Volume 26, No. 1, April 27,2012

Quarterly Update
CWS Capital Partners LLC

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CALENDAR OF EVENTS

May 2012
CWS Capital Partners
Semi-Annual Conference Call

Monday, May 28, 2012
Memorial Day
CWS Offices Closed

Wednesday, July 4, 2012
Independence Day
CWS Offices Closed

July 15, 2012
2nd Quarter 2012 Estimated Tax Payment Due

July 27, 2012
2nd Quarter 2012 Quarterly Packages Mailed

Monday, September 3, 2012
Labor Day
CWS Offices Closed

Friday, October 26, 2012
3rd Quarter 2012 Quarterly Packages Mailed

November 2012
CWS Capital Partners
Semi-Annual Conference Call

Thursday, November 22, 2012
Thanksgiving Day
CWS Offices Closed

Friday, November 23, 2012
Day after Thanksgiving
CWS Offices Closed

Tuesday, December 25, 2012
Christmas Day
CWS Offices Closed

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The Renter Generation

By Gary Carmell

(The following article is a summary of the key points and charts I presented at our annual investor meeting that took place on April 2, 2012).

With the advent of the Great Recession, the United States has begun to wean itself from its unhealthy addiction to home ownership and is becoming more of a renter nation. Renting provides for mobility to go to where the jobs are, the ability to move back home or in with others if a financial or health setback occurs, it allows those with weak or non-existent credit to rebuild and build their credit, and it eliminates the risk of a big capital outlay to repair a home since this burden falls on the landlord. In short, renting is a form of insurance that offers great benefits and hedges against disasters. The brutal economic downturn has proven that we cannot count on growing incomes, stable jobs, or living in one place for a long period of time. Unfortunately these are all important assumptions upon which mortgages are originated for borrowers yet they are no longer present in our economy. In addition, the primary demographic for renting apartments has traditionally been people who are 18 to 29

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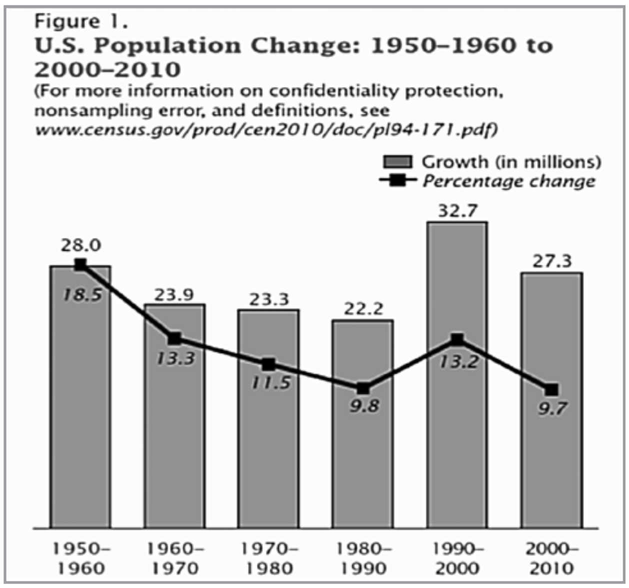
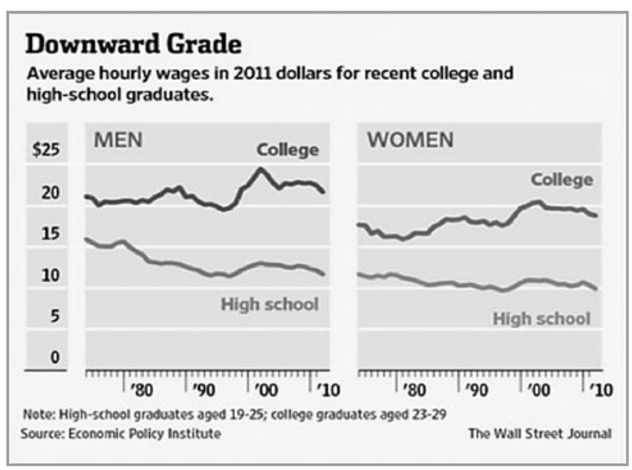
years old. As will be demonstrated in this article, they are wholly ill prepared, unqualified, and not desirous of owning homes. This bodes very well for the apartment business for at least the next five years.

As this chart shows, there is still a big wave of people coming into their prime renting years.



In absolute numbers, the births that took place between 1990 and 2000 are larger than the baby boomers of the 1950s and 1960s. This age cohort is currently 12 to 22 so most have not entered their prime renting years. Understanding this generation is very important to assessing future rental demand. Although not so fortunate for the economy, but helpful to apartment owners, most 18 to 29 year olds face significant challenges when it comes to buying a home for many reasons.

Traditionally, mortgages have been predicated on stable employment, growing income, economic security, reserves in the bank, and sufficient down payments. In short, a low probability of income interruption and/or the need to move, and if those situations did arise, then there would be sufficient equity in the home to allow the home owner to sell and pay off the loan or have enough reserves to cover the income interruption. Unfortunately, these sets of conditions are no longer the norm in the economy. According to the Bureau of Labor Statistics, the median job tenure for someone 25 to 34 years old is 3.1 years. In addition, as the following chart shows, incomes have stagnated and dropped recently.



Another significant challenge facing this age group is the dramatic increase in student loans they have

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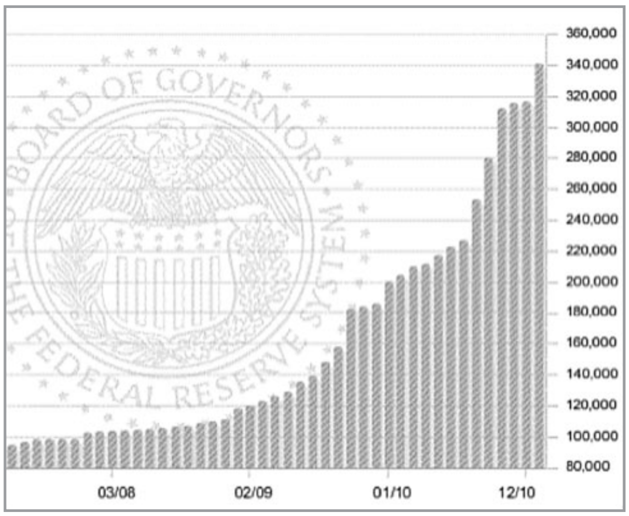
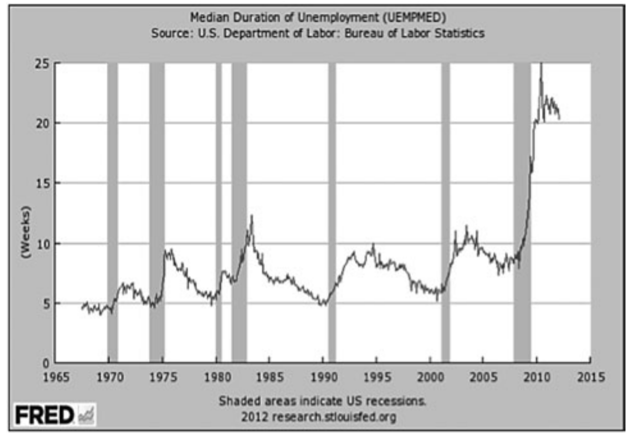
taken on. According to the Federal Reserve Bank of New York, student loans now exceed $1 trillion. The federal government has taken on a much larger role in this area since 2008 as the following graph shows.



The combination of higher debt and stagnant or dropping earnings is not the recipe for producing a steady, reliable borrower. In addition, the job market has gotten more challenging. The following graph shows the median duration of unemployment. While the labor market has improved, those people who are unemployed have remained without work for very long periods of time.

The combination of frequent job changes, an increasing burden of student loan debt, weak earnings growth, and high unemployment duration, make the 18 to 29 generation a very poor



candidate for home loan borrowing. In addition, marriage, which is one of the great life events to stimulate the purchase of a home, is occurring less and less and at later ages. For the first time in history we have more unmarried households than married ones. This graph shows how marriage rates have declined over the years.

Finally, more and more individuals 25 to 34 years of age are moving back home as the following chart shows.

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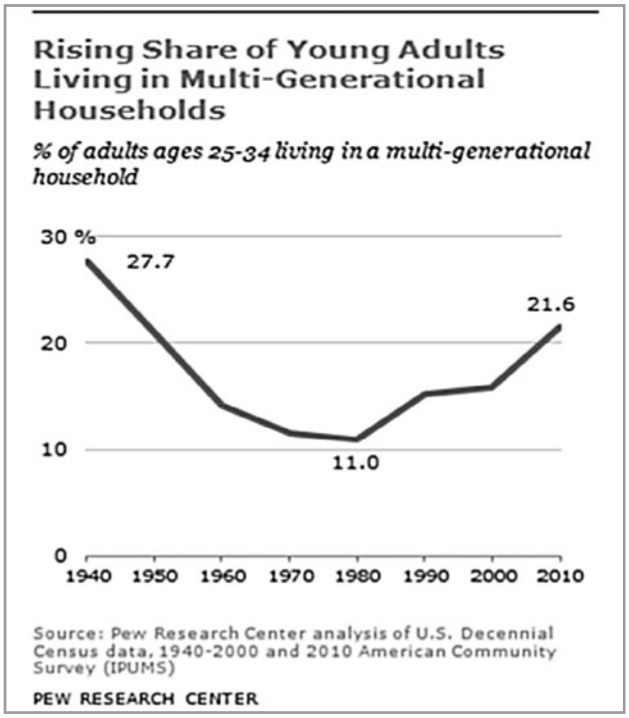
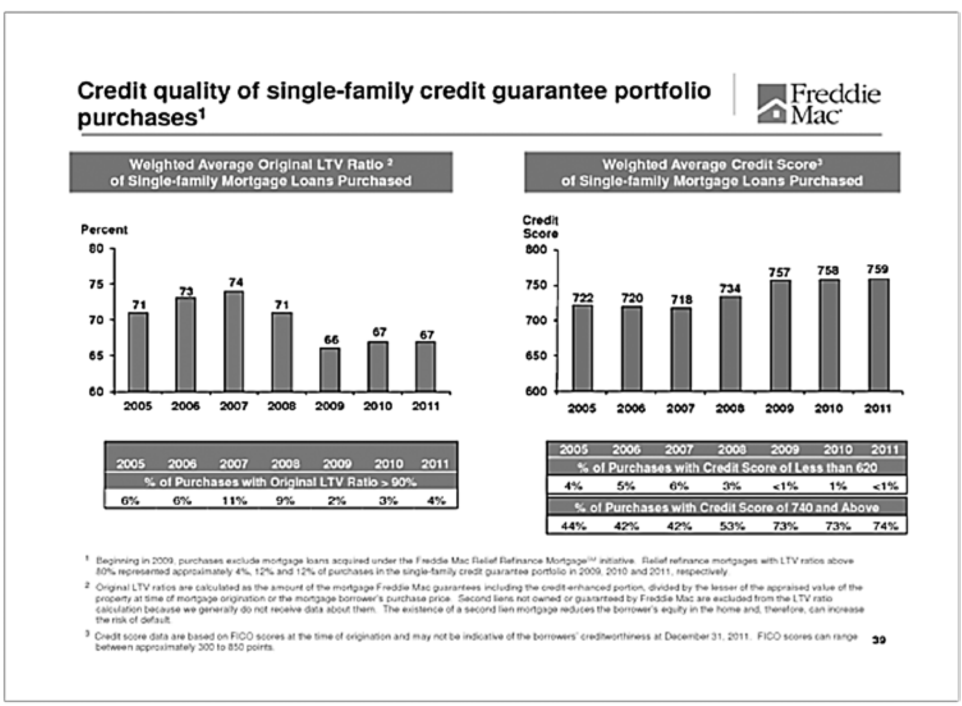


Although it is possible that when these young adults move out of their parents' home that they will buy homes, I think it is much more likely they will rent. Despite the large number of people who have moved back home, the apartment markets in which CWS operates are performing quite well. One can only imagine how much stronger they would be if this group of people started forming their own households.

When we combine the constraints getting in the way of our prime demographic buying homes with the much tighter mortgage market, we believe that renting will continue to dominate over home ownership for 18 to 29 year olds for the foreseeable future. The following chart shows how credit requirements have tightened in the mortgage market based on the loans Freddie Mac has purchased since 2005.

Loan to values have dropped from 74% in 2007 to 67% in 2011. This masks the much more significant change in which most borrowers accessed second mortgages in 2007 to lower their down payment



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requirements while this is far less common today. In addition, FICO scores have increased significantly from 718 in 2007 to 759 today. I estimate that the change in FICO scores alone removes approximately 15% of the population from being qualified Freddie Mac borrowers before adjusting for the higher down payment requirements. If we were to overlay the higher down payments requirement and financial reserves, then it's conceivable that at least 50% of the population is currently locked out of the mortgage market.

All of this has combined to lower home ownership rates not only for every age group but those 75 years and older, but particularly among those under 30 years of age, our prime demographic as the following table from the Census Bureau shows. While we don't expect very strong economic growth, we do feel strongly, however, that new household formations will continue to be dominated by those choosing to live in rentals versus owner-occupied housing. We believe that the demand fundamentals for apartments should remain strong for the foreseeable future as our prime demographic grows in population and they neither have the ability nor much of the desire to own a home. I will sign off with a quotation from an article that appeared in The Atlantic Monthly entitled "The End of Ownership: Why Young People Aren't Buying More Houses?":

> "But if the last 30 years have taught us anything, it's that planning for the future is an act of faith. Supply chains and software eat our jobs. Financial wizardry eats our savings. The cost of insuring against these risks -- that is, both college and literal insurance -- is rising."

(http://www.theatlantic.com/business/archive/2012/02/the-end-of-ownership-why-arent-young-people-buying-more-houses/253750)

Table 992. Homeownership Rates by Age of Householder and Household Type: 1990 to 2010

[In percent. Represents the proportion of owner households to the total number of occupied households. Based on the Current Population Survey and Housing Vacancy Survey; see source and Appendix III for details]

Age of householder and household type	1990	1995	2000	2004	2005	2006	2007	2008	2009	2010
United States	**63.9**	**64.7**	**67.4**	**69.0**	**68.9**	**68.8**	**68.1**	**67.8**	**67.4**	**66.9**
AGE OF HOUSEHOLDER										
Less than 25 years old	15.7	15.9	21.7	25.2	25.7	24.8	24.8	23.6	23.3	22.8
25 to 29 years old	35.2	34.4	38.1	40.2	40.9	41.8	40.6	40.0	37.7	36.8
30 to 34 years old	51.8	53.1	54.6	57.4	56.8	55.9	54.4	53.5	52.5	51.6
35 to 39 years old	63.0	62.1	65.0	66.2	66.6	66.4	65.0	64.6	63.4	61.9
40 to 44 years old	69.8	68.6	70.6	71.9	71.7	71.2	70.4	69.4	68.7	67.9
45 to 49 years old	73.9	73.7	74.7	76.3	75.0	74.9	74.0	73.6	72.3	72.0
50 to 54 years old	76.8	77.0	78.5	78.2	78.3	77.7	76.9	76.4	76.5	75.0
55 to 59 years old	78.8	78.8	80.4	81.2	80.6	80.4	79.9	79.4	78.6	77.7
60 to 64 years old	79.8	80.3	80.3	82.4	81.9	81.5	81.5	80.9	80.6	80.4
65 to 69 years old	80.0	81.0	83.0	83.2	82.8	82.4	81.7	81.6	82.0	81.6
70 to 74 years old	78.4	80.9	82.6	84.4	82.9	83.0	82.4	81.7	81.9	82.4
75 years old and over	72.3	74.6	77.7	78.8	78.4	79.1	78.7	78.6	78.9	78.9
Less than 35 years old	38.5	38.6	40.8	43.1	43.0	42.6	41.7	41.0	39.7	39.1
35 to 44 years old	66.3	65.2	67.9	69.2	69.3	68.9	67.8	67.0	66.2	65.0
45 to 54 years old	75.2	75.2	76.5	77.2	76.6	76.2	75.4	75.0	74.4	73.5
55 to 64 years old	79.3	79.5	80.3	81.9	81.2	80.9	80.6	80.1	79.5	79.0
65 years and over	76.3	78.1	80.4	81.1	80.6	80.9	80.4	80.1	80.5	80.5