The Quarterly

Trust Report

MEPT

INSIDE:

SECOND QUARTER | JULY 2016 | VOLUME 31, NUMBER 2

U.S. Economic and Real Estate Overview

U.S. Economy Muscles through Second Quarter as Real Estate Sees Moderating Gains

In the face of economic pressure at home and from abroad, the U.S. economy continued to show signs of resilience, achieving moderate growth in the second quarter of 2016. Yet the period saw a wide disparity in jobs data and political and social discord caused by the stunning and unprecedented vote by the United Kingdom to exit the European Union, as well as from the U.S. presidential race. Faced with this unpredictable landscape, the Federal Reserve held interest rates steady.

Moderate strength was evident in job growth numbers as U.S. employers added a surprising 287,000 jobs in June, reversing the addition of just 11,000 the preceding month. This jump in jobs represented the most robust growth in eight months, bringing the second quarter average to 147,000 jobs per month.

Tempered growth continued to be the story on the compensation front as well, with wages up 2.6 percent from a year ago. However, the year-to-year increase in wages matches the best annual growth in seven years.

What We're Watching

Market factors we're keeping close tabs on include:

- Brexit as it unfolds and impacts the global flow of capital. Initial response was lower interest rates globally, including a flight to quality in U.S. Treasury bonds;
- The uncertainty in the U.S. presidential race;
- The moderation of commercial real estate appreciation;
- Softening in the extraordinary pricing in capital markets and whether this is temporary or a real trend; and
- On-going uncertainty of U.S. economic growth and the Fed response

Real Estate: Pockets of Strength and Moderating Growth

Real estate conditions echoed the moderating trends of an American economy now in its seventh year of recovery. Office vacancies continued to decline, albeit at a slower pace, with rates dropping 10 basis points to 13 percent—the lowest level since 2008—according to CBRE. Those numbers reflected a drop in the suburban vacancy rate of 20 basis points to 14.4 percent, and a 10 basis point increase to 10.5 percent in Central Business District (CBD) vacancies. The lowest vacancy rates for the second quarter were found in Nashville (6.1 percent), San Francisco (6.2 percent), San Jose (8.6 percent), Austin (8.7 percent) and Seattle (8.9 percent).

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Cover Story *(continued from front page)*

Another property type experiencing a stabilizing growth trend was the apartment market where rental rates grew 3.7 percent on an annualized basis in the second quarter, the first quarter below 4 percent in two years and down from 5.1 percent a year ago; according to Axiometrics. Furthermore, occupancy hit 95.2 percent – the first time above 95 percent since the second quarter of 2015. The Seattle, Sacramento, Boston, Charleston and Denver markets all reported 4 percent or higher annualized effective rent growth in the second quarter.

The industrial market once again showed exceptional strength as vacancy rates dropped to 6.0 percent for the second quarter from 6.3 percent in the previous quarter, according to JLL. More impressive, net absorption increased by 18.9 percent from the first quarter, a remarkable run of 25 straight quarters with positive performance.

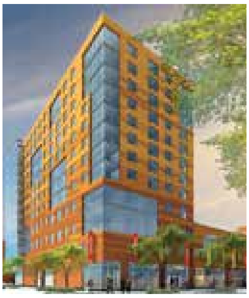
The retail market continues to be a study in contradiction, with overall shopping center vacancy down year-over-year and rents in premier retail spaces continuing to rise, despite the recent headlines of bankruptcies of national retailers. E-commerce continues to have a negative effect on certain segments of the retail sector, such as traditional brick-and-mortar retailers, however, this is being offset by growth in entertainment and food-related concepts, as well as grocery-anchored centers. Furthermore, high-end, dominant malls continue to outperform traditional malls.

News Briefs

BENTALL KENNEDY HONORED FOR ITS SUSTAINABLE PROPERTY INITIATIVES

Bentall Kennedy was awarded its 8th consecutive ENERGY STAR "Partner of the Year" Award and its 6th consecutive Sustained Excellence Award from the Environmental Protection Agency (EPA). At an awards ceremony held in Washington, D.C. on April 13, 2016, Bentall Kennedy was acknowledged for its outstanding contributions to protecting the environment through energy efficiency. Additionally, the Sustained Excellence Award is given to only a select number of organizations that exhibit continual, outstanding energy management practices and performance.

DURING THE SECOND QUARTER, MEPT COMMITTED $143.2 MILLION TOWARDS THE DEVELOPMENT OF 1001 W CHICAGO AVENUE. The proposed two-tower, 363-unit multi-family development is located in Chicago's River West neighborhood, a transformative and rapidly growing area, that is easily accessible via multiple bus lines, the CTA metro line, as well as being located along the new "Spoke Route" bicycle lanes. The apartment units at 1001 W Chicago Avenue will provide a modern livable space, with an extensive amenity package, including an outdoor activity deck, a "family-room" lounge area with game room and bar area, as well as a bike repair shop and music room. Additionally, the asset will have 44,000 square feet of retail space which can accommodate a grocer and other resident-focused amenities. The acquisition is in line with MEPT's "build-to-core" strategy and increases the Fund's allocation to transit-oriented, urban multi-family assets.



1001 W CHICAGO AVENUE (Rendering)

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Performance

Based on the economic and commercial real estate outlook for 2016 as outlined in the Fund's 2016 Operating Plan, the management team has set a total return target (gross of fees) in the range of 8.0 percent to 10.0 percent[1]. With the year-to-date performance of 4.98 percent gross of fees (4.53 percent net of fees), the team is on track to achieve the 2016 target.

MEPT produced a total gross return of 1.96 percent comprised of 1.03 percent income and 0.93 percent appreciation for the quarter, which compares to the preliminary NCREIF Fund Index–Open-End Diversified Core Equity (NFI-ODCE) benchmark total return of 2.13 percent. However, the Fund's year-to-date total return of 4.98 percent outperformed the preliminary benchmark total year-to-date return of 4.36 percent. Going forward, the management team expects the total returns for core real estate to continue to moderate as appreciation will be primarily driven by income growth and improving property fundamentals, as opposed to compression of yield rates.

For the remainder of 2016, the management team remains focused on enhancing the quality of the portfolio through acquisition and development opportunities in innovation-driven, urban markets. The team has set an acquisition and development commitment target of $1.25 billion to $1.5 billion for 2016. In the second quarter of 2016, the Fund closed on two transactions in Boston and Chicago for total dollars committed of over $175 million, which brings year-to-date acquisition and commitment volume to over $580 million and puts the Fund in position to achieve the 2016 acquisition goal. The team also expects to generate approximately $200 million to $300 million in net proceeds from dispositions in 2016 and will target non-strategic and opportunistic sales.

In the second quarter, the 30.6 million square foot, 92.8 percent leased operating portfolio generated over $50.1 million in net investment income for MEPT. There were 47 new, expansion and renewal leases signed during the quarter. The gross leasing activity of over 2.1 million square feet was mainly attributed to

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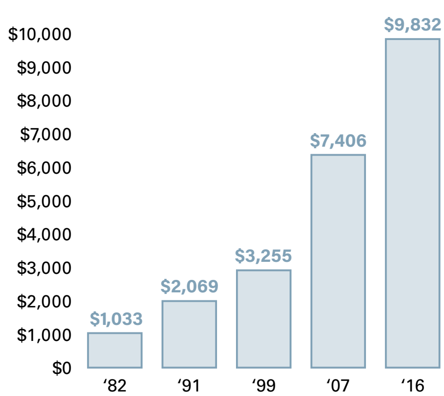
Yield

	Second Quarter 2016	Trailing Four Quarters (Compounded)
NET	**1.73%**	**10.78%**
INCOME	0.81%	3.62%
APPRECIATION	0.93%	6.98%
GROSS	**1.96%**	**11.76%**
INCOME	1.03%	4.54%
APPRECIATION	0.93%	6.98%

Unit Value Growth

June 30, 1982 – June 30, 2016

Based on Market Value



Values shown are for June 30 in each year.
Date of inception April 1, 1982.

Second Quarter Results

Net Return
Second Quarter
1.73%

Net Return
07/1/15–6/30/16
10.78%

Net Asset Value
$6.31 billion

[1] Statements regarding the future represent the management team's present expectations and beliefs based on assumptions and estimates, and are intended to explain MEPT's current portfolio strategy rather than to provide specific expectations or guidance regarding future fund performance. The future is inherently uncertain, and a variety of factors and risks could affect the general economic outlook or MEPT in particular and cause MEPT's performance to deviate significantly from our expectations. We undertake no obligation to update future-oriented statements.

Fund Overview

Inception Date	April 1, 1982	Average Age of Properties	15.4 years
Investments Held	102	Markets	24
Number of Buildings	257	Net Asset Value	$6.31 billion
Total Operating Square Footage	30.6 million	Unit Value	$9,832.19
Operating Occupancy	92.8%	Participating Plans	336

News Briefs *(continued)*

AT THE END OF THE SECOND QUARTER, MEPT ACQUIRED 147 MILK STREET IN BOSTON FOR A TOTAL GROSS PURCHASE PRICE OF $33.4 MILLION. The fully leased, 52,000 square foot medical office asset is located in the center of downtown Boston, just one block from the heart of the Financial District. This acquisition is in line with MEPT's strategic goal of increasing the Fund's exposure to assets located in the CBD's of primary markets, as well as medical office assets. The location is ideal for medical office, as it offers a convenient choice for the substantial daily-workforce as well as the rapidly growing resident population in the downtown area.

DURING THE QUARTER, MEPT RECEIVED TOTAL GROSS PROCEEDS OF $57.0 MILLION FOR THE DISPOSITION OF THREE ASSETS. Pictoria Corporate Center, a 94 percent leased, 252,000 square foot office asset in Cincinnati, was targeted for sale due to its location in a suburban office market with weakening leasing fundamentals. Pictoria Corporate Center was sold for $27.1 million. 160 Post Street-Land Loan, a one-year term loan, was originated in the second quarter of 2015 to facilitate a proposed multi-family development which ultimately proceeded without MEPT as an investor. As part of the loan agreement, the Fund received $5.9 million from the repayment, which includes both the principal loan amount as well a portion from interest and fees. Finally, the fund sold a land asset in Seattle, which was purchased by the Avalon Bay Company for $24.0 million.

Performance *(continued)*

the soon-to-be completed industrial asset, Livermore Distribution Center, in the San Francisco area where the Fund executed a lease for one million square feet. Other notable leasing activity completed during the quarter included a 40,000 square foot office lease at 3500 Lacey Road in Chicago, bringing the asset to 94 percent leased. With the moderation of yield compression, the primary source of performance going forward will be continued proactive asset management, as was seen during the second quarter.

The MEPT portfolio had solid appreciation of $53.7 million from a variety of property types in the second quarter. MEPT's San Francisco portfolio experienced significant appreciation as a result of the executed lease at Livermore Distribution Center, increased market rent growth at the CBD office assets, and the near completion of the Solaire, a 409-unit multi-family development project. Additionally, CBD office assets in New York and Boston recognized appreciation as a result of increased market rent growth. Furthermore, the Fund's industrial portfolio was the strongest performing property type with appreciation in 22 of 25 assets. The solid gains were somewhat offset by value declines in the retail portfolio due in part to the impact of the bankruptcy of The Sports Authority as well as continued weakness in the Houston market.

New Participants

Cement Masons Local #780 Pension Fund

City of Hialeah Elected Officials Retirement Plan

Insulator Workers Local 78 Defined Contribution Pension Plan

Iron Workers Local Union 167 Pension Plan

Massachusetts Laborers' Annuity Fund

Millwrights and Machinery Erectors Local 1192 Defined Contribution Pension Plan

Plumbers & Pipefitters Local 502 and 633 Pension Trust Plan

Steamfitters Pension Fund Local Union No. 475

Projects Committed

147 Milk Street
Boston, MA

1001 W Chicago Avenue
Chicago, IL

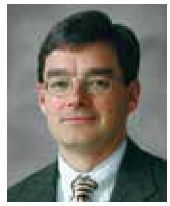
Projects Sold

160 Post Street — Land Loan
San Jose, CA

Pictoria Corporate Center
Cincinnati, OH

Second and Wall (The McGuire)
Seattle, WA

2016 Mid-Year Outlook: *Poised for Growth, But Be Aware*



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

As we enter the second half of 2016, it is imperative to focus on the longer term and separate the important trends from the so-called urgent news and noise we are flooded with every day. One such trend is the healthy state of the U.S. economy: U.S. growth is stable and leads most other industrialized nations.

With the strong June employment numbers, we have added 2.5 million jobs in the past year. The highly skilled service sectors remain the key growth drivers, dominated by Professional and Business Services and Health Services. While job growth in the 1990s was stronger than this cycle, only four years in the 80s were stronger, and only one year in the 2000s exceeded 2.5 million net new jobs.

In the housing market, home prices have recovered but home building has not. National home prices are back above their early 2008 peak prices. Conversely, single-family construction starts have finally approached a 750,000 annual rate, but this is less than half the rate recorded in 2006, when we had far weaker job creation. Nationally, multi-family construction starts are only modestly above the pace recorded every year from 2000 to 2008, during the single-family housing boom.

Year-over-year change in wages has been between 4 percent and 6 percent since early 2014, markedly above the 2 percent to 4 percent range in 2011 to 2013. However, consumption growth, which had been closely tracking wage growth from 2005 into 2014, has been consistently below wage growth for almost two years.

Clearly American consumers remain cautious. Perceptions of economic weakness breed less consumption and less consumption can bring economic weakness. Wage growth, cheap oil and rising home prices are tailwinds for consumption, but so far the sentiment seems to be increased savings versus spending.

Real Estate Market—How Long Can Strength Be Sustained?

A healthy U.S. economy has had a positive impact on the property markets. In multi-family, because of the increasing number of millennials and foreclosed homeowners renting, there are now almost 8 million more rental households than eight years ago, putting enormous pressure on apartment supply in most major markets. Rent growth has been strong in the core markets for five years; in other metro markets for two to three years. Almost all markets are now below 5 percent vacancy. The struggle to build enough of what consumers want and need continues.

With solid job growth in office-using service sectors, most of the excesses supply of buildings in the office sector from the 1980s is finally being absorbed, and rent growth is above 3 percent for the vast majority of metro markets. The ability to build additional office assets is constrained by rising construction costs from the multi-family boom and rising land costs as both residential and retail uses have replaced office as highest and best use in many major urban cores.

As for capital markets, we are observing some softening in the extraordinary pricing that has existed, but it is not clear yet whether this represents a transitory pause or a more enduring shift. With yield rates moving materially lower around the world in the second quarter—and lower again after the Brexit vote—the 5.5 percent yield on average properties and even the 4 percent to 4.5 percent regularly achieved on the sales of best-in-class properties in strong markets remain a very attractive alternative.

What's Ahead

The key question now is how long this recovery will last. The chart below shows the last five economic cycles in the U.S. measured from the peak in jobs until the next peak. The blue represents the current cycle, now 8.5 years old; it is longer than the 1970s cycle and the 2000s cycle, but still two years shorter than the 80s and 90s cycles. The vertical axis, depicting total job growth, shows the current cycle is also well below all but the 2000s cycle in terms of room to grow, reflecting the severity of the downturn.

The surprising Brexit vote and the unpredictability of U.S. politics are escalating concerns about the sustainability of this prolonged recovery. Brexit was reminiscent of four other

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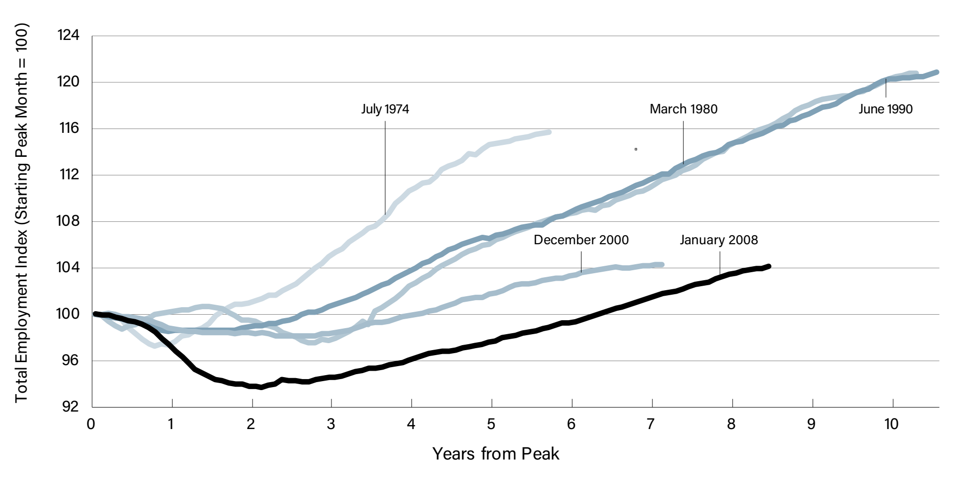
Management Fee—The Trustee of MEPT charges an annual investment management fee based on the net assets of the Fund. The current annual MEPT fee is approximately 0.87%. The fee is determined as follows: 1.25% on the first $1 billion of MEPT total net assets, 1.0% on the second $1 billion of MEPT total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

U.S. EMPLOYMENT CYCLES THROUGH JUNE 2016



events: The October 1987 stock market crash; the 1997 Asia debt crisis; the 1998 Long Term Capital Management crisis; and the August 2007 Long/Short Hedge fund crisis. All four events seemed certain to bring an end to their extended expansion cycles in each case. In hindsight, only the 2007 event directly precipitated the end of that expansion period—albeit one year later.

That said, the lessons we learned from the past is that no expansion lasts forever; that the trigger of recession may not be anticipated and that investors should carefully study, understand, and manage risk. To do so, it is important to focus on what matters and put aside the noise, because today we live in a very noisy world.

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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