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Quarterly Update

CWS Capital Partners LLC

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CALENDAR OF EVENTS

September 7, 2026
Labor Day Holiday
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

November 26-27, 2026
Thanksgiving Holiday and Day After
CWS Offices Closed

December 25, 2026
Christmas Holiday
CWS Offices Closed

January 1, 2027
New Year's Day Holiday
CWS Offices Closed

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SATISFICING IN A CONSTRAINED WORLD: HERBERT SIMON'S WISDOM FOR THE MODERN APARTMENT INDUSTRY

By Gary Carmell

When we talk about making good decisions—whether in business or in life—we often fall into a familiar trap. We envision ourselves as masters of optimization, carefully weighing every variable, considering every possibility, and arriving at some theoretical best answer. This image of the rational actor, calmly computing the optimal solution to complex problems, has dominated economic theory for generations. But Herbert Simon, the economist, psychologist, and polymath whose work forms the intellectual foundation of Alex Epstein's Inside the Box, spent much of his career dismantling this myth. Simon's great insight was both humbling and liberating: we don't optimize. We satisfice. And in increasingly constrained environments, this seemingly humble strategy becomes not just reasonable, but essential to survival and success.

Satisficing, for those unfamiliar with Simon's terminology, means pursuing a course of action that is "good enough"—

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that meets your established criteria for success—rather than endless searching for the theoretically perfect solution. It's a recognition of bounded rationality, of the limits on our time, our information, our computational capacity, and our ability to predict the future. Rather than paralyzing ourselves with the impossible task of optimization, we set our aspirations at a satisfactory level and commit ourselves to achieving that goal efficiently. In Simon's framework, constraints are not obstacles to be overcome; they are the scaffolding upon which effective decision-making is built. The presence of limits forces clarity about what actually matters, eliminates noise, and focuses our energy on where it can create real value.

This philosophy feels especially relevant to our moment in the apartment ownership and management industry. Over the past few years, we have undergone a profound education in how macro-environmental shifts demand fundamental changes in our decision-making approach. The lessons we've learned through our refinancing efforts—completing 24 loan refinances in the past two years—reveal a business that has learned to embrace constraint as a strategic advantage rather than viewing it as a frustration to be conquered.

The Previous Environment: Optimization in a Supportive World

For years—and especially through 2021 and into 2022—we operated in what we might call an optimizer's paradise. Interest rates were low and seemed likely to remain so for the foreseeable future. Our underwriting assumptions reflected this view: the assets in our portfolio were underwritten at interest rate levels that assumed a continuation of the accommodative monetary policy that had prevailed for more than a decade. Property values were appreciating. The macro environment was demonstrably supportive of real estate investment. Under these conditions, our portfolio of floating-rate loans was an elegant strategy—it represented a genuine attempt to optimize. Rates were likely to stay favorable or decline further, so maintaining exposure to rate declines made mathematical sense. We could afford to be patient, selective, and comprehensive in our approach to refinancing. We could wait for the absolute best rate, the most favorable terms, the most flexible covenants. The environment rewarded this optimization mindset because the future seemed to offer only opportunities.

This was not reckless behavior; it was rational decision-making perfectly calibrated to the information and constraints we faced at that time. We gathered data, we analyzed trends, and we made strategic choices based on our understanding of where the world

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was headed. And for a considerable period, this approach worked beautifully. The question that we should have been asking ourselves, of course, was what would happen when the environment changed—because eventually, it always does.

The Inflection Point: When Optimization Became Impossible

The shift in the macro environment began in April 2022, when the Federal Reserve started raising short-term rates far sooner and more aggressively than it had telegraphed to the markets. What unfolded over the subsequent months was nothing short of dramatic. Interest rates have moved higher in ways that have fundamentally altered the risk calculus for floating-rate debt. While rates have moderated from their peak, they remain substantially higher than the levels at which much of our portfolio was underwritten in 2021 and 2022. Property values have declined meaningfully from their highs. And the apartment market, which had seemed perpetually supply-constrained for over a decade, has shifted toward overbuilding in many key markets. The operating fundamentals across our portfolio remain challenged. Most critically, the interest rates on new loans being originated are now higher than the rates on loans maturing from our portfolio—a dynamic that makes simple rate-and-term refinances impossible without either accepting materially worse economics or bringing additional capital to the transaction. The cozy assumptions underlying our previous strategy were no longer valid. Suddenly, the environment that had rewarded patient optimization was now punishing it.

This transformation presented us with a challenge that optimization cannot solve: radical uncertainty about future conditions. When you don't know what the next 12 months will bring, when loan terms are uncertain, when underwriting standards are in flux, and when lender appetite for risk is variable, the traditional optimization framework breaks down entirely. You cannot optimize your way through profound uncertainty. No amount of computational power, no refinement of your analysis, no patience in your deliberations will reveal the "best" answer when the future is genuinely unknowable.

This is where Herbert Simon's insight becomes not just intellectually interesting, but practically essential. When optimization fails you, satisficing becomes your strategy.

The Satisficing Pivot: Clearing the Deck in Turbulent Times

Our response to this changed environment has been, in retrospect, an almost textbook application of Simon's philosophy—even if we weren't consciously framing it in those

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terms. We made a conscious decision to shift from asking "what is the optimal refinancing strategy?" to asking "what is good enough to get this maturity resolved without requiring additional capital from our investors?" This reframing changed everything about how we approach these transactions.

Where we once might have waited for perfect rate conditions or held out for terms that were marginally more favorable, we now focus relentlessly on execution speed and certainty. The constraint we've imposed upon ourselves is clear: we will refinance when loan proceeds are sufficient to clear the maturity without triggering additional capital calls. This is not a loose or vague constraint. It is a bright line that forces discipline and clarity into every decision we make. When rates and underwriting standards align with this criterion, we move. We don't ask whether we might get a better rate in another quarter. We don't hold out for terms we might negotiate in a more favorable moment. We solve the problem in front of us.

This approach might seem like we're settling for less. In some technical sense, we probably are—we're likely not getting the absolute best rate available, and the terms might not be optimal in an abstract sense. But we've gained something far more valuable: we've gained the certainty of not facing a crisis refinance at maturity. We've gained the ability to move at the speed required by current market conditions. We've gained clarity about which problems are solved and which ones remain on our agenda. And most importantly, we've preserved capital for our investors rather than calling for additional funding in a deteriorating environment.

This is satisficing at its finest. It recognizes that in constrained environments—which every real environment is, if you're honest about it—the pursuit of perfection becomes the enemy of effectiveness. The perfect becomes the enemy of the good, and the good-enough becomes the pathway to survival.

The Road Ahead: Lessons Applied to Remaining Challenges

The maturity schedule through the end of 2027 represents the next chapter in this unfolding story. We have learned hard lessons from the first wave of refinances, and those lessons will inform how we approach the challenges that remain. We have a large number of loan maturities still ahead of us, and the competitive, uncertain environment that forced our strategic pivot is likely to persist. If anything, we must prepare ourselves for conditions that are even more constrained—tighter lending standards, potentially less

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favorable market conditions, greater uncertainty about future interest rate trajectories.

But we now have something we didn't have before: a clear decision framework rooted in satisficing rather than optimization. We understand that our job is not to find the theoretically best refinancing path for each maturity. Our job is to establish clear criteria for what "good enough" looks like, to move decisively when those criteria are met, and to avoid the paralysis that comes from perpetually searching for better conditions. We will apply what we've learned about market dynamics, about lender behavior, about underwriting standards, and about the realistic bounds of our negotiating position. We will refuse to be distracted by what might have been possible in better times.

This approach also means we must be more disciplined about sequencing and timing than ever before. We cannot refinance everything at once; market conditions and lender appetite have constraints of their own. So we must prioritize clearly. Which maturities present the greatest risks if unresolved? Which properties have the strongest fundamentals and will be most attractive to lenders? Which loans, if not addressed, will create cascading problems for other parts of the portfolio? These are the questions that should drive our sequencing, not the abstract appeal of waiting for better market conditions.

The constraint of a changing and uncertain environment will force us to be more creative about solutions, more collaborative with lenders, more flexible in our structuring, and more decisive in our execution. These are not weaknesses imposed upon us; they are precisely the conditions under which entrepreneurial thinking flourishes. In Inside the Box, Alex Epstein explores how constraints are not limitations on creativity but rather its essential fuel. When you cannot optimize, you must innovate. When you cannot wait for perfect conditions, you must think cleverly about how to structure solutions that work within the constraints of the moment. This is where we find ourselves now.

The Philosophy Behind the Practice

There is a deeper principle at work here that extends beyond the practical mechanics of loan refinancing. Herbert Simon was fundamentally arguing for a different way of thinking about what it means to make good decisions and to live effectively. The world does not present us with optimization problems; it presents us with sequences of decisions to be made under uncertainty and resource constraint. The person who waits endlessly for perfect information, perfect conditions, and optimal outcomes is the

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person who accomplishes little. The person who sets clear standards for what is good enough, who commits to action when those standards are met, who views constraints as clarifying rather than paralyzing—that person gets things done.

This philosophy applies with special force to those of us in leadership positions. We are responsible not just for our own decisions but for creating environments in which our teams can make effective decisions. When we frame everything as an optimization problem requiring infinite deliberation, we paralyze people. When we acknowledge constraint, clarify our criteria for success, and empower people to move decisively once those criteria are met, we unlock their judgment and effectiveness. We also send a powerful message: in this organization, we are builders and problem-solvers, not perpetual analyzers. We understand that the best decision now beats the optimal decision too late.

Our journey through the first wave of refinances in a transformed environment has been, in many respects, a masterclass in what this looks like in practice. We have had to abandon the luxury of optimization and embrace the discipline of satisficing. We have had to convert constraints—tight lending markets, elevated interest rates, reduced lending appetite—into clarity about what we're trying to accomplish and how we'll know when we've succeeded. We have had to move decisively when conditions allowed, rather than waiting for conditions we know won't return. And we have preserved our financial flexibility and our investors' capital in the process.

The maturities ahead of us will test whether we can sustain and deepen these insights. If we can bring the same clarity of purpose, the same willingness to satisfice rather than optimize, and the same commitment to decisive action that has characterized our recent refinancing efforts, we will navigate this period successfully. We will clear our maturity schedule. We will preserve financial flexibility. And we will emerge with an organizational culture that has learned to thrive precisely because it has learned to embrace constraints rather than resist them. That is Herbert Simon's great gift to us: not a formula for optimization that will never work in the real world, but permission—and indeed, a clear prescription—to focus on what is good enough, and to act with confidence once we know we have found it.