

# TRUST REPORT



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Mid-story view of 1900 16th Street, Denver

## LETTER TO INVESTORS

**WE ARE PLEASED TO REPORT** MEPT was once again ranked #1 in the world by the Global Real Estate Sustainability Benchmark (GRESB) for Diversified Office and Residential Funds. This marks the third year in a row MEPT has received the top global ranking and the seventh consecutive year the Fund has ranked in the top three in its peer group. Additionally, Bentall Kennedy was ranked among the top three diversified firms in the world by GRESB. We believe MEPT's and Bentall Kennedy's industry-leading commitment to sustainability reduces overall portfolio risk and enhances long-term, risk-adjusted returns. We discuss this in greater detail in this quarter's In Depth Feature.

In addition to MEPT's global recognition for sustainable investment practices, the Fund continued to deliver strong and stable performance with a total gross return of 1.52% (1.30%, net of fees) during the third quarter. MEPT's return was below the preliminary ODCE peer group's total gross return of 1.86% for the quarter; however, MEPT continues to be competitive in longer timeframes and generate attractive risk-adjusted returns, with first quartile standard deviation of total return (i.e., low volatility) over the past four years among benchmark peers. MEPT's return profile is consistent with its traditional core strategy in which we mitigate risk with an 83% allocation to primary markets, over-allocation to urban office and multi-family, significant under-allocation to retail, and conservative debt structure.

Despite the reversion to mean in terms of performance, core private equity real estate continues to offer attractive returns, along with an inflation hedge, when compared to fixed-income. The Fund's 1-year total return is 6.45% (5.53%, net of fees), and the 3-year return is 10.07% (9.11%, net of fees). MEPT's 2017 gross total return target continues to be 6.0% to 8.0% (5.0% to 7.0%, net of fees). Future performance will be driven by NOI growth and by extension economic growth.

In terms of the overall economy, the theme continues to be cautious optimism with a healthy dose of uncertainty. On the demand side, the economy, to which real estate absorption is highly correlated, is expected to sustain moderate growth equaling or exceeding 2.0% annually. On the supply side, we don't see evidence of systemic overbuilding, although there are pockets of excess supply. Underlying U.S. economic trends remain relatively strong. U.S. unemployment remains near historic lows, real wages are rising, and increased business investment points to continued growth. On the other hand, the U.S. economy is in its eighth year of expansion—the third longest in history—and the President's ambitious economic stimulus agenda remains in doubt.

In light of this uncertainty at this point in the economic cycle, our Fund strategy continues to emphasize risk management and late cycle positioning. We continue to look to increase MEPT's allocation to structured transactions (e.g. mezzanine loans, participating loans, preferred equity), which entail lower risk and greater current income than equity positions. We also seek to continue to increase the Fund's allocation to medical office investments. During 3Q 2017, the Fund closed the acquisition of Oregon Clinic at a cost of approximately \$50 million. Given the relative inelasticity of demand for medical services, we believe medical office investments provide both attractive and durable returns.

As always, our ongoing focus on sustainable investment practices, stable income, risk management, prudent incorporation of alpha, and emphasis on diversification remain paramount. We appreciate your continued confidence in our stewardship of your capital. ■

David Antonelli,  
Executive Vice President & MEPT Portfolio Manager

### THIRD QUARTER RESULTS

(Gross of Fees)

QUARTER

1.52%

TRAILING 1-YEAR

6.45%

GROSS ASSET VALUE

\$8.2B

(Net of Fees)

QUARTER

1.30%

TRAILING 1-YEAR

5.53%

NET ASSET VALUE

\$6.5B

# U.S. REAL ESTATE MARKET

**THE US ECONOMY** remained strong through the third quarter of 2017, and despite the negative effects of Hurricanes Irma and Harvey, added 332,000 jobs for the period as the unemployment rate dropped to 4.2% from 4.4% the previous quarter. The stock market continued to rise, hitting record highs in September, and the labor-force participation rate rose to 63.1%, a sign of continuing economic resilience. Wage growth was slightly higher than the previous quarter at 2.6% year-over-year, but remained modest overall.

Industrial demand exceeded supply for the 28th time in the last 30 quarters, according to CBRE, and industrial availability declined to 7.7%, the lowest level since the first quarter of 2001. Asking rents for industrial product reached a new peak, rising 1.6% during the quarter and 6.3%

year-over-year. The office market remained relatively flat, as vacancy rates nationally held steady at 16% according to REIS, while net absorption rose to 5.4 million, up from 4.8 million the previous quarter.

Annual effective rent growth was 2.1% for multifamily assets according to Axiometrics, which was slightly lower than the previous year. Occupancy remained strong and steady, as September's national occupancy rate of 94.9% is in line with the previous year. The retail sector, driven by store closings, saw the regional mall vacancy rate climb again this quarter, up to 8.3% from 7.8% in the third quarter of 2016, according to REIS. However, strip mall vacancy rates were unchanged at 10.0%, despite store closures, and strip mall asking rents increased 0.4%. ■

## Fund Overview<sup>1</sup>

GROSS ASSET VALUE	<b>\$8.2 BILLION</b>	MARKETS	<b>25</b>
NET ASSET VALUE	<b>\$6.5 BILLION</b>	LEVERAGE AS % OF GAV	<b>20.6%</b>
INCEPTION DATE	<b>APRIL 1, 1982</b>	CASH AS % OF NAV	<b>1.8%</b>
NUMBER OF ASSETS	<b>104</b>	UNIT VALUE	<b>\$10,574.28</b>
TOTAL OPERATING SQUARE FOOTAGE	<b>32.1 MILLION</b>	NUMBER OF INVESTORS	<b>347</b>
PERCENT LEASED (OPERATING)	<b>93.8%</b>	3Q CONTRIBUTIONS	<b>\$19.4 MILLION</b>
AVERAGE AGE OF PROPERTIES	<b>15.0 YEARS</b>	3Q REDEMPTIONS	<b>\$106.5 MILLION</b>

## Annualized Returns<sup>2</sup>

Through September 30, 2017

GROSS OF FEES RETURNS	QUARTER	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION*
INCOME	0.98%	3.97%	4.39%	4.88%	6.99%
APPRECIATION	0.54%	2.41%	5.50%	5.44%	1.04%
TOTAL	1.52%	6.45%	10.07%	10.52%	8.09%
NET OF FEES RETURNS	QUARTER	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION*
INCOME	0.77%	3.07%	3.47%	3.95%	5.78%
APPRECIATION	0.54%	2.41%	5.50%	5.44%	1.04%
TOTAL	1.30%	5.53%	9.11%	9.55%	6.87%
NFI-ODCE <sup>3,4</sup>	QUARTER	1-YEAR	3-YEAR	5-YEAR	SINCE INCEPTION*
INCOME	1.07%	4.36%	4.59%	4.83%	7.01%
APPRECIATION	0.78%	3.18%	6.03%	6.51%	0.62%
TOTAL	1.86%	7.66%	10.85%	11.59%	7.67%

<sup>1</sup> Schedules of investment performance for MEPT are prepared by NewTower Trust 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). Real estate revenue is reported when contractually earned and billable to be consistent with the valuation methodology used to determine unrealized gains and losses.

<sup>2</sup> Please note: 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. Performance goals, including investment returns (e.g., Unit Value), acquisition and disposition on activity, leverage, portfolio diversification (including cash position), and leasing rates could be adversely affected and actual results could differ materially from the Management Team's expectations.

<sup>3</sup> NCREIF, the National Council of Real Estate Investment Fiduciaries, is a trade association of institutional real estate professionals that includes investment managers, plan sponsors, academics, consultants, appraisers, CPA's and other services providers with significant involvement in institutional real estate investments. NCREIF collects and disseminates real estate performance information, most notably the NCREIF Property Index (NPI) but also the NFI-ODCE. 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 open-end U.S. commingled funds with a core investment strategy. The NFI-ODCE index is capitalization-weighted and is reported gross of fees and measurement is time-weighted. Further information about this index is available at [www.ncreif.org](http://www.ncreif.org).

<sup>4</sup> Preliminary ODCE returns (Gross of Fees).

\* Inception date (4/1/82).

# PERFORMANCE AND PROPERTY SECTORS

**MEPT'S THIRD QUARTER** total gross return was 1.52%, which consisted of 0.98% income and 0.54% appreciation. The key drivers of appreciation included market rent growth across the industrial portfolio, particularly in California assets, and market rent growth and positive leasing activity in CBD office assets, specifically in Boston, Denver, and New York. MEPT continues to maintain its strategic

overweight to primary markets, as the Fund maintains an above benchmark allocation of 83% to primary markets. During the quarter, the Fund's operating portfolio leased percentage decreased slightly to 93.8% from 94.0%; however, MEPT's occupancy remains near its historical peak and continues to be a strong indicator of the Fund's health and the durability of future performance. ■

## MULTI-FAMILY

**93.3%** **0.4%**  
LEASED TOTAL RETURN<sup>1</sup>



The Octagon  
New York, Multi-family

MEPT's multi-family assets represent 27.3% of the gross asset value of the total portfolio and delivered a third quarter total unlevered return of 0.4% comprised of 0.9% income and 0.5% depreciation. The average stabilized cap rate for the multi-family sector was 4.3%

and the operating assets were 93.3% leased, which was up 0.1% from last quarter. The multi-family portfolio consists of 22 assets; 15 appreciated during the quarter, 1 had no change in value, and 6 depreciated. The majority of the multi-family portfolio continued to appreciate in 3Q 2017, recognizing value gains from market rent increases and reduced operating expenses at key assets throughout the portfolio. However, initiation of a new capital expense plan at a large Chicago asset caused the portfolio to underperform overall. In 4Q 2017, urban, high-rise multi-family assets are expected to continue to generate attractive risk-adjusted returns. ■

## OFFICE

**91.3%** **1.8%**  
LEASED TOTAL RETURN<sup>1</sup>



200 West Madison  
Chicago, Office

MEPT's office portfolio represents 47.4% of the gross asset value of the total portfolio and delivered a third quarter total return of 1.8% comprised of 1.1% income and 0.7% appreciation. The average stabilized cap rate for the

office sector was 5.3% and the operating assets were 91.3% leased, which was up 0.4% from the previous quarter. The office portfolio consists of 38 assets; 25 appreciated during the quarter, 2 had no change in value, and 11 depreciated. Similar to previous quarters, the top performers were CBD office buildings in Boston, Denver, and New York. MEPT's strategic investment in Boston's Seaport District remains a unique strength of the Fund, as those assets in particular continued to appreciate due to increased market rent growth and accretive leasing activity. In the final quarter of 2017, MEPT's high-quality CBD office assets in primary markets remain well positioned to produce attractive risk-adjusted returns. ■

## INDUSTRIAL

**95.5%** **3.2%**  
LEASED TOTAL RETURN<sup>1</sup>



1900 Clark Road, Baltimore, Industrial

MEPT's industrial portfolio represents 14.2% of the gross asset value of the total portfolio and delivered a third quarter total return of 3.2% comprised of 1.0% income and 2.2% appreciation. The average stabilized cap rate for the portfolio was 5.3% and the operating assets were 95.5% leased, which was down 0.8% from the previous quarter. The industrial portfolio consists of 23 assets; 20 appreciated during the quarter, and 3 depreciated. For the ninth consecutive quarter, industrial was the best performing property sector in terms of total return. While the majority of the portfolio continued to generate modest appreciation due to strengthening market fundamentals, California assets experienced the largest value gains driven by large increases in market rents. Going forward, occupancy and comparative sales metrics are expected to continue to drive market rent growth and produce robust income and appreciation returns across MEPT's high-quality industrial portfolio. ■

## RETAIL

**95.8%** **1.0%**  
LEASED TOTAL RETURN<sup>1</sup>

MEPT's retail portfolio represents 8.2% of the gross asset value of the total portfolio and delivered a third quarter total return of 1.0% comprised of 1.2% income and 0.2% depreciation. The average stabilized cap rate for the portfolio was 5.5% and the operating assets were 95.8% leased, which was up 2.0% from the previous quarter. The retail

portfolio consists of 13 assets; 6 appreciated during the quarter and 7 depreciated. While the retail sector has faced headwinds in 2017, MEPT's well-leased retail portfolio continues to produce a durable and consistent income return, which is the highest across the portfolio. Despite strong income returns, the Fund remains strategically underweight retail

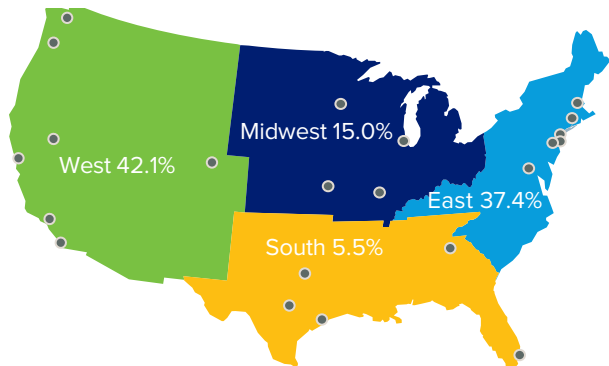
and MEPT's retail allocation is entirely comprised of grocery-anchored, necessity retail centers, which are expected to perform well and continue to generate a stable income yield in 4Q 2017 and beyond. ■

<sup>1</sup>Property sector returns are shown on an unlevered basis.

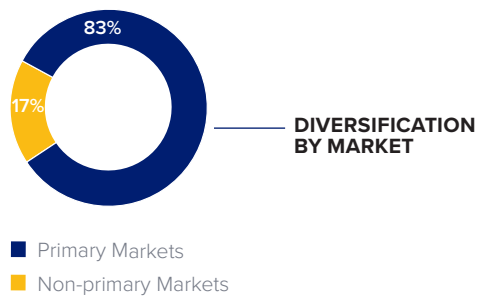
# MEPT BY THE NUMBERS

Diversification and Portfolio Characteristics as of 3Q 2017

## Diversification by Geographic Region (NAV)

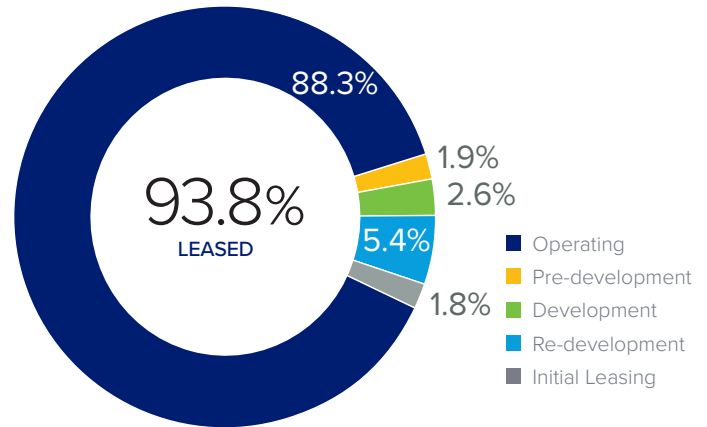


## MEPT Top Markets (NAV)

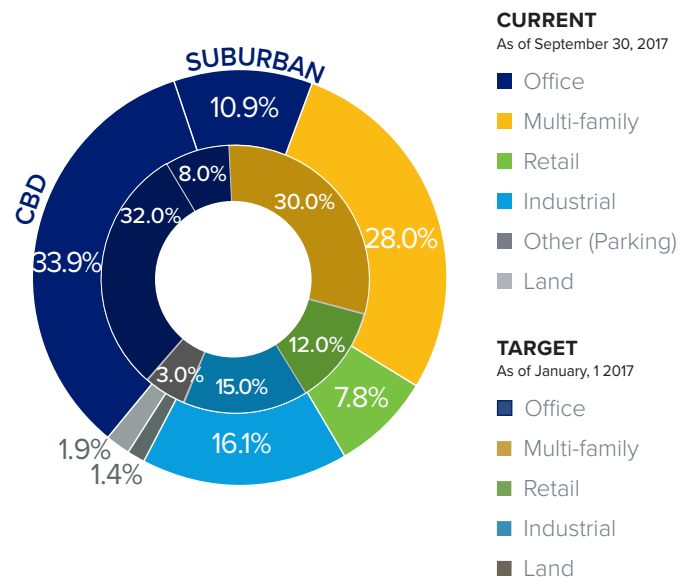


MARKET	NAV IN \$ MILLIONS	PERCENT OF PORTFOLIO
NEW YORK	\$1,205.7	13.8%
SAN FRANCISCO	1,113.2	12.7%
CHICAGO	952.8	10.9%
WASHINGTON, DC	943.9	10.8%
BOSTON	750.2	8.6%
PORTLAND, OR	734.8	8.4%
LOS ANGELES	693.7	7.9%
DENVER	526.0	6.0%
SEATTLE	281.7	3.2%
OTHER MARKETS	1,562.2	17.8%
<b>TOTAL</b>	<b>\$ 8,764.3</b>	<b>100.0%</b>

## Diversification by Life Cycle (NAV)



## Diversification by Property Type (NAV)



## Lease Rollover Summary\*

	2017	2018	2019	2020	2021
PERCENT OF NET RENTABLE AREA	0.7%	7.7%	12.4%	13.2%	8.1%
PERCENT OF TOTAL REVENUE	0.7%	10.4%	10.7%	10.2%	12.0%

\* Consolidated Operating Industrial, Office and Retail

### Notes

Forward looking statements found in this report are subject to change and applicable only as of the date made. Many of the factors affecting such statements are impossible to predict with certainty, and as such, are outside the control of MEPT. Further, past performance is not indicative of future results.

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## MEPT – 2017 Acquisition Pipeline of Existing and Development Opportunities in \$millions

MARKETS	CORE STABILIZED ACQUISITION	NON-STABILIZED ACQUISITION	DEVELOPMENT/ RE-DEVELOPMENT	TOTAL
<b>CLOSED</b>				
ATLANTA				\$77.0
KEDRON VILLAGE II	\$30.9			
PARKSIDE WEST COBB	\$46.1			
CHICAGO				\$50.5
I-94 LOGISTICS CENTER	\$50.5			
BOSTON				\$4.9
DOCTOR'S OFFICE BUILDING	\$4.9 <sup>1</sup>			
PORTLAND, OR				\$49.3
OREGON CLINIC GATEWAY	\$49.3			
<b>IN PROCESS</b>				
BOSTON	\$10.3 <sup>2</sup>		\$63.0 <sup>3</sup>	\$73.3
CHICAGO	\$30.5			\$30.5
MIAMI	\$92.2			\$92.2
RALEIGH	\$69.8			\$69.8
SAN DIEGO	\$38.4			\$38.4
<b>2017 Total</b>	<b>\$422.9</b>		<b>\$63.0</b>	<b>\$485.9</b>

(1) Buyout of JV Partner's interest

(2) Potential ground lease purchase

(3) Mezzanine loan

Key Office Multi-family Industrial Retail

## Third Quarter Transaction Activity

**I**N THE THIRD quarter of 2017, MEPT acquired three assets: Oregon Clinic Gateway (\$49.3 M), a medical office building in Portland, OR; Parkside West Cobb (\$46.1 M), a grocery-anchored retail center in Atlanta, GA; and I-94 Logistics Center (\$50.5 M), an industrial warehouse in Chicago, IL. Oregon Clinic Gateway presented the opportunity to acquire a 100% leased LEED-Gold certified medical office building at an attractive basis. Parkside West Cobb is a brand new, grocery-anchored center that is 97.6% leased to strong, national tenants and located near MEPT's existing asset West Cobb Marketplace. Finally, I-94 Logistics Center presented the opportunity to acquire a brand-new, 627,000 square foot warehouse in the Chicago MSA which is 100% leased to Amazon through 2027.

While the Fund maintains a disciplined and measured approach to acquisitions, MEPT continues to source attractive opportunities both in the market and off-market. The Fund currently has an additional three industrial assets, a multi-family asset, and a mezzanine loan investment on a multi-family project under contract, all of which are expected to close in 4Q 2017.



Oregon Clinic Gateway, Portland, OR, Office

Additionally, taking advantage of strong capital market conditions, MEPT sold four non-strategic assets in the third quarter and generated \$152.5 million in gross sale proceeds. As always, the Fund continues to evaluate its portfolio and pursue opportunities to maximize asset value through disposition activity. ■

## IN-DEPTH FEATURE

# INVESTING IN A SUSTAINABLE FUTURE

## Integrating Environmental, Social, Governance (ESG) Principles in Private Equity Real Estate Enhances Long-term Asset Value

**D**EVELOPING A GREEN building serves more than altruistic goals. Integrating ESG principles into real estate investment strategies generates superior risk-adjusted returns and stable investment performance in all stages of the economic cycle. Reducing utility costs and lowering maintenance expenses with energy-efficiency programs is just the tip of the iceberg. Research has shown that sustainable building characteristics both lower operating costs and serve as revenue drivers, which can raise rents, occupancy and retention rates by creating a superior tenant experience. For investors, this translates into higher net operating income, stronger income returns and capital appreciation across the portfolio.

### The Green Building Advantage

Whether newly created or retrofitted, sustainable buildings have a significant impact on tenant satisfaction. Green buildings can help tenants increase the productivity of their employees and advance health and well-being goals; amenities such as fitness centers and indoor bicycle storage encourage healthy habits, and design features such as improved access to natural light have positive effects on mental health. Many tenants also value the altruistic benefit of greater social consciousness of our collective environmental footprint. Tenants have come to expect that the buildings they reside in and the companies that manage these spaces reflect their values.

All of these benefits translate into tangible value. A study published in the *Journal of Portfolio Management* in 2015 showed North American office assets with some combination of LEED, BOMA Best, and Energy Star Certification achieve measurably higher rents, maintain higher levels of occupancy, and enjoy higher renewal rates with fewer rent concessions

than similar buildings with no certifications. Controlling for building quality and location, tenants at green office buildings reported 7% higher satisfaction scores, which translated into a 3.7% rental rate premium, 4% occupancy premium,

Scores on page 8) and for the third year in row, MEPT has been named the Global Sector Leader for Diversified Office/Residential peer group. Additionally, the United Nations Principles for Responsible Investing (UNPRI)



**“Receiving consistently top rankings reflects the Fund’s long-term commitment to incorporating environmental, social, and governance best practices into our investment strategy. We firmly believe that a focus on these factors translates to measurable benefits for our investors, and is critical to the long-term success of the Fund.”**

DAVID ANTONELLI  
EVP and MEPT Portfolio Manager

4% lower concessions on average, and 5.6% higher renewal rates for the underlying assets.<sup>1</sup> The study concluded that sustainable features produce an 8-10% value premium over competing assets.

These findings show that the value of a green building is not confined to operating expenses savings or the LEED certificate; sustainable features are intrinsically valuable to tenants and can boost revenue at the property. By continuing to develop green buildings and integrate sustainable features into existing assets, owners can build tenant loyalty and foster a sense of community.

### MEPT Remains an Industry Leader in Sustainable Investing

MEPT continues to be at the forefront of ESG real estate investing and green innovation and has incorporated sustainability strategies throughout our portfolio. For the seventh consecutive year, MEPT has received a top tier GRESB ranking (as illustrated in the GRESB Sector

gave Bentall Kennedy an A+ in Strategy and Governance and an A in Property Implementation, further establishing our leadership in the ESG sector.

Sustainable investing is at the foundation of our client strategies and is designed to generate stable, long-term performance. MEPT’s top GRESB ranking reflects our commitment to sustainable investment practices and is a testament of our corporate performance and our ability to deliver for our clients. We seek to encourage continuous innovation, increasing property occupancy and income, reducing risk of obsolescence, and strengthening tenant loyalty—all while reducing emissions to protect our environment.

It is possible to increase economic value while giving new life and purpose to the structures that will contribute to the sustainability of our cities for generations to come. Ultimately, by prioritizing sustainability, we position the buildings we invest in today to thrive tomorrow. ■

<sup>1</sup> Devine, Avis, and Nils Kok. “Green Certification and Building Performance: Implications for Tangibles and Intangibles.” *The Journal of Portfolio Management*, vol. 41, no. 6, pp. 151–163.



## CASE STUDY

## 475 SANSOME, SAN FRANCISCO, CA

## Investment Thesis

MEPT acquired the building for \$160.0 M in 4Q 2012 when the property was 90% leased with high-tech tenancy and near-term roll-over of 29% of the NRA

- Targeted San Francisco urban core as a prime sustainable market with strong tenant demand
- Side core building with efficient floor plates, attractive window lines, excellent transit access, and in-place rents below market

## What We Did

Immediately prioritized leasing and sustainability initiatives and launched a tenant engagement program and active leasing campaign

- Created “tech/spec” show suites, improved tour appeal with selective upgrades, and expanded Amazon.com from 21,419 sf to 85,586 sf



- Implemented trash diversion and energy and water conservation measures; Energy Star rating increased from 80 in 2012 to 95 in 2015, resulting in a 24.9% decrease in total electrical consumption and \$239,000 of annual electrical savings, 19.4% reduction of water consumption, and \$96,000 trash diversion credit in 2015

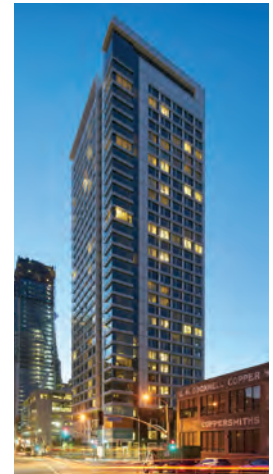
## The Result

475 Sansome is 97.3% leased, with a gross value of \$278 M as of 3Q 2017. The building was recently recertified as Platinum LEED®: an improvement from Gold certification at closing.



## GRESB SECTOR SCORES

MEPT exceeds peer group average score on each sustainability aspect in GRESB. The Fund earned five green stars from GRESB, the highest number possible.



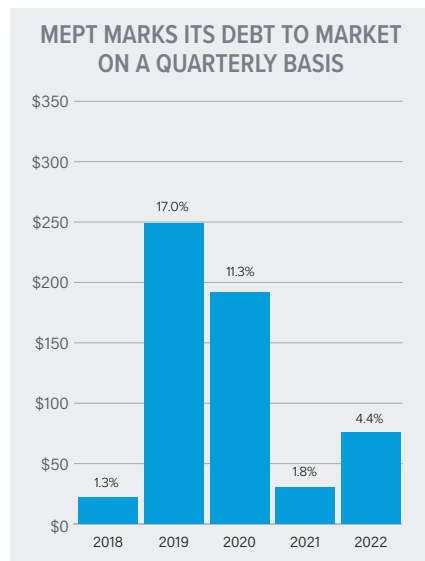
Solaire  
San Francisco, Multi-family

## DEBT STRUCTURE

**MEPT'S LEVERAGE** ratio increased to 20.6% from 20.3% during the quarter, which is within the Fund's target leverage range of 20% to 25%. MEPT had no material financing events aside from planned draws on credit lines to fund acquisition activity.

During the quarter, the Fund's weighted average interest rate remained flat at 3.6%, with a weighted average remaining term of 6.9 years. MEPT's management team will continue to identify and evaluate new financing opportunities to achieve the greatest flexibility at the asset level while incurring the lowest cost of debt for the Fund ■

### Debt Maturity Schedule (in \$ millions)

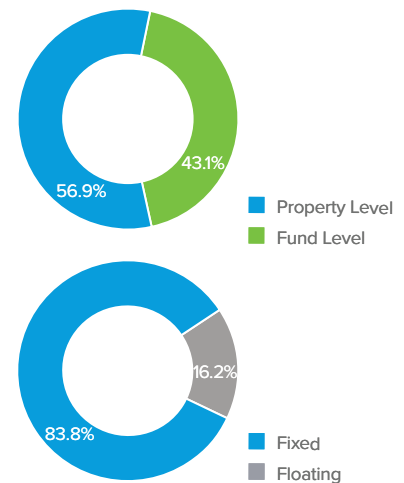


### CURRENT LEVERAGE RATIO

20.6%

### WEIGHTED AVERAGE INTEREST RATE

3.6%



7315 Wisconsin Avenue  
Suite 200W  
Bethesda, MD 20814

### REAL ESTATE ADVISOR

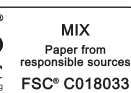


[www.bentallkennedy.com](http://www.bentallkennedy.com)

### TRUSTEE



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