February 2021 Update With Justin Ford

Justin Ford
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As one of our privileged members, you get access to Justin Ford's real estate investment opportunities through our exclusive DealBook service.

DealBook offers special situations to invest side by side with our network of experts in the kinds of private deals most people never even hear about.

Each month, I check in with Justin to see what new deals he's been looking into.

You can listen to my monthly interview with Justin by clicking below or read the transcript by scrolling down.

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Transcript

Bob Irish: Welcome to our monthly call with Justin Ford, our resident real estate expert. Bob Irish here, your *Infinity* liaison.

If you've been with us for a while, you know Justin has been an extraordinarily successful real estate investor, and he's always on the lookout for profitable real estate investments for the Palm Beach *Infinity* DealBook, which everyone listening has access to.

Now, I say it every month, you need to know Justin is very conservative, extremely selective when putting together his deals. And as a result, opportunities to invest alongside Justin don't come about frequently or on any set schedule.

However, if you were on last month's call, you know Justin has a rather large deal coming up. In the next week or so, check your inboxes… An offering memorandum will be sent out. We'll talk a little bit more about that later in the call.

With that said, Justin, it's great to have you back. How are you doing?

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

Bob: I'm doing just great. Haven't gotten COVID, so everything's good.

Justin: Excellent. Good to hear.

Bob: Before we get into our updates, Justin, maybe you could give us a brief overview of the offering memorandum that'll be coming out in the next week or so.

Justin: We're pretty much almost done with our documents. We had a fund lawyer draw up the documents for this offering – which is different than the lawyer I normally use when we do single deal offerings – but they're collaborating. We have the subscription documents ready and the operating agreement… I have to see, today it might be in my inbox.

So all of that is done. But more importantly, we've been working in acquisitions since COVID-19 broke out, and we've done a lot of things. We've invested in CoStar, which is this fairly expensive [real estate] search engine, plus a bunch of others.

We have a good six people scouring it – a couple of our full-time folks and four people on a contingency basis. And these people who are doing this contingency are investors of ours who've been with us investing – in some cases – 10 years, or almost 10 years. And they're searching their parts of the country, learning from us, our system, using our software and so forth. And then we're collaborating when we find deals.

So, the long and the short is, Bob, not only will we have the actual document ready, perhaps some time in the next week or so – very soon close to that – we have a couple deals we think might be in the pipeline soon. We've issued a couple of LOIs (letters of intent) on two apartment complexes totaling more than 300 units, to give you an example.

Bob: That's great. And it sounds like with your team scouting different parts of the country, this offering will have some geographical diversification.

Justin: Yeah, absolutely. We're very much focused in Florida and Texas – the two states that are attracting a lot of migration. They've been doing that for a long time. Now it's been accelerated, from cold to warm, as I say… From high regulation to lower regulation, high taxes to lower taxes, higher prices to lower prices – if you're talking about migration from the Northeast or California.

So there are many reasons there's this shift happening. It's not only houses, as you know. There are a lot of businesses that are making moves. Significant businesses are moving their offices to Texas and to Florida. Those are two of the states.

We're also looking at other states. Georgia is a very attractive one… and the Carolinas… even Alabama, Arkansas, and Missouri. We occasionally even look at something in the Snowbelt. If the value is deep and the neighborhood is strong, we'll look in the Snowbelt. But other than that, we're in the value and growth markets, mostly in the Sunbelt states.

Bob: Okay, great. Now, just to be clear, Justin, this offering will be available to accredited investors only?

Justin: That's correct, yes.

Bob: Okay. Just wanted to be clear on that. Let's get to our updates.

Let's talk a little bit about Melbourne. What's going on in Melbourne?

Justin: Melbourne's a broken record. If you have a straight-A student who's always making the varsity squad, and queen or king of the prom, after a while it gets boring to hear your neighbor talk about how good their kid is. Melbourne is that boring kid, it just doesn't give up. It just keeps paying for itself, even through COVID-19.

It's the Cal Ripken of our portfolio. The thing just consistently performs. By the way, the baseball reference – I apologize. You folks are going to have to Google that if you're not a baseball fan – but he was a great performer for 20-something years. And Melbourne is just that way, it continues to outperform.

Again, we have a superior product, two-room suites for the price of a regular hotel room, in a very busy and growing market. We're rated No. 4 in that market. We want to get back to No. 1, which we were briefly at one point.

We've updated just about all of our FF&E (furniture, fixtures, and equipment) recently. We have the money for a few items right now, but we're just waiting for it to come in. There are a few other things we're updating – very small things, but important, like redoing the sidewalks.

But I just have to say that Melbourne continues to do very well. There's nothing out of the ordinary, good or bad this time. It just continues to do very well.

Bob: Justin, just for the folks who've joined us recently, what does FF&E stand for?

Justin: So that's furniture, fixtures, and equipment. It's a hotel term, so it includes everything from bedding, to mattresses, to new lamps.

For instance, we're getting a lot of new lamps there because the stuff we put in four to five years ago has rusted… Because it's an exterior corridor hotel 15 minutes from the beach, so there's salt in the air… So stuff like that. FF&E is furniture, fixtures, and equipment.

Bob: Okay, great. Not to spend too much time – I'm anxious to move on to Tallahassee – but is the sushi restaurant doing okay?

Justin: Thanks for asking. Yes, it's doing great. Hank Chen… he's doing so well that he actually opened a second restaurant with us in our Vero Beach property – which isn't part of this call because Vero was before we started doing deals through DealBook.

But he's with us at two locations now, and we're talking to him about possibly joining us up in Tallahassee. And you're welcome for that segue, Bob.

Bob: Okay. Let's go to Tallahassee and talk about… I won't say problem child… but let's talk about the Baymont.

Justin: Yeah, Bob, thank you for that. The Baymont has been a problem child for a little while. It was a star performer, and then we had a change of management we put in place. We promoted the guy there to our Seven Hills Suites and we started struggling.

Long story short, over the last few weeks, we've had remarkable progress there… *Positive* momentum.

The general manager finally became very aggressive with what we call a pricing algorithm. An algorithm is just an "if, then" thing – if prices are here, then you do that… And if prices are your comp set, then you have to deal with previous weeks' occupancy and reports… there are a bunch of "if, then" things.

We're managing that way, and now all of a sudden, we're selling more rooms than we have since COVID-19 began. We're discounting our rates deeply when we need to.

Last night, we sold about 70 rooms at around $60… Which, for COVID-19, was great. Because we were selling 20–30 rooms some nights… We were struggling.

Last night was a Monday. I stayed there last night. I flew in last night from Miami and then I stayed at the Baymont last night. Today, I'm at the Renaissance as we speak, across the street – the apartments.

We've reviewed this a few times, and we think we found the formula. We are guardedly optimistic we may be on our way to standing on our own two feet again with this property.

This property has been cashflow negative about $50,000 a month for the last seven months… We think we may start to dramatically reduce that, or get back to even paying for ourselves. Hopefully I'll be able to confirm this with you next month. But we've had two good weeks now of this new pricing strategy.

The rooms are still fully updated. The furniture is great. The customer service is committed. So we think we may be on the road, finally, to strong financial recovery, getting back to where we were a year and a half ago – when it was actually vying for the top position in our portfolio. We think we're going to start heading that way.

Bob: Well, that's good news. It's nice to hear you think you might be turning the corner. I'll look forward to your update next month.

Let's move across the street to Renaissance. Last month, we talked about a re-fi. Where are we on that?

Justin: So that's very interesting. There are two parts to re-fi.

We have an existing $6.2 million Fannie Mae loan, which we can't really prepay and refinance to a new loan without a very severe penalty. And I looked into the penalty. If we were to prepay that $6.2 million, guess how much it would cost to prepay a $6.2 million loan with three years left.

Bob: I would say $300,000.

Justin: Double it.

Bob: $600,000?

Justin: And then add another $100,000 to it. $700,000 to pay off a $6.2 million loan.

Bob: Wow.

Justin: So we were going to do what's called a supplemental – where Fannie Mae lets you add another Fannie Mae loan to the first one. So it's not ideal. You don't get as much money as you would with a new loan… You don't get as low of the rates.

So with the supplemental – I've been back and forth with Wells Fargo – it looks like they'd give us about another $7 million, so we'd be around $13 million in debt. And our average interest rate would be around 4.375%… So around a little under 4.5% – not bad.

If we re-fied though, we could be evaluated at our current market evaluation. And if that happened, I believe we're worth at least $25 million right now, based on a lot of detail I could give you, up and down the line… Perhaps a bit more than that.

Bob: Wow.

Justin: An 80% loan on that is $20 million. And now we're doing that – not at 4.375% – at 3%. We qualify for the 3% rate, which is where it is right around today.

Because our rents – even though we've risen and risen – they're still not crazy. Fannie Mae got back to us and said, "You guys could get our best rate because 100% of your units are priced at a level that's affordable to people making 80% of the average household income." As I knew, we still have room to move our rents up over time. But right now, that helps us actually get the best rate.

The question is, do we just do that supplemental – put on the $7 million, we have $13 million now in debt, and we've got three years until we have to re-fi? Or do we go lock in that three-year rate right now for 10 years, and get a bunch of money out when we return all our investors capital plus all their deferred preferred return, and pay off all the private debt we have?

We may do that. Right now, we're looking at this decision and I just sent in money for an appraisal. I just sent around $5,000 to get an appraisal done through Wells Fargo and Fannie Mae. If the appraisal comes back where we want it, at least at 22 or 23, we're actually going to bite that $700,000 bullet and we're going to go for the re-fi.

Even though that may sound crazy, think about this for a moment: Let's say we get an $18 million loan and we're saving about a point and a half per year. A point and a half per year on $18 million is about a quarter million dollars per year in interest… Now multiply that over the next 10 years… that's two and a half million dollars.

Plus the fact that investors are now playing with house money, because all the capital's back, the preferred return is caught up. All the private loans that were at 9–10% are now down to 3% money.

It's one of those things where I never thought I would believe it, but this prepay – if the appraisal comes back – is going to make sense and that's the way we're going to go.

So at the very least, we expect to do a supplemental, which gets our investors caught up on their deferred preferred return. But if our appraisal comes back where we think it should – if we're not awarded some stingy, super cautious appraiser – I think we could do something extraordinary for our team and for the property and be positioned for 10 great years of cashflow going forward.

Bob: Wow. Well, I look forward to hearing how that appraisal came out next month. Do you think you'll have it by next month's call?

Justin: Yeah. No doubt, we should have it by then.

And today, we started putting on roofs, which is one of the reasons I came up here. I hired this crew we worked with before from the Carolinas. I flew in last night and I met them.

So today, I'm up there climbing on our roofs, we're checking out the shingles and how we're going to put new synthetic over them and put metal over them, and where we're going to replace them.

And it reminded me of why I really love real estate. Real estate has been good to me financially, but the real reason I always loved real estate from the first time I started doing small houses – back when you started investing in me a long time ago – it gets me out of the office. I just love that. I love that about real estate. So today I was on the roof and I feel very happy.

Bob: Well, Justin, to be clear, are you going up there with a tool belt on or what?

Justin: You mean a safety harness?

Bob: Oh, I guess that's what I'm talking about.

Justin: Oh, you mean am I putting the metals on? I'd like to, believe me. If they're putting on the metal next time, I might take my lunch break and ask them to show me how to put a few panels on. They might have me sign a disclaimer or something, but I'd love it. I just love that stuff. I love the physical aspect of our business, as well as every other aspect of it. But yeah, today, we're starting roofs.

Bob: Good. Let's move to Seven Hills.

Justin: Seven Hills is in the same situation it was before, which is a good situation, where we were making a very strong cash, thanks to a large charitable group we're hosting.

And we're still rated No. 2 in the market out of 61 or 62 hotels in the city. We want to get back to No. 1. And that charitable group is going to be moving out in mid-June. That's when we expect it.

We're hoping that COVID-19 will pretty much be mostly in the rearview mirror by then… I'm not sure. But we've contracted with a sales group – people that help you with group sales. Group sales were practically nonexistent for a lot of this pandemic. Construction always existed during them, but now there are other small groups that exist.

So we're working very aggressively to be able to transition from our current situation – where we had this makeshift situation to get through COVID-19 – back to a regular market rate hotel, best in its class, top-rated in the city, and *very* successful financially. We're working on that transition right now.

Bob: Great. Well, let's finish up our call talking about Ocala. You were very close to having everything done last time we talked.

Justin: Yes, indeed. I'm driving there tomorrow from Tallahassee. I leave here about noon and I'll be there at three o'clock – we have a construction meeting.

With the interior rooms, inspections took a little bit longer than we were hoping, but we're getting past it. We should have all the interiors done now in around two weeks, if not a day or two sooner.

And right now, we're finishing our exterior touches. I don't know if I told you on our last call, but we put a video board outside.

Bob: Yeah. You mentioned that.

Justin: Yeah, that was finally installed within the last month. That's creating some buzz. What we really need to do is create some content for that board. I want to create some good images, some good video snips.

But we have something going on now that's intriguing. We're finishing putting on the lights on this beautiful, big live oak tree out front. And then we're reconfiguring the front entrance. We're in the process of starting that.

And we're just renovating the pool out back. We're waiting for some plumbing pump supplies to come in that have been taking a while. That should be starting in the next 10 days. And then our elevators are being redone. Those should be completed within about two and a half to three weeks.

So the reality is we're shooting now – by the end of this month – to be 100% done with the rooms and the exterior. From there, there will only be minor things.

And then we're shooting for scheduling our grand opening in April… Where we invite a lot of important, connected folks in the city to the grand opening event. That should be about two or three months from now.

Bob: Well, this has been a great update, Justin. I want to thank you for taking time out of your, obviously, very busy day to share all this with us.

And again, everybody listening, keep your eyes on your email inbox. That offering memorandum should be out in the next week or so. And I'm very excited about that for all of our *Infinity* DealBook subscribers.

Justin, anything else before we sign off?

Justin: No, Bob. I appreciate it. Always a pleasure.

Bob: Okay. Talk to you next month, Justin.

Justin: You bet. Thank you, Bob.