

TRUST REPORT



INSIDE:

- MEPT Increases Its Allocation to the New York Market with Acquisition of Two Rector Street
- MEPT's First Quarter Return Outperforms the Preliminary NFI-ODCE Results

FIRST QUARTER | APRIL 2016 | VOLUME 31, NUMBER 1



MULTI-EMPLOYER PROPERTY TRUST (MEPT) closed the first quarter of 2016 with a unit value of **\$9,664.53** up **2.74%** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **11.84%**.

U.S. ECONOMIC AND REAL ESTATE OVERVIEW

The U.S. economy weathered a tumultuous stock market at the start of 2016 to finish the first quarter with signs of continued, moderate strength. There was positive news on the job front, with U.S. employers adding 215,000 jobs in March and 628,000 jobs for the first three months of the year. The size of the labor force in March grew by 396,000, bringing the participation rate up to 63%, the highest in more than two years. While unemployment increased slightly to 5%, the rise was attributable to an increase in Americans actively looking for work, more an indication of the growing health of the U.S. economy than a net job loss.

Wage growth increased, up 2.3% from the same period in 2015. This rate was moderate enough to forestall any inflationary concerns but still further evidence that the economy is continuing a slow and steady climb.

Demand for commercial real estate space has continued as the job market improves. **According to CBRE, the national office vacancy rate rose slightly—by 10 basis points—to 13.2% at the end of the first quarter, but is down 70 basis points from a year ago and remains only modestly above pre-recession levels.** Office market conditions are very tight, with innovation-driven economies such as Austin, Raleigh, San Francisco, San Jose and Seattle and numerous others experiencing single-digit vacancy levels.

Industrial availability declined to 9.2% in the first quarter, down 20 basis points from the fourth quarter; marking the 24th consecutive quarter of declining availability, according to CBRE. This is the lowest vacancy since 2001. **Most of the growth in demand has been driven by e-commerce and a rise in imports due to the strong dollar.** Asking rents are up but rent growth may moderate with the delivery of new supply during the year.

The U.S. apartment market continued to show strength with an effective rent growth rate of 4.1% in the first quarter, according to Axiometrics. **While down slightly from 5% in the same period last year, apartment rent growth has now been at or above 4% for seven consecutive quarters.** Occupancy nationally was 94.8% in the first quarter, 16 basis points lower than the fourth quarter of 2015, but the highest first quarter rate since the start of 2001.

The retail market saw availability hold at 11.2% in the first quarter. According to CBRE, the sector continued a slow but steady decline in availability from the previous year's first quarter rate of 11.4%, down from a peak of 13.3% five years ago. ■■

NEWS BRIEFS

ADVISORY BOARD MEETING AND PROPERTY TOUR

On **Tuesday, June 7, 2016** at 9:00 am (eastern) MEPT's **Advisory Board** will meet at The Fairmont Copley Plaza, 138 Saint James Avenue, Boston, MA. The Advisory Board is comprised of trustees of MEPT participating plans. Trustees and service providers of MEPT participating plans are invited to attend as observers. MEPT management looks forward to discussing updates on the management team, the Fund's performance, strategy, market conditions, and other topical issues. The meeting will be preceded by a **property tour of Boston area assets on Monday, June 6, 2016** at 12:30pm (eastern). Please notify MEPT of your intent to attend the meeting and/or tour no later than May 12, 2016. To RSVP, please contact Susan Koches at skoches@bentallkennedy.com or (202) 737-8840.

IN MARCH, MEPT ACQUIRED TWO RECTOR STREET, A 473,975 SQUARE FOOT OFFICE BUILDING IN THE FINANCIAL DISTRICT OF MANHATTAN FOR A GROSS PRICE AND REDEVELOPMENT COMMITMENT OF \$323.8

MILLION. The Art Deco aesthetics and unique layout make Two Rector Street a truly unique 26-story office tower in one of the most renowned and resurgent office submarkets in the world. The Financial District, and more specifically the World



TWO RECTOR STREET

Trade Center area, has reemerged as a 24/7, highly amenitized live/work/play environment. In a joint venture with Cove Property Group, MEPT intends to renovate and reposition the building as a Class A office property with new elevators, mechanical systems and a redesigned lobby in order to attract the highest-quality tenancy. MEPT expects Two Rector to cater to technology, advertising, media and information firms as well as traditional financial services tenants. Further, this asset will be well positioned to benefit from the completion of the World Trade Center transit hub and a flow of tenants from the Midtown and Midtown South submarkets. This acquisition brings MEPT's total investment in the New York market to over \$1.5 billion with more than 2.1 million square feet. Two

Rector Street aligns well with the Fund's focus on responsible investment in transit-oriented locations serving knowledge industry tenants.

IN THE FIRST QUARTER, MEPT COMMITTED \$77 MILLION TO FINANCE THE CONSTRUCTION OF 9TH & THOMAS, A PLANNED 12-STORY, 165,000 SQUARE-FOOT BOUTIQUE, MULTI-TENANT OFFICE BUILDING IN SEATTLE.

Through a shared-appreciation mortgage, MEPT will help finance the construction and participate in the cash flow and appreciation of the asset once it is stabilized. The project is a legacy development of the Redman family which has owned the 9th & Thomas parcel in the South Lake Union submarket for more than 70 years. In 1944, the site was developed as the original home of Sellen Construction. Today, Sellen Construction is led by Scott Redman and has become the Pacific Northwest's largest

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FIRST QUARTER RESULTS

Net Return
First Quarter

2.74%

Net Return
04/1/15–3/31/16

11.84%

Net Asset Value

\$6.2 billion



PERFORMANCE

BASED ON THE ECONOMIC and commercial real estate outlook for 2016 as outlined in the Fund's 2015 Operating Plan, the management team has set a total return target (gross of fees) in the range of 8.0% to 10.0%¹. With the first quarter performance, the team has made substantial progress in achieving the 2016 target.

MEPT produced a total gross return of 2.97%, composed of 1.09% income and 1.88% appreciation for the quarter. The final NCREIF Fund Index–Open-End Diversified Core Equity (NFI-ODCE) benchmark results have yet to be released, but MEPT's first quarter return outperforms the preliminary NFI-ODCE first quarter result of 2.21%.

For 2016, the management team is focused on continuing to enhance the quality of the portfolio through acquisitions and development opportunities in innovation-driven, urban markets. **The team has set an acquisitions target of \$1.25 billion to \$1.5 billion for 2016.** In the first quarter, Bentall Kennedy closed over \$400 million in two transactions in New York and Seattle for MEPT and is well on the way to accomplishing the acquisition goal. **The team also expects to generate approximately \$200 million to \$300 million in net proceeds from dispositions in 2016 and will target non-strategic and opportunistic sales.**

The team expects improving fundamentals and income growth to have a significant impact on performance in 2016. In the first quarter, the 30.9 million square foot, 92.8% leased, operating portfolio was a major contributor to the overall return and generated over \$51.9 million in net operating income for MEPT. There were 56 new, expansion and renewal leases signed during the

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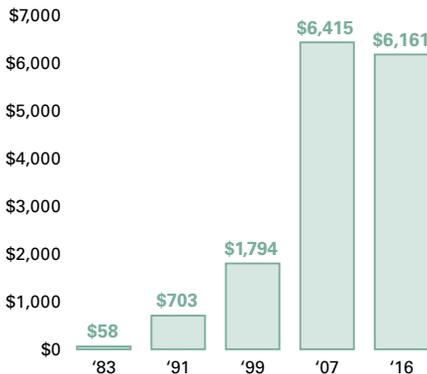
YIELD

	FIRST QUARTER 2016	TRAILING FOUR QUARTERS (COMPOUNDED)
NET	2.74%	11.84%
INCOME	0.87%	3.73%
APPRECIATION	1.88%	7.90%
GROSS	2.97%	12.83%
INCOME	1.09%	4.66%
APPRECIATION	1.88%	7.90%

NET ASSET VALUE GROWTH

March 31, 1983 – March 31, 2016

Based on Market Value (\$Millions)

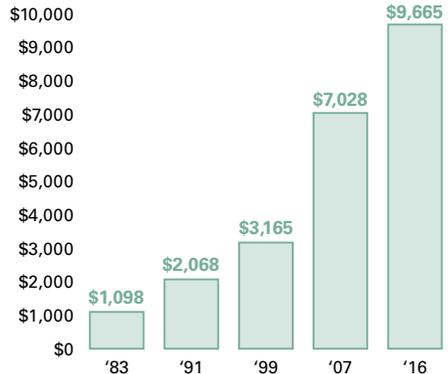


Values shown are for March 31 in each year.
Date of inception April 1, 1982.

UNIT VALUE GROWTH

March 31, 1983 – March 31, 2016

Based on Market Value



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

¹ Expectations stated in this report are subject to a variety of factors and risks and many of these factors are beyond MEPT's ability to control or predict.

FUND OVERVIEW

Inception Date	April 1, 1982	Average Age of Properties	14.6 years
Investments Held	103	Markets	25
Number of Buildings	254	Net Asset Value	\$6.16 billion
Total Operating Square Footage	30.9 million	Unit Value	\$9,664.53
Operating Occupancy	92.8%	Participating Plans	330

PERFORMANCE (continued)

quarter. The gross leasing activity of over 1.3 million square feet was mainly concentrated in one industrial asset, Centrepointe Chino, in Riverside, CA where the Fund executed new and renewal leases totaling over 628,000 square feet. **Another notable new lease was signed with WeWork, a service that charges monthly memberships to startups and small companies in exchange for flexible workspace, on five contiguous floors at 600 California Street in San Francisco.**

The MEPT portfolio had strong appreciation of \$113.6 million from a variety of property



600 CALIFORNIA STREET

types in the first quarter. The Central Business District (CBD) and suburban office assets in San Francisco had significant appreciation, primarily as a result of market rent growth. Additionally, the New York acquisition, a value-add office building opportunity, recognized appreciation after the close of the transaction. Furthermore, led by Centrepointe Chino, the Fund's industrial portfolio experienced appreciation across all assets. The solid gains were somewhat offset by value declines in the multi-family portfolio due to weakness in the Texas markets and annual real estate tax adjustments that occurred across several major markets. **||**

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

Pension Fund for Hospital & Health Care Employees Philadelphia & Vicinity 1199C

New England Health Care Employees Pension Fund

Connecticut Health Care Associates

NEW PARTICIPANTS

Rhode Island Laborers' Annuity Fund

Sheet Metal Workers Local No. 20 Indianapolis Area

Sheet Metal Workers Local No. 20 Gary Area Pension Fund

Automotive Industries Individual Account Retirement Plan

Operating Engineers Local Union No. 474 Defined Contribution Pension Fund

PROJECTS COMMITTED

Two Rector Street
New York, NY

9th and Thomas Loan Receivable
Seattle, WA

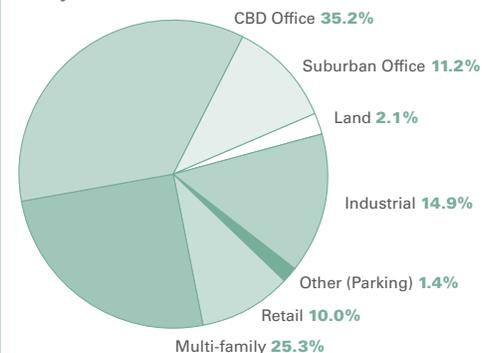
NEWS BRIEFS (continued)



9TH & THOMAS (rendering)

privately owned and managed union-signatory, construction company. Sellen will develop the project that is designed to include flexible floor plates, outdoor decks and gardens, high-end amenities and a first floor configured as a community "living room" surrounded by retail. The project will seek LEED® Gold certification. This investment is consistent with MEPT's plan to invest in urban office projects and will complement the Fund's other nearby investment in South Lake Union. **||**

DIVERSIFICATION BY PROPERTY TYPE
As of March 31, 2016



Note: Weighted by Net Real Estate Asset Value.

TENANT SATISFACTION A KEY FUND METRIC

Kingsley Associates Conducts Biennial Tenant Survey for MEPT

FOR MEPT, THE SATISFACTION of tenants and residents at its properties is critical to the likelihood of renewal and vital to the Fund's ability to maintain occupancy and grow income in the portfolio. **Bentall Kennedy's Asset Management team actively engages with tenants and property management teams to achieve the highest levels of satisfaction.** Furthermore, asset managers annually develop strategic plans for each property to identify initiatives and opportunities that will create value and increase income.

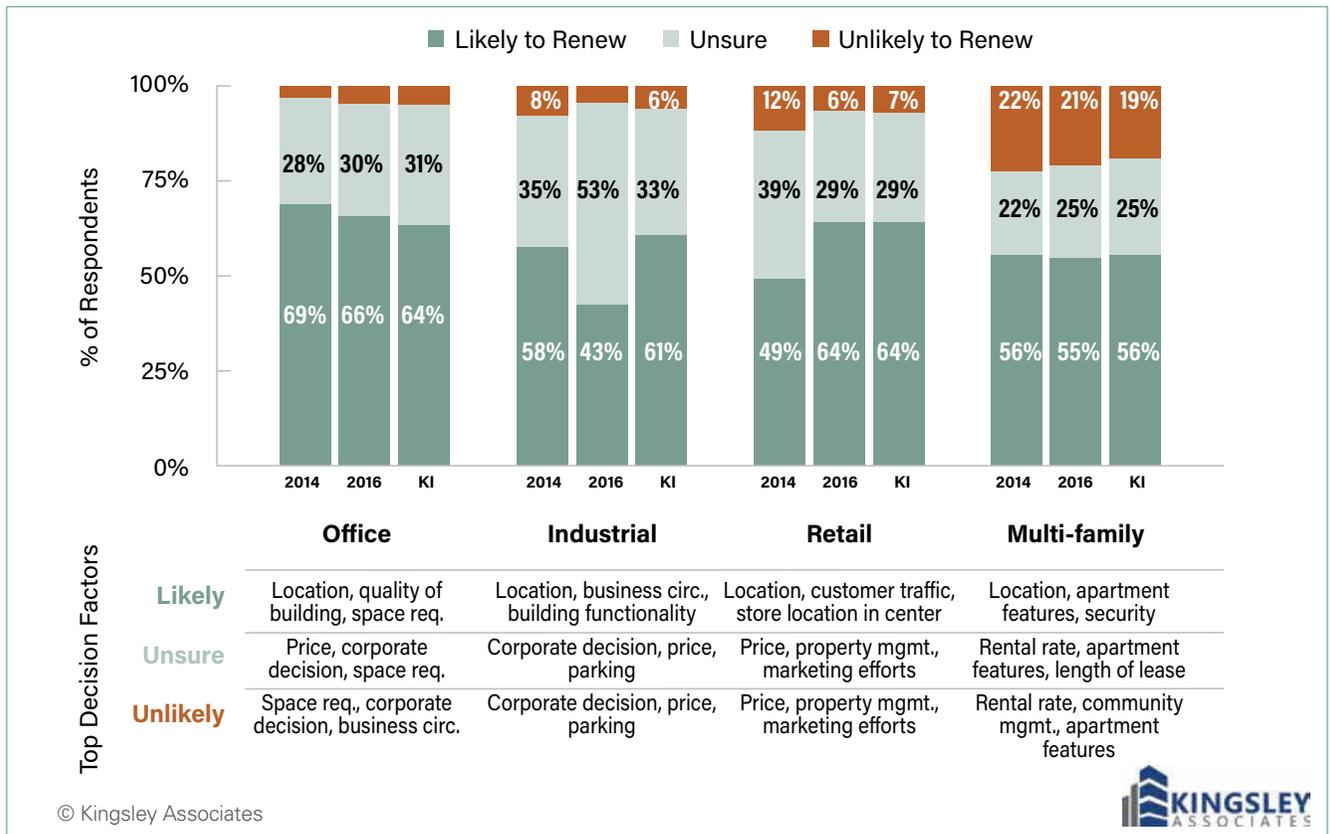
Asset managers use a variety of methods to successfully execute property plans. One tool is the biennial Kingsley Associates' Tenant Survey. The Kingsley Associates survey seeks to provide Bentall Kennedy with a realistic and actionable assessment of portfolio performance—the good and the not so good. **Clients such as Bentall Kennedy receive an unbiased perspective on their standing versus the competition so that they can effectively address the issues that matter most, including but not limited to,**

responsiveness, interaction with onsite management, communications, quality of each building, quality of work and problem resolution. The survey results measure tenant and resident satisfaction, as well as broker relations and operational effectiveness. Kingsley Associates completed a nationwide tenant survey for Bentall Kennedy in the first quarter of 2016.

Kingsley compares the results of the Bentall Kennedy survey to national data compiled on behalf of its clients from annual surveys on office, industrial, retail, and medical office tenants occupying over two billion square feet as well as apartment occupants. The national results are released as the Kingsley Index. In analyzing survey results, Kingsley Associates considers market trends such as vacancy rates, rental rate growth, new supply and retail sales—all of which could factor into tenant rationale and impact renewal decisions.

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BENTALL KENNEDY SURVEY METRIC: TENANT RENEWAL INTENTIONS



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 0.87%. 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)*

The 2016 survey for MEPT determined that the overall perception of the Fund improved for MEPT tenants and exceeded the Kingsley Index. Additionally, the survey showed that tenants with higher perception are more satisfied overall and overall satisfaction improved for three of MEPT's four property types from the last survey.

The Kingsley survey also covers industry trends. For example, among office tenants at MEPT properties, 60% of respondents stated that telecommuting is the most frequently used office space strategy. **The 2016 Bentall Kennedy survey included sustainability factors, a particularly important area of interest for MEPT, and revealed that tenants are more aware of green building programs in 2016 than they were in 2014 and that a healthier work environment and cost savings drive interest in green programs.** In the MEPT portfolio, retail tenants had the biggest increase in awareness since the last survey.

MEPT's Asset Management Team routinely monitors tenant retention and seeks

to maintain a controllable retention rate of more than 80%. At March 31, 2016, the rate for the rolling four quarters was an impressive 98.6%. Yet, the Asset Management team continually works to assess and understand the status of the tenancy and the tenant survey can uncover issues and concerns that may not come to light in face-to-face meetings with tenants. For MEPT, the Kingsley survey provides key data from which the Asset Management team develops action plans that identify areas for improvement and put emphasis on service delivery in driving tenant satisfaction and retention. 

Note: Kingsley Associates' Principal and CFO, Jim Woidat, will present Kingsley research at the lunch following the MEPT Advisory Board at The Fairmont Copley Plaza on Tuesday, June 7, 2016 at 11:30 am. If you would like to attend, please contact Susan Koches at skoches@bentallkenedy.com or (202) 737-8840.

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 and public employee pension plans.

For more information, please contact Bentall Kennedy 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 and women. This report was printed with 100% environmentally friendly soy-based ink. The paper used in this publication was manufactured with a minimum of 30% post-consumer waste, and is Forest Stewardship Council® certified for chain-of-custody.