The Quarterly

# Trust Report

## Multi-Employer Property Trust

**INSIDE: Focus on Acquisitions**

- **MEPT Investment Activity Continues**
- **Bentall Kennedy Discusses Current Competitive Acquisition Environment**

FIRST QUARTER | APRIL 2011 | VOLUME 26, NUMBER 1

Multi-Employer Property Trust (MEPT) closed the first quarter of 2011 with a unit value of **$5,836.74** up **3.18 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **17.95 percent**. MEPT's performance, gross of fees, trails the NCREIF Fund Index – Open-End Diversified Core Equity (ODCE) benchmark for the quarter and one-year periods, but MEPT outperformed the ODCE over the three-and five-year periods as well as longer-term 20-year and since inception periods.

### U.S. Economic and Real Estate Overview

**Economic trends for the first three months of the year indicate that the recovery has solidified and job growth is resuming.** Although U.S. gross domestic product (GDP) growth in the first quarter was only 1.8 percent—down from 3.1 percent growth in the fourth quarter of 2010—most economists believe the slowdown was temporary. Certain events, such as severe winter weather in several regions of the country, a decline in defense spending, cutbacks in state government spending, soaring gasoline prices and the Japanese earthquake and tsunami, dampened the recovery that has been underway.

Possibly encouraged by the low interest rates that the Federal Reserve's continued program of quantitative easing is supporting, or the positive impact of the year-end 2010 tax bill, consumers continued to spend in the first quarter of 2011. Furthermore, the manufacturing sector, which accounts for approximately 11 percent of the U.S. economy, continued to expand in March—the 20th consecutive month of expansion, according to the Institute for Supply Management's index. In the U.S. and abroad, demand for U.S. products and inventories increased during the quarter.

As a result of these positive trends, businesses were spending again on equipment, software and most importantly, new hires. The U.S. gained an average of 200,000 non-farm payroll jobs in both February and March—the best two-month performance in about five years. Unemployment at March 31, 2011 was 8.8 percent—a significant improvement over unemployment of 10.2 percent one year ago.

**Consequently, conditions in the U.S. commercial real estate sector continued to improve across a variety of property types and markets.** Occupancy and vacancy rates further stabilized as demand for space increased, and significant deliveries of new space remain at cyclical low levels. As previously reported, the vacancy rate for the multi-family sector peaked at the end of 2009 and as demand for apartments continued to increase, fundamentals further improved. Vacancy dropped from 6.6 percent at the end of 2010 to 6.2 percent at the end of the first quarter of 2011.

National vacancy rates for the industrial, office and retail sectors all peaked at the end of 2010 and showed improvement in the first quarter of 2011. For all three sectors, the number of projects under construction are at a record 10-year low. Increased demand combined with limited new supply resulted in positive net absorption for all three sectors in the first quarter. The retail sector showed

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# NEWS BRIEFS

**DURING THE QUARTER, MEPT PURCHASED WESTWOOD VILLAGE IN SEATTLE FOR A GROSS PURCHASE PRICE OF $78.7 MILLION.** The complex transaction included the assumption of debt as well as a seller requirement to purchase another retail asset. On behalf of MEPT, Bentall Kennedy (real estate advisor to MEPT) renegotiated the loan terms prior to purchase which lowered the rate and extended the term, and successfully sold the related asset prior to closing on Westwood Village, as that asset was not a fit with MEPT's investment strategy. Anchored by grocer QFC, Westwood Village is a well-designed community retail center with convenient parking and is 96.2 percent leased to a diversified tenant roster. The center sits on a 19.9-acre site with 12 buildings totaling 306,038 square feet that were initially constructed in 1964 and redeveloped between 2001 to 2005. This acquisition furthers MEPT's goal of increasing the Fund's retail allocation and improving operating income.

WESTWOOD VILLAGE

**IN MARCH, MEPT ACQUIRED 1900 CLARK ROAD FOR $26.5 MILLION.** The single-story, 613,137 square foot industrial building is located in the Baltimore market and is within five miles of Interstate 95. Built in 1998 and expanded in 2010, the building will contribute stable income to MEPT since it is 100 percent leased to Sun Products Corporation under a long-term lease. Sun Products is the core operating unit of Spotless Holding Corp which is known for its brands in the laundry and dish care market including Wisk, All, Sunlight and Snuggle. Sun Products has a manufacturing facility in the Baltimore area and will distribute products from 1900 Clark Road to retailers throughout the East Coast. The bulk distribution facility with 104 parking spaces, 163 trailer spaces and 100 loading docks is in close proximity to Baltimore-Washington International Airport and the Ports of Baltimore and Wilmington.

1900 CLARK ROAD

**AT THE START OF THE QUARTER, MEPT SOLD THE MADISON HOTEL AND ADJACENT OFFICE BUILDING IN WASHINGTON, D.C. FOR TOTAL GROSS PROCEEDS OF $123.0 MILLION.** Strong demand for hotel properties in major U.S. markets drove appreciation in the asset in late 2009 and 2010. With near-term capital improvements needed at the hotel to maintain and improve occupancy, and concerns for tenant rollover in the office building, MEPT decided to realize the value recovery, not make any additional investments and put the assets on the market in mid-2010. After considering offers, MEPT sold the hotel and office building to Jamestown Properties, a U.S. based buyer of core, income producing properties in January 2011.

**MEPT COMPLETED THE SALE OF A 50,511 SQUARE FOOT BUILDING IN THE KIRKLAND FLEX INDUSTRIAL PARK IN SEATTLE FOR GROSS PROCEEDS OF $4.3 MILLION DURING THE QUARTER.** MEPT targeted this asset for sale as part of MEPT's strategy to decrease its industrial property type allocation and to dispose of smaller, older assets. In addition, MEPT anticipated little near-term opportunity for the asset due to weak rental rate growth in the submarket. MEPT has been actively selling buildings in the park to local users and owners and sold Building W to a local investor to whom MEPT had previously sold two other buildings in the park.

## FIRST QUARTER RESULTS

Net Return, First Quarter
**3.18%**

Net Return, 04/01/10–3/31/11
**17.95%**

Net Asset Value
**$4.67 billion**

# Performance

Over the past year, substantial capital inflows into real estate and improving market fundamentals contributed to a significant turnaround and rapid recovery in values for the asset class, in general, and MEPT, in particular. In the first quarter of 2011, yield rates further compressed, albeit at a slower pace than the prior four quarters.

MEPT's Management Team expects additional appreciation from rising prices and improving fundamentals as the year progresses. In addition, net operating income generated by certain MEPT properties that had substantial leasing in 2010, including development assets that became available for occupancy and assets that were acquired recently, should benefit the Fund's overall income return. **As a result of these expectations, MEPT's Policy Board has set a total return target of 9 percent to 11 percent, gross of fees, for the Fund in 2011.**

For the first quarter, MEPT produced a total gross return of 3.41 percent, comprised of 1.17 percent income return and 2.24 percent appreciation. For the one-year period ending March 31, 2011, MEPT produced a total gross return of 19.04 percent, comprised of 5.09 percent income return and 13.45 percent appreciation. **Yield rate compression occurred across markets and was driven by capital seeking institutional-quality, well-leased assets in the Coastal markets.** There were five assets that accounted for nearly one-third of MEPT's appreciation, including an urban retail complex in downtown Seattle, two multi-family assets (one in New Haven, CT and one in Portland, OR), and two office assets in the Washington, D.C. market that were more than 90 percent leased at quarter-end.

## Yield

| | First Quarter 2011 | Trailing Four Quarters (Compounded) |
|---|---|---|
| **NET** | **3.18%** | **17.95%** |
| INCOME | 0.94% | 4.09% |
| APPRECIATION | 2.24% | 13.45% |
| | | |
| **GROSS** | **3.41%** | **19.04%** |
| INCOME | 1.17% | 5.09% |
| APPRECIATION | 2.24% | 13.45% |

With future valuations expected to reflect the impact of additional operating income, operating efficiencies and improving leasing fundamentals, the Asset Management team maintained its focus on protecting occupancy, managing expected rollover, minimizing delinquencies and managing expenses with an emphasis on energy-efficient solutions consistent with MEPT's commitment to Responsible Property Investing.

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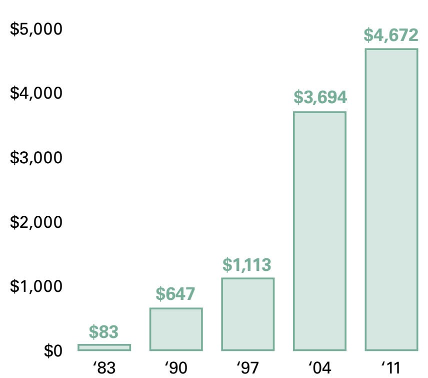
### Net Asset Value Growth

*March 31, 1983 – March 31, 2011*

Based on Market Value ($Millions)

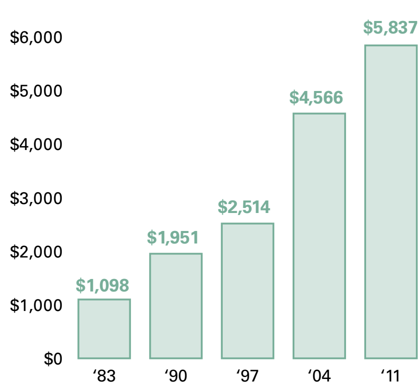



Values shown are for March 31 in each year.
Date of inception April 1, 1982.

### Unit Value Growth

*March 31, 1983 – March 31, 2011*

Based on Market Value




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

# PORTFOLIO OVERVIEW

## Fund Overview

| | | | |
|---|---|---|---|
| Inception Date | April 1, 1982 | Average Age of Properties | 11.5 years |
| Investments Held | 143 | Markets | 26 |
| Number of Buildings | 355 | Net Asset Value | $4.67 billion |
| Total Operating Square Footage | 37.8 million | Unit Value | $5,836.74 |
| Operating Occupancy | 88.8% | Participating Plans | 348 |

**In the first quarter, the leasing environment varied dramatically from market to market and by property type.** During the quarter, MEPT's industrial assets began to see marked improvements due to increased demand. Additionally, in office markets where vacancy rates dropped to single or low double digits, such as Washington, D.C., New York and Boston, tenants who had been delaying leasing decisions became motivated to finalize lease negotiations with MEPT in the first quarter of 2011. In other office markets where vacancy rates remained in the high double digits, such as Chicago, Phoenix and the San Fernando Valley in the Los Angeles market, landlords remained in fierce competition for tenants and are competing with a large overhang of available space in the market. For multi-family properties, the overall decline in homeownership in the U.S., continued job growth, and the formation of households by the Echo Boom generation drove demand in the first quarter. MEPT's multi-family operating portfolio was 96.6 percent leased at the end of the first quarter. In the retail sector, overall vacancy remained high, but many neighborhood retail centers offering necessity goods remained stable and MEPT's retail assets were 93.8 percent leased.

**In this challenging leasing environment, MEPT's gross leasing activity exceeded 1.1 million square feet in 76 transactions during the quarter. Close to 58 percent of these leases were extensions, renewals and expansions. MEPT's operating portfolio was 88.8 percent leased at the end of the first quarter, up from 86.3 percent leased at the end of the fourth quarter of 2010.** The Asset Management Team has forecasted that MEPT will have more than 2 million square feet of leasing activity in 2011 and expects that the portfolio should be more than 90 percent leased at year-end 2011.

With more than 1,080 leases in place, an important asset management metric for MEPT is the tenant accounts receivable and write-offs delinquency rate. MEPT's tenant accounts receivable delinquencies and write-offs at March 31, 2011 represented approximately 0.61 percent of total revenue. Finally, MEPT asset managers continue to target tenants with leases expiring in 2011 and 2012 to begin discussions and formulate tenant and market specific strategies for mitigating lease rollover risk.

## COVER STORY *(continued from front page)*

signs of resiliency during the quarter despite large closures by retailers such as Borders, Hollywood Video, Blockbuster and K-Mart. The industrial sector had improvement in leasing and pricing as a result of the continuing positive trends in the manufacturing sector. Finally, the office sector has benefited from increased leasing demand, particularly in the central business districts of gateway cities such as New York, Boston, and Washington, D.C.

### IN APPRECIATION AND RECOGNITION OF OUR 25 YEAR PARTNERSHIP MEPT SALUTES:

Asbestos Workers Philadelphia Funds

Communications Workers of America Plan for Employees' Pensions

Oregon Sheet Metal Workers Pension Trust

Oregon-Washington Carpenters Employers Pension Trust Fund

### NEW PARTICIPANTS

New England Carpenters Guaranteed Annuity Fund

Solano-Napa Counties Electrical Workers Pension Plan

Electrical Construction Industry Pension Plan

IBEW Local Union No. 212 Pension Fund

The Shopmen's Ironworkers Retirement Trust Fund of Southern California

IBEW Local #952 Ventura Division of LA County Chapter NECA Pension Trust Fund

IBEW Local 769 Pension Fund

The Plumbers and Pipefitters Local 162 Pension Fund

Sheet Metal Workers Local Union No. 224 Pension Plan

Journeymen & Apprentices of Local 188 Pension Fund GA

City of Washington (PA) Combined Pension Plan

Studio Mechanics Local 476 IATSE Retirement Plan

Studio Mechanics Local 476 IATSE Annuity Plan

### PROJECTS COMMITTED

Westwood Village
*Seattle, WA*

1900 Clark Road
*Baltimore, MD*

### PROJECTS SOLD

The Madison Hotel & Office
*Washington, DC*

Kirkland Flex Building W
*Seattle, WA*

# Accessing Attractive Investment Opportunities in a Competitive Real Estate Investment Market

With U.S. commercial real estate transactions surging by 70 percent (or a total of $31 billion) in the first three months of 2011 compared to first quarter 2010, the competition for attractively priced investment opportunities has intensified. Pension fund advisors, non-traded REITs, sovereign wealth funds and publicly-traded REITs are all in the market for core and core-plus assets. **MEPT has set an aggressive acquisition target for 2011 and the Fund is planning to invest up to $1 billion to acquire existing assets and finance development projects.**

In 2010, falling inflation expectations and low yields on benchmark bonds increased the relative attractiveness of commercial real estate and accelerated the pace of equity flowing into the real estate sector. A persistent low interest rate environment, supported by the actions of the Federal Reserve, put upward pressure on real estate prices, helping distressed owners and lenders as values rose, but making it increasingly difficult to find acquisition opportunities at attractive yields.

**Most of the capital has been pursuing well-leased, well-located real estate assets in the markets with the best fundamentals—Washington, D.C., New York, Boston, San Francisco and Los Angeles**. Multi-family properties and grocery-anchored retail centers attracted a considerable amount of investment in 2010 since the multi-family sector showed early signs of recovery and grocery-anchored centers have a history of stability as a result of necessity-based consumer demand. As a result, prices rose and transaction capitalization rates[1] declined significantly for those property types during the year.

**In the first quarter of 2011, in order to broaden their potential investment universe, an increasing number of investors expanded acquisition searches to include secondary and tertiary markets and assets with some near-term leasing risk.** During the quarter, institutional investors bought large office assets in secondary markets, such as Dallas and Houston. In fact, a record price was set in Denver for a pre-leased, newly built LEED-certified office building. Consequently, office transaction volume in the U.S. increased 127 percent in the first quarter.

"MEPT's well-defined investment strategy helps the Acquisitions Team stay focused on the appropriate property sectors and target markets. MEPT is looking to acquire multi-family and retail assets since we believe the Fund can benefit from increased exposure to these sectors for portfolio diversification and income contribution," stated **David Antonelli, MEPT Portfolio Manager and Executive Vice President, Bentall Kennedy US.** "While we are keeping an eye toward the major U.S. markets, we also have identified specific submarkets with demographics that support long-term growth and characteristics of high-barriers to entry where we would like to acquire assets. Additionally, we are looking to increase the Fund's allocation in certain markets in the South region of the U.S."

Bentall Kennedy's Acquisitions Team has several approaches to identifying transactions that fit with the Fund's strategy. Acquisition officers are organized and located by markets and closely track the specific local trends so that they understand the dynamics and investment performance drivers. **Over the last several real estate cycles, Bentall Kennedy's Acquisitions Team has built strong relationships with major real estate developers, owners, corporate users, investment sales firms, leasing firms and property managers both nationally and in the markets where the Fund is active, ensuring that MEPT has access to first-rate investment opportunities through all phases of a real estate cycle.** Additionally, Bentall Kennedy is highly skilled in the entire spectrum of development and construction management from land acquisition through lease-up. As a result, MEPT relies on a variety of sources for deals in the market. MEPT seeks to acquire existing assets at or below replacement cost and at the same time, the Fund maintains a pipeline of development projects so that when market conditions warrant, MEPT can start new construction.

"We were actively buying multi-family and retail operating assets for MEPT in late 2010 and early 2011," stated **Shobi Khan, Chief Investment Officer**

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([1]A "cap rate" or capitalization rate is an approximation of expected current income determined by dividing net operating income by the purchase price.)

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 0.90%. 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)*

**and Executive Vice President, Bentall Kennedy US.** "Cap rates for the multi-family acquisitions were in the mid five percent range and the mid six percent range for the retail centers. Since that time, cap rates for similar multi-family assets have dropped dramatically—to the low four percent range, and it now makes sense for MEPT to consider developing multi-family properties since the Fund can achieve yields in the low-to-mid six percent range at today's rents."

Market fundamentals, particularly for the multi-family sector, also support development. New construction has been virtually non-existent across all property types. New apartment construction fell to a 50-year low in 2009, according to the Census Bureau. The national vacancy rate for the multi-family sector fell to 6.2 percent at the end of the first quarter. The current supply of apartments across the U.S. is not sufficient to meet the anticipated demand.

"Positive job growth, Echo Boom demographics and a lower U.S. home ownership rate will drive above-average demand for apartments for the next decade," added **Doug Poutasse, Head of North American Strategy and Research, Bentall Kennedy Group.** "There has been a major shift in the psychology about home ownership. We believe there is going to be approximately 1 million to 1.5 million additional renters per year over the next few years in the U.S., which will be concentrated in places like Seattle, San Francisco, Washington, D.C. and New York."

"Based on MEPT's expectations for market conditions and investment opportunities, the Management Team anticipates that approximately 85 percent of the Fund's acquisitions funding in 2011 will be existing properties and 15 percent will be invested in new development projects that will be funded over time," added **David Antonelli.** "Consistent with the Fund's Responsible Property Investing principles, all new construction projects will be designed and built to the achieve the high standards for energy efficiency that tenants and investors now demand."

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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TRUSTEE

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INVESTOR RELATIONS

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