Dear Fellow Shareholders

The year 2003 was a defining time for CharterMac (the "Company"). For the sixth consecutive full year of operations, we accomplished substantially all of the goals we had set forth for the Company, including the expansion of our operating platform, the diversification of our revenue sources, and the completion of the acquisition of Related Capital Company ("RCC"). With the incorporation of RCC into CharterMac and the increasing synergies with our subsidiary, PW Funding Inc. ("PWF"), the Company completed over $2 billion of multifamily financing during the year. As a result, CharterMac enters 2004 as one of the strongest multifamily finance companies in the nation.

We are particularly proud that solid results in all four of our core businesses -- portfolio investing, real estate fund management, mortgage banking, and credit enhancement -- enabled the Company to grow its 2003 Cash Available for Distribution ("CAD") per share by approximately 13.4% over 2002. In addition, our continuing goal of providing our shareholders with consistent returns and increased value was realized in the share return for the year. The total return on CharterMac common shares (inclusive of dividends), on a tax-adjusted basis, was approximately 33.6% for 2003, and approximately 17.0% on a compounded annual basis since CharterMac's listing on the American Stock Exchange in October 1997. In addition, the Company's successful execution of its business plan has enabled CharterMac to establish an infrastructure that will promote a consistent rate of internal growth, which is less affected by interest rate fluctuations and less dependent on the shape of the yield curve.

Industry Overview

Multifamily Market

The year 2003 was a record year in the multifamily finance industry. According to a recent report by the Mortgage Bankers Association, on the strength of fourth quarter volume, commercial and multifamily mortgage loan originations set a record during 2003, with the multifamily sector's $49.9 billion in loans representing 43% of total loan originations. As an investment, multifamily loans continue to outperform all other real estate loans. According to the Office of Thrift Supervision, as of December 31, 2003, the level of non-current multifamily loans as a percentage of all outstanding multifamily loans was just 0.13%, which compares very favorably to 1.21% for all commercial real estate loans and 0.84% for single-family loans.

While loan originations were at a record pace in 2003, the multifamily industry continued to face some challenges. Fundamentals were weak due to a confluence of factors, including increasing supply, lack of job growth, and increased single-family home ownership. The positive note is that multifamily property values continued to increase, with capitalization rates falling to a 13-year low of 7.05% at the end of 2003. The appreciation in values has boosted apartment investor total returns even in the face of declining net operating income ("NOI"). While most of the apartment real estate investment trusts ("REITs") reported declines in same store NOI throughout the year, investment returns on apartment properties rose to 9.2% during 2003 from 8.8% during 2002.

The affordable multifamily industry also felt the effects of the economic climate in 2003, as large rental concessions at market-rate properties in certain markets eroded the price advantage of low-income housing tax credit ("LIHTC") properties. In addition, rising property tax and insurance expenses at affordable properties continued to affect NOI. During 2003, NOI at properties underlying CharterMac's revenue bond portfolio declined 3.6% as compared with 2002.

Interest Rates

The low interest rate environment continues to be extremely favorable for CharterMac, as the Bond Market Association ("BMA") Municipal Swap Index, the short-term tax-exempt index that is the basis of a majority of the Company's debt, continues to be at historic lows. With the BMA rate averaging just 1.03% for 2003, CharterMac was able to recognize beneficial spreads between our cost of borrowing and the interest rates on our revenue bonds investments. Our weighted average cost of debt at December 31, 2003, was approximately 2.5%, taking into account our current cost of hedging, while the interest rates on our revenue bond investments averaged 6.5% for the year.

Consistent with our previously discussed strategy, CharterMac has begun implementing hedging strategies to mitigate the possible effects of future interest rate fluctuations. We believe short-term rates will remain relatively low throughout most of 2004. Therefore, we have decided to focus CharterMac's hedging activity on 2005 and beyond. Consequently, during the fourth quarter of 2003 and the first quarter of 2004, the Company entered into six different BMA swap transactions with an aggregate notional amount of $450 million. All of the swaps provide protec-