

THE QUARTERLY

# TRUST REPORT

 MULTI-EMPLOYER PROPERTY TRUST

*Celebrating 25 Years*  
1982-2007

SECOND QUARTER | JULY 2007 | VOLUME 23, NUMBER 2



**MULTI-EMPLOYER PROPERTY TRUST** closed the second quarter of 2007 with a unit value of **\$7,406.09**, up **5.38 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **16.35 percent**. As of June 30, MEPT's net asset value stood at \$6.83 billion and 318 plan participants were invested in the Fund.

## MEPT YIELD

	SECOND QUARTER 2007	TRAILING FOUR QUARTERS (COMPOUNDED)
NET	5.38%	16.35%
INCOME	1.13%	4.63%
APPRECIATION	4.25%	11.33%
<b>GROSS</b>	<b>5.60%</b>	<b>17.35%</b>
INCOME	1.35%	5.55%
APPRECIATION	4.25%	11.33%

MEPT outperformed the NCREIF Property Index (NPI) for the second quarter and trailing four quarters (gross of fees) returns. MEPT achieved a second quarter return (gross of fees) of 5.60 percent compared to the 4.59 percent NPI return, and MEPT produced a trailing four quarters return (gross of fees) of 17.35 percent compared to the 17.30 percent NPI return.

During the second quarter of 2007, the US economy grew at a faster pace than the first quarter; however overall US GDP growth for 2007 is expected to be lower than 2006, resulting in slower growth this year. In the second quarter, steady job growth in the major US markets and continued strong corporate profitability remained the driving factors behind sustained economic prosperity and increased demand for office and industrial space in most markets.

**Solid tenant demand coupled with a modest amount of new space led to some of the tightest rental markets in years.** Nationwide, the downtown office vacancy rate at the end of the second quarter was 10.6 percent, a decrease of 20 basis points from the previous quarter and 160 basis points better than the same quarter one year ago. The strongest markets, including Washington, DC, Los Angeles, Boston, and Manhattan, experienced even lower vacancy rates of approximately 7 percent. Suburban office markets also enjoyed relatively low vacancy, averaging 13.7 percent, which was a 20 basis point decline from last quarter and 90 basis points lower than the same quarter last year. *(continued on back)*

USE EVERY TOOL YOU HAVE

## NEWS BRIEFS

### **IN THE SECOND QUARTER OF 2007, MEPT COMMITTED \$36.2 MILLION TO THE ACQUISITION OF JOURNAL SQUARE,**

a development site in Jersey City, in the New York metro area. MEPT has under consideration, for future approval, the development of the site that would include a two-phase, mixed-use project with more than one million square feet of residential and retail space. The project is planned to consist of two, 52-story apartment towers with 1,200 units and 160,000 square feet of ground floor retail. The site is immediately adjacent to a PATH station, a primary rail transit link to Manhattan, Hoboken and Newark, NJ. MEPT is also exploring the possibility of adding a hotel component to the development plan. Journal Square would be developed as a joint venture between MEPT and Becker + Becker, who partnered with MEPT on The Octagon on Roosevelt Island.

### **IN APRIL, MEPT SOLD 500 EAST PRATT STREET FOR GROSS PROCEEDS OF \$73.5 MILLION.**

The 12-story office property is located in downtown Baltimore and was sold to IPC US REIT, a Canadian real estate investment trust. MEPT built the 280,000 square foot building in 2004 as the distinctive office centerpiece of a mixed-use project in Baltimore's Inner Harbor. Its architecturally sophisticated design, outstanding construction quality, and prime location attracted the highest quality tenants in the market. The building was 91 percent leased at the time of the sale. As a stabilized, well-located, high-quality office building, 500 East Pratt was particularly appealing to institutional investors seeking real estate investments in Baltimore. MEPT achieved record pricing that provided a very attractive return for the Fund.

### **MEPT COMMITTED \$6 MILLION DURING THE QUARTER TO THE DEVELOPMENT OF 35/13 CROSSINGS,**

a planned, 180,000 square foot office/warehouse development project in Minneapolis. The site encompasses 17.7 acres, and is located approximately 10 miles south of the Minneapolis-St. Paul International Airport. The project will consist of two flex industrial buildings with a shared truck court area. Strong demand for this type of asset exists since the South Central submarket where 35/13 Crossings is located has an industrial vacancy rate of only 5.8 percent. The vacancy rate is expected to decline further, due to demand from expected job growth in the area. Construction on the project has started and the buildings should be complete by first quarter 2008.

### **IN JUNE, MEPT SOLD TWO OFFICE BUILDINGS AT 1200 AND 1233 N. MAYFAIR ROAD FOR GROSS PROCEEDS OF \$26 MILLION.**

Located in Milwaukee, the buildings were purchased by Wangard Advisors L.L.C., a Milwaukee-based real estate investment firm. 1233 N. Mayfair Road, a three-story, 70,481 square foot building, was acquired by MEPT in 1998. 1200 North Mayfair Road, a four-story, 127,762 square foot building, was developed by MEPT and completed in 1999. The two buildings combined are 83 percent leased but with expected future weakness in the Milwaukee leasing market, MEPT determined that the downside risk outweighed the long-term potential of the assets for the Fund and marketed the assets for sale.

*(continued on back)*

## SECOND QUARTER RESULTS

Net Return,  
Second Quarter:

**5.38%**

Net Return,  
7/1/06 – 6/30/07:

**16.35%**

Net Asset Value:  
**\$6.83 billion**



# PERFORMANCE

## SECOND QUARTER COMMENTARY

*“Investors continue to have strong interest in high-quality, well-leased real estate assets with creditworthy tenants. On the one hand, MEPT has benefited, and the yield compression has been accounted for in our quarterly asset valuations. However, the robust investor market continues to make it a particularly challenging environment for acquiring assets at reasonable prices.”*

John Parker, President & CEO, Kennedy Associates Real Estate Counsel, LP

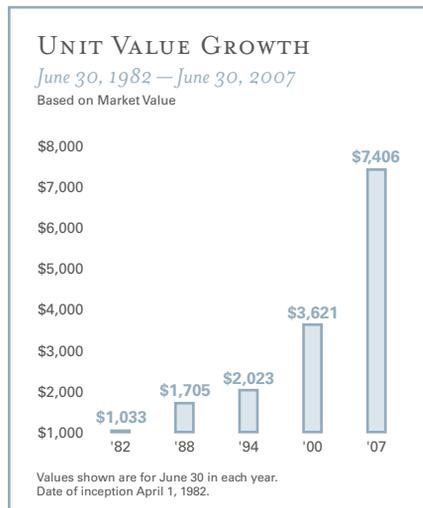
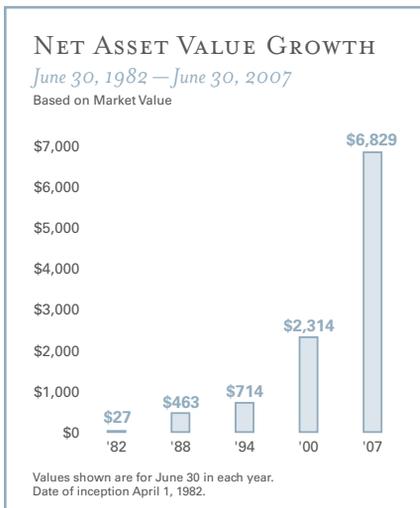


THROUGH THE END OF THE SECOND QUARTER, MEPT achieved a year-to-date net return of 9.44 percent, which puts the Fund well on track to exceed the return target set for 2007. The performance is principally due to value increases from further capitalization rate compression and the strong income from the Fund’s 92.1 percent leased operating portfolio. (*Capitalization rates are initial expected yields on investments based on purchase price.*) Real estate investment activity that was expected to slow modestly in 2007 has continued at a torrid pace and record prices continue to be paid for core, stabilized assets in the healthiest markets, such as Boston, New York, San Francisco, Washington, DC, and Los Angeles.

During the second quarter, 42 assets were externally appraised and 103 assets were evaluated internally under the direction of NewTower Valuation Services. In total, 114 assets appreciated in value, 21 assets had no

change in value, and 10 assets experienced a minimal decline in value. Many of the MEPT assets that increased in value benefited from recent buyer activity, prices paid for comparable assets, as well as from new leases that captured rising rents.

After a review of MEPT’s year-to-date performance and expected real estate market conditions for the second half of the year, **MEPT’s Policy Board has restated the Fund’s return targets for 2007. The Policy Board now expects the Fund to achieve a total return of 14.5 to 15.5 percent, (net of fees), for 2007.** This restated goal assumes the operating portfolio will continue to produce steady and stable income. This also assumes appreciation in real estate values may moderate in the third and fourth quarters due to unsettled capital markets causing higher borrowing costs for buyers and fewer highly leveraged real estate investors in the market bidding up prices.



# PORTFOLIO SPOTLIGHT

## FUND OVERVIEW

Inception Date	<b>April 1, 1982</b>	Average Age of Properties	<b>9.3 years</b>
Assets Held	<b>170</b>	Markets	<b>24</b>
Number of Buildings	<b>358</b>	Net Asset Value	<b>\$6.83 billion</b>
Total Operating Square Footage	<b>36.3 million</b>	Unit Value	<b>\$7,406.09</b>
Operating Portfolio Occupancy	<b>92.1%</b>	Participating Plans	<b>318</b>

NATIONALLY, ASKING RENTAL RATES FOR office have increased for five consecutive quarters. In the second quarter, rents for suburban office space rose 3.6 percent, and rents for downtown office space increased by 5.7 percent. Consistent with these national trends, rents at MEPT assets were on the rise with some assets demonstrating increases of 10 percent over the last two quarters.

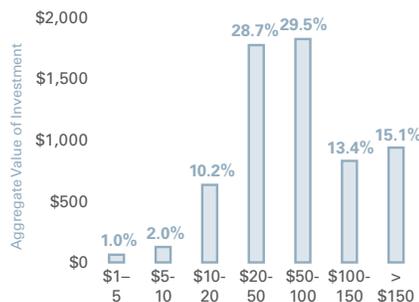
In MEPT's portfolio, gross leasing activity during the second quarter exceeded 1.5 million square feet. Asset managers signed 93 leases: 46 were extensions and renewals, 18 were expansions, and 29 were new leases. The

operating portfolio was 92.1 percent leased at the end of the second quarter.

During the quarter, MEPT signed several large leases, including three leases for more than 100,000 square feet. The Children's Place signed a 248,738 square foot renewal at Haven Gateway, an industrial building in the Los Angeles market. In Dallas, Ozburn-Hessey Logistics, LLC signed a renewal for 146,875 square feet at Pinnacle Park. A renewal was also signed at Greenspoint Office Building III in the Chicago market for 115,584 square feet with Career Education Corporation.

## DIVERSIFICATION BY SIZE OF INVESTMENT

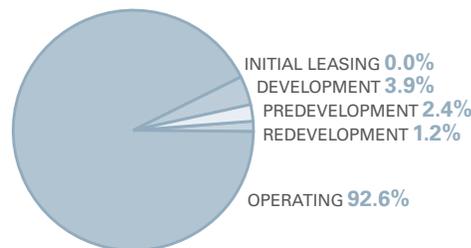
*As of June 30, 2007*



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

## DIVERSIFICATION BY LIFE CYCLE

*As of June 30, 2007*



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

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

Bricklayers & Trowel Trades International Pension Fund

## NEW PARTICIPANTS

Construction Laborers Pension Trust of Greater St. Louis

Tile Industry Retirement Savings Fund

Amalgamated Local 298 Pension Fund

Service Employees International Union Local 32BJ District 36 BMCA Pension Trust Fund

United Food and Commercial Workers' Union Local 919 and Contributing Employers' Non-Food Pension Trust

Empire State Carpenters Annuity Fund

Empire State Carpenters Pension Fund

Chicago Newspaper Publisher Drivers' Pension Fund

National Automatic Sprinkler Metal Trades Pension Fund

## PROJECTS COMMITTED

Journal Square  
NJ/NY

35/13 Crossings  
Minneapolis, MN

Octagon Loan  
New York, NY

## PROJECTS SOLD

500 East Pratt Steet  
Baltimore, MD

1200 & 1233 North Mayfair Road  
Milwaukee, WI

Kirkland Flex-J Building  
Seattle, WA

# INAUGURAL MEPT REAL ESTATE CONFERENCE WELL ATTENDED IN JUNE

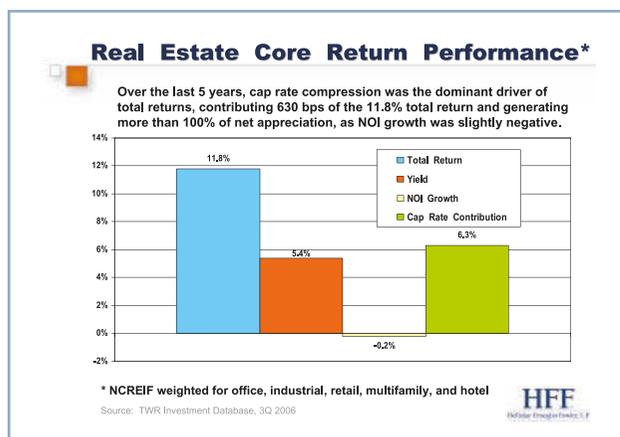
*Experts Discuss Market Trends and What Future May Hold*

NEWTOWER TRUST COMPANY SPONSORED THE FIRST annual MEPT Real Estate Conference on June 7, 2007, at the Fairmont Hotel in Chicago. The conference brought together industry leaders to discuss current real estate development, investment, and performance measurement issues and trends, as well as the future of the industry.

Topics discussed ranged from the US economy, key drivers in real estate capital markets, innovative concepts in valuation and property management, as well as the growing momentum surrounding Responsible Property Investing (RPI) including “sustainable” or “green” development and property operations. Each speaker brought a different real estate issue to light and dynamic discussions followed.

The conference featured six nationally recognized speakers, including: Gus Faucher, PhD, Director of Macroeconomics at Moody’s Economy.com; Peter Korpacz, MAI – Director Global Strategic Real Estate Research Group of PwC; Robert White, CRE – Founder and President of Real Capital Analytics Inc; Anthony Long, President of CB Richard Ellis Asset Services (Americas); Scott Muldavin, CRE, FRICS – Executive Director of Green Building Finance Consortium; and Mark Gibson, Executive Managing Director of Holliday Fenoglio Fowler, L.P.

## *Industry Leaders Presented Thought-Provoking Insights and Discussed Real Estate Trends: An Example From Mark Gibson’s Presentation*



Attendees of the conference included representatives of MEPT participating plans, members of the MEPT Advisory Board, members of the MEPT management team from NewTower, Kennedy Associates Real Estate Counsel, Landon Butler & Company, representatives from Bentall Capital, as well as individuals from strategic MEPT service partners including many appraisal firms.

Over the course of the session, the presentations and resulting participant discussions brought forth several consistent themes surrounding the industry’s current direction. The following concepts emerged from the conference:

- Counterbalancing positive and negative macroeconomic trends and real estate forces are creating a stable market environment;
- The real estate debt and equity markets may be at an inflection point after a prolonged peak in the cycle;
- Real estate is beginning to show signs of capitalization rate compression subsiding;
- Further potential market appreciation will be largely dependent on leasing and rental increases and corresponding NOI growth; and
- Calculating the fiscal implications of “green” investment is still a work-in-progress, but sustainability is not a fad.

Attendees were the beneficiaries of truly thought-provoking discussions on the most critical issues affecting the real estate market today as well as their implications for the future. The experts’ observations about macro changes in the economy and the commercial real estate market, combined with their expectations about momentum of the “green” movement and valuation implications, left participants better educated about the challenges of today’s market. NewTower has plans underway for another conference in mid-2008.

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 0.835%. 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.

**COVER STORY** *(continued from cover)*

There are a few markets that, despite national growth trends, continue to struggle. Detroit in particular had the highest vacancy with more than 25 percent vacancy. However, some other markets, like Kansas City and Chicago, although not experiencing strong demand, are beginning to show signs of improvement.

**The result of the extremely healthy supply/demand balance in most markets around the country has been solidly rising rents, especially in the tightest space markets.**

**NEWS BRIEFS** *(continued from inside)*

**DURING THE QUARTER, MEPT MADE A \$12 MILLION LOAN** to the joint venture partner, Becker + Becker, at The Octagon. The loan represents an additional capital investment into a well-performing asset. This loan will enable MEPT to commit additional funds to the transaction on an attractive, risk-adjusted basis.

**MEPT SOLD A BUILDING AT KIRKLAND FLEX IN SEATTLE IN THE SECOND QUARTER.** The “J” Building was sold for gross proceeds of \$4.9 million. An owner/user in the market approached MEPT with a very attractive offer for the single-story flex building that was partially leased. MEPT closed on the sale in May.

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, LP at 202-737-7300, or through the Web site, [www.mept.com](http://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.

