The Quarterly

Trust Report

Multi-Employer Property Trust

INSIDE:

FIRST QUARTER | APRIL 2009 | VOLUME 24, NUMBER 1

Multi-Employer Property Trust closed the first quarter of 2009 with a unit value of **$5,872.65** down **15.90 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is negative **25.79 percent.**

The pace of economic decline moderated in the first quarter and there were even signs in some sectors that conditions have started to stabilize. However, certain aspects of the U.S. economy further contracted and gross domestic product was down 6.1 percent. There were two million jobs lost during the quarter, bringing total jobs lost since the recession began in December 2007 to 5.1 million. The unemployment rate rose to 8.5 percent, its highest level since 1983. Job losses in the quarter were widespread across most industry sectors and will likely prolong the time it will take for the economy to fully recover.

The GDP contraction and job losses will have significant repercussions for commercial real estate over the next several quarters as corporations that have downsized begin to adjust their space needs accordingly. In fact, in the first quarter, the nationwide vacancy rate for office space increased to 12.5 percent and the national industrial vacancy rate rose to 9.2 percent; a 50 basis point increase from the prior quarter for both property types. It is likely, however, that the total impact on the supply and demand for space may not be fully realized until 2010 when vacancy rates for office nationally could reach between 18 percent to 20 percent. Certain markets with heavy exposure to the financial services industry, auto-related businesses and housing may be harder hit than others.

In general, tenants are delaying leasing decisions due to the uncertainty of the economic climate, and those willing to execute leases are finding a variety of options including newly built space and sublease opportunities. Landlords are aggressively pursuing tenants and offering attractive concessions. While there is downward pressure on rental rates, asking rents have not dropped dramatically. However, with more and more concessions being offered, effective rents have declined.

From a capital markets perspective, commercial real estate remains in a period of risk repricing as yield expectations continue to rise to compensate investors for perceived risk. As a result, many sellers have begun to recognize valuation declines and have reduced their pricing expectations. However, many buyers are still waiting for further price reductions. Additionally, it is exceedingly difficult for buyers to secure financing and deal structures have adjusted to reflect more stringent underwriting standards, including higher equity requirements and lower loan-to-value covenants. Because of the lack of financing available, smaller-sized transactions are more likely to get completed than larger deals for which there remains a scarcity of liquidity in the market. And, although there were more assets put on the market for sale in the first quarter than in the last several quarters, investor demand has not kept pace, and commercial real estate sales volume was down 80 percent from a year ago.

News Briefs

THE FOURTH ANNUAL MEPT REAL ESTATE CONFERENCE WILL BE HELD ON WEDNESDAY, JUNE 3, 2009. MEPT is sponsoring a one-day educational conference at The Westin Michigan Avenue in Chicago in order to bring MEPT investors together with nationally recognized industry leaders to engage in timely, thought-provoking discussions about the challenges and opportunities in the current market environment. Experts will discuss the state of the economy, the real estate industry and capital markets. All MEPT participating plans and their service providers are invited to participate in the conference and lunch (noon to 4:30pm). Please RSVP by May 14, 2009 to Philomena Paul at ppaul@lbutler.com or (202) 737-8823.

ON THURSDAY, JUNE 4, 2008, MEPT'S ADVISORY BOARD IS SCHEDULED TO MEET at The Westin Michigan Avenue in Chicago at 9:00am. MEPT management looks forward to presenting the Fund's performance, strategy, market conditions, and other topical issues. The Advisory Board is comprised of trustees of MEPT participating plans. Other trustees and service providers of MEPT participating plans are invited to attend as observers. Please RSVP by May 14, 2009 to Philomena Paul at ppaul@lbutler.com or (202) 737-8823.

IN THE FIRST QUARTER, MEPT SOLD HUDSON, A 40,000 SQUARE FOOT INDUSTRIAL BUILDING, FOR TOTAL GROSS PROCEEDS OF $4.0 MILLION. MEPT acquired Hudson, located in the Los Angeles market, in 2003 as part of a 17 asset portfolio. When the sole tenant vacated the property in 2008, MEPT marketed the property for sale to local owner/users and the City of Industry's Urban Development Agency purchased the property in February 2009.

IN MARCH, MEPT SOLD NETWAY CENTER AT ASHBURN, AN UNDEVELOPED 32-ACRE PARCEL OF LAND, FOR TOTAL GROSS PROCEEDS OF $5.8 MILLION. MEPT purchased the land in 2000 with plans to develop the site. Over the years, MEPT explored several potential strategies for the site. However, with expected slower demand for commercial real estate in the Northern Virginia submarket of Washington DC, MEPT opted to seek a buyer for the property instead of developing the land. The Temple Baptist Church of Herndon purchased the property.

AWARDS:

IN THE FIRST QUARTER, MEPT'S NORTH BY NORTHWEST PHASE V WAS NAMED 2009 BEST INDUSTRIAL PROJECT – SMALL SCALE by the National Association of Industrial and Office Properties (NAIOP) Indianapolis chapter. The 100,000 square-foot building was developed by MEPT for Goodwill Industries of Central Indiana and was recognized for the property's suitability for Goodwill's intended use as a redistribution outlet store for previously used goods as well as for its aesthetics, functionality, site selection, setting and its economic contribution to the community.

NORTH BY NORTHWEST PHASE V

IN MARCH, MEPT'S REAL ESTATE ADVISOR, KENNEDY ASSOCIATES REAL ESTATE COUNSEL, ACCEPTED AN EPA ENERGY STAR "PARTNER OF THE YEAR" AWARD FOR ITS WORK ON BEHALF OF MEPT. Kennedy was recognized for the use of ENERGY STAR products and practices in the Fund's portfolio as well as the general management of energy use at MEPT properties and among the tenants.

First Quarter Results

Net Return, First Quarter:

-15.90%

Net Return, 4/1/08–3/31/09:

-25.79

Net Asset Value:

$4.94 billion

Performance

Fund Overview

Inception Date	April 1, 1982	Average Age of Properties	10.9 years
Assets Held	187	Markets	26
Number of Buildings	512	Net Asset Value	$4.94 billion
Total Operating Square Footage	42.8 million	Unit Value	$5,872.65
Operating Portfolio Occupancy	88.4%	Participating Plans	332

Yield

	FIRST QUARTER 2009	TRAILING FOUR QUARTERS (COMPOUNDED)
NET	**-15.90%**	**-25.79%**
INCOME	1.14%	4.12%
APPRECIATION	-17.04%	-29.01%
GROSS	**-15.71%**	**-25.14%**
INCOME	1.33%	4.96%
APPRECIATION	-17.04%	-29.01%

In the first quarter, MEPT produced a total gross return of negative 15.71 percent comprised of 1.33 percent income and 17.04 percent depreciation. MEPT's substantial and unprecedented first quarter depreciation was principally attributable to changes in valuation assumptions, particularly residual capitalization and discount rates that increased by approximately 50 basis points, on average, across the portfolio. The increase in yield rate assumptions were a result of appraisals taking into consideration current economic risk and concern about the impact of job losses nationally on commercial real estate occupancy as well as revised operational assumptions that included the probability of tenant retention decreasing, rental rates declining, leasing pace slowing and leasing costs (i.e., leasing commissions, concessions and tenant improvement allowances) rising.

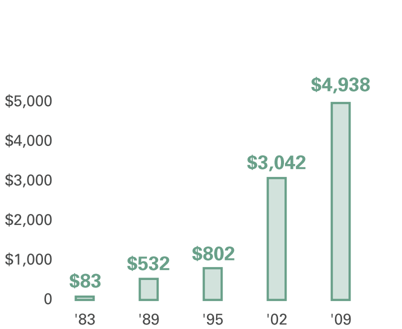
MEPT's net operating income from its portfolio somewhat offset the depreciation. MEPT's 42.8 million square foot operating portfolio not only produces consistent, stable income, but most of the 1,450 leases in the portfolio have contractual rental rate increases over the lease term.

MEPT management believes that property yield rates in the operating portfolio, including a current cap rate of approximately 7 percent, are approaching the long-term return expectations of core real estate investors. While additional depreciation in the portfolio is possible if real estate market conditions deteriorate further, MEPT will continue to value each asset in the portfolio at "current" market values.

Net Asset Value Growth

March 31, 1983 — March 31, 2009

Based on Market Value ($Millions)

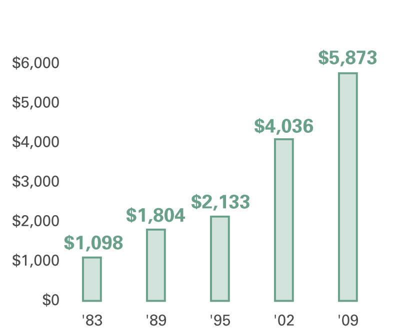


Values shown are for March 31 in each year.
Date of inception April 1, 1982.

Unit Value Growth

March 31, 1983— March 31, 2009

Based on Market Value



Values shown are for March 31 in each year.
Date of inception April 1, 1982.

(Note: A capitalization rate ("cap rate") is an approximation of expected current income return determined by dividing net operating income by the purchase price and a residual cap rate is an approximation of the expected return upon sale of the asset.)

Portfolio Spotlight

With real estate market conditions weakening nationwide, the Asset Management Team is intensely focused on maintaining occupancy, monitoring tenant credit quality, containing costs, and improving energy efficiency at each MEPT asset. Historically, the Asset Management Team has made a practice of contacting tenants 12 to 24 months in advance of lease expirations to begin discussions and negotiations on renewals. **This attention to future lease expirations reduces lease rollover to manageable volumes and is particularly important in a difficult leasing environment.**

During the first quarter, asset managers worked diligently to capitalize on every opportunity to attract and retain tenants in order to protect net operating income and overall asset value. MEPT had a few large tenants vacate space due to current economic conditions and some others reduced their space to reduce costs. But, the loss of occupancy during the quarter was significantly offset by 76 lease transactions (new, expansion and renewal leases) executed in the first quarter by asset managers, totaling more than 1.2 million square feet. The Asset Management Team signed 13 more leases in first quarter of 2009 than in the first quarter of 2008.

Furthermore, MEPT asset managers have been successful in finding solutions for existing tenants, including a "blend and extend" strategy that incorporates more favorable lease terms for tenants with extensions to their current terms in order to entice tenants to remain in their space. As a result, MEPT signed 16 extensions in first quarter 2009, compared to 10 extensions in first quarter 2008. Tenants have been cautious about signing long-term leases, but with downward pressure on rental rates, the Asset Management Team is willing to sign shorter-term leases in order to be in a position to release the space in the near future, when market conditions are likely to be better.

MEPT also remains focused on minimizing tenant delinquencies and the Asset Management Team closely monitors accounts receivable and carefully manages write-offs to maximize lease revenues. At March 31, 2009, MEPT's accounts receivable delinquencies and write-offs represented approximately 0.47 percent of total MEPT revenue. This percentage was lower than the percentage at the end of the first quarter in each of the last four years.

In Appreciation and Recognition of our 25 Year Partnership MEPT Salutes:

Carpenters Pension Fund of Baltimore, Maryland

Projects Sold

Netway Center at Ashburn
Washington, DC

Hudson
Los Angeles, CA

In-Depth Report

Forward to the Past: Implications for Investors and Their Cost of Debt and Equity?

One of the most frequently asked questions in our industry today is: How much troubled commercial real estate debt is out there? This question, however, only addresses part of the overall leverage issue that is facing not just commercial real estate investors but households, businesses and governments around the world. The more complete questions to ask are: How much commercial real estate debt is outstanding? How much may evaporate or need to be replaced with equity due to a combination of falling asset prices and general deleveraging? And, most importantly, what does this mean to the cost of commercial real estate debt and equity?

Heavy levels of new debt issuance during the past few years combined with loose underwriting standards and aggressive growth assumptions are resulting in growing levels of delinquency and default today. This will affect the cost of debt and equity in the near term, but it is the imbalance between the demand for debt and its limited availability that will impact the cost of debt and the cost of equity over a longer period.

On a national scale, the combined result of falling real estate asset values and general deleveraging could result in an Equity Shortfall. The Equity Shortfall stems both from the drop in values (or loss of equity), and also as a result of the need for additional equity investment to refinance when current debt matures, since lenders are using stricter underwriting standards and offering less leverage. **We expect that nationally the Equity Shortfall could be as much as $425 billion. That sum comes with heavy implications for the cost of commercial debt and equity.**

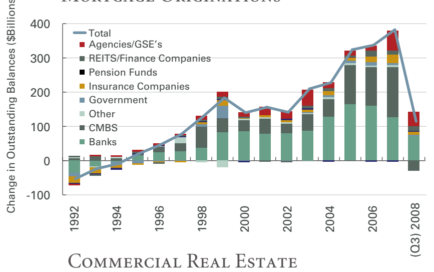
Contributor: Jim Valente, Senior Vice President and Research Director, Kennedy Associates Real Estate Counsel, LP. Mr. Valente's research has been published in both academic and trade journals, and he appears frequently as a speaker at industry conferences.

The Current Debt Picture

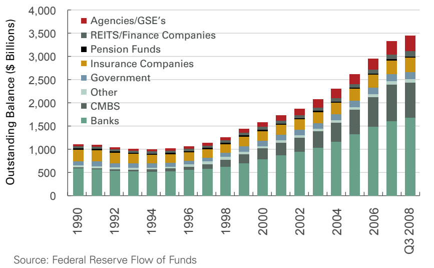
At the end of third quarter 2008, there was $3.44 trillion in outstanding commercial mortgage debt in the United States, according to the Federal Reserve Bank's measurement of flow of funds. A significant portion of this constituted loans issued between 2005 and 2007, when new issuance averaged $345 billion per year. Comparatively, between 1991 and 2004, new issuance averaged just $85 billion per year. During the early 1990s, outstanding mortgage debt contracted for four consecutive years between 1991 and 1994 before it stabilized and started to grow again. While history is not a perfect guide to the future, it does provide some insight into the market's response to a previous period of economic contraction, real estate supply/demand disequilibrium and unavailability of debt capital.

With the start of the credit crunch and ensuing global recession in 2008, new issuance of commercial mortgage debt dropped off dramatically. During the next four years, maturities will likely average approximately $200 billion per year, or 6 percent per year of current outstanding commercial mortgage debt. Maturities do not start escalating until 2015 when the majority of the debt originated in 2005 – 2007 time period starts coming due.

COMMERCIAL REAL ESTATE MORTGAGE ORIGINATIONS



COMMERCIAL REAL ESTATE MORTGAGE DEBT OUTSTANDING

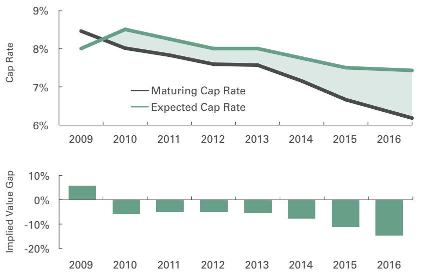


Source: Federal Reserve Flow of Funds

Equity Shortfall from Falling Asset Values

Growing risk premiums and weaker forecasts for occupancy and rent growth have combined to move Cap rates up from their recent cyclical lows. Currently, there is still much debate as to where Cap rates will settle; our analysis suggests that the average may stabilize between 6.5 percent and 8 percent.

POTENTIAL EQUITY SHORTFALL FROM FALLING ASSET VALUES



Source: Kennedy Associates

The potential Equity Shortfall, resulting from falling asset values, is illustrated in the graphs (above). The top graph overlays the weighted average origination Cap rate, which was used to value properties when the loan was first granted, with an expected average market Cap rate to value the properties at the time the loan matures. The bottom graph shows the expected loss in aggregate value associated with a property's mortgage maturing into a higher Cap rate environment.

This analysis suggests there is the potential for $125 billion in equity and debt to be lost over the next several years due to falling asset values. In 2009, losses due to loans maturing may not occur in significant volume because Cap rates used to value properties ten years ago were higher than they are today. Since most leveraged properties are reappraised on an annual basis, much of the debt that is scheduled to start maturing in 2015 may find interim valuations much lower than at origination. Depending on the amount of leverage applied to individual properties, owners may find the outstanding balance on their debt is greater than the current value of the property. This situation has the potential to pull forward some of the expected equity shortfall. The degree to which this occurs will be directly linked to the ability of each property to meet required debt payments. In a recent report by Real Capital Analytics, the aggregate value of "troubled" real estate was estimated to be just over $100 billion dollars, not significantly different from the conclusion here.

Equity Shortfall from Deleveraging

In the aftermath of the credit crunch and the resulting global recession, households, businesses and investors are being forced to deleverage. For individual commercial real estate investors this is already evident in the increased cost and reduced availability of new debt. In aggregate, we can evaluate the deleveraging process through the level of outstanding commercial mortgage debt as a share of Nominal Gross Domestic Product (NGDP) which reached 24 percent at the end of 2007, a new record.

If, over the next four years, commercial real estate debt reverts back to its historical average level of 16.5 percent of NGDP, **this could result in the need for approximately $300 billion in currently outstanding commercial real estate debt to be replaced with equity.** If the debt to NGDP ratio falls back to its previous troughs of 14 percent, the deleveraging process could result in an Equity Shortfall of approximately $750 billion.

(continued on back)

Management Fee—The Trustee of MEPT charges an annual investment management fee based on the net assets of the Fund. The current annual MEPT fee is approximately 0.902%. The fee is determined as follows: 1.25% on the first $1 billion of MEPT total net assets, 1.0% on the second $1 billion of MEPT total net assets, and 0.75% on MEPT total net assets above $2 billion. Cash balances in excess of 7.5% of Property Trust net assets are excluded from the above fee calculation and will be subject to an annual fee of 0.15%. Therefore, the fee decreases as MEPT grows. There are no charges for entry or exit, and the Trustee charges no additional investment management fees to its investors.

In-Depth Report *(continued from inside)*

Implications for Commercial Real Estate

At this time, our current best estimate is that the combined effects of falling property values and general deleveraging will result in an Equity Shortfall of $425 billion during the next five years. This will present investors with many challenges and opportunities. To start, the developing imbalance between the demand for debt and its availability will most likely keep its cost higher over the next several years than most market participants currently expect. At the same time, many in the industry believe that transaction activity is low because debt is not available. Yet, it is the price of real estate and availability of equity that will drive transaction activity. Until the deleveraging process concludes, leverage will not become cheaper or more abundant.

In light of this, and in the current environment, investors need to rethink their cost of equity, absent the availability of debt. At the time of this writing, first mortgage debt is available at pricing between 7.0 percent and 8.5 percent. In a properly functioning market, the expected return on equity should be greater than the cost of debt. During the past 30 years, "core-ish" private equity real estate investors have earned a 6 percent real return on equity, as measured by NCREIF. An expected inflation rate of 2 percent to 3 percent implies a required nominal return on equity of 8 percent to 9 percent. With current Cap rates averaging around 7 percent, this suggests that values may have a bit further to fall, so that the expected return on new investments is greater than the cost of debt. Once again, it is about price.

At the same time that the Equity Shortfall is presenting challenges to real estate investors, it is also presenting opportunities. With rising Cap rates and lower debt levels, the risk of investing in commercial real estate is reduced and "core-ish" investors can earn more of their return from a higher income yield instead of expected appreciation, which was the case over the past few years.

An excerpt from an article by Jim Valente, "Falling Short", The Institutional Real Estate Letter – North America, April 2009.

The *Trust Report* is published by Multi-Employer Property Trust (MEPT), a commingled open-end real estate equity fund that invests in a diversified portfolio of institutional-quality real estate assets and 100% union-built new construction properties in major metropolitan markets around the country. MEPT's primary investment strategy is to create top-quality, income producing assets through development, rehabilitation or acquisition and repositioning of under-valued assets. MEPT's investor base is diverse and is composed of Taft-Hartley, public employee and corporate pension plans.

For more information, please contact Landon Butler & Company, LP at 202-737-7300, or through the Web site, **www.mept.com**.

MEPT engaged a printer for the production of this report that is 100% wind powered, uses a waterless printing process and employs qualified union craftsmen. This report was printed with 100% environmentally friendly soy-based ink. The paper used in this publication was manufactured with a minimum of 50% total recycled fiber, including a minimum of 25% post-consumer waste, and is Forest Stewardship Council certified for chain-of-custody.

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INVESTOR RELATIONS

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