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## NASD Suspends Wells President From Broker-Dealer Arm for Year

By **DEAN STARKMAN**  
 Staff Reporter of THE WALL STREET JOURNAL

Leo F. Wells III, president and founder of Wells Real Estate Funds Inc., which has roiled the real-estate industry by rapidly raising more than \$2 billion from mainly small investors and bidding up the price of office buildings nationwide, was suspended for a year from the company's broker-dealer arm by the National Association of Securities Dealers.

The NASD said Mr. Wells and the company's broker-dealer unit, Wells Investment Securities, violated rules on noncash compensation by providing "lavish" meals, entertainment and other travel perquisites to brokers who sell shares of Wells's private real-estate investment trust and other products.

Among the perks, the NASD said, the Wells company spent \$425,000 on food and entertainment at a 2002 conference in Amelia Island, Fla., that included dinner in a Civil War-era fort with fireworks, sky divers, a five-and-drum corps and actors parading in Civil War dress. The NASD said the Wells unit spent \$233 a person each day for meals alone. The NASD said that while the Wells unit told regulators that "the conferences were 'strictly educational,' they actually constituted lavish affairs that did not meet the standards of NASD rules."

Ken Christensen, a spokesman for Wells Real Estate, said: "We certainly take any regulatory matters very seriously," adding that a \$150,000 fine had been paid and the company's investors had been informed.

He said Mr. Wells will step aside as head of the broker-dealer arm, but will continue to head the company's other operations, including managing its massive real-estate portfolio and acting as spokesman for the company. Through another spokesman, Mr. Wells declined to comment. Mr. Wells and the company neither admitted nor denied the allegations.

The NASD action, announced Monday, puts a spotlight on the so-called private REIT industry, which has grown rapidly in recent years to meet investor demand for high yields during a time of low interest rates. Wells, for instance, says it manages more than \$4 billion, most of it raised during the past two or three years, for more than 100,000 investors. The fastest growth has come from the company's Wells Real Estate Investment Trust Inc., which pays a 7% annual dividend.



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But private REITs, which don't trade on any public exchange, have drawn criticism from rivals in the public REIT industry, who say private REITs' fees are too high. Indeed, in filings with the Securities and Exchange Commission, Wells says it spends only 84% of proceeds from securities sales on property investments, with the balance paid to Wells affiliates and "as reimbursement for certain organizational and offering expenses."

"From time to time, private REIT apologists and the private REIT sponsors throw out the lamest defenses for these deals," said Jon Fosheim, a principal with Green Street Advisors Inc., a Newport Beach, Calif., public REIT research firm. "But the high costs alone pretty much guarantee subpar performance."

Another Wells spokesman, Scott Tagliarino, said the Wells REIT's popularity is an indication that investors are "very comfortable with the fee structure."

Wells has emerged a major player in the office-building investment market and was the largest single buyer of offices in 2002, with \$1.4 billion in purchases in mostly single-tenant buildings in suburban markets such as Reston, Va., and Auburn Hills, Mich. Many of the deals have come in competitive auctions.

"They have been a very aggressive bidder," said David Shulman, Lehman Brothers real-estate analyst.

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*Updated October 13, 2003 10:29 p.m.*

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