

THE QUARTERLY

# TRUST REPORT

 MULTI-EMPLOYER PROPERTY TRUST

## INSIDE:

- New Study Reveals MEPT Has Created 52.7 Million Job Hours
- MEPT Achieves High Rate of Return on the Sale of W New York Union Square Hotel

THIRD QUARTER | OCTOBER 2006 | VOLUME 21, NUMBER 3



**THE MULTI-EMPLOYER PROPERTY TRUST** closed the third quarter of 2006 with a unit value of **\$6,591.38 up 3.55 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **16.12 percent**. The third quarter performance is attributable to positive leasing activity at MEPT's properties and further compression in capitalization rates.

**More than 300 pension plans now participate in MEPT.** In the third quarter, 16 new investors became participants in MEPT—a record number of new participants for a single quarter—bringing the total number of investors to 301. These investors have an ownership interest in MEPT's 174 assets, valued at \$5.92 billion on October 1, 2006.

Nationally, the pace of job growth slowed in the third quarter, but remained positive. At the same time, corporate profits exceeded expectations and helped rally the stock market during the quarter. Interest rates have only risen modestly and inflation has remained low. These economic conditions have had a beneficial effect on real estate markets as positive absorption of space continued in the third quarter, and vacancy rates declined while rental rates in certain markets rose. As a result of these factors, investor interest in real estate continued through the third quarter, supporting an environment of historically low cap rates (*i.e., net operating income divided by purchase price, an industry approximation of expected current return*). **There remains a tremendous amount of capital in the market for high-quality assets.**

Hotel assets have been highly sought after as demand has increased and the supply of rooms has declined. The growth in occupancy has been driven by increased demand from business travel and inbound international tourism. The supply of hotel rooms is down compared to last year due to the condominium conversion activity that converted many operating hotels to residential use, or allocated part of newly constructed hotels to condo use in 2004, 2005 and 2006. **With strong demand and reduced supply, the hotel sector has experienced several consecutive quarters of growth.** Strong investor interest in the asset class has been demonstrated by a vigorous volume of transactions and record prices being paid.

USE EVERY TOOL YOU HAVE

# NEWS BRIEFS



**IN THE THIRD QUARTER, ECONORTHWEST, INC., AN ECONOMIC CONSULTING FIRM, RELEASED AN ANALYSIS OF MEPT INVESTMENTS** that shows that MEPT, since its inception, has generated 52.7 million job hours for Building Trades members across the US. The study also reveals that MEPT's investments have had \$9.9 billion of economic impact in 33 markets. (For more, see In-Depth Report.)



**IN OCTOBER, THE W NEW YORK UNION SQUARE WAS SOLD TO ISTITHMAR**, the investment arm of the government of Dubai, for a gross sales price of \$285 million or \$1,425 per gross square foot of building area. The buyer paid \$1,055,555 per hotel room, the highest price per room received by any hotel in the US over the past 20 years. The W had previously been the headquarters building of the Guardian Life Insurance Company. In 2000, MEPT financed the renovation and conversion of the 20-story office building into a 270-room hotel.

The project was built on time and on budget, and created 828,551 job hours for the Building Trades. Since its opening, the hotel performed at or above its market index in all performance metrics and consistently scored number one in the W brand for overall guest satisfaction. Net proceeds to MEPT were approximately \$215 million and the Fund earned an IRR of approximately 22.9 percent.



**IN AUGUST, MEPT ACQUIRED DEVRY AT WEST HILLS, A CLASSROOM BUILDING WITH ADJACENT PARKING FACILITIES, FOR APPROXIMATELY \$36 MILLION.**

MEPT has plans to redevelop the classroom facility into a Class A office building and is analyzing the potential development of neighborhood retail space and parking. The 20.4-acre DeVry site adjoins MEPT's Corporate Pointe at West Hills located in the Los Angeles market. Corporate Pointe at West Hills is a nine building, 890,261 square foot corporate business center that is 94.3 percent leased to an excellent credit tenant base. The acquisition of the DeVry building and parking area allows MEPT to continue its long-term master-planned development of the business campus and provides existing tenants in the park with room to grow. The DeVry acquisition and redevelopment will enhance MEPT's \$29 million capital improvement program already underway at the business park that has made improvements in parking, HVAC, electrical, and food service facilities.

## THIRD QUARTER RESULTS

Net Return,  
Third Quarter:  
**3.55%**

Net Return,  
10/1/05-9/30/06:  
**16.12%**

Net Asset Value:  
**\$5.92 billion**



The sale of the W New York Union Square took advantage of the robust hotel market and resulted in proceeds of over \$1 million per room, the highest price paid per room in the US over the past 20 years.

# PERFORMANCE

## THIRD QUARTER COMMENTARY

*“MEPT maintains a long-term hold philosophy and typically owns assets for 7 to 10 years. In this market environment of low interest rates and record low capitalization rates, we have made the decision to selectively sell assets in order to maximize return for certain stabilized properties, or assets we have identified with potential for future leasing or operating risk.”*

Preston Sargent, Executive Vice President  
Kennedy Associates Real Estate Counsel, LP



MEPT’S THIRD QUARTER PERFORMANCE IS ATTRIBUTABLE to the active leasing in the portfolio, stable income from the 35.5 million square foot operating portfolio, and continued compression in capitalization rates for investment grade properties. MEPT’s third quarter performance positions the Fund to exceed return goals for 2006. For the trailing four quarters, MEPT produced a total net return of 16.12 percent, composed of 4.59 percent income return and 11.16 percent appreciation return.

**MEPT’s portfolio performance is indicative of proactive**

**asset management and investment demand for well-leased, high-quality office and industrial assets.**

In the third quarter, real estate market conditions continued to steadily improve. **Demand for office space outpaced new supply, which helped lower the vacancy rate and put upward pressure on rental rates.** The national vacancy rate for office declined slightly from the end of the second quarter of 2006, and declined by more than 1 percent from the same period in 2005. The vacancy rate for downtown buildings at the end of the quarter was lower than the vacancy rate for suburban office. Rental rates have risen, and over the last year, Class A rates have increased by approximately 7 percent. Certain markets have experienced double-digit rental rate increases.

The vacancy rate for the industrial sector has fallen below 8 percent and is the lowest in five years. At the end of the third quarter, there was less than 23 million square feet of new space under construction, which was significantly lower than construction activity for the same period in 2005. **With strong corporate profits and robust US trade activity, the demand for industrial space is outpacing the supply of new space in the market.**

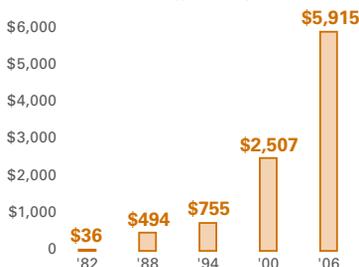
### YIELD

	THIRD QUARTER 2006	TRAILING FOUR QUARTERS (COMPOUNDED)
<b>NET</b>	<b>3.55%</b>	<b>16.12%</b>
INCOME	1.14%	4.59%
APPRECIATION	2.41%	11.16%
<b>GROSS</b>	<b>3.78%</b>	<b>17.16%</b>
INCOME	1.36%	5.55%
APPRECIATION	2.41%	11.16%

### NET ASSET VALUE GROWTH

October 1, 1982 — October 1, 2006

Based on Market Value (\$Millions)

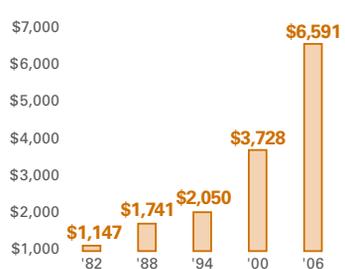


Values shown are for October 1 in each year.  
Date of inception April 1, 1982.

### UNIT VALUE GROWTH

October 1, 1982 — October 1, 2006

Based on Market Value



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

# PORTFOLIO SPOTLIGHT

## FUND OVERVIEW

Inception Date	<b>April 1, 1982</b>	Average Age of Properties	<b>8.8 years</b>
Assets Held	<b>174</b>	Markets	<b>25</b>
Number of Buildings	<b>346</b>	Net Asset Value	<b>\$5.9 billion</b>
Total Operating Square Footage	<b>35.5 million</b>	Unit Value	<b>\$6,591.38</b>
Operating Portfolio Occupancy	<b>93.1%</b>	Participating Plans	<b>301</b>

THE OFFICE, INDUSTRIAL AND RETAIL OPERATING portfolio was 93.1 percent leased at the end of the quarter. MEPT completed close to 2.4 million square feet of gross leasing activity and signed 112 leases, bringing the total number of leases in the portfolio to 1,460 and reducing vacancy in the operating portfolio by 80 basis points from the second quarter.

An optimal leasing scenario for MEPT is to retain existing tenants by signing renewals, thereby saving the Fund tenant improvement and commission costs while avoiding vacancy loss (*i.e., potential income foregone due to vacancy*) in the portfolio. During the third quarter, **at Centerpointe Chino II in Los Angeles, Procter & Gamble Distributing Company (P&GDC) executed a new five-year lease for 458,262 square feet** for space previously leased to Crossflow Logistics, a provider of logistics services to P&GDC. This lease resulted in zero vacancy loss and no tenant improvement costs as Crossflow Logistics continues to occupy the building for P&GDC. MEPT also signed several large renewals including: CCDA Waters, a division of Coca Cola Company for 348,211 square feet at Centerpointe Chino I in Los Angeles, and Ryder Logistics for 102,344 square feet at GSW Gateway in Dallas.

In addition to securing renewals whenever possible, the asset managers focus on avoiding vacancy loss by continuously working with

existing and replacement tenants optimally suited for each asset. For example, when additional space was becoming available **at Centerpointe Chino II, MEPT solicited the Kenco Group, a 50-year old family-owned third-party logistics provider, who subsequently signed a five-year lease for 170,671 square feet.** At Southwest Commerce Center III & IV in Reno, SK Food Group signed a new lease for 86,250 square feet.

The MEPT team is also focused on leasing new space in recently completed development projects. **At Patriots Plaza in Washington, DC, MEPT signed two large leases in a very competitive market.** The Surface Transportation Board leased 73,889 square feet for 10 years, and the Office of the Comptroller of the Currency signed a five-year lease for 49,804 square feet. At The Octagon on Roosevelt Island in New York City, leasing activity is above projections both in terms of the velocity of the leasing and the rental rates achieved. At the end of the third quarter, The Octagon apartment units were 92 percent leased.

Centerpointe Chino II, Los Angeles, CA



## THIRD QUARTER ACTIVITY

### NEW PARTICIPANTS

- Iron Workers St. Louis District Council Pension Trust
- Wisconsin Laborers' Pension Fund
- Steamship Trade Association of Baltimore, Incorporated – International Longshoremen's Association (AFL-CIO) Benefits Fund
- Operating Engineers Local 825 Welfare Fund
- Operating Engineers Local 66 Welfare Fund
- Operative Plasterers and Cement Masons Local Union Officers and Employees Pension Fund
- Painters District Council No. 3 Pension Fund
- OPCMIA Employees Pension Trust Fund
- Teamsters Joint Council No. 53 Retirement Trust
- Pension Fund – Technical Engineering Division, Local 130, U.A.
- Marble Industry Pension Trust Fund
- Bricklayers Supplemental Annuity Fund
- Bridge, Structural, Ornamental and Reinforcing Ironworkers Local 207 Pension Fund
- IBEW Local Union No. 915 Pension – Annuity Fund
- Sheet Metal Workers Local Union No. 17 Supplemental Pension Fund
- Amalgamated Transit Union Local 900 Pension Plan Trust

### PROJECTS COMMITTED

- DeVry at West Hills  
Los Angeles, CA

# MEPT CREATED 52.7 MILLION JOB HOURS FOR THE BUILDING TRADES

*New Independent Analysis Reveals \$9.9 Billion of Economic Impact in 33 Markets*

## IMPACTS FROM NEW CONSTRUCTION AND TI WORK

**\$3.7 billion**

hard cost  
investments

**\$1.5 billion**

wages and benefits  
paid

**27,300**

construction jobs  
created

**\$74.9 million**

in state personal  
income taxes generated

RESULTS OF A NEW INDEPENDENT ECONOMIC IMPACT ANALYSIS completed in August 2006 reveal that MEPT has generated 52.7 million job hours for Building Trades members across the United States. Additionally, MEPT’s development, renovation, and tenant improvement investments have resulted in over \$9.9 billion in total economic activity in the communities where MEPT’s buildings are located.

**“When we started MEPT in 1982, the concept of investing pension dollars to achieve competitive, risk-adjusted returns as well as collateral benefits such as job creation, was a relatively new concept, and it certainly had not been tested,”** commented Landon Butler, President of Landon Butler & Company and a member of the MEPT Policy Board. **“The study by ECONorthwest proves that this concept can work, and it can be extremely effective for Taft-Hartley and public employee pension plans looking to grow their pension fund dollars, generate employment opportunities for their members, and have a positive impact on their local communities.”**

ECONorthwest, Inc., an economic consulting firm, analyzed the impact of 218 MEPT investments acquired, built or committed in 33 markets located around the United States. ECONorthwest’s study examined MEPT investments from the Fund’s inception in April 1982 through December 2005. Among its many conclusions, the study shows that since its inception, MEPT has invested approximately \$4.6 billion in 24 states, including \$3.7 billion in hard cost investments (costs directly related to services provided by construction contractors). The hard cost investments have generated approximately 27,300 construction jobs, which equates to 52.7 million job hours worked. Further, these jobs paid \$1.5 billion in wages and benefits, and generated \$74.9 million in state personal income taxes.

The study also shows that as MEPT’s portfolio has grown, tenant improvement work has become a more significant factor in MEPT’s total job creation. Of the 52.7 million job hours created for Building Trades members, second generation tenant improvements account for 3.5 million hours. MEPT’s portfolio currently contains 346 buildings,

*(continued on back)*

## RESULTS OF MEPT INVESTMENTS

*Tabulated by Market*

MARKET	TOTAL ECONOMIC EFFECT (\$)	TOTAL UNION BUILDING TRADES HOURS OF WORK CREATED
ANCHORAGE	13,318,285	67,034
BALTIMORE	454,458,661	2,618,641
BOCA RATON	24,044,772	20,570
BOSTON	206,888,981	1,024,551
CENTRAL NEW JERSEY	134,207,731	564,552
CHICAGO	1,100,594,547	5,477,605
CINCINNATI	76,325,932	468,361
COLUMBUS	30,195,460	145,861
DALLAS	4,655,045	28,495
DENVER	326,089,536	1,782,717
DETROIT	313,825,683	1,613,821
HOUSTON	75,255,303	360,080
INDIANAPOLIS	134,610,327	717,919
JUNEAU	275,583	1,854
KANSAS CITY	103,924,950	755,812
LAKE OF THE OZARKS	25,549,533	159,440
LAS VEGAS	94,234,272	707,742
LOS ANGELES	1,193,775,517	6,080,692
MILWAUKEE	112,476,249	548,311
MINNEAPOLIS	662,159	—
NEW YORK CITY	638,093,379	3,461,299
PHILADELPHIA	486,625,671	1,925,625
PHOENIX	55,527,103	356,589
PITTSBURGH	287,732,394	1,345,021
PORTLAND	519,463,540	2,837,988
RENO	72,511,181	447,291
SAN DIEGO	136,969,701	581,731
SAN FRANCISCO	544,427,773	2,469,370
SANTA FE	10,147,668	52,686
SEATTLE	785,135,003	3,747,000
SOUTH BEND	17,954,147	103,597
ST. LOUIS	352,435,390	1,957,099
WASHINGTON, DC	1,333,671,040	9,636,219
PRE-1995 TENANT IMPROVEMENTS*	235,802,872	636,752
<b>TOTAL</b>	<b>\$9,901,865,386</b>	<b>52,702,324</b>

\*Represents all tenant improvements made to projects prior to 1995. Beginning in 1995, MEPT changed its accounting procedures in order to track tenant improvements by individual projects.

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 0.877%. 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 the third \$1 billion of MEPT total net assets. 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.

**IN-DEPTH REPORT** *(continued from inside)*

and the Fund typically owns properties for 7–10 years. Therefore, tenant improvement work will continue to be a significant portion of overall job creation and economic activity.

**“Construction projects generate economic benefits for the communities in which they are located. Although the direct impacts associated with construction spending occur over a specific time period, additional economic benefits continue to ripple through the economy after the construction project has been completed,”** concluded Dr. Randall Pozdena, Senior Economist and Managing Director, ECONorthwest, Inc.

MEPT investment spending has a multiplier effect on communities. Expenditures on skilled construction labor, special trade contractors, and architectural, engineering, and pre-design services create jobs that lead to additional economic impacts for workers and business owners in other sectors of the economy. The study quantified the impact of MEPT’s investment activity throughout the communities where projects are located, including:

- In total, MEPT projects have created 152.0 million hours of work, amounting to 83,900 jobs and \$4.0 billion in personal income.
- The direct, indirect and induced effects of MEPT investments have resulted in \$199.5 million in income taxes.
- The 24 states covered in the study have benefited from sales tax revenues of \$127.6 million as a result of MEPT construction activity.

Economic impact analysis provides a framework for analyzing how MEPT’s activities affect regional economic activity. ECONorthwest used input-output analysis, the most widely used modeling framework, and IMPLAN (for IMPact Analysis for PLANning), an economic modeling software. According to Dr. Pozdena, the IMPLAN model comprehensively traced how and where money spent on MEPT investments circulated throughout the economy.

*For a complete copy of the Multi-Employer Property Trust Economic Impact Study, please contact Pamela Silberman at (202) 737-8824 or [psilberman@lbutler.com](mailto:psilberman@lbutler.com).*

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 100% union built, institutional-quality real estate 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 undervalued 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](http://www.mept.com).