

THE QUARTERLY

# TRUST REPORT

## || MULTI-EMPLOYER PROPERTY TRUST

FIRST QUARTER | APRIL 2006 | VOLUME 21, NUMBER 1



**THE MULTI-EMPLOYER PROPERTY TRUST** closed the first quarter of 2006 with a unit value of **\$6,085.12**, up **3.07 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **18.58 percent**.

**As of April 1, MEPT's net asset value stood at \$5.46 billion.** In the first quarter, 11 new investors became participants in MEPT, bringing the total number of investors to 277.

The expanding US economy had a positive impact on real estate market conditions across the country in the first quarter. Preliminary reports of gross domestic product (GDP) reveal that the US economy grew at a very fast pace, an annual rate of 4.8 percent, which was a significant improvement over the 1.7 percent rate in the fourth quarter of 2005. Job growth has accompanied the recent surge in economic activity. In March alone, 211,000 jobs were added, most of which were concentrated in the service sectors. Non-farm payroll employment is up by 2.1 million over a year ago. **As a result, demand has increased across every property type, particularly the demand for office and industrial space.**

The office vacancy rate declined nationally from 14.6 percent to 14.3 percent, a 30 basis point decline over fourth quarter 2005, and more than a 200 basis point decrease from the end of the first quarter of 2005. **In markets where demand is outpacing supply, landlords are capitalizing on the opportunity to increase rental rates;** as a result, rental rates increased 2 percent nationally, in the first quarter. In several markets, such as San Diego, San Francisco and Phoenix, there were double-digit rent increases for Class A space.

In the past, this stage in a real estate cycle (i.e., demand outpacing supply with rising rental rates) would have encouraged new construction activity. However, steep land prices, rising construction costs, and moderately rising interest rates are dampening the prospect of future development and keeping new supply out of the market, further improving market fundamentals. *(continued on inside)*

USE EVERY TOOL YOU HAVE

## NEWS BRIEFS



### **DURING THE QUARTER, MEPT ACQUIRED DENVER LODO BLOCK 19,**

land adjacent to MEPT's Legacy Plaza, for \$11.8 million. The land acquisition allows MEPT to satisfy a parking requirement for Gates Corporation, who fully occupies Legacy Plaza. MEPT built Legacy Plaza, a 10-story 285,197 square foot office building, in 2003, and committed to Gates that 545 off-site parking spaces would be provided. The parking facility will be built north of the building. Legacy Plaza was the first from-the-ground-up office building completed in the Central Platte Valley, a 120-acre expanse west of LoDo (Denver's Lower Downtown) that has been undergoing a transformation from rail yards, industrial buildings, viaducts, and garbage dumps into a thriving mixed-use urban neighborhood.



**IN MARCH, MEPT SOLD 1515 BOCA,** a 175,761 square foot office building located in Boca Raton, FL. The building features a four-story atrium lobby, an exterior of reflecting glass and granite, and a four-story parking garage. MEPT purchased 1515 Boca in 1986. The building attracted unsolicited interest from buyers in 2005. However, MEPT waited until investor market dynamics improved before marketing the building. MEPT sold the 50 percent leased property for gross proceeds of \$26.5 million, enabling

MEPT to avoid substantial future leasing risk in a relatively weak leasing environment for office users in Boca Raton.

**ANNOUNCEMENT: THE MEPT ADVISORY BOARD MEETING** is scheduled for **Tuesday, June 6, 2006**, in Washington, DC. The meeting will be held at The Madison, 15th Street, NW (at M Street), and will begin at 10:30 a.m. **Observers must notify MEPT of their desire to attend no later than May 30, 2006.** Highlights of the meeting will be included in the Trust Report following the meeting, and the minutes will be made available to all investors through the password-protected area of [www.mept.com](http://www.mept.com). For more information regarding the meeting or to RSVP, please contact Philomena Paul at [ppaul@lbutler.com](mailto:ppaul@lbutler.com) or 202-737-7300.

### **COVER STORY** *(continued from cover)*

Capitalization rates (the ratio of price to net operating income) have been compressed to historically low levels as record prices are being paid for institutional-quality assets, and consequently, valuations have risen. This is now beginning to moderate the return expectations for real estate. At the same time, with property market fundamentals improving and limited new supply expected, real estate should remain attractive to institutional investors on the basis of absolute and risk-adjusted returns, particularly for investors seeking lower volatility and stable income.

## FIRST QUARTER RESULTS

Net Return,  
First Quarter:  
**3.07%**

Net Return,  
4/1/05 – 3/31/06:  
**18.58%**

Net Asset Value:  
**\$5.46 billion**



# PERFORMANCE

## FIRST QUARTER COMMENTARY

*“With capitalization rates at record lows, institutional real estate investors are adjusting their long-term return expectations. Going forward, values should be driven by improving occupancies and stable income. The high pricing that occurred unabated for a few years is now beginning to slow, and there has been a moderate tapering off of buyers in the market willing to pay those record prices.”*

John M. Parker, Executive Vice President,  
Kennedy Associates Real Estate Counsel, Inc.



IN THE FIRST QUARTER, MEPT produced a total gross return of 3.30 percent, composed of 1.34 percent income return and 1.96 percent appreciation return. For the trailing four quarters, MEPT’s total gross return was 19.65 percent, a combination of 5.92 percent income return and 13.17 percent appreciation return. MEPT’s performance is attributable to the strong leasing activity in the portfolio, consistent rental income from the operating portfolio, and value increases from further capitalization rate compression.

### YIELD

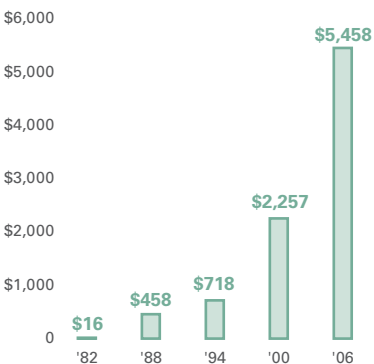
	FIRST QUARTER 2006	TRAILING FOUR QUARTERS (COMPOUNDED)
<b>NET</b>	<b>3.07%</b>	<b>18.58%</b>
INCOME	1.11%	4.94%
APPRECIATION	1.96%	13.17%
<b>GROSS</b>	<b>3.30%</b>	<b>19.65%</b>
INCOME	1.34%	5.92%
APPRECIATION	1.96%	13.17%

As real estate conditions have improved across the country, particularly increased demand for office and industrial space, MEPT’s portfolio has benefited. The recovery has now spread to beleaguered markets like Dallas and Chicago, each of which had over a million square feet in positive absorption. MEPT had significant leasing activity in Chicago and signed 30 leases for over 345,000 square feet. In addition, many tech markets, slow to recover from the tech bust, are now rebounding. Boston, San Francisco and Seattle all saw improvement in the overall vacancy rate, and MEPT experienced increased leasing interest in those markets. Coastal markets such as Los Angeles, New York, San Diego and Washington, DC, remain very healthy.

### NET ASSET VALUE GROWTH

April 1, 1982 — April 1, 2006

Based on Market Value (\$Millions)

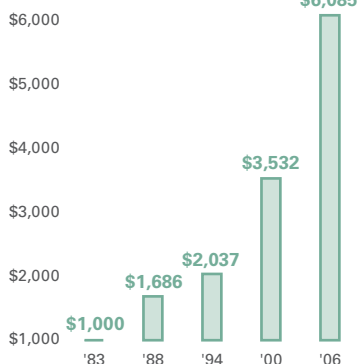


Values shown are for April 1 in each year.  
Date of inception April 1, 1982.

### UNIT VALUE GROWTH

April 1, 1982 — April 1, 2006

Based on Market Value



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

# PORTFOLIO SPOTLIGHT

## FUND OVERVIEW

Inception Date	<b>April 1, 1982</b>	Average Age of Properties	<b>7.8 years</b>
Assets Held	<b>170</b>	Markets	<b>25</b>
Number of Buildings	<b>337</b>	Net Asset Value	<b>\$5.46 billion</b>
Total Operating Square Footage	<b>34.8 million</b>	Unit Value	<b>\$6,085.12</b>
Operating Occupancy	<b>92.2%</b>	Participating Plans	<b>277</b>

IN THE FIRST QUARTER, MEPT had positive net absorption in the portfolio of 296,000 square feet, and the operating portfolio ended the quarter 92.2 percent leased. The Asset Management team completed 104 lease transactions amounting to 1.4 million square feet of leasing during the quarter, bringing MEPT's total number of leases to 1,518. MEPT's leasing activity was an equal combination of new leases, expansions, and renewals, which was in contrast to the first quarter of 2005 when the leasing activity was principally renewals.

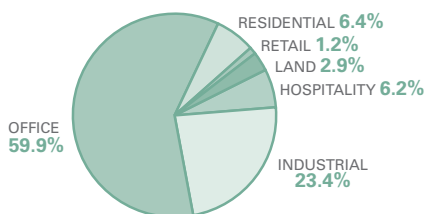
MEPT's Asset Management team is continually focused on retaining the existing tenant base. Further, as leases come up for renewal, the MEPT Asset Managers work diligently to obtain higher rents and capitalize on opportunities to selectively retain tenants as a way to improve overall net operating income and asset value. MEPT's controllable retention for the trailing four quarters ending March 31, 2006, was an impressive 92 percent. This ratio reflects the Asset Management team's success in retaining tenants, relocating existing tenants to other MEPT assets, or removing

specific tenants to accommodate committed replacements with improved lease economics.

MEPT's vacancy in the operating portfolio at the end of the first quarter was 7.8 percent, a reduction from the end of the fourth quarter and a result of positive net absorption. Several large leases contributed to the reduced vacancy: NAL Worldwide signed a new lease for 201,110 square feet at Meadows IV in Chicago; at North by Northwest II in Indianapolis, Icon Transportation Company, Inc. signed a new lease for 127,280 square feet; World Wide Technology, Inc. expanded into 108,190 square feet at Gateway Distribution Center in St. Louis; at Amar in Los Angeles, H.O.T. Services, Inc. expanded its space by 108,000 square feet; Sonosite renewed its lease for 64,220 square feet at Highlands Corporate Center in Seattle; at Mission Trails Industrial Center in San Diego, DHL Express (USA), Inc. renewed its lease for 62,482 square feet; CMA Logistics, Inc. signed a new lease for 47,963 square feet at Stafford Nelson in Los Angeles; and, in Chicago at Meadows V, ASI Computer Technologies, Inc. renewed its lease for 44,454 square feet.

### DIVERSIFICATION BY PROPERTY TYPE

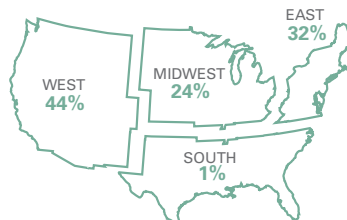
*As of March 31, 2006*



Note: Weighted by Asset Value.

### GEOGRAPHIC DISTRIBUTION OF INVESTMENTS

*As of March 31, 2006*



Note: Weighted by Asset Value.

## FIRST QUARTER ACTIVITY

### NEW PARTICIPANTS

- International Union of Operating Engineers General Pension Plan
- Midwest Operating Engineers Pension Trust Fund
- AGC – International Union of Operating Engineers Local 701 Pension Trust Fund, Subtrust A Defined Benefit Pension Plan
- UFCW Local One Health Care Fund
- IBEW Local Union No. 100 Pension Trust Fund
- Asbestos Workers 32 Pension Fund
- San Diego Electrical Health and Welfare Trust
- Asbestos Workers Local 48 Pension Plan
- Stone Setters Pension Fund, Local 84
- International Foundation Retirement Plan for Salaried Employees
- Plumbing Employees' Pension Trust for Employees of Affiliated Plans

### PROJECTS SOLD

- 1515 Boca  
Boca Raton, FL

# IN-DEPTH MARKET PROFILE: LOS ANGELES

*Office and Industrial markets continue to benefit from economic growth and business expansion into 2006*

THE LOS ANGELES REAL ESTATE MARKET has delivered some of the best performance in the country, a trend that began several years ago and lasted through the economic slowdown of the early 2000s. **In contrast to other markets that were hit hard by the recession and tech bust, Los Angeles' diverse economy has contributed to the continued strength of its office and industrial markets that have robust leasing activity and declining vacancy rates.**

A diverse array of growing service industries in the Los Angeles area, including law, accounting, banking and management consulting, are driving the demand for office space, offsetting some of the slowdown in media and entertainment in the earlier part of the decade. Other industries, such as aerospace, technology, trade, and construction, are expected to grow in the next year and compete for space in the market. At the same time, the available supply in the market is increasingly constrained. Land for new development is at a premium. With a sizzling hot housing market, residential developers in the Los Angeles area have driven up the price of land, deterring office development, and taken existing office buildings off the market to convert them to condominiums.

The vacancy rate for the Los Angeles office market declined to 10.1 percent at the end of the first quarter, an 18.5 percent decrease compared to the vacancy rate of 12.4 percent at the end of first quarter 2005. **The strong demand coupled with limited supply has allowed landlords to increase rents throughout the region.** With five consecutive quarters of rental rate growth, Los Angeles' average rental rate has climbed to \$27.32 per square foot, a 7.5 percent jump from last year and an historic high for the office market. Over the past year, every submarket in the Los Angeles market has experienced rate increases.

Tenants are motivated to lock in rates since rental rates are projected to continue to move upward at a moderate pace over the next few quarters.

Institutional investment in Los Angeles maintained a brisk pace through the first quarter of 2006. Large amounts of capital continued to chase a limited number of properties for sale, driving down capitalization rates further. With increased occupancy and rising market rents, investors are hoping to buy assets today and capture rising rents in the near future.

**MEPT has 16.9 percent of its portfolio invested in Los Angeles, representing the Fund's largest investment in a single market.** MEPT owns four office assets, totaling 1.4 million square feet, that collectively are 97.6 percent leased. Additionally, MEPT has one project, Russell Ranch Road, under development. The eighteen existing industrial assets in the MEPT portfolio are 99.1 percent leased and total 5.9 million square feet.

The Los Angeles industrial market has the lowest vacancy rate in the country at 1.6 percent at the end of the first quarter. **The industrial market is experiencing strong demand, especially from port-related tenants, and supply from new construction has fallen short of this increasing demand.** Additionally, Los Angeles has a diminishing supply of developable land. Space is being absorbed as soon as it comes on the market. With growing demand, the 2.7 million square feet of space that is currently under construction is expected to be absorbed quickly. With the current market conditions, landlords have been able to push rental rates to a five-year high. At the end of the first quarter, the average rental rate was 8.9 percent higher than the beginning of 2005. With little space available and limited new supply, market conditions are projected to tighten further over the next year.

*(continued on back)*

In 2004, MEPT committed \$43.2 million to Russell Ranch Road, a planned 180,000 square foot office building in the Los Angeles market. The 10.7 acre site was particularly attractive to MEPT because of its location in Westlake Village, which is considered one of Southern California's premier business centers. Westlake Village has established a business-friendly environment in the midst of a highly desirable residential area, and as a result, many CEOs reside in the area and several national corporations are located there, including Dole Foods, Farmers Insurance, Teradyne, BAE Systems, and A.G. Edwards. MEPT monitored the market fundamentals for over a year, and began construction in order to capture increasing demand in the market. Russell Ranch is expected to be a strong performing asset for MEPT's portfolio.

Management Fee—MEPT’s Trustee, NewTower Trust Company, charges an annual investment management fee based on the net assets of the Fund. The current annual MEPT fee is approximately 0.891%. 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%. 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 MARKET REPORT *(continued from inside)*

In 2005, industrial sales activity was brisk, driven by the appeal of the Los Angeles market, the low interest rate environment, and warehouse and industrial space users seeking to control their future occupancy costs. A general lack of limited for-sale assets constrained the amount of sales activity that could have taken place.

A robust economy is expected to sustain demand for office and industrial space in 2006. The strong demand fundamentals in the market should positively impact MEPT’s Los Angeles portfolio and contribute to income and appreciation growth for the Fund.

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 Landon Butler & Company at 202-737-7300, or through our Web site, [www.mept.com](http://www.mept.com).