Volume 33, No. 3, October 25, 2019

QUARTERLY UPDATE

CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

CWS

CALENDAR OF EVENTS

November 28 & 29, 2019
Holiday – Thanksgiving and Day After
CWS Offices Closed

December 24 & 25, 2019
Holiday – Christmas Eve and Day
CWS Offices Closed

January 1, 2020
Holiday – New Year's Day
CWS Offices Closed

January 15, 2020
4th Quarter 2019 Est. Tax Payment Due

January 31, 2020
4th Quarter 2019
Quarterly Distributions Mailed

March 14, 2020
Year 2019 K-1's Mailed by Date

April 15, 2020
2019 Federal/State Tax Filing Deadline
1st Quarter 2020 Est. Tax Payments Due

April 17, 2020
Holiday – Good Friday
CWS Offices Closed

April 24, 2020
1st Quarter 2020
Quarterly Distributions Mailed

50 CWS Enhancing Lives Years

www.cwscapital.com

GOING WITH THE FLOW

By Gary Carmell

At CWS we subscribe to apartment market reports produced by Witten Advisors. Ron Witten, the principal of the firm, has spoken at our Annual Investor Meeting twice and he does a good job of drilling down into some granular aspects of the multifamily industry relevant to apartment investors. Subscribers have access to listening to his all-client quarterly conference call and then he holds individual calls with each client as well. In his last all-client call in late September, he shared some information about demographic trends that corroborate some of the reasons we like investing in the apartment industry and the locations in which we have chosen to invest. I asked Ron if I could use some of his charts in this article and he graciously obliged. The purpose of sharing these is to show some important trends that have influenced our decision-making process for many years and continue to do so.

The first chart shows the breakdown of household growth for rentals with five or more units and for single-family

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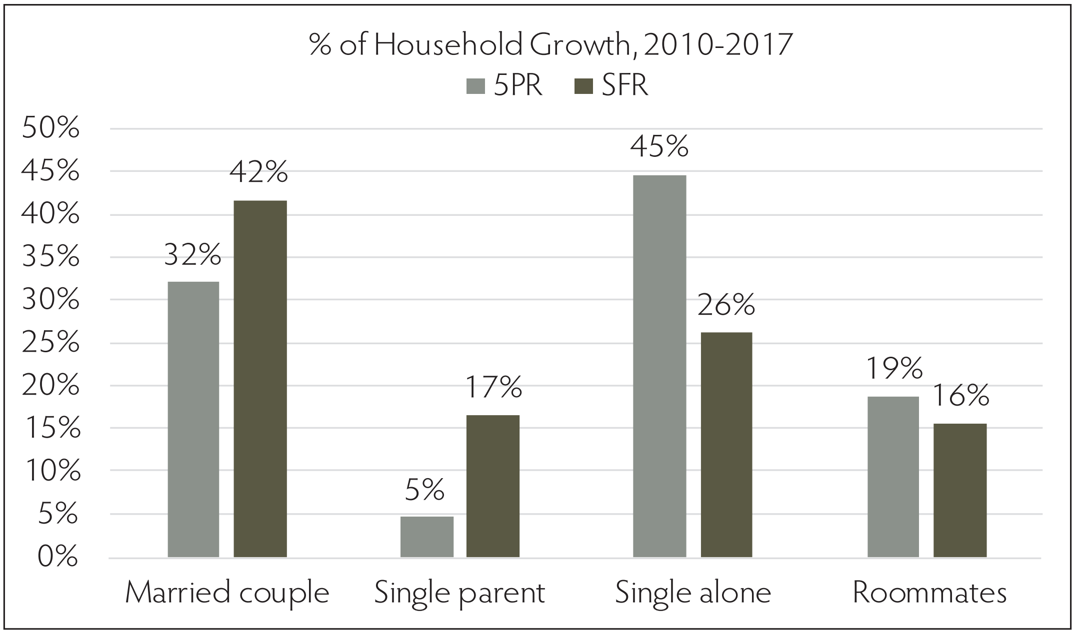
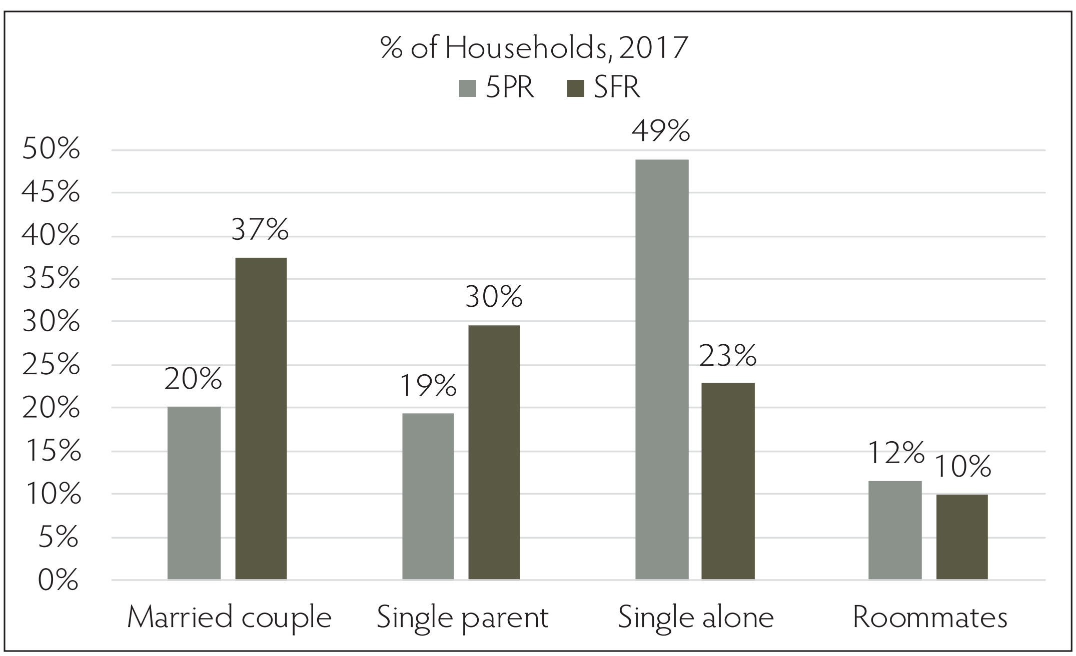
homes. One can see that the largest source of demand growth for multi-unit buildings is in the category of singles living alone, while married couples represent the largest for single-family homes, although they still represent a meaningful share of the growth for 5+ units as well.



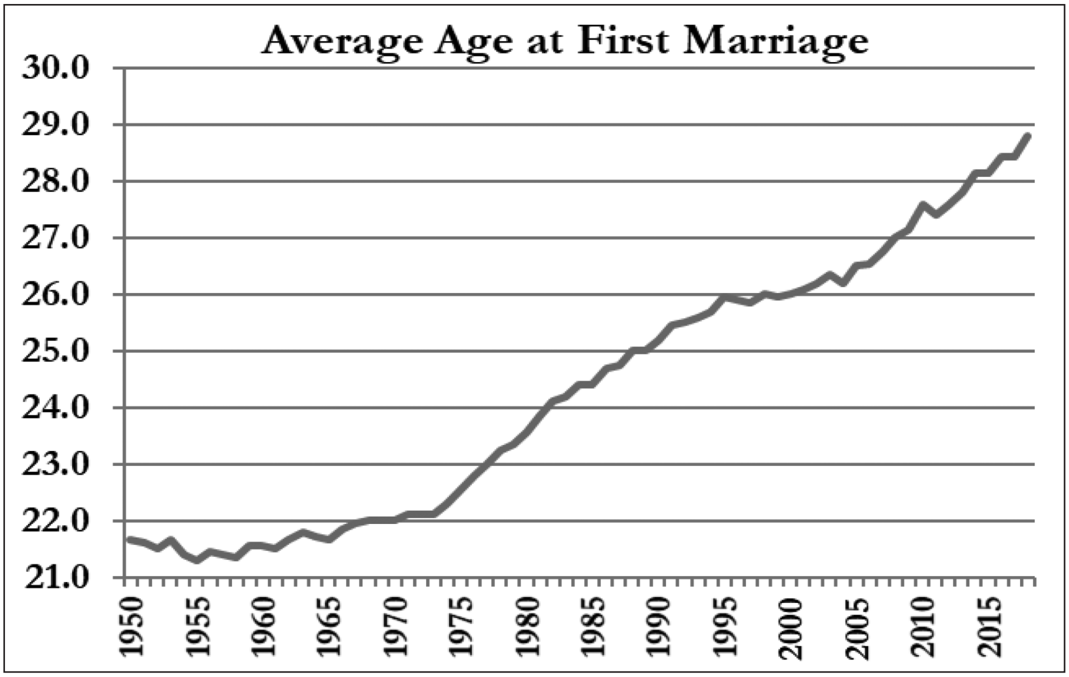
Source: Witten Advisors

When it comes to absolute percentages, versus the flow of people into rental housing, singles living alone dominates 5+ unit buildings with 49% of them occupied by this category while married couples represent a smaller share.



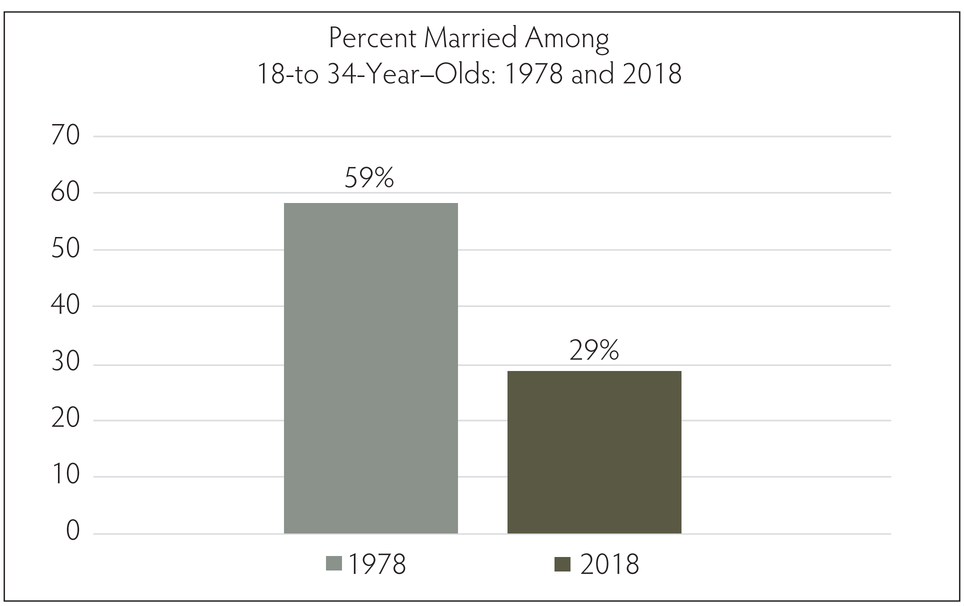
Source: Witten Advisors

With that being said, however, the flow of married couples into 5+ units is a larger percentage than the stock of them currently occupying 5+ apartments. The following charts show why the percentage of apartment occupants who are married is growing. Marriages are taking place at later ages and correspondingly the age at which women first give birth is taking place later as well.



Source: Witten Advisors

One can see that as a result of this trend, the percentage of 18 to 34 year olds who are married has dropped quite dramatically between 1978 and 2018.



Source: Witten Advisors

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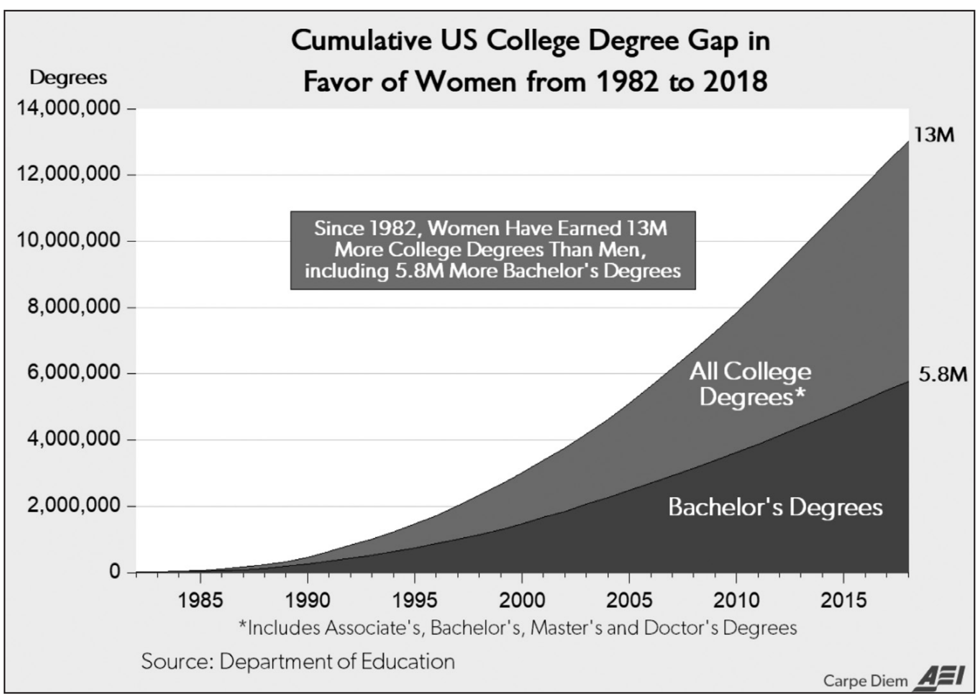
A few years ago at our annual meeting I touched on this subject and cited some statistics showing how there is a growing gap between college-educated women and men and that this results in the increasing prospect of women "marrying down" and that this is something that is causing marriages to be delayed.

Last month the results of research carried out to test this hypothesis were released in a report entitled "Mismatches in the Marriage Market" in the *Journal of Marriage and Family.* The researchers studied the profile of married men from the 2008 to 2012 and 2013 to 2017 cumulative 5-year files of the American Community Survey. They then compared these men to unmarried men to identify marriage market imbalances. So what did the researchers find? It's pretty shocking as the summary of their results shows.

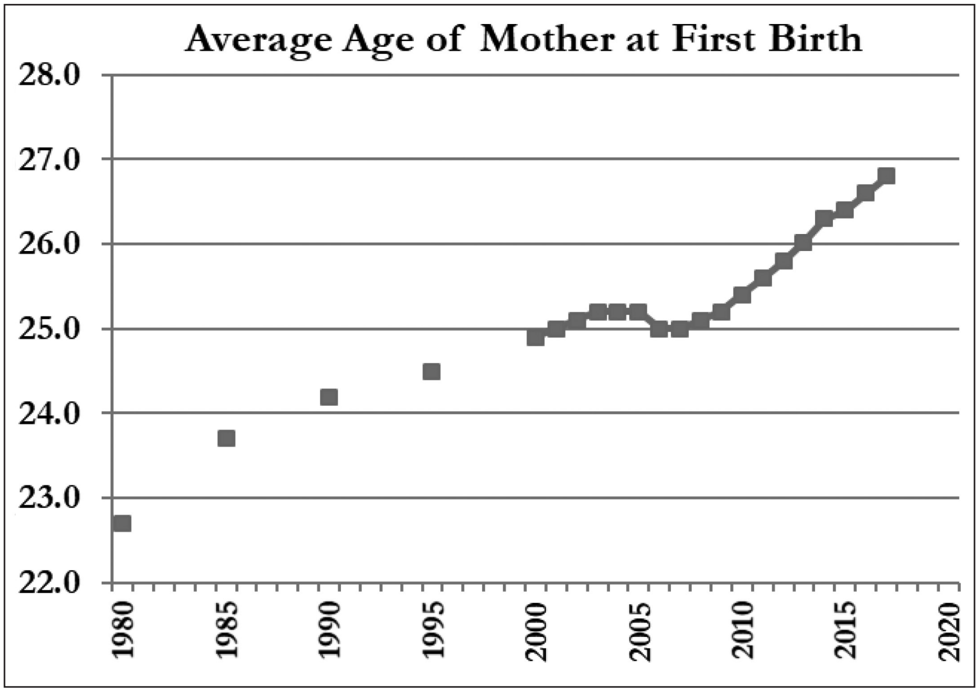
"*These synthetic husbands have an average income that is about 58% higher than the actual unmarried men that are currently available to unmarried women. They also are 30% more likely to be employed (90% vs. 70%) and 19% more likely to have a college degree (30% vs. 25%). Racial and ethnic minorities, especially Black women, face serious shortages of potential marital partners, as do low socioeconomic status unmarried women, both at the national and subnational levels.*"

Here is the gap shown graphically and it clearly conveys how daunting the challenge is for college-educated women to find college-educated males to marry.



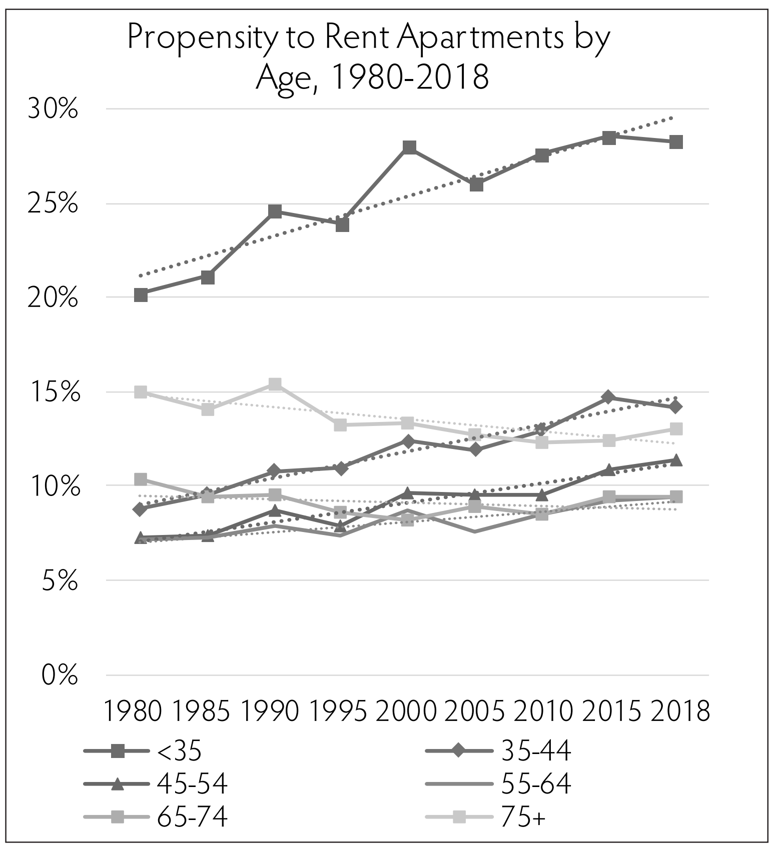
Source: AEI Carpe Diem Blog

Starting a family is one of the most powerful catalysts for people moving out of rentals into owner-occupied housing. The chart below shows that the average age of mothers at first birth has been increasing over the last 10 years by a rather significant two years.



Source: Witten Advisors

One can see in the next chart that the age cohort with the highest propensity to rent is under 35. With the exception of 75+, all cohorts have seen the trend line of their propensity to rent increase over the longer term.



Source: Witten Advisors

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Given that those people under 35 have the highest propensity to rent, it then begs the question as to where will the growth of this age cohort be the strongest? Witten Advisors provides us with their projections through 2022 and many of the markets are ones in which CWS is invested. We are invested in seven of the top 10 markets as measured by the largest absolute growth per year and in six of the top 10 when measured by highest percentage annual change.

Through 2022, young adult population growth rates in many markets far outperform the nation *(esp. in FL, SE, TX, Sea)*

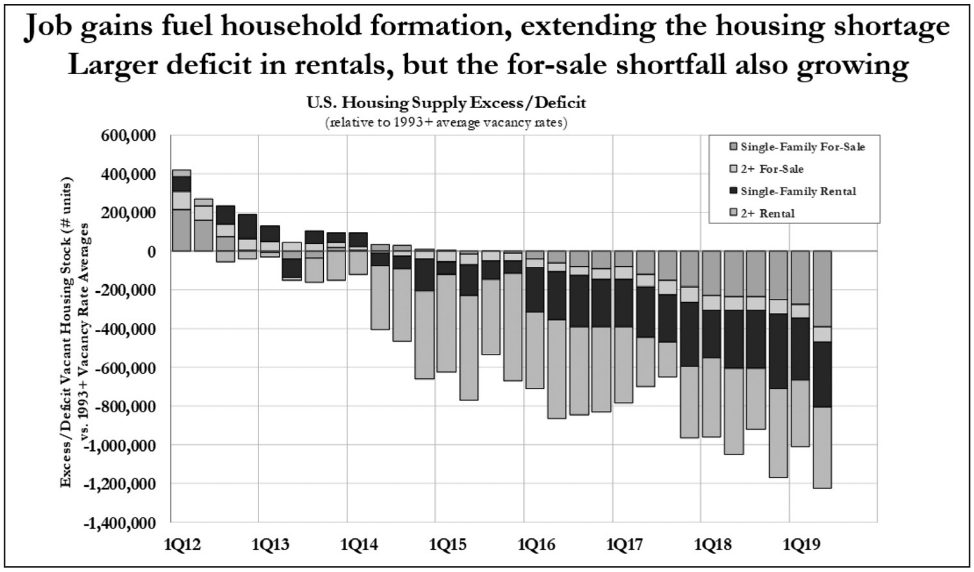
20-34 Population Growth (000s)		
2019-2022 Annual Average		
1.	Dallas	15.5k
2.	Houston	14.4k
3.	Seattle	12.4k
4.	Phoenix	12.1k
5.	Riverside	12.0k
6.	Atlanta	11.5k
7.	Orlando	10.6k
8.	Tampa	9.4k
9.	Denver	9.1k
10.	Austin	8.2k

20-34 Population Growth Rate		
2019-2022 Annual Average		
1.	Orlando	1.8%
2.	Seattle	1.7%
3.	Tampa	1.5%
4.	Austin	1.5%
5.	Charlotte	1.5%
6.	Nashville	1.4%
7.	Fort Worth	1.4%
8.	Dallas	1.4%
9.	San Antonio	1.3%
10.	Jacksonville	1.2%
	U.S.	*0.3%*

Source: Witten Advisors

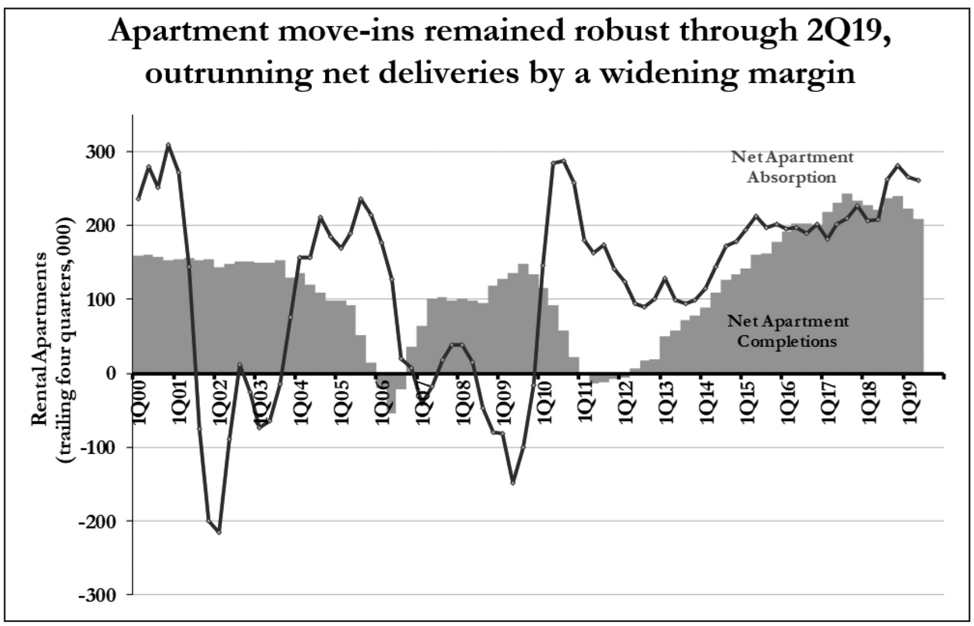
Despite very good growth in apartment demand and appreciation in single-family home prices since the Great Recession, the housing shortfall continues to grow as the following chart shows. 5+ rentals have been consistently undersupplied nationally while single-family rentals and for sale have been growing in their deficiency. This has been one of our guiding hypotheses in terms of our continued focus on apartments and in the locations in which we have been invested. We continue to believe that housing is undersupplied and even when apartments are soft due to a lot of new supply in certain submarkets, that this is more of a temporary situation given the growth characteristics of many of our markets.

Finally, this last chart shows how demand has re-accelerated (line) and is now exceeding net completions (bars). This has led to improved occupancies and stronger rent growth. This is something that CWS has been experiencing in our portfolio over the last few quarters. For example, in August we renewed 1,339 leases and the average rent increase was 5.1%. In



Source: Witten Advisors

addition, for those who vacated and were replaced by a new resident, we signed 1,206 of these leases for an average increase of 5.7%. This is strong growth for being relatively late in the economic cycle and speaks to the healthy demand fundamentals for the industry as the graph below depicts.



Source: Witten Advisors

By going with the demographic and social flow, we believe that apartments should have a bright future as the demand prospects continue to look healthy, particularly in the markets in which CWS is invested.