

QUARTERLY UPDATE

CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

CWS

CALENDAR OF EVENTS

May 25, 2026

Memorial Day Holiday
CWS Offices Closed

June 15, 2026

2nd Quarter 2026 Est. Tax Payments Due

July 3, 2026

Independence Day Holiday (Observed)
CWS Offices Closed

July 31, 2026

2nd Quarter 2026
Quarterly Reports & Distributions

September 7, 2026

Labor Day Holiday (Observed)
CWS Offices Closed

September 15, 2026

3rd Quarter 2026
Estimated Tax Payments Due

October 15, 2026

2025 Tax Return Extensions Due

October 30, 2026

3rd Quarter 2026
Quarterly Reports & Distributions

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THE AGE OF EXECUTION: STEWARDSHIP IN THE TRENCHES

By Gary Carmell



There are moments in a cycle when optimism is the wrong signal.

This is one of those moments.

In past years, we often ended our Annual Investor Meeting by talking about opportunity—about why apartments remained an attractive long term investment and how periods of disruption historically sow the seeds for future gains. While those statements may still be true in a broad, theoretical sense, they are not the signal we want to send right now. What investors deserve today is not encouragement or reassurance. They deserve clarity, sobriety, and confidence rooted in competence.

This is not the age of optimism. It is the age of execution.

How We Got Here—And Why It Matters

Beginning in 2022, we made the decision to proactively reduce distributions. That decision was not driven by panic or short term thinking. It was driven by math.

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At the time, our interest rate hedges—very lucrative ones—were expiring just as the Federal Reserve was embarking on the most aggressive interest rate hiking cycle in decades. Over 80% of our debt was floating rate. We knew, with a high degree of certainty, that our cost of debt service was going to increase materially. At the same time, the cost of replacing those interest rate caps was rising dramatically—far beyond historical norms.

We faced a choice. We could maintain distributions and hope conditions improved, or we could conserve cash, protect liquidity, and absorb the near term disappointment. We chose the latter.

It was not an easy decision. Distributions are tangible. They are the most visible expression of progress and reducing them feels like a failure even when it is the prudent course of action. But stewardship is not about avoiding discomfort; it is about acting responsibly before circumstances force your hand.

The Second Headwind: Supply

At the same time we were managing interest rate risk, another powerful dynamic was taking hold in the apartment market.

Record rent increases in 2021 and early 2022 sent a strong signal to developers. The economics of building new apartments suddenly looked incredibly attractive. Developers could construct properties with stabilized yields far higher than what those assets could ultimately be sold for—and still make tremendous profits. Predictably, capital flowed in.

What followed was a generationally large wave of new supply.

As these properties came online, developers needed to lease up quickly. Many were carrying construction loans with completion deadlines, partial repayment requirements, and personal guarantees. The result was an environment where incentives became the primary tool for absorption. Free rent, discounted rents, and aggressive concessions became widespread—particularly in markets like Austin, which emerged as the epicenter of new supply.

This dynamic had predictable consequences. Rents softened, and in some submarkets declined outright. At the same time, turnover began to fall. The economics of buying a home became increasingly prohibitive, and many residents chose to stay put rather than face higher mortgage rates, down payments, and transaction costs.

That helped our renewal rent rolls. Existing residents were often willing to pay higher rents to

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stay, even as new lease rents were under pressure due to competition. But that dynamic alone was not enough to offset the broader headwinds.

Costs, Reality, and the Limits of Forecasting

Layered on top of supply pressures were rising costs across nearly every line item: labor, insurance, property taxes, marketing, and capital expenditures. In that environment, simply keeping Net Operating Income flat became an achievement. In many cases, NOI declined.

Public markets reflected this reality. Apartment REITs fell approximately 31% from their early 2022 peak. That number, however, masks the true pain experienced by investors who bought assets during that period using more conventional leverage. In those cases, equity values have declined by 50%—and in some extreme cases, have been fully impaired.

Despite this, apartment REITs have continued to struggle. Earnings estimates have been repeatedly revised downward as expectations for a recovery have been pushed further into the future. Forecasts that once seemed reasonable have proven overly optimistic. For example, Green Street reduced its forecast for NOI growth by approximately four percentage points compared to just one year earlier—a meaningful miss by any standard.

The economics of building new apartments now make very little sense. Yet enough supply remains in the system that pricing power for landlords is still constrained. Adding to the uncertainty are slowing job growth—recently revised down to essentially zero—and a meaningful decline in immigration, particularly illegal immigration which has now led to an outflow of people self-deporting. Demand has become far more price sensitive, and many of the models we relied on in the past are less reliable today. Too much has changed.

This is not a complaint. It is a statement of reality.

The Most Valuable Customer Is the One You Already Have

In environments like this, it becomes tempting to look for clever solutions—new strategies, financial engineering, or sweeping operational changes. But the real opportunity is far more basic, and far more demanding.

The most valuable customer in this environment is the one who is already living in our communities.

Retention matters more than growth. Pride of place matters more than pricing power. People who feel respected, comfortable, and confident in where they live are far less likely to move—

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even if they can save a modest amount of money elsewhere. Switching costs are not purely financial; they are emotional and psychological.

This places an extraordinary premium on execution. Our communities must look pristine. Customer service must be outstanding. Residents must feel known, valued, and well cared for. Prospective residents must be warmly welcomed and leave with a strong desire to call the community home.

There are no shortcuts here. This is craft, not cleverness.

Where Real Savings Come From—and Where They Don't

In challenging environments, cost control becomes essential. But not all cost reductions are created equal.

The most meaningful opportunities today come from aggressively fighting property taxes, leveraging our scale to secure cost competitive insurance, and managing capital expenditures with discipline and intention. These efforts require expertise, persistence, and strong relationships. They do not lend themselves to dramatic headlines, but they matter enormously.

What does not work is wholesale workforce reduction. Unlike some industries, we were never materially overstaffed. There is no 20% cut to be made without undermining service quality—and service quality is precisely what protects value in this environment.

We cannot cost cut our way to prosperity. We must execute our way there.

The Question Everyone Asks: Distributions

The question we hear most often is simple and understandable: When will distributions increase—and when might they return to 2020 levels?

Regarding the latter, it is important to be direct. A return to 2020 distribution levels is not realistic anytime soon. At that time, our floating rate index was near zero. Today, it is closer to 3.75%, and it is unlikely to return to those levels in the foreseeable future. Costs have increased materially, and rents have not.

For distributions to increase meaningfully, several conditions must be met. Submarkets need to reach occupancy levels of approximately 94% or higher. Lease ups must be limited to one or two properties at most. Concessions need to be minimal to nonexistent. These are not precise thresholds; they are directional markers. False precision is seductive but misleading.

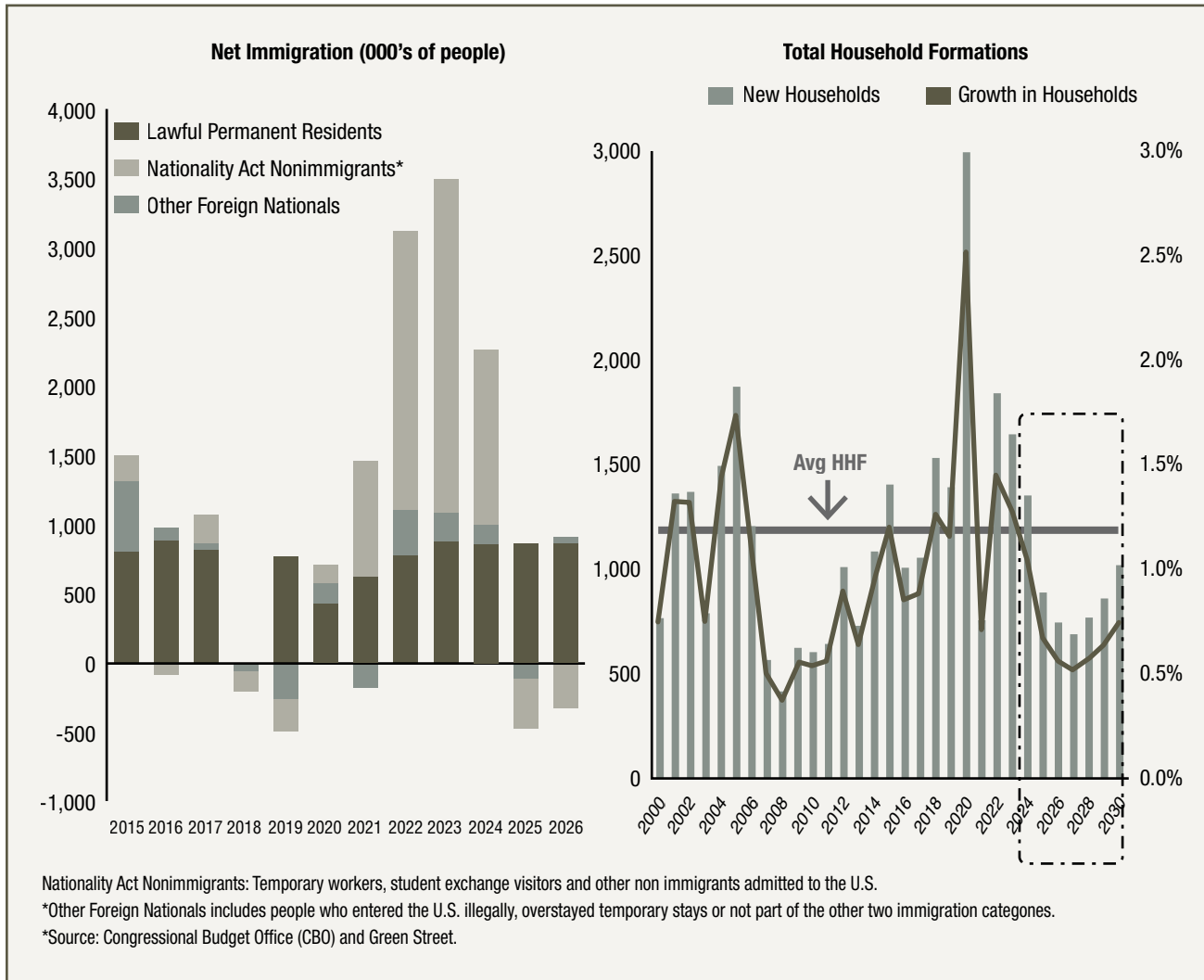
We had hoped that 2026 might mark a turning point. Today, it may be 2027. If we are being

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brutally honest, the correct answer is that we do not know.

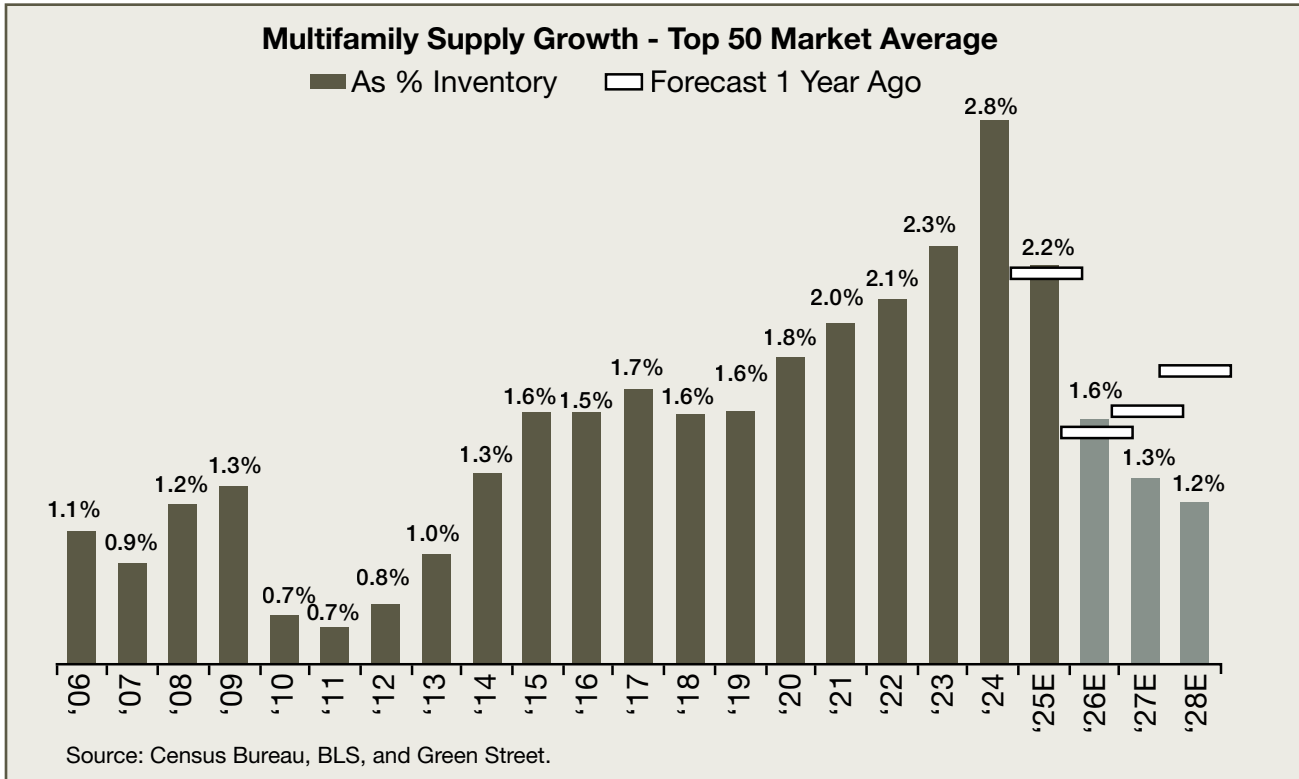
What we do know is what to watch—and we are watching closely.

If I were to pick two charts from my presentation at our recent annual partners meeting to convey why demand models were so far off it would be these two.



The chart on the left tracks annual immigration. One can see the explosive increase that occurred between 2021 and 2024 was a result of illegal immigration. That has now evaporated and gone into reverse. In hindsight it now appears that the huge increase in apartment supply, which is shown below, may have been in response to temporary demand that is now reversing.

We need supply to drop even more than initially thought necessary to reach stabilized occupancy in order for property owners to regain pricing power in the face of diminished demand.



Vintage Challenges and Stewardship

The bulk of our portfolio is healthy. A subset is vintage challenged.

Properties acquired in 2021 and 2022 face the dual burden of being purchased when interest rates were low and capitalization rates were at historic lows. While we were aggressive sellers during that period, we also executed 1031 tax deferred exchanges for investors who wanted to defer taxes. That meant selling at the top—and buying at the top.

In addition, some urban properties have been negatively impacted by the decimation of the office economy. Approximately 12% of the portfolio has required additional capital support.

Our responsibility is to steward these properties through rough seas and into calmer waters. That requires time, patience, capital, and emotional fortitude. It is not glamorous work, but it is necessary.

Capital Flows: Context Matters

Between 2022 and 2026 (includes a projected \$65 million of distributions assuming no sales or refinances), we have returned approximately \$792 million to investors through quarterly distributions as well as sales and refinances. Those distributions are down more than 50% from their peak, but they are not insignificant.

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Offsetting those distributions have been capital calls of approximately \$31 million, with an additional \$15 million projected for 2026. While capital calls are never pleasant—particularly for investors concentrated in 2021 and 2022 vintages—it is important to recognize that we have returned significantly more capital than we have asked for and that the cumulative capital calls represent approximately 1.5% of portfolio equity.

Perspective matters.

The Work Ahead

Looking forward, we have five loans maturing in 2026, 20 in 2027, and 11 in 2028. That is a substantial body of work. Some of these loans present challenges, some are neutral, and some represent opportunities to improve cash flow or reduce debt service.

Over the past two years, we have already refinanced 27 properties, placing them on firmer financial footing. Each refinance requires careful structuring to ensure that cost, terms, and loan duration align with our investment horizon while minimizing the need for additional investor capital.

This is where experience matters. This is where reputation matters. This is where deep organizational talent matters.

The Signal We Want to Send

In past years, we might have emphasized the opportunities that arise in challenging environments. Today, we know that what investors want most is assurance that their capital is being protected—that a bridge is being built from today's challenges to tomorrow's rewards through recurring distributions and long-term value creation.

We are now firmly in the age of execution. We cannot rely on lower interest rates or higher multiples to compensate for operational shortcomings. Everything must be earned.

We have navigated many economic and financial cycles since our origins began in 1969. That history does not make us immune to pain, but it does give us perspective and discipline. There is no better group to be in the trenches with.¹

Socrates said that true wisdom lies in recognizing one's own ignorance. We do not know when conditions will turn. We do know what matters in the meantime.

And we are doing the work.

¹ All investments face uncertainties and actual results may differ materially from financial plans and forecast results.

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