



## 2020 Annual Report Letter: Design

By Gary Carmell, CFA  
Partner

When people ask me if I have any advice for them as they contemplate starting a real estate company or have one that is relatively new, I tell them that my experience has taught me how lucky I was to start my career with a company that had an established platform, albeit a much smaller one 34 years ago. It provided us with stability, credibility, and a track record that we could expand upon and grow. We have grown from approximately \$250 million in manufactured housing community assets and a smaller investor base when I started at CWS in 1987 to one that is now comprised of over 1,000 individual investors and an asset base of apartments with a value close to \$6 billion. That exemplifies the power of a platform that has served its customers well for over 50 years.

The power of CWS' platform has been strengthening over the years and this is by design. It started off as a symbiotic partnership between Jim Clayton, Bill Williams, and eventually Steve Sherwood. And while the partnership approach to running CWS is still very much present, it is no longer dependent on any one or two individuals as we have thoughtfully designed and created a powerful platform with tremendous capabilities.

We are tasked with coming up with compelling investment insights, sourcing them, evaluating them through our due diligence process, capitalizing them by accessing the optimal debt and equity, integrating the properties into our management systems, running the properties efficiently and effectively, reporting on them, and supporting the individuals in the corporate and at the property level with human resources, information technology and connectivity, accounting, marketing, training, risk management, capital projects, development expertise, and asset management. In order to serve our growing investor base we also carry out our own reporting, capital raising, and customer relationships under the auspices of a regulated broker dealer and registered investment adviser. We have a very talented team organized effectively to carry out critical functions so that we can generate compelling risk-adjusted returns for our investors while also providing quality, safe, flexible housing choices for our customers, and a challenging, respectful, fun, and dynamic workplace for our associates. In short, our platform is designed to fulfill our purpose of:

### *Enhancing Lives The CWS Way*

A platform is a structure that lifts one up and upon which others can stand. It elevates and offers individuals and teams a wider and more informative perspective. This perspective has been immensely valuable to CWS, particularly in 2020, which was unquestionably one of the most unusual and challenging years. COVID-19 changed the world virtually overnight and required businesses to accelerate technological change that had been unfolding over the years to needing to deploy it immediately. Congregating together in large numbers was no longer safe. This decimated the office economy as millions of workers shifted to doing their jobs remotely. As apartment owners, we also had to adapt by expediting the deployment and implementation of virtual tours and leasing to keep our apartment communities operating.

After 50+ years in business we have learned from the school of hard knocks that cycles can change and when they turn for the worse you don't want to be caught 100% on defense and lose out on taking advantage of the opportunities that downturns can elicit. Slowly and steadily our platform has been gaining greater elevation such that our perspective has widened. It has given us the best of both worlds. We are still grounded, which keeps us humble, while it has also elevated us such that we don't lose sight of the wisdom and experience we have gained over 50 years, and yet, not so high that we are flying close to the sun like Daedalus, powered by arrogance and hubris.

Our platform has grown slowly and methodically by design so that we can make prudent investments in our capabilities to keep us competitive and growing without needing to be pioneers driven by ego, image, and the fear of missing out. Our design-oriented mindset I believe has served our investors well despite the enormous challenges brought about by the pandemic.

We have been fortunate to be invested in an essential business (apartments) in growing markets with a large suburban presence, catering to customers who have continued to pay their rent in large numbers, financed primarily through very low cost variable-rate debt with long-term, patient equity investors who have had the staying power to manage through downturns and setbacks. And yet, this didn't happen overnight as this strategy has been evolving and been put in place over the last 20 years.

Green Street is a real estate research firm that has property price indices for various real estate asset classes for every major market. The index is based on a value of 100 set during the previous 2007 peak in prices. The national average is 148 as of the latest report issued in December 2020, meaning that, on average, apartment prices are 48% above their previous peak. The following table highlights the markets in yellow in which CWS is invested and their index values.

**CAP RATE OBSERVER**  
**COMMERCIAL PROPERTY PRICE INDICES FOR 4Q20**  
 GREEN STREET REAL ESTATE ANALYTICS



**Change in Apartment Prices**  
 (100 = 2007 Peak)

MSA	CURRENT	MSA	CURRENT
Atlanta	178	Nashville	206
Austin	186	New Jersey (Central)	135
Baltimore	129	New Jersey (Northern)	128
Boston	159	New York	113
Charlotte	182	Oakland-East Bay	172
Chicago	134	Orange County	140
Cincinnati	138	Orlando	160
Cleveland	152	Palm Beach	154
Columbus	176	Philadelphia	152
D.C. Metro	142	Phoenix	187
Dallas/Fort Worth	178	Pittsburgh	168
Denver	212	Portland	180
Detroit	169	Raleigh-Durham	186
Fort Lauderdale	147	Richmond	154
Honolulu	128	Sacramento	158
Houston	149	Salt Lake City	149
Indianapolis	168	San Antonio	185
Inland Empire	153	San Diego	156
Jacksonville	142	San Francisco	168
Kansas City	144	San Jose	163
Las Vegas	144	Seattle	173
Long Island	143	St. Louis	168
Los Angeles	125	Tampa	169
Louisville	152	<b>Weighted Average:</b>	<b>148</b>
Memphis	151		
Miami	160		
Minneapolis	155		

Source: Green Street. Market level CPPI's for B/B+ quality assets.

Every market we are invested in has a value greater than the national average. The only one fairly close to the national average is Houston. Our strategy of focusing on markets with well-educated populations that can attract and retain knowledge-based workers and are very pro-growth and pro-business, which has been in place since 2000, has served us well. And this has been well documented in our communications over the last 20 years, so we have not only put our money where our mouth is but it is something we have been espousing in real-time.

Our growing platform has enabled us to attract and retain top talent and make the necessary investments to keep us competitive in terms of managing our properties, finding compelling opportunities, accessing very cost-effective financing, and servicing our investors. It's a virtuous circle that helps us to keep expanding our platform and associated capabilities. These are some of the benefits that come from thoughtful design and expansion of a powerful platform.