# **bob irish update\_March**

**Bob Irish:** [00:21:31] Bob Irish here with our monthly call with Justin Ford of Pax Properties. Today we're going to update you on all the standalone investments in Florida and keep you abreast of the underlying investments in the Cap Plus Diversified Income Fund. I say it every month. It's important, especially for our newer investors. Throughout real estate booms and busts, Pax Properties has never failed to produce a positive result for investors or missed a mortgage payment. Justin, I can hardly believe. It seems like I just talked to you yesterday, but looking at you on the screen right now, the beard tells me it's been at least a month since we've talked.

**Justin Ford:** [00:22:14] Well Bob, a month in this business is ten years in normal human lifespan. So that's right. It's been a month and the beard has, I like to say that I'm showing more wisdom now. I hope that's what it portrays.

**Bob Irish:** [00:22:27] Well, that's not how I interpreted it, but in any case it's great to have you back. Why don't we kick things off and talk about our hotels and other properties in Florida. And specifically, I know that last time we were together, we talked about potential sales and refi. So I'm assuming that being seasoned in Florida with all the hotels are doing very well. So maybe we can skip over some of those details and just focus on refis and potential purchases. Why don't we, you want to start with Vero Beach?

**Justin Ford:** [00:23:03] Sure. So Vero, we did get a surprise offer when we weren't expecting and it's a little bit different. They're looking to basically master lease the property. So it would be almost like a triple net retail lease and then purchase it at the end of the lease. The lease term they're looking for is 30 months. So the gist of it is if we get to a contract or agreement, they give us a good chunk of money quarter million or something, a non-refundable day one. Then they pay us a net every month. That's more than we clear now after operations, except they take care of everything. They pay the taxes, they pay the insurance, they pay all the operations, they run the hotel. And then at the end of the three years, they execute the contract and they pay the balance of a pretty significant purchase price. So that was just floated a few days ago. We've gone back and forth. We've settled on a number. We're selling some other terms. We've done some due diligence. The guy made the offer.

[00:24:02] He is a very established operator. He comes from a family in the business, and he has taken a lot of hotels and upgraded them a bit. And he's committed to investing $1 million in CapEx in the property during the lease, which is also big. So he's not just going to hold it and try to squeeze money out of it and give it back to us in a poor fashion. But all those things will be worked out at contract phase. The really nice thing about this, if we decide to do that, transition to the employees end up working for this guy now. And we now have zero management responsibilities. We make a little bit more money than we clear now and with the sale of our next property, which we'll talk about in a moment, that's two properties that have produced really good returns that are now off our plate as far as management concentration goes and starts to free up our vision for the next phase.

**Bob Irish:** [00:25:01] Wow. Exciting news Justin. I'll be looking forward to next month to find out if that actually goes through. I'm delighted to hear that this guy who's making the offer has done this before. So he's got a track record in this arena.

**Justin Ford:** [00:25:16] Yeah. And we've seen the properties. He's done really, really good jobs. They are lower level properties like economy, but one I think is a super [] or something. And the broker I respect a lot says it's the nicest [] he has ever seen. And I've seen the pictures. They're quite impressive for that category. So we're above that category so we think we're going to be in good hands should we decide to go forward.

**Bob Irish:** [00:25:38] Great. Hey let's talk about Melbourne.

**Justin Ford:** [00:25:41] Right. So we passed the due diligence there. The tentative closing date is April 24th. We're going to be announcing it to employees in the next week. And we have plans to help them transition to new spots as much as possible. And we just are finishing a few items in due diligence. They had us do some work on some rooms as far as moisture remediation goes. But all that is just about complete. They've already gone hard at $325,000. They probably spent a couple of hundred thousand dollars. So we think that our chances of closing are quite good, and we're going to be doing it after season as you said. So we've been able to break in really good revenue and profits during the season. So this should be a really nice crowning to a property that when we bought it was the most visited place by police, was the lowest ranked. Since then, has won Tripadvisor's top award eight years in a row, and now we're about to exit at a really excellent spot.

**Bob Irish:** [00:26:57] It's a home run. Absolute home run.

**Justin Ford:** [00:26:57] Yeah.

**Bob Irish:** [00:27:01] Do you want to go to Tallahassee or do you want to go to Ocala first?

**Justin Ford:** [00:27:06] Let's go to Ocala, the other operating hotel since we're just talking about those. And Ocala, very little to tell in the good sense of that [praise]. Its yearly revenues are now. They'll be a $4 million hotel soon. Still ranked number two in the market, cost increasing our average daily rate. I think we'll be coming up on $1 million in profit within the next few months on that on a trailing 12 basis. So that is a great hotel, very little deferred maintenance. That's just a gem and it's a keeper. So we're happy to have it.

**Bob Irish:** [00:27:45] Terrific. Well, let's talk about the two properties in Tallahassee where the pivot is going on from hotels to residences.

**Justin Ford:** [00:27:56] So those two hotels are the reason that you'll find 1 or 2 gray hairs in my beard. They've been the bane of my existence professionally for a couple of years now. We haven't been able to bring them back. [We stayed with it, stayed with it], and finally we got our full permit the other day in Seven Hills. We have this great lender. I really like these folks. And we've been left at the [altar], like I said, four times. I think 2 or 3 of them was because what's going on in the industry right before the current environment, post COVID everything went crazy, especially the banks last year, everything went insane. And LOI, which is a letter of intent by a bank, it's kind of a non-binding LOI, like if you're going to make a purchase of a property LOI as well as non-binding, then you get a commitment letter, which technically is binding. Well, LOI is used to be pretty much binding. I don't think I've ever gotten out of line, 18, 19, 20 years before this that didn't turn into a loan if I wanted it to. But again, we got left at the altar four times in one year on this property. It's Silicon Valley Bank, Republic Bank and then just some other guys have known issues I think. So these folks are solid. In fact, I'm going out to visit them after we close. They're having an event in Dollywood. I've been to Paris. I've been to Rome. I've been to London, Tokyo. Now I can cross off Dollywood. Going to Dollywood in April, I think.

**Bob Irish:** [00:29:24] Man, take pictures. I've never been there. I want to see what it's like.

**Justin Ford:** [00:29:28] I will. I'm looking forward to that. And we got the full permit. We have the vendors rocking and rolling. We're moving really quick on the framing out, which is the first stage of these renovations framing the chase walls, which you run your plumbing and your electric. And we've just placed the order for our cabinets and countertops, which will come from overseas, which is kind of interesting in today's environment with what's going on in Suez Canal over there and what's going on. Even in ports over here, the Panama Canal is low in water. So they. You can't take the supertankers anymore like they used to. Baltimore just had that tragic bridge collapse and that's clogging up. So it's a little interesting. Side note that's a little challenges on the supply chain. But these orders were in the works months ago, but we think we'll be fine. And we're really moving fast and we're expecting the final permit on the other hotel [] Casa Bella. We already got an early start work permit there. We expect a final permit there this week. We got the same crews going on both and we think this will be our best renovation ever. Our leasing concept has really been proven. We typically have about 35 to 40 units pre-leased at Seven Hills. They are without the stove because we have yet to run that electric. But even there, our proforma is 990 once we're all done. That's the rent, including all utilities. So it's a really good deal for studio. Right now we just do 890 without the stove and we're getting great traction. We're getting 35 or 40, even though we're kind of going to be under construction in certain buildings. So that's very, very powerful. Also at the end of this month, Seven Hills going to stop operating as a hotel. So we're just going to be with our 40 leases, which may grow to 45, 50 or something [involving the] construction. And then we're going to be doing our construction. That should really help quite a bit.

[00:31:32] Now, we can afford to do that because we have those leases and we have our permit. The only thing we're going to do is we're going to open up in May for one weekend, just graduation weekend. And we already have reservations on the books. We'll bring a chunk of money there, but that's it. After this, we go to straight apartments, and because of that, we're going to be changing. And we'll probably show you an image of this, of our new apartments, which are called the Swan luxury Studio Apartments. That's going to be our new name. And Bob to digress a little bit, I always told you we turned ugly ducklings into swans, right? And that can be a big job. I've been out here in Oklahoma now for the last two years and change, turning three really ugly ducklings into some pretty nice swans. Well going forward on our next phase, we're just going to buy ugly swans and convert them to swans. We want an easier lift going forward, but the conversions are going well and we're really excited about that. I think four months from now, five months from now, we're going to be at 50% occupancy on each. We're going to be rip roaring on the renovations. And by the end of this year, we'll probably be close to 80, 90% on each one of those. And so that should be exciting.

**Bob Irish:** [00:32:51] That's fantastic. I'm delighted to hear Seven Hills has gotten the total green light. And you say you're a week away from Casa Bella. That's great news, Justin. Great news. So anything really to talk about in terms of Renaissance Governor Square? Everything copacetic there?

**Justin Ford:** [00:33:08] It's really good. Renaissance, the thing that's really nice. In this market, rents are tapering off. We've traditionally always kept our rents under to capture more higher occupancy more consistently. But our manager is just wonderful. And she just keeps pushing the rents, even against the market, because we were I guess a little bit low. So not only is our occupancy high, but our base rents continue to grow. So that property is just really, really performing well. Really happy to report that.

**Bob Irish:** [00:33:40] Super. All right, well let's leave Florida. Let's go to Oklahoma. Oh, and by the way, you are physically in Oklahoma right now. Am I right?

**Justin Ford:** [00:33:49] I am. I am in the office of a property manager. I was going to show you from the event room, but it's too echoey in there, too many echoes. I'm on site. We'll be taking some pictures, including them here. I would walk you around, but it's raining outside today, so I wouldn't get my iPad wet.

**Bob Irish:** [00:34:08] I understand you've got a guest with you.

**Justin Ford:** [00:34:12] I do Indeed.

**Bob Irish:** [00:34:13] Yes.

**Justin Ford:** [00:34:13] I'd like to introduce to you Chris May.

**Chris May:** [00:34:17] Hello.

**Bob Irish:** [00:34:18] Hello, Chris.

**Justin Ford:** [00:34:20] Chris and [] have been investors with Pax for over a dozen years, and they helped introduce us to Oklahoma and Chris, why don't you tell us a little about how you and I first met, and then we'll jump to []

**Chris May:** [00:34:35] Sure. Oh goodness, it's been 12 years [] a long time ago.

**Justin Ford:** [00:34:40] Right.

**Chris May:** [00:34:41] I can't remember where I first heard about []. It's probably through some Agora publication, but got in touch with Justin and was one of his investors in a couple projects in Florida. I went to visit him and he looked at me and he said, are you 12? Because I just looked young very naturally. And we hit it off and was invested in those two projects, and it went incredibly well. And we've been friends ever since.

**Justin Ford:** [00:35:06] Yeah. And Chris, by the way is a cardiologist and his wife [] is a palliative care physician for children. And they have an amazing family. They have four really beautiful children. And about three years ago, they reached out to me and they said, hey Justin, can you teach us to do what you do? So that's how we started on that, right?

**Chris May:** [00:35:31] Yeah. That's it.

**Justin Ford:** [00:35:32] Yeah.

**Chris May:** [00:35:32] And then one thing led to another. And now there's three properties in Oklahoma and progressing and doing wonderful.

**Justin Ford:** [00:35:39] Right. And they've been very, very instrumental in helping us find properties. And then [] helping as far as especially [] was helping with a regional manager role, like checking in on stuff and being a sounding board for the property managers. Because property management is once you stabilize, it is one thing. The property management during heavy construction is really, really a challenge so they've been great and it's really, really excellent to have Chris here. [overlap].

**Bob Irish:** [00:36:12] Chris, so nice to meet you. And what a great backstory.

**Chris May:** [00:36:17] Absolutely.

**Bob Irish:** [00:36:18] Justin, let's talk about those three projects in Oklahoma. Let's focus on, you want to start with Apex?

**Justin Ford:** [00:36:26] Yeah. So Apex 91 units, 97% occupancy. I think it is. I'll be out there tomorrow. I'm driving to Tulsa tonight. I stay in the Indigo because it has a bar on the sixth floor. It's got an outside bar. And in Tulsa, that gives you the view of the whole city. It's amazing. I love that place. So I'll be there tomorrow checking out our property there. It's performing very well again. We got good management. So the good story there is that it's a short story performing well.

**Bob Irish:** [00:37:00] Perfect. Let's talk about Elevate.

**Justin Ford:** [00:37:03] Just came from there a couple hours ago. Chris and I were there. We met with our manager, who was also our regional manager, []. And again, I think we're just over 95% there, now 96. I spoke with the local bank here we've met with a few times. They're very interested. The local bank actually is interested in []. We have our financing at the moment in place at Elevate, but it looks good. Little construction has been done for a while. Again, we're 95%. There's a few little TLC things that I want to take care of, but really it's just a great looking property. Looks great from the main road, which has probably 40,000 cars a day. So not only is it doing well, but it's in a great location with a lot of exposure. So I expect it to do very, very well indefinitely for years to come.

**Bob Irish:** [00:37:58] Perfect. Let's talk about those 146 units at Ascend. What's going on there?

**Justin Ford:** [00:38:04] Well, all 146 of them should be done as of right now. We had the electrician doing one or two things and one of the last two units he's supposed to be finishing actually this morning or today. So I'll be walking out there soon, and we're trying to schedule our final CO certificate of occupancy for the last two buildings, which need a CO. All the others have it. I think we have something like I [can't] remember 18 buildings or something like that. So we should get our final seal on Friday. Two months ago Bob, we were at 33% occupancy. We went down. First of all, what happens is when you buy a beat up property, you typically buy an undesirable tenant base because you often have people, unfortunately that are living in these crummy places because they may not be able to qualify for a good place. So that's the reality so there's some really good folks that you acquire, but there's a lot of bad folks. So when you acquire a property that's rundown at 80% occupancy, you can really think that you're probably at about 50% occupancy as far as responsible telescope once you get to last.

[00:39:13] So we got all the way down to 33 because we also had all these permit issues with the building department made us put in 72 new balconies as we discussed. And they wouldn't pass buildings until that and the hallway electric, etc. so we got that. So we were 33 just two months ago and it went through. In Oklahoma, it's really tough to lease up. And we did an agreement with leasing company in Florida of all places. And they bounce around they do a different markets. They came out here Bob. Today we're at 50% occupancy.

**Bob Irish:** [00:39:48] Wow.

**Justin Ford:** [00:39:49] And on a pre lease basis, we're at 61% occupancy.

**Bob Irish:** [00:39:53] Wow.

**Justin Ford:** [00:39:54] We're shooting to be at 90% by June. And our loan comes due early July. So that's good timing. And again I already have a local bank, we've been having conversations where you have to have it. And they've seen our success at Apex. They've seen our success at Elevate. In fact, they drive by it a lot. So they're really, really keen on this property now because they've seen that we're proven entities as far as it goes so I think we're going to be 90% by June and we're going to have stabilized money financing this place sometime in July. So really, really grateful that we finally got to this point. And once this is there and again by July, we should be close to halfway on our two conversions. Then we're going to be looking through and by July, also probably Melbourne will be sold. Vero maybe triple net lease to someone else with them eventually buying it. And so now we're going to be looking at a brand new phase of Pax. Oh by the way, I should also mention, again when we refinanced Seven Hills, which should close within the next three weeks, we get caught up on [press on] the fund term's a lot of cash. Melbourne term's a lot of equity people support. So we know that our investors. Every time they get money back from us, we're very fortunate that they kind of push it back across the table to us and say, what else do you have? Well we'll probably have some new things to offer very soon.

**Bob Irish:** [00:41:30] Very exciting. Hey, let's finish up with Port Saint John. Anything really to report there? I know you're occupancy was in the high 90s the last time we talked. You mentioned this out parcel. Any further progress on that?

**Justin Ford:** [00:41:47] Yeah. Quite a bit. We contracted with a civil engineering firm to do a study on the out parcel, so to see if we can move. The out parcel serves as storm water overflow. So if we can move that somewhere else on the property, then that outfall sewer which is right on the main highway US 1 can now be built like a regular pad for any retail outfit, fast food or coffee or car wash. All these types of people have approached us, some of our properties, some of our land that we own. So they're doing that. We should have that study back in about three weeks. Meanwhile Winn-Dixie was brought by Aldi's, which is another grocer and all these typically has a smaller footprint Winn-Dixie's of our 80, 78,000ft², Winn-Dixie takes up around 50,000. All these typically only needs around 25,000. So their plan is to renovate their store, but also to turn it into an all these then they'll have another 20 to 25,000. They know they're obligated to pay us on that 2025, but they may sublease it. But they would need our approval for that.

[00:43:00] We're just discussing this yesterday, in which case that may be an opportunity for us to actually generate a little more income from our anchor tenant, which is unusual because usually your anchor is just in there for like 20, 30 years at a very, very strong low rate. Right. So there's a possibility we may get a little more revenue out of that. But I also like the fact that they're just renovating it as well. They're doing another round of renovations and upgrades and also our mural just looks beautiful. They're getting great comments on that and some other improvements we've made there. So that is one of the types of properties we'll be looking at acquiring probably in the second half of the year, anywhere from the third to fourth quarter. As we continue to make the progress that I expect us to make on the two conversions and on Ascend, we're going to be looking at some other grocery anchored retail opportunities because the interest rate environment right now, some do exist. And it could be very, very compelling.

**Bob Irish:** [00:44:00] Wow, that is exciting. So Justin, we've covered the waterfront here. Do you anticipate any offers coming apart from the potential for new investments with the liquidity that we're probably going to see? Do you anticipate any other offers or do you see anything on the horizon?

**Justin Ford:** [00:44:23] I do. It's really interesting. I think there's a possibility I may make an offer for a first mortgage note for Ascend for the property. We're in now at 8 to 9%. So we have a bridge loan on this at about 11% right now, structured bridge loan. And now if we finished in time which we should release it by like June, we can go to another bank and probably get like an 8% note, maybe 7.5% loan. If we finish a little before then, which we won't, we can get agency debt like Freddie Mac or Fannie. Those could be around 6%, but it depends between 6 and 6.5 depending on how stabilized you are, how long you've been at 90% plus occupancy. I'm thinking, you know what? We just paid off a bunch of private notes with the refi in Vero. We're going to do that as well soon in Ocala. And every time we do it, like I said, folks go, hey, do you have somewhere else where [I can park this], especially if they're interested in income in the form of a loan. And I'm thinking why don't we just put a first mortgage, we pay off this current mortgage, we can put on a first mortgage with our investors, give them a chance to make 8 to 9%, and then that gives us time to let the interest rate environment become clearer.

**Justin Ford:** [00:45:45] And we can pay that off any time with the bank note. So let's say for the sake of argument that interest rates are 75 basis points lower a year from now. That's a possibility. Why run it to low now when we can give our investors a chance to make 8 to 9% get first mortgage position. A lot of our notes are subordinated, unsecured.

**Bob Irish:** [00:46:12] Right.

**Justin Ford:** [00:46:13] If they pay high, this would be completely unsubordinated. And it would be totally secured by first mortgage. We've done it before. There's these types of those first moments we did with Seven Hills. And also then once we do pay it off, they have that capital and then they can roll. If we have that equity offering to the fund which I expect, they can roll that money if they want. And the first priority basis into an equity investment into the fund at the original price. So assuming that they're an original investor. So I do think that that debt offering, where are we? End of March, probably end of April.

**Bob Irish:** [00:46:49] Okay.

**Justin Ford:** [00:46:49] Maybe early May, we'll probably start to make an offering for between 8 to 9% low LTV loan, low leveraged value. This property is worth probably about 15 million. The loan will put on will probably be close to 9 to 10, so it would be no more than 65%. And the debt coverage, meaning the amount of revenue we produce to pay the debt will probably be at least one and a half to one. In other words, one half dollars of free cash flow, dollar in debt available cash flow. So we think that's the smart move on many ways. One, it lets us pick our refi timing better as far as when we want to go to a long term loan. And two, it gives our investors a place to earn high yield, even higher than the 4%. They can make 4.5%. They can make right now with treasuries, while at the same time soon after that, go into the fund for our next equity investment, if that's what they'd like to do.

**Bob Irish:** [00:47:51] Right. Sounds great Justin. Thanks for the update. Anything to add before we sign off?

**Justin Ford:** [00:47:58] No. It's been a pleasure, Bob. Always great to talk to you.

**Bob Irish:** [00:48:02] Great to see you, Justin. Talk to you next month, and I'll look forward to seeing where that beard is.