

Stability

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The theme of buoyancy is particularly pertinent as we close out the 2010s as it culminated in celebrating our 50th year in business in 2019. Such longevity was not a haphazard outcome. And while serendipity and luck have most definitely played a role, we have also been very strategic and intentional about our decisions and firm design. In my nearly 33 years at CWS there has been a consistent focus on building a business to last and not just to make a quick buck. This is where buoyancy becomes central in our design. Something that is buoyant can withstand different types of conditions and still remain afloat or in the air and without too much volatility while being able to reach its destination with minimal disruption or risk of damage. It can also be quite productive for many years provided it is vigilantly maintained and the captain and crew are competent and well trained.

One of the important characteristics of something that is buoyant is stability. Stability is a byproduct of an effective design. Because we utilize leverage and the apartment business can be cyclical as a result of the potential for overbuilding and demand to dissipate due to economic weakness or contraction, we have to be very thoughtful and intentional to make sure we don't get swept under when gale force winds hit us. We have to build into our system early warning systems for such events and if those don't end up working then we need to have the financial wherewithal to weather the storm. Financial and emotional staying power are of paramount importance as high quality real estate tends to come out the other side pretty well provided you can hang in there when times get tough.

A book I read a few years ago called *Finite and Infinite Games* has been influential in my thinking in terms of establishing a mindset of stability through design. A finite game is one in which the goal is to beat the opponent. In contrast, the goal of an infinite game is to keep on playing in perpetuity. The former is short-term in its orientation while the latter is very long-term. Infinite games require a design mindset to be on the field playing continuously regardless of the conditions and necessitates remaining healthy and in good shape mentally, physically, spiritually and emotionally, even if it comes at the expense of not taking advantage of some short-term opportunities.

We have attempted to design CWS so we can play offense when others are on their heels forced to play defense and to be able to remain on the field no matter how difficult the circumstances. Our variable-rate loans have given us tremendous optionality in terms of being able to refinance when market conditions improve relative to the debt we have in place or to take advantage of selling opportunities without forcing the marketplace to assume our loans because we can't prepay those loans without significant penalties.

We have a stable cadre of management and company leaders balanced by new blood that has come into the system that provides a great counterweight to the natural conservatism that can be engendered as one gets older and is focused more on protection versus growth. The firm also can't tip the scales too much in favor of satiating the hunger of the younger team members to grow and build their nest eggs such that poor risk-reward decisions are made. This is where the perspective of the older generation can come in handy to create checks and balances to create buoyancy through stable design. This makes cultural fit extremely important in the design of CWS. We look for long-term oriented people who understand that the apartment business is more of a get rich slowly business and that we can only prosper once our investors earn sufficient rates of returns. As a result, we must take it upon ourselves to look very carefully at each investment and do our best to bring ones into the system that we think offer compelling risk-reward relationships. We seek out people who don't need a lot of external validation and are intrinsically motivated and desire to grow and gain new knowledge because of an innate curiosity and desire to improve oneself. We are particularly drawn to people who can work well in teams and highly value those people that can build and sustain teams. We

have designed the firm so that we can handle all aspects of the business so that we can cultivate and build the culture of the organization and populate those key business units with people who understand “The CWS Way.” We value the cultural continuity and long-term orientation that comes with this so our culture and values can weave through everything we do.

As we turn the corner and look ahead to a company that now sees the century mark as its next extraordinary milestone, we do so knowing that we have to be clear in our intentions and continue to focus on hiring, growing, and retaining people that share our vision and values and who are great cultural fits. This is vitally important if we want to continue to steer the CWS ship in a direction that has a high probability of reaching our destinations safely, on time, and in ways that meet the needs of our investors, residents, and associates. And all the while everyone is enjoying a remarkable journey together in life-enhancing ways.