

Intuition

By Steve Sherwood
Founding Partner, Chairman

One of the attributes of buoyancy is effective steering. It's not enough to stay afloat or aloft through effective design, balance, and propulsion, the vessel also needs to be managed by a competent and well-trained captain and crew. And we all know that there is no substitute for experience and intuition to know when to course correct and when to stay the course while others may be doing the opposite. After 50+ years in business we have experienced many different conditions that have helped form our decision-making process and strengthened our intuition.

The past decade has been a great one for the apartment industry and CWS investment returns.¹ During this period of rising rental rates, high occupancy, and low interest rates, CWS has seized some apparent opportunities and some not so apparent opportunities. This was accomplished using hard data, historical trends, and the intuition of our very skilled CWS team.

The important questions are: How will CWS perform going forward? What will the investment returns be? Will the focus on preservation of capital continue to be the proper approach going forward? Of course the answer will be greatly influenced by market, condition, and how CWS deals with the challenges and opportunities that lie ahead. I believe our long-term approach to business will serve us well going forward just as it has for the last 50 years.

The market forecast is positive with good job growth (especially in the CWS markets), a current shortage of housing, positive demographics for rentals, and the current balanced supply pipeline. All signs point to smooth sailing ahead.

With such a positive outlook, our intuition tells us it is a very good time to consider how an investment opportunity would perform if the future was not quite as bright as forecasted. In the last couple of years, we have continued to double check all of the hard data, soft data, and assumptions that go into making an investment decision. This cautious inquiry is to assure we can deliver solid returns in a variety of scenarios, not just the most favorable. When the future appears to be positive, and you choose to be cautious, many of the opportunities go to the more optimistic investors. We are absolutely fine with this, as we prefer to be independent thinkers. Using timely lease and occupancy data from our portfolio of properties provides us with immediate feedback. Last month we signed approximately 1,300 new leases indicating the demand level by market, and giving us a timely accurate gauge of the current demand. This real-time data is a clear advantage to CWS in spotting positive and negative trends in the markets where we compete. Our cautious approach and precise data have allowed CWS to make some consistently rewarding investment decisions.

We are not predicting that the current forecasts are skewed. In fact, our best estimates for the investment outcome align with this position. Even so, our intuition tells us to be prepared for unforeseen obstacles in an overall strong market. This way we can ensure the best long-term results regardless. Our focus on preservation of capital has served us well and will continue to do so. As we embark on the next chapter we are prepared to embrace the ebb and flow of market conditions in order to create another fruitful decade.

¹ A complete list of CWS Capital Partners' prior investment returns can be found on page 27.