INLAND WESTERN RETAIL REAL ESTATE TRUST INC
Form DEFM14A
September 10, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

Inland Western Retail Real Estate Trust, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
Common Stock, par value $.001 per share

(2) Aggregate number of securities to which transaction applies:
37,500,200

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
$10.00; value set forth in merger agreement

(4) Proposed maximum aggregate value of transaction:
$375,002,000

(5) Total fee paid:
$11,513

x Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

2901 BUTTERFIELD ROAD
OAK BROOK, ILLINOIS 60523
TELEPHONE: (630) 218-8000

September 10, 2007

Dear Fellow Stockholder:

On August 14, 2007, the board of directors of Inland Western Retail Real Estate Trust, Inc. voted unanimously to acquire the companies that provide us with business management and advisory services and property management services via four separate mergers, collectively referred to as the Merger. The Merger includes Inland Western Retail Real Estate Advisory Services, Inc., our Business Manager/Advisor; and Inland Southwest Management Corp., Inland Northwest Management Corp., and Inland Western Management Corp., our Property Managers. Our board of directors formed a special committee comprised solely of independent directors to evaluate the Merger and its alternatives. The special committee, which retained its own independent legal and financial advisors, unanimously recommended approval of the Merger Agreement to our board of directors. I joined in the unanimous affirmative vote along with my fellow directors, and we recommend you ratify our entry into the Merger Agreement and our approval of the Merger.

Our company is a real estate investment trust, or REIT, formed in March 2003 by our sponsor Inland Real Estate Investment Corporation. Initially, our business plan provided for us to be externally managed in order to reduce the impact of a growing infrastructure and to capitalize on depth and tenure of The Inland Group Inc. s expertise. Since our inception, we have grown dramatically to the point where, as of June 30, 2007, our portfolio consisted of 288 wholly-owned properties, 16 properties in which we have an interest of between 45% and 95%, and six development joint venture projects in which we have an investment. As of June 30, 2007, our portfolio contained approximately 46 million square feet of leasable space. Based upon our current market capitalization, we are comparable in size to the largest publicly-traded retail REITs.

As is the case with other REITs established by our sponsor, our business plan incorporates both a process for self-administration and, at a future point in time, the exploration of a liquidity event to be determined by our board of directors. A liquidity event could take the form of listing our shares on a stock exchange, merging our REIT with a publicly traded REIT, or selling our real estate assets, any one of which would provide our stockholders with an exit strategy from their investment. We believe that acquiring our Property Managers and our Business Manager/Advisor is one of the most significant steps toward achieving our goal of an effective liquidity event for our stockholders, and we expect the Merger to have a positive impact on our future financial performance.

The current stockholders of our Business Manager/Advisor and our Property Managers will collectively receive approximately 37,500,000 shares of our stock as payment for their companies, which will be approximately 7.7% of our outstanding shares upon completion of the Merger. The Merger is expected to be accretive to funds from operations. In the first full year following closing, we expect it to be accretive by $0.08 per share, and anticipate the Merger to be increasingly accretive each year thereafter.

As part of the merger consideration, the REIT will acquire over 250 experienced employees to perform the Business Manager/Advisor functions and operate the property management company. Those employees will include the executive team of Michael J. O Hanlon, Steven P. Grimes, Shane C. Garrison, and Niall J. Byrne, who have the strategic vision to bring our company to the next level. This experienced team has been working together to solidify the foundation of our company, and they are dedicated to us and our mission. We believe they are the right team to lead and manage our continued growth. Further, our company has the benefit of three-year consulting agreements with Daniel L. Goodwin, G. Joseph Cosenza and me, without compensation, to be effective upon closing of the Merger.

Your vote is crucial to the future of our company. Our board of directors has found this transaction to be fair to you and the other stockholders of our company and has approved this Merger. We recommend that you vote **FOR** the Merger, as well as the other two proposals on the proxy card.

If you have any questions, or need help with any of the documents included in this package, please call our proxy solicitor, Morrow & Co., Inc., at 1-800-573-4804. Thank you for your continued support of and interest in our REIT. On behalf of Inland Western Retail Real Estate Trust, Inc., we wish you good health, happiness and prosperity.

Sincerely,

/s/ Robert D. Parks

Robert D. Parks
Chairman of the Board

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
DATE: November 13, 2007
TIME: 10:00 a.m.
PLACE: 2901 Butterfield Road
Oak Brook, Illinois 60523

To Our Stockholders:

The purposes of the annual meeting are:

- Ratification of our entry into the Merger Agreement with Inland Western Retail Real Estate Advisory Services, Inc., Inland Southwest Management Corp., Inland Northwest Management Corp., Inland Western Management Corp., and certain other parties and our approval of the Merger;

- Election of seven directors to hold office until our next annual meeting of stockholders and until their successors are elected and qualify;

- Ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the 2007 fiscal year; and

- To transact any other business as may properly come before the meeting or any adjournments or postponements of the meeting.

The Board of Directors has fixed the close of business on August 31, 2007, as the record date for determining stockholders of record entitled to notice of and to vote at the meeting.

A proxy statement and proxy card accompany this notice. We have previously provided you with a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as amended, a copy of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2007 and a copy of our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007.

We hope to have the maximum number of stockholders present in person or by proxy at the meeting. To assure your representation at the meeting, please authorize your proxy by completing, signing, dating and mailing the enclosed proxy card. You may also authorize your proxy electronically, or by calling a toll-free telephone number, by following the procedures described in the attached proxy statement. **YOUR COOPERATION IN PROMPTLY AUTHORIZING YOUR PROXY WILL BE VERY MUCH APPRECIATED.** For specific instructions, please refer to the instructions on the proxy card.

You may use the enclosed envelope which requires no further postage if mailed in the United States to return your proxy. If you attend the meeting, you may revoke your proxy and vote in person, if you desire.

By order of the Board of Directors,

/s/ Roberta S. Matlin

Roberta S. Matlin
Vice President and Secretary

INLAND WESTERN RETAIL REAL ESTATE TRUST, INC.

2901 BUTTERFIELD ROAD
OAK BROOK, ILLINOIS 60523
TELEPHONE: (630) 218-8000

PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD NOVEMBER 13, 2007

Our board of directors, or Board, is furnishing you this proxy statement to solicit proxies on its behalf to be voted at our 2007 annual meeting of stockholders to be held on November 13, 2007, at 10:00 a.m. at our principal executive offices, and at any and all adjournments or postponements thereof, which we refer to as the Annual Meeting. We encourage your participation in the voting at the Annual Meeting and solicit your support on each proposal to be presented.

This proxy statement and the accompanying proxy card are first being mailed to stockholders on or about September 14, 2007.

Unless the context otherwise requires, all references to IWEST, the Company, our, we and us in this proxy statement relate to Inland Wester Retail Real Estate Trust, Inc. and those entities owned or controlled directly or indirectly by us. The mailing address of our principal executive offices is 2901 Butterfield Road, Oak Brook, Illinois 60523 and our telephone number is (630) 218-8000.

At the Annual Meeting you will vote upon several proposals, including a proposal to ratify our entry into an Agreement and Plan of Merger (attached hereto as **Appendix A**, and which we sometimes refer to as the Merger Agreement) and our approval of the Merger, which is one of the most significant steps that will help us achieve our goal of being self-administered. We propose to acquire, through stock-for-stock mergers, Inland Western Retail Real Estate Advisory Services, Inc., or our Business Manager/Advisor, and Inland Southwest Management Corp., or ISMC, Inland Northwest Management Corp., or INMC, and Inland Western Management Corp., or IWMC, which we refer to collectively as our Property Managers. We sometimes refer to the Business Manager/Advisor and the Property Managers collectively as the Service Providers, and to the transaction involving these mergers as the Merger. To acquire our Property Managers and our Business Manager/Advisor, we will issue approximately 37,500,000 shares of our common stock as payment for those companies, subject to the payment of no more than 200 additional shares due to rounding. These shares are valued at $10.00 per share for a total of approximately $375.0 million. The principal executive offices of our Property Managers and our Business Manager/Advisor are located at 2901 Butterfield Road, Oak Brook, Illinois 60523, and their telephone number is: (630) 218-8000.

Because certain of our directors are subject to conflicts of interest in evaluating the Merger, our Board appointed a special committee of independent directors to, among other things, consider and make recommendations to our Board with respect to the Merger. This special committee and our Board as a whole believe that the terms of the Merger are in the best interests of our stockholders and the Board unanimously recommends that you ratify our entry into the Merger Agreement and our approval of the Merger.

Ratification of our entry into the Merger Agreement and the Merger at the Annual Meeting will require the affirmative vote of a majority of the votes cast on the matter at our Annual Meeting (if a quorum is present) other than votes cast with respect to shares held by, or held by an affiliate of, our interested directors, Inland Real Estate Investment Corporation, The Inland Group, Inc., or certain stockholders of our Property Managers. We sometimes refer to The Inland Group, Inc. as TIGI, and we sometimes refer to one or more of TIGI s affiliates as Inland. We sometimes refer to Inland Real Estate Investment Corporation as our Sponsor. Even if our stockholders ratify our entry into the Merger Agreement and our approval of the Merger, the completion of the Merger is subject to other customary closing conditions.

STOCKHOLDERS ARE URGED TO READ AND CONSIDER CAREFULLY THE INFORMATION CONTAINED IN THIS PROXY STATEMENT AND TO CONSULT WITH THEIR PERSONAL FINANCIAL ADVISORS.

THIS TRANSACTION HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, OR THE SEC, NOR HAS THE SEC PASSED UPON THE FAIRNESS OR MERITS OF SUCH TRANSACTION NOR UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

INSTRUCTION GUIDE FOR AUTHORIZING YOUR PROXY

THREE EASY WAYS TO AUTHORIZE YOUR PROXY WITHOUT ATTENDING

OUR ANNUAL MEETING

Authorize Your Proxy by Mail

Simply mark, sign, date and return the enclosed proxy card as promptly as possible in the prepaid-postage envelope enclosed.

Authorize Your Proxy by Telephone

It is fast, convenient, and your vote is immediately confirmed and posted. Using a touch-tone phone, call the toll free number, 1-800-868-5614, which is also shown on your proxy card.

Just Follow These Four Easy Steps:

- Read the accompanying proxy statement and proxy card;
- Call the toll-free number provided on your proxy card;
- Enter your CONTROL NUMBER located on your proxy card; and
- Follow the simple recorded instructions.

Your vote is important!
Call 24 hours a day

Authorize Your Proxy by Internet

It is fast, convenient, and your vote is immediately confirmed and posted. Using a computer, simply go to the designated website for our stockholders:

www.proxyvoting.com/INWEST

Just Follow These Four East Steps:

- Read the accompanying proxy statement and proxy card;
- Go to the website **www.proxyvoting.com/INWEST;**
- Enter your CONTROL NUMBER located on your proxy card; and
- Follow the simple instructions.

Your vote is important!

Go to www.proxyvoting.com/INWEST 24 hours a day

i

QUESTIONS AND ANSWERS FOR STOCKHOLDERS

We have tried to anticipate questions you may have relating to the Merger. The following questions and answers are based upon the detailed information contained in the enclosed proxy statement, which you should read and rely upon in casting your vote. You may obtain information incorporated by reference in this proxy statement without charge by following the instructions under Information About the Annual Meeting Where You Can Find More Information About Us on pg. 5.

Q: What am I being asked to vote on at the Annual Meeting?

A: You are being asked to vote on the following three proposals:

- Ratification of our entry into the Merger Agreement to acquire our Business Manager/Advisor and Property Managers and our approval of the Merger;

- Election of seven directors; and

- Ratification of appointment of KPMG LLP as our independent registered public accounting firm for the 2007 fiscal year.

Q: What companies are parties to the Merger Agreement?

A: The following companies are the parties to the Merger Agreement: IWEST Acquisition 1, Inc., IWEST Acquisition 2, Inc., IWEST Acquisition 3, Inc., IWEST Acquisition 4, Inc., each a newly formed subsidiary of ours; our Property Managers; our Business Manager/Advisor; our Sponsor; IWEST Merger Agent, LLC; and us.

You own stock in Inland Western Retail Real Estate Trust, Inc., which is a real estate investment trust, or REIT. Our business is primarily acquiring, developing, operating, leasing and managing multi-tenant shopping centers and single-user net lease properties.

Our Sponsor is Inland Real Estate Investment Corporation, which is an affiliate of Inland. Inland is comprised of a group of affiliated, privately owned companies involved in several aspects of the commercial real estate business, including investments, mortgage loan, risk and tax assessment, property management and asset management.

IWEST Merger Agent, LLC is the agent for certain stockholders of each of our Property Managers, which we refer to as the PM Stockholder Agent. The PM Stockholder has been appointed in accordance with an agent appointment agreement, to act, as summarized and described in the Merger Agreement, on behalf of the stockholders of the Property Managers who are bound to the terms of the Merger Agreement by their appointment of the PM Stockholder Agent.

As with each REIT sponsored by our Sponsor, we began operations with only a few properties. Historically, Inland has found it economically preferable to not build a large internal infrastructure initially, but rather to have the REITs externally managed at inception. We entered into contracts with our Property Managers for property management services and with our Business Manager/Advisor to counsel on and conduct the other aspects of our day-to-day business. Since our inception in 2003, our seven member Board, four of whom are independent and not affiliated with TIGI, has governed our company.

Q: Is the proposed Merger fair to stockholders?

A: Because of the related-party nature of the proposed Merger, our Board formed a special committee comprised only of independent directors to consider the Merger and alternatives to such a transaction. The special committee retained independent legal and financial advisors to assist in the evaluation and negotiation of the Merger. The special committee also obtained a fairness opinion from its independent

financial advisor, William Blair & Company, LLC, which we refer to as William Blair, which concluded that, subject to certain assumptions, limitations and qualifications set forth in the opinion, the aggregate share consideration to be paid by us pursuant to the Merger Agreement to acquire our Business Manager/Advisor and Property Managers was fair, from a financial point of view, to us and our stockholders.

Q: What will be the impact of the Merger on the current stockholders?

A: If the Merger is ratified by our stockholders, we will issue approximately 37,500,000 shares of our common stock to the stockholders of our Business Manager/Advisor and Property Managers as consideration for those four companies, which is approximately 7.7% of our common stock after giving effect to the Merger. We expect that the distributions paid on approximately 37,500,000 shares, plus the incremental general and administrative costs of self-administration, will be less than the advisory and property management fees plus cost reimbursements under our existing contracts with our Business Manager/Advisor and Property Managers. Upon closing, the Merger is expected to be accretive to funds from operations by at least $0.08 per share for the first full year following the Merger, and it is estimated to be increasingly accretive in subsequent years.

Q: What are the reasons for the proposed Merger?

A: Many stock analysts and institutional investors have a preference for self-administered REITs, which have a dedicated management team and staff strictly focused on the REIT s day-to-day business. In the future, we may wish to list our shares on a national exchange. Our Board believes that such a future listing would be better received by the investment community, and potentially result in a higher valuation for our company, if we are self-administered.

In addition, acquiring our Business Manager/Advisor means that we will not have to pay fees to our Business Manager/Advisor relating to the sale of any of our properties that we choose to sell in the future.

See The Merger Reasons for Merger for additional reasons for the proposed Merger.

Q: How was the Merger process conducted and what was the process to determine the Merger consideration?

A: Our Board established a special committee, comprised of four independent, non-affiliated directors, to evaluate alternatives and make recommendations with respect to the Merger. The special committee retained its own independent counsel, the law firm of Sidley Austin LLP, and its own independent financial advisor, William Blair, who provided the special committee and our Board with a fairness opinion, the full text of which is attached in **Appendix B**. After a more than 14 month due diligence and negotiation process, the special committee recommended entry into the Merger Agreement and approval of the Merger.

Q: Why is the Merger occurring now?

A: Our Board elected not to wait and pursue the option outlined in this proxy statement whereby we could acquire our Business Manager/Advisor and Property Managers under the terms of the existing advisory agreement and property management agreement, beginning in September and May 2008, respectively, which could have resulted in approximately 54.1 million shares issued in connection with such acquisition.

See The Merger Reasons for Merger for additional information relating to the timing of the proposed Merger.

Q: Who will be the management team and our employees?

A: If the Merger is approved, our management team is expected to include Michael J. O Hanlon as President and Chief Executive Officer, Steven P. Grimes as Chief Operating Officer and Chief Financial Officer,

iii

Shane C. Garrison as Chief Investment Officer and Niall J. Byrne as our Vice President and President of the Property Managers. Mr. O Hanlon brings over 30 years of industry experience to the team, and as Senior Vice President, Director of Asset Management with our Sponsor since 2005, has been responsible for implementing the strategic direction and value enhancement of multiple Inland portfolios. Mr. Grimes has been our Treasurer and Principal Financial Officer, and has been the Chief Financial Officer of our Business Manager/Advisor, since 2004 and during that time has overseen the acquisition of over $7.7 billion in real estate assets and led our Sarbanes-Oxley Act compliance efforts. Mr. Garrison has been with Inland US Management since 2004; as a Vice President, he has focused his asset management skills solely on our portfolio, and has also concentrated on building the joint venture development platform for us for over two years. Mr. Byrne has been a Senior Vice President with our Property Managers, overseeing the overall property management functions for the 46 million square foot portfolio. In addition, we are acquiring more than 250 employees of Inland and our Property Managers.

Q: Are there any consulting agreements that exist in connection with the Merger?

A: Yes, there are three-year consulting agreements with each of Daniel L. Goodwin, G. Joseph Cosenza and Robert D. Parks, three of Inland s founding partners, without compensation, that will become effective upon the closing of the Merger.

Q: What are the tax consequences to us of the proposed Merger?

A: Following the Merger we expect, based in part upon an opinion of our counsel we will receive at the closing, to continue to be taxed as a REIT for federal income tax purposes.

Q: What happens if I do not vote on the proposed Merger?

A: Every stockholder vote is important. The Merger proposal will only pass if it receives the affirmative vote of a majority of the votes cast on the matter at our 2007 Annual Meeting (if a quorum is present) other than votes cast with respect to shares held by, or held by an affiliate of, our interested directors, TIGI, our Sponsor or certain stockholders of our Property Managers.

Q: How do I vote?

A: You have four options. You can mail your marked and signed proxy card in the enclosed postage-paid envelope. You can authorize your proxy to be voted by calling a toll-free telephone number. You can also access a website address which will allow you to authorize your proxy to be voted by Internet. Or, you can vote your shares in person at our Annual Meeting on November 13, 2007. See Instruction Guide for Authorizing Your Proxy on page i of this booklet for details.

Q: Can I change my vote?

A: Yes, you may change your vote electronically via the Internet at www.proxyvoting.com/INWEST until 11:59 p.m. Eastern Time on November 12, 2007, by telephone by the same deadline, or in person via a proxy card at the Annual Meeting prior to the vote tabulation.

Q: Why is this being submitted to our stockholders?

A: There is no legal requirement to submit the Merger to our stockholders. Because we believe it is desirable to obtain your ratification of our entry into the Merger Agreement and our approval of the Merger, we have made your ratification a condition to the closing of the Merger. If the Merger proposal is not approved, we will continue to operate under our current management structure, paying fees and cost reimbursements to our Property Managers and our Business Manager/Advisor under their contracts and our Board will examine its other alternatives.

Q: How does our Board recommend that I vote on the Merger proposal?

A: Our Board unanimously recommends that you vote **FOR** the Merger proposal.

v

TABLE OF CONTENTS

FORWARD LOOKING STATEMENTS

Because we want to provide you with more meaningful and useful information, this proxy statement includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements reflect our current 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, estimates, could, or similar expressions. These forward-looking statements are based on information currently available to us and are subject to a number of risks in 2007 and beyond which may differ materially from those expressed in, or implied by, these forward-looking statements. We believe these judgments to be reasonable, but these statements are not guarantees of any events or financial results, and due to a variety of known and unknown risks, uncertainties and other factors, our actual results, performance or achievements may be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Whether actual future results and developments will conform with our expectations and predictions is subject to a number of risks and uncertainties, including the risks and uncertainties referred to in our most recent Annual Report on Form 10-K and our subsequent Quarterly Reports on Form 10-Q, under the caption Risks of the Merger to Us and our Stockholders in this proxy statement, and other factors, many of which are beyond our control, including, without limitation, the following:

- Our common stock is not currently listed on an exchange or trading market and cannot be readily sold;
- The level and volatility of interest rates, including the recent general trend towards rising interest rates;
- National or local economic, business, real estate and other market conditions, including the ability of the general economy to recover timely from economic downturns;
- The effect of inflation and other factors on fixed rental rates, operating expenses and real estate taxes;
- Risks of acquiring real estate, including continued competition for new properties and the downward trend on capitalization rates;
- Risks of real estate development, including the failure of pending developments and redevelopments to be completed on time and within budget and the failure of newly acquired or developed properties to perform as expected;
- Risks of joint venture activities, including development joint ventures;
- The competitive environment in which we operate and the supply of and demand for retail goods and services in our markets;
- Financial risks, such as the inability to renew existing tenant leases or obtain debt or equity financing on favorable terms, if at all;
- The increase in property and liability insurance costs and the ability to obtain appropriate insurance coverage;
- Financial stability of tenants, including the ability of tenants to pay rent, the decision of tenants to close stores and the effect of bankruptcy laws;
- The ability to maintain our status as a REIT for federal income tax purposes;
- The effects of hurricanes and other natural disasters;

- Environmental/safety requirements and costs;
- Certain of our officers and directors have potential conflicts of interest;
- We are dependent on Inland to provide services to us;
- We may compete with our affiliates for properties;
- Our funds from operations for the current fiscal year will decrease if the Merger is consummated in 2007;
- We may be exposed to risks to which we have not historically been exposed; and
- After the Merger, we will be dependent on our own executives and employees.

See the section of this proxy statement entitled Risks of the Merger to Us and our Stockholders beginning on pg. 12 for a description of these and other risks, uncertainties and other factors.

You should not place undue reliance on any forward-looking statements. Except as required by the 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 proxy statement.

INFORMATION ABOUT THE ANNUAL MEETING

Information about the Annual Meeting

Our Annual Meeting will be held on November 13, 2007 at 10:00 a.m. Central Time at 2901 Butterfield Road, Oak Brook, Illinois 60523. Please contact our Vice President and Secretary, Roberta S. Matlin, at (630) 218-8000 if you plan to attend. Additionally, please contact Morrow & Co., Inc. at 1-800-573-4804 if you have any questions with respect to authorizing a proxy to vote your shares at the Annual Meeting.

Information about this Proxy Statement

We sent you this proxy statement and the proxy card on behalf of our Board who is soliciting a proxy from you to vote your shares at the Annual Meeting. This proxy statement summarizes information we are required to provide to you and is designed to assist you in voting your shares. On or about September 14, 2007, we began mailing the proxy materials to all stockholders of record as of the close of business on August 31, 2007, the record date fixed by our Board for determining the holders of record of our common stock, $.001 par value per share, entitled to notice of and to vote at the Annual Meeting. Each of the outstanding shares of common stock, as of the record date, is entitled to one vote on all matters to be voted upon at the Annual Meeting. On the record date, there were 451,339,585 shares of common stock issued and outstanding.

Proposals to be Considered by You at the Annual Meeting

At the Annual Meeting, we will be asking you to:

PROPOSAL 1: Ratify our entry into the Merger Agreement with our Business Manager/Advisor and Property Managers and certain other parties and our approval of the Merger;

PROPOSAL 2: Elect seven directors; and

PROPOSAL 3: Ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2007 fiscal year.

Information about Voting

VOTING OF PROXIES - Votes cast by proxy or in person at the Annual Meeting will be tabulated by an inspector of election appointed for the Annual Meeting. Each executed and timely returned proxy will be voted in accordance with the directions indicated on it. Each stockholder giving a proxy has the power to revoke it at any time before the shares it represents are voted by giving written notice of the revocation to our Vice President, by delivering a later-dated proxy (which automatically revokes the earlier proxy), or by voting in person at the Annual Meeting. Except for broker non-votes described below, executed but unmarked proxies will be voted by the person(s) named thereon (i) for the ratification of our entry into the Merger Agreement with our Business Manager/Advisor and Property Managers and certain other parties thereto, and for the ratification of the Merger; (ii) for the election of the nominees named herein as directors (or a substitute for a nominee if such nominee is unable or refuses to serve); (iii) for the ratification of our appointment of KPMG LLP as our independent registered public accounting firm for the 2007 fiscal year; and (iv) in the discretion of such person(s) upon such matters not presently known or determined that properly may come before the Annual Meeting.

AUTHORIZATION OF PROXIES ELECTRONICALLY VIA THE INTERNET - Stockholders may authorize a proxy to vote via the Internet at the www.proxyvoting.com/INWEST until 11:59 p.m. Eastern Time, on November 12, 2007. The Internet proxy authorization procedures are designed to authenticate the stockholders identity and to allow stockholders to vote their shares and confirm that their instructions have been properly recorded.

AUTHORIZATION OF PROXIES VIA TOUCH-TONE TELEPHONE Stockholders may authorize a proxy to vote via touch-tone telephone by calling the toll-free phone number provided on their proxy card until 11:59 p.m. Eastern Time, on November 12, 2007. The touch-tone telephone proxy authorization procedures are designed to

authenticate the stockholders identity and to allow stockholders to authorize a proxy to vote their shares and confirm that their instructions have been properly recorded.

Please refer to the proxy card enclosed for voting instructions. If you choose not to authorize your proxy by touch-tone telephone or over the Internet, please complete and return the paper proxy card in the pre-addressed, postage-paid envelope provided with this proxy statement.

Quorum; Abstentions and Broker Non-Votes

We have hired an independent proxy solicitor, Morrow & Co., Inc., to solicit proxies on the Board s behalf with respect to the matters to be voted upon at the Annual Meeting. Votes cast by proxy or in person at the Annual Meeting will be tabulated by an inspector of election appointed by us. The inspector will determine whether or not a quorum is present. Presence in person or by proxy at the Annual Meeting of holders of a majority of our issued and outstanding shares constitutes a quorum. Abstentions and broker non-votes will count toward the presence of a quorum, but will not be counted as votes cast and will have no effect on the proposals to ratify our entry into the Merger Agreement and the Merger and our appointment of KPMG LLP, although abstentions and broker non-votes will have the effect of votes against the director election proposal. A broker non-vote occurs when a nominee (such as a custodian or bank) holding shares for a beneficial owner returns a signed proxy but does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner.

Dissenters Right of Appraisal

Under Maryland law and our existing charter, holders of our common shares will not be entitled to rights of appraisal with respect to the Merger.

Number of Votes Necessary for each Proposal to be Approved

- *Ratification of our entry into the Merger Agreement and the Merger:* Provided a quorum is present, the affirmative vote of a majority of the votes cast on the matter at our Annual Meeting other than votes cast with respect to shares held by, or held by an affiliate of, our interested directors, TIGI, our Sponsor, or certain stockholders of our Property Managers, is required to ratify our entry into the Merger Agreement with our Business Manager/Advisor and Property Managers and certain other parties, and our approval of the Merger.

- *Election of directors:* Provided a quorum is present, the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote is required for the election of each of the seven directors to be elected at the Annual Meeting. There are no cumulative voting rights in the election of directors.

- *Ratification of the Appointment of KPMG:* Provided a quorum is present, the affirmative vote of a majority of the votes cast on the matter at our Annual Meeting is required to ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2007 fiscal year.

PLEASE VOTE YOUR SHARES BY AUTHORIZING YOUR PROXY BY TELEPHONE, ELECTRONICALLY OR BY COMPLETING, SIGNING AND DATING THE ACCOMPANYING PROXY CARD AND RETURNING IT IN THE ENCLOSED POSTAGE-PAID ENVELOPE WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING.

Costs of Proxies

We will bear all expenses incurred in connection with the solicitation of proxies. Our officers, directors and employees, and officers and employees of Inland may solicit proxies by mail, personal contact, letter, telephone, telegram, facsimile or other electronic means. They will not receive any additional compensation for those activities,

but they may be reimbursed for their out-of-pocket expenses. In addition, we have hired Morrow & Co., Inc., to solicit proxies on our behalf. We expect that the fee of soliciting proxies on our behalf will be approximately $7,000 plus costs and expenses.

Other Matters

As of the date of this proxy statement, the above-referenced proposals are the only matters we are aware of that are to be acted upon at the Annual Meeting. If any other matter should properly come before the Annual Meeting for which we did not receive proper notice, in accordance with the requirements of our Bylaws, the persons appointed by you in your proxy will vote on those matters in accordance with the recommendation of the Board, or, in the absence of such a recommendation, in accordance with their discretion. The affirmative vote of a majority of the votes cast on any such other matter will be required for approval.

Where You Can Find More Information About Us

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, statements or other information we file with the SEC at the SEC s Public Reference Room located at 100 F Street, N.E., 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 100 F Street, N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the public reference facilities. Our SEC filings are also available to the public on the website maintained by the SEC at http://www.sec.gov.

Information to Rely Upon when Casting your Vote

You should rely only on the information contained in this proxy statement or incorporated by reference herein. No person has been authorized to give any information or to make any representations other than those contained in or incorporated by reference in this proxy statement in connection with the solicitation made by this proxy statement and, if given or made, the information or representations must not be relied upon as having been authorized by us. The delivery of this proxy statement will not, under any circumstances, create an implication that there has not been a change in the facts set forth in this proxy statement or in our affairs since the date of this proxy statement. This proxy statement does not constitute a solicitation by anyone in any jurisdiction in which the solicitation is not authorized or in which the person making the solicitation is not qualified to do so or to anyone to whom it is unlawful to make a solicitation.

SUMMARY

This summary highlights the material information contained in the proxy statement, but may not contain all of the information that is important to you and, therefore, you should read carefully this entire document, including the appendices and the other documents to which we refer you, for a more complete understanding of the transactions that are the subject of this proxy statement.

Ratification of our Entry into the Merger Agreement and our Approval of the Merger

Background. We are a real estate investment trust that was formed in 2003. We have primarily focused on acquiring, developing, operating and leasing multi-tenant shopping centers and single-user net lease properties. As of June 30, 2007, our portfolio consisted of 288 wholly-owned properties, 16 properties in which we have an interest of between 45% and 95%, and six development joint venture projects in which we have an investment, four of which we consolidate. As of June 30, 2007, our portfolio contained approximately 46 million square feet of leasable space. Our anchor tenants include nationally and regionally recognized grocers, discount retailers, financial companies, and other tenants who provide basic household goods and services. Of our total annualized revenue as of June 30, 2007, approximately 69% is generated by anchor or credit tenants, including American Express, Zurich Insurance Company, Best Buy, Ross Dress For Less, Bed Bath & Beyond, GMAC, Wal-Mart, Publix Supermarket, and several others. The term credit tenant is subjective and we apply the term to tenants who we believe have a substantial net worth.

Since our inception, our Property Managers have been responsible for, among other things, leasing, collecting rents and performing routine maintenance work that is not otherwise the tenant s responsibility. For our Property Managers services, we pay a fee of 4.5% of gross operating income of each property managed by the Property Managers. In 2006, 2005 and 2004, we paid our Property Managers property management fees of $29.8 million, $20.7 million and $5.4 million, respectively.

Likewise since inception, Inland Western Retail Real Estate Advisory Services, Inc., has served as our business manager and advisor. Since we do not have any employees, our Business Manager/Advisor has been responsible for our day-to-day operations, including negotiating the acquisition of our properties, overseeing our Property Managers, administering our bookkeeping and accounting and legal functions, investor relations and consulting with our Board on policy decisions. For these services, we can be charged by our Business Manager/Advisor an annual asset management fee of up to 1% of our average invested assets; however, our Business Manager/Advisor has historically charged us no more than 0.53% on an annual basis. Average invested asset value is defined as the average of the total book value, including acquired intangibles, of our real estate assets plus our loans receivable secured by real estate, before reserves for depreciation, reserves for bad debt or other similar non-cash reserves. We compute the values at the end of each month for which the fee is being calculated. The fee is paid quarterly in an amount equal to ¼ of the estimated annual fee based on our average invested assets as of the last day of the immediately preceding quarter. Based upon the maximum allowable advisor asset management fee of 1% of our average invested assets, maximum fees of $74.9 million, $54.9 million and $15.0 million could have been charged for the years ended December 31, 2006, 2005 and 2004, respectively. However, we paid $39.5 million and $20.9 million for the years ended December 31, 2006 and 2005, respectively. Our Business Manager/Advisor waived all asset management fees for the year ended December 31, 2004. Our Business Manager/Advisor has agreed to forego any fees allowable but not taken on an annual basis.

In addition to the asset management fee, we are obligated to pay to our Business Manager/Advisor a property disposition fee and a subordinated incentive fee payable on sale of a property. The disposition fee is equal to the lesser of: (i) 3% of the contract sales price of the property, or (ii) 50% of the customary commission that would be paid to third parties for the property. The incentive fee is equal to 15% of the net proceeds remaining from the sale of any property after our stockholders have first received: (i) a cumulative, non-compounded return equal to 10% on an annual basis on the original issue price paid for our shares reduced by the amount of prior distributions from the sale or financing of our properties and (ii) a return of the original issue price paid for our shares reduced by the amount of prior distributions from the sale or financing of our properties. Our obligation to pay future disposition and incentive fees terminates upon consummation of the Merger.

Additionally, our Business Manager/Advisor and its affiliates are entitled to be reimbursed for general and administrative costs relating to our administration and acquisition of properties. During the calendar year ended December 31, 2006, we incurred $3.4 million for these administrative costs. During the six months ended June 30, 2007, we incurred $3.1 million for these costs. Our obligation to pay such general and administrative fees terminates upon consummation of the Merger.

For more information regarding our property management agreements and our advisory agreement, see The Merger Our Property Management Agreements and The Merger Our Advisory Agreement.

The Merger. Solely to facilitate the Merger, four of our newly created wholly-owned subsidiaries will merge into our Business Manager/Advisor and Property Managers. At the effective time, we will distribute 45% of the shares to the stockholders of our Business Manager/Advisor and Property Managers and deposit the balance into an escrow account. The effective time is currently expected to occur as soon as practicable after the Annual Meeting, provided our stockholders ratify our entry into the Merger Agreement and our approval of the Merger at the Annual Meeting and all other terms and conditions of the Merger Agreement are satisfied.

The Special Committee s and Board s Recommendation. Two of our directors, Robert D. Parks and Brenda G. Gujral, are officers and/or directors of Inland and stockholders of our Property Managers and TIGI, the ultimate owner of our Business Manager/Advisor. Accordingly, our Board appointed a special committee, comprised of four independent, non-affiliated directors, to evaluate, negotiate and make recommendations with respect to the Merger and its alternatives. The special committee, which retained its own independent counsel and independent financial advisor, unanimously recommended approval of the Merger to our Board. Following the recommendation of the special committee, the Board unanimously approved the Merger Agreement and recommended that our stockholders ratify our entry into the Merger Agreement and our approval of the Merger. The special committee and the Board determined that the Merger is in the best interests of our stockholders. In connection with their recommendation, the special committee and our Board reviewed the analyses and findings of the special committee s financial advisor, William Blair.

Opinion of Financial Advisor. William Blair provided its opinion to the special committee and our Board that, as of the date of the opinion, the aggregate share consideration to be paid pursuant to the Merger Agreement to the stockholders of our Property Managers and our Business Manager/Advisor is fair, from a financial point of view, to us and our stockholders.

The full text of William Blair s written opinion, dated as of August 14, 2007, which sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the opinion, is attached hereto as **Appendix B**. William Blair s opinion does not constitute a recommendation as to how any stockholder should vote with respect to the Merger. You should read William Blair s opinion in its entirety. See The Merger Opinion of the Financial Advisor.

We will pay William Blair non-refundable fees totaling $1.0 million for its services as financial advisor to the special committee and for rendering the opinion. We have also agreed to reimburse William Blair for up to $50,000 of its reasonable out-of-pocket expenses, including attorneys fees, and to indemnify William Blair against certain liabilities, including certain liabilities under the federal securities laws. See The Merger Opinion of the Financial Advisor.

Purpose and Reasons for the Merger. Due mainly to the growth of our portfolio of real estate assets, our Board determined to consider the benefits of becoming a largely self-administered REIT. In this regard, our Board formed a special committee of independent, non-affiliated directors to consider a transaction where we would acquire our Business Manager/Advisor and Property Managers. The special committee considered the positive and negative factors of acquiring our Business Manager/Advisor and Property Managers as well as the alternatives of (1) maintaining the status quo, (2) hiring new third parties to perform business management, advisory and property management functions and terminating our agreements with our Business Manager/Advisor and Property Managers, (3) building business management, advisory and property management functions internally and terminating our agreements with our Business Manager/Advisor and Property Managers and (4) selling our company to a third party. With respect to the

alternative of acquiring our Business Manager/Advisor and Property Managers, the special committee considered, among other factors, the benefits of self-administration, reduction of operating costs, access

to properties identified by Inland, use of the Inland name and our name and logo, continuity of operations, retention of key management personnel and receipt of the opinion of its independent financial advisor. The special committee also considered risks such as the inability to become fully self-administered following such a transaction, the potential loss of key employees of our Business Manager/Advisor and Property Managers and potential unanticipated costs of services provided by our Business Manager/Advisor and Property Managers. Based upon these considerations, the special committee determined to pursue the alternative of acquiring our Business Manager/Advisor and Property Managers and, ultimately, determined that the proposed Merger is fair to and in the best interests of our stockholders and recommended that our Board and stockholders approve the transaction. See The Merger Reasons for the Merger.

Conflicts of Interest. In considering our Board s recommendation regarding the Merger, you should be aware that certain of our officers and directors have interests in connection with the Merger which may present them with actual or potential conflicts of interest. These potential conflicts are described in more detail under The Merger Interest of Certain Persons in the Matters to be Acted Upon.

Conditions to the Merger that Must be Satisfied or Waived; Termination. The Merger is subject to a number of customary conditions that must be satisfied or waived, including, without limitation, the following:

- each party s representations and warranties must be true and correct in all material respects at and as of the closing date;

- each party must have performed and complied with all of its covenants in all material respects at and as of the closing date;

- all of the ancillary agreements required by the Merger Agreement, including the registration rights agreement, the escrow agreement, the TIGI letter agreement, the sublease, the amendment to office and facilities management services agreement, the amendment to insurance and risk management services agreement, the amendment to computer services agreement, the amendment to personnel services agreement, the amendment to property tax services agreement, the amendment to communications services agreement, the amendment to the loan services agreement, the second amendment to the mortgage brokerage services agreement, the transition property due diligence services agreement, the institutional investor relationships services agreement, the legal services agreement, the license agreement modification and the license agreement (property management corporations) and any other agreement, instrument or document being or to be executed and delivered under the Merger Agreement shall have been executed and delivered;

- we must have received the required ratification of our stockholders of the Merger and our entry into the Merger Agreement; and

- the written consents previously executed by each of our Sponsor, as sole stockholder of our Business Manager/Advisor, and each of Robert H. Baum, Daniel L. Goodwin, Robert D. Parks and G. Joseph Cosenza, whom we refer to collectively as the Principal Stockholders, as stockholders of each of the Property Managers, shall remain in full force and effect.

At any time prior to the effective time, whether before or after the ratification of the Merger by our stockholders, the Merger Agreement may be terminated by the mutual written consent of the parties. In addition, the Merger Agreement may be terminated by our Sponsor and the PM Stockholder Agent, acting jointly, or by us:

- if the closing date has not occurred on or before January 31, 2008, except that a party may not terminate for this reason if that party s breach is a principal cause for the failure of the closing date to occur;

- if any law makes the consummation of the Merger illegal or otherwise prohibited or if a court or other governmental entity permanently enjoins, restrains or otherwise prohibits the Merger in a final and non-appealable order; or

- upon a material breach by the other parties of any of their obligations under the Merger Agreement after notice and a period for cure. See The Merger Merger Agreement.

Break-up Fee. If our Board: (i) publicly recommends against your ratification; and (ii) your ratification is not obtained at the Annual Meeting, then we shall pay to the Service Providers an amount equal to the actual, documented, out-of-pocket expenses incurred by the Service Providers to third parties in connection with the negotiation of the Merger Agreement, up to a maximum of $1.2 million.

Federal Income Tax Consequences. Following the Merger we expect, based in part upon an opinion of our counsel we will receive at the closing, to continue to be taxed as a REIT for federal income tax purposes.

Accounting Treatment. The Merger consideration will be accounted for primarily as expense incurred in connection with terminating the property management agreements that we have with our Property Managers and the advisory agreement that we have with our Business Manager/Advisor, substantially all of which will be treated as an expense upon closing of the Merger.

Market Prices of Common Stock and Distributions. There is no established public trading market for our common stock. For purposes of the Merger, we valued our common stock at $10.00 per share. As of August 1**,** 2007, we had over 115,000 stockholders of record. We declared and paid distributions to our stockholders totaling $0.64 per common share during the fiscal year ended December 31, 2006. A total of $0.29 of these per share distributions were taxable as ordinary income. There was a $0.35 return of capital for tax purposes per share, which reduces each stockholder s tax basis in its shares and will cause more gain or less loss on the sale of the shares. During the six months ended June 30 2007, we declared distributions to stockholders totaling $0.32 per common share.

Election of Directors

Our current governing charter requires us to have at least three, but not more than 11, directors. Our Board currently has seven members. Each Board member serves for a term of one year and until his or her successor is elected and qualifies. We are proposing to re-elect each of our existing Board members. Although we are not listed on the New York Stock Exchange, a majority of our directors would satisfy the definition of independent under the New York Stock Exchange s listing standards. A biography for each Board member, and additional information about our Board and our management team, is contained under the heading Election of Directors Nominees for Election as Directors.

Ratification of the Appointment of our Independent Registered Public Accounting Firm

Our Board, upon recommendation of the audit committee, selects and appoints our independent registered public accounting firm annually and asks stockholders to ratify the appointment. However, even if the stockholders do not ratify the appointment, we will retain the firm appointed by our Board and our Board will take the lack of ratification into account in making its selection for the following year.

MERGER SUMMARY TERM SHEET

This term sheet is a summary of the material terms of our acquisition of our Property Managers and our Business Manager/Advisor and does not contain all of the information regarding the acquisition that you may consider important. The following summary is applicable only if our stockholders ratify our entry into the Merger Agreement and our approval of the Merger, as set forth in Proposal No. 1 of this proxy statement.

- We intend on taking one of the most significant steps in achieving our goal of becoming a self-administered REIT by acquiring our Business Manager/Advisor and our Property Managers (see pgs. 14-23, The Merger Background of the Merger and The Merger Reasons for the Merger);

- We will acquire our Property Managers and our Business Manager/Advisor through four separate stock-for-stock mergers (see pg. 24, The Merger Merger Agreement);

- In the Merger, we will issue: (i) to the stockholder of our Business Manager/Advisor, 18,750,000 shares of common stock; and (ii) to the stockholders of our Property Managers, an aggregate of 18,750,000 shares of common stock, for a total of approximately 37,500,000 shares, valued at $10.00 per share, totaling $375.0 million in the aggregate, subject to rounding, which is approximately 7.7% of our outstanding common stock after giving effect to the proposed issuance, in exchange for all of the outstanding equity securities of our Property Managers and our Business Manager/Advisor (see pgs. 24-25, The Merger Merger Agreement);

- The completion of the Merger is contingent upon ratification of our entry into the Merger Agreement and the contemplated Merger by our stockholders, and that the irrevocable written consents executed by each of our Sponsor, as sole stockholder of our Business Manager/Advisor, and Principal Stockholders, as stockholders of each of the Property Managers, concurrent with the execution of the Merger Agreement shall remain in full force and effect, as well as other customary closing conditions (see pgs. 29-32, The Merger Merger Agreement);

- We, and certain of our affiliates, will be indemnified by our Sponsor, the PM Stockholder Agent and the stockholders of the Property Managers against certain damages, as specified in the Merger Agreement and summarized in this proxy statement. Likewise, we will indemnify our Sponsor and the stockholders of our Property Managers, and certain of their affiliates, against certain damages, as specified in the Merger Agreement. (see pgs. 33-36, The Merger Merger Agreement);

- We will grant to the stockholders of our Property Managers and our Business Manager/Advisor registration rights, requiring us to register the shares we issue to them as the Merger consideration under certain circumstances (see pgs. 37-38, The Merger Ancillary Agreements);

- We will enter into an escrow agreement where 55% of our common shares issued in the Merger will be deposited into an escrow account and subject to two release dates, the second of which will occur on the earlier of the 30th day after receipt by us of an audit opinion from our independent registered public accounting firm covering our financial statements for the year ending December 31, 2008 and the second anniversary of the effective date of the escrow agreement. (see pg. 38, The Merger Ancillary Agreements);

- In connection with the Merger, we, among other things: (1) entered into employment agreements with key members of our management team that will become effective upon the closing and entered into consulting agreements with key Inland executives, without compensation, that will become effective upon the closing; (2) entered into a letter agreement with TIGI whereby TIGI agrees to perform certain obligations under the Merger Agreement; (3) will enter into a sublease for office space at our corporate headquarters; (4) received a letter from an affiliate of TIGI who, subject to its existing acquisition agreements, will make us aware of all the properties that the

affiliate is acquiring, with the understanding of our primary interests in certain properties; and if we choose, we will be able to bid on such properties through that affiliate; (5) will enter into a transition due diligence services agreement; (6) will enter into a legal services agreement for assistance with certain legal services; (7) will enter into an amendment to a license agreement whereby Inland agrees not to use or license our name or logo to other parties with certain limited exceptions; and (8) will enter into an agreement whereby we will receive assistance securing institutional investors (see pgs. 38-42, The Merger Ancillary Agreements);

- In connection with the Merger, our Business Manager/Advisor, among other things, will enter into amendments to various existing services agreements with Inland, which will be deemed assigned to us upon closing of the Merger (see pg. 40, The Merger Ancillary Agreements);

- In connection with the Merger, our Property Managers, among other things, will enter into certain license agreements with Inland (see pg. 42, The Merger Ancillary Agreements);

- In the opinion of William Blair, the Merger consideration is fair, from a financial point of view, to us and our stockholders (see pgs. 47-57, The Merger Opinion of the Financial Advisor); and

- Following the Merger we expect, based in part upon an opinion of our counsel we will receive at the closing, to continue to be taxed as a REIT for federal income tax purposes (see pgs. 57-59, The Merger Federal Tax Consequences).

RISKS OF THE MERGER TO US AND OUR STOCKHOLDERS

Certain of our officers and directors have potential conflicts of interest.

Certain of our directors and officers have interests in connection with the Merger, our Property Managers and our Business Manager/Advisor that are different from, and may potentially conflict with, our interests. In particular, all of our current executive officers and two of our current directors are also executive officers and/or directors of Inland. We have entered into a non-compensated consulting agreement, that will become effective upon the closing, with Robert D. Parks, our current chairman and director. Mr. Parks and Ms. Brenda G. Gujral, our chief executive officer and a director, are stockholders of our Property Managers and TIGI, the ultimate owner of our Business Manager/Advisor. As such, these individuals will receive direct and indirect substantial benefits, in the form of our payment of shares of our common stock as consideration in the Merger.

Mr. Grimes, our current Treasurer and Principal Financial Officer, has entered into an employment agreement with us, that will become effective upon the closing, and will become our Chief Operating Officer and Chief Financial Officer. Mr. Grimes is also currently a stockholder of one or more of the Property Managers. If the Merger is consummated, Mr. Grimes will receive additional economic interest in our common stock through his ownership in one or more of the Property Managers. Mr. Grimes, due to his ownership interest in one or more Property Managers, is subject to the terms of the Merger Agreement and other ancillary agreements including the agent appointment agreement and the escrow agreement. Under the terms of the escrow agreement, 55% of our common shares issued in the Merger will be deposited into an escrow account and subject to two release dates, the second of which will occur on the earlier of the 30th day after receipt by us of an audit opinion from our independent registered public accounting firm covering our financial statements for the year ending December 31, 2008 and the second anniversary of the effective date of the escrow agreement. Certain provisions of the Merger Agreement and the escrow agreement may further have a significant impact on shares owned by stockholders of the Property Managers and our Business Manager/Advisor. In particular, Mr. Grimes is subject to potential conflicts of interest in connection with the enforcement against us and the enforcement by us against one or more Property Managers of indemnification obligations under the Merger Agreement and the escrow agreement. The enforcement of the provisions of these agreements may adversely affect the financial interests of Mr. Grimes and the economic interests of Mr. Grimes may affect his judgment as to whether and to what extent we should enforce the indemnification obligations against the Property Managers or contest any attempt by the Property Managers to enforce indemnification obligations against us after the consummation of the Merger.

We are dependent on Inland to provide services to us.

We rely on Inland to provide certain administrative services to us. The services provided to us are described in service agreements including the ancillary agreements executed, and to be executed, pursuant to the Merger Agreement. Our ability to achieve our business objectives will depend to a large extent on the quality of Inland s performance under these service agreements. Therefore, we depend heavily on the ability of Inland to retain the services of each of its executive officers and key employees. The loss of these individuals, or similar changes, could have a material adverse effect on us.

We may compete with our affiliates for properties.

Certain of our affiliates could seek to acquire properties that, while not directly in our industry or geographic segment, could satisfy our acquisition criteria. For example, Inland, which provides property acquisition services to us, also provide these services to other entities, including REITs, such as Inland Real Estate Corporation and Inland American Real Estate Trust, Inc., which have superior rights to acquire certain properties identified by Inland that are of a certain type and within certain geographic areas.

Our funds from operations for the current fiscal year will decrease if the Merger is consummated in 2007.

If the Merger is consummated in 2007, our funds from operations for the current fiscal year will decrease as a result of the non-cash charge we will incur for the portion of the Merger consideration that pertains to the costs of terminating the advisory agreement and property management agreements. After termination of the advisory agreement, we will no longer incur certain fees previously paid to affiliates of our Business Manager/Advisor. Our

expenses will include the salaries and benefits of our officers and the other employees previously paid for by the affiliates of our Business Manager/Advisor, a portion of which we now reimburse under the advisory agreement. Further, our funds from operations will decrease in the year the Merger is consummated due to the additional Merger expenses recognized. If the Merger is not consummated, the amount of the fees payable to our Business Manager/Advisor or our Property Managers will depend on a number of factors, including the amount of additional equity, if any, that we are able to raise, the number of properties that we are able to purchase and the profitability of our business and the percentage fee taken by our Business Manager/Advisor, which may be as much as 1% of our average invested assets. Therefore, the exact amount of future fees that we would pay to our Business Manager/Advisor or our Property Managers cannot be estimated with certainty. If the expenses we incur on a going forward basis as a result of the Merger are higher than we anticipate, our funds from operations may be lower than we currently expect as a result of the Merger.

We may be exposed to risks to which we have not historically been exposed.

The Merger will expose us to risks to which we have not historically been exposed. Currently, the responsibility for overhead relating to property management and advisory services is borne by our Business Manager/Advisor and Property Managers. Thus, our overhead, on a consolidated basis, will increase as a result of our becoming self-advised and self-managed.

At present, we do not have any employees. As a result of the Merger, we will employ persons who are currently employees of our Sponsor and the Property Managers and we may establish new benefit plans for such employees. As an employer, we will be subject to those potential liabilities that are commonly faced by employers, such as workers disability and compensation claims, potential labor disputes and other employee-related liabilities and grievances and we will bear the costs of the establishment and maintenance of employee benefit plans, if established.

After the Merger, we will be dependent on our own executives and employees.

We rely on a small number of persons who comprise our existing senior management to carry out our business and investment strategies. While we have entered into employment agreements with certain individuals that will become effective upon the closing, these employment agreements have a short term and will terminate, if not before, on December 31, 2007. The loss of the services of any of our key management personnel, or our inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business and financial results. Our executive officers are not bound by non-compete or non-solicitation agreements with us and this could further have an adverse effect on our business and financial results due to the loss of any of our executive officers. As we expand, we will continue to need to attract and retain qualified additional senior management, but may not be able to do so on acceptable terms.

THE MERGER

PROPOSAL NO. 1: RATIFICATION OF OUR ENTRY INTO THE MERGER AGREEMENT WITH OUR BUSINESS MANAGER/ADVISOR AND PROPERTY MANAGERS AND CERTAIN OTHER PARTIES AND OUR APPROVAL OF THE MERGER.

Background of the Merger

Since its inception, our Board has considered, from time to time, the possibility of becoming self-administered. In February 2006, following discussions with representatives of Inland, our Board began to consider the strategic benefits of internalizing the services conducted for us by our Business Manager/Advisor and Property Managers. Our advisory agreement with our Business Manager/Advisor and our property management agreements with our Property Managers each include a provision, which we refer to as the purchase options, permitting us to acquire, at our option, the business conducted by our Business Manager/Advisor, including all of its assets, and by each Property Manager, including all of their assets, in exchange for a number of shares of our common stock determined in accordance with a formula established in those agreements. We could exercise the purchase options beginning in September 2008 for the Business Manager/Advisor and in May 2008 for the Property Managers.

In February 2006, after discussion and consultation with counsel, our Board determined that it would be advisable to form a special committee of the Board comprised only of independent directors to consider and evaluate a possible acquisition of our Business Manager/Advisor and Property Managers and the alternatives to such a transaction.

On March 7, 2006, the special committee, initially composed of Kenneth H. Beard, Frank A. Catalano, Jr., Paul R. Gauvreau, Gerald M. Gorski, and Barbara A. Murphy, met in person with our counsel, Duane Morris LLP, which we refer to as Duane Morris, and unanimously resolved to recommend to our Board that it adopt and approve the special committee s charter. At this meeting, Mr. Gauvreau was also elected chairman of the special committee.

On March 14, 2006, our Board adopted the charter recommended by the special committee and formally established the special committee. The Board delegated all its power and authority to the special committee, subject to applicable law, in connection with all matters pertaining to the possible acquisition of our Business Manager/Advisor and Property Managers and the evaluation of alternative strategies. The special committee met telephonically that same day with a representative from Duane Morris to discuss the special committee process and the retention of independent financial and legal advisors to assist the special committee in evaluating the potential acquisition of our Business Manager/Advisor and Property Managers and the alternatives to such an acquisition and negotiating any transaction.

On April 11, 2006, the special committee met in person with representatives from Duane Morris present to discuss further the process of retaining financial and legal advisors.

During April and May 2006, the special committee solicited proposals from potential financial advisors and legal advisors to assist them in evaluating and negotiating any internalization transaction. On May 10, 2006, the special committee met in person and interviewed potential financial advisors. On May 12, 2006, the special committee met in person and interviewed potential legal advisors.

On May 15, 2006, Silver Portal Capital, which we refer to as Silver Portal, financial advisors to the Business Manager/Advisor and Property Managers, presented to our Board and to the members of the special committee its financial analysis and valuation of the Business Manager/Advisor and Property Managers and its economic rationale for an internalization transaction. Thereafter, Mr. Gauvreau, at the direction of the special committee, contacted Mr. Goodwin, the Chairman of TIGI and one of its principal stockholders, and requested additional information regarding the Silver Portal presentation and its valuation analysis.

The special committee met in person on June 13, 2006 and formally retained Sidley Austin LLP, which we refer to as Sidley, as legal counsel to the special committee. The special committee s counsel reviewed with the members of the committee their legal duties and discussed the independence of each member of the special committee. At this meeting, representatives from Sidley also reviewed with the special committee applicable

provisions of our charter and bylaws, including the exculpatory, indemnification, advancement of expenses and insurance provisions. The special committee s counsel noted, among other things, that our charter and bylaws contained provisions different from those customarily found in the organizational documents of publicly listed and traded companies. The special committee requested that Sidley provide additional analysis of these provisions.

By letter dated June 19, 2006, the special committee engaged William Blair to serve as its financial advisor in connection with the special committee s consideration of a possible internalization transaction, including participating in negotiations relating to the possible internalization transaction, and rendering an opinion as to the fairness to us of the consideration to be paid by us in the possible internalization transaction or advising the special committee and the Board that William Blair is unable to render such an opinion.

On June 23, 2006, the special committee and its counsel met telephonically and were joined by Mr. Goodwin, as a representative of TIGI, certain of our officers, and a representative from Duane Morris. The special committee and its counsel discussed certain apparent inadvertent errors in our charter and determined to recommend to the Board that it file a certificate of correction with the state of Maryland to remedy these drafting errors. The special committee further reviewed and discussed the independence of each member of the special committee. In addition, the special committee and our representatives discussed the scheduling of our annual meeting and the need for amendments to our charter.

Our Board met on July 5, 2006. At this meeting, our Board determined to file a certificate of correction to remedy certain drafting errors in our charter. The Board also determined to seek stockholder approval of amendments to our charter at our stockholders annual meeting to adopt indemnification, exculpatory and insurance provisions more customary with publicly listed and traded companies. The Board also discussed the composition of the special committee and considered whether Mr. Catalano, who had a then existing financial relationship with Inland, would be considered independent under the various definitions of independence applicable to our directors. To avoid any perceived impairment of the independence of the special committee members, Mr. Catalano resigned from the special committee.

On August 2, 2006, the special committee, then comprised of Messrs. Beard, Gauvreau and Gorski and Ms. Murphy, met telephonically, along with its legal and financial advisors. The special committee discussed with its legal and financial advisors, among other things, the actions taken by the Board and the duties of the members of the special committee under Maryland law and under our charter and bylaws in connection with evaluating whether to acquire our Business Manager/Advisor and Property Managers and alternatives to an internalization transaction. Representatives of William Blair provided preliminary comments on the financial analysis prepared by Silver Portal, the financial advisors to the Business Manager/Advisor and Property Managers. Representatives of William Blair also provided the special committee with an overview of its analytical approach to the financial valuation of potential target companies. In connection with its discussion, the special committee began to evaluate potential alternatives to an internalization of the Business Manager/Advisor and Property Managers.

On August 10, 2006, we filed with the SEC our proxy materials for the annual meeting of our stockholders, which was to be held on October 10, 2006, to consider, among other things, the amendment and restatement of our charter.

On October 10, 2006, our stockholders approved the amendment and restatement of our charter at our annual meeting and, promptly thereafter, the amended and restated charter was filed with the State Department of Assessments and Taxation for the state of Maryland. At the end of October and the beginning of November, our legal advisors commenced legal due diligence and our financial advisors commenced financial due diligence with respect to a possible internalization transaction with the Business Manager/Advisor and Property Managers and the alternatives to such a transaction.

Our Board met on November 14, 2006. At the meeting, the Board ratified its prior actions, including the formation of the special committee and the delegation of authority to it in connection with the evaluation of a possible internalization transaction with the Business Manager/Advisor and Property Managers and the alternatives to such a transaction and all actions taken by the special committee with respect to the possible internalization transaction.

During November and December 2006, the legal and financial advisors to the special committee continued to conduct due diligence and review materials and information provided by the Business Manager/Advisor and Property Managers.

On December 12, 2006, the special committee met in person with its financial and legal advisors. At this meeting, representatives of William Blair summarized the status of its due diligence review and provided additional perspective on the financial analysis prepared by Silver Portal for the Business Manager/Advisor and Property Managers. The members of the special committee requested that William Blair provide a preliminary valuation analysis of the Business Manager/Advisor and Property Managers and of our common stock in early January 2007.

Representatives of Sidley also provided an update on the status of its due diligence review at the December 12, 2006 meeting of the special committee, including an analysis of the existing advisory and property management agreements. The special committee also discussed possible alternatives to an internalization transaction, including the following alternatives:

- maintain the status quo and continue to obtain advisory and property management services under our existing agreements;

- hire new third parties to provide advisory and property management services and terminate our advisory and property management agreements;

- build advisory and property management functions internally and terminate our advisory and property management agreements;

- acquire our Business Manager/Advisor and Property Managers (prior to or at the effective time of the purchase options); and

- sell our company to a third party.

In evaluating a possible termination of our existing agreements with our Business Manager/Advisor and Property Managers, the special committee noted that it would be difficult to promptly replace the services provided by the Property Managers and also discussed the practical difficulties that termination of the advisory agreement might create, including transition costs related to the loss of experienced employees of our Business Manager/Advisor and the loss of important administrative services and assets, including the Inland name, licensed to us through our Business Manager/Advisor. The special committee requested that William Blair obtain additional due diligence information relating to the cost of the services provided by the Business Manager/Advisor and the Property Managers compared to such services that could be provided by third-party service providers.

On December 21, 2006, representatives from William Blair and Sidley met in person with representatives from the Business Manager/Advisor and Property Managers. At this meeting, the representatives from the Business Manager/Advisor and Property Managers presented their position on, and provided additional information related to, the services provided by the Business Manager/Advisor and Property Managers, valuation of the Business Manager/Advisor and Property Managers, valuation of our common stock, the potential advantages of an internalization to our company, and the process for proceeding with negotiations should the special committee decide to do so. In addition, our Business Manager/Advisor and Property Managers provided additional due diligence materials relating to services provided to our company directly or through our Business Manager/Advisor by Inland at this meeting and personnel and functions that would be internalized in an internalization transaction.

On January 9, 2007, representatives of our Business Manager/Advisor and Property Managers made a presentation to our Board regarding, among other things, the scope of the services that our Business Manager/Advisor and Property Managers currently provided to us including, among others, office and facilities management, insurance and risk management, computer, personnel, property tax, communications, loan, and property acquisition due diligence services, many of which are provided to our Business Manager/Advisor by Inland. Our Business Manager/Advisor and Property Managers also discussed the potential transition issues associated with terminating the advisory or property management agreements, including potential cessation of our

property acquisition program and the value to us of access to property acquisition services of affiliates of our Business Manager/Advisor, all of which could be provided directly or indirectly through our Business Manager/Advisor.

Immediately after the Board meeting on January 9, 2007, the special committee met with its financial and legal advisors. The special committee reviewed and discussed the materials distributed at the Board meeting regarding the services currently provided to us by the Business Manager/Advisor and the Property Managers, the cost of such services compared to services that could be provided by third-party service providers, and the potential cost savings that might be realized by acquiring the Business Manager/Advisor and the Property Managers. The special committee also discussed additional possible benefits of an internalization, including the ability to hire key personnel and retain key officers and employees of our Business Manager/Advisor and Property Managers, continued cost-effective access to important administrative services provided by our Business Manager/Advisor and Property Managers and their affiliates including access to the Inland property acquisition pipeline via agreements with Inland regarding properties located in our market area, and the use of the Inland name and logo. The special committee also explored the risks of building a staff internally as compared to acquiring our Business Manager/Advisor and Property Managers, including the potential risks related to a transition in management and services as well as management distractions related to such a transition, investor relations and the relationship between us, TIGI and Inland.

At this meeting, William Blair reviewed for the special committee its preliminary financial analyses with respect to our Business Manager/Advisor and Property Managers and us. The special committee determined that the purchase options could be viewed as a ceiling on the number of shares that we might exchange to internalize the Business Manager/Advisor and Property Managers. William Blair also provided the special committee with a preliminary financial analysis regarding the valuation of our Business Manager/Advisor and Property Managers and our per share valuation, as well as the corresponding number of shares to be included as consideration in the possible internalization transaction. William Blair also presented to the special committee a comparison of the cost of certain services provided by the Business Manager/Advisor and the Property Managers as a percentage of our assets compared to that cost ratio for selected publicly traded REITs that have internally provided advisory and property management services. The special committee, along with its financial and legal advisors, discussed the advantages and disadvantages of the various strategic alternatives available to the special committee, including that acquiring our Business Manager/Advisor and Property Managers could enhance stockholder value by, among other things, positioning us to list our shares on a national securities exchange, reducing the potential conflict due to the fact that fees paid to our Business Manager/Advisor and Property Managers are primarily based on a percentage of our real property asset base, and generating cost savings which could increase earnings and funds from operations.

The special committee determined that it was in our best interest and the best interest of our stockholders to pursue further discussions regarding an internalization transaction. The committee authorized Mr. Gauvreau and representatives from William Blair to enter into discussions with representatives of the Business Manager/Advisor and Property Managers regarding the valuation of the Business Manager/Advisor and Property Managers and about our valuation, and the corresponding number of shares to be included as consideration in the possible internalization transaction.

Mr. Gauvreau and representatives of William Blair met with Mr. Goodwin and Mr. Thomas McGuinness, the President of our Property Managers, on January 26, 2007. The special committee s representatives presented the Business Manager/Advisor and Property Managers representatives with a summary of William Blair s preliminary valuation analysis. The representatives for both parties discussed valuation, share accretion and personnel issues. Mr. Goodwin presented Mr. Gauvreau and the representatives of William Blair with a proposed term sheet for an internalization transaction and the parties agreed to continue discussions in early February.

At Inland s request, the special committee requested that representatives of Sidley contact representatives of Jenner & Block LLP, which we refer to as Jenner, counsel for the Business Managers/Advisors and Property Managers, to discuss the legal terms of the potential transaction. The special committee also requested that Sidley commence drafting and negotiating a merger agreement and requested that representatives of Sidley contact representatives from Duane Morris to identify and begin drafting and negotiating the ancillary service agreements that we would need to enter into or amend in connection with the potential internalization transaction.

On February 14, 2007, the special committee met in person with its financial and legal advisors. The special committee discussed certain human resources and employment matters relating to the proposed internalization transaction and reviewed a draft post-internalization organizational chart provided by Mr. Grimes, the Chief Financial Officer of our Business Manager/Advisor and Mr. O Hanlon, the Senior Vice President of Asset Management of our Sponsor.

At the invitation of the committee, Mr. Goodwin, along with Mr. McGuinness and Mr. Robert Barg, joined the meeting to present the Business Manager/Advisor s and Property Managers views on the valuation of those entities and the accretive value to us of the proposed internalization transaction. The special committee emphasized to the representatives of our Business Manager/Advisor and Property Managers that it was important that, upon any acquisition of our Business Manager/Advisor and Property Managers, if any, we would have the key employees necessary to perform the services currently provided by our Business Manager/Advisor and Property Managers. The representatives of our Business Manager/Advisor and Property Managers indicated that Inland also would be amenable to having certain persons serve in a consulting capacity at minimal or no cost to us for a period of time to be determined.

Following the presentation by the representatives of the Business Manager/Advisor and Property Managers, the special committee met with its financial and legal advisors to discuss the valuation of the Business Manager/Advisor and Property Managers and the corresponding number of shares to be included as consideration in the possible internalization transaction. The members of the special committee also discussed the valuation of our common stock. The members of the special committee also reviewed a draft merger agreement and draft ancillary service agreements and discussed their terms. The special committee discussed the persons who would be retained on a consultancy basis, in the event that the proposed internalization transaction were accomplished, as well as information regarding transition and continuation services that Inland is expected to provide to us in connection with the acquisition.

On February 19, 2007, after additional discussion between representatives of the special committee and representatives of the Business Manager/Advisor and Property Managers, regarding the parties respective valuation analyses, the parties preliminarily agreed to an aggregate purchase price for our Business Manager/Advisor and Property Managers of 37,500,000 shares of our common stock, subject to the negotiation of the terms and conditions set forth in the merger agreement and ancillary agreements. The draft merger agreement also was provided to Jenner on this date.

On February 22, 2007, the special committee met in person along with representatives from Sidley and Duane Morris. At the invitation of the special committee, Mr. Grimes and Mr. O Hanlon attended the meeting. The special committee again discussed, if we acquired our Business Manager/Advisor and Property Managers, the key employees who would become our employees. Mr. O Hanlon and Mr. Grimes presented the members of the special committee with an updated draft employee organizational chart for the proposed internalization at this meeting.

On March 1, 2007, the special committee met in person to discuss human resources matters relating to the proposed internalization transaction, including senior management positions, employment agreements and consulting agreements. On March 13, 2007, the special committee met again with Mr. O Hanlon and Mr. Grimes regarding the persons who would become full-time employees of ours if a transaction were completed.

During March and April 2007, the legal advisors to the special committee, at the direction of the special committee, our legal advisors and the legal advisors to the Business Manager/Advisor, Property Managers and Inland met in person and telephonically on numerous occasions to negotiate the terms of the merger agreement and the ancillary service agreements with Inland. During this period, the special committee met on numerous occasions with its counsel to review the status of the negotiations and review drafts of these agreements.

On April 6, 2007 and on April 17, 2007, the special committee met telephonically with its legal advisors and reviewed the status of negotiations relating to the merger agreement and ancillary service agreements.

During the week of April 23, 2007, representatives of the Business Manager/Advisor and Property Managers proposed that they meet again with members of the special committee to discuss certain terms of the merger agreement and ancillary agreements. The members of the special committee, along with representatives of

Sidley and Duane Morris, met telephonically with the representatives of the Business Manager/Advisor and Property Managers and their legal advisors on May 2, 2007, at which time representatives of the Business Manager/Advisor, Property Managers and Inland presented their position on certain terms of the merger agreement, the ancillary agreements and the consulting agreements. All parties agreed to meet in person on May 8, 2007 for further discussion.

On May 8, 2007, the members of the special committee, along with representatives of Sidley and Duane Morris, met with representatives of the Business Manager/Advisor, Property Managers and Inland and their legal counsel and continued to negotiate the terms of the merger agreement, ancillary agreements and consulting agreements.

In May 2007, the special committee retained Hewitt Associates LLC, which we refer to as Hewitt, as a consultant to the special committee and to assist the special committee in its review of executive compensation in connection with the proposed internalization transaction. On May 22, 2007, Hewitt presented the members of the special committee with an analysis of executive compensation at certain peer group companies. The members of the special committee requested that Hewitt obtain additional information relating to peer group companies and discussed the terms of potential employment agreements for executive officer positions post-internalization.

Over the course of May and June 2007, the legal advisors to the special committee, representatives of Duane Morris and the legal advisors to the Business Manager/Advisor, Property Managers and Inland continued to meet in person and telephonically to negotiate the terms of the merger agreement and ancillary service agreements with Inland. During this period, the special committee met on numerous occasions with its counsel to review the status of the negotiations and review drafts of these agreements.

On June 7, 2007, the special committee, along with its legal advisors and our counsel, held a telephonic meeting to discuss executive compensation and employment agreements for senior management post-internalization. The special committee s legal advisors also reviewed the status of the draft merger agreement, draft ancillary service agreements and consulting agreements.

On June 20, 2007, the special committee met in person with its financial and legal advisors and our counsel. Representatives of William Blair reviewed the financial results for us and the Business Manager/Advisor and Property Managers through March 2007 as well as updated financial projections that it had received for us and for the Business Manager/Advisor and Property Managers and discussed current market conditions with respect to real estate investment trusts. In addition, the members of the special committee and its financial and legal advisors discussed the updated financial projections in connection with alternatives to an internalization transaction. The members of the special committee and its legal advisors also discussed employment agreements and executive compensation matters and the status of the draft merger agreement, draft ancillary agreements and consulting agreements. The special committee asked to be provided with an updated set of draft agreements and summaries on June 29, 2007, so that it could review the materials over the following week and scheduled the next meeting of the special committee for July 10, 2007.

On July 10, 2007, the special committee met, along with its legal and financial advisors, to consider the acquisition of our Business Manager/Advisor and Property Managers. Representatives of Sidley reviewed with the members of special committee legal aspects of the proposed transaction including, among other things, (i) their applicable duties, (ii) the process taken by the special committee in its consideration of an internalization transaction involving the acquisition of our Business Manager/Advisor and Property Managers and the alternatives to such a transaction and (iii) the terms and status of the proposed Merger Agreement and the ancillary agreements. William Blair presented its updated financial analyses.

Immediately following the meeting of the special committee, our Board met to discuss the proposed transaction. Legal counsel for the special committee reviewed, with the members of our Board, the terms of the proposed Merger Agreement and the ancillary agreements. William Blair presented its updated financial analysis of the valuation of our Business Manager/Advisor and Property Managers and of our common stock to the Board and the corresponding number of shares to be included as consideration in the possible internalization transaction.

On August 14, 2007, the special committee met telephonically, along with its legal and financial advisors to review the final terms of the proposed acquisition. At the meeting, representatives of William Blair reviewed the financial results for us and the Business Manager/Advisor and Property Managers through June 30, 2007, as well as updated financial projections that it had received for us and for our Business Manager/Advisor and Property Managers and presented an update of its analysis to the special committee. Then, William Blair delivered to the special committee its oral opinion that the consideration of approximately 37,500,000 shares of our common stock to be paid by us for the acquisition of our Business Manager/Advisor and Property Managers is fair, from a financial point of view, to us and our stockholders. See - Opinion of the Financial Advisor. Later that same day, William Blair delivered its written opinion to the same effect. Counsel for the special committee reviewed the various alternatives and the advantages and disadvantages considered by the special committee with respect to each alternative. These alternatives included:

- maintain the status quo and continue to obtain advisory and property management services under our existing agreements;

- hire new third parties to provide advisory and property management services and terminate our advisory and property management agreements;

- build advisory and property management functions internally and terminate our advisory and property management agreements;

- acquire our Business Manager/Advisor and Property Managers (prior to or at the effective time of the purchase options); and

- sell our company to a third party.

The special committee unanimously recommended that our Board and stockholders approve the Merger, subject to the terms and conditions set forth in the Merger Agreement and ancillary agreements thereto.

Following the meeting of the special committee, our Board met telephonically and unanimously approved the Merger and the Merger Agreement and ancillary agreements thereto.

Reasons for Requiring Your Ratification

There is no legal requirement to submit our entry into the Merger Agreement or our approval of the Merger to our stockholders for ratification. Because we believe it is desirable to obtain your ratification of our entry into the Merger Agreement and our approval of the Merger, we have made your ratification a condition to the closing of the Merger. If the Merger proposal is not approved, we will continue to operate under our current management structure, paying fees and cost reimbursements to our Property Managers and our Business Manager/Advisor under their contracts and our Board will examine its other alternatives.

Reasons for the Merger

The special committee recommended that our Board approve the proposed transaction based upon a variety of factors, both for and against the proposed transaction. The decision by the special committee followed numerous meetings with its legal and financial advisors as described in greater detail above in - Background of the Merger. The special committee took into account the following positive factors without assigning relative weights, which the special committee believes favor the proposed transaction:

- *Goal of Self Administration*. The acquisition of our Business Manager/Advisor and Property Managers is one of the most significant steps in achieving our objective of becoming a fully self-administered REIT. The special committee believes that analysts and investors have shown a preference for self-administered REITs and, as a result, the consummation of the proposed transaction may better position us to raise capital or list our shares on a national securities exchange. We also believe that a self-administered REIT better aligns the interests of the

management of our Business Manager/Advisor and Property Managers with the interests of our stockholders. Although we will continue to obtain from Inland various services not provided by our Business Manager/Advisor or Property Managers, the special committee believes that we will obtain these services at rates at or below market and that continuity of these services is, at this time, more important than internalization of such services. These services are subject to agreements that are terminable by us, without penalty, generally on 180 days notice. We intend to evaluate our need for such services, as well as consider internalization of such services, from time to time in light of costs and operating needs, among other things.

- *Reduction of Operating Costs and Impact on Funds from Operations*. Our portfolio of real estate assets has grown substantially since 2003. Our Business Manager/Advisor and Property Managers are currently compensated based on a fixed percentage of our real estate assets, which results in ratable increases in the fees we pay under the advisory and property management agreements as our asset base grows. By acquiring our Business Manager/Advisor and Property Managers, we will substantially transform the costs associated with the advisory and management function to fixed costs, which we expect will allow us to benefit from the economies of scale that result in connection with the growth of our real estate portfolio. In addition, the special committee believes that upon closing, the Merger is expected to be accretive to funds from operations by at least $0.08 per share for the first full year following the Merger, and it is estimated to be increasingly accretive in subsequent years, because the costs of internalizing the advisory and property management functions plus the distributions to be paid on the shares issued is expected to be less than the advisory and property management fees expected to be paid to our Business Manager/Advisor and Property Managers.

- *Opinion of William Blair*. The special committee considered the opinion of William Blair to the effect that, as of August 14, 2007, and based upon and subject to the assumptions, limitations and qualifications set forth in the opinion, the aggregate share consideration to be paid pursuant to the Merger Agreement to our Business Manager/Advisor and Property Managers is fair, from a financial point of view, to us and our stockholders; however, the opinion does not apply to stockholders of the Business Manager/Advisor or the Property Managers, including such stockholders who are also our stockholders.

- *Review of Material Terms of Proposed Transaction*. The special committee considered and discussed with its legal counsel and our counsel the material terms of the Merger Agreement, including the representations, warranties, covenants, conditions to closing and indemnification obligations set forth therein, together with the material terms of the ancillary agreements entered into or to be entered into in connection with the proposed transaction. The special committee believes the terms of these agreements are fair and commercially reasonable.

- *Access to Properties Identified by Inland*. The special committee believes that Inland has experienced employees who are knowledgeable in the retail real estate field and are particularly skilled at identifying, and have proprietary access to, properties within our investment guidelines. In connection with the proposed transaction, we will retain a right of first offer to acquire, on a priority basis relative to other clients of Inland, certain retail and lifestyle properties located west of the Mississippi River, but excluding that portion of such geographical area located within 400 miles of Oak Brook, Illinois. The special committee believes that access to these properties is of substantial value to us, which will be preserved as a result of the proposed transaction.

- *Rights to Inland Marks*. The Inland name and logo, together with our name and logo, are currently licensed from Inland to our Business Manager/Advisor on a non-exclusive basis. We are authorized to use the Inland name under the advisory agreement. In connection with the proposed transaction, the special committee negotiated an arrangement whereby we will have an exclusive right to use our name and logo, subject to the right of Inland to use our name for general marketing and communications purposes. See - Ancillary Agreements License Agreement Modification. The special committee believes that the goodwill associated with the Inland marks

and our name is of substantial value to us, which will be preserved on an exclusive basis as a result of the proposed transaction.

- *Retention of Key Management Personnel*. The proposed transaction will permit us to retain directly the services of key management of our Business Manager/Advisor and Property Managers, including the services of Messrs. O Hanlon, Grimes, Garrison and Byrne. These knowledgeable and experienced employees have day-to-day familiarity with the management of our assets. The proposed transaction will also permit us to retain, at no cost to us, the consulting services of Messrs. Parks, Cosenza and Goodwin.

- *Access to Inland Affiliated Services*. The special committee believes that the services provided by Inland are of a higher quality and provided at equal or lower costs than could be obtained from unaffiliated third parties. These services include office and facilities management, insurance and risk management, computer consulting, legal, personnel, property tax, communications, loan, institutional investor relationship management, and property acquisition due diligence services. The special committee believes that access to these services is of substantial value to us, which will be preserved as a result of the proposed transaction.

The special committee also took into account the following negative factors, without assigning relative weights, which the special committee believes are outweighed by the positive factors discussed above. The negative factors considered by the special committee included:

- *Inability to Immediately Become Fully Self-Administered*. The special committee considered whether certain administrative functions not provided directly by our Business Manager/Advisor or Property Managers could be performed internally following the Mergers. These services include office and facilities management, insurance and risk management, computer services, legal, personnel, property tax, communications, loan, institutional investor relationship management, and property acquisition due diligence services. In order to assure the continuity of these administrative services while allowing us time to develop these service areas in-house or to hire other third-party service providers for these services, we entered into or amended several services agreements, to obtain these services, with Inland. These services are subject to agreements that are terminable by us, without penalty, generally on 180 days notice. We intend to evaluate our need for such services, as well as consider internalization of such services, from time to time in light of costs and operating needs.

- *Potential Loss of Key Employees*. Through the transaction, a key asset we will acquire is knowledgeable, experienced employees. The working knowledge of these employees is specific to our real estate portfolio, our tenants and our property acquisition processes. While the special committee considered and negotiated for employment agreements with certain key employees, there is no guarantee that those employees, or employees not subject to employment agreements, will remain with our Business Manager/Advisor or Property Managers or become our employees following the Merger. Further, their employment agreements are short-term and do not include non-compete provisions.

- *Unanticipated Costs of Services Performed by Our Business Manager/Advisor and Property Managers*. The special committee carefully considered the fees paid to our Business Manager/Advisor and Property Managers relative to the costs of performing these functions internally. With the growth of our asset base since 2003, the special committee determined that cost savings could likely be achieved by eliminating the advisory and management fees presently paid to our Business Manager/Advisor and Property Managers and internalizing those functions. The determination that performing services internally will be cost effective assumes knowledge of the actual costs of performing the advisory and property management services. If there are costs that were not correctly estimated or unanticipated costs in performing these services, the economic benefits to us sought to be attained through the Mergers will not be fully realized.

The special committee considered these factors, among others, in light of various alternatives that are described more fully below:

- *Maintain the Status Quo*. This alternative ensured continuity of operations, including the receipt of certain no cost and low cost services, and key personnel, but had the disadvantage of, among other things, requiring us to pay on-going advisory and management fees.

- *Hire New Third Parties to Provide Advisory and Property Management Services and Terminate Our Advisory and Property Management Agreements.* The advantage of this alternative was the prospect of negotiating lower fees with third-party providers, provided that the services provided by or through our Business Manager/Advisor and Property Managers could be adequately provided by a single service provider or a discrete group of service providers. The disadvantages of this alternative included, among other things, the costs associated with a lengthy transition period, the loss of the continuity and experience of our Business Manager/Advisor s and Property Managers key employees, the loss of the right to use the Inland name and our name and logo, and the payment of on-going advisory and management fees.

- *Build Advisory and Property Management Functions Internally and Terminate Our Advisory And Property Management Agreements*. The benefit of this alternative was the prospect of reducing costs, on an asset basis, over time because our business management, advisory and property management costs would no longer be based on a percentage of our real property assets. The disadvantages of this alternative included, among other things, the costs associated with a lengthy transition period and risks attendant to internally developing the broad range of services provided by our Business Manager/Advisor and Property Managers, the loss of continuity and experience of our Business Manager/Advisor s and Property Managers key employees, the potential loss of certain administrative services provided by Inland, the disruption to our property acquisition pipeline and the loss of the right to use the Inland name and our name and logo.

- *Acquire Our Business Manager/Advisor and Property Managers*. The advantages of this alternative were, among other things, eliminating the fees paid to our Business Manager/Advisor and Property Managers, achieving an internally managed structure appropriate to our scale, aligning more closely the interests of the management of our Business Manager/Advisor and Property Managers with our stockholders, substantially reducing transition risks associated with the termination alternatives, preserving our access to the administrative services provided by Inland, and preserving the right to use the Inland name and our name and logo. Under this alternative, we were able to retain, at no cost to us, the consulting services of Messrs. Goodwin, Parks and Cosenza. The disadvantage of this alternative was the difficulty in quantifying the value of the relationships with Inland as well as the business management, advisory and property management services provided by our Business Manager/Advisor and Property Managers.

- *Sell Our Company to a Third Party*. The potential advantage of this alternative was primarily the possibility of obtaining a premium from an acquiror of our company. The disadvantages were, among other things, the loss of no cost and low cost services provided by Inland due to a change in control and the loss of key personnel. The special committee also considered the value that self-administration could add to our company in anticipation of a public listing or liquidity event.

After carefully weighing the option of internalizing by acquiring our Business Manager/Advisor and Property Managers and the possible alternatives to such a transaction, and the positive and negative factors with respect to each option, the special committee determined that the acquisition of our Business Manager/Advisor and Property Managers was (i) fair to and in the best interests of our stockholders, (ii) fair, competitive and commercially reasonable and (iii) fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties. Accordingly, the special committee unanimously recommended to our Board the Merger Agreement and the consummation of the Merger pursuant to the terms of the Merger Agreement.

Merger Agreement

The following discussion is a summary of the material terms of the Merger Agreement. It does not contain all of the information regarding the Merger Agreement that you may consider important. We encourage you to read the Merger Agreement in its entirety, a copy of which is attached hereto as **Appendix A**.

General Structure of the Merger. The structure of the Merger involves four separate mergers, wherein our Business Manager/Advisor and each of the three Property Managers (each of which we refer to as a Service Provider and collectively as the Service Providers) will become our wholly-owned subsidiaries. We have incorporated four wholly-owned corporate subsidiaries, IWEST Acquisition 1, Inc., IWEST Acquisition 2, Inc., IWEST Acquisition 3, Inc. and IWEST Acquisition 4, Inc., each of which we refer to as an Acquisition Entity, solely for the purposes of effectuating the Merger. On the closing date, the four separate mergers will take place as follows:

- IWEST Acquisition 1, Inc., will merge with and into our Business Manager/Advisor, with our Business Manager/Advisor as the surviving corporation in this merger;

- IWEST Acquisition 2, Inc., will merge with and into ISMC, with ISMC as the surviving corporation in this merger;

- IWEST Acquisition 3, Inc., will merge with and into INMC, with INMC as the surviving corporation in this merger; and

- IWEST Acquisition 4, Inc., will merge with and into IWMC, with IWMC as the surviving corporation in this merger.

Upon consummation of the Merger, each surviving corporation will continue as one of our wholly-owned subsidiaries, and will succeed to all of the assets, business and liabilities of the corresponding Service Provider, and certain employees of the Property Managers will become employees of the corresponding surviving corporation.

For each of the four separate mergers, the charter and bylaws of the Acquisition Entity will be the charter and bylaws of the corresponding surviving corporation after that merger, until later amended as provided therein and under applicable law. In addition, the officers and directors of the involved Acquisition Entity will be the officers and directors of the corresponding surviving corporation until their resignation or such time as they may be relieved of their duties.

Under Maryland law and our existing charter, holders of our common shares will not be entitled to rights of appraisal with respect to the Merger.

Payment of Merger Consideration. Upon consummation of the Merger, the stockholders of our Business Manager/Advisor and our Property Managers have the right to receive newly issued shares of our common stock according to an exchange ratio separately calculated with respect to each Service Provider. In lieu of issuing fractional common shares, all fractional common shares that any holder of the issued and outstanding shares of any of the Service Providers would otherwise be entitled to receive as a result of the respective merger will be aggregated for such stockholder, and if any fractional common share results from such aggregation, the number of our shares issued to such holder will be rounded up to the nearest whole number. 55% of the consideration for the Merger will be placed into an escrow account and the remaining 45% of the consideration will be issued directly to the stockholders of the Service Providers. The consideration will be allocated to the stockholders of the Service Providers as follows:

- In the merger of IWEST Acquisition 1, Inc., with and into our Business Manager/Advisor, each outstanding share of the capital stock of our Business Manager/Advisor will be converted into the right to receive 18,750 shares of our common stock, and a total of 10,312,500 of these shares will be deposited into the escrow account;

- In the merger of IWEST Acquisition 2, Inc., with and into ISMC, each outstanding share of the capital stock of ISMC will be converted into the right to receive 620.656 shares of our common stock, and a total of 3,437,500 of these shares will be deposited into the escrow account;

- In the merger of IWEST Acquisition 3, Inc., with and into INMC, each outstanding share of the capital stock of INMC will be converted into the right to receive 620.348 shares of our common stock, and a total of 3,437,500 of these shares will be deposited into the escrow account; and

- In the merger of IWEST Acquisition 4, Inc., with and into IWMC, each outstanding share of the capital stock of IWMC will be converted into the right to receive 655.824 shares of our common stock, and a total of 3,437,500 of these shares will be deposited into the escrow account.

The total consideration to be given to the stockholders of the Service Providers will be subject to cash adjustments to reflect, in the aggregate, either positive or negative net working capital of the Service Providers as of the close of business on the closing date. Positive net working capital (if it is greater than $10,000) will be reimbursed by a cash payment by us to our Sponsor and the PM Stockholder Agent in an amount equal to the excess over $10,000. Negative net working capital (if it is below negative $10,000) will be paid to us by a cash payment from our Sponsor or the PM Stockholder Agent in an amount equal to the excess under negative $10,000.

Closing. The Merger will be consummated and become effective on the closing date.

Appointment of IWEST Merger Agent, LLC, as Representative of Certain Stockholders of the Property Managers.

Certain stockholders of our Property Managers have appointed IWEST Merger Agent, LLC, which we sometimes refer to as the PM Stockholder Agent, as their exclusive agent to act on their behalf with respect to the indemnification claims made by any of those stockholders against us and indemnification claims made by us against any of those stockholders, as well as for certain other purposes.

Ancillary Agreements. In connection with the Merger, we have entered into, or intend to enter into as of closing, agreements with our Sponsor, the PM Stockholder Agent or the stockholders of the Property Managers including the following, each as described more fully below:

- *Registration Rights Agreement*. We will enter into a registration rights agreement with our Sponsor and the PM Stockholder Agent;

- *Escrow Agreement*. We will enter into an escrow agreement with our Sponsor, the PM Stockholder Agent and LaSalle Bank National Association, as the escrow agent; and

- *Consulting Agreements*. We have entered into non-compensated consulting agreements with Daniel L. Goodwin, Robert D. Parks and G. Joseph Cosenza, to be effective upon the closing of the Merger.

In addition, we and our Business Manager/Advisor or our Property Managers have entered into, or intend to enter into as of closing, new agreements, or amend existing agreements, with TIGI or Inland or certain individuals, including the following, each as more fully described below:

- *Employment Agreements*. We have entered into employment agreements with key individuals of our Business Manager/Advisor and Property Managers, that will become effective upon the closing of the Merger;

- *TIGI Letter Agreement*. We have entered into a letter agreement with TIGI;

- *Sublease*. We will enter into a sublease with our Sponsor;

- *IREA Letter*. We received a letter from Inland Real Estate Acquisitions, Inc., or IREA, relating to property acquisitions;

- *Amendments to Services Agreements*. Our Business Manager/Advisor will enter into amendments to various existing services agreements with Inland, which will be deemed assigned to us upon closing of the Merger;

- *Transition Property Due Diligence Services Agreement*. We will enter into a transition property due diligence services agreement with IREA;

- *Institutional Investor Relationships Services Agreement*. We will enter into an institutional investor relationships services agreement with Inland Institutional Capital Partners Corporation, which we refer to as Inland Capital Partners;

- *Legal Services Agreement*. We will enter into a legal services agreement with The Inland Real Estate Group, Inc., which we refer to as TIREG;

- *License Agreement Modification*. We will enter into a license agreement modification with TIREG; and

- *License Agreement (Property Management Corporations)*. Each Property Manager will enter into a license agreement with TIREG.

Conduct of Business of the Service Providers Prior to Closing. Each Service Provider will and our Sponsor and the PM Stockholder Agent will cause that Service Provider to:

- conduct its business in the ordinary course, consistent with past practice;

- not issue, sell, pledge or dispose of, or amend or modify the terms of any additional shares or equity interests of, or any options, warrants or rights of any kind to acquire any shares of the capital stock or other equity interests of, the Business Manager/Advisor and/or the Property Managers of any class or any securities convertible into or exchangeable for such equity interests;

- not: (i) incur or become contingently liable for any indebtedness; (ii) take any action which would adversely affect our status as a real estate investment trust under the Internal Revenue Code, which we refer to as the Code; (iii) sell or otherwise dispose of any of its assets, except in the ordinary course of business; or (iv) enter into any contract or violate any existing contract with respect to any of the foregoing;

- use commercially reasonable efforts to preserve intact its business, organization and goodwill, keep available the services of its employees and not engage in any action, directly or indirectly, with the intent to adversely impact the transactions contemplated by the Merger Agreement;

- confer with one or more of our representatives designated by the special committee when requested to report on operational matters and the status of ongoing operations of its business;

- maintain, in full force and effect, with all premiums due thereon paid, policies of insurance covering its respective insurable assets and business in amounts and as to risks substantially as in effect as of the date of the Merger Agreement;

- not declare, set aside or pay any non cash dividends or non cash distributions or purchase, redeem or otherwise acquire any shares or equity interests, except as may be permitted under the existing stockholder agreements between each Property Manager and its respective stockholders;

- not acquire or agree to acquire by merging or consolidating, or by purchasing a portion of equity interests or assets of, or by any other manner, any business or any corporation, partnership, joint venture, association, or other business organization or division thereof;

- not: (i) acquire or agree to acquire any assets in excess of $25,000 individually or $100,000 in the aggregate, or make or agree to make any capital expenditures subject to certain exceptions; or (ii) incur, assume or suffer to exist any lien on any asset other than permitted liens;

- not adopt, amend or terminate any employee benefit plan or employee arrangement or increase the salary, wage, rate of compensation, commission, bonus or other direct or indirect remuneration payable to those employees of the Service Providers and of our Sponsor who, upon the closing of the Merger, will become our employees or the employees of a surviving corporation, which we refer to as Service Employees, other than increases for individuals in the ordinary course of business consistent with past practice and not to exceed 10% of the sum of (i) the aggregate payroll costs of the Service Providers as of December 31, 2006 and (ii) the aggregate payroll costs of the Service Employees who are not employees of the Service Providers as of December 31, 2006 or increase the compensation or fringe benefits payable by any Service Provider to any former director or employee, in each case, other than as required by law, existing contractual obligations or in order to meet certain obligations;

- not: (i) adopt a plan of complete or partial liquidation; (ii) adopt any amendment to its articles or certificates of incorporation, bylaws or other organizational documents; (iii) enter into any contract involving more than $25,000 annually or which is not terminable without penalty on less than six months notice; (iv) make any change in its management structure, including, without limitation, the hiring of additional management employees, out of the ordinary course of business; (v) waive, release, grant, or transfer any rights of material value or modify or change in any material respect any existing license, lease, contract or other documents; (vi) engage in any conduct the nature of which is different than the business in which it is currently engaged; or (vii) enter into any agreement providing for acceleration of payment or performance or other consequences as a result of a change of control of it;

- not make any change in accounting policies or procedures, except as required by generally accepted accounting principles, which we refer to as GAAP, or a governmental authority;

- not: (i) make any material elections or change current elections with respect to taxes of any Service Provider; (ii) prepare or file any tax return required to be filed by or with respect to any Service Provider that is inconsistent with past practice or, on any such tax return, take any position or adopt any method that is inconsistent with positions taken or methods used in preparing or filing similar tax returns in prior periods; or (iii) settle any tax audit or dispute with respect to taxes of any Service Provider with any taxing or governmental authority;

- not acquire any stock, loan or other debt or equity securities of or make any advances to another entity except for advances to us under existing agreements;

- except as otherwise permitted in the Merger Agreement, not accelerate or delay collection of any notes or accounts receivable in advance of or beyond their regular due dates or the dates when the same would have been collected in the ordinary course of the business consistent with past practice; and

- not agree or commit to do any of the prohibited actions described above.

Conduct of Our Business Prior to Closing. We have agreed that prior to the closing date of the Merger, our Board shall not authorize or cause:

- any action that would adversely affect our status as a real estate investment trust under the Code; or

- any action to reclassify, combine, split or subdivide any of our capital stock or to alter any stockholder rights.

Additional Agreements Contained in the Merger Agreement

General. Our Business Manager/Advisor and our Property Managers have agreed to provide access to its property, personnel, books, assets, operations, offices, contracts, commitments and records, to furnish certain materials to us, and to notify us and the special committee of any event that has had or would reasonably be expected to have a material adverse effect on that Service Provider s business, or has resulted in any representation or warranty of that Service Provider contained in the Merger Agreement becoming untrue or misleading, or any condition to the Merger not being satisfied. Similarly, we have agreed to notify our Sponsor and the PM Stockholder Agent of any event that, to the actual knowledge of the special committee after reasonable inquiry of our executive officers, would reasonably be expected to have a material adverse effect on our business, or has resulted in any representation or warranty made by us becoming untrue or misleading, or any condition to the Merger not being satisfied. Our Sponsor, Business Manager/Advisor and Property Managers have agreed to promptly deliver to us notice of all actions filed against their respective companies and any other notice in relation to a contract, license or any governmental authority that is reasonably likely to have an adverse effect on their ability to consummate the transaction contemplated by the Merger Agreement or perform respective obligations or satisfy respective conditions under the Merger Agreement; or have an adverse effect on the ownership of the equity interests in the Business Manager/Advisor or Property Managers; or have a Business Manager/Advisor or Property Manager material adverse effect.

The parties to the Merger Agreement have also agreed to keep confidential all confidential material of the other parties received in connection with the Merger for a period of one year after the closing date, subject to certain exceptions. The parties to the Merger Agreement have also agreed that, except as set forth on the unaudited balance sheet for the service providers dated as of the closing date and prepared in accordance with GAAP, which we refer to as the Closing Balance Sheet, no intercompany receivables and payables shall exist among the Service Providers, on the one hand, and any of TIGI, our Sponsor, the PM Stockholder Agent, any of the stockholders of the Property Managers or any of such parties affiliates, on the other hand, as of the closing, subject to certain exceptions. Other than the Services Agreements and any other agreements entered into or amended in connection with the Merger and the transactions contemplated thereby, all other agreements or arrangements between any Service Provider, on the one hand, and any of TIGI, our Sponsor, the stockholders of the Property Managers or any affiliates of any of them, on the other hand, including any oral agreements or course of business practices or understandings if any, will terminate as of the closing date and be of no further force and effect, with no further liabilities on the part of any party to these agreements, subject to the liabilities reflected on the Closing Balance Sheet.

Stockholder Approval. We have agreed to approve the Merger Agreement as the sole stockholder of each Acquisition Entity, and to use our commercially reasonable efforts to obtain the ratification of our entry into the Merger Agreement and the contemplated Merger by our stockholders. Each of our Sponsor, as sole stockholder of our Business Manager/Advisor, and each of Robert H. Baum, Daniel L. Goodwin, Robert D. Parks and G. Joseph Cosenza, which we refer to collectively as the Principal Stockholders, representing in the aggregate greater than 50% of the stockholdings of each of the Property Managers, has executed an irrevocable written consent in lieu of a stockholder meeting approving the Merger Agreement and the Merger.

Proxy Statement. The Service Providers, our Sponsor and the PM Stockholder Agent have agreed (i) to furnish to us all information required by the Exchange Act and other applicable law or as we request in connection with the preparation of this proxy statement and any other filings required to be made by us prior to the closing; and (ii) that all such information furnished will be true and correct and complete in all material respects.

Employees. After the closing of the Merger, TIGI or Inland shall make available to the Service Employees the opportunity to participate in employee benefit plans or programs substantially similar to those set forth in the Merger

Agreement. We, and our affiliates, will be solely responsible for certain employment obligations to the Service Employees in connection with the employee s employment with us or one of our affiliates after the closing;

however, our Sponsor and the stockholders of the Property Managers, jointly and severally, shall be solely responsible for certain employment obligations in connection with any individual s employment with the Service Providers on or before the closing.

Covenants Not to Solicit. During the period from the closing date and until its second anniversary, which period we refer to as the Restricted Period, our Sponsor and the PM Stockholder Agent have agreed not to, and to cause each of their affiliates not to, directly or indirectly, hire or solicit to perform services (as an employee, consultant or otherwise) or take any actions which are intended to persuade any termination of the association of any Service Employee, subject to certain exceptions. Similarly, during the Restricted Period, we have agreed not to, and to cause our affiliates not to, directly or indirectly, hire or solicit to perform services (as an employee, consultant or otherwise) or take any actions which are intended to persuade any termination of the association of any employee of our Sponsor or its affiliates, subject to certain exceptions.

Pre-Closing Covenants Relating to Taxes. Our Sponsor, the PM Stockholder Agent and, as applicable, TIGI agreed to prepare and file any tax returns for the Service Providers and all TIGI combined returns covering all tax periods ending on or before the closing date that are not part of any tax period that starts before and ends after the closing date. Our Sponsor and the PM Stockholder Agent also agreed to permit us to review and comment on each such tax return, other than any TIGI combined returns, prior to filing.

Post-Closing Covenants Relating to Taxes. We agreed to prepare and file any tax returns for the Service Providers covering tax periods which begin after the closing date and those that begin before the closing date and end after the closing date. We agreed to permit our Sponsor and the PM Stockholder Agent to review and comment on tax returns relating to tax periods which begin before the closing date and end after the closing date prior to filing and we shall consider in good faith making any changes reasonably requested by our Sponsor or the PM Stockholder Agent, as the case may be.

Director and Officer Liability. From and after the closing, and subject to our right to indemnification, we will indemnify and hold harmless, as and to the extent set forth in the applicable charter, bylaws and indemnity agreements, each individual who is, as of the date of the Merger Agreement, or who becomes prior to the closing, a director or officer of any of the Service Providers against any damages to which such director or officer is, or is threatened to be, made a party based in whole or in part on, or arising in whole or in part out of, or pertaining to: (i) the fact that such individual is or was a director or officer of any of the Service Providers; or (ii) the Merger Agreement or any of the transactions contemplated by the Merger Agreement, whether asserted or arising before or after the closing; provided, however, that we shall not be obligated to indemnify or hold harmless any such director or officer in respect of any claim by us or any of our affiliates.

Estimated Service Payment. On the second business day immediately preceding the closing date, we will pay to our Business Manager/Advisor and each of our Property Managers an amount estimated to equal the total fees, expenses and other amounts payable pursuant to our service agreements with our Business Manager/Advisor and our Property Managers through and including the closing date, which we refer to as the Estimated Service Payment. Any over payment or underpayment will be reimbursed through an adjustment to net working capital. If our Business Manager/Advisor receives an Estimated Service Payment more than ten days in advance of the date that such amount would have normally been paid by us in the ordinary course of business, our Sponsor will pay us simple interest at a rate of five percent per annum on such Estimated Service Payment for the period during which such payment was paid in advance.

Conditions to Closing

Conditions to Each Party s Obligation. The respective obligations of each party to effect the Merger and the other transactions contemplated by the Merger Agreement are subject to the fulfillment or waiver, at or prior to the closing,

of the following conditions:

- No order, statute, rule, regulation, injunction or decree shall have been enacted, entered or promulgated by any court of competent jurisdiction or governmental authority that is in effect and restrains, enjoins or otherwise prohibits or makes illegal the consummation of the Merger;

- No action by any governmental authority shall have been initiated or threatened to restrain, prohibit or invalidate the Merger;

- All required statutory approvals, as described in the Merger Agreement, necessary to consummate the transactions shall have been obtained or satisfied; and

- We shall have received an opinion from our legal counsel that the Merger will not adversely affect our status as a real estate investment trust under the Code.

Conditions to Our Obligation and that of the Acquisition Entities. Our obligations and those of the Acquisition Entities to effect the Merger and the other transactions contemplated by the Merger Agreement are subject to our satisfaction or waiver (as authorized in writing by the special committee in its sole and absolute discretion), at or prior to the closing, of certain additional conditions, including the following:

- The representations and warranties of our Sponsor, each Service Provider and the PM Stockholder Agent contained in the Merger Agreement shall be true and correct in all material respects;

- Each of our Sponsor, each Service Provider and the PM Stockholder Agent shall have performed and complied in all material respects with all agreements and covenants required to be performed and complied with by it under the Merger Agreement;

- We shall have received from each of our Sponsor, each Service Provider and the PM Stockholder Agent an officer certificate certifying as to such person, that the closing conditions have been satisfied;

- Our stockholders shall have ratified the Merger;

- The opinion of William Blair received as of the date of the Merger Agreement by the special committee and our Board (that the consideration to be paid by us for the Service Providers pursuant to the Merger Agreement is fair, from a financial point of view) shall not have been withdrawn or revoked;

- Since the date of the Merger Agreement, there has not been any change or any event which would, individually or in the aggregate, reasonably be expected to have a material adverse effect on our Business Manager/Advisor and our Property Managers;

- Each of our Sponsor and the PM Stockholder Agent shall have executed and delivered to us a counterpart signature page to the registration rights agreement;

- Each of our Sponsor, the PM Stockholder Agent and the escrow agent shall have executed and delivered a counterpart signature page to the escrow agreement;

- The TIGI letter agreement executed and delivered to us concurrent with the execution of the Merger Agreement shall remain in full force and effect;

- Our Sponsor shall have executed and delivered the sublease;

- Each of Inland and our Business Manager/Advisor and Property Managers, as applicable, shall have executed and delivered the amendment to office and facilities management services agreement, the amendment to insurance and risk management services agreement, the amendment to computer services agreement, the amendment to personnel services agreement, the amendment to property tax services agreement, the amendment to communications services agreement, the amendment to the loan services agreement, the second amendment to the

mortgage brokerage services agreement, the transition property due diligence services agreement, the institutional

30

investor relationships services agreement, the legal services agreement, the license agreement modification and the license agreement (property management corporations);

- We shall have received certificates issued by the secretaries of state of the respective states of incorporation or formation, as applicable, of our Sponsor and each Service Provider, certifying the good standing of such entities in such states as of a date within five days of the closing date;

- We shall have received certificates executed by the respective secretaries or by assistant secretaries of our Sponsor and the Property Managers certifying as of the closing date: (i) all board and stockholder resolutions, as applicable, fully and properly executed, evidencing such entity s authorization to execute, deliver and perform under the Merger Agreement and the ancillary agreements to which it is a party; and (ii) a true and complete copy of the organizational documents of the applicable Service Provider;

- All required consents shall have been obtained;

- Each of our Sponsor and the PM Stockholder Agent shall deliver to us a certificate certifying that the transactions contemplated by the Merger Agreement are exempt from withholding under Section 1445 of the Code;

- We shall have received an opinion of Jenner regarding certain legal matters relating to the Service Providers; and

- The irrevocable written consents executed by each of our Sponsor and the Principal Stockholders concurrent with the execution of the Merger Agreement shall remain in full force and effect.

Conditions to the Obligation of the Service Providers. The obligations of the Service Providers to effect the Merger and the other transactions contemplated by the Merger Agreement are subject to the satisfaction or waiver by our Sponsor or the PM Stockholder Agent, as applicable (in their sole and absolute discretion), at or prior to the closing of the following additional conditions:

- Our representations and warranties contained in the Merger Agreement shall be true and correct in all material respects, unless such representation or warranty becomes incorrect as a result, in whole or in part: (i) of any act (other than any act taken at the written direction of our Board or mandated by the Merger Agreement) or omission by our Sponsor, the PM Stockholder Agent or any Service Provider; or (ii) of any statement or omission which to the knowledge of the Service Providers as the date of the Merger Agreement was untrue;

- We shall have performed and complied in all material respects with all agreements and covenants contained in the Merger Agreement, provided that this condition shall not be deemed to be unsatisfied if such failure to perform or comply with any covenant or agreement under the Merger Agreement is caused, in whole or in part, by: (i) any action or omission by our Sponsor, the PM Stockholder Agent or any Service Provider; or (ii) by any action or inaction by any member of our management (unless such action by management was at the written direction of the special committee);

- The Service Providers shall have received from us an officer certificate certifying that the closing conditions have been satisfied;

- The Service Providers shall have received certificates issued by the secretaries of state of the respective states of incorporation of us and the Acquisition Entities, certifying the good standing of such entities in such states;

- The Service Providers shall have received certificates executed by the respective secretaries or by assistant secretaries of us and the Acquisition Entities certifying as of the closing date: (a) all

board and stockholder resolutions, as applicable, fully and properly executed, evidencing each entity s authorization to execute, deliver and perform under the Merger Agreement; and (b) copy of the organizational documents of each entity;

- We and the escrow agent shall have executed and delivered the escrow agreement;
- We shall have executed and delivered the registration rights agreement; and
- We and the Acquisition Entities, as applicable, shall have executed and delivered each ancillary agreement to which it is a party.

Representations and Warranties

Our Representations and Warranties. The Merger Agreement includes various customary representations and warranties made by us as to, among other things (as applicable):

- our organization, good standing and power to enter into the Merger Agreement;
- our capitalization and our ownership of the capital stock of each Acquisition Entity;
- the duly authorized, validly issued, fully paid and non-assessable nature of the shares of our common stock to be issued in the Merger;
- authorization of our entry into the transactions contemplated by the Merger Agreement and the issuance of additional shares of our common stock as consideration for the Merger;
- no violation of any law, organizational documents of us or an Acquisition Entity, or any material contract to which we or an Acquisition Entity is a party or is bound;
- accuracy of the information to be included in this proxy statement;
- the accuracy of our filings with the SEC;
- absence of certain changes;
- brokers or finders fees; and
- pending or threatened litigation.

Representations and Warranties of the Service Providers, our Sponsor and the PM Stockholder Agent. The Merger Agreement includes various customary representations and warranties made by the Service Providers, our Sponsor and the PM Stockholder Agent as to, among other things (as applicable):

- organization, good standing and power to enter into the Merger Agreement;
- the capitalization of the Business Manager/Advisor and our Property Managers;
- authorization of the transactions contemplated by the Merger Agreement;

- no violation of any law applicable to our Sponsor, each Service Provider, the PM Stockholder Agent or any stockholder of our Property Managers; no violation of the organizational documents of our Sponsor and each Service Provider, or any contract or other agreement;

- financial statements and internal controls of each Service Provider;

- the absence of certain changes;
- tax matters;
- undisclosed liabilities;
- pending or threatened litigation;
- compliance with laws and permits;
- insurance matters;
- certain matters with respect to employees and employee benefits;
- labor matters;
- ownership and title or license to tangible and intangible property and assets owned or used by any of the Service Providers;
- brokers or finders fees;
- certain matters with respect to the Investment Company Act of 1940;
- transactions with related parties;
- certain matters with respect to the shares of the Service Providers to be converted in the constituent mergers;
- title to assets and matters related to real property;
- certain corporate information and documents provided to us;
- certain contracts and leases;
- projections;
- to the actual knowledge of the Principal Stockholders, after reasonable inquiry of certain individuals, that certain of our representations and warranties are true and correct and each ancillary agreement are true and correct without regard to any knowledge qualifications contained is such representations and warranties;
- to the knowledge of the Service Providers, the knowledge of our Sponsor and the PM Stockholder Agent, since December 31, 2005 there have been no discussions or negotiations with any third party relating to a change of control of us; and
- the accuracy of certain sections of this proxy statement as of the date it is first mailed to our stockholders and as of the date of the our stockholders meeting.

Indemnification

Indemnification by our Sponsor, the PM Stockholder Agent and the Stockholders of our Property Managers. After closing, subject to certain limitations set forth in the Merger Agreement, our Sponsor, the PM Stockholder Agent and the stockholders of our Property Managers shall jointly and severally indemnify us, certain

of our affiliates, successors and assigns and each of the respective officers, directors, employees and agents of the foregoing against any damages which arise out of:

- the breach or inaccuracy of any of their representations or warranties in the Merger Agreement;
- the breach of any of their covenants or agreements contained in or made pursuant to the Merger Agreement;
- any claims arising out of or relating to (x) the Merger or the other transactions contemplated in the Merger Agreement with respect to or in connection with the allocation or distribution of the shares of our common stock among our Sponsor and the stockholders of our Property Managers pursuant to the Merger, (y) the purchase, directly or indirectly, prior to the closing, by a stockholder of our Property Managers or any other person of any equity interest in any Property Manager from another stockholder or (z) any untrue statement or omission of any fact in connection with the solicitation of votes or consents from the holders of equity of the Service Providers; and
- any fraud, intentional misrepresentation or criminal acts committed by them on or prior to the closing.

The rights of the applicable indemnified parties to seek indemnification with respect to such representations and warranties, shall survive until the earlier of: (i) 30 days after the receipt by us of the audit opinion of our independent registered public accounting firm covering our financial statements for the year ending December 31, 2008; or (ii) the second anniversary of the closing date; except that our rights to seek indemnification with respect to the following representations and warranties, survive until the expiration of the applicable statute of limitations with respect to the matters covered thereby:

- tax matters;
- litigation matters;
- employment matters;
- employee arrangements; labor matters;
- legal compliance matters to the extent related to environmental matters; and
- investment in securities,

and except that the following matters, and the rights of the applicable indemnified parties to seek indemnification with respect to such representations and warranties survive in perpetuity:

- organization and qualification
- capitalization;
- authorization; and
- title to assets.

Indemnification by Us. Subject to the limitations set forth in the Merger Agreement including any items relating to taxes, we shall indemnify our Sponsor and the stockholders of our Property Managers and certain of their affiliates, successors and assigns and each of the respective officers, directors, employees and agents of the foregoing against any damages which arise out of:

34

- **the breach or inaccuracy of any representation or warranty by us in or pursuant to the Merger Agreement;**

- **the breach of any covenant or agreement contained in or made pursuant to the Merger Agreement by us acting at the direction of our Board on or prior to the effective time of the Merger, or by us after the effective time of the Merger, or by the surviving entities in the Merger; and**

- any fraud, intentional misrepresentation or criminal acts committed by our Board or the surviving entities in the Merger.

All covenants and agreements of the parties in the Merger Agreement, and the rights of the parties to seek indemnification with respect to such covenants and agreements, will expire on the closing date, but covenants and agreements to be performed after the closing date will not expire until all related obligations have been fully discharged.

The indemnification obligations of the parties with respect to breaches of representations and warranties are also subject to the following limitations:

- No party will have any liability for any damages with respect to breaches of representations or warranties until and only to the extent that the aggregate amount of damages that are indemnifiable exceeds $2.0 million. However, this limitation does not apply to certain damages with respect to the perpetual representations or with respect to representations regarding broker s or finder s fees, issuance of securities, or with certain other items.

- The maximum amount of damages which may be recovered from our Sponsor, the PM Stockholder Agent and the stockholders of our Property Managers shall be: (i) in the case of a breach or inaccuracy of any representation or warranty relating to organization and qualifications, capitalization, authority, investment in securities, and title to assets, or in the case of damages pursuant to other sections of the Merger Agreement, an amount equal to the aggregate value of the shares of our common stock issued in the Merger; and (ii) in cases of certain representations or warranties, an amount limited to 55% of the aggregate value of the shares of our common stock. In addition, the maximum amount of damages for which indemnity may be recovered by us or certain of our affiliates from any stockholder of our Property Managers (other than the Principal Stockholders) shall be an amount equal to the aggregate value of the shares of our common stock which such stockholder of our Property Managers has received in connection with the transactions contemplated by the Merger Agreement, except in the case of fraud or intentional misrepresentation by such Stockholder in connection with the transactions contemplated hereby.

- The maximum aggregate amount of damages for which indemnity may be recovered from us shall be: (i) in the case of a breach or inaccuracy of any representation or warranty relating to organization and qualification, capitalization, and authority, or in the case of damages not relating to other representations of the Merger Agreement, an amount equal to the aggregate value of the shares of common stock issued in the Merger; and (ii) in all other cases of a breach or inaccuracy of other representations or warranties, an amount equal to 55% of the aggregate value of the shares of our common stock issued in the Merger.

To the extent we or certain of our affiliates are entitled to indemnification we must first seek indemnification from the escrow account, and only after the distribution or allocation of the entire contents of the escrow account, shall we be entitled to seek indemnification directly from our Sponsor and the stockholders of our Property Managers. For the purposes of the Merger Agreement consideration and indemnification provisions, our common shares are deemed to have a fair market value of $10.00 per share unless they are subsequently listed on a public exchange and are used by our Sponsor or the stockholders of our Property Managers to pay a claim, in which case the shares will be deemed to have a fair market value equal to the average of the closing sale prices of our common shares on the exchange for the 20 trading days prior to delivery of the shares to us.

· the breach or inaccuracy of any representation or warranty by us in or pursuant to the M

· the breach of any covenant or agreement contained in or made pursuant to the Merger A

To the extent a Service Provider indemnified party is entitled to indemnification, we shall be required to satisfy its indemnification obligations solely by payment in cash. Our Sponsor and each of the stockholders of our Property Managers shall be entitled to satisfy their indemnification obligations by payment in cash, in the shares of our common stock issued in the Merger or in a combination thereof, in their sole discretion.

We will indemnify our Sponsor and the stockholders of our Property Managers and certain of their affiliates, successors and assigns and each of the respective officers, directors, employees and agents of the foregoing against all liability for taxes of the surviving corporations with respect to any post-closing tax period and any and all damages arising out of, resulting from or incident to the breach by us of any covenant contained in the tax section of the Merger Agreement.

The sole remedy for the parties, after the closing and except for claims seeking equitable relief, relating to the Merger or the other transactions contemplated by the Merger Agreement shall be pursuant to the indemnification and remedy provisions in the Merger Agreement.

Amendments and Waiver; Assignment; Termination

Amendments and Waivers. No amendment, extension or waiver of any provision shall be valid unless in writing and signed by us, our Sponsor and the PM Stockholder Agent, as applicable, all in accordance with applicable law; however, the Merger Agreement may not be amended in any material respect following the ratification of our entry into the Merger Agreement and the Merger by our stockholders.

Prior to the closing date, we may extend the time for the performance of any of the obligations or other acts of our Sponsor, the PM Stockholder Agent or the Service Providers, may waive any inaccuracies in the representations and warranties of such parties and may waive compliance with any of the agreements or conditions contained in the Merger Agreement to be complied with or satisfied by those parties.

Prior to the closing date, our Sponsor and the PM Stockholder Agent may extend the time for the performance of any of the obligations or other acts of us or the Acquisition Entities, may waive any inaccuracies in the representations and warranties of such parties contained in the Merger Agreement or in any document delivered pursuant to the Merger Agreement, and may waive compliance with any of the agreements or conditions contained in the Merger Agreement to be complied with or satisfied by those parties.

Termination. The Merger may be abandoned at any time prior to the closing date, before or after the approval by our stockholders, either by:

- mutual written consent of our Sponsor and the PM Stockholder Agent (acting jointly) and us;

- us, on the one hand, or our Sponsor and the PM Stockholder Agent, on the other hand, in the event the Merger has not been consummated on or before January 31, 2008, or such later date as may be mutually decided among us; but this right to terminate shall not be available to any party whose failure to fulfill any obligation under the Merger Agreement has been the cause of, or resulted in, the failure of the closing to occur on or before January 31, 2008 or such later mutually decided date;

- us, or our Sponsor and the PM Stockholder Agent, if any law makes the consummation of the Merger illegal or otherwise prohibited or any judgment, injunction, order or decree of any governmental authority having competent jurisdiction enjoining the parties hereto from consummating the Merger shall have been entered and shall have become final and nonappealable; provided, however, that this right to terminate the Merger Agreement shall not be available to any party who fails to use commercially reasonable efforts to resist, resolve or lift, as applicable, such law, judgment, injunction, order or decree;

- by us upon a material breach by our Sponsor, the PM Stockholder Agent or any Service Provider of any of their obligations under the Merger Agreement, which breach is not cured within 20 days

- the breach of any covenant or agreement contained in or made pursuant to the Merger A

· the breach of any covenant or agreement contained in or made pursuant to the Merger A

after written notice of the breach has been provided to the breaching party; but if such breach is generally capable of being cured, but cannot reasonably be cured within 20 days of the notice, this right will be delayed as long as reasonably necessary to affect such cure, but not beyond January 31, 2008 or such later mutually agreed date, so long as the breaching party diligently pursues a cure; or

- by our Sponsor and the PM Stockholder Agent, acting jointly, if there has been a breach of any representation, warranty, covenant or other agreement made by us or any of the Acquisition Entities or any such representation, warranty, covenant or other agreement contained in the Merger Agreement shall have become untrue after the date of the Merger Agreement and such breach or inaccuracy is not curable, or if curable, is not cured within 20 days after written notice of the breach has been provided to the breaching party; but if such breach is generally capable of being cured, but cannot reasonably be cured within 20 days of the notice, this right will be delayed as long as reasonably necessary to affect such cure, but not beyond January 31, 2008 or such later mutually agreed date, so long as the breaching party diligently pursues a cure. Our Sponsor and the PM Stockholder Agent will not have this right to terminate if the breach or inaccuracy was caused, in whole or in part, of an act, subject to exceptions in the Merger Agreement, or omission by TIGI, our Sponsor, the PM Stockholder Agent or any Service Provider, or of any statement or omission in our representations and warranties which to the knowledge of the Service Providers as of the date of the Merger Agreement was untrue.

Any termination of the Merger Agreement will relieve all parties of any liability or further obligation to any party under the Merger Agreement, other than with respect to the payment of expenses, confidentiality, public statements and indemnifications. No party will be relieved from liability for a willful breach of the Merger Agreement.

Expenses. Whether or not the Merger is consummated, all costs and expenses incurred in connection with the Merger Agreement shall be paid by the party incurring such expenses. The reasonable costs and expenses of our special committee, including reasonable fees and expenses of its counsel and financial advisors, and all fees and expenses in connection with filing, printing and distributing this proxy statement and solicitation, shall be paid by us.

If our Board: (i) publicly recommends against your ratification; and (ii) your ratification is not obtained at the Annual Meeting, then we shall pay to the Service Providers an amount equal to the actual, documented, out-of-pocket expenses incurred by the Service Providers to third parties in connection with the negotiation of the Merger Agreement, up to a maximum of $1.2 million.

Ancillary Agreements

Set forth below are summaries of the material terms of the ancillary agreements to be executed and delivered in connection with the consummation of the Merger. The summaries set forth below are qualified in their entirety by reference to the respective agreements themselves.

Registration Rights Agreement. We will enter into a registration rights agreement with our Sponsor and the PM Stockholder Agent substantially in the form attached hereto as **Appendix C**. We will grant to the stockholders of our Business Manager/Advisor and Property Managers certain registration rights with respect to our shares of common stock that they receive in the Merger, which we refer to herein as registrable securities. We are required to give the holders of these registration rights notice at least 20 days prior to the proposed date of a filing by us of a registration statement for the offer and sale of our common stock for any other selling stockholder, and provide those holders with the opportunity to have their shares of common stock included in the registration. We are required, on demand by either our Sponsor, or by eligible holders other than our Sponsor who in the aggregate own at least one third of the total number of shares of common stock then included in the registrable securities, to prepare and file a registration statement on Form S-3 if the registration covers the resale of all the registrable securities or the anticipated aggregate offering price for such registration is equal to at least $50.0 million within 45 days of the demand. We will bear all expenses incident to our obligations under the registration rights agreement, other than any

· the breach of any covenant or agreement contained in or made pursuant to the Merger A

underwriting fees, discounts or commissions, or fees and disbursements of counsel to the holders of registrable securities. We have agreed to indemnify the holders of registrable securities and each person who controls any such person from and against any and all loss, liability, charge, claim, damage and expense in connection with any untrue statement of a material fact contained in any registration statement, or prospectus relating to the sale of any of the registrable securities, or in any document filed by us in any jurisdiction in order to register or qualify any of the registrable securities under the securities or blue sky laws of any state, or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements made therein not misleading, unless (x) such statement or omission was made in reliance upon and in conformity with written information furnished to us with respect to such holder by or on behalf of such person expressly for inclusion in any such registration statement, prospectus or document, as the case may be, or (y) such loss, liability, charge, claim, damage or expense arises out of such holder s failure to comply with the terms and provisions of the registration rights agreement.

Escrow Agreement. We, as well as the escrow agent, will enter into an escrow agreement with our Sponsor and the PM Stockholder Agent, substantially in the form attached hereto as **Appendix D**. At the closing of the Merger, our Sponsor and the PM Stockholder Agent will deposit 55% of the shares of our common stock to be issued to the stockholders of the Service Providers as consideration for the Merger into an escrow account. The escrow agreement provides procedures whereby we may request disbursement of escrowed shares for payment of the indemnification claims, or whereby we may object to all or any part of any disbursement to our Sponsor or the PM Stockholder Agent. The shares held in the escrow account may be released to our Sponsor and the PM Stockholder Agent upon the passage of two release dates. The first release date will occur on the first anniversary of the effective date of the escrow agreement, whereupon the escrow agent will disburse to our Sponsor and the PM Stockholder Agent the escrowed shares equal to 50% of the amount by which the value of escrow, as defined in the escrow agreement, as of the first release date, exceeds any amounts subject to pending indemnification claims made by us, with each escrowed share having a value equal to $10.00 or, if the escrowed shares are listed on a national securities exchange, the market price of such escrowed shares. The second release date will occur on the earlier of the 30th day after receipt by us of an audit opinion from our independent registered public accounting firm covering our financial statements for the year ending December 31, 2008 and the second anniversary of the effective date of the escrow agreement, whereupon the escrow agent will disburse the entirety of the shares then held in escrow to our Sponsor and to the PM Stockholder Agent, less any amounts subject to pending indemnification claims by us, with each escrowed share having the same value as described for the first release date.

Consulting Agreements. We have entered into consulting agreements, substantially in the form attached hereto as **Appendix E**, with Daniel L. Goodwin, Robert D. Parks and G. Joseph Cosenza, referred to herein as the consultants, who will each provide us with strategic and operational assistance for the term of their respective agreement including making recommendations and providing guidance to us as to prospective investment, financing, acquisition, disposition, development, joint venture and other real estate opportunities contemplated from time to time by us and our Board. The consultants will also provide additional services as may be reasonably requested from time to time by our Board.

The term of each of these consulting agreements is contingent on and begins on the closing date of the Merger and, unless terminated earlier, continues until the third anniversary of the closing date. Under the consulting agreements, a consultant may terminate his or her consulting agreement prior to the expiration of its term upon the disability of the consultant, a material breach by us of his or her consulting agreement, or upon a change in control. We may terminate any consulting agreement at any time.

The consultants will not receive any compensation for their services, but we will reimburse their expenses in fulfilling their duties under the consulting agreements. We agree to indemnify these consultants for damages resulting from their actions taken in accordance with their consulting agreement to the same extent to which we indemnify our directors for actions taken in their capacity as directors.

Employment Agreements. We have entered into employment agreements contingent on and to be effective upon the closing of the Merger, substantially in the form attached hereto as **Appendix F**, with Michael J. O Hanlon, Steven P. Grimes, Shane C. Garrison and Niall J. Byrne. Mr. O Hanlon will be our President and Chief Executive Officer, Mr. Grimes will be our Chief Operating Officer and Chief Financial Officer, Mr. Garrison will be the Chief Investment Officer, and Mr. Byrne will be our Vice President and President of the Property Managers.

· the breach of any covenant or agreement contained in or made pursuant to the Merger A

· the breach of any covenant or agreement contained in or made pursuant to the Merger A

Mr. O Hanlon, age 55, joined our Sponsor as Senior Vice President, Director of Asset Management, in 2005. As Director of Asset Management he is responsible for coordinating our Sponsor s resources for the strategic direction and value enhancement of its portfolio of properties. Mr. O Hanlon has more than 30 years of industry experience in areas such as asset and property management, capital markets, joint ventures, loan restructuring, and real estate development and real estate brokerage. He has extensive national experience and has worked on numerous different types of real estate in various regions of the country. Prior to his current position, Mr. O Hanlon was the Executive Vice President and Regional Managing Director at Grubb & Ellis Company in Chicago. There he supervised all lines of business for Grubb & Ellis Company in the Midwest including the operations of five company offices and fifteen affiliate offices. He has also held senior positions with Cushman & Wakefield, Balcor, as well as having been a Senior Credit Officer at Citibank. He has a Master s of Business Administration in Finance from Columbia University in New York and a Bachelor of Science in Accounting from Fordham University in New York. He has been an active member of the Urban Land Institute and the International Council of Shopping Centers.

For the biography of Mr. Grimes, see Our Executive Officers Biographies of Our Executive Officers.

Mr. Garrison, age 37, joined Inland US Management in 2004 from ECI Properties, where he was in charge of the company s real estate portfolio which included industrial and retail properties. Previously he was the General Manager of the Midwest Region for Circuit City. He has a Master s of Business Administration in Real Estate Finance from DePaul University in Chicago, and a Bachelor of Science in Business Administration from Illinois State University. He is an active member of the Urban Land Institute and the International Council of Shopping Centers.

Mr. Byrne, age 50, is a Senior Vice President with our Property Managers. He oversees the overall property management functions for our 300 plus property, 46 million square foot portfolio. He is also involved in development, acquisitions and joint venture initiatives for us. Mr. Byrne came to our Property Managers from American Landmark Properties Ltd., where he was Vice President of Asset Management for a large commercial and residential portfolio of properties. Prior to joining American Landmark Properties, LTD., Mr. Byrne was a Senior Vice President/Director of Operations for Providence Management Company, LLC (PMC Chicago). At PMC, he oversaw all aspects of property operations, daily management and asset management functions for an 8,000-unit multi-family portfolio, as well as a small commercial portfolio. He also has over fifteen years real estate experience with Chicago based Habitat Company and with American Express/Balcor. Mr. Byrne received his Bachelor of Science degree in Accounting from DePaul University. He holds an Illinois CPA Certificate, is an active member of the International Council of Shopping Centers and has completed advanced course work in Property/Asset Management, Leasing, Marketing, and Development. He also has five years public accounting experience.

The term of each of these employment agreements begins on the closing date and continues, unless earlier terminated, until December 31, 2007. The employment agreements may be terminated: (i) by the employee or us for any reason effective upon 60 days prior written notice; or (ii) by us for cause, as defined in each of the employment agreements, effective without prior written notice to the employee unless we are terminating the employee s employment for reasons relating to a failure to perform employee s duties or any material breach of the employment agreement or other agreements where we are required to give the employee notice of our intention and allow employee 15 days to cure.

During 2007, the employee will receive a base salary. We agreed to pay Mr. O Hanlon, Mr. Grimes, Mr. Garrison and Mr. Byrne a base salary of $400,000, $300,000, $200,000 and $225,000, respectively, per year, pro-rated for the remainder of 2007. In addition to a base salary for such period, our Sponsor will determine, in its sole discretion, and may pay each of Mr. O Hanlon, Mr. Grimes, Mr. Garrison and Mr. Byrne a bonus for 2007. Further, each employee will be eligible to participate in any retirement, pension, profit-sharing or other similar plans of us or our affiliates. The employee will also be reimbursed for all ordinary and necessary business expenses incurred by employee in connection with the employee s duties as described in the employment agreements.

Under each of the employment agreements, if employment is terminated by the employee or by us for any reason, we will pay or provide the employee s: (i) base salary accrued through the termination; (ii) reimbursable expenses; (iii) pro-rata annual bonus, if any; and (iv) any benefits required to be paid or provided under applicable law. The employee is not entitled to any other severance.

· the breach of any covenant or agreement contained in or made pursuant to the Merger A

TIGI Letter Agreement. TIGI, under the terms of the TIGI letter agreement, attached hereto as **Appendix G** and dated as of the date of the Merger Agreement, agrees to perform all of its actions and obligations under the Merger Agreement regarding access to information, notice of certain events, employee matters and tax matters as if it were a party to the Merger Agreement. TIGI further covenants for itself and its affiliates to perform all actions and obligations to be performed under the Merger Agreement regarding access to information, notice of certain events and non-solicitation, as if it were a party to the Merger Agreement.

Agent Appointment Agreement. Each of the Principal Stockholders has executed and delivered his respective agent appointment agreement. Under the terms of the agent appointment agreement, substantially in the form attached hereto as **Appendix H**, IWEST Merger Agent, LLC is appointed as the agent for each of the stockholders of our Property Managers who has signed such an agreement. The Property Managers have told us that they anticipate that all of their stockholders will sign such an agreement. The PM Stockholder Agent is required to use commercially reasonable efforts to cause each stockholder of the Property Managers to execute an agent appointment agreement prior to closing. The PM Stockholder Agent will act as the agent, representative and attorney-in-fact with full and exclusive power and authority to represent and bind such stockholders of our Property Managers with respect to all matters arising in connection with the Merger Agreement, the escrow agreement, the registration rights agreement and the Merger. Such stockholders of our Property Managers irrevocably consent to any actions taken or decisions made by the PM Stockholder Agent as required or permitted under any of the foregoing agreements or any matters arising out of such agreements. Any action taken by the PM Stockholder Agent in accordance with the agent appointment agreement is approved, ratified and confirmed in all respects as the act and deed of such stockholder of our Property Managers. We are entitled to deal exclusively with the PM Stockholder Agent on all matters relating to the Merger with respect to the stockholders of our Property Managers.

Sublease. At the closing, we will enter into a sublease, substantially in the form attached hereto as **Appendix I**, with our Sponsor, under which we will sublease from our Sponsor approximately 36,740 square feet at 2907 Butterfield Road, Oak Brook, Illinois. The initial term of the sublease will be five years from the closing date, with one five-year extension option. Base rent under the sublease during the initial term is $13.50 per square foot, or $41,333 per month, and will increase during any extension term based on the cumulative percentage increase of the consumer price index in each year of the initial term of the sublease. We will also be obligated to pay a 37.33% pro rata share of all real estate taxes and expenses of managing, operating, maintaining, replacing and repairing the buildings leased under the prime lease. Our Sponsor has agreed to reimburse us for the cost of up to $300,000 of tenant improvements to be constructed by us in the sublet premises, which amount, together with interest, will be amortized and paid as additional rent under the sublease based on a 60-month amortization schedule.

IREA Letter. We received a letter from IREA, which is attached hereto as **Appendix J**. The IREA letter formalizes the existing oral agreement between us and IREA. In the IREA letter, IREA agrees, subject to its existing acquisition agreements, to make us aware of all the properties that IREA is acquiring, with the understanding that although we are primarily interested in retail and life-style centers, we may also be interested in commercial, office, net lease and residential properties and would be able to bid on them through IREA, if we so choose.

Amendments to Services Agreements. Amendments to each of the existing service agreements with Inland, including the amendment to office and facilities management services agreement, the amendment to insurance and risk management services agreement, the amendment to computer services agreement, the amendment to personnel services agreement, the amendment to property tax services agreement, the amendment to communications services agreement, the amendment to the loan services agreement, and the second amendment to the mortgage brokerage services agreement, substantially in the forms attached as **Appendices K-1 through K-8**, respectively, will be executed as of the closing date. The amendments provide that either party can terminate without any fee or penalty, and that the services provided under the terms of the applicable services agreement are to be provided on a non-exclusive basis in that our Business Manager/Advisor shall be permitted to employ other parties to perform any one or more of the services and

that the applicable counter party shall be permitted to perform any one or more of the services to other parties. Our Business Manager/Advisor shall have the right to terminate the applicable services agreement, without cause, by providing not less than 180 days prior written notice. If we have a change of control, the applicable counter party shall have the right to terminate the applicable services agreement, without cause, upon not less than 30 days prior written notice.

· the breach of any covenant or agreement contained in or made pursuant to the Merger A

Transition Property Due Diligence Services Agreement with Inland Real Estate Acquisitions, Inc. IREA will enter into a transition property due diligence services agreement with us substantially in the form attached hereto as **Appendix L**. In connection with our acquisition of new properties, IREA will, if requested, provide various services including to negotiate property acquisition transactions on our behalf and prepare suitability, due diligence, and preliminary and final pro forma analyses of properties proposed to be acquired. We will pay all reasonable, third party out-of-pocket costs incurred by IREA in providing such services; pay an overhead cost reimbursement of $11,500 per transaction; and, to the extent these services are requested by us, pay $7,000 for due diligence expenses and a negotiated fee of $25,000 for negotiation expenses per transaction. The term of the agreement begins upon execution and continues for one year and automatically renews for one year periods until either party elects not to renew. IREA may terminate the agreement at any time upon the failure by us to make payment for services, following a ten day cure period; a request by us for IREA to violate any applicable law, or to take action that would result in fraud being committed by or civil liability being imposed on IREA; or upon a change in control. We may terminate the transition property due diligence services agreement with ten days notice for cause, following a 30 day cure period, or for any reason with 60 days prior notice.

Institutional Investor Relationships Services Agreement. We will enter into an institutional investor relationships services agreement with Inland Capital Partners substantially in the form attached hereto as **Appendix M**. Under the terms of the agreement, Inland Capital Partners will secure institutional investor commitments by, among other things, assisting our management team with the refinement of our overall strategy for expanding our institutional investor relationships in exchange for advisory and client fees and reimbursement of project expenses.

The agreement is non-exclusive as to both parties. The terms of the agreement reflect an oral agreement between the parties as of May 2006. Although the agreement will not be signed until the closing date, the term of the agreement is four years from the effective date (May 3, 2006) and will be automatically renewed for consecutive three year terms unless terminated earlier. We may terminate for cause upon ten days prior written notice, following a 30 day cure period, or without cause by providing not less than 180 days prior written notice. If we experience a change in control, Inland Capital Partners may terminate the agreement upon 30 days written notice; otherwise, Inland Capital Partners may terminate the agreement at any time, without cause, by providing not less than 180 days prior written notice. Inland Capital Partners may terminate the agreement or decline to provide a particular service under the agreement upon ten days written notice to us upon the occurrence of certain events.

Inland Capital Partners advisory fee will be $250 per hour for principals and $100 per hour for associates, plus expenses. Project expenses include travel, overnight document delivery and out-of-pocket expenses and will be generally in the range of 10% of the advisory fee. The client relations fee will be offset by any accrued advisory fee. The client relations fee for Inland Capital Partners obtaining investor commitments will be 35 basis points for relationships with new investors of TIGI or Inland and 25 basis points for relationships with existing investors of TIGI or Inland. If the agreement is terminated by either party, Inland Capital Partners will submit to us a schedule of investors who have been contacted on our behalf, along with a schedule of committed but un-invested capital, for which future success fees will become due upon funding. Further, if a marketing effort fails to produce a partnership acceptable to us, any accrued and unpaid advisory fees will be due and payable by us. As of the date of the agreement, we will only be responsible for potential fees to Inland Capital Partners with respect to certain identified projects, each of which may be terminated after six months of engagement with a 30 day notice resulting in no further fees due by us.

Legal Services Agreement. TIREG will enter into a legal services agreement with us, substantially in the form attached hereto as **Appendix N**, where TIREG will provide us with certain legal services in connection with our real estate business.

The agreement is non-exclusive as to both parties. The term of the agreement is four years from the closing date and will be automatically renewed for consecutive three year terms, unless terminated earlier. We may terminate the agreement at any time for cause upon ten days prior written notice, following a 30 day cure period. We may also terminate the agreement without cause by providing not less than 180 days prior written notice.

TIREG may terminate the agreement at any time after the first anniversary from the closing date by providing not less than 60 days prior written notice. TIREG may also terminate the agreement, or decline to provide a certain service, upon ten days prior written notice to us upon the occurrence of certain events. TIREG may also

· the breach of any covenant or agreement contained in or made pursuant to the Merger A

· the breach of any covenant or agreement contained in or made pursuant to the Merger A

terminate the agreement upon written notice to us if we have a change in control. We will promptly make payment to TIREG for services performed prior to the date of termination.

We will pay TIREG for legal services rendered under the agreement on the basis of actual time billed by attorneys and paralegals at TIREG s hourly billing rate then in effect in increments of one-tenth of one hour. The billing rate is subject to change on an annual basis, provided, however, that the billing rates charged by TIREG will not be greater than the billing rates charged to any other client and will not be greater than 90% of the billing rate of attorneys of similar experience and position employed by nationally recognized law firms located in Chicago, Illinois performing similar services. We will also reimburse TIREG for reasonable, actual, out of pocket costs, expenses and charges incurred by TIREG with respect to rendering services under the agreement.

License Agreement Modification. TIREG will enter into a license agreement modification with us, substantially in the form attached hereto as **Appendix O**, which modifies that certain license agreement entered into between us and TIREG as of March 5, 2003. Under the terms of the license agreement modification, TIREG grants us the exclusive rights to use our name and logo, except TIREG can use the name and logo for certain limited marketing purposes.

License Agreement (Property Management Corporations). TIREG will enter into a license agreement, substantially in the form attached hereto as **Appendix P**, with each of the Property Managers whereby it will grant to each Property Manager a non-exclusive, non-transferable, revocable, royalty-free right to use the trade name Inland in connection with the management services for us.

Contact Information

The contact information for each party to the Merger Agreement is as follows:

Our company and the Acquisition Entities:

Inland Western Retail Real Estate Trust, Inc.

c/o Special Committee of the Board of Directors

2901 Butterfield Road

Oak Brook, Illinois 60523

Telephone: (630) 218-8000

For our Sponsor, our Business Manager/Advisor, our Property Managers, and the PM Stockholder Agent:

c/o The Inland Real Estate Group, Inc.

2901 Butterfield Road

Oak Brook, Illinois 60523

Telephone: (630) 218-8000

Our Business

We are a real estate investment trust that was formed in 2003. We have primarily focused on acquiring, developing, operating and leasing multi-tenant shopping centers and single-user net lease properties. As of June 30, 2007, our portfolio consisted of 288 wholly-owned properties, 16 properties in which we have an interest of between 45% and 95%, and six development joint venture projects in which we have an investment, four of which we consolidate. As of June 30, 2007, our portfolio contained approximately 46 million square feet of leasable space. Our anchor tenants include nationally and regionally recognized grocers, discount retailers, financial companies, and other tenants who provide basic household goods and services. Of our total annualized revenue as of June 30, 2007, approximately 69% is generated by anchor or credit

tenants, including American Express, Zurich Insurance Company, Best Buy, Ross Dress For Less, Bed Bath & Beyond, GMAC, Wal-Mart, Publix Supermarket, and several others. The term credit tenant is subjective and we apply the term to tenants who we believe have a substantial net worth. We conduct our activities primarily from offices located in Illinois.

- the breach of any covenant or agreement contained in or made pursuant to the Merger A

Business of our Property Managers and our Business Manager/Advisor

Each of our Property Managers was formed in 2003 and is a Delaware corporation owned primarily by individuals affiliated with Inland.

ISMC s sole business has been to serve as property manager for certain of our investment properties located in the States of Alabama, California, Colorado, Delaware, Georgia, Kentucky, Louisiana, Mississippi, Oklahoma, Tennessee, Texas and Washington. ISMC conducts its property management activities primarily from offices located in Smyrna, Georgia; Huntsville, Alabama; and Knoxville, Tennessee.

INMC s sole business has been to serve as property manager for certain of our investment properties located in the Northeast United States. INMC conducts its property management activities primarily from offices located in Oak Brook.

IWMC s sole business has been to serve as property manager for certain of our investment properties located in the Western United States. IWMC conducts its property management activities primarily from offices located in Oak Brook.

Our Property Managers conduct their supervisory and back-office functions primarily from their principal executive offices, located in each case at 2901 Butterfield Road, Oak Brook, Illinois 60523. For more information with respect to our Property Managers business activities, including their compensation and types of fees earned, see the section titled Our Property Management Agreements below.

Our Business Manager/Advisor is an Illinois corporation and a wholly-owned subsidiary of our Sponsor. Since its formation in 2003, our Business Manager/Advisor s sole business has been to serve as our business manager and advisor responsible for overseeing our day-to-day operations, including property acquisition, maintaining stockholder books and records, providing stockholder services, administering our bookkeeping and accounting and legal functions and consulting with our Board on various business management issues. Our Business Manager/Advisor s principal executive office is located in Oak Brook, Illinois. For more information with respect to our Business Manager/Advisor s business activities, including its compensation and types of fees earned, see the section titled Our Advisory Agreement below.

Our Property Management Agreements

Duties of our Property Managers. Each property in our portfolio is managed by one of our Property Managers pursuant to a property management agreement whereby it furnishes property management services (such as rental, leasing, operation and management services), including preparing a monthly income report, budget variance report and annual operating budget, for each property in our portfolio.

For each property, the responsible Property Manager has authority to:

- negotiate leases subject to the approval of our Board;
- collect rents and other monies due from tenants;
- pay various property-level expenses;
- institute and prosecute actions to evict tenants and to recover rent and other sums due, and to settle, compromise, and release such actions or suits, or reinstate such tenancies; and
- hire, supervise, discharge, and pay all labor required for the operation and maintenance of each property.

Compensation of our Property Managers. For our Property Managers services, we pay a fee of 4.5% of gross operating income of each property managed by the Property Managers. For the calendar year ended December

- the breach of any covenant or agreement contained in or made pursuant to the Merger A

31, 2006, we paid fees of $30.0 million to our Property Managers for property management. We also reimburse our Property Managers for the salaries and expenses of their employees for due diligence activities performed on our behalf. See Certain Relationships and Related Transactions for a more detailed description of amounts we have paid to our Property Managers.

Indemnification. We have agreed to indemnify the Property Managers for any losses incurred by that Property Manager in connection or in any way related to a property, including any liability for damage to a property and injuries to or death of any person on such property; provided, that the losses do not arise out of the willful misconduct, gross negligence or unlawful acts of the respective Property Manager. In addition, we have agreed to indemnify our Property Managers for any losses and expenses involving any past, current or future allegation regarding treatment, depositing, storage, disposal or placement by any party, other than that Property Manager, of hazardous substances on any of our properties. To date, no claims for indemnification have been made.

Additionally, with respect to each property, we are required to carry at our own expense public liability insurance, fire and extended coverage insurance, burglary and theft insurance, rental interruption insurance, flood insurance (if appropriate) and boiler insurance (if appropriate).

Separate Management Agreements. There is a separate management agreement for each property in our portfolio for an initial term ending as of December 31 in the year in which the property was acquired, and each management agreement is subject to three successive three-year renewals. For certain agreements, we may terminate with 30 days prior written notice in the event of gross negligence or malfeasance by the applicable Property Manager. For other agreements we may terminate with 30 days prior written notice for any reason. There are also three master property management agreements, one with each of our Property Managers.

Our Advisory Agreement

Duties of our Business Manager/Advisor. In accordance with our advisory agreement and through its supervision of the various service agreements with Inland, our Business Manager/Advisor generally has responsibility for furnishing advice, recommendations and providing services to us with respect to all aspects of our business. This includes the following:

- presenting to us opportunities to make investments in real properties and provide advice with respect to the making, acquiring, holding and disposition of investments and commitments of such investments;
- managing our day-to-day investment operations;
- serving as our investment advisor in connection with policy decisions to be made by our Board and furnish reports to our Board;
- investigating, selecting and conducting relations with lenders, consultants, accountants, brokers, banks, builders, underwriters, appraisers and other third parties on our behalf;
- cooperating with the management agent in connection with property management services;
- upon our request, act, or obtain, the services of others to act as our attorney-in-fact or agent in fulfilling our obligations and managing our claims including foreclosing and otherwise enforcing mortgage and other liens and security interests securing investments;
- assisting in negotiations on our behalf with investment banking firms and other institutions or investors in connection with the public or private sale of our securities;

 the breach of any covenant or agreement contained in or made pursuant to the Merger A

- maintaining title insurance or other assurance of title and customary fire, casualty and public liability insurance, with respect to real property;

- the breach of any covenant or agreement contained in or made pursuant to the Merger A

- investing and reinvesting our money upon request of our Board;

- supervising the preparation, filing and distribution of returns and reports to governmental agencies and to investors and act on our behalf in connection with investor relations;

- providing office space, equipment and personnel to carry out its services to us;

- advising us of the operating results of our properties;

- making reports to us of our performance of its services and furnish advice and recommendations with respect to other aspects of our business;

- preparing all reports and returns required by the SEC, the Internal Revenue Service, or the IRS, and other state or federal governmental agencies;

- undertaking and performing all services or other activities necessary and proper to carry out our investment objectives; and

- communicating with stockholders on our behalf in accordance with applicable law and our charter and bylaws, and providing all of our stockholder service functions, subject to certain exceptions as provided in the advisory agreement.

Compensation of the Business Manager/Advisor. For the services performed by our Business Manager/Advisor we are obligated to pay the following compensation:

- an asset management fee of not more than 1% of our average invested assets to our Business Manager/Advisor. Average invested asset value is defined as the average of the total book value, including acquired intangibles, of our real estate assets plus our loans receivable secured by real estate, before reserves for depreciation, reserves for bad debt or other similar non-cash reserves. We compute the values at the end of each month for which the fee is being calculated. The fee is payable quarterly in an amount equal to ¼ of up to 1% of our average invested assets as of the last day of the immediately preceding quarter. Additionally, our Business Manager/Advisor and its affiliates are entitled to be reimbursed general and administrative costs relating to our administration and acquisition of properties;

- a property disposition fee payable on sale of a property equal to the lesser of: (i) 3% of the contract sale price; or (ii) 50% of the customary commission that would be paid to third parties; and

- an incentive fee equal to 15% of the net proceeds remaining from the sale of any property after our stockholders have first received: (i) a cumulative, non-compounded return equal to 10% on an annual basis on the original issue price paid for our shares reduced by the amount of prior distributions from the sale or financing of our properties; and (ii) a return of the original issue price paid for our shares reduced by the amount of prior distributions from the sale or financing of our properties. Although we have not paid any such fees to date, if we were to dispose of a property in the future, we would be obligated to pay these fees.

Our Business Manager/Advisor is required to reimburse us for the amount, if any, that the asset management fee paid and our total operating expenses (excluding items such as taxes, interest payments, depreciation and property acquisition costs) during any year exceed the greater of: (i) 2% of the average assets for that fiscal year; or (ii) 25% of our net income excluding gains from the sale of property. In addition, our Business Manager/Advisor must reimburse us the difference between the total amount of distributions to stockholders for that year and a 6% minimum annual return on the net investment of stockholders.

- the breach of any covenant or agreement contained in or made pursuant to the Merger A

· the breach of any covenant or agreement contained in or made pursuant to the Merger A

We can be charged by our Business Manager/Advisor an annual asset management fee of up to 1% of our average invested assets; however, our Business Manager/Advisor has historically charged us no more than 0.53% on an annual basis. We compute the values at the end of each month for which the fee is being calculated. The fee is paid quarterly in an amount equal to ¼ of the estimated annual fee based on our average invested assets as of the last day of the immediately preceding quarter. Based upon the maximum allowable advisor asset management fee of 1% of our average invested assets, maximum fees of $74.9 million, $54.9 million and $15.0 million could have been charged for the years ended December 31, 2006, 2005 and 2004, respectively. However, we paid $39.5 million and $20.9 million for the years ended December 31, 2006 and 2005, respectively. Our Business Manager/Advisor waived all asset management fees for the year ended December 31, 2004. Our Business Manager/Advisor has agreed to forego any fees allowable but not taken on an annual basis. See Certain Relationships and Related Transactions for a more detailed description of amounts we have paid to our Business Manager/Advisor.

Term and Termination of the Advisory Agreement. The advisory agreement provided for an initial term of one year 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 our Business Manager/Advisor, as the case may be, upon 60 days written notice without cause or penalty. The advisory agreement will terminate upon consummation of the Merger.

Indemnification. We are currently required to indemnify and reimburse our Business Manager/Advisor and its affiliates, or collectively an indemnified party, to the fullest extent permitted by Maryland law, so long as: (i) the indemnified party determined, in good faith, that the course of conduct that caused the loss or liability was in our best interests; (ii) the indemnified party was acting on our behalf or performing services for us; (iii) the liability or loss was not the result of negligence or misconduct on the part of the indemnified party; and (iii) the indemnification or agreement to be held harmless is recoverable only out of our assets and not from our stockholders. We are not required to indemnify for losses, liabilities or expenses arising from an alleged violation of federal or state securities laws unless: (i) there has been a successful adjudication on the merits of each count involving alleged securities law violations as to the indemnified party; (ii) the claims have been dismissed with prejudice on the merits; or (iii) a court approves a settlement of the claims and finds that indemnification of the settlement and related costs should be made.

Liability and Indemnification of our Business Manager/Advisor. Under the advisory agreement, we are also required to advance amounts to our Business Manager/Advisor and its affiliates for legal and other expenses and costs incurred as a result of any legal action for which indemnification is being sought only if:

- the legal action relates to acts or omissions relating to the performance of duties or services for us or on our behalf by the person seeking indemnification;

- 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.

The liability of our Business Manager/Advisor and its affiliates is limited to the fullest extent permitted by Maryland law. As a result, our Business Manager/Advisor and its affiliates 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.

- the breach of any covenant or agreement contained in or made pursuant to the Merger A

Our charter authorizes and directs us to indemnify or pay or reimburse reasonable expenses in advance of a final disposition of a proceeding, to the maximum extent permitted by Maryland law in effect from time to time, our agents which includes our Business Manager/Advisor or its affiliates.

We may, with the approval of our Board or any duly authorized committee thereof, provide such indemnification and advancement of expenses to our Business Manager/Advisor. The indemnification and payment of expenses provided in our charter shall not be deemed exclusive of or limit in any way other rights to which our Business Manager/Advisor seeks indemnification or payment of expenses may be or may become entitled under any bylaw, regulation, insurance, agreement or otherwise.

Our charter further authorizes the purchase and maintenance of insurance on behalf of our Business Manager/Advisor or its affiliates against any liability asserted against it and incurred by it in such capacity, or arising out of its status as such, whether or not it is indemnified against such liability under the provisions of our charter.

Shares of our Stock and Other Amounts Potentially Payable with Respect to the Merger

· the breach of any covenant or agreement contained in or made pursuant to the Merger A