Justin Ford & Bob Irish April 2024 Fund Update Transcript

Bob Irish: Okay. Bob Irish here with our monthly call with Justin Ford at 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, I'm gonna say it again. Throughout real estate booms and busts, Pax Properties has never failed to produce a positive result for investors or missed a mortgage payment. With that said, Justin, how are you?

Justin Ford: I'm doing well, Bob. Thank you. How are you?

Bob Irish: I'm doing just great. Even better since I got a little notice that some money had been returned to me. And actually just before our call, you said this is a huge month for Pax Properties. You're returning somewhere in the neighborhood of $16 million to investors. Is that right?

Justin Ford: Yes. Actually, I, I failed to do the math before I came in, but it's, it's probably closer to between 18 and $20 million between what we started to return a couple of weeks ago with two Refis, Vero and o Ocala assume will return that and what's happening over the next three weeks, it'll be somewhere between 18 and $20 million.

Bob Irish: Well, Justin, don't get me wrong, I was delighted to see my return of principle from Ocala. Yeah. But it's presented me with a problem. What am I gonna do with this money? I mean obviously I, I wanna invest it, but I'm just hoping that you have something in the pipeline and that I might be able to reinvest those proceeds in. What's, what's going on there?

Justin Ford: So, I do think it's quite likely that we will have two, possibly two first mortgage loans. So where the capital will be securitized. Collateralized have first position as part of two, two different properties. One is a stabilized property where all the work's been done. That would be in Moore, Oklahoma, that would be Ascend Apartments, and that'll pay between eight and 9%. And then there's another that's a conversion as a property owned for years but we're converting it from hotels to apartments. And that would be between 9 and 10%. And altogether, those two properties, the the, the financing might be not, not the whole 20 million or 18 to 20 million were terrible. We can probably put to work 15 to 16 in that. And those would be notes that we would expect to get paid off between six to 12 months. So they'd be kind of short-term placement of capital. And, and then following that, we'll, we'll, we'll also have some equity stuff coming up. But, right now, in the next quarter, Bob, it's gonna be those two first mortgages. We're gonna have a good opportunity there.

Bob Irish: Okay. How do I let you know that I wanna participate in those?

Justin Ford: So just send an email to me with the subhead first mortgage notes. Okay. Yeah, the subject, subject line first mortgage notes. Just say, Hey Justin, I'm interested, and then we'll put you on a priority list. We always put it on the order we receive. Oftentimes as you know, we might, we often sell out. So the sooner you just let us know, we'll, we'll hold a placeholder for you. And the minute we actually put the note together, then we'll go out with a particulars. And at that point people can say yes or no, they're not committed, but by responding now we, we, we lock their tentative place in line.

Bob Irish: Okay. In terms of timing, when do you think this might happen?

Justin Ford: At June, at the latest, June at the latest. Okay. So I would say mid-June at the latest and at the earliest mid-May. Okay. So between mid-May and mid-June.

Bob Irish: All right, great. Well good. That's, I'm, I'm glad there's, there's gonna be a place for me to put this money that I just got back.What do you say? We run through the properties quickly. I know there's some really cool stuff happening. I'm starting if you wanna start in Vero Beach?

Justin Ford: Yeah, bob, this is like the most impactful month Pax has ever had. You know, we've kept our nose down with some hard stuff like the way Covid impacted two hotels, right? And then we finished three major renovations out in Oklahoma, and one of them was delayed because of the inspector. So, but we keep our head down, we keep our head down and we stay with it. We stay with it. And, you know, this is, this is part of that beautiful time where we're, we're staying with it pays off, you know, so Vero, we just refinanced and returned, oh, I don't know, more than 2 million. But also we just got an offer that so much, much to come in at a price we would sell out and they wanna master lease the entire property. And this guy has a track record. He's done this with four other properties. It really makes sense. This gentleman, you know, he's got a master's degree in a couple things.

Take that for what it's worth. But, he's not just a tire kicker. He's done this with four other properties. He comes from a hotel family, a family that owns these little mom and pop motels and so forth. And, and I've seen these folks, you know, and often, they're named Patel. It's actually, it's really true. I, I've probably done deals with a few families named Patel, you know, and, and these folks, they come to me, the US they work hard and they, and they build financial stake, you know, in the hotel business. And then their kids are working in the business and sometimes their kids don't wanna, 'cause now the kids are like architects or doctors.

This is, this is a real experience like in the Seven Hills when I bought that. And they're like, oh no, we don't wanna be in this business anymore. So the mom and pop, they sell, I think this kid came from the Patel family and came from the mom and pop and he said, oh, what I wanna do is I wanna get my MBA and my engineering degree, which he did. And he thought, I wanna apply some financial engineering to this business now. And to me it makes entirely sense what he's doing. So, you know, they propose to give us like a quarter million dollars down non-refundable pay, which I won't reveal right now. 'cause I never wanna give too much detail in these things to cause any particular issues. And, and they, and pay us every month an amount that's more than we net right now for, for three years. And then at the end of that, execute at a sale price, which is right at, at the top of the market.

And you know, my associates have asked me, well, why would he do this? I said, it's actually kind of brilliant. You don't need a, you don't need a bank loan. You're, you're a proven operator. So you can go and you can get control of the property. You can generate enough cash to pay what, what they would've made. And if you, if you have confidence in your execution, you can do even more. And, and then after you've seasoned it for a couple years, then you can get bank loans. No, no problem. And, and you can finance the rest of it. Also, as part of the contract, they're committed to invest a million dollars in capital expenditures and a half million of that in the first six months. And all subject to my approval. You know, so they can't paint the garbage cans and say they spent a million bucks, right? So it's, it's really, really a powerful deal. And, and, and that along with the sale of Melbourne takes two of our properties out of, we have 11 properties right now. 10 are operating properties. One's a piece of land that brings our operating properties from 10 down to eight and, and increases our bandwidth for our next acquisitions or our next, you know, loan offerings and things like that.
So that's a very exciting development. You know, Vero's our oldest hotel. We've owned it for 10 and a half years now, so almost 11. So, that's very exciting.

Bob Irish: That is exciting. And from what you've just said, I guess it looks like the Chateau ghetto deal is still gonna happen.

Justin Ford: Yes. The former Chateau Ghetto and let's all recall that it was the most visited place by police when we bought it. And when we finished our work, we went to number one on TripAdvisor and then we won TripAdvisor's top award eight years in a row, plus the county beautification award. Plus we generated over the last eight or nine years, over $25 million in sales employed, you know, at any given time about 35 people. So that was a really beautiful turnaround story. And now we're selling it at a premium and we're selling it at about 30% more than it would be worth in the market. But we've been at contract for nine months because the buyer has plans to convert it to apartment buildings, to apartment communities.

Now that was risky for us. So we, at this point, they've already passed through $350,000, not in escrow directly to our company. So there'll be no fights over money in escrow. So they've already done that and they've spent easily a couple hundred thousand dollars with architectural plans and pre-approvals and all this stuff and, and legal assistance and so forth. And they've executed this, this, this, these types of conversions before. So now we were supposed to close, maybe today actually was our original close date actually.But they negotiated with us and, and they, and they asked to extend up till May 15th. They think they'll extend sooner. We did it, they released the money, they signed off on all, on all contingency inspections. So they have no outs. And between May 10th and May 15th, we will close on a $16 million sale of a property we bought for $2 million. But we put six or seven into it over the years. So it's been, that's been a bit of a long transaction. But again, we stayed with it. And also we did, you know, during the season we made good money, right? So we were open during the season, which for us here is January, February, March, really, February, March. And we got to run it full and, and, and, and bank some good cash there. And so that should be closing within the next two or three weeks.

<u>Justin Ford & Bob Irish April 2024 Fund Update Transcript</u>

Bob Irish: And that of course will put some more money into investors' pockets. So more return principal. Okay, hey, let's, do you wanna go to Tallahassee now or do you wanna go to Ocala first?

Justin Ford: Let's stop in Ocala. So Ocala is, we just refinanced there. We had, we had a few million dollars in, in private investor loans we paid off that were paying good money. You know, we financed all the debt on that property. It was pretty much private investor debt. We never put a bank loan on it. So I mean that we assumed a small bank loan, like $1.7 million, which we had paid down to about one and a half. And, but, but the rest of it was all bank notes. So we paid off something like three, three and a half million in, in bank notes. And we're just about to get caught up at the end of this month with all the deferred profit, which we've been holding off to manage our cash during these, these, these pivotal transactions. So, we'll, you know, Ocala including getting fully caught up in deferred pref, Ocala will, will, will total, will be distributing over $3 million to $4 million. You know, Melbourne will be distributing I think between 6 and 7 million. So again, it's, and Ocala, you know, runs like a top, it's a strong market. We've stayed at number two in that market at like 40 hotels for like a long time. We've been at number one occasionally, but, so we really just maintain that it's really, we have good customer service there. It's a great location. It's a fully renovated, really originally designed hotel. You know, we got these beautiful vintage black and white equine themed murals in all the rooms and in the public spaces.So Ocala will soon be our only hotel. We've owned as many as six hotels. We sold one in Lake Worth a while ago. You were part of that. Bob Small one, the two in Tallahassee. We're converting Vero, releasing up Melbournes we're selling. Ocala is gonna be our only hotel and Ocala is such a hands-off thing. I'm happy owning that. I will not buy another hotel unless they're giving away, you know, the Hilton in downtown Atlanta or something. Then I'll then I'll, I'll buy that. But, but, but we've learned a lot. We're grateful for our experience, but Ocala will be the one hotel we keep for a while.

Bob Irish: Well, let's, let's move to Tallahassee. I understand there's some good news as far as the two conversion projects go. It sounds like you're going to be a little bit ahead of schedule.

Justin Ford: Yeah, no, once we got, our green light, we're good. So we just got our permit on Casa Bella earlier this week, I think at the beginning of this week. And we've had our permit at Seven Hills for a while.We've had the early work start permits for both of them for a while, but the full permit means you're, you're rip roaring ahead. And there was some good news in both of them, you know, they're not requiring the fire suppression systems, which I really don't think are necessary, especially in this case. They're, you know, 300 square foot rooms, exterior corridor, you know, you can go right out to the outside and there's a lot of these older regular apartments that are grandfathered in that respect, you know, and, and these things will have, you know, fire extinguishers in every unit and they're concrete block construction, at least in the case of Casa Baya. So for a lot of reasons, we had put it in our budget that we were gonna do the fire suppression. It's around 400 to four 50 for each property, but boom, they didn't require it. Not only does that save us some money, but it lets us go even, even even more quickly. So, that is very, very heartening.It all the materials we had lined up, we had, we had, we had our vendors ready to go once we got a permit, we pulled the trigger on a lot of purchases with cabinets and countertops and things like this. We got all our crews and we've worked with all of 'em with the exception of one, you know, 3, 4, 5 different times how many projects. And now we're, we're all operating at a more professional level, you know, ourselves. We recently adopted Procore Construction software and, and, and that's really quite good. I keep telling my folks, you know, it doesn't matter how good your software is, you know, it's all about, you know, garbage in, garbage out.

It's about knowing your business, but, but when you know your business and you have good software, it's powerful, right? Yeah. But if you, because you could do the same thing on the back of a piece of paper, frankly. But it’s much better to do it in software, on a complicated thing with many moving parts. And I do love that we have that. I love that we're moving it, it helps us keep organized, helps us keep moving forward and yeah, I think these are gonna be our best renovations ever. I think we'll complete them before the end of the year. In fact, I think by the end of the year, not only will we complete them, but we'll be pretty much close to the leased up and stabilized. That's a bit of a bold statement, but I would say I'd give that an 80% probability that we'll achieve it by December 31, but we'll be 80 to 90% leased up fully renovated.

Bob Irish: Wow. That's great. That's great. Let's go across the street. Let's talk about the Renaissance.

Justin Ford: Yeah. Renaissance is turning into one of my favorite properties. It's always been nice, but it's just performing so well. We have a good management team over there and, and we continue to, in a market where rents have been flat, we've continued to push our rents there. We've been able to do it, you know, it's a great quality product. It's in a good location. We have an excellent amenities management team where customer service is focused. So we keep just growing that top line a bit. And we were a little bit under market I'd say for a while, but we keep growing that top line, which, which, and we're operating efficiently. So our, our, our bottom line, I think we're about 1.2 million a year on, on an annualized basis. If you go back, take three months and annualize it to 12. And, and that's a good number. And I think we're, oh, I think we're heading towards about 1.4 million in ebitda. I might be a little bit if it was exaggerated, but, but between 1.2 and 1.4 for 2025. So, and the more you do, you grow your NOI if and when interest rates do come down, you have more buyers stepping in. I really, really like the Renaissance and, and we're gonna look at buying more properties like them, except we won't buy older. We're looking to buy a newer vintage. We'll only buy older vintage if it's a, you know, they're almost giving it away. Right. But, but a, a stabilized, well-managed apartment building is a beautiful thing.

Bob Irish: Okay, let's, that's good news. Let's go to Oklahoma. What, what's going on there?

Justin Ford: So, well, we're done with construction is, you know, the wonderful thing that's been a couple of months. That's true. So we were only 33% leased two months ago. Right now we're 55% leased and 62% pre-leased. We brought in some outside leasing outfit, they're doing a good job there. And I think we'll be, we'll hit 90% sometime in June. That's the Ascend Apartments. Wow. And yeah, the ones that we've finished earlier, you know, elevate in Oklahoma City, you know, that's 95, 96% occupied and Apex in Tulsa, which we finished before that. That's, that's 97%.So yeah, no, we, we, it's funny, you know, we went to Oklahoma. I I've been to so many places, I don't know if I've been to Oklahoma previously. I might not. But you show up in this market, you don't know anything anywhere, right? You have one or two connections. And we built a business there. We built a business with local Pax Property management producing good results. And now we have a footprint there if we wanted to continue to grow it there, right?

So Oklahoma's, Oklahoma's going, well, the main thing is we gotta finish lease up at Ascend, but we're, we're making very good progress there. And that's part of the bandwidth, right Bob? So once we once we're 90% in, in, in Ascend, and we put that new loan on and that loan, like I said, we're, we're considering a funding with investor money. Why give our money to the bank when we can give it to investors who wanna put it to work, right? It saves on transaction costs and they're covered by low leverage first mortgages, et cetera. But once, once we do those things by June or so forth, now all of Oklahoma's stabilized, right? Melbourne and Vero are in other hands and we've made good returns. We're making real good progress in these two conversions. Now we have a lot of bandwidth to look at the future. So in the second half of the year, we're gonna be spotting some opportunities, one or two ties, I think, for the fund. And then after that we may start a different fund with a different profile as we, we wrap this one up in the sense that, in, in the sense that there, this, this fund that we have is focused on income. If we do, for instance, new construction towards the end of this year or next year, that won't be in this fund of course. 'cause that's not an income plan, right? But we do have one or two good income plays I think we're gonna be targeting this year, including, you know, grocery anchor retail and apartment communities, existing apartment communities. So, but, but the fact that we have bandwidth coming up, you know, that we, that our properties are stabilized, you know, it's that, that's something that's very, very exciting to me. So I'm looking forward to the second half of the year.

Bob Irish: Well, me too. I'm looking forward to seeing what new opportunities come down the road for, well, for me and for all the investors who are getting all the principal back, right? It's if we're, let's go to Port St.John to kind of finish off there.

Justin Ford: Yeah. Really interesting stuff at Port St. John's. So we paid a civil engineering firm to do a study to see if they can pay about $10,000 to see out front. We have what's called an out parcel. An out parcel is like when you drive like a shopping center and there's a Chick-fil-A out front or a Wendy's or something like that, those are out parcels, right? And so those out parcels, we have one that's not developed because it's being used as a water retention pond. You know, so can we have 10.1 acres on that property? Can we move that water retention pond elsewhere so that we can now lease out that, that property, that that, that parcel and that parcel is right on us highway one with, you know, I don't know, 25, 30,000 cars a day. So it's, it's a prime parcel, right? So we'll have that answer soon. And I think the answer is yes. We know that even if you cannot move the drainage, you can build over the drainage and, and keep the drainage there with underground tanks, that becomes more expensive. But you can do that. So we we're, we're working on, on marketing that first we want to find out, really the ideal thing is that we can move it and then someone can just build on a pad, you know? And, and we have it with a broker. A broker who's well known, referred to me by a buddy of mine who's done retail for like 20 years.

He's been a great help for me. He helped me analyze the whole shopping center when I first bought it. And then in addition to that, you know, Winn-Dixie's, our anchor, Winn-Dixie's a, I think they had, I can't remember, maybe 400, I don't remember. They might have 2000 stores. I dunno if that was before or after their bankruptcy five years ago when we, when we bought this, we, we were glad that Winn-Dixie had gone through the bankruptcy 'cause they had to clean their house before that, right? I mean, after bankruptcy cleans your house, right? So now you're buying a post-bankruptcy company. So, and, and we're buying one where the anchor, you know, had very low base rent and they had high store sales. They have to share their sales with us. What that means is you're not going anywhere, right? If you have a low base rent and you have high store sales, you're not going anywhere as long the anchor's staying. Everyone else is likely to stay too. And we've had very little turnover and when we do have turnover, the smaller base, we end up getting a little more rent.

Now, Winn-Dixie was bought out by Aldi's. I dunno if you know that Bob, so Aldi's is now the owner of Winn-Dixie, I don't know much about Aldis, but there are supermarket chains and all these now want to take, so, so our shopping center is 78,540 square feet. Winn-Dixie takes up about 48,000 feet of that. All these want to split that in two and they wanna do a small Aldi like 28,000, and then they wanna do 20,000 on the other side. Right? But they'll still be responsible for all 48. We have to agree to this, for us to agree to this, it's an opportunity to increase a little bit of what we get from them, right? So, and then I won't go into the details just, just for the, you know, to sake of being discreet, but it gives us an opportunity to, to help give them what they want and, and for us to make more profitable that space for us as well. Right? At the same time, planet Fitness is the second anchor. They've been there for like 10 years and they're coming up for renewal and they wanna renew and we're negotiating a new lease rate. And we're gonna, we're going to bump that up a, a rate that's gonna be meaningful, still good for them. But Planet Fitness also wants to take over the space, the vacant space that's right next to 'em. So they'll expand and renew at a higher rate. Wow. So, you know, we, and we just spent $25,000 painting this beautiful mural on the wall. Again, I'll ask George to show that when we're talking here and you know, we did that because we wanna add that little extra love. You know, the, we're we've installed the internet, we've, we have a little sound system now in the breezeways. We just re-packed some repaid parts of the parking lot, so it all looks good. Again, we, there's something, oh, we put on new front doors in Winn-Dixie, that was our responsibility. New, new select, new automated doors, automatic doors.

So we, we wanna give this, you know, sort of a C-Class property, a better feel, a really more pleasant feel where you, where you care about the quality of the environment. Right. You know, without going overboard. And, and I, again, I love it. It's one of my favorite investments and we're really looking hard at the second half and maybe acquiring more of these types of properties in Florida.

Bob Irish: Fantastic. Well this has been a fantastic update Justin, and I know everybody listening is looking forward to seeing their bank account swell. And I'm looking forward to investing my proceeds and some of these loans coming up and maybe a little later this year and some equity type deals. So, perfect. Thanks again for joining us. I'll talk to you next month Justin.

Justin Ford: It's my pleasure. Thank you so much, Bob.