BUILDING EQUILIBRIUM

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"Don't wait to buy land. Buy land and wait. Find out where people are going and buy the land before they get there."

--Will Rogers

Will Rogers' advice is a cornerstone of CWS's strategy of investing in select assets for the long term in certain markets across the U.S. that have exhibited solid growth characteristics, which for many reasons we expect to continue. In addition to land, when buying apartment buildings, we also get to own a lot of wood, concrete, stucco, brick, dry wall, glass, PVC piping, appliances, plumbing fixtures, asphalt shingles, and many other materials, plus the labor that fashioned these materials into functional apartment communities. Given that societies prefer and tend to have moderate inflation instead of deflation, we are playing a winning hand: buy land, materials, and labor, all of which will grow generally at inflation, and add to that population growth, which increases the demand and price for high-quality land and places to live. Certain materials can last indefinitely, such as well-built timber frames. That said, for the strategy to work, care must be taken to set aside adequate reserves to maintain other aspects of the materials, especially those exposed to the elements or to resident wear and tear. This practice of reinvesting in our assets to keep them in top condition has always been a CWS hallmark.

The trouble with the "winning game" we are playing is that there are many factors over the relative short term (say five years) that can keep the financial performance from being anything but a steadily climbing straight line. Fluctuations in the economic cycle, interest rates, competitive supply, inflation, government intervention, changing demographics, changing commuting practices, and many other things can influence the line, sometimes positively and other times negatively. Since early 2022, we have been in a period of time that has included a steady and significant rise in interest rates, plus the advent of new supply triggered by the happy days of 2021 with low interest rates and significant COVID related rent growth. That supply is still working its way through the system and resulting in rent declines at many of our assets.

"Tempus probat omnia"—meaning "time proves all things"—is the theme for this year's annual report. As we examine our last three year history, which has been the opposite of a straight line growing steadily upward, it is helpful to look ahead to the future and see how events are unfolding that should bring the situation back into balance.

First, let us take a look at the performance of our same store portfolio over the past three years, plus our objectives for next year:

SAME STORE ROLL UP (in $ millions)

Property Count: 97 Unit Count: 28,251	2023	2024	23 vs 24 % Change	2025	24 vs 25 % Change	2026 Objective	25 vs 26 % Change
Market Rent	585.8	565.9	-3.4%	563.5	-0.4%	565.5	0.4%
Vacancy	(46.3)	(37.0)	-20.1%	(38.0)	2.8%	(37.5)	-1.3%
Concessions plus Gain/Loss to Lease	(24.7)	(5.5)	-77.6%	(7.9)	42.6%	(10.5)	32.7%
Model/EE Units	(0.5)	(1.5)	203.7%	(2.5)	64.6%	(2.7)	7.2%
Bad Debt	(4.6)	(2.4)	-48.7%	(1.5)	-37.8%	(1.3)	-15.6%
NRI	509.7	519.4	1.9%	513.5	-1.1%	513.5	0.0%
Other Income	52.8	52.7	-0.2%	48.4	-8.2%	54.8	13.1%
Total Revenues	562.5	572.2	1.7%	561.9	-1.8%	568.3	1.1%
Salaries	48.8	49.6	-1.6%	51.5	-3.9%	53.8	-4.5%
Mktg/Advertising	6.4	6.6	-3.8%	7.0	-6.1%	7.2	-2.0%
Turnover	8.8	8.0	8.4%	7.9	1.8%	7.7	2.0%
Repairs and Maintenance	7.7	8.6	-10.9%	8.9	-4.0%	8.5	4.6%
Professional Services	15.1	15.0	0.7%	15.3	-2.1%	16.3	-6.7%
General & Admin	11.6	10.7	7.5%	11.3	-5.6%	11.4	-1.0%
Utilities	32.2	33.1	-2.5%	33.9	-2.6%	35.8	-5.6%
Property Taxes	89.6	87.6	2.2%	86.2	1.7%	92.8	-7.7%
Insurance	15.8	17.5	-10.9%	14.9	15.0%	14.0	5.7%
Management Fees	17.8	18.1	-1.5%	17.8	1.8%	18.0	-1.1%
Retail Expenses	2.1	1.9	8.5%	2.2	-14.5%	1.9	15.0%
Total Expenses	255.9	256.7	-0.3%	256.9	-0.1%	267.4	-4.1%

NOI	306.6	315.4	2.9%	305.0	-3.3%	300.8	-1.4%
Interest Payments	218.1	225.4	-3.3%	200.3	11.1%	182.3	9.0%
Principal Payments	5.7	5.9	-3.0%	5.3	10.0%	8.0	-50.1%
Other Expenses	18.8	22.3	-18.3%	19.0	14.4%	21.5	-13.0%
Capital Expenditures	47.8	40.1	16.1%	44.5	-10.9%	50.6	-13.7%
Reserves for Rate Caps less Reimburse-ments	3.7	(14.6)	490.4%	(6.9)	52.4%	(2.1)	69.1%
Operating Cash Flow	12.4	36.4	192.3%	42.8	17.7%	40.6	-5.1%

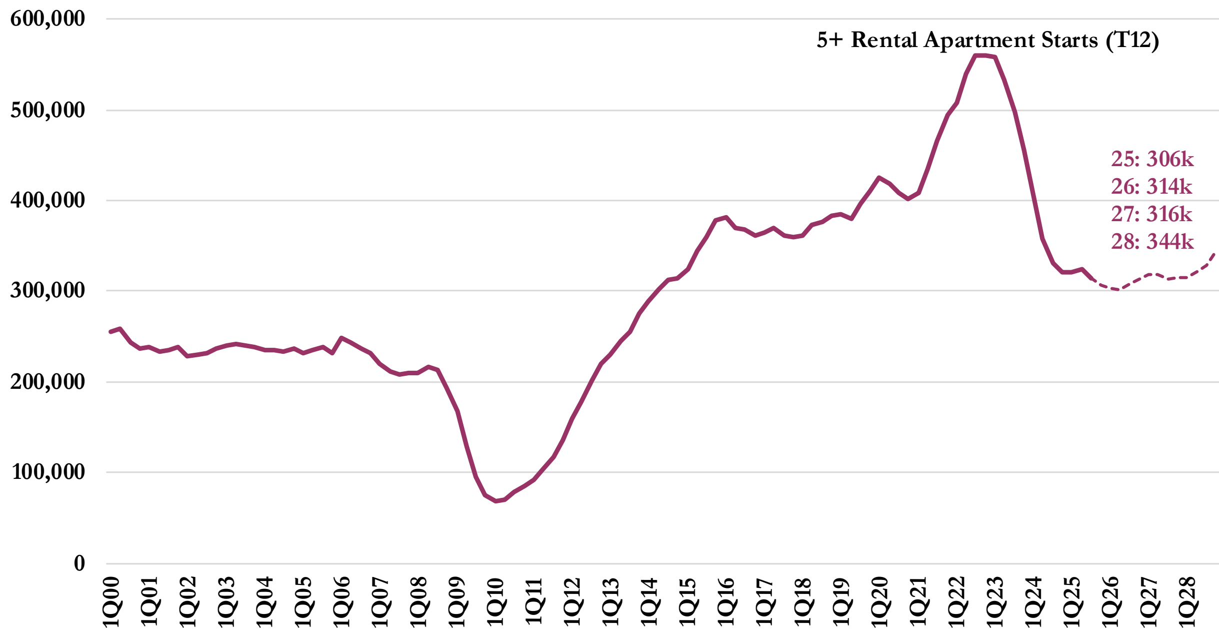
Total revenues were down in 2025 compared to 2024. Rent and other income declines due to heavy supply led to this result. Austin was the most difficult market, with a 3.3% decline, with Seattle and Houston being the only two markets with (slightly) positive rental performances.

On the expense side, a couple bright spots included a slight reduction in property taxes due to favorably resolving tax protests from previous years and a healthy decline in insurance expenses after multiple years of significant increases.

The net result for 2025 was a 3.3% decline in Net Operating Income. This decline was offset by reductions in short-term interest rates and some refinances into lower-rate loans, which lowered interest expense by approximately $25MM and contributed to an increase in operating cash flow to $42.8MM, well up from the $12.4MM of operating cash flow in 2023 and yet still well below the $100MM+ of operating cash flow we saw in the low interest rate years of 2021 and 2022.

The outlook for 2026 looks similar to 2025. While we expect slightly higher revenues, expenses will be higher as well, resulting in a projection of a Net Operating Income decline of around 1%. With short-term rates moving lower, we do expect a further interest expense reduction in 2026. Overall, we expect Operating Cash Flow to be just over $40MM, which would be 5% lower than 2025.

As we closely follow supply and demand fundamentals, we are optimistic that 2027 and beyond will be recovery years. Higher interest rates and lower rents have significantly changed the calculus for new development, which has caused a drop-off in new construction. Since new construction typically takes approximately two years to complete and another year to lease up, we would expect a significant drop in new supply, which in turn should start to have a positive effect on our portfolio around the summer leasing season of 2027. Consider the chart below from Witten Advisors on the supply level in the markets in which we are invested:



As another piece of good news, despite the operational challenges outlined above, we did sell some assets in 2025 that turned in respectable overall performances even during this real estate downturn.[1] Those assets, inclusive of the investor returns, were as follows:

- Marquis at Desert Ridge (Phoenix, AZ): 12.76% IRR and 2.66 multiple
- Marquis Midtown District (Atlanta, GA): 10.75% IRR and 2.28 multiple
- Marquis at Memorial (Houston, TX): 9.38% IRR and 2.08 multiple
- Marq Eight (Atlanta, GA): 7.63% IRR and 1.72 multiple
- Marquis at Canyon Ridge (Austin, TX): 13.37% IRR and 2.81 multiple
- Whisper Creek (Lakewood, CO): 9.35% IRR and 1.79 multiple

We also found replacement assets for those investors seeking to exchange in Roanoke, TX (near Fort Worth) and two assets in Houston, TX. Also, we have closed on the first three assets of our latest real estate fund. We strongly believe in the long-term prospects of each of these investments.

In fact, while there is some competition for good assets, we have been pleased at what we have been able to purchase, with pricing being down significantly and well-below replacement cost in this higher interest rate, lower rent environment. As my above chart shows, it would be common sense that more investors would be discarding the recent past and looking ahead to the future, such that pricing would not be as low as we have been finding.

Which allows me to conclude with another Will Rogers quote, “Just because it is common sense does not mean it is common practice.”

[1] Past performance should not be considered an indication of future results. CWS’ complete track record of all recommendations can be found in the back of this annual investor report.