material risks which we believe are most relevant to an investment in the shares. These risks are generally listed in the order of priority.

- our common stock is not currently listed or traded on an exchange and cannot be readily sold (and sales by stockholders may be made at a loss);
- we have no operating history nor established financing sources;
- we have identified only one property to be purchased with the proceeds of this offering;
- if we raise the minimum amount, we will not have sufficient resources to acquire the identified property. We need to raise in excess of \$26 million to acquire this property;
- although we anticipate that aggregate borrowings will not exceed 55% of the combined fair market value of our properties, our charter imposes a limitation on our borrowings of less than 300% of net assets and there are risks associated with a high amount of leverage;
- we have no ownership in our advisor and the advisor is owned by our sponsor or their affiliates;
- our advisor and its affiliates will receive substantial fees,

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- including participation in proceeds from the sales, refinancing or liquidation of our assets;
- our advisor, property manager and two of our directors are subject to conflicts of interest as a result of their affiliation with The Inland Group, including conflicts of interest relating to:
 - the negotiation of the terms of the advisors and property management agreements;
 - the allocation of their time between us and their other business ventures;
 - decisions whether to acquire and dispose of properties;
 - the purchase and sale of properties to or from the advisor and our affiliates; and
 - the allocation of investment opportunities between us and their other business ventures.
 - the management fee structure could result in our advisor recommending riskier or more speculative investments;
 - we may make distributions that include a return of principal for federal tax purposes;
 - we may fail to qualify as a REIT;
 - there are limits on ownership, transferability and redemption of shares;
 - our investment policies and strategies may be changed without stockholder consent;
 - our investments will lack geographic diversification;
- 4
- we will not be able to meet our business objectives if we only acquire one single net leased property; and
 - risks that incentive structure of fees payable to our advisor and its affiliates may encourage our advisor to make investments that have greater risks to generate higher fees.

CONFLICTS OF INTEREST

CONFLICTS OF INTEREST EXIST BETWEEN US AND SOME OF OUR AFFILIATES, INCLUDING OUR ADVISOR. THESE AFFILIATES INCLUDE, INLAND REAL ESTATE CORPORATION, INLAND RETAIL REAL ESTATE TRUST, INC. AND INLAND REAL ESTATE EXCHANGE CORPORATION. INLAND REAL ESTATE CORPORATION IS A PUBLICLY REGISTERED REIT. INLAND REAL ESTATE CORPORATION IS A SELF-ADMINISTERED REIT AND IS NO LONGER AFFILIATED WITH THE INLAND GROUP. INLAND REAL ESTATE CORPORATION PURCHASES SHOPPING CENTERS LOCATED IN THE MIDWEST. INLAND RETAIL REAL ESTATE TRUST, INC. IS AFFILIATED WITH THE INLAND GROUP. INLAND RETAIL REAL ESTATE TRUST, INC. PURCHASES SHOPPING CENTERS LOCATED EAST OF THE MISSISSIPPI RIVER. INLAND REAL ESTATE EXCHANGE CORPORATION IS A SUBSIDIARY OF INLAND REAL ESTATE INVESTMENT CORPORATION. INLAND REAL ESTATE EXCHANGE CORPORATION PROVIDES REPLACEMENT PROPERTIES FOR PEOPLE WISHING TO COMPLETE AN IRS SECTION 1031 REAL ESTATE EXCHANGE. Midwest Real Estate Equities, Inc. is not a subsidiary of The Inland Group, Inc or its affiliates but does

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have some of the same shareholders as The Inland Group, Inc. Midwest Real Estate Equities buys, manages and sells commercial and multi-family property.

Some of these conflicts include:

- competition for the time and services of personnel that work for us and our affiliates, including, such persons as Daniel L. Goodwin, Robert H. Baum, G. Joseph Cosenza, Robert D. Parks, Roberta S. Matlin, Scott W. Wilton, Kelly E. Tucek, and Brenda G. Gujral, which may limit the amount of time these people may spend on our business matters;
- substantial compensation payable by us to Inland Securities Corporation, Inland Western Retail Real Estate Advisory Services, Inc. and Inland Western Management Corp. for their various services which may not be on market terms and is payable, in most cases, whether or not our stockholders receive distributions;
- competition for properties, although our affiliates are governed by the Property Acquisition Service Agreement which, with certain limitations, gives us a right of first refusal for all properties west of the Mississippi River;
- acquisition of properties from an affiliate who has a contract to acquire it from PDG America; and
- the possibility that we may do business with entities that have pre-existing relationships with our affiliates which may result in a conflict between our business and the ongoing business relationships our affiliates have with each other.

Conflicts of interest may also arise in connection with the potential sale or refinancing of our properties or the enforcement of agreements.

We have an option to acquire or consolidate into us the business conducted by our advisor and/or our property manager for shares of common stock.

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COMPENSATION TO BE PAID TO OUR ADVISOR AND AFFILIATES

We intend to pay our advisor and affiliates substantial fees for managing our business.

We will also pay the advisor and other affiliates of our sponsor a number of other fees for services or expense reimbursements during our offering, operational and liquidation stage.

Set forth below is a tabular summary of fees and compensation payable to our advisor and other affiliates.

Type of Compensation

Nonsubordinated payments:

| | |
|--|---|
| Offering stage: | |
| Selling commissions | 7.5% of the sale price for each share Estimated maximum: \$187,500,000 |
| Marketing contribution and due diligence | 3.0% of the gross offering proceeds |

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| allowance | Estimated maximum: \$75,000,000 |
| Reimbursable expenses and other expenses of issuance | We will reimburse our sponsor for actual costs incurred on our behalf in connection with this offering. Estimated amount: \$14,684,000 |
| Acquisition stage: | |
| Acquisition expenses | We will reimburse Inland Real Estate Acquisitions, Inc. for costs incurred, on our behalf, in connection with the acquisition of properties: Estimated maximum: \$13,450,000 |
| Operational stage: | |
| Property management fee This fee terminates upon A BUSINESS COMBINATION WITH OUR PROPERTY MANAGER. | 4.5% of the gross income from the properties. (cannot exceed 90% of the fee which would be payable to an unrelated third party). Actual amounts cannot be determined at the present time. We will pay the fee for services in connection with the rental, leasing, operation and management of the properties. |
| Loan servicing fee | .08% of the total principal amount of the loans being serviced for each full year, up to the first \$100 million and a lesser percentage on a sliding scale thereafter. Actual amounts cannot be determined at the present time. |
| Reimbursable expenses relating to administrative services | The compensation and reimbursements to our advisor and its affiliates will be approved by a majority of our directors. Actual amounts cannot be determined at the present time. These may include cost of goods and services and non-supervisory services performed directly for us by independent parties. |
| 6 | |
| Liquidation stage: | |
| Property disposition fee THIS FEE TERMINATES UPON A BUSINESS COMBINATION WITH OUR ADVISOR. | Lesser of 3% of sales price or 50% of the customary commission which would be paid to a third party. Actual amounts cannot be determined at the present time. |
| Subordinated payments: | |
| Operational stage: | |
| Advisor asset management fee THIS FEE TERMINATES UPON A BUSINESS | Not more than 1% per annum of our average assets; subordinated to a |

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COMBINATION WITH OUR ADVISOR.

non-cumulative, non-compounded return, equal to 6% per annum. Actual amounts cannot be determined at the present time. We will pay the fee for services in connection with our day-to-day operations, including administering our bookkeeping and accounting functions, services as our consultant in connection with policy decisions made by our board, managing our properties or causing them to be managed by another party and providing other services as our board deems appropriate.

Liquidation stage:

Incentive advisory fee
THIS FEE TERMINATES UPON A BUSINESS
COMBINATION WITH THE ADVISOR.

After our stockholders have first received a 10% cumulative, non-compounded return and a return on their net investment, an incentive advisory fee equal to 15% on net proceeds from the sale of a property will be paid to our advisor. Actual amounts cannot be determined at the present time. We will pay the fee for services in connection with the disposition of our properties.

PRIMARY BUSINESS OBJECTIVE AND STRATEGIES

Our primary business objective is to enhance the performance and value of our properties through active management. Key elements of our strategy are:

Acquisitions:

- To selectively acquire real properties that are diversified types and well-located.
- To selectively acquire properties on an all-cash basis if necessary to provide us with a competitive advantage over potential purchasers who must secure financing. We may, however, acquire properties subject to existing indebtedness if we believe this is in our best interest. We may acquire properties free and clear of permanent mortgage debt by paying the entire purchase price of each property in cash or for shares, interests in entities that own one or more of our properties or a combination of these. However, as of the date of this prospectus, we had not paid the purchase price of any properties using shares or interests in entities that will own our properties.

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- To diversify geographically within the states west of the Mississippi by acquiring properties primarily located in major metropolitan areas to minimize the potential adverse impact of economic downturns in local markets.

Operations:

- We intend to actively manage costs and minimize operating expenses by

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centralizing all management, leasing, marketing, financing, accounting, renovation and data processing activities.

- We intend to improve rental income and cash flow by aggressively marketing rentable space.
- We intend to emphasize regular maintenance and periodic renovation to meet the needs of tenants and to maximize long-term returns.
- We intend to maintain a diversified tenant base at our retail centers, consisting primarily of retail tenants providing consumer goods and services.

SHARES SOLD BEFORE THE OFFERING

This is our initial public offering. We issued 20,000 shares of our common stock for \$10 per share, or an aggregate purchase price of \$200,000, to our advisor in connection with our organization.

TERMS OF THE OFFERING

If we only sell the minimum offering, we will have sold a total of 220,000 shares. If we sell the maximum amount of shares under the offering, we will have sold a total of 250,020,000. These numbers do not include shares issued upon exercise of options granted and which may be granted under our independent director stock option plan.

We are offering a minimum of 200,000 shares (\$2,000,000) and a maximum of 250,000,000 shares (\$2,500,000,000). We are offering 250,000,000 shares on a best efforts basis through the managing dealer at \$10.00 per share, subject to discounts in some cases. An offering on a best efforts basis is one in which the securities dealers participating in the offering are under no obligation to purchase any of the securities being offered and, therefore, no specified number of securities are guaranteed to be sold and no specified amount of money is guaranteed to be raised from the offering.

We are also offering up to 20,000,000 shares at a purchase price of \$9.50 per share to stockholders who elect to participate in our distribution reinvestment program.

The offering price of our shares is subjective and was determined by our board of directors. Our board of directors determined the offering price based upon the offering price of earlier REITs organized by our sponsor, the range of other REITs that do not have a public trading market and the recommendation of the managing dealer based on its consultations with likely soliciting dealers.

IS AN INVESTMENT IN US APPROPRIATE FOR YOU?

An investment in us might be appropriate as part of your investment portfolio if:

- You are looking for regular distributions. We intend to pay regular monthly distributions to our domestic stockholders and regular quarterly distributions to our foreign

stockholders. The maximum time that you should have to wait to receive the first distribution is 45 days from the date in which we accept your subscription.

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- You are looking for a hedge against inflation. We intend to hedge against inflation by entering into leases with tenants which provide for scheduled rent escalations or participation in the growth of tenant sales. This is designed to provide increased distributions and capital appreciation.
- You are looking for capital preservation and appreciation. We intend to acquire a portfolio of diverse properties, usually on an all cash basis, that are well located. After acquiring these properties, we may finance them, but we anticipate that aggregate borrowings secured by our properties will not exceed 55% of their combined fair market value.

WE CANNOT GUARANTEE THAT WE WILL ACHIEVE THESE OBJECTIVES.

DISTRIBUTIONS

We intend to pay regular monthly distributions to our domestic stockholders and regular quarterly distributions to our foreign stockholders. The maximum time that you should have to wait to receive the first distribution is 45 days from the date in which we accept your subscription.

In order to maintain our REIT status under federal income tax laws, we intend to distribute at least 90% of our taxable income to our stockholders. For federal income tax purposes only, we may make distributions that include a return of principal or an amount in excess of 95% of cash available to us.

REAL PROPERTY INVESTMENTS

We have identified one property for purchase in the state of Arizona.

We anticipate purchasing an existing shopping center known as Peoria Station, which will contain 181,500 gross leasable square feet upon completion of the current redevelopment. The center currently contains 140,019 gross leasable square feet. The center is located at 10160 North 67th Avenue in Peoria, Arizona.

An affiliate of our advisor has entered into a contract to acquire this property. We anticipate that the affiliate will assign this purchase contract to us for no cost to us. We would then anticipate purchasing Peoria Station from PDG America, an unaffiliated third party. Our total acquisition cost, including expenses, is expected to be approximately \$25,867,000. This amount may be adjusted based on actual rental rates achieved on the redeveloped square feet. This amount may also increase by additional costs, which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost is expected to be approximately \$143 per square foot of leasable space.

SHARE REPURCHASE PROGRAM

We intend to institute a share repurchase program. Our share repurchase program may provide eligible stockholders with limited interim liquidity by enabling them to sell shares back to us. The prices at which shares may be sold back to us will be one year from the purchase date at \$9.25 per share; two years from the purchase date at \$9.50 per share; three years from the purchase date at \$9.75 per share; and four years from the purchase date at the greater of \$10.00 per share or a price equal to ten times our "funds available for distribution" per weighted average share outstanding for the prior calendar year. We may terminate, reduce or otherwise change the above share repurchase program.

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ESTIMATED USE OF PROCEEDS

The amounts listed in the table below represent our current estimates concerning the use of the offering proceeds. Since these are estimates, they may not accurately reflect the actual receipt or application of the offering proceeds. This first scenario assumes we sell the minimum number of 200,000 shares of common stock in this offering. The second scenario assumes:

- we sell the maximum of 250,000,000 shares in this offering at \$10 per share; and
- we sell the maximum of 20,000,000 shares in our distribution reinvestment program at \$9.50 per share.

Under both scenarios we have not given effect to any special sales or volume discounts which could reduce selling commissions.

| | MINIMUM OFFERING 200,000 SHARES | | MAXIMUM OFFERING (INCLUDING SHARES SOLD UNDER DISTRIBUTION REINVESTMENT PROGRAM) | |
|------------------------------|------------------------------------|---------|---|---------|
| | AMOUNT | PERCENT | AMOUNT | PERCENT |
| Gross proceeds | \$ 2,000,000 | 100.0% | \$ 2,690,000,000 | 100.0% |
| Less expenses: | | | | |
| Selling commissions | 150,000 | 7.5% | 187,500,000 | 7.0% |
| Marketing contribution .. | 60,000 | 3.0% | 75,000,000 | 2.8% |
| Organization and offering | 90,000 | 4.5% | 14,684,000 | 0.5% |
| Total expenses | 300,000 | 15.0% | 277,184,000 | 10.3% |
| Gross amount available | 1,700,000 | 85.0% | 2,412,816,000 | 90.0% |
| Less | | | | |
| Acquisition expenses | 10,000 | 0.5% | 13,450,000 | 0.5% |
| Working capital reserve . | 20,000 | 1.0% | 26,900,000 | 1.0% |
| Net cash available | \$ 1,670,000 | 83.5% | \$ 2,372,466,000 | 88.3% |

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RISK FACTORS

An investment in our shares involves significant risks and therefore is suitable only for those persons who understand those risks and the consequences of their investment and who are able to bear the risk of loss of their entire investment. You should consider the following material risks in addition to other information set forth elsewhere in this prospectus before making your investment decisions.

THE PRICE OF OUR COMMON STOCK IS SUBJECTIVE AND MAY NOT BEAR ANY RELATIONSHIP TO WHAT A STOCKHOLDER COULD RECEIVE IF IT WAS SOLD. Our board of directors determined the offering price of our shares of common stock based on

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the following factors:

- the offering price of the earlier REITs organized by our sponsor;
- the range of offering prices of other REITs that do not have a public trading market; and
- the recommendation of the managing dealer based on its consultations with likely soliciting dealers.

However, the offering price of our shares of common stock may not be the same as the price at which the shares may trade if they were listed on an exchange or actively traded by brokers, nor of the proceeds that a stockholder may receive if we were liquidated or dissolved. As such, any sales may be made at a loss.

OUR COMMON STOCK IS NOT CURRENTLY LISTED ON AN EXCHANGE OR TRADING MARKET AND CANNOT BE READILY SOLD. There is currently no public trading market for the shares and we cannot assure you that one will develop. We may never list the shares for trading on a national stock exchange or include the shares for quotation on a national market system. The absence of an active public market for our shares could impair your ability to sell our stock at a profit or at all. By September 15, 2008 our board of directors will determine whether it is in our best interests to apply to have the shares listed on a national stock exchange or included for quotation on a national market system if we meet the applicable listing requirements at that time.

YOU DO NOT KNOW WHAT REAL PROPERTIES AND OTHER ASSETS WE MAY ACQUIRE IN THE FUTURE, AND MUST RELY ON OUR ADVISOR, OUR BOARD AND OFFICERS TO SELECT THEM AND STOCKHOLDERS WILL NOT PARTICIPATE IN THESE DECISIONS. We intend to acquire commercial retail properties. We have only recently identified one property we intend to acquire. However, no information is available as to the identification, location, operating histories, lease terms or other relevant economic and financial data of any real properties or other assets we may purchase in the future. As a result, you must rely on us to locate and acquire suitable investment properties. In addition, our board of directors may approve future equity offerings or obtain financing, the proceeds of which may be invested in additional properties; therefore, you will not have an opportunity to evaluate all of the properties that will be in our portfolio. Stockholders will not participate in evaluating these investment opportunities. Nonetheless, you will be unable to evaluate the manner in which we invest the proceeds of this offering or the economic merit of particular properties prior to their acquisition. This prospectus only describes the parameters we will use to acquire additional real properties and other assets.

COMPETITION WITH THIRD PARTIES IN ACQUIRING PROPERTIES WILL REDUCE OUR PROFITABILITY AND THE RETURN ON YOUR INVESTMENT. We compete with many other entities engaged in real estate investment activities, many of which have greater resources than we do. Larger REITs may enjoy significant competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies. In addition, the number of entities and the amount of funds competing for suitable

investment properties may increase. This will result in increased demand for these assets and therefore increased prices paid for them. If we pay higher prices for properties, our profitability is reduced and you will experience a lower return on your investment.

WE WILL COMPETE WITH REAL ESTATE INVESTMENT PROGRAMS SPONSORED BY COMPANIES

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AFFILIATED WITH US FOR THE ACQUISITION OF PROPERTIES AND FOR THE TIME AND SERVICES OF PERSONNEL. Affiliated companies have previously sponsored other REITs, private real estate equity programs and private placement mortgage and note programs, and affiliated companies in the future may sponsor other real estate investment programs. These affiliated companies include Inland Real Estate Corporation, Inland Retail Real Estate Trust, Inc., Inland Real Estate Exchange Corporation and other entities to be formed by The Inland Group, Inc. We will compete with these existing and future real estate investment programs for the acquisition of properties of a type suitable for our investment, for the time and services of personnel of our advisor and affiliates of our advisor in connection with our operation and the management of our assets, and for obtaining and retaining investors for our common stock. We will be limited to acquiring properties that are located west of the Mississippi River and single net lease properties located anywhere in the United States and therefore our geographic diversity will be limited.

WE PLAN TO INCUR MORTGAGE INDEBTEDNESS AND OTHER BORROWINGS, WHICH MAY REDUCE THE FUNDS AVAILABLE FOR DISTRIBUTION, MAY INCREASE THE RISK OF LOSS SINCE DEFAULTS MAY RESULT IN FORECLOSURE AND MORTGAGES MAY INCLUDE CROSS-COLLATERALIZATION OR CROSS-DEFAULT PROVISIONS THAT INCREASE THE RISK THAT MORE THAN ONE PROPERTY MAY BE AFFECTED BY A DEFAULT. We may, in some instances, use either existing financing or borrow new funds to acquire properties. We intend to incur or increase our mortgage debt by obtaining loans secured by selected or all of the real properties to obtain funds to acquire additional real properties. We may also borrow funds if necessary to satisfy the requirement that we distribute to stockholders as dividends at least 90% of our annual REIT taxable income, or otherwise as is necessary or advisable to assure that we maintain our qualification as a REIT for federal income tax purposes.

We may incur mortgage debt on a particular real property if we believe the property's projected cash flow is sufficient to service the mortgage debt. However, if there is a shortfall in cash flow, then the amount available for distributions to stockholders may be affected. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and our loss of the property securing the loan which is in default. 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 basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. We may give full or partial guarantees to lenders of mortgage debt to the entity that owns our properties. In such cases, we will be responsible to the lender for satisfaction of the debt if it is not paid by such entity. If any mortgages contain cross-collateralization or cross-default provisions, there is a risk that more than one real property may be affected by a default.

If mortgage debt is unavailable at reasonable rates, we will not be able to place financing on the properties, which could reduce distributions per share. If we place mortgage debt on the properties, we run the risk of being unable to refinance the properties when the loans come due, or of being unable to refinance on favorable terms. If interest rates are higher when the properties are refinanced, our net income could be reduced, which would reduce cash available for distribution to stockholders and may prevent us from raising capital by issuing more stock and may prevent us from borrowing more money.

IF WE HAVE INSUFFICIENT WORKING CAPITAL RESERVES, WE WILL HAVE TO OBTAIN FINANCING FROM OTHER SOURCES. We intend to establish working capital reserves which we believe are adequate to cover our cash needs. However, if these reserves are insufficient to meet our cash needs, we may have to obtain

financing from either affiliated or unaffiliated sources to fund our cash requirements. We cannot assure you that sufficient financing will be available or, if available, will be available on economically feasible terms or on terms acceptable to us. Additional borrowing for working capital purposes will increase our interest expense and therefore, our financial condition and our ability to pay distributions may be adversely affected.

THE TYPES OF PROPERTIES WHICH WE INTEND TO ACQUIRE AND THE AREA IN WHICH WE MAY ACQUIRE RETAIL CENTERS IS LIMITED. We intend to primarily acquire and manage retail centers. Our acquisition of retail centers is limited primarily to states west of the Mississippi River. Adverse economic conditions affecting that area could adversely affect our profitability to a greater degree than if we had diversified our investments to include other types of real estate over a larger geographic region.

WE CURRENTLY PLAN TO ACQUIRE ONLY ONE SINGLE NET LEASED PROPERTY. We currently only have an agreement to acquire one single net leased property. We will not be able to meet our business objectives if we only acquire one single net leased property. This limitation could have an adverse effect on our business.

THE AGGREGATE AMOUNT WE MAY BORROW IS LIMITED UNDER OUR ARTICLES OF INCORPORATION. Our articles of incorporation limit the aggregate amount we may borrow, secured and unsecured, to 300% of our net assets, absent a satisfactory showing that a higher level is appropriate. That limitation could have adverse consequences on our business, including:

- freezing our ability to purchase properties;
- causing us to lose our REIT status if borrowing was necessary to distribute the required minimum amount of cash to our stockholders for us to qualify as a REIT;
- causing operational problems if there are cash flow shortfalls for working capital purposes; and
- resulting in the loss of a property if, for example, financing was necessary to cure a default on a mortgage.

In order to change this limitation, we must obtain approval by a majority of our independent directors and by a majority of our stockholders. There will be a delay before approval can be obtained, if it can be obtained at all. It is possible that even if the required approval is obtained, it may not be obtained in sufficient time to avoid the adverse consequences of not having the additional funding when it is needed.

WE HAVE NO OPERATING HISTORY, AND SO WE HAVE NO HISTORY OF EARNINGS UPON WHICH YOU COULD EVALUATE OUR BUSINESS. We were incorporated on March 5, 2003. We have only recently begun operations. We have not acquired any properties or hired any employees. Therefore, we have no operating history upon which you can evaluate our business and prospects. We have no income, cash flow, funds from operations or funds available to make distributions to you. We may be unable to conduct our business as we intend to do. You must carefully consider the risks and uncertainties frequently encountered in new companies like ours. Because we have no operating history, we have no historical basis for predicting if our business will be successful.

BECAUSE OF THE WAY WE ARE ORGANIZED, WE WOULD BE A DIFFICULT TAKEOVER TARGET. THIS COULD DEPRESS THE PRICE OF OUR STOCK AND INHIBIT A MANAGEMENT CHANGE. Provisions which may have an anti takeover effect and inhibit a change

in our management include:

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- THERE ARE OWNERSHIP LIMITS AND RESTRICTIONS ON TRANSFERABILITY AND OWNERSHIP IN OUR ARTICLES OF INCORPORATION. In order for us to qualify as a REIT, no more than 50% of the outstanding shares of our stock may be beneficially owned, directly or indirectly, by five or fewer individuals at any time during the last half of each taxable year. To assure that we will not fail to qualify as a REIT under this test, our articles of incorporation provide that, commencing March 1, 2003, subject to some exceptions, no person may beneficially own more than 9.8% of our common stock.

This restriction may:

- have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might involve a premium price for holders of our common stock; or
 - compel a stockholder who had acquired more than 9.8% of our stock to dispose of the additional shares and, as a result, to forfeit the benefits of owning the additional shares.
- OUR ARTICLES OF INCORPORATION PERMIT OUR BOARD OF DIRECTORS TO ISSUE PREFERRED STOCK WITH TERMS THAT MAY DISCOURAGE A THIRD PARTY FROM ACQUIRING US. Our articles of incorporation permit our board of directors to issue, without stockholder approval, up to 10 million shares of preferred stock. The board may classify or reclassify any unissued preferred stock and establish preferences, conversion or other rights, voting power, restrictions, limitations as to dividends and other distributions, qualifications, or terms or conditions of redemption, of any preferred stock. Thus, our board could authorize, without the approval by our stockholders, the issuance of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as merger, tender offer or sale of all or substantially all of our assets) that might provide a premium for holders of our common stock.
- MARYLAND LAW MAY DISCOURAGE A THIRD PARTY FROM ACQUIRING US. Maryland law restricts mergers and other business combinations between us and an interested stockholder. Under the Maryland Business Combination Act, an anti-takeover statute, for a period of five years after the most recent acquisition of stock by an interested stockholder, we may not engage in any merger or other business combination with that interested stockholder or any affiliate of that interested stockholder. After the five-year period, any merger or other business combination must be approved by our board of directors and by at least 80% of all the votes entitled to be cast by holders of outstanding shares of our voting stock and two-thirds of all the votes entitled to be cast by holders of outstanding shares of our voting stock other than the interested stockholder with whom the business combination is to be effected unless, among other things, the stockholders of the company receive in the business combination a minimum consideration for their common stock equal to the highest price paid by the interested stockholder for its common stock. However, our articles of incorporation provide that the business combination provisions of Maryland law do not apply to any business combination involving us and

our affiliates. As a result, the five-year prohibition and the super-majority stockholder vote requirements will not apply to any business combinations between us and our affiliates. The Maryland Business Combination Act could have the effect of discouraging offers from third parties to acquire us and of increasing the

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difficulty of successfully completing a business combination. See "Description of Securities - Provisions of Maryland Law and our Articles of Incorporation and Bylaws."

- MARYLAND LAW ALSO LIMITS THE ABILITY OF A THIRD PARTY TO BUY A LARGE STAKE IN US AND EXERCISE VOTING POWER IN ELECTING DIRECTORS. Maryland law provides a second anti-takeover statute, its Control Share Acquisition Act, which provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by the corporation's disinterested stockholders by a vote of a two-thirds of the votes entitled to be cast on the matter; shares of stock owned by interested stockholders, that is, by the acquirer, by officers or by directors who are employees of the corporation, are not entitled to be cast on the matter. "Control shares" are voting shares of stock which would entitle the acquirer to exercise voting power in electing directors within specified ranges of voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares. The control share acquisition statute does not apply (i) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (ii) to acquisitions approved or exempted by the articles of incorporation or bylaws of the corporation. Our bylaws exempt our affiliates from the Maryland control share acquisition statute. This statute could have the effect of discouraging offers from third parties to acquire us and increasing the difficulty of successfully completing this type of offer by anyone other than our affiliates or any of their affiliates. See "Description of Securities - Provisions of Maryland Law and our Articles of Incorporation and Bylaws - Control Share Acquisition."

YOUR INVESTMENT RETURN MAY BE REDUCED IF WE ARE REQUIRED TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT. We are not registered as an investment company under the Investment Company Act of 1940. 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. These requirements include:

- 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 change our operations.

In order to maintain our exemption from regulation under the Investment Company Act of 1940, we must engage primarily in the business of buying real estate, and these investments must be made within a year after the offering ends. If we are unable to invest a significant portion of the proceeds of this

offering in properties within one year of the termination of the offering, 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

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have acquired or may have to forgo opportunities to acquire interests in companies that we would otherwise want to acquire and would be important to our 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 were to require enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

THERE ARE MANY FACTORS WHICH CAN AFFECT DISTRIBUTIONS TO STOCKHOLDERS. Distributions will be based principally on cash available from our properties, real estate securities, and other investments. The amount of cash available for distributions will be affected by many factors, such as our ability to buy properties as offering proceeds become available, the yields on securities of other REITs which we invest in, and our operating expense levels, as well as many other variables. Actual cash available for distributions may vary substantially from estimates. We can give no assurance that we will be able to pay or maintain distributions or that distributions will increase over time. Nor can we give any assurance that rents from the properties will increase, that the securities we buy will increase in value or provide increased dividends over time, or that future acquisitions of real properties or our investments in securities will increase our cash available for distributions to stockholders. Our actual results may differ from the assumptions used by our board of directors in establishing the initial distribution rate to stockholders. Some of these factors are beyond our control, and a change in any one factor could adversely affect our ability to pay future distributions:

- If one or more tenants defaults or terminates their lease, there could be a decrease or cessation of rental payments which would mean less cash available for distributions.
- Cash available for distributions may be reduced if we are required to spend money to correct defects or to make improvements to properties.
- Cash available to make distributions may decrease if the assets we acquire have lower yields than expected.
- There may be a delay between the sale of the common stock and our purchase of real properties. During that time, we may invest in lower yielding short term instruments, which could result in a lower yield on your investment.
- Federal income tax laws require REITs to distribute at least 90% of their taxable income to stockholders. This limits the earnings which we may retain for corporate growth, such as property acquisition, development or expansion and makes us more dependent upon additional debt or equity financing than corporations which are not REITs. If we

borrow more funds in the future, more of our operating cash will be needed to make debt payments and cash available for distributions may therefore decrease.

- In connection with future property acquisitions, we may issue additional shares of common stock or interests in other entities that own our properties. We cannot predict the number of shares of common stock, units or interests which we may issue, or the effect that these additional shares might have on cash available for distributions to you. If we issue additional shares, they could reduce the cash available for distributions to you.
- We make distributions to our stockholders to comply with the distribution requirements of the Internal Revenue Code and to eliminate, or at least minimize, exposure to federal income taxes and the nondeductible REIT excise tax. Differences in timing between the

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receipt of income and the payment of expenses and the effect of required debt payments could require us to borrow funds on a short term basis to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT.

OUR DERIVATIVE FINANCIAL INSTRUMENTS USED TO HEDGE AGAINST INTEREST RATE FLUCTUATIONS COULD REDUCE THE OVERALL RETURNS ON YOUR INVESTMENT. We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our properties. To the extent we do, we are exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, it does not possess credit risk.

Our hedging strategy and use of derivative financial instruments may reduce the overall returns on your investments.

As we have yet to raise any money, our board has not yet established policies and procedures regarding our use of derivative financial instruments for hedging or other purposes.

WE COULD ISSUE MORE SHARES IN THE FUTURE, WHICH COULD REDUCE THE MARKET PRICE OF OUR OUTSTANDING SHARES. We have the power to issue more shares of our common stock in the future. We cannot predict the effect on the market price of our outstanding common stock, if any, of future sales by us of shares of our common stock, or the availability of shares for future sales through the exercise of options granted to independent directors under our independent director stock option plan. The issuance of these additional shares, or the perception that these shares could be issued, could adversely affect the prevailing market prices, if any, for our common stock.

OUR SHARE REPURCHASE PROGRAM IS LIMITED TO 5% OF THE WEIGHTED AVERAGE NUMBER OF SHARES OF OUR STOCK OUTSTANDING DURING THE PRIOR CALENDAR YEAR AND MAY BE CHANGED OR TERMINATED BY US, THEREBY REDUCING THE POTENTIAL LIQUIDITY OF YOUR INVESTMENT. In accordance with our share repurchase program, a maximum of 5% of the weighed average number of shares of our stock outstanding during the prior calendar year may be repurchased by us. This standard limits the number of shares we can purchase. Our board also has the ability to change or terminate, at any time, our share repurchase program. If we terminate or modify our share repurchase program or if we do not have sufficient funds available to repurchase all shares that our stockholders request to repurchase, then our stockholders'

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ability to liquidate their shares will be diminished.

STOCKHOLDERS HAVE LIMITED CONTROL OVER CHANGES IN OUR POLICIES. Our board of directors determines our major policies, including our investment objectives, 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. This means that stockholders will have limited control over changes in our policies.

IF WE INVEST IN JOINT VENTURES, THE OBJECTIVES OF OUR PARTNERS MAY CONFLICT WITH OUR OBJECTIVES. We may make investments in joint ventures or other partnership arrangements between us and affiliates of our sponsor or with unaffiliated third parties. Investments in joint ventures which own real properties may involve risks otherwise not present when we purchase real properties directly. For example, our co venturer may file for bankruptcy protection, may have economic or business interests or goals which are inconsistent with our interests or goals, or may take actions contrary to our instructions, requests, policies or objectives. Among other things, actions by a co venturer might subject real properties owned by the

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joint venture to liabilities greater than those contemplated by the terms of the joint venture or other adverse consequences.

IF WE SELL PROPERTIES BY PROVIDING FINANCING TO PURCHASERS, WE WILL BEAR THE RISK OF DEFAULT BY THE PURCHASER. If we decide to sell any of our properties, we will use our best efforts to sell for cash. However, we may sell our properties by providing financing to purchasers. When we provide financing to purchasers, we will bear the risk of default by the purchaser and will be subject to remedies provided by law. There are no limitations or restrictions on our ability to take purchase money obligations. We may therefore take a purchase money obligation secured by a mortgage as part payment for the purchase price. The terms of payment to us will be affected by custom in the area where the property being sold is located and the then-prevailing economic conditions. If we receive promissory notes or other property in lieu of cash from property sales, the distribution of the proceeds of sales to our stockholders, or their reinvestment in other properties, will be delayed until the promissory notes or other property are actually paid, sold, refinanced or otherwise disposed of. In some cases, we may receive initial down payments in cash and other property in the year of sale in an amount less than the selling price and subsequent payments will be spread over a number of years.

IF WE DO NOT RAISE SUFFICIENT FUNDS, WE MAY NOT FULFILL OUR INVESTMENT OBJECTIVES, INCLUDING ASSET DIVERSIFICATION. We are making this offering on a best efforts basis and it is conditioned on the sale of at least 200,000 shares of common stock for \$2,000,000. Because this offering will be made on a best efforts basis, our potential profitability and our ability to continue to diversify our investments, both geographically and by type of properties purchased, will be limited by the amount of funds we raise. We will be able to purchase additional properties only as additional funds are raised. We cannot guarantee that we will sell the minimum number of shares and, if we do not, all proceeds from subscribers will be returned to them together with the interest earned on the proceeds. We have committed to pay approximately \$26 million for the property to be purchased by us located in Phoenix, Arizona. In addition, expenses that we will incur in connection with this offering will impact the amount of funds that we have available to fulfill our investment objectives. If we only sell the minimum amount, we will incur \$300,000 in expenses, and therefore will only have \$1.7 million available for investment purposes. Funds that we apply towards offering expenses will reduce the amount of funds available for investment purposes. If we do not raise the minimum offering

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amount, then we will not be able to fulfill our investment objectives. See "Plan of Distribution -- Escrow Conditions" for explanations of when uninvested proceeds and escrowed funds will be returned to you. If we sell the maximum amount, we estimate our total expenses will be \$277 million, leaving approximately \$2.4 billion available for investment purposes.

DELAYS IN ACQUISITIONS OF PROPERTIES MAY HAVE AN ADVERSE EFFECT. Delays we encounter in the selection, acquisition and development of properties could adversely affect your returns and distributions on your investment. Where we acquire properties prior to the start of construction or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, you could suffer delays in your distributions attributable to those particular properties. In addition, it takes a certain amount of time to locate, negotiate an acceptable purchase contract, conduct due diligence and ultimately acquire a property. If we are unable to invest our offering proceeds in income producing real properties in a timely manner, this may adversely affect the funds available for distribution.

WE MAY NOT BE ABLE TO IMMEDIATELY INVEST PROCEEDS IN REAL ESTATE, WHICH WILL HARM YOUR RETURNS. Until we invest the proceeds of this offering in real estate investments, we may invest in short-term, highly liquid or other authorized investments. Such short-term investments are not likely to earn as high a return as we expect to earn on our real estate investments, and we cannot guarantee how long it will take us to fully invest the proceeds of this offering in real estate investments. If we are unable to locate and

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close on real estate investments promptly, or in a manner consistent with the capital we raise, the funds available for your distributions could be reduced.

WE DEPEND ON OUR BOARD OF DIRECTORS, ADVISOR AND PROPERTY MANAGER AND LOSING THOSE RELATIONSHIPS COULD NEGATIVELY AFFECT OUR OPERATIONS. Our board of directors has supervisory control over all aspects of our operations. Our ability to achieve our investment objectives will depend to a large extent on the board's ability to oversee, and the quality of, the management provided by the advisor, the property manager, their affiliates and employees for day-to-day operations. Therefore, we depend heavily on the ability of the advisor and its affiliates to retain the services of each of its executive officers and key employees. However, none of these individuals has an employment agreement with the advisor or its affiliates. The loss of any of these individuals could have a material adverse effect on us. These individuals include Robert D. Parks, G. Joseph Cosenza, Thomas P. McGuinness, Roberta S. Matlin and Brenda G. Gujral.

Our advisor must reimburse us for certain operational stage expenses exceeding 15%. If the advisor's net worth or cash flow is not sufficient to cover these expenses, we will not be reimbursed.

THERE ARE CONFLICTS OF INTEREST BETWEEN US AND OUR AFFILIATES. Our operation and management may be influenced or affected by conflicts of interest arising out of our relationship with our affiliates. Our advisor and its affiliates are or will be engaged in other activities that will result in potential conflicts of interest with the services that the advisor and affiliates will provide to us. Those officers could take actions that are more favorable to other entities than to us. The resolution of conflicts in favor of other entities could have a negative impact on our financial performance. These affiliates include, Inland Retail Real Estate Trust, Inc., Inland Western Retail Real Estate Advisory Services, Inc., Inland Real Estate Corporation, Inland Real Estate Exchange Corporation and entities to be formed by The Inland Group, Inc., Inland Western Retail Real Estate Advisory Services, Inc., our advisor. Inland Real Estate Corporation is a publicly registered REIT. Inland Real Estate

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Corporation is a self-administered REIT and is no longer affiliated with The Inland Group. Inland Real Estate Corporation purchases shopping centers located in the Midwest. Inland Retail Real Estate Trust, Inc. is affiliated with The Inland Group, Inc. Inland Retail Real Estate Trust, Inc. purchases shopping centers located east of the Mississippi River. Inland Real Estate Exchange Corporation is a subsidiary of Inland Real Estate Investment Corporation. Inland Real Estate Exchange Corporation provides replacement properties for people wishing to complete an IRS Section 1031 real estate exchange. Our advisor receives fees based on the book value of the properties under management. Specific conflicts of interest between us and our affiliates include:

- WE MAY ACQUIRE PROPERTIES FROM AFFILIATES OF OUR SPONSOR IN TRANSACTIONS IN WHICH THE PRICE WILL NOT BE THE RESULT OF ARM'S LENGTH NEGOTIATIONS. The prices we pay to affiliates of our sponsor for our properties will be equal to the prices paid by them, plus the costs incurred by them relating to the acquisition and financing of the properties. These prices will not be the subject of arm's length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated in an arm's-length transaction. The result of these transactions could cause us to pay more for particular properties than we would have in an arm's length transaction and therefore, adversely effect our cash flow and our ability to pay your distributions.
- WE MAY PURCHASE REAL PROPERTIES FROM PERSONS WITH WHOM OUR ADVISOR OR ITS AFFILIATES HAVE PRIOR BUSINESS RELATIONSHIPS AND OUR INTERESTS IN THESE BUSINESS RELATIONSHIPS MAY BE DIFFERENT FROM THE INTERESTS OF OUR ADVISOR OR ITS AFFILIATES IN THESE BUSINESS RELATIONSHIPS. We may purchase properties from third parties who have sold properties in the past, or who may sell properties in the future, to our advisor or its

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affiliates. If we purchase properties from these third parties, our advisor will experience a conflict between our current interests and its interest in preserving any ongoing business relationship with these sellers. This could result in our advisor or its affiliates recommending properties that may be in the best interest of the third party seller, but not our best interest. This could adversely impact our portfolio by causing us to invest in properties that are not necessarily in our best interest.

- OUR ADVISOR AND ITS AFFILIATES RECEIVE COMMISSIONS, FEES AND OTHER COMPENSATION BASED UPON OUR INVESTMENTS AND THEREFORE OUR ADVISOR AND ITS AFFILIATES MAY RECOMMEND THAT WE MAKE INVESTMENTS IN ORDER TO INCREASE THEIR COMPENSATION. Our advisor and its affiliates receive commissions, fees and other compensation based upon our investments. They benefit by us retaining ownership of our assets and leveraging our assets, while you may be better served by sale or disposition or not leveraging the assets. In addition, our advisor's ability to receive fees and reimbursements depends on our continued investment in properties and in other assets which generate fees. Our advisor received fees based on the book value of the properties under management. Our property manager receives fees based on the income from properties under management. Therefore, our advisor and/or property manager may recommend that we purchase properties that generate fees for our advisor and property manager, but are not necessarily the most suitable investment for our portfolio. In addition, our affiliates, who receive fees, including our advisor, may recommend that we acquire properties, which may result in our incurring substantive amounts of indebtedness. Therefore, the interest

of our advisor and its affiliates in receiving fees may conflict with our ability to earn income and may result in our incurring substantive amounts of indebtedness. The resolution of this conflict of interest may adversely impact our cash flow and our ability to pay your distributions.

- OUR ADVISOR MAY HAVE CONFLICTING FIDUCIARY OBLIGATIONS IF WE ACQUIRE PROPERTIES WITH ITS AFFILIATES. Our advisor may cause us to acquire an interest in a property through a joint venture with its affiliates. In these circumstances, our advisor will have a fiduciary duty to both us and its affiliates participating in the joint venture. The resolution of this conflict of interest may cause the advisor to sacrifice our best interest in favor of the seller of the property and therefore, we may enter into a transaction that is not in our best interest. The resolution of this conflict of interest may negatively impact our financial performance.
- THERE IS COMPETITION FOR THE TIME AND SERVICES OF OUR ADVISOR AND OUR ADVISOR MAY NOT DEDICATE THE TIME NECESSARY TO MANAGE OUR BUSINESS. We rely on our advisor and its affiliates for our daily operation and the management of our assets. Our officers and other personnel of our advisor and its affiliates have conflicts in allocating their management time, services and functions among the real estate investment programs they currently service and any future real estate investment programs or other business ventures which they may organize or serve. Those personnel could take actions that are more favorable to other entities than to us. The resolution of conflicts in favor of other entities could have a negative impact on our financial performance.
- INLAND SECURITIES CORPORATION IS PARTICIPATING AS MANAGING DEALER IN THE SALE OF THE SHARES. Inland Securities Corporation is our managing dealer of this offering and is affiliated with The Inland Group. Our managing dealer is entitled to selling commissions, reimbursement for marketing and due diligence expenses, and the receipt of warrants. Our managing dealer may be subject to a conflict of interest arising out of

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its participation in this offering and its affiliation with The Inland Group in performing its "due diligence" obligations which arise under the Securities Act of 1933. The resolution of this conflict of interest could have a negative impact on our financial performance.

- WE MAY ACQUIRE THE BUSINESS OF OUR ADVISOR AND OUR PROPERTY MANAGER WITHOUT FURTHER ACTION BY OUR STOCKHOLDERS. During the term of our agreements with our advisor and our property manager, we have the option to acquire or consolidate the business conducted by them without any consent of our stockholders, our advisor or our property manager. We may elect to exercise this right at any time after September 15, 2008. This unfettered discretion could cause us to take action that otherwise we would not be able to do and therefore, could have a negative impact on our financial performance.
- WE DO NOT HAVE ARM'S-LENGTH AGREEMENTS, WHICH COULD CONTAIN TERMS WHICH ARE NOT IN OUR BEST INTEREST. As we have noted, our agreements and arrangements with our advisor or any of its affiliates, including those relating to compensation, are not the result of arm's length negotiations. These agreements may contain terms that our not in our best interest and would not otherwise be applicable if we entered into

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arm's-length agreements. See "Conflicts of Interest" for a discussion of various conflicts of interest.

WE CANNOT PREDICT THE AMOUNTS OF COMPENSATION TO BE PAID TO OUR ADVISOR AND OUR OTHER AFFILIATES. Because the fees that we will pay to our advisor and our other affiliates are based on the level of our business activity, it is not possible to predict the amounts of compensation that we will be required to pay these entities. In addition, because key employees of our affiliates are given broad discretion to determine when to consummate a transaction, we rely on these key persons to dictate the level of our business activity. Fees paid to our affiliates will reduce funds available for distribution. Because we cannot predict the amount of fees due to these affiliates, we cannot predict how precisely such fees will impact our distributions.

THE MANAGING DEALER HAS NOT MADE AN INDEPENDENT REVIEW OF US OR THE PROSPECTUS. The managing dealer, Inland Securities Corporation, is one of our affiliates and will not make an independent review of us 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 us by the managing dealer, also an affiliate, cannot be considered to be an independent review and, therefore, may not be as meaningful as a review conducted by an unaffiliated broker-dealer or investment banker. In addition, a substantial portion of the proceeds of the offering will be paid to the managing dealer for managing the offering, including cash selling commissions, a marketing contribution and a due diligence expense allowance.

OUR RIGHTS AND THE RIGHTS OF OUR STOCKHOLDERS TO TAKE ACTION AGAINST OUR DIRECTORS AND OFFICERS AND THE ADVISOR ARE LIMITED. Maryland law provides that a director has no liability in the capacity as a director 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 ordinary prudent person in a like position would use under similar circumstances. Maryland law also provides that an act by a director of a Maryland corporation is presumed to satisfy the standards of the preceding sentence. Additionally, our articles of incorporation limit the liability of our directors and officers to us and to our stockholders for monetary damages to the maximum extent permitted under Maryland law. Our articles of incorporation, in the case of our directors, officers, employees and agents, and the advisory agreement, in the case of the advisor, require us to indemnify our directors, officers, employees and agents and the advisor for actions taken by them in good faith and without negligence or misconduct. Moreover, we have entered into separate indemnification agreements with each of our directors and some of our executive officers. As a result, we and our stockholders may have more limited rights against our directors, officers, employees and agents,

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and the advisor than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors, officers, employees and agents or the advisor in some cases. See "Limitation of Liability and Indemnification of Directors, Officers and Our Advisors."

THE BUSINESS OF OUR ADVISOR AND OUR PROPERTY MANAGER MAY BE ACQUIRED BY US WITHOUT FURTHER ACTION OF OUR STOCKHOLDERS. During the term of our agreements with our advisor and our property manager, we have the option to cause the business conducted by our advisor and/or our property manager (including all of their assets) to be acquired by or consolidated into us, without any consent of our stockholders, our advisor or our property manager or their respective board of directors or stockholders or shareholders in certain instances. We may elect to exercise this right as soon as any time after five years from the date of this prospectus. Our decision to exercise this right will be determined by a

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vote of a majority of our directors not otherwise interested in the transaction (including a majority of our independent directors). Our advisor and our property manager and/or their respective stockholders and shareholders will receive in connection with such an acquisition and in exchange for the transfer of all of the stock or assets of our advisor and/or our property manager, as the case may be, and for terminating their contractual relationships with us and the release or waiver of all their fees payable under the provisions of those contractual arrangements until their stated termination, but not paid, a determinable number of our shares. We will be obligated to pay any fees accrued under such contractual arrangements for services rendered through the closing of such acquisitions. In the event such an acquisition transaction is structured as a purchase of assets by us or a share exchange in which we are the acquiring corporation, our articles of incorporation and Maryland law will permit us to enter into and to consummate such a transaction without obtaining the approval of our stockholders. We do not presently intend to seek such stockholder approval if it is not then required by Maryland law or our articles of incorporation. Any such transaction will occur, if at all, only if our board of directors obtains a fairness opinion from a recognized financial advisor or institution providing valuation services to the effect that the consideration to be paid therefore is fair, from a financial point of view, to our stockholders. As a result, our stockholders will not have a right to vote on a decision to acquire the advisor or property manager and such transaction could dilute your holdings.

YOUR PERCENTAGE OF OWNERSHIP MAY BECOME DILUTED IF WE ISSUE NEW SHARES OF STOCK. Stockholders have no rights to buy additional shares of stock in the event we issue new shares of stock, known as preemptive rights. We may issue common stock, convertible debt or preferred stock in a subsequent public offering or a private placement, upon exercise of options, or to sellers of properties we directly or indirectly acquire instead of, or in addition to, cash consideration. Investors purchasing common stock in this offering who do not participate in any future stock issues will experience dilution in the percentage of the issued and outstanding stock they own. Your investment will not be diluted as a result of any future stock issues if we sell any subsequently issued common stock for cash or property having a value of not less than \$10 per share. Options to purchase common stock to be issued to independent directors under our independent director stock option plan, and/or convertible securities, if any, likely will be exercised or converted at a time when we seek to obtain needed capital through a new offering of our securities and on terms more favorable than those provided by the offered securities. As long as options on convertible securities remain unexercised or unconverted, the terms on which we could raise additional capital may be adversely affected, increasing the likelihood of your ownership percentage being diluted.

THERE ARE INHERENT RISKS WITH REAL ESTATE INVESTMENTS. All real property investments are subject to some degree of risk. Equity real estate investments cannot be quickly converted to cash. This limits our ability to promptly vary our portfolio in response to changing economic, financial and investment conditions. Real property investments are also subject to adverse changes in general economic conditions or local conditions which reduce the demand for rental space. Other factors also affect real estate values, including:

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- possible federal, state or local regulations and controls affecting rents, prices of goods, fuel and energy consumption and prices, water and environmental restrictions;
- increasing labor and material costs; and
- the attractiveness of the property to tenants in the neighborhood.

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The yields available from equity investments in real estate depend in large part on the amount of rental income earned, as well as property operating expenses and other costs we incur. If our properties do not generate revenues sufficient to meet operating expenses, we may have to borrow amounts to cover fixed costs, and our cash available for distributions may be adversely affected.

Prior investment programs of our sponsor experienced mortgage defaults and restructuring of debt. The principal real estate related adverse effects experienced by prior investment programs sponsored by The Inland Group and its affiliates were mortgage defaults and restructuring of debt.

ADVERSE ECONOMIC CONDITIONS IN OUR PRIMARY GEOGRAPHIC REGION AND IN THE MARKET FOR RETAIL SPACE COULD REDUCE OUR INCOME AND DISTRIBUTIONS TO YOU. Our properties will be located mainly in states west of the Mississippi River in the United States. Our properties will primarily be used as retail establishments, principally multi-tenant shopping centers. The economic performance of our properties could be affected by changes in local economic conditions. Our performance is therefore linked to economic conditions in this region and in the market for retail space generally. Therefore, to the extent that there are adverse economic conditions in this region and in the market for retail space generally that impact the market rents for retail space, such conditions could result in a reduction of our income and cash available for distributions and thus affect the amount of distributions we can make to you.

In addition, we intend to predominantly own and operate grocery and discount anchored retail centers. To the extent that the investing public has a negative perception of the retail sector, the value of our common stock may be negatively impacted, thereby resulting in the shares trading at a discount below the inherent value of our assets as a whole.

RISING EXPENSES COULD REDUCE CASH FLOW AND FUNDS AVAILABLE FOR FUTURE ACQUISITIONS. Our properties and any properties we buy in the future, are and will be subject to operating risks common to real estate in general, any or all of which may negatively affect us. If any property is not fully occupied or if rents are being paid in an amount that is insufficient to cover operating expenses, we could be required to expend funds with respect to that property for operating expenses. The properties will be subject to increases in tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses.

While some of our properties may be leased on a triple-net-lease basis or require the tenants to pay a portion of such expenses, renewals of leases or future leases may not be negotiated on that basis, in which event we will have to pay those costs. If we are unable to lease properties on a triple-net-lease basis or on a basis requiring the tenants to pay all or some of such expenses, or if tenants fail to pay required tax, utility and other impositions, we could be required to pay those costs which could adversely affect funds available for future acquisitions or cash available for distributions.

IF OUR TENANTS ARE UNABLE TO MAKE RENTAL PAYMENTS, IF THEIR RENTAL PAYMENTS ARE REDUCED, OR IF THEY TERMINATE A LEASE, OUR FINANCIAL CONDITION AND ABILITY TO PAY DISTRIBUTIONS WILL BE ADVERSELY AFFECTED. We are subject to the risk that tenants, as well as lease guarantors, if any, may be unable to make their lease payments or may decline to extend a lease upon its expiration. A default by a tenant, the failure of a guarantor to fulfill its obligations or other premature termination of a lease, or a tenant's

election not to extend a lease upon its expiration, could have an adverse effect

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on our financial condition and our ability to pay distributions.

OUR FINANCIAL CONDITION AND ABILITY TO MAKE DISTRIBUTIONS MAY BE ADVERSELY AFFECTED BY THE BANKRUPTCY OR INSOLVENCY, A DOWNTURN IN THE BUSINESS, OR A LEASE TERMINATION OF A TENANT THAT OCCUPIES A LARGE AREA OF THE RETAIL CENTER OR AN ANCHOR TENANT. Generally, any tenant occupying a large portion of the gross leasable area of a retail center, a tenant of any of the triple-net single-user retail properties outside the primary geographical area of investment, commonly referred to as an anchor tenant, or a tenant that is an anchor tenant at more than one retail center, may become insolvent, may suffer a downturn in business, or may decide not to renew its lease. Any of these events would result in a reduction or cessation in rental payments to us and would adversely affect our financial condition. A lease termination by an anchor tenant could result in lease terminations or reductions in rent by other tenants whose leases permit cancellation or rent reduction if an anchor tenant's lease is terminated. In certain properties where there are large tenants, other tenants may require that if certain large tenants or "shadow" tenants discontinue operations, a right of termination or reduced rent may exist. In such event, we may be unable to re-lease the vacated space. Similarly, the leases of some anchor tenants may permit the anchor tenant to transfer its lease to another retailer. The transfer to a new anchor tenant could cause customer traffic in the retail center to decrease and thereby reduce the income generated by that retail center. A transfer lease to a new anchor tenant could also allow other tenants to make reduced rental payments or to terminate their leases at the retail center. If we are unable to re-lease the vacated space to a new anchor tenant, we may incur additional expenses in order to re-model the space to be able to re-lease the space to more than one tenant.

IF A TENANT CLAIMS BANKRUPTCY, WE MAY BE UNABLE TO COLLECT BALANCES DUE UNDER RELEVANT LEASES. Any or all of the tenants, or a guarantor of a tenant's lease obligations, could be subject to a bankruptcy proceeding pursuant to Title 11 of the bankruptcy laws of the United States. Such a bankruptcy filing would bar all efforts by us to collect pre-bankruptcy debts from these entities or their properties, unless we receive an enabling order from the bankruptcy court. Post-bankruptcy debts would be paid currently. If a lease is assumed, all pre-bankruptcy balances owing under it must be paid in full. If a lease is rejected by a tenant in bankruptcy, we would have a general unsecured claim for damages. If a lease is rejected, it is unlikely we would receive any payments from the tenant because our claim is capped at the rent reserved under the lease, without acceleration, for the greater of one year or 15% of the remaining term of the lease, but not greater than three years, plus rent already due but unpaid. This claim could be paid only in the event funds were available, and then only in the same percentage as that realized on other unsecured claims.

A tenant or lease guarantor bankruptcy could delay efforts to collect past due balances under the relevant leases, and could ultimately preclude full collection of these sums. Such an event could cause a decrease or cessation of rental payments which would mean a reduction in our cash flow and the amount available for distributions to you. In the event of a bankruptcy, we cannot assure you that the tenant or its trustee will assume our lease. If a given lease, or guaranty of a lease, is not assumed, our cash flow and the amounts available for distributions to you may be adversely affected.

WE MAY INCUR ADDITIONAL COSTS IN ACQUIRING OR RE-LEASING RETAIL PROPERTIES. Some of the properties we may acquire may be designed or built primarily for a particular tenant or a specific type of use. If a tenant fails to renew its lease or defaults on its lease obligations, we may not be able to readily market the property to a new tenant without substantial capital improvements or remodeling, which may adversely affect our results of operation and financial condition.

OUR PROPERTIES WILL BE SUBJECT TO COMPETITION FOR TENANTS AND CUSTOMERS. We

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intend to locate our properties in developed areas. Therefore, there are and will undoubtedly be numerous other retail

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properties within the market area of each of our properties which will compete with our properties and which will compete with us for tenants. The number of competitive properties could have a material effect on our ability to rent space at our properties and the amount of rents charged. We could be adversely affected if additional competitive properties are built in locations competitive with our properties, causing increased competition for customer traffic and creditworthy tenants. This could result in decreased cash flow from tenants and may require us to make capital improvements to properties which we would not have otherwise made, thus affecting cash available for distributions, and the amount available for distributions to you.

OUR PROPERTIES WILL FACE COMPETITION WHICH MAY AFFECT TENANTS' ABILITY TO PAY RENT AND THE AMOUNT OF RENT PAID TO US AND IN TURN AFFECT THE CASH AVAILABLE FOR DISTRIBUTIONS AND THE AMOUNT OF DISTRIBUTIONS. Each of our properties will be subject to competition from similar retail centers within their respective market areas. Other retail centers within the market area of our properties will compete with our properties for customers affecting their cash flows and thus affecting their ability to pay rent. In addition, some of our tenant rent payments may be based on the amount of sales revenue generated by them. If these tenants experience competition, the amount of their rent may decrease and our cash flow will decrease.

WE MAY BE RESTRICTED FROM RE-LEASING SPACE. In many cases, tenant leases will contain provisions giving the tenant the exclusive right to sell particular types of merchandise or provide specific types of services within the particular retail center, or limit the ability of other tenants to sell such merchandise or provide such services. When re-leasing space after a vacancy is required, these provisions may limit the number and types of prospective tenants for the vacant space. The failure to re-lease or to re-lease on satisfactory terms could result in a reduction of net income, funds from operations and cash available for distributions and, thus affect the amount of distributions to you.

WE MAY BE UNABLE TO SELL A PROPERTY IF OR WHEN WE DECIDE TO DO SO. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct such defects or to make such improvements.

In acquiring a property, we may agree to restrictions that prohibit the sale of 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 provisions would restrict our ability to sell a property.

IF WE SUFFER LOSSES THAT ARE NOT COVERED BY INSURANCE OR THAT ARE IN EXCESS OF INSURANCE COVERAGE, WE COULD LOSE INVESTED CAPITAL AND ANTICIPATED PROFITS. Each tenant is responsible for insuring its goods and premises and, in some circumstances, may be required to reimburse us for a share of the cost of acquiring comprehensive insurance for the property, including casualty, liability, fire and extended coverage customarily obtained for similar

properties in amounts which our advisor determines are sufficient to cover reasonably foreseeable losses. Tenants of single-user properties leased on a triple-net-lease basis typically are required to pay all insurance costs associated with those properties. Material losses may occur in excess of insurance proceeds with respect to any property as insurance may not have sufficient resources to fund the losses. However, there are types of losses, generally of a catastrophic nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or

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environmental matters, which are either uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or copayments. Insurance risks associated with potential terrorism acts could sharply increase the premium we pay for coverage against property and casualty claims. Additionally, mortgage lenders in some cases have begun to insist that specific coverage against terrorism be purchased by commercial property owners as a condition for providing mortgage loans. It is uncertain whether such insurance policies will be available, or available at reasonable cost, which could inhibit our ability to finance or refinance our potential properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We cannot assure you that we will have adequate coverage for such losses. The Terrorism Risk Insurance Act of 2002 is designed for a sharing of terrorism losses between insurance companies and the federal government. We cannot be certain how this act will impact us or what additional cost to us, if any, could result. If such an event occurred to, or caused the destruction of, one or more of our properties, we could lose both our invested capital and anticipated profits from such property.

TERRORIST ATTACKS, SUCH AS THE ATTACKS THAT OCCURRED IN NEW YORK AND WASHINGTON, D.C. ON SEPTEMBER 11, 2001, AND OTHER ACTS OF VIOLENCE OR WAR MAY AFFECT THE MARKETS IN WHICH WE OPERATE, OUR OPERATIONS AND OUR PROFITABILITY. Terrorist attacks may negatively affect our operations and your investment in our common shares. We cannot assure you that there will not be further terrorist attacks against the United States or United States businesses. Properties we may acquire may be located in areas that may be susceptible to attack, which may make these properties more likely to be viewed as terrorist targets than similar, less recognizable properties. These attacks or armed conflicts may directly impact the value of our properties through damage, destruction, loss or increased security costs. We may obtain terrorism insurance as required by our lenders. The terrorism insurance that we obtain may not be sufficient to cover loss for damages to our properties as a result of terrorist attacks. In addition, certain losses resulting from these types of events are uninsurable and others would not be covered by our current terrorism insurance. Additional terrorism insurance may not be available at a reasonable price or at all.

The United States' armed conflict in Iraq could have a further impact on our tenants. The consequences of any armed conflict are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business or your investment.

More generally, any of these events could result in increased volatility in or damage to the United States and worldwide financial markets and economy. They also could result in a continuation of the current economic uncertainty in the United States or abroad. Our revenues will be dependent upon payment of rent by retailers, which may be particularly vulnerable to uncertainty in the local economy. Adverse economic conditions could affect the ability of our tenants to pay rent, which could have a material adverse effect on our operating results and financial condition, as well as our ability to pay distributions to stockholders.

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REAL ESTATE RELATED TAXES MAY INCREASE AND IF THESE INCREASES ARE NOT PASSED ON TO TENANTS, OUR INCOME WILL BE REDUCED. Some local real property tax assessors may seek to reassess some of our properties as a result of our acquisition of the property. Generally, from time to time our property taxes increase as property values or assessment rates change or for other reasons deemed relevant by the assessors. An increase in the assessed valuation of a property for real estate tax purposes will result in an increase in the related real estate taxes on that property. Although some tenant leases may permit us to pass through such tax increases to the tenants for payment, there is no assurance that renewal leases or future leases will be negotiated on the same basis. Increases not passed through to tenants will adversely affect our income, cash available for distributions, and the amount of distributions to you.

REVENUE FROM OUR PROPERTIES DEPENDS ON THE AMOUNT OF OUR TENANTS' RETAIL REVENUE, MAKING US VULNERABLE TO GENERAL ECONOMIC DOWNTURNS AND OTHER CONDITIONS AFFECTING THE RETAIL INDUSTRY. Some of

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our leases may provide for base rent plus contractual base rent increases. Some of our leases may also include a percentage rent clause for additional rent above the base amount based upon a specified percentage of the sales our tenants generate.

Under those leases which contain percentage rent clauses, our revenue from tenants may increase as the sales of our tenants increase. Generally, retailers face declining revenues during downturns in the economy. As a result, the portion of our revenue which we derive from percentage rent leases could decline upon a general economic downturn.

THE COSTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS AND OTHER GOVERNMENTAL LAWS AND REGULATIONS MAY ADVERSELY AFFECT OUR INCOME AND THE CASH AVAILABLE FOR ANY DISTRIBUTIONS. All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. These laws and regulations generally govern wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation and disposal of solid and hazardous materials, and the remediation of contamination associated with disposals. Some of these laws and regulations may impose joint and several liability on tenants, owners or operators for the costs of investigation or remediation of contaminated properties, regardless of fault or the legality of the original disposal. Under various federal, state and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of hazardous or toxic substances at, on, under, or in its property. The costs of removal or remediation could be substantial. In addition, the presence of such substances, or the failure to properly remediate such substances, may adversely affect our ability to sell or rent such property or to use such property as collateral for future borrowing.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations, stricter interpretation of existing laws or the future discovery of environmental contamination may require material expenditures by us. We cannot assure that future laws, ordinances or regulations will not impose any material environmental liability, or that the current environmental condition of our properties will not be affected by the operations of the tenants, by the existing condition of the land, by operations in the vicinity of the properties, such as the presence of underground storage tanks, or by the activities of unrelated third parties.

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These laws typically allow liens to be placed on the affected property. In addition, there are various local, state and federal fire, health, life-safety and similar regulations which we may be required to comply with, and be subject to liability in the form of fines or damages for noncompliance.

State and federal laws in this area are constantly evolving, and we intend to monitor these laws and take commercially reasonable steps to protect ourselves from the impact of these laws, including obtaining environmental assessments of each property acquired. We cannot assure that such assessments will reveal all environmental liabilities or that a prior owner of a property did not create a material environmental condition not known to us. We cannot predict what other environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted, or what environmental conditions may be found to exist in the future. We cannot assure that our business, assets, results of operations, liquidity or financial condition will not be adversely affected by these laws, which may adversely affect cash available for distributions, and the amount of distributions to you.

OUR COSTS ASSOCIATED WITH COMPLYING WITH THE AMERICANS WITH DISABILITIES ACT MAY AFFECT CASH AVAILABLE FOR DISTRIBUTIONS. Our properties will be subject to the Americans with Disabilities Act of 1990.

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Under the Disabilities Act, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The Disabilities Act has separate compliance requirements for "public accommodations" and "commercial facilities" that generally requires that buildings and services, including restaurants and retail stores, be made accessible and available to people with disabilities. The Disabilities Act's requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties, or, in some cases, an award of damages. We will attempt to acquire properties which comply with the Disabilities Act or place the burden on the seller or other third party, such as a tenant, to ensure compliance with the Disabilities Act. However, we cannot assure that we will be able to acquire properties or allocate responsibilities in this manner. If we cannot, our funds used for Disabilities Act compliance may affect cash available for distributions and the amount of distributions to you.

IF A SALE OR LEASEBACK TRANSACTION IS RECHARACTERIZED, OUR FINANCIAL CONDITION COULD BE ADVERSELY AFFECTED. We may enter into sale and leaseback transactions, where we would purchase a property and then lease the same property back to the person from whom we purchased it. In the event of the bankruptcy of a tenant, a transaction structured as a sale and leaseback may be recharacterized as either a financing or a joint venture, either of which outcomes could adversely affect our business.

If the sale and leaseback were recharacterized as a financing, we might not be considered the owner of the property, and as a result would have the status of a creditor in relation to the tenant. In that event, we would no longer have the right to sell or encumber our ownership interest in the property. Instead, we would have a claim against the tenant for the amounts owed under the lease, with the claim arguably secured by the property. The tenant/debtor might have the ability to propose a plan restructuring the term, interest rate and amortization schedule of its outstanding balance. If confirmed by the bankruptcy court, we could be bound by the new terms, and prevented from foreclosing our lien on the property. These outcomes could adversely affect our cash flow and the amount available for distributions to you.

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If the sale and leaseback were recharacterized as a joint venture, we and our lessee could be treated as co-venturers with regard to the property. As a result, we could be held liable, under some circumstances, for debts incurred by the lessee relating to the property. The imposition of liability on us could adversely affect our cash flow and the amount available for distributions to our stockholders.

WE MAY INCUR ADDITIONAL COSTS IN ACQUIRING NEWLY CONSTRUCTED PROPERTIES WHICH MAY ADVERSELY AFFECT CASH AVAILABLE FOR DISTRIBUTIONS TO YOU. We intend to primarily acquire existing or newly constructed properties. We may purchase properties that are subject to completion of construction and development. The builder's failure to perform may result in tenants terminating leases. These actions may increase our costs or necessitate legal action by us to rescind our purchase of a property, to compel performance, or to sue for damages. Any such legal action may result in increased costs to us.

OUR INVESTMENTS IN UNIMPROVED REAL PROPERTY MAY RESULT IN ADDITIONAL COST TO US TO COMPLY WITH RE-ZONING RESTRICTIONS OR ENVIRONMENTAL REGULATIONS. We may invest up to 10% of our assets in unimproved real property. Investments in unimproved properties are subject to the risks of real estate investments in general. They are also subject to risks and uncertainties associated with re-zoning the land for higher use or development and environmental concerns of governmental entities and/or community groups. We do not intend to invest in any unimproved property which is not intended to be developed.

CONSTRUCTION AND DEVELOPMENT ACTIVITIES WILL EXPOSE US TO RISKS SUCH AS COST OVERRUNS, CARRYING COSTS OF PROJECTS UNDER CONSTRUCTION OR DEVELOPMENT, AVAILABILITY AND COSTS OF MATERIALS AND LABOR, WEATHER CONDITIONS AND GOVERNMENT REGULATION. Should we elect to engage in construction and development activities, in accordance with current pronouncements of the Internal Revenue Service, we

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intend to have our employees only perform oversight and review functions. These functions may include selecting sites, reviewing construction and tenant improvement design proposals, negotiating and contracting for feasibility studies, supervising compliance with local, state or federal laws and regulations, negotiating contracts, oversight of construction, accounting and obtaining financing. We will retain an independent general contractor to perform the actual physical construction work on tenant improvements or the installation of heating ventilation and air conditioning systems. These activities will expose us to risks inherent in construction and development, including cost overruns, carrying costs of projects under construction or development, availability and costs of materials and labor, adverse weather conditions and governmental regulation.

WE MAY ACQUIRE OR FINANCE PROPERTIES WITH LOCK-OUT PROVISIONS WHICH MAY PROHIBIT US FROM SELLING A PROPERTY, OR MAY REQUIRE US TO MAINTAIN SPECIFIED DEBT LEVELS FOR A PERIOD OF YEARS ON SOME PROPERTIES. Lock out provisions could materially restrict us from selling or otherwise disposing of or refinancing properties. These provisions would affect our ability to turn our investments into cash and thus affect cash available for distributions to you. Lock out provisions may prohibit us from reducing the outstanding indebtedness with respect to any properties, refinancing such indebtedness on a nonrecourse basis at maturity, or increasing the amount of indebtedness with respect to such properties.

Lock out provisions could impair our ability to take actions during the lock-out period that would otherwise be in the best interests of our stockholders and, therefore, may have an adverse impact on the value of the

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shares, relative to the value that would result if the lock-out provisions did not exist. In particular, lock out provisions could preclude us from participating in major transactions that could result in a disposition of our assets or a change in control even though that disposition or change in control might be in the best interests of our stockholders.

YOUR INVESTMENT HAS VARIOUS FEDERAL INCOME TAX RISKS. Although the provisions of the Internal Revenue Code relevant to your investment are generally described in the section of the prospectus titled "Federal Income Tax Considerations," we strongly urge you to consult your own tax advisor concerning the effects of federal, state and local income tax law on an investment and on your individual tax situation.

IF WE FAIL TO QUALIFY AS A REIT OR TO MAINTAIN OUR REIT STATUS, OUR DIVIDENDS WILL NOT BE DEDUCTIBLE TO US, AND OUR INCOME WILL BE SUBJECT TO TAXATION. We intend to qualify as a REIT under the Internal Revenue Code of 1986, as amended, which will afford us significant tax advantages. The requirements for this qualification, however, are complex. If we fail to meet these requirements, our dividends will not be deductible to us and we will have to pay a corporate level tax on our income. This would substantially reduce our cash available to pay distributions and your yield on your investment. In addition, tax liability might cause us to borrow funds, liquidate some of our investments or take other steps which could negatively affect our operating results. Moreover, if our REIT status is terminated because of our failure to meet a technical REIT test, we would be disqualified from electing treatment as a REIT for the four taxable years following the year in which REIT status is lost.

YOU MAY HAVE TAX LIABILITY ON DISTRIBUTIONS YOU ELECT TO REINVEST IN COMMON STOCK. If you participate in our distribution reinvestment program, you will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in common stock. 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 common stock received.

THE OPINION OF DUANE MORRIS LLP REGARDING OUR STATUS AS A REIT DOES NOT GUARANTEE OUR ABILITY TO REMAIN A REIT. Our legal counsel, Duane Morris LLP, will render its opinion upon commencement of this offering that we will qualify as a REIT, based upon our representations as to the

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manner in which we will be owned, invest in assets, and operate, among other things. Our qualification as a REIT depends upon our ability to meet, through investments, actual operating results, distributions, and satisfaction of specific stockholder rules, the various tests imposed by the Internal Revenue Code. Duane Morris LLP will not review these operating results or compliance with the qualification standards. This means that we cannot assure you that we will satisfy the REIT requirements in the future. Also, this opinion represents Duane Morris LLP's legal judgment based on the law in effect as of the date of this prospectus and is not binding on the Internal Revenue Service, and could be subject to modification or withdrawal based on future legislative, judicial or administrative changes to the federal income tax laws, any of which could be applied retroactively

EVEN REITS ARE SUBJECT TO FEDERAL AND STATE INCOME TAXES. Even if we qualify and maintain our status as a REIT, we may become subject to federal income taxes and related state taxes. For example, if we have net income from a "prohibited transaction," such income will be subject to a 100% tax. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITS. We may also decide to retain income we earn from the sale or other

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disposition of our property and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability. In addition, we may also be subject to state and local taxes on our income or property, either directly or at the level of the operating partnership or at the level of the other companies through which we indirectly own our assets. We cannot assure you that we will be able to continue to satisfy the REIT requirements.

IN VIEW OF THE COMPLEXITY OF THE TAX ASPECTS OF THE OFFERING, PARTICULARLY IN LIGHT OF THE FACT THAT SOME OF THE TAX ASPECTS OF THE OFFERING WILL NOT BE THE SAME FOR ALL INVESTORS, PROSPECTIVE INVESTORS ARE STRONGLY ADVISED TO CONSULT THEIR TAX ADVISORS WITH SPECIFIC REFERENCE TO THEIR OWN TAX SITUATION PRIOR TO AN INVESTMENT IN SHARES OF OUR COMMON STOCK.

AN INVESTMENT IN OUR COMMON STOCK MAY NOT BE SUITABLE FOR EVERY EMPLOYEE BENEFIT PLAN. When considering an investment in our common stock, an individual with investment discretion over assets of any pension plan, profit-sharing plan, retirement plan, IRA or other employee benefit plan covered by ERISA should consider whether the investment satisfies the fiduciary requirements of ERISA and other applicable laws. In particular, attention should be paid to the diversification requirements of Section 404(a)(1)(C) of ERISA in light of all the facts and circumstances, including the portion of the plan's portfolio of which the investment will be a part. All plan investors should also consider whether the investment is prudent and meets plan liquidity requirements as there may be only a limited market in which to sell or otherwise dispose of our common stock, and whether the investment is permissible under the plan's governing instrument. We have not, and will not, evaluate whether an investment in our common stock is suitable for any particular plan. Rather, we will accept entities as stockholders if an entity otherwise meets the suitability standards.

THE ANNUAL STATEMENT OF VALUE THAT WE WILL BE SENDING 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 value of each common stock based as of the close of our fiscal year. No independent appraisals will be obtained and the value will be based upon an estimated amount we determine would be received if our properties and other assets were sold as of the close of our fiscal year and if such proceeds, together with our other funds, were distributed pursuant to a liquidation. However, the net asset value of each share of common stock will be deemed to be \$10 during this offering and for the first three years following the termination of this offering. Because this is only an estimate, we may subsequently revise any annual valuation that is provided. We cannot assure that:

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- a value included in the annual statement could actually be realized by us or by our stockholders upon liquidation;
- stockholders could realize that value if they were to attempt to sell their common stock; or
- an annual statement of value would 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 the common stock becomes listed for trading on a national stock exchange or included for quotation on a national market system.

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CAUTIONING NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements that reflect management's expectations and projections about our future results, performance, prospects and opportunities. We have attempted to identify these forward-looking statements by using words such as "may," "will," "expects," "anticipates," "believes," "intends," "expects," "estimates," "could" or similar expressions. These forward-looking statements are based on information currently available to us and are subject to a number of known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, among other things, and are detailed on the previous pages:

- our common stock is not currently listed or traded on an exchange and cannot be readily sold;
- we have no operating history nor established financing sources;
- we have identified only one property to be purchased with the proceeds of this offering;
- if we raise the minimum amount, we will not have sufficient resources to acquire the identified property. We need to raise in excess of \$26 million to acquire this property;
- although we anticipate that aggregate borrowings will not exceed 55% of the combined fair market value of our properties, our charter imposes a limitation on our borrowings of less than 300% of net assets and there are risks associated with a high amount of leverage;
- we have no ownership in our advisor and the advisor is owned by our sponsor or their affiliates;
- our advisor and its affiliates will receive substantial fees, including participation in proceeds from the sales, refinancing or liquidation of our assets;
- our advisor, property manager and two of our directors are subject to conflicts of interest as a result of their affiliation with The Inland Group, including conflicts of interest relating to:
- the negotiation of the terms of the advisors and property management agreements;
- the allocation of their time between us and their other business ventures;
- decisions whether to acquire and dispose of properties;
- the purchase and sale of properties to or from the advisor and our affiliates; and
- the allocation of investment opportunities between us and their other business ventures.
- the management fee structure could result in our advisor recommending riskier or more speculative investments;

- we may make distributions that include a return of principal for federal tax purposes;

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- we may fail to qualify as a REIT;
- there are limits on ownership, transferability and redemption of shares;
- our investment policies and strategies may be changed without stockholder consent;
- our investments will lack geographic diversification;
- we will not be able to meet our business objectives if we only acquire one single net leased property; and
- risks that incentive structure of fees payable to our advisor and its affiliates may encourage our advisor to make investments that have greater risks to generate higher fees.

You should not place undue reliance on any forward-looking statements. Except as otherwise required by federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason after the date of this prospectus.

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HOW WE OPERATE

We intend to operate as a REIT for federal and state income tax purposes. Our sponsor is Inland Real Estate Investment Corporation. Our sponsor was instrumental in our organization.

We contract with Inland Western Retail Real Estate Advisory Services, Inc. for its services as our advisor. Our advisor has the responsibility for our day-to-day operations and the management of our assets.

In addition to the services of our advisor, we contract with Inland Western Management Corp. for their services as our property manager. Inland Western Management Corp. provides the day-to-day property management services for all of our properties.

Our sponsor, Inland Real Estate Investment Corporation, is owned by The Inland Group, Inc. Our advisor Inland Western Retail Real Estate Advisory Services, Inc., is owned by our sponsor, and thus is indirectly controlled by The Inland Group. In addition, our property manager, Inland Western Management Corp. is owned by individuals who are affiliates of the Inland Group.

The Inland Group, together with its subsidiaries and affiliates, is a fully-integrated group of legally and financially separate companies that have been engaged in diverse facets of real estate for over 35 years providing the following and other related services:

| | |
|---------------------|-------------|
| Property management | Leasing |
| Marketing | Acquisition |

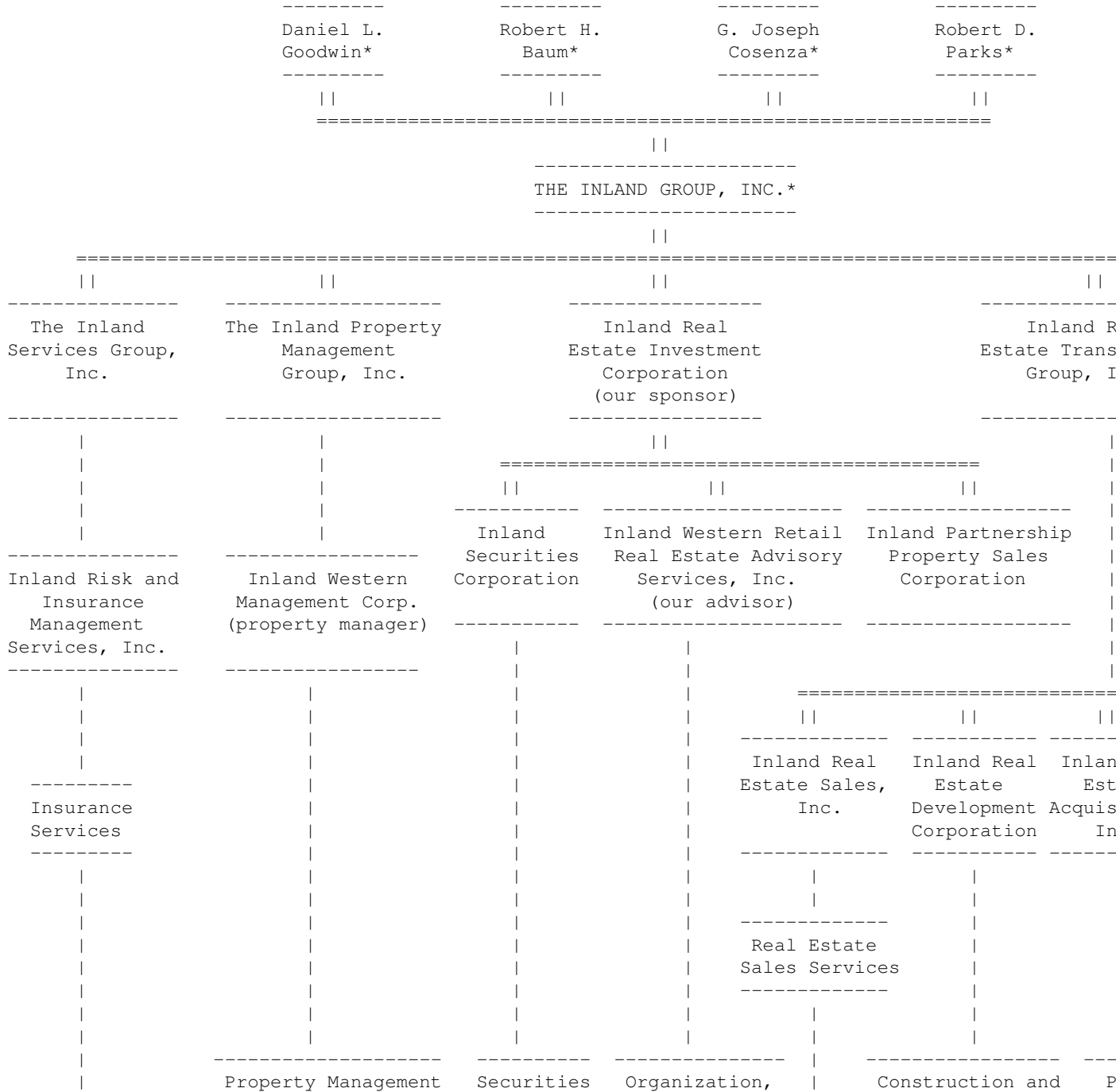
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| | |
|---------------|------------------------|
| Disposition | Development |
| Redevelopment | Syndication |
| Renovation | Construction |
| Finance | Other related services |

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The following organizational chart depicts the services that affiliates or our sponsor will render to us and our organizational structure.

ORGANIZATIONAL CHART



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| | and Related Services | Sales | Advisory and Real Estate Services | Development Services | Acq S |
|--|----------------------|-------|---|-------------------------|----------|
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| | | | | | |

Inland Western Retail Real Estate Trust, Inc.
We will be principally owned by public investors. Ownership is represented

Solid lines indicate 100% ownership.
Broken lines indicate service.

* The four indicated individuals control The Inland Group, Inc. and own substantially all of its stock.

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CONFLICTS OF INTEREST

We are subject to conflicts of interest arising out of our relationship with our sponsor, our advisor and their affiliates. All of our agreements and arrangements with our advisor and its affiliates, including those relating to compensation, are not the result of arm's length negotiations. Some of the conflicts inherent in our transactions with our advisor and its affiliates, and the limitations on our advisor adopted to address these conflicts, are described below. Our advisor and its affiliates will try to balance our interests with their own. However, to the extent that our advisor or its affiliates take actions that are more favorable to other entities than to us, these actions could have a negative impact on our financial performance and, consequently, on distributions to you and the value of our stock. In addition, our directors and officers and security holders may engage for their own account in business activities of the types conducted or to be conducted by us and our subsidiaries.

THERE MAY BE CONFLICTING INVESTMENT OPPORTUNITIES AMONG AFFILIATES OF OUR ADVISOR AND THE INLAND GROUP. Affiliates of our advisor and The Inland Group have sponsored multiple previous investment programs. Our sponsor may also sponsor other programs which may have investment objectives similar to ours. Therefore, our sponsor, our advisor and their affiliates could face conflicts of interest in determining which investment programs will have the first opportunity to acquire real properties and other assets as they become available.

In order to address this situation, we have an agreement with our advisor, some of its affiliates, and Inland Retail Real Estate Trust, Inc., another REIT sponsored by our sponsor. This agreement gives us the right to purchase property in our primary geographic area of investment, which includes the states west of the Mississippi River, placed under contract by our advisor or any of its affiliates, if we are able to close the purchase within 60 days. Similarly, Inland Retail Real Estate Trust, Inc. has the first opportunity to purchase properties in its primary geographical area of investment, which is located in states east of the Mississippi.

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ANYWHERE WITHIN THE UNITED STATES, AND BOTH OF US HAVE FUNDS AVAILABLE TO MAKE THE PURCHASE, THE PROSPECTIVE PROPERTY WILL FIRST BE OFFERED TO INLAND RETAIL REAL ESTATE TRUST, INC. IF INLAND REAL ESTATE TRUST, INC. DOES NOT PURCHASE THE PROSPECTIVE PROPERTY, IT WILL THEN BE OFFERED TO US.

Factors which may be considered in connection with evaluating the suitability of the prospective property or other asset for investment by a particular investment program include:

- the effect of the acquisition on the diversification of each program's portfolio;
- the amount of funds available for investment;
- cash flow; and
- the estimated income tax effects of the purchase and subsequent disposition.

We currently focus on purchase of properties in the states west of the Mississippi River which is outside Inland Retail Real Estate Trust Inc.'s primary geographic area of investment. However, if any conflicts do arise, they will be resolved as provided in the agreement with our advisor discussed above. We currently have identified one property for purchase located in Phoenix, Arizona. Neither The Inland Group nor any of its affiliates owns or has any interest in properties adjacent to this property.

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All actions taken by our advisor or its affiliates which present potential conflicts with us will be APPROVED BY A MAJORITY OF OUR INDEPENDENT DIRECTORS.

WE MAY ACQUIRE PROPERTIES FROM AFFILIATES OF OUR SPONSOR. The prices we pay to affiliates of our sponsor for these properties will be equal to the prices paid by them, plus the costs incurred by them relating to the acquisition and financing of the properties. These prices will not be the subject of arm's length negotiations, which could mean that the acquisitions may be on terms less favorable to us than those negotiated in an arm's-length transaction. However, our articles of incorporation provide that the purchase price of any property acquired from an affiliate may not exceed its fair market value as determined by a competent independent appraiser. In addition, the price must be approved by a majority of our directors who have no financial interest in the transaction. If the price to us exceeds the cost paid by our affiliate, there must be substantial justification for the excess cost.

WE MAY PURCHASE REAL PROPERTIES FROM PERSONS WITH WHOM AFFILIATES OF OUR ADVISOR HAVE PRIOR BUSINESS RELATIONSHIPS. We may purchase properties from third parties who have sold properties in the past, or who may sell properties in the future, to our advisor or its affiliates. If we purchase properties from these third parties, our advisor will experience a conflict between our current interests and its interest in preserving any ongoing business relationship with these sellers. Nevertheless, our advisor has a fiduciary obligation to us.

PROPERTY MANAGEMENT SERVICES ARE BEING PROVIDED BY A COMPANY OWNED PRINCIPALLY BY AFFILIATES OF THE INLAND GROUP. Our property manager, which is owned principally by individuals who are our affiliates, provides property management services to us pursuant to management services agreements which we can terminate only in the event of gross negligence or willful misconduct on the part of the property manager. However, our property management services agreement provides that we pay our property manager a monthly management fee of no greater than 90% of the fee which would be payable to an unrelated third

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party providing such services. In addition, the advisor and the property manager believe that the property manager has sufficient personnel and other required resources to discharge all responsibilities to us.

OUR ADVISOR AND ITS AFFILIATES RECEIVE COMMISSIONS, FEES AND OTHER COMPENSATION BASED UPON OUR INVESTMENTS. We believe that the compensation we will pay to our advisor and its affiliates is no more than what we would pay for similar services performed by independent firms. Some compensation is payable whether or not there is cash available to make distributions to our stockholders. To the extent this occurs, our advisor and its affiliates benefit from us retaining ownership of our assets and leveraging our assets, while our stockholders may be better served by sale or disposition or not leveraging the assets. In addition, the advisor's ability to receive fees and reimbursements depends on our continued investment in properties and in other assets which generate fees. Our advisor received fees based on the book value of the properties under management. Our property manager receives fees based on the income from properties under management. Therefore, our advisor and/or property manager may recommend that we purchase properties that generate fees for our advisor and property manager, but are not necessarily the most suitable investment for our portfolio. In addition, our affiliates, who receive fees, including our advisor, may recommend that we acquire properties, which may result in our incurring substantive amounts of indebtedness. Therefore, the interest of the advisor and its affiliates in receiving fees may conflict with the interest of our stockholders in earning income on their investment in our common stock. Our advisor and its affiliates recognize that they have a fiduciary duty to us and our stockholders, and have represented to us that their actions and decisions will be made in the manner most favorable to us and our stockholders.

While we will not make loans to our advisor or its affiliates, we may borrow money from them for various purposes, including funding working capital requirements. If we do, the terms, such as the

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interest rate, security, fees and other charges, will be at least as favorable to us as those which would be charged by unaffiliated lending institutions in the same locality on comparable loans. Any money borrowed from an affiliate of The Inland Group is expected to be repaid within 180 days.

Our advisor and its affiliates may do business with others who do business with us, although presently there are no instances of this. However, our advisor or its affiliates may not receive rebates or participate in any reciprocal business arrangements which would have the effect of circumventing our agreement with our advisor.

OUR ADVISOR MAY HAVE CONFLICTING FIDUCIARY OBLIGATIONS IF WE ACQUIRE PROPERTIES WITH ITS AFFILIATES. Our advisor may cause us to acquire an interest in a property through a joint venture with its affiliates. In these circumstances, our advisor will have a fiduciary duty to both us and its affiliates participating in the joint venture. In order to minimize the conflict between these fiduciary duties, the advisory agreement provides guidelines for investments in joint ventures with affiliates. In addition, our articles of incorporation require a majority of our disinterested directors to determine that the transaction is fair and reasonable to us and is on terms and conditions no less favorable than from unaffiliated third parties entering into the venture.

THERE IS COMPETITION FOR THE TIME AND SERVICES OF OUR ADVISOR. We rely on our advisor and its affiliates for our daily operation and the management of our assets. Personnel of our advisor and its affiliates have conflicts in allocating

their management time, services and functions among the real estate investment programs they currently service and any future real estate investment programs or other business ventures which they may organize or serve. Our advisor and its affiliates believe they have enough staff to perform their responsibilities in connection with all of the real estate programs and other business ventures in which they are involved.

INLAND SECURITIES CORPORATION IS PARTICIPATING AS MANAGING DEALER IN THE SALE OF THE SHARES. Inland Securities Corporation is the managing dealer of the offering and is affiliated with The Inland Group. The managing dealer is entitled to selling commissions, reimbursement for marketing and due diligence expenses, and the receipt of warrants. The managing dealer may be subject to a conflict of interest arising out of its participation in this offering and its affiliation with The Inland Group in performing its "due diligence" obligations which arise under the Securities Act of 1933. However, the managing dealer believes it has and will continue to properly perform these "due diligence" activities.

WE MAY ACQUIRE THE BUSINESS OF OUR ADVISOR AND OUR PROPERTY MANAGER WITHOUT FURTHER ACTION BY OUR STOCKHOLDERS. During the term of our agreements with our advisor and our property manager, we have the option to acquire or consolidate the business conducted by them without any consent of our stockholders, our advisor or our property manager. We may elect to exercise this right at any time after September 15, 2008. Before this date, we need the consent of the advisor and the property manager to exercise this right. Our decision to exercise this right will be determined by a vote of a majority of our disinterested directors. Our advisor and our property manager and their shareholders will receive shares of our common stock in the acquisition. The transaction will occur, if at all, only if the board of directors obtains a fairness opinion from a recognized financial valuation service provider to the effect that the consideration to be paid is fair, from a financial point of view, to our stockholders. We will be obligated to pay any fees accrued under any contractual arrangements we have with the advisor and/or the property manager for services rendered through the closing of such acquisitions.

WE DO NOT HAVE ARM'S-LENGTH AGREEMENTS. As we have noted, our agreements and arrangements with our advisor or any of its affiliates, including those relating to compensation, are not the result of arm's length negotiations, but we believe these agreements and arrangements approximate the terms of arm's length transactions.

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COMPENSATION TABLE

The compensation arrangements between us and our advisor, The Inland Group and its affiliates, were not determined by arm's-length negotiations. See "Conflicts of Interest." The following table discloses the compensation which we may pay our advisor and its affiliates. In those instances in which there are maximum amounts or ceilings on the compensation which may be received, our advisor and its affiliates may not recover any excess amounts for those services by reclassifying them under a different compensation or fee category.

We define net income as total revenues less expenses other than additions to reserves for depreciation or bad debts or other similar non-cash reserves. When we use the term "net income" for purposes of calculating some expenses and fees, it excludes the gain from the sale of our assets. This definition of net income is prescribed by the Statement of Policy Regarding REITs adopted by the North American Securities Administrators Association, Inc., or NASAA; but it is not in accordance with generally accepted accounting principles in the United States, because depreciation and other non-cash reserves are not deducted in

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determining net income under the NASAA REIT Statement. Excluding depreciation will result in not reimbursing our Advisor for a non-cash expenditure and not excluding the gain from the sale of our assets could result in greater net income on which the 25% reimbursement to our Advisor is allowed.

NONSUBORDINATED PAYMENTS

The following aggregate amounts of compensation, allowances and fees we may pay to our advisor and its affiliates are not subordinated to the returns on net investments that we are required to pay to our stockholders.

| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION | E |
|--|--|--|
| OFFERING STAGE | | |
| Selling commissions payable to the managing dealer and dealers designated by the managing dealers referred to as soliciting dealers. Neither the managing dealer, the soliciting dealers, nor our officers or directors will be permitted to purchase shares of our stock in order to meet the minimum thresholds. | We will pay a selling commission of 7.5% of the sale price for each share (and reallow 7%), subject to reduction for special sales under the circumstances as described in the "Plan of Distribution - Compensation - We Will Pay For the Sale of Our Shares." We will permit the managing dealer and its respective officers and employees and certain of its affiliates to purchase shares net of sales commissions and the marketing contribution and due diligence expense allowance or for \$8.95 per share. Also, soliciting dealers and their respective officers and employees and certain of their respective affiliates who request and are entitled to purchase shares net of selling commissions may make an initial purchase of shares net of sales commissions or for \$9.30 per share; however, any subsequent purchases of shares by any such persons are limited to a maximum discount of 5%. | The actual amount of shares sold. We will pay a minimum offering commission of \$187,500,000 if the maximum amount of special sales. |

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| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION | E |
|--|--|---|
| Marketing contribution and due diligence expense allowance paid to the managing dealer and soliciting dealers. | We will pay an amount equal to 2.5% of the gross offering proceeds to the managing dealer, all or a portion of which may be passed on to soliciting dealers, in lieu of reimbursement of specific expenses associated with marketing. We may pay an additional 0.5% of the gross offering proceeds to the managing dealer, which will be passed on to the soliciting dealers, for due diligence expenses. We will not pay the marketing contribution and due diligence expense | The actual amount of shares. If there are approximately 100 million shares for the marketing contribution expense - \$60,000 if there are 100 million shares; or - \$75,000,000 |

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allowance in connection with any special sales, except those receiving volume discounts and those described in "Plan of Distribution - Volume Discounts." shares.

Other expenses of issuance and distribution

We expect to incur the following expenses in connection with this offering:

| | | |
|---|----|-----------|
| Securities and Exchange | | |
| Commission registration fee | \$ | 217,621 |
| NASD filing fee | \$ | 30,500 |
| Printing and mailing expenses | \$ | 3,500,000 |
| Blue Sky fees and expenses | \$ | 136,000 |
| Legal fees and expenses | \$ | 650,000 |
| Accounting fees and expenses | \$ | 650,000 |
| Advertising and sales literature | \$ | 5,000,000 |
| Due diligence | \$ | 3,000,000 |
| Transfer Agent fees | \$ | 800,000 |
| Data processing fees | \$ | 500,000 |
| Bank fees and other administrative expenses | \$ | 200,000 |

All amounts other than Exchange Commission and NASD filing fees are amounts of the offering at the present time. The amount of the offering to be approximately

We will reimburse our sponsor for actual costs incurred in connection with the offering on our behalf. However, if the aggregate of all offering expenses, including selling commissions, the marketing contribution and due diligence expense allowance, exceeds 15% of the gross offering proceeds, or if the aggregate of all offering expenses, excluding the selling expenses, exceeds 5.5% of the gross offering proceeds, our advisor or its affiliates will promptly pay the excess and we will have no liability for these expenses at any time afterward.

Expenses of approximately \$90,000 if advanced by our sponsor in connection with the offering. If the offering is not completed, the sponsor will be responsible for the offering expenses of approximately \$14,684,000.

If the offering is not completed, the sponsor will be responsible for the offering expenses of approximately \$14,684,000.

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| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION | E |
|--|--|---|
| ----- | | |
| ACQUISITION STAGE | | |
| Acquisition expenses paid to our advisor's affiliates, Inland Real Estate Acquisitions, Inc., The Inland Real Estate Group, Inc. and Inland Western Management Corp. | We will pay an amount, estimated to be up to 0.5% of the total of (1) the gross offering proceeds from the sale of 250,000,000 shares, (2) the gross proceeds from the sale of up to 20,000,000 shares pursuant to the distribution reinvestment programs. The acquisition expenses for any particular property will not exceed 6% of the gross purchase price of the property. However, if we request additional services, the compensation will be provided on separate agreed-upon terms and the rate will be approved by a majority of disinterested directors, | We may pay the reimbursement of - no more than the number of shares distributed - no more than the number of shares distributed However, the amount of the offering at the present |

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including a majority of the disinterested independent directors, as fair and reasonable for us.

Interest expenses paid to our advisor and Inland Mortgage Corporation in connection with loans.

We may borrow money from our advisor and its affiliates in order to acquire properties. In such instances, we will pay our advisor and its affiliates interest, at prevailing market rates.

The actual amount of borrowings. The amount is determined at the time of the borrowings.

| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION | E |
|---|---|---|
| OPERATIONAL STAGE | | |
| Property management fee paid to our property manager, Inland Western Management Corp. We will pay the fee for services in connection with the rental, leasing, operation and management of the properties. | We will pay a monthly fee of 4.5% of the gross income from the properties. We will also pay a monthly fee for any extra services equal to no more than 90% of that which would be payable to an unrelated party providing the services. The property manager may subcontract its duties for a fee that may be less than the fee provided for in the management services agreements. | The actual amount of operations and, at the present time, the amount of businesses of our manager, the property manager, may cease. |
| Advisor asset management fee. We will pay the fee for services in connection with our day-to-day operations, including making strategic decisions, performing day-to-day operations that include accounting, investment advisory services, risk management services and tax reduction services and providing other services as our board deems appropriate. | We will pay our advisor an asset management fee after our stockholders have first received a 6% annual return. | The actual amount of operations and, at the present time, the amount of businesses of our manager, the property manager, may cease. |

| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION | E |
|---|---|---|
| OPERATIONAL STAGE | | |
| Reimbursable expenses to our advisor. These may include costs of goods and services, administrative services and non-supervisory services performed directly for us by independent parties. | We will reimburse some expenses of the advisor. The compensation and reimbursements to our advisor will be approved by a majority of our directors and a majority of our independent directors as fair and reasonable for us. | The actual amount of operations and, at the present time, the amount of businesses of our manager, the property manager, may cease. |
| We will reimburse some expenses of the Inland Risk and Insurance Management | Inland Risk and Insurance Management Services charges us \$50 per hour for assistance in obtaining insurance coverage. Any commissions | The actual amount of operations and, at the present time, the amount of businesses of our manager, the property manager, may cease. |

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Services for insurance coverage.

they receive are credited against this hourly rate. We believe this hourly rate is approximately 90% of the rate charged by unaffiliated third parties. The compensation to this company will be approved by a majority of our directors and a majority of our independent directors as fair and reasonable for us.

We will compensate the Inland Mortgage Servicing Corporation and Inland Mortgage Investment Corporation for purchase, sale and servicing of mortgages.

Inland Mortgage Servicing Corporation charges us .03% per year on the first billion dollars of mortgages serviced and .01% thereafter. Inland Mortgage Investment Corporation charges us .02% of the principal amount of each loan placed. The compensation to these companies will be approved by a majority of our directors and a majority of our independent directors as fair and reasonable for us.

The actual amount of operations and, at the present

| | | |
|---------------------------------------|------------------------|-------|
| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION | E |
| ----- | ----- | ----- |

LIQUIDATION STAGE

Property disposition fee payable to our advisor's affiliates, Inland Real Estate Sales, Inc. and Inland Partnership Property Sales Corp.

We may pay a property disposition fee to our advisor and its affiliates if we sell any of our real property in an amount equal to the lesser of:

The actual amount of the sale price cannot be determined. The fee will cease.

1. 3% of the contract sales price of the property; or
2. 50% of the customary commission which would be paid to a third party broker for the sale of a comparable property.

The amount paid, when added to the

| | | |
|---------------------------------------|------------------------|-------|
| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION | ES |
| ----- | ----- | ----- |

LIQUIDATION STAGE

sums paid to unaffiliated parties, will not exceed either the customary commission or an amount equal to 6% of the contracted for sales price. Payment of such fees will be made only if the advisor provides a substantial service in connection with the sale of the property. See "Management -- Our Advisory Agreement."

SUBORDINATED PAYMENTS

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We may pay the following additional fees to our advisor after returns on net investment have been paid to the stockholders:

| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION | E |
|---|---|--|
| <p>Advisor asset management fee payable to our advisor.</p> | <p style="text-align: center;">OPERATIONAL STAGE</p> <p>We pay an annual advisor asset management fee of not more than 1% of our average assets. Our average assets means the average of the total book value of our real estate assets plus the total value of our loans receivables secured by real estate, before reserves for depreciation or bad debts or other similar non-cash reserves. We will compute our average assets by taking the average of these values at the end of each month during the quarter for which we are calculating the fee. The fee is payable quarterly in an amount equal to 1/4 of 1% of average assets as of the last day of the immediately preceding quarter. For any year in which we qualify as a REIT, our advisor must reimburse us for the following amounts if any:</p> <p>(1) the amounts by which our total operating expenses, the sum of the advisor asset management fee plus other operating expenses, paid during the previous fiscal year exceed the greater of:</p> <ul style="list-style-type: none"> - 2% of our average assets for that fiscal year, or - 25% of our net income for that fiscal year. <p>(2) an amount, which will not exceed the advisor asset management fee for that year, equal to any difference between the total amount of distributions to stockholders for that year and the 6% annual return on the net investment of stockholders.</p> <p>Items such as organization and offering expenses, property expenses, interest payments,</p> | <p>The actual amount of the sale price cannot be determined until we acquire the advisor fee will cease.</p> |

taxes, non-cash expenditures, the incentive advisory fee and acquisition expenses are excluded from the definition of total operating expenses.

See "Management -- Our Advisory Agreement" for an explanation of circumstances where the excess amount specified in clause (1) may not need to

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be reimbursed.

| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION | |
|--|---|--|
| Incentive advisory fee payable to our advisor. | <p style="text-align: center;">LIQUIDATION STAGE</p> <p>We will pay to the advisor an amount equal to 15% of the net proceeds from the sale of a property after the stockholders have first received:</p> <p>(1) a cumulative non-compounded return equal to 10% a year on their net investment; and</p> <p>(2) their net investment.</p> | The actual amount of the sale price is therefore, cannot be determined at this time. If we acquire the business conducted by the advisor, the incentive advisory fee will be paid. |

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COMPENSATION TO OFFICERS AND DIRECTORS

We expect to pay the following to our directors (as our officers are not paid directly by us):

| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION | |
|--|--|---|
| Director fees | Independent directors receive an annual fee of \$5,000 and a fee of \$500 for attending each meeting of the board or one of its committees in person and \$350 for attending a meeting via the telephone. Our officers who are also our directors do not receive director fees. | We will pay the \$25,000 in the attending meeting received for meetings and therefore, cannot be determined at this time. |
| Stock options to independent directors | <p>Each independent director receives</p> <ul style="list-style-type: none"> - an initial option to purchase 3,000 shares of common stock at a price of \$8.95 per share, when they become an independent director, subject to some conditions; and - each year on the date of the stockholders' annual meeting, an additional option to purchase 500 shares of common stock at an exercise price equal to the then fair market value per share. For additional information on this option plan, see "Management -- Independent Director Stock Option Plan." | This form of compensation is set forth in the |

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ESTIMATED USE OF PROCEEDS

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The amounts listed in the table below represent our current estimates concerning the use of the offering proceeds. Since these are estimates, they may not accurately reflect the actual receipt or application of the offering proceeds. This first scenario assumes we sell the minimum number of 200,000 shares of common stock in this offering. The second scenario assumes:

- we sell the maximum of 250,000,000 shares in this offering at \$10 per share; and
- we sell the maximum of 20,000,000 shares in our distribution reinvestment program at \$9.50 per share.

Under both scenarios we have not given effect to any special sales or volume discounts which could reduce selling commissions.

| | MINIMUM OFFERING 200,000 SHARES | | |
|--|------------------------------------|---------|-------|
| | AMOUNT | PERCENT | |
| Gross offering proceeds | \$ 2,000,000 | 100.0% | \$ 2, |
| Less expenses: | | | |
| Selling commission | 150,000 | 7.5% | |
| Marketing contribution and due diligence expense allowance | 60,000 | 3.0% | |
| Organization and offering expenses | 90,000 | 4.5% | |
| Total public offering expenses | 300,000 | 15.0% | |
| Gross amount available for investment | 1,700,000 | 85.0% | 2, |
| Less: acquisition expenses | 10,000 | 0.5% | |
| Less: working capital reserve | 20,000 | 1.0% | |
| Net cash portion of gross offering proceeds available for the purchase of properties | \$ 1,670,000 | 83.5% | \$ 2, |

PRIOR PERFORMANCE OF OUR AFFILIATES

PRIOR INVESTMENT PROGRAMS

During the 10-year period ending June 30, 2003, The Inland Group and its affiliates have sponsored two other REITs, one other public real estate equity program, one private real estate equity program, four private placement mortgage and note programs and 13 real estate exchange private placements, which altogether have raised more than \$2,934,000,000 from over 64,000 investors. During that period, the public real estate equity programs raised over \$32,000,000 from over 2,000 investors; the private real estate equity program raised \$2,275,000 from 80 investors; and the private placement mortgage and note programs raised \$15,831,000 from 373 investors. In addition, Inland Real Estate Corporation and Inland Retail Real Estate Trust, Inc., the other REITs, have

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raised over \$2,835,000,000 from over 77,000 investors. Inland Real Estate Corporation and Inland Retail Real Estate Trust, Inc. have investment objectives and policies similar to ours and have invested principally in shopping centers that provide sales of convenience goods and personal services to neighboring communities in the Midwest and Southeast areas. However, Inland Real Estate Corporation is now a self-administered REIT and is no longer affiliated with The Inland Group. Our investment objectives and policies are similar to those of several of the other prior investment programs sponsored by our affiliates which have owned and operated retail properties. However, the vast majority of the other investment programs sponsored by our affiliates were dissimilar from our operation in that the prior programs owned apartment properties, pre-development land and whole or partial interests in mortgage loans.

The information in this section and in the Prior Performance Tables included in this supplement as APPENDIX A shows relevant summary information concerning real estate programs sponsored by our affiliates. The purpose is to provide information on the prior performance of these programs so that you may evaluate the experience of the affiliated companies in sponsoring similar programs. The following discussion is intended to briefly summarize the objectives and performance of the prior programs and to disclose any material adverse business developments sustained by them. Past performance is not necessarily indicative of future performance.

SUMMARY INFORMATION

The table below provides summarized information concerning prior programs sponsored by our affiliates for the 10-year period ending June 30, 2003, and is qualified in its entirety by reference to the introductory discussion above and the detailed information appearing in the Prior Performance Tables in Appendix A of the prospectus. YOU SHOULD NOT CONSTRUCT INCLUSION OF THE SUCCEEDING TABLES AS IMPLYING IN ANY MANNER THAT WE WILL HAVE RESULTS COMPARABLE TO THOSE REFLECTED IN THE TABLES BECAUSE THE YIELD AND CASH AVAILABLE AND OTHER FACTORS COULD BE SUBSTANTIALLY DIFFERENT FOR OUR PROPERTIES. YOU SHOULD NOTE THAT BY ACQUIRING OUR SHARES, YOU WILL NOT BE ACQUIRING ANY INTERESTS IN ANY PRIOR PROGRAMS.

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| | INLAND RETAIL REAL ESTATE TRUST, INC. REIT PROGRAM AS OF JUNE 30, 2003 | INLAND REAL ESTATE CORPORATION REIT PROGRAM AS OF JUNE 30, 2003 (2) | PRIOR P REAL ES EQUI PROGRAMS JUNE 200 |
|--|--|---|---|
| | ----- | ----- | ----- |
| Number of programs sponsored | 1 | 1 | |
| Aggregate amount raised from investors | \$ 2,156,104,000 | 679,780,000 | 32 |
| Approximate aggregate number of investors | 58,000 | 19,000 | |
| Number of properties purchased | 201 | 140 | |
| Aggregate cost of properties (1) | \$ 2,835,000,000 | 1,251,000,000 | 25 |
| Number of mortgages/notes | 0 | 0 | |
| Principal amount of mortgages/notes | \$ 0 | 0 | |
| Principal of properties (based on cost) that were: | | | |
| Commercial-- | | | |
| Retail | 92.00% | 85.00% | |
| Single-user retail net-lease | 8.00% | 15.00% | |

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| | | |
|--------------------------|---------|---------|
| Nursing homes | 0.00% | 0.00% |
| Offices | 0.00% | 0.00% |
| Industrial | 0.00% | 0.00% |
| Health clubs | 0.00% | 0.00% |
| Mini-storage | 0.00% | 0.00% |
| Total commercial | 100.00% | 100.00% |
| Multi-family residential | 0.00% | 0.00% |
| Land | 0.00% | 0.00% |

Percentage of properties (based on cost) that were:

| | | |
|--|--------|--------|
| Newly constructed (within a year of acquisition) | 58.00% | 32.00% |
| Existing construction | 42.00% | 68.00% |

| | | |
|----------------------------------|---|---|
| Number of properties sold (3) | 0 | 3 |
| Number of properties exchanged | 0 | 0 |
| Number of mortgages/notes repaid | 0 | 0 |

| | |
|--|--|
| PRIOR PRIVATE REAL ESTATE EQUITY AND MORTGAGE AND NOTE PROGRAMS AS OF JUNE 30, 2003 | INLAND REAL ESTATE EXCHANGE PRIVATE PLACEMENT OFFERINGS AS OF JUNE 30, 2003 |
|--|--|

| | | |
|--|------------|-------------|
| Number of programs sponsored | 5 | 13 |
| Aggregate amount raised from investors | 18,106,000 | 48,055,000 |
| Approximate aggregate number of investors | 453 | 97 |
| Number of properties purchased | 7 | 13 |
| Aggregate cost of properties(1) | 1,951,930 | 151,317,000 |
| Number of mortgages/notes | 365 | 0 |
| Principal amount of mortgages/notes | 15,831,000 | 0 |
| Principal of properties (based on cost) that were: | | |

Commercial--

| | | |
|------------------------------|---------|---------|
| Retail | 0.00% | 24.90% |
| Single-user retail net-lease | 0.00% | 13.20% |
| Nursing homes | 0.00% | 0.00% |
| Offices | 0.00% | 49.30% |
| Industrial | 0.00% | 12.60% |
| Health clubs | 0.00% | 0.00% |
| Mini-storage | 0.00% | 0.00% |
| Total commercial | 0.00% | 100.00% |
| Multi-family residential | 0.00% | 0.00% |
| Land | 100.00% | 0.00% |

Percentage of properties (based on cost) that were:

| | | |
|--|-------|--------|
| Newly constructed (within a year of acquisition) | 0.00% | 47.70% |
| Existing construction | 0.00% | 52.30% |

| | | |
|--------------------------------|---|---|
| Number of properties sold (3) | 6 | 0 |
| Number of properties exchanged | 0 | 0 |

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Number of mortgages/notes repaid

0

0

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(1) Includes purchase price and acquisition fees and expenses.

(2) On July 1, 2000, the prior REIT program, Inland Real Estate Corporation, became a separate, self-managed entity.

(3) Number of properties sold in whole or in part.

Of the programs included in the above table, Inland Real Estate Corporation and Inland Retail Real Estate Trust, Inc. have investment objectives similar to ours. Inland Real Estate Corporation and Inland Retail Real Estate Trust, Inc. represent approximately 97% of the aggregate amount raised from investors, approximately 95% of the aggregate number of investors, approximately 91% of the properties purchased, and approximately 97% of the aggregate cost of the properties.

During the three years prior to June 30, 2003, Inland Real Estate Corporation purchased 20 commercial properties and Inland Retail Real Estate Trust, Inc. purchased 201 commercial properties. Upon written request, you may obtain, without charge, a copy of Table VI filed with the Securities and Exchange Commission in Part II of our registration statement. The table provides more information about these acquisitions.

PUBLICLY REGISTERED REITs

INLAND REAL ESTATE CORPORATION. On October 14, 1994, Inland Real Estate Corporation commenced an initial public offering of 5,000,000 shares of common stock at \$10 per share. As of July 24, 1996, it had received subscriptions for a total of 5,000,000 shares, thereby completing the initial offering. On July 24, 1996, it commenced an offering of an additional 10,000,000 shares of common stock at \$10 per share. As of July 10, 1997, it had received subscriptions for a total of 10,000,000 shares, thereby completing its second offering. On July 14, 1997, Inland Real Estate Corporation commenced a third offering of an additional 20,000,000 shares of common stock at \$10 per share. As of March 19, 1998, Inland Real Estate Corporation had received subscriptions for a total of 20,000,000 shares, thereby completing the third offering. On April 7, 1998, Inland Real Estate Corporation commenced a fourth offering of an additional 25,000,000 shares at \$11 per share. Inland Real Estate Corporation elected to terminate the fourth offering as of December 31, 1998, after receiving subscriptions for a total of 16,642,397 shares. In addition, as of June 30, 2003, Inland Real Estate Corporation issued 11,720,169 shares of common stock through its distribution reinvestment program. As of June 30, 2003, Inland Real Estate Corporation repurchased 4,578,588 shares of common stock through its share repurchase program for an aggregate amount of \$42,552,838. As a result, Inland Real Estate Corporation's gross offering proceeds totaled approximately \$679,780,000 for all of such offerings, as of June 30, 2003. Inland Real Estate Corporation's objective is to purchase shopping centers that provide convenience goods, personal services, wearing apparel and hardware and appliances located within an approximate 400-mile radius of its headquarters in Oak Brook, Illinois, and to provide, at a minimum, cash distributions on a quarterly basis and a hedge against inflation through capital appreciation. It may also acquire single-user retail properties throughout the United States. As of June 30, 2003, the properties owned by Inland Real Estate Corporation were generating sufficient cash flow to cover operating expenses plus pay an annual cash distribution of \$0.94 per share paid monthly.

As of June 30, 2003, Inland Real Estate Corporation financed approximately

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\$685,237,000 on 124 of its 140 properties. Inland Real Estate Corporation's 140 properties, a total investment of approximately \$1,251,000,000 at June 30, 2003, were purchased with proceeds received from the above described offerings of shares of its common stock and financings. From December 31, 1995 through June 30, 2003, distributions have totaled \$303,438,218, of which \$234,358,143 was ordinary income

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distribution from operating cash flow, \$68,705,489 was return of capital for federal income tax purposes from operating cash flow and \$374,586 from capital gain distributions.

Through June 30, 2003, distributions were as follows:

| | Total Distribution | Ordinary Income | Return of Capital * | Capital Gain Distribution |
|------|-----------------------|--------------------|------------------------|------------------------------|
| | | | | |
| 1995 | \$ 736,627 | 694,213 | 42,414 | - |
| 1996 | 3,704,943 | 3,093,525 | 611,418 | - |
| 1997 | 13,127,597 | 9,739,233 | 3,388,364 | - |
| 1998 | 35,443,213 | 27,015,143 | 8,428,070 | - |
| 1999 | 48,379,621 | 35,640,732 | 12,738,889 | - |
| 2000 | 52,964,010 | 40,445,730 | 12,518,280 | - |
| 2001 | 58,791,604 | 45,754,604 | 12,662,414 | 374,586 |
| 2002 | 60,090,685 | 41,775,045 | 18,315,640 | - |
| 2003 | 30,199,918 | 30,199,918 | - | - |
| | | | | |
| | \$ 303,438,218 | 234,358,143 | 68,705,489 | 374,586 |

* Represents a return of capital for federal income tax purposes.

On July 1, 2000, Inland Real Estate Corporation became a self-administered REIT by completing its acquisition of Inland Real Estate Advisory Service, Inc., its advisor, and Inland Commercial Property Management, Inc., its property manager. The acquisition was accomplished by merging its advisor and its property manager into two wholly owned subsidiaries of Inland Real Estate Corporation. As a result of the merger, Inland Real Estate Corporation issued to our sponsor, the sole shareholder of the advisor, and The Inland Property Management Group, Inc., the sole shareholder of its property manager, an aggregate of 6,181,818 shares of Inland Real Estate Corporation's common stock at \$11 per share, or approximately 9.008% of its common stock.

INLAND RETAIL REAL ESTATE TRUST, INC. On February 11, 1999, Inland Retail Real Estate Trust, Inc. commenced an initial public offering of 50,000,000 shares of common stock at \$10 per share. As of January 31, 2001, it had sold 13,687,349 shares in its first offering resulting in gross proceeds of \$136,454,948. In addition, it received \$200,000 from its advisor for 20,000 shares. As of January 31, 2001, the first offering terminated. Inland Retail

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Real Estate Trust, Inc. commenced a second offering on February 1, 2001. As of August 29, 2002, it had sold 50,000,000 shares in its second offering resulting in gross proceeds of \$497,842,917, thereby completing the second offering. Inland Retail Real Estate Trust, Inc. commenced a third offering on June 7, 2002. As of June 30, 2003, it had sold 147,516,470 shares in its third offering, resulting in gross proceeds of \$1,471,607,427. An additional 6,049,526 shares had been sold pursuant to Inland Retail Real Estate Trust, Inc.'s distribution reinvestment program as of June 30, 2003, for which it has received additional net proceeds of \$57,470,497. As of June 30, 2003, Inland Retail Real Estate Trust, Inc. has repurchased 793,588 shares through its share repurchase program resulting in disbursements totaling \$7,471,853. As a result, Inland Retail Real Estate Trust, Inc.'s net offering proceeds from all offerings total approximately \$2,156,104,000 as of June 30, 2003, including amounts raised through its distribution reinvestment program, net of shares repurchased through its share repurchase program.

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Inland Retail Real Estate Trust, Inc.'s objective is to purchase shopping centers east of the Mississippi River in addition to single-user retail properties in locations throughout the United States, and to provide regular cash distributions and a hedge against inflation through capital appreciation. As of June 30, 2003, the properties owned by Inland Retail Real Estate Trust, Inc. were generating sufficient cash flow to cover operating expenses plus pay an annual cash distribution of \$.83 per share per annum paid monthly. Through June 30, 2003, distributions totaled \$151,320,937. Through June 30, 2003, distributions were as follows:

| | Total Distribution | Ordinary Income | Return of Capital* |
|------|-----------------------|--------------------|-----------------------|
| | | | |
| 1999 | \$ 1,396,861 | \$ 318,484 | \$ 1,078,377 |
| 2000 | 6,615,454 | 3,612,577 | 3,002,877 |
| 2001 | 17,491,342 | 10,538,534 | 6,952,808 |
| 2002 | 58,061,491 | 36,387,136 | 21,674,355 |
| 2003 | 67,755,789 | 67,755,789 | - |
| | | | |
| | \$ 151,320,937 | \$ 118,612,520 | \$ 32,708,417 |
| | | | |

*Represents a return of capital for federal income tax purposes.

As of June 30, 2003, Inland Retail Real Estate Trust, Inc. had acquired 201 properties and had seven parcels under development for a total investment of approximately \$2,835,000,000. These properties were purchased with proceeds received from the above described offerings of shares of its common stock and financings. As of June 30, 2003, Inland Retail Real Estate Trust, Inc. financed approximately \$1,215,200,000 on its properties.

PUBLICLY REGISTERED LIMITED PARTNERSHIPS

INLAND CAPITAL FUND, L.P. - The offering period for this fund began December 13, 1991 and ended August 23, 1993. The objectives were to invest in pre-development land on an all-cash basis and realize appreciation of such land upon resale.

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Inland Capital Fund raised \$32,399,282 from 2,683 investors and purchased, with the net proceeds available for investment, 18 land parcels, one of which included a house and several outbuildings, for an aggregate purchase price of \$25,945,989. As of June 30, 2003, this fund has had multiple sales transactions involving the house and portions of 14 parcels which generated approximately \$28,049,000 in net sales proceeds, including notes receivable of approximately \$1,311,000. Its cost basis in the land parcels sold was approximately \$13,990,000 resulting in a gain, net of selling expenses and commissions, of approximately \$14,059,000 for financial reporting purposes.

In the opinion of Inland Real Estate Investment Corporation, the partnership is currently meeting its investment objectives and has, through completed sales transactions, realized significant capital appreciation on the assets sold. Cash distributions to limited partners through June 30, 2003 totaled \$22,335,763, all from the sale of land parcels.

PRIVATE PARTNERSHIPS

Since our inception and through June 30, 2003, including the programs described below under " - Private Placement Real Estate Equity Program," and " -- Private Placement Note and Mortgage Program" in this section, our affiliates have sponsored 514 private placement limited partnerships which have raised

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more than \$524,201,000 from approximately 17,000 investors and invested in properties for an aggregate price of more than \$1 billion in cash and notes. Of the 522 properties purchased, 93% have been in Illinois. Approximately 90% of the funds were invested in apartment buildings, 6% in shopping centers, 2% in office buildings and 2% in other properties. Including sales to affiliates, 320 partnerships have sold their original property investments. Officers and employees of our sponsor and its affiliates invested more than \$17,000,000 in these private placement limited partnerships.

From January 1, 1993 through June 30, 2003, investors in The Inland Group private partnerships have received total distributions in excess of \$282,938,000, consisting of cash flow from partnership operations, interest earnings, sales and refinancing proceeds and cash received during the course of property exchanges.

Following a proposal by the former corporate general partner, which was an affiliate of The Inland Group, investors in 301 private partnerships voted in 1990 to make our sponsor the corporate general partner for those partnerships.

Beginning in December 1993 and continuing into the first quarter of 1994, investors in 101 private limited partnerships for which our sponsor is the general partner received letters from it informing them of the possible opportunity to sell the 66 apartment properties owned by those partnerships to a to-be-formed REIT in which affiliates of our sponsor would receive stock and cash and the limited partners would receive cash. The underwriters of this apartment REIT subsequently advised our sponsor to sell to a third party its management and general partner's interests in those remaining limited partnerships not selling their apartment properties to the apartment REIT. Those not selling their apartment properties constituted approximately 30% of the Inland-sponsored limited partnerships owning apartment buildings. The prospective third-party buyers of our sponsor's interests in the remaining partnerships, however, would make no assurance to support those partnerships financially. As a result, in a March 1994 letter, our sponsor informed investors of its decision not to go forward with the formation of the apartment REIT.

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Following this decision, two investors filed a complaint in April 1994 in the Circuit Court of Cook County, Illinois, Chancery Division, purportedly on behalf of a class of other unnamed investors, alleging that our sponsor had breached its fiduciary responsibility to those investors whose partnerships would have sold apartment properties to the apartment REIT. The complaint sought an accounting of information regarding the apartment REIT matter, an unspecified amount of damages and the removal of our sponsor as general partner of the partnerships that would have participated in the sale of properties. In August 1994, the court granted our sponsor's motion to dismiss, finding that the plaintiffs lacked standing to bring the case individually. The plaintiffs were granted leave to file an amended complaint. Thereafter, in August 1994, six investors filed an amended complaint, purportedly on behalf of a class of other investors, and derivatively on behalf of six limited partnerships of which our sponsor is the general partner. The derivative counts sought damages from our sponsor for alleged breach of fiduciary duty and breach of contract, and assert a right to an accounting. Our sponsor filed a motion to dismiss in response to the amended complaint. The suit was dismissed in March 1995 with prejudice. The plaintiffs filed an appeal in April 1996. After the parties briefed the issue, arguments were heard by the Appellate Court in February 1997. In September 1997, the Appellate Court affirmed the trial court decision in favor of our sponsor.

Inland Real Estate Investment Corporation is the general partner of 27 private limited partnerships and one public limited partnership that own interests in 15 buildings that are net leased to Kmart. The 14 Kmart's owned by the private limited partnerships are all cross collateralized. Relating to the Kmart bankruptcy, the status of the 15 is as follows:

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- CATEGORY 1 - The leases of nine (9) of the Kmart's are current and have been accepted by Kmart under their Chapter 11 reorganization plan.
- CATEGORY 2 - Kmart assigned its designation rights in one lease to Kohl's; the lease was amended and extended for Kohl's by IREIC, the general partner on behalf of the owners and lender; and Kohl's began paying rent February 12, 2003.
- CATEGORY 3 - Under Kmart's Chapter 11 reorganization plan and upon emergence from bankruptcy on April 22, 2003, Kmart has rejected the remaining 4 property leases; one of which is subject to a ground lease to Kimco. Kmart ceased paying rent as of May 1, 2003. The general partner's, IREIC's, plans for these properties include, but are not limited to the following: 1) renegotiation of the loan encumbering the property; 2) re-tenanting the facility; 3) sale of the asset; or 4) deed in lieu of foreclosure. While it is too early to predict an outcome, the limited partners that own these Kmart's could lose their properties in foreclosure.
- CATEGORY 4 - Under Kmart's Chapter 11 reorganization, Kmart rejected the lease for the property owned by the public limited partnership and ceased paying rent as of June 29, 2002. The general partner plans to either re-tenant or sell this facility.

PRIVATE PLACEMENT REAL ESTATE EQUITY PROGRAM

WISCONSIN CAPITAL LAND FUND, L.P., an Illinois limited partnership, was formed in October 1992. The objectives were to invest in pre-development land in the Madison, Wisconsin area on an all-cash basis and realize appreciation of the land upon resale. The offering period for units in this

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privately offered partnership began in October 1992 and ended on June 14, 1993 with the maximum amount, \$2,275,000, raised from 88 investors. This fund bought seven parcels of land in the Madison, Wisconsin area with the proceeds of the offering.

On October 1, 1997, Parcel 6 located in Windsor, Wisconsin, was sold for \$566,597 which is equal to 191% of the original parcel capital. Investors received a \$375,000 distribution from this sale.

On March 19, 1998, the fund sold parcels 3 and 7 for a total of \$2,150,000, of which \$1,900,000 was distributed to investors.

On January 5, 1999, parcels 1 and 4 were sold for \$1,325,000 and investors received a \$1,137,500 distribution.

The fund has sold all 63 of the improved lots in Parcel 5 in the Village of Mt. Horeb for total gross sale proceeds of \$2,361,750. Through June 30, 2003, \$562,500 from lot sales has been distributed to investors.

Through June 30, 2003, investors have received \$1,747 for every \$1,000 invested or a total of \$3,975,000 in distributions. As of June 30, 2003, there were 88 investors in this partnership. The partnership has one remaining asset consisting of 60.876 acres in the Madison, Wisconsin area.

Our dealer manager received sales commission equal to 9% of the offering proceeds from which a selling commission of 8% was re-allowed to soliciting dealers. In addition, 0.5% of the offering proceeds were re-allowed to soliciting dealers as reimbursement for due diligence expenses. Additionally, 3.3% of the offering proceeds were used to reimburse the general partner, Inland Real Estate Investment Corporation, and its affiliates for out-of-pocket expenses associated with the offering and acquisition of the land parcels.

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During the operating phase of the partnership, the general partner will receive an asset management fee paid annually, equal to 1% of the original cost of the partnership of the parcels. In addition, the general partner and its affiliates will be reimbursed for direct expenses relating to the administration of the partnership and its assets, subject to certain limitations.

An affiliate of the general partner will participate in real estate brokerage commissions as each parcel is sold, but such commissions will be subordinated to the return of that portion of the limited partners' original investment attributable to that parcel plus a 6% per annum, non-compounded cumulative return on parcel capital.

The general partner may share in the net proceeds from the sale of the parcels, but such share of sales proceeds will be subordinated, to the return of the limited partners' original capital and receipt of a 15% per annum, non-compounded cumulative return. The sharing arrangement of net sale proceeds after the 15% cumulative return will be 65% to the limited partners and 35% to the general partner.

PRIVATE PLACEMENT NOTE AND MORTGAGE PROGRAM

9% MONTHLY CASH FUND, L.P., an Illinois limited partnership offering investments in promissory notes to accredited investors, was sponsored by our sponsor in February 1993. The offering period for this program began February 1, 1993 and ended on May 17, 1993, when the maximum amount of \$4,000,000 was raised from 78 investors. The partnership issued notes maturing August 1, 1999 and providing a 9% annual return. This fund invested in loans made to an affiliate

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of our sponsor secured by collateral assignments of third party mortgage loans owned by the affiliate. Our sponsor guarantees the return of capital to noteholders and the 9% annual return. Cash distributions through September 30, 1999 totaled \$6,291,146, of which \$2,291,146 was interest earnings and \$4,000,000 was a return of capital. This partnership was completed in August 1999.

9% MONTHLY CASH FUND II, L.P., was an Illinois limited partnership offering investments in promissory notes to accredited investors, with investment objectives identical to those of 9% Monthly Cash Fund, L.P. Our sponsor sponsored it in April 1993. The offering period for this program began April 5, 1993 and ended July 23, 1993, with the maximum amount of \$4,000,000 raised from 82 investors. The partnership issued notes maturing February 1, 2000 that provided a 9% annual return. The partnership invested in a loan made to an affiliate or our sponsor secured by collateral assignments of third-party mortgage loans owned by the affiliate. Our sponsor guarantees the return of capital to noteholders and the 9% annual return. Cash distributions through March 31, 2000 totaled \$6,417,653, of which \$2,417,653 was interest earnings and \$4,000,000 was a return of capital. This partnership was completed in February 2000. All fees and expenses including sales commission and due diligence expense to our dealer-manager equal to 9.5% (of which 8% was re-allowed to soliciting dealers as sales commission and up to 0.5% as reimbursable due diligence expenses) and the costs of the memorandum, tax consulting and advise (which were anticipated to be approximately \$30,000 were absorbed by the sponsor, Inland Real Estate Investment Corporation, and were not paid from the proceeds of the offering.

IMC NOTE ISSUE #2 1993, offering investments in promissory notes was sponsored by Inland Mortgage Corporation, an Illinois corporation and an affiliate of our sponsor, in July 1993. The offering period for this program began August 25, 1993 and closed on June 13, 1994 after raising \$6,800,000. Inland Mortgage Corporation issued notes maturing December 31, 2003, providing for interest at the rate of 8% per annum with 100% return of principal guaranteed by our sponsor. Proceeds of the offering have been used to invest in a mortgage loan secured by an apartment property in Manchester, New Hampshire, owned by an affiliate of our sponsor. Investors may also receive additional income dependent on the future sale of the property. Inland Mortgage Corporation made an initial distribution to investors of escrow interest totaling \$13,685 in November 1993. Cash distributions through June 30, 2003 totaled

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\$5,147,928, of which \$5,128,472 was interest earnings and \$19,456 was subsidy income from our sponsor pursuant to the guarantee for that program. As of June 30, 2003, there were 169 noteholders. All fees and expenses incurred in connection with the offer and sale of the Notes - including sales commission and due diligence expense to dealer-manager, Inland Securities Corporation, equal to 8.5% (of which 6.5% was re-allowed to soliciting dealers as sales commissions, 0.5% as a marketing fee, and up to 0.5% as reimbursable due diligence expenses) and the costs of the memorandum, tax counseling and advise (which were anticipated to be approximately \$41,000), as well as other costs associated with the refinancing of the property (such as title, surveys, appraisals, recording charges, etc.) were advanced by the sponsor (IREIC) and were not paid from the proceeds of the offering.

INLAND CONDOMINIUM FINANCING FUND, L.P., an Illinois limited partnership offering investment in promissory notes, was sponsored by our sponsor in December 1993. The offering period for this program began December 15, 1993 and closed on June 30, 1994. This partnership offered notes in the principal amount of \$1,031,000 maturing July 1, 2001, with interest at the rate of 10% per annum and 100% return of principal guaranteed by our sponsor. The

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proceeds of the offering were used to make unsecured loans to limited partnerships which are affiliates of our sponsor, for the purposes of paying expenses relating to the conversion of apartment properties owned by those partnerships to condominiums, and conducting condominium unit sales and other partnership expenses. Cash distributions began in March 1994. Distributions through November 17, 1997 totaled \$1,411,617, of which \$380,617 was interest earnings and \$1,031,000 was a return of capital. There were 36 investors in this partnership. This partnership was completed in 1997. All fees and expenses incurred in connection with the offering - including sales commission and due diligence expense to dealer-manager, Inland Securities Corporation, equal to 8.5% (of which 6.5% was re-allowed to soliciting dealers as sales commissions, 0.5% as a marketing fee and up to 0.5% as reimbursable due diligence expenses) and the costs of the memorandum, tax counseling and advice (which were anticipated to be approximately \$45,000), as well as other costs associated with the funding of the conversion loans were advanced by the sponsor (IREIC) and were not paid from the proceeds of the offering.

1031 EXCHANGE PRIVATE PLACEMENT OFFERING PROGRAM

In March of 2001, Inland Real Estate Exchange Corporation (IREX) was established as a subsidiary of Inland Real Estate Investment Corporation. The objective of IREX is to provide replacement properties for people wishing to complete an IRS Section 1031 real estate exchange. Through June 30, 2003, IREX offered the sale of ten properties with a total property value of \$105,810,559.

LANDINGS OF SARASOTA DBT. Inland Southern Acquisitions, Inc., a Delaware corporation and an affiliate of IREX acquired the Landings, a multi-tenant shopping center located in Sarasota, Florida in December 1997 for \$9,800,000. In August 2001, Inland Southern Acquisitions, Inc. contributed 100% of its interest in the property into Landings of Sarasota DBT, a Delaware business trust, refinanced the property with a loan of \$8,000,000 from Parkway Bank & Trust Co., an Illinois banking corporation, and began offering all of its beneficial interests in the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$12,000,000, which consisted of \$8,000,000 in debt assumption and \$4,000,000 in equity investment. \$200,000 of the offering proceeds were allocated to a property reserve account. The offering was completed in May 2002 when the maximum offering amount was raised. The private placement memorandum projected a first year annualized cash on cash return of 8.00%. Through June 30, 2003, cash distributions to the owners totaled \$482,236, based on the actual holding period of each individual investor. As of June 30, 2003, there were nine investors in this trust.

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SENTRY OFFICE BUILDING, DBT, a Delaware business trust, purchased a newly constructed, single-tenant office building in Davenport, Iowa in December 2001 from Ryan Companies US Inc., a Minnesota corporation. The trust financed its acquisition of the property with a \$7,500,000 first mortgage loan from Parkway Bank & Trust Co., an Illinois banking corporation. In January 2002, Sentry Office Building Corporation, a Delaware corporation and the initial beneficiary of the trust, began offering all of its beneficial interests in the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$11,000,000, which consisted of \$7,500,000 in debt assumption and \$3,500,000 in equity investment. \$100,000 of the proceeds obtained from the new owners was allocated to a property reserve account. The offering was completed in April 2002 when the maximum offering amount was raised. The private placement memorandum projected a first-year annualized cash on cash return of 8.20%. Through June 30, 2003, cash distributions to the owners totaled \$363,223, based on the actual holding period of each individual investor. As of June 30, 2003, there were six investors in

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this trust.

PETS BOWIE DELAWARE BUSINESS TRUST purchased a single-tenant retail building leased to PETSMART in Bowie, Maryland in October 2001 from PETSMART, Inc. and Wells Fargo Bank Northwest, N.A. The trust initially financed its acquisition of the property with a temporary loan of \$2,625,305 from Parkway Bank & Trust Co., an Illinois banking corporation, and then replaced this loan with a permanent loan of \$1,300,000 with the same lender. In May 2002, Pets Bowie Delaware Business Trust began offering all of its beneficial interests to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$3,900,000, which consisted of \$1,300,000 in debt assumption and \$2,600,000 in equity investment. \$90,000 of the proceeds obtained from the new owners was allocated to a property reserve account. The offering was completed in July 2002 when the maximum offering amount was raised. The private placement memorandum projected a first year annualized cash on cash return of 8.89%. Through June 30, 2003, cash distributions to the owners totaled \$231,314, based on the actual holding period of each individual investor. As of June 30, 2003, there were seven investors in this trust.

1031 CHATTANOOGA DBT, a Delaware business trust, acquired a retail property currently leased to Eckerd in Chattanooga, Tennessee in May 2002. The trust financed the property with a loan of \$1,500,000 from Parkway Bank & Trust Co., an Illinois banking corporation. In July 2002, 1031 Chattanooga, L.L.C., the initial beneficiary of 1031 Chattanooga DBT, began offering all of the beneficial interests of the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$3,400,000, which consisted of \$1,500,000 in debt assumption and \$1,900,000 in equity investment. As of June 30, 2003, the offering is still in process, with 95.1295% (\$1,807,460) of the capital raised. The private placement memorandum projected a first-year annualized cash on cash return of 8.26%. Through June 30, 2003, cash distributions to the owners totaled \$160,855, based on the actual holding period of each individual investor. As of June 30, 2003, there were 11 investors in this trust.

LANSING SHOPPING CENTER, DBT purchased a newly constructed, multi-tenant retail shopping center in Lansing, Illinois in June 2002 from LaSalle Bank National Association, as trustee under trust agreement dated May 22, 2001 and known as Trust No. 127294. The Trust financed its acquisition of the property with a \$5,900,000 first mortgage loan from Parkway Bank & Trust Co., an Illinois banking corporation. In August 2002, Lansing Shopping Center, L.L.C., a Delaware limited liability company and the initial beneficiary of Lansing Shopping Center, DBT, began offering all of the beneficial interests of the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$10,900,000, which consisted of \$5,900,000 in debt assumption and \$5,000,000 in equity investment. \$80,000 of the proceeds obtained from the new owners was allocated to a property reserve account. The private placement memorandum projected a first year annualized cash on cash return of 8.47%. Through June 30, 2003, cash distributions to the owners totaled \$314,014, based on

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the actual holding period of each individual investor. As of June 30, 2003, there were five investors in this trust.

INLAND 220 CELEBRATION PLACE DELAWARE BUSINESS TRUST purchased a single-tenant office building currently leased to Disney in Celebration, Osceola County, Florida, in June 2002 from Walt Disney World Co., a Florida corporation. The trust financed its acquisition of the property with an \$18,000,000 first mortgage loan from Bank of America, N.A., a national banking association. In

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September 2002, Inland 220 Celebration Place, L.L.C., a Delaware limited liability company and the initial beneficiary of Inland 220 Celebration Place Delaware Business Trust, began offering all of the beneficial interests of the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$33,800,000, which consisted of \$18,000,000 in debt assumption and \$15,800,000 in equity investment. \$50,000 of the proceeds obtained from the new owners was allocated to a property reserve account. As of June 30, 2003, the offering is still in process, with 89.8075% (\$14,189,578) of the capital raised. The private placement memorandum projected a first year annualized cash on cash return of 8.08%. Through June 30, 2003, cash distributions to the owners totaled \$852,564, based on the actual holding period of each individual investor. As of June 30, 2003, there were 32 investors in this trust.

TAUNTON CIRCUIT DELAWARE BUSINESS TRUST acquired a retail property currently leased to Circuit City in Taunton, Massachusetts in July 2002. The Trust financed the property with a first mortgage of \$2,800,000 from MB Financial Bank. In September 2002, Inland Taunton Circuit, L.L.C., the initial beneficiary of Taunton Circuit Delaware Business Trust, offered all of its interest in the trust to a qualified person in need of a replacement property to complete a 1031 tax-deferred exchange. The total price was \$6,550,000, which consisted of \$2,800,000 in debt assumption and \$3,750,000 in equity investment. The offering was completed in September 2002. The private placement memorandum projected a first-year annualized cash on cash return of 8.31%. Through June 30, 2003, cash distributions to the owner totaled \$210,950. As of June 30, 2003, there was one investor in this trust.

BROADWAY COMMONS DELAWARE BUSINESS TRUST acquired a multi-tenant retail center located in Rochester, Minnesota, in July 2002. The Trust financed the property with a first mortgage of \$8,850,000 from Parkway Bank & Trust Co., an Illinois banking corporation. In October 2002, Broadway Commons, L.L.C., the initial beneficiary of Broadway Commons Delaware Business Trust, began offering all of its beneficial interests in the trust to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$17,250,000, which consisted of \$8,850,000 in debt assumption and \$8,400,000 in equity investment. \$100,000 of the offering proceeds obtained from the new owners was allocated to a property reserve account. As of June 30, 2003, the offering is still in process, with approximately 70.5434% (\$5,925,643) of the capital raised. The private placement memorandum projected an initial annualized cash on cash return of 8.14%. Through June 30, 2003, cash distributions to the owners totaled \$447,625, based on the actual holding period of each individual owner. As of June 30, 2003, there were 21 investors in this trust.

BELL PLAZA 1031, LLC.Rehab Associates XIII, Inc., an Illinois corporation and an affiliate of IREX acquired Bell Plaza, a multi-tenant shopping center in Oak Lawn, IL on August 28, 1998 for \$1,675,000. In October 2002, Rehab Associates XIII contributed 100% of its interest in the property into Bell Plaza 1031, LLC, a Delaware single member limited liability company, and then offered all of its membership interests in Bell Plaza, LLC to North Forsyth Associates, a North Carolina general partnership, which was in need of a replacement property to complete a 1031 tax-deferred exchange. The total price was \$4,030,000, which consisted of \$3,140,000 in debt assumption and \$890,000 in equity investment. \$25,000 of the proceeds obtained by the new owner was allocated to a property reserve account. The offering was completed in November 2002. The private placement memorandum projected a first-year annualized cash on cash return of 14.30%, calculated based on the total original investment of

\$890,000. Through June 30, 2003, cash distributions to the owner totaled

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\$46,849. As of June 30, 2003, there was one investor in this limited liability company.

INLAND 210 CELEBRATION PLACE DELAWARE BUSINESS TRUST purchased a single-tenant office building, currently leased in Celebration, Osceola County, Florida, in June 2002 from Walt Disney World Co., a Florida corporation. The trust financed its acquisition of the property with a \$5,700,000 first mortgage loan from Bear Stearns Commercial Mortgage, Inc. In January 2003, Inland 210 Celebration Place Delaware Business Trust sold its fee simple interest in 210 Celebration Place to Old Bridge Park Celebration, LLC, a Delaware limited liability company, which was in need of a replacement property to complete a 1031 tax-deferred exchange. The total price was \$12,000,000, which consisted of \$5,700,000 in debt assumption and \$6,300,000 in equity investment. Through June 30, 2003, cash flow to the new owner totaled \$245,712. As of June 30, 2003, this property was owned by one investor.

COMPUSA RETAIL BUILDING. Lombard C-USA, L.L.C., a Delaware limited liability company, purchased a single-tenant retail building leased to CompUSA, Inc. in Lombard, Illinois in January 2003 from an unrelated third party. The L.L.C. financed its acquisition of the property with a \$4,000,000 loan from Bear Stearns Commercial Mortgage, Inc. In April 2003, Lombard C-USA, L.L.C. began offering all of the undivided tenant in common interests in the real estate and improvements thereon located at 2840 S. Highland Avenue, Lombard, DuPage County, Illinois for \$3,950,000 in cash plus the assumption of the existing indebtedness to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price was \$7,950,000, which consisted of \$4,000,000 in debt assumption and \$3,950,000 in equity investment. As required by the lender, Lombard C-USA, L.L.C. shall retain at least a 1% tenant in common interest, which is included in the \$3,950,000 equity investment. \$75,000 of the offering proceeds was allocated to a property reserve account. As of June 30, 2003, the offering is still in process. The private placement memorandum projected a first-year annualized cash on cash return of 8.05%. Through June 30, 2003, Lombard C-USA, L.L.C. remains the sole investor in the property.

DEERE DISTRIBUTION FACILITY. Janesville 1031, L.L.C., a Delaware limited liability company, purchased a single-tenant, light industrial distribution center leased to Deere & Company, a Delaware corporation, in Janesville, Wisconsin in February 2003 from Ryan Janesville, L.L.C., a Minnesota corporation and an affiliate of Ryan Companies US, Inc. The L.L.C. financed its acquisition of the property with a \$10,450,000 loan from Bear Stearns Commercial Mortgage, Inc. In May 2003, Janesville 1031, L.L.C. began offering 99% of the undivided tenant in common interests in the real estate and improvements thereon located at 2900 Beloit Avenue, Janesville, Rock County, Wisconsin for \$9,949,500 in cash plus the assumption of the existing indebtedness to certain qualified persons in need of replacement properties to complete a 1031 tax-deferred exchange. The total price, \$20,500,000, consisted of \$10,450,000 in debt assumption and \$10,050,000 in equity investment, 1% of which was required by the lender to be retained by Janesville 1031, L.L.C. \$100,000 of the offering proceeds was allocated to a property reserve account. As of June 30, 2003, the offering is still in process. The private placement memorandum projected a first-year annualized cash on cash return of 7.23%. Through June 30, 2003, Janesville 1031, L.L.C. remains the sole investor in the property.

FLEET OFFICE BUILDING. Westminster Office 1031, L.L.C., a Delaware limited liability company, purchased a single-tenant office building leased entirely to Fleet National Bank, a national banking association, in Providence, Rhode Island in April 2003 from Fleet National Bank in a sale/leaseback transaction. The L.L.C. financed its acquisition of the property with a \$12,900,000 loan from Bear Stearns Commercial Mortgage, Inc. In June 2003, Westminster Office 1031, L.L.C. began offering 99% of the undivided tenant in common interests in the real estate and improvements thereon located at 111 Westminster Street, Providence, Providence County, Rhode Island for \$9,000,000

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in cash plus the assumption of the existing indebtedness to certain qualified persons in need of replacement properties to

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complete a 1031 tax-deferred exchange. The total price, \$22,900,000, consisted of \$12,900,000 in debt assumption and \$10,000,000 in equity investment, 1% of which was required by the lender to be retained by Westminster Office 1031, L.L.C. \$150,000 of the offering proceeds was allocated to a property reserve account. As of June 30, 2003, the offering is still in process. The private placement memorandum projected a first-year annualized cash on cash return of 7.19%. Through June 30, 2003, Westminster Office 1031, L.L.C. remains the sole investor in the property.

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The following summary table describes the fees and expenses incurred by each of our entities in our 1031 Exchange Private Placement Offering Project.

| | Landings of Sarasota DBT | Sentry Office Building DBT | Pets Bowie DBT | 1031 Chattano DBT |
|---|-----------------------------|--------------------------------|-------------------------|--|
| ----- | | | | |
| Commissions & Fees(1) | Up to 8.5% | Up to 8.5% | Up to 8.5% | Up to 8 |
| ----- | | | | |
| SELLING COMMISSION TO 3rd PARTY REPS | 6.00% | 6.00% | 6.00% | 6.00% |
| ----- | | | | |
| DUE DILIGENCE FEE | 0.50% | 0.50% | 0.50% | 0.50% |
| ----- | | | | |
| MARKETING EXPENSES | 1.00% | 1.50% | 1.50% | 1.50% |
| ----- | | | | |
| OFFERING & ORGANIZATION | 1.00% | 0.50% | 0.50% | 0.50% |
| ----- | | | | |
| Mortgage Broker Fee (IMC) (2) | 0.50% | 0.50% | 0.50% | 0.50% |
| ----- | | | | |
| Acquisition Fee & Carrying Costs(3) | | | | |
| ----- | | | | |
| ACQUISITION FEE | N/A | 0.71% | 0.77% | 0.90% |
| ----- | | | | |
| BRIDGE FINANCING FEES | N/A | NA | 1.49% | 0.50% |
| ----- | | | | |
| Total Load(4) | 11.25%–12.75% | 14.23% | 13.68% | 14.39% |
| ----- | | | | |
| Asset Management Fees(5) | NA | 0.75% | 1.00% | 0.56% |
| ----- | | | | |
| Property Management Fees(6) | 4.5% | 5.0% | Paid by Asset Mgr. | 5.0% |
| ----- | | | | |
| | Taunton Circuit DBT | Broadway Commons DBT DBT | Bell Plaza 1031, LLC | Inland 210 Celebration Place DBT |
| ----- | | | | |

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| Commissions & Fees(1) | Up to 8.0% | Up to 8.77% | Up to 9.19% | Up to 7.72% |
|---|------------|-------------|-------------|-------------|
| SELLING COMMISSION TO 3rd PARTY REPS | 6.00% | 6.00% | 6.00% | 3.81% |
| DUE DILIGENCE FEE | 0.50% | 0.50% | 0.50% | 0.00% |
| MARKETING EXPENSES | 1.00% | 1.00% | 1.00% | 0.50% |
| OFFERING & ORGANIZATION | 0.50% | 1.27% | 1.69% | 0.96% |
| Mortgage Broker Fee (IMC) (2) | 0.61% | 0.50% | 0.50% | 0.50% |
| Acquisition Fee & Carrying Costs(3) | | | | |
| ACQUISITION FEE | 0.69% | 0.75% | NA | 0.89% |
| BRIDGE FINANCING FEES | 0.07% | 0.23% | NA | 0.23% |
| Total Load(4) | 11.89% | 12.98% | 23.02% | 10.52% |
| Asset Management Fees (5) | 0.57% | NA | 0.53% | 0.53% |
| Property Management Fees(6) | 4.0% | 5.0% | 5.0% | 4.5% |

| | Deere Distribution Facility | Fleet Office Building |
|---|-----------------------------------|--------------------------|
| Commissions & Fees(1) | Up to 8.6% | Up to 8.52% |
| SELLING COMMISSION TO 3rd PARTY REPS | 6.00% | 6.00% |
| DUE DILIGENCE FEE | 0.50% | 0.50% |
| MARKETING EXPENSES | 1.00% | 1.00% |
| OFFERING & ORGANIZATION | 1.10% | 1.02% |
| Mortgage Broker Fee (IMC) (2) | 0.50% | 0.50% |
| Acquisition Fee & Carrying Costs(3) | | |
| ACQUISITION FEE | 0.87% | 0.85% |
| BRIDGE FINANCING FEES | 0.23% | 0.35% |
| Total Load(4) | 13.93% | 14.57% |
| Asset Management Fees (5) | 0.49% | 0.49% |
| Property Management Fees(6) | 4.5% | 4.5% |

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| | | | | |
|--------------------------|------|------|------|------|
| Backend Sales Commission | 3.5% | 3.5% | 3.5% | 3.5% |
|--------------------------|------|------|------|------|

| | | | | |
|--------------------------|-----|----|------|----|
| Backend Sales Commission | N/A | NA | 3.5% | NA |
|--------------------------|-----|----|------|----|

| | | | | |
|--------------------------|----|----|--|--|
| Backend Sales Commission | NA | NA | | |
|--------------------------|----|----|--|--|

(1) Commissions and fees are calculated as a percentage of the equity portion of each deal.

(2) The Mortgage Broker Fee is calculated as a percentage of the debt portion of each deal.

(3) Acquisition & Carrying Costs are calculated as a percentage of the real estate acquisition price.

(4) The Total Load is calculated as a percentage of the equity portion of each deal. The Total Load includes the Commissions & Fees, Mortgage Broker Fee, Acquisition Fee & Carrying Costs, as well as any other non-affiliated third party expenses.

(5) Asset Management Fees are calculated as a percentage of the value of the assets under management. However, for The Landings and Broadway Commons, which are both Master Lease deals, the Master Tenant Income is the residual cash flow from the Property after payment of the Master Lease Rent.

(6) Property Management Fees are calculated as a percentage of Gross Income from the property.

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SUMMARY TABLES

The following summary tables describe information concerning the prior programs discussed above through June 30, 2003.

Affiliates of The Inland Group formed Inland Capital Fund, L.P. and Wisconsin Capital Land Fund, L.P. as pure capital appreciation investments. No current return from rents or interest was contemplated or available because capital was invested in non-income producing vacant land parcels. Limited partners receive distributions on an irregular basis, only as a result of a sale of the vacant land parcels. These distributions consist of both the return of the invested capital amount allocated to the purchase of the parcel or parcels sold plus the profit on the involved parcels as measured by the sale price, net of costs of the sale, minus the fully loaded purchase price, or allocated capital. The method of measuring return on investment to date is on a sold

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parcel by parcel basis as follows:

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| | Return on Investment | | Return on Investment | | | |
|------------------------------|--|------|--|---|---|--|
| FUND | NET SALES PRICES OF PARCELS SOLD TO DATE | LESS | FULLY LOADED PURCHASE PRICE (ALLOCATED CAPITAL OF PARCELS SOLD TO DATE) | = | NET PROFITS ON PARCELS SOLD TO DATE | GROSS RETURN % (NET PROFIT/ALLOCATED CAPITAL) |
| Inland Capital Fund, L.P. | 28,049,000 | | 13,990,000 | = | 14,059,000 | 100% |
| Wisconsin Land Fund, L.P. | 4,137,818 | | 2,120,803 | = | 2,017,015 | 95% |

CUMULATIVE DISTRIBUTIONS TO LIMITED PARTNERS

| | CAPITAL RAISED | TOTAL | = | RETURN OF INVESTMENT | + | RETURN ON INVESTMENT |
|---|-------------------|-----------|---|-------------------------|---|-------------------------|
| Employee Appreciation Fund, L.P.* | 400,000 | 502,198 | | 400,000 | | 102,198 |
| Inland Condominium Financing Fund, L.P. | 1,031,000 | 1,411,617 | | 1,031,000 | | 380,617 |
| 9% Monthly Cash Fund, L.P. | 4,000,000 | 6,291,146 | | 4,000,000 | | 2,291,146 |
| 9% Monthly Cash Fund II, L.P. | 4,000,000 | 6,417,653 | | 4,000,000 | | 2,417,653 |
| IMC Note Issue #2 1993 | 6,800,000 | 5,147,928 | | 0 | | 5,147,928 |

* Returns of Capital prior to Final Distribution.

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MANAGEMENT

INLAND AFFILIATED COMPANIES

The Inland Group, Inc. was started by a group of Chicago schoolteachers in 1967, and incorporated the following year. The founders of The Inland Group and its affiliates are still centered in the Chicago metropolitan area. Over the past 35 years, The Inland Group and its affiliates have experienced significant growth and now make up a fully-integrated group of legally and financially separate companies that have been engaged in diverse facets of real estate providing property management, leasing, marketing, acquisition, disposition, development, redevelopment, renovation, construction,

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finance, investment products, and other related services. The Inland Real Estate Group of Companies (sometimes referred to as "Inland") represents the marketing name for these separate legal entities that are either subsidiaries of the same entity, affiliates of each other, share some common ownership or were previously sponsored by Inland Real Estate Investment Corporation. Inland in the aggregate was ranked by Crain's Chicago Business in April 2003 as the 33rd largest privately held company headquartered in the Chicago area. Among the affiliates of Inland is one of the largest property management firm in Illinois and one of the largest commercial real estate and mortgage banking firms in the Midwest.

As of June 30, 2003 Inland and its affiliates have more than 800 employees, own properties in 39 states, and have managed assets in excess of \$5 billion. The senior management includes executives of The Inland Group and its affiliates. Our management personnel have substantial experience in a full range of real estate services. Our top seven senior executives have an average of over 25 years experience in the real estate industry.

Our advisor and managing dealer are affiliates of Inland. The relevant skills and experience of each of the Inland affiliated companies, developed over the course of more than 35 years in business, primarily in the Chicago metropolitan area, are available to us in the conduct of our business.

As of June 30, 2003, our sponsor, Inland Real Estate Investment Corporation, is the general partner of limited partnerships which own in excess of 5,800 acres of pre-development land in the Chicago area, as well as 16,871,522 square feet of real property in Chicago and nationwide.

Inland developed expertise in real estate financing as it bought and sold properties over the years. Inland Mortgage Corporation was incorporated in 1977. As of June 30, 2003 Inland Mortgage Corporation has originated more than \$6 billion in financing including loans to third parties and affiliated entities.

Inland Mortgage Investment Corporation and Inland Mortgage Servicing Corporation were incorporated in 1990, delineating the functions and duties associated with financing. As of June 30, 2003, Inland Mortgage Investment Corporation owned a \$73,947,500 loan portfolio, and Inland Mortgage Servicing Corporation serviced a loan portfolio of 503 loans exceeding \$2,117,699,700.

The Inland Property Management companies are responsible for collecting rent, and leasing and maintaining the rental properties they manage.

As of June 30, 2003 Inland Property Management companies manage 42,982,552 million square feet of commercial properties in 39 states. A substantial portion of the portfolio, approximately 10.8 million square feet, consists of properties leased on a triple-net lease basis to creditworthy tenants. This means that the tenant operates and maintains the property and pays rent that is net of taxes, insurance, and

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operating expenses. They also manage more than 11,000 multi-family units that are principally located in the Chicago metropolitan area.

Inland Western Management Corporation, our management company, was incorporated in January 2003 to segregate responsibility for management of our properties from Inland Property Management companies' growing management portfolio of retail properties. Our property management company will be responsible for collecting rent, leasing, and maintaining the retail properties it will manage. These properties are primarily intended to be our properties in our primary geographical area of investment. Our property management company is

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owned primarily by individuals who are affiliates of Inland.

Inland Real Estate Acquisitions, Inc., another company affiliated with Inland, has extensive experience in acquiring real estate for investment. Over the years, it and its affiliates have acquired more than 1,100 properties.

Inland Real Estate Development Corporation, an affiliate of Inland, has expertise in rezoning and developing real estate for industrial, residential, and commercial use. It has constructed more than 3,000 single family and multi-family units and developed over one million square feet of commercial space. As of June 30, 2003, Inland Real Estate Development Corporation had more than 5,000 acres of prime land available for development.

Inland Real Estate Sales, Inc., another affiliate of Inland, is one of the largest "mid-market" commercial brokerage specialists in the Midwest. In the last three years it has completed more than \$175 million in commercial real estate sales. Inland Real Estate Sales, Inc. has been involved in the sale of more than 40,000 multi-family units and over 10 million square feet of commercial property.

See also "Prior Performance of our Affiliates" and APPENDIX A - "Prior Performance Tables" for information concerning over \$2.8 billion raised from over 77,000 investors in connection with two other REITs, one other public real estate equity program, one private real estate equity program and five private placement mortgage and note programs and nine real estate exchange private placement offerings sponsored by The Inland Group affiliated companies during the 10-year period ending June 30, 2003, and the prior performance of those programs. During the last 35 years, more than 10,000 investors were in the Inland Group's 231 completed programs as of June 23, 2003, with no investor losses of initial invested capital in any completed equity program.

The following sets forth information with respect to the directors and principal executive officers of The Inland Group:

| NAME | AGE* | POSITION AND OFFICE WITH THE INLAND GROUP |
|-------------------|------|--|
| Daniel L. Goodwin | 59 | Chairman, president and director |
| Robert H. Baum | 59 | Vice chairman, executive vice president - general counsel and director |
| G. Joseph Cosenza | 59 | Vice chairman and director |
| Robert D. Parks | 59 | Director |

*As of January 1, 2003

Messrs. Goodwin, Baum, Cosenza and Parks were the founders of Inland.

DANIEL L. GOODWIN, is a founding and controlling stockholder of and the Chairman of the Board and Chief Executive Officer of The Inland Group, Inc. Mr. Goodwin also serves as a director or officer of entities wholly owned or controlled by The Inland Group. In addition, Mr. Goodwin is the Chairman of the Board and Chief Executive Officer of Inland Mortgage Investment Corporation and

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Chairman and Chief Executive Officer of Inland Bancorp, a bank holding company. He also oversees numerous stock market investment portfolios and is the advisor for Inland Mutual Fund Trust, a publicly traded mutual fund.

HOUSING. Mr. Goodwin is a member of the National Association of Realtors, the Illinois Association of Realtors and the Northern Illinois Commercial Association of Realtors. He is also the author of a nationally recognized real estate reference book for the management of residential properties. Mr. Goodwin serves on the Board of the Illinois State Affordable Housing Trust Fund. He served as an advisor for the Office of Housing Coordination Services of the State of Illinois, and as a member of the Seniors Housing Committee of the National Multi-Housing Council. He has served as Chairman of the DuPage County Affordable Housing Task Force. Mr. Goodwin also serves as Chairman of New Directions Affordable Housing Corporation.

EDUCATION. Mr. Goodwin obtained his Bachelor's and Master's Degrees from Illinois State universities. Following graduation, he taught for five years in the Chicago Public Schools. More recently, Mr. Goodwin has served as a member of the Board of Governors of Illinois State Colleges and Universities. He is Vice Chairman of the Board of Trustees of Benedictine University, Vice Chairman of the Board of Trustees of Springfield College and Chairman of the Board of Trustees of Northeastern Illinois University.

ROBERT H. BAUM has been with The Inland Group and has affiliates since 1968 and is one of the four original principals. Mr. Baum is vice chairman and executive vice president-general counsel of The Inland Group. In his capacity as general counsel, Mr. Baum is responsible for the supervision of the legal activities of The Inland Group and its affiliates. This responsibility includes the supervision of The Inland Group Law Department and serving as liaison with outside counsel. Mr. Baum has served as a member of the North American Securities Administrators Association Real Estate Advisory Committee and as a member of the Securities Advisory Committee to the Secretary of State of Illinois. He is a member of the American Corporation Counsel Association and has also been a guest lecturer for the Illinois State Bar Association. Mr. Baum has been admitted to practice before the Supreme Court of the United States, as well as the bars of several federal courts of appeals and federal district courts and the State of Illinois. He is also an Illinois licensed real estate broker. He has served as a director of American National Bank of DuPage and currently serves as a director of Inland Bancorp Holding Company and of Westbank. Mr. Baum also is a member of the Governing Council of Wellness House, a charitable organization that provides emotional support for cancer patients and their families.

G. JOSEPH COSENZA has been with The Inland Group and its affiliates since 1968 and is one of the four original principals. Mr. Cosenza is a director and vice chairman of The Inland Group and oversees, coordinates and directs The Inland Group organization's many enterprises. In addition, Mr. Cosenza immediately supervises a staff of 16 persons who engage in property acquisitions. Mr. Cosenza has been a consultant to other real estate entities and lending institutions on property appraisal methods.

Mr. Cosenza received his B.A. Degree from Northeastern Illinois University and his Masters Degree from Northern Illinois University. From 1967 to 1968, he taught in the La Grange Illinois School District and, from 1968 to 1972, he served as assistant principal and taught in the Wheeling, Illinois School District. Mr. Cosenza has been a licensed real estate broker since 1968 and an active member of various national and local real estate associations, including the National Association of Realtors and the Urban Land Institute.

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Mr. Cosenza has also been chairman of the board of American National Bank of DuPage and has served on the board of directors of Continental Bank of Oakbrook Terrace. He was the chairman and is presently a director of Westbank in Westchester, Hillside and Lombard, Illinois.

ROBERT D. PARKS has been a director of The Inland Group since 1968 and is one of the four original principals. He has been our chairman, chief executive officer, and an affiliated director since our formation. He is chairman of our sponsor and a director of our managing dealer. Mr. Parks is president, chief executive officer and a director of Inland Real Estate Corporation. He is a director of Inland Real Estate Advisory Services, Inc., Inland Investment Advisors, Inc., Partnership Ownership Corp., Inland Southern Acquisitions, Inc. and Inland Southeast Investment Corp. He is chairman, chief executive officer and director of Inland Retail Real Estate Trust, Inc. and a trustee of Inland Mutual Fund Trust, Inc.

Mr. Parks is responsible for the ongoing administration of existing investment programs, corporate budgeting and administration for our sponsor. He oversees and coordinates the marketing of all investments and investor relations.

Prior to joining Inland, Mr. Parks was a school teacher in Chicago's public schools. He received his B.A. Degree from Northeastern Illinois University and his M.A. Degree from the University of Chicago. He is a registered Direct Participation Program Limited Principal with the National Association of Securities Dealers, Inc. He is also a member of the Real Estate Investment Association, the Financial Planning Association, the Foundation for Financial Planning, as well as a member of the National Association of Real Estate Investment Trusts, Inc.

OUR GENERAL MANAGEMENT

We operate under the direction of our board of directors. Our board is responsible for our business and management. Our board sets our policies and strategies. Our advisor is responsible for the day-to-day management of our affairs and the implementation of the policies of our board. Inland Western Management Corp. is responsible for managing, maintaining and leasing the individual properties. Inland Real Estate Acquisitions, Inc. is responsible for acquiring properties. Inland Risk and Insurance Management Services, Inc., an affiliate of The Inland Group, Inc., is responsible for providing insurance coverage on the properties. Inland Mortgage Corporation, Inland Mortgage Servicing Corporation and Inland Mortgage Investment Corporation are responsible for the purchase, sales and servicing of mortgages. See "Compensation Table" for a description for the fees paid to our affiliates.

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OUR DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth information with respect to our directors and executive officers:

| NAME ----- | AGE ----- | POSITION AND OFFICE WITH US ----- |
|-------------------------|--------------|---|
| Robert D. Parks | 59 | Chairman, chief executive officer and affiliated director |
| Roberta S. Matlin | 58 | Vice president -- administration |
| Scott W. Wilton | 42 | Secretary |

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| | | |
|-----------------------------|----|----------------------|
| Kelly E. Tucek | 40 | Treasurer |
| Brenda G. Gujral | 60 | Affiliated director |
| Frank A. Catalano, Jr | 41 | Independent director |
| Kenneth H. Beard | 63 | Independent director |
| Paul R. Gauvreau | 63 | Independent director |
| Gerald M. Gorski | 60 | Independent director |
| Barbara A. Murphy | 65 | Independent director |

 *As of January 1, 2003

ROBERTA S. MATLIN has been our vice president of administration since our formation. Ms. Matlin joined Inland in 1984 as director of investor administration and currently serves as senior vice president of investments of our sponsor, directing its day-to-day internal operations. Ms. Matlin is a director of our sponsor and of our managing dealer. Since 1998, she has been vice president of administration of Inland Retail Real Estate Trust and was vice president of administration of Inland Real Estate Corporation from 1995 until 2000. She is president and a director of Inland Investment Advisors, Inc. and Intervest Southern Real Estate Corporation, and a trustee and executive vice president of Inland Mutual Fund Trust. Prior to joining Inland, she worked for the Chicago Region of the Social Security Administration of the United States Department of Health and Human Services. Ms. Matlin is a graduate of the University of Illinois. She holds Series 7, 22, 24, 39, 63 and 65 licenses from the National Association of Securities Dealers, Inc.

SCOTT W. WILTON has been our secretary since our formation. Mr. Wilton joined The Inland Group in January 1995. He is assistant vice president of The Inland Real Estate Group, Inc. and assistant counsel with The Inland Real Estate Group law department. In 1998, Mr. Wilton became secretary of Inland Retail Real Estate Trust, Inc. and Inland Retail Real Estate Advisory Services, Inc. In 2001, he became the Secretary of Inland Real Estate Exchange corporation. Mr. Wilton is involved in all aspects of The Inland Group's business, including real estate acquisitions and financing, securities law and corporate governance matters, leasing and tenant matters, and litigation management. He received B.S. degrees in economics and history from the University of Illinois at Champaign 1982 and his law degree from Loyola University of Chicago, Illinois 1985. Prior to joining The Inland Group, Mr. Wilton worked for the Chicago law firm of Williams, Rutstein, Goldfarb, Sibrava and Midura, Ltd., specializing in real estate and corporate transactions and litigation.

KELLY E. TUCEK has been our treasurer since our formation. Ms. Tucek joined The Inland Group in 1989 and is an Assistant Vice President of Inland Real Estate Investment Corporation. As of August 1996, Ms. Tucek is responsible for the Investment Accounting Department, which includes all public partnership accounting functions along with quarterly and annual SEC filings. Prior to joining Inland, Ms. Tucek was on the audit staff of Coopers and Lybrand since 1984. She received her B.A. Degree in Accounting and Computer Science from North Central College.

BRENDA G. GUJRAL, an affiliated director, is president, chief operating officer and a director of Inland Real Estate Investment Corporation, the parent company of our advisor. She is also president, chief operating officer and a director of our managing dealer. Mrs. Gujral is also a director of Inland Investment Advisors, Inc., an investment advisor.

Mrs. Gujral has overall responsibility for the operations of Inland Real Estate Investment Corporation, including the distribution of checks to over

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50,000 investors, the review of periodic communications to those investors, the filing of quarterly and annual reports for Inland Real Estate Investment Corporation-sponsored publicly registered investment programs with the Securities and Exchange Commission, compliance with other Securities and Exchange Commission and National Association of Securities Dealers securities regulations both for Inland Real Estate Investment Corporation and Inland Securities Corporation, review of asset management activities and marketing and communications with the independent broker-dealer firms selling current and prior Inland Real Estate Investment Corporation sponsored investment programs. She works with internal and outside legal counsel in structuring Inland Real Estate Investment Corporation's investment programs and in connection with the preparation of its offering documents and registering the related securities with the Securities and Exchange Commission and state securities commissions.

Mrs. Gujral has been with the Inland organization for 22 years, becoming an officer in 1982. Prior to joining the Inland organization, she worked for the Land Use Planning Commission establishing an office in Portland, Oregon to implement land use legislation for that state.

She is a graduate of California State University. She holds Series 7, 22, 39 and 63 licenses from the National Association of Securities Dealers and is a member of The National Association of Real Estate Investment Trusts. Ms. Gujral is also a member of the Financial Planning Association, the Foundation for Financial Planning and the National Association for Female Executives.

FRANK A. CATALANO, JR. has served as president of Catalano & Associates since 1999. Catalano & Associates is a real estate company that includes brokerage, property management and rehabilitation and leasing of office buildings. Mr. Catalano's experience also includes mortgage banking. Since 2002, he has been a vice president of First Home Mortgage Company. Prior to that, Mr. Catalano was a regional manager at Flagstar Bank. He also was president and chief executive officer of CCS Mortgage, Inc. from 1995 through 2000, when Flagstar Bank acquired it.

Mr. Catalano is a member of the Elmhurst, IL Chamber of Commerce and as past chairman of the board, he is also a member of the Elmhurst Jaycees, Elmhurst Hospital Board of Governors, Elmhurst Kiwanis and is currently the President of Elmhurst Historical Museum Commission. Mr. Catalano holds a mortgage broker's license.

KENNETH H. BEARD was president and chief executive officer of Exelon Services, an energy services company from 1999-2002, where he had responsibility for financial performance including being accountable for creating business strategy, growing the business through acquisition, integrating acquired companies and developing infrastructure for the combined acquired businesses. Exelon Services is a subsidiary of Exelon Corporation, a New York Stock Exchange listed company. Prior to that position, from 1974 to 1999, Mr. Beard was the founder, president and chief executive officer of Midwest Mechanical, Inc., a heating, ventilation and air conditioning company providing innovative and cost effective construction services and solutions for commercial, industrial, and institutional facilities. From 1964 to 1974 Mr. Beard was employed at The Trane Company, a manufacturer of heating, ventilating and air conditioning equipment having positions in sales, sales management and general management.

Mr. Beard holds a MBA and BSCE from the University of Kentucky and is a licensed mechanical engineer. He is on the board of directors of the Wellness House in Hinsdale, Illinois, a cancer support organization, and Harris Bank - Hinsdale, serves on the Dean's Advisory Council of the University of Kentucky, School of Engineering, and is a past member of the Oak Brook, Illinois Plan

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Commission (1981-1991).

PAUL R. GAUVREAU is the retired chief financial officer, financial vice president and treasurer of Pittway Corporation, New York Stock exchange listed manufacturer and distributor of professional burglar and fire alarm systems and equipment from 1966 until its sale to Honeywell, Inc. in 2001. He was president of Pittway's non-operating real estate and leasing subsidiaries through 2001. He was a financial consultant to Honeywell, Inc.; Genesis Cable, L.L.C.; ADUSA, Inc. He was a director and audit committee member of Cylink Corporation, a Nasdaq Stock Market listed manufacturer of voice and data security products from 1998 until its merger with Safenet, Inc. in February 2003. Prior to 1995, he was a director and acting chief financial officer instrumental in 1996 Cylink initial public offering.

Mr. Gauvreau holds a MBA from the University of Chicago and a BSC from Loyola University of Chicago. He is on the Board of Trustees and Vice Chairman of the Finance Committee of Benedictine University, Lisle, Illinois; a member of the Board of Trustees of the Chaddick Institute of DePaul University, Chicago, Illinois; and a member of the board of directors and treasurer of the Children's Brittle Bone Foundation, Pleasant Prairie, Wisconsin.

GERALD M. GORSKI is a partner in the law firm of Gorski and Good, Wheaton Illinois. Mr. Gorski's practice is limited to governmental law. His firm represents numerous units of local government in Illinois and Mr. Gorski has served as a Special Assistant State's Attorney and Special Assistant Attorney General in Illinois. He received a Bachelor of Arts degree from North Central College with majors in Political Science and Economics and a Juris Doctor degree from DePaul University Law School where he was placed on the Deans Honor List. Mr. Gorski serves as the Vice-Chairman of the Board of Commissioners for the DuPage Airport Authority. He has written numerous articles on various legal issues facing Illinois municipalities; has been a speaker at a number of municipal law conferences and is a member of the Illinois Bar Association, the Institute for Local Government Law and the International Municipal Lawyers Association.

BARBARA A. MURPHY is the Chairwoman of the DuPage Republican Party. Ms. Murphy is also a member of Illinois Motor Vehicle Review Board and a member of Matrimonial Fee Arbitration Board. Ms. Murphy is a Milton Township Trustee and a committeeman for Milton Township Republican Central Committee. Ms. Murphy previously served as State Central Committeewoman for the Sixth Congressional District and has also served on the DuPage Civic Center Authority Board, the DuPage County Domestic Violence Task Force, and the Illinois Toll Highway Advisory Committee. Ms. Murphy is a founding member of the Family Shelter Service Board. As an active volunteer for Central DuPage Hospital, she acted as the "surgery hostess" (cared for families while a family member was undergoing surgery). Ms. Murphy was a department manager and buyer for J.W. Robinson's and Bloomingdale's and the co-owner of Daffy Down Dilly Gift Shop.

COMMITTEES OF OUR BOARD OF DIRECTORS

Our bylaws provide that our board may establish such committees as the board believes appropriate. The board will appoint the members of the committee in the board's discretion. Our bylaws require that a majority of the members of each committee of our board is to be comprised of independent directors.

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AUDIT COMMITTEE. Our bylaws provide for our board to designate an audit committee consisting of at least three independent directors and for all committee members to be independent directors. Our board will designate three of the independent directors as the members of the audit committee. The audit

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committee makes recommendations concerning the engagement of independent public accountants, reviews the plans and results of the audit engagement with the independent public accountants, approves professional services provided by, and the independence of, the independent public accountants, considers the range of audit and non-audit fees and consults with the independent public accountants regarding the adequacy of our internal accounting controls.

EXECUTIVE COMMITTEE. Our board may establish an executive committee consisting of three directors, including two independent directors. The executive committee would likely exercise all powers of the board in the management of the business and affairs of our company, except for those which require actions by all of the directors or by the independent directors under our articles of incorporation or bylaws or under applicable law.

MANAGEMENT AND DISCLOSURE COMMITTEE. Our board may establish a management disclosure committee to assist in reviewing our disclosures, controls and procedures. The committee may include our directors and directors and officers of our advisor.

EXECUTIVE COMPENSATION COMMITTEE. Our board may establish an executive compensation committee consisting of three directors, including two independent directors, to establish compensation policies and programs for our executive officers. The executive compensation committee will exercise all powers of our board in connection with establishing and implementing compensation matters, including incentive compensation and benefit plans.

COMPENSATION OF DIRECTORS AND OFFICERS

We pay our independent directors an annual fee of \$5,000 plus \$500 for each in person meeting and \$350 for each meeting of the board or a committee of the board attended by telephone, and reimbursement of their out-of-pocket expenses incurred. Our two other directors, Robert D. Parks and Brenda G. Gujral, do not receive any fees or other remuneration for serving as directors.

EXECUTIVE COMPENSATION

We have no employees and our executive officers will not receive any compensation from us for their services as such officers. Our executive officers are officers of one or more of our affiliates, and are compensated by those entities, in part, for their services rendered to us.

INDEPENDENT DIRECTOR STOCK OPTION PLAN

We have an independent director stock option plan under which non-employee directors, as defined under Rule 16b-3 of the Securities Exchange Act of 1934, are eligible to participate.

We have authorized and reserved a total of 75,000 shares of our common stock for issuance under our independent director stock option plan. The number and type of shares which could be issued under the plan may be adjusted if we are the surviving entity after a reorganization or merger or if our stock splits, is consolidated or we are recapitalized. If this occurs, the exercise price of the options will be correspondingly adjusted.

The independent director stock option plan provides for the grant of non-qualified stock options to purchase 3,000 shares to each independent director upon his or her appointment if they meet the

conditions in the plan. The plan also provides for subsequent grants of options

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to purchase 500 shares on the date of each annual stockholder's meeting to each independent director then in office. However, options may not be granted at any time when the grant, along with the grants to be made at the same time to other independent directors, would exceed 10% of our issued and outstanding shares. We have granted options to purchase 3,000 shares at \$8.95 per share to each of our five independent directors. The option price for subsequent options will be equal to the fair market value of a share on the last business day preceding the annual meeting of stockholders. The option price will be fixed at \$8.95 per share until the earlier of the termination of this offering or two years after the commencement of this offering.

One-third of the options granted following an individual initially becoming an independent director are exercisable beginning on the date of their grant, one-third will first become exercisable on the first anniversary of the date of their grant, and the remaining one-third will first become exercisable on the second anniversary of the date of their grant. All other options granted under the independent director stock option plan will become fully exercisable on the second anniversary of their date of grant.

Options granted under the independent director stock option plan are exercisable until the first to occur of

- the tenth anniversary of the date of grant,
- the removal for cause of the independent director as an independent director, or
- three months following the date the independent director ceases to be an independent director for any other reason except death or disability.

The options may be exercised by payment of cash or through the delivery of common stock. They are generally exercisable in the case of death or disability for a period of one year after death or the disabling event, provided that the death or disabling event occurs while the person is an independent director. However, if the option is exercised within the first six months after it becomes exercisable, any shares issued pursuant to such exercise may not be sold until the six month anniversary of the date of the grant of the option. Notwithstanding any other provisions of the independent director stock option plan to the contrary, no option issued pursuant thereto may be exercised if such exercise would jeopardize our status as a REIT under the Internal Revenue Code.

No option may be sold, pledged, assigned or transferred by an independent director in any manner otherwise than by will or by the laws of descent or distribution.

Upon our dissolution, liquidation, reorganization, merger or consolidation as a result of which we are not the surviving corporation, or upon sale of all or substantially all of our property, the independent director stock option plan will terminate, and any outstanding unexercised options will terminate and be forfeited. However, holders of options may exercise any options that are otherwise exercisable immediately prior to the dissolution, liquidation, consolidation or merger. Additionally, our board may provide for any or all of the following alternatives:

- for the assumption by the successor corporation of the options previously granted or the substitution by the corporation for the options covering the stock of the successor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and exercise prices;

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- for the continuance of the independent director stock option plan by such successor corporation in which event the independent director stock option plan and the options will continue in the manner and under the terms so provided; or
- for the payment in cash or common stock in lieu of and in complete satisfaction of the options.

OUR ADVISOR

Our advisor, Inland Western Retail Real Estate Advisory Services, Inc., is an Illinois corporation and a wholly owned subsidiary of our sponsor. The following table sets forth information regarding the executive officers and directors of our advisor, all of whom have held their positions and offices since its formation in 1998. The biographies of Messrs. Parks, Cosenza, and Goodwin are set forth above under "-- Inland Affiliated Companies" and the biography of Mr. Wilton is set forth under "-- Our Directors and Executive Officers."

| NAME | AGE | POSITION AND OFFICE WITH OUR ADVISOR |
|--------------------------|-----|--------------------------------------|
| ---- | --- | ----- |
| Daniel L. Goodwin | 59 | Director |
| Robert D. Parks | 59 | Director and president |
| G. Joseph Cosenza | 59 | Director |
| Brenda G. Gujral | 60 | Vice president |
| Catherine L. Lynch | 44 | Treasurer |
| Scott W. Wilton | 42 | Secretary |

*As of January 1, 2003

CATHERINE L. LYNCH joined the Inland organization in 1989 and is the treasurer/secretary of our sponsor. Ms. Lynch is responsible for managing the corporate accounting department of our sponsor. Ms. Lynch is also the treasurer/secretary and a director of the dealer manager and treasurer of Inland Retail Real Estate Advisory Services and Inland Investment Advisors, Inc. Prior to joining the Inland organization, Ms. Lynch worked in the field of public accounting for KPMG Peat Marwick LLP since 1980. She received her B.S. Degree in Accounting from Illinois State University. Ms. Lynch is a certified public accountant and a member of the American Institute of Certified Public Accountants and the Illinois CPA Society. She is registered with the National Association of Securities Dealers, Inc. as a financial operations principal.

OUR ADVISORY AGREEMENT

DUTIES OF OUR ADVISOR. Under the terms of our advisory agreement, our advisor, generally has responsibility for our day-to-day operations. This includes the following:

- administering our bookkeeping and accounting functions,
- serving as our consultant in connection with policy decisions to be made by our board, managing our properties or causing them to be managed by another party, and
- rendering other services as our board deems appropriate.

Our advisor is subject to the supervision of its board and has only such functions as are delegated to it by its board.

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TERM OF THE ADVISORY AGREEMENT. The advisory agreement has an initial term of three years and is renewable for successive one-year terms upon the mutual consent of the parties. It may be terminated by either party, by mutual consent of the parties or by a majority of the independent directors or the advisor, as the case may be, upon 60 days' written notice. If the advisory agreement is terminated, the advisor must cooperate with us and take all reasonable steps requested by our board to assist it in making an orderly transition of the advisory function. Our board shall determine that any successor advisor possesses sufficient qualifications to perform the advisory function for us and justify the compensation provided for in its contract with us.

COMPENSATION TO ADVISOR. The advisory agreement provides for the advisor to be paid:

- an advisor asset management fee after the stockholders have first received a 6% annual return; and
- a property disposition fee; and
- an incentive advisory fee from the net proceeds of a sale of a property after the stockholders have first received a 10% cumulative return and a return of their net investment.

If the advisor or its affiliates perform services that are outside of the scope of the advisory agreement, we will compensate them at rates and in amounts agreed upon by the advisor and the independent directors.

The advisor bears the expenses it incurs in connection with performing its duties under the advisory agreement. These include:

- employee expenses;
- travel and other expenses of its directors, officers and employees;
- rent;
- telephone;
- equipment expenses to the extent they relate to the office maintained by both us and the advisor; and
- miscellaneous administrative expenses incurred in supervising, monitoring and inspecting real property or our other investments or relating to its performance under the advisory agreement. The advisor is reimbursed for the cost to it and its affiliates of goods and services used for and by us and obtained from unaffiliated parties. It is also reimbursed for related administrative services. We bear our own expenses for functions the advisor is not required to perform under the advisory agreement. These generally include capital raising and financing activities, corporate governance matters and other activities not directly related to our properties.

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REIMBURSEMENT BY ADVISOR. For any year in which we qualify as a REIT, our advisor must reimburse us for the amounts, if any:

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- by which our total operating expenses paid during the previous fiscal year exceed the greater of
 - 2% of our average assets for that fiscal year or
 - 25% of our net income, before any additions to or allowance for reserves for depreciation, amortization or bad debts or other similar low-cash reserves before any gain from the sale of our assets, for that fiscal year;
- PLUS an amount, so long as it does not exceed the amount of the advisor asset management fee for that year, equal to any deficit between the total amount of distributions to stockholders for such fiscal year and the current return. Current return refers to a cumulative, non-compounded return, equal to 6% per annum on net investment.

The advisor is also obligated to pay organization and offering expenses in excess of specified levels. See "Compensation Table" for a description of the fees and reimbursements to which the advisor is entitled. Provided however, only so much of the excess specified in the first bullet point above will be required to be reimbursed as the board, including a majority of the independent directors, determines should justifiably be reimbursed in light of such unanticipated, unusual or non-recurring factors which may have occurred within 60 days after the end of the quarter for which the excess occurred. In this event, the stockholders will be sent a written disclosure and explanation of the factors the independent directors considered in arriving at the conclusion that the higher total operating expenses were justified.

BUSINESS COMBINATION BETWEEN US AND THE ADVISOR. Many REITs that are listed on a national stock exchange or included for quotation on a national market system are considered self-administered, because their employees perform all significant management functions. In contrast, those that are not self-administered, like us, typically engage a third-party, such as our advisor, to perform management functions on its behalf. If for any reason the independent directors determine that we should become self-administered, the advisory agreement permits the business conducted by the advisor, including all of its assets, to be acquired by or consolidated into us. A similar provision is included in each management agreement permitting acquisition of the business conducted by the respective property manager, including all of its assets. Until September 15, 2008, such a business combination could only take place with our consent and that of the advisor and property manager. After September 15, 2008, we could acquire these companies in a business combination without their consent.

If the businesses conducted by the advisor and/or a property manager are acquired by or consolidated into us, the advisor and/or the property manager and/or their respective stockholders or members will receive a number of shares in exchange for terminating their respective management agreements and the release and waiver of all fees payable under them. We will be obligated to pay any fees accrued under such contractual arrangements for services rendered through the closing of the acquisitions.

The number of shares we will issue to the advisor and/or the property managers, as the case may be, will be determined as follows:

- We will first send an election notice to the advisor and/or the property manager, as the case may be, of our election to proceed with such a transaction.

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- Next, the net income of the advisor and/or the property manager, as the case may be, for the calendar monthly period immediately preceding the calendar month in which the business combination agreement is signed, as determined by an independent audit conducted in accordance with generally accepted auditing standards, will be annualized. The advisor or the property manager will bear the cost of the audit.
- The annualized net income will then be multiplied by 90% and divided by our funds from operations per weighted average share. Funds from operations per weighted average share will be equal to our annualized funds from operations per weighted average share for the fiscal quarter immediately preceding the fiscal quarter in which the business combination agreement is signed, all based upon our quarterly report delivered to stockholders.

Funds from operations means generally net income in accordance with generally accepted accounting principles, excluding gains or losses, from debt restructuring and sales of properties, plus depreciation of real property and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

The resulting quotient will constitute the number of shares to be issued by us to the advisor or the property manager, or their respective shareholders or members, as the case may be. Delivery of the shares and the closing of the transaction to occur within 90 days of delivery after the election notice.

Under some circumstances, this kind of transaction can be entered into and consummated without seeking specific stockholder approval. See "Conflicts of Interest." Any transaction like this will occur, if at all, only if our board obtains a fairness opinion from a recognized financial advisor or institution providing valuation services to the effect that the consideration to be paid is fair to the stockholders from a financial point of view. If the advisory agreement is terminated for any reason other than our acquisition of the business conducted by the advisor, then all obligations of the advisor and its affiliates to offer properties to us will also terminate.

LIABILITY AND INDEMNIFICATION OF ADVISOR. Under the advisory agreement, we are required to indemnify the advisor and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding with respect to the advisor's acts or omissions. However, this is only a requirement so long as:

- the advisor determined in good faith that the course of conduct which caused a loss or liability was in our best interest;
- the advisor was acting on behalf of or performing services for us;
- the liability or loss was not the result of misconduct on the part of the advisor; and
- the indemnification or agreement to hold harmless is recoverable only out of our net assets and not from the assets of the

stockholders.

We will advance amounts to those entitled to indemnification for legal and other expenses only if:

- the legal action relates to acts or omissions concerning the performance of duties or services by the person seeking indemnification for or on our behalf;

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- the legal action is initiated by a third party and a court of competent jurisdiction specifically approves its advancement; and
- the person seeking indemnification who is receiving the advances undertakes to repay the advanced funds to us, together with the applicable legal rate of interest thereon, if such party is found not to be entitled to indemnification.

Inland Retail Real Estate Trust, Inc. is still offering its securities and has not fully invested all of its anticipated funds available for investment. Accordingly, material conflicting investment opportunities between them and us could be expected. However, we have initially focused our purchase of retail centers to those west of the Mississippi River, which is outside Inland Retail Real Estate Trust, Inc.'s primary geographic area of investment. However, if any conflicts do arise, they will be resolved as provided in the property acquisition service agreement.

THE PROPERTY MANAGER AND THE MANAGEMENT AGREEMENT

Our present property manager provides property management services to us under the terms of the management agreement. The property manager provides services in connection with the rental, leasing, operation and management of the properties. Our property manager is a Delaware corporation, owned principally by individuals who are affiliates of The Inland Group. We have agreed to pay the property manager a monthly management fee in an amount no greater than 90% of the fee which would be payable to an unrelated party providing such services, which fee will initially be 4.5% of gross income, as defined in the management agreement from the properties managed for the month for which the payment is made. In addition, we have agreed to compensate the property manager if it provides us with services other than those specified in the management agreement. There will be a separate management agreement for each property for an initial term ending as of December 31 in the year in which the property is acquired, and each management agreement will be subject to three successive three-year renewals, unless either party notifies the other in writing of its intent to terminate between 60 and 90 days prior to the expiration of the initial or renewal term. We may terminate with 30 days prior written notice in the event of gross negligence or malfeasance by the property manager. The property manager may subcontract the required property management services for less than the management fee provided in the management agreement. See "Compensation Table -- Nonsubordinated Payments -- Operational Stage." Our property manager may form additional property management companies as necessary to manage the properties we acquire, and may approve of the change of management of a property from one manager to another.

Our property manager, Inland Western Management Corp., conducts its activities at its principal executive office at 2901 Butterfield Road in Oak Brook, Illinois.

See "--The Advisory Agreement" above in this section and "Conflicts of Interest" for a discussion of our option to acquire or consolidate with the

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business conducted by the property managers.

The following sets forth information with respect to the executive officers and directors of the Inland Western Management Corp.

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| NAME | AGE* | POSITION AND OFFICE WITH INLAND WESTERN MANAGEMENT CORP. |
|----------------------------|------|--|
| ---- | ---- | ----- |
| Thomas P. McGuinness | 46 | Chairman, director and chief executive officer |
| JoAnn Armenta | 29 | Senior vice president, director and secretary |
| James H. Neubauer..... | 61 | Senior vice president and director |
| Alan F. Kremin..... | 56 | Director |
| Anthony Casaccio..... | 47 | Director |

*As of January 1, 2003

THOMAS P. MCGUINNESS joined Inland Property Management in 1982 and became president of Mid-America Management Corporation in July 1990 and chairman in 2001. He is also president of Inland Property Management, Inc. as well as a director of Inland Commercial Property Management. He is chairman and a director of Inland Mid-Atlantic Management Corp. Mr. McGuinness is a licensed real estate broker; and is past president of the Chicagoland Apartment Association, and past regional vice president of the National Apartment Association. He is currently on the board of directors of the Apartment Building Owners and Managers Association, and is a trustee with the Service Employees' Local No. 1 Health and Welfare Fund, as well as the Pension Fund and holds CLS and CSM accreditations from the International Council of Shopping Centers.

JOANN ARMENTA joined Inland Property Management in 1992 working in residential management. Ms. Armenta became involved with commercial properties in 1995 overseeing the management of retail, office and industrial properties. She has managed a portfolio of retail properties for Inland Commercial Property Management and was promoted to senior property manager supervising one-half of the property managers. In 2001, she left Inland Commercial Property Management and accepted a position as Assistant Vice President for Inland Southern Corp. Also, she was promoted to Vice President of Inland Mid-Atlantic Management Corp. Her responsibilities in these positions include being in charge of due diligence for all retail acquisitions in approximately 15 states. In 2002 alone she was responsible for all due diligence on approximately 12 million square feet including the pro formas, site inspections, tenant interviews; engineering reports and upgrades. She has also been responsible for coordinating the transition from a property in the due diligence process to the seamless folding of the property into property operations.

Mrs. Armenta is also the sole training coordinator for Inland Southeast Property Management Corp., Inland Southern Management Corp., and Inland Mid-Atlantic Management Corp. for all new property managers and employees. In addition, she oversees the management of a portfolio of over two million square feet in the Chicago metropolitan area managing retail, office and

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light industrial.

Ms. Armenta holds a CSM accreditation with the International Council of Shopping Centers.

JAMES H. NEUBAUER joined Inland Property Management in 1978. In 1981, he was promoted to the position of director of purchasing. Subsequently, in 1983, he became a regional property manager with responsibility for residential and retail mixed use properties. In 1984, he became the president of Inland Western Property Management, responsible for a portfolio of properties in Arizona. From 1985 to

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1996, Mr. Neubauer was senior vice president of Mid-America Management where he was responsible for all rental property operations outside the Chicagoland metropolitan area, which included New Hampshire, Arizona, Indiana and Wisconsin. He left Inland Southeast Property Management Corp. as senior vice president and in May 2002 was promoted to President. He has achieved the Certified Property Manager (CPM) designation. He is also a member of the International Council of Shopping Centers and is a licensed real estate broker in Florida. He holds a B.A. degree from the University of Maryland, a M.A. degree from Ball State University and a M.B.A. degree from Benedictine College.

ALAN F. KREMIN joined The Inland Group in 1982. Mr. Kremin was promoted to treasurer of The Inland Group, Inland Commercial Property Management, Inc., and various other Inland Group subsidiaries in March 1991. In his current capacity as the chief financial officer of The Inland Group, a position he has held since 1991, his responsibilities include preparation of consolidated federal and state corporate tax returns, cash budgeting for the consolidated group and serving as a director for various Inland Group subsidiaries, for which he also serves as treasurer. He is a director of Inland Southeast Property Management Corp., and in March 2002 he became a director, secretary and treasurer of Inland Southern Management LLC. Prior to his current position, Mr. Kremin was treasurer of Inland Real Estate Investment Corporation from 1986 to 1990, when he supervised the daily operations of its accounting department. That department encompasses corporate accounting for the general partner of the Inland Real Estate Investment Corporation-sponsored limited partnership investment programs. Prior to joining The Inland Group, Mr. Kremin served for one year as a controller of CMC Realty and three years as assistant controller of JMB Realty Corporation. Prior to his real estate experience, Mr. Kremin worked eight years in public accounting, including four years at Arthur Young & Company. He received his B.S. degree in accounting from Loyola University. Mr. Kremin is a certified public accountant, holds securities and insurance licenses and is a licensed real estate broker.

ANTHONY A. CASACCIO joined Inland in 1984, working for Inland Condo Association Management. From 1987 to 1991 he was president of Partnership Asset Sales Corporation, where he was responsible for the disposition of over 20,000 apartment units located in northeast Illinois and nearby states, as well as non-residential properties leased to nursing homes, health clubs, office, industrial and shopping center tenants. In 1991 when Inland Real Estate Development Corporation was formed, Mr. Casaccio became the president and a director. Still serving in those capacities, Mr. Casaccio is responsible for the disposition of raw land investment programs for which he is also a senior vice president of the sponsor, which owns more than 10,000 acres of development land in Chicago's suburban counties.

In connection with land development, Mr. Casaccio, in addition to the sales of improved and raw land parcels, oversees land planning activities associated with readying land for sale, including zoning and annexation,

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negotiations with local municipal school, sanitary district and county authorities, submission of concept plans, preliminary and site amenities, final plats of subdivision; and completion of infrastructure improvements such as roads, sewer and water lines stormwater management facilities and site amenities. He is also a director and the secretary/treasurer of IRED Development Management, Inc.

Mr. Casaccio holds a B.S. degree in accounting from DePaul University. He is a member of the Realtor Association of the Western Suburbs (IL), the Fox Valley (IL) Association of Realtors, the Tri-County Board of Realtors, the National Association of Realtors, the Home Builders Association of Greater Chicago, the Northern Illinois Home Builders Association and the Urban Land Institute. He is a licensed real estate broker in the state of Illinois.

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INLAND SECURITIES CORPORATION

Inland Securities Corporation, our managing dealer, was formed in 1984. It is registered under the applicable federal and state securities laws and is qualified to do business as a securities broker-dealer throughout the United States. Since its formation, the managing dealer has provided the marketing function for distribution of the investment products sponsored by our sponsor. It does not render these services to anyone other than affiliates of The Inland Group, and it does not focus its efforts on the retail sale side of the securities business. It is a member firm of the National Association of Securities Dealers, Inc.

The following table sets forth information with respect to the directors, officers and principal employees of Inland Securities Corporation involved in national sales and marketing activities of Inland Securities Corporation. The biography of Mr. Parks set forth above under "-Inland Affiliated Companies" in this section and the biographies of Mrs. Gujral and Ms. Matlin are set forth above under "-Our Directors and Executive Officers" in this section. The biography of Ms. Lynch is also set forth above under "--Our Advisor."

| NAME ----- | AGE* | POSITION AND OFFICE WITH OUR MANAGING DEALER ----- |
|-------------------------|------|--|
| Brenda G. Gujral..... | 60 | President, chief operating officer and director |
| Roberta S. Matlin..... | 58 | Vice president and director |
| Catherine L. Lynch..... | 44 | Treasurer, secretary and director |
| Robert D. Parks..... | 59 | Director |
| Brian Conlon..... | 44 | Executive vice president |
| R. Martel Day..... | 53 | Executive vice president - national sales and marketing |
| Fred C. Fisher..... | 58 | Senior vice president |
| David Bassitt..... | 60 | Senior vice president |
| John Cunningham..... | 44 | Senior vice president |
| Tomas Giardino..... | 28 | Vice president |
| Curtis Shoch..... | 30 | Vice president |
| Shawn Vaughan..... | 31 | Vice president |
| Mark Lavery..... | 27 | Vice president |
| Ralph Rudolph..... | 39 | Vice president |

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*As of January 1, 2003

BRIAN M. CONLON joined Inland Securities Corporation as executive vice president in September 1999. Prior to joining Inland, Mr. Conlon was executive vice president and chief operating officer of Wells Real Estate Funds, where he was responsible for overseeing day to day operations of the firm's real estate investment and capital raising initiatives. Mr. Conlon is a General Securities Principal, is licensed as a real estate broker in Georgia, and has earned the Certified Financial Planner and Certified Commercial Investment Member designations. Mr. Conlon currently serves on the national board of directors for the Financial Planning Association. Mr. Conlon holds Series 7, 24 and 63 licenses with the National Association of Securities Dealers, Inc.

R. MARTEL DAY is executive vice president-national sales and marketing for Inland Securities Corporation. He joined Inland Securities Corporation in 1984 as a regional representative in the southeast. Since then, he has served as regional vice president, senior vice president, and national marketing director. Mr. Day is currently responsible for expanding Inland Securities Corporation's selling group and working closely with broker-dealers in the selling group to maximize sales.

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Mr. Day has developed and presented numerous motivational and sales training workshops over the past 20 years. He graduated with an engineering degree from the Georgia Institute of Technology. Mr. Day holds General Securities and Registered Investment Advisor licenses from the National Association of Securities Dealers, and is an associate member of The National Association of Real Estate Investment Trusts. He is a director of Inland Investment Advisors, Inc., an Inland affiliated company.

FRED C. FISHER is a senior vice president of Inland Securities Corporation, which he joined in 1984. Mr. Fisher began his career with Inland Securities Corporation as regional vice president for the midwest region. In 1994, he was promoted to senior vice president. Mr. Fisher received his bachelor's degree from John Carroll University. Before joining Inland Securities Corporation, he spent nine years as a regional sales manager for the S.S. Pierce Company. Mr. Fisher holds Series 7, 22 and 63 licenses with the National Association of Securities Dealers, Inc.

DAVID BASSITT joined Inland Securities Corporation as a senior vice president in March 2001. Prior to joining Inland, Mr. Bassitt was director of financial services with AEI Fund Management, Inc. and was responsible for wholesaling public and private net lease real estate investments and 1031 property exchanges to financial planners. Mr. Bassitt received his bachelor's degree from Ferris State University, and a master's degree from St. Cloud University. Mr. Bassitt holds Series 6, 7, 22 and 63 licenses with the National Association of Securities Dealers, Inc.

JOHN CUNNINGHAM is a senior vice president of Inland Securities Corporation. He joined an affiliate of The Inland Group in January 1995 as a commercial real estate broker. In March 1997, Mr. Cunningham was hired by Inland Securities Corporation as a regional representative for the western region, and he was promoted to a vice president in 1999. In 2002, he became senior vice president of the western region. Mr. Cunningham graduated from Governors State University with a B.S. degree in business administration, concentrating in marketing. Before joining the Inland organization, Mr. Cunningham owned and operated his own business and developed real estate. He holds Series 7 and Series 63 licenses with the National Association of Securities Dealers, Inc.

TOMAS GIARDINO joined Inland Securities Corporation as vice president

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in September 2000. Prior to joining Inland, Mr. Giardino was the director of mutual fund sales at SunAmerica Securities, where he was responsible for increasing the market share of nine focus firms at the broker dealer. Mr. Giardino entered the securities industry in January 1999. Prior to entering the securities industry, Mr. Giardino was in the advertising field for four years. Mr. Giardino received his B.A. in political science from Arizona State University in May 1998. He holds Series 7, 63 and 65 licenses with the National Association of Securities Dealers, Inc.

CURTIS SHOCH joined Inland Securities Corporation as vice president in January 2000. Prior to joining Inland, Mr. Shoch was assistant vice president at Wells Real Estate Funds, where he was responsible for launching new real estate investment alternatives in the southeastern United States. Mr. Shoch began his career in 1994 with Keogler Investment Advisory Services. Mr. Shoch graduated from Lynchburg College in Lynchburg, Virginia in 1994 with a major in marketing and an emphasis in finance. He is a Registered Representative as well as a Registered Investment Advisor. Mr. Shoch holds Series 7, 63 and 65 licenses with the National Association of Securities Dealers, Inc.

SHAWN VAUGHAN joined Inland Securities Corporation as vice president in August 2000. Prior to joining Inland, Mr. Vaughan was assistant vice president at Wells Real Estate Funds, where he was responsible for marketing real estate investments in the mid-Atlantic region. Mr. Vaughan started his career in financial services in 1994 on the retail side of the business with a successful financial planning

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firm. During this time, he was responsible for handling every aspect of the financial planning process. Mr. Vaughan holds Series 7 and 63 licenses with the National Association of Securities Dealers, Inc.

MARK LAVERY joined Inland Securities Corporation as a vice president in April 2001. Prior to joining Inland, Mr. Lavery was with Charles Schwab, where he was on an active trade team. Mr. Lavery began his career with Investment Planners. Mr. Lavery graduated from Milliken University in 1997 with a B.S. in finance. Mr. Lavery holds Series 7 and 66 licenses with the National Association of Securities Dealers, Inc.

RALPH RUDOLPH joined Inland Securities Corporation in 1995 as a regional representative for midwest team and was promoted to a vice president in 2000. Prior to joining Inland, Mr. Rudolph served in the United States Marine Corp. and worked for another broker-dealer. He is a graduate of Elmhurst College with a degree in business administration. Mr. Rudolph holds Series 7 and 63 licenses with the National Association of Securities Dealers, Inc.

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LIMITATION OF LIABILITY AND INDEMNIFICATION OF DIRECTORS, OFFICERS AND OUR ADVISOR

The laws that we are subject to and our articles of incorporation provide that our advisor and directors are deemed to be in a fiduciary relationship to us and our stockholders and that our directors have a fiduciary duty to the stockholders to supervise our relationship with the advisor.

Maryland law provides that a director has no liability in the capacity as a director 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 ordinary prudent person in a like position would use under similar circumstances. Maryland law

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also provides that an act by a director of a Maryland corporation is presumed to satisfy the standards of the preceding sentence. Our articles of incorporation and bylaws provide that the liability of our directors and officers is limited to the fullest extent permitted by Maryland law and that none of our directors and officers will be liable to us or to any of our stockholders for money damages, including for breach of their fiduciary duty to us. As a result, our directors and officers will not be liable for monetary damages unless:

- the person actually received an improper benefit or profit in money, property or services; and
- the person is adjudged to be liable based on a finding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding.

Except as described below, our articles of incorporation authorize and direct us to indemnify and pay or reimburse reasonable expenses to any director, officer, employee or agent we employ, and the advisor and its affiliates, to the fullest extent permitted by Maryland law. As long as we qualify as a REIT we will not indemnify or reimburse the expenses of any director, officer, employee, agent or the advisor or its affiliates unless:

- the directors have determined, in good faith, that the course of conduct which caused the loss or liability was in our best interests;
- the person seeking indemnification was acting on our behalf or performing services for us;
- the liability or loss was not the result of negligence or misconduct on the part of the person seeking indemnification, except that if the person seeking indemnification is or was an independent director, the liability or loss will not have been the result of gross negligence or willful misconduct; and
- such indemnification or agreement to be held harmless is recoverable only out of our net assets and not from the assets of the stockholders.

As long as we qualify as a REIT, we will not indemnify any director, officer, employee, agent or the advisor or its affiliates for losses, liabilities or expenses arising from or out of an alleged violation of federal or state 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;

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- the 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 and finds that indemnification of the settlement and related costs should be made, and the court considering the request has been advised of the position of the Securities and Exchange Commission and the published position of any state securities regulatory authority in which our securities were offered and sold as to indemnification for securities law violations.

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We will advance amounts to a person entitled to indemnification for legal and other expenses and costs incurred as a result of any legal action for which indemnification is being sought only in accordance with Maryland law and, as long as we qualify as a REIT, only if all of the following conditions are satisfied:

- the legal action relates to acts or omissions relating to the performance of duties or services by the person seeking indemnification for us or on our behalf;
- the legal action is initiated by a third party who is not a stockholder or the legal action is initiated by a stockholder acting in his or her capacity as such and a court of competent jurisdiction specifically approves advancement; and
- the person seeking indemnification undertakes in writing to repay us the advanced funds, together with interest at the applicable legal rate of interest, if the person seeking indemnification is found not to be entitled to indemnification.

We may purchase and maintain insurance or provide similar protection on behalf of any director, officer, employee, agent or the advisor or its affiliates against any liability asserted which was incurred in any such capacity with us or arising out of such status; provided, however, that we will not incur the costs of any liability insurance which insures any person against liability for which he, she or it could not be indemnified under our articles of incorporation. We may enter into any contract for indemnity and advancement of expenses with any director, officer, employee or agent as may be determined by the board and as permitted by law. As of the date of this prospectus, we have not purchased any insurance on behalf of any person but we intend to.

We have entered into separate indemnification agreements with each of our directors and some of our executive officers. The indemnification agreements will require that we indemnify our directors and officers to the fullest extent permitted by law, and advance to the directors and officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted. The agreements provide that we also must indemnify and advance all expenses incurred by directors and officers seeking to enforce their rights under the indemnification agreements and cover directors and officers under the our directors' and officers' liability insurance, if any. Although the indemnification agreements offer substantially the same scope of coverage afforded by provisions in our articles of incorporation and the bylaws, they provide greater assurance to directors and officers that indemnification will be available, because as a contract, it cannot be unilaterally modified by the board or by the stockholders to eliminate the rights it provides.

We have been advised that, in the opinion of the Securities and Exchange Commission, any indemnification that applies to liabilities arising under the Securities Act is contrary to public policy and, therefore, unenforceable.

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PRINCIPAL STOCKHOLDERS

The following table sets forth information as of September 10, 2003 regarding the number and percentage of shares beneficially owned by each director, each executive officer, all directors and executive officers as a group, and any person known to us to be the beneficial owner of more than 5% of our outstanding shares. As of September 10, 2003, we had one stockholder of

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record. Beneficial ownership includes outstanding shares and shares which are not outstanding that any person has the right to acquire within 60 days after the date of this table. However any such shares which are not outstanding are not deemed to be outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by any other person. Except as indicated, the persons named in the table have sole voting and investing power with respect to all shares beneficially owned by them.

| BENEFICIAL OWNER | NUMBER OF SHARES BENEFICIALLY OWNED | PERCENT OF CLASS |
|---|--|------------------|
| Robert D. Parks | 20,000 (1) | 100% |
| Roberta S. Matlin | 0 | * |
| Scott W. Wilton | 0 | * |
| Kelly E. Tucek | 0 | * |
| Brenda G. Gujral | 0 | * |
| Frank A. Catalano, Jr. | 1,000 (2) | * |
| Kenneth H. Beard | 1,000 (2) | * |
| Paul R. Gauvreau | 1,000 (2) | * |
| Gerald M. Gorski | 1,000 (2) | * |
| Barbara A. Murphy | 1,000 (2) | * |
| All directors and executive officers as a group (10 persons) | 25,000 (1) | 100% |

*Less than 1%

- (1) Includes 20,000 shares owned by our advisor. Our advisor is a wholly-owned subsidiary of our sponsor, which is an affiliate of The Inland Group. Mr. Parks is a control person of The Inland Group and disclaims beneficial ownership of these shares owned by our advisor.
- (2) Includes 1,000 shares issuable upon exercise of options granted to each independent director under our independent director stock option plan, to the extent that such options are currently exercisable or will become exercisable within 60 days after the date of this table.

OUR STRUCTURE AND FORMATION

We were formed in March 2003 as a Maryland corporation. Our articles of incorporation and bylaws became operative on March 5, 2003. Our existence is perpetual.

STRUCTURE

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We intend to own all of our assets, either directly or indirectly. Our advisor contributed \$200,000 to us for 20,000 shares of our common stock to form us. Our advisor has agreed to not sell their initial investment while the advisor remains our sponsor, but may transfer these shares to its own affiliates. A REIT may conduct some of its business and hold some of its interests in properties in "qualified REIT subsidiaries," which must be owned 100% by the REIT or through "taxable REIT subsidiaries" which may be wholly or partially owned. Although we currently do not intend to have any qualified REIT subsidiaries, we may in the future decide to conduct some business or hold some of our interests in properties in qualified REIT subsidiaries.

See "How We Operate - Organizational Chart" for a diagram depicting the services to be rendered by our affiliates to us, as well as our organizational structure.

If only the minimum offering of 200,000 shares is sold, such shares will represent 90.91% of the issued and outstanding shares, and the advisor's 20,000 shares will then represent 9.09% of the issued and outstanding shares. If 250,000,000 of the shares offered by this prospectus are sold, such shares will represent 99.99% of the issued and outstanding shares, and the advisor's 20,000 shares will then represent only 0.01% of the issued and outstanding shares.

We will form entities to acquire each of the properties to be owned by us. They will be owned or controlled directly or indirectly by us.

Robert D. Parks, Brenda G. Gujral, Roberta S. Matlin, Daniel L. Goodwin, Catherine L. Lynch, and Kelly E. Tucek are considered our promoters. Mr. Parks is our chairman and a director. Ms. Gujral is a director. Ms. Matlin is our vice president. Ms. Tucek is our treasurer. None of our promoters are employed by us. Other than Mr. Parks and Ms. Gujral, Ms. Matlin or Ms. Tucek, none of our promoters are officers or directors of us.

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SELECTED FINANCIAL DATA

As of the date of this prospectus, we have not yet had any operations. Therefore, we have not had any income, cash flow, funds from operations, or funds available for distributions, nor have we declared any distributions or issued any shares to public investors. We have sold 20,000 shares to the advisor for an aggregate purchase price of \$200,000. See "Management's Discussion and Analysis of Our Financial Condition," and our financial statements and related notes thereto appearing elsewhere in this Prospectus.

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INVESTMENT OBJECTIVES AND POLICIES

GENERAL

Our investment objectives are to:

- make regular distributions to the stockholders, which may be in amounts which may exceed our taxable income due to the non-cash nature of depreciation expense and, to such extent, will

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constitute a tax-deferred return of capital, but in no event less than 90% of our taxable income;

- provide a hedge against inflation by entering into leases which contain clauses for scheduled rent escalations or participation in the growth of tenant sales, permitting us to increase distributions and realize capital appreciation; and
- preserve stockholders' capital.

It is our policy to acquire properties primarily for income as distinguished from primarily for possible capital gain.

DISTRIBUTIONS

Federal income tax law requires that a REIT distribute annually at least 90% of its REIT Taxable Income. See "Federal Income Tax Considerations -- Federal Income Taxation as a REIT." In order to qualify for REIT status we may be required to make distributions in excess of cash available. For a discussion of the tax treatment of distributions to you, see "Federal Income Tax Considerations."

We anticipate that distributions will be paid to our domestic stockholders on a monthly basis and to our foreign stockholders on a quarterly basis. Distributions will be at the discretion of the board. Our ability to pay distributions and the size of these distributions will depend upon a variety of factors. We cannot assure that distributions will continue to be made or that any particular level of distributions established in the future, if any, will be maintained by us.

TYPES OF INVESTMENTS

We were formed to acquire and manage a portfolio of real estate which is diversified by geographical location and by type and size of retail centers. Our properties will consist of real estate primarily improved for use as retail establishments, principally multi-tenant shopping centers. Our real estate will be located mainly in the states west of the Mississippi River in the United States. We will endeavor to acquire multiple properties within the same major metropolitan markets where acquisitions result in efficient property operations with the potential to achieve market leverage. See "Real Property Investments -- General."

Most of these properties will be subject to "net" leases. "Net" leases typically require tenants to pay a share, either pro rata or fixed, of all or a majority of the operating expenses. Operating expenses include real estate taxes, special assessments, utilities, insurance, common area maintenance and building repairs related to the property, as well as base rent payments.

We may also acquire real estate improved with other commercial facilities which provide goods and services as well as those leased on a double or triple-net-lease basis which are either commercial or

retail. Triple-net-leases also require the tenant to pay a base minimum annual rent with periodic increases. We may enter into sale and leaseback transactions in which we will purchase a property and lease the property to the seller of the property.

To provide us with a competitive advantage over potential purchasers of properties who must secure financing, we intend to acquire properties free

and clear of permanent mortgage debt. We will do this by paying the entire purchase price of property in cash, shares, interest in entities that own our properties or a combination of any of these. We may incur debt of a property to acquire properties where our board determines that incurring such debt is in our best interest. In addition, from time to time, we intend to acquire some properties without financing and later incur mortgage debt secured by selected or all such properties if favorable financing terms are available. We will use the proceeds from such loans to acquire additional properties. See "Borrowing" under this section for a more detailed explanation of our borrowing intentions and limitations.

We may purchase properties subject to completion of construction in accordance with terms and conditions we specify. In these cases, we will be obligated to purchase the property at the completion of construction, if construction conforms to definitive plans, specifications and costs approved by us and embodied in the construction contract, as well as, in most instances, satisfaction that agreed upon percentages of the property are leased. We will receive a certificate of an architect, engineer or other appropriate party, stating that the property complies with all plans and specifications. We may construct or develop properties, and render services in connection with the development or construction, subject to compliance with applicable requirements under federal income tax laws. Construction and development activities will expose us to risks such as cost overruns, carrying costs of projects under construction and development, availability and costs of materials and labor, our inability to obtain tenants, weather conditions, and government regulation.

See "- Investment Limitations" under this section and "Summary of Our Organizational Documents -- Restrictions on Investments" for investment limitations.

PROPERTY ACQUISITION STANDARDS

We have signed a property acquisition service agreement with Inland Real Estate Acquisitions, Inc. Under that agreement, Inland Real Estate Acquisitions has agreed to seek properties for us and to perform due diligence on the properties and negotiate the terms of the purchase. Through its experience with the acquisition of over 1,000 real properties by our affiliates, the advisor believes Inland Real Estate Acquisitions has the ability to identify quality real properties capable of meeting our investment objectives. When evaluating property, Inland Real Estate Acquisitions will consider a number of factors, including a real property's:

- geographic location and type;
- construction quality and condition;
- current and projected cash flow;
- potential for capital appreciation;
- lease rent roll, including the potential for rent increases;

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- potential for economic growth in the tax and regulatory environment of the community in which the property is located;
- potential for expanding the physical layout of the property and/or the number of sites;

- occupancy and demand by tenants for properties of a similar type in the same geographic vicinity;
- prospects for liquidity through sale, financing or refinancing of the property;
- competition from existing properties and the potential for the construction of new properties in the area; and
- treatment under applicable federal, state and local tax and other laws and regulations.

Inland Real Estate Acquisitions also requires the seller of a property to provide a current Phase I environmental report and, if necessary, a Phase II environmental report.

Before purchasing a property, Inland Real Estate Acquisitions examines and evaluates the potential value of the site, the financial condition and business history of the property, the demographics of the area in which the property is located or to be located, the proposed purchase price, geographic and market diversification and potential sales. In a sale-leaseback situation, since the seller of the property generally is assuming the operating risk, the price paid for the property by us may be greater than if it was not leased back to the seller. All acquisitions from our affiliates must be approved by a majority of our directors, including a majority of the independent directors.

DESCRIPTION OF LEASES

When spaces become vacant or existing leases expire, we anticipate entering into "net" leases. Net leases require tenants to pay a share, either pro rata or fixed, of all or a majority of the operating expenses, including real estate taxes, special assessments, insurance, utilities, common area maintenance and building repairs related to the properties, as well as base rent payments. We intend to include provisions which increase the amount of base rent payable at various points during the lease term and/or provide for the payment of additional rent calculated as a percentage of a tenant's gross sales above predetermined thresholds in most leases. The leases with most anchor tenants generally have initial terms of 10 to 25 years, with one or more renewal options available to the tenant. By contrast, smaller tenant leases typically have three- to five-year terms.

Triple net leases generally have a term of 15 to 25 years and are typically not less than 10 years. In addition, the tenant of a triple-net-lease is responsible for the base rent in addition to the costs and expenses related to property taxes, insurance, repairs and maintenance applicable to the leased space.

Each net lease tenant is required to pay its share of the cost of the liability insurance covering the property in which it is a tenant. The third-party liability coverage insures, among others, us, our advisor and our property manager. Typically, each tenant is required to obtain, at its own expense, property insurance naming us as the insured party for fire and other casualty losses in an amount equal to the full value of its premises and the contents of the premises. All property insurance must be approved by the property manager. In general, the net lease may be assigned or subleased with our prior written consent,

but the original tenant must remain liable under the lease unless the assignee meets income and net worth tests.

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In connection with sale and leaseback transactions, the tenant is responsible for paying a predetermined minimum annual rent generally based upon our cost of purchasing the land and building. In addition to the base rent, these tenants are generally responsible for the costs and expenses related to property taxes, insurance, repairs and maintenance applicable to the leased space.

PROPERTY ACQUISITION

We anticipate acquiring fee interests in properties, although other methods of acquiring a property may be used if we deem it to be advantageous. For example, we may acquire properties through a joint venture or the acquisition of substantially all of the interests of an entity which in turn owns the real property. We may also use separate entities to acquire a property. Such entities will be formed solely for the purpose of acquiring a property or properties. See " -- Joint Ventures" in this section and "Federal Income Tax Considerations -- Federal Income Taxation as a REIT."

Our advisor and its affiliates may purchase properties in their own name, assume loans in connection with the purchase or loan and temporarily hold title to the properties for the purpose of facilitating acquisition or financing by us, the completion of construction of the property or any other purpose related to our business.

Under our articles of incorporation, we are prohibited from purchasing a property from an affiliate unless a majority of the directors not interested in the transaction and a majority of our independent directors approve the purchase as fair and reasonable to us and at a cost to us no greater than the cost of the asset to our affiliate. However, the cost to us may be greater than the cost to our affiliate if a substantial justification for the excess exists and such excess is reasonable. Our policy currently provides that in no event may our cost of the asset exceed its appraised value at the time we acquire the property.

If remodeling is required prior to the purchase of a property, we will pay a negotiated maximum amount either upon completion or in installments commencing prior to completion. The price will be based on the estimated cost of remodeling. In such instances, we will also have the right to review the tenant's books during and following completion of the remodeling to verify actual costs. If substantial disparity exists between estimated and actual costs, an adjustment in the purchase price may be negotiated. If remodeling is required after the purchase of a property, an affiliate of our advisor may serve as construction manager for a fee no greater than 90% of the fee a third party would charge for such services.

BORROWING

We intend to acquire properties free and clear of permanent mortgage indebtedness by paying the entire purchase price in cash or for shares, limited partnership units in the operating partnership, interest in our subsidiaries that own our properties, or a combination of any of these. However, we may incur indebtedness to acquire properties where our board determines that it is in our best interest. On properties purchased without financing, we may later incur mortgage debt by obtaining loans secured by selected properties, if favorable financing terms are available. We will use the proceeds from such loans to acquire additional properties. We may also incur debt to finance improvements to our properties. Aggregate borrowings secured by all of our properties will not exceed 55% of their combined fair market value. Our articles of incorporation provide that the aggregate amount of borrowing in relation to the net

assets, in the absence of a satisfactory showing that a higher level is appropriate, not exceed 300% of net assets. Net assets means our total assets, other than intangibles at cost before deducting depreciation or other non-cash reserves less our total liabilities, calculated at least quarterly on a basis consistently applied. Any excess in borrowing over such 300% of net assets level must be approved by a majority of our independent directors, disclosed to our stockholders in our next quarterly report to stockholders, along with justification for such excess.

We may incur debt secured by our properties, but most likely on a non-recourse basis, some of which may be subject to certain carve outs. This means that a lender's rights on default will generally be limited to foreclosing on the property. We may secure recourse financing or provide a guarantee to lenders if we believe this may result in more favorable terms. When we give a guaranty for a property, we will be responsible to the lender for the satisfaction of the indebtedness if it is not paid by the property. We do not borrow funds from a program sponsored by our advisor or its affiliates which makes or invests in mortgage loans. We seek to obtain financing which will result in the most favorable overall economic benefit while balancing various risk factors associated with the debt. At certain times the majority of debt may require level payments and at others the majority may be based on variable rates. We have determined that it may be in our best interest to make use of mortgages the majority of which provide for a balloon payment. There are no prescribed limits on the number or amount of mortgages which may be placed on any one property. Any mortgages secured by a property will comply with the restrictions set forth by the Commissioner of Corporations of the State of California.

SALE OR DISPOSITION OF PROPERTIES

Our board will determine whether a particular property should be sold or otherwise disposed of after considering the relevant factors, including performance or projected performance of the property and market conditions, with a view toward achieving our principal investment objectives.

We intend to hold our properties for a minimum of four years prior to selling them. See "Federal Income Tax Considerations -- Federal Income Taxation as a REIT." We also intend to reinvest the proceeds from the sale, financing, refinancing or other disposition of our properties into additional properties. Alternatively, we may use these proceeds to fund maintenance or repair of existing properties or to increase reserves for such purposes. The objective of reinvesting the sale, financing and refinancing proceeds in new properties is to increase our real estate assets, and our net income, which our board believes will enhance our chances of having our shares traded in a public trading market. Notwithstanding this policy, the board, in its discretion, may distribute all or part of the proceeds from the sale, financing, refinancing or other disposition of all or any of our properties to our stockholders. In determining whether to distribute these proceeds to stockholders, the board will consider, among other factors, the desirability of properties available for purchase, real estate market conditions, the likelihood of the listing of our shares on a national stock exchange or including the shares for quotation on a national market system and compliance with the applicable requirements under federal income tax law under federal income tax laws. Because we may reinvest the proceeds from the sale, financing or refinancing of our properties, we could hold stockholders' capital indefinitely. However, upon the affirmative vote of a majority of the shares of common stock, we will be forced to liquidate our assets and dissolve.

When we sell a property, we intend to obtain an all-cash sale price. However, we may take a purchase money obligation secured by a mortgage on the property as partial payment, and there are no limitations or restrictions on our

ability to take such purchase money obligations. The terms of payment to us will be affected by custom in the area in which the property being sold is located and the then prevailing economic conditions. If we receive notes and other property instead of cash from sales, these proceeds, other than any interest payable on these proceeds, will not be available for distributions until

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and to the extent the notes or other property are actually paid, sold, refinanced or otherwise disposed. Therefore, the distribution of the proceeds of a sale to the stockholders may be delayed until that time. In these cases, we will receive payments in cash and other property in the year of sale in an amount less than the selling price and subsequent payments will be spread over a number of years. See "Federal Income Tax Considerations."

CHANGE IN INVESTMENT OBJECTIVES AND POLICIES

Our stockholders have no voting rights to implement our investment objectives and policies. Our board has the responsibility for our investment objectives and policies. Our board may not, however, make any material changes regarding the restrictions on investment policies set forth in our articles of incorporation without amending the articles of incorporation. Any amendment to our articles of incorporation requires the affirmative vote of a majority of our then outstanding voting shares of common stock. See "Summary of Our Organizational Documents -- Restrictions on Investments."

INVESTMENT LIMITATIONS

We will not:

- invest more than 10% of our total assets in unimproved real property (and will only invest in unimproved real property intended to be developed) or in mortgage loans on unimproved real property;
- invest in commodities or commodity future contracts;
- issue redeemable shares of common stock;
- issue shares on a deferred payment basis or other similar arrangement; and
- operate in such a manner as to be classified as an "investment company" for purposes of the Investment Company Act. See "Summary of Our Organizational Documents -- Restrictions on Investments" for additional investment limitations.

We do not intend to engage in hedging or similar activities for speculative purposes.

We have no current plans to invest any proceeds from this offering, or other funds, in the securities of other issuers for the purpose of exercising control over such other issuers.

OTHER INVESTMENTS

Consistent with our investment limitations, we may from time to time invest amounts of money in the securities of other companies that may or may not be REITs or companies related to real estate to seek superior returns on these investments. In addition, we may make loans to third parties from time to time

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in connection with retail centers we intend to purchase or on a short-term basis to real estate ventures.

APPRAISALS

All real property acquisitions to be made by us will be supported by an appraisal prepared by a competent, independent appraiser who is a member-in-good standing of the Appraisal Institute prior to

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the purchase of the property. Our policy currently provides that the purchase price of each property will not exceed its appraised value at the time of our acquisition of the property. Appraisals are, however, estimates of value and should not be relied on as measures of true worth or realizable value. We will maintain the appraisal in our records for at least five years, and copies of each appraisal will be available for review by stockholders upon their request.

RETURN OF UNINVESTED PROCEEDS

If at least 200,000 shares are not sold within six months from the original effective date of this prospectus, all funds received from subscribers will be promptly returned to them, together with any interest earned on the funds. We would expect to return funds to subscribers within five business days after the offering is terminated if at least 200,000 shares are not sold within six months from the original effective date of this prospectus. Any of the proceeds of this offering allocable to investments in real property which have not been invested in real property or committed for investment within the later of 24 months from the original effective date of this prospectus or 12 months from the termination of the offering, will be distributed to the stockholders. All funds we receive out of the escrow account will be available for our general use from the time we receive them until expiration of the period discussed in the prior sentence. We may use these funds to:

- fund expenses incurred to operate the properties which have been acquired,
- reimburse the advisor for our expenses, to the extent allowable under the advisory agreement,
- pay the advisor its compensation under the advisory agreement; and
- pay the property manager its property management fee under the management agreement

See "Estimated Use of Proceeds" and "Plan of Distribution -- Escrow Conditions." We will not segregate funds separate from our other funds pending investment, and interest will be payable to the stockholders if uninvested funds are returned to them.

ADDITIONAL OFFERINGS AND EXCHANGE LISTING

We anticipate that by September 15, 2008, our board will determine when, and if, to apply to have our shares of common stock listed for trading on a national stock exchange or included for quotation on a national market system, if we meet the then applicable listing requirements; and/or whether to commence subsequent offerings after completion of this offering. We believe that an exchange listing or inclusion of our shares in a national market system may allow us to increase our size, portfolio diversity, stockholder liquidity, access to capital and stability, and decrease our operating costs through

economies of scale. However, we cannot assure that such listing or inclusion will ever occur. If it is not feasible to list shares or include them in a national market system by September 15, 2008, our board may decide to sell our assets individually, list our shares at a future date; or liquidate us within ten years of such date. The sale of all or substantially all of our assets as well as our liquidation would also require the affirmative vote of a majority of the then-outstanding voting shares of stock.

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JOINT VENTURES

We may invest in joint venture arrangements with other public real estate programs formed by our advisor or any of its affiliates if a majority of our directors not otherwise interested in the transaction and a majority of our independent directors approve the transaction as being fair and reasonable. In addition, the investment by each joint venture partner must be substantially on the same terms and conditions as those received by other joint venturers.

We may also invest in general partnerships or joint venture arrangements with our affiliates as co-owners of a property. The general partnership or joint venture agreement for these investments will provide that we will be able to increase our equity participation in such entity as we receive additional proceeds of the offering. As a result, we will ultimately own a 100% equity ownership of the property and the affiliated general or joint venture partner will not be entitled to any profit or other benefit on the sale of its equity participation to us. Once we own, directly or indirectly, 100% of the ownership interests in the general partnership or joint venture entity, we will determine whether the continued existence of that entity is necessary. For example, we may determine to continue the existence of the entity to minimize expenses or to meet lender requirements.

In addition, we may enter into joint venture or partnership arrangements with unaffiliated third parties. Therefore, we may enter into acquisitions with sellers who are desirous of transactions in tax advantaged structures such as arrangements typically referred to as "Down REITs." A Down REIT is an organizational structure in which, in addition to owning indirect interests in real estate properties through the ownership of an interest in a lower-tier operating partnership (as in an UPREIT), a REIT also owns real estate properties directly at the REIT level. In a Down REIT structure, because the REIT owns real estate properties directly, the value of the REIT shares do not bear a direct relationship with the value of an interest in the lower-tier Down REIT operating partnership. You should consider the potential risk that our non-affiliated joint venture partner may be unable to agree with us on a matter material to the joint venture. See "Risk Factors -- Risks Related to the Offering."

We are unable to estimate the proportion of our assets that may be invested in joint venture interests.

CONSTRUCTION AND DEVELOPMENT ACTIVITIES

From time to time, we may attempt to enhance investment opportunities by undertaking construction and development activities and rendering services in connection with them. Our advisor has advised us that, in its view, we may be able to reduce overall purchase costs if we were to undertake construction and development rather than merely being limited to purchasing properties subject to completion of construction by a third party. The construction and development activities would expose us to such risks as cost overruns, carrying costs of projects under construction or development, availability and costs of materials and labor, weather conditions, government regulation and our inability to obtain

tenants. We nevertheless have concluded that our investment prospects would be enhanced by permitting us to engage in construction and development activities so long as such activities did not cause us to lose our status as a REIT. To comply with the applicable requirements under federal income tax law under federal income tax law, and until the Internal Revenue Service changes its pronouncements with regard to these requirements, we intend to limit our construction and development activities to the performance of oversight and review functions, including reviewing the construction and tenant improvement design proposals, negotiating and contracting for feasibility studies and supervising compliance with local, state or federal laws and regulations, negotiating contracts, oversight of construction, accounts, and obtaining financing. In addition to using independent contractors to provide services in connection with the

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operation of our properties, we may also use "taxable REIT subsidiaries" to carry out these functions. See "Federal Future Tax Considerations - Federal Income Taxation as a REIT" for a discussion of a "taxable REIT subsidiary." We will retain independent contractors to perform the actual physical construction work on tenant improvements, the installation of heating, ventilation and air conditioning systems. See "Real Property Investments - General" for a detailed description of the types of properties we may invest in.

OTHER POLICIES

Before we purchase a particular property, we may obtain an option to purchase the property. The amount paid for the option, if any, usually would be surrendered if the property was not purchased and normally would be credited against the purchase price if the property was purchased. See "Real Property Investments - General" for a detailed description of the types of properties we may invest in.

We hold all funds, pending investment in properties, in assets which will allow us to continue to qualify as a REIT. These investments are highly liquid and provide for appropriate safety of principal and may include, but are not limited to, investments such as bonds issued by the Government National Mortgage Association, or GNMA, and real estate mortgage investment conduits also known as REMICs. See "Federal Income Tax Considerations - Federal Income Taxation as a REIT."

We will not make distributions-in-kind, except for:

- distributions of readily marketable securities;
- distributions of beneficial interests in a liquidating trust established for our dissolution and the liquidation of our assets in accordance with the terms of our articles of incorporation; or
- distributions of in-kind property which meet all of the following conditions:
 - our board of directors advises each stockholder of the risks associated with direct ownership of the in-kind property;
 - our board of directors offers each stockholder the election of receiving in-kind property distributions; and
 - the directors distribute in-kind property only to those stockholders who accept our offer.

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Although our articles of incorporation and bylaws do not prohibit the following, we have no current plans to:

- underwrite the securities of other issuers;
- invest in real estate mortgages; or
- invest the proceeds of the offering, other than on a temporary basis, in non-real estate related investments.

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We may change our current plans, without stockholder approval, if our board of directors determines that it would be in the best interests of our stockholder to engage in any such transaction.

Although we are authorized to issue senior securities, we have no current plans to do so. See "Description of Securities - Preferred Stock," "- Issuance of Additional Securities and Debt Instruments" and "- Restrictions on Issuance of Securities."

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REAL PROPERTY INVESTMENTS

INVESTING IN REITS

A real estate investment trust or REIT is a company that owns and, in most cases, operates income-producing properties. To qualify as a REIT, generally a company must annually distribute at least 90% of its taxable income to stockholders.

According to the National Association of Real Estate Investment Trusts (NAREIT), dividend growth for publicly traded REITs has consistently outpaced inflation. Stock price appreciation for publicly-traded REITs has historically tracked the rate of increase in the Consumer Price Index, according to NAREIT. This information is based on REITs that are listed and traded on a national exchange and would not be representative of an investment in a REIT that is not publicly traded such as us, and there is no assurance that an investment in a non-publicly traded REIT will produce comparable results.

An analysis of historical data on publicly-traded REITs by Ibbotson Associates, a leading financial research firm, concluded that REITs have a low correlation with other stocks and bonds and represent a potentially powerful diversification tool. Ibbotson noted, "The asset allocation decision is the most important determinant of portfolio performance, outweighing the benefits of market timing and security selection." In particular, Ibbotson found that REITs may boost return and reduce risk when added to a diversified portfolio. Ibbotson also found that REITs outperformed most other major market benchmarks over the 1972-2002 period with much less volatility. There can be no assurance that future performance will mirror past performance and that these results would be comparable to non-traded REITs, like us.

GENERAL

Our advisor is experienced in acquiring and managing real estate, particularly retail focused shopping centers. We intend to acquire and manage a

diversified (by geographical location and by type and size of retail centers) portfolio of real estate primarily improved for use as retail establishments, principally multi-tenant shopping centers. Our portfolio will consist predominantly of grocery and discount store anchored retail, including net lease retail. We may acquire certain mixed use properties that may include lodging, office and/or multi-family residential if they are part of a retail center. And, we may also acquire other types of retail shopping centers, such as enclosed malls, outlet malls and power centers. We also anticipate acquiring real estate improved with other commercial facilities which provide goods and services as well as double or triple net leased properties, which are either commercial or retail, including properties acquired in sale and leaseback transactions. A triple-net leased property is one which is leased to a tenant who is responsible for the base rent and all costs and expenses associated with their occupancy, including property taxes, insurance, repairs and maintenance.

The retail centers we intend to acquire would be located primarily in states west of the Mississippi River in the United States. Where feasible, we will endeavor to acquire multiple properties within the same major metropolitan markets where the acquisitions result in efficient property management operations with the potential to achieve market dominance.

We do not intend to invest in real estate properties that are primarily:

- farms;
- health care facilities;
- industrial properties;
- leisure home sites;
- manufacturing facilities;
- mining properties;
- ranches;
- single-family residential properties;
- timberlands; or
- unimproved properties not intended to be developed (vacant land).

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Subject to compliance with the applicable requirement under the federal income tax laws, we may also undertake construction and development activities and render services in connection with such activities.

See "Investment Objectives and Policies" generally pertaining to our policies relating to the maintenance, operation and disposition of our properties.

We intend to initially focus on acquisition activity in major metropolitan areas in the western United States. The western United States, which consists of the southwest, rocky mountain and far west states, is projected to experience the most growth of any region of the country over the next 25 years. Population is expected to increase by 33.5 million between 2000 and 2025. Most of the states in the region will experience population growth rates ahead of the national average. In addition, the western region is forecast to lead the nation in the rate of employment growth. The western states will generate 22.8 million

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new jobs between 1999 and 2025 and account for 38% of total United States job growth.

California is projected to show the largest gains in population and employment; however, the region's growth is expected to become more dispersed as other western states experience higher rates of growth. Texas is expected to retain its position as the second largest state, with a population likely to exceed 29.8 million by 2025. Nevada is likely to experience the fastest rate of growth (2.4% annually between 2000 and 2025), followed by Arizona, Utah, Idaho, Colorado, Texas, New Mexico, Oregon and Washington.

Employment growth is expected to follow a similar pattern. Nevada, Arizona and Utah are projected to lead the nation by generating the fastest rate of annual employment growth. Several western cities are expected to rank among the nation's ten fastest growing metropolitan markets. These areas include Laredo and Austin-San Marcos in Texas, Las Vegas in Nevada, Provo-Orem in Utah and Phoenix-Mesa in Arizona.

The Western region benefits from the diversity of its economy, which has enabled many western states to maintain employment and income growth even when some sectors experience reduced demand. Agriculture, natural resources, manufacturing, trade and services are all represented in the region's economy. In addition many of the goods and services produced in the west have international markets. Much of the total United States output of agricultural products, oil and natural gas, lumber and wood products and electronic equipment is produced in the West.

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INSURANCE COVERAGE ON PROPERTIES

We carry comprehensive general liability coverage and umbrella liability coverage on all of our properties with limits of liability which we deem adequate to insure against liability claims and provide for the costs of defense. Similarly, we are insured against the risk of direct physical damage in amounts we estimate to be adequate to reimburse us on a replacement cost basis for costs incurred to repair or rebuild each property, including loss of rental income during the reconstruction period. In addition, we intend to insure our properties against loss caused by earthquake and flood if deemed necessary and economically justified. The form of management agreement for each property specifically provides for us to procure and carry public liability, fire and extended coverage, burglary and theft, rental interruption, flood, if appropriate, and boiler, if appropriate, insurance. The cost of such insurance is passed through to tenants whenever possible. Insurance risks associated with potential terrorism acts could sharply increase the premiums we pay for coverage against property and casualty claims. Additional, mortgage lenders in some cases have begun to insist that specific coverage against terrorism be purchased by commercial property owners as a condition for providing mortgage loans. It is uncertain whether such insurance policies will be available, or available at reasonable cost, which could inhibit our ability to finance or refinance our properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We cannot assure you that we will have adequate coverage for such losses. Legislation has been enacted to provide federal insurance for property losses due to terrorism. We cannot be certain what impact this legislation will have on us or what additional costs to us, if any, could result.

PROPERTIES

An affiliate, Inland Real Estate Acquisitions, Inc., has entered into an

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agreement to acquire a community shopping center in Phoenix, Arizona. This Safeway-anchored grocery shopping center has approximately 180,000 square feet.

We intend to primarily invest in retail properties ranging from 100,000 to 300,000 square feet in size, we may also purchase larger shopping centers, and properties in larger centers. We may also purchase these larger shopping centers, and properties in larger centers, in the future if such purchases are approved by our board of directors, including a majority of the independent directors.

We expect that our neighborhood and community shopping centers will be "anchored" or "shadow-anchored" by a national or regional discount department store, supermarket or drugstore. A "shadow-anchor" is an anchor tenant that has leased space in that portion of the center not owned or controlled by us.

In evaluating each of our properties as a potential acquisition and determining the appropriate amount of consideration to be paid for the property, we consider a variety of factors including overall valuation of net rental income, location, demographics, tenant mix, quality of tenants, length of leases, price per square foot, occupancy and that overall rental rates at each property are comparable to market rates. We anticipate that each property will be located within a vibrant economic area. We believe that each of the properties will be well-located, will have acceptable roadway access, will attract high quality tenants, will be well-maintained and will have been professionally managed. Nonetheless, each property will be subject to competition from similar shopping centers within its market area, and its economic performance could be affected by changes in local economic conditions. We generally do not consider any other factors materially relevant to the decision to acquire each of the properties.

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When we calculate depreciation expense for tax purposes, we use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

A substantial portion of our income will consist of rent received under long-term leases. In general, each tenant pays its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

A lease termination by an anchor tenant could result in lease terminations or reductions in rent by other tenants whose leases permit cancellation or rent reduction if another tenant's lease is terminated. We may own centers where the tenants may have rights to terminate their leases if certain other tenants are no longer open for business. These "co-tenancy" provisions may also exist in some leases where we own a portion of a shopping center and one or more of the anchor tenants leases space in that portion of the center not owned or controlled by us. If such tenants were to vacate their space, tenants with co-tenancy provisions would have the right to terminate their leases with us, or seek a rent reduction from us.

Some of our leases may also contain provisions requiring the payment of additional rent calculated as a percentage of tenants' gross sales above predetermined thresholds.

We seek to reduce our operating and leasing risks through geographic and tenant diversity.

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We will receive an appraisal for each of our properties which states that it was prepared in conformity with the Code of Professional Ethics Standards of Professional Appraisal Practice of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation by an independent appraiser who is a member of the Appraisal Institute. Appraisals are estimates of value and should not be relied on as a measure of truth worth or realizable value.

In cases where we have purchased properties from our affiliates, our directors, including the independent directors, must approve the acquisitions of the properties from our affiliates as being fair and reasonable.

POTENTIAL PROPERTY ACQUISITIONS

We are currently considering acquiring the one property in Phoenix, Arizona. Our decision to acquire this property will generally depend upon:

- no material adverse change occurring in the property, the tenants or the local economic conditions;
- our receipt of sufficient net proceeds from this offering to make this acquisition or sufficient availability of credit; and
- our receipt of satisfactory due diligence information including appraisals, environmental reports and lease information.

Other properties may be identified in the future that we may acquire before or instead of this property. We cannot guarantee that we will complete this acquisition.

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POTENTIAL PROPERTY: PEORIA STATION, PEORIA, ARIZONA

We anticipate purchasing an existing shopping center known as Peoria Station, which will contain 181,500 gross leasable square feet upon completion of the current redevelopment. The center currently contains 140,019 gross leasable square feet. The center is located at 10160 North 67th Avenue in Peoria, Arizona.

Inland Real Estate Acquisitions, Inc., an affiliate of our advisor, has entered into a contract to acquire this property. We anticipate that Inland Real Estate Acquisitions will assign this purchase contract to us at no cost. We would then anticipate purchasing Peoria Station from PDG America, an unaffiliated third party. Our total acquisition cost, including expenses, is expected to be approximately \$25,867,000. This amount may be adjusted based on actual rental rates achieved on the redeveloped square feet. This amount may also increase by additional costs, which have not yet been finally determined. We expect any additional costs to be insignificant. Our acquisition cost is expected to be approximately \$143 per square foot of leasable space.

We may place financing on the property at the time of acquisition.

In evaluating this property as a potential acquisition and determining the appropriate amount of consideration to be paid for the property, we considered a variety of factors including overall valuation of net rental income, location, demographics, tenant mix, quality of tenants, length of leases, price per square foot, occupancy and the fact that overall rental rates at the shopping center are comparable to market rates. We believe that this property is well located, has acceptable roadway access, attracts high-quality tenants, is well maintained and has been professionally managed. This property will be subject to

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competition from similar shopping centers within its market area, and its economic performance could be affected by changes in local economic conditions. We did not consider any other factors materially relevant to the decision to acquire this property.

We do not intend to make significant repairs and improvements to this property over the next few years. However, if we were to make any repairs or improvements, the tenants would be obligated to pay a substantial portion of any monies spent pursuant to the provisions of their respective leases.

Peoria Station was built in 1987 and redeveloped in 2002/2003. As of June 30, 2003, this property was 98% leased. We anticipate that all existing leases will be assigned to us.

For federal income tax purposes, the depreciable basis in this property will be approximately \$19,400,000. When we calculate depreciation expense for tax purposes, we will use the straight-line method. We depreciate buildings and improvements based upon estimated useful lives of 40 and 20 years, respectively.

Two tenants, Safeway and LA Fitness, each lease more than 10% of the total gross leasable area of the property. The leases with these tenants require the tenants to pay base annual rent on a monthly basis as follows:

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| Lessee | Approximate GLA Leased (Sq. Ft.) | % of Total GLA | Base Rent | | Lease Term | |
|------------|--|-------------------|--------------------------------------|--|------------|----------|
| | | | Per Square Foot Per Annum (\$) | | Beginning | To |
| Safeway | 55,471 | 31% | 5.60 | | 04/01/95 | 12/31/97 |
| | | | 6.92 | | 01/01/98 | 12/31/17 |
| LA Fitness | 40,916 | 23% | 6.60 | | 05/01/02 | 01/31/03 |
| | | | 13.20 | | 02/01/03 | 01/31/07 |
| | | | * | | 02/01/07 | 01/31/12 |
| | | | * | | 02/01/12 | 01/31/17 |

* Rent increases by CPI

As of June 30, 2003, a total 137,319 square feet was leased to 17 tenants at this property. The following table sets forth certain information with respect to those leases:

| Lessee | Approximate GLA Leased (Sq. Ft.) | Lease Ends | Current Annual Rent (\$) | Base Rent Per Square Foot Per Annum (\$) |
|------------------------|--|------------|-----------------------------|--|
| Blackbelt Academy | 1,800 | 08/03 | 23,886 | 13.27 |
| Barro's Pizza | 2,400 | 08/03 | 36,000 | 15.00 |
| Ombudsman Education | 1,763 | 11/03 | 28,208 | 16.00 |
| Melly's Hallmark | 3,000 | 01/04 | 40,500 | 13.50 |
| Smartcare Medical | | | | |

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| | | | | |
|-------------------|--------|-------|---------|-------|
| Center | 1,200 | 10/04 | 30,724 | 25.60 |
| Other Mothers | 4,197 | 12/04 | 65,054 | 15.50 |
| Circus Cleaners | 900 | 01/05 | 14,362 | 15.96 |
| Cents Store | 5,300 | 04/05 | 57,400 | 10.83 |
| H & R Block | 1,800 | 04/05 | 33,048 | 18.36 |
| Great Clips | 1,200 | 06/05 | 21,900 | 18.25 |
| Peter Piper Pizza | 11,067 | 12/05 | 138,337 | 12.50 |
| #1 Nails | 900 | 01/06 | 14,812 | 16.46 |
| Tan Banana | 1,800 | 09/06 | 30,600 | 17.00 |
| China Palace | 1,885 | 08/07 | 41,885 | 22.22 |
| Dunkin Donuts | 1,720 | 04/09 | 51,416 | 29.89 |
| LA Fitness | 40,916 | 01/17 | 540,091 | 13.20 |
| Safeway | 55,471 | 12/17 | 383,859 | 6.92 |

In general, each tenant pays its proportionate share of real estate taxes, insurance and common area maintenance costs, although the leases with some tenants provide that the tenant's liability for such expenses is limited in some way, usually so that their liability for such expenses does not exceed a specified amount.

We will obtain an appraisal on this property prior to acquisition. As with any other property we acquire, our property manager will receive a property management fee for managing this property and our advisor will receive an advisor asset management fee.

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CAPITALIZATION

The following table sets forth our historical capitalization as of June 30, 2003 and our pro forma capitalization as of that date as adjusted to give effect to the sale of 200,000 shares of common stock and the application of the estimated net proceeds therefrom as described in "Estimated Use of Proceeds." We were originally capitalized in March 2003 through the cash contribution of \$200,000 by the advisor, for which the advisor received 20,000 shares of common stock. Additionally, the table does not include shares of common stock issuable upon the exercise of options which may be, but have not been, granted under our independent director stock option plan. The information set forth in the following table should be read in conjunction with our historical financial statements included elsewhere in this prospectus and the discussion set forth in "Management's Discussion and Analysis of Our Financial Condition--Liquidity and Capital Resources."

| | June 30, 20 | P |
|--|-------------|-------|
| | ----- | ----- |
| DEBT: | | |
| Mortgage notes payable..... | \$ 0 | \$ |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$.001 par value, 10,000,000 authorized, none outstanding..... | 0 | |
| Common stock, \$.001 par value, 350,000,000 authorized, 20,000 shares issued and outstanding historical; 220,000 shares issued and outstanding pro forma | 20 | |
| Additional paid-in capital..... | 202,230 | |
| Retained earnings deficit..... | (9,750) | |

| | | | |
|---------------------------------|-------|---------|-------|
| Total stockholders' equity..... | ----- | 192,500 | ----- |
| Total capitalization..... | \$ | 192,500 | \$ |
| | ===== | | ===== |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OUR
FINANCIAL CONDITION

Certain statements contained in this "Management's Discussion and Analysis of Our Financial Condition" and elsewhere in this prospectus constitute "forward-looking statements" within the meaning of the Federal Private Securities Litigation Reform Act of 1995. See "Cautionary Note Regarding Forward-Looking Statements." You should read the following discussion along with our financial statements and the related notes included in this prospectus.

LIQUIDITY AND CAPITAL RESOURCES

We were formed in March 2003 to acquire and manage a diversified portfolio of real estate, primarily located in states west of the Mississippi River. We may also acquire single-user retail properties in locations throughout the United States, certain of which may be sale and leaseback transactions, net leased to creditworthy tenants. The advisor has guaranteed payment of all public offering expenses (excluding selling commissions and other fees payable to the managing dealer) in excess of 5.5% of the gross offering proceeds or all organization and offering expenses (including such selling expenses) which together exceeds 15% of the gross offering proceeds.

We will provide the following programs to facilitate investment in the shares and to provide limited liquidity for stockholders until such time as a market for the shares develops:

The distribution reinvestment program will allow stockholders who purchase shares pursuant to this offering to automatically reinvest distributions by purchasing additional shares from us. Such purchases will not be subject to selling commissions or the marketing contribution and due diligence expense allowance and will be sold at a price of \$9.50 per share.

The share repurchase program will provide existing stockholders with limited, interim liquidity by enabling them to sell shares back to us. The prices at which shares may be sold back to us are as follows:

- One year from the purchase date, at \$9.25 per share;
- Two years from the purchase date, at \$9.50 per share;
- Three years from the purchase date, at \$9.75 per share; and
- Four years from the purchase date, at the greater of: \$10.00 per share; or a price equal to ten times our "funds available for distribution" per weighted average share outstanding for per prior calendar year.

Shares purchased by us will not be available for resale. During any offering, the repurchase price shall be equal to or below the price of the shares offered in any offering.

The net proceeds of the offering will enable us to purchase properties. It

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is our policy to acquire properties free and clear of permanent mortgage indebtedness if we deem it advantageous by paying the entire purchase price of each property in cash or for shares, interest in entities that own our properties, or a combination of these means, and to selectively encumber all or some properties. We may, however, acquire properties subject to existing indebtedness. Following acquisition, the proceeds from such loans will be used to acquire additional properties to increase cash flow and provide further diversity. If the

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offering is not fully sold, our ability to diversify our investments may be diminished. Our advisor expects that the cash to be generated from operations of the properties identified for acquisition, which we intend to acquire if sufficient proceeds are raised in the offering, will be adequate to pay our operating expenses and provide distributions to stockholders.

Our management will monitor the various qualification tests we must meet to maintain our status as a REIT. We test large ownership of the shares upon purchase to determine that no more than 50% in value of the outstanding shares is owned, directly or indirectly, by five or fewer persons or entities at any time. Our management also determines, on a quarterly basis, that the gross income, asset and distribution tests described in the section entitled "Federal Income Tax Considerations -- Federal Income Taxation as a REIT" are met. On an ongoing basis, as we and the advisor perform due diligence on potential purchases of properties or temporary investment of uninvested capital, management of both entities will determine that the income from the new asset will qualify for REIT purposes.

CAPITAL RESOURCES

As of the date of this prospectus, we have identified one property in which to invest. If the minimum 200,000 shares are sold, we would not have sufficient resources to acquire the property identified.

We have rights to purchase an investment property currently being redeveloped, known as Peoria Station, from an unaffiliated third party for approximately \$25,867,000. This amount may be adjusted based on actual rental rates achieved on the redeveloped square feet. We expect to purchase this property by November 1, 2003, however, the seller may extend the closing date if minimum rental rates stated in the contract have not yet been achieved.

The number of properties we will acquire will depend upon the amount of the net proceeds of the offering. The advisor is not aware of any material trends, favorable or unfavorable, in either capital resources or the outlook for long-term cash generation, nor does it expect any material changes in the availability and relative cost of such capital resources, other than as referred to herein.

The advisor has guaranteed payment of all organization and offering expenses, including selling commissions and the other fees payable to the managing dealer, in excess of 15% of the gross offering proceeds of the offering and all organization and offering expenses, excluding such selling expenses, in excess of 5.5% of the gross offering proceeds. In addition, if we do not sell the minimum offering, neither our sponsor nor our advisor will be reimbursed for any organization and offering expenses.

As of June 30, 2003, we had incurred \$691,911 of offering and organization costs, all of which was advanced by our advisor.

Certain compensation and fees payable to our advisor for services to be

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provided to us are limited to maximum amounts. Set forth below is a table describing compensation and fees payable by us to our advisor.

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Nonsubordinated payments:

Offering stage:

| | |
|--|--|
| Selling commissions | 7.5% of the sale price for each share |
| Marketing contribution and due diligence allowance | 3.0% of the gross offering proceeds |
| Reimbursable expenses and other expenses of issuance | We will reimburse our sponsor for actual costs incurred, on our behalf in connection with the offering |

Acquisition stage:

| | |
|----------------------|---|
| Acquisition expenses | We will reimburse an affiliate of our advisor for costs incurred, on our behalf, in connection with the acquisition of properties |
|----------------------|---|

Operational stage

| | |
|--|--|
| Property management fee. THIS FEE TERMINATES UPON A BUSINESS COMBINATION WITH OUR PROPERTY MANAGER | 4.5% of the gross income from the properties. (Cannot exceed 90% of the fee which would be payable to an unrelated third party) |
| Loan servicing fee | .08% of the total principal amount of the loans being serviced for each full year, up to the first \$100 million and a lesser percentage on a sliding scale thereafter |
| Reimbursable expenses relating to administrative services | The compensation and reimbursements to our advisor and its affiliates will be approved by a majority of our directors |

Liquidation stage:

| | |
|--|---|
| Property disposition fee. THIS FEE TERMINATES UPON A BUSINESS COMBINATION WITH THE ADVISOR | Lesser of 3% of sales price or 50% of the customary commission which would be paid to a third party |
|--|---|

Subordinated payments:

| | |
|--|---|
| Operational stage: | |
| Advisor asset management fee. THIS FEE TERMINATES UPON A BUSINESS COMBINATION WITH OUR ADVISOR | Not more than 1% per annum of our average assets; subordinated to a non-cumulative, non-compounded return equal to 6% per annum |
| Liquidation stage: | |
| Incentive advisory fee. THIS FEE TERMINATES UPON A BUSINESS COMBINATION WITH OUR ADVISOR | After our stockholders have first received a 10% cumulative, non-compounded return and a return on their net investment, an incentive advisory fee equal to 15% on net proceeds from the sale of a property will be paid to our advisor |

As of the date of this prospectus, we have no current plans to acquire the property manager or advisor. No subscriptions for shares have been received from the public. The only funds received to date are from the advisor's contribution of \$200,000 for 20,000 common shares.

RESULTS OF OPERATIONS

As of the date of this prospectus, we have not yet had any operations. We intend to use the proceeds of this offering as set forth under "Estimated Use of Proceeds," principally to acquire properties. Our primary business objective will be to enhance the performance and value of our properties through management strategies designed to meet the needs of an evolving retail marketplace.

As we have not acquired any properties yet, our advisor is not aware of any known trends or uncertainties, other than national economic conditions, which have had or which may be reasonably expected to have a material impact, favorable or unfavorable, on revenues or income from the acquisition and operation of real properties other than those referred to in the prospectus.

We have paid no distributions yet.

FUNDS FROM OPERATIONS

One of our objectives is to provide cash distributions to our stockholders from cash generated by our operations. Cash generated from operations is not equivalent to our net operating income as determined under accounting principles generally accepted in the United States of America or GAAP. Due to certain unique operating characteristics of real estate companies, the National Association of REITs, also known as "NAREIT", an industry trade group, has promulgated a standard known as "Funds from Operations" or "FFO" for short, which it believes more accurately reflects the operating performance of a REIT such as ours. As defined by NAREIT, FFO means net income computed in accordance with GAAP, less extraordinary, unusual and non-recurring items, excluding gains (or losses) from debt restructuring and sales of properties plus depreciation and amortization and after adjustments for unconsolidated partnership and joint ventures in which the REIT holds an interest. We have adopted the NAREIT definition for computing FFO because management believes that, subject to the following limitations, FFO provides a basis for comparing our performance and operations to those of other REITs. The calculation of FFO may vary from entity to entity since capitalization and expense policies tend to vary from entity to entity. Items which are capitalized do not impact FFO, whereas items that are expensed reduce FFO. Consequently, the presentation of FFO by us may not be comparable to other similarly titled measures presented by other REITs. FFO is not intended to be an alternative to "Net Income" as an indicator of our performance nor to "Cash Flows from Operating Activities" as determined by GAAP as a measure of our capacity to pay distributions.

INITIAL PROPERTY

We have the right to acquire a neighborhood center, being the initial property. If sufficient funds are raised in the offering, we will, subject to certain conditions, acquire the initial property from an unaffiliated third party. See "Real Property Investments" for a more detailed description of the initial property.

CRITICAL ACCOUNTING POLICIES

GENERAL.

The following disclosure pertains to critical accounting policies management believes will be most "critical" to the portrayal of our financial condition and results of operations which require management's most difficult,

subjective or complex judgments. These judgments often result from the need to make estimates about the effect of matters that are inherently uncertain. Critical accounting

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policies discussed in this section are not to be confused with accounting principles and methods disclosed in accordance with GAAP. GAAP requires information in financial statements about accounting principles, methods used and disclosures pertaining to significant estimates. This discussion addresses judgments known to management pertaining to trends, events or uncertainties known which will be taken into consideration upon the application of those policies and the likelihood that materially different amounts would be reported upon taking into consideration different conditions and assumptions.

VALUATION AND ALLOCATION OF INVESTMENT PROPERTY. In order to ascertain the value of an investment property management will take into consideration many factors which require difficult, subjective or complex judgments to be made. These judgments require management to make assumptions when valuing each investment property. Such assumptions include projecting vacancy rates, rental rates, property operating expenses, capital expenditures, and debt financing rates, among others. The capitalization rate is also a significant driving factor in determining the property valuation which requires management's judgment of factors such as market knowledge, historical experience, length of leases, tenant financial strength, economy, demographics, environment, property location, visibility, age, and physical condition, and investor return requirements, among others. Furthermore, at the acquisition date, every property acquired will be supported by an independent appraisal. All of the aforementioned factors are taken as a whole by management in determining the valuation. The valuation is sensitive to the actual results of any of these uncertain factors, either individually or taken as a whole. Should the actual results, differ from management's judgment, the valuation could be negatively effected.

We will allocate the purchase price of the each acquired investment property between land, building and improvements, acquired favorable and unfavorable leases, lease origination value (the market cost avoidance of executing each acquired lease), and any assumed financing that is determined to be above or below market terms. The allocation of the purchase price is an area that requires complex judgments and significant estimates. We use the information contained in the independent appraisal we obtained as the primary basis for the allocation to land and building improvements. We determine whether any financing assumed is above or below market based upon comparison to similar financing terms for similar investment properties. We also will allocate a portion of the purchase price to the estimated lease origination value based on estimated lease execution costs for similar leases and consider various factors including geographic location and size of leased space. We also will evaluate each acquired lease based upon current market rates at the acquisition date and consider various factors including geographical location, size and location of leased space within the investment property, tenant profile and the credit risk of the tenant in determining whether the acquired lease is favorable or unfavorable. After an acquired lease is determined to be favorable or unfavorable, we will allocate a portion of the purchase price to such favorable or unfavorable acquired lease based upon the present value of the difference between the contractual lease rate and the estimated market rate. The determination of the discount rate used in the present value calculation is based upon the "risk free rate" for each individual lease and primarily based upon the credit worthiness of each individual tenant.

On a quarterly basis, we will conduct an impairment analysis in accordance with Statement of Financial Accounting Standards No. 144 to ensure that the

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property's carrying value does not exceed its fair value. If this were to occur, we are required to record an impairment loss.

The valuation and allocation of purchase price, and possible subsequent impairment of investment properties is a significant estimate that can and does change based on management's continuous process of analyzing each property and on management's assumptions about uncertain inherent factors.

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COST CAPITALIZATION AND DEPRECIATION POLICIES. Our policy will be to review all expenses paid and capitalize any item exceeding a threshold deemed to be an upgrade or a tenant improvement that is included in the investment property asset classification. In addition, we will capitalize costs incurred during the development period, including direct costs and indirect costs such as construction, insurance, architectural costs, and legal fees, interest and other financing costs, and real estate taxes. We will cease capitalization of indirect costs once management considers the property is substantially complete and available for occupancy.

Buildings and improvements will be depreciated on a straight line basis based upon estimated useful lives of 30 years for buildings and improvements and 15 years for site improvements. That portion of the purchase price is allocated to acquired favorable and unfavorable leases will be amortized on a straight line basis over the life of the related lease as an adjustment to rental income. Lease origination value, other leasing costs, and tenant improvements will be amortized on a straight line basis over the life of the related lease as a component of amortization expense.

Cost capitalization and the estimate of useful lives requires management judgment and includes significant estimates that can and do change based on management's continuous process of analyzing each property and on management's assumptions about uncertain inherent factors.

REVENUE RECOGNITION. We will recognize rental income on a straight-line basis over the term of each lease. The difference between rental income earned on a straight line basis and the cash rent due under the provisions of the lease agreements will be recorded as deferred rent receivable and is included as a component of accounts and rents receivable in the accompanying consolidated balance sheets. We anticipate collecting these amounts over the terms of the leases as scheduled rent payments are made.

Reimbursements from tenants for recoverable real estate tax and operating expenses will be accrued as revenue in the period the applicable expenditures are incurred. Management makes certain assumptions and judgments in estimating the reimbursements at the end of each reporting period. Should the actual results differ from management's judgment, the estimated reimbursement could be negatively effected adjusted appropriately.

In connection with certain acquisitions, we will receive payments under master lease agreements pertaining to some non-revenue producing spaces either at the time or subsequent to the purchase. GAAP requires that as these payments are received, they be recorded as a reduction in the purchase price rather than as rental income. These master leases may be established at the time of purchase in order to mitigate the potential negative effects of rent and occupancy assumptions utilized in the valuation of the investment property. Master lease payments will be received through a draw of funds escrowed at the time of purchase and will be for a period from one to three years. There is no assurance that upon the expiration of the master leases agreements that the valuation factors pertaining to rent and occupancy assumed by management will be met. Should the actual results differ from management's judgment, the property

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valuation could be negatively or positively affected.

VALUATION OF ACCOUNTS AND RENTS RECEIVABLE. Management will take into consideration certain factors that require judgments to be made as to the collectability of receivables. Collectability factors taken into consideration are the amounts outstanding, payment history, and financial strength of the tenant, which taken as a whole determines the valuation.

REIT STATUS. In order to maintain our status as a REIT, we are required to distribute at least 90% of its REIT taxable income to our stockholders. We must also meet certain asset and income tests, as well as other requirements. We will monitor the business and transactions that may potentially impact our

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REIT status. If we fail to qualify as a REIT in any taxable year, we will be subject to Federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates.

NEW ACCOUNTING PRONOUNCEMENT

On May 15, 2003, the Financial Accounting Standards Board issued Statement No. 150, ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY. The Statement requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer.

Generally, the Statement is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the provisions of the Statement on July 1, 2003.

The Company did not enter into any financial instruments within the scope of the Statement during June 2003. To the extent stockholders request shares to be repurchased by the Company under the Share Repurchase Program, the Company's obligation to repurchase such shares will be classified as a liability at the redemption amount at the date documentation is complete and accepted by the Company in accordance with the plan documents.

INFLATION

Inflation is likely to increase rental income from leases to new tenants and lease renewals, subject to market conditions, for any retail centers we acquire. Our rental income and operating expenses for any properties to be owned and operated on a triple-net lease basis are not likely to be directly affected by future inflation, since rents are or will be fixed under those leases and property expenses are the responsibility of the tenants. The capital appreciation of properties leased on triple-net lease basis is likely to be influenced by interest rate fluctuations. To the extent that inflation determines interest rates, future inflation may have an effect on the capital appreciation of properties leased on a triple-net-lease basis.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We may be exposed to interest rate changes primarily as a result of long-term debt used to maintain liquidity and fund capital expenditures and expansion of our real estate investment portfolio and operations. Our interest rate risk management objectives will be to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve our objectives we will borrow primarily at fixed rates or variable rates with the lowest margins available and in some cases, with the ability to convert

variable rates to fixed rates.

We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our properties. To the extent we do, we are exposed to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, it does not possess credit risk. It is our policy to enter into these transactions with the same party providing the financing, with the right of offset. In the alternative, we will minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk

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associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

With regard to variable rate financing, we assess interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. We maintain risk management control systems to monitor interest rate cash flow risk attributable to both of our outstanding or forecasted debt obligations as well as our potential offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on our future cash flows.

While this hedging strategy will have the effect of smoothing out interest rate fluctuations, the result may be to reduce the overall returns on your investments.

As we have yet to raise any money, our board has not yet established policies and procedures regarding our use of derivative financial instruments for hedging or other purposes.

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DESCRIPTION OF SECURITIES

We were formed under the laws of the State of Maryland. Your rights are governed by Maryland law, our articles of incorporation and our bylaws. The following summary of the terms of our stock is only a summary and you should refer to our articles of incorporation and bylaws for a full description. Copies of our articles of incorporation and bylaws are filed as exhibits to the registration statement of which this prospectus is a part. You can obtain copies of our articles of incorporation and bylaws and every other exhibit to our registration statement. See "Where You Can Find More Information," below.

AUTHORIZED STOCK

Our articles of incorporation provide that we may issue up to 350,000,000 shares of common stock and 10,000,000 shares of preferred stock. Upon completion of this offering, if 250,000,000 shares are sold, there will be 250,020,000

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shares of common stock outstanding and no preferred stock outstanding.

As permitted by Maryland law, our articles of incorporation contain a provision permitting the board, without any action by the stockholders, to amend our articles of incorporation from time to time, to increase or decrease the aggregate number of shares of stock and the number of shares of stock of any class or series that we have authority to issue. Our articles of incorporation also contain a provision permitting our board of directors, without any action by stockholders, to classify or reclassify any unissued common stock or preferred stock into one or more classes or series by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or distributions, qualifications or terms or conditions of redemption of any new class or series of shares of stock. Nevertheless, certain laws to which we are subject require the approval by a majority of our then outstanding shares to amend our articles of incorporation to increase or decrease the number of shares authorized by our articles of incorporation.

We believe that the power of our board to issue additional authorized but unissued shares of common stock or preferred stock and to classify or reclassify shares of stock will provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. Following amendment of our articles of incorporation to increase the number of our authorized shares, our board would be able to issue the additional common stock or preferred stock without further action by our stockholders.

COMMON STOCK

Upon issuance of our shares for full payment in accordance with the terms of this offering, all of the common stock we are offering will be duly authorized, fully paid and nonassessable. Subject to the preferential rights of any other class or series of stock and to the provisions of our articles of incorporation regarding the restriction on the transfer of shares of our stock, holders of our common stock will be entitled to receive distributions if authorized and declared by our board and to share ratably in our assets available for distribution to the stockholders in the event of a liquidation, dissolution or winding-up.

Each outstanding share of our common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors. There is no cumulative voting in the election of directors, which means that the holders of a majority of the outstanding common stock can elect all of the directors then standing for election, and the holders of the remaining common stock will not be able to elect any directors.

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Holders of our common stock have no conversion, sinking fund, redemption, exchange or appraisal rights, and have no preemptive rights to subscribe for any of our securities. Our articles of incorporation provide that holders of our common stock are not entitled to exercise any rights of an objecting stockholder provided for under Maryland law. Shares of our common stock have equal dividend, distribution, liquidation and other rights.

Under Maryland law and our articles of incorporation, we cannot make certain material changes to our business form or operations without the approval of stockholders holding at least a majority of the shares of stock entitled to vote on the matter. The following events, however, do not require stockholder approval:

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- share exchanges in which we are the acquiror;
- mergers with or into a 90 percent or more owned subsidiary;
- mergers in which we do not:
 - reclassify or change the terms of any of our stock that is outstanding immediately before the effective time of the merger;
 - amend our articles of incorporation; and
 - issue in the merger more than 20 percent of the number of shares of any class or series of stock outstanding immediately before the merger; and
- transfers of less than substantially all of our assets. Our articles of incorporation provide that the sale of two-thirds or more of our assets or the then current fair market value of our properties and mortgages other than in the ordinary course of our business will be considered the sale of substantially all of our assets.

Our bylaws provide that the presence in person or by proxy by the holders of a majority of our outstanding shares will constitute a quorum for the transaction of business at a meeting of our stockholders. Our articles of incorporation provide that the election of directors requires a majority of all the votes present in person or by proxy at a meeting of our stockholders at which a quorum is present. Our articles of incorporation also provide that the affirmative vote of the holders of a majority of our outstanding common stock may remove any director with or without cause.

We will act as our own registrar and transfer agent for our common stock.

PREFERRED STOCK

Shares of our preferred stock may be issued in the future in one or more series as authorized by our board. Prior to the issuance of shares of any series, our board is required by Maryland law and our articles of incorporation to fix the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each series. Because our board has the power to establish the preferences, powers and rights of each series of preferred stock, it may, without any consideration or approval by our stockholders, provide the holders of any series of preferred stock with preferences, powers and rights, voting or otherwise, senior to the rights of holders of our common stock. The issuance of preferred stock could have the effect of delaying, deferring or preventing a change of control of us, including an extraordinary

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transaction (such as 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. We have no present plans to issue any preferred stock.

ISSUANCE OF ADDITIONAL SECURITIES AND DEBT INSTRUMENTS

Our directors are authorized to issue additional stock or other convertible securities for cash, property or other consideration on such terms as they may deem advisable. Our directors are also authorized to classify or reclassify any unissued shares of our capital stock without approval of the holders of our outstanding securities. Subject to some restrictions, our directors may cause us

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to issue debt obligations, including debt with conversion privileges on more than one class of our capital stock. Our directors may issue debt obligations on such terms and conditions as they may determine, including debt with conversion privileges, where the holders of our debt obligations may acquire our common stock. Subject to some restrictions, our directors may also cause us to issue warrants, options and rights to buy our common stock on such terms as they deem advisable to our stockholders, as part of a financing arrangement, or pursuant to stock option plans. Our directors may cause us to issue warrants, options and rights to buy our common stock and debt with conversion privileges even though their exercise or conversion could result in dilution in the value of our outstanding common stock.

RESTRICTIONS ON ISSUANCE OF SECURITIES

Our articles of incorporation provide that we will not issue:

- common stock which is redeemable at the option of the holder;
- debt securities unless the historical debt service coverage in the most recently completed fiscal year is sufficient to properly service the higher level of debt;
- options or warrants to purchase stock to our advisor, sponsor, director(s) or any affiliates of our advisor, sponsor or directors except on the same terms as sold to the general public and in an amount not to exceed 10% of our outstanding common or preferred stock on the date of grant of any options or warrants; or
- stock on a deferred payment basis or similar arrangement.

Our articles of incorporation also provide that we will not issue nonvoting or assessable common stock or warrants, options or similar evidences of rights to buy stock unless they are issued to the holders of stock ratably, as part of a financing arrangement or as part of a stock plan to our directors, officers or employees.

RESTRICTIONS ON OWNERSHIP AND TRANSFER

In order for us to continue to qualify as a REIT under the Internal Revenue Code, shares of our stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of twelve months (other than the first year for which an election to be a REIT has been made) or during a proportionate part of a shorter taxable year. Also not more than 50% of the value of our outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include some entities such as qualified person plans) during the last half of a taxable year (other than the first year for which an election to be a REIT has been made).

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Our articles of incorporation, subject to some exceptions, contain restrictions on the number of shares of our stock that a person may own. Our articles of incorporation prohibit any person from acquiring or holding, directly or indirectly, shares of stock in excess of 9.8% in value of the aggregate of our outstanding shares of stock. In addition, our articles of incorporation prohibit any person from acquiring or holding, directly or indirectly, shares of common stock in excess of 9.8% of the aggregate number of our outstanding shares of common stock. The 9.8% common stock ownership limit must be measured in terms of the more restrictive of value or number of shares.

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Our board of directors, in its sole discretion, may exempt a person from the 9.8% limit and the common stock ownership limit. However, the board may not grant such an exception to any person whose ownership, direct or indirect, of in excess of 9.8% of the value of our outstanding shares of stock would result in us being "closely held" within the meaning of Section 856(h) of the Internal Revenue Code or otherwise would result in us failing to qualify as a REIT. In order to be considered as an excepted holder, a person also must not own, directly or indirectly, an interest in any of our tenants (or in a tenant of any entity owned or controlled by us) that would cause us to own, directly or indirectly, more than a 9.9% interest in such a tenant. The person seeking an exemption must represent to our board's satisfaction that it will not violate these two restrictions. The person also must agree that any violation or attempted violation of any of these restrictions will result in the automatic transfer of the shares of stock causing the violation to a trust as explained below. Our board may require a ruling from the Internal Revenue Service or an opinion of counsel, in either case in form and substance satisfactory to our board of directors in its sole discretion, in order to determine or ensure our status as a REIT.

In addition, our articles of incorporation prohibit any person from beneficially or constructively owning shares of our common or preferred stock that would result in us being "closely held" within the meaning of Section 856(h) of the Internal Revenue Code. Our articles of incorporation further provide that any transfer of our common stock or preferred stock that would result in our common stock and preferred stock being beneficially owned by fewer than 100 persons will be void. Any person who acquires or attempts or intends to acquire beneficial or constructive ownership of our common or preferred stock that will or may violate any of the foregoing restrictions on transferability and ownership, or any person who would have owned shares of our common or preferred stock that resulted in a transfer of shares to the trust, is required to give us notice immediately and to provide us with such other information as we may request in order to determine the effect of such transfer on our status as a REIT. The foregoing restrictions on transferability and ownership will not apply if our board determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

If any transfer of shares of our stock occurs which, if effective, would result in any person beneficially or constructively owning shares of our stock in excess or in violation of the above transfer or ownership limitations, then the number of shares of our stock the beneficial or constructive ownership of which would cause the person to violate the limitations will be automatically transferred under the provisions of our articles of incorporation to a trust for the exclusive benefit of one or more charitable beneficiaries within the meaning of 501(c)(3) of the Internal Revenue Code. The proposed transferee that exceeds the ownership limitations will not acquire any rights in these shares. The automatic transfer is deemed effective as of the close of business on the business day, as defined in our articles of incorporation, prior to the date of the violative transfer. Shares of stock held in the trust will continue as issued and outstanding common stock or preferred stock. The proposed transferee will not benefit economically from ownership or any shares of stock held in the trust, will have no rights to dividends and will not possess any rights to vote or other rights attributable to the shares of stock held in the trust. The trustee of the trust will have all voting rights and rights to dividends or other distributions with respect to shares of stock held in the trust. The voting rights and rights to dividends will be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or other distribution paid prior to our

discovery that shares of stock have been transferred to the trustee will be paid

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by the recipient of the dividend or distribution to the trustee upon demand, and any dividend or other distributions authorized but unpaid will be paid when due to the trustee. Any dividend or distribution paid to the trustee will be held in trust for the charitable beneficiary. The proposed transferee will have no voting rights with respect to shares of stock held in the trust. Subject to Maryland law, effective as of the date that such shares of stock have been transferred to the trust, the trustee will have the authority at his sole discretion (i) to rescind as void any vote cast by the proposed transferee prior to our discovery that such shares have been transferred to the trust and (ii) to recast such vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary. However, if we have already taken irreversible corporate action, then the trustee will not have the authority to rescind and recast the vote.

Within twenty days of receiving notice from us that shares have been transferred to the trust, the trustee shall sell the shares to a person, designated by the trustee, whose ownership of the shares will not violate the ownership limitations set forth in the articles of incorporation. Upon the sale, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee and to the charitable beneficiary as follows. The proposed transferee will receive the lesser of (i) the price paid by him for the shares or, if the proposed transferee did not give value for the shares in connection with the event causing the shares to be held in the trust (e.g. a gift, devise or other such transaction), the market price, as defined in our articles of incorporation, of the shares on the day of the event causing the shares to be held in the trust and (ii) the price per share received by the trustee from the sale or other disposition of the shares held in the trust. Any net sale proceeds in excess of the amount payable to the proposed transferee will be paid immediately to the charitable beneficiary. If, prior to our discovery that shares of stock have been transferred to the trust, such shares are sold by the proposed transferee, then (i) shares will be deemed to have been sold on behalf of the trust and (ii) to the extent that the proposed transferee received an amount for such shares that exceeds the amount that the proposed transferee was entitled to receive, the excess will be paid to the trustee upon demand.

In addition, shares of our stock held in the trust will be deemed to have been offered for sale to us or our designees, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in the transfer to the trust, or, in the case of a devise or gift, the market price at the time of the devise or gift, and (ii) the market price on the date we, or our designate, accept such offer. We can accept this offer until the trustee has sold the shares held in the trust. Upon a sale to us, the interest of the charitable beneficiary in the shares sold will terminate and the trustee will distribute the net proceeds of the sale to the proposed transferee.

Our articles of incorporation require all persons who own more than 5%, or any lower percentages as required pursuant to the Internal Revenue Code or the regulations under the Internal Revenue Code, of our outstanding common and preferred stock, within 30 days after the end of each taxable year, to provide to us written notice stating their name and address, the number of shares of common and preferred stock they beneficially own directly or indirectly, and a description of how the shares are held. In addition, each beneficial owner must provide to us any additional information as we may request in order to determine the effect, if any, of their beneficial ownership on our status as a REIT and to ensure compliance with the 9.8% ownership limit. In addition, each stockholder will, upon demand, be required to provide us any information as we may request, in good faith, in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance.

All certificates representing any shares of our common or preferred stock

will bear a legend referring to the restrictions described above.

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PROVISIONS OF MARYLAND LAW AND OF OUR ARTICLES OF INCORPORATION AND BYLAWS

The following paragraphs summarize some provisions of Maryland law and the material terms of our articles of incorporation and bylaws. The following summary does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law and our articles of incorporation and bylaws, copies of which are exhibits to the registration statement of which the prospectus is a part. See "Where You Can Find More Information."

BUSINESS COMBINATIONS. Under the Maryland Business Combination Act, an anti-takeover statute, completion of a business combination (including a merger, consolidation, share exchange or an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and an interested stockholder is prohibited for five years following the most recent date on which the interested stockholder becomes an interested stockholder. Maryland law defines an interested stockholder as any person who beneficially owns ten percent or more of the voting power of the corporation's shares or an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of ten percent or more of the voting power of the then-outstanding voting stock of the corporation (an interested stockholder) or an affiliate of such interested stockholder. A person is not an interested stockholder if, prior to the most recent time at which the person would otherwise have become an interested stockholder, the board of directors of the Maryland corporation approved the transaction which otherwise would have resulted in the person becoming an interested stockholder. The board of directors may provide that its approval is subject to compliance with any terms and conditions determined by the board. Following the five-year prohibition period, any such business combination with that interested stockholder must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom (or with whose affiliate) the business combination is to be effected or held by an affiliate or associate of the interested stockholder, unless, among other conditions, the corporation's common stockholders receive a minimum price (as defined in the Maryland business combination statute) equal to the highest price paid by the interested stockholder for its shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares.

These provisions of Maryland law do not apply, however, to business combinations that are approved or exempted by our board of directors prior to the time that the interested stockholder becomes an interested stockholder. As permitted under Maryland law, our articles of incorporation exempt any business combinations involving us and The Inland Group or any of its affiliates. As a result, the five-year prohibition and the super-majority vote requirement will not apply to any business combinations between The Inland Group or any affiliate of The Inland Group and us. Therefore, The Inland Group or any affiliate of The Inland Group may be able to enter into business combinations with us, which may or may not be in the best interests of the stockholders.

CONTROL SHARE ACQUISITION. Maryland's Control Share Acquisition Act, an

anti-takeover statute, prohibits interested stockholders from engaging in self-dealing business combinations with a Maryland corporation, except to the extent approved by the corporation's disinterested stockholders. Maryland law provides that control shares of a Maryland corporation acquired in a control share acquisition have no

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voting rights except to the extent approved by the corporation's disinterested stockholders by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the corporation's disinterested stockholders, whom the Act defines as (1) the acquiring person, (2) the corporation's officers and (3) employees of the corporation who are also directors. Control shares mean voting shares which, if aggregated with all other voting shares owned by an acquiring person or which the acquiring person can exercise or direct the exercise of voting power, would entitle the acquiring person to exercise or direct the exercise of voting power of shares of the corporation in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition occurs when, subject to some exceptions, a person directly or indirectly acquires ownership or the power to direct the exercise of voting power of issued and outstanding control shares. A person who has made or proposes to make a control share acquisition, upon satisfaction of some specific conditions, including an undertaking to pay expenses, may compel our board to call a special meeting of stockholders to be held within 50 days after that person's demand upon the corporation to consider the voting rights to be accorded to the control shares. If no request for a meeting is made, we may present the question at any stockholders' meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to some statutory conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights and be entitled to receive in cash the fair value for their shares of our stock. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if the corporation is party to the transaction or to acquisitions approved or exempted by the articles of incorporation or bylaws of the corporation.

Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by The Inland Group or any affiliate of The Inland Group of our shares of stock.

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SHARES ELIGIBLE FOR FUTURE SALE

SHARES TO BE OUTSTANDING OR ISSUABLE UPON EXERCISE OR CONVERSION OF OTHER
OUTSTANDING SECURITIES

Upon the completion of the offering and the consummation of the formation transactions, we expect to have outstanding 270,020,000 shares of common stock. This includes:

- the 20,000 shares purchased by our advisor;

and assumes that:

- we sell all 250,000,000 shares of common stock offered on a best efforts basis in this initial public offering;
- we sell all 20,000,000 shares to be issued under our distribution reinvestment program described in this offering; and
- that there is no exercise of options which are expected to be outstanding and exercisable.

In addition, we have reserved:

- 75,000 shares for issuance upon exercise of options which may be granted under our independent director stock option plan.

Subject to the provisions of our articles of incorporation, we could issue an undetermined number of shares of our common or preferred stock in the discretion of our board and without the approval by our stockholders:

- directly for equity interests in real properties; or
- upon exchange of any interests in entities that own our properties or in other companies we control, which might be issued for equity interests in real properties.

All of the common stock we are offering by this prospectus will be freely tradable in the public market, should a public market develop, which we cannot guarantee, without restriction or limitation under the Securities Act of 1933 by persons other than our affiliates and soliciting dealers considered underwriters. However, all common stock issuable by us in this offering and otherwise will be subject to the restrictions explained under "Description Of Securities - Restrictions on Ownership and Transfer."

SECURITIES ACT RESTRICTIONS

The common stock owned by our affiliates will be subject to Rule 144 adopted under the Securities Act and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including exemptions contained in Rule 144.

In general, under Rule 144, a person, or persons whose common stock is aggregated with them in accordance with Rule 144, who has beneficially owned securities acquired from an issuer or an affiliate of the issuer for at least one year, would be entitled, within any three-month period, to sell a number of shares of common stock that does not exceed the greater of (1) 1% of the

then-outstanding number of shares or (2) the average weekly reported trading volume of the common stock on a national securities

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exchange or market during the four calendar weeks preceding each sale. Sales under Rule 144 must be transacted in the manner specified by Rule 144 and must meet requirements for public notice as well as public information about us. Any person who (1) is not deemed to have been our affiliate at any time during the three months preceding a sale, and (2) has beneficially owned our common stock for at least two years, would be entitled to sell the common stock under Rule 144(k) without regard to the volume limitations, manner of sale provisions, notice requirements or public information requirements of Rule 144. An affiliate, for purposes of the Securities Act, is a person that directly, or indirectly, through one or more intermediaries, controls, or is controlled by, or under common control with, us.

INDEPENDENT DIRECTOR STOCK OPTION PLAN

We have established an independent director stock option plan for the purpose of attracting and retaining independent directors. See "Management--Independent Director Stock Option Plan." We will issue in the aggregate options to purchase 9,000 shares of our common stock to our independent directors, at the exercise price of \$8.95 per share, when, and if, we have 90,000 shares of common stock issued and outstanding. One-third of the shares will be exercisable upon their grant. An additional 66,000 shares will be available for future option grants under the independent director stock option plan. See "Management--Independent Director Stock Option Plan" for additional information regarding the independent director stock option plan. Rule 701 under the Securities Act provides that common stock acquired on the exercise of outstanding options by affiliates may be resold by them subject to all provisions of Rule 144 except its one-year minimum holding period. We intend to register the common stock to be issued under the independent director stock option plan in a registration statement or statements on SEC Form S-8 or other appropriate form.

EFFECT OF AVAILABILITY OF SHARES ON MARKET PRICE OF SHARES

Prior to the date of this prospectus, there has been no public market for our common stock. No assurance can be given that a public market for our common stock will develop. We cannot predict the effects that future sales of common stock, including sales under Rule 144, or the availability of common stock for future sale will have on the market price, if any, prevailing from time to time. Sales of substantial amounts of our common stock, including shares issued upon the exercise of options or the perception that these sales could occur, could adversely affect prevailing market prices of our common stock and impair our ability to obtain additional capital through the sale of equity securities. See "Risk Factors--Risks Related to the Offering." For a description of restrictions on transfers of common stock, see "Description of Securities--Restrictions on Ownership and Transfer." Also, see the following section regarding registration rights.

REGISTRATION RIGHTS

In the future we may grant "demand" and/or "piggyback" registration rights to:

- stockholders receiving our common stock directly in exchange for their equity interests in assets of theirs we would acquire; and
- persons receiving interests in any real property partnership for their

interests in real properties we would acquire.

"Piggyback" registration rights allow the holder to have his, her or its shares registered along with our shares ONLY at such time(s) in the future when we would choose to register some of our shares for financing purposes - that is, to join with us in the registration of our shares. "Demand" registration rights

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permit the holder of demand rights to REQUIRE us to register with the SEC his, her or its shares at such time(s) as the holder requests, regardless of any desire by us to register our own shares for financing purposes, even if we do not have sufficient capital resources to effect a registration of shares.

These rights will be for registration under the Securities Act of any of our common stock acquired by them directly. The terms and conditions of any agreements for registration rights will be negotiated and determined at such future time as we determine advisable in connection with the acquisition of one or more properties. Our future granting of registration rights could include registration of the subject shares at our expense. If that were the case, our obligation could result in a substantial expense to us at a time when we might not be able to afford such an expense and could also hinder our future attempts to obtain financing.

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SUMMARY OF OUR ORGANIZATIONAL DOCUMENTS

Each stockholder is bound by and is deemed to have agreed to the terms of our organizational documents by his, her or its election to become a stockholder of our company. Our organizational documents consist of our articles of incorporation and bylaws. Our directors, including all the independent directors, reviewed and unanimously ratified our articles of incorporation and bylaws at our first board meeting, which was required. The following is a summary of material provisions of our organizational documents and does not purport to be complete. This summary is qualified in its entirety by specific reference to the organizational documents filed as exhibits to our registration statement of which this prospectus is a part. See "Where You Can Find More Information."

Our articles of incorporation were filed with the State Department of Assessments and Taxation of Maryland and became operative on March 5, 2003. Our articles of incorporation were filed in Maryland, and provide that we have perpetual existence. The bylaws in their present form became operative when our board approved them on March 5, 2003. Neither our articles of incorporation nor bylaws have an expiration date. As a result, they will remain operative in their current form throughout our existence, unless they are amended or we are dissolved.

ARTICLES OF INCORPORATION AND BYLAW PROVISIONS

The stockholders' rights and related matters are governed by our articles of incorporation and bylaws and Maryland law. Some provisions of the articles of incorporation and bylaws, summarized below, may make it more difficult to change the composition of our board and could have the effect of delaying, deferring, preventing a change in control of us, 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.

STOCKHOLDERS' MEETINGS

Our bylaws provide that an annual meeting of the stockholders will be held on the date and at such time as our board may designate. However, the meeting will not be held less than 30 days after the delivery of our annual report to stockholders. The purpose of each annual meeting of the stockholders is to elect directors and to transact any other proper business. The chairman, the president, a majority of the directors or a majority of the independent directors may call a special meeting of the stockholders. The secretary or some other officer must call a special meeting when stockholders holding 10% or more of the outstanding shares entitled to vote make a written request for a meeting. The written request may be in person or by mail and must state the purpose(s) of the meeting and the matters to be acted upon. We have entered into an agreement with Inland Real Estate Investment Corporation, our sponsor, which provides that it will pay for the reasonably estimated cost to prepare and mail a notice of any special meeting of stockholders requested by the stockholders. The meeting will be held on a date not less than 15 nor more than 60 days after the distribution of the notice, at the time and place specified in the notice. Except as provided in the preceding sentence, we will give notice of any annual or special meeting of stockholders not less than 10 nor more than 90 days before the meeting. The notice will state the purpose of the meeting. At any meeting of the stockholders, each stockholder is entitled to one vote for each share owned of record on the applicable record date. In general, the presence in person or by proxy of a majority of the outstanding shares entitled to vote at a meeting will constitute a quorum. The affirmative vote of a majority of the shares of our stock, present in person or by proxy at a meeting of stockholders duly called and at which a quorum is present, will be sufficient, without the necessity for concurrence by the directors, to elect the directors. A majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present will be sufficient to approve any other matter which may properly come

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before the meeting, unless more than a majority of the votes cast is required by statute or our articles of incorporation.

BOARD OF DIRECTORS

Our articles of incorporation and bylaws provide that we may not have fewer than three nor more than eleven directors. Our bylaws currently provide that the number of directors shall be seven. Our articles of incorporation require that a majority of our directors must be independent directors. Independent directors are directors who are not and have not been affiliated with us, our sponsor, or our advisor, within the two years prior to their becoming our independent director and who perform no services on our behalf other than as a director. A vacancy on the board caused by the death, resignation or incapacity of a director or by an increase in the number of directors, within the limits described above, may be filled by the vote of a majority of the remaining directors whether or not the voting directors constitute a quorum. Our articles of incorporation require that our independent directors must nominate replacements to vacancies in independent director positions irrespective of how the vacancy arises. Our bylaws provide that a vacancy on our board caused by an increase in the number of directors may be filled by a majority of the entire board; that when a vacancy occurs as a result of the removal of a director by our stockholders, the vacancy must be filled by a majority vote of our stockholders; and that any director may resign at any time and may be removed with or without cause by the affirmative vote of the holders of not less than a majority of the outstanding shares. Our bylaws provide that the majority of members of each committee of our board of directors be comprised of independent

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directors and that all the members of our audit committee be independent directors.

Our articles of incorporation provide that a director must have at least three years of relevant experience and demonstrate the knowledge required to successfully acquire and manage the type of assets that we intend to acquire. At least one of our independent directors must have three years of relevant real estate experience.

STOCKHOLDER VOTING RIGHTS

Each share of our common stock has one vote on each matter submitted to a vote of stockholders. Shares of common stock do not have cumulative voting rights or preemptive rights. Stockholders may vote in person or by proxy.

Directors are elected when they receive the majority of votes of holders of shares present in person or by proxy at a stockholders' meeting, provided there was a quorum when the meeting commenced. A quorum is reached when the stockholders holding a majority of the outstanding shares entitled to vote are present either in person or represented by proxy. All questions other than election of directors, removal of a director or directors and except as set forth below must be decided by a majority of the votes cast at a meeting at which a quorum is present. Maryland law provides that any action required or permitted to be taken at a meeting of stockholders may be taken without a meeting by the unanimous written consent of all stockholders (which may be impracticable for a publicly held corporation).

The approval by our board and by holders of at least a majority of our outstanding voting shares of stock is necessary for us to do any of the following:

- amend our articles of incorporation, except to increase or decrease authorized stock as permitted by Maryland law;
- transfer all or substantially all of our assets other than in the ordinary course of business;

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- engage in mergers, consolidations or share exchanges, except in certain circumstances; or
- dissolve or liquidate.

Our articles of incorporation provide that a sale of two-thirds or more of our assets, based on the total number or the current fair market value of properties and mortgages we own, is a sale of substantially all of our assets. See "Description of Securities -- Common Stock" for an explanation of instances where stockholder approval is not required.

Our articles of incorporation provide that neither the advisor, the sponsor, the directors, nor any affiliate may vote their shares of stock or consent on matters submitted to the stockholders regarding the removal of the advisor, the sponsor, the directors or any affiliate or any transaction between us and any of them. For purposes of determining the necessary percentage and interest of shares needed to approve a matter on which the advisor, the sponsor, the directors and any affiliate may not vote or consent, the shares of our common stock owned by them will not be included.

RIGHTS OF OBJECTING STOCKHOLDERS

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As permitted by Maryland law, our articles of incorporation provide that our stockholders are not entitled to exercise any rights of an objecting stockholder provided for under Maryland law. As a result of this provision, our stockholders will not have any right to dissent under Maryland law to an extraordinary transaction, such as the merger of our company into another company or the sale of all or substantially all of our assets, and in the proceedings to receive a cash payment representing the fair value of their shares of our common stock.

STOCKHOLDER LISTS; INSPECTION OF BOOKS AND RECORDS

Any stockholder or his designated representative will be permitted access to all of our records at all reasonable times and may inspect and copy any of them for the purposes specified below. We maintain an alphabetical list of names, record addresses and business telephone numbers, if any, of all stockholders with the number of shares held by each at our principal office. The stockholder list is updated at least quarterly and is open for inspection by a stockholder or his designated agent at the stockholder's request. A stockholder may request a copy of the stockholder list to find out about matters relating to the stockholder's voting rights and their exercise under federal proxy laws. We will mail the stockholder list to any stockholder requesting it within 10 days of receiving the request. We may impose a reasonable charge for expenses incurred in reproducing the list.

If our advisor or directors neglect or refuse to produce or mail a copy of the stockholder list as requested, then in accordance with applicable law and our articles of incorporation, the advisor and the directors will be liable to the stockholder who requested the list. Their liability will include the costs, including reasonable attorneys' fees, incurred by the stockholder in compelling the production of the list and actual damages suffered by the stockholder because of the refusal or neglect. However, the fact that the actual purpose of the request is to secure the list for the purpose of selling it, or using it for a commercial or other purpose is a defense against liability for refusal to supply the list. We may require the stockholder requesting the list to represent that the stockholder list is not requested for a commercial purpose unrelated to the stockholder's interest in us.

In addition, our books and records are open for inspection by state securities administrators upon reasonable notice and during normal business hours at our principal place of business.

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AMENDMENT OF THE ORGANIZATIONAL DOCUMENTS

Our articles of incorporation may be amended, after approval by our board, by the affirmative vote of a majority of our then-outstanding voting shares of stock. Our bylaws may be amended in a manner not inconsistent with the articles of incorporation and bylaws by a majority vote of our directors present at the board meeting.

DISSOLUTION OR TERMINATION OF THE COMPANY

As a Maryland corporation, we may be dissolved under Maryland law at any time with the approval of a majority of our outstanding shares of stock. However, we anticipate that by September 15, 2008, our board will determine whether to:

- apply to have our shares of common stock listed for trading on a national stock exchange or included for quotation on a national market system, provided we meet the then applicable listing requirements;

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and/or

- commence subsequent offerings after completion of the offering.

If listing our shares of common stock is not feasible by that time, our board may decide to:

- sell our assets individually, provided, however, that if this action would constitute the sale of all or substantially all of our assets, such an action is approved by the holders of at least a majority of the then-outstanding voting shares of stock;
- list our shares of common stock at a future date; or
- liquidate us within 10 years of such date, provided however, that such an action is approved by the holders of at least a majority of our then-outstanding voting shares of stock.

ADVANCE NOTICE OF DIRECTOR NOMINATIONS AND NEW BUSINESS

Our bylaws provide that, with respect to our annual meeting of stockholders, nominations for election to our board and the proposal of business to be considered by stockholders may be made only:

- in accordance with our notice of the meeting;
- by or at the direction of our board; or
- by a stockholder who was a stockholder of record both at the time of the giving of notice and at the time of the meeting, who is entitled to vote at the meeting and who has complied with the advance notice procedures set forth in the bylaws.

Our bylaws also provide that, with respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before a meeting of stockholders and nominations for election to the board may be made only:

- in accordance with our notice of the meeting;
- by or at the direction of our board; or

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- provided that our board has determined that directors will be elected at the meeting, by a stockholder who was a stockholder of record both at the time of the giving of notice and at the time of the annual meeting, who is entitled to vote at the meeting and has complied with the advance notice procedures set forth in our bylaws.

A stockholder's notice for an annual meeting must be delivered to our secretary at our principal executive offices:

- not less than 45 days prior to the first anniversary of the date of mailing of the notice of the previous year's annual meeting; or
- if the number of directors to be elected is increased and there is no announcement of that fact, at least 70 days before the first anniversary of the date of mailing of the notice of the previous year's annual meeting, or not later than the close of business on the tenth day of our first public announcement.

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A stockholder's notice for a special meeting must be delivered to our secretary at our principal executive offices:

- not earlier than the ninetieth day prior to the special meeting, and
- not later than the close of business on the later of either:
 - the sixtieth day prior to the special meeting; or
 - the tenth day following the day of our first public announcement of the date of the special meeting and the nominees proposed by our board to be elected at the meeting.

RESTRICTIONS ON CERTAIN CONVERSION TRANSACTIONS AND ROLL-UPS

Our articles of incorporation require that some transactions involving an acquisition, merger, conversion or consolidation in which our stockholders receive securities in a surviving entity, a roll-up entity, must be approved by the holders of a majority of our then-outstanding shares. Approval by a majority of our then-outstanding shares for a transaction resulting in a roll-up entity is only required, however, until our board determines that it is no longer in our best interest to attempt or continue to qualify as a REIT. The holders of a majority of the shares do not need to approve any such transaction effected because of changes in applicable law, or to preserve tax advantages for a majority in interest of our stockholders.

A roll-up entity is a partnership, REIT, corporation, trust or other entity that would be created or would survive after the successful completion of a proposed roll-up transaction. A roll-up does not include (1) a transaction involving securities that have been listed on a national securities exchange or traded through The Nasdaq Stock Market -- Nasdaq National Market for at least 12 months, or (2) a transaction involving our conversion to a trust or association form if, as a consequence of the transaction, there will be no significant adverse change in any of the following:

- stockholders' voting rights;
- our term and existence;
- sponsor or advisor compensation; or
- our investment objectives.

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In the event of a proposed roll-up, an appraisal of all our assets must be obtained from a person with no current or prior business or personal relationship with our advisor or directors. Further, that person must be substantially engaged in the business of rendering valuation opinions of assets of the kind we hold. The appraisal must be included in a prospectus used to offer the securities of a roll-up entity. It must also be filed with the Securities and Exchange Commission and the state regulatory commissions as an exhibit to the registration statement for the offering of the roll-up entity's shares. As a result, an issuer using the appraisal will be subject to liability for violation of Section 11 of the Securities Act and comparable provisions under state laws for any material misrepresentations or material omissions in the appraisal. Our assets will be appraised in a consistent manner and the appraisal will:

- be based on an evaluation of all relevant information;

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- indicate the value of our assets as of a date immediately prior to the announcement of the proposed roll-up transaction; and
- assume an orderly liquidation of our assets over a 12-month period.

The terms of the engagement of the appraiser will clearly state that the engagement is for the benefit of us and our stockholders. A summary of the independent appraisal, indicating all material assumptions underlying it, will be included in a report to the stockholders in the event of a proposed roll-up.

We may not participate in any proposed roll-up which would:

- result in the stockholders of the roll-up entity having rights which are more restrictive to stockholders than those provided in our articles of incorporation, including any restriction on the frequency of meetings;
- result in the stockholders having less comprehensive voting rights than are provided in our articles of incorporation;
- result in the stockholders having greater liability than provided in our articles of incorporation;
- result in the stockholders having fewer rights to receive reports than those provided in our articles of incorporation;
- result in the stockholders having access to records that are more limited than those provided for in our articles of incorporation;
- include provisions which would operate to materially impede or frustrate the accumulation of shares by any purchaser of the securities of the roll-up entity, except to the minimum extent necessary to preserve the tax status of the roll-up entity;
- limit the ability of an investor to exercise its voting rights in the roll-up entity on the basis of the number of the shares held by that investor;

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- result in investors in the roll-up having less comprehensive rights of access to the records of the roll-up than those provided in our articles of incorporation; or
- place any of the costs of the transaction on us if the roll-up is not approved by our stockholders.

However, with the prior approval of a majority of our then-outstanding shares of our stock, we may participate in a proposed roll-up if the stockholders would have rights and be subject to restrictions comparable to those contained in our articles of incorporation.

Stockholders who vote "no" on the proposed roll-up will have the choice of:

- accepting the securities of the roll-up entity offered; or
- one of either:
 - remaining as our stockholders and preserving their interests on the same terms and conditions as previously existed; or

- receiving cash in an amount equal to their pro rata share of the appraised value of our net assets.

These provisions in our articles of incorporation, bylaws and Maryland law could have the effect of delaying, deferring or preventing a change in control of us, 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.

The limitations and restrictions set forth below under " -- Limitation on Total Operating Expenses," " -- Transactions with Affiliates," and " -- Restrictions on Borrowing" in this section will be effective until our board determines that it is no longer in our or our stockholders' best interests that we continue to operate as a REIT, or until such time as we fail to qualify as a REIT.

LIMITATION ON TOTAL OPERATING EXPENSES

Our articles of incorporation provide that, subject to the conditions described in the following paragraph, our annual total operating expenses in any fiscal year shall not exceed the greater of 2% of our average assets or 25% of our net income, before any additions to or allowances for reserves for depreciation, amortization or bad debts or other similar non-cash reserve and before any gain from the sale of an our assets. Our independent directors have a fiduciary responsibility to limit our annual total operating expenses to amounts that do not exceed these limits. Our independent directors may, however, determine that a higher level of total operating expenses is justified for such period because of unusual and non-recurring expenses. Such a finding by our independent directors and the reasons supporting it shall be recorded in our minutes of meetings of our directors. If at the end of any fiscal quarter our total operating expenses for the 12 months then ended are more than 2% of average assets or more than 25% of net income, before any additions to or allowances for reserves for depreciation, amortization or bad debts or other similar non-cash revenues and before any gain from the sale of our assets, whichever is greater, as described above, we will disclose this in writing to the stockholders within 60 days of the end of the fiscal quarter. If our independent directors conclude that higher total operating expenses are justified, the disclosure will also contain an explanation of the conclusion. If total operating expenses exceed the limitations described above and if our directors are unable to conclude that the excess was justified, then the advisor will reimburse us the amount by which the aggregate annual total operating expenses we paid

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or incurred exceed the limitation. We must make the reimbursement within 60 days after the end of the fiscal year.

TRANSACTIONS WITH AFFILIATES

Our articles of incorporation impose restrictions on transactions between us and our advisor, sponsor and any director or their affiliates as follows:

- SALES AND LEASES TO US. We will not purchase property from our sponsor, advisor, directors or any of their affiliates, unless a majority or our disinterested directors, including a majority of our disinterested independent directors, approves it as fair and reasonable for us. The price to us can be no greater than the cost of the asset to our sponsor, adviser, director or their affiliate. If our price to us is greater than such cost, there must be substantial,

reasonable justification for the excess cost. In no event will our cost for the property exceed its appraised value at the time we acquired it.

- SALES AND LEASES TO SPONSOR, ADVISOR, DIRECTOR OR ANY AFFILIATE. Our sponsor, advisor, directors or any of their affiliates will not acquire assets from us unless a majority of disinterested directors, including a majority of our disinterested independent directors, approves the transaction as being fair and reasonable to us. We may lease assets to our sponsor, advisor, director or any of their affiliates, but still only if a majority of our disinterested directors, including a majority of our disinterested independent directors, approves it as fair and reasonable to us.
- LOANS. We will not make loans to our sponsor, advisor, directors or any of their affiliates except as provided in clauses (4) and (6) under " -- Restrictions on Investments" below in this section, or to our wholly owned subsidiaries. Also, we may not borrow money from our sponsor, advisor, director or any of their affiliates, unless a majority of our disinterested directors, including a majority of our disinterested independent directors, approves the transaction as fair, competitive and commercially reasonable and no less favorable to us than loans between unaffiliated parties under the same circumstances.
- INVESTMENTS. We will not invest in joint ventures with our sponsor, advisor, directors or any of their affiliates, unless a majority of our disinterested directors, including a majority of our disinterested independent directors, approves the transaction as fair and reasonable to us and on substantially the same terms and conditions as those received by the other joint ventures. Neither can we invest in equity securities unless a majority of our disinterested directors, including a majority of our disinterested independent directors, approves the transaction as being fair, competitive and commercially reasonable.
- OTHER TRANSACTIONS. All other transactions between us and our sponsor, advisor, directors or any of their affiliates, require approval by a majority of our disinterested directors, including a majority of our disinterested independent directors, as being fair and reasonable and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

RESTRICTIONS ON BORROWING

We may not incur indebtedness to enable us to make distributions except as necessary to satisfy the requirement to distribute at least the percentage of our REIT taxable income required for annual distribution of dividends by the Internal Revenue Code of 1986, or otherwise as necessary or advisable to

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ensure that we maintain our qualification as a REIT for federal income tax purposes. Our aggregate borrowings, secured and unsecured, will be reasonable in relation to our net assets and will be reviewed by our board at least quarterly. We anticipate that, in general, aggregate borrowings secured by all our properties will not exceed 55% of their combined fair market value. This anticipated amount of leverage will be achieved over time. Our articles of incorporation provide that the aggregate amount of borrowing in relation to our net assets will, in the absence of a satisfactory showing that a higher level of borrowing is appropriate, not exceed 300% of net assets. Any excess in borrowing over such 300% of net assets level will be:

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approved by a majority of our independent directors;

- disclosed to our stockholders in our next quarterly report to them, along with justification for such excess; and
- subject to approval of our stockholders.

See "Investment Objectives and Policies -- Borrowing."

RESTRICTIONS ON INVESTMENTS

The investment policies set forth in our articles of incorporation have been approved by a majority of independent directors. Our articles of incorporation prohibit our investments in:

- any foreign currency or bullion;
- short sales; and
- any security in any entity holding investments or engaging in activities prohibited by our articles of incorporation.

In addition to other investment restrictions imposed by our directors from time to time consistent with our objective to qualify as a REIT, we will observe the following restrictions on our investments as set forth in our articles of incorporation:

- (1) Not more than 10% of our total assets will be invested in unimproved real property or mortgage loans on unimproved real property. For purposes of this paragraph, "unimproved real property" does not include properties acquired for the purpose of producing rental or other operating income, properties under development or construction, and properties under contract for development or in planning for development within one year.
- (2) We will not invest in commodities or commodity future contracts. This limitation does not apply to interest rate futures when used solely for hedging purposes.
- (3) We will not invest in contracts for the sale of real estate.
- (4) We will not invest in or make mortgage loans unless we obtain an appraisal of the underlying property. Mortgage indebtedness on any property will not exceed the property's appraised value. In cases in which the majority of independent directors so determine, and in all cases in which the mortgage loan involves our advisor, sponsor, directors or their affiliates, we must obtain the appraisal from an independent expert. We

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will keep the appraisal in our records for at least five years, where it will be available for inspection and duplication by any stockholder. In addition to the appraisal, we will also obtain a mortgagee's or owner's title insurance policy or commitment as to the priority of the mortgage or condition of the title. We will not invest in real estate contracts of sale otherwise known as land sale contracts.

- (5) We will not make or invest in mortgage loans, including construction loans, on any one property if the aggregate amount of all outstanding

mortgage loans outstanding on the property, including our loans, would exceed an amount equal to 85% of the appraised value of the property. However, if there is substantial justification due to other underwriting criteria and provided that loans would not exceed the appraised value of the property at the date of the loans, we could invest in mortgage loans that exceed 85% of the appraised value of the property. The aggregate amount of all mortgage loans outstanding on the property, including the loans of the REIT, shall include all interest (excluding contingent participation in income and/or appreciation in value of the mortgaged property), the current payment of which may be deferred pursuant to the terms of such loans, to the extent that deferred interest on each loan exceeds 5% per annum of the principal balance of the loan.

- (6) We will not make or invest in any mortgage loans that are subordinate to any mortgage or equity interest of the advisor, the sponsor, any director or their affiliates.
 - (7) We will not invest in equity securities unless a majority of our disinterested directors, including a majority of our disinterested independent directors, approves the transaction as being fair, competitive and commercially reasonable. Investments in entities affiliated with our advisor, the sponsor, any director or their affiliates are subject to the restrictions on joint venture investments. Notwithstanding these restrictions, we may purchase our own securities when traded on a national securities exchange or market if a majority of our directors, including a majority of our independent directors, determines the purchase to be in our best interests.
 - (8) We will not engage in any short sale nor will we borrow on an unsecured basis if the borrowing will result in an asset coverage of less than 300%.
 - (9) To the extent we invest in properties, a majority of the directors, including a majority of the independent directors, will approve the consideration paid for such properties based on the fair market value of the properties. If a majority of independent directors so determines, the fair market value will be determined by a qualified independent real estate appraiser selected by our independent directors. If any property is acquired from our sponsor, our advisor, any director, or any of their affiliates, the provisions on transactions with affiliates will apply.
 - (10) We will not invest in debt that is secured by a mortgage on real property that is subordinate to the lien of other debt, except where the amount of total debt does not exceed 90% of the appraised value of the property. The value of all of these investments may not exceed 25% of our tangible assets. The value of all investments in this debt that does not meet these requirements will be limited to 10% of our tangible assets, which would be included within the 25% limitation.
 - (11) We will not engage in trading, as compared with investment, activities.
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- (12) We will not engage in underwriting activities, or distribute as agent, securities issued by others.
 - (13) We will not acquire securities in any entity holding investments or

engaging in activities prohibited by the restrictions on investments set forth in the foregoing clauses (1) through (12). Temporary investments in cash may be in such entities.

Our independent directors will review our investment policies at least annually to determine whether our policies that we are following are in the best interests of our stockholders. Subject to the above restrictions and so long as we qualify as a REIT, a majority of our directors, including a majority of our independent directors, may alter the investment policies if they determine that a change is in our best interests.

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FEDERAL INCOME TAX CONSIDERATIONS

We intend to qualify as a REIT under the applicable provisions of the Internal Revenue Code of 1986, as amended, and the Treasury regulations promulgated thereunder and receive the beneficial federal income tax treatment described below. However, we cannot assure you that we will meet the applicable requirements under federal income tax laws, which are highly technical and complex. The following discusses the applicable requirements under federal income tax laws, the federal income tax consequences to maintaining REIT status and the material federal income tax consequences to you. Duane Morris LLP has acted and will act as our tax counsel in connection with our election to be taxed as a REIT, and has rendered the opinion set forth below. Some of the federal income tax implications of your investment are set forth in the "--Federal Income Taxation of Stockholders" section below. We, however, urge you to consult your tax advisor with respect to the federal, state, local, foreign and other tax consequences of the purchase, ownership and disposition of common shares which may be particular to your tax situation.

In brief, a corporation that invests primarily in real estate can, if it complies with the provisions in Sections 856-860 of the Internal Revenue Code, qualify as a REIT and claim federal income tax deductions for the dividends it pays to its stockholders. Such a corporation generally is not taxed on its net income that is currently distributed to its shareholders. This treatment substantially eliminates the "double taxation" that a corporation and its shareholders generally bear together. However, as discussed in greater detail below, a corporation could be subject to federal income tax in some circumstances even if it qualifies as a REIT, and would likely suffer adverse consequences, including reduced cash available for distribution to its stockholders, if it failed to qualify as a REIT. We intend to operate in a manner that permits us to elect REIT status for the taxable year ending December 31, 2003, and to maintain this status in each taxable year thereafter, so long as REIT status remains advantageous.

Duane Morris LLP is of the opinion, assuming that the actions described in this section are completed on a timely basis and we timely file the requisite elections, that we have been organized in conformity with the requirements for qualification as a REIT beginning with our taxable year ending December 31, 2003, and our proposed method of operation (as described in this prospectus) will enable us to satisfy the applicable requirements under federal income tax laws for qualification as a REIT. This opinion has been filed as an exhibit to the registration statement of which this prospectus is a part, and is based and conditioned, in part, on various assumptions made by Duane Morris LLP and representations made to Duane Morris LLP by us and the advisor as to factual matters. Our qualification and federal income tax treatment as a REIT depends upon our ability to meet, through operation of the properties we acquire and our investment in other assets, the applicable requirements under federal income tax

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laws. Duane Morris LLP has not reviewed, and will not in the future review, these operating results for compliance with the applicable requirements under federal income tax laws. Therefore, we cannot assure you that our actual operating results will allow us to satisfy the applicable requirements under federal income tax laws in any taxable year. In addition, this opinion represents Duane Morris LLP's legal judgment and is not binding on the Internal Revenue Service.

FEDERAL INCOME TAXATION AS A REIT

GENERAL. In any year in which we qualify as a REIT and have a valid election in place, we will claim deductions for the dividends we pay to the stockholders, and therefore will not be subject to federal income tax on that portion of our REIT Taxable Income as defined Section 857(b)(2) of the Internal Revenue Code or REIT capital gain which is distributed to our stockholders. We will, however, be subject to federal income tax at normal corporate rates on any REIT Taxable Income or capital gain not distributed.

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Although we can eliminate or substantially reduce our federal income tax liability by maintaining our REIT status and paying sufficient dividends, we could be subject to federal income tax on certain items of income. If we fail to satisfy either the 95% Gross Income Test or the 75% Gross Income Test (each of which is described below), yet maintain our REIT status by meeting other requirements, we will be subject to a penalty tax based on the amount of income which caused us to fail these tests, as described below. We will also be subject to a 100% federal income tax on the net income from any "prohibited transaction," as described below. In addition, in order to retain our REIT status, we generally must distribute annually at least 90% of our REIT Taxable Income for such year. While we are not required to distribute REIT net capital gain income for any year in order to retain our REIT status, we will pay tax on such income to the extent we do not distribute it in such year. We may also be subject to the corporate alternative minimum tax. Additionally, we will be subject to federal income tax at the highest corporate rate on certain "nonqualifying" income from foreclosure property. In general, foreclosure property consists of property acquired (by foreclosure or otherwise) in connection with the default of a loan secured by such property.

REIT QUALIFICATION TESTS. The Code defines a REIT as a corporation, trust or association:

- that is managed by one or more trustees or directors;
- the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;
- that would be taxable as a domestic corporation but for its status as a REIT;
- that is neither a financial institution nor an insurance company;
- the beneficial ownership of which is held by 100 or more persons on at least 335 days in each full taxable year, proportionately adjusted for a partial taxable year;
- generally in which, at any time during the last half of each taxable year, no more than 50% in value of the outstanding stock is owned, directly, or indirectly, by five or fewer individuals or certain entities; and

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- that meets the gross income, asset and annual distribution requirements, described in greater detail below.

The first four and last conditions must be met during each taxable year for which REIT status is sought, while the other two conditions do not have to be met until after the first taxable year for which a REIT election is made.

Although the 25% Asset Test (as defined below) generally prevents a REIT from owning more than 10% of the voting stock of an entity other than another REIT, the Internal Revenue Code provides an exception for ownership of voting stock in a "qualified REIT subsidiary." A qualified REIT subsidiary is a corporation that is wholly owned by a REIT throughout its existence. For purposes of the 25% Asset Test and the Gross Income Tests described below, all assets, liabilities and tax attributes of a qualified REIT subsidiary are treated as owned by the REIT. A qualified REIT subsidiary is not subject to federal income tax, but may be subject to state or local tax. We may hold investments through qualified REIT subsidiaries.

We, in satisfying the general tests described above, must meet, among others, the following requirements:

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- SHARE OWNERSHIP TESTS. The common stock and any other stock we issue must be held by a minimum of 100 persons (determined without attribution to the owners of any entity owning our stock) for at least 335 days in each full taxable year, proportionately adjusted for partial taxable years. In addition, at all times during the second half of each taxable year, no more than 50% in value of our stock may be owned, directly or indirectly, by five or fewer individuals (determined with attribution to the owners of any entity owning our stock). However, these two requirements do not apply until after the first taxable year an entity elects REIT status. In addition, our articles of incorporation contain provisions restricting the transfer of our stock, which provisions are intended to assist us in satisfying both requirements. Furthermore, the distribution reinvestment program contains provisions that prevent it from causing a violation of these tests as do the terms of the options granted to the independent directors and the warrants issuable to the dealer manager and soliciting dealers. Pursuant to the applicable requirements under federal income tax laws, we will maintain records which disclose the actual ownership of the outstanding stock, and demand written statements each year from the record holders of specified percentages of the stock disclosing the beneficial owners. Those stockholders failing or refusing to comply with our written demand are required by the Internal Revenue Code and our articles of incorporation to submit, with their tax returns, a similar statement disclosing the actual ownership of stock and certain other information. See "Description of Securities--Restrictions on ownership and transfer."
- ASSET TESTS. We must satisfy, at the close of each calendar quarter of the taxable year, two tests based on the composition of our assets. After initially meeting the Asset Tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy the Asset Tests at the end of a later quarter solely due to changes in value of our assets. In addition, if the failure to satisfy the Asset Tests results from an acquisition during a quarter, the failure can be cured by disposing of nonqualifying assets within 30 days after the close of that quarter. We intend to maintain adequate records of the value of our assets to insure compliance with these tests, and will act within 30 days after the close of any quarter as may be required to cure any noncompliance.

75% ASSET TEST. At least 75% of the value of our assets must be

represented by "real estate assets," cash, cash items (including receivables) and government securities. Real estate assets include (i) real property (including interests in real property and interests in mortgages on real property), (ii) shares in other qualifying REITs, and (iii) any property (not otherwise a real estate asset) attributable to the temporary investment of "new capital" in stock or a debt instrument, but only for the one-year period beginning on the date we received the new capital. Property will qualify as being attributable to the temporary investment of new capital if the money used to purchase the stock or debt instrument is received by us in exchange for our stock (other than amounts received pursuant to our distribution reinvestment program) or in a public offering of debt obligations that have a maturity of at least five years. Additionally, regular and residual interests in a real estate mortgage investment conduit, known as a REMIC, and regular interests in a financial asset securitization trust, known as a FASIT, are considered real estate assets. However, if less than 95% of the assets of a REMIC or FASIT are real estate assets, we will be treated as holding a proportionate share of the assets and income of the REMIC or FASIT directly.

When we purchase new real estate properties, we intend that the purchase contracts will apportion no more than 5% of the purchase price of any property to property other than "real property," as defined in the Code. In addition, we intend to invest funds not used to acquire properties in cash sources, "new capital" investments or other liquid investments which will allow us to qualify under the 75% Asset Test. Therefore, our investment in the real properties will constitute "real estate assets" and should allow us to meet the 75% Asset Test.

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25% ASSET TEST. The remaining 25% of our assets may generally be invested subject to the following restrictions: If we invest in any securities that do not qualify under the 75% Asset Test, such securities may not exceed either (i) 5% of the value of our assets as to any one issuer; or (ii) 10% of the outstanding securities by vote or value of any one issuer.

Modifications apply to the 25% Asset Test for qualified REIT subsidiaries and taxable REIT subsidiaries. As discussed above, the stock of a "qualified REIT subsidiary" is not counted for purposes of the 25% Asset Test. A qualified REIT subsidiary is a corporation that is wholly owned by a REIT throughout the subsidiary's existence. All assets, liabilities and tax attributes of a qualified REIT subsidiary are treated as belonging to the REIT. A qualified REIT subsidiary is not subject to federal income tax, but may be subject to state or local tax. We may hold investments through qualified REIT subsidiaries.

Additionally, for purposes of the 25% Asset Test, securities of a taxable REIT subsidiary are excepted from the 10% vote and value limitations on a REIT's ownership of securities of a single issuer. However, no more than 20% of the value of a REIT may be represented by securities of one or more taxable REIT subsidiaries. A taxable REIT subsidiary is a corporation (other than another REIT) that is owned in whole or in part by a REIT, and joins in an election with the REIT to be classified as a taxable REIT subsidiary. Corporations that directly or indirectly operate or manage lodging or health care facilities cannot be taxable REIT subsidiaries. A corporation that is 35% owned by a taxable REIT subsidiary will also be treated as a taxable REIT subsidiary. A taxable REIT subsidiary may not be a qualified REIT subsidiary, and vice versa. As described below regarding the 75% Gross Income Test, a taxable REIT subsidiary is utilized in much the same way an independent contractor

is used to provide certain types of services without causing the REIT to receive or accrue certain types of non-qualifying income. In addition to utilizing independent contractors to provide certain services in connection with the operation of our properties, we may also utilize taxable REIT subsidiaries to carry out these functions.

We intend to invest funds not otherwise invested in properties in cash sources and other liquid investments in a manner which will enable us to satisfy the 25% Asset Test.

GROSS INCOME TESTS. We must satisfy for each calendar year two separate tests based on the composition of our gross income, as defined under our method of accounting.

THE 75% GROSS INCOME TEST. At least 75% of our gross income for the taxable year must result from (i) rents from real property, (ii) interest on obligations secured by mortgages on real property or on interests in real property, (iii) gains from the sale or other disposition of real property (including interests in real property and interests in mortgages on real property) other than property held primarily for sale to customers in the ordinary course of our trade or business, (iv) dividends from other qualifying REITs and gain (other than gain from prohibited transactions) from the sale of shares of other qualifying REITs, (v) other specified investments relating to real property or mortgages thereon, and, (vi) for a limited time, qualified temporary investment income, as defined under the 75% Asset Test. We intend to invest funds not otherwise invested in real properties in cash sources or other liquid investments in a manner that will allow us to qualify under the 75% Gross Income Test.

Income attributable to a lease of real property will generally qualify as "rents from real property" under the 75% Gross Income Test (and the 95% Gross Income Test, described below), subject to the rules discussed below:

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- Rent from a particular tenant will not qualify if we, or an owner of 10% or more of our stock, directly or indirectly, owns 10% or more of the voting stock or the total number of shares of all classes of stock in, or 10% or more assets or net profits of, the tenant.
- The portion of rent attributable to personal property rented in connection with real property will not qualify, unless the portion attributable to personal property is 15% or less of the total rent received under, or in connection with, the lease.
- Generally, rent will not qualify if it is based in whole, or in part, on the income or profits of any person from the underlying property. However, rent will not fail to qualify if it is based on a fixed percentage (or designated varying percentages) of receipts or sales, including amounts above a base amount so long as the base amount is fixed at the time the lease is entered into, the provisions are in accordance with normal business practice and the arrangement is not an indirect method for basing rent on income or profits.
- Rental income will not qualify if we furnish or render services to tenants or manage or operate the underlying property, other than through a permissible "independent contractor" from whom we derive no revenue, or through a taxable REIT subsidiary. This requirement, however, does not apply to the extent that the services, management or operations we provide are "usually or customarily rendered" in connection with the rental of space, and are not otherwise considered

"rendered to the occupant."

With respect to the "usual or customarily rendered" rule, our tenants will receive some services in connection with their leases to the real properties. We believe that the services to be provided are usually or customarily rendered in connection with the rental of the properties, and, therefore, that providing these services will not cause the rents we receive with respect to the properties to fail to qualify as rents from real property for purposes of the 75% Gross Income Test (and the 95% Gross Income Test, described below). The board of directors intends to hire qualifying independent contractors or to utilize taxable REIT subsidiaries to render services which it believes, after consultation with Duane Morris LLP, are not usually or customarily rendered in connection with the rental of space.

THE 95% GROSS INCOME TEST. In addition to deriving 75% of our gross income from the sources listed above, at least 95% of our gross income (excluding gross income from prohibited transactions) for the taxable year must be derived from (i) sources which satisfy the 75% Gross Income Test, (ii) dividends, (iii) interest, or (iv) gain from the sale or disposition of stock or other securities that are not assets held primarily for sale to customers in the ordinary course of our trade or business. It is important to note that dividends and interest on obligations not collateralized by an interest in real property qualify under the 95% Gross Income Test, but not under the 75% Gross Income Test. We intend to invest funds not otherwise invested in properties in cash sources or other liquid investments which will allow us to qualify under the 95% Gross Income Test.

Our share of income from the properties will primarily give rise to rental income and gains on sales of the properties, substantially all of which will generally qualify under the 75% gross income and 95% Gross Income Tests. Our anticipated operations indicate that it is likely that we will have little or no nonqualifying income to cause adverse federal income tax consequences.

If we fail to satisfy either the 75% Gross Income Test or the 95% Gross Income Test for any taxable year, we may retain our status as a REIT for such year if we satisfy the Internal Revenue Service that: (i) the failure was due to reasonable cause and not due to willful neglect, (ii) we attach to our return a schedule describing the nature and amount of each item of our gross income, and (iii) any incorrect information on such schedule was not due to fraud with intent to evade federal income tax. If this relief

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provision is available, we would remain subject to a 100% tax based upon the amount by which we failed the 75% Gross Income Test or the 95% Gross Income Test.

ANNUAL DISTRIBUTION REQUIREMENTS. In addition to the other tests described above, we are required to distribute dividends (other than capital gain dividends) to the stockholders each year in an amount at least equal to the excess of: (1) the sum of: (a) 90% of our REIT Taxable Income (determined without regard to the deduction for dividends paid and by excluding any net capital gain); and (b) 90% of the excess of the net income (after tax) from foreclosure property; less (2) the sum of certain types of items of non-cash income. Whether sufficient amounts have been distributed is based on amounts paid in the taxable year to which they relate, or in the following taxable year if we: (1) declare a dividend before the due date of our tax return (including extensions), (2) distribute the dividend within the 12-month period following the close of the taxable year (and not later than the date of the first regular dividend payment made after such declaration), and (3) file an election with our tax return. Additionally, dividends that we declare in October, November or

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December in a given year payable to stockholders of record in any such month will be treated as having been paid on December 31 of that year so long as the dividends are actually paid during January of the following year. If we fail to meet the annual distribution requirements as a result of an adjustment to our federal income tax return by the Internal Revenue Service, we may cure the failure by paying a "deficiency dividend" (plus penalties and interest to the Internal Revenue Service) within a specified period.

If we do not distribute all of our net capital gain or distribute at least 90%, but less than 100% of our REIT Taxable Income, we will be subject to federal income tax on the undistributed portion. Furthermore, to the extent that we fail to distribute by year end at least the sum of: (1) 85% of our REIT Taxable Income for such year; (2) 95% of our REIT capital gain net income for such year; and (3) any undistributed taxable income from prior years, we would be subject to an excise tax equal to 4% of the difference between the amount required to be distributed under this formula and the amount actually distributed.

We intend to pay sufficient dividends each year to satisfy the annual distribution requirements and avoid federal income tax on net capital gains. It is possible that we may not have sufficient cash or other liquid assets to meet the annual distribution requirements due to tax accounting rules and other timing differences. We will closely monitor the relationship between our REIT Taxable Income and cash flow and, if necessary to comply with the annual distribution requirements, will borrow funds to fully provide the necessary cash flow.

FAILURE TO QUALIFY AS A REIT. If we fail to qualify for federal income tax purposes as a REIT in any taxable year and the relief provisions are not available or cannot be met, we will not be able to deduct our dividends and will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates, thereby reducing cash available for distributions. In such event, all distributions to stockholders (to the extent of our current and accumulated earnings and profits), will be taxable as ordinary income. This "double taxation" results from our failure to qualify as a REIT. Unless entitled to relief under specific statutory provisions, we will not be eligible to elect REIT status for the four taxable years following the year during which qualification was lost.

PROHIBITED TRANSACTIONS. As discussed above, we will be subject to a 100% federal income tax on any net income derived from "prohibited transactions." Net income derived from prohibited transactions arises from the sale or exchange of property held for sale to customers in the ordinary course of our business which is not foreclosure property. There is an exception to this rule for sales of property that:

- is a real estate asset under the 75% Asset Test;

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- has been held for at least four years;
- has aggregate expenditures which are includable in the basis of the property not in excess of 30% of the net selling price;
- in certain cases, was held for production of rental income for at least four years;
- when combined with other sales in the year, either does not cause the REIT to have made more than seven sales of property during the taxable year, or occurs in a year when the REIT disposes of less than 10% of

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its assets (measured by federal income tax basis and ignoring involuntary dispositions and sales of foreclosure property); and

- in certain cases, substantially all of the marketing and development expenditures were made through an independent contractor.

Although we may eventually sell some or all of our properties, our primary intention in acquiring and operating the properties is the production of rental income and we do not expect to hold any property for sale to customers in the ordinary course of our business.

FEDERAL INCOME TAXATION OF STOCKHOLDERS

TAXATION OF TAXABLE DOMESTIC STOCKHOLDERS. As long as we qualify as a REIT, distributions paid to our domestic stockholders out of current or accumulated earnings and profits (and not designated as capital gain dividends) will be ordinary dividend income. Distributions in excess of current and accumulated earnings and profits are treated first as a tax-deferred return of capital to the stockholder, reducing the stockholder's tax basis in his or her common stock by the amount of such distribution, and then to the extent such a distribution exceeds a stockholder's tax basis, as capital gain. Because earnings and profits are reduced for depreciation and other noncash items, it is possible that a portion of each distribution will constitute a tax-deferred return of capital. Additionally, because distributions in excess of earnings and profits reduce the stockholder's basis in our stock, this will increase the stockholder's gain on any subsequent sale of the stock.

Dividend income is characterized as "portfolio" income under the passive loss rules and cannot be offset by a stockholder's current or suspended passive losses. Corporate stockholders cannot claim the dividends received deduction for such dividends unless we lose our REIT status. Distributions that are designated as capital gain dividends will be taxed as long-term capital gains to the extent they do not exceed our actual net capital gain for the taxable year. However, corporate stockholders may be required to treat up to 20% of some types of capital gain dividends as ordinary income. Although stockholders generally recognize taxable income in the year that a distribution is received, any distribution we declare in October, November or December of any year and is payable to a stockholder of record on a specific date in any such month will be treated as both paid by us and received by the stockholder on December 31 of the year it was declared even if paid by us during January of the following calendar year. Because we are not a pass-through entity for federal income tax purposes, stockholders may not use any of our operating or capital losses to reduce their tax liabilities. We may also decide to retain, rather than distribute, our net long-term capital gains and pay any tax thereon. In this case, stockholders would include their proportionate shares of such gains in income and receive a credit on their returns for their proportionate share of our tax payments.

In general, the sale of common stock held for more than 12 months will produce long-term capital gain or loss. All other sales of common stock generally will produce short-term gain or loss. In each case, the gain or loss is equal to the difference between the amount of cash and fair market value of any property received from the sale and the stockholder's basis in the common stock sold. However, any loss

from a sale or exchange of common stock by a stockholder who has held such stock for six months or less will be treated as a long-term capital loss, to the extent of our distributions that the stockholder treated as long-term capital gains.

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We will report to our domestic stockholders and to the Internal Revenue Service the amount of dividends paid during each calendar year, and the amount (if any) of federal income tax we withhold. A stockholder may be subject to backup withholding (the current rate of which is 30%) with respect to dividends paid unless such stockholder: (a) is a corporation or comes within other exempt categories; or (b) provides us with a taxpayer identification number, certifies as to no loss of exemption, and otherwise complies with applicable requirements. A stockholder that does not provide us with its correct taxpayer identification number may also be subject to penalties imposed by the Internal Revenue Service. Any amount paid as backup withholding can be credited against the stockholder's federal income tax liability. In addition, we may be required to withhold a portion of distributions made to any stockholders who fail to certify their nonforeign status to us. See "--Taxation of Foreign Stockholders" in this section.

TAXATION OF TAX EXEMPT STOCKHOLDERS. Our distributions to a stockholder that is a tax-exempt entity should not constitute unrelated business taxable income, or UBTI, unless the stockholder borrows funds (or otherwise incurs acquisition indebtedness within the meaning of the Internal Revenue Code) to acquire its common shares, or the common shares are otherwise used in an unrelated trade or business of the tax-exempt entity.

Special rules apply to the ownership of REIT shares by certain tax-exempt pension trusts. If we would fail to satisfy the "five or fewer" share ownership test (discussed above with respect to the Share Ownership tests) because the stock held by tax-exempt pension trusts was viewed as being held by the trusts rather than by their respective beneficiaries, tax-exempt pension trusts owning more than 10% by value of our stock may be required to treat a percentage of our dividends as UBTI. This rule applies if: (1) at least one tax-exempt pension trust owns more than 25% by value of our shares, or (2) one or more tax-exempt pension trusts (each owning more than 10% by value of our shares) hold in the aggregate more than 50% by value of our shares. The percentage treated as UBTI is our gross income (less direct expenses) derived from an unrelated trade or business (determined as if we were a tax-exempt pension trust) divided by our gross income from all sources (less direct expenses). If this percentage is less than 5%, however, none of the dividends will be treated as UBTI. Because of the restrictions in our articles of incorporation of incorporation regarding the ownership concentration of our common stock, we believe that a tax-exempt pension trust should not become subject to these rules. However, because our common shares may be publicly traded, we can give no assurance of this.

Prospective tax-exempt purchasers should consult their own tax advisors as to the applicability of these rules and consequences to their particular circumstances.

TAXATION OF FOREIGN STOCKHOLDERS. The following discussion is intended only as a summary of the rules governing federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships, and foreign trusts and estates. These rules are quite complex and prospective foreign stockholders should consult with their own tax advisors to determine the impact of federal, state, and local income tax laws including any reporting requirements with respect to their investment in our REIT.

In general, foreign stockholders will be subject to regular U.S. income tax with respect to their investment if such investment is "effectively connected" with the conduct of a trade or business in the U.S. A corporate foreign stockholder that receives (or is deemed to have received) income that is effectively connected with a U.S. trade or business may also be subject to the 30% "branch profits tax" under Code Section 884, which is payable in addition to regular federal corporate income tax. The

following discussion applies to foreign stockholders whose investment is not considered "effectively connected."

Generally, any dividend that constitutes ordinary income for federal income tax purposes will be subject to a U.S. tax equal to the lesser of 30% of the gross amount of dividends or the rate in an applicable tax treaty. Generally, a distribution that does not exceed our earnings and profits will be treated as a dividend taxable as ordinary income. A distribution in excess of our earnings and profits is treated first as a nontaxable return of capital that will reduce a foreign stockholder's basis in its common stock (but not below zero) and then as gain from the disposition of such common stock, subject to the rules discussed below for dispositions.

Our distributions that are attributable to gain from the sale or exchange of a "U.S. real property interest" are taxed to a foreign stockholder as if the distributions were gains "effectively connected" with a United States trade or business conducted by such foreign shareholder. As a result, a foreign stockholder will be taxed on these amounts at the capital gain rates applicable to a U.S. stockholder (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). In addition, such dividends may also be subject to a 30% branch profits tax when made to a corporate foreign stockholder that is not entitled to treaty exemptions.

We will report to our foreign stockholders and the Internal Revenue Service the amount of dividends paid during each calendar year, and the amount (if any) of federal income tax we withhold. These information reporting requirements apply regardless of whether withholding was reduced or eliminated in any applicable tax treaty. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement with the tax authorities in the country in which the foreign stockholder resides. As discussed below, withholding tax rates of 30% and 35% may apply to distributions on common stock to foreign stockholders.

Although tax treaties may reduce our withholding obligations, we will generally be required to withhold from dividends to foreign stockholders, and remit to the Internal Revenue Service, 35% of any distribution that could be designated as a capital gain dividend (regardless of the amount actually designated as a capital gain dividend) and 30% of ordinary dividends paid out of earnings and profits. In addition, if we designate prior dividends as capital gain dividends, subsequent dividends, up to the amount of such prior dividends, will be treated as capital gain dividends for withholding purposes. The amount of federal income tax withheld is creditable against the foreign stockholder's federal income tax liability, and if the amount of tax we withhold exceeds the U.S. tax liability, the foreign stockholder may file for a refund of such excess from the Internal Revenue Service. (Note that the 35% withholding tax rate on capital gain dividends currently corresponds to the maximum income tax rate applicable to corporations, but is higher than the 20% maximum rate on long-term capital gains of individuals.)

Applicable Treasury regulations provide certain presumptions under which a foreign stockholder would be subject to backup withholding and information reporting until we receive certification from these stockholders of their foreign status. The regulations generally require a foreign stockholder to provide us with federal Form W-8BEN referred to as a Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding, Form W-8ECI referred to as a Certificate of Foreign Person's Claim for Exemption From Withholding on Income Effectively Connected With the Conduct of a Trade or Business in the United States, or Form W-8EXP referred to as a Certificate of Foreign Government or Other Foreign Organization for United States Tax

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Withholding certifying the foreign stockholder's entitlement to the benefits of any treaty.

Unless the common shares constitute a "U.S. real property interest" under Section 897 of the Internal Revenue Code, gain on a sale of common stock by a foreign stockholder generally will not be

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subject to U.S. income taxation unless (i) investment in the common stock is effectively connected with the foreign stockholder's U.S. trade or business, in which case, as discussed above, the foreign shareholder would be subject to the federal income tax, or (ii) the foreign stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year, in which case the nonresident alien individual may be subject to a 30% tax on such gain.

The common shares will not constitute a "U.S. real property interest" if we are a "domestically controlled REIT." A domestically controlled REIT is a REIT, which at all times during the preceding five-year period, had less than 50% in value of its common stock held directly or indirectly by foreign stockholders. We (or, if shorter, the period during which the REIT is in existence) expect to be a domestically controlled REIT, and, therefore, the sale of common stock should not be subject to such taxation for foreign stockholders, except as discussed above. However, because the common shares may be (but are not guaranteed to be) publicly traded, we can not assure you that we will continue to be a domestically controlled REIT. If we do not constitute a domestically controlled REIT, whether a foreign stockholder's gain on the sale of stock is subject to federal income tax as a sale of a U.S. real property interest depends primarily on whether the common shares are "regularly traded" on an established securities market and on the size of the selling stockholder's interest. If the gain on the sale of common shares is subject to federal income tax under these rules, the foreign stockholder would be subject to the same treatment as a U.S. stockholder with respect to the gain (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). In any event, a purchaser of common stock from a foreign stockholder will not be required to withhold on the purchase price if the purchased shares are "regularly traded" on an established securities market or if we are a domestically controlled REIT. Otherwise, the purchaser of stock may be required to withhold 10% of the purchase price and remit this amount to the Internal Revenue Service.

If the proceeds of a disposition of common stock are paid by or through a U.S. office of a broker-dealer, the payment is generally subject to information reporting and to backup withholding (the current rate of which is 30%) unless the disposing foreign stockholder certifies as to his name, address and non-U.S. status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding may not apply to a payment of disposition proceeds if the payment is made outside the U.S. through a foreign office of a foreign broker-dealer. Prospective foreign purchasers should consult their tax advisers concerning these rules.

OTHER TAX CONSIDERATIONS

DISTRIBUTION REINVESTMENT PROGRAM. Stockholders who participate in the distribution reinvestment program will recognize taxable dividend income in the amount they would have received had they elected not to participate, even though they receive no cash. These deemed dividends will be treated as actual dividends from us to the participating stockholders and will retain the character and federal income tax effects applicable to all dividends. See "--Taxation of Stockholders" in this section. Stock received under the program will have a

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holding period beginning with the day after purchase, and a federal income tax basis equal to its cost, which is the gross amount of the deemed distribution.

STATE AND LOCAL TAXES. We and you may be subject to state or local taxation in various jurisdictions, including those in which we transact business or reside. Our and your state and local tax treatment may not conform to the federal income tax consequences discussed above. Consequently, you should consult your own tax advisors regarding the effect of state and local tax laws on an investment in the common shares.

LEGISLATIVE PROPOSALS. You should recognize that our and your present federal income tax treatment may be modified by legislative, judicial or administrative actions at any time, which may be

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retroactive in effect. The rules dealing with federal income taxation are constantly under review by Congress, the Internal Revenue Service and the Treasury Department, and statutory changes as well as promulgation of new regulations, revisions to existing statutes, and revised interpretations of established concepts occur frequently. We are not currently aware of any pending legislation that would materially affect our or your taxation as described in this prospectus. You should, however, consult your advisors concerning the status of legislative proposals that may pertain to a purchase of common shares. President Bush has proposed to exempt certain dividend payments made by certain corporations from federal taxation. We cannot be sure what impact, if any, any possible legislation could have on us or you as a stockholder.

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ERISA CONSIDERATIONS

The following is a summary of material considerations arising under ERISA, including the prohibited transaction provisions of ERISA, and of Section 4975 of the Internal Revenue Code that may be relevant to a prospective purchaser of the shares where such prospective purchaser is an employee benefit plan, IRA or other tax-exempt entity under the Internal Revenue Code. This discussion does not deal with all aspects of ERISA or Section 4975 of the Internal Revenue Code or, to the extent not preempted, state law that may be relevant to particular employee benefit plan stockholders (including plans subject to Title I of ERISA, other employee benefit plans and IRAs subject to the prohibited transaction provisions of Section 4975 of the Internal Revenue Code, and governmental plans and church plans that are exempt from ERISA and Section 4975 of the Internal Revenue Code but that may be subject to state law and other Internal Revenue Code requirements) in light of their particular circumstances.

A FIDUCIARY MAKING THE DECISION TO INVEST IN SHARES ON BEHALF OF A PROSPECTIVE INVESTOR WHICH IS A PENSION, PROFIT-SHARING, RETIREMENT, IRA OR OTHER EMPLOYEE BENEFIT PLAN IS ADVISED TO CONSULT ITS OWN LEGAL ADVISOR REGARDING THE SPECIFIC CONSIDERATIONS ARISING UNDER ERISA, SECTION 4975 OF THE INTERNAL REVENUE CODE, AND (TO THE EXTENT NOT PREEMPTED) STATE LAW WITH RESPECT TO THE PURCHASE, OWNERSHIP, OR SALE OF SHARES BY SUCH BENEFIT PLAN. BENEFIT PLANS SHOULD ALSO CONSIDER THE ENTIRE DISCUSSION UNDER THE PRECEDING SECTION ENTITLED "FEDERAL INCOME TAX CONSIDERATIONS," AS MATERIAL CONTAINED THEREIN IS RELEVANT TO ANY DECISION BY A BENEFIT PLAN TO PURCHASE THE SHARES.

In considering whether to invest a portion of the assets of a benefit plan in shares, fiduciaries of the benefit plan should consider, among other things,

whether the investment:

- will be in accordance with the governing documents of the benefit plan and is authorized and consistent with their fiduciary responsibilities under ERISA;
- will allow the benefit plan to satisfy the diversification requirements of ERISA, if applicable;
- will result in UBTI to the benefit plan (see "Federal Income Tax Considerations -- Taxation of Stockholders -- Taxation of Tax-Exempt Stockholders");
- will be sufficiently liquid for the benefit plan after taking this investment into account; and
- is prudent and in the best interests of the benefit plan, its participants and beneficiaries under ERISA standards.

The fiduciary of an IRA or a benefit plan not subject to Title I of ERISA because it is a governmental or church plan or because it does not cover common law employees should consider that such an IRA or non-ERISA plan may be subject to prohibitions against certain related-party transactions under Section 503 of the Internal Revenue Code, which operate similar to the prohibited transaction rules of ERISA and the Internal Revenue Code. In addition, the fiduciary of any governmental or church plan must consider applicable state or local laws, if any, and the restrictions and duties of common law, if any, imposed upon such plan. We express no opinion on whether an investment in shares is appropriate or permissible for any governmental or church plan under Section 503 of the Internal Revenue Code, or under any state, county, local, or other law respecting such plan.

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In addition to imposing general fiduciary standards of investment prudence and diversification, ERISA and the corresponding provisions of the Internal Revenue Code prohibit a wide range of transactions involving the assets of the benefit plan and persons who have certain specified relationships to the benefit plan ("parties in interest" under ERISA and "disqualified persons" under the Internal Revenue Code).

Benefit plan fiduciaries may not enter into a prohibited transaction involving "plan assets" and a "party in interest" or "disqualified person" with respect to a plan investor, unless an exemption applies. A prohibited transaction may occur if our assets are deemed to be assets of a benefit plan (i.e., the "look-through rule") which invests in shares and thereafter a "party in interest" or a "disqualified person" deals with the assets in a manner not permitted under ERISA or the Internal Revenue Code. Under such circumstances, any person that exercises authority or control with respect to the management or disposition of benefit plan assets is a benefit plan fiduciary and, therefore, is a "party in interest" and a "disqualified person" capable of participating in a prohibited transaction with the benefit plan. Thus, the actions of an employee of ours in dealing with our assets could, under certain circumstances, cause a benefit plan which invests in the shares to be a participant in a prohibited transaction. While "plan assets" are not defined in ERISA or the Internal Revenue Code, the United States Department of Labor, or the DOL, has issued regulations that provide guidance on the circumstances under which a benefit plan's investment in shares will be subject to the "look-through rule" and thus result in our assets being deemed benefit plan assets. The DOL regulations provide an exception to the "look-through rule" for a benefit plan which invests in a "publicly-offered security." This exception would apply to the shares, if

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they are part of a class of securities that is "widely-held," "freely-transferable," and either registered under Section 12(b) or 12(g) of the Securities Exchange Act of 1934, or sold to the benefit plan pursuant to an effective registration statement under the Securities Act of 1933, provided the class of securities of which the security is a part are registered under the Securities Exchange Act of 1934 within 120 days or such longer period as is allowed by the Securities and Exchange Commission after the end of the fiscal year of the issuer during which the offering occurred. The shares are being sold in an offering registered under the Securities Act of 1933 and we represent that the class of securities of which the shares are a part have been registered under the Securities Exchange Act within the applicable time limits.

The DOL regulations indicate that a security is "widely-held" only if it is part of a class of securities that is owned by 100 or more investors independent of the issuer and of one another. A security will not fail to be "widely-held" because the number of independent investors falls below 100 subsequent to the initial offering as a result of events beyond the issuer's control. We expect (although no assurances can be given) that the shares will be held by over 100 independent investors and, therefore, should be considered "widely-held."

The DOL regulations further provide that whether a security is "freely-transferable" is a factual question to be determined on the basis of all relevant facts and circumstances. The DOL regulations state that generally, when a security is part of an offering in which the minimum investment is \$10,000 or less, as is the case with this offering, certain restrictions ordinarily will not, alone or in combination, affect the determination of the finding that such securities are "freely-transferable." One such example under the DOL regulations is that a restriction or prohibition against a transfer or assignment which would result in a termination or reclassification of an entity for federal or state income tax purposes will not affect the determination of whether securities are "freely transferable." We believe that the ownership limits imposed under our charter of incorporation on the transfer of the shares are designed to prevent violations of the five or fewer requirement of federal income tax laws (which would cause a termination of REIT status for tax purposes) or are otherwise permitted under the DOL regulations and, therefore, will not cause the shares to not be "freely-transferable."

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The DOL regulations are interpretive in nature and, therefore, no assurance can be given that the DOL and the United States Department of the Treasury will not conclude that the shares are not "freely-transferable," or not "widely-held." However, we believe that the shares are "publicly offered securities" for purposes of the DOL regulations and that:

- our assets will not be deemed to be "plan assets" of any benefit plan that invests in the shares; and
- any person who exercises authority or control with respect to our assets should not be treated as a benefit plan fiduciary of any benefit plan that invests in the shares, for purposes of the prohibited transaction rules of ERISA and Section 4975 of the Internal Revenue Code.

In addition, a prohibited transaction may also occur under ERISA or the Internal Revenue Code where there are circumstances indicating that:

- investment in the shares is made or retained for the purposes of avoiding application of the fiduciary standards of ERISA;
- the investment in the REIT constitutes an arrangement under which

it is expected that the REIT will engage in transactions which would otherwise be prohibited if entered into directly by the benefit plan purchasing the shares;

- the investing benefit plan, by itself, has the authority or influence to cause the REIT to engage in such transactions; or
- the person who is prohibited from transacting with the investing benefit plan may, but only with the aid of its affiliates and the investing benefit plan, cause the REIT to engage in such transactions with such person.

In any event, a fiduciary or other person investing "plan assets" of any benefit plan should not purchase shares if we or any of our affiliates either:

- have investment discretion with respect to the investment of such assets; or
- have authority or responsibility to give or regularly gives investment advice with respect to such assets, for a fee, pursuant to an agreement or understanding that such advice will serve as a primary basis for investment decisions with respect to such assets and that such advice will be based on the particular investment needs of such benefit plan.

Unless an exemption is available for an employer maintaining or contributing to such benefit plans, any such purchase might result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Internal Revenue Code.

See "Risk Factors -- Employee Benefit Plan Risks -- Annual Statement of Value is an Estimate" for an explanation of the annual statement of value we will provide stockholders subject to ERISA.

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PLAN OF DISTRIBUTION

GENERAL

Of the 270,000,000 shares of our common stock offered by this prospectus, we are offering:

- up to 250,000,000 shares at a purchase price of \$10.00 per share through Inland Securities Corporation, the managing dealer, to the public on a best-efforts basis. Our managing dealer is one of our affiliates. A "best-efforts" basis means that neither the managing dealer nor the soliciting dealers are under any obligation to purchase any of the shares being offered. Therefore, no specified number of shares are guaranteed to be sold and no specified amount of money is guaranteed to be raised from this offering.
- up to 20,000,000 shares at a purchase price of \$9.50 per share for issuance through our distribution reinvestment program which will provide you with an opportunity to purchase additional shares of our common stock at a reduced rate by reinvesting your distributions.

The offering price of our stock is subjective and was determined by our board of directors. Our board of directors determined the offering price based on the offering price of earlier REITs organized by our sponsor, the range of offering prices of other REITs that do not have a public trading market and the

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recommendation of the managing dealer based on its consultations with likely soliciting dealers. This offering will commence as of the date of this prospectus. If the minimum offering of 200,000 shares is not sold by September 15, 2004, we will cancel this offering and your investment will be returned to you within five business days after cancellation with any interest earned on your investment and with no deduction from your investment. If the minimum offering of 200,000 shares of common stock is sold and if this offering continues thereafter, the offering will terminate on or before, September 15, 2004, unless we elect to extend it to a date no later than September 15, 2005, in states that permit an extension. We reserve the right to terminate this offering at any time.

Our dealer manager is a wholly owned subsidiary of our sponsor, Inland Real Estate Investment Corporation. Our dealer manager was also the dealer manager for the offerings for Inland Real Estate Corporation and Inland Retail Real Estate Trust, Inc. Inland Real Estate Corporation raised approximately \$679,780,000 in its offering. As of June 30, 2003, Inland Retail Real Estate Trust, Inc. raised approximately \$2,156,104,000 in its offering.

Our sponsor is an affiliate of our dealer manager.

ESCROW CONDITIONS

If you are qualified to participate in this offering, the proceeds from your subscription will be deposited in a segregated escrow account with the escrow agent, LaSalle Bank National Association, 120 South LaSalle Street, Chicago, Illinois, and will be held in trust for your benefit, pending release to us. Your investment will not be commingled with any other funds. None of the common stock offered by this prospectus will be sold, no commissions or fees will be paid, and your initial admission as a stockholder will not take place unless the escrow agent has received and accepted paid subscriptions for at least 200,000 shares of common stock for \$2,000,000 within six months from the date of this prospectus. If subscriptions for at least the minimum offering have not been received, accepted, and paid for within six months from the date of this prospectus, the escrow agent will promptly refund your investment, together with your pro rata share of any interest earned. If a refund is made, our sponsor will pay any escrow fees.

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The escrow agreement between us, the managing dealer and the escrow agent provides that escrowed funds will be invested by the escrow agent in an interest bearing account with the power of investment in short term securities issued or guaranteed by the United States Government which can be readily sold, or other investments permitted under the Securities Exchange Act of 1934. Additionally, as soon as we have received subscription proceeds for at least 200,000 shares of our common stock, we may invest the proceeds in other short term investments which can be readily sold, with appropriate safety of principal. After the minimum offering amount is sold, subscription proceeds are expected to be released to us as subscriptions are accepted. We will accept or reject subscriptions within 10 days after our receipt of a fully completed copy of the subscription agreement and payment for the number of shares of common stock subscribed for.

The interest, if any, earned on subscription proceeds relating to the minimum offering prior to the release of the subscription proceeds to us from escrow will be distributed to you on a pro rata basis within 30 days after the end of the quarter during which you were admitted as a stockholder. After your initial admission as a stockholder in connection with the sale of at least 200,000 shares, you will not be entitled to interest earned on our funds or to receive interest on your investment.

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The escrow agreement provides that the escrow agent will be appointed as an investment manager by a named fiduciary of any ERISA plan that is providing money to the escrow. The escrow agreement among us, the managing dealer, and the escrow agent also provides (1) that until all the conditions precedent for transferring the monies held in escrow are met, the escrow property may be considered plan assets under ERISA and the escrow holder shall act as a fiduciary to any benefit plan with respect to those assets, and (2) that the property will be returned to the benefit plan if the conditions precedent are not met in a reasonable period of time.

SUBSCRIPTION PROCESS

We are offering up to 250,000,000 shares of our common stock to the public through the managing dealer and the soliciting dealers. The agreement between our managing dealer and the soliciting dealers requires the soliciting dealers to make diligent inquiries of you in order to determine whether a purchase of our common stock is suitable for you, and to transmit promptly to us the completed subscription documentation and any supporting documentation we may reasonably require.

The managing dealer or a soliciting dealer is also required to deliver to you a copy of this prospectus and its appendices. We plan to make this prospectus and the appendices available electronically to the managing dealer and the soliciting dealers, as well as to provide them paper copies. As a result, if the managing dealer or a soliciting dealer chooses, with your prior consent, it may provide you with the option of receiving this prospectus and the appendices electronically. In any case, however, you may always receive a paper copy upon request. For at least six years, we shall maintain records of the information we have to determine that an investment in our shares is suitable and appropriate for a stockholder.

Our common stock is being sold as subscriptions for the common stock are received and accepted by us, subject to the satisfaction by us of the escrow conditions described in the section immediately above. We have the unconditional right to accept or reject your subscription within 10 days after our receipt of a fully completed copy of the subscription agreement and payment for the number of shares of common stock subscribed for. If we accept your subscription, a confirmation will be mailed to you not more than three business days after our acceptance. No sale of our common stock may be completed until at least five business days after the date you receive this prospectus and, if required by state regulatory authorities, a copy of our organizational documents. If for any reason your subscription is rejected, your

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funds and your subscription agreement will be returned to you, without interest or deduction, within 10 days after receipt.

REPRESENTATIONS AND WARRANTIES IN THE SUBSCRIPTION AGREEMENT

The subscription agreement requires you to make the following factual representations:

- Your tax identification number set forth in the subscription agreement is accurate and you are not subject to backup withholding;
- You received a copy of this prospectus not less than five business days prior to signing the subscription agreement (unless your state requires otherwise);

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- You meet the minimum income, net worth and any other applicable suitability standards established for you, as described in "Who May Invest," which appears earlier in this prospectus;
- You are purchasing our common stock for your own account; and
- You acknowledge that our common stock cannot be readily sold.

Each of the above representations is included in the subscription agreement in order to help satisfy our responsibility to make every reasonable effort to determine that the purchase of our common stock is a suitable and appropriate investment for you and that appropriate income tax reporting information is obtained. We will not sell any common stock to you unless you are able to make the above factual representations by executing the subscription agreement.

By executing the subscription agreement, you will not be waiving any rights under the federal securities laws.

DETERMINATION OF YOUR SUITABILITY AS AN INVESTOR

We, our managing dealer, each soliciting dealer and our sponsor will make reasonable efforts to determine that you satisfy the suitability standards set forth herein and that an investment in our common stock is an appropriate investment for you. The soliciting dealers must determine whether you can reasonably benefit from this investment. In making this determination, the soliciting dealers will consider whether:

- you have the capability of understanding fundamental aspects of our business based on your employment experience, education, access to advice from qualified sources such as attorneys, accountants and tax advisors and prior experience with investments of a similar nature;
- you have an apparent understanding of:
 - the fundamental risks and possible financial hazards of this type of investment;
 - that the shares cannot be readily sold;
 - the role of our advisor in directing or managing your investment in us; and
 - the tax consequences of your investment; and
- you have the financial capability to invest in our common stock.

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By executing the subscription agreement, each soliciting dealer acknowledges its determination that our common stock is a suitable investment for you. Each soliciting dealer is required to represent and warrant that it has complied with all applicable laws in determining the suitability of our common stock as an investment for you. We and our affiliates will coordinate the processes and procedures used by the managing dealer and the soliciting dealers and, where necessary, implement additional reviews and procedures to determine that you meet the suitability standards set forth in this prospectus.

COMPENSATION WE WILL PAY FOR THE SALE OF OUR SHARES

Except for the special sales described later in this section, we will pay the managing dealer cash selling commissions of 7.5% on all of the up to

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250,000,000 shares of common stock sold on a best-efforts basis. Of this 7.5% selling commissions, the managing dealer will reallow up to 7% to soliciting dealers as compensation for their services in soliciting and obtaining subscriptions from you and other investors. Except for the special sales described later in this section, we will pay an additional 2.5% of the gross proceeds from this offering to the managing dealer as a marketing contribution in lieu of reimbursement of expenses associated with marketing, and we may reimburse the managing dealer for its bona fide due diligence expenses and for those of the soliciting dealers. The maximum reimbursement, however, will not exceed 0.5% of the gross proceeds from the up to 250,000,000 shares sold. The managing dealer may, at its discretion, retain or give all or any portion of the marketing contribution and due diligence expense allowance to soliciting dealers. Generally, the managing dealer will not give any portion of the marketing contribution to soliciting dealers unless they have a prescribed minimum annual sales volume of our common stock. Marketing and due diligence costs paid by the managing dealer on behalf of, or to, the soliciting dealers will be deducted from any marketing contribution or due diligence expense allowance otherwise payable to the soliciting dealers.

The following table shows the compensation payable to our dealer manager.

| TYPE OF COMPENSATION | AMOUNT | ESTIMATED MAXIMUM AMOUNT |
|---|--------------------------------------|--------------------------|
| Selling commissions | 7.5% of sale price for each share | \$ 187,500,000 |
| Marketing contribution and due diligence allowance | 3% of gross offering proceeds | \$ 75,000,000 |

We will not pay selling commissions, marketing contributions or due diligence expense allowances in connection with the following special sales:

- the sale of common stock in connection with the performance of services to our employees, directors and associates and our affiliates, our advisor, affiliates of our advisor, the managing dealer or their respective officers and employees and some of their affiliates; and
- the purchase of common stock under the distribution reinvestment program.
- No selling commissions will be paid in connection with the following special sales:

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- the sale of our common stock to one or more soliciting dealers and to their respective officers and employees and some of their respective affiliates who request and are entitled to purchase common stock net of selling commissions;
- the sale of common stock to investors whose contracts for investment advisory and related brokerage services include a fixed or "wrap" fee feature; and
- the common stock credited to an investor as a result of a volume

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discount.

It is illegal for us to pay or award any commissions or other compensation to any person engaged by you for investment advice as an inducement to such advisor to advise you to purchase our common stock; however, nothing herein will prohibit a registered broker dealer or other properly licensed person from earning a sales commission in connection with a sale of the common stock.

We will not pay any registered investment advisory fees in connection with any purchase by you of our common stock, although you may elect to have your registered investment advisory fees deducted from your account with us and paid directly to your registered investment advisor. See "How to Subscribe."

VOLUME DISCOUNTS

Investors making an initial purchase of at least \$250,010 worth of common stock (25,001 shares) through the same soliciting dealer may receive a reduction of the allowable 7.0% selling commission payable in connection with the purchase of those shares in accordance with the following schedule:

AMOUNT OF PURCHASER'S INVESTMENT

| AMOUNT OF SELLING VOLUME DISCOUNT ----- | FROM ----- | TO ----- | MAXIMUM COMMISSION PER SHARE ----- |
|---|---------------|----------------------------|--|
| 1% | \$ 250,010 | \$ 500,000 | 6% |
| 2% | \$ 500,010 | \$ 1,000,000 | 5% |
| 3% | \$ 1,000,010 | \$ 2,500,000 | 4% |
| 4% | \$ 2,500,010 | \$ 5,000,000 | 3% |
| 5% | \$ 5,000,010 | \$ 10,000,000 | 2% |
| 6% | \$ 10,000,010 | more than \$ 10,000,000 | 1% |

Any reduction in the amount of the selling commissions in respect of volume discounts received may be credited to the investor in the form of additional whole shares or fractional shares. Selling commissions will not be paid on any such whole shares or fractional shares issued for a volume discount.

Some purchases may be combined for the purpose of qualifying for a volume discount, and for determining commissions payable to the managing dealer or the soliciting dealers, so long as all the combined purchases are made through the same soliciting dealer. You may combine subscriptions made in this offer with other subscriptions in this offering for the purposes of computing amounts invested. Purchases by spouses may also be combined and purchases by you may be combined with other purchases of common stock to be held as a joint tenant or as tenants-in-common by you with others for purposes of computing amounts invested. Purchases by entities not required to pay federal income tax may only be combined with purchases by other entities not required to pay federal income tax for purposes of computing amounts invested if investment decisions are made by the same person. If the

investment decisions are made by an independent investment adviser, that investment adviser may not have any direct or indirect beneficial interest in any of the entities not required to pay federal income tax whose purchases are sought to be combined. You must mark the "Additional Investment" space on the

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subscription agreement signature page in order for purchases to be combined. We are not responsible for failing to combine purchases if you fail to mark the "Additional Investment" space.

If the subscription agreements for the purchases to be combined are submitted at the same time, then the additional common stock to be credited to you as a result of such combined purchases will be credited on a pro rata basis. If the subscription agreements for the purchases to be combined are not submitted at the same time, then any additional common stock to be credited as a result of the combined purchases will be credited to the last component purchase, unless we are otherwise directed in writing at the time of the submission. However, the additional common stock to be credited to any entities not required to pay federal income tax whose purchases are combined for purposes of the volume discount will be credited only on a pro rata basis based on the amount of the investment of each entity not required to pay federal income tax and their combined purchases.

Notwithstanding the preceding paragraphs, you may not receive a discount greater than 5% on any purchase of shares if you already own, or may be deemed to already own, any shares. This restriction may limit the amount of the volume discount available to you after your initial purchase and the amount of additional shares that you may be credited as a result of the combination of purchases.

If the dollar amount of commissions paid for combined purchases exceeds the maximum commissions for combined purchases, taking the volume discount into effect, the managing dealer will be obligated to return to us, and soliciting dealers will be obligated to return to the managing dealer, any excess commissions received. The managing dealer and we may adjust any future commissions due for any such excess commissions that are not returned.

DEFERRED COMMISSION OPTION

DETERMINATION OF THE NUMBER OF SHARES TO BE ISSUED AND THE AMOUNT OF THE DEFERRED SELLING COMMISSIONS. You may agree with the participating soliciting dealer and the managing dealer to have selling commissions due with respect to the purchase of your shares paid over a period of up to six years pursuant to a deferred commission option arrangement. Our net proceeds from this offering will not be affected by the election of the deferred commission option. Under this arrangement and based upon a \$10 per share deemed value to each share issued, if you elect the deferred commission option, you will pay a 1.5% selling commission upon subscription, of which 1% will be reallocated upon subscription, rather than the 7.5% selling commission, of which 7% is realallowable, and we will deduct an amount equal to up to 1% selling commission per year thereafter for up to the next six years from cash distributions otherwise payable to you. For example, if you elect the deferred commission option, you will be required to pay a total of \$9.40 per share purchased upon subscription, rather than \$10 per share, with respect to which \$0.15 per share will be payable as selling commissions due upon subscription, of which \$0.10 per share will be reallocated (based on the number of shares that would have been issued if the deferred commission option had not been elected). For example, for a \$100,000 initial investment, we will issue 10,638.298 shares (\$100,000 divided by \$9.40), and you would pay maximum selling commissions of \$1,500 upon subscription (\$0.15 times the 10,000 shares which would have been issued for \$100,000 if the deferred commission option had not been elected), of which \$1,000 is realallowable. For each of the up to six years following the subscription, on a date or dates to be determined from time to time by the managing dealer (initially contemplated to be monthly as of when distributions are paid), we will deduct \$0.10 per share (based on the number of shares that would have been issued if the deferred commission option had not been elected) on an annual basis from cash distributions otherwise payable to you. This amount will be used to pay deferred commission obligations. In the example of an initial cash investment of \$100,000,

\$1,000 would be deducted on an annual basis and used in the above described manner for each of the six years following the subscription. The managing dealer will pay the selling commissions paid upon subscription and in each of the following up to six years, which selling commissions may be reallocated to the soliciting dealer by the managing dealer and the deferred commission obligations would be satisfied.

As in any volume discount situation, selling commissions are not paid on any shares issued for a volume discount. Therefore, when the deferred commission option is used, we will not make deductions for deferred commission obligations from cash distributions payable on the shares issued for a volume discount, because there will not be any deferred commission obligation as to those particular shares. The number of shares issued, if any, for a volume discount, will be determined as provided above under "Plan of Distribution--Volume Discounts."

TAXES. If you elect the deferred commission option and you are subject to federal income taxation, you will incur tax liability for cash distributions payable to them with respect to their shares even though we will withhold such cash distributions and will instead pay third parties to satisfy deferred commission obligations.

SUBSCRIPTION AGREEMENT. If you wish to elect the deferred commission option, you must make the election on the subscription agreement/signature page. In addition, the broker-dealer must also complete and sign the subscription agreement/signature page to acknowledge its agreement to the deferred commission option.

AUTHORIZATION TO WITHHOLD CASH DISTRIBUTIONS. If you elect the deferred commission option you will be authorizing us to withhold cash distributions otherwise payable to you for the purpose of paying selling commissions due under the deferred commission option; provided, however, that in no event may we withhold in excess of \$0.60 per share in the aggregate (lower when the volume discount provisions are also applicable and less than 6% of the selling commissions are deferred) under the deferred commission option.

ACCELERATION OF DEFERRED COMMISSION OBLIGATION. If our shares become listed for trading on a national securities exchange or included for quotation on a national market system, or such listing or inclusion is reasonably anticipated to occur at any time prior to the satisfaction of the remaining deferred commission obligations, we will accelerate the remaining selling commissions due under the deferred commission option. In such event, we will provide notice of such acceleration to stockholders who have elected the deferred commission option. The amount of the remaining selling commissions due will be deducted and paid by us out of cash distributions otherwise payable to such stockholders during the time period prior to any such listing of the shares for trading on a national securities exchange or inclusion for quotation on a national market system. However, in no event may we withhold in excess of \$0.60 per share in the aggregate during the six-year period following the subscription. The maximum amount that we may withhold and the maximum number of years for which we may offer selling commissions will be lower when the volume discount provisions are also applicable and less than 6% of the selling commissions are deferred. To the extent that the cash distributions during such time period are insufficient to satisfy the remaining deferred selling commissions due, the obligation of us and our stockholders to make any further payments of deferred selling commissions under the deferred commission option shall terminate and the managing dealer (and participating soliciting dealers if the deferred selling commissions are reallocated to them by the managing dealer) will not be entitled to receive any

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further portion of the unpaid deferred selling commissions following any such listing for trading or inclusion for quotation of our shares.

In addition, if you elect the deferred commission option and subsequently elect to participate in our share repurchase program or request that we transfer your shares for any other reason prior to the time

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that the remaining deferred selling commissions have been deducted from cash distributions otherwise payable to you during the mentioned period of up to six years, then we will accelerate the remaining selling commissions due under the deferred commission option. In such event, we shall provide notice of such acceleration to you, and:

- in the case of an election to sell the shares under our share repurchase program, you will be required to pay to us the unpaid portion of the remaining deferred commission obligation prior to or concurrently with our purchase of your shares pursuant to our share repurchase program or we may deduct such unpaid portion of the remaining deferred commission obligation from the amount otherwise due to you for our purchase of your shares under our share repurchase program; or
- if you request that we transfer the shares for any other reason, you will not be entitled to effect any such transfer until you first either:
 - pay to us the unpaid portion of the remaining deferred commission obligation; or
 - provide a written instrument in form and substance satisfactory to us, and appropriately signed by the transferee, to the effect that the proposed transferee agrees to have the unpaid portion of the remaining deferred commission obligation deducted from cash distributions otherwise payable to the transferee during the remaining portion of the specified up to six year period.

LEGEND. All certificates representing any shares that elect the deferred commission option (including any shares issued for the volume discount in connection with the election of the deferred commission option) will bear a legend referring to the fact that such shares are subject to the terms of the deferred commission option including the withholding of cash distributions otherwise payable to the stockholders for the purpose of paying the deferred selling commission obligation.

MARKETING CONTRIBUTION AND DUE DILIGENCE EXPENSE ALLOWANCE. The marketing contribution of 2.5% and the due diligence expense allowance of 0.5% will be payable by us on the gross offering proceeds for all of the shares issued based on an assumed price of \$10 per share. We will pay those amounts due from the proceeds we receive at the time of the initial investment.

INDEMNIFICATION

We will indemnify the managing dealer and the soliciting dealers against liabilities, including liabilities under the Securities Act of 1933, if 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 as to the particular indemnitee and a court of competent jurisdiction has approved

indemnification of the litigation costs; or

- the claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular indemnitee and the court has approved indemnification of the litigation costs; or
- a court of competent jurisdiction approves a settlement of the claims against a particular indemnitee and approves indemnification of the settlement and related costs after being advised of the position of the Securities and Exchange Commission and the published opinions of any state securities regulatory authority in which our common stock was offered and sold respecting the availability and/or propriety of indemnification for

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securities law violations. The soliciting dealer will be required to indemnify us and our advisor against such liabilities.

In the opinion of the Securities and Exchange Commission, indemnification for liabilities arising under the Securities Act of 1933 is against public policy and, therefore, unenforceable. The managing dealer and each of the soliciting dealers may be deemed to be an "underwriter" as that term is defined in the Securities Act of 1933.

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HOW TO SUBSCRIBE

Investors who meet the suitability standards described above may purchase shares of common stock. See "Who May Invest" and "Plan of Distribution -- Determination of Your Suitability as an Investor," above, for the suitability standards. Investors who want to purchase shares must proceed as follows:

- Read the entire prospectus and the current supplement(s), if any, accompanying the prospectus.
- Complete the execution copy of the subscription agreement. A specimen copy of the subscription agreement, including instructions for completing it, is included in the prospectus as Appendix C.
- Deliver a check for the full purchase price of the shares being subscribed for, payable to "LNB/Escrow Agent for IWRRET ", along with the completed subscription agreement to the soliciting dealer. If you are qualified to participate in this offering, for administrative convenience, the proceeds from your subscription will be deposited in a segregated escrow account with the escrow agent, LaSalle Bank National Association, 120 South LaSalle Street, Chicago, Illinois, and will be held in trust for your benefit, pending release to us. Your investment will not be commingled with any other funds. Subject to us selling the minimum amount, subscription proceeds are expected to be released to us as subscriptions are accepted. We will accept or reject subscriptions within ten days after we receive them. The name of your soliciting dealer appears on your subscription agreement.
- By executing the subscription agreement and paying the full purchase price for the shares subscribed for, each investor attests that he or she meets the suitability standards as stated in the subscription

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agreement and agrees to be bound by all of its terms.

In addition, if a subscriber elects the deferred commission option, he or she must do so by completing and signing the subscription agreement/signature page of the form of subscription agreement. The soliciting dealer must also complete and sign the subscription agreement/signature page to acknowledge its agreement to the deferred commission option. This is more fully explained under "Plan of Distribution - Deferred Commission Option."

A sale of the shares may not be completed until at least five business days after the subscriber receives the prospectus. Within 10 days, and generally within 24 hours, of our receipt of each completed subscription agreement, we will accept or reject the subscription. If we accept the subscription, we will mail a confirmation within three days. If for any reason we reject the subscription, we will promptly return the check and the subscription agreement, without interest or deduction, within 10 days after we received it.

An approved trustee must process through us and forward to us subscriptions made through individual retirement accounts, Keogh plans and 401(k) plans. In the case of individual retirement accounts, Keogh plans and 401(k) plan stockholders, we will send the confirmation to the trustee.

You have the option of placing a transfer on death, or TOD, designation on your shares purchased in this offering. A TOD designation transfers ownership of the shares to your designated beneficiary upon your death. This designation may only be made by individuals, not entities, who are the sole or joint owners with right of survivorship of the shares. This option, however, is not available to residents of the States of Louisiana, New York, and North Carolina. If you would like to place a transfer on death

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designation on your shares, you must check the TOD box on the subscription agreement and you must complete and return the transfer on death form included as Appendix D to this prospectus in order to effect the designation.

You may elect to have any registered investment advisory fees deducted from your account with us and paid directly to your registered investment advisor by completing and signing a letter of instruction (in the form attached as Appendix E1 to this prospectus). The letter of instruction will authorize us to deduct a specified dollar amount or percentage of distributions paid by us as advisory fees payable to your registered investment advisor on a periodic basis.

The letter of instruction will be irrevocable and we will continue to pay advisory fees payable from your account until such time as you provide us with a notice (in the form attached as Appendix E2 to this prospectus) of your election to terminate deductions from your account for the purposes of such advisory fees.

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SALES LITERATURE

In addition to and apart from this prospectus, we may use certain supplemental sales material in connection with the offering. This material, prepared by our advisor, may consist of a brochure describing the advisor and its affiliates and our objectives. The material may also contain pictures and summary descriptions of properties similar to those we intend to acquire that

our affiliates have previously acquired. This material may also include audiovisual materials and taped presentations highlighting and explaining various features of the offering, properties of prior real estate programs and real estate investments in general; and articles of incorporation and publications concerning real estate. Business reply cards, introductory letters and seminar invitation forms may be sent to the dealer members of the National Association of Securities Dealers designated by Inland Securities Corporation and prospective investors. No person has been authorized to prepare for, or furnish to, a prospective investor any sales literature other than that described herein and "tombstone" newspaper advertisements or solicitations of interest that are limited to identifying the offering and the location of sources of further information.

The use of any sales materials is conditioned upon filing with and, if required, clearance by appropriate regulatory agencies. Such clearance (if provided), however, does not indicate that the regulatory agency allowing the use of the materials has passed on the merits of the offering or the adequacy or accuracy of the materials.

This offering is made only by means of this prospectus. Except as described herein, we have not authorized the use of other supplemental literature or sales material in connection with this offering.

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DISTRIBUTION REINVESTMENT AND SHARE REPURCHASE PROGRAMS

DISTRIBUTION REINVESTMENT PROGRAM

Our distribution reinvestment program provides our stockholders with an opportunity to purchase additional shares of common stock by reinvesting distributions. Stockholders who elect to participate in the distribution reinvestment program will authorize us to use distributions payable to them to purchase additional shares of common stock. A participant will not be able to acquire common stock under the program if the purchase would cause it to exceed the 9.8% ownership limit or would violate any of the other share ownership restrictions imposed by our articles of incorporation.

As further explained below, purchases under the distribution reinvestment program are made at a price, \$9.50 per share at first, equal to 95% of the market price of a share of common stock on the date of purchase until such time as our shares are listed on a national stock exchange or included for quotation on a national market system. This reduced price reflects a decrease in costs associated with these issuances. Participants in the distribution reinvestment program may also purchase fractional shares of common stock, so that 100% of distributions will be used to acquire common stock. Common stock will be purchased under the distribution reinvestment program on the record date for the distribution used to purchase the common stock. Distributions on common stock acquired under the distribution reinvestment program will be paid at the same time as distributions are paid on common stock purchased outside the program and are calculated with a daily record and distribution declaration date. Each participant agrees that if, at any time prior to listing the common stock on a national stock exchange or inclusion of them for quotation on a national market system, he or she fails to meet the suitability requirements for making an investment in us or cannot make the other representations or warranties set forth in the subscription agreement, he or she will promptly notify us in writing.

Beginning with the first distribution paid after the effective date of the

offering, participants will acquire our shares at a fixed price of \$9.50 per share. This will continue until the earlier of (1) the increase of the public offering price per share of common stock in the offering from \$10 per share, if there is an increase, and (2) the termination of the offering. Thereafter, participants may acquire our shares at a price equal to 95% of the market price of a share on the date of purchase until our shares are listed on a national stock exchange or included for quotation on a national market system. In the event of listing or inclusion, we will purchase shares for the distribution reinvestment program on the exchange or market at the prevailing market price. We will then sell the shares to stockholders at that price. The discount from the public offering price per share will not exceed 5% of the market price of a share on the date of purchase. It is possible that a secondary market will develop for the shares, and that the prices on the secondary market will be lower or higher than the price of shares purchased through the distribution reinvestment program. Neither we nor our affiliates will receive a fee for selling shares through the distribution reinvestment program. We do not warrant or guarantee that participants will acquire shares at the lowest possible price through the program.

A participant may stop participating in the distribution reinvestment program at any time without penalty, by delivering written notice to us. Prior to listing the shares on a national securities exchange or including them for quotation on a national market system, any transfer of shares by a participant to a non-participant will terminate participation in the distribution reinvestment program with respect to the transferred shares. Within 90 days after the end of our fiscal year, we will:

- issue certificates showing ownership of shares purchased through the distribution reinvestment program during the prior fiscal year, ownership of these shares will be in book-entry form prior to the issuance of certificates; and

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- provide each participant with an individualized report on his or her investment, including the purchase date(s), purchase price and number of shares owned, as well as the dates of distribution and amount of distributions received during the prior fiscal year.

The individualized statement to participants will include receipts and purchases relating to each participant's participation in the distribution reinvestment program including the tax consequences relative thereto. The directors, including a majority of independent directors, by majority vote may amend or terminate the distribution reinvestment program upon 30 days notice to participants.

Stockholders who participate in the distribution reinvestment program will recognize dividend income, taxable to the extent of our current or accumulated earnings and profits, in the amount and as though they had received the cash rather than purchased shares through the distribution reinvestment program. These deemed dividends will be treated as actual dividends and will retain the character and tax effects applicable to all dividends. In addition, the 5% discount applicable to shares purchased under the dividend reinvestment program will itself be treated as a deemed distribution to the purchaser. Shares received under the distribution reinvestment program will have a holding period, for tax purposes, beginning with the day after purchase, and a tax basis equal to their cost, which is the gross amount of the deemed distribution. See "Federal Income Tax Considerations -- Federal Income Taxation of Stockholders" for a full discussion of the tax effects of dividend distributions.

As explained under "Description of Securities -- Restrictions on Ownership

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and Transfer," the certificates representing shares purchased through the distribution reinvestment program will bear a legend referring to the restrictions on their ownership and transfer.

SHARE REPURCHASE PROGRAM

The share repurchase program may, subject to certain restrictions discussed below, provide eligible stockholders with limited, interim liquidity by enabling them to sell shares back to us. The prices at which shares may be sold back to us are as follows:

- One year from the purchase date, at \$9.25 per share;
- Two years from the purchase date, at \$9.50 per share;
- Three years from the purchase date, at \$9.75 per share; and
- Four years from the purchase date, at the greater of: \$10.00 per share; or a price equal to 10 times our "funds available for distribution" per weighted average share outstanding for the prior calendar year.

During any offering, the repurchase price shall be equal to or below the price of the shares offered in any offering. A stockholder must have beneficially held the shares for at least one year prior to offering them for sale to us through the share repurchase program. However, if a stockholder dies, we may waive this one-year holding period for the beneficiaries or heirs, as appropriate.

We will make repurchases under the share repurchase program, if requested by a stockholder, monthly. Subject to funds being available, we will limit the number of shares repurchased during any calendar year to five percent (5%) of the weighted average number of shares outstanding during the prior calendar year. Funding for the share repurchase program will come exclusively from proceeds we receive from the sale of shares under our distribution reinvestment plan and other operating funds, if any, as the board, at its sole discretion, may reserve for this purpose.

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A stockholder may request that his or her shares be repurchased by submitting a written request, and then generally within one week an assignment form is sent for execution by the stockholder or his custodian/trustee along with a request to return the certificate of ownership.

At the end of each month, the completed requests are reviewed. It is possible that a stockholder may not have his or her entire request honored due to the funds available. If that were to occur, the shares would then be purchased on a "pro rata basis" and the portion of his or her request unfulfilled would then be held until the next month, unless withdrawn.

We accept shares on a pro rata basis. Consequently, a stockholder might not be able to have us repurchase his or her shares. Therefore, that stockholder might not be able to sell or otherwise liquidate his or her shares and might have to hold his or her shares for an indeterminate period of time.

Following commencement of our offering, we will be subject to the reporting requirements of the Securities Exchange Act of 1934. In this regard, we will prepare and file with the SEC annual reports on SEC Form 10-K and quarterly reports on SEC Form 10-Q; we will provide copies of these filings to our stockholders regularly following our filing with the SEC. Additionally, we will

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amend on a quarterly basis the registration statement of which this prospectus is a part; we will distribute to our stockholders the updated prospectus regularly.

Any stockholder who wishes us to repurchase his or her shares must beneficially own the shares for at least one year. Our obligation to repurchase any shares under the program is conditioned upon our having sufficient funds available for repurchase of shares and the other conditions of the plan. The stockholder should direct a written request to Ms. Roberta S. Matlin, Vice President of Administration, Inland Western Retail Real Estate Trust, Inc., 2901 Butterfield Road Oak Brook, Illinois 60523. The request must state the name of the person/entity who owns the shares, the date of purchase of the subject shares and the number of shares to be repurchased. We will forward an assignment form to the owner of record of the subject shares for execution. The requesting stockholder must properly execute and return the form along with the stock certificate for the shares to be repurchased and evidence that no lien or encumbrance is on the shares. Upon receipt of the form, if satisfactory evidence is not provided, we will conduct a Uniform Commercial Code (UCC) search to ensure that no liens are held against the shares at the cost of \$100 to the stockholder, which will be deducted from the proceeds of the repurchase. We use a third party to conduct this UCC search. The repurchase will occur on a prorata basis each month assuming all documentation is complete, including a negative response from a UCC search. If the UCC search determines that a lien exists against the shares, we will charge the requesting stockholder for the UCC search. If we do not have sufficient funds available for repurchase of the entire request or we exceed the share limitation, we will purchase only those shares for which we have sufficient funds available or are below the limitation; and we will place the requesting stockholder's request into the next month until funds become available sufficient to complete the transaction or we do not exceed the limitation.

If a stockholder wishes to withdraw his or her request to have his or her shares repurchased, the stockholder must notify us in writing. We will not repurchase that stockholder's shares so long as we receive the written request to withdraw prior to the date we send payment to the applicable stockholder. The requesting stockholder will be responsible for payment of the \$100 UCC search fee even if that stockholder withdraws his or her request, if we have conducted a UCC search.

There is no limit on the number of shares that an individual stockholder may request to be repurchased, subject to the limitations regarding availability of funds and the aggregate amount of stock that we are permitted to purchase under the program.

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Payment for repurchased shares from the time of the initial request to receipt of the funds is usually three to four weeks dependent upon receipt of the executed assignment form and certificate of ownership, and completion of a UCC search to ensure that no liens are held against the stock or other satisfactory evidence.

The board, at its sole discretion, may choose to terminate the share repurchase program after the end of the offering period, or reduce the number of shares purchased under the program, if it determines that the funds allocated to the share repurchase program are needed for other purposes, such as the acquisition, maintenance or repair of properties, or for use in making a declared distribution. A determination by the board to eliminate or reduce the share repurchase program will require the unanimous affirmative vote of the independent directors.

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We cannot guarantee that the funds set aside for the share repurchase program will be sufficient to accommodate all requests made each year. If no funds are available for the program when repurchase is requested, the stockholder may withdraw the request, or ask that we honor the request when funds are available. Pending requests would be pro rated, depending upon availability of funds.

Stockholders are not required to sell their shares to us. The share repurchase program is only intended to provide interim liquidity for stockholders until a liquidity event occurs, such as the listing of the shares on a national securities exchange, inclusion of the shares for quotation on a national market system, or our merger with a listed company. The share repurchase plan will be terminated if the shares become listed on a national securities exchange or included for quotation on a national market system. We cannot guarantee that a liquidity event will occur.

Shares we purchase under the share repurchase program will be canceled, and will have the status of authorized but unissued shares. Shares we acquire through the share repurchase program will not be reissued unless they are first registered with the Securities and Exchange Commission under the Securities Act of 1933 and under appropriate state securities laws or otherwise issued in compliance with such laws.

If we terminate, reduce or otherwise change the share repurchase program, we will send a letter to stockholders informing them of the change at least 30 days in advance, and we will disclose the changes in quarterly reports filed with the Securities and Exchange Commission on Form 10-Q.

See "Plan of Distribution -- Deferred Commission Option" for an explanation of what will be required of the stockholder if the stockholder has elected the deferred commission option and subsequently elects to participate in our share repurchase program while there is an unpaid portion of the remaining deferred commission obligation.

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REPORTS TO STOCKHOLDERS

Our advisor will keep, or cause to be kept, full and true books of account on an accrual basis of accounting, in accordance with generally accepted accounting principles. All of these books of account, together with a copy of our articles of incorporation, will at all times be maintained at our principal office, and will be open to inspection, examination and duplication at reasonable times by the stockholders or their agents.

The advisor will submit to each stockholder our audited annual reports within 120 days following the close of each fiscal year. The annual reports will contain the following:

- audited financial statements;
- the ratio of the costs of raising capital during the period to the capital raised;
- the aggregate amount of advisory fees and the aggregate amount of fees paid to the advisor and any affiliate of the advisor, including fees or charges paid to the advisor and to any affiliate of the advisor by third parties doing business with us;

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- our total operating expenses, stated as a percentage of the average assets and as a percentage of net income;
- a report from the independent directors that the policies we follow 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, the directors, the advisor and any of their affiliates occurring in the year for which the annual report is made. Independent directors are specifically charged with the duty to examine and comment in the report on the fairness of such transactions.

In addition, unaudited quarterly reports containing the information required by Form 10-Q will be submitted to each stockholder within 60 days after the end of the first three fiscal quarters.

At the same time as any distribution, we will provide stockholders with a statement disclosing the source of the funds distributed. If the information is not available when the distribution is made, we will provide a statement setting forth the reasons why the information is not available. In no event will the information be provided to stockholders more than 60 days after we make the distribution.

Within 60 days following the end of any calendar quarter during the period of the offering in which we have closed an acquisition of a property, we will submit a report to each stockholder containing:

- the location and a description of the general character of the property acquired during the quarter;
- the present or proposed use of the property and its suitability and adequacy for that use;
- the terms of any material leases affecting the property;
- the proposed method of financing, if any, including estimated down payment, leverage ratio, prepaid interest, balloon payment(s), prepayment penalties, "due-on-sale" or

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encumbrance clauses and possible adverse effects thereof and similar details of the proposed financing plan; and

- a statement that title insurance has been or will be obtained on the property acquired.
- In addition, we will send a report to each stockholder and submit to prospective investors when the advisor believes a property will probably be acquired:
 - on specified terms, i.e., upon completion of due diligence which includes review of the title insurance commitment, appraisal and environmental analysis; and
 - involving the use of 10% or more, on a cumulative basis, of the net proceeds of the offering.

After the completion of the last acquisition, the advisor will, upon

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request, send a schedule to the Commissioner of Corporations of the State of California. The schedule, verified under the penalty of perjury, reflects: each acquisition made; the purchase price paid; the aggregate of all acquisition expenses paid on each transaction; and a computation showing compliance with our articles of incorporation. We will, upon request, submit to the Commissioner of Corporations of the State of California or to any of the various state securities administrators, any report or statement required to be distributed to stockholders pursuant to our articles of incorporation or any applicable law or regulation.

The accountants we regularly retain will prepare our federal tax return and any applicable state income tax returns. We will submit appropriate tax information to the stockholders within 30 days following the end of each of our fiscal years. We will not provide a specific reconciliation between generally accepted accounting principles and income tax information to the stockholders. However, the reconciling information will be available in our office for inspection and review by any interested stockholder. Annually, at the same time as the dissemination of appropriate tax information to stockholders, we will provide each stockholder with an individualized report on his or her investment, including the purchase date(s), purchase price and number of shares owned, as well as the dates of distribution and amounts of distributions received during the prior fiscal year. The individualized statement to stockholders will include any purchases of shares under the distribution reinvestment program. Stockholders requiring individualized reports on a more frequent basis may request these reports. We will make every reasonable effort to supply more frequent reports, as requested, but we may, at our sole discretion, require payment of an administrative charge either directly by the stockholder, or through pre-authorized deductions from distributions payable to the stockholder making the request.

See "Risk Factors -- Employee Benefit Plan Risks" for an explanation of the annual statement of value we provide to stockholders subject to ERISA.

PRIVACY POLICY NOTICE

To help you understand how we protect your personal information, we have included our Privacy Policy Notice as Appendix F to this Prospectus. This Notice describes our current privacy policy and practices. Should you decide to establish or continue a shareholder relationship with us, we will advise you of our policy and practices at least once annually, as required by law.

LITIGATION

We are not subject to any material pending legal proceedings.

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RELATIONSHIPS AND RELATED TRANSACTIONS

We have entered into agreements to pay our advisor and its affiliates certain fees or other compensation for providing services to us.

The compensation arrangements between us and our advisor, The Inland Group and its affiliates, were not determined by arm's-length negotiations. See "Conflicts of Interest." The following table discloses the compensation which we may pay our advisor and its affiliates. In those instances in which there are maximum amounts or ceilings on the compensation which may be received, our advisor and its affiliates may not recover any excess amounts for those services by reclassifying them under a different compensation or fee category.

We define net income as total revenues less expenses other than additions

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to reserves for depreciation or bad debts or other similar non-cash reserves. When we use the term "net income" for purposes of calculating some expenses and fees, it excludes the gain from the sale of our assets. This definition of net income is prescribed by the Statement of Policy Regarding REITs adopted by the North American Securities Administrators Association, Inc., or NASAA; but it is not in accordance with generally accepted accounting principles in the United States, because depreciation and other non-cash reserves are not deducted in determining net income under the NASAA REIT Statement. Excluding depreciation will result in not reimbursing our Advisor for a non-cash expenditure and not excluding the gain from the sale of our assets could result in greater net income on which the 25% reimbursement to our Advisor is allowed.

NONSUBORDINATED PAYMENTS

The following aggregate amounts of compensation, allowances and fees we may pay to our advisor and its affiliates are not subordinated to the returns on net investments that we are required to pay to our stockholders.

| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION |
|---|---|
| Selling commissions payable to the managing dealer and dealers designated by the managing dealer referred to as soliciting dealers. Neither the managing dealer, the soliciting dealers, nor our officers or directors will be offered to purchase shares of our stock in order to meet the minimum thresholds. | <p style="text-align: center;">OFFERING STAGE</p> <p>We will pay a selling commission of 7.5% of the sale price for each share (and reallow 7%), subject to reduction for special sales under the circumstances as described in the "Plan of Distribution - Compensation - We Will Pay For the Sale of Our Shares."</p> <p>We will permit the managing dealer and its respective officers and employees and certain of its affiliates to purchase shares net of sales commissions and the marketing contribution and due diligence expense allowance or for \$8.95 per share.</p> <p>Also, soliciting dealers and their respective officers and employees and certain of their respective affiliates who request and are entitled to purchase shares net of selling commissions may make an initial purchase of shares net of sales commissions or for \$9.30 per share; however, any subsequent purchases of shares by any such persons are limited to a maximum discount of 5%.</p> |

| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION |
|--|---|
| Marketing contribution and due diligence expense allowance paid to the managing dealer | We will pay an amount equal to 2.5% of the gross offering proceeds to the managing dealer, all or a portion of which may be passed on to soliciting |

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and soliciting dealers.

dealers, in lieu of reimbursement of specific expenses associated with marketing. We may pay an additional 0.5% of the gross offering proceeds to the managing dealer, which may be passed on to the soliciting dealers, for due diligence expenses. We will not pay the marketing contribution and due diligence expense allowance in connection with any special sales, except those receiving volume discounts and those described in "Plan of Distribution - Volume Discounts."

Other expenses of issuance and distribution

We expect to incur the following expenses in connection with this offering:

| | |
|---|--------------|
| Securities and Exchange | |
| Commission registration fee | \$ 217,621 |
| NASD filing fee | \$ 30,500 |
| Printing and mailing expenses | \$ 3,500,000 |
| Blue Sky fees and expenses | \$ 136,000 |
| Legal fees and expenses | \$ 650,000 |
| Accounting fees and expenses | \$ 650,000 |
| Advertising and sales literature | \$ 5,000,000 |
| Due diligence | \$ 3,000,000 |
| Data Processing fees | \$ 500,000 |
| Bank fees and other administrative expenses | \$ 200,000 |

We will reimburse our sponsor for actual costs incurred in connection with the offering on our behalf. However, if the aggregate of all offering expenses, including selling commissions, the marketing contribution and due diligence expense allowance, exceeds 15% of the gross offering proceeds, or if the aggregate of all offering expenses, excluding the selling expenses, exceeds 5.5% of the gross offering proceeds, our advisor or its affiliates will promptly pay the excess and we will have no liability for these expenses at any time afterward.

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TYPE OF COMPENSATION AND RECIPIENT

METHOD OF COMPENSATION

Acquisition expenses paid to our advisor and its affiliates.

ACQUISITION STAGE

We will pay an amount, estimated to be up to 0.5% of the total of (1) the gross offering proceeds from the sale of 250,000,000 shares, (2) the gross proceeds from the sale of up to 20,000,000 shares pursuant to the distribution reinvestment programs. The acquisition expenses for any particular property will not exceed 6% of the gross purchase price of the property.

However, if we request additional services, the compensation will be provided on separate agreed-upon terms and the rate will be approved by a majority of disinterested directors, including a majority of the disinterested independent directors, as fair and reasonable for us.

Interest expenses paid to our advisor and its affiliates and Inland Mortgage Corporation in connection with loans.

We may borrow money from our advisor and its affiliates in order to acquire properties. In such instances, we will pay our advisor and its affiliates customary interest payments.

TYPE OF COMPENSATION AND RECIPIENT

METHOD OF COMPENSATION

Property management fee paid to our property manager, Inland Western Management Corp. We will pay the fee for services in connection with the rental, leasing, operation and management of the properties.

OPERATIONAL STAGE

We will pay a monthly fee of 4.5% of the gross income from the properties. We will also pay a monthly fee for any extra services equal to no more than 90% of that which would be payable to an unrelated party providing the services. The property manager may subcontract its and/or our property manager, duties for a fee that may be less than the property management fees the fee provided for in the management will cease. services agreements.

Advisor asset management fee. We will pay the fee for services in connection with our day-to-day operations, including making strategic decisions, performing day-to-day operations that include accounting,

We will pay our advisor an asset management fee after our stockholders have first received a 6% annual return.

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investment advisory services, risk management services and tax reduction services and providing other services as our board deems appropriate.

TYPE OF COMPENSATION AND RECIPIENT

METHOD OF COMPENSATION

OPERATIONAL STAGE

Reimbursable expenses to our advisor. These may include costs of goods and services, administrative services and non-supervisory services performed directly for us by independent parties.

We will reimburse some expenses of the advisor. The compensation and reimbursements to our advisor will be approved by a majority of our directors and a majority of our independent directors as fair and reasonable for us.

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We will reimburse some expenses of the Inland Risk and Insurance Management Services for insurance coverage.

Inland Risk and Insurance Management Services charges us \$50 per hour for assistance in obtaining insurance coverage. Any commissions they receive are credited against this hourly rate. We believe this hourly rate is approximately 90% of the rate charged by unaffiliated third parties. The compensation to this company will be approved by a majority of our directors and a majority of our independent directors as fair and reasonable for us.

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We will compensate the Inland Mortgage Servicing Corporation and Inland Mortgage Investment Corporation for purchase, sale and servicing of mortgages.

Inland Mortgage Servicing Corporation charges us .03% per year on the first billion dollars of mortgages serviced and .01% thereafter. Inland Mortgage Investment Corporation charges us .02% of the principal amount of each loan placed. The compensation to these companies will be approved by a majority of our directors and a majority of our independent directors as fair and reasonable for us.

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TYPE OF COMPENSATION AND RECIPIENT

METHOD OF COMPENSATION

LIQUIDATION STAGE

Property disposition fee payable to our advisor's affiliates, Inland Real Estate Sales, Inc. and Inland Partnership Property Sales Corp.

We may pay a property disposition fee to our advisor and its affiliates if we sell any of our real property in an amount equal to the lesser of:
3. 3% of the contract sales price of the property;
or

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TYPE OF COMPENSATION AND RECIPIENT

METHOD OF COMPENSATION

LIQUIDATION STAGE

4. 50% of the customary commission which would be paid to a third party broker for the sale of a comparable property.

The amount paid, when added to the sums paid to unaffiliated parties, will not exceed either the customary commission or an amount equal to 6% of the contracted for sales price. Payment of such fees will be made only if the advisor provides a substantial service in connection with the sale of the property. See "Management -- Our Advisory Agreement."

SUBORDINATED PAYMENTS

We may pay the following additional fees to our advisor after returns on net investment have been paid to the stockholders:

TYPE OF COMPENSATION AND RECIPIENT

METHOD OF COMPENSATION

OPERATIONAL STAGE

Advisor asset management fee payable to our advisor.

We pay an annual advisor asset management fee of not more than 1% of our average assets. Our average assets means the average of the total book value of our real estate assets plus the total value of our loans receivables secured by real estate, before reserves for depreciation or bad debts or other similar non-cash reserves. We will compute our average assets by taking the average of these values at the end of each month during the quarter for which we are calculating the fee. The fee is payable quarterly in an amount equal to 1/4 of 1% of average assets as of the last day of the immediately preceding quarter. For any year in which we qualify as a REIT, our advisor must reimburse us for the following amounts if any:

- (3) the amounts by which our total operating expenses, the sum of the advisor asset management fee plus other operating expenses, paid during the previous fiscal year exceed the greater of:
 - 2% of our average assets for that fiscal year, or

- 25% of our net income for that fiscal year.
- (4) an amount, which will not exceed the advisor asset management fee for that year, equal to any difference between the

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total amount of distributions to stockholders for that year and the 6% annual return on the net investment of stockholders.

Items such as organization and offering expenses, property expenses, interest payments, taxes, non-cash expenditures, the incentive advisory fee and acquisition expenses are excluded from the definition of total operating expenses.

See "Management -- Our Advisory Agreement" for an explanation of circumstances where the excess amount specified in clause (1) may not need to be reimbursed.

| TYPE OF COMPENSATION AND RECIPIENT | METHOD OF COMPENSATION |
|--|--|
| Incentive advisory fee payable to our advisor. | <p style="text-align: center;">LIQUIDATION STAGE</p> <p>We will pay to the advisor an amount equal to 15% of the net proceeds from the sale of a property after the stockholders have first received:</p> <ul style="list-style-type: none"> (1) a cumulative non-compounded return equal to 10% a year on their net investment; and (2) their net investment. |

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LEGAL MATTERS

Duane Morris LLP, Washington, D.C., has passed upon the legality of the common stock and Duane Morris LLP, Philadelphia, Pennsylvania, has passed upon legal matters in connection with our status as a REIT for federal income tax purposes. Duane Morris LLP is generally referred to in this prospectus as Duane Morris. Duane Morris does not purport to represent our stockholders or potential investors, who should consult their own counsel. Duane Morris also provides legal services to affiliates of our advisor.

Duane Morris has reviewed the statements in the section in the prospectus titled "Federal Income Tax Considerations" and elsewhere as they relate to

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federal income tax matters and the statements in the section in the prospectus titled "ERISA Considerations."

EXPERTS

The balance sheet of Inland Western Retail Real Estate Trust, Inc. as of June 30, 2003, and the historical summary of gross income and direct operating expenses of Peoria Station for the year ended December 31, 2002, have been included herein in reliance upon the reports of KPMG LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are filing this registration statement on Form S-11 with the Securities and Exchange Commission in connection with our initial public offering. We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission.

This prospectus is part of the registration statement and does not contain all of the information included in the registration statement and all of its exhibits, certificates and schedules. Whenever a reference is made in this prospectus to any contract or other document of ours, the reference may not be complete and you should refer to the exhibits that are a part of the registration statement for a copy of the contract or document.

You can read our registration statement and our future SEC filings over the Internet at www.sec.gov. You may also read and copy any document we file with the SEC at its Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549.

You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1 800 SEC-0330 or e-mail at publicinfo@sec.gov for further information on the operation of the public reference facilities.

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INDEX TO FINANCIAL STATEMENTS

AND

FINANCIAL STATEMENTS

1. INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.:
 - (a) Independent Auditors' Report F-1
 - (b) Balance Sheet at June 30, 2003 F-2
 - (c) Notes to Balance Sheet at June 30, 2003 F-3
2. PEORIA STATION:
 - (a) Independent Auditors' Report F-8
 - (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2002 and six months ended June 30, 2003

(unaudited)

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- (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2002 and six months ended June 30, 2003 (unaudited)

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Independent Auditors' Report

Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying balance sheet of Inland Western Retail Real Estate Trust, Inc. (the "Company") as of June 30, 2003. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit of a balance sheet includes examining, on a test basis, evidence supporting the amounts and disclosures in that balance sheet. An audit of a balance sheet also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Inland Western Retail Real Estate Trust, Inc. as of June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois
August 15, 2003

F-1

Inland Western Retail Real Estate Trust, Inc.
(A Maryland Corporation)

BALANCE SHEET
June 30, 2003

ASSETS

| | |
|-------------------------|------------|
| Cash | \$ 200,000 |
| Deferred offering costs | 684,411 |
| | ----- |
| Total assets | \$ 884,411 |
| | ===== |

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LIABILITIES AND STOCKHOLDER'S EQUITY

| | |
|---|------------|
| Liabilities: | |
| Accrued offering expenses | \$ 691,911 |
| Commitments and contingencies (Note 3) | |
| Stockholder's equity: | |
| Preferred stock, \$.001 par value, 10,000,000 shares authorized, none outstanding | - |
| Common stock, \$.001 par value, 350,000,000 shares authorized, 20,000 shares issued and outstanding | 20 |
| Additional paid in capital | 202,230 |
| Retained earnings deficit | (9,750) |
| | ----- |
| Total stockholders' equity | 192,500 |
| | ----- |
| Total liabilities and stockholders' equity | \$ 884,411 |
| | ===== |

See accompanying notes to balance sheet.

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Inland Western Retail Real Estate Trust, Inc.
(A Maryland Corporation)

NOTES TO BALANCE SHEET

June 30, 2003

(1) Organization

Inland Western Retail Real Estate Trust, Inc. (the "Company") was formed on March 5, 2003 to acquire and manage a diversified portfolio of real estate, primarily multi-tenant shopping centers and has not commenced operations. The Advisory Agreement (the "Agreement") provides for Inland Western Retail Real Estate Advisory Services, Inc. (the "Advisor"), an Affiliate of the Company, to be the Advisor to the Company. The Company contemplates the sale of up to 250,000,000 shares of common stock ("Shares") at \$10 each in an initial public offering (the "Offering") to be registered with the Securities and Exchange Commission (the "Registration Statement") and the issuance of 20,000,000 shares at \$9.50 each which may be distributed pursuant to the Company's distribution reinvestment program. No shares will be sold unless subscriptions for at least 200,000 shares (the minimum offering) have been obtained within one year after commencement of the Offering.

The Company intends to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended, for federal income tax purposes commencing with the tax year ending December 31, 2003. If the Company qualifies for taxation as a REIT, the Company generally will not be subject to federal income tax to the extent it distributes its REIT taxable income to its stockholders. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax on its taxable income at regular corporate tax rates. Even if the Company qualifies for taxation as a REIT, the

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Company may be subject to certain state and local taxes on its income and property and federal income and excise taxes on its undistributed income.

The Company will provide the following programs to facilitate investment in the Company's shares and to provide limited liquidity for stockholders.

The Company will allow stockholders who purchase shares in the offering to purchase additional shares from the Company by automatically reinvesting distributions through the distribution reinvestment program ("DRP"), subject to certain share ownership restrictions. Such purchases under the DRP will not be subject to selling commissions or the marketing contribution and due diligence expense allowance, and are made at a price of \$9.50 per share.

The Company will repurchase shares under the share repurchase program ("SRP"), if requested, monthly on a first-come, first-served basis, subject to certain restrictions. Subject to funds being available, the Company will limit the number of shares repurchased during any calendar year to 5% of the weighted average number of shares outstanding during the prior calendar year. Funding for the SRP will come exclusively from proceeds that the Company receives from the sale of shares under the DRP and such other operating funds, if any, as the Company's Board of Directors, at its sole discretion, may reserve for this purpose. The board, at its sole discretion, may choose to terminate the share repurchase program after the end of the offering period, or reduce the number of shares purchased under the program, if it determines that the funds allocated to the share repurchase program are needed for other purposes, such as the acquisition, maintenance or repair of properties, or for use in making a declared distribution. A determination by the board to eliminate or reduce the share repurchase program will require the unanimous affirmative vote of the independent directors.

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Inland Western Retail Real Estate Trust, Inc.
(A Maryland Corporation)

NOTES TO BALANCE SHEET
(continued)

June 30, 2003

(2) Summary of Significant Accounting Policies

The preparation of a balance sheet requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the balance sheet. Actual results could differ from those estimates.

Costs associated with the offering are deferred and charged against the gross proceeds of the offering upon closing. Formation and organizational costs are expensed as incurred. As of June 30, 2003, \$7,500 of organizational costs were expensed.

The Company applies the fair value method of accounting as prescribed by SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION for its stock options granted. Under this method, the Company will report the value of granted options as a charge against earnings ratably over the vesting period.

(3) Transactions with Affiliates

The Advisor contributed \$200,000 to the capital of the Company for which it received 20,000 shares of common stock.

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As of June 30, 2003, the Company had incurred \$691,911 of offering and organization costs, all of which was advanced by the Advisor. Pursuant to the terms of the offering, the Advisor has guaranteed payment of all public offering expenses (excluding sales commissions and the marketing contribution and the due diligence expense allowance) in excess of 5.5% of the gross proceeds of the offering or all organization and offering expenses (including selling commissions) which together exceed 15% of gross proceeds. In the event that the minimum offering is not successful, an Affiliate of the Advisor will bear the related costs of the Offering.

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Inland Western Retail Real Estate Trust, Inc.
(A Maryland Corporation)

NOTES TO BALANCE SHEET (continued)

June 30, 2003

Certain compensation and fees payable to the Advisor for services to be provided to the Company are limited to maximum amounts.

Nonsubordinated payments:

Offering stage:

| | |
|--|--|
| Selling commissions | 7.5% of the sale price for each share |
| Marketing contribution and due diligence allowance | 3.0% of the gross offering proceeds |
| Reimbursable expenses and other expenses of issuance | We will reimburse our sponsor for actual costs incurred, on our behalf, in connection with the offering. |

Acquisition stage:

| | |
|----------------------|---|
| Acquisition expenses | We will reimburse an affiliate of our Advisor for costs incurred, on our behalf, in connection with the acquisition of properties |
|----------------------|---|

Operational stage:

| | |
|--|--|
| Property management fee THIS FEE TERMINATES UPON A BUSINESS COMBINATION WITH THE PROPERTY MANAGEMENT COMPANY. | 4.5% of the gross income from the properties. (cannot exceed 90% of the fee which would be payable to an unrelated third party) |
| Loan servicing fee | .08% of the total principal amount of the loans being serviced for each full year, up to the first \$100 million and a lesser percentage on a sliding scale thereafter |
| Reimbursable expenses relating to administrative services | The compensation and reimbursements to our advisor and its affiliates will be approved by a majority of our |

directors.

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Inland Western Retail Real Estate Trust, Inc.
(A Maryland Corporation)

NOTES TO BALANCE SHEET
(continued)

June 30, 2003

Liquidation stage:

| | |
|--------------------------|---------------------------------------|
| Property disposition fee | Lesser of 3% of sales price or 50% of |
| THIS FEE TERMINATES UPON | customary the commission which would |
| A BUSINESS COMBINATION | be paid to a third party |
| WITH THE ADVISOR | |

Subordinated payments:

Operational stage:

| | |
|------------------------------|--|
| Advisor asset management fee | Not more than 1% per annum of our |
| THIS FEE TERMINATES UPON A | average assets; Subordinated to a |
| BUSINESS COMBINATION WITH | non-cumulative, non-compounded return, |
| THE ADVISOR | equal to 6% per annum |

Liquidation stage:

| | |
|----------------------------|---------------------------------------|
| Incentive advisory fee | After the stockholders have first |
| THIS FEE TERMINATES UPON A | received a 10% cumulative, |
| BUSINESS COMBINATION WITH | non-compounded return and a return on |
| THE ADVISOR | their net investment, an incentive |
| | advisory fee equal to 15% on net |
| | proceeds from the sale of a property |
| | will be paid to the Advisor. |

(3) Commitments

The Company has adopted an Independent Director Stock Option Plan which, subject to certain conditions, provides for the grant to each Independent Director of an option to acquire 3,000 shares following their becoming a Director and for the grant of additional options to acquire 500 shares on the date of each annual stockholders' meeting. The options for the initial 3,000 shares are exercisable as follows: 1,000 shares on the date of grant and 1,000 shares on each of the first and second anniversaries of the date of grant. The subsequent options will be exercisable on the second anniversary of the date of grant. The initial options will be exercisable at \$8.95 per share. The subsequent options will be exercisable at the fair market value of a share on the last business day preceding the annual meeting of stockholders. As of June 30, 2003, we have issued 3,000 options to acquire shares to each of our Independent Directors, for a total of 9,000 options, of which none have been exercised or expired.

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Inland Western Retail Real Estate Trust, Inc.
(A Maryland Corporation)

NOTES TO BALANCE SHEET

(continued)

June 30, 2003

The per share weighted average fair value of options granted was \$0.60 on the date of the grant using the Black Scholes option-pricing model with the following assumptions: expected dividend yield of 8%, risk free interest rate of 2.0%, expected life of five years and expected volatility rate of 18.0%. The Company has recorded \$2,250 as expense for the 3,000 options (1,000 options per director) vesting upon the date of grant and will record the remaining \$3,150 in expense ratably over the two-year vesting period.

The Company anticipates that the aggregate borrowings related to all of the Company's properties will be limited to certain maximum amounts. See "Investment Objectives and Policies" elsewhere in this Prospectus for a description of such maximum borrowing amounts.

The Company has rights to purchase an investment property currently being redeveloped, known as Peoria Station, from an unaffiliated third party for approximately \$25,867,000. This amount may be adjusted based on actual rental rates achieved on the redeveloped square feet. The Company expects to purchase this property by November 1, 2003, however, the seller may extend the closing date if minimum rental rates stated in the contract have not yet been achieved.

(4) New Accounting Pronouncement

On May 15, 2003, the Financial Accounting Standards Board issued Statement No. 150, ACCOUNTING FOR CERTAIN FINANCIAL INSTRUMENTS WITH CHARACTERISTICS OF BOTH LIABILITIES AND EQUITY. The Statement requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding financial instruments that embody obligations for the issuer.

Generally, the Statement is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the provisions of the Statement on July 1, 2003.

The Company did not enter into any financial instruments within the scope of the Statement during June 2003. To the extent stockholders request shares to be repurchased by the Company under the Share Repurchase Program, the Company's obligation to repurchase such shares will be classified as a liability at the redemption amount at the date documentation is complete and accepted by the Company in accordance with the plan documents.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Inland Western Retail Real Estate Trust, Inc.

We have audited the accompanying Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") of Peoria Station ("the Property") for the year ended December 31, 2002. This Historical Summary is the responsibility of the management of Inland Western Retail Real Estate Trust, Inc. Our responsibility is to express an opinion on the Historical Summary based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and

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perform the audit to obtain reasonable assurance about whether the Historical Summary is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Historical Summary. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Historical Summary. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Historical Summary was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and for inclusion in the Registration Statement on Form S-11 of Inland Western Retail Real Estate Trust, Inc., as described in note 2. The presentation is not intended to be a complete presentation of the Property's revenues and expenses.

In our opinion, the Historical Summary referred to above presents fairly, in all material respects, the gross income and direct operating expenses described in note 2 of Peoria Station for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois

March 10, 2003

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PEORIA STATION

Historical Summary of Gross Income and Direct Operating Expenses

For the year ended December 31, 2002

and the six months ended June 30, 2003 (unaudited)

| | December 31, 2002 | June 30, 2003 (unaudited) |
|---|----------------------|------------------------------|
| | ----- | ----- |
| Gross income: | | |
| Base rental income | \$ 1,524,218 | 779,009 |
| Operating expense and real estate tax recoveries | 479,053 | 229,566 |
| | ----- | ----- |
| Total gross income | 2,003,271 | 1,008,575 |
| | ----- | ----- |
| Direct operating expenses: | | |
| Operating expenses | 130,419 | 59,264 |
| Real estate taxes | 322,362 | 155,379 |
| Insurance | 26,179 | 14,923 |
| | ----- | ----- |
| Total direct operating expenses | 478,960 | 229,566 |
| | ----- | ----- |
| Excess of gross income over direct operating expenses | \$ 1,524,310 | 779,009 |
| | ===== | ===== |

See accompanying notes to historical summary of gross income and direct operating expense.

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PEORIA STATION

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2002
and the six months ended June 30, 2003 (unaudited)

(1) Business

Peoria Station (the "Property") is located in Phoenix, Arizona. The Property consists of 140,019 square feet of gross leasable area and was 100% occupied at December 31, 2002. Three tenants account for 66% of base rental revenue. Inland Real Estate Acquisitions, Inc., on behalf of Inland Western Retail Real Estate Trust, Inc. ("IWRRETI"), has signed a purchase and sale agreement for the purchase of the Property from an unaffiliated third-party ("Seller").

(2) Basis of Presentation and Combination

The Historical Summary of Gross Income and Direct Operating Expenses ("Historical Summary") has been prepared for the purpose of complying with Rule 3-14 of the Securities and Exchange Commission Regulation S-X and for inclusion in the Registration Statement on Form S-11 of IWRRETI and is not intended to be a complete presentation of the Property's revenues and expenses. The Historical Summary has been prepared on the accrual basis of accounting and requires management of the Property to make estimates and assumptions that affect the reported amounts of the revenues and expenses during the reporting period. Actual results may differ from those estimates.

All adjustments necessary for a fair presentation have been made to the accompanying unaudited amounts for the six months ended June 30, 2003.

(3) Gross Income

The Property leases retail space under various lease agreements with its tenants. All leases are accounted for as operating leases. The leases include provisions under which the Property is reimbursed for common area, real estate, and insurance costs. Revenue related to these reimbursed costs is recognized in the period the applicable costs are incurred and billed tenants pursuant to the lease agreements. Certain leases contain renewal options at various periods at various rental rates. None of the existing leases include any contingent rentals.

Although certain leases may provide for tenant occupancy during periods for which no rent is due and/or increases exist in minimum lease payments over the term of the lease, rental income accrues for the full period of occupancy on a straight-line basis. Related adjustments increased base rental income by \$335,653 for the year ended December 31, 2002.

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PEORIA STATION

Notes to Historical Summary of Gross Income and Direct Operating Expenses
For the year ended December 31, 2002
and the six months ended June 30, 2003 (unaudited)

Minimum rents to be received from tenants under operating leases, which terms range from three to thirty-one years, in effect at December 31, 2002, are as follows:

| Year | Total |
|------------|---------------|
| ----- | ----- |
| 2003 | \$ 1,563,237 |
| 2004 | 1,765,821 |
| 2005 | 1,611,422 |
| 2006 | 1,513,498 |
| 2007 | 1,331,269 |
| Thereafter | 14,420,530 |
| ----- | ----- |
| Total | \$ 22,205,777 |
| | ===== |

(4) Direct Operating Expenses

Direct operating expenses include only those costs expected to be comparable to the proposed future operations of the Property. Repairs and maintenance expenses are charged to operations as incurred. Costs such as depreciation, amortization, management fees, interest expense related to mortgage debt not assumed, and professional fees are excluded from the Historical Summary.

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APPENDIX A

PRIOR PERFORMANCE TABLES

The following prior performance tables contain information concerning real estate programs sponsored by affiliates of our advisor which have investment objectives similar to ours. This information has been summarized in narrative form under "Prior Performance of Our Affiliates" in the prospectus. The tables provide information on the performance of a number of programs. You can use the information to evaluate the experience of our advisor's affiliates as sponsors of the programs. The inclusion of these tables does not imply that we will make investments comparable to those reflected in the tables or that investors in our shares will experience returns comparable to those experienced in the programs referred to in these tables. If you purchase our shares, you will not acquire any ownership in any of the programs to which these tables relate. The tables consist of:

| | |
|-----------|---|
| Table I | Experience in Raising and Investing Funds (unaudited) |
| Table II | Compensation to IREIC and Affiliates (unaudited) |
| Table III | Operating Results of Prior Programs (unaudited) |
| Table IV | Results of Completed Programs (unaudited) |
| Table V | Sales or Disposals of Properties (unaudited) |
| Table VI | Acquisition of Properties by Programs* (unaudited) |

* Our prospective investors may obtain copies of Table VI by contacting Inland Western Retail Real Estate Advisory Services, Inc., our advisor.

Table VI is included in Part II of the Registration Statement filed with the Securities and Exchange Commission of which this Prospectus is a part. Upon

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written request to us or our advisor, any prospective investor may obtain, without charge, a copy of Table VI. See also "Where You Can Find More Information" for information on examining at, or obtaining copies from, offices of the SEC.

Upon written request, any potential investor may obtain, without charge, the most recent annual report on Form 10-K filed with the SEC by any public program sponsored by any of the Inland's affiliated companies which has reported to the SEC within the last 24 months. For a reasonable fee, the affiliated companies will provide copies of any exhibits to such annual reports upon request.

Our investment objectives are to: (i) provide regular distributions to stockholders in amounts which may exceed our taxable income due to the non-cash nature of depreciation expense and, to such extent, will constitute a tax-deferred return of capital, but in no event less than 90% of our taxable income, pursuant to the REIT requirements; (ii) provide a hedge against inflation by entering into leases which contain clauses for scheduled rent escalations or participation in the growth of tenant sales, permitting us to increase distributions and provide capital appreciation; and (iii) preserve stockholders' capital.

The following programs have investment objectives similar to ours and are included in the tables. Inland Retail Real Estate Trust, Inc. and Inland Real Estate Corporation are two REITs formed primarily to invest in multi-tenant shopping centers, Inland's Monthly Income Fund, L.P. and Inland Monthly Income Fund II, L.P. are public real estate limited partnerships formed primarily to acquire, operate and sell existing residential and commercial real properties. Inland Mortgage Investors Fund, L.P., Inland Mortgage Investors Fund-II, L.P. and Inland Mortgage Investors Fund III, L.P. were public real estate limited partnerships formed primarily to make or acquire loans secured by mortgages on improved, income producing multifamily residential properties.

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TABLE I

EXPERIENCE IN RAISING AND INVESTING FUNDS

Table I is intended to present information on a dollar and percentage basis showing the experience of Inland Real Estate Investment Corporation ("IREIC"), of which the Advisor is a wholly owned subsidiary, in raising and investing funds in prior programs where the offering closed in the three years prior to December 31, 2002. The table is intended to focus on the dollar amount available for investment in properties expressed as a percentage of total dollars raised. However, since no offering closed in the three years prior to December 31, 2002, Table I is not included.

TABLE II

COMPENSATION TO IREIC AND AFFILIATES (A)

Table II summarizes the amount and type of compensation paid to Inland Real Estate Investment Corporation and its affiliates during the three years ended December 31, 2002 in connection with the prior programs.

Some partnerships acquired their properties from affiliates of our Advisor which had purchased such properties from unaffiliated third parties.

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TABLE II

COMPENSATION TO IREIC AND AFFILIATES (A)
(000'S OMITTED)

| | Inland Retail Real Estate Trust, Inc. | Inland Real Estate Corporation |
|--|---|--------------------------------------|
| Date offering commenced | 02/11/99 | 10/14/94 |
| Dollar amount raised | \$ 1,217,656 | 673,860 |
| ===== | | |
| Total amounts paid to general partner or affiliates from proceeds of offerings: | | |
| Selling commissions and underwriting fees | 105,809 (C) | 49,869 (C) |
| Other offering expenses (D) | 5,786 | 2,350 |
| Acquisition cost and expense | 844 | 925 |
| ===== | | |
| Dollar amount of cash available from operations before deducting payments to general partner or affiliates (F) | 78,357 | 201,947 |
| ===== | | |
| Amounts paid to general partner or affiliates related to operations: (J) | | |
| Property management fees (G) | 7,403 | 3,045 |
| Advisor asset management fee | 5,413 | 2,414 |
| Accounting services | 578 | 77 |
| Data processing service | 229 | 43 |
| Legal services | 94 | 54 |
| Mortgage servicing fees | 253 | 50 |
| Mortgage interest expense | 0 | 27 |
| Acquisition costs expensed | 33 | 138 |
| Other administrative services | 849 | 138 |
| Property upgrades | 0 | 0 |
| Dollar amount of property sales and refinancings before payments to general partner and affiliates (H): | | |
| Cash | 0 | 1,314 |
| Notes | 0 | 0 |
| Dollar amounts paid or payable to general partner or affiliates from sales and refinancings (I): | | |
| Sales commissions | 0 | 0 |
| Participation in cash distributions | 0 | 0 |

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TABLE II

COMPENSATION TO IREIC AND AFFILIATES (A)

NOTES TO TABLE II

(A) The figures in this Table II relating to proceeds of the offerings are cumulative and are as of December 31, 2002 and the figures relating to cash

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available from operations are for the three years ending December 31, 2002. The dollar amount raised represents the cash proceeds collected by the partnerships or program. Amounts paid or payable to IREIC or affiliates from proceeds of the offerings represent payments made or to be made to IREIC and affiliates from investor capital contributions.

- (B) The selling commissions paid to an affiliate is net of amounts which were in turn paid to third party soliciting dealers.
- (C) The selling commissions paid to an affiliate includes amounts which were in turn paid to third party soliciting dealers.
- (D) Consists of legal, accounting, printing and other offering expenses, including amounts to be paid to Inland Securities Corporation to be used as incentive compensation to its regional marketing representatives and amounts for reimbursement of the general partner for marketing, salaries and direct expenses of its employees while directly engaged in registering and marketing the Units and other marketing and organization expenses.
- (E) Represents acquisition fees paid to IREIC and its affiliates in connection with the acquisition of properties.
- (F) See Note (B) to Table III.
- (G) An affiliate provides property management services for all properties acquired by the partnerships or program. Management fees have not exceeded 4.5% of the gross receipts from the properties managed.
- (H) See Table V and Notes thereto regarding sales and disposals of properties.
- (I) Real estate sales commissions and participations in cash distributions are paid or payable to IREIC and/or its affiliates in connection with the sales of properties in the public partnership programs. Payments of all amounts shown are subordinated to the receipt by the limited partners of their original capital investment. See Table V and Notes thereto.
- (J) On July 1, 2000, IREC completed the acquisition of Inland Real Estate Advisory Services, Inc., the former advisor, and Inland Commercial Property Management, Inc., the former property manager (the "Merger"). Each of these entities was merged into subsidiaries that are wholly owned by IREC. As a result of the merger, IREC is now "self-administered." IREC no longer pays advisory or property management fees but instead has hired an internal staff to perform these tasks.

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TABLE III

OPERATING RESULTS OF PRIOR PROGRAMS

Table III presents operating results for programs, the offerings of which closed during each of the five years ended December 31, 2002. The operating results consist of:

- The components of taxable income (loss);
- Taxable income or loss from operations and property sales;
- Cash available and source, before and after cash distributions to investors; and
- Tax and distribution data per \$1,000 invested.

Based on the following termination dates of the offerings, only IREC is included

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in Table III.

- Inland Retail Real Estate Trust, Inc. - currently offering shares
- Inland's Monthly Income Fund, L.P. - offering terminated in 1988
- Inland Monthly Income Fund II, L.P. - offering terminated in 1990
- Inland Mortgage Investors Fund, L.P. - offering terminated in 1987
- Inland Mortgage Investors Fund-II, L.P. - offering terminated in 1988
- Inland Mortgage Investors Fund III, L.P. - offering terminated in 1991

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TABLE III
OPERATING RESULTS OF PRIOR PROGRAMS
(000'S OMITTED, EXCEPT FOR AMOUNTS PRESENTED PER \$1,000 INVESTED)
INLAND REAL ESTATE CORPORATION

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|------------|---------|----------|---------|--------|
| Gross revenues | \$ 156,358 | 155,048 | 150,892 | 123,788 | 73,302 |
| Profit on sale of properties | 1,546 | 467 | 0 | 0 | 0 |
| Less: | | | | | |
| Merger consideration costs (D) | 0 | 0 | 68,775 | 0 | 0 |
| Operating expenses | 48,967 | 47,477 | 47,727 | 40,303 | 21,017 |
| Interest expense | 34,428 | 34,797 | 33,682 | 25,654 | 13,422 |
| Program expenses | 5,805 | 5,367 | 6,493 | 7,298 | 3,114 |
| Depreciation & amortization | 29,428 | 27,208 | 26,219 | 20,361 | 11,663 |
| Net income (loss)-GAAP basis | \$ 39,276 | 40,666 | (32,004) | 30,172 | 24,086 |
| Taxable income (loss) (A): | 0 | 0 | 0 | 0 | 0 |
| Cash available (deficiency) from operations (B) | 69,451 | 74,062 | 58,434 | 53,636 | 40,142 |
| Cash available from sales (C) | 8,175 | 2,364 | 0 | 0 | 0 |
| Total cash available before distributions and special items | 77,626 | 76,426 | 58,434 | 53,636 | 40,142 |
| Less distributions to investors: | | | | | |
| From operations | 61,913 | 62,367 | 54,368 | 48,773 | 33,454 |
| From sales and refinancings | 0 | 467 | 0 | 0 | 0 |
| Cash available after distributions before special items | 15,713 | 13,592 | 4,066 | 4,863 | 6,688 |
| Special items: | 0 | 0 | 0 | 0 | 0 |
| Cash available after distributions and special items | \$ 15,713 | 13,592 | 4,066 | 4,863 | 6,688 |
| Tax data per \$1,000 invested (A): | 0 | 0 | 0 | 0 | 0 |
| Distribution data per \$1,000 invested: | | | | | |
| Cash distributions to investors: | | | | | |
| Source (on GAAP basis): | | | | | |
| Investment income | 94 | 93 | 90 | 89 | 88 |
| Source (on cash basis): | | | | | |

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| | | | | | |
|--|---------|----|----|----|----|
| Sales | 0 | 0 | 0 | 0 | 0 |
| Operations (E) | 94 | 93 | 90 | 89 | 88 |
| Percent of properties remaining unsold(F) | 100.00% | | | | |
| | ===== | | | | |

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TABLE III--(CONTINUED)

OPERATING RESULTS OF PRIOR PROGRAMS

NOTES TO TABLE III

- (A) Inland Real Estate Corporation qualified as a real estate investment trust ("REIT") under the Internal Revenue Code for federal income tax purposes commencing with the tax year ending December 31, 1995. Since it qualified for taxation as a REIT, it generally will not be subject to federal income tax to the extent it distributes its REIT taxable income to its stockholders. If Inland Real Estate Corporation fails to qualify as a REIT in any taxable year, it will be subject to federal income tax on its taxable income at regular corporate tax rates. However, even if the program qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property and federal income and excise taxes on its undistributed income.
- (B) "Cash Available (Deficiency) from Operations," represents all cash revenues and funds received by the programs, including but not limited to operating income less operating expenses, and interest income. These amounts do not include payments made by the programs from offering proceeds nor do they include proceeds from sales or refinancings. These amounts also exclude advances from or repayments to IREIC and affiliates which are disclosed elsewhere in the table and include principal payments on long-term debt. For example:

| | Inland Real Estate Corporation (000's omitted) | | | | | |
|--|---|--------|--------|--------|--------|--------|
| | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| Net cash provided by operating activities per the Form 10-K annual report or 10-Q quarterly report | \$ 69,500 | 74,091 | 58,505 | 53,724 | 40,216 | 15,924 |
| Principal payments on long-term debt | (49) | (29) | (71) | (88) | (74) | (67) |
| | \$ 69,451 | 74,062 | 58,434 | 53,636 | 40,142 | 15,857 |

- (C) See Table V and Notes thereto regarding sales and disposals of properties.
- (D) On July 1, 2000, IREC completed the acquisition of Inland Real Estate Advisory Services, Inc., the former advisor, and Inland Commercial Property Management, Inc., the former property manager (the "Merger"). Each of these

entities was merged into subsidiaries that are wholly owned by IREC. IREC issued an aggregate of 6,181,818 shares of its common stock valued at \$11.00 per share to Inland Real Estate Investment Corporation and The Inland Property Management Group, Inc. The expense of these shares and additional costs relating to the merger are reported as an operational expense on IREC's Consolidated Statements of Operations.

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TABLE III--(CONTINUED)

OPERATING RESULTS OF PRIOR PROGRAMS

NOTES TO TABLE III

(E) Distributions by IREC to the extent of its current and accumulated earnings and profits for federal income tax purposes are taxable to stockholders as ordinary income. Distributions in excess of these earnings and profits generally are treated as a non-taxable reduction of the stockholder's basis in the shares to the extent thereof, and thereafter as taxable gain (a return of capital). These distributions in excess of earnings and profits will have the effect of deferring taxation of the amount of the distribution until the sale of the stockholder's shares.

| | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| % of Distribution representing: | | | | | | | | |
| Ordinary income | 69.52 | 78.33 | 76.37 | 73.67 | 76.22 | 74.19 | 83.50 | 94.50 |
| Return of Capital | 30.48 | 21.67 | 23.63 | 26.33 | 23.78 | 25.81 | 16.50 | 5.50 |
| | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

(F) Percent of properties remaining unsold represents original total acquisition costs of properties retained divided by original total acquisition cost of all properties in the program, plus the total of uninvested offering proceeds (if any). Sales proceeds from the sale of three properties were used to acquire new properties.

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TABLE IV

RESULTS OF COMPLETED PROGRAMS

(000'S OMITTED, EXCEPT FOR AMOUNTS PRESENTED PER \$1,000 INVESTED)

Table IV is a summary of operating and disposition results of prior programs sponsored by affiliates of our advisor, which during the five years ended prior to December 31, 2002 have sold their properties and either hold notes with respect to such sales or have liquidated. Three programs with investment objectives similar to ours have disposed of all of their properties during the five years ended prior to December 31, 2002.

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| PROGRAM NAME | INLAND MORTGAGE INVESTORS FUND, L.P. | INLAND MORTGAGE INVESTORS FUND L.P. |
|--|---|--|
| Dollar amount raised | 10,065 | 9,388 |
| Number of properties/loans purchased | 15 | 13 |
| Date of closing of offering | 02/87 | 08/88 |
| Date of first sale of property | 12/88 | 09/89 |
| Date of final sale of property | 03/99 | 12/98 |
| Tax and distribution data per \$1,000 invested (A): | | |
| Federal income tax results: | | |
| Ordinary income (loss): | | |
| Operations | 547 | 633 |
| Recapture | 0 | 0 |
| Capital Gain | 30 | 0 |
| Deferred Gain: | | |
| Capital | 0 | 0 |
| Ordinary | 0 | 0 |
| Cash distributions to investors (cash basis): | | |
| Source (on GAAP basis) | | |
| Investment income | 624 | 631 |
| Return of capital | 745 | 809 |
| Source (on cash basis) | | |
| Sales | 745 | 809 |
| Operations | 624 | 631 |

(A) Data per \$1,000 invested is presented as of December 31, 2002. See Table V and Notes thereto regarding sales and disposals of properties.

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TABLE V

SALES OR DISPOSALS OF PROPERTIES

Table V presents information on the results of the sale or disposals of properties in programs with investment objectives similar to ours during the three years ended December 31, 2002. Since January 1, 2000, programs sponsored by affiliates of our advisor had five sales transactions. The table provides certain information to evaluate property performance over the holding period such as:

- Sales proceeds received by the partnerships in the form of cash down payments at the time of sale after expenses of sale and secured notes received at sale;
- Cash invested in properties;
- Cash flow (deficiency) generated by the property;
- Taxable gain (ordinary and total); and
- Terms of notes received at sale.

The entities listed in Table V are Inland's Monthly Income Fund, L.P. and IREC.

- Inland Real Estate Corporation - offering terminated in 1999.

SALES OR DISPOSALS OF PROPERTIES (A)

(000'S OMITTED)

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| | Date Acquired | Date of Sale | Cash Received, net of Closing Costs (B) | Selling Commissions Paid or Payable to Inland |
|---|---|--|--|--|
| Monthly Income Fund I - McHenry Plaza | 10/19/87 | 07/19/00 | 3,249 | 69 |
| Monthly Income Fund I - Rantoul Walmart | 08/05/88 | 11/17/00 | 1,715 | 83 |
| IREC - Lincoln Park Place | 01/24/97 | 04/17/01 | 1,314 | 0 |
| IREC - Antioch Plaza | 12/95 | 03/28/02 | 943 | 0 |
| IREC - Shorecrest Plaza | 07/97 | 06/12/02 | 3,107 | 0 |
| | Adjust Resulting from Application of GAAP | Net Selling Price | Original Mortgage Financing | Partnership Capital Invested (C) |
| Monthly Income Fund I - McHenry Plaza | 0 | 3,180 | 0 | 1,967 |
| Monthly Income Fund I - Rantoul Walmart | 0 | 2,617 | 0 | 2,656 |
| IREC - Lincoln Park Place | 0 | 2,364 | 0 | 1,897 |
| IREC - Antioch Plaza | 0 | 1,818 | 875 | 753 |
| IREC - Shorecrest Plaza | 0 | 6,085 | 2,978 | 2,947 |
| | Excess (deficiency) of property operating cash receipts over cash expenditures (D) | Amount of subsidies included in operating cash receipts | Total Taxabl Gain (loss from Sale | |
| Monthly Income Fund I - McHenry Plaza | 1,092 | 0 | 374 | |
| Monthly Income Fund I - Rantoul Walmart | 2,534 | 0 | 787 | |
| IREC - Lincoln Park Place | 218 | 0 | 467 | |
| IREC - Antioch Plaza | 130 | 0 | 0 (E) | |
| IREC - Shorecrest Plaza | 1,556 | 0 | 0 (E) | |

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TABLE V - (CONTINUED)

SALES OR DISPOSALS OF PROPERTIES

NOTES TO TABLE V

- (A) The table includes all sales of properties by the programs with investment objectives similar to ours during the three years ended December 31, 2002. All sales have been made to parties unaffiliated with the partnerships.
- (B) Consists of cash payments received from the buyers and the assumption of certain liabilities by the buyers at the date of sale, less expenses of sale.

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- (C) Amounts represent the dollar amount raised from the offerings, less sales commissions and other offering expenses plus additional costs incurred on the development of the land parcels.
- (D) Represents "Cash Available (Deficiency) from Operations (including subsidies)" as adjusted for applicable "Fixed Asset Additions" through the year of sale.
- (E) For tax purposes, this sale qualified as part of a tax-deferred exchange. As a result, no taxable gain will be recognized until the replacement property is disposed of in a subsequent taxable transaction.

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APPENDIX B

DIVIDEND REINVESTMENT PLAN

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC. DISTRIBUTION REINVESTMENT PROGRAM

Inland Western Retail Real Estate Trust, Inc., a Maryland corporation (the "Company"), pursuant to its Articles of Incorporation (the "Articles") has adopted a Distribution Reinvestment Program (the "DRP"), the terms and conditions of which are set forth below. Capitalized terms shall have the same meaning as set forth in the Company's Prospectus dated September 15, 2003 (as the same may be supplemented or modified from time to time) unless otherwise defined herein.

i. Distributions. As agent for the Stockholders who purchase Shares from the Company pursuant to the prospectus dated September 15, 2003 (the "Offering") and elect to participate in the DRP (the "Participants"), the Company will apply all distributions, paid with respect to the Shares held by each Participant (the "Distributions"), including Distributions paid with respect to any full or fractional Shares acquired under the DRP, to the purchase of the Shares for said Participants directly, if permitted under state securities laws and, if not, through the Dealer Manager or Soliciting Dealers registered in the Participant's state of residence. Neither the Company nor its Affiliates will receive a fee for selling Shares under the DRP.

ii. Procedure for Participation. Any Stockholder who purchases Shares pursuant to the Company's Offering may elect to become a Participant by completing and executing the Subscription Agreement or other appropriate authorization form as may be available from the Company, the Dealer Manager or the Soliciting Dealer. Participation in the DRP will begin with the next Distribution payable after receipt of a Participant's subscription or authorization. Shares will be purchased under the DRP on the record date for the Distribution used to purchase the Shares. Distributions for Shares acquired under the DRP will be paid at the same time as Distributions are paid on Shares purchased outside the DRP and are calculated with a daily record and Distribution declaration date. Each Participant agrees that if, at any time prior to listing of the Shares on a national stock exchange or inclusion of the Shares for quotation on a national market system, he or she fails to meet the suitability requirements for making an investment in the Company or cannot make the other representations or warranties set forth in the Subscription Agreement, he or she will promptly so notify the Company in writing.

iii. Purchase of Shares. Participants will acquire Shares from the Company at a fixed price of \$10.00 per Share until the first to occur of (i) the termination of the Offering, or (ii) the public offering price per Share in the

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Offering is increased above \$10.00 per share. Thereafter, Participants will acquire Shares from the Company at a price equal to 95% of the Market Price of a Share on the date of purchase until such time as the Company's Shares are listed on a national stock exchange or included for quotation on a national market system. In the event of such listing or inclusion, Shares purchased by the Company for the DRP will be purchased on such exchange or market, at the prevailing market price, and will be sold to Stockholders at such price. The discount per Share is never intended to exceed 5% of the current Market Price of a Share on the date of purchase. Participants in the DRP may also purchase fractional Shares so that 100% of the Distributions will be used to acquire Shares. However, a Participant will not be able to acquire Shares under the DRP to the extent such purchase would cause it to exceed the Ownership Limit or other Share ownership restrictions imposed by the Articles.

It is possible that a secondary market will develop for the Shares, and that the Shares may be bought and sold on the secondary market at prices lower or higher than the \$10.00 per Share price which will be paid under the DRP.

The Company shall endeavor to acquire Shares on behalf of Participants at the lowest price then available. However, the Company does not guarantee or warrant that the Participant will be acquiring Shares at the lowest possible price.

If the Company's Shares are listed on a national stock exchange or included for quotation on a national market system, the reservation of any Shares from the Offering for issuance under the DRP, which have not been

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issued as of the date of such listing or inclusion, will be canceled, and such Shares will continue to have the status of authorized but unissued Shares. Those unissued Shares will not be issued unless they are first registered with the Securities and Exchange Commission (the "Commission") under the Act and under appropriate state securities laws or are otherwise issued in compliance with such laws.

It is understood that reinvestment of Distributions does not relieve a Participant of any income tax liability which may be payable on the Distributions.

iv. Share Certificates. Within 90 days after the end of the Company's fiscal year, the Company will issue certificates evidencing ownership of Shares purchased through the DRP during the prior fiscal year. The ownership of the Shares will be in book-entry form prior to the issuance of such certificates.

v. Reports. Within 90 days after the end of the Company's fiscal year, the Company will provide each Participant with an individualized report on his or her investment, including the purchase date(s), purchase price and number of Shares owned, as well as the dates of distribution and amounts of Distributions received during the prior fiscal year. The individualized statement to Stockholders will include receipts and purchases relating to each Participant's participation in the DRP including the tax consequences relative thereto.

vi. Termination by Participant. A Participant may terminate participation in the DRP at any time, without penalty, by delivering to the Company a written notice. Prior to listing of the Shares on a national stock exchange or inclusion of the Shares for quotation on a national market system, any transfer of Shares by a Participant to a non-Participant will terminate participation in the DRP with respect to the transferred Shares. If a Participant terminates DRP participation, the Company will provide the terminating Participant with a certificate evidencing the whole shares in his or her account and a check for

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the cash value of any fractional share in such account. Upon termination of DRP participation, Distributions will be distributed to the Stockholder in cash.

vii. Amendment or Termination of DRP by the Company. The Directors of the Company may by majority vote (including a majority of the Independent Directors) amend or terminate the DRP for any reason upon 30 days' written notice to the Participants.

viii. Liability of the Company. The Company shall not be liable for any act done in good faith, or for any good faith omission to act, including, without limitation, any claims or liability: (a) arising out of failure to terminate a Participant's account upon such Participant's death prior to receipt of notice in writing of such death; and (b) with respect to the time and the prices at which Shares are purchased or sold for a Participant's account. To the extent that indemnification may apply to liabilities arising under the Act or the securities laws of a state, the Company has been advised that, in the opinion of the Commission and certain state securities commissioners, such indemnification is contrary to public policy and, therefore, unenforceable.

ix. Governing Law. This DRP shall be governed by the laws of the State of Maryland.

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APPENDIX C

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC. INSTRUCTIONS TO SUBSCRIBERS

[LOGO]

Any person desiring to subscribe for our common shares should carefully read and review the Prospectus, as supplemented to date, and if he/she desires to subscribe for shares, complete the Subscription Agreement/Signature Page that follows these instructions. Follow the appropriate instructions listed below for the items indicated. Please print in ballpoint pen or type the information.

A - INVESTMENT

- Item (1)a Enter the dollars and cents amount of the purchase and the number of shares to be purchased. Minimum purchase 300 shares (\$3,000). Qualified Plans 100 shares (\$1,000). (Iowa requires 300 shares (\$3,000) for IRA accounts; Minnesota requires 200 shares (\$2,000) for IRA and qualified accounts).
Check the box to indicate whether this is an initial or an additional investment. The "Additional Investment" box must be checked in order for this subscription to be combined with another subscription for purposes of a volume discount. A COMPLETED SUBSCRIPTION AGREEMENT IS REQUIRED FOR EACH INITIAL AND ADDITIONAL INVESTMENT.
- Item (1)b Deferred Commission Option: Please check the box if you have agreed with your Soliciting Dealer to elect the Deferred Commission Option, as described in the Prospectus, as supplemented to date. By electing the Deferred Commission Option, you are required to pay only \$9.40 per share purchased upon subscription. For the next six years, following the year of subscription, you will have a sales commission of \$0.10 per share deducted from and paid out of cash distributions otherwise

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distributable to you. Election of the Deferred Commission Option shall authorize the Company to withhold such amounts from cash distributions otherwise payable to you and to pay them as described in the "Plan of Distribution-Deferred Commission Option" section of the Prospectus, as supplemented to date.

- Item (1)c Check the box to indicate whether the Registered Representative chooses to purchase common stock net of selling commissions.

B - TYPE OF OWNERSHIP

FOR NON-CUSTODIAL OWNERSHIP ACCOUNTS, please mail the properly completed and executed Subscription Agreement/Signature Page and your check MADE PAYABLE TO "LBNA/ESCROW AGENT FOR IWRRET" to: Inland Securities Corporation, 2901 Butterfield Road, Oak Brook, Illinois 60523, Attn: Investor Services. If you have questions, please call 800-826-8228.

FOR CUSTODIAL OWNERSHIP ACCOUNTS, checks should be MADE PAYABLE TO THE CUSTODIAN AND SENT ALONG WITH THIS PROPERLY COMPLETED AND EXECUTED FORM TO THE CUSTODIAN.

- Item (2)a Check the appropriate box to indicate the type of entity that is subscribing. (Entities for non-custodial ownership accounts appear on the left side; entities for custodial ownership accounts appear on the right side.) If this is an additional purchase, this should be completed exactly the same as previous investment. If the entity is a pension or profit sharing plan, indicate whether it is taxable or exempt from taxation under Section 501A of the Internal Revenue Code. Note: Pension or profit sharing plan appears under non-custodial ownership as well as custodial ownership -- check non-custodial ownership if the plan has a trustee; custodial ownership if the plan has a custodian. If you check the Individual Ownership box and you wish to designate a Transfer on Death beneficiary, you may check the "TOD" box and you must fill out the Transfer on Death Form in order to effect the designation.

- Item (2)b Enter the exact name of the custodian or trustee and mailing address. IF THIS IS AN ADDITIONAL PURCHASE BY A QUALIFIED PLAN, PLEASE USE THE SAME EXACT PLAN NAME AS PREVIOUSLY USED.

- Item (2)c The custodian must complete this box by entering its custodian Tax ID number (for tax purposes), custodial account number and its telephone number.

C - SUBSCRIBER INFORMATION

- Item (3) For non-custodial ownership accounts, enter the exact name in which the shares are to be held. For co-subscribers enter the names of all subscribers. For custodial ownership accounts, enter FBO the name of the subscriber.

- Item (4) Enter mailing address, city, state, and zip code of the subscriber. Note: The custodian or trustee of custodial ownership accounts is the mailing address or address of record completed in Item (2) b.

- Item (5) Enter the residence address if different than the mailing address in Item (4). For custodial ownership accounts, enter the residence address of the subscriber.

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- Item (6) Enter home telephone, business telephone and email address.
- Item (7) Enter birth date of subscriber and co-subscriber, if applicable, or date of incorporation.
- Item (8) Enter the Social Security number of subscriber and co-subscriber, if applicable. The subscriber is certifying that this number is correct. For custodial ownership accounts, enter the subscriber's Social Security number (for identification purposes). Enter Tax ID number, if applicable.
- Item (9) Check the appropriate box. If the subscriber is a non-resident alien, he must apply to the United States Internal Revenue Service for an identification number via Form SS-4 for an individual or SS-5 for a corporation, and supply the number to the Company as soon as it is available.
- Item (10) Check this box if the subscriber is an employee of Inland or an individual who has been continuously affiliated with Inland as an independent contractor.

D - DISTRIBUTION OPTIONS

CHECK THE APPROPRIATE BOX TO INDICATE DISTRIBUTION OPTIONS FOR NON-CUSTODIAL OWNERSHIP ACCOUNTS.

- Item (11)a Check if you desire distributions to be mailed to address of record in Section C, Item (4) above.
- Item (11)b Check if you desire to participate in Distribution Reinvestment Program.
- Item (11)c If subscriber desires direct deposit of his/her/their cash distributions to an account or address other than as set forth in the Subscription Agreement/Signature Page, check the preferred option and complete the required information. For ACH, indicate whether it is a checking or savings account, and enter the name of the institution/individual, mailing address, ABA number, and account number. MUST ENCLOSE VOIDED CHECK, if applicable.

CHECK THE APPROPRIATE BOX TO INDICATE DISTRIBUTION OPTIONS FOR CUSTODIAL OWNERSHIP ACCOUNTS.

- Item (12)a Check if you desire distributions to be mailed to custodian.
- Item (12)b Check if you desire to participate in Distribution Reinvestment Program.

E - SIGNATURE

- Item (13) The Subscription Agreement/Signature Page MUST BE EXECUTED by the subscriber(s), and if applicable, the trustee or custodian.

F - BROKER/DEALER REGISTERED REPRESENTATIVE

- Item (14) Enter the Registered Representative name, address, B/D Rep ID number, telephone number, and e-mail address. Also, enter the name of the broker/dealer, home office address, and B/D Client Account number. By executing the Subscription Agreement/Signature Page, the Registered Representative substantiates compliance with the conduct rules of the NASD, by certifying that the Registered Representative has reasonable grounds to believe, based on

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information obtained from the investor concerning his, her or its investment objectives, other investments, financial situation and needs and any other information known by such Registered Representative, that investment in the Company is suitable for such investor in light of his, her or its financial position, net worth and other suitability characteristics and that the Registered Representative has informed the investor of all pertinent facts relating to the liability, liquidity and marketability of an investment in the Company during its term. The Registered Representative (authorized signature) should sign where provided.

Item (14)a Check the box to indicate whether the broker/dealer agrees to the Deferred Commission Option if the subscriber has elected the deferred Commission Option; the broker/dealer must sign to acknowledge that agreement.

Item (14)b Check the box to indicate whether the Registered Representative chooses to purchase common stock net of selling commissions.

G - REGISTERED INVESTMENT ADVISOR (RIA)

Item (15) Check the box to indicate whether this subscription was solicited or recommended by an investment advisor/broker/dealer whose agreement with the subscriber includes a fixed or "wrap" fee feature for advisory and related brokerage services, and, accordingly, may not charge the regular selling commission. NO SALES COMMISSIONS ARE PAID ON THESE ACCOUNTS. This box must be checked in order for such subscriber(s) to purchase shares net of the selling commissions.

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SUBMISSION OF SUBSCRIPTION

FOR NON-CUSTODIAL OWNERSHIP ACCOUNTS, the properly completed and executed Subscription Agreement/Signature Page together with a check MADE PAYABLE TO "LBNA/ESCROW AGENT FOR IWRRET" should be mailed to: Inland Securities Corporation, 2901 Butterfield Road, Oak Brook, Illinois 60523. Attn: Investor Services.

FOR CUSTODIAL OWNERSHIP ACCOUNTS, checks should be MADE PAYABLE TO THE CUSTODIAN AND SENT ALONG WITH THIS PROPERLY COMPLETED AND EXECUTED FORM TO THE CUSTODIAN.

NOTE: If a person other than the person in whose name the shares will be held is reporting the income received from the Company, you must notify the Company in writing of that person's name, address and Social Security number.

ALL INVESTORS AND THEIR REGISTERED REPRESENTATIVES MUST SIGN THE SUBSCRIPTION AGREEMENT/ SIGNATURE PAGE PRIOR TO TENDERING ANY FUNDS FOR INVESTMENT IN SHARES.

CALIFORNIA INVESTORS

All Certificates representing shares which are sold in the State of California will bear the following legend conditions: IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFORE, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES.

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Any subscriber seeking to purchase shares pursuant to a discount offered by the Company must submit such request in writing and set forth the basis for the request. Any such request will be subject to verification by the Company.

Lack of Liquidity: There is no current market for the shares and the investors may not be able to sell the securities.

SPECIAL SUITABILITY STANDARDS

CERTAIN STATES HAVE IMPOSED SPECIAL FINANCIAL SUITABILITY STANDARDS FOR SUBSCRIBERS WHO PURCHASE SHARES.

IF THE SUBSCRIBER IS A RESIDENT OF MAINE, THE SUBSCRIBER MUST HAVE EITHER: (i) A MINIMUM NET WORTH (EXCLUDING HOME, HOME FURNISHINGS AND AUTOMOBILES) OF \$200,000; OR (ii) A MINIMUM ANNUAL GROSS INCOME OF \$50,000 AND A MINIMUM NET WORTH (EXCLUSIVE OF HOME, HOME FURNISHINGS AND AUTOMOBILES) OF \$50,000.

IF THE SUBSCRIBER IS A RESIDENT OF ARIZONA, CALIFORNIA, IOWA, MASSACHUSETTS, MICHIGAN, MISSOURI, OREGON OR TENNESSEE, THE SUBSCRIBER MUST HAVE EITHER: (i) A MINIMUM NET WORTH (EXCLUDING HOME, HOME FURNISHINGS AND AUTOMOBILES) OF \$225,000; OR (II) A MINIMUM ANNUAL GROSS INCOME OF \$60,000 AND A MINIMUM NET WORTH (EXCLUSIVE OF HOME, HOME FURNISHINGS AND AUTOMOBILES) OF \$60,000.

IN ADDITION, IF THE SUBSCRIBER IS A RESIDENT OF KANSAS, OHIO OR PENNSYLVANIA, THE INVESTMENT MAY NOT EXCEED 10% OF THE INVESTOR'S LIQUID NET WORTH.

WE INTEND TO ASSERT THE FOREGOING REPRESENTATIONS AS A DEFENSE IN ANY SUBSEQUENT LITIGATION WHERE SUCH ASSERTION WOULD BE RELEVANT. WE HAVE THE RIGHT TO ACCEPT OR REJECT THIS SUBSCRIPTION IN WHOLE OR IN PART, SO LONG AS SUCH PARTIAL ACCEPTANCE OR REJECTION DOES NOT RESULT IN AN INVESTMENT OF LESS THAN THE MINIMUM AMOUNT SPECIFIED IN THE PROSPECTUS. AS USED ABOVE, THE SINGULAR INCLUDES THE PLURAL IN ALL RESPECTS IF SHARES ARE BEING ACQUIRED BY MORE THAN ONE PERSON. AS USED IN THIS SUBSCRIPTION AGREEMENT, "INLAND" REFERS TO INLAND REAL ESTATE GROUP, INC. AND ITS AFFILIATES. THIS SUBSCRIPTION AGREEMENT AND ALL RIGHTS HEREUNDER SHALL BE GOVERNED BY, AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF ILLINOIS.

BY EXECUTING THIS SUBSCRIPTION AGREEMENT, THE SUBSCRIBER IS NOT WAIVING ANY RIGHTS UNDER THE FEDERAL SECURITIES LAWS.

ACH LANGUAGE

I (WE) HEREBY AUTHORIZE INLAND WESTERN RETAIL REAL ESTATE TRUST, INC. ("COMPANY") TO DEPOSIT DISTRIBUTIONS FROM MY (OUR) INTEREST IN STOCK OF THE COMPANY INTO THE ACCOUNT LISTED IN SECTION D OF SUBSCRIPTION AGREEMENT AT THE FINANCIAL INSTITUTION INDICATED IN SECTION D OF SUBSCRIPTION AGREEMENT. I FURTHER AUTHORIZE THE COMPANY TO DEBIT MY ACCOUNT NOTED IN SECTION D OF SUBSCRIPTION AGREEMENT IN THE EVENT THAT THE COMPANY ERRONEOUSLY DEPOSITS ADDITIONAL FUNDS TO WHICH I AM NOT ENTITLED, PROVIDED THAT SUCH DEBIT SHALL NOT EXCEED THE ORIGINAL AMOUNT OF THE ERRONEOUS DEPOSIT. IN THE EVENT THAT I WITHDRAW FUNDS ERRONEOUSLY DEPOSITED INTO MY ACCOUNT BEFORE THE COMPANY REVERSES SUCH DEPOSIT, I AGREE THAT THE COMPANY HAS THE RIGHT TO RETAIN ANY FUTURE DISTRIBUTIONS THAT I AM ENTITLED UNTIL THE ERRONEOUSLY DEPOSITED AMOUNTS ARE RECOVERED BY THE COMPANY.

THIS AUTHORIZATION IS TO REMAIN IN FULL FORCE AND EFFECT UNTIL THE COMPANY HAS RECEIVED WRITTEN NOTICE FROM ME OF THE TERMINATION OF THIS AUTHORIZATION IN TIME TO ALLOW REASONABLE OPPORTUNITY TO ACT ON IT, OR UNTIL THE COMPANY HAS SENT ME WRITTEN NOTICE OF TERMINATION OF THIS AUTHORIZATION.

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INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
2901 BUTTERFIELD ROAD, OAK BROOK, ILLINOIS 60523 ~ 800.826.8228
SUBSCRIPTION AGREEMENT/SIGNATURE PAGE FOR PROSPECTUS DATED _____

[LOGO]

PLEASE READ THIS SUBSCRIPTION AGREEMENT/SIGNATURE PAGE AND THE
TERMS AND CONDITIONS BEFORE SIGNING.
SUBSCRIBER MUST READ THE SUBSCRIPTION INSTRUCTIONS.

A - INVESTMENT

- (1)a This subscription is in the amount of \$_____ for the purchase of _____ shares of Inland Western Retail Real Estate Trust, Inc. at \$10 per share. Minimum initial investment: 300 shares (100 shares for IRA, Keogh and qualified plan accounts-Iowa requires 300 Shares for IRA accounts; Minnesota requires 200 shares for IRA and qualified plan accounts).
THIS IS AN: / / INITIAL INVESTMENT / / ADDITIONAL INVESTMENT A completed Subscription Agreement is required for each initial and additional investment.
- (1)b / / CHECK THE BOX TO ELECT THE DEFERRED COMMISSION OPTION. (This election must be agreed to by the broker/dealer listed on the following page)
- (1)c / / REGISTERED REPRESENTATIVE NAV PURCHASE

B - TYPE OF OWNERSHIP

NON-CUSTODIAL OWNERSHIP
MAKE CHECK PAYABLE TO: LBNA/ESCROW AGENT FOR IWRRET

- (2)a / / INDIVIDUAL OWNERSHIP - one signature required
/ / TOD (FILL OUT TOD FORM TO EFFECT DESIGNATION)
/ / JOINT TENANTS WITH RIGHT OF SURVIVORSHIP - all parties must sign
/ / COMMUNITY PROPERTY - all parties must sign
/ / TENANTS IN COMMON - all parties must sign
/ / TENANTS BY THE ENTIRETY - all parties must sign
/ / CORPORATE OWNERSHIP - authorized signature required
/ / PARTNERSHIP OWNERSHIP - authorized signature required
/ / LLC OWNERSHIP - authorized signature required
/ / UNIFORM GIFTS TO MINORS ACT - custodian signature required
- STATE OF _____ A CUSTODIAN FOR _____
/ / PENSION OR PROFIT SHARING PLAN - trustee signature(s) required
/ / TAXABLE / / EXEMPT UNDER Section 501A
NAME OF TRUSTEE OR OTHER ADMINISTRATOR _____
- _____
- / / TRUST - trustee or grantor signature(s) required
- / / TAXABLE / / GRANTOR A OR B DATE TRUST ESTABLISHED _____
- NAME OF TRUSTEE OR OTHER ADMINISTRATOR _____
- _____
- / / ESTATE - personal representative signature required
- / / OTHER (SPECIFY) _____

CUSTODIAL OWNERSHIP

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MAKE CHECK PAYABLE TO THE CUSTODIAN LISTED BELOW AND SEND ALL PAPERWORK DIRECTLY TO THE CUSTODIAN

- (2) a / / TRADITIONAL IRA - custodian signature required
- / / ROTH IRA - custodian signature required
- / / KEOGH - trustee signature required
- / / SIMPLIFIED EMPLOYEE PENSION/TRUST (S.E.P.) - trustee signature required
- / / PENSION OR PROFIT SHARING PLAN - custodian signature required
- / / TAXABLE / / EXEMPT UNDER Section 501A
- NAME OF TRUSTEE OR OTHER ADMINISTRATOR_____

- (2) b / / OTHER (SPECIFY) _____

NAME OF CUSTODIAN OR TRUSTEE

MAILING ADDRESS

CITY, STATE, ZIP

- (2) c CUSTODIAN INFORMATION TO BE COMPLETED BY CUSTODIAN LISTED ABOVE

CUSTODIAN TAX ID # -

CUSTODIAL ACCOUNT #

CUSTODIAN TELEPHONE - -

C - SUBSCRIBER INFORMATION

- (3) SUBSCRIBER
- / / Mr. / / Mrs. / / Ms.
- CO-SUBSCRIBER
- / / Mr. / / Mrs. / / Ms.

- (4) MAILING ADDRESS

CITY, STATE & ZIP CODE

- (5) RESIDENCE ADDRESS
- (if different from above)

CITY, STATE & ZIP CODE

- (6) HOME TELEPHONE - - BUSINESS TELEPHONE - -

EMAIL ADDRESS

- (7) BIRTH DATE/DATE / / MM/DD/YYYY
- OF INCORPORATION

CO-SUBSCRIBER BIRTH / / MM/DD/YYYY

DATE

- (8) SOCIAL SECURITY # - -

CO-SUBSCRIBER SOCIAL - -

SECURITY #

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TAX ID # -

(9) PLEASE INDICATE CITIZENSHIP STATUS
/ / U.S. CITIZEN / / RESIDENT ALIEN / / NON-RESIDENT ALIEN

(10) / / EMPLOYEE OR AFFILIATE

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D - DISTRIBUTION OPTIONS

DISTRIBUTION OPTIONS FOR NON-CUSTODIAL ACCOUNTS

(11)a / / MAIL TO ADDRESS OF RECORD

(11)b / / DISTRIBUTION REINVESTMENT PROGRAM: Subscriber elects to participate in the Distribution Reinvestment Program described in the Prospectus.

(11)c / / DISTRIBUTIONS DIRECTED TO:
/ / VIA MAIL COMPLETE INFORMATION BELOW.
/ / VIA ELECTRONIC DEPOSIT (ACH) COMPLETE INFORMATION BELOW. See ACH language on page 2 of the instructions. MUST ENCLOSE VOIDED CHECK
/ / CHECKING / / SAVINGS

NAME OF BANK, BROKERAGE FIRM OR INDIVIDUAL

MAILING ADDRESS

CITY, STATE, ZIP

BANK ABA # (FOR ACH ONLY) ACCOUNT NUMBER-MUST BE FILLED IN
MUST ENCLOSE VOIDED CHECK

DISTRIBUTION OPTIONS FOR CUSTODIAL ACCOUNTS

(12)a / / MAIL TO CUSTODIAL ACCOUNT

(12)b / / DISTRIBUTION REINVESTMENT PROGRAM: Subscriber elects to participate in the Distribution Reinvestment Program described in the Prospectus.

E - SIGNATURE

(13) THE UNDERSIGNED CERTIFIES, under penalties of perjury (i) that the taxpayer identification number shown on the Subscription Agreement/Signature Page is true, correct and complete, and (ii) that he is not subject to backup withholding either because he has not been notified that he is subject to backup withholding as a result of a failure to report all interest or distributions, or the Internal Revenue Service has notified him that he is no longer subject to backup withholding.

The undersigned further acknowledges and/or represents (or in the case of fiduciary accounts, the person authorized to sign on such Investor's behalf) the following:

- (a) acknowledges receipt, not less than five (5) business days prior to the signing of this Subscription Agreement, of the Prospectus of the COMPANY RELATING TO THE SHARES, WHEREIN THE TERMS AND CONDITIONS OF THE OFFERING OF THE SHARES ARE DESCRIBED, including among other things, the restrictions on ownership and transfer of shares, which

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ACCOUNT NUMBER #

B/D REP ID NUMBER #

REGISTERED REPRESENTATIVE'S TELEPHONE
HAVE YOU CHANGED BROKER/DEALERS? / / YES / / NO

REGISTERED REPRESENTATIVE'S E-MAIL

X

SIGNATURE--REGISTERED REPRESENTATIVE

X

SIGNATURE--BROKER/DEALER (IF APPLICABLE)

(14)a / / DEFERRED COMMISSION OPTION: Requires broker/dealer signature: -----

(14)b / / REGISTERED REPRESENTATIVE NAV PURCHASE

G - REGISTERED INVESTMENT ADVISOR (RIA)

(15) REGISTERED INVESTMENT ADVISOR (RIA) NO SALES COMMISSIONS ARE PAID ON THESE ACCOUNTS. / / CHECK ONLY IF investment is made through the RIA in its capacity as an RIA and not in its capacity as a Registered Representative, if applicable, whose agreement with the subscriber includes a fixed or "wrap" fee feature for advisory and related brokerage services. If an owner or principal or any member of the RIA firm is an NASD licensed Registered Representative affiliated with a broker/dealer, the transaction should be conducted through that broker/dealer, not through the RIA.

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APPENDIX D

[LOGO]

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
TRANSFER ON DEATH FORM (T.O.D.)
THIS FORM IS NOT VALID FOR TRUST OR IRA ACCOUNTS.

Use this form to designate a T.O.D. beneficiary (ies)
Please mail this form to:
Inland Securities Corporation, Attn: Investor Services
2901 Butterfield Road, Oak Brook,
Illinois 60523
800.826.8228

A - INVESTOR INFORMATION

1. Name of registered owner(s), exactly as name(s) appear(s) on stock certificate or subscription agreement:

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2. Social Security number(s) of registered owner(s):
- - - -

3. Daytime phone number:
- -

4. State of Residence:

Not accepted from residents of Louisiana, New York or North Carolina

B - TRANSFER ON DEATH DESIGNATION

I authorize Inland Western Retail Real Estate Trust, Inc. to register all of my shares of its common stock in beneficiary form, assigning ownership on my death to my beneficiary(ies). I understand that if more than one beneficiary is listed, percentages for each must be designated. If percentages are not designated, the shares will be divided equally. Percentages must equal 100%. Additional beneficiaries may be listed on a separate page.

1. Name of Primary Beneficiary:

2. Social Security Number: - -

OR Tax Identification Number: -

3. Percentage: %

1. Name of Primary Beneficiary:

2. Social Security Number: - -

OR Tax Identification Number: -

3. Percentage: %

1. Name of Primary Beneficiary:

2. Social Security Number: - -

OR Tax Identification Number: -

3. Percentage: %

1. Name of Primary Beneficiary:

2. Social Security Number: - -

OR Tax Identification Number: -

3. Percentage: %

C - SIGNATURE

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By signing below, I (we) authorize Inland Western Retail Real Estate Trust, Inc. to register all of my (our) shares of its common stock in T.O.D. form. The designation(s) will be effective on the date of receipt. Accordingly, I (we) hereby revoke any beneficiary designation(s) made previously with respect to my (our) Inland shares. I (we) have reviewed the information set forth below. I (we) agree on behalf of myself (ourselves) and my (our) heirs, assigns, executors, administrators and beneficiaries to indemnify and hold harmless Inland Western Retail Real Estate Trust, Inc. and any and all of its affiliates, agents, successors and assigns, and their respective directors, officers and employees, from and against any and all claims, liability, damages, actions and expenses arising directly or indirectly out of or resulting from the transfer of my (our) shares in accordance with this T.O.D. designation.

I (we) further understand that Inland Western Retail Real Estate Trust, Inc. cannot provide any legal advice and I (we) agree to consult with my (our) attorney, if necessary, to make certain that the T.O.D. designation is consistent with my (our) estate and tax planning. Sign exactly as the name(s) appear(s) on the stock certificate or subscription agreement. All registered owners must sign. THIS AUTHORIZATION FORM IS SUBJECT TO THE ACCEPTANCE OF INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

X _____ X _____
Signature Date Signature Date

TRANSFER ON DEATH INFORMATION

- A Transfer on Death (T.O.D.) designation transfers ownership of shares to the registered owner's beneficiary(ies) upon death; provided that Inland Western Retail Real Estate Trust, Inc. receives proof of death and other documentation it deems necessary or appropriate.
- Until the death of the account owner(s), the T.O.D. beneficiary(ies) has (have) no present interest in, or authority over, the T.O.D. account.
- A T.O.D. designation will be accepted only where (1) shares are owned by a natural person and registered in that individual's name or (2) by two or more natural persons as joint tenants with rights of survivorship.
- Accounts registered to trusts, corporations, charities, and other such entities may not declare a T.O.D. designation because they are considered perpetual. These entities, however, may be listed as a beneficiary on a T.O.D. for accounts registered to a natural person.
- A T.O.D. designation made by joint tenants with rights of survivorship does not take effect until the last of all multiple owners dies. The surviving owners may revoke or change the T.O.D. designation at any time.
- If the beneficiary(ies) does (do) not survive the registered owner(s), the shares will be treated as belonging to the decedent's estate.
- A minor may not be named as a beneficiary.
- A T.O.D. designation will not be accepted from residents of Louisiana, New York or North Carolina.
- A T.O.D. designation and all rights related thereto shall be governed by the laws of the state of Illinois.
- A T.O.D. designation may be voided at any time by Inland Western Retail Real Estate Trust, Inc., in its sole discretion, if there is any doubt as to the validity or effectiveness of a T.O.D. designation.

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APPENDIX E1

LETTER OF DIRECTION

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_____, 2003

Inland Real Estate Investment Corporation
2901 Butterfield Road
Oak Brook, Illinois 60523

RE: Registered Investment Advisory Fees
Account No. _____ ("Account")

You are hereby instructed and authorized by me to deduct advisory fees payable to _____, my registered investment advisor, in the following amount from my Account, and to pay such amount by wire transfer in immediately available funds to my registered investment advisor, upon each distribution by Inland Western Retail Real Estate Trust, Inc. (the "Company") on my Account, as payment for my registered investment advisor's advisory fees (select only one).

- (1) \$_____; OR
- (2) _____% Annual Fee (calculated on a monthly basis) of the Asset Value to be paid by the Company on my Account.

I understand and acknowledge that any and all advisory fees payable to my registered investment advisor are my sole responsibility and you are paying the amounts directed by me as an accommodation.

This letter shall serve as an irrevocable instruction to you to pay such advisory fees from my Account until such time as I provide you with written notice of my election to revoke this instruction.

Sincerely,

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APPENDIX E2

NOTICE OF REVOCATION

_____, 20__

Inland Real Estate Investment Corporation
2901 Butterfield Road
Oak Brook, Illinois 60523

RE: Revocation of Instruction
Account No. _____ ("Account")

This letter shall serve as notice to you of my revocation of my instruction to you to deduct advisory fees from my Account any pay such fees directly to _____, my registered investment advisor, pursuant to my letter to you dated _____.

I hereby instruct you to cease any and all future deductions from my Account for the purpose of such advisory fee payments. I understand and acknowledge that this revocation will be effective within one business day of receipt by you.

Sincerely,

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APPENDIX F

PRIVACY POLICY NOTICE

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.
PRIVACY POLICY

OUR COMMITMENT TO PROTECTING YOUR PRIVACY. We consider customer privacy to be fundamental to our relationship with our shareholders. In the course of servicing your account, we collect personal information about you ("NONPUBLIC PERSONAL INFORMATION"). We collect this information to know who you are so that we can provide you with products and services that meet your particular financial and investing needs, and to meet our obligations under the laws and regulations that govern us.

Throughout our history we have been, and we remain, committed to maintaining the confidentiality, integrity and security of our shareholders' personal information. It is our policy to respect the privacy of our current and former shareholders and to protect the personal information entrusted to us. This Privacy Policy (the "POLICY") describes the standards we follow for handling your personal information, with the dual goals of meeting your financial needs while respecting your privacy.

This Policy applies to the Inland family of companies, which includes Inland Western Retail Real Estate Trust, Inc.

1. Information We May Collect

We may collect nonpublic personal information about you from three sources:

- Information on applications, subscription agreements or other forms. This category may include your name, address, tax identification number, age, marital status, number of dependents, assets, debts, income, employment history, beneficiary information and personal bank account information.
- Information about your transactions with us, our affiliates and others such as: the types of products you purchase, your account balances, margin loan history and payment history.
- Information obtained from others, such as from consumer credit reporting agencies. This may include information about your creditworthiness, financial circumstances and credit history, including any bankruptcies and foreclosures.

2. Persons to Whom We May Disclose Information

We may disclose all three types of nonpublic personal information about you to the unaffiliated third parties and in the circumstances described below, as permitted by applicable laws and regulations.

- Companies with whom we have contracted to provide account-related services, such as statement preparation, execution services, custodial services, and report preparation. (Every contract with each of these service providers prohibits the service provider from disclosing or using your nonpublic personal information for any purpose except to provide the service for which we have contracted.)
- Our lawyers, accountants, auditors, regulators, advisors, and quality-control consultants.

- If we suspect fraud.
- To protect the security of our records, Web site and telephone customer service center.
- Information you have authorized us to disclose.

3. Protecting Your Information

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Our employees are required to follow the procedures we have developed to protect the integrity of your information. These procedures include:

- Restricting physical and other access to your nonpublic personal information to persons with a legitimate business need to know the information in order to service your account.
- Contractually obligating third parties doing business with us to comply with all applicable privacy and security laws.
- Providing information to you only after we have used reasonable efforts to assure ourselves of your identity by asking for and receiving from you information only you should know.
- Maintaining reasonably adequate physical, electronic and procedural safeguards to protect your information.

4. Former Customers

We treat information concerning our former customers the same way we treat information about our current customers.

5. Keeping You Informed

We will send you a copy of this Policy annually. We will also send you all changes to this Policy as they occur. You have the right to "opt out" of this policy by notifying us in writing.

QUESTIONS? If you have any questions about this Policy, please do not hesitate to call Roberta Matlin at 630-218-8000.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 31. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the expenses (other than selling commissions) incurred by us while issuing and distributing the securities registered pursuant to this Registration Statement. All amounts other than the SEC registration fee and NASD filing fee are estimates.

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| | | |
|---|----|-------------|
| Securities and Exchange Commission Registration Fee | \$ | 217,621 |
| NASD Filing Fee | \$ | 30,500 |
| Printing and Mailing Expenses | \$ | 8,854 |
| Blue Sky Fees and Expenses | \$ | 226,500 |
| Legal Fees and Expenses | \$ | 359,335 |
| Accounting Fees and Expenses | \$ | 56,000 |
| Advertising and Sales Literature | \$ | 959,198 |
| Due Diligence | \$ | 343,382 |
| Transfer agent fees | \$ | 24,973 |
| Data processing fees | \$ | 14,386 |
| Bank fees and other administrative expenses | \$ | 280,428 |
| | | ----- |
| Total | \$ | 2,521,177 * |

* As of December 31, 2003

ITEM 32. SALES TO SPECIAL PARTIES.

Our employees and associates and those of our affiliates are permitted to purchase shares net of sales commissions and the marketing contribution and due diligence expense allowance fee or for \$8.95 per share.

ITEM 33. RECENT SALES OF UNREGISTERED SECURITIES.

As of March 4, 2004, we have sold the following securities for the following aggregate offering prices: In March 2003, Inland Western Retail Real Estate Advisory Services, Inc., the advisor, purchased from us 20,000 shares for \$10 per share, for an aggregate purchase price of \$200,000 in connection with our organization. No sales commissions or other consideration was paid in connection with such sales. The sales were consummated without registration under the Act in reliance upon Rule 506 of Regulation D and the exemption from registration in Section 4(2) of the Securities Act as transactions not involving any public offering.

Options to purchase an aggregate of 15,000 shares at an exercise price of \$8.95 per share have been granted to the Independent Directors pursuant to the Independent Director Stock Option Plan (options to purchase 3,000 shares as to each of the five independent directors plus options for 500 shares each on the date of the first annual meeting). None of such options have been exercised. Therefore, no shares have been issued in connection with such options.

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ITEM 34. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Article XV of our articles of incorporation provides as follows:

SECTION 3. INDEMNIFICATION

(a) Subject to paragraphs (b), (c) and (d) of this Section 3, we shall, to the fullest extent permitted by Maryland statutory or decisional law, as amended or interpreted and, without limiting the generality of the foregoing, in accordance with Section 2-418 of the Maryland General Corporation Law, indemnify and pay, advance, or reimburse reasonable expenses to any Director, officer,

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employee and agent of the Company and the Advisor and its Affiliates (each an "Indemnified Party").

(b) As long as we qualify as a REIT, it shall not indemnify nor pay, advance or reimburse expenses to an Indemnified Party unless: (i) Directors have determined, in good faith, that the course of conduct which caused the loss or liability was in our best interests; (ii) the Indemnified Party was acting on behalf of or performing services on the part of the Company; (iii) such liability or loss was not the result of negligence or misconduct on the part of the Indemnified Party except that in the event the Indemnified Party is or was an Independent Director, such liability or loss shall not have been the result of gross negligence or willful misconduct; and (iv) such indemnification or agreement to be held harmless is recoverable only out of our Net Assets and not from the Stockholders.

(c) As long as we qualify as a REIT and notwithstanding anything to the contrary in Section 3(b) of this Article XV, the Company shall not indemnify a Director, officer, employee or agent of ours or the Advisor or its Affiliates for losses, liabilities or expenses arising from or out of an alleged violation of federal or state securities laws by such party unless one or more of the following conditions are met: (i) there has been a successful adjudication on the merits of each count involving alleged securities law violations as to the particular Indemnified Party; (ii) such claims have been dismissed with prejudice on the merits by a court of competent jurisdiction as to the particular Indemnified Party; or (iii) a court of competent jurisdiction approves a settlement of the claims and finds that indemnification of the settlement and related costs should be made and the court considering the request has been advised of the position of the Securities and Exchange Commission (the "Commission") and the published opinions of any state securities regulatory authority in which securities of ours were offered or sold as to indemnification for violations of securities laws.

(d) We may advance amounts to an Indemnified Party for legal and other expenses and costs incurred as a result of any legal action for which indemnification is being sought only in accordance with Section 2-418 of the Maryland General Corporation Law, and, as long as we qualify as a REIT, only if all of the following conditions are satisfied: (i) the legal action relates to acts or omissions with respect to the performance of duties or services by the Indemnified Party for or on our behalf; (ii) the legal action is initiated by a third party who is not a Stockholder or the legal action is initiated by a Stockholder acting in his or her capacity as such and a court of competent jurisdiction specifically approves such advancement; and (iii) the Indemnified Party receiving such advances undertakes in writing to repay the advanced funds to us, together with the applicable legal rate of interest thereon, in cases in which such party is found not to be entitled to indemnification.

(e) We shall have the power to purchase and maintain insurance or provide similar protection on behalf of an Indemnified Party against any liability asserted which was incurred in any such capacity with us or arising out of such status; provided, however, that we shall not incur the costs of any liability insurance which insures any person against liability for which he, she or it could not be indemnified under these Articles. Nothing contained herein shall constitute a waiver by any Indemnified Party of any right which he, she or it may have against any party under federal or state securities laws. We shall also have power to enter into any contract for indemnity and advancement of expenses with an officer, employee or agent who is not a Director to such further extent consistent with law.

Our article of incorporation authorize and direct us to indemnify, and pay or reimburse reasonable expenses to, any director, officer, employee or agent we employ to the fullest extent provided by Maryland law. The Maryland General Corporation Law provides that a Maryland corporation may indemnify a director, officer, employee or agent made a party to any proceeding by reason of service in that capacity unless it has been established that (1) the act or omission was material to the matter giving rise to the proceeding and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty; or (2) the individual actually received an improper personal benefit in money, property, or services; or (3) in the case of a criminal proceeding, the individual had reasonable cause to believe that the act or omission was unlawful.

The Bylaws provide that neither the amendment, nor the repeal, nor the adoption of any other provision of the articles of incorporation or the bylaws will apply to or affect, in any respect, the Indemnitee's right to indemnification for actions or failures to act which occurred prior to such amendment, repeal or adoption.

To the extent that the indemnification may apply to liabilities arising under the Act, we have been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is contrary to public policy and, therefore, unenforceable.

We entered into separate indemnification agreements with each of our directors and some of our executive officers. The indemnification agreements require, among other things, that we indemnify the directors and officers to the fullest extent permitted by law, and advance to the directors and officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted. We must also indemnify and advance all expenses incurred by directors and officers seeking to enforce their rights under the indemnification agreements and cover directors and officers under our Directors' and officers' liability insurance, if any. Although the form of indemnification agreement offers substantially the same scope of coverage afforded by provisions in the articles of incorporation and the Bylaws, as a contract, it cannot be unilaterally modified by the board or by the stockholders to eliminate the rights it provides.

ITEM 35. TREATMENT OF PROCEEDS FROM STOCK BEING REGISTERED.

Inapplicable.

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ITEM 36 FINANCIAL STATEMENTS AND EXHIBITS.

(a) FINANCIAL STATEMENTS.

The following financial statements were previously filed as part of the registration statement in the prospectus and are incorporated herein by reference:

1. INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.:

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- (a) Independent Auditors' Report
- (b) Balance Sheet at June 30, 2003
- (c) Notes to Balance Sheet at June 30, 2003

2. PEORIA STATION:

- (a) Independent Auditors' Report
- (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2002 and six months ended June 30, 2003 (unaudited)
- (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2002 and six months ended June 30, 2003 (unaudited)

The following financial statements are included as part of Post Effective Amendment No. 1 and are incorporated herein by reference

1. INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.:

- (a) Pro Forma Balance Sheet at September 30, 2003 (unaudited)
- (b) Notes to Pro Forma Balance Sheet at September 30, 2003 (unaudited)
- (c) Pro Forma Statement of Operations for the nine months ended September 30, 2003 (unaudited)
- (d) Notes to Pro Forma Statement of Operations for the nine months ended September 30, 2003 (unaudited)
- (e) Pro Forma Statement of Operations for the year ended December 31, 2003 (unaudited)
- (f) Notes to Pro Forma Statement of Operations for the year ended December 31, 2003 (unaudited)

2. PARK PLACE:

- (a) Independent Auditors' Report
- (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2002 and nine months ended September 30, 2003 (unaudited)
- (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2002 and nine months ended September 30, 2003 (unaudited)

3. STONY CREEK MARKETPLACE:

- (a) Historical Summary of Gross Income and Direct Operating Expenses for the nine months ended September 30, 2003 (unaudited)
- (b) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the nine months ended September 30, 2003 (unaudited)

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The following financial statements are included as part of Post Effective Amendment No. 3 and are including herein:

1. INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.:
 - (a) Independent Auditors' Report
 - (a) Consolidated Balance Sheet at December 31, 2003
 - (b) Consolidated Statement of Operations for the period from March 5, 2003 (inception) to December 31, 2003
 - (c) Consolidated Statement of Stockholders' Equity for the period from March 5, 2003 (inception) to December 31, 2003
 - (d) Consolidated Statement of Cash Flows for the period from March 5, 2003 (inception) to December 31, 2003
 - (e) Notes to Consolidated Financial Statements
 - (f) Real Estate and Accumulated Depreciation (Schedule III)
 - (g) Pro Forma Consolidated Balance Sheet (unaudited) at December 31, 2003
 - (h) Notes to Pro Forma Consolidated Balance Sheet (unaudited) at December 31, 2003
 - (i) Pro Forma Consolidated Statement of Operations (unaudited) for the year ended December 31, 2003
 - (j) Notes to Pro Forma Consolidated Statement of Operations (unaudited) for the year ended December 31, 2003
2. DARIEN TOWNE CENTER:
 - (a) Independent Auditors' Report
 - (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2002
 - (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2002
 - (d) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
 - (e) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)

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3. PROPERTIES ACQUIRED FROM THOMAS ENTERPRISES IN 2003:
 - (a) Independent Auditors' Report
 - (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
 - (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
4. STONY CREEK MARKETPLACE:
 - (a) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
 - (b) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
5. SHOPS AT PARK PLACE:
 - (a) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
 - (b) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
6. SHAW'S SUPERMARKET (NEW BRITAIN):
 - (a) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
 - (b) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
7. HICKORY RIDGE:
 - (a) Independent Auditors' Report
 - (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
 - (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
8. CORWEST PLAZA:
 - (a) Independent Auditors' Report
 - (b) Historical Summary of Gross Income and Direct Operating Expenses for the period from May 29, 2003 through December 31, 2003
 - (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the period from May 29, 2003 through December 31, 2003

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- (d) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
 - (e) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
9. METRO SQUARE CENTER (SUPERVALUE):
- (a) Independent Auditors' Report
 - (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
 - (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
10. LARKSPUR LANDING:
- (a) Independent Auditors' Report
 - (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
 - (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
11. NORTH RANCH PAVILION:
- (a) Independent Auditors' Report
 - (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
 - (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
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12. LA PLAZA DEL NORTE:
- (a) Independent Auditors' Report
 - (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
 - (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
13. MACARTHUR CROSSING:
- (a) Independent Auditors' Report
 - (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003

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- (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003

14. PROMENADE AT RED CLIFF:

- (a) Independent Auditors' Report
- (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)
- (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003 (unaudited)

15. PEORIA CROSSINGS:

- (a) Independent Auditors' Report
- (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
- (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003

16. DORMAN CENTRE:

- (a) Independent Auditors' Report
- (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
- (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003

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17. HERITAGE TOWNE CROSSING:

- (a) Independent Auditors' Report
- (b) Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003
- (c) Notes to the Historical Summary of Gross Income and Direct Operating Expenses for the year ended December 31, 2003

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- (b) EXHIBITS.

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| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|---|
| 1.1* | Form of Dealer Manager Agreement by and between Inland Western Retail Real Estate Trust, Inc. and Inland Securities Corporation. |
| 1.2* | Form of Soliciting Dealers Agreement by and between Inland Securities Corporation and the Soliciting Dealers. |
| 3.1* | First Amended and Restated Articles of Incorporation of Inland Western Retail Real Estate Trust, Inc. |
| 3.2* | Bylaws of Inland Western Retail Real Estate Trust, Inc. |
| 4.1* | Specimen Certificate for the Shares. |
| 5* | Opinion of Duane Morris LLP as to the legality of the Shares being registered. |
| 8* | Opinion of Duane Morris LLP as to tax matters. |
| 10.1* | Form of Escrow Agreement by and among Inland Western Retail Real Estate Trust, Inc., Inland Securities Corporation and LaSalle Bank National Association. |
| 10.2* | Form of Advisory Agreement by and between Inland Western Retail Real Estate Trust, Inc. and Inland Western Retail Real Estate Advisory Services, Inc. |
| 10.3* | Form of Master Management Agreement, including the form of Management Agreement for each Property by and between Inland Western Retail Real Estate Trust, Inc. and Inland Western Property Management Corp. |
| 10.4* | Property Acquisition Service Agreement by and among Inland Western Retail Real Estate Trust, Inc., Inland Western Retail Real Estate Advisory Services, Inc., Inland Real Estate Corporation, Inland Real Estate Advisory Services, Inc., and Inland Real Estate Acquisitions, Inc. |
| 10.5* | Independent Director Stock Option Plan |
| 10.6* | Indemnification Agreement by and between Inland Western Retail Real Estate Trust, Inc. and its directors and executive officers. |
| 10.7* | Purchase and Sale Agreement (Re: Peoria Station) dated January 31, 2003. |
| 10.8* | Assignment of Purchase and Sale Agreement (Re: Peoria Station) dated June 3, 2003 |
| 10.9* | Share Repurchase Plan |
| 10.10* | Agreement for Purchase and Sale (Re: Stony Creek) dated November 11, 2003 |
| 10.11* | Real Property Purchase Agreement (Re: Plaza 205 and Mall 205) dated December 3, 2003 |

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- 10.12* Amended Real Estate Purchase Contract (Re: Edmond Oklahoma Eckerd Drug Store) dated November 11, 2003
- 10.13* Amended Real Estate Purchase Contract (Re: Norman Oklahoma Eckerd Drug Store) dated November 11, 2003

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| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|---|
| 10.14* | Sale-Purchase Agreement Contract (Re: Shops at Park Place) dated September 5, 2003. |
| 10.15* | Assignment of Contract (Re: Shops at Park Place) dated September 23, 2003. |
| 10.16* | Assignment of Membership Interests (Re: Shops at Park Place) dated October 31, 2003. |
| 10.17* | Promissory Note (Re: Shops at Park Place) dated October 31, 2003. |
| 10.18* | Loan Agreement (Re: Shops at Park Place) dated October 31, 2003. |
| 10.19* | Post Closing Agreement (Re: Shops at Park Place) dated October 31, 2003 |
| 10.20* | Purchase and Sale Agreement (Re: Darien Towne Center) dated November 12, 2003. |
| 10.21* | Purchase and Sale Agreement (Re: Shaws Supermarkets- New Britain) dated November 20, 2003. |
| 10.22* | Agreement Relating to PetsMart Claims (Re: Darien Towne Center) dated December 18, 2003. |
| 10.23* | Agreement Relating to Irv's Lease (Re: Darien Towne Center) dated December 18, 2003. |
| 10.24* | Amended Purchase Agreement (Re: Newnan Crossing) dated December 18, 2003. |
| 10.25* | Mortgage Note \$10M (Re: Darien Towne Center) dated December 19, 2003. |
| 10.26* | Mortgage Note \$6.5M (Re: Darien Towne Center) dated December 19, 2003. |
| 10.27* | Mortgage, Assignment of Leases, Rents and Contracts, Security Agreement and Fixture Filing (Re: Darien Towne Center) dated December 19, 2003. |

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- 10.28* Related Agreement (Re: Darien Towne Center) dated December 19, 2003.
- 10.29* Assignment (Re: Darien Towne Center) dated December 19, 2003.
- 10.30* Partial Assignment and Assumption of Purchase and Sale Agreement (Re: Shaws Supermarket - New Britain) dated December 30, 2003.
- 10.31* Amended Purchase Agreement (Re: Pavilions at Kings Grant) dated December 31, 2003.
- 10.32* Post Closing and Indemnity Agreement (Re: Pavilions at Kings Grant) dated December 31, 2003.
- 10.33* Mortgage Note (Re: CorWest Plaza) dated January 1, 2004.
- 10.34* Mortgage, Assignment of Leases and Rents and Security Agreement (Re: CorWest Plaza) dated January 1, 2004.
- 10.35* Guaranty Agreement (Re: CorWest Plaza) dated January 1, 2004.
- 10.36* Letter Agreement (Re: Stoney Creek Marketplace) dated January 5, 2004.
- 10.37* Mortgage Note (Re: Stoney Creek Marketplace) dated January 5, 2004.
- 10.38* Mortgage, Assignment of Leases and Rents and Security Agreement (Re: Stoney Creek Marketplace) dated January 5, 2004.

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| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|--|
| 10.39* | Amended Contract of Sale (Re: La Plaza Del Norte) dated January 16, 2004. |
| 10.40* | Promissory Note (Re: Hickory Ridge) dated January 23, 2004. |
| 10.41* | Post Closing Agreement (Re: Hickory Ridge) dated January 2004. |
| 10.42* | Loan Agreement (Re: Hickory Ridge) dated January 23, 2004. |
| 10.43* | Amended and Restated Promissory Note (Re: Shops at Park Place and Shaws Supermarket - New Britain) dated January 2004. |
| 10.44* | Promissory Note (Re: Shops at Park Place and Shaws Supermarket - New Britain) dated January 2004 |
| 10.45* | Open-End Mortgage and Security Agreement (Re: Shops at Park Place and Shaws Supermarket - New Britain) dated January 2004. |

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- 10.46* Loan Agreement (Re: Shops at Park Place and Shaws Supermarket - New Britain) dated January 2004.
- 10.47* Guaranty Agreement Regarding Cross-Collateralization (Re: Shops at Park Place) dated January 2004.
- 10.48* Guaranty Agreement Regarding Cross-Collateralization (Re: Shaws Supermarket - New Britain) dated January 2004.
- 10.49* Notice of Final Agreement (Re: La Plaza Del Norte) dated February 2004.
- 10.50* Secured Promissory Note Loan No. 753821 (Re: La Plaza Del Norte) dated February 2004.
- 10.51* Deed of Trust, Security Agreement and Assignment of Rents Loan No. 753821 (Re: La Plaza Del Norte) dated February 2004.
- 10.52* Guaranty Loan No, 753821 (Re: La Plaza Del Norte) dated February 2004.
- 10.53* Amended Purchase and Sale Agreement (Re: CorWest Plaza) dated October 8 , 2003
- 10.54* Assignment and Assumption of Purchase and Sale Agreement (Re: CorWest Plaza) dated January 5, 2004.
- 10.55* Amended Purchase and Sale Agreement (Re: Metro Square Center dated January 16, 2004.
- 10.56* Assignment and Assumption of Letter Agreement (Re: Metro Square Center) dated January 20, 2004.
- 10.57* Reinstatement of and Amended to Purchase and Sale Agreement (Re: North Ranch Pavilions) dated January 14, 2004.
- 10.58* Assignment and Assumption of Purchase and Sale Agreement (Re: North Ranch Pavilions) dated January 15, 2004.
- 10.59* Letter Agreement (Re: MacArthur Crossing) dated November 20, 2003.
- 10.60* Assignment of Contract (Re: MacArthur Crossing) dated February 2004.
- 10.61* Secured Promissory Note Loan No. 753820 (Re: Larkspur Landing) dated January 30, 2004.
- 10.62* Deed of Trust, Security Agreement and Assignment of Rents (Re: Larkspur Landing) dated January 30, 2004.
- 10.63* Guaranty Loan No. 753820 (Re: Larkspur Landing) dated January 30, 2004.
- 10.64* Amended Option to Purchase Partnership Interests (Re: Hickory Ridge) dated December 23, 2003.

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|--|
| 10.65* | Assignment (Re: La Plaza Del Norte) dated January 21, 2004. |
| 10.66* | Purchase and Sale Agreement (Re: Larkspur Landing) dated December 12, 2003. |
| 10.67* | Assignment (Re: Larkspur Landing) dated January 14, 2004. |
| 10.68* | Amended Letter Agreement Offer to Purchase (Re: The Promenade at Red Cliff) dated February 13, 2004. |
| 10.69 | Agreement of Sale (Re: Peoria Crossings) dated January 7, 2004 |
| 10.70 | Letter agreement (Re: Heritage Towne Crossing) dated January 8, 2004 |
| 23.1 | Consent of KPMG LLP dated March 15, 2004. |
| 23.2* | Consent of Duane Morris LLP (included in Exhibit 5). |
| 23.3* | Consent of Duane Morris LLP (included in Exhibit 8). |
| 24* | Power of Attorney (included on signature page to the Registration Statement). |

* Previously filed.

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ITEM 37. UNDERTAKINGS.

1. The undersigned Registrant hereby undertakes:

- (a) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:
 - (i). To include any prospectus required by section 10(a)(3) of the Act;
 - (ii). To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and
 - (iii). To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the

registration statement.

- (b) That, for the purpose of determining any liability under the Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
 - (c) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
2. The Registrant undertakes to send to each Stockholder at least on annual basis a detailed statement of any transactions with the Advisor or its Affiliates, and of fees, commissions, compensation and other benefits paid or accrued to the Advisor or its Affiliates for the fiscal year completed, showing the amount paid or accrued to each recipient and the services performed.
 3. The Registrant undertakes to provide to the Stockholders the financial statements required by Form 10-K for the first full fiscal year of operations of the Company.
 4. The Registrant hereby undertakes to send to the Stockholders, within 60 days after the close of each quarterly fiscal period, the information specified by Form 10-Q, if such report is required to be filed with the Commission.
 5. The Registrant undertakes to file a sticker supplement pursuant to Rule 424(c) under the Act during the distribution period describing each Property not identified in the Prospectus at such time as there arises a reasonable probability that such Property will be acquired and to consolidate all such stickers into a post-effective amendment filed at least once every three months, with the information contained in such amendment provided simultaneously to the existing Stockholders. Each sticker supplement should also disclose all compensation and fees received by the Advisor and its Affiliates in connection with any such acquisition. The post-effective amendment shall include audited financial statements meeting the requirements of Rule 3-14 of Regulation S-X only for Properties acquired during the distribution period.

The Registrant also undertakes to file, after the end of the distribution period, a current report on Form 8-K containing the financial statements and additional information required by Rule 3-14 of Regulation S-X, to reflect each commitment (i.e., the signing of a binding purchase agreement) made after the end of the distribution period involving the use of 10% or more (on a cumulative basis) of the net proceeds of the offering and to provide the information contained in such report to the Stockholders at least once each quarter after the distribution period of the offering has ended.

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6. Insofar as indemnification for liabilities arising under the Act may be permitted to Directors, officers and controlling persons of the Registrant, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification

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against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a Director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such Director, officer or controlling person in connection with securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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TABLE VI
ACQUISITION OF PROPERTIES BY PROGRAMS (A)
(000's omitted, except for Square Feet or Acres)

Table VI presents information concerning the acquisition of real properties by programs with similar investment objectives, sponsored by Inland Real Estate Investment Corporation ("IREIC"), in the three years ended December 31, 2002. The detail provided with respect to each acquisition includes the property size, location, purchase price and the amount of mortgage financing. This information is intended to assist the prospective investor in evaluating the property mix as well as the terms involved in acquisitions by programs sponsored by IREIC.

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TABLE VI-(CONTINUED)
ACQUISITIONS OF PROPERTIES BY PROGRAMS (A)
(000'S OMITTED, EXCEPT FOR NUMBER OF SQUARE FEET)

| PROPERTY | NUMBER OF SQUARE FEET | DATE OF PURCHASE | PURCHASE PRICE PLUS ACQUISITION FEE |
|---|-----------------------|------------------|-------------------------------------|
| ----- | | | |
| Inland Real Estate Corporation: | | | |
| Rose Plaza East, Naperville, IL | 11,658 | 01/13/00 | 2,205 |
| Chatham Ridge, Chicago, IL | 175,774 | 02/01/00 | 19,545 |
| Joliet Commons Phase II, Joliet, IL | 40,395 | 02/08/00 | 4,809 |
| Riverdale Commons Outlot, Coon Rapids, MN | 6,566 | 03/03/00 | 1,150 |
| Bohl Farm Marketplace, Crystal Lake, IL | 97,287 | 12/01/00 | 15,688 |
| PETsMART, Gurnee, IL | 25,692 | 04/01 | 3,304 |
| Eckerd Drug Store, Chattanooga, TN | 10,908 | 05/02 | 2,367 |
| Michael's, Coon Rapids, MN | 24,317 | 07/02 | 2,808 |
| Deer Trace, Kohler, WI | 149,881 | 07/02 | 13,281 |
| Disney, Celebration, FL | 166,131 | 07/02 | 27,281 |

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| | | | |
|--|-----------|-------|------------|
| Townes Crossing, Oswego, IL | 105,989 | 08/02 | 12,194 |
| Park Square, Brooklyn Park, MN | 137,116 | 08/02 | 9,873 |
| Forest Lake Marketplace, Forest Lake, MN | 93,853 | 09/02 | 11,856 |
| Naper West Ph II, Naperville, IL | 50,000 | 10/02 | 3,116 |
| Walgreens, Jennings, MO | 15,120 | 10/02 | 2,706 |
| Four Flaggs Annex, Niles, IL | 21,790 | 11/02 | 3,289 |
| Four Flaggs, Niles, IL | 325,102 | 11/02 | 20,087 |
| Brunswick Market Center, Brunswick, OH | 119,540 | 12/02 | 13,423 |
| Medina Marketplace, Medina, OH | 72,781 | 12/02 | 9,511 |
| Shakopee Valley, Shakopee, MN | 146,436 | 12/02 | 14,700 |
| Shops at Orchard Place, Skokie, IL | 164,542 | 12/02 | 42,752 |
| | | | |
| Total for Inland Real Estate Corporation | 1,960,978 | | \$ 235,945 |
| | ===== | | ===== |

| PROPERTY | OTHER CASH EXPENDITURES CAPITALIZED (A) | TOTAL ACQUISITION COST (B) |
|---|---|-------------------------------|
| ----- | | |
| Inland Real Estate Corporation: | | |
| Rose Plaza East, Naperville, IL | 0 | 2,205 |
| Chatham Ridge, Chicago, IL | 356 | 19,901 |
| Joliet Commons Phase II, Joliet, IL | 0 | 4,809 |
| Riverdale Commons Outlot, Coon Rapids, MN | 0 | 1,150 |
| Bohl Farm Marketplace, Crystal Lake, IL | 0 | 15,688 |
| PETSMART, Gurnee, IL | 0 | 3,304 |
| Eckerd Drug Store, Chattanooga, TN | 2 | 2,369 |
| Michael's, Coon Rapids, MN | 0 | 2,808 |
| Deer Trace, Kohler, WI | 0 | 13,281 |
| Disney, Celebration, FL | 0 | 27,281 |
| Townes Crossing, Oswego, IL | (49) | 12,145 |
| Park Square, Brooklyn Park, MN | 15 | 9,888 |
| Forest Lake Marketplace, Forest Lake, MN | (18) | 11,838 |
| Naper West Ph II, Naperville, IL | 0 | 3,116 |
| Walgreens, Jennings, MO | 0 | 2,706 |
| Four Flaggs Annex, Niles, IL | 0 | 3,289 |
| Four Flaggs, Niles, IL | (25) | 20,062 |
| Brunswick Market Center, Brunswick, OH | 0 | 13,423 |
| Medina Marketplace, Medina, OH | 0 | 9,511 |
| Shakopee Valley, Shakopee, MN | 0 | 14,700 |
| Shops at Orchard Place, Skokie, IL | (3) | 42,749 |
| | | |
| Total for Inland Real Estate Corporation | \$ 278 | \$ 236,223 |
| | ===== | ===== |

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| PROPERTY | NUMBER OF SQUARE FEET | DATE OF PURCHASE | PURCHASE PRICE PLUS ACQUISITION FEE |
|----------|--------------------------|---------------------|---|
|----------|--------------------------|---------------------|---|

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Inland Retail Real Estate Trust, Inc.:

| | | | |
|--|---------|-------|--------|
| Conway Plaza, Orlando, FL | 119,106 | 02/00 | 8,548 |
| Pleasant Hill, Duluth, GA | 282,137 | 05/00 | 34,332 |
| Gateway Market Center, St. Petersburg, FL | 231,449 | 09/00 | 20,929 |
| Columbia Promenade, Kissimmee, FL | 65,870 | 01/01 | 7,440 |
| K-Mart, Macon, GA | 102,098 | 02/01 | 9,031 |
| Lowe's Home Improvement Center, Warner Robbins, GA | 131,575 | 02/01 | 9,431 |
| West Oaks, Ocoee, FL | 66,539 | 03/01 | 11,221 |
| PETSMART - Chattanooga, Chattanooga, TN | 26,040 | 04/01 | 3,103 |
| PETSMART - Daytona Beach, Daytona Beach, FL | 26,194 | 04/01 | 3,238 |
| PETSMART - Fredricksburg, Fredricksburg, VA | 26,067 | 04/01 | 3,410 |
| Sand Lake Corners, Orlando, FL | 189,741 | 05/01 | 22,256 |
| Jo-Ann Fabrics, Alpharetta, GA | 44,418 | 06/01 | 4,911 |
| Woodstock Square, Atlanta, GA | 218,819 | 06/01 | 27,596 |
| Chickasaw Trails Shopping Center, Orlando, FL | 75,492 | 08/01 | 8,631 |
| Just for Feet - Daytona, Daytona Beach, FL | 22,255 | 08/01 | 3,901 |
| Skyview Plaza, Orlando, FL | 281,247 | 09/01 | 21,332 |
| Aberdeen Square, Boynton Beach, FL | 70,555 | 10/01 | 6,717 |
| Anderson Central, Anderson, SC | 223,211 | 11/01 | 15,863 |
| Brandon Blvd. Shoppes, Brandon, FL | 85,377 | 11/01 | 9,482 |
| Creekwood Crossing, Bradenton, FL | 227,052 | 11/01 | 23,616 |
| Eckerd Drug Store - Greenville, Greenville, SC | 10,908 | 11/01 | 2,828 |
| Abernathy Square, Atlanta, GA | 131,649 | 12/01 | 24,131 |
| Citrus Hills, Citrus Hills, FL | 68,927 | 12/01 | 6,027 |
| Douglasville Pavilion, Douglasville, GA | 267,764 | 12/01 | 27,377 |
| Eckerd Drug Store - Spartanburg, Spartanburg, SC | 10,908 | 12/01 | 2,807 |
| Fayetteville Pavilion, Fayetteville, NC | 272,385 | 12/01 | 26,898 |
| Southlake Pavilion, Morrow, GA | 525,162 | 12/01 | 56,377 |
| Steeplechase Plaza, Ocala, FL | 87,380 | 12/01 | 8,647 |
| Venture Pointev, Duluth, GA | 334,620 | 12/01 | 26,533 |

| PROPERTY | OTHER CASH EXPENDITURES CAPITALIZED (A) | TOTAL ACQUISITION COST (B) |
|----------|---|-------------------------------|
|----------|---|-------------------------------|

Inland Retail Real Estate Trust, Inc.:

| | | |
|--|-------|--------|
| Conway Plaza, Orlando, FL | 220 | 8,768 |
| Pleasant Hill, Duluth, GA | (285) | 34,047 |
| Gateway Market Center, St. Petersburg, FL | 115 | 21,044 |
| Columbia Promenade, Kissimmee, FL | (6) | 7,434 |
| K-Mart, Macon, GA | - | 9,031 |
| Lowe's Home Improvement Center, Warner Robbins, GA | - | 9,431 |
| West Oaks, Ocoee, FL | 28 | 11,249 |
| PETSMART - Chattanooga, Chattanooga, TN | - | 3,103 |
| PETSMART - Daytona Beach, Daytona Beach, FL | - | 3,238 |
| PETSMART - Fredricksburg, Fredricksburg, VA | - | 3,410 |
| Sand Lake Corners, Orlando, FL | (106) | 22,150 |
| Jo-Ann Fabrics, Alpharetta, GA | - | 4,911 |
| Woodstock Square, Atlanta, GA | (51) | 27,545 |
| Chickasaw Trails Shopping Center, Orlando, FL | 14 | 8,645 |
| Just for Feet - Daytona, Daytona Beach, FL | 4 | 3,905 |
| Skyview Plaza, Orlando, FL | 387 | 21,719 |
| Aberdeen Square, Boynton Beach, FL | (45) | 6,672 |
| Anderson Central, Anderson, SC | (111) | 15,752 |
| Brandon Blvd. Shoppes, Brandon, FL | (53) | 9,429 |
| Creekwood Crossing, Bradenton, FL | 96 | 23,712 |

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| | | |
|--|-------|--------|
| Eckerd Drug Store - Greenville, Greenville, SC | (15) | 2,813 |
| Abernathy Square, Atlanta, GA | 94 | 24,225 |
| Citrus Hills, Citrus Hills, FL | (136) | 5,891 |
| Douglasville Pavilion, Douglasville, GA | (156) | 27,221 |
| Eckerd Drug Store - Spartanburg, Spartanburg, SC | 13 | 2,820 |
| Fayetteville Pavilion, Fayetteville, NC | 896 | 27,794 |
| Southlake Pavilion, Morrow, GA | 3,976 | 60,353 |
| Steeplechase Plaza, Ocala, FL | 455 | 9,102 |
| Venture Pointev, Duluth, GA | (149) | 26,384 |

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| PROPERTY | NUMBER OF SQUARE FEET | DATE OF PURCHASE | PURCHASE PRICE PLUS ACQUISITION FEE |
|--|--------------------------|---------------------|---|
| Sarasota Pavilion, Sarasota, FL | 324,140 | 01/02 | 42,10 |
| Turkey Creek Phase I, Knoxville, TN | 187,760 | 01/02 | 21,76 |
| Universal Plaza, Lauderhill, FL | 49,816 | 01/02 | 9,87 |
| Hairston Crossing, Decatur, GA | 57,884 | 02/02 | 6,63 |
| Just for Feet - Augusta, Augusta, GA | 22,115 | 02/02 | 3,05 |
| Just For Feet - Covington, Covington, LA | 20,116 | 02/02 | 3,44 |
| Logger Head Junction, Sarasota, FL | 4,711 | 02/02 | 66 |
| Shoppes of Golden Acres, Newport Richey, FL | 76,371 | 02/02 | 10,83 |
| Newnan Pavilion, Newnan, GA | 481,004 | 03/02 | 33,11 |
| Eisenhower Crossing I & II, Macon, GA | 403,013 | 11/01 03/02 | 43,29 |
| Acworth Avenue Retail Shopping Center, Acworth, GA | 16,130 | 12/00 03/02 | 2,83 |
| Crystal Springs Shopping Center, Crystal Springs, FL | 67,021 | 04/02 | 7,47 |
| Eckerd Drug Store - Concord, Concord, NC | 10,908 | 04/02 | 2,03 |
| Eckerd Drug Store - Tega Cay, Tega Cay, SC | 13,824 | 04/02 | 2,54 |
| Melbourne Shopping Center, Melbourne, FL | 209,217 | 04/02 | 9,84 |
| Riverstone Plaza, Canton, GA | 302,024 | 04/02 | 31,94 |
| Target Center, Columbia, SC | 79,253 | 04/02 | 7,67 |
| Hampton Point, Taylors, SC | 58,316 | 05/02 | 4,52 |
| Northpoint Marketplace, Spartanburg, SC | 101,982 | 05/02 | 8,26 |
| Oleander Shopping Center, Wilmington, NC | 51,888 | 05/02 | 5,22 |
| Sharon Greens, Cumming, GA | 98,317 | 05/02 | 13,06 |
| Bass Pro Outdoor World, Dania Beach, FL | 165,000 | 06/02 | 18,22 |
| Chesterfield Crossings, Richmond, VA, | 68,898 | 06/02 | 10,98 |
| Circuit City-Rome, Rome, GA | 33,056 | 06/02 | 4,47 |
| Circuit City-Vero Beach, Vero Beach, FL | 33,243 | 06/02 | 5,64 |
| Hillsboro Square, Deerfield Beach, FL | 145,647 | 06/02 | 18,98 |
| Stonebridge Square, Roswell, GA | 160,104 | 06/02 | 19,52 |
| Ward's Crossing, Lynchburg, VA | 80,918 | 06/02 | 11,10 |
| Circuit City Plaza, Orlando, FL | 78,625 | 07/02 | 11,51 |
| Eckerd Drug Store - Woodruff, Woodruff, SC | 13,824 | 07/02 | 2,47 |
| McFarland Plaza, Tuscaloosa, AL | 221,807 | 07/02 | 15,25 |
| Sycamore Commons, Matthews, NC | 247,513 | 07/02 | 38,18 |
| Walk at Highwoods I, Tampa, FL | 133,940 | 07/02 | 23,99 |

OTHER CASH

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| PROPERTY | EXPENDITURES CAPITALIZED (A) | TOTAL ACQUISITION COST (B) |
|--|---------------------------------|-------------------------------|
| Sarasota Pavilion, Sarasota, FL | 162 | 42,262 |
| Turkey Creek Phase I, Knoxville, TN | 442 | 22,204 |
| Universal Plaza, Lauderhill, FL | 2 | 9,874 |
| Hairston Crossing, Decatur, GA | 68 | 6,698 |
| Just for Feet - Augusta, Augusta, GA | 3 | 3,057 |
| Just For Feet - Covington, Covington, LA | - | 3,447 |
| Logger Head Junction, Sarasota, FL | - | 665 |
| Shoppes of Golden Acres, Newport Richey, FL | 474 | 11,305 |
| Newnan Pavilion, Newnan, GA | 1,650 | 34,764 |
| Eisenhower Crossing I & II, Macon, GA | (259) | 43,033 |
| Acworth Avenue Retail Shopping Center, Acworth, GA | 11 | 2,845 |
| Crystal Springs Shopping Center, Crystal Springs, FL | (2) | 7,476 |
| Eckerd Drug Store - Concord, Concord, NC | 197 | 2,236 |
| Eckerd Drug Store - Tega Cay, Tega Cay, SC | 419 | 2,963 |
| Melbourne Shopping Center, Melbourne, FL | 352 | 10,194 |
| Riverstone Plaza, Canton, GA | (8) | 31,935 |
| Target Center, Columbia, SC | 14 | 7,687 |
| Hampton Point, Taylors, SC | 20 | 4,546 |
| Northpoint Marketplace, Spartanburg, SC | (152) | 8,117 |
| Oleander Shopping Center, Wilmington, NC | 12 | 5,233 |
| Sharon Greens, Cumming, GA | (221) | 12,841 |
| Bass Pro Outdoor World, Dania Beach, FL | 16 | 18,236 |
| Chesterfield Crossings, Richmond, VA, | 43 | 11,025 |
| Circuit City-Rome, Rome, GA | 6 | 4,482 |
| Circuit City-Vero Beach, Vero Beach, FL | 9 | 5,657 |
| Hillsboro Square, Deerfield Beach, FL | 2,437 | 21,422 |
| Stonebridge Square, Roswell, GA | 1,181 | 20,710 |
| Ward's Crossing, Lynchburg, VA | (69) | 11,031 |
| Circuit City Plaza, Orlando, FL | - | 11,518 |
| Eckerd Drug Store - Woodruff, Woodruff, SC | 407 | 2,882 |
| McFarland Plaza, Tuscaloosa, AL | - | 15,259 |
| Sycamore Commons, Matthews, NC | 40 | 38,224 |
| Walk at Highwoods I, Tampa, FL | (77) | 23,922 |

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| PROPERTY | NUMBER OF SQUARE FEET | DATE OF PURCHASE | PURCHASE PRICE PLUS ACQUISITION FEE |
|---|--------------------------|---------------------|---|
| Eckerd Drug Store - Blackstock, Spartanburg, SC | 10,908 | 08/02 | 2,72 |
| Forestdale Plaza, Jamestown, NC | 53,239 | 08/02 | 6,67 |
| Sexton Commons, Fuquay Varina, NC | 49,097 | 08/02 | 8,02 |
| Shoppes at Lake Mary, Lake Mary, FL | 69,843 | 08/02 | 11,14 |
| Wakefield Crossing, Raleigh, NC | 75,929 | 08/02 | 10,79 |
| Circuit City-Cary, Cary, NC | 27,891 | 09/02 | 5,65 |
| Cox Creek, Florence, AL | 173,934 | 09/02 | 19,23 |
| Forest Hills Centre, Wilson, NC | 73,280 | 09/02 | 6,67 |

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| | | | |
|--|---------|-------|-------|
| Golden Gate, Greensboro, NC | 153,114 | 10/02 | 10,54 |
| Goldenrod Groves, Orlando, FL | 108,944 | 10/02 | 9,17 |
| City Crossing, Warner Robins, GA | 187,099 | 11/02 | 14,64 |
| Clayton Corners, Clayton, NC | 125,656 | 11/02 | 14,99 |
| CompUSA Retail Center, Newport News, VA | 47,134 | 11/02 | 7,32 |
| Duvall Village, Bowie, MD | 82,522 | 11/02 | 13,04 |
| Gateway Plaza - Jacksonville, Jacksonville, NC | 101,682 | 11/02 | 11,86 |
| Harundale Plaza, Glen Burnie, MD | 274,160 | 11/02 | 24,75 |
| Jones Bridge Plaza, Norcross, GA | 83,363 | 11/02 | 7,52 |
| Lakewood Ranch, Bradenton, FL | 69,472 | 11/02 | 9,49 |
| North Aiken Bi-Lo Center, Aiken, SC | 59,204 | 11/02 | 5,81 |
| Plant City Crossing, Plant City, FL | 85,252 | 11/02 | 10,87 |
| Presidential Commons, Snellville, GA | 372,149 | 11/02 | 45,03 |
| Rainbow Foods - Garland, Garland, TX | 70,576 | 11/02 | 5,09 |
| Rainbow Foods - Rowlett, Rowlett, TX | 63,117 | 11/02 | 4,60 |
| River Ridge, Birmingham, AL | 158,755 | 11/02 | 26,49 |
| Rosedale Shopping Center, Huntersville, NC | 94,248 | 11/02 | 19,54 |
| Shoppes on the Circle, Dothan, AL | 149,085 | 11/02 | 15,01 |
| Southlake Shopping Center, Cornelius, NC | 131,247 | 11/02 | 13,63 |
| Village Square at Golf, Boynton Beach, FL | 134,894 | 11/02 | 18,53 |
| Chatham Crossing, Siler City, NC | 32,000 | 12/02 | 3,96 |
| Columbiana Station, Columbia, SC | 270,649 | 12/02 | 46,61 |
| Gateway Plaza - Conway, Conway, SC | 62,428 | 12/02 | 6,29 |
| Lakeview Plaza, Kissimmee, FL | 54,788 | 12/02 | 6,18 |
| Meadowmont Village Center, Chapel Hill, NC | 133,471 | 12/02 | 26,80 |

| PROPERTY | OTHER CASH EXPENDITURES CAPITALIZED (A) | TOTAL ACQUISITION COST (B) |
|---|---|-------------------------------|
| Eckerd Drug Store - Blackstock, Spartanburg, SC | - | 2,723 |
| Forestdale Plaza, Jamestown, NC | (42) | 6,628 |
| Sexton Commons, Fuquay Varina, NC | (58) | 7,965 |
| Shoppes at Lake Mary, Lake Mary, FL | 18 | 11,158 |
| Wakefield Crossing, Raleigh, NC | (58) | 10,736 |
| Circuit City-Cary, Cary, NC | 4 | 5,654 |
| Cox Creek, Florence, AL | (26) | 19,205 |
| Forest Hills Centre, Wilson, NC | 12 | 6,687 |
| Golden Gate, Greensboro, NC | - | 10,545 |
| Goldenrod Groves, Orlando, FL | - | 9,177 |
| City Crossing, Warner Robins, GA | - | 14,644 |
| Clayton Corners, Clayton, NC | - | 14,994 |
| CompUSA Retail Center, Newport News, VA | - | 7,324 |
| Duvall Village, Bowie, MD | - | 13,046 |
| Gateway Plaza - Jacksonville, Jacksonville, NC | - | 11,865 |
| Harundale Plaza, Glen Burnie, MD | - | 24,752 |
| Jones Bridge Plaza, Norcross, GA | - | 7,525 |
| Lakewood Ranch, Bradenton, FL | - | 9,494 |
| North Aiken Bi-Lo Center, Aiken, SC | - | 5,816 |
| Plant City Crossing, Plant City, FL | - | 10,879 |
| Presidential Commons, Snellville, GA | - | 45,032 |
| Rainbow Foods - Garland, Garland, TX | - | 5,098 |
| Rainbow Foods - Rowlett, Rowlett, TX | - | 4,604 |
| River Ridge, Birmingham, AL | - | 26,492 |
| Rosedale Shopping Center, Huntersville, NC | - | 19,544 |
| Shoppes on the Circle, Dothan, AL | - | 15,013 |
| Southlake Shopping Center, Cornelius, NC | - | 13,633 |
| Village Square at Golf, Boynton Beach, FL | - | 18,537 |
| Chatham Crossing, Siler City, NC | - | 3,964 |
| Columbiana Station, Columbia, SC | - | 46,615 |

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| | | |
|--|---|--------|
| Gateway Plaza - Conway, Conway, SC | - | 6,295 |
| Lakeview Plaza, Kissimmee, FL | - | 6,188 |
| Meadowmont Village Center, Chapel Hill, NC | - | 26,808 |

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| PROPERTY | NUMBER OF SQUARE FEET | DATE OF PURCHASE | PURCHASE PRICE PLUS ACQUISITION FEE |
|---|--------------------------|---------------------|---|
| Shoppes at Citiside, Charlotte, NC | 75,478 | 12/02 | 9,706 |
| Shoppes at New Tampa, Wesley Chapel, FL | 158,342 | 12/02 | 19,196 |
| Total acquisitions | 12,116,280 | | 1,364,872 |
| DEVELOPMENT PROJECTS | | | |
| Citrus Hills - Blockbuster, Citrus Hills, FL | N/A | 12/01 | 172 |
| Eckerd Drug Store - Gaffney, Gaffney, SC | N/A | 12/02 | 1,173 |
| Eckerd Drug Store - Perry Creek, Raleigh, NC | N/A | 09/02 | 1,775 |
| Shoppes at Chalet Suzanne, Lake Wales, FL | N/A | 12/02 | 3,293 |
| Southampton Village, Tyrone, GA | N/A | 11/02 | 2,762 |
| Southwood Plantation, Tallahassee, FL | N/A | 10/02 | 1,937 |
| Total for Development projects | | | 11,115 |
| Total for Inland Retail Real Estate Trust, Inc. | 13,550,686 | | 1,375,992 |

| PROPERTY | OTHER CASH EXPENDITURES CAPITALIZED (A) | TOTAL ACQUISITION COST (B) |
|---|---|-------------------------------|
| Shoppes at Citiside, Charlotte, NC | - | 9,706 |
| Shoppes at New Tampa, Wesley Chapel, FL | - | 19,196 |
| Total acquisitions | 12,212 | 1,377,090 |
| DEVELOPMENT PROJECTS | | |
| Citrus Hills - Blockbuster, Citrus Hills, FL | - | 172 |
| Eckerd Drug Store - Gaffney, Gaffney, SC | - | 1,173 |
| Eckerd Drug Store - Perry Creek, Raleigh, NC | - | 1,775 |
| Shoppes at Chalet Suzanne, Lake Wales, FL | - | 3,293 |
| Southampton Village, Tyrone, GA | - | 2,762 |
| Southwood Plantation, Tallahassee, FL | - | 1,937 |
| Total for Development projects | - | 11,115 |
| Total for Inland Retail Real Estate Trust, Inc. | 12,212 | 1,384,909 |

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TABLE VI- (CONTINUED)

ACQUISITION OF PROPERTIES BY PROGRAMS

NOTES TO TABLE VI

(A) "Other Cash Expenditures Capitalized" consists of improvements to the property and acquisition expenses which are capitalized and paid or to be paid from the proceeds of the offering. As part of several purchases, rent is received under master lease agreements on the spaces currently vacant for periods ranging from one to two years or until the spaces are leased. As these payments are received, they are recorded as a reduction in the purchase price of the properties and have been netted against other cash expenditures capitalized.

(B) "Total Acquisition Cost" is the sum of columns captioned "Purchase Price Plus Acquisition Fee" and "Other Cash Expenditures Capitalized."

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this Post-Effective Amendment No. 3 to its Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Oak Brook, State of Illinois, on the 15th day of March, 2004.

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

By:/s/ Robert D. Parks

Robert D. Parks
President, Chief Executive Officer and
Chief Operating Officer

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Pursuant to the requirements of the Securities Act of 1933, as amended, this Post-Effective Amendment No. 3 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

NAME

CAPACITY

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| | | |
|---|--|-------|
| /s/ Robert D. Parks ----- Robert D. Parks | Chairman and Director | March |
| /s/ Kelly E. Tucek ----- Kelly E. Tucek | Principal financial and accounting officer | March |
| /s/ Brenda G. Gujral ----- Brenda G. Gujral | Director | March |
| * ----- Frank Catalano | Independent Director | March |
| * ----- Ken Beard | Independent Director | March |
| * ----- Paul R. Gauvreau | Independent Director | March |
| * ----- Gerald M. Gorski | Independent Director | March |
| * ----- Barbara A. Murphy | Independent Director | March |
| /s/ Roberta S. Matlin ----- | | |

* Signed on behalf of the named individuals by Roberta S. Matlin, under power of attorney.