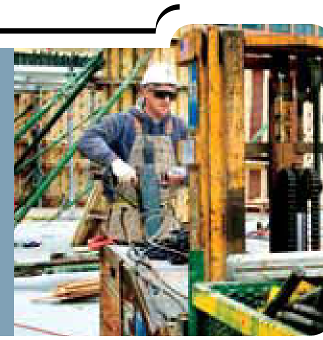
The Quarterly

# Trust Report

Multi-Employer Property Trust



## INSIDE



SECOND QUARTER | JULY 2011 | VOLUME 26, NUMBER 2

Multi-Employer Property Trust closed the second quarter of 2011 with a unit value of **$6,038.01** up **3.45 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **18.21 percent**.

## U.S. Economic and Real Estate Overview

The economy faced numerous challenges in the second quarter. Still lingering at the start of the quarter was the disruptive impact on supply chains caused by the Japanese earthquake and higher energy prices. Additionally, the struggling housing market, anemic job growth, persistently high unemployment, state and local government fiscal pressures, and the anticipated conclusion of the Fed's quantitative easing (QE2) program at the end of June hindered the recovery. Furthermore, the active political debate at the end of the quarter about the fast approaching ceiling on U.S. borrowing generated capital markets instability due to the fear of a default by the U.S. government.

**While headwinds and risks remain, some indicators are showing signs of improvement.** Energy prices, as evidenced by the Gasoline Index, declined significantly during the quarter, and the Consumer Price Index declined slightly, reducing concerns of near-term inflation. Factory orders, exports and business spending stabilized and the Institute for Supply Management Manufacturing Index increased from 53.5 in May to 55.3 in June, indicating expansion. Additionally, the U.S. consumer continued to deleverage and household bankruptcies declined in June. While consumer spending remains subdued and is dependent on improvement in the job and housing markets, there was a slight uptick in retail sales. The pace of job creation has been slow, but consistently positive for the past nine months. Professional and business services—an office space using sector—has been the most significant source of new jobs.

**Commercial real estate fundamentals continued to show slight improvement.** The second quarter marked the fifth consecutive quarter of positive net absorption of space in the office and industrial sectors and the eighth quarter of positive absorption in the retail sector, according to CoStar Group. As a result, vacancies declined slightly. For all three sectors, new supply is at cyclical lows so as demand improves, vacancies should continue to drop. However, there is still a considerable amount of available space. According to Reis, Inc., tenants vacated 138 million square feet of office space during the financial crisis and since October 2010, occupied space has grown by only 11.9 million square feet. Coastal markets with stable job growth, such as New York, Washington D.C., and San Francisco, continued to experience increasing demand and stabilizing rental rates, while other markets hardest hit by the recession still have double digit vacancies and declining rents.

**The apartment sector remains very healthy and the vacancy rate continues to decline, approaching the long-term average for the sector.** There is a minimal supply of new units and demand for apartments is strong due to an overall decline in homeownership in the U.S., job growth, and the formation of households by the Echo Boom generation in urban centers.

The number of commercial real estate properties on the market for sale has increased as pricing has become more attractive to sellers. Multi-family, central business district (CBD) office and grocery-anchored retail have been in high demand with investors which has driven yields lower for those property types. As a result, during the second quarter, some investors seeking higher yields began to complete transactions in secondary and tertiary markets. Additionally, investor interest and transaction activity noticeably increased in the industrial sector, which on average has the highest yields of any property type.

# News Briefs

**IN THE SECOND QUARTER, MEPT COMMITTED $102 MILLION FOR THE DEVELOPMENT OF SIXTH AND LENORA, A MULTI-FAMILY PROJECT IN SEATTLE.** Sixth & Lenora is a joint venture with Canada Pension Plan Investment Board (CPPIB). MEPT had this site under control for many years and closely monitored the Seattle market for signs that demand for apartments warranted new construction. With an anticipated increase in renters, conditions now support development. The planned two-tower, 654-unit project has access to public transit, retail and entertainment. In addition, the property is within walking distance of major employers, including Amazon.com and the Gates Foundation. The project will seek to achieve U.S. Green Building Council Leadership in Energy and Environmental Design (LEED) Silver certification. Consistent with the Fund's strategic plan, the investment will further increase MEPT's allocation to the multi-family sector.


SIXTH AND LENORA

**MEPT COMMITTED $40.8 MILLION TO DEVELOP MILESTONE BUSINESS PARK V, A BUILD-TO-SUIT OFFICE PROJECT IN THE WASHINGTON, D.C. MARKET.** A subsidiary of the Boeing Company will lease the majority of Milestone V. A Groundbreaking Ceremony was held in June to mark the start of construction of the 162,876 square foot office building. MEPT acquired Milestone Business Park, a 45-acre site with two existing buildings, in 2004 and completed the construction of Milestone IV in 2010. Milestone V will seek to achieve LEED-Silver certification, and construction, expected to be completed in the fall of 2012, will create more than 300 "green" jobs.


MILESTONE V

**IN MAY, MEPT ACQUIRED THE SHOPPING USA PORTFOLIO FOR $130 MILLION.** The portfolio consists of 10 grocery-anchored retail centers, totaling 842,255 square feet and built between 1996 and 2001. Located in Atlanta, Austin, Miami, Orlando, and Tampa, the centers serve established demographic areas. At the time of acquisition, the portfolio was 93 percent leased, with prime national and regional grocers anchoring each center and 120 additional in-line necessity-goods/service retailers. The acquisition of the Shopping USA Portfolio fulfills two of MEPT's strategic goals by increasing the Fund's allocation to the retail sector and adding to the Fund's weighting to the South region of the U.S. With its high occupancy and minimal near-term rollover, the Shopping USA Portfolio is expected to contribute stable income to the Fund.


SHOPPING USA

**DURING THE QUARTER, MEPT SOLD BALDWIN PARK IN LOS ANGELES FOR GROSS PROCEEDS OF $8.2 MILLION.** A fully-leased, 156,679 square foot, three building asset, Baldwin Park was acquired by MEPT in 2003 as part of a 17-asset industrial portfolio. The strategy for this portfolio of assets was to position and sell each asset individually, maximizing the sale price MEPT could obtain. Baldwin Park was sold to Harricci, LLC, owner of Exxel Outdoors, a manufacturer and distributor of outdoor gear, who will use the property for its operations. Consolidated, MEPT achieved an 8.5 percent IRR on the entire portfolio which was sold asset by asset.

## Second Quarter Results

Net Return, Second Quarter
**3.45%**

Net Return, 7/1/10 – 6/30/11
**18.21%**

Net Asset Value
**$5.14 billion**

# Performance

## Second Quarter Commentary

### Fund Overview

| | | | |
|---|---|---|---|
| Inception Date | **April 1, 1982** | Average Age of Properties | **11.7 years** |
| Investments Held | **152** | Markets | **30** |
| Number of Buildings | **369** | Net Asset Value | **$5.14 billion** |
| Total Operating Square Footage | **38.5 million** | Unit Value | **$6,038.01** |
| Operating Occupancy | **88.3%** | Participating Plans | **356** |

In the second quarter, MEPT produced a total gross return of 3.67 percent, composed of 1.14 percent income and 2.53 percent appreciation. Year-to-date, MEPT's performance has resulted in a total gross return of 7.21 percent, composed of 2.32 percent income and 4.83 percent appreciation. **As a result, MEPT is on track to achieve the Fund's 2011 return expectation of 9 percent to 11 percent (gross of fees) set by the Management Team at the start of the year.**

**Income Return:** The stable income generated by the 38.5 million square foot operating portfolio, which was 88.3 percent leased at the end of the quarter, was a major contributor to the income return. The operating assets acquired in 2010 and in the first quarter of 2011 are more than 90 percent leased and have immediately contributed to the Fund's income. The 10-asset retail portfolio acquired during the second quarter of 2011 is also expected to be accretive to operating income in 2011.

**Appreciation Return:** In the second quarter, investor appetite for well-located, well-leased, assets continued and capital flows into core real estate drove capitalization rates[1] lower. Additionally, pricing reflected an expectation of rising rental rates. **For MEPT, appreciation in the portfolio was materially impacted by positive leasing activity at certain assets, yield rate compression and improved rent growth assumptions.** One-third of the appreciation was attributable to five high-quality multi-family and CBD office assets. Another third of the appreciation was a result of an increase in the appraised value of a mezzanine loan held by MEPT that is collateralized by a well-leased office building in New York City. The second quarter appraisal of the loan reflects the dramatic improvement in New York market fundamentals where the city has one of the lowest vacancy rates in the country. The equity partners in the building have publicly announced a transaction to recapitalize the financing of the property. MEPT anticipates that the Fund may receive a full payoff of the mezzanine loan which would positively impact income and appreciation for the Fund if the transaction closes later this year.

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

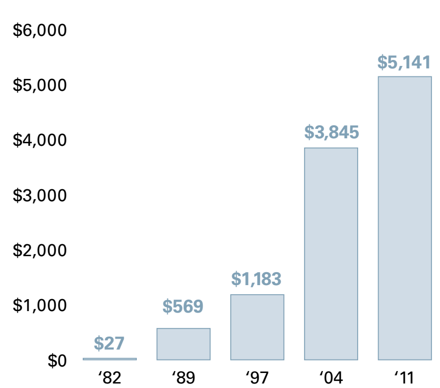
### Yield

| | Second Quarter 2011 | Trailing Four Quarters (Compounded) |
|---|---|---|
| **NET** | **3.45%** | **18.21%** |
| INCOME | 0.92% | 3.79% |
| APPRECIATION | 2.53% | 14.03% |
| **GROSS** | **3.67%** | **19.28%** |
| INCOME | 1.14% | 4.76% |
| APPRECIATION | 2.53% | 14.03% |

### Net Asset Value Growth

*June 30, 1982 – June 30, 2011*

Based on Market Value ($Millions)




Values shown are for June 30 in each year.
Date of inception April 1, 1982.

# MEPT Real Estate Conference

On May 11, 2011, industry experts joined MEPT investors at the Sixth Annual MEPT Real Estate Conference in Vancouver, Canada. Moderators and panelists explored the theme ***2011 Recovery—Linking What We've Learned with Where We're Headed*** in four thought-provoking sessions. Panelists identified major trends impacting the economy and commercial real estate, including:

- A decline in the U.S. homeownership rate not only reflects weakness in the housing market but is also a major shift in consumer behavior and a new attitude about the financial risks of homeownership. The prolonged weakness in housing hampers economic stability.
- The high unemployment in the U.S. is both a supply and demand problem. There are 1.4 million fewer jobs today than 10 years ago. And, the labor force continues to grow with Baby Boomers delaying retirement and Echo Boomers entering the workforce at a rapid pace. These factors will keep the unemployment rate stubbornly high for an extended period.
- Recovery in the commercial real estate market is more certain since cap rates began a reversal in mid-2010. The turnaround has been remarkably fast compared to the downturn in the 1990's when it took the industry 24 quarters to write-down asset values to reflect market conditions; this recent downturn was realized in just four quarters.
- Investor capital is steadily flowing into the real estate asset class and 2011 transaction volume is expected to be significantly higher than 2010—possibly as much as $300 billion in total. The tremendous volume of investment into commercial real estate has driven prices higher for quality assets and investors are beginning to look to secondary markets and multi-family development for higher yielding investments. Improvement in real estate market conditions varies across the country.
- Real estate continues to make sense as part of a pension plan portfolio because it provides growth characteristics of a stock and stable income of a bond. More and more pension plans are increasing their real estate allocations to 10 percent to 20 percent, since they recognize that real estate is not correlated to other assets classes and adds diversification to a portfolio.
- Responsible Property Investing (RPI) is a way to mitigate certain risks of real estate investing. However, there are many misconceptions about the environmental, social and governance principles of RPI. Generally, ESG initiatives are seen as too costly to implement, but there is quantifiable return on investment. RPI is not only an investment approach, but the issues addressed are also important to local, state and federal governments.

## Conference Panelists and Moderators

| | |
|---|---|
| Bruce Becker | *President of Becker + Becker* |
| Landon Butler | *President & CEO, Landon Butler & Company* |
| Chip Case | *Professor Emeritus of Economics, Wellesley College, Case-Shiller Indices* |
| Remco Daal | *President & COO, Bentall Kennedy Canada* |
| Ray Fair | *John M. Musser Professor of Economics, Yale University, The Fair Model* |
| Mark Gibson | *Executive Managing Director, Holliday Fenoglio Fowler* |
| Pat Mayberry | *President & CEO, NewTower Trust Company* |
| Mike McKee | *CEO, Bentall Kennedy US* |
| John Mohlis | *Executive Secretary, Oregon State Building & Construction Trades Council* |
| John O'Bryan | *Vice Chairman, CB Richard Ellis Limited* |
| Doug Pearce | *CEO & CIO, bcIMC* |
| Doug Poutasse | *EVP, Head of Strategy and Research, Bentall Kennedy* |
| Bob Ruggles | *President, Altus Group US* |
| Gary Whitelaw | *CEO, Bentall Kennedy Group* |
| Paul Zemla | *CIO, Bentall Kennedy Canada* |

## In Appreciation and Recognition of Our 25 Year Partnership, MEPT Salutes

Indiana State Council of Carpenters Pension Fund

Edison Pension Trust

## New Participants

Carpenters District Council of Kansas City Pension Fund

Teamsters Local 282 Pension Fund

Bricklayers & Masons' Local Union No. 5 Ohio Pension Fund

Kern County Electrical Workers Pension Trust

Union Mutual Pension Fund

Plumbers Local Union No. 93 Pension Fund

IBEW Local Union No. 56 Pension Trust Fund

Bricklayers and Allied Craftsmen Local No. 16 Pension Trust

## Projects Committed

Milestone V
*Washington, DC*

Shopping USA Portfolio
*Atlanta, Austin, Miami, Orlando, Tampa*

Sixth and Lenora Apartments
*Seattle, WA*

## Projects Sold

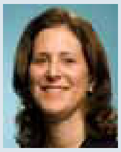
Baldwin Park
*Los Angeles, CA*

# John Parker, President, Bentall Kennedy Announces Plans to Retire

John Parker
*President*
Bentall Kennedy

## *Reflecting on 30 Years of Commercial Real Estate Investing*

After more than 30 years leading Bentall Kennedy's US real estate advisory business, contributing to Multi-Employer Property Trust's (MEPT) strategic vision and serving on the MEPT Policy Board, John Parker has announced plans to retire in the fall of 2011. Recently, John sat down with Pamela Silberman of Landon Butler & Company (LBC, investor relations provider to MEPT) to reflect on his career, discuss how the real estate industry has changed and talk about how MEPT is positioned for the next real estate cycle.



Pamela Silberman
*Senior Vice President*
Landon Butler & Company

John Parker and Jim Snyder first joined forces with Duff Kennedy in the late 1970's to provide an Alaska Taft-Hartley pension fund with a workout plan for a pool of non-performing mortgages. After finding a solution for that client, they realized that there was a need for real estate advisory services for pension plans and that real estate was under-represented in pension plan allocations. Together, they established the real estate arm of Kennedy Associates in 1978. In 1982, Kennedy Associates joined with Landon Butler & Company to launch MEPT, a real estate product that could deliver low-risk returns as well as reduce volatility in a pension plan portfolio.

At Bentall Kennedy, John Parker served as Director of Asset Management, Director of Acquisitions and since Mr. Snyder's retirement in 2008, as President of Bentall Kennedy (formerly Kennedy Associates). His days as a U.S. Navy officer in the Vietnam War and as a U.S. Olympic athlete in 1968 and 1972, when he won a Bronze Medal, have provided him with the fortitude to persevere through many challenging real estate cycles.

***Silberman:* How do you think the real estate investment business changed?**

***Parker:*** There has been a major shift in institutional investor attitudes and real estate has moved from being considered an oddity investment to an accepted and established asset class. When we started the business in 1978, there were only a few firms offering real estate investment advisory services—now there are dozens. Back then, the limited number of pension plans with real estate allocations had allocations of one percent to three percent. As trustees and their advisors gained an appreciation of how real estate could contribute to a portfolio, and as real estate returns became more attractive relative to stocks and bonds, real estate allocations grew.

Today, allocations typically range from 10 percent to 15 percent of the investment portfolio and many investors have diversified their real estate allocation by including strategies with different risk/return profiles, such as core, value-add and opportunistic.

**How has this affected the execution of the MEPT strategy over time?**

As real estate allocations have grown, the influx of institutional capital into commercial real estate has grown. There is currently an abundance of capital seeking high quality assets. This reflects the trend of increasing allocations and the attractiveness of real estate returns relative to other investment opportunities.

In a market like this, when there is fierce competition for the highest quality assets, we have to be diligent and stick to our disciplined approach. The influx of capital can inflate pricing. Our mindset is to acquire existing assets at or below replacement cost since we believe that over the long term that allows MEPT to compete effectively. The goal to acquire assets for MEPT in the near-term has to be supported by the fundamentals (supply, demand, vacancy and rent growth), relative pricing and required returns. It is easy for the risk/return relationship to get distorted in a heated market and we are careful not to accept undue risk for a limited amount of return.

**What expertise did you help develop at Bentall Kennedy that has served the Fund well?**

Early on, when we were looking for investment grade, institutional-quality opportunities for MEPT, we realized that there was selective capital available to develop state-of-the-art buildings. We established relationships with development companies across the country as a way to find attractive investments and create long-term value on behalf of our clients.

Development is more complicated than buying existing assets. We found that you had to be sophisticated in managing and overseeing the process and, overtime, we developed an expertise in structuring those transactions and mitigating the risks associated with development. In the early 1990's, there was a dearth of construction financing; consequently, we developed in-house expertise in funding and managing the development draw process. This capability allows MEPT to single source all of the capital for a project—an attractive and differentiating characteristic in capital markets.

Our team has become skilled at stewarding properties throughout all lifecycles—development, re-development, lease-up, stabilization and disposition—which has become beneficial in the management of the MEPT portfolio.

**Which MEPT transaction are you most proud of?**

As a real estate advisor, it is your goal to determine a portfolio strategy, acquire assets that support the strategy and achieve return targets. There are many variables that you have to plan for and adjust to over the life of an asset and many times market conditions are out of your control.

*(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 0.86%. 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)*

MEPT's Patriots Plaza, a three-building office complex in Washington, D.C., is a very successful example of the investment process that I described. We developed a strategy for MEPT that incorporated a view of the Washington, D.C. market as characterized by a stable demand for office space supported by the federal government presence and as an attractive long-term, international investment market. Additionally, the security needs of the government post-September 11th had heightened and we planned the first building with state-of-the-art security features to address that need. Once that building was fully leased to government tenants, we began plans for Buildings II and III which included new energy-efficient features that had become important to federal government tenants and the local municipality. Buildings II and III, delivered during the downturn, have been well received by the targeted GSA tenant base. The current value of this complex is approximately 43 percent greater than cost and reflects the success of the investment strategy.

### How is MEPT positioned for the next 30 years?

The ability of MEPT to take advantage of opportunities and mitigate challenges in the future has a lot to do with ensuring that the management team remains focused on understanding and properly underwriting risk. This requires good fund governance, investment discipline and ample resources. MEPT's commitment to fund governance and a disciplined investment approach is as strong as it has ever been—I think the Fund's actions and performance during the last several years are a reflection of that. This commitment has served MEPT and its investors well through several real estate cycles and I believe optimally positions the Fund going forward for continued success. Additionally, we have been steadily growing MEPT's resources to make sure that the team and the Fund are prepared for the future. Today, there are more than 90 staff members at NewTower Trust Company (MEPT's trustee), LBC, and Bentall Kennedy involved in the management and oversight of the Fund. Bentall Kennedy is the combination of Kennedy Associates and Bentall, Canada's largest investment manager. This integrated platform is one of the largest real estate advisory firms in North America, which brings considerable additional resources to MEPT.

I have transitioned many of my responsibilities for the day-to-day management of the operations to Mike McKee, Bentall Kennedy CEO, who will assume my role on the MEPT Policy Board. I am passing the reins to a very experienced and dedicated management team that I have the highest degree of confidence in and I am excited about the possibilities in front of them. I am proud of what we've been able to accomplish with our pension plan investors over the last three decades and I am looking forward to observing MEPT's continued growth and success.

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TRUSTEE
NewTower Trust Company

INVESTMENT ADVISOR
Bentall Kennedy

INVESTOR RELATIONS
Landon Butler & Company

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**.

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