

THIRD QUARTER

NOVEMBER 2018 VOLUME 34, NUMBER 3

# QUARTERLY REPORT

 **MEPT**  
A Bentall Kennedy Fund





# LETTER TO INVESTORS



The Windward, Multifamily, Oregon

## THIRD QUARTER RESULTS

(Gross of Fees)

QUARTER	TRAILING 1-YEAR	GROSS ASSET VALUE
2.45%	7.98%	\$8.3B

(Net of Fees)

QUARTER	TRAILING 1-YEAR	NET ASSET VALUE
2.23%	7.05%	\$6.5B

**I**N THE THIRD QUARTER MEPT (the "Fund") generated a total gross return of 2.45% (2.23%, net of fees) and outperformed the ODCE peer group total return of 2.09% by 36 bps. The Fund's YTD total return is 6.26% (5.57%, net of fees), the 1-year return is 7.98% (7.05%, net of fees), the 3-year return is 8.27% (7.33%, net of fees), and the 5-year return is 10.27% (9.31%, net of fees). MEPT remains competitive with the ODCE peer group in all timeframes while maintaining low volatility and historical leverage levels well below the majority of its peers.

The Fund's strong absolute and relative performance in both near- and long-term time periods reflects the success and durability of the Fund's disciplined core strategy. Our investment strategy remains focused on the following:

- Over-allocation to Primary Markets, which have historically enjoyed an outsized share of U.S. economic activity and job growth;
- Over-allocation to industrial, multifamily and CBD office assets as well as a significant under-allocation to retail and suburban office; and
- Limited or no exposure to non-traditional asset classes such as senior housing, student housing, self-storage, hotels and data centers.

MEPT's relative outperformance in the quarter was driven by continued strong appreciation in the industrial portfolio as well as market rent growth and positive leasing activity in Primary Market CBD office assets. Most notably, the Fund executed a full building office lease at Gates Plaza in Denver totaling 285,333 sf with VF Corporation (S&P: A), which generated over \$30.0 million of appreciation (42 bps of total return) in MEPT's Denver office portfolio during the quarter. With the quarter's performance, MEPT is on track to exceed the stated 2018 guidance of 6.0% to 8.0% (5.0% to 7.0%, net of fees).

MEPT should continue to offer attractive returns as the current economic expansion continues. Corporate balance sheets are healthy, U.S. employment statistics are strong, and GDP growth is expected to exceed 3% in 2018. However, we are mindful of the record-setting length of the current economic expansion and we will continue to monitor potential headwinds including political uncertainty regarding economic and foreign policy and rising interest rates in order to maximize the Fund's performance. We remain confident that the disciplined strategy and construction of MEPT's portfolio will provide attractive risk adjusted returns over a full economic cycle. As always, we greatly appreciate your continued confidence in our stewardship of your capital. ■

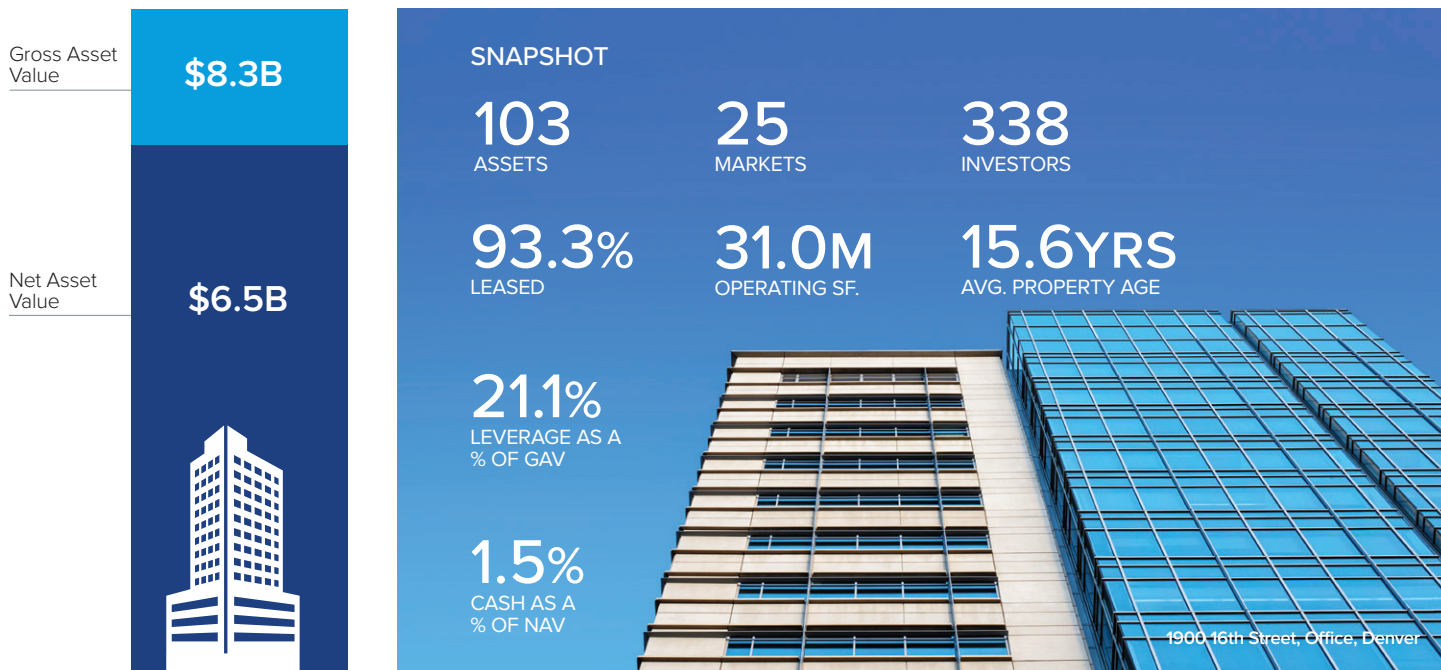
David Antonelli,  
Executive Vice President &  
MEPT Portfolio Manager

Mike Keating,  
Senior Vice President &  
Associate Portfolio Manager

# FUND OVERVIEW<sup>1</sup>

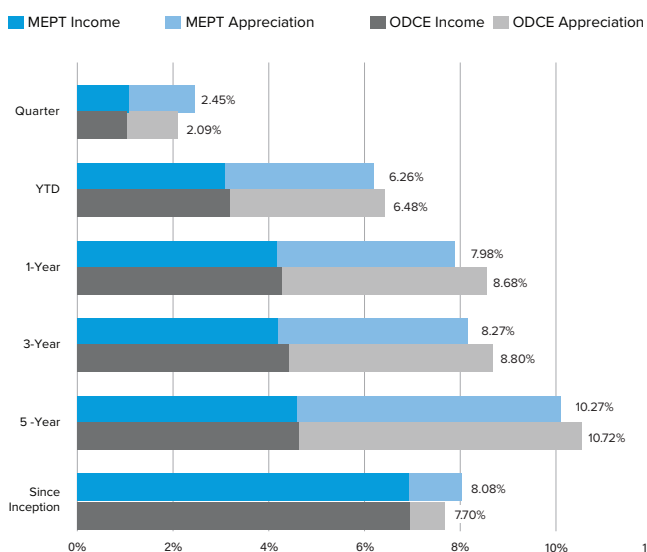
As of September 30, 2018

## MEPT FUND METRICS

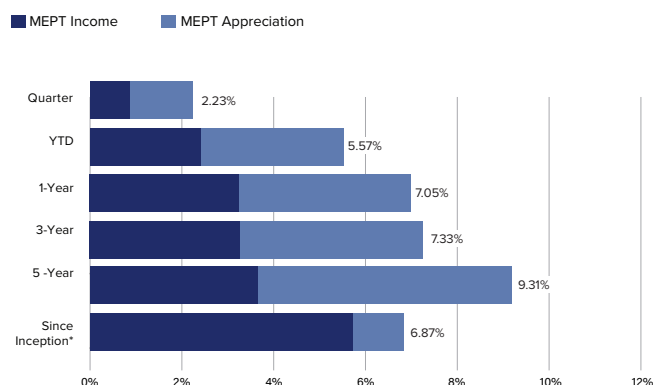


## MEPT RETURNS 3Q 2018<sup>2</sup>

### Gross of Fees



### Net of Fees



## INVESTOR ACTIVITY

3Q CONTRIBUTIONS	3Q REDEMPTIONS
\$26.5M	\$114.8M

<sup>1</sup> Asset values and performance returns set forth in this report are based upon and consistent with the methodologies used for calculating such information described in the current Private Placement Memorandum for MEPT. Schedules of investment performance for MEPT are prepared by NewTower Management 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, CPAs 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).

\* Inception date (4/1/1982).



# U.S. REAL ESTATE MARKET OVERVIEW

**THE U.S. ECONOMY CONTINUED TO EXPAND** in the third quarter. Real GDP increased by 3.5% on an annualized basis, the economy added 569,000 nonfarm payroll jobs during the quarter and the unemployment rate declined to 3.7% in September. Other economic indicators have been positive: consumer confidence and business optimism are high, industrial production is at record levels, and wage growth is outpacing inflation. The near-term outlook on the U.S. economy is mixed. While employment statistics and GDP growth have been strong, the stock market has experienced a moderate correction in October, reflecting fears about rising interest rates and tepid global growth. Despite this, we expect buoyant business activity, federal spending increases and the continued effect of tax cuts will have a moderating effect on present fears and generate continued economic growth.

The U.S. industrial outlook continues to be optimistic, as the national vacancy rate declined to 7.5% according to CBRE. The U.S. office outlook remains strong and stable; the office vacancy rate remains unchanged at 16.6%, while national average effective rents increased 0.4% over the quarter and 2.6% year-over-year.

The U.S. multifamily sector outlook remains healthy. Although the national apartment vacancy rate ended the quarter at 4.8%, its highest level since Q3 2012 according to Reis, average effective rents rose by 1.2% over the quarter, reflecting a 4.2% increase over the past twelve months. The retail sector outlook was mixed, as the regional mall vacancy rate rose to 9.1% and the vacancy rate for neighborhood centers rose to 10.2% according to Reis. The average rent for malls declined by 0.3% while the average for neighborhood centers rose by 0.4%, illustrating the effect of big department store closings and ongoing disruption from e-commerce.





# MEPT PERFORMANCE AND PROPERTY SECTORS

**MEPT'S THIRD QUARTER** total gross return was 2.45%, which consisted of 1.08% income and 1.37% appreciation. All property types appreciated in the third quarter, but the Fund realized particularly strong appreciation from the industrial and office portfolios. Industrial assets benefitted from continued market rent growth and yield compression, especially in the West. Additionally, select CBD office assets in Primary Markets, notably Denver and Boston, saw market rent growth generated by strong leasing activity. ■

## PORTFOLIO METRICS

As of September 30, 2018

	ASSETS <sup>1</sup>	% OF ALLOCATION (NAV) <sup>1</sup>	TOTAL RETURN <sup>2</sup>	LEASED <sup>3</sup>	AVERAGE STABILIZED CAP RATE
INDUSTRIAL	23	16.7%	3.4%	96.0%	5.2%
OFFICE	38	44.2%	2.3%	89.7%	5.4%
MULTIFAMILY	22	29.1%	1.2%	92.3%	4.3%
RETAIL	15	8.4%	1.9%	96.0%	5.6%

## INDUSTRIAL

**MEPT's industrial portfolio** delivered a total return of 3.4% in the third quarter, comprised of 1.1% income and 2.3% appreciation. The majority of the industrial portfolio appreciated during the quarter, driven by strong market rent growth in California. Industrial has been MEPT's best performing property sector for thirteen consecutive quarters due to the strength of e-commerce and resulting demand for modern warehouse space. Going forward, MEPT's high-quality, primary-market focused industrial portfolio is well-positioned to benefit from the continued growth in warehouse demand.

## MULTIFAMILY

**MEPT's multifamily assets** delivered a total return of 1.2% during the quarter comprised of 0.8% income and 0.4% appreciation. MEPT's multifamily portfolio appreciated slightly over the quarter due to market rent growth in key Primary Markets, particularly in Boston and Denver. The Fund continues to tactically diversify the portfolio by selling a portion of the Class A urban high-rise portfolio and redeploying the proceeds into high-quality garden and mid-rise assets in select submarkets that we believe possess greater rent-upside potential.

## OFFICE

**MEPT's office portfolio** realized a total return of 2.3% in the third quarter, comprised of 1.1% income and 1.3% appreciation. Once again, MEPT's CBD office in innovation markets such as Denver, Boston, and San Francisco generated the majority of portfolio appreciation through increased market rent growth and strong leasing activity. The Fund executed a full building office lease with VF Corporation (S&P: A) at Gates Plaza in Denver. The lease is for 285,333 sf and generated over \$30.0 million of appreciation (42 bps of total return) in MEPT's Denver office portfolio during the quarter. Going forward, Innovation Markets are expected to continue to benefit from an outsized share of U.S. economic activity, and MEPT's high-quality CBD office portfolio is well positioned to capture that demand.

## RETAIL

**MEPT's retail portfolio** delivered a total return of 1.9% in the third quarter, comprised of 1.7% income and 0.2% appreciation. MEPT maintains its strategic underweight to the retail sector due to the disruptive effects of e-commerce. The Fund's retail allocation continues to focus on grocery-anchored, necessity-based retail centers with minimal exposure to power centers and no exposure to malls. As a result, MEPT's retail portfolio is well-leased and generates strong income returns.

<sup>1</sup>Excludes land and parking assets.

<sup>2</sup>Property sector returns are shown on an unlevered basis.

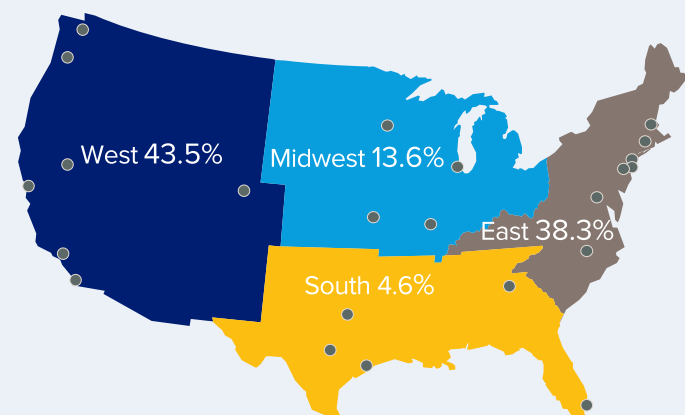
<sup>3</sup>Excludes non-operating assets



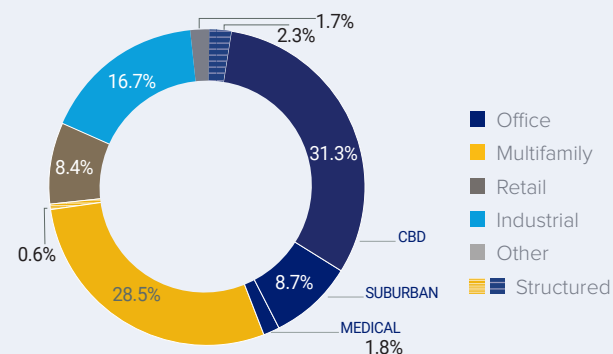
# MEPT BY THE NUMBERS

## Diversification and Portfolio Characteristics as of 3Q 2018

### DIVERSIFICATION BY GEOGRAPHIC REGION (NAV)



### DIVERSIFICATION BY PROPERTY TYPE (NAV)

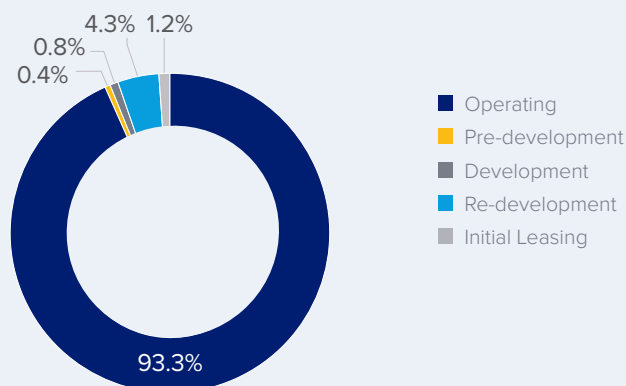


### MEPT TOP MARKETS BY INVESTMENT

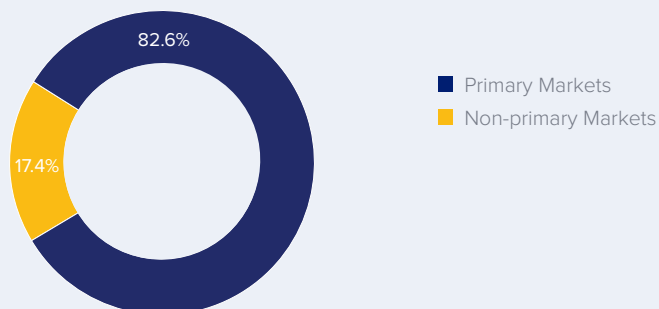
As of September 30, 2018

MARKET	GAV (IN \$M)	% OF GAV
NEW YORK	\$ 1,796	17.3%
SAN FRANCISCO	1,361	13.1%
CHICAGO	1,148	11.1%
WASHINGTON, DC	1,059	10.2%
BOSTON	934	9.0%
LOS ANGELES	872	8.4%
PORTLAND, OR	811	7.8%
DENVER	578	5.6%
SEATTLE	377	3.6%
ALL OTHER MARKETS	1,439	13.9%
<b>TOTAL</b>	<b>\$ 10,375</b>	<b>100.0%</b>

### DIVERSIFICATION BY LIFE CYCLE (NAV)



### PERCENTAGE OF PORTFOLIO INVESTED IN PRIMARY MARKETS (NAV)



#### Notes

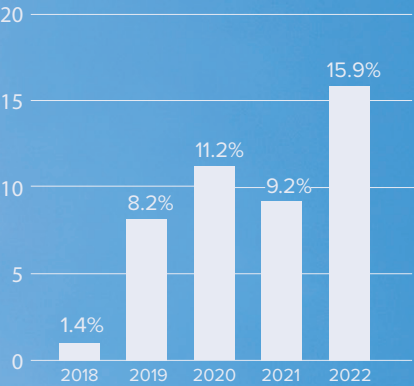
Asset values and performance returns set forth in this report are based upon and consistent with the methodologies used for calculating such information described in the current applicable fund documents for MEPT.

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.

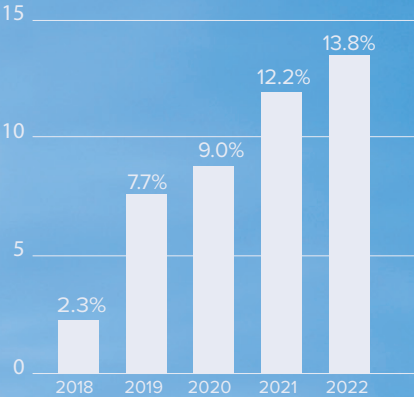


Lease Rollover Summary\*

PERCENT OF NET RENTABLE AREA



PERCENT OF TOTAL REVENUE



\* Consolidated Operating Industrial, Office and Retail



343 Congress Street, Office, Boston



# Transactions

## THIRD QUARTER ACTIVITY

In the third quarter of 2018, MEPT acquired or committed \$206.8 million to three transactions. Below are the summaries of third quarter transactions:



**Rosedale Shopping Center** presented the opportunity to acquire a fully-leased, grocery-anchored retail center in the Charlotte metropolitan area at an attractive basis

- 2000-built retail center (119,087 sf) in Charlotte, NC with strong occupancy history (96%+ over the last 5 years)
- Infill, rapidly growing submarket 10 miles north of the Charlotte CBD and 3 miles north of I-485
- Adjacent to Novant Health Huntersville Medical Center and proximate to the Park-Huntersville Business Park, with 8,449 employees within a 1-mile radius and 23,705 employees within a 3-mile radius
- High-performing grocery anchor in Harris Teeter (24.9% of gross income) which has \$26.5 million of gross sales annually (\$564 psf)
- Acquired at an attractive 5.9% going-in cap rate and a favorable price per square foot relative to similar transactions (\$285 psf vs. \$233-400 psf)



**FloWorks Distribution Center** offered the opportunity to acquire a brand-new, fully-leased warehouse in the Houston metropolitan area with an attractive in-place yield

- Newly constructed, high-quality build-to-suit warehouse with 28' – 42' clear heights
- 100% leased to FloWorks for 18.6 years and represents a strategic location due to proximity to the Port of Houston, as well as suppliers and customers in the refining and petrochemical sectors
- Well-located in the South Highway 35 industrial submarket, which features 39 million square feet of industrial space and a submarket vacancy rate of 3.9%
- Asset sits on 40.4 acres, with a 12% coverage ratio that allows the flexibility to expand the building and/or add additional outside storage
- Acquired with a projected year 1 return on investment of 7.0%



**Solaire – Partnership Buyout** presented the opportunity to acquire the minority interests in Solaire, a 32-story multifamily high-rise in downtown San Francisco developed by the Fund.

- Centrally located in the SOMA submarket near employment, transportation, and entertainment in the heart of the Transbay District. The initial phase of the \$4.5 billion Transbay Transit Center is slated for completion in 4Q 2018
- 409 unit, class A multifamily high-rise with highly efficient floor plans and attractive pricing relative to the San Francisco luxury tower market. Currently 96.6% leased
- Core investment in a desirable Primary Market characterized by long-term ownership and high replacement costs
- Asset has a 93 Walk Score and a 100 Transit Score, and is LEED Gold Certified
- Acquired at an attractive basis modestly below replacement cost (\$310.0 M vs. \$318.0 M)

**DESPITE AGGRESSIVE PRICING**, MEPT continues to source attractive opportunities both on and off-market. The Fund currently has one multifamily asset, one industrial asset, one structured debt investment and one mixed-use development under contract or LOI, all of which are expected to close in late 2018 or early 2019.

At the same time, MEPT took advantage of the aggressive market pricing to realize gains and exit non-strategic assets. In the third quarter, MEPT sold Pinnacle Park, an industrial warehouse in Dallas, TX and Venue Museum District, a multifamily high-rise in Houston, TX. Additionally, the Fund has two office assets currently under contract which are anticipated to close in 2018. As always, MEPT continues to evaluate its portfolio and pursue opportunities to maximize asset value through accretive disposition activity.



Venue Museum District, Multifamily, Houston



3Q18 ACQUISITION PIPELINE OF EXISTING AND DEVELOPMENT OPPORTUNITIES IN \$MILLIONS



Acquisitions Pipeline

Closed

<b>BOSTON</b>	<b>HOUSTON</b>	<b>SAN FRANCISCO</b>
<div><div></div><div></div></div> Harrison/Albany Block \$223.6	<div><div></div></div> FloWorks Dist. Center \$27.3	<div><div></div></div> Solaire <sup>1</sup> \$145.8
<b>CHARLOTTE</b>	<b>NEW YORK</b>	<b>SEATTLE</b>
<div><div></div></div> Rosedale Center \$33.7	<div><div></div></div> Kearny Square \$46.2	<div><div></div><div></div></div> Capitol Hill Station \$201.0
<b>CHICAGO</b>	<b>RALEIGH</b>	
<div><div></div><div></div></div> Stony Creek Outlots \$7.5	<div><div></div></div> The Marlowe Lake Boone \$68.1	
<div><div></div><div></div></div> 145 South Wells (Loan) \$71.4		

In Process

<b>ATLANTA</b>	<b>PITTSBURGH</b>	<b>RENO</b>
<div><div></div></div> Multifamily \$55.9	<div><div></div><div></div></div> Retail \$103.3	<div><div></div><div></div></div> Industrial <sup>2</sup> \$18.5
<b>MIAMI</b>	<b>PORTLAND</b>	<b>SEATTLE</b>
<div><div></div></div> Industrial \$108.4	<div><div></div></div> Windward Land \$8.0	<div><div></div><div></div></div> Debt/Multifamily \$200.0

<sup>1</sup> Partnership buyout  
<sup>2</sup> Expansion of an existing asset

Disposition Activity

<b>STAGE</b>		
<b>CLOSED</b>	<b>IN PROCESS</b>	<b>POTENTIAL</b>
<div><div></div></div> \$110.8	<div><div></div></div> \$272.3	<div><div></div></div> \$476.5
<div><div></div></div> \$205.8	<div><div></div></div> \$3.3	<div><div></div></div> \$161.8
<div><div></div></div> \$87.7		
<div><div></div></div> \$138.0		

KEY  
■ Office   ■ Multifamily   ■ Retail   ■ Industrial   ■ Land   ▲ Development

**\$824.6M**  
CLOSED

**\$494.1M**  
IN PROCESS

**\$1,318.7M**  
ACQUISITION PIPELINE TOTAL

**\$542.3M**  
TOTAL CLOSED DISPOSITION

**8**  
ASSETS

## Portfolio Spotlight:

# Transform

## CAPITOL HILL STATION: CONSTRUCTION STARTS ON A TRANSIT ORIENTED DEVELOPMENT IN DIVERSE MARKET WITH STRONG HOUSING DEMAND

The Capitol Hill submarket is a true in-fill location, offering an amenity-rich district with an eclectic mix of culture, entertainment, and nightlife while providing convenient access to Seattle's major employment districts.



### MARKET OVERVIEW

**CAPITOL HILL** is Seattle's densest residential neighborhood, offering an amenity-rich district with an eclectic mix of culture, entertainment, and nightlife including music venues and boutique theaters, as well as a wide range of local restaurants, bars, and coffee shops. Located immediately east of Seattle's Central Business District, the Capitol Hill submarket is a true in-fill location, featuring convenient access to Seattle's major employment districts including the CBD, Denny Triangle, and South Lake Union. In addition, there are significant employment centers nearby, including major hospital systems in First Hill (the adjacent neighborhood) and major education centers including The University of Washington and Seattle Central Community College.

Capitol Hill residents have many public transit options, including the Link light rail and various bus and street car lines. The Capitol

Hill Link station, which opened in March 2016, is one stop away from both Westlake/CBD and the University of Washington, with trains running every 6 minutes during peak hours. Additionally, the neighborhood is directly east of I-5 and south of SR-520 which provides residents access to the greater Seattle area.

Local lifestyle amenities, as well as proximity to employment, are an important part of Capitol Hill's charm. There are two popular parks in Capitol Hill: Cal Anderson Park, a central park that spans three city blocks, and Volunteer Park, a 48 acre park which features the Volunteer Park Conservatory. The neighborhood also features a number of city-wide celebrations including the Capitol Hill Block Party, Pride Parade, and the Seattle International Film Festival, all of which contribute to strong and diverse demand for housing in the neighborhood.

### CAPITOL HILL STATION

MEPT's Capitol Hill Station site is located on Broadway East, the primary thoroughfare and commercial heart of the neighborhood, and is immediately adjacent to the Capitol Hill Link station and Cal Anderson Park. The development will include 318 units divided among three 7-story high-rise buildings, with 33,933 square feet of ground floor retail. All three buildings are targeting LEED Platinum certification and will feature high-end finishes and an attractive amenities package including a private fitness center, library, rooftop lounge, and pet facilities. The ground floor retail space is anticipated to further drive tenant demand, with plans to accommodate local and specialty businesses well as plans to integrate the popular Capitol Hill Farmer's Market into the central plaza.



## Property Stats<sup>1</sup>

**\$193M**

stabilized asset value

**\$173M**

estimated cost

**33,933**

retail sf.

**318**

units

<sup>1</sup>As of September 30, 2018

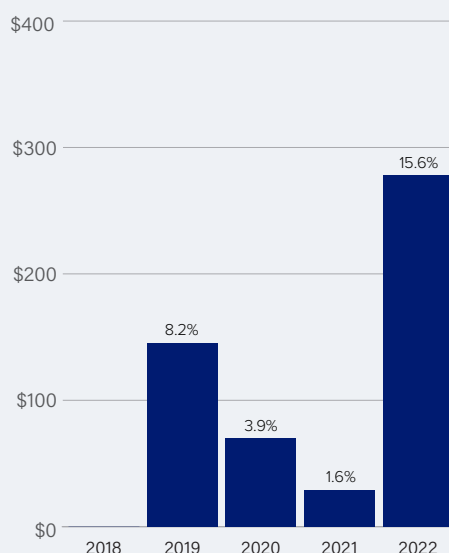




## DEBT STRUCTURE

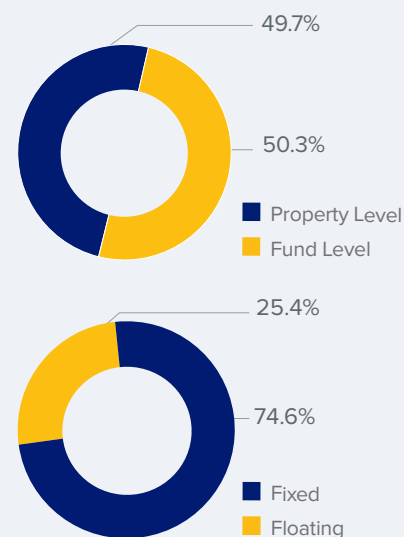
**MEPT'S LEVERAGE** ratio decreased to 21.1% from 21.4%, as the Fund used proceeds from strategic dispositions to pay down the revolving credit facility. MEPT's leverage remains within the Fund's target leverage range of  $\pm 3\%$  of peer group leverage, which was 21.4% as of 3Q18. The Fund's weighted average interest rate is 3.7%, with a weighted average remaining term of 6.1 years. MEPT is in the process of procuring a \$300.0 million Fund-level term loan, which is anticipated to close in October. The new term loan has two tranches (A: \$100.0 million with a 48 month term + 16 month extension option; B: \$200.0 million with a 64 month term) which both have a floating rate of LIBOR + 115 bps. ■

### DEBT MATURITY SCHEDULE (IN \$ MILLIONS)



**CURRENT LEVERAGE RATIO**  
**21.1%**

**WEIGHTED AVERAGE INTEREST RATE**  
**3.65%**



## ESG HIGHLIGHTS



### GLOBAL REAL ESTATE SUSTAINABILITY BENCHMARK (GRESB)

MEPT continues to be ranked top 3 in the world on the 2018 Global Real Estate Sustainability Benchmark. This year, MEPT achieved the highest score (88) it has ever received on GRESB - an increase of 5 points from last year.

The GRESB score is an overall measure of environmental, social and governance (ESG) performance – represented as a percentage

**2ND**  
Out of 42  
United States  
Diversified — Non-Listed



### UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTING (UN PRI)

The UN PRI recently graded Bentall Kennedy among the top institutional investors in the world. Bentall Kennedy, as a continuing signatory to the UN PRI, has received 2018 assessments that include an "A+" score for Strategy & Governance (median peer score: "A") and an "A" score for Property Investing (median peer score: "B").

**3RD**  
Out of 196  
Globally  
Diversified



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This report reflects the views of NewTower Management, the manager of MEPT, and Bentall Kennedy, the real estate advisor to the manager, with respect to MEPT. It is prepared for distribution to existing investors in MEPT. It may not be reproduced or distributed to the public.