COURAGE

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Given that we are facing challenges, it is critically important that we address them head on. In a similar way, I will communicate to you, our fellow CWS investors, straight from the shoulder.

The following chart shows the operating performance over the past three years for our 91 "same store" portfolio owned during that period.

SAME STORE ROLL UP (in $ millions)

Property Count: 91 Unit Count: 26,219	2021	2022	21 vs 22 % Change	2023	22 vs 23 % Change
Net Rental Income	440.8	464.6	5.4%	487.2	4.9%
Other Income	50.5	47.9	-5.1%	51.1	6.7%
Total Revenues	491.3	512.5	4.3%	538.3	5.0%
Salaries	44.0	43.1	2.0%	46.2	-7.2%
Marketing / Advertising	6.0	5.3	12.0%	5.7	-8.4%
Turnover	7.1	8.0	-13.3%	8.4	-5.0%
Repair and Maintenance	6.2	7.0	-14.1%	7.5	-7.0%
Professional Services	11.9	12.8	-8.0%	14.1	-9.8%
General and Administrative	6.5	9.2	-41.9%	11.1	-19.8%
Utilities	30.4	30.0	1.2%	30.9	-3.0%
Property Taxes	85.0	88.1	-3.6%	85.2	3.3%
Insurance	9.0	10.3	-14.0%	15.1	-47.2%
Management Fees	15.8	16.3	-3.6%	17.1	-5.0%
Retail Expenses	1.5	1.8	-18.3%	2.0	-11.3%
Total Expenses	223.3	232.0	-3.9%	243.3	-4.9%

Net Operating Income	268.0	280.5	4.7%	295.0	5.2%
Interest Payments	66.0	93.6	-41.8%	200.0	-113.7%
Principal Payments	8.5	6.5	24.2%	5.7	11.4%
Other Expenses	12.4	12.7	-3.1%	16.2	-26.9%
Capital Expenditures	45.0	57.6	-28.1%	47.6	17.4%
Reserves for Rate Caps less Reimbursements	1.0	(2.9)	382.3%	10.6	468.2%
Operating Cash Flow	135.2	113.0	-16.4%	14.9	-86.8%

Going right to the bottom line, Operating Cash Flow has declined significantly from $135.2 million in 2021 to $14.9 million this past year. The largest component of this change was the $144 million increase in interest expense from 2021 to 2023 as a result of Fed Funds increasing from near zero to the current 5.25% – 5.50% range. This interest expense increase on our variable loans combined with increases in rate cap reserves far offset increases in Net Operating Income and reduced Capital Expenditures in 2023. Our forecast for 2023 necessitated the January 2023 distribution reductions throughout much of our portfolio and the subsequent recent need for cash calls or lender groups at a portion of our assets.

Investigating other key line item details, total revenues were up a healthy 5.0% last year. Negating a portion of last year's revenue increase, expenses were up 4.9%. Expenses were up across many categories in an overall inflationary environment, especially in insurance and salaries, with high levels of new apartments contributing to the demand for experienced onsite personnel and driving salary increases. One bright note, overall property taxes were down as the portfolio benefited from refunds of property taxes from previous years' settlements as well as some millage rate decreases in Texas. Overall Net Operating Income grew 5.2% last year.

Long-term interest rates have also risen significantly. The 10-year treasury averaged 1.45% in 2021, 2.95% in 2022, and 3.96% in 2023. The upward move in long-term rates has resulted in an upward move in cap rates, or a corresponding downward move in Net Operating Income multiples that result in asset valuations. Our patient and conservative approach to our annual PAIR asset valuations for the bulk of our portfolio will result in generally modest declines in our reported PAIR values for 2023. However, assets purchased in 2021 and 2022 at or close to the top of the market, including Marq Iliff Station (SAF XIII), Marq Inverness (SAF XIII), Marquis at Chandler (SAF XIII), The Nash (SAF XIII), Marquis Dominion (SAF XIII), Marq Promenade (SAF XIV), Marq Music Row, and The Brunswick, will show significant value markdowns. The good news is that we do not intend to sell any of these assets for the foreseeable future, each being high quality, newer assets in strong locations in growing markets. Also, the debt on each of the assets has at least five years of term, with the one exception of Marq Promenade, whose loan matures in May of 2025. We expect that we will need to make a paydown on that loan to extend the term prior to the maturity date. We are in discussions now with lenders and will be communicating with Promenade investors directly as we make further progress.

So what do we expect in the future? The next 12 months and likely the next 24 months will continue to be tough. Due to a healthy new supply of apartments coming online in many of our markets, we expect overall portfolio revenue growth to be flat to slightly positive. Expenses will continue to be higher, again led by salary and insurance increases. We are redoubling our efforts in expense control, with the mantra "If it is a Nicety, cut it; if it is a Necessity, rebid it." We expect overall Net Operating Income to be flat to slightly negative. On the bright side, the Fed has now formally pivoted, and the question is when will they begin cutting and by how much? Just as painful as the rate increases were, the cuts will correspondingly help our portfolio. Even the market's anticipation of cuts is resulting in significantly lower rate cap impounds at our assets with variable-rate debt. And higher long-term rates have made the risk-reward of new development more challenging, significantly lowering new construction starts now which will result in less oncoming new supply in 2026 and 2027 than there otherwise would have been.

My most realistic projection is as follows: continued suspension of distributions at the many assets in our portfolio through year end 2025, with the potential need for an additional round of cash calls at year-end 2024 depending on how much or how little the Fed cuts rates. We are optimistic that many of the assets currently distributing will continue to do so at current levels, although there will be some assets that will require further distribution reductions. The outlook is brighter for 2026-2028, as much less supply should be delivered in those years which should facilitate rent growth, and the Fed should no longer see the need to have rates in restrictive territory to combat inflation that by many measures has already subsided significantly. Hopefully these factors will result in a resumption of distributions for many assets in our portfolio at that time.

The apartment market's overall retreat from the salad days of 2020 and 2021 to the glum present has set the conditions for an excellent buying period ahead of the expected rebound in 2026. We have a strong presence in excellent markets across the country which will continue to experience outsized population growth relative to the national average. We have no need to sell assets currently, and we are seeking to purchase high-quality, well-located assets from those few owners who need to sell at current market pricing. The current sales environment translates to valuations that are 20-30% less than replacement cost, which should result in solid long-term returns for our investors. The courage to buy in the downturns when the best investments are often made has always required emotional perseverance and a long-term perspective*. We appreciate your patience and trust in us as we navigate through these trying times.

**Past performance is not necessarily indicative of future results. There can be no assurance that any investment opportunity with CWS will be able to implement its investment strategy, achieve its investment objectives, or avoid substantial losses. All investments carry some degree of risk.*