Volume 34, No. 4, January 29, 2021

Quarterly Update
CWS Capital Partners LLC

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CWS

CALENDAR OF EVENTS

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

May 24, 2021
Memorial Day
CWS Offices Closed

June 15, 2021
2nd Quarter 2021
Est. Tax Payments Due

July 5, 2021
Independence Day (Observed)
CWS Offices Closed

July 30, 2021
2nd Quarter 2021
Quarterly Reporting Packages Mailed

50 CWS Enhancing Lives Years

www.cwscapital.com

2020 – THE YEAR OF LIVING DANGEROUSLY

By Gary Carmell

2020 was clearly a year that was unlike any I had experienced. We entered the start of the Roaring 20s in good shape economically. Unfortunately this was upended virtually overnight by pandemic-induced shutdowns which has decimated certain sectors of the economy. These include airlines, hotels, entertainment, retail, beauty services, gyms, leisure, and the office economy. Despite this carnage, there were clear winners as well. These include e-commerce serving the home economy, Zoom, tech companies going public, delivery services, housing, and other interest-rate sensitive sectors. There was also huge wealth created for Jeff Bezos, Elon Musk, Mark Zuckerberg, and other billionaires. Multiple rounds of stimulus were carried out that actually fattened savings as many people have paid down credit card debt.

In spite of home buying picking up, especially in the high-quality of life, lower cost suburbs, CWS's apartment portfolio held up reasonably well. We had to transition to remote

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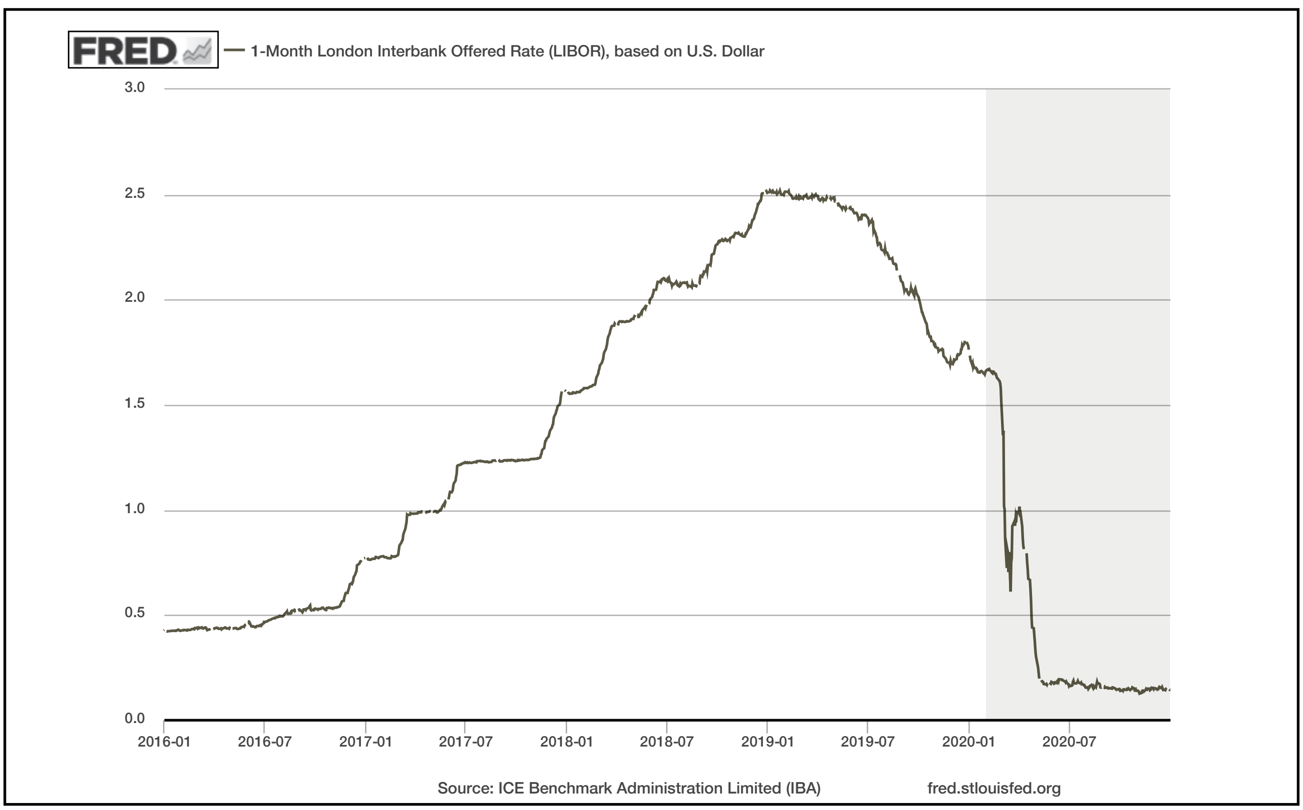
leasing virtually overnight (pun intended) and leased nearly 13,000 units this way. Our same-store (91 properties) revenues through November managed to be slightly positive at 0.24% in spite of having our hands tied in many circumstances from evicting non-payers as well as having to waive certain fees as dictated by the CARES Act. Our controllable expenses were higher by 1.51%, while property taxes continued their relentless march higher as they grew by slightly less than 5%. Overall our Net Operating Income was lower by 1.83%, or approximately $4.1 million through November.

On the positive side our capital expenditures were lower by approximately $10.7 million, more than making up for the reduction in portfolio Net Operating Income. We view much of this savings as temporary as we anticipate spending the bulk of these deferred dollars in 2021 and 2022.

What we really benefited from, and much more than most apartment owners, was our lower interest expense since over 80% of our debt is variable rate. As the Federal Reserve cut short-term interest rates by more than 1.5% in 2020, and brought them down by more than 2.25% from their cyclical peak, this resulted in our debt service dropping by approximately $38.2 million for the first 11 months of 2020 as compared to 2019. The following graphs shows how 30-day LIBOR, which our floating-rate debt is based on, dropped precipitously in 2020.



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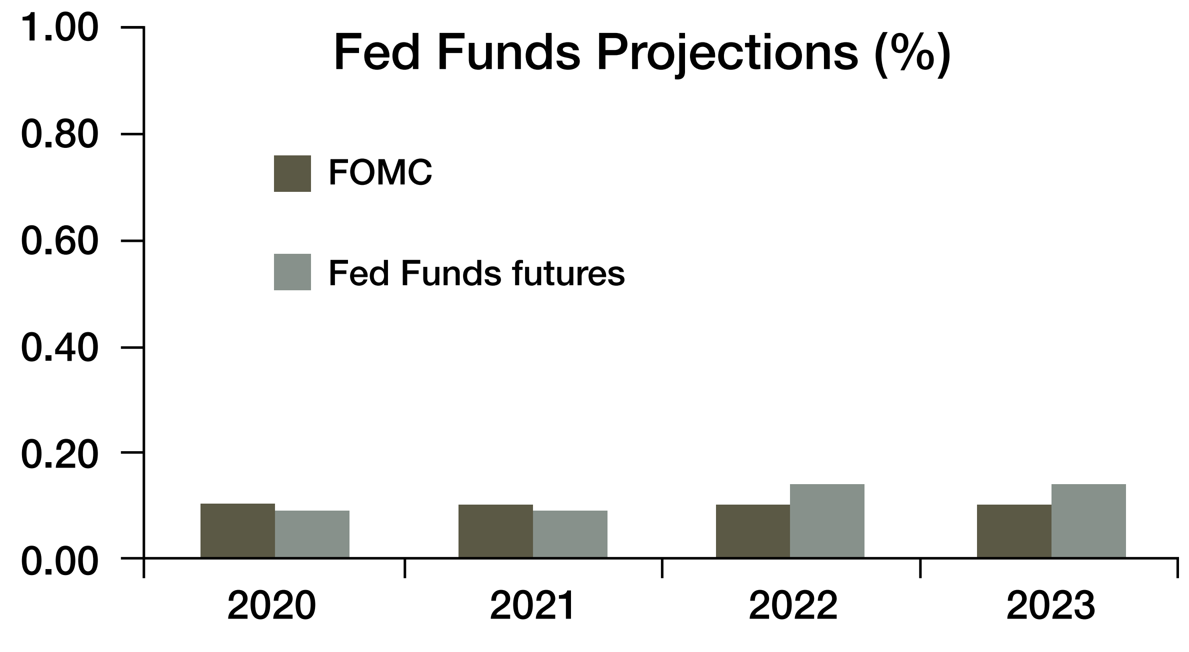
Our average interest rate for our variable-rate loans is approximately 1.85%, which is about 2% less than the prevailing fixed-rate equivalent at the time of origination. This translates into over $50 million per year in interest savings for our variable-rate financed properties, assuming no changes in rates. This assumption is not far-fetched as the Fed is on record stating that it has no intention of raising rates before the end of 2023. The market tends to agree as its projection for the future Federal Funds rate is pretty close to the Fed's through 2023 as the following chart shows.



Source: Federal Reserve, CBOT, Piper Sandler

These savings enabled us to compete more effectively in a challenging economy, build up working capital to recommence our deferred capital projects, while increasing distributions at a number of our properties. Of course, not every property had its distribution increase, but overall, as a portfolio, we were able to increase our investor distributions.

For a number of years through early 2019 we were very active in refinancing many of our loans to lower the interest-rate spread over LIBOR, increase the interest-only period, or extend the maturity, or some combination of all three. Our timing was fortuitous as the loan structures we have in place are, on average, about 0.75% better than what is available from our largest lenders, Fannie Mae and Freddie Mac. As a result, absent a material change in market conditions, we do not anticipate carrying out many refinances except for those properties with loans coming due.

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We are fortunate to own properties with very low-cost debt with a number of years remaining before they mature. They are also located in growing areas that are benefitting greatly from the work-from-anywhere requirement that has been thrust upon us in this COVID-19 age. Austin is a prime beneficiary from this trend as well as for many other reasons that have made it such a magnet for in-migration, corporate relocations, and expansions. Elon Musk just announced he is moving there shortly after revealing that Tesla is opening up a huge manufacturing factory facility and campus in the area. In addition, Oracle announced it is moving its headquarters to Austin while Apple is full speed ahead building its new campus that will employ an additional 5,000 to 15,000 people. Amazon, Google, and Facebook are also growing quite significantly in Austin. Other areas of Texas are attracting large companies as well as evidenced by Hewlett-Packard's recent announcement that it is moving its headquarters to Houston and Charles Schwab opening up its new headquarters in Dallas, thereby showing how Texas is becoming even more attractive to large companies.

Census figures back up these company decisions as well as anecdotes from people moving from high-cost, urban areas to lower-cost, pro-business suburban areas. From the table below one can see how some of the states CWS is invested in, particularly Texas, North Carolina, and Georgia, have seen both short- and long-term population growth and we can see this continuing as they offer pro-business environments, good climates, high quality of life, and competitive industries.

	2010	2019	2020	Population change (2019-20)	% change (2019-20)
California	37,319,550	39,437,610	39,368,078	-69,532	-0.18%
Texas	25,241,897	28,986,794	29,360,759	373,965	1.29%
Florida	18,846,143	21,492,056	21,733,312	241,256	1.12%
New York	19,399,956	19,463,131	19,336,776	-126,355	-0.65%
Pennsylvania	12,711,406	12,798,883	12,783,254	-15,629	-0.12%
Illinois	12,840,545	12,667,017	12,587,530	-79,487	-0.63%
Ohio	11,539,449	11,696,507	11,693,217	-3,290	-0.03%
Georgia	9,712,209	10,628,020	10,710,017	81,997	0.77%
North Carolina	9,574,586	10,501,384	10,600,823	99,439	0.95%
Michigan	9,877,597	9,984,795	9,966,555	-18,240	-0.18%
New Jersey	8,799,451	8,891,258	8,882,371	-8,887	-0.10%

Source: U.S. Census Bureau

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And this headline from the Charlotte News Observer shows how North Carolina has become a magnet for people during Covid.

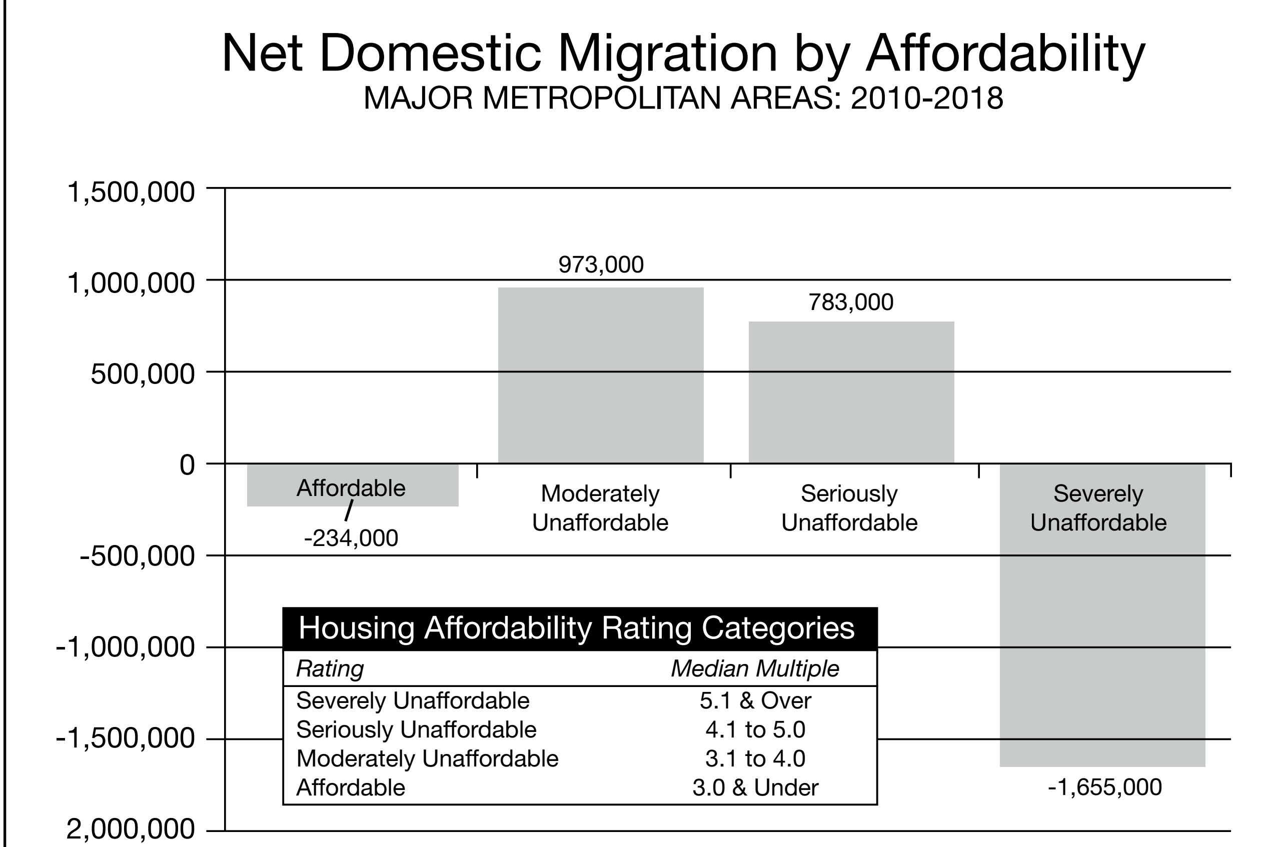
NORTH CAROLINA

People are moving to North Carolina in droves during the COVID pandemic, survey finds

BY SIMONE JASPER

DECEMBER 22, 2020 12:57 PM

As the following charts show, people are not just moving from the most expensive areas, but from the most affordable ones as well, and housing is by far the biggest cost that makes an area unaffordable or affordable.



From Census Bureau & *Demographia* data.

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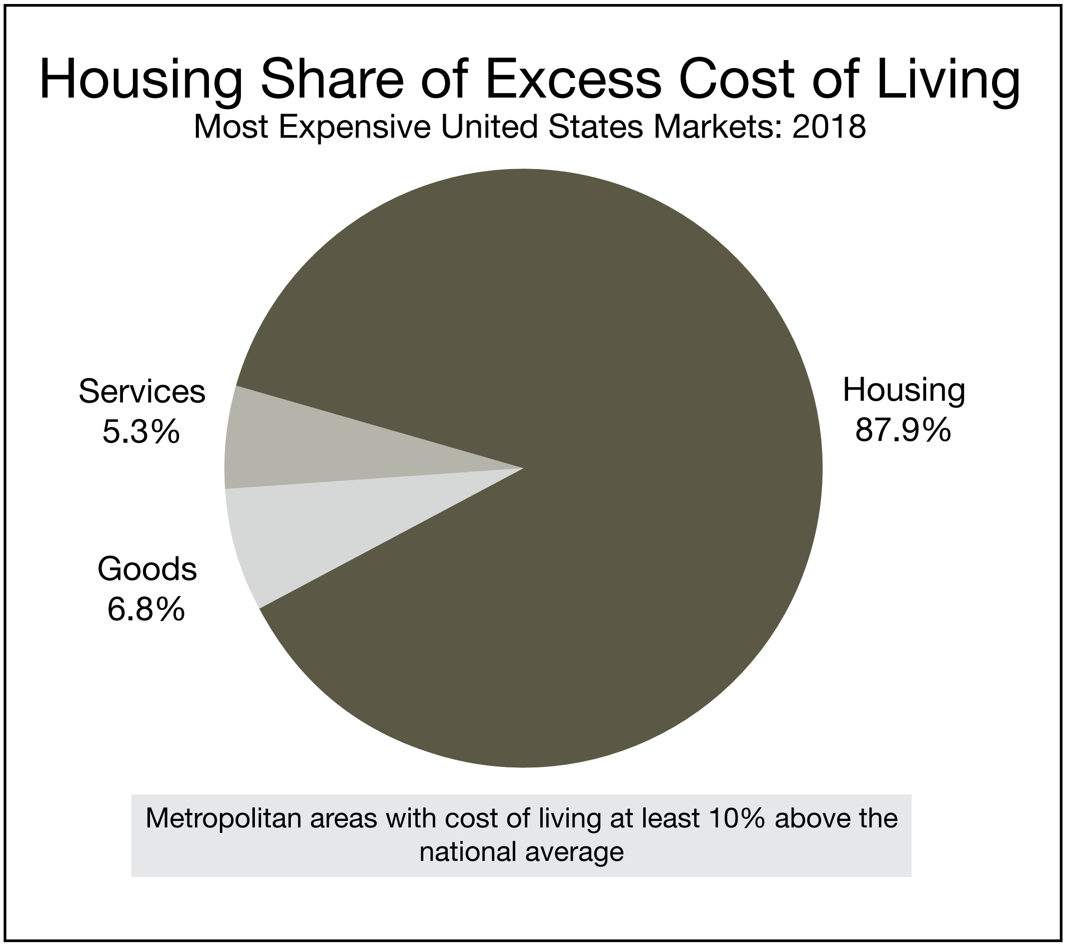

Moving out of very expensive areas makes sense given the very high cost of living. Leaving low-cost areas is more counterintuitive. I think these areas are very affordable because they don't offer much employment opportunity in industries of the future that can pay more while providing for challenging and compelling career paths. In contrast, the moderately and seriously unaffordable areas offer a critical mass of population and high value-add industries that can offer career advancement and meaningful compensation growth potential. The higher wages and demand for skilled labor creates more buying power to purchase homes, particularly in desirable areas, thereby making them more expensive relative to the median home price in the country. With that being said, these areas are still more affordable than the most expensive metros so moving there can still improve one's standard of living while offering upside potential in terms of economic gains.

Unfortunately, growth is going to be harder to come by as population trends are slowing quite materially as the following charts show.

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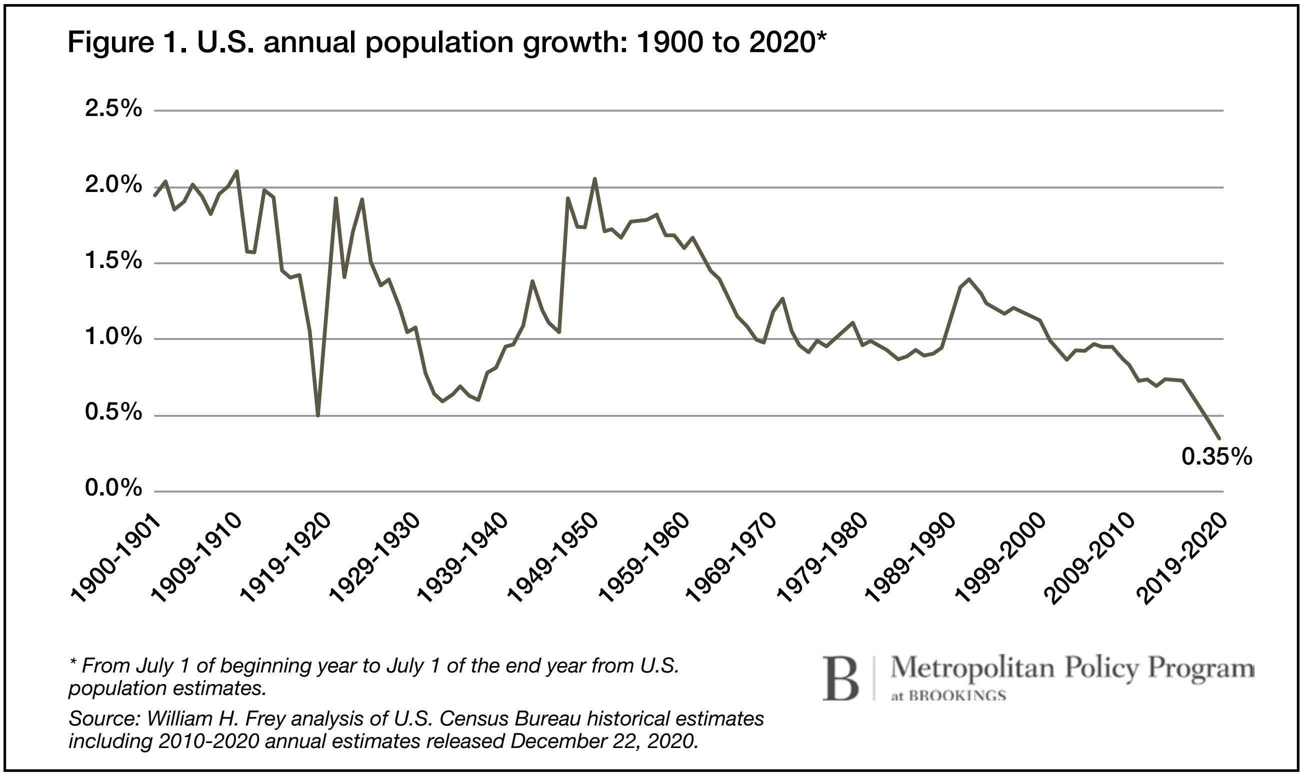

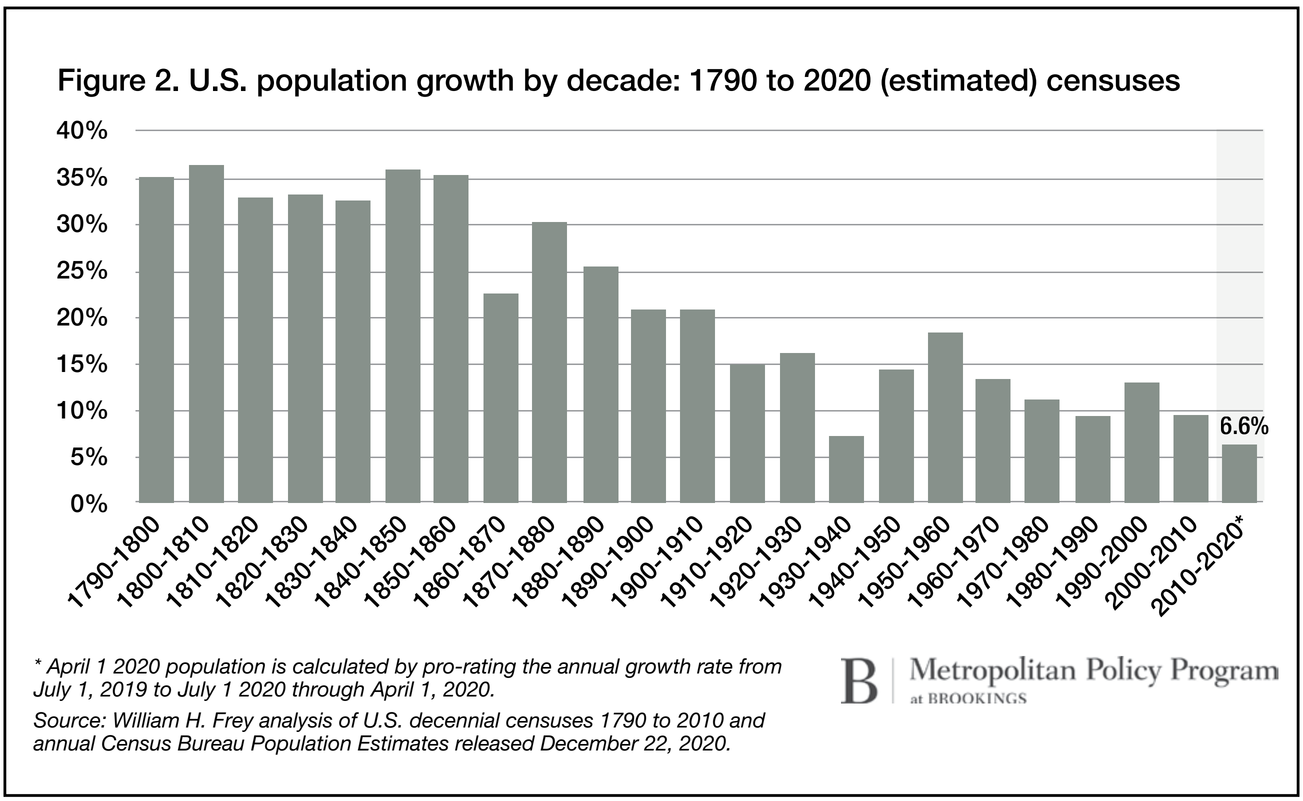

Covid is only slowing population growth even more as fewer babies are being born. This

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headline from USA Today captures the situation, which is estimated to result in 300,000 fewer births according to the Brookings Institution.

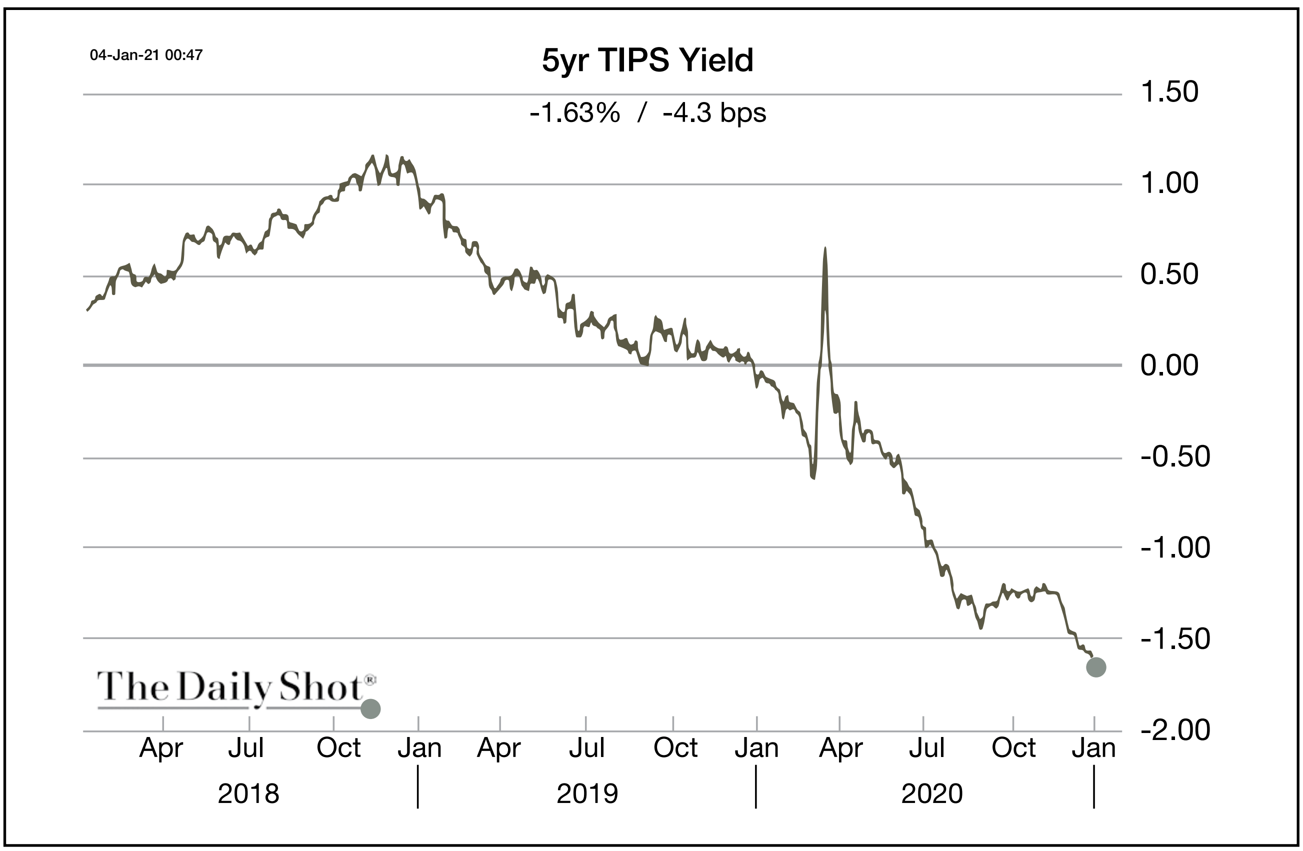
NATION

COVID baby boom? No, 2020 triggered a baby bust - and that will have lasting impacts

Wyatte Grantham-Philips USA TODAY

Published 11:05 a.m. ET Dec. 16, 2020 | Updated 3:57 p.m. ET Dec. 17, 2020

Investors are going to be attracted to growing areas since one can no longer throw the proverbial dart at a map and assume that wherever it lands that location will be growing. I think our markets will be well positioned for future growth and will continue to attract not only domestic capital from investors, but global capital as well. And when this is overlaid with very low real interest rates, as the chart below shows is the case, investors will be clamoring for yield and inflation protection, which real estate, and particularly apartments, should be able to provide for the right properties in the right areas financed prudently.



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In spite of the very challenging year we just endured, we are proud of how well we performed and feel we are well positioned in terms of our potential to offer competitive risk-adjusted returns, particularly on an after-tax basis in terms of current yield and appreciation potential. This is due to our portfolio being invested in properties that provide an essential service and are located in dynamic cities while being financed with very low cost debt. This combination, along with what we expect to be strengthening demand for quality apartment communities in growth areas like those CWS is invested in, should result in competitive returns in the years ahead in this very low yield world.