The Quarterly

Trust Report

MEPT

INSIDE:

- **MEPT Management Team Revises 2014 Performance Target Upward to 9.0%—10.0%, gross of fees, for 2014.**
- **In-depth Report: U.S. Industrial Sector Clicking on E-commerce Growth**

SECOND QUARTER | JULY 2014 | VOLUME 29, NUMBER 2

Multi-Employer Property Trust (MEPT) closed the second quarter of 2014 with a unit value of **$7,880.19,** up **2.35 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT produced a net of fees return of 12.46 percent and total gross of fees return of 13.47 percent. **Based on preliminary results for the NCREIF Fund Index–Open-End Diversified Core Equity (NFI-ODCE) benchmark, MEPT outperformed the benchmark for the one-year period.**

U.S. Economic and Real Estate Overview

Signs of an improving U.S. economy are prevalent, even as headline Gross Domestic Product (GDP) numbers are weak due to severe weather conditions early in the year and other one-time factors. The labor market trend remains particularly encouraging, as initial unemployment claims drop to their lowest levels since mid-2007.

Key indicators include:

- Private employment grew significantly in the second quarter with a solid average monthly gain of 272,000 jobs. Private employment has now increased for 52 consecutive months, the longest streak on record, according to a White House report. The 1.4 million jobs added in the first half of 2014 are the most in any first half since 1999; the unemployment rate of 6.1 percent is the lowest since September 2008.
- Jobs were produced by sectors with sustained growth, such as education and health services, professional and business services, and leisure and hospitality.
- According to the National Association of Realtors, existing-home sales rose strongly in May after a modest improvement in April; all four regions of the country experienced sales gains compared to a month earlier.
- The Institute for Supply Management reported that factories enjoyed gains in June due to the strongest order volume of the year; U.S. wholesale inventories, a key factor of GDP, rose in May, driven by metals, autos, machinery and lumber.

As a result of strengthening economic conditions, the U.S. commercial real estate market improved strongly across all property types in the second quarter. Private sector job growth continued to drive the office market recovery as office vacancy rates fell to 14.5 percent in the second quarter, according to CBRE. U.S. office market absorption topped 15 million square feet, the largest increase in demand since the recovery began. Innovation and energy-driven markets led the way, with rent growth most pronounced

(continued inside)

News Briefs

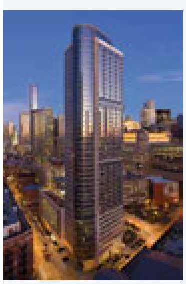
IN APRIL, MEPT COMMITTED $100.9 MILLION TO THE DEVELOPMENT OF LIVERMORE DISTRIBUTION CENTER IN THE SAN FRANCISCO MARKET. The three-building, 1.3 million square foot industrial development project is located in the Livermore submarket, approximately 25 miles southeast of the Port of Oakland. The new state-of-the-art industrial buildings will be accessible from major transportation corridors and should draw tenants seeking modern distribution facilities in the supplied-constrained Bay Area market. With its joint venture development partner, Trammell Crow Company, MEPT has planned for market-leading design features such as 32' clear heights, cross-dock configurations, ESFR sprinkler systems, and ample truck and trailer parking. The development is consistent with MEPT's "build-to-core" strategy, and will satisfy MEPT's goal of increasing its allocation to modern, bulk distribution assets in primary markets. Construction is scheduled to begin in the first quarter of 2015.

LIVERMORE DISTRIBUTION CENTER

IN JUNE, MEPT RECEIVED GROSS PROCEEDS OF $27.5 MILLION FOR THE SALE OF GSW GATEWAY. Located in the Dallas market, immediately south of the Dallas-Fort Worth Airport, the 423,000 square foot, two-building warehouse facility was acquired by MEPT in 2001. Although the asset was fully leased at the time of sale, it was targeted for sale due to concerns that the asset and its older features would not achieve the same rents as newer, more modern properties in the market and lease renewals would become more difficult. With strong institutional demand for core industrial assets in primary markets, MEPT was able to command pricing above carrying value for the asset. After receiving 18 offers for the asset, MEPT selected an all-cash offer from American Realty Advisors.

HONORS & AWARDS

MEPT'S HUBBARD PLACE WAS AWARDED "BEST NEW BUILDING" IN DOWNTOWN CHICAGO BY THE FRIENDS OF DOWNTOWN. Hubbard Place, a 43-story, 450-unit multi-family property developed by MEPT and completed in 2013, has many attractive amenities and is centrally located with proximity to major downtown employers and attractions. The energy-efficient apartment tower was named "Best New Building" at the 2013 Annual "Best of Downtown" Awards held on June 3, 2014. For more than 20 years, Friends of Downtown, a nonprofit civic group dedicated to advocating, educating, and celebrating good design and planning in downtown Chicago, has celebrated and honored individuals, companies and organizations that have advanced the quality of life for downtown residents, workers, and visitors.


HUBBARD PLACE

FOR THE SIXTH CONSECUTIVE YEAR, BENTALL KENNEDY WAS AWARDED THE ENERGY STAR PARTNER OF THE YEAR AWARD. Annually, the U.S. Environmental Protection Agency (EPA) honors organizations that have made outstanding contributions to protecting the environment through energy efficiency. Through its work managing the MEPT portfolio, Bentall Kennedy earned the Partner of the Year recognition and also received recognition for its fourth consecutive

(continued on inside)

Second Quarter Results

Net Return Second Quarter
2.35%

Net Return 07/1/13–6/30/14
12.46%

Net Asset Value
$5.21 billion

Performance

MEPT's Management Team has revised the 2014 performance target upward after reviewing year-to-date Fund performance and evaluating the outlook for real estate market conditions. **The team now expects MEPT to produce a total return of 9.0 percent to 10.0 percent, gross of fees, versus 8.5 percent to 9.5 percent, gross of fees, as originally projected at the start of the year.** Year-to-date, MEPT has produced a total gross return of 5.76 percent, composed of 2.72 percent income and 3.00 percent appreciation.

Based on preliminary results for NFI-ODCE, MEPT's one-year gross of fee return of 13.47 percent outperformed and MEPT's income return has exceeded NFI-ODCE's income return for seven consecutive quarters.

The stable income generated by the 30.6-million square foot, 91.8 percent leased, operating portfolio was a major contributor to the income return. **Additionally, the Fund's multi-family development assets contributed substantial income this quarter as the assets continue to progress through the initial lease-up phase.** Moreover, in May, MEPT retired a 2009 originated loan that carried a 7.5 percent fixed interest rate and, as a result, significantly reduced the Fund's interest expense and improved net income.

Material contributors to MEPT's appreciation in the second quarter included the Fund's urban, transit-oriented, multi-family operating assets such as McClurg Court and Hubbard Place in Chicago, and Via 6 in Seattle. Several Class A, CBD office properties had measurable appreciation including Newport Tower in New York, 200 West Madison in Chicago, and 475 Sansome in San Francisco. At the same time, industrial warehouse properties experienced value gains, among which the Trimble Distribution Center in the San Francisco market was the largest contributor to Fund appreciation. Additionally, MEPT realized significant appreciation at GSW Gateway in Dallas, which was sold during the quarter and reflected strong investor demand for well-leased, core industrial assets.

Modest depreciation occurred at a variety of asset types and locations due to pending lease expirations, rising property tax assessments, market trends, or capital expenditures. The net impact of marking debt to market had a modest positive impact on overall Fund appreciation.

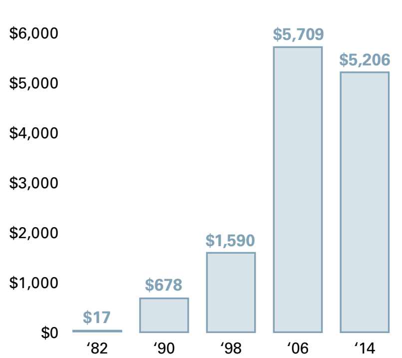
Yield

	Second Quarter 2014	Trailing Four Quarters (Compounded)
NET	**2.35%**	**12.46%**
INCOME	1.17%	4.62%
APPRECIATION	1.18%	7.58%
GROSS	**2.57%**	**13.47%**
INCOME	1.40%	5.58%
APPRECIATION	1.18%	7.58%

Net Asset Value Growth

June 30, 1982 – June 30, 2014

Based on Market Value ($Millions)

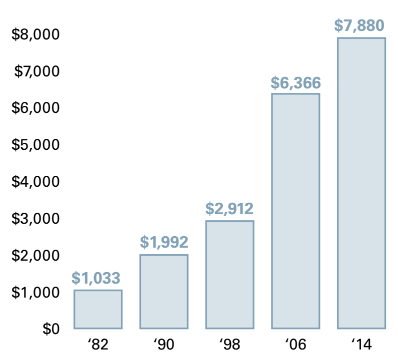


Values shown are for June 30 in each year.
Date of inception April 1, 1982.

Unit Value Growth

June 30, 1982 – June 30, 2014

Based on Market Value



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

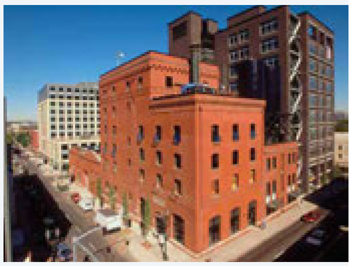
FUND OVERVIEW

Inception Date	April 1, 1982	Average Age of Properties	13.3 years
Investments Held	98	Markets	25
Number of Buildings	248	Net Asset Value	$5.2 billion
Total Operating Square Footage	30.6 million	Unit Value	$7880.19
Operating Occupancy	91.8%	Participating Plans	318

HONORS & AWARDS *continued*

Sustained Excellence Award at the ceremony on April 29, 2014 in Washington, D.C. The Sustained Excellence Award is given to a select number of organizations that exhibit continual, outstanding energy management practices and performance.

IN JUNE, TWO MEPT ASSETS WERE NAMED AS FINALISTS IN THE 2014 ULI GLOBAL AWARDS FOR EXCELLENCE. The 36-year old industry competition recognizes real estate projects that demonstrate high-quality innovative land use and excellence in design, construction, economics, planning and management. Via6, a 654-unit, two-tower, LEED® Gold certified apartment complex built by MEPT in Seattle, is a finalist. Also named is The Brewery Blocks, a mixed-used project in Portland, OR in which MEPT developed Brewery Blocks 2, a Class A, energy-efficient, office building built through a combination of new construction and the adaptive reuse of a historic brewery. Winners will be announced at ULI's 2014 Fall Meeting in October.



BREWERY BLOCKS 2

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

Massachusetts Bay Transportation Authority Retirement Fund

Elevator Constructors Union Local No. 1 Annuity Fund

NEW PARTICIPANTS

Bricklayers and Stone Masons of Illinois District Council No. 1 B.A.C. Annuity Fund

Stone Setters Annuity Fund Local 84

United Association of Plumbers and Steamfitters Local 521 Pension Trust Fund

ATPA Defined Benefit Plan

City of Tavares Police Officers' Pension Trust Fund

City of Tavares Firefighters' Pension Trust Fund

Newspaper Guild of New York Local Representative Guild Pension Plan

PROJECTS COMMITTED

Livermore Distribution Center
San Francisco, CA

PROJECTS SOLD

GSW Gateway
Dallas, TX

COVER STORY *(continued from front page)*

in San Francisco, Houston, New York, Denver, Phoenix, and Dallas. Average rental rates ticked up 2.2 percent and the second quarter saw a 34 percent increase in new office space under construction versus the same period in 2013.

The industrial market continued to strengthen with a drop in the availability rate to 10.8 percent in the second quarter, according to CBRE. **With vacancy declining, the industrial market is now in its 16th consecutive quarter of recovery.** A key driver in this recovery is the shifting logistics of online and traditional brick-and-mortar retailers due to the rapid expansion of e-commerce (See In-depth Article).

The multi-family sector continues to perform well. According to CBRE, national apartment demand is growing at 1.9 percent, on an annual basis, outpacing historical performance. Axiometrics reported that the vacancy rate of 5.0 percent at the end of the second quarter was 0.5 percentage points lower than the first quarter. Markets with the lowest vacancy rates (at or below 4 percent) included Minneapolis, New York, San Jose, and Seattle. Effective rent growth improved to 3.6 percent year-over-year, the strongest growth rate since December 2012.

Retail properties are showing signs of improvement despite lackluster consumer spending. CBRE reported that the second quarter retail availability rate declined to 11.7 percent, down 20 basis points compared to the first quarter and down 150 basis points from its post-recession peak. Tampa, Raleigh, Philadelphia and Charlotte recorded the greatest declines in availability.

Industrial Sector Demand Clicking On E-commerce Growth

When consumers go online to shop, every purchase they make is quietly helping to drive the current and future growth of the industrial property market.

With online shopping comes demand for fast delivery; online retailers have set very high consumer expectations on this point. Amazon, in particular, upped the ante when they revealed their goal to deliver packages in 30 minutes or less using unmanned aerial vehicles commonly known as drones. The technology, infrastructure, and necessary regulations are not in place to make such a goal a reality, but it is clear that delivery times are being compressed.

As a result, rapidly growing online retailers along with their multi-channel brick-and-mortar retail counterparts are modifying their distribution strategies to solve "last-mile" issues related to fast, direct-to-consumer shipping. Many are now shunning the hub-and-spoke distribution method which often placed distribution facilities and warehouses in locations far away from population centers. Instead, retailers today are more interested in locating their big box warehouse and distribution centers as close as possible to dense, urban populations and key intermodal locations where most of their customers live. This way, one- and two-day shipping—or even the new "same day" trend—is easier and less expensive.

Call it the unintended benefits of instant gratification, but this fundamental change in retail logistics is helping to drive industrial property growth. In fact, virtually all U.S. markets have been experiencing strong demand for bulk distribution facilities to support e-commerce. While many of the largest industrial markets across the country have seen appreciable amounts of new supply, all markets remain well below their 10-year average levels. According to CBRE, this increasing retailer demand for the limited supply of big-box facilities is reshaping the industrial market, resulting in strong leasing and build-to-suit development as well as sparking a new wave of speculative construction.

E-commerce is also changing the nature of new industrial construction. **In order to satisfy logistics requirements, tenants are demanding ceiling heights beyond the traditional clear heights, space to accommodate sophisticated racking systems, and far more loading and dock doors than has been typical and open spaces to allow for large container storage.** Direct-to-consumer shipping locations often require multiple levels, vast and expensive conveyor and package picking systems, parking for a greater number of trucks and employees, and superior access to third-party shipment facilitators, such as UPS and the United States Postal Service.

How Fast is E-commerce Growing?

Online purchases create demand for fast delivery that drives the need for storage and logistics space.

According to U.S. Census Bureau estimates, since the first quarter of 2005, e-commerce volume has more than tripled from $20.7 billion to $71.2 billion in the first quarter of 2014—which is also a substantial increase of 15 percent from the first quarter of 2013. And yet, the $71.2 billion only represents 6.2 percent of total retail sales, according to the U.S. Census Bureau, leaving vast room for growth.

Estimated Quarterly U.S. Retail Sales
Adjusted

	E-commerce Retail Sales ($ Millions)	E-commerce as a Percentage of Total Retail Sales	Percentage Change from Same Quarter a Year Ago
1Q 2014	$71,188	6.2%	15.0%

Economic Drivers Converge to Strengthen Industrial

Given the impact of e-commerce, it stands to reason that an improving economy, consumer confidence, and an increase in consumer spending can only bring additional benefits to the industrial sector. On those points, the good news continues: The Conference Board Consumer Confidence Index® showed improvement both in May and June with confidence in June at its highest level since January 2008.

Is this confidence translating into spending? Consumer

Industrial Strength in Numbers:

- Availability rate fell to 10.8 percent at the end of the second quarter.
- With this drop in vacancy, the industrial sector has now seen its recovery stretch to 16 consecutive quarters.
- Majority of markets continued to improve.
- The declines in availability were led by Fort Lauderdale, Las Vegas, Nashville, and Atlanta.
- Large markets reporting healthy declines were Philadelphia, Boston, Los Angeles, and Chicago.

SOURCE: CBRE

(continued on back page)

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 0.89%. 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)*

spending as reported by Gallup hit a six-year high in May before retreating in June. However, spending never experienced the post-recession pop that has occurred in previous cycles, making continued steady growth more feasible.

The outlook for the U.S. industrial market is positive, with indicators showing strong support for improving demand and rising rents. Increasingly, consumers are visiting stores, buying online and then returning items to the store; or purchasing online and picking up items at stores. Movement of these items from warehouse to customer, back to store and back into the warehouse/supply chain will be an interesting e-commerce-driven phenomenon to monitor in the future. Combine expanding e-commerce with a strengthening U.S. economy, plus stronger consumer confidence and spending, and the long-term view for the industrial remains bullish.

MEPT'S TRIMBLE DISTRIBUTION CENTER

TRIMBLE DISTRIBUTION CENTER

MARKET	SAN FRANCISCO
NET ASSET VALUE	$32.1 MILLION
SQUARE FEET	206,642
YEAR ACQUIRED	2012

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**.

MULTI-EMPLOYER PROPERTY TRUST

700 THIRTEENTH STREET, NW, SUITE 925 WASHINGTON, DC 20005

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