Wells Real Estate Investment Trust II, Inc.

Wells Real Estate Investment Trust II became effective in 2003 and focuses on high-quality office properties leased to creditworthy companies. The REIT commenced its public offering in December 2003 and closed to capital raising in June 2010. Currently, the REIT has $5.6 billion of assets totaling 22.2 million square feet. The REIT owns 69 office properties and one hotel. All are in the continental United States with the exception of one office property in Moscow, Russia. The REIT is in the Liquidating Lifestage of Closed REITS, which is recognized by the positioning of the portfolio for sale or for listing on a public exchange. The investment style of this REIT is considered to be "Core," which is typically defined as a REIT that generates a high percentage of its total return from income and a modest percentage from asset appreciation. REITs in this category are also expected to exhibit low volatility in asset values.

Key Highlights
- The REIT announced in November its plan to become independent of its sponsor in the first quarter of 2013 with a listing of the REITs shares on a national securities exchange as "most likely."
- A dedicated management team is being identified by the Advisor to manage the REIT's operations as employees of the REIT.
- In June, the REIT announced that the Advisor had waived payment of internalization fees.
- The share price was adjusted to $7.33 per share as of the end of the third quarter in a November valuation, a reduction from $7.47 per share.

Capital Stack Review
- Debt – With a debt ratio of 26.1%, the REIT is below median for Closed REITs. 96% of the REITs debt is fixed rate. Included are $250 million of 7-year bonds issued in 2011 and due in 2018.
- Debt Maturity – 52.9% of the company's debt is due to be repaid in 2017 or later.
- Loan Activity – At the beginning of 2012, the REIT closed on a four year, unsecured term loan at an interest rate of 2.63%. The maximum $450 million in total proceeds has been funded.
- Cash on hand – 0.9% of total assets.

Metrics
- Distribution – 5.0%, based upon a $10.00 per share price, stable since the beginning of 2011. The quarterly distribution rate will be reduced in the fourth quarter to 3.8%, based upon a $10.00 share price or 5.2% on the $7.33 valuation per share.
- Distribution Source – Paid 100% from cash flow from operating activities.
- MFFO Payout Ratio – 100% year-to-date up modestly from 97% at year-end 2011.
- Fee Waivers and Deferrals – None reported.
- Interest Coverage Ratio – 3.6 reflects the very low debt ratio in the REIT.
- Impairments – A loss of $18.5 million was taken relative to the 180 E. 100 South office building in Salt Lake City, Utah.

Real Estate
- Acquisitions – None completed in 2012.
- Occupancy – 91.7% on par with last quarter.
- Lease Expirations – 59% of the leases in the portfolio expire in 2017 or later with an average remaining lease term of 6.7 years.
- Dispositions – None reported in the third quarter, year-to-date, $60.1 million has been sold in two assets. The REIT has a nine-property portfolio currently under contract for $260.5 million with a targeted closing in the fourth quarter.
- Diversification – Properties are owned in 22 states, the District of Columbia and Moscow, Russia with 15% of the portfolio located in Atlanta, GA.