

Bob Irish | Jan 20, 2022, 2:11 PM

Welcome to our monthly call with Justin Ford of Pax Properties. Now, you already know this. But throughout booms and busts, PAX properties has never failed to produce a positive result for investors or missed a mortgage payment With that as a kind of an intro... Justin, how are you doing today?

Justin Ford | Jan 20, 2022, 2:11 PM

I'm doing great, Bob. Thank you very much. I'm really looking forward to our new calls in the new year.

Bob Irish | Jan 20, 2022, 2:11 PM

Well, I am too, and I'm very excited about our new format, video. We're actually going to be able to see these properties. Not just talk about them.

Justin Ford | Jan 20, 2022, 2:12 PM

Yeah, Bob, I thought you had a face too Good for radio so. I wanted to put you on the big screen.

Bob Irish | Jan 20, 2022, 2:12 PM

Yeah, well, Justin, um, in the interest of time, we're doing something a little different here than we've done in our prior calls. Of course, we're going to go through the properties that we usually go through on this call, but, you've got some exciting new stuff that Pax Properties is doing and we want to save some time to get to those. So, I guess there's nine properties overall. Why don't we start in Vero Beach? That's the oldest property I think and give us a little update on that.

Justin Ford | Jan 20, 2022, 2:12 PM

Yes, thank you, Bob. So Vero is, um, we've had it for eight and a half years and, um, we recently. So that was probably cutting our teeth on. So it's the least updated of all our hotels, and yet we recently really invested a lot of time cleaning the rooms, paint rooms, we put in our own furniture. So it really actually looks beautiful right now. Even though it doesn't have like big brand new mini splits like our other hotels, we did do plantation shutters, new furniture. We didn't yet we haven't upgraded the bathrooms in eight and a half years. They're in good shape, but they're not as nice as the other ones. Nonetheless, Vero is just is probably our best performing hotel right now. It's on track this. Well, it's up there. Let's say for relative to its cost and its profits It is. We bought Vero in 2013 for less than \$20000 a door. You know, to give you give an example a hotel like that today. Even if it was in mediocre or even poor shape is going to sell for at least 55-65k a door.. somewhere that neighborhood, so we were in a very, very good cost basis. Vero is heading to \$215,000 in revenue this month. The place looks absolutely. It's never looked better. We have an excellent general manager. A girl used to work for me. You know when I... When I was doing little houses, we worked together

out of garage. She was my only employee like Eleven or twelve years ago and she's now doing an amazing job at Vero and we reset our trip advisor. We had a mediocre trip advisor rating for a long time.

Justin Ford | Jan 20, 2022, 2:14 PM

Because it was associated with, uh, previous ownership and but long story short, we reset, so we went back to the back of the line like number 28 in the market and in like a month and a half two months were already number 16. I know we're going to head to like top five very soon. Believe me Vero is going to have the best year it's ever had. We're going to have the highest profits we've ever had. We're still dealing with Covid, but Vero is doing beautifully and we're about to do another little bit of investment in. We owned a lot next door. I bought two acres right next door, so we're going to make that sort of an amenity that Vero can use as well, but Vero is doing tremendously. Well, I'm so excited about it.

Bob Irish | Jan 20, 2022, 2:14 PM

Well, it's a testament to the long-term focus that you have with all of the properties and speaking of those properties. Let's do a lightning round. Let's go to Melbourne and talk about Melbourne. What's going on there?

Justin Ford | Jan 20, 2022, 2:15 PM

Okay, so Melbourne, our 2nd oldest hotel. We bought that in 2015 so we'll be coming up on seven years in August with that hotel. It has been totally renovated. You know. We've won TripAdvisor award of excellence five years in a row. We produced good returns. We never succeed in refinancing that yet because just as we were about to things happen as far as covid and things like that, but, Melbourne is rated number 3 in it's market. We also have a new GM there, whom has been with us for a while and who is performing very, very well. Melbourne is on track to post about \$240,000- \$250,000 revenue this month again, Covid is still a challenge. We get cancellations down then because of Omicron, especially sports teams, things like that, and yet it's still headed for a very strong year. Like Vero, Melbourne could have its strongest year yet. We're about to replace one of the roofs in Melbourne as cheap as we bought Vero at less than \$20,000 a door, Bob. We bought Melbourne for \$10,000 a door out of when the owner went back roughly 2015. Now we put money in it right so here. We bought under 20k but we put 20k a door in it over time. Everything you own, you must reinvest over time. If you're a serious actual physical investor in bricks and mortars, your investment is not like stocks. It's not what you don't invest once you don't click when you get in because you invest you reinvest you reinvest in your people and in your properties and Vero two of our people there, one was at the desk, making \$10 an hour when we brought her in. She's now our director of operations. I would stack her up with any director of operations in the whole industry.

Bob Irish | Jan 20, 2022, 2:16 PM

Yeah.

Justin Ford | Jan 20, 2022, 2:16 PM

Marriot, Hilton, you name it! This woman is exceptional. Our head of maintenance there is now our head of construction, one of our heads of construction, awesome, exceptional human being, so we always reinvest in our people and property. We're doing that right now. Melbourne, where about to put a new roof on we've done 200,000 sq ft of our own roofs Bob. Metal, flat roof, tpo, and so we're doing our own once the reason we do that it's a big expense of roofing and we save typically around 40% to 50% on roofing. So you know, we just did about a \$800,000 job at renaissance that costs us around \$400,000 in house. That's why we do these things. Because the margin is significant, we're about to do the same at Melbourne and Melbourne also, uh, just getting in all the new furniture as well so Melbourne, I think will also have its best year ever as well. So we're really excited there too.

Bob Irish | Jan 20, 2022, 2:17 PM

I hope you're not getting on any ladders, Justin.

Justin Ford | Jan 20, 2022, 2:17 PM

I am Bob. I love getting all ladders. I'm all about boots on the ground. I've been on that roof just ten days ago. I'm going on a couple roofs tomorrow and Saturday. That's why I love that part of the business. I love every part of our business, but yeah, no, I'm not an armchair CEO. I like to be on the ground.

Bob Irish | Jan 20, 2022, 2:17 PM

All right, all right, Let's move up to Ocala. Let's talk to me about Equus.

Justin Ford | Jan 20, 2022, 2:18 PM

So Ocala is our newest addition to the non-fund portfolio and still beautifully we had our debut grand opening in June. Right now, Ocala is rated I think number three in the market it was number 13 or 14 when bought it shot up. It's won TripAdvisor's highest award. And Ocala, actually Ocala on a revenue basis, is doing the best. Ocala is going to do \$265,000 this month. It's a market that's exploding. Ocala is doing beautifully. Were just trying to get to the point where hotel lenders lend again, you know, and again we're coming out of Covid. Of course, we took a big hit during Covid, but we made it through never later. A mortgage payment never lost investor dollars still, but soon we hope to have about mid to 3rd quarter.

Justin Ford | Jan 20, 2022, 2:18 PM

Enough of a track record financially again to be able to. Refinance and return some money by the end of the year. But Ocala is our leading one in a super-fast growing market. I'm very glad to report that Ocala doing very well.

Bob Irish | Jan 20, 2022, 2:19 PM

Okay, let's move over to Tallahassee again with a Lightning round. What's going on with Renaissance?

Justin Ford | Jan 20, 2022, 2:19 PM

So renaissance is our apartment Community up there. Its 168 units. We bought it in 2017 So in June, we have it for five years. We did a refinance return. We caught up everyone's preff. We paid them like a 40 % return on their capital. They had been patiently waiting for payments while we renovated. We did that back in August and now we're going for a HUD and HUD is taking forever. HUD is the best loan you can get, but it takes forever. I mean, like 6-9 months. Whatever the government is backed up. But we decided to put on the market as you recall. Bob a couple months. A right. We wanted to test the water. See what we could get. We're in Melbourne for around \$15,000,000 all in around an 8-9 million purchase, little over \$6,000,000 in total renovations. We did everything behind the walls, windows. We basically got it and renovated new windows etc. beautiful finishing. So we're in it for about \$15,000,000 m. We just got an offer for 25.2 million now. So that's a substantial thing.

Bob Irish | Jan 20, 2022, 2:19 PM

Right.

Bob Irish | Jan 20, 2022, 2:19 PM

Yes, that's right.

Bob Irish | Jan 20, 2022, 2:19 PM

You said Melbourne? But you meant Renaissance, right, Yeah, okay.

Bob Irish | Jan 20, 2022, 2:20 PM

Right.

Justin Ford | Jan 20, 2022, 2:20 PM

And you know, I ran by some invest and so forth, and even though we have the discretion to make the decision ourselves, we are always in contact with our investors. We really appreciate them in so many ways and we want their feedback and, in fact, everyone. I talked to said I I'd be sorry to see it go. I actually feel the same way, so we're just going refi. We're going to hold it. We're going to return cash via that Hud refinance and our cash on cash after to return. That significant amount is going to be significant, it's going to be. It should be minimum in the mid 15's on the remaining cash invested, they'll have a chunk of the cash back that they can reinvest elsewhere or with us as they like.

Bob Irish | Jan 20, 2022, 2:20 PM

Round.

Justin Ford | Jan 20, 2022, 2:20 PM

So we're going to be a long term holder there. I mean, even we have a product that was built in 1974. It's really newer than most properties built ten years ago. It's got newer electric, newer plumbing, newer roof, newer windows, et cetera. We're in it for a \$100 a door. If they gave the lamp for free Bob, you couldn't build a property like that for \$150 a door, so we like where we are. We're well situated. We're just going to use financing to return capital and to create a great income producing property for a long, long time and reinvested the proceeds elsewhere.

Bob Irish | Jan 20, 2022, 2:21 PM

Okay, that's very interesting. Let's talk a little bit about seven hills.

Justin Ford | Jan 20, 2022, 2:21 PM

So, Seven Hills, Uh, that's actually my favorite of all our hotels. Um, it's beautiful like Ocala is beautiful. Those our last two.

Bob Irish | Jan 20, 2022, 2:21 PM

Yeah.

Justin Ford | Jan 20, 2022, 2:21 PM

It also has just such a beautiful landscape, you know, it's nine rolling acres. It's just gorgeous, so it all just fits together. It's just a wonderful place and so seven hills is number two in the market on TripAdvisor. It is not kicking the proverbial butt, like Melbourne and Vero and Ocala are because Tallahassee is an impaired market. You know, it's got university. It's got government. And Covid is still hitting those segments, particularly hard. You know, the students aren't fully back necessarily to start their term and plus FSU. The football team stinks to be frank. That's a real that's better as well, so we have some. We have some uphill battles there. It is improving, you know we. After we secured revenue for a whole year and profits for a whole year by leasing it out to a homeless shelter organization. Re renovated again. And now we're probably doing around. I think it's about 140-150 this month, but Melbourne should eventually average 300 a month once points were fully out of Covid again. It's a beautiful property.

Justin Ford | Jan 20, 2022, 2:22 PM

We're at the point where we're just about break-even but we're not yet knocking out the park, but I am very confident we will as we continue to progress out of this stage of Covid.

Bob Irish | Jan 20, 2022, 2:23 PM

Let's talk about the Baymont the problem, child.

Justin Ford | Jan 20, 2022, 2:23 PM

Okay. Yes, indeed, Baymont does remain the problem child, and it was our only branded hotel we've ever had, and we decided to experiment. Usually when we buy, we bought Ocala, it had a brand. It was a Quality Inn we paid \$75,000 in liquid related damages to get rid of it. And when we bought Vero, it was America's best value, very low level chain. We paid small amount like 10 or 20 grand to get rid of that flag on this one. We decided to keep an experiment with the Baymont.

Bob Irish | Jan 20, 2022, 2:23 PM

Right.

Justin Ford | Jan 20, 2022, 2:23 PM

We've had some good years, but we've struggled the last few years with Baymont, especially during Covid and since the market is impaired, it's our worst performing hotel. It's going to a little bit more than a hundred grand this year. It's going to we have bare bone staff, so it'll be close to breakeven but we've been losing money there 50 grand a year ,50 grand a month. Uh, for the last six seven, probably 12-15 months. That has been, you know, that's been the consequence of Covid we've made our payments. We've even resumed payments to investors. We've done things like that, but that's been a problem, so what we've been looking at it? We've been thinking about it and we've been investigating for the last three months. We'll do a lot of homework on converting Melbourne. First We're looking at an assisted living facility. We decided, nope, not the way to go. Its exterior corridor just doesn't fit, then we're talking Active. Adult Active adults is 55 plus rentals, but you don't have anything associated with the assisted part of assistant limit. It's just it's just an age restricted thing. That's a possibility, but really, we're just going to do market rate apartments, and I know a lot of guys in the industry who are doing this? There's a guy who pitch's one to us a guy. Good friends who we met at conferences over the last couple of years at which I've spoken and he.

Justin Ford | Jan 20, 2022, 2:24 PM

. He's doing well in Arizona with it the last conference I was at. I think was in Miami. Also, um? All sorts of guys are talking about investing in hotels for conversions and all these markets, where there's demand where there's a need where there's a deficit of surplus. And I just went two or three days ago. We went, we visited. Um, a few of these conversions, and I'm telling you one or two of these...Were just beautiful. They were perfect and the numbers they were getting. We're amazing! We visited someone Kissimmee which is right outside of Orlando. You know, 287 square foot unit with a little kitchen in it. Well pointed everything's nicely finished. They were getting \$1130 a month all in on these properties, we need on our property in Tallahassee. If we get \$850 including everything, wed marketed at \$695 base rent in about \$155 to cover your electric your water.

Justin Ford | Jan 20, 2022, 2:25 PM

Your TV and your internet, and we'd be at \$850. We would we're going to crush it. At \$850 this will move our NOI up to over 600 grand. Being valued as apartments will move our value evaluation up from right now. It's around 8 million. It's a little bit more than we more than we have. It's more than we have in the property for sure. But, we're buying about 8 million. If we go to these apartments, we will conservatively be valued at around 11M and that's investing about a 1 million dollars for the conversion million to a million two five right in there and it's conceivable it's quite possible. We reach 14M and I'm sorry 14.9 and that valuation, so we're starting that project.

Bob Irish | Jan 20, 2022, 2:26 PM

Okay.

Justin Ford | Jan 20, 2022, 2:26 PM

Next week we're in contact with the engineers with the vendors. We're budgeting it out, but we're going to convert it. In the meantime, we are improving our performance on the hotel. But the intermediate plan is by the end of this year, we will have it converted to apartments.

Bob Irish | Jan 20, 2022, 2:26 PM

Very exciting! Very exciting. How that that sounds like, uh, a great new chapter in the, uh, the story of the Baymont.

Justin Ford | Jan 20, 2022, 2:26 PM

Yep, I think so.

Bob Irish | Jan 20, 2022, 2:27 PM

Justin unlike our prior calls, we weren't really able to talk about the new stuff that you're doing. And I know a lot of our viewers are interested in that. So why don't you tell me a little bit about what you're doing in Tulsa? I think it's Apex, right.

Justin Ford | Jan 20, 2022, 2:27 PM

Yes, so apex is our 1st fund acquisition. We formed the fund the cap plus diversified income fund. In the spring in May, we bought our first property. It was in Tulsa, some 91 units. We put together a renovation plan. Comes to about \$20,000 a door, including the exterior. The exterior is largely done all the parking lot, the painting, new lighting. It looks absolutely beautiful. We're doing the hardscape now, the landscape comes in the spring. The interiors, this is the best renovation we've ever done in that. We are truly on schedule on budget. There have not been any big surprises. Going have some small surprises. We have, we've only owned it since May, and we've already renovated. We have about 40 units already fully renovated and we are scheduled to be completely renovated 100%.

Justin Ford | Jan 20, 2022, 2:28 PM

In may again, so we, what a one year turn on 91 units renting up by time we're renting up our Unleveraged return, also known as your cap rate, will be between 6 ½ and 7 percentage and our cash on cash will be between 9% and 11% were getting the rents that we need to make that pan out and their renovations are going great. We're very excited, elevates a similar story and it's a similar story except elevates in a slightly better area. Tulsa is a good area. It's in a C plus area boarding a nice residential neighborhood elevates in a b area that's growing in popularity and there. We ran into a few things. We did get red tagged by.

Justin Ford | Jan 20, 2022, 2:28 PM

by the building department, we were doing something that we should have applied for a permit for. Testing some electrical and plumbing adaptations. So we did get caught. That was my fault. At least we should have....we should have experimented before asking for permission on that one. We got red tag. We've got slowed up. We're just getting our permit back on that one again, but that one as well, we've done a lot of work. All the exterior main stuff like we have a lot of plumbing issues. Individual shut offs we're bidding out changing the whole exterior of the elevate. We've done a lot of a lot of the initial work in about 25 units. One of the models is completely completed. That one also is on track....126 units to be fully renovated.

Justin Ford | Jan 20, 2022, 2:29 PM

In and in a one year time frame. So we closed on that in August. By the end of August, we expect to be fully renovated 126 units. So even though we had a setback. Our construction. We've learned quite a bit and that experience, hopefully we've turned into a bit of expertise and I would say expertise, real expertise, genuine expertise is equity. Because it's something you can apply again and again and again and fortunately, we're starting to see that now and it's very gratifying.

Bob Irish | Jan 20, 2022, 2:30 PM

Tell us a little bit about Port St. John.

Justin Ford | Jan 20, 2022, 2:30 PM

Port St. John is our is our shopping center. Uh, 80,000 sq ft grocery anchor. The anchor Win Dixie just renewed for ten years. When we bought it, we bought a 97% occupancy. We bought it since July. Uh, and I'm worried about Port St. John. I'm worried about it because it's so good I'm saying. Can this really be true? I mean, basically, we just kind of collect checks. I mean, obviously we're doing some work there, but I mean, like I asked myself.. should I've just done this since the very beginning, I mean? 's it's crazy we bought it at 7 cap.

Justin Ford | Jan 20, 2022, 2:30 PM

We collect every month without fail from every tenant. You know, we're doing some work. We power washing the mansard tile. We're putting in a 410 foot fence in the back because there's a Like a lot next door with a homeless shelter. So we're doing things like that. We're going to really be doing some improvements, but it doesn't need dramatic improvement. We're going be doing some roofing there too. Probably the of the 80,000 sq ft we may replace 30,000 sq ft, but again we'll benefit from the economies of scale, so we're looking for other grocery anchored shopping centers as well it been, it's been a great experience.

Bob Irish | Jan 20, 2022, 2:31 PM

Super well, Justin. Uh, we've kind of gone through these properties pretty quickly. I want to let everybody know and tell me if I've got this right to the end of the month, there will be a full report on all the properties they can access it on paxproperties.com, is that right.

Justin Ford | Jan 20, 2022, 2:31 PM

correct I, um. I'm going consolidate the non-fund properties into one report. They'll have sections so that I'm not repeating myself on macro issues and things like that and people can. Many people invested in many of these properties, and some of our investors invested in all of them. So we are just going to consolidate and have sections Vero, Melbourne etc. That will be for the non fund portfolio and the fund report, of course, that's treated that way as well and that the three fund properties are reported there and I hope to report on a 4th fund property soon. At 72 units buying it at \$45,000 a door, it's almost it's almost turnkey. It's essentially turnkey. It's a really good condition. It's in a solid area. Or cash on cash on that again should be around 9-10 percent were buying well below replacement costs. And I will give you further details on our next call.

Bob Irish | Jan 20, 2022, 2:32 PM

I look forward to those further details. Justin, I can't tell you what a pleasure It is to be doing this video style and letting everybody see some of this stuff instead of just talking about it.

Justin Ford | Jan 20, 2022, 2:32 PM

Absolutely.

Bob Irish | Jan 20, 2022, 2:32 PM

Justin, anything more to add before we sign off?

Justin Ford | Jan 20, 2022, 2:32 PM

Uh, no, I really appreciate it. The reports, as you said, will go out at the end of this month and, oh, and we're going to reprice our fund on March 31st.

Bob Irish | Jan 20, 2022, 2:33 PM

Okay.

Justin Ford | Jan 20, 2022, 2:33 PM

So there's a lot of folks who've made additional investments aspect about making other investments and they brought in friends and so forth, so whoever wants to make an additional investment or bringing in a friend or something before for March 31 would be best. Because then you'll get into the original pricing. After that, it's going to reflect the growing portfolio and the growing income, so it'll be the shares that will have to be priced a bit higher.

Bob Irish | Jan 20, 2022, 2:33 PM

Okay, that's a word to the wise if you've got some friends, or you want to make an additional investment. Do it now, okay.

Justin Ford | Jan 20, 2022, 2:33 PM

Sounds good, Bob. Thank you. It's been a real pleasure

Bob Irish | Jan 20, 2022, 2:33 PM

Talk to you next month. Justin, thanks.