

Morgan Stanley & Co. LLC

**Paul Morgan**

Paul.B.Morgan@morganstanley.com  
+1 (1)415 576 2627

Morgan Stanley & Co. LLC

**Swaroop Yalla, PhD**

Swaroop.Yalla@morganstanley.com  
+1 (1)415 576 2361

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Industry View  
Attractive

## Apartment REITs

### 2012 growth reflects sector strengths amid macro risks

**What's new:** Following our REIT sector forecast updates last week (see [Weekly REIT Insights 9/23](#)), our current 2012 revenue forecasts reflect a strong demand/supply dynamic and tailwinds from declining homeownership, partly offset by a sluggish ongoing recovery for metro job growth. **We forecast strong 4.4% (no change) and accelerating 6.4% (-40bps relative to last month's outlook) same-store revenue growth for the apartment REITs in 2011 and 2012, respectively.**

**Morgan Stanley's Economics team sees more moderate GDP and job growth in 2012 – base case forecast assumes no recession in the cards.** Our Economics team currently forecasts GDP and job growth of +2.5% for 2H11 and +2.1% for 2012. For job growth, our in-house team is forecasting an average of +125K jobs/month until mid-2012 and +150k jobs/month beyond that.

**Investment Conclusion:** In isolation, our +4.4% REIT-average ss-revenue growth forecast is at the midpoint of management guidance for 2011. As part of the forecast revisions last week, we trimmed 2012e NAVs by 2% and price targets by an average of 4%. **We continue to highlight AIV, BRE and ESS based on 1) upside to same-store growth relative to expectations, 2) higher momentum into 2012 compared to peers, and/or 3) value-creation from non same-store activities: acquisitions and development/re-development activity.**

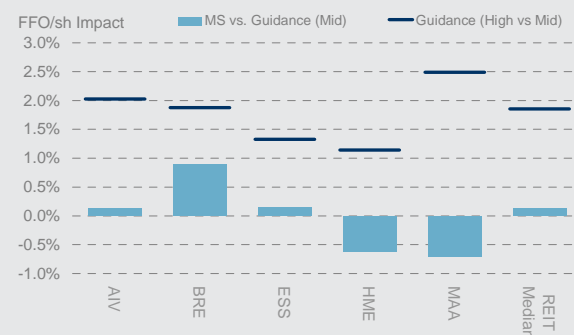
### MS Revised FFO, Fwd NAVs, and Price Targets

Ticker	AIV	BRE	ESS	HME	MAA	
2011 FFO	Guidance (min)	1.45	2.09	5.58	3.47	3.92
	Guidance (max)	1.51	2.17	5.73	3.55	4.12
	Guidance (mid)	1.48	2.13	5.66	3.51	4.02
	Street Consensus - 2011 FFO	1.49	2.13	5.68	3.51	4.01
	MS FFO (prior)	1.50	2.16	5.70	3.52	3.99
	MS FFO (new)	1.49	2.16	5.71	3.48	3.97
% Change	-0.7%	0.0%	0.2%	-1.1%	-0.5%	
% Upside to Guidance (mid)	0.7%	1.4%	1.0%	-0.9%	-1.2%	
2012 FFO	Street Consensus - 2012 FFO	1.81	2.37	6.47	3.85	4.37
	MS FFO (prior)	1.84	2.40	6.50	3.90	4.40
	MS FFO (new)	1.83	2.39	6.49	3.85	4.37
	% Change	-0.5%	-0.4%	-0.2%	-1.3%	-0.7%
% Upside to Consensus	1.1%	0.8%	0.3%	0.0%	0.0%	
2012e NAV	MS 2012e NAV (prior)	37.31	58.95	158.50	69.90	73.43
	MS 2012e NAV (new)	36.07	57.85	154.91	68.12	72.49
	% Change	-3.3%	-1.9%	-2.3%	-2.5%	-1.3%
MS Price Target	MS Price Target (prior)	\$32	\$60	\$166	\$69	\$75
	MS Price Target (new)	\$31	\$56	\$163	\$66	\$72
	% Change	-3.1%	-6.7%	-1.8%	-4.3%	-4.0%
	Premium/Discount to GAV	-7%	-2%	+4%	-2%	+0%
	Total Return (%)	33%	33%	35%	23%	20%

Source: Morgan Stanley Research

### FFO Upside Potential, by REIT

Based on MS Estimates vs. 2011 Guidance Midpoint



Source: Morgan Stanley Research

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## MS-IFM Update – Forecasting 6%+ ss-revenue growth in 2012

### Summary & Recommendations

Based on Q2 results and updated macroeconomic forecasts, our updated FY 2011 and 2012 same-store revenue growth estimates (derived from our MS-IFM econometric forecasting model) reflect a more sluggish macro backdrop, but apartment sector strengths continue to shine. Our outlook incorporates 2Q11 metro-level net absorption and supply growth, our Economics team’s current macro forecasts, and industry employment trends through August. Our Interactive Forecasting Model (IFM) maps these drivers to REIT revenue growth and estimates the FFO variance relative to management guidance, based on our estimate of each company’s core growth trajectory.

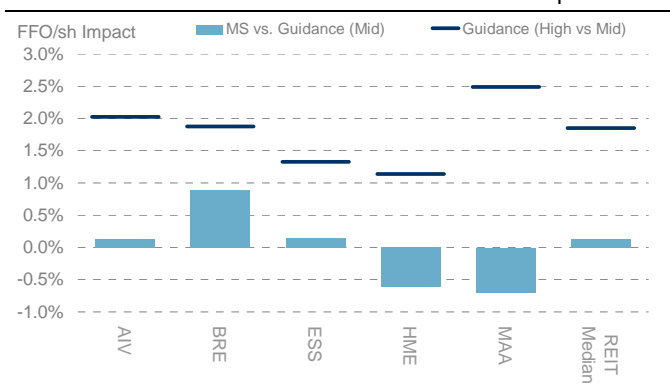
**Investment Thesis:** For 2011 and 2012, we forecast +4.4% (0bps) and +6.4% (-40bps vs. prior MS-IFM) respectively for same-store revenue growth for the apartment REITs. **We continue to highlight AIV, BRE and ESS based on a combination of 1) upside to same-store growth relative to expectations, 2) higher momentum into 2012 compared to peers, and/or 3) value-creation from non same-store activities: acquisitions and development/re-development activity.**

*As always, our MS-IFM model is available to Morgan Stanley clients in an interactive spreadsheet that – unlike common “black-box” predictions – offers the ability to modify key drivers and explore the sensitivities of macro forecasts as well as individual REIT upside/downside projections.*

Exhibit 1

### FFO upside potential, by REIT

Based on MS Estimates vs. 2011 Guidance Midpoint



Source: Company data, Morgan Stanley Research

**Metro-level data show wide disparity in job growth.** We continue to stress that headline job numbers fail to do justice to a few “bright spots”: 1) hiring continues to be strong among the “knowledge workers”, especially in technology and biotech sectors (five of the top seven markets have a tech focus – see Exhibit 2), and 2) the pace of hiring among the Gen-Y (20-34yr) age-cohort that has the highest propensity to rent is almost twice the overall US growth rate in the past year. YTD job growth has been weak in the US (+0.7%), but the average job growth YTD in the top ten markets has been more than twice the national average (+1.6%). Given that most REITs concentrate their assets in the top markets - the bleak jobs picture, while certainly not encouraging, has not affected the ability of REITs to push rents.

Exhibit 2

### Metro Level Job Growth still biased towards Tech

Metro	MoM	YTD	Comments
Houston	0.1%	2.5%	Energy
<b>San Jose</b>	<b>0.0%</b>	<b>2.4%</b>	Technology
Tampa	0.2%	1.7%	Diversified
<b>Austin</b>	<b>0.5%</b>	<b>1.6%</b>	Technology
<b>Seattle</b>	<b>-0.3%</b>	<b>1.4%</b>	Technology
<b>Boston</b>	<b>-0.2%</b>	<b>1.4%</b>	Tech/financials
<b>San Francisco</b>	<b>1.0%</b>	<b>1.3%</b>	Technology/Biotech
Phoenix	0.8%	1.2%	Diversified
Miami	0.2%	1.1%	Trade and Trans.
San Diego	0.1%	1.1%	Military/Diversified
Newark	-0.2%	1.0%	Trade and Trans.
Baltimore	-0.3%	1.0%	Diversified
Dallas	-0.5%	0.9%	Diversified
Jacksonville	-0.5%	0.7%	Diversified
<b>US</b>	<b>0.0%</b>	<b>0.7%</b>	Diversified
Oakland	-0.2%	0.5%	Diversified
New York	-0.4%	0.3%	Tech/financials
Charlotte	1.1%	0.3%	Finls./Diversified
Orange County	-0.2%	0.3%	Diversified
Chicago	-0.1%	0.1%	Diversified
Orlando	-0.6%	0.0%	Tourism
Denver	-0.5%	0.0%	Tech/Diversified
Los Angeles	-0.2%	-0.4%	Tech/Diversified
Atlanta	-0.6%	-0.5%	Diversified
Philadelphia	0.0%	-0.5%	Diversified
Washington DC	-0.8%	-0.6%	Govt/Diversified

Source: BLS, HAVER, Morgan Stanley Research

Moreover, while the market remains understandably focused on the potential for increased layoffs (esp. in the financial industry), recent comments from REIT company management continue to indicate little impact on bottom-up fundamentals: “We have not seen anything in our numbers anecdotally or otherwise that demonstrates to us that there are widespread layoffs in this market and people leaving New York.”

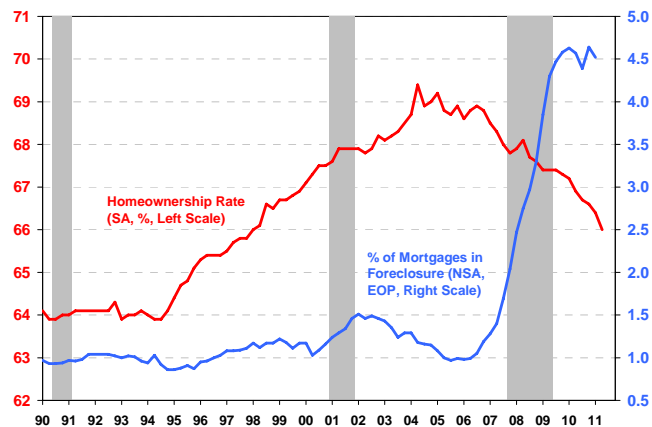
## MS-IFM Analysis

Our apartment revenue IFM (“Interactive Forecasting Model”) incorporates macroeconomic and metro-level data that drive rents, vacancies and cash flows for the multifamily sector, in particular job growth, incremental demand from former homeowners, and the rent/buy tradeoff. We make the following updates to our model in this installment:

- Job growth numbers dialed down** – MS Economics team has reduced their forecasts for GDP to +2.5% (-20bps) for 2H11 and +2.1% for 2012 (down 110 bps since we last published our IFM forecasts in June). For job growth, they are forecasting an average of +125K jobs/month until mid-2012 and +150k jobs/month beyond that. This changes our job growth forecasts to +1.2% in 2011 (down 60bps) and 1.4% (down 20bps) in 2012, respectively.
- Housing affordability fell in 2Q but should rise as rates remain low.** NAHB’s first time homebuyer index dropped unexpectedly in 2Q by 10 points to 116. However, this appeared to be driven by a slight increase in home prices (which is seasonally strong in 2Q) – looking forward, we expect nominal affordability to remain elevated in 2011 as home prices continue to slide and mortgage rates remain low, and to gradually moderate in 2012 as higher interest rates begin to factor into mortgage costs.
- Reversion in homeownership rate creating a generation of renters.** Quarterly data from the Census Bureau on the homeownership rate shows the rate currently at 66% from a peak of 69.4% (Exhibit 3). A recent report from our Fixed Income Strategy team shows that excluding delinquent borrowers, the homeownership rate would be as low as 59.7% (see *Housing Market insights: A Rentership society*, 6/20/2011). While majority of these rentals are created in the single-family rental segment, we see some demand trickle down to multifamily segment as well.
- Vacancy rate continues to decline.** We see a 50bps improvement in occupancy through 2012, coming off a 1.0 % and 0.6% increase in net absorption in 2011 and 2012, respectively, and very modest supply growth of 0.2% and 0.5% (Exhibit 4).

Exhibit 3

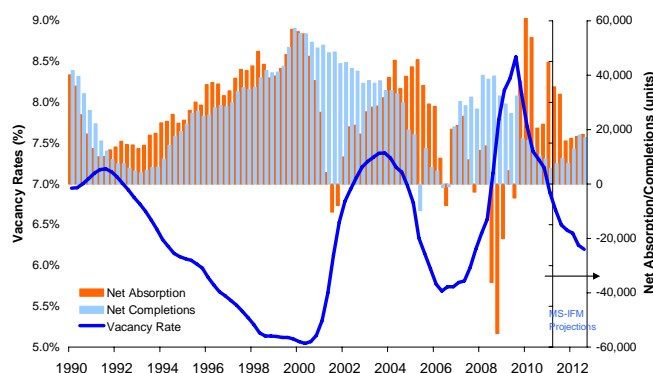
### Homeownership rate continues its downward trend



Source: Company data, Morgan Stanley Research

Exhibit 4

### Low supply in the market reducing vacancy at a rapid clip



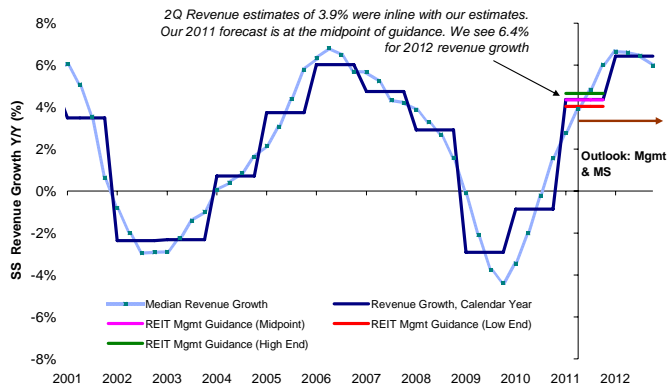
Source: Morgan Stanley Research

**Implications for REITs – Output from IFM.** For 2011, we forecast +4.4% median revenue growth for the apartment REITs, with the coastal REITs at +5.5%. For 2012, we anticipate further acceleration to 6.4% overall and 7-8% revenue growth for the coastal REITs (driven by concentrations in New York, San Francisco and Seattle). Based on our MS-IFM estimates, we are near the mid-point of guidance in 2011 – our estimate of 4.4% revenue growth compares with guidance ranging between 4.0%-4.7% (Exhibits 5 & 6). Our revenue forecast of +6.4% in 2012 (down 40 bps from previous forecast in June) is higher than the previous peak of 6.0% growth in 2006, when apartment demand was still being cannibalized by the boom in single-family & condos.

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Exhibit 5

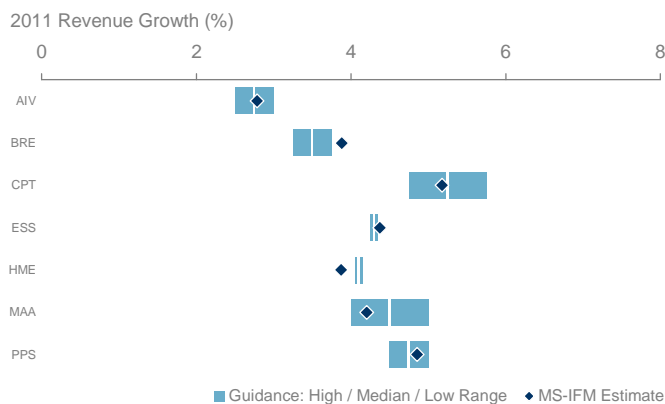
## MS IFM Revenue Growth Forecast 2011-12



Source: Company Data, Morgan Stanley Research

Exhibit 6

## MS-IFM SS-Revenue Growth vs. REIT Guidance

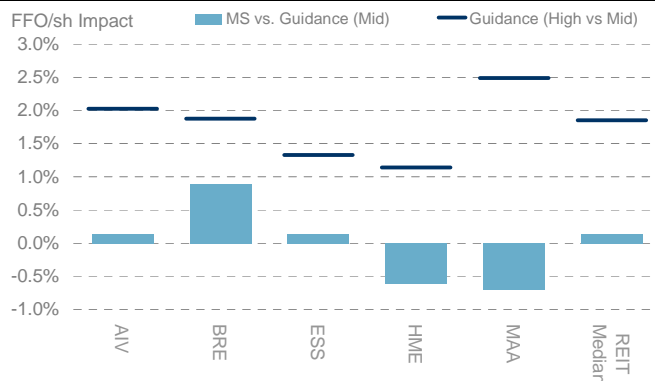


Source: Company data, Morgan Stanley Research

**REITs same-store outlook:** Our estimates for 2011 same-store revenue growth are currently above the guidance midpoint for AIV, BRE, ESS and PPS. While we logically expect the gap between our forecasts and guidance to narrow as we pass the midway point in 2011, we believe the stocks can continue to outperform when investors shift focus to the potential strength in 2012 relative to the pace of growth in other property types. Exhibit 8 shows details of our forecasts - ESS and BRE lead the REIT revenue growth delta from 2012-2011. We continue to highlight AIV, BRE and ESS based on combination of 1) upside to same-store growth relative to expectations, 2) higher momentum into 2012 compared to peers, and/or 3) value-creation from non same-store activities: acquisitions and development/re-development activity.

Exhibit 7

## Upside to 2011 MS FFO estimate vs. midpoint of guidance



Source: Company data, Morgan Stanley Research

Exhibit 8

## MS-IFM forecasts 2011-2012

REIT Ticker	2010A	2011E	2012E	Δ 2012-2011
<b>ESS</b>	-3.3%	4.4%	7.9%	3.6%
<b>BRE</b>	-2.0%	3.9%	7.2%	3.4%
UDR	-0.9%	4.2%	6.4%	2.2%
<b>REIT Median</b>	-1.0%	4.4%	6.4%	2.0%
HME	0.3%	3.9%	5.4%	1.5%
AIV	-0.3%	2.8%	4.3%	1.5%
CLP	-0.5%	3.9%	5.3%	1.4%
PPS	-1.5%	4.9%	6.1%	1.3%
CPT	-1.9%	5.2%	6.4%	1.2%
MAA	-0.4%	4.2%	5.4%	1.2%

Source: Company data, Morgan Stanley Research

**Adjusted forecasts for a risk-off, weaker growth market.** In last week's [Weekly REIT Insights](#), we adjusted our RMZ year target to 800 from 880 to reflect the realities of a weaker growth outlook. Our target P/fwd NAV ratios were adjusted downward – with larger adjustments for REITs with exposure to key risk factors including higher leverage and weaker asset quality. Exhibit 9 shows the revised FFO, price targets and valuation multiples for the various apartment REITs. **On average, we trimmed 2012 NAVs by 2% to reflect weaker growth in 2012/2013 and our apartment price targets by 4%** (because of slightly lower P/fwd NAV ratios).

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Exhibit 9

**MS revised FFO, Fwd NAVs, Price Target and Valuation Premium/Discounts**

	Ticker	AIV	BRE	ESS	HME	MAA
2011 FFO	Guidance (min)	1.45	2.09	5.58	3.47	3.92
	Guidance (max)	1.51	2.17	5.73	3.55	4.12
	Guidance (max)	1.48	2.13	5.66	3.51	4.02
	Street Consensus - 2011 FFO	1.49	2.13	5.68	3.51	4.01
	MS FFO (prior)	1.50	2.16	5.70	3.52	3.99
	MS FFO (new)	1.49	2.16	5.71	3.48	3.97
	% Change	-0.7%	0.0%	0.2%	-1.1%	-0.5%
	<b>% Upside to Guidance (mid)</b>	<b>0.7%</b>	<b>1.4%</b>	<b>1.0%</b>	<b>-0.9%</b>	<b>-1.2%</b>
2012 FFO	Street Consensus - 2012 FFO	1.81	2.37	6.47	3.85	4.37
	MS FFO (prior)	1.84	2.40	6.50	3.90	4.40
	MS FFO (new)	1.83	2.39	6.49	3.85	4.37
	% Change	-0.5%	-0.4%	-0.2%	-1.3%	-0.7%
	<b>% Upside to Consensus</b>	<b>1.1%</b>	<b>0.8%</b>	<b>0.3%</b>	<b>0.0%</b>	<b>0.0%</b>
2012e NAV	MS 2012e NAV (prior)	37.31	58.95	158.50	69.90	73.43
	MS 2012e NAV (new)	36.07	57.85	154.91	68.12	72.49
	% Change	-3.3%	-1.9%	-2.3%	-2.5%	-1.3%
MS Price Target	MS Price Target (prior)	\$32	\$60	\$166	\$69	\$75
	MS Price Target (new)	\$31	\$56	\$163	\$66	\$72
	% Change	-3.1%	-6.7%	-1.8%	-4.3%	-4.0%
	Premium/Discount to GAV	-7%	-2%	+4%	-2%	+0%
	<b>Total Return (%)</b>	<b>33%</b>	<b>33%</b>	<b>35%</b>	<b>23%</b>	<b>20%</b>

Source: Company data, Morgan Stanley Research

**Valuation & Risks:** Our stock ratings and price targets reflect the combination of (1) forecasted growth in asset value through 2012, (2) shifts in pricing relative to unlevered asset value based on our views of each REIT over the next year and the underlying warranted premia/discounts, and (3) current dividend yields and dividend growth through 2012. Specifically, our targets are based on warranted premia and discounts to our EOY 2012 estimates of gross asset value, and range from +4% (for ESS) to -7% discount (for AIV) – see Exhibit 9 for details on the premium for various companies. Risks to our price targets are 1) Macro factors including weaker job growth affecting apartment demand, 2) Government intervention (in the form of further subsidies to revive the Single family housing market) encourages more renters to move out of apartments, and 3) Supply picks up more rapidly than anticipated due to easier availability of construction financing.

APPENDIX A

Exhibit 10

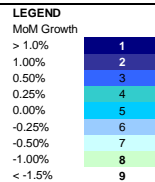
Apartment Median SS Revenue Growth (Y/Y) by Market

Market	2Q11 Mkt vs. Avg	Change from Peak	Peak SS-Rev Growth	Same-Store Revenue Growth (Y/Y), Apartment REIT Median										
				2Q11	1Q11	4Q10	3Q10	2Q10	2Q09	2Q08	2Q07	2Q06	2Q05	2Q04
Austin	+2.6%	-1.2%	7.7%	6.6%	4.3%	2.9%	3.4%	0.0%	-3.5%	4.7%	7.1%	6.3%	1.6%	-3.5%
Denver	+1.8%	-2.6%	8.3%	5.7%	5.1%	4.7%	3.2%	-0.2%	-0.7%	4.8%	7.3%	3.4%	-0.3%	-4.0%
Portland	+1.7%	-3.6%	10.1%	5.6%	4.6%	1.6%	-2.0%	-5.6%	0.8%	6.0%	9.2%	7.5%	3.4%	-2.1%
Phoenix	+1.6%	-7.2%	12.7%	5.5%	3.6%	2.0%	-1.1%	-4.7%	-6.9%	0.9%	5.7%	12.7%	4.9%	1.0%
San Francisco	+1.2%	-4.0%	9.1%	5.1%	4.1%	1.6%	-1.1%	-4.1%	-0.8%	7.7%	7.6%	6.5%	1.8%	-4.8%
Boston	+1.1%	+0.9%	4.1%	5.0%	4.1%	3.5%	1.9%	1.2%	0.6%	4.1%	1.4%	2.0%	1.6%	-0.1%
Washington DC	+1.0%	-1.8%	6.7%	4.9%	4.8%	3.4%	3.6%	1.3%	-0.1%	2.8%	3.4%	5.5%	2.9%	2.7%
Houston	+0.6%	-3.2%	7.7%	4.6%	1.5%	-1.9%	-2.4%	-5.0%	1.9%	4.0%	7.0%	6.8%	-1.9%	-0.2%
Baltimore	+0.5%	-2.0%	6.4%	4.4%	3.9%	3.5%	2.5%	2.3%	0.6%	1.7%	5.8%	4.2%	2.5%	2.0%
Seattle	+0.2%	-8.4%	12.5%	4.2%	2.5%	-0.3%	-3.6%	-5.7%	-3.1%	7.3%	11.0%	8.2%	2.2%	0.5%
Atlanta	+0.1%	-1.1%	5.1%	4.0%	2.2%	1.3%	0.3%	-3.4%	-2.9%	2.1%	4.5%	4.0%	0.2%	0.0%
Orlando	-0.0%	-7.1%	11.0%	3.9%	3.3%	0.2%	-0.9%	-3.4%	-2.2%	-2.0%	1.9%	11.0%	6.9%	1.7%
Tampa	-0.2%	-7.1%	10.8%	3.8%	2.6%	1.0%	-1.0%	-1.8%	-2.4%	-2.4%	5.1%	10.0%	6.6%	1.9%
New York	-0.2%	-4.8%	8.5%	3.7%	4.6%	3.0%	-0.1%	-3.3%	-2.4%	3.6%	6.0%	8.5%	5.4%	2.5%
Dallas	-0.6%	-2.5%	5.8%	3.3%	2.3%	1.1%	-1.2%	-1.9%	0.4%	5.3%	3.5%	4.8%	0.4%	-2.2%
Los Angeles	-1.1%	-5.3%	8.1%	2.8%	1.5%	0.1%	-1.6%	-4.1%	-4.9%	3.9%	5.9%	8.1%	5.2%	2.7%
San Diego	-1.3%	-2.5%	5.1%	2.6%	3.3%	0.7%	0.1%	-1.3%	-0.6%	4.9%	3.0%	4.6%	4.1%	3.0%
Chicago	-1.3%	-5.3%	7.9%	2.6%	3.0%	0.8%	0.5%	-1.7%	-0.9%	2.3%	6.5%	3.4%	2.4%	-1.5%
Orange County	-1.4%	-5.5%	8.0%	2.5%	0.8%	0.3%	-2.3%	-3.9%	-3.4%	3.6%	4.8%	7.2%	4.8%	3.9%
Jacksonville	-3.0%	-7.9%	8.8%	0.9%	0.0%	0.7%	-1.2%	-2.9%	-2.8%	0.5%	2.2%	4.4%	6.8%	-1.1%
<b>AVERAGE</b>	<b>0.1%</b>	<b>-4.1%</b>	<b>8.2%</b>	<b>3.9%</b>	<b>2.9%</b>	<b>1.6%</b>	<b>-0.2%</b>	<b>-2.3%</b>	<b>-2.0%</b>	<b>3.2%</b>	<b>5.4%</b>	<b>6.8%</b>	<b>2.7%</b>	<b>0.0%</b>

Source: Company data, Morgan Stanley Research

Exhibit 11

Job Growth heat-map



	Natural Resources and Mining	Construction	Manufacturing	Wholesale Trade	Retail Trade	Transportation	Utilities	Information	Financial Activities	Professional & Business Services	Education & Health services	Leisure & hospitality	Other services	Government (ex-census)	Total Nonfarm (ex-census)
200901	-0.8%	-2.1%	-2.2%	-0.6%	-0.7%	-0.9%	0.1%	-0.8%	-0.7%	-0.9%	0.2%	-0.3%	-0.3%	0.1%	-0.6%
200902	-2.1%	-1.5%	-1.4%	-0.9%	-0.5%	-0.5%	0.1%	-0.4%	-0.7%	-1.1%	0.1%	-0.3%	-0.3%	0.0%	-0.5%
200903	-2.7%	-2.5%	-1.4%	-0.7%	-0.6%	-0.8%	-0.1%	-0.3%	-0.5%	-0.8%	0.0%	-0.4%	-0.5%	-0.1%	-0.6%
200904	-2.3%	-2.2%	-1.4%	-0.8%	-0.3%	-1.0%	-0.3%	-1.0%	-0.6%	-0.9%	0.0%	-0.5%	-0.3%	0.0%	-0.6%
200905	-0.1%	-0.9%	-1.4%	-0.4%	-0.1%	-0.4%	-0.2%	-0.9%	-0.3%	-0.4%	0.3%	0.3%	-0.1%	0.5%	-0.2%
200906	-1.2%	-1.6%	-1.2%	-0.4%	-0.1%	-0.5%	0.1%	-0.5%	-0.3%	-0.7%	0.2%	-0.2%	0.1%	-0.3%	-0.4%
200907	-1.2%	-1.3%	-0.5%	-0.5%	-0.3%	-0.6%	-0.2%	-0.5%	-0.2%	-0.2%	0.1%	-0.1%	-0.1%	-0.3%	-0.3%
200908	-1.2%	-1.3%	-0.4%	-0.3%	-0.1%	-0.1%	-0.2%	-0.4%	-0.3%	-0.2%	0.2%	-0.1%	-0.2%	-0.1%	-0.2%
200909	-0.1%	-1.2%	-0.4%	-0.3%	-0.3%	-0.3%	0.2%	0.0%	-0.2%	0.0%	0.1%	-0.1%	-0.1%	-0.1%	-0.2%
200910	-1.2%	-1.0%	-0.4%	-0.4%	-0.3%	-0.4%	-0.1%	-0.1%	-0.2%	0.0%	0.2%	-0.4%	-0.4%	0.1%	-0.2%
200911	0.3%	-0.5%	-0.4%	-0.3%	-0.1%	0.0%	-0.2%	-0.5%	0.0%	0.4%	0.2%	-0.1%	-0.2%	0.0%	0.0%
200912	-0.2%	-0.8%	-0.2%	-0.3%	-0.1%	0.5%	-0.3%	-0.4%	-0.1%	0.2%	0.2%	-0.4%	0.0%	-0.2%	-0.1%
201001	0.8%	-1.1%	0.1%	-0.4%	0.2%	-0.9%	0.0%	-0.2%	-0.2%	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%
201002	0.7%	-0.9%	0.0%	-0.1%	0.0%	-0.1%	-0.1%	-0.2%	-0.1%	0.2%	0.1%	0.0%	-0.1%	-0.1%	0.0%
201003	1.2%	0.3%	0.1%	0.0%	0.2%	0.2%	-0.1%	-0.5%	-0.2%	0.0%	0.3%	0.2%	0.3%	0.1%	0.1%
201004	1.0%	0.3%	0.3%	0.0%	0.1%	0.1%	0.0%	-0.1%	0.1%	0.4%	0.1%	0.3%	0.2%	0.1%	0.2%
201005	1.6%	-0.7%	0.2%	0.0%	0.0%	0.2%	-0.1%	0.0%	-0.1%	0.2%	0.1%	0.0%	0.1%	0.3%	0.1%
201006	0.9%	-0.3%	0.1%	0.1%	-0.1%	0.3%	-0.3%	-0.5%	-0.2%	0.3%	0.1%	0.2%	-0.1%	1.7%	0.3%
201007	1.0%	-0.2%	0.3%	0.1%	0.1%	0.2%	-0.2%	0.2%	-0.1%	0.0%	0.2%	0.0%	0.4%	-1.0%	-0.1%
201008	1.1%	0.4%	-0.3%	0.0%	0.0%	0.0%	-0.1%	0.2%	0.0%	0.2%	0.2%	0.3%	0.1%	-0.9%	-0.1%
201009	0.8%	-0.1%	-0.1%	0.0%	0.1%	0.2%	-0.3%	-0.4%	0.0%	0.0%	0.1%	0.4%	0.4%	-0.8%	-0.1%
201010	1.2%	0.0%	-0.1%	0.2%	0.2%	0.1%	0.2%	-0.1%	0.0%	0.2%	0.3%	-0.2%	0.5%	-0.2%	0.1%
201011	0.1%	-0.1%	0.1%	0.2%	-0.1%	0.5%	-0.2%	0.1%	0.0%	0.5%	0.2%	-0.1%	0.0%	-0.2%	0.0%
201012	-0.1%	-0.1%	0.1%	0.1%	0.0%	1.2%	0.3%	-0.2%	0.0%	0.3%	0.1%	0.1%	0.0%	-0.1%	0.1%
201101	0.7%	-0.4%	0.5%	0.2%	0.0%	-1.1%	-0.4%	-0.3%	-0.1%	0.3%	0.1%	0.0%	0.0%	-0.1%	0.1%
201102	0.7%	0.7%	0.3%	0.3%	0.0%	0.4%	0.3%	-0.1%	0.0%	0.2%	0.2%	0.4%	0.3%	-0.1%	0.2%
201103	2.0%	0.1%	0.2%	0.3%	0.0%	0.2%	-0.1%	0.0%	0.1%	0.4%	0.2%	0.4%	0.1%	-0.1%	0.2%
201104	1.4%	0.1%	0.2%	0.1%	0.4%	0.1%	0.2%	0.0%	0.0%	0.3%	0.2%	0.2%	0.1%	-0.1%	0.2%
201105	1.3%	0.1%	0.1%	0.0%	0.0%	0.3%	0.0%	0.0%	0.2%	0.3%	0.1%	-0.2%	0.1%	-0.2%	0.0%
201106	1.2%	-0.1%	0.1%	0.1%	0.1%	0.2%	0.1%	-0.1%	-0.2%	0.0%	0.1%	0.2%	0.1%	-0.2%	0.0%
201107	1.1%	0.1%	0.3%	0.0%	0.2%	0.0%	-0.1%	-0.1%	-0.1%	0.2%	0.2%	0.1%	0.0%	-0.3%	0.1%
201108	0.6%	-0.1%	0.0%	0.0%	-0.1%	-0.1%	0.1%	-1.8%	0.0%	0.2%	0.2%	0.0%	0.2%	-0.1%	0.0%

Source: BLS, Morgan Stanley Research



September 27, 2011  
Apartment REITs

Exhibit 12

## REIT Comparative Valuation Table, Apartments: Performance

REIT COMPARATIVE VALUATION		Total Return							Net Asset Value					Implied Cap Rate							EV/	Div	FFO		
Company Name	Tckr	Rtg	Price 26-Sep (\$)	Price Tgt (\$)	Price Tgt (%)	YTD (%)	90 Day (%)	90D v. Peers Hist.	90D v. Peers (%)	Ent. Value (\$B)	Equity Cap (\$B)	MS or Cons. (\$/sh)	Price /NAV (%)	MS v. Cons. (%)	Now (%)	LRAv. (%)	Now LRAv. (bps)	Diff (bps)	Relative Valuation	Relative Valuation Sigma	EBITDA (x)	Yld (%)	P.out (%)		
																			Current	5Yr Hist.	QTD Chg.				
AvalonBay	AVB		118.53			7%	-11%		+0%	14.2	10.5	118.95	-0%		4.9%	5.8%	-70	-41	-29	-0.6 SD		-0.1 SD	22.3x	3.0%	90%
Essex Property	ESS	OW	124.29	163	34%	11%	-10%		+1%	6.7	4.3	139.45	-11%	+13%	5.1%	5.4%	-48	-73	+25	+0.5 SD		-0.1 SD	22.3x	3.4%	78%
Equity Residential	EQR		53.34			5%	-13%		-2%	25.0	16.5	55.63	-4%		5.2%	5.8%	-43	-40	-3	-0.2 SD		+0.5 SD	20.1x	2.5%	65%
BRE Properties	BRE	OW	43.15	56	33%	2%	-15%		-4%	4.9	3.2	51.15	-16%	+8%	5.4%	6.0%	-20	-15	-5	-0.1 SD		+0.4 SD	21.0x	3.5%	96%
UDR	UDR		23.16			1%	-7%		+4%	8.8	4.7	24.56	-6%		5.4%	6.1%	-15	-12	-3	-0.0 SD		-0.3 SD	21.9x	3.5%	74%
MAA	MAA	EW	62.33	72	20%	1%	-8%		+2%	3.9	2.4	65.71	-5%	+7%	6.0%	6.7%	+40	+45	-4	-0.0 SD		+0.2 SD	17.8x	4.1%	71%
Post Properties	PPS		36.79			2%	-11%		-0%	3.0	1.9	43.63	-16%		6.0%	7.0%	+43	+74	-30	-0.6 SD		-0.1 SD	19.0x	2.4%	73%
Camden Property	CPT		56.49			6%	-13%		-2%	7.0	4.3	62.02	-9%		6.3%	6.8%	+75	+64	+11	+0.5 SD		+0.6 SD	17.6x	3.5%	73%
Home Properties	HME	EW	55.49	66	23%	3%	-11%		+0%	5.3	2.8	65.29	-15%	+5%	6.5%	6.7%	+90	+48	+42	+0.8 SD		-0.0 SD	16.6x	4.5%	80%
AIMCO	AIV	OW	23.75	31	33%	-7%	-8%		+2%	8.0	3.0	32.16	-26%	+11%	6.9%	7.5%	+135	+124	+11	+0.3 SD		-0.8 SD	15.1x	2.0%	35%
Associated Estates	AEC		15.82			7%	-3%		+8%	1.3	0.7	20.10	-21%		7.6%	8.8%	+202	+257	-55	-0.9 SD		-0.4 SD	12.6x	4.3%	80%
Colonial Properties	CLP		18.46			5%	-10%		+1%	3.6	1.7	22.77	-19%		8.5%	8.2%	+288	+215	+73	+0.8 SD		+0.1 SD	16.1x	3.2%	59%
<b>Apartments</b>						4%	-11%		+2%	91.7	56.2	69.42	-8%	+9%	5.6%	6.2%	-111	-67	-45	-1.1 SD		-0.1 SD	19.9x	3.1%	74%
<b>Sector Total/Weighted Avg.</b>						22%	-1%	-13%		655.1	356.5	55.63	-6%	+3%	6.7%						16.2x	4.0%	69%		
<b>Straight Average</b>						+26%	-10%	-18%				31.68	-16%	+7%	7.7%	7.4%					15.1x	5.0%	68%		
<b>S&amp;P 500 INDEX</b>	SPX		1163			-8%	-8%																		2.1%
<b>RMZ</b>	RMZ		720			-4%	-11%																		

Source: FactSet (including consensus FFO and EBITDA estimates), SNL (including consensus NAV estimates), Morgan Stanley Research

Exhibit 13

## REIT Comparative Valuation Table, Apartments: NAV, Implied Cap Rate and Leverage Parameters

REIT COMPARATIVE VALUATION		Funds from Operations (FFO)											Leverage Parameters							Short Int.				
Company Name	Tckr	Price 26-Sep (\$)	11E MS/ Cons. (\$/sh)	MS v. Cons. (\$/sh)	12E MS/ Cons. (\$/sh)	MS v. Cons. (\$/sh)	Growth (%)	12E (%)	11E Multiple (x)	12E Multiple (x)	LRAvg (x)	Now (%)	LRAvg (%)	Diff (%)	Relative Valuation	Relative Valuation Sigma	EBITDA (x)	Debt/ GAV (%)	S.Debt/ Assets (%)	Fxd Chg (x)	% of S/O (%)	2wk Chg (bps)		
															Current	5Yr Hist.	QTD Chg.							
AvalonBay	AVB	118.53	4.68		5.54		17%	18%	25.3x	21.4x	21.7x	+21%	+23%	-1%	-0.7 SD		+0.7 SD	6.7x	27%	22%	3.2x	0%	-1	
Essex Property	ESS	124.29	5.71	0.03	6.49	0.02	14%	12%	21.8x	19.2x	19.4x	+4%	+11%	-6%	-0.5 SD		+0.0 SD	8.2x	34%	43%	2.8x	0%	0	
Equity Residential	EQR	53.34	2.42		2.78		17%	15%	22.0x	19.2x	17.9x	+6%	+2%	+4%	+1.6 SD		+0.0 SD	7.3x	34%	21%	2.4x	0%	0	
BRE Properties	BRE	43.15	2.16	0.03	2.39	0.02	35%	10%	19.9x	18.1x	18.5x	-4%	+4%	-8%	-0.6 SD		-0.6 SD	7.2x	31%	20%	2.8x	0%	0	
UDR	UDR	23.16	1.27		1.41		17%	11%	18.2x	16.4x	15.2x	-13%	-14%	+2%	+0.3 SD		+0.4 SD	10.2x	45%	26%	2.5x	0%	0	
MAA	MAA	62.33	3.97	(0.04)	4.37	0.00	7%	7%	15.7x	14.3x	13.9x	-25%	-19%	-5%	-0.6 SD		+0.3 SD	6.8x	37%	47%	3.4x	0%	0	
Post Properties	PPS	36.79	1.84		1.96		52%	7%	20.0x	18.8x	19.9x	-4%	+13%	-17%	-1.1 SD		-0.3 SD	7.7x	34%	23%	2.4x	0%	0	
Camden Property	CPT	56.49	2.71		3.39		0%	25%	20.8x	16.7x	15.6x	-0%	-12%	+12%	+0.5 SD		-1.6 SD	7.9x	37%	18%	2.9x	0%	0	
Home Properties	HME	55.49	3.48	(0.02)	3.85	0.01	9%	8%	16.0x	14.4x	15.3x	-23%	-12%	-12%	-0.9 SD		+0.2 SD	7.8x	43%	52%	2.4x	0%	1	
AIMCO	AIV	23.75	1.49	0.00	1.83	0.02	-5%	25%	15.9x	13.0x	12.6x	-24%	-31%	+7%	+0.2 SD		-0.3 SD	9.9x	56%	54%	1.4x	0%	0	
Associated Estates	AEC	15.82	1.08		1.24		27%	15%	14.6x	12.8x	11.9x	-30%	-34%	+4%	+0.3 SD		+0.2 SD	7.4x	42%	36%	2.5x	0%	0	
Colonial Properties	CLP	18.46	1.16		1.27		14%	9%	15.9x	14.5x	11.9x	-24%	-35%	+11%	+1.1 SD		+0.2 SD	9.2x	46%	18%	2.3x	0%	0	
<b>Apartments</b>							16%	15%	20.8x	18.1x	17.6x	+29%	+17%	+8%	+1.4 SD		+0.2 SD	7.8x	36%	28%	2.6x	0%	0	
<b>Sector Total/Weighted Avg.</b>							11%	12%	16.2x	14.7x	14.3x							7.1x	40%	22%	3.0x	0%	0	
<b>Straight Average</b>							11%	16%	14.2x	12.5x	13.6x							7.5x	44%	26%	3.3x	0%	0	
<b>S&amp;P 500 INDEX</b>	SPX																							

Source: FactSet (including consensus FFO and EBITDA estimates), SNL (including consensus NAV estimates), Morgan Stanley Research

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
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<b>Equal-weight/Hold</b>	<b>1151</b>	<b>42%</b>	<b>389</b>	<b>40%</b>	<b>34%</b>
<b>Not-Rated/Hold</b>	<b>114</b>	<b>4%</b>	<b>21</b>	<b>2%</b>	<b>18%</b>
<b>Underweight/Sell</b>	<b>374</b>	<b>14%</b>	<b>93</b>	<b>10%</b>	<b>25%</b>
<b>Total</b>	<b>2,759</b>		<b>963</b>		

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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**The Americas**

1585 Broadway  
New York, NY 10036-8293  
**United States**  
Tel: +1 (1) 212 761 4000

**Europe**

20 Bank Street, Canary Wharf  
London E14 4AD  
**United Kingdom**  
Tel: +44 (0) 20 7 425 8000

**Japan**

4-20-3 Ebisu, Shibuya-ku  
Tokyo 150-6008  
**Japan**  
Tel: +81 (0) 3 5424 5000

**Asia/Pacific**

1 Austin Road West  
Kowloon  
**Hong Kong**  
Tel: +852 2848 5200

**Industry Coverage: Real Estate Investment Trusts**

<b>Company (Ticker)</b>	<b>Rating (as of)</b>	<b>Price* (09/26/2011)</b>
<b>Paul Morgan</b>		
American Assets Trust Inc. (AAT.N)	O (05/18/2011)	\$17.95
Apartment Inv. & Mgmt. Co. (AIV.N)	O (05/18/2011)	\$23.75
BRE Properties, Inc. (BRE.N)	O (06/05/2011)	\$43.15
BioMed Realty Trust, Inc (BMR.N)	O (05/18/2011)	\$16.5
Boston Properties, Inc. (BXP.N)	E (05/18/2011)	\$93
CBL & Associates Properties, Inc. (CBL.N)	E (09/23/2011)	\$12.64
Developers Diversified Realty Corp (DDR.N)	O (09/23/2011)	\$10.76
EastGroup Properties Inc. (EGP.N)	E (09/23/2011)	\$39.59
Equity One Inc. (EQY.N)	E (05/18/2011)	\$15.79
Essex Property Trust, Inc. (ESS.N)	O (05/18/2011)	\$124.29
Extra Space Storage Inc. (EXR.N)	E (05/18/2011)	\$19.63
Federal Realty Investment Trust (FRT.N)	E (05/18/2011)	\$84.12
First Potomac Realty Trust (FPO.N)	E (05/18/2011)	\$13.08
Government Properties Income Trust (GOV.N)	E (05/18/2011)	\$21.28
Health Care Reit Incorporated (HCN.N)	E (05/18/2011)	\$48
Highwoods Properties (HIW.N)	E (05/18/2011)	\$27.92
Home Properties, Inc. (HME.N)	E (05/18/2011)	\$55.49
Hudson Pacific Properties (HPP.N)	E (05/18/2011)	\$11.71
Kilroy Realty Corp. (KRC.N)	E (05/18/2011)	\$31.9
Kimco Realty Corp. (KIM.N)	E (05/18/2011)	\$15.62
Macerich Company (MAC.N)	E (05/18/2011)	\$44.47
Mid-America Apartment Communities, Inc. (MAA.N)	E (05/18/2011)	\$62.33
Piedmont Office Realty Trust Inc. (PDM.N)	U (09/23/2011)	\$16.46
Prologis, Inc. (PLD.N)	O (07/07/2011)	\$26.03
Public Storage (PSA.N)	U (05/18/2011)	\$114.71
Regency Centers Corporation (REG.N)	E (05/18/2011)	\$35.91
Senior Housing Properties Trust (SNH.N)	E (05/18/2011)	\$22.42
Simon Property Group, Inc. (SPG.N)	E (05/18/2011)	\$113.5
Taubman Centers, Inc. (TCO.N)	E (05/18/2011)	\$52.73
Vornado Realty Trust (VNO.N)	E (05/18/2011)	\$79.21

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\* Historical prices are not split adjusted.