

THE QUARTERLY

# TRUST REPORT

|| MULTI-EMPLOYER PROPERTY TRUST

*Celebrating 25 Years*  
1982-2007

FIRST QUARTER | APRIL 2007 | VOLUME 22, NUMBER 1



**THE MULTI-EMPLOYER PROPERTY TRUST** closed the first quarter of 2007 with a unit value of **\$7,028.04**, up **3.85 percent** (net of fees) from the previous quarter. For the trailing four quarters, MEPT's net return is **15.50 percent**.

April 1, 2007 marked MEPT's 25th anniversary. During 2007, in the Trust Reports, MEPT will acknowledge those pension plans that have been invested in MEPT since the Fund's first year of operation. As of April 1, MEPT's net asset value stood at \$6.48 billion. In the first quarter, eight new investors became participants in MEPT, bringing the total number of investors to 318.

**The US economy is slowing but job growth, the fundamental driver of user demand, has remained steady.** The housing market downturn continues to be a drag on the US economy and a rising rate of default in the subprime mortgage market creates further concern about economic prosperity in the US. However, the subprime mortgage market has not had a significant impact on the commercial real estate market. (See Briefing: *Subprime Mortgages*.)

During the quarter, real estate conditions continued to improve. Tenant demand was steady across most markets and property types, and the supply of new space was constrained. In most markets, rental rates continued to rise. In many markets, investors are buying properties at extremely low yields and betting on substantial rent growth in order to realize adequate income returns and capital appreciation to validate their purchase prices.

In the first quarter, there continued to be a strong flow of capital into commercial real estate. The resulting high volume of sales transactions was concentrated mostly in large portfolio sales. **Relative to other asset classes, real estate remains a particularly attractive investment sector and indications are that institutional investment in commercial real estate will continue.**

USE EVERY TOOL YOU HAVE

## NEWS BRIEFS



Washington Commons

**DURING THE QUARTER, MEPT SOLD WASHINGTON COMMONS OFFICE PARK** in Chicago. MEPT received gross proceeds of \$9.8 million for the four-building, 79,646 square foot office complex. In 1988, MEPT completed the construction of Washington Commons and, through the development, created 122,593 job hours for local members of the building trades. The buildings were 90 percent leased and MEPT marketed the asset for sale when it was determined that the long-term leasing risk in a market with competitive, newer space was greater than the upside potential performance for the asset.

**IN THE FIRST QUARTER, KENNEDY ASSOCIATES REAL ESTATE COUNSEL, LP, ASSIGNED FIRM PRINCIPAL PRESTON SARGENT TO THE ROLE OF MEPT PORTFOLIO MANAGER.** Sargent will work closely with MEPT's Policy Board, which determines MEPT's strategic direction, including investment policy and portfolio strategy. For Kennedy, MEPT's real estate advisor, Sargent's new role is a change in MEPT's organization, since historically Kennedy's principals conducted portfolio management as a team. As part of this change, Kennedy has split its asset management team and aligned them according to client. Kennedy asset managers that have oversight for MEPT assets are now 100 percent dedicated to working on MEPT assets. In the past, Kennedy asset managers may have had oversight for MEPT assets as well as Kennedy separate account clients' assets. The MEPT-dedicated asset managers will report to Sargent. MEPT's management believes that a dedicated Portfolio Manager will enhance the focus on MEPT's operating and performance objectives.

**MEPT'S ADVISORY BOARD TO MEET ON WEDNESDAY, JUNE 6, 2007, AT THE FAIRMONT CHICAGO,** 200 North Columbus Drive, Chicago, IL. MEPT management looks forward to discussing the Fund's performance, strategy, market conditions, and other topical issues. A lunch presentation by Landon Butler, President and CEO of Landon Butler & Company, LP; Jim Snyder, Chairman and CIO of Kennedy; and Gary Whitelaw, President and CEO of Bentall Capital will precede the meeting at 12:30 pm. The Advisory Board meeting will begin at 2:15 pm. **Observers must notify MEPT of their desire to attend no later than May 18, 2007.** To RSVP, please contact Philomena Paul at ppaul@lbutler.com or 202-737-7300.

**NEWTOWER TO HOST THE MEPT REAL ESTATE CONFERENCE ON THURSDAY, JUNE 7, 2007, AT THE FAIRMONT CHICAGO.** MEPT has planned the MEPT Advisory Board meeting in conjunction with the NewTower MEPT Real Estate Conference in order to bring together nationally recognized real estate industry leaders, the appraisal and valuation professionals with whom the Fund works, and MEPT management to discuss timely issues that impact MEPT. Important topics that will be covered by these leading industry experts include: Real Estate and National Economic Forecasts, Responsible Property Investing, Real Estate Market Dynamics—Profiling Transaction Volume & Velocity, Optimizing Property Operations and Returns, Debt & Equity Capital Demand and Placement Trends, Chicago Market and Development Overview, and Critical Asset Valuation Issues. **All MEPT participating plans and their service providers are invited to participate.** To RSVP, please contact Philomena Paul at ppaul@lbutler.com or 202-737-7300.

2007

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## FIRST QUARTER RESULTS

Net Return,  
First Quarter:  
**3.85%**

Net Return,  
4/1/06–3/31/07:  
**15.50%**

Net Asset Value:  
**\$6.48 billion**



# PERFORMANCE

## FIRST QUARTER COMMENTARY

*“There is a wide range of opinion about the impact of the subprime mortgage market crisis on the overall US economy. There is no doubt that a tightening of lending standards and higher interest rates are causing a slowdown in the housing market that has impacted housing industry-related jobs as well as consumer confidence and consumer spending. We do not believe this will lead the economy into recession, but it may dampen economic growth over the next 12 to 36 months.”*

Preston Sargent, Executive Vice President and MEPT Portfolio Manager, Kennedy Associates Real Estate Counsel, LP



IN THE FIRST QUARTER, MEPT PRODUCED A TOTAL gross return of 4.07 percent, composed of 1.36 percent income and 2.71 percent appreciation return. MEPT’s first quarter performance was principally attributable to income from the Fund’s 36.5 million square foot operating portfolio and value increases from further capitalization rate compression. (Capitalization rates are an approximation of expected current income return and are determined by dividing net operating income by the purchase price.)

During the quarter, 32 MEPT assets were externally appraised, and 139 assets were reviewed internally under the direction of NewTower Valuation Services and marked-to-market. Ten assets accounted for more than 48 percent of the appreciation in the portfolio.

MEPT maintains a valuation process that is as thorough and objective as any within the open-end fund universe. This process addresses material changes in the physical or financial condition of each asset and associated market environment, and utilizes information from numerous sources. Each asset in the MEPT portfolio is appraised annually by an independent MAI-designated member of the Appraisal Institute. Each property in the MEPT portfolio not being

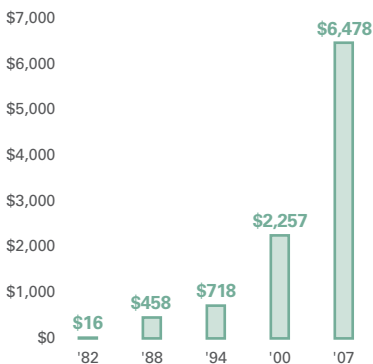
### YIELD

	FIRST QUARTER 2007	TRAILING FOUR QUARTERS (COMPOUNDED)
<b>NET</b>	<b>3.85%</b>	<b>15.50%</b>
INCOME	1.14%	4.65%
APPRECIATION	2.71%	10.49%
<b>GROSS</b>	<b>4.07%</b>	<b>16.50%</b>
INCOME	1.36%	5.59%
APPRECIATION	2.71%	10.49%

### NET ASSET VALUE GROWTH

April 1, 1982 – April 1, 2007

Based on Market Value (\$Millions)

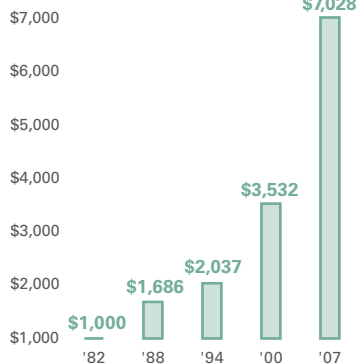


Values shown are for April 1 in each year. Date of inception April 1, 1982.

### UNIT VALUE GROWTH

April 1, 1982 – April 1, 2007

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>9.5 years</b>
Assets Held	<b>171</b>	Markets	<b>25</b>
Number of Buildings	<b>354</b>	Net Asset Value	<b>\$6.48 billion</b>
Total Operating Square Footage	<b>36.5 million</b>	Unit Value	<b>\$7,028.04</b>
Operating Occupancy	<b>92.8%</b>	Participating Plans	<b>318</b>

WITH A LITTLE MORE THAN 7 PERCENT vacancy in MEPT’s operating portfolio, Asset Managers worked diligently during the quarter to capitalize on opportunities to selectively retain and attract tenants and obtain higher rents in order to improve net operating income and overall asset value. During the first quarter, gross leasing activity totaled 319,000 square feet and the Asset Management team signed a total of 63 leases, of which 34 were extensions and renewals, 13 were expansions and 16 were new leases.

MEPT’s controllable tenant retention for the trailing four quarters ending March 31, 2007, was 83 percent. This ratio reflects the Asset Management team’s ability to retain tenants, relocate existing tenants to other MEPT assets, or remove certain tenants to accommodate committed replacements with improved lease economics.

Several significant lease transactions contributed to the gross leasing activity during the quarter, including a 36,455

square foot expansion signed at Northport Business Park II in the San Francisco Bay area market by Quanta Computer, Inc. Tristar Global, Inc. signed a new lease for 22,173 square feet at Stafford Nelson in the Los Angeles market. In addition, in the San Francisco Bay area market at Rowland Plaza II, the City of Novato expanded its lease by 20,854 square feet. Aramark Refreshment Services, Inc. signed a new lease for 15,005 square feet at North by Northwest Phase II in the Indianapolis market and, at Canyon Park 228 Corporate Center in the Seattle market, Elektrobot, Inc. signed a new lease for 13,628 square feet.



Canyon Park 228 Corporate Center

## PERFORMANCE *(continued from left)*

independently appraised during any quarter is marked-to-market under the direction of NewTower Valuation Services.

MEPT also retains an independent appraisal review firm, PricewaterhouseCoopers, to assist in verifying the accuracy of the appraisal process by reviewing each report to determine compliance, completeness, appropriateness of methodology, accuracy of calculations, and reasonableness of conclusions. The methodology and process is also examined annually by MEPT’s auditor, KPMG, and by the Maryland Division of Financial Regulation every 12 to 18 months.

## FIRST QUARTER ACTIVITY

### NEW PARTICIPANTS

- Trucking Employees of North Jersey Welfare Fund, Inc. – Pension Fund
- The Electrical Workers Deferred Income Fund, Local 103, IBEW Plumbers & Steamfitters Local 150 Pension Plan
- Teamsters Industrial Employees Pension Fund
- Lake County, Illinois Plasterers and Cement Masons Pension Fund
- Plumbers and Fitters Local 101 Pension Trust
- Municipality of Murrysville Police Pension Plan
- Murrysville Non-Uniform Employees Pension Plan

### PROJECTS SOLD

- Washington Commons Office Park Chicago, IL

## MEPT RECOGNIZES THE FOLLOWING PLANS FOR THEIR 25 YEARS OF SUPPORT

- Alaska Plumbing and Pipefitting Industry Pension Trust Fund
- Hotel and Restaurant Employees Local 25 and Hotel Association of Washington, D.C. Pension Fund
- Iron Workers Local Union #5 and Iron Workers Employers Association Employees Pension Fund
- Marble, Tile and Terrazzo Workers Pension Fund
- Plumbers and Pipefitters National Pension Fund

## MEPT CELEBRATES 25 YEARS OF SUCCESS

*Celebrating*  
**25** *Years*  
1982–2007

MULTI-EMPLOYER PROPERTY TRUST BEGAN OPERATIONS ON April 1, 1982, with a total commitment of \$16 million from five investors: **Plumbers and Pipefitters National Pension Fund; Alaska Plumbing and Pipefitting Industry Pension Trust Fund; Hotel and Restaurant Employees Local 25 and Hotel Association of Washington, D.C. Pension Fund; Iron Workers Local Union #5 and Iron Workers Employers Association Employees Pension Fund; and Marble, Tile and Terrazzo Workers Pension Fund.**

The five initial participating plans—all of which are still investors today—demonstrated courage and leadership since they were part of an emerging trend in pension plan investing. In the early 1980s, trustees were beginning to insist that their pension plan dollars be used to strengthen their communities, to provide work for their industries, and to create jobs for their members. The investment community referred to this focused investment decision making as “socially responsible investing” and many experts suggested it would not work.

The trustees of the founding investors set out to prove that an equity fund comprised of high-quality commercial real estate investments developed from the ground up in the communities where participating plans were located could produce superior returns and create new jobs for plan beneficiaries. In the first year of operation, 19 other

plans joined the founding investors and MEPT’s net assets grew to more than \$37 million.

The investment philosophy established by MEPT’s founders—Duff Kennedy, Jim Snyder and Landon Butler—to deliver low-risk returns throughout all real estate cycles as well as reduce volatility to investors’ overall portfolios resonated with pension plan investors. In order to achieve this strategy, the Fund maintained low leverage and remained focused on investments that would provide stable income, liquidity, and diversification. MEPT sought to create top-quality, core, income-producing assets through development, rehabilitation, or acquisition and repositioning of undervalued assets.

Twenty-five years later MEPT has proven the concept can work and be extremely effective for pension plans looking to grow their pension fund dollars, generate employment and have a positive impact on their local communities. Today, MEPT has approximately \$6.5 billion in net assets and owns 354 buildings in 25 markets. Since its inception, MEPT has earned a total net return of 8.1 percent. The Fund has created more than 52 million job hours for building trades members and has generated more than \$9.9 billion in economic activity in markets across the US. MEPT’s management team believes the Fund is well-positioned for another 25 years of continued success.

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## BRIEFING: SUBPRIME MORTGAGES

RECENTLY, MUCH HAS BEEN WRITTEN IN THE FINANCIAL press about the subprime residential mortgage market and turmoil in this subsector of the mortgage industry. The problems in the subprime market are the direct result of the rise and fall of the residential housing market and lending to high credit risk consumers and do not directly affect the commercial real estate market. However, with the intense coverage of the housing market downturn and subsequent subprime market difficulties, the *MEPT Quarterly Trust Report* is addressing the topic for the benefit of MEPT participating plans.

Subprime mortgage loans are typically loans made to borrowers with high credit risk, and represent approximately 15 percent of the entire mortgage market. Subprime loans are more commonly used by borrowers as home equity loans rather than mortgages for home

purchase, but they do serve both purposes.

The subprime lending industry has grown substantially in recent years and between 1994 and 2000, experienced an average annual growth of 26 percent. This explosive growth occurred mostly unregulated in a highly regulated lending industry. Originators of subprime loans—non-bank lenders and mortgage brokers—do not fall under the direct federal regulation of any of the nine federal agencies that oversee some portion of the mortgage market. During the housing boom, the lending standards by non-bank lenders and mortgage brokers for subprime loans were seen as looser than federally regulated lenders. The resulting consumer liquidity fueled much of the economic expansion over the last several years.

Subprime lending has principally been based on adjustable rates and has included *(continued on back)*

**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 0.851%. 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)*

high fees and heavy penalties for borrowers. These features have recently proved to be costly for borrowers. Rising interest rates have resulted in higher monthly mortgage payments at the same time that residential values have declined.

Currently, about 14 percent of subprime loans are delinquent. As mortgage defaults have increased, many subprime lenders have been forced to file for bankruptcy and the stock prices of banks with large subprime holdings have fallen. Other lenders concerned by the rate of defaults have tightened up their lending as a defense and as a result, have limited the liquidity in the housing market.

Depending on the scope of the downfall of the subprime lending market, there could be an effect on the lending industry, including loans to commercial real estate that could result in less liquidity in commercial real estate. Additionally, there are concerns about job losses at bankrupt or defunct companies in the subprime mortgage market causing office vacancy. There have been no signs that either of these trends is beginning to occur on a national basis.

**MEPT has 36 tenants, or 2.5 percent of the total number of tenants leasing space in MEPT assets, that occupy approximately 1.35 million square feet, or 3.8 percent of the total leased square footage in the portfolio, that have some involvement in the mortgage industry.** The rent payable from this group of tenants during 2007 totals \$19.9 million, or approximately 5 percent of the total rent due from all MEPT tenants of approximately \$400 million.

Kennedy has performed an analysis of both the mortgage business and credit of each of the 36 tenants and has determined that certain tenants could be characterized as very risky. Those tenants occupy approximately 37,000 square feet and account for approximately \$955,000 of rental income. **Kennedy's review also determined that many of the 36 tenants can be deemed low risk** and that the low-risk tenants represent more than 75 percent of the square footage occupied by the 36 referenced tenants and more than 63 percent of the rental income due to MEPT by these mortgage industry-related tenants. Some of the MEPT tenants that fall in the low-risk category include Citigroup, Wells Fargo, Washington Mutual, National City, and Lehman Brothers. **Kennedy will continue to actively monitor this subset of the tenant base.**

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, LP at 202-737-7300, or through the Web site, [www.mept.com](http://www.mept.com).