

MORGAN STANLEY MUNICIPAL INCOME OPPORTUNITIES TRUST
Form N-CSR
August 07, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number: 811-05597
Morgan Stanley Municipal Income Opportunities Trust
(Exact name of registrant as specified in charter)**

522 Fifth Avenue, New York, New York
(Address of principal executive offices)

10036
(Zip code)

Randy Takian

522 Fifth Avenue, New York, New York 10036
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-296-6990

Date of fiscal year end: May 31, 2009

Date of reporting period: May 31, 2009

Item 1 Report to Shareholders

INVESTMENT MANAGEMENT

Welcome, Shareholder:

In this report, you will learn about how your investment in Morgan Stanley Municipal Income Opportunities Trust performed during the annual period. We will provide an overview of the market conditions, and discuss some of the factors that affected performance during the reporting period. In addition, this report includes the Fund's financial statements and a list of Fund investments.

Market forecasts provided in this report may not necessarily come to pass. There is no assurance that the Fund will achieve its investment objective. The Fund is subject to market risk, which is the possibility that market values of securities owned by the Fund will decline and, therefore, the value of the Fund's shares may be less than what you paid for them. Accordingly, you can lose money investing in this Fund.

Income earned by certain securities in the portfolio may be subject to the federal alternative minimum tax (AMT).

Fund Report

For the year ended May 31, 2009

Market Conditions

In the final months of 2008, as the credit crisis unfolded, extreme risk aversion and a flight to quality, among other factors, caused municipal bond prices to reach their cheapest levels in history relative to Treasury bonds. In 2009, however, municipal bond market performance improved as credit concerns eased, deleveraging slowed, and investors re-entered the market, pushing yields lower across the municipal yield curve. As of the end of May, however, yields on long-maturity municipal bonds still exceeded those of comparable Treasuries. For the overall reporting year, the 30-year municipal-to-Treasury ratio increased from 96 percent to 105 percent, indicating that municipals underperformed Treasuries while becoming relatively cheaper.

High yield municipal credit spreads widened considerably in the first seven months of the reporting period. As the market began to rally in 2009, spreads contracted from 636 basis points at the start of the year to 506 basis points by the end of May. Although the high yield municipal bond market rebounded in 2009 to date, performance still lagged that of the investment grade segment for the overall period due in large part to the extremely risk-averse environment in late 2008. For the 12-month period ended May 31, 2009, the Barclays Capital High Yield Municipal Bond Index (the Index) returned -12.53 percent whereas the Barclays Capital Municipal Bond Index returned 3.57 percent.

With regard to municipal market sectors, the largest sectors within the Index were industrial development revenue/pollution control revenue (IDR/PCR), hospitals and special tax districts. For the period, the IDR/PCR sector (i.e., corporate-backed bonds) outpaced the Index with a -11.35 percent return which was driven largely by the strong recovery of airline bonds in the first few months of 2009. The hospital sector performed roughly in-line with the Index, returning -12.12 percent while the special tax district sector lagged with a -15.62 percent return.

For the first five months of 2009, municipal bond issuance was down 18 percent versus the same period in 2008. In a reversal from the last months of 2008, municipal bond funds experienced significant net inflows as investors recognized the historical cheapness of the municipal sector.

Performance Analysis

For the 12-month period ended May 31, 2009, the net asset value (NAV) of Morgan Stanley Municipal Income Opportunities Trust (OIA) decreased from \$7.38 to \$5.90 per share. Based on this change plus reinvestment of tax-free dividends totaling \$0.4575 per share and a short-term capital gain distribution of \$0.005396, the Fund's total NAV return was -13.61 percent. OIA's value on the New York Stock Exchange (NYSE) moved from \$7.87 to \$5.67 per share during the same period. Based on this change plus reinvestment of dividends and distributions, the Fund's total market return was -22.15 percent. OIA's NYSE market price was at a 3.90 percent discount to its NAV. During the fiscal period, the Fund purchased and retired 29,201 shares of common stock at a weighted average market discount of 13.98 percent. *Past performance is no guarantee of future results.*

Monthly dividends for the second quarter of 2009, declared in April, decreased from \$0.03875 to

\$0.035 per share. The dividend reflects the current level of the Fund's net investment income. OIA's level of undistributed net investment income was \$0.034 per share on May 31, 2009 versus \$0.047 per share 12 months earlier.¹

The primary contributors to the Fund's performance during the reporting period included holdings in the housing sector. Although the sector struggled early in the period, it has since recovered strongly and the portfolio's exposure in that sector, as well as strong security selection, were additive to returns. The Fund's allocation to pre-refunded* bonds also enhanced performance; these high quality, short maturity securities benefited from the outperformance of the high grade segment of the market and the front end of the municipal yield curve.

Other positions, however, were less advantageous. The Fund's emphasis on high yield bonds, which represented approximately two-thirds of portfolio assets, held back performance for the overall period. Although the high yield market rallied in 2009, the gains were not enough to offset the underperformance of high yield bonds in prior months. Holdings in the health care sector, particularly within the life care sub-sector, also dampened performance. Lastly, an emphasis on long-maturity bonds within the portfolio was a detractor as the long end of the municipal yield curve underperformed the intermediate and short end for the overall reporting year.

Sector exposure was relatively unchanged with the exception of the airline sector, where we began to gradually increase exposure when valuations became too low, in our opinion. Overall, the Fund's investments remained well-diversified across a broad range of sectors, the largest weightings of which were in the life care, hospital and IDR/PCR sectors as of the end of the period.

The Fund's procedure for reinvesting all dividends and distributions in common shares is through purchases in the open market. This method helps support the market value of the Fund's shares. In addition, we would like to remind you that the Trustees have approved a share repurchase program whereby the Fund may, when appropriate, purchase shares in the open market or in privately negotiated transactions at a price not above market value or net asset value, whichever is lower at the time of purchase.

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. Investment return, net asset value and common share market price will fluctuate and Fund shares, when sold, may be worth more or less than their original cost.

There is no guarantee that any sectors mentioned will continue to perform as discussed herein or that securities in such sectors will be held by the Fund in the future.

¹ *Income earned by certain securities in the portfolio may be subject to the federal alternative minimum tax (AMT).*

** Pre-refunding, or advance refunding, is a financing structure under which new bonds are issued to repay an outstanding bond issue, generally on its first call date. The proceeds from the new issuance are held in an escrow of high quality U.S. government securities dedicated solely to pay interest and principal on the outstanding bond issue. Pre-refunded bonds are the outstanding bonds that will be refunded from this escrow and therefore, are typically rated AAA .*

TOP FIVE SECTORS as of 05/31/09

Life Care	24.2%
Special Tax Districts	14.9
Hospital	13.6
IDR/PCR	11.1
Mortgage-Single Family	5.5

LONG-TERM CREDIT ANALYSIS as of 05/31/09

Aaa/AAA	7.3%
Aa/AA	6.1
A/A	4.3
Baa/BBB	10.0
Ba/BB or Less	9.4
Non-Rated	62.9

SUMMARY OF INVESTMENTS BY STATE CLASSIFICATION as of 05/31/09

Florida	17.7 %
Texas	7.8
Illinois	7.7
Missouri	6.6
Pennsylvania	5.7
New York	5.0
New Jersey	5.0
California	4.5
Colorado	4.1
New Hampshire	3.5
Massachusetts	3.1
Ohio	2.5
Tennessee	2.1
Hawaii	2.0
Michigan	1.9
South Carolina	1.7
Nevada	1.7
Arizona	1.6
Virginia	1.6
Maryland	1.5
Iowa	1.5
Washington	1.5
Minnesota	1.5
Connecticut	1.3
Georgia	1.3
Louisiana	1.3
North Dakota	1.2
Alabama	1.0
Oklahoma	0.9
Utah	0.7

District of Columbia	0.7
Idaho	0.6
Kansas	0.6
West Virginia	0.6
Wisconsin	0.5
Mississippi	0.3
North Carolina	0.2
Total Long-Term Investments	103.0
Short-Term Investments	0.6
Liability for Floating Rate Note Obligations	(5.5)
Other Assets in Excess of Liabilities	1.9
Net Assets	100.0 %

Subject to change daily. Provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities mentioned or securities in the sectors shown above. Top five sectors are as a percentage of total investments and long-term credit analysis are a percentage of total long-term investments. Summary of investments by state classification are as a percentage of net assets. Securities are classified by sectors that represent broad groupings of related industries. Morgan Stanley is a full-service securities firm engaged in securities trading and brokerage activities, investment banking, research and analysis, financing and financial advisory services. Rating allocation based upon ratings as issued by Standard and Poor's and Moody's, respectively.

For More Information About Portfolio Holdings

Each Morgan Stanley fund provides a complete schedule of portfolio holdings in its semiannual and annual reports within 60 days of the end of the fund's second and fourth fiscal quarters. The semiannual reports and the annual reports are filed electronically with the Securities and Exchange Commission (SEC) on Form N-CSRS and Form N-CSR, respectively. Morgan Stanley also delivers the semiannual and annual reports to fund shareholders and makes these reports available on its public web site, www.morganstanley.com. Each Morgan Stanley fund also files a complete schedule of portfolio holdings with the SEC for the fund's first and third fiscal quarters on Form N-Q. Morgan Stanley does not deliver the reports for the first and third fiscal quarters to shareholders, nor are the reports posted to the Morgan Stanley public web site. You may, however, obtain the Form N-Q filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC's web site, <http://www.sec.gov>. You may also review and copy them at the SEC's public reference room in Washington, DC. Information on the operation of the SEC's public reference room may be obtained by calling the SEC at (800) SEC-0330. You can also request copies of these materials, upon payment of a duplicating fee, by electronic request at the SEC's e-mail address (publicinfo@sec.gov) or by writing the public reference section of the SEC, Washington, DC 20549-0102.

Morgan Stanley Municipal Income Opportunities Trust
Portfolio of Investments - May 31, 2009

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
	Tax-Exempt Municipal Bonds (103.0%)			
	<i>Alabama (1.0%)</i>			
\$ 1,000	Colbert County Northwest Health Care Authority, Helen Keller Hospital Ser 2003	5.75 %	06/01/27	\$ 844,290
400	Cullman Medical Clinic Board, Cullman Medical Park South, Regional Medical Center, Inc. Ser 1993-A	6.50	02/15/23	376,464
				1,220,754
	<i>Arizona (1.6%)</i>			
1,225	Pima County Industrial Development Authority, Constellation Schools Ser 2008	7.00	01/01/38	945,896
800	Pima County Industrial Development Authority, Water & Wastewater Global Water Resources LLC Ser (AMT)	6.55	12/01/37	566,568
400	Pinal County Electrical District #4, Electric System Ser 2008	6.00	12/01/38	348,580
				1,861,044
	<i>California (4.5%)</i>			
1,760	California County Tobacco Securitization Agency, Gold County Settlement Funding Corp Ser 2006 (e)	0.00	06/01/33	181,544
335	California Municipal Finance Authority Educational Facility, High Tech High-Media Arts Ser 2008 A (b)	5.875	07/01/28	250,727
1,000	California Statewide Communities Development Authority, California Baptist University Ser 2007 A	5.50	11/01/38	631,430
400	California Statewide Communities Development Authority, Thomas Jefferson School of Law Ser 2008 A	7.25	10/01/38	336,192
995	Daly City Housing Development Finance Agency, Franciscan Mobile Home Park Third Tier Refg Ser 2007 C	6.50	12/15/47	735,574
3,000	Golden State Tobacco Securitization Corporation, Asset Backed Ser 2007 A-1	5.125	06/01/47	1,794,599
800	Quechan Indian Tribe FT Yuma Indian Reservation Ser 2008	7.00	12/01/27	563,800
1,000		5.10	09/01/35	654,950

	Santa Ana, Unified School District Community Facilities, District # 2004-1, California, Central Park Ser 2005			
	Silicon Valley Tobacco Securitization Authority, Santa Clara Tobacco Securitization Corp Ser 2007 C (e)	0.00	06/01/56	99,060
13,000				
				5,247,876
	<i>Colorado (4.1%)</i>			
	Colorado Health Facilities Authority, Christian Living Communities Ser 2006 A	5.75	01/01/37	697,460
1,000				
	Colorado Health Facilities Authority, Christian Living Communities Ser 2006 A	9.00	01/01/34	509,210
500				
	Colorado Housing & Finance Authority, 1998 Ser B-3	6.35	11/01/29	287,585
280				
1,000	Copperleaf Metropolitan District # 2, Ser 2006	5.95	12/01/36	563,200

See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust
Portfolio of Investments - May 31, 2009 *continued*

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
\$ 2,000	Elk Valley Public Improvement Corporation, Ser 2001 A	7.35 %	09/01/31	\$ 1,628,700
2,000	Northwest Metropolitan District #3, Ser 2005	6.25	12/01/35	1,063,660
				4,749,815
	<i>Connecticut (1.3%)</i>			
2,000	Georgetown Special Taxing District, Ser 2006 A (b)	5.125	10/01/36	924,860
1,000	Mashantucket (Western) Pequot Tribe, Special 1997 Ser B (b)	5.75	09/01/27	552,620
				1,477,480
	<i>District of Columbia (0.7%)</i>			
540	District of Columbia, Refg Ser 2009B (a) Metropolitan Washington Airports Authority, District of Columbia & Virginia, CaterAir	5.00	12/01/25	577,863
260	International Corp Ser 1991 (AMT) (c)	10.125	09/01/11	253,469
				831,332
	<i>Florida (17.7%)</i>			
500	Alachua County Florida Industrial Development Revenue, North Florida Retirement Village Ser 2007	5.25	11/15/17	427,065
800	Alachua County Florida Industrial Development Revenue, North Florida Retirement Village Ser 2007	5.875	11/15/36	570,304
1,855	Beacon Lakes, Community Development District, Ser 2003 A	6.90	05/01/35	1,352,499
935	Bellalago Educational Facilities Benefits District, Bellalago Charter School Ser 2004 B	5.80	05/01/34	723,671
645	Brevard County Fla Health Facilities Authority, Buena Vida Estates, Inc Ser 2007	6.75	01/01/37	514,994
2,960	Broward County Professional Sports Facilities, Civic Arena Refg 2006 A (FSA AMBAC Insd) (a)	5.00	09/01/23	3,037,426
2,780	Escambia County, Pensacola Care Development Centers Ser 1989	10.25	07/01/11	2,783,614
645	Escambia County, Pensacola Care Development Centers Ser 1989 A	10.25	07/01/11	645,838

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980	Fiddlers Creek Community Development District #1 Ser 2005 (f)	6.00	05/01/38	636,480
500	Fountainbleau Lakes Community Development District Ser 2007 B	6.00	05/01/15	400,010
750	Grand Bay At Doral Community Development District Ser 2007 A	6.00	05/01/39	384,945
1,000	Lee County Florida Industrial Development Authority Ser 2007 A	5.375	06/15/37	584,450
500	Miami Beach Health Facilities Authority, Mount Sinai Medical Center, Refg Ser 2004	6.75	11/15/21	423,490
1,000	Midtown Miami Community Development District, Parking Garage Ser 2004 A	6.25	05/01/37	664,390
2,000	Orange County Florida Health Facilities Authority, Orlando Lutheran Towers Inc, Ser 2007	5.50	07/01/32	1,305,160
500	Orange County Health Facilities Authority, Orlando Lutheran Towers Inc Ser 2005	5.70	07/01/26	362,680
1,000	Orange County Health Facilities Authority, Westminister Community Care Services Inc Ser 1999	6.75	04/01/34	809,140
1,000	Pinellas County Health Facilities Authority, Florida, Oaks of Clearwater Ser 2004	6.25	06/01/34	879,070

See Notes to Financial Statements

Morgan Stanley Municipal Income Opportunities Trust
Portfolio of Investments - May 31, 2009 *continued*

PRINCIPAL AMOUNT IN THOUSANDS		COUPON RATE	MATURITY DATE	VALUE
\$ 950	Renaissance Commons Community Development District, 2005 Ser A	5.60 %	05/01/36	\$ 586,710
2,860	South Miami Health Facilities Authority, Baptist Health South Florida Obligated Group Ser 2007 (a)	5.00	08/15/32	2,695,121
500	Split Pine Community Development District, Ser 2007 A	5.25	05/01/39	279,165
600	Tolomato Community Development District, Special Assessment Ser 2007	6.55	05/01/27	438,570
				20,504,792
2,000	<i>Georgia (1.3%)</i> Atlanta, Eastside Ser 2005 B	5.60	01/01/30	1,478,220
1,000	<i>Hawaii (2.0%)</i> Hawaii Department of Budget & Finance, Kahala Nui Ser 2003 A	8.00	11/15/33	985,710
1,220	Hawaii Ser 2008 DK (a)	5.00	05/01/23	1,328,355