

QUARTERLY UPDATE

CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

CWS

CALENDAR OF EVENTS

November 30, 2010

Semi-Annual Conference Call

November 25th and 26th

CWS Office Closed for Thanksgiving Holiday

Friday, December 24, 2010

Christmas (Observed), CWS Office Closed

December 31, 2010

Closed

January 15, 2011

4th Quarter 2010 Estimated Tax Payment Due

January 28, 2011

4th Quarter 2010 Quarterly Packages Mailed

Prior to March 2011

K-1's Mailed

April 15, 2011

2010 Tax Filing Deadline

April 15, 2011

1st Quarter 2011 Estimated Tax Payment Due

April 29, 2011

1st Quarter 2011 Quarterly Packages Mailed

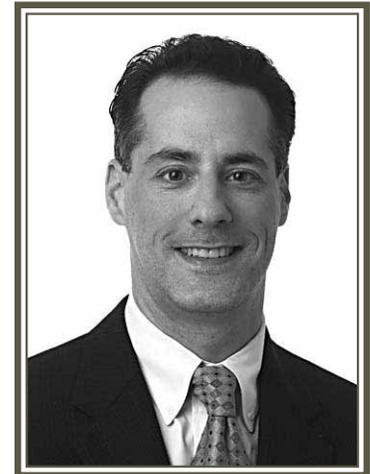


www.cwscapital.com

A PAPER BLOG

By Gary Carmell

I've been thinking about starting a blog. Blogging is pretty much a 24/7 endeavor for it to be relevant and fresh. So rather than doing that right now, I thought I would take one step backwards and one forward by providing excerpts of what I think are very relevant articles about the apartment market that I would put in a blog if I had one. After writing consistently about our bullishness on the apartment industry outlook over the next five to ten years, sometimes the message can get diluted because it's either the same messenger or a similar message. For this reason, I thought it would be beneficial to take a step back this quarter and let others do the writing.



The excerpted articles will attempt to highlight the major themes that we believe will drive apartment performance over the next five to ten years.

1. Reversal of Misguided, Overemphasis on Homeownership

"On July 28, Fannie Mae CEO Michael J. Williams said that tougher lending standards would be the norm for the housing market from now on, with it taking longer to get a mortgage loan and a smaller number of applicants being approved.

At the Women in Housing and Finance luncheon, Williams noted, "A solid majority of renters assume it will be tougher for their kids to buy a house

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-- and they're right, too. Across the board, we see a much deeper understanding of how credit, income, job security, and a down payment could stand in the way of buying a house."

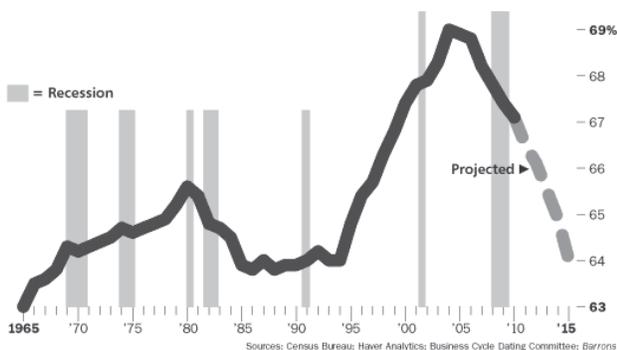
Williams sees the new standards as part of a new housing strategy that emphasizes the "right mix of owners and renters."

From "Fannie CEO Describes 'New Realism' for US Mortgage Lending" Dow Jones Newswires (07/28/10) Holzer, Jessica

"Renter Nation" Barron's Cover (7/24/2010):

"THE AMERICAN DREAM OF owning a home is still very much alive, but it will be no more than a dream for a growing number of people over the next five years. That's bad news for home builders, who already have big troubles, as June's reports on housing starts, existing-home sales, building permits and unsold-home inventories showed. But it is good news for anyone renting out a home, apartment or condo, or any real-estate investment trust specializing in residential rental properties.

Most U.S. households own the dwelling they live in, and that isn't likely to change. But demographic and economic forces, together with some perversities of government policy, are combining to push the share of ownership back to where it was in the early 1990s. Already, in the wake of the housing bust that brought on the Great Recession, the share of U.S. households owning homes has slid steadily—from 69% at its peak in 2004 to 67.2% in this year's first quarter. And the rate is likely to fall to its 1993-94 level of



64% by 2015.

According to the Federal Housing Finance Agency, the share of new mortgages requiring a down payment of less than a 10th of the house price was 8% last year, down from 29% in 2007.

Michael Frantantoni, research vice president of the Mortgage Bankers Association, says the early 1990s were the last time the share of new mortgages permitting a down payment of 10% or less ran in the single digits. In fact, the average down payment on all mortgages last year exceeded 25%. The last time it was that high was also the early 1990s.

Adds Frantantoni: "We've moved from a world where most of the effort was on streamlining the mortgage-application process to one where full documentation is the norm. Every data point needs to be checked and rechecked." One of those data points includes higher standards on credit scores." *End of quotes from "Renter Nation" Barron's Cover (7/24/2010)*

"We can't rebalance national housing policy and reform mortgage finance and secondary markets without explicitly addressing the market distortions caused by the government's disproportionate support of homeownership over renting...According to CBO, the federal government spends about \$4 supporting homeowners for every \$1 it invests in low-income rental housing."

Michael A. Stegman, Director of Policy and Housing, John D. and Catherine T. MacArthur Foundation

"I think we've not paid close enough attention to rental housing and the advantages of that. Not everyone can or should have a single-family home, and I think government should think more clearly about how it can help with respect to rental housing." *Mark Zandi, Chief Economist, Moody's Analytics*

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"For decades, America has been over-housed. We need a secular shift from housing to production of things. To that end, rental housing plays an important part. America should be well housed, but not necessarily 100% homeowners." *Bill Gross, Co-founder and Co-chief Investment Officer, PIMCO*

"Any changes in the housing finance system that fail to take these realities of the interdependency of housing policy goals and the needs of capital markets and housing finance systems [into consideration] could easily derail the progress of critically important assisted-housing programs, particularly rental housing programs." *Michael A. Stegman, Director of Policy and Housing, John D. and Catherine T. MacArthur Foundation*

2. Economic Forces Favor Apartments

These include the de-leveraging of consumer balance sheets, stubbornly high unemployment, and weak corporate investment.

"Renter Nation" Barron's Cover (7/24/2010):

"From now through 2015, the long slog that will unfortunately characterize the economic expansion will bring slow growth in jobs and wages. That pace of improvement should be just strong enough to permit new households to form, but not robust enough for the members of those households to afford to own homes. In addition, lax lending standards, fraud and predatory lending practices— key factors in the unrealistic bubble in home ownership in the mid-2000s and the subsequent debacle—appear to have become rarer, at least temporarily."

"Apartment Rentals Surge in U.S. on Home Foreclosures, Job Gains" Bloomberg (7/27/2010):

"U.S. apartment landlords are seeing a surge in rentals as mounting foreclosures reduce homeownership and an improving job market for young adults encourages them

to find their own places to live.

The number of occupied apartments increased by 215,000 in the 64 largest U.S. markets in the first half, according to MPF Research. That's almost double the units added in all of 2009 and the most since the firm began tracking the data in 1992. The vacancy rate declined to 6.6 percent last month from 8.2 percent in December.

The economy's recovery from the worst recession since the 1930s has revived hiring enough to stimulate demand for apartments. The growth hasn't been enough to prevent more home foreclosures, which lift rental demand, or to lead to a sustained rebound in home buying.

New jobs are the biggest driver of apartment occupancy. Employers began hiring again in January, adding an average of 147,000 jobs a month through June, according to the Labor Department. Employment for people 20 to 29 years old -- a key group for landlords -- rose in May and June on a year-over-year basis for the first time since the end of 2007.

While payroll growth has been modest compared with pre-recession levels, it may be enough to have persuaded some families sharing housing with relatives to get their own places, according to Mark Zandi, chief economist of Moody's Analytics Inc. in West Chester, Pennsylvania.

"As homeownership continues to decline, people need to live somewhere," said Henry Cisneros, who was President Bill Clinton's housing secretary from 1993 to 1997 and is executive chairman of CityView, a real estate investment firm in Los Angeles that focuses on urban projects including apartments.

"The rental market will be robust for the next few years," Cisneros said. "

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3. Societal Attitudes Towards Renting Improving

With jobs scarce, labor force mobility is desperately needed. Renters can move more easily than home owners. It's that simple.

From "The 6 Best States For Renters" San Francisco Chronicle (CA) (09/09/10) Folger, Jean:

"A 2010 survey commissioned by the National Apartment Association and conducted by market research firm Harris Interactive found that 76% of consumers currently believe that renting is a better option than owning a home."
From "Renting -- Not Buying -- the Dream" Chicago Now (09/10/10) Sarris, Erin M.:

"The number of households that are renting grew by 3.4 million from 2004-2009, a 10 percent increase, according to a 2010 report by the Joint Center for Housing Studies at Harvard University.

Some of those renters are there to stay. More than a quarter of renters never plan to buy a home, according to a national survey conducted this summer for trulia.com, a real estate search engine. Of the renters who said they do plan to purchase someday, 68 percent said it would be more than two years before they do so."
From "Apartments.com National Survey Reveals More Than Half of Active Apartment Hunters Are Renting by Choice" PR Newswire (09/14/10):

"Today's apartment seekers are choosing to rent because it affords them the lifestyle they desire. According to Apartments.com survey results, nearly 60 percent of respondents said they prefer to rent. Living maintenance-free with convenient access to amenities topped the reasons why Apartments.com visitors said they enjoy renting, followed by not being able to afford the costs associated with homeownership, wanting to live in great neighborhoods and more flexibility to move.

The survey also revealed there are a lot of new apartment hunters hitting the market. Nearly 30 percent of Apartments.com visitors surveyed indicated they have

never rented before, but are currently searching for an apartment and 34 percent have been renting for four years or less. This is further supported by record-breaking traffic and lead activity Apartments.com experienced during the first half of 2010 compared to previous years.

Previous homeowners are also looking for apartments. Despite having owned a home in the past, 43 percent of survey respondents are either switching back to renting or entering the market for the first time. Of those previous homeowner respondents, 32 percent indicated they have never rented before and are in the process of looking for an apartment. More than half said they prefer to rent."

4. Difficulty in Building New Apartments

**"Excess Capacity and Housing",
www.calculatedriskblog.com
(<http://www.calculatedriskblog.com/2010/07/excess-capacity-and-housing.html>) 7/21/2010:**

"The U.S. population is still growing and new households are being formed. Based on normal household formation to population ratios, there would usually be over 1.1 million net new households formed per year. Because of financial distress, the number of households formed in 2010 will probably be lower than normal. But this is real pent up demand - people don't want to double up with friends or live in their parent's basement forever!

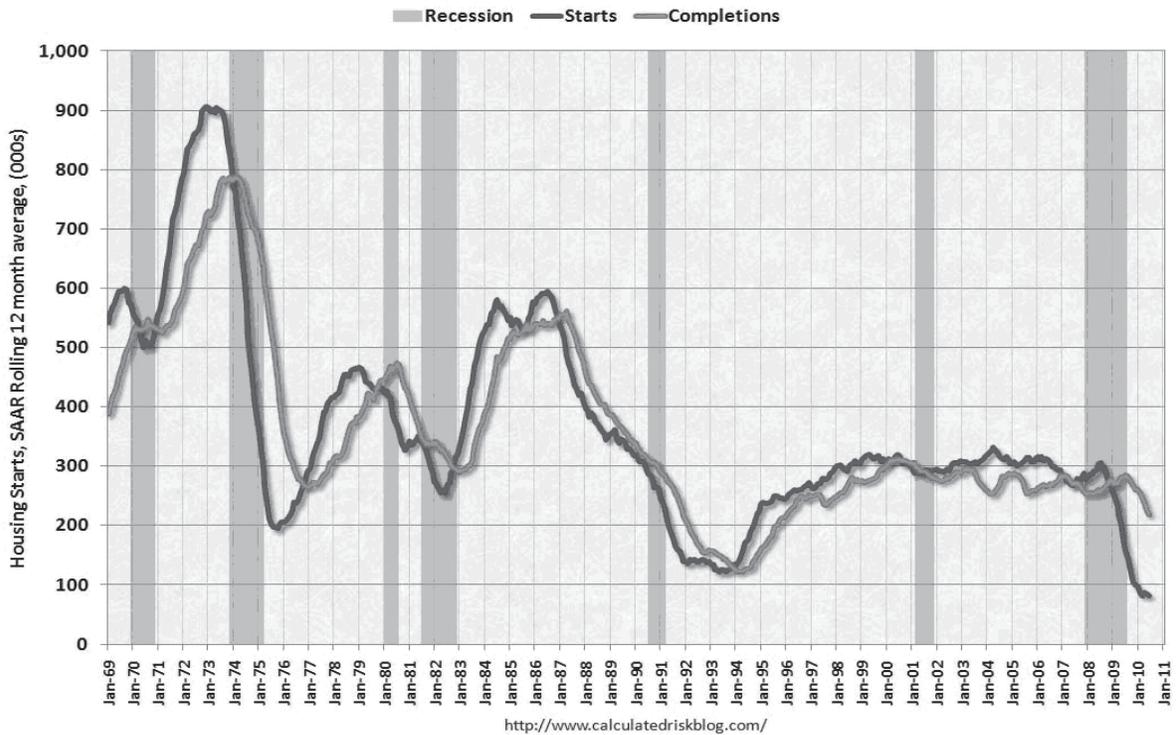
Notice that the number of "5+ units" completed in 2010 is about to collapse. This is already in the works as shown in the diagram on page 5:

The dark line is for multifamily starts and the gray line is for multifamily completions. All the multifamily units that will be delivered in 2010 have already been started since, according to the Census Bureau, it takes on average over 1 year to complete these projects.

Since multifamily starts collapsed in 2009, completions will collapse in 2010."

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Housing Starts and Completions, 5+ Unit Structures, Rolling 12 months Average



5. We Expect Our Markets To Improve in 2011

The following table shows how highly ranked most of our markets are economically by an economic research firm. We own properties in each of the top five markets. "KBW: Austin is Best Overall Market for CRE, Detroit Scrapes Bottom", www.housingwire.com 8/25/2010:

Exhibit 5: Economic Rankings by MSA

Overall Economy Rank	Region MSA	Avg. Household Income Growth			Population Growth			Household Growth			Employment Growth			Unemployment Stats		Rank
		2Q10	2009 vs. 2010E	2010E vs. 2011E	2Q10	2009 vs. 2010E	2010E vs. 2011E	2Q10	2009 vs. 2010E	2010E vs. 2011E	2Q10	2009 vs. 2010E	2010E vs. 2011E	bps change Apr-May '10	May 2010	
1	Austin	15	26	5	20	20	22	20	21	24	1	29	31	25	4	24
2	Charlotte	4	6	6	26	26	28	23	24	25	3	17	24	13	8	17
3	Dallas	28	9	1	10	10	24	26	26	28	24	25	30	23	1	21
4	Houston	9	2	10	23	23	25	19	20	26	25	20	21	13	12	20
5	Raleigh-Durham	29	25	14	28	28	27	28	28	30	9	21	26	29	18	31
6	Nashville															
7	Seattle															
8	Oriando	26	18	27	24	24	23	25	25	22	21	8	14	2	23	23
9	Minneapolis	3	1	28	30	30	31	31	31	31	4	1	27	25	16	28
10	Indianapolis	10	11	20	29	29	30	29	29	29	27	30	28	1	30	30
11	Phoenix	1	8	21	13	13	12	12	12	14	6	13	25	13	14	10
12	Atlanta	5	7	17	18	19	15	21	16	12	18	15	20	2	2	9
13	Portland	7	5	11	27	27	26	27	27	21	13	7	12	2	17	14
14	St. Louis															
15	Denver															
16	San Diego	23	17	26	8	7	4	9	9	4	16	18	23	22	19	12
17	Boston	13	10	19	1	1	2	1	1	2	15	2	7	13	3	1
18	San Jose	6	3	8	7	8	7	4	4	6	10	3	6	13	24	2
19	Richmond	12	16	13	5	5	5	6	6	5	8	6	5	13	7	3
20	New York	21	14	7	4	4	6	5	5	7	11	10	2	13	9	4
21	District of Columbia	14	15	3	31	31	29	30	30	27	22	27	4	29	26	29
22	Tampa-St. Petersburg	2	4	16	9	9	10	8	8	9	20	5	11	7	14	6
23	Chicago	18	27	9	15	14	9	14	13	11	5	12	3	7	24	8
24	Baltimore	8	13	15	3	3	3	2	2	3	23	11	8	13	9	5
25	San Bernardino/Riverside	27	21	12	22	22	18	13	14	16	7	16	22	29	5	19
26	San Francisco	25	28	2	25	25	20	24	23	23	14	22	1	10	29	22
27	Los Angeles															
28	Cleveland															
29	Miami	30	31	18	12	12	13	11	10	10	29	31	10	13	5	15
30	Detroit	31	24	23	17	16	16	17	18	17	28	23	19	23	28	27
31	Philadelphia	19	30	31	2	2	1	3	3	1	2	19	29	28	12	11
	Portland	24	29	24	6	6	8	7	7	8	30	26	13	7	22	13
	San Bernardino/Riverside	11	23	30	19	17	17	15	15	15	31	24	18	12	31	25
	San Diego	17	12	25	14	15	14	22	22	19	12	9	17	10	20	16
	San Francisco	16	22	29	21	21	21	18	19	20	26	28	15	6	20	26
	San Jose	22	19	22	16	18	19	16	17	18	19	14	16	2	26	18
	Seattle	20	20	4	11	11	11	10	11	13	17	4	9	25	11	7

Source: Reis, BLS, and KBW Research.

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"Dallas-Fort Worth apartment demand surges in quarter" 12:00 AM CDT on Wednesday, September 29, 2010 By STEVE BROWN / The Dallas Morning News

"Renters gobbled up twice as many apartments in Dallas-Fort Worth as developers added to the market in the third quarter.

The surge in demand was enough to increase rents by more than 1 percent, the first gain in more than a year, according to statistics from MPF Research Inc.

The employment rebound and mortgage standards that make it harder to buy a home are fueling an apartment rental boom.

Just in the last nine months, net apartment leasing in North Texas has been stronger than the last four years combined, according to MPF Research's figures.

The spike in apartment leasing has been high enough that developers have broken ground on more than 1,100 apartments in the area this year.

But with lenders keeping a tight fist on construction loans, analysts don't anticipate that apartment development will keep up with demand in the months ahead.

Tenants can expect more rent increases and fewer giveaways if that's the case."

So there you have it, this has been a quick trip around the internet over the last few months showing how positive the fundamentals are becoming for apartments. The economic and social forces in place are ideally suited for creating very favorable supply/demand relationships in our apartment markets for the next five to ten years. We believe we have the right product for what the nation needs given the economic challenges it is facing.

