

# QUARTERLY UPDATE

## CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

# CWS

### CALENDAR OF EVENTS

March 13, 2026  
Year 2025 K-1  
Target Mail-by Date

March 31, 2026  
CWS Annual Partners Meeting

April 3, 2026  
Spring Holiday/Good Friday  
CWS Offices Closed

April 15, 2026  
2025 Federal/State Tax Filing Deadline  
1<sup>st</sup> Quarter 2026 Est. Payments Due

April 24, 2026  
1<sup>st</sup> Quarter 2026  
Quarterly Reporting & Distributions

May 25, 2026  
Memorial Day Holiday  
CWS Offices Closed

June 15, 2026  
2<sup>nd</sup> Quarter 2026 Est. Tax Payments Due

July 3, 2026  
Independence Day Holiday (Observed)  
CWS Offices Closed

July 31, 2026  
2<sup>nd</sup> Quarter 2026  
Quarterly Reports & Distributions

CWS  
Enhancing Lives  
55+  
Years

www.cwscapital.com

# SHARPSHOOTING IN 2026: DISCIPLINE OVER GROWTH

By Gary Carmell



The multifamily investment landscape in 2026 is defined by complexity: elevated supply pipelines, recalibrated rent expectations, and shifting tenant behavior. For firms like CWS, this environment demands precision, patience, and a commitment to underwriting discipline. This article explores why “structured inactivity,” as Charlie Munger famously advocated, is not a sign of weakness but a strategic advantage—and how our approach positions us to capitalize on opportunities others may miss.

## The Market Backdrop: A New Era of Multifamily Investing

For much of the past decade, multifamily investing has been buoyed by strong demographic trends, migration to the Sunbelt, and historically low interest rates. These tailwinds created an environment where growth seemed inevitable and

Continued on Page 2

*Continued from Page 1*

capital flowed freely. Today, the picture looks very different:

- **Supply Surge:** The U.S. is on track to deliver over 548,000 units in 2025, followed by 430,000 in 2026. Many of these completions are concentrated in Sunbelt metros—Austin, Phoenix, Nashville, and Tampa—where inventory growth has already exceeded 6% in some submarkets.
- **Demand Moderation:** Job growth and migration patterns have slowed from pandemic highs. Phoenix posted just 0.4% job growth through August 2025, well below historical norms.
- **Cost Pressures:** Insurance premiums have risen by 75% per unit since 2019, property taxes remain aggressive, and financing costs have reset higher. These structural changes compress margins and challenge traditional underwriting assumptions.

The easy money era is over. The firms that thrive in this environment will be those that embrace discipline and resist the temptation to chase deals that don't meet rigorous criteria.

## **Why Discipline Matters More Than Ever**

Charlie Munger once said that Berkshire Hathaway's competitive advantage was its "extreme rationality." The company was structured for disciplined inactivity, enabling it to act decisively when opportunities with asymmetric rewards emerged. At CWS, we share that philosophy.

Our business model naturally inclines us toward optimism as we have had a very solid track record investing in apartments for over 35 years<sup>1</sup>. But optimism without guardrails can be dangerous. For this reason, we have to be extremely disciplined in our underwriting and see a path to having a yield on cost that exceeds 6% within four years. This assumes that there is not a material change in interest rates and that the operating environment for the next two years will remain competitive.

## **Concessions: The Sun Around Which Sunbelt Apartments Orbit**

*GlobeSt* recently described today's leasing environment as a "narrow but intense concessions problem," concentrated in a handful of Southern and Western markets. Double-digit concessions are not universal, but where they exist, they exert gravitational force on pricing and absorption dynamics. In other words, Sunbelt apartment communities are orbiting around the sun of concessions.

Trepp, which is a leader in providing data, insights, and technology solutions to structured finance in real estate, reinforces this point:

<sup>1</sup> CWS' full track record can be found online. A copy can also be requested from investor relations at [investorrelations@cwscapital.com](mailto:investorrelations@cwscapital.com). Future results could differ materially from historical performance.

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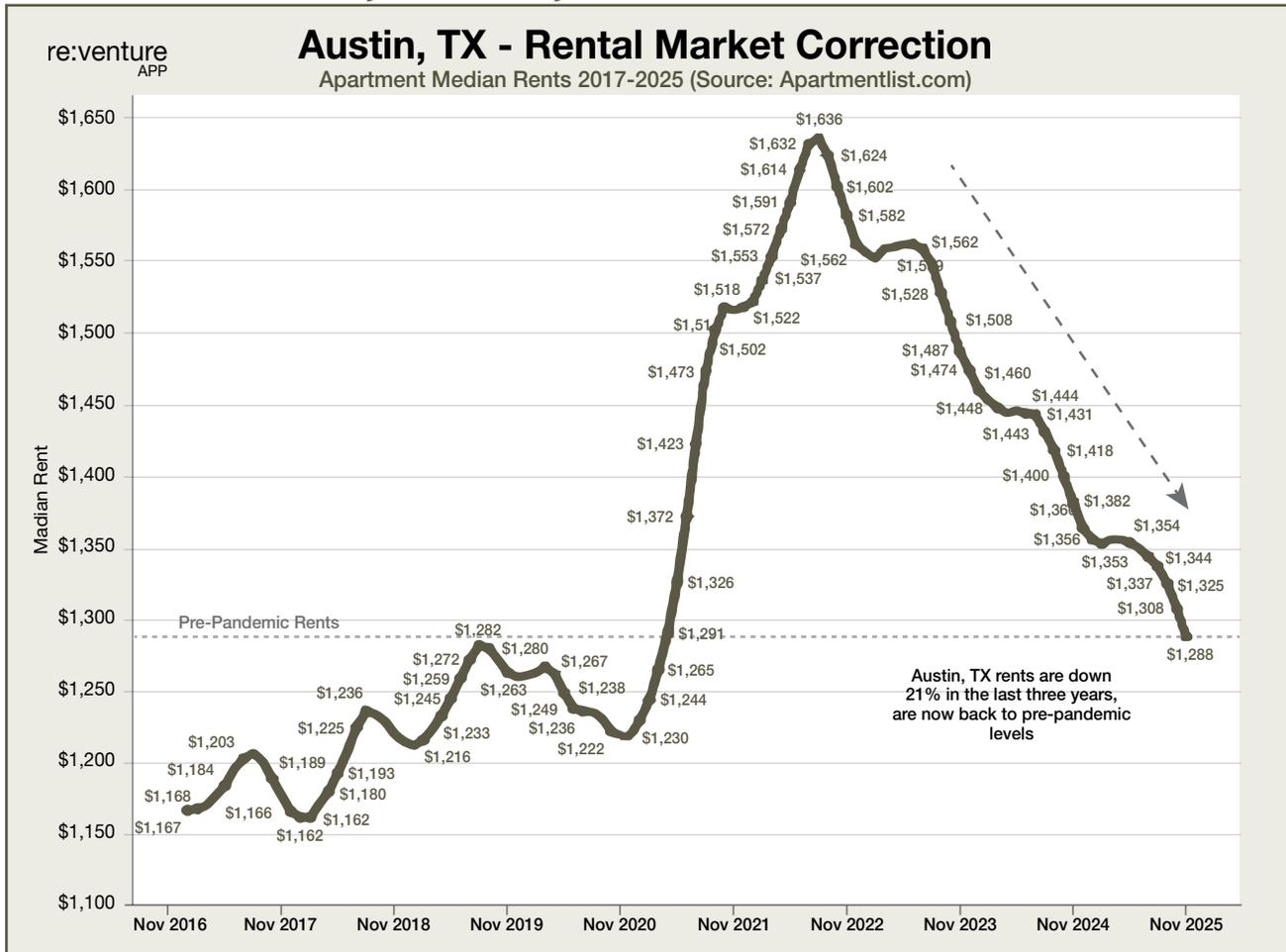
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“Rent concessions will remain a key indicator as the market works through a significant volume of new supply, recalibrated rent expectations, and shifting tenant behavior. With economic vacancy, absorption trends, and cash flow visibility becoming increasingly important for underwriting, concessions will continue to signal real-time competitive pressure.”

And Yardi’s November Multifamily Report adds more color:

- Four consecutive months of negative rent movement nationally, with November rents down \$8 to \$1,740.
- Year-over-year growth is barely positive at 0.2%—the weakest since early 2021.
- High-supply markets are leading declines: Austin (-5%), Phoenix and Denver (-4.1%), Las Vegas (-2.1%), Dallas (-2%).
- Occupancy is holding at 94.7%, but absorption is the weakest in several years, signaling that concessions will remain a competitive lever until demand catches up.

### Austin: A Case Study in Gravity



Source: @nickgerli1

Continued on Page 4

The graph on the previous page illustrates Austin's dramatic rent correction:

- Median rents peaked at \$1,636 in late 2022 and have since fallen 21%, returning to pre-pandemic levels near \$1,288.
- This decline underscores the risk of underwriting aggressive rent growth assumptions in supply-heavy markets.

Austin is not an outlier—it's a warning. When rents retrace to pre-pandemic levels, concessions become the gravitational center of leasing strategy. Until absorption improves and concessions burn off, underwriting must assume flat or negative rent growth and elevated marketing costs.

And while Austin's very challenging apartment market makes it difficult to underwrite new acquisitions because of the prevalence of concessions, it's just these conditions that can also produce compelling investment opportunities under very specific circumstances. As an example, we recently identified a property meeting our criteria in a redeveloped area of Austin. The seller is facing pressure from one of its capital providers to generate liquidity and has no choice but to sell. CWS has a strong reputation in Austin for being a very reliable buyer which enabled us to put the property under contract at what we believe is a fair price. At the same time, however, to mitigate our risk and improve our return profile, we made a condition of closing that we obtain approval from the Housing Authority of the City of Austin to enter this property into its affordable housing program in exchange for substantial property tax relief (net of payments to the housing authority). This will increase cash flow substantially and provides an important financial buffer should market conditions weaken.

It's important not to paint a metropolitan area with too broad of a brush as there can be parts that are doing much better than the overall MSA. Urban Austin is an example of this as it is doing relatively well as its lack of supply and resurgence in the aftermath of Covid has led to a substantial improvement in renter demand such that concessions are far less prevalent in the urban core than in the much more saturated suburban nodes. As a result, apartment owners are able to increase rents with less resistance.

### **The Ruthless Reality of Underwriting**

Trepp warns that "Underwriting will be ruthless about who gets refinanced." That same ruthlessness applies to acquisitions. Lenders are tightening standards, CMBS delinquency rates hover around 7%, and refinancing risk looms large for owners who underwrote aggressive rent growth and low capex assumptions.

Continued from Page 4

This environment creates two implications for CWS:

1. **We must underwrite as if we are the lender.** That means stress-testing deals for negative rent growth, elevated operating expenses, and refinancing at higher rates.
2. **Distress will create opportunity.** Owners who fail to meet these ruthless standards will be forced to sell, often at discounts to replacement cost. For disciplined buyers, this is where asymmetric returns emerge.

## Long-Term Tailwinds: Migration and Market Fundamentals

While near-term pricing leverage belongs to residents, the longer-term outlook remains favorable. Construction starts are contracting, and these pro-business, high-quality-of-life metros will continue to grow faster than the rest of the country. Demand should ultimately exceed new supply.

U-Haul Growth Metros	
1. Dallas, TX (1)	6. Nashville, TN (6)
2. Houston, TX (9)	7. Charleston, SC (13)
3. Austin, TX (5)	8. Raleigh, NC (7)
4. Charlotte, NC (2)	9. Atlanta, GA
5. Phoenix, AZ (3)	10. Brownsville & McAllen, TX (21)

Consider the latest U-Haul Growth Metros ranking, which highlights where Americans are moving:

Note: The numbers in parentheses represent the 2024 rankings.

### Eight of the top ten growth metros are CWS markets:

- Dallas (#1)
- Houston (#2)
- Austin (#3)
- Charlotte (#4)
- Phoenix (#5)
- Nashville (#6)
- Raleigh (#8)
- Atlanta (#9)

This migration trend reinforces our conviction: while concessions dominate headlines today, these markets' structural advantages—job growth, affordability, and lifestyle appeal—will drive long-term demand.

## Opportunity Amid Challenge

Periods of dislocation often produce the best buying opportunities for those who wait. As supply moderates and demand stabilizes, concessions will burn off, occupancy will firm, and pricing power will return—especially in markets with strong long-term fundamentals.

By maintaining discipline now, we preserve the capital and courage to act boldly when those conditions materialize. That is the essence of sharpshooting.

Continued on Page 6

*Continued from Page 5*

## **Closing Thought**

2026 is not about chasing growth; it's about earning it through precision. For investors aligned with our philosophy, this is a moment to lean into discipline—not retreat from opportunity. As Charlie Munger reminded us, “The big money is not in the buying or the selling, but in the waiting.” At CWS, we are prepared to wait—and to strike when the odds are decisively in our favor<sup>2</sup>.

We will be intensely focused on identifying submarkets with minimal new supply, improving absorption, and concessions trending down. This combination represents a set of conditions that can shift pricing power from residents to owners such that apartment owners can begin to earn competitive rates of return on their capital.

## **What We're Watching in Q1 2026**

- **Concession Burn-Off:** Are incentives declining in key Sunbelt submarkets?
- **Absorption Trends:** Is demand catching up with supply in Austin, Phoenix, and Nashville?
- **Refinancing Pressure:** Which owners face maturity cliffs under today's ruthless underwriting?
- **Distress Signals:** CMBS delinquency rates and lender tightening as catalysts for opportunity.

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<sup>2</sup> All investments face uncertainties and actual results may differ materially from financial plans and forecasted results.

