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April 11, 2012

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Housing Market Insights

An Investor's Guide for Buy-to-Rent

The interest in Buy-to-Rent is intensifying rapidly, with investors at all levels looking for ways to participate in this opportunity. However, given the operational and management complexity of Buy-to-Rent, investors should carefully consider a variety of factors when selecting an appropriate manager with whom to invest.

Buy-to-Rent is inherently an operating business with an asset management function – it is not simply a long trade on home prices, and we caution investors to be wary of managers who believe otherwise.

The implementation timing to rehabilitate, lease and manage assets for Buy-to-Rent can have a dramatic effect on projected returns. As such, the size, frequency and method of asset acquisitions should be optimized to match the operating capacity of the manager.

Only 5% of distressed homes were built or renovated since 2000 and are located in favorable climates, while the rest are older and more subject to disrepair. Therefore, the ability to rehabilitate older, more dilapidated properties is vital to the success of a diversified, long-term strategy.

The yield effects from efficient rehabilitation, leasing and property management can be measured in points. Investors should fully vet the operating plans and abilities of managers as this could make the difference between meeting target returns and falling far short of them.

A decline of 26% in asset value from purchase price would reduce the IRR from rent to 0% for a single-family rental in our base case scenario. Therefore, asset rehabilitation and preservation through effective construction, property management and maintenance is critical to maximizing returns for Buy-to-Rent managers.

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Housing Market Insights

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When we wrote in our 2012 housing outlook that this will be the Year of the Landlord, we had expected institutional investment in distressed single-family homes would gain traction, but even we could not have anticipated the velocity by which this idea has taken off. Over the course of the past few months, we have received more incoming calls about this opportunity than about all other housing topics combined. The interest has been broad-based across investor types, from private equity and hedge funds, to pensions and endowments, to family offices and private wealth. The announcement and subsequent progress of the Fannie Mae pilot sale of REO properties in bulk has also stoked interest.

As we have written about in the past, we believe the success or failure of this investment comes down to the operations more than any other aspect. Therefore, we reiterate this is not a trade, it is not a security or a derivative, and it is not simply a beta long position on home prices. It is an intensive operating business that most investors will be building from scratch – operators with three years' experience are veterans in this business and are few and far between. Given the overwhelming amount of attention being paid to this opportunity, and the amount of capital potentially moving into this space, it is important to highlight that the details matter, and in our view they are crucial determinants of success.

So is there a right and a wrong way to do this? We believe the answer is categorically yes, and understanding what it takes to be successful is the purpose of this report: our investor's guide to Buy-to-Rent.

We had extensive conversations with several operators who have been in the trenches for the last few years to better understand the operational hurdles, and then ran sensitivity analyses on the different operational aspects of this investment to quantify the difference between getting it right and getting it wrong. As someone emphatically pointed out to us: "if you think you can't lose money buying a $200K house for $20K, think again."

Our conclusions are summarized here:

- Buy-to-Rent is inherently an operating business with an asset management function – it is not simply a long trade on home prices, and we caution investors to be wary of managers who believe otherwise.
- The implementation timing to rehabilitate, lease and manage assets for Buy-to-Rent can have a dramatic effect on projected returns. As such, the size, frequency and method of asset acquisitions should be optimized to match the operating capacity of the manager.
- Only 5% of distressed homes were built or renovated since 2000 and are located in favorable climates, while the rest are older and more subject to disrepair. Therefore, the ability to rehabilitate older, more dilapidated properties is vital to the success of a diversified, long-term strategy.
- The yield effects from efficient rehabilitation, leasing and property management can be measured in points. Investors should fully vet the operating plans and abilities of managers as this could make the difference between meeting target returns and falling far short of them.
- A decline of 26% in asset value from purchase price would reduce the IRR from rent to 0% for a single-family rental in our base case scenario. Therefore, asset rehabilitation and preservation through effective construction, property management and maintenance is critical to maximizing returns for Buy-to-Rent managers.

Introduction to the Guide

In our Guide, we evaluate the opportunity from the investor's perspective – specifically looking at the impact on returns from executing one strategy vs. another. We also break out the two main management functions – operations and asset management – to take a closer look at each. For each management function, we further segregate them by focus area, and finally we identify critical objectives for each and analyze the impact of various outcomes. To perform these analyses, we use our cashflow model, which we have refined

since we introduced it (see *Cross Industry: Housing 2.0 – The New Rental Paradigm*, October 27, 2011). Since we are evaluating an average investment, not just one in Phoenix or a specific MSA, we also make some changes to our base case assumptions. This base case scenario is summarized in Exhibit 1.

Exhibit 1
Base Case Cashflow Model Assumptions

Assumptions	Base Case
Acquisition Cost	$80,000
Rehabilitation Cost	$20,000
Total Cost	$100,000
Annual Rent (Gross Yield)	$15,000
Property Tax, Insurance, HOA	22% of rent
Property Management	5% of rent
Leasing	2.5% of rent
Maintenance and Repairs	5% of rent
Turnover Costs	$2000 per turn
Vacancy Rate	5%
Turnover Rate	60%
Initial Rehab Months	1
Initial Marketing Months	1
Cumulative HPA	0%
Investment Period	60 months
Institutional Exit	No costs
IRR	8.2%

Source: Morgan Stanley Research

Operations

We start with what we consider the most important function. Effective execution of all of the operating functions of Buy-to-Rent is not only critical for success, but the foundation on which this opportunity is based. While cheap assets may be the reason this opportunity exists, turning paper yields into real ones and avoiding capital losses depends on the execution of the operations. We focus on the following operating topics: scalability, valuation, acquisition, construction, property management, leasing and maintenance.

Scalability

The first and most often asked question in relation to the operations of Buy-to-Rent is whether it is scalable. We touched on this topic in our last report, in which we concluded that having a vertically integrated operation, as opposed to a distributed outsourced model, is necessary to keep costs low and hit target yields, as well as maintain control over decision making. Therefore, the question of scalability to us is inherently one of expanding such a vertically integrated company – which we already know can handle over 1000 homes in a single geographical area because there are companies doing this today – to other geographical areas. We believe this is possible, and successful expansion depends on the development of a scalable platform in conjunction with local real estate labor.

We think of the platform as a combination of scalable technology and processes, and this is the approach taken by some of the existing operators. The technology developed so far differs from one operator to the next, but tends to focus on two subjects: asset valuation and acquisition, and property management. While there is existing software to help with both functions, none of the available technology was designed specifically for the acquisition and management of single-family investment properties in size. As a result, some operators have spent time and capital developing proprietary systems to meet their specific requirements – the better operators developed those systems with the goal of expansion in mind.

For processes, operators have streamlined valuation and decision making on the acquisition side, making use of quantitative modeling, cloud-based computing and instant communications to share information. Taking a page from the multi-family sector, some operators are also standardizing rehabilitation work such as painting, flooring and appliance purchases to minimize costs and unify materials. Some are further deploying technology for maintenance, including repair team optimization to minimize travel distances and lag times, and for leasing, including tenant sourcing to minimize marketing expenses and vacancy rates.

In addition to scalable technology and processes, much of the work must be completed by local labor with local expertise. As such, these systems and processes should be designed to be easily transferable across geographies, so that assets in Phoenix and assets in Orlando, for example, can be valued, acquired, rehabilitated and managed the same way. To put it another way, scalability in this business depends on standardization through the effective deployment of technology and labor. Is this difficult? Yes. Is it possible? We believe so.

Valuation

We mention valuation only briefly here as we performed a sensitivity analysis in our last Insights report, in which we concluded that missing on value by 10% could result in a yield reduction of 2.5 points (see *Housing Market Insights: Buy-to-Rent*, February 16, 2012). Here, we want to point out that we

believe valuation has two components: MSA level and asset level.

We will discuss these components in more detail later, in the asset management section, but operationally, accurate valuation depends on data, both its availability and its utilization. In our opinion, the best valuation systems use as much comparable sales data as possible, not only on properties, but also on rents and price changes. We believe an investment property should be valued on current asset value, future asset value and rental cashflows – much like a company. Even if the purchase price is simply the result of where the market trades, the investor needs to know whether that price is under- or over-valued based on some expectation of returns for that individual house. Surprisingly, not many operators actually value properties this way, giving the ones who do an advantage in our opinion.

Acquisition

There are four main channels for the acquisition of distressed single-family homes: REO, foreclosure third-party sale (i.e., courthouse auction), short sale and bulk sale. The first three, which we will refer to as piecemeal channels, are similar in the sense that acquisition is done essentially one house at a time. While the process differs slightly (broker for short sales vs. auction for foreclosures), the execution and subsequent operations are the same. Basically, the investor buys a house and puts it into the rehabilitation and leasing queue.

Until recently, the prospects for true bulk purchases (which we define as pools of 100 homes or more) have been slim. As a result, most operators are currently set up to only handle acquisitions from the piecemeal channels. With the advent of the Fannie Mae pilot sale of REO in bulk, as well as a handful of other bulk sales from banks, large institutional investors with capital but no operations have geared up to acquire through the bulk channel.

While this might be a great way to allocate a lot of capital to this space quickly, it also requires careful planning and deployment of resources, for both rehabilitation and the management of such assets after acquisition. While the initial Fannie pool mostly consists of properties already occupied by a tenant, future bulk pools, regardless of seller, may include a higher number of vacant and damaged assets. It is this vacant bulk-purchase scenario on which we run our sensitivity analysis.

Our premise is simple: if an operator can handle the acquisition of 20 homes per week (about 1000 per year) right now, what would happen if they were delivered 400 empty, distressed homes in one week?

In the future, the answer should be that the operator will have the capacity to handle those extra homes, but this is not the case today. Since pool sales starting this year, we think it is important to ascertain the impact.

We make some simplifying assumptions, including that the operator can double their construction capacity through additional contractor usage. This may be a generous assumption, but simply assuming exactly the same capacity did not seem fair either. In any case, even doubling the capacity immediately, 400 homes would take 20 times as long to deploy sequentially. As our base case assumption is that 20 homes today would take 2 months to put into productive use (including both the rehabilitation and leasing work.), 20 times that would be 24 months, or two years to put to work.

Even without running the cashflows, we can see that the last set of 20 homes to be filled would sit empty for 2 years, which clearly would affect returns since they would be negative-carry assets for that time (there are always property taxes and maintenance costs). In Exhibit 2, we show the expected yield in the base case, as well as the yield for taking 12 and 24 months to rehab and deploy the assets. We show the 12 months' scenario to give a sense of what could be possible if rehabilitation capacity could be quadrupled instead of doubled.

Exhibit 2

Rehab Timing Effect on Yield

Assumptions	Base Case	Quadruple Capacity	Double Capacity
Initial Rehab Months	1	12	24
IRR	8.2%	6.0%	3.8%

Source: Morgan Stanley Research

This comparison may seem a bit extreme, but the point is valid. There are currently no operators that we are aware of who have 400 construction crews in one MSA. And several of the institutions considering bids on bulk pools have not even figured out an operating plan or partner yet. So how will they manage 400 homes if they actually win them? We suggest investors keep this point in mind when they are approached by managers offering bulk purchases as a “magical” solution to capital allocation questions. As it stands today, the ability to purchase through piecemeal channels is critical to successful implementation of Buy-to-Rent.

Construction

The importance of getting construction – or specifically, re-construction or rehabilitation –right cannot be overstated. The quality and cost of rehabilitation can continue to benefit or haunt the asset far past the initial completion of work. For example, shoddy plumbing or other infrastructure work can

result in significantly higher maintenance costs over time, and can also affect eventual exit pricing. Therefore, we believe it is critical that the rehabilitation work be done such that the workers are incentivized to minimize long-term costs, not just short-term expenses.

To evaluate the sensitivity of returns to construction, we utilize two property rehabilitation examples, then evaluate two scenarios each. The first example is for missing on the initial construction cost, and the second is for increased ongoing repair costs. For each example, we evaluate the base case scenario against a worse case.

We have been told by several operators that it is normal to under- or over-estimate initial rehabilitation costs by 10 points vs. the cost of the property, but in some cases misses can exceed 20 points. Using this as a guide, we look at missing by 20 points of the property cost on rehabilitation costs. For the ongoing repairs example, we increase the ongoing expenses by 100% per year, which is roughly equal to 5% of the annual rent, which in our base case is only $700. The results are shown in Exhibit 3.

Exhibit 3

Rehab and Long Term Cost Effects on Yield

Assumptions	Base Case	Higher Rehab	Higher Maintenance
Rehabilitation Cost	$20,000	$24,000	$20,000
Maintenance and Repairs	5% of rent	5% of rent	10% of rent
IRR	8.2%	7.7%	7.5%

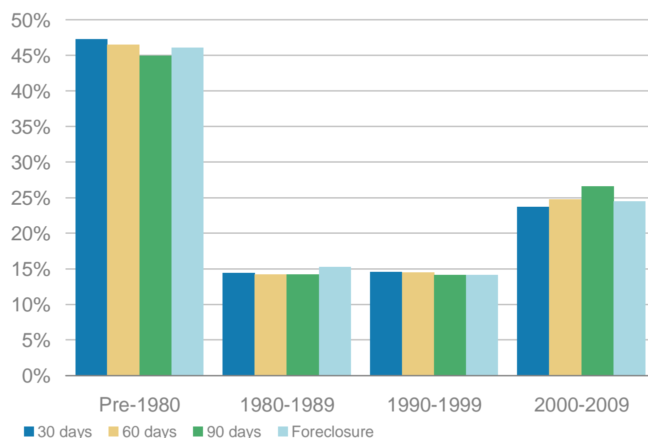
Source: Morgan Stanley Research

As we can see, construction-related misses whether in the rehabilitation or ongoing maintenance phase can have a significant impact on yields. Increasing ongoing maintenance by $700 per house is not particularly extreme in our opinion, so it's not too hard to see that poor construction work that leads to significantly higher maintenance costs can quickly reduce anticipated returns.

One last word on construction. Most of the investors that have been involved in Buy-to-Rent have focused on the low hanging fruit of properties, i.e., houses built or renovated since 2000, located in arid climates (CA or AZ), which helps preserve them and keep maintenance costs low, and that have not been sitting empty for too long. But as we show in Exhibit 4, we know from the data that the majority of the shadow inventory is much older, located in less pristine locations and can sit empty for months if not years. In fact, only 4.9% of the backlog has been built since 2000 and sits in a "desert" state. Therefore, the ability to turn the majority of distressed properties into productive rentals that meet yield targets is a much more difficult task from a construction perspective than for a house that needs only paint and cleaning. We believe this is an important factor to consider when deciding on an operator to invest with.

Exhibit 4

Age of Distressed Backlog[1]



	CA, AZ, NV, NM	Rest of the Country
Pre-2000	13.2%	61.1%
2000-Present	4.9%	20.8%

Source: Morgan Stanley Research, Data Quick
1. Calculated based on ~1MM distressed properties with both loan and property data using latest build or renovation date

Property Management

We believe it is critically important to evaluate the ability to manage tenant turnover. While it's easy to gloss over this issue by using an assumption from the multi-family world which, thanks to our colleagues in REIT research, we estimate to be 60% per year on average, the turnover rate for a single family can differ significantly. Specifically, we have been told by some single-family operators that they have achieved turnover rates lower than 25%, which according to our multi-family colleagues again, is unheard of in the multi-family world.

The key, we're told by these single-family operators, is that the typical tenant is a family with kids in school and connections to their community. Logically, this makes a lot of sense – the typical renter demographic (younger, transient households) move to single-family housing for lifestyle reasons – usually to start a family and historically as an owner. It makes sense, then, that they would be inclined to stay in one place to raise their kids rather than switch units every year or two. But in our view, this phenomenon would only occur if the tenant were satisfied with the housing unit and service. If they own a single-family property, they are directly responsible for the upkeep of their home, but if they

rent, the quality of the ongoing property management services would probably affect their satisfaction more than any other factor. If this is the case, then how much of an impact on returns would good vs. poor property management have using turnover rates as the variable?

To conduct this analysis, we start by looking at the base case turnover assumption. If the turnover rate on a portfolio was 100%, and each turnover resulted in one month of vacancy, we would have a vacancy rate of 8.3%. Therefore, a 60% turnover rate equals a vacancy rate of 5% – exactly the base-case vacancy rate assumption in our model. So to calculate the impact of a better managed portfolio with only a 25% turnover rate, we reduce the vacancy rate to 2%. Likewise, we look at a poorly managed portfolio that has a 90% turnover rate, which would increase our vacancy rate assumption to 7.5%. At the same time, turnover results in additional capex costs as each unit must be refurbished for the new tenant, which according to the operators we spoke with amounts to about $2,000 on average per house per turn – the lower or higher costs are taken into account in the model. Our conclusions are shown in Exhibit 5.

Exhibit 5

Tenant Turnover Effect on Yield

Assumptions	Base Case	Lower Turnover	Higher Turnover
Turnover Rate	60%	25%	90%
IRR	8.2%	9.3%	7.4%

Source: Morgan Stanley Research

From this analysis, we can see that high quality property management that results in lower turnover can certainly boost yields. As such, we would recommend that investors closely screen for property management technology, processes and methods that would allow them to reach lower turnover rates.

Leasing

Sticking with vacancy rates, we take a closer look at the leasing function within the Buy-to-Rent operations. In the property management analysis, we simply assumed that the vacancy time per turn was one month. But actual vacancy timing will depend on the effectiveness of lead generation and marketing. The impact on returns comes not only from the ability to minimize the actual vacancy timing, but also by minimizing the costs of leasing through the effective integration of leasing labor.

In speaking with operators and potential investors, the leasing solutions we've heard range from well-thought-out vertically-integrated leasing operations that use data mining and marketing to generate leads, to plans that are not much more than the use of Craigslist and external leasing brokers. The cost and timing impacts of these strategies differ dramatically.

For our leasing-sensitivity analysis, we look at two scenarios outside our base case. The first is an efficient leasing business that is managed in-house and uses data-driven lead-generation tools, resulting in a lower vacancy time by 50% and lower leasing costs by 50%. The second assumes the use of external agents and little to no marketing, in which we increase vacancy time by 50% and increase leasing costs to one-month's rent. The resulting analysis is shown in Exhibit 6.

Exhibit 6

Leasing Vacancy Effect on Yield

Assumptions	Base Case	More Efficient Leasing	Less Efficient Leasing
Leasing	2.5% of rent	1.25% of rent	8.33% of rent
Vacancy Rate	5%	2.5%	7.5%
IRR	8.2%	8.7%	7.2%

Source: Morgan Stanley Research

Clearly, the leasing component can affect returns greatly. This is mostly because vacancy is one of the worst enemies of any rental business. During times of vacancy, most other costs are ongoing, so the asset becomes negative carry. In addition, the leasing function for single-family homes specifically is very expensive when outsourced vs. internalized. Another reason investors should be wary of managers who insist on outsourcing vital operating functions.

Maintenance

The last operating function we look at in this report is maintenance. Unlike multi-family buildings, which are made of steel and concrete, single-family homes generally consist of wood and plaster. In addition, single-family homes generally have yards, and may have pools, sheds, fences and other structures to maintain. As a result, asset degradation is more acute for single-family homes, and maintenance a more important component of value preservation.

In our opinion, the better managers that we've talked to have plans for maintenance that are designed to preserve this value as efficiently as possible, such as routine inspections of property, appliances and yards. While not performing these services may save on some monthly maintenance expenses, the impact on property value can be severe. We're relatively sure that our readers have seen the results of poorly managed single-family rentals – the house on the street with two-foot-tall weeds, a ruined driveway, and broken shutters is probably one of them.

Since the impact of proper vs. poor maintenance is mostly in the eventual resale value of the house, we perform a slightly different sensitivity analysis here. We simply calculate the loss

of value on the property that would result in wiping out the base case yield, or resulting in a breakeven return, to see how much room there is for poor maintenance. Exhibit 7 shows this result.

Exhibit 7

Loss of Value to Reach 0% IRR in Base Case[1]

Assumptions	Base Case	0% IRR
Cumulative HPA	0%	-25.9%
IRR	8.2%	0.0%

Source: Morgan Stanley Research
1. Decline in value calculated from purchase price, not improved cost

Since it doesn't take much to wipe out the IRR from rent, we also recommend that investors look for managers who understand the critical nature of value preservation for single-family homes, and have a cost-effective way to maintain them as well as possible.

Asset Management

While we believe that effective operations are the most important factor for success in turning paper yields into real ones in Buy-to-Rent, the asset management function should not be discounted as it is vital in building and managing a productive portfolio of single-family rentals. In this case, we use the term asset management to refer to the acquisition, portfolio management and disposition decisions, not the actual property management of the homes.

Housing may be the most visible, yet most misunderstood, asset in existence. Since home prices were always assumed only to increase, not much study was done on the housing market prior to 2007 when everything fell apart. In fact, housing economics were long viewed as the black sheep of the economics field – why would you study an asset that only appreciates at an almost constant pace? Yet housing is incredibly complex. It is as local as a physical asset can get. It is incredibly hard to measure at the macro level due to all the underlying differences in properties and markets; and it is a market driven by individuals and emotional decision making. In short, it takes a lot of work to fully understand.

Therefore, we believe the difference between a good asset manager and a poor one comes to down their understanding of the housing market, at the property level from the bottom up, at the macro level from the top down, and everything in between. We take a closer look at the critical functions that the asset manager must play in making those asset purchase and portfolio management decisions.

Macro Housing Expertise: Where to Buy

One of the most popular questions that we receive from investors and managers evaluating this opportunity is what MSAs to invest in. While much attention has been paid to places like Phoenix and California, do those make the best places to buy? Answering this question is no easy task, and while we have provided some basic frameworks in the past, we will not attempt to address this question here. However, we do provide some points for investors to consider when evaluating managers and this opportunity in general.

First, does the manager have the required expertise, data and experience to answer this question? As we've written extensively since we first started publishing on the US housing market, the underlying details and nuances are critical to any true understanding of how this market works. The differences between distressed and non-distressed markets, the drivers of sales and prices from liquidations to jobs to mortgage credit, the true supply and demand for houses, and everything the headline numbers obscure or mislead, are crucial to figuring out which markets to target.

Everybody claims to be an expert when they are fund-raising, but do commercial real estate managers fully understand housing? Do multi-family managers understand single-family rentals? Do homebuilder analysts understand existing home dynamics? Making sure the manager you invest with has the wherewithal to perform this analysis, to project home prices, and to see through the macro numbers is something we highly recommend investors find out before committing capital.

Property Level Expertise: What to Buy

At the other end of the spectrum, there is simply no substitute for local housing market expertise when it comes to making individual home purchase decisions. Knowing which neighborhoods to be in, which side of the street to be on, and what local housing laws must be followed are critical to building the best portfolio.

But this function is not simply one of subjective decision-making based on personal experience. There is a mountain of housing data that can be used to inform these decisions. From estimating rental yields and exit values, to neighborhood and property desirability, to labor and material costs, individual asset purchase decisions should be data-driven in our opinion. Think about it this way – would you want to invest with a manager who prefers to buy corner lots because that's what the conventional wisdom tells them to do? Or prefers to buy some other type of property because the data shows that they consistently outperform other assets in a neighborhood.

We would prefer the latter, and be wary of managers who either have not, or will not, use local data to inform decision-making.

Portfolio Management: Product Mix and Valuation
In addition to macro and micro understanding of housing for acquisition decisions, we think there is also a conventional portfolio management role in this opportunity. Not only does the asset manager have to decide which homes to buy, but they should have an underlying strategy for which geographies to be in and why. This strategy should be quantitatively determined, in our opinion, to diversify, maximize returns, and decrease portfolio volatility.

For Buy-to-Rent markets, there is usually a trade-off between rental yields and potential capital appreciation, though at times they could become aligned. Volatility in pricing and rents is also driven by changing economic as well as supply and demand dynamics within local markets. These drivers can differ significantly between very localized neighborhoods – think about buying on the right vs. wrong side of the tracks. As such, building an optimal portfolio is not as simple as buying whatever properties in whatever locations they happen to exist and generate decent rents.

Portfolio management also applies to the exit decisions. While we like the fact that the overall opportunity exits are hedged (see *Morgan Stanley 2012 Global Securitized Products Outlook*, December 6, 2011), making the correct decision about when to sell certain assets will be critical to the total return generated on the portfolio. To accurately value these assets, both the anticipated future value and the present value of the rental cashflows must be taken into account. While this may sound rudimentary, it should be based on quantitative analysis of individual assets, neighborhoods, and MSAs. In general, we believe that quantitatively supported asset management is by far the preferred approach.

Summary

Buy-to-Rent is an attractive opportunity on paper, made more attractive by successful execution of rehabilitation, leasing, property management and asset management functions. We believe it is both scalable and executable, but successful implementation requires a manager with the right experience, expertise and approach in order to maximize returns.

We do not believe it is a simple long trade on home prices, nor that it is as easy as buying assets today and holding them until the housing market recovers. In fact, poor execution of operations cannot only significantly reduce the return from Buy-to-Rent, but could also lead to capital losses.

We believe that while this opportunity is extremely compelling, it is not for the faint of heart. Success depends on a convergence of quantitatively driven asset management and hands-on operations. But we believe the work to identify these managers will pay off both immediately as distressed homes are purchased at significantly discounted prices, and for the long term as an institutionally held single-family rental industry emerges.

We hope you found this guide useful, and we wish you the best of luck investing in Buy-to-Rent.

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(as of March 31, 2012)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1105**	**38%**	**465**	**43%**	**42%**
Equal-weight/Hold	**1242**	**42%**	**471**	**43%**	**38%**
Not-Rated/Hold	**101**	**3%**	**26**	**2%**	**26%**
Underweight/Sell	**478**	**16%**	**126**	**12%**	**26%**
Total	**2,926**		**1088**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.
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