THE QUARTERLY

TRUST REPORT

MEPT

INSIDE:

FOURTH QUARTER | JANUARY 2014 | VOLUME 28, NUMBER 4

MULTI-EMPLOYER PROPERTY TRUST (MEPT) closed the fourth quarter of 2013 with a unit value of **$7,484.46** up **3.17** percent (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **11.83** percent. For the second quarter in a row, MEPT outperformed the NCREIF Fund Index—Open-End Diversified Core Equity (ODCE) benchmark and outpaced ODCE by 23 basis points for the fourth quarter.

U.S. Economic and Real Estate Overview

For the U.S. economy, the fourth quarter ended with optimistic signs that the recovery is self-sustaining. Despite the 16-day Federal Government shutdown in early October, certain areas of the economy continued to improve. The housing market maintained its pace of recovery—spurred by historically low mortgage rates and pent-up demand—which in turn, positively affected consumer confidence and construction hiring. Furthermore, the business sector delivered strong earnings growth, the manufacturing sector remained in expansion mode, and retail sales grew. Additionally, the U.S. Congress reached a budget deal in December that removed uncertainty for funding the government through 2015. As a result of these positive indicators, the Federal Reserve has begun to slowly taper its quantitative easing program.

In 2013, the U.S. economy created 2.2 million net new jobs, driving down the unemployment rate from 7.9 percent at the beginning of the year to 6.7 percent at year-end. **The job growth was mostly attributable to sectors such as professional and business services, energy, technology, healthcare and media, which were vital to the commercial real estate recovery in 2013.** Consequently, in the fourth quarter, vacancy rates declined for all real estate property types.

There was robust demand for space in the industrial sector, especially for distribution facilities, resulting in positive absorption of nearly 71 million square feet—the strongest single quarter since 2005—and a 40 basis point decline in the vacancy rate. Construction activity picked up in the industrial sector, but is still relatively limited and far below historical levels.

The apartment sector, which was the first sector to recover, has moved into a sustained growth phase. The vacancy rate has leveled out, remaining unchanged from the third quarter, at 5.6 percent. Rent growth continued in the fourth quarter but has decelerated. Yet, the sector remains the healthiest with strong demand drivers expected for the next few years.

(continued inside)

News Briefs

MEPT COMMITS $113.1 MILLION TO A JOINT VENTURE DEVELOPMENT OF BLOCK 6, A 409-UNIT MULTI-FAMILY ASSET IN SAN FRANCISCO. The $212.0 million project is located at 299 Fremont Street in the "SoMa" district, in close proximity to the $4.7 billion Transbay Transit Center, which is under construction. This investment is consistent with MEPT's strategic objective to increase the Fund's allocation to the multi-family sector in primary markets with strong demand. The high-rise apartment complex is located within blocks of numerous employers in the Financial District and will cater to the area's large population of Echo Boomers (the 19-34 year old workforce) with floor plans that feature luxury finishes and appliances—even a bicycle storage and repair facility. Furthermore, Block 6 will seek to achieve U.S. Green Building Council's® Leadership in Environmental and Energy Design (LEED®) Gold certification and will create more than 2,500 "green jobs" for members of the local Building Trades.

Rendering

BLOCK 6, SAN FRANCISCO

MEPT PROVIDES A $95.0 MILLION SENIOR LOAN FOR DEVELOPMENT OF HOLLYWOOD 959 IN LOS ANGELES. Consistent with the Fund's strategic goal to increase its allocation to CBD assets in primary markets, MEPT's investment in the 241,500 square foot office project is a seven-year term loan that will yield an attractive 8.0 percent preferred return for the Fund. The investment is structured to mitigate construction and lease-up risk and is critical in the financing of the $138.1 million project, which also includes an in-place $25 million subordinated HUD Loan and $18.1 million of developer equity. MEPT will share in net cash flow and net resale proceeds pursuant to a distribution waterfall. The property is centrally located within the Hollywood submarket and numerous television and movie studios are nearby. Hollywood has seen a resurgence spurred by significant public and private investments in infrastructure, retail, entertainment, hotel, and residential developments. Demand in the submarket is strong for new, creative office space due to robust job growth in the technology, media, and entertainment sectors.

Rendering

HOLLYWOOD 959 , LOS ANGELES

MEPT RECEIVES TOTAL GROSS PROCEEDS OF $128.1 MILLION FOR THE SALE OF FIVE ASSETS IN THE MILESTONE BUSINESS PARK IN THE WASHINGTON, D.C. AREA. The Milestone Business Park is a 42-acre campus comprised of over 634,000 square feet in three office buildings, one flex building and a land parcel of 7.6 acres. MEPT originally purchased two buildings and land parcel in 2004, and later developed two additional buildings between 2006 and 2012. MEPT achieved LEED certification for the three office buildings. In line with the strategic plan of reducing its allocation to suburban office assets and the Washington, D.C. market, MEPT targeted the assets for sale. Matan Asset Management, a local, privately-held real estate investment firm, was the purchaser.

SAVE THE DATE

ADVISORY BOARD MEETING AND PROPERTY TOUR: On Thursday, May 8, 2014 at 9:00 am (Pacific) MEPT's **Advisory Board** will meet at The Fairmont Hotel in San Francisco. The Advisory Board is comprised of trustees of MEPT participating plans. Trustees and service providers of MEPT participating plans are invited to attend as observers. MEPT management looks forward to discussing the Fund's performance, strategy, market conditions, and other topical issues. The meeting will be preceded by a **Property Tour** of San Francisco assets on Wednesday, May 7th at 12:30pm (Pacific). Please notify MEPT of your intent to attend the meeting and/or tour no later than March 15, 2014. To RSVP, please contact Susan Koches at skoches@lbutler.com or 202.737.8840.

Fourth Quarter Results

Net Return, Fourth Quarter

3.17%

Net Return, 01/1/13–12/31/13

11.83%

Net Asset Value

$5.10 billion

Performance

For the fourth quarter, MEPT generated a gross of fees return of 3.40 percent, including an income return of 1.36 percent and an appreciation return of 2.04 percent. **MEPT's performance has resulted in a one-year total gross return of 12.83 percent—exceeding the Management Team's expectation of 10 percent to 11 percent.**

The Fund has outperformed the ODCE on an income return basis for five consecutive quarters. MEPT's income return reflects the stability of the 92.3 percent leased, 32.2 million square foot operating portfolio. The portfolio's leasing activity for the year totaled 5.5 million in gross leasing activity and 282 leases executed. MEPT's occupancy exceeds ODCE's 91.2 percent occupancy.

In the fourth quarter, MEPT's industrial portfolio (18.4 percent of net asset value (NAV)) drove the Fund's real estate performance with a total return of 4.39 percent. The retail portfolio (10.6 percent of NAV) generated a 3.06 percent return and was followed by the office portfolio (38.7 percent of NAV) with a 2.63 percent return and the multi-family portfolio (31.6 percent of NAV) which delivered a 2.23 percent return.

The largest contributions to fourth quarter appreciation in the portfolio were from urban apartment assets, central business district (CBD) office properties and bulk-distribution industrial facilities. The multi-family assets that had significant appreciation included Via 6 in Seattle, which became shell complete in May 2013 and was 88.2 percent leased at the end of the fourth quarter, and McClurg Court in Chicago that achieved 92.6 percent leased after MEPT completed major upgrades throughout the property in 2013. Class A office assets that contributed to appreciation included the 91.1 percent leased Newport Tower in the New York market and 777 Sixth Street in Washington, D.C. which was approximately 90 percent leased at year-end. Furthermore, industrial warehouse properties, GSW

(continued on next page)

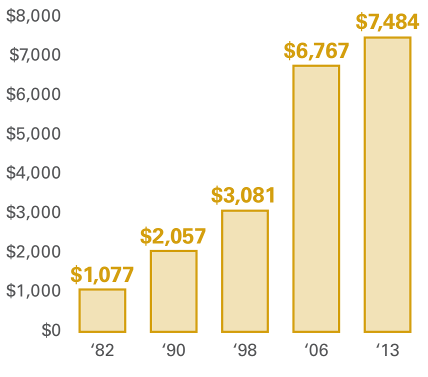
Yield

	Fourth Quarter 2013	Trailing Four Quarters (Compounded)
NET	3.17%	11.83%
INCOME	1.13%	4.77%
APPRECIATION	2.04%	6.82%
GROSS	3.40%	12.83%
INCOME	1.36%	5.72%
APPRECIATION	2.04%	6.82%

Unit Value Growth

December 31,1982 – December 31, 2013

Based on Market Value



Values shown are for December 31 in each year.
Date of inception April 1, 1982.

VIA6, MULTI-FAMILY, SEATTLE

Fund Overview

Inception Date	April 1, 1982	Average Age of Properties	13.1 years
Investments Held	108	Markets	27
Number of Buildings	284	Net Asset Value	$5.10 billion
Total Operating Square Footage	32.2 million	Unit Value	$7,484.46
Operating Occupancy	92.3%	Participating Plans	317

Performance *(continued)*

Gateway and Pinnacle Park, in the Southwest and properties in two industrial parks in the West—Southwest Commerce Center and Rivergate Corporate Center—were major contributors to appreciation in the portfolio. Modest depreciation in the portfolio occurred at a variety of asset types and locations due to pending lease expirations, market trends, capital expenditures and increased operating expenses budgeted for 2014.

Additionally, MEPT and the City of New Haven reached a settlement on a two-year property tax dispute regarding 360 State Street, a 98.4 percent leased multi-family asset built by MEPT. Both parties agreed to lower the assessed value for the property and established a methodology for future assessments consistent with comparable properties. Largely as a result of this settlement, MEPT recognized $15 million of appreciation for 360 State Street.

Asset prices continued to rise in the fourth quarter and as a result, the team remained selective in identifying new investment opportunities for the Fund. In the fourth quarter, MEPT committed $113.1 million to a multi-family development in San Francisco and approved a $95 million senior construction loan for a CBD office project in Los Angeles. **At the same time, the team has found strong institutional investor demand for core assets and during the fourth quarter, closed eight transactions for total net sales price of $447.1 million.** (See *News Briefs* for highlights.)

Cover Story *(continued from front page)*

The office vacancy rate declined by 20 basis points during the quarter and finally fell below 15 percent. According to CBRE, office markets absorbed over 14 million square feet, which is the highest absorption rate in a single quarter since 2007. In anticipation of rising rents, tenants are increasing leasing activity, particularly in markets with vibrant downtowns, amenities, good public transportation and a high concentration of jobs in the tech, energy and healthcare sectors.

On average, the vacancy rate for the retail sector fell in the fourth quarter by 30 basis points, but the recovery varies by retail format type and location. Regional malls and well-located, well-leased shopping centers are thriving while lower-quality assets struggle to compete. New store openings are outpacing closures, yet many retailers remain cautious about leasing new space. At the same time, e-commerce is a threat to traditional brick-and-mortar sales.

Projects Committed

Block 6
San Francisco, CA

Hollywood 959
Los Angeles, CA

Projects Sold

20 North Clark Street
Chicago, IL

Forest Park (I-IV, 17, 18, 19, 20 and Partial Sale of Land)
Philadelphia, PA

Gateway Commerce Center II and III
St. Louis, MO

Gateway Distribution Center I and II
St. Louis, MO

Highlands Corporate Center
Seattle, WA

Inverwood Business Park—Land
Minneapolis, MN

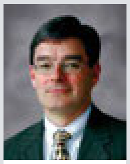
Milestone Business Park (I, IV, V and Land)
Washington, D.C.

Pacific Place (Partial Sale—Office Component)
Seattle, WA

SAVE THE DATE

RESEARCH WEBINAR

On February 25, 2014 at 11:00am (Eastern), Doug Poutasse, Executive Vice President and Head of North American Strategy and Research at Bentall Kennedy will host a webinar and provide an update on the status of the U.S. economy and capital markets and their impact on commercial real estate.


Doug Poutasse

For registration information, please contact Frances Palmer at **fpalmer@lbutler.com** or **202.737.8822**.

Bentall Kennedy's Strategy and Research Team Releases *Perspectives on Real Estate | US*

MEPT's Real Estate Advisor Sees Improving Economic Growth Driving Opportunity in Real Estate

According to Bentall Kennedy's latest economic and real estate research report, the view ahead appears to be considerably brighter: for the first time in a long time, there are signs that global economic growth is finally regaining momentum.

The U.S. economic recovery continues to push forward despite multiple headwinds. Businesses remain profitable, households have significantly deleveraged, and the housing market continues to recover. Bentall Kennedy says risks continue to exist, citing the potential for U.S. political gridlock over the debt ceiling and other policies, severe weather and geopolitical issues. That said, the agreement on a U.S. budget reached during the closing weeks of 2013 was good news, providing much needed certainty.

Further, labor market trends show a private sector economy that continues to grow relatively unaffected by the 2013 government shutdown. Varied growth across employment sectors continues to have implications for metro-level job creation, according to Bentall Kennedy. The better-performing metros tend to have higher educational attainment levels and more innovative, technology-focused economies. Healthy job growth in these markets has resulted in stronger improvements in occupancies and rents.

With Fed tapering underway, the U.S. is entering a period of flat to rising interest rates. Bentall Kennedy believes any rise in interest rates is unlikely to have an adverse effect on commercial real estate pricing since long-term rates should ease slowly upward, barring any shocks to the markets. The Fed will keep short-term rates low until there is more meaningful improvement in the labor market. If rates rise, it will likely be due to an improving economy, which could support healthier demand-side fundamentals and rising net operating income. Furthermore, the current spread between the 10-year Treasury and real estate cap rates is about 100 basis points higher than its 25-year average, offering some cushion before cap rates are pressured by rising rates.

Bentall Kennedy notes that commercial real estate should perform well over the next year since U.S. legislators appear ready to let the recovery resume unfettered, the Fed seems committed to low interest rates, and there is a modest pipeline of new construction. Further, with stocks potentially cooling down and bonds facing downward pressures, commercial property investment should be an attractive alternative.

Based on this forecast, Bentall Kennedy sees various drivers of performance by property sector:

Multi-family

The U.S. apartment market remains a bright spot: economic recovery, stable homeownership, and favorable demographic tailwinds driven by Echo Boomers create substantial demand growth for apartments. Meanwhile, total development nationally is on par with historical levels.

With job creation benefiting well-educated, younger workers who desire to live in urban areas, Bentall Kennedy reports that growth in urban populations will require more housing construction. As the economies expand in the tightest markets like Seattle, Boston, New York, and San Francisco, there is likely to be enough demand to support considerable levels of new supply.

Bentall Kennedy also believes there will be opportunities to capitalize on fast-growing markets that are in the recovery phase of their economic cycle; however, these markets will require caution, as new supply can ramp-up quickly.

Office

Bentall Kennedy states that office-using employment nationally is now just 0.05 percent below its 2007 peak. With economic and political uncertainties dissipating, Bentall Kennedy forecasts office absorption to increase appreciably in 2014.

Though the office recovery is broad-based, it remains concentrated in areas with knowledge-based industries such as technology, healthcare, and energy. Bentall Kennedy continues to see educational attainment accompanying high levels of innovation typically resulting in a strong local economy and a vibrant office market.

Over the next year, there will be a growing need for new supply in a handful of innovation-driven office markets, as limited availability begins constraining tenant expansions. As young, educated professionals are increasingly massed in urban centers, urban locations become a more logical location for office space.

(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 0.90%. 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)*

Retail

Bentall Kennedy reports that the outlook is not as bleak as it was. Retailers will continue to employ cautious expansionary strategies, particularly as e-commerce represents a rapidly growing share of total sales. Some appear poised for modest expansion, with discounters such as Costco, Dollar General and H&M being the most aggressive and committed to taking more space. Improving consumer confidence, recovering home values and continued expansion in the U.S. economy should prove a boon to retail sales over the next several years. And since retailers are now selling more and spending less, their profits will only encourage additional expansions.

Industrial

The Bentall Kennedy Research Team believes the outlook is positive for the industrial sector with improving demand and rising rents. Vacancies have dropped as demand has outpaced new supply. Over the past three years, new supply expanded at an average rate of just 0.44 percent whereas in prior peak periods inventory grew by more than 1.6 percent annually. To meet demand and the need for modern facilities, construction levels are likely to rise.

Growing online retailers and brick-and-mortar retailers are modifying their distribution strategies to solve "last-mile" issues related to direct-to-consumer shipping. Increasingly, consumers are visiting stores, buying online and then returning items to the store. Movement of these items from warehouse to customer back to store and back into the warehouse/supply chain will be an interesting phenomenon to watch. While investors will need to be cognizant of the evolving impacts of e-commerce, the overarching trend for the industrial market should be positive.

For a full copy of *Perspectives on Real Estate|US 2014*, please contact Vanessa Parrish at vparrish@lbutler.com, or 202.737.8829.

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**.

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