Indicators

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As an organization that values buoyancy, it is important to keep watch over the key indicators that keep CWS afloat. Below is a financial analysis of the portfolio of 75 "same store" properties that our investors have owned for the full years of 2017, 2018, and 2019:

Properties: 75	**SAME STORE ROLL UP**				
Unit Count: 21,892	**2017**	**2018**	**17 vs 18 % Change**	**2019**	**18 vs 19 % Change**
Total Revenues	$ 334,539,759	$ 346,691,931	3.63%	357,670,746	3.17%
Operating Expenses	$ 151,801,680	$ 159,386,758	-5.00%	160,727,390	-0.84%
NOI	$ 182,738,079	$ 187,305,172	2.50%	196,943,356	5.15%
Interest Expense	76,032,729	$ 89,885,043	-18.22%	88,857,282	1.14%
Other Expense	7,899,696	$ 8,767,925	-10.99%	8,710,400	0.66%
Capex	33,991,686	34,338,968	-1.02%	35,505,576	-3.40%
Operating Cash Flow	64,813,968	54,313,237	-16.20%	63,870,098	17.60%

Important indicators to note in 2019:

– Our portfolio experienced Total Revenue Growth of 3.17% last year, with our Phoenix assets leading the way with revenue growth in excess of 6%;

– Expenses were relatively flat in 2019 relative to 2018.

- Our low expense growth this year was aided by a number of one-time property tax settlements from disputes in previous years.
- Marketing and Advertising expenses exhibited a 14% savings from last year; our focus on reducing locator fees has been paying off.
- On-site salaries and insurance costs continue to pressure our expenses, as we experienced 5% and 10% increases in these line items respectively relative to 2018.

– Overall interest expense leveled out last year after a large increase in 2018. The following chart shows average one-month LIBOR rates over the last couple years, and the resulting interest rate effects on a property with a sample spread of 1.75%:

Year	One-Month LIBOR Average	Spread	Rate	% Change Over Previous Year
2016	0.50%	1.75%	2.25%	
2017	1.11%	1.75%	2.86%	27%
2018	2.02%	1.75%	3.77%	32%
2019	2.22%	1.75%	3.97%	5%
Current	1.65%	1.75%	3.40%	-14%

If LIBOR remains at its current level of 1.65% for the remainder of 2020, not an unreasonable assumption, then our variable-rate loans will experience an interest decrease of approximately 14% relative to 2019. We are budgeting approximately a $9.0 million decline in interest payments in 2020. Should these savings materialize, they will increase our capacity to distribute cash and reinvest prudently in our portfolio.

Speaking of reinvesting in our portfolio, we are proud of the consistent and sizable capital expenditures that we have been making in your investments year after year, over $35.5 million, or $1,600 per unit this past year. CWS is committed to keeping our investments in tip-top shape, both from an asset preservation and appearance perspective in areas like roofing, wood siding, exterior and interior paint, AC's, hot water heaters, and flooring, as well as upgrading select assets with new appliances, cabinets, countertops, lighting, and renovated clubhouses. Warren Buffett once upbraided those corporate chieftains who ignore depreciation in valuing acquisitions with the question, "Does management think the tooth fairy pays for capital expenditures?" At CWS, we don't look under our pillows in the morning. We know it takes both a serious and sustained financial commitment and a rigorous annual process implemented by knowledgeable and proficient team members to properly assess and execute upon our properties' annual capital expenditure needs and opportunities.

The bottom line in the analysis above is titled "Operating Cash Flow," which rebounded nicely in 2019 after dropping in 2018. This cash flow is available to increase our working capital balances at our properties and to selectively increase property distributions, which more than a few of our properties should experience in 2020. Our focus this year and every year is to keep this number growing on an upward path over the long term. While from time to time we will take a temporary step backwards, our strategy of investing in great locations in growing markets and intensely managing and reinvesting in our assets will continue to keep us floating high and dry through inevitable storms to safely reach our long-term destinations, and have an enjoyable cruise along the way.

(Footnote disclosure) *Any discussion of performance is not indicative of future results.