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**Morgan Stanley Real Estate Investing**

# NPI Hotels Overview

October 2011

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**There are significant risk factors associated with an investment in a Fund.** An investment in a Fund will involve significant risks due to, among other things, the nature of the fund’s investments and potential conflicts of interest. There can be no assurance that the fund will realize its rate of return objectives or return any investor capital. Investors should have the financial ability and willingness to accept the risks (including, among other things, the risk of loss of investment and the lack of liquidity). The value of an investment in a fund may fluctuate. Past results do not guarantee future performance. **These risk factors include the following:**

- Risks of real estate investments
- Leverage
- Market risk; minority investments in companies
- Interest rate risks
- In some cases, foreign investments risks
- Limited current return
- Lack of liquidity of investments
- No or restricted transferability of, or market for, interests in the relevant fund
- Competition
- Currency risks
- Emerging markets risks
- Conflicts of interests between the fund, its investors, the general partner/manager and other affiliates of Morgan Stanley
- Tax considerations and regulatory matters
- Penalties for failure to contribute capital committed to fund

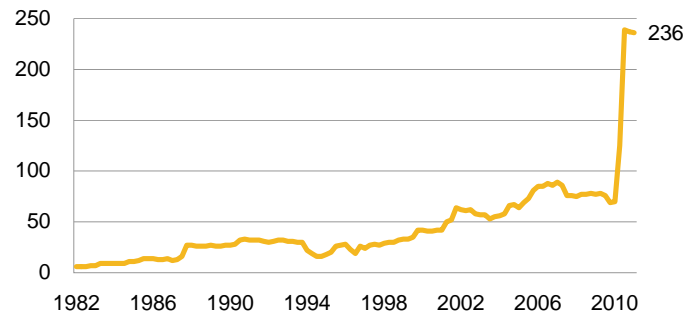
**Morgan Stanley Real Estate Investing**

- The 236 hotels in the NCREIF Property Index have \$7.4 Bn in market value <sup>(1)</sup>
  - While the property count has increased dramatically, from just 70 hotels in 9/30/2010, many of the new hotels are more moderately valued
  - Average market value per hotel has shifted from \$66 million in 9/30/2010 to \$31.4 million <sup>(1)</sup>
  - Hotels comprise 3% of overall market value in the \$273 Bn NCREIF Property Index <sup>(1)</sup>

# Hotels in the NCREIF Property Index

## Hotel Property Count

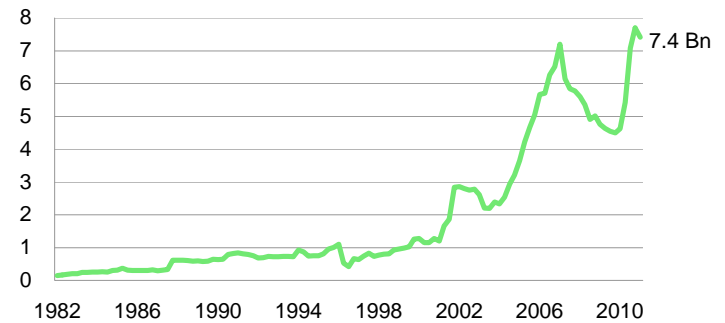
Number of Hotels



Source NCREIF, MSREI Strategy, Data as of 3Q11

## Hotel Market Value

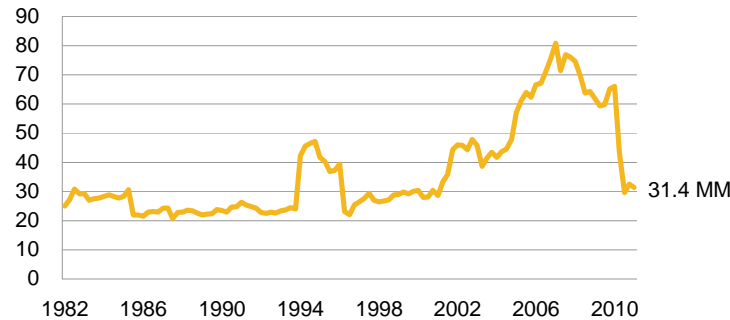
USD Bn



Source NCREIF, MSREI Strategy, Data as of 3Q11

## Average Market Value Per Hotel

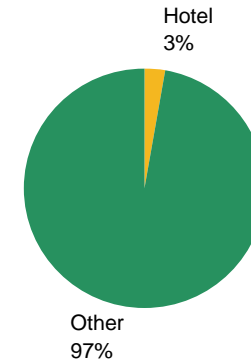
USD MM



Source NCREIF, MSREI Strategy, Data as of 3Q11

## Hotels in NPI

% by MV



Source NCREIF, MSREI Strategy, Data as of 3Q11

**Notes**

1. As of September 30, 2011

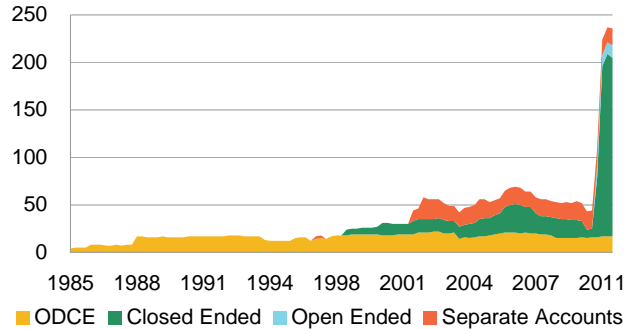
**Morgan Stanley Real Estate Investing**

- ODCE-owned properties initially dominated the NPI hotel cohort
  - Closed-end fund ownership began in mid-1998, and separate account ownership in late 2001
  - Over the past four quarters (4Q 2010 to 3Q 2011), closed-end funds have accelerated purchases of hotel properties, largely preferring mid-level and economy hotels
- In the current standings, closed-end funds hold nearly half of NPI hotels by market value (47%)

# Ownership of NPI Hotels

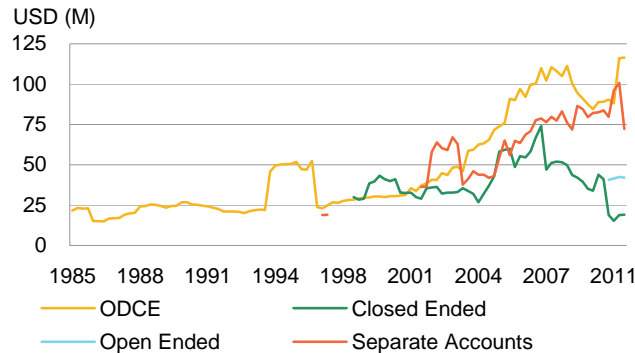
## Hotel Ownership by Fund Type

Based on Property Count  
 Number of Properties



Source NCREIF, MSREI Strategy, Data as of 3Q11

## Average Market Value Per Hotel by Ownership



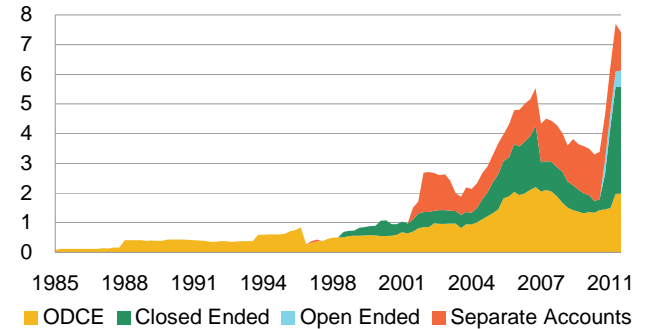
Source NCREIF, MSREI Strategy, Data as of 3Q11

**Notes**

1. Includes properties held by open ended funds outside of the NFI-ODCE: e.g. in property type-specific, non diversified funds

## Hotel Ownership by Fund Type

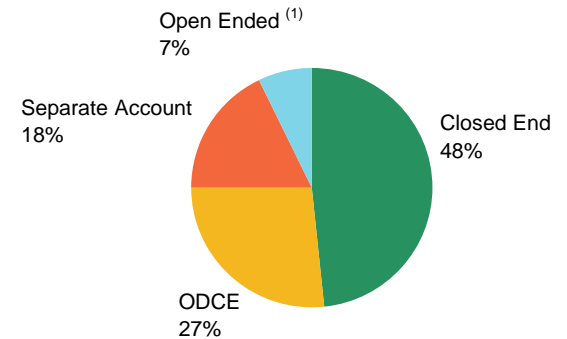
Based on Market Value  
 USD (Bn)



Source NCREIF, MSREI Strategy, Data as of 3Q11

## Hotel Ownership by Fund Type

% by Market Value



Source NCREIF, MSREI Strategy, Data as of 3Q11

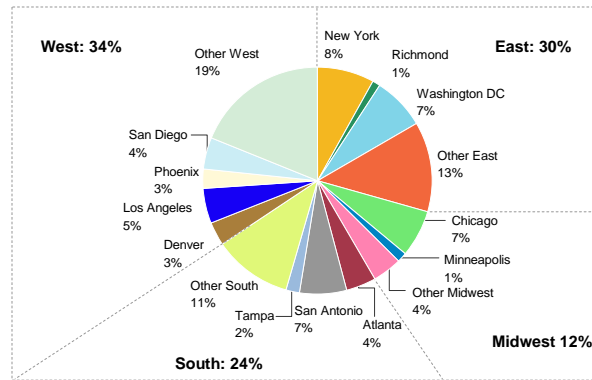
**Morgan Stanley Real Estate Investing**

- 95 of the 236 NPI hotels (\$3.9 Bn) sit in 12 MSAs
  - The longest MSA-specific data history is for Washington DC, with data beginning at end-2003
- Geographically, NPI hotels are predominantly in the West:
  - West: 34% (by market value)
  - Midwest: 12%
  - South: 24%
  - East: 30%

# Geography of NPI Hotels

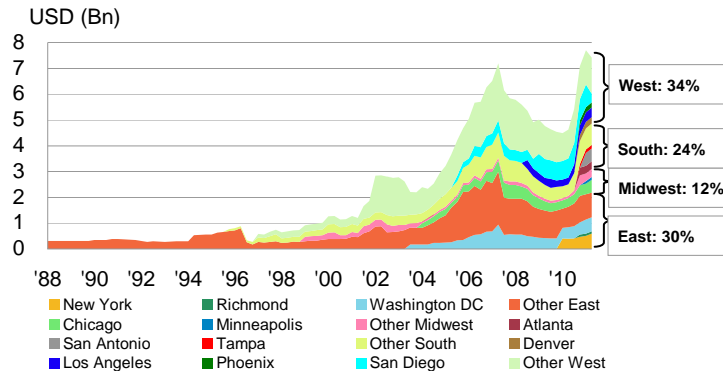
## 2011 Q3 Hotel Location

% by Market Value



Source: NCREIF, MSREI Strategy, Data as of 3Q11

## Hotel Location Historically



Source: NCREIF, MSREI Strategy, Data as of 3Q11

## 2011 Q3 Geographic Summary

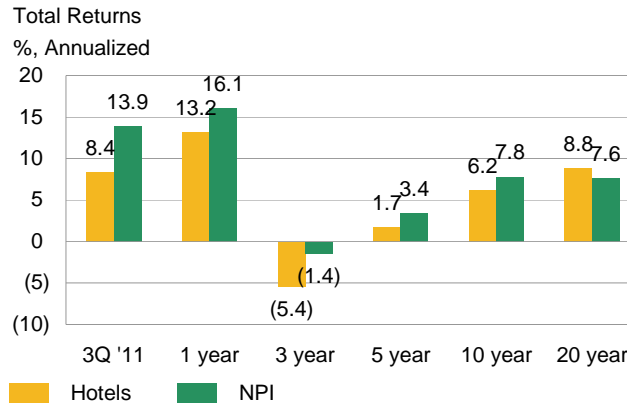
MSA	Market Value (\$)	Property Count	Data Inception
<b>East Region</b>			
New York	597,555,305	7	2010 2Q
Richmond	89,564,087	4	2011 1Q
Washington DC	542,799,999	12	2003 4Q
Other East	955,653,644	32	1988 2Q
<b>Midwest Region</b>			
Chicago	495,000,000	13	2004 2Q
Minneapolis	110,264,618	4	2011 2Q
Other Midwest	305,800,001	26	1999 2Q
<b>South Region</b>			
Atlanta	301,047,485	19	2011 1Q
San Antonio	491,799,999	5	2011 2Q
Tampa	142,195,498	6	2011 1Q
Other South	836,144,071	43	1996 1Q
<b>West Region</b>			
Denver	236,678,444	5	2011 1Q
Los Angeles	379,485,213	8	2008 4Q
Phoenix	201,602,126	6	2011 1Q
San Diego	331,490,403	6	2005 4Q
Other West	1,401,028,175	40	1997 2Q
<b>Total</b>	<b>7,418,109,068</b>	<b>236</b>	

**Morgan Stanley Real Estate Investing**

- Despite higher cash-flow volatility, hotels have historically offered higher income return than the overall NPI
- Notwithstanding severe short-term price corrections, hotel investments have outperformed the NPI over the long run

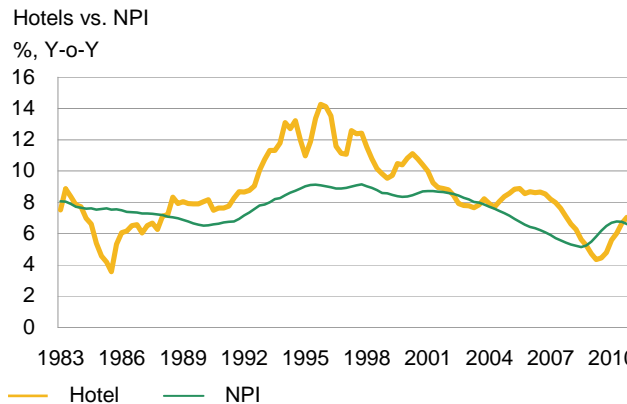
# Returns Comparison – Hotels vs. NPI

## Hotel Performance



Source: NCREIF, MSREI Strategy, Data as of 3Q11

## Income Return

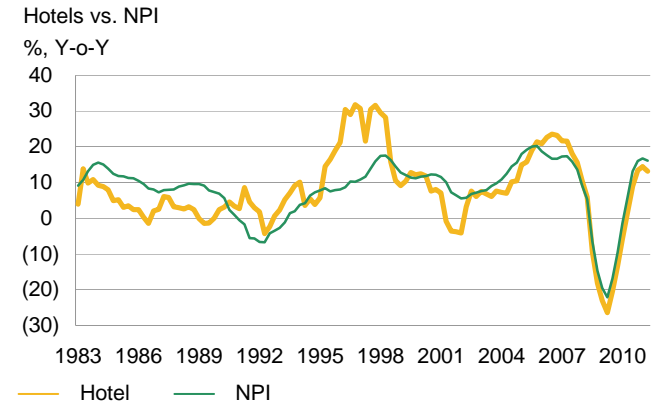


Source: NCREIF, MSREI Strategy, Data as of 3Q11

**Notes**

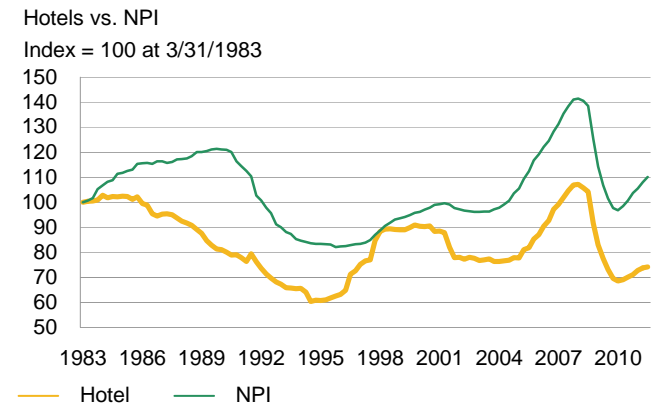
1. Provided for informational purposes only and not intended to predict the performance of any investment. Historical performance is not an indication of future results.
2. Indexes do not include any expenses, fees or sales charges, which would lower performance. Indexes are unmanaged and should not be considered an investment. It is not possible to invest directly in an index.

## Total Return



Source: NCREIF, MSREI Strategy, Data as of 3Q11

## Appreciation Index



Source: NCREIF, MSREI Strategy, Data as of 3Q11