The Quarterly

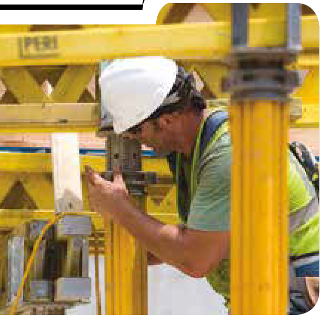
# Trust Report

MEPT

**INSIDE:**

- **MEPT Delivers Double-Digit Performance for 2015**
- **Bentall Kennedy's Strategy and Research Team Releases *2016 Perspective on Real Estate | US***

FOURTH QUARTER | DECEMBER 2015 | VOLUME 30, NUMBER 4



Multi-Employer Property Trust (MEPT) closed the fourth quarter of 2015 with a unit value of $**9,406.39** up **2.75%** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **12.01%**.

## U.S. Economic and Real Estate Overview

The U.S. economy continued its steady performance in the fourth quarter, closing out 2015 with impressive December job growth. With 292,000 jobs added in December, the fourth quarter averaged 284,000 jobs per month, making it the highest three-month period of job creation in 2015. The unemployment rate remained steady at 5.0%. Concluding that the national economy had returned to solid footing, in December the Federal Reserve announced its first rate hike since 2006, even as global turmoil sparked capital markets volatility.

**Increased job openings foreshadow additional hiring and wage growth, which has, contrary to widely held views, significantly outpaced inflation in many of the stronger metropolitan economies across the U.S.** Consumers have deleveraged, fuel costs have plummeted, the personal savings rate has trended up, access to credit is improving and unemployment is falling. Housing market trends are positive.

**In 2015, the health of the U.S. economy drove the commercial real estate market to further gains in demand across all property types.** The office vacancy rate continued to decline, dropping to 13.2%, which is 80 basis points lower than the fourth quarter of 2014, according to CBRE. Vacancy has either fallen or remained flat in 22 of the last 23 quarters. The trend occurred in both suburban and downtown markets, with the central business district (CBD) rate declining to 10.3% and the suburban rate falling to 14.7%.

The industrial market also continued its strong run, with the fourth quarter vacancy rate reaching a 14-year low of 9.4%, according to CBRE. Rents are continuing to increase, with the average asking warehouse rent up 3.4% from fourth-quarter 2014.

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, OR continued to hold the number one spot for rent growth among major markets, followed by Oakland, Sacramento and Seattle.

According to CBRE, the retail market continued to exhibit moderate growth, with the availability rate declining to 11.2%, down from 11.3% in the third quarter and 20 basis points lower than the same quarter in 2014. With the expanding job market and lower costs for gasoline, higher consumer spending should help sustain occupancy and rent growth improvements.

# NEWS BRIEFS

**AT THE END OF THE FOURTH QUARTER, MEPT ACQUIRED A PORTFOLIO IN BOSTON FOR $230.0 MILLION**. Located in the Fort Point Channel sub-market in Boston's Seaport District, the portfolio includes three office properties totaling 226,765 square feet and two parking facilities with a total of 1,010 spaces. The portfolio also includes the potential for the development of approximately 50,000 square feet of office space. 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. Additionally, this acquisition is the third major transaction for MEPT in Boston and follows the Fund's first quarter Seaport District acquisition of three office buildings and the Necco Garage. MEPT now owns 1.2 million square feet in the Boston market.

12 FARNWORTH STREET

**IN OCTOBER, MEPT COMMITTED $103.0 MILLION TO THE DEVELOPMENT OF A MULTI-FAMILY PROJECT IN THE PORTLAND, OREGON MARKET.** Block 137, which is located in Lake Oswego, a suburb of Portland, is planned to include 200 apartment units as well as 40,000 square feet of retail space and 430 parking spaces. Block 137 is aligned with the Fund's investment strategy to invest in markets with urban centers with strong employers, many amenities, walkability, and a scarcity of rental options. Due to the lack of competitive existing product within the submarket, as well as the uniqueness of the location and project design, MEPT and its development partner, PHK Development, expect 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.

Rendering

BLOCK 137

**IN DECEMBER, MEPT SOLD A 49% INTEREST IN PATRIOTS PLAZA I, II AND III IN WASHINGTON, D.C. FOR TOTAL GROSS PROCEEDS OF $223.9 MILLION.** 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. This transaction advances MEPT's objective to optimize the Fund's Washington, D.C. area portfolio and redeploy

PATRIOTS PLAZA

*(continued on inside)*

## FOURTH QUARTER RESULTS

Net Return
Fourth Quarter
**2.75%**

Net Return
01/1/15–12/31/15
**12.01%**

Net Asset Value
**$6.0 billion**

# Performance

**MEPT's performance has resulted in a one-year total gross return of 13.00% — exceeding the Management Team's expectation at the start of 2015 of 8% to 10%.**

For the fourth quarter, MEPT generated a gross of fees return of 2.98%, including an income return of 1.14% and an appreciation return of 1.84%. **MEPT's income return reflects the stability of the 92.2% leased, 30.9 million square foot operating portfolio.** The portfolio's leasing activity for the year totaled 5.2 million in gross leasing activity and 228 leases executed. There was over 930,000 square feet of positive absorption in 2015.

**Appreciation was the result of continued yield compression and improving fundamentals.** With the current low-yield and 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 cap rate compression and property value appreciation. At the same time, strong and improving fundamentals in the sector have supported income growth enabling direct equity real estate investors and lenders to achieve attractive yield spreads over risk-free rates.

The largest contributions to fourth quarter appreciation in the portfolio were principally from MEPT's well-leased CBD office properties such as 1900 16th Street in Denver, 600 California and 475 Sansome in San Francisco, and 200 West Madison in Chicago. The Fund's bulk-distribution industrial facilities, including Centerpointe Chino II in Riverside, CA and Livermore Distribution Center, which is under construction in San Francisco, and urban multi-family assets such as Octagon Park Apartments in New York also contributed notable appreciation. **The CBD office portfolio contributed 64.9% of the appreciation, the industrial portfolio generated 29.1% of the appreciation and the multi-family assets accounted for 8.6% of real estate appreciation.** Appreciation was slightly offset by modest depreciation in the portfolio due to pending lease expirations, market trends, or planned capital expenditures.

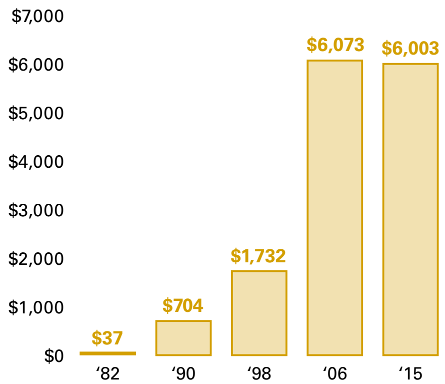
## Yield

| | FOURTH QUARTER 2015 | TRAILING FOUR QUARTERS (COMPOUNDED) |
|---|---|---|
| **NET** | **2.75%** | **12.01%** |
| INCOME | 0.91% | 3.80% |
| APPRECIATION | 1.84% | 7.98% |
| **GROSS** | **2.98%** | **13.00%** |
| INCOME | 1.14% | 4.73% |
| APPRECIATION | 1.84% | 7.98% |

### Net Asset Value Growth

*December 31, 1982 – December 31, 2015*

Based on Market Value ($Millions)

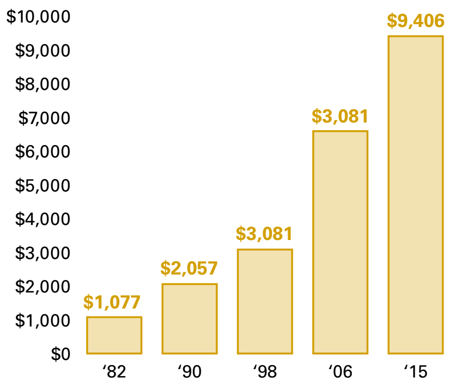



Values shown are for December 31 in each year.
Date of inception April 1, 1982.

### Unit Value Growth

*December 31, 1982 – December 31, 2015*

Based on Market Value




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

## Fund Overview

| | | | |
|---|---|---|---|
| Inception Date | April 1, 1982 | Average Age of Properties | 14.4 years |
| Investments Held | 101 | Markets | 25 |
| Number of Buildings | 253 | Net Asset Value | $6.0 billion |
| Total Operating Square Footage | 30.9 million | Unit Value | $9,406.39 |
| Operating Occupancy | 92.2% | Participating Plans | 327 |

## News Briefs *(continued)*

sale proceeds to other accretive assets. Located south of the U.S. Capitol, Patriots Plaza is a 980,000 square foot, three-building office complex, built with post-9/11 security features. Developed by MEPT and Trammell Crow Company in three phases, the buildings have been particularly appealing to federal government tenants and are more than 89% leased. Phase I has achieved LEED® Silver certification and Phases II and III have achieved LEED Gold. At closing, Allianz Real Estate of America provided a $237 million, 10-year, fixed-rate, first mortgage loan to the joint venture.

**IN NOVEMBER, MEPT RECEIVED TOTAL NET PROCEEDS OF $67.1 MILLION FOR ITS PREFERRED EQUITY INTEREST AT NEMA IN SAN FRANCISCO.** NeMa is a 97.6% leased, 754-unit, multi-family property located in the Civic Center neighborhood of San Francisco, an emerging area that is experiencing an influx of technology firms, including Twitter's headquarters. In the second quarter of 2012, MEPT entered into a $50 million preferred equity position to develop the asset. MEPT's investment was structured to receive a 9.0% preferred return for the Fund. 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 in total resulted in an 11.1% IRR on the investment. 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.

NEMA

**MEPT INCREASED ITS OWNERSHIP AT THE OCTAGON IN NEW YORK WITH THE PURCHASE OF THE LEASEHOLD INTEREST FOR $28.5 MILLION.** In November, MEPT acquired the development partner's 9.6% leasehold interest in the Octagon, a 501-unit, 13-story multi-family asset, built by MEPT in 2006 on New York City's Roosevelt Island. By consolidating ownership and buying out the developer's interest, MEPT now fully controls the management of the 91.0% leased apartment property. In addition, and in line with MEPT's strategic objectives, MEPT increased the Fund's allocation to the desirable New York market as well as the multi-family sector.

### New Participants

Plumbers and Steamfitters Local No. 452 Pension Trust Fund

Laborers Local 231 Annuity Fund

Plumbers and Pipefitters Local Union No. 803 Pension Fund

Recycling & General Industrial Union Local 108 Annuity Fund

### Projects Committed

**Boston**

22 Boston Wharf Road

343 Congress

12 Farnsworth Street

17 Farnsworth

11 Sleeper Street

**Portland, OR**

Block 137

### Projects Sold

NeMa – Preferred Equity Payoff
*San Francisco, CA*

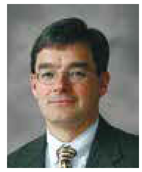
Patriots Plaza I, II & III – Joint Venture Interest
*Washington, DC*

### RESEARCH WEBINAR

**ON FEBRUARY 17, 2016 AT 11:00 AM (EST)** Doug Poutasse, Head of North American Strategy and Research at Bentall Kennedy, will host a webinar on the state of the U.S. economy, capital markets, and the impact on commercial real estate.

*For registration information, please contact Frances Palmer at fpalmer@bentallkennedy.com or 202-737-8822.*

# Bentall Kennedy's Research and Strategy Team Releases *2016 Perspective on Real Estate|US*



Doug Poutasse

Paul Briggs

## *Conditions suggest another year of healthy NOI growth and strong investment performance*

In their latest economic forecast and research report, the Bentall Kennedy Research Team confirms that the U.S. economy is fundamentally healthy, with many strong underlying trends. **The team feels strongly that demographics remain a driver and has been undervalued in its transformative impact on the economy and potential to propel a more extended cycle of expansion.**

The Baby Boom generation remains highly influential as its members approach retirement. At the same time, Millennials are expected to remain an impactful demand driver in 2016 and the years that follow.

The team concluded that the dramatic pace of technological innovation and adoption bodes well for the future, particularly in the innovation hubs. Locations such as Boston, Seattle, the Bay Area, and parts of New York and Chicago, among others, are benefiting from concentrations of employment in education, healthcare and technology and these markets are positioned for long-term growth.

Capital markets remain favorable for real estate investment, as the flow of domestic and foreign capital seeking high-quality, well-located properties remains substantial. Transaction volume continued to rise over the past year and some values pushed above the peaks set prior to the recession. **Global volatility and uncertainty in financial markets should continue driving capital to safe haven countries, such as the U.S., and to cash flowing assets, such as private real estate, in 2016.**

Bentall Kennedy expects that strong labor market conditions and rising wages should boost property fundamentals and rents in 2016 and concludes that conditions are lining up for another year of healthy NOI growth and strong investment performance for each of the traditional property types, including:

### Multi-family

- With the national vacancy rate well below pre-recession lows, healthy job creation in markets with knowledge-based industries, and accelerating wage growth, demand for apartments should continue in 2016.
- The homeownership rate below its 15-year average, combined with a surge in young professionals, should boost the number of renter households.
- Healthy fundamentals and strong NOI growth continue to make apartment investments attractive. Further, Bentall Kennedy believes current high pricing on acquisitions can make development a more desirable option.

### Office

- Office demand continues to outpace supply, leading vacancy rates to lows last seen before the Great Recession. Provided job growth holds up as Bentall Kennedy expects, office landlords have another strong year ahead.
- 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 with skilled workforces and significant exposure to major tech employers.
- Bentall Kennedy believes office rents will continue rising in 2016, particularly in tech-driven markets such as San Francisco, New York, Seattle and San Jose, where vacancy levels have become extremely tight.
- High acquisition prices and strong demand are spurring more development, including a growing amount of speculative construction. However, developers will not be able to accelerate their activity fast enough to upset the supply/demand balance in the near term.

### Industrial

- Continued U.S. economic expansion has contributed to strong industrial demand growth. Ongoing increases in consumption and solid overall macroeconomic conditions bode well for further growth in freight traffic and distribution across the country.
- E-commerce sales growth remains an important driver of demand as the push to shorten delivery times has led to the leasing of smaller infill properties that help solve the "last-mile" hurdle that firms face when shipping directly to consumers.

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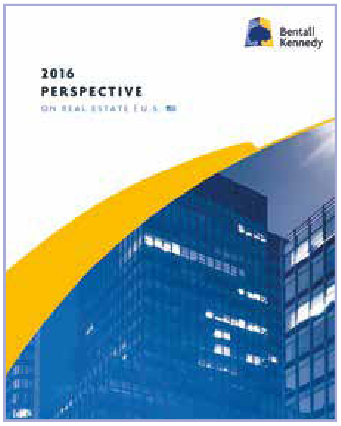
Management Fee—The Trustee of MEPT charges an annual investment management fee based on the net assets of the Fund. The current annual MEPT fee is approximately 0.87%. The fee is determined as follows: 1.25% on the first $1 billion of MEPT total net assets, 1.0% on the second $1 billion of MEPT total 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)*

- While demand for industrial space has proven strong in this point of the expansion, a severely muted supply cycle has been instrumental in allowing availability to fall to its current low rates. The current supply pipeline remains well below prior peak construction levels and Bentall Kennedy believes rent growth should continue for the foreseeable future.

### Retail

- U.S. retail fundamentals continued their slow recovery in 2015. Consumer spending is the fundamental driver of retail space demand. Slower retail sales growth than a year ago, even as wage growth strengthens, was the result of a variety of factors weighing on consumer confidence. Yet retail demand should improve in the next several years as personal finances improve.
- Brick and mortar retailers worldwide have struggled with growth in ecommerce and those that have best employed an omni-channel strategy that includes ecommerce have been the most successful.
- Bentall Kennedy expects urban locations to 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.
- Over the past year, neighborhood and strip centers saw the greatest improvement in vacancy and experienced limited supply growth, which should allow for rent growth in the near term.




For a full copy of *2016 Perspective on Real Estate | US*, please contact Vanessa Parrish at vparrish@bentallkennedy.com or (202) 737-8829.

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TRUSTEE

NewTower Trust Company

INVESTMENT ADVISOR AND INVESTOR RELATIONS

Bentall Kennedy

The Trust Report is published by Multi-Employer Property Trust (MEPT), a commingled open-end real estate equity fund that invests in a diversified portfolio of institutional-quality real estate assets and 100% union-built new construction properties in major metropolitan markets around the country. MEPT's primary investment strategy is to create top-quality, income producing assets through development, rehabilitation or acquisition and repositioning of under-valued assets. MEPT's investor base is diverse and is composed of Taft-Hartley and public employee pension plans.

For more information, please contact Bentall Kennedy at 202-737-7300, or through the Web site, **www.mept.com**.

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