



Annual Report and Outlook  
**2015–2016**

**Building on Fundamentals**



TRUSTEE



REAL ESTATE ADVISOR AND  
INVESTOR RELATIONS



## Investment Strategy

Multi-Employer Property Trust (MEPT) is an open-end commingled real estate equity fund that invests in a diversified portfolio of institutional-quality real estate assets and 100% union-built new construction properties. MEPT's portfolio consists of 101 high-quality, energy-efficient investments positioned to serve tenant demand in 25 U.S. metropolitan markets.

MEPT's primary investment strategy is focused on growing income through active asset management, building a diversified modern portfolio, using low leverage and providing superior liquidity and is executed with a commitment to the principles of Responsible Property Investing. The Fund primarily invests in office buildings, industrial facilities, retail centers and apartments in order to maintain a diversified, institutional-grade "core" portfolio that produces strong and stable current income.

## Highlighted Market:

Boston is one of MEPT's largest market concentrations. The Fund owns 12 office buildings, one retail center and three parking facilities totaling 1.2 million square feet in the metro area. MEPT expanded its presence in Boston in 2015 by acquiring two portfolios in Boston's Seaport District. Now, the Boston portfolio is a concentration of medical office and land for residential development near the Boston Medical Center and office buildings and parking facilities in the Fort Point Channel submarket. The management team believes that tenants at these MEPT properties will benefit from the Fund's ability to realize operational economies of scale, provide flexibility to better accommodate expansion or contraction needs, and access to parking in a supply constrained neighborhoods.



# Boston

## 300 A Street



**Featured on the cover,** 300 A Street is an 113,105 square foot office building acquired in 2015 and representative of the brick-and-beam style of early Boston buildings with exposed timber beams, duct-work and brick walls. The vibrant mix of historic interior and modern use offers a loft-like work space that has appeal with technology and creative tenants who desire to be in the Fort Point submarket. Transformed into a true “live/work/play” location, Fort Point is providing employers with a unique alternative to the traditional office space in other Boston submarkets.





MEPT made significant additional investment in Boston in 2015. The Fund's research-driven investment strategy has focused on markets characterized by innovation, a concentration of talented workers and technology, healthcare and education-oriented employers, and dynamic live/work/play environments. The demographic and job creation trends in Boston are leading to demand for real estate and superior rent growth and occupancy gains. MEPT's assets in Boston are well-positioned to take advantage of these improving market fundamentals. Over 85% of MEPT's portfolio is invested in primary markets similarly situated for long-term growth.





## Boston Market Key Metrics

AS OF DECEMBER 31, 2015

Rent Growth YOY - Multi-family<sup>1</sup>

**5.3%**  
(U.S.: 4.6%)

Vacancy Rate - Multi-family<sup>1</sup>

**4.2%**  
(U.S.: 5.1%)

Vacancy Change YOY - Multi-family<sup>1</sup>

**-0.4%**  
(U.S.: -0.1%)

Rent Growth YOY - Office<sup>2</sup>

**7.4%**  
(U.S.: 4.0%)

Vacancy Rate - Office<sup>2</sup>

**9.9%**  
(U.S.: 13.1%)

Vacancy Change YOY - Office<sup>2</sup>

**-0.8%**  
(U.S.: -0.9%)

Job Growth YOY<sup>3</sup>

**1.2%**  
(U.S.: 1.9%)

% of Pop. Bachelor's Degree or Higher<sup>4</sup>

**44.0%**  
(U.S.: 29.3%)

<sup>1</sup>Axiometrics (4Q 2015), <sup>2</sup>CBRE-EA (4Q 2015), <sup>3</sup>U.S. Bureau of Labor Statistics (Jan. 2016),

<sup>4</sup>U.S. Census Bureau American Community Survey (5-year estimates 2010-2014)



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## MEPT Highlights

|  | 2015            | 2014            | 2013            |
|--|-----------------|-----------------|-----------------|
| Net Asset Value                        | \$6.0 billion   | \$5.5 billion   | \$5.1 billion   |
| Participating Pension Plans            | 327             | 321             | 317             |
| Committed Acquisitions <sup>1</sup>    | \$1.25 billion  | \$410.6 million | \$219.4 million |
| Dispositions Net Proceeds <sup>2</sup> | \$251.5 million | \$582.1 million | \$930.5 million |
| Real Estate Assets                     | 101             | 92              | 108             |
| Operating Portfolio (square feet)      | 30.9 million    | 29.8 million    | 32.2 million    |
| Operating Portfolio (percent leased)   | 92.2%           | 91.7%           | 92.3%           |

<sup>1</sup> Committed Acquisitions includes both the gross purchase price of acquired existing assets and commitments to fund development projects.

<sup>2</sup> Disposition Net Proceeds is based on the total net sales price received, including partnership interests, if any.

## To MEPT Participating Plans:

2015 was a positive and productive year for MEPT on many fronts. **The Fund generated 13.00%, gross of fees, return for the year—the third consecutive year of double-digit performance.** The Fund's net asset value grew to \$6.0 billion and the number of participating plans to 327. The strength of the portfolio is a direct reflection of the strategic plan that we began implementing in 2010. **With an overweight to urban, modern properties in primary markets, the portfolio is now aligned with strategic targets and MEPT is well-positioned to grow income and increase value over time.**

As a firm, during the year, we further advanced our mission to meet and exceed client expectations by obtaining additional capabilities and strengths. In May, we formally integrated NewTower Trust Company (trustee), Landon Butler & Company, LP® (investor relations provider) and Bentall Kennedy (real estate advisor) into a single management platform. In September, Sun Life Financial, Inc., with over \$640 billion in assets under management, acquired Bentall Kennedy. Bentall Kennedy has become Sun Life's exclusive and wholly-owned real estate investment management entity, continuing to operate under the Bentall Kennedy brand.

**These pivotal transactions will enable our management platform to remain at the forefront of a rapidly shifting, increasingly competitive marketplace while continuing to provide high-quality client service to MEPT.**

One objective in 2015 was to continue MEPT's acquisition strategy that emphasizes high-performance, sustainable buildings in urban, transit-served locations with significant barriers to entry in innovation- and knowledge-driven primary markets. Despite a highly competitive real estate market, we closed on 15 assets totaling over \$1.25 billion in investment. These acquisitions fit within the criteria we have set for MEPT that focuses on traditional property types (i.e., office, industrial, multi-family and retail) and major markets with strong demand fundamentals, which is an important element of the portfolio's stable income return and low risk characteristics.

Since the Fund's inception, we have augmented the operating portfolio with an allocation to development and redevelopment assets. At year-end 2015, MEPT had three projects in San Francisco and New York under construction with a total cost of approximately \$390 million—all of which are seeking U.S. Green Building Council (U.S.G.B.C.®) LEED® Silver certification. **With its 2015 investment activity, MEPT is in control of an additional \$1 billion of potential development projects which will serve as a return enhancer and deliver best-in-class properties to further enhance overall Fund performance.** The construction activity will also generate substantial levels of economic activity and job creation, strengthening MEPT's leadership position with regard to Responsible Property Investing (RPI).

At the same time, we pruned the portfolio by taking advantage of investor demand for core assets and generated over \$250 million in net proceeds by selling assets with less attractive long-term investment potential. In 2015, as we have in the past, the management team prudently managed the balance sheet to ensure MEPT had the ability to satisfy property commitments, provide substantial liquidity and protect the value of the portfolio. Moreover, we closely monitored capital flows in order to honor quarterly liquidity requests and remain open for new investment.

Also this year, MEPT's leadership in RPI was further validated by the 2015 Global Real Estate Sustainability Benchmark (GRESB) Survey, which ranked MEPT as the #1 Global Sector Leader for the Private, Diversified—Residential/Office Peer Group, out of 22 funds, and #1 among the 18 NFI-ODCE participants ranked by GRESB. **Additionally, a ground-breaking study of Bentall Kennedy's North American office portfolio that included MEPT buildings was conducted by an internationally recognized academic research team and showed that improved property performance is strongly correlated to green building certification.**

This study is evidence that supports the economic merits of investing in sustainable buildings.

As we look to the future with an integrated platform, we are buoyed by the opportunities ahead and the Fund's well-positioned, high-quality portfolio, and united around an unwavering dedication to our investors and our commitment to fiduciary excellence. We want to thank you for your continued support and your trust.

### BENTALL KENNEDY



Mike McKee

CEO, U.S.



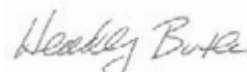
David Antonelli

Executive Vice President and  
MEPT Portfolio Manager



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Executive Vice President and  
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Executive Vice President,  
Business Development and  
Client Relations

### NEWTOWER TRUST COMPANY



Rob Edwards

President

# 2015 Portfolio Review and 2016 Outlook



David Antonelli  
Executive Vice President,  
MEPT Portfolio Manager  
Bentall Kennedy

**M**EPT delivered double-digit performance in 2015 and we achieved the objectives of our 2015 Operating Plan. **MEPT's strong performance was driven by the stable income generated by the well-leased operating portfolio and robust appreciation resulting from further yield compression, positive leasing activity in the portfolio, and improving fundamentals in markets where we invest.** Additionally, the Fund was recognized globally as the best diversified fund for its sustainability performance by GRESB.

The portfolio is intentionally overweight to urban office and multi-family properties in U.S. primary markets. **We've surpassed our target of 80% in primary markets and now, more than 86% of our asset value is located in innovation hubs with concentrations in science, technology, education and healthcare companies.** Several years ago, our Research Team identified that a rapid re-urbanization trend, a growing Millennial population and an improving U.S. economy would lead to strong economic expansion in major metropolitan markets.

For the past five years, we have executed a strategy to build or acquire properties in live/work/play environments sought by Millennials and Baby Boomers in urban locales. As a result, we have been investing in markets where employers are creating jobs and paying higher wages as they compete for the workers flocking to these cities. We've built properties that appeal to tenant demand for amenity-rich, energy-efficient, transit-oriented, flexible spaces. MEPT's 2015 performance is reflective of this strategy and the portfolio is benefitting from growing user demand for all types of real estate.

**This Annual Report highlights how our research has been key to our strategy execution. We are *Building on the Fundamentals* of the markets where we invest and *Building on the Fundamentals* of our existing portfolio which is positioned for solid long-term investment performance.**

## U.S. Commercial Real Estate Review

Signs of moderate U.S. economic growth were evident, though mixed, for much of the year. However, the positive momentum in the U.S. economy translated to improved commercial real estate market conditions. The U.S. economy closed out 2015 with job growth averaging an impressive 282,000 jobs in the final quarter of the year. With the U.S. economy on solid footing, in December the Federal Reserve announced its first rate hike since 2006, even as global turmoil sparked capital markets volatility.

Furthermore in 2015, job and wage growth outpaced inflation in many of the stronger metropolitan economies across the U.S. Consumers deleveraged, fuel costs plummeted, the personal savings rate trended up, access to credit was improved, and housing market trends were positive.

The commercial real estate market experienced increased demand across all property types. The office vacancy rate dropped to 13.1% at year-end 2015, 90 basis points lower than the fourth quarter of 2014, according to CBRE. Vacancy either fell or remained flat in 22 of the last 23 quarters. This trend occurred in both suburban and downtown office markets, with the central business district (CBD) rate declining to 10.3% and the suburban rate falling to 14.7%.

The apartment sector experienced very strong rent growth, with STEM-centric (science, technology, engineering and math) markets such as the Bay Area, Denver, Portland, Oregon, and Seattle continuing to see the greatest increases in rental rates. According to Axiometrics, the apartment market ended the year with very strong rent growth of 4.6% year-over-year, marking the second straight year of gains north of 4.0%. Portland continued to hold the number one spot for rent growth among major markets, followed by Oakland, Sacramento and Seattle.



The industrial sector continued to benefit from increasing consumer spending and e-commerce sales, with the fourth quarter vacancy rate reaching a 14-year low of 9.4%, according to CBRE. Rents increased with the average asking warehouse rent up 5.3% from the prior year. Demand for industrial space remains high, and there were significant availability declines in major U.S. markets led by Los Angeles, New York and Philadelphia. Construction activity increased, but remained well off past peaks and far below the 20-year average of new deliveries.

According to CBRE, the retail market continued to exhibit moderate growth, with the availability rate declining to 11.2%, 20 basis points lower than the same quarter in 2014. Over the past year neighborhood and strip centers saw the greatest improvement in vacancy. These two retail subtypes saw vacancy contract by 70 basis points during the year, to 9.3% and 9.0%, respectively.

## MEPT Performance Review

MEPT's 2015 performance resulted in a one-year total gross return of 13.00%, exceeding the Management Team's expectation at the start of the year of 8% to 10%. **Net operating income (NOI) growth enhanced values. At the same time, yield compression continued to be a major factor in value increases for well-leased, well-located properties.** A flood of institutional capital into real estate—both foreign and domestic—sought stability in core investments and continued to buoy values of high-quality assets.

On a relative basis, MEPT's performance since inception has outperformed the NCREIF Fund Index–Open-End Diversified Core Equity (NFI-ODCE) benchmark. We strive to provide investors with a portfolio that will produce stable, competitive, risk-adjusted returns and, at the same time, maintain and create value for investors.

**Consistent with its strategic plan, MEPT has intentional property type and market overweights and underweights relative to the NFI-ODCE that differentiates it from other funds.** It is important to note that the MEPT strategy is focused on core, high-quality CBD office, urban multi-family, warehouse facilities and grocery-anchored retail centers while other open-end funds invest in other non-traditional property types. Furthermore, MEPT's lower leverage ratio than the NFI-ODCE benchmark in 2015 was a factor in the comparative performance in the one-year period. For 2015, MEPT trailed the NFI-ODCE benchmark for the one-year and three-year periods, however, on a risk-adjusted basis, MEPT's total performance was very competitive with its peer set.

## Building on Fundamentals: Income

The portfolio delivered a 4.73%, gross of fees, income return in 2015. The stable and growing income generated by the 30.9 million square foot, 92.2% leased, operating portfolio was a major contributor to the overall return. The portfolio produced \$210.5 million in net investment income for the year.

## MEPT Performance

GROSS OF FEES

|                                 | MEPT         |                           |              | NFI-ODCE <sup>1</sup> (Dollar Weighted) |                           |              |
|---------------------------------|--------------|---------------------------|--------------|---|---------------------------|--------------|
|                                 | Gross Income | Appreciation/Depreciation | Total        | Gross Income                            | Appreciation/Depreciation | Total        |
| 1 Year                          | 4.73%        | 7.98%                     | 13.00%       | 4.76%                                   | 9.88%                     | 15.02%       |
| 2 Year                          | 5.05%        | 7.77%                     | 13.10%       | 4.90%                                   | 8.52%                     | 13.75%       |
| 3 Year                          | 5.27%        | 7.45%                     | 13.01%       | 5.01%                                   | 8.46%                     | 13.81%       |
| <b>Since Inception (4/1/82)</b> | <b>7.14%</b> | <b>0.90%</b>              | <b>8.10%</b> | <b>7.14%</b>                            | <b>0.47%</b>              | <b>7.65%</b> |

<sup>1</sup>NCREIF is an industry trade association that collects and disseminates real estate performance information. NCREIF Fund Index – Open-end Diversified Core Equity (NFI-ODCE) is an index of investment returns reported on both a historical and current basis for 35 open-end U.S. commingled funds with a core investment strategy. The NFI-ODCE index is capitalization-weighted and the leverage metric represents total leverage held by the open-end funds. NFI-ODCE total leverage includes loans by open-end funds to entities controlled by such funds.

Active asset management resulted in gross leasing activity of 5.2 million square feet, with 228 leases executed, and over 930,000 square feet of positive net absorption in 2015. Lease rollover was manageable and write-offs/delinquencies were negligible. The controllable net tenant retention rate for the rolling four quarters ending in December 2015 was 98.5%, up substantially from 87.7% at the end of 2014. **MEPT's income is a reflection of the strength and health of the in-place leases and the stability of the operating portfolio.**

## Building on Fundamentals: Appreciation

MEPT's appreciation return for the year was 7.98%, with \$435.9 million of appreciation in 2015 the result of continued yield compression and rising income. With the current low-yielding, volatile capital markets environment, global investors continue to be drawn to alternative asset classes, such as U.S. commercial real estate, which in turn has driven yield compression and property value appreciation. **At the same time, strong and improving fundamentals in the sector have supported income growth, enabling equity real estate investors to achieve attractive yield spreads over risk-free rates.**

Approximately 82% of the appreciation in the MEPT portfolio in 2015 was concentrated in the Fund's CBD office, urban

multi-family and bulk-distribution industrial assets and included assets acquired during the year. The CBD office portfolio contributed 36% of the appreciation, the multi-family assets generated 28% of the appreciation and the industrial portfolio accounted for 18% of real estate appreciation.

Additionally, the Fund's pipeline of sustainable, new construction activity contributed to Fund performance as the assets moved through the development cycle. Moreover, the construction activity generated substantial levels of economic activity and jobs, strengthening MEPT's leadership position with regard to responsible investing.

## Building on Fundamentals: Balance Sheet

MEPT consistently maintains a strong balance sheet which creates key advantages for the Fund through liquidity, portfolio management and transaction flexibility. We achieved our 2015 operating plan objective for cash management, staying within a target of 2% to 5% of net asset value throughout the year. The Fund ended 2015 with a cash balance of 3.1% of net asset value and an average cash balance over the year of 2.6%. This minimized the drag on performance from cash.

We have a prudent approach to leverage and for 2015, had a target of 22.5% leverage. Due to certain loans maturing and an increase in the Fund's asset value, total leverage as a percentage of gross assets declined from 21.2% at the end of 2014 to 19.7% at December 31, 2015. During the year, MEPT retired maturing loans totaling \$159.0 million. The loan payoffs including two multi-family single asset mortgages with 5.7% fixed rates, and a facility with MetLife secured by eight MEPT assets with a 5.9% fixed rate.

The MEPT strategy does not rely heavily on borrowing and approximately 70% of the debt portfolio is currently financed with fixed-rate loans. Therefore, the Fund has limited direct exposure to a rise in commercial real estate borrowing rates. The Fund's weighted average interest rate at December 31, 2015 was 3.35%.

During the second quarter, MEPT amended and extended its existing \$350 million credit facility through 2020, increased the capacity to \$500 million, and expanded the revolving portion from \$250 million to \$350 million. The combination of abundant capital available for highly qualified borrowers in the current capital market environment as well as MEPT's track record with its existing credit facilities allowed MEPT to refinance with highly attractive

### MEPT Ten Largest Market Concentrations

AS OF DECEMBER 31, 2015

| Market         | Gross Real Estate Asset Value<br>(in \$ millions) |
|----------------|---|
| New York       | \$1,277.3   |
| San Francisco  | \$895.8   |
| Chicago        | \$890.5   |
| Washington, DC | \$834.6   |
| Los Angeles    | \$781.9   |
| Boston         | \$676.9   |
| Portland, OR   | \$521.5   |
| Denver         | \$507.0   |
| Seattle        | \$301.7   |
| New Haven, CT  | \$179.2   |
| <b>Total</b>   | <b>\$6,866.2</b>                                  |



interest rates, add borrowing capacity, and gain greater flexibility for larger transactions. Based on the lines of credit balances at year-end, 19.6% of MEPT's total debt was Fund-level, unsecured debt and 80.4% of MEPT's total debt was structured as single-asset mortgages.

## Building on Fundamentals: Transaction Activity

The management team set an acquisitions target of \$1.25 billion to \$1.5 billion for 2015 with an emphasis on “build-to-core” investment opportunities. The acquisition process starts with transaction staff analyzing hundreds of potential deals and asset-specific attributes to identify suitable investment opportunities for MEPT. The Bentall Kennedy team reviewed approximately \$28.7 billion of offerings for all U.S. clients in 2015, and ultimately, recommended approximately \$2.5 billion to NewTower Trust Company for investment consideration, of which half resulted in closed acquisitions for MEPT in 2015. **In a highly competitive real estate market, Bentall Kennedy closed 15 strategic acquisitions, or \$1.25 billion, for the Fund, comprised of both existing operating assets and development commitments that met MEPT's investment criteria and fit with the Fund's environmental, social and governance principals.**

The 2015 Operating Plan targeted \$350 million to \$500 million in net proceeds from dispositions. With the portfolio aligned with target allocations, the team was highly selective with regard to asset sales. In 2015, MEPT generated \$251.5 million net sale proceeds from the sale of a non-strategic retail center, a joint venture interest in an operating office asset, and land parcel sales as well as loan and preferred equity repayments to the Fund.

## Building on Fundamentals: Real Estate Portfolio

### Office

In 2015, the office portfolio (44.3% of MEPT's net real estate asset value) generated a total unlevered return of 10.74%. Overall, MEPT's office assets benefitted from solid economic growth and increased demand for office space. The office operating portfolio occupancy increased slightly to 89.7% leased at year-end 2015 from 88.9% at year-end 2014.

**With strong market conditions in the office sector, material contributors to MEPT's appreciation included the**

**Fund's office assets in Denver, Boston, San Francisco and New York markets with a concentration of innovation and tech industry employers.** In particular, 1900 16th Street, a 93.2% leased, 409,309 square foot, office building in Denver's CBD was the highest contributor to appreciation for the Fund, with a \$44.9 million value gain. This asset benefitted from strong investor demand, improving fundamentals and positive leasing activity. Additionally, 475 Sansome Street, a 353,686 square foot, 21-story building in San Francisco contributed \$28.2 million of appreciation.

One office acquisition contributed \$25.4 million in appreciation during the year. Purchased in April 2015 for \$356.7 million, 757 Third Avenue is a 504,413 square foot, Class A, 26-story office building in Midtown Manhattan. The submarket is one of the most attractive office investment markets and has compelling market fundamentals that reflects strong economic growth. The building was 97.6% leased at acquisition, with a diverse tenancy including financial services, real estate, technology, media and marketing firms.

MEPT also had appreciation from two portfolios purchased in Boston in 2015. In total, MEPT purchased six office buildings totaling over 444,600 square feet and three parking facilities with approximately 1,600 spaces in the Fort Point Channel sub-market in Boston's Seaport District. MEPT acquired the portfolios for \$391.9 million and Boston is now one of the Fund's largest market concentrations. The Fort Point submarket has become particularly appealing to tech and creative tenants as it has transformed into a true live/work/play location with convenient access to both public transportation and major thoroughfares. These assets are expected to provide MEPT with stable cash flow and the opportunity for additional yield from rent growth, parking revenue and new development.

MEPT added to its development pipeline by acquiring a prime development site, Diridon Station, in San Jose, CA for \$73.8 million. This planned multi-phased development in the Downtown San Jose submarket is an urban growth opportunity with a location that is transit served and a prime location in innovation-focused Silicon Valley. Furthermore, with tenants actively seeking office space and strong demand for apartments, MEPT has plans for higher-density development, including up to 960,000 square feet of tech-oriented office space, over 30,000 square feet of retail and 325 multi-family residential units to transform Diridon Station into a robust live/work/play environment.

To reduce an overweight to Washington, D.C. office and take



# San Jose

## Diridon Station



In September 2015, MEPT acquired this prime development site in the Silicon Valley. MEPT's plans for higher-density development—up to 960,000 square feet of tech-oriented, large floorplate, high-clear height office space, over 30,000 square feet of retail and 325 multi-family residential units—should attract tenants and transform Diridon Station into a thriving live/work/play environment. Nearby amenities such as recreational parkland, restaurants, a grocery store, and the SAP Center, an arena that hosts over 170 sporting and entertainment events a year, should have appeal for future tenants and residents.





Exceptional economic expansion, strong job growth, a highly-innovative workforce, and millions of square feet of active space requirements make San Jose in the Bay Area a highly-attractive market for investment. Large technology tenants are in the market looking to secure space to accommodate their rapid growth, provide access to labor, consolidate their workforce and procure modern, open-layout space conducive to their operations. San Jose, a Silicon Valley submarket, offers these tenants excellent transit access and proximity to community amenities. MEPT's development, Diridon Station, sits at the southern terminus for Caltrain baby bullet and ACE trains, a VTA light rail stop and a planned BART station, which should be a strong draw for employers and young professionals.

## San Jose Key Metrics

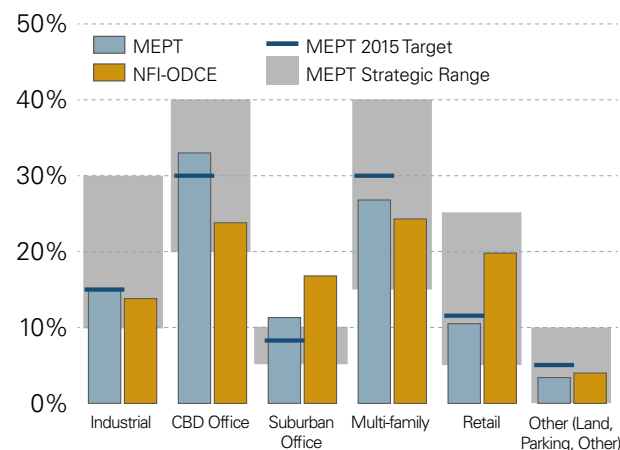
AS OF DECEMBER 31, 2015

|  | San Jose | U.S.  |
|--|----------|-------|
| Rent Growth YOY – Multi-family <sup>1</sup>        | 7.2%     | 4.6%  |
| Vacancy Rate – Multi-family <sup>1</sup>           | 4.9%     | 5.1%  |
| Vacancy Change YOY – Multi-family <sup>1</sup>     | 1.0%     | -0.1% |
| Rent Growth YOY – Office <sup>2</sup>              | 14.7%    | 4.0%  |
| Vacancy Rate – Office <sup>2</sup>                 | 8.2%     | 13.1% |
| Vacancy Change YOY – Office <sup>2</sup>           | -4.9%    | -0.9% |
| Job Growth YOY <sup>3</sup>                        | 3.8%     | 1.9%  |
| % of Pop. Bachelor's Degree or Higher <sup>4</sup> | 46.5%    | 29.3% |

<sup>1</sup>Axiometrics (4Q 2015), <sup>2</sup>CBRE-EA (4Q 2015), <sup>3</sup>U.S. Bureau of Labor Statistics (Jan. 2016), <sup>4</sup>U.S. Census Bureau American Community Survey (5-year estimates 2010-2014)

### Diversification by Property Type\*

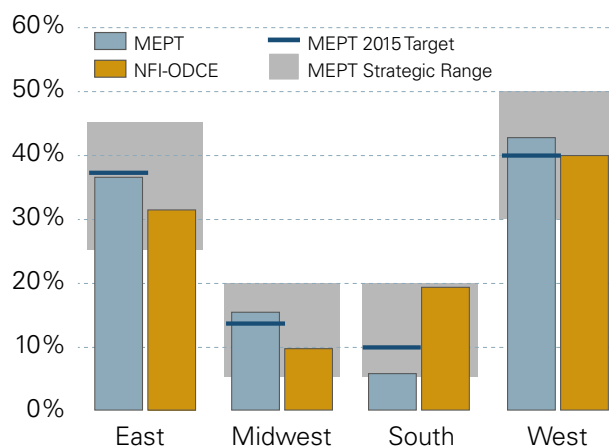
AS OF DECEMBER 31, 2015



\*Based on Invested Net Real Estate Asset Value

### Diversification by Geographic Region\*

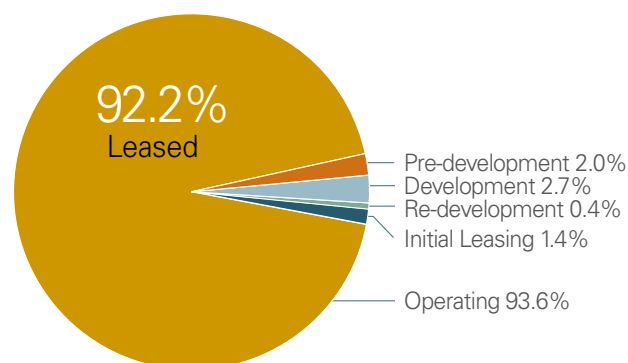
AS OF DECEMBER 31, 2015



\*Based on Invested Net Real Estate Asset Value; NCREIF Regions

### Diversification by Lifecycle\*

AS OF DECEMBER 31, 2015



\*Based on Net Real Estate Asset Value

advantage of strong demand for core assets, MEPT sold a 49% interest in Patriots Plaza I, II and III for total net proceeds of \$110.9 million (excluding loan proceeds). MEPT formed a joint venture partnership with Ärzteversorgung Westfalen-Lippe (ÄVWL), an institution of the Medical Association of Westfalen-Lippe, one of the largest pension funds in Germany. Developed by MEPT in two phases, Patriots Plaza is a 980,000 square foot, three-building office complex, built with post-9/11 security features and LEED® Silver and Gold certifications and leased by federal government tenants.

## Industrial

### MEPT's industrial portfolio was the best performing property type in the Fund for the third year in a row.

Attributable to strong investor demand for well-leased industrial assets, low vacancies in most markets, and leasing activity in the portfolio, the industrial assets produced a total unlevered return of 15.07% for 2015, comprised of a 5.38% income return and 9.32% appreciation return.

The operating portfolio was 93.5% leased at year end, up from 92.6% at the end of 2014. The Fund's industrial allocation was 15.0% of total real estate net asset value at year end and in line with the target weight for the portfolio.

Several operating assets made significant contributions to the Fund's appreciation including the fully-leased Trimble Distribution Center, a 206,642 distribution facility in San Jose, CA which had a value gain of \$11.9 million after the major tenant renewed during the year. Additionally, the 100% leased, 978,482 square foot Haven Gateway warehouse in the Inland Empire submarket of Los Angeles appreciated by \$11.3 million in 2015.

As the Fund's Livermore Distribution Center investment progressed through the development process in 2015, MEPT realized appreciation of \$12.3 million of value gain during the year. MEPT committed \$100.9 million in 2014 to this strategic project in the East Bay market of the San Francisco metro area. The development will be comprised of three-buildings, and 1.3 million square feet of Class A industrial product located approximately 25 miles southeast of the Port of Oakland. Construction is targeted to begin in the second quarter of 2016.



In an effort to continue to maintain a robust development pipeline in 2015, MEPT committed \$73.5 million to the development of Lincoln Crossing in the Meadowlands submarket in Northern New Jersey. Contingent on achieving site entitlements, MEPT plans to build a 347,053 square foot, Class A warehouse/distribution facility on a 19.9 acre site accessible from the New Jersey Turnpike (I-95), the Lincoln Tunnel, Newark Liberty International Airport and the Ports of Newark/ Elizabeth.

## Multi-family

**Solid fundamentals, particularly, steady leasing activity and strong rent growth in most primary markets drove appreciation in the multi-family portfolio.** MEPT's multi-family portfolio, 26.8% of NAV, delivered a 10.81% total unlevered return in 2015. The operating assets were 91.8% leased at year end.

MEPT's multi-family portfolio generated significant appreciation for the Fund. Elan Uptown, a 590-unit apartment community in Minneapolis' Uptown submarket had substantial appreciation. As the asset progressed from development to operating status in 2015, it gained \$31.4 million in value. At year-end, Phase I was 91.6% leased and Phase II was 71.6% leased.

Additionally, the Octagon Park Apartments in New York contributed \$22.9 million of appreciation in 2015. During the year, MEPT increased its ownership at the Octagon with the purchase of the leasehold interest for \$26.1 million. MEPT acquired the development partner's 9.6% leasehold interest in the 501-unit, 13-story multi-family asset, built by MEPT in 2006 on New York City's Roosevelt Island. By consolidating ownership, MEPT now fully controls the management of the 91.0% leased apartment property. This contributed to one of MEPT's strategic objectives by increasing the Fund's allocation to the desirable New York market.

Another significant contributor to the Fund's appreciation was The Dylan, a 97.0% leased, 165-unit, apartment building on Fifth Avenue in New York City. The Dylan had \$12.3 million of appreciation during the year.

In 2015, MEPT committed \$97.6 million to the development of Block 137, a multi-family project located in Lake Oswego, a suburb of Portland, Oregon. Block 137 is planned to include

200 apartment units as well as 40,000 square feet of retail space and 430 parking spaces. Due to a lack of competitive for-rent housing within the submarket, as well as the uniqueness of the location, project design, amenities, and walkability, MEPT expects Block 137 to compete well with the leading apartment communities for tenants. Furthermore, Block 137 is designed to achieve LEED Gold® certification. The construction activity is expected to generate over \$235 million in economic impact in the Portland area and create a significant number of "green" jobs for members of the Building Trades.

Finally, during the fourth quarter of 2015, MEPT received net proceeds of \$67.1 million for its preferred equity interest at NeMa in San Francisco, a 97.6% leased, 754-unit, multi-family property. In the second quarter of 2012, MEPT entered into a \$50 million preferred equity position to develop the asset and after less than four years, MEPT received a full repayment of its equity and earned an additional \$17.1 million in interest and fees, which resulted in a total IRR to the Fund of 11.1% for its investment in NeMa. The development generated an estimated \$725 million of economic impact in the Bay area, and created over 3.5 million job hours for members of the Building Trades in the San Francisco market.

## Retail

MEPT's retail portfolio generated a total unlevered return of 10.65%. The grocery-anchored and specialty centers comprised 10.5% of net asset value at year end. For the second year in a row, Westwood Village, a 95.5% leased, 305,586 square foot, grocery-anchored retail center in the Seattle market made the highest contribution to retail appreciation totaling \$12.1 million. Additionally, Penn Mar Shopping Center, a 92.8% leased, necessity goods and discount retail center in Washington, D.C. had a \$4.2 million gain in value.

Importantly, a 2015 acquisition, Stony Creek Promenade, had a \$5.9 million value gain after acquisition. MEPT purchased Stony Creek in August for \$34.2 million. The 100,000 square foot, grocery-anchored retail center is located in the Oak Lawn trade area outside of Chicago and was fully-leased at acquisition. Completed in 2015, Stony Creek is the most modern and highest-quality property in the submarket and has long-term leases in place with no near-term turnover. The center's largest tenant is Mariano's, a leading



# New York

## 757 Third Avenue



In April 2015, MEPT acquired the 504,413 square foot, Class A, 26-story office building in Midtown Manhattan. The submarket is one of the most dynamic and attractive office investment markets, with numerous dining and entertainment options, transit access and compelling market fundamentals that reflect New York's continuing strong economic growth.





With the acquisition of 757 Third Avenue in 2015, New York became MEPT's largest market concentration. With its diverse, highly-skilled workforce, New York has continued to attract employers in the fast-growing technology and educational sectors as well as in financial, creative and commercial services. In stark contrast to weak financial activities sector growth, hiring in the professional and business services sector has been surging and the local economy is notably diversifying away from financial services. The strong labor force is a draw for many employers and the improved economy has led to strong demand for office space and apartments.

## New York Key Metrics

AS OF DECEMBER 31, 2015

|  | New York | U.S.  |
|--|----------|-------|
| Rent Growth YOY – Multi-family <sup>1</sup>        | 2.6%     | 4.6%  |
| Vacancy Rate – Multi-family <sup>1</sup>           | 3.4%     | 5.1%  |
| Vacancy Change YOY – Multi-family <sup>1</sup>     | 0.3%     | -0.1% |
| Rent Growth YOY – Office <sup>2</sup>              | 4.9%     | 4.0%  |
| Vacancy Rate – Office <sup>2</sup>                 | 9.0%     | 13.1% |
| Vacancy Change YOY – Office <sup>2</sup>           | -0.2%    | -0.9% |
| Job Growth YOY <sup>3</sup>                        | 2.2%     | 1.9%  |
| % of Pop. Bachelor's Degree or Higher <sup>4</sup> | 37.0%    | 29.3% |

<sup>1</sup> Axiometrics (4Q 2015), <sup>2</sup> CBRE-EA (4Q 2015), <sup>3</sup> U.S. Bureau of Labor Statistics (Jan. 2016), <sup>4</sup> U.S. Census Bureau American Community Survey (5-year estimates 2010-2014)

Chicago-area grocery store, and other key tenants include national chains such as Starbucks, Sleepy's and Massage Envy. The population within this submarket has above-average net worth and disposable income, according to the U.S. Census Bureau and ESRI, which should equate to healthy sales for the tenants at Stony Creek Promenade. This combination of factors should make Stony Creek a strong investment for MEPT for the long term.

MEPT capitalized on a rare opportunity to acquire an infill location in Los Angeles where high land prices make it cost prohibitive to acquire and build new retail centers. MEPT acquired Midtown Crossing for \$186.2 million. The retail center is well-leased and anchored by Lowe's Home Improvement, with a variety of other nationally recognized tenants. The 315,072 square foot Midtown Crossing is comprised of six, two-story buildings and sits on 11.9 acres with very good visibility in a highly-trafficked area. Situated between Downtown Los Angeles and West Los Angeles, the center benefits from its location in one of the most densely populated areas with 0.5 million people in a three-mile radius and 1.2 million people in a five-mile radius. Built in 2006 and renovated in 2012, Midtown Crossing is one of only two retail centers over 200,000 square feet to be built since 2000 in Los Angeles.

During the year, MEPT took advantage of the demand for grocery-anchored retail and sold the Village of Blaine Shopping Center in Minneapolis for net sale proceeds of \$32.8 million. MEPT acquired the 221,239 square foot retail center in 2005. The "main street" style shopping center has 194,606 square feet of retail space and 26,633 square feet of second-floor office space, in addition to two out-parcels. The retail center is anchored by grocer Cub Foods and supporting tenants include Michaels and Sally's Beauty Supply. While the asset was relatively well leased, there were concerns about

competition from a new grocery store being built nearby as well as a decline in demand for the vacant retail space. As a result, MEPT marketed the asset for sale. After receiving solid interest from buyers, MEPT selected an offer from a joint venture between Pine Tree Commercial Realty, LLC and the Davis Companies.

## MEPT Outlook

As we start 2016, we believe the portfolio is extremely well positioned. We continue to expect that future real estate performance will be driven by underlying fundamentals and NOI growth. We believe that yield compression will be less of a factor in overall performance. **For 2016, based on our economic and commercial real estate outlook, the MEPT management team has established a total return target for MEPT of 8.0% to 10.0%, gross of fees.**

In 2016, we plan to continue to grow the Fund through new acquisition and investor contributions. **The acquisition target for 2016 is \$1.25 billion to \$1.5 billion.** The transactions staff will seek investments for MEPT in innovation-driven, preferred urban markets and that fall within the following parameters:

## Office

- Selective acquisitions in CBD transit-oriented locations with associated amenities
- Build-to-core development in locations evidencing pre-leasing or with very strong sub-market demand drivers
- Acquisition and repositioning of creative offices in expanding technology hubs

## MEPT Lease Rollover Summary\*

AS OF DECEMBER 31, 2015

|                              | 2016  | 2017  | 2018  | 2019  | 2020 |
|------------------------------|-------|-------|-------|-------|------|
| Percent of Net Rentable Area | 11.6% | 12.8% | 9.4%  | 12.2% | 9.8% |
| Percent of Total Revenue     | 10.5% | 8.2%  | 10.9% | 11.4% | 9.7% |

\* Consolidated Operating Industrial, Office and Retail



## Multi-family

- Build-to-core amenity-rich, high-rise development for long-term hold
- Selective low- to mid-rise development and existing acquisitions

## Industrial

- Acquire and selectively develop high-volume, modern facilities situated near major population centers and key intermodal/port facilities, particularly where high concentrations of innovative, knowledge-based workers are driving local and regional economic expansions
- Continue to focus on the primary distribution markets

## Retail

- Acquire grocery-anchored centers in strong demographic locations
- Focus on high street retail in both urban and preferred town center locations
- Develop mixed-use properties incorporating both high end and necessity-based retailers

We will continue to pursue assets for the Fund's development pipeline for certain property types, enabling MEPT to share in the development premium while avoiding purchasing above replacement cost. **With the Fund's allocations in line with strategic targets, we will be selective and dispose of non-strategic assets in order to generate a goal of \$200 million to \$300 million in realized net proceeds.** In order to continue to maintain a healthy balance sheet for MEPT, we will continue to be prudent in the use of debt and target leverage of between 20% and 25% of total gross asset value and target cash, as a percentage of net asset value, of 2% by the end of 2016.

The asset management team will continue their proactive approach to managing property operations for the Fund, by pursuing new tenants and renewing existing tenants well in advance of lease expirations, appealing real estate taxes where appropriate, completing planned capital programs on time and on budget, and achieving sustainability initiatives to maintain MEPT's leadership in energy-efficiency. **The asset management team has established a target of a 95% leased target for the MEPT portfolio by year-end 2016.**

We will continue to grow the investor base. In 2009, NewTower established MEPT Edgemoor LP® which allows other types of eligible institutional investors to invest in the MEPT strategy, including health & welfare funds, foundations and endowments. In mid-2016, Bentall Kennedy intends to launch the Sustainable Income Property Fund (SIP Fund); a collective investment fund that will offer defined contribution plans the opportunity to invest in a core, private equity real estate fund with daily valuation and enhanced liquidity. The SIP Fund will directly invest in U.S. real estate through ownership in MEPT Edgemoor and in publicly-traded U.S. real estate securities and cash. As an extension of the MEPT strategy, the SIP Fund is designed to provide investors with competitive, risk-adjusted returns throughout all real estate cycles.

The MEPT management team believes that demographics and innovation-industry job creation will continue to be key metrics that will allow us to identify the markets and property types that will have high demand and strong growth.

**With an overweight to urban, modern properties with a variety of amenities, transit access and walkability in primary market, we expect MEPT to continue to increase occupancy, grow income and enhance value. ■■**

# 2016 Commercial Real Estate Outlook



Doug Poutasse  
Executive Vice President,  
Head of Strategy & Research  
Bentall Kennedy

## Solid Evidence for U.S. Economic Growth in 2016

**I**n a world fraught with uncertainty, the U.S. economy continues to go it alone as a fundamentally sound engine of growth driven by powerful underlying trends—from record job growth and improving consumer confidence to a fortifying housing market. **Bentall Kennedy’s Research team believes the dramatic pace of technological innovation and adoption by consumers and corporations bodes well for future growth, particularly in hubs giving birth to much of this innovation, with well-educated populations supporting new ideas and business formations.**

Boston, San Francisco, San Jose, Austin, Seattle, and parts of New York and Chicago, among other locations, are benefiting from concentrations of employment in the education, healthcare and technology sectors. Supported by world-class institutions and leading companies, these markets are positioned for long-term growth as they draw employers seeking access to high caliber talent, and workers wanting to live among their peers in proximity to employment opportunities—creating a reciprocal growth cycle that is perpetuating an expansion with more room to run. Wage growth, considered stagnant across much of the country, has significantly outpaced inflation in many of these stronger metropolitan economies.

To date, demographics have been an undervalued driver of growth that will have a more transformative impact on the economy and its potential to propel a more extended cycle of expansion. The Baby Boom generation remains highly influential as its members approach retirement. Millennials should remain an impactful driver in 2016 and the years that follow, as age and improved economic prospects encourage

them to form new households. Following employment and population growth is more likely to prove a winning strategy than reacting to ever-changing headlines about global calamity.

## Immigration Lending to STEM-Company Growth

The percentage of U.S. population that is foreign born has reached levels not seen since the 1920s. At least 70% of this population is comprised of legal immigrants, many of whom are students or past students, which has been a boon in innovation markets where expanding payrolls have led to very low unemployment.

Highly educated foreign students have been an important source of talent for employers in science, technology, engineering and math (STEM) related fields and have helped these employers maintain their ability to grow.

**Barring a significant tightening of immigration policy, Bentall Kennedy believes that foreign workers should meaningfully supplement population levels in the younger age-cohorts that will be replacing retiring workers in the years ahead.**

## Capital Flows & Strong Fundamentals Drive Real Estate Values

**The flow of domestic and foreign capital seeking safe-haven in high-quality, well-located commercial real estate properties in the U.S. was substantial in 2015 and should continue in 2016 as global volatility and uncertainty persist.** This flow of capital, combined with today’s low-yield environment and a healthy U.S. economy, should boost property fundamentals and rents in 2016. Construction is



Boston, San Francisco, San Jose, Austin, Seattle, and parts of New York and Chicago, among other locations, are benefiting from concentrations of employment in the education, healthcare and technology sectors.

ramping up in some property types, but a variety of factors should prevent a dramatic acceleration. Conditions are lining up for another year of healthy NOI growth and strong investment performance across all property types.

### Multi-Family

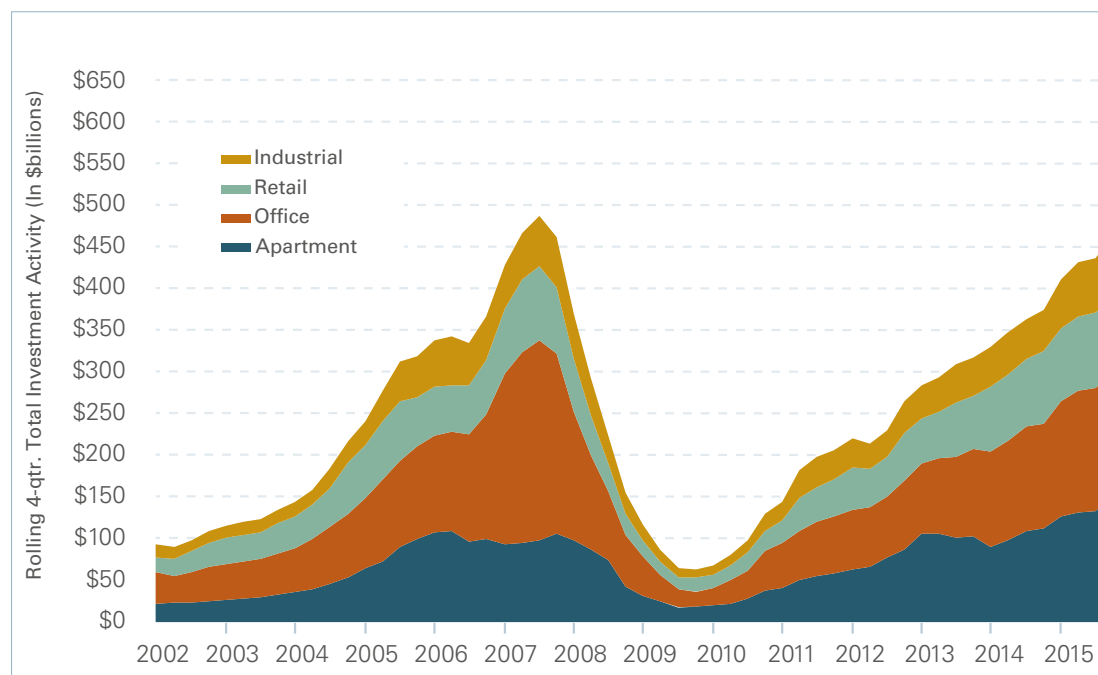
Strong fundamentals and NOI growth continue to make the apartment market attractive as rental vacancy remains at its lowest level in 30 years. **Construction activity is significant, but with vacancy below equilibrium levels in many metropolitan areas across the country, new product is unlocking pent up demand.** As such, demand across the major U.S. markets has increased by 2% or more over the past year. Among the tighter markets are those that have benefited from the growth in knowledge-based industries, including Boston, New York and San Francisco.

The U.S. economy continues to generate a significant number of new jobs for every multi-family unit that developers start. Considering that single family starts, while rising, remain far below long-term trends, it is clear that housing is in undersupply.

This condition of undersupply exists even in the majority of markets seeing the highest levels of starts relative to renter households. With the exception of Houston, Newark and Raleigh, the rate of job growth continues to outpace housing starts as a percent of renter households. Seattle, Austin and Salt Lake City, which are seeing some of the strongest starts activity relative to the size of their markets, appear to have more than sufficient job creation to absorb this new supply.

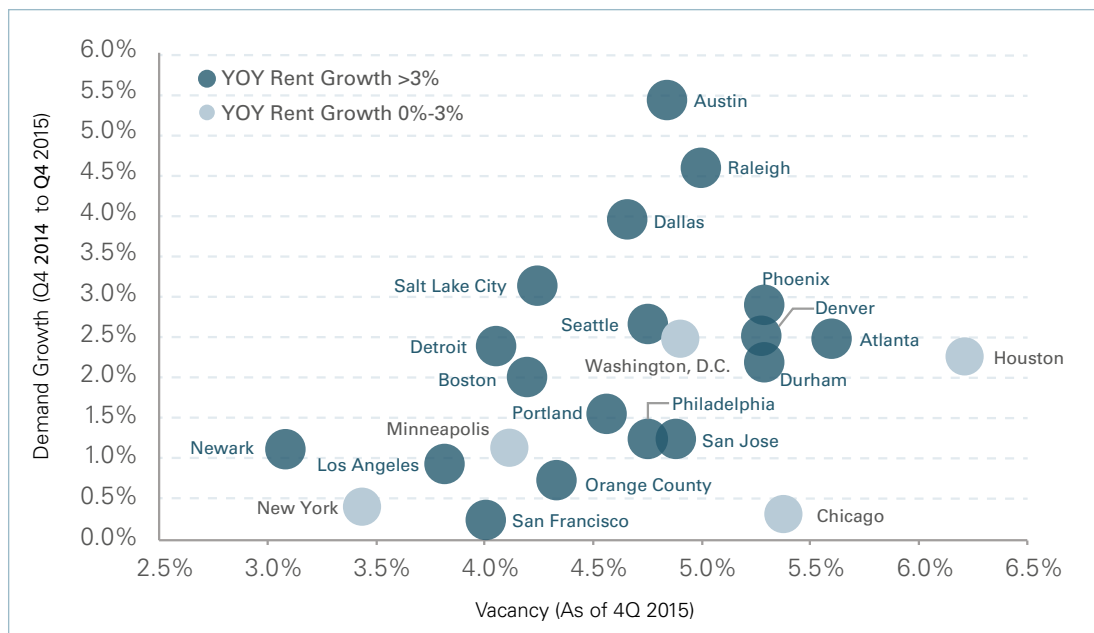
The stellar rent growth achieved in 2015 is unlikely to be replicated in 2016, but landlords should not be bracing for a

## U.S. Transaction Volume by Property Type



Source: Real Capital Analytics, Inc.

## Metro Apartment Market Performance



Source: Axiometrics

decline in rents. **With rental vacancy at its lowest level in decades and the homeownership rate below its 20-year average, the favorable alignment of national economic trends and multi-family housing construction should remain a boon to apartment landlords in 2016.**

### Office

Office demand continues to outpace supply, leading vacancy to lows last seen before the recession as hiring in office-using sectors is robust and getting stronger. Professional and business services employment is now almost 11% greater than it was prior to the recession. STEM sectors and the TAMI (technology, advertising, media and information) fields continue to propel office market gains with a growing demand for space in urban areas populated by skilled workforces and significant exposure to major tech employers.

Office rents will continue to rise in 2016, with significant potential to accelerate from the roughly 4% pace achieved over the past year, particularly in tech-driven markets such as San Francisco, New York, Seattle and San Jose, where vacancy levels have become extremely tight. **High transaction prices and a positive outlook are spurring**

**more development, including a growing amount of speculative construction, but developers will not be able to accelerate their activity fast enough to upset the supply/demand balance in the near term.**

As STEM-company growth continues to fuel office demand, real estate owners must adapt as technology transforms the space usage demands of tenants. Technology companies tend to grow very quickly and their credit is uncertain. Many have short life cycles. As real estate owners, it is important to carefully control spending on tenant improvements and to utilize those monies where they can best be re-used by the next tenant. Provided job growth holds up, as Bentall Kennedy expects, office landlords have another strong year to look forward to in 2016.

### Industrial

Sustained U.S. economic expansion continues to drive strong industrial demand growth. Further increases in consumption and solid overall macroeconomic conditions bode well for additional improvement. Some dark clouds exist with the slowing of inventory growth and manufacturing production. However, growing imports, supported by a strong dollar,



To date, demographics have been an undervalued driver of growth that will have a more transformative impact on the economy and its potential to propel a more extended cycle of expansion.

should help boost freight volumes in the primary markets.

Supply growth is accelerating, but the national industrial market is significantly undersupplied given historical conditions. Industrial rent growth is a widespread phenomenon—one that Bentall Kennedy believes should persist in 2016. Rents in all of the major industrial markets are growing at greater than 3% per year as are rents in the strongest local economies.

Rent growth in bulk distribution markets has been followed by fast growing local economies; San Francisco, Oakland, Portland, Austin, San Jose and Seattle each saw industrial rents rise quickly. Strong gains in these industrial markets highlights the far-reaching impact of their expanding innovative economies, with job gains in high-paying technology sectors helping to fuel local consumption.

E-commerce sales growth remains an important driver of demand; these industrial spaces are increasingly not just 500,000 square-foot-plus buildings along the periphery of major population nodes. The push to shorten delivery times has led to the leasing of smaller, infill properties that help solve the “last-mile” hurdle e-commerce firms face when shipping directly to consumers.

## Retail

The national retail market has been more severely challenged than the other property types. **The asset class is weathering a still-cautious consumer and the dramatic growth of e-commerce.** For the first time ever, e-commerce sales growth and lower gas prices have left U.S. consumers spending more online than they do at the gas pump.

## Major Office Using Employment Sectors<sup>1</sup>

| PROFESSIONAL, SCIENTIFIC & TECHNICAL SERVICES |            |                           | FINANCIAL ACTIVITIES                |            |                           |
|---|------------|---------------------------|-------------------------------------|------------|---------------------------|
| Jobs (In Thousands)                           | YOY Growth | YOY Change (In Thousands) | Jobs (In Thousands)                 | YOY Growth | YOY Change (In Thousands) |
| 8,788   | 3.7%       | 309.5                     | 8,212                               | 1.8%       | 145.0                     |
| Subsector                                     | YOY Growth | YOY Change (In Thousands) | Subsector                           | YOY Growth | YOY Change (In Thousands) |
| Computer Systems Design                       | 5.2%       | 97.4                      | Insurance                           | 2.6%       | 65.4                      |
| Management & Tech. Consulting                 | 4.3%       | 53.5                      | Real Estate Rental & Leasing        | 2.5%       | 37.2                      |
| Accounting & Bookkeeping                      | 5.4%       | 51.6                      | Securities & Commodities Investment | 2.6%       | 23.4                      |
| Architecture & Engineering                    | 2.7%       | 37.8                      | Other Credit Intermediation         | 1.8%       | 14.4                      |
| Other Professional Svcs.                      | 2.8%       | 18.4                      | Credit Unions                       | 4.6%       | 11.7                      |
| Advertising                                   | 3.7%       | 17.7                      | Real Estate Credit                  | 5.1%       | 10.7                      |
| Engineering & Biological Research             | 2.5%       | 14.8                      | Rental & Leasing Services           | 0.4%       | 2.4                       |
| Specialized Design Svcs.                      | 7.9%       | 10.3                      | Lessors of Nonfinancial Assets      | 0.0%       | 0.0                       |
| Legal Services                                | 0.7%       | 7.9                       | Monetary Authorities (Central Bank) | -0.6%      | -0.1                      |
| Social Science/Humanities Research            | -0.2%      | -0.1                      | Commercial Banking                  | -1.6%      | -20.2                     |

<sup>1</sup>As of January 2016

Source: Bureau of Labor Statistics

As STEM-company growth continues to fuel office demand, real estate owners must adapt as technology transforms the space usage demands of tenants.

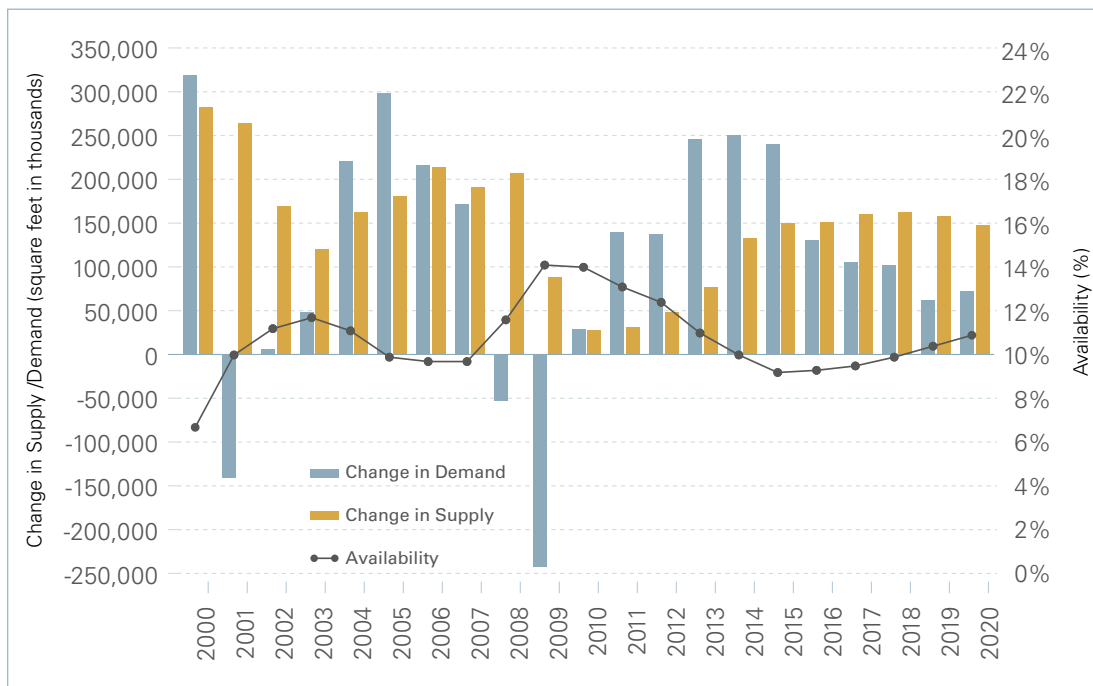
Six years into the recovery, retail supply growth remains dramatically below pre-recession levels. Retail rents only began growing at the national level in the second half of 2013, but have increased steadily since. This limited supply growth should help support improving fundamentals and allow for rent growth in the near term.

The effects of retail headwinds are most prevalent in suburban retail locations where economic trends have tended to lag behind their more urban counterparts this cycle. Conversely, urban and high street retail has performed substantially better than the wider market over the past five years. The Millennial generation's propensity to locate in urban neighborhoods where they have access to all the retail amenities they need, often in walking distance, has supported this trend. **Urban locations will remain the focal point for retailers and investors in the near term, but**

**improvements in both wage growth and the national housing market will support more traditional suburban-style retail in the coming years.**

Momentum in retail demand should begin to build in the next several years as personal finances improve and the recent increase in personal savings unwinds. Retailers will also adjust to the rise in online retailing and demographic trends will become more conducive to higher levels of consumer spending. ■■

## Industrial Fundamentals



Source: CBRE-EA



# 2015 Responsible Property Investing (RPI) Report

**R**esponsible Property Investing has been an important cornerstone of the MEPT investment strategy since the Fund's inception in 1982. The principles of RPI are founded in the belief that, where consistent with fiduciary responsibilities, by including environmental, social, and governance (ESG) considerations into a fund's investment process it is possible to improve the risk management of a fund. MEPT's commitment to RPI has evolved over the years to reflect best-in-class practices, technology, and risk management tools, and the Fund has been consistently recognized as a global leader.

The leadership and track record established by MEPT and its real estate advisor, Bentall Kennedy, has created a cache of empirical data that validates the positive impact that RPI has on a portfolio.

## Environmental

MEPT is a leader in developing green building practices and identifying opportunities to capture the value created by sustainable projects. MEPT's ESG management practices for its operating portfolio enhances long-term asset value by reducing risks, reducing operating costs and increasing tenant loyalty.

## Social

MEPT projects are well-built by trained craftsmen and craftswomen and completed on time and on budget. Since its inception, MEPT has required that all contractors working on its portfolio properties be signatory to collective bargaining agreements with recognized trade unions.

## Governance

MEPT's governance structure is designed to ensure that the management of the Fund is solely focused on investor interests. This is accomplished through a dedicated trustee, industry-leading governance expertise, and a high level of transparency in investor communications.

### Environmental

**96.3%**

of MEPT's gross asset value benchmarked with ENERGY STAR

**41%**

of the portfolio has earned the ENERGY STAR Label

**\$1.5 billion**

committed to sustainable development in past 5 years

**\$3.9 billion**

of LEED-certified property assets or 52% of Fund gross asset value

### Social

**7.1 million**

job hours generated by MEPT 2015 construction activity

**\$1.4 billion**

economic impact from MEPT 2015 construction activity

### Governance

2008 MEPT became signatory to the United Nations Principles of Responsible Investing (UNPRI)



# 2015 RPI News

## MEPT, Bentall Kennedy ranked #1 Globally by GRESB

MEPT was Ranked #1 Global Sector Leader for the Private, Diversified—Residential/Office Peer Group.

- Having earned top rankings among U.S. funds for the past 4 years, the 2015 ranking is the first time MEPT has achieved global recognition
- MEPT is the top fund among the 18 NFI-ODCE participants ranked by GRESB
- MEPT has been named a Green Star five years in a row

The Global Real Estate Sustainability Benchmark (GRESB) rankings are based on a survey of 707 participants representing \$2.3 trillion of aggregate value. The Private Diversified Residential/Office Peer Group included 22 participants.

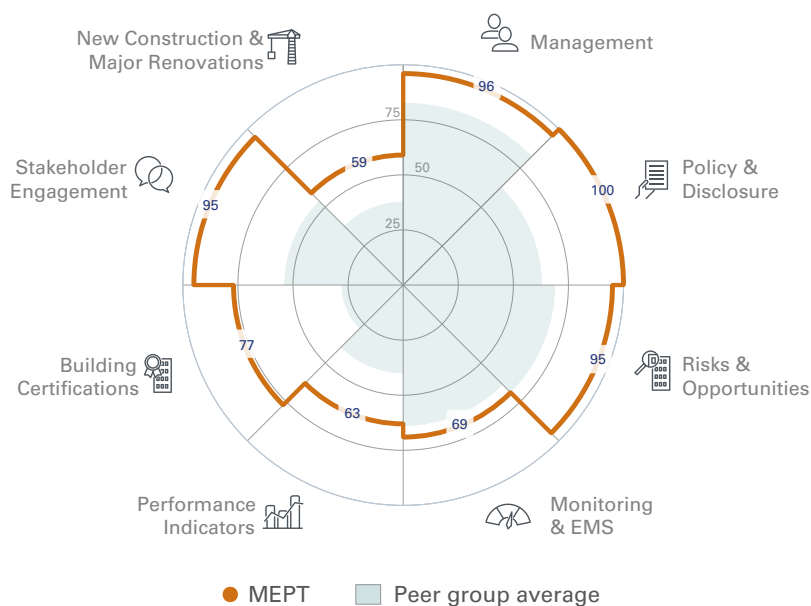


Bentall Kennedy was Ranked the #1 Firm Globally Among 153 Companies in the Diversified Category.

- For the second year in a row, GRESB named Bentall Kennedy, MEPT's real estate advisor, as the top firm in the Diversified peer group globally
- Bentall Kennedy has earned top rankings globally and in North America for five consecutive years for environmental performance

Based in the Netherlands, GRESB is committed to assessing the sustainability performance of real estate portfolios (public, private and direct) around the world. The dynamic GRESB benchmark is used by institutional investors to establish a comprehensive overview and measurement of the material aspects of sustainability performance within their real estate portfolios.

### Aspects of Survey



### GRESB Rankings

#### MEPT

NFI-ODCE Participants

**1st**  
out of 18

Diversified, Office/Residential Sector

**1st**  
out of 22

#### Bentall Kennedy

Global Diversified

**1st**  
out of 157

North America/Private

**1st**  
out of 114

## Bentall Kennedy Maintains Leadership in EPA ENERGY STAR Program

- Bentall Kennedy was awarded its seventh consecutive Environmental Protection Agency's Energy Star Partner of the Year Award
- Bentall Kennedy earned its fifth consecutive Sustained Excellence Award as a result, in part, of its work on the MEPT portfolio.





## MEPT Assets Featured In a Study Which Reveals that Green Buildings Outperform Financially

In the September 2015 issue of the *Journal of Portfolio Management*, a study, *Green Certification and Building Performance: Implications for Tangibles and Intangibles*, conducted by Dr. Nils Kok of Maastricht University in The Netherlands and Dr. Avis Devine of the University of Guelph in Canada concluded that improved property performance is strongly correlated to green building certification. The academic research study featured Bentall Kennedy's clients' office assets in North America.

Their research analyzed ten years of financial performance data across MEPT and other Bentall Kennedy client office portfolios totaling 58 million square feet—34 million in the U.S., and 24 million in Canada. Overall, the results provide compelling evidence that buildings with sustainable certification outperform similar non-green buildings in the key areas of rental rates, occupancy levels, tenant satisfaction scores, and the probability of lease renewals.

To assess the relationship between various proxies for green buildings, including ENERGY STAR, LEED® and BOMA BEST certifications, and both financial and non-financial outcomes, the researchers analyzed lease-level data such as rents, rent concessions and lease renewal rates, as well as building-level information such as occupancy rates, tenant satisfaction scores, energy and water consumption, and green building certifications.

**According to the study, the benefits uncovered through this analysis of both tenant-satisfaction and financial metrics carry “significant income and value implications,” including:**

- **Higher net effective rents:** Rents, including the cost of tenant incentives, averaged 3.7% higher in LEED certified properties in the U.S. than in similar non-certified buildings.
- **Higher occupancy rates:** During the period, occupancy rates were 9.5% higher in U.S. buildings with ENERGY STAR certification and 18.7% higher in Canadian buildings having both LEED and BOMA BEST certification, than in buildings without certifications.
- **Lower energy consumption:** Per square foot, consumption was 14% lower in U.S. LEED certified properties than in buildings without certification.

The study is the most in-depth and conclusive analysis conducted to date of the link between RPI practices and financial returns. Because Bentall Kennedy was able to provide consistent data across multiple market cycles for

Overall, the results provide compelling evidence that buildings with sustainable certification outperform similar non-green buildings in the key areas of rental rates, occupancy levels, tenant satisfaction scores, and the probability of lease renewals.

3.7%

rental rate premium in LEED Certified buildings

9.5%

higher occupancy rates in U.S. for ENERGY STAR buildings

14%

lower consumption rates in U.S. LEED Certified properties

such a large North American portfolio, the researchers were able to conduct a meaningful analysis of the financial advantages of building and maintaining sustainable properties. **Most importantly, the study validates Bentall Kennedy's focus on energy and sustainability improvement in buildings not only as a socially responsible strategy, but also as a way to enhance property income for investors.**

# Case Study

## 200 West Madison, Chicago, IL

**In 2015, 200 West Madison, a 928,040 square foot, 45-story, 93.5% leased office building, in Chicago's Loop, became the first building in Illinois and second in the world to be certified LEED Gold using the new LEED Dynamic Plaque™ (LDP) platform—an improvement over the LEED Silver designation that the building earned in 2011.**



In 2015, 200 West Madison became the first building in Illinois and second in the world to be certified LEED Gold through LEED Dynamic Plaque.

In contrast to prior practice where the USGBC evaluated a property every five years, the LDP program measures real time building performance data; evaluating the current period practices and results for energy, water, waste, transportation and human experience at the property. With ongoing access to LEED data, the building team utilizes the platform as a proactive tool to assure optimal performance.



The building's Energy Star rating also improved over 5% as a result of the enhanced operations, from a score of 71 in 2012 to a rating of 75 in 2015. In addition, the EPA's National Battle of the Buildings competition recognized 200 West Madison in 2015 for slimming down its water "waistline" by 20%. The competition provides a national platform for industry leaders to save energy, water and money, with an overall goal to fight climate change.

By continually focusing on energy management and integrating technology as a best practice, 200 West Madison has achieved cost savings and improved the tenant experience, which ultimately benefits MEPT and its investors.



# 2015 RPI Achievements

## Environmental

### OBJECTIVE

### RESULTS

#### Sustainable Development and Redevelopment:

Achieve U.S. Green Building Council® (USGBC) Leadership in Energy & Environmental Design (LEED®) Silver certification or higher for all development and redevelopment projects

Seek LEED certification on tenant build outs

12 assets achieved LEED NC/SC/ND certification, totaling \$1.5 billion or 5.2 million square feet

In 2015, MEPT made three investments that will seek LEED certification with the potential for more than \$700 million of development activity.

#### High-performance, Energy-efficient Operations:

Achieve the ENERGY STAR label for its operating assets.

Certify assets through the U.S.G.B.C.'s LEED for Existing Buildings: Operations & Maintenance (EBO&M) Volume program and seeks to maintain a quality control and assurance program for all assets.

215 buildings are benchmarked through the ENERGY STAR program, totaling \$7.2 billion or 28.3 million square feet

24 office and 20 industrial buildings earned the ENERGY STAR label, totaling \$3.0 billion in value or 11.0 million square feet

21 buildings achieved LEED EBO&M certification and total \$2.5 billion in value and 6.2 million square feet

## Social

### OBJECTIVE

### RESULTS

#### Fair Labor Practices:

Uphold the Responsible Contractor Policy which requires signatory contractors for all new construction, renovation or rehabilitation, and tenant improvements to ensure workers on its job sites earn fair wages and benefits.

Development activity in process during the year and new commitments in 2015 included three multi-family projects, one office project and one industrial development, which are expected to generate approximately 7.1 million job hours for members of the Building Trades and \$1.4 billion in economic activity in four U.S. markets by completion.

Two other captive development projects—2015 acquisitions - should also create jobs and stimulate local economies when launched.

#### Tenant Well-Being and Satisfaction:

MEPT's focus on environmentally-friendly assets means that tenants have a healthier and more productive building environment. MEPT seeks to use sustainable practices as a way to attract and maintain controllable tenant retention of more than 80%.

MEPT's operating portfolio is 92.2% leased at year-end 2015

MEPT's portfolio achieved a 99.3% controllable net retention rate in 2015

## Governance

### OBJECTIVE

### RESULTS

The MEPT management team's commitment to industry-leading governance, including a dedicated bank trustee, seeks to ensure that the management of the Fund is solely focused on the interests of its investors and their beneficiaries.

One of only a few funds in the U.S. that employ the most independent valuation process, relying first on MAI appraisers, then third-party review appraisers each quarter for every asset.

## Appendix I: Returns

All MEPT returns are calculated in accordance with the guidance provided within the National Council of Real Estate Investment Fiduciaries (NCREIF) Pension Real Estate Association (PREA) Reporting Standards, as sponsored by NCREIF and PREA (the Reporting Standards). MEPT's real estate advisor, Bentall Kennedy, prepares schedules of investment performance that are independently verified by Peterson Sullivan LLC for compliance with the Global Investment Performance Standards (GIPS) as governed by the CFA Institute. Bentall Kennedy complies with all the composite construction requirements of the GIPS standards on a firm-wide basis, and the firm's processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards. The performance data presented as of December 31, 2015 is compiled from the same information sources Bentall Kennedy used to prepare previous GIPS compliant schedules; the performance data as of December 31, 2014 was audited by Peterson Sullivan and found to be compliant in all material respects. The 2015 audit is expected to be completed by July 2016.

### Total Return

Total return, in accordance with the Reporting Standards, is computed by adding the NOI/loss and capital appreciation/depreciation for each property in the portfolio, as well as any realized gain/ loss on asset dispositions. This valuation is done on a calendar quarter basis, and completed ten business days after the quarter end.

### Net Operating Income

NOI is calculated on a property-by-property basis according to GAAP. Real estate revenue is reported when contractually earned and billable to be consistent with the valuation methodology used to determine unrealized gains and losses.

### Annualized Returns

Annualized returns are computed by chain linking, or compounding quarterly returns. Returns are annualized for periods over one year to time weight, and therefore more effectively compare returns with other indices.

MEPT's returns since inception are presented below:

## MEPT Returns Since Inception\*

| Year | Net Income<br>Portion of<br>Return | Net Capital<br>Appreciation<br>(Depreciation)<br>Portion of<br>Return | Total Net<br>Return | Gross Income<br>Portion of<br>Return | Gross Capital<br>Appreciation<br>(Depreciation)<br>Portion of<br>Return | Total Gross<br>Return |
|------|------------------------------------|---|---------------------|--------------------------------------|---|-----------------------|
| 2015 | 3.80%                              | 7.98%   | 12.01%              | 4.73%                                | 7.98%   | 13.00%                |
| 2014 | 4.41%                              | 7.55%   | 12.21%              | 5.36%                                | 7.55%   | 13.21%                |
| 2013 | 4.77%                              | 6.82%   | 11.83%              | 5.72%                                | 6.82%   | 12.83%                |
| 2012 | 4.49%                              | 0.20%   | 4.70%               | 5.42%                                | 0.20%   | 5.63%                 |
| 2011 | 4.41%                              | 8.31%   | 12.99%              | 5.35%                                | 8.31%   | 14.00%                |
| 2010 | 4.46%                              | 9.14%   | 13.91%              | 5.47%                                | 9.14%   | 14.99%                |
| 2009 | 5.07%                              | -32.66%   | -28.89%             | 5.94%                                | -32.66%   | -28.24%               |
| 2008 | 3.94%                              | -13.94%   | -10.41%             | 4.80%                                | -13.94%   | -9.63%                |
| 2007 | 4.50%                              | 10.34%  | 15.18%              | 5.41%                                | 10.34%  | 16.16%                |
| 2006 | 4.62%                              | 9.68%   | 14.63%              | 5.56%                                | 9.68%   | 15.64%                |
| 2005 | 5.02%                              | 12.99%  | 18.49%              | 6.01%                                | 12.99%  | 19.58%                |
| 2004 | 5.08%                              | 5.95%   | 11.25%              | 6.09%                                | 5.95%   | 12.30%                |
| 2003 | 5.65%                              | 2.85%   | 8.61%               | 6.68%                                | 2.85%   | 9.67%                 |
| 2002 | 5.95%                              | -4.18%  | 1.58%               | 6.99%                                | -4.18%  | 2.59%                 |
| 2001 | 6.05%                              | -0.20%  | 5.83%               | 7.12%                                | -0.20%  | 6.91%                 |
| 2000 | 5.25%                              | 6.02%   | 11.49%              | 6.39%                                | 6.02%   | 12.69%                |
| 1999 | 5.20%                              | 6.20%   | 11.64%              | 6.42%                                | 6.20%   | 12.91%                |
| 1998 | 5.49%                              | 7.19%   | 12.97%              | 6.81%                                | 7.19%   | 14.36%                |
| 1997 | 6.60%                              | 3.90%   | 10.69%              | 8.02%                                | 3.90%   | 12.15%                |
| 1996 | 6.69%                              | 1.98%   | 8.77%               | 8.10%                                | 1.98%   | 10.20%                |
| 1995 | 6.34%                              | 2.42%   | 8.87%               | 7.75%                                | 2.42%   | 10.31%                |
| 1994 | 5.48%                              | -2.87%  | 2.50%               | 6.89%                                | -2.87%  | 3.89%                 |
| 1993 | 6.15%                              | -5.39%  | 0.52%               | 7.56%                                | -5.39%  | 1.89%                 |
| 1992 | 6.01%                              | -8.91%  | -3.31%              | 7.40%                                | -8.91%  | -1.97%                |
| 1991 | 5.99%                              | -4.26%  | 1.54%               | 7.40%                                | -4.26%  | 2.93%                 |
| 1990 | 6.76%                              | 0.79%   | 7.59%               | 8.20%                                | 0.79%   | 9.03%                 |
| 1989 | 7.31%                              | 0.06%   | 7.37%               | 8.77%                                | 0.06%   | 8.83%                 |
| 1988 | 6.26%                              | 0.92%   | 7.22%               | 7.75%                                | 0.92%   | 8.71%                 |
| 1987 | 6.22%                              | 2.88%   | 9.22%               | 7.74%                                | 2.88%   | 10.77%                |
| 1986 | 7.26%                              | 0.86%   | 8.16%               | 8.84%                                | 0.86%   | 9.76%                 |
| 1985 | 8.06%                              | -0.08%  | 7.98%               | 9.66%                                | -0.08%  | 9.58%                 |
| 1984 | 10.27%                             | 0.52%   | 10.83%              | 11.90%                               | 0.52%   | 12.45%                |
| 1983 | 8.80%                              | 0.28%   | 9.09%               | 10.40%                               | 0.28%   | 10.70%                |
| 1982 | 7.70%                              | 0.00%   | 7.70%               | 8.66%                                | 0.00%   | 8.66%                 |

\* From April 1, 1982 inception.



## Appendix II: Investment Management Fee

The Trustee of Multi-Employer Property Trust charges an annual, investment management fee based on the net assets of MEPT. 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 MEPT net assets are excluded from the above fee calculation and are subject to an annual fee of 0.15%. Therefore, the fee decreases as MEPT grows.
- There are no charges for entry or exit. The Trustee charges no additional fees of any kind to the investors. There is no minimum required account balance.
- The fee structure provides positive incentives and flexibility to concentrate on overall fund performance and liquidity in all market conditions.

As of December 31, 2015, the MEPT annual fee was approximately 0.87%.

## Investment Considerations

Past performance is not indicative of future results. Performance objectives (whether based on market conditions that affect MEPT or on MEPT itself) reflect a variety of assumptions, which may not be realized and are subject to significant uncertainties and contingencies. MEPT makes equity and debt position investments in commercial real estate. Performance goals, including investment returns (i.e., changes in MEPT's Unit Value), acquisition, disposition, and leverage levels, portfolio diversification (including cash position), portfolio occupancy and leasing rates could be adversely affected and may not meet expectations due to factors including, but not limited, to the U.S. economic and job growth falling short of expectations, changes in economic conditions specifically affecting certain industries or geographic regions, demand for commercial real estate space not meeting expectations, certain markets experiencing oversupply of competing product, shifts in current demographic trends, consumer spending not meeting expectations, consumer and business confidence falls, rising interest rates and increased borrowing costs, rising energy costs, declining occupancy rates, unexpected tenant bankruptcies, insolvencies, or defaults, changes in government regulations, failure of rent growth to meet expectations, unexpected increases in property tax assessments, unexpected changes in retail and warehouse demand due to the evolution of e-commerce, unexpected increases in property level operating costs, or construction and leasing of current and future development projects failing to meet schedule and budget expectations.

Furthermore, MEPT's ability to meet its liquidity objectives could be adversely affected by higher than expected redemption requests or portfolio cash requirements or an inability to achieve disposition goals. Additionally, the likelihood that MEPT could gain additional value from its environmental and sustainable focus depends in part on tenant and investor demand, and government policies.

MEPT's statements of current plans and goals for the MEPT portfolio are not commitments by MEPT to take any particular actions with regard to the MEPT portfolio, nor are they promises that any stated goals will be met. MEPT expressly reserves the right to change or eliminate any of its current plans or goals, at any time. MEPT assumes no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

MEPT is intended as a vehicle for long-term investments. Compared with many other asset classes, real estate is a relatively illiquid investment. MEPT is open to investments by qualified pension plans only.

Questions regarding MEPT's performance or current plans and goals should be directed to:

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