The Quarterly

Trust Report

Multi-Employer Property Trust

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THIRD QUARTER | SEPTEMBER 2010 | VOLUME 25, NUMBER 3

Multi-Employer Property Trust (MEPT) closed the third quarter of 2010 with a unit value of **$5,402.37 up 5.76 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **4.50 percent** while the Fund's year-to-date net return is **8.79 percent**. **For the quarter ending September 30, 2010, on a gross of fees basis, MEPT outperformed the NCREIF Open-End Diversified Core Equity (ODCE) benchmark.**

Economic and Real Estate Overview

The U.S. economy grew by 2.0 percent in the third quarter— the fifth consecutive quarter of growth in Gross Domestic Product (GDP). Economic growth has, however, slowed measurably since the first half of the year and job growth, which had been positive since the end of 2009, turned negative during the quarter due primarily to cuts in state and local government payrolls. Private sector job growth, however, has remained positive throughout 2010. Due to continued weak conditions in the job market, the U.S. unemployment rate has remained near its cyclical high, hovering between 9.5 and 9.9 percent throughout 2010.

With limited construction and new supply coming on-line, a sustainable recovery in real estate fundamentals is dependent on increased demand, which will be driven by job growth, household formations, and consumer spending. Nevertheless, commercial real estate values have experienced a substantial recovery in 2010 as investor capital has flowed into the asset class in search of relatively attractive risk-adjusted yields. **In particular, investors have sought core properties in major markets and this substantial additional capital has driven up prices and values for the highest-quality, best-located assets.**

Commercial real estate transaction volume was 35 percent higher in the third quarter of 2010 than the previous quarter and more than double the volume of a year ago, according to Real Capital Analytics. Year-to-date through September 30, 2010, sales transaction activity totaled approximately $66.2 billion and total sales in 2010 are projected to be double that of 2009 volume. In the third quarter, sales volume grew for every property type. As values have risen, the bid-ask spread between buyers and sellers has declined and more transactions have closed. The increased transaction activity is beginning to provide validation of market-clearing prices. However, the pricing recovery is not consistent across all assets with core, high-quality, well-located assets in primary markets receiving the greatest amount of investor interest.

In 2010, lenders sensitive to risk have preferred to lend to higher quality borrowers of core assets, further causing the uneven improvement in prices and transactions across markets and property quality. While construction lending is far below record levels and continued to fall in the third quarter, the construction financing that did occur in the quarter was focused on the apartment sector, where demand fundamentals are relatively strong and new supply is at an all-time low.

Vacancy rates for the multi-family and hotel sectors peaked in the first quarter of 2010 and continued to decline through the first three quarters of the year. As a result, apartment assets, particularly in markets such as Washington, DC, and New York, are highly sought after and experiencing rising values. Office, industrial and retail vacancy rates are expected to peak in 2011, with a sustainable recovery in demand and rents beginning later in 2011.

News Briefs

IN AUGUST, DOUGLAS POUTASSE JOINED KENNEDY ASSOCIATES AND BENTALL, AS HEAD OF STRATEGY AND RESEARCH—NORTH AMERICA. Mr. Poutasse, based in Boston, is responsible for directing U.S. and Canadian strategic planning and research efforts for the Kennedy and Bentall client base. Mr. Poutasse will advise MEPT and work with Jim Valente, Senior Vice President and Director of U.S. Research, to contribute critical analysis and forecasting to MEPT's strategic planning and portfolio management. Prior to joining Kennedy, Mr. Poutasse served as the Executive Director of the National Council of Real Estate Investment Fiduciaries (NCREIF). Before joining NCREIF in 2007, Mr. Poutasse was the Chief Investment Strategist for AEW Capital Management. He has over 25 years of experience as an economic analyst and forecaster. He received a Bachelor of Arts from Harvard University.

DURING THE THIRD QUARTER, MEPT ACQUIRED SPRINGBROOK PRAIRIE PAVILION SHOPPING CENTER IN CHICAGO FOR $69 MILLION. The well-leased retail center fit MEPT's 2010 acquisition criteria and increases the Fund's allocation to retail. The quality of construction, exceptional location, and credit quality of the existing tenants were particularly attractive to MEPT. Additionally, Springbrook meets MEPT's high standards for energy efficiency, and it is the first U.S. Green Building Council LEED-Gold certified retail property of this size in the Chicago area. Although the property was not on the market, Kennedy, on behalf of MEPT, was able to draw on its deep market relationships in order to identify the potential investment. Since opening in June 2008, Springbrook has outperformed the market in terms of tenant quality, rental rates, and occupancy. The 228,670 square-foot shopping center is currently 95 percent leased to 23 tenants and is anchored by Nordstrom Rack, World Market, and Whole Foods.

SPRINGBROOK PRAIRIE PAVILION

IN JULY, MEPT SOLD SEVEN BRIDGES FOR GROSS PROCEEDS OF $30.8 MILLION. The 252-unit apartment complex in suburban Chicago was built by MEPT in 1995 and has maintained an average annual occupancy of approximately 95 percent for the last five years. MEPT targeted the asset for sale because the Fund determined that the property would need additional capital investment in the near term in order to retain its competitive position, and the management team believes there will be other higher yielding investment opportunities for MEPT.


SEVEN BRIDGES

MEPT RECEIVED TOTAL GROSS PROCEEDS OF $17.6 MILLION FOR THE SALE OF TWO OFFICE ASSETS IN SEATTLE IN JULY. MEPT acquired Kirkland Office I in 1990 and completed construction of Kirkland Office II in 1994. A total of approximately 128,000 square feet, the two assets were targeted for sale as part of MEPT's diversification strategy to reduce its allocation of suburban, West coast office as well as to dispose of older assets. A Boston-based real estate investment company purchased the two assets in an all-cash deal.

IN JULY, MEPT SOLD THE DEVELOPMENT RIGHTS ON A PARCEL OF LAND IN DENVER FOR TOTAL GROSS PROCEEDS OF $11.5 MILLION. The land, adjacent to MEPT's recently completed 1900 16th Street office building, is located at 2000 16th Street. The site was sold to DaVita, a medical service provider, who plans to use the site to construct a new 270,000 square foot headquarter building.

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Third Quarter Results

Net Return, Third Quarter
5.76%

Net Return, 10/1/09 – 9/30/10
4.50%

Net Asset Value
$4.04 billion

Performance

Third Quarter Commentary

In the third quarter, MEPT produced a total gross return of 6.01 percent, composed of 1.28 percent income and 4.73 percent of appreciation. Year-to-date, MEPT's performance has resulted in a total gross return of 9.56 percent, composed of 4.33 percent income and 5.08 percent appreciation. **MEPT is on track to exceed the Fund's 2010 return expectation of 7 percent to 9 percent (gross of fees) that the management team set for MEPT at the start of 2010, which was based on market conditions and expectations at that time.**

Appreciation Return: The MEPT portfolio had 85 assets with appreciation this quarter and 48 with no change in value or modest depreciation. The appreciation was a reflection of appraisers' expectation for a real estate recovery and their modeling of above-inflation rate rent growth for certain property types and assets in some markets. **Yield rate assumptions for residual capitalization and discount rates in the portfolio further compressed approximately 25 to 50 basis points depending on market location and property type.** Nationally, appraisal assumptions are reflecting the segmentation of assets in the market between well-leased Class A properties, quality B+ assets with maturing debt or anticipated rollover, and distressed assets.

Yield

	Third Quarter 2010	Trailing Four Quarters (Compounded)
NET	**5.76%**	**4.50%**
INCOME	1.04%	4.99%
APPRECIATION	4.73%	-0.50%
GROSS	**6.01%**	**5.48%**
INCOME	1.28%	5.98%
APPRECIATION	4.73%	-0.50%

During the third quarter, MEPT reached a settlement totaling approximately $52 million related to claims against certain parties involved in the construction of The McGuire, a 272-unit multi-family asset in Seattle. As previously reported, MEPT wrote down the value of The McGuire to zero at the end of the fourth quarter of 2009 due to construction defects. MEPT's share of the settlement contributed approximately 100 basis points to the Fund's appreciation return. Additionally, recoveries on claims against additional parties are still being pursued.

Income Return: The third quarter income return was principally generated by the 34.4 million square foot operating portfolio which was 87.7 percent leased at the end of the quarter. The Fund's income return as a component of the total return has declined over the first three quarters of 2010 as the appreciation and total asset value of the Fund has grown disproportionately to the income growth. For example, several development assets, including Patriots Plaza II & III in Washington, DC, and 360 State Street in New Haven, CT, have had substantial pre-leasing activity, which positively impacted the asset valuation, but the properties will not begin generating net income until 2011. Further, there

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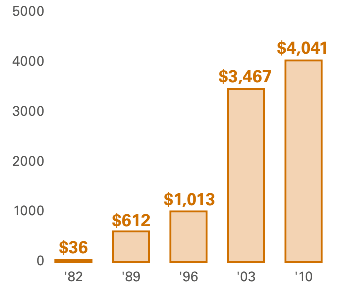
Net Asset Value Growth

September 30, 1982 – September 30, 2010

Based on Market Value ($Millions)

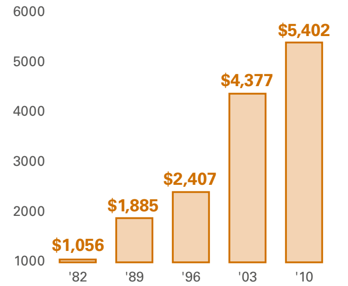


Values shown are for September 30 in each year.
Date of inception April 1, 1982.

Unit Value Growth

September 30, 1982 – September 30, 2010

Based on Market Value



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

New Participants

Mechanical Contractors U.A. Local 119 Pension Plan

Officers and Employees of Local Union 478 and Funds' Employees Pension Fund

Warehouse Employees Union Local No. 730 Pension Trust Fund

UA Local 190 Plumbers/ Pipefitters/Service Technicians/ Gas Distribution Pension Plan

Industrial Carpenters and Precast Industry Pension Fund

Projects Committed

Springbrook Prairie Pavilion
Chicago, IL

Projects Sold

Seven Bridges
Chicago, IL

2000 16th Street
Denver, CO

Columbia Center III
Detroit, MI

Kirkland Office I and II
Seattle, WA

Kirkland Flex – Buildings G, K and V
Seattle, WA

Fund Overview

Inception Date	**April 1, 1982**	Average Age of Properties	**11.2 years**
Assets Held	**135**	Markets	**24**
Number of Buildings	**293**	Net Asset Value	**$4.04 billion**
Total Operating Square Footage	**34.4 million**	Unit Value	**$5,402.37**
Operating Occupancy	**87.7%**	Participating Plans	**323**

Performance *(continued from previous page)*

are other properties where leasing concessions (including free rent) were necessary to compete for tenants in the current economic environment. Income contributed by those assets should improve as the concessions expire.

Additionally, MEPT has been a net seller of assets over the past seven quarters with the expectation that the Fund can re-invest those proceeds into properties that have a higher potential for income and value growth in the next phase of the cycle. As Kennedy Associates executes on the acquisitions strategy, the Fund's income stream should improve.

MEPT maintains a strong balance sheet with moderate leverage in order to ensure that the Fund has the flexibility to execute transactions, the capital to operate a $4.0 billion portfolio, and the liquidity to meet the Fund's commitments and investor withdrawal requests. As of September 30, 2010, MEPT's third-party debt as a percent of gross assets was 19.1 percent, which is significantly lower than the average leverage of the NCREIF ODCE of 29.7 percent.

With the expectation of higher interest rates as economic conditions improve and monetary policy normalizes, MEPT, in 2010, replaced maturing, floating-rate lines of credit with a fixed-rate facility collateralized by a pool of assets. This new debt is divided into tranches with 5, 7 and 10-year maturities and has allowed the Fund to take advantage of historically low rates and hedge against rising rates while minimizing future financing risk. This has resulted in a higher cost of debt in the near term for the Fund and a negative impact on the income return. Yet, at the same time, the valuation of the Fund's leverage contributed approximately 32 basis points to MEPT's appreciation return in the third quarter.

News Briefs *(continued)*

MEPT COMPLETED THE SALE OF THREE INDUSTRIAL BUILDINGS IN THE KIRKLAND FLEX PORTFOLIO IN SEATTLE FOR GROSS PROCEEDS OF $8.1 MILLION DURING THE QUARTER. MEPT targeted these assets for sale as part of MEPT's strategy to decrease its industrial property type allocation and to dispose of smaller, older assets. In addition, MEPT anticipated little near-term opportunity for the assets, as market rents continued to be weak in the submarket. MEPT sold Buildings K and V to a local investor, to whom MEPT had previously sold assets. Building G was sold to a different local owner/user.

IN THE THIRD QUARTER, MEPT SOLD COLUMBIA CENTER III IN DETROIT FOR GROSS PROCEEDS OF $3.4 MILLION. As part of MEPT's plan to reduce the Fund's allocation to the office sector and the Midwest region, Columbia Center III was sold during the third quarter and followed the sale of Columbia Center I and II in the second quarter. MEPT marketed the building to local owners/users since they generally pay a premium over buyers seeking assets strictly for investment, and the property was sold to an established regional accounting firm.

Q&A With Kennedy Associates Strategy and Research Team

Sarah Stettinius of Landon Butler & Company, investor relations provider to MEPT, met with Doug Poutasse and Jim Valente at Kennedy Associates, real estate advisor to MEPT, and discussed questions that are of particular concern to MEPT investors in the current market cycle regarding the economy and commercial real estate.

Stettinius: *Throughout your research, Kennedy Associates has cautioned that the economic recovery will not be a steady upward trajectory but bumpy through the early stage of recovery. With positive GDP growth over the last five quarters, and the recession "officially" over, what can we expect as we enter 2011?*

Valente: I think the economy will continue to recover but that growth, both in GDP and employment, will be below trend in 2011. There are several indicators that demonstrate that the economy is positioned to continue growing. Corporate profits have fully recovered and the stock market's recovery has been more robust than in previous recessions. This, combined with the low interest rate environment, has helped restart business spending on new plant and equipment and investment in research and development. Also, the consumer is starting to show signs of life, with real retail sales growing year-over-year.

But, there are headwinds, which we are monitoring closely, that add risk to the recovery and will temper growth over the near-to mid-term. The primary risk centers on the fact that consumers and small businesses are still deleveraging. Until this process is completed, which will probably take another 12 to 18 months, neither of these two groups will be fully engaged. Adding to the consumer's anxiety are still unresolved challenges facing the residential housing market. Finally, large and growing imbalances between state and local government budgets and their tax collections are forcing them to contract. As a result, the federal government is still playing a large role in stimulating economic growth.

Poutasse: Jim is absolutely right, and although the unemployment rate is still relatively high, it is important to note that the U.S. has already seen more job growth than it did at this point following the two prior recessions. The high unemployment rate reflects current demographics, among other things. Baby Boomers, who are postponing retirement , and their Echo-Boom offspring are all in the job market at the same time. Compounding the problem is the fact that for the first time since the Great Depression, there are fewer jobs today than 10 years ago.

Stettinius: *Based on the demographics and changing characteristics of the workforce, what do you believe will be the catalyst for job growth in this cycle? Obviously, commercial real estate is reliant upon job creation and economic expansion to drive demand for space.*

Poutasse: The catalyst for job growth will be the ending, or more accurately, the near ending of the deleveraging process. While consumers and small businesses have made significant progress toward improving their balance sheets, they are just not "there" yet. But, deleveraging is a finite process and at some point it ends, and both consumers and small businesses will pick their heads up and look around, realizing that they have not bought anything in almost five years. Appliances and equipment break and need to be replaced; it will be the beginning of satisfying this pent-up demand that will help drive stronger growth.

Valente: I agree. I also think that over the intermediate-term, say three to four years out, current currency imbalances between developed and developing economies will be corrected. This process will help improve the relative attractiveness of U.S. made goods, especially in the eyes of the new and developing middle classes in developing economies, which will help increase U.S. exports.

Stettinius: *What is your expectation for core real estate returns over the next three years? How would a period of rising inflation impact returns?*

Poutasse: Over the next three to five years, the real estate asset class should deliver total average returns (unleveraged) in the range of 7 percent to 9 percent. In 2010, falling inflation expectations and low yields on benchmark bonds increased the relative attractiveness of commercial real estate and accelerated the pace of equity flowing into the sector. As a result, real estate values stabilized through the year, and well-located, well-leased assets have begun to experience significant appreciation. By 2012, real estate market fundamentals should begin to improve as vacancy rates for all property start falling again and rent growth resumes. This will result in growth in net operating income, making a greater contribution to overall performance.

Valente: Cap rates[1] have compressed across property types and markets with well-located, well-leased assets (institutional quality) experiencing the most compression. Depending on property type and market conditions, a "fair" cap rate range

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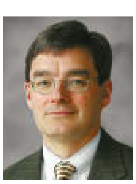
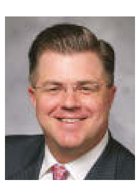
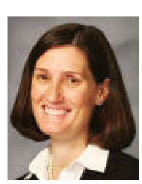


Doug Poutasse
Head of Strategy and Research – North America, Kennedy Associates Real Estate Counsel, LP



Jim Valente
Senior Vice President and Director of U.S. Research, Kennedy Associates Real Estate Counsel, LP



Sarah Stettinius
Managing Director, Investor Relations, Landon Butler & Company®

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 0.93%. 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.

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for core properties in primary markets today is in the 4.5 percent to 7 percent range. In addition, as market conditions continue to improve, the 10-year Treasury should revert to a "normalized" level and average cap rates for real estate should stabilize in a range between 6.5 percent to 8.5 percent, with high-quality assets priced on the low end of the range.

To answer your second question, in a period of rising inflation, nominal investment values are likely to increase as income streams increase more rapidly than the accompanying increase in required initial yields. This should lead to higher nominal returns, although the real return is likely to decline.

For a core portfolio, at the property operating level, there is some protection against inflation through rent escalation clauses in leases. In addition, multifamily assets provide a particularly strong hedge against inflation since many leases are rolling monthly.

Stettinius: ***Currently, which sector offers the most attractive investment opportunity?***

Poutasse: Apartment projects that are preferred investments are those positioned to satisfy the anticipated demand from Echo Boomers—the 19 to 34 year old currently entering the workforce and establishing households—who will make up an estimated 80 percent of new renter demand over the next decade and are expected to outnumber all other generations. Their unique lifestyle and taste preferences will have a profound impact on desirable locations, amenities, and price points of renters.

To take advantage of this trend, we believe it is important to target primary markets with close ties to the global economy and focus on urban or 'close-in' suburban locations that contain or are in close proximity to primary employment centers and transit hubs, and offer heavy concentrations of social amenities. Additionally, properties that contain unit mixes and amenities that are consistent with those desired by Echo Boom renters should perform well.

Valente: I agree. I also think that certain retail formats provide excellent opportunities. While the consumer is not completely back yet, they are spending and year-over-year growth in real retail sales has been positive since the end of 2009. The challenge for investors in this sector is knowing the local market and preferred retailing formats very well.

Kennedy Associates will release its next Economic and Real Estate Outlook publication in January, 2011.

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

Multi-Employer Property Trust

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TRUSTEE

NewTower Trust Company

INVESTMENT ADVISOR

Kennedy Associates Real Estate Counsel, LP
Institutional Advisors Since 1978

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**.

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.