

2018 CWS Annual Report Letter

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Portfolio

Having a high quality portfolio has been a very important variable to generating competitive, risk-adjusted returns over the past 50 years. **Here's CWS' Three-step Process for Selecting Exceptional Properties for our Portfolio.**

FIRST: Select markets with strong growth characteristics that attract knowledge workers.

- CWS studies demographic data on U.S. real estate markets to find which are attracting the best and brightest renters.
- CWS selects markets that have a strong record of business friendliness and consistent growth along with nearby colleges and universities that offer an emphasis on STEM (science, technology engineering, and math) programs.
- CWS carefully selects cities and suburbs that are attractive to this young, growing, and well-educated demographic.
- Finally, CWS reviews the real estate available in these markets for a combination of best price and investment returns.

An example that demonstrates the value of a carefully selected market is Water Marq located in Austin, Texas. CWS purchased riverfront land and funded the \$68 million cost of construction to build Water Marq. After completing the lease-up, new financing to replace the construction loan and a new appraisal were required. The lender obtained an appraisal which valued the property at \$98 million mainly because of Austin's growth and Water Marq's prime location along the Austin River near the city's central business district. The strength of Austin's market made up a huge part of the \$30 million of added value for the project.

SECOND: Buy quality properties based on location, design, and construction.

- After CWS determines the strength of the market, the CWS Acquisitions Team reviews the properties for sale and selects the best assets on which to make an offer.
- When a purchase offer is accepted, the CWS Due Diligence Team does its best to ensure the quality of the asset relative to our expectations. They inspect all critical components including electrical systems, plumbing systems, roof conditions, street conditions, workmanship, exterior paint conditions, and the design, layout, and interior conditions of each individual apartment unit.

Our purchase of Northwest Hills Apartments is an example of when paying up for a high-quality property delivered big returns over time. We purchased the property over 10 years ago and paid a premium for its location which was very close to the University of Texas in Austin. The property value recently rose to a level that CWS felt was above its long-term value and sold it to a unique buyer which

gave CWS investors approximately five times their initial investment back – inclusive of cash flow, refinance, and sale proceeds since inception.

THIRD: Cultivate and refine staying power tools.

- Undoubtedly the nature of real estate, regional markets, and the economy as a whole, is cyclical and will experience economic downturns and/or natural disasters such as hurricanes, tornados, earthquakes, and floods. CWS prepares to survive these calamities by possessing the staying power to hold on to an apartment until recovery occurs.
- CWS' Staying Power Tools include good insurance, cash reserves, and/or forming an investor funded Lender Group to maintain operations through the downturn and preserve investor capital.

An example of CWS's staying power is exemplified by the Tech Wreck of the 2000's. The Marquis at Town Centre in Denver, Colorado, experienced excessive move-outs when the technology boom burst in 2006-2007 decimating the job market. Despite its operating struggles at that time, CWS knew Town Centre was worth holding onto given its quality apartments and prime location. CWS designed a new investment vehicle called a Lender Group via which Town Centre's existing investors could invest additional funds into a new investment group whose sole purpose was to ensure that the property had the financial support it needed until the market recovered. Fast forward to today and Town Centre is in fine financial shape. Its Lender Group was paid off in full in 2012 and the property is paying good distributions at a rate of 8% annualized ROI.

Our staying power is best illuminated by our Track Record found on page 34-35 of this report, which demonstrates nicely CWS' intense focus on capital preservation for our investors. CWS works hard and smart to make every investment successful. We appreciate the trust you have given us with your hard-earned capital. We do our very best to instill confidence and assure investors that have invested with a solid, ethical firm.