THE QUARTERLY

TRUST REPORT

MULTI-EMPLOYER PROPERTY TRUST

INSIDE:

- President of NewTower Trust Company, Patrick Mayberry, provides observations on *Fundamental Characteristics of Open-End Funds.*
- MEPT's Performance Exceeds the NCREIF Fund Index Open-End Diversified Core Equity (NFI-ODCE) for 1, 3, and 5-year periods.

FOURTH QUARTER | DECEMBER 2009 | VOLUME 24, NUMBER 4

THE MULTI-EMPLOYER PROPERTY TRUST closed the fourth quarter of 2009 with a unit value of **$4,965.84 down 3.95 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **negative 28.89 percent.**

By the end of 2009, financial conditions had improved more than expected, due mainly to substantial government intervention, and economic indicators revealed that a recovery from the most severe recession in the post-World War II era was underway. The U.S. economy began to expand in the third quarter, and then picked up pace in the fourth quarter, posting a 5.7 percent growth rate.

After finding a bottom in March 2009, the S&P 500 rebounded by 65 percent by year-end. By mid-year, the availability of credit had improved and credit spreads had narrowed significantly, but access to credit remained limited for most small businesses and households as banks, businesses and consumers continued to work to recapitalize and repair their balance sheets. Nevertheless, the TED Spread (the difference between 90-day U.S. Treasuries and 90-day LIBOR), had reverted to historical averages by year-end, indicating a positive trend in the measure of credit risk in the economy.

Businesses, while still not hiring at the end of 2009, were generally in much better financial condition than one year ago, and have greater clarity regarding the condition of the markets in which they compete. According to the Institute of Supply Management (ISM), the manufacturing sector is expanding again and the service sector has stabilized. A weaker U.S. dollar is benefitting American exports, which increased in 2009 and contributed positively to GDP since mid-2009.

For consumers, the savings rate has rebounded since the start of the recession, averaging approximately 4.0 percent over the past 12 months. At the same time, outstanding revolving consumer debt has fallen by about 9.0 percent. However, in addition to continuing to deleverage, consumers will also need to develop more confidence in their job security before they are likely to increase spending and contribute to the growth of the U.S. economy in a meaningful way.

Concerns about jobs and the pace of recovery continue to cloud the outlook for the economy. At the end of 2009, the job market was still contracting, with unemployment reaching 10.0 percent in December 2009, but there were encouraging signs worth noting as well. The four-week moving average of initial unemployment claims ended the year at 460,000, down significantly from its peak of 658,000 in April 2009, and is approaching its historical equilibrium level of 400,000. At the same time, hiring in the temporary services sector bottomed in July 2009 and was up approximately 7 percent by the end of 2009. **These trends, coupled with other positive developments throughout the economy, indicate that it is reasonable to expect consistent, but modest, month-to-month job growth beginning by mid-2010.**

In regard to commercial real estate markets, the debt markets showed improvement, due in large part to the successful application of TALF to legacy CMBS, but the markets still remain challenged. Additionally, insurance companies, traditionally long-term lenders to the commercial real estate industry, have started to lend again, and more recently new sources of debt capital, including banks from Asia and Europe, have become active in the U.S. market.

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News Briefs

MEPT SIGNED THE LARGEST LEASE IN WASHINGTON, DC IN 2009. The U.S. General Services Administration, on behalf of the U.S. Department of Agriculture, signed a long-term lease for 330,000 square feet at MEPT's Patriots Plaza III, a 380,087 square foot Class-A office building. Patriots Plaza III, which was shell complete in October 2009, is a part of the three-phase, one million square foot office complex built by MEPT. MEPT's investment in the three phases of Patriots Plaza has resulted in an economic impact of more than $600 million in the Washington, D.C. market, including nearly 4 million "green" job hours — Patriots Plaza III is pre-certified LEED®-Silver, and is applying to become LEED-Gold certified.

AT THE END OF 2009, MEPT SOLD NORTH BY NORTHWEST I, II, III, IV AND V IN INDIANAPOLIS FOR GROSS PROCEEDS OF $29.6 MILLION. The five North by Northwest industrial assets include seven buildings totaling over one million square feet that were built by MEPT in several phases from 1992 to 2008. The North by Northwest assets were targeted for sale because they had some near-term rollover exposure and because MEPT wants to reduce its exposure to smaller markets. The five assets were purchased by a small, Midwest-based real estate fund looking to acquire industrial assets in the region.

NORTH BY NORTHWEST, PHASE V

IN NOVEMBER, MEPT SOLD GALE INDUSTRIAL AND TUBEWAY IN LOS ANGELES FOR GROSS PROCEEDS OF $28.9 MILLION. Gale Industrial, comprised of two buildings totaling 386,978 square feet, and Tubeway, a 50,135 square foot building, were originally purchased in 2003 as part of a 17-asset industrial portfolio and were 100 percent leased to tenants serving their local areas. When acquired, the strategy for the portfolio was to sell each asset individually, maximizing the sale price MEPT could obtain. Tubeway was sold to a local owner/user who utilized a Small Business Administration (SBA) loan guarantee to finance the purchase, and Gale Industrial was purchased by a local real estate fund looking to acquire assets in the Western U.S. With the sale of these two assets, MEPT has successfully sold 14 of the original 17 assets in the portfolio.

AT THE START OF THE FOURTH QUARTER, MEPT SOLD CLOVERLEAF CENTER IN WASHINGTON, DC FOR GROSS PROCEEDS OF $25.5 MILLION. At the time of sale, the 173,655 square foot Cloverleaf Center was 97.0 percent leased to a number of technology companies. However, as part of MEPT's plan to reduce its suburban office portfolio, MEPT marketed the asset for sale. Cloverleaf Center was purchased by First Potomac Realty Trust, a publicly-traded, Washington, DC-based REIT.

CLOVERLEAF CENTER

IN DECEMBER, MEPT RAISED GROSS PROCEEDS OF $19.5 MILLION THROUGH THE SALE OF FOUR OFFICE ASSETS IN SUBURBAN CHICAGO. The four Buffalo Grove office buildings were 89.2 percent leased to a variety of smaller, local tenants. In keeping with MEPT's investment strategy to reduce the Fund's allocation to suburban office assets and reduce its exposure to suburban Chicago in particular, the assets were sold to a Chicago area real estate development and investment firm, Hamilton Partners. MEPT provided seller financing through a two-year, $2.9 million "mezzanine" loan, with a one-year extension option.

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Fourth Quarter Results

Net Return, Fourth Quarter

-3.95%

Net Return, 01/01/09–12/31/09

-28.89%

Net Asset Value

$4.08 billion

PERFORMANCE

Fund Overview

Inception Date	April 1, 1982	Average Age of Properties	11.1 years
Assets Held	150	Markets	25
Number of Buildings	461	Net Asset Value	$4.08 billion
Total Operating Square Footage	37.8 million	Unit Value	$4,965.84
Operating Occupancy	89.6%	Participating Plans	331

FOR THE FOURTH QUARTER, MEPT PRODUCED A TOTAL gross return of negative 3.73 percent, comprised of 1.58 percent income return and 5.30 percent depreciation. For the one-year period ending December 31, 2009, MEPT produced a total gross return of negative 28.24 percent, comprised of 5.94 percent income return and 32.66 percent depreciation. MEPT's stable income which is principally generated by the Fund's 37.8 million square foot, 89.6 percent leased operating portfolio offset depreciation during the year. **As of December 31, 2009, MEPT outperformed the NCREIF Fund Index Open-End Diversified Core Equity (NFI-ODCE) for the one, three and five-year periods.**

YIELD

	FOURTH QUARTER 2009	TRAILING FOUR QUARTERS (COMPOUNDED)
NET	**-3.95%**	**-28.89%**
INCOME	1.36%	5.07%
APPRECIATION	-5.30%	-32.66%
GROSS	**-3.73%**	**-28.24%**
INCOME	1.58%	5.94%
APPRECIATION	-5.30%	-32.66%

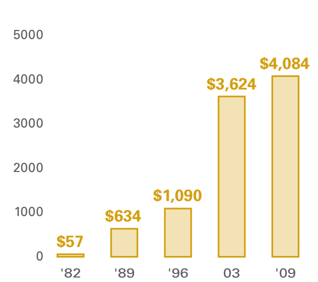
In the fourth quarter, factors driving valuations reflected further recognition of weakening leasing and occupancy fundamentals across most markets, including rising vacancy rates, reduced market and contract rental rates, and increasing concessions and tenant improvement costs. Dependent on location and property type, appraisers generally have forecasted moderate to minimal rent growth over the next one to three years, but expect operating expenses to be consistent with historical trends and grow by approximately three percent per year. In addition, appraisers generally have lowered the probability of tenant renewals and, as a result, modeled more risk associated with lease rollover to reflect the lagging impact of the economic downturn on leasing. These assumptions continue to be adjusted as markets show signs of modest recovery and rent growth expectations improve for certain assets and markets.

Valuations have moved from material, market-derived adjustments to cap and discount rates across the portfolio to appraisal assumptions reflecting anticipated property level operating fundamentals. In the fourth quarter, 54 assets in the portfolio had appreciation or no change in value compared to two assets in the first quarter of 2009. However, the fourth quarter write-down of one multi-family asset, The McGuire, was the result of pending repairs at the asset, and represented 22.6 percent of the total depreciation in the quarter. MEPT has initiated legal action and anticipates a financial recovery of any and all costs or expenses associated with repair and any related damages, and the anticipated recovery is not included in the current valuation of the asset.

NET ASSET VALUE GROWTH

December 31, 1982 – December 31, 2009

Based on Market Value ($Millions)

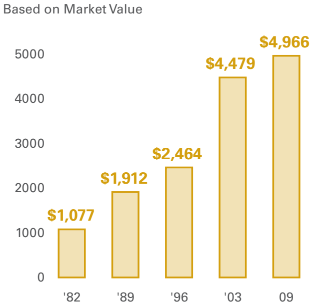


Values shown are for December 31 in each year.
Date of inception April 1, 1982.

UNIT VALUE GROWTH

December 31, 1982 – December 31, 2009

Based on Market Value



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

Portfolio Spotlight

With appraisers relying heavily on income-driven methodologies to value properties in 2009, MEPT was intensely focused on protecting property-level net operating income (NOI) and mitigating risk associated with anticipated future vacancy. **As a result, MEPT remained focused on proactive asset management and accretive transactions in order to enhance cash flows, preserve values, and position the Fund to take advantage of new investment opportunities and grow the portfolio as real estate markets recover.**

In 2009—a particularly difficult year to execute leases—MEPT's gross leasing activity totaled more than 9.7 million square feet, and MEPT's Asset Management team at Kennedy completed 384 lease transactions, including 232 extensions and renewals, 105 new leases and 47 expansions of existing tenants. The significant leasing combined with the sale of certain assets helped maintain the operating portfolio's occupancy throughout the year at approximately 88 percent. **Looking forward, MEPT management believes that near-term value creation will be driven by NOI growth rather than cap rate (yield) compression, and asset managers will continue to enhance value by emphasizing revenue growth and operating expense control while maintaining first-class service levels for tenants.**

In early 2009, MEPT identified a number of assets for disposition that no longer fit with the Fund's long-term investment strategy. These assets had characteristics that contributed to obsolescence or that had downside leasing risk that outweighed their long-term potential. In the face of a difficult transaction environment, MEPT sold 38 assets and two partial assets for net proceeds of $355.6 million.

Most importantly, MEPT's 2009 disposition program has resulted in a stronger, healthier portfolio—in addition to furthering MEPT's property type and geographic diversification goals, MEPT's average asset size increased, the average net operating income per property increased, and portfolio-wide occupancy remained stable.

MEPT has a long-term diversification strategy that includes a reduction of the Fund's allocation to office and industrial assets and an increase to its allocation of apartment and retail assets; MEPT's 2009 sales were heavily concentrated in office and industrial assets. MEPT also remains focused on its geographic diversification goals, including reducing its exposure to the Midwest. As a region, the Midwest generally does not recover from economic downturns as quickly or robustly as Costal markets. Therefore, the Midwest markets pose more of a long-term risk for the portfolio while the Coastal markets offer more upside potential.

In addition, the assets that MEPT sold in 2009 were generally smaller, older assets—on average under $10 million in value. Only two of the assets sold were over $50 million in size. The smaller, older assets did not to fit with MEPT's long-term strategy and many were having difficulty achieving the energy performance targets that MEPT has sought for all assets in the portfolio. (MEPT has one of the largest portfolio-wide ENERGY STAR Benchmarking Program's of any institutional real estate ownership.) Furthermore, since tight credit markets made financing larger transactions extremely difficult, smaller transactions with local users and/or investors were more likely to get executed since some small companies were able to finance the acquisition of a property for their business.

PATRIOTS PLAZA I, WASHINGTON, DC

Cover Story *(continued from front cover)*

Although real estate transaction volume was 70 percent lower in 2009 than in 2008, the year ended with sales activity increasing in the fourth quarter from the third quarter. More sellers have factored into their values the expectation that there will be minimal rent growth and vacancies may be above-average for some time and, as a result, the spread between buyers "bids" and sellers' "asks" is narrowing and more realistic pricing expectations are emerging.

Transaction data reported by NCREIF suggested that capitalization rates[1] (cap rates) have risen 305 basis points from their previous cyclical low in second quarter 2007 to approximately 8.5 percent at year-end 2009. With the yield on the 10-year Treasury ending 2009 at approximately 3.8 percent, this pricing equates to a 467-basis point risk premium—well above real estate's historical risk premium of just under 300 basis points. However, as trust and confidence returns and markets stabilize, the 10-year Treasury yield should revert to a "normalized" level, and the excess risk premium currently imbedded in current cap rates will likely diminish. As a result, cap rates in a range between 7.5 percent and 8.5 percent would be consistent with achievable stabilized yields on new real estate investments today with high-quality assets trading at the low end of the range and commodity-like properties trading at the high end of the range.

In 2009, negative space absorption—fueled by weaker demand for space, and in some markets, overhang of supply from new construction—has caused current vacancy rates to rise above long-term averages and rental rates to drop. Further, commercial real estate is reliant upon job creation and economic expansion to drive demand for space. **Given that the current economic recovery is encouraging but not robust, most core real estate investors have incorporated higher risk premiums and weaker fundamentals into their valuations. Cap rates are approaching and, in some cases, have reached what core real estate investors should consider a "fair" yield.**

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

Fundamental Characteristics of Open-End Funds

Patrick O. Mayberry
President
NewTower Trust Company

As a fiduciary—steward of pension plan capital—NewTower Trust Company recognizes that investors hire us to mitigate certain risks, and we believe that it is our responsibility to maintain a steadfast commitment to investment discipline, regardless of seemingly contrary market forces. For 27 years, Multi-Employer Property Trust's (MEPT) core, open-end fund investment strategy has focused on maintaining stable income, building a diversified modern portfolio, using moderate leverage, and importantly, providing superior liquidity. **Executed with an unyielding commitment to principles of Responsible Property Investing, MEPT's disciplined approach has not wavered.**

As the trustee for MEPT, we are aware that investors choose the open-end fund vehicle for investing in the real estate asset class for a variety of reasons, but generally, the primary differentiating factor is liquidity. Another characteristic inherent in the open-end fund structure is transparency—after all, if an investor can "vote with his/her feet", it is in management's best interest to be as transparent as possible to ensure that investors are well-informed on a timely basis. **As discussed below, MEPT's portfolio management throughout the recent economic crisis has remained focused on liquidity and transparency, while mitigating risk where prudently possible, in order to achieve our investors' objectives.**

In the wake of the credit crisis and the economic recession, most, if not all, open-end funds faced a liquidity crisis and implemented redemption queues—including MEPT. Of particular concern, there were some managers who retreated as problems mounted in the commercial real estate markets and, in some cases, in their own portfolios. Indeed, some managers are being forced to account for the increased risk they assumed as markets peaked and the pressure to exceed investor expectations and deliver historically high returns intensified.

We strongly believe MEPT management has a fiduciary duty to provide liquidity to MEPT investors who, on a quarterly basis, may choose to withdraw part or all of their investments. Also important to MEPT management is operating the Fund to ensure competitive long-term performance for all investors and positioning MEPT to take advantage of attractive investment opportunities as market conditions allow.

MEPT has maintained a conservative risk profile over the long-term which has meant that the Fund has had a relatively low level of debt. **MEPT management has always believed that leverage should be used judiciously in an open-end fund since it amplifies both positive and negative portfolio returns and, therefore, brings additional risk and volatility to a portfolio.** MEPT's leverage was only 6.6 percent of gross assets when the credit crisis took hold in mid-2007 compared to the open-end fund universe of 20.4 percent. After significant value declines and the prudent use of additional debt in 2008 and 2009, the Fund has 22.9 percent third-party leverage at year-end 2009, which is well below the core, open-end fund industry average of 33.5 percent. The Fund's leverage policy is structured to mitigate risks related to interest rate volatility, maturity exposure, loan covenant restrictions and refinancing.

Most importantly, MEPT is under no pressure to service the debt on the portfolio. Therefore, MEPT is particularly well-positioned relative to other owners and investors who are challenged with maturing debt that exceeds property values or falling debt service coverage ratios. Furthermore, the Fund does not have any forward commitment obligations. As a result, MEPT's property level cash flows can be used to provide liquidity to meet the Fund's commitments in managing a multi-billion dollar real estate portfolio, including acquisitions, property operations and expenses.

Careful cash management during the early stages of the economic downturn, coupled with a cautious approach to acquisitions during the last few years, have been instrumental in allowing the Fund to continue to provide investors with some level of liquidity during this downturn. **In fact, MEPT provided over $1 billion in liquidity to its investors between January 2008 and January 2010.** However, approximately two-thirds of MEPT investors did not redeem units in 2009, and MEPT management was very cognizant of managing the queue and the Fund to ensure that MEPT would continue to provide stable, competitive returns over the long term for current and future MEPT investors. At January 1, 2010, the redemption queue was less than 5.4 percent of MEPT's net asset value, and MEPT expects to satisfy the remaining balance by the June 30, 2010 valuation date.

In addressing MEPT's cash flow needs, the MEPT management team identifies projected cash uses (including, but not limited to, funding acquisitions and development projects, investor redemptions, and operating expenses) as well as cash sources such as income from the properties, asset dispositions, and new investments from participating plans. Redemption requests have been funded by income from property operations and proceeds from tactical dispositions. MEPT has been successful in selling properties that it deems to be inconsistent with the Fund's long-term strategy. Most importantly, NewTower believes it would not be prudent to engage in actions such as excessive borrowing or unwarranted property dispositions in order to generate cash for redemptions.

While our asset class has experienced unprecedented volatility in the past two years, we believe it is our duty to maintain superior transparency at every stage of an investment

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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)*

vehicle's life cycle in order to foster full, accurate, relevant, and timely understanding of the market conditions and MEPT's position within a given environment. For example, MEPT provided timely correspondence detailing the Fund's plan to manage the queue, including updates on regulatory guidance related to liquidity and expectations for quarterly distributions throughout the year. Lastly, we believe MEPT management can serve clients and deliver a best-in-class product by collaborating with investors to understand their needs and priorities. We welcome your feedback and perspective.

NEWS BRIEFS *(continued from inside)*

IN OCTOBER, MEPT COMPLETED THE SALE OF A SUBURBAN CHICAGO OFFICE ASSET FOR GROSS PROCEEDS OF $6.2 MILLION. 250/350 Devon, acquired in 2004, is made up of two buildings totaling 98,203 square feet. As part of MEPT's strategy to reduce its exposure to office properties in the Midwest market, 250/350 Devon was targeted for sale. 250 Devon, which was 100 percent occupied at the time of sale, was purchased by a local owner/user. 350 Devon was not occupied at the time of sale and was sold to PNC Bank.

DURING THE QUARTER, MEPT COMPLETED THE SALE OF ONE BUILDING IN THE KIRKLAND FLEX PORTFOLIO IN SEATTLE FOR GROSS PROCEEDS OF $3.0 MILLION. Building H in Kirkland Flex is a 17,636 square foot industrial building that was 72.5 percent leased to NetAcquire Corporation and approximately 25 percent leased to a smaller tenant. With considerable space available in other nearby competitive submarkets, MEPT anticipated leasing risk as the smaller tenant planned to vacate the building in 2010. As a result, MEPT negotiated a sale with NetAcquire, who completed the purchase through the use of an SBA loan guarantee.

MULTI-EMPLOYER PROPERTY TRUST

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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.