THE QUARTERLY

TRUST REPORT

MULTI-EMPLOYER PROPERTY TRUST

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- Fall 2009 Economic Outlook Prepared by Kennedy Associates' Research Team Reveals Economic Recovery in Sight but Commercial Real Estate will Lag
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THIRD QUARTER | SEPTEMBER 2009 | VOLUME 24, NUMBER 3

THE MULTI-EMPLOYER PROPERTY TRUST closed the third quarter of 2009 with a unit value of **$5,169.82** down **6.01 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **negative 33.46 percent**.

Economic indicators — including the third quarter Gross Domestic Product (GDP) increase of 3.5 percent — suggest the U.S. economy is finding a bottom. **There are many signs that the equity markets have reached a bottom, capital markets have stabilized and the worst is over. However, the commercial real estate sector is expected to lag this broader recovery by one to two years.**

Demand for space is closely tied to job growth. Staffing levels have been substantially reduced and will likely shrink further before corporate expenses come in line with revenues. The national unemployment rate reached 9.8 percent at the end of the third quarter and since the start of the recession in December 2007, a total of 7.2 million jobs have been lost. As a result, demand for office and industrial space has decreased dramatically. Office vacancy nationally rose to 13.0 percent at the end of the third quarter, up 0.3 percentage points over second quarter. Industrial vacancy increased to 10.0 percent, a 0.4 percentage point rise from second quarter. While there are some signs of improvement in global trade, and increasing freight shipments and manufacturing orders (indicators of industrial demand), they are not likely to stabilize until 2010. **Vacancy increased at a slower rate than the prior two quarters, however, with unemployment expected to rise in the fourth quarter and job growth expected to be only mildly positive in 2010 (and not resume a "normal" pace until 2011), it will be some time before demand for commercial space markedly improves.**

Currently, market conditions have shifted in favor of tenants. Many tenants are seeking ways to mitigate the cost of moving and are opting to work with current landlords to extend lease terms and find savings through lower rates and/or rental concessions. Landlords who offer flexibility, transparency, a strong balance sheet and creative solutions are having success. With few prospects to fill vacant space, landlords are highly motivated to work with existing tenants to avoid increased vacancy.

The dramatic decline in values over the last six quarters has been driven by deleveraging, the reassessment of risk premiums, and changes in underwriting assumptions. Now, weak demand, lower rents and higher vacancies are putting downward pressure on property income which negatively impacts value. Furthermore, highly levered owners face default and/or refinancing risk. **Based on these factors, certain assets will continue to have value declines while other assets' values will begin to stabilize.**

Traditional lenders remain on the sidelines and the CMBS market has not recovered, yet sales volume and the size of sales transactions actually increased in the third quarter. The volume of office transactions was up 85 percent from second quarter (according to Real Capital Analytics) but it is still off 66 percent from a year ago. A drop in the aggregate value of new offerings may indicate that sellers are more likely to be recognizing "current value" and are serious about disposing of assets to interested buyers at market clearing pricing. There are reports of equity investors waiting on the sidelines for distressed debt assets, but the number of distressed assets on the market remains moderate.

NEWS BRIEFS

MEPT IS ON PACE TO ACHIEVE ITS DISPOSITION TARGET SET AT START OF 2009. In the face of a difficult transaction environment, in early 2009, MEPT identified a number of assets for disposition that no longer fit with the Fund's long-term investment strategy, that have characteristics that may contribute to obsolescence, or that have downside leasing risk that outweighs their long-term potential. MEPT sought to generate approximately $300 – $400 million in net sales proceeds for the Fund and position the Fund going into the next market cycle. **Through the end of the third quarter, MEPT sold 26 assets for $293 million in net proceeds and achieved an overall IRR for MEPT of 9.8 percent.** Details follow.

IN AUGUST, MEPT SOLD CRANBERRY WOODS I, II, III AND IV IN PITTSBURGH FOR GROSS SALE PROCEEDS OF $89.5 MILLION.

CRANBERRY WOODS III

MEPT completed construction of the four office buildings, totaling 452,913 square feet, between 1999 and 2007, and created over 844,000 job hours for members of the local Building Trades. Fully-leased to multiple tenants including Westinghouse Electric Co., the assets were targeted for sale as part of MEPT's investment strategy to reduce the Fund's allocation to suburban office assets. The assets were sold to principals of McKnight Realty Partners, a Pittsburgh-based investment and development firm, and as part of the transaction, MEPT provided a five-year, $33.5 million mezzanine loan.

IN SEPTEMBER, MEPT RAISED GROSS PROCEEDS OF $25.0 MILLION IN THE SALE OF ARBORETUM LAKES WEST AND ARBORETUM LAKES OFFICE.

The two-building Arboretum Lakes Office asset in suburban Chicago totaled 288,703 square feet and was completed in 1986, while Arboretum Lakes West, a 190,361 square foot office building, was completed in 1998. MEPT's construction of these assets generated more than 804,000 job hours for members of the local Building Trades. MEPT targeted these assets for sale to reduce the Fund's overweight in Chicago suburban office assets and because the long-term leasing risk outweighed the upside potential. A local private equity firm that had purchased two other buildings in the office park purchased the MEPT assets.

ARBORETUM LAKES OFFICE

MEPT COMPLETED THE SALE OF MEADOWS III, IV, V, VIII AND IX, FOR GROSS PROCEEDS OF $33.6 MILLION AT THE END OF SEPTEMBER. MEPT constructed the 738,224 square feet of industrial buildings between 1995 and 2007, and generated over 446,000 job hours for members of the local Building Trades. The five Chicago industrial buildings were targeted for sale due to the significant rollover exposure in the near term in a particularly difficult leasing environment. Additionally, due to the age of a few of the assets, they were growing functionally obsolete compared to newer, competitive facilities. The buildings were sold to Lincoln Property Company who acquired the assets on behalf of a pension fund client.

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THIRD QUARTER RESULTS

Net Return, Third Quarter
-6.01%

Net Return, 10/1/08–9/30/09
-33.46%

Net Asset Value
$4.29 billion

Performance

Fund Overview

Inception Date	**April 1, 1982**	Average Age of Properties	**11.5 years**
Assets Held	**164**	Markets	**26**
Number of Buildings	**482**	Net Asset Value	**$4.29 billion**
Total Operating Square Footage	**40.1 million**	Unit Value	**$5,169.82**
Operating Portfolio Occupancy	**88.2%**	Participating Plans	**331**

For the third quarter, MEPT produced a total gross return of negative 5.79 percent, comprised of 1.49 percent income return and 7.29 percent depreciation. In prior quarters, depreciation in MEPT's portfolio has principally been the result of residual capitalization rates and discount rates — key assumptions in the valuation process — dramatically increasing to reflect economic uncertainty and market risk. **However, the upward pressure on yield rates appears to be easing with valuations more significantly influenced by market-wide weakening of leasing and occupancy fundamentals such as rising vacancy rates, reduced market and contract rental rates, as well as increasing concessions and tenant improvement costs.**

With future valuations expected to reflect the impact of operating efficiencies and leasing fundamentals, MEPT has been focused on protecting property net operating income (NOI). In a difficult leasing environment, MEPT's gross leasing activity exceeded 2.8 million square feet in 98 transactions during the quarter. Sixty-nine percent of these leases were extensions and renewals. Controllable tenant retention was 77 percent for the third quarter and has exceeded 80 percent year-to-date.

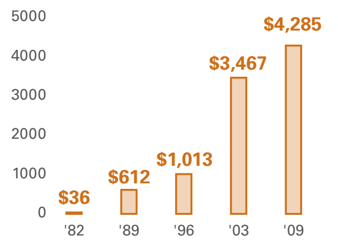
An important asset management metric is the tenant accounts receivable and write-offs delinquency rate. Best practices in the industry target a rate of two percent or less of total revenue. MEPT's tenant accounts receivable delinquencies and write-offs at September 30, 2009 represented approximately 0.52 percent of total revenue, lower than the rate at the end of the third quarter in 2008, 2007 and 2006. **Finally, MEPT asset managers continue to target tenants with leases expiring in 2010 and 2011 to begin discussions and formulate tenant and market specific strategies for mitigating lease rollover risk.**

Yield

	Third Quarter 2009	Trailing Four Quarters (Compounded)
NET	**-6.01%**	**-33.46%**
INCOME	1.28%	4.71%
APPRECIATION	-7.29%	-36.80%
GROSS	**-5.79%**	**-32.86%**
INCOME	1.49%	5.55%
APPRECIATION	-7.29%	-36.80%

Net Asset Value Growth
September 30,1982 – September 30, 2009

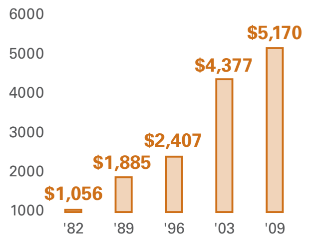
Based on Market Value ($Millions)



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

Unit Value Growth
September 30,1982 – September 30, 2009

Based on Market Value



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

Fall 2009 Economic Outlook Prepared by Kennedy Associates' Research Team Reveals Economic Recovery in Sight But Commercial Real Estate will Lag

An Economic and Real Estate Market Outlook published by Jim Valente and Jeff Munger of Kennedy Associates in September, 2009 affirms that a variety of economic indicators in the U.S. and around the globe provide evidence that the worst of this "Great Recession" is behind us. The team closely analyzed trends in the consumer, business and government sectors of the economy to help gauge the timing and strength of a commercial real estate recovery. This new report, prepared for MEPT investors, is a Fall update to the semi-annual *Outlook* published by Kennedy Associates, MEPT's real estate advisor.

The report notes that the economy's freefall during the first half of 2009 was stopped by concerted and coordinated actions by central governments and banks around the globe. **The Kennedy team expects that a market bottom will be reached in late 2009 or early 2010, modest growth will occur in 2010, and the economy will strengthen in 2011.** The U.S. economic recovery will be marked first by Gross Domestic Product (GDP) growth then, by job growth, and finally, a more confident consumer. This sequence of events will impact the recovery for commercial real estate and affect the demand for each property sector and metropolitan area differently.

The report cautions that while equity markets reached a bottom in the first quarter of 2009, downside risk remains until the economy starts to recover and validates the growth assumptions that are supporting values. The analysis also points out that credit markets stabilized and improved during the first half of 2009. However, capital markets for commercial real estate remain stressed and lag the general capital markets.

A material factor affecting real estate capital markets is the over-leveraging that occurred during the last cycle. Real estate is in the midst of a massive and necessary deleveraging process which is affecting the availability and cost of debt as well as equity. Positive steps are being taken by the Federal government including the application of Term Asset-Back Loan Facility (TALF) to legacy and newly-issued Commercial Mortgage Backed Securities (CMBS). These actions along with the general re-pricing of risk will help commercial real estate debt markets to continue to stabilize through the remainder of 2009 and into 2010.

Analyses performed for the *Outlook* suggest that real estate values across property types and most markets may continue to fall for another one to three quarters, depending upon property and market-specific fundamentals. At the same time, the re-adjustment of risk premiums that has occurred in commercial real estate is actually a positive development for the asset class. **Given the long-term risk profile of commercial real estate, capitalization rates ("cap rates") are approaching the upper end of a "fair" range, between 6.5% and 8%. Furthermore, as cap rates incorporate weaker near-term underwriting assumptions in valuations, there should be an end to the depreciation investors have been experiencing.** In the short-term though, cap rates may climb above their "fair" range, reflecting ongoing distress and the traditional "pendulum over-swing" that typically accompanies a market re-adjustment.

The report states that commercial real estate values in major markets will reach cyclical lows towards the end of 2010 or the first half of

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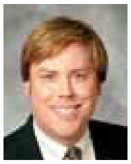
AUTHORS OF FALL 2009 ECONOMIC OUTLOOK

James Valente, Senior Vice President and Head of Research, Kennedy Associates Real Estate Counsel, LP.



Jeffrey Munger, Director of Research, Kennedy Associates Real Estate Counsel, LP.

Asset Committed

Cranberry Woods – Mezzanine Loan
Pittsburgh

Projects Sold

Arboretum Lakes Offce Park, Arboretum Lakes West
Chicago

Cranberry Woods, II, III & IV
Pittsburgh

Meadows III, IV, V, VIII & IX
Chicago

Riverside Center
Detroit

Rowland Plaza I & II
San Francisco

Wicks, Wicks Land
San Francisco

Yates
Los Angeles

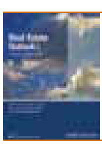
2011. A resumption of stronger job growth in 2011 and beyond will drive demand for commercial real estate.

The report notes that unlike the last two recessions, developers did not overbuild heading into the peak of the current cycle. Furthermore, because of modest construction activity today, and the long lead time to deliver real estate projects, there is limited and verifiable new supply expected to be added to inventory over the next nine to 12 months. As a result, there should be a bounce in rental rates two to four years from now as demand picks up. This trend has happened before and is expected to happen again in major markets. At the same time, current valuation assumptions do not fully reflect the potential for this intermediate-term recovery in occupancy and rental rates once growth resumes, and before the delivery of new projects.

Kennedy Associates expects that attractive investment opportunities will be found first in the hotel, industrial and apartment sectors in early to mid-2010, followed by office, and eventually, retail later in 2010 and beyond. As the market establishes more positive footing over the next 24 months, real estate investors' ability to capitalize on attractive investment opportunities will be dependent on access to capital - equity and debt. Entities with available cash to invest and strong relationships with the lending community (a history of conservative/modest use of leverage without significant legacy loan exposure) will be in the best position to acquire assets for the long-term benefit of their investors.

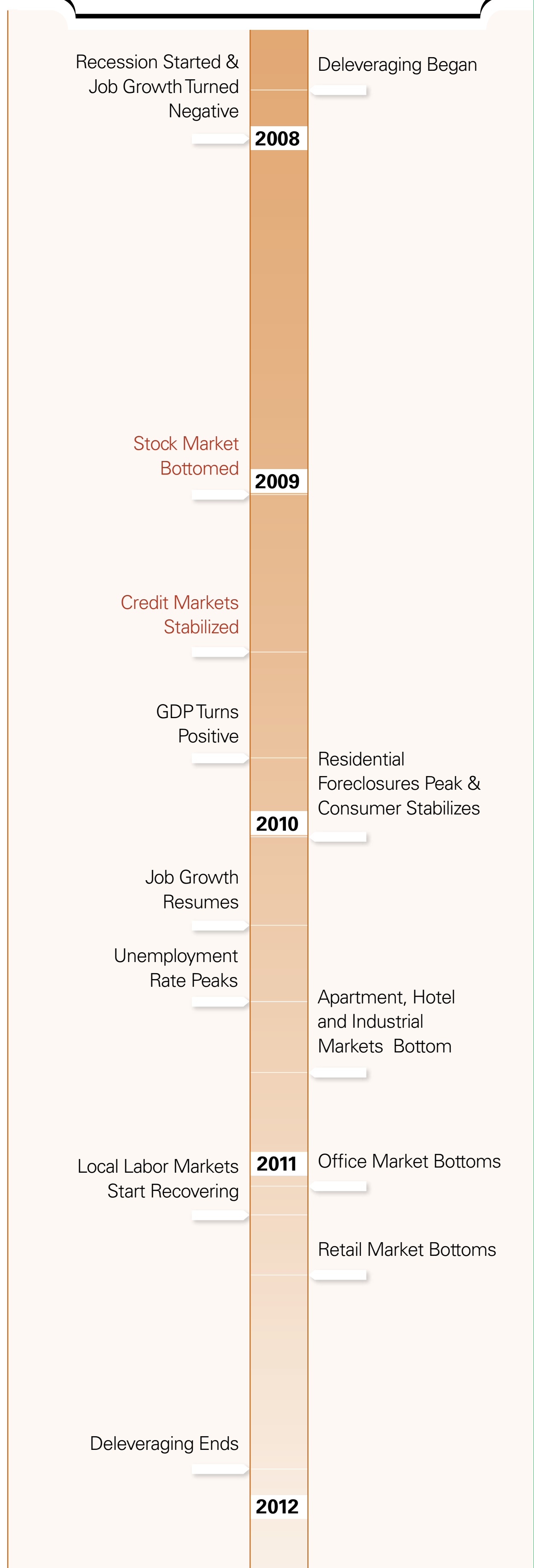
For the remainder of 2009 and into 2010, real estate investors and managers should focus on maximizing the operational performance of their existing portfolios. While the U.S. economy is finding a bottom and capital markets are improving, investors should remain cautious regarding new investment opportunities before the recession ends and job losses cease.

Given that commercial real estate capital markets have not completely recovered, the Kennedy team believes that access to investment capital, both debt and equity, will be very important to investors seeking to take full advantage of opportunities created by market dislocation. In the meantime, the report concludes the most prudent course of action is for investors to remain focused on proactive asset management in order to enhance cash flows, preserve values, and position portfolios for growth once the recovery begins.



For a full copy of the report, please contact Vanessa Parrish at vparrish@lbutler.com, or (202) 737-8829.

Economic Timeline



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 0.91%. 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.

News Briefs *(continued from inside)*

AT THE END OF THE THIRD QUARTER, MEPT SOLD ROWLAND PLAZA I AND II FOR GROSS PROCEEDS OF $20.0 MILLION. Rowland Plaza I, a 63,793 square feet office building, was built by MEPT in 1995, and Rowland Plaza II, containing two office buildings totaling 104,279 square feet, was constructed by MEPT in 1997. MEPT decided to market the assets, located in a peripheral San Francisco submarket, for sale due to deteriorating market conditions including declining rents and a sluggish leasing pace. Furthermore, it was costly to perform modifications for new tenants due to the small size of the typical tenants in the submarket. A Los Angeles-based real estate developer who was looking to expand his local presence bought the buildings.

MEPT SOLD THREE SMALL ASSETS IN CALIFORNIA FOR GROSS PROCEEDS OF $11.2 MILLION DURING THE QUARTER. Yates, a 27,920 square foot industrial building in Los Angeles, and Wicks, a 143,443 square foot industrial property and Wicks Land in San Francisco were all originally purchased in 2003 as part of the 17-asset Western Industrial Portfolio acquired by MEPT. The Fund's long-term strategy at the time of acquisition was to sell each asset individually, maximizing the sale price MEPT could obtain. MEPT focused on local owners/users as buyers since they seek to own and occupy buildings and generally pay a premium over buyers seeking assets strictly for investment. Following the stated strategy, MEPT has successfully sold nine assets of the original 17-asset portfolio.

IN EARLY SEPTEMBER, MEPT COMPLETED THE SALE OF RIVERSIDE CENTER IN WEST SUBURBAN DETROIT FOR GROSS PROCEEDS OF $5.0 MILLION. Riverside Center, a 194,386 square foot office building, was built by MEPT in 1989, and renovated in 2005. The 53.7 percent leased asset was purchased by a local investor/developer. The sale reduced MEPT's investment in the Detroit area where deteriorating market conditions have negatively impacted property performance and value and where a near-term market recovery is unlikely, making leasing risk significant.

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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