The Quarterly

Trust Report

Multi-Employer Property Trust

INSIDE:

- **Why Real Estate? And, Why Now?**
  Jim Valente, Kennedy Associates Real Estate Counsel's Research Director, explains why real estate is important to an investment portfolio today and over the long-term.

THIRD QUARTER | OCTOBER 2008 | VOLUME 23, NUMBER 3

The Multi-Employer Property Trust closed the third quarter of 2008 with a unit value of **$7,769.51 down 2.42 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **1.77 percent.**

Market Overview

Currently, a global deleveraging process is underway that is causing considerable dislocation and anxiety among investors, consumers, businesses, financial institutions, and governments around the world. **The uncertainty regarding the health and strength of institutions' balance sheets continues to seize the credit markets in the U.S. and abroad.** As a result, fear and uncertainty have become the driving factors in making investment decisions rather than fundamentals, which are being deemphasized in the asset selection and allocation process.

In this type of turbulent environment, it is impossible to predict with much confidence the precise scenario that will play out in the near-term. However, the following is certain:

- The U.S. economy is in a recession.
- The U.S. economy will continue to weaken over the short-term, but will bottom at some point and then start expanding again—it always recovers.
- Investors, consumers, businesses, financial institutions, and governments who have the healthiest balance sheets will fare better than those who do not.
- As the "fittest" financial institutions survive, credit spreads will return to more "normal" levels, and lenders will re-enter the marketplace.

Commercial real estate is heading into this downturn with relatively healthy supply/demand fundamentals and moderate vacancy rates across property types and many markets. Looking forward, in most markets, there is limited construction currently underway and as a result, limited supply will be delivered as the job market softens and office demand declines. Markets where barriers to entry were low, new construction activity has been substantial, and meaningful job losses have recently occurred—such as some sub-markets in Southern California, Florida, and selected "condo" markets such as Phoenix and Las Vegas—will be most negatively impacted.

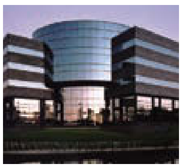
Much of the uncertainty related to the current downturn and its impact on commercial real estate hinges on factors such as changes in unemployment, how high vacancies will increase, or how much capitalization rates will go up beyond what has already occurred. MEPT's management team believes that the *(continued inside)*

News Briefs

MEPT'S ADVISORY BOARD TO MEET ON NOVEMBER 21, 2008, AT 11:00 AM (EST) AT THE MADISON, A LOEWS HOTEL, 1177 15th Street, NW, Washington, DC. **MEPT management and Advisory Board members will discuss MEPT's strategy for navigating through the current market conditions.** In addition to Advisory Board members, trustees, administrators and consultants representing participating plans are invited to attend as observers. Participation can be in-person or by phone, and registration is required. If you would like to participate, please contact Philomena Paul at ppaul@lbutler.com or (202) 737-8823 to register.

One Franklin-Le Meridien Rendering

DURING THE QUARTER, MEPT EXECUTED A FORWARD COMMITMENT OF $120 MILLION TO PURCHASE, UPON COMPLETION IN 2011, ONE FRANKLIN-LE MERIDIEN, a planned 250-room, four-star hotel property in Boston. The hotel will be part of a 1.4 million square foot, mixed-use development that will incorporate the former historic Filenes Basement clothing store into space for retail, hotel, residential, and office. The hotel will be built to LEED-Silver standards. The project will provide important economic activity in Boston—the hotel construction is expected to create over 1.1 million job hours for members of the Building Trades. MEPT believes the investment in One Franklin will diversify the portfolio and provide an attractive return on investment since Boston hotel market fundamentals are some of the strongest in the country and barriers to entry are expected to remain very high.



Arboretum Lakes West

IN SEPTEMBER, MEPT PURCHASED AN ADDITIONAL OWNERSHIP INTEREST IN ARBORETUM LAKES WEST FOR $1.7 MILLION. The purchase of the outstanding 5 percent interest brings the total MEPT ownership to 100 percent. Arboretum Lakes West is a Class A, 190,361 square foot, mid-rise suburban office building located in Chicago. MEPT currently has 29 other assets in which a minority partner holds a portion of the ownership. It is the Fund's intention over the long-term to purchase these minority interests in order to maximize flexibility and enable the Fund to fully benefit from the value created by these assets.

AT THE END OF THE THIRD QUARTER, MEPT SOLD TWO ASSETS, RED HILL AND MAGNOLIA, AND COMPLETED A PARTIAL SALE OF ONE ASSET, STAFFORD/NELSON, FOR TOTAL GROSS PROCEEDS OF $21.3 MILLION. Red Hill, a 57,962 square foot industrial building in Los Angeles, was purchased by SEBCO, a Seattle-based REIT. Magnolia, a 40,164 square foot industrial asset in Phoenix, was purchased by a tenant, Midwest Medical Supply. These properties were sold after MEPT made improvements and fully leased the buildings, which allowed MEPT to maximize the value of the assets. Also in Los Angeles, MEPT sold the 50 percent leased A and B buildings at Stafford/Nelson to a local owner/user when it was determined that long-term leasing risk in a market with competitive, newer space was greater than the potential upside performance for these buildings.

SAVE THE DATE: On Sunday November 16, 2008, MEPT invites you to take in 360-degree views of San Antonio, TX while enjoying a cocktail reception at The Chart House Restaurant atop the Tower of the Americas from 6–9 p.m. If you plan to attend the IFEBP 54th Annual Employee Benefits Conference, then join us at the cocktail reception by sending a RSVP to ppaul@lbutler.com.

Third Quarter Results

Net Return, Third Quarter:

-2.42%

Net Return, 10/1/07–9/30/08:

1.77%

Net Asset Value:

$6.82 billion

Performance

Fund Overview

Inception Date	**April 1, 1982**	Average Age of Properties	**10.4 years**
Assets Held	**190**	Markets	**26**
Number of Buildings	**514**	Net Asset Value	**$6.82 billion**
Total Operating Square Footage	**40.2 million**	Unit Value	**$7,769.51**
Operating Portfolio Occupancy	**91.2%**	Participating Plans	**335**

In the third quarter, MEPT produced a total gross return of -2.21 percent, composed of 1.14 percent income and 3.34 percent of depreciation. Year-to-date, MEPT's performance has resulted in a total gross return of 0.32 percent, composed of 3.55 percent income and 3.16 percent depreciation. MEPT's results reflect the value correction underway in commercial real estate markets due to the credit crisis and economic downturn.

Yield

	Third Quarter 2008	Trailing Four Quarters (Compounded)
NET	**-2.42%**	**1.77%**
INCOME	0.93%	3.97%
APPRECIATION	-3.34%	-2.14%
GROSS	**-2.21%**	**2.64%**
INCOME	1.14%	4.86%
APPRECIATION	-3.34%	-2.14%

MEPT seeks to ensure that its valuation process captures changes in commercial real estate conditions so that investors who are either buying or selling units in MEPT each quarter are paying or receiving a price that represents current and accurate market value estimates. This quarter, both external appraisals and internal valuations reflected the significant shift in U.S. economic conditions, and the likelihood that rent growth assumptions will not be realized and leasing will take longer than expected.

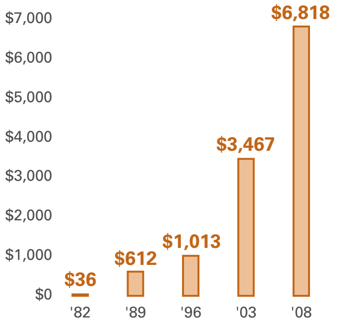
Across most property types, capitalization rates edged upward to reflect increased economic risk and reduced rent growth expectations in the near term. *(Capitalization rates are an approximation of expected current income return and are determined by dividing net operating income by the purchase price.)* As a result, there was downward pressure on real estate values, resulting in significant levels of depreciation in the MEPT portfolio. In total, 109 assets experienced depreciation, 34 assets appreciated in value, and 45 assets had no change in value.

(continued on next page)

Net Asset Value Growth

Sept. 30, 1982 — Sept. 30, 2008

Based on Market Value ($Millions)

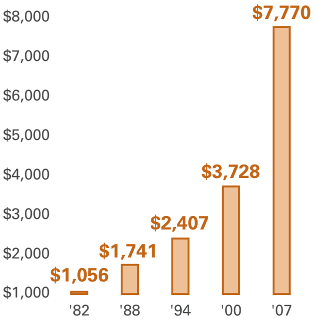


Values shown are for September 30 in each year.
Date of inception April 1, 1982.

Unit Value Growth

Sept. 30, 1982 — Sept. 30, 2008

Based on Market Value



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

It is important to keep in mind that MEPT's portfolio management strategy has several components that enable the Fund to remain relatively stable in times of overall market volatility:

- **Stable Income Return:** MEPT's portfolio is 91.2 percent leased, which is above the national average. Further, the portfolio has a manageable and typical level of lease expirations over the next 12–18 months, and MEPT has a very high tenant retention rate. Most MEPT leases include contractual rental rate increases over the term of the lease. Most importantly, MEPT's income return somewhat offsets depreciation in the portfolio.
- **Low Leverage:** "Leverage" is money borrowed to buy assets, and excessive use of leverage by Wall Street is a prime cause of the current crisis. Over the Fund's life, and especially during the last several years, MEPT has been extremely prudent and conservative in its use of leverage; MEPT's current leverage position is 13.5 percent of gross assets. **MEPT is not now, and will not be in the future, under pressure to service debt.** In times of deteriorating market fundamentals, excessive leverage increases downside risk and magnifies the negative effect of depreciation.
- **Broad Diversification:** MEPT's portfolio is diversified by property type, location, tenants, life cycle, and size, which inherently mitigates the risk associated with adverse market conditions affecting any one market, property type, industry, or company.
- **Fair and Disciplined Valuation Process:** Every property is marked-to-market each quarter, either through an independent external appraisal, or by NewTower Trust Company's Valuation Services team; each property in the portfolio is appraised by an independent appraiser at least once per year.
- **Institutional Stability:** NewTower Trust Company is an independent, privately held bank that serves solely as the trustee for MEPT and is immune to the institutional turmoil caused by the mergers and restructurings currently plaguing U.S. financial institutions: NewTower is regulated by the Maryland Division of Financial Regulation.
- **Active Acquisition Pipeline:** MEPT aims to maintain a pipeline of investment opportunities throughout all phases of a real estate cycle, and as real estate markets return to normalcy, attractive investment opportunities will emerge that would create additional value for MEPT investors. By maintaining an investment in MEPT, investors will benefit from MEPT's ability to take advantage of the dislocation in the current market environment. **Further, MEPT's new construction investment strategy stimulates economic activity by creating jobs, producing tax revenue, and generating contributions for pension plans.**

MEPT's performance continues to have a low correlation to stock and bond investments, which is a critical form of diversification for pension plan portfolios. (See "In-Depth Report.") Furthermore, MEPT management takes a long-term view on the management of the portfolio and believes the Fund is well-positioned to weather the current storm as markets return to equilibrium. **Looking forward, the MEPT management team expects that competitive real estate yields will have to be achieved the old-fashioned way—through active asset management and superior deal selection.** Indeed, it appears that investment and financial markets, in general, will be moving "back to basics"—something MEPT has always done very well.

In Appreciation and Recognition of our 25 Year Partnership MEPT Salutes:

Carpenters' Pension Trust Fund – Detroit and Vicinity

New Participants

Pipefitters L.U. 537 Pension Fund

International Union of Operating Engineers Local No. 132 Pension Fund

Plumbers & Pipefitters Local No. 152 Pension Fund

U.A. Local 152 Annuity Fund

Iron Workers - Laborers Pension Plan of Cumberland, MD

IBEW Local #223 Deferred Income Trust Fund

Projects Committed

One Franklin – Le Meridien
Boston, MA

Projects Sold

Magnolia
Phoenix, AZ

Red Hill
Los Angeles, CA

Stafford/Nelson (partial)
Los Angeles, CA

Market Overview *(continued from front)*

bottom will likely occur in the second half of 2009. The peak in variable rate mortgage originations with first-time interest rate resets is expected to occur in late 2008 and early 2009. Once that occurs the well-capitalized businesses will emerge and the recovery process can begin, although it will probably take another couple of years to reach full recovery. Through the recovery process, with falling inflation expectations, it is likely that interest rates will remain low.

With relatively solid "going-in" fundamentals, as mentioned above, existing commercial real estate investments will likely continue to outperform stocks and bonds over the short-term. In addition, low interest rates should contribute to the relative outperformance and should mute the degree and pace at which capitalization rates may rise.

Most recessions are caused by imbalances in the real economy, not dislocations in the capital markets—the cause of the current recession. As a result of this, prices are not being primarily determined by fundamental factors. Once the bottom is reached, MEPT management believes there will be exceptional investment opportunities, the type that come along very infrequently. The key for MEPT now is to remain patient, focus on the fundamentals of actively managing and leasing properties as thoughtfully and prudently as possible, and keep the Fund in a position to take advantage of various profitable investment opportunities as they develop.

Why Real Estate? And, Why Now?

CONTRIBUTOR: Jim Valente, Senior Vice President and Research Director, Kennedy Associates, joined the MEPT management team in June 2008 with over 15 years of real estate research experience. Mr. Valente's research has been published in both academic and trade journals, and he appears frequently as a speaker at industry conferences.

Over the last few years, core commercial real estate has performed better than stocks or bonds on a risk-adjusted basis. This relative outperformance, intensified by the current turmoil in the global capital markets, has led allocations to real estate in pension plan portfolios to rise. As investors weigh their investment options in this challenging time, it is worth asking: Why Real Estate? And, Why Now?

With its stable income stream, diversification benefits, and ability to enhance performance, core commercial real estate should play an important long-term role in every investor's portfolio. But for investors to benefit from these characteristics, they must always be invested. Trying to time the market—investing when expectations are high and divesting when expectations are low (buy high, sell low)—has proven to dilute the benefits of investing in real estate. Additionally, in order to maximize the benefits that real estate can offer a portfolio, it is important that an investor have a significant allocation to the asset class. While studies vary, most analysis suggests that core real estate should make up to 10 percent to 15 percent of a well-diversified portfolio in order to provide the desired impact on performance.

Characteristics of Core Real Estate

Stable Income: Real Estate is a Like a Growth Bond—Core real estate is unique because it provides the growth characteristics of a stock and the stable income stream of a bond. In uncertain times like the current market environment, it is the stable income stream that makes real estate an essential component of a well-diversified portfolio. The stable income stream of real estate is provided by the medium- to long-term nature of its tenant leases. Unlike the sale of general goods—where demand and price can fluctuate from day-to-day, month-to-month, and year-to-year—leases bind tenants to pay a pre-specified rent for periods ranging from a year to five, seven, and even 10 years.

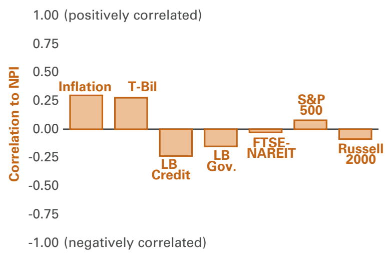
The benefit of this stable income stream is demonstrated by the stability of real estate's income return (total return is the sum of income and appreciation). **Historically, core real estate's income has accounted for approximately 80 percent of its total return and has had very little volatility from year to year** (standard deviation = 0.0095), especially compared to the income component of stocks (standard deviation = 0.186) and bonds (standard deviation = 0.081).

A Portfolio Diversifier—One of the most important characteristics that investing in commercial real estate provides from an overall portfolio context is its low correlation with stocks and bonds. This serves as a tool for reducing the volatility of portfolio returns over time. If two investments are perfectly correlated (correlation = 1), then their prices move in unison. As a result, an investor would just pick the investment he or she liked the best, without much other consideration. If two investments are perfectly negatively correlated (correlation = -1), then an investor could build a portfolio of those two assets that produced a constant return over time.

In reality, no two investments are perfectly positively or negatively correlated. In the stock world, a general rule of thumb is that if two stocks have a correlation of less than .70, their joint inclusion in a portfolio provides for better risk-adjusted returns. In the case of real estate, as measured by NCREIF, investment returns have exhibited a low to negative correlation to stocks and bonds over the long-term. **As a result, during times when stocks and bonds perform poorly, real estate should perform better, smoothing out the overall portfolio's performance.** Indeed, this is happening today.

A Performance Enhancer — As the chart below illustrates, when a 60/40 *(continued on back)*

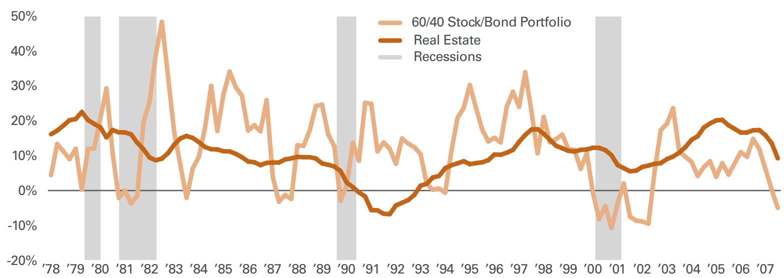
NCREIF Property Index Correlation to Other Asset Classes



Sources: NCREIF, Economy.com, Ibbotson/Morningstar

Stocks/Bonds vs. Real Estate

Fourth Quarter 1978 — Second Quarter 2008



Sources: NCREIF, Economy.com

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)*

portfolio of stocks and bonds is compared to private equity real estate, the real estate portfolio always provides superior performance when it is most needed; during times of an economic downturn and when stocks and bonds are producing negative returns. Today, real estate continues to provide this same relative performance (i.e., as a volatility dampener).

Additionally, over the past 15 years, real estate has provided higher average annual returns than either stocks (total return on the S&P 500) or bonds (total return on the Lehman Brothers Government and Credit Bond Index). During this time period, the compounded average annual return to private equity real estate (NCREIF) was 11.2 percent; stocks returned 8.4 percent; and bonds returned 5.7 percent.

Why Real Estate Now?

While the above highlights the long-term benefits of investing in core real estate, there are three key reasons why pension plans should be investing now in core real estate despite this challenging financial environment. First, financial assets like stocks and bonds can have their values fall to zero, but tangible assets such as real estate cannot—while "bricks and mortar" and land can decline in value, they always maintain a value greater than zero. Second, well-diversified core real estate portfolios are generally cushioned by their stable income streams (due to their medium- to long-term leases) and, as a result, suffer relatively less volatility than other asset classes. Finally, investing in private equity real estate is like buying a company that an investor has the ability to manage and control. Because the investor can, through active management, impact the income and expenses of each property in a portfolio, performance can be positively affected. An investor generally cannot accomplish this by buying stock in a company, or its debt.

In the end, investors have different long-term objectives and, in times of uncertainty and economic distress, they must make investment decisions based on their particular situation. **However, a significant allocation to core real estate—with its stable income stream, diversification benefits and performance-enhancement characteristics—should positively impact the long-term risk-adjusted performance of a portfolio as well as reduce volatility for an investor in the current financial environment.**

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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**.

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.

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