Volume 39, No. 3, October 31, 2025

QUARTERLY UPDATE

CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

CWS

CALENDAR OF EVENTS

November 14, 2025 (New Date)
CWS Mid-Year Investor Update Webinar

November 27-28, 2025
Thanksgiving Holiday and Day After
CWS Offices Closed

December 25, 2025
Christmas Holiday
CWS Offices Closed

January 1, 2026
New Year's Day Holiday
CWS Offices Closed

January 15, 2026
4th Quarter 2025
Est. Tax Payment Due

January 30, 2026
4th Quarter 2025
Quarterly Reporting & Distributions

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

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

April 24, 2026
1st Quarter 2026
Quarterly Reporting & Distributions
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MINING FOR (DEBT) YIELD

By Gary Carmell

There have been positive changes in the debt markets, particularly for borrowers with floating-rate loans, now that the Fed has resumed cutting short-term rates. In addition to the September cut carried out by the Fed, the market is expecting the Fed to cut in October and December as well. This has two beneficial effects. The first is the obvious one that the lower interest rate reduces debt service and shrinks the premium of floating-rate loans compared to fixed. Right now the premium is approximately 1% and should drop down to 0.50% after the next two cuts, assuming no change in longer term rates. The second benefit is the cost of purchasing interest rate caps has dropped precipitously, which is hugely beneficial to property cash flow.

To quantify the drop in cap costs, we work with a company that prices interest rate caps for us and they were estimating the cost of buying interest rate caps for four loans that have caps maturing soon. In July the cost of buying interest rate caps was approximately $900,000 for these four properties. Today

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they estimate the cost to be $390,000, and if we wait until December to purchase these caps, they project the cost to drop by another $110,000. This is obviously hugely beneficial to us as we still have a significant number of floating-rate loans in our portfolio.

Over the past couple of years we have made a marked shift away from floating-rate loans to fixed because we believed that the premium for floaters would remain in place given our belief that rates would drop somewhat slowly and the Federal Funds Rate would not drop below 3%. This translates into new floating-rate loans most likely hitting a floor rate of approximately 4.75% to 5.00% versus fixed-rate loans that are already in the 5.00% range, and lower in some cases. And for those floating rates held in our portfolio, our spreads over the SOFR index are a bit lower than newly originated floating-rate loans so we might hit a floor rate closer to 4.50% to 4.75% on average.

In a number of cases, we made the decision to refinance some of our floating-rate loans even though they may have had more than one year left before maturity. We believed that in a less hospitable lending and interest rate environment these loans could face the risk of not generating enough loan proceeds to fully repay the maturing loan plus closing costs, thereby necessitating investor capital calls. We felt like the operating environment was going to be very challenging in 2024, 2025, and part of 2026. In addition, the lending market was quite favorable such that waiting was too risky and putting these loans to bed and taking the capital call risk off of the table was the most prudent course of action. We have refinanced 25 loans since 2024 and we are very pleased with what we have accomplished for the vast majority of these loans.

The question is why didn't we choose to refinance all of our floaters? The reason is there are a large number of them that have a lot of term left, low spreads over SOFR, and their financial profile is such that they have a large margin of refinance safety. As a result, we can keep our options open and have a recession hedge if the economy weakens more than projected and the Fed cuts short-term rates below 3%, which would be quite beneficial for those properties.

At some point it's time's up, pencils down and that is when loans mature. Our optionality is now over and we have to refinance and decide whether to remain floating or continue down our current path of much more heavily emphasizing fixed-rate loans. Right now our bias is towards fixed-rate loans but whether this is more theoretical or in the moment generally comes down to our maturity schedule as that's when action has to be taken.

We have handled all of our 2025 refinances so now we are setting our sights on the upcoming

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years. Here is what the next three years look like in terms of maturities. There are some properties owned by single investors so those are not accounted for in this table as their maturities don't impact our investors at large.

2026	5
2027	19
2028	9

One can see that 2027 is going to be a very busy year with so many loans maturing. Some of these refinances may take place later in 2026 for loans that mature in early 2027 but, regardless, our CWS closing and investor relations teams will be particularly busy.

One of the most important indicators we look at to ascertain refinance shortfall risk is what is known as a loan's Debt Yield. It's a fairly straightforward calculation. To derive it one only needs to divide a property's Net Operating Income by the loan amount. Generally speaking, given today's lending parameters, if a property has a Debt Yield above 8.00% (preferably in excess of 8.25%), we feel fairly confident that we will be able to refinance the property without needing to come in with additional cash. Of course if interest rates change materially then the Debt Yield requirement can move up or down. For now we believe 8% is a good number to help us determine if a property is at risk of needing additional capital when the loan matures, or if it's in the freedom zone. All of this assumes no change in property Net Operating Income.

Here is the previous table but with some more information added. Included are the number of loans with Debt Yields exceeding 8% and those under 8%.

Maturity Year	Debt Yield 8%+	Between 7% and 8%	Less than 7%
2026	2	0	3*
2027	12	3	4**
2028	6	1	2

*Includes one construction loan which is too early to quantify the debt yield but the assumption is that it will be less than 8%.

**Includes two construction loans which is too early to quantify the debt yield but the assumption is that they will be less than 8%.

Although at first glance the number of loans with debt yields less than 8% looks daunting, it is worth noting that of the 25 refinances we have done since 2024, only one of those required

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additional capital to complete. A few of these loans were particularly challenging and we were still able to thread the needle without needing more investor capital. In addition, we are currently pegging eight loans with debt yields less than 7%, which poses more of a challenge. Two of those mature in about 10 months and one in a year. We do have some time, but not a lot, so those three will be a huge focus of ours in 2026.

One of the more challenging 2026 maturities is a construction loan in Austin while the other two are existing properties in Seattle and Atlanta. These three have, and will continue to get, a lot of our attention to help minimize any refinance shortfalls by focusing on improving operational performance, potentially negotiating with one of the lenders for an extension, as well as working with more forward-looking debt fund lenders that may help close the loan dollar gap. We did this successfully with two of our maturing construction loans (The Bennett and The Gabriel) as well as one of our existing properties in Atlanta (Buckhead). These lenders were very eager to do business with CWS and loved the quality of our properties and the collateral supporting their loans.

For 2027 and 2028, we have five loans with Debt Yields less than 7% so those too will have a huge CWS focus on improving operational performance as a 10% increase in NOI can push a property with a 7.25% debt yield to 8.00%. And while this may appear to be aggressive growth on the surface, if we break it down it's less daunting.

For a property with a 50% expense ratio, cumulative revenue growth of 6.5% over a two- to three-year period with cumulative expense growth of 3% can produce 10% Net Operating Income growth. For properties maturing in 2028 this can be accomplished by two years of both revenues and expenses growing by 3% and the third year revenues growing by 3.5% and expenses at 3%. This is very much in the realm of reality given the lack of new construction and the improving supply and demand situation in most of our markets.

In addition, with two of those being construction loans maturing, we have found that debt fund lenders are often far more liberal in terms of their loan proceeds for properties that have reached stabilized occupancy but have artificially low rents due to significant rental concessions. We are hoping that those properties might be attractive to these lenders as The Bennett and The Gabriel were.

We have always tried to communicate with great transparency over the years when we are faced with certain challenges. After 56 years in business we have had a tremendous number with which we have had to contend. And, yet, we are still here, a little weary and a bit bruised at

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times, but we have been able to persevere and use our pristine reputation with lenders in the marketplace to be able to access excellent financing over the years, including for properties that are more challenged given their leverage levels.

We have our work cut out for us but, fortunately, the challenges we see on the horizon represent less than 15% of our portfolio, which is manageable and has not, and should not, preclude us from going on offense and taking advantage of opportunities from far more highly leveraged and less well-capitalized owners who have no choice but to sell. We have already taken advantage of a few of these with some of our recent acquisitions in Houston and we expect more of these opportunities through 2026 and perhaps 2027.

We are looking forward to 2026 being a year of continued thawing, which means that there is still some frozen ground but less of it as time goes by given the significant drop in apartment construction starts. We will continue to work through our maturities and, when necessary, act both defensively and opportunistically, maintain an intense operational focus to grow our Net Operating Income, and continue to deploy capital in opportunities that we believe offer very compelling risk-reward relationships as we have been able to do so far in 2025