

## VIDEO 13486

**Bob Irish:** Bob Irish here with our monthly call with Justin Ford of Pax Properties. Today we'll 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, but it's important, especially for our more recent investors. 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? It's great to have you back.

**Justin Ford:** I'm doing well, Bob. It's great to see you again. Welcome back to Florida.

**Bob Irish:** Ah, thank you. It's good to be back. Utah was a lot of fun this summer, but it's great to be in Florida at this time of year, as you know. Justin, I thought we'd shake things up a little bit today. I thought we would cover the investments by asset class rather than the other way. So why don't we start off, if it's okay with you, with the hotels?

**Justin Ford:** Okay, fantastic. So hotels are interesting because we have five of them and Vero and Melbourne and Ocala continue to have very strong years, perhaps record years. They've all been updated recently. We're always going back and doing little reinvestments. For instance, in Ocala we just weeded the sidewalks, we finished the pool. We are redoing the sidewalks at Melbourne as well, but they look great. And the posting, all three of them are likely to have record years, the best years they've had in seven years, in nine years and in three years respectively. Ocala may even be our first hotel, is on track to be the first hotel to post a million dollars in operating profit in a calendar year. So yeah, we're really doing quite well there.

Now, when we get up to Tallahassee, those are the two that have been struggling, that we've been trying to recover from COVID in two ways. One of course was that we had the homeless shelter for a while. We were really fighting to shake free of whatever reputation that may have left us with. And the other, we transitioned recently from a flag to an independent. We're seeing slow, steady progress on those two. And actually today we have two calls with the city because the strategy we have is we're continuing to really, we're creating like a Salesforce, not just a sales manager. We have multiple salespeople. So what I realize is even though a city like Tallahassee is medium size. The MSA is around 300,000 people, but it's got two major universities. It's got the government, it's got local business.

We could actually use more than one salesperson as long as each salesperson is hitting his own quota. Bringing in, they have a minimum quota of 5 to 10 times, depending on the hotel, their salary produces that in revenue. As long as they're doing that all their sales will be we, we can bring in other people. In other words, one busy sales manager can't possibly capture the whole city where we think we could. So we're going to attack with more of a salesforce. At the same time we're exploring to get pre-submittals for apartments. The reason for that is if we feel that we're not getting the tracks we need as hotels, we'll have a pre-submittal in a place to go right to apartments.

And most of that work is basically done. All we really would have to do is put in sprinkler systems and upgrade the electric and maybe actually some wet bars. A lot of our units already have those. So we're using a two-pronged approach there. The change we've made recently is really doing quite well at Baymont, for instance, which is now Casa Baya, that just went independent. So when you go independent, you start at the back of the line on TripAdvisor. So there are 63 hotels or something on TripAdvisor. So we start at the very back. And today, I just got a notice that we've risen 10 spots to 42. So we've only been independent for a couple months. We've advanced over 20 spots already.

So we like the way the progress is going there, and we like our Plan B. Again, we have two meetings with the city today about each of those properties to get them in sort of a pre-approval process if we decide to move to apartments on either one of them. But so far so good.

**Bob Irish:** Oh, okay. Great. Well, that covers the hotels. Let's talk about the apartments.

**Justin Ford:** Okay, we'll start with Renaissance, which is the one apartment community we have that is outside of the fund. 168 units. Renaissance has six pre-leases, meaning people moving in, I guess the lease is signed up, they'll be moving in the next week or two. And that once again puts us at either a hundred percent or a hundred percent minus one. I can't remember. We may have one vacancy, but we're steadily at 95 to 99% occupancy there. The issue there again has been collections from Covid. There were some people who we developed quite a long list of folks who did not pay rent and couldn't be evicted.

It ended up being a small enough percentage, maybe it was, let's say 20 people or something like that, out of 168 units, 15 to 20 people. But some of them got away with it for a year and a half. So, they built up significant balances, but all that is being checked out, I think the last few evictions are going through. So Renaissance is on a path to perform to its full potential which we expect by next year to be evident in the range of about 1.2 million for those apartments.

**Bob Irish:** Excellent, excellent. Well, let's talk about the apartments that are inside the Cap Plus Diversified income fund.

**Justin Ford:** Right. So, Apex and Tulsa 91 units fully renovated that are at a hundred percent occupancy. And I think all the units that were renewed are, probably at least 75% of them have been renewed to the market rents. There are a few more that will come into the cycle that will now reach the full market rents. So we're performing very strongly there. In fact, we're working with North Mark which is an agency lender, and also, they're also a broker and we're going to do a Hud loan on that. So, Hud loan is the most aggressive type of multifamily loan in the sense that they give you a 35-year immunization. Their rates are typically below even Fanny and Freddie rates. And Fanny and Freddie rates are the most competitive.

So, we do expect, we're probably going to be looking at another hike in November actually from the Fed. Maybe we'll be a point and a quarter above where we are by the time we close on HUD. It could take six months. But even then, if that's the case with the HUD we'll probably close our rate at around 5%. And in place effective cap rate. The cap rate is basically your earnings yield divided by your total investment, your operating earnings. The cap rate is north of seven, seven and a half. We still have very positive leverage there. So, Apex is performing well, and we're working to close the HUD as soon as we can, but we do think it's going to be about four months before we close the HUD on Apex.

So then moving out to Oklahoma City, we got Elevate. We've turned over about 40 units so far. The transformation, the outside is really just incredible. From what it looked like before, it looked like an abandoned building that used to host Renaissance fairs. And now it looks like a really modern, cool apartment building. So there was a big challenge there. And working with the scaffolding, even with the scaffolding the way we had it, it prevented us from going into some rooms to finish the interior renovations. We ran into some sort of odd logistics. Plus there were many permit issues that came up back and forth. Oklahoma is a fairly free market state. They're not too intrusive. But the information we got in the beginning changed like midway.

They told us because we had a three-story building that we needed some permits, that they told us previously we didn't have. And we didn't need that for the two story buildings. And this was just with interior remodel. So the ways of building departments remain mysterious to me. But we abided and we adjusted and we hoped to be, again, finishing that entire project, I would say midway through the first quarter. So that would be probably around a 16-17 month, behind the walls of renovation, complete renovation.

So it's progressing a little behind schedule, but it's going well now. We're going at our best pace ever at the moment.

And then right outside of Oklahoma City by 20 minutes or so is more. And over there we knew we were buying it with some major plumbing issues, both some behind the walls in the units, but mostly the old cast iron stuff, between the buildings and leading from the main service. And sure enough, we did find those and it's spotting plumbing issues, kind of like playing whack-a-mole. You know, you think you get it here and then it pops up there and it pops up there and you're doing this quite a bit. And we were prepared for that because that's what we do when we buy a deep value ad. We know we're opening a can of worms. If we buy with enough of a discount we budget for that in terms of time and money.

So it took a little longer than we expected, but now we have, all that plumbing issues are solved. We have some videos we could show you of like, we probably have the photos on the screen, I'm guessing. The excavations with water, our to six feet deep and these old pipes that we're ripping out, we're putting back in. But now the guts of the property are renovated and that's important. That's real, real important. In many instances, when it's a very old property, it's easy to change a countertop or put in new cabinets, but it's the stuff behind the walls and stuff that leads to the building itself that you want to make sure is in good shape. And we've done that. Everything from the water meter that was crazy, if you remember, gave off these schizophrenic readings.

**Bob Irish:** Yeah.

**Justin Ford:** 10 times the normal amount and we consume nothing. And the city said there's nothing wrong with it again. But right now, I believe we're moving in our first new 10 people into the new 10 renovated units early in November, which will be around two weeks from today. At the same time we have maintained a fairly high occupancy on this one, which is good. We're at Elevate, the way we got into our renovations. We had as much as a third of the property vacant. We're typically at over 85% occupancy, so our operating profit is still positive there. So we like the way things are going and we think we still have a good chance at Ascend. Ascend is the name of the property, to finish that entire renovation within a year.

**Bob Irish:** Wow. Sounds like you've made a heck of a lot of progress in a pretty short time really given the level of work that needed to be done.

**Justin Ford:** Yeah, and I want to give so much credit to our guy Angel out in the field. He is our site construction supervisor out there, and Angel and I have been together

over 9 years now. He was my lead maintenance. He was my maintenance manager at the first hotel we bought in the Bureau. And he's just progressed up the ladder and the guy is unstoppable. Just one of the greatest construction guys. Absolutely the best construction guy I've ever come across.

**Bob Irish:** Wow that is great. Good to have Angel on the team.

**Justin Ford:** It sure is. It sure is.

**Bob Irish:** So we've got one other asset class we need to talk about.

**Justin Ford:** That's the shopping center. Well let's say a hundred percent occupied. We moved in recently or they're in the process of moving in the thrift store and the vape shop. And again, the vape shop has like six or seven other locations. So there seems to be a fairly successful little operation. Our issue, there's been the roofs, which we budgeted to replace, but the supply chain is crazy, Bob. It is still insane. And there's a good argument that this inflation that we're experiencing, there's no doubt that the overwhelming majority of it is all that printing of money and so forth that's been going on for years now. But a good part of it, I think, is still supply chain stuff, because I don't care what you're getting, it takes forever to get it, the individual electric meters at Tulsa. Tulsa's completely renovated, but we were supposed to get that this month, after waiting five or six months.

Now, they tell us it is going to be February or March. And all the roofing materials they're telling us is supposed to come in October for the smaller one in Melbourne. We're redoing Port St. John, it's going to be March. And we're still on hold. So it's really quite a challenge. So that's one thing that I wish we could do better at. We try to patch the roofs there. There are some leaks here or there. The leaks come back, especially after the last storm we had. So we're sending the roofer back. He's going to be there this coming Monday. So we're trying to be really, really good tenants there, but we haven't made the mark that we want to yet there. By the end of this year, if we get the roof of materials, we think they should be very happy with us as responsible landlords taking care of that shopping center and really making it a great place to shop.

**Bob Irish:** Wow. Well, I know that you're just about to issue the quarterly reports, so people should be on the lookout for those if they want to do a deeper dive, yes?

**Justin Ford:** Absolutely correct. We usually have them out by the very end of the month. Sometimes it goes one or two days into November. But I want to remind everyone to vote early and vote often.

**Bob Irish:** One last question before we sign off. We talked last month about the promissory notes. I'm assuming that there's no opportunity left there, is that correct? Or is there still an opportunity to get 8% plus a point and inflation protection?

**Justin Ford:** There is still an opportunity, Bob. There is. We have a few spots in GSA and I think in Vero as well. So we do have an opportunity, they should just reach out. They can just shoot me an email.

**Bob Irish:** Okay. Okay. Good. Well, I wanted to cover that base. Anything else before we sign off Justin?

**Justin Ford:** Nope. If they are sending me an email, it's Justin@paxproperties.com, that's Pax and they can just put a promissory note in the subject line. That would be fine.

**Bob Irish:** Well, I got to tell you, I'm in on one of those promissory notes and I got my point up front, which was very nice, and I got my first interest payment, which was very nice. So I don't know where else you're going to get 8%, I mean, anyway.

**Justin Ford:** Well, you might get it on the 10 year treasury soon.

**Bob Irish:** I hope not. Alright, Justin. Take care, I look forward to catching up with you next month.

**Justin Ford:** Alright, thanks Bob.