THE PURSUIT OF EQUILIBRIUM

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At CWS, we see our investors as fellow partners in the assets in which we are invested together. We pride ourselves in open, honest, and transparent communications, both with good news and especially bad news, which can be harder to communicate.

After a long-term positive run, it has been a challenging couple of years in apartment investing and real estate in general, manifesting itself at CWS in distribution and valuation reductions for a large portion of our portfolio plus capital calls at some assets. While this has not been fun, I wanted to provide some context.

Apartments are useful as they provide housing for people. While the value of this utility can vary based on underlying supply and demand fundamentals or interest rate environments, this inherent shelter function endures and clearly has value. Contrast this with Bitcoin. It is not simple to determine what someone will be willing to pay you for a token in the future as a medium of financial exchange amid other alternatives. As an asset class, apartments have ***antifragile*** qualities: factors which diminish valuations and cash flow in the short term often have beneficial effects in the longer term, and vice versa.

For example:

Strong Job Growth → High Demand for Housing → Strong Rent Growth → Rise in Apartment Values → More Apartment Supply → Decline in Rents → Lower Apartment Values → Decline in New Apartment Supply → Higher Rents → Rise in Apartment Values

While at the same time,

Strong Job Growth → Strong Rent Growth → *Inflation → Higher Interest Rates → Decline in Apartment Values→ Decline in New Apartment Supply→ Higher Rents → Rise in Apartment Values

*(While rents are not the only driver of inflation, shelter represents about 36% of the Consumer Price Index (CPI), the largest single component of the index.)

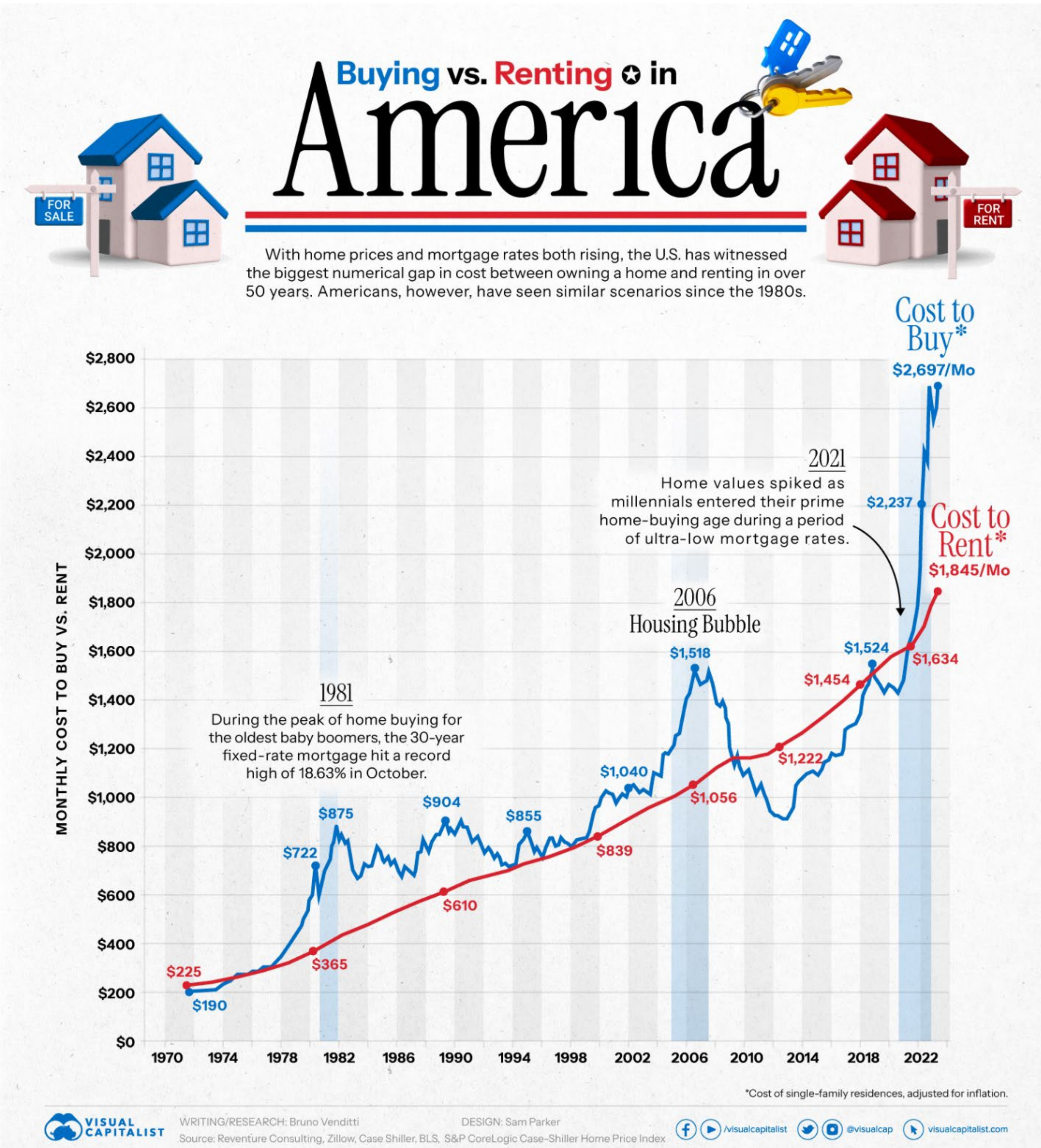
Of course, these factors and their resulting factors can take some time to play out.

In 2021 and early 2022, we saw a unique combination of very low interest rates and very high rent growth which led to significantly higher apartment values, which in turn launched a wave of new apartment supply and contributed to inflation, which led to higher interest rates. The combination of new supply and higher interest rates is now resulting in declining rents, reduced cash flows, a drop in apartment values, and a resulting drop in new apartment starts.

These conditions are setting the table for future rent growth, as rents must grow significantly to produce yields high enough to attract capital to allow for new apartment starts. Correspondingly these conditions present a buying opportunity on a selective basis. High-quality, well-located apartment communities are trading at significant discounts to what they cost to build (replacement cost), which is the price of future competition. Previous windows of purchasing below replacement cost, such as after the Savings and Loan debacle in the early 1990s and after the Global Financial

Crisis (2007-2009), have resulted in outsized returns for investors. We believe now is another one of those times.

Other fundamental indicators are encouraging. With rents headed downward in many of our markets and salaries continuing higher, rent-to-income ratios are quite reasonable at 23% nationally, with room to grow. And the numerical delta in the monthly cost-to-rent versus owning has not been more favorable for renters over the last 50 years, as outlined below.



Compare below the all-in components of renting an apartment versus home ownership in Kingwood, Texas, where we recently purchased a community in Strategic Apartment Fund XV, our latest fund[1]. The monthly costs to rent are about 50% of monthly costs to own a single-family home in the surrounding neighborhoods.

Kingwood Single Family Ownership Costs Versus Apartment Rents					
		Single Family Home		**Two Bed-room Apartment**	**% Compari-son**
Home Price		$350,000			
Down Payment	5.00%	$17,500			
Loan Amount		$332,500			
Interest Rate, 30-Yr Mortgage incl. PMI	7.00%				
Year One Monthly Principal		$293		$0	
Year One Monthly Interest		$1,940		$0	
Monthly Rent				$1,525	
Monthly Property Taxes		$583	2.00%	$0	
Monthly Home/Renter's Insurance		$210		$20	
Monthly Electric		$200		$100	
Monthly Gas		$50		$0	
Monthly Water, Sewer and Trash		$80		$80	
Monthly Internet		$45		$45	
Monthly Repairs and Maintenance		$100		$0	
Total Per Month		**$3,501**		**$1,770**	**50.6%**
Total Per Month, Not Including Principal Payment		**$3,208**		**$1,770**	**55.2%**

[1] *The SAF XV Kingwood illustration is intended to be educational and informational only. It should not be construed as either an offer or recommendation of any security, or personalized investment advice. Offers will only be made with a Private Placement Memorandum. The Kingwood information reflects the Managing Member's conclusions resulting from studies it has made on the economics and operations of the acquisition.*

Should interest rates remain where they are currently, we believe that rents would need to rise over 40% (from $1,368 to $1,935 per month) to justify a yield-on-cost acceptable to new development capital.

Lastly, given the recent history of declining distributions, declining values, and capital calls, industry wide investor sentiment is down, increasing the inclination of some investors to sell and pouring cold water on animal spirits to buy. This negative sentiment has the potential to contribute to the emergence of a good purchasing window.

Below is the annual analysis of same store property performance, with a forecast based on our individual property objectives for 2025:

	SAME STORE ROLL UP (in $ millions)						
Property Count	96						
Unit Count	27,870		22 vs 23		23 vs 24		24 vs 25
	2022	2023	% Change	2024	% Change	2025 Objective	% Change
Market Rent	615.8	590.8	-4.1%	564.7	-4.4%	562.3	-0.4%
Vacancy	(40.8)	(44.6)	9.3%	(37.2)	-16.6%	(35.6)	-4.1%
Gain/Loss to Lease	(84.7)	(25.6)	-69.8%	(5.1)	-80.1%	(2.9)	-42.8%
Model/EE Units	(0.5)	(0.5)	16.4%	(1.6)	192.1%	(1.7)	11.1%
Bad Debt	(4.2)	(5.0)	19.2%	(2.5)	-49.2%	(1.5)	-40.6%
NRI	485.6	515.1	6.1%	518.3	0.6%	520.5	0.4%
Other Income	50.3	53.8	6.9%	52.8	-1.8%	53.8	1.9%
Total Revenues	536.0	568.8	6.1%	571.1	0.4%	574.3	0.6%
Salaries	45.2	49.1	-8.6%	49.4	-0.6%	54.7	-10.7%
Mktg/Adv	5.6	6.3	-12.0%	6.5	-3.7%	6.1	6.5%
Turnover	8.5	8.9	-5.6%	8.2	8.4%	8.1	1.1%
R&M	7.3	7.9	-8.5%	8.7	-9.7%	8.1	6.0%
Prof Svcs	13.5	15.1	-11.6%	14.8	1.6%	14.6	1.5%
G&A	9.7	11.7	-20.9%	10.8	7.3%	12.4	-14.4%
Utilities	31.3	32.7	-4.6%	33.2	-1.6%	34.3	-3.3%
Taxes	91.8	90.4	1.6%	87.5	3.2%	94.5	-8.0%
Insurance	10.7	15.9	-49.0%	17.5	-10.2%	18.4	-4.9%
Mgmt Fees	17.2	18.1	-5.5%	18.2	-0.2%	18.3	-0.8%
Retail Expenses	1.8	2.0	-11.3%	1.8	9.0%	1.7	5.9%
Total Expenses	242.5	258.2	-6.4%	256.7	0.6%	271.3	-5.7%
NOI	293.5	310.7	5.9%	314.4	1.2%	303.1	-3.6%
Interest Payments	102.1	195.8	-91.8%	225.2	-15.0%	187.9	16.5%
Principal Payments	6.5	5.7	11.4%	5.9	-3.0%	6.7	-13.2%
Other Exp	13.4	17.3	-29.1%	20.2	-16.9%	17.1	15.2%
Capex	58.4	48.9	16.2%	40.6	17.1%	47.9	-18.1%
Reserves for Rate Caps less Reimbursements	(5.9)	3.3		(14.8)		2.3	
Operating Cash Flow	119.0	39.6	-66.7%	37.4	-5.6%	41.1	9.8%

We are forecasting relatively flat revenues for 2025 due to the relatively large amount of new supply we are experiencing in many of our markets. Select expense items have been well above inflation in terms of growth. In Salaries, we budget for full staffing at each of our properties, although we know we will have some turnover and staffing gaps, so likely we will outperform as a portfolio in this category. G&A expenses are up a relatively large percentage due to several factors:

- we had several projects budgeted in 2024 for which we delayed the rollout to 2025,
- we had some multi-year software contracts come up that expired this year and received renewal increases,

- and we have a number of new initiatives, such as our National Meeting (every other year), de-escalation training, and some new computer hardware and software.

We continue to be focused on expense control. I am pleased to report that both controllable expenses and total expenses in 2024 came in slightly lower than 2023, after 2023 had sizable expense increases over 2022. Also, we recently learned that our insurance pricing would come in 22% less than our 2025 objective, a good start to the year. On the debt side of the equation, we expect to see a decline in interest expense this year after significant increases the previous several years. Declining rates will result in lower rate cap reimbursements than we received last year.

When will the portfolio be able to generate healthy distributions again? As we can see above, we expect net operating cash flow to only improve slightly in 2025. The effects of lower oncoming supply should be felt starting in the second half of 2026, paving the way for rent growth and hopefully increased distributions starting in 2027[2]. We still have some assets that will need additional cash via lender groups or capital calls, which we are doing our best to hold to a minimum. On the positive side, we do not have any loan maturities occurring in 2025 that will require a large cash infusion. Also, should a decline in national employment materialize, pressure will mount to lower short-term rates, which would likely be a net positive for our portfolio cash flow given our exposure to variable-rate debt.

Thank you for trusting CWS with your hard-earned capital. We take this responsibility very seriously and will continue to work hard every day to continue to earn your trust.

***Disclosures:** Past performance is not necessarily indicative of future results. There can be no assurance that any investment opportunity with CWS will be able to implement its investment strategy, achieve its investment objectives, or avoid substantial losses. All investments carry some degree of risk.*

[2] *Future forecasts require accurate and reasonable estimates still subject to various risks and uncertainties. The company believes the forecasted numbers are attainable and reasonable, however actual results will vary.*