The Quarterly

Trust Report

MEPT | 30 Years 1982–2012

INSIDE:

FOURTH QUARTER | JANUARY 2013 | VOLUME 27, NUMBER 4

Multi-Employer Property Trust (MEPT) closed the fourth quarter of 2012 with a unit value of **$6,692.48,** down **0.12 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **4.70 percent**.

U.S. Economic and Real Estate Overview

The impending U.S. Presidential election and fiscal cliff along with a sovereign debt crisis-induced recession in Europe prevented the U.S. economy from gaining any significant momentum in 2012. According to the Bureau of Economic Analysis' advance estimate, real Gross Domestic Product (GDP) was essentially unchanged in the fourth quarter of 2012, after growing at an annualized rate of more than 3.0 percent in the third quarter of the year. While this estimate is subject to change, it appears that calendar year 2012 growth did not substantively improve from 2011, at around 2.0 percent. Continued debate over U.S. fiscal policy and federal budget tightening are expected to continue to contribute to a similar rate of growth in 2013.

There are positive dynamics underlying the headline indicators that may provide some upside for the economy. Importantly, home prices are rising again on a year-over-year basis and the housing sector is finally beginning to make a positive contribution to economic growth through increased construction activity and the 'wealth effect' created by higher home values. Corporate profits remain high and business investment appears to have accelerated in the fourth quarter, which could help jumpstart hiring as business confidence improves. The labor market continues to produce around 150,000 jobs per month, and while this pace is uninspiring, it is slowly reducing the U.S. unemployment rate.

Employment continues to be a primary driver of the health of the commercial real estate market. Cities with the strongest employment growth have been those with highly-educated populations and knowledge-based economies, often with robust technology industries. Additionally, metropolitan areas with high exposure to the energy sector are performing well. **These markets are experiencing improving real estate fundamentals, such as increases in occupancy for office space in addition to more discretionary dollars for retail spending.** Leasing in these markets is expected to continue a slow but steady recovery, while the low interest rate environment and capital market conditions continue to drive investors to commercial real estate as they search for yield and inflation protection.

NEWS BRIEFS

IN DECEMBER, MEPT ACQUIRED 475 SANSOME STREET, A 353,269 SQUARE FOOT OFFICE BUILDING IN SAN FRANCISCO, FOR $162.8 MILLION. In line with MEPT's strategy of acquiring a select number of high-quality CBD office buildings in U.S. primary markets, MEPT purchased the 90 percent leased property, which is ideally located in the North Financial District. Furthermore, 475 Sansome Street's sustainable features and energy-efficient operations are consistent with the Fund's commitment to Responsible Property Investing. 475 Sansome was awarded the Leadership in Energy and Environmental Design for Existing Buildings (LEED®-EB&OM) Gold certification in 2010 and has earned the EPA's ENERGY STAR designation.

475 SANSOME STREET

DURING THE QUARTER, MEPT PURCHASED THE METRO, A 415-UNIT MULTI-FAMILY PROPERTY IN DENVER FOR $90.9 MILLION. The acquisition of The Metro furthers MEPT strategic goal of increasing its allocation to the multi-family sector, and brings MEPT's total multi-family ownership to approximately 9,000 apartment units across the U.S. The 92 percent leased apartment complex is located in the LoDo neighborhood of Denver, with proximity to major employers, the Union Station light rail, commuter rail and bus transit hub, an abundance of nightlife, and a wide variety of recreational opportunities. Additionally, The Metro offers amenities that appeal to the Echo Boom demographic (the 19-34 year olds entering the workforce) in the area. In order to make the property even more appealing to prospective residents, MEPT has planned a capital renovation program with upgrades to common areas and enhanced unit finishes.

AT THE END OF THE FOURTH QUARTER, MEPT ACQUIRED PARKWAY VILLAGE IN HOUSTON. The 134,000 square-foot retail center, Parkway Village, is 97 percent leased to 29 national, regional and local retailers and is anchored by Kroger. Parkway Village fits with MEPT's strategy to acquire well-located, well-leased, high-performance, grocery-anchored retail centers across the U.S. Located approximately 12 miles west of Downtown Houston in the Energy Corridor submarket (a master-planned business district housing major employers), the property benefits from its proximity to Interstate 10 as well as the two main thoroughfares in the direct market. MEPT believes consumer demand for necessity goods will continue to drive sales growth and the center is well positioned to remain one of the premier grocery-anchored centers in the area.

PARKWAY VILLAGE

DURING THE QUARTER, MEPT PURCHASED 1150 COMMERCE BOULEVARD, AN INDUSTRIAL ASSET LOCATED IN THE PHILADELPHIA MARKET FOR $36.6 MILLION. The 599,500 square foot bulk-industrial building was built in 2009 and is fully-leased to Kimberly-Clark Corporation. 1150 Commerce Boulevard is located in LogistiCenter at Logan, a 1,000-acre bulk distribution park in Logan Township, NJ which has proximity to Interstates 295 and 95 as well as the New Jersey Turnpike. The USGBC® LEED® Silver-certified building is the newest facility in LogistiCenter, has state-of-the-art construction and features, and is expandable by approximately 192,500 rentable square feet. The acquisition helps to fulfill MEPT's goal of acquiring well-leased, energy-efficient distribution facilities in key markets.

BENTALL KENNEDY APPOINTS INDEPENDENT DIRECTOR TO BOARD

Bentall Kennedy, real estate advisor to MEPT, announced that it has appointed David Denison to both its U.S. and Canadian Boards of Directors. Mr. Denison has over 32 years of experience in the financial services sector, most recently serving for over seven years as the CEO of the Canada Pension Plan Investment Board (CPPIB). Prior to assuming his role at CPPIB, Mr. Denison served as the President of Fidelity Investments Canada. Mr. Denison sits on the boards of BCE Inc. and the Royal Bank of Canada, is a member of the World Bank Treasury Expert Committee and a past Chair of the Canadian Coalition for Good Governance.

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FOURTH QUARTER RESULTS

Net Return, Fourth Quarter
-0.12%

Net Return, 01/1/12–12/31/12
4.70%

Net Asset Value
$5.60 billion

Performance

In the fourth quarter, MEPT produced a total gross return of 0.10 percent, composed of 1.37 percent income and 1.27 percent depreciation. **MEPT delivered a positive total return of 5.63 percent (gross of fees) for the year which consisted of 5.42 percent income and 0.20 percent appreciation.** Importantly, MEPT's 2012 income component was competitive with the benchmark (NCREIF Fund Index—Open-end Diversified Core Equity (NFI-ODCE) and was in line with management's expectations. However, the appreciation component of MEPT's total return was below the benchmark.

MEPT's fourth quarter operating income was up 7 percent over third quarter income, driven by solid leasing activity and positive absorption in the 40.4 million square foot operating portfolio. MEPT's competitive income return is attributable to several factors, including but not limited to increased leasing activity and improving market and rental rate fundamentals. In 2012, the Fund had 7.7 million square feet of gross leasing activity and its operating portfolio was 91.5 percent leased at year-end, up materially from one year ago at 89.7 percent.

During the quarter, 85 assets experienced appreciation or no change in value. **In the fourth quarter, a majority of the property appreciation was driven by value increases in the Fund's multi-family and Central Business District (CBD) office assets.** Construction progress at six multi-family development projects positively contributed to appreciation and the total investment in these new development projects—including MEPT and its joint venture partners' interests—is more than $1 billion across the country.

However, the appreciation was more than offset by significant depreciation in the portfolio related to suburban office properties that sold or were pending sale in submarkets with weakening fundamentals. Additionally, during the quarter, the independent debt valuation resulted in depreciation due to a decline in market rates. Furthermore, there was depreciation at certain office assets related to operating expense increases and recently scheduled building improvement and other capital expenditures.

The vast majority of the depreciation in the fourth quarter was attributable to MEPT's suburban office portfolio and the depreciation was concentrated in a few assets. In recent years, suburban office markets generally have suffered from a secular shift from the suburbs back to urban markets. There are certain markets that were severely affected by this shift and are characterized by extremely weak fundamentals, including average vacancy rates above 20 percent and a lack of liquidity. MEPT expects these markets to remain weak for a prolonged period. **Over the last few years, as part of MEPT's Strategic Plan, the management team has been working diligently to reduce an overweight to suburban office in the portfolio through sales of non-strategic assets.**

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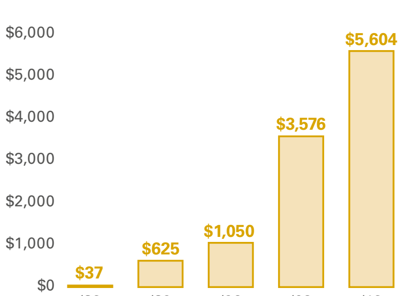
Net Asset Value Growth

December 31, 1982 – December 31, 2012

Based on Market Value ($Millions)



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

Yield

	FOURTH QUARTER 2012	TRAILING FOUR QUARTERS (COMPOUNDED)
NET	**-0.12%**	**4.70%**
INCOME	1.15%	4.49%
APPRECIATION	-1.27%	0.20%
GROSS	**0.10%**	**5.63%**
INCOME	1.37%	5.42%
APPRECIATION	-1.27%	0.20%

FUND OVERVIEW

Inception Date	April 1, 1982	Average Age of Properties	13.1 years
Investments Held	143	Markets	30
Number of Buildings	349	Net Asset Value	$5.60 billion
Total Operating Square Footage	40.4 million	Unit Value	$6,692.48
Operating Occupancy	91.5%	Participating Plans	359

PERFORMANCE *(continued)*

In 2012, MEPT marketed eight suburban office properties for sale which resulted in multiple bids from institutional buyers that were below prior Fund carrying values. The most significant write-down occurred for Corporate Pointe/DeVry, a large suburban office park located in the San Fernando Valley submarket of Los Angeles. After rigorous hold/sell analyses, the MEPT management team determined it was in the best long-term interest of the Fund to sell these occupancy-challenged assets at these market prices, reducing the Fund's suburban office exposure and what the management team perceives to be meaningful future market risk.

Of the eight properties, four sales closed prior to the fourth quarter, one sale closed in the fourth quarter, one sale closed in January 2013, and two sales are pending closing in early 2013. Once these assets are sold, MEPT's suburban office concentration will be approximately 18.3 percent of net asset value – down from a 35.4 percent suburban office allocation just 2.5 years ago. **Importantly, the suburban office properties that remain in the portfolio are well-leased, income-producing assets that are located in markets that have attractive fundamentals for the foreseeable future.**

IN APPRECIATION OF OUR 25 YEAR PARTNERSHIP MEPT SALUTES:

Shopmen's Local 527 Pension Fund

Chicago Regional Council of Carpenters Millmen Pension Fund

Iron Workers District Council of Southern Ohio and Vicinity Pension Trust

NEW PARTICIPANTS

Southern Electrical Retirement Fund

Asbestos Workers Local Union No. 2 Pension Fund

PROJECTS COMMITTED

1150 Commerce Boulevard
Philadelphia

The Metro
Denver

475 Sansome Street
San Francisco

Parkway Village
Houston

PROJECTS SOLD

Meadows Office Building I & II
Chicago

W Silicon Valley
San Francisco

Century Technology Campus
Washington, DC

NEWS BRIEFS *(continued from inside)*

MEPT RECEIVED TOTAL GROSS PROCEEDS OF $22.0 MILLION FOR THE SALE OF CENTURY TECHNOLOGY CAMPUS IN WASHINGTON, DC. The 55-acre, five-building industrial site, totaling 266,888 square feet, was targeted for sale since it was underperforming and the property's highest and best use would involve a re-development and re-positioning of the asset that was not consistent with the Fund's Strategic Plan. Furthermore, the disposition was in line with MEPT's strategic goal of reducing its exposure to industrial buildings in suburban markets. Century Technology Campus was purchased by a joint venture between the Trammell Crow Companies and a real estate fund. Additionally, MEPT provided partial seller financing for the sale.

MEPT SOLD TWO ASSETS, MEADOWS OFFICE BUILDING I AND MEADOWS OFFICE BUILDING II, FOR TOTAL GROSS PROCEEDS OF $14.4 MILLION IN DECEMBER. Meadows Office Buildings I and II, located in suburban Chicago, were targeted for sale due to deteriorating market conditions in the submarket, including declining rental rates and high vacancy. In addition, although the two office buildings, totaling 222,287 square feet, were 88 percent leased at the time of sale, there was a significant amount of lease rollover scheduled in the coming year. MEPT marketed the assets for sale, and after receiving numerous offers, closed the sale with a Chicago-based real estate investment company who owns other assets in the area.

DURING THE QUARTER, MEPT SOLD THE W SUITES HOTEL IN SAN FRANCISCO FOR TOTAL GROSS PROCEEDS OF $11.5 MILLION. Originally built by MEPT in 1999, the 172-room extended-stay W Suites, located in the Silicon Valley submarket adjacent to the former Sun Microsystems campus, was targeted to the business travelers working with the numerous technology companies in the area. After the collapse of the tech bubble and the eventual closure of numerous tech companies, the hotel experienced declining demand. Furthermore, with required upcoming capital improvements, MEPT made the decision to sell the asset, rather than make additional capital.

MEPT Strategic Plan Execution

Progress Report

Doug Poutasse
Executive Vice President
Head of Strategy and Research
Bentall Kennedy

David Antonelli
Executive Vice President
MEPT Portfolio Manager
Bentall Kennedy

In 2010, soon after the global financial crisis, MEPT's management team drafted a five-year Strategic Plan for MEPT in order to position the Fund to become a leading open-end, core real estate equity fund in the U.S. Thus far, MEPT has made substantial progress in the work necessary to align the Fund with its Strategic Plan. The management team expects the steps taken on behalf of MEPT over the last 2.5 years through acquisitions, dispositions and changes to capital structure will better position the Fund for long-term competitive performance.

"We are absolutely confident that strategic steps taken in 2012—including making some difficult decisions related to selling certain portfolio holdings in 2012—have positioned MEPT to deliver competitive, risk-adjusted returns in 2013 and beyond while maintaining our strong commitment to risk management, liquidity, and Responsible Property Investing. Indeed, as we enter 2013, we believe that the MEPT portfolio is as strong as it has ever been."

–MEPT Policy Board

The planning team, led by Doug Poutasse, Head of Strategy and Research at Bentall Kennedy, and David Antonelli, MEPT Portfolio Manager at Bentall Kennedy, concluded in 2010 that, over the next several years, the U.S. commercial real estate investment market would favor urban, transit-oriented and sustainable office and apartment properties, necessity-goods retail centers, and industrial properties close to major population centers. The team's research also indicated that certain markets and property types would experience prolonged malaise in the post-recession economy. In particular, suburban office properties and some secondary markets were expected to lag the recovery.

In that context, MEPT's Strategic Plan identified property type and geographic diversification targets for the portfolio as well as initiatives to improve cash and leverage management. Since that time, **the MEPT management team has made meaningful—and sometimes very difficult—changes in order to create a portfolio of properties that will garner the strongest demand in the post-recession market and create maximum value for MEPT's participating plans while continuing to prudently manage risk and volatility.**

Progress on Strategic Plan Initiatives:

- **Sold $1.0 billion of properties** with an emphasis on reducing the Fund's suburban office exposure and removing older, smaller industrial assets—particularly those assets in secondary and tertiary markets with significant future market risk. The assets sold were on average 71.6 percent leased and in most cases, had significant anticipated lease rollover in the next few years.

David Antonelli noted. *"We believe we have identified and sold the assets with the greatest downside risk and that, going forward, the CBD and suburban office assets owned by MEPT should deliver competitive performance."*

- **Acquired $1.9 billion of operating, well-leased, energy-efficient properties** to substantially increase the Fund's allocation to urban multi-family, CBD office and necessity-goods retail properties located in primary markets. These assets are on average 93.9 percent leased and are expected to provide stable income in the portfolio and have 3.8 percent NOI growth in 2013.
- **Committed over $580 million to develop nearly $1 billion of new construction**—and creating "green" jobs—in eight markets, including urban apartments and office and industrial build-to-suits for Fortune 50 companies. These sustainably-built, LEED® certified projects will be completed in 2013 and 2014 and will contribute to future Fund appreciation.

***"The current construction initiative capitalizes on Bentall Kennedy's long history of successful new construction experience and is expected to boost the appreciation component of MEPT's total return, and, importantly, create approximately 12 million hours of new work for Building Trades members and their signatory contractors in local economies,"* added Antonelli.**

- **Improved portfolio leased rates** from 87.6 percent in mid-2010 to 91.5 percent as we enter 2013, bolstered by 1.1 million square feet of positive net absorption in 2012.
- **Enhanced the Fund's capital structure.** MEPT has historically had lower leverage than the peer group. As

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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 0.88%. 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)*

part of the Strategic Plan, MEPT has taken advantage of extremely attractive rates and terms to prudently add debt to the portfolio and increase its leverage ratio to 20.8 percent at the end of the year. Consequently, the Fund's weighted average interest rate has declined slightly. MEPT has also taken steps to improve its cash management capabilities. The Fund established a $250 million line of credit in November 2012, which will allow MEPT to reduce its average cash balance and maintain flexibility in terms of meeting its property level and acquisition commitments without sacrificing its commitment to liquidity.

For 2013, the management team has prepared a tactical 2013 Operating Plan for MEPT that targets a total return (gross of fees) in the range of 7.5 percent to 8.5 percent, comprised of an income return of 5.0 percent to 5.5 percent and appreciation of 2.5 percent to 3.0 percent[1]. This estimated return is in line with MEPT's 30-year track record of matching participating plans' actuarial assumptions.

In 2013, the Fund expects to benefit from:

- An operating portfolio that is projected to increase to 94 percent leased by year-end 2013;
- Budgeted 2013 NOI growth across the portfolio of 5.1 percent;
- 2,690 apartment units under construction in six markets that should generate additional value as units begin to lease up;
- The elimination of underperforming assets (as described above) from an otherwise strong and stable operating portfolio; and
- A more efficient cash management program that should allow the Fund to reduce the performance drag related to MEPT's historically higher cash positions.

The MEPT management team believes the execution of the Strategic Plan has made MEPT as strong as it has ever been. Furthermore, the current portfolio contains an optimal mix of assets to meet the demands of the marketplace and thrive in the evolving economic environment in 2013 and beyond.

[1] *Past performance is not indicative of future results. Performance objectives reflect a variety of assumptions, which may not be realized and are subject to significant uncertainties and contingencies. Certain factors could cause actual results to differ materially from the MEPT management team's expectations.*

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TRUSTEE

NewTower Trust Company

INVESTMENT ADVISOR

Bentall Kennedy

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**.

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