

QUARTERLY UPDATE

CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

CWS

CALENDAR OF EVENTS

November 21, 2014
CWS Capital Partners
Semi-Annual Conference Call

November 27 & 28, 2014
Thanksgiving Day and Day After
CWS Offices Closed

December 24 & 25, 2014
Christmas Eve and Christmas Day
CWS Offices Closed

January 1, 2015
New Year's Day
CWS Offices Closed

January 15, 2015
4th Quarter 2014 Est. Tax Payment Due

January 30, 2015
4th Quarter 2014
Quarterly Distributions Mailed

February 28, 2015
Year 2014 K-1's Mailed

April 15, 2015
2014 Federal & State Tax Filing Deadline
1st Quarter 2015 Est. Tax Payments Due

April 23, 2015
CWS Annual Partners Meeting
Newport Beach Marriott Hotel and Spa
Newport Beach, CA (Fashion Island)

April 30, 2015
1st Quarter 2015
Quarterly Distributions Mailed



www.cwscapital.com

CLEANING THE FISH

By Gary Carmell

It's important to me that our investors, current and prospective, have an understanding of how CWS operates. A lot goes into making investment decisions and managing the properties we purchase and build. The more visibility our investors



can have with regard to how we do business and make decisions, then the better informed they can be when deciding to invest (or reinvest) with us. Over the years I have devoted articles to shedding light on our thought process, how we are organized, how and why we came up with our purpose statement ("Enhancing Lives The CWS Way"), and our financing strategy, just to name a few. I thought it would be appropriate to go into some depth about our due diligence process that we utilize after we put a property under contract. We like to say this is the

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process of cleaning the fish once it's been caught to make sure it's safe to be eaten. While that may be a somewhat crass analogy, I do think it captures the essence of our course of actions pretty well. It is immensely important that we carry out a very thorough and diligent process as there is obviously a lot of money on the line and we have to take the position that it can be in the seller's best interest not to disclose everything. Thus, it is our job to uncover what sellers are not inclined to voluntarily disclose to us.

The process is led by Rich Fagan, who is our Director of Due Diligence. Rich has been with CWS since 2001. Rich works closely with our Director of Operations, Marcellus Mosley (with CWS since 2002), Sarah Colandra, whose expertise is in marketing and integrating the asset, and Matt Mauldin, our Director of Capital Projects. Each of them is supported by teams of people we entrust to walk every unit, study resident files, shop the competitors, and assess the physical condition of the property. The goal of performing our due diligence is to make sure we have identified (and quantified, if possible) every material risk so there are no surprises if we elect to move forward to purchase the property.

What follows are the main categories of due diligence and the key activities we carry out within each.

Develop a reliable estimate of in-place revenue and expenses

Revenue

- Audit leases to make sure the rental roll is accurate.
- Determine the trend of the last 90-days of leasing activity to see how it compares to the rents currently in place to determine if rents are growing, declining, or staying the same.
- Review contracts that produce revenue such as cable television.
- Determine how much of the utility expenses are being billed and collected by the property.
- Quantify how much revenue has been written off.
- Review bank statements.
- Study eviction history.

Expenses

- Study at least three years of expense history.
- Review general ledgers.
- Analyze utility bills and usage.
- Develop a staffing plan.
- Work with property tax consultants to determine how much taxes are projected to be.
- Get insurance quotes from our broker.

Ownership integrity

- Analyze title reports to make sure there are no title defects such as liens.
- Perform a property survey to make sure there are no encroachments on the property or that the property does not encroach on a neighboring property.

Conforming use

- Make sure the property complies with applicable zoning and has sufficient parking spaces. To the extent there are variances, we make sure we have non-conforming use permits.

Who is the customer?

- Walk every unit to determine the quality of the resident base.
- Perform file audits to determine:
 - Age
 - Incomes
 - Employers
 - Types of jobs
 - Marital status
 - Children

Who do we compete with?

- Shop the competitors to determine:

- Rents
- Amenities
- Floor plans
- Upgrade potential
- Management quality
- Property quality

Who will we compete with (new supply)?

What is our niche and what could it be?

- Choose a property name that is optimized for internet search engines, particularly Google and one that we believe has an allure to it.
- Upgrade potential.

Physical Assessment

- Use a third party engineer or a Property Condition Assessment (PCA) to help us understand any potential issues and/or potential costs associated with owning the property and to determine any capital needs at the time of purchase and during the term of ownership.
- Use a licensed structural engineer to review the structural integrity of the apartment buildings and parking structures.
- Use a consultant to determine if we have any potential foundation issues.
- Use an infrared consultant to determine if we have any moisture penetration through the exterior facade.
- Use a roofing consultant to inspect the current roofs, useful life and any immediate repairs.
- Engage a termite inspection.
- Use a fire/life safety consultant to inspect the fire alarm panels/systems as well as inspect sprinkler heads for recalls or paint on the heads.
- Use other specialty consultants (primarily for mid-rise or high-rise products) for properties with elevators, generators, fire pumps, mechanical-electrical-plumbing (MEP), stair pressurization, and acoustic testing between floors.

Environmental Assessment

- Use a third party environmental consultant to perform a Phase I Environmental Site Assessment (ESA) to identify the potential of any Recognized Environmental Conditions (REC) at the subject site. During this process our consultant is looking at historical and current uses of the property, reviewing all regulatory files, subject site physical setting, adjoining land areas, on-site hazardous substances and radon (if the subject site is located in a geographic area with elevated levels).
- Use a third party environmental consultant to perform a Phase II Environmental Site Assessment (if the Phase I ESA has a recognized condition). Phase II is a more detailed investigation involving actual sampling of soil, air, groundwater, hazardous substances, and/or petroleum hydrocarbons from on-site or off-site contributors.
- Use a third party environmental consultant to perform Lead Based Paint sampling (LBP) depending on the age of the subject property.
- Use a third party environmental consultant to perform Asbestos Containing Materials (ACM) sampling depending on the age of the subject property.

As you can see, performing the necessary investigations and assessments prior to placing a new property acquisition or development under contract is not only extremely important to CWS and our investment partners but quite involved and complex as well. It requires a highly skilled and trained team of professionals with a diversity of skills. The depth and capability CWS possesses is highly valuable and we are always looking at new ways we can improve the process. After every acquisition we have an autopsy call to discuss what worked and where we fell short. This is invaluable to help us add or change parts of our process to improve the chances we don't miss something important. Although it is inevitable that there will be situations where something is missed or unforeseen, we believe that we have materially lowered the odds of these occurring due to the strength, depth, and continuous improvement approach we have taken with regard to our due diligence process.

I'll sign off returning to the fish analogy to bring the metaphor full circle. At the heart of all of our investment decisions is a focus on safety first and then return. As such, we must always make sure that the fish we eat is skillfully cleaned to ensure its safety before we can be in a position to be able to savor all of its benefits. We not only love to eat the fish we catch and prepare, but we derive great pleasure in being able to share it with those closest to us, our incredibly loyal and amazing group of investors. Bon Appetit!