PLANS FOR
AGROWINGTOMORROW

C W S C A P I T A L P A R T N E R S LLC
2005 ANNUAL REPORT
CWSCAPITAL.COM
2005 Ethic in America Honoree

CWS Capital Partners LLC was selected in 2005 to receive this award because of its success by exceptional commitment to ethical excellence. CWS is proud to share this distinguished recognition with the National Honoree Guest Speaker, Coach John R. Wooden, a man who has long been associated with outstanding character and leadership. We are especially proud of all of our employees and we thank them for continuing to stand by our stated values. In addition, we thank all of our investors, vendors and associates for their continued business and support.

Winner of Cel’s Year 2004 & 2005 Real Estate Award

CWS was honored for the second year in a row with CEL’s prestigious award for achieving the highest level of customer service excellence out of any multi-family operator managing 30-50 communities. CEL & Associates, Inc. is the nation’s largest surveyor of resident satisfaction within the multi-family industry. Go to www.celas-sociates.com for more information.

Congratulations to CWS’ Year 2005 Property Management Award winners:

Community Director of the Year • Becky Johnson, Marquis Rogers Ranch, San Antonio, Texas
Best Community Curb Appeal • Shoal Creek, Bedford, Texas
Community of the Year • Talavera, San Antonio, Texas
Maintenance Director of the Year • Paul Huff, Talavera, San Antonio, Texas
Best Customer Service • Talavera, San Antonio, Texas

For over 35 years, CWS has prospered through volatile economic real estate cycles when so many others have not. We search for real estate opportunities across the United States and follow strict acquisition criteria. We seek to provide our investors with superior long-term, risk-adjusted, after-tax cash flow and total returns through investments in multi-family real estate. Through our key principals and advisors, Steve Sherwood and Bill Williams, along with our President, Gary Carmell, CWS offers a combined real estate industry experience of over 80 years.

2005 was a year of significant economic events in the United States and abroad. CWS studied the causes of economic volatility and how to recognize developing patterns to lead the company through turbulent times. CWS’ mindset focuses on the unfolding of the future and the steps needed to ensure growth for 2006 and beyond. That is why CWS is drawn to the challenges of today and “plans for a growing tomorrow.”

Life at CWS is about strong relationships with investors, employees and colleagues. Its culture is based on deeply embedded core values that lay the foundation for making smart investment decisions and planning stable and profitable growth.
CWS Apartment Portfolio Performance Summary (January 1, 2005 to December 31, 2005)

<table>
<thead>
<tr>
<th>Number of Properties: 30</th>
<th>Actual</th>
<th>Budget</th>
<th>Variance</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$100,392,549</td>
<td>$99,642,463</td>
<td>$750,086</td>
<td>.75%</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$50,205,695</td>
<td>$47,963,397</td>
<td>$(2,242,298)</td>
<td>(4.68%)</td>
</tr>
<tr>
<td>Net Operating Income/(Loss)</td>
<td>$(50,186,854)</td>
<td>$(51,679,066)</td>
<td>$(1,492,212)</td>
<td>(2.89%)</td>
</tr>
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</table>

Properties Refinanced in 2005

<table>
<thead>
<tr>
<th>Month Refinanced</th>
<th>Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2005</td>
<td>Brooks on Preston</td>
</tr>
<tr>
<td>September 2005</td>
<td>Crispen Bays</td>
</tr>
<tr>
<td>August 2005</td>
<td>Huntington Cove</td>
</tr>
<tr>
<td>May 2005</td>
<td>The Marquis at Stonegate</td>
</tr>
<tr>
<td>May 2005</td>
<td>The Marquis at Turtle Creek</td>
</tr>
</tbody>
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Events Scheduled for 2006

<table>
<thead>
<tr>
<th>Refinance</th>
<th>Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shoal Creek</td>
<td>X</td>
</tr>
<tr>
<td>The Marquis at Deerfield</td>
<td>X</td>
</tr>
<tr>
<td>The Marquis at Frankford Springs</td>
<td>X</td>
</tr>
<tr>
<td>The Marquis at Ladera Vista</td>
<td>X</td>
</tr>
<tr>
<td>The Marquis at Walker's Bluff</td>
<td>X</td>
</tr>
<tr>
<td>The Marquis at Castle Hills</td>
<td>X</td>
</tr>
<tr>
<td>The Marquis at Legends &amp; Talavera</td>
<td>X</td>
</tr>
<tr>
<td>Swanson's Crossing</td>
<td>X</td>
</tr>
<tr>
<td>The Marquis of Carmel Valley</td>
<td>X</td>
</tr>
<tr>
<td>The Preserve at Ballantyne</td>
<td>X</td>
</tr>
<tr>
<td>The Marquis at DTC</td>
<td>X</td>
</tr>
<tr>
<td>The Marquis at Waterview</td>
<td>X</td>
</tr>
<tr>
<td>Huntington Cove</td>
<td>X</td>
</tr>
</tbody>
</table>

CWS Apartment Track Record

<table>
<thead>
<tr>
<th>Property</th>
<th>Location</th>
<th>Date Acquired</th>
<th>Sale Date</th>
<th>L.P. IRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ashbury Parke</td>
<td>Austin, TX</td>
<td>Jul-93</td>
<td>Jun-96</td>
<td>21.51%</td>
</tr>
<tr>
<td>Ladera Vista</td>
<td>Austin, TX</td>
<td>Nov-94</td>
<td>Nov-96</td>
<td>16.39%</td>
</tr>
<tr>
<td>Barton's Lodge</td>
<td>Austin, TX</td>
<td>Dec-90</td>
<td>Mar-98</td>
<td>19.28%</td>
</tr>
<tr>
<td>Plaza Villa</td>
<td>Montclair, CA</td>
<td>Feb-95</td>
<td>Aug-98</td>
<td>24.26%</td>
</tr>
<tr>
<td>Carmel Valley</td>
<td>Charlotte, NC</td>
<td>Jan-97</td>
<td>May-99</td>
<td>29.35%</td>
</tr>
<tr>
<td>Marquis Apartments</td>
<td>Austin, TX</td>
<td>Nov-92</td>
<td>Jun-00</td>
<td>17.98%</td>
</tr>
<tr>
<td>Argonne Forest</td>
<td>Austin, TX</td>
<td>Dec-91</td>
<td>Aug-00</td>
<td>20.65%</td>
</tr>
<tr>
<td>Edge Creek</td>
<td>Austin, TX</td>
<td>Aug-93</td>
<td>Dec-00</td>
<td>23.34%</td>
</tr>
<tr>
<td>O'Connor Ridge</td>
<td>Dallas, TX</td>
<td>Nov-95</td>
<td>Feb-02</td>
<td>9.79%</td>
</tr>
<tr>
<td>Waterbury Place</td>
<td>Arlington, TX</td>
<td>Jun-90</td>
<td>Mar-02</td>
<td>11.04%</td>
</tr>
<tr>
<td>Laguna Terrace</td>
<td>Dallas, TX</td>
<td>May-96</td>
<td>Apr-03</td>
<td>9.89%</td>
</tr>
<tr>
<td>Montclair Parc</td>
<td>Charlotte, NC</td>
<td>Jul-97</td>
<td>Oct-04</td>
<td>5.20%</td>
</tr>
<tr>
<td>North Creek</td>
<td>Durham, NC</td>
<td>Jul-97</td>
<td>Oct-04</td>
<td>9.61%</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td>16.80%</td>
</tr>
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CWS 1031 Exchange History

<table>
<thead>
<tr>
<th>Equity Exchanged</th>
<th>Deferred Gain Associated with the Equity</th>
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<tbody>
<tr>
<td>1985</td>
<td>$4,969,908</td>
</tr>
<tr>
<td>1986</td>
<td>596,835</td>
</tr>
<tr>
<td>1989</td>
<td>1,238,238</td>
</tr>
<tr>
<td>1990</td>
<td>3,591,187</td>
</tr>
<tr>
<td>1991</td>
<td>1,267,266</td>
</tr>
<tr>
<td>1992</td>
<td>1,800,396</td>
</tr>
<tr>
<td>1993</td>
<td>4,219,577</td>
</tr>
<tr>
<td>1994</td>
<td>1,252,827</td>
</tr>
<tr>
<td>1995</td>
<td>5,578,435</td>
</tr>
<tr>
<td>1996</td>
<td>12,737,361</td>
</tr>
<tr>
<td>1997</td>
<td>30,945,816</td>
</tr>
<tr>
<td>1998</td>
<td>31,046,933</td>
</tr>
<tr>
<td>1999</td>
<td>31,828,056</td>
</tr>
<tr>
<td>2000</td>
<td>14,187,460</td>
</tr>
<tr>
<td>2001</td>
<td>6,805,981</td>
</tr>
<tr>
<td>2002</td>
<td>2,156,500</td>
</tr>
<tr>
<td>2003</td>
<td>31,046,933</td>
</tr>
<tr>
<td>2004</td>
<td>31,828,056</td>
</tr>
<tr>
<td>Total</td>
<td>$161,993,625</td>
</tr>
</tbody>
</table>
Elevation Plan  • An elevation plan is a two-dimensional orthographic projection that gives the viewer a look at all the sides, as well as the interior height scale of a structure.  • At CWS, we pride ourselves on providing timely, relevant and accurate information to our investors for a fresh perspective from which to make concrete financial decisions regarding their portfolio. Our real estate management and investor relations professionals are some of the most knowledgeable, competent, and investor-loyal people in the industry.
The future is unknowable. It’s as simple as that (forget the whole death and taxes thing). Financial models are nothing more than an assimilation of countless variables into a representation of a future path that have a high degree of uncertainty, especially as the event horizon lengthens. It used to be said that if it was written in The New York Times, then it had to be true. Jason Blair showed that this is no longer the case. Some people believe because numbers are generated by a spreadsheet or are presented in a very professional manner, then they are delivered from the divine. Numbers only begin to become worthy of investment if in the words of Charlie Munger, “they sit on a latticework of theory.”

With apartments turning over at an average of 70% per year, it is conceivable that 100% of the residents will be replaced within 16 months. Each time a new lease has to be negotiated subject to prevailing market conditions, it is influenced by supply and demand. Demand is a function of jobs, mortgage rates, demographics, location, property reputation, inmigration, outmigration, consumer confidence, fuel prices, and natural disasters, etc. These are far too many variables to predict accurately. Leasing apartments is a manic-depressive business with many owners not very well capitalized and facing financial pressures. A lot of notices to move out can stimulate an irrational Pavlovian response to discount rents to make sure the occupancy doesn’t drop. This can cascade through the market.

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A LETTER FROM THE PRESIDENT

GARY CARMELL

ADD VALUE OR ADAM SMITH WILL SHOW YOU THE DOOR.

QUESTION: HOW MANY PLAYS DOES A GAME USUALLY COME DOWN TO?
ANSWER: MOST GAMES, FOUR OR FIVE PLAYS, BUT YOU NEVER KNOW WHEN THOSE ARE GOING TO BE. YOU MAY THINK IT’S ALWAYS IN THE FOURTH QUARTER. IT’S USUALLY NOT. IT COULD BE THIRD AND ONE IN THE SECOND QUARTER, OR AT THE END OF THE HALF ON A TWO-MINUTE DRIVE WHERE YOU’RE HELD ON THE THREE OR NOT.

— PEYTON MANNING (INTERVIEW IN AMERICAN WAY MAGAZINE)
Expenses should be more predictable because this is more under the apartment owners’ control. Yet things occur out of the blue here as well. A hurricane hits, crippling the insurance industry and apartment premiums skyrocket. Utilities escalate due to higher energy prices because of demand for oil in China. A tight labor market puts a high demand for one’s talented people from competitors and salaries increase more rapidly than anticipated. Unexpected repairs obviously come up from time to time.

Despite all of this, people need some way to get their arms around the prospective returns an investment can provide, so modeling is a necessary evil. Far too few apartment buyers stress test their models to quantify the downside. We all know things change and so do markets. One day Houston’s apartment market is struggling, the next day high-end units become full after a massive relocation of Hurricane Katrina victims. A little while later Houston is at risk from Hurricane Rita.

No one knows what is going to happen. What we generally do know, however, is what is good real estate. Properties that pull people to them versus those the world couldn’t care less if they didn’t exist. Those connected to a vibrant economic and social ecosystem where the housing, schools, businesses, recreation, leisure, natural amenities, transportation, and public assets intersect to form a vibrant and prosperous ecosystem. Great real estate is additive to this.

We also know that the road to terminal valuation is never linear, unable to be mapped accurately, but generally achievable given financial staying power (usually a function of leverage and investor liquidity), a growing population and economy, and well located real estate. As Peyton Manning said at the beginning of this, the outcome of a game comes down to very few plays. In investment terms, you want to be there when lightning strikes. Annual stock market returns tend to occur by being invested on relatively few trading days. This is why timing the market is very difficult. Like in the stock market, apartment owners want to be there when lightning strikes. Or in Peyton Manning’s world, you have to be on the field in order to win. By paying fair prices, financed prudently, for very good businesses, one would expect to produce rates of returns that will equal or exceed other investments offering similar risk and easily beat inflation.

CWS Philosophy

Usually at this point I would focus my letter on key economic, demographic, and social trends facing apartment investors. As Confucius said, “He who takes no thought about what is distant shall find sorrow near at hand.” Yet, these vital trends have been wonderfully communicated in the writings of Steve Sherwood and Mike Engels in this year’s Annual Investor Report. Instead, I am going to focus on one of the key areas that enable CWS to add value. Namely, our intense focus on creating a rational organization. Paradoxically, this obsession can be borderline irrational and lead us to miss opportunities that an overly analytical approach can mask. What do I mean by a rational organization? It is one that is ruthlessly focused on managing from reality versus how we want things to be and confronting the brutal facts by designing an organization that attempts to minimize ego and politics and tries to create a friction-free flow of information such that all valuable information (good and bad) is able to flow to the top such that optimal decisions are made. This is not to say we are always successful, just cognizant of what is necessary to be a successful investment firm.
How does CWS add value? Or said differently, what does CWS do that allows it to bring value to the world and be able to stay in business? The CWS Business Model illustration to the right represents the key ways in which we add value. To put it into words, I believe that CWS creates value by doing the following very well:

- Communicating with our investors on a timely basis with accurate and relevant information with a focus on inspiring confidence with every interaction.
- Creating a unique people-centric culture in which the organization is tied together by a powerful set of shared values. Our values are:
  1. A demand for excellence with a sense of urgency.
  2. A respect for people.
  3. Requirement for profitability.
  4. Honoring our word.
  5. Ethical dealings are paramount.
- Generating investment insights.
- Finding real estate opportunities that match those insights.
- Properly capitalizing our investments.
- Managing the properties we purchase with a long-term orientation, intense customer focus by a very talented and well-trained team, and the confidence to price our product to command the highest rents for the quality and location we offer.
- Creating liquidity (cash) and reinvestment opportunities at optimal points in the real estate cycle through sales and/or refinances while attempting to offer the most tax-efficient strategy.
Doing all of these right should provide our investors with superior returns when compared to alternative investments and adjusting for the risk undertaken by our investments. In addition, the investment process should also be very user-friendly, enjoyable, and educational. In order for CWS to consistently generate above-average, risk-adjusted returns CWS must have an unbiased view of the world created by minimal pressure to do transactions, which may stem financial needs, large egos, or boredom. We must also have solid processes for due diligence, pro forma creation, and synthesizing all relevant information to evaluate risk-reward to make a go/no go decision in regard to prospective acquisitions. This requires a sound analytical approach to identifying winning characteristics of successful investments within our core competency, having access to capital when others may find it difficult to raise money, and effective and professional communication to convey the risk-reward tradeoff to prospective investors.

A real estate firm that has operated through countless cycles and challenges over 36 years most assuredly has developed some important lessons that have been learned during these times. If not, then we either have convenient amnesia or we have been sleepwalking through the last 36 years. While there may be some truth to the former, I know the latter is not, because I hardly sleep at all. That’s what hundreds of thousands of lost jobs, unrelenting apartment construction, high fixed rate loans that are too cost prohibitive to refinance at lower interest rates due to onerous prepayment penalties, the strongest home buying market in recent memory, all combining into a witch’s brew of a precipitous drop in rents and property cash flow can do. Fortunately, things in our industry are getting much better and we are focused more on opportunities than problems. Perhaps now I can start sleepwalking. I digress.

So what have we learned? Here are some of the key CWS cardinals that we believe, if we continue to follow, will help us not only survive, but prosper, in the years ahead:

- Real estate is a cyclical business (things change).
- It is easy to be seduced by capital.
- The highest rewards come to those who can access and provide capital when others cannot or will not.
- Good investment ideas are hard to come by.
- It is critical to always have a team on the field because you can’t win unless you’re playing.
- The best way to eliminate investment bias is to structure a company around recurring revenue versus transaction fees.
- Leverage works for companies that can access capital in order to avoid selling at the bottom of the cycle.
- Never bet the company.
- Tax-deferred wealth creation is a powerful competitive advantage.
- Don’t run out of cash.

So there you have it; 36 years summarized in a few pages. These are hard-learned lessons and sometimes quite painful. But we lived through them nonetheless and have come out of the other side no worse for the wear. With 2006 shaping up to be a very positive year for the apartment industry we look forward to improving our results significantly and continuing to add value for you.
A unit floor plan is an architectural diagram, also considered a type of blueprint or drawing, of a level or floor of an apartment as seen from above – similar to a map. Through the vision of our distinguished founding leaders, CWS can draw from vast years of experience to offer its investors keen insight and a broad spectrum of perspectives in the real estate management industry. This gives CWS investors the advantage of being led by experienced professionals through an otherwise volatile market.
It is common for people to use their personal experiences in the investment arena to make future investment decisions. For example, when a young couple has made a significant gain in the equity of their home, they have little or no concern regarding the purchase of a larger, more expensive home. They may even be dismayed that their parents are happy for them but at the same time wish that they would be a bit more cautious. The parents are remembering what took place in the early 90’s; the kids are sure that they are living in a different era.

The truth is that both the parents and the young couple are right. While it certainly is a new era, many of the historical supply/demand relationships will ultimately still prevail. With this said, what is the proper balance between historic information and current experience? What information should we rely upon to make investment decisions? If we think about the tech experience as an indicator, the answer is found in both components. The historic multiples and requirement for growing profits, as well as the current new era facts, need to be considered. Looking at this example, profitable tech companies were expensive but did very well, whereas those tech ventures lacking revenues, assets or profits turned out, in the long run, to be disasters. And since the long run is our main focus, we are not swayed by phenomenal returns that were made in the short run.

It appears that with current trends, the apartment business is embarking upon new territory. One illustration is that cap rates are in many cases below 5%, and this is a first in our industry. We have recently come off 40-year lows for short-term interest rates, as well. Although the cash flow of our properties is still minimal, the values have gone up dramatically. Our training and experience tell us to equate these values directly to cash flow. In fact, the price of our existing communities is being affected more by the relationship to replacement costs, the type of financing in place, and the improving fundamentals (supply/demand) of the apartment business than the current cash flow.

It is my opinion that many of our experiences continue to be extremely valid when making current real estate investment decisions. We continue to see that high-quality, well-located properties almost always outperform those of equal quality in inferior locations. Due to our conservative nature we are keenly aware of the replacement cost of our acquisitions and our results have been very positive when purchasing well-located properties below replacement cost. My conclusion is that even though the current cash flow is quite low, well-located quality apartments at a below replacement cost have a good future. We will most likely buy and sell an equal number of properties in 2006, keeping only those with superior locations. As the new era unfolds, our acquisitions will reflect our desire to own the best real estate.
In order to accomplish this, the US needs deep capital markets, sound monetary policies, the rule of law not the rule of lawyers, physical and transportation infrastructure, and a business savvy culture that supports innovation and risk taking. In addition, we need an education system that supplies skilled workers, technicians, engineers, scientists, and managers.

Relating this to the apartment business, there are several positive happenings for investors. First, a growing population with an increasing demand for housing. CWS has selected locations that are attractive to skilled professional knowledge workers who make excellent renters. The second positive happening is construction costs and land costs are rising. Increased replacement costs make currently CWS-owned properties more valuable. And, finally, there are huge sums of money searching the globe for profitable opportunities. CWS is taking advantage of this to replace 7% and 8% mortgages with mortgage rates 6% and lower. This translates into a significant decrease in debt service.

There are two main challenges that the apartment business must overcome:

- Nothing down, interest-only loans on single-family homes. These and other innovative financing vehicles enable a buyer to purchase a house with monthly payments close to the monthly rent for a quality 2-bedroom, 2-bath apartment.
- Generously financed apartment developers have continued to build in already well-supplied markets, thus keeping apartment rents very competitive.

My predictions for the next 5 to 10 years were published in the CWS Quarterly Update in an article called "The Case for Investing in Real Estate". A summary follows:

- Interest rates for the typical single-family home will likely "revert to the mean" of the last 35 years of about 7%. On February 3, 2006, the average 30 year fixed rate mortgage was 6.23%, only a short way from 7%.
- Inflation will likely continue at 3 to 4%.
- Single family homes will rise in value until they become unaffordable even with nothing down mortgages. Boston and San Diego are both experiencing this trend.

Drawing on my nearly 40 years experience in the real estate business, I believe that apartments will thrive as 30-year mortgage rates rise for single-family homes. The Federal Reserve has moved the Federal Funds rate to 4.5%, with one or two more quarter-point rate increases coming. This will undoubtedly reduce the "exuberance" of homebuyers and make apartments more competitive with single-family homes.

Real estate is a good long-term investment for most because it is something we can see, feel and understand, and has a history of appreciating in value.
Ben Graham’s book, The Intelligent Investor, which Warren Buffett celebrates as “the greatest book on investing ever written,” introduced the world to Mr. Market – the most famous investment analogy in history. The concept goes something like this: “Every day Mr. Market knocks on my door. He has this for sale and that for sale at this price and that price. I look over what he has, and if something looks good I buy it. If not, I say ‘No, thank you,’ and simply wait for tomorrow, when Mr. Market will be back with a new selection of products and prices.”

What then does Mr. Market have for sale today for the discerning multi-family investor? Here are the attributes:

- **Low Current Yields:** Unleveraged yields on total investment generally range from 3.9% to 5.5%. Since current debt typically costs in the range of 5.5%, this “negative leverage” results in minimal initial cash flow yields to equity, particularly for higher quality, well-located projects. While the initial cash yields are lower than most investors are used to seeing, they are also indicative of a lower yielding investment climate in general, with 10-year US treasuries trading in the 4.50% range.

- **Escalating Replacement Cost Resulting in Lower Future Supply of New Apartments:** With commodity prices on the rise in general, building components have all had significant price increases. Combined with a tight labor market in construction and record land values, the overall effect on the cost to construct new multi-family communities has risen at a rate significantly higher than the rate of inflation over the last several years—nearing double digit growth in each year. This higher replacement cost is a significant determinant of future supply, as new product is less likely to be built when rents need to be higher to produce acceptable yields for investors at the higher costs.

- **Favorable Demographic Trends Pointing to Increased Demand:** The children of the Baby-Boomers, known as the “Echo Boomers,” represent a large demographic spike in population. The oldest of the echo boomers are just now joining the age group most likely to rent, the 20-25 year olds. Over the next several years there will be more and more echo boomers needing a place to live, and many will choose apartments.

- **Built-in Hedge Against Higher Interest Rates:** Many real estate values, including single-family homes in Southern California, have benefited considerably from the decline in long-term interest rates. While apartment cash flow multiples have clearly increased (lower “cap rates”), the cash flows themselves have suffered as a result of the substitution effect of people purchasing single-family homes as a result of lower mortgage rates. Should interest rates rise, apartment cash flows should increase as apartments become more attractive. While the percentage of Americans purchasing their residences has grown to record levels (over 69%), with a bottoming out of long-term interest rates, this growth has already dampened. In fact, over the last two quarters this percentage has slightly decreased.

**Bottom Line:** Mr. Market is knocking on our door today with apartment investment opportunities that have both lower current yields and better growth prospects than what we have seen in the recent past. Our strategy is to carefully select those assets that will provide the best risk-adjusted, after-tax cash flow and total returns for our investor. We are confident that well-located assets purchased at below replacement cost will experience solid rent growth over the next several years. For the right assets at the right price, we believe the prospects for above average rent growth justify historically lower current returns in a low return investment climate.
My team’s mission is to deliver projected pro forma returns to our investors. As the portfolio of CWS grows, it becomes imperative that our infrastructure remains focused on hiring right, training right, and cultivating quality personnel to manage our assets right. We are focused on attracting and retaining the best associates to accomplish this mission.

Through advanced hiring programs, we are able to select the best people for our communities. We test each candidate’s aptitude for success through an assessment tool that measures the presence of specific characteristics within each applicant and compares them to the attributes of our highest performing associates in the targeted job position. This pre-screening saves time and resources and we interview only those who are a good fit for the job. Multiple interviews, hands-on skill testing, referrals, and background checks are completed before an offer is made.

Once we hire the right people, we train them right. Each is taught how to make each investment property successful. Orientation begins with safety, risk, and BRIDGE training sessions followed by extensive focus on our unique sales and marketing procedures on how to value-sell and competitively price our units. Pricing is extremely important because it drives net rental income, cash flow, and ultimately, property value. Therefore, we review pricing weekly at a minimum, and sometimes daily. Additionally, we use outside companies to blind shop our associates to test their skills. The results are publicized and the high scores are rewarded. We instill an intense customer focus in each new hire to foster resident retention and to harvest referrals for future residents. Finally, our hiring program emphasizes our community service program (BRIDGE) to help attract and retain those who share our corporate values.

One of the best ways to ensure that CWS properties are able to meet or exceed pro forma returns is to continually develop our associates and promote from within. In 2005, CWS introduced an innovative system to prepare community directors for a regional management role. The program is called the Executive Intern Program (“EIP”) in which each candidate goes through an in-depth testing and interviewing regime before being admitted. EIP students take a year of classes administered by seasoned CWS senior executives, experience hands-on management situations, and are required to pass multiple written exams before qualifying to graduate from the program. We have recently promoted our first EIP graduate, Charlotte Eaker, to the position of North Carolina Regional Manager.

Critical to our mission of delivering projected pro forma returns is that all members of the operations group have a strong customer focus, add extraordinary value to the product, and possess competitive industry experience to allow us to obtain above market rents. The results produced by CWS’ outstanding team include strong marketing plans that identify and market to the optimal renter, clean and well maintained communities, and timely responses to resident requests and concerns. Feedback from CEL's annual nation-wide customer surveys shows that CWS is among the best customer service providers in the business. After ranking as the top scoring company in CEL’s national benchmark customer survey conducted last year, we followed up this year with even higher scores on recent surveys. For the year 2005, we ranked number one for the second consecutive year. Our ultimate goal is to convert resident satisfaction into higher shareholder value by hiring right, training right and managing CWS assets right.

Thank you for the opportunity to serve you and to exceed your investment expectations.

<table>
<thead>
<tr>
<th></th>
<th>United Dominion</th>
<th>Camden</th>
<th>Comparative REIT Avg.</th>
<th>CWS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Texas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Units</td>
<td>4,964</td>
<td>9,224</td>
<td>7,094</td>
<td>4,634</td>
</tr>
<tr>
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<td>1.31%</td>
<td>4.15%</td>
<td>3.16%</td>
<td>-0.55%</td>
</tr>
<tr>
<td>Total Revenues</td>
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<td>0.57%</td>
<td>1.66%</td>
<td>0.66%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>9.10%</td>
<td>27.1%</td>
<td>4.95%</td>
<td>-5.61%</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>0.59%</td>
<td>-1.48%</td>
<td>-0.76%</td>
<td>-0.25%</td>
</tr>
<tr>
<td><strong>North Carolina</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Units</td>
<td>5,349</td>
<td>5,016</td>
<td>3,455</td>
<td>1,282</td>
</tr>
<tr>
<td>Physical Occupancy</td>
<td>-1.24%</td>
<td>2.17%</td>
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<td>-4.00%</td>
</tr>
<tr>
<td>Total Revenues</td>
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<td>3.68%</td>
<td>2.48%</td>
<td>4.29%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>0.78%</td>
<td>6.94%</td>
<td>3.76%</td>
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</tr>
<tr>
<td>Net Operating Income</td>
<td>1.95%</td>
<td>2.11%</td>
<td>2.03%</td>
<td>3.81%</td>
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<tr>
<td><strong>Colorado</strong></td>
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<td></td>
</tr>
<tr>
<td>Total Units</td>
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<td>2,209</td>
<td>1,231</td>
<td>591</td>
</tr>
<tr>
<td>Physical Occupancy</td>
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<td>0.70%</td>
<td>-0.18%</td>
<td>0.42%</td>
</tr>
<tr>
<td>Total Revenues</td>
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<td>-1.00%</td>
<td>-0.16%</td>
<td>-1.87%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>7.30%</td>
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<tr>
<td>Net Operating Income</td>
<td>-2.60%</td>
<td>-2.10%</td>
<td>-2.90%</td>
<td>-3.50%</td>
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</tbody>
</table>
Detail drawings include information such as materials, textures, geometry or tolerances, necessary to enable procurement and manufacturing. They identify relevant codes and standards to ensure the objects are manufactured to the designer’s requirements.

In a market as highly competitive as real estate, our ability and willingness to provide transparent asset performance reports and financials to our investors sets us apart from other real estate management companies.
The Austin-San Marcos, TX MSA economy experienced expansion during 2005 as job growth averaged 2.36%, adding 16,000 jobs resulting in net apartment demand of 3,868 units. Apartment demand equaled three times the number of deliveries at 1,378, which facilitated higher occupancies and modest rent growth. Austin’s attractive quality of living, highly educated workforce, and availability of office space resulted in corporate relocations and intrinsic growth of Austin area companies. All major technology manufacturing industries added employees for the first time since the late 1990s. The recent announcement of Samsung Electronics Co. Ltd’s $5 billion chip plant in Austin will help ensure Austin’s status as a semiconductor hub for the years ahead. We should continue to experience better apartment supply/demand fundamentals as employment growth is anticipated to equal 2-3% in 2006, resulting in another year of more apartment demand than new supply.

<table>
<thead>
<tr>
<th>Property Name</th>
<th>Location</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Marquis at Ladera Vista</td>
<td>Austin</td>
<td>224</td>
</tr>
<tr>
<td>The Marquis at Walker’s Bluff (pictured right)</td>
<td>Austin</td>
<td>384</td>
</tr>
<tr>
<td>The Marquis at Caprock Canyon</td>
<td>Austin</td>
<td>336</td>
</tr>
<tr>
<td>The Marquis at Barton Creek</td>
<td>Austin</td>
<td>250</td>
</tr>
<tr>
<td>Windsor at Barton Creek</td>
<td>Austin</td>
<td>134</td>
</tr>
<tr>
<td>The Marquis at Iron Rock Ranch</td>
<td>Austin</td>
<td>300</td>
</tr>
<tr>
<td>Northwest Hills Apartments</td>
<td>Austin</td>
<td>314</td>
</tr>
</tbody>
</table>
The Dallas-Fort Worth, TX MSA ("D/FW") has one of the most diverse economies in the nation. The Greater Dallas Chamber of Commerce recently announced corporate relocation and expansion projects adding more than 28,000 direct and indirect jobs to the regional economy. The economic impact overall: a welcome $1.5 billion. Fluor, Capital One, Countrywide Financial and Celanese are some of the major companies who have recently flocked to the region. These companies cite the region's transportation assets, cost of living and tax advantages as the deciding factors in relocating or expanding to D/FW. Multi-family permits remained at a decade low of 8,000 units, while absorption reached 24,000 units, resulting in considerably improved apartment fundamentals. We anticipate the apartment market will continue to experience modest rent growth and falling vacancy rates in 2006.

<table>
<thead>
<tr>
<th>Property Name</th>
<th>Location</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Marquis at Turtle Creek</td>
<td>Dallas</td>
<td>98</td>
</tr>
<tr>
<td>The Marquis on McKinney</td>
<td>Dallas</td>
<td>144</td>
</tr>
<tr>
<td>The Marquis at West Village</td>
<td>Dallas</td>
<td>179</td>
</tr>
<tr>
<td>The Marquis at Frankford Springs</td>
<td>Dallas</td>
<td>332</td>
</tr>
<tr>
<td>The Marquis at Park Central</td>
<td>Dallas</td>
<td>308</td>
</tr>
<tr>
<td>The Marquis on Gaston</td>
<td>Dallas</td>
<td>480</td>
</tr>
<tr>
<td>Huntington Cove</td>
<td>Farmers Branch</td>
<td>100</td>
</tr>
<tr>
<td>Shoal Creek</td>
<td>Bedford</td>
<td>408</td>
</tr>
<tr>
<td>Brooks on Preston</td>
<td>Plano</td>
<td>342</td>
</tr>
<tr>
<td>The Marquis at Willowview</td>
<td>Richardson</td>
<td>528</td>
</tr>
<tr>
<td>Townlake of Coppell</td>
<td>Coppell</td>
<td>308</td>
</tr>
<tr>
<td>Papillon Parc</td>
<td>Fort Worth</td>
<td>76</td>
</tr>
<tr>
<td>The Marquis at Stonegate</td>
<td>Fort Worth</td>
<td>308</td>
</tr>
<tr>
<td>The Marquis at Willow Lake</td>
<td>Fort Worth</td>
<td>138</td>
</tr>
<tr>
<td>The Marquis at Bellaire Ranch</td>
<td>Fort Worth</td>
<td>316</td>
</tr>
<tr>
<td>The Marquis at Silver Oaks</td>
<td>Grapevine</td>
<td>480</td>
</tr>
</tbody>
</table>
SAN ANTONIO REGION

The San Antonio, TX MSA experienced quality economic expansion during 2005 with job growth near 2%. San Antonio has been the recipient of significant corporate relocation and expansions during the past few years and 2005 was no exception. Washington Mutual’s 4,200-employee regional operation center was the single largest event reported in the country during 2005 and employment continues to swell as hiring has escalated for companies related to the Toyota Manufacturing Plant opening in 2007. San Antonio’s major employers include SBC Communications, H.E.B. Food Stores, United Services Automobile Association (USAA), Baptist Health System, and the US Military. San Antonio’s low cost of living, quality work force, and government incentives make it fertile ground for corporate expansion. Multi-family permits have continued to increase to decade highs. We do not anticipate absorption will keep pace with supply in 2006, as nearly 6,000 units will be delivered to the market likely resulting in declining supply/demand fundamentals. However, San Antonio appears to be creating jobs at a record pace, which could result in taming a downfall in the apartment sector.

<table>
<thead>
<tr>
<th>PROPERTY NAME</th>
<th>LOCATION</th>
<th>UNITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Marquis at Deerfield</td>
<td>San Antonio</td>
<td>340</td>
</tr>
<tr>
<td>Talavera</td>
<td>San Antonio</td>
<td>336</td>
</tr>
<tr>
<td>The Marquis at Legends</td>
<td>San Antonio</td>
<td>306</td>
</tr>
<tr>
<td>The Marquis at Rogers Ranch</td>
<td>San Antonio</td>
<td>246</td>
</tr>
<tr>
<td>The Marquis at Castle Hills</td>
<td>San Antonio</td>
<td>306</td>
</tr>
<tr>
<td>The Marquis at Quarry</td>
<td>San Antonio</td>
<td>224</td>
</tr>
</tbody>
</table>
Charlotte, NC experienced strong employment growth during 2005 as the financial & business sector continued to expand. A number of financial firms have relocated or expanded in the region including Pulte Mortgage and Decision One Mortgage. Multi-family permits have decreased from their annualized high of 7,100 in early 2001 to 3,000 as of December 2005. The combination of lower multi-family supply and accelerated job growth resulted in improved apartment market fundamentals in 2005. Evidence of this was witnessed in the shrinking physical vacancy rate from 10.5% to 8.2% as of 3rd quarter 2005. With higher interest rates, strong job growth, and limited new supply, we project the apartment market will continue to improve resulting in lower vacancy rates and stronger rent growth.

<table>
<thead>
<tr>
<th>Property Name</th>
<th>Location</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Preserve at Ballantyne</td>
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</tr>
<tr>
<td>The Marquis at Carmel Commons</td>
<td>Charlotte</td>
<td>312</td>
</tr>
<tr>
<td>The Marquis of Carmel Valley</td>
<td>Charlotte</td>
<td>424</td>
</tr>
</tbody>
</table>
Raleigh/Durham Region

The Raleigh, NC MSA has a diverse employment base consisting primarily of technology, government, biotechnology, and education sectors. Raleigh’s economy has gradually improved during the past two years and is currently experiencing steady 2% job growth as of December 2005. While no major relocations or expansion occurred in 2005, intrinsic growth in local firms is fostering much of the job growth. The metro area is consistently ranked among the nation’s best places to live, work, and earn a world-class education. In 2005, Raleigh was ranked #2 in Best Place for Business and Careers (Raleigh-Durham, NC) Forbes, May 2005, and #2 Most Educated City, by the US Census Bureau-American Community. Multi-family permits have hit a decade low of 1,000 units, resulting in substantially lower supply than demand during healthy economic times. With steady job growth and very low supply of new apartments, Raleigh’s apartment market should experience considerable improvement during 2006.

<table>
<thead>
<tr>
<th>Property Name</th>
<th>Location</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Marquis at Preston</td>
<td>Cary</td>
<td>299</td>
</tr>
<tr>
<td>The Marquis at Crossroads Commons (pictured right)</td>
<td>Raleigh</td>
<td>206</td>
</tr>
<tr>
<td>The Marquis at Silverton</td>
<td>Cary</td>
<td>216</td>
</tr>
</tbody>
</table>
DENVER REGION

The big news is record apartment absorption; with building permits down by 80 percent, the Denver apartment market can expect to continue its recovery throughout 2006. In spite of the soft economy, Denver continues to be an attractive investment market and is viewed as one of the best places to live and do business in America. Multi-family permits decreased substantially from a high of 9,100 in 2002 to 2,500 in 2005. Denver recently reported positive job growth of 1.5% as of December 2005. Due to strong absorption and the lack of new construction, apartment vacancy rates decreased from 9.3% to 7.9% as of December 2005. We believe the Denver apartment market has seen its worst days. With continued strong absorption and limited new construction, Denver should see a return to robust rental growth rates.

<table>
<thead>
<tr>
<th>Property Name</th>
<th>Location</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Marquis at DTC</td>
<td>Denver</td>
<td>238</td>
</tr>
<tr>
<td>The Marquis at Town Centre</td>
<td>Broomfield</td>
<td>283</td>
</tr>
<tr>
<td>The Parkway Apartments</td>
<td>Denver</td>
<td>460</td>
</tr>
</tbody>
</table>
Surrey has been one of the fastest growing cities in Canada over the last 20 years. Surrey recently passed Halifax to become the 10th largest Canadian city. The population grew by 225,000 people over the past 20 years. The current population is 400,000. The British Columbia gross domestic product (GDP) is predicted to grow 3.3% during 2006 with employment growth of 2.0%. In the Fraser Valley, housing prices during 2005 increased 10.0% for single-family, 11.0% for townhouses, and 14.0% for condominiums when compared to December 2004. Demand for housing in the area should remain positive and occupancy rates at the communities should remain stable in 2006. The property management team will continue new home sales efforts and will seek to acquire desirable for sale homes in the community to preserve curb appeal.

<table>
<thead>
<tr>
<th>Property Name</th>
<th>Location</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian Properties / Surrey</td>
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### EXISTING PROPERTIES

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<th>Year Acquired</th>
<th>Property Name</th>
<th>City / Province</th>
<th>State / Country</th>
<th>Units</th>
<th>Potential Build-Out</th>
<th>Total Potential Units</th>
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<td>1999</td>
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<td>2000</td>
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<td>Windsor at Barton Creek</td>
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<td>2003</td>
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<td>2003</td>
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<td>2004</td>
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</tr>
<tr>
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Regional Distribution of Apartment Units as Percentage of Total Portfolio

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<th>Location</th>
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<td>Austin</td>
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<td>San Antonio</td>
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CORPORATE OFFICERS

Steve Sherwood
Founding Partner, CEO & Chairman of the Board
Joined CWS in 1977
Newport Beach, California

Bill Williams
Advisory Board Member
Founding Partner 1969
Newport Beach, California

Tracy Hayes
President,
CWS Corporate Housing
Joined CWS in 1994
Austin, Texas

Joe Sherwood
Senior Vice President, Manufactured Housing
Joined CWS in 1986
Longwood, Florida

Brian Rose
Vice President & Controller
Joined CWS in 1997
Austin, Texas

Sue Mills
Vice President, HR, Training & Corporate Administration
Joined CWS in 1991
Austin, Texas

Mike Engels
Senior Vice President, Investments
Joined CWS in 1998
Austin, Texas

Greg Miller
Vice President, Investments
Joined CWS in 1994
Austin, Texas

Jeff Warshaw
Vice President, Investments
Joined CWS in 2005
Atlanta, Georgia

Mary Ellen Barlow
Transactions Officer
Joined CWS in 1995
Newport Beach, California

Laura Worrall
Transactions Specialist
Joined CWS in 2004
Newport Beach, California

Jack Sipes
Senior Vice President, Operations
Joined CWS in 1996
Austin, Texas

Shellie McDaniel
Region Manager, Dallas
Joined CWS in 2001
Dallas, Texas

Marcellus Mosley
Region Manager, Austin & San Antonio
Joined CWS in 2002
Austin, Texas

Amber Cox
Region Manager, Fort Worth
Joined CWS in 1998
Fort Worth, Texas

Charlotte Eaker
Region Manager, North Carolina
Joined CWS in 1999
Charlotte, North Carolina

Tori Hill
Region Manager, Colorado/California
Joined CWS in 2004
Denver, Colorado

Gary Carmell
President
Joined CWS in 1987
Newport Beach, California

Leuretta Anderson
Vice President,
Investor Relations
Joined CWS in 1986
Newport Beach, California

Sunnie Juarez-Mills
Investor Relations Specialist
Joined CWS in 1997
Newport Beach, California

Teresa Alhey
Investor Relations Specialist
Joined CWS in 2001
Newport Beach, California

Marcus Lam
Investor Relations Development Associate
Joined CWS in 2005
Newport Beach, California

Jill Carlisle
Vice President
Joined CWS in 1996
Newport Beach, California

INVESTOR INFORMATION
Limited partners, financial advisors, investment advisors, or CPAs seeking additional information about CWS Investments or 1031 Exchange candidate investments should contact: Lauretta Anderson, Vice President, Investor Relations,(800) 466-0020, ext. 207 or via email to landerson@cwscapital.com.

APPENDIX
Sources may be found in the Appendix on the accompanying Supplemental Report Disk included with this report.