Volume 34, No. 3, October 30, 2020

QUARTERLY UPDATE
CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

CWS

CALENDAR OF EVENTS

November 26-27, 2020
Thanksgiving Holiday
CWS Offices Closed

December 24-25, 2020
Christmas Holiday
CWS Offices Closed

January 1, 2021
New Year's Day Holiday
CWS Offices Closed

January 15, 2021
4th Quarter 2020
Est. Tax Payment Due

January 29, 2021
4th Quarter 2020
Quarterly Reporting Packages Mailed

March 15, 2021
Year 2020 K-1's Mail by Date

April 2, 2021
Good Friday Holiday
CWS Offices Closed

April 15, 2021
2020 Federal/State Tax Filing Deadline
1st Quarter 2021 Est. Tax Payments Due

April 30, 2021
1st Quarter 2021
Quarterly Reporting Packages Mailed

50 CWS Enhancing Lives Years

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THE RIGHT STUFF

BUT STILL MORE QUESTIONS THAN ANSWERS

By Gary Carmell

The situation we're in today lends itself to thinking about the famous Donald Rumsfeld soliloquy about known knowns and known unknowns and unknown unknowns. This is because there are quite a few known unknowns since the world has been turned upside down by the impact of COVID and the resulting change in consumer and business behavior that has been either imposed by government regulations or self-imposed due to health concerns.

With that being said, there are some initial feelings and beliefs based on what we think we know so far that have led us to believe that we are fortunate to be invested in apartments in the markets that we're in and with the customer base that we have. Rather than reinvent the wheel, I thought I would leverage off something presented by Bluerock Residential in an August 20, 2020 presentation that conveyed how they believed their portfolio was well positioned to be insulated from and possibly benefit from changing consumer tastes and behavior as a result of COVID.[1] On page 2 is the key slide.

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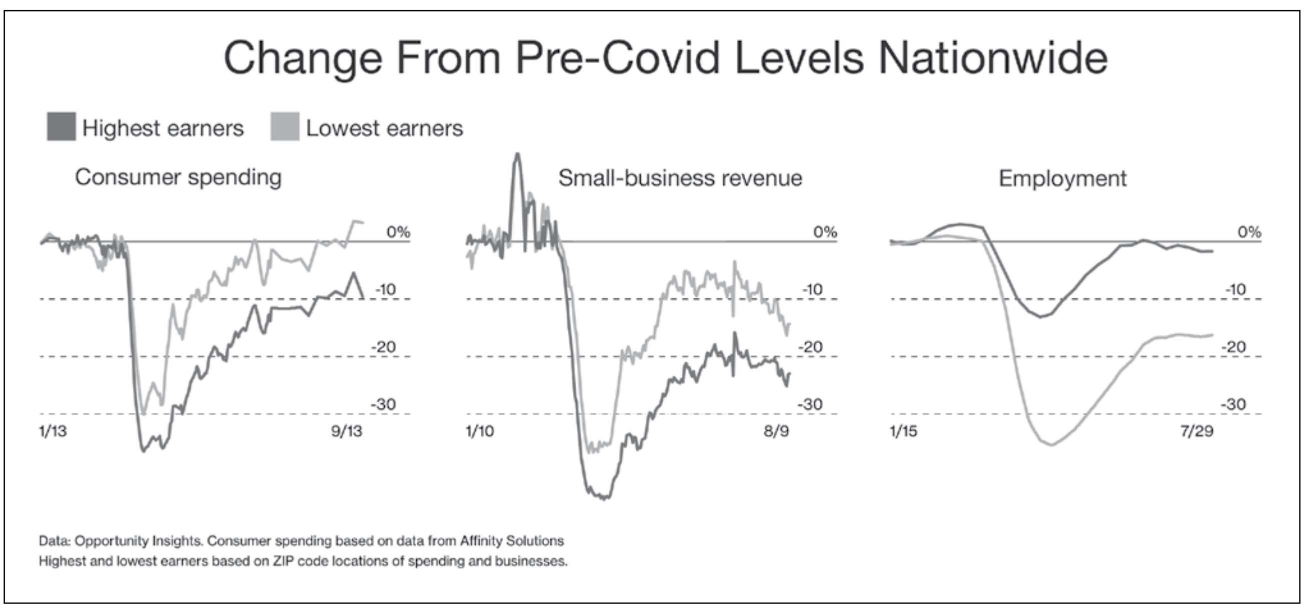
	Potential Lower COVID Impact	BRG	Potential Higher COVID Impact	BRG
Market	Sun Belt	✓	Gateway	✗
Location / Asset Type	Suburban Garden	✓	Urban High-Rise	✗
Quality	A-; B (Affordable Luxury)	✓	A+ (Ultra-Luxury); C (Lower-income)	✗
Employment Base	Knowledge Economy	✓	Service Economy	✗
Renter Profile	High Wage / Low Rent to Income	✓	Low Wage / High Rent to Income	✗
Business Environment	Low Cost / Tax High Quality of Life	✓	High Cost / Tax Low Quality of Life	✗

The characteristics of a portfolio with lower potential COVID impact happens to be very representative of CWS' portfolio. In addition, what we also have that most owners don't is a very heavy concentration of variable-rate debt which has materially lowered our debt service in 2020. This is another shock absorber for us. **We believe we are in the right business in the right markets catering to the right customers with the right debt**. In short, we believe we have the right stuff to manage through the COVID recession without the majority of our investor distributions being materially impacted.

From an economic standpoint, the people who are high earners have recovered fairly well and those who are not have borne the brunt of much of the economic carnage. Those with money are not spending like they did pre-COVID because they have been fearful to frequent many of their usual service providers or they have not been able to because they have been closed. The lower earners, however, recovered their spending more rapidly thanks to the aggressive stimulus checks and how quickly they were distributed and because much of their spending



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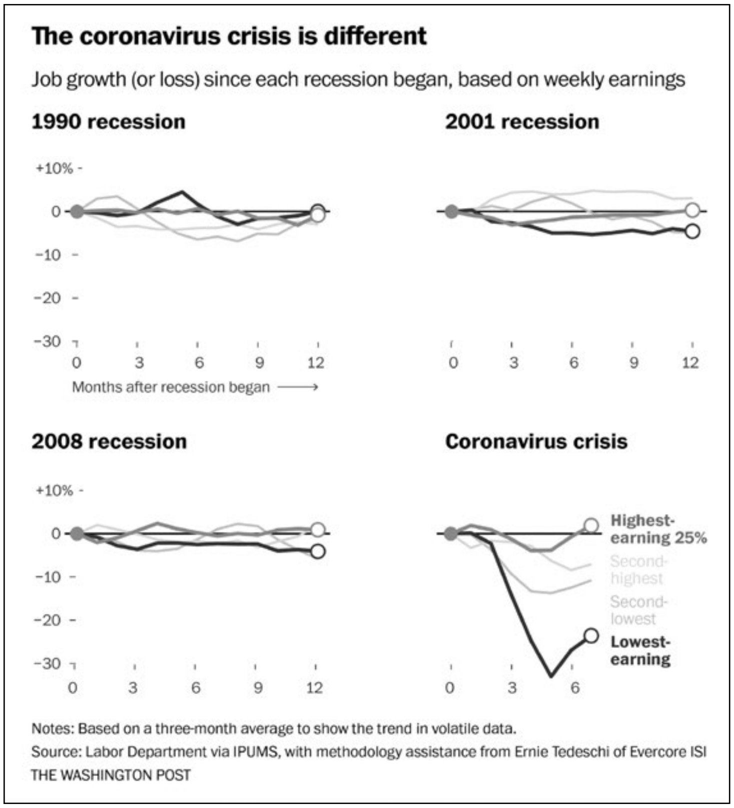
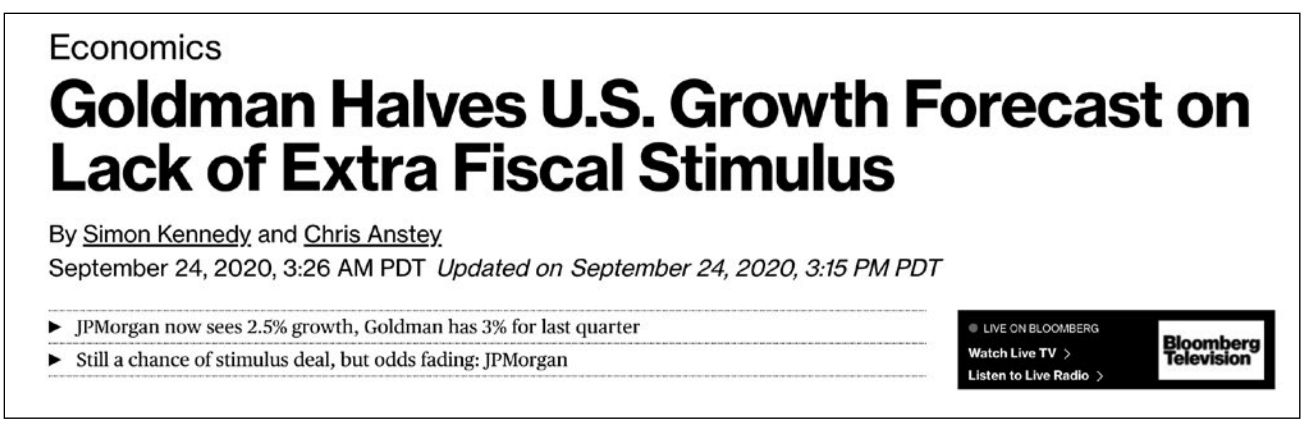


is on necessities versus discretionary and luxury items. One can see from the following charts from Bloomberg Businessweek what has happened with spending, small business revenue, and employment between the highest earners and lowest earners.[2]

From these charts one can also see how the lowest earners have been much more negatively impacted from an employment standpoint in this recession versus previous ones.

Small businesses in the highest earning areas have been hit harder than those in the lowest income locales while employment among low income people dropped far more and is still significantly below pre-pandemic levels. High income earners have not been nearly as affected as many of them have been able to work remotely and keep their jobs. The fact that spending has held up in the face of such terrible employment outcomes for the lowest income people shows the importance of government support in propping up spending. This makes the most important known unknown being what happens if there is no new stimulus package passed? It can't be good for consumption and for apartment owners with lower income residents. This article from Bloomberg shows how economists are now dropping their growth forecasts based on reduced stimulus.[3]


Economics

Goldman Halves U.S. Growth Forecast on Lack of Extra Fiscal Stimulus

By Simon Kennedy and Chris Anstey
September 24, 2020, 3:26 AM PDT *Updated on September 24, 2020, 3:15 PM PDT*

- JPMorgan now sees 2.5% growth, Goldman has 3% for last quarter
- Still a chance of stimulus deal, but odds fading: JPMorgan

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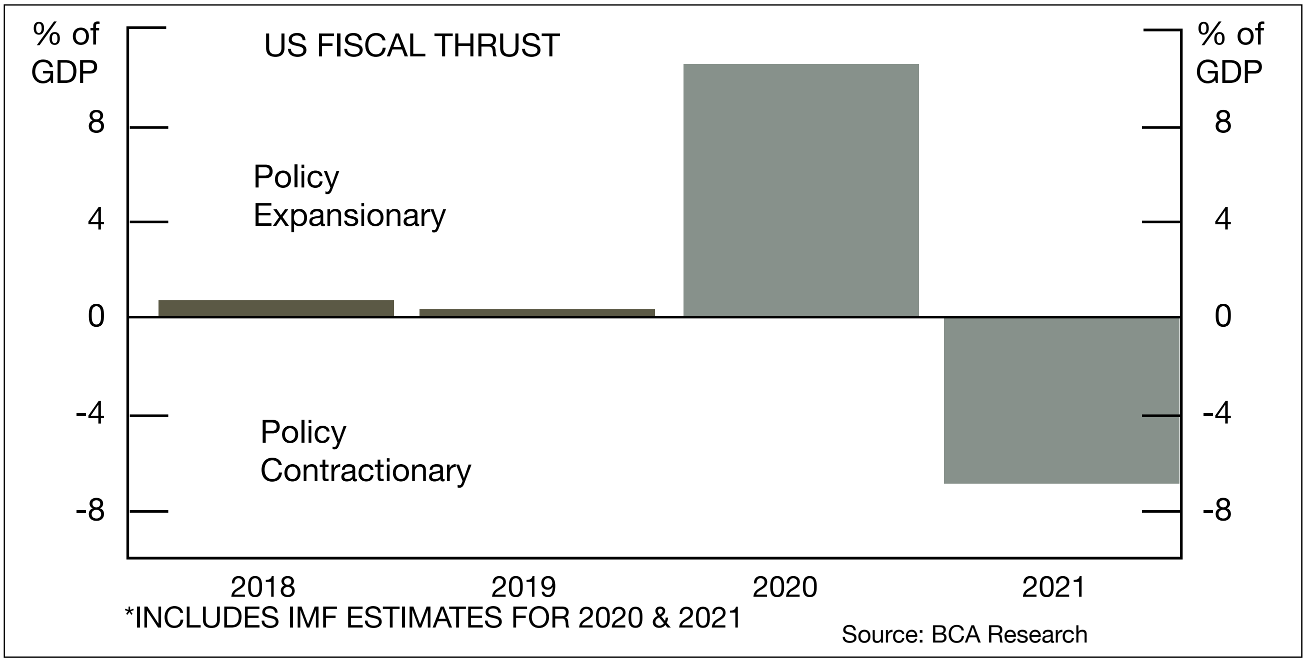
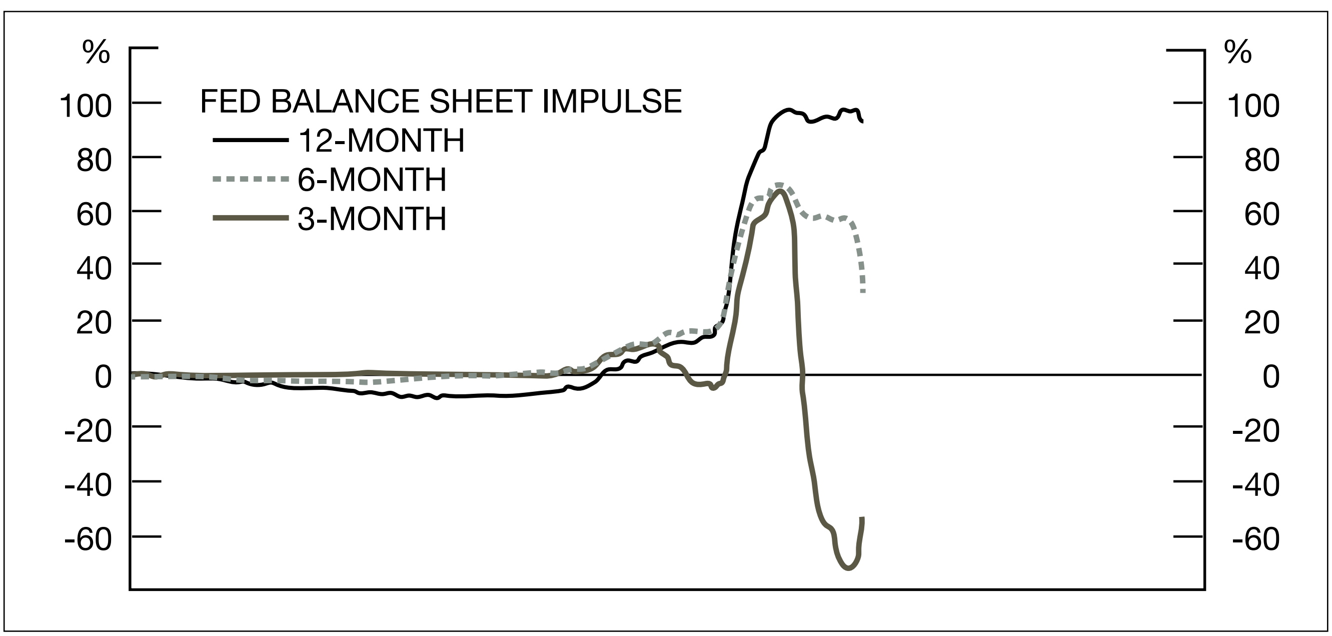
One can see that fiscal momentum is going to go from a strong positive to a deep negative absent a new stimulus package.



And monetary policy is turning into a headwind as well as this chart from BCA Research shows. This chart is a compilation of Federal Reserve activity to directionally indicate if monetary policy is loosening, tightening, or neutral. After exploding higher in terms of monetary stimulus in the wake of the COVID shutdowns, monetary policy has reversed over the last three months.



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What will happen if the election results in the Democrats winning the presidency and controlling the Senate and House? Will this create more government intervention in housing and will tax policy change such that it may result in less demand from investors for apartments as a result of less favorable treatment or more incentives for people to buy homes?

Can the stock market really hold up or will we have a more sustained bear market which will further impact the economy negatively?

State and local finances have been decimated. Will the federal government bail them out so they don't have to punitively raise taxes and thereby expedite the departure of high income individuals and corporations from low- or negative-growth, high tax, cities and states to more growth-oriented, lower tax, and less regulated environments? We are already seeing it in New York, New Jersey, and Connecticut as a number of very wealthy people are moving to Florida. California is clearly at risk for this as well.

Will people continue to flock to the suburbs and away from urban areas or is this more of a temporary reaction to lower mortgage rates and seeing no reason to be in high cost areas where one cannot take advantage of and enjoy the cultural, social, and entertainment amenities and interactions due to the inability to congregate and work in offices? Why pay such high rents when you're not getting the benefits in return? Will people flock back to these previously dynamic urban areas when the pandemic is behind us or has the contrast that people have now experienced with more space, less cost, and less crime and social tensions convince people that they were valuing the wrong things? I think this is a strong potential for those in their late 20s and older. So the real question is will younger people return to the urban environment so they can be with others and have many more social opportunities and take advantage of the other benefits cities have to offer? This also assumes that many of the businesses can and are inclined to reopen and there is a backlog of those who want to if others cannot or choose not to.

Will office space be radically reconfigured in terms of how much space is needed and where corporations choose to locate or expand? Will they use more of a hotel, shared space model as more people work from home but have a place to congregate on an as needed basis to collaborate in person? I am a big believer that it is very hard to collaborate and build those strong bonds via Zoom that come from informal interactions in person unless you already have a team that has been in place and gelled for a long time that has a lot of trust and

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understanding of one another as well as open communication. It is much more difficult to integrate new people, train them, and have them be able to absorb the culture remotely. This can only be effectively and sustainably done in person as we are still social beings that require and crave in-person interaction. As a result, I don't think that remote working will be a permanent thing in terms of an overwhelmingly large percentage of the workforce doing it but it will be a big enough shift that it undoubtedly will impact the consumption of office space and where people live. In some ways the office environment is being outsourced to the home environment and this is clearly impacting the office economy in terms of restaurants and support services for that economy. It's also creating a demand for more living space.

The shift to remote work happened overnight and forced owners and managers to give up their long-held notions that remote work should not be encouraged because it can't be controlled and measured and people will take advantage of it and slack off. They had no choice but to accept it and adopt it. Lo and behold I would say most business leaders have been pleasantly surprised by the results and that most people can be trusted and we can still carry out our business and be productive. As a result, they are going to be much more open-minded as employees make requests to work remotely and they will have to develop strategies and policies to keep that flexibility while still being able to require the collaboration that is necessary for innovation, creativity, and breakthroughs.

So there's a lot to think about in terms of where people end up locating as well as other social and economic impacts. Regardless, we still believe that knowledge based workers are critical for the growth of the economy because it's through productivity gains that our standard of living and competitiveness will improve. These gains can only come about via breakthrough, game-changing ideas that can be put into action that are spawned through great ingenuity and collaboration. The people most well-positioned to generate these ideas and implement them are well-educated, talented, energetic, creative, curious, and focused. They feed off others with those same attributes in close working environments with a lot of room for informality and serendipity, bonded together by a great culture. This just can't happen 100% remotely on a sustainable basis but it can on a much higher percentage than was taking place pre-COVID. I think people have appreciated some of the balance that they've been able to experience in their life from working remotely and doing so allows them to shift the balance from overwhelmingly living to work to more working to live.

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There are of course many more questions than answers but it's important to start off with what questions you want to have answered as this can help focus your research and thinking in the most productive directions. Hopefully we'll be able to gain further clarity and catch the big fish of breakthrough insights that allow us to capitalize on opportunities and avoid uncompensated risk.

As apartment investors, we at CWS feel fortunate that our properties mostly cater to a customer base that so far has been quite resilient, if the percentage of rents billed and collected is any indication. Only a very small percentage of our residents have had a delinquency event. We have had a very high collection rate so far across the entire portfolio (in excess of 98%). Of course, this is an average figure and there are some properties underperforming and others that are outperforming. I'm sure this has a lot to do with people prioritizing their rent payment, having customers less impacted financially given their wage levels and skill sets, as well as our properties being located in lower cost, growing areas and primarily in less dense, suburban locations within those markets. While past performance is no guarantee of future results, we are optimistic about the road ahead for our properties.

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[1] https://s23.q4cdn.com/376743338/files/docs_presentation/2020/08/Investor-Presentation_8.19.20_Final.pdf
[2] https://www.bloomberg.com/news/features/2020-09-24/harvard-economist-raj-chetty-creates-god-s-eye-view-of-pandemic-damage?sref=0D0wE8vC
[3] https://www.bloomberg.com/news/articles/2020-09-24/goldman-halves-forecast-for-u-s-fourth-quarter-economic-growth?sref=0D0wE8vC

CWS Apartment Portfolio
Performance Summary
1/1/20 - 10/31/20

Number of Properties: 100	*Actual*	*Budget*	*Variance*	%
Total Revenue	$359,132,904	$365,917,775	($6,784,871)	-1.85%
Total Operating Expenses	$164,636,174	$172,938,691	$8,302,517	4.80%
Net Operating Income/(Loss)	$194,496,731	$192,979,085	$1,517,646	0.79%

Revenue - when actual is greater than budget, result is a positive variance
Operating Expenses - when actual is greater than budget, result is a negative variance
NOI - when actual is greater than budget, result is a positive variance