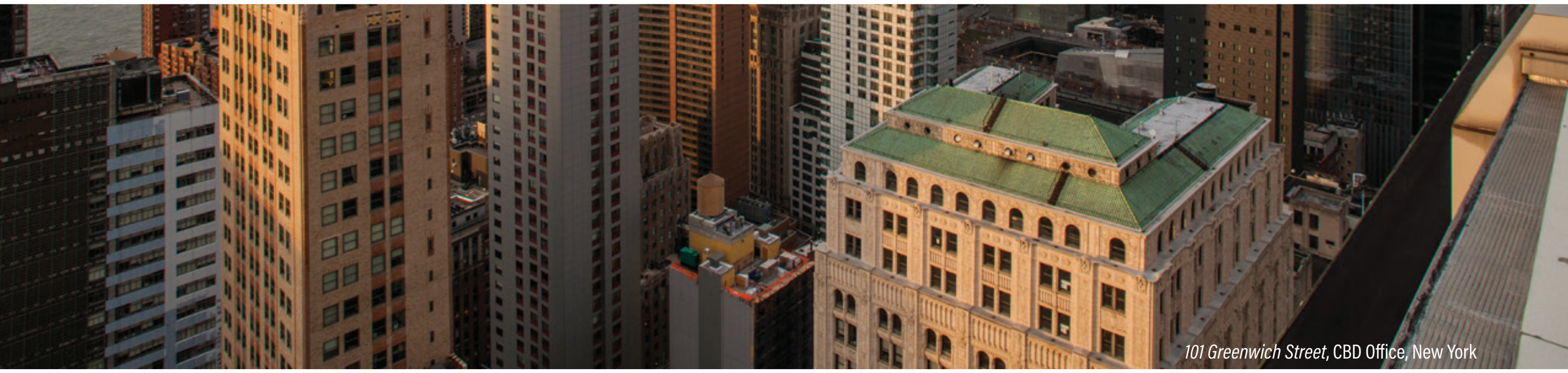
# QUARTERLY TRUST REPORT

First Quarter
April 2017
Volume 33, Number 1



*101 Greenwich Street*, CBD Office, New York

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DEBT OVERVIEW

**FIRST QUARTER RESULTS**

(Gross of Fees)

QUARTER
1.51%

TRAILING 1-YEAR
7.41%

GROSS ASSET VALUE
$8.1b

(Net of Fees)

QUARTER
1.29%

TRAILING 1-YEAR
6.48%

NET ASSET VALUE
$6.4b

## LETTER TO INVESTORS

**AS THE U.S. PRESIDENTIAL ADMINISTRATION** approaches the 100-day milestone, there is some clarity around expectations for changes in domestic and foreign policy. Since Inauguration Day, we have been reminded that with two diverse political parties, three branches of government, and state governments with their own powers, change in Washington, D.C. tends to happen incrementally rather than rapidly. In fact, not much has happened on the legislative front in relation to domestic policies with a direct effect on the US economy—taxes, spending, infrastructure, regulation, trade, immigration and healthcare. Further, the Administration appears to have, at least in substance, reverted to more conventional approaches to foreign policy.

One of the best indicators of this diminished expectation for rapid change is the recent sharp drop in U.S. government bond yields. The 10-year bond yield has declined from a high of 2.6% in mid-March to 2.3% in late April, indicative of reduced expectations for the outsized economic growth that was expected as a result of the new administration's economic policies. However, notwithstanding a return to more modest expectations for economic growth—more likely closer to 2% than the approximately 4% targeted by the Administration—the U.S. economy remains diverse, strong and stable. Still, there is the potential for higher growth if some of the Administration's proposals are ultimately adopted.

Given interest rates are at near historically low levels, investors continue to flock to high quality, stable investment alternatives. Despite lower growth expectations, the underlying fundamentals of the U.S. economy remain strong. Unemployment is low, job growth is running at a pace of more than two million new jobs per year, wage growth is accelerating, and consumer confidence is strong. Home prices and stock values are at or near record-high levels, providing further tailwinds for consumption.

Total returns for U.S. commercial real estate have moderated following the end of an extended period of yield compression, but the asset class should continue to benefit from healthy economic conditions and remain an attractive investment option. MEPT has a 2017 gross total return goal of 6.0% to 8.0%, which is in line with long-term average returns for US commercial real estate. Consistent with this return expectation range, the Fund delivered a total gross return of 1.51% (1.29%, net of fees) during the first quarter, which trailed the preliminary NFI-ODCE total return of 1.77% by 26 basis points. MEPT's 1-year total return is 7.41%, which trails the benchmark return by 92 basis points, and the 3-year return is 11.13%, which trails the benchmark by 66 basis points.

The Fund's absolute performance continues to be strong and MEPT has first quartile standard deviation of total return (i.e. low volatility) within the benchmark over the past three years, which highlights the Fund's strong risk-adjusted return profile. However, the relative performance in the 1- and 3-year timeframes lags the benchmark due to quarters of considerable outperformance dropping out of the respective performance timeframes.

MEPT's ongoing focus on stable income, risk management, prudent incorporation of build-to-core opportunities, and emphasis on diversification remain paramount. We are confident that MEPT is well positioned to continue to deliver superior risk-adjusted returns and appreciate your continued confidence in our stewardship of your capital. ■

David Antonelli,
Executive Vice President & MEPT Portfolio Manager

Bentall Kennedy

# PERFORMANCE OVERVIEW

**THE US ECONOMY OPENED 2017** on a strong note with 535,000 jobs added in the first quarter of the year. However, March's lackluster report of just 98,000 new jobs was a reminder that the pattern of moderate but steady growth will likely continue. Nevertheless, the unemployment rate declined to 4.5% in March, the lowest rate in almost ten years.

The office market has begun to moderate slightly, with vacancy rates holding steady at 15.8% after several years of declining rates, according to Reis Inc. Asking rental rates rose by 1.8% with the technology sector continuing to drive demand, accounting for 24.2% of total leasing volume. The market for high-quality office buildings continues to exhibit strength, with Class A rent growth climbing 3.5% from the previous year, according to JLL. According to Axiometrics, a similar story of moderation played out in the multi-family sector, which experienced a slight drop of 40 basis points in occupancy rates from the previous quarter, resulting in a 94.5% apartment occupancy rate. Nevertheless, rents increased 1.3% for the quarter, with Sacramento and Seattle continuing to be among the metro leaders with annual rental growth rates of 8.8% and 4.9%, respectively.

The industrial sector continued its robust performance, with the vacancy rate hitting a 17-year low of 5.3%, according to JLL. While the ongoing rise in e-commerce sales helped drive this sector, it also continued to agitate the retail market, which had a vacancy rate of 5.2%, up from 4.9% the previous quarter, according to Quantum Real Estate Advisors.

## FUND OVERVIEW

| | | | |
|---|---|---|---|
| GROSS ASSET VALUE | **$8.1 BILLION** | AVERAGE AGE OF PROPERTIES | **14.7 YEARS** |
| NET ASSET VALUE | **$6.4 BILLION** | MARKETS | **25** |
| INCEPTION DATE | **APRIL 1, 1982** | LEVERAGE AS A % OF GAV | **21.1%** |
| NUMBER OF ASSETS | **104** | CASH AS A % OF NAV | **1.4%** |
| TOTAL OPERATING SQUARE FOOTAGE | **32.0 MILLION** | UNIT VALUE | **$10,291.12** |
| OPERATING OCCUPANCY | **94.1%** | PARTICIPATING PLANS | **348** |

## ANNUALIZED RETURNS

THROUGH MARCH 31, 2017

| GROSS OF FEES RETURN: | 1Q 17 | 1 YEAR | 3 YEAR | 5 YEAR | SINCE INCEPTION |
|---|---|---|---|---|---|
| Income | 1.00% | 4.11% | 4.66% | 5.03% | 7.03% |
| Appreciation | 0.50% | 3.20% | 6.25% | 5.39% | 1.02% |
| Total | 1.51% | 7.41% | 11.13% | 10.61% | 8.11% |

| NET OF FEES RETURN: | 1Q 17 | 1 YEAR | 3 YEAR | 5 YEAR | SINCE INCEPTION |
|---|---|---|---|---|---|
| Income | 0.78% | 3.20% | 3.73% | 4.09% | 5.82% |
| Appreciation | 0.50% | 3.20% | 6.25% | 5.39% | 1.02% |
| Total | 1.29% | 6.48% | 10.15% | 9.64% | 6.89% |

| NFI-ODCE[1] | 1Q 17 | 1 YEAR | 3 YEAR | 5 YEAR | SINCE INCEPTION |
|---|---|---|---|---|---|
| Income | 1.07% | 4.45% | 4.70% | 4.93% | 7.05% |
| Appreciation | 0.71% | 3.75% | 6.83% | 6.78% | 0.59% |
| Total | 1.77% | 8.34% | 11.79% | 11.98% | 7.68% |

[1] NCREIF is an industry trade association that collects and disseminates real estate performance information. NCREIF Property Index is a quarterly time series total rate of return measurement of investment performance of unlevered commercial real estate properties acquired in the private market, largely by tax-exempt institutional investors, for investment purposes only. 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.

# MEPT PERFORMANCE

**MEPT'S FIRST QUARTER GROSS RETURN WAS 1.51%**, which consisted of 1.00% income and 0.50% appreciation. The key drivers of appreciation included market rent growth in the Central Business District (CBD) office portfolio, positive leasing activity across the industrial portfolio, and receiving entitlements in the development portfolio. The Fund's positive performance was partially offset by depreciation of select retail and multi-family assets. MEPT maintains an above benchmark allocation of 85% invested in primary markets. During the quarter, the Fund's operating portfolio occupancy increased by 0.5% to 94.1% due to over 810,000 square feet of positive absorption. MEPT's first quarter occupancy is the second highest in the Fund's 35-year history and is a strong indicator of the health of both the Fund and the broader U.S. commercial real estate market.

## INDUSTRIAL

94.6% LEASED

1.8% TOTAL RETURN[1]

*Livermore Distribution Center*
San Francisco, Industrial

MEPT's industrial portfolio represents 15.8% of the net asset value of the total portfolio and delivered a first quarter total unlevered return of 1.8% comprised of 1.2% income and 0.6% appreciation. The average stabilized cap rate for the portfolio was 5.3% and the operating assets were 96.4% leased, which was up 1.4% from the previous quarter. The industrial portfolio consisted of 23 assets; 14 had positive appreciation and 9 experienced depreciation. For the seventh consecutive quarter, the industrial portfolio was the best performing property type in terms of total return. Across the country, increasing demand from the e-commerce sector has continued to keep rent growth, occupancy and comparative sales metrics strong for industrial assets.

## RETAIL

91.8% LEASED

0.9% TOTAL RETURN[1]

MEPT's retail portfolio represents 8.2% of the net asset value of the total portfolio and delivered a first quarter total unlevered return of 0.9% comprised of 1.3% income and 0.4% depreciation. The average stabilized cap rate for the portfolio was 5.5% and the operating assets were 91.8% leased, which was down 0.1% from the previous quarter. The retail portfolio consisted of 13 assets; 9 had positive appreciation, 1 had no change in value, and 3 experienced depreciation. Despite modest depreciation, the retail portfolio delivered positive overall return due to the durable and consistent income, which remains the key feature of the grocery-anchored and urban focused portfolio.

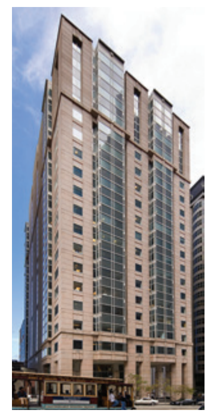

*Springbrook Prairie Pavilion*
Chicago, Retail

## OFFICE

90.9% LEASED

1.2% TOTAL RETURN[1]

MEPT's office assets represent 44.2% of the net asset value of the total portfolio and delivered a first quarter total unlevered return of 1.2% comprised of 1.0% income and 0.2% appreciation. The average stabilized cap rate for the office sector was 5.3% and the operating assets were 90.9% leased, which was up 0.1% from the previous quarter. The office portfolio consisted of 37 assets; 21 had positive appreciation, 2 had no change in value, and 14 experienced depreciation. Consistent with previous quarters, the top performers were CBD office buildings in Primary Markets; specifically, assets in Chicago and New York, which benefitted from strong market fundamentals, including rent growth and yield compression. In 2017, the office portfolio remains well-positioned to generate attractive, risk-adjusted returns as over 65% of the assets are in CBD locations within Primary Markets.



*600 California Street*
San Francisco, Office

## MULTI-FAMILY

94.3% LEASED

1.5% TOTAL RETURN[1]

MEPT's multi-family assets represent 28.5% of the net asset value of the total portfolio and delivered a first quarter total unlevered return of 1.5% comprised of 0.9% income and 0.6% appreciation. The average stabilized cap rate for the multi-family sector was 4.5% and the operating assets were 94.3% leased, which was down 0.3% from the previous quarter. The multi-family portfolio consisted of 23 assets; 14 had positive appreciation, one had no change in value, and eight experienced depreciation. The top performing assets were located in Chicago and Portland, which realized value gains from lower operating expenses and yield compression. The value gains were partially offset by weaker performance resulting from reduced market rent growth assumptions at multi-family assets in Minneapolis and New Haven. Going forward, the urban, Primary Market focused multi-family portfolio is expected to continue to produce attractive risk-adjusted performance.

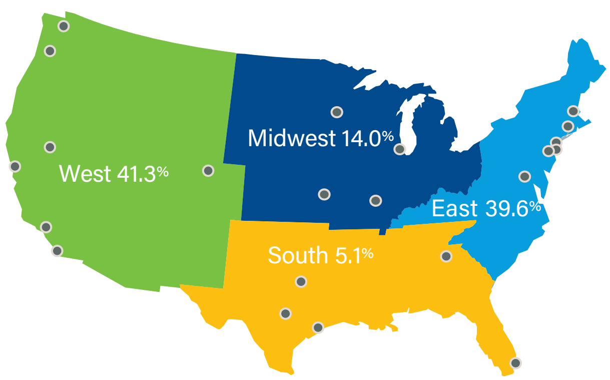
*Anthology*
Washington, DC, Multi-family

[1] Property sector returns are shown on an unlevered basis.

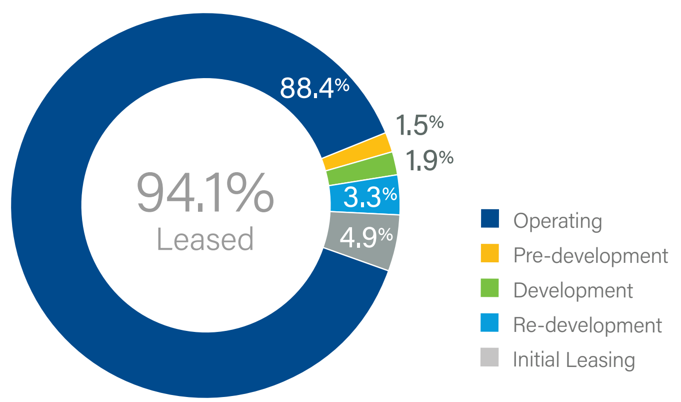
# MEPT BY THE NUMBERS

## Diversification and Portfolio Characteristics

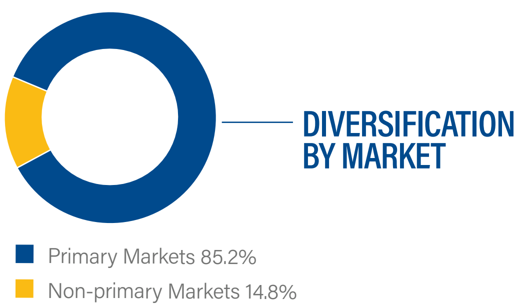
### DIVERSIFICATION BY GEOGRAPHIC REGION (NAV)




### DIVERSIFICATION BY LIFECYCLE (NAV)

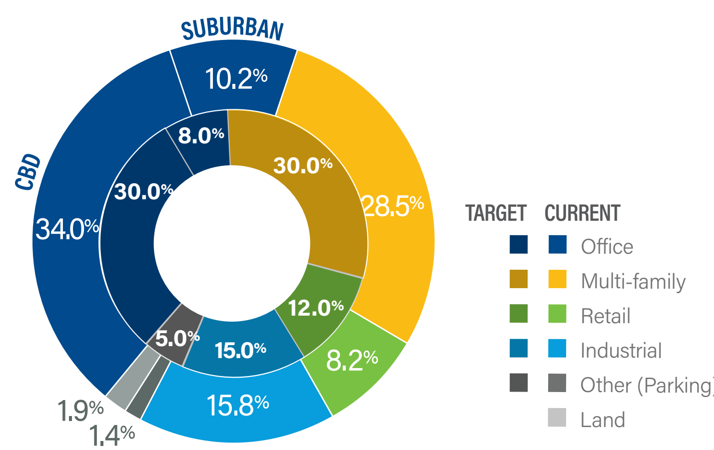



### MEPT TOP MARKETS (NAV)




| MARKET | GROSS ASSET VALUE IN $ MILLIONS | PERCENT OF PORTFOLIO |
|---|---|---|
| New York | $1,725.5 | 17.9% |
| San Francisco | 1,145.7 | 11.9% |
| Washington, DC | 1,145.2 | 11.9% |
| Chicago | 966.0 | 10.0% |
| Los Angeles | 784.1 | 8.1% |
| Boston | 772.9 | 8.0% |
| Portland, OR | 643.4 | 6.7% |
| Denver | 514.0 | 5.3% |
| Seattle | 290.5 | 3.0% |
| Other Markets | 1,661.6 | 17.2% |
| **Total** | **$9,648.9** | **100.0%** |

### DIVERSIFICATION BY PROPERTY TYPE (NAV)




### LEASE ROLLOVER SUMMARY*

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Percent of Net Rentable Area | 4.4% | 8.9% | 15.5% | 10.9% | 8.3% |
| Percent of Total Revenue | 3.5% | 10.9% | 11.3% | 9.5% | 12.2% |

* Consolidated Operating Industrial, Office and Retail

## MEPT—2017 ACQUISITION PIPELINE OF EXISTING AND DEVELOPMENT OPPORTUNITIES UNDER CONSIDERATION

IN $MILLIONS

| MARKETS | CORE STABILIZED ACQUISITION | NON-STABILIZED ACQUISITION | DEVELOPMENT/ RE-DEVELOPMENT | TOTAL |
|---|---|---|---|---|
| **Closed** | | | | |
| Atlanta | $30.9 | | | $30.9 |
| Boston[1] | $4.9 | | | $4.9 |
| **In Process** | | | | |
| Atlanta | $46.6 | | | $46.6 |
| Boston[2] | $10.3 | | | $10.3 |
| Miami | $92.2 | | | $92.2 |
| Portland, OR | $50.0 | | | $50.0 |
| Philadelphia | $77.0 | | | $77.0 |
| Chicago | $50.0 | | | $50.0 |
| **2017 Total** | **$361.9** | | | **$361.9** |

(1) Buyout of JV Partner's interest
(2) Potential ground lease purchase

**Key**

| | |
|---|---|
| Office | (light blue) |
| Multi-family | (dark blue) |
| Industrial | (yellow) |
| Retail | (green) |

# FIRST QUARTER TRANSACTION ACTIVITY


*Kedron Village,* Retail, Atlanta

**DURING THE FIRST** quarter of 2017, MEPT acquired Kedron Village II, an 157,185 square foot retail center for a total gross purchase price of $30.9 million. Kedron Village II is located 30 miles southwest of downtown Atlanta in Peachtree City and is adjacent to an existing Fund-owned asset, Kedron Village, a 93,356 square foot, grocery-anchored retail center acquired in 2011.

Peachtree City, the largest city in Fayette County, Georgia, has strong demographics with average and median household incomes within a 3-mile radius of the Property of $120,000 and $95,000, respectively. Built in 2006, Kedron Village II is 90 percent leased to a mix of national, regional, and local tenants. The center is anchored by Ross Dress for Less, Bed Bath & Beyond, and Petco.

"This acquisition aligns with the Fund's strategic goal of acquiring core retail properties in primary, knowledge-based markets throughout the U.S.," stated David Antonelli, Executive Vice President and Portfolio Manager at Bentall Kennedy. "Investing in necessity-based retail centers in areas surrounded by large, educated and affluent populations provide stable income for the Fund."

Additionally, the Fund acquired a JV partnership interest in one of the Boston assets, Doctor's Office Building, a 97,289 square foot medical office building, for $4.9 million. ■

With its art-deco era eagles shrouded in protective mesh during the renovation, *101 Greenwich* will keep its character while delivering features critical to attracting TAMI tenants.

IN-DEPTH FEATURE

# 101 GREENWICH STREET: TRANSFORMING HISTORY INTO INNOVATION

WHEN MEPT ACQUIRED the iconic, art-deco office building at 101 Greenwich Street in New York's Downtown Financial District last year, the Fund did so to benefit from the submarket's foundational transformation. The area had long been synonymous with world class financial institutions, but over the past few decades the Financial District experienced both a decline in financial services employment as well as the relocation of many firms to the Midtown and Midtown South submarkets. Today, thanks to the opening of the nearby Freedom Tower/World Trade Centers, the Fulton Street transit station, and over $30 billion in public and private investments over the last decade, Downtown Manhattan has undergone a remarkable transformation from a 9-to-5 business district to a vibrant 24/7 live-work-play destination that has drawn a new core tenant base: the TAMI sector—short for technology, advertising, media and information companies.

While New York had not been considered on par with technology and innovation centers such as Boston and San Francisco in the past, the City's highly educated workforce has compelled leading technology companies such as Google, Amazon, Salesforce, and Facebook to open sizeable New York offices.

As a result, the New York City market is experiencing the largest job expansion in its history according to a recent report from the New York City Comptroller, with office-based employment reaching a record 1.5 million in 2016. The report also states that the business services and TAMI sectors accounted for 59 percent of all office jobs in 2016 and, since 2009, 87 percent of the growth in City office jobs.

As the downtown market continues to pulsate with new energy, its appeal to TAMI tenants—plus the traditional financial, insurance, and real estate tenants—is growing just as 101 Greenwich is poised to become a fully modernized asset, blending the elegance of historic pre-war design with the innovation and amenities that today's millennial workforce and TAMI companies seek.

The property's elaborate art-deco façade is key for creative tenants seeking a Class-A environment in a building with character. The building is immediately adjacent to the historic Trinity Church and directly above the Rector Street subway station—giving tenants desirable access to mass transit. It is also just five blocks from all mass-transit options serving the area, including the new World Trade Center transit hub.

Further appealing to TAMI tenants is the property's unique "u"-shaped floor plan with side-core configuration that provides flexible and divisible floor plates. It also features 12'6" ceiling heights, loft-like aesthetics, and views with light on all four sides. Dramatic top-floor features include vaulted ceilings and original exposed wood beams.

MEPT will deliver a high-quality tenant experience through upgrades of mechanical, electrical, HVAC, and elevator systems, while making 101 Greenwich eligible for LEED certification. MEPT is also renovating the lobby and common areas to reflect the energy and innovation of Downtown. Millennial-centric amenities include conference room space for collaboration, a fitness center, and an inviting open-space tenant lounge on the first floor.

Including 101 Greenwich, MEPT's total investment in the New York market is now over $1.7 billion with more than 2.7 million square feet. 101 Greenwich is a prime example of the Fund's focus on responsible investment in transit-oriented locations serving knowledge- industry tenants.

When improvements at 101 Greenwich are complete, MEPT will have preserved a piece of New York's history while repositioning it for the next century. ■

## Downtown Manhattan has undergone a remarkable transformation from a 9-to-5 business district to a vibrant 24/7 live-work-play destination

Past the ornate columns flanking the entrance to *101 Greenwich* sits Trinity Church with a newly transformed Financial District beyond.

## REMEMBERING A GREAT FRIEND

Daniel Toohey (1940—2017)

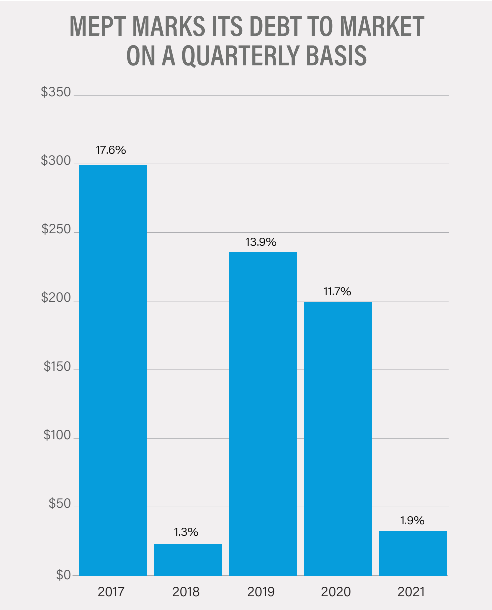
**DAN TOOHEY** passed away at home on April 10, 2017 at the age of 77. Dan served on the NewTower Trust Company Board of Directors from 2005 to 2016 including as Chairman of the Board from 2013 to 2015. Prior to serving on the NewTower Board of Directors, Dan was Managing Partner of the law firm of Dow, Lohnes & Albertson. He also served on the Board of Directors of the Bureau of National Affairs; as Vice Chair, General Counsel and Trustee of the Shakespeare Theatre in Washington DC; and as Director and General Counsel of the Greater Washington Board of Trade. Dan's many valuable contributions, including his work as a liaison between the Board and NewTower management, were instrumental in contributing to NewTower's success for more than a decade. Dan was a highly respected colleague and, more importantly, a great friend of many at NewTower and Bentall Kennedy.

He will be truly missed.

## DEBT STRUCTURE

**MEPT'S LEVERAGE RATIO** increased to 21.1% during the quarter, which is in line with the Fund's target leverage range of 20% to 25%. The weighted average interest rate for the Fund is 3.6%, with an average remaining term of 6.4 years. No new financing activity occurred during the quarter; however, MEPT's leverage percentage increased due to draws on the Fund's credit line. Additionally, the Fund is in the process of procuring $300.0 million in new private placement debt to replace high-rate debt that will mature in the second quarter of 2017. MEPT's management team will continue to evaluate new financing opportunities to achieve the greatest flexibility to operate an individual asset's business plan while incurring the lowest cost of debt for the Fund. ■

### DEBT MATURITY SCHEDULE (IN $MILLIONS)

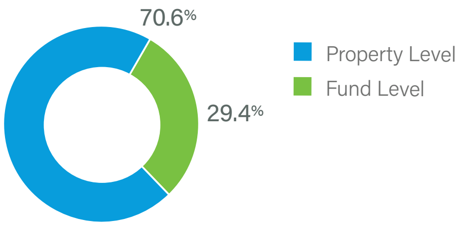


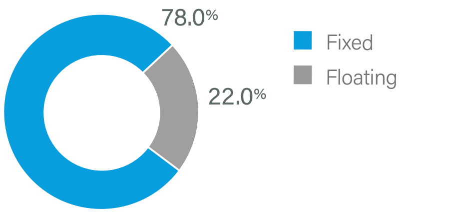

**CURRENT LEVERAGE RATIO**

21.1%

**AVERAGE INTEREST RATE**

3.63%




MEPT

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TRUSTEE

NewTower Trust Company

www.newtowertrust.com

MEPT engaged a printer for the production of this report that is 100% wind powered, and employs qualified union craftsmen and women. This report was printed with 100% environmentally friendly soy-based ink. The paper used in this publication was manufactured with a minimum of 30% postconsumer waste, and is Forest Stewardship Council® certified for chain-of-custody.

# MULTI-EMPLOYER PROPERTY TRUST 1Q 2017 SUMMARY FUND FINANCIALS

## CONSOLIDATED STATEMENT OF NET ASSETS

AS OF MARCH 31, 2017

| | UNAUDITED |
|---|---|
| **Assets:** | |
| Real estate investments - at fair value: | |
| Direct equity investments | $ 7,510,253,483 |
| Joint venture investments | 1,681,435,595 |
| Mortgages and other loans receivable | 198,390,252 |
| Escrow deposits | 882,850 |
| Cash and cash equivalents | 106,682,687 |
| Other assets | 199,617 |
| **Total assets** | **9,497,844,484** |
| **Liabilities:** | |
| Mortgages and other notes payable - at fair value | 1,779,760,000 |
| Accounts payable and accrued expenses | 6,353,905 |
| **Total Liabilities** | **1,786,113,905** |
| Net Assets | 7,711,730,579 |
| Less Net Assets Attributable to Noncontrolling Interests | 1,327,820,378 |
| **Net Assets Attributable to MEPT Participants** | **$ 6,383,910,201** |

## CONSOLIDATED SUMMARY STATEMENT OF OPERATIONS

UNAUDITED

| | QUARTER ENDED MARCH 31, 2017 | YEAR TO DATE MARCH 31, 2017 |
|---|---|---|
| **Investment Income:** | | |
| Income from direct equity investments in real estate | $ 71,859,150 | $ 71,859,150 |
| Income from joint venture investments | 9,831,231 | 9,831,231 |
| Income from investments in mortgages and other loans receivable | 3,772,631 | 3,772,631 |
| Interest Income | 140,464 | 140,464 |
| **Total Investment Income** | **85,603,476** | **85,603,476** |
| **Expenses:** | | |
| Trustee's fee | 13,870,839 | 13,870,839 |
| Interest expense | 8,681,427 | 8,681,427 |
| Other operating expenses | 755,265 | 755,265 |
| **Total expenses** | **23,307,532** | **23,307,532** |
| **Net Investment Income** | **62,295,944** | **62,295,944** |
| Net realized and unrealized gain (loss) | 37,767,372 | 37,767,372 |
| **Increase in Net Assets from Operations** | **100,063,316** | **100,063,316** |
| Less Net Income Attributable to Noncontrolling Interests | (19,047,719) | (19,047,719) |
| **Increase in Net Assets Attributable to MEPT Particpants** | **$ 81,015,597** | **$ 81,015,597** |