

THE QUARTERLY

TRUST REPORT

|| MULTI-EMPLOYER PROPERTY TRUST

SECOND QUARTER | JULY 2006 | VOLUME 21, NUMBER 2



THE MULTI-EMPLOYER PROPERTY TRUST closed the second quarter of 2006 with a unit value of **\$6,365.54**, up **4.61 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **18.09 percent**.

MEPT outperformed the NCREIF Property Index (NPI) second quarter and trailing four quarters (gross of fees) returns. MEPT achieved a second quarter return (gross of fees) of 4.84 percent compared to the 4.01 percent NPI return, and MEPT produced a trailing four quarters return (gross of fees) of 19.15 percent compared to the 18.68 percent NPI return.

As of July 1, MEPT's net asset value stood at **\$5.7 billion**. In the second quarter, 11 new investors became participants in MEPT, bringing the total number of investors to 287.

In the second quarter, the US economy continued to expand, although the economic growth was tempered by higher interest rates, the cooling housing market, and rising energy costs. The moderate economic expansion and accompanying job growth have benefited the commercial real estate market by increasing demand across all property types. Vacancy rates have declined in most markets, and market conditions are continuing to improve. In most markets, rental rates are either continuing or at least beginning to rise. High construction costs and increasing interest rates have constrained new supply of space across the country, and certain markets are approaching supply/demand equilibrium.

The Federal Reserve has stated that it believes the housing boom has ended, and many economic indicators confirm this conclusion. Consumers are expected to reduce their retail spending as a result of less liquidity from their home equity and higher borrowing rates, which could affect the near-term outlook for retail properties. Transaction activity for retail assets dropped moderately in the first quarter, as investors moved their focus from acquiring

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USE EVERY TOOL YOU HAVE

NEWS BRIEFS

IN APRIL, MEPT ACQUIRED KANSAS COMMERCE CENTER, a portfolio composed of 11 buildings including four warehouse/distribution facilities, four flex buildings, three retail buildings, and 43.8 acres of additional developable land. As one of the highest profile business park portfolios in suburban Kansas City, MEPT's acquisition team identified this acquisition as an opportunity to reposition the portfolio and improve performance by providing the assets with a renewed focus on leasing and improved building maintenance. MEPT will have the opportunity to expand the park and build up to 400,000 square feet on the vacant land. MEPT acquired the property from AEW Capital Management for \$48.4 million and has committed an additional \$4 million for capital improvements. The purchase price was approximately 25 percent below replacement cost. Currently, the portfolio is 86.4 percent leased with 30 tenants. With superb accessibility, visibility, proximity to the available labor pool, a high-quality park setting, and improving market conditions, MEPT sees strong upside potential from this acquisition.

MEPT ACQUIRED McCLURG COURT CENTER, THE SECOND LARGEST APARTMENT COMPLEX IN DOWNTOWN CHICAGO, from a subsidiary of



Archstone-Smith, in May 2006. MEPT paid \$123 million and has committed an additional \$25 million to a long-term capital improvement plan that will address deferred maintenance, enhance the exterior design, and add new amenities. The property's location is exceptional. Centrally located in the Streeterville neighborhood, McClurg Court Center is within walking distance of Chicago landmarks such as Lake Michigan, Water Tower Place, Oak Street Beach, The Chicago Art Institute, The John Hancock Center, Navy Pier, and Michigan Avenue's Magnificent Mile.

The twin, 45-story apartment towers and commercial space are currently 92.5 percent leased. The 1,058 apartment units include studios, one-bedrooms and two-bedrooms. Tenant amenities currently offered are an on-site health club with a pool and tennis courts, a laundry facility, retail services, and a 484-space parking garage.

MEPT SOLD TOTEM SKYLINE, A SIX-BUILDING, 195,794 SQUARE FOOT OFFICE PORTFOLIO, IN MAY FOR GROSS PROCEEDS OF \$34.9 MILLION.

The buyer was DRA Advisors. Built in 1985, Totem Skyline was showing signs of obsolescence and MEPT recognized that the asset required considerable capital improvements to help it remain competitive with other more modern properties in the market. At the same time, the Seattle submarket in which Totem Skyline is located had begun to show signs of recovery and is currently perceived by institutional investors as a rapidly improving area. MEPT took advantage of the improving conditions to market Totem Skyline to aggressive buyers looking for an entry into the submarket.

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SECOND QUARTER RESULTS

Net Return,
Second Quarter:

4.61%

Net Return,
7/1/05 – 6/30/06:

18.09%

Net Asset Value:
\$5.70 billion



PERFORMANCE

SECOND QUARTER COMMENTARY

"The office market recovery has broadened significantly, and we have seen improving conditions in coastal office markets, and more recently in the mid-section of the country. With MEPT's concentration in the office sector, the Fund is particularly well positioned at this stage of the market cycle. Additionally, MEPT sold modestly in the recent frenzied real estate market, far less than other large funds, so management has not been faced with redeploying large amounts of capital at a time when yields are at historic lows, and thereby, has not given up long-term total return for short-term gain."

Landon Butler, President, Landon Butler & Company



MEPT'S POLICY BOARD HAS RESTATED THE FUND'S return goals for 2006. MEPT's year-to-date performance, along with expectations for real estate market conditions for the second half of the year, positions the Fund to achieve a total return goal of 12 to 14 percent, net of fees for 2006. Year-to-date, MEPT has produced a total net return of 7.82 percent, composed of 2.27 percent income and 5.49 percent appreciation.

MEPT's performance during the second quarter is attributable to strong and stable income from the 326 buildings in its operating portfolio, and appreciation gained from continued compression in capitalization rates (i.e., net operating income divided by purchase price, an industry approximation of expected return) across property types. The majority of MEPT office and industrial assets are located in submarkets demonstrating improving leasing fundamentals and rental rate growth. In addition, most MEPT property submarkets exhibit either stable or improving market conditions, indicating a continued strengthening of asset performance.

During the second quarter, MEPT achieved the highest appreciation in the following metropolitan markets: Washington, DC-Baltimore, San Francisco Bay Area, New York, Los Angeles, and Chicago. Leasing activity at MEPT's properties and further yield compression drove the appreciation. MEPT had minimal depreciation in the portfolio. The yield compression in most markets was a result of both improving occupancies and stable income, and continued investor demand for commercial real estate.

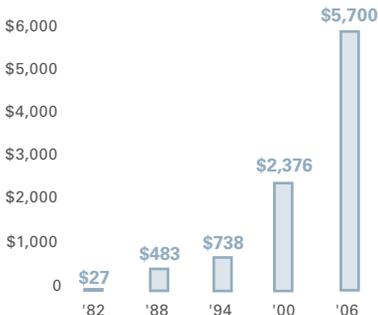
YIELD

	SECOND QUARTER 2006	TRAILING FOUR QUARTERS (COMPOUNDED)
NET	4.61%	18.09%
INCOME	1.15%	4.66%
APPRECIATION	3.46%	12.99%
GROSS	4.84%	19.15%
INCOME	1.38%	5.62%
APPRECIATION	3.46%	12.99%

NET ASSET VALUE GROWTH

July 1, 1982 — July 1, 2006

Based on Market Value (\$ Millions)

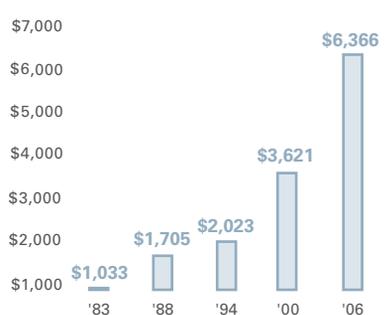


Values shown are for July 1 in each year. Date of inception April 1, 1982.

UNIT VALUE GROWTH

July 1, 1982 — July 1, 2006

Based on Market Value



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

PORTFOLIO SPOTLIGHT

FUND OVERVIEW

Inception Date	April 1, 1982	Average Age of Properties	8.8 years
Assets Held	173	Markets	25
Number of Buildings	343	Net Asset Value	\$5.70 billion
Total Operating Square Footage	35.1 million	Unit Value	\$6,365.54
Operating Portfolio Occupancy	92.3%	Participating Plans	287

DURING THE SECOND QUARTER, MEPT completed 1.9 million square feet of gross leasing activity, the highest amount of leasing in the last four quarters. MEPT signed 100 leases, and reduced the vacancy in the operating portfolio to 7.7 percent. At the end of the quarter, the operating office portfolio was 88.6 percent leased, or approximately 250 basis points higher than the national average occupancy level for office. The operating industrial portfolio was 94.6 percent leased, the operating retail assets were 98.0 percent leased, and the operating apartment properties were 94.2 percent leased at June 30, 2006.

Several large leases contributed to the reduced vacancy for the quarter:

At Southwest Commerce Center III and IV in Reno, Ames True Temper signed a renewal for 231,000 square feet and leased another 165,000 square feet of expansion

space for a total of 396,000 square feet.

Two new leases were completed at Centerpointe Chino II in Los Angeles; Warehouse Technology, Inc. leased 129,549 square feet and Parts World leased 58,759 square feet. Additionally, Countrywide Home Loans signed a new lease for 179,983 square feet at Russell Ranch Road in Los Angeles; and, at Forest Park 18 in Philadelphia, Art Guild of Philadelphia, Inc., leased 104,545 square feet.

Other notable lease transactions include: Cephalon's expansion of 73,904 square feet at Westbrook in Philadelphia; a new lease with Automart International, Inc. for 62,380 square feet at Meadows IV in Chicago; FEMA's new lease for 71,914 square feet at Patriot's Plaza in Washington, DC; and, at Baldwin Park in Los Angeles, LJ Logistics Systems signed a new lease for 48,484 square feet.

SECOND QUARTER ACTIVITY

NEW PARTICIPANTS

- San Jose Police and Fire Department Retirement Plan
- Louisiana Carpenters Regional Council Pension Plan
- Centennial State Carpenters' Pension Trust Fund Annuity Plan
- Central Ohio UFCW Unions and Retail Employers Pension Plan
- B.A.C. Local No. 4 Pension Fund
- San Mateo Hotel Employees & Restaurant Employees Pension Trust Fund
- Bricklayers Pension Fund
- Pointers, Cleaners & Caulkers Pension Fund
- HEREIU Welfare Fund Employees' Pension Plan
- Plumbers and Pipefitters Local Union No. 776, Lima, Ohio Pension Plan
- Recycling and General Union Industrial Local 108 Pension Fund

PROJECTS COMMITTED

- Kansas Commerce Center
Kansas City, KS
- McClurg Court Center
Chicago, IL
- Cranberry Woods IV
Pittsburgh, PA
- Gateway Commerce Center II & Gateway Commerce Center III
St. Louis, MO

PROJECTS SOLD

- Totem Skyline
Seattle, WA
- One Penn Square West
Philadelphia, PA

DIVERSIFICATION BY SIZE OF INVESTMENT

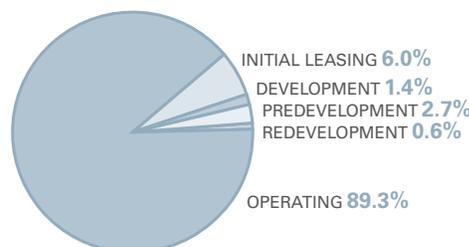
As of July 1, 2006



Note: Based on Net Asset Value (\$ Millions).

DIVERSIFICATION BY LIFE CYCLE

As of July 1, 2006



Note: Based on Net Asset Value (\$ Millions).

IN JUNE, MEPT COMMITTED \$16.2 MILLION TO BUILD CRANBERRY WOODS IV, a four-story, Class A suburban office building containing 106,435 square feet with 535 parking spaces on a 9.75-acre site. Cranberry Woods IV is the fourth phase of development for MEPT in Cranberry Woods Office Park in Pittsburgh. MEPT has developed a total of 346,478 square feet in the park, which is currently 93.7 percent leased. Cranberry Woods is a premier business park with excellent access and visibility, and a freeway interchange adjacent to the site. MEPT has achieved high tenant satisfaction at Cranberry Woods. To provide the same level of service at Cranberry Woods IV, the existing management team will oversee the new building. Cranberry Woods IV is expected to attract investor interest since it will be the only modern, new space available in the submarket. Construction commenced in the second quarter.

IN THE SECOND QUARTER, MEPT COMMITTED A TOTAL OF \$34.6 MILLION TO DEVELOP GATEWAY COMMERCE CENTER II AND GATEWAY COMMERCE CENTER III.



At Gateway Commerce Center in 2005, MEPT built Gateway Distribution Center, a 513,474-square-foot bulk distribution building that is 100 percent leased. In the fourth quarter of 2005, MEPT acquired land at Gateway Commerce Center for additional development. The park is currently 100 percent occupied by high-quality tenants, and there is demand for space in the park. St. Louis is one of the top 20 industrial markets in the country since it is a regional distribution center due to its proximity and accessibility to east-west and north-south interstate highways; trucks can reach approximately 35 percent of the US population in one day from St. Louis. Gateway Commerce Center offers accessibility to major freeways and interchanges, easy truck access and access to alternative transportation options such as rail, air and water. Construction of Gateway Commerce Center II and Gateway Commerce Center III commenced during the second quarter. MEPT's two bulk distribution buildings will total one million square feet and will offer state-of-the-art features and flexible floor plans that could be divided or expanded to fit users' needs.

MEPT SOLD ONE PENN SQUARE WEST IN JUNE FOR GROSS PROCEEDS OF \$35.3 MILLION.

The buyer of the 24-story, Class A office building in Philadelphia's Center City was a joint venture between The Union Labor Life Insurance Company and Metro Development Company. Tenants in this boutique office building enjoy the small floor plates and views of City Hall and, at the time of the sale, the building was 87 percent



leased. However, MEPT anticipated future leasing and rental rate risk as existing tenants in Philadelphia have taken advantage of market conditions to move from Class B space to Class A space in newer and more efficient buildings, and there was less demand for the remaining vacant space. As a result of these concerns, MEPT marketed the property for sale to maximize value for the Fund.

THE MEPT ADVISORY BOARD MET ON JUNE 6, 2006, IN WASHINGTON, DC. MEPT management discussed with Advisory Board members and attendees NewTower's successful first year of operations, current real estate market conditions, MEPT's 2005 and first-quarter 2006 performance, and the Fund's acquisition and disposition activity. Minutes from the meeting will be posted on the password-protected Investor Section of the MEPT Web site and available to all participating plans.

Management Fee—MEPT’s Trustee, NewTower Trust Company, charges an annual investment management fee based on the net assets of the Fund. The current annual MEPT fee is approximately 0.881%. 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%. 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.

COVER STORY *(continued from cover)*

retail properties to buying other property types with stronger near-term income growth potential, such as office and industrial.

As the speculative housing market, specifically the condominium construction and conversion craze, has slowed substantially with rising interest rates, many condo developers, typically highly leveraged, have withdrawn from the market. In the last two years, condo converters paid record prices for apartments, office buildings, and hotels. With their exit from the market, sale transactions volume across property types was lower in the first half of 2006 than in 2005, but there still remains a significant amount of institutional capital available for investment. **Nevertheless, as stock and bond performance continued to be highly volatile in the second quarter due to concerns about interest rates, energy costs, the housing market, and Middle-East turmoil, commercial real estate remained in favor with investors.**

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 Landon Butler & Company at 202-737-7300, or through our Web site, www.mept.com.